



## An Analysis of Buyback Prices in India

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### ABSTRACT

Share buyback is an important tool for corporate restructuring and financial research especially in India. Share buyback is the reverse trend for price declining. This paper examines the share buyback practices in India and price reaction during the buyback program and announcements. This study shows the effects of share buyback prices of the company which is not always good. This paper reveals that pre buyback, during and post buyback announcement share prices of the company.

**KEYWORDS :** share buyback, announcement effect, pre-buyback effect, post-buyback effect, earning per share.

### INTRODUCTION

Buyback means repurchase of its own shares by a company. Before 1998 there was no buyback of share in India. After Companies Act 1999, Indian companies were started to buyback in company. The companies like Reliance Industries, Ashok Leyland and Bajaj these kind of big concerns are started their share repurchase in India. Companies believed that buyback will be financially benefited in many ways like if the company distributed excess cash and it maintains its operating efficiency and earning per share will increase. The share price will also be increase as P/E Ratio is expected the same after the buyback and another importance increased debit equity ratio due to reduced equity capital.

A Company which has very low debt equity ratio may like to reduce equity capital through the buyback mechanism to achieve a higher target debt equity mix. The other reason for company buyback program like to use surplus cash, to buyback shares rather than pay large dividends, which they cannot maintain in the future years. In those countries, where dividends are taxed at a higher rate than the capital gains, companies may like to resort to shares buyback from time to time reduce shareholders tax burden.

There are several conditions for share repurchase in India.

- A company buying back its shares will not issue fresh capital, except bonus issue, for next 12 months.
- The company will state the amount to be used for the buyback of shares and seek prior approval of shareholders.
- The buyback of shares can be affected only by utilizing the free reserves.
- The company will not borrow funds to buyback.
- The shares bought under the buyback schemes will be extinguished and they cannot be reissued.

### Review of Literature

Kai Li and William McNally (2007), Firms initiate the share repurchase program in Canada open market for reasons was company claims their shares were undervalued and it showed that less positively to share repurchase announcements in Canada. Vermaelen (1981) revealed the share repurchase offered a share through tender offer method and that provides the positive information to shareholders that the share price is undervalued. Bratov Eli, (1998) examined announcing of buyback in the period of 1986-1992 this study highlighted undervaluation is one of the factor to motivate the share repurchase program.

Many previous studies are examined that share repurchase happens due to share price is undervaluation and signaling to the investors. M Kahle finds that share repurchase announcements when companies have more number of outstanding shares and when employees have more number of options currently exercisable. Company decides

to share repurchase that is positively related to options exercisable by all employees by all employees and company has self-governing of managerial options. Grullon and Ikenberry (2000) find that some countries buyback activities and market price activities are inversely related to each other. It means whenever share price falls down automatically buyback share price rise.

Yook and Gangopadhyay studied that share repurchase announcement in SDC Platinum period between 1994 and 2007 examined that firms give shareholder value in various methods in the form of distributing cash to shareholders, changing leverage ratio in capital structure these all are to avoid dividends and agency cost.

PurnimaP.Jariwala (2011) analyzed the effect of share price variations in share repurchase program or announcement of opening date to closing date. 67% of the companies increase their share price after buyback than before buyback. Raju (2013) share repurchase is not observed as an important mechanism of distributing excess cash in India, it is very difficult to arrive relating to dividend substitution effect in India compared to US. Voss 2012, the main aim of this paper why companies are going for share repurchase program several reasons are behind that buyback. This author focused mainly undervaluation of shares. Firms and internal investors knows that share price than outside investors so firms gets informational advantage for buyback it share price is below the true value.

### RESEARCH METHODOLOGY

Samples are collected from Securities Exchange Board of India (SEBI) and Bombay Stock Exchange (BSE) used only Open Market Announcement dates between January 2012 and May 2014 resulting in a sample 56 companies is selected for sampling.

### RESEARCH OBJECTIVES

- To analyze the impact of share price changes before and after buyback.
- To analyze the impact of share price changes before and during buyback.

