The Effect of Mergers on the Stock Price of Acc Ltd

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ABSTRACT:
A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations. A merger usually involves combining two companies into a single larger company. The combination of the two companies involves a transfer of ownership, either through a stock swap or a cash payment between the two companies. In practice, both companies surrender their stock and issue new stock as a new company.

Keywords: merger, Events study, standard deviation

1. INTRODUCTION

A merger is a deal to unite two existing companies into one new company. There are several types of mergers and also several reasons why companies complete mergers. Most mergers unite two existing companies into one newly named company. Mergers and acquisitions are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to please shareholders and create value.

OBJECTIVES:

To examine the movement of market price of the stocks of selected units before, during and after the decision of Merger and acquisition to analyze the impact of the same across the Industries of the sample under each type of Merger and Acquisitions. To apply the event study methodology in examining and evaluating the corporate decisions in India towards Merger and Acquisitions.

2. REVIEW OF LITERATURE

Ravi Sanker and Rao K.V (1998),"Takeovers as a strategy of turnaround' they analysis the implications of takeovers from the financial point of view with the help of certain parameters like liquidity, leverage, profitability etc. They observed that a sick company is takeover by a good management and makes serious attempts; it is possible to turnaround successfully.Canagavally R.(2000); "An Analysis of Mergers and Acquisitions" they measures the Performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigates the share prices of sample companies in response to the announcement of merger.

Huzifa Husain, (2001), 'Merger and Acquisition unlocking value' he explains that takeovers (hostile or non-hostile) may be beneficial to the shareholders if they unlock the hidden value of a company. They also help the existing management to the more receptive to shareholders. Economically, takeovers make sense if the 'private market value' of a company is higher than the market capitalization of the company. Further if takeovers are used as a ploy to prevent competition, it becomes harmful to the economy. Therefore, proper checks and balances have to be put in place to ensure that takeover facilitation improves overall efficiency of the company.

Joy deep Biswas (2004), "Recent trend of merger in the Indian private corporate sector". They research about Corporate restructuring in the form M&A has become a natural and perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, M&A have become an important conduit for FDI inflows in India in recent years. In this paper it is argued that the Green filed FDI and cross-border M&as are not alternatives in developing countries like India. Vanitha. S (2007), "Mergers and Acquisition in Manufacturing Industry", she analyzed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The author found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies.

HYPOTHESIS FORMULATION

H0: event has no impact on returns that is no abnormal mean returns, unusual return volatility etc.
The focus usually on mean returns.

3. DATA ANALYSIS AND HYPOTHESIS TESTING:

TABLE-1 Calculation of Expected Return

| Date	ACC return	Sensex return	
12-Apr-16	-0.00086326	**0.003556766**	**[E] r**
20-Apr-17	-0.002210127	0.002173129	0.001034934
21-Apr-17	-0.010347792	-0.007112605	-0.007015627
24-Apr-17	0.063008533	0.008438612	0.006466993
25-Apr-17	-0.000310936	0.003959747	0.002583899
26-Apr-17	-0.002489188	0.003434876	0.002128845
27-Apr-17	0.018235661	-0.003704209	-0.00406061
28-Apr-17	-0.00309816	-0.004862862	-0.005065141
02-May-17	-0.020658867	-0.003341273	-0.003745952
03-May-17	0.015940657	-0.003006508	-0.003455716
04-May-17	0.006976528	0.001878634	0.000779612
05-May-17	0.019398941	-0.009400129	-0.008998868
08-May-17	0.020263636	0.00036871	-0.000529464
09-May-17	-0.010618436	-0.001476107	-0.002128887
10-May-17	-0.005167503	0.008649568	0.006649888
11-May-17	-0.003941756	-0.001937663	-0.002529047
12-May-17	-0.007249379	-0.00321803	-0.003639102
15-May-17	0.000208123	0.001147343	0.000145596
16-May-17	0.026684476	0.006288605	0.004602976
17-May-17	-0.019907675	0.001379647	0.000347
18-May-17	-0.011334044	-0.001051308	-0.001760593
19-May-17	-0.001189131	-0.002446983	-0.002970618
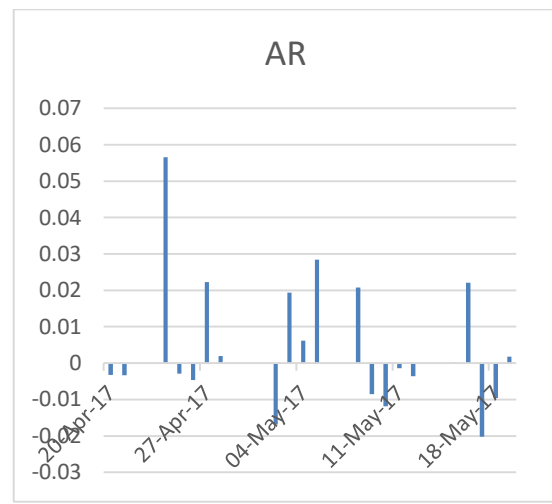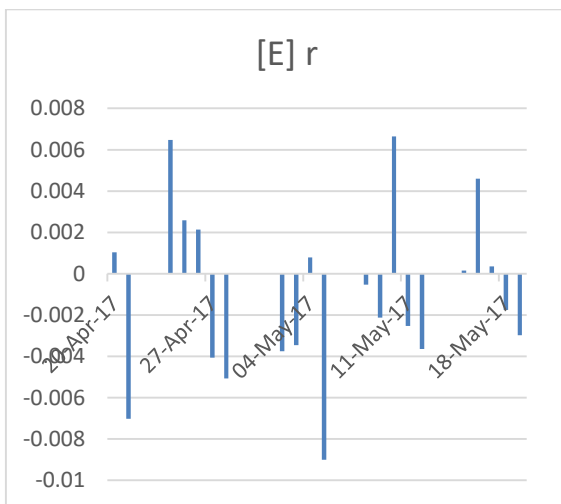
INTERPRETATION: From the above analysis expected return of the ACC cement before merger and acquisition is 0.000779612 during the merger and acquisition it is 0.008998868 and after the merger and acquisition it is 0.000529464.

