Turkish Online Journal of Qualitative Inquiry (TOJQI)

Volume 12, Issue 5, June 2021: 1165 – 1169

Research Article

DOES BONUS ANNOUNCEMENT EFFECT ON STOCK PRICES: EVIDENCE FROM LISTED COMPANIES IN INDIA

Debi Prasad Satapathy[1], Dr. Subhendu Mishra[2]

Abstract

The objective of the present is to investigate the effect of the stock return of the firm on bonus announcements in a short-run period. Sample of fifty listed companies collected for bonus announcement during the period 2004-2015. The study has examined the effect of bonus announcement on a share price around the announcement period by using event study methodology. The study has used a market model based to evaluate the abnormal return of stock return to the shareholder. The study shed light on whether abnormal return generated by the shareholder in short term or not by bonus announcement reaction on the capital market of Indian companies by using different event window periods.

Keywords: Bonus announcement, Stock return, Market-based model, abnormal return

1. Introduction

Listed companies generally reward shareholders through the issue of bonus shares. Bonus share is the distribution of companies' accumulated profit to the shareholder in proportion to their stake without any additional burden. The bonus share is issued to the shareholder only when the companies having a large cash reserve. Bonus share is issued to enhance the reputation and brand perception of the corporate. The empirical studies have backed the theory statistically significant stock price reaction advocate for semi-strong market efficiency. The signalling theory indicates that management issues bonus stock for investors investing in the stock. The effect of bonus announcement impact on the stock market has been taken examined the theory of efficient market hypothesis and theory of signalling effects.

[1]Centurion University of Technology and Management, Odisha. dsatapathy5@gmail.com
[2]Centurion University of Technology and Management, Odisha

2. Literature Review

Authors	Year	Major Findings
A Mishra	2005	Significant positive abnormal returns for five days before bonus announcement.

P Miglani	2011	Significant positive abnormal returns for five days before the bonus announcement.
ML Barnes and S Ma	2002	Suggests that markets respond to the announcement of bonus issues
J Lukose, and NR Sapar	2002	Positive stock market reaction to equity bonus announcement.
P Kumari and M Pushpender	2019	Bonus share announcement when the abnormal or abnormal returns are significant from zero.
B Suresha and G Naidu	2012	Investors are able see positive reaction around bonus announcement of corporate events.
K Thaker, and A Jitendra K	2008	The presence of a semi-strong form of market efficiency in Indian stock markets about two major corporate events; 'dividend and bonus announcement'.
SK Pradhan and R Kasilingam	2014	The review of worldwide studies signalled the presence of abnormal returns in bonus announcement.
H Basra and R Singla	2019	Bonus issues are generally reflected to have positive sentimental effects on the market.

2.1. Objective of the study

Because of the research gap in the literature, the study tries to analyse the short-term stock market response for the companies going for bonus announcement from an Indian perspective. It also examined the performance of the acquiring companies by using market models and constant mean return through event study methodology**.**

Hypotheses of the study

- H_1= companies earn a significant positive abnormal return in the pre-announcement period
- H_2= companies earn a significant positive abnormal return in the post-announcement period
- H_3=companies earn significant positive abnormal return around-announcement period

3. Data and Methodology of the study

The sample of bonus announcement for this study is collected from CMIE Prowess Database. The sample contains the announcements of companies listed on the Bombay stock exchange. The study period includes a Bonus announcement during the period from 2004-2015.The. Finally, the sample consists of fifty companies. The daily stock returns have been computed as follows:

$R_{it} = \frac{p_{i,t}}{p_{i.t-1}} - 1$-------------------------------*(1)*

Abnormal returns are the excess returns, the difference between estimated expected returns and actual returns. Abnormal returns are calculated by the following relationship:

$ARjt = Rjt - (\alpha + \beta\ Rmt)$ ------------------ (2)

$ARjt$= Abnormal return of security j on day t Rjt= actual daily return of security j on day t and α and β are estimated parameters. Cumulative abnormal returns (CAR) across time yields the cumulative abnormal return measure: Statistical test of abnormal returns are commonly based on the cross-average of each measure.

