ABSTRACT

Introduction

The changing scenario at national level and global level has got its own implications on the attitude and perceptions of the investors, brokers, institutions and other constituents of market with regard to their investment decisions. They are always faced with a dilemma as to the types of securities, timing of investment in the pursuit of maximization of wealth. In other words, they have to make assessment and re-assessment of investment opportunities and evaluate the various alternatives available. Therefore investors basic problem are, what securities to invest or deal in, when to invest or buy. Again, the equity option offers two alternatives whether to invest in dividend paying company or bonus issuing company.

Stock market is to be the most sensitive barometer of an economy. The real the signal were in advance several months ahead of the events. All information reflected into stock prices. Though immediate events influence the markets long term trends are somewhat independent of immediate alienation in the equity price movements. If we look at the Indian stock market behavior we find that there are host of factors which bring about ups and down to make line zig-zag . One of them is the issue of bonus shares.

A Bonus share is free share of stock given to current shareholders in a company, based upon the number of shares that the shareholder already owns. A bonus issue is a stock split in which a company issues new shares without charge in order to bring its issued capital in line with its employed capital. Bonus issue is a signal that the company is in a position to service its larger equity. It is significant to know the effect of such issue on the market both in relation to alteration in earnings and alteration in liquidity in an emerging stock market such as that of Indian stock market.

The word bonus implies added share rewarded to shareholders in a firm from extra earning. It is open shares of stock offered to current shareholders in a firm, in relation to the figure of shares the shareholder by now have possession of by the occasion of declaration of bonus (Amuthan and Ayyappan, 2011). More clearly, 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. In consequence, bonus shares result in the capitalization of earnings of the firm.
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. 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 (Amuthan and Ayyappan, 2011). Logically, this is an area of immense concern for both researchers and practitioners in the field of Indian stock market. Therefore studies require to be conducted to investigate how the equity share earnings of the firms behave subsequent to issuing the bonus share. From the research literature it comes out that in some case there is strong relationship between equity share and bonus share whereas in several cases there is no such well-built relationship.

The association 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. These studies are related to the declaration time of bonus issue and its effect and direct to carry out the research that what will be the relationship between bonus shares and equity price behaviour of firms listed on the stock market. For conducting the research, the research process follows basically two courses of action. In the former case, the literature is reviewed as regards the research topic and in the later case the data collected is analyzed using different analytical models. In this section of the paper the results of studies are critically discussed as regards the relationship between equity share and bonus share.
Old but one of the remarkable study investigating the relationship between equity share and bonus share is that of McNichols and Dravid (1990), and their study presents the facts to hold up the proposition that there is a positive relationship between the bonus share in the form of size of a stock dividend and the scale of atypical returns in the order of the declaration time. The results of their study confirm a positive relationship stuck between bonus share and atypical return implying that the bigger the bonus share price, the better the obtained earnings. Nevertheless, a study conducted by Papaioannou et al. (2000) in the case of US investigates price response to bonus share price declarations by firms listed on the Athens Stock Exchange revealing no statistically significant atypical earnings on and around the declaration time. The results of this study might be elucidated by the detail that most stock dividend giving out or issuing bonus share has nothing to do with equity share and that issuing of bonus share is just compliance of fulfilling obligatory necessities forced upon the firms to gratify regulatory necessities and shareholder endorsement ought to be sought as regards the dimension and conditions of the distributions. Moreover, Ho et al. (2002) have investigated in their study as whether there is any liquidity change flanked by the pre issue period and the post issue period of Seasoned Equity offerings making use of data from Taiwan market. The results of the study reveal that there is a statistically momentous boost in liquidity (in relation to quantity of shares traded divided by quantity of shares outstanding, while firms create seasoned equity offerings. In addition, the liquidity enrichment comes out to put up with no momentous relationship with the issuing range, the issuing price, and the market value of the firm that issues the bonus share. On the other hand, Balachandran et al. (2004) have conducted a study investigating share price response of the declaration of bonus share issues in relation to the case of Australian firms for the duration of 1992 and 2000. Their study reveal that bonus issue declaration directs to a statistically significant affirmative price response, and further the study offers confirmation holding up the proposition reliable with the results obtained from the US, Sweden, Canada and New Zealand. Nevertheless, an exceptional result of this study is that the relationship between bonus share and equity share is stronger for industrial non-financial and mining firms than the firms operating in financial sector.

