Chapter -5

Conclusion &

Recommendation
CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The following are the findings inferred from the analysis made on the data regarding the movement of the stock prices before and after the issue of the bonus shares of the 25 companies belonging to five sectors of Oil and Gas sector, Banking sector, Manufacturing sector, IT sector and Construction sector.

- The open share price of Bharat Petroleum Corporation was around Rs.48.32 during June 2000 and there is a decrease in the price to Rs.46.23 in Sep 2000.

- Once the announcement of bonus shares made on Sep 2000, the open price of the share got increased to about Rs.62.28 in Dec 2000 due to the increased purchase of the shares by the investors.

- When the bonus shares of ratio 1:1 issued on Dec 2000, the open price got gradually increased due to the high trading to about Rs.89 in Mar 2001 and to about Rs.146 in Jun 2001.

- When the bonus of ratio 1:1 issued on Dec 2000, the trading day’s high price gone to Rs.95 in Mar 2001 which is nearly 7% higher than the day’s low price.

- In the same trend the prices gone to Rs.146.85 in Jun 2001. This is due to the heavy trading of the shares.

- When the news of bonus shares came and announcement of the bonus shares done on Sep 2000 there was a gradual increase in the trading volume of the shares to about 323520 in sep 2000 and to about 467304 in Dec 2000.
The open share price of GAIL India was around Rs.257.00 during Apr 2008. The bonus issue was announced during end of Jun 2008. From that the traded volume of shares got increased but there was a decrease in the open share prices to about Rs.202.45 during Jul 2008. But after that it started increased to about Rs.250.00 in Oct 2008.

The reason for decline in share price during Jul 2008 is that there was decline in the domestic gas supplies due to the dip in KG-D6 output which creates problem in the company.

Once the bonus of ratio 2:1 issued in Oct 2008 the open price of the shares during Jan 2009 got increased to about Rs.319.95 that is around 28% higher than the open trading prices prevailed during Oct 2009.

With the announcement of the bonus issue during the end of Jun 2008, the low trading prices of the shares of GAIL India are also increased to about Rs.245.50 during Oct 2008 which is around 28% higher than the price prevailed during Jul 2008.

With the announcement of the issue of bonus during Jun 2008 the traded volume increased more than double the amount to about 521343 shares during Jul 2008 due to the largest purchase of the shares by the investors.

The open share price of Indian Oil Corporation was about Rs.343.08 during Apr 2009. This price got decreased to about Rs.324.00 during Jul 2009 and also when the announcement of bonus issue made during Sep 2009 the open price further decreased to about Rs.284.00 during Oct 2009 with the decreased of the traded volume of shares.
The reason for the decline of the share prices is due to that there was increase in the crude oil prices during that time which increased the expenses of the company which in turn leads to decreased performance of the organization.

When the bonus of ratio 1:1 issued during the end of Oct 2009 the trading day’s open price got increased to about Rs.374.00 during Jan 2010 which is nearly 32% higher than that of prices that prevailed during the month of Oct 2009.

Once the bonus issued during the end Oct 2009 the traded volume got increased to about 134976 shares during Jan 2010 and to about 227156 shares during Apr 2010 due to heavy trading.

With the announcement of issue of bonus shares of Reliance Industries made during Oct 2009, the open share prices increased to Rs.1038.70 during Nov 2009 due to heavy buying of shares.

When the announcement of issue of bonus shares was made during Oct 2009, the price of shares got increased but the traded volume got decreased to about 538014. This is due to that the demand of shares got increased but there was not much trading like buying and selling of shares in the market.

But once the bonus of ratio 1:1 had been issued during Nov 2009, the traded volume got increased to about 707861 shares during Feb 2010 and to about 1011112 shares during May 2010.

With the announcement of bonus shares made by the Oil and Natural Gas Corporation during Dec 2010 the open price got slightly increased to about Rs.278.90 during Feb 2011 with the increased volume of trade.
Once the bonus shares of ratio 1:1 issued during Feb 2010, the open traded price got slightly increased to about Rs.286.50 during May 2011.

