AN EMPIRICAL ANALYSIS OF SHARE BUYBACKS IN INDIA

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ABSTRACT

Share buybacks have become a common event in the financial markets worldwide. In a share buyback programme, the company distributes the excess cash flow among the shareholders by way of repurchasing its own shares, generally at a premium. Among the various reasons for doing so, the most prominent is the fact that the company wants to indicate to the share holders that it has huge confidence in itself. In India share buybacks were introduced in 1998 and has received attention of all major companies. Since then there has been a spate of announcement of share buybacks.

This paper examines empirically the announcement period price reaction and whether management is acting in the best interest of non-tendering shareholders when it engages in targeted share buyback. An exhaustive list of all the financial parameters was considered for the purpose of analysis and the data was collected through online databases. A trend analysis was performed on various parameters like share prices of these companies during and post buyback period. Various performance measures were also used to draw conclusion regarding their trends from pre buyback to post buyback period.

The study 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. In the end, the study lays down possible directions in which further research could be done on this topic.

Introduction

Buyback of shares relates to the company buying back its shares which it has issued earlier from the market.[1] Interest in share buyback programme has grown phenomenally worldwide over the past twenty years. In the United States alone, corporate expenditures on share buybacks as a percentage of earnings are ten times higher today than there were in 1980. In the late 1990s, for the first time companies spent more money repurchasing their shares than on paying dividends. [2] During this period, U.S. companies announcing share buybacks earned favorable long run returns.

Studies foresee share buyback becoming more common in Europe (Goldman Sachs (1999)). In recent years, countries like the U.K. and Canada have seen an increase in activity while other nations that previously prohibited buybacks, including Germany and Japan; have adopted provisions to make them acceptable. Countries such as Hong Kong & India recently implemented new regulations allowing companies for the first time to buyback their shares. [3] There has been a spate of announcements of share buybacks in India since passing of Buyback of Securities Regulation in 1998.[4] Year to date, domestic and foreign companies have lined up to return idle funds to their rightful owners- the shareholder. A number of companies in the last couple of years have knocked on their shareholders doors to buyback their holdings. The basic reasons have been low valuations or a fear of hostile takeovers.

Process

Under the buyback regulations a company may buyback its shares under the following route:

1. **Fixed Price Tender Offer**: This is a very powerful tool to implement a value creating buyback. A company may present shareholders with a formal tender offer, whereby they have the option to submit (or tender) a portion or all shares within a certain period (20-300 day period), at a preset price (as mentioned in the public announcement required by regulation), generally at premium (typically between 15% and 20% above the prevailing market price). A tender offer is resorted to when the buyback is slightly large. If the shareholders tender more

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[1] The shares bought back are extinguished from the existing capital of the company. While the investor gets an exit opportunity at a higher price than the prevailing market price, the company gets an opportunity to reduce its outstanding equity capital. The actual process entails the company hiring the services of a merchant banker who in turn makes an offer to the public regarding the buyback.

[2] In 1999 alone, 1253 companies on the New York Share Exchanges bought their own shares, spending an estimated $181 billion—nearly as much as the $216 billion that NYSE companies distributed as dividends during that year.

[3] In India, section 100-105 of The Company's Act, 1956 governs the internal restructuring of a corporate entity in the form of capital reduction. Section 77A, 77B and 77AA of Companies Act now allows companies to buy back their shares following the recommendations of committee on corporate restructuring, which was set up by the government to propose various strategies to strengthen the competitiveness of the banking and finance sector.

[4] The passing of this regulation could have been expected considering the Board had passed the Substantial Acquisition of Shares & Takeover Regulation in 1997.

shares than originally specified the company has discretion to purchase the whole or a part of the excess shares or the company may accept the shares on a pro rata basis. On the other hand, if it is under-subscribed, the company may either accept whatever is tendered or extend the time limit. It provides equal opportunities to all shareholders to participate in buyback plan.

2. **Open Market Buyback**: The second option available is to buy shares from the open market through brokers over a long-term period where the maximum buyback price is immaterial, as opposed to the tender offer route. Here the company has to announce a maximum and minimum buyback price, while the actual price is market determined.[1] Open market purchases are resorted to when the number of shares to be bought is relatively small. Company's primary objective, here is not to boost its share price but rather to distribute excess cash to shareholders in lieu of dividend (see Barcalay and Smith (1988), Bagwell and Shoven (1988), Comment and Jarrell (1991), Ikenberry, Lakonishok, and Vermaelen (1995), Stephens and Weisbach (1998), Grullon and Michaely (2000)).

Literature Survey

The intention to buy back shares is certainly good and aims at improving the market valuations by facilitating more efficient allocation of resources and imparting stability to prices.. The literature is rich with motives as to why corporations might choose to engage in share buyback (Baker et al., (1981a), Wansley et al., (1989), Tsetsekos et al., 1991). Some of the most commonly cited reasons to go for buybacks are:

- **Increase the underlying share value**: In theory, buyback of its shares by a company is guided by the principle-the intrinsic worth of the share is substantially higher than the market price and the management believes a share to be undervalued. In normal market conditions, a company's announced plan to buyback shares usually boosts the share price by sending signals that the underlying shares are quoting below their intrinsic value (book value). By buying its shares, the company will allow some desperate shareholders to exit and enhance the value of the remaining shareholders. Since the buyback is usually at a higher than the market price, the investor who tenders his shares back to the company gets to exit at a premium. Those who hold on to their shares benefit from the higher earnings per share (EPS).[2] When a company has surplus funds, it tries to invest them in profitable ventures. However, the company with surplus funds

[1] The actual price may vary from this announced price.

[2] Companies acquire their own shares to improve earnings per share by reducing the number of shares (Solomon, 1989). Share buybacks by their very nature decrease the total number of shares outstanding. With fewer shares outstanding after a buyback, and assuming that buyback does not adversely affect the company's earnings, the earnings per share of the remaining shares will increase (for example, Pinches (1990), Dyckman, Dukes & Davis (1995), Skousen, Stice & Stice (1995),Willson, Rohel-Anderson, & Bragg (1995), Kieso & Weygandt (1998). Thus, each remaining outstanding share represents a slightly higher percentage of the company which are used to recalculate the EPS, one of the most important factors in determining share price. Vermaelen (1981), Dann, Masulis and Mayers (1991) show that initial market reaction is positively related to subsequent increases in earnings per share following the share buybacks.

need not go for unnecessary diversifications. Hence when a company plans buyback. It implies that they could find no better investment opportunity to deploy extra cash, than putting money into the share markets.[1] It also implies that the market is undervaluing the shares of the company making them attractive investment for market (Dann (1983), Wansley, Lane & Sarkar (1989)).

Harris and Ramsay (1995) and Christianto (1998) concluded a positive wealth effect on the announcement of a buy back. Many studies report abnormal share price increases in response to share buyback announcements. (See, for example, Masulis (1980), Vermalen (1981), Dann (1981), Asquith & Mullins (1986), Comment & Jarrell (1991), Ikenberry, et al. (1995)). Statistical studies in the US taking the case of $ 150 billion of buyback announced in 1996- show that shares soar after such announcements, and continue to rule high for a long time after. When a flagship company opts for the buyback, it affects across the group: the market values of sister companies rise too. However, a share price may get a boost from the temporarily high trading zone as well as from the show of support demonstrated by company but the most important reason is that it increases investor's proportional share of the company. Thus, not only does the market have an initial positive reaction, but also it underestimates the extent of the information contained in the news.