As far as the case of Indian stock market is concerned, the research literature presents some old new studies examining the relationship between bonus share and equity share. In this context, the first and foremost study comes as that of Ramachandran (1985), and this study investigates the effect of declaration of bonus issues on equity stock prices and comes out
with assorted confirmation for semi well-built form competence of stock market in India. In another remarkable study Rao and Geetha (1996) investigates bonus declarations and come to the conclusion that one may perhaps not create surplus funds in the stock market through learning that prototypes of atypical returns of declarations created previously. Moreover, Rao (1994) comes out with the evidences of encouraging stock market response to equity bonus declaration, estimating cumulative atypical return of 6.31 percent just about the three days of bonus declaration. Besides Mohanty (1999) comes out with the results that the majority of the firms either maintaining the matching bonus rate after the bonus imbursement or reducing it less than proportionately, subsequent to taking into account bonus imbursement and in that way boosts the cash flows to the shareholders. Furthermore, Mishra (2003) reveal appositive cumulative atypical return just about the bonus issue declaration. More importantly, Obaidullah and Srinivasan (2002) reveal tremendously big positive atypical profits on ex-bonus and ex-rights time for equity stocks. Comparable study by Budhraja et al. (2004) taking the data of BSE comes out with the results that atypical returns in stock prices just about the bonus declaration time over a three day trading phase opening one day prior to the declaration time is significant at 95 percent buoyancy maximum value. The results too state that a great deal of the information as regards the bonus declaration gets confiscates into stocks by the time of declaration. 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.

Despite the bulk of studies obtainable the research literature in relations to the relationship between bonus share and equity share, it can be easily found that not much endeavor has been made to investigate the liquidity change just about bonus issue declaration and effect on equity price. This is for the reason that on the one hand, studies are less linked to emerging stock markets such as India and the studies are not fresh or up-to-the minute. Also that the varied evidences presented by the studies make the occurrence confusing rather than clearing. For the case emerging markets like India the obtainable literature do not make available any apparent substantiation of the effect. Despite the fact that the majority of the studies have investigated the variations in atypical returns and collective atypical returns, and even a few of these studies that have been discussed above pulls out the literature to discover whether the
volume of the bonus issue, the market value of firm o and the pre cumulative atypical returns add to the atypical returns pragmatic around bonus issue declaration. The issuing of bonus shares being a well-liked and recurrently utilized apparatus to pointer performance of the firms; it is significant to know the effect of such issues on the stock market both in relation to alteration in earnings and alteration in liquidity in an emerging stock market such as that of Indian stock market. This is what in this study an attempt is made to investigate the stock market response just about bonus issue declaration in relation to equity share with reference to alterations in cumulative atypical earnings and alterations in liquidity and further an endeavor is made to make out the significant factors that would have enabled alterations in cumulative atypical returns. This study is conducted considering the proposition that the response of bonus issue declaration could diverge as per the scenery of a specific industry, the study is carried out with definite case to bonus issue declaration. This is based on the rationale that firms necessitate to think about the under response of the stock market in the form of equity value subsequent to the bonus share issuing. Moreover, the results of this study may well assist the people who take policy decisions as regards financial sector to judge the result of their bonus decisions in relation to the firms’ success and prosperity. Besides the results of this study will as well be functional to for investors in relation to formulating their decisions regarding trading.

Problem Statement

The theoretical premise linked to finance reflects on a bonus issue as a financial delusion for the reason that it does not add value to the firm in the symmetric information postulation. This is since bonus issue is merely an accounting modification. The practitioner in the area only makes a book entry by means of debiting a few open reserves account and recognizing the share capital account, but does not in a straight line involve any cash inflow or outflow and, consequently, it is supposed that it does not add value to the firm (Chandra, 2000). This implies that if a firm gives out an acknowledged portion of its earnings every year as dividend, in that case the bonus issue will bring down the dividend in percentage to the bonus ratio and that's why the speculative ex-bonus share price will go down in percentage to the bonus fraction. On the other hand, the numeral of shares the firm holds goes up in the similar percentage and for this reason the shareholders' value carries on unaffected. If, nevertheless, management has improved information as regards the future prospects of a firm than the shareholders, in that case a bonus issue might put across a few value pertinent information to
the shareholders. The shareholders supposedly might reflect that the management is more convinced of the future and consequently the cash flows because of dividends will boost after the bonus issue and in that case the bonus issue will be hailed by the shareholders.

