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Research Article

Event Study Methodology

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Share Price Behavior and Buyback Announcements by Listed Companies- An Evidence from the Indian Stock Market

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Buyback announcement is considered as the prominent announcement made by corporate houses. Many companies have announced the stock buyback in India. Share buybacks have progressively been examined as a key concern in financial study which is seeing as a strong implication in formulating corporate policy. Share buyback provide enough signaling ability to affect the share prices all over the world. The present research is an effort to examine the share price movement before and after the buyback repurchase through the open market mechanism for a sample of 46 companies made during the April 2015 to March 2022. The present manuscript uses the Ordinary Least square (OLS) regression to find out the alpha and beta values which is further use to arrive at the average abnormal return (AAR), cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR). The present effort employs the Nifty 50 as a benchmark for the market model to anticipate the expected return of the sample companies. An estimation window of 200 trading days (ranging from day −230 to day −30) and an event window of 61 trading days (spanning from day −30 to day +30, including the event day) have been used to derive the results. The study reports that AAR on the declaration date is 1.09 percent and Cumulative average abnormal return (CAAR) is 7.53 percent for 61 days' event window. As a result of analysis of buyback announcements in India shows that there is greater degree of signaling ability and it can help in accumulating the wealth for the shareholders.

Keywords: event study methodology, nifty 50, average abnormal return (AAR), cumulative average abnormal return (CAAR), ordinary least square regression model

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1. Introduction

A share buyback, or share repurchase, refers to the corporate exercise wherein an enterprise buys its own outstanding shares from present shareholders, typically through open market or tender offers mechanism. This mechanism is often used to optimize the firm's capital composition, enhance earnings per share, return cash to shareholders, and signal management's confidence in the company's future prospects (Vermaelen, 1981; Jagannathan & Stephens, 2003). Buyback of equity share is a way of capital restructuring process. Before 1998, buyback of shares was not allowed in India. It was the company (Amendment) Act 1999 which allow company to buy back their own share from the existing shareholders. Although the concept was introduced in 1960 in the world but it became popular in 1980 in US and 1990 in UK. Many countries in the world had adopted this idea of buyback of share but were more traditional in their approach. In the introduction stage of this concept, the tax laws were very rigid. Compare to the rest of the world, this mechanism of repurchase of shares were introduced late in India. Sections 77A, 77AA, and 77B of the Companies (Amendment) Act, 1999, establish the legislative framework for the repurchase of shares by a corporate from its present shareholders. These provisions outline the compliance, procedures, and requirement under which repurchase of stocks may be undertaken, thereby ensuring clearness, investor protection, and adherence to regulatory compliance in the implementation of such corporate decisions. Unlike the rest of the world, rules for share buyback in India are very strict. Government imposes so many restriction and technical barriers on the companies. Because of this it is assume that Buyback provision in India is not analogous with the rest of the countries.

The present work is directed towards on to examine the stock's price behavior around the buyback announcement in India, which is announces through the open market mechanism for a sample of 46 companies made during the April 2015 to March 2022. The study uses the companies' share prices, which are registered on the national stock exchange (NSE). The present research uses the ordinary least square (OLS) regression to find out the alpha and beta value which is further use to arrive at the three key metrics average abnormal return (AAR), cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR). In line with the market model structure commonly applied in event study procedure (Fama, Fisher, Jensen, & Roll, 1969; MacKinlay, 1997), the present manuscript employs the Nifty 50 index as a benchmark to estimate the expected returns of the selected firms. This approach permits for the isolation of abnormal returns by accounting for normal market fluctuation.

2. Literature Review

The following review of literature summarizes key contributions and providing the conceptual and empirical fundamentals for the present study-

Rajlaxmi (2013) empirically invested the CAAR 5 day before the declaration and 5 days after the declarations of the repurchase decision. This study of investigating share price movement around share repurchase taken the sample of 6 buyback declarations and the study specified that share buyback resulting the short term gain only.

Chavali and Shemeeem (2011) intended to find out the impression of share repurchase on the share price and its market value. The analysis validates that the market shows a favorable reaction and the AAR was 1.07% and CAR was 1.59% on the announcement day. It was suggested by the author that result is true for only a few study and it can't be generalized.

Kahle (2001) study stress on how the share prices are affected by the share purchase in the U.S. market. The study indicates that the stocks were undervalued for the shareholder and share repurchase was used to increase the cash flow to the Shareholders.

