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Impact on Shareholders Returns on Announcement of Bonus Issue of Indian listed companies

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Abstract: ***This Research Paper show what impact on announcement of corporate event such a Bonus Issue on shareholder return. This means when companies announce Bonus Share than what its impacts on shareholder return. This is event study methodology so here event is to declare as Bonus Share. This study explores impact of Bonus Share event by Indian listed companies. This study focuses on the performance of Bonus Share Issues in Bombay Stock Exchange (BSE) Mumbai form 2012 to November 2014. The main objective of study is whether shareholder can gain or loss on event like announcement on Bonus Share. This studies also examines the share price reactions on information regarding Bonus Share with finding market represents semi – strong efficient or not. This study is based on CAPM Module with help of Event studies and also tests whether there is an abnormal return exists during event window announcement. This study defines statistically significant on abnormal returns on the announcement and its surrounding dates during event.***

Keywords: Bonus Share, Event Study, Abnormal Returns.

I. INTRODUCTION

This research paper is consisting a 4 major section. Section I introduction portion. It includes two parts. Part 1 is meaning and impact on Bonus Share in India. Part 2 is literature reviews of the research paper. Section II is giving the details about the research methodology it further include two parts. Part 1 is Data source and part 2 is data design. Part III is presents empirical results and further discussion. And final section IV is conclusion and reference.

MEANING OF BONUS SHARE:

"Bonus issue is the issue of new equity shares to the existing shareholders at no costs.'' The new shares or the bonus shares are free to given bonus to shareholders. Bonus issues are used to enlarge the capital base of the company and also as a means of rewarding existing shareholders. A bonus issue is normally done via retained earnings. Bonus issue is just a book entry shifting from retained profit to share capital. This is also known as capitalization of reserves. [14]*

Bonus shares does have an impact on the market price of the stock, the prices of the stock reduces to the proportion of the ratio of the bonus issue. If one share is issued as bonus for one share then the prices reduces close to half after the bonus shares are listed on the exchange. To conserve cash by declaring a bonus issue in lieu of a cash dividend (or an increased dividend)

To reduce misunderstanding caused by expressing dividend (out of profits earned on total capital employed) as a percentage of the nominal value of the issued share capital. As dividend payout is based on the nominal value of the issued share capital and NOT on shareholder funds [14]*

So the dividend payout might seem to be unduly high which might lead investors to think that the company is overgenerous by forsaking the relevant investment in capital expenditure or increasing the working capital. Again, another reason is also to align the earning per share. Due to the smaller number of share capital, the earnings per share would also not been properly align to other similar companies which would have already take on a bonus issue re: capitalization of reserves. [14]*

To make use of a company's share premium account. As bonus issue can be created vide capitalization from the share premium account, this might be one reason that a company might want to have a bonus issue. As issuing bonus shares has the effect of diluting earnings per share and lowering a company's share price, the share would then become more affordable which would then encage potential investors to invest in the stock. As the bonus issue would have increase the number of shares in the market, it therefore increases the liquidity/marketability of the stock As a double edge sword namely the issuance of bonus shares could be deemed a "reward" to shareholders as Ill as a way for a company to issue more shares at a lower price to attract potential investors. [14]*

Applies often for stocks that are generally cheaper and smaller in market capitalization to grow faster, these small companies may want to expand their capital base. The bonus issue will reduce the price of a stock initially, but this could attract punters and investors to buy the counter in the hope that there could be a potential upswing in the stock in the longer term. [13]*

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BONUS ISSUE HAS FOLLOWING MAJOR EFFECTS:

1. The primary motive for issuing bonus share is to increase the total return for the shareholder.
2. The secondary motive is to improve the liquidity
3. Bonus share attract the attention of the investor, send positive single about the firms future prospects and bring the share price in popular trading range, making the stock more attractive to investor.
4. The tertiary motive for issuance of bonus share is to attract more investors.
5. Managers believe that even though the share is only a cosmetic corporate event, it has a positive psychological impact on the shareholder, providing positive single about firm's future prospects.
6. Share capital gets increased according to the bonus issue ratio.
7. Liquidity in the stock increases.
8. Effective Earnings per share, Book Value and other per share values stand reduced.
9. Market price gets adjusted on issue of bonus shares.
10. Accumulated profits get reduced. [12]* [13]*

II. LITERATURE REVIEW

In this research paper the impact of Bonus Share announcement is analyzed & the pertinent literature in this context is as follows:

Fama, Fisher, Jensen and Roll (1969), and Grinblatt, Masulis and Titman (1984) have documented the evidence of significant abnormal returns around stock split announcements. The abnormal returns are explained on the basis of information related theory which asserts that managers have superior information, and they convey positive information/signals about the firm's future prospects via stock split. Many previous studies showed that stock splits convey positive signals about the firm's future performance.

