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An empirical analysis of impact of bonus issue on share price with reference to selected companies in india

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ABSTRACT: *This study examines the impact of bonus issue on share price of selected scrip's during February 2010 to February 2011 listed on National Stock Exchange, India. When additional shares are allotted to existing shareholders without being paid any additional payment for them, it is known as bonus shares. Bonus shares are issued by a company when it intends to pay dividend by issuing shares. Companies giving bonus shares are regarded very highly by investor fraternity. Very few studies have observed bonus issue announcement and share prices in India and this study is an attempt to fill the gap. The present study is an empirical analysis to examine the impact of bonus announcement on share prices. Impact has been analyzed between ±7 days from the date of bonus announcement. The result divulges that there is no significant impact on bonus announcement between pre-post conditions considered for this study.*

Key words*: Share Price, Bonus Shares*

1. INTRODUCTION

The term bonus means extra dividend paid to shareholders in a joint stock company from surplus profits. It is a free share of stock given to existing shareholders in a company, based upon the number of shares the shareholder already owns at the time of announcement of bonus. In other words, bonus shares are issued by a company when it intends to pay dividend by issuing shares. Bonus shares are declared when company has sufficient profit to declare dividend but either does not possess cash to pay it or does not want to part with it in order to implement some capital expenditure plans. Thus, bonus shares result in the capitalization of profits of the company.

Advantage of bonus issue has classified into two patterns, one is described in company point of view and another one is described in share holders' point of view. Especially in company point of view the following are considered as key points, such as the capital as per balance sheet will be more realistic than it would be otherwise. Profits remaining the same, the company cannot declare high dividend on expanded capital. By not declaring high dividend, it can avoid the tall claims of the employees and regulations by the government. Since there is no cash outgoing, liquidity of the company is not impaired. The capitalization of reserves increases substantially the credit worthiness of company. Similarly on the other side shareholder's point view the advantages are respectively, the shareholders can dispose of these shares and realize cash. Sometimes they can be sold even at a premium, as only successful companies can issue bonus shares. The shareholders can receive dividend on the increase share holding. As it is very difficult to buy shares of successful companies from the market, the issue of bonus share will enable the shareholder to increase his holding. In due course he will also have capital appreciation and increased dividend. Understanding the behavior of share price with respect to bonus announcement is an interesting situation and to evaluate the existing works done in this space has been analyzed, which is presented in related works.

2. RELATED WORKS

Few researches have been conducted from time to time on this topic till now. Prominent amongst them is –Bonus Share Issues and Announcement Effect: Australian Evidence‖, *Balachandran Balasingham and Tanner Sally (October 2001),* which ended with the conclusions that price reaction to bonus issue announcement from the day of the announcement to the day after the announcement statistically significant and positive of average 2.37% for un contaminated events and 2.11% for contaminated events employing the market model.

Another recent study conducted on the topic, –Bonus Share Announcements and Market Efficiency: A Study of BSE Listed Companies‖ *Kaur Karamjeet* and *Singh Balwinder(2010)* taking BSE listed companies for the year 2005-2009 demonstrate that market reacts positively to these announcements. Positive reaction starts even before the announcements. About 77% events generate positive results on the day of announcement. Further post-announcement returns are tested for the presence of semi-strong form of efficiency in Indian stock markets. While size-wise results are discriminative, year wise results largely supports the notion of market being efficient in capitalizing the new information. These studies are concerned with the announcement date of bonus issue and its impact and led us to do this research work that what will be the impact of bonus shares on market price and earnings per share after record date. The record date is the date on which the bonus takes effect, and shareholders on that date are entitled to the bonus. After the announcement of the bonus but before the record date, the shares are referred to as cum-bonus has been given effect; the shares become ex-bonus. This study examines the impact of bonus shares on EPS and Market price of shares after record date.

Barns and Ma (2002) investigate stock price reaction to the announcement of bonus issues for the emerging stock markets -- China. The results show that the issues with a high bonus ratio (number of bonus shares in the issue/number of existing shares) usually attract positive returns for both Chinese and foreign residents. The hypothesis of semi-strong form market efficiency is rejected only for small-bonus issues. Finally, there appears to be additional informational content in the approvals of bonus issues above and beyond that of the proposals. Bechmann and Raaballe (2004) examined the effect of stock dividend and stock splits on Danish stock market. The two events are associated with a significantly positive announcement effect of approximately 2.5%. After controlling for the firm's payout policy, the results suggest that a stock split is a cosmetic event and that a stock dividend on its own is considered negative news.

