Chapter -2

Literature Review
LITERATURE REVIEW

2.1 Introduction
This study aims to investigate the relationship of bonus shares and equity share price behaviour in India. The study is conducted with reference firms’ bonus share and equity price behaviour in various Indian industries. This chapter of the study undertakes the review of literature relating to the study topic and issues to be addressed. The chapter is basically structured into eight sections as following: meaning and definition of bonus and equity shares; need for bonus issue from an organizational perspective; valuation of shares in Indian organizations; valuation of bonds and debentures in Indian organizations; dividend and bonus and rate of return in Indian organizations; relationship between issue of bonus and price behaviour of equity; relationship between issue of bonus and dividend payout; and evaluation of current bonus issue practices.

2.2 Bonus and Equity Shares
Equity share is defined as that share which is commonplace in the course of firm’s business and is too termed as ordinary share (Haider, 2010). The uniqueness of equity share is that holders do not get pleasure from penchant as regards reimbursement of dividend and reimbursement of funds. Equity shareholder is remunerated dividend out of the earnings created by a firm. Therefore, high the profits, high will be the dividend and lower the profits, lower will be the dividend.

There are a range of characteristics of equity share and the major characteristics are identified as owned capital, fixed value, distinctive number, attached rights, return on share, transfer of share benefits of the right issue, benefit of bonus shares, irredeemable
and capital appreciation (Haider, 2010). Equity share capital is possessing funds for the reason that it is the cash of the shareholders who are in fact the proprietors of the firm. Moreover, each equity share has unchanging value or a so-called value. Besides each equity share is specified a different numeral corresponding a digit for the point of recognition. Moreover, an equity share offers its possessor the right to get dividend, the right to vote, the right to be present at meetings, the right to scrutinize the accounting records. In the case of equity share each shareholder is permitted to a return on shares which is celebrated as dividend. Dividend relates the profits earned by a firm, where higher the profits, higher will be the dividend, whereas lower the profits, lower will be the dividend. One remarkable feature of equity share is that such share is effortlessly transferable, that is if an individual purchase shares of a specific firm and does not desire it, the owner might put up for sale share to any one, thus transferring the share in the name of that individual. Last but not the least; equity share is until the end of time unalterable implying equity funds is not returnable all through the life time of a firm.

Bonus share is defined as a share issued by cashing in on the free funds as regards collected earnings of the firm (Victor, 2011). A firm builds up its funds through holding up fraction of its profit with the passage of time, the fraction that is not remunerated out as dividend. Subsequent to a certain time, these free funds augment, and the firm wishing to issue bonus share exchanges fraction of the reserves into funds. Consequently the holders do not disburse and the firm’s earnings are not affected. Bonus share has the specific feature of issuing in a definite part to the current holders.

A bonus issue is an indication that the firm is in a situation to tune-up its bigger equity. This implies that the organization would not have specified this share if it is not self-assured of being proficient to augment its earnings and share out dividends on each and
earning by issuing shares. Bonus shares are stated as soon as firm has enough earnings to announce bonus but either does not have cash to disburse it or does not desire to part with it for executing various capital spending procedure. In consequence, bonus shares result in the capitalization of earnings of the firm.

The relationship stuck between bonus issues and share prices has had been the topic of a great deal empirical investigation in research literature related to the field of finance. Empirical research conducted with the case of advanced or developed stock markets such as US has demonstrated that the market normally responds optimistically to the declaration of a bonus issue. The proposition that has obtained strongest hold up in elucidating the encouraging market response to bonus issue declarations is the hinting proposition, which puts forward that the declaration of a bonus issue communicates fresh information as regards the market in cases where managers have asymmetric information. This proposition has obtained just about unambiguous hold up with few exceptions. In accordance with the extended proposition, the announcements of bonus issues put across positive private information in relation to the future earnings to the investors, where managers have better information regarding the future earnings, for the reason that there might be asymmetric information involving managers and investors.

2.3 Need for bonus issue from an organizational perspective

In relation to need for bonus issue from a firm perspective, Anshuman and Kalay (2002) relate the distribution of bonus shares to five foremost propositions namely signaling, improved liquidity, attention-getting of derelict firm, kept hold of earnings, and ready money swap. Out of these five propositions the signaling is the most documented. The signaling proposition declares that in the existence of asymmetric
every one share in the upcoming time. Whilst a bonus share is proclaimed, the firm as well makes known a testimony time for the issue. The testimony time is the time on which the bonus takes outcome, and shareholders on that time are permitted to the bonus. Subsequent to the declaration of the bonus but previous to the testimony time, the share is referred to as cum-bonus. Following the testimony time, while the bonus is specified effect, the shares turn out to be ex-bonus (Victor, 2011).

The point is that issuing a bonus share is a mark that the firm is augmenting its earnings and it may well found that several firms declare issuing of bonus share to its shareholders through capitalizing its open funds. Whilst owning bonus share, shareholders benefit enormously, even after bookkeeping the predictable cut in share prices post-bonus, in view of the fact that the floating stock of share augments. Therefore keep an eye on bonus record whilst one decides to purchase a bonus share, it may well be a first-rate pointer that the firm is doing well in earnings and performance.

Bonus share is just giving out of added stocks to the current shareholders, and it is an open issue of shares, devoid of a contribution price, made to current shareholders in ratio to their present deal. A firm might share out bonus shares by means of using saved earnings or accrued capital assets. The point of consideration is that in all probability, a firm will create a bonus issue just if it is sensibly definite that the upcoming cash flows will be bulky enough to hold up an increase in the cash bonus payments. Nonetheless, it might so come about that the upcoming cash flows are not sufficient and for this reason the firms may be compelled to decrease the bonus rate that results in a lessening of cash earnings in comparison with the cash earning prior to the bonus issue. Logically, this is an area of immense concern for both researchers and practitioners in the field of stock market. Bonus shares are issued by a firm in the case it proposes to disburse extra
information, firms issue open shares to signal positive prospect to investors or shareholders, specifically superior adds to in upcoming earnings for keeping up or increasing their cash dividends and earnings for each share. This proposition is extensively held up by the predominately results from developed and advanced markets firms revealing positive market response to issuing bonus share.

Truly the rationale behind issuing bonus is to show the way to positive market response for the firms stick price, and in this context there are diverse expounding determinants documented in the research literature. The literature convinces to extend a substitute proposition. Issuing bonus adjust the equity concerto of wealth structure through increasing the paid-in funds, offering superior safeguarding for creditors and unfavorably affecting the current shareholders. Although the relative augmentation in paid-in capital supports debt holders, who are more tenable at the cost of current shareholders, shareholders greet the paid-in wealth enhancements. Comparable to the enhancement in paid-in wealth in the course of stock dividends, issuing bonus share as well adjust the equity concerto of wealth structure and boost the paid-in wealth with an advanced number of shares containing the equivalent par value seeing the mature shares. As a result, issuing of bonus share has momentous inferences on the dividend rule and on the debt financing competence. The paid-in funds is a lawfully non-issuing equity article and has an advanced lawful safeguarding than the additional issuing or allocating equity items which the controlling shareholders (Anshuman and Kalay, 2002; Balachandran, et al, 2004). As regards the dividend policy inference, bonus allocations might signal improved upcoming earnings and upcoming cash dividends rather proportionally to the enhancement in paid-in capital for keeping up the equivalent cash dividends per share in a preferred constant dividend rule upbringing.
Moreover, bonus allocations set aside the non-dividend-paying firms to augment the sum of paid-in funds as a stronger contract and to carry on their debt financing in a profoundly debt leaning wealth market. The results of study conducted by Barnes and Ma (2004) mean that firms make use of issuing bonus share or allocating bonus shares as a fiscal plan device to put on added trustworthiness in an inflationary milieu for the permanence of their debt financing, although bonus allocations impinge on negatively the assets of current shareholders through offering more safety for debt-holders in as regards a bigger sum of lawfully non-issuing paid-in funds. Bonus allocations in fact augment the paid-in wealth and therefore boost the borrowing competence particularly finding the debt issue limits being unswervingly linked to the sum of paid-in assets. For that reason, bonus issuing or allocations will allow firms to deal out open shares to their shareholders and boost their paid-in wealth and borrowing competence. Moreover, Bekaert et al (2007) reveal that the augmentation in the liquidity and marketability of the share explicates the positive abnormal returns, as issuing share add to the number of shares in flow, and effect in a cut in the bid-ask spread. The additional shape of improved liquidity is the trading array proposition, which declares that the foremost motivation behind issuing bonus share is to move about the share price of a firm into a standard or best possible trading choice to exert a pull on more investors, and therefore, augment liquidity. Firms are more expected to return to bonus allocations as the high rank of inflation corrodes their paid-in capital, boosts their book-value of influence considered by debt-to-paid-in funds proportion and trims down their reliability and borrowing competence.

