

IMPACT OF BONUS ISSUE ON STOCK PRICE- A STUDY WITH REFERENCE TO SOME SELECT STOCKS LISTED AT BSE

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Abstract

The financial system being an integral part of the economic system, oils the wheels of the economic system very effectively and efficiently. The primary function of any financial system is to facilitate the allocation and deployment of economic resources both spatially and temporally. The revolutionary change in the financial system has resulted in the expansion and growth of Indian capital market. This growth has attracted many companies to gain additional return which in turn helps in adding value to its shareholders. Many studies were carried out to find the relevance of bonus issues, dividend declaration, stock splits on stock price reaction and found varied opinions on the behavior. Most of the studies have showed positive abnormal returns on the stock prices and so of them have shown negative returns. In this backdrop, the present study is an attempt to test the significance of bonus issue on stock price behavior. With this prefatory remarks, this paper is structured to provide the intent, content, problematics, and importance in the introductory section. With a view of ensuring these things, this paper is divided into 5 sections. To gain the insights of the study review of literature is given in the second section. The subject of the present inquiry is problematized, the principal objectives of the study are designed and methodology adopted are detailed in the third section. The fourth and fifth sections are the study related sections.

Keywords: Indian financial system, bonus issue, stock price reaction.

1. Introduction:

The history of capital market in India dates back to almost 200 years. It has played and has been playing a decisive role in the development of the economy. The revolutionary change in the financial system has resulted in the expansion and growth of Indian capital market. It is an important and efficient conduit to channel and mobilise funds from Surplus Spending Units (SSUs) to Deficit Spending Units (DSUs). The quality of the market determine the effectiveness of the mechanism of capital flow. Indian economy, one among the fast growing economy in the world, has witnessed new heights in the Indian equity market due to the recent earnings of Indian companies which attracted both domestic and foreign investors to show keen interest in making investments in the Indian equities. When companies accumulate huge profits and reserves, it desires to capitalize these profits by issuing bonus shares. Over the years, relationship between bonus issues and stock prices has been the subject of much empirical discussion within the finance literature. A bonus issue refers to the issuance of free additional shares to the existing shareholders. Bonus issue though influence the number of equity shares outstanding, but they do not have any effect on shareholders' proportional ownership of shares. The bonus issue date is known well in advance and therefore should contain no new information. However, empirical studies of bonus issue and stock dividends have documented a statistically significant market price reaction. It is therefore a matter of concern that firms announcing bonus issue experience rise in their stock prices on an average. Though a number of studies have documented the evidence on the impact of bonus shares on stock return in India, the results remain inconclusive. A lot of different opinion do exist in the results of such studies which had taken place at different time frames. This paper is an attempt to deal with the above problem.

2. Review of Literature:

Grinblatt et. al. (1984) studied splits and stock dividends for the years 1967-1976. They documented post-announcement abnormal return, particularly around the ex-dates of splits and stock dividends.

Ramachandran (1985) studied the impact of bonus issue announcements on Indian stock prices. He found a varied evidence of semi-strong form of efficiency in the Indian stock market.

Foster and Vickrey (1978) used daily return in this study of 82 stock dividend announcements and found considerable positive abnormal returns around announcements.

Ghosh and Woolridge (1988) noticed that negative stock price reaction to dividend drops can be compensated by offering stock dividend as a substitute.

McNicholas and Dravid (1990) supported the signaling hypothesis by examining the relationship between the size of bonus issue and the degree of abnormal returns on the announcement dates and showed a positive relationship between stock dividend size and abnormal return.

Rao and Geetha (1996) estimated average cumulative abnormal return of 6.31 percent around the three days of announcement of bonus which concluded the study that the capital market is not inherently a semi-strong form of EMH.

Barnes and Shiguang (2001) analysed the effect of stock price on bonus issue in China. Their results concluded that high bonus ratio will usually attract positive returns while issues with low bonus ratio attract low returns,

Ramezani et al. (2001) analysed the relationship between corporate profitability metrics, such as economic value added, company's earnings and corporate profitability to enhance shareholder value using multivariate analysis. The analysis of the study finds that the corporate profitability measure generally rises with earnings and sales growth.

