A STUDY ON THE IMPACT OF ACQUISITION ON SHARE PRICES

A PROJECT REPORT

Submitted

by

S. ASHISH

Reg. No. 0720400007

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for the award of the degree of

MASTER OF BUSINESS ADMINISTRATION

DEPARTMENT OF MANAGEMENT STUDIES

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SEPTEMBER 2008

BONAFIDE CERTIFICATE

KCT BUSINESS SCHOOL
DEPARTMENT OF MANAGEMENT STUDIES
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE

BONAFIDE CERTIFICATE

Certified that this project titled **"A STUDY ON THE IMPACT OF ACQUISITION ON SHARE PRICES"** is the bonafide work of **Mr. S. ASHISH** who carried out this project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Mr. A. SENTHIL KUMAR
FACULTY GUIDE

Prof. Dr. S. V. DEVANATHAN
DIRECTOR

Evaluated and viva-voce conducted on 1. 11. 08

Examiner I

Examiner II

Indiabulls

INDIABULLS SECURITIES LIMITED

MEMBER: NATIONAL STOCK EXCHANGE OF INDIA LIMITED.
SEBI REGD. NO.: INF230875632. CODE NO.: 08756.

Off.: 3rd Floor, Jaya Enclave Building, Near Anna Statue,
Avinashi Road, Coimbatore-641 018
Ph: 0422-420416; Website: www.indiabulls.com

PROJECT COMPLETION CERTIFICATE

This is to certify that **Mr. S. Ashish (Roll No. 072040007)** a student of KCT Business School, Kumaraguru College of Technology, had undergone a project between (16th June, 2008 to 19th July, 2008) entitled **"A Study on the Impact of Acquisitions on Share Prices"**.

During the tenure his performance was Good.

Signature of the
Organization Guide

Name and Designation
of the organization guide: Mr. ARVIND. PAREKH
AVP.

Indiabulls Securities Limited
Coimbatore-18

DECLARATION

DECLARATION

I hereby declare that the project work entitled **"A STUDY ON THE IMPACT OF ACQUISITION ON SHARE PRICES"** submitted for the **MASTER OF BUSINESS ADMINISTRATION** degree is my original work and the dissertation has not formed the basis for the reward of any Degree, Associateship, Fellowship or any other similar titles.

S. Ashish 20-10-08

S. ASHISH

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S. ASHISH

EXECUTIVE SUMMARY

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In recent years, there has been considerable interest in the risks associated with acquisition and its relating announcements. Several industry initiatives have acknowledged the potential impact of this limitation on the risks to which intermediaries and investors are exposed, principally in the operations of the back office.

The overall objective of this research project is to examine the ways in which acquisitions could benefit financial organizations and their customers by improving the effectiveness of their trading strategy and quality of advice to their clients.

Due to their nature, acquisitions have significant impact on share prices and the trading activity of the scrip. For example, acquisitions often provide new signals about their profitability and changes in their financial structure.

However, further examination of the way in which intermediaries and other investors actually use acquisitions would be required in order to evaluate the potential of acquisitions in the overall information set used to reach investment decisions and provide advice.

A study about the changes in the capital structure of the company pre and post acquisition shows how the acquisitions have impacted the company's capital and profit ratios. Statistical tests reveal the impact of the acquisitions and the announcements relating to it on the share prices.

The findings reveal the significance of the acquisitions and also provide a purview to investors on how to interpret the effects and to make reasonable decisions on buying and selling of shares.

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CHAPTER – 1

1. INTRODUCTION

1.1. BACKGROUND

The background of this project is to construct a better yielding investment strategy during the Acquisition periods. Industries were chosen based on the past performance of the industry in the economy and a growing one. Companies have been selected based on the importance and impact it had made on the India Inc. due to their acquisition. The stocks are large cap stocks, which are listed in the Nifty Index of the National Stock Exchange. There has been no period taken under consideration. Various ratios are used to study the effect of pre and post acquisition on the financial performance of the companies. With the help of the ratio analysis tools, a number of interpretations were formed to study the effect of acquisition on the respective share prices.

1.2. REVIEW OF LITERATURE

Diepold, Brian and Feinberg, Robert M. (2008)[1] point out that mergers have clearly represented a much more significant event, and we would anticipate a clearer share-price response both to announced mergers and to associated antitrust challenges. While such studies have been done in other countries (primarily for the US), we know of no prior research of this sort for Australia. In this paper they focus on a sample of about 50 mergers and acquisitions involving Australian companies from 1996 to 2003, examining the impact on share prices of the announcement of these mergers both on the firms involved and on rival firms.

Rosenberg, Yuval (2007)[2] in his article in Fortune has stated "With so many deals in the news, it's only natural for investors to wonder which company will be bought next and which stock will be next to see a pop. Before you start chasing rumors, though, bear in mind that you may already be profiting from the action. That's because the M&A wave has buoyed stock prices across the board, a number of market watchers say, by adding another source of demand for shares. In addition, companies' being taken private, combined with the recent spate of stock buybacks by those with large cash hoards, has also served to reduce the overall supply of shares."

de Saint-Seine, Sylviane (2006)[3] studied that First Technology turned from being the worst performer in the third quarter to the best performer in the fourth, with a 51.8 percent return. Shares shot up in December after a takeover bid by US industrial and aerospace conglomerate Honeywell International Inc. The deal is expected to close in the first half of this year. The acquisition marks the latest consolidation in the €130 billion global vehicle safety-technology sector. Germany's Siemens group is also considering acquisitions in the sector. Analysts say there is a possibility that Honeywell would spin off First Technology's automotive sensors division.

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[1] Diepold, Brian et al, 2008, "Merger Impacts on Investor Expectations: An Event Study for Australia", Vol. 15 Issue 1, p45-62, 18p.

[2] Rosenberg, Yuval, 2007, "Smart Ways To Play The M&A Boom.", Vol. 155 Issue 9, p109-112.

[3] de Saint-Seine, Sylviane, 2006, "Takeover boosts suppliers' shares.", Vol. 11 Issue 2, p21-21.

Kirby, Jason (2004)[4] has stated "many managers will argue you can't judge the success of a merger by share performance. On the other hand, it's also inadequate to analyze a wide spectrum of deals based on financial statements, largely because companies still enjoy so much leeway in how they account for transactions. As well, the market has historically shown a keen ability to assess the potential impact of major deals. Investors are good at predicting merger outcomes. In 68% of cases where an acquirer's share price was down one week after announcing a deal, the transactions went on to be value destroyers."

Langford, Ron (2004)[5] has noted "Mergers and acquisitions activity waxes and wanes in cycles. The most recent wave, and the largest ever, peaked in 2000 with $3.5 trillion worth of announced deals. The following year, activity turned downward sharply, influenced by falling share prices, a weakening in the U.S. economy, reports of vast goodwill write-offs, distressed disposals and high-profile integration failures. Yet study after study has shown that most deals destroy value for the acquirer's shareholders."