Rhejax and Bhardwaj (2011) argue that generally firms take on bonus shares to decrease the price of their shares or even boost the figure of shares in flow, which
enhances their marketability on the stock market. As a shareholder the total value of shares is not changed for the reason that a go down in the share price is uniformly remunerated by an augmentation in the figure of shares. Nevertheless regulators keep an eye on share splits to make certain that the procedure is not utilized to control the price of shares. In this way there appears a first-rate motive for a bonus share. This is what, usually; firms issue bonus shares as recompense to the shareholders, generally later than collecting a surplus in kept earnings. Bonus shares may well be issued as a substitute of dividends, from current earnings and profits. Therefore hypothetically, issuing a bonus share, the price will decrease, nonetheless, market forces may well have a poles apart effect, and the price might continue the similar or even go up. Therefore, if a firm issue bonus it has a chance to create a well-versed and advantageous investment judgment. In this study, more explorations regarding thus are made taking the cases of firms operating in different industries.

2.4 Valuation of shares in Indian organizations

The valuation of share commonly is measured in terms of volatility which is a point of calculating variability in the price of a firm’s or business organization’s as an asset. Volatility in fact is linked with randomness and improbability as regards the price value of share offered by the firms, and more importantly is applied as tantamount of risk which implies higher the volatility of a firm’s share price, higher the risk linked with the shares issued by the firm. More clearly it can be stated that in situation of high volatility, there is probability of even going lowest expected the share price of a firm. In fact volatility is a measuring point as how far the present price of an asset of a firm or organization moves away from its standard past prices. Larger the deviation, bigger is the unpredictability in the form of volatility. To put it precisely, volatility might point
toward the potency or certainty behind a share price movement (Raju 2004). It is easier said than done to calculate approximately in relation to the future trend of volatility of share value of a firm for the reason that it is controlled by various factors internal and external. The external factors relate to political/legal, economic and governmental policies; whereas internal factors link to firm’s internal financial and non-financial factors with that of likely events to follow in relation to firm’s future plan. Nevertheless, on the basis of past volatility share value a calculation might be understood as regards the future trend in the volatility of share value of a firm. Our purpose here is not to go into the detail of volatility concept or discuss the factors that determine the share value of firms, but to discuss the trends of volatility or valuation of shares in Indian firms or business organizations. In this framework, the obtainable literature is discussed from two perspectives. Firstly those studies are discussed that have been conducted using the cases of various firms, and secondly those studies are discussed that have been conducted using the case of one major firm.

Mohan et al (2002) have studied the share value valuation in the Indian stock market in relation to the beginning of future trading making use of day by day closing prices of Nifty and weekly closing prices of Satyam Computers Ltd. The particular stocks give the impression to be somewhat more volatile and their instability have turned out to be less and less reliant on earlier period instability and more reliant upon news in the phase in progress. The standard long-standing unpredictability has minimized at an index level. On the other hand, Agrawal et al (2003) have examined the effect of alterations in firms’ technological background on their share value volatility and read out a considerable and equivalent add to the personal and overall stock return volatility as soon as a firm kicks off businesses online. More importantly, boost in volatility or
share value is possible because of the alterations in the firms’ manufactured goods markets, particularly improved demand improbability, consequential from the taking on of a new-fangled technology-driven conduit. Applicable controls rule out firm-specific traits with that of market micro-structural factors as probable illustrative variables. They as well reveal that this pitch in volatility or variation in share value goes along with an affirmative atypical return of stock prices or boost in share value or share price. The results of their study present strapping substantiation of the effect regarding actual movement in a firm to valuation of its share.

On the other hand, Batra (2004) have attempted to study the time difference in volatility in the Indian stock market for the period of 1979-2003 making use of month wise stock returns of large firms operating in different industries and listed in both NSE and BSE. Based on the results of their study they conclude that the phase around the balance of payment crisis and the start of economic reforms in India is the most impulsive era in the stock market and so there has had been substantial variation in the valuation of share price of several firms. The point emerging from the results is that structural changes in volatility are more probable to be an outcome of foremost policy alteration and any additional incremental policy amending may perhaps have just a benevolent control on share value volatility. Based on this study the literature assumes that share price or value volatility in Indian firms or organizations appear to be controlled more by rather internal factors than external factors. Specifically there comes out to be no twist of fate stuck between unpredictability of portfolio capital flows in and out of the stock market and the unpredictability budes in share price valuation of Indian firms. The results of this study as well state that share value variation of Indian firms has not heaped on following liberalization of financial sector.
The research literature suggests that there is an indiscriminate lessening in Indian stock market shakiness when it comes to reform led post liberalization period. Commonly, in the post liberalization phase in India, the bull periods are longer, the amplitude of bull periods is elevated and the unpredictability in bull periods is as well elevated than in the bear periods. Comparing to its pre liberalization temperament, nevertheless, the bull periods are more unwavering in the post liberalization phase. In this context, Raju et al (2004) come to the conclusion based on their study that the grown-up markets or developed stock markets carry on to present over long period of time elevated return with low unpredictability in share valuation, however, in the midst of emerging stock markets excluding India and China, every other country show low returns of share prices for the firms. Interestingly India by way of extended history and China by way of squat history, both offer as soaring a return on share value of firms. Even the US and the UK market too offer soaring a return on share value of firms, nevertheless the unpredictability of share value of firms in both countries is high. They as well reveal that large unevenness in a number of the grown up stock markets, where moderately, Indian market demonstrate not as much of skewness and kurtosis, as Indian stock market has begun developing into informationaly more competent, and as a result unpredictability in share value of firms has not gone up, and more importantly intra day instability in share value has as well been very much beneath control and has had come down in comparison to earlier period.

Furthermore, Kohers et al (2005) have studied the variations in share value with reference to the firms in the emerging stock markets of the world including India in relation to the period between 1988 and 2004. Based on the results of their study that the share value of firms in emerging stock markets, they show signs of a few ordinary
remarkable drifts with the passage of time. Specified the varied temperament of emerging stock markets, the ordinary risk or return relations is revealed for several of these markets eventually is remarkable. Particularly, volatility for the firms in most country indices carries on moderately stable from 1988 through 1996. On contrary, when it comes to the period between 1997 and 2004, variations in share value have augmented perceptibly for mostly the firms in emerging markets. In addition, the mean percentage day by day returns on share for more emerging market indices are without fail worse for the duration of 1997 and 2004. More importantly, Mavuluri et al (2006) have studied the part of dealings incidence over and above quantity in elucidating the volatility as regards component stocks of Indian measurement indices, NSE Nifty and Nifty Junior, for the duration of 2005. Moreover, the study as well calculates instability by five minute intra day instability in addition to conventional total and squared price variations. Based on the results of their study they come to the conclusion that the deal counts have improved expounding control in elucidating the improbability of firms share prices rather than deal volumes. As a result, dealings incidence driving the volatility than trade sizes green thumbs for Nifty and Nifty Junior. Moreover, through putting into application intra-day as a quantification of volatility offer more statistically momentous results for deal counts and volatility correlation than others measures such as total and squared value day by day close share prices. Besides Padhi (2006) studies the stock market instability at the particular script rank and at the amassed indices rank making use of ARCH, GARCH and ARCH in Mean model. In this study the variations in share value of firms in stock markets have been utilized for the phase of time period between 1990 and 2004. The results of this study conclude that the similar drift of volatility or unpredictability in share prices in the instance of amassed indices and firms in five varied sectors in the forms of electrical, machinery, mining, non-metallic and
The studies reveal that share price or value volatility in Indian firms or organizations appear to be controlled more by rather internal factors than external factors. Specifically, there comes out to be no twist of fate stuck between unpredictability of portfolio capital flows in and out of the stock market and the unpredictability budgets in share price valuation of Indian firms. The results of this study as well state that share value variation of Indian firms has not heaped on following liberalization of financial sector.

