



Share repurchases in India: A critique

Dr. Vandana Gupta

Associate Professor, Department of Commerce, Deen Dayal Upadhyaya College, Dwarka, University of Delhi, New Delhi, India

Abstract

The 1980's saw the emergence of a new method of returning cash to shareholders in the United States which is known as share buy backs or share repurchases. Over the years many countries followed suit and it became the preferred way to compensate shareholders by companies. In this paper we examine various issues related to share buybacks in India. This includes the reasons for carrying out share repurchases by companies; various methods of share buybacks which are available; exploring the reasons for it to become a favoured way to return cash to shareholders in India like elsewhere in the world particularly the United States; to trace the trends in the methods of buybacks and to carry out a comprehensive literature review. We also examine how the regulatory framework has evolved over a period of time. We specifically look at the requirements of the Companies Act, 2013, SEBI (Buyback of Securities) Regulations, 2018 and the Income Tax Act, 1961 to see whether there are tax arbitrage opportunities. Lastly, we also look the pitfalls of share buy backs.

Keywords: Share repurchases, buybacks, regulatory framework, tax arbitrage, companies act, 2013

Introduction

Share repurchases or share buy-backs is a process through which firms purchase back their securities from their existing shareholders. It's one of the ways in which a company can return cash to its shareholders. Many companies are now opting for this route of cash distribution rather than increasing dividends every year (Manconi *et al.*, 2019; Almeida *et al.*, 2016; Peyer and Vermaelen 2009; Skinner, 2008) [3, 30, 34]. India has also witnessed the same. From one share buy back in the year 1999 when it was first permitted in India for an amount of only Rs. 1 crore to completion of 36 buy backs in 2024 for a total amount of around Rs 46,800 crore, this form of capital restructuring mechanism has come a long way in the Indian corporate sector. The decision to distribute cash dividend or go in for a buy back is a company specific matter and depends on many factors. These could be the firm's current market price, the vision of the management of the company for long term, the applicable taxes on dividends in the hands of investors, short term and long-term gains capital tax and whether the companies are required to pay any taxes on share buybacks, the signaling or the informational content of share repurchases, future investment opportunities, excess cash etc. There are two schools of thoughts as to whether share buybacks are good or bad. One is in strong favour of share repurchases. This originates from the free cash flow hypothesis as repurchases provide flexibility to companies for giving back excess cash to shareholders when they do not have investment opportunities which could earn them a better return than their required rate of return. Thus, the companies would do well to return this money to its shareholders instead of investing in negative net present value projects and thus wasting their money. The shareholders could use the money in any manner they like fit. Legendary investor, Mr. Warren Buffett is a strong advocate for share repurchases. While the opponents of share repurchase claim that they only provide benefits to the employees of the companies who can exercise their stock option plans. There are two popular methods which are widely used *viz.*, open market repurchases wherein the

company purchases the shares directly from the stock markets and the other is the tender offer wherein the shareholders tender their shares directly to firms (Adhikari and Agrawal, 2018; Stephens and Weisbach, 1998) [1, 35]. The popularity of share buy backs can be seen from the fact that in the year 2017 their number was far higher than the initial public offerings made by the Indian companies (Basu, 2025) [7]. It is noteworthy that starting from April 1, 2025 share buybacks through open market have been discontinued in India except for those buy back offers which were opened before 1st April 2025.

Existing literature postulates a number of motivations for companies to repurchase their own shares:

- 1. Dividend Policy:** Share repurchases have become a preferred way to distribute profits of companies to their shareholders rather than following the traditional method of paying dividends. This way it is able to restructure their capital. A company may also choose to follow a mix of dividends and share repurchases as has been shown in the literature.
- 2. Leverage:** A buy-back may also be undertaken to achieve the company's debt target ratio without many legal complexities.
- 3. Signaling:** Through a buy back a company may like to indicate to the markets that it feels that its current share price is not properly valued and its intrinsic value is much more than what the market is currently pricing it. The management of companies may also signal through share repurchases that the future growth projections are good.
- 4. To avert a hostile takeover or an acquisition:** Share repurchases could be of great help to management of companies who fear an aggressive acquisition by their competitors as buy backs drastically reduce the total number of shares available in the market which could be acquired.

