FINANCE INDIA
© Indian Institute of Finance
Vol. XXXVIII No. 2, June 2024
Pages—391 - 410

Do Stock Splits really matter for Investors? A study of NSE 500 companies

GAURAV SHETTY*
AARTI PATKI**
SALIM SHAMSHER***

Abstract

The Study is undertaken to understand market reaction and excess returns investors can earn around the split date for NSE 500 Companies. As part of this study, we check whether signaling hypothesis holds true in the Indian context for stock splits. As per signaling hypothesis, if abnormal returns are positive, markets view the split event as favorable for the company and vice versa.We used event study approach as part of our research methodology and used data from NSE 500 list of companies available in public domain. A total of 64 companies from the Nifty 500 Index have announced stock splits during the study period i.e January 2015 to December 2021. The study found evidence of positive abnormal return before and after the announcement date, and the stock split had a positive impact on equity performance, as evidenced by the positive market reaction after the announcement of the split in India.

JEL Code : N20, N25, G39
Keywords : Stock Split; Scrips; Returns; Split Day; NSE; India

I. Introduction

THE AMERICAN INSTITUTE of Certified Public Accountants (AICPA) stated that the stock split "means that you can increase the number of shares in a particular class without changing the total value, but increasing the number of shares means more things we think of. A stock split is a business activity of a financial nature that does not involve the flow of funds in the stock market and involves splitting a high-value stock into a certain number of low-value stocks-at a fixed ratio. Thus, a stock split includes only the

* Doctoral (Ph.D.) Research Scholar, XLRI, Jamshedpur and Former Assistant Professor of Finance, Narsee Monjee Institute of Management Studies (NMIMS), ASMSOC, Plot No. 2, Sector 33, Kharghar, Navi Mumbai, Maharashtra, 410210, INDIA.
** Assistant Professor of Finance, Narsee Monjee Institute of Management Studies (NMIMS), ASMSOC, Plot No. 2, Sector 33, Kharghar, Navi Mumbai, Maharashtra, 410210, INDIA.
*** Former Associate Dean and Professor, Narsee Monjee Institute of Management Studies (NMIMS), ASMSOC, Plot No. 2, Sector 33, Kharghar, Navi Mumbai, Maharashtra, 410210, INDIA.

Submitted April 2022; *Accepted* December 2022

References

Agarwal, J.D. and Aman Agarwal, "*Literature in Finance Vol. III : Financial Systems & Markets*", IIF Publications, 2004.

Beladi, H., C.C. Chao and M. Hu, (2016), "Another January Effect-Evidence from stock split announcements.", *International Review of Financial Analysis*, Vol. 44, pp.123-138.

Bodhanwala, R. J., (2016), "Stock split and reverse split-Evidence from India.", *Great Lakes Herald*, Vo.10, No. 2, pp.26-41.

Brennan, M. J. and T.E. Copeland, (1988), "Stock splits, stock prices, and transaction costs.", *Journal of Financial Economics*, Vol. 22, No. 1, pp.83-101.

Byun, J., and M.S. Rozeff, (2003), "Long-run Performance after Stock Splits: 1927 to 1996.", *Journal of Finance*, Vol. 58, No. 3, pp.1063-1086.

Charest, G., (1978), "Split information, stock returns and market efficiency-I.", *Journal of Financial Economics*, Vol. 6, No. (2-3), pp.265-296.

Charitou, A., N. Vafeas and C. Zachariades, (2005), "Irrational investor response to stock splits in an emerging market.", *International Journal of Accounting*, Vol. 40, No. 2, pp.133-149.

Chemmanur, T. J., G. Hu and J. Huang, (2015), "Institutional Investors and the Information Production Theory of Stock Splits.", *Journal of Financial and Quantitative Analysis*, Vol. 50, No. 3, pp.413-445.

Chern, K. Y., K. Tandon, S. Yu and G. Webb, (2008), "The information content of stock split announcements: Do options matter?", *Journal of Banking and Finance*, Vol. 32, No. 6, pp.930-946.

Desai, H., and P.C. Jain, (1997), "Long-run common stock returns following stock splits and reverse splits.", *Journal of Business*, Vol. 70, No. 3, pp.409-433.

