Impact of Dividend and Bonus announcement on stock prices

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ABSTRACT:
Past 20 years of Indian stock market has been fantastic for investors as it has been successfully able to give a return of 1010%. With more than 1600 companies listed on NSE and more than 4400 listed on BSE. It's very challenging for the investors to select/choose the company for the investment which will give the good return. There are various factors which affect the performance of stock prices. Some are affect at a greater extend or some are affect at lesser extent. So Stock price, reactions to the announcement of dividend and bonus are empirically analyzed. This study examines stock price reactions of listed companies on National Stock Exchange (NSE) surrounding 365 days of the dividend announcement dates. The major objective of this study is to identify whether dividend announcement convey any information to the market that results a price reaction for adjusting the dividend announcement information. The empirical part of this study employs a standard event study methodology to analyze the stock price reaction for dividend announcement. Out of 50 listed companies, seven companies, those which have given dividend and bonus shares, have been selected. The data have been collected for the one year, six month before and after the announcement of dividend and bonus shares. in the observation period, market adjusted stock price increases for all the seven companies and statistical pooled t-test also reveals that stock price reaction to dividend announcement are statistically significant.

Keywords: Indian stock market, Dividend and Bonus, Financial Performance, Stock Price, National Stock Exchange (NSE)

I. INTRODUCTION

Dividend refers to a reward, cash or otherwise, that a company gives to its shareholders. Dividends can be issued in various forms, such as cash payment, stocks or any other form. A company's dividend is decided by its board of directors and it requires the shareholders' approval. However, it is not obligatory for a company to pay dividend. Dividend is usually a part of the profit that the company shares with its shareholders.

Dividends are paid by the company to its shareholders. Dividends are paid to distribute the profits made by the company during the year. Dividends are paid on a per share basis. The dividend paid is also expressed as a percentage of the face value. It is not mandatory to pay out the dividends every year. If the company feels that instead of paying dividends to shareholders they are better off utilizing the same cash to fund new project for a better future, then can do so.

Besides, the dividends need not be paid from the profits alone. If the company has made a loss during the year but it does hold a healthy cash reserve, then the company can still pay dividends from its cash reserves.

The decision to pay dividend is taken in the Annual General Meeting (AGM) during which the directors of the company meet. The dividends are not paid right after the announcement. This is because the shares are traded throughout the year and it would be difficult to identify who gets the dividend and who doesn't. The following timeline would help to understand the dividend cycle.

Dividend Declaration Date: This is the date on which the AGM takes place and the company's board approves the dividend issue
Record Date: This is the date on which the company decides to review the shareholders register to list down all the eligible shareholders for the dividend. Usually the time difference between the dividend declaration date and record date is at least 30 days

Ex Date/Ex Dividend date: The ex dividend date is normally set two business days before the record date. Only shareholders who own the shares before the ex dividend date are entitled to the dividend. This is because in India the normal settlement is on T+2 basis. So for all practical purposes if you want to be entitled for dividend you need to ensure you buy the shares before the ex dividend date.

Dividend Pay-out Date: This is the day on which the dividends are paid out to shareholders listed in the register of the company.

Why do Companies Issue Dividends:

For a mature company with stable earnings that doesn't need to reinvest as much in itself, here's why issuing dividends can be a good idea.

- Many investors like the steady income associated with dividends, so they will be more likely to buy that company's stock.
- Investors also see a dividend payment as a sign of a company's strength and a sign that management has positive expectations for future earnings, which again makes the stock more attractive. A greater demand for a company's stock will increase its price

