Impact of Share Buyback on Small-Cap Companies' Share Prices in India: A Short-Term Analysis

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Abstract - Analyzing how announcements of share buybacks impacted the stock prices of small enterprises between 2019 and 2022 is the main goal of the research study. Based on their market capitalization, the historical share prices of 15 companies were collected. Any one of the two indexes—the BSE or the NSE—has these companies listed. Applying the event window methodology as a statistical tool to assess how share buybacks affect the price of small-cap stocks over a given time period, which spans from -40 to +40 (a total of 81 days). The study's findings imply that the shares of small-cap companies did not exhibit notable price movement for the majority of the days during the event window on the announcement of a share buyback in the short term, indicating that the small-cap companies' share price did not significantly respond on share buyback announcement. In addition to the previously mentioned finding, the small-cap companies' share showed distinct responses throughout the pre and post sub-event windows. This suggests that during the majority of the post-event sub-windows, the price of the small-cap companies' share varied significantly.
Keywords: Share Buyback, Small-Cap Companies, Event-Window.

Introduction - Share buybacks are now a typical occurrence in global financial markets. Under a share buyback program, a company buys back its own shares, usually at a premium, to disperse the extra cash flow to the shareholders. The company wants to show its stockholders that it has a great deal of faith in itself, among other reasons. With approval from the Securities and Exchange Board of India (SEBI), the practice of share buybacks began in India in 1998. This practice benefits all parties involved, including the corporation and the general public (shareholders). Since then, numerous announcements of share buybacks have surfaced.

The motivations for share buybacks are generally unclear, including whether they are to imply an increase in share prices, EPS accumulation, or promoter shareholding. But in the majority of wealthy nations, where share buybacks are far more common than in India, they are viewed as a kind of shareholder reward comparable to dividend payments.

The following methods can be used by a business to repurchase its shares:

Fixed price tender offer: A company may formally offer its shareholders the chance to render or submit their shares within a specific time frame at a defined price, usually at a premium. The use of tender offers occurs when the buyback is marginally significant.

Open-market proposal: A company may use brokers to repurchase its stock from the market. The market determines the actual buyback price, even though the firm may set the maximum and minimum. When the buyback is relatively minor, the open market route is employed.

Share Buyback in Indian Context: A share buyback occurs when a business repurchases its own shares that it had previously issued to the market. Theoretically, a company's buyback of its shares is motivated by the idea that the share's intrinsic value is significantly more than its market price and the management thinks the share is undervalued. In typical market circumstances, a When a firm announces a repurchase, it conveys to the market that the pricing for the underlying shares is less than their intrinsic value. Given that the buyback typically occurs at a premium, investors who sell their shares for a profit, and those who retain profit from increased EPS.

In India, the share buyback process entails adhering to SEBI regulations and company law rules. The company executes an MOU with SEBI to begin the repurchase process. The applicable SEBI Rules, Regulations, and Guidelines are followed when conducting the Due Diligence activity. The offer document and public announcement are then created. Sections 77A, 77AA, and 77B of the Companies Act of 1956 outline the rules governing share buybacks.

The Companies Act of 1999 introduced these. In accordance with Section 77A(2)(f) and (g), the Securities

and Exchange Board of India (SEBI) created the SEBI (Buy Back of Securities) Regulations, 1999, while the Department of Company Affairs created the Private Limited Company and Unlisted Public Company (Buy Back of Securities) regulations, 1999. With approval from the Securities and Exchange Board of India (SEBI), the practice of share buybacks began in 1998 in India with the goal of benefiting all parties involved, including the public (shareholders) and the company itself.

The Companies Act of 2013 has provisions pertaining to share buybacks in Section 68. In line with this, it allows a business, whether private or public, to repurchase its shares or other designated securities following the guidelines set forth in Section 68 and the Companies (Share Capital and Debentures) Rules, 2014. Companies should also abide by the relevant provisions of the Companies Act and the share purchase guidelines established by SEBI under the (SEBI) (Buy-back of Securities) Regulations, 1998. The 1998 SEBI (Buyback of Securities) regulations are superseded by the updated 2018 SEBI regulations.

