CHAPTER 8: CONCLUSION AND RECOMMENDATION

8.1 CONCLUSION

8.1.1 REGULATORY PERSPECTIVE
The present study finds out that the Indian buyback announcements are different from US since they do not discuss the impact of buyback on the company. The process oriented details in Indian announcement is more than in the US announcements (for e.g. the stock market related information) which makes it tedious to announce for a buyback. The impact of buyback is not discussed in the Indian announcements and nor are the price and volume restrictions. The Indian disclosures are more frequent as compared to US disclosures making it more difficult to announce for a buyback. On comparison it is observed that the similar disclosures which are made daily in India (e.g. total number of shares repurchased) are expected to be made in monthly or quarterly report. The Indian disclosures lack on the information on average share price paid which would increase the transparency of the buyback process and make it more credible. The process of board approval is tedious where more than 10% buyback has to be approved in a board meeting (as per Table 3). US regulations do not impose a timing restriction between buybacks as in India. The Indian buyback regulations impose a price restriction and volume restriction in the process of buyback which is not present in United States and in United Kingdom these restrictions are towards the lower side (Table 3). The Indian regulations also impose requirement for some special disclosures which is absent in the United States. Thus, the entire process of buyback is more process oriented than impact oriented in India hence making it less attractive. It is also evident by the lower level of volume in buybacks during the study period.

8.1.2 DRIVERS OF BUYBACK
The present study has analyzed the corporate action like free cash, dividend, capital structure and improvement in financial performance as deciding the intent of tender offer buyback and open market buyback. The study concludes that Tender offer buybacks are used prominently for capital structure correction since it has the ability to improve the leverage(as found in table 25 and table
as suggested by (Dixon, 2008)\(^1\) Hence the tender offer repurchase can be used to improve leverage of firms. On the basis of results it is evident that Tender offer repurchases are being used to improve financial performance of the firm by boosting the earnings per share value. Research suggests that buyback provide benefit to those shareholders who want to stay invested in the company and provides an exit route to those who want to leave the company. However, it evident that tender offer does not substitute for dividends. Firms in the study use tender offer buyback to provide a weak signals to the investors, so it is indicative that tender offer buybacks can be used to provide weak signals to the investors.

In case of open market repurchase in India dividend substitution and open market repurchase act as the drivers( as per table 41). Share buyback and dividends are both measure of returning excess cash to the shareholder. Hence companies are using open market repurchase to substitute for dividends. In case of smallest size firms excess cash and capital structure correction drive buyback( as per results seen in table 47). These companies are already overvalued and have low profitability( as per table 11 and table 20). The smaller size firm’s buyback for capital structure correction as the companies are overvalued and have low profitability(as per table 47). In case of medium size and large size firms’ capital structure correction drives open market repurchase in India ( as per table 50).

(Mitchell, 1999)\(^2\) find out that in Australia the prime motivators for buyback are undervaluation, restructuring of companies.

**8.1.2.1. TENDER OFFER**
This study investigates the motivators of tender offer repurchase in India using a sample of 54 tender buyback companies and 54 control companies. It is found that that the tender offer buyback companies are lower on leverage than non-buyback companies. Buybacks has a positive impact on leverage and it improves the capital structure of the firm. It is found that Indian firms buying back through tender offer repurchase during the sample period are low on leverage and use tender

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offer repurchase to improve their leverage. Tender offer share repurchase may be beneficial for companies that perceive its current leverage is below optimal target. So companies with low leverage benefit more from share repurchase. Hence it acts as a method for capital restructuring for the company. Open market repurchases have been conducted to pay out excess cash (Grullon G. a., 2000)\(^3\). In the present study for tender offer repurchase the driver of excess cash is not valid. The study suggests that excess liquidity of the firms does motivate them to perform tender offer buyback. Lack of profitable opportunities results in buyback (Grullon G. a., 2000)\(^4\). In case of tender offer buyback in India these however the buyback firms did not exhibit a lower profitability as evident in the study (as per table 6). Share buybacks result in improving earnings per share and in the present study the tender offer repurchase firms exhibit improvement in earnings per share as a driver (as per table 25 and table 26). The most relevant driver in case of Tender offer buyback in India is improving the leverage of the firm (as per table 25). Buyback, by itself increases the leverage of the company by reducing the book value of equity. Hence it acts as a method for capital restructuring for the company. Share repurchase may be beneficial for companies that perceive its current leverage is below optimal target. So companies with low leverage benefit more from share repurchase. The fixed price tender offer announcement creates a positive return on day after the announcement and can act as a good signaling tool from the companies’ side.