Why do Companies Not to Pay Dividends with Their Profits

- A company that is still growing rapidly usually won't pay dividends, because it wants to invest as much as possible into further growth.
- Even a mature firm that believes it will do a better job of increasing its value (and therefore a better job of increasing its share price) by reinvesting its earnings will choose not to pay dividends. Companies that don't pay dividends might use the money to start a new project, acquire new assets, repurchase some of their shares or even buy out another company.
- The choice to not pay dividends may be more beneficial to investors from a tax perspective. Non-qualified dividends are taxable to investors as ordinary income, which means an investor's tax rate on dividends is the same as his marginal tax rate. Marginal tax rates can be as high as 37% (as of 2018). For qualified dividends, the tax rate is 0%, 15%, or 20%, depending on the marginal income tax bracket that the investor falls under. The capital gains on the sale of appreciated stock can have a lower, long-term capital gains tax rate (typically up to 20% as of 2018) if the investor has held the stock for more than a year.
- Firms that choose to reinvest all of their earnings, instead of issuing dividends, may also be thinking about the high potential expense of issuing new stock. To avoid the risk of needing to raise money this way, they choose to keep all of their earnings.
- A company may also choose not to pay dividends because the decision to start paying dividends or to increase an existing dividend payment is a serious one. A company that eliminates or reduces its existing dividend payment may be viewed unfavourably and its stock price may decrease.

Bonus - a term that brings sparkle in our eyes. Isn't it? Luckily the same is having with stock market also, named as bonus share.

<u>Different Forms / Types Of Dividends</u>

1. Cash Dividend
2. Bonus Share
3. Share Repurchase (Buy Back)
4. Property Dividend
5. Scrip Dividend (Promissory Note)
6. Liquidating Dividend (Return Of Original Capital)

<u>Advantages of Paying Dividends</u>

Investor Preference for Dividends

The investors are more interested in a company that pays stable dividends. This assures them of a reliable source of earnings, even if the market price of the share dips.

Bird-In-Hand Fallacy

This theory states that the shareholders prefer the certainty of dividends in comparison to the possibility of higher capital gains in future.

Stability

Investors prefer companies that have a track record of paying dividends as it reflects positively on its stability. This indicates predictable earnings to investors and thus, makes the company a good investment.

Benefits without Selling

Investors invested in dividend-paying stocks do not have to sell their shares to participate in the growth of the stock. They reap the monetary benefits without selling the stock.

Temporary Excess Cash

A mature company may not have attractive venues to reinvest the cash or may have fewer expenses related to R&D and expansion. In such a scenario, investors prefer that a company distributes the excess cash so that they can reinvest the money for higher returns.

Information Signalling

When a company announces the dividend payments, it gives a strong signal about the future prospects of the company. Companies can also take advantage of the additional publicity they get during this time.

Disadvantages of Paying Dividends

Clientele Effect

If a dividend-paying company is unable to pay dividends for a certain period of time, it may result in loss of old clientele who preferred regular dividends. These investors may sell-off the stock in short term.

Decreased Retained Earnings

When a company pays dividends, it decreases its retained earnings. Debt obligations and unexpected expenses can rise if the company does not have enough cash.

Limits Company's Growth paying Dividends Results In

Paying dividends result in the reduction of usable cash which may limit the company's growth. The company will have less money to invest in the business growth.

Logistics

The payment of dividends requires a lot of record-keeping at the company's end. The company has to ensure that the right owner of the share receives the dividend.

What is Bonus Share?

Bonus shares are additional shares which are gifted to its shareholders. If you are an existing shareholder of any company as per the record date, then it might happen that the company may gift you some extra shares. You get these additional shares without paying anything, hence are known as bonus shares. Bonus shares are issued in the form like 1:1 means 1 extra share for 1 holding shares or 1:2 means 1 extra share for 2 holding shares etc.

What is a record date and ex-date?

After the announcement of a bonus issue, a record date is fixed for the issue. It is the date on which the bonus share is issued and to be eligible for the bonus, shareholders should have their stakes on that particular date. Investors purchasing stakes after that are not eligible for the bonus shares. After the record date, comes ex-date. The price adjustment happens during ex-date. Those who invested during this phase are not entitled to the bonus shares.

Why do companies give bonus share?

There may be various reasons for this. Followings are the few of them.