- **Accounting effects**: Moreover, the reduction of shares has an accounting effect on earnings per share, price/earnings ratio and ROE, which make the number, look better even though performance is the same. Return on Net worth (RONW) rise; so do EPS and Book Values. Improved ROE of the company leads to higher P/E multiple.

- **Rationalise company's capital structure:** A share buyback programme is one technique to redistribute the capital component of equity. It enables equity capital to be reduced by substituting cheaper tax-deductible debt capital for common equity. This strategy allows the company to actively mange its capital and to improve performance measures.

- **Substitute share buyback for cash dividend payouts:** Since capital gains may be taxed at rates lower than dividend income, this offers existing long-term shareholders a tax-advantaged form of distribution.

- **Replenish the pool of share available for employee incentive options:** A more pragmatic reason for share buybacks is to reduce the dilution caused by company share option plans. Such plans have become an increasingly larger part of company's compensation plans worldwide. From time to time companies buyback shares to avid the excessive dilution that may occur as more and more options are granted and later exercised.

[1] With companies increasingly focusing on their core competencies equity buybacks becomes a lot more sense for companies who are in matured industries and the scope of expansion is constrained by demand factors.

- **Prevent hostile takeovers:** The buyback regulation provides a fair chance to the incumbent management to protect their turf in case of a hostile takeover. The takeover code allows the company to offer a buyback even after a hostile bid has been made. A buyback offer at very high price raises the market price and makes the takeover more expensive for the raider.

- **Return surplus cash to shareholders:** Share buybacks are preferred alternative investments for any cash flow left over once the company has met its capital investment needs. In such cases, buying back share, even if the share is fairly valued, should provide a better return than having management throw cash down the drain on low return investments.

However, this type of strategy also has been criticised as (i) an attempt to boost a sagging share price, (ii) a means to mask poor performance, and (iii) a sign that management has run out of ideas. This procedure can be detrimental to the company's health if it does not have adequate funds to buyback the share and they are replaced by debt. Since a share buyback weakens the company’s balance sheet (by reducing cash); buying back shares can be downright hazardous for debt heavy companies. For any company, a buyback shifts the weighting of the balance sheet toward debt and away from equity. This helps a company post a higher return on equity, but only at the expense of riskier balance sheet. Some companies cannot afford this luxury.

Contrary to the belief, a quick market revival can't be guaranteed as it is impacted by other factors. Moreover, the share buyback may also send a negative signal to the share market. Post buyback, it can be construed in some cases, that the company had fewer growth opportunities owing to the erosion of cash reserves. Further, if the performance of the company on the capital market reverses with share price drifting down post buyback, there would be a complete erosion of the investor confidence.

There is also common apprehension that if companies are allowed to buyback and reissue shares, management may resort to manipulation. They may, through collective trading, depressed prices, create anxiety among investors and tempt them to sell the shares to the company by making apparently attractive offers. Corporate energies may be diverted from the main business of the company to share market games that were heard the more gullible shareholders.

Critics of buyback also argue that when a company buys back its shares it may make a bargain purchases that give an unfair advantage to the continuing, non-selling shareholders (which typically includes corporate insiders). The underlying premise is that a buyback programme represents a zero-sum game, a game in which one group (the non-selling group) benefits at the expense of another group (the selling group).[1]

[1] This argument is based on the assumption that all the shareholders of a company have identical goals and horizons. In reality, however, shareholders have varying goals and horizons. At one extreme, shareholders are interested in speculative gains in the short run; at the other extreme, shareholders are concerned about investment returns in the long run. Thanks to the diversity in shareholder orientations, a buyback programme is not a zero-sum game, but an exercise that can benefit all, depending on individual goals.

Research Design, Data and Variables

Though the shareholders have welcomed buybacks their inherent discomfort with the option remains because a number of issues related to individual and small investors have been left open. The real question which concerns them is that when they get a buyback offer, whether or not they should stay or should they go in by accepting the offer. There are also fears that Securities and Exchange Board of India (SEBI) regulations are not tough enough.

The main objective was to investigate the validity of long-term effects of share buyback programme on a company's share price and to assess which companies benefit more from these programmes. Further, whether shareholders are better off in tendering their shares in a buyback offer or in the post buyback phase? Is the intention of the management to genuinely promote shareholder wealth or is it a route to increase promoter's percentage shareholding? To answer these perennially question, twenty-five events of buybacks by different companies for which details were available were analyzed in terms of various parameters.[1]

Data & Sample Selection

Three sources were used to collect the sample data for buybacks. The main sample of companies came from the SEBI web site, which announced, conducted and completed share buyback program over the period from 1999 to 2001. This was accomplished using the following steps. First, the sample was collected of all companies going for the buyback. Companies potentially making buyback announcements were identified by evaluating the magnitude of purchases of common share related to the total equity at the beginning of the year. Companies were chosen in a range of industries and market capitalisation. The sample was supplemented with announcements of share buyback programmes reported in CMIE & Capitaline database.

Empirical Findings

Candidature for Buyback

First & foremost issue to address is that was it a right strategy for the companies who had gone for buyback? Buyback route can be undertaken by companies which are financially sound, or which have limited promoter's stake or those facing takeover threats. Internationally it has been observed that companies have opted for buybacks in times when they believed that shares were undervalued in the market or when they had surplus cash in their treasury. Companies with consistently high ROCE are more likely to have free cash than others. They can buy back even by borrowing as it makes sense for them to swap equity for debt, resulting into higher return on net worth. Lower the enterprise value / assets ratio, price/book value ratio, lower the promoter's

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[1] Though, there are more than 80 buyback proposals that are submitted to SEBI during the period under study. Of these, only 25 came into the purview of this research. This is because the latest balance sheets of the rest of the companies were not available on the online data sources that were consulted or there were missing information which were invariably needed for research to draw valid conclusions. This is also to be noted that many companies in the studied sample have resorted to more than one buyback.

stake and higher the ROCE, lower the DE ratio or higher the current ratio higher are the chances for companies buying back.

Analysis of sample companies for which the market price and market capitalisation data was available was done based on various parameters (**Table-1**). Companies opting for buybacks were analyzed from the point of enterprise/value assets ratio, price/book value ratio, return on capital employed (ROCE) promoter's stake, debt equity ratio, and current ratio. Almost all the sample companies were under valued with lower EV/assets ratio (less than unity for twenty companies), lower price/book value ratio, lower promoter's stake and higher ROCE. The debt equity ratio of most of the companies was less than two. Most of the companies had enough cash to go for buyback programme and were able to meet buyback expenditure from the funds available.