**8.1.2.2 OPEN MARKET REPURCHASE**

The study deploys discriminant analysis to compare a sample of 90 repurchasing companies with 90 non-repurchasing companies in the same industry and having similar market capitalization, and finds a significant difference in their profitability and dividend pay-out in contrast to tender offer buyback companies where the most significant driver is capital structure correction. To investigate further a Tobit regression analysis has been used to identify the drivers of open market buyback in India. Repurchase ratio being the dependent variable and undervaluation, dividend substitution, excess liquidity and lack of profitable investment opportunity being the driver.

In case of open market repurchase in India dividend substitution and capital structure correction act as the drivers. Share buyback and dividends are both measure of returning excess cash to the shareholder (as per table 61). Hence companies are using open market repurchase to substitute for

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\(^4\) Ibid 148
dividends (as per table 9 and table 16). In case of smallest size firms excess cash and capital structure correction drive buyback (as per table 44 and 62). These companies are already overvalued and have low profitability. The smaller size firms buyback for capital structure correction as the companies are overvalued and have low profitability (as per table 44 and 62). In case of medium size and large size firms’ capital structure correction drives open market repurchase in India (as per table 50 and 64). Previous studies by (Cudd, 1996) find that undervaluation and lack of investment opportunities do not act as drivers for buyback.

The present study thus finds out that motivators of buyback vary according to the type of buyback as suggested by (Mitchell, 1999).

8.1.2.3 COMPARISON BETWEEN OPEN MARKET REPURCHASES AND TENDER OFFER REPURCHASE COMPANIES

1. The open market repurchase firms are overvalued in comparison with tender offer repurchase firms (as per table 6).

2. The open market repurchase firms have higher excess cash with respect to similar companies in comparison with tender offer repurchase companies (as per table 10).

3. The tender offer companies and the open market repurchase companies both have lower leverage compared to similar non-buyback companies (as per table 13).

4. The dividend pay-out of open market repurchase companies is higher with respect to similar companies in comparison with tender offer repurchase companies (as per table 16).

5. The tender offer companies and open market repurchase firms have higher profitability than similar non-buyback companies (as per table 19).

1.1.3 SHARE PRICE PERFORMANCE

The study analyses the 45 tender offer announcements and 68 open market repurchase announcements (as per the availability of the historical share price data) for an event window of 41 days. The announcements have been studied separately for tender offer companies and open market repurchase companies and also all the announcements have been seen together. On the basis of the average abnormal return and the cumulative average abnormal return

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calculation and statistical testing of the hypothesis that the average abnormal return on the event date should be equal to zero the present study does not find share buybacks to create a signal in the market and hence goes by the efficient market hypothesis (EMH) where financial markets are considered to be efficient in the semi strong form and any announcement does not create any long term benefit to the shareholder (as per table 66, table 67 and table 68). The information gets easily absorbed both in case of all buyback announcements take together and open market repurchase and does not create any return. These findings are different from the study conducted by (Hyderabad, 2009) where significant abnormal returns have been found for a sample of 17 fixed price tender offer companies. The difference in the sample size of the two firms may explain the difference in the results. Also the present study uses Sensex as an indicator of market while the study by (Hyderabad, 2009) has used BSE-500 as a market representative. The average abnormal return is negative for 4 days out of 20 days prior to the announcement for tender offer repurchase firms and 6 out of 20 days for open market repurchase firms. The AAR for fixed price tender offer is higher than the AAR of open market repurchase which supports the findings in US and contradicts the findings of (Hyderabad, 2009). The reason for this occurrence can be explained by the fact that although open market repurchases outnumber the tender offer buybacks in the number of announcements however if we talk about the volume of buybacks tender offer plays a more important role (refer to table 22 and table 23).