David Ernst and Tammy Halevy (2001)[6] studied the effects of alliance and M&A announcements on the share prices of more than 2,100 companies. Announcements of large alliances had "win rates"--positive impacts on the share prices of the parent companies--that were "substantially higher than the percentage for acquirers in M&A transactions," the authors note in "When to think alliance." Alliances are "better received than mergers and acquisitions in fast-moving, highly uncertain industries such as electronics, mass media, and software," they continue. "They are also the preferred choice for companies trying to build new businesses, enter new geographies, or access new distribution channels. Contractual alliances, simple and flexible, are better received by the market than more complicated equity joint ventures."

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[4] Kirby, Jason, 2004, "The Trouble With Mergers.", Vol. 77 Issue 4, p64-68, 5p
[5] Langford, Ron, et al, 2004, "Making M&A pay: lessons from the world's most successful acquirers.", Vol. 32 Issue 1, p5-14, 10p
[6] David Ernst and Tammy Halevy, 2001, "Does the Market Favor Alliances Over Mergers and Acquisitions?", Feb2001, Vol. 6 Issue 2, p12

Chao, Loretta (2008)[7] in his article reports on the acquisition of shares of big telecommunication operators in China as a series of speculative reports say that long-awaited industry restructuring is about to occur. However, it says that these acquisitions have been followed by waves of selling and erasing short-term increases in share prices. Liu Bin, analyst at BDA China Ltd., states that the restructuring is unlikely before summer since carriers need stable operations to assure good service for the Olympics.

Rosenberg, Yuval (2007)[8] in his article focuses on the profusion of mergers and acquisitions (M&A) in 2006 and 2007. The article discusses the tendency of investors to speculate which company will be bought next and discusses different business strategies that let investors safely engage in speculation. The article also mentions companies whose share prices have risen, and examines the funds and stocks of different companies.

Young, Peter (2008)[9] in his article offers information related to pronouncements coming from the chemical industry merger and acquisitions and strategic and financial trends. It provides thorough information that offers deep and accurate knowledge concerning business decisions of buyers and sellers who are active in the market. It also presents selective information concerning insufficient data gathered from the last six months of 2008 that turned out wrong.

Hsiang-Hsi Liu (2007)[10] in his study attempts to make an empirical contribution to the understanding of corporate performance in the telecommunications industry. Data envelopment analysis (DEA) is performed to assess corporate performance for the telecommunications sector in Taiwan and the relationships between corporate performance and merger and acquisition (M&A) transactions. The empirical results reveal that M&A strategy does not seem to enhance corporate performance in the telecommunications industry, whilst an internal growth strategy does improve corporate performance.

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[7] Chao, Loretta, 2008, Wall Street Journal - Eastern Edition, Vol. 251 Issue 13, pC8
[8] Rosenberg, Yuval, 2007, Fortune, Vol. 155 Issue 9, p109-112
[9] Young, Peter, 2008, ICIS Chemical Business, Vol. 273 Issue 25, p32-33
[10] Hsiang-Hsi Liu, 2007, Service Industries Journal, Vol. 27 Issue 8, p1041-1051

Barkema, Harry G. (2008)[11] in building on behavioral theory, he studies when and how firms unlock synergy from acquisitions over extended periods of time. We argue that initial integration is inevitably suboptimal and that, as a result, acquisitive growth decreases an acquirer's performance, eventually forcing it to engage in organizational restructuring to more fully unlock the synergistic potential. Hence, we conceptualize organizational restructuring as a second stage in the integration process. Moreover, we theorize about how acquisition-restructuring cycles evolve as firms gain acquisition and restructuring experience. We tested our theory using panel data on firms undertaking almost 1,600 acquisitions over four decades.

[11] Barkema, Harry G., 2008, Academy of Management Journal, Vol. 51 Issue 4, p696-722

1.3. STATEMENT OF THE PROBLEM

In recent years, there has been considerable interest in the risks associated with acquisitions. Several industry initiatives have acknowledged the potential impact of this limitation on the risks to which intermediaries and investors are exposed, principally in the operations of the back office. However, market participants are increasingly recognizing the advantage that accurate and timely acquisition information can provide in the implementation of their trading strategies and provision of investment advice to their clients.

The problem to be solved through this research project is to examine the ways in which accurate and timely acquisition information could benefit financial organizations and their customers by improving the effectiveness of their trading strategy and quality of advice offered to their clients. On the other hand, investors might use acquisition information to develop strategies that make use of predictable movements in share prices, or take advantage of the ability to predict changes in share price volatility. At the same time, predictable movements in trading activity are likely to provide greater understanding of the trading liquidity that investors can expect to observe on a given day.

1.4. OBJECTIVES OF THE STUDY

Primary objective:

- To find out the impact of acquisitions over share prices.

Secondary objective:

- To find out the change in the capital structure of the company before and after the acquisition based on the following financial ratios
    - Current Ratio
    - Debt-Equity ratio
    - Return on Capital Employed
    - Return on Net Worth
    - Return on Assets
- To find out the trend in profitability of the company (+/-) 4 quarters of the acquisition based on the following financial ratios
    - Gross Profit Ratio
    - Net Profit Ratio
    - Operating Profit Ratio

1.5. SCOPE OF THE STUDY

The notion that acquisitions might have strong implications for share prices and investor behavior is, in general, accepted by practitioners. However, this belief is usually founded on observations related to the capital structure changes of the company. Some of the factors attributing to the above statement are the changes in the different ratios involving capital structure and these facts are documented in both the academic literature and popular press.

The scope of this study is to consider the broader range of acquisition, and to seek evidence on whether the share price and trading activity effects can be observed in this wider spectrum, and whether these effects go beyond the acquisition date.

1.6 LIMITATIONS

The limitations are,

1. The companies are taken from National Stock Exchange listed Nifty-50 companies.
2. The parameters of acquisitions are limited to few variables. However other variables also may affect share prices.
3. Only 3 companies are taken for the study.

1.7 INDUSTRY ANALYSIS

The Indian financial sector is on a roll. Driven by a strong investor interest and an expanding market, the Indian stock market rose to record levels, with the popular Sensex crossing 21,000 and Nifty crossing the 6,000 mark for the first time.

The industry is also becoming more vibrant, with new types of products and services being offered to meet the needs of the booming economy. For example, in the derivatives market, the notional principal amount outstanding has more than trebled between March 2005 and June 2007 to US$ 24.09 billion from US$ 6.836 billion.

The buoyancy in the economy is also estimated to lead to a four-fold increase in India's investable wealth from US$ 250 billion in 2007 to US$ 1 trillion. Simultaneously, according to a report by Celent, an international consultancy firm, India's wealth management will rise to an estimated 42 million by 2012 from about 13 million in 2007.

Stock Markets

The year 2007 saw Indian stock markets scaling new peaks. It has emerged as the third best performing market in the world with a dollar return of 71.23 per cent. The popular Bombay Stock Exchange (BSE) benchmark index, sensex, also posted its highest ever absolute gain of 6500 points in over two decades.

This performance of Indian stock markets has led to the total investor wealth of Bombay Stock Exchange (BSE) surging to a record high of over US$ 1.7 trillion, with an average increase of over US$ 10.18 million in every minute of trading during 2007. At the end of 2006, the total market capitalisation stood at US$ 812 billion.

