

CHAPTER FOUR

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HUBRIS HYPOTHESIS OF TAKEOVER GAINS

The preceding chapter focused on wealth maximisation and market efficiency of the target shareholders. Still, the wealth maximisation of the shareholders of the bidding firms has remained unexplored *i.e.*, whether the shareholders of the bidding firm gains during various phases of takeover or management of the bidding firm is simply inflicted by hubris, and hence, pays for the shares of the target more than the prevailing market value. This chapter seeks to enquire into the controversy raised by the proponents of the hubris hypothesis (Roll, 1986). Since identification of the bidding firm poses considerable amount of difficulties owing to cross holdings and multiple sources of finances in takeover, the case study method is resorted to carry out the empirical analysis.

This chapter is divided into four parts. Part one states the concept of hubris hypothesis and its implications. Part two introduces the bidder and the target. This is followed by part three, where in CARs for the target and the bidder are analysed for the period beginning with 1-1-1988 and ending on 30-10-1991. Part four summarises the inferences about the validity of the "hubris hypothesis".

4.1. HUBRIS HYPOTHESIS

Managerial theory of the firm postulates that managers involve in takeover activities with a view to maximising their own utilities, in the form of prestige, power, security and higher remuneration even at the cost of sacrificing the wealth maximisation of the shareholders, (Marris,1964; Firth,1980; Malatesta,1983; and Roll,1986). Though manager as an investor is supposed to behave rationally in the market and hence, market is supposed to price its securities properly but it must be kept in mind that any bid to takeover at a price higher than the prevailing market price may represent an error in his rational behaviour. Consequently, the market, though populated by rational beings, may characteristically behave in a way akin to gross irrationality of an individual leaving the trace of only systematic behavioural component - a small thread of rationality that all individuals have in common. In fact, one possible way of defining the irrational or aberrant way of behaviour is independence of an individual from the average behaviour of individuals. Psychologists such as Oskamp (1965), Tversky and Kahneman (1981) have constantly cautioned with empirical evidences that individuals do not always make rational decision under uncertainty. Economists usually ignore individual behaviour owing to its non-predictive character of market behaviour. However, in case of acquisitions and takeovers, it is the individual who initiates the takeover process and therefore, the caution of psychologists cannot be abandoned. It rather offers a valid

opportunity in the case of takeover to examine the rationality of the management who may convince itself that the current market valuation is not reflecting the full economic value and combined firm would create greater value. If there are no aggregate gains in takeovers, the phenomenon can be termed as "hubris hypothesis" (Roll, 1986).

Hubris hypothesis assumes that (i) the financial markets are efficient in the sense that asset prices reflect all information about the firms; (ii) the product and labour market are efficient in the sense that no industrial restructuring can bring gains in aggregate output at same cost; and (iii) no gains could be realised by simply replacing the existing managers. From this, following testable implications flow for accepting or rejecting the hypothesis:

- (a) For the target firm : (i) the average increase in the market value of the firm should be more than the average decrease in the value of the bidding firm, if the bid is successful; and (ii) the market price of the target should decline to original level or below, if the bid is unsuccessful.
- (b) For the bidder firm : the market price would (i) decline on the announcement of the bid; (ii) increase on abandoning a bid or losing a bid; and (iii) decrease on actually winning the bid.

Alternatively, the absence of hubris on the part of the management should imply that the share price of the bidder is expected to behave in following manner:

- (a) it increases on announcement on successful culmination of takeover;
- (b) it decreases on failure to takeover the target.

In final analysis, the expenses of the takeover would represent a loss to the bidding firm.

4.2. INTRODUCTION TO THE TARGET AND THE BIDDER

This section introduces the target and the bidder who have raised much heat and dust regarding corporate takeover battle in India.

The Target: Larsen & Toubro Ltd.

L&T was incorporated as private company by two Danish engineers, H. Holck Larsen and S.K. Toubro in 1946 under the Indian Companies Act, 1913. It was converted into public company in 1950. Over a period of nearly five decades it has become one of the blue-chip company having diversified its business in twelve different feilds with turnover more than Rs.2000 crores, owned by more than ten lakhs shareholders.

The main objectives of the company are to carry out business as civil, mechanical, electrical, chemical and agricultural engineers; as manufacturers; as importers and exporters; and

as contractors. The operations of the company are spread across the world carried out at eleven different workshops in the country with the help of four subsidiaries and two associated companies. It is known for its professional management. The board consists of eight whole time and thirteen part time directors. It includes eminent industrialists, administrators and professionals of high calibre.

L&T has grown substantially in terms of its net worth and turn over since its incorporation. With initial capital of Rs.25 lakhs in 1946, it has at the end of 1991-92 the capital of Rs.130 crores with reserves accounting to Rs.747 crores. It believes in sharing the prosperity with its shareholders. So far, it has declared the bonus issues for six times and rights issues for sixteen times. All along it has been paying uninterrupted dividends to its shareholders. In a BW-MARG poll on India's most respected company L&T ranked second in 1992 and had been maintaining its position in India's top five most respected companies (Refer para 5.2.1. for the detailed profile of L&T).

The Bidder: Reliance Industries Ltd.

RIL was started as a trading concern in textiles by Dhirubhai Ambani, a son of a school teacher from Chorward, a small village in Gujarat. It was incorporated as private company in 1966 as Reliance Textile Industries Pvt. Ltd. which was converted into public in 1977, and got renamed as Reliance Industries Ltd. (RIL) in 1985. Over a period of two decade,

RIL has emerged as one of the biggest corporate houses in India with the biggest family of shareholders of 3.8 million.

RIL has grown vertically backward since its inception as trading firm in textile. Simultaneously, during its growth process it has also diversified into detergent and plastics intermediaries. In the first phase of its backward integration, it started manufacturing textiles at its Naroda Plant. In the second phase of backward integration, it went into manufacturing Polyester Staple Fiber (PSF) and Polyester Filament Yarn (PFY), a raw material for the manufacturing of fabrics, at Patalganga plant. In the third phase, it went one more step backward by starting the manufacture of fiber intermediate items such as Purified Terepathalic Acid (PTA) and Mono Ethylene Glycol (MEG). It also went in for horizontal diversification to manufacture plastics from the raw materials such as Poly Vinyl Chloride (PVC) and High Density Polythylene (HDFE) and highly demanded detergent raw material, Linear Alkyl Benzene (LAB). In the fourth phase, it went one more step backward straight to manufacture the basic raw material ethylene by cracking the natural gas under specified conditions. In the proposed fifth phase, in the last possible step of backward integration, its proposed refinery complex is expected to process petroleum crude to produce kerosene, naphtha, liquified petroleum gas and fuel oil.

RIL has three manufacturing complexes. Two of them at Naroda and at Hazira in Gujrat and one at Patalganga in Maharasta.

