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# BUY BACK OF SHARES: A COMPARATIVE STUDY OF AGRICULTURAL SECTOR

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***Abstract:***

*Buy-back of shares is a critical decision on the part of the company as it affects the availability of capital and in turn it may affect the profitability of the company particularly in the short term. Buy-back of shares of the company reduces the capital of the company to be contributed by shareholders. Present Research paper has been written to analysis the effect of buyback of shares on the profitability, measured in terms of average abnormal return. The Research paper has been contains the analysis of effect of buyback of shares on average abnormal return of companies on daily basis for 21 Days event windows.*

*Key Words: Buy back of Shares, Average Abnormal Return, Company.*

## INTRODUCTION

A company repurchase of a portion of its own outstanding shares. Buyback is nothing, but issue of shares by a company where in the company offers to take back its shares owned by the investors at a specified price; this offer can be binding or optional to the investors. In recent months, a number of companies have repurchased or announced plans to buy back their shares. Management and boards of directors over allowing for companies with significant cash stockpiles yet finding fewer mechanisms to boost earnings may soon need to decide whether or not a share repurchase is the most productive use of their cash. This alert addresses the questions surrounding buyback that companies should think as they evaluate the advantages, disadvantages, legal implications and strategic considerations of share repurchases.The only option left with the shareholder in order to realize the price of the share is to transfer the share to some other person. But with the introduction of section 77A, 77AA, and 77B in the Companies Act, 1956 the shareholder can realize the price by selling directly to the company. Shares buy back have become a company event in the financial market worldwide. Buyback program the company distributes the excess cash flow among the shareholder by way of repurchasing its own shares, generally at premium. India shares buy back were introduced in 1999 has receive and attention of all major companies. Since then there has been an increase of announcement of share buy backs. Small investors in India also need to know whether they will benefit by will participating in the buy -back offer or they will be better off in the post buy back phase companies acquire their own shares to improve earnings per share by reducing the number of shares .

## HISTORY OF BUY BACK OF SHARES

Prior to1998 buy back were not allowed in India .In the 1970 period, if multinational companies want to continue doing their business in India, they could do so only by diluting their shareholding and getting listed on the exchange. The buyback ordinance was introduced by the government of India (GOI) on October 31; 1998.There was insertion of new section of new sections 77A, 77AA, and 77B in the company's law which allowed buy back. The major objective of the buyback ordinance was to revive the capital markets and protect companies from hostile takeover bids. The ordinance was issued along with a set of conditions intended to prevent its misuses by companies and protect the interest of investors. The buyback of shares was allowed only if the articles of association of the company permitted it to do so and after passing a special resolution at a general meeting .It also allowed the promoters of a company to make an open offer to purchase the shares of its subsidiary. This allowed foreign promoters to utilize their surplus funds and make an open offer to acquire a 100% stake in their Indian subsidiaries.