Review of Literature:

Franz et al. (1995) discovered that the notification of open market repurchases reduces informed trade risk, which in turn causes the bid-ask spread to drop. Though insider trading activity before the announcement of stock repurchases is helpful to corroborate undervaluation signal, especially for unvalued firms, insider trading and company stock repurchases are typically caused by stock undervaluation. et al. Chan (2012).

Dittmar (2000) notes that companies repurchase shares in order to profit from the undervaluation. Furthermore, additional research indicates that businesses are motivated to return excess funds that have been collected over time to shareholders. Adequate evidence suggests that companies repurchase shares during specific times to change their leverage ratio, offset the dilution impacts of share offers, and prevent takeovers.

Guffey and Douglas (2004) investigate if businesses can repurchase shares with tax benefits. They discovered that companies with higher tax rates are more likely than those with lower tax rates to announce share repurchases. Additionally, they discover proof that companies that declare share repurchases have lower debt-to-equity ratios than companies that don't. Regardless of whether a tender offer or an open market offer is employed, tax considerations are shown to be the least significant aspect of the acquisition strategy. Nonetheless, there is compelling evidence that the primary explanatory factors for the stock buyback choice are tax motivation and a lack of viable investment options.

Mishra (2005) examines how the price reaction is affected by the buyback announcement time. Additionally, he evaluates whether the management's announcement of such buybacks serves the interests of non-tendering shareholders. In order to distribute a company's excess cash flows among its targeted shareholders and to instill a firm's faith in its own growth prospects, buybacks are implemented, according to the author.

Kim J. (2007) examines shifts in the daily return volatility linked to share buybacks on the open market. He discovers proof that when businesses repurchase shares on the open market, the return volatility is lower when the transaction takes place when share prices are declining. Additionally, he discovered enough proof to support the subsequent buyback rather than the announcements' unfavorable correlation with daily return volatility. When the company genuinely buys back its shares, the CAPM beta falls.

Fu and Huang (2015) discovered that stock price efficiency is reflected in the absence of long-run anomalous returns following a repurchase event. According to earlier studies, share repurchases will increase the stock price's accuracy by offering price support at fundamental values (Brav et al., 2005; Busch & Obernberger, 2017; Dittmar, 2000) and speed up the incorporation of new, positive information into the stock price (Busch & Obernberger, 2017; Hou & Moskowitz, 2005).

Research Gap: A large number of earlier studies have assessed how share buybacks, independent of a company's market capitalization, affect stock prices in the short term. The current study, however, concentrated on small-cap companies according to market capitalization. Next, the present study will look at how share buybacks affect small-cap companies' stock values in the short run using these categories as a base. Only companies whose stock is easily bought and sold on the open market—that is, whose stock is actively traded—have been included in this research project.

Objective of the study:

1. To assess the short-term effects of share buybacks on small-cap enterprises.
2. To examine the notable difference in the share return before and after the share buyback announcement.

Data and Methodology: The current study uses an event study methodology to examine the research topic and is empirical in nature. Over the past forty years, event study technique has made significant strides in the field of capital market research. Corrado (2011) According to the market model, the event is assessed by calculating the abnormal returns resulting from changes in rating (Brown & Warner, 1985).

The steps in the event study approach are described as follows:

Event window: The announcement of the event to the capital markets or media, whichever goes first, takes place on the day of the event. Days (-40, +40) denote the event-window, and the event day is t=0. A log return is used to calculate the Daily Actual return in Microsoft Excel.

Cumulative Average Abnormal Return (CAAR): The Cumulative Average Abnormal Return is calculated by summing the average abnormal returns for each day. Cumulative Average Abnormal Return provides a more

realistic and seamless representation of the degree to which an event influences a given variable.

$$CAAR = 1/n\Sigma CAR_t$$

Result Analysis: After gathering the data, we process it using an event window statistical tool. The estimation window lasts 240 days, whereas the event window lasts 81 days (40 days prior to the event and 40 days following it). Using MS Excel, a number of tests were run on the data, producing the following outcomes.

Table no.1 (see in last page)

According to the above table, small-cap companies delivered positive returns in the form of average abnormal return (AAR) and cumulative Average abnormal return (CAAR) most of the time during the pre-event window. This indicates that the share of small-cap companies delivered positive returns just prior to the event, while during the post-event window, the share of small-cap companies delivered negative returns in the form of AAR (average abnormal return) and cumulative abnormal return (CAAR). As a result, the pre- and post-event reactions of the small-cap companies varied.

