



IMPACT OF BONUS SHARES ON THE SHARE PRICE BEHAVIOUR- AN EVIDENCE FROM INDIAN STOCK MARKET

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ABSTRACT

Bonus shares one of the important corporate actions through which companies capitalizes its prices. Generally, companies distribute their profits as cash dividend to satisfy owners. Companies choose bonus shares as intermediate option one side to satisfy the owners by adding additional shares without consideration and other side to capitalization of existing profits to meet future financial requirements without depending on external sources for funds. Thus, bonus shares helps as internal sources of funds. However, very few studies have done on measuring the effect of bonus shares on share price behavior particularly in Indian context. Therefore, present study focused on this by taking four companies went to bonus shares during the period of 2020. The study analyze the share price behavior in share price returns during pre and post bonus shares event, including very short period, short period and long period. The study used the T-test to measure the pre and post event stock price returns from Indian stock market context.

Key words: Bonus shares of shares, corporate actions, stock market, share price behavior etc.

1.INTRODUCTION

In corporate world, financial requirements are met from the sources of both internal and external channels. Bonus shares are additional shares given to the existing shareholders without any additional cost, based on the number of shares that a shareholder owns. The external sources comprises of rise of new equity, preference capital, debt, bank loan, commercial papers etc., which are subject to lengthy process, rigid terms and conditions, additional cost, time consuming process etc. The internal sources included reinvestment or recapitalization of company profits by offering new shares to the existing shareholders without consideration. Thus, bonus share is one of the corporate actions of converting company profits into capital. This is an intermediate approach of the company towards meeting future financial requirements with internal sources of funds and satisfying the equity shareholders by allotting additional shares which will increase their wealth in the future. In stock market point of bonus shares is one of the wealth maximization techniques of the company

by allotting additional shares. Bonus shares generally promises wealth creation in the long run when investor sacrifice today dividends. Bonus shares are also called as stock dividend issues of shares as dividend instead of cash. Company issues bonus shares even in the case of shortage of liquidity in the company. Besides, company can also offer dividend to the shares in the form of bond and property which are in practice in developed countries, but not in India. Bonus shares are corporate actions promises certain rate of returns in the future due to which investors observe the share price behavior during post share issue. The share price will decrease when company offers new shares to the existing shareholders.

2.REVIEW OF LITERATURE

Ashwani Singh Bisht (2025) discussed the strategic impact of regulatory issues on bonus shares in the context of Indian stock markets. The study discussed the various terms of bonus shares and key aspects regarding taxation. The study found that bonus shares has positive impact on the liquidity, share shareholders trust, good will and negative impact on the EPS, market per share, no real gain, time consuming process and no cash in-flow etc.

Geetha N (2024), study examined the impact of bonus shares on share price, investors' behaviour and volatility in share price. The sample size consists of ten companies. The study adopted t-test and found significant effect of bonus shares on the share price returns, investors behaviour and stock volatility. The hypothesis testing distinguishes between whether bonus issues yield a measurable effect on share prices or if changes are merely random.

Eswar Kunapul et al (2022) opined that bonus issue is one of the corporation actions deals with issue of stock to existing shareholders without any cost. It gives a sign to the investors to buy or sell shares pre and post 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. The study selected nine companies selected randomly from companies announced an ex-bonus issue in 2017 and examined the abnormal returns associated with ex-bonus issues. The study found significant impact of the bonus shares on the share price within 41 days.

Ashish G. Patil (2018), examined how price react to the dividend announcement news in stock market. The study is event study in nature. The sample size consist of seven companies from 50 listed companies those which have given dividend and bonus shares. The data have been collected for the one year, six month before and after the announcement of dividend and bonus shares. The study found that, market adjusted stock price increases for all selected seven companies and statistical pooled t-test also found that stock price reaction to dividend announcement are statistically significant and positive.

Srinivasanand Ramanaiah (2018) examined the effect of dividend and bonus announcements on investor behaviour and found that such corporate events often lead to increased investor interest and trading activity, driven by the perception of financial stability and profitability associated with bonus issues. The study opined that bonus issues serve as a positive reinforcement of the company's financial health, creating favourable market conditions.

3.NEED OF THE STUDY: Bonus shares is one of the corporate events through which company offers new shares to the existing shareholders which leads to increase in number of shares, decrease in EPS and expected wealth creation in the future. In this context, present study has focused on how shares generate wealth during pre and post bonus share period is need of the hour. Present study fulfils the present research gap and helps the investors to take long run investment decisions.

