Corporate Restructuring and its impact on Operating and Financial Business Performance: A Case Study of Aptech ltd.

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Abstract: *The Concept of Share Repurchases has been developed in India in the early 20th centaury. There are many motives behind share repurchases. Usually companies in India majorly repurchase their shares in order to give signaling highlight about undervaluation of their shares. By repurchases companies can improve their EPS and Market value with the reduction of shares. Hence there is some changes found in Operating and Financial Performance of the firms. So in order to find the changes in operating and financial performance of the firm this paper is titled as "Corporate Restructuring and its impact on Operating and Financial Business Performance: A Case Study of Aptech ltd."The study has used different operating and financial performance indicating ratios for the period of five years (2011-12 to 2015-16) i.e., +2 and -2 years of share buyback by Aptech ltd. The data used in the study is secondary data retrieved from the annual reports of the Sample Company, various financial Portals & websites. For the statistical significance of the data analysis study employed T-test two samples assuming equal variances. The results of the study reveals that there is improvements found in Operating and Financial Performance variables in the year of purchase and p –values of the different ratios shows the value more than 0.05 so there is an acceptance of the null hypothesis that mean operating and financial performance of the sample company is higher in post period as compared to its pre-period.*

Key Words: *Capital restructuring, share Repurchases, Operating and Financial Performance.*

1. INTRODUCTION:

There are number of the factors which influence the firm to get Indulge in share buyback activity. The factors affecting share buyback activity are undervaluation of shares, Excess Free Cash flow, Leverage hypothesis, preventing hostile takeover , improving EPS of the business and there by improving the operating and financial performance of the business. Usually when the firms' buyback shares it gives the signaling indication that the shares of the firms are under valued and market has not perfectly valued the shares of the company. So the companies are required to go for buyback of shares. And it will change the operating and financial efficiency of the business. Moreover due to change in capital structure there will be a change in the cost of capital of the business. So it will have a impact on the business value as well. So here the title of the topic kept as **"Corporate Restructuring and its impact on Operating and Financial Performance: A Case study of Aptech ltd."**Aptech ltd is a basically comes under the IT Software and Education Training industry.

There are many forms of corporate Restructuring like Merger and Acquisition, Stock Buyback, Stock Split , Bonus issue etc. But the majority of the firms for their financial and operating improvements are using Stock buyback as a preventing measure as under this firms usually buy their own shares from the market at a price more than the market value. And there is a reduction of the no. of the shares hence it will be like "Two Edged Sword" increase in wealth of non-tendering shareholders with the increase in EPS and hence Market value of the firm. And for the tendering shareholders they will receive a return in form of more than Market price Premium. There are many other objectives behind buyback of shares which are dividend in two categories affecting to share price and not affecting to share price.

In this paper main objective is to understand post buyback effect of capital restructuring on Operating, Financial Performance of the business. The length of this paper further describes in Section-II Literature review, Section-III Research Methodology, Section-IV Data Analysis, Section –V Findings and Suggestions .followed by conclusion and appendix of analysis.

2. LITERATURE REVIEW:

As Per the study on Share Buyback and Firm's Performance: A study of selected Indian companies has analyzed whether the buyback of shares helps in enhancing the operating performance of the companies with different operating ratios and financial ratios by applying paired sample T-test to measure the statistical implications of pre-buyback and post-buyback financial performance. And Wilcoxon and sign test are also used to prove the robustness of results. And the operating ratios have shown a decreasing impact in the post buyback period. (Monika Gupta, july-

August, 2016) **As per Market response and Firms Operating Performance surrounding actual share repurchases: Evidence from Hong Kong**: studied the changes and impact on firms operating performance measures with three different ways, 1. Time series behavior of operating performance measures, Operating performance measures relative to control firms, abnormal changes in operating performance measures relative to control firms by regression analysis has observed that actual repurchases has an impact on the operating performance of the firm.(Diana F.Y.Goh ,July 2006)**An Analysis of Operating Performance and Firm Characteristics around Open Market Share repurchases:** study investigated operating performance and firm characteristics and abnormal changes in operating performance and firm characteristics by applying Median differences in Operating performance variables between repurchase announcing firms and control firms and post announcement differences are regressed on pre-announcement median operating variable differences with OLS regression method. And it is found that there is a significant improvement in operating performance post share repurchases with quarterly analysis of the data. (Terry D. Nixon, June 2005)

3. RESEARCH METHODOLOGY:

3.1 Research Design: The type of the research is a causal research as it is based on the cause and effect relationship. Moreover it is defined as empirical and descriptive too as based on the observable data and involves in depth analysis of the study. The Research is based on the Secondary data as it is historical in nature .The data Source of the research is Annual Reports of the company, Journals, Magazines, Research Articles Printed and Online, Research thesis on the related topic etc. The time period of the study is 5 years i.e 2011-12 to 2015-16.

