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BONUS SHARE ISSUE: AN ADDITIONAL EARNING TO SHAREHOLDERS

Dr. Prerna Jain*

ABSTRACT

Essentially all profitable companies can keep a part of their profits to strengthen their financial situation. Thus, the reserves of the reductions in the last few years can be used for expansion, modernization and debt redemption or the needs of the working capital. A company can capitalize its benefits or free reserves by bonus issue. There is no tax benefit earned by bonus issues or legal restrictions to change the store in capital. This is the general practice to bring the paid capital according to the market value of the shares by issuing bonus shares by companies. Whenever bonus share is the issue, a question arises in the mind of shareholder that he actually privileged with that dividend which was not given in the past years? Exactly the price of the stock has increased with this resulting advantage? Shareholders do not benefit in the case of money from bonus issues. Many studies have been done in areas of capital market in advanced countries. There has been extensive research regarding incident studies. Studies made abroad have examined the stock division and stock dividends, affiliate price changes and reasons behind their performance. Long-term and short-term results of stock division and stock dividend, has also been examined in liquidity effects of affiliate costs and issues. Abnormal performance has also been widely studied around the bonus issues. To evaluate the reaction of bonus at the cost of the stock, approximately 50 listed companies have been selected who have announced bonus shares, and has been adopted to analyze unusual or more returns through an event study method. This addition returns from comparison to the use of the paired T-Test. The result received from the reveal that after the bonus is released, the number of shareholder's stock hold increases or is manifold, but after the former bonus incident, the market value of securities decreases, resulting in shareholders no benefit and there is no effect at the cost of the stock.

Keywords: *Bonus, Shareholders, Earnings, Performance, Dividend, Dilution, Retained.*

Introduction

There are important events to issue bonus shares in the history of the company involving existing shareholders. In recent years, the number and success of these two issues prove only the belief of the shareholders in the company and market. The policy of maintaining complete or partial earnings every year is similar to raising similar amounts by offering shareholders from shareholders. The company does not have any effect on the company (as the reputable funds), as long as the market value is not affected. This is the stream of the earnings of the company which determines the market value. Bonus share contributes to increase in earning nor in its maintenance. Only one contribution in bonus issue is given that the earnings are divided into a large number of shares, which reduces the income per share. In general, the effect of this dilution will look at low prices of shares. Shareholders do not benefit in the case of money from bonus issues. Many studies have been done in areas of capital market in advanced countries. There has been extensive research regarding incident studies. Studies made abroad have examined the stock division and stock dividends, affiliate price changes and reasons behind their performance. Long-term and short-term results of stock division and stock dividend, has also been examined in liquidity effects of affiliate costs and issues. Abnormal performance has also been widely studied around the bonus issues.

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* Assistant Professor, Department of ABST, SPC Government College, Ajmer, Rajasthan, India.

The Role of Bonus Issue

Network of any company includes stores and surplus. Earnings retained this is the earnings of the earnings of the company's shareholders, because it is deposited with the previous period of profits which is not distributed between shareholders. When the company deposits earnings in large quantities, which is enough to face any unexpected situations, then the company is planning to share shareholders a part of such intact earnings. However, distribution such as earnings is not restricted at the dividend, but there are two negative aspects. One is that it will require the mastery of cash for it, it can also be a large amount of quantity, which can cause problems of liquidity crisis for the company. Second, the company will pay more dividends in the current period, with the previously income, which will also be expected for the future period for the future period, and the company will not be able to pay the same rate of dividends. This can cause negative perception in the shareholders' mind and the price of the stock can be reduced. Therefore, the better way to distribute the earned retained is that it is capitalized as bonus shares. Take. The company will release the share in the proportion of existing shares without getting any payment from the existing shareholders. It is only converting the stores and surplus to the capital. As a result, there will be no cash outlay. Also, the future will not need to maintain the high rate of dividend. Although, the bonus share issue can affect the market value for a short span of time.

Objective of Study

Since predicting the market value of shares is almost impossible. In the period of 6 decades, many statistical methods, theory and studies have been developed, but no one of them has claimed to be accustomed to measure or predict the price of the stock. Some authors have honestly claimed in their studies that no stock market can predict. Due to many factors that affect the market value in combination and it is almost impossible to measure them all together. One such factor is the issue of bonus shares. As we said that there was no change in the net worth of the company when issuing bonus shares, therefore, there should be no effect on the cost of the share technically, although the date of issuing bonus is already known, the reason for the shareholder, the prices of stocks are fluctuated for a while. Thus, it is important to know the company as partnerships with how the bonus share can affect the market value. This research paper searches for the answer to this question.

Review of Literature

Bekaert et al (2007) shows that the increase in the liquidity and marketing capacity of the stock explains the positive unusual returns, because the release of the share increases the number of shares in the flow, and the effect in the deduction in the spreading bidding. Additional form of better liquidity is trading array, which announces that the most important inspiration behind the release of bonus shares is to transfer the price of a firm's stock to a standard or best possible trading option so that more investors can be attracted, and therefore, increase in liquidity. The firms are more expected to return to bonus allocation because the high rank of inflation has been paid in their capital, their book value is considered in a loan-and-fund ratio and reduces their reliability and borrowing capacity.

Mohan et al (2002) has been studying the share price evaluation in the Indian stock market, in relation to future trading openings using day-to –day closing prices of nifty and weekly closing prices of Satyam computers Ltd. Special stock impressions have become some more volatile and their instability has reduced the more on the institution of the first period of short and less and the progress in the phase of progress. Standard long-lasting unexpectedness has become minimized at an index level.