4. OBJECTIVES OF THE STUDY: Present study is aimed to examine the impact of bonus share on share price of pre and post bonus share event, very short period, short period and long period in selected companies in India.

5. HYPOTHESIS: The study formulated and examined null hypothesis as follows.

H₀₁: There is insignificant impact bonus shares on very short period during post bonus shares

H₀₂: There is insignificant impact bonus shares on short period during post bonus shares

H₀₃: There is insignificant impact bonus shares on long period during post bonus shares

6. RESEARCH METHODOLOGY: Present study is an analytical in nature. The study used purely secondary data collected from NSE historical reports. The research variable is share price of the selected companies during pre and post bonus shares. The study period analysed impact of bonus shares corporate event and how it has created wealth in very short period(5,10 and 30 days), short period(quarterly, half yearly, semi-annual and annual) and long period(five years returns). In the study, companies selected companies which announced bonus shares to the shareholders in the year of 2020. The study used the research tools such as percentage, average, and t-assuming equal variance. The company selected four companies randomly out of total 12 companies went for buy back event in the year, the companies included Elgi Equipments Limited, Cohance Life sciences Limited, The Karnataka Bank Limited And Aarti Drugs Limited.

7. DATA ANALYSIS AND INTERPRETATION

TABLE 01: PRE AND POST BONUS SHARES RETURNS OF ELGI EQUIPMENTS LIMITED							
Company Name: Elgi Equipments limited					Bonus shares Date: 26-08-2020		
		Closing Price before issue of bonus shares Rs 112.32			Closing price after bonus shares 113.28		Event Day gain/ loss =0.85
	Period	Period	Closing price	Price variance (%)	Period	Closing price	Price variance (%)
Very Short Period (One Month)	5-Days	21-09-2020	125.09	-10.79	01-10-2020	119.70	5.67
	10-days	16-09-2020	118.85	-5.49	06-10-2020	120.20	6.11
	1-Month	27-08-2020	113.95	-1.43	26-10-2020	110.15	-2.76
		Total		-17.71	Total		9.01
		Mean		-5.90	Mean		3.00
Short Period (one year)	3-Months	28-06-2020	113.82	-1.32	25-12-2020	159.90	41.15

	6-Months	28-03-2020	59.90	87.51	27-03-2021	183.80	62.25
	9-Months	31-12-2019	128.55	-12.63	23-06-2021	214.80	89.62
	One year	27-09-2019	148.30	-24.26	26-09-2021	206.60	82.38
		Total		49.31	Total		275.41
		Mean		-6.07	Mean		20.59
Long period (1-5 years)	One year	27-09-2019	148.30	-24.26	26-09-2021	206.60	82.38
	2nd year	27-09-2018	130.57	-13.98	26-09-2022	421.45	272.04
	3rd Year	27-09-2017	214.20	-47.56	26-09-2023	498.30	339.88
	4th Year	27-09-2016	190.50	-41.04	25-09-2024	691.40	510.35
	5th Year	27-09-2015	124.95	-10.11	25-09-2025	495.50	337.41
		Total		-136.95	Total		1459.68
		differenc e Mean		-2.02	differenc e Mean		67.48
Source: Computed by the Author on the data of NSE							

TABLE 02: PRE AND POST BONUS SHARES RETURNS OF COHANCE LIFESCIENCES LIMITED

Company Name: Cohance Lifesciences Limited					Bonus shares Date: 28-09-2020		
		Closing Price before bonus shares Rs 338.45			Closing price after bonus shares 338.69		Event Day gain/ loss =-0.07
	Period	Period	Closin g price	Price varianc e	Period	Closing price	Price variance
Very Short Period (One Month)	5-Days	23-09-2020	361.13	-6.28	03-10-2020	384.08	13.40
	10-days	18-09-2020	380.36	-11.02	08-10-2020	384.32	13.47
	1-Month	29-08-2020	312.10	8.44	28-10-2020	336.75	-0.57
		Total		-8.86	Total		26.30
		Mean		-2.95	Mean		8.77
Short Period (one year)	3-Months	30-06-2020	347.01	-2.47	27-12-2020	159.90	-52.79
	6-Months	30-03-2020	95.42	254.70	29-03-2021	183.80	-45.73
	9-Months	02-01-2020	128.55	163.28	25-06-2021	214.80	-36.58
	One year	29-09-2019	148.30	128.22	28-09-2021	206.60	-39.00
		Total		543.73	Total		-174.10
		Mean		32.05	Mean		-9.75
Long period (1-5 years)	One year	29-09-2019	148.30	128.22	28-09-2021	206.60	-39.00
	2nd year	29-09-2018	130.57	159.21	28-09-2022	421.45	24.44

