

A STUDY ON THE CHANGES IN “TOBIN’S Q VALUE” OF CAPITAL-RESTRUCTURED FINANCIAL SERVICE INSTITUTIONS WITH SPECIAL REFERENCE TO KERALA

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ABSTRACT

One of the most prominent profile features of the globalised business and investment is corporate restructuring - the mergers and acquisitions (M&A), leveraged buyouts, divestitures, spin-offs and the like that are contested in the 'market for corporate control'. These reorganization techniques' of corporate finance often have an impact on the financial markets far beyond the individual companies and sectors they involve and, in theory, all return real control of companies to shareholders. Virtually without exception, stock prices of participating companies rise in response to announcements of corporate restructuring. Every shareholder will be interested to increase their wealth and hence they will be investing in those business avenues that will give them more value. Generally the firm's value can be based on the financial decisions taken by the management, the dividend policy decisions, the corporate performance etc. This paper analyses the impact of those corporate restructuring factors on the value of two firms by applying Tobin's Q.

Keywords: *Tobin's Q, Capital restructuring, Mergers, Acquisition, Value of the firm, Reorganization, Paired sample test, Paired correlation, Paired sample test*

I INTRODUCTION

Tobin's Q Theory is generally accepted as being a reliable means of evaluating the market level of a company. High Tobin's q values encourage companies to invest more in capital because they are "worth" more than the price they paid for them. The Tobin's Q values of the companies can help the investors in making out their investment decisions. One of the most prominent profile features of the globalised business and investment is corporate restructuring - the mergers and acquisitions (M&A), leveraged buyouts, divestitures, spin-offs and the

like that are contested in the 'market for corporate control'. These reorganization techniques' of corporate finance often have an impact on the financial markets far beyond the individual companies and sectors they involve and, in theory, all return real control of companies to shareholders.

II BACKGROUND OF THE STUDY

There are wide-ranging researches carried out in the ground of mergers and acquisitions. The performance of post mergers and acquisitions is vital to measure the success of the takeover. This paper tries to examine two firms' performances measured by Tobin's q

Inditrade Limited is headquartered at Kochi, in the state of Kerala. The company took life as a partnership firm called JRG Associates, started by Mr.Reggi Jacob, Mr.Giby Mathew and Mr.Jiji Antony in 1992. The firm was converted into a private limited company, JRG Associates Pvt. Ltd. in 1994 with the inclusion of a few of their close relatives and associates on the board as financial investors, and became a member of the Cochin Stock Exchange. The company initially focused on developing a client base in Kerala and Tamil Nadu and established several operation centres across these states. In 1999, the company became a member of the NSE and in the following years, began to acquire clients from Karnataka, Andhra Pradesh and Maharashtra. As the business developed, JRG intensified its operational reach in the southern states. In August 2003, the company changed its name to JRG securities Pvt. Ltd. in order to accurately reflect the business focus of the company. In September 2003, the company was converted into a public limited company and over the next two years began operations in commodities and insurance broking and distribution of financial products. In March 2005, it became a member of the BSE. Baring Private Equity Partners (India) Ltd had acquired management control of JRG Securities with a majority stake of 46% in October 2007. The private equity firm has recast the broker's management, with original promoter managers stepping down from executive positions and the company board. The company, Geojit Securities Limited (GSL), was a partnership firm, with two partners - Mr. C.J. George and Mr. Ranjit, under the name and style of M/s Geojit & Company established on 4th November 1988, to act as stock and share brokers with membership on the Cochin Stock Exchange. The company was incorporated as a Public Limited Company on 24th November 1994 and obtained its Certificate of commencement of business on 25th January 1995. In the year 1995 the company has a subsidiary in the name of Geojit Stock and Shares Limited (GSSL) to carry on the activities as a Dealer of Over The Counter Exchange of India. Geojit had made a public issue of equity shares aggregating to Rs.95/- lakhs, during the period under report which received an overwhelming support and was oversubscribed over 14 times. They become a joint venture company with Kerala State Industrial Development Corporation (1998). Geojit Securities Ltd launched Internet securities trading for the first time in India (2000). Sheikh Sultan Bin Saud Al Qasimi was appointed as Director of Geojit Securities. The Company has unveiled a new logo and changed its name to Geojit Financial Services Ltd, offering a growing range of new and innovative financial products and services. Geojit Financial Services Ltd has informed that the Board of Directors of the Company at its meeting held on October 22, 2006, has approved the proposal of the Company to issue and allot to BNP Paribas S.A. (the "Investor"), on a preferential allotment basis, equity shares, warrants convertible into equity shares or any combination thereof, such that the total

number of equity shares issued (whether as equity shares or upon the conversion of the warrants) shall not exceed 7,96,31,170 equity shares of Re 1, at price of Rs 26 per equity share, which has been determined in accordance with the applicable laws and guidelines and the company has splits its Face value of Shares from Rs 10 to Re 1. BNP Paribas takes a stake in the company's equity, making it the single largest shareholder during 2007. The Company has changed its name from Geojit Financial Services Ltd. to Geojit BNP Paribas Financial Services Ltd in the year 2010