When the announcement of bonus shares was made during Dec 2010 the traded volume got increased to about 753962 shares during Feb 2011.

The announcement of bonus shares and issue of bonus of ratio 5:2 was made by the Karur Vysya Bank during the same month Sep 2010. Due to that the open price of the shares got increased to about Rs.404.00 during Dec 2010 with the increased traded volume.

The announcement of bonus shares and issue of bonus of ratio 5:2 made by the Karur Vysya Bank during the same month Sep 2010 increased the traded volume to about 7245 during Dec 2010 and to about 23817 shares during Mar 2011.

The announcement of bonus issue was made by the Kotak Mahindra Bank during June 2005 and the bonus of ratio 2:3 issued during Aug 2005. Due to that the open price got increased to about Rs.225.45 during Aug 2005.

The announcement of bonus issue was made during June 2005 and the bonus of ratio 2:3 issued during Aug 2005. But during Aug 2005 the traded volume got decreased to about 240750 with the increase of price of the shares. This is due to that the demand was slightly high but the trading of buying and selling of the shares was low. During Nov 2005 the traded volume decreased to about 147336 shares with the decrease of share prices. But during Feb 2006 it increased to about 516990 shares due to the increased trading.
The announcement of the bonus issue was made by the Federal Bank during Jun 2004. Due to that the open price got increased to about Rs.118.33 during Aug 2004 which is about 34% higher than the price prevailed during May 2004.

The open price of the shares increased to about Rs.123.10 during Nov 2004 with the issue of bonus shares of ratio 1:2 and also the open price increased to about Rs.144.28 during Feb 2005.

In the same way the high, low and close share prices also increased.

With announcement of the bonus issue was made during June 2004 the traded volume got decreased to about 45024 during Aug 2004 due to the decrease of the trading. The traded volume got increased to about 75360 during Nov 2004 with the issue of bonus shares of ratio 1:2.

The issue of bonus shares of South Indian Bank was announced during the end of Jun 2008. During Jul 2008 there was no effect of the announcement of the bonus shares so there was decrease in the price of the shares to about Rs.5.58.

But after that the open price of the shares started increased to about Rs.6.25 during Oct 2008 with drastic increase of the traded volume of shares. This is due to the heavy demand of shares with lot of trading.

Once the bonus of ratio 4:1 was issued during Oct 2008 the price started increased to about Rs.12.00 during Jan 2009 and to about Rs.14.58 during Apr 2009 with increased traded volume of shares.

The traded volume of the shares of South Indian Bank was about 415390 during Apr 2008. But after the announcement of the bonus issue during Jun 2008 the
volume of trading got decreased to about 215560 which is nearly half the amount of what was during Apr 2008. This is due to that the shareholders wait for the issue of bonus shares to get traded in the market.

- Then it got increased to about 2662350 shares during the month of Oct 2008 when the bonus shares of ratio 4:1 was issued. But after that the traded volume got decreased to about 1005680 shares during Jan 2009 and to about 900550 shares during Apr 2009 with increased prices of the shares. This shows that the demand for the buying of shares got increased which leads to the increase of the prices after the bonus had been issued but the volume of trading got reduced due to decreased trading.

- The announcement of issue of bonus shares was made by Karnataka Bank during Aug 2002. This makes the open shares prices to increase to about Rs.51.29 during Oct 2002 with reduced volume of trade. This is due to the demands of the shares are high so that the price got increased.

- The issue of bonus ratio of 1:1 was made during Oct 2002. This makes the open share prices to increase for about 35% to the price of Rs.68.82 during Jan 2003.