In general, the results of the discussed studies conclude that Indian stock market is in its emerging phase though the volatility or improbability in share value of Indian firms is not as high as the cases of firms in other emerging stock markets such as China. Even in the post-liberalization period, with a few exceptions the variations in share of Indian firms collectively have not been as high as predicted by the researchers and practitioners. Therefore, we can find standard or modest variations in share value or price of Indian firms or business organizations. Now let us discuss the trends with focusing on share value volatility in particular Indian firms that put major effect on the returns in Indian stock market as blue chip firms.

In order to evaluate the share value of so-called blue chip firms, we may take on two approaches as regards the modern portfolio theory to equity testing that seek out to maximise gains in the forms of value investing and growth investing. In both these approaches investors’ foremost concern is to possess first-rate results, though the approaches diverge fundamentally in viewpoints and assessment methods (Qi-Heng,
Value investing aims firms supported by resonance financials working in firms with well-built growth outlook; nevertheless it is still to take the market’s conjured. Value investors are in search for good deal firms that are undervalued comparative to their deep-seated value. Preferably, these shares have low down price/earnings. These investing states the firm’s undervalued possessions are proficient of creating advanced returns and, as soon as they carry out, its share price will go up in view of that. On the other hand, this strategy is weighed down with the risk that one might end up with getting on and out of date ideas. A low down value share might show the way to a loss if the fundamental business collapses due to the firm’s disappointment to get used to to the shifting market. Value investing might as well entail lost opportunities, for the reason that value investors by description keep out firms just for cause of their elevated valuations. To be doing well, the increase share investor ought to create correct projections of growth rates and on the whole benefits well into the upcoming time. Apart from these, the growth share investor ought to evaluate whether the firm might carry on going beyond investor hope with its prospective fiscal performance. More importantly, growth investors are paying attention in a firm’s aptitude to add to earnings. They are in quest of firms that cultivate much sooner than the general economy with that of creates an unrelenting, well-above-average earnings growth from long term perspective.

On the other hand, growth investing is designed to be the buying of fast and constantly rising firms, more or less autonomous of the industry in which they participate. The thought is to purchase the shares of firms with sustainable growth and after that allow the firm’s value or share price boost as the firm grows in the future. Growth investors have an intrinsically added hopeful observation of investing than value investors.
Nevertheless, growth investors may well weaken in evaluating a firm’s basics and prospect for growth. In that situation, their faults might be more costly than those of value investors for the reason that they reimburse higher prices for such shares. As well growth oriented firms might not essentially cultivate as projected by such investors.

Sabharwal and Crack, (2005) have conducted a study as regards Indian stock market in BSE in relation to leading firms listed and come out with two of significant results that growth beats value over the period and there is well-built correlation amid average returns and firm size. Betas do not appear to be connected to returns on the BSE of blue chip firms. On the other hand, Shapovalova and Subbotin (2007) in their study have attempted to investigate the descriptions of value and growth stocks and discover that style factors in relation to accounting pointers are obliging in elucidating surplus returns on shares. The results of their study put forward that value and growth labels generally put out of sight imperative heterogeneity of the fundamental sources of risks. Numerous variables, traditionally utilized for approach descriptions, might not be utilized together, for the reason that they have an effect on returns in reverse direction. An effortless truth that added variables does not essentially denote enhanced model adequately summarises the results.

The research literature suggests that even the developed markets too offer soaring a return on share value of firms, nevertheless the unpredictability of share value of firms in both countries is high. They as well reveal that large unevenness in a number of the grown up stock markets, where moderately, Indian market demonstrate not as much of skewness and kurtosis, as Indian stock market has begun developing into informationaly more competent, and as a result unpredictability in share value of firms has not gone up, and more importantly intra day instability in share value has as well
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2.5 Valuation of Bonds and Debentures in Indian Organizations

The capital in India is fast changing in the light of strapping economic development, more vigorous markets, and significantly superior competence. Nevertheless to add to its top-notch equity markets, and rising financial sector, the Indian capital market necessitates perking up its bond and debenture markets. Even as the government and corporate bond markets have developed in dimension, they hang about illiquid. As far as corporate or firms are concerned they put a ceiling on partakers and is for the most part arbitrage-driven (Mohan, 2004). However, for meeting up the requirements of its firms and investors, the bond market ought to for that reason develop. This implies generating fresh market sectors in the forms of exchange traded interest rate and foreign exchange derivatives bonds, and it requires a respite of exchange limitations and a slackening of outlay permissions on contractual savings institutions to magnetize a larger range of investors comprising that of foreign and to boost up liquidity. Tax reforms, predominantly stamp duties, and a refurbishing of disclosure necessities for firm public offers, may well lend a hand build up the corporate bond market. As well as making more efficient the regulatory and decision-making formation of the domestic money bond market may possibly considerably add to efficiency, prompting innovation, economies of scale, liquidity and rivalry, where inducements in the forms of reform steps might lend a hand for leveling the playing field for investors in bonds and debentures issued by firms (Nair, 2007).
When capital markets expand, there is a lot to be gained from giving out knowledge with supplementary financial hubs. This is extensively accomplished in equity markets information sharing requirements additional growth in the bond markets. Each capital market has exceptional attributes resulting from times gone by, traditions, and lawful formations, however all the time more they as well have familiar attributes (Nair, 2007). Equity markets, for case in point, currently roughly pursue various description of an electronic order show and implementation method. There is therefore a well-built case for looking to developed or advanced capital markets at comparable phases of growth for direction. Undertaking so might advise ground-breaking way outs to tribulations that have been tested productively in comparable markets, offer prop up for domestic market improvements in relation to their accomplishment somewhere else, and permit markets to keep away from other’s faults. In relation to bond and debenture markets, India has expanded a range of exclusive attributes which may well gainfully be considered by firms issuing bonds and debentures, particularly those suffering from inadequate repo or the firms that have tested unproductively to move about bonds and debentures on to electronic platforms. Simultaneously, in the growth of bond and debenture market, firms in India can learn from the experiences of firms in advanced countries issuing bonds and the experiences of investors in bonds and debentures. This is how the bond and debenture market of India can be evaluated, but our focus in this research is to throw light and discuss the valuations of bonds and debentures in Indian firms.

Debenture comprises debenture stock, bonds and any additional securities of a firm whether composing a charge on the possessions of a firm or not as definite in the Companies Act. This is a comprehensive description and amounts to borrowing of dues
from the holders of debentures in relation to definite terms and conditions issue to which the debentures have been issued. Fundamentally it is a certificate or documentation signed by the certified officers of a firm accepting money lent and promising repayment with interest and generating security as regards the possessions of the firm for owed performance of its debt. This is a debt tool and is the most ordinary technique of raising credit funds, as branch of raising funds for projects. Debentures might be exchangeable as foreseen in the Companies Act or mandatorily exchangeable in every respect into the equity shares of a firm issue of debentures, whether exchangeable or changeable entails observance with the substantive and ceremonial facets of law. Certification is evenly vital. The advantage of raising loan funds lies in the reality that it does not upset equity makeup of the firm and accordingly the current management (Rao, 2008). Nevertheless, the accomplishment of a debenture issue be it issue of public firms or private firms depends largely on the benevolence and relationship developed by the firm with the investors. An additional feature of the substance is the safety of interest of debenture holders or investors. This is required to be achieving by means of a self-determining debenture trustee who is requisite to be selected by listed firms as regards public issue or moreover issue of assets as the quantity of debenture holders or investors are significantly huge.

So far bond market in India is concerned; it has gone through a substantial alteration ever since the start of economic reforms in the early on 1990s. The securities market under the governmental rule has just about come out ever since the mid-1990s with the deregulation of interest rates and by means of the central and state governments accessing markets to finance increasingly bigger shares of their financial debits. Trading stands and payment means have advanced and fresh tools have been tested
with in relation to changeable degrees of achievement. In similarity, the corporate bond market has held up. Through nearly no fresh primary market issuance of corporate bonds, even if with significant movement in the private firms, the existing condition of the corporate bond market in India is yet embryonic even though in the recent past it has gone through noteworthy reform movements. The enclosure of regulatory and infrastructural alterations suggested by the Patil committee in 2005, a big fraction of which has by now either been put into practice or in the procedure of being finished, is probable to augment the primary and secondary market movement in upcoming years. The market for asset securitization in India is moderately tiny in comparison to developed and advanced markets but has confirmed momentous intensification recently. Asset-backed securities have directed the market with mortgage-backed securities sheathing (Chakrabarti, 2008). The episode of corporate bond market in India is only just noticeable when it comes to developed markets. Regardless of numerous attempts by the government over the years, to restore the market, neither investors nor firms issuing bonds and debentures are showing any concrete attention. Consequently, the greater part of corporate bonds consists of privately positioned debt by public financial organizations. Worth to mention here, bond markets and equity market owe their distinction to intrinsic distinctiveness of the tool that may trigger relevant markets.