Bajaj H.A., Parminder, (2017), "Effect of Stock Split on the Shareholder's Wealth and Company's Profitability Effect of Stock Split On The Shareholder'S Wealth And Company'S Profitability. International Journal of Engineering and Management Research, Vol. 7, No. 1, pp.20-27.

El Ansary, O. A. E., and M.H. El-Azab, (2017), "The Impact of Stock Dividends and Stock Splits on Shares' Prices: Evidence from Egypt.", *Accounting and Finance Research*, Vol. 6, No. 4, p. 96.

Fama, Eugene F., Lawrence Fisher, Michael C. Jensen and Richard Roll, (1969), "The Adjustment of Stock Prices to New Information Eugene.", *International Economic Review*, Vol. 10, No. 1, pp.1-21.

Ford, D. A., H.H. Nguyen, and T. van Nguyen, (2012), "Analyst coverage and market reaction around stock split announcements.", *Applied Financial Economics*, Vol. 22, No. 2, pp.135-145.

Gumus, N., and A. Caglayan Gumus, (2021), "Do stock splits matter for returns, volatility, and liquidity?: New Evidence from Borsa Istanbul.", *International Journal of Research In Business and Social Science*, Vol. 10, No. 4, pp.467-478.

Gupta, A., and P.K. Arya, (2020), "Impact of splits on stock splits ratios around announcement day: Empirical evidence from india.", *Investment Management and Financial Innovations*, Vol. 17, No. 3, pp.345-359.

Han, K. C., and D.Y. Suk, (1998), "Insider ownership and signals: Evidence from stock split announcement effects.", *Financial Review*, Vol. 33, No. 2, pp.1-18.

Heavilin, J. E., and H. Songur, (2019), "Stock distributions and the Retained Earnings Hypothesis revisited.", *Finance Research Letters*, Vol. 30, pp.240-245.

How, C. C., and W.H. Tsen, (2019), "The Effects of Stock Split Announcements on the Stock Returns in Bursa Malaysia.", *Jurnal Ekonomi Malaysia*, Vol. 53, No. 2, pp.41-53.

Hu, C., Y.J. Liu and X. Xu, (2021), "The valuation effect of stock dividends or splits: Evidence from a catering perspective.", *Journal of Empirical Finance*, Vol. 61, (January), pp.163-179.

Hu, M., C.C. Chao, C. Malone and M. Young, (2017), "Real determinants of stock split announcements.", *International Review of Economics and Finance*, Vol. 51, pp. 574-598.

Hua, L., and S. Ramesh, (2013), "A Study on Stock Split Announcements and its Impact on Stock Prices in Colombo Stock Exchange (CSE) of Sri Lanka.", *Global Journal of Management and Business Research Finance*, Vol. 13, No. 6, pp.25-34.

Huang, G. C., K. Liano and M.S. Pan, (2015), "The effects of stock splits on stock liquidity.", *Journal of Economics and Finance*, Vol. 39, No. 1, pp.119-135.

Johnson, S., and R. Stretcher, (2011), "News and noise: Do investors react to stock split announcements differently during periods of high and low market volatility?", *Journal of Economics and Finance*, Vol. 35, No. 1, pp.71-78.

Kalay, A., and M. Kronlund, (2007), "The Market Reaction to Stock Split Announcements: Earnings Information After All." Ssrn.

Karim, M. A., and S. Sarkar, (2016), "Do stock splits signal undervaluation?", *Journal of Behavioral and Experimental Finance*, Vol. 9, pp.119-124.

Kim, K., and J. Byun, (2010), "Effect of investor sentiment on market response to stock split announcement.", *Asia-Pacific Journal of Financial Studies,* Vol. 39, No. 6, pp.687-719.

Kryzanowski, L., and H. Zhang, (1991), "Valuation effects of Canadian stock split announcements.", *Economics Letters*, Vol. 36, No. 3, pp.317-322.

Kryzanowski, L., and H. Zhang, (1993), "Market behaviour around Canadian Related papers.", *Journal of Empirical Finance,* Vol. 1, pp.57-81.

