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CONTENTS

AN ANALYTICAL STUDY OF IMPACT OF SPLITTING OF SHARE ON FINANCIAL PARAMETERS

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ABSTRACT

INTRODUCTION:
Capital Markets play an important role in the development of a country. As a general trend, the performance of the capital markets is viewed as an indicator or predictor of the economy. A period of constant increase in stock prices signals a period of growth for the economy whereas a period of constant fall signals a period of slowdown. All publicly-traded companies have a set number of shares that are outstanding on the stock market. A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders.

A stock split is a corporate action in which a company divides its existing shares into multiple shares. Conceptually, a stock split event is not expected to materially affect a splitting company's financials. The splitting company's existing shareholders continue to hold the same percentage holding in the company before and after a stock split. Despite these theoretical aspects, a company's stock split announcement has been observed to be a net positive impact event. After a split, new investors might be interested in buying the stock as it is available at a lower price, in the hope that they would stand to gain. A stock split may have no impact on the value of the investment if the fundamentals of the company remain the same. However, one would expect the market forces of demand and supply to determine the true price for the share as the liquidity increases and more floating shares become available after the split. The price performance of the share depends on the state of the market in addition to the fundamentals of the company.

WHAT IS A STOCK SPLIT?
A stock split is a corporate action in which a company divides its existing shares into multiple shares to boost the liquidity of the shares. Although the number of shares outstanding increases by a specific multiple, the total value of the shares remains the same compared to pre-split amounts, because the split does not add any real value. The most common split ratios are 2-for-1 or 3-for 1, which means that the stockholder will have two or three shares, respectively, for every share held earlier. A stock split is also known as a forward stock split. A stock split may either be split forward or in reverse. A forward stock split occurs when a company issues additional shares of stock while a reverse split occurs when stocks are reduced in number and their prices increase. There are two primary reasons:

1) The very first reasonis that the company believes its shares are overpriced.
2) And the second reason is that the company may choose to issue a stock split is to increase the liquidity of their stock.

RESEARCH DESIGN
After the review of the literature research has selected the topic for the study.

1. **Title:**
   "An analytical study of impact of splitting of share on financial parameters"

2. **Objective of the study:**
   i) To know about splitting of share.
   ii) To check the impact of splitting on various parameters.

3. **Sample of the study:**
   1) Greenply Industries Limited
   2) Tide Water Oil Co. (India Ltd)
   3) V-Guard Industries Ltd
   4) JMT Auto
   5) Indo Count

4. **Sampling method:**
   Simple random sampling method has been applied.

5. **Data Collection:**
   Secondary data has used.

6. **Period of the study:**
   To study impact of stock split two years before the stock splits and two years after the stock split time period has been used (from 2013-14 to 2017-18).

7. **Universe of the study:**
   All the listed company in India having splitting of share in the year 2013-14.

8. **Data analysis:**
   In this study researcher has made an attempt to check an impact of splitting of share on selected financial parameters (1) EPS, (2) Market Value, (3)Book Value and (4) P/E Ratio. For the analysis and checking the splitting impact, secondary data has been collected. Which was before the 2 years of splitting and after the 2 years of splitting.

1) Analysis of impact of splitting on EPS before and after
Earnings per share or EPS is an important financial measure, which indicates the profitability of a company. It is calculated by dividing the company's net income with its total number of outstanding shares. It is a tool that market participants use frequently to gauge the profitability of a company before buying its shares.

EPS is the portion of a company's profit that is allocated to every individual share of the stock. It is a term that is of much importance to investors and people who trade in the stock market. The higher the earnings per share of a company, the better is its profitability. While calculating the EPS, it is advisable to use the weighted ratio, as the number of shares outstanding can change over time.

It computes as:

$$EPS = \frac{NetIncome - PreferredDividends}{WeigtedAverageCommonShares}$$

Table no.1 EPS of Selected Companies

(in Rs.)

Sector	Before			Splitting Year	After		
	2013-14	2014-15	AVG	2015-16	2016-17	2017-18	AVG
Greenply	47.42	50.47	48.95	10.82	11.10	11.70	11.40
Tide Water Oil	784.44	1,964.65	1374.55	222.94	295.37	278.15	286.76
V.Guard	23.50	23.59	23.55	37.12	3.41	3.13	3.27
Jmt Auto	4.90	1.88	3.39	0.20	0.08	0.02	0.05
Indocount	29.55	35.19	32.37	60.20	11.55	6.64	9.10

(Source: moneycontrol.com)

From the above table it can work out that the Average of EPS of GREENPLY before split was **48.95**and after it was **11.40**whereas, during the splitting year it was **10.82**. So it can conclude here the total EPS was decrease.