1. To reward their investors:-
   The company pays gratitude to its investors in the form of giving a bonus share. Also the morale of the shareholder gets boosted and the company gains the confidence of the investors.
2. To increase liquidity of the stock:-
   By offering bonus shares, the total number of outstanding shares increases- which increases the trading – thus resulting in the increased liquidity of the stock and increased participation of the traders. Also, it benefits to the company as people buy more and more stocks in a hope to get free shares and this increases the chance of additional fund raising through stake buying.
3. To bring the stock price in a reasonable price range:-
   Whenever any company issues bonus shares then its stock price adjust after the record date. So, the stock price down and trades in a bit affordable price range, which then gains the attraction of the investors who could not buy because of high stock price. So, ultimately it proves beneficial for the company.

Advantages of bonus shares:

From company's perspective:

- Issue of bonus shares facilitates a company to conserve cash which can be further reinvested for carrying out different operational and functional activities.
- At times when a company is not in a position to pay dividends in the form of cash then the only means to satisfy shareholder's desire for dividend is giving them some extra shares in the form of a bonus.
- Helps in building a better market image and attract more number of small investors.

From investors' perspective:

- Investors get tax benefits as no tax is levied on additional bonus shares issued to them.
- Long term investors are benefited to large extent with these shares as they are willing to expand their investment in that company and believe in long term story of the company.
- In future when the company will pay a dividend in the form of cash, investors will receive more as they will be holding more number of shares.

Disadvantages of bonus shares

From company's perspective:

- With this additional issue of shares, the company does not receive any cash which reduces the company's ability to raise its capital.
- Issue of bonus increases the number of outstanding shares which will decrease future EPS (Earning per Share).

From investors' perspective:

- Not all investors are happy with the bonus shares. As they may be interested in cash to fulfil their other objectives for which they have made this investment.
- It does not give any extra wealth to shareholders as share price drops to some proportionate amount to maintain the market capital of the company same as before.

II. LITERATURE REVIEWS

Zakaria Z. & muhhamad J. (2012) conduct a study on The Impact Of Dividend Policy On The Share Price Volatility: Malaysian Construction And Material Companies The study found only 43.43 percent of the changes in the share prices are explained by dividend yield (DY), dividend payout ratio(DPR), and investment growth(Growth), size of the firm)FZ), leverage (Lev) and earnings volatility (EV). These companies recorded 94.41 percent share price volatility during 2005 until 2010. Dividend payout ratio significantly influences the changes in share price. The greater the size of the company, the more significant impacts the volatility of share price would be. Dividend yield, investment growth and earnings volatility insignificantly influence the changes in the company's share prices. Leverage is negatively influence the movement of the share price

Based on the survey of S&P 500, Lazo (1999) showed that 87 percent of dividend paying companies believed the usefulness of dividends to signal information regarding the company future earnings. Brickley (1983) indicated dividend signalling could provide information when managers pay both regular dividends and occasional special dividends (extras, specials or year-ends). Different label of divided between regular and special dividend could convey warning to shareholders since special pay-out most likely would not be repeated compared to the regular dividend. Investors could use the special pay out announcement by company as a hedged managerial indication about future profitability.

Several empirical researches on the relevance of the relationship between the dividends and stock prices, it is inconclusive (Kadir, 2011). Miller and Modigliani (1961) propose under unrealistic assumption, in a world of no taxes and transaction costs, dividends are irrelevant to investors. Gordon (1963) argues that shareholder prefer cash dividend than capital gain because they wish for less on the riskiness of the future dividend stream, and prefer a high dividend policy than a highly uncertain capital gain from doubtful future investment. Furthermore, the firm mostly makes decision on its dividend policy in attempting to have positive impact helping increasing the value of the firm. Easterbrook (1984), Jensen and Meckling (1976) and Black (1976) propose that dividends play a rule in decreasing agency conflict between manager and shareholder. When manager decision to pay out dividends for used to remove the free cash from the control and pay it off to shareholders. Therefore, positive changes in stock price occur as a result of it. On the base of signalling theory from a research by Lintner (1956), who found that dividend decision, depend on the sustainability of firm earning over the long term.

