STOCK SPLIT

SWARNAM S

SHARE/STOCK SPLITS

- A share/stock split is a method to increase the number of shares outstanding, with proportional reduction in the par value of the shares
- There is no change in the share capital
- Before the Stock Split: Paid-up Share Capital 1,00,000 shares of Rs.10 Shares
- After the stock split: Paid-up Share Capital 2,00,000 shares of Rs.5 Shares

REASONS FOR STOCK SPLIT

- To make shares Attractive : To attract small investors; it helps in providing marketability and liquidity
- Indication of Higher Future Profits
- Increased Dividend : For example a company paying a dividend of Rs.3 for a shareholder holding 100 shares before a share split. Before share split he will receive Rs.300.. But after a share split of the company may a cash dividend of Rs.1.50 per share. The number of shares increases 3:1. The shares will increase to 300 and entitled to get dividend of Rs.450.

Differences Between Bonus Issue and Stock Split

Bonus Issue	Stock Split
No change in par value	Par value of the share is reduced
Bonus shares are issued by capitalising the earnings. So there is fall in reserves and increase in share capital	There is no change in share capital and reserves
Bonus shares are issued when the company has large reserve	The share is generally split that has high price

REVERSE SPLIT

- Under the situation of falling price of a company’s share, the company may want to reduce the number of outstanding shares to proportion up the market price per share.
- The share split is generally to stock the market price below a certain level
- Before Split: 20,00,000 shares of Rs.5 per share
- After Split: One-for-four 5,00,000 shares of Rs.20 per share