5. **To improve liquidity in the market:** Another important reason for buy-back of shares could very well be to improve the liquidity of shares of the company in the stock markets.
6. **Lack of profitable investment opportunities:** A company may have substantial funds but is unable to efficiently invest the same due to lack of profitable investment opportunities. Thus, it may be sitting on piles of idle cash. Such a company may acquire its own shares and thus return the funds to its shareholders who may have better investment opportunities or would like to consume it.
7. To boost the stock price of companies in the markets.
8. **Miscellaneous reasons:** A company may undertake share repurchases to improve its various performance parameters like Earning per share (EPS), Dividends per share etc. since the number of outstanding shares are reduced these ratios improve automatically.

We structure the paper as: Section 2 provides the different methods of share buy backs. In section 3, we do a literature review of the existing work on share repurchases. In section 4 we show the trends in share repurchases in India since its inception in 1998 till date. In section 5 we do a critical analysis of the regulatory environment for share repurchases. Section 6 shows the possible pitfalls of share buy backs. The last section concludes.

Methods of Share Buy-Backs

A Company can buy back its shares from its existing shareholders by any of the following methods.

1. Tender Offer

In a tender offer, a firm proposes to purchase a definite quantity of shares and fixes a repurchase price. It thus, makes an offer to its investors to sell their shares at that a specified price which normally is over the current market price of the share. If the offer is oversubscribed then pro-rata buy-back may be carried out. Its main advantage is that it results in an immediate execution. Tender Offers are usually seen as a method for the employees of the companies with large shareholdings and who are concerned about the future growth of their companies. This gives them an opportunity to take benefits of a low share price and thus further increase their ownership (Lazonick, 2014) ^[26]. It is observed that companies find the fixed price tender offers more suitable when they want to convey a message. It requires that a company commits itself in repurchasing a defined number of shares at a certain price. Thus, due to this fixed obligation it is perceived by the market as a strong signal that the current share prices are undervalued. Therefore, tender offers are considered as a better signal of underpriced shares compared to other forms of repurchases. (Comment and Jarrell 1991; Grullon and Ikenberry 2000; Louis and White 2007) and it is also at larger premium over and above the current market price.

2. Dutch Auction Tender Offer

In this method the company announces a price range inside which it will buy back its shares. The shareholders then make their offers at prices within that price range. After the closure of the time period for the tender offer the lowest

price given by the shareholders is taken as the price at which the firm would repurchase the quantum of shares it wishes to buy back. Comment and Jarrell, 1991 argue that these kinds of repurchases convey less information of mispricing of shares to the markets than which is provided by other forms of buy backs.

3. Open Market Repurchase Method

In this kind of method of share buy backs the companies buy the quantity of shares they wish to repurchase directly from the stock market in small quantities daily during the period of buy back. It can purchase from the stock market by following the process of book building or can also purchase shares from odd lot shareholders. In the United States, the companies rarely used this method earlier because they could be accused of price manipulation. But later on, SEC came out with Rule 10-18 in 1982 which offers a "safe harbor" to all US firms to buy back their shares from the stock market if they follow some restrictions related to the resources for buy backs such as when will they be executed, stock value, and size of buy back. Cook *et al.*, (2003) ^[12] have provided a detailed analysis of the regulations pertaining to open market repurchases in the US. They found that in many countries open market share programs faced stricter regulations and compliances with regards to extensive disclosures and execution. Kim *et al.*, (2005) did a comprehensive survey of laws pertaining to open market programs in nine countries from Europe and Asia.

4. Privately Negotiated Repurchases

In this method, the share repurchase is from a single investor or a few investors who have a large ownership holding in the company. A study was conducted by Peyer and Vermaelen (2005) ^[24] who examined a large number of privately negotiated repurchases done in United States during a period of seventeen years. They found that typically in such a repurchase the seller held around fourteen per cent of issued share capital.

5. Accelerated Share Repurchases

In an accelerated share repurchase a company would typically enter into a contract with any financial intermediary to instantly buy the stated quantum of equity shares at a given value. Major difference of accelerated share repurchases and other share repurchases options is that repurchase here is executed quickly.