Bhattacharyya (1979) argues that dividend policy based on asymmetric information that managers have private information about the distributional support of the cash flow of project and they can send signal to the market by the choice of dividend policy. Miller and Rock (1985) present it is unwise for bad expectation firms to entrust high level dividends, and only good expectation firms can commit high level dividends without uncertain long-term operations. John and Williams (1987) predict a positive relationship between dividends and stock prices. Another opinion is that dividend changes signal permanent change in current earnings. Allen and Michaely (1995) regardless of the accurate information contained in the dividend signal, hypothesis to be valid. The supporter of signalling theories believe that a dividend policy used as a tool of putting the message of quality across has a lower cost than other alternatives. Consistent with their research results can give an important implication, which is unexpected dividend changes should be followed by stock price changes in the same direction. According to the background on the relevance of dividend and stock prices argument that stock prices incorporate all expected future dividends, thus one of the most significant corporate events, announcement of dividend interests' academics in addition to investor to conduct event studies to examine the resulting stock price reaction.

Bayezid Ali M. & Chowdhury Ahmed T., (Nov 2010) has studied Effect of Dividend on Stock Price in Emerging Stock Market: A Study on the Listed Private Commercial Banks in DSE. This study examines stock price reactions of listed Private Commercial Banks (PCBs) in Bangladesh surrounding 44 days of the dividend announcement dates. The major objective of this study is to identify whether dividend announcement convey any information to the market that results a price reaction for adjusting the dividend announcement information. Out of 25 listed sample banks in the observation period, market adjusted stock price declines for 11 banks, rises for 6 banks and no changes for 8 banks and statistical pooled t-test also reveals that stock price reaction to dividend announcement are not statistically significant. Finally, dividend announcement does not convey any information due to strong contribution of the insider trading as well as some other influencing factors in the capital market.

III. RESEARCH METHODOLOGY

PROBLEM STATEMENT

There are many factors' which affects the financial performance of the stock. Few factors affect at a greater extent and few are not significantly affect. So, as investors, we must focus on those factors which are affects the financial performance of the stock. And to identify the factors which affects to stock prices is a tough task. In order to examine the impact of dividend announcement on the stock prices, this paper analyzed the stock price behaviour of the selected companies surrounding 365 days of the date of dividend announcement of National Stock Exchange (NSE). In this regards event study methodology has employed. The event study methodology is well accepted and has been used in a variety of research. Event studies also serve an important purpose in capital market research as a way of testing market efficiency. Accordingly, event studies focusing on long-horizons following an event can provide key evidence on market efficiency. An aim of the study is to measure relationship between announcement of dividend and bonus and its impact on stock prices. For the study descriptive and causal research design has been used. Sample size is 20 listed companies on National Stock Exchange (NSE) and data collection period is 365 days i.e. 6 month pre event and 6 month post event data.

Event Window: In conducting the event study it is important to identify the period over which the prices of relevant financial instruments will be examined. This period is referred to as 'event window'. For the purpose of this study, an event window is set equal to 365 days starting from 182 days before the dividend announcement date and ending 182 days after the announcement. The date of dividend announcement is defined as t= 0, a window of 182 days before the event as 'pre-event window' and a window of 182 days after the event as 'post- event window'. The date of dividend announcement i.e. t = 0 has been considered as the date of declaration related to dividend distribution by the respective Board of Directors of the company.

IV. DATA COLLECTION

Secondary data's were collected from National Stock Exchange (NSE) Website. Nseindia.com. the collection period was past 1 year. All the companies of Nifty 50 are selected for the period and out of it 7 companies who have declared dividend and bonus share both are considered for the study. The list is as below.

