

An Empirical Study on the Individual Investors' Investment Behavioural Pattern on Corporate Action with respect to Merger and Acquisition

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Abstract : In recent period, there has been considerable interest in the corporate action processing. The initiation of corporate actions may have significant implications for the financial risks of market participants. Corporate Actions are necessary for the existence, business strategies, business techniques and for making profits. One of the Corporate Actions is influencing the share prices in a positive way or negative way, leads to the behavior of the investors. The present study has made an endeavor to comprehend the association with the individual investors' investment behavioural pattern and an announcement of corporate action with respect to Merger and Acquisition with an example of ING Vysya Bank Ltd. and Kotak Mahindra Bank Ltd. The study is to observe and understand the investors' behavior during the situation under three phases viz., Pre-announcement period, Announcement period and Post-announcement period.

The data gathered through secondary source and analyzed using moving average of Share prices and focused on Trade Velocity of Kotak Mahindra Bank and ING Vysya Bank during three phases. Based on the analysis, the researcher found that there is a wide variation between three phases in perspective of Share Price Volatility and Trade Velocity.

Keywords: Investor behavior, Pre-announcement period, Announcement period, Post-announcement period.

I. Background and Purpose of Study

In India, the increasing needs for financial products for the investors are varying and risk appetite. Market participants are mostly influenced by the performance of the capital market which also depends on the Corporate Actions. Corporate Actions are essential for all companies and are necessary for the existence, business strategies and techniques and for making profits. Corporate action is usually believed to offer some good news to the investors, particularly in case of amalgamation and mergers. A **corporate action** is any event that brings material change to a company and affects its stakeholders, including shareholders, both common and preferred, as well as bondholders. These events are generally approved by the company's Board of Directors, Shareholders may be permitted to vote on some events as well. The corporate announcements reflect wide variations in the share prices and investors' investment behavioural pattern.

In a merger, two organizations join forces to become a new business, usually with a new name. Mergers and acquisitions (M&A) have been associated with the strengthening of a firm's financial position and increasing firm value. The quest for growth and the steadily changing dynamic business condition makes Mergers and Acquisitions (M&A) a frequent phenomenon in corporate circles. The literature sources most frequently identify three phases of a merger or an acquisition process, viz., Pre-announcement period, Announcement period and Post-announcement period.

The present study was conducted to examine the association between individual investors' investment behavioral pattern and the corporate announcement of Merger and Acquisition with an example of ING Vysya Bank Ltd. and Kotak Mahindra Bank Ltd. The researcher aimed to observe and understand the investors' behavior during the ideal situation under three phases viz., Pre-announcement period (90 days before the day of announcement), Announcement period (90 days from the day of announcement) and Post-announcement period (90 days from the completion process of amalgamation), the period taken for each phase is 90 days.

An individual investor who makes investments in his own name and cannot follow up for the benefit of other, for instance, agents, stock brokers, mutual fund managers make investments for others or else a speculator can make investments for one's personal individual account. An individual investor is a man who deals his/her own money to accomplish individual monetary objectives. Individual investors who consider investing in individual stocks have an enormous amount of information to process; they are shelled with a surge of knowledge which might be pertinent for their decisions, some of which may be not perhaps instead of attempting to gather data, people simply follow their gut-feelings or a prevailing fashion and are therefore "behavioural" traders. As per the review of literature, the theoretical research as well as empirical evidence offer mixed results regarding individual investor trading strategies and motives behind them. Empirical investigations into individual investor behavior have thus focused on analyses of data.

II. Merger Between Kotak Mahindra Bank Ltd. & ING Vysya Bank Ltd.

KOTAK MAHINDRA BANK:

Kotak Mahindra Bank is an Indian private sector banking headquartered in Mumbai, Maharashtra, India. In February 2003, Reserve Bank of India (RBI) gave the license to Kotak Mahindra Finance Ltd., to carry on banking business. Kotak Mahindra Finance Ltd. is the first non-banking finance company in India to convert itself into a bank as Kotak Mahindra Bank Ltd. Today, the bank is one of the fastest growing banks and among the most admired financial institutions in India.

