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'Buyback' of Shares and its Impact on Financial Performance: A Case of Hindustan Unilever Limited

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ABSTRACT *Buy back of shares is just the opposite of raising capital through issue of shares. It is a process of capital restructuring which allows a company to buy back its own shares, which were issued by it earlier. Companies buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake. The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956. These were inserted by the Companies (Amendment) Act, 1999. The Securities and Exchange Board of India (SEBI) framed the SEBI(Buy Back of Securities) Regulations,1999 and the Department of Company Affairs framed the Private Limited Company and Unlisted Public company (Buy Back of Securities) rules,1999 pursuant to Section 77A(2)(f) and (g) respectively. The present paper portrays the glimpses of the buyback of shares by Hindustan Unilever and its impact of financial performance of the company.*

KEYWORDS : Buy back, capital restructuring, Securities and Exchange Board of India (SEBI), Employees Option Scheme

Buy back of shares is just the opposite of raising capital through issue of shares. It is a process of capital restructuring which allows a company to buy back its own shares, which were issued by it earlier. Companies buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake. A buyback allows companies to invest in them. By reducing the number of shares outstanding on the market, buybacks increase the proportion of shares a company owns. Buybacks can be carried out in two ways:

1. Shareholders may be presented with a tender offer whereby they have the option to submit (or tender) a portion or all of their shares within a certain time frame and at a premium to the current market price. This premium compensates investors for tendering their shares rather than holding on to them.
2. Companies buy back shares on the open market over an extended period of time.

Share repurchase is usually an indication that the company's management thinks the shares are undervalued. The company can buy shares directly from the market or offer its shareholder the option to tender their shares directly to the company at a fixed price.

When a company repurchases its own shares, it will usually say something along the lines of, ***"We find no better investment than our own company."***

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Objectives of Buy Back: Shares may be bought back by the company on account of one or more of the following reasons

i. To increase promoters holding
ii. Increase earnings per share
iii. Rationalize the capital structure by writing off capital not represented by available assets.
iv. Support share value to increase the market price of the share.
v. To thwart takeover bid.
vi. To give a signal among the investors about the company's financial strength and prospects.
vii. Help the company to distribute its surplus cash not required by businessamong the investors.
viii. Shares which were issued under Employees Option Scheme, but whose holders are no more in employment, can be withdrawn.

In fact the best strategy to maintain the share price in a bear run is to buy back the shares from the open market at a premium over the prevailing market price.

Resources of Buy Back
A Company can purchase its own shares from

(i) free reserves: Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such transfer shall be disclosed in the balance-sheet or

(ii) Securities Premium Account; or

(iii) Proceeds of any shares or other Specified Securities: A Company cannot buy back its shares or other Specified Securities out of the proceeds of an earlier issue of the same kind of shares or Specified Securities. For example, Preference shares can be issued to buy back of Equity shares but Equity shares cannot be issued for the purpose of buyback of Equity shares.

Meaning of Free Reserves: The expression "free reserves" has not been defined in the Company's Act, 1956 for the purpose of Section 77A. However, as per Section 372A "free reserves" means those reserves which are free for distribution of dividend and it includes the balance of Securities Premium Account.

Other Specified Securities include employee's Stock Option or other Securities as may be notified by the Central Government.

Sources from where the shares can be purchased
The Securities can be bought back from

(a) Existing Security-holders on a proportionate basis;
Buyback of shares may be made by a tender offer through a letter of offer from the holders of shares of the company or

(b) The open market through
(i) Book building process;
(ii) Stock exchanges or

(c) odd lots, that is to say, where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange; or

(d) Purchasing the Securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

Where a company buys back its own Securities, it shall extinguish and physically destroy the Securities so bought-back within seven days of the last date of completion of buy-back.Every buy-back shall be completed within twelve months from the date of passing the special resolution or Board resolution as the case may be.A company which has bought back any Security cannot make any issue of the same kind of Securities in any manner whether by way of public issue, rights issue up to six months from the date of completion of buy back.

Buyback of Shares by Hindustan Unilever Limited

Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods Company, touching the lives of two out of three Indians. HUL's mission is to "add vitality to life" through its presence in over 20 distinct categories in Home & Personal Care Products and Foods & Beverages. The company meets every day needs for nutrition, hygiene, and personal care, with brands that help people feel good, look good and get more out of life.

At a meeting on 11th June, 2010 the Board of Directors of the Company, had considered and approved, subject to the approval of the members of the Company, and such other approvals/consents, as may be necessary, the buyback of the Company's equity shares at a price not exceeding Rs. 280 per share and up to an aggregate amount of Rs. 630 crores, being within 25% of the total paid-up capital and free reserves as per the audited Balance Sheet as at March 31, 2010.

The Company proposes to buy back shares from the Bombay Stock Exchange Limited ("BSE") and National Stock Exchange of India Limited ("NSE") through open market purchases from time to time.

The maximum price was given at a premium of 20% over the average closing price of Rs.233 of the Company's share in last three months. The buyback was proposed to effectively utilize the surplus cash and make the balance sheet leaner and more efficient to improve returns.

As per the provisions of the Securities and Exchange Board of India (Buyback of Securities) Regulation 1998, the promoters (Unilever) and the directors of the Company did not participate in the proposed buyback process.

The buy-back window that enabled Unilever Plc to mop up shares in Hindustan Unilever from its Indian shareholders opened on June 21, 2013. The shares were proposed to be bought atRs. 600 a share. The independent directors in the company have already given the opinion that the offer price was 'fair and reasonable'.