TABLE-1: BUYBACK CANDIDATURE

S.no.	Issuer Name	EV/ ASSETS RATIO	Price/BV Ratio (%)	ROCE BB (%)	Promoter's Stake BB (%)	DE ratio	Current ratio	Cost of BB	Funds Av	Excess Fund
1	AARTI INDUSTIRES	0.88	0.52	21.1	38.70	0.98	1.41	0.05	18.63	18.57
2	BAJAJ AUTO	0.84	1.13	20.12	23.65	0.14	1.34	728.29	1902.66	1174.37
3	BHAGYANAGAR METALS-I	0.56	0.50	13.48	41.01	0.33	4.39	5.71	7.07	1.36
4	BHAGYANAGAR METALS-II	0.90	1.04	17.67	77.25	0.34	3.95	6.00	11.82	5.82
5	CARBORUNDUM UNIVERSAL	0.55	0.66	14.74	2.56	0.64	1.7	31.83	43.69	11.86
6	COROMANDEL FERTILISER	0.38	0.65	28.24	0.22	0.73	1.32	31.62	67.92	36.30
7	FINOLEX CABLES	1.35	0.84	15.69	0	0.29	2.27	48.63	232.36	183.73
8	FORTUNE FINANCIAL- I	0.40	0.24	15.19	53.75	0.66	1.42	1.14	3.74	2.60
9	FORTUNE FINANCIAL-II	0.16	0.19	0	77.9	0.42	1.48	0.47	1.81	1.34
10	GANDHI SPECIAL TUBES	0.48	0.56	29.55	42.02	0.11	2.22	3.57	1.32	-2.25
11	GOLDIAM INTNL	0.47	0.26	29.75	54.54	0	5.68	0.01	18.08	18.07
12	GREAT EASTERN SHIPPING	0.60	0.75	8.84	7.99	0.83	2.32	180.35	202.81	22.46
13	INDIA NIPPON	1.54	NA	47.08	62.58	0.09	1.33	9.10	16.16	7.06
14	INDIAN RAYON	0.57	0.36	9.27	0.24	0.56	2.28	64.65	285.92	221.26
15	JAY SHREE TEA	0.77	0.84	13.73	0.19	0.43	3.13	14.76	52.22	37.46
16	JOHN FOWLER	0.95	0.64	9.34	0.99	0.02	3.66	2.92	4.69	1.77
17	MADURA COATS	0.18	0.33	9.2	51.52	0.04	1.84	39.98	55.71	15.73
18	MOTOR INDUSTRIES-I	0.95	2.52	29.51	51	0.11	1.31	84.00	88.81	4.81
19	MOTOR INDUSTRIES-II	0.81	2.37	29.51	53.83	0.11	1.31	76.00	95.71	19.71
20	RAAJRATNA METAL-I	13.79	0.78	18.22	0	0.29	2.97	4.75	12.09	7.34
21	RAAJRATNA METAL- II	10.92	0.44	13.77	0	0.2	3.24	3.94	10.13	6.19
22	RAAJRATNA METAL- III	8.73	NA	10.05	79.72	0.19	3.25	5.81	12.49	6.67
23	RAYMOND	0.92	1.21	7.91	30.93	0.77	1.82	219.36	120.29	-99.08
24	SELAN EXPLORATION	0.32	0.92	9.15	8.64	0	4.17	1.43	4.47	3.04
25	WINSOME YARN	0.13	NA	11.96	65.87	1.23	1.95	0.41	2.93	2.51

Notes:

1. EV/Assets Ratio=Signifies over valuation in case the value is higher than unity. Lower the ratio, higher the chances for companies buying back
2. Price/BV Ratio = Lower the ratio, higher the chances for companies buying back
3. ROCE = Higher the ROCE, higher are the chances for companies going for buyback
4. Promoter's Stake = Lower the promoter's stake, higher are the chances for the companies going for buyback

RESPONSE TO BUYBACKS OFFER

The success of the buyback programme is inversely proportional to the number of shares bought back. If the shares have not been bought back, the buyback programme will be seen as most successful as it achieved the objective of lending stability to the scrip. On the other hand, if the entire numbers of shares are bought back, it will imply that the buyback programme was unsuccessful in imparting confidence to the investors. However, most of the sample buyback announcements have received a positive response from the market indicating that the shareholders and investors did not have faith in the ability of the company's management.

TABLE 2: RESPONSE TO BUYBACK OFFER

S.no.	Issuer Name	%	Price	No of share Offered	No of share bought	Acceptance %	Total Consideration paid
1	AARTI INDUSTIRES	5.16	42	600000	11954	1.99	502068
2	BAJAJ AUTO	22.48	400	18000000	18207304	101.15	7282921600
3	BHAGYANAGAR METALS-I	24.90	27	2400000	2114166	88.09	57082482
4	BHAGYANAGAR METALS-II	9.97	80	750000	750000	100.00	60000000
5	CARBORUNDUM UNIVERSAL	22.87	115	2767800	2767800	100.00	318297000
6	COROMANDEL FERTILISERS	20.00	65	4864000	4864000	100.00	316160000
7	FINOLEX CABLES	10.00	275	3610620	1768339	48.98	486293225
8	FORTUNE FINANCIAL- I	5.16	10	1373226	1139800	83.00	11398000
9	FORTUNE FINANCIAL-II	25.00	10	1088276	470100	43.20	4701000
10	GANDHI SPECIAL TUBES	22.22	17	2100000	2099929	100.00	35698793
11	GOLDIAM INTNL	20.00	33	1322000	1900	0.14	61750
12	GREAT EASTERN SHIPPING	15.70	42	42940972	42940921	100.00	1803518682
13	INDIA NIPPON	7.68	230	395600	395600	100.00	90988000
14	INDIAN RAYON	25.00	85	16870760	7606419	45.09	646545615
15	JAY SHREE TEA	10.00	120	1230000	1230000	100.00	147600000
16	JOHN FOWLER	25.00	63	906515	466981	51.51	29186313
17	MADURA COATS	25.00	30	18044000	13326541	73.86	399796230
18	MOTOR INDUSTRIES-I	5.30	4200	200000	200000	100.00	840000000
19	MOTOR INDUSTRIES-II	5.55	3800	200000	200000	100.00	760000000
20	RAAJRATNA METAL-I	25.00	40	1187500	1186800	99.94	47472000
21	RAAJRATNA METAL- II	25.00	60	890800	657100	73.77	39426000
22	RAAJRATNA METAL- III	25.00	80	726525	726500	100.00	58120000
23	RAYMOND	25.00	160	13710083	13710083	100.00	2193613280
24	SELAN EXPLORATION	25.00	20	712750	712750	100.00	14255000
25	WINSOME YARN	25.00	10	5600000	411605	7.35	4116050

The very first reason of positive response for share buyback among investors is that the buyback is generally done at a premium to the prevailing market price. Most shareholders believe that promoters will rarely buyback shares, except to protect their own interest or put a stop to a takeover.

Second some companies may buyback their shares over though they are over valued. Doing so will result in a transfer of wealth from shareholders who do not sell their shares to the company at the over valued price to the shareholders who do so. There is also fear that promoters can misuse the process to prop up the market price of their shares for personal benefit.