One more refinery complex is proposed near Jamnager in Gujarat. Fig.5.4 sketches the manufacturing of various products at their respective complexes. Naroda has the textile complex, where yarn is processed and synthetic fabrics are manufactured. At Patalganga it has fiber and petrochemical complex. It produces polyester fiber intermediaries (PX, PTA, PSF, and PFY) and detergent intermediaries (LAB and Paraffin). Hazira complex has its petrochemical and plastic complex. It manufactures more basic petrochemical compound (EO, MEG, and VCM) and plastic intermediaries (PVC, HDPE, and LDPE). The refinery project proposed near Jamnager will process petroleum crude to produce feed stock like kerosene, naphtha/NGL, and fuel oil for the down stream projects at Patalganga and Hazira.

RIL is known for its financial wizardry in innovating financial instruments which provide more number of alternative risk and return combinations to the investors, for example, convertible debentures with varied options. It was the first among Indian corporate houses to issue Global Depository Receipts (GDRs). Since 1977 when it went public, Ambanis have mobilised Rs.7970 crores. This proves that it has been a favourite among the investors community. Scanning of financial data for last eight years revealed that net worth, total assets have been growing at thirty and twenty eight per cent per annum respectively. On operational side, turn over, profit after tax has been growing at twenty two and thirteen per cent annually. The company has been paying higher dividends than an industrial average. On an average it has

paid dividends in range of thirty to thirty five per cent. RIL is also known for applying high creativity in preparation of annual accounts with due disclosures. It is also observed that it has changed its accounting policies and practices frequently but complying the accounting standards issued by Accounting Standard Board time to time.

During the process of its growth it has developed a close nexus with the politicians and the bureacrats, and bitter animosity with Nusli Wadia (Bombay Dyeing) and Goenkas (Express Group). Reportedly, they have left no stones unturned to malign the image of Ambanis by publishing series of anti-Ambanis articles, especially, whenever the Ambanis came out with public or rights issue. Ambanis were also reported to have harrassed their rivals by blocking their growth plans through influencing changes in Government policies at the latters' disadvantages. In present study also this corporate rivalry has played major role in holding the Ambanis back from regaining the control over L&T (Refer para 5.2.2. for the detailed profile of RIL).

4.3. ANALYSIS OF CARS AROUND THE SELECTED EVENTS

This section presents the results of the analysis of cumulative abnormal returns to the shareholders of the bidder and the target companies. Besides, an attempt is made to analyse the effect of news releases during the takeover process to see if the market behaviour is consistent with semi-strong form of efficiency or not.

Multiplicity of Events

The L&T takeover case is very unique in the sense that it unfolded multiplicity of events leading to success and failure of the takeover attempt. Event study methodology requires identification of one event date (t_0) on which first takeover announcement was publicly made. The event date signals initiation of takeover process and period following this is taken as post event period. In the present case, multiplicity of events unfolded the successful takeover of L&T, restoration of control back to L&T, resulting in failure of takeover attempt. (See Table 4.1. for "Major Events in Takeover of L&T").

The empirical analysis is divided into thirty major events spanning across the successful and the unsuccessful attempts to takeover L&T by the Ambanis over a period of more than three and a half years *i.e.*, January 1, 1988 through October 30, 1991. In the takeover process, each of the events represents a major news release having significant impact on the outcome. The first phase (event no. 1 to 10) characterises the successful takeover of L&T by the Ambanis. Event no. 11 to 16 marked the second phase heralding the removal of Ambanis and control of the financial institutions over the L&T. Third phase covers event no. 17 to 30 leading to the retrieval and unsuccessful takeover attempt on L&T by the Ambanis. The results of daily CARs to shareholders of the RIL and L&T are presented in Appendix 4.1 and 4.2 respectively. Event wise CARs for selected intervals for the

target and the bidder are given in Table 4.2 and 4.3 respectively. The daily share price of the target and the bidder for period of the study are plotted on a graph as shown in Fig. 4.1 and 4.2 respectively.

4.3.1. Results for Larsen & Toubro Ltd.: The Target

The maiden news of takeover attempt was released on 5-8-1988. The identity of the bidder was still not confirmed. The pre-event period recorded 0.292 CARs over 24 days; the share price also rose from Rs. 91 on 28-6-1988 to Rs. 122 on 5-8-1988. The event was immediately followed by sharp fall in CARs and share price. The CARs over the following 12 days were -0.146 and the share price declined to Rs.101 on 29-8-1988.

The event no. 2 (10-10-1988) was marked by Ambanis joining the L&T board and the latter registering 39 lakhs shares in the name of BoB Fiscal (a subsidiary of Bank of Baroda) on 10-10-1988. It was observed that the event was preceded by sharp rise (CARs : 0.293) over a period of 24 days and followed by fall showing a prolonged decline of CARs of -0.309 over 88 days. The share price moved from Rs. 101 on 29-8-88 to 147.50 on 10-10-88 registering a gain of Rs.46.50, in pre-news release period. Similarly, it went down to 126.00 on 31-10-88.

L&T became part of the House of Ambanis with Dhirubhai Ambani assuming the chairmanship of L&T on 28-4-89. It was marked as event no.3 which was preceded by a small rise of 0.039 CARs

over 4 days, and a rise of 0.072 over 20 days. While the event was again followed by negative 0.122 CARs over the following 18 days. The share price which increased from Rs.89 on 21-3-89 to Rs. 104 on 28-4-89 declined to Rs. 82.50 on 31-5-89.

The event no.4 was marked by L&T Board approving the Mega issue FCDs of Rs. 920 crores on 22-7-89. The event was preceded as well as followed by a rise in the CARs and share price. The share price, from Rs. 82.50 on 30-5-89 jumped to the height of Rs. 101.50 on 25-7-89 realising CARs of 0.216. The share price further went up in anticipation of gains from the Mega issue to Rs.122.00 on 31-8-89 registering CARs of 0.227, culminating in total CARs of 0.443 over 52 days. But the declining share price after 31-8-1989 causes suspicion about such behaviour, possibly, the decline might have been in anticipation of the outcome of the court case filed by shri Harish Jagtiani seeking removal of Ambanis.

The successful takeover of L&T was challenged in Bombay High Court on 13-9-89, marking event no. 5. The event led to the decline from Rs. 122 on 31-8-89 to Rs. 98.5 on 13-9-89 accounting for -0.178 CARs and fall in share price of Rs. 23.50. Meanwhile, the Bombay High Court gave verdict in favour of Ambanis on 13-9-89 marking the event no.6. Surprisingly, neither the share price nor CARs experienced any significant fluctuations preceding or following the event. It might be due to the fact that petitioners challenged the verdict and preferred an appeal in the Supreme

Court restricting the implementation of mega issue.

To avoid litigations, Ambanis responded by initiating political settlement and "in a gesture of goodwill" they sold back the equity shares to financial institutions. It was marked as event no.7. This event registered a rise of Rs. 18.25 from Rs. 101.25 on 18-10-89 to Rs. 119.50 on 19-10-89 registering an increase of 0.191 CARs. But, it was followed by a prolonged decline in CARs and share price due to political uncertainty and the emergence of V.P. Singh - known for his rivalry with Ambanis, and eclipse of Rajiv Gandhi - known for his friendship with Ambanis.