Balachandran et al. (2004) examine share price reaction to the announcement of bonus share issues for a sample of Australian companies over the period 1992 to 2000. The risk-adjusted price reaction from day 0 to day 1 is positive and statistically significant, averaging 2.37%. However, abnormal price reaction to bonus issue announcements is statistically significantly stronger for industrial non-financial companies and mining companies than financial companies. Finally, they find a significant positive cash flow performance, which is taken to indicate that companies that announced bonus share issues provide strong signals regarding their future performance. Subsequently, Balachandran et al. (2005) apply the signaling model to the announcement of bonus share options for a sample of Australian companies (January 1991-August 2003). The risk adjusted price reaction to bonus share option announcements for the three-day announcement period is 2.93%. In contrast, no price reaction was found for in-the-money bonus share option announcements. Consistent with the Heinkel and Schwartz signaling model, the price reaction is found to be positively associated with the exercise price to current share price ratio and the size of the bonus share option issue.

3. STATEMENT OF THE PROBLEM

In fact a common thread an investor facing is return assurance on the stock market Investment. Each and every Investor coming in to the stock Market is nowhere in spotting out the cause of increase or decrease in the market price and which kind of financial event gives strong positive trigger in the Market price?

At this juncture, the felt need is that there should be a study presenting the positive and negative effect of each and every financial event on stock prices particularly Bonus share issues.

4. RESEARCH OBJECTIVES

The study has been undertaken with the following objectives:

- ✓ To critically examine the pattern of share price before and after bonus announcement.
- ✓ To find out the magnitude of bonus issue event effect on shareholder value.

5. DATA AND METHODOLOGY

The present study is empirical in nature and it is based on secondary data. The data used for this study are **randomly selected 10 companies** among different industries which are listed on National Stock Exchange and which satisfy the following criteria:

(i) The companies that were listed in National Stock Exchange, India
(ii) Availability of the dates of announcement of bonus issue and
(iii) Availability of Bonus issue announcement information.

The Selected companies have issued a bonus share during 2010-11. The selected companies are Bajaj Auto, Elgi Equipments, ITC, Karur Vysya Bank, ONGC, Parenteral Drug, Shiva Cement, South Indian Paper Mills, Wipro and Zodiac Clothing has been selected and data obtained from **Prowess**. The data used for the study are for the period from March 2010- March 2011. Closing Market Price of shares before seven days of date of bonus issue and after seven days of date of bonus issue has been taken for analysis. Summary Statistics, difference Paired t-test has been used for measuring the change in share price with bonusissue.

6. LIMITATIONS OF THE STUDY

- ✓ The present study is confined to only one event announcement.
- ✓ This study is restricted with only few companies.
- ✓ All the limitations of the tools used are applicable to this study.

7. EMPIRICAL RESULTS

Table 1: Companies Bonus Issue Dates and Bonus Ratio

S.No.,	***Company Name***	***Bonus share issue dates***	***Bonus Issue Ratio***
1.	*Bajaj Auto*	*22-7-2010*	*1:1*
2.	*Elgi Equipments*	*28-10-2010*	*1:1*
3.	*ITC*	*18-6-2010*	*1:1*
4.	*Karur Vysya Bank*	*7-9-2010*	*2:5*
5.	*ONGC*	*16-12-2010*	*1:1*
6.	*Parenteral Drug*	*2-9-2010*	*1:3*
7.	*Shiva Cement*	*30-10-2010*	*1:10*
8.	*South Indian Paper Mills*	*29-7-2010*	*1:1*
9.	*Wipro*	*23-4-2010*	*2:3*
10.	*Zodiac Clothing*	*6-7-2010*	*1:2*

The above table shows the date on which, the bonus share issue and its ratio was announced in the board of directors meeting for the selected companies under study. From these dates, daily adjusted prices for sample stocks for 7 days before and 7 days after the event date were taken and the event window were determined as $t = -7$ to $t = +7$ relative to the event day $t = 0$ (date of announcement of bonus). The study aim is to findout whether the events have any signaling impact on the share prices.