Buyback & Shareholder's Wealth

A buyback should eventually benefit the entire body of shareholders. In general it is taken as shareholder friendly move for the reason that the investors who participate in buyback receive a premium over market price. However, those who do not participate in this spree get better EPS due to reduction of number of shares of the company. The present study shows the reverse trend of above hypothesis. Buybacks need not be beneficial always and all the time. This is something investors are learning slowly.

Market Price Impact

One can analyze the pattern of returns from the perspective of tendering (participating) and non-tendering (non-participating) shareholders. **Table 3** summarizes the pattern of returns for a participating and non-participating shareholder. Return to tendering shareholders is the buy back premium while the returns to the non-tendering shareholders are in the form of capital gains. The analysis suggests that buybacks are benefiting two groups within the shareholder universe: the promoters and the exiting shareholders. Non-promoter shareholders not participating in the buyback pay a stiff price. Here we use buy back premium from announcement date price to determine the change in wealth of tendering shareholders. For measuring the wealth of non-tendering shareholders for short run we use change in price from announcement date (AD) to closing date (CD) and for long run change in price form AD to 3 month post CD price. In short run in sixteen cases**,** non-tendering shareholders have earned negative returns as compared to only four cases of negative returns by shareholders participating in buyback. Thus, investors in a company offering buyback may be better off being part of the exiting shareholder group. They can always buy the shares from the market later at a lower price if the company is fundamentally sound.

Sensex & market price Impact

It is commonly believed that it does not make sense to go in for buybacks in a rising market as it means using shareholder's money to buy an asset at an artificially high price, thus losing money in the process. In majority of instances of the buybacks of the total twenty five, the sensex has fallen over the levels prevailing as on date of announcement of buyback, implying that markets in these cases have fallen since then **(Table 4).** However, in most of the cases, individual shares of the companies have failed to record any price rise over the buyback price range and have rather fallen, missing the target of attaining superior share performance completely. Out of twenty-five companies fourteen companies show excess of price changes over sensex in short run which means the share of these companies outperformed the market in the short run. While in long run only eleven companies outperformed the sensex.

Table 3 : SHAREHOLDER'S WEALTH

S.no.	Issuer Name	BB Price	Price on AD	Price on OD	Price on CD	Price Three Months after	Tendering Shareholders		Non Tenderiing Shareholders Returns				
							Return from AD	Return from OD	Short Run		Long Run		
									from AD to CD	from OD to CD	3 month post BB to AD	from 3 month post BB to OD	from 3 month post BB to CD
1	AARTI INDUSTIRES	42	37.8	50.7	45	50.9	0.11	(0.17)	0.19	(0.11)	0.35	0.00	0.13
2	BAJAJ AUTO	400	304	359.8	323.6	233	0.32	(0.23)	(0.42)	(0.10)	(0.23)	(0.35)	(0.28)
3	BHAGYANAGAR METALS-I	27	21.75	22.5	25	35	0.24	0.61	0.30	0.11	0.61	0.56	0.40
4	BHAGYANAGAR METALS-II	80	57.35	65.3	62.25	61.1	0.39	0.07	(0.24)	(0.05)	0.07	(0.06)	(0.02)
5	CARBORUNDUM UNIVERSAL	115	83.35	97.55	102.3	82	0.38	(0.02)	(0.29)	0.05	(0.02)	(0.16)	(0.20)
6	COROMANDEL FERTILISERS	65	51.7	48	56	68	0.26	0.32	0.05	0.17	0.32	0.42	0.21
7	FINOLEX CABLES	275	266	255.5	261	257	0.03	(0.03)	(0.07)	0.02	(0.03)	0.01	(0.02)
8	FORTUNE FINANCIAL- I	10	7.5	7	4.6	6	0.33	(0.20)	(0.40)	(0.34)	(0.20)	(0.14)	0.30
9	FORTUNE FINANCIAL-II	10	6	6.9	6.25	14.2	0.67	1.37	0.42	(0.09)	1.37	1.06	1.27
10	GANDHI SPECIAL TUBES	17	16	15.15	14.3	13.9	0.06	(0.13)	(0.18)	(0.06)	(0.13)	(0.08)	(0.03)
11	GOLDIAM INTNL	32.5	38	68.4	87.7	93	(0.14)	1.45	1.86	0.28	1.45	0.36	0.06
12	GREAT EASTERN SHIPPING	42	32.6	34.05	24.7	28.7	0.29	(0.12)	(0.32)	(0.27)	(0.12)	(0.16)	0.16
13	INDIA NIPPON	230	187	186	198.5	130	0.23	(0.30)	(0.43)	0.07	(0.30)	(0.30)	(0.35)
14	INDIAN RAYON	85	74.55	72.75	76.2	109.25	0.14	0.47	0.29	0.05	0.47	0.50	0.43
15	JAY SHREE TEA	120	91.55	92.45	90	57	0.31	(0.38)	(0.53)	(0.03)	(0.38)	(0.38)	(0.37)
16	JOHN FOWLER	62.5	49	56	53.95	38.6	0.28	(0.21)	(0.38)	(0.04)	(0.21)	(0.31)	(0.28)
17	MADURA COATS	30	22	21.8	21.15	21	0.36	(0.05)	(0.30)	(0.03)	(0.05)	(0.04)	(0.01)
18	MOTOR INDUSTRIES-I	4200	3650	3794	3736	3242.5	0.15	(0.11)	(0.23)	(0.02)	(0.11)	(0.15)	(0.13)
19	MOTOR INDUSTRIES-II	3800	3439	3507	3535	2780	0.10	(0.19)	(0.27)	0.01	(0.19)	(0.21)	(0.21)
20	RAAJRATNA METAL-I	40	62.7	94.85	76	76.5	(0.36)	0.22	0.91	(0.20)	0.22	(0.19)	0.01
21	RAAJRATNA METAL- II	60	72.05	92.4	99.25	123.55	(0.17)	0.71	1.06	0.07	0.71	0.34	0.24
22	RAAJRATNA METAL- III	80	95.4	72.05	83.65	97	(0.16)	0.02	0.21	0.16	0.02	0.35	0.16
23	RAYMOND	160	138.2	141.5	105.2	83	0.16	(0.40)	(0.48)	(0.26)	(0.40)	(0.41)	(0.21)
24	SELAN EXPLORATION	20	13.6	14.4	14.2	14.55	0.47	0.07	(0.27)	(0.01)	0.07	0.01	0.02
25	WINSOME YARN	10	5.7	6.95	6.75	4.55	0.75	(0.20)	(0.55)	(0.03)	(0.20)	(0.35)	(0.33)

