EXECUTIVE SUMMARY

Stock split is a term in vogue in India since 1999. A stock split is the division of a share into two or more parts. Stock split adds no value but increases the number of shares in the ratio of the split. By splitting the share, the value of the company will not increase, but the capital is only redistributed by the increased number of shares. There are some plausible reasons for stock splits in the financial markets such as creating more liquidity in the market by splitting stocks which proportionately reduces the share prices in the market (liquidity hypothesis), reducing price to a desired trading range (trading range hypothesis), to reveal the future prospects of a company (signaling hypothesis) and to improve valuation of stocks (neglected firm hypothesis).

The study has found that there is a significant change in the PAT (Profit after Tax), Volume of Trade and Price of shares in the post stock split period. In order to measure the impact on shareholders’ wealth, AAR (Average Abnormal Returns) and CAR (Cumulative Abnormal Returns) were calculated and it was found that the AAR significantly improved in the post split period. CAR was negative during the pre split and post split period. But the negative CAR was less in the post split period leading to the conclusion that stock split has not destroyed the wealth of the shareholders. The study has also tried to identify the factors influencing stock split decisions in India. For this purpose, split ratio was the dependent variable and independent variables were Profit after Tax (PAT), Volume of trade, price of shares five days prior to split, runup (ratio of share price one year prior to split to share price on the day of split) and price to book ratio.
The results have shown that volume of trade and price to book ratio were the factors influencing stock split decision. In other words, *liquidity hypothesis* and *neglected firm hypothesis* hold good for stock splits in India. The samples were further classified into three categories namely Category A, B and T companies according to BSE India. The factors influencing stock split decision across the categories were studied and it was identified that the major reasons were to improve liquidity and valuation of stocks.

The findings based on different categories of companies in BSE India were reminiscent to the findings of all the samples used for the study. The study also gives directions for further research such as analysing the influence of FIIs (Foreign Institutional Investors) on stock split decisions, to study the factors influencing stock split decisions Industry wise and also to focus on reverse splits which are yet to happen in India.