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A Report on Impact of Issue of Bonus Shares

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ABSTRACT

The bonus issue is the one in every business activity in which the corporation issues stock to existing shareholders at no cost. The announcement of a bonus or a portion of a bonus may encourage investors to buy or sell shares before and after the ex-bonus issue date, resulting in anomalous returns in the stock around the ex-bonus issue date. This study attempts to determine the anomalous return on ex-bonus issues by considering corporations that declared ex-bonus issues in India during the year 2017. Researchers chose 9 organisations at random among those that announced an ex-bonus issue in 2017 to examine the abnormal returns associated with ex-bonus issues. They utilised an event study and a t test to determine the significance of the ex-bonus issue.

INTRODUCTION

A bonus share is a free additional share provided to current shareholders in a corporation based on the number of shares the shareholder already owns. The issue of bonus shares raises the total number of shares issued and owned, but it has no effect on the company's value since, while the total number of issued shares rises, the ratio of shares held by each shareholder remains constant. A bonus issue (also known as a scrip issue) is when a company issues additional shares for free in order to bring its issued capital in line with its employed capital (the increased capital available to the corporate after profits).This typically occurs after a company has made a profit and consequently increased its utilised capital. As a result, a bonus issuance is regarded as a viable alternative to dividends. A bonus issue, unlike an offer, does not risk dilute your investment. Although the stock's earnings per share will be proportional to the fresh issue, this will be offset by the fact that you will own more shares. As a result, the value of your investment should remain constant, even if the price fluctuates. The goal of the Bonus Shares problem is to align Nominal Share Capital with reality rather than assets over liabilities. Companies issue shares in place of consideration.The consideration could be in the form of money or in the form of something else. Bonus shares are created by converting the corporation's reserves and surplus into shares. Bonus shares can only be issued by corporations with considerable free reserves, or reserves that are not put aside for a specific purpose and could be dispersed as dividends. Bonus shares, on the other hand, will be granted if the share premium account is in the red.

CIRCUMSTANCES FOR ISSUING BONUS SHARES

Bonus shares can be used by a company to avoid showing huge sums of distributable revenue on the books and instead ploughing profits back into capital, which it would otherwise distribute. Pay-out payments are not required by law, but if the company has significant accumulated earnings, investors may demand a dividend. Dividend payments require cash outflow, and pay-outs must be kept consistent and steadily increased. As a result, in order to avoid paying out large dividends, a corporation can transform its accumulated profits into share capital by issuing bonus shares. This also improves the company's market image.If a corporation can make higher returns than the market rate of return, which investors will receive if dividends are issued, it is preferable to keep the earnings rather than paying large dividends, which will increase the country's value.

BONUS SHARES ISSUED within the RATIO

When bonus shares are granted in excess of a one-to-one ratio, it means that one share is allotted for every share previously held by the corporation. When a 2:1 ratio is used, it signifies that two shares are allotted for every one existing share in the company. Because the date has been published, investors will be looking forward to the designated date in order to reap the benefits. This date is significant because only shareholders who own shares on that day will be eligible for bonus shares. There is another date that investors should be aware of: the date when the shares become 'ex-bonus.' The share prices adjust within the bonus ratio on these days so thatit reflects the specific circumstances on the ground level. When the value displays true on the bottom, the investors are no longer eligible for the bonus shares. As a result, the ex-bonus date must be properly observed.

HOW DOES BONUS SHARE AFFECT INVESTORS?

It has no immediate impact on your money. Following the bonus, the share price should fall in proportion to the bonus issuance, resulting in no change in the shareholder's non-public wealth. However, more often than not, a bonus appears to be a significant signal sent out by the company, and the resulting demand for the shares leads the value to rise. As a result, if stock prices rise in the long run, the amount of money you own will rise dramatically.

WILL THE SHARE PRICE CHANGE AFTER A BONUS ISSUE?

