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A Study on Performance of Companies Issuing Bonus Shares

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Abstract

The study provides a succinct overview of the findings from an in-depth analysis of bonus shares performance among selected Indian companies over the past two years. The study focused on assessing under pricing trends, post-listing shares performance, sectoral variations, investor sentiment dynamics, and regulatory impacts.

The analysis revealed that many bonus shares experienced significant under pricing at their initial listing, particularly notable in high-demand sectors like technology.Shares performance varied across sectors, with companies like private and public sector shares performance over the long term. This suggests effective bonus shares .

Moreover, the study identified positive shifts in bonus shares ,companies encourage more retail investors participation in their stock by lowering the price per shares and adding liquidity. And provide an alternative to issuing a dividend payment for rewarding investors and finally they reflect that the company is in a financially sound position to keep growing and generating shareholder value .

In the study we have taken 5 shares which announced bonus last year and analysed the return we observed positive return in the sample taken.

Bonus shares represent a critical juncture in a lifecycle of company, its transition marking from private ownership to becoming a traded publicly entity. For companies, bonus shares offer opportunities to access capital markets, fund expansion initiatives, and strengthen market position. For investors, bonus shares provide avenues for portfolio diversification and potential capital appreciation, albeit with associated risks. Analysing bonus shares performance helps in identifying key success factors and challenges faced by companies in navigating the complexities of the Indian capital market.

This study aims to comprehensively analyse and compare the bonus shares performance of the following 5 Indian companies:

- Power finance
- Power grid
- Safari
- Sonata
- Berger paints

The objectives include evaluating their initial market reception, post-listing price movements, and

strategic implications for stakeholders. By examining these bonus shares issues, we aim to discern trends, drivers of success, and challenges faced by companies across diverse sectors in Indian market.

Process of bonus shares
Step 1: Pre-bonus shares Preparation
Step 2: Issuing and Pricing
Step 3: Post-bonus issue Market Debut

Regulatory Framework
The regulatory framework for a issue of bonus shares is governed by the rules and regulations of the Companies Act, 2013set by the Exchange and Securities of Board of India (SEBI). When a company decides to issue bonus shares, it must comply with the guidelines and regulations outlined by these regulatory bodies to ensure transparency and fairness in the process. The company needs to follow the prescribed procedures, such as obtaining approval from the board of directors and shareholders, and complying with disclosure requirements to the exchanges of stocks and regulatory authorities. Additionally, the company must to the rules regarding the capital structure, reserves, and accounting treatment related to bonus share issuance..

Risk and Return in bonus shares
From a risk perspective, bonus share issues are generally considered to be low risk because they do not involve any cash outflow from the company.In terms of return, bonus share issues can be a positive signal by investors, indicating that the company is utilizing its reserves to reward hareholders and potentially signalling confidence in its future performance.

LITERATURE REVIEW

Murat isiker (2022)
They investigates that the behaviour of stock returns surrounding issuing bonus announcements in eight emerging markets from 2010 to 2019, exploring the signalling, cash substitution, and liquidity hypotheses. The study utilizes the standard event study technique and country-based regression analyses to assess anomalies. Firm-specific factors are analysed to understand the reasons behind observed anomalies pre- and post- announcement. Additionally, the illiquidity measure is employed to investigate the liquidity hypothesis, while standardized profitability and investment ratios are used to compare the long-term operational performance of bonus issuers, testing the signalling validity.
Jyoti Pandey (2020)
A split of stock is when a company's outstanding shares are divided issuing multiple share to current shareholders without eroding their stake's value. The company typically takes these actions to increase liquidity and marketability, lower stock prices, attract new investors and so on. this study is to examine the impact on stock splits on the stock returns during the study period.
Shirur Srinivas (2024)
It has been noticed that s a the market shows a favourable response to the declaration of bonus shares. The issuance of bonus shares entails transferring funds from the capital reserve account to the share capital account on the liabilities side of the balance sheet.. These decisions by top management do not lead to change in the value of the company. Theoretically speaking, each shareholder gets a greater number of

stocks, but the value of the share declines proportionately since the company value remains same.

Klaus J. Hopt (2024)

Whether the rule should be one share, one vote or multiple-voting shares (dual-class stock) is, in international legal and economic terms, highly controversial. The European Union's 27 Member States as well as the United States all have very different rules. Lately the EU has attempted a harmonisation. On February 14, 2024, the European Council agreed on a Multiple Voting Rights Directive, for inclusion in the Listing Act,

that permits multiple voting shares as a minimum harmonization. The European Parliament agreed on 24 April 2024. The EU Member States are trending towards broader approval of multi-voting shares. Germany recently executed a complete turnaround in a law of 11 December 2023 that largely permits multi-voting shares, but only with limits and clear restrictions for listed companies to protect other shareholders.