Simultaneously, the National Stock Exchange (NSE) has climbed to the top spot in stock futures contracts and number-two slot in the index futures segment in the world.

According to Ernst & Young, India was also the fifth largest market in terms of number of IPOs and seventh largest in terms of the proceeds for the year. Indian companies raised a whopping US$ 11.48 billion through public issues in 2007, which is 83 per cent higher than US$ 6.28 billion mobilized in 2006.

Private Equity

The year 2007 was a watershed for private equity market, which has emerged as the most preferred mode of fund mobilization for India Inc. The capital mobilised through this route was higher than the funds mobilized through IPOs, follow-on issues and qualified institutional placements put together.

India, in fact, topped the Asia private equity chart for the first time in 2007 in terms of aggregate deal value. According to Grant Thornton, a total of US$ 17.14 billion was mobilised through 386 deals by India Inc in 2007, compared to US$ 7.8 billion in 2006. Real estate, infrastructure, banking and financial services were the dominant sectors attracting about 55 per cent of the total private equity investments.

Mutual Funds

India is also one of the fastest growing market for mutual funds industry attracting a host of global players. The combination of increasing number of fund houses (along with new schemes) and increase in the number of people parking their savings in mutual funds has resulted in total funds mobilisation increasing at a whopping 124.93 per cent during 2007-08 to stand at US$ 1.11 trillion as against US$ 485.13 billion in 2006-07.

The average assets under management (AUM) of the mutual fund industry for March 2008 stood at US$ 134.76 billion as against US$ 89.86 billion at the end of 2006, representing a year on year growth of 49.96 per cent.

With accelerating investor interest shown in mutual fund segment, the number of investor folios of the MFs increased to 43.7 million at the end of March 2008, from 27.9 million at the end of January 2007 (a growth rate of 54 per cent). Simultaneously, there has been an increase in the number of distributors to 72,108 (excluding 107 banks) till March 2008 from 54,000 in January 2007.

Banking

The burgeoning economy, surging foreign investment, financial sector reforms and a favorable demographic profile has led to the Indian banking industry emerging as one of the fastest growing in the world. The industry's business grew at a CAGR of 20 per cent from US$ 471.11 billion as of March 2002 to US$ 1175.61 billion by March 2007. Significantly, the newly licensed private sector business has grown almost twice (1.75 times) as that of banking industry as a whole, leading to their share in total banking business increasing from 9 per cent in 2001-02 to 16 per cent in 2006-07. This boom in the banking industry has propelled nine Indian banks to the list of top 50 Asian Banks, as per this year's Asian Banker 300 report. Similarly, seven Indian microfinance institutions find place in Forbes list of World's Top 50 Microfinance Institutions.

Insurance

The liberalization of the rules for the entry of domestic and foreign players has had a favorable impact on this sector, leading to premium collections growing by 19.9 per cent in 2006-07, compared to the world average of 2.9 per cent. Consequently India became the 15th largest insurance market from 19th in 2005.

This growth looks particularly impressive when seen against the fact that the combined penetration of both life and non-life is less than 2% of the GDP compared to world average of 7.52%. Clearly, the scope for growth is enormous.

Debt Market

While the Indian financial sector was dominated by the stellar performance of the stock markets, the Indian debt market had its own share of excitement. India Inc increased its collections through the debt market by as much as 53.84 per cent to US$ 20 billion in 2007 from US$ 13 billion in 2006.

According to a report by Goldman Sachs, with insurance, mutual funds and pension sector experiencing rapid growth, India's debt market is estimated to grow four fold, from about US$ 400 billion (45 per cent of GDP) in 2006 to about US$ 1.5 trillion (about 55 per cent of GDP) by 2016.

1.8. ORGANIZATIONAL PROFILE

1.8.1. ABOUT THE ORGANIZATION

Indiabulls Group is one of the top 15 business houses in country with business interests in Real Estate, Infrastructure, Financial Services, Retail, Multiplex and Power sector. Indiabulls Group companies are listed in Indian and overseas markets and have a market capitalization of over USD 7 billion. The Networth of the Group exceeds USD 2 billion. Indiabulls Group companies enjoy highest ratings from CRISIL, a subsidiary of Standard and Poor's. Indiabulls has been conferred the status of a "Business Superbrand" by The Brand Council, Superbrands India.

Indiabulls Financial Services Limited, the parent company from which Indiabulls Real Estate and Indiabulls Securities were demerged, is India's leading Non-Banking Finance Companies (NBFC) which is primarily into extending retail and commercial loans and distribution of third party products. IBFSL is amongst 68 companies constituting MSCI - Morgan Stanley India Index. IBFSL is also part of CLSA's model portfolio of 30 Best Companies in Asia. The lending business of IBFSL is rapidly growing with loan assets of Rs. 104,410 million as of 31 March, 2008.

1.8.2. HISTORY OF THE ORGANIZATION

Indiabulls has emerged as one of the leading and fastest growing financial company in less than two year, since its initial public offering in September 2004. It has a market capitalization of around 6,300 million (31st December, 2007) and consolidated net worth of the group is around USD 905 million.

2000-2001:

Indiabulls Financial Services Ltd. established India's one of the first trading platforms with the development of an in house team.

2001-2003:

Indiabulls expands its service offerings to include Equity, F&O, Wholesale Debt, Mutual fund, IPO distribution and Equity Research.

2003-2004

Indiabulls ventured into Insurance distribution and commodities trading. Company focused on brand building and franchise model.

2004-2005

Indiabulls came out with its initial public offer (IPO) in September 2004. Indiabulls started its consumer finance business. Indiabulls entered the Indian

Real Estate market and became the first company to bring FDI in Indian Real Estate. Indiabulls won bids for landmark properties in Mumbai.

2005-2006

Indiabulls has acquired over 115 acres of land in Sonepat for residential home site development. Merrill Lynch and Goldman sac, one of the renowned investment banks in the world have increased their shareholding in Indiabulls. Indiabulls is a market leader in securities brokerage industry, With around 31% share in online trading, Farallon Capital and its affiliates, the world's largest hedge fund committed Rs. 2000 million for Indiabulls subsidiaries Steel Tycoon Mr. LN Mittal promoted LNM India Internet venture Ltd. acquired 8.2% stake.

2006-2007

Indiabulls entered in a 50/50 joint venture with DLF, Kenneth Builders & Developers (KBD). KBD has acquired 35.8 acres of land from Delhi Development Authority through a competitive bidding process for Rs 450 crore to develop residential apartments. Indiabulls Financial Services Ltd. is included in the prestigious Morgan Stanley Capital International Index (MSCI). Farallon Capital has agreed to invest Rs. 6,440 million in Indiabulls Financial Services Ltd. Indiabulls ventured into commodity brokerage business.