Fama et al. (1969). Peterson (1971) suggested that an increase in stock price following an event can occur because the announcement of bonus issue may have benefit information content.

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

Lamoureux and Poon (1987) find that the number of shareholders of a firm increases after the stock splits indicating that lower stock price makes it more attractive and affordable to a larger number of investors.

Lijlebon (1989) investigated the signaling hypothesis by considering stock market price response to bonus issues for indicate that also concurrently release other information such as past earnings. His finding indicates that there is a greater positive stock price reaction for the bonus issue- paying group than for the control group.

Sloan (1987) presented Australian evidence that bonus issue do not influence stockholders' wealth. However, many emoarical studies revealed that the market normally reacts positively to the announcement of bonus issue dividends.

McNichols and David (1990) found a positive relationship between the bonus issue announcement and the related abnormal return. Their result provides evidence, which is consistent with a signaling explanation for stock dividend.

Obaidullah (1992) reported a positive stock market reaction to bonus issue announcement and supported the semi strong form of market efficiency.

Srinivasan (1993) in his study established enormously large positive abnormal returns on ex-bonus and ex-right dates for the Indian stocks. A similar study made by

Balachandran Bala Singham (2001) examines the share price reaction to announcement of bonus share issues of Australian companies. They analyzed that the magnitude of price reaction to bonus issue announcements is statistically related to the size of bonus issues & pre-announcement effect.

Mulugetta Abrahamet al (2002) examined the impact of standard & Poor's ranking changes on stock prices. The study used the traditional market model & found statistically significant abnormal returns on the announcement & surrounding dates.

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Malhotra Madhuriet al (2003) provided evidence to support signaling hypotheses by examining the relationship between bonus issue announcement & stock price reaction. The study concluded that there is a negative reaction after the bonus issue announcement conveying that the market under reacts after the announcement.

Mishra A K (2005) examined the stock price reaction to information content of bonus issue. The results indicated significant positive abnormal returns for a five-day period prior to bonus announcement. The results indicate stronger evidence of semi-strong market efficiency of the Indian stock market.

Chander Ramesh, Sharma Renuka, Mehta Kiran (2007) studied the informational content of dividend announcement. The results showed average abnormal returns for capital asset pricing model around the dividend announcement.

Vergos, Christopoulous & Mylonakis (2008) investigated the effects of political, economic, investment & analysts report announcement on share prices of Hellenic telecommunication organization. The study found that stock prices do not react to public announcement & continue to increase or decrease until 10 days after the event.

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III. METHODOLOGY

This section is divided into three parts: Objective of Research Study. Data sources & data design. The data sources section explains the criteria applied in this study & data collection process. The data design section, on the other hand, describes the procedure event study conducted in this research.

OBJECTIVES OF THE RESEARCHES STUDY:

The following major objectives are for Research Paper.

1. To check when company announce any Bonus issue what affects to shareholder return. [01]*
2. To check Presence of any abnormal returns on announcement of Bonus issue and excitation.[07]*[11]*
3. To check how index market is behaving on announcement of Bonus issue with help capital assets pricing model (CAPM). [09]*

DATA SOURCES:

The sample in the study consists of 20 companies which have announced the issue of Bonus Share during the period 2010 to June 2014. In fact there are much more Bonus Share during this period. But a sample is chosen on the basis of criteria. The following are several criteria enforced in this study:

1. Shares of the company have to be traded publicly in BSE (Bombay Stock Exchange).
2. The return on company's securities is available at least 90 days prior to 30 days after the announcement date. The information about the companies issuing stock splits, their announcement dates are obtained from BSE (Bombay Stock Exchange) database. The individual firm's security return & market return were also gathered from BSE (Bombay Stock Exchange) database.

DATA DESIGN:

To examine the market response to Bonus Share announcement standard event study methodology is used. To construct an event study the event, event date, event window, estimation window & estimation model should be determined. The relationship of the said event is studied with the share prices. The events defined for this study are the announcements of stock splits. The event date is the date of announcement of Bonus Share by the sample firm. It can be expressed as to. The event window comprises some period before & after the event day. The event window in this study is 30 days before & 30 days after Bonus Share issue. It can be expressed as -30 to +30. The estimation period is the period prior to the occurrence of the event. Generally estimation period & event windows are chosen in such a way so that they don't overlap. The estimation period for this study is 90 days before to 31 days before the event date. It can be expressed as t = -90 to t = -31.