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## REVIEW OF LITERATURE

**Ikenberry, Lakonishok & Vaemaleen (1995)** the study reported that undervaluation is an important reason for motivating share repurchases, but other reasons also exists .The study observed that the book to market ratio also effect on stock returns. The study concluded that the book to market is closely associated with long run performance and market reaction to repurchase announcements is amazingly similar across all book to market groups.**Orchere& Ross (2002)** study explored that share buy**-** back announcement signal positive information about the value of both announcers and rivals. The study analyzed the pre and post event change in the abnormal returns.The study concluded that buy back announcements of shares dominate competitive effects on share market. It also found that shareholders of rival firms earned statistically significant abnormal return 0.39 percentages on 2nd day after the buy back.**Iswaga (2002)** it collected data from Securities Data Corporation (SDC) for the period 1993 to 1996 to analyze the effect of options on the firms decision, actual share repurchases and market reaction to the announcement of repurchase of shares. The study holds both the option finding and the substitution hypothesis. **Zhang (2005)** assessed the performance of long run firms following open market repurchases announcements. The study made an analytical daily open market repurchases activities from September 1993 to August 1997 are collected from the Securities Daily Summary, Share Repurchase Report. It considered 150 samples from firms made 3850 daily repurchases. It is found that repurchasing firms buy back shares following price drops. The study analyzed the 3 days primary market response about actual repurchases is 0.43 per centage. **Ginglinger& Harmon (2006)** the study showed that corporate share repurchases have a significant adverse effect on liquidity as measured by bid ask spread or depth. It used price support and market liquidity aspect. The first aspect considered that the price support is the motivating factor for buy back of shares. The second aspect analyzed the effect of repurchases on different measures of market liquidity.**Haribar, Jenins& Johnson (2006)** the study analyzed how investor's price earning per shares increases through stock repurchase. The study also explored on the effect of repurchases on different measures of market liquidity. **Das &Pattanayak (2007)** examined the effect of quarterly earnings announcements of buy back of shares on firms which listed Bombay Stock Exchange. The effects of quarterly earnings announcement of buyback of shares on equity share prices have been examined with the help of daily adjusted market price data. The results supported the Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) is insignificant at 5 per centage level of significance. **Li (2007)** examined the determinant of firm's repurchases decision and market reaction to the decision using a conditional event study framework .The study used five hypotheses: earning per share, signaling, agency cost, undervaluation, and optimal capital structure and dividend substitution.**Croce, Damineli&Gidia (2008)** examined the operating performance of industrial companies which listed on the Italian Stock Exchange for the period 1989 to 2001. The study found that the generally highlights a positive abnormal return of the company stock price at the announcement day of share repurchases. **Wei & Wang (2009)** examined the earning per share had improved after repurchase in Taiwan market. The study found that there is positive correlation between the market book value and earnings per share. . It used the T Paired Sample Test and Wilxon Sign Rank test for the repurchase firms. The study found that the cumulative abnormal returns do not affect to the changes in earnings per share. The study concluded that investors can recognize such mistakes from financial reports and react appropriately in efficient market hypothesis. The study analyzed the effect of free cash flow on companies.**Ishwar (2010)** applied market model for the assesseent of the effect of buyback announcement on stock prices in India. The study explored 61 days event period 30 days before and 30 days after the announcement of buyback of shares. The results indicated that average abnormal return is positive and insignificant on the day of announcement.

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It also showed the effect of after buyback announcement average abnormal return statistically insignificant for 56 days of the 61 days. The study observed that cumulative average abnormal return on the day of announcement it is significant for two days before the announcement and sixteen days after the announcement. The study analyzed average abnormal return only 28 days after event period and cumulative average abnormal return positive is during the event period. **Purohit, Satija & Chattwal (2012)** examined the impact of buyback of shares on movement on stock prices. It had used the event methodology to seen the impact of announcement. It considered data from National Stock Exchange listed 45 companies for the period 2006 to 2010. The study observed that the stock market efficiency is not concerned with direction of change in the stock prices rather it is concerned with magnitude of changes. The study showed on announcement date on average abnormal return is 0.014 per centage which is statistically insignificant .The result of the study indicates that the buy back is treated as positive signal before and after the buyback is also a message for investors the buyback do not lead to a long term permanent improvement in valuation of shares. The result supported that stock market efficient in semi strong form.**Rajlaxmi (2013)** analyzed the impact of public information on buy back announcement of shares. The study found signaling effect of stock repurchase announcement. A sample of six firms announced shares repurchases between financial periods 2007-08 to 2010-11. It used tested market efficient ,standard event study procedure are used to calculate cumulative average abnormal return with 5 day pre and 5 day post . The study showed that news of buy back of shares already reflected in prices of shares. The results indicated that the minimum abnormal return 0.34% on the day of the announcement. The study observed that the buyback of shares announcement event day after return are falling and negative in five firms except Godrej Consumer Products Ltd maximum return on 8 day. **Tabieng (2013)** the study period ranges from 1981 to 1990 and is based on 64 companies. The study analyzed the five hypotheses Information, Signaling, leverage, wealth transfer and other economic condition and cash dividend. The study indicated that the share price of 12 companies' increases repurchases programme at 27 companies. The study revealed that the share price 12 out of 27 companies 44.44% increased after these companies ended repurchase programs .The study observed that the if share price increased ,the management would be able resale its treasury shares at price higher than its weighted cost. It also showed if shares price decrease management would use reselling at a loss. The study concluded that the shares price were undervalued price below their fundamental basis and improved earnings per share. **Dol &Wahid (2013)** examined the motivating factors for share buyback decisions of Malaysian companies. The study period ranges from 1999 to 2005 and is based on data of 101 companies. The factor analysis was used to identify the motivating factors of the share buyback decisions. The parameter includes return on equity, earning per share, return on investment /assets and market to book value, intangible assets, capital expenditure and sales. **B & Rane (2013)** assessed the performance of share buyback ranges the study period 2005 to 2010 which companies listed companies on Bombay Stock Exchange .The study examined the impact of buybacks on shareholder value creation .The study showed that when buyback of shares was announced decrease in the number of shares and increase the earning per share. **Bhatia (2013)** examined the short term effect of shares repurchases on stock price in India. It showed that the cumulative abnormal return 4.5 per centage on the day of announcement and statically significant. The study concluded that abnormal return positive impact on share repurchase.

