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Effect of Bonus share Issue on Market Price in Nepalese Stock Market

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***Abstract:** The purpose of the study is to examine the effect of bonus share issue on market price in Nepalese stock market. The research is based on secondary sources of data. Data analysis was done using SPSS and Microsoft Excel to generate quantitative reports. Rank and, correlation and regression analysis have been used to diagnose data collected. The result revealed that NEPSE is not semi-strong in terms of prior knowledge on incentive question announcements. The result reveals that bonus share has its significant relationship with market price of the stock market in Nepal.*

***Keywords:** Stock Price, Bonus Share, NEPSE, financial markets and MPS*

1. INTRODUCTION

The term bonus share implies profit paid to investors in a business entity from surplus benefits. It is a free offer (when corporations are short of money and stockholders presume consistent profits) of stock given to existing investors in an organization, because of the number of offers the investor as of now claims at the time of announcement of bonus. Whenever a corporation declares a dividend pay-out; it also declares a date on which the business will hopefully shut the book temporarily for a fresh movement of stock. In other words, a corporation issues bonus shares when it plans to pay a dividend by issuing new stock. Bonus Shares are issued anytime the corporation generates adequate income to announce a pay-out, but then it doesn't have the cash to cover that because it doesn't want to part with money to execute any proposals for capital expenditure. Therefore, incentive securities help in the company's income capitalization. Shareholders are granted compensation problems while companies are out of cash and shareholders to expect regular income. The issuing of incentive securities does not mean cash balance. This raises the equity value of the company but not the total assets thereof.

When organizations total enormous profits and reserves, and it needs to capitalize on these profits, will go for issuing additional shares. Additional issues are essentially distributions of additional stocks to existing stockholders or without additional investment? The other reason is high confirmation of cash benefits is denied by the government, so the organization issues bonus shares when the higher rate of dividend is announced, later on, years also the financial specialist will expect a comparable rate of benefit. Right when the association can't have the satisfactory cash equality to declare benefits, the association will go for a bonus issue. To maintain a strategic distance from antagonistic impacts on working capital the organizations' issue bonus shares. In the perspective of the endorsement of the firm, only certain arrangements of offers may be a qualified stock benefit or may be allowed to additional issues previously extraordinary classes.

The destinations of giving bonus shares are to bring the measure of gave and settled up capital following the capital utilized to delineate more sensible gaining limit of the organization, to cut down the unusually high pace of profit on its funding to maintain a strategic distance from work issues for example interest for higher wages, to pay a reward to investors of the organization without influencing its liquidity and gaining limit of the firm.

A bonus issue is the issue of new equity shares to the existing shareholders at no cost. The new shares or the bonus shares are free to given bonuses to shareholders. Extra issues are utilized to grow the capital base of the organization and as a method for remunerating existing investors. A bonus issue is ordinarily done using held income. A bonus issue is only a book section moving from held benefit to share capital. This is in any case called capitalization of stores since it is given out of the benefits of saves of the organization. Reliable with the Heinkel and Schwartz (1986) flagging model, in a proficient capital market, a positive offer value response ought normal at the hour of the declaration of reward share choices that are allotted at a premium.

Bonus shares affect the market price of the stock, the costs of the stock decrease to the quantity of the ratio of the bonus issue. If one share is issued as a bonus for one share then the costs diminish close to half after the additional offers are recorded on the exchange. To proportion money by announcing a bonus issue in place of a cash dividend or an extended dividend. To decrease misguided judgment caused by imparting profit (out of benefits earned on mean capital utilized) as a level of the apparent estimation of the issued share capital. As benefit pay-out relies upon the apparent estimation of the issued share capital and NOT on shareholder funds.

Issuing bonus shares can likewise be portrayed as the change of benefit into share capital or capitalization of benefits, that is, changing over hold or benefits into settled up capital. A firm may underwrite its benefits or saves, which in any case can be circulated as profits among investors, by (1) changing over mostly paid stocks into completely delivered by reporting stock profit without approaching investors to pay for the equivalent; and (2) issue of totally paid stocks as bonus shares to the current investors.

