Pollster j. acad.res. 02(01) 25-53, 2015
© Pollster Journal of Academic Research, Pollster Publications
ISSN: 2411-2259, 2015, Vol (02), Issue (01)
www.pollsterpub.com

Post-Merger and Acquisition Consequences on Stock Prices of Textile Firms in Pakistan

Husnain Ali

Department of Management Sciences, the Islamia University of Bahawalpur, Pakistan

**Corresponding author email: husnainali@gmail.com*

Abstract

Due to globalization and increased competition in world market firms have motive to expand their size and market share, for this purpose they go through the Merger and Acquisition, and this practices effect the size, market share, profitability, growth, stock prices and etc. This research was conducted to analyze the effect of merger and acquisition on the stock prices of merged firms in Pakistan. The aim of this study was to find out the significant and insignificant effect of merger and acquisition on stock prices of merged firms. For this purpose different textile firms of Pakistan were selected to examine and analysis through Independent Samples Test. It was found after Independent Samples Test analysis of the Historical data of stock prices of merged firms in textile sector of Pakistan that there is a significant impact of merger and acquisition on the stock prices of merged firms. The study was only about the Textile sector of Pakistan that merged from 2001 to 2012.

Key words: Merger and Acquisition, Stock Price, Synergy, Profit, Net profit.

Introduction

Globalization, industrialization and budgetary advancement helped the Philippines gradually turn into a more capital concentrated land. Consequently, firms are gradually expanding its number while slowly expanding financial specialist both inside and outside the nation. All things considered, more individuals are getting intrigued by the developments of the stock prices of the freely recorded industrial fellowship.

This study investigated the consequence of mergers and acquisitions, together with liquidity, movement, influence, gainfulness, market execution degrees and constancy subsectors on the twelvemonth -on-class adjustment in stock price among the textile firms in the Pakistan throughout the 11 -year period, 2001 to 2012. To fulfill this, the scientists made utilization of board information relapse with the stage business synthesis, fiscal proportions and industry subsectors as the free variables and the change in stock price as the ward variable. Various theories, to be specific the effective market theory, the discounted cash flows model, the Gordon Growth model and the Price-earnings valuation model, were utilized as directing standards for this study. Studies channeled by Leong, Ward, and Gan(1996), Harjito and Sulong(2006); Bouwman, Fuller and Nain(2003) Kallunki, Lampsa and Laamanen(2008); as well as Mazzucato and Semmler(1999) additionally furnished the analysts with important experiences that aided in the behavior of this study.

Efficient market theory:

The efficient market theory shapes that the stock market responds very rapidly to new evidence, so at any given time the market holds the sum of all investors' views of the market.

Discounted cash flows model (DFC):

An estimation method used to evaluation the charm of an investment prospect. Discounted cash flow (DCF) analysis uses future free cash flow forecasts and discounts them (mostly using the WACC) to reach at a present value, which is used to assess the prospective for investment. If the value reached at through DCF analysis is greater than the current cost of the investment, the prospect may be a decent one.

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$$

CF = Cash Flow

r = discount rate (WACC)

Gordon Growth model:

A model for defining the inherent value of a stock, founded on a future series of dividends that raise at an unceasing rate. Set a dividend per share that is payable in one year, and the supposition that the dividend raises at an unceasing rate in infinity, the model explains for the present value of the boundless series of future dividends.

$$\text{Stock Value } (P) = \frac{D}{k - G}$$

Price-earnings valuation model:

An estimate ratio of a company's present share price related to its per-share earnings.

<u>Market Value per Share</u>

Earnings per Share (EPS)

Literature Review

In this section we provide a brief literature review of the conception used in our research, which principal to the development of our research.

There are numerous definitions of merger and acquisition, a business combination, as defined by IFRS 3 (international financial reporting standard), is a transaction or event in which an acquirer obtains control of one or more businesses. A business is then defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants. On general level, Clayman, Fridson and Troughton (2008: 370) summarize acquisitions as an event when a firm purchases only a part of another company. This might refer to a definable section of a firm or to a part of its stocks (Brealey, Marcus and Myers, 2012: 598). In contrast, Gaughan (1999: 7) describes mergers a transaction where the attempting company purchases the total assets and liabilities of a target company. Thus, the target company usually dissolves after the transaction as it gets completely integrated into the attempting company. Mergers and acquisitions are numerous events in organizations today. Despite their acceptance, fewer than 20 per cent of corporate combinations achieve their desired financial or strategic intentions (Davidson, 1991; Elsass and Veiga, 1994; Lubatkin, 1983). Few subjects in industrial institute economic theory has been compelled as intensively by policy authorize, and legal debates and improvement as the impact of mergers and acquisitions have on market balance. As stated, Williamson (1968) performs to have been the first influence to the literature in this region. The author revealed, with a simple ideal, that even if a merger upshots in price growths, (as he guessed would often occur,) these may be supplemented with declines in marginal costs because of synergies. A definition of synergy put into words by Sirower (1997) is as follows,

Synergy

Synergies the improved competitive capacity and resulting superior cash flows in excess of what the separate businesses would have achieved.Sirower states that value-creating mergers are rarely. A merger is valuable when the synergy (additional value) beats the incurred merger fees counting the takeover premium. Other researchers (Healy, Palepu & Ruback, 1992) are more positive and conclude that in the post-merger stage there are major enhancements in the cash flows related to other organizations in the productiveness.