A bonus issue increases the total number of shares in a market. If a company has 20 million shares and a 2:1 bonus issue, it will issue 40 million shares. Now the corporation's earnings will have to be divided by several more shares. (Earnings per Share = Net Profit divided by the number of shares) The EPS will decrease since the profits remain the same but the number of shares has increased. When earnings per share (EPS) falls, the stock price should fall in lockstep. In actuality, however, it should not occur.
This is due to the fact that:
I. The stock is now more liquid. It's easier to buy and sell now that there are so many more shares available.
ii. A bonus issue could indicate that the company is in a good position to service its higher debt. What this means is that the management would not have issued these shares unless it was certain that it would be able to increase earnings and payout dividends on these shares in the future.

A BONUS ISSUE IS TAKEN AS an indication OF the great HEALTH OF the corporate

When the company declares a bonus issue, it also provides a record date for the problem. The record date is the day on which the bonus becomes effective, and shareholders who are stockholders on that date are eligible for the bonus. The shares are referred to as cum bonus after the bonus is announced but before the record date. The shares become ex-bonus after the record date, when the bonus has taken effect. Bonus shares are created by turning the company's reserves into share capital. It is nothing more than the capitalization of a corporation's reserves.
Before issuing bonus shares, certain conditions must be met.
Bonus shares will be issued if the corporation's Articles of Association allow for such a distribution. If it isn't in the articles, a special resolution should be passed at the corporate's final meeting, and the shareholders should typically approve the meeting on the BOD's recommendations.

The guidelines set forth by them must be observed. It's important to make sure that issuing bonus shares doesn't result in a total share capital that's much higher than the allowed share capital. Otherwise, the allowed capital must be increased by modifying the Memorandum of Association's capital clause.

Tax impact on bus shares

Dividend: Any dividend paid from an Indian corporation, whether interim or final, is tax-free in the hands of the shareholder. However, Indian corporations must pay a 15 percent dividend distribution tax (DDT) plus a surcharge and an education cess if they pay such pay-outs. Furthermore, dividends and DDT are not tax deductible in the hands of the firm, resulting in earnings being taxed twice.
Bonus: When bonus shares are granted, there are no tax implications. However, they will be taxed after they are sold, depending on how long they are held. The price of such bonus shares is regarded as $0 by the taxman.

SEBI Guidelines

In Chapter XV of the SEBI (Disclosure & Investor Protection) Criteria, 2000, the SEBI published guidelines for Bonus Issue. An organisation issuing Bonus Shares should ensure that the problem complies with the SEBI (Disclosure & Investor Protection) Guidelines, 2000's bonus issuance guidelines.

Review of literature

Many studies are underway around the world to see if the semi-strong variant of the efficient market hypothesis can be applied to the stock markets of many developed and emerging economies in the context of various corporate events such as step-up, dividend, right issue, bonus issue, financial results, and so on.

1. "An Analysis of Shareholder Reaction to Dividend Announcements in Bull and Bear Markets," by Below and Johnson (1996).
The study looked at how share prices behave differently when dividends are announced depending on market phase. The study discovered that market phase has a large impact on abnormal returns around the announcement, and that dividend change announcements tend to convey more information than promoting phase announcements, which runs opposed to the data content of dividends hypothesis.
2.Gupta, "Announcement Effects of Bonus Issues on Equity Prices: The Indian Experience," in Gupta, "Announcement Effects of Bonus Issues on Equity Prices: The Indian Experience," in Gupta, "Announce

The study looked at the semi-strong variety of pricing efficiency in the Indian securities market in the event of bonus concerns with 145 stocks from 1995 to 2000 and found evidence in favour of this type of pricing efficiency.

3.Mishra, "An Empirical Analysis of Market Reaction Around Bonus Issues in India," in Mishra, "An Empirical Analysis of Market Reaction Around Bonus Issues in India," in Mishra, "An

By evaluating the stock price reaction to the informative content of bonus issues, the study determined whether the Indian stock exchange is semi-strong form efficient or not. The study discovered a positive anomalous return on a median of nine to eight days before the announcement date, with three days (-9, -8, and -6) being statistically significant; this could lead to data leaking. Furthermore, the major CAAR were discovered on today. On the day of the announcement, a negative insignificant AAR (-0.19%) was discovered.