ING VYAS BANK:

ING Vysya was incorporated as Vysya Bank Limited (Vysya Bank) in 1930 in Bangalore, Karnataka, in Southern India. In 2002, ING Vysya came into existence when the Dutch banking giant ING Group acquired a major stake in Vysya Bank. This was the first acquisition of an Indian bank by any foreign bank. ING Vysya offered various financial services under four business segments, Treasury, Corporate/ Wholesale Banking, Retail Banking, and Other Banking Operations.

MERGER BETWEEN ING VYSYA BANK LTD. (VYSYA) AND KOTAK MAHINDRA BANK LTD.:

Vysya and Kotak announced their intention to merge their respective businesses on 20 November 2014. On 31 March 2015, the Reserve Bank of India has approved this transaction with effect from 1 April 2015. With the current climate of growing globalization and expanding international banks, the need to grow has been imminent for Indian banks. In late 2014, Kotak Mahindra Bank Limited ("Kotak"), one of India's rapidly expanding banks, announced its all-stock acquisition of ING Vysya Bank Limited ("ING Vysya"), structured as a merger, resulting in a single merged entity that will be India's fourth largest bank (the "Deal"). The process completed by 8 April 2015 and the combined entity will bear the name Kotak Mahindra Bank.

III. Objectives:

1. To Study about the Impact of Corporate Announcement on Share Price Volatility and Trade Velocity under three phases.
2. To Examine the Association between Individual Investors' Investment Behavioural Pattern and Corporate Announcement with respect to Merger & Acquisition.
3. To Compare the Share Prices Volatility & Trade Velocity under the three phases.

IV. Methodology

The study is both descriptive and empirical in nature. The study identifies the impact of corporate announcement in share price volatility and trade velocity reflects the individual investors' investment behavioural pattern. The tools and techniques used for analysis of data is 3-day moving average and graphs.

