



## Effects of Buyback Announcements on Stock Prices of Large Cap Companies in India

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### Abstract:

*Corporate financial reconstruction involves internal or external reconstruction. The internal reconstruction of the company goes through a series of changes and stock buyback is one of the mode of internal corporate reconstruction or "corporate control". The present study entitled 'Effects of Buyback Announcements on Stock Prices of Large Cap Companies in India'. The objectives of the study is to measure difference between before and after stock price performance and to measure the effect of buyback announcement on stock prices of the Large cap companies listed on the Bombay Stock Exchange. Secondary data with respect to buy back announcement is collected from December 2010 to November 2018. Sample is consisted of 15 buyback announcements of the large cap companies listed on BSE. The research paper has been examining the effect of Buy Back of Shares with the help of Mean and Wilcoxon Sign Rank Test. The finding of the study explains that in the majority (more than 50%) of the cases Buyback announcement having significant effect on the Share Prices of the companies This also throws light on the growing maturity and efficiency of stock market of India.*

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**Keywords:** Buyback announcement, Companies, Stock Price, Pre buyback, Post buyback.

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### 1. Introduction

There are many types of corporate announcements that an entity can choose to initiate in its business life. A good understanding of these corporate announcements gives a picture of the company's financial health, and also to determine whether to buy or sell a particular stock. Corporate actions have many effects on the stock market and this has made the study of stock price movements and financial performance of the companies which is an area that has attracted a lot of attention from various researchers. Buyback of shares is a part of corporate restructuring and emerging strategy for the Business. In Buyback program, a company may purchase its own shares or other specified securities (hereinafter referred to as buy-back) out of (a) its free reserves; (b) the securities premium account; or (c) the proceeds of the issue of any shares or other specified securities within 12 months of passing the resolution. The ratio of the debt owed by the company should not be more than twice the aggregate of capital and its free reserves after such a buy back, i.e. not more than 2:1. As per Companies Act all the shares or other specified securities for buy-back should be fully paid-up. There has been no default in complying with the provisions of filing of Annual Return, Payment of Dividend, and form and contents of Annual Accounts. The buy-back of the shares or other specified securities listed on any recognized stock exchange shall be in accordance with the regulations made by the Securities and Exchange Board of India in this behalf. There are various factors which motivates companies for buyback of shares like Enhancing the earning per share, Stability in the market price of the company's share, Raising the promoters' voting power, to prevent takeover threat, Raising the debt-equity ratio of the company, Returning to shareholders the surplus cash not required in the foreseeable future. The Companies Act of India broadly provided two methods of buyback i.e. Tender offer method and Open Market Method.

## 2. Literature Review

A brief review of the Buyback Announcement is presented below which are pertinent to the present study.

**Kaur, K. et al. (2016)** “Buy Back of Shares in India: Impact on Stock Price Returns”. The researchers have undertaken T Test and T Paired Sample test to study the impact of buyback on share prices. Market model has been utilized for computing average abnormal and cumulative average abnormal return. The conclusion of the study explains negative average abnormal return in post announcement period in the event window of 61 and 181 days

**Oliver Kim, Robert E. Verrecchia, (1994)** in “Market liquidity and volume around earning announcement” observed that there may be more information asymmetry at the time of an announcement, that suggest market liquidity decreases but informed opinions resulting from public disclosure may lead to an increase in trading volume.

**Reddy, K. S. et al. (2013)** “Share Repurchases, Signaling Effect and Implication for Corporate Governance: Evidence from India”. The research paper has tried to find out difference between stock returns and price-to-earning during pre and post buyback period. The authors found in their study that during post-buyback period performance of securities is showing negative and lower earnings. The study observed the lower price to earnings ratio as compare to pre-buyback period and short term returns due to share repurchases.

**Dorde Dukic & Malisa Dukic, (2015)** in “Interdependencies of market in Southeastern Europe and Buyback of shares on Shallow Capital Market: The application of Co-integration and Causality Tests” observed that banks that achieve good business results also thinking whether to buy back their shares so as to slow down the share price decrease and manage capital. The main conclusion is that it is not possible to successfully use the share buyback to stop or reduce the share price fall on a shallow capital market of SEE countries.

