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Companies go slow on share buy-backs

Reliance Infra has bought back shares worth just Rs806 crore in an offer capped at Rs2,000 crore

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Mumbai: In a tight money market, companies that have moved to buy back their shares are going slow on these efforts either because they do not have the money or are saving it for a better use, according to analysts and executives at some of the firms.

Currently, 22 companies have ongoing offers to buy back their own shares and, according to SMC Capitals Ltd, the merchant banking arm of New Delhi-based financial services house SMC Global Securities Ltd, they have spent less than 25% of the aggregate Rs4,559.47 crore they would have to spend if they bought back all the shares they set out to at the maximum buy-back price.

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To be sure, buy-back offers are typically open for several months and many of the 22 companies still have time to repurchase their shares.

Companies buy back shares in an effort to boost investor sentiment and prop up the share price, and increase the return on equity (money for the buy-back usually comes from reserves which is part of the shareholders' funds or equity) and earnings per share (the shares bought back are destroyed, leaving fewer shares among which the earnings have to be shared).

No companies launched buy-back programmes in 2007, when the equity markets were on a roll. Several companies, however, announced such programmes as the markets started melting last year.

India's benchmark equity index, Sensex, has lost nearly 50% of its value since January 2008, in the wake of the global credit crunch and an economic slowdown.

Delhi-based real estate firm DLF Ltd, which had announced one of the biggest buy-back plans last year at a total maximum cost of Rs1,100 crore, has thus far repurchased shares worth only Rs51.3 crore, according to SMC. The offer closes on 9 July.

"The money we have deployed in the buy-back is a reflection of the general market conditions and the liquidity crisis worldwide," said Saurabh Chawla, executive director, finance, DLF. "Rs1,100 crore is not a large number when you consider the size of our balance sheet and the size of our operations. That said, being a prudent organization with a prudent management, we have not committed huge amounts of resources to the buy-back. We will not do it at the cost of jeopardizing our liquidity position required for our business operations."

A real estate analyst at a domestic broking house said: "DLF had Rs1,300 crore of cash on its books as at the end of the second quarter (ended September 2008). So I don't think they would want to utilize the maximum amount specified in their buy-back offer, as they will have other requirements for this cash." The analyst didn't want to be named as he is not authorized to speak with the media.

DLF shares, which have fallen 73.94% since last January, closed at Rs279.80 each on the Bombay Stock Exchange on Tuesday.

Similarly, Reliance Infrastructure Ltd, owned by the Reliance Anil Dhirubhai Ambani Group (R-Adag), has bought back shares worth Rs806 crore in an offer capped at Rs2,000 crore, according to SMC data.

It bought the shares at an average price of Rs920.18 each, while it had announced a maximum buy-back price of Rs1,600 per share.

"The buy-back was announced in March of last year. At that time there was no liquidity crisis," said Lalit Jalan, chief executive and director of Reliance Infrastructure. "And even now, we are sitting on Rs10,000 crore of cash and cash equivalents. We are well-capitalized and want to return money to shareholders, but will not do it (by) jeopardizing our liquidity position."

Reliance Infrastructure, previously Reliance Energy Ltd, was 2007's best-performing Sensex stock, touching a peak value of Rs2,631.70 on 10 January 2008. The stock has lost nearly 70% since the beginning of last year.

"This is a time when companies need cash. So, although they may announce buy-backs, they don't necessarily need to buy back as much as the maximum specified in their buy-back documents," said Mehul Savla, former executive director (investment banking) at JPMorgan India Pvt. Ltd, and now chief executive of his own transactions advisory firm, Ripple Wave Equity Pvt. Ltd.

"At a time when cash is king, many companies may not be as committed to their buy-backs as they would have been otherwise," said Jagannadham Thunuguntla, head of equity at SMC Capitals.

Another company, Delhi-based auto components manufacturer ANG Auto Ltd, which had said it would spend up to Rs16.13 crore on buying back shares, bought shares worth just Rs3.8 crore before its offer closed on 2 January.

Usually, a firm specifies a maximum price for the buy-back and a maximum amount it will utilize for the buy-back. But it doesn't necessarily use this amount, and the buy-back happens at the prevailing market price. "If the maximum buy-back price is Rs600, but the current market price is only Rs300, the firm will naturally buy back at Rs300," said Thunuguntla of SMC Capitals.

"Companies are not bound to fully utilize the buy-back amount if they have not specified it when announcing the buy-back," said Jayant Thakur, a chartered accountant who specializes in securities transactions. "In such cases, it is possible that Sebi (capital markets regulator Securities and Exchange Board of India) may investigate these companies to see if their offer was bonafide and with good intentions."

Chetan Savla, executive director at Kotak Mahindra Capital Co. Ltd, said most companies with ongoing buy-back programmes would "have taken a judgement call that they can tap into alternative resources for funds in the next 18-24 months." Savla added that companies don't typically use the entire maximum amount specified.

A buy-back gives investors the option of liquidating their position in a market that doesn't have too many buyers.

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