

Capital Restructuring Through Share Buyback: A Case Analysis of the Indian IT Company

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ABSTRACT - Buyback is a corporate activity in where a corporate buybacks its shares from the current shareholders, generally higher than the market cost. Resource rich Indian companies ought to put their resources to increase the value to the shareholders and stabilise the financial market. In Indian scenario, the announcement of share buyback is significant as it results in wealth creation for shareholders. The drivers which lead to this are high growth rate, low inflation rate; prevention from the threat of hostile takeover, as it has become a common phenomenon globally, This article primarily focuses on buybacks that were made by the Indian Information technology companies during the tenure 2016-18 and the impact on the stock prices pre-declaration and post declaration of the buyback process. The impact of declaration of buyback is consistently reflected on share prices. Buyback is one of the strategies for capital rebuilding. It likewise flags undervaluation of the Company's shares comparable its intrinsic value. Companies with strong financial background should resort to repurchase. Corporates ought to follow the principle of good corporate administration, which will ensure transparency in buy-back deals. In a one and half year the Indian IT organizations buyback offer size was 58, 10, 25,742 offers and great returns before opening dates of buyback. In the expected years, the business condition will keep on staying testing and serious power is probably going to stay high. IT organizations conveyed solid outcomes.

Keywords: Share buyback, corporate restructuring, tender offer, employee stock option

I. INTRODUCTION

Section 77A of the Companies Act 2013 lays down the process which is to be complied by the corporate houses. The proposal for buyback is to be approved by the board in a special resolution and intimation has to be sent before and after the process to the listed stock exchange and to the Registrar of Companies. Compliance is mandatory and any case of non-compliance would lead to penalty and cancellation of the process.

Capital restructuring is a corporate operation that involves altering the mixture of debt and equity in a company's capital structure. It is performed in order to optimize profitability or in response to a crisis like bankruptcy, hostile takeover bid, or changing market conditions. Restructuring capital and liabilities can help enhance management governance, and capital costs can be reduced to achieve an optimum capital structure.

The process of Capital Restructuring is undertaken with the following motives

- To enhance liquidity

- To lower the cost of capital
- To reduce risk
- To avoid loss of control
- To improve shareholders' value

CAPITAL RESTRUCTURING THROUGH SHARE BUYBACK

Buyback of shares as a process of capital restructuring which allows a company to buy back its own shares, which were issued by it earlier. Companies' buyback shares either to increase the value of shares. It also signals undervaluation of the Company's shares in relation to its intrinsic value. It appears that only financially sound companies should be able to resort to buy-back. Companies should follow the principles of model corporate governance and there should be transparency in buy-back deals. In a one and half year the IT companies buyback offer size is 581025742 shares and good returns before opening dates of buyback. In the year ahead, the business environment will continue to remain challenging and competitive intensity is likely to remain high. IT companies delivered healthy results.

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II. BUYBACK AS A CORPORATE STRATEGY

Section 77A of the Companies Act 2013 lays down the process which is to be complied by the corporate houses. The proposal for buyback is to be approved by the board in a special resolution and intimation has to be sent before and after the process to the listed stock exchange and to the Registrar of Companies. Compliance is mandatory and any case of non-compliance would lead to penalty and cancellation of the process.

III. OBJECTIVES OF THE STUDY

The objective of this article is to study the impact of share buyback on the stock prices of the selected Indian IT over the entire period of buyback. For this purpose the number one Information technology companies of India- Tata Consultancy Services has been selected i.e., and the time period between 2016-2018 was selected.

The study was mainly focussed on studying the price trends in four phases.

- a. The price movement from Announcement date to record date
- b. The price movement from Record date to start date
- c. The price movement from start date to closing date of buyback
- d. The price movement from closing date of buyback post 15 days.

IV. REVIEW OF LITERATURE

A plethora of studies have been conducted in the western developed countries regarding share buybacks. However in India very few studies conducted in this regard. India has its first experience of share buyback only in 1998.. Keeping in view of the objective of research, the number of literature that has been reviewed is as follows:

Masulis (1980) made a study of tender offer repurchase announcement to measure the reaction of market around

different securities of a firm in the post repurchase announcement days and found on average, 17% two day return for common stock surrounding the repurchase announcement day. The study further investigated a significant price rise in convertible securities than the unaffected or price decline response to non-convertible debt and preferred stock, providing support to the signal hypothesis where the information used as a signal to correct the mispriced security for common shareholders.

