Chapter – 5
CONCLUSION

The study analyzed the market reaction of stock prices and liquidity before and after the stock split and bonus issue by taking the sample of 125 companies during the period of January 1, 2007 to December 31, 2011. It basically examined whether there is increase in returns and liquidity associated with stock split and bonus issue in pre and post event.

5.1 Findings

The study found that there is positive excess return associated with the stock split and there is cumulative positive average abnormal return of 3.71%. Also based on the results, it can be concluded that the there is significant difference in
average abnormal returns before and after stock split. The mean of average abnormal returns before stock split and after stock split is 0.10% and 0.01% respectively. So, more abnormal returns started coming in the pre stock split event. So, it can be said that the stock split makes a difference in the returns.

Similarly, there is positive excess return associated with bonus issue and there is cumulative positive average abnormal return of 8.24%. Based on the bonus issue result, it can be concluded that the there is significant difference in average abnormal returns before and after the bonus issue. More positive abnormal returns are observed in the pre bonus issue event which explains that the stock hose bonus issue period comes closer, they show more positive abnormal returns and if investor does trading in this event, s/he can earn good returns.

As far as increase in the liquidity is concerned, there is a clear evidence of significant improvement in the traded volume associated with both stock split and bonus share in the post stock split and post bonus issue event respectively. The increase in the liquidity of stock arises a week before the stock split date and bonus issue date. So, the investor trades more when time period for the stock split and bonus issue come closer. The mean average liquidity before stock split is 1,24,124 and mean average liquidity after stock split is 2,31,369 which is almost double which shows that investors does more trading in post stock split window. Similarly, the liquidity before and after
bonus issue is 1,29,538 and 2,12,306 respectively which again explains the same logic for the bonus issue.

5.2 Conclusion

It can be concluded that the there is significant difference in average abnormal returns before and after stock split. More abnormal returns started coming in the pre stock split event. So, it can be said that the stock split makes a difference in the returns. Based on the bonus issue result, it can be concluded that the there is significant difference in average abnormal returns before and after the bonus issue. The increase in the liquidity of stock arises a week before the stock split date and bonus issue date. So, the investor trades more when time period for the stock split and bonus issue come closer.

5.3 Recommendations

This research project is done to know the price and liquidity effect associated with stock split and bonus share surrounding its effective date by using event study methodology which measures the significance of abnormal return and change in liquidity associated with an event. This study motivated by the fact that stock split and bonus share is quite a new phenomenon in Indian markets. Though split and bonus share is not a new phenomenon in other countries like US and
there are many studies are conducted to study price and liquidity effects associated with stock split and bonus share. Many of the companies at difference instance found it appropriate to go for stock split and to bring down the price back to the tradable range. However, this may not be the only objective to go for a stock split.

**BIBLIOGRAPHY**