Dhatt (2010) statistically investigated the influence of the open market mechanism on the price movement. The time period for the investigation was during 2004 to 2009 and the access return of 2.55% on the declaration day for the 40 listed firms in the BSE. All the investigation of this study observes the undervaluation assumption or signaling positive information.

Verma and Rao (2010) studied the motive of the share buyback in India. The author studied those firms which were having same capitalization of the same industry.

It was noticed that company having more profitability usually go for share buyback and company having low profitability usually not go for share buyback. The study indicated that the firm which repurchase the share paid lower dividend and their share market price were undervalued in comparison to those firms which were not opted the share buyback.

Thirumalvalavan and sunitha (2006) investigate the market reaction of the two payout system which are share buyback and dividend announcement and choice between the two. The present study moves forward with the hypothesis and findings indicate an absence of an evocative association between buyback publications and subsequent share price performance. The study found that price movement swing upward positively only after a day of announcement and after that share prices started to decline. The mean CAR of repurchase announcement is 0.015and Mean CAR of dividend announcement is 0.014. The hypothesis is overruled which assert that there is no significance difference between CAR of buyback announcement and dividend announcement.

Hyderabad (2009) analyzed 68 buyback cases in India from 1998 to 2007 and found an average announcement-day abnormal return of 2.83%. While returns prior to the announcement were adverse, both AAR and CAR improved closer to the event, with an announcement-day CAR of 6% and an overall CAR of 5.16%. Year-wise results showed wide variation, indicating that the frequency of buybacks does not necessarily influence announcement-day returns.

Asquith and Mullins (1986) noted that although dividends and share repurchases serve distinct signaling functions, both mechanisms share the common objective of distributing surplus cash to shareholders. While the declaration of dividends is generally interpreted as an indication of the firm's strong future prospects, a share buyback is often viewed as a signal that the company's stock is undervalued

Grullon and Michaely (2002) documented a shift in corporate payout policy, with firms increasingly substituting share repurchases for dividends. They noted that tax advantages play a key role, as markets react more positively to repurchases when capital gains are taxed more favorably than dividends. In the U.S., repurchases grew from 13.1% of dividends in 1980 to 113.1% in 2000."

The review of prior studies indicates that share buybacks have been widely examined in the existing literature. Nevertheless, considering the recent developments in the Indian capital market and the growing scale of buyback activity, a re-examination of this subject is both relevant and necessary. Accordingly, the present study seeks to analyze the announcement effects of buybacks and to assess market efficiency in the context of India's premier stock exchange, the NSE.

3. Theoretical Framework

This study aims to examine the impact of share repurchase announcements on the stock performance of firms registered on the National Stock Exchange (NSE). The study employs the standard event study methodology to evaluate the reaction of stock prices to open market mechanism of buyback announcements. The event study methodology is broadly employed in behavioral finance research to measure market reactions to specific commercial events. The present study examines that how quickly buyback news impacts the share prices. The background of the event study is very longstanding and first study publishes in 1933 (Dolley). Further the event studies were originality designated to test the market efficiency (Fama et al. 1970)

The main resolution of this methodology is to discover the influence of an event on the share price of the firms. Its main purpose is to observe the share price fluctuation around the corporate event. The hypothesis can be verified with the help of event study is to study the effect of corporate event (Buyback announcement) on the share price of the companies Upinder S. Dhillon and Herb Johnson (1994), Upananda Pani (2008), Fawaz Khalid AI-Shawawreh (2014), Gustavo Grullon and R. Michaely (2002), David J. Denis (1990), Christine Brown (2007), Kavita Chavali and S. Shemeem (2011), T. Malikarjunapa and T. Manjunatha (2009).

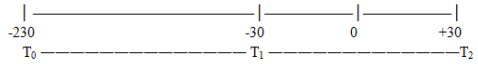
The present study is carried out across multiple time intervals and clustered periods, employing both time series and cross-sectional analyses for a comprehensive evaluation. The study focuses on examining abnormal gains and losses in the pre- and post-event windows, while also investigating stock price behavior surrounding repurchase announcements.