Dann(1982) took a sample of 143 cash tender offers made by 122 different companies over the year 1962-76 and found a positive and sizeable significant return of 15% by common stockholders. Though roughly 3% abnormal return exhibited by the owner of the convertible preferred stock but they are positioned well compared to the insignificant abnormal return by the straight debt and preferred stockholders. Consistent with the information and expropriation hypotheses, the study found a positive relation with the increment in shareholders wealth.

Vermaelen(1981) observed both open market and tender offer share repurchase programme announced in wall street journal and found signaling hypothesis as a more probable explanation to repurchase than the personal taxation hypothesis. Beside tender offer premium with insiders holding and the portfolio and the portion of outstanding share plays an important signal to the market place to have a favorable positive abnormal return. The study evidenced more small firms having large portion held by insiders took interest to repurchase programme and thus can be used as a signal as a large amount of premium has been sent from the company signifies owners value at risk.

Jensen(1986) argued that overinvestment firms should distribute the excess cash among shareholders for the greater interest of the shareholders. The investment of excess cash in lower profitable opportunities of negative NPV project will generate less return which otherwise could be invested wisely by investors.

Netter & Mitchell(1989) made a study to find out the impact of share repurchase announcement on the stock price movement after the U.S market crash in 1987. Confirming the undervaluation hypothesis, they found a positive market reaction to the undervalued stock. To induce further the attention of market, insiders purchased share at the time of weak performance and subsequently sell the shares finding the stocks performed positive abnormal return.

Iakonishhok & vermaelen (1990) Under 258 tender offer programmes over the period 1962 to 1986 to measure the price behavior of security surrounding the announcement day. They confirmed small firms usually gain more abnormal return than large firms and the 9% abnormal return generated from 109 cases of tender offer of small firms further substantiate the proposition of undervaluation hypothesis. The study also questioned about the large firms who enjoyed a substantial excess returns before the

repurchase announcement might see the programme as a financial restructuring activity aimed at eliminating the excess cash in their bourses.

Comment & Jarrell(1991) analyzed three popular forms of repurchase in U.S market and found tender offer as important signal to the market having a more favorable average abnormal return of 11% against the open market and Dutch auction method which are on average 8% and 2% respectively. The study also observed the premium announced on share repurchase are basically related to the firm specific performance than the overall market performance and are important signal to the market as the amount indicates the owners value at risk. They confirmed mainly signaling hypothesis as a major intention behind the share repurchase of a company, though a number of other intentions can be in the rope behind the decision.

V. RESEARCH METHODOLOGY

This is a causal study which measures the effect of the buyback announcements by the IT companies on the stock prices in the Indian stock markets during the selected period of time. The price trends of the number one Indian Information Technology Company of India-TCS has been studied in four different phases. i.e. from the announcement date till record date; from record date till start date; from start date till closing date and from closing date till 15 days later. Data Collection has been done basically from secondary sources, referring to the website of SEBI and from the official websites of IT company as well from the websites of National Stock Exchange and Bombay Stock Exchange.

SCOPE OF THE STUDY

POPULATION & SAMPLE SELECTION

For the purpose of this study, the population includes the 64 IT companies existing in India out of which 9 IT companies made share buyback during 2016-18. and for this particular study the number one IT company of India-TCS that is also large in terms of market capitalisation, made share buyback in the financial year of 2016-18.

DATA COLLECTION: The mode of collection of data has been by exploring the secondary sources. The informations are collected from company fillings in the website of Securities Exchange Board of India (SEBI) and Bombay Stock Exchange (BSE).

PERIOD OF STUDY: The time period chosen is between August 2016 and March 2018 for the purpose of the study. This tenure witnessed maximum buyback announcements by the IT majors of India.

