

## STOCK DIVIDENDS, A CONCEPTUAL STUDY

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**Abstract:** Shareholders are the real possessors since they invest their plutocrat in the shares, hence they expect dividend. The dividend is a share of separable gains which the governing body decided to distribute. Since the dividend distribution isn't obligatory the management may decide about the how important of separable gains every time distributed as tip and retained. However, the company need to face the dissatisfaction from the shareholders, If no dividend paid or paid the lower quantum during the times of gains. For dividend payments, company has to expend its liquid sources. The indispensable action available is not to make the dividend payment and getting the shareholders satisfaction is perk issue by staking the accumulated gain known as stock dividendie., issue of free shares rather of paying tip in cash. This process is also known as perk issue which requires the company has to follow the legal procedures, the stock tip also has its effect on paid up capital. To unfold these legal procedures, the impact of perk issue on share capital and also its graces and faults is the idea of this composition.

**Keywords:** Bonus issue, stock dividends, Earnings Per Share(EPS), and Dividends Per Share(DPS)

1. **Introduction:** The first recorded stock dividend was issued by Hudson's Bay Company in 1690 is the first company. Though the stock dividends have been around for centuries, the Hudson's Bay Company in 1690 is the first company. Stock dividends were particularly popular in the United States in the late 19th and early 20th centuries. In 19<sup>th</sup> and early 20<sup>th</sup> centuries, the stock dividends are popular in United States. Issuing the additional shares in lieu of dividend payment is called the stock dividend. These dividends are typically declared as a percentage of a shareholder's current holdings. For example, a 10% stock dividend would give each shareholder 10 additional shares for every 100 shares they already own. Regular and special are the two main types of stock dividends. Typically the regular stock dividends are distributed on a quarterly or annual basis and special dividends are declared on ad hoc basis to celebrate various occasions (like company's anniversary or initial public offer). Providing signals to the investors that the company is profitable and having strong financial position, retaining the members who are looking for tax free fixed income are the merits of stock dividends. Dilution of EPS, creation of administrative costs are the drawbacks of stock dividends.

2. **Research Methodology:** The descriptive research is used in this article and the data is collected from secondary sources like academic books, published articles and various websites.
3. **Discussion:** The issue of impact of stock dividends on stock prices has been debated by academics and practitioners for many years. Based on their study some academicians and practitioners are of the opinion that stock dividends have positive impact on share prices and other argue that they have no impact. The financial position of the company, investors expectations and reasons for issuing stock dividend are the factors which decides the impact of stock dividend on stock prices. List of companies issued stock dividend prior to the pandemic impact are as follows:

**List of Indian companies issued bonus shares prior to pandemic:**

S. No.	Name of the company	Bonus ratio	Date of announcement
1	Umiya Tubes	1:3	02-05-2018
2	Transcorp Intl	1:4	07-05-2018
3	LG Balakrishnan	1:1	28-04-2018
4	GRUH Finance	1:1	14-04-2018
5	TCS	1:1	19-04-2018
6	Coastal Corp	3:1	07-04-2018
7	GM Breweries	1:4	05-04-2018
8	Gala Global Prd	1:20	19-03-2018
9	United Drilling	1:1	19-03-2018
10	Raghav Producti	2:5	30-03-2018
11	MMTC Ltd	1:2	19-03-2018
12	K.P. Energy	3:10	16-03-2018
13	Tejnaksh	36:10	12-03-2018
14	A Infra.	1:1	10-03-2018
15	Shivalik Rasa	1:4	05-03-2018
16	Powerhouse Gym	1:20	09-02-2018
17	Oil India	1:2	09-02-2018
18	Kelton Tech	1:1	06-02-2018
19	GAIL	1:3	12-02-2018
20	Citadel Realty	1:1	02-02-2018
21	La Opala RG	1:1	05-02-2018
22	JashDealmark	1:1	06-02-2018
23	IOC	1:1	30-01-2018
24	Yash Chemex	3:2	27-01-2018
25	Garnet Intl	2:1	24-01-2018
26	Excel Realty	2:1	30-11-2017
27	Fiber web India	1:1	05-12-2017
28	VKJ Infra	1:3	20-11-2017
29	Bil Energy	1:1	14-11-2017
30	Lancer Containe	3:5	24-11-2017

Source: <https://www.moneycontrol.com/stocks/marketinfo/bonus/index.php>

Overall, stock dividends is a powerful weapon to distribute profits to shareholders subject to the following legal procedures.

(i) **Guidelines issued by Securities and Exchange Board of India (SEBI):**

**The Securities & Exchange Board of India (SEBI) has issued several guidelines related to issue of bonus shares which have to be followed by the companies in India which are as follows:**

- The Articles of Association of the company should contain the provisions for issue of bonus shares. In it's absence a resolution has to be passed by the company in the general meeting.
- The bonus issue cannot dilute the rights of either fully convertible or partly convertible debenture holders of the company.
- As a result of bonus issue if the issued or subscribed capital exceeds the authorized capital of the company, then a resolution in the general body meeting has to be passed to increase the authorized capital.
- Bonus issue should be made out of free reserves created from genuine profits or securities premium collected in cash.
- Bonus shares cannot be issued out of the reserves which are created from the profit on revaluation of fixed assets.
- There should not be partly paid up shares at the time of issue of bonus shares.
- There should not be any default on the part of the company in payment of various statutory dues like provident fund, gratuity etc., Similarly, there cannot be any default in either the payment of interest or principal on fixed deposits accepted by the company.
- There should be a gap of at least 12months between the public or rights issue and the bonus issue.

Source: <https://www.sebi.gov.in/guide/guide200015.html>

## (ii) Sec.63 of the Companies Act, 2013, Provisions:

(1) A company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

- (i) its free reserves;
- (ii) the securities premium account; or
- (iii) the capital redemption reserve account: Provided that no issue of bonus shares shall be made by capitalizing reserves created by the revaluation of assets.

(2) No company shall capitalize its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

- (a) it is authorized by its articles;
- (b) it has, on the recommendation of the Board, been authorized in the general meeting of the company;
- (c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- (e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
- (f) it complies with such conditions as may be prescribed.

(3) The bonus shares shall not be issued in lieu of dividend.

Source: <https://www.legalcrystal.com/act/62442/companies-act-2013-section-63>

**Conclusion:**In conclusion, stock dividends are a complex topic with both potential benefits and drawbacks. For companies, stock dividends can be a way to signal financial strength, reward shareholders, and attract and retain investors. For shareholders, stock dividends can provide a tax-efficient way to receive income and grow their investment. However, it is important to note that stock dividends can also dilute earnings per share and create administrative costs. Additionally,

companies may use stock dividends to manipulate their stock prices. Overall, the decision of whether or not to issue a stock dividend is a complex one that should be made on a case-by-case basis. Corporates need to review their financial condition, the reasons for stock dividend, and the expectations of investors before making a decision.

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