Literature Review

Share repurchases have been extensively researched in the last four decades. The many motivations for share repurchase which have emerged are: to return excess cash to the shareholders; making the stocks more liquid in the stock markets; making the capital structure more flexible; mechanism of signaling to the market by the management that they perceive their shares to be undervalued; to prevent hostile takeover and to provide incentives to employees (Chen and Obizhaeva, 2022) ^[23]. There could be other motivations for a company to repurchase its own shares for example to improve its various performance parameters like Earning per share (EPS) and Dividends per share etc. Numerous studies have been conducted to find out the reasons or rationale for share buy backs by companies. Why do companies favour buybacks to dividends and what could be the plausible reasons for this switch has been bewildering researchers. Thus, the extant literature has essentially

centered around on two major aspects of share repurchases, what drives firms to acquire their own shares and what is the reaction of the market in short term to such announcements. One important theory which has been proposed is information signaling which is based on the differences in information which the managers of the companies possess about their future growth and the shareholders. This is commonly referred to as asymmetric information (Miller and Rock, 1985; Vermaelen, 1981) ^[37]. Thus, when a company buys back its own shares it sends a message or a signal to the market that its shares are presently undervalued and the future prospects of the firms are bright and not as bleak as the current share price of the company warrants. Phenomenal support in this regard has been extended by the research work of Ikenberry *et al.* (1995), Evans *et al.* (2003), and Wang *et al.* (2013). Information asymmetry hypothesis shows that payments of dividends and share buy backs are important signals which could be construed as indications about the future growth prospects of firms. As per signaling theory when the stock markets do not factor in the improved operating efficiency of the firms in stock prices and thus under values their stocks then the companies buy back their shares. The findings of a large number of studies have concluded that undervaluation is a prominent factor for share buy backs (Vaupel *et al.*, 2023; Segara and Yang, 2022) ^[33, 36]. It has been observed that management of firms wish to inform the stock markets that the stock price of their companies is presently undervalued as per signaling hypothesis Zhao *et al.*, (2023) ^[38]. For the Indian markets (Arora, 2022) ^[5] carried out a study to determine the motivation behind share repurchases in India during the period 2003-2017 by taking a sample of 115 share buy backs. His findings supported that undervaluation was the main reason behind share repurchases by Indian firms. These firms generated a return of around sixty per cent after the year when repurchase took place.

Similarly, repurchases also give a clear indication that the firms have abundant cash surplus. Jensen (1986) posits the free cash flow hypothesis that firms with cash over and above what is required by them for their business operations and without any future opportunities for investments may tend to squander their money in capital expenditures that do not generate positive returns. In the long run this would reduce value for shareholders and enhance conflicts between managers and shareholders arising out of agency problems. Extensive support in this area of returning excess cash to shareholders has been provided by the findings of Nohel and Tarhan (1998) ^[31] and Grullon and Michaely (2002; 2004) ^[15, 16]. In a prominent study Iyer and Rao (2017) ^[20] examined whether share buy backs are more flexible than payments of dividends. Their findings suggest that number of repurchasing companies that reduced repurchase disbursements was far more than the number of firms that reduced dividend payments during a financial crisis. Thus, they found share buy backs to be more flexible than payments of dividends. In an interesting study Alderson, *et al.*, (2020) looked at the wealth effects of buy backs on bond holders by examining open market repurchases in America. They found that a firm's bonds do not witness any return at the time surrounding share repurchases. They thus concluded that their results do not support the proposition that share repurchases transfer wealth to shareholders. Dittmar (2000) ^[18] concluded that many a times firms repurchase their shares not only due to current undervaluation but also because to return cash.

Banyi, *et al.*, (2008) ^[6] does a wonderful work of providing a detailed summary of the different methods that are used to determine share buy backs by firms and highlight the limitations of the many data sources that are generally preferred to be used for this purpose. Skinner (2008) ^[34] looked at the trends in the last thirty years between the relationship between earnings and dividends distribution policy. He observed that there are three major groups of payers. He classified one group into firms which pay dividends and at the same time go in for share repurchases on regular intervals. Another group of firms only occasionally repurchases and the last group constitutes companies which only distributes dividends are no longer there. He concludes that share buy backs are the principal way of payouts preferred by companies and they are largely replacing payment of cash dividends.