There are three diverse types of M&A conjunction described by Berk, DeMarzo and Harford (2012: 652). A business deal that involves two companies doing business in the same manufacturing is called a horizontal merger. When a buyer leverage a firm that activity as a supplier or client of the buyer, the deal material body is known as vertical merger. Vertical amalgamation reduces the industrial mountain chain and reserves can be made in gaining, more effective content is possible, as well as production can be more attentive to market expansion. Finally, a deal between two companies that operate in different industries is defined as a pudding stone merger.

Motives for Mergers and Acquisitions

Mergers and acquisitions, otherwise called M & A (Mergers and Acquisitions), incorporate the way of getting, offering, and uniting of firms. The theories with point of interest to mergers and acquisitions can majorly be characterized into two sets of neoclassical theories and behavioral theories. Neoclassical theory will be built in light of the supposition that supervisors will be sane and settle on sensible decisions to adventure the riches for the shareholders while behavioral theory accentuations on the supposition that administrators are not balanced and they don't embody the premiums of the shareholders. These theories might be more characterized into outer and inside thought processes. Internal components, for representation, office expenses or collaboration might be unashamedly affected by the administration while the outside articles, for example, globalization, or gear can't be influenced by the administration. Cost cutting, income help and hazard decrease will be the conceivable variables that illuminate fruitful acquisitions with cost cutting being the most noteworthy element. Mukherjreem et al. (2004) expressed that essential inspiration for Mergers and Acquisitions is to achieve working cooperative energies. Their results depicted that the vast majority of the organizations assume that change is a worthy rationale in acquisitions as an assets of drop in misfortunes when there are financial drops. Agreeing to Sharma (2009), economies of scale are one of the principle contentions behind Mergers and Acquisitions.

Neoclassical Theories

One of the constituents that declension under the neoclassical probability is the synergism component which expect that overseeing chief is might be included in Mergers and Acquisitions if the wage government forms are sure degree for the target zone and the gaining shareowner therefore making a collaboration with absolutely corresponded expansion for both gathering of the shareholders. Collaboration element exists if the two joined together firm have a more stupendous return than the two individual house owing to reasons, for example, changes in productivity and expand in business incredible force for the fused or procured firms. A standout amongst the most habitually expressed synergism concerning Mergers and Acquisitions thought processes is the working collaborations regarding thriftiness of extension and thriftiness of scale, for agent, capacity to offer an extensive variety of generation.

Behavioral Theories

Behavioral theories might be sorted into office thought processes and Hubris inspiration. In office intentions, handler are thought to be sound yet they don't speak to the allotment holder's stake and in Hubris intentions administrator are thought to be non-rational. The inconvenience emerges under the organization thought processes in light of the fact that handler don't act in a manner that boosts net benefit for the stockholder. As portrayed by Jensen and Meckling (1976), the office issues can emerge because of mentor that possess a little amount of the offer of a house and others holders don't claim a bigger enough impart of the organization to have a reward to screen reptile the mien of the administrators. In hubris thought processes, chief's non-sane conduct or presumptuousness about the normal synergism occasion from mergers and obtaining may private data to an excessive charge of the target territory business firm.

Efficiency of Mergers

The Conventional Wisdom

Caverns (1987) watched that satisfaction dependably involve a lot of intensification for the shareholders of the imprint byplay firm over the nourishment business sector quality of the firm. Creator expressed that amalgamation have a tendency to make worth, are financially productive and socially alluring. As per Agarwal (2007), it is troublesome to evaluate the mode of achiever of a merger and whether it has been a win. Creator further expressed that gauges outlined that about 80% of the mergers don't meet their monetary prey, processing more level returns than it was normal and higher than the normal expense and something like 50 % of the mergers and obtaining are disappointment s. A vital jail term period that decides the achievement or disappointment of a merger sight is the path in which the changeover in the partnership is handled in the introductory schedule month. It likewise relies on upon the path workers of the target organization survey the corporate shine of the acquirer and contrast it and their society. Furthermore, when firms are in the same set of relatives of business blended together, they have a finer achievement rate in examination to those organizations that consolidation together in distinctive circle, the primary sanity being expertness, effortlessness with which learning is exchanged and thriftiness of scale.

Diversifying Mergers

Caves (1987) illustrated that esteem of differentiating consolidating lie in the managerial productivity. Managerial proficiency and full period of the moon utilization of assets and possessions are the bases for the productiveness of the mergers that are reliable with productive capital shop s and conduct that prompts affluence amplification. Merger and Acquirement may likewise bring about monetary proficiency. Case in point, business firm may expand their net benefit by getting other firms with different streams of net. Expansion as far as pay may diminish the variant in the productivity, prompting a decrease in the danger of disappointment. On the other handwriting, Caves (1987) expressed that administration of the acquirer may not succeed in expanding the normal worth, either on the grounds that other intentions overwhelm their inclination or it may be on account of an unrecognized predisposition restrains their attempt. Occasion studies have discovered that the business valuation of the target organization declined for a period before a taking in. Therefore, negative irregular returns could likewise be a consequence of miracle, for example, fiscal emergency, confronted by administration that bring down the normal gainfulness of the company's assets, however in the implies that are remediable through combining with another organization. As per Caves (1987), another demonstration Trygve Halvden Lie in the arbitrage, that is, procurement is restricted to procure true number stakes when the offer prices of the target firms are low.

Tax Benefits

Pautler (2003) portrayed that previous to the mid-1980s; there has been sizeable decrease in tax cuts interfaced with mergers and acquisitions. On the other hand, the experiential confirmation as for these profits implied that they were not a fundamental issue of spark for the merger activity. Pautler (2003) more recorded that the acquirer may circle the net working misfortune and other components of assessment of the objective firm, creating in the charge commitment decrease. If the acquiring firm and the destination firm have its place to the same track of business with appropriateness of different pay charge charges, the acquirer may get the benefit from these changes. rather than a benefit procurement, a merger does not assemble any issues of quality included duty and business charge.