On 31-11-89 shri V.P. Singh became Prime Minister on marking the event no.8. It was preceded by a prolonged fall in share price from Rs. 119.50 on 19-10-89 to Rs. 72 on 29-11-89 registering negative CARs. In its first move to de-stabilise the Ambanis in the changed political scenario, FIS requisitioned an extra ordinary general meeting on 20-4-90 marked the event no.9. This was preceded by the marginal recovery in share price after the touching abysmally low level of Rs. 59.50 registering negative CARs of 0.223 (the share price plunged from Rs. 84.50 on 3-1-90 to Rs. 59.50 on 13-3-90). The event was preceded by positive CARs of 0.313 (over preceding 12 days) and followed by a sharp rise of 0.409 CARs over the following two days. But thereafter, it started falling, possibly, anticipating the withdrawal of Ambanis.

The event no.10 marked the Life Insurance Corporation of India filing a petition in Bombay High Court against Ambanis' refusal for inspecting the register of the shareholders of L&T on 16-4-90. The event was preceded and followed by decline in the share price and CARs. The share price declined to Rs. 70.00 on 12-6-90 after some intermittent spurts. In all, share price declined from Rs. 118.00 on 5-4-90 to Rs. 70.00 on 12-6-90 and registered negative CARs of 0.396 over 38 days.

Soon after, FIs took over the control of L&T, the share price started upward journey. New management of L&T cancelled the supplier's credit to Reliance Petrochemicals Ltd., pruned the mega issue on 29-6-90 marking event no. 11 and approved the accounts for the year ended on 31-3-90 on 6-7-90 culminating in event no. 12. During the course of hearing at the Supreme Court, the advocates of Ambanis initiated the political settlement which was not accepted by petitioners marked the event no.13. The series of events registered a rise of Rs.110 in the share price from Rs. 70 on 12-6-90 to Rs. 180 on 19-9-90, registering a positive CARs of 0.747. Information released by each event was incorporated in the share price. Three days around these events (no. 11,12 and 13) registered rise of Rs.7.50, Rs.7.50 and Rs.17.50 respectively.

On 7-11-90, resignation of shri V.P. Singh throwing the country into political instability marked event no. 14. The event was preceded by the decline in share price from Rs. 180 on 19-9-90 to Rs. 122 on 5-11-90 registering negative CARs of

0.354. Though it resulted in spurt in the share price from Rs.148.75 on 9-11-90, but it got stabilised at Rs. 137.50 on 16-11-90 till occurrence of the event no.15. It was marked by Shri Chandra Shekhar winning a vote of confidence in the Parliament on 21-11-90 which was followed by an erratic behaviour in the share price and CARs. The share price on 21-11-90 was Rs. 136.25, while it went down to Rs. 130 on 22-11-90, but scaled up to Rs. 150 on 26-11-90 and again declined to Rs. 130 on 29-11-90. This pattern confuses the analysis of the effect of news release on share price. One possible reason could be the volume of business in the scrip.

The FIs, finally relinquished their control over L&T on the resignation of D.N. Ghosh as Chairman of L&T on 16-2-91, marking the event no.16. It experienced a spurt of Rs. 21.25 from Rs. 100 on 15-2-91 to Rs.121.25 on 16-2-91 registering positive abnormal returns of 0.144. It was followed by an upward swing in the share price till the occurrence of the event no. 17 on 7-3-91. The interim period from (15-2-91 to 4-3-91 having nine trading days) registered 0.199 CARs and closed at Rs.132.50 on 4-3-1991 .

On 7-3-1991, Shri Chandra Shekhar resigned from Prime Ministership marking the event no.17. The market reacted sharply by pulling the share price down to Rs.120 on 7-3-91 from Rs. 132.50 on 4-3-91 registering negative CARs of 0.043.

The downward drift continued over next ten trading days to Rs.112.5 on 26-3-91, till the trend got reversed in

anticipation of the event no. 18. On 8-4-91, event no.18 reported that leadership the issue will be kept in abeyance till new Government assume the power after the election. Surprisingly, the event was preceded and followed by rise in the share price and CARs till the event no.19 was reported. The share price went up by Rs. 27.5 from Rs. 112.5 on 26-3-91 to Rs. 140 on 15-4-91 registering 0.167 CARs over eleven trading days including the event day.

On 18-4-1991, The Supreme Court upheld the terms of mega issue and dismissed the modification therein, marking the event no.19. Surprisingly the market valued this information negatively which seemed beneficial to the shareholders of the L&T. It was followed by the death of Rajiv Gandhi on 21-5-91 marking the event no.20. Contrary to the expectations, market remained indifferent to this news release. The event did not register any significant abnormal returns. The market started looking up with emerging political stability marking the event no.21 and decision of L&T to go ahead with mega issue marking the event no.22. These events did not reveal any decisive impact on the share price and abnormal returns.

Shri Narasimha Rao was elected as the Prime Minister on 26-6-91 marking the event no.23. Again, contrary to the expectations market did not reveal any sharp reactions. More or less it remained indifferent to the news. On 25-6-91 the share price was 110.50 which scaled to Rs. 111 on 27-6-91 to declined to Rs. 104 by 4-7-91 and finally got stabilised around Rs. 110 until 22-7-91.

The event no.24 was marked by the news release on 1-8-91 that "Ambanis are likely to come back". The news seemed to have leaked before this date as share price started rising since 22-7-91 well before the reported date. The share price registered the rise of Rs. 39 from Rs. 110 on 11-7-91 to Rs. 149 on 1-8-91 accounting positive CARs of 0.223 over seven trading days. Finally, event no.25 confirmed their entry as Trishna Investment & Leading Pvt. Ltd. convened extra ordinary general meeting to appoint their nominees on the board of L&T. The market reacted sharply to this event by pushing up the share price by Rs.14 in a single trading day accounting positive CARs of 0.083. But after confirmation, in the following ten trading days the share price declined marginally and hovered in the range of Rs. 142 to Rs. 152. Cumulatively, over following ten days it experienced a negative CARs of 0.123.

Adjournment of the extra ordinary general meeting on 26-8-91 marked the event no.26. The event was preceded by the increase in share price over a "suspense" about the outcome of impending extra ordinary general meeting. It scaled up by Rs. 21.25 over three trading days from Rs. 142.5 on 21-8-91 to Rs. 163.75 on 26-8-91 registering positive CARs of 0.103. But the adjournment of the meeting pulled the share price down to Rs.149 on 30-8-91 and over following three days registered negative CARs of 0.07.