INTERPRETATION: From the above analysis abnormal return of the ACC Ambuja before merger is 0.006196915 and during the merger it is 0.028397809 and after the merger it is 0.0207931. Therefore the above analysis observed that the merger is fluctuating over all the event.

2

Date	ACC return	Sensex return		
12-Apr-16	-0.00086326	**0.003556766**	**[E] r**	**AR**
20-Apr-17	-0.002210127	0.002173129	0.001034934	-0.003245061
21-Apr-17	-0.010347792	-0.007112605	-0.007015627	-0.003332164
24-Apr-17	0.063008533	0.008438612	0.006466993	0.05654154
25-Apr-17	-0.000310936	0.003959747	0.002583899	-0.002894835
26-Apr-17	-0.002489188	0.003434876	0.002128845	-0.004618033
27-Apr-17	0.018235661	-0.003704209	-0.00406061	0.022296271
28-Apr-17	-0.00309816	-0.004862862	-0.005065141	0.001966982
02-May-17	-0.020658867	-0.003341273	-0.003745952	-0.016912915
03-May-17	0.015940657	-0.003006508	-0.003455716	0.019396373
04-May-17	0.006976528	0.001878634	0.000779612	0.006196915
05-May-17	0.019398941	-0.009400129	-0.008998868	0.028397809
08-May-17	0.020263636	0.00036871	-0.000529464	0.0207931
09-May-17	-0.010618436	-0.001476107	-0.002128887	-0.00848955
10-May-17	-0.005167503	0.008649568	0.006649888	-0.011817392
11-May-17	-0.003941756	-0.001937663	-0.002529047	-0.001412709
12-May-17	-0.007249379	-0.00321803	-0.003639102	-0.003610277
15-May-17	0.000208123	0.001147343	0.000145596	6.25263E-05
16-May-17	0.026684476	0.006288605	0.004602976	0.0220815
17-May-17	-0.019907675	0.001379647	0.000347	-0.020254674
18-May-17	-0.011334044	-0.001051308	-0.001760593	-0.00957345
19-May-17	-0.001189131	-0.002446983	-0.002970618	0.001781487

Date	ACC return	Sensex return				
12-Apr-16	-0.00086326	**0.003556766**	**[E] r**	**AR**	**CAR**	**AR T-test**
20-Apr-17	-0.002210127	0.002173129	0.001034934	-0.003245061	-0.003245061	-0.274636781
21-Apr-17	-0.010347792	-0.007112605	-0.007015627	-0.003332164	-0.006577225	-0.282008512
24-Apr-17	0.063008533	0.008438612	0.006466993	0.05654154	0.049964315	4.785237174
25-Apr-17	-0.000310936	0.003959747	0.002583899	-0.002894835	0.047069481	-0.24499633
26-Apr-17	-0.002489188	0.003434876	0.002128845	-0.004618033	0.042451448	-0.390834462
27-Apr-17	0.018235661	-0.003704209	-0.00406061	0.022296271	0.064747719	1.886983326
28-Apr-17	-0.00309816	-0.004862862	-0.005065141	0.001966982	0.0667147	0.166470057
02-May-17	-0.020658867	-0.003341273	-0.003745952	-0.016912915	0.049801785	-1.431377908