THE PRESENT SCENARIO OF THE INDIAN IT INDUSTRY

As the Indian Information Technology companies have loads of cash pile, in future there is an expectation of more share buybacks. According to data provided by Capital line in 2017; Out of 39 companies which made an

announcement for buyback, have revenues more than 500 crores, 27 companies cash to market capitalisation in the range of 10% -36%.Ten companies have cash to m-cap of 20%; however a very high cash to m-cap is not taken positively as it indicates that the company is neither growing nor rewarding or returning cash to its shareholders. It also indicates that the company may be undervalued due to lack of growth opportunities. Many Indian IT companies are infamous for holding cash for many years. Nine IT companies like ZENAR TECHNOLOGIES, WIPRO TECHNOLOGIES, MASTEK, MPHASIS, HEXAWARE TECHNOLOGIES, POLARIS CONSULTING & SERVICES, R-SYSTEMS INTERNATIONAL, E-CLERX SERVICES & INFINITY COMPUTER SOLUTIONS INDIA have conducted buybacks in the past. Infosys and Wipro, the two IT mammoths reported buybacks offering up to Rs 24,000 crore in cash. India's biggest IT firm Tata Consultancy Services finished its offer repurchase worth Rs 16,000; making it the biggest ever share buyback in Indian corporate history.

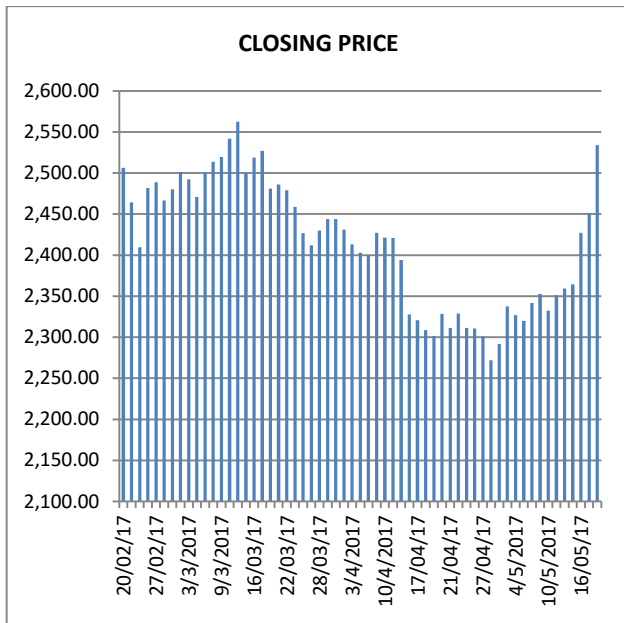
SHARE BUYBACK BY TATA CONSULTANCY SERVICES

TCS bought back shares worth Rs 16000 cr at a fixed price of Rs 2850 each which is 18.3% premium over its share price. The company plans to buyback 56.1million shares which are equal to 2.85% of equity capital. It is expected that it would be impressive as it had low payout in the past. This announcement was made by the company in February.

TABLE 3: BUY BACK OFFER DEAL OF TCS IN 2018

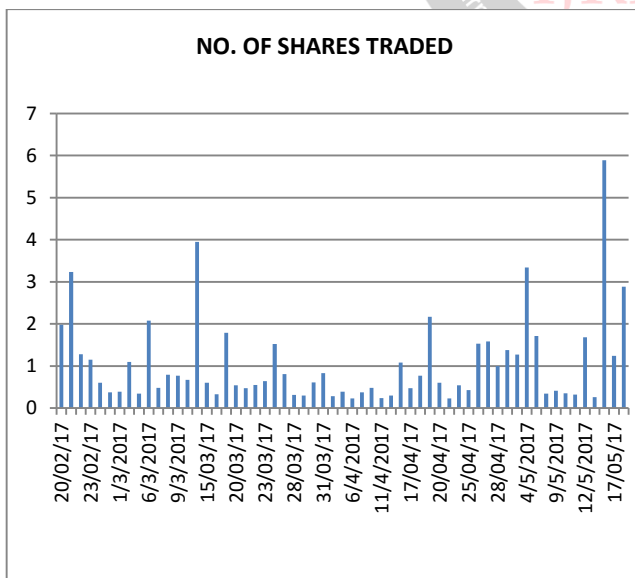
Buyback Type	Tender Offer
Buyback Record Date	Aug 18 2018
Buyback Opening Date	Sep 06 2018
Buyback Closing Date	Sep 21 2018
Buyback Offer Amount	16,000 Cr
Date of Board Meeting approving the proposal	Jun 12 2018
Date of Public Announcement	Jun 12 2018
Buyback Offer Size	1.99%
Buyback Number of Shares FV	76,190,476
Buyback Price	2100 Per Equity Share

TATA CONSULTANCY SERVICES ANNOUNCEMENT DATE TO START DATE (20.2.17 TO 18.5.17)



