Contagion effects of Share Repurchase announcements within business groups

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Abstract

This study investigates whether share repurchase announcements made by business group-affiliated firms in India generate spillover effects on the stock prices of the firms within the same group. Drawing on a sample of publicly listed Indian firms, we construct portfolios of non-announcing (non-event) group firms to assess their cumulative abnormal returns (CARs) following a repurchase announcement by a firm affiliated with the same group (event firm). We document significant positive spillover effects, indicating that the market reacts not only to the repurchasing firm but also to its affiliated peers, suggesting shared investor sentiment and perceived reallocation of value within the group. The spillover effect is stronger when the promoter holdings are lower, showing investor skepticism. We further examine the role of signal strength proxied by market-to-book ratios and past performance and find that stronger undervaluation signals generate more pronounced spillovers. These results contribute to the literature on intra-group dynamics, signalling theory, and investor interpretation of corporate actions in emerging markets.

1. Introduction

Do announcements of share repurchase decisions by group-affiliated firms generate spillover effects on the market value of other firms within the same business group? If so, what factors determine the strength and direction of these effects? We explore these questions by examining repurchase announcements made by group-affiliated firms in India, a country characterized by a high prevalence of business groups[1]. Although repurchase decisions are relatively rare, they

[1] https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/01/company-groups-in-india_34dbca20/e9568d3c-en.pdf

are financially significant and often interpreted as credible signals of undervaluation (Grullon & Ikenberry, 2000; Ikenberry et al., 1995), leading to a prolonged impact on the announcing firm's stock prices (Busch & Obernberger, 2017). If these announcements influence the market valuation of other affiliated firms, it becomes critical to understand the underlying mechanism of this spillover. Specifically, we seek to determine whether the spillover reflects genuine information transmission that enhances valuation or merely a mechanical price adjustment driven by intra-group correlations.

Share repurchase decisions often lead to a reallocation of a firm's capital and adjustments in cash reserves (Grullon & Ikenberry, 2000). Such financial restructuring can influence the internal capital dynamics within business groups. Specifically, the reallocation of resources toward repurchasing shares may reduce the availability of financial support to other affiliated firms, potentially limiting their funding opportunities and investment capacity (Gopalan et al., 2007; Khanna & Palepu, 2000). Consequently, repurchase announcements provide a compelling context for examining spillover effects, as they may convey credible signals regarding the financial health and strategic direction of the broader business group.

As an anecdotal example, Mangalam Cement Ltd, a firm affiliated with the B.K. Birla Group, announced share repurchase. The market reacted positively to the announcement, with the event firm recording a three-day cumulative abnormal return (CAR) of approximately 4%. Notably, a portfolio of other listed firms within the B.K. Birla Group experienced a positive spillover too, with CAR of up to 2.3%. This suggests that the repurchase announcement by the group-affiliated firm was interpreted as a favourable signal by the market, not only enhancing the valuation of the announcing firm but also benefiting other firms within the same business group.

Although share repurchases are commonly interpreted as signals of undervaluation, they can also be strategically used by managers to serve self-interested objectives, such as artificially inflating stock prices (Kahle, 2002). In this context, it becomes particularly relevant to examine how such announcements function within BGs, where internal dynamics and investor perception may amplify or weaken the market reaction. This study investigates whether repurchase announcements by group-affiliated firms trigger any spillover effects in the Indian financial markets.

The contribution of this study is multifold. Firstly, we find that there is a spillover of repurchase announcements from event firms to non-event firms. Secondly, we find that there is a co-

movement in the spillover, i.e., positive association between market reactions to event and non-event firms. Third, we find that the positive spillover effect is weaker when the promoter (insider) ownership is higher, suggesting skepticism from investors who may view repurchases as a self-serving tool to boost share prices and earnings per share (EPS). We also find that when the announcing firm appears more, the spillover effect is stronger. The findings are robust across various event windows and alternate econometric methods, suggesting that repurchase announcements can transmit value-relevant information across affiliated firms within a business group.

The rest of the paper is structured as follows: Section 2 explores the related literature and develops hypotheses, Section 3 describes data and variables, Section 4 covers the empirical analysis, Section 5 shows sub-sample analysis, and Section 6 concludes the study.

2. Literature Review and Hypotheses Development

We define intra-organizational spillover as the unintended impact of an event in a focal organization (Event firms in this context) on the perceptions and decisions of other organizations (Non-Event firms) and their stakeholders, for firms belonging to the same business group (Shi et al., 2022). The spillover literature on business groups consistently finds that decisions made by one firm in a business group influence the stakeholders' perception of the other firms within that group. In particular, when a positive (negative) event occurs for one firm (the Event Firm), stakeholders often anticipate that it will also have a favorable (unfavourable) impact on the other firms of the group (the Non-Event Firms).