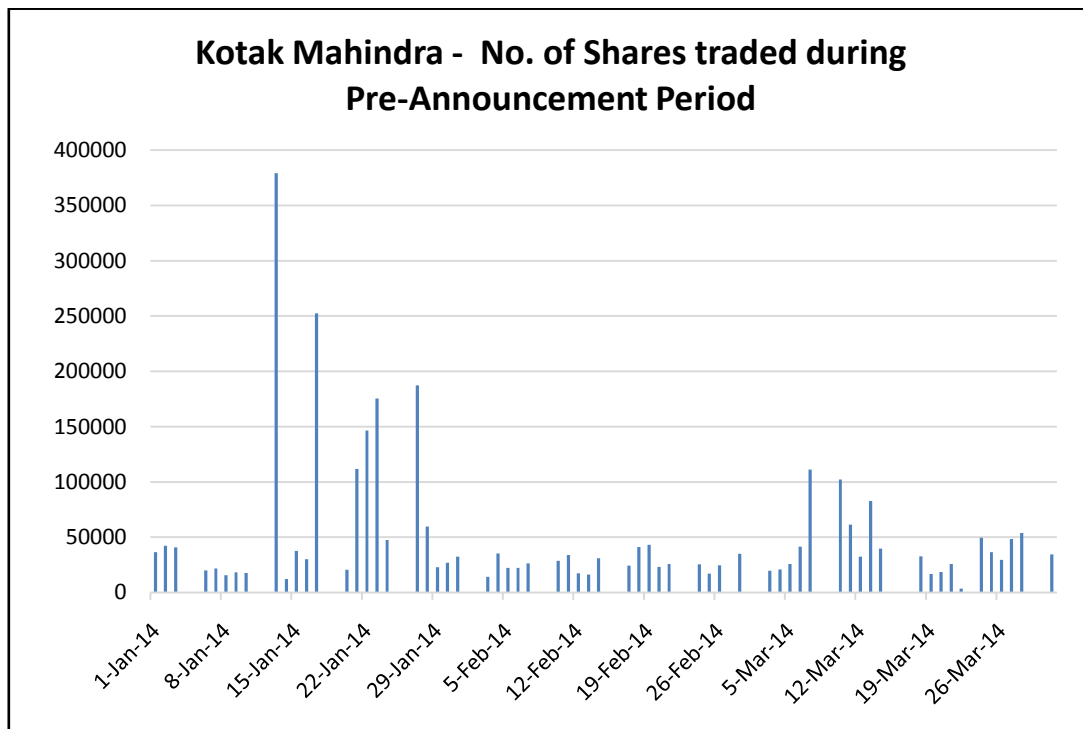
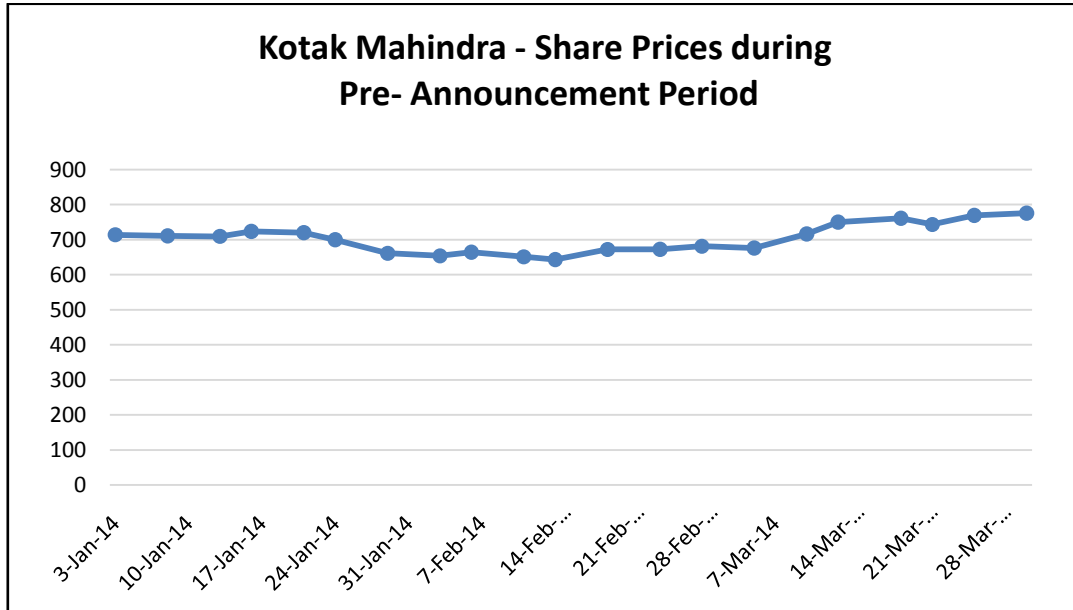
Sources of Data:

The data gathered through secondary source i.e. Text Books, Journals, Websites and other published materials, etc.

Sample size: Merger of Kotak Mahindra Bank Ltd. and ING Vysya Bank Ltd.

