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Original Research Paper

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A STUDY ON THE TREND IN THE BUYBACK OF SHARES IN INDIA FROM 1998 TO 2023 FOR A PERIOD OF 25 YEARS

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ABSTRACT The basic objective of the research paper is to analyze and interpret the trend in the buyback of shares in India since its inception. The data on the number of share buybacks have gathered from the SEBI Status Report on Buyback and Money Control. Com The research paper finds that there is a shift in the method of buyback from the open market method to the tender offer method. The study also finds that the number of share buyback in India increased gradually over a period of 25 years.

KEYWORDS : Buyback, Tender offer, Open market operation and Companies Act.

1) INTRODUCTION

The companies in India not allowed buying their shares by the Indian Companies Act, 1956. This was due to the fact that, it may promote maneuvering of stock prices and speculative activities in the Indian stock market. However, due to the severe downturn in the financial market in early 1990's and to help revive the sagging capital market, the regulators, market operators and industry professionals collectively agreed to introduce the stock buybacks in India in 1998. Thus, the central Government announced the Companies (Amendment) Ordinance, 1998 to introduce the buyback of shares for the first time in the Indian stock market in 1998.

2) METHODOLOGY

The basic objective of the research paper is to analyze and interpret the trend in the buyback of shares in India. The paper based on the secondary data. It is for a period of 25 years i.e., from 1998-99 to 2022-23. The data on the number of share buybacks gathered from the SEBI Status Report on Buyback and Money Control.Com. The data collected analyzed and interpreted with the help of the table and chart to draw the inferences in order to achieve the objectives of the paper. The study does not analyze and interpret the buyback of any specific company. However, it deals with the buyback of shares in India in general.

3) Concept of Buyback

Stock buyback means buying the shares which issued earlier by a company. In other words, it means investing company's surplus funds in its own shares. Share buyback may be through fixed price tender offer method, open market operation method, book-building method or negotiated deals method. The buyback of equity decreases the number of outstanding shares and increases the earnings per share of the company. At the same time, it signals the undervaluation of stock and better prospects for the company in the future.

4) Origin of Stock Buyback

Share repurchase is an activity originated in the United States of America. The United States of America was the first country in the world to allow the resident firms to repurchase their shares from the shareholders. However, it gained its momentum and the popularity when the US companies began adopting the buyback program in a large numbers in the early 1980s. Thus, the US buyback movement went global in 1990s. In 1990s and thereafter, many countries in the world such as United Kingdom in 1990, Hong Kong in 1991, Korea in1994, Japan in 1995, Denmark in 1995, Finland in 1997, Germany in1998, France in 1998 and India in 1998 allowed their companies to buy back their shares from their shareholders.

5) Kinds of Buyback of Shares

There are two kinds of Stock buyback viz., share buyback for reducing the capital and share buyback for treasury operation. The basic difference between share buyback for reducing the capital and share buyback for treasury operation is that in the case of the former, the shares extinguished while in respect of the later, the shares kept in the treasury for the operation i. e., for the reissue in the future.

6) Rational for Buyback

The buyback of shares by a limited company in India done for the following;

6.i) To restructure the capital structure and capitalization of the company.

6.ii) To signal the undervaluation of the stock.

6.iii)To support the share price during the period of temporary weakness (depression).

6.iv)To distribute the surplus cash to the shareholders.

6.v) To increase the earnings per share of the company.

6.vi) To increase the promoter's percentage of shareholdings.

6.vii) To prevent the hostile takeover bid.

6.viii) To lower the impact of the tax incidence.

6.ix) To protect the interest of the existing shareholders from the dilutive effect of the stock options,

6.x) To signal the better earnings, financial strength, and better prospects for the company in the future.

7) Methods of Buyback

The stock buyback can be by any one of the following methods;

7.i) Tender Offer Method

The company, under the tender offer method, offers to buy back a specified number shares at a given price known as the tender price until a given expiration date. The company sets forth the maximum number of shares that it is offering to buy, the fixed price at which it will purchase the shares and the period of time during which the offer will remain open. The tender price is set by the company usually at a premium over the prevalent market price in order to act it as an incentive to the shareholders to offer their shares for the buyback. The promoters of the company allowed participating in the buyback program under the tender offer method.

7.ii) Book Building Method

Book building method is also known as Dutch auction repurchase method. In this method of buyback of equity shares, the company announces the maximum number of equity shares it wishes to purchase during a specified time. The company sets a stock price range between which shareholders bids accepted. The shareholders invited to tender their equity shares at any price within the stated price range. The company, after closing of the offer period, collects the individual offers and sorts them out by price in ascending order until the specified number of shares accumulated. The different prices at which buyback is completed is arrived at by adding the number of shares tendered by the shareholders beginning with the lowest end of the price range stated by the company. The price stops at which the cumulative number shares equal to or exceeds the size of the buyback. Therefore, the buyback price is the lowest price of the series at the cut of point equal to the price of the highest accepted bid. The persons having control on the company can participate in the buyback program under the book building method.