The event no.27 on 3-9-91 was marked by a shareholder filing a petition seeking stay on the holding of adjourned meeting on the ground of alleged irregularities in proxy forms. It pulled down the share price to Rs.144 on 4-9-91 from Rs. 149 on 30-9-91 over three days including the event day. On 10-9-91, the Court refused to stay the meeting but restrained the appointment of Mukesh Ambani as Vice-President of the L&T. This was marked as the event no.28. This fueled the uncertainty as to what would be the result of the adjourned meeting on 17-9-91. This event was preceded and followed by a rise in the share price and CARs anticipating "something" on 17-9-91. The share price scaled to Rs. 157.50 on 10-9-91 and Rs. 155 on 16-9-91 from Rs. 149 on 4-9-91 registering positive CARs of 0.084 and 0.034 over three and five trading days preceding the event respectively.

On 17-9-91, at the adjourned meeting, the Ambanis withdrew the proposed resolution to appoint Dhirubhai Ambani as Chairman of the L&T. It was marked as the event no.29 culminating into failure of the takeover attempt. The resolution of uncertainty and withdrawal of Ambanis frustrated the market expectation beating down the share price to Rs. 127 on 9-10-91 from Rs. 155 on 16-9-91 registering negative CARs of 0.106 over thirteen days following the event.

Rehearsal of Dhirubhai Ambani to maintain corporate democracy at L&T signaling their re-entry on 10-10-91 marked the event no.30. It did not evoke much response from the market and

share price continued its downward trend since 17-9-91. It went down from Rs.127 on 9-10-91 to Rs. 121.50 on 21-10-91 registering negative CARs of 0.047 over seven trading days. Over the following weeks from 22-10-91 to 30-10-91 share price did register positive CARs of 0.093. The reasons for this were not traced in the absence of any specific news releases.

The foregoing analysis drives us to conclusion that takeover leads to the maximisation of shareholders' wealth and that the market response as measured by cumulative abnormal returns indicates its consistency with semi-strong form of efficiency.

4.3.2. Results for Reliance Industries Ltd.: The Bidder

The event no.1 distinctly indicated downward trend. It was preceded by positive CARs of 0.017 over fifteen trading days from Rs. 202.5 on 5-8-88 to Rs.193 on 31-8-88.

The event no.2 was distinctly preceded and followed by downward trend in the share price and CARs. It declined to Rs.200 on 11-10-88 from Rs. 202 on 22-9-88 and declined further to Rs. 167.5 on 3-11-88. The market evaluated the event no.3 negatively, when Dhirubhai Ambani became the Chairman of the L&T. It was also preceded and followed by the fall in the share price and CARs. It started declining from Rs. 154.5 on 11-4-89 to Rs. 114 on 31-5-89 registering negative CARs of 0.093 over twenty three days including the event day. The decline was more sharp around the event day.

Approval of L&T mega issue giving preferential treatment to shareholders of the bidder (event no.4) was evaluated negatively. The share price declined to Rs. 115.50 on 25-7-89 from Rs. 135.50 on 29-7-89 registering negative CARs of 0.035. It further went down to Rs.101 accounting of negative CARs of 0.005 on 12-9-89, a day prior to the event no.5. The news released by the event no.5 and no.6 was sharply reacted. The effect of the event no.5 was spurt in share price from Rs. 100.5 on 13-9-89 to Rs. 107 on 15-9-89 registering positive CARs of 0.053. The effect of the event no.6 was also a spurt in the share price from Rs. 103 on 28-9-89 to Rs. 110 on 29-9-89 but followed by a decline of Rs. 17 to reach the level of Rs. 93 on 18-10-89 over eleven trading days registering positive and negative CARs of 0.05 and 0.099 respectively.

The news of selling back the shares to FIs marked the event no.7. This evoked a spurt in the share price followed by a sharp decline due to the political uncertainty. Contrary to the expectations, election of Shri V.P. Singh as the Prime Minister (event no.8) not only halted the continued decline but also pushed up the share price. The share price scaled from Rs.73 on 30-11-89 to Rs. 98 on 12-12-89. Thereafter, again the share price started declining and touched its all the time lowest level i.e., Rs. 51.50 on 9-3-90. The events no.9 and 10 characterising attempts at removing the Ambanis from L&T did not evoke any sharp reaction in the share price and CARs.

The events no.11, 12 and 13 were not observed to have their independent reactions to the news release but were part of the sharp upward swing in share price which could be attributed to political uncertainty. The share price of Rs. 62.5 on 14-6-90 scaled to its all time high Rs.245 on 9-10-90, registering almost 400 per cent increase in the share price, over 58 trading days. This period recorded 0.876 CARs. This shows that a major portion of changes in the share price was due to general market conditions. It also indicated that the exit of Ambanis and reversal of decisions of Ambanis in L&T was not adversely evaluated by the market.

The political instability resulted from the resignation of shri V.P. Singh on 7-11-90 (event no.14), and election of shri Chandra Shekhar on 21-11-1990 (event no.15) reversed the market trend. For the event no 14, the share price declined from Rs.230 on 7-11-90 to Rs.280 on 16-11-1990, registering 0.01 CARs. For the event no 15, the share price scaled down from Rs.224 on 21-11-1990

The market was observed to have reacted sharply to the resignation of shri D.N. Ghosh (event no.16). Following the news release, the share price went up to Rs. 158.75 on 7-3-91 from Rs.113 on 15-2-91 registering positive CARs of 0.168 over nine trading days. The resignation of shri Chandra Shekhar as the Prime Minister on 7-3-91 (event no.17) was evaluated negatively by the market showing a decline in share price from Rs. 158.75 on 5-3-91 to Rs.128.75 on 13-3-91 over five trading days registering negative CARs of 0.134.

The event no.18 observed to have preceded and followed by positive CARs. The event no.19, which was wrongly perceived to be beneficial to the shareholders of the bidder, led to decline in share price and CARs over the following thirteen trading days. The share price went down from Rs.146.5 on 16-4-91 to Rs.128.50 on 9-5-91 registering negative 0.06 CARs.

The emergence of shri P.V. Narasimha Rao (event no.21), decision of L&T to go ahead with mega issue (event no.22) did not evoke any decisive market reaction. All the these events were constantly followed by a declining share price and CARs. This might be due to the possibility that the relation of Ambanis with the new Government were unclear to the market.

Ambanis' attempt to regain the control over L&T was were expected well before it was publicly reported as the event no.24. The share price started rising from Rs.124 on 5-7-91 to Rs.191.5 on 1-8-91, the 24th event day. It registered positive CARs of 0.224. The confirmation on the 5-8-91 (event no.25) resulted in a spurt of Rs. 7.50 from 191.50 on 1-8-91 to Rs.198 on 5-8-91. But the resolution of uncertainty on confirmation by Ambanis resulted in repeated decline in the share price to Rs.177 on 12-8-91. But, soon after the uncertainty about the extraordinary general meeting was over share price got pushed up to Rs.206 on 26-8-91 registering positive CARs of 0.068 over the preceding nine trading days.