V. Data Analysis

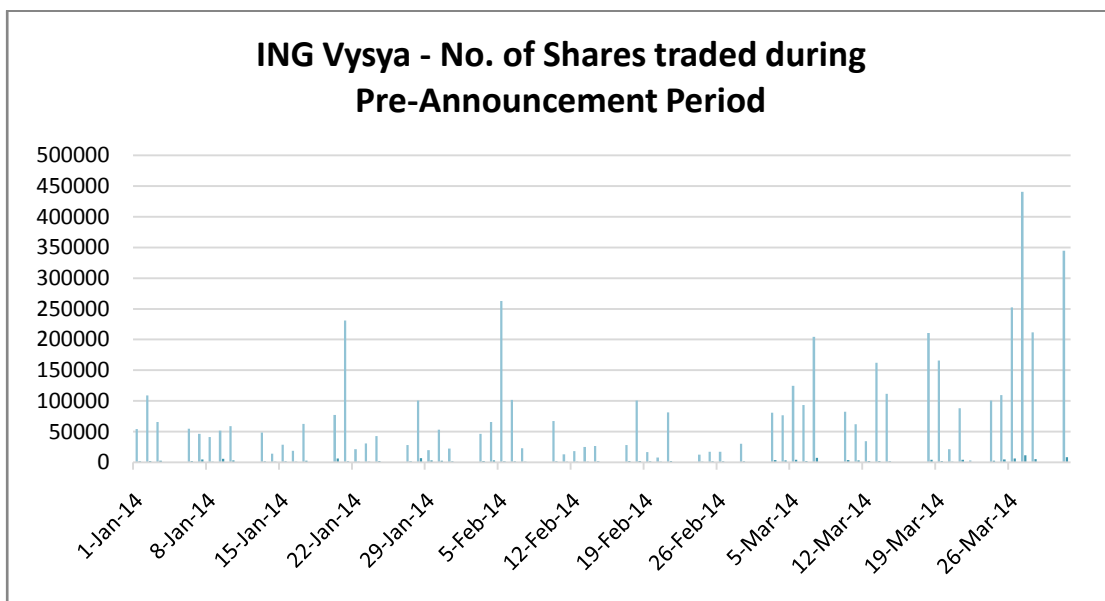
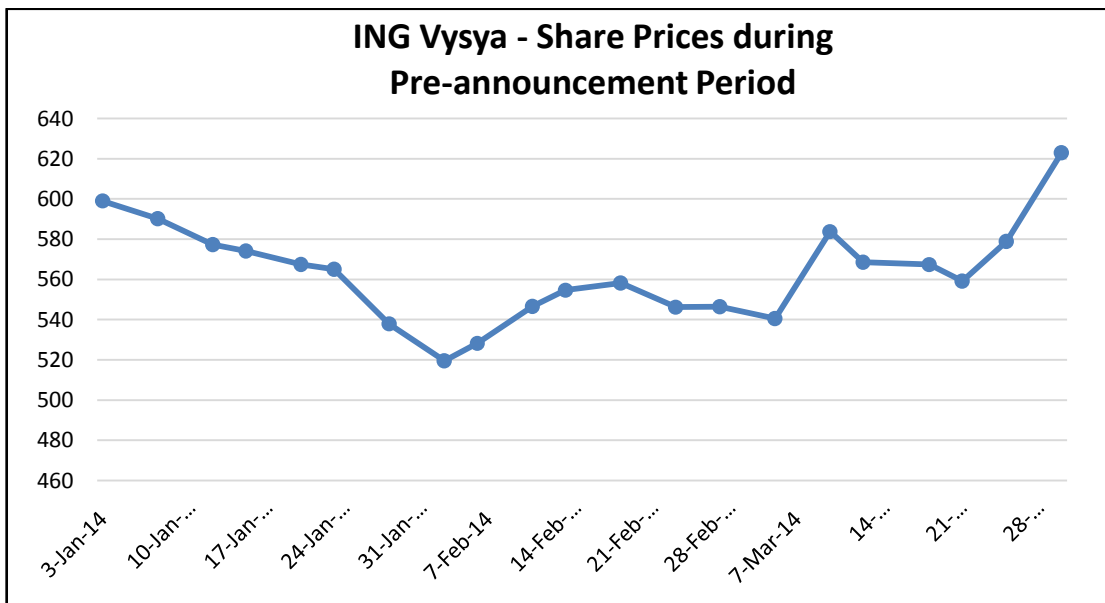
A) PRE-ANNOUNCEMENT PERIOD – KOTAK MAHINDRA BANK LTD.



Interpretations:

1. During Pre-Announcement Period (From 01-04-14 to 31-03-14) the share price volatility in between Rs.600 to 800.
2. The trade velocity is noticed very high on 13 Jan 2014, later on 17 Jan 2014 when compared other days.
3. It is observed an average volatility in shares prices during the period but there is more variation in velocity of trade during first 2nd week of Jan.
4. During this period, the trade velocity represents the lot of changes in the investors' investment pattern.

