

Mail @ : info@goldennifty.com
Web Link @ : www.goldennifty.com
Call @ : 08144223652



GOLDEN INVESTMENT RESEARCH PRIVATE LIMITED

NSE : (Intraday Nifty Future / Cash / Stock Future / Banknifty / Nifty Option / Stock Option)

MCX : (Mx Aluminium / Copper / Crude Oil / Gold / Lead / Natural Gas / Nickel / Silver / Zinc)

KNOW ALL ABOUT SHARE BUY BACK



WHAT IS A SHARE BUY-BACK?

In share buyback process the companies buy's its shares from share holder.

This is usually done from shareholders other than the promoters themselves, and is most

often evidence from the management and promoters on the strength of the company, and their commitment to increase the returns for the shareholders.

WHY DOES A COMPANY OFFER SHARE BUY BACK?

The following are 5 main reasons why company offers share buy back

1. To stop the fall in stock price.
2. In some situation company may want to bring down the public holding and increase promoters holding.
3. If the company sees there is no better opportunity to deploy its cash reserves then it may decide to buy back its shares.
4. The buyback may improve companies return ratios
5. When a company thinks its share price is undervalued.

WHEN THE SHARE PRICE IS UNDERVALUED

They do this when they think that the share price is undervalued, or when they think that this is the best way to make use of their excess cash.

If they reduce the total number of outstanding shares then the EPS (Earnings per Share) increases because EPS is PAT (Profit after Tax) divided by total outstanding shares.

If the EPS increases then the P/E multiple decreases, and when P/E decreases, the share price increases to bring the P/E back to the higher levels. This may not always happen, but theoretically this is what they are trying to achieve with a share buyback program. Other ratios like Return on Equity and Return on Networth also improve due to this.

HOW DOES A COMPANY CARRY OUT A BUYBACK?

The first step is that a buyback is proposed which is then voted on and approved by the board. Then they announce the buyback in a newspaper, announce a start date when the public can start tendering their shares, a last date of withdrawal, a close date, date of notifying when the offer is accepted or rejected, and finally the date when the shares are extinguished.

They also have to declare the price at which they will carry out the buy back and the number of shares that they will buy back.

Usually companies will only buy back a certain percentage of their outstanding shares from the public. This is really important because some people who are not familiar with how this process works end up buying shares with the hopes of a sure - fire profit, and later realize that only part of their shares will be bought back.

For example –

Amrutanjan recently came out with a buy back where they said they will buy about 9 lakh shares from the market at Rs. 900. That was at a 17% premium from the day when the buyback was announced. Say in a few days the share moved up to Rs. 820, and you see it trading there knowing that the buy back is at Rs. 900. You mistake this as a risk free profit of Rs. 80 thinking that you will buy the shares and sell them back at Rs. 900 in a few days.

This won't happen because usually there are more shares offered for a buyback than the company actually wants to buy.

In these cases they buy back the shares in the proportion of the over subscription. So you will only get a part of your [shares](#) bought back, and if the price comes down below your purchase price then you are stuck with the remaining ones. So, this is not a risk free arbitrage opportunity at all.

HOW SHARE HOLDERS GET BENEFITED?

1. Buy back at good premium may increase the stock price in share market.

2. As buy back of shares reduces outstanding shares, the EPS (EPS is calculated by dividing net profit by outstanding [shares](#)) may look good.

The ROA (Return on Asset) and ROE (Return on Equity) may improve by fall in outstanding shares and assets (in this scenario, excess cash).

HOW TO PARTICIPATE IN THE BUY BACK OFFER?

There are two types of buyback programs - one is done through purchase from the [stock market](#), and the second one is done through a tender form.

When a company carries out buy back from the stock exchange, they just declare that they are going to buy [shares](#) from the stock market, and there is nothing that you have to do here (except perhaps hope for a gain in share price).

When the company offers to buy shares through the tender route - they will send a tender form to all its [share](#)holders with instructions on how to fill the form and where they can mail or drop the form.

The detail process can be procured from your respective broker.

After receiving a response from all its shareholders within the cutoff date - the company will calculate how many shares it got, and in what proportion can it carry out the buy back. You will then be notified of the number of shares that are accepted and the money will either be deposited directly electronically or be sent by a check. I think how you receive the dividend is a pretty good indication of how you are going to get this money.

Golden Groups