MERGER ANNOUNCEMENT AND THE STOCK MARKET REACTION

Dr. Neha Parashar
Aditya Gupta
Pushkar Tendolkar
Shrijit Somasekhar

Dr. Neha Parashar *is Assistant Professor, Finance at SCMHRD, Pune*
Aditya Gupta, Pushkar Tendolkar and Shrijit Somasekhar*, are Final Year Finance Students*

Abstract

The past decade have seen a string of mergers and acquisitions both within India and outside by Indian as well as foreign companies. It is observed that the day after a merger or acquisition announcement sees flurried activity in the stock market with the shares of a firm either rising or dropping with the announcement. This paper examines if the stock market reaction depends on the announcement of the merger, the past history of the firm and the overall market at the time of announcement. It is believed that mergers have a certain moment that drives investors to either purchase or sell stock based on what benefit they perceive the merger to bring. Also, mergers and merger waves can occur when managers prefer that their firms remain independent rather than be acquired. We assume that managers can reduce their chance of being acquired by acquiring another firm and hence increasing the size of their own firm. We show that if managers value private benefits of control sufficiently, they may engage in unprofitable defensive acquisitions. The paper also analyzes the motivation behind a merger and attempts to study if the motivations provide the necessary momentum to match investor sentiment.

Keywords: Mergers, Sentiments, Stock prices, Economic, Finiancials

Introduction

The impact of mergers on stock prices has always been a controversial area. As part of an era which has borne witness to numerous Mergers and Acquisitions, some famous, some infamous and some downright illogical, this therefore seemed to be an exciting area to pursue our winter project.

In this paper we examine the effects of mergers and acquisitions on bidding firm's stock prices. We try to find evidence of merger momentum. Merger momentum is defined (Rosen, Richard J, 2003) as a correlation between the market reaction to a merger announcement and the recent market conditions. It has been observed that the merger market has most of the times given positive reaction to the market conditions. Hence it becomes imperative to examine the effects of mergers on bidding firms' stock prices and indicate the presence of merger momentum.

The phrase mergers and acquisitions (abbreviated M&A) (Rosen, Richard J, 2003) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Motive of Mergers and Acquisitions

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance:

- **Synergy:** This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

- **Increased revenue or market share:** This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

- **Economy of scale:** For example, managerial economies such as the increased opportunity of managerial specialization. Another example are purchasing economies due to increased order size and associated bulk-buying discounts.

- **Taxation:** A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

- **Geographical or other diversification:** This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company.

- **Resource transfer:** resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

- **Vertical integration:** Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other). There are several reasons for this to occur.

M&A Scenario in India

Globalization and mergers in India are among the most popular issues in India and there has been plenty of debate surrounding these issues. Of late, several sectors of the economy are heating up with numerous mergers and global alliances. According to a recent review, this will improve the economy of the country.

Among all the industrial sectors in India, these are the few sectors which have witnessed the maximum profit brought in by globalization and mergers with global associations. The automotive sector is on the top list among the mergers in India with Maruti Udyog Pvt. Ltd. and Tata Motors ruling the sector. Tata Motors, one of the leading organizations in the auto sector has had the maximum mergers and deals with trucks and agricultural machinery besides cars and motors. The Fiat Company is looking forward to some big-time trade through mergers in India as well and is already being distributed by Tata Motors in India.

Some of the countries that seek mergers in India with the aim to enhance and trade in the sectors such as legal, informative, accounting, tax, and investment banking include Canada, Holland, Belgium, Italy, Sweden, Norway, Poland, Germany, Spain and the United Kingdom. These countries prefer to do mergers with Indian companies in some large-scale industries which are at the peak in their country as well. The transactions in the mergers in India include governing mergers, joint ventures, acquisitions, takeovers, and other kinds of cross-border transactions.

The finance sector in India replaced the IT sector and became the largest donor to INDATA in H1 2005, with a total of 36 deals which totalled to a sum of Rs 50.8 billion (USD 1.2 billion) accounting for about 20 percent of total deal rates (CII). The IT sector still remained the biggest donor in terms of the number of deals as it accounts for a total of 43 deals, but couldn't exceed 5 percent of the total deal value (NASSCOM Survey on Indian outsourcing). Globalization and mergers in India have been immensely

beneficial for the sectors in India which have undertaken it and the majority has been successful in their attempts to reach the global market with efficiency.