4. "Market Reaction around Stock Splits and Bonus Issues: Some Indian Evidence," Dhar and Chhaochharia (2008).

Using event studies, the researchers looked at the impact of data relating to stock splits and bonus issues on equities listed on the NSE. Stock splits and bonus issues, for example, both had a strong positive announcement effect. The anomalous return on bonus issues was at 1.8 percent, and stock splits were form efficient.

5.Clement Sudhakar and Raja (2010)

"An empirical test of the effectiveness of the Indian stock exchange in terms of Bonus Announcement"

The study looked at the efficiency of the Indian capital market in terms of bonus issue announcements by IT businesses on the BSE. Over the course of the investigation, 43 companies were used as samples (2000-2007). To assess the effectiveness, a standard event research methodology was used. Before the announcement day, it was discovered that there was a positive substantial AAR. Positive substantial abnormal returns were detected on the announcement day, day one, and day four, indicating that the shareholders had earned abnormal returns. CAARs before the announcement period ranged from -2.11 to 12.4; on the day of the announcement, it was 14.46, rising to 17.16 the next day.

6. Kumar and Halageri (2011) "Testing of Indian securities market semi-strong form efficiency with relation to Bonus Announcement Information Content"

The study used the event study approach to examine market efficiency on the Indian exchange, focusing on bonus issuance events from April 1996 to March 2001. The event period included 15 days before and after the announcement date, and 54 bonus announcements from listed businesses were examined. The findings showed that the Indian stock markets did not perfectly incorporate bonus announcement information into the stock price at the time of the announcement. This meant that using the buy-and-hold investment strategy, it was possible to generate anomalous returns from bonus announcements.

7. Ray, "Market Reaction to Bonus Issues and Stock Splits in India: An Empirical Study," in "Market Reaction to Bonus Issues and Stock Splits in India," in "Market Reaction to Bonus Issues and Stock Splits in India

The study aimed to examine the Indian stock market in terms of its semi-strong efficiency. Considering the bonus issue, an incident research approach was used and broken up as an occurrence from 1996 to 2008. For testing the abnormal return and fluctuations in liquidity, a -30 to 30 day event window was used. The Indian stock exchange has been discovered to react to split-up announcements and not bonus issues. At a 1% level of significance, the change in liquidity was shown to be significant for the split, however at a 5% level of significance, both events exhibited a significant change in liquidity from pre to post event.

8. Satija, Purohit, and Chhatwal (2012) "Market Reaction to Step-Up and Bonus Issue Announcements in India: An Empirical Analysis"

By examining two corporate events, a bonus issuance and a split-up announcement, the study aimed to look at the informational efficiency of the Indian exchange in its semi-strong version. During the study period of 1 January 2006 to 1 January 2011, 16 splits and 23 bonus issues declared by companies included in the CNX 100 index were used as samples. The event study approach was used using a 41-day event window and a t-test was used to determine the significance. On or before the announcement date, the study found extremely few reactions. Overall, the pattern of AARs and CAARs was found to be consistent with predictions and validated.

9. Liu Hua and Skanthavrthar Ramesh (2013) "A Study on Split Up Announcements and Their Impact on Stock Prices in Sri Lanka's Colombo Securities Exchange (CSE)"

In the CSE, the study looked at how stock prices responded to an increase announcement and examined market efficiency. During the years 2009 to 2012, 64 sample events were used in a standard event study technique. Average abnormal return (1.46 percent) is statistically significant at the 5% significance level on the announcement date, and a massive negative cumulative average abnormal return (-6 percent) is observed in the amount (0-10) implying that split ups have a significant signal and knowledge content in CSE. The semi-strong kind of EMH was supported in this investigation.