1.8.3. MANAGEMENT

INDIABULLS SECURITIES LIMITED

Mr. Divyesh B Shah

Director

Mr. Ashok Sharma

Director

Mr. Rajiv Rattan

Director

Mr. Saurabh K Mittal

Director

Mr. Aishwarya Katoch

Director

Mr. Karan Singh

Director

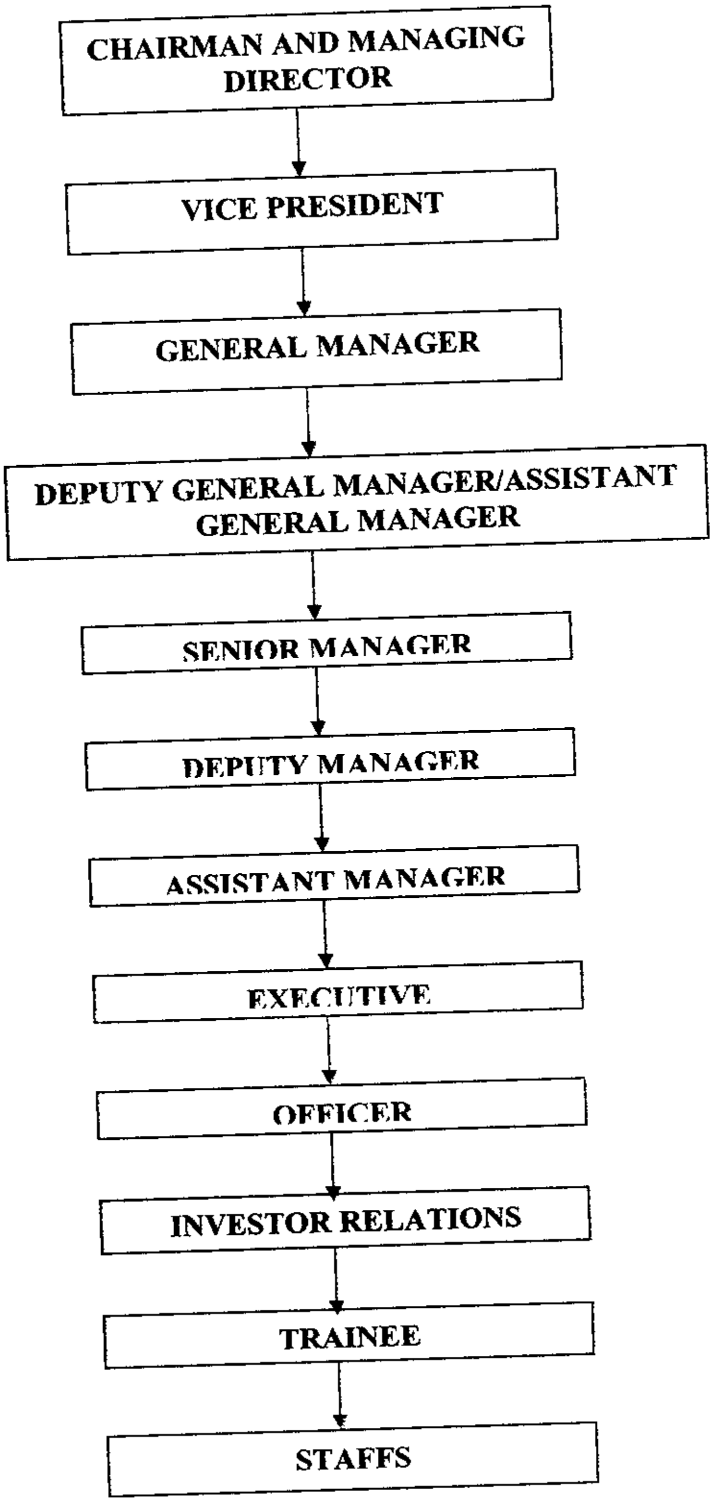
Mr. Prem Prakash Mirdha

Director

Mr. Labh Singh Sitara

Director

1.8.4. ORGANIZATIONAL STRUCTURE



1.8.5. PRODUCTS PROFILE

STOCK BROKING SERVICES

It is an undisputed fact that the stock market is unpredictable and yet enjoys a high success rate as a wealth management and wealth accumulation option. The difference between unpredictability and a safety anchor in the market is provided by in-depth knowledge of market functioning and changing trends, planning with foresight and choosing one and request options with care. This is what Indiabulls provide in its Stock Broking services.

Indiabulls offer services that are beyond just a medium for buying and selling stocks and shares. Instead Indiabulls provide services which are multidimensional and multifaceted in their scope. There are several advantages in utilizing our stock broking services, which are the reasons why it is one of the best in the country.

Indiabulls offers trading on a vast platform. National Stock Exchange and Bombay Stock Exchange. More importantly, Indiabulls makes trading safe to the maximum possible extent, by accounting for several risk factors and planning accordingly. Indiabulls is assisted in this task by in-depth research, constant feedback and sound advisory facilities. The highly skilled research team, comprising of technical analysts as well as fundamental specialists, secure result-oriented information on market trends, market analysis and market predictions.

CONSUMER FINANCE

Indiabulls being a retail focused organization fulfills the credit need of a large percentage of population in India. The key aspect of Indiabulls business model is to provide an extremely unique customer experience. The blend of power of the Internet with personalized services allows Indiabulls to expand its geographical coverage and capture a greater share in the highly competitive retail market.

1. **SME Loans**
2. **Builder Loans**
3. **Commercial Vehicle Loans**
4. **Insurance**

MORTGAGE LOANS

Indiabulls has commenced lending of Mortgage Loans to prospective customers under the flagship of Indiabulls Housing Finance Ltd.

1. **Indiabulls Home Loans**
2. **Loan Against Property**

REAL ESTATE

Indiabulls Real Estate Limited (IBREL) with projects covering a total land area in excess of 10000 acres is one of the largest listed real estate companies in India and a leading national player across multiple realty and infrastructure sectors. IBREL projects include High-end Office and Commercial Spaces, Premium Residential Developments, Integrated Townships, Luxury Resorts and Special Economic Zones. IBREL is partners with internationally renowned consultants and construction companies for its developments at various stages of execution.

- **Indiabulls Properties Private Limited**
- **Indiabulls Real Estate Company Private Limited**
- **Indiabulls Estate Limited**
- **Indiabulls Infrastructure Development Limited**

CHAPTER II

METHODOLOGY

CHAPTER – 2

2. METHODOLOGY

2.1. TYPE OF STUDY

Research methodology is the manipulation of things, concepts and symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art. Research methodology is thus an original contribution to the existing stock of knowledge making for its advancement.

Descriptive research includes survey and fact finding enquiries of different kinds. The major purpose of descriptive research is description of state of affairs as it exists at present. In analytical research, on the other hand, the researcher has to use facts of information already available, and analyze these to make a critical evaluation of the material.

Since, the researcher doesn't have any control over the variables and reports after conducting an analytical study pursue here is descriptive cum analytical research.

2.2. SAMPLING DESIGN

A systematic process that connects all the details of the sampling, right from the determination of sample size of the collection of data.

2.2.1. Method of sampling

Sampling method can be broadly classified as Random or Probability Sampling, where every element of the population enjoys equal chance of being selected into the sample and Non-random or Non-probability sampling where all the elements of the population do not get equal chance of being selected into the sample. The present study adopts the probability sampling.

2.2.2. Sampling Type

Under the Probability or Random Sampling Method, there are two types namely Simple / Unrestricted Random Sampling and the other one Restricted Random Sampling. The present study adopts the Restricted Random Sampling Method.

