



# MOTIVES BEHIND BUYBACK OF SHARES – A CASE STUDY OF SELECT INDIAN COMPANIES

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**Abstract:** Share Buyback is a process of buying back its own shares from shareholders and canceling the same after purchase. There are several reasons for buyback of shares and the same was normally communicated by companies in the buyback announcement document. The study aims to investigate the reasons behind buyback of shares by Indian Companies. The study also aims to understand the perception of shareholders towards buyback. Companies which had announced their buyback offer during 2011 were selected for the purpose of study. The data analysis tools such as beta, profitability ratios, investment valuation ratios, management efficiency ratios, liquidity ratios, z-test was used to analysis of results. The study found that the management intentions behind buyback were different than what had communicated in the buyback offer documents. This has led to fall in confidence level of investors about corporate governance. The investors were also unaware the investors was unaware about the impact of buyback on wealth creation. The researcher had offered suggestions for strengthening the buyback mechanism in India and inclusive growth of all stakeholders.

**KEYWORDS:** Share Buyback, Beta, Investment Valuation Ratios, Profitability Ratios, Liquidity Ratios and Management Efficiency Ratios.

## INTRODUCTION

It is a process of purchase of its own shares by a company and extinguishing the same from books of accounts. If we peep into the history of corporate financial strategy, companies have evolved new ways and means to reward their shareholder. The age old and popular corporate payout/shareholders' rewarding strategies include dividend distribution and bonus shares. Historically, dividends have been the dominant form of corporate payout strategy. In, 1980, USA had permitted companies to buyback its own shares from shareholders. Therefore, US Companies were considered as pioneer in introducing the concept of buyback of shares. The extant literature available on Share Buybacks in UK and US is vast and wide. They have been thoroughly examined by various researchers in the West. Various aspects like motives, announcement returns and their determinants, post-offer operating performance, post-offer return, timing of Buyback announcement, etc., have been analyzed and examined. The increased interest of academia on share buyback is on account of increased use of Share Buybacks by companies in distributing surplus cash amongst the shareholders. The dividend is now less preferred method of returning cash as compared to buyback of shares.

## OBJECTIVES OF THE STUDY

The study aims to achieve following Objectives:

- 1) To investigate motives behind Buyback of Shares.
- 2) To find out Impact of Share Buyback on Beta.
- 3) To find out Impact of Share Buyback on Financial Ratios.
- 4) To offer suggestions to make the buyback offer more transparent and investors friendly program.

## LITERATURE REVIEW

**Asim Mishra** had carried out an empirical analysis of Share Buybacks in India and established that for the Indian corporate, the long term advantages of share Buyback are not clear. Buyback process is generally used to improve the shareholding of promoters of the company, and with a view to impart short term gains for the investors. The study also points out that Buyback norms should be made more stringent for Indian context, if the companies are to have a long-term view. **Bartov (1998)** had conducted a study of 150 firms announcing share repurchase during the period 1986 to 1992 vis-à-vis other firms in the same industries that preferred to increase dividends finds that stock Buyback firms had higher book to market ratio and higher proportion of institutional investors. This highlights 'under valuation' and 'tax advantage' as the two major motivations of the share repurchase programme. **Bhabatosh Banerjee and Tanupa Chakraborty (2004)** made an attempt to address accounting and reporting issues relating to buyback of shares. They are of the view that the issues were not resolved by the regulators in India. They have developed accounting treatments and disclosures guidelines for buyback. **Danna (1991)** found that share repurchase acts as positive information signaling on the firm's future earnings and risk to the market. **Isagawa (2002)** examined corporate open market repurchase strategy and stock price behavior. He had established a signaling equilibrium with the assumption that the firm is committed to an announcement of open-market repurchase intention. He also found that positive long run stock returns as well as positive announcement effects following open-market repurchase announcements. **Jensen (1986)** stated that firms repurchase stocks to distribute excess cash flow. There is a positive relationship between stock repurchases and levels of cash flows. **L. C. Gupta (2005)** conducted a study on buyback of shares in India and found that buyback has a favourable effect in the immediate future on share price, the EPS and the dividend. He felt that share buyback can't provide immunity against the fundamental economic forces. According to him, buyback is a minor kind of financial engineering.

## SAMPLE SIZE

The companies which had resorted to buyback of shares during 2011 had been selected as sample buyback companies. Only 3 companies were selected as sample units. Belagavi, Hubli-Dharwad cities of North Karnataka were selected randomly and 25 investors from each city were selected as sample investors and questionnaire were circulated to them.