For guaranteeing liquidity, market intermediaries are requisite in both bond and equity markets. Nevertheless the intermediaries in the bond market currently necessitate to grip a bigger sum of capital than their equivalents as firms in the equity markets due to the bigger size of trade in every deal. Consequently the requirement to seize big inventory point is more for bond market intermediaries in comparison to equity market intermediaries who boast the choice to carry out electronic limit order corresponding
For this reason, intermediaries in the bond market are uncovered to bigger risks because of liquidity partially because of the nonexistence of a secondary market where retail investors might take part all along with large firms.

Bonds’ payoff is gorgeous to those who have a preference unsurprising returns for well-known time horizons. Consequently, bond market appeals institutional investors in India careful of defending their main bonds in the forms of pension funds, bond issued by insurance firms or banking organizations. This too results in moderately risk adverse retail investors ready to spend in the bond market. Nevertheless, informal empirical observations put forward that the split of retail investors’ bond market particularly is very tiny. Need of liquidity and intelligibility are the foremost reasons pouring need of investor contribution in corporate bond market comprising of retail investors (Bessembinder and Maxwell, 2008). An additional ground why the market for corporate bonds did not flourish previously was big size defaulting that destabilized the structure and safeguards in position. This is what studies in the vicinity focus on how to ease tribulations of liquidity and intelligibility, additional measures ought to also be approved to diminish likelihood of defaulting and add to the sum with that of pace of upturn in the incident of liquidation. For illustration, it is well recognized that firms have a propensity to take on extreme risky projects funded by debt because of restricted burdens (Biais et al, 2006). Whereas banking organizations might put off such movements by putting contracts, public debt holders are immobilized to carry out it for the reason that every owns an inconsequential quantity of the total debt. On several occasions, the pre-eminence of debt is controversial. More importantly, the extent of the recoveries as well depends on liquidation regulation which in India is extremely feeble. For this reason, strapping legal structures that put off exceptionally risky
activities and as well make certain quicker decree of liquidation are as well requirements for the materialization of a well-built bond market.

Despite the fact that issuing bond and debenture may well be a chosen method of financing in an extensive range of circumstances, elevated costs of funds has had been a foremost prevention to enlargement of Indian corporate bond and debenture market. This eventually have an effect on the enlistment of funds to the most industrious sector in the country and cut down investment by means of elevated costs of funding. Foremost factors lessening cost of finances are liquidity and intelligibility. The existing market formation for corporate bonds is not an well-organized reply to intelligibility and liquidity issues but rather underpins it additionally. Consequently, alterations to get better competence of the bond market will not materialize impulsively from the market specified the existing market formation but would necessitate external impulsion in the shape of regulatory and policy interference. A few policy interferences ought to be holistic and revolve around concurrent grouping of steps that would enable step alteration in the corporate bond market rather than attempt incremental piecemeal changes sequentially. This will enable the market to convert from present symmetry although low down intensity to superior intensity symmetry (Tirole, 2006). Therefore, in this study an attempt is made to determine need of profundity in the market for funding which moistens asset and expansion of firms, operating in various industries of the Indian economy. Information irregularity, liquidity and need of market creation are the furthermost obstacles to growth of corporate bond markets which may get stuck in the low down intensity symmetry. This study attempts to deal with these issues and offer a few consequential commendations to do away with these tribulations in route of bond and debenture markets in India. A vivacious bond and debenture market for firms
in both private and public sector may well alleviate funding constrictions both in relation to cost of funds with that of ease of access to financing through issuing bonds and debentures. Debentures particularly is a comprehensive description and amounts to borrowing of dues from the holders of debentures in relation to definite terms and conditions issue to which the debentures have been issued. Fundamentally it is a certificate or documentation signed by the certified officers of a firm accepting money lent and promising repayment with interest and generating security as regards the possessions of the firm for owed performance of its debt. This is a debt tool and is the most ordinary technique of raising credit funds, as branch of raising funds for projects. Therefore, an added focus needs to be given this source of funding for firms in India.

2.6 Dividend and Bonus rate of return in Indian organizations

Dividend and bonus has had been a subject of curiosity in the literature relating to finance. Dividend is commonly delineated as the sharing of income in actual possessions amongst the shareholders of the firm in fraction to their possession (Baker et al, 2002). The concept dividend rule all concerns to the exercise that management peruses in creating dividend payout pronouncements or the extent and model of cash allocation with the passage of time to shareholders (Lease et al., 2000, p.29). This concern of dividend rule is one that involve managers given that the origin of the contemporary commercial firm. In this framework dividend policy continues one of the most challenging issues in the field of finance. The investigation of dividend policy has drawn the notice of finance researchers and scholars and has endeavoured to resolve a number of issues relating to dividends and put together theories and models to elucidate corporate dividend performance. Dividend rule signifies to the payout rule, which managers practise in fixing on the size and model of cash allocation to shareholders.
with the passage of time. Managements' most important objective is shareholders' wealth maximization, which interprets into capitalizing on the value of the firm as determined by the price of the firm’s general share. This objective might be realized through offering the shareholders a reasonable return on their investments. Nevertheless the effect of firm’s dividend rule as regards shareholders wealth is yet unsettled.

In accordance with Frankfurter et al (2003), dividend rule has had been kept as the leading conundrums in finance. However, the real issue in this context is as how much cash must firms give back to their shareholders as returns, and whether firms must reimburse their shareholders all the way through dividends or through issuing bonus shares, which is the slightest expensive structure of payout from tax perception. They further put that dividend rule might be of two sorts namely residual and managed. In residual dividend rule the quantity of dividend and bonus is just the cash left after the firm puts together enviable investments making use of net profit value decree, where the sum of dividend and is all set to be extremely changeable and generally nil. On the other hand, if the manager supposes dividend rule is significant to their shareholders and it optimistically controls share price valuation, they will take on managed dividend rule. More importantly, the optimal dividend rule is the one that capitalizes on the firm’s share price, which directs to maximization of shareholders’ wealth. Whether or not dividend pronouncements might add to the value of firm is a contentious subject. In this framework, shareholders wealth is symbolized in the stock market price of the firm’s common share, which eventually is the role of the firm’s investment, funding and dividend pronouncements. Amongst the most decisive decisions to be taken for
proficient performance and realization of goals in any firm are the decisions concerning dividend.

Dividend pronouncements are documented as very much imperative due to more and more momentous role of the finances in the firm’s general development rule. The goal of the finance manager ought to be to find out a most favourable dividend rule that tends to augment value of the firm. It is generally contended that the share prices of a firm lean to be decreased at whatever time there is a lessening in the dividend outflow. Declarations of dividend go up making abnormal positive share returns, whereas pronouncements of dividend go down making abnormal negative share returns. A fall in share prices takes place for the reason that dividends have a signalling result. In accordance with the signalling result managers have confidential and better information as regards future prospects and decide a dividend echelon to signal that confidential information. Such a result, on the division of the management of the firm might show the way to a steady dividend payout proportion (Baker et al, 2000; Aivazian and Booth, 2003) Dividend rule of a firm has inference for investors, managers and lenders and erstwhile stakeholders. For investors, dividends whether announced today or collected and offered at a later date are not just a way of usual returns, but as well an imperative input in assessment of a firm. In the same way, managers’ flexibility to invest in projects is as well reliant on the sum of dividend and bonus that they might tender to shareholders as more dividends might signify fewer funds obtainable for investment. Lenders might as well have concern as regards the sum of dividend a firm announces, as added the dividend paid less would be the sum obtainable for servicing and deliverance of their declarations. The dividend imbursement present an instance of the typical agency state of affairs as its effect is borne by a range of claimants. For that
reason dividend rule might be functional as a means to cut agency costs. The
imbursement of dividends lessens the flexible funds obtainable to managers for extra
expenditure and investment opening and necessitate managers to seek out funding in
capital markets.