However, it is pertinent to point out here that such is not the case with Indian companies. Gupta (2016) ^[17] looked at the effect of share repurchases on the performance of repurchases made during the period 1999-2012. She found an improvement in the financial performance but the operating performance showed a declining effect after the buyback of shares. Another study was conducted by Ramesh and Rane (2013) to look at the effect share buy backs have on the value. Their period of study was from 2005-2010. The number of companies examined was rather small to provide any conclusive evidence. They found an improvement in Earnings per share (EPS) for 78% of share repurchases. Their results are obvious as the quantity of equity shares issued by the company decrease in denominator of formula for calculating Earnings per share (EPS), therefore the EPS shall rise, though artificially. To increase EPS is one of the reasons for undertaking share repurchases. Research has also focused on examining the changes in tax laws and dividend payout policies. Deslandes *et al.* (2015) ^[13] examine the effect of reduction in dividend tax in 2006 on dividends and buy backs for companies in Canada in the period 2003-2008. Their findings indicate that dividends were favoured by those companies whose shareholders benefitted from the reduction in taxes but it did not negatively affect share buy backs. The companies resorted to a mixture of dividends and share buy backs. Dhamija and Arora (2019) ^[14] have also examined the effect of imposition of higher tax rate for companies listed on the Indian stock markets. Their results suggest that firms having larger concentrated ownership by insiders led to a reduction in dividend payouts. Cheng *et al.*, (2015) ^[9] looked at the compensation being given to Chief Executive Officers of companies on share repurchases taking a sample of 1,423 American companies during the period 1993 to 2007. Their results indicate that tendency of firms to buy back their own shares increases when targets of Earnings per Share are used as the bench marks for payment of bonuses to the CEOs. This shows that compensation being paid to the executives of companies could also be a relevant motive for share buy backs by companies. Brav *et al.*, (2005) ^[8] did a comprehensive survey to determine the motive behind the executives of companies in designing the dividend payout policies for their companies. They found that companies resorted to share repurchases to time the stock markets and to enhance their earnings per share. Thus, the companies prefer this as a favoured payout mechanism. They concluded that top executives of companies had this notion that policies of payouts did not have much effect on the

companies’ investor clientele. They concluded that all in all the perception of the management did not have much support for the payout theories of agency, signaling, and clientele.

Thus, we have examined the major work which has been carried out in the area of share buy backs.

Trends in Share Buy Backs in India

Table 1 provides the details of various tender offers and open market repurchase programs completed by Indian companies during the period 1998-2025. It also gives the amount of money spent on these shares buy backs. The popularity of this form of returning capital to shareholders is

quite evident. The year 2018-2019 saw the maximum amount of share buy backs amounting to a whopping Rs. 55,500 crores, the maximum in any given year during the period. As many as 49 companies participated. If we look at the maximum number of companies which went for buy backs then it was one year earlier in the year 2017-2018 with a total of 54 companies. It can be seen that from the year 2015-2016 onwards there has been a significant rise in the number of tender offers compared to share buy backs from the open market. This was due to the changes in tax laws as the 2016 budget ushered in an additional income tax of 10% on dividends above Rs.10 lacs received by investors.

Table 1: Total Number of Share Buy Backs during 1998-2025

Year	No: of Tender Offers	No: of Open Market Repurchases	Total	Total amount of Share Repurchases (Rs. in cr)
1998-1999	0	1	1	1
1999-2000	1	9	10	300
2000-2001	4	12	16	1,297
2001-2002	3	17	20	2,154
2002-2003	5	28	33	1,011
2003-2004	4	24	28	52
2004-2005	11	1	12	3,600
2005-2006	4	10	14	363
2006-2007	3	5	8	295
2007-2008	7	3	10	2,004
2008-2009	9	37	46	4,218
2009- 2010	3	22	25	824
2010-2011	4	15	19	4,295
2011-2012	1	28	29	13,765
2012-2013	2	18	20	1,694
2013-2014	6	19	25	11,380
2014-2015	2	3	5	605
2015-2016	11	3	14	1,834
2016-2017	36	7	43	37,460
2017-2018	51	3	54	50,793
2018-2019	39	10	49	55,504
2019-2020	35	7	42	21,634
2020-2021	38	12	50	39,710
2021-2022	21	5	26	30,891
2022-2023	31	17	48	22,755
2023-2024	34	2	36	49,836
2024-2025	34	NA	34	NA

Source: Own compilation from SEBI Annual Reports

Market during 1998-2025

Graph1 plots the total number of shares buy backs since its inception in 1998-1999 till 2024-2025. It is evident that till 2012-2013 open market share repurchases were popular but

after that there was a shift to tender offers being made by companies. This was due to the changes in the tax laws as a third level of taxation was imposed on shareholders receiving dividends above Rs.10 lacs.



