

Companies binge on share buybacks

The numbers of companies that have announced share buyback proposals have risen sharply in past six months. Of the 16 companies that had offered to buy-back their equity shares between August 2013 and January 2014, the buyback offer for 10 firms has already commenced.

Cairn India, NHPC, Jindal Steel and Power (JSPL), Great Eastern Shipping, eClerx Services, UPL and Jagaran Prakashan are among few that announced buyback of their company's shares since August 2013, while the board of Mastek and Claris Lifesciences are schedule to meet current week to discuss the proposal.

Experts attribute this trend to a sharp decline in share prices of these stocks. Share repurchase is usually an indication that the company's management thinks the shares are undervalued.

JSPL has tanked 60% from its 52-week high of Rs 466 and touched a low of Rs 182 on August 2, before the board approved share buyback proposal. The market price of Cairn India almost flat in past one year, compared to over 5% rise in benchmark S&P BSE Sensex.

However, the companies like Mastek, UPL and Great Eastern Shipping that announced a share buyback despite their stocks trading at their multi-year highs on the BSE.

While a share buyback does not impact a company's business, there is a financial impact to the extent that the cash and the number of shares in its books reduce. As a result, the EPS (earnings per share) goes up. Since buyback reduces outstanding shares, it boosts earnings per share and, therefore, the share price.

Says Deven Choksey, managing director and chief executive officer, K R Choksey Shares and Securities: "One reason why companies are announcing buybacks is that the valuation is working in their favour given the currency movement. The second reason – and the reason why a lot of multi-nationals (MNCs) are going in for buyback – is to avoid Class A suits. Such companies do not want public money and could continue to operate as unlisted entities."

Since August, total 14 companies announced buybacks aggregating Rs 7,558 crore, as against around Rs 1,000 crore between January and July. Only eight companies had announced share buyback worth of Rs 273 core between August 2012 and January 2013.

Most of the companies announced share buyback via open market purchase through stock exchanges, while NHPC, VLS Finance, Jagaran Prakashan, Circuit Systems, Frontline Securities and Sinclair's Hotels will purchase shares via a tender offer.

Boards of directors of Claris Lifesciences and Mastek will meet on Tuesday and Wednesday, respectively, to consider a buyback proposal.

Sonam Udasi, senior vice president and head of research, IDBI Capital also suggests that the promoters are looking to hike stake in their companies as the valuation and the timing seems appropriate.

By doing this, they are also able to use up the excess idle cash in their balance sheets in a meaningful way, he adds.

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