In order to determine whether the share prices of small-cap companies responded significantly or not, the t-test was applied to the average abnormal return (AAR). Over the course of the event window, the stocks responded significantly on the -7th, 8th, 9th, 10th, and 17th days, but not much on the remaining days.

Sub-period Analysis: In order to determine whether the announcement of a share repurchase had an impact on the share prices of small-cap firms or not, the event window was further subdivided into sub-event windows to determine the specific implications of the share buyback on the share prices of small-cap companies on a fixed time –period. The sub-periods that make up the event window are (-40,40), (-35,35), (-30,30), (-25,25), (-15,15), (-10,10), (-5,5), (-2,2), (-1,1), (-1,3), (-1,7), (1,10), (1,15), (1,30), and (1,40). Every sub period's CAAR has been computed, and a t test is used to see if the CAAR value varies significantly from one period to the next.

Table no. 2 (see in last page)

The majority of post sub-windows, including (1, 15), (1, 20) and (1, 40), had T-values of CAAR greater than 1.96, indicating significant price movement in the stock. In contrast, no significant price fluctuation was seen in any of the pre-event windows, indicating that the share buyback information had not been leaked before the event. In addition to the CCAR T-value, the cumulative average abnormal return (CAAR) for each sub-window shows a negative CCAR value, indicating that the stock provided a negative return for the bulk of the sub-window.

Implication of the study: The study paper's findings are helpful to investors since they show that, as an event, the buyback of shares has resulted in a negative return in the near term. This indicates that within the event window, small-cap companies saw a negative return.

Limitation of the study: Every coin has two sides, a positive and a negative one, and the current study is not an exception. Notwithstanding the measures used to mitigate the drawbacks, the present investigation has many noteworthy constraints, which are stated beneath. The securities of Indian corporations listed on the NSE or BSE are the only ones included in the current analysis. Even though this inquiry mostly used secondary data, it wasn't without its limits.

Conclusion of the study: The impact of share buybacks on stock prices has been the subject of numerous previous research studies, most of which did not analyze the impact of specific events on the companies or categorize them based on their market size. The current study assessed the impact of share buyback announcements as an event on the share prices of small-cap businesses between 2020 and 2023 using event-study analysis. Secondary data has been used to address many research difficulties using the event window technique as a statistical tool. The research looked at 15 different companies' share buybacks. The effects of share buybacks on each of the small-cap companies were then computed individually. The study's findings imply that the shares of small-cap companies did not exhibit notable price movement for the majority of the days during the event window on the announcement of a share buyback in the short term, indicating that the small-cap companies' share price did not significantly respond on share buyback announcement. In addition to the previously mentioned finding, the small-cap companies' share showed distinct responses throughout the pre and post sub-event windows. This suggests that during the majority of the post-event sub-windows, the price of the small-cap companies' share varied significantly.

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Table no.1 represents the outcomes in the form of AAR and CAAR