## RESEARCH METHODOLOGY

The data for the research had been collected by means of questionnaire and personal interviews with Investors. The secondary data were collected from [www.bseindia.com](http://www.bseindia.com), [www.nseindia.com](http://www.nseindia.com), [www.moneycontrol.com](http://www.moneycontrol.com), [www.indiainfoline.com](http://www.indiainfoline.com), etc. Data were also collected from secondary sources such as Business-line newspaper, journals and magazines such as Indian Journal of Finance, SEBI Reports, Management Accountant, etc. Data so collected were analyzed with the help of Data Analysis tools such as Beta, Profitability Ratios, Investment Valuation Ratios, Liquidity Ratios, Management Efficiency Ratios, Z-Test, etc.

## RESULTS AND INTERPRETATIONS

### AMRUTANJAN HEALTH CARE LTD

#### Company Profile

The Madras-based Amrutanjan manufactures bulk drugs and drug intermediates like theophylline. Three plants have been set up in the Alandur industrial belt near Madras to produce these products. The company has entered into a joint venture with Welsh firm Cardiff Chemicals to manufacture pheromones (a type of agrochemicals) at Cuddalore. Pheromones have found wide application as pesticides and are used on cotton crops. Amrutanjan also has an agreement with a company in Philadelphia, US, to supply custom-made chemicals for exotic applications like the genetic manipulation of biological matter. It has introduced some new range of products like Pep Pill, Amrutanjan gripe water sans alcohol, Amrutanjan Maha Strong, etc. The company also plans to launch sanitary napkins soon. The company has approached the US FDA for approval and clearance to sell its new drugs in US. Company has taken efforts to increase the export of fine chemicals & also taking major efforts to give full thrust to existing products. 'Diakyur' for the treatment of Diabetes was introduced during 2000-2001 and it has been well accepted by the customers. The company's

R & D has been engaged in the development of neutraceuticals. The company is mainly focusing on Bio-Tech products and expects good results from this division.

### Scrip Snapshot

BSE: 590006

ISIN: INE098F01023

Market Lot: 1

Industry: Pharmaceuticals

Market Cap: Rs.431.36 Crores

### Buyback Snapshot

|                |                           |
|----------------|---------------------------|
| Face Value     | Rs.10 Each                |
| Opening Date   | 2-Jul-11                  |
| Closing Date   | 18-Jul-11                 |
| Buyback Method | Tender Offer              |
| Max Buy Price  | Rs.900/- Per Equity Share |
| Target         | 1,06,937                  |
| Buyback Size   | Rs.9.62 crores            |
| Actual Buyback | 1,06,937                  |
| Amount Spent   | Rs.9.62 crores            |
| Buyback Price  | Rs.900/- Per Share        |

Source: www.bseindia.com

The table-1 reveals that share buyback decision of Amrutanjan Health Care Ltd has negative impact on stock price as the stock price had fallen by more than 100 percent during post buyback period whereas beta of Amrutanjan Health Care Ltd during post-buyback period was 7.7 indicating that the stock is very risky. Therefore it would be difficult to draw any conclusions about how the market had perceived the buyback announcement.

**Table-1**  
**Beta of Amrutanjan Health Care Ltd during Pre And Post Buyback Periods**

| Pre-buyback Period                     |           |                  |                 |                 |                 |                 |
|--|-----------|------------------|-----------------|-----------------|-----------------|-----------------|
| Year                                   | Sensex    | Stock Price      | x               | Y               | x*x             | xy              |
| 2008                                   | 9,647.31  | 350              |                 |                 |                 |                 |
| 2009                                   | 17,464.81 | 465.65           | 0.81033         | 0.330429        | 0.656634        | 0.267756        |
| 2010                                   | 20,509.09 | 718.95           | 0.174309        | 0.543971        | 0.030384        | 0.094819        |
|  |           | <b>Summation</b> | <b>0.984639</b> | <b>0.874399</b> | <b>0.687018</b> | <b>0.362575</b> |
| Post-buyback Period                    |           |                  |                 |                 |                 |                 |
| Year                                   | Sensex    | Stock Price      | x               | y               | x*x             | xy              |
| 2012                                   | 19,426.71 | 154.65           |                 |                 |                 |                 |
| 2013                                   | 21,170.68 | 131.3            | 0.089772        | -0.15099        | 0.008059        | -0.01355        |
| 2014                                   | 26,851.05 | 291.85           | 0.268313        | 1.222772        | 0.071992        | 0.328086        |
|  |           | Summation        | 0.358085        | 1.071786        | 0.080051        | 0.314531        |
| <b>Beta during Pre-buyback Period</b>  |           |                  |                 | <b>-0.34</b>    |                 |                 |
| <b>Beta during Post Buyback Period</b> |           |                  |                 | <b>7.69</b>     |                 |                 |

