

Performance Effects of Demergers in India

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Abstract : Spin-offs commonly known as demergers in India, represents dismantling of conglomerates which is a common phenomenon in financial markets across the world. Demergers are carried out with different motives. A demerger generally refers to a corporate restructuring where, a large company divests its stake in its subsidiary and distributes the shares of the subsidiary - demerged entity to the existing shareholders without any consideration. Demergers in Indian companies are over a decade old phenomena, with many companies opting for the same. This study examines the demerger regulations in Indian capital markets and the announcement period price reaction of demergers during year 2010-2015. We study total 97 demerger announcements by companies listed in India and try to establish that demergers results into abnormal returns for the shareholders of the parent company. Using event study methodology we have analyzed the security price performance of the announcement day effect 10 days prior to announcement to 10 days post demerger announcement. We find significant out-performance of the security over the benchmark index post demerger announcements. The cumulative average abnormal returns range from 3.71% on the day of announcement of a private demerger to 2.08% following 10 days surrounding the announcement, and cumulative average abnormal returns range from 5.67% on the day of announcement of a public demerger to 4.15% following 10 days surrounding the announcement.

Keywords : demergers, event study, spin offs, stock returns

Conference Title : ICBFTM 2016 : International Conference on Business, Finance and Tourism Management

Conference Location : Montreal, Canada

Conference Dates : May 16-17, 2016