	3rd Year	29-09-2017	214.20	58.01	28-09-2023	498.30	47.13
	4th Year	29-09-2016	190.50	77.66	27-09-2024	691.40	104.14
	5th Year	29-09-2015	124.95	170.87	27-09-2025	495.5	46.30
		Total		593.97	Total		222.00
		difference Mean		34.17	difference Mean		9.26
Source: Computed by the Author on the data of NSE							

TABLE 03: PRE AND POST BONUS SHARES RETURNS OF THE KARNATAKA BANK LIMITED							
Company Name: KARNATAKA BANK LIMITED					Bonus shares Date: 18-3-2020		
		Closing Price before bonus shares Rs 49.85			Closing price after bonus shares 45.50		Event Day gain / loss=-8.73
	Period	Period	Closing price	Price variance (%)	Period	Closing price	Price variance (%)
Very Short Period (One Month)	5-Days	13-03-2020	50.03	-0.36	23-03-2020	43.00	-5.49
	10-days	08-03-2020	53.13	-6.17	28-03-2020	40.60	-10.77
	1-Month	17-02-2020	52.53	-5.10	17-04-2020	44.00	-3.30
		Total		-11.64	Total		-19.56
		Mean		-3.88	Mean		-6.52
Short Period (one year)	3-Months	19-12-2019	48.35	3.10	16-06-2020	40.60	-10.77
	6-Months	18-09-2019	70.32	-29.11	16-09-2020	44.95	-1.21
	9-Months	22-06-2019	92.82	-46.29	13-12-2020	58.95	29.56
	One year	19-03-2019	118.41	-57.90	18-03-2021	62.55	37.47
		Total		-130.20	Total		55.05
		Mean		-14.48	Mean		9.37
Long period (1-5 years)	One year	19-03-2019	118.41	-57.90	18-03-2021	62.55	37.47
	2nd year	19-03-2018	106.91	-53.37	18-03-2022	58.10	27.69
	3rd Year	19-03-2017	139.4	-64.24	18-03-2023	134.45	195.49
	4th Year	19-03-2016	83.08	-40.00	17-03-2024	225.50	395.60
	5th Year	19-03-2015	103.40	-51.79	17-03-2025	170.39	274.48
		Total		-267.30	Total		893.27
		difference Mean		-10.36	difference Mean		54.90
Source: Computed by the Author on the data of NSE							

TABLE 04: PRE AND POST BONUS SHARES RETURNS OF AARTI DRUGS LIMITED							
Company Name: Aarti Drugs Limited					Bonus shares Date: 01-10-2020		
		Closing Price before bonus shares Rs 771.30			Closing price after bonus shares 809.85 Rs		Event Day gain/ loss = 5
	Days	Period	Closing price	Price variance	Period	Closing price	Price variance
Very Short Period (One Month)	5-Days	26-09-2020	737.81	4.54	06-10-2020	892.80	10.24
	10-days	21-09-2020	710.78	8.51	11-10-2020	886.00	9.40
	1-Month	01-09-2020	696.10	10.80	31-10-2020	680.95	-15.92
	Total			23.86	Total		3.73
	Mean			7.95	Mean		1.24
Short Period (one year)	3-Months	03-07-2020	319.34	141.53	30-12-2020	703.60	-13.12
	6-Months	02-04-2020	135.19	470.53	01-04-2021	718.65	-11.26
	9-Months	05-01-2020	140.54	448.81	28-06-2021	706.85	-12.72
	One year	02-10-2019	113.94	576.94	01-10-2021	604.50	-25.36
	Total			1637.81	Total		-62.46
	Mean			144.23	Mean		-6.34
Long period (1-5 years)	One year	02-10-2019	113.90	577.17	01-10-2021	604.50	-25.36
	2nd year	02-10-2018	140.93	447.29	01-10-2022	469.80	-41.99
	3rd Year	02-10-2017	131.35	487.21	01-10-2023	532.55	-34.24
	4th Year	02-10-2016	675.70	14.15	30-09-2024	513.20	-36.63
	5th Year	02-10-2015	151.65	408.61	30-09-2025	307.10	-62.08
	Total			1934.43	Total		-174.94
	difference Mean			81.72	difference Mean		-12.42
Source: Computed by the Author on the data of NSE							

8. INTERPRETATION

- The study observed analysed the very short period, short period and long period effect of bonus shares on share price return of Eligi equipment limited (Table 01). The study found that, company price has reported nominal positive returns of 0.85 % over closing price on pre-bonus shares day. The very short period, i.e. one month, the study observed uptrend in share price during post bonus shares period by three percent however, pre bonus shares period share price drop substantially by -5.90. In short period (one year) share price reported 82.38 percentage of increase over even day price with an quarterly average returns of 20.59 %. Similarly, in the long run (more than one year) company reported returns

of 337.41% over event day price with average yearly returns of 67.48%. The study observed negative returns during pre- bonus shares period in very short period, short period and long period.