Post Merger Issues

It is necessary to examine the effect of merger momentum on acquirer's returns both in the long run and short run. The general evidence suggests that investors tend to make huge gains in the short run but returns are reversed in the long run as initial expectations may not be fully met when combined firm's accomplishments become known over time. However, when the market is reacting favorably to merger announcements, it tends to continue to do so. Also, mergers announced during hot stock markets tend to get a better reaction from the market than those announced in a cold market. Acquisitions announced in hot merger markets lead to long-run declines in the bidder's stock price, but there is some evidence that acquisitions announced in hot stock markets are associated with long-run returns that are no higher, and possibly lower, than those announced in cold stock markets. The long-run abnormal performance of post-acquisition stock returns of bidder firms is a rising anomaly that has received considerable attention in recent decades. The negative post-merger abnormal returns do not appear to be driven by plausible characteristics either of the firms involved or of the acquisition deal that one might advance as explanations for the anomaly. For example, whether the acquisition is financed stock or cash, whether the acquisition is of a conglomerate or non- conglomerate type, whether the acquisition was hostile or friendly will not influence the long term under-performance of the acquirer. Similarly, although evidence shows that glamour firms under perform value firms in the long run post acquisition period, value firms nevertheless realise negative abnormal stock returns.

We examine three different theories that are each consistent with merger momentum, but have different predictions about long-run returns. The neoclassical theory of mergers assumes that managers act to maximize shareholder value. Under this theory, merger momentum may result from shocks that increase synergies for a group of mergers. Mergers announced following these shocks should be better than on average than other mergers, leading to correlated announcement returns. A second theory is that there are managerial motivations for mergers. If managerial objectives drive merger decisions, then acquisitions during waves may be worse than other mergers

Under either theory, rational shareholders are assumed to react immediately to the new information contained in a merger announcement. Thus, there should be no long run drift after the announcement or, at a minimum; there is no reason that the post-acquisition returns to a bidder's stock should depend on when the merger announcement occurs. The third theory we examine is that momentum results from overly optimistic beliefs on the part of investors and possibly managers. A recent literature suggests that shareholder reaction to a corporate announcement can be affected by investor sentiment, that is, the reaction of investors to factors other than the value created by the merger. Merger momentum could result from investors as a group becoming optimistic about mergers announced during a particular period of time.

If the market reaction to merger announcement is not based on fundamentals, it might also affect merger decisions. Mergers are more frequent when the bidders appear to be overvalued

If valuations are driven by beliefs, it is possible that managers may make more acquisitions, especially those financed using stock, during periods of optimism because these offer good opportunities to issue large amounts of stock at an overvalued price. Note that managers also may make additional acquisitions during

these times if they are imbued with the same optimistic beliefs as investors.

When swings in merger momentum are caused by changes in optimism, any increase in a bidder's stock price should reverse in the long run as beliefs are replaced by results. If managers make worse acquisitions in hot markets (because they pursue private benefits or because they optimistically overvalue target firms), then the long-run return to bidders might be negative even with a positive announcement return included.

Using our large sample of acquisitions, we find evidence of merger momentum. The market reaction to a merger announcement is positively related to the reaction to other recent merger announcements. However, the effects of merger momentum disappear in the long run. Firms announcing an acquisition during a hot merger market perform no better and possibly worse, all else equal, than those announcing at other times do. This is consistent with over-optimism in hot merger markets. It also suggests that managerial motivations may influence merger decisions in hot markets.

Momentum exists in other forms. We show that there is some evidence of merger momentum at the firm level. There is also momentum in the broader stock market that carries over to merger markets.

Merger Momentum

A correlation between the market reaction to a merger announcement and recent market conditions is known as merger momentum. .Hot merger market is one where the reaction to recent market conditions has been favorable. Merger waves are traditionally measured by the number (or value) of mergers rather than by the market's reaction to merger announcements. The market reaction depends on the new information contained in a merger announcement (e.g., whether a merger is likely to create synergies) as well as how the market reacts to that information. In this section, we describe possible origins of momentum and discuss the hypotheses we test in the following sections.

Studies suggest that mergers are clustered around economic and regulatory shocks. The neoclassical theory of mergers implies that firms - acting in the interests of shareholders - only make acquisitions that increase their value. If mergers are concentrated around common shocks that positively affect the potential synergies from all mergers, then mergers following shocks should be better than other mergers.