The selected examination model for this study is standard market model. The model assumes that there is a linear relationship between the return of the security & the return of market portfolio. For the purpose of studying the impact of Bonus Shares on share prices abnormal returns are computed. Abnormal returns are obtained by finding the difference between actual returns of the security j on day t & expected returns of security j on day t.

$$ARjt = Rjt – Erjt$$

Where
ARjt = Abnormal return of security j on day t
Rjt = Actual return on security j on day t

ERjt = Expected return on security j on day t

Actual return on security j in period t is computed as follows:-

$$ARj = \frac{Pjt - Pjt\text{-}1}{Pjt\text{-}1}$$

Where,
Pjt = Price of security j on day t

Pjt-1 = Price of security j on day prior to day t

Expected return on security j in period t is computed as follows:-

$$ERjt = a_j + b_j Rmt$$

Where,
a_j= Risk free rate of return i.e. here in this Research paper Risk free rate is Intercept of security.

b_j= Slope means Relative riskiness of the security to market index i. e BSE Sensex.

Rmt = the rate of return on market index on the day t on BSE Sensex.

After computation of abnormal returns of all the securities the average abnormal returns (AARs) are computed during event period (-30 to +30). AARt = Average of abnormal return for day t and Number of securities in the sample the abnormal returns are aggregated trading day –wise & then divided by number of securities. Thus cross-sectional & time- series aggregation is done.

$$CAAR_t = {}_{1/t}\Sigma_{t\text{-}1} \; AARt$$

T test is used to determine the statistical significance of CAARt & AARt. For computation of t statistics the aggregate pre- event standard deviation of abnormal returns of all the securities is computed. Individual company's pre- event standard deviation i.e. (from -90 to -31) is computed & then aggregation is done.

Beta means a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. Here in this research paper beta as consider is to slop.

The slope is the vertical distance divided by the horizontal distance between any two points on the line, which is the rate of change along the regression line.

SLOPE (known_y's, known_x's)

Known_y's Required. An array or range of dependent data point i.e. market index return.

Known_x's Required. An array or range of independent data points i.e. company return.

Standard error is a statistical term that measures the accuracy with which a sample represents a population. Here in this research paper Standard error is consider STEYX while calculating

The standard error is a measure of the amount of error in the prediction of y for an individual x.

σ=STEYX (known_y's , known_x's)

Known_y's Required. An array or range of dependent data points i.e. market index return.

Known_x's Required. An array or range of independent data points i.e. company return.

$$AARt\ Test = \frac{AAR\ t}{\sigma}$$

$$CAARt\ Test = \frac{CAAR\ t}{\sigma}$$

If AARt or CAARt are greater than zero and statistically significant it indicates that the stock prices on an average reacted positively to Bonus Shares. Thus lead to increase the wealth of shareholders. [3]*

IV. EMPIRICAL RESULTS

The main empirical results are shown in Table 1. It presents the results of the entire sample consisting of 20 Bonus Share issues. For each of the 61 days in the experimental period it reports the Average daily Abnormal Returns (AARs) for day's t-30 to t+30 along with the summary statistics for the tests. Here first column in table 1 is day which is from t-30 to t30. Second column is return of company which announces Bonus Share. Third column return of market index i.e. BSE Sensex Fourth column Expected Return E{r} then next is Abnormal Return ARjt then Average Abnormal return (AAR) of all 25 companies and its cumulative Abnormal Return and its T Test for AARt Test and CAARt Test. (7)*

TABLE-1
Average Daily Abnormal Returns, Cumulative Average Abnormal Returns & Respective Test Statistic