Source: www.bseindia.com

## Ratio Analysis of Amrutanjan Health Care Ltd

Table-2

## Ratio Analysis of Amrutanjan Health Care Ltd during Pre and Post Buyback Periods

| Ratios                               | Pre-buyback Period |            |            | Post-buyback Period |            |
|--------------------------------------|--------------------|------------|------------|---------------------|------------|
|                                      | March 2009         | March 2010 | March 2011 | March 2013          | March 2014 |
| <b>Investment Valuation Ratios</b>   |                    |            |            |                     |            |
| Dividend Per Share                   | 57                 | 15         | 15         | 3                   | 3.2        |
| Earnings Per Share                   | 299.39             | 38.98      | 35.24      | 8.29                | 9.94       |
| Price Earnings Ratio                 | 1.17               | 11.95      | 20.40      | 18.66               | 13.21      |
| Dividend Payout Ratio                | 0.19               | 0.38       | 0.42       | 0.36                | 0.32       |
| <b>Profitability Ratios</b>          |                    |            |            |                     |            |
| Operating Profit Margin (%)          | 15.41              | 14.83      | 13.37      | 14.24               | 16.79      |
| Net Profit Margin (%)                | 95.59              | 12.43      | 10.07      | 8.69                | 10.25      |
| Return on Capital Employed (%)       | 20.01              | 17.37      | 11.16      | 20.12               | 22.41      |
| Return on Net Worth (%)              | 98.97              | 12.12      | 10.37      | 13.79               | 14.98      |
| <b>Liquidity and Solvency Ratios</b> |                    |            |            |                     |            |
| Current Ratio                        | 5.28               | 1.89       | 0.71       | 1.53                | 2.88       |
| Quick Ratio                          | 5.09               | 1.78       | 1.86       | 2.75                | 4.03       |
| Debt Equity Ratio                    | --                 | 0.01       | 0.26       | 0.14                | 0.06       |
| Interest Cover                       | 122.89             | 497.39     | 47.98      | 8.36                | 13.47      |
| <b>Management Efficiency Ratios</b>  |                    |            |            |                     |            |
| Inventory Turnover Ratio             | 21.41              | 14.7       | 14.16      | 19.37               | 20.86      |
| Debtors Turnover Ratio               | 8.85               | 7.76       | 9.48       | 7.03                | 5.41       |
| Investments Turnover Ratio           | 21.41              | 14.7       | 14.16      | 19.37               | 20.86      |
| Fixed Assets Turnover Ratio          | 3.67               | 3.72       | 2.57       | 4.32                | 4.41       |

Source:www.moneycontrol.com

The table-2 depicts the ratio analysis of Amrutanjan Health Care Ltd. The company had adopted a stable dividend policy during the study period. Further, the rate of dividend declared during post-buyback period was lower compared to pre-buyback period. The table also demonstrates that the earning per share during post-buyback period was lower compared to pre-buyback period. It means profitability of each share had fallen down during the post-buyback period. The PER during post buyback period was lower compared to pre-buyback period but higher than the recommended ratio of 15 time. Dividend Payout Ratio of the company was less than 1 and deteriorated during post-buyback period indicating that business prospectus of company was not bright. Therefore, it can be concluded that the company has taken right decision to return surplus cash to its owners. The table-2 also reveals that the company was not able to generate adequate operating profit margin during post-buyback period to cover up the cost of operation. The net profit margins were also low compared to pre-buyback period. The return on capital employed was improved during post-buyback period. It means company was able to employ its capital effectively to generate return for shareholders. The table also reveals that return on net worth had risen during post-buyback period. It means the company was able to generate handsome return on equity money invested by shareholders. As profitability ratios are giving different message about buyback announcement, therefore it would be difficult to draw any conclusions about intentions of management behind announcement of share buyback. It is also clear from the table-4.6 that current ratio was low compared to recommended ratio of 2:1 and hence under threat during post-buyback period. Further, quick ratio was very high during the same period indicating that company had experienced difficulty in converting current assets into cash and there was shrinkage in value of current assets. The debt-equity ratio was less than 0.30 during the study period. In spite of low debt on its capital structure, company's interest servicing capacity was poor during post-buyback period as it was less than recommend 25 times. Therefore, it can be concluded that the management intentions behind buyback was to reorganizing its capital structure in order to create wealth for shareholders. It was found from data analysis that there was greater improvement in inventory turnover ratio during post-buyback period but fall in debtors Turnover Ratio. The investment turnover and FATR ratios have improved during the post buyback period. Therefore, it can be concluded that the management efficiency has improvised during post-buyback

period which is expected to create wealth for shareholder in the future. Therefore, management was found to be right in its decision of returning cash to shareholders