Fig 1: Total Number of Share Buy Backs through Tender Offer and through Open

Graph 2 plots the total number of shares buy backs during the period 1998-2025 and includes both the methods i.e. tender offers and share buybacks respectively.

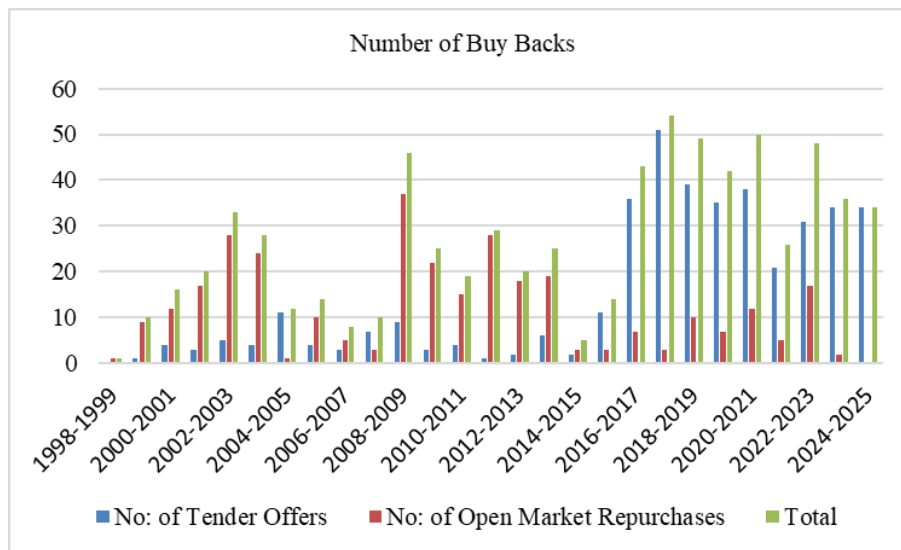


Fig 2: Total number of Share Buy Backs

Critical Analysis of Regulatory Environment Framework for Share Repurchases

The regulatory framework for share buybacks in India is largely covered by the provisions of the Companies Act, 2013 and by SEBI (Buyback of Securities) Regulations which were brought in 1998 and were then again modified in 2018 and 2023.

1. SEBI (Buyback of Securities) Regulations, 2018

Prior to 1998, the Indian corporate laws statutorily prohibited the companies from buying back their own shares as it amounted to reduction in their share capital. The rationale or justification behind this could be that a company’s share capital acts as a cushion for the providers of debt to a company viz., debenture holders and other types of trade creditors. Any changes in the capital structure of a firm might tend to reduce a company’s capacity to pay the timely interests to them and return their principal payments at the time of redemption of the issued debentures. The then company law had stipulated only certain specific situations under which a company could return its share capital to the shareholders. In the US share repurchase programs by listed companies has been the most favoured way to pay dividend to their shareholders rather than through a cash dividend. In other countries also, it was gradually becoming the most prominent way to return back capital to the shareholders and thus restructure a company’s capital. The Securities and Exchange Board of India (SEBI), the Indian counter part of The Securities Commission in the US also felt the need to introduce the mechanism of share buybacks by Indian and thus brought out SEBI (Buyback of Securities) Regulations, 1998. Simultaneously, in 1999, various amendments were made in the Companies Act, 1956 to facilitate share repurchases by the Indian corporate sector.

