



EFFECT OF BONUS ISSUE ON PRICES OF COMPANIES AT STOCK EXCHANGE

□ Prof. Mahesh Mahankal*
Mr. Rahul Bari**

ABSTRACT

Economic growth, one of world's fastest developing economies, has seen new heights in the Indian financial market due to the profits made by Indian firms, which have attracted domestic and foreign investors to show interest in investing in the Indian stock markets. So far, several studies have shown that investors' behaviour towards bonus issues shifts according to the current and future outlook of the stock. This research attempted to examine the behavior of the individual share prices in the index against the announcement of the Nifty Index's bonus problem and movements. Comparing the success of the script with the results of the market index to find out the effect of the bonus problem. For this analysis, Wilcoxon's Matched

Pairs Test will be used. The research will study the effect of the bonus problem on the script's price movement in conjunction with the Indian capital market.

Keywords –Indian Capital Market, Bonus issue, Nifty Index, Price Behavior.

I. INTRODUCTION

The premise on which the theory of efficient markets rests is that in a free and competitive capital market, the prices of the securities should reflect all available information and that these prices should adjust very quickly to new information. The new information can come in the form of announcement of quarterly results, announcement of new business deal entered into by the firm, announcements regarding dividends, bonus and such other firm specific events. In an efficient market, the reaction of the market to new information can be studied under the type of information that the market is reacting to and the speed with which the market responds to that information. In this study, stock price movement around bonus announcements is examination.

BONUS ISSUE

“A bonus issue, also known as a scrip issue or a capitalization issue, is an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increasing the dividend payout. For example, a company may give one bonus share for every five shares held”

Bonus Shares are shares distributed by a company to its current shareholders as fully paid shares free of charge to capitalize a part of the company's retained earnings for conversion of its share premium account.

II. OBJECTIVES OF THE STUDY

1. To study the reaction of the stock prices changes on the bonus announcement date.
2. To study during the announcement of the

*Assistant Professor, IIMS, Chinchwad, SavitribaiPhule Pune University, Pune.S.No. 169, 1/A, Chinchwad, Pune, Maharashtra

**Student, IIMS, Chinchwad, SavitribaiPhule Pune University, Pune.

bonus question, to investigate the equality of means for returns.

3. To test whether there is big difference in the distribution pattern of returns before and after the announcement of bonus issue.
4. Find out the pro/cons of bonus issue on the price behavior of investment and fair index stocks.

III. STATEMENT OF THE PROBLEM

This research is an attempt to test the Indian Financial Markets (wasting very little while operating or generating something) with regard to the knowledge quality of the announcement of the bonus question of select companies that are listed exchange. The event announcement does not result in any adjustment in the market price in a perfect environment, but this does not occur realistically. What needs to be checked is how quickly this added/more data gets soaked up (like a towel) and prices get (changed to make it better/changed to match new conditions).

IV. LITERATURE REVIEW

Ball, Ray et al. (1977) titled "Share Capitalization Changes, Information and the Australian Equity Market" It has been shown that for 13 months, including the declared bonuses month, there was a profit of up to 20.2 % (different from what is normally expected).

Eades et al. (1984) titled, "On Interpreting Security Returns During the Ex-Dividend Period", During the ex-date of dividend payments, it was found that the companies listed on the Nyse Stock Exchange delivered substantially positive returns. Results have been recorded that the ex-day itself showed the highest average returns (different from what is normally expected) and it was not held to/restricted to the ex-day but on the day before it and also two days after it was relevant.

Lakonishok et al. (1986) titled "a substantial positive abnormal return for stock split and stock dividends." Each of the five

trading days prior to the ex-day, the ex-day itself and two business days after, they thought about/believed and found that on the ex-day itself, the greatest positive return (different from what is normally expected) is observed. Lijebloom, E. (1989) titled "The informational impact of stock dividend and stock split for stocks listed on the Stockholm Stock Exchange." The stock dividend and stock split announcements were found to have substantially elevated price reactions.

V. RESEARCH METHODOLOGY

This paper makes an attempt to study the hit/effect of bonus issue on stock prices for companies listed on the stock exchange. Secondary data is used for the study. For this study the companies those who had issued bonus share taken for this study. Total 11 companies i.e. 100% took for evaluating the effect of the incentive problem on stock prices on the stock market of the listed companies. Data collected from <https://www.moneycontrol.com>, opening price and closing price of the stocks 30 days before and after bonus issue for the period 2019-2020.

For data analysis Wilcoxon matched pairs test and Average Performance Ratio tools used.

VI. HYPOTHESIS

H0 (Null hypothesis):

"There is significant hit/effect of bonus issue on the price behaviour of the shares."

H1 (Alternative hypothesis):

VII. "THERE IS NO SIGNIFICANT HIT/EFFECT OF BONUS ISSUE ON THE PRICE BEHAVIOR OF THE SHARES." DATA ANALYSIS

Data Analysis tools used for the research are Wilcoxon matched pairs test and Average Performance Ratio.

WILCOXON MATCHED PAIRS TEST

Sr. No	Name of the scrip	TS(+)	TS (-)	ET	oT	iZ/ value	T (-) value	Hypothesis Result
1	MUSIC BROADCAST LTD.	526	0	67730	3427	19.6	1.645	REJECT
2	ANUH PHARMA	114	345	3277	333.63	8.94	1.645	REJECT
3	BANKA BIOLOO	0	431	46548	3638	12.6	1.645	REJECT
4	ARON LTD	279	210	11077	881.6	12.32	1.645	REJECT
5	MGEL LTD	3	291	3	1.87	0	1.645	ACCEPT
6	BOMBAY SUPER	207	253	10764	882.3	194	1.645	REJECT
7	TRIDENT TEXOFAB LTD	396	45	517.5	88.5	5.33	1.645	REJECT
8	KARNATAKA BANK	316	119	3370	377	9.15	1.645	REJECT
9	SILLY MONK ENT	343	45	517.5	88.5	5.33	1.645	REJECT
10	MEERA INDUSTRIES	30	436	232.5	48.61	4.1	1.645	REJECT
11	SUNCARE TRADERS	135	233	4390	433.3	124	1.645	REJECT

INTERPRETATION:

From the above table it shows that the in 11 companies scripts only MGEL LTD accept the null hypothesis and remaining all companies rejected the null hypothesis.

PERFORMANCE RATIO

Sr. No	Name of the Scrip	Size of the Bonus Issue	Performance of NIFTY Index	Performance of the Scrip	Performance Ratio	Result on the basis of performance ratio
1	MUSIC BROADCAST LTD.	1:4	1.002263	0.99367	0.991426402	Nifty Index
2	ANUH PHARMA	1:1	1.000454	1.011288	1.010829084	Script
3	BANKA BIOLOO	3:2	0.983773	0.986729	1.003064758	Script
4	ARON LTD	10:11	1.153299	1.003134	0.86793257	Nifty Index
5	MGEL LTD	10:11	1.153299	1.000914	0.86793257	Nifty Index
6	BOMBAY SUPER	1:3	1.001709	1.005728	0.872044457	Nifty Index
7	TRIDENT TEXOFAB LTD	14:10	1.002551	1.002415	0.999864346	Nifty Index
8	KARNATAKA BANK	1:10	0.996347	0.997594	1.001251572	Script
9	SILLY MONK ENT	6:5	1.000154	1.00507	1.004915243	Script
10	MEERA INDUSTRIES	7:5	1.000154	1.005278	1.005123211	Script
11	SUNCARE TRADERS	2:1	1.000154	1.000914	1.000759883	Script

INTERPRETATION:

From the above table it shows that 5 scripts performance is better than the Nifty index and 6 scripts performance is poor than the Nifty index.

VIII. FINDINGS

- There is a significance impact of bonus share issued by the selected companies as per tool like wilcoxon matched pairs test and performance ratio.
- Using Wilcoxon matched pairs test found that the Music Broadcast Ltd, Anuh Pharma, Banka Biolo, Aron Ltd, Mgel Ltd, Bombay Super, Trident Texofab Ltd, Karnataka Bank, Silly Monk Ent, Meera Industries, Suncare Traders scripts null hypothesis was rejected, only Mgel Ltd scripts hypothesis was accepted, this all scripts issued bonus share in the year 2019-20.
- As per the performance ratio the few of the selected scripts perform very well after issuing dividend like Anuh Pharma, Banka Biolo, Karnataka Bank, Silly Monk Ent and Meera Industries and nifty index performances was better than the scripts like Music Broadcast Ltd, Aron Ltd, Mgel Ltd, Bombay Super, Trident Texofab Ltd.

IX. CONCLUSION

India is one of the developing nation and world look towards India. Investor from India and Foreign had taken keen interest in making their investments. In this research analyzed behavior of stock prices after the corporates movements.

The final outcome of this study is that it has had a major impact/influence on the rate of dividend issuance on the stock price trend (accompanied/submitted) in the Indian stock market by using analysis methods.

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