10."A Study on Semi-Strong Efficiency of the Indian Stock Market," Ramachandran (2013).

The efficiency of the Indian securities market was investigated by analysing corporate events such as dividend, stock split, merger, and bonus issuance announcements. The study was conducted over a five-year period (1 April 2004 to 31 March 2009), using an occasion study approach used to assess efficiency during a 60-day event window. To examine the effects of various events, statistical procedures such as the t-test, z-test, and nonparametric u-test were commonly used. The data release of dividend, stock split, bonus issue, and merger announcements has been determined to have no substantial impact on the safety returns. This demonstrated that investors were not willing to risk their money on the release of those four corporate bonds.

Objectives

To calculate abnormal returns, average abnormal returns, and cumulative abnormal returns, use the formulas below. To determine the effect of the bonus issue on stock returns.

Research Methodology

This is an empirical study that relies on secondary data. The sample size for this study is 9 organisations, with an ex-bonus issuance date of 2017 and a bonus issue ratio of 1:2. Purpose sampling was used to pick the sample. The statistical technique model is used to calculate projected stock returns, and the BSE 500 Index is utilised to calculate market returns. Stock projected returns and stock actual returns are used to determine abnormal returns throughout the event period (41 days), which is 20 days before the ex-bonus issuance date and 20 days after the ex-bonus issue date (-20 to 0 to +20). The significance of bonus issue impact on stock abnormal returns is determined using the student t test. as follows: statistical approach model

Expected return (E) = $\alpha + \beta$ Rm
α = Alpha coefficient of security with Index;
β = Beta coefficient of the protection with Index
RM= Expected of the return of the Index
Abnormal returns calculated as follows
AR = R – E
R = Actual Returns; AR = Abnormal returns
Average Abnormal returns calculated as follows
AAR = ∑_(t=1)^n\n
t = the amount of securities within the study;
n = total number of stocks within the class
t is employed to work out the importance of abnormal returns.
t = AAR/σ(AAR)
AAR = Average Abnormal return; (AAR) = Standard error of average abnormal return;
Standard error is calculated as (AAR) = σ/√n

Table 1: Selected companies for study

COMPANY	BONUS RATIO	DATE		
		Announcement	Ex-bonus	Record
BPCL	1:2	30-5-2017	13-1-2017	15-7-2017
BHEL	1:2	10-8-2017	28-9-2017	30-9-2017
Hind Composite	1:2	10-4-2017	25-5-2017	26-5-2017
HPCL	1:2	26-5-2017	11-7-2017	12-7-2017
Larsen	1:2	29-05-2017	13-07-2017	14-07-2017
MahindraHolidays	1:2	19-05-2017	10-07-2017	11-07-2017
Mother son Sumi	1:2	19-05-2017	05-07-2017	-
NBCC (India)	1:2	04-01-2017	17-02-2017	21-02-2017
Panama Petro	1:2	14-08-2017	03-10-2017	04-10-2017

Data Analysis &Interpretation

Table 2 represents the typical abnormal stock returns (AAR), cumulative percentage abnormal returns (CAAR), standard deviation (SD), and t test results for various sample sets during the event.