Reasons of Failure

Acquirers are unrivaled by and large of much bigger size of it than the target firm and relatively vast size of the acquirer coming about because of a merger of the target firm does fundamentally show that it be a wellspring of noteworthy positive worth to the acquirers. The primary purpose behind the critical measure of disappointment Lie in the endeavor of the business firm to union their diverse personalities into a solitary one. Agarwal (2007) watched that every merger contrasts from another, however they could be separated by some general decides that highlight the oversight of the organization and demonstrate the components of achievement. At the point when an acquirer arrangements to union or secure another pop culture, the underlying melodic theme is the corporate match and not a key goal. As indicated by KPMG 2003, business firm that consolidation primarily due to the corporate reason and not vital target lens are more inclined to face with the inconvenience of similarity bungle. Likewise, firms ought to center all the more on price lessening rather than bearing on improvement of the firm in general. In addition, there lies an issue of wasteful conveying. Proficient correspondence from the bearing gives an opportunity to hold gravestone workers and likewise to pull in the new representatives. As per Agarwal (2007), succeeding are the reasons of the disappointments of merger and obtaining:

Flawed Strategy and Objective Clarity

The vital arrangement skips a key part in mergers. A business undertaking plan is insufficient to meet the normal arrangements and it may not be suitable for the target guest. A great vital examination before a uniting is essential however it doesn't warrant an accomplishment of a merger. The focus of the merger or a procurement ought to be unambiguous and it ought to characterize that whether the obtaining or merger has a theme of quality advancement or it is expanding the shares in the business sector. KPMG (2005) overview discovered that the responder did not have a reasonable musical theme about the rationale of the merger or procurement and had diverse recognitions about it.

Pre and Post Integration Planning

Firms are frequently not ready to keep their validity up to the imprint and need to grimace issues throughout the outgrowth of coordinating, particularly from the distinctive branches of the point firm. At the point when the coordination developer is rearranging for the boat's organization; it is rigorous to the point that it doesn't take into business relationship the plant authenticity when the methodology beginning.

Cultural contrasts

The social flight between the organizations is one of the briny explanation behind the imperviousness to heading reconciliation and correspondence in the workforce that further prompts vulnerability. This is by and large seen in the cross outskirt mergers and achievement. Social remaining portion reflect the way in which choice are rearrange between the organizations. The securing organizations don't pressure all the more on the correspondence procedure and therefore, are not fit to mollify the tensions of work force of the target organization. The slack mentality and needing spark toward oneself of the procured organization likewise fun an indispensable part in the disappointment of the merger. Such issue can go about as an inhibitor at the meter of expanding the worth of stock holder.

Lack of Experience and Knowledge

Lack of experience and comprehension can chain to a poor examined record before obtaining. Overpricing can likewise be one of the issues as now and then the acquirer compensation an intemperance premium to the quarry organization. Absence of experience may prompt a misfortune of significant time and therefore collaboration are lost.

Over-optimism

Agarwal (2007) expressed that some of the time being over hopeful about the economic situations likewise brings about the liquidation of merger load. Administration typically rearranging an endeavor to talk about just the positive variables of the herd s in place of size to rewards the votes of the shareholders to acknowledge the overpriced arrangement.

External Environment

The outside encompass in the economy that encompasses the mint is very perplexing and must be examined precisely before a combination or an obtaining. Distinctive region have their criteria and it may be multifaceted. A large portion of the times the acquirer neglects to watch these variables and therefore, need to face trouble while taking into receipt the standard.

Concurring to Moeller (2009), roots for mergers and acquisitions fall into three wide structures. These are gathered to vital, monetary, and hierarchical. This is attained by climbing the business sector division or drop in competition in the business sector or together. The fiscal reasons is basically because of the cash included in the business bargain (Moeller, 2009). The business mixture act may be for the short -term or long haul monetary points. The last, which is the official determined, is the point at which the procuring firm accomplishes a destination firm in light of the target association's key administration staffs or due to stock liquidness. According to the dissection of Massa and Xu (2011), the stock liquidness of the objective firm would upset the likelihood of a corporate cooperation get up. Thus, stock delineation is one of the proficient purposes behind business union. Ravenshaft and Scherer (1987) recorded that adequacy was evaluated to climb as a result of climbing capital, joint ability, diminished disintegration in processing and implicit economies of scale. This is one of the benefits of a best in class M&A, then again, as indicated by Hughes (1989), this is not consistently the situation, as M&A if not overall planned can prompt significantly more stupendous than before unskillfulness in the firm.

Financial Ratios

At present, one significant concern of most firms is on the best way to measure and evaluate the level of the achievement of M&A's. Firms need to measure before and after impacts of M&A in request for them to assess whether the M&A has been valuable as arranged. As per Smart and Megginson (2009), restricted to measure a company's condition is through the utilization of money related proportions. Budgetary degrees are suitable instruments in examining a association's monetary explanations to evaluate execution over a period. Moreover, an assortment of budgetary proportions are existing to investigate an association's liquidity, movement, obligation, gainfulness and business sector esteem. After firms have measured its fiscal condition, they ought to be primed to assess it. Gitman (1999) talked about the utilization of degree investigation, as a system for measuring and assessing fiscal proportions to survey an association's execution. For Gitman (1999), there are fundamentally two techniques for degree appraisal. One way is the utilization of cross-sectional dissection and the other way is the utilization time-arrangement investigation. Cross-sectional investigation captivates the examination of diverse fiscal proportions that took place in the same period. Through this sort of dissection, a firm can figure out how well it has performed in connection to other firms, additionally called as benchmarking and in connection to the business as a entirety. The other route of proportion evaluation will be referred to as the time-arrangement dissection. In this kind of examination, a firm thinks about its own execution over a time of time. This can tell whether the firm has advanced as per its plans