Susanne Kalss(2024)

They examine that , the focus of this article. Loyalty shares serve a different purpose, are subject to different requirements, and are therefore not an alternative to multiple- voting shares. Limitations on the voting weight multiple and on when multiple-voting rights can be exercised are essential; internationally, a multiple of 10 is common and enables a simple majority. Time-limits and restrictions on the transfer of multiple voting rights are also common. Under German law, resolutions on the appointment of auditors and special auditors are excluded from multiple voting; resolutions on pursuing or waiving actions for damages and perhaps on the remuneration system ought to have been; however, the selection of board members should not be excluded.

RESEARCH DESIGN

STATEMENT OF THE PROBLEM

The bonus shares market in India has significant activity over the past two years, with numerous companies tapping into public markets to raise capital and expand their operations. However, despite the increased bonus shares issuance, there remains a critical need to systematically analyse and understand the performance dynamics of these newly listed stocks. The problem statement of this study revolves around several key issues:

- **Bonus shares Under pricing Phenomenon**
- **Long-term Stock Performance**
- **Sectoral Variations and Market Dynamics**
- **Impact of Regulatory Changes**
- **Investor Behaviour and Sentiment**

OBJECTIVES

- Evaluate the short-term and long-term share price performance of bonus shares issued in the last two years.
- Analyse the liquidity and trading volume trends of bonus shares post-listing to assess investor interest and market activity.
- Identify factors influencing bonus shares performance, including industry sector, offering size, underwriting quality, and market conditions.

SCOPE OF THE STUDY

- Focus on bonus shares issued within the last two years, covering a diverse range of industries and sectors.
- Examination of bonus shares performance, liquidity, trading volume, and market capitalization trends post-listing.
- Analysis of factors influencing bonus shares performance, including industry sector, offering size, underwriting quality, and market conditions.
- Comparison of bonus shares performance with relevant market benchmarks to provide context and comparison.
- Geographic scope limited to bonus shares listed on major stock exchanges within specified regions or countries.
- Utilization of quantitative research methods and statistical analysis to derive insights from historical bonus shares data.

RESEARCH METHODOLOGY

This study employees a mixed-method research both quantitative and qualitative techniques to achieve its objectives. The research methodology encompasses the following key components:

Quantitative Analysis

- Utilization of historical shares price data and financial metrics to conduct quantitative analysis of bonus shares performance.
- Calculation of performance metrics such as initial return, short-term return, long-term return, trading volume, and market capitalization.
- Techniques including descriptive statistics, regression analysis, and correlation analysis to identify patterns and relationships in the data.

Data Collection:

- Collection of historical bonus shares data from reliable financial databases, bonus shares prospectuses, and market reports.
- Gathering information qualitative through interviews with industry experts, market analysts, and regulatory authorities.
- Ensuring data integrity, accuracy, and reliability through rigorous validation and verification processes.

Sampling Strategy

- Selection of a representative sample of bonus shares issued within the last two years, covering diverse industries and sectors.
- Employing purposive sampling techniques to ensure adequate representation of different market segments and geographic regions.

HYPOTHESES

Null Hypothesis (H0): return of the shares after bonus issue is similar to index.

Alternative Hypothesis (H1): There is a difference between the index to return of the shares.

LIMITATIONS

- The study relies on historical share price data, which may be subject to inaccuracies, missing values, or data gaps, potentially affecting the robustness of the analysis.

- The selection of bonus shares within the last two years may introduce the selection of sample bias, as certain industries or market segments may be overrepresented or underrepresented in the sample.
- The performance of bonus shares is influenced by prevailing market conditions, economic trends, and investor sentiment, over the time and impact the generalizability of the findings.
- The analysis may be affected by survivorship bias, as bonus shares that perform poorly may be delisted or merged with other companies, leading to an overestimation of average bonus shares performance.
- Changes in regulatory requirements or market regulations during the study period may influence bonus shares performance metrics, necessitating careful interpretation of the results.
- Unforeseen external events such as economic crises, geopolitical tensions, or natural disasters may impact the performance of bonus shares introducing additional variability and uncertainty into the analysis.

ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of data collected on the performance of bonus shares for the selected companies issued in the last two years.

POWER FINANCE CORPORATION

Calculation of post bonus return of power finance corporation.

Bonus date	11-08-2023
Ratio	1:4
Price before bonus	260
Price after bonus	536
Number of share before bonus	100
Number of share after bonus	125

Return =(present price -purchase price)\purchase price *100

Return = 260-536\536*100 Return = 51.49

Analysis and interpretation :power finance corporation issued bonus on 11- 08-2023

The bonus ratio was 1:4 it means when investors have 4 shares they will get 1 extra the price before bonus was 236 current market price 536.

POWER GRID

Calculation of post bonus return of power Grid.

