REVIEW OF BUYBACK OF SHARES BY INDIAN IT COMPANIES

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ABSTRACT

Over the last five years or so Indian IT majors like TCS, Infosys, and WIPRO have gone for buyback of their equity shares. This they have done on more than one occasion. For instance, Infosys has implemented a buyback of shares thrice – in 2017, in 2019, and in 2021. These companies had piles of cash on their balance sheet and were coming under criticism for the huge cash balances they were carrying for years together without any valuable application. They were under pressure from all corners to initiate buyback of shares because that was the only feasible alternative that was available for utilization of excess cash. Finally in 2017 the IT majors went in for their maiden buybacks and repeated it a number of times over the last five years as they had huge amount of accumulated cash which did not have any immediate application requirement. In this article, we review the buyback of equity shares by the Indian IT majors over the last five years and evaluate if they have been successful or not. A survey was conducted of 100 investors and their opinion was sought. They overwhelmingly rated the buyback programs as a major success.

Keywords: *Buy back of shares, Earnings per share, IT Companies*

Introduction

Buyback is an action in which a company buys back its own shares from the existing shareholders usually at a price that is higher than the market price. When it buysback, the number of shares that are outstanding in the market reduces.A buyback allows the companies to invest in themselves. By reducing number of shares outstanding in the market, buybacks increases the proportion of shares the company owns. Buyback of shares can be carried out in two ways:

a. Shareholders may be given a tender offer whereby they have an option to submit all or a portion of their shares within a stipulated time frame and generally at a premium to the current market price. The premium compensates the investors for returning their shares rather than holding on to them.

b. Companies buyback shares in the open market over an extended period of time.

Important reasons for buyback include improving earnings per share, providing an additional exit route to the shareholders when shares are under-valued or are thinly traded, improve return on capital, return on net worth and enhancing long-term shareholder value, enhancing consolidation of stake in the company, returning surplus cash to shareholders, preventing unwelcome takeover bids, achieving optimum capital structure, servicing the equity more efficiently, and supporting the share price during sluggish market conditions.

Advantages of buyback

- It is a mode of reduction in capital without requiring approval of Court/CLB(NCLT),
- It improves the earnings per share;
- It improvesthe return on capital, the return on net worth and enhances the long-term shareholders value;
- It provides an additional exit route to shareholders when the shares are undervalued or thinly traded;
- It enhances consolidation of stake in the company;
- It prevents unwelcome takeover bids;
- It returns surplus cash to shareholders;
- It achieves optimum capital structure;
- It supports share price during sluggish market condition;
- It serves the equity more efficiently

In this paper we present a survey of 100 investors seeking their views on the buybacks by the IT companies.

Review of literature

This paper analyzes the reaction of market share prices on declaration of share buyback, as a tool of rebuilding of shares and the guideline of buyback practices in India. Companies report buyback of shares either to build the worth of given shares or to wipe out any dread by shareholders who might be searching for a controlling stake. The impact of declaration of buyback is constantly uncovered on share prices. The Information Technology companies are picked for concentrate on which is recorded on the National Stock Exchange of India. The arrangements managing buyback of shares are encased in Section 77A, 77AA and 77B of the Companies Act, 1956. These areas were embedded by the Companies Amendment Act, 1999. The paper uncovers the sneak peaks of the buyback of shares by IT companies and its impact on monetary execution of the company (Attri and Rathore 2018).

A buyback, otherwise called a share repurchase, is the point at which a company purchases its own exceptional shares to diminish the quantity of shares accessible on the open market. In the year 2016-17, many companies in the IT and software space picked buyback of shares. The review is an endeavor to comprehend the reasons and the impact of buyback by chose IT companies in India. The reasons were broke down with the assistance of text investigation and the impact is estimated through changes in EPS as well as the declaration effect, post buyback effect and complete effect. Further, average abnormal return utilizing market model has been determined for the occasion window for example 10 days preceding the declaration and 10 days after the declaration of buyback. The discoveries proposed that the most well-known purposes behind buyback by the IT companies were overabundance cash and the not so sure environment for the IT companies in US. Taking everything into account, EPS after the declaration was positive for larger part of the IT companies. The absolute effect of the buyback was likewise certain for all aside from one. The total average abnormal return for the occasion window was negative for the IT companies. It was seen in the review that the all inclusive fact that the buyback generally prompts expansion in market cost and EPS; was not material to its instance companies as concentrated here (Soni and Trivedi 2018).

While putting resources into a company, a financial backer examines two viewpoints: one is the financial stability of the company and other is the systems embraced by the company. The motivation behind this study is to discover what investors and non-investors think about the repurchase of shares and in which company investors and non-investors might want to contribute, regardless of whether in the company which is financially stable or in the company which embraces different methodologies and isn't excessively financially stable. This article depicts concerning which factors investors and non-investors investigate at the hour of the repurchase of shares. It was found from this examination article that individuals who put resources into shares are more worried about the financial stability of the company and the non-investors look more into the techniques that the company takes on. Further, this article lets that the company know who is financially stable ought to just repurchase as more often than not companies who have a gigantic debt on them really do become effective after share repurchase (Misra et al. 2020).