Table 4 : SENSEX & Market Price Impact											
S.no.	Issuer Name	Sensex changes form AD to CD		Sensex Changes AD to 3 month post CD		Price Change from AD to CD		Price ChangesAD to 3 month post CD		Excess of price changes over sensex in short run	Excess of Price Changes over Sensex in Long Run
		Value	%	Value	%	Value	%	Value	%	%	%
1	AARTI INDUSTIRES	369.09	0.09	1129.82	0.28	7.20	0.19	13.10	0.35	0.10	0.07
2	BAJAJ AUTO	(1236.37)	(0.23)	(1208.36)	(0.23)	19.55	0.06	(71.00)	(0.23)	0.30	(0.01)
3	BHAGYANAGAR METALS-I	902.02	0.24	1217.51	0.33	3.25	0.15	13.25	0.61	(0.09)	0.28
4	BHAGYANAGAR METALS-II	(635.39)	(0.14)	(643.82)	(0.14)	4.90	0.09	3.75	0.07	0.22	0.20
5	CARBORUNDUM UNIVERSAL	(1005.16)	(0.21)	(418.55)	(0.09)	18.90	0.23	(1.35)	(0.02)	0.44	0.07
6	COROMANDEL FERTILISERS	793.40	0.22	1487.85	0.42	4.30	0.08	16.30	0.32	(0.14)	(0.10)
7	FINOLEX CABLES	(163.58)	(0.03)	(1420.71)	(0.25)	(5.00)	(0.02)	(9.00)	(0.03)	0.01	0.22
8	FORTUNE FINANCIAL- I	359.23	0.11	766.05	0.23	(2.90)	(0.39)	(1.50)	(0.20)	(0.50)	(0.43)
9	FORTUNE FINANCIAL-II	947.37	0.21	997.90	0.22	0.25	0.04	8.20	1.37	(0.17)	1.15
10	GANDHI SPECIAL TUBES	(151.36)	(0.04)	(196.40)	(0.05)	(1.70)	(0.11)	(2.10)	(0.13)	(0.07)	(0.09)
11	GOLDIAM INTNL	(167.16)	(0.03)	558.07	0.11	49.70	1.31	55.00	1.45	1.34	1.34
12	GREAT EASTERN SHIPPING	(476.24)	(0.13)	(356.60)	(0.09)	(7.90)	(0.24)	(3.90)	(0.12)	(0.12)	(0.03)
13	INDIA NIPPON	(130.82)	(0.04)	(589.35)	(0.17)	11.50	0.06	(57.00)	(0.30)	0.10	(0.14)
14	INDIAN RAYON	517.16	0.11	913.04	0.20	1.65	0.02	34.70	0.47	(0.09)	0.27
15	JAY SHREE TEA	(803.75)	(0.16)	(526.79)	(0.10)	(1.55)	(0.02)	(34.55)	(0.38)	0.14	(0.27)
16	JOHN FOWLER	(723.09)	(0.16)	(366.38)	(0.08)	4.95	0.10	(10.40)	(0.21)	0.26	(0.13)
17	MADURA COATS	(499.75)	(0.14)	(119.32)	(0.03)	(0.85)	(0.04)	(1.00)	(0.05)	0.10	(0.01)
18	MOTOR INDUSTRIES-I	846.17	0.23	478.41	0.13	86.00	0.02	(407.50)	(0.11)	(0.20)	(0.24)
19	MOTOR INDUSTRIES-II	37.12	0.01	(183.44)	(0.05)	96.00	0.03	(659.00)	(0.19)	0.02	(0.15)
20	RAAJRATNA METAL-I	1050.19	0.30	1047.57	0.30	13.30	0.21	13.80	0.22	(0.09)	(0.08)
21	RAAJRATNA METAL- II	(951.22)	(0.21)	(532.60)	(0.12)	27.20	0.38	51.50	0.71	0.58	0.83
22	RAAJRATNA METAL- III	(268.77)	(0.08)	5.95	0.00	(11.75)	(0.12)	1.60	0.02	(0.04)	0.01
23	RAYMOND	(646.92)	(0.16)	(818.15)	(0.20)	(33.00)	(0.24)	(55.15)	(0.40)	(0.08)	(0.20)
24	SELAN EXPLORATION	(1273.50)	(0.23)	(1620.16)	(0.30)	0.60	0.04	0.95	0.07	0.28	0.37
25	WINSOME YARN	(645.18)	(0.19)	(280.92)	(0.08)	1.05	0.18	(1.15)	(0.20)	0.37	(0.12)

Market Capitalisation Impact

To answer further the perennially question as to whether shareholders are better off in tendering their sharers in a buyback offer or in the post buyback phase, perhaps it will help to know that the 25 companies actually ended up with the erosion of a whopping Rs 1942.15 crore in market capitalisation after the buyback. This erosion of market capitalisation has been calculated as percentage change of market capitalisation over closing date to announcement date and 3-month post closing date to announcement date **(Table 5).** Out of Twenty five companies 14 in long run ended up with an erosion of market capitalisation after the buy back. This indicates that the shareholders who did not participate in the buy back programme have suffered double loss. First, the remaining shareholders in the company were shoddier off because the company expended their funds in buyback leading to decline in company's book value and second, the market price of their shares plunge after the buy back. The results suggest that buybacks in India seems to be driven by motives that are not necessarily good for shareholders staying on The exiting shareholders on the other hand may get the better price. *Thus, investors in a company offering buyback may be better off being part of the exiting shareholder group.*

The above analysis further suggests that buyback does not come cheap. To make a significant impact on their market capitalisation, companies must announce a large offer (at least 15% of the equity capital) at an attractive price (at least 25% more than the ruling market value). A token buyback of, say 5% will have little impact on price if the floating share is large (for example Finolex & Motor Industries). Companies, which witnessed positive increase in the market capitalisation, have offered either higher premium or announced larger offer with comparatively lower amount of floating share.

Table 5: MARKET CAPITALISATION EROSION

S.no.	Issuer Name	%	Scts offered to be bght	Mkt Cap erosion from AD to CD		Mkt Cap erosion 3 month post CD	
				Value	%	Value	%
1	AARTI INDUSTIRES	5.16	600000	5.07	0.12	11.09	0.27
2	BAJAJ AUTO	22.5	18000000	(355.69)	(0.10)	(1271.90)	(0.35)
3	BHAGYANAGAR METALS-I	24.9	2400000	(2.15)	(0.10)	5.37	0.26
4	BHAGYANAGAR METALS-II	9.97	750000	(0.98)	(0.02)	(1.76)	(0.04)
5	CARBORUNDUM UNIVERSAL	22.9	2767800	(5.43)	(0.05)	(24.33)	(0.24)
6	COROMANDEL FERTILISERS	20	4864000	(16.78)	(0.13)	6.57	0.05
7	FINOLEX CABLES	10	3610620	(64.21)	(0.07)	(77.95)	(0.08)
8	FORTUNE FINANCIAL- I	5.16	1373226	(2.09)	(0.51)	(1.48)	(0.36)
9	FORTUNE FINANCIAL-II	25	1088276	0.11	0.04	3.61	1.37
10	GANDHI SPECIAL TUBES	22.2	2100000	(4.61)	(0.30)	(4.90)	(0.32)
11	GOLDIAM INTNL	20	1322000	32.83	1.31	36.34	1.45
12	GREAT EASTERN SHIPPING	15.7	42940972	(305.92)	(0.36)	(224.16)	(0.27)
13	INDIA NIPPON	7.68	395600	(1.93)	(0.02)	(34.49)	(0.36)
14	INDIAN RAYON	25	16870760	11.13	0.02	234.16	0.47
15	JAY SHREE TEA	10	1230000	(12.98)	(0.12)	(49.51)	(0.44)
16	JOHN FOWLER	25	906515	(3.10)	(0.17)	(7.27)	(0.41)
17	MADURA COATS	25	18044000	(6.13)	(0.04)	0.79	0.00
18	MOTOR INDUSTRIES-I	5.3	200000	(42.00)	(0.03)	(219.91)	(0.16)
19	MOTOR INDUSTRIES-II	5.55	200000	34.61	0.03	(293.18)	(0.24)
20	RAAJRATNA METAL-I	25	1187500	99.87	0.21	103.63	0.22
21	RAAJRATNA METAL- II	25	890800	204.25	0.38	386.72	0.71
22	RAAJRATNA METAL- III	25	726525	(72.12)	(0.12)	9.82	0.02
23	RAYMOND	25	13710083	(391.96)	(0.38)	(527.92)	(0.51)
24	SELAN EXPLORATION	25	712750	1.04	0.04	1.65	0.07
25	WINSOME YARN	25	5600000	2.86	0.18	(3.14)	(0.20)
	Total Market Capitalisation Erosion			(896.31)		(1942.15)	