4. Results and Discussion

Table 1: CAAR of different Window period by using the market model.

Event Window	CAAR	t-test cross-sectional	prob.	patell z	prob.	boehmer et al.	prob.	corrado rank	prob.	sign test	prob.
(-20...20)	2.69%	1.8974	0.0578	1.4712	0.1413	1.6001	0.1096	0.6502	0.5156	1.7442	0.0811
(-10...10)	3.49%	3.3428	0.0008	2.7939	0.0052	3.0632	0.0022	1.4569	0.1452	2.5936	0.0095
(-5...5)	2.37%	2.5297	0.0114	2.5966	0.0094	2.3275	0.0199	0.9335	0.3506	2.0273	0.0426
(-1...1)	2.43%	3.4035	0.0007	4.9290	0.0000	3.2034	0.0014	2.8847	0.0039	2.8768	0.0040
(-5...0)	2.27%	2.9109	0.0036	3.3717	0.0007	3.0555	0.0022	1.7050	0.0882	3.4431	0.0006
(-10...0)	2.87%	3.5656	0.0004	3.1698	0.0015	3.5325	0.0004	2.0258	0.0428	3.1599	0.0016
(0...5)	1.85%	2.2684	0.0233	2.7029	0.0069	1.9663	0.0493	0.9533	0.3404	1.4610	0.1440
(0...10)	2.37%	2.2941	0.0218	2.5803	0.0099	2.0559	0.0398	1.0169	0.3092	2.0273	0.0426

Table 2: CAAR of different Window period by using the constant mean model.

Event Window	**CAAR**	**t-test cross-sectional**	**prob.**	**patell z**	**prob.**	**boehmer et al.**	**prob.**	**corrado rank**	**prob.**	**sign test**	**prob.**
(-20...20)	2.69%	1.8974	0.0578	1.4712	0.1413	1.6001	0.1096	0.6502	0.5156	1.7442	0.0811

(-10...10)	3.49%	3.3428	0.0008	2.7939	0.0052	3.0632	0.0022	1.4569	0.1452	2.5936	0.0095
(-5...5)	2.37%	2.5297	0.0114	2.5966	0.0094	2.3275	0.0199	0.9335	0.3506	2.0273	0.0426
(-1...1)	2.43%	3.4035	0.0007	4.9290	0.0000	3.2034	0.0014	2.8847	0.0039	2.8768	0.0040
(-5...0)	2.27%	2.9109	0.0036	3.3717	0.0007	3.0555	0.0022	1.7050	0.0882	3.4431	0.0006
(-10...0)	2.87%	3.5656	0.0004	3.1698	0.0015	3.5325	0.0004	2.0258	0.0428	3.1599	0.0016
(0...5)	1.85%	2.2684	0.0233	2.7029	0.0069	1.9663	0.0493	0.9533	0.3404	1.4610	0.1440
(0...10)	2.37%	2.2941	0.0218	2.5803	0.0099	2.0559	0.0398	1.0169	0.3092	2.0273	0.0426

