
How Corporate Actions can
Impact Stock Prices?

Why it is important to understand Corporate actions?

Dividends, stock splits, bonus shares, and right issues are a few corporate acts that have both good and negative effects on a company's stock price.

That can cause a sudden price increase or drop, depending on the circumstance. Investors need to understand how business trends may impact their investments.

Types Of Corporate Actions

Dividends

Bonus Issue

Stock Split

Rights Issue

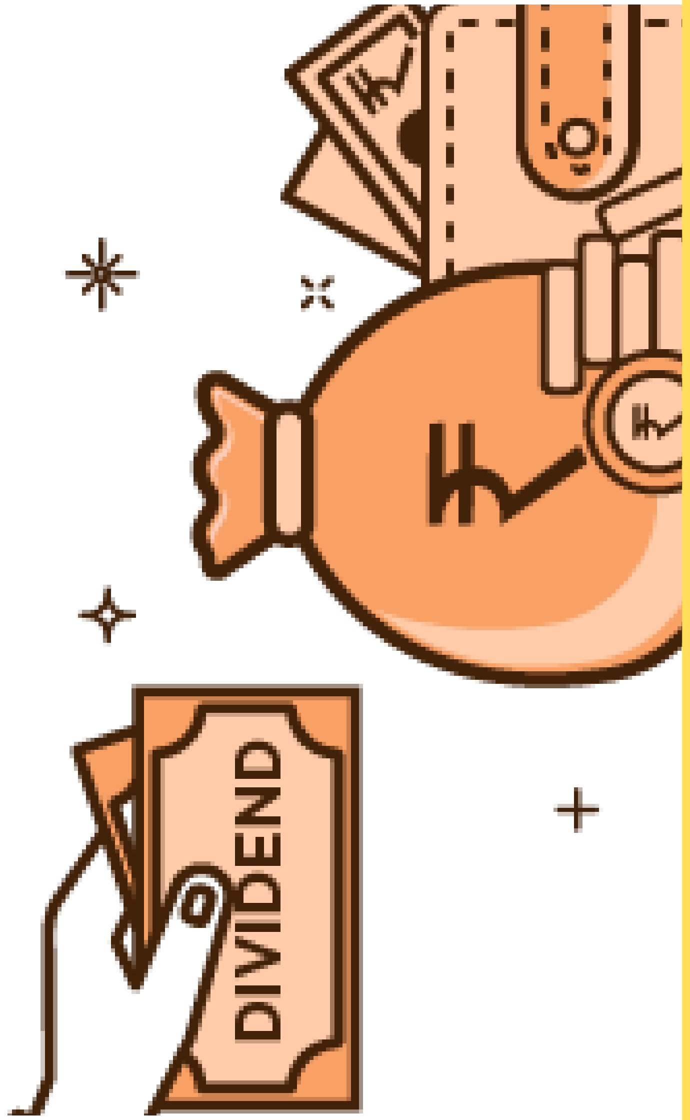
Buyback of shares

Dividends

Dividends are parts of the company's profits that are given to the shareholders as dividends. A per-share dividend payment is made.

For example, XYZ Ltd. announced a dividend of Rs. 20 per share, meaning each share you hold entitles you to receive Rs. 20 as dividend income. Assuming you hold 100 shares of XYZ Ltd., your dividend income would be 100 * 42, or Rs. 4,200.

The dividend payment may also be expressed as a percentage of the face amount. If XYZ Ltd.'s shares have a face value of Rs. 10 and a dividend of Rs. 20, the dividend payout is stated to be 200% (20/10).



Bonus Issue

A stock dividend distributed by the corporation to its shareholders is known as a bonus issue. Stocks are distributed to shareholders in a bonus issue rather than cash, as is the case with regular dividend payments.

These free shares are given to the owners in exchange for the shares they already own. Usually, these allocations are given in predetermined ratios of 1:1, 2:1, 3:1, etc.

The shareholder will have more shares when the bonus shares are given, but the total value of the investment will stay the same.

In the event that the ratio is 2:1, the current owners would get two new shares at no additional cost for each share they now own.

Thus, if a shareholder has 100 shares, they will receive 200 more shares as compensation. Following the bonus issue, the overall ownership will increase to 300 shares.

Stock Split

When a company announces a stock split, the number of shares held rises, but the investment value stays the same. This is comparable to a bonus issue.

The fundamental distinction between a bonus issue and a stock split is that, in a bonus issue, the company's face value stays the same, but in a stock split, it changes.

For example, If there is a 1:5 stock split and the stock has a face value of Rs. 10, the new face value of the shares will be Rs. 2. If you had one share before the split, you would now have five shares.

Rights Issue

A rights issue is intended to raise more funds. The corporation approaches its current stockholders rather than going public, though. The shareholders can participate in the rights offering in proportion to the shares they own.

For example, for every four shares, a shareholder may subscribe for an extra share under a 1:4 rights issue, for instance.

The price of the new shares under the rights issue will be lower than what is now being offered in the markets. For example, if a share is trading at Rs. 500 per share, the appropriate issuance may be at Rs. 400 per share, representing a 20% discount.

Buyback of shares

A buyback may be viewed as a way for a corporation to invest in itself by purchasing shares from other market participants. Although buybacks diminish the number of outstanding shares in the market, they are a crucial corporate restructuring strategy.

Motives for corporate buyback decisions..?

1. To increase earnings per share profitabili
2. To increase their ownership of the business.
3. To prevent other businesses from taking over.
4. To demonstrate the promoters' trust in their business.
5. To prevent a drop in the share price in the markets.

Some Important corporate action Terminology

Announcement Date:
The company releases its corporate activity on this day. This might be done through regulatory filings and press announcements.

Record Date:
The record date set by the management of the company. This is the date on which shareholders should hold the stock in their portfolio to participate in the corporate action.

Ex-Date:
The EX-Date is set by the stock exchange rule. It is a day before the record date