



Share Buybacks: An Analytical Study of Announcement Effect on stock prices in India

KEYWORDS

Carbon nanotubes, SEM ,VSM, TGA DTA,DSC Albumin

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Introduction:

From generations, the Efficient Market Hypothesis is a widely accepted theory by the academic community. Eugene Fama (1970) in his influential article, "Efficient Capital Markets" stated that securities market were extremely efficient in reflecting information be it any kind of information i.e. past, public or insider information. The view was that when information arises, the news spreads very quickly and is incorporated into the prices of securities without delay. Thus, neither technical analysis, which is the study of past stock prices in an attempt to predict future prices, nor fundamental analysis, which is the analysis of financial information such as company earnings and asset values to help investors select stocks, would enable an investor to achieve returns greater than those that could be obtained by holding a randomly selected portfolio of individual stocks, at least not with comparable risk.

Criticisms against EMH:

Most fund managers find it difficult to generate 'market beating returns' over a long term with consistency. Institutional investors, including pension funds, in developed markets are found to subscribe to the concept and invest in index funds with a view to earning market returns in the long run. However, the active fund managers do not subscribe to EMH. Warren Buffett, the most successful investor, emerges as a key challenge to the believers of EMH as he has constantly outperformed the markets over a longer tenure. There is one more point the active fund managers have here. The EMH has no explanation for drastic falls in the markets. Extreme pessimism and extreme optimism seen within a short period of time question the efficiency of the market, if the market is indeed efficient.

The debate may continue. An investor, however, has to take a stance. In India, the lesser depth of markets in comparison with those in the developed world and information asymmetry make outperformance a possibility. The number of outperformers and the extent of outperformance may, however, keep coming down as the markets develop.

Testing of market efficiency by studying buyback of shares:

In this research paper, "Buyback Announcement of Shares" is considered as relative information or Corporate Announcement for understanding the possible impact of public/new

information.

The Buyback refers to repurchase of outstanding shares by a company in order to reduce the number of shares in the market. Companies will 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 themselves. Indian companies have been permitted to buy back shares after the provisions of the Companies Act 1956 were suitably amended in 1999. Several studies have provided conclusive proof of signaling effect of stock repurchase announcements.

Period of Study:

The study entails a period between FY 2007-08 to FY 2010-11, a justifiable period as market has witnessed ups and downs in the form of financial crisis, recovery, currency depreciation etc.

Sample Selection:

The sample consists of stock repurchase announcements made between FY 2007-08 to FY 2010-11. A total of six repurchase announcements have been identified which are presented below:

S. No.	Year	Corporate
1	2007	Hindustan Unilever Ltd
2	2008	DLF Ltd
3	2008	Godrej Consumer Products Ltd
4	2008	Bosch Ltd
5	2009	Reliance Infrastructures Ltd
6	2010	Hindustan Unilever Ltd

Methodology of Study:

To test market efficiency, standard event-study procedures are used to calculate CAR with 5-day pre-CAR and 5-day post - CAR.

Data Analysis:

In order to calculate expected returns of stocks during the announcement period, single index model is used. Beta is obtained by regressing the daily stock return with the index return.

Table 1.1 Hindustan Unilever Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 2	8/10/2007	220.75	-0.518251465	17491.39	-1.586475489	
Day 3	9/10/2007	224.3	1.60815402	18280.24	4.509933173	Beta .817
Day 4	10/10/2007	224.05	-0.111457869	18658.25	2.067861253	Alpha - .520
Day 5	11/10/2007	225.85	0.8033921	18814.07	0.835126553	Rm - 12%
Event Day	12/10/2007	221.25	-2.036750055	18419.04	-2.099652016	Ri - .618
Day 7	15/10/2007	219.3	-0.881355932	19058.67	3.472656555	
Day 8	16/10/2007	212.95	-2.895576835	19051.86	-0.035731769	
Day 9	17/10/2007	209.4	-1.667057995	18715.82	-1.763817286	
Day 10	18/10/2007	210.4	0.477554919	17998.39	-3.833281149	
Day 11	19/10/2007	205.75	-2.210076046	17559.98	-2.435828982	

Table 1.2 DLF Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 1	26/9/2008	369.65		13102.18		
Day 2	29/9/2008	350.35	-5.221155147	12595.75	-3.86523464	Beta - .230
Day 3	30/9/2008	352.65	0.656486371	12860.43	2.101343707	Alpha (-.724)
Day 4	1/10/2008	345.3	-2.084219481	13055.67	1.518145194	Rm - 9%
Day 5	3/10/2008	336.35	-2.59194903	12526.32	-4.054560203	Ri - (-.703)
Event Day	6/10/2008	301.45	-10.37609633	11801.70	-5.784779568	
Day 7	7/10/2008	303.15	0.563940952	11695.24	-0.90207343	
Day 8	8/10/2008	308.85	1.880257298	11328.36	-3.137002746	
Day 9	10/10/2008	281.9	-8.725918731	10527.85	-7.066424443	
Day 10	13/10/2008	302.3	7.236608726	11309.09	7.420698433	
Day 11	14/10/2008	311.15	2.927555409	11483.4	1.54132649	