03-May-17	0.015940657	-0.003006508	-0.003455716	0.019396373	0.069198158	1.641558482
04-May-17	0.006976528	0.001878634	0.000779612	0.006196915	0.075395073	0.524458831
05-May-17	0.019398941	-0.009400129	-0.008998868	0.028397809	**0.103792882**	**2.403370173**
08-May-17	0.020263636	0.00036871	-0.000529464	0.0207931	0.124585982	1.759766592
09-May-17	-0.010618436	-0.001476107	-0.002128887	-0.00848955	0.116096432	-0.718489603
10-May-17	-0.005167503	0.008649568	0.006649888	-0.011817392	0.104279041	-1.000132325
11-May-17	-0.003941756	-0.001937663	-0.002529047	-0.001412709	0.102866332	-0.11956073
12-May-17	-0.007249379	-0.00321803	-0.003639102	-0.003610277	0.099256055	-0.305545805
15-May-17	0.000208123	0.001147343	0.000145596	6.25263E-05	0.099318581	0.005291743
16-May-17	0.026684476	0.006288605	0.004602976	0.0220815	0.121400081	1.868806797
17-May-17	-0.019907675	0.001379647	0.000347	-0.020254674	0.101145407	-1.714198434
18-May-17	-0.011334044	-0.001051308	-0.001760593	-0.00957345	0.091571957	-0.81022253
19-May-17	-0.001189131	-0.002446983	-0.002970618	0.001781487	0.093353444	0.150771221
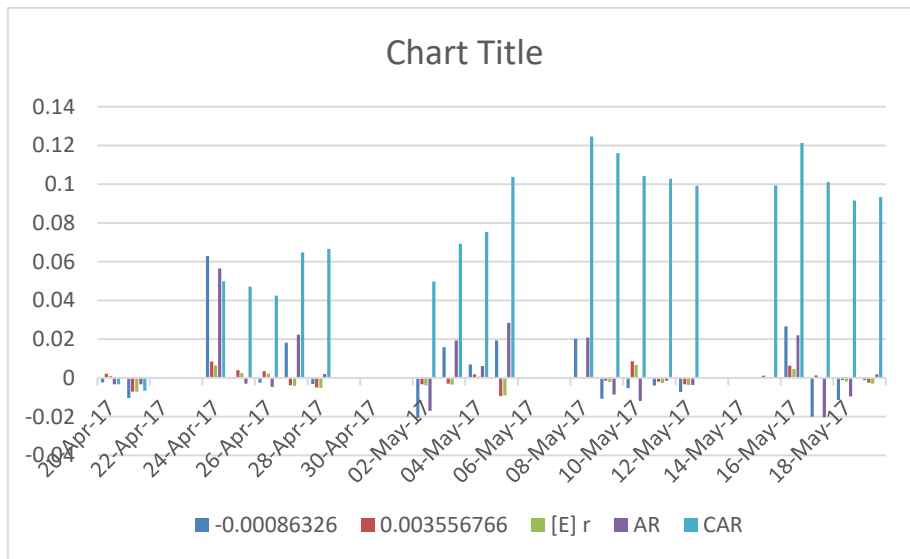
INTERPRETATION: From the above calculations ACC Ambuja is first give the negative impact but finally it is a positive results 2.403370173. Overall expected returns and abnormal returns and AR T-Test is positive impact.

4. FINDINGS

- It is found that there is a negative impact on the stock price when an economic event had taken place in an organization.
- The overall impact during the event window was fluctuating and on the event date it had negative returns.
- It is found that there was impact on the stock prices 2.403370173 it is after the event date.

SUGGESTIONS

1. It is suggested that an economic event will have a great impact on the stock prices of an organization.
2. It is better to evaluate the event for a better return where event study methodology is a useful tool.
3. The above analysis of stock price of had shown a positive market in the analysis.
4. It has to take steps to create awareness among the investors about the stock segment.
5. It has to take measures to use effectively the stock segment as a tool of hedging.

The main aim to this paper, merge the two companies that is ACC and Ambuja.Conclusion:From the above event I conclude that ACC LTD had a positive impact on stock prices of the company. The market reaction to this information is tested at different time horizons by means of event study methodology. The results show that market reaction is rather negative immediately before the announcement release and fluctuating over the following Ten-day-period starting on the event day. In this process show starting negative impacts but event period is getting positive impact. Merger is advantage to companies.

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