Event day	AAR	CAAR	SD	SE	t Values
-20	0.373015	0.372	1.25858	0.419521	0.8891443
-19	-1.04584	0.672	1.356204	0.4520682	-2.313432
-18	0.839478	0.166	1.252235	0.4174123	2.0111531
-17	0.833946	1.002	3.160850	1.0536174	0.7915042
-16	2.581789	3.583	5.515103	1.8383685	1.4043873
-15	-1.36603	2.217	2.074404	0.6914686	-1.975564
-14	-0.97330	1.244	1.460715	0.4869057	-1.998985
-13	0.6568656	1.901	1.657886	0.5526288	1.1886266
-12	-0.81602	1.085	1.046807	0.3489369	-2.338637
-11	1.136945	2.220	2.249714	0.7499040	1.5161218
-10	-0.25073	1.971	1.769734	0.5899129	-0.425029
-9	0.392736	2.364	3.205460	1.0684878	0.3675641
-8	-0.22294	2.141	1.389252	0.4630847	-0.481442
-7	0.515071	2.654	1.08794	0.362656	1.420322
-6	0.04734	2.701	1.576706	0.5255695	0.0900933
-5	-0.25720	2.443	2.102564	0.7008554	-0.366994
-4	0.180152	2.623	0.793268	0.2644233	0.6813055
-3	0.085730	2.710	1.093650	0.364552	0.235176
-2	-0.29420	2.416	1.886112	0.6287041	-0.467977
-1	-0.66588	1.752	2.569700	0.8565672	-0.777398
(Eventday)0	1.183996	2.934	7.038855	2.3462853	0.5046269
1	0.09383	3.028	3.109598	1.03653344	0.0905230
2	-1.12575	1.902	2.732403	0.9108015	-1.236019
3	-0.3689	1.534	2.454114	0.8180386	-0.449858
4	-1.42301	0.113	1.486036	0.4953457	-2.872797
5	-0.81594	-0.705	1.281532	0.4271778	-1.910096
6	0.908350	0.203	1.760004	0.5866689	1.5483215
7	-1.53436	-1.331	1.545212	0.5150710	-2.978954
8	-0.45135	-1.780	0.623425	0.2078089	-2.172013
9	0.493286	-1.289	1.932803	0.6442688	0.7656532
10	0.484386	-0.805	1.387134	0.4623787	1.0475951
11	-0.22413	-1.027	1.70563	0.5685436	-0.39421
12	-0.24576	-1.275	1.211469	0.4038235	-0.608622
13	0.887632	-0.385	1.300798	0.4335994	2.0471223
14	0.0807680	-0.304	1.432775	0.4775923	0.1691174
15	0.732925	0.429	1.379694	0.4598982	1.593675
16	0.261766	0.688	2.258785	0.7529281	0.3476656
17	0.259758	0.948	2.242279	0.7474262	0.3475387
18	0.754550	1.705	3.7638	1.25463	0.6014288
19	-0.13522	1.568	2.46064	0.8202134	-0.164879
20	0.138692	1.706	1.88612	0.6287075	0.2206010

Table 2 shows that stocks' average anomalous returns are positive in 22 days and negative in 19 days out of a total of 41 days. The maximum abnormal return was 2.681881 on the 17th day, and the lowest negative return was -1.53567 on the 7th day after the ex-bonus day. On the event day, the average abnormal return was positive at 1.1839988.

Day average abnormal returns are higher than after-event average abnormal returns, and this trend can be seen in cumulative average abnormal returns as well. In the 41-day event window period, cumulative average abnormal returns are positive in 30 days and negative in only 11 days. The highest cumulative average abnormal return was 3.584 on the -16th day before the event window period, and the lowest was -1.792 on the -16th day before the event window period. Before event day, cumulative returns are more days positive than after event day cumulative average anomalous returns.

Standard deviation of selected samples average abnormal returns is more volatile on event day (7.039956), less volatile on 7th day after event day (0.623335), and average abnormal returns for the other days of the event period are not volatile. During the 41-day window period, only three days, the -18th day before the event and the 5th and 6th days after the event, are negatively significant at the 6% level of significance.

Conclusion

This article used stock abnormal returns, cumulative abnormal returns, and the importance of average abnormal returns with the help of a student t test to examine the influence of corporate action (bonus issue) on stock prices of nine stocks with an ex-split announcement date in 2017. On event day, the average abnormal return is positive, and the average cumulative returns are also positive. It is frequently argued that investors earned a positive average abnormal return on event day, but had negative abnormal returns on the second day after the event, implying that investors may need to sell equities on the second day after the event. According to study, average abnormal returns are negatively significant at the 5% level of significance on three days only within the 41-day event period, therefore it's worth noting.

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