- During Oct 2002, that is before the issue of bonus shares, the traded volume of shares got decreased to about 7126 shares which is one third of the amount of what was exists during Jul 2002 with increased price of the shares. This is due to that the demand for the shares are high since the investors want to buy the shares but the stock holders didn’t want to sell their holding shares till the issue of bonus shares.
The issue of bonus ratio of 1:1 was made during the end of Oct 2002 which makes the traded volume to increase to around 110972 shares during Jan 2003 due to heavy buying and selling of shares.

The announcement of bonus issue of Mahindra and Mahindra was made during June 2005. This makes the open share prices to increase to about Rs.318.50 during Sep 2005 which is due to the increased buying of the shares due to the announcement of the bonus issue.

Once the bonus of ratio 1:1 was issued during Sep 2005; the open traded price didn't continue to increase. It got reduced to around Rs.267.50 during Dec 2005 with decreased traded volume. This is because of the low demand of the shares in the market. But during Mar 2006 the open share price got increased to about Rs.325.50.

The announcement of bonus issue of Ashok Leyland was made during June 2011. This makes the open shares prices to increase to about Rs.29.50 during Aug 2011 with drastic increase of the volume of trade shares.

The announcement of bonus issue was made during June 2011. This makes the traded volume of shares to get increased to around 2062580 during Aug 2011.

The announcement of bonus issue of Bajaj Auto was made during Jul 2010 and the bonus of ratio 1:1 was issued during Sep 2010. This makes the traded volume of shares to get increased but the open prices got decreased to around Rs.1360.00 during Sep 2010 and to around Rs.1349.60 during Dec 2010. But after that during Mar 2011 the prices got increased to around Rs.1630.00.
➢ The issue of bonus shares of ratio 1:1 of TVS Motor Company was made during Sep 2010. This made the volume of traded shares to got increased but the open share prices got decreased to about Rs.55.50 during Sep 2010 and to about Rs.53.55 during Dec 2010. But after that during Mar 2011 the open share prices got increased to around Rs.65.00. this is due to the decline in the sales and exports of the company.

➢ After the announcement of bonus shares was made on May 2008, the open prices got decreased during Jul 2008 to about Rs.710.00 and then the prices got increased to about Rs.984.35 during Oct 2008. The bonus share ratio of 1:1 was issued during Oct 2008. With that the open price of the shares got increased to about Rs.1474.00 during Jan 2009 which is nearly 50% increase and to about Rs.1632.35 during Apr 2009.

➢ When the announcement of bonus shares of Tata Consultancy Services was made on Apr 2009, the open price of the share got increased to about Rs.698.95 in Jun 2009 due to the increased purchase of the shares by the investors. After the bonus of ratio 1:1 issued on Jun 2009, the open price got increased due to the high trading to about Rs.830.90 during Sep 2009.

➢ After the bonus of ratio 1:1 issued on Jun 2009, the traded volume got increased to about 318547 shares during Sep 2009 due to increased trading of the shares in the market.

➢ The open share price of Infosys was about Rs.1630.00 during Jan 2006 and it was around Rs.2032.00 during Apr 2006. When the announcement of bonus shares made on Apr 2006, the open price of the share got increased to about
Rs.2242.00 in Jul 2006 that is around 10% increase which is due to the increased purchase of the shares by the investors.

- When the announcement of bonus shares made on Apr 2006, the traded volume got reduced to about 296180 shares during Jul 2006 with the increased prices of the shares. This is due to that the demand of the shares are high in the market due to the announcement of bonus shares but the trading that is buying and selling of shares are got reduced. The bonus of ratio 1:1 issued during Jul 2006. With that the traded volume of shares got increased to about 314335 shares during Oct 2006 and to about 875434 shares during Jan 2007.

- When the announcement of bonus shares of Wipro was made on Apr 2010 the open price of the share got increased to about Rs.418.00 during Jun 2010 due to the increased purchase of the shares by the investors. After the bonus of ratio 2:3 issued on Jun 2010, the price got gradually increased to about Rs.445.00 during Sep 2010 which is around 6% higher than the price prevailed during Jun 2010.

