



Effects of Stock Split Announcements on Stock Prices of Mid-Cap Companies (Listed on BSE) in India

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Abstract:

The present study entitled 'Effects of Stock Split Announcements on Stock Prices of Mid-Cap Companies (Listed on BSE) in India'. The objectives of the study are to measure the effect of Stock Split announcement on stock prices of the Mid-Cap Companies registered on Bombay Stock Exchange. Secondary data with respect to Stock Split announcement is collected for the year 2010-2019. Sample is consisted of 14 selected stocks from Bombay Stock Exchange (BSE). The research paper has been examining the impact of Stock Split on Share prices with the help Wilcoxon Sign Rank Test. The analysis of the results of Wilcoxon Sign Rank Test depicts that there was significant effect of the stock split announcement on the stock prices of the shares in all the companies under consideration.

Keywords: Stock Prices, Mid-Cap Companies, BSE, Stock Split announcement

1. Introduction

Corporate public announcements such as Dividend, Bonus issue, Share Buyback and Stock Split announcement are various financial and strategic actions taken by the corporate organizations. Corporate actions bring internal changes in the organizations as well as effects stock prices of the companies in the secondary markets. A good understanding of these corporate actions gives a clear picture of the company's financial health, and to determine whether to buy or sell a particular stock. Corporate public announcements have attracted researcher's attention to understand the effects of these announcements on the financial position of the companies and on stock markets. Stock Split is a part of corporate restructuring and emerging strategy for the Business. Stock split is alteration in the number of shares by dividing the value of the share into smaller denomination and adjustment in prices of shares. It does not have impact on the company's financial health or investment, even the total market value of the firm's also remains unchanged. It is reduction in the individual share prices for the benefit of the corporate entities. This study "Effects of Stock Split Announcements on Stock Prices of Mid-Cap Companies (Listed on BSE) in India" has been undertaken with the aim to know the effect of stock split announcements on the share prices of the companies.

2. Literature Review

A brief review of the Stock Split Announcement is presented below which are pertinent to the present study.

Bajaj, P. et al. (2017) "Effect of Stock Split on Shareholder's Wealth and Company's Profitability". The authors of the study have examined Earning Per Share (EPS), Dividend Per Share (DPS), Return on Equity (ROE), Price Earnings Ratio (PE), overall shareholders' wealth and overall profitability of the company to know the significant change if any, after stock split in comparison to before split issue. T-test with the help of SPSS program has been applied to analyze the objectives of the study and to know the effects. The results of the study depicts that there is no significant influence on the shareholders wealth and companies' profitability after the event of stock split.

Koeh, P. K. (2013) "The Effect of Stock Splits Announcements on Stock Prices of Publicly Quoted Firms in Kenya". The general objective of the study is to know the effect of stock split announcements

on the prices of the shares of the firms listed on Nairobi Securities Exchange (NSE). The author also analyzed the time period effect on stock prices to adjust the split announcement and also to analyze extent and directions of price change due to stock split announcement. The event study methodology has been utilized to analyze the data of stock split. The findings of the study suggest that the event of stock split effects the stock prices which persists for not more one month period.

Adisettiawan, R. (2018) “Does Stock Split Influence to Liquidity and Stock Return? (Empirical Evidence in the Indonesian Capital Market)”. The study is undertaken to examine the influence of stock split on stock liquidity and to find out return of individual as well as group of stock. The author has undertaken the study on secondary data collected from the Indonesia Stock Exchange. The author has used two different averages and multiple regression as model to test the hypothesis. The finding of the study explains influence of stock prices, trading volume and bid-ask spread by the announcement of stock split. However, stock split did not influence stock risk and abnormal return of an individual as well as group of stocks as a portfolio.

Shirur, S. (2008) “Dilemma of Corporate Action: Empirical Evidence of Bonus Issue vs. Stock Split”. The author of the study has considered various factors such as promoter stake, rate of growth of sales, share price increase, beta and profit to analysis the conditions of the company under which it take action of bonus issue or stock split. The author tried to investigate the effect on these variables with reference to companies taken corporate actions and the nifty companies. The findings of the study show significant difference between companies issuing bonus shares and the Nifty companies. The study also disclosed that in the case of factors like growth of sales, growth of profit and beta there is no significant difference in companies going for stock split as compared to Nifty companies. However in case of increase in share price and promoter stake there is significant difference between companies going for split and Nifty companies.

Yogue, J., et al. (2009) “Stock Split Size, Signaling and Earning Management: Evidence from the Spanish Market”. The objectives of the study are to find effect of stock split on Spanish investor, on advice of the Financial Analysts and on operating profitability of the companies. The study has been undertaken on 45 non-financial companies going for stock split during 9 years and event study methodology has been used to analyze the same. The conclusion of the study represents positive impression of stock split on the Spanish Investors as well as on forecasts of Financial Analysts. It has also been found that the announcement of stock split has been made by the companies having significant operating profitability prior to the event of stock split.

3. Research Methodology

3.1 Scope of the study

The scope of the study is limited to the Mid-Cap companies listed on Bombay Stock Exchange (BSE). Scope is also limited to the period of 10 years starting from 2010.