Table 1.3 Godrej Consumer Products Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 1	24/11/2008	116.95		8903.12		
Day 2	25/11/2008	119.95	2.565198803	8695.53	-2.331654521	Beta .064
Day 3	26/11/2008	121.65	1.41725719	9026.72	3.808738513	Alpha - .195
Day 4	28/11/2008	117.75	-3.205918619	9092.72	0.731162593	Rm - 6%
Day 5	1/12/2008	121.25	2.972399151	8839.87	-2.780796065	Ri - .199
Event Day	2/12/2008	117.7	-2.927835052	8739.24	-1.138365157	
Day 7	3/12/2008	121	2.803738318	8747.43	0.093715243	
Day 8	4/12/2008	127.2	5.123966942	9229.75	5.513848067	
Day 9	5/12/2008	125.6	-1.257861635	8965.2	-2.866274818	
Day 10	8/12/2008	121.35	-3.383757962	9162.62	2.202070227	
Day 11	10/12/2008	119.4	-1.606922126	9654.9	5.372699075	

Table 1.4 Bosch Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 1	2/12/2008	2886.75		8739.24		
Day 2	3/12/2008	2936.4	1.719927254	8747.43	0.093715243	Beta .520
Day 3	4/12/2008	2998.75	2.123348318	9229.75	5.513848067	Alpha(-.04)
Day 4	5/12/2008	2937.55	-2.040850354	8965.2	-2.866274818	Rm - 6%
Day 5	8/12/2008	2977.2	1.349764259	9162.62	2.202070227	Ri (-.0102)
Event Day	10/12/2008	3107.75	4.384992611	9654.9	5.372699075	
Day 7	11/12/2008	3149.65	1.348242297	9645.46	-0.097774187	
Day 8	12/12/2008	3069.35	-2.549489626	9690.07	0.462497382	
Day 9	15/12/2008	3053.3	-0.522912017	9832.39	1.46872004	
Day 10	16/12/2008	3050.2	-0.101529493	9976.98	1.470547853	
Day 11	17/12/2008	3037.75	-0.408169956	9715.29	-2.622938003	

Table 1.5 Reliance Infrastructures Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 1	12/2/2009	550.15		9465.83		
Day 2	13/2/2009	569.85	3.580841589	9634.74	1.784418271	Beta 1.7
Day 3	16/2/2009	533.25	-6.422742827	9305.45	-3.417736234	Alpha (-.036)
Day 4	17/2/2009	518.9	-2.691045476	9035	-2.906361326	Rm -7 %
Day 5	18/2/2009	501.25	-3.401426094	9015.18	-0.21936912	Ri
Event Day	19/2/2009	508.4	1.426433915	9042.63	0.304486433	
Day 7	20/2/2009	489.95	-3.629032258	8843.21	-2.205331856	
Day 8	24/2/2009	489.25	-0.142871722	8822.06	-0.239166547	
Day 9	25/2/2009	506.85	3.597342872	8902.56	0.912485293	
Day 10	26/2/2009	509.4	0.503107428	8954.86	0.587471469	
Day 11	27/2/2009	491.05	-3.602277189	8891.61	-0.706320367	

Table 1.6 Hindustan Unilever Ltd

Days	Date	Closing price	Daily return	Index Closing	Index Return	
Day 1	9/8/2010	256.05		18287.5		
Day 2	10/8/2010	260.2	1.620777192	18219.99	-0.369159262	Beta .445
Day 3	11/8/2010	261.25	0.403535742	18070.19	-0.822173887	Alpha .47
Day 4	12/8/2010	266	1.818181818	18073.9	0.020531051	Rm -12%
Day 5	13/8/2010	265.8	-0.07518797	18167.03	0.515273405	Ri - .520
Event Day	16/8/2010	269.9	1.542513168	18050.78	-0.639895459	
Day 7	17/8/2010	265.65	-1.57465728	18048.85	-0.010692059	
Day 8	18/8/2010	269.25	1.355166573	18257.12	1.153923934	
Day 9	19/8/2010	274.05	1.782729805	18454.94	1.083522483	
Day 10	20/8/2010	268.9	-1.879219121	18401.82	-0.287836211	
Day 11	23/8/2010	268.85	-0.018594273	18409.35	0.040919866	

Interpretation:

Analysis of abnormal return of Hindustan Unilever Ltd reveals that the prices start falling gradually before event day and continues to remain negative post event too. This shows that the news of buyback already gets reflected in prices.

In case of DLF Ltd pre event reactions show that market was able to capture the buy back announcement information. However, post announcement reactions show that market is not able to capture the information fully.

There is a sharp negative reaction on the day of the announcement which post the announcement day gets adjusted. Therefore, is not reflective of buy back announcement information pre as well as post events.

There is some abnormal return (4.3%) on the day of the event which settles down post the event day.

The data shows that there is minimal abnormal return (1.34%) on the day of the event.

Conclusion:

The above analysis reveals the fact that market has not absorbed the buy back announcement information around the information days. The returns generated post the announcement day are proof of the fact that there is drift of returns from the event day. But these reaction existed only for a day or two after which the extent of positive or negative reactions started settling. A possible explanation is that market reaction to announcements such as buy back is complete within a day or two in Indian markets. The short term effects of these announcements are consistent with the earlier works with abnormal returns. Investors therefore must view repurchase announcements as a means of short term gain and not a viable strategy for significant long-term abnormal gain or loss.

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