

A Study on the Influence of Buyback on the Operating Efficiency of the Company.



Finance

KEYWORDS : Buyback, equity, repurchase, share.

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INTRODUCTION

Share buyback referred to as equity buyback or share repurchase in the USA, are now possible in India before 1998 the law in India did not permit to share repurchase. Many companies are start buyback in India like Reliance Industries, Bajaj Auto Limited and Ashok Leyland. Many of the companies like to follow suit. Indeed if one goes by the experience of US where 100 of companies have an active vigorous equity repurchase programme, India too high-lighted actively participate in Share repurchase.

METHODS OF SHARE BUYBACK

In India Shares are offered through three methods i.e., Open Market, Tender Method and Fixed Price Method.

Open Market Purchase Method:

A company buys shares from the secondary market over a period of one year subject to a maximum price fixed by the management. Companies are like to now have a distinct preference for the open market purchase method as it given them better elasticity with respect time and price.

Tender Method

Under this method a company offers to buy back shares at a specific price during a specified period which is usually one month.

RESEARCH METHODOLOGY

Tools for Analysis

Ratio Analysis

Ratios are invaluable aids to management and others who are interested in the analysis and interpretation of financial statements. Absolute figures may be misleading unless compared, one with another. Ratios provide the means of showing the relationship that exists between figures.

Liquidity and Solvency Ratio

Current ratio is measured as a ratio between current assets and current liabilities. It is used for ability to meet short-term obligations and safety to creditors.

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Net profit Ratio

Net profit ratio indicates the profitability generated from income and hence is an important measure of operating efficiency of the company. The net profit margin ratio of a company is indicative of management's ability to operate the business with sufficient success to leave a reasonable compensation to the owners for providing their capital at risk.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

Return on Net worth Ratio

This ratio is one of the most important ratios used for measuring the overall efficiency of a firm. This ratio is of great important to the present and prospective shareholders as well as the management of the company.

Earnings per share

$$\text{Return on Networth} = \frac{\text{Net Profit}}{\text{Networth}} \times 100$$

This ratio indicates the amount of earnings per share. Higher the ratio better is the earnings of the shareholders. Moreover, a comparison between the earnings of the company for two different years indicates the increase or decrease in earnings per share.

Book Value

$$\text{Earnings per share} = \frac{\text{Net Profit} - \text{Preferred Dividend}}{\text{No. of Shares Outstanding}}$$

The book value is what each share is worth at the book value of the enterprise. Book Values are generally historic costs of the assets less depreciation provided cumulatively. Calculating book value per share is

Total shareholder's equity-preferred stock/No. of equity shares outstanding

Market price of the equity share may be above or below the book price of the shares depending on the confidence of the market in the company.

RESEARCH OBJECTIVES

- To find the duration of buyback period in stock exchange for the year 2012.
- To study of share buyback on operating efficiency performance of the company.
- To analyse the effect of buyback of shares on shareholders wealth (whether it is pre or post)

REVIEW OF LITERATURE

Jensen (1986) mentioned that when excess cash flow in company is ready to stock buyback and it shows that there is positive relationship between repurchase and cash flow. Comment and Jarrell (1991) find that signaling hypothesis would imply that buyback to get benefits from repurchase when their share is undervalued. Vermaelen (1981) finds that signaling hypothesis showed undervaluation of stock. Li and McNally (1999) said comparing with repurchasing company and non-repurchasing company more free cash flow hypothesis in repurchasing company. Raju L (2008) buyback is an indicator of company free cash flow, under valuation and market reaction in India.

DATA ANALYSIS AND INTERPRETATIONS

Table 1 Dates of Company Buyback

S.No	BSE Code	Name of Company	Opening Date	Closing Date
1	520077	Amttek Auto Limited	Jan-16-2012	June-28-2012
2	526775	Valiant Communications Limited	Jan-18-2012	Dec-20-2012
3	500325	Reliance Industries Limited	Feb-01-2012	Jan-19-2013

4	532764	Geecee Ventures Limited	Feb-09-2012	Jan-08-2013
5	532318	Gemini Communication Limited	Jan-30-2012	Apr-30-2012
6	507828	Ansal Housing & construction Limited	Jan-23-2012	Nov-30-2012
7	590031	De Nora India Limited	Dec-01-2011	Feb-15-2012
8	533293	Kirloskar Oil Engine Limited	Mar-01-2012	Jan-24-2013
9	512296	Bhagya Nagar India Limited	Nov-25-2012	Mar-09-2013
10	505537	Zee Entertainment Enterprise Limited	Jul-27-2011	Mar-23-2012
11	500339	Rain Commodities Limited	Nov-14-2011	Mar-29-2012
12	522205	Praj Industries Limited	Dec-26-2011	Apr-24-2012
13	532663	Sasken Communication Technologies Limited	May-21-2012	Apr-22-2013
14	532268	Kale Consultants Limited	Feb-21-2012	May-2-2012
15	507912	LKP Finance Limited	June-18-2012	May-28-2013
16	532749	Allcargo Logistics Limited	Jul-04-2012	June-19-2013
17	532944	Onmobile Global Limited	Sep-30-2011	June-21-2012
18	532375	Tips Industries Limited	Aug-14-2012	Jul-24-2013
19	532344	Softsol India Limited	Nov-24-2011	Sep-30-2012
20	523704	Mastek Limited	Nov-26-2012	Oct-31-2013