Table 2: Share Price Performance on Bonus Issues

Company Name	***Pre-Bonus 7 days Average***	***Share Price on Bonus Announcement Date***	***Post-Bonus 7 days Average***	***% of Change***
Bajaj Auto	*2636.41*	*2490.20*	*2413.26*	*-8.46*
Elgi Equipments	*195.09*	*184.60*	*157.01*	*-19.52*
ITC	*300.71*	*294.90*	*285.97*	*-4.90*
Karur Vysya Bank	*752.09*	*801.00*	*773.91*	*2.90*
ONGC	*1304.71*	*1329.10*	*1329.93*	*1.93*
Parenteral Drug	*281.11*	*281.15*	*265.84*	*-5.43*
Shiva Cement	*9.25*	*10.12*	*10.35*	*11.81*
South Indian Paper Mills	*62.43*	*64.58*	*60.95*	*-2.38*
Wipro	*683.47*	*691.90*	*710.43*	*3.94*
Zodiac Clothing	*522.18*	*536.15*	*526.89*	*0.90*

From the above table it can be observed that out of 10 companies only 5 companies shown a positive change on the share prices. An average share price has been computed for 7 days prior from the date of bonus announcement and 7 days after the date of bonus announcement. It has been observed from the table that Shiva Cements has recorded an increase of 11.81% in share price which is the highest among the selected companies. On the other hand Elgi Equipments has lost around 19.52%. Hence it can be inferred that 50% of the companies has shown an impact on issue of bonus shares.

Table 3: Summary statistics of Event Announcement (Bonus) on Share Price Performance

		Bajaj Auto	Elgi Equipments	ITC	Karur Vysya Bank	ONGC	Parenteral Drug	Shiva Cement	South Indian Paper Mills	Wipro	Zodiac Clothing
Pre	Mean	2636.41	195.09	300.71	752.09	1304.71	281.11	9.25	62.43	683.47	522.18
	SD	98.66	1.42	3.23	114.89	11.27	38.89	0.26	0.87	14.91	2.32
	CV	3.74	0.73	1.07	15.28	0.86	13.83	2.80	1.39	2.18	0.45
	Skewness	-1.14	0.13	0.17	-1.09	2.20	-0.91	-0.96	-0.22	-0.53	1.19
	Kurtosis	2.66	1.66	2.41	2.12	8.04	1.87	3.79	0.78	1.79	2.81
Post	Mean	2413.26	157.01	285.97	773.91	1329.93	265.84	10.35	60.95	710.43	526.89
	SD	15.39	5.36	6.39	52.39	6.97	16.89	0.37	1.85	10.70	6.39
	CV	0.64	3.41	2.23	6.77	0.52	6.35	3.61	3.04	1.51	1.21
	Skewness	1.43	0.71	-0.07	-0.27	0.27	-0.29	0.76	0.79	0.03	0.10
	Kurtosis	5.79	2.40	1.01	1.07	2.78	0.73	2.22	2.83	1.04	1.26

The above table shows mean, standard deviation, variance, skewness and Kurtosis for 10 listed companies. For both pre and post events, we find that there is typical price movement. On the announcement date, there are big upward jumps and after the run up is over, there is no further drift in stock price. It is found that on an average, sample stocks having bonus announcements, start showing positive impact around 3rd to 4th days before the announcement date. According to coefficient of variance, Zodiac Clothing share price was found more consistent in pre-event, whereas the same situation is not reflected in post-event. It is observed that ONGC and Bajaj Auto were found more consistent post-event. The skewness value represents that Bajaj Auto, Elgi Equipments, Karur Vysya Bank, Shiva Cement, South Indian Paper Mills and Wipro were recorded the impact during the date closer to bonus announcement. It is also evident from kurtosis value that 30% of companies have recorded the peakness such as Bajaj Auto**,** Elgi Equipments and South Indian Paper Mills.

Table 4: Paired t-Test for Pre & Post Bonus Announcement

Stock Price Performance	Mean	N	SD	Paired Mean	Paired SD	t-value	df	p-value
Pre-Bonus Date	674.74	10	790.01	21.29	73.81	0.912	9	0.385
Post-Bonus Date	653.45	10	736.71					

The Table-4 shows paired t-test analysis of share price behavior between pre-event and post-event. Ten companies average share price performance is considered to measure the effect of bonus issue. The result states that pre-event mean value is 674.74±790.01, post-event mean value is 653.45±736.71, paired mean & standard deviation value is 21.29±73.81, t-value is 0.912, degree of freedom is 9 and p-value is 0.385, which is greater than the level of significance 0.05. Thus the hypothesis declared as there is no significant difference found among pre-event and post-event. It can be conclude as there is no measurable impact found on bonus issue in pre-event and post-event condition.

8.CONCLUSION

This paper examines the announcement effects of bonus issues on the selected scrip‘s during the period March 2010 to March 2011. An event study is conducted using a 15-day event window. The study finds no significant impact with respect to bonus issues. Bonus issues considered being cosmetic events and except accounting treatment, their impacts are likely to be the same. Interestingly, we found that bonus issues result in sharp spike on the announcement date. This phenomenon may need further exploration and scaled to reassure the effectiveness.

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