So far as the case of India is concerned, the disbursement proportion does not come out to concern much as it is the share value and not the disbursement proportion that is significant to explicate the dividend paying behaviour of the firms, as there is the inappropriateness of the disbursement proportion in the Indian circumstance, and therefore it is in this very context that the bonus issue by a firm turns out to be imperative. The shareholders do not anticipate the dividend price to go down proportionately once issuing the bonus share. Consequently, the cash flow to the shareholder is projected to go up once the bonus share is issued. The ex-bonus share price would consequently be a lesser amount of the conjectural ex-bonus price (Amuthan and Ayyappan, 2011). As a result, the shareholders suppose the bonus issuing firms to create more returns than the non-bonus paying firm. On the other hand, it might be flawlessly promising to assume of a circumstances where the firm, once issuing a bonus share, is not proficient to uphold the dividend rate due to cash flow harms. At this point, the hopes of the shareholders get contradicted and, consequently, the share prices lean to go down. It is in this context that the issue of relationship between bonus share and equity share or share value takes significance.

In the previous section, some studies have been mentioned that present the contradictory results in relation to the effect of bonus share on equity share or share price. Most of the studies in this context have been in the background of developed markets; nevertheless, there are some studies in Indian context too presenting the contradictory results. Mishra (2003) reveal appositive cumulative atypical return just about the bonus issue declaration. More importantly, Obaidullah and Srinivasan (2002) reveal tremendously big positive atypical profits on ex-bonus and ex-rights time for equity stocks. Comparable study by Budhraja et al. (2004) taking the data of BSE comes out with the results that atypical returns in stock prices just about the bonus declaration time over a three day trading phase opening one day prior to the declaration time is significant at 95 percent buoyancy maximum value. The results too state that a great deal of the information as regards the bonus declaration gets confiscates into stocks by the time of declaration. On the one hand, studies are less linked to emerging stock markets such as India and the studies are not fresh or up-to-the minute. Also that the varied evidences presented by the studies make the occurrence confusing rather than clearing. For
the case emerging markets like India the obtainable literature do not make available any apparent substantiation of the effect. In this background a number of questions come to our mind. Whether there is any effect of bonus share on equity price behaviour, either in long-term or short-term? What is the relationship between bonus share and equity share price? What is the movement of share price prior and after of declaring bonus share issue? What is the impact of bonus share on firm and its stakeholder’s earnings? Whether shareholder value increases in the case of issuing bonus share? These are the issues that are investigated in this study with reference to Indian context.

Aims and Objectives of the Study

This study aims to investigate the relationship of bonus shares and equity share price behaviour in India. Equity share is the share which is commonplace in the course of firm’s business and is too termed as ordinary share. On the other hand, bonus share is a share issued by cashing in on the free funds as regards collected earnings of the firm. The study is conducted with reference firms’ bonus share and equity price behaviour in various Indian industries.

The study attempts to achieve the following objectives:

(1). To study the relationship between the bonus share Issue and the share price behavior in India.

(2). To study how do share prices moves before and after bonus announcement.

(3). To study about the effect of bonus share issue on equity share price behavior in short run and long run.

(4). To study about the volume of shares traded before and after the announcement of bonus shares in selected Indian industries.

(5). To highlight the impact of bonus shares on firm ant its stakeholders earnings.
Organisation of the thesis

The following is an overview of the contents of each chapter present in this thesis

i. Chapter 1 is the introduction chapter that gives a basic idea from this the research concept has emerged.

ii. Chapter 2 is the review of literature chapter that explores several works related to bonus and equity shares, their valuation and distribution that are already in existence.

iii. Chapter 3 is the research methodology chapter that gives an overview of research design, strategy, sampling design, sampling plan, data types, data analysis and interpretation techniques used in this study.

iv. Chapter 4 is the data analysis and interpretation chapter that presents the analysis of the collected secondary data.

v. Chapter 5 is the conclusion chapter that summarizes the findings obtained in data analysis section along with conclusion of the study followed by strategies for improvement and recommendations for future research.

Besides, this research thesis has a bibliography section containing the sources that were used in conducting the research followed by an appendix section that has tools like balance sheets, financial ratios and cash flow statements that were used in conducting the research.