1.2 RECOMMENDATION

8.2.1 RECOMMENDATIONS FOR THE REGULATOR

1. The study suggests that the public announcements be made less stringent in terms of the information content of the public announcement. The comparison of public announcements of India with United States as per table 4 brings out the difference in the focus of the announcements. The Indian buybacks need to focus more on the impact of buyback on the other outstanding shares that are left after the buyback. The impact of buyback and the restrictions used in determining the buyback price must be emphasized upon in the public announcement. Such transparency would be beneficial for the shareholder as well as the regulator. The present public announcements only offer the buyback premium and the
details of high, low and average price for preceding three years however the basis of determining the buyback premium is missing. Introducing this transparency the said misconception regarding open market repurchases can be limited as against the popular notion that it has been used to manipulate prices by the companies. This further will result in more acceptance of the buyback program.

2. The Indian regulations need to focus on restrictions on repurchase price, repurchase volume and timing of repurchase to provide actual information to the shareholder and prevent from share price manipulation. The issuer always has a motive to manipulate the share price of the firm and a higher price repurchase may be a manipulative behavior.

3. The current regulation does not discuss much on insider trading during the period. Throughout the data we have seen the promoter’s stake has increased in 84% of the firms used in the study for open market repurchase and 87% of the firms used in case of tender offer buyback.

4. The frequency of the disclosures should be made less frequent. The Indian buyback period usually is for 12 months while if compared with United States the buyback period is 18months however the disclosure to be produced by Indian firms to their regulator for the total number of shares bought back is daily as against a US firm reporting it monthly or quarterly. Such frequent disclosures can be a deterrent to many companies to enter into the buyback program. Although the number of disclosures in Indian is on the higher side but it misses on presenting the average price per share to the regulator which is important information since price manipulation is a major concern in open market buybacks. Hence it is recommended here that the average share price data must be incorporated in the share buyback disclosure.

5. The Indian buyback regulations allow buyback only to be made out of free cash flow and using debt or leveraged buyback is not permitted in India. Many studies on leveraged buyouts have suggested that leveraged buyouts mitigate the agency problem arising in a non-leveraged buyback as per (Zicheng Leia, 2016). 

8.2.2 RECOMMENDATION FOR STOCK EXCHANGES
Indian market does not have a buyback index which can track the movement of the companies who have successfully finished their buyback programs. In the United States there is a S&P 500 buyback Index to track the performance of companies with the highest buyback ratio for an year. Such an index will give investors an avenue to invest in companies that are buying back and believe that their buyback can bring better result for the shareholders.

8.2.3 RECOMMENDATION FOR COMPANIES
1. The result of the study shows that firms are buying back through tender offer in order to improve the leverage of the firm and a small positive signal is received post the tender offer announcement. Hence Indian companies are perceiving tender offer buyback majorly as a means to improve their leverage which is not the case in the open market repurchase. However literature extensively suggests other benefits of share buybacks like using excess cash in case of non-profitable investments available, signal undervaluation, substitute for dividends and countering agency conflict. It is recommended here to the corporates to analyze and use share buybacks for meeting other drivers as well. Idle cash is not good for any organization. If the firm does not have any profitable venture or is not able to meet the opportunity cost of the investor it is recommended that the firm buys back its shares from the shareholders who are willing to tender it. This will help the tendering shareholders to exit the company at a premium price. The non-tendering shareholders will benefit with the capital appreciation of the firm and will get rewarded for their loyalty. The firm whose share price is trading lower than its book value or are basically undervalued can also adopt the buyback route to give a signal to the market on the positive prospects of their company. They can reinforce their belief by buying their own shares at a premium. One of the effects of buyback is reduction in the equity of the firm and this directly leads to improvement in the earnings per share of the firm.

2. In this study it has been found that open market repurchase is basically used instead of dividend payout. Share buyback and dividend are both mechanism to return excess cash to the shareholder however dividends pay the tendering shareholder while buybacks pay a premium to the non-tendering shareholders. Since this study finds out that Indian firm in the study are using buybacks to substitute for dividends these firms should also think of the benefit of the non-tendering shareholders who have been loyal to the company. Using
buyback just as a payout alternative to dividends should not be the only objective of the buying back firm.

3. The study recommends that in India tender offer buyback and open market repurchase are enacted for different motives. Hence any firm that wants to buyback its shares needs to first decide on the motive for which it is buying back. Also the regulation restricts any firm to use tender offer buyback unless the buyback amount is 15% of the paid up capital and paid up reserves.