## RESEARCH METHODOLOGY

Research methodology can be defined as a way to systematically solve the research problem by logically adopting various steps .For finding and exploring research question, a Researcher faces lots of problems that can be effectively resolved by using the correct research methodology. The proposed study has been analytical study nature.

## NEED FOR THE STUDY

Indian markets have seen a sound rise in level of buyback since its introduction in 1998. With one single announcement made in year 1998, more than 250 buyback announcements have been made by Indian companies till now. The trend of buyback by Indian companies has been on the rise with more than 3000 crores worth of announcements made in financial year 2010-11. A few companies like Goderaj Limited, FDC, Avantal Limited, Jindal Poly Limited, Mangalam Limited etc. have frequently opted for buyback route for financial restructuring. Although the level of payout involved for the buyback is still very less as compared to other payout methods like dividends, bonus shares, etc., yet the level of interest shown by corporate for this activity is important noting.

**Objective of the Study**

1. To study the effect of Buy Back of shares on Shares Prices
2. To study the effect of Buy Back of shares Pre and Post Performance of Share price.

## METHODOLOGY

The average abnormal return is measured on the basis of stock price during pre and post buyback period. The sample companies are divided into 9 sectors based on random sampling method. These sectors classifications are based on National Industries Classification. The sample of companies has been classified sectors i.e. Agricultural, The research paper based on a sample of 9 companies of agricultural announcement of the buyback during for 2000 to 2012. This study follows Event Standard Methodology (Market Model) for calculating average abnormal returns. The hypotheses for the analysis are:

**Null Hypothesis($H_0$)**: There is no significant effect of buyback of shares on AAR of selected companies.

**Alternative Hypothesis ($H_a$):**There is significant effect of buyback of shares on AAR of selected sector companies.

## EVENT WINDOWS ON DAILY BASIS

- Event Window 21 Days i.e. 10 days before and 10 days after

## STUDY PERIOD

The period of the study has been taking from March 2005 to March 2013. All the buyback announcements made during this study period.

## SAMPLING SIZE

The present study is based on a sample of nine companies listed on Bombay Stock Exchange for the examining the effect of buy back of shares on profitability.

## DATA COLLECTIO

The study is based on secondary data. The secondary data mainly compares of daily share prices, daily volume of transactions and financial ratio. The data are collected from official website of SEBI (Security Exchange Board of India), NSE (National Stock Exchange), BSE (Bombay Stock Exchange) CMIE Data Base, CAPLINE Data Base, PROWESS Data Base, Financial newspapers including Economics Times, Financial Express and other Sources.

