

Announcement of Cyrus Mistry's Removal: A Look at Market Reaction

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It was almost a bolt from the blue. Tata Sons announced on 24th October that it sacked Mr. Cyrus Mistry as Chairman of the company and requested Mr. Ratan Tata to take charge. Reports suggested that the decision of Tata Sons Board on that day took everyone by surprise and the whole event was kept under utmost secrecy until the date of the announcement. Later a newspaper¹ report revealed that a day before Tata Sons Board meeting, an emissary of Ratan Tata had met Mr. Cyrus to explain what was on the agenda for the next day's board meeting. Therefore, a question may arise whether some 'insiders' knew the 'news'!

Tata Sons is the holding company of Tata conglomerate. Tata Trust owns 66% of Tata Sons, and Ratan Tata is the Chairman of the Tata Trust. Incidentally, Cyrus Mistry and his family control 18% of Tata Sons. Therefore, the Tata Trust would normally be concerned about the well-being of Tata Sons and thereby all the operating companies that are directly or indirectly under the control of Tata Sons. It is quite natural that an underperforming Chairman may be asked to go if the holding company finds his performance wanting. It is no secret that several operating companies of Tata Group were struggling. Tata Steel is burdened by the failure of its European bet. Tata Teleservices is in the midst of a messy separation with NTT DoCoMo. Tata Global Beverages is tackling stressed assets in Eastern Europe. Tata Consultancy Services (TCS), the group's cash cow, is facing its own problem. Thus, people should not ascribe 'motive' in the decision of Tata Sons to oust Cyrus. However, friends of Cyrus say that he got only four years to run the company and one should not judge his performance within such short time.

Pundits have started giving 'advice' on how to restructure the complex corporate monolith. Suggestions include Tata Trust, and Tata Sons have same Chairman, Tata Trust would only concentrate on philanthropies and would not interfere with the governance and board of Tata Sons and other operating companies, etc. The Cyrus ouster episode has raised several governance questions.

Separation of ownership and management in organizations create information asymmetry problem between shareholders and managers that expose owners to agency cost. In family run business, agency problem has another dimension- the tension between inside owners (promoters/family) and outside owners. Empirical evidence shows that stock markets generally reward companies that follow transparent corporate governance practices. Studies have shown that firms with better corporate governance could raise money at a lesser cost. Firms that improve their governance structure benefit by lowering their cost of equity. Even the lenders prefer and at times demand certain governance structure. Therefore, it makes economic sense to follow well-established board practices. There are exceptions though- several researchers show that certain family run companies create greater wealth for shareholders without paying much attention to board governance. The founder of Apple Inc., used to think that corporate governance practices hinder innovation and creativity.

¹ Economic Times, 25th October 2016

Establishing corporate governance structure in a family-run business is really challenging. Family-run businesses contribute significantly to the economic development of any country. Many large global corporations are family owned. These businesses have realized the importance of structure and processes that help any business to grow. Putting governance structure in family-business is not easy- it requires the family to open up, make the sacrifice and cede some administrative control to 'outsiders'. This transition requires the creation of some form of family council to ensure transfer of power without necessarily diluting control rights.

One way corporations achieve this dual objective of implementing corporate governance structure in operating entities without giving up much of cash flow rights is through the creation of closely-held holding company structure. There could arise two types of rights in connection with control of any firm- cash flow rights and control rights. Large investors may be able to derive private benefits from control. Thus control rights may exceed cash flow rights (i.e., dividend). Bennedsen and Nielsen (2010)² find evidence of the presence of substantial agency costs associated with the separation of control and cash flow rights. Controlling shareholders have incentives and opportunities to obtain private benefits at the expense of firm value. Agency costs are furthermore expected to be higher in firms where cash flow is not spent on investments or on payouts to shareholders, but allocated to cash reserves likely to be at the controlling shareholders' discretion.

There have been allegations against Cyrus that he was trying to sell the crown jewels of the company and was carrying out a 'secret' plan for downsizing or disposing of several projects/assets that Ratan Tata had started. People closer to Ratan Tata blamed Cyrus for the recent poor performance of Tata Group companies in the stock market. The Cyrus camp, on the other hand, blamed Ratan Tata for undue interference and maintained that Cyrus was making some hard but necessary restructuring to save the company in the long run. The debate would continue for quite some time and only future would show who was right.

The objective of this article is not to probe the corporate governance angle to this debate or find out the real reasons behind the ouster of Cyrus. We try to explore whether some people knew the news about Cyrus's ouster on 24 October before that day. We turn to trading activities in Tata group shares around the announcement date.