The highest closing price attained by TCS stock was Rs 2562.35 on 14.3.17 and the lowest closing price reached was RS 2272.10 on 28.4.17. On 14th March the price reached the highest mark, declines thereafter and follows a fluctuating trend for some time till 11.4.17 after which, there is a drastic fall and a slight regain on 20.4.17. However the lowest was recorded on 28.4.17.,then the rising trend continues till 18.5.17

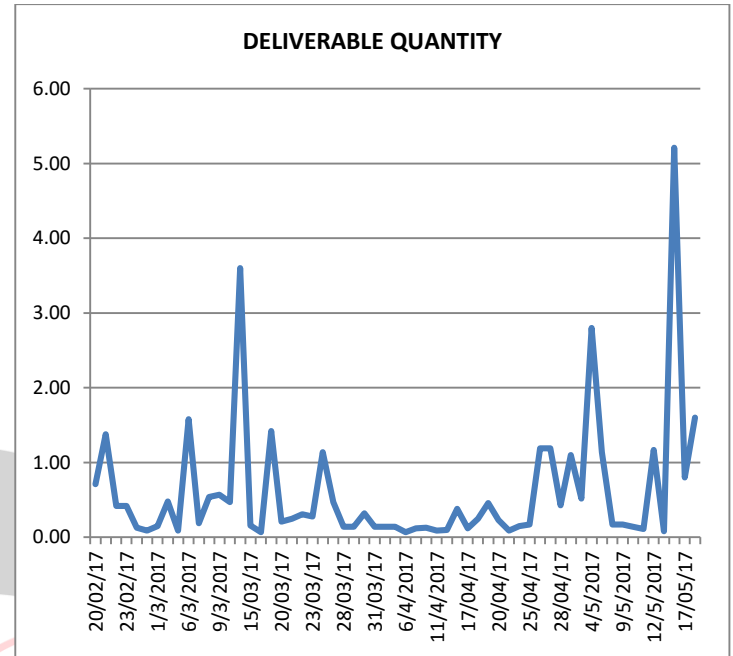
TATA CONSULTANCY SERVICES ANNOUNCEMENT DATE TO START DATE (20.2.17 TO 18.5.17)



The highest no. of shares traded was of the volume of 5,89,310 on 16.5.17 just 2 days before the initiation date of buyback. From the announcement date onwards the price shot up, so also the volume of trade moved up from 1,98,006 to 3,23,885 on 20.2.17 and then falling to as low

as 37,777 on 28.2.17 and then recovering and continuing a fluctuating trend all through reaching the lowest volume of shares traded of 23,329 on 21.4.17.

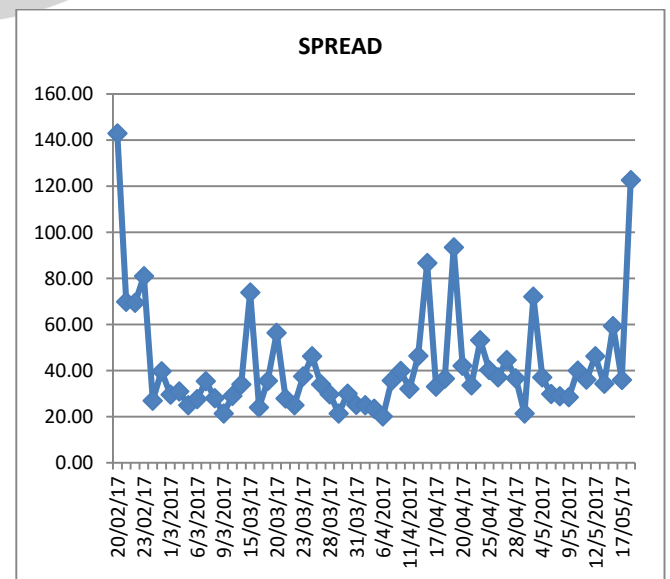
TATA CONSULTANCY SERVICES ANNOUNCEMENT DATE TO START DATE (20.2.17 TO 18.5.17)



As the closing price of Rs 2562.35 was the highest on 14.3.17, so also the deliverable quantity.

The deliverable quantity of the volume of Rs 3,60,074 was recorded to be the highest. .As the closing price was Rs 2399.75 on the date of lowest deliverable quantity was of Rs 7553 on 06.4.17.

