Share buybacks fail to boost long-term outlook for firms

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With shares of more than half the companies that had offered buybacks since April 2017 trading below their maximum repurchase price, the programme has failed to boost companies' long-term stock performance.

Since April 2017, 176 companies have repurchased their shares. Some of them have done multiple buybacks. Of these shares of 111 companies are trading currently below the price.

Buybacks have gained popularity over the past 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 in April 2017.

The government then changed the rules to make dividend income taxable in the recipient's hands. The government also introduced a tax on buybacks.

Most of these buybacks were done through the tender route, which allows promoters to tender their shares. Analysts said promoters had gained the most through share repurchases, while companies had not benefited much.

Buybacks tend to boost returns on equity and earnings per share (EPS) as the number of outstanding shares decreases. However, this has not translated into the performance of the stock price for many companies.

Analysts said volatility in markets over the past few years might have led to companies' shares quoting below their buyback prices.

"Buyback prices will always be at a premium to the current market price. Many stocks are still trading below the 2018 levels," said Abhimanyu Sofat, head of research, IIFL.

G Chokkalingam, founder, Equinomics, said many value stocks in the mid- and small-cap segments came up with buybacks after their stocks got battered in 2018.

"They are going back to their 2018 levels. Since March we have seen a thematic bull run — IT, pharma, and FMCG were the only sectors that attracted an investor interest. Public sector firms and manufacturing companies are yet to participate."

Moreover, buyback signals lack attractive investment or expansion opportunities, which indicates poor long-term growth prospects. All the four technology majors have conducted share repurchase programmes in the past three years. Companies like TCS, Mphasis, Infosys, and Wipro have done buybacks more than during this period.

Analysts said IT companies had huge surplus cash, which they were not able to deploy. In the past three years, the IT industry has been facing a slowdown in revenue growth, and there was a lot of shareholder pressure on companies to return cash, they say.

"IT companies have not posted double-digit growth in a while. Their stocks are going up because of the interest in the sector after the pandemic. Business-wise they have not improved much. And there is no point in expanding their business. Interest rates have come down. And most of them are conservative companies and they do not aggressively invest in markets. So they are returning money to their shareholders to improve their RoCE (return on capital employed)," said Chokkalingam.

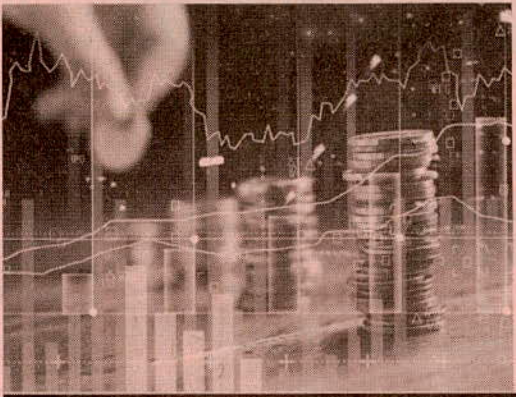
Siddhartha Khemka of Motilal Oswal said many public sector undertakings came up with buybacks because the government wanted money. Shares of some of the PSUs corrected because of the problems related to their respective sectors.

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

"It depends on the view if the company is good," said Sofat.

Chokkalingam said it was better to tender shares regardless of the company's prospects if the premium was good.

"Some investors do not participate, saying they are taking a long-term position. If the premium is high, it is better to surrender and buy at a lower price from the market."



SHARES OF COMPANIES TRADING BELOW THEIR BUYBACK PRICE

Company	Buyback price	Price as of Dec 31	Change (%)
Majesco	845.00	15.5	-98.17
Music Broadcast	385.00	23.3	-93.94
McLeod Russel India	210.00	21.9	-89.57
DB Corp	340.00	82.1	-75.86
Marathon Nextgen Realty	275.00	101.6	-63.07

Source: primedatabase.com, exchanges