This paper is an endeavor to inspect the returns on the announcement of share buybacks for an example of 42 buyback announcements made through open market offer for a time of April 2010 to March 2014. The companies picked for examination are recorded on the National Stock Exchange of India. The market model has been utilized related to the underpinnings of the occasion concentrate on technique to show up at the Abnormal Returns (AR). The returns on Nifty 50 over the assessment window of one year have been taken as the intermediary for market returns. The review reports critical announcement effect on the share price in around half of the companies. In any case, the Average Abnormal Returns (AAR) have not been seen as critical. This shows that the insight about announcement of buyback of shares is as of now reflected in share price (Bhargava and Agrawal 2015).

Throughout the most recent couple of years, a great deal of press, savant, and political consideration has been paid to share repurchases, quite a bit of it basic. Most repurchase pundits declare that share repurchases are at authentic highs and that dollars spent repurchasing shares would somehow or another be coordinated toward beneficial venture. Some likewise credit late stock market gains to the "sugar rush" of share repurchases. The writers show that the majority of these reactions are without merit (in any event, merit that can be illustrated), in some cases extremely so. Total share repurchase activity has not been at chronicled highs when estimated appropriately, and when got against debt issuance it is very nearly a non-occasion: It doesn't precisely make earnings development, doesn't smother total speculation activity, and has not been the essential driver for ongoing stock market strength. These legends ought to be disposed of (Asness et al. 2018).

Methodology

A short survey questionnaire was prepared and was circulated amongst 100investors from Mumbai. The questionnaire had the following statements to evaluate effectiveness of the buyback programs of the IT companies:

1. The programs have helped the companies get rid of excessive cash
2. The buybacks have helped improve valuations of the companies
3. It has improved the earnings per share as number of outstanding shares have reduced
4. They have helped the companies achieve optimum capital structure
5. Shareholders can utilize the cash better than the company
6. Reduction in capital has been achieved without much of legal hassles
7. Percentage of promoter holdings has increased
8. Threats of takeovers have got reduced
9. The equities have been serviced more efficiently
10. It has supported prices in sluggish market conditions

Likert scales were used for response options. The response options were - 0 - Can't Say, 1 - Somewhat agree, 2 - Completely agree, 3 - Somewhat Disagree, 4 - Completely Disagree.
Responses were received from the 100 investors. The questionnaire was tested for reliability and it returned a Cronbach Alpha score of 0.865 and hence was considered reliable. Following hypotheses were formulated:

Ho: The buyback programs of the Indian IT Companies have not been effective

Ha: The buyback programs of the Indian IT Companies have been effective

The hypothesis was tested based on the average agreement/disagreement responses to the ten statements of the questionnaire. The average agreement/disagreement response of the 100 respondents for all the ten statements was taken as the sample mean and it was compared with a hypothesized population mean of 50% agreement/disagreement connoting an event by chance and not due to any statistical significance. A t-test was applied at 95% confidence level and based on the p-value the null hypothesis was tested for rejection or non-rejection.

Data analysis and interpretation

95 respondents were male while 5 were females. 12 respondents were <40 years of age, 52 were in the age-group of 40-50 years and 36 were >50 years of age. 12 had an investment experience of < 5 years, 45 had an investment experience of 5-10 years, and 43 had an investment experience of >10 years.
The average agreement responses to the questionnaire were as under:

Table 1: Summary of responses to the questionnaire

Statement	1	2	3	4	5	6	7	8	9	10	Average
Agreement %	92%	84%	84%	87%	82%	86%	89%	87%	76%	82%	85%

Based on the above summary average sample mean the hypothesis was tested as under:

Table 2: Testing of Hypothesis

Parameter	Value
Sample Mean ($\bar{x}$)	85%
Hypothesized population mean (μ)	50%
SD of sample	0.97364
n (sample size)	100
t-value=abs(($\bar{x}$ - μ) / (s/√n))	3.5845
p-value =tdist(t,(n-1),1)	0.00026
Decision	Reject Null

Thus, the null hypothesis the buyback programs of the Indian IT Companies have not been effectivewas rejected in favor of the alternate hypothesis the buyback programs of the Indian IT Companies have been effective.

Conclusion

The buyback programs of the Indian IT Companies have been effective. This has been concluded on the basis of overwhelming agreements to statements like The programs have helped the companies get rid of excessive cash, The buybacks have helped improve valuations of the companies, It has improved the earnings per share as number of outstanding shares have reduced, They have helped the companies achieve optimum capital structure, Shareholders can utilize the cash better than the company, Reduction in capital has been achieved without much of legal hassles, Percentage of promoter holdings has increased, Threats of takeovers have got reduced, The equities have been serviced more efficiently, and It has supported prices in sluggish market conditions. The IT companies till the year 2017 were just accumulating cash without knowing what to do with it. Finally, they took a decision to opt for buyback in the year 2017 and thereafter they repeated the program quite often and have found it to be quite effective.

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