Day	Return of company	Return of Market	E{r}	AR	AR T TEST	CAAR	CAAR T TEST
-30	1.493847	0.117612833	0.04206	1.45179	2.13047	1.4517	2.1303405
-29	0.778888	-0.03384813	0.06847	0.71042	1.04253	2.162122	3.1728707
-28	1.459412	0.02643715	0.05796	1.40146	2.05661	3.563579	5.2294803
-27	0.723157	0.206934143	0.02649	0.69667	1.02235	4.26025	6.2518312
-26	0.987546	-0.17998036	0.09394	0.8936	1.31134	5.153852	7.5631745
-25	0.85081	-0.09796243	0.07964	0.77117	1.13167	5.925018	8.694845
-24	-0.04002	0.148634857	0.03665	-0.0767	-0.1125	5.848348	8.582333
-23	-0.27877	-0.20400814	0.09813	-0.3769	-0.5531	5.471445	8.0292355
-22	1.186622	-0.04531526	0.07047	1.11616	1.63794	6.587602	9.6671732
-21	-0.30591	-0.15006258	0.08873	-0.3946	-0.5791	6.192964	9.0880505
-20	0.505098	-0.16118363	0.09067	0.41443	0.60817	6.607396	9.6962202
-19	-0.11921	0.008651517	0.06106	-0.1803	-0.2645	6.42713	9.4316834
-18	0.334276	-0.1217969	0.0838	0.25048	0.36757	6.677606	9.7992525
-17	0.764148	0.087079862	0.04738	0.71677	1.05184	7.394372	10.851092
-16	0.613086	-0.39326276	0.13113	0.48196	0.70726	7.876329	11.558354
-15	0.292845	0.129068345	0.04006	0.25278	0.37095	8.129112	11.929308
-14	0.352883	-0.09923228	0.07987	0.27302	0.40065	8.40213	12.329956
-13	0.581489	-0.18250821	0.09438	0.4871	0.71482	8.889234	13.044772
-12	0.096753	-0.07167321	0.07506	0.02169	0.03183	8.910927	13.076605
-11	1.41884	0.251014793	0.0188	1.40004	2.05453	10.31097	15.131135
-10	-0.68996	-0.03459861	0.0686	-0.7586	-1.1132	9.552409	14.017968
-9	-0.14938	-0.09597962	0.0793	-0.2287	-0.3356	9.323731	13.682388
-8	0.667749	-0.07216267	0.07515	0.5926	0.86963	9.916334	14.552021
-7	1.878431	0.557165	-0.0346	1.91301	2.8073	11.82934	17.35932
-6	0.181238	0.330245	0.00499	0.17625	0.25865	12.00559	17.617965
-5	0.345864	1.812432	-0.2534	0.59929	0.87945	12.60489	18.497417
-4	0.243751	0.762937	-0.0705	0.3142	0.46109	12.91909	18.958504
-3	0.610666	0.903609	-0.095	0.70564	1.03552	13.62473	19.994023
-2	1.249462	-0.21949	0.10083	1.14863	1.68559	14.77336	21.679614
-1	0.740232	-0.22583	0.10194	0.63829	0.93668	15.41166	22.616298
0	0.617134	-2.21533	0.4488	0.16833	0.24702	15.57999	22.86332
1	0.083153	0.602745	-0.0425	0.12568	0.18443	15.70566	23.047747
2	-0.29412	-1.86913	0.38844	-0.6826	-1.0016	15.0231	22.046098
3	0.487142	0.280258	0.0137	0.47344	0.69476	15.49654	22.740862
4	0.423783	-0.65485	0.17674	0.24705	0.36254	15.74359	23.103397
5	-0.92394	0.110095	0.04337	-0.9673	-1.4195	14.77628	21.68389
6	-0.41072	1.675429	-0.2295	-0.1812	-0.2659	14.5951	21.418017
7	1.117808	0.276478	0.01436	1.10345	1.61929	15.69855	23.037304
8	0.277102	0.120674	0.04153	0.23558	0.3457	15.93413	23.383008
9	0.267878	-0.38306	0.12935	0.13853	0.20329	16.07265	23.586294
10	-1.37855	-1.06574	0.24837	-1.6269	-2.3875	14.44573	21.198816
11	-0.54139	-0.08934	0.07814	-0.6195	-0.9091	13.8262	20.289667
12	0.830345	0.428823	-0.0122	0.84255	1.23642	14.66874	21.526085
13	0.164867	0.322686	0.0063	0.15856	0.23269	14.82731	21.758772
14	-0.41477	0.120674	0.04153	-0.4563	-0.6696	14.37101	21.089168
15	0.383581	-0.38306	0.12935	0.25423	0.37308	14.62524	21.462246
16	-0.81666	-1.06574	0.24837	-1.065	-1.5629	13.56021	19.899329
17	1.219239	-0.08934	0.07814	1.1411	1.67454	14.7013	21.573868
18	0.56668	0.428823	-0.0122	0.57888	0.84949	15.28018	22.423363
19	1.634503	0.322686	0.0063	1.6282	2.38935	16.90838	24.812711
20	0.687236	-0.8011	0.20223	0.485	0.71173	17.39338	25.524441
21	0.048821	0.60465	-0.0429	0.09168	0.13453	17.48506	25.658974
22	-1.01205	0.912565	-0.0965	-0.9155	-1.3435	16.56955	24.315481
23	0.620724	-1.8224	0.3803	0.24043	0.35282	16.80998	24.668303