3.2 Research Objectives:

1. To Study the impact of Share Repurchases on Operating Performance of the Business.
2. To Study the Impact of Share Repurchases on Financial Performance of the Business.

3.3 Research Hypothesis:

Hypothesis 1:

H0: □□□□□

H0: The Mean Operating Performance of Aptech ltd in pre-buyback period is less than or equal to mean operating performance of post buyback period.

H1: □□□□□□

H1: The Mean Operating Performance of Aptech ltd in pre-buyback period is greater than mean Financial Performance of Post buyback Period.

Hypothesis 2:

H0: □□□□□

H0: The Mean Financial Performance of Aptech ltd in pre-buyback period is less than or equal to mean Financial performance of post buyback period.

H1: □□□□□□

H1: The Mean Financial Performance of Aptech ltd in pre-buyback period is greater than mean Financial Performance of Post buyback Period.

3.4 Research Approach: Event study analysis of pre and post changes in operating and Financial Performance of the firms.

3.5 Statistical tools used for analysis: The Analysis is done for the sample firm Aptech ltd with the year wise performance of the different operating and financial variables. Pre-buyback data includes Pre-buyback two years average (**Mean and S.D**) and post buyback data includes Post buyback two years average (**Mean and S.D**). More over **t-Test: Two-Sample Assuming Equal Variances** has been applied to check the statistical significance.

4. DATA ANALYSIS:

(A) Operating variables used in the study are: Net Profit Ratio, Return on Net worth, Return on Capital Employed and Current Ratio.

Net Profit Ratio = This Ratio explains the relationship between net profit and Sales of the company. This Ratio Shows the Overall Profitability of the business and hence it is considered to be as important measure of operating performance. If there is a sufficient amount of Net Profit margin than business can survive well and stand under adverse conditions. If the net profit margin is not adequate firm will not be able to survive and as a result unable to give sufficient return to the shareholders.

Net Profit Margin = $\frac{\text{Net Profit}}{\text{Net Sales X100}}$

Return on Net worth (Return on Equity): This ratio is calculated to see the profitability of the owners' Investment. It shows how well the firm has used the resources of owners. The ratio of Net profit to owners' equity reflects the extent to which the objective of wealth maximization of shareholders' has been survived. This ratio is, thus, of great interest to the present as well as the prospective shareholders and also of great concern to the management, which has the responsibility of maximizing the owners' welfare. This ratio can be compared with the similar companies and the industry average which will be useful to give relative performance and the strength of the company in attracting future investment.

$$\textbf{Return on Net Worth} = \frac{\text{PAT-Preference Dividend}}{\text{Average Net Worth}}$$

Return on Capital Employed: This ratio measures the Operating Efficiency of the firm . it is used to show how much return (Before charging Interest) is being generated by the firm against total capital/fund employed by the business. It is also named as Return on investment and it is computed by taking EBIT and Average capital employed by the business. ROCE should be ideally more than cost of borrowing otherwise earnings of the shareholders will be reduced if there is any rise in cost of borrowings. So higher the ROCE higher return on equity can be generated and which will be able to survive the main objective of wealth maximization of shareholders.

$$\textbf{ROCE} = \frac{\text{EBIT}}{\text{Average Capital Employed}}$$

Current Ratio: This ratio is a measure of the firm's Short-term Solvency . it indicates the availability of the current assets in rupees for every one rupee of current liability. Ideal is 2:1 and if it is more than 2:1 than it is considered to be as more satisfactory. This ratio represents the **Margin of Safety** for creditors. More of current assets in relation to current liabilities, then more the firm's ability to meet its current obligations. This ratio measures only total rupees' worth of current assets and total rupees' worth of current liabilities. It does not measure the quality of assets. Liabilities are not subject to any value they have to be paid. But Current assets can decline in value. Thus, too much reliance should not be placed on the current ratio; a further investigation about the quality of the items of current assets is necessary. However, the current ratio is a crude-and –quick measure of firms' liquidity.

$$\textbf{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

This ratio is even expressed as Working Capital or Short-term Solvency Ratio. The idea behind to check the level of current/short term assets available to meet the short term dues of the business.

Table: 4.1 Operating Performance Analysis of Aptech ltd pre and post buyback with T-test assuming Two Samples equal variances

H0: □□□□□	H1: □□□□□□							
Operating Ratios	**Mean(Pre)**	**Mean(Post)**	**S.D(Pre)**	**S.D(Post)**	**S.D(Pooled)**	**t-calculated**	**P-Value**	**Conclusion**
Net Profit Ratio	22.7490	13.9	3.5689	3.6527	3.6110/3.6956	2.4493	0.066994	H0 Accepted
Return on Net worth	8.1758	6.3049	1.8560	2.1558	2.0114/2.4402	0.9301	0.225262	H0 Accepted
Return on Capital Employed	9.7857	7.8587	4.2862	2.3972	3.4726/3.2689	0.5549	0.317358	H0 Accepted
Current Ratio	5.2683	4.4375	0.6552	0.8725	0.7715/1.2458	1.0767	0.197116	H0 Accepted

(B) Financial performance Variables used in the study are: Proprietary Ratio, Dividend Payout Ratio, EPS and P/E Ratio.

Proprietary Ratio: This Ratio is a variant of the debt-equity ratio which explains the relationship between shareholders' Fund and the total assets of a company. It is also known as an equity ratio. A higher ratio indicates that a firm has better solvency in the sense that enough equity to fund the business and no need to raise debt. Thus higher ratio is always preferable to have a less reliance on outsiders fund and less interference from the same. To compute this ratio one has to divide Shareholder's Fund with Total Assets of the business less intangible assets.

$$\textbf{Proprietary Ratio} = \frac{\text{Shareholders Fund}}{\text{Total Assets-Intangible Assets}}$$

Dividend Payout Ratio: This ratio indicates the proportion of net profit distributed to the shareholders. It is dependent upon the growth, profitability and future investment project plans of the business. The profit undistributed as dividend will be retained in to the business (i.e., 1- Dividend Payout) and this is called Retention Ratio if one multiply retention ratio with ROE, the growth(g X ROE) in owners' equity as a result of retention policy we can get.

DPS = $\dfrac{\text{Equity Dividend}}{\text{Profit after Tax}}$

Earning Per Share (EPS): It simply shows the profitability of the firm on a per-share basis; it does not reflect how much is paid as dividend and how much is retained in the business But as a Profitability index, it is a valuable and widely used ratio. EPS Calculations made over the years indicate whether or not the firm's earnings power on per-share basis has changed over that period. The EPS of the company should be compared with the industry average and the earnings per share of other firms. The Earning per share (EPS) is calculated by dividing the Profit After taxes by the total number of ordinary shares outstanding.

EPS = $\dfrac{\text{Profit after Tax}}{\text{Number of Shares Outstanding}}$

Price to Earning Ratio (P/E Ratio): This ratio is a reciprocal of earnings yield. It is widely used by the security analyst to value the firm's performance as expected by investors. It shows the investors' expectations about the growth in the firm's earnings. industries differ in their growth prospects; accordingly, the P/E ratios for industries vary widely. It is regarded as a valuation ratio of the share price of the company to its earning per share. Thus it is calculated as follows:

Price Earning Ratio = $\dfrac{\text{Market Value per Share}}{\text{Earnings per Share}}$

This is provides an estimation of what the market is ready to pay for the earnings of the company**.** A Very high ratio indicates that stock is overvalued and vice-a-versa. This Interpretation is different for the different industry, sectors which are cyclical like fertilizers have low PE and Sectors like Pharma, IT etc have High PE ratio

Table: 4.2 Financial Performance Analysis of Aptech ltd pre and post buyback with T-test assuming Two Samples equal variances.

5. FINDINGS & SUGGESTIONS:

Table 4.1 depicts that there is decrease in all the four Operating ratios in post buyback period. The Standard

H0: □□□□□	H1: □□□□□□							
Financial Performance Indicator	**Mean(Pre)**	**Mean(Post)**	**S.D(Pre)**	**S.D(Post)**	**S.D(Pooled)**	**t-calculated**	**P-Value**	**Conclusion**
properitory ratio	90.2813	93.1852	1.1278	1.9613	1.5998	-1.8152	0.1056	H0 Accepted
Dividend Payout Ratio	58.7116	58.8922	26.1765	27.9217	27.0631	-0.0067	0.4976	H0 Accepted
EPS	4.4550	3.3400	1.0253	1.1172	1.0722	1.0399	0.2038	H0 Accepted
P/E Ratio	14.4889	18.3263	8.9692	6.1937	7.7074	-0.4979	0.3340	H0 Accepted

deviation is also very high depicting great degree of dispersion of all the ratios from its mean value in post period except the Return on Capital Employed. Moreover P-value for t test is more than 0.05 which leads to acceptance of null hypothesis that is mean return for different operating performance variables is greater in post period as compared to pre buyback period.