In the open market method, the companies would be buying their shares directly from the stock markets. SEBI does not allow promoters of a company and other insiders to participate in this kind of share buyback. Under the existing laws a company wishing to repurchase its own shares through the stock markets can only do so after seven days of

it making a public announcement to that effect. The company is required to complete the whole process of share buy backs with the next six months. Further, it has to see that it utilizes a minimum of fifty per cent of the amount that has been kept for the share buybacks. In the letter of announcement to the public it has to mention the highest share price for repurchase to be done by the company. In contrast, if a company chooses the tender offer way, then it has to remain open a minimum period of fifteen days. The whole process is required to be completed within 30 days. Thus, we see that the procedure for the two methods of share repurchases are very different. It appears that the intention behind such differences and such heavy regulation is that the market regulator, SEBI wants to curb any likely tendency on the part of the promoters or insiders to manipulate share prices and thus earn illegal gains. As they have access to all the price sensitive information pertaining to the proposed buy-back programs of their companies. This is also evident from the fact that inside shareholders are not permitted to participate when the company repurchase through the stock market but are only allowed to participate through the fixed price tender offer. It is very important here to highlight that the Indian laws provide for various disclosures with regards to the share repurchases in the form of its timing, the announcement of the maximum share price at the which the company would buy and the total number of shares it would buy etc. This is not so in the case of the developed markets like the USA where the board of directors of a company are empowered to approve a share buyback program (Andriosopoulos and Lasfer, 2015)^[4]. If we look at the share buy backs in the United Kingdom (UK), we observe that they were initiated as far as in the year 1981. They are regulated by their Companies Act of 2006 and also by the Financial Conduct Authority (FCA) which regulates the securities markets in the UK. Companies wishing to repurchase their shares have to take the consent of their shareholders. The validity of this consent is valid till eighteen months. Like the case with India, the law stipulates the total number of equity shares intended for repurchase with highest and lowest share price

for their buying. Proper time schedule has to be given. For an open market purchase, the total quantity of shares to be bought back must not exceed fifteen per cent of the total outstanding shares or else it would be considered as a tender offer. One important point of comparison is that unlike India the companies can keep up to ten per cent of the bought back shares. In India once, the shares have been bought back, they are required to be mandatorily annulled and cannot be kept as treasury shares which is the case in USA.

2. The Companies Act, 2013

We briefly discuss the legal provisions as per The Companies Act 2013, regarding share Buy Backs below: Section 68 permits companies to repurchase shares their shares if the same is provided in its Articles of Association. The law also requires a special resolution by shareholders. This means that a majority of shareholders i.e. 75% give their consent to the intended share buy back by the company. This is important as the share repurchase would change the composition of capital and the firm would be utilizing cash for this purpose. It is also stipulated that the company must disclose all material information pertaining to the buy back. For example, it must clearly state the need or justification for the intended share repurchase, the total quantum of funds that it will utilize for this purpose and the duration of buy back. It has to clearly state the total time period. It is further stipulated that the total funds for this purpose must not be greater than twenty-five per cent of its net worth. In no case should the debt equity ratio exceed 2:1. The sources of funds which a company could use for this purpose are free reserves and any money received by way of premium while issuing securities. However, the money collected from issue of prior securities cannot be applied for acquiring shares. A firm can repurchase shares from current shareholders, the open market or employees of corporations via stock options or sweat equity programmes.

3. The Income Tax Act, 1961

Existing provisions of Personal Income Tax and the Corporate Tax are important factors to be considered by companies while distributing their profits. This distribution can be by way of dividend, by issuing bonus shares or through share repurchases. The ultimate objective in corporate finance is maximizing the wealth of the shareholders. Thus, the provisions on short term capital gains tax and long-term capital gains tax under the Income Tax Act, 1961 are of paramount significance as they can drastically reduce the wealth of the shareholders. A judicious pros and cons between them are therefore required to be made both by the shareholders and the companies. The provisions of the Income Tax, 1961 made the dividends paid by companies as taxable income in the hands of the shareholders till the year 2003. The budget of 2003 introduced changes in the income tax provisions and henceforth any income by way of dividend was given exemption. A new tax in the form of dividend distribution tax (DDT) of 5% of dividends distributed by companies was imposed. In the coming years the rate of DDT was drastically increased and at one point of time stood at a massive 20.90%. Prior to 2016, the Indian firms profit in a particular year was being subjected to tax to at two points. The first was on its net profits levels and the other was on the company's distribution of dividend to its shareholders by the dividend distribution tax. However, the dividend

receipts in the hands of shareholders were not liable for taxation. The budget of 2016 ushered in an additional income tax of 10% on dividends above Rs.10 lacs received by investors. Therefore, total tax being paid on dividends amounted to 32.75% which included surcharge and cess also. This was approximately the same taxation rate imposed on income from other sources received by a tax payer. Prior to 2013, the tax on share repurchases had to be paid by the shareholders by way of capital gains tax.