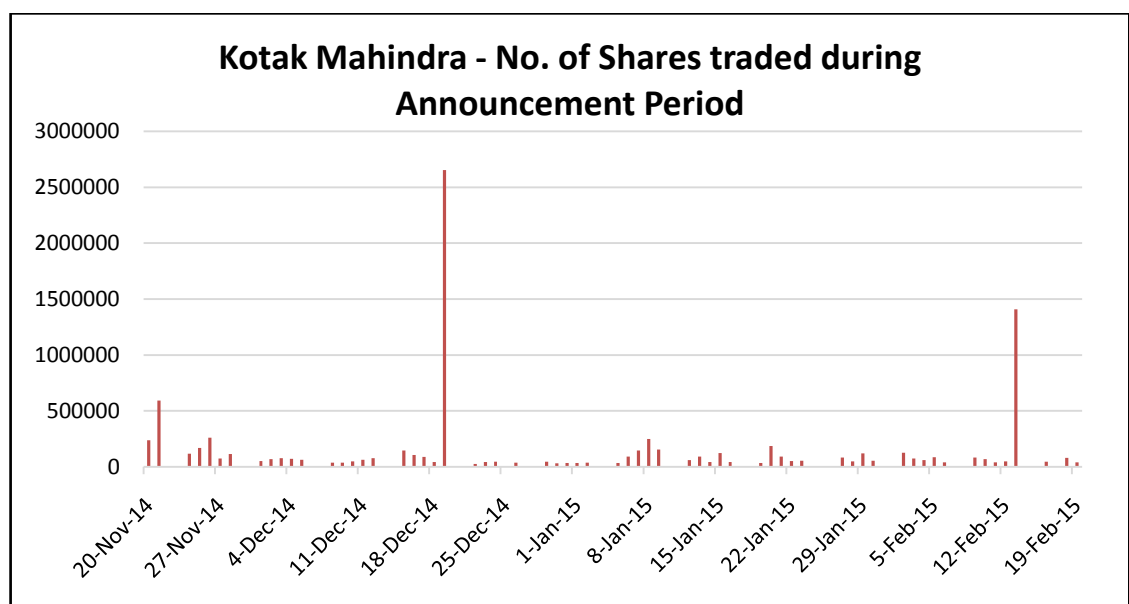
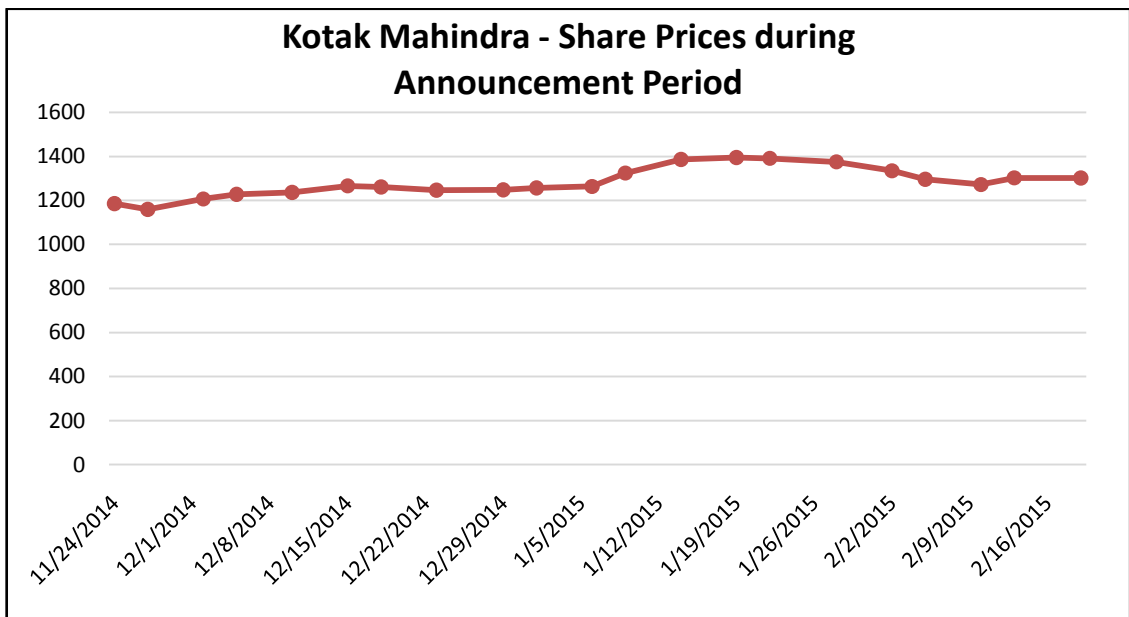
ING VYSYA BANK LTD.



