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Share Repurchase: Consequences in Indian Banking Sector

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ABSTRACT

This present study has examined how the share repurchase influences the Indian banking sector. Share repurchase is the important step taken by the company to strengthen its financial position and future financial stability of the company. Share repurchases drop off the outstanding shares of the company and its force is resulted in Earning per Share (EPS). Thus, this would eventually result in a higher share price. Indian banking sector focuses on managing the risk. Buyback of shares helps to pay the creditors for the losses occurred in the past. Banking sector plays important role in developing the country and in order to accelerate the Indian economy the financial stability of this sector are highly important. This sector attracts more investors because the risk element is comparatively lower than the other sectors and provides higher value during the time of buyback.

Keywords:banking sector, financial position, stability etc.

INTRODUCTION:

Buyback of shares basically refers to repurchase of shares by the company itself so that the numbers of shares of company in open market will get reduced (Auerbach, 2013). There were several reasons for that the company buybacks its shares such as to takeover shares from shareholders who possesses more value of shares to control the stake of company and to increase value of shares of company in market by reducing its availability in market (Andriosopoulos *et al.* 2013). Basically, if the company is in bullish state in market, it can increase the valuation of stock after repurchasing of shares by maintaining same P/E (Price to Earnings ratio). As the number of existing shares reduced in market, the Earnings per Share (EPS) and Return on Equity (ROE) of company also gets increased that makes the company financially strong in market. Indian economy is a growing economy, there is high demand of credit in the Indian market, buyback of shares will increase the financial performance of Indian banking sector because it will help to allocate the funds to the citizen of India according to their needs (Chatterjee and Mukherjee, 2015). In addition to these it will also control the risk-adverse situation which is prevailing in India after demonetization.

In order to conduct this research work the buyback of shares has been selected because repurchase of shares has biggest impact on the financial condition of company belonging from any industrial sectors. The cash flow of company according to it's per share affected due to buyback of shares and consequently it increases the market price of shares (Rajagopalan and Shankar, 2012). Buyback of share is considered as important step taken by the company to strengthen its financial position and it's also secures future financial stability of company.

SHARE REPURCHASES AND ITS CONSEQUENCES: A SYSTEMATIC REVIEW:

In this section, objective of repurchasing of shares by company has been discussed to make the clear idea about buyback. In addition, the impact of buyback of shares on financial performance of company has been given. The buyback of shares by banking sectors from international and national perspective has also been considered. The methodology buyback concept adopted by Indian banking sectors has been evaluated along with these.

Objectives of Share Repurchase:
There are several ways for which company buyback its shares by considering its financial aspect. Buyback of shares increases the EPS of company and also help to distribute the cash among shareholders (Zhang *et al.* 2013). The financial health of company can be improved after buy back of shares (Sehgal *et al.* 2012). However, if the company buys back their own shares, then the number of outstanding shares will decrease which will automatically increase their share prices in market (Maitra and Dey, 2012). When company wants to raise capital then company buyback shares instead of issuing more shares in open market with the objective of increasing ownership of company's management in shares (Rajesh, 2013). Other than these the financial ratios of company also enhanced due to repurchasing activities of company.

Influence of Buyback on Financial Performance:
If the company repurchases part of it issued shares from market, then financial performance of company will get largely affected. As discussed, buyback of shares are done by companies with several objectives. However, repurchase of shares led biggest impact on EPS as evident from market research (Sehgal and Pandey, 2013). The EPS of company measures the profitability of company by evaluating cash inflows. The P/E ratio of company gets enhanced after reduction of shares in market and thus enhances company's financial condition in market. As EPS of company increased due to reduction in number of shares in market it increase value of shares in market (Almeida *et al.* 2016). Thus shareholders value gets enhanced because stock price of share are driven correctly due to buyback of shares. It is evident that company who constantly repurchase their shares from sufficient interval can increase their EPS faster as compared to other companies present in market. The rapid growth of EPS attracts investors and the company can also offers shares to those investors at premium in lieu of getting future profit (Reddy *et al.* 2013). This also helps management of company to maintain free cash flow which makes the company dominant in market and boost up its financial performance. Also, this repurchasing of share creates impact on company's income statement (Andriosopoulos and Hoque, 2013). It is often observed that heavy buyback of share reduces value of shareholders with passage of time.

Buyback of Shares in Banking Sectors from National and International Perspectives:
If the banking sectors want to buy back its shares, then it should consider its internal financial condition and demand of credit in market (Clarke, 2014). Moreover, banking sectors help to develop nation thus buyback of share can greatly affects the financial performance of bank in national and international markets. Before making the decision of buyback the banking sectors should consider the timing. Basically buyback of shares give advantages to short-term shareholders of company and it does not consider the shareholders who are interested in long-term investment (Jacob and Jacob, 2013). However, if buyback of shares are made by banking sectors properly then it can enormously help the economy by increasing the financial stability of company which consequently helps the company to flourish in national and international market (Bonaimé *et al.* 2013). It is advisable to banking sectors to repurchase shares after considering its current financial condition and intrinsic value of shares in market. In order to manage liability of bank they can buy back their shares. It acts as risk control method taken by bank when the market condition is distressed (Bender, 2013). Bank performs strategic buybacks when they want to reduce their future funding cost by boosting up current share prices (Brigham and Houston, 2012).

Buyback of Shares by Indian Banking Sectors:
As per the current scenario of banking sectors in India, the sector is growing at fastest level, this particular sector of India is particularly focusing on managing the risk (Goyal and Joshi, 2012). From the financial year 2015-2016, it has been analyzed that reduction in rate of interest on loan in market resulted in the reduction of the ROE and ROA of company (Chatterjee and Mukherjee, 2015). As public sectors banks are directly under the control of Indian government they can buy back the shares to improve the condition of public banks. The banking sector of India is trying to reduce the rates of interest on loan provided to customers in upcoming financial year and thus it is necessary for the banks to be financially strong so that they can make stronger economy to support people who belong from weaker economic sections (Maitra and Dey, 2012). Banks should be well capitalized so that they can provide credit to society and thus many stabilized bank of India are planning to buy back shares from open market.

CONCLUSION:

The repurchasing of shares has become common process to enhance the financial performance of company in market. In Indian banking economy, the public sectors are operating at minimum profit which is not attracting investors toward this sectors. Buy back of shares will give opportunities to bank to infuse more capital in various internal projects and it will also give the chance to banking sectors to make investment in foreign projects in international market. Buy back in banking unit will result in increase in share price and ROE. Thus this will help the banking sector to provide loan to the citizen at lower rates. An open market buy back can give reasonable price to the Indian banking sectors. As the Indian economy is very much democratic the buyback of shares should be made after making proper investigation to control the market fluctuation and inflations.

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