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ANALYSING THE BUYBACK OF SHARES IN INDIA

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I. ABSTRACT

Buyback of shares have gained great prominence in India after the Amendment to companies Act in 1999, which allows companies to repurchase their own shares. This kind of strategy tries to restrict and limit share supply in the market, perhaps stabilizing or increasing prices, but their effectiveness varies greatly, raising concerns about their underlying worth. This paper analyses the reason for buybacks, including their influence on market value. Though buybacks can increase shareholder value, companies must balance this approach with long-term investments to avoid masking underlying financial issues.

II. KEYWORDS

Buyback, Company, Financial impact, India, Market, Shares.

III. INTRODUCTION

A. Overview

A buyback of shares connotes that a company is repurchasing its shares. Indian companies were not permitted to buy back their shares prior to the companies' amendment Act of 1999. When the company buy- back, the total number of shares that are available for purchase on the market declines. This helps to limit the dropping share price, and there are numerous other advantages and disadvantages. This research paper focuses on the rationale behind the buyback of shares, how it affects the market value of shares? And its objectives, impact, requirements & limitation in buyback of shares as well as a detailed analysis on the provisions relating to buyback. This paper also does a data interpretation of various company in its buyback process. This paper adopts an analytical approach to study this Buyback in detail.

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B. Statement Of Problem

With the amendment to companies' act in 1999, Buy back has gained popularity, wherein after that numerous companies employed it, to fulfil a variety of its corporate objectives. However, the success rate of buybacks is still low, and the impact of buyback decisions on investors is uneven. Also, it is unclear who stands to benefit from this decision. As a result, a thorough understanding of this phenomenon is required. What kind of companies can benefit from the buyback decision? Is it merely an attempt to cover up the various financial figures? Can this action of buyback increase the number of shareholders and attract new investors? What factors do influence the success or failure of a buyback decision?

C. Review Of Literature

1. Dr Urvashi Varma, Dr Harjit Singh and Dr Alka Munjal, Corporate Restructuring through Share buybacks: An Indian Experience (2018), The current study examined corporate actions such as the "free cash" policy, dividend distribution, capital structure change, and lower profitability while deciding how to interpret the intent behind these 'tender offer buyback' and 'open market buyback' offers from January 2004 to December 2017. The study suggests that 'tender offer buyback' is more frequently used for capital structure corrections, whereas dividend substitution and capital structure correction are the primary drivers of open market repurchase in India.
2. Subhamathi & B. Manuelpinto, "An Analysis of Buyback Prices in India" (2014), this article explains that In India, share buybacks are an important tool for company reorganization and financial research. This article investigates share buyback procedures in India, as well as price reactions during buyback and announcements. This paper examines the impact of the share repurchase pricing, which are not always favourable and analyses the company's share prices before, during, and after the buyback announcement.

IV. OBJECTIVES

The objectives of this paper are,

1. To understand the concept and the purpose behind buyback of shares.
2. To analyse the impact of share price changes before and after buyback.
3. To examine the impact(s) of buyback of shares on the financial efficiency of the companies.

V. HYPOTHESIS

The 'buyback of shares' is generally known as 'share repurchase'. It is the reverse of issue of shares by a Company wherein the Company offers to take back its securities owned by the investors at a specified price. *And this research paper is based on the hypothesis/ assumption that, there is a significant difference in companies share prices before and after buyback of shares.*

VI. RESEARCH QUESTIONS

The paper "Analysis on the Buyback of Shares in India" is based on following questions,

- What does buyback of shares mean?
- Does the buyback of shares have great impact on share price of the company?

VII. RESEARCH METHODOLOGY

The research methodology adopted in this paper is a mixed framework of analytical and doctrinal, wherein qualitative approach is adopted. And Reliance is placed on books, journals, research papers as well as articles and judicial decisions related to the topic "Analysing the Buyback of Shares in India".

VIII. BUYBACK

The repurchase of company shares owned by shareholders can be the term used to describe the buyback of share. Section 77 of the Indian Companies Act restricted companies' buyback of shares before to 1998. Following the companies Act (Amendment) 1999, companies in India now purchase their own shares. Several companies, like Reliance Industries and Ashok Leyland, offered to purchase back the shares right away[2].

The repurchase of a company's outstanding shares by the company itself to restructure its capital structure, refund excess cash to shareholders, and boost overall shareholder worth is known as a buyback of the shares. The reduction in the number of existing equity shares leads to an increase in the earnings per share (EPS), an increase in return on net worth, is the indicator to the creation of long-term value for continuing shareholders. In India, the Companies (Amendment) Act of 1999 allowed for the buyback of listed shares by inserting certain provisions, i.e., Sections 77A, 77AA, and 77B into the Indian Companies Act of 1956. The provisions introduced was coupled with a set of conditions meant to prohibit companies from abusing it and to protect investors' interests.

The act provided that a business can purchase back its shares on a proportionate basis from current shareholders or on the open market, via the book building process or the stock exchange. Since 2001, Indian companies have been conducting buybacks, utilizing both the 'open market repurchase (OMR)' and the 'tender offer buyback' mechanisms[3].