Positive & Negative Price Variations from Announcement Date

Most important facet of any buyback exercise is that it is widely considered as a significant tool for harmonizing the share with its intrinsic value. Many companies believe that share buybacks will help them to achieve superior share performance and returns for the shareholders. This is perhaps the most common rationale for share buybacks.

The announcement of a share buyback by a firm will lead to a change in share prices due to shareholder heterogeneity. However, in today's faltering market, many companies that announce share buyback programs seldom see their share prices increase. The announcement of buybacks manages to prop up the shares for few sessions. After the initial euphoria the shares settle to lower levels or discount levels. Out of the twenty five sample companies, which had gone for buybacks, only in eleven cases desired results were achieved were prices have come closer to the offer price immediately after the announcement. These companies have been able to achieve greater returns for the shareholders via the strong push to their share prices in the long run. This supports the study conducted by Bradley and Wakeeman (1983) and Dann DeAngelo (1983) reporting negative abnormal returns following the announcement of targeted share buybacks. In fourteen cases, there have been negative price variations since the announcement date. The message for investors is thus clear that buybacks do not lead to an improvement in valuation of shares in question. *The primary purpose, barring a few exceptions, appears to be indirectly hike promoter stake using the funds belonging to company* **(Table 6).**

From the table, one can also probe the relationship between the premium offered and the share price behaviors. Companies many times succumb to the attraction of fixing a higher buyback price range over the prevailing market price, thus paying a price premium while deciding buyback range. This leads to destruction of value as company's money is utilized to buy an asset, which can lower the rate of return in future. *It is seen that many companies which had fixed their buyback price range at the maximum differential over the then prevailing share prices have taken the maximum hit in the long run.* Their share prices have rather fallen over the prices that were prevailing at the time of announcement of buybacks, thus completely missing the target of giving a push to share prices. Probably in these cases, proposing an artificially high price to attract enough response to buyback offer could not be maintained and the share prices have reverted to what the market thinks is the appropriate intrinsic value of these shares. On the other hand for the companies (Goldiam International & Raajratna Metals in this sample) were the difference between the prices at which buybacks were proposed and market price prevailing as on date of announcement of buyback is the least, shareholders have been better off in short as well as long run. One clear conclusion from the above is that while a buyback can stop the slide in price, it is not enough to ensure a sustained rise-other fundamentals are more important. When future plans are not clear, shareholder's value does not get enhanced. A share will command premium only when the market is more confident.[1]

[1] When a company's performance is lacking, share buybacks can backfire—unless executives understand why, when, and how to use this powerful and risky tools.

Table 6: PRICE VARIATION FROM ANNOUNCEMENT DATE								
S.no.	Issuer Name	BB price	Price on AD	Price on CD	Price 3 month post CD	Buyback premium over AD price	Price changes form AD to CD	Price changes from AD to 3 month post Cd
1	AARTI INDUSTIRES	42.00	37.80	45.00	50.90	11.11	19.05	34.66
2	BAJAJ AUTO	400.00	304.00	323.55	233.00	31.58	6.43	(23.36)
3	BHAGYANAGAR METALS-I	27.00	21.75	25.00	35.00	24.14	14.94	60.92
4	BHAGYANAGAR METALS-II	80.00	57.35	62.25	61.10	39.49	8.54	6.54
5	CARBORUNDUM UNIVERSAL	115.00	83.35	102.25	82.00	37.97	22.68	(1.62)
6	COROMANDEL FERTILISERS	65.00	51.70	56.00	68.00	25.73	8.32	31.53
7	FINOLEX CABLES	275.00	266.00	261.00	257.00	3.38	(1.88)	(3.38)
8	FORTUNE FINANCIAL- I	10.00	7.50	4.60	6.00	33.33	(38.67)	(20.00)
9	FORTUNE FINANCIAL-II	10.00	6.00	6.25	14.20	66.67	4.17	136.67
10	GANDHI SPECIAL TUBES	17.00	16.00	14.30	13.90	6.25	(10.63)	(13.13)
11	GOLDIAM INTNL	32.50	38.00	87.70	93.00	(14.47)	130.79	144.74
12	GREAT EASTERN SHIPPING	42.00	32.60	24.70	28.70	28.83	(24.23)	(11.96)
13	INDIA NIPPON	230.00	187.00	198.50	130.00	22.99	6.15	(30.48)
14	INDIAN RAYON	85.00	74.55	76.20	109.25	14.02	2.21	46.55
15	JAY SHREE TEA	120.00	91.55	90.00	57.00	31.08	(1.69)	(37.74)
16	JOHN FOWLER	62.50	49.00	53.95	38.60	27.55	10.10	(21.22)
17	MADURA COATS	30.00	22.00	21.15	21.00	36.36	(3.86)	(4.55)
18	MOTOR INDUSTRIES-I	4200.00	3650.00	3736.00	3242.50	15.07	2.36	(11.16)
19	MOTOR INDUSTRIES-II	3800.00	3439.00	3535.00	2780.00	10.50	2.79	(19.16)
20	RAAJRATNA METAL-I	40.00	62.70	76.00	76.50	(36.20)	21.21	22.01
21	RAAJRATNA METAL- II	60.00	72.05	99.25	123.55	(16.72)	37.75	71.48
22	RAAJRATNA METAL- III	80.00	95.40	83.65	97.00	(16.14)	(12.32)	1.68
23	RAYMOND	160.00	138.15	105.15	83.00	15.82	(23.89)	(39.92)
24	SELAN EXPLORATION	20.00	13.60	14.20	14.55	47.06	4.41	6.99
25	WINSOME YARN	10.00	5.70	6.75	4.55	75.44	18.42	(20.18)

Notes:
BB: Buyback
AD : Announcement Date
CD: Closing Date

Buyback Routes & Market Price

Route adopted for buyback of shares has a significant impact on the success of the programme. Price reaction to a buyback announcement depends on both the type and terms of the buyback offer (Vermaelen, 1981; Comment and Jarrell, 1991; and Stephens and Weisbach, 1998).