To achieve the goals of the study, three components are essential: (a) the estimation window, used to determine expected returns; (b) the event window, covering the pre- and post-event phases; and (c) the event day, demarcated as the date of the public proclamation. In this study, the estimation window spans 200 trading days (from day –230 to day –30), while the event window comprises 61 trading days, including the pre-event period (–30 days), the event day (0), and the post-event period (+30 days).

Many of the researcher like R.L. Hyderabad (2009), Shachi Bhargava and Puja Agarwal (2015), N.V.R.Rajagopalan and Dr.H. Shankar (2012), Mansor Isa and Siew-Peng Lee (2014) and Mike Cudd, R. Duggal and S. Sarkar (1996) and many other used 200 days for estimation window and Takashi Hatakeda and Nobuyuki Isagawa (2004), R.L. Hyderabad (2009), Debasish Maitra and Kushankur Dey (2012), M. Isa and Siew-Peng Lee (2014), M. Isa, Z. Ghani and Siew- peng Lee (2011)and many other used the event window for the analysis purpose. In the following figure from T_0 to point T_1 show the estimation window of 200 days and from T_1 to point T_2 show the event window of 61 trading days. In the following figure 0 denoting the announcement day and from -30 to 0 (30 days) is before the announcement day of event and from 0 to +30 (30 days) is after the announcement day of event.

Figure – Timeline for Estimation window and Event window:

Announcement Date



Estimation Window (200 days) Event Window (61days)

For analytical resolves, the event study methodology is employed, exploiting the closing prices of all sample firms for both the estimation window and the event window

4. Research Methodology

This study employs the market model to explore share price movements surrounding buyback announcements in India. The Nifty 50 index is used as the benchmark for market returns to gauge the influence of buyback announcements on firm-specific stock prices.

The sample comprises 46 firms that declared share buybacks between April 2015 and March 2022. The proclamation date is designated as the event day (t = 0), while the event window spans 61 trading days (–30 to +30) around the announcement date. The expected returns are assessed over an estimation window, and abnormal returns are calculated as the difference between actual returns and expected returns (Brown & Warner, 1985; MacKinlay, 1997). The average abnormal return (AAR) is figured as the mean of abnormal returns across firms, while the cumulative abnormal return (CAR) represents the aggregation of abnormal returns over time. Similarly, the cumulative average abnormal return (CAAR) represents the sum of average abnormal returns over the event window. Consistent with preceding literature, CARs are generally assessed over relatively short windows, since compounding daily abnormal returns over longer horizons may introduce preference in statistical inference (Brown & Warner, 1980; MacKinlay, 1997).”

5. Objective of the study

The study seeks to measure the reaction of the Indian capital market to share buyback announcements made by listed companies.

6. Analytical Methodology

The day-to-day closing price of the security is used for returns:

Expected Return E(R)

$E(R) = \alpha + \beta (R_m)$

E(R) = Expected Return on the day t.

α = Alpha value

β = beta value

R_{mt} = market return on the day t

The NIFTY 50 index returns are employed as a proxy for market returns over the 200-day estimation window. The returns of the respective firms are regressed against the market returns to estimate expected returns, using the Ordinary Least Squares (OLS) regression model.

Abnormal stock Return (ASR)

Abnormal stock Return is calculated by using following equation

ASR = AR-E(R)

Where

ASR= Abnormal stock return of i on any given day t.

AR= Actual return on security i at time t.

E(R) = Expected Return

Average Abnormal Returns (AAR)

The average abnormal return is intended by using the subsequent formula

AAR = ∑AR / **N**

Where

AAR= Average Abnormal Return on day t

ASR= Abnormal stock return on security i at time t.

N = Number of days in which it is earned.

Cumulative Abnormal Return (CAR)

The CAR is calculated as

CAR =∑AR

Where

CAR = Cumulative Abnormal Return

AR = Abnormal Return

Cumulative Average Abnormal Return (CAAR)

The CAAR is calculated as:

CAAR= ΣAAR

Where

CAAR = Cumulative Average Abnormal Return

AAR = Average Abnormal return

Paired Sample t-test

The present study uses the paired sample t-test to understand the statistically significant impact of the buyback and dividend announcements on the share prices.