Reaction of Stock Prices

Gugler and Yurtoglu (2008) examined that restricted of deciding the impact of the merger is through the examination of the stock market esteem of the getting and the procured firm. Gopalaswamy, Acharya and Malik (2008) analyzed the Indian market and tried stock price response of both the target and the gaining organizations which may have been brought about by data identified with a merger action utilizing a customary occasion study leftover dissection. Their study demonstrated that there were strange returns which will be animated by exercises that will be concerned with business fusions. The result was underpinned by Wong and Cheung (2009) wherein it was presumed that the securing organizations would encounter positive impacts on stock price. Other studies that helped the analysts in this paper were Leong, Ward and Gan (1996) and Pilloff and Santomero (1996). Harjito and Sulong (2006), on the other hand, demonstrated that there would business consolidations would have no noteworthy sway on stock prices.

Stock Prices in Relation to Financial Ratios

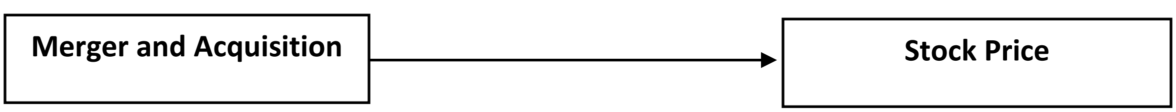
Aono and Iwaisoko (2010) recommended that budgetary degrees have a low level of relationship with the stock price as prove by their study including Japanese firms. Turk and Chapman (2006); Indriani and Sugiharto (2010) and additionally Lewellen (2004), then again, indicated that budgetary degrees does not have any huge sway on the change in stock price. Martani, Mulyono and Khairurizka (2009); Hao and Zhang (2007); Cai and Zhang(2010) and in addition Shams, Zamanian, Kahreh, and Kahreh(2011) showed that money related degrees would have a huge effect on the year-on-year in stock price. Their studies gave proof that distinctive fiscal degrees can influence the stock price in diverse stock trades.

Stock Price in Relation to Industries

Kallunki, Lampsa and Laamanen (2008) inspected the conceivable impacts of industry by taking a gander at the impacts of the securing of firms under the innovation part. They reasoned that such procurement would influence stock price valuation in a noteworthy way. Also, Mazzucato and Semmler (1999) investigated whether there exist a relationship between stock price unpredictability and piece of the pie unsteadiness regarding industry particular variables utilizing the US auto industry. The exact results demonstrated that the level of stock price instability is in fact somewhat influenced by industry particular components.

Research Model and Hypotheses

The study required to examine about the possible and negative effects of merger and acquisition on the change in stock prices of companies under Merger and Acquisition.



H1: To explore the significant impact of Merger and Acquisition on the Stock Prices of acquirer firms.

H2: To explore the non-significant impact of Merger and Acquisition on the Stock Prices of acquirer firms

4. Case Study

Umer Fabrics merged into Nishat group

Umer Fabrics Limited has been blended into Nishat (Chunian) Limited and Nishat Mills Limited after support from the Lahore High Court for amalgamation on 25th January 2005. A swap level of 0.051 and 0.949 has been never going to budge for Nishat (Chunian) and Nishat Mills for every one offer of Umer Fabrics held by the shareholders. The commentators - Riaz Ahmed and Company - have worked out the swap degree on the reason of assessed records of Nishat Chunian and Nishat Mills for the year completed September 30, 2004, the week by week reference of shares of the Karachi Stock Exchange (KSE) from October 1, 2003, to September 30, 2004 and ordinary securing for each offer all around the past three years.

Under the agreed course of action, net stakes worth Rs66.971 million of Umer Fabrics will be traded to Nishat (Chunian) and nets property regarded at Rs1.405 billion will be traded to Nishat Mills.

Umer Fabrics had a paid-up capital of Rs240.05 million secluded into 24,005,205 standard shares of Rs10 each. Preceding the merger, Nishat (Chunian) had a paid-up capital of Rs443.52 million detached into 44,352,000 normal shares of Rs10 each and Nishat Mills had a paid-up capital of Rs1.224 billion differentiated into 122,478,803 standard shares of Rs10 each.

Methodology and Empirical Results

The Event Study Approach:

The examination that is regulated on the information set is an occasion study with a nearly standard strategy. The occasion study system is utilized to watch the returns that are coming about because of the stock prices of the organizations prior the revelation and in addition later the affirmation of a merger and securing. The strange return indicates the piece of the give back that is not anticipated by the business sector list and is, in this manner, a close estimation of the change in association's worth because of the occasion. The anticipated return is the give back that is normal if no merger affirmation occasion occurred. The association's beta, that connotes the affectability of the stock comes back regarding the business file, is stately over an estimate time of 60 days prior to occasion window and the unusual return is figured over a time of 30 days prior and later the announcement date (occasion window of 61 days and statement date is picked as day 0 in occasion window) succeeding Brown & Warner (1985).

