Assignment - 15

Define stock split with Examples

A Stock Split is a corporate action in which a company increase the number of its outstanding shares by dividing each existing shares into multiple new shares. This does not affect the company's overall market capitalization or the value of shareholders holdinging but it reduce the Price of each individual share. Making it more affordable for smaller investors.

Key features of a stock split:-

Increase shares count

The number of share outstanding increase but each share has a lower Price.

No change in shareholder value

The total value of a shareholder investments remains the same but the share Per decrease proportionality

Proportional ownership Remains unchanged:-

While the number of share hold by a shareholder increase their Proportion of ownership in the company remains the same.

Example of Stock Split:-

2- for-1 stock split (2:1 split)

if a company announces as a 2-for split, each shareholder will receive 2 share for every 1 share the 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 X ₹ 200]

After the split:- The shareholders 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 X ₹ 100]

Reverse Stock Split:- In contrast to a regular stock split a Reverse stock split occur when a company reduce the number of its outstanding share by consolidating them. this increases the share price without changing the company market value.

For example:- in a 1-for-5 Reverse stock split, 5 share would be consolidated into share would be increase proportionally!

Reasons for a stock split:-

* improving Liquidity
* Psychological Appeal
* Attracting investors
* Signal of confidence