Preceding empirical studies regarding dividend and bonus and rate of return have
concentrated chiefly on developed markets. Very few studies are obtainable in the
literature as regards emerging or developing markets such as China and India and the
available studies are restricted to IT and other service firms (Naceur et al, 2006).
Therefore, in this study an attempt is made to take the cases of firms in various
industries to investigate dividend plan rule of firms and shareholders rate of returns.
Moreover, the study as well seeks out to investigate and recognize the comparative
significance of a few of recognized determinants of dividend rule in the context of
firms in India operating in different industries. The study has special focus uncovering
the relationship stuck between the shareholders wealth and the dividend payout and
investigates whether the dividend payout announcements have an effect on the capital
of the shareholders.

Specified the assortment in corporate goals and upbringing, it is likely to have different
dividend rules that are explicit to industries, firms and markets. All the way through the
studies attempts have been made to put forward how dividend rule might be set at
micro stage. Practitioners in the field of finance would be proficient to look at how the
different market resistances in the forms of asymmetric information, agency costs,
taxes, and transaction costs have an effect on their firms, with that of their existing
claimholders, to turn up at level-headed dividend rules. Preceding studies have
attempted to examine dividend payment model and rules of developed and advanced
markets, which might not hold proper for emerging markets such as India. Nevertheless, in Indian background some studies have investigated the dividend behavior of corporate firms with reference to the cases of firms in manufacturing sector (Manoj, 2004; Reddy and Subhrendu, 2005). On the other hand, it is yet not evident what the dividend payment model of firms in India is. From this perspective rare studies have investigated the dividend behavior of Indian firms taking the case of various industries. so far very evidences as regards dividend and bonus effect on rate of return for shareholders or investors in Indian firms operating in different industries.

Shareholders are the one and only receipts of dividends, have a preference to boast huge dividend payments, however on contrary creditors have a preference to confine dividend payments to take full advantage of the firm’s resources that are obtainable to pay back their claims. The empirical substantiation in the literature largely is reliable with the perspective that dividends move assets from the corporate group to the select possession of the shareholders, which negatively impinges on the security of claims of debt holders. In relation to shareholder- manager relations whose compensation is coupled firm profitability and size, are tended to low down dividend payout ranks. A low down dividend payout gets the most out of the size of the possessions under management control, gets the most out of management flexibility in opting investments, and cuts the necessity to go round to capital markets to fund investments. For that reason, shareholders might utilise dividend rule to give confidence managers to look after their owners' finest interests; advanced payouts offer more monitoring by the capital markets and added managerial order (Aivazian et al, 2003; Jitendra, 2005). La Porta et al (2000) contends that a legal upbringing offers well-built safeguarding to shareholders facilitating them to oblige firms to pour out cash. The inference is that
effectual monitoring by shareholders, where lawful safeguarding is strapping, has to be linked with advanced dividend payments. Studies relating to firms in advanced market of UK where empirical facts as regards the relationship amid dividends and rights structures is somewhat restricted demonstrating that there is a negative link amid inside possession and dividends. Nevertheless, proof as regards financial organisations is not just restricted but as well opposing.

In their study of American stock markets Arnott and Asness (2003) find that higher total dividend payout proportions are linked with higher future earnings increase. Their results are too supported by Zhou and Ruland(2006) and Gwilym et.al. (2006). Zhou and Ruland (2006) have investigated the likely effect of dividend payouts on future earning increase, where they have utilised a sample of on the go and stopped stocks listed on NYSE and NASDAQ with positive, non- zero payout proportion firms covering up the long time duration of 1950 to 2003. The regression results of the study demonstrate a strapping positive relation stuck between payout proportion and future earnings increase. On the other hand, Mancinelli and Ozkan (2006) have conducted an empirical investigation regarding the relationship stuck between the rights structure of firms and dividend policy utilising 139 firms listed in Italian stock exchange. The results of their study established that the dividend payout proportion is negatively linked with the vote privileges of the major shareholders. More importantly, Amidu and Abor (2006) have investigated the factors controlling dividend payout proportions of listed firms in Ghana and the results of their study established that payout proportions are positively linked to profitability; cash flow and tax nevertheless are negatively linked to risk and growth.
In the context of Indian firms, some studies have investigated the dividend behaviour of corporate firms presenting conflicting results as has been in the case of studies in the case of firms in developed markets. Narsimhan and VijayLakshmi (2002) have investigated the control of rights structure as regards dividend payout of 186 manufacturing firms. Based on the regression analysis, the results of the study demonstrate that promoters holding as of September 2001 has no control on typical dividend payout for time duration between 1997 and 2000. On the other hand, Manoj (2002) have investigated the results of 2001 survey of 81 CFOs of Business today-500 Indian firms to reveal the factors of the dividend rule judgments as regards the corporate India. The results established that the majority of the firms have target dividend payout proportion. more importantly, Reddy and Subhrendu (2005) have investigated dividend drifts for big sample of shares bought and sold on Indian markets signify that the proportion of firms paying dividend turn down from over 57 percent in 1991 to 32 percent in 2001, and that just some firms pay normal dividends. Dividend offering firms are less probable to be outsized and more money-making than non-paying firms, although growth chances do not appear to have considerably controlled the dividend rules of Indian firms. The go up of the quantity of firms not paying dividends is not held up by the needs of cash for investments. On the other hand, Dhiraj (2007) have empirically investigated the dividend behavior of chosen Indian firms listed on BSE for the time period of 1990 to 2005. Their study has investigated whether or not the dividends are yet vogue in India and has attempted to evaluate the appliance of one of the two very conflicting schools of thoughts, significance and insignificance as regards dividend judgment. The study also analyzed the applicability of tax theory in the Indian context. The results of the study is assorted and questionable as regards tax
theory signifying that the alteration in the tax formation does not have a considerable
result on dividend behavior of firms.

The literature reviewed in this section establishes that there are incompatible theoretical
models mostly deficient of strapping empirical hold up, particularly in the context of
fresh and old studies as regards finance to elucidate the dividend occurrence in relation
to rate of return. Therefore, to arrive with tangible conclusions a rigorous study of
various useful theoretical models jointly with empirical evidence is required. It is yet
not evident what the dividend payment model of firms in India is. The empirical
substantiation in the literature largely is reliable with the perspective that dividends
move assets from the corporate group to the select possession of the shareholders,
which negatively impinges on the security of claims of debt holders. In relation to
shareholder- manager relations whose compensation is coupled firm profitability and
size, are tended to low down dividend payout ranks. A low down dividend payout gets
the most out of the size of the possessions under management control, gets the most out
of management flexibility in opting investments, and cuts the necessity to go round to
capital markets to fund investments. For that reason, shareholders might utilise
dividend rule to give confidence managers to look after their owners’ finest interests’. 
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necessity to go round to capital markets to fund investments. From this perspective rare
studies have investigated the dividend behaviour of Indian firms taking the case of
various industries. so far very evidences as regards dividend and bonus effect on rate of
return for shareholders or investors in Indian firms operating in different industries. The widespread literature as regards dividend rule over the years have been not capable to arrive at an accord on research regarding a common dividend theory that might either elucidate the procedure of dividend judgement or foresee a best possible dividend rule. As a result it turns out to be significant to investigate dividend and rate of return behaviour of Indian firms making use of the structure of empirical models.

2.7 Relationship between issue of bonus and price behavior of equity

Bonus issues which are comparable to stock dividend are basically allotments of supplementary shares issued to current shareholders in quantity to their present sum. A firm might dispense bonus shares out of saved income or hoarded capital treasury. If a firm allocates a bonus share through using saved income, it creates a book entry to distribute saved income into paid up funds in the shareholders' equity part of the firm balance sheet. On the other hand, if a firm settles on to issuing a bonus share through using accrued funds treasury, it fine-tunes the collected funds treasury into paid-up funds (Dhar and Chhaochharia, 2008). Bonus issues are just giving out of added stocks to the current shareholders, and it is an open issue of shares, devoid of a contribution price, made to current shareholders in ratio to their present deal. A firm might share out bonus shares by means of using saved earnings or accrued capital assets. The point of consideration is that in all probability, a firm will create a bonus issue just if it is sensibly definite that the upcoming cash flows will be bulky enough to hold up an increase in the cash bonus payments. Bonus shares are issued by a firm in the case it proposes to disburse extra earning by issuing shares. Bonus shares are stated as soon as firm has enough earnings to announce bonus but either does not have cash to disburse it or does not desire to part with it for executing various capital spending procedure.
(Amuthan and Ayyappan, 2011). The point is that a bonus issue might be observed as a substitute to dividends. However, contrasting to a rights issue, a bonus issue does not risk watering down the investment of bonus shareholders. Even though the income per share of the stock will go down in quantity to the fresh issue, this is remunerated by the detail that the shareholders will have possession of more shares. For that reason the value of shareholders investment ought to continue the equal even though the equity price will fiddle with in view of that. The entire thought behind the issuing of bonus shares is to take the nominal share capital into line with the real surplus of belongings over burdens. The relationship stuck between bonus issues and share prices has had been the topic of a great deal empirical investigation in research literature related to the field of finance. However, on the one hand, there is strong relationship between bonus share and equity price bahaviour whereas in several cases there is no such well-built relationship. Therefore, this phenomenon requires more and more exploration. The study in hand investigates this relationship in the context of firms in emerging markets with focus on India.