Day 0:

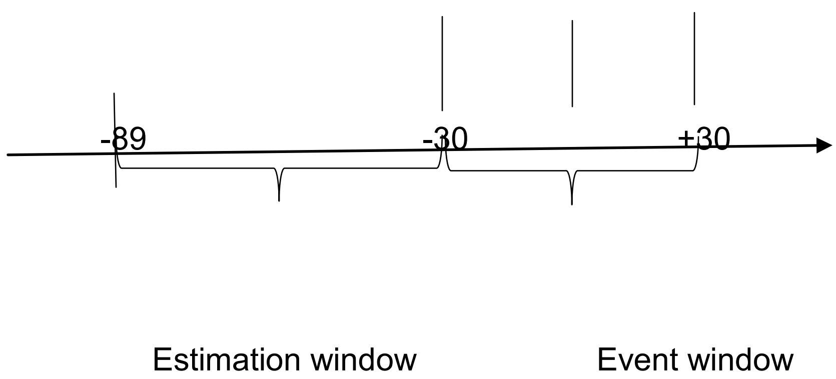
As indicated by Halpern (1983), the affirmation date is the most suitable date to gauge the impact of an occasion. On the off chance that data spillages prior this date, anomalous returns that are made by the merger would be saw prior the occasion date. Halpern (1983) more recorded that at the date of declaration, the stock prices of the acquirer firm will alter likewise to emulate the probability of the achievement of the arrangement, the benefit of the merger and the time period needed to finish the merger. The occasion study technique has been discovered to be solid and accurate when put a figure on any corporate occasion. Day 0 delineates the first exchanging day when the news of obtaining or merger goes the business. Exact illumination of this day is noteworthy to recognize the response of stock business to sudden insight. For this situation, the date of assertion has been set after the agent information is discharged and the business would have obliged the stun. Bargains in the information set that are seen in these study transactions the statement dates.

Estimation Window:

A couple of days adjust the date of statement are included in the estimation and the occasion window on the grounds that it is not certain that the day 0 was chosen effectively. Estimation window is utilized to get the parameters of the business sector

Pollster j. acad.res. 02(01) 25-53, 2015
© Pollster Journal of Academic Research, Pollster Publications
ISSN: 2411-2259, 2015, Vol (02), Issue (01)
www.pollsterpub.com

model to figure assessed profit for values when there was a merger assertion and when there was not a merger statement.



In place words, preevent time period i.e. from -89 to -31 is an estimation window. Mackinlay

(1997) recommended that along these lines, one can take insight release, moderate business reaction and impacts of end of exchanging days into record.

Event Window:

The occasion window shows the amount of days over which we are made-up to measure the conceivable anomalous returns that are created by the occasion i.e. merger or a securing. The theory of the effective business hypothesis positive prior recommends that any change in the stock prices influenced by the occasion will be watched in a split second owing to the normal conduct that discussions in the support of short occasion window. The long window could bring about the hazard that may weaken the probability of discovering any significant observational proposal. Then again, if the occasion is excessively short, there may be a choice that we don't recognize the impact of the occasion if the illumination is accessible after the end of the business sector and

Pollster j. acad.res. 02(01) 25-53, 2015
© Pollster Journal of Academic Research, Pollster Publications
ISSN: 2411-2259, 2015, Vol (02), Issue (01)
www.pollsterpub.com

therefore, it neglects to achieve the general population until the following working day or if the data is spilled out the day preceding the date of announcement and therefore, it can result in the impact on the day preceding the occasion day. To verify that these conceivable outcomes are considered, the occasion window is situated to 61 days that holds the announcement date, 30 days before it and 30 days after it.

6. Data Sample

The overview of key material of the nominated mergers in the sample has beengiven. The sample covers textile industries in Pakistan from 2000 to 2012.

Table # 1:

Date	**Target Name**	**Acquirer Name**
20-02-2012	Azam Textile Mills Limited	Saritow Spinning Mills Limited
02-08-2010	Shaheen Cotton Mills Limited	Shahzad Textile Mills Limited
20-01-2005	Umer Fabrics Limited	Nishat (Chunian) Ltd. & Nishat Mills Ltd.
13-01-2004	Kohinoor Genertek Limited.	Khinoor Weaving Mills Limited.
27-11-2002	Kohinoor Raiwind Mills Ltd.	Kohinoor Textile Mills Limited
10-02-2001	Dhan Fibers	Dewan Salman Fibers

The following table # 2 shows -30 to +30 days stocks prices of sample companies.

Table # 2:

Days	**Saritow Spinning Mills Limited** (SSML) 20-02-2012	**Shahzad Textile Mills Limited** (SZTM) 02-08-2010	**Nishat (Chunian) Ltd. & Nishat Mills Ltd.** (NCL/ NML) 20-01-2005	**Khinoor Weaving Mills Limited.** (KOHW) 20-01-2005	**Kohinoor Textile Mills Limited** (KTML) 27-11-2002	**Dewan Salman Fibers** (DSFL) 10-02-2001
-30	0.99	3.26	53.9	43.5	2.25	23.3
-29	0.99	3.98	53.5	46	2.1	23.85
-28	0.99	4	53.5	44.75	2.1	23.85
-27	1	4	54.4	48.1	2	24.85
-26	1	3.95	54.45	50.25	2	24.75
-25	1	4	58.5	50	1.75	24.45
-24	1.15	4.06	62.85	49.95	2	24.2
-23	1.4	7.17	66.3	49.85	2	24.05
-22	1.21	8.17	67.95	49.5	2	24.05
-21	1.67	7.17	67.1	53.2	2	23.3
-20	1.49	6.18	67.7	49.5	2.05	22
-19	1.41	5.3	67.5	50	1.75	21.7
-18	1.73	4.6	70.9	50	1.75	21.9
-17	1.51	4.02	72.45	50	2	21.8
-16	1.51	4.1	77.85	48.05	1.9	21.45
-15	1.51	3.1	78.65	47.95	2	21.5