3.2 Population and Sample Selection

The secondary data i.e. prices of stocks of the companies are collected from various websites. The event window comprises of 30 days prior to announcement and 30 days post announcement. The announcement date is designated as day “0” in the event period. The criterion for the selection of Stock split sample is based on availability of data in the event window and estimation period. Thus 14 companies made it to the final sample of the study. The public announcement date for split was taken from the website of SEBI www.sebi.gov.in. The daily closing prices were used for computing the event returns.

3.3 Objective

The objective of the study is to measure the effect of Stock Split announcement on stock prices of the Mid-Cap companies registered on Bombay Stock Exchange (BSE).

3.4 Hypotheses

The following hypotheses have been formulated to achieve the desired objectives of the present study:

H₀: There is no significant difference in average of before and after Stock Split stock prices of BSE companies.

H₁: There is some significant difference in average of before and after Stock Split prices of BSE companies.

3.5 Research Tools

The research paper has been examining the effect of Stock Split announcement on share prices with the help of non-parametric Wilcoxon Sign Rank Test.

3.6 Limitation of Study

1. Study is limited to the period of ten years.
2. Study is based on Secondary data published in various websites.

3.7 Finding

For measuring the stock price reaction to Stock Split announcement Kolmogorov-Smirnov test of Normality has been undertaken.

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
B_NALCO	0.256	18	0.003	0.911	18	0.089
A_NALCO	0.120	18	.200*	0.957	18	0.548
B_KNPL	0.178	18	0.138	0.905	18	0.069
A_KNPL	0.107	18	.200*	0.957	18	0.551
B_BIL	0.181	18	0.124	0.925	18	0.157
A_BIL	0.137	18	.200*	0.959	18	0.584
B_BPIL	0.192	18	0.079	0.931	18	0.206
A_BPIL	0.264	18	0.002	0.690	18	0.000
B_TCPL	0.105	18	.200*	0.945	18	0.350
A_TCPL	0.224	18	0.018	0.865	18	0.015
B_EL	0.196	18	0.067	0.925	18	0.156
A_EL	0.266	18	0.002	0.846	18	0.007
B_FBL	0.230	18	0.012	0.890	18	0.038
A_FBL	0.098	18	.200*	0.964	18	0.684
B_EFSL	0.137	18	.200*	0.951	18	0.445
A_EFSL	0.235	18	0.009	0.806	18	0.002
B_APL	0.216	18	0.026	0.855	18	0.010
A_APL	0.142	18	.200*	0.944	18	0.344
B_APL	0.230	18	0.013	0.855	18	0.010
A_APL	0.206	18	0.043	0.877	18	0.023
B_BEL	0.199	18	0.059	0.882	18	0.028
A_BEL	0.126	18	.200*	0.957	18	0.545
B_BHEL	0.163	18	.200*	0.948	18	0.400
A_BHEL	0.101	18	.200*	0.957	18	0.550
B_TPCL	0.213	18	0.031	0.833	18	0.005
A_TPCL	0.224	18	0.017	0.882	18	0.029
B_IGL	0.216	18	0.027	0.837	18	0.005
A_IGL	0.223	18	0.019	0.863	18	0.014
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

The results of table given above suggests that the data for all the series are not normally distributed, as the significant value is less than 0.05 in most of the cases. Based on results of normality test, non-parametric Wilcoxon Sign Rank Test will be preferable to test the hypothesis.

3.8 Effect of Stock Split Announcements

The Table given below exhibits the results of Wilcoxon Sign Rank Test conducted to measure the effects of Stock Split announcements on the prices of shares.

Name of the Company	Z	Asymp. Sig. (2-tailed)	Decision
National Aluminium Co Ltd	-4.015	0.0001	Ho Rejected
Kansai Nerolac Paints Ltd.	-2.937	0.0033	Ho Rejected
Balkrishna Industries Ltd	-3.875	0.0001	Ho Rejected
Berger Paints India Ltd	-2.373	0.0176	Ho Rejected
Tata Consumer Products Ltd	-3.883	0.0001	Ho Rejected
Emami Ltd	-3.806	0.0001	Ho Rejected
Federal Bank Ltd	-3.912	0.0001	Ho Rejected
Edelweiss Financial Services Ltd	-3.980	0.0001	Ho Rejected
Ajanta Pharma Ltd	-4.015	0.0001	Ho Rejected
Ajanta Pharma Ltd	-4.015	0.0001	Ho Rejected
Bharat Electronics Ltd	-2.912	0.0036	Ho Rejected
Bharat Heavy Electricals Ltd	-3.920	0.0001	Ho Rejected
Tata Power Co Ltd	-2.833	0.0046	Ho Rejected
Indraprastha Gas Ltd	-3.823	0.0001	Ho Rejected

The Wilcoxon Sign Rank Test was conducted to compare stock prices of companies for pre Stock Split and post Stock Split announcement at the significance level of 0.05.

The results of the test reveals that the sig. (2-tailed) value of all 14 companies (100%) are found below the significant value of 0.05, which shows significant effect of stock split announcement on the share prices of the companies. Hence the null hypothesis i.e., there is no significant difference in average prices of companies before and after stock split is rejected. It is also observed from the result that in case of all 14 companies' positive significant effect has been noticed.

4. Conclusion

The Present study 'Effects of Stock Split Announcements on Stock Prices of Companies (Listed on BSE) in India' has been undertaken to know the effects of stock split announcement on the Prices of the shares. Based on results of the analysis it can be concluded that in the case of 100% of the company's effect of stock split on the stock prices of the companies has been observed.

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