Assignment - 15

Define stock split with Examples.

A stock split is a corporate action in which a company increases the number of its outstanding shares by dividing each existing share into multiple new shares. This does not affect the company's overall market capitalization or the value of shareholder's holdings, but it reduces the price of each individual share, making it more affordable for smaller investors.

Key Features of a Stock Split

Increases share count.

The number of share outstanding increases, but each share has a lower price.

No change in shareholder value

The total value of a shareholder's investment remains the same, but the price per share decreases proportionally.

Proportional Ownership Remains Unchanged.

While the number of share held by a shareholder increases, their proportion of ownership in the Company remains the same.

Example of a Stock Split

2-for-1 Stock Split (2:1 Split)

If a Company announces a 2-for-1 Split, each shareholder will receive 2 shares for every 1 share they currently own.

Before the Split:- Suppose a shareholder owns 100 shares and the price per share is ₹200. The total value of their holding is ₹20,000 [100 shares × ₹200]

After the Split:- The shareholder will now own 200 shares, but the price per share will be adjusted to ₹100. The total value of the holding remains the same at ₹20,000 [200 share × ₹100]

Reverse Stock Split

In Contrast to a regular stock Split, a Reverso Stock Split occurs when a Company reduces the number of its outstanding share by consolidating them. This increases the share price without changing the Company's market value. For example, In a "1-for-5 Reverse Stock Split", 5 shares would be consolidated into 1 and the price per share would increase proportionally.

Reasons for a Stock Split

* Improving Liquidity.
* Attracting Investors.
* Psychological Appeal.
* Signal of Confidence.