-14	1.51	4.1	77.7	48.05	2	22.7
-13	1.59	5.1	78.1	47	2.25	22.8
-12	1.59	5.1	81.05	47.75	2.2	22.25
-11	1.53	6.1	84.25	51.3	2	21.8
-10	1.5	7.05	85.65	52	2	21.75
-9	1.5	7.05	92.05	53.5	2	21.85
-8	1.55	8.05	98.25	54	2.05	22.55
-7	1.55	8	98.25	55	2	23.35
-6	1.55	7.95	99.45	54.5	2	22.6
-5	1.4	7.89	101.4	51.8	1.8	22.7
-4	1.4	7.5	96.35	51.5	1.9	23.4
-3	1.49	7	98.75	52.75	2	23.05
-2	1.5	7	100.75	52.5	2.05	22.8
-1	1.5	6.9	99.5	53	2.3	22.8
+1	1.5	5.25	108.3	53.4	2.25	22.95
+2	1.45	4.25	116.4	54.45	2.25	23
+3	1.55	3.25	110.6	54	2.25	21.8
+4	1.5	4.25	105.1	54.3	2.25	21.4
+5	1.51	5.25	99.85	51.6	2.25	21.5
+6	1.52	6.25	94.9	51.9	2.15	20.75
+7	1.5	6.25	93	51.5	2.25	19.05
+8	1.4	7.18	95.75	48.95	2.3	20
+9	1.5	8.18	97.65	46.55	2.65	19.9
+10	1.5	8.48	95.5	45.5	2.5	20

+11	1.49	7.48	95.25	46	2.45	20.15
+12	1.48	7.3	96.5	45.55	2.5	20.55
+13	1.45	7.25	95.1	46	2.5	20.65
+14	1.4	6.26	97.95	46.3	2.5	20.8
+15	1.51	6.49	96.85	45.95	2.5	20.65
+16	1.66	5.49	97.25	46.5	2.5	20.35
+17	1.7	4.49	102.65	45.5	2.5	20.3
+18	1.65	5.26	101.5	47.1	2.3	20.25
+19	1.6	4	104.95	46.9	2.25	20.25
+20	1.5	4	103.35	45.5	2.25	19.8
+21	1.51	5	108	45	2.25	19.1
+22	1.51	4.01	115.6	45.9	2.5	18.15
+23	1.6	5.01	118.4	45.5	2.25	18.2
+24	1.6	4.01	114.25	45	2.1	18
+25	1.6	5.01	114.15	45	2.5	17.7
+26	1.7	5	109.95	45	2.45	18.05
+27	1.7	6	109.7	45	2.5	18.1
+28	1.5	7	110	45	2.75	17.95
+29	1.71	6	112	45	3.2	18.25
+30	1.6	6	112	45	3.55	18.35

Pollster j. acad.res. 02(01) 25-53, 2015
© Pollster Journal of Academic Research, Pollster Publications
ISSN: 2411-2259, 2015, Vol (02), Issue (01)
www.pollsterpub.com

	Saritow Spinning Mills Limited (SSML)	**Shahzad Textile Mills Limited** (SZTM)	**Nishat (Chunian) Ltd. & Nishat Mills Ltd.** (NCL/ NML)	**Khinoor Weaving Mills Limited.** (KOHW)	**Kohinoor Textile Mills Limited** (KTML)	**Dewan Salman Fibers** (DSFL)
Avg. of 60 days (+30 to -30)	1.445333333	5.572	89.26166667	48.01916667	2.188333333	21.05583333
Avg. of +30 days (+1 to +30)	1.546666667	5.655	104.415	47.495	2.446666667	19.865
Avg. of -30 days (-1 to -30)	1.390666667	5.728333333	77.3	50.175	2.006666667	22.91333333

7. Results & Analysis

Group Statistics

	Days	N	Mean	Std. Deviation	Std. Error Mean
Saritow Spinning Mills Limited	1	30	1.3907	.22920	.04185
	2	30	1.5467	.08821	.01611
Shahzad Textile Mills Limited	1	30	5.7283	1.69473	.30941
	2	30	5.6550	1.35673	.24770
Nishat (Chunian) Ltd. & Nishat Mills Ltd.	1	30	77.3000	16.63183	3.03654
	2	30	104.4150	7.80390	1.42479
Khinoor Weaving Mills Limited.	1	30	50.1750	2.83265	.51717
	2	30	47.4950	3.26424	.59597
Kohinoor Textile Mills Limited	1	30	2.0067	.13502	.02465
	2	30	2.4467	.29854	.05451

Dewan Salman Fibers	1	30	22.9133	1.00789	.18402
	2	30	19.8650	1.46724	.26788
avg	1	30	26.585667	3.3067565	.6037284
	2	30	30.237222	1.2376829	.2259690

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Saritow Spinning Mills Limited	Equal variances assumed	20.229	.000	-3.479	58	.001	-.13600	.04484	-.24575	-.06625
	Equal variances not assumed			-3.479	37.407	.001	-.15600	.04484	-.24682	-.06518
Shahzad Textile Mills Limited	Equal variances assumed	5.854	.019	.185	58	.854	.07333	.39635	-.72005	.86672
	Equal variances not assumed			.185	55.349	.854	.07133	.39635	-.72086	.86753