Table 1: List of Companies listed on NSE

Symbol	Last Traded Price	52 Week High	52 Week Low	365 Days % Change	Face value	Dividend %	Bonus
NIFTY 50	10450	8,968.70	8190.5	27.58683841	-	-	-
INFRATEL	378	482	283	33.56890459	10	160	-
LUPIN	874	1,575	807	8.302354399	2	375	-
CIPLA	604	663	479	26.0960334	2	100	-
AUROPHARMA	664	809	504	31.74603175	1	2.75	-
SUNPHARMA	563	728	433	30.02309469	1	350	-
WIPRO	308	324	223	38.11659193	2	100	01:01
GRASIM	1138	1332	838	35.79952267	2	275	-
M&M	752.5	786	589	27.75891341	5	260	01:01
INFY	1014	1046	861	17.77003484	5	555	-
COALINDIA	278	332	234	18.8034188	10	200	-
ACC	1782	1869	1315	35.51330798	10	170	-
TCS	2645	2,744.80	2154	22.79480037	1	4800	-

BHEL	98	122	81	20.98765432	2	79	2:1
HCLTECH	885	841	778	13.75321337	2	800	-
BHARTIARTL	516	565	300	72	10	20	-
IDEA	104	124	66	57.57575758	10	-	-
TECHM	518	525	358	44.69273743	5	180	-
ICICIBANK	312	332	227	37.44493392	2	125	10:01
BANKBARODA	158	207	133	18.79699248	2	60	-
GAIL	492	518	332	48.19277108	10	112	03:01
EICHERMOT	28702	33484	22108	29.82630722	10	1000	-
ONGC	196	212	155	26.4516129	5	121	-
RELIANCE	921	959	507	81.65680473	10	110	01:01
DRREDDY	2380	3204	1901	25.1972646	5	400	-
HDFC	1,700	1805	1198	41.90317195	2	900	-
ITC	261	353	240	8.75	1	475	-
ZEEL	580	596	451	28.60310421	1	250	-
HINDUNILVR	1352	1385	817	65.48	1	1800	-
HDFCBANK	1,350	1384	928	45.47413793	2	550	-
LT	1297	1297	902	43.79157428	2	700	02:01
MARUTI	9442	10000	5431	73.85380225	5	1500	-
BAJAJ-AUTO	3225	3,381	2566	25.68199532	10	550	-
HEROMOTOCO	3,750	4200	2,966	26.43290627	2	4250	-
YESBANK	315	383	226	39.38053097	10	120	-
TATAPOWER	100	101.75	75	33.33333333	1	130	-
TATASTEEL	750.5	750.5	401	87.15710723	10	100	-
NTPC	179	180	153	16.99346405	10	48	-
ULTRACEMCO	4330	4531	3262	32.74064991	10	100	-
INDUSINDBK	1,650	1818	1082	52.49537893	10	60	-
AXISBANK	565	570	425	32.94117647	2	250	-
HINDALCO	280	281	157	78.34394904	1	110	-
SBIN	307	351	241	27.38589212	1	260	-
BOSCHLTD	19640	25,245	18602	5.580045156	10	1650	-
KOTAKBANK	1000	1115	692	44.50867052	5	12	-
AMBUJACEM	274	291	209	31.10047847	2	140	-
TATAMOTORS	430	553	358	20.11173184	2	0	-
ADANIPORTS	410	444	272.65	50.37593985	2	65	-
ASIANPAINT	1161	1261	896	29.57589286	1	1030	-
POWERGRID	201	226	185	8.648648649	10	44	-
BPCL	496	550	400	24	10	325	-

Table 2: List of Selected Companies			
Symbol	**Bonus**	**Dividend**	**Date of occurrence**
WIPRO	01:01	100%	13/06/2017
M&M	01:01	260%	21/12/2017
BHEL	2:1	79%	28/09/2017
ICICIBANK	10:01	125%	20/06/2017
GAIL	03:01	112%	09/03/2017
RELIANCE	01:01	110%	07/09/2017
LT	02:01	700%	13/07/2017

V. **Results**

The following section of the paper discussed the impact of the stock financial performance of the 7 selected companies. The analysis has been done using line chart of the stock price before and after six months of the occurrence of the dividend and bonus announcement. The data have been collected from the NSE website for the authenticity and accuracy. The overall analysis of the bellowed charts shows that there was the positive impact of the announcement of dividend and bonus on the stock price. All the 6 company's stock price was increased after the announcement of dividend and bonus share. Only in the case of a company i.e. BHEL share prices was increased after the announcement of dividend and bonus share.