## BHAGYANAGAR INDIA LTD

### Company Profile

Bhagyanagar India Ltd was incorporated in 1985. The company product portfolio include copper rods, lead sleeves, enamelled and paper-covered copper strips, etc. The customers of the company are Lucas, TVS, BHEL, Crompton Greaves and Sahney Paris. The company had acquired Insulation and Plastics Pvt Ltd and entered into the manufacture of PVC coated fabrics. During 1995-96, the company envisaged an expansion of Rs.2 crores for the PCM cable unit and approval of Department of Telecommunications (DOT) has been obtained for the company's product. During 1996-97, the company set up a unit for manufacture of field coils thereby making a forward integration for one of its units. In 1999-2000, the company commissioned a new unit for manufacture of jelly filled cable with a capacity of 6 LCKM at IDA Nacharam. The unit commenced commercial production in September 1999. During 2001 the company's new production facility for the manufacture of Poly Insulated Jelly Filled Telephone Cables at Goa was established.

### Scrip Snapshot

BSE: 512296

NSE: BHAGYNAGAR

ISIN: INE458B01028

SECTOR: Cables – Telephone

Market Lot:1

Market Cap: Rs.115.52 Crores

### Buyback Snapshot

|                |                           |
|----------------|---------------------------|
| Face Value     | Rs.2 Each                 |
| Opening Date   | 14-Nov-11                 |
| Closing Date   | 9-Mar-12                  |
| Buyback Method | Open Market               |
| Max Buy Price  | Rs. 35/- Per Equity Share |
| Target         | 80,00,000                 |
| Buyback Size   | Rs. 1400 Lakhs            |
| Actual Buyback | 44,10,000                 |
| Amount Spent   | Rs. 820.51 Lakhs          |
| Buyback Price  | Rs.18.61/- Per Share      |

Source: www.bseindia.com

### Beta Analysis of Bhagyanagar India Ltd

Table-3

Beta of Bhagyanagar India Ltd during Pre & Post Buyback Periods

| Pre-buyback Period                     |           |                  |          |              |          |          |
|--|-----------|------------------|----------|--------------|----------|----------|
| Year                                   | Sensex    | Stock Price      | X        | y            | x*x      | Xy       |
| 2006                                   | 13,786.91 | 36.65            |          |              |          |          |
| 2007                                   | 20,286.99 | 68.7             | 0.471468 | 0.874488     | 0.222282 | 0.412293 |
| 2008                                   | 9,647.31  | 15.08            | -0.52446 | -0.78049     | 0.275056 | 0.409337 |
|  |           | <b>Summation</b> | -0.05299 | 0.093993     | 0.497338 | 0.82163  |
| Post-buyback Period                    |           |                  |          |              |          |          |
| Year                                   | Sensex    | Stock Price      | x        | y            | x*x      | Xy       |
| 2011                                   | 19,426.71 | 18.5             |          |              |          |          |
| 2012                                   | 21,170.68 | 14.25            | 0.089772 | -0.22973     | 0.008059 | -0.02062 |
| 2013                                   | 26,851.05 | 10.25            | 0.268313 | -0.2807      | 0.071992 | -0.07532 |
|  |           | <b>Summation</b> | 0.358085 | -0.51043     | 0.080051 | -0.09594 |
| <b>Beta during Pre-buyback Period</b>  |           |                  |          | <b>1.66</b>  |          |          |
| <b>Beta during Post Buyback Period</b> |           |                  |          | <b>-0.29</b> |          |          |

Source: www.bseindia.com

The table-3 reveals that the stock price of Bhagyanagar India Ltd had fallen down drastically in 2008 and in order to arrest the falling stock price, the management had taken a decision to announce the buyback offer. But, the buyback offer failed to arrest the falling prices during post-buyback period in spite of positive movement in stock market. This also puts question mark of management intention behind buyback announcement. It also signifies that the investor had perceived the buyback announcement as negative news. Further, the beta was more than 1 during pre-buyback period singling that the potential return on stock was higher than market return. But, contrary to this the actual returns during post-buyback period were very low than market return.