LITERATURE REVIEW

Relationship between issue of bonus share and price behavior of equity share

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 fitting discount rates. Therefore, accounting earnings are one of the most fundamental and significant factors of stock price. Even though numerous studies indicate that an 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 g earnings. In this context, Shih (2009) conducts 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, there is collected the firm with managers as shareholders bonus shares from firms listed on the Taiwan Stock Exchange for the time duration of 1997 and 2005. The author has used financial and market data are sourced from
the Taiwan Economic Journal databanks. The results of the study establishes 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 signalling 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 signalling 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. Signaling 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 an 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 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 and 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 have recently
investigated made 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 and 10 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.
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.

RESEARCH METHODOOLOGY

This following section discusses in detail the research strategy, research design, sample design, types of data, data collection and analysis methods used in this research in order to attain the research objectives.

Research paradigm

The research paradigm applied in this study is hermeneutics. Hermeneutics strategy is said to have applied in this research since this research analyzes the data related to the issue or bonus share practices of Indian companies belonging to five different sectors. In this research an analysis is done by collecting share price data of five different companies in India belonging to five different sectors by names oil and gas, manufacturing, banking, IT sector and construction respectively.
Research approach

A research approach provides a logic, or a set of procedures for answering research questions particularly ‘what’ and ‘why’ questions (Blaikie, 2010). As the social sciences have developed a number of ways of doing this have emerged. The choice of research strategy or a combination of them constitutes the most important part in conducting a research. Qualitative and quantitative research approaches are two widely This research is of qualitative in nature. This research is qualitative in nature since it analyses secondary data collected from 25 different organizations belonging to five different business sectors of India and analyzes the behavior of issue of bonus shares by those organizations.

Research Design

This study is said to use descriptive research since it discusses in detail the bonus share issue behavior of Indian companies by collecting and analyzing secondary data from twenty five different Indian companies.

Sampling Design

The researcher has adapted non-probability sampling in this research. According to (Merriam, 2009, p 77), non-probability sampling is most suited for qualitative researches. Hence, it research makes use of non-probability sampling technique. Out of the four non-random sampling techniques; this study makes use of convenience sampling. The specialty of convenience sampling is that it is cost effective and ensures that the researcher finds it easy to locate a sample based on his or her convenience (Schutt, 2006). This research is said to use convenience sampling since the target companies were chosen based on convenience.

Sampling unit

The sampling units are the following 25 companies belonging to the following five different business sectors of India:

Oil and Gas sector

1. Bharat Petroleum Corporation
2. GAIL India
3. Indian Oil Corporation
4. Reliance Industries
5. Oil and Natural Gas Corporation

**Banking sector**

1. Karur Vysya Bank
2. Kotak Mahindra Bank
3. Federal Bank
4. South Indian Bank
5. Karnataka Bank

**Manufacturing sector**

1. Mahindra and Mahindra
2. Ashok Leyland
3. Bajaj Auto
4. TVS Motor Company
5. Larson and Toubro

**IT Sector**

1. Tata Consultancy Services
2. Infosys
3. Wipro Technologies
4. HCL Technologies
5. Oracle Financial Services Software
Construction sector

1. Hindustan Construction Company
2. Jaipralcash Associates
3. Era Infra Engineering
4. BL Kashyap & Sons
5. Tripati Sarjan

Sample size

The sample size is 25 companies.

Data types

In this research secondary data is collected from the websites and annual reports of the target companies. This study makes use of secondary data alone. Secondary data are raw data that have already been collected by someone else either for some general information purpose such as government census or other official statistics or for a specific research project (Krishnan and Grewal, 2006). Secondary data are raw data that have already been collected by someone else either for some general information purpose such as government census or other official statistics or for a specific research project (Krishnan and Grewal, 2006). The data regarding the share prices movement before and after the issue of bonus shares had been collected from 25 companies of 5 different sectors. For this study the latest bonus issues of the companies had been considered in the past 15 years. The trading day's open, high, low and close share prices for a total period of 1 year before and after the bonus issue had been considered. And also the movements of the volume of shares that are traded before and after the issue of bonus are considered in this study. Data is collected from the Prowess database, capital online software, websites and companies annual reports. In this research secondary data is collected for analysis.