This study examines whether the repurchase announcements trigger inter-organisational spillover. Repurchase announcements are driven by various motives, including perceived undervaluation of the firm's stock, tax advantages, capital structure optimization, and the distribution of excess cash to shareholders (Dittmar, 2000; Ikenberry et al., 2000; Vermaelen, 1981, 1984). While various motives have been proposed, managers often justify buyback announcements by claiming that their stock is undervalued in the market. This supports the signalling hypothesis of undervaluation (Dittmar, 2000; Grullon & Ikenberry, 2000; Vermaelen, 1981). Additionally, repurchasing shares allows firms to return excess cash to shareholders in the absence of more profitable investment opportunities, thereby mitigating agency conflicts (Wu, 2012). Therefore, repurchase announcements may serve as credible signals about the announcing firm and influence stakeholder perceptions of firms within the

same BG. This, in turn, can lead to a rise in the share prices of non-event firms following a repurchase announcement by an event firm.

This phenomenon can be explained through cognitive perception spillover, which occurs when an event in an organization alters how stakeholders appraise an event organization in BG by reshaping their perceived reputation and legitimacy (Shi et al., 2022). Reputation, in this context, refers to "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all its key constituencies" (Fombrun, 2012; Fombrun & Shanley, 1990). Reputation spillover happens when stakeholders revise their perception of non-event firms' reputations based on repurchase announcements involving event firms. Similarly, legitimacy spillover arises when the event firm's gain in social recognition for undervaluation leads stakeholders to grant similar recognition to non-event firms within the same BG.

From another perspective, share repurchases in the Indian context are governed by regulatory preconditions that shape managerial decisions. Indian firms may repurchase up to 10% of their equity with board approval and up to 25% with shareholder approval. However, these buybacks must be financed through internal accruals as the use of debt for repurchases is prohibited. Additionally, post-repurchase, the debt-to-equity ratio must not exceed 2:1[2]. These constraints can limit the strategic use of leverage and the benefits of optimizing capital structure through buybacks. Importantly, such regulations indicate that Indian authorities aim to ensure repurchases are conducted primarily through excess cash. While this may reduce risk at the firm level, it also implies that the cash deployed for buybacks is unavailable for intra-group resource sharing (Bertrand et al., 2002; Johnson et al., 2000). In business groups, this restriction could limit the ability of the event firm to extend financial support to non-announcing firms, thereby potentially resulting in negative returns across the non-event firms after the announcement. Therefore, we propose the following hypotheses:

H1a: Repurchase announcements by event firms positively impact non-event peer firms' share prices.

H1b: Repurchase announcements by event firms negatively impact non-event peer firms' share prices

[2] https://www.sebi.gov.in/legal/regulations/may-2024/securities-and-exchange-board-of-india-buy-back-of-securities-regulations-2018-last-amended-on-may-17-2024-_68104.html

Share repurchases are often interpreted as signals of undervaluation, and when shareholders perceive these announcements as credible and legitimate, they tend to respond with positive price reactions for the event firm (Dittmar, 2000; Grullon & Ikenberry, 2000). If a spillover exists, this positive perception may extend to non-event firms within the same BG, leading to appreciation in their share prices as well, due to revised perceptions of the group's overall financial strength and governance quality.

However, if repurchases are perceived as being opportunistically timed by top executives, for instance, to facilitate personal gain through favourable buying or selling of stock, this can erode shareholder trust (Kahle, 2002) and trigger a negative market reaction. In both scenarios, whether the market interprets the repurchase as a credible signal of undervaluation or as an opportunistic move, the share prices of event and non-event firms are expected to move in the same direction. Therefore, we propose the existence of a spillover effect, wherein market reaction to event firms influences the stock prices of non-event firms within the same business group. Hence, we test the following hypothesis:

H2: The market reaction to a repurchase announcement by BG-affiliated firms has a contagion effect on the returns of non-event firms.

Since, share repurchase announcements can sometimes be driven by managerial self-interest, particularly to benefit from timing stock-based compensation or influencing stock prices, investors may respond with skepticism (Kahle, 2002). It is especially pronounced in emerging markets, where agency problems are more severe (Jensen, 1986; Jensen & Meckling, 2019). A direct indicator of heightened investor skepticism can be observed through the level of controlling shareholders or promoter's holdings in the event firm, which often signals potential entrenchment and raises concerns about the true intent behind repurchase announcements (Kim et al., 2013). Moreover, when non-event firms themselves have high promoter ownership, investors may remain skeptical about the broader group's governance practices and discount the potential for positive revaluation. Therefore, if repurchase announcements within the group influence share prices of non-event firms, we expect a negative association between promoter ownership (in both event and non-event firms) and the announcement returns of non-event firