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A Report on Stock Price Reactions to Share Buyback Announcements in Companies

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Abstract- Share buybacks have become an increasingly popular corporate strategy for distributing surplus cash and signaling managerial confidence. However, empirical evidence on their effectiveness in enhancing shareholder value remains mixed, particularly in emerging markets like India. This study examines the impact of share buyback announcements on stock prices of selected Nifty 50 companies over the period 2019–2024. Using Event Study Methodology, daily stock prices were analyzed for a six-month window before and after buyback announcements. A paired sample t-test was employed to evaluate whether buyback announcements led to statistically significant changes in stock prices. The sample includes 21 buyback events executed through both tender offer and open market routes. The findings reveal that while most buyback announcements resulted in statistically significant price movements, the direction of impact was predominantly negative. Tender offers generally produced stronger market reactions than open market repurchases. A comparative analysis of pre- and post-COVID periods further indicates a more adverse investor response in the post-pandemic phase. The study concludes that share buybacks do not uniformly enhance shareholder value and that market reactions depend on execution method, timing, and broader economic conditions.

Keywords: Share Buybacks, Event Study, Stock Price Reaction, Tender Offer, Open Market Repurchase, Nifty 50

I. INTRODUCTION

Share buybacks represent a major corporate financial decision wherein a firm repurchases its own shares from the market. Traditionally, buybacks are perceived as a positive signal, indicating stock undervaluation or strong future prospects. In India, buybacks are regulated by the Securities and Exchange Board of India (SEBI) and are executed primarily through two methods: tender offers and open market repurchases.

The Indian equity market, particularly companies listed on the Nifty 50 index, has witnessed a steady rise in buyback activity over the past decade. Firms often use buybacks as an alternative to dividends to optimize capital structure, improve earnings per share, and return excess cash to shareholders. However, market reactions to such announcements are not always positive. Prior studies report mixed evidence, with some buybacks followed by price appreciation and others resulting in price declines.

The COVID-19 pandemic further altered investor behavior and market dynamics, raising questions about whether buybacks continue to act as credible positive signals. Against this background, the present study investigates how stock prices of Nifty 50 companies react to buyback announcements and whether the method of buyback and timing (pre- and post-COVID) influence market response.

II. RESEARCH METHODOLOGY

Research Design

The study adopts a quantitative, analytical, and event-based research design. Event Study Methodology (ESM) is employed to analyze the effect of share buyback announcements on stock price behavior. This approach is widely used to examine how specific corporate events influence security prices.

Data Source

The study relies exclusively on secondary data, collected from:

- National Stock Exchange (NSE)
- Company buyback announcements and filings
- Financial data platforms used for historical stock prices

Sample Selection

The sample consists of 21 buyback announcements by companies listed in the Nifty 50 index between 2019 and 2024. Firms were selected based on:

- Occurrence of buyback announcements

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- Availability of complete stock price data
- Representation of both tender offer and open market buyback methods

2.4 Event Window
A six-month period before and after the buyback announcement date was considered for each company, resulting in approximately 120–125 trading observations per event.

2.5 Tools and Techniques
- Mean and Variance
- Paired Sample *t-test*
- Pearson Correlation Coefficient
- Comparative analysis across buyback modes and time periods

III. RESULTS AND DISCUSSION

Overall Impact of Buyback Announcements
The paired *t-test* results indicate that a majority of buyback announcements led to statistically significant changes in stock prices. However, contrary to conventional expectations, the dominant reaction was negative, with post-announcement prices declining in most cases.

Table 1: Summary of Stock Price Reaction to Buybacks

Company	Buyback Method	Price Reaction	Statistical Significance
Bajaj Auto (2024)	Tender Offer	Negative	Significant
Infosys (2024)	Tender Offer	Negative	Significant
Wipro (2024)	Open Market	Negative	Significant
NTPC (2023)	Tender Offer	Negative	Significant
Coal India (2023)	Tender Offer	Negative	Significant
Tech Mahindra (2022)	Tender Offer	Positive	Significant
GAIL (2022)	Tender Offer	Neutral	Not Significant

Tender Offer vs Open Market Buybacks
Tender offer buybacks generated stronger and more consistent market reactions compared to open market repurchases. While tender offers often reduced volatility, they were frequently followed by price declines, suggesting investor skepticism regarding growth prospects. Open market buybacks showed weaker signaling power and mixed price responses.

Pre-COVID vs Post-COVID Analysis
Post-COVID buybacks exhibited stronger negative price reactions than pre-COVID announcements. This indicates a possible shift in investor sentiment, where buybacks are no longer interpreted as confidence-enhancing signals but rather as defensive capital management strategies.

IV. CONCLUSION

The study provides empirical evidence that share buyback announcements by Nifty 50 companies do not uniformly lead to positive stock price reactions. While most announcements resulted in statistically significant price changes, the direction was predominantly negative. Tender offer buybacks elicited stronger market responses than open market repurchases, and post-COVID buybacks were associated with greater investor pessimism. The findings suggest that buybacks alone are insufficient to enhance shareholder value unless supported by strong fundamentals and favorable market conditions. Investors and policymakers should therefore interpret buyback announcements cautiously rather than viewing them as universally positive signals.

V. APPENDIX

The appendix includes detailed paired sample *t-test* outputs for each company, covering mean prices, variance, correlation coefficients, *t-statistics*, and *p-values*. Due to space constraints, individual company-wise tables are excluded from the main paper but are available upon request.

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