As per the comprehensive share valuation model, the stock price of a firm is settled on by pricing cut its future earnings making use of fiting discount rates. Therefore, accounting earnings are one of the most fundamental and significant factors of stock price. Even though numerous studies indicate that managers stock bonus plan might bring financial advantages for the firm, it as well gets worse shareholders’ equity to a definite degree. The value of managers stock corresponds to a cost of creating earnings. In this context, Shih (2009) conducted a study testing the relationship stuck between share price and the cost of managers stock bonus, incremental to net income, equity price value, and predictable earnings growth, and the author foresees a negative relation
stuck between the cost and share price. In order get hold of data for tests, collection has been done from the firm with managers as shareholders, bonus shares from firms listed on the Taiwan Stock Exchange for the time duration of 1997 to 2005. The author has used financial and market data which are sourced from the Taiwan Economic Journal databanks. The results of the study established a significant negative relationship stuck between share price and the payouts of managers stock bonus that is disclosed, nevertheless not documented in net income, subsequent to controlling for net income, equity price value, and likely earnings increase. Based on the results of the study, it can be concluded that there subsists a considerably positive relationship amid growth opportunities and share price. The results of the study mean that the descriptive capability of earnings for stock prices enhances whilst the firm’s growth opportunities are advanced. The empirical results further demonstrate that the fair value of managers or shareholders stock bonus diminishes a firm’s equity market price. This result might assist designing an enticement device to exert a pull on and keep hold of gifted managers and simultaneously look after shareholders’ equity rights.

A number of empirical studies are obtainable in the research literature confirming that bonus issues are positively linked with equity price behaviour upon declaration. Nevertheless, loads of challenging propositions too have been extended in the literature as regards the effect of bonus issue on equity price behaviour. Signalling proposition and liquidity proposition have turned out to be as two principal elucidations for this market performance. Scholastic research normally takes to mean the positive equity market response to bonus share declaration as a reply to managers signalling constructive inside information (Jijo and Rao, 2000). The argument is that managerial people have better information in relation to the future earnings, for the reason that
there may perhaps be asymmetric information connecting managers and investors. Therefore, bonus issues have to believably hint such information if it is expensive for firms with no positive information to reproduce. However, for a signaling tool to be applicable and convincing there must be a cost linked with conveying bogus signals; such as it must be prohibitively expensive for firms with under average accepted performance to take off the signaling choices of those firms enjoying above-average performance.

Bonus issues take place at asymmetrical periods and on extensively changing ratios. The advanced bonus ratios have been revealed generally amongst firms reimbursing high dividend rates. Tentative go up in equity price which takes place instantaneously after bonus declarations is based not so much on a pragmatic evaluation of the elementary factors managing profit and dividend as a gossip and psychology. Mishra (2005) explores that the spectacular price change that take place from the level right away after bonus declaration puts forward that immediate go up in equity price is random and not adequately astute, being undertaken too far in a few instances and too small in others. Various contradictory theoretical models, every one lacking strapping empirical hold up characterize latest attempts by researchers in the field of finance to put in plain words the bonus occurrence, particularly as controlling equity price behaviour. However, the fact is that no theoretical model comes with solid conclusions (Budharaja, Parekh and Singh, 2004). The wide-ranging literature as regards issuing bonus share and the effect on equity price behaviour has had been not capable to arrive at an agreement. Consequently it turns out to be vital to study effect of issuing bonus share on equity price behaviour, where a rigorous study of different theoretical models in concert with empirical confirmation is essential. In this section of the study the effect
on equity price behaviour in relation to the case of Indian firms is discussed with reference to various cases and empirical models used by various authors. Loads of challenging propositions too have been extended in the literature as regards the effect of bonus issue on equity price behaviour. Signalling proposition and liquidity proposition have turned out to be as two principal elucidations for this market performance.

Chaturvedi (2000) has investigated the behaviour of equity prices in the order of half yearly financial declarations and the study reveals that the abnormal returns are not just statistically but as well economically noteworthy. The results of the study advocate that the income information is not taken on board fast. In another study Chaturvedi (2001) reveals in an investigation of the equity price response as regards the income that abnormal returns take place both in the pre and post declaration phases of issuing bonus share. Both of these studies establish that Indian markets are far from being proficient when it comes positively effecting equity price after issuing bonus share. In a study, Srinivasan (2002) reveals subsisting of tremendously big positive abnormal returns on ex-bonus and ex-rights dates for equity in Indian capital market. The results of the study further reveal that tax rule might trigger off trading strategies in the order of the ex-dates. The concluding point of the study is that the tax rule might direct to considerable positive abnormal performance if long-standing investors are the symmetry price influencing shareholders.

On the other hand, Katati (2001) have investigated the behaviour of equity price for the duration of bonus announcement date and ex bonus date in relation to 115 bonus issues created between during the time period of 1995 and March 1999. Based on the results obtained, the study ascertains that equity prices go up prior to the declaration of issuing

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bonus and go down after the declaration of issuing bonus. Therefore the author suggests that a gainful stratagem may well be developed through purchasing shares cum-bonus and selling them ex-bonus. More importantly, Lukose and Rao (2005) have examined the significance of signalling proposition by investigating market response and operating performance in the order of bonus issues for a big sample of 464 firms listed on the BSE. The results of their study establish a cumulative abnormal return of 12.73 percent for an eleven day time surrounding bonus announcements and further too establish that the abnormal returns are confidently linked to bonus share and negatively linked to the range of the firm, which holds up the signalling proposition. Moreover, a study conducted by Mishra (2005) as regards 46 bonus issues created during the time period of June 1988 to August 2004 in relation to firms listed on the NSE, reveal that in accordance with the developed and advanced markets, Indian capital market demonstrates momentous abnormal returns for a five day time preceding to bonus declaration. In this study, the behaviour of the equity prices in the forms of Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) is revealed to be as per the probabilities, by this means providing hold up to the proposition that Indian stock market is semi-strong efficient as regards the effect of issuing bonus on equity prices.

Lately, in a pioneering study, Dhar and Chhaochharia (2008) have investigated the effect of the information concerning to the declaration of stock split and bonus issue on equity prices listed on NSE by means of putting into application the event study. Interestingly the results of the study establish that in both the cases that are stock split and bonus issue reveal considerably positive declaration effect on equity prices. More clearly, for bonus issues, the abnormal return is found somewhat 1.8 percent and for
stock splits, it is somewhat 0.8 percent. By this means the study holds up the opinion that Indian Stock Market is proficient in semi-strong variety. Furthermore, Raja and Sudhahar (2010) in their study have recently investigated an endeavor to empirically scrutinize the efficiency of the Indian Stock Market in relation to Information Content of Bonus issue declaration released by the IT firms during the period of 2000 to 2007. The theoretical models and statistical tools applied in their study for testing the informational efficiency as regards the Indian Stock Market are Average Security Returns Variability, Average Abnormal Returns, Cumulative Abnormal Returns and T-test. Based on the results of the study it is established that the Indian stock markets for the IT firms are proficient but not absolutely proficient to the bonus issue declaration. This permits the investors to get abnormal income all through announcement phase. Nevertheless, there are some limitations of the study, as the study is limited to just one occurrence and is constrained to merely IT firms. In addition, it might as well be comprehensive to two or more occurrences through taking diverse industries.