2.2.3. Sampling Technique

There are three techniques available under the Restricted Random Sampling type. The Stratified Random Sampling where the Sample is selected at random from each of the homogeneous layers or stratums of the population. The Stratified Random Sampling can further be sub-divided into Proportionate Stratified Random Sampling Technique where the same number of items are selected from each stratum and the Disproportionate Stratified Random Sampling Technique where the number of items selected is not same for all the stratums. The Systematic Random Sampling where the first element of the sample is selected at random and the remaining items at even intervals. The Multistage or Cluster Sampling where the samples are selected at random at different stages of the sampling process.

The stocks are chosen from the top sector performing in the recent years, the sectors are identified as Stratum.

1. Steel
2. Banks
3. Pharmaceuticals

The sample units among based on the market capitalization and the sales the scrips are chosen.

1. Steel
    I. Tata Steel
2. Banks
    I. HDFC Bank
3. Pharmaceuticals
    I. Sun Pharmaceutical Industries Limited

The sampling technique chosen for the study is Proportionate Stratified Random Sampling.

Company Fact Sheet

Name of the company	Tata Steel
Age of the company	101 years
Headquarters	Mumbai, India
Debt-Equity ratio (2008)	0.660117513
Products	Hot and cold rolled coils and sheets, galvanized sheets, tubes, wire rods, rings and bearings.

Name of the company	HDFC Bank
Age of the company	14 years
Headquarters	Worli, India
Debt-Equity ratio (2008)	0.876459808
Products	Wholesale, retail, savings, loan, credit card, insurance, investment and depository financial services.

Name of the company	Sun Pharmaceutical Industries Limited
Age of the company	25 years
Headquarters	Mumbai, India
Debt-Equity ratio (2008)	0.024365318
Products	Oral tablets and capsules, injectables, and nasal sprays, steroids, peptides, and hormones

2.3. METHOD OF DATA COLLECTION

The data for the study has been collected based on the financial performance of the acquired company's pre and post acquisition period. These data are efficiently used based on the methods given in the chapter, secondary data is one which is already existing, widely published and easily available data. The secondary data is used for the study. The secondary data is collected from;

i. Company websites
ii. www.moneycontrol.com
iii. www.nseindia.com

2.4. TOOLS FOR ANALYSIS

Statistical Tool and Financial Ratios are used as tools for analysis purposes.

2.4.1. Student's 'T' Test for Difference of Means – To test the significant difference between two means of two different sample sizes.

Null Hypothesis (H_0) = There is no significant change in the share prices pre and post acquisition periods.

Alternative Hypothesis (H_1) = There is a significant change in the share price pre and post acquisition periods.

If Significance level is <0.05, reject Null Hypothesis

If Significance level is >0.05, accept Null Hypothesis

2.4.2. Balance Sheet Financial Ratios

Current Ratio: Current Assets/Current Liabilities.

Debt to Equity:

(Net Debt: Secured Loan + Unsecured Loan - Cash and Bank Balance - Current Investments)

(Equity = Shareholders' Fund – Miscellaneous Expenses)

Return on Capital Employed: Earnings Before Interest and Tax/Average Capital Employed.
(Capital Employed: Total Assets – Current Liabilities).
Return on Net Worth: Profit After Tax/Average Net Worth.
(Net Worth: Share Capital + Reserves & Surplus – Miscellaneous Expenses to the extent not written off or adjusted).
Return on Assets: Reported Net Profit/Total Assets

2.4.3. Quarterly Results Financial Ratios

Gross Profit Ratio: Gross Profit/Net Sales
Net Profit Ratio: Net Profit/Net Sales
Operating Profit Ratio: Operating Profit/Net Sales

2.5 VARIABLES USED IN THE STUDY

1. Current Assets
2. Current Liabilities
3. EBIT – Earnings Before Interest and Tax
4. PAT – Profit After Tax
5. Average Capital Employed
6. Average Net Worth
7. Net Profit
8. Total Assets
9. Net Sales
10. Gross Profit
11. Operating Profit
12. Closing market price of scrips

CHAPTER III

MACRO-MICRO ANALYSIS

CHAPTER – 3

MACRO-MICRO ANALYSIS

The Indian economy has moved decisively to a higher growth phase. With growth in GDP at market prices exceeding 8 per cent in every year since 2003-04 the projected economic growth of 8.7 per cent for 2007-08 is fully in line with this trend.

There was acceleration in domestic investment and saving rates to drive growth and provide the resources for meeting the 9 per cent (average) growth target of the Eleventh Five Year Plan. Macroeconomic fundamentals continue to inspire confidence and the investment climate is full of optimism. Buoyant growth of government revenues made it possible to maintain fiscal consolidation. Inflation flared up in the last half of 2006-07 and was successfully contained during the current year, despite a global hardening of commodity prices and an upsurge in capital inflows.

Expressing concern over slowdown in the consumer goods segment of industry and infrastructure constraints, the Economic Survey calls for additional reforms to raise growth to double digit.

Growth in 2006-07 initially estimated at 9.2 per cent in February 2007 was revised upwards to 9.4 per cent in May 2007 and further to 9.6 per cent on January 31, 2008, suggesting that upward adjustments in the 2007-08 projections are possible. GDP at current market prices is projected at Rs. 46,93,602 crore in 2007-08. Thus, in the current fiscal year, the size of the Indian economy at market exchange rate will cross US$ 1 trillion.

The growth in the services sector continued to be broad based with "transport and communication" being the fastest growing with an average of 15.3 per cent per annum during the 10th Five Year Plan followed by "construction". The contribution of the construction sector increased to 10.8 per cent while that of telecom to 11.4 per cent. There was 13.9 per cent growth in the financial services comprising banking, insurance and business services in 2006-07.

A notable feature of the recent GDP growth has been a sharply rising trend in gross domestic investment and saving with the former rising by 13.1 per cent of GDP and the latter by 11.3 per cent of GDP over five years till 2006-07. Both private and public savings have contributed to higher overall savings while the increase in investment has been driven by private investment.

Annual average growth of Money reached a trough of 13 per cent in 2003-04 and has been on an accelerating trend since then, reaching 19.5 per cent in 2006-07. However, in contrast to money supply, average credit growth slowed marginally to 26.8 per cent in 2006-07 and has decelerated further in 2007-08.

On balance of payments there is considerable uncertainty in quantifying the downside risk to global growth arising from the downturn in housing market and the sub-prime mortgage market crisis in the United States. Monetary policy actions by the United States and other developed countries seem to have contained the immediate impact, though more surprises in the next six months cannot be ruled out.

Noting that the composition of capital flow is also changing, the Economic Survey says that the most welcome feature of increased capital flows is the 150 per cent increase in net foreign direct investment inflows in 2006-07 to US$ 23 billion. The trend has continued in the current financial year with gross FDI inflows reaching US$ 11.2 billion in the first six months.

India's greater integration with the world economy was reflected by the trade openness indicator, the trade to GDP ratio, which increased from 22.5 per cent of GDP in 2000-01 to 34.8 per cent of GDP in 2006-07. The exports and imports grew by 22.6

per cent and 24.5 per cent respectively in 2006-07, recording the lowest gap between growth rates after 2002-03. In the first nine months of the current year, exports reached US$111 billion, nearly 70 per cent of the year's export target. Imports grew by 25.9 per cent during April-December 2007 due to non-POL imports growth of 31.9 per cent, implying strong industrial demand by the manufacturing sector and for export activity.