### Ratio Analysis of Bhagyanagar India Ltd

**Table-4**  
**Ratio Analysis of Bhagyanagar India Ltd during Pre and Post Buyback Periods**

| Ratios                               | Pre-buyback Period |            |            | Post-buyback Period |            |            |
|--------------------------------------|--------------------|------------|------------|---------------------|------------|------------|
|                                      | March 2006         | March 2007 | March 2008 | March 2011          | March 2012 | March 2013 |
| <b>Investment Valuation Ratios</b>   |                    |            |            |                     |            |            |
| Dividend Per Share                   | 0.6                | 0.6        | 0.6        | 0.4                 | 0.4        | 0.4        |
| Earnings per Share                   | 7.02               | 9.42       | 5.02       | 1.49                | 0.09       | 0.64       |
| Price Earnings Ratio                 | 5.22               | 7.29       | 3.0        | 12.42               | 15.83      | 16.02      |
| Dividend Payout Ratio                | 0.09               | 0.06       | 0.12       | 0.31                | 4.63       | 0.62       |
| <b>Profitability Ratios</b>          |                    |            |            |                     |            |            |
| Operating Profit Margin (%)          | 14.28              | 32.58      | 16.49      | 8.11                | 10.93      | 5.34       |
| Net Profit Margin (%)                | 14.57              | 28.61      | 17.42      | 5.35                | 0.25       | 1.92       |
| Return on Capital Employed (%)       | 21.41              | 28.1       | 12.45      | 4.72                | 11.06      | 4.07       |
| Return on Net Worth (%)              | 21.3               | 37.62      | 17.1       | 4.41                | 0.25       | 1.94       |
| <b>Liquidity and Solvency Ratios</b> |                    |            |            |                     |            |            |
| Current Ratio                        | 5.77               | 11.45      | 6.79       | 8.46                | 7.89       | 7.06       |
| Quick Ratio                          | 4.79               | 11.57      | 7.89       | 7.68                | 7.15       | 9.19       |
| Debt Equity Ratio                    | 0.07               | 0.56       | 0.54       | 0.25                | 0.33       | 0.35       |
| Interest Cover                       | 70.33              | 23.09      | 8.63       | 8.8                 | 1.03       | 1.65       |
| <b>Management Efficiency Ratios</b>  |                    |            |            |                     |            |            |
| Inventory Turnover Ratio             | 9.38               | 47.86      | 10.33      | 7                   | 10.79      | 7.38       |
| Debtors Turnover Ratio               | 8.24               | 12.73      | 9.98       | 8.79                | 7.75       | 7.85       |
| Investments Turnover Ratio           | 20.71              | 47.86      | 10.33      | 7                   | 9.89       | 7.38       |
| Fixed Assets Turnover Ratio          | 6.58               | 1.86       | 1.64       | 1.47                | 1.55       | 1.8        |

Source:www.moneycontrol.com

The ratio analysis of Bhagyanagar India Ltd was presented in table-4. The company had adopted a stable and constant dividend policy during entire study period. The table reveals that there was drastic fall in earnings per share of Bhagyanagar India Ltd during post-buyback period. There was an improvement in PER during post buyback period (recommended ratio is 15 times). Dividend Payout Ratio of the company was less than 1 which indicates that business prospectus of company was not bright. Therefore, it can be concluded that the company has taken right decision to return surplus cash to its shareholder. The table-4 also exhibits that there was drastic fall in operating profit margins as well net profit margins during post buyback period. The return on capital employed had also fallen down during post-buyback period. The table also reveals that return on net worth was lower during post-buyback period compared to pre-buyback period. It is clear from profitability ratios that the company was aware of the fact that the business prospectus of company was not bright in the future and its shrinking ability to generate return on equity. Therefore, it can be concluded that the intentions of management behind announcement of share buyback was return surplus cash to shareholders and not to arrest share price as revealed by beta analysis. The current as well quick ratios were very high than recommended ratios which indicates that the quick assets were not efficiently used by the company. The debt equity ratio suggests that the capital structure consist of low debt. The interest service coverage ratio during post buyback period was lower than the recommended ratio of 2.5 except 2012. Therefore, it can be concluded that buyback was intended to restructure the capital structure of the company. There was not much variation in management efficiency ratios during the study period.

## Reliance Infrastructure Limited

### Company Profile

Reliance Infrastructure Limited was incorporated in the year 1929 with the name Bombay Suburban Electric Supply Ltd (BSES) and then changed its name to Reliance Energy and again changed to Reliance Infrastructure Ltd in 2008. It is a part of the Reliance Group. The company is one of India's fastest growing companies in the infrastructure sector. The company has its presence across three verticals, namely Engineering, Procurement and Construction, Energy and Infrastructure. The company is India's leading utility company having presence in across the value chain of power business i.e. Generation, Transmission, Distribution and Trading and the largest infrastructure company by developing projects in all high growth areas in infrastructure sector i.e. Roads, Highways, Metro Rails, Airports and Specialty Real Estate., from November 14, 2007 and thus, these two companies became subsidiaries of the company. The new name appropriately reflects various infrastructure businesses being carried on by the company and redefines the company's vision and focus to emerge as a premier infrastructure company. The current market capitalization stands at Rs 16,571.00 crore. The company has reported consolidated sales of Rs 4,135.10 crore and a Net Profit of Rs 354.09 crore for the quarter ended Jun 2014.