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## AGRICULTURAL SECTOR

Nine companies of agricultural sector applied the concept of buyback of shares. The performance of agricultural sector companies measured, in terms of AAR has been presented in the Table 1.1:

**Table: 1.1**
**AAR of Agricultural Sector Companies - 21 Days Event Window**

| Company Name | Mean Difference | T-value | df | Sig. level | **Effect +/-** |
|---|---|---|---|---|---|
| Britannia Industries Ltd | -0.034 | -1.186 | 9 | 0.266 | Negative |
| Godrej Consumer Products Ltd | -0.061 | -0.895 | 9 | 0.394 | Negative |
| Gujarat Ambuja Exports Ltd | -0.024 | -0.711 | 9 | 0.495 | Negative |
| Heritage Foods Ltd | -0.029 | -0.789 | 9 | 0.451 | Negative |
| Hindustan Unilever Ltd | 0.008 | 0.195 | 9 | 0.850 | **Positive** |
| Indian Resorts Ltd(Merged) | -0.252 | -1.483 | 9 | 0.172 | Negative |
| Jay Shree Tea & Industries Ltd | 0.007 | 0.113 | 9 | 0.913 | **Positive** |
| Mac Charles(India) Ltd | 0.079 | 0.504 | 9 | 0.626 | **Positive** |
| SanwariaAgro Oils Ltd | -0.505 | -2.139 | 9 | 0.061 | Negative |
| **Mean** | **-0.090** | **-0.710** | | **0.470** | |
| **Median** | **-0.029** | | | | |
| **T Value** | **-1.89** | | | **0.090** | |
| **Wilcoxon Signed Test** | **-1.682** | | | **0.093** | |

The analysis of average abnormal return of agricultural sector companies indicates that the average abnormal return is negatively affected in case of six companies out of nine companies' for event window of 21 days i.e. 10 days before and 10 days after the announcement day of buyback. Buyback of shares has affected the average abnormal return of three companies positively. However, the application of Paired Sample T Test and Wilcoxon Signed Test clearly indicates that negative effect of buyback of shares on the average abnormal returns is not statistically significant at 5 percent level of significance.

So, it may be concluded that the effect of buyback of shares in general, has been adversely affected the average abnormal returns of agricultural sector companies. Therefore, on the basis of the above analysis, it is concluded that the average abnormal return of majority of sample companies have reduced for the agricultural sector for the event window of 21 days.
The summarized position of the effect of buyback of shares on the average abnormal return of agricultural sector companies for the event window has been discovered below:

| **Effect on AAR** | **N** | **Name of Companies** |
|---|---|---|
| Positive | 3 | Hindustan Unilever Ltd, Jay Shree Tea & Industries Ltd, Mac Charles(India) Ltd |
| Negative | 6 | Britannia Industries Ltd, Godrej Consumer Products Ltd, Gujarat Ambuja Exports Ltd, Heritage Foods Ltd, Indian Resorts Ltd(Merged), SanwariaAgro Oils Ltd |
| Total Companies | 9 | |

## CONCLUSION

These studies of Indian context were considered, i.e. Mohanty (2002), Kaur &Balwinder (2003) Gupta (2006), Hyderabad ( 2009), Ishwar (2010), Dhatt (2010) ,Mishra (2005), Rajgopalan (2012), Dua, Puri& Mittal( 2010) , Purinma (2011) Ishwar &Cripaa (2012) ,Bhatia (2013) and Submathi&Manuelpinto (2014) for applying Market Model to evaluate the impact of buyback of shares on the stock market. This research paper based on post and pre average abnormal returns of selected sectors during the study period. This section based on comparative analysis of average abnormal returns of a selected sample of companies' returns posts buyback. This study analysis the post and pre average abnormal returns of selected sector companies by using Paired Sample T Test and Wilcoon Signed Test. The first section based on a daily basis of the event window for analyzing the post and pre announcement effect on selected companies' performance. Few studies were conducted in India. In Indian context, few studies based on 61 days, i.e. Kaur (2012), Purhit,Satjaja and Chattwal (2012), Chatterejee and Mukhrjee (2015),

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