Table 2
Current Ratio

S.No	Company Name	Before (2011) Buyback	After (2013) Buyback	Diff %
1	Amtek Auto Limited	7.68	1.26	-83.6
2	Valiant Communications Limited	15.42	13.07	-18.0
3	Reliance Industries Limited	1.16	1.43	23.3

4	Geecee Ventures Limited	2.89	9.82	24.0
5	Gemini Communication Limited	1.16	1.00	-13.8
6	Ansal Housing & construction Limited	1.88	1.39	-26.1
7	De Nora India Limited	1.82	1.67	-82.4
8	Kirloskar Oil Engine Limited	1.21	1.20	-82.26
9	Bhagya Nagar India Limited	8.46	7.06	-10.2
10	Zee Entertainment Enterprise Limited	3.71	4.22	13.7
11	Rain Commodities Limited	1.42	2.04	43.7
12	Praj Industries Limited	1.26	1.21	-39.7
13	Sasken Communication Technologies Limited	2.73	2.93	73.3
14	Kale Consultants Limited	3.46	1.62	-53.2
15	LKP Finance Limited	1.22	0.96	-21.3
16	Allcargo Logistics Limited	2.65	0.83	-68.7
17	Onmobile Global Limited	1.41	1.49	56.7
18	Tips Industries Limited	3.22	1.10	-65.8
19	Softsol India Limited	8.56	8.93	43.2
20	Mastek Limited	1.48	2.12	43.2

Interpretation

% Difference = % difference in current ratio before buy-back and after buy-back

Current ratio of a firm to measure short-term solvency i.e., to meet short term obligation and safety to creditors.share repurchase affects liquidity position of company. Current ratio indicates that liquidity position of the company. 40% of the company current ratio increase after buyback. Remaining 60% of companies declines the after buyback.

Table 3 Net Profit Ratio

S.No	Company Name	Before Buyback	After Buyback	Diff %
1	Amtek Auto Limited	4.7	11.88	15.3
2	Valiant Communications Limited	2.27	2.91	22.8
3	Reliance Industries Limited	8.08	5.70	-29.4
4	Geecee Ventures Limited	42.37	35.24	-22.3
5	Gemini Communication Limited	3.09	1.41	14.5

6	Ansal Housing & construction Limited	10.90	8.72	-20
7	De Nora India Limited	16.87	20.26	20
8	Kirloskar Oil Engine Limited	7.19	8.29	15.2
9	Bhagya Nagar India Limited	5.35	1.92	-64.1
10	Zee Entertainment Enterprise Limited	25.80	23.86	-7.5
11	Rain Commodities Limited	9.69	34.43	25.5
12	Praj Industries Limited	9.25	8.75	-5.4
13	Sasken Communication Technologies Limited	22.25	9.35	-57.9
14	Kale Consultants Limited	7.69	16.58	11.6
15	LKP Finance Limited	49.80	19.48	-60
16	Allcargo Logistics Limited	16.79	10.67	-36.4
17	Onmobile Global Limited	19.73	5.01	-74.6
18	Tips Industries Limited	4.47	8.39	87.4
19	Softsol India Limited	29.43	23.58	-19.8
20	Mastek Limited	0.33	7.00	20.2

Interpretation

% Difference = % difference in net profit ratio before buy-back and after buy-back

It revealed that 40 percent companies were get more profit after buyback that 60 percent remaining companies less net profit after buyback. It shows that they invest more money in buyback they cannot recover their money within a year.