In the 2013 budget, a new provision, 115 QA was added under which the tax then had to be paid by the companies going in for buy backs. It was claimed that these changes were in line with the dividend distribution tax which was being paid at the company's end. Thus, the shareholders were exempted from paying any tax. In 2020, the dividend distribution tax was abolished and the incidence of taxation shifted to shareholders. In 2024's budget it was proposed to abolish the tax on share repurchases being paid by the companies. These changes would come in effect from October 1, 2025. Thus, henceforth shareholders will pay tax on any amount received on share repurchases under the head income from other sources. Such changes are claimed to bring into line tax treatment of share repurchases with payments of dividends and to see that there is a reasonable distribution of taxes. Though what will be its impact on companies and the shareholders only the future will tell.

Criticism of Share Buy Backs

In recent years share buy backs have under heavy criticism in various quarters. Attention is being drawn for tighter restrictions on this mechanism and are suggestions being made for its total ban (Engle 1992). Senator Bernie Sanders of United States and Mr. Chuck Schumer have rather blatantly said that share repurchases are only beneficial to companies and the shareholders at the cost of employees and the public at large. They argue that share repurchases do not provide any benefits to the majority of the US population because big shareholders incline to be richer and eighty-five per cent of shares held by the American people belong to the richest ten per cent of families. Therefore, when corporations complete the process of share buys and thus enhance their share price the benefits by far go to these big shareholders and the employees who are able to exercise their stock options. They also contend that since a large amount of money is being spent by companies of the but back programs, they are unable to do the much-required investments in research and development and purchasing plant and machinery. Companies are also restricted in paying higher salaries to their employees, spending money on their essential training and also fail to provide them with better health benefits, paid leaves etc. Another school of thought is that the case against share buy backs is much more serious and essentially is a corporate governance problem. It originates from the agency problem between the shareholders who are the principal and the management who are the agents. In order to reduce agency costs arising therefrom, companies tend to compensate their employees in the form of stock options so that they remain motivated and have financial interests in the companies they work for. In a utopian world the agents should work in the best interests of the shareholders and must serve to maximize shareholder value. But this sometimes does not happen and

the managers expropriate the wealth of the corporations at the expense of shareholders. Share buy backs could be one such scenario where the share prices temporarily rise and these managers take advantage of it by selling their shares at a rather hefty price. Thus, creating undue wealth for themselves. Therefore, it would appear that when firms repurchase their shares at a price higher than the current market price it would ultimately result in lower value held by continuing stockholders (Lazonick, 2014) ^[26]. This has been observed by Mr. Warren Buffet in his letter to the shareholders of Berkshire Hathaway in 1999 “Buying dollar bills \$1.10 is not good business for those who stick around.” Mr. Warren Buffet has also contented that share repurchases are a logical way for firms to return their excess cash to their shareholders (Luce, 2015) ^[28]. Mr. Larry Fink, the chief executive officer of BlackRock, which is the biggest asset manager in the world also noted in his letter to CEOs of S&P 500 companies in 2021 that an increasing number of CEOs of companies have favoured short term gains at the cost of future benefits. He observed that an increasing number of CEOs have opted to provide immediate benefits to their shareholders. They are not investing the desired amount in research and development, for working towards enhancing skills amongst their workforce and making investment in capital expenditures required to maintain long term growth (Luce, 2015) ^[28].

Conclusion

Share buy backs have emerged as a very popular mechanism of returning capital to shareholders and as an alternative to the traditional distribution of profits to shareholders by companies in the form of regular payment of dividends. Over the years the various regulatory authorities in India have stream lined and strengthened the procedure so that undue advantages may not be taken by the promoters and the insiders at the cost of other shareholders. Share buy backs can also prove to provide a tax arbitrage keeping in view the short-term capital gains and the long-term capital gains paid by a shareholder. Now only tender offers are being allowed in India after the banning of open market buy backs. It is seen that though share backs have many inherent advantages but they are also not free from many pitfalls.

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