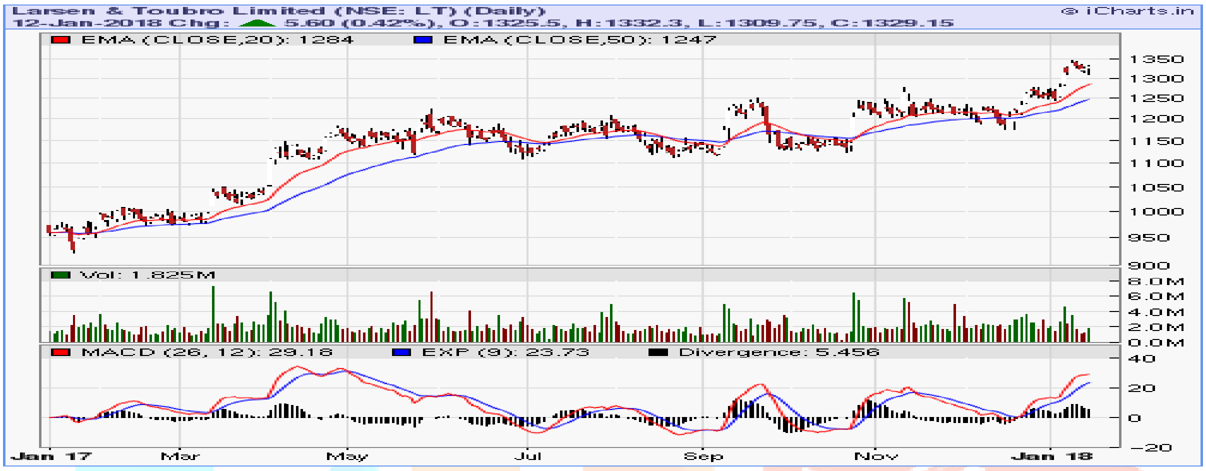
Nifty data as on 4/1/18


Wipro Ltd (NSE: WIPRO) (Daily)
01-Jan-2018 Chg: 2.30 (0.73%), O:311.5, H:320, L:309.45, C:316.55
© iCharts.in
EMA (CLOSE,20): 299.6
EMA (CLOSE,50): 295.4
Vol: 3.35M
MACD (26, 12): 5.111
EXP (9): 2.235
Divergence: 2.876
Jan 17
Mar
May
Jul
Sep
Nov
Jan 18


ICICI Bank Ltd (NSE: ICICIBANK) (Daily)
20-Dec-2017 Chg: 2.10 (0.67%), O:314.1, H:317.85, L:311.5, C:315.8
© iCharts.in
EMA (CLOSE,20): 309.1
EMA (CLOSE,50): 304.7
Vol: 14M
MACD (26, 12): 0.869
EXP (9): 0.7
Divergence: 0.169
Jan 17
Mar
May
Jul
Sep
Nov


Mahindra & Mahindra Ltd. (NSE: M&M) (Daily)
26-Feb-2018 Chg: 16.75 (2.33%), O:722, H:737, L:719.25, C:735.4
© iCharts.in
EMA (CLOSE,20): 739
EMA (CLOSE,50): 739.8
Vol: 1.526M
MACD (26, 12): -8.666
EXP (9): -5.51
Divergence: -3.157
Jul 17
Aug
Sep
Oct
Nov
Dec
Jan 18
Feb


GAIL (India) Limited (NSE: GAIL) (Daily)
08-Sep-2017 Chg: -1.45 (-0.38%), O:382.2, H:386.35, L:377.7, C:380.1
© iCharts.in
EMA (CLOSE,20): 379.4
EMA (CLOSE,50): 378.8
Vol: 1.889M
MACD (26, 12): 1.303
EXP (9): 1.269
Divergence: 0.033
Nov 16
Jan 17
Mar
May
Jul
Sep



The dependent t-test was performed to analyze the before-after effect of the stock price of selected companies. Dependent t-test is used to compare mean of two dataset have before after effect. In this case, the data were collected before and after announcement of dividend and bonus share. Thus data were eligible to use dependent t-test.