	AAR	CAAR	T-Value of AAR at 5% Significant Level		AAR	CAAR	T-Value of AAR at 5% Significant Level
-40	-0.004387	-0.004387	-0.568356	1	-0.01017671	-0.001017	-1.318444
-39	0.0099052	0.0055182	1.28326794	2	-0.00534017	-0.00534	-0.691846
-38	0.0107616	0.0107616	1.3942157	3	0.00019746	-0.005143	0.0255819
-37	0.0001508	0.0109124	0.01954212	4	0.00071606	0.0007161	0.0927698
-36	0.0095168	0.0095168	1.23294885	5	0.00905899	0.0097751	1.1736389
-35	0.0131606	0.0226774	1.70502511	6	0.00713087	0.0071309	0.9238406
-34	0.0118495	0.0118495	1.53515719	7	0.00116278	0.0082937	0.1506443
-33	-0.0042247	0.0076248	-0.5473265	8	-0.01770351	-0.017704	-2.29358
-32	0.0033894	0.0033894	0.4391155	9	-0.01644193	-0.034145	-2.130135
-31	0.0062676	0.009657	0.81199908	10	-0.01575659	-0.015757	-2.041347
-30	0.0033588	0.0033588	0.43515574	11	-0.00348739	-0.019244	-0.451809
-29	0.0006704	0.0040292	0.08685007	12	-0.01281452	-0.012815	-1.660186
-28	0.0007313	0.0007313	0.09474343	13	0.00229582	-0.010519	0.2974354
-27	0.0041283	0.0048596	0.5348373	14	0.00530584	0.0053058	0.6873984
-26	-0.0005321	-0.000532	-0.0689321	15	-0.00494472	0.0003611	-0.640614
-25	0.0001183	-0.000414	0.01533009	16	-0.00519419	-0.005194	-0.672934
-24	0.0106245	0.0106245	1.37645612	17	-0.02030472	-0.025499	-2.630579
-23	-0.0030137	0.0076108	-0.3904433	18	-0.00099563	-0.000996	-0.128989
-22	0.0003524	0.0003524	0.04565398	19	-0.00267989	-0.003676	-0.347193
-21	-0.0002414	0.000111	-0.0312682	20	0.0050726	0.0050726	0.6571815
-20	0.0025219	0.0025219	0.32672679	21	0.00994613	0.0150187	1.2885719
-19	0.0058317	0.0083536	0.75552107	22	0.0017198	0.0017198	0.2228089
-18	0.0137985	0.0137985	1.7876709	23	0.00033334	0.0020531	0.0431857
-17	-0.0036083	0.0101902	-0.4674748	24	0.002459	0.002459	0.3185761
-16	-0.0024723	-0.002472	-0.3202988	25	-0.00319445	-0.000735	-0.413858
-15	-0.008281	-0.010753	-1.0728427	26	0.00839569	0.0083957	1.0877044
-14	0.0038155	0.0038155	0.49432305	27	0.007953	0.0163487	1.0303522
-13	0.0068522	0.0106678	0.88773928	28	-0.00066495	-0.000665	-0.086147
-12	-0.0019341	-0.001934	-0.2505726	29	-0.00058034	-0.001245	-0.075186
-11	-0.0065204	-0.008454	-0.8447501	30	-0.00313974	-0.00314	-0.406769
-10	0.0005105	0.0005105	0.06613208	31	-0.00276478	-0.005905	-0.358191
-9	0.0008549	0.0013654	0.11075838	32	-0.00499749	-0.004997	-0.64745
-8	0.017313	0.017313	2.24298245	33	-0.00879829	-0.013796	-1.139863
-7	-0.002986	0.014327	-0.3868479	34	-0.00142116	-0.001421	-0.184119
-6	-0.0071063	-0.007106	-0.9206605	35	-0.01130183	-0.012723	-1.46421
-5	0.0090343	0.001928	1.17044008	36	0.00446872	0.0044687	0.5789459
-4	0.014353	0.014353	1.85950482	37	-0.01284369	-0.008375	-1.663965
-3	0.0131089	0.0274619	1.6983217	38	0.003137	0.003137	0.4064141
-2	0.0002551	0.0002551	0.03305025	39	-0.00010883	0.0030282	-0.0141
-1	-0.007701	-0.007446	-0.9977078	40	-0.00505956	-0.00506	-0.655491
0	0.0091599	0.0091599	1.18671166				

Table no. 2

Event- Window	CAAR	Days	T-Value of CAAR	Significance
(-40,40)	0.028024696	81	0.395234662	Insignificant
(-35,35)	0.006852214	71	0.1032187	Insignificant
(-30,30)	0.011324781	61	0.184043943	Insignificant
(-25,25)	-0.005399406	51	-0.095966028	Insignificant
(-20,20)	-0.016835729	41	-0.333731057	Insignificant
(-15,15)	-0.020069219	31	-0.457515977	Insignificant
(-10,10)	-0.00035654	21	-0.009875415	Insignificant
(-5,5)	0.032665803	11	1.25012552	Insignificant
(-2,2)	-0.013802899	5	-0.783505293	Insignificant
(-1,1)	-0.008717837	3	-0.638858626	Insignificant
(-1,3)	-0.015319414	5	-0.869588462	Insignificant
(-1,7)	0.004208165	9	0.178044346	Insignificant
(1,10)	-0.047152732	10	-1.892620274	Insignificant
(1,15)	-0.060797699	15	-1.992499141	Significant
1,20)	-0.084899528	20	-2.409610848	Significant
(1,30)	-0.061672041	30	-1.429171432	Insignificant
(1,40)	-0.101361949	40	-2.034237175	Significant

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