Statistical Tools Used

The statistical tool which will be used to analysis the data are:
**Student's t test**

Student’s t Test is one of the most commonly used techniques for testing a hypothesis on the basis of a difference between sample means. Explained in layman's terms, the t test determines a probability that two populations are the same with respect to the variable tested.

The unpaired t method tests the null hypothesis that the population means related to two independent, random samples from an approximately normal distribution are equal (Altman, 1991; Armitage and Berry, 1994).

Assuming equal variances, the test statistic is calculated as:

\[ t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s^2_1}{n_1} + \frac{s^2_2}{n_2}}} \]

\[ s^2 = \frac{\sum (x_{ij} - \bar{x}_1)^2 + \sum (x_{ij} - \bar{x}_2)^2}{n_1 + n_2 - 2} \]

where \( \bar{x}_1 \) and \( \bar{x}_2 \) are the sample means, \( s^2 \) is the pooled sample variance, \( n_1 \) and \( n_2 \) are the sample sizes and \( t \) is a Student t quantile with \( n_1 + n_2 - 2 \) degrees of freedom.

Power is calculated as the power achieved with the given sample sizes and variances for detecting the observed difference between means with a two-sided type I error probability of \((100 - CI \%)\%\) (Dupont, 1990).

The unpaired t test should not be used if there is a significant difference between the variances of the two samples. Assuming unequal variances, the test statistic is calculated as:

\[ df = \frac{\frac{1}{s^2_1 n_1} + \frac{1}{s^2_2 n_2}}{\frac{n_1 - 1}{s^2_1} + \frac{n_2 - 1}{s^2_2}} \]

\[ df = \frac{\left( \frac{1}{s^2_1 n_1} + \frac{1}{s^2_2 n_2} \right)^{\frac{1}{2}}}{\frac{n_1 - 1}{s^2_1} + \frac{n_2 - 1}{s^2_2}} \]
\[
\begin{align*}
\sigma_1^2 &= \frac{\sum (x_i - \bar{x})^2}{n_1 - 1}, \\
\sigma_2^2 &= \frac{\sum (x_i - \bar{x})^2}{n_2 - 1},
\end{align*}
\]

- where \( x_1 \) and \( x_2 \) are the sample means, \( s^2 \) is the sample variance, \( n_1 \) and \( n_2 \) are the sample sizes, \( d \) is the Behrens-Welch test statistic evaluated as a Student t quantile with df freedom using Satterthwaite's approximation.

**Research hypothesis on this study**

**Hypothesis 1**

**H0 Hypothesis:** 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.

**H1 Hypothesis:** There is significant difference between the prices of the shares before and after the issue of bonus shares in the oil and gas sector.

**Hypothesis 2**

**H0 Hypothesis:** There is no significant difference between the prices of the shares before and after the issue of bonus shares in the banking sector.

**H1 Hypothesis:** There is significant difference between the prices of the shares before and after the issue of bonus shares in the banking sector.

**Hypothesis 3**

**H0 Hypothesis:** There is no significant difference between the prices of the shares before and after the issue of bonus shares in the manufacturing sector.

**H1 Hypothesis:** There is significant difference between the prices of the shares before and after the issue of bonus shares in the manufacturing sector.
Hypothesis 4

**H0 Hypothesis:** There is no significant difference between the prices of the shares before and after the issue of bonus shares in the Information Technology sector.

**H1 Hypothesis:** There is significant difference between the prices of the shares before and after the issue of bonus shares in the Information Technology sector.

Hypothesis 5

**H0 Hypothesis:** There is no significant difference between the prices of the shares before and after the issue of bonus shares in the construction sector.

**H1 Hypothesis:** There is significant difference between the prices of the shares before and after the issue of bonus shares in the construction sector.

**Analysis and Interpretation of data**

The time and effort required for data analysis and interpretation depends on the study’s purpose and the methodology used. Analysis and interpretation make take several days or several months (Dominick and Wimmer, 2010). In many private sector research studies involving a single question however data analysis and interpretation may be completed in a few minutes. Every analysis should be carefully planned and performed according to the guidelines designed for that analysis. This research involved collection of data from twenty five different organizations spread across India. The collected data was analyzed and interpreted using qualitative research.
CONCLUSION AND RECOMMENDATIONS

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:

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.

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.

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.

**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.

**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 is the issue of bonus shares by a company is always considered as a positive sign in the market which tends to the increased 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.
**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.

**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 analyze 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.