Business Standard

Market rally throws buybacks off track

Ongoing offers unlikely to succeed as shares trading above highest buyback prices

Sachin P.Mampatta & Samie Modak | Mumbai July 28, 2014 Last Updated at 22:50 IST

Companies with ongoing buyback offers seem in for a tough exercise, as the run-up in share prices has made many of these untenable.

A buyback is a process in which a company accepts stock from its shareholders at a maximum pre-decided price, as a way of returning money to them when it is felt that the shares are undervalued. There are currently four companies with ongoing buybacks, according to BSE data —Edelweiss Financial Services, Supreme Petrochem, DCM Shriram and ISGEC Heavy Engineering.

ISGEC is currently trading at a 162.8 per cent premium to the maximum buyback price. DCM Shriram shares are trading 72.8 per cent higher than what the company is offering. Supreme Petrochem and Edelweiss are trading at a 9.1 per cent and 38.8 per cent premium, respectively, to the buyback price.

The Securities and Exchange Board of India's regulations have penal provisions for companies which do not complete an announced buyback, though exceptions are made for a sharp rise in prices.

Ajay Saraf, executive director, ICICI Securities, said buyback offers are generally launched when the share is trading at a discount.

TOUGH TO BUY BACK

Company	Buyback price (₹)	Current price (₹)	% premium over buyback price
ISGEC Heavy Engineering	890.00	2,339.00	162.81
DCM Shriram	90.00	155.50	72.78
Edelweiss Financial Services	45.00	62.45	38.78
Supreme Petrochem	70.00	76.40	9.14

Girish Nadkarni, managing director, Motilal Oswal Investment Banking, which has helped companies with buybacks this year, said there are limited options in the face of rising share prices. "If the price is significantly higher, there is not much a company can do," he said.

Interestingly, all the buybacks were announced before the general election results. The latest was Supreme Petro, which announced its buyback on May 9, a week before the results. Edelweiss announced it on May 5. DCM and ISGEC announced it in March and January, respectively.

Says Mehul Savla, director at RippleWave Equity: "One has seen a macro re-rating of the market after the elections, which has resulted in the rise in share prices across companies. Most will have to relook at their buyback plans."

The BSE's Sensex, whose movements are held to be representative of how the market is doing, is up a little over 20 per cent on the back of the election results.

Nadkarni said there was less likelihood now of more companies announcing buybacks.

There were 32 buyback offers in 2013-14, worth a total of Rs 11,380 crore, according to Prime Database, second highest in a decade, after the Rs 13,765 crore from 31 issues in 2011-12.

There are have been four buybacks so far in the current financial year, worth Rs 407 crore. There are 11 other companies which have board approvals for a buyback offer, according to information from Prime. These include Agro Tech Foods, Bharat Electronics and Avantel.

“Buybacks are far fewer in a bull market, compared to a bear market. While a company might have surplus shares, the prices are not trading at a discount to the fair value, which tends to happen only in bear markets,” said Savla.

“Typically, a company does a buyback either to utilise its surplus cash or to support its share price. In this case, as the share price is now higher than the buyback price, one of the objectives is met. Investors will also get comfort, as they can now sell in the market, if required, at a much higher price,” said B Madhuprasad, non-executive chairman, Keynote Corporate Services.