The adjournment of the meeting (the event no.26) was negatively evaluated by the market and trend got reversed.

The share price went down to Rs. 185 on 30-8-91 registering negative CARs of 0.057. The event no.27 pulled it down further to Rs.175 on 4-9-91. The event no.28 again pushed it up to Rs.182 on 6-9-91 in anticipation of holding of adjourned meeting on 17-9-91. But the share price again came down to Rs.177 on 10-9-91 when the court restrained the election of Mukesh Ambani as the Vice President of L&T. The share price further went up to Rs.185 on 16-9-91 waiting anxiously for the result of the adjourned meeting on 17-9-91.

The withdrawal of Ambanis at the meeting (event no.29) resolved the anxiety and pulled down the share price to Rs.174 on 17-9-91. The declining trend continued further to Rs.167 on 24-9-91 registering -0.026 CARs. The market did not significantly react to the rehearsal of Ambanis to regain control over L&T. The changes in the share price over the event day were Rs.1 and Rs.3 from a day preceding and following the event day respectively.

The foregoing analysis leads us to infer that the bidder exposes (a) an element of corporate "raiding", in successful takeover of the target; and (b) its "hubris" in unsuccessful takeovers.

4.3.3. Analysis by Grouping of Events

In order to permit generalised inference, grouping of events is resorted. Events are clubbed to identify the particular phenomenon dominating that period. For example, event no. 3 to 6 are clubbed to capture the effect of regime of Ambanis

over L&T, event no. 24 and 25 are clubbed to measure the impact of Ambanis attempt to regain the control over L&T.

The event no.1 and 2 characterised the anticipation and confirmation of Ambanis' entry in L&T. Over twenty five days preceding the event no.1, the target earned 0.294 CARs while the bidder suffered -0.062 CARs. Following the confirmation, both experienced negative CARs. Over twenty-five days following the event no.2 (from days no.130 to 155 in case of the target and and from 166 to 191 in the case of the bidder) the target and the bidder suffered -0.052 and -0.14 CARs respectively. During the period between anticipation and confirmation(from days no.94 to 130 and from 130 to 166 in case of the target and the bidder respectively) the target earned 0.127 CARs, in contrast, the bidder lost -0.017 CARs.

The Ambanis regime over L&T spanned from the event no.3 to 6. Spanning over one hundred and ninety-seven trading days the target suffered -0.057 CARs. In contrast to this, the bidder over the same period earned 0.208 CARs.

The events no.7 and 8 covered the period of political crisis preceding the election of shri V.P. Singh as the Prime Minister. This phase registered -0.407 and -0.133 CARs to the target and the bidder respectively.

The event no.9 and 10 highlighted political stability and subsequent withdrawal of Ambanis from L&T. In this case, it was difficult to separate out the combined effect of the

events as they were not mutually exclusive. Over seventy-four trading days, the target earned positive 0.318 CARs, while the bidder earned 0.107 CARs.

In the changed political scene (shri Narasimha Rao becoming Prime Minister), in anticipation and the confirmation of Ambanis' attempt to regain the control over L&T (events no.24 and 25) over eight trading days preceding the reported anticipation both the target and the bidder earned 0.165 and 0.207 CARs respectively.

While eight days after the reported confirmation (from days no. 686 to 693 and from 723 to 730 in case of the target and the bidder respectively), both the target and the bidder suffered -0.072 and -0.06 CARs respectively. The time period between the reported anticipation and the confirmation, over two trading days (from days no.685 to 686 and from 721 to 722 in case of the target and the bidder respectively) the target and the bidder earned 0.082 and 0.025 CARs respectively. When compared to the the CARs of the corresponding period in successful takeover attempt, this was lower in case of target and higher in case of the bidder. The difference might be due to the difference in number of days required to confirm the anticipation.

The events no.26 to 28 characterised Ambanis' continued efforts in spite of the adjournment of the meeting and initiation of judicial litigation against them. During this phase over eight trading days (from days no.699 to 707 and

from 735 to 743 in case of the target and the bidder respectively), both the target and the bidder suffered negative CARs of -0.012 and -0.09 CARs respectively. Finally, the withdrawal of Ambanis for regaining the control over L&T marked the event no.29. Over twelve trading days following the event (from days no.710 to 722 and from 46 to 758 in case of the target and the bidder respectively), the target suffered negative CARs of 0.099 while on the contrary, the bidder earned positive CARs of 0.109.

4.3.4. Summary of Results

The aforementioned analysis of CARs in the successful and the unsuccessful takeover attempt of L&T by the Ambanis led to following inferences:

- (i) The target is more sensitive and responsive than the bidder to news releases related to takeover attempt.
- (ii) In anticipation of takeover attempt, the target was observed to have earned higher than the bidder. The target earned 29.2 per cent CARs over twenty four days and 22.3 per cent CARs over seven days before the respective event days; while the bidder earned 1.7 per cent CARs over fifteen days and 22.4 per cent CARs over fifteen days before the respective event days.
- (iii) The confirmation of identity of the bidder is normally followed by the negative CARs for both the target and the bidder as well. The target suffered -9.3 per cent CARs while the bidder suffered -3.4 per cent CARs nine days after the event day .

- (iv) During the bidders' regime over the target, the latter suffered negative CARs, while the former earned positive CARs. The target was observed to have suffered -5.7 per cent CARs, in contrast to the bidder who earned 20.8 per cent CARs.
- (v) The target lost while the bidder gained in unsuccessful takeover attempt. The target was observed to have suffered -9.9 per cent CARs, in contrast to the bidder who gained 10.9 per cent CARs .

4.4. CONCLUSION

The overall results suggest that takeover attempts generate gains or the target and the bidder. The results do not support the hubris hypothesis propounded by Roll (1986). This is evidenced by the results that the target firm lost and the bidder gained in successful takeover attempt. But gains to the bidder and loss to the target in unsuccessful takeover pose difficulty in rejecting the hubris hypothesis with confidence. The market responses to the news releases observed to have been fast and quick to infer that behaviour of the market is consistent with semi-strong form. But its evaluation of the news releases causes some concern. This is evidenced by immediate decline in share price after confirmation of anticipated event. Thus, market behaviour appears to be consistent with semi-strong form of efficiency with weak evidences.