Previous studies show that both open market and tender offer methods are signal of manger's private information. Companies make surprising choices between the two alternatives. Companies with weaker financial base and larger stakeholders generally go for stronger, more expensive signal i.e. tender offer while the companies go for open market purchase in times of market turbulence or weak business conditions. Thus, open market share buyback program is weaker signals of share under valuation than the tender offers (Comment and Jerrell, 1991).

Open market buybacks are a very important means for listed companies to distribute cash to shareholders (Barclay and Smith (1988), Bagwell and Shoven (1988), Comment & Jarrel (1991). It is motivated best by the leverage adjustment hypothesis and the free cash flow hypothesis (Medury, Bowyer, and Srinivasan, 1992). The nature of information conveyed by, an open market share purchase announcement is empirically examined by Bartov (1991). He finds that buyback announcement returns positively (negatively) correlated with the earnings (risk) changes conveyed by buyback announcements. Maulis, (1980); Dann, (1981) and Vermaelen (1981) report abnormal share price increases in response to share price announcements. According to Netter and Mitchell, the most widely cited motive for open market routes, especially for companies announcing buy back programmes, is to signal under valuation of firm's shares.[1]

However, one has to see the intentions of the management to genuinely promote the shareholder's wealth or is it a route to increase promoter's percentage shareholding. They are certainly good for minority shareholders as these are made at premium to market price. In the long run, however, they may prove detrimental. If the objective of the buyback is just to shore up the share market sentiments, then the open market method followed by most of the companies in the past are least desirable. Majority of the companies, which used open offer method of the buyback, were not able to attain their targeted success of pushing the share prices upward **(Table 7).** The studied sample suggest that out of seven open offers only two have been able to give positive returns to shareholders in long run as well as short run. Others have failed to achieve the basic objective of supporting a company's share price. Market quotes three months after closure of offer of sample companies, which bought back their shares through open market operations, were languishing well below the buyback price.

In tender offer, shareholders are given the opportunity to offer the company the whole or a part of their holdings (depending on the proportion of share capital being bought back) at the buyback price. In this case, if the share is being traded at a substantial discount to the buyback price, investors enter the share knowing very well they get a higher price when the shares are bought back. There is no such assurance in the case of buybacks through open market operations. For the companies which went for tender offer, arithmetic mean of short term price change was 13% while for the companies which opted for open market method recorded the negative arithmetic mean. The same trend was observed in long run (with average price increase of 18% for tender offer and negative price increase for companies opting for open market operation). Thus, if the objective of the buyback is just to shore up the share market sentiments, then the tender method seems to be least desirable.

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[1] Buybacks through open market are more successful in meeting the objective of the programme compared to the tender method. This is because; an open market offer acts as a deterrent to the short seller as the company can time the buyback during depressed share markets. This lowers the cost of the buybacks and serves to shore up sentiments on the share market.

Table: 7 BUYBACK ROUTES & MARKET PRICE

S.no.	Issuer Name	Buyback Method	BB Price	Price on AD	Price on CD	Price Three Months after	Price Change from AD to CD		Price Changes 3 month post CD	
							Value	%	Value	%
1	AARTI INDUSTIRES	TENDER	42	37.8	45	50.9	7.20	0.19	13.10	0.35
2	BAJAJ AUTO	TENDER	400	304	323.6	233	19.55	0.06	(71.00)	0.23
3	BHAGYANAGAR METALS-I	TENDER	27	21.75	25	35	3.25	0.15	13.25	0.61
4	BHAGYANAGAR METALS-II	TENDER	80	57.35	62.25	61.1	4.90	0.09	3.75	0.07
5	CARBORUNDUM UNIVERSAL	TENDER	115	83.35	102.3	82	18.90	0.23	(1.35)	0.02
6	COROMANDEL FERTILISERS	TENDER	65	51.7	56	68	4.30	0.08	16.30	0.32
7	FORTUNE FINANCIAL- I	TENDER	10	7.5	4.6	6	(2.90)	0.39	(1.50)	0.20
8	FORTUNE FINANCIAL-II	TENDER	10	6	6.25	14.2	0.25	0.04	8.20	1.37
9	GANDHI SPECIAL TUBES	TENDER	17	16	14.3	13.9	(1.70)	0.11	(2.10)	0.13
10	GOLDIAM INTNL	TENDER	32.5	38	87.7	93	49.70	1.31	55.00	1.45
11	INDIA NIPPON	TENDER	230	187	198.5	130	11.50	0.06	(57.00)	0.30
12	JAY SHREE TEA	TENDER	120	91.55	90	57	(1.55)	0.02	(34.55)	0.38
13	JOHN FOWLER	TENDER	62.5	49	53.95	38.6	4.95	0.10	(10.40)	0.21
14	MOTOR INDUSTRIES-I	TENDER	4200	3650	3736	3242.5	86.00	0.02	(407.50)	0.11
15	MOTOR INDUSTRIES-II	TENDER	3800	3439	3535	2780	96.00	0.03	(659.00)	0.19
16	RAAJRATNA METAL-I	TENDER	40	62.7	76	76.5	13.30	0.21	13.80	0.22
17	RAAJRATNA METAL- II	TENDER	60	72.05	99.25	123.55	27.20	0.38	51.50	0.71
18	RAAJRATNA METAL- III	TENDER	80	95.4	83.65	97	(11.75)	0.12	1.60	0.02
							Mean	0.13	Mean	0.18
19	RAYMOND	Open Market	160	138.2	105.2	83	(33.00)	0.24	(55.15)	0.40
20	SELAN EXPLORATION	Open Market	20	13.6	14.2	14.55	0.60	0.04	0.95	0.07
21	WINSOME YARN	Open Market	10	5.7	6.75	4.55	1.05	0.18	(1.15)	0.20
22	FINOLEX CABLES	Open Offer	275	266	261	257	(5.00)	0.02	(9.00)	0.03
23	GREAT EASTERN SHIPPING	Open Market	42	32.6	24.7	28.7	(7.90)	0.24	(3.90)	0.12
24	INDIAN RAYON	Open Offer	85	74.55	76.2	109.25	1.65	0.02	34.70	0.47
25	MADURA COATS	Open Market	30	22	21.15	21	(0.85)	0.04	(1.00)	0.05
							Mean	(0.04)	Mean	(0.04)

Operating Performance Of Repurchasing Companies

If buyback programmes convey good news about future performance, we should find that operating performance improves in the years after buyback, and that investors update and upgrade their expectations and their forecasts about future earnings after buyback announcements. Theories as already pointed out suggest that post buyback; the EPS of a company is bound to increase due to reduction in equity. This in turn would mean a better discounting of the company's shares, which in turn gives a boost to the sagging share prices, which have been languishing way below their respective book values. However, going forward, the EPS could fall if the performance of the company deteriorates, or if the funds used for the buyback earned significant additional income for the company. Further, the investors will adjust their valuations to reflect the reductions in both cash and shares, thereby canceling out any earnings per share effect.[1]

Out of total twenty five samples the EPS in eleven cases registered enhancement **(Table 8).** However if we have more detailed analysis and consider the method of buyback the results are like this. Out of eighteen samples which have resorted to tender offer method for share buyback the earning per share in eight cases increased meaning thereby around 44% of total sample showed upward trend in EPS. However, out of seven cases which opted for open market purchase the earning per share of three companies increased after share buyback i.e. 43% companies registered higher return after buy back. The impact on EPS has also to be seen with respect to buyback price. Best price for buybacks would be one which protects the EPS or actually enhances it. In fourteen cases companies have not been able to enhance EPS. Hence, it would be seen that maximum price for buybacks has no correlation with the fair valuation of the share.