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{s_1^2}{N_1} + \frac{s_2^2}{N_2}}}$$

X_1 = Mean of Sample 1

X_2 = Mean of Sample 2

S_1 = Standard Deviation of sample 1

S_2 = Standard Deviation of Sample 2

N_1 = Sample size of Sample 1

N_2 = Sample size of sample 2

7. Result and Discussion

In order to inspect the share price dynamics around the open market offer announcement, the study employed the market model framework, wherein the expected returns were projected using the ordinary least squares (OLS) regression functional to logarithmic stock returns. The estimation window contained 200 trading days, extending from day –230 to day –30 relatives to the incident date, so as to escape potential facts leakage from the event window. The regression exercise generated the model factors, namely the intercept coefficient (α) and the slope coefficient (β), which assist as the basis for manipulative abnormal returns in the subsequent analysis-

Sr. No.	Company Name	Alpha Value (α)	Beta Value (β)	Sr. No.	Company Name	Alpha Value (α)	Beta Value
1	Atul Ltd.	0.0049	1.8661	24	BSE Ltd.	0.0112	0.8731
2	Pennar Industry	0.0106	0.9287	25	Mcleod Ltd.	0.0326	0.0938
3	Balrampur Chini mills Ltd.	-0.0315	2.0040	26	DCM Shriram Ltd.	-0.0733	1.3445
4	Infosys Ltd.	0.0217	1.1227	27	ADF Food Ltd.	0.0280	0.3908
5	VRL Logistics	0.0806	0.7304	28	TD Power Ltd.	-0.0345	0.9083
6	Jagran Prakashan	0.0413	0.3941	29	Exide India	0.2312	0.5779
7	Nava Bharat	-0.1011	0.3806	30	Rico Auto	0.0014	0.4491
8	Freshtrop Fruits	0.0509	1.4563	31	Advanioerlikon	0.0094	1.0224
9	IIFL Securities Ltd.	0.0311	0.8541	32	Indian Resort	0.3012	1.0619
10	Motilal Oswal	0.0203	1.1571	33	SMS Pharma	0.0604	0.5444
11	CRISIL Ltd.	0.0203	0.9557	34	TATA Chemical	-0.0424	1.3008
12	R. System Ltd.	0.0321	1.0806	35	Venkys Ltd.	-0.0608	0.4655
13	Ambika Cotton Mills Ltd.	-0.7011	0.7345	36	Valson ind	0.0214	1.3057
14	Fineotax Ltd.	0.0000	0.6735	37	Cipla	-0.0013	1.2155
15	Coal India Ltd.	-0.0019	0.4597	38	Nector Life	0.0628	0.8514

16	Onmobile India Ltd.	-0.0012	0.2194	39	DLF Ltd.	0.0013	1.0063
17	Tips Industries Ltd.	-0.3006	0.4758	40	Pennar Indus	-0.0810	0.2209
18	Excel Industry Ltd.	0.0805	0.7236	41	JK Paper Ltd.	-0.0108	0.6553
19	Dr. Reddy Ltd.	-0.0204	0.323	42	eClerx Ltd.	0.0818	1.0007
20	GHCL Ltd.	0.0614	1.5283	43	Sreeleather Ltd.	0.4017	0.6055
21	ICRA Ltd.	0.0342	0.3248	44	Rane Brake Ltd.	0.1237	1.0037
22	The Ramco Ltd.	0.0453	0.0238	45	HSIL Ltd.	0.8625	0.4531
23	Just Dial Ltd.	0.0316	0.0352	46	Delta Crop Ltd.	0.8342	0.8352

Subsequently, the regression coefficients (α and β) taken from the estimation window were applied to compute the expected returns of the sample companies. These expected returns were then employed to originate the abnormal returns over the event window of 61 trading days, covering the period from –30 days prior to the announcement to +30 days after the announcement, with the announcement day chosen as day 0. On this basis, the Average Abnormal Return (AAR), Cumulative Abnormal Return (CAR), and Cumulative Average Abnormal Return (CAAR) were calculated. The following table presents the corresponding values for the sample firms across the defined event window.