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24	0.691827	-0.34344	0.12244	0.56938	0.83556	17.37936	25.503863
25	0.293323	0.508946	-0.0262	0.31949	0.46885	17.69885	25.972711
26	0.463419	0.89862	-0.0941	0.55753	0.81816	18.25638	26.790872
27	0.795624	0.079245	0.04875	0.74688	1.09603	19.00326	27.886897
28	0.76878	0.325058	0.00589	0.76289	1.11952	19.76615	29.006421
29	0.338339	-0.23808	0.10407	0.23427	0.34378	20.00041	29.350201
30	0.466213	0.935912	-0.1006	0.56682	0.8318	20.56723	30.182002

Here intercept which is Risk Free rate 0.06% and slope is considering beta around - 0.17% standard Error is 0.68%. The table 1 shows that for the 30 days before the announcement date there is no consistent pattern of abnormal Returns of the companies engaging in Bonus Share. The AARs before the announcement period (-30 to -1 day) are positive for 25 days out of 30 days and are negative for 5 days. Highest positive return during pre-announcement is AAR is 1.91% on -7thday and lowest return during pre-announcement AAR was -0.75% on t-10. So on average 0.50% AAR during the pre-announcement of Bonus Share which was from t-30 to t-1 before announcement date there are significant abnormal returns for the stockholders of the sample companies. And AAR T test is 0. 495% before announcement of event

While after post announcement event is consistent pattern of abnormal Returns. The AARs after announcement period (30 to1 days) are positive for 23 days out of 30 and negative for 7 days. . Highest positive return during post -announcement was AAR is 1.62% on t19 day and lowest return during post-announcement AAR is -1.62 % on t10.So on average 0.16% AAR and avg. AAR T test is 0.24% during the post-announcement of Bonus Share which was from t30 to t1 after announcement date so after announcement day are recorded some of company is giving positive reply towards event study.

The analysis of CAAR shows that during pre-event window on CAAR were positive30 days out of 30days. So here it was positive, indicating the positive reaction of the market in anticipation to Bonus Share. But CAARs before announcement day are statistically significant. The pattern of CAAR is consistent from t-30 to t-1. And average return is pre event of CAAR was 8.59% during period of t-30 to t-1 days. Similar after event happen market reaction was positive on CAAR on average is 16.23% of after event t1 to t30 day. So here CAAR is give impact positive on announcement of Bonus Share during event period. And AAR T TEST during announcement of Bonus issue is t-30 to t+30 is 0.49% and CAAR T tests 18% so it's give positive and AAR is during announcement of Bonus issue is t-30 to t+30 0.33 % and CAAR during the event window is 12% so it's give positive impact on an announcement of Bonus issue to its shareholders.

Some sub- tables are extracted from Table 1 regarding CAAR. They are in relation to 30 days during pre-event And 30 days during post event.

TABLE-2

T- Test Statistics on the Cumulative Abnormal Returns for 30 Days before the Event Date.

Days	Value of T test
T -30 TO -15	1.697260
T-14 TO -1	2.042272

TABLE-3

T- Test Statistics on the Cumulative Abnormal Returns for 30 Days after the Event Date.

Days	Value of T test
T 30 to 15	1.734
T 14 To 1	2.10092

All data is statistical significance at 5% level. The above tables show significant CAARs in the interval of days before 30 and after 30. However it is also significant positive CAARs t test t-30 to t-15 and t-14 to t-1 and t30to t15, t14to t1 is positive return are seen. It implies that market incorporated the information & positive to the announcement of Bonus issues so it's shareholder wealth.

V. CONCLUSION

This research paper has examined the impact of Bonus issue on shareholder wealth. Data analyzed in this study consist of a sample of public announcements of Bonus shares by companies. To be included in the sample the announcement of Bonus share must be reported during 2012-2014 period. Using event study methodology the analysis shows that actual stock performance for the companies was higher as compared to expected market adjusted returns. The results showed that the stock value of the firm decreased on the day of announcement of so here at announcement of Bonus share it give Positive impact on shareholder wealth.

Here a research paper conclude that AAR T TEST during announcement of Bonus issue is t-30 to t+30 is 0.49% and CAAR T tests 18% so it's give positive and AAR is during announcement of Bonus issue is t-30 to t+30 0.33 % and CAAR during the event window is 12% so it's give positive impact on an announcement of Bonus issue to its shareholders. The study also reveals statistically significant affects abnormal returns on the announcement & surrounding dates.

If a company have gave positive return during the bonus event so it predict that the company have more profitable towards future. So positive may also lad to up the prices because of the demand of particular share will be also increases more investor will

be buying the script to shareholders. Bonus shares does have an impact on the market price of the stock, the prices of the stock reduces to the proportion of the ratio of the bonus issue. If one share is issued as bonus for one share then the prices reduces close to half after the bonus shares are listed on the exchange

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