In case of TIDE WATER OILthe Average of EPS before split was **1374.55** and after it was **286.76** whereas, during the splitting year it was **222.94**. So it can conclude here the total EPS was unstable.

The Average of EPS of V.GUARD before split was **23.55** and after it was **3.27** whereas, during the splitting year it was **37.12**. So we can say that the total EPS was fluctuating.

The Average of EPS of JMT AUTO before split was **3.39** and after it was **0.05** whereas, during the splitting year it was **0.20**. So it shows instability in the total EPS.

The Average of EPS of INDOCOUNT before split was **32.37**and after it was **9.10** whereas, during the splitting year it was **60.20**. So it can conclude here that the total EPS was increased during the splitting year and then it was decrease.

Table no.1.1 EPS Before and after splits

Companies	Before	After
Greenply	48.95	11.40
Tide Water Oil	1374.55	286.76
V.Guard	23.55	3.27
Jmt Auto	3.39	0.05
Indocount	32.37	9.10

Hypothesis
H0: There is no difference in the mean of EPS before and after splits.
H1: There is a difference in the mean EPS before and after splits.

Table no.1.2 Paired t-test for EPS
T-test: Paired Two Sample for Means

EPS	Period	N	Mean	Variance	DF	Calculated value	P-value	Table value	Hypothesis
	Before	5	296.559	363411.761	4	1.099	0.334	2.776	H0 Accepted
	After	5	62.115	15790.826	4				

(At 0.05% level of significance)

Calculated value of "t" test is 1.099, while table value of "t" 2.776 which is greater than the calculated value. So, null hypothesis is accepted & alternative hypothesis is rejected. It shows that there is no difference in the meanof EPS on before and after splits.

2) Analysis of impact of splitting on Market Value before and after

Market value is the price an asset would fetch in the marketplace. Market value is also commonly used to refer to the market capitalization of a publicly traded company, and is obtained by multiplying the number of its outstanding shares by the current share price. Market value or market price refers to the price that purchasers and sellers both accept. In other words, the price at which they agree to trade a security in an open market. What investors believe a company is worth we refer to as market capitalization. We calculate market capitalization by multiplying the current market price of the entity's shares by the number of shares outstanding. However, the greatest difficulty in determining market value lies in estimating the value of illiquid assets like real estate and businesses, which may necessitate the use of real estate appraisers and business valuation experts respectively.

Table no.2 Market Value of Selected Companies

(in Rs.)

Sector	Before			Splitting Year	After			
	2013-14	2014-15	AVG	2015-16	2016-17	2017-18	AVG	
Greenply	75.87	186.74	131.31	175.28	285.27	322.92	304.10	
Tide Water Oil	1961.1	3339.91	2650.51	6376.08	6025.55	5952.41	5988.98	
V.Guard	32.9	66.05	49.48	63.10	173.91	222.54	198.23	
Jmt Auto	4.9	15.79	10.35	46.68	10.12	0	5.06	
Indocount	8.87	73.90	41.38	192.64	196.35	84.99	140.67	

(Source: moneycontrol.com)

From the above table it can work out that the Average Market Value of GREENPLY before split was **131.31**and after it was **304.10** whereas, during the splitting year it was **175.28**. So it can conclude here the total Market Value was increase.

The Average Market Value of TIDE WATER OIL before split was **2650.51**and after it was **5988.98** whereas, during the splitting year it was **6376.08**. So it can conclude here the total Market Value was increase during the splitting year and then slightly decrease.

In V.GUARD the Average Market Value before split was **49.48**and after it was **198.23** whereas, during the splitting year it was **63.10**. So it can conclude here the total Market Value was increase during the splitting year, which shows continues increasing trend of company's Market Value.

TheAverage Market Value of JMT AUTO before split was **10.35**and after it was **5.06** whereas, during the splitting year it was **46.68**. So it shows that the company's total Market Value is increased during the splitting year and then decrease and reached to **5.06**.

The Average Market Value of INDOCOUNT before split was **41.38** and after it was **140.67** whereas, during the splitting year it was **192.64**. So it can conclude here the total Market Value of the company was increased during the splitting year and then slightly decrease.