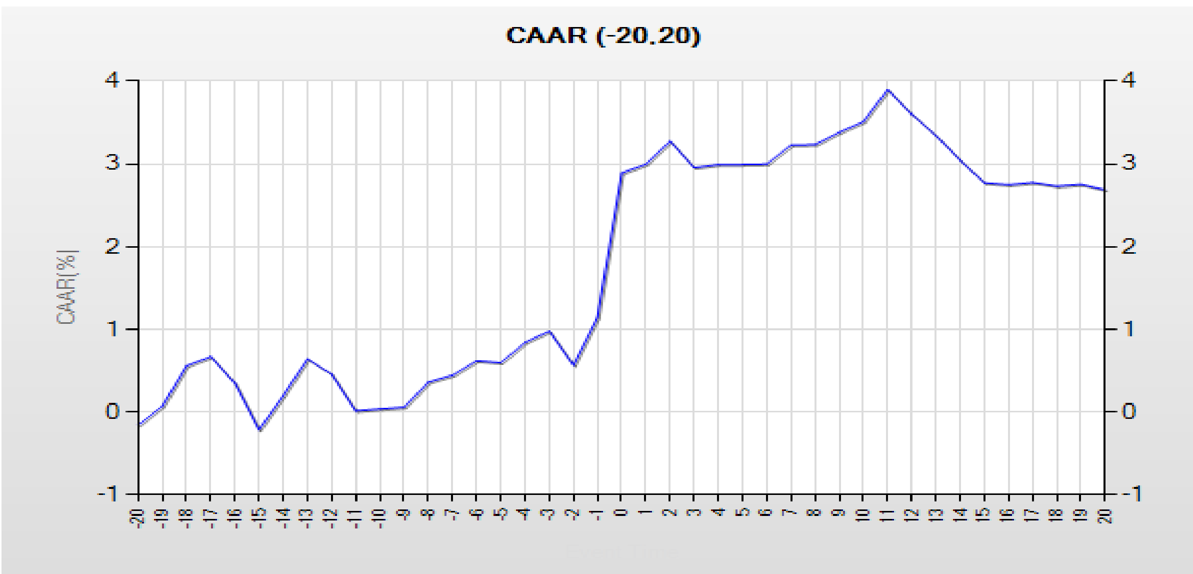

Figure 1: CAAR of window period [-20, 20]

The study found that there is a positive and statistically significant return around the announcement period. The study also found there is substantial positive abnormal return in the post-announcement period. The market is said to be efficient leakage of information has no impact on the shareholder. The shareholder can benefit and generate an abnormal return on bonus announcement events.

5. Conclusion, Limitations, and scope for further research

The paper analyses the short-term performance of listed company gone for bonus announcement. The sample consists of fifty companies during the period from 2004 to 2015. The result indicates there is a positive abnormal return in the event date itself. The acquiring company experience a positive cumulative abnormal return in the pre-event window period. The paper is limited to judge the short-run performance only. The sample consists only period up to 2015. however, the study could be made for larger samples as well as the long-run performance of bonus announcement companies.

References

1. Barnes, M. L., & Ma, S. (n.d.). The behaviour of China's stock prices in response to the proposal and approval of bonus issues. *Available at SSRN 458541*.

2. Basra, H., & Singla, R. (2019). Revisiting the Bonus Issue Announcement Effect. *IUP Journal of Applied Finance*, 25(2), 91-102.

3. Kumari, P., & Pushpender, M. (2019). An Empirical Analysis of Stock Price Behaviour Around Bonus Issue Announcement in India. *Journal of Management*, 6(1), 186-196.

4. Lukose, J., & Sapar, N. R. (2002). Does bonus issue signal superior profitability? A study of the BSE listed firms. *A Study of the Bse Listed Firms (December 2002)*.

5. Miglani, P. (2011). An empirical analysis of impact of right issues on shareholders returns of Indian listed companies. *Researchers World*, 2(4), 169.

6. Mishra, A. (2005). An empirical analysis of market reaction around the bonus issues in India. *Indian Institute of management working paper*.

7. Pradhan, S. K., & Kasilingam, R. (2014). Impact of Bonus Announcements on Share Price: Evidence from Bombay Stock Exchange. *Pacific Business review International*,.

8. Suresha, B., & Naidu, G. (2019). An empirical study on effect of bonus announcement on share price volatility and liquidity and its impact on market wealth creation of informed investors in Bangalore with special reference to CNX NIFTY stocks of NSE. *International Journal of Marketing and Technology*, 2(9), 38.

9. Thaker, K., & Jitendra K, A. (2008). Efficient market theory: in relation with bonus issue announcement in Indian market. *Paradigm*, 12(2), 62-72.