Financial specialists don't need to pay for these shares considering the way that the money which has been changed over into share capital beginning at now has a spot with speculators. To give additional shares to investors, an affiliation makes a hold by holding a touch of its preferred position reliably (the part that isn't paid as an advantage). Exact examination (especially in the US) has indicated that the market, by and large, responds emphatically to the declaration of a reward issue/stock profit (Foster & Vickrey, 1978; Woolridge, 1983).

The authentic setting of monetary trade isn't long in Nepal. Securities Exchange Centre (SEC) was developed in 1976 to empower and propel the advancement of the capital market (Gurung, 2006). Regardless, it opened its floor for helper trading of offers just in 1981, which was particularly for government bonds (NRB, 1996). With the foundation of the Securities Exchange Act 1984, SEC opened its floor for corporate offer trading in like manner, anyway it was particularly limited. The formed and evident money related trade began with the change of Securities Exchange Centre into Nepal Stock Exchange (NEPSE) Limited in 1993. The NEPSE opened its trading floor at the beginning of 1994. Till now, it is the principal stock exchange in Nepal. Along these lines, the protection trade in Nepal is still in creating stage yet of phenomenal eagerness as it has grown inside and out since its establishment. It was set up to enact capital choice rather than standard money related part for progressing financial turn of events and improvement in the country.

2. LITERATURE REVIEW

Miller and Modigliani (1961) hypothetically tested that incentive problem and certain forms of benefits will not change the money received by the company. The consequences of new problems are that if the new deals are offered to specific buyers, the valuation of the incentives remains if before but the amount of deals has increased, so the cost of the incentives is dropping. Henceforth, the estimation of the offers held by the financial specialists continues as before.

Ray (2011) examined the Indian equity market in its semi-strong kind of adequacy. An event study approach was followed considering the prize issue and stock split as an event during the period 1996 to 2008. A- 30 to 30 days event window had been taken for testing the unordinary return and changes in liquidity. It was found that the Indian protections trade reacts to stock split presentations and not to remunerate issue. The alteration in liquidity was found imperative for the stock split at a 1% level of significance; however, at 5% massiveness level both the events demonstrated an immense change in liquidity from pre to post-event period.

Josipura (2013) assessed the stock worth reaction flanking with remuneration affirmation incorporating its presentation and ground-breaking day in the post-overall budgetary crisis period. A trial of 74 prizes gave CNX 500 stocks for the period 2008-2012 has been considered for the examination. This examination definite quantifiably enormous positive irregular returns including statement similarly as effective days and influenced decidedly on share costs.

Ayodele and Maxwell (2017) analyzed his analysis using the input-output index to test a semi-strong theory of performance, taking the period from January 2005 to December 2013. Study findings show that the effect of public knowledge on Nigeria's stock market is important.

Gachuhi and Iraya (2017) introduced methods for the analysis of incidents to determine the effect of incentive problems on market prices. It took a sample size of 10 companies from the population of 61 companies listed in NSE and from the 2009-2012 periods. This research concluded that the topic of incentives results in abnormally low returns and disclosures of compensation problems result in higher stock returns than the usual anticipated returns.

It is verified there is a one-sided causal association between the NEPSE index and the short-term interest rate to the table NEPSE. We may infer from the test results that the short-term interest rates are the best NEPSE index indicator (Gaire, 2016). Results showed earnings per share, dividend per share, and the book profit per equity has a huge effect on the market share price. Both the findings of the paper suggested that the main business determinants were dividend per share and earnings per share being the strongest determinants of the market price (Sharma, 2011).