Table no.2.1MARKET VALUE Before and After splits

Companies	Before	After
Greenply	131.31	304.10
Tide Water Oil	2650.51	5988.98
V.Guard	49.48	198.23
Jmt Auto	10.35	5.06
Indocount	41.39	140.67

Hypothesis

H0: There is no difference in the mean of Market Value before and after splits.
H1: There is difference in the mean of Market Value before and after splits.

Table no.2.2 Paired t-test for Market Value
(T-test: Paired Two Sample for Means)

	Period	N	Mean	Variance	DF	Calculated value	P-value	Table value	Hypothesis
Market Value	Before	5	576.603	1346080.503	4	-1.159	0.311	2.776	H0 Accepted
	After	5	1327.406	6802353.089	4				

(At 0.05% level of significance)

Calculated value of "t" test is -1.159, while table value of "t" 2.776 which is greater than the calculated value. So, null hypothesis is accepted & alternative hypothesis is rejected. It shows that there is no difference in the mean of Market Value on before and after splits.

3) Analysis of impact of splitting on Book Value before and after

An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation. Book value is also the net asset value of a company calculated as total assets minus intangible assets (patents, goodwill) and liabilities. For the initial outlay of an investment, book value may be net or gross of expenses such as trading costs, sales taxes, service charges and so on.Book value is important such that shareholders will receive that much amount per share if a company is liquidated as on date.

It computes as:

$$Book\ value = Total\ Assets - Intangible\ Assets - Liabilities$$

Table no.3 Book Value of Selected Companies

Sector	Before			Spliting Year	After		
	2013-14	2014-15	AVG	2015-16	2016-17	2017-18	AVG
Greenply	74.63	64.18	69.41	50.20	200.52	241.66	221.09
Tide Water Oil	4421.03	5932.16	5176.60	1560.57	1803.55	7065.00	4434.28
V.Guard	106.69	126.03	116.36	156.48	14.94	17.66	16.30
Jmt Auto	103.91	31.95	67.93	6.59	3.37	3.38	3.38
Indocount	46.82	78.58	62.70	155.49	41.87	47.56	44.72

(Source: moneycontrol.com)

The Average Book Value of GREENPLY before split was **69.41**and after it was **221.09** whereas, during the splitting year it was **50.20**. So it can be said that the Book Value was decrease during the splitting year and increased after splitting year.

The Average of Book Value of TIDE WATER OIL before split was **5176.60**and after it was **4434.28**whereas,during the splitting year it was **1560.57**. It shows the fluctuating trend in Book value.

The Average Book Value e of V.GUARD before split was **116.36** and after it reached to **16.30**. During the year of splitting it was **156.48**. So it shows continues change in Book value.

In case of JMT AUTO the Average Book Value before split was **67.93** and after it were **3.38**. During the year it was **6.59**. So, it shows declining trend in book value.

The Average Book Value of INDOCOUNT before split was **62.70**and after it was **44.72** whereas, during the splitting year it was **155.49**. So it shows increase during the splitting period.

Table no.3.1Book Value Before and After splits

Companies	Before	After
Greenply	69.41	221.09
Tide Water Oil	5176.60	4434.28
V.Guard	116.36	16.30
Jmt Auto	67.93	3.38
Indocount	62.70	44.72

Hypothesis

H0: There is no difference in the mean of Book Value before and after splits.
H1: There is a difference in the mean of Book Value before and after splits.

Table no.3.2 Paired t-test for Book Value
(T-test: Paired Two Sample for Means)

	Period	N	Mean	Variance	DF	Calculated value	P-value	Table value	Hypothesis
Book Value	Before	5	1098.598	5197362.611	4	1.010	0.370	2.776	H0 Accepted
	After	5	943.951	3814683.656	4				

(At 0.05% level of significance)

Calculated value of "t" test is 1.010, while table value of "t" 2.776 which is greater than the calculated value. So, null hypothesis is accepted & alternative hypothesis is rejected. It show that there is no difference in the mean of Book Value on before and after splits.