Whilst added shares are given out to current shareholders devoid of being paid any extra payment for them, it is recognized as bonus shares. Bonus shares are issued by a firm whilst it proposes to reimburse dividend through issuing shares. Firms giving bonus shares are considered very exceedingly by investor group. In this context, the study of Rheja and Bhardwaj (2011) investigate the effect of bonus issue on earning per share and market price per share following record time for the time period of 2009 to 2010 of 15 public limited firm listed on BSE. The results of the study reveal that earning per share of 9 firms out of 15 firms descent but not in that amount in which bonus share has been issued. Equity price of all the firms grow moldy because of bonus shares just about in the same amount of bonus shares. Correlation stuck between
earning per share and bonus share is -0.42 and flanked by equity price and bonus share is -0.77. Consequently equity price is much negatively correlated than earning per share with bonus shares.

On the other hand, one of the most recent and notable study in relation to the subject of bonus share issuing effect on equity price is a study conducted by Amuthan and Ayyappan(2011), and the distinctiveness of this study consists in appliance of the event study model in relation to the day by day share price return for the period of 60 days of the declaration of these price responsive occurrences with that of the record dates of appliance of these occurrences. The study utilises a parametric test in the form of t-test and a non-parametric test in the form Kolmogorov-Smirnov test to distinguish the fairness in earnings of the returns prior to and after the declaration and allotment patterns of income prior to and subsequent to the occurrence, correspondingly, are put into application. It is usually supposed that the announcement of bonus shares is the indication by the firm of its upcoming increase and income potential. For this reason declaration of bonus issue is exceedingly price responsive. In this study, the Kolmogorov-Smirnov test settles on whether there is momentous variation in the allotment model of returns prior to and subsequent to the declaration of bonus issue is useful. The Kolmogorov-Smirnov test value hints non-acceptance of the proposition that ‘there is no variation in the allotment model of the returns between prior to and subsequent to the bonus declarations. The result is dependable both whilst every bit of the abnormal returns pattern adjacent the whole 134 bonus issues is taken with that of whilst the sub-groups in relation to the proportion of bonus issue are investigated. The Kolmogorov-Smirnov test corroborates that the models in the allotment of returns prior to and subsequent to the bonus declaration time are as well unrelated. Therefore
the study holds up the proposition that the NSE is proficient at semi-strong structure. Whilst a market is proficient at semi-strong structure, it emphasizes the truth that the basic analysis might hold good for a long-standing shareholder.

In all probability, a firm will create a bonus issue just if it is sensibly definite that the upcoming cash flows will be bulky enough to hold up an increase in the cash bonus payments. Bonus shares are issued by a firm in the case it proposes to disburse extra earning by issuing shares. Bonus shares are stated as soon as firm has enough earnings to announce bonus but either does not have cash to disburse it or does not desire to part with it for executing various capital spending procedure. But the procedural analysis might not be practical to shareholders if just on the foundation of declaration of bonus issues as the shareholders seek out to pocket abnormal returns. Equity prices integrate the information content of the imminent bonus declarations a few days previous to the authentic declaration and subsequent to announcement returns are not striking enough for shareholders to invest. On the one hand, there is strong relationship between bonus share and equity price bahaviour whereas in several cases there is no such well-built relationship. Therefore, this phenomenon requires more and more exploration. The study in hand investigates this relationship in the context of firms in emerging markets with focus on India.

2.8 Relationship between issue of bonus and dividend payout

Brown et al. (2007) find that managers in firms are disposed to add in their own financial enticements in shared decisions, in the form of payout behavior. Moreover, in this context Aboody and Kasznik (2008) find that the formation of managerial stock-based return as bonus share might bring on self-interested managers to support the structure of payout that may boost the sum of their compensation. The resolution to pay
cash dividends may well be controlled by the sorts of stock-based reimbursement on hand in the form of bonus share. Aboody and Kasznik (2008) reveal a positive relationship stuck between variations in constrained stock grants and alterations in dividend payouts. Therefore, managers who are conventionally remunerated with stock bonuses that are dividend secluded might be more probable to support ready money dividends as a structure of payout. More importantly, Brown et al. (2007) note down those managers with added stock bonuses will in addition have a superior enticement to add to cash dividends. The imbursement of a cash dividend not just decreases the likely value of both exercisable and un-exercisable stock options held by managers, but as well, as Kouki (2009) reveals enhances the cost to the manager in paying a dividend. Consequently, in accordance managerial options generate less incentive for managers to pay cash dividends and superior inducement to decrease dividends pursuing the opening of a stock option arrangement as the recompense bargain. In relation to this revelation, it might be inferred that firms that issue stock bonuses mean to dole out cash dividends. On the other hand, managers who take delivery of stock options as reimbursement will have less intent to tender cash dividends.

Managers’ reward is a vital device to both trigger off and maintain firm managers. In this framework, several studies draw attention to the relationship stuck between a range of structures of managerial recompense and the payout plans of a firm. Aboody and Kasznik (2008) reveal in the content of advanced market firms of US that managers stock-based recompense options in the form of bonus share considerably have an effect on managers’ payout options particularly in relation to cash dividends and repurchases. In view of the fact that managerial recompense schemes have considerable effects on the equity value and funds gains of a shareholder, which are generally bound to the
payout plans of a firm. Nonetheless, whilst repurchasing shares might be a gorgeous option for managers where cash dividends may be a more ordinary recognized payout policy to market partakers. Consequently, the empirical results for the relationship flanked by repurchase and managerial compensation plans possibly will be less marked.

Price of share is the most significant pointer gladly obtainable to the investors for their choice to invest or not in a specific share. Theories put forward that alterations in share price are linked with basic variables that are applicable for share assessment. Studies relating to share price alterations come into view to give way substantiation that alterations in elementary variables must together bring about alterations in share prices whether it is developed or emerging markets. Acquaintance of comparative control of primary factors as regards equity share prices is obliging to firm management and investors. An acknowledgement of factors of share prices is functional in the formulation of management plans concerning dividend payment and bonus announcement. Investors might as well structure superior judgments and create bright and lucid investment judgments. Market price of equity shares and its factors have developed into most investigated subject in the field of finance (Marker and Gupta, 2002). Optimization of capital of actual owners of a firm with that of the financial power of the firm might be evaluated by the performance of share price and variant in share price. As per Haijra et al(2007) share price and stock price volatility is very often deal with subject, where various proportions have been investigated by various authors and wide-ranging results are obtained in so doing, and particularly dividend declaration is one of these. Shareholders are pleased either by dividends, profit reinvestment and share buyback policy. In this context, the foremost and significant is dividend that
implies share specified to the stock holders from current or earlier profits which are preserved by the firm. Dividends might be declared in various forms by a firm.

Most recurrent structure of dividend proclaimed is in the shape of cash. Whilst a firm has either held the thoughts concerning improved investment choices in its hands, or is going through the phase of liquidity crunch, the firm will not reflect it astute to provide cash to the shareholders and the firm will go for the additional choice such as scrip dividend or bonus shares. Dividend payout declaration is one of the most imperative firm declaration, as this declaration does not merely involve cash flow from firm to shareholders but as well hurl signals concerning firm’s current and future strategy and performance. So far as studies of emerging markets are concerned, the foremost contributor as Saghir and Ahmed (2007), establish that as developing market is in weak market competence appearance. Their study is linked to correlation analysis comprising the cross sectional all along with serial models. The return models utilized by the authors are from direct such as daily to best ever such as twelve-monthly comprising monthly with that of per quarter. The comparison of results of fundamental return models are as well noted down by them in both tests based on strictures and non-parametric method.

On the other hand, as per the results of a study, there is a very striking declaration and there is a well-built appeal linked to dividend declaration, which eventually create abnormal returns, where positive returns in post event transom are proofs of feeble shape of market efficiency and as well arbitrage profit chances. The results of the study by Haijra et al (2007) too corroborate the positive value significance of dividend declarations. Therefore, further explorations require in this context making use of supplementary and advanced data streams. Even though study regarding value
significance of firm declarations is very uncommon study might be carried out by utilizing additional parametric and non-parametric tests of connotation.