Table 4.1

Summary of Major Events in L&T Takeover

YEAR*	EVENT NO.	OBSERVATION NO.		EVENT NARRATION	
		RIL	L&T		
1	2	3	4	5	
1988	1	130	94	* Who is behind the upsurge? (03\03\88) * Financial Institutions sold 33 lakhs shares of L&T to BoB Fiscal. (05\08\88)	
	2	166	130	* L&T registered 39 lakhs shares in the name of BoB Fiscal. Nominees of Ambanis joined the Board of L&T. (10\10\88)	
1989	3	274	238	* Mr.D.H.Ambani became the Chairman of L&T. (28\04\89) L&T became part of House of Ambanis	
	4	327	291	* Board of L&T approved the mega issue Rs.920 crores of FCDs. (22\07\89)	
	5	352	316	* A writ petition was filed against the sale of 39 lakhs shares of L&T by FIs to BoB Fiscal and Ambanis' entry in L&T in Bombay High Court. (13\09\89)	
	6	364	328	* The above petition was dismissed by the High Court and the petitioners preferred an appeal in Supreme Court and got the stay on implementation of mega issue. (29\09\89)	
	7	376	340	* Ambanis sold back 39 lakhs shares in L&T to FIs as gesture of goodwill. (19\10\89)	
	8	400	364	* Mr.V.P.Singh became the Prime Minister. (30\11\89)	
	1990	9	468	432	* FIs requisitioned extra ordinary general meeting to remove Ambanis from the Board of L&T. (02\04\90)
		10	475	439	* LIC of India filed a petition in Bombay High Court to get register of shareholders of L&T. (16\04\90) * Mr.D.H.Ambani resigned from Board of L&T. (19\04\90)
11		520	484	* Board of L&T cancelled the supplier's credit to RPL and prune the mega issue. (29\06\90)	
12		523	487	* Board of L&T approved the accounts for the year ended on March,1990. (06\07\90)	
13		560	524	* The advocates of Ambanis initiated fore political settlement. (10\09\90)	

1	2	3	4	5
	14	579	543	* Mr.V.P.Singh resigned as Prime Minister. (06\11\90) * Ambanis may regain the control?
	15	585	549	* Mr.Chandra Shekhar won the vote of confidence in the Parliament with the support of Congress-I and later on became Prime Minister. (21\11\90)
1991	16	623	587	* Mr.D.N.Ghosh resigned from the Chairmanship of L&T. (16\02\91)
	17	632	596	* Mr.Chandra Shekhar resigned as Prime minister. (07\03\91)
	18	650	614	* L&T leadership issue kept in abeyance. (06\04\91)
	19	656	620	* Supreme Court upheld the mega issue of L&T. (18\04\91)
	20	675	639	* Mr.Rajiv Gandhi was killed in a bomb explosion. (20\05\91)
	21	679	643	* Mr.P.V.Narsimha Rao emerged as the leader of Congress-I. (30\05\91)
	22	682	646	* L&T to go ahead with mega issue. (04\06\91)
	23	697	661	* Mr.P.V.Narsimha Rao became Prime Minister. (26\06\91)
	24	721	685	* Ambanis are likely to come back. (01\08\91)
	25	722	686	* Ambanis convened EGM meeting to appoint their nominees on the Board of L&T.(02\08\92)
	26	735	699	* The EGM got adjourned due to "bomb hoax". (26\08\91)
	27	739	703	* A shareholder filed a petition to stay the adjourned meeting challenging the appointment of Ambanis on L&T's Board and forging of proxy forms. (02\09\91)
	28	743	707	* The Court refused to stay the meeting but restrained Ambanis to appoint Mr.Mukesh Ambanis as Vice-President at the adjourned meeting. (10\09\91)
	29	746	710	* Ambanis withdrew the proposed resolutions to appoint their nominees at the adjourned meeting. (17\09\91)
	30	759	723	* Ambanis rehearsed their comeback in L&T at RPL's Annual General Meeting. (10\10\91)

* Dates are given in the paranthesis.

Source: Various periodicals and newspapers and judgments of the Supreme Court in cases of RPL and L&T fully convertible debentures issues.

Table 4.2. Event Wise Daily Cumulative Abnormal Returns (CARs) of L&T Ltd.
(March1, 1988 to October 30, 1991)

DAYS													
-9 TO -15	t value	-5 TO -8	t value	-1 TO -4	t value	0	t value	+1 TO +4	t value	+5 TO +8	t value	+9 TO +15	t value
0.000	0.006	0.062	1.208	0.128	2.482	0.030	1.322	-0.027	-0.532	-0.001	-0.014	-0.074	-1.143
0.007	0.114	0.064	1.249	0.051	0.998	-0.019	-0.847	-0.037	-0.722	-0.014	-0.267	-0.033	-0.507
0.044	0.673	-0.072	-1.406	0.015	0.299	-0.002	-0.087	-0.070	-1.370	0.004	0.082	-0.027	-0.410
0.064	0.986	-0.021	-0.400	0.110	2.147	0.007	0.291	0.169	3.295	-0.043	-0.841	-0.036	-0.552
-0.050	-0.774	0.024	0.462	-0.058	-1.134	0.015	0.666	0.017	0.330	0.012	0.242	0.009	0.134
-0.006	-0.100	0.009	0.169	-0.007	-0.139	0.004	0.167	0.007	0.144	0.004	0.074	0.049	0.749
0.009	0.134	-0.006	-0.120	0.009	0.178	0.192	8.336	-0.148	-2.885	-0.109	-2.113	-0.052	-0.803
-0.052	-0.803	-0.035	-0.684	-0.066	-1.283	0.003	0.117	0.005	0.092	0.126	2.446	-0.029	-0.445
-0.042	-0.653	0.028	0.554	0.239	4.661	0.024	1.027	0.176	3.416	0.004	0.072	-0.205	-3.147
0.288	4.427	0.390	7.600	-0.212	-4.131	-0.038	-1.656	-0.133	-2.592	-0.028	-0.555	0.117	1.805
0.025	0.384	0.009	0.172	0.049	0.949	0.082	3.583	0.100	1.953	-0.016	-0.309	0.056	0.855
0.026	0.407	0.043	0.842	0.129	2.512	0.017	0.734	0.043	0.841	-0.018	-0.352	0.012	0.186
0.344	5.289	0.104	2.016	-0.102	-1.988	0.052	2.241	0.013	0.252	-0.042	-0.810	-0.237	-3.653
-0.198	-3.043	-0.034	-0.658	-0.019	-0.374	0.109	4.761	0.008	0.150	0.132	2.573	-0.068	-1.053
-0.105	-1.616	0.154	3.005	-0.028	-0.542	0.020	0.868	0.035	0.682	0.000	0.003	0.028	0.432
0.134	2.055	-0.070	-1.355	-0.038	-0.733	0.144	6.254	0.027	0.518	0.022	0.426	-0.024	-0.375
0.071	1.093	0.027	0.518	0.022	0.426	-0.043	-1.862	-0.010	-0.193	-0.010	-0.196	0.004	0.055
-0.025	-0.389	0.001	0.010	0.014	0.272	0.001	0.028	0.130	2.523	-0.290	-5.645	-0.023	-0.361
0.004	0.055	0.037	0.726	0.085	1.656	-0.182	-7.940	-0.105	-2.042	-0.014	-0.271	-0.005	-0.084
-0.004	-0.067	0.028	0.555	0.039	0.763	0.046	2.016	0.155	3.009	-0.044	-0.847	0.007	0.106
0.013	0.195	0.039	0.763	-0.018	-0.349	0.219	9.525	-0.044	-0.847	-0.032	-0.614	0.042	0.647
0.079	1.213	0.035	0.673	0.133	2.590	-0.021	-0.913	-0.038	-0.732	0.044	0.858	-0.026	-0.392
-0.036	-0.553	0.015	0.288	-0.030	-0.593	0.012	0.505	-0.005	-0.092	0.000	0.003	-0.053	-0.818
-0.053	-0.818	0.081	1.586	0.083	1.619	0.067	2.898	0.012	0.237	-0.002	-0.036	-0.008	-0.128
-0.008	-0.124	0.144	2.802	0.087	1.702	0.083	3.592	-0.086	-1.673	-0.002	-0.037	0.005	0.080
0.063	0.970	-0.002	-0.037	0.027	0.529	0.029	1.256	-0.068	-1.319	0.055	1.075	-0.111	-1.710
-0.098	-1.512	0.027	0.529	-0.042	-0.813	0.003	0.123	0.055	1.075	-0.084	-1.635	-0.022	-0.337
-0.009	-0.141	-0.042	-0.813	0.015	0.295	0.043	1.866	-0.084	-1.635	-0.014	-0.280	-0.057	-0.876
0.005	0.080	-0.021	-0.399	0.009	0.172	-0.006	-0.279	-0.055	-1.066	0.005	0.102	-0.080	-1.226
-0.111	-1.710	0.005	0.102	-0.049	-0.963	-0.022	-0.974	-0.012	-0.224	0.016	0.313	0.064	0.982