TATA CONSULTANCY SERVICES ANNOUNCEMENT DATE TO START DATE (20.2.17 TO 18.5.17)



In the initial days, as the volume of shares traded were on the rise, from 20th Feb onwards. The highest spread of

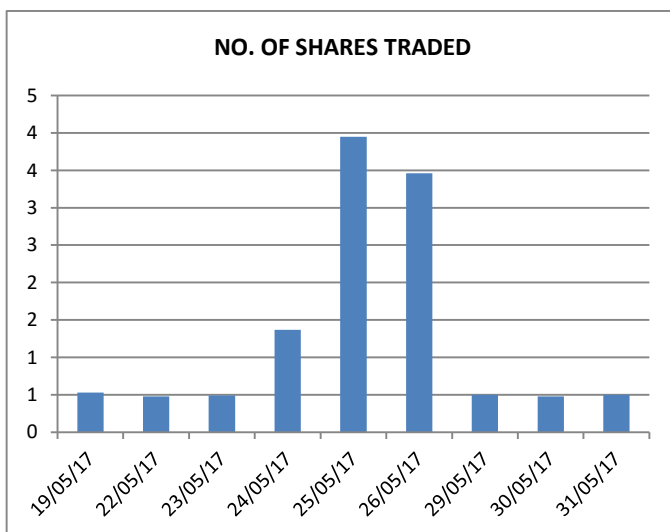
143.00 was observed on 20.2.17 which shows the announcement effect of buyback, had a vibrant and positive impact which resulted in the fluctuation of stock price from Rs2506.54, Rs2464.30 to a high of Rs2562.35 on 14.3.17 with a spread of 34 and the lowest spread of 20.05 was recorded on 6.4.17, when the closing price reached Rs 2399.75.

TATA CONSULTANCY SERVICES START DATE TO CLOSING DATE (18.5.17 TO 31.5.17)



On the commencement of the buyback process, the prices followed an increasing trend. It rose from 2506.80, 2529.30, 2520.45 on the initial days to as high as 2619.95 and the highest closing price was recorded on 25.5.17 which indicates the stock was highly demanding on this day. Following which the subsequent days, observed a downtrend reaching as low as 2544.35 and the lowest closing price of Rs 2506.80 was recorded on 19.5.17 i.e on the initial days of buyback.

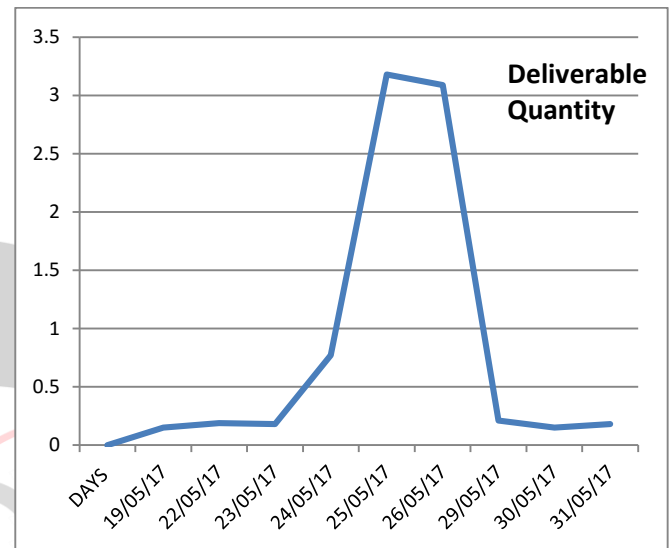
TATA CONSULTANCY SERVICES START DATE TO CLOSING DATE (18.5.17 TO 31.5.17)



In the initial few days of the commencement of buyback, the closing price of the TCS stocks were hovering around a