The industrial sector witnessed a slowdown in the first nine months of the current financial year. The growth of 9 per cent during April-December 2007, when viewed against the back drop of the robust growth witnessed in the preceding four years, suggests that there is a certain degree of moderation in the momentum of the industrial sector.

The share of the Central Government expenditure on social services, including rural development, in total expenditure (plan and non-plan), has increased from 10.97 per cent in 2001-02 to 16.42 per cent in 2007-08. The demographic dividend will manifest itself as a rise in the working age population aged 15 to 64 years from 62.9 per cent in 2006 to 68.4 per cent in 2026. To tap this dividend, the Eleventh Five Year Plan focuses on ensuring better delivery of healthcare, skill development and encouragement of labour intensive industries.

Agricultural growth, dependent as it is on the monsoon, continued to fluctuate. The overall food grains production in 2007-08 is expected to fall short of the target by 2.2 million tonnes, though it is expected to be 10.1 million tonnes higher compared to the second estimates for 2006-07. While the production of Kharif food grains is expected to be 5.3 million tonnes (4.8 per cent) higher than the production in 2006-07, rabi production is expected to be lower by 3.3 million tonnes.

Expressing concern over the loss of dynamism in the agriculture and allied sectors in recent years there is a need for the second green revolution, particularly in the areas which are rain-fed, to improve the income of the persons dependent on the agriculture sector.

Stock markets are an important instrument of financial intermediation. They saw increased activity in 2007-08. The Bombay Stock Exchange (BSE) Sensex rose from 13,072 at end-March 2007 to 18,048 as on February 18, 2008, while the National Stock Exchange (NSE) index Nifty 50 rose from 3,822 to 5,277 during the same period. Both the indices gave a return of around 38 per cent during this period.

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATION

The acquisitions of following 3 companies were selected for analyzing their influence on their share prices.

The Balance Sheet and Profit & Loss statements of pre and current acquisition periods of the 3 companies are taken and the comparative ratios are prepared to show the effect of the acquisitions.

The closing prices of these companies are taken (+/-) 6 months from the acquisition and are depicted via chart to show the fluctuations in the share prices. The prices of the shares are used to calculate average returns and then conduct Paired T-Test.

4.1. Analysis of Tata Steel acquisition of Corus Group plc (2 Apr, 2007)

Balance Sheet – Financial Ratios

Table 4.1

Financial Ratios	2006-2007	2007-2008
Current Ratio	0.537248553	0.528109134
Debt-Equity Ratio	0.684252792	0.660117513
Return On Capital Employed	41.83400183	22.94935884
Return on Net Worth	29.95250476	17.16814898
Return on Assets	17.78385341	10.34152634

Quarterly Results – Financial Ratios

Table 4.2

Financial Ratios	Q1 06-07	Q2 06-07	Q3 06-07	Q4 06-07	Q1 07-08	Q2 07-08	Q3 07-08	Q4 07-08	Q1 08-09
GP Ratio	42.5504	33.5965	33.3537	33.2264	43.9608	44.2993	43.4997	42.3563	49.2585
NP Ratio	24.4499	18.9324	17.6624	19.6793	29.1146	24.8863	21.4837	21.014	24.1426
OP Ratio	40.5519	30.798	31.6601	32.1202	40.4798	42.3281	42.1521	41.8764	49.0603

GP – Gross Profit; NP – Net Profit; OP – Operating Profit

Tata Steel Share Price Graph for period (3 Oct, 06 to 3 Oct, 07)

Chart 4.1

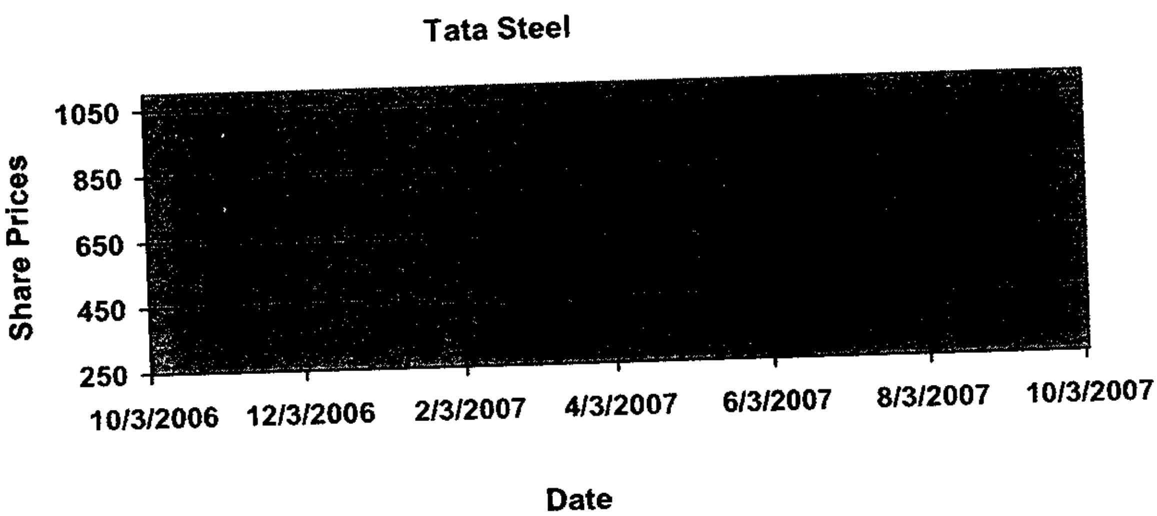


Table 4.3 Paired Samples Test between pre and post acquisition period average stock returns

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference: Lower	95% Confidence Interval of the Difference: Upper			
Preacq-Postacq	-6.308	3.6772	3.3429	-1.2927	3.1034	-1.887	120	0.062

Table 4.4 Paired Samples Test between stock average returns and market average returns (Pre-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PreacqS-PreacqM	-1.847	1.8477	1.6798	-5.173	1.4783	-1.100	120	0.274

Table 4.5 Paired Samples Test between stock average returns and market average returns (Post-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PostacqS-PostacqM	2.884	2.1989	1.9512	-9.770	6.7458	1.478	126	0.142

INTERPRETATION

Balance Sheet Ratio

Tata Steel has noticed considerable changes in its profits and shareholding patterns after its acquisition of Corus. During the financial year 07-08 the company's PBIT has increased by a marginal 21% when compared to 121% increase in its capital employed which is more than double over previous year. This has resulted in a dip of 45% in its ROCE. Similarly the company has lost ground on its Return on Net Worth and ROA by falling 42% and 41% respectively over the previous year levels.

Quarterly Results Ratio

A comparison over pre and post four quarters of the acquisition quarter shows that the Gross Profit has increased almost 30% from Q4 06-07 to Q1 07-08. Similarly Net Profit has increased 52% when comparing Q4'07 and Q1'08 and an increase of 25% for the same period in Operating Profit.