**Jariwala, P. P. (2011)** “Buyback of Shares in India through Open Market Purchase”. The study has been undertaken with the objectives of analyzing the impact of share buyback on companies’ share price movement, effect of same on operating performance and effect of buyback on wealth of shareholders. A sample of 82 companies has been taken into consideration and analytical tools like mean and ratio analysis has been employed. The analysis of the study depicts increase in mean share prices of the companies. The study concluded an improved overall performance of more than 55% companies’ after the event of buyback.

**Ramesh, B.; Rane, P. (2013)** in “Shareholder value creation through buyback of equity: An earnings per share measurement analysis” found that 78 percent of the total sample buyback program have registered an enhancement in the earnings per share while earnings per share of the remaining 22 percent decreased which thereby create value for the shareholders.

**Rajlaxmi (2013)**, measured the expected returns of stock by taking six repurchase announcements with the help of single index model. The study found that the beta is obtained by moving backward the daily return with index return. The results indicated that the investors therefore view repurchase announcement as a means for short term gains and not a visible strategy for significant long term abnormal gain or loss.

**Dr Sreekumar Ray (2014)** done an analysis on the results of Hindustan Unilever company after the buyback of shares. He is having views that companies make buyback for increasing earnings per share or to save the existence of the company from threats of external takeovers. The buyback made by HUL

was fruitful which was shown with the help of different ratios such as PBIT and PAT. As per him the company made a significant growth during the period when Indian economy was witnessing slowdown. Dr. Harsh Purohit, Dr. Vibha Dua Satija and Haritika Sabharwal Chhatwal (2012), "Announcements in India: An Empirical Analysis of Market Efficiency" analyse the financial event buyback of shares to evaluate the impact of their announcement on stocks listed on National Stock Exchange S&P CNX 500 (index). They used Single Index Pricing Models to calculate abnormal returns and conducted t-tests to check significance of the events. They conducted study on 45 companies listed on S&P CNX. The analysis shows that the announcement of buy back of shares could not make any significant impact on stock prices in India.

### **3. Research Methodology**

#### ***3.1 Scope of the study***

The scope of the study is limited to the companies listed on BSE. Scope is also limited to the period of data collection from December 2010 to November 2018.

#### ***3.2 Population and Sample Selection***

The secondary data i.e. prices of stocks of the companies are collected from various websites. The event window comprises of 30 working days prior to announcement and 30 working days post announcement. The announcement date is designated as day "0" in the event period. The criterion for the selection of buyback sample is based on Availability of data in the event window and estimation period.

Only those companies were considered which fulfilled the required parameters. Thus 15 buyback announcements made it to the final sample or the study. The public announcement date for buyback was taken from the website of SEBI [www.sebi.gov.in](http://www.sebi.gov.in). The daily closing prices were used for computing the event returns.

#### ***3.3 Objectives***

The objectives of the study is to measure difference between before and after stock price performance and to measure the effect of buyback announcement on stock prices of the Large Cap Companies registered on Bombay Stock Exchange.

### **4. Hypotheses**

The following hypotheses have been formulated to achieve the desired objectives of the present study:

$H_0$ : There is no significant difference in mean prices of before and after buy back stock prices of Large Cap Companies.

$H_1$ : There is some significant difference in mean of before and after buy back stock prices of Large Cap Companies.

$H_0$ : There is no significant effect of Buyback announcements on stock prices of the Large Cap Companies.

$H_1$ : There is significant effect of Buyback announcements on stock prices of the Large Cap Companies.

### **5. Research Tools**

The research paper has been examining the effect of Buy Back of Shares with the help of Measure for Central Tendency i.e. Mean and Wilcoxon Sign Rank Test.

### **6. Limitation of Study**

1. Study is limited for a period of 9 Years.
2. Study is based on Secondary data published in various websites.

## 7. Analysis of Data

The various statistical tests have been undertaken with the help of Statistical Software SPSS and the results of these test are given in the tables below

