



Impact of Buy Back of Shares on Share Price of Avantel Limited

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ABSTRACT

Buy-back is an excellent tool for financial reengineering. Buy-back of shares relates to the company buying back its shares which it has issued earlier from the market. Buy-back of shares is nothing but reverse of issue of shares by a company. It means the purchase of its own shares or other specified securities by a company. In case of buy-back, a company offers to take back its shares owned by the investors at a specified price generally determined or arrived at on the basis of the average price of the shares in the past few months. This calculation is usually done at a premium on the market price so as to attract more number of investors, which may vary as per the financial prudence of the company. Thus, Buy-back is one of the prominent modes of capital restructuring. This Study mainly focuses on buyback condition in India and the motives behind the buyback and share price movement before, during and after buyback.

KEYWORDS : capital reconstruction, buy back shares, shareholders perception etc.,

INTRODUCTION

Buy back is one of the important kinds of capital restructuring. Buy-back is an offer by a company to its shareholders to acquire pre-agreed number of its own securities at a pre-agreed price. In other words, it is one of the forms of cancellation of shares or repayment of capital. It can be undertaken by both public and private limited companies.

ORIGIN OF SHARE BUY BACK

The US was the pioneer in share buyback by companies. The share buybacks had appeared in the US in the late 1960s. But, it had become popular by mid-1980s. In the beginning, the method of buy back was not subject to any special regulation till 1982. The US companies can be regarded as having innovated the share buyback system. This happened perhaps because the state statutes for incorporation and governance of companies tended to be more flexible. It may have been easier for entrepreneurs to influence the state legislators than federal authorities. If companies in one state could start the practice of share buyback, it was very likely to quickly spread to other states.

OBJECTIVES OF BUY BACK

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

- To increase promoter's holding
- Increase earnings per share
- Rationalise the capital structure by writing off capital not represented by available assets
- Support share value
- To take over bid
- To pay surplus cash not required by business

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.

SHARE BUYBACK IN INDIA

The provisions regulating buyback 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 framed the SEBI (Buyback 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.

As per section 77A (2) of the companies' act 1956, no company shall

purchase its own shares/other securities unless the following two conditions are satisfied:

1. The articles of association should authorize the company to buy back its own shares.
2. A special resolution should be passed in the general meeting of the company authorizing the buyback of shares.

However, the buyback of shares can be made without a special resolution if the following conditions are fulfilled:

- The buyback is 10% or less, of the paid up equity capital and free reserves of the company.
- Such buy back has been authorized by a board resolution (at a board meeting) and
- There is a gap of at least 365 days between two buy back offers sanctioned by the board.

MAXIMUM LIMIT FOR BUY BACK:

The size of the buyback should not exceed 25% of the company's paid up equity capital in a single financial year.

RESOURCES FOR BUYBACK:

A buyback of shares may be made out of the following:

1. Free reserves
2. Securities premium account
3. Proceeds of any shares or specified securities.

However, no buyback of shares can be made out of the proceeds of an earlier issue of the same kind of shares.

The buyback may be from:

- The existing security holders on a proportionate basis
- The open market
- Odd lots
- Purchasing the securities issued to the employees of the company pursuant to a scheme of stock option or sweat equity.

PROCEDURE FOR BUY BACK:

- Where a company proposes to buy back its shares, shall, after passing of the special /board resolution make public announcement at least one English national daily, one Hindi national daily, and regional language daily at the place where the registered office of the company is situated.

- Public announcement shall specify a date, which shall be "Specified date" for the purpose of determining the names of the shareholders to whom the letter of offer has to be sent.
- A public notice shall be given containing disclosures as specified in schedule I of the SEBI regulations.
- A draft letter of offer shall be filed with SEBI through a merchant banker. The letter of offer shall then be dispatched to the members of the company.
- A copy of the Board resolution authorised the buyback shall be filed with the SEBI and stock exchanges.
- The date of opening of the offer shall not be earlier than 7 days or later than 30 days after the specified date.
- The buyback offer shall remain open for a period of not less than 15 days and not more than 30 days.

POST BUY BACK CONDITION:

- The ratio of debt (all secured and unsecured debts) should not be more than "twice" the capital and free reserves after buy back.
- The shares to be bought back should be fully paid up.
- After buy back of shares, the company cannot issue further shares of the same kind as bought back for a period of six months, except in case of bonus shares, discharge of subsisting obligations such as conversion of warrants, stock options, conversion of preference shares/ debentures.
- After buy back the company is required to extinguish and physically destroy the shares bought back within 7 days from the last date of completion of buy back.

PENALTY

If a company makes default in complying with the provisions the company or any officer of the company who is in default shall be punishable with imprisonment for a term which may extend to two years, or with fine which may extend to fifty thousand rupees or with both. The offences are, of course, compoundable under section 621A of the companies' act 1956.

STATEMENT OF THE PROBLEM

Buy back is now familiar in India. But the motive behind the buyback has to be studied in order to protect the investors as well as control and regulate the companies which involve buyback.