Paired T-Test

Two Paired T-tests were conducted; 1) between the company's pre and post acquisition period average stock returns; 2) the pre and post acquisition period average stock returns between the company and the market (Nifty). In the first case the significance turned out to be 0.062 and in the second case it was 0.274 and 0.142.

4.2 HDFC Bank acquisition of Centurion Bank of Punjab (25 Feb, 2008)

Balance Sheet – Financial Ratios

Table 4.6

Financial Ratios	2006-2007	2007-2008
Current Ratio	0.263382699	0.267935377
Debt-Equity Ratio	1.061656265	0.876459808
Return On Capital Employed	3.08859925	3.062280606
Return on Net Worth	17.73781118	13.83046177
Return on Assets	1.250717784	1.193993539

Quarterly Results – Financial Ratios

Table 4.7

Financial Ratios	Q4 06-07	Q1 07-08	Q2 07-08	Q3 07-08	Q4 07-08	Q1 08-09
GP Ratio	85.450507	87.837507	85.971914	86.3863728	81.279895	80.78377
NP Ratio	17.266907	15.110448	15.787892	15.74535186	15.936445	12.82122
OP Ratio	85.450507	63.573673	65.55596	61.49033701	62.6971294	64.39878

GP – Gross Profit; NP – Net Profit; OP – Operating Profit

HDFC Bank Share Price Graph for period (24 Aug. 07 to 25 Aug. 08)

Chart 4.2

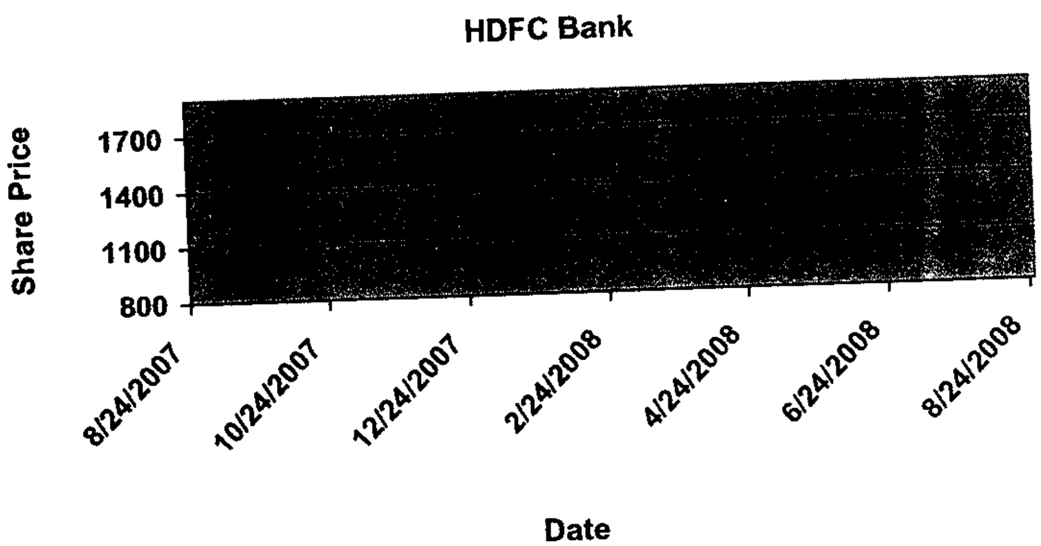


Table 4.8 Paired Samples Test between pre and post acquisition period average stock returns

	Paired Differences					T	Df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Preacq-Postacq	4.030	4.6834	4.2402	-4.3641	1.2425	0.951	121	0.344

Table 4.9 Paired Samples Test between stock average returns and market average returns (Pre-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PreacqS-PreacqM	9.2887	2.1260	1.8865	-2.804	4.6623	0.492	126	0.623

Table 4.10 Paired Samples Test between stock average returns and market average returns (Post-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PostacqS-PostacqM	5.6496	2.2775	2.0619	-3.517	4.6471	0.274	121	0.785

INTERPRETATION

Balance Sheet Ratio

HDFC Bank had maintained a consistent Current ratio, also the company has raised its equity component thereby a reduction in the debt-equity ratio. It has faced a little change in its ROCE ratio. HDFC's return on Net Worth declined by about 22% forgoing an increase in its networth by about 78% and increase in net profit of 39%. Similarly the company's Return on Assets decreased by 4%.

Quarterly Results Ratio

The quarterly result shows the profit and the interest earned by HDFC Bank and the company's Gross Profit ratio shows a declining trend. The GP ratio declined by 6% from Q3 '08 to Q4 '08. The company's Net Profit ratio pre acquisition has been consistent, but declined in the post acquisition period i.e. Q4 '08 over Q1 '09 by 20%. Contradictory to the above the Operating Profit of the company has been on the same line.

Paired T-Test

Two Paired T-tests were conducted; 1) between the company's pre and post acquisition period average stock returns; 2) the pre and post acquisition period average stock returns between the company and the market (Nifty). In the first case the significance level was 0.344 and in the second case it was 0.632 and 0.785.

4.3 Sun Pharmaceutical Industries acquisition of Taro Pharma (21 May, 2007)

Balance Sheet – Financial Ratios

Table 4.11

Financial Ratios	2006-2007	2007-2008
Current Ratio	1.967007502	1.736204226
Debt-Equity Ratio	0.436070366	0.024365318
Return On Capital Employed	21.92686317	32.13736249
Return on Net Worth	25.67595704	24.10008508
Return on Assets	17.87931681	23.526846

Quarterly Results – Financial Ratios

Table 4.12

Financial Ratios	Q1 06-07	Q2 06-07	Q3 06-07	Q4 06-07	Q1 07-08	Q2 07-08	Q3 07-08	Q4 07-08	Q1 08-09
GP Ratio	40.7494	39.3517	43.8634	45.6991	43.8869	34.2926	43.2939	61.2049	53.5058
NP Ratio	36.7817	34.9484	39.7415	41.9063	38.7299	34.2776	41.8511	59.0596	50.6326
OP Ratio	35.396	31.8618	32.0958	28.3927	34.2375	32.6306	41.0662	56.7847	48.9776

GP – Gross Profit; NP – Net Profit; OP – Operating Profit

<u>Sun Pharmaceutical Industries Share Price Graph for period (22 Nov, 06 to 21 Nov, 07)</u>

Chart 4.3

Sun Pharma

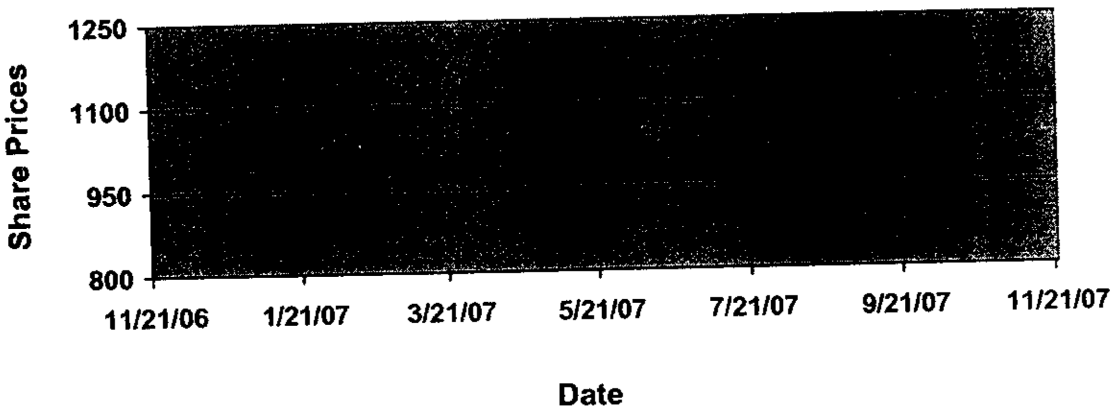


Table 4.13 Paired Samples Test between pre and post acquisition period average stock returns