Financial Implications

After Buy-back of its shares the changes in the financial position of the company has been found as follows:

Financial Performance (Standalone)
Rs. crores

Years	2009-10	2010-11	2011-12	2012-13	2013-14
Share Capital	218.17	215.95	216.15	216.25	216.27
Reserve & Surplus	2365.35	2443.57	3296.78	2457.77	3060.78
Loan Funds	Nil	Nil	Nil	Nil	Nil
Profit after tax	2102.68	2153.25	2599.23	3314.35	3555.32
Earnings per share of Re.1	10.10	10.58	12.46	17.56	17.88
Economic value added (EVA) Rs.Crores	1791	1750	2250	2926	3147
HUL share price on BSE# (Rs. Per share of Re.1)	238.70	284.60	409.90	466.10	603.65
Market capitalization(Rs. crores)	52077	61459	88600	100793	130551
Contribution to exchequer(Rs. crores)	3704	3953	4839	6365	6680

#Based on year-end closing price quoted in the Bombay Stock Exchange.
Source: Hindustan Unilever Limited; Annual Report 2013-14.

Share Capital

Due to Buy-back of shares the Share Capital of 2010-11 has been reduced to Rs.215.95crores as compared to Rs.218.17 crores in 2009-10. On 30th April, 2013, Unilever PLC made an announcement for Open Offer for acquiring 48.70 crore shares, aggregating to 22.52% of the total Share Capital of the Company, from the public shareholders at the offer price of Rs. 600 per share.The tendering period of the Open Offer was from 21st June, 2013 to 4th July, 2013. At the end of the tendering period, Unilever acquired additional 31,95,63,398 shares in the Open Offer ,thereby increasing the shareholding in the company from 52.48% to 67.25% of the total Share Capital of the Company.

Reserve & Surplus

The reserve and surplus should reduce instead it has been increased in the year 2010-11 by 3.31% because of the fact that the profit after tax has been increased by 2.41% in 2010-11 as compared to the year 2009-10. The trend is increasing and it is reflected in the above table. The increase in profit after tax in 2011-12 is 20.71%,in 2012-13 27.51%, and in 2013-14 7.27%. After buyback of its own share the amount of Dividend declared and paid has been less and it may be a reason of huge accumulation of reserve.

Loan Funds

As per the conditions of Buy back the post buy back debt equity ratio should not exceed 2:1. In this case it is found that the debt equity ratio after buyback is zero which is an indication of a sound financial position.

Earning Per Share

The earnings per share in the year 2009-10 was Rs.10.10 per Re1 share and it is increasing in all the years. In 2010-11 EPS wasRs.10.58, in 2011-12 Rs.12.46, in 2012-13 Rs.17.56 and in 2013-14 Rs.17.88. It is found that after buyback the Earnings per Share of the company have increased significantly.

Economic Value Added

Extensive equity research has established that it is not earnings per se, but VALUE that is important.So Economic Value Added (EVA) has been applied here to understand and evaluate the financial performance.

EVA =Net Operating Profit AfterTaxes(NOPAT) – Cost Of Capital Employed(COCE)

Where NOPAT= Profits after Depreciation and Taxes but before Interest Costs. Thus NOPAT represents the total pool of profits available on an ungeared basis to provide a return to lenders and shareholders, and COCE=Weighted Average Cost of Capital (WACC) X Average Capital Employed

The EVA shows an increasing trend particularly after completion of the buyback process from the year 2011-12 and it has been increased by 28.57% in 2011-12 as compared to 2010-11 and again in 2012-13 it has increased by 30% and in 2013-14 it has increased by 7.55%.

HUL share price

There has been a tremendous impact of buy back of shares on the share price of Hindustan Unilever from the date of declaration of such buy back through public notification. The share price was moving in between Rs.230-250 before buyback and it has gone up to Rs.712 at present (dated: 11th August, 2014). In 2010-11 the HUL share price has increased by 19.23%, in 2011-12 it has increased by 44%, in 2012-13 it has increased by 13.71% and in 2013-14 it has increased by 29.51%.

Market Capitalisation

Due to the increase in the prices of shares of HUL, the impact on market capitalization is also tremendous which the effect of buy back is. The market capitalization in 2009-10 was only Rs.52,077 and from there the upward journey was started as Rs.61,459 in 2010-11, Rs.88,600 in 2011-12, Rs.1,00,793 in 2012-13 and Rs. 1,30,551 in 2013-14. The contribution to the exchequer was also significant.

Conclusion

Buy back of shares as a process of capital restructuring which allows a company to buy back its own shares, which were issued by it earlier.

Companies buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake. The decision to buy-back reflects several strategic management's view that the Company's future prospects are good and hence investing in its own shares is the best option. It also signals undervaluation of the Company's shares in relation to its intrinsic value. It appears that only financially sound companies should be able to resort to buy-back. Companies should follow the principles of model corporate governance and there should be transparency in buy-back deals. This year the HUL has retained their position as the No.1 Employer Brand among premier business school students for the third successive year and as a 'Dream Employer' for the fifth consecutive year. In the year ahead, the business environment will continue to remain challenging and competitive intensity is likely to remain high. It is expected that HUL will continue to deliver growth that is consistent, competitive, profitable and responsible. Despite the Indian economy witnessing a slowdown, HUL delivered healthy results. The HUL's domestic consumer business grew by 9% with 4% underlying volume growth which was ahead of the market. Profit before interest and tax (PBIT) grew by 12% with PBIT margin improving 40 bps. Profit after tax but before exceptional items, PAT (bei), grew by 7% to Rs.3, 555 crores with Net Profit at Rs.3, 867 crores growing 2%. Net Profit growth was impacted by the significant property sale in the previous year.Cash generated from operations at over Rs.5000 crores for the year was up Rs.462 crores over the previous year.

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