OBJECTIVES OF THE STUDY

- To study the impact of buy back of shares before, during and after the buyback announcements.
- To analyse the changes in net worth and EPS of the company after buyback.

SCOPE OF THE STUDY

This study concentrates on the changes that occur after buyback and the price movements of such shares.

IMPORTANCE OF THE STUDY

Announcements of companies buying back its own shares are usually seen as a good sign. A share buyback shows that a company's management thinks that its shares are undervalued. The company has to buy the shares on the open market and return them to the company's treasury which essentially takes them out of circulation, thereby reducing the total number of shares outstanding. So there are two effects going on

1. Each share now becomes more valuable because each share now holds a greater percentage of ownership in the company.
2. The laws of supply and demand go into effect.

If a company feels comfortable enough to buy back shares of its stock, it is essentially stating that it believes there is low probability for more economic and company troubles and another aspect is buying back of shares of a company's stock signals to investors that the company cannot think of anything better to do with its available cash. So a buyback programme is especially troubling to "growth" investors and it also signals that the company has no more profitable opportunities to grow the business.

SCOPE OF THE STUDY

The study of buy back of shares has different dimensions. But the past

studies on buyback have been more related with corporate point of view and only a few studies are related with investors' aspect. This study concentrates on share price movements before and after buy back and the perception of investors on buy back.

RESEARCH METHODOLOGY

This study contains both descriptive and empirical analyses. It has a systematic and well organised method of analysis which paves way to reveal the real aspects of research objectives.

SOURCES OF DATA

The secondary data has also been collected from the books, journals, Magazines and Web portals.

- Comparison of changes in price movement in before, during and after buy back of shares by the companies has been made,

ABOUT AVANTEL LTD

Avantel Ltd was originally incorporated on 30.05.1990 under the Companies act 1956, as Dialog Communications Private Ltd. The name of the company was changed to Avantel communications Private Ltd on 11.08.1993. This was converted to public limited company with effect from 20.12.1994. Later, the name of the company has been changed to Avantel Softtech Ltd on 24.12.98. Avantel Ltd., is a technology driven AS9100C standards Public Ltd company engaged in the design and development, Manufacturing and servicing of satellite Communication products for Aerospace and Defence applications.

BUYBACK ANNOUNCEMENT BY AVANTEL LTD:

Avantel Ltd had announced buyback offer through open market purchases on 11.08.2014. The details of buyback are given below:

- Maximum Limit for the proposed buyback – Rs.180 lakhs Which was 9.83% of its paid up capital and reserves.
- Minimum buyback limit is %0% of actual buyback (i.e) Rs.90 Lakhs.
- Maximum Buyback price per share offered was Rs.90.
- Maximum limit for no. of shares was 2,25,000 shares which was 5.38% of its share capital.
- Minimum limit for buyback was 1,00,000 shares.

The Company at the time of announcement had 41,83,000 equity shares of Rs. 10 each out of these 16, 66,064 shares were held by Promoters which occupied 39.83% of total shares and the remaining (i.e)25,16,936 shares were in the hands of public and institutional investors which occupied 60.17% of total shares. But after the completion of buy back the promoters shares increased to 41.09% while the public and institutional investors holding decreased to 58.91% from 60.17%.

TABLE SHOWING SHARE PRICE MOVEMENT

S.NO	BEFORE BUY-BACK PRICE	HIGH PRICE(RS)	DURING BUY BACK		AFTER BUY-BACK PRICE	
			DATE	HIGH PRICE(RS)	DATE	HIGH PRICE(RS)
1	DATE	HIGH PRICE(RS)	DATE	HIGH PRICE(RS)	DATE	HIGH PRICE(RS)
2	01-07-2014	83.95	01-07-2015	119	01-03-2016	135
3	02-06-2014	83.9	01-06-2015	113.5	01-02-2016	150
4	01-05-2014	83	01-05-2015	122.5	01-01-2016	163.9
5	01-04-2014	56.5	01-04-2015	154.8	01-12-2015	165
6	03-03-2014	52.55	02-03-2015	132.7	02-11-2015	169
7	03-02-2014	49.75	02-02-2015	144	01-10-2015	118.9
8	01-01-2014	48.45	01-01-2015	188	01-09-2015	93
9	02-12-2013	46.5	01-12-2014	167	03-08-2015	116

10	01-11-2013	47.5	03-11-2014	190		
11	01-10-2013	53.5	01-10-2014	134.6		
12	02-09-2013	56	01-09-2014	108		
13	01-08-2013	63.95	01-08-2014	86.05		
14	01-07-2013	66.4				

The price movements during the buyback were lower than the after buyback. Overall, the share prices after buyback were the highest when compared with before and during buyback.

FINDINGS:

The Share prices after buyback period were higher when compared with before and during buyback . It shows that the main aim of share buyback which is increase the share price in the market , increase wealth of the shareholders has been achieved by the Avantel Ltd.

CONCLUSION:

From this study it can be concluded that capital reconstructing through buyback enables the companies to increase the price of the share in the market, increase the EPS and networth and increase the power of the promoters.

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