Mello and Yaman (2003) concluded from their study that firms take advantage of patterns of announcement period stock returns and asymmetric information levels by raising more capital by shortening the interval between successive seasoned offerings.

Mishra (2005) conducted a study on the effect of bonus issues on market reaction during the period between 1998 to 2004 by using event study methodology and found that stocks started showing abnormal returns before the bonus announcement date.

Pathirawasam (2009) in his event study methodology on stock price reaction to stock announcements which was conducted during the period between 1998 to 2007 listed in Colombo stock exchange is much larger to any other international discoveries. He found that announcement day abnormal return increases with size of the stock dividend & vice versa.

Kumar and Halageri (2011) studied the market efficiency of Indian stock market using event study methodology and focused on bonus issuance from April 1996 to March 2001. They concluded that Indian stock markets did not perfectly incorporate bonus announcement information instantaneously in stock prices. It means that it is possible to make abnormal returns from bonus announcement by applying the buy and hold investment strategy.

3. Research methodology:

The study is conducted on the impact of bonus issue on select stock prices of companies listed at BSE during the years January 2015 to December 2017. The discussions were purely based on the data collected from secondary sources such as journals, research projects and related websites. Regression analysis is used as a tool to test the significance of the study.

Objective of the study:

To test the significance of impact of bonus issue on stock price.

Hypothesis:

H0: Null Hypothesis: There is no significant impact of bonus issue on stock price.

H1: Alternate Hypothesis: There is a significant impact of bonus issue on stock price.

4. Analysis and findings

Three companies from IT sector is chosen for the study.

Table 4.1: Table showing the regression output of Infosys company stocks for the year 2015.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.108608059
R Square	0.011795711
Adjusted R Square	-0.098004766
Standard Error	0.17761887
Observations	11

ANOVA	df	SS	MS	F	Significance F
Regression	1	0.003389207	0.00339	0.10743	0.75058684
Residual	9	0.283936168	0.03155		
Total	10	0.287325375			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.032934082	0.05384957	-0.6116	0.55594	0.1547503	0.0888821	0.1547503	0.088882109
X Variable 1	0.480744364	1.466743797	0.32776	0.75059	2.8372606	3.7987493	2.8372606	3.798749343

Interpretation: The value of R square is found to be 0.01 which is very low. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.2: Table showing the regression output of Infosys company stocks for the year 2016.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.132401182
R Square	0.017530073
Adjusted R Square	-0.08071692
Standard Error	0.051673869
Observations	12

ANOVA	df	SS	MS	F	Significance F
Regression	1	0.000476438	0.00048	0.17843	0.6816656
Residual	10	0.026701888	0.00267		
Total	11	0.027178326			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.007341019	0.014937682	-0.4914	0.63372	0.0406242	0.0259422	0.0406242	0.025942211
X Variable 1	0.179678572	0.425367259	0.42241	0.68167	0.7680987	1.1274559	0.7680987	1.127455884

Interpretation: The value of R square is found to be 0.01 which is very low. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.3: Table showing the regression output of Infosys company stocks for the year 2017.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.251203517
R Square	0.063103207
Adjusted R Square	-0.030586472
Standard Error	0.065354109
Observations	12

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.002876772	0.00288	0.67353	0.43095107
Residual	10	0.042711596	0.00427		
Total	11	0.045588368			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.009202458	0.022193856	-0.4146	0.68716	0.0586534	0.0402485	0.0586534	0.040248534
X Variable 1	0.52561457	0.640453429	0.82069	0.43095	0.9014046	1.9526337	0.9014046	1.952633731

Interpretation: The value of R square is found to be 0.06 which is very high. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.4: Table showing the regression output of Wipro company stocks for the year 2015.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.6142491
R Square	0.377302
Adjusted R Square	0.3081133
Standard Error	0.0600101
Observations	11