Managerial motivations, possibly in reaction to shocks, can also lead to increases in merger activity. If making an acquisition reduces the probability that a firm is subsequently acquired, then managers can use mergers to preserve private benefits show that merger waves can arise when managers make acquisitions to deter other firms from acquiring their firms ("eat or be eaten"). A manager is willing to acquire defensively even when it is not profitable.

If mergers during waves are more likely to be defensive in nature, then these mergers should be less likely to create value. So, bad acquisitions can clump in time and, at least in the long run, mergers during waves should be worse than other mergers. The market reaction to a merger announcement by the shareholders of the bidding firm depends on more than just the potential synergies from the merger. It also depends on whether the managers of bidding firm are able to capture some of the synergies for their shareholders, whether the market anticipates the acquisition, and whether shareholders react rationally to merger announcements. Throughout the remainder of the paper, we assume that bidding firm managers get at least a portion of any surplus and that mergers are not fully anticipated by the market. If these conditions do not hold, then we should see no relationship between hot merger markets and merger announcement returns.

If shareholders are rational, given the maintained hypotheses, both the neoclassical theory and managerial motivations generate merger momentum, but of a different sort. Under the neoclassical theory, we should see a positive correlation between merger waves and the market reaction to a merger announcement while if managerial motivations dominate, the correlation could be negative. Since the market reaction contains all the information about the future prospects of the soon-to-be-combined firms, there is no reason to expect the price change to reverse after the merger is completed.

Merger momentum can also occur if investors systemically misperceive the synergies available from mergers. There is evidence that investors may be overly optimistic in so called hot markets. The same phenomenon could exist in hot merger markets. If over-optimism influences the market reaction to merger announcements, then we should see autocorrelation in the returns to bidding firms from merger announcements (Teoh, Siew Hong, 2003). During hot merger markets, when optimism reigns, the market reaction to all announcements should be more positive than at other times. However, price increases should reverse in the long run as optimism is replaced by results. Investor sentiment can also affect the type of acquisitions firms make. Managers may be imbued with the same optimism as investors during hot markets. If so, then they might overestimate the synergies from a merger, leading them to make more (ex post) bad acquisitions during hot markets. Alternatively, managers may use hot markets as cover to exploit shareholders.

Both studies suggest that many of the merger waves were caused by changes in the business environment that both increased overall stock prices and led to more profitable merger opportunities. The correlation between aggregate stock prices and mergers could provide support for the neoclassical theory of mergers if a rising stock market reflects an increase in potential merger synergies. In this case (if our other maintained hypotheses hold), mergers during hot stock markets should be better for bidding firm shareholders than mergers at other times. This should be reflected in stock price increases upon a merger announcement with no reversal on average in the long run.

Literature Review

Malcolm Baker Jeffery Wurgler (2006), says the stock market returns are largely affected by the investor sentiment prevailing in the market. Hence if there's news about the possible merger of an acquisition by/of a corporate it becomes imperative to study the investor sentiment. The authors have tried to analyze the same in this paper. Theory predicts that a broad wave of sentiment will disproportionately affect stocks whose valuations are highly subjective and are difficult to arbitrage. The authors have tested this prediction by studying how the cross-section of subsequent stock returns varies with proxies for beginning-of-period investor sentiment. When sentiment is low, subsequent returns are relatively high on smaller stocks, high volatility stocks, unprofitable stocks, non-dividend-paying stocks, extreme-growth stocks, and distressed stocks, consistent with an initial underpricing of these stocks. When sentiment is high, on the other hand, these patterns attenuate or fully reverse. This study helps in understanding how the stock returns are affected by the investor sentiment. By correlating the same with the investor sentiments present during the merger news etc. the possible behavior of the stocks and their returns could be analyzed using the results of the study.

Arindam Bandopadhyaya and Anne Leah Jones (2005) Measuring Investor Sentiment in Equity Markets says that Investor sentiment has become the focus of many studies on asset pricing. Research has demonstrated that changes in investor sentiment may trigger changes in asset

prices, and that investor sentiment may be an important component of the market pricing process. According to theories, shifts in investor sentiment may in some instances better explain short-term movement in asset prices than any other set of fundamental factors.

In this study the authors have developed an Equity Market Sentiment Index from publicly available data, and then demonstrated how this measure can be used in a stock market setting by studying the price movements of a group of firms which represent a stock market index. News events that affect the underlying market studied are quickly captured by changes in this measure of investor sentiment, and the sentiment measure is capable of explaining a significant proportion of the changes in the stock market index.