Table 4 Earnings per share

S.No	Company Name	Before Buyback	After Buyback	Difference %
1	Amtek Auto Limited	3.51	13.22	27.7
2	Valiant Communications Limited	0.25	0.35	24
3	Reliance Industries Limited	65.05	61.97	-4.7
4	Geecee Ventures Limited	3.60	3.29	-8.6
5	Gemini Communication Limited	0.92	0.16	-8.2

6	Ansal Housing & construction Limited	16.71	19.20	14.9
7	De Nora India Limited	8.78	25.07	185.5
8	Kirloskar Oil Engine Limited	11.93	13.75	15.2
9	Bhagya Nagar India Limited	1.49	0.64	-57
10	Zee Entertainment Enterprise Limited	5.89	6.72	14.09
11	Rain Commodities Limited	0.84	1.65	9.6
12	Praj Industries Limited	2.89	3.73	29.06
13	Sasken Communication Technologies Limited	34.25	17.20	-49.78
14	Kale Consultants Limited	8.39	21.05	15.1
15	LKP Finance Limited	19.97	5.47	-72.6
16	Allcargo Logistics Limited	9.28	9.14	-1.5
17	Onmobile Global Limited	15.54	2.31	-85.1
18	Tips Industries Limited	1.87	7.61	306.95
19	Softsol India Limited	2.34	2.11	-9.8
20	Mastek Limited	-0.50	12.25	250

Interpretation

% Difference = % Difference between EPS before and after buy-back

Earnings per share indicates the profit available of company. It is revealed that 45 percent of the company increase EPS after buyback. 55 percent of companies were declines their EPS after buyback.

Table 5 Book Value

S.No	Company Name	Before Buyback	After Buyback	Diff %
1	Amtek Auto Limited	182.94	198.75	86.4
2	Valiant Communications Limited	39.13	39.81	1.7
3	Reliance Industries Limited	446.25	557.49	24.9
4	Geecee Ventures Limited	121.28	145.64	16.7
5	Gemini Communication Limited	11.34	16.32	43.9
6	Ansal Housing & construction Limited	153.07	187.21	22.3

7	De Nora India Limited	47.82	63.45	32.6
8	Kirloskar Oil Engine Limited	61.07	79.82	30.7
9	Bhagya Nagar India Limited	33.73	33.08	-1.9
10	Zee Entertainment Enterprise Limited	29.69	35.15	18.3
11	Rain Commodities Limited	10.73	10.74	9.32
12	Praj Industries Limited	30.25	32.01	5.8
13	Sasken Communication Technologies Limited	154.52	176.21	14.0
14	Kale Consultants Limited	81.71	70.97	-13.1
15	LKP Finance Limited	117.16	125.13	6.8
16	Allcargo Logistics Limited	74.92	92.96	24.0
17	Onmobile Global Limited	138.54	73.26	-47.1
18	Tips Industries Limited	49.80	57.21	14.8
19	Softsol India Limited	103.45	107.60	4.01
20	Mastek Limited	140.16	155.20	10.7

Interpretation

% Difference = % difference in book value before buy-back and after buy-back

Book value per stock is the par value of any preferred stock in many stocks. If book value increase of share indicates the shareholder's wealth. The above table reveals that 85percent of the companies increase their book value after buyback.

Table 6 Return on Network Ratio

S.No	Company Name	Before Buyback	After Buyback	Difference %
1	Amtek Auto Limited	1.91	6.65	2.48
2	Valiant Communications Limited	--	--	--
3	Reliance Industries Limited	13.42	11.66	-13.1
4	Geecee Ventures Limited	--	2.27	--
5	Gemini Communication Limited	8.08	-0.97	-112.0
6	Ansal Housing & construction Limited	10.91	10.25	-6.04
7	De Nora India Limited	13.61	20.26	48.8
8	Kirloskar Oil Engine Limited	19.53	17.22	-11.8
9	Bhagya Nagar India Limited	3.52	1.94	-44.8

10	Zee Entertainment Enterprise Limited	19.85	19.10	-3.7
11	Rain Commodities Limited	7.86	15.36	9.54
12	Praj Industries Limited	9.56	11.65	21.8
13	Sasken Communication Technologies Limited	--	--	--
14	Kale Consultants Limited	10.26	29.65	18.9
15	LKP Finance Limited	17.04	4.36	-74.4
16	Allcargo Logistics Limited	12.38	9.83	-20.5
17	Onmobile Global Limited	11.22	3.15	-71.9
18	Tips Industries Limited	3.75	13.30	254.6
19	Softsol India Limited	3.22	--	--
20	Mastek Limited	-0.35	7.89	-2354.2

Interpretation

% Difference = % difference in return on net worth before buy-back and after buy-back

Return on net worth ratio is the important ratio to determine overall efficiency of current shareholders and management of the company. It reveals that only 5 companies have more net worth ratio their overall efficiency of the company is satisfied. And 4 Companies there is no net worth ratio and 11 companies were decline net worth ratio after buyback of the company.

CONCLUSION

This study reveals that share repurchase Influences Company's operating efficiency measured by the solvency ratios, EPS and Book Value of shares. In addition those results are Solvency ratios are decreases the value after buyback. And Earnings per share also decline the value after buyback. Most of the company book value of share increased after buyback. Return on net worth ratio indicates the overall efficiency of existing shareholders of the company. Mostly companies return on net worth ratio declines after buyback and some companies increases the return on net worth after buyback.

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