Nishat (Chunian) Ltd. & Nishat Mills Ltd.	Equal variances assumed	18.635	.000	-8.084	58	.000	-27.11500	3.35420	-33.82915	-20.40085
	Equal variances not assumed			-8.084	41.179	.000	-27.11500	3.35420	-33.88804	-20.34196
Khinoor Weaving Mills Limited.	Equal variances assumed	1.079	.303	3.396	58	.001	2.68000	.78907	1.10050	4.25950
	Equal variances not assumed			3.396	56.871	.001	2.68000	.78907	1.09983	4.26017
Kohinoor Textile Mills Limited	Equal variances assumed	5.694	.020	-7.355	58	.000	-.40000	.05982	-.55974	-.32026
	Equal variances not assumed			-7.355	40.387	.000	-.44000	.05982	-.56087	-.31913
Dewan Salman Fibers	Equal variances assumed	3.458	.068	9.380	58	.000	3.04833	.32499	2.39779	3.69888
	Equal variances not assumed			9.380	51.385	.000	3.01833	.32499	2.39600	3.70067

Avg	Equal variances assumed	27.262	.000	-5.665	58	.000	-3.6015556	.6446316	-4.9419259	-2.3611852
	Equal variances not assumed			-5.665	36.969	.000	-3.6515556	.6446316	-4.9577403	-2.3453708

Discussion

NML

The sig. value is .001 which is less than .05. This shows that variability in two situations stock prices is not the same. That the stock price in before merger do vary too much more than the stock price in after merger. This shows that Merger and Acquisition has significant impact on Stock Price. The mean score of this parameter for before merger is -.13600 and for after mergers -.15600 and also find out the T-Score for before merger that is -3.479 and after merger is -3.479 these results indicates that there is significant difference between two mean scores.

SZML

The sig. value is .854 which is greater than .05. This shows that variability in two situations stock prices is not the same. This shows that Merger and Acquisition has significant impact on Stock Price. This shows that Merger and Acquisition has too much impact on Stock Price. The mean score of this parameter for before merger is .07333 and for after mergers .07333 and also find out the T-Score for before merger that is .185 and after merger is .185 these results indicates that there is significant difference between two mean scores.

NCL/NML

The sig. value is .000 which is less than .05. This shows that variability in two situations stock prices is the same. This shows that Merger and Acquisition has not significant impact on Stock Price. This shows that Merger and Acquisition has not too much impact on Stock Price. The mean score of this parameter for before merger is -27.11500 and for after mergers -27.11500 and also find out the T-Score for before merger that is -8.084 and after merger is -8.084 these results indicates that there is significant difference between two mean scores.

KOHW

The sig. value is .001which is less than .05. This shows that variability in two situations stock prices is not the same. This shows that Merger and Acquisition has significant impact on Stock Price. This shows that Merger and Acquisition has too much impact on Stock Price. The mean score of this parameter for before merger is -7.355 and for after mergers -7.355 and also find out the T-Score for before merger that is 2.68000and after merger is 2.68000 these results indicates that there is no significant difference between two mean scores.

KTML

The sig. value is .000which is less than .05. This shows that variability in two situations stock prices is not the same. That the stock price in before merger do vary too much more than the stock price in after merger. This shows that Merger and Acquisition has significant impact on Stock Price. The mean score of this parameter for before merger is -.40000 and for after mergers -.44000and also find out the T-Score for before merger that is -7.355 and after merger is -7.355 these results indicates that there is significant difference between two mean scores.

DSFL

The sig. value is .000which is greater than .05. This shows that variability in two situations stock prices is the same. That the stock price in before merger do not vary too much more than the stock price in after merger. This shows that Merger and Acquisition has significant impact on Stock Price. The mean score of this parameter for before merger is 3.04833 and for after mergers 3.01833and also find out the T-Score for before merger that is 9.380 and after merger is 9.380 these results indicates that there is no significant difference between two mean scores.

Overall Deviation

The sig. value is .000 which is less than .05. This shows that variability in two situations stock prices is not the same. That the stock price in before merger do vary too much more than the stock price in after merger. This shows that Merger and Acquisition has significant impact on Stock Price. The mean score of this parameter for before merger is -3.6015556and for after mergers -3.6515556 and also find out the T-Score for before merger that is -5.665and after merger is -5.665these results indicates that there is significant difference between two mean scores.

Conclusions

A merger or acquisition is assumed to create value in the stock prices of the target and acquirer firms on the date of the merger. This research had one primary objective. We had to examine the effects of a merger on stock values of textile firms in Pakistan.Six acquiring textile firms were used in the sample for the study of price reactions of stocks. Stock prices of firms pre-merger were compared with the post-merger stock prices

The findings reveal that there is definitely action in the prices of stocks around Day 0, but the analysis also shows that the merger may not be significant in determination of the reason for the particular behavior.

The results of this study explain that mergers or acquisitions in the textile sector tend to be positive net present value activities for a short period. It also shows that acquiring textile firms experienced significant change in stock prices on the day of merger (merger announcement). The study also found out that the performance of the target textile firms did not improve after mergers. Perhaps the real economic gains could be examined over a longer time period. By analyzing the available information, this study has analyzed the reaction of stock market to the mergers or acquisitions and identified that it creates significant impact for the acquirers. We looked at a very brief time period to evaluate the value creation for the textile firms, therefore it is impossible to say if acquirers will benefit from the actual merger in the longer term.

References

Agarwal, S. (2007, September). Mergers and Acquisition in Tea Industry: A case study. Retrieved July 2011,

Aono, K. and Iwaisoko T. (2010). Forecasting Japanese Stock Returns with Financial Ratios and Other Variables. Hitotsubashi University.

Berk,J., DeMarzo, P. and Harford, J., 2012. Fundamentals of Corporate Finance.2nd ed. Essex: Pearson Education Limited.