Interpretations:

1. During Pre-Announcement Period (From 01-04-14 to 31-03-14) the share price volatility in between Rs.520 to 625.
2. The trade velocity is noticed inconsistency during this period.
3. It is observed an average volatility in shares prices during the period but there is more variation in velocity of trade during this period.
4. The trade velocity represents the lot of changes in the investors' investment pattern.

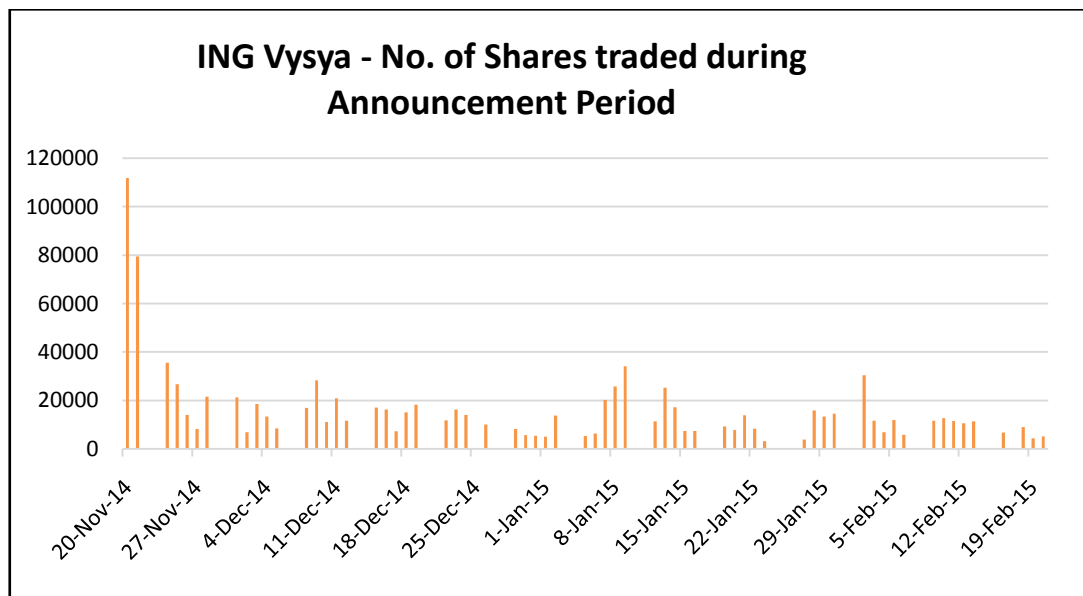
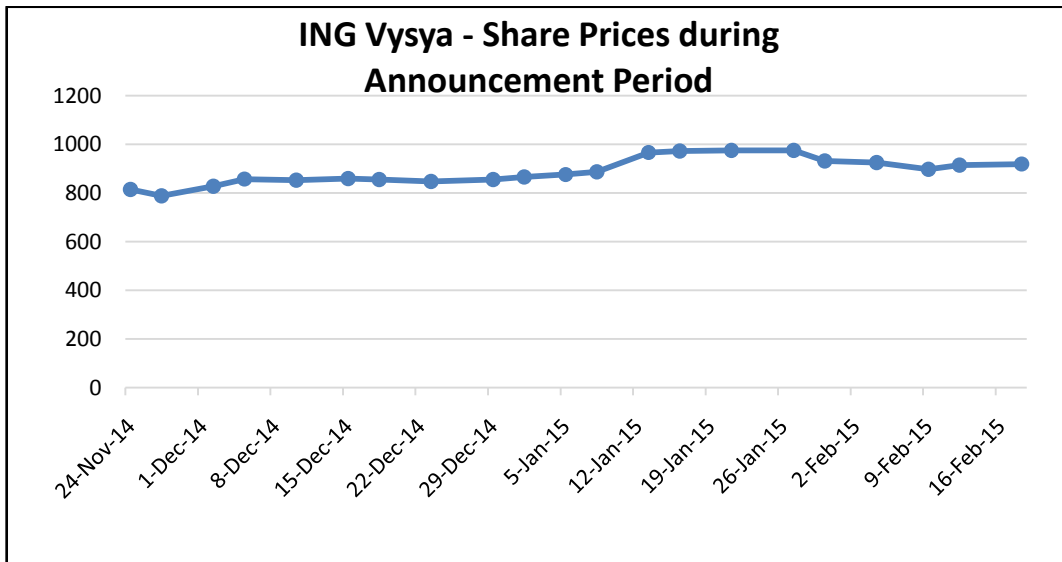
B) ANNOUNCEMENT PERIOD – KOTAK MAHINDRA BANK LTD.