- When the announcement of bonus shares made on Apr 2010 the traded volume of the share got increased to about 381958 shares due to increased purchase of the shares by the investors.

- After the bonus of ratio 2:3 issued on Jun 2010, the traded volume got decreased to about 60473 shares during Sep 2010 with increased share prices. This is due to that there was demand for the shares in the market but the trading of buying and selling of the shares got reduced.
After the bonus of ratio 1:1 was issued by HCL Technologies during Mar 2007 the open price of the share got increased to about Rs.320.00 during Jun 2007.

When the announcement of bonus shares of Oracle Financial Services Software was made on Jul 2003, the open price of the share got increased to about Rs.579.00 in Sep 2003 due to the increased purchase of the shares by the investors. After the bonus of ratio 1:1 issued on Sep 2003, the price got gradually increased to about Rs.588 during Dec 2003 and to about Rs.626.00 during Mar 2004.

The announcement of the issue of bonus shares was made by Hindustan Construction Company during Jul 2010 and the bonus shares of ratio 1:1 were issued Aug 2010. This made the open price of the shares to get reduced to around Rs.36.90 during Aug 2010 with increased traded volume. This shows that the argument of Rhejax and Bhardwaj (2011) 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 to get proved.

Once the bonus shares of ratio 2:1 was issued by Jaiprakash Associates during Dec 2009 the open share prices got increased to around Rs.133.50 during Mar 2010.

When the announcement of bonus shares of Era Infra Engineering was made during end of Aug 2004, the open price of the share got increased to about Rs.13.86 in Nov 2004 due to the increased purchase of the shares by the investors.
After the bonus of ratio 2:1 issued on Nov 2004, the price got gradually increased to about Rs.20.30 in Feb 2005 and to about Rs.27.70 in May 2005.

The issue of bonus of ratio 1:1 by BL Kashyap & Sons during the end of Sep 2010 made the open share price to get slightly increased to around Rs.20.95 during Dec 2010.

The announcement of bonus shares made by Tripati Sarjan on Aug 2010 and the issue of bonus shares of ratio 1:1 made on Sep 2010 increased the open share prices to about Rs.27.00 during Sep 2010.

5.1.1 Findings of the hypotheses testing

The below given five points are findings for the sector analysis of the price movement.

- There is no significant difference between the prices of the shares before and after the issue of bonus shares in the oil and gas sector.

- There is no significant difference between the prices of the shares before and after the issue of bonus shares in the banking sector.

- There is no significant difference between the prices of the shares before and after the issue of bonus shares in the manufacturing sector.

- There is no significant difference between the prices of the shares before and after the issue of bonus shares in the Information Technology sector.

- There is no significant difference between the prices of the shares before and after the issue of bonus shares in the construction sector.
5.2 Conclusion

The bonus practices and the share price movement before and after the issue of bonus shares of 25 companies from 5 different sectors had been studied. The following are the answers to the proposed research questions as identified by the study:

5.2.1 Question 1: Do bonus shares have any short run or long run effect on equity share behavior?

The issue of bonus shares will definitely have an effect on the equity share behavior. The announcement of bonus shares may make the share prices to get increased due to heavy demand of the shares in the market since most of the investors need to buy the shares in order to get the benefit of the bonus shares. Generally the equity share prices react positively to the announcement of bonus issues.

5.2.2 Question 2: What is the relationship between bonus share and equity share price?

The issues of bonus shares will get add up to the existing total number of shares in the market. This is considered as the dilution in equity. When the number of shares of a company gets increased, the earnings of the company will get divided among the increased number of shares. So the earnings per share will get reduced. And usually after the issue of bonus the share price of the company get adjusted according to the bonus ratio. It is found that there is high chance for the increase of the share prices after the announcement of the bonus issue and also after the issue of the bonus shares.

