

A Trend Analysis of Buyback Prices of listed companies in India

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Abstract- Share buyback is an important tool for restructuring financial position in security market. Share buyback is the process of reverse buying of own share of listed entity from equity holders. This paper examines the share buyback pattern in security market in India and its comparative study of pre and post buyback effect over a future period of time prices of the company and its effect over the company. The objective of this paper is to study the impact of pre and post buyback prices.

Indexed Terms- buyback, buyback period, pre-buyback effect, post-buyback effect, offer for buyback

I. INTRODUCTION

The act of purchasing its own shares/securities by a company is known as buyback. As per companies act 2013 companies are not allowed to buy its own shares but in some special exceptions This facility was enabled to repurchasing of own shares/securities via an offer to purchase such shares/ securities holders with different segments of society, viz., entrepreneurs, Body Corporates, institutional investors and individual shareholders including small investors, with intention to providing equality of treatment and opportunities to all shareholders, transparency, proper disclosure and above all protection of interests of small and minority shareholders.

Buy-back leads to reduction in outstanding number of equity shares, which may lead to improvement in earnings per equity share and to improve return on net worth and create long term value for continuing a company can resort to buy-back to reduce the number of shares issued and return surplus cash to the shareholders. The buy-back of securities is governed by Section 68, 69 and 70 of the Companies Act, 2013 and Rule 17 of the Companies (Share Capital and Debentures) Rules, 2014. For Listed Companies, the SEBI Regulations for Buy Back will also be applicable.

II. REVIEW OF LITERATURE

V.Subhamathi and B.Manuel Pinto (2014) study reveals that pre buyback, during and post buyback announcement share prices of the company. In this paper author shows the effect of share buyback prices of the company which is not always good. 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 signalling 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. Purnima P. 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 know that share price than outside investors so firms gets informational advantage for buyback it share price is below the true value.

III. 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 2022 and December 2023 resulting in a sample 13 companies are selected for sampling.

IV. RESEARCH OBJECTIVES

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

Table 1: Market price and Offered price pre and post buy back of various companies

S. No.	Company Name	Market Price at offered date (per share)	Offered price (per share)	Current Price (Date)	Percentage Difference
1	Sports King India	795.5	950	823	3.341434
2	VRL Logistics	546.3	700	714.4	23.53024
3	Hinduja global solution	1021	1700	985	-3.65482
4	Welspun india Ltd.	79.2	120	149.15	46.89909

5	Abiram financial services	23.9	28	35.7	33.05322
6	eClerx Services Ltd.	1,395.38	1750	2732	48.9246
7	Technocraft Industries Ltd.	826.87	1000	2376.7	65.20932
8	Cosmo First Ltd.	738.94	1070	655	-12.8153
9	KDDL Ltd.	985.47	1200	2799.5	64.79836
10	Triveni Turbine Ltd.	280.95	350	403.35	30.34585
11	VLS Finance Ltd.	136.21	200	218.5	37.66133
12	Indian Energy Exchange Ltd	144.91	200	164.5	11.90881
13	Triveni Engg and Ind Ltd.	277.47	350	334.3	16.9997

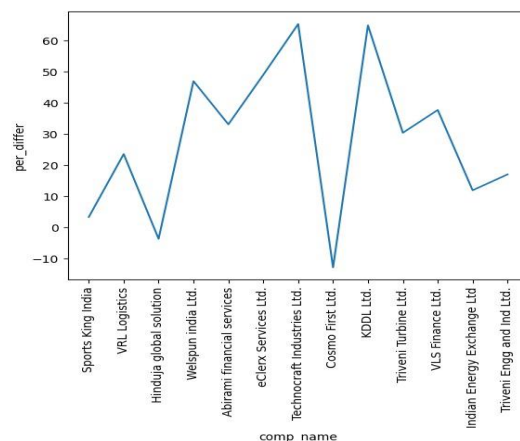


Figure1: A trend line between company and percentage difference

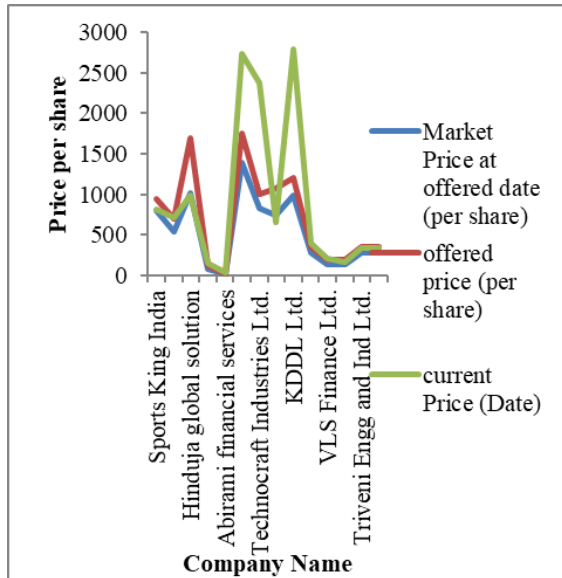


Figure 2: Line plot between company and price per share

CONCLUSION

Table 1 show that in approximately 85% (13) companies increase in share prices after buyback than share price before buyback. Remaining 2 companies (15%) trends decreased in the share price before buyback. From figure 1 it is clearly interpreted that most of the company prices increased after buyback, while only two company show negative growth. This hypothesis showed whether buyback activities result 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. Results shows that after buyback share price of some companies have increment, while a few have decrement in current price. There might be many internal and external factors for these different patterns in price change. This factor might be because of financial restructuring corporate changes in respective company and many other major and minor reasons. A detailed study needed to done to find the reasons behind different outcomes for each company after this buyback process.

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