Table 3: Paired Sample Statistics

		Pair 1		Pair 2		Pair 3		Pair 4	
		LandTB	LandTA	MandMB	MandMA	BHELB	BHELA	ICICIB	ICICIA
Paired Samples Statistics	Mean	1085.5842	1192.8447	1373.3605	754.0632	155.5708	92.0825	283.1319	296.2730
	Std. Deviation	82.91258	48.53840	12.91812	7.66496	17.07506	5.56405	20.34206	14.23778
	Std. Error Mean	7.50655	4.39446	2.96362	1.75846	1.94588	.63408	1.82677	1.27859

		Pair 5		Pair 6		Pair 7	
		GAILB	GAILA	RelianceB	RelianceA	WiproB	WiproA
Paired Samples Statistics	Mean	451.5704	386.6748	1363.9152	897.0478	457.4947	292.6213
	Std. Deviation	32.95871	18.33517	68.64234	46.33901	93.61576	8.99796
	Std. Error Mean	3.24752	1.80662	7.15646	4.83118	8.47557	.81464

Table 3 shows the paired for each company's mean, Standard deviation and standard error mean of stock price for six months before and six after the announcement of dividend and bonus share. It is seen that means the stock price of all the companies decreased after the announcement of dividend and bonus share except L & T and ICICI which stock prices were increased. The results suggested that despite having increased stock price all the above mention company's market capitalization has been decreased.

Further table 4 shows the paired sample test based on the following hypothesis.

H_o: there is no significance difference between the stock price of the selected company before and after announcement of dividend and bonus share.

H_1: there is significance difference between the stock price of the selected company before and after announcement of dividend and bonus share.

The test is assumed the 95 % of confidence level.

Table 4: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	LandTB - LandTA	-107.26049	71.12460	6.43932	-120.00882	-94.51216	-16.657	121	.000
Pair 2	MandMB - MandMA	619.29737	15.04235	3.45095	612.04719	626.54755	179.457	18	.000
Pair 3	BHELB - BHELA	63.48831	20.06360	2.28646	58.93443	68.04219	27.767	76	.000
Pair 4	ICICIB - ICICIA	-13.14113	18.24577	1.63852	-16.38448	-9.89778	-8.020	123	.000
Pair 5	GAILB - GAILA	64.89563	45.62450	4.49552	55.97880	73.81247	14.436	102	.000
Pair 6	RelianceB - RelianceA	466.86739	56.68684	5.91001	455.12788	478.60690	78.996	91	.000
Pair 7	WiproB - WiproA	164.87336	97.36200	8.81474	147.42225	182.32447	18.704	121	.000

The results show all the selected companies, which include 7 companies, p values were less than 0.05, it means null hypothesis is rejected. Thus it can be concluded that there is significance difference between stock price of the selected company before and after announcement of dividend and bonus share. It is found that an announcement of dividend and bonus share has significance impact on stock price of the company.

VI. CONCLUSION:

Dividend and bonus share distribution is always an attraction for the investors. Dividend and bonus share reflects the value of the company based on which the strength of the relationship is established between the company management and its' shareholders. Experts suggest that the dividend and bonus share distribution is the key to gain the satisfaction of the existing investors and attraction for the prospective investors. The decision of distribution of dividend is always the important decision because it may directly effect on performance of stock prices. So, this was the motivation behind writing this paper. The aim of the paper was to measure an effect of announcement of dividend and bonus shares on stock price. Seven companies, those which have given dividend and bonus shares, have been selected. The data have been collected for the one year, six month before and after the announcement of dividend and bonus shares. The result shows that there is a significant impact of announcement of dividend and bonus shares on stock prices. The overall positive impact has been found. The announcement of dividend and bonus shares has positively impacted on the stock prices. The company should act as responsible entity of the society because it uses the money of the stakeholders' to earn a profit. So, companies need to share their profits with its shareholders so that the interest can be maintained and positive sentiments needs to spread.

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