**Table 1: Percentage Change in Mean Share Prices (Pre-Buyback Announcement and Post-Buyback Announcement)**

Capital Structure	Industry	Name of Company	30 Days Before Buyback (A)	30 Days After Buyback (B)	Change in % (A & B)*
Large Cap	Basic	Pidilite Industries Ltd	887.91	888.37	0.05
	Energy	Oil & Natural Gas Corp Ltd	144.11	145.59	1.02
		Indian Oil Corp Ltd	136.70	135.42	-0.94
	Healthcare	Sun Pharmaceutical Industries Ltd	749.73	794.36	5.95
	Industrial	Adani Ports and Special Economic Zone	400.27	411.79	2.88
	IT	Tech Mahindra Ltd	802.04	795.38	-0.83
		Infosys Ltd	906.81	937.23	3.35
		Wipro Ltd	563.83	541.87	-3.89
		Wipro Ltd	291.41	289.67	-0.60
		Wipro Ltd	288.00	283.38	-1.60
		HCL Technologies Ltd	833.16	860.93	3.33
		HCL Technologies Ltd	976.09	1068.09	9.42
		Tata Consultancy Services Ltd	2382.50	2380.63	-0.08
		Tata Consultancy Services Ltd	1975.37	2048.82	3.72
	Telecom	Bharti Infratel Ltd. (Indus Towers)	379.08	344.74	-9.06

From the analysis of the table above it can be seen that 15-buyback announcement of large cap companies has been taken place the given period of study. Out of the total buyback announcement of large cap companies 53.33 % announcement have noticed positive effect after buyback announcements. The percentage change in mean prices after buyback announcement suggests that the Basic industries have noticed maximum positive impact after the announcement of Buyback of shares.

**Table 2: Impact of Buyback Announcement on Prices of Shares (Wilcoxon Sign Rank Test)**

Capital Structure	Name of the Company	Z	Asymp. Sig. (2-tailed)	Decision
LARGE CAP	Pidilite Industries Ltd	-.161	0.8721	Failed to Reject
	Oil & Natural Gas Corp Ltd	-1.443	0.1491	Failed to Reject
	Indian Oil Corp Ltd	-1.478	0.1395	Failed to Reject

Capital Structure	Name of the Company	Z	Asymp. Sig. (2-tailed)	Decision
	<b>Sun Pharmaceutical Industries Ltd</b>	-3.920	0.0001	<b>Rejected</b>
	<b>Adani Ports and Special Economic Zone</b>	-1.120	0.2627	<b>Failed to Reject</b>
	<b>Tech Mahindra Ltd</b>	-1.328	0.1842	<b>Failed to Reject</b>
	<b>Infosys Ltd</b>	-3.920	0.0001	<b>Rejected</b>
	<b>Wipro Ltd</b>	-3.783	0.0002	<b>Rejected</b>
	<b>Wipro Ltd</b>	-.709	0.4781	<b>Failed to Reject</b>
	<b>Wipro Ltd</b>	-1.147	0.2513	<b>Failed to Reject</b>
	<b>HCL Technologies Ltd</b>	-3.421	0.0006	<b>Rejected</b>
	<b>HCL Technologies Ltd</b>	-3.823	0.0001	<b>Rejected</b>
	<b>Tata Consultancy Services Ltd</b>	-.040	0.9679	<b>Failed to Reject</b>
	<b>Tata Consultancy Services Ltd</b>	-3.823	0.0001	<b>Rejected</b>
	<b>Bharti Infratel Ltd. (Indus Towers)</b>	-3.783	0.0002	<b>Rejected</b>

The Table given above presents the results of Wilcoxon Sign Rank Test in terms of Z value and Asymptotic Significant Two Tailed value (P value) at 5% significant value for Buyback announcement. Analysis of the above table presents that, 8 announcements out of 15 announcements from large cap capital structure has noticed significance level above 0.05 and hence failed to reject the hypothesis i.e. there is no significant impact of public announcement on share prices of the companies, in more than 50% announcements.

## 8. Conclusion

The present study envisaged to understand the 'Effects of Buyback Announcements on Stock Prices of Large Cap Companies in India'. A sample of 15 announcements was taken over the period of 9 years which announced share repurchases (Buyback). The research paper has been examining the impact of Buy Back of Shares with the help of measure of central tendency and Wilcoxon Sign Rank Test. For measuring the stock price reaction to buyback announcement Kolmogorov-Smirnov test of Normality is undertaken, which suggests that the data of the given announcement are skewed. From the results of the Wilcoxon Sign Rank Test, it can be concluded that in the majority (more than 50%) of the cases Buyback announcement having significant impact on the Share Prices of the companies. This also throws light on the growing maturity and efficiency of stock market of India. These findings may have important implications for all the market participants and future investors.

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