For the different Financial Performance indicator it is evident from the table 4.2 that there is a slight decrease in the EPS post buyback period whereas in other three variables there is an increase after buyback of shares. Standard deviation of P/E ratio reduced in post buyback period so there is a less dispersion found in it. Whereas in case of other three financial indicators Proprietary ratio, EPS and Dividend Payout there is more dispersion found in S.D value in post buyback period as compared to pre-buyback. The P-value for all the financial ratios is greater than 0.05. So we retain the null hypothesis and reject alternative. i.e., H0: □□□□□ (Mean Financial Ratios in Post buyback period is greater than Pre-Period.

Generally the companies are going for buyback when there is undervaluation of shares. Through the buyback companies can increase its EPS and there by can make some correction in share Prices. But here in case of Aptech ltd there was an increase in EPS in the year of buyback 2013-14 only as compared to its previous year. But in later period 2014-15 and 2015-16 there is no increase in EPS. So buyback has not created any long term impact on the wealth of shareholders. Moreover if we see company can even improves its EPS if there is any increase in net income so here it is even checked with Net Profit Ratio and found that there is a decreasing trend of the same during the period 2011-12 to 2015-16. So not much profound effect of Share buyback on net profit margin of the business. For the Return on Capital Employed and Return on Net worth it shows the increase in the year of purchase only but then after in post period it again start decreasing . So for overall operating efficiency of the business if we see there is only short term improvement found and no long term benefits of the share buyback programme.

From the overall financial performance changes it is found that there is an increase in proprietary ratio due to reduction in shareholders fund after share buyback but other ratios like EPS and dividend payout has just shown correction in the year of Repurchases i.e., 2013-14. But there is a no improvements found there after. P/E ratio has shown improvements in the year of re-purchases but then after again shown fluctuating remarks.

The study has taken only one firm so the given result is applicable to sample company Aptech ltd only. Future studies can be done on more sample size in order to give the generalized result. Future studies can be even done with other operating and financial variables. Moreover abnormal changes in the operating and financial efficiency of the firm can be checked with the sample companies engaged in the share repurchases programme.

6. CONCLUSION:

Share buyback is considered to be an important corporate restructuring tool. It is having an effect on the Operating and Financial Performance of the business. Here statistically it is evident that Mean Operating efficiency and financial performance of the company in Post buyback period is greater than the pre buyback period. Seeing to the year wise comparison of share buyback on firms' performance it is found that buyback has its impact only for the one year i.e., the year of purchase and no any positive changes found in the long run. So it can be said that for Aptech ltd share buyback was triggered by undervaluation hypothesis or any other than the excess or free cash flow hypothesis.

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Appendix (A) Table showing Operating Ratios of Aptech ltd for the Pre and Post Buyback Period. i.e, 2011-12 to 2015-16.

Operating Performance Indicator	Year Of Analysis	Ratios
1) Net Profit Ratio	2011-12	20.22542
	2012-13	25.27261
	2013-14	21.78281
	2014-15	16.48721
	2015-16	11.32149
2) Return on Net worth	2011-12	6.863441
	2012-13	9.488223
	2013-14	9.777921
	2014-15	7.829412
	2015-16	4.780531
3) Return on Capital Employed	2011-12	6.754991
	2012-13	12.81661
	2013-14	12.12486
	2014-15	9.553803
	2015-16	6.163615
4) Current Ratio	2011-12	5.73167
	2012-13	4.80495
	2013-14	3.685374
	2014-15	3.820572
	2015-16	5.054488

Appendix (B): Table Showing Financial performance indicating ratios of Aptech ltd for the pre and post buyback period i.e., 2011-12 to 2015-16

Financial Performance Indicator	No. of years	Ratios
1) Proprietary Ratio	2011-12	91.07875
	2012-13	89.4838
	2013-14	90.46806
	2014-15	91.79831
	2015-16	94.57203
2) Dividend Payout Ratio	2011-12	40.20203
	2012-13	77.22117
	2013-14	76.74757
	2014-15	78.63585
	2015-16	39.14856
3) Earnings Per Share	2011-12	3.73
	2012-13	5.18
	2013-14	5.27
	2014-15	4.13
	2015-16	2.55
4) Price/Earning Ratio	2011-12	20.8311
	2012-13	8.146718
	2013-14	14.2315
	2014-15	13.94673
	2015-16	22.70588