	Paired Differences					T	Df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Preacq-Postacq	0.0464	2.4031	2.2029	-3.898	4.8265	0.211	118	0.834

Table 4.14 Paired Samples Test between stock average returns and market average returns (Pre-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PreacqS-PreacqM	-2.271	1.8237	1.6718	-3.537	3.0835	-0.136	118	0.892

Table 4.15 Paired Samples Test between stock average returns and market average returns (Post-acquisition period)

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
PostacqS-PostacqM	-2.668	1.8834	1.7265	-6.087	7.5081	-1.545	118	0.125

INTERPRETATION

Balance Sheet Ratio

Sun Pharmaceuticals' Current ratio declined by 11% 06-07 over 07-08. The company had decreased its debt component and raised equity in the financial year 07-08 thereby brining its debt-equity ratio down by 94%. The company's Return on Capital Employed had a nice increase of 46%, but on the contrary the Return on Net Worth declined by 6%. Its Return on Net Assets was also on the lines of ROCE by having an increase of 31%.

Quarterly Results Ratio

The company's Gross Profit declined by 4% in its acquisition quarter of Q1 '08 from its previous quarter. It further declined by 28% in its succeeding quarter. Similar trend was visible in its Net Profit Ratio which declined by 8 in its acquisition quarter from its previous quarter and by 12% in the succeeding quarter. On the contrary the company's Operating Profit increased by 21% in its acquisition quarter from its previous quarter.

Paired T-Test

Two Paired T-tests were conducted; 1) between the company's pre and post acquisition period average stock returns; 2) the pre and post acquisition period average stock returns between the company and the market (Nifty). In the first case the significance level was 0.834 and in the second case it was 0.892 and 0.125.

CHAPTER V

FINDINGS AND INFERENCE

CHAPTER – 5

FINDINGS AND INFERENCES

FINDINGS

TATA STEEL

On performing the Paired T-test between the means of pre acquisition period average stock returns and post acquisition period average stock returns the significance level was much higher than 0.05. Moreover the scrip's value hasn't impacted the market's (Nifty) value which was substantiated by the T-test results. These results have accepted the null hypothesis i.e. there is no significant change in the share prices on the Tata Steel's acquisition of Corus. The reaction of investors over the 12 month period hadn't made a significant change to its scrip prices.

HDFC BANK

The bank's acquisition hadn't caused any major changes in its scrip value when studied for about 12 months (+/-6) months of acquisition. The T-test showcases this fact. The significance levels for Paired t-test between pre and post acquisition period average stock returns and also between pre and post acquisition period average stock returns of the company and the market (Nifty) accept null hypothesis stating there is no significant changes in scrip prices.

SUN PHARMACEUTICALS LIMITED

On performing the Paired T-test between the means of pre acquisition period average stock returns and post acquisition period average stock returns the significance level was much higher than 0.05. Moreover the scrip's value hasn't impacted the market's (Nifty) value which was substantiated by the T-test results. These results have accepted the null hypothesis i.e. there is no significant change in the share prices. The reaction of investors over the 12 month period hadn't made a significant change to its scrip prices.

INFERENCES

TATA STEEL

Tata Steel is one of India's largest companies and is amongst the world's lowest cost steel producers and most profitable steel companies. Corus Group plc is Europe's second largest steel producer and the combined entity is the fifth largest steel producer in the world. Tata had employed more capital into the system for acquisition purposes and has seen some considerable increase in its profits when compared to previous year. The company's scrip had reacted moderately to the acquisition news which was in the air for almost a year and also on the day of the acquisition announcement.

HDFC BANK

The profitability of HDFC Bank was consistent in the pre acquisition quarters but suddenly dipped in the quarter in which the acquisition took place and also had an effect in its succeeding quarters. The company also cautiously increased its equity component thereby erasing the interest payment obligation in debt financing. The market had reacted in a mysterious manner for HDFC scrip and hadn't shown much signs of changes in its value.

SUN PHARMACEUTICAL

The company from its quarterly results has signaled that even though it had a decline in profits in the acquisition quarter, it bounced back in its succeeding quarters with good results. The company had used equity to fund its acquisition and for other purposes and also had reduced its unsecured loans (debt component) considerably and therefore foregoing its interest payment obligation.

Even though the company posted lower results in its acquisition quarter its annual profits were good and thereby the company had a good Return on Capital Employed and Assets. The company's scrip had a good positive impact on the date of acquisition, but overall the scrip didn't show deviation signals for pre and post 6 months of the acquisition.

CHAPTER VI

RECOMMENDATIONS

CHAPTER – 6

RECOMMENDATIONS

TATA STEEL

Tata Steel through its acquisition of Corus Steel has become the world's fifth largest producers of steel. The acquisition had been funded by various sources and investors can study such announcements by the company which state the sources of funding the acquisition. The changes in share prices are basically based on the announcements made by the company and investors can base their decisions on such announcement.

HDFC BANK

HDFC Bank is one of the major financial institutions and is one of the lead runner in lending for development projects. With its acquisition of Centurion Bank of Punjab HDFC Bank had widened its purview. Investors can see the viability of the acquisition by forecasting its future growth and the new businesses which its going to enter due to the acquisition.

SUN PHARMACEUTICALS

The company had entered in new markets which its Taro acquisition and also had added new patents to its portfolio. Investors can base their decisions of buying and selling by analyzing the company's growth in new markets and its effect in the whole pharmaceutical industry. Also the share holding pattern of the company after the acquisition also is a growth indicator.

CHAPTER VII

CONCLUSION

CHAPTER - 7

CONCLUSION

An analysis of the acquisitions made by three companies in the Nifty scrips and the effect on their share prices has led to the following conclusion.

Acquisitions and its announcements have potential effects on share prices and trading activity and, though these effects depend on the growth parameters of the acquisitions.

In this study share price of around 12 months have been considered and has yielded the result that the acquisition has no effect on share price movement. The period of data when shortened i.e. when analysis are made on prices ranging around 30 days or lesser pre and post acquisition date would show some positive results. If the share prices for lesser number of days within the acquisition date is taken there are possibilities that the results might show that there is considerable change in the share prices.

However, further examination of the way in which intermediaries and other investors actually use acquisitions would be required in order to evaluate the potential of acquisitions in the overall information set used to reach investment decisions and provide advice.

CHAPTER VIII

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CHAPTER – 8

BIBLIOGRAPHY

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