### Scrip Snapshot

BSE: 500390

NSE: RELINFRA

ISIN: INE036A01016

Industry: Power Generation and Supply

Market Cap: Rs.16,571 Crores

### Buyback Snapshot

|                |                              |
|----------------|------------------------------|
| Face Value     | Rs.10 Each                   |
| Opening Date   | 11-Apr-11                    |
| Closing Date   | 13-Feb-12                    |
| Buyback Method | Open Market                  |
| Max Buy Price  | Rs.725/- Per Equity Share    |
| Target         | NA                           |
| Buyback Size   | Rs.1000 crores               |
| Actual Buyback | 44,30,262                    |
| Amount Spent   | Rs.234.32 crores             |
| Buyback Price  | Rs.528.91/- Per Equity Share |

Source: www.bseindia.com

### Beta Analysis of Reliance Infrastructure Limited

Table: 5

Beta of Reliance Infrastructure Ltd during Pre and Post Buyback Periods

| Pre-Buyback Period                    |           |                  |                                       |                 |                 |                 |
|---------------------------------------|-----------|------------------|---------------------------------------|-----------------|-----------------|-----------------|
| Year                                  | Sensex    | Stock Price      | x                                     | y               | x*x             | xy              |
| 2008                                  | 9,647.31  | 579.6            |                                       |                 |                 |                 |
| 2009                                  | 17,464.81 | 1,146.90         | 0.81033                               | 0.978778        | 0.656634        | 0.793133        |
| 2010                                  | 20,509.09 | 842              | 0.174309                              | -0.26585        | 0.030384        | -0.04634        |
|                                       |           | <b>Summation</b> | <b>0.984639</b>                       | <b>0.712931</b> | <b>0.687018</b> | <b>0.746793</b> |
| Post-Buyback Period                   |           |                  |                                       |                 |                 |                 |
| Year                                  | Sensex    | Stock Price      | x                                     | y               | x*x             | xy              |
| 2013                                  | 21,170.68 | 425.8            |                                       |                 |                 |                 |
| 2014                                  | 26,851.05 | 582.85           | 0.268313                              | 0.368835        | 0.071992        | 0.098963        |
| 2015<br>(upto Oct. 14)                | 25,582.62 | 662.41           | -0.04724                              | 0.136502        | 0.002232        | -0.00645        |
|                                       |           | <b>Summation</b> | <b>0.221074</b>                       | <b>0.505337</b> | <b>0.074223</b> | <b>0.092515</b> |
| <b>Beta during Pre-buyback Period</b> |           |                  | <b>Beta during Pre-buyback Period</b> |                 |                 |                 |
| <b>1.96</b>                           |           |                  | <b>0.74</b>                           |                 |                 |                 |

Source: www.bseindia.com

The table-5 shows that stock price of Reliance Infrastructure Ltd was in red zone in 2010. This might be the reason behind announcement of buyback offer as company intends to arrest the red bath of stock price. Contrary to this there was further deterioration in stock price during post-buyback period singling that the investors have perceived buyback offer as negative news.