Announcement Effect on Volume

We looked at the trading volume of 27 (24 for NSE) Tata Group stocks in both BSE and NSE on the date after the announcement of the removal of Cyrus Mistry (Table I). It was seen in BSE that Tata Teleservices and four (three in NSE) other companies witnessed significant trading activity as their daily volume jumped more than 100% the next day. Interestingly, TCS saw nearly 50% (32% in NSE) fall in trading volume on

² Bennedsen, M., Nielsen, K., 2010. Incentive and entrenchment effects in European ownership. *Journal of Banking and Finance* 34, 2212-2229

25th October 2016. The other two large Tata companies- Tata Steel and Tata Motors saw a moderate increase in trading volume.

Table I
Announcement Effect

Percent volume change of Tata Group Stocks on the day of removal of Cyrus Mistry
Vol_chg (%) is the percentage change in volume on Bombay Stock Exchange relative to seven-day moving average

	Date	Company	vol_chg (%)
1	25-Oct-16	Tata Teleservices	673.0
2	25-Oct-16	The Indian Hotels Company	192.0
3	25-Oct-16	Benares Hotels	131.4
4	25-Oct-16	Rallis India	127.3
5	25-Oct-16	Tata Metaliks	105.7
6	25-Oct-16	Voltas	77.7
7	25-Oct-16	Tata Chemicals	70.4
8	25-Oct-16	Tata Steel	47.0
9	25-Oct-16	Tata Motors	39.0
10	25-Oct-16	Tata Investment Corporation	26.3
11	25-Oct-16	Tata Communications	25.9
12	25-Oct-16	Trent	24.0
13	25-Oct-16	Titan	20.4
14	25-Oct-16	Tinplate Company of India	20.2
15	25-Oct-16	Tata Power Company	13.7
16	25-Oct-16	Tata Global Beverages	3.2
17	25-Oct-16	Tata Motors DVR	-8.2
18	25-Oct-16	Tata Sponge Iron	-9.5
19	25-Oct-16	Tata Elxsi	-14.6
20	25-Oct-16	Automotive Stampings & Assemblies	-35.8
21	25-Oct-16	Nelco	-43.1
22	25-Oct-16	TCS	-46.8
23	25-Oct-16	TRF	-46.9
24	25-Oct-16	Tata Coffee	-48.7
25	25-Oct-16	Oriental Hotels	-72.3
26	25-Oct-16	Automobile Corporation of Goa	-85.1
27	25-Oct-16	Tayo Rolls	-89.5

Source: ACE Equity

Information Leakage?

Though Tata Motors' trading volume did not show much increase the day after the announcement, Tata Motors DVR stocks witnessed a whopping 2000% increase (Table II) on the day of the announcement (announcement happened after market hours of the day). Even in NSE, Tata Teleservices showed more than 1600% increase on the same day. Was the information leaked?

Table II
Information Leakage

% volume change of Tata Group Stocks one day before the removal of Cyrus Mistry
Vol_chg (%) is the percentage change in volume on Bombay Stock Exchange relative to seven-day moving average

	Date	Company	vol_chg (%)
1	24-Oct-16	Tata Motors DVR	2,117.3
2	24-Oct-16	Tata Teleservices	1,796.4
3	24-Oct-16	Tata Sponge Iron	84.0
4	24-Oct-16	Trent	69.4
5	24-Oct-16	TRF	57.1
6	24-Oct-16	Nelco	44.9
7	24-Oct-16	The Indian Hotels Company	26.1
8	24-Oct-16	Tinplate Company of India	25.5
9	24-Oct-16	Tata Motors	18.5
10	24-Oct-16	Tata Global Beverages	12.3
11	24-Oct-16	Rallis India	0.7
12	24-Oct-16	Tata Metaliks	-3.8
13	24-Oct-16	Voltas	-4.3
14	24-Oct-16	Tata Chemicals	-8.9
15	24-Oct-16	Automotive Stampings & Assemblies	-11.9
16	24-Oct-16	Tata Power Company	-24.9
17	24-Oct-16	Tata Communications	-28.8
18	24-Oct-16	Titan	-38.3
19	24-Oct-16	Tata Elxsi	-44.7
20	24-Oct-16	Tata Coffee	-48.4
21	24-Oct-16	Tata Investment Corporation	-49.0
22	24-Oct-16	Tata Steel	-54.8
23	24-Oct-16	Benares Hotels	-68.2
24	24-Oct-16	TCS	-83.2
25	24-Oct-16	Automobile Corporation of Goa	-83.7
26	24-Oct-16	Oriental Hotels	-88.3
27	24-Oct-16	Tayo Rolls	-90.9