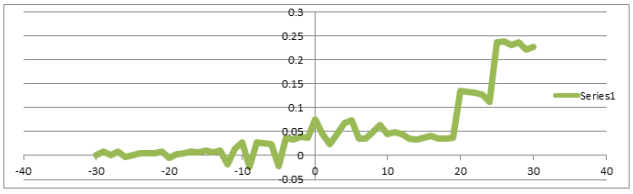
Days	Average Abnormal Return (AAR)	Cumulative Abnormal Return (CAR)	Cumulative Average Abnormal Return (CAAR)	Days	Average Abnormal Return (AAR)	Cumulative Abnormal Return (CAR)	Cumulative Average Abnormal Return (CAAR)
-30	0.0125	0.1277	0.0005	0	0.0109	0.0479	0.0753
-29	0.0002	0.0398	0.0077	1	0.0627	0.1373	0.0448
-28	0.0342	-0.1005	0.0015	2	0.0029	0.0455	0.0247
-27	0.0452	0.1002	0.0088	3	0.0086	0.0342	0.0453
-26	0.0332	-0.1650	-0.0024	4	0.0068	0.0850	0.0671
-25	0.0239	0.1738	0.0002	5	0.0532	0.1657	0.0739
-24	0.3408	0.0336	0.0047	6	0.0068	0.2469	0.0360
-23	0.0206	0.0604	0.0038	7	0.0444	0.2234	0.0346
-22	-0.0340	-0.0883	0.0043	8	0.0079	0.2475	0.0495
-21	-0.0027	-0.1374	0.0084	9	-0.0250	0.2450	0.0646
-20	-0.3225	-0.1057	-0.0052	10	0.0106	0.5344	0.0447
-19	0.0235	-0.1730	0.0021	11	0.0027	0.0968	0.0487
-18	0.0768	-0.0919	0.0043	12	0.0051	0.1032	0.0446
-17	0.0034	0.2349	0.0084	13	0.0080	0.1443	0.0346
-16	-0.0056	-0.1346	0.0065	14	0.0045	0.0233	0.0331
-15	0.0089	-0.1239	0.0096	15	0.0126	0.1714	0.0377
-14	-0.0045	-0.0234	0.0076	16	0.0076	0.0337	0.0414
-13	0.0034	0.1068	0.0108	17	-0.0652	-0.2376	0.0351
-12	0.0094	-0.1707	-0.0191	18	0.0710	-0.0486	0.0346
-11	-0.0032	-0.0396	0.0137	19	0.0014	0.1671	0.0373
-10	0.0007	0.3385	0.0286	20	0.0015	0.1246	0.1353
-9	0.0041	-0.2007	-0.0249	21	0.0014	0.0299	0.1336
-8	0.0015	-0.0761	0.0281	22	0.0037	-0.2379	0.1309
-7	0.0013	0.0659	0.0258	23	0.0032	-0.2480	0.1268
-6	0.0324	0.1159	0.0231	24	0.0047	-0.1353	0.1114
-5	0.0505	-0.0330	-0.0226	25	0.0028	0.3876	0.2368
-4	0.0017	0.1223	0.0373	26	0.0041	0.1634	0.2379
-3	0.0021	0.0239	0.0344	27	0.0208	0.0418	0.2301
-2	0.0057	0.2483	0.0396	28	0.0022	0.1213	0.2365
-1	0.0404	0.0353	0.0376	29	-0.0031	-0.1629	0.2212
0	0.0109	0.0479	0.0753	30	0.0002	-0.0351	0.2261

The table reports the average abnormal return (AAR), cumulative abnormal return (CAR), and cumulative average abnormal return (CAAR) for the sample firms in mandate to inspect stock price behaviour around the open market offer of repurchase announcement, based on a 61-day event window (–30 days to +30 days, with day 0 as the announcement day). The arrangement of AAR in the pre-announcement period specifies positive values for 24 days and negative values for 6 days, with the AAR recorded at 1.09 percent on the declaration day. In the post-declaration period, AAR remains optimistic for 27 days and adverse on only 3 days (+9, +17, and +29).

Similarly, CAR displays a mixed movement in the pre-announcement period, remaining positive for 16 days and negative for 14 days, with a value of 4.79 percent on the declaration day. Post-announcement, CAR is positive for 23 days and negative for 7 days. The CAAR shows moderately stronger regularity, being positive for 25 days and negative for 5 days in the pre-declaration period, while reaching 7.53 percent on the declaration day. In the post-declaration period, CAAR remains positive during all 30 days.

Although the AAR on the declaration date is relatively minor, both CAR and CAAR validate substantial gains, suggesting that open market offer of repurchase announcements yield meaningful paybacks for the shareholders of the sample firms.