### Ratio Analysis of Reliance Infrastructure Ltd

**Table-6**  
**Ratio Analysis of Reliance Infrastructure Ltd during Pre and Post Buyback Periods**

| Ratios                               | Pre-Buyback Period |         |         | Post-Buyback Period |         |
|--------------------------------------|--------------------|---------|---------|---------------------|---------|
|                                      | Mar '09            | Mar '10 | Mar '11 | Mar '13             | Mar '14 |
| <b>Investment Valuation Ratios</b>   |                    |         |         |                     |         |
| Dividend Per Share                   | 7                  | 7.1     | 7.2     | 7.4                 | 7.5     |
| Earnings Per Share                   | 50.39              | 47.03   | 40.42   | 76.03               | 60.38   |
| Price-Earnings Ratio                 | 11.50              | 24.39   | 20.83   | 5.60                | 9.65    |
| Dividend Payout Ratio                | 0.14               | 0.15    | 0.18    | 0.01                | 0.12    |
| <b>Profitability Ratios</b>          |                    |         |         |                     |         |
| Operating Profit Margin (%)          | 4.5                | 8.92    | 6.75    | 13.36               | 16.82   |
| Net Profit Margin (%)                | 10.73              | 10.69   | 10.55   | 12.97               | 12.62   |
| Return on Capital Employed (%)       | 6.22               | 8.08    | 6.29    | 8.53                | 7.9     |
| Return on Net Worth (%)              | 10.81              | 8.18    | 6.28    | 9.88                | 7.45    |
| <b>Liquidity and Solvency Ratios</b> |                    |         |         |                     |         |
| Current Ratio                        | 0.75               | 1.25    | 0.98    | 0.96                | 0.96    |
| Quick Ratio                          | 1.45               | 1.61    | 1.11    | 1.69                | 1.79    |
| Debt Equity Ratio                    | 0.7                | 0.29    | 0.23    | 0.51                | 0.66    |
| Interest Cover                       | 3.65               | 5.18    | 5.5     | 2.96                | 2.8     |
| <b>Management Efficiency Ratios</b>  |                    |         |         |                     |         |
| Inventory Turnover Ratio             | 55.96              | 59.45   | 59.11   | 38.99               | 31.49   |
| Debtors Turnover Ratio               | 6.71               | 6.01    | 2.79    | 3.67                | 2.85    |
| Investments Turnover Ratio           | 55.96              | 59.45   | 59.11   | 38.99               | 31.49   |
| Fixed Assets Turnover Ratio          | 1.4                | 1.33    | 1.14    | 1.43                | 1.1     |

Source:www.moneycontrol.com

Table-6 presents the ratio analysis of Reliance Infrastructure Ltd. The company had adopted a stable dividend policy during pre buyback period. The other investment ratios such as EPS, PER have shown mixed response during pre-buyback period, hence, it would be difficult to draw conclusions about intentions of management behind buyback offer. The table also reveals that there was a tremendous pressure on operating profit as well as net profit margins during the pre-buyback period. The liquidity ratios except interest coverage ratio were under pressure during the pre-buyback period. Therefore, it can be concluded that management intentions behind buyback was to return surplus cash to shareholders.

### CONCLUSIONS

The following conclusions have been drawn based on data analysis and suggestions were made to make buyback program in India a vibrant, transparent and investor friendly system:

- 1) The study found that lack of awareness among investors about such program was responsible for non-popularity of buyback program in Indian stock market. The Majority of sample companies have announced buyback during the period when the market was affected by Global Economic Crisis (2011). This indicates that the companies were keenly interested to capitalize on falling market and buyback shares at best possible lowest price (as there was a scope for the same under open market mechanism). This practice can't be said to be investors' friendly practice. As regards the relative importance of the two methods of share buyback, the available data suggests that the open market method dominated the share buyback scene. Under open market mechanism, companies need to disclose the maximum price at which they were intended to buyback shares but it does not mean they need to buyback at that price.
- 2) Amrutanjan Health Care Ltd has bought back shares at a price which was initially announced by it. Whereas Reliance Infrastructure Ltd had bought back shares at 73 percent of offered price and Bhagyanagar India Ltd had purchased at 54 percent of offered price. Therefore, it can be concluded that

open market method of buybacks was not beneficial to shareholders. This also suggests that the buyback offer is not used as an opportunity for enhancing the book value of the shares of the company. As open market mechanism is very advantageous for companies during falling market and not to investors.

3) Reliance Infrastructure Ltd had utilized less than 25 percent of fund allocated for buyback program whereas Bhagyanagar India Ltd had utilized 54 percent. Amrutanjan Health Care Ltd had utilized cent percent of the fund.

4) It was found that all the sample companies came out with buyback offer with the motive of arresting falling stock prices but were failed do so or failed to stop bloodbath of stock price.

5) The beta of Bhagyanagar India Ltd found to be higher than 1 singling that there was a potential growth of stock in the long run (post-buyback Period). In spite of such potential growth, the company has announced buyback offer. The move company leads to suspect the intentions of management behind buyback offer:

6) The buyback offers of Bhagyanagar India Ltd and Reliance Infrastructure Ltd were perceived by investors as negative news. This has resulted into fall of stock price of these companies during post buyback period.

7) It was found that earning per share of Amrutanjan Health Care Ltd during post-buyback period had deteriorated during post-buyback period. Dividend Payout Ratio of the company was less than 1 and deteriorated during post-buyback period indicating that business prospectus of company was not bright. The study revealed that the company was also not able to generate adequate operating profit during post-buyback period to cover up the cost of operation. The return on capital employed was improved during post-buyback period. The study also revealed that return on net worth had risen during post-buyback period.. Liquidity ratios were also weak during post-buyback period. As different ratios are giving different message about buyback announcement, therefore it would be difficult to draw any conclusions about intentions of management behind announcement of share buyback. However, weak liquidity ratios may be reason behind share buyback decision taken by Amrutanjan Health Care Ltd

8) It was clear from ratio analysis of Bhagyanagar India Ltd that there was drastic fall in earnings per share during post-buyback period. There was an improvement in PER during post buyback period. Dividend Payout Ratio of the company was less than 1 which indicates that business prospectus of company was not bright. There was drastic fall in operating profit margins as well net profit margins during post buyback period. The return on capital employed as well as Return on Net Worth had also fallen down during post-buyback period. Therefore, it can be concluded that the intentions of management behind announcement of share buyback was return surplus cash to shareholders and not to arrest share price as revealed by beta analysis.

