CHAPTER - 6

CONCLUSION
6.1 Findings

The present research study analyzed and interpreted the abnormal returns from the announcement of stock buyback and stock splits, the earnings per share and the stock price of buyback companies and the volume trading and the stock price of stock splits companies both before and after the announcement. The findings of the study on the abnormal returns from the buyback and stock splits and the stock price of stock split companies contradict the findings of the studies carried out in the past. However, the findings of the present research work on the earnings per share, the volume of trading and the stock price of buyback companies are similar to the findings of the previous research work done by the research scholars’. Moreover, the findings of the study on the corporate value creation through buyback of equity are similar to the findings of the research work conducted by Persons (1994), Pettit (2001), Mohanty, Pitabas (2002) and Jariwala, Pournima (2011) and contradict the findings of the study carried out by Lars, Manor Paulsen (2011).

The following are findings of the study;

6.1.1 Stock buyback and stock splits announcements grew by 288 announcements and 891 announcements respectively during the period under the study.

6.1.2 There are no abnormal returns and cumulative abnormal returns from the stock buyback announcements for 91 days window period.

6.1.3 Abnormal returns and cumulative abnormal returns from the stock splits announcements for 91 days window period are negative.

6.1.4 Abnormal returns from the buyback of equity announcements for different plus window periods are equal to the different corresponding minus window periods.

6.1.5 Negative abnormal returns from the stock splits announcements for different plus window periods are lesser than the different corresponding minus window periods.
6.1.6 Buyback of equity indicates an increase in the earnings per share but it does not signal improvement in the earnings and operational efficiency of the company in the future.

6.1.7 Share buyback signals undervaluation of stock. However, it does not ensure abnormal returns.

6.1.8 There is an increase in the volume of trading on the announcement of stock splits.

6.1.9 There is no increase in the stock price after the announcement of stock splits.

6.1.10 Buyback and stock splits announcements do not create corporate value through abnormal returns.

6.1.11 Announcement of the buyback of shares increases the earnings per share and the stock price and thereby create the value for the shareholders.

6.1.12 Announcement of the stock splits increases the volume of trading but it does not create any value for the shareholders as the stock price falls after the announcement.
6.2 Conclusion

The buyback of equity and the stock splits were allowed in India in 1998. However, the announcements of stock splits were more than the announcements of stock buyback by three folds during the period under the study. This indicates that the companies go in for stock splits rather than the stock buyback as it does not require the funds for the announcement.

There are no abnormal returns and cumulative abnormal returns from the buyback of equity and the stock splits announcements. Therefore, on the basis of the abnormal returns and cumulative abnormal returns, the announcement of stock buyback and stock splits do not create the value for the shareholders.

The announcement of stock buyback indicates increase in the earnings per share and stock price of the company. In other words, it signals increase in the proportional holding of the shareholders on the company and the undervaluation of stock. Hence, the announcement of buyback of equity creates the value for the shareholders.

There is an increase in the volume of trading on the announcement of stock splits. However, the stock price falls after the announcement in spite of the increase in the volume of trading. Therefore, the announcement of stock splits increases the volume of trading but it does not create the value for the shareholders as the stock price falls.

The study concludes that the buyback of equity and stock splits increase the earnings per share and the stock price and the volume of trading respectively and create the value for the shareholders.
6.3 Suggestions

The regulatory framework on the buyback of shares and stock splits is perfectly in place in India. The companies, nowadays, in India, cannot announce the stock buyback and the stock splits without complying with the provisions of the Companies Act and the regulations by the Securities and Exchange Board of India on the buyback and the stock splits till the date of buyback and stock splits. However, the present study makes the following suggestions for the proper and better use of buyback and stock splits strategies to create the value for the shareholders;

6.3.1 The company can adopt the buyback of equity strategy to reduce the number of outstanding shares to increase the earnings per share and to signal the undervaluation of stock to give the boost to the stock price in the market.

6.3.2 If the shares of the company are moving out of the popular trading range due to the decrease in the supply of shares and increase in the demand for shares on account of the buyback of equity then the company can employ stock splits strategy to split the stock to increase the supply to meet the demand and to restore the stock in the popular trading zone.

6.3.3 The buyback of equity and stock splits strategies are thus complimentary rather than competitive. Therefore, the company has to employ stock buyback and stock splits strategies depending upon its requirement to create the value for the shareholders but not to confuse the investors and the market.
6.4 Scope for Further Research Work

A further research work can be carried out on the topic shareholder value creation through buyback of equity and stock splits for a longer window period and comparison period with a larger sample size. The study can also be extended with the same period or extended period to find out whether companies that announced stock buyback and stock splits ensure more returns and create more value for the shareholders than those companies which have not announced buyback and stock splits within the same industry.

The present study is conducted on the initial buyback and stock splits. Therefore, a research scholar can work on the companies with multiple buyback and stock splits and compare the abnormal returns and the shareholder value creation from the subsequent buyback and stock splits with the abnormal returns and the shareholder value creation through initial buyback and stock splits in order to ascertain whether subsequent buyback and stock splits ensure more abnormal returns and create more value for the shareholders than the initial buyback and stock splits and vice versa.

A researcher can also work on the topics related to the present study like shareholder value creation through buyback of equity – a comparative study between fixed price tender offer method and open market operation method, effects of general stock splits and reverse stock splits on the shareholder value creation – a comparative study, impact of reverse stock splits on the shareholder value creation – an empirical study and effects of general stock splits and reverse stock splits on the earnings per share of the company – a comparative study.