- Similarly, the study analysed the very short period, short period and long period effect of bonus shares on share price return of Cohance Life sciences Limited (Table 02). The study found that, company price has reported nominal positive returns of 0.07 % over closing price on pre-bonus shares day. The study found that, company price drop very short period during pre-event day with an average of -2.95 percentage whereas positive returns generated during post event day with average returns of 8.77% for the period of one month. In short period, the study observed down trend in the short period i.e. upto 40 percentage from event day price, in the contrary, it observed positive average returns of 32 percentage in short period during pre-event period. Similarly, the share has reported pre bonus share even average returns of 34.17 percentage in long run and 9.26 percentage during post event day average returns.
- Similarly, the study analysed the very short period, short period and long period effect of bonus shares on share price return of Karnataka Bank limited (Table 03). The study found that, company price has reported substantial negative returns of -8.73% over closing price on pre-bonus shares day. The study found that, company price drop very short period during pre-event day with an average of -6.52 percentage whereas negative returns generated during post event day with average returns of -3.88% for the period of one month. In short period, the study observed up trend in the short period i.e. upto 37.47 percentage from event day price, in the contrary, it observed negative average returns of -14.48 percentage in short period during pre-event period. Similarly, the share has reported pre bonus share even average positive returns of 54.90 percentage in long run and negative returns of -10.36 percentage during post event day average returns.
- Similarly, the study analysed the very short period, short period and long period effect of bonus shares on share price return of AARTI DRUGS LIMITED (Table 04). The study found that, company price has reported substantial positive returns of five % over closing price on pre-bonus shares day. The study found that, company price increased in very short period during pre-event day with an average of 1.24 percentage whereas positive returns generated during post event day with average returns of 7.95% for the period of one month. In short period, the study observed down trend in the short period i.e. upto -6.34 percentage from event day price, in the contrary, it observed positive average returns of 144.23 percentage in short period during pre-event period. Similarly, the share has reported pre bonus share even average negative returns of -12.42 percentage in long run and positive returns of 81.72 percentage during post event day average returns.

9. T- TEST RESULT

Company name	Period	t Stat	P(T<=t) one-tail	t- Critical one-tail	P(T<=t) two-tail	t- Critical two-tail	Reject/Accept of Null Hypothesis
Elgi Equipments Limited	Very short period	0.60490	0.28894	2.13185	0.57788	2.77645	Accept
	Short period	- 3.47730	0.00659	1.94318	0.01319	2.44691	Reject
	Long period	- 3.76152	0.00277	1.85955	0.00553	2.30600	Reject
Cohance Lifesciences Limited	Very short period	- 0.66741	0.27052	2.13185	0.54104	2.77645	Accept
	Short period	- 0.19711	0.42512	1.94318	0.85025	2.44691	Accept
	Long period	- 3.76152	0.00277	1.85955	0.00553	2.30600	Accept
The Karnataka Bank Limited	Very short period	6.75936	0.00125	2.13185	0.00250	2.77645	Reject
	Short period	1.92655	0.05117	1.94318	0.10233	2.44691	Accept
	Long period	- 0.59900	0.28287	1.85955	0.56574	2.30600	Accept
Aarti Drugs Limited	Very short period	0.76449	0.24359	2.13185	0.48719	2.77645	Accept
	Short period	4.53893	0.00197	1.94318	0.00394	2.44691	Reject
	Long period	4.37946	0.00118	1.85955	0.00235	2.30600	Reject
Source: Compiled By Author							

CONCLUSION

The above study witnessed mixed result of bonus shares on the share prices during very short period, short period and substantial returns in very long period during post bonus shares period as compared pre buy back period. But, in case Karnataka bank, Cohance Lifesciences Limited and Eligi equipomen companies share price rose substantially during post bonus shares event. In contrast, share drop significantly in the case Aarti druges limited. The t-test result is in support the result and witnessed mixed output of accepting and rejecting hypothesis. This is proved that three out of four companies have created good wealth during post bonus shares period particularly in long run.

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