5.2.3 Question 3: How do prices moves before and after bonus issue announcement?

Before the announcement of the bonus issue the share prices of a company will move any direction depending on the performance of the company and the market sentiment.
Once the bonus issue announced the stock will become more liquid and with the increased number of shares in the market, it will be easy to buy and sell in the market by the common investor and also the issue of bonus shares act as a sign of good health of the company. All these factors increase the demand of the shares in the market and in most of the cases this makes the shares prices to increase after the issue of bonus shares. In this study, among the five sectors analyzed the manufacturing sector shows the high price movement after the issue of bonus shares. Since in the hypothesis testing, the t value of manufacturing sector is -0.5680, which is the least value compared to other sectors. This is due to that the prices of the shares of the manufacturing sector are higher after the bonus issue than that of the other sectors. This shows that the manufacturing sector is highly responsive for the bonus issue according to this study.

5.2.4 Question 4: What is the impact of bonus share on firm and its stake holder’s earnings?

The issue of bonus shares will make the stock of a firm more liquid. This issue of bonus shares reduces the price of the shares in the market which in turn makes the small investors to buy the shares since the price of the shares may come within the reach of the common investors. This increases the buying and selling of the shares of the company in the market which increases the marketability of the shares of the company. And also the issue of bonus shares will increase the prestige of the company in the market. With this image the company can get more finance for its future projects. The added number of shares increases the value to the stake holder’s which they may in turn sell for the increased price in the market.
5.2.5 Question 5: Do bonus shares benefit the shareholders?

Yes, the bonus shares benefit the shareholders. If the shareholders receive the income from the shares as dividend they it may get accounted for tax. From this point of view the shareholders are enjoying the tax benefit with the bonus shares. The another advantage of bonus shares is that it acts as an indication of higher future profits of the company which helps the shareholders to make decision regarding their further investment in that company. And the shareholders may get increased amount of dividend in the future with the increased number of shares due to the added bonus shares. Also the bonus shares have high psychological value that it is the issue of bonus shares by a company which is always considered as a positive sign in the market and which tends to increase their demand of the shares of the company in the market. However, the share prices of a company will increase after the declaration of bonus shares.

5.3 Recommendations

The bonus shares are the offer of free additional shares made by the companies to their shareholders. These distributions of shares are made by the companies as an alternative to the payout of dividend. This bonus shares helps the investors to get increased amount of dividend in the future with the increased number of shares due to the added bonus shares. On the other hand the issue of bonus shares also helps the companies to increase their marketability of their shares in the market and also improves the prestige of the company in the market. The following are some of the recommendations that may help the investors while trading in bonus issued companies shares.

- The investors have to make a time frame for the holding period of the stocks while planning for their investment or the trading portfolio.
Once when a company announced the issue of bonus shares, the investors have to make a continuous watch on daily or weekly basis regarding the position and prices of the share and the market reaction. Depending on the behavior of the market and the share price movement, the investors can find a good time to shift her / his investing in other stock which may expect to announce its bonus issue in some three to six months.

Both the traders and investors have to make their concentration on the market condition and the particular sectors environment. This is because each bonus issue made by the company’s will make the share prices to behave differently. Some stock prices may increase after the announcement or after the bonus issue and in some cases the stock prices may get reduced after the announcement or after the bonus issue. Anything can happen and all these depend on how much appreciation that the particular company enjoyed before the bonus issue.

The investors or traders should not simply buy the shares of the bonus issued companies since they are listed. A deep analysis should be made and there should be at least one good reason to buy those shares and also an exact trade plan should be made that should definitely have a well planned exit strategy.

The following are some of the recommendations that may help the companies while issuing bonus shares.

A listed company can issue the bonus shares instead of giving dividends to its shareholders with the approval of all its board members, when it wants to build its image in the market.
Also a listed company can issue the bonus shares to increase the marketability of its shares in the market.

A company should make analysis regarding the correct time to issue bonus shares in order to improve their prestige in the market which in turn attracts the investors and shareholders to make investment in their shares.

The above recommendations when followed will benefit both the investors and the companies in the issue of bonus shares.