Bonus Issue

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Bonus Issue Latest News

India’s largest insurer, Life Insurance Corporation of India, recently announced the first ever bonus issue.

About Bonus Issue

- A bonus issue, also known as a **scrip issue or a capitalization issue,** occurs when a **company** listed on a stock exchange **decides to offer free additional shares to the existing shareholders.**
- The **company decides the number of bonus shares to be allotted** to every individual investor for holding a certain number of shares over a set period of time and accordingly rewards them.
- **For example:**
  - **In a 2:1 bonus issue, you get two extra shares for every one share** you already own.
  - If you had 10 shares, after the bonus, you’ll hold 30 shares.
  - However, the s**hare price will drop proportionally** so that your t**otal investment remains the same.**

- This bonus issue aims to **attract further investment and reward its existing shareholders** as it **improves the entity's market image.**
- A bonus issue of shares will **increase a company's share capital but not its market capitalisation.**
  - Market capitalisation is calculated by multiplying the company's current stock price and the total number of outstanding shares. Share capital is the amount that the company raises by issuing shares.
  - By issuing bonus shares, the number of outstanding shares increases with a proportional decrease in the value of each share, ensuring no change in the market capitalization. However, the face value of the shares remains unchanged.
- Bonus shares **do not dilute shareholders' equity** because they are **issued in a constant ratio that keeps the relative equity** of each shareholder the **same as before the issue.**
- The important thing to note is that companies **issue bonus shares from their reserves or retained profits. Instead of paying out cash**, they **convert their saved earnings into shares and distribute them** among shareholders.
- The **issuance of bonus shares is not taxable**; however, **shareholders must still pay capital gains tax if they sell them for a net gain.**

What is a Stock Split?

- A stock split is an action taken in which a **company divides its existing shares into multiple shares to boost the liquidity of shares.**
- A split is usually **undertaken when the stock price is high, making it pricey for investors to acquire.**
- It **brings down the share price** as the number of shares increases.
- The **market cap of the firm and the value of each shareholder's investment stay unchanged** after a stock split.

Source: FE