Source: Appendix 4.2, pp.

Table 4.3. Event Wise Daily Cumulative Abnormal Returns (CARs) of RIL
(January 1, 1988 to October 30, 1991)

DAYS													
-9 TO -15	t value	-5 TO -8	t value	-1 TO -4	t value	0	t value	+1 TO +4	t value	+5 TO +8	t value	+9 TO +15	t value
0.092	0.851	-0.024	-0.282	0.002	0.022	-0.005	-0.124	0.028	0.323	0.002	0.021	0.019	0.174
-0.009	-0.081	-0.062	-0.720	0.021	0.248	0.007	0.181	-0.083	-0.963	0.027	0.318	-0.049	-0.450
0.070	0.646	0.005	0.053	-0.098	-1.145	-0.025	-0.650	-0.003	-0.038	0.013	0.148	0.044	0.409
0.031	0.285	-0.002	-0.020	0.036	0.424	-0.048	-1.238	-0.015	-0.170	0.067	0.785	-0.033	-0.304
-0.007	-0.066	-0.011	-0.132	-0.016	-0.182	-0.004	-0.097	0.041	0.476	0.000	0.001	0.043	0.396
0.033	0.305	0.008	0.092	0.002	0.024	0.050	1.295	-0.016	-0.181	-0.057	-0.663	0.001	0.006
0.043	0.396	-0.066	-0.771	-0.029	-0.341	0.065	1.686	-0.030	-0.352	-0.028	-0.328	-0.027	-0.251
-0.027	-0.251	0.023	0.273	-0.052	-0.608	-0.018	-0.481	-0.030	-0.352	0.173	2.010	0.005	0.048
0.015	0.137	0.051	0.599	0.096	1.113	-0.021	-0.552	-0.068	-0.788	0.086	1.007	0.128	1.183
0.181	1.669	-0.134	-1.566	0.105	1.226	-0.015	-0.386	0.176	2.051	-0.040	-0.467	-0.078	-0.718
0.010	0.093	0.104	1.213	0.141	1.646	0.138	3.591	0.107	1.247	-0.153	-1.780	0.108	0.999
0.027	0.253	0.149	1.740	0.279	3.247	0.011	0.277	-0.073	-0.847	0.000	-0.002	0.019	0.172
0.254	2.342	-0.014	-0.161	-0.104	-1.213	0.020	0.534	-0.014	-0.159	0.103	1.204	0.044	0.408
0.098	0.902	0.013	0.146	0.161	1.880	-0.013	-0.342	0.012	0.143	-0.013	-0.153	-0.038	-0.354
0.027	0.249	0.132	1.534	-0.002	-0.025	0.081	2.106	-0.076	-0.891	-0.047	-0.546	0.026	0.238
0.081	0.750	0.021	0.240	-0.006	-0.066	0.066	1.712	0.084	0.981	0.018	0.209	-0.086	-0.792
0.021	0.196	0.084	0.981	0.018	0.209	-0.056	-1.464	-0.039	-0.457	-0.024	-0.281	0.025	0.231
-0.068	-0.629	0.027	0.320	0.015	0.179	0.015	0.388	0.051	0.593	0.015	0.179	-0.041	-0.374
0.025	0.231	0.043	0.505	0.051	0.592	-0.017	-0.443	-0.051	-0.597	0.023	0.263	-0.004	-0.039
-0.041	-0.382	0.029	0.338	0.067	0.776	0.060	1.567	0.048	0.562	-0.030	-0.350	0.077	0.705
0.032	0.297	0.067	0.776	0.059	0.685	0.050	1.291	-0.030	-0.350	-0.005	-0.053	0.016	0.149
0.114	1.053	0.045	0.522	0.011	0.131	-0.012	-0.308	-0.008	-0.096	0.100	1.167	-0.026	-0.235
0.025	0.234	0.023	0.269	-0.031	-0.363	0.037	0.973	-0.013	-0.151	-0.131	-1.525	-0.027	-0.252
-0.027	-0.252	0.024	0.282	0.165	1.918	0.074	1.926	-0.053	-0.612	0.007	0.085	0.023	0.208
-0.068	-0.627	0.088	1.029	0.193	2.244	0.015	0.394	-0.081	-0.943	0.060	0.696	0.024	0.222
0.028	0.256	0.060	0.696	-0.024	-0.285	0.033	0.854	-0.039	-0.449	-0.052	-0.608	-0.030	-0.272
-0.016	-0.147	-0.024	-0.285	-0.025	-0.290	0.019	0.498	-0.052	-0.608	-0.054	-0.633	0.118	1.084
0.008	0.077	-0.025	-0.290	-0.010	-0.116	-0.023	-0.603	-0.054	-0.633	0.061	0.709	0.055	0.507
0.024	0.222	-0.092	-1.070	-0.028	-0.322	-0.035	-0.909	0.018	0.212	0.093	1.083	-0.014	-0.129
-0.030	-0.272	0.093	1.083	-0.002	-0.021	-0.015	-0.386	-0.011	-0.124	0.012	0.141	-0.002	-0.014

Source: Appendix 4.1, pp.

LARSEN & TOUBRO LTD.