2.9 Evaluation of current bonus issue practices

Studies as regards market responses to tested capital issue declarations extended theories elucidating the alterations in volatility behavior in the order of bonus issue declarations, thus adding up to a superior recognition of the observable facts of capital markets. A number of propositions have been extended to explicate market responses to public equity offerings. Bonus issue declarations reason a big mispricing as regards the declaration date and the prices are probable to be volatile for several days after that. In their study Medeiros and Matsumoto (2006) presents the substantiation of the existence of ARCH processes in the regression residuals. The study too reveals the existence of GARCH effect just about the declaration days. On the other hand, there are wide-ranging results for volatility alterations around diverse bonus declarations. The majority of the studies in relation to the developed markets of US demonstrate an augmented volatility subsequent to the bonus issue declaration (Bredin et al., 2005). Moreover, a few studies of US present no significant alteration in the volatility just about bonus declaration (Boyd et al., 2005). In addition, Medeiros and Matsumoto (2006) discover substantiation of decrease in volatility subsequent to the declaration of bonus issue.

The Indian Companies Act and SEBI offer guiding principle for issue of bonus in India. Bonus shares in India might be issued just out of free reserves built out of the real profits or share premium gathered in cash simply. Firms might not issue bonus shares on behalf of dividend or if it had come out with any public issue in the previous one year. Bonus issue might not be created on partially paid up current issuing shares and it must be guaranteed that the firm has not defaulted in payment of interest or chief as
regards fixed deposits and debentures and in the sum of statutory dues of the staff. The Memorandum and Articles of Association are necessary to be changed if they do not offer the stipulation of bonus issue in relation to certified share capital or capitalization of funds. The firms are obligatory to put into practice the bonus offer in a time of six months from the time of endorsement at the convention of board of directors, and the fresh shares are to level pari-passu with the current shares (Kothare, 1997). On the other hand, issuing of rights all concerns to issue of fresh securities by a listed firm to its current shareholders as on a documentation time. The rights are usually obtainable in a specific proportion to the figure of securities held previous to the issue. SEBI has laid down eligibility standards for units accessing the prime market in the course of public issues nevertheless there is no eligibility standard for a listed firm creating a rights issue as it is a tender created to the current shareholders who by now recognize the firm. Nevertheless, rights issues have to be preserved open for minimum thirty days and not more than sixty days (Kothare, 1997).

From the perspective of the firms in emerging Indian market several authors have attempted to investigate the volatility and bonus practices over the years. However, there is a confirmation of decline in stock price volatility after announcements of bonus issue (Marisetty and Alayur, 2002; Thenmozhi and Thomas, 2004). In the instance of issuing bonus share volatility has been investigated in the context of the rights issue declaration making use of variance of daily stock returns to investigate volatility in the order of bonus issue declaration. More recently, Subrahmanyam et al., (2010) have conducted a study in Indian context extending Myers and Majluf model through examining a sample of 164 preferential allotments issued in the Indian capital markets all through the time phase between 2001 to 2009. Their conclusion based on the results
of their study that the declaration period returns for private placements are affirmative, in relation to the regulatory restrictions that settle on the issue price, and positively linked to the volatility.

On the other hand, the study of Steve and Robert (2011) present confirmation that bonus issue declarations have a superior capital result whilst the market volatility is low and this result is driven above all by undersized firms. The results of the study hold up the proposition that whilst market volatility is elevated, signals sent by small firms are more probable to be covered by noise than whilst market volatility is low down. However, in the instance of bonus issues, the authors have not studied the volatility models just about the bonus issue declaration and there is no empirical confirmation to document the volatility coming together and unrestricted volatility models in the order of the declaration of bonus issues. However, in the instance of industry level effect on stock return volatility, Lee and Chang (2011) make use of the financial econometric models to scrutinize the asymmetric volatility of equity returns in reply to monetary policy declarations in the stock market. The asymmetric widespread autoregressive provisional heteroskedasticity (GARCH) model and the flat change autoregression with GARCH model are utilized to calculate the equity returns' asymmetric volatility. Lee and Chang (2011) have investigated the alterations in time anecdotal volatility making use of ARCH and GARCH models, to investigate the effect of bonus issue declarations. These models come out from the financial literature, where an agent or trader foresees the equity price variation by means of creating a weighted average of a long standing average, the foreseen variation from last period (GARCH term), and information regarding volatility experiential in the present period (ARCH). Uniting all the three affirmed above, a trader obtains an estimate in relation to the upcoming time volatility.
In the Indian context, the point is that regulatory agencies offer guiding principle for issue of bonus in India. Bonus shares in India might be issued just out of free reserves built out of the real profits or share premium gathered in cash simply. Firms might not issue bonus shares on behalf of dividend or if it had come out with any public issue in the previous one year. Bonus issue might not be created on partially paid up current issuing shares and it must be guaranteed that the firm has not defaulted in payment of interest or chief as regards fixed deposits and debentures and in the sum of statutory dues of the staff. In this framework the studies reveal that the declaration period returns for private placements are affirmative, in relation to the regulatory restrictions that settle on the issue price, and positively linked to the volatility.

2.10 Summary

Bonus shares may well be issued as a substitute of dividends, from current earnings and profits. Therefore hypothetically, issuing a bonus share, the price will decrease, nonetheless, market forces may well have a poles apart effect, and the price might continue the similar or even go up. Therefore, if a firm issue bonus it has a chance to create a well-versed and advantageous investment judgment. In this study, more explorations are made taking the cases of firms operating in different industries. The studies reveal that share price or value volatility in Indian firms or organizations appear to be controlled more by rather internal factors than external factors. Specifically there comes out to be no twist of fate stuck between unpredictability of portfolio capital flows in and out of the stock market and the unpredictability budges in share price valuation of Indian firms. The results of this study as well state that share value variation of Indian firms has not heaped on following liberalization of financial sector. In general, the results of the discussed studies conclude that Indian stock market is in its
emerging phase through the volatility or improbability in share value of Indian firms is not as high as the cases of firms in other emerging stock markets such as China. Even in the post-liberalization period, with a few exceptions the variations in share of Indian firms collectively have not been as high as predicted by the researchers and practitioners. Therefore, we can find standard or modest variations in share value or price of Indian firms or business organizations.

The empirical substantiation in the literature largely is reliable with the perspective that dividends move assets from the corporate group to the select possession of the shareholders, which negatively impinges on the security of claims of debt holders. In relation to shareholder-manager relations whose compensation is coupled firm profitability and size, are tended to low down dividend payout ranks. A low down dividend payout gets the most out of the size of the possessions under management control, gets the most out of management flexibility in opting investments, and cuts the necessity to go round to capital markets to fund investments. From this perspective rare studies have investigated the dividend behavior of Indian firms taking the case of various industries. so far very evidences as regards dividend and bonus effect on rate of return for shareholders or investors in Indian firms operating in different industries. The widespread literature as regards dividend rule over the years have been not capable to arrive at an accord on research regarding a common dividend theory that might either elucidate the procedure of dividend judgement or foresee a best possible dividend rule. As a result it turns out to be significant to investigate dividend and rate of return behaviour of Indian firms making use of the structure of empirical models.

As per the results of the literature, there is a very striking declaration and there is a well-built appeal linked to dividend declaration, which eventually create abnormal
returns, where positive returns in post event transom are proofs of feeble shape of market efficiency and as well arbitrage profit chances. The results of the literature too corroborate the positive value significance of dividend declarations. Therefore, further explorations require in this context making use of supplementary and advanced data streams. Even though study regarding value significance of firm declarations is very uncommon study might be carried out by utilizing additional parametric and non parametric tests of connotation. The results of the study hold up the proposition that whilst market volatility is elevated, signals sent by small firms are more probable to be covered by noise than whilst market volatility is low down. However, in the instance of bonus issues, the authors have not studied the volatility models just about the bonus issue declaration and there is no empirical confirmation to document the volatility coming together and unrestricted volatility models in the order of the declaration of bonus issues. From the perspective of the firms in emerging Indian market several authors have attempted to investigate the volatility and bonus practices over the years. However, there is a confirmation of decline in stock price volatility after announcements of bonus issue. In the instance of issuing bonus share volatility has been investigated in the context of the rights issue declaration making use of variance of daily stock returns to investigate volatility in the order of bonus issue declaration. In the light of these propositions, this study aims to investigate the relationship of bonus shares and equity share price behavior in India. The study is conducted with reference firms’ bonus share and equity price behavior in various Indian industries. The study attempts to address following issues: to highlight the prevalent corporate bonus practices in Indian industries in the light of managerial motives; to establish relationship between the bonus issue and price behavior of equity share in India; to study the management of share prices settlement on the basis of bonus issue; to make
an attempt to establish link between bonus issue and dividend payout; and to study shareholders expectations to measure the extent of their realization under the present bonus issue practices in Indian industries.