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.019638256	0.01964	5.45323	0.04436655
Residual	9	0.032410919	0.0036		
Total	10	0.052049175			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0115341	0.018193555	0.63397	0.54188	-0.0296226	0.0526908	-0.0296226	0.05269079
X Variable 1	1.1572218	0.495552391	2.33522	0.04437	0.03620442	2.2782392	0.03620442	2.2782392

Interpretation: The value of R square is found to be 0.37 which is very high. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.5: Table showing the regression output of Wipro company stocks for the year 2016.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.1683235
R Square	0.0283328
Adjusted R Square	-0.068834
Standard Error	0.0489981
Observations	12

ANOVA	df	SS	MS	F	Significance F
Regression	1	0.000700052	0.0007	0.29159	0.60102124
Residual	10	0.024008137	0.0024		
Total	11	0.024708189			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.017301	0.014164181	-1.2214	0.24993	0.0488604	0.0142591	0.0488604	0.01425911
X Variable 1	0.2178002	0.403340939	0.53999	0.60102	0.6808994	1.1164998	0.6808994	1.11649982

Interpretation: The value of R square is found to be 0.02 which is very low. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.6: Table showing the regression output of Wipro company stocks for the year 2017.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.3023178
R Square	0.091396
Adjusted R Square	0.0005356
Standard Error	0.1667776
Observations	12

ANOVA	df	SS	MS	F	Significance F
Regression	1	0.027978756	0.02798	1.0059	0.33953909
Residual	10	0.278147828	0.02781		
Total	11	0.306126584			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.050398	0.056636668	-0.8898	0.39445	0.1765924	0.0757964	0.1765924	0.07579636
X Variable 1	1.6391883	1.634377938	1.00294	0.33954	2.0024326	5.2808093	2.0024326	5.28080931

Interpretation: The value of R square is found to be 0.09 which is very high. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.6: Table showing the regression output of TCS company stocks for the year 2015.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.1650728
R Square	0.027249
Adjusted R Square	-0.080834
Standard Error	0.0446338
Observations	11

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.000502249	0.0005	0.25211	0.62764645
Residual	9	0.017929565	0.00199		
Total	10	0.018431815			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.005324	0.013531837	-0.3935	0.70314	0.03593529	0.025287	0.0359353	0.02528699
X Variable 1	0.1850652	0.368577467	0.50211	0.62765	0.64871492	1.018845	0.6487149	1.01884539

Interpretation: The value of R square is found to be 0.02 which is very low. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.7: Table showing the regression output of TCS company stocks for the year 2016.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.6123114
R Square	0.3749253
Adjusted R Square	0.3124178
Standard Error	0.0426628
Observations	12

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.01091721	0.01092	5.99809	0.03431063
Residual	10	0.018201153	0.00182		
Total	11	0.029118363			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.003828	0.0123328	0.3104	0.76261	0.03130756	0.023651	-0.0313076	0.02365082
X Variable 1	0.8600999	0.351190313	2.4491	0.03431	0.07759913	1.642601	0.07759913	1.64260069

Interpretation: The value of R square is found to be 0.37 which is very high. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Table 4.8: Table showing the regression output of TCS company stocks for the year 2017.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.2811731
R Square	0.0790583
Adjusted R Square	-0.013036
Standard Error	0.0706145
Observations	12

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.004280591	0.00428	0.85845	0.3759923
Residual	10	0.049864137	0.00499		
Total	11	0.054144728			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0029828	0.023980267	0.12439	0.90347	0.05044852	0.056414	0.0504485	0.05641421
X Variable 1	0.6411601	0.692004325	0.92653	0.37599	-0.9007216	2.183042	0.9007216	2.18304183

Interpretation: The value of R square is found to be 0.07 which is very high. The regression analysis table shows that the level of significance for the variable is above 0.05 therefore we can assume that the effect of bonus on stock price have significant positive value.

Conclusion:

From the study it is evident that there is a significant impact on the stock price by bonus issue. The stock prices show positive abnormal returns for all the companies chosen for the study. Hence, this conclusion is in the line with all the literature reviewed. From the view point of investors, bonus issues result into multiplication of face value of the shares they held in the ratio of bonus declared.

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