Source: ACE Equity

Announcement Effect on Returns

Let us take Tata Teleservices. The stock showed significant positive cumulative returns before the announcement (Tables III and IV), and the returns turned negative immediately after the announcement. This indicates that people who sorted the share (or stock futures) made a killing immediately after the announcement. Another interesting trend emerges from Table III- most of the stocks showed negative cumulative returns from two/three days prior to the day of the announcement. It is clear that some traders had started selling several Tata shares a few days before 24th October 2016. Tata Steel, for example, turned negative four days prior to the announcement.

Expectedly most of the Tata Group stocks witnessed negative returns after 24th October for next seven days.

Table III

Returns indicated below are cumulative raw return (%) in different windows from day -7 to day +7. Day 0 represents the day of removal of Cyrus Mistry from Tata Sons (BSE)

Company	(-7,0)	(-6,0)	(-5,0)	(-4,0)	(-3,0)	(-2,0)	(-1,0)	(0,1)	(0,2)	(0,3)	(0,4)	(0,5)	(0,6)	(0,7)
Automobile Corporation	4.8	-1.7	-4.6	-7.4	-4.7	-1.8	-2.7	-2.9	-4.7	3.1	3.6	5.9	2.7	3.5
Automotive Stampings	7.6	4.5	5.2	5.1	4.9	4.2	-2.8	-2.0	-7.1	-6.3	-7.9	-5.4	-3.3	-5.4
Benares Hotels	2.0	0.9	0.2	0.2	0.6	0.2	0.1	-1.8	-3.2	0.0	2.2	1.9	1.9	1.0
Nelco	6.3	5.7	6.4	5.6	4.5	4.1	-3.6	-3.9	-6.3	-5.9	-5.5	-4.9	-7.7	-10.1
Oriental Hotels	6.0	3.4	2.9	-0.5	-0.9	-2.3	-2.7	-3.6	-4.9	-2.1	-0.1	0.8	-1.3	-2.6
Rallis India	2.6	1.0	1.5	-1.6	-0.9	-1.1	-1.0	-4.6	-6.6	-6.9	-4.7	-6.6	-8.6	-9.7
TCS	3.0	1.4	1.5	0.0	0.2	0.0	-1.2	-1.3	-0.6	-1.2	-1.4	-3.3	-5.2	-4.5
TRF	0.4	0.7	0.6	-1.1	-2.5	-2.4	-3.4	-2.5	-6.3	-2.0	-1.6	-5.8	-8.0	-6.6
Tata Chemicals	6.3	4.5	5.7	4.6	-0.2	0.0	-2.5	-4.9	-6.9	-6.0	-6.3	-5.4	-8.4	-12.0
Tata Coffee	1.8	-4.0	-7.6	-9.0	-11.0	-7.6	-4.5	-3.1	-6.4	-4.4	-4.2	-3.9	-6.7	-8.4
Tata Communications	0.7	0.5	1.9	2.6	1.4	2.2	-3.7	-4.9	-6.6	-5.3	-5.4	-3.7	-6.6	-9.2
Tata Elxsi	-0.7	-0.6	0.8	-1.8	-2.9	-2.9	-2.1	-4.6	-7.0	-2.8	-2.6	-1.4	-4.4	-5.6
Tata Global Beverages	1.6	-1.8	0.0	-1.2	-2.9	-1.5	-1.7	-5.6	-10.7	-9.5	-9.7	-10.1	-12.8	-15.5
TIC	0.8	0.9	-0.6	-1.6	-2.6	-1.5	-1.4	-1.7	-7.1	-5.6	-4.5	-4.7	-7.3	-8.9
Tata Metaliks	-1.4	-1.6	-2.3	-7.1	-7.0	-9.7	-7.0	-8.8	-13.6	-7.7	-6.7	-8.6	-10.8	-13.3
Tata Motors	1.7	-0.4	1.2	0.0	0.6	1.1	1.6	-5.3	-6.8	-4.1	-4.8	-5.0	-8.2	-8.9
Tata Motors DVR	2.4	0.5	1.3	-0.3	0.5	1.2	1.6	-4.8	-6.9	-3.9	-4.5	-4.0	-7.9	-9.0
Tata Power Company	5.6	5.0	6.1	5.0	1.5	0.6	-1.4	-3.6	-4.9	-6.3	-6.7	-6.7	-8.1	-8.5
Tata Sponge Iron	1.9	2.4	-0.6	-2.2	-3.9	-8.1	-4.8	-3.6	-7.6	-6.7	-5.9	-6.0	-8.6	-9.8
Tata Steel	0.5	1.0	1.3	-2.2	-2.3	-3.0	-2.8	-6.5	-7.0	-5.1	-5.1	-1.8	-2.8	-5.3
Tata Teleservices	20.8	22.4	24.1	21.9	23.3	24.6	22.8	1.5	-8.2	-4.3	-3.9	-4.6	-8.6	-8.8
Tayo Rolls	6.6	-11.6	-2.4	-4.8	-6.0	-2.1	-0.1	-0.4	-3.3	-0.7	0.9	-1.4	-4.2	-6.2
Indian Hotels	-0.9	-1.8	-2.5	-2.7	-2.6	-3.3	-5.3	-6.5	-11.8	-11.5	-9.1	-8.9	-12.3	-17.0
Tinplate	4.6	4.8	3.7	1.3	-2.6	-2.0	-0.6	-4.9	-8.8	-6.3	-5.9	-7.0	-8.7	-9.8
Titan	-4.2	-3.5	-3.3	-4.3	-3.9	-4.3	-1.8	-0.6	-2.2	-0.7	1.3	-0.7	0.1	-0.1
Trent	-4.9	-3.1	-2.2	-3.8	-2.7	-2.3	-0.7	-1.7	-2.5	-1.7	0.8	1.8	-0.8	-0.9
Voltas	4.6	0.2	1.5	-0.4	-1.1	0.3	1.0	-2.1	-3.0	-1.5	-1.5	-2.1	-5.2	-7.5

