

An Empirical Study on the Impact of Bonus Issue on the Share Prices of the Companies Listed In the Indian Stock Exchanges

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Abstract:

Bonus share refers to the shares that are issued free of cost to the existing shareholders of a company. Bonus share is issued with the objective of bringing in line the amount of issued and paid up capital (Dhanya, 2017). The announcement of bonus issue by a company had a positive effect on the share price as from the investors point of view issue of bonus share signals profitability of the company and attracts investors. The paper aims to study the impact of bonus issue on the share price of the companies. The study is based on the secondary data extracted from the market (BSE and NSE) to measure the impact of bonus issue on share prices over the period of study. Data of 71 companies have been used for the study and even study method have been used for the interpretation. The study revealed that the bonus issue of shares are having a positive impact on the share prices of the companies

Keywords: *Bonus issue, Share price, investment.*

Prologue:

Bonus share refers to the shares that are issued free of cost to the existing shareholders of a company. A company issues these type of shares when they fall short of cash or at the time when a company restructure its reserves. Bonus share is issued with the objective of bringing in line the amount of issued and paid up capital (Dhanya, 2017). This would depict a more

realistic earning capacity of the company. Moreover it will also help to lower the abnormal growth in the rate of dividend to be paid on its capital. The announcement of bonus issue by a company had a positive effect on the share price as from the investors point of view issue of bonus share signals profitability of the company and attracts investors. Although bonus shares increases the number of outstanding equity shares but it does not have any effect on the shareholders proportionate ownership. The reason is that bonus shares are just conversion of retained earnings into paid up share capital of the companies.

Objective of the study:

The objective of the study is to investigate the impact of bonus issue on share price.

Hypothesis:

The following null hypothesis has been constructed to proceed with the present study:

- Share prices are same before and after the issue of the bonus issue.

Significance of the study:

This study is significant to all the stakeholders in the stock market. These include investors, managers, creditors, stockbrokers, Govt. and even the scholars. Investors in the stock market are always interested in increasing their returns and thereby wealth. This study attempts to investigate whether issue of bonus share would lead to increase in share prices or not. From the point of view of the company, this study will throw light on the effect of the bonus issue on the share price and eventually demand for the shares and the investors will also be able to take decisions regarding purchasing or selling of shares when there is a bonus issue announcement.

Methodological Design:

Research Design: The research was carried out as an event study. An event study is an analysis of the impact of a specific piece of news or event directly or indirectly related to a company and its stock. It can also be used as a macroeconomic tool to analyze the impact of an event on an industry, sector or overall market. The study is based on the data extracted from the market to measure the impact of bonus issue on share prices over the period of study (2016 and 2017).

Target Population: A population can be defined as including all people or items with the characteristic one wish to understand (Newman, 2008). The target population comprises of all listed companies in the NSE and BSE which have issued bonus share during the study period. 72 companies have issued bonus share during the year 2016 and 2017 and this is the target population for the present study for the period under study.

Sampling Technique:

A census study has been undertaken on the companies listed in the NSE and BSE and which have issued Bonus shares in the period 2016 and 2017. 72 companies have issued bonus share during the year 2016 and 2017 but data of 71 companies were available. And, therefore all the 71 companies have been taken for the study. The study is based on the share price of the select companies one day before the issue and one day after the issue.

Data Collection:

Secondary data have been collected for the study. The study made use of the NSE and BSE stock data. Other information were collected from various sources such as the financial statements of the companies surveyed

Data Analysis and Presentation:

The data was recorded and entered into the computer using the Statistical Package for Social Sciences (SPSS) for analysis. Data was presented in the form of tables and graphs that facilitates description and explanation of the study findings. In order to carry out an event study, the event date and event window has to be determined. Here the event date is the date of bonus issue and the event window is one day before and one day after the bonus issue. Data has been analyzed using both descriptive and inferential statistics.

Review of Literature:

Khan and Thoufiqulla (2013) made a study on the bonus issue and its impact of share price and revealed that different companies reacted differently on the announcement. For some companies share prices decreased before the date of announcement while for some companies immediately after the date of announcement. Further they observed that there was a negative effect on the market on the announcement of the bonus shares.

Dhnaya (2017) made a study in the market reaction around the bonus issue in Indian Market and found that there is no significant difference between the abnormal returns earned before

and after the bonus share date announcements in the market, is accepted. Further the study revealed that the stock prices do not react to bonus share announcements and ex- bonus dates.