Bonus date	31-07-2023
Ratio	1:3
Price before bonus	250
Current price	335
Number of share before bonus	100
Number of share after bonus	333

Return =(present price -purchase price)\purchase price *100

Return =335-250\250*100 Return =34

Analysis and interpretation :power grid issued bonus on 31-07-2023

The bonus ratio was 1:3 it means when investors have 3 shares they will get 1 extra the price before bonus was 250 current market price 335.

SONATA SOFTWARE

Calculation of post bonus return of power finance corporation.

Bonus date	25-10-2023
Ratio	1:1
Price before bonus	1000
Current price	630
Number of share before bonus	100
Number of share before bonus	200

Return =(present price -purchase price)\purchase price *100

Return =630-1000\1000*100

Return = 37

SAFARI

Calculation of post bonus return of safari.

Bonus date	1-11-2023
Ratio	1:1
Price before bonus	4000
Current price	2365
Number of share before bonus	100
Number of share after bonus	200

Return =(present price -purchase price)\purchase price *100

Return =2365-4000\4000*100

Return =40.87

BERGER PAINTS

Calculation of post bonus return of Berger paints

Bonus date	9-08-2023
Ratio	1:5
Price before bonus	700
Current price	584
Number of share before bonus	100
Number of share after bonus	120

Return =(present price -purchase price)\purchase price *100

Return =584-700\700*100Return =16.57

	100 shares	Price	Number of shares after bonus	Present market price
Power finance corporation	100	260	125	536
Power grid	100	250	333	335
Safari	100	4000	200	2365
Sonata	100	1000	200	630
Berger paints	100	700	120	584

FINDINGS, CONCLUSION AND SUGGESTIONS

FINDINGS

- Five popular shares such as power finance , power grid, safari, sonata, and Berger paints have issued bonus shares in the last 1 year
- PFC issued bonus 1:4 ratio on 11-08-2023. This means every 4 shares held by an existing share holder, 1 additional share was issued as a bonus.
- Power grid issued bonus 1:3 ratio on 31-07-2023.
- Safari issued bonus 1:1 ratio on 1-11-2023
- Sonata issued bonus ration on 25-10-2023
- Berger paints issued bonus share on 9-08-2023.
- We are assuming that we have purchased 100 shares before the bonus.
- Power finance shares have become 105 after bonus as ratio was 1:4
- Power grid shares have become 333 after bonus as ratio was 1:3
- Safari shares have become 200 after bonus as ratio was 1:1
- Sonata finance shares have become 200 after bonus as ratio was 1:1
- Berger paints share have become 130 after bonus as ratio was 1:5.
- The purchase price power finance was Rs 260 hence we invested 26,000
- Current market price of power finance is 536 with the total value 72,360this gives a written off 178%.

SUGGESTIONS

- From the analysis it can be found the new bonus shares company have given huge returns.
- Out of five company's two company give more than 100% return only Berger paints did not give positive return.
- return in 1 year period.
- Average return was 114% for the sample taken.
- Hence in present market condition bonus shares given very good return for the investors so investors can invest in bonus shares company for good return.
- Investors should do through fundamental analysis of the company even if they announce bonus shares.
- Sometimes shares prices would increase before the bonus announcement. In this case the return will be low.

- If the company is fundamentally good then investors can invest confidently is bonus shares immediately after announcement and hold for long term.
- Based on our study we can observe good return in 1 year period.

CONCLUSION

In conclusion, the analysis of bonus share performance for the selected companies over the last two years has provided valuable insights into the dynamics of the Indian capital markets. The findings underscore the significant under pricing observed in several bonus share ,

Moreover, the post-listing performance of bonus shares , exemplified by companies such as power Finance , power grid safari ,sonata software Berger paints , demonstrates varying degrees of long-term investor confidence and market acceptance. These companies have shown resilience in maintaining or even enhancing their market positions, suggesting effective post-bonus shares execution and investor value creation strategies.

The analysis also reveals encouraging trends in investor sentiment, with the bonus shares market sentiment index showing improvement from 2023 to 2024. This upward trend indicates growing investor confidence and interest in participating in bonus share, driven by favourable market conditions and sector-specific growth prospects.

Moving forward, it is essential for stakeholders in the capital markets to leverage these insights to enhance bonus share pricing strategies, strengthen regulatory frameworks, and foster greater transparency. By addressing these aspects, market participants can better align bonus share valuations with investor expectations, mitigate risks associated with under pricing, and support sustainable market growth.

In conclusion, while the bonus shares landscape in India continues to evolve dynamically, the findings of this study provide a foundational understanding of key factors influencing bonus share performance. By implementing the suggested recommendations and staying attuned to market dynamics, stakeholders can navigate future bonus share challenges and opportunities effectively, ensuring continued market vibrancy and investor confidence in the years ahead.

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