Source: ACE Equity

Table IV

Returns indicated below are cumulative raw return (%) in different windows from day -7 to day +7. Day 0 represents the day of removal of Cyrus Mistry from Tata Sons (NSE)

Company	(-7,0)	(-6,0)	(-5,0)	(-4,0)	(-3,0)	(-2,0)	(-1,0)	(0,1)	(0,2)	(0,3)	(0,4)	(0,5)	(0,6)	(0,7)
Automotive Stampings	9.5	5.0	7.1	5.9	6.5	7.4	-0.7	-1.5	-6.4	-6.5	-8.1	-7.1	-1.4	-4.0
Nelco	6.7	6.3	6.8	5.7	4.7	4.7	-3.3	-3.7	-6.4	-5.9	-5.6	-5.0	-7.9	-10.0
Oriental Hotels	5.8	2.7	3.7	-0.3	-0.3	-1.8	-3.0	-3.4	-5.5	-2.3	-1.2	0.7	-2.0	-2.4
Rallis India	2.7	0.6	1.5	-1.9	-1.0	-1.1	-1.0	-4.3	-6.4	-7.1	-4.8	-6.6	-8.5	-9.9
Tata Chemicals	6.5	4.7	5.9	4.9	0.1	0.2	-2.4	-5.1	-6.8	-5.9	-6.4	-5.3	-8.7	-12.2
Tata Coffee	1.8	-4.8	-8.1	-9.6	-11.3	-7.9	-4.8	-3.2	-6.6	-5.0	-4.5	-4.0	-6.9	-7.6
Tata Metaliks	-1.7	-1.8	-2.5	-7.5	-7.2	-9.7	-7.0	-9.0	-13.6	-7.5	-6.8	-8.7	-10.8	-13.3
Tata Sponge Iron	1.5	2.0	-1.2	-2.7	-4.3	-8.5	-5.2	-3.4	-7.6	-6.7	-6.2	-6.1	-8.4	-9.7
Tata Steel	0.4	0.8	1.2	-2.3	-2.5	-3.1	-2.8	-6.5	-6.9	-4.8	-5.0	-1.8	-2.8	-5.3
Tata Teleservices	20.5	21.3	23.7	22.0	22.0	23.6	22.0	1.3	-8.5	-4.1	-3.4	-5.5	-8.4	-9.1
Trent	-5.0	-3.1	-2.2	-3.9	-2.7	-2.2	-0.8	-2.0	-2.6	-1.8	0.7	2.1	-1.1	-0.4

Source: ACE Equity

Our results are not exhaustive as it covers market reactions for a fortnight around the date of announcement of the ouster of Mr. Cyrus Mistry. However, it offers some scope for further analysis. Our results, at the minimum, show that there was some noise in several stocks of Tata group companies a few days before 24th October. Both the trading volume and cumulative returns captured the abnormality.