Jerry Coakley and Hardy Thomas (2004) in the paper hot Markets, Momentum & Investor Sentiment in UK Acquisitions tried to examine the link between hot markets and momentum in explaining the merger waves. The authors had the numerical evidence of short run positive abnormal returns also called as merger momentum in both hot and cold markets. However, they also gathered evidence of the long term reversal of the trend. They said that the post acquisition abnormal returns are negative. It is also clear from the study that mergers announced in hot markets have higher announcement period abnormal returns than mergers announced in cold markets consistent with momentum. This leads us to a conclusion that investor sentiment is an important factor in the market reaction to merger announcements. This fact is also supported by variety of the papers mentioned above thus reaffirming the need to study this is detail.

Richard J Rosen (2003) examines whether market factors influence the reaction to a merger announcement. It attempts to show that the market reaction to a merger is positively correlated with the response to other mergers in the recent past. The literature evaluates a merger based on the initial market reaction to the merger announcement and on the long-run returns to the merger

The book makes an attempt to understand the sources of merger momentum by comparing the announcement reaction to the long-run return. A cross-sectional analysis of 6,259 completed acquisitions by public firms announced between 1982 and 2001 has been studied to determine the factors that affect the relationship between the announcement reaction and the long-run return. The paper seeks to examine three different theories that are each consistent with merger momentum, but have different predictions about long-run returns.

Ming Dong, David Hirshleifer, Scott Richardson, Siew Hong Teoh (2003) attempt to study the degree to which market misevaluation of firms influences investment decisions. An important kind of investment is the purchase of another firm, and a great deal of data is available about the terms and characteristics of takeover transactions. The takeover market is therefore an attractive testing ground for the hypothesis that market misvaluation affects resource allocation and the strategic interaction of firms. The paper strives to examine empirically the misvaluation hypothesis of takeovers: **that Market inefficiency has important effects on takeover activity.** Several predictions of Shleifer and Vishny are tested as well as several further predictions of the misvaluation hypothesis developed intuitively to further distinguish it from alternative approaches.

Nicholas Barberis, Andrei Shleifer, Robert Vishny (1998): A model of Investor Sentiment has uncovered two families of pervasive regularities: under reaction of stock prices to news such as earnings announcements, and overreaction of stock prices to a series of good or bad news. In this paper the authors have tried to form a model of investor sentiments. They have tried to

find out how the investors form their beliefs. The model analyzes the psychological evidence producing the overreaction and under reaction for a wide range of parameter values. During merger momentum, there are several positive and negative news for/about an organization. This would lead to the formation of beliefs of an investor and thereby the stock market would react on the basis of these beliefs formed by the individual investors.

Research Objective

To determine the factors which affect investor reaction to a merger / acquisition announcement and also determine the weight of each factor and the contribution of each individual component variable to the factor. 100 retail investors in the age group of 20 - 55, with an equal representation of males and females from, the stock market having an exposure of 5-20 lakhs had been taken into consideration.

Tool for Data Analysis

Analytical Method:

This produces a statistical principal component use where the most salient words or themes represent the preferred basis.

Exploratory Research	Chi-Square test	Factor Analysis	Regression Analysis	Communality Analysis
Open ended questions to determine the important variables influencing investors' reaction →	Statistical test to check the significance of each variable on the investors' reaction →	A statistical and intutive process executed through investor surveys, to group a set of variables into easily identifiable factors →	A quantitative process to determine to individual significance of each factor to the total investors' reaction and assign weights accordings →	A process to determine the contribution of each component variable to the corres-ponding factor

Analysis and Interpretation

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser normalization

Rotation Converged in 5 factors: (for clarity loading <0.6 are suppressed)

Comp	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.162	29.842	29.842	7.162	29.842	29.842	4.543	18.930	18.930
2	4.698	19.575	49.417	4.698	19.575	49.417	3.839	15.996	34.926
3	3.331	13.881	63.298	3.331	13.881	63.298	3.797	15.822	50.749
4	2.694	11.224	74.522	2.694	11.224	74.522	3.333	13.889	64.637
5	2.074	8.641	83.163	2.074	8.641	83.163	2.756	11.482	86.119

