

ABSTRACT

The paper analyses the performance of Depositary Receipts of 6 Indian company stocks listed on the New York Stock Exchange, known as American Depositary Receipts(ADR), for the period of 2006 to 2016. We attempt to determine whether there is some mispricing of the cross listed stocks, which leads to arbitrage trading, using log ratios (relative returns) of the stocks as the variable to capture arbitrage profits.

A number of factors are responsible for affecting cross-border trading and arbitrage, such as, transaction costs, dividend yields, volatility of markets etc. We identify factors that are likely to have a significant impact on the profits of arbitrage.

The outcome of the study shows that for the post crisis period from 2011-2016, all the companies exhibit a declining trend for arbitrage profits. This result supports the theory of efficient market hypothesis, according to which prices cannot stray far away from their long term trends and so stocks must be priced the same in all the markets. However, for the period between 2006-2010, there seems to be an exception. None of the companies have a declining profit line. Some even show an upward trend for their profits. This goes in line with the herd behaviour during the financial crisis which lead to overvaluation of stocks.

Key words: Depositary Receipts, arbitrage, mispricing, log ratios, cross-border trading.