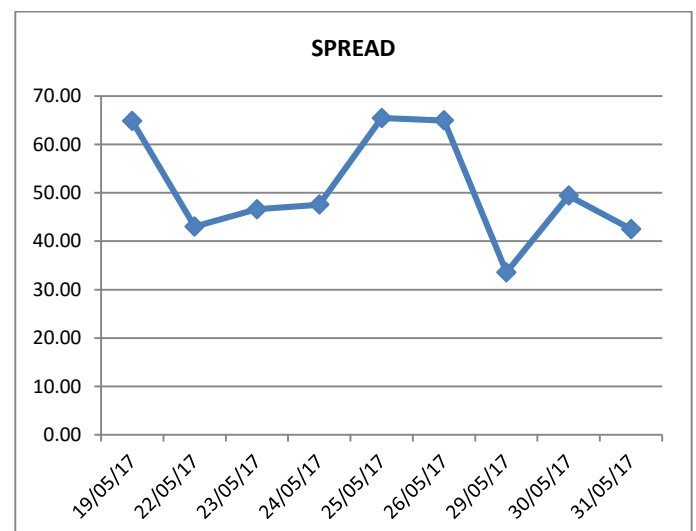
price of Rs 2506.80, Rs 2529.30, 2520.45 on 19th, 20th and 21st respectively and the volume of shares traded on these days 53,123, 48,257, 49,589. The highest volume of shares traded of 3,95,469 on 25.5.17 as the closing price was the highest on this day. So, the increase in demand for TCS stocks resulted in the increase of the market price which ultimately resulted in the higher volume of trade. Subsequently, as the closing price started declining, the volume of trade declined and the lowest volume of shares traded was 48,257 recorded on 22.5.17.

TATA CONSULTANCY SERVICES START DATE TO CLOSING DATE (18.5.17 TO 31.5.17)



The highest deliverable quantity was 3,18,629 on 25.5.17 as the closing price was the highest on this day, the no. Of shares traded was also at its peak hence the deliverable quantity was also the highest. Gradually as the closing price declines a downfall in the no. of shares traded and deliverable quantity is observed and the lowest deliverable quantity of 15,600 was recorded on 30.5.17. This indicates the fall in demand beyond 25th May'17.

TATA CONSULTANCY SERVICES START DATE TO CLOSING DATE (18.5.17 TO 31.5.17)



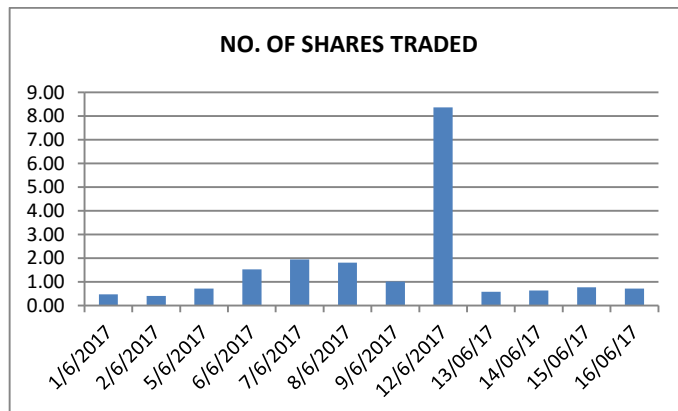
The highest spread of 65.45 was achieved on 25.5.17 as the highest closing price of Rs 2619.95 was also achieved on 25.5.17 corresponding to that even the highest no. Of shares traded of 3,95,469 were also on this date. The highest deliverable quantity of 3,18,629 also occurred on this date and the lowest spread of Rs 33.55 on 29.5.17 as with the decline in the closing price, the no. Of shares traded falls subsequently the deliverable quantity and the spread.

TATA CONSULTANCY SERVICES CLOSING DATE TO 15 DAYS LATER (31.5.17 TO 16.6.17)



The highest closing price of Rs 2695.40 was observed on 6.6.17, which reflects that market responded positively to this corporate action, which resulted in the greater demand of the shares resulting in the increase of the market price even after 5 days of the closure process. The price adopts a fluctuating trend all through till 15.6.17 and the lowest price of Rs 2397.45 was recorded on 16.6.17, after 15 days of the completion of the buyback.

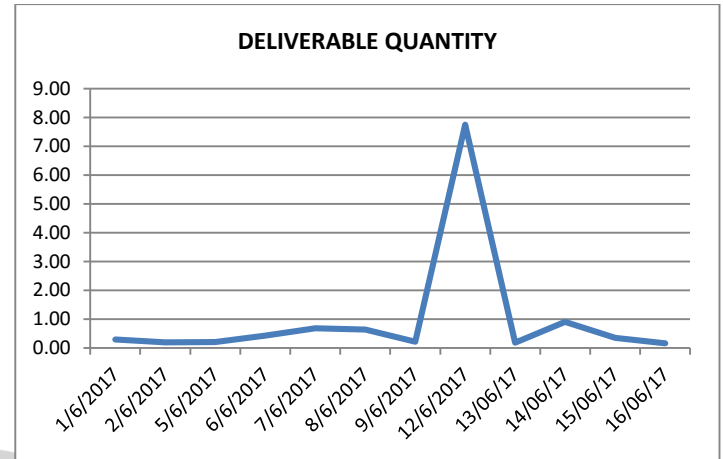
TATA CONSULTANCY SERVICES CLOSING DATE TO 15 DAYS LATER (31.5.17 TO 16.6.17)