Interpretations:

1. As it is during Announcement Period (From 20-11-14 to 19-02-15) it is noticed that the share price is increased almost 100% or 2 times.
2. The share price is different from the pre-announcement period i.e. in between Rs.1158 to 1395.
3. The trade velocity is noticed very high on 18 Dec 2014, later on 12 Feb 2014 when compared other days.
4. It is observed nominal volatility in share prices during this period, but trade velocity is recorded more only on two days.
5. It shows that the investors' behaviour is somewhat constant when compared to pre-announcement period.

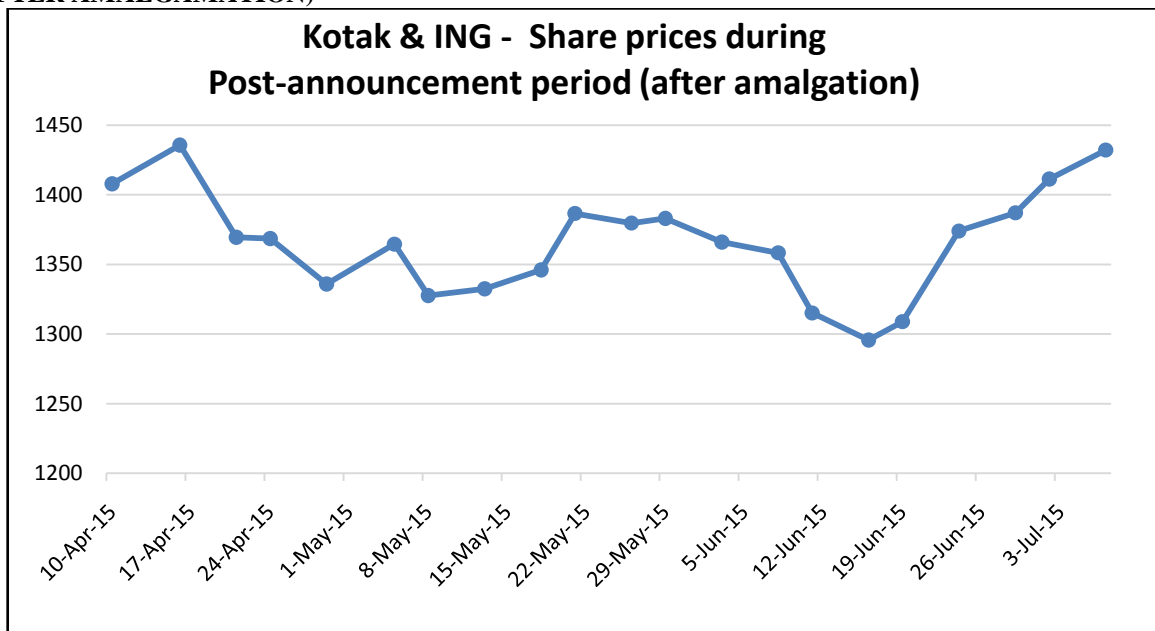
ING VYSYA BANK LTD.