	Merger Momentum	Economic Situation	Sentiments/ Opinions	History	Financials
Interest Rates		0.810			
Credit Availability		0.810			
Fiscal Policy		0.730			
Market Momentum		0.720			
Sector Performance		0.690			
Export Oriented		0.780			
Growth Opportunities		0.770			
Stock Performance				0.810	
Company Reputation				0.760	
Past Success/Failure				0.740	
Similar Deal Success/Failure				0.700	
Investor Sentiment			0.730		
Peer Opinion			0.100		
Analyst Reports			0.780		
News Reports			0.670		
Deal Structure					0.800
Deal Financing					0.790
Financial Statements					0.780
Deal Size					0.760
Past Performance					0.670
Current Merger Activity	0.810				
Fair Valuations	0.760				
Legal Atmosphere	0.730				
Political Atmosphere	0.700				

Factor Selection

Based on an exploratory research and a factor analysis we were able to identify the following factors which explains investor sentiments to M&A

- Merger Momentum
- Economic Situation
- Sentiments/Opinions
- History
- Financials

Merger Momentum:

Rosen defines merger momentum can be defined as a situation where acquirers' stock prices are more likely to increase when a merger is announced in a hot market than in a cold market. It is a positive correlation between the market reaction to a merger announcement and recent market conditions. The variables which affect merger momentum are current merger activity and fair valuations. Current merger activity refers to the mergers and acquisitions happening in the relevant sector and how they affect valuations of the companies. Many times overly optimistic investors systemically misperceive the synergies gained from the acquisitions when recent mergers are well received or the stock market is in a bull market cycle.

Economic Situation:

Economic situation refers to the situation prevalent in the economy of the target and acquirer companies. The variables which comprise this factor are

- Interest Rates
- Credit Availability
- Fiscal Policy
- Market Momentum
- Sector Performance
- Export Oriented
- Growth Opportunities

The situation of the relevant economies is extremely important variables during an M&A process. For example if we consider the variable credit availability - In today's economic scenario where availing credit is not an easy proposition every merger/acquisition is looked at in a negative way by the investors. They are not sure of the future of the credit market; hence they are unsure of the funding of these deals. They may take a negative stand even if there are strong synergies to be realized from the merger/acquisition. Recently many proposed mergers and acquisitions had to be cancelled due to investor resistance to these deals. The main reason for this resistance is the lack of credit availability.

Sentiments/Opinions:

This factor comprises of the following variables

- Investor Sentiment
- Peer opinion
- Analyst Reports
- News Reports

Investor sentiments are extremely important in deciding the momentum of a merger. The recent case was the proposed acquisition of Maytas Infrastructure by Satyam services. Investors of Satyam were totally against the deal and the stock price of Satyam took a huge beating on the indices. This extreme negativity resulted in Satyam canceling the proposed takeover.

Analyst reports and news reports are taken seriously by investors. They believe that analysts and news reports give the best analysis about a proposed deal. They would trust these reports more than company analysis. Hence this variable also becomes important in our analysis.

History:

In this factor we consider the following variables

- *Stock Performance:* This variable considers the overall stock movement of the company during normal times. Investors may look at the volatility and the volume of stock traded.
- *Company reputation*
- *Past Deals:* This variable looks at the success and failures of past deals conducted by the company. The company's ability to successfully complete a deal is an important factor in influencing the momentum of the merger
- *Similar Deal result:* This refers to success or failures of similar deals in the same industry.

Financials:

The financials statement of the company and the deal structure is also an important factor in our analysis and we consider the following variables:

- Deal Structure
- Deal financing
- Financial Statements
- Deal Size
- Past performance

The financial statements of the acquirer and the target firms are the most important factor in deciding the investor reaction to the variables. For eg if the target company is a loss making unit, shareholders of the acquirer may not be comfortable with a merger with a loss making company. They will be concerned about the effect of the merger in the short term and this may affect the stock price of the acquirer in the short term.

The deal structure and size of the deals are also an important variable in influencing investor reaction. If the size of the deal is huge there may be a negative short term on the stock prices due to the uncertainty over the funding structure.