The highest no. of shares traded was 8,37,196 on 12.6.17. As it is observed that, few days, post closure, the price continued to be high therefore the volume of trade was low and the lowest no. of shares traded was 41,968 on 2.6.17, just 2 days after the closure process but few days

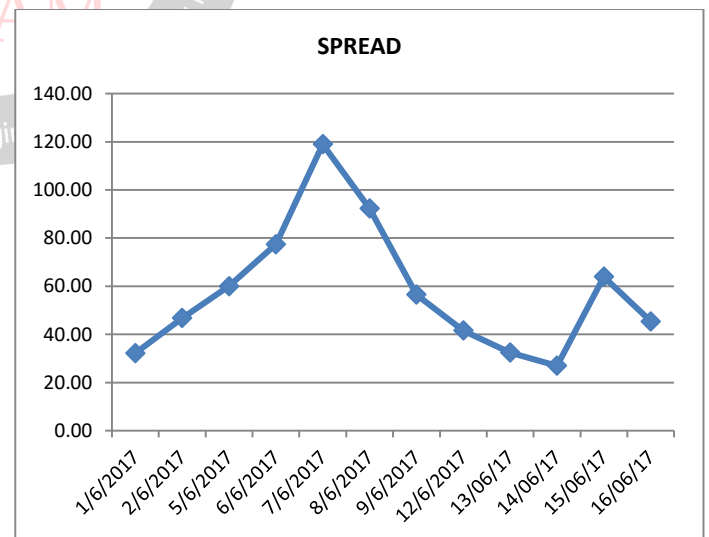
later, the price normalizes for a short duration and the volume of trade rises on 12th June but gradually moves down to as low as 58,017 on 13th June onwards and the trend downside trend continues.

TATA CONSULTANCY SERVICES CLOSING DATE TO 15 DAYS LATER (31.5.17 TO 16.6.17)



The highest deliverable quantity of 7,75,000 shares was on 12.6.17 as the highest no. Of shares traded were also on this date. Due to the trading of a large volume, the highest quantity delivered was also recorded on this date and the lowest deliverable quantity of 16,327 shares was on 16.6.17 i.e on the 15th day post closure, which shows that, gradually the demand for the stock declines witnessing the fall in the market price and subsequently the fall in the volume of shares traded and deliverable quantity.

TATA CONSULTANCY SERVICES CLOSING DATE TO 15 DAYS LATER (31.5.17 TO 16.6.17)



The highest spread of 119 was attained on 7.6.17, post 6 days after the closure of buyback process. On this day, the closing price was also the highest, which shows the strong impact persisted even post closure. It is evident that the investors restored confidence in the company due to increased promoters' shareholding. The lowest spread of 26.95 was recorded on 14.6.17 due to fall in the prices.

LIMITATIONS OF THE STUDY

This study is entirely based upon the collection, analysis and interpretation of secondary data. Data and informations have been collected primarily by exploring the secondary sources only. The time period of the study has also been confined between 2016-18. All these constraints have restricted the scope of the study. Furthermore, the study on the other impacts of buyback has not been undertaken in this article.

VI. CONCLUSION

Share buyback is normally done with the objective of making the company stronger fundamentally and providing growth opportunities in future, which will be indicated by the greater Earning per share and lower price earnings ratio in the industry. The Indian financial market will reflect an uptrend as they create value for investors. Market environment should not be such that investors shy away from the market. It is the responsibility of the regulators, policymakers, government, and market participants to have a fair and transparent system whereby the macro-economic variables like GDP, inflation, savings rate, market rate and interest rate would reflect the market trend. In a scenario of lower inflation, modest growth and constant interest rate, the financial markets should not be highly volatile as it would create stress for the present and potential investors and also for the global markets. As of now, although the stocks of blue chip companies have dipped yet their corporate valuations are high, under such condition; buyback announcement measures a return to shareholders and a means of reducing the number of shares outstanding in the market, thus bringing about a structural change in the shareholding pattern.

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