Brealey, R., Marcus, A. and Myers, S., 2012. Fundamentals of Corporate Finance.7th Ed. New York: McGraw-Hill.

Cai, J. and Zhang Z. (2010). Leverage Change, Debt Overhang, and Stock Prices. Drexel University.Dougherty, C. (2007). Introduction to Econometrics. New York: Oxford University Press.

Caves, R. E. (1987). Effects of Mergers and Acquisitions on the Economy: An Industrial Organization Perspective. Retrieved July 2011. http://www.bos.frb.org/economic/conf/conf31/conf31f.pdf

Clayman, R., Fridson, M. and Troughton, G., 2008. Corporate Finance –A practical approach. New Jersey: John Wiley & Sons.

Davidson, K.M. (1991), "Why acquisitions may not be the best route to innovation", Journal of Business Strategy, Vol. 12 No. 3, pp. 50-2

Gitman, L. J. (1999) Principle of Managerial Finance. 9th edition. Addison Wesley Publishing. USA

Gopalaswamy, A. K., Acharya, D., Malik, J. (2008). Stock Price Reaction to Merger Announcements: An Empirical Note on Indian Markets. Investment Management and Financial Innovations, Volume 5, Issue 1.

Gugler, K., Yurtoglu, B. B. (2008). The Economics of Corporate Governance and Mergers. Edward Elgar Publishing Limited. UK

Hao, S. Q. and Zhang, G. C. (2007). Relative Firm Profitability and Stock Price Sensitivity to Aggregate Information. Hong Kong University of Science and Technology.

Harford, J. (2005). What drives merger waves? Retrieved June 2011, Journal of Financial Economics. http://faculty.bschool.washington.edu/jarrad/papers/harford what_drives_merger_waves.pdf

Harjito, D. A., Sulong, Z. (2006). The Effect of Merger and Acquisition Announcements on Stock Price Behavior and Financial Performance Changes: A Case of Banks in Malaysia. KajianBisnis Dan Manajemen, Volume 8 No. 1.

Healy, P., Palepu, K., Ruback, R., 1992. Do mergers improve corporate finance? Journal of Financial Economics 31, 135-175. http://edissertations.nottingham.ac.uk/1579/1/Mergers_and_acquisitions_in_tea_industry.pdf http://www.kse.com.pk/index.php

Hughes, A (1989) The Impact of Merger: a survey of empirical evidence for the UK. McGraw Hill Press. New York.

Indriani, N. and Sugiharto, T. (2010). A Financial Performance of the Company with Effect Using Conventional Methods of EVA and Rate Shares.Gunadarma University.

Kallunki, J., Lampsa, E. And Laamanen, T. (2008). Stock Market Valuation, Profitability, and R&D Spending of the Firm: The Effect of Technology Mergers and Acquisitions. Journal of Business Finance and Accounting, Volume 36, Issue 7-8, pp. 838-862.

Leong, M. F., Ward, B., Gan, C. (1996). The Implication of a Merger Announcement on Share Price: An Event Case Study of Trust Bank New Zealand Limited. Lincoln University, Canterbury.

Lewellen, J. (2004). Predicting Returns with Financial Ratios. Journal of Financial Economics. Vol. 74, pp. 209-325.

Martani, D. Mulyono and Khairurizka. (2009). The Effect of Financial Ratios, Firm Size, and Cash Flow from Operating Activities in the Interim Report to the Stock Return. China Business Review, Volume 8, No. 6, pp. 44-55.

Massa, M. And Xu, M. (2011) the value of (stock) liquidity in the M&A market. The China Centre for Financial Research, Tsinghua University, Beijing, China.

Mazzucato, M. and Semmler, W. (1999). Market Share Instability and Stock Price Volatility During the Industry Life-Cycle: the US Automobile Industry. London Business School, London.

Moeller, S. (2009).Surviving M&A: Make the Most of your Company Being Acquired. John Wiley & Sons Ltd. West Sussex United Kingdom

Mukherjreem,T, K , Kiymaz, H and Baker, K. (2004). Merger Motives and Target Valuation: A Survey of Evidence. Retrieved June 2011, from CFOs. http://www.scribd.com/doc/29279965/Motive

Pautler, P. A. (2003, March 22). Evidence on Mergers and Acquisitions. Retrieved July 2011, http://business.highbeam.com/420683/article-1G1-108150635/evidence-mergers-and-acquisitions

Pilloff, S. (1996). The Value of Bank Mergers and Acquisitions. The Wharton School, University of Pennsylvania.

Ravenscraft and Scherer F (1987).Acquisitions, Mergers, Sell-offs and Economic Efficiency. Harvard Business Review, Volume 76 Issue 1D. McGraw Hill Press, New York

Sharma, V. (2009, December 17). Do Bank Mergers create Shareholder Value? Retrieved July 2011. http://www.minneapolisfed.org/mea/contest/2010papers/sharma.pdf

Sirower, M., 1997. De valstrik van synergie. Contact, Amsterdam.

Smart, S., and Megginson, W. (2009). Financial Management: An Introduction. ESP Printers, Inc. Philippines.

Turk, A. and Chapman, M. (2006). The Effects of Financial Ratios and Market Hype on Short Term Stock Prices. Illinois Wesleyan University

Williamson, O.E. 1968. Economies as an antitrust defense: The welfare tradeoffs. The American Economic Review58 (1) 18–36.

Wong, A. and Cheung, K. Y. (2009). The Effects of Merger Acquisition Announcements on the Security Prices of Bidding Firms and Target Firms in Asia. International Journal of Economics and Finance, Vol. 1, No. 2, pp. 274-283