Regression Analysis

Independent Variable: Investor Reaction

Dependent Variables: Merger Momentum, Economic Situation, Sentiments/Opinions, History, Financials

Results:

	Df	SS	MS	F	Significance F
Regression	5.00	1432.50	286.50	307.45	6.81E-19
Residual	22.00	20.50	0.93		
R Square	89.60%				
Total	27.00	1453.00			

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	N/A	N/A	N/A
Merger Momentum	3.050	0.165	2.150	0.040
Economic Situation	7.270	0.174	1.870	0.030
Sentiments/Opinions	6.580	0.233	3.200	0.060
History	4.700	0.155	1.890	0.001
Financials	6.390	0.136	2.920	0.004

Regression Equation:

Investor Reaction = 3.05*(Merger Momentum) + 7.27*(Economic Situation) + 6.58*(Sentiments/Opinions) + 4.7*(History) + 6.39*(Financials)

Communality Analysis

As explained earlier each of these factors is comprised on component parameters. These component parameters are also assigned weights, based on their communality values arrived at from factor analysis. These weights are standardized and then used to calculate the individual factor score and the overall Investor reaction.

Factors	Factor weight	Component Parameters	Communality Values	Parameter Weights	Standardized Parameter Weights
Merger Momentum	3.05	Current Merger Activity	0.72	1.129	1.129
		Fair Valuations	0.44	0.690	0.690
		Political Atmosphere	0.78	1.224	1.224
		Legal Atmosphere	0.61	0.957	0.957
Economic Situation	7.28	Interest Rates	0.58	0.900	0.514
		Credit Availability	0.87	1.361	0.778
		Fiscal Policy	0.70	1.095	0.626
		Market Momentum	0.53	0.829	0.474
		Sector Performance	0.710	1.110	0.635
		Export Oriented	0.46	0.719	0.411
		Growth Opportunities	0.63	0.985	0.563
Sentiments/ Opinions	6.58	Investor Sentiment	0.56	0.754	0.754
		Peer Opinion	0.89	1.199	1.199
		Analyst Reports	0.90	1.212	1.212
		News Reports	0.62	0.835	0.835

Factors	Factor weight	Component Parameters	Communality Values	Parameter Weights	Standardized Parameter Weights
Financials	6.39	Deal Structure	0.72	0.938	0.750
		Deal Financing	0.96	1.250	1.000
		Financial Statements	0.87	1.133	0.906
		Deal Size	0.48	0.625	0.500
		Past Performance	0.81	1.055	0.844
History	4.7	Stock Performance	0.85	1.156	1.156
		Company Reputation	0.76	1.034	1.034
		Past Success/Failure	0.77	1.048	1.048
		Similar Deals Success/Failure	0.56	0.762	0.762

Conclusion

The primary focus here had been to identify the effect of mergers and acquisitions on stock prices. It was to identify if the merger momentum exists after the merger announcements. The exploratory research led us to the conclusion that the merger momentum does exist and the positive or negative merger momentum is built by a host of factors.

The factors like Economic situation, Public sentiments/opinions, History, Financials & Merger momentum affect the investor's reaction to a particular merger announcement reflected by the stock prices. A host of factors can be grouped together to form the ones mentioned above. The detailed factors could be checked in the analysis section. These factors are derived from the factorial analysis of the data collected from investors.

The economic situation, comprised of factors like Interest rates, Credit availability etc., has maximum impact on the investor reaction. This proves the idea proposed in the introduction of the study that the hot markets lead higher short term gains. The positive economic conditions would drive the investor to see a merger in positive light and thereby register higher gains in conditions that prevail.

The factors like Sentiments/Opinions, Financials, History and Merger momentum are the other factors affecting the investor's reaction in the descending order of their impact on the same. This result is obtained by the regression analysis of the data collected from the respondents. This helps us satisfy the research objective of identify the factors affecting the investor's reactions. It also makes us come to a conclusion that merger momentum is not the only factor affecting the investor's reaction but there are host of other more important factors.

The prevailing economic situation has a major impact on the merger activity. As is defined in the analysis section the credit availability is one of the primary factors comprising the economic situation. The current economic situation has a problem of lack of credit availability, lower growth opportunities and poor sector performances. Hence the investor reaction was poor to the recent merger activity between RIL-RPL. This helps us to identify how an investor reaction could be defined at a point in time which is very much the objective of this research.

During favorable market situations, read favorable economic situation, the abnormal returns in short term are always more than the abnormal returns in a market marred by higher interest rates, lower credit availability and GDP lower than the previous quarter. This leads to a conclusion that favorable market situations tend to build up more positive merger momentum than unfavorable and cold market conditions, where GDP growth is lower than previous quarter

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