7.iii) Open Market Repurchase Method

Under the open market buyback method, the company buys back its equity shares or specified securities directly through the stock exchanges or from the intermediaries. The company announces the maximum number of shares that it wishes to buy from the stock market, the period during which it is going to buy the shares and the maximum price at which buyback of shares made. The buyback of equity shares made by the company at the prevailing stock price on the stock exchange at the time of buyback. The buyback of shares through open market method generally made when the number of shares to be bought small. The offer kept open for a period specified by the regulations governing the buyback. The promoters of the company not allowed to participate in the buyback program under open market repurchase method.

7.iv) Negotiated Deals Method

In the negotiated deals method, the company chooses the shareholders or a specific group of the shareholders for the buyback operation. The company can bargain with the shareholders for the price at which their shares repurchased. One of the best examples of negotiated deals method is the buyback rooted through option contracts i.e., call option and put option.

8) Review of the literature on the Stock Buyback

Many research scholars in India have tested a number of hypotheses on the stock buyback to establish the empirical evidences for the benefits from stock buyback to the shareholders. Some of the hypotheses tested in India on share buyback include 'Signaling" (Dr. Tanupa Chakraborty, 2008), 'Abnormal Returns Approach' (Dr. R. L. Hyderabad, 2009 and Dr. Prabhakar Rane, 2016), 'Earnings per Share Measurement' (Dr. Prabhakar Rane, 2011 and 'Promoters' Percentage Holding' (Dr. Tanupa Chakraborty, 2008). These Scholars have found that the buyback in India is made 'to signal undervaluation of the stock', 'to improve the earnings per share' and 'to increase the promoters shareholdings'. They also found that there are abnormal returns in the short run during the announcement period and the stock price falls beyond the buyback price in the long run.

9) Provisions of the Companies Act on Buyback of Shares

The sections 68, 69, and 70 of the Buyback of Shares and Other Specified Securities of the Companies Act, 2013 deal with the buyback of shares in India. The section 68 empowers an entity to purchase its own shares or other specified securities up to a maximum of 25% of its share capital and free reserves. The section 69 prescribes a sum equal to the nominal value of the share so bought shall be transferred to the capital redemption reserve account and the details of such transfer shall be disclosed in the balance sheet of the company. And, the section 70lists down the circumstances under which buyback of shares prohibited.

10) Trend in the Buyback of Equity

The following table shows the number of buyback programs announced by the companies under the tender offer method and the open market repurchases method from 1998 -99 to 20 22-23;

Table No. 10
Number of Buyback Announcements from 1998 -99 to 2022-23

Year	No. of Tender Offers	No. of Open Market Repurchases	Total No. of Buybacks
1998-99	00	01	01
1999-00	01	09	10
2000-01	04	12	16
2001-02	03	17	20
20022-03	05	28	33
2003-04	04	24	28
2004-05	11	01	12
2005-06	04	10	14
2006-07	03	05	08
2007-08	07	03	10
2008-09	09	37	46
2009-10	03	22	25
2010-11	04	15	19
2011-12	01	28	29
2012-13	02	18	20
2013-14	06	19	25
2014-15	02	03	05
2015-16	10	02	12
2016-17	39	10	49
2017-18	54	04	58
2018-19	45	18	63
2019-20	43	13	56
2020-21	40	19	59
2021-22	08	05	13
2022-23	00	00	00
Total	308	323	631

Sources: SEBI Status Report on Buyback and Money Control.com

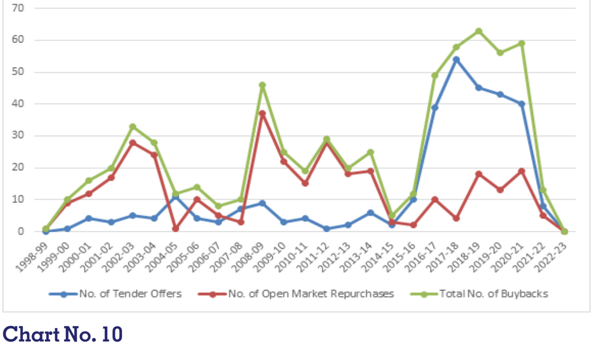

Chart No. 10

From the above table and chart, it is clear that the number of stock buybacks increased from 01 in1998-99 to 631 in 2022-23 with an average of 25 buyback of shares per year over a period of 25 years. There was only 01 buyback when the concept of buyback allowed in India in 1998-99 but it rose to 63 share buybacks in 2018-19. Similarly, the number of buybacks under tender offer method has gone up from zero buybacks in 1998-99 to 308 stock buybacks in 2022-23 and the number of buyback of shares by open market repurchases method has increased from 01 in 1998-99 to 323 buybacks in 2022-23. This indicates that the number of buyback of shares under both the methods has increased continuously (except some years) during the period of 25 years.

The above table and chart also depict that there is a shift in the method of buyback from the open market method to the tender offer method from 2013 onwards. This might be due to the condition of a minimum of 50% of buyback corpus shall be bought back by the buyback company. As a result, the number of share buybacks under the tender offer method has increased as compared to the open market repurchases method (marked area in the table). This might be also possible that the companies were attempting to help the Covid lockdown affected shareholders to exit the company with a handful of profit.

11) CONCLUSION

At the end, the paper finds that there is a shift in the method of buyback from the open market method to the tender offer method. This study finally concludes that the number of share buyback in India increased gradually over a period of 25 years.

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