III LITERATURE REVIEW

The seminal work on dividend policy and corporate debt policy choice was initiated in 1961 by Miller and Modigliani (M&M), who proposed that dividend policy and capital structure were irrelevant and, therefore, any changes made in dividend policy choice or capital structure make no different to firm value. The world based on M&M's view, these two factors may not alter firm's value unless these factors alter investment opportunities (Miller & Modigliani, 1961). Jensen suggested that there is a conflict of interest among bond holders and shareholders that lead to agency problem (Jensen, 1986). As a result proper monitoring system is needed to safeguard the interest of the stakeholder. Agrawal *et al.* support the idea that dividend payment and leverage policy are substitute mechanism for controlling the agency cost of free cash flow hence; improve performance (Agarwal, Anup, & N, 1994).

Beyond the impact of debt and leverage policy on firm value, corporate ownership structure, such as family concentrated ownership, domestic based ownership and multinational based ownership may have important impact on firm's performance. Literature on these phenomena has been very limited and no documented evidence on this has been observed. Ahmed analyzed the impact of a company's level of financing policy, dividend policy and corporate structure on firm performance measured by Tobin's Q of Malaysian-listed at the presence or absence of growth opportunities. The study used panel based regression approach to address whether or not policy variable such as dividend, leverage and corporate structure play differently in explaining the market based firm performance once firm faces growth opportunities or absence of growth opportunities. The analysis is based on a sample of 100 Composite Index components Companies on Kuala Lumpur stock exchange over a period of 4 years, from 1999 to 2002. It was suggested from the study that firm debt policy affects firm performance differently once firm faces presence or absence of growth opportunities (Ahmed, 2008).

IV OBJECTIVE

The objective of this paper is to compare the impact of corporate restructuring factors on firm's value by using Tobin's Q.

V METHODOLOGY

The data for the study is collected from the websites of Inditrade and Geojit BNP Paribas for the period of 2006 to 2016 and the same is analyzed by making use of various statistical techniques namely a Paired Sample test, Paired Sample Correlation and a Paired Sample t-test. The Tobin's Q values that are used in the analysis are ascertained by applying the Tobin's Q model. The Tobin's Q values as on 31st March for different years of both Inditrade Ltd and Geojit BNP Paribas Financial Services Ltd represents the market value of both the company's stock with their equity book value.

Tobin's q is a ratio comparing the market value of a company's stock with the value of a company's equity book value. The ratio was developed by James Tobin (Tobin 1969). It is calculated by dividing the market value of a company by the replacement value of the book equity.

$$\text{Tobin's } q = \frac{(\text{Equity Market Value} + \text{Liabilities Book Value})}{(\text{Equity Book Value} + \text{Liabilities Book Value})}$$

If the market value reflected solely the recorded assets of a company, Tobin's q would be 1.0. If Tobin's q is greater than 1.0, then the market value is greater than the value of the company's recorded assets. This suggests that the market value reflects some unmeasured or unrecorded assets of the company.

VI ANALYSIS

The researcher has calculated the Tobin's Q value of the both Inditrade and Geojit from the year of 2006-2016

Table 1 Tobin's Q Value of Firms

Year	Tobin's Q Inditrade	Tobin's Q Geojit BNP Paribas
2006	4.00620018	2.498973306
2007	2.29230769	1.456185567
2008	2.25629066	1.228639007
2009	1.7202806	1.037063007
2010	1.95601891	1.244821092
2011	1.72609419	1.016823092
2012	1.51913838	0.916081782
2013	1.25484961	0.980796089
2014	1.21306133	1.078611375
2015	1.01288810	1.604166666
2016	1.43774625	1.298230921

Source: Data Analysis

From the above table it can be observed that the Tobin's Q values of the both firms are declining from the year 2006 to 2009. It can also observe that there is an increase in the year 2010 for both Geojit and Inditrade. But the value of the firm Inditrade is showing a volatile trend from the year 2010-2014 and a decline trend for Geojit except the year 2014.