4) Analysis of impact of splitting on P/E Ratio before and after

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

P/E ratios are used by investors and analysts to determine the relative value of a company's shares in an apples-to-apples comparison. It can also be used to compare a company against its own historical record or to compare aggregate markets against one another or over time.
It is compute as:

$$Ratio = \frac{Marketvaluepershare}{Earningpershare}$$

Table no.4 P/E Ratio of Selected Companies

Sector	Before			Splitting Year	After			
	2013-14	2014-15	AVG	2015-16	2016-17	2017-18	AVG	
Greenply	1.6	3.70	2.65	16.20	25.70	27.60	26.65	
Tide Water Oil	2.50	1.70	2.10	28.60	20.40	21.40	20.90	
V.Guard	1.40	2.80	2.10	1.70	51.00	71.10	61.05	
Jmt Auto	1.00	8.40	4.70	233.40	126.50	0.00	63.25	
Indocount	0.30	2.10	1.20	3.20	17.00	12.80	14.90	

(Source: moneycontrol.com)

From the above table it can work out that the Average P/E Ratio of GREENPLY before split was 2.65 and after it was 26.65whereas, during the splitting year it was 16.20. So it can conclude here the total P/E Ratio was increase.

The Average P/E Ratio of TIDE WATER OIL before split was 2.10and after it was20.90 whereas, during the splitting year it was 28.60. It shows the fluctuating trend in total P/E Ratio.

The Average P/E Ratio of V.GUARD before split it was 2.10and after it was 61.05. During the year of split it was 1.70. So we can say that there is an increase in total P/E Ratio.

In case of JMT AUTO the Average P/E Ratio before split was 4.70and after it was 63.25 but during the splitting year it was 233.40. So it can conclude here that the total P/E Ratio was increased during the splitting year and then it was decrease.

The Average P/E Ratio of INDOCOUNT before split was 1.20and after it was 14.90whereas, during the splitting year it was 3.20. So it shows continues increase in the total P/E Ratio.

Table no.4.1 P/E Ratio Before and After splits

Companies	Before	After
Greenply	2.65	26.65
Tide Water Oil	2.10	20.90
V.Guard	2.10	61.05
Jmt Auto	4.70	63.25
Indocount	1.20	14.90

Hypothesis

H0: There is no difference in the mean of P/E ratio before and after splits.
H1: There is a difference in the mean of P/E ratio before and after splits.

Table no.4.2 Paired t-test for P/E ratio
(T-test: Paired Two Sample for Means)

P/E Ratio	Period	N	Mean	Variance	DF	Calculated value	P-value	Table value	Hypothesis
	Before	5	2.55	1.715	4	-3.511	0.025	2.776	H1 Accepted
	After	5	37.35	530.399	4				

(At 0.05% level of significance)

Calculated value of "t" test is -3.511, while table value of "t" 2.776 which is lower than the calculated value. So, null hypothesis is failed to accept& alternative hypothesis is accepted. It shows that there is difference in themean of P/E ratio on before and after splits.

9. **CONCLUSION ON THE BASIS OF DATA:**

So as per the above research study we can say that there is no change in the different variables after stock split except P/E Ratio.

10. **LIMITATION OF THE STUDY:**

The study is based on secondary data collected from several websites. The limitations of secondary data, if any, will also influence study. The researcher has also modified some of the formula used in the study. The arbitrariness, if any, in the modification of the formula will also influence the study. In this research some limitations involved in this research work, can be stated as follows:

- ➢ This study ignores the impact of possible differences in the accounting methods adopted by different companies.
- ➢ The cost of Stock split was not considered in the methodology.
- ➢ The factors which driven the split were not considered.
- ➢ Limited variables are applied.
- ➢ Only spilt effect was seen on selected companies.
- ➢ Limited knowledge about the selected company in the initial stages.
- ➢ Ratios itself will not completely show the company's good or bad financial position.

11. **SUGGESTIONS**

i) The results of the investigation may also be used by the investors to decide upon the timing of their investment while trading with the stocks that have just undergone the stock split. If the stock returns gets volatile immediately after the stock split, the investors might delay their investment and wait until the volatility reduces, thus playing safe. This might further lead to a decrease in the demand for the stock close to the split, thus resulting in fall in the prices of securities.

ii) The small investors cannot afford the pre-split shares due to high price level of the securities; managers of the company might split their shares to attract these small investors. The results of the study may be of help to the small investors in designing their investment strategies.

iii) To reduce abnormal reaction caused by speculative trading by retail investors, the public should be educated on the operations of NSE in a bid to encourage more long-term investments than short-term ones as well as impart knowledge on the public regarding stock market activity.

iv) NSE should maintain a record of the dates of various events and make the information available to encourage scholars to undertake research on these events. That way, they will gain from the research and researchers would have easy access to information regarding stock split.

v) CMA should ensure compliance with insider trading laws, guidelines, rules and regulations by effectively monitoring the market. This will eliminate incidences of collision between brokers and traders, inside trading and leaking information and hence boosting investor's confidence.

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