(1ST MARCH 1988 TO 30TH OCT. 1991)

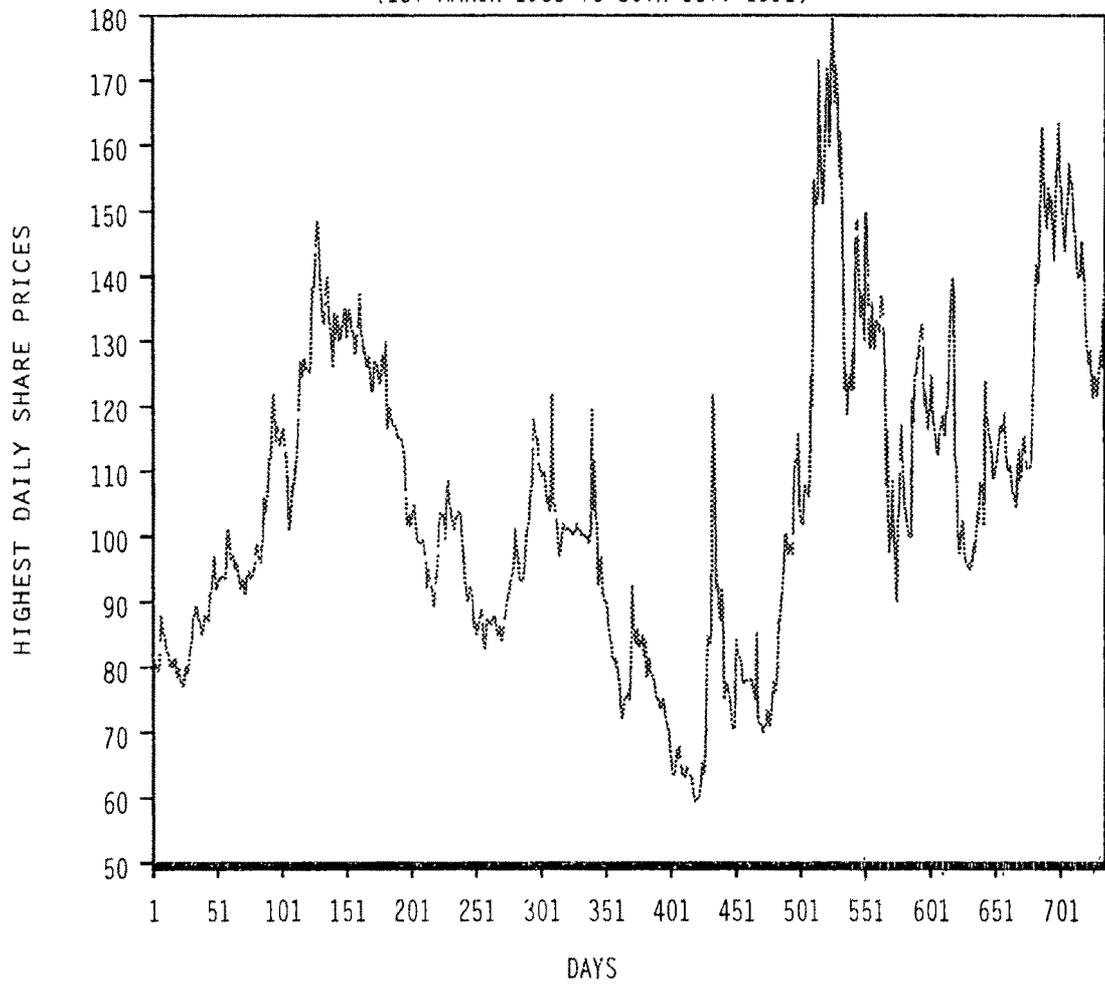


Fig. 4.1

RELIANCE INDUSTRIES LTD.

(4TH JAN.1988 TO 30TH OCT. 1991)

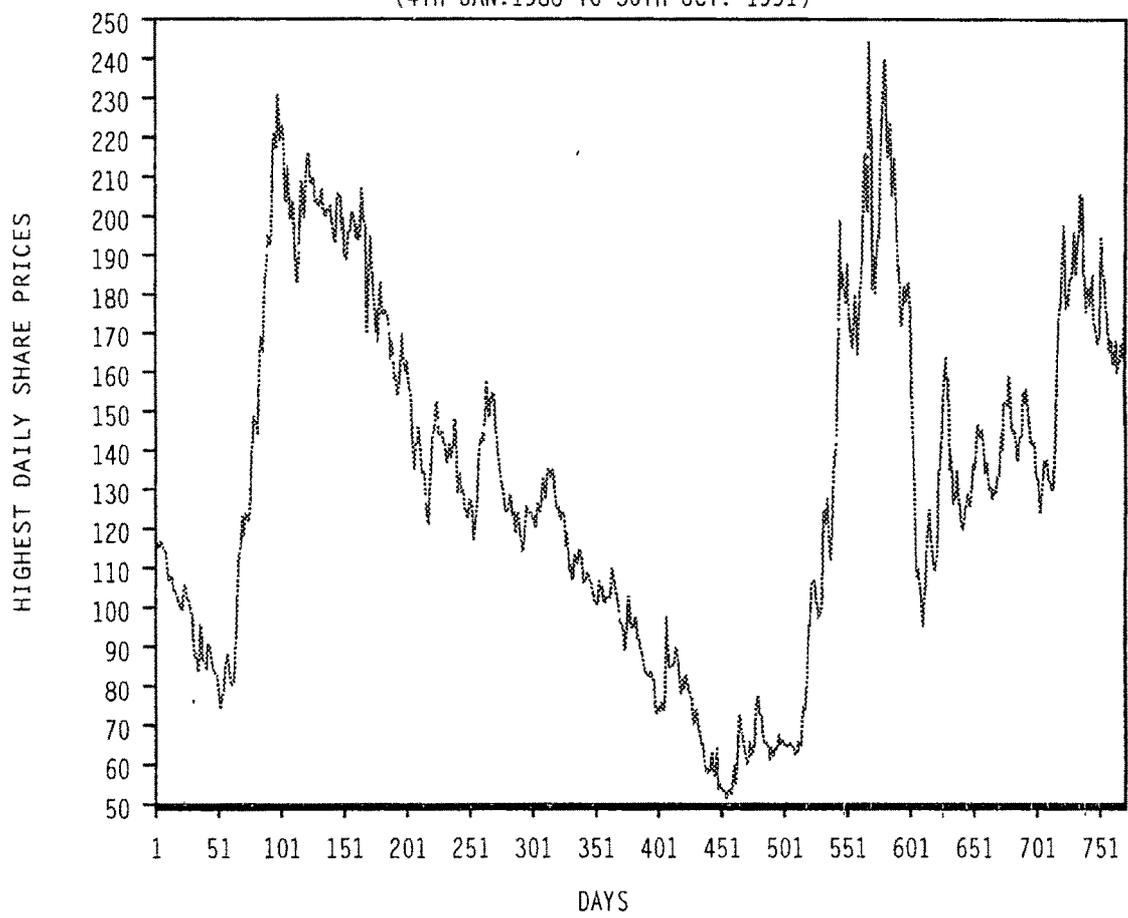


Fig. 4.2