

# Buybacks fail to boost long-term prospects; volatility a dampener

Shares of only a fourth of the firms above their buyback price; promoters tend to benefit the most

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With shares of every three out of four companies that offered buybacks over the past two years trading below their maximum repurchase price, the programme has failed to boost the long-term stock performance of companies.

Buybacks have gained popularity over the last couple of years as the preferred method of returning cash to shareholders in a tax-effective manner, especially after the 10 per cent additional tax on dividend income came into effect from April 2017.

Since then, there have been 87 buybacks totalling nearly ₹77,000 crore. The buybacks have happened in 83 companies (some of them have done multiple buybacks). Shares of 63 companies are currently below the price at which they extinguished their stock.

Most of these buybacks were done through the tender route, which allows promoters to tender their shares as well.

The repurchase price, in most cases, has been at a huge premium to the prevailing market rate. Experts say that promoters have gained the most through buybacks, while companies haven't benefited much.

"It is a sure-shot thing that promoter shares will be accepted in the buyback. The acceptance ratio for other investors tends to be very low. Buybacks tend to boost the return on equity and earnings per share (EPS) as the number of outstanding shares

decrease. However, this has not translated into performance of the stock price. There is no data to support the view that companies doing buybacks tend to outperform," said an analyst, asking not to be named.

Market participants said volatility in markets over the last one year led to share prices of most of companies falling below their buyback offer price. Further, market participants said that a buyback signals lack of attractive investment or expansion opportunities, which in turn indicates lower long-term growth prospects.

All the four technology majors have conducted share repurchase programmes in the last two years. Companies like TCS and Mphasis have done buybacks twice during this period.

Market participants said IT companies have huge surplus cash, which they are not able to deploy. In the last three years, the IT industry has been facing a slowdown in terms of overall revenue growth, and there was a lot of shareholder pressure on companies to return cash, said experts.

"Buyback offers increase during bear markets because the management tries to reward shareholders. Last year, there was a lot of correction in the market. A buyback would not help withstand this bearish phase. Most buybacks comprised only a small portion of paid-up equity, and therefore could lift their EPS to only a small extent. It would be better for shareholders to tender their shares during buybacks,"

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Shares of companies trading sharply below their recent buyback price

Price in ₹

	Buyback price	Current price	Change (%)
Saraswati Commercial	978	38	-96
Indiabulls Real Estate	240	69	-71
Bharat Electronics	183	80	-56
Unichem Laboratories	430	197	-54
BHEL	86	59	-32

Source: Prime Database, BSE

said G Chokkalingam, founder of Equinomics.

Even though the acceptance ratio in buybacks tends to be low, analysts say that investors should nevertheless tender their shares if the premium is attractive.

Siddhartha Khemka of Motilal Oswal said a lot of public sector undertakings (PSUs) came with buy-

backs because the government wanted money. Shares of some of the PSUs corrected because of the problems related to their respective sectors.

"Earlier, companies used to offer buybacks when they thought the share price was undervalued. However, buybacks are now used as tax-effective ways of returning money to shareholders," Khemka said.