The following figure illustrates the fluctuation of the cumulative average abnormal return (CAAR) over the 61-day event window, spanning from –30 days earlier to the announcement to +30 days later the announcement, with day 0 representing the announcement date-



The above figure depicts the fluctuation of the CAAR of the sample companies for the repurchase announcements during the event window of 61 days (-30 days, 0day, +30 days). The above figure is apparent that the CAAR is showing a negative return in the beginning from -30 days to -5 days and after the declaration it does not increased too much till +20 days and after that it gives positive return till the + 30 days.

8. Hypothesis Testing and Empirical Result

For the experimental investigation of stock price fluctuation around open market offer of repurchase announcements, the following null hypotheses were articulated:

H01: There is no significant impact of repurchase announcements on the share prices of the firms.
H02: The cumulative average abnormal return (CAAR) is equal to zero.

To evaluate these hypotheses, a t-test was employed at the 5% level of significance, thereby determining whether the null hypothesis should be accepted or rejected.

Date	CAAR	t- test	Prob.
(-30…+30)	0.2261	-3.4511	0.0001
(-20…+20)	0.1690	-2.5537	0.0052
(-10…+10)	0.0302	-1.7597	0.0852
(-05…+05)	0.0046	1.1509	0.0634

Source: Authors' Computation (at 5% of significance level)

Cumulative average abnormal return (CAAR) thereby producing quantifiable earnings to the investors of the sample firms and shows the influence of the declaration on the stock amounts for the 61 days of event window.

The table stated above showing the t-statistics value by using the CAAR value for different event window (-30 to +30), (-20 to +20), (-10 to +10) and (-5 to +5). The overall CAAR for the whole event window is showing 22.61% and on the declaration day CAAR is 7.53 percentages. All through the pre-stage of declaration CAAR is showing positive for 25 days and negative for 5 days and post phase of announcement CAAR is showing positive for all 30 days of event window. For the 41 days of event window CAAR is positive for 26 days and negative for 4 days in the pre-phase of announcement and it shows positive for all 20 days of event window. T-Test showing the significant result for both 61 days and 41 days of event window at a significance level of 5%. Further t-test shows the positive but insignificant CAAR result for the smaller event window (-10 to +10) and (-5 to +5) at 5% significance level. As the CAARs are showing the significant result for the 61 days and 41 days of event window, the null hypothesis is rejected.

9. Conclusion and Policy Implication

The present study inspects the market response to repurchase announcements of registered firms in India, based on a sample of 46 companies that declared buybacks through the open market route between April 2015 and March 2022. Using the Nifty 50 index as a benchmark for the market model, expected returns and abnormal returns were figured, and their implication was tested over multiple event windows of 61, 41, 21, and 11 days.

The outcomes specify that repurchase announcements are allied with a gradual upsurge in share prices during the pre-announcement phase, followed by a considerable increase immediately after the declaration. The arithmetical significance of the cumulative average abnormal return (CAAR) leads to the denial of the null hypothesis, thereby authorizing that buyback announcements absolutely influence shareholder value. Overall, the study delivers evidence of a favourable market reaction to open market offer of repurchase announcements, reinforcing their role as vital corporate decision in signaling value to the market.

The findings of the study have the strong policy implication for all the stakeholders. The traders who are looking for the abnormal gains can be benefited from the announcements.

For the companies who proceeding for buyback can use buyback mechanism in case of undervaluation of the shares.

Limitation and Future Research Directions

The current research contains the subsequent boundaries:

- The present research investigates the market reaction to the repurchase announcements made over the open market offer not through the tender offers.
- The extent of the present study is restricted to companies registered on the National Stock Exchange (NSE), while firms listed entirely on the Bombay Stock Exchange (BSE) have been excluded from the analysis.
- The study computed the abnormal returns based on the repurchase announcement for the short run only. The long run buy & hold is not considered.

Potential Extensions of the Study

- The present research primarily emphases on the market reaction to repurchase announcements executed through the open market route in India. Future studies may extend this line of inquiry by probing buyback announcements carried out through the tender offer mechanism.
- The current study is constrained to companies listed on the National Stock Exchange (NSE); subsequent research could incorporate firms registered on the Bombay Stock Exchange (BSE) to provide a more inclusive perspective. In addition, the long-term market reaction to repurchase announcements, as well as industry-specific disparities, present further avenues for survey.

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