George et. al (2007) in their study found that information on future earnings can be obtained on the declaration of bonus issue. Moreover abnormal return was found with announcement of the bonus issue.

Khurana and Warne (2016) made an empirical study on market reaction to bonus issue in India and observed negative ARR on the announcement day while positive excess return have been observed before the announcement of the bonus issue. Further the study also revealed that the Indian stock market is semi strong efficient.

Poddar, P (2013) made a study with the objective to find out the impact of announcement of bonus shares on the share price of a firm. The study was conducted taking 40 companies. The researcher used event study method for the analysis. Further Paired sample t test was has been used to ascertain the impact of the bonus issue. The study revealed significant difference in the share prices before and after the bonus announcement. Moreover, the study also revealed different impact between share prices of financial sector and non-financial sector.

Raja and Abhay (2012) in their study on the impact of bonus issue found that issuing of bonus shares multiplies the face vales of the shares. Moreover, the study revealed that investors does not enjoy direct benefit as the share price gets adjusted after the bonus issue but enjoys indirect benefit by way of increase capital base of the company.

Data Analysis and Interpretation:

In order to fulfill the objective of the study and also to test the hypothesis, some inferential statistics has to be applied. But before applying any inferential statistics, the data set has to be tested for its normality. If the data set is found to be normal, parametric test can be applied and in other cases non-parametric test should be applied to arrive at the desired conclusions. In the present study, Kolmogorov-Smirnov test has been applied to test the normality of the data set.

The result of the test has been shown below:

The results of the test for first data set (Share price before issue of bonus share) are given below:

Table 1: Tests of Normality

Kolmogorov-Smirnov		
Statistic	Df	Sig. (P Value)
0.198	71	0.01

Source: Survey

Observation: From table 1, it can be observed that the data set has p value less than 0.05 i.e. 0.01 which means that the data set is not normally distributed. The results of the test for second data set (Share price after issue of bonus share) are given below:

Table 2: Tests of Normality

Kolmogorov-Smirnov		
Statistic	Df	Sig. (P value)
0.173	71	0.01

Source: Survey

Observation: From table 2, it can be seen that the second data set has also p value less than 0.05 i.e. 0.01 which means that this data set is also not normally distributed.

From the Kolmogorov Smirnov test for normality, it has been found that both the data set have not been normally distributed. Since both the data set have not been normally distributed, non-parametric test (Wilcoxon Signed Rank Test) has been used in the present study to draw inferences on the hypotheses drawn.

Table 3: Results of the Descriptive and Inferential Statistics

	Mean	Standard Deviation (SD)	Wilcoxon Signed Rank Test Statistics	P value
Before	459.67	478.59	-2.349	0.019
After	469.19	486.05		

Source: Survey

Observation: From table 3, it has been observed that the calculated mean for the share prices after the issue of bonus share is 469.19 which is higher than the calculated mean of the share prices before the bonus issue i.e. 459.67. Moreover the P value stands at 0.019 which is lower than 0.05 (at the significance level of 5%) indicates that the difference in the share prices before and after the bonus issue has been significant.

Summary of the Findings:

Findings of the study suggested that the bonus issue of shares are having a positive impact on the share prices of the companies since the mean of the share prices after the bonus issue is higher than the mean of share price prices before the bonus issue. The calculated P value indicates the bonus issue is significantly affecting the share prices in a positive direction.

Therefore, the null hypothesis that Share prices are same before and after the issue of the bonus issue has been rejected and the alternative hypothesis that the share prices are significantly different before and after the bonus issue has been accepted.

Limitation of the Study: The study involves an important period i.e. before and after the bonus issue. Nature of the study requires in depth investigation but due to the limitation of time, the study has been confined to a limited period. Moreover, the event window has been restricted to only one day before and one day after the bonus issue. Better results can be expected by taking an extended event window.

Epilogue:

The results of the study reveal that the market overreacts in anticipation of higher profit as a result of the bonus issue. But investors should be aware of the fact that the issue may not be promising or profitable as expected. Issue of bonus share does not always guarantee the good prospect about a company. Sometimes, companies resort to bonus issue for avoiding cash payment which might indicate liquidity crisis of the company as well. Moreover, bonus issue

reduces EPS which is having multiple effects like drop in the share prices in the long run so it does not contribute towards raising the wealth of the shareholders. Some investors are more interested in getting regular dividends instead of getting bonus share. So, bonus issue has both advantages as well as disadvantages but the results of the present study indicated the positive impact of bonus issue on the share prices.

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