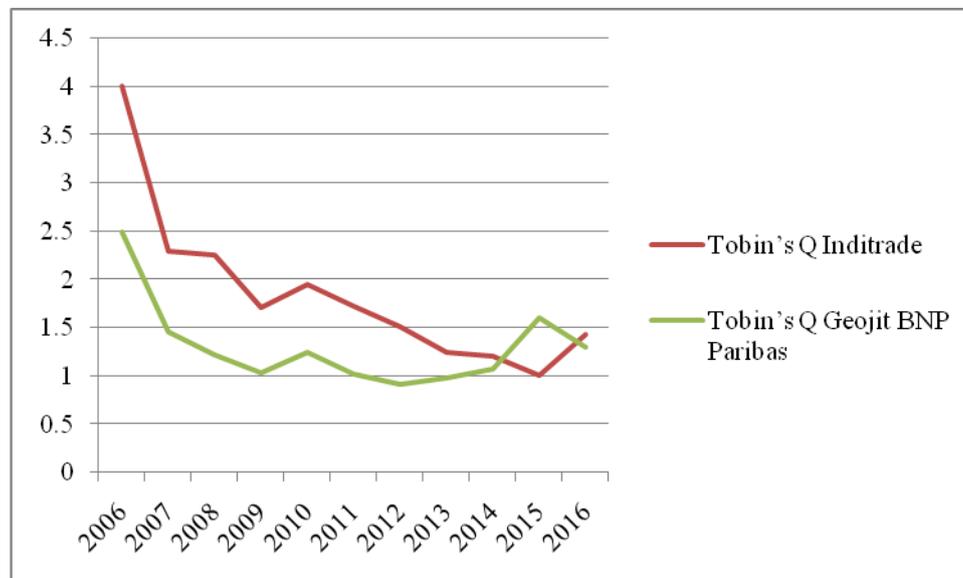


Figure 1 Tobin's Q Value of Firms

6.1 Paired Sample test

A paired sample test was attempted to find out if there exist any significant difference between the mean Tobin's Q value of Inditrade Ltd and Geojit BNP Paribas Financial Service Ltd. Greater Tobin's Q value means, that company is valued more as compared to other companies with lower Tobin's Q value.

Table No 2 Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Tobin - Q - Inditrade	2.0250	6	1.16583	.47595

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		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Tobin - Q - Inditrade	2.0250	6	1.16583	.47595
	Tobin - Q Geojit	2.1283	6	1.46095	.59643

Source: - Data Analysis

Table No 2 gives details about the paired sample statistics of Tobin's Q of both the companies. From Table No 5.5, it can be interpreted that the mean Tobin's Q Geojit (Mean 2.128, S D 1.46) is greater than mean Tobin's Q JRG (Mean 2.025, Standard Deviation 1.16)

Table No 3 Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	Tobin - Q -Inditrade	6	.080	.881
	Tobin - Q Geojit			

Source: - Data Analysis

The correlation coefficient was found to be 0.08 which can be considered as a very low positive linear correlation. But the correlation coefficient is found to be not significant with p value of 0.881.

6.2 Paired Sample t-test

A paired sample t test was attempted to know if there exists any significant difference between the mean Tobin’s Q values of both Inditrade Ltd and Geojit BNP Paribas Financial Services Ltd.

HYPOTHESIS

H₀: The mean Tobin’s Q value of both Inditrade Ltd and Geojit BNP Paribas Financial Services Ltd are not significantly different

H₁: The mean Tobin’s Q value of both Inditrade Ltd and Geojit BNP Paribas Financial Services Ltd are significantly different.

Table No 4 Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Tobin - Q - JRG - Tobin - Q Geojit	-.10333	1.79493	.73278	-1.98700	1.78033	-.141	5	.893

Source: - Data Analysis

From Table No 4 it can be interpreted that the paired sample test was found to be not significant at $t = -0.141$, degree of freedom = 5 and $p = .893$. Hence, the researcher accepts the null hypothesis (H_0) and rejects the alternate hypothesis (H_1). That means the mean changes in Tobin’s Q values of both the companies are not significantly different. In simple words it can say that mean Tobin’s Q values of both the companies are same. Also it cannot say that one company is superior or inferior to other in terms of Tobin’s Q values.

VII CONCLUSION

The study reveals that there is no significance difference between the changes in the firms Tobin's Q value for the period of 2006-2016. Inditrade has adopted the option of private equity whereas Geojit selected joint venture for corporate restructuring. The study revealed that the Tobin's Q values of the both firms are declining from the year 2006 to 2016. The mean changes in Tobin's Q values of both the companies are not significantly different. Hence both companies are on the balance as the study could not bring out a superiority or inferiority between two.

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