Enebrand and Magnusson (2018) researched Dividend policy and its impact on firm valuation. Research had several objectives to better analyze the effect of dividends, in part to enhance investor and prospective investment choices, and add to the fundamental awareness and possible effects of dividends.The results tend to monitor long term debt and market valuation indicators had a larger effect and a better connection with the stock price. Return on equity and gross profit margin has been considered to have a larger effect on market price. The author hypothesized that companies with low dividend yield stock values will be more aligned and more focused on firm financial results centered on the predicted outcome debate. However, the study with a higher dividend yield was found to be more consistent and based on the firm's results. Strong dividend stocks are more associated with corporate success as investors are most involved in the company's present situation, the potential to pay dividends, and not long-term results.

Kennedy (2016) researched Dividend policy and firms' performance: A case of listed banks in Ghana. Research had several objectives of the aim of this analysis is to investigate empirically whether there is any substantial connection between the bank's dividend policy and its output (ROE) and assess the effect of the dividend policy on ROE banks. Results indicate that bank size is an essential determinant in understanding bank efficiency. It has been announced that the output is expected to grow as banks expand in size in terms of overall assets. This could be attributed to the usage of surplus assets (resources) to produce more money from purchases to continuously improve profitability. The debt of a bank has been shown to have an insignificant detrimental impact on its results just from the reality that risks escalate when banks borrow from outside sources. To pursue aggressive transactions to produce better yields, the stringent covenants enforced and the legislation to value trammel stock. This is an organizational dilemma that is generated between owners and debt holders and which eventually contributes to slow results plummeting. The age of a bank listing after IPO was also found to be a significant determinant in unfavorably deciding the efficiency of the banks. Keeping that, the larger the firm, the more appallingly the business would possibly work. The rationale may be attributed to the conformity to the ancient corporate practices, laws, procedures, and actions (company processes). Businesses (banks) become less able to accept transition with good outcomes due to the complexity of the reform phase, but refuse to realize the tremendous economic advantages that the shift can offer to the businesses.

3. RESEARCH METHODOLOGY

Research is a scholarly practice and the term can be used in a scientific context as well. According to Woody (1927), the analysis includes identifying and redefining questions, formulating theories or proposed solutions; gathering, arranging, and analyzing data; creating assumptions and drawing conclusions; and finally carefully checking the findings to decide if they suit the theory formulated by Slesinger and Stephenson (1930) that describes the study as 'the use of objects, ideas or symbols for the intent of generalizing, correcting or checking knowledge, whether that knowledge relates to the development of philosophy or the practice of art.' It identifies certain instruments that are used in a particular study look to collect significant information.

Research design is the inquiry process, framework, and technique designed to get answers to study questions and manage variation (Kerlinger, 1986). Asking about a blueprint is, thus, the basis for an analysis that helps analyses data relevant to thinking about topics. This study is based on a descriptive research design. Regarding the approach, this study has used a quantitative approach. Data was collected from the annual reports published by SEBON, NEPSE and other organizations concerned from day –20 through days +20 for pre and post bonus share issue. Mostly descriptive measures have been used to come up with conclusion.

4. RESULT

This is an empirical chapter in which an effort has been made to evaluate and measure collected results. To interpret the collected data, separate reports, and presentations to accomplish the purpose of this research, interpretation is completed.The prosperity of an association depends on its benefit and financial health. The two financial statements given by the association are the balance sheet and the profit loss account. The essential gives of a picture of favorable position and liabilities while various give us the picture of its benefit. Results collected from the examination using the diverse data-gathering gadgets are shown using fundamental particular and quantifiable instruments. The presentation of the result is as per the specific goals that guided this examination.

To analyze the data collected various presentation and interpretation is done to fulfill the objectives of the study. Different analytical techniques offer a means of drawing inductive inferences from data and separating the signal (the phenomena of interest) from the noise (statistical fluctuations) present in the data, according to Shamoo and Resnik (2015).

Based on the data, the interpretation of data from the study is elaborated in this section. This section is presents the data analysis of Citizen's Bank International Limited for the study in the research.