### DATA ANALYSIS AND INTERPRETATION

Mean share prices before and after buyback of shares in the year of 2012-14

S.No	Company	Post	Pre	Difference %
1	Amtek Auto Limited	110.00	101.38	8.50
2	Valiant Communications Limited	15.31	14.26	7.36
3	Reliance Industries Limited	908.68	795.45	14.23
4	Geecee Ventures Limited	43	39.3	9.41

5	Gemini Communication Limited	23.21	20.17	15.07
6	Ansal Housing & construction Limited	17.09	12.32	38.71
7	De Nora India Limited	119.45	80.32	48.71
8	Kirloskar Oil Engine Limited	205.63	142.38	44.42
9	Bhagya Nagar India Limited	13.42	14.34	-6.41
10	Zee Entertainment Enterprise Limited	128.83	129.83	-0.77
11	Rain Commodities Limited	47.67	43.13	-12.82
12	Praj Industries Limited	68.77	71.89	-4.33
13	Sasken Communication Technologies Limited	133.25	112.67	18.26
14	Accleys Kale Solutions	125.5	135.66	8.09
15	LKP Finance Limited	59.8	56.5	5.84
16	Allcargo Logistics Limited	92.72	130.97	-29.20
17	Onmobile Global Limited	35.69	61.51	-41.97
18	Tips Industries Limited	51.37	56.75	-9.48
19	Softsol India Limited	68.62	59.10	16.10
20	Mastek Limited	154.77	131.33	0.897
21	Indiabulls Real Estate Limited	73.43	62.14	18.65
22	Borosil Glass Works Limited	845.39	788.60	7.20
23	Selan Exploration Technologies Limited	264.19	331.7	20.35
24	FDC Limited	83.24	85.55	-2.70
25	Konoria Chemicals and Industrials Limited	29.14	26.92	8.24
26	United Phosphorus Limited	151.28	117.87	28.34
27	Alliance Integrated Metaliks Limited	152.72	170.00	11.31
28	Avantel Limited	61.58	65.61	-6.14
29	Crompton Greaves Limited	115.27	89.31	29.06
30	ECE Industries Limited	124.57	121.36	2.64
31	Eclerx Service Limited	1284.09	776.32	65.40
32	FDC Limited	83.24	88.65	-6.10
33	Garware Wall Ropes Limited	66.74	46.57	43.31
34	Geecee Ventures Limited	43.00	39.3	9.41
35	Gradient Infotainment Limited	0.61	6.77	-90.9
36	Great Eastern Shipping Company	311.22	253.04	22.99
37	Great Eastern Shipping Company	313.51	245.82	27.53
38	HT Media Limited	103.93	99.04	4.93
39	JBF Industries Limited	70.34	90.75	-22.49
40	JINDAL STEEL & POWER LIMITED	265.89	236.5	12.42
41	JK Lakshmi Cement Limited	133.47	64.15	108.05
42	Kanoria Chemicals and Industries Ltd	34.32	34.40	-0.23
43	Kirloskar Oil Engine Limited	206.68	142.61	44.92
44	KRBL Limited	45.08	24.35	85.13
45	Maharashtra Seamless Limited	246	222	10.8
46	Mastek Limited	146.08	131.33	11.23
47	Nitin Fire Protection Industries Limited	51.88	54.02	-3.96
48	Panama Petrochem limited	145.45	134.23	8.35
49	Sasken Communication Technologies Limited	133.25	112.67	18.26
50	Shri Dinesh Mills Limited	85.1	71.65	18.77
51	SMS Pharmaceuticals Limited	208.83	229.66	-9.06
52	SMS Pharmaceuticals Limited	283.81	229.66	23.57
53	Tips Industries Limited	66.65	56.75	17.44
54	Valliant Communication Limited	15.31	14.04	9.04
55	Vardhaman Acrylics Limited	12.25	8.4	45.83
56	ZEE Enterprise Private Limited	206.37	125.1	64.96
57	Zen Technologies Limited	65.41	82.9	-21.09

#### INFERENCE

The above table shows that mean of share prices before 10 days of Buyback and after 10 days Buyback. It revealed that means share prices increased nearly 39 companies i.e., 68% as compared with before Buyback. In addition JK Lakshmi Cement Limited increased share price more than 100% their price 108.05 after Buyback. Remaining 18

Companies were decreased the share price after buyback but their share price is very high in before buyback comparatively with after Buyback.