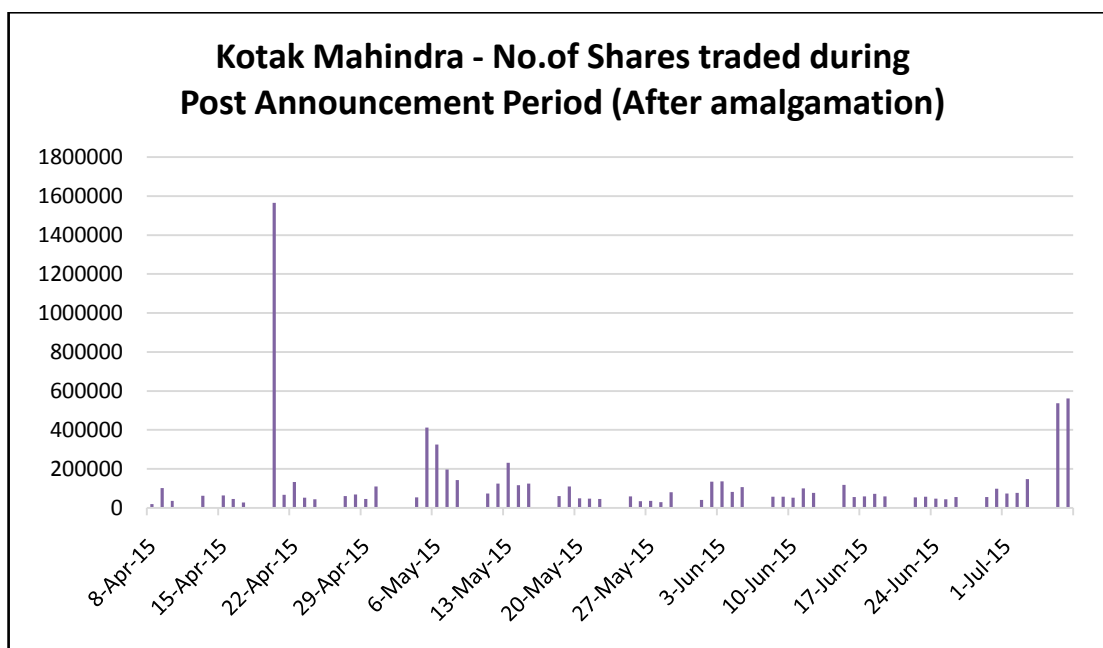


Interpretations:

1. As it is during Announcement Period (From 20-11-14 to 19-02-15) it is noticed that the share price is increased @30%.
2. The share price is different from the pre-announcement period i.e. in between Rs.800 to 1000.
3. The trade velocity is noticed very high on 20 Nov 2015 i.e. on announcement day and next day, the rest of the period is almost stable.
4. It is observed nominal volatility in share prices during this period, but trade velocity is recorded more only on first two days.
5. It shows that the investors' behaviour is completely different on the first two days of announcement and somewhat constant during the whole period.

C) ANNOUNCEMENT PERIOD- KOTAK MAHINDRA BANKLTD. & ING VYSYA BANK LTD. (AFTER AMALGAMATION)





Interpretations:

1. During Post-Announcement Period (From 08-04-15 to 07-07-15) it is noticed that the share prices increased @ 10% only.
2. The share price volatility is normal i.e. in between Rs.1295 to Rs.1435.
3. The trade velocity is noticed very high on only one day on 20 April 2015.
4. It is observed nominal volatility in share prices during this period and trade velocity is also recorded very normal except one day.
5. It shows the investors' behaviour very stable during this post amalgamation period.

VI. Findings

- The corporate announcement of merger and acquisition had great impact on the share prices and increased from Pre-announcement period to Announcement period and Announcement period to Post-announcement period especially on announcement day and next day of announcement.
- The trade velocity is noticed very high during Pre-announcement period in Kotak Mahindra Bank Ltd. as well in ING Vysya Bank Ltd.
- There is an association observed between the individual investors' investment pattern and corporate action.

VII. Conclusion

Corporate action of Mergers and acquisition leads to financial gain and increase in price of target banks. It depends on conditions and different situations that it will increase the share and profit of acquirer or not. Overall mergers and acquisitions have their own pros and cons. But mergers are good for the growth and development of country only when it does not give rise to competition issues. Mergers improve the competition edge of the industry in order to compete in the global market but mergers shrink the industry because number of firms reduces. Mergers help banks to strengthen their financial base and access tax benefits and direct access to cash resources. Overall merger and acquisitions is useful for the growth and expansion of any industry. In banking industry it helps weaker banks to strengthen their position by merging with bigger and stronger banks. The above study shows the impact of merger and acquisition on different Indian banks after analyzing.

The research study once again proved that there is an association between the corporate announcement and the individual investors' investment pattern during the three phases. From the above analysis, it is found that in private banking sector the merger of Mahindra KotakBank with ING-Vysya is highly successful.

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