TABLE 1 Analysis Method by Coefficient of Correlation

Date	Before Bonus(X)	Date	After Bonus(Y)	XY	X^2	Y^2
-1	219	1	222	48618	47961	49284
-2	219	2	222	48618	47961	49284
-3	220	3	222	48840	48400	49284
-4	215	4	222	47730	46225	49284
-5	216	5	218	47088	46656	47524
-6	217	6	217	47089	47089	47089

Date	Before Bonus(X)	Date	After Bonus(Y)	XY	X^2	Y^2
-7	218	7	200	43600	47524	40000
-8	218	8	202	44036	47524	40804
-9	215	9	199	42785	46225	39601
-10	214	10	194	41516	45796	37636
-11	214	11	196	41944	45796	38416
-12	215	12	193	41495	46225	37249
-13	216	13	192	41472	46656	36864
-14	218	14	193	42074	47524	37249
-15	217	15	193	41881	47089	37249
-16	219	16	193	42267	47961	37249
-17	217	17	194	42098	47089	37636
-18	220	18	196	43120	48400	38416
-19	220	19	198	43560	48400	39204
-20	219	20	197	43143	47961	38809
N=20	$\sum X=4346$		$\sum Y=4063$	$\sum XY=882974$	$\sum X^2=944462$	$\sum Y^2=828131$

From Eq. (1), $r = 0.1843$

Table 1 explains the relationship during the study between the issue of bonus shares before and after. CZBIL's correlation coefficient (r) is 0.1843. The figure shows that the positive correlation between the pre and post bonus share issues of CZBIL. The positive relationship demonstrated by their coefficient of correlation points out that the problem of the bonus share takes place in the positive direction of the market price per share in the company.

The effect derived for the sample banks after announcing the bonus share is calculated by the Wilcoxon matched-pairs test and its association between the banks is described here.

TABLE 2: Analysis Method by Wilcoxon matched-pairs test

Date	Before Bonus(X)	Date	After Bonus(Y)	X-Y	Rank	S+	S-
-1	219	1	222	-3	4.5		-4.5
-2	219	2	222	-3	4.5		-4.5
-3	220	3	222	-2	2.5		-2.5
-4	215	4	222	-7	6		-6
-5	216	5	218	-2	2.5		-2.5
-6	217	6	217	0	1	1	
-7	218	7	200	18	9.5	9.5	
-8	218	8	202	16	7.5	7.5	
-9	215	9	199	16	7.5	7.5	
-10	214	10	194	20	11	11	
-11	214	11	196	18	9.5	9.5	
-12	215	12	193	22	13	13	
-13	216	13	192	24	17	17	
-14	218	14	193	25	19	19	
-15	217	15	193	24	17	17	
-16	219	16	193	26	20	20	
-17	217	17	194	23	15	15	
-18	220	18	196	24	17	17	
-19	220	19	198	22	13	13	
-20	219	20	197	22	13	13	
						$\sum S+ = 190$	$\sum S- = -20$

The measurement methodology concerning Table 2reveals that the measured value of Z suggests that the value of CZBIL is 3.17328, which is greater than the table value of 1.645 at a 5 % significance level. This implies denying the null hypothesis, claiming that the question of bonuses has a substantial effect on the market share price. This means that the market price of the shares of CZBIL reacts to the announcement of the dividend on the stocks.

5. CONCLUSION

A substantial price rises before and after the announcement date is found in the whole study, which provides evidence for the signaling hypothesis for Nepal. Results also suggest, however, that investors have expected the information quality of the case or have acquired access to inside information. The findings of this analysis show that NEPSE is not semi-strong in terms of prior knowledge on incentive question announcements. Also, information disclosure before the disclosure of incentive concerns poses fundamental concerns about regulatory efficacy and supervisory performance in NEPSE. The analysis showed that, in line with the incentive problem in the Nepalese stock market, there is a substantial effect on the price action of securities, which is compatible with other big global equity markets. The above key findings led this study to conclude that the disclosure of the Nepalese financial sector's bonus share problem and its effect on the market price per share (MPS) is said to be optimistic. The results of this research indicate that in the case of bonus issue announcements, the Nepalese stock market is effective and semi-strong.

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