Some of the Drawbacks or disadvantages of Buybacks of shares are listed below;

1. **Biased Advantage**: If a company repurchases its shares, it might do so at a discounted price, giving the remaining, i.e., non-selling shareholders an unfair advantage.
2. **Manipulation:** If companies repurchase its own shares, managers might use this tactic, by engaging in collusive trading, and the company can lower prices, frighten investors, as well as induce them to sell their shares by making apparently attractive offers.
3. **Excessive Payment:** The amount paid by the company for the buyback could be excessive. Even though the repurchase damages the interests of the

[2] V. Subhamathi, "*A Study on Buyback Shares in Listed Bombay Stock Exchange BSE Companies in India*", SHODHGANGA, 1, 14 (2017).
[3] Dr Urvashi Varma, Dr Harjit Singh and Dr Alka Munjal, *"Corporate Restructuring through Share buybacks: An Indian Experience",* 12, EDU.AU, 118, 118-119 (2018).

remaining non-promoting shareholders, this action of buyback may be driven by promoters' desire to increase their ownership in the company.

IX. IMPACT OF BUYBACK OF SHARES

In India, the concept of buyback of shares is very widespread. It is a potential tool that helps companies use the available capital as efficiently as possible to increase shareholder value. The following outlines the effects that buybacks have on a company's various financial components.

1. Impact on Earnings Per Share (EPS)

Repurchase of a company's shares has a substantial impact in the market, which directly affects its EPS. The primary basis for this is that after share buyback, the total number of outstanding shares decreases while net income tends to stay the same.

2. Influence on Raising Shareholder Value

When company choose share repurchase, their EPS is more likely to increase dramatically and much more quickly than with operational improvements. Investors looking for lucrative investment opportunities frequently view companies with stable EPS as superior income generators with greater growth potential.

3. Impact on the Financial Statement

The money used to repurchase company shares would be stated in the earnings report of the company and would also appear in the statement of retained earnings and the statement of cash flow under the heading "financial activities."

4. Impact on the Portfolio of the Company

Companies that are confident in their future frequently engage in the practice of repurchasing their own share. Such a show of assurance is well appreciated by new investors and current shareholders and considerably increases their trust. In turn, it allows a increase in the company's share value naturally and enhances its market reputation. All of this immediately contributes to a considerable increase in the venture's portfolio.

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As a result, buyback is a useful practice for both potential investors and helping to create a positive image of the company in the market. The table below illustrates the number of buyback services from the year 2010 to 2025, indicating that buyback of shares are prevalent in India.

YEAR	**AMOUNT (Rs. Cr)**	**NO. OF. ISSUES**
2010-2011	4,295	20
2011-2012	13,765	31
2012-2013	1,694	21
2013-2014	11,380	32
2014-2015	605	10
2015-2016	1,834	16
2016-2017	34,468	49
2017-2018	53,307	59

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2018-2019	55,587	63
2019-2020	19,927	52
2020-2021	39,295	61
2021-2022	31,316	40
2022-2023	21,781	62
2023-2024	14,108	41
2024-2025 (as on 11/10/24)	7,698	36
TOTAL	**3,11,060**	**593**

- **SOURCE: PRIME DATA BASE[4]**

This share buyback does not always have a good influence on the company. The Companies Act of 2013, Sections 68, 69, and 70, as well as the Companies (Share

[4] PRIME DATA BASE, https://www.primedatabase.com/buy_demo.asp (last visited on Oct. 15, 2024).

Capital and Debentures) Rules of 2014, both control share buybacks. The SEBI Regulations for Buy Back will also be applicable to Listed Companies.

The reason for enacting securities repurchases rule was elegantly articulated by the House of Lords in the case of **Trevor vs Whitworth**[5]. In this case, Lord Watson observed that it is crucial to prevent companies from exerting unrestricted power when it comes to stock buybacks. If these rules are not implemented, firms may "traffic" their own securities in an attempt to improperly influence the market price of shares. This position is not just unfavourable for the shareholders, but also for the long-term viability of the company, which are usually funded by the general public.

X. ANALYSIS AND CONCLUSION

Buyback of shares seems to be steadily gaining prominence in the Indian corporate community. Using this excellent approach to financial re-engineering may strengthen companies and capital markets. However, in order for businesses to buy back their shares, the found inconsistencies and discrepancies must be fixed.

A company's management must decide if buying back shares is a better option of shareholders' money than reinvesting it. Other aspects that have to be considered includes the price, time, and market circumstances at the time of repurchase announcement. In most circumstances, the company that offered repurchase prices high above the premium had over-subscription, and the prices has decreased after the buyback.[6] Thus, through this analysis, the impact of buyback and its prominence among the companies has been examined.

In summary, as outlined in the Companies Act, 2013 a company can to repurchase its shares for a numerous reason including, giving back the surplus profits to shareholders, improving financial condition, reduction in the number of outstanding shares, and preventing a hostile takeover. It is important to note, that buyback of shares should not be utilized to influence the market price. And for which the Companies Act of 2013 restricted the number of shares that a company can purchase

[5] (1887) 12 App Cas 409.
[6] A. K. Mishra, "An empirical analysis of share buybacks in India", 11, SSRN (2005), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=733144 (last visited 9 Aug 2023).

back. The limit is 25% or less of the total paid-up share capital and free reserves. This restriction guarantees that the company's resources are not reduced or narrowed down by the repurchase and that it has sufficient finances for operations.

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