#### Mean of share price pre and during the buyback of shares in the year 2012-14

S.No	Company	Pre (A)	During (B)	Difference % B-A/A-*100
1	Amtek Auto Limited	101.38	121.46	19.80
2	Valiant Communications Limited	14.26	17.08	19.77
3	Reliance Industries Limited	795.45	778.66	-2.11
4	Geecee Ventures Limited	39.3	43.99	11.93
5	Gemini Communication Limited	20.17	23.21	15.07
6	Ansal Housing & construction Limited	12.32	15.07	22.32
7	De Nora India Limited	80.32	93.94	16.95
8	Kirloskar Oil Engine Limited	142.38	165.90	16.51
9	Bhagya Nagar India Limited	14.34	14.35	0.069
10	Zee Entertainment Enterprise Limited	129.83	121.82	-6.16
11	Rain Commodities Limited	43.13	37.60	-12.82
12	Praj Industries Limited	71.89	80.14	11.47
13	Sasken Communication Technologies Limited	112.67	127.09	12.79
14	Accelya Kale Solutions Limited	135.66	132.07	-2.64
15	LKP Finance Limited	56.5	60.80	7.61
16	Allcargo Logistics Limited	130.97	126.04	-3.76
17	Onmobile Global Limited	61.51	61.16	-0.56
18	Tips Industries Limited	56.75	66.19	16.63
19	Softsol India Limited	59.10	64.03	8.34
20	Mastek Limited	131.33	132.43	0.83
21	Indiabulls Real Estate Limited	62.14	58.08	-6.53
22	Borosil Glass Works Limited	788.60	853.19	8.19
23	Selan Exploration Technologies Limited	331.7	278.56	-16.02
24	FDC Limited	85.55	90.00	5.20
25	Konoria Chemicals and Industrials Limited	26.92	34.17	26.93
26	United Phosphorus Limited	117.87	122.91	4.27
27	Alliance Integrated Metaliks Limited	152.72	158.15	3.55
28	Avantel Limited	65.61	57.63	-12.16
29	Crompton Greaves Limited	89.31	102.32	14.56
30	ECE Industries Limited	121.36	115.86	-4.53
31	Eclerx Service Limited	776.32	1046.07	34.74
32	FDC Limited	88.65	90.00	1.52
33	Garware Wall Ropes Limited	46.57	55.50	19.17
34	Geecee Ventures Limited	39.3	43.99	11.93
35	Gradient Infotainment Limited	6.77	2.615	-61.44
36	Great Eastern Shipping Company	253.04	290.41	14.76
37	Great Eastern Shipping Company	245.82	287.68	17.02
38	HT Media Limited	99.04	86.30	-12.86
39	JBF Industries Limited	90.75	79.26	-12.66
40	JINDAL STEEL & POWER LIMITED	236.5	251.17	6.20
41	JK Lakshmi Cement Limited	64.15	100.42	56.53
42	Kanoria Chemicals and Industries Ltd	34.40	37.40	8.72
43	Kirloskar Oil Engine Limited	142.61	166.20	16.54
44	KRBL Limited	24.35	27.15	11.49
45	Maharashtra Seamless Limited	222	184.92	-16.70
46	Mastek Limited	131.33	144.71	10.18
47	Nitin Fire Protection Industries Limited	54.02	58.50	8.29
48	Panama Petrochem limited	134.23	131.33	-2.16
49	Sasken Communication Technologies Limited	112.67	127.09	12.79
50	Shri Dinesh Mills Limited	71.65	78.83	10.02
51	SMS Pharmaceuticals Limited	229.66	243.20	5.89
52	SMS Pharmaceuticals Limited	229.66	209.69	-8.69

53	Tips Industries Limited	56.75	71.50	25.99
54	Valliant Communication Limited	14.04	16.50	17.52
55	Vardhaman Acrylics Limited	8.4	11.17	32.97
56	ZEE Enterprise Private Limited	125.1	181.55	45.12
57	Zen Technologies Limited	82.9	67.50	-18.57

### INFERENCE

The above table shows that mean of share prices during and before buyback. 40 Companies (70%) the mean share prices during buyback increased more than mean share price before buyback. Remaining 17 companies (30%) decreased the mean of share comparatively with before buyback. This hypothesis showed whether buyback activities results in increase share price after opening of the offer which results in increasing shareholders wealth or decrease in share prices leading to a decrease in shareholders wealth.

### CONCLUSION

This study reveals that price difference between before and after buyback of shares. The results showed that prices are vary from company to company but most of the company price increased during the buyback than before and after. Finally open market share repurchase program indicates signaling to investors regarding their share prices.

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