Table: 8 Buyback & Impact on EPS

S.no.	Issuer Name	BB Price	Method	EPS BB	EPS AB	Variation	Mkt Cap AD
1	AARTI INDUSTIRES	42	TENDER OFFER	14.59	11.08	(24.06)	40.83
2	BAJAJ AUTO	400	TENDER OFFER	53.17	51.20	(3.71)	3629.48
3	BHAGYANAGAR METALS-I	27	TENDER OFFER	3.45	8.16	136.52	20.96
4	BHAGYANAGAR METALS-II	80	TENDER OFFER	9.69	13.74	41.80	43.14
5	CARBORUNDUM UNIVERSAL	115	TENDER OFFER	21.44	23.05	7.51	100.88
6	COROMANDEL FERTILISERS	65	TENDER OFFER	19.27	27.18	41.05	125.73
7	FINOLEX CABLES	275	Open Offer	34.35	21.12	(38.52)	960.43
8	FORTUNE FINANCIAL- I	10	TENDER OFFER	2.22	-4.09	(284.23)	4.12
9	FORTUNE FINANCIAL-II	10	TENDER OFFER	-9.3	-3.58	(61.51)	2.64
10	GANDHI SPECIAL TUBES	17	TENDER OFFER	4.63	5.13	10.80	15.12
11	GOLDIAM INTNL	32.5	TENDER OFFER	17.3	26.54	53.41	25.12
12	GREAT EASTERN SHIPPING	42	Open Market Through SE	4.3	9.73	126.28	843.82
13	INDIA NIPPON	230	TENDER OFFER	26.12	33.19	27.07	96.27
14	INDIAN RAYON	85	Open Offer	15.27	11.14	(27.05)	503.08
15	JAY SHREE TEA	120	TENDER OFFER	10.39	-2.00	(119.25)	112.61
16	JOHN FOWLER	62.5	TENDER OFFER	5.81	-4.36	(175.04)	17.77
17	MADURA COATS	30	Open Market Through SE	15.88	-2.14	(113.48)	158.80
18	MOTOR INDUSTRIES-I	4200	TENDER OFFER	275.14	237.03	(13.85)	1388.88
19	MOTOR INDUSTRIES-II	3800	TENDER OFFER	222.25	418.28	88.20	1239.81
20	RAAJRATNA METAL-I	40	TENDER OFFER	20.69	17.11	(17.30)	470.82
21	RAAJRATNA METAL- II	60	TENDER OFFER	21.94	15.82	(27.89)	541.03
22	RAAJRATNA METAL- III	80	TENDER OFFER	17.11	15.08	(11.86)	585.57
23	RAYMOND	160	Open Market Through SE	4.18	13.63	226.08	1037.38
24	SELAN EXPLORATION	20	Open Market Through SE	0.78	0.48	(38.46)	23.66
25	WINSOME YARN	10	Open Market Through SE	2.65	3.49	31.70	15.56

[1] Future prospects of the company ought to be the biggest consideration while evaluating its buyback offer. If the company is expected to record healthy growth, it pays to stay invested in it. However, if it is expected to founder, exiting might be a better option. This fact is borne by the contrasting post buyback numbers of companies that have bought back share in the period under investigation. If increasing earnings per share were the only rational for buybacks, they would have no impact on value which as we have seen is certainly not the case.

Conclusion

Share buybacks appear to be slowly gaining fancy in Indian corporate sector. Companies as well as capital markets can be thus, rejuvenated by resorting to this excellent tool of financial re-engineering. However, anomalies and inconsistencies observed need to set right to enable companies to buy back their shares. Signaling effect is the most important outcome from the buyback but it has to be used wisely as misuse can lead to huge penalty in form of highly deteriorated performance. Low tendering of shares in a buyback doesn't necessarily translate into improved market performance. ROE and EPS may increase or decrease but when the buyback results in a fall in these parameters, the penalty for failure is huge as the dip is very large.

The decision of whether share buybacks are all that attractive to a company and its shareholders depend on many factors, which may be unique to each case. Due consideration has to be given to the significance of each factor before a final decision is made. While share buy-back brings a lot of cheers to the capital market it has been observed that buy-backs are made at the cost of hard assets and often companies are forced to sell off their hard assets to mobilize funds for share buy-back exercises. A company's management must determine whether buying back shares is better use of shareholder's money than reinvesting in the business, and determine whether either of these options is better than simply returning the money to shareholders through dividends. Some of the other factors which demand attention are normally the pricing, timing and the market conditions at the time of the buyback announcement. In most cases it was observed that the company that offered buyback prices far above premium had over-subscription and the prices fell after the buyback.

The analysis shows that many of the companies that have tapped the route so far seem to be likely candidates for buyback offers. It is most likely that they did not have enough projects on hand which made them the right candidates for buybacks. Theoretically it means that if they buyback their shares shareholder value will be enhanced. However, the results bring to light certain surprising facts, quite different from widely held notions. From qualitative and quantitative analytical study, we can conclude that, in India, the buybacks have not been very successful in terms of yielding any excess returns to the shareholders both from the market and by way of balance sheet figures.

The announcement of buyback did bring about an increase in the share prices but it was a short-term phenomenon. The prices of shares did not appreciate reasonably on a long term sustainable basis and as a result there was transfer of wealth from non-tendering shareholders. In most cases the prices after buyback fell below the buyback price. Hence it can be concluded that share buyback could not ensure a sustained rise in the prices of the scrip.

On the contrary, buybacks have been used as a tool for the management to improve the shareholding of the promoters and impart them short term gains. Raising the promoter's stake is well accepted but undeclared agenda. At times, the buyback is motivated by the promoter's vested interest to raise his own stake, using company's funds. An increase in the promoter stake is only incidental. However, in India, distributing cash to shareholders seems to be the incidental objective ---the prime one being increasing promoter stake. One important implication of such a behavior is that the regulatory norms of SEBI are still not perfect, and more needs to be done in the Indian context to bring the market at par with the developed economies. The placing of red carpet for the new market mantra: – share buy-back shall ensure that the companies resorting to buy-back adopt good corporate practices so that the introduction of the new provision does not result in any scam. In this regard SEBI has to play a crucial role in the regulation and guiding the buy-back of shares in India

Scope for Future Research

There are a couple of possible directions that further research on this topic could take. One of them would be to observe more and more companies, segment them industry wise, and then carry out a thorough analysis on similar lines. This would help in understanding the general mentality of the Indian corporate while deciding about buyback. Such an analysis would also help in formulating better norms to govern buyback, to prevent its misuse. A further implication of such a research could also be to develop a model where in the post buyback financial measures of the company would be estimated depending on their pre buyback values and the economic soundness of the company.

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