Kryzanowski, L., H. Zhang, A. Kalay, M. Kronlund, D.A. Ford, H.H. Nguyen, T. van Nguyen, G. Zhang, H. Salawane, C. Hu, Y.J. Liu, X. Xu, O. Tawatnuntachai, K.C. Han, D.Y. Suk, K. Kim, J. Byun, J.E. Heavilin, H. Songur, … B. Zhao, (2021), "Valuation effects of Canadian stock split announcements.", *Economics Letters*, Vol. 36, No. 2, pp. 317-322.

Kumar, S., (2017), "New evidence on stock market reaction to dividend announcements in India.", *Research in International Business and Finance*, Vol. 39, pp.327-337.

Kuse, Y., and T. Yamamoto, (2011), "Stock Price Anomalies Subsequent to Stock Split Announcements: Japanese Evidences.", *SSRN Electronic Journal,* March 2008.

Lei, Z., and K. Shrestha, (2007), "A New Study On The Impacts of Stock Split A New Study On The Impacts Of Stock Split.", *Business*.

Leledakis, G. N., G.J. Papaioannou, N.G. Travlos and N.V. Tsangarakis, (2009), "Stock splits in a neutral transaction cost environment: Evidence from the Athens Stock Exchange.", *Journal of Multinational Financial Management*, Vol. 19, No. 1, pp.12-25.

Li, X., P. Stork and L. Zou, (2013), "An empirical note on US stock split announcements, 2000-2009.", *International Journal of Economic Perspectives*, Vol. 7, No. 2, pp.41-46.

M. Nagendra, P. M. S. B., (2018), "International Journal of Research in Economics and Social Sciences (IJRESS).", *International Journal of Research in Economics and Social Sciences (IJRESS)*, Vol. 8, (Issue 1).

Mcnichols, Maureen and Ajay Dravid., (1990), "Stock Dividends, Stock Splits, and Signaling.", *The Journal of Finance*, Vol. 14, No. 3, pp.857-879.

Mittal, S., (2015), "Stock Market Reactions To Announcements of Stock Splits.", *Journal of Management Sciences And Technology*, Vol.2, No. 2, pp.52-58.

Nguyen, V., A. Tran and R. Zeckhauser, (2017), "Stock splits to profit insider trading: Lessons from an emerging market.", *Journal of International Money and Finance*, Vol. 74, pp.69-87.

Pandow, B. A., and K.A. Butt, (2019), "Impact of Share Splits on Stock Returns: Evidences from India.", *Vision*, Vol. 23, No. 4, pp.432-441.

Paul, S., (2000), "Stock Splits ,Tock Size and Sponsorship.", *The Journal of Finance*, LV(February), pp.429-450.

Podgórski, B., and K. Pasierbek, (2020), "The "magic action" of stock splits: Evidence from the Warsaw Stock Exchange 2003-2017.", *Central European Management Journal*, Vol.28 No. 1, pp.66-80.

Putra, I. G. B. Y. P., and A.A.G. Suarjaya, (2020), "Analysis of Market Reaction to Announcements of Stock Split.", *American Journal of Humanities and Social Sciences Research*, Vol. 4, No. 6, pp.114-120.

Rohit, B. and P. Pinto, (2016), "Impact of Stock Splits and Rights Issue Announcements on Market Price: Evidence from India", *Drishtikon: A Management Journal*, Vol. 7, No. 2.

Ross, S. A., (1977), "The Determination of Financial Structure: The Incentive-Signalling Approach.", *The Bell Journal of Economics*, Vol. 8, No. 1,pp.23-40.

Sivanthanu, B. D., and R.D. Pillai, (2014), "Use of Social Media to Attract and Engage New Customer Base", *International Journal of Management (IJM)*, Vol. 5, No. 3, pp.58-72.

Tawatnuntachai, O., (1999), "*A-Industry Reactions of Stock Split Announcements*", Department of Economics and Finance at ScholarWorks, UNO, 1999, 1991-2006.

Theckanathukaduppil, A. S., (2021), "*An Empirical Study on Impact of Stock Split Announcement in the Indian Stock Market*", SSRN Electronic Journal.

Yagüe, J., Gómez-Sala, J. C., and F. Poveda-Fuentes, (2009), "Stock split size, signaling and earnings management: Evidence from the Spanish market.", *Global Finance Journal*, Vol. 20, No. 1, pp.31-47.

Zhang, G., (2021), "Impact of Stock Split on Stock Return.", *International Journal of Management (IJM)*, pp.367-372.