9) There was a tremendous pressure on operating profit as well as net profit margins of Reliance Infrastructure Ltd during the pre-buyback period. The liquidity ratios except interest coverage ratio were under pressure during the pre-buyback period. Therefore, it can be concluded that management intensions behind buyback was to return surplus cash to shareholders.

10) The study found that majority of investors was unaware about the signal generated by buyback offer.

11) The study found that investors lacks knowledge about the transparent method of buyback, signal generated by buyback withdrawal, impact of buyback on stock price & its volatility,

## RECOMMENDATIONS

In order to make share buyback program a full proof mechanism. The following recommendations were made:

- 1) It is suggested that buyback announcement should be banned during bloodbath of market this will go a long way in protecting the interest of minority shareholders.
- 2) It was found that tender method is most beneficial method for shareholders whereas open market method is more rewarding method for management and debt holders. Therefore, it is recommended that ban should be put on open market method of buyback shares during bearish market and there should be ban on tender method during bull market. This will go a long way in protecting interest of all stakeholders.
- 3) A detailed study of bulk and block deals of last 1 year preceding the year of announcement of buyback should be carried out. This may give valuable insights into the motives of management behind buyback offer.
- 4) It is also suggested to a) fix a cap on buyback withdrawal; the company should withdraw its buyback offer if the response rate was less than 75 percent. b) Maximum number of buyback offers by any company during its life time can be maximum 2. c) Time gap between two consecutive buyback should be minimum 5 years. d) Approval of share buyback proposal by shareholders in the meeting. e)

- A company could not undertake a buy-back unless its directors made a statement to the effect that it was their opinion that the company would remain solvent for the twelve months following the date of the statement. f) If the company became insolvent during the period of twelve months after a buy-back, the directors who signed the solvency statement could be personally liable to indemnify the company for the funds it paid out to shareholders to buy back their shares. g) A company could not undertake a share buyback unless its auditors, having enquired into the company's financial status, reported on the solvency statement of the directors and indicated that the statement was reasonable. h) Awareness camp and training program should be conducted to educate the investors about share buyback program. Investor Protection and Education Fund can be utilized to conduct such events.
- 5) The broking firms are expected to play a vital role in terms of tips and suggestions to investors which is expected to help investors to take appropriate decision on buyback offer.
  - 6) According to the earlier studies, even good scrips were delisted from stock exchange immediately after buyback. Contrary to this, the study found that none of the sample buyback company was delisted from stock exchange

To conclude, share buyback may or may not have impact on the fundamentals of the company. Therefore investors should be cautious of unscrupulous promoters' traps. Buyback of shares is common in case of turbulent times, as many stocks are quoting below their book values and many others are quoting at cheap price-to-earnings ratio. Investors should look at the promoter's stake in the company, the company's cash position, the quantum of proposed buy-back amount, timing of buyback, bulk & block deals, floating stock position pre buyback, fundamentals of the company, financial results during pre buyback period, investment patterns, quantum of Foreign Institutional investment during pre-buyback period and buyback period, etc before taking a final call on participation in share buyback offer. It is possible to protect the interest of all the stakeholders if above recommendations are implemented with true spirit. It is also possible to create wealth for shareholders. Share buyback also offer tax advantage to investors and ensures cost saving for companies. The share buyback can also used as brand building mechanism by companies.

### **LIMITATION OF THE STUDY**

The results of our study provide new insights into the buyback program in India. The study, however, is limited to only 3 companies. This sample is only a very small proportion of the entire population of buyback companies in the country. Therefore, research studies with much larger sample size would be required to ensure appropriate generalization of the findings of the study. Non availability of database of shareholding pattern of companies was also hindrance in analysis of intensions of management about ownership control.

### **FUTURE RESEARCH DIRECTIONS**

Further study can be taken up in India by exploring increased sample horizon. A major issue which this study could not address is the linkage between share buyback offer and bulk & block deals. It is possible that the bulk & block deals would generate a signal about intentions of management behind buyback of shares. An empirical investigation of this issue would be useful and would complement the results of this study.

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