Agarwal et al (2003) has examined the effect of change on their share value instability in the technical background of the firms and as soon as a firm starts online business, personal and overall stock returns have been used to add a lot and equivalent addition in instability. More importantly, the increase in the fluctuations or 26 share values is possible because the changes in the merchants market made by firms, especially the impossibility of better demand, resulting in adopting a new-new technique-powered drain. The applicable control market dismisses the firm specific symptoms as possible potential illustrations variables with the micro structural factors. They also reveal that in the vastness or variation in the stock price, it comes with the positive abnormal return of prices of stock and price increase or share price. The results of their study confirm the effect in relation to the actual movement to evaluate their share in a firm.

Batra (2004) has attempted to study the difference of time in the instability of the Indian stock market for the period of 1979-2003, in which the monthly stock returns of large firms listed in both industries and NSE and BSE have been used. Based on the results of your study, they conclude that the phase of the balance of the balance of the balance of the balance and the economic reforms in India is the most impulsive era in the stock market and therefore has made changes to the cost of the stock of many firms. What emerges from the results is that structural changes in volatility are most likely to be the result of major policy changes, and any additional incremental policy revisions may only have a moderate control over share price volatility.

Rational of Study

With the opening of the Indian economy, the Indian capital market has emerged as an attractive opportunity for both international and domestic investors. It is aware of investors in the investors to learn more about the behavior of equity prices. Corporate performance has the effect on the cost of stock prices and adjusting the stock prices for immediate information. Generally, the investor bonus issues declare the increase in its future and dividend after the announcement of the bonus issue. Therefore it is usually connected with the increase in the price of the stock and the investor will be in the shopping spree. Indian investors are sensible in their mature markets as well as their counterparts, because they know about potential income and increase. With the increase in the number of bonus issues and the success of the rights issue, it is pertinent to study the change in return behavior and funding towards these issues.

Hypothesis for Study

H_{01}: There is no significant difference between the returns in the market earned before and after the announcements of Bonus shares.

H_{02}: There is no significant difference between the returns in the market earned before and after the ex-bonus date in the market.

Research Methodology

The research method is a process through which a study comes with conclusions with suggestions and recommendations as well as solutions and recommendations. This is a science based approach where data and results are scientifically analyzed based on different ratios and trends.

Sampling Technique

For the use of event study method, the researcher has taken the +20 -20 study basis for his research. This means that 0 days have been taken as the day of declaration of bonus share and stock price for 20 days prior to issue of bonus shares and 20 days after issuance of bonus shares to study the effect of issue of bonus shares. The estimate window is also used with the event window. Such an estimation window is usually for the period preceding the event period.

Sampling Design

Some variables have been used in designing the sample for the purpose of testing the hypothesis. When testing the results, these variables have been taken into account. These variables are the daily return on the stock price, the normal and abnormal return, the cumulative abnormal return and the average abnormal return.

Results and Analysis

Data of 10 companies out of selected 50 companies have been taken for the purpose of data analysis. The following date has been used for the study:

Table 1

S. No.	Name of the Company	Returns	
		Before Bonus	After Bonus
1	United Phosphorus Ltd.	8.51	4.18
2	G A I L (India) Ltd.	0.69	-5.10
3	Siemens Ltd.	-0.74	-3.81
4	Bharat Heavy Electricals Ltd.	5.03	4.15
5	H C L Technologies Ltd.	1.98	-2.91
6	Oil & Natural Gas Corpn. Ltd.	3.88	2.13
7	Dr. Reddy'S Laboratories Ltd.	-3.06	-2.45
8	Infosys Technologies Ltd.	2.98	-0.98
9	Cipla Ltd.	4.01	11.11
10	Mahindra & Mahindra Ltd.	3.96	0.98

As shown in the table above, five out of ten companies have shown positive additional returns after issuing bonuses. However, the remaining companies were showing negative excess returns. However, we will also consider that out of these five remaining companies, two companies (i.e. Siemen’s

Ltd. and Dr. Reddy's Laboratories Ltd.) have earned negative returns even before the release of bonus. So the effect is not significant at all. The remaining three companies have shown additional negative returns after the bonus issue. The calculation of t-test (paired test) gives the following result.

Table 2

		Mean	N	Standard Deviation	Mean	Correlation	Significance
Pair 1	Before bonus issue	2.2524	13	3.02454	.97851	0.655	0.009
	After bonus issue	-1.5451	13	8.04545	1.0525		

Based on the above test results the researcher rejects both the null hypothesis and concludes that there is an important difference between the returns in the market earned before and after the declaration of bonus shares and the important difference between the returns earned before and after the announcement of the bonus shares is pre-bonus date in the market. The result is that the investors have earned additional returns after the bonus issue.

Conclusion

After reading all the above discussions, literature review and the statistical results analyzed above, it cannot be argued whether there is a benefit to the bonus issue for the shareholder or not. The answer is yes and no. The answer is yes and no too. The reason for saying no is that the additional return after the date of the prior value of the bonus will reduce the profit as the market value will decrease, so no real benefit has been given to the shareholders. They gave up what they had before the bonus issue. However, on the other hand, the company's capital base will definitely increase as well as the number of shares. This will give them two long-term benefits. The first is that they will be in a position to receive more dividends because they have more shares. The second is that they will be able to trade more securities in the market, some of which have been acquired at zero value as bonus issues. So, the entire selling price will be a net profit. In terms of these two fundamentals, the shareholder is in a position of profit. Through, data analytics, it has been observed that companies that have declared bonus issues have generated positive additional profits almost the entire duration of the selected event window. However, it was at an all-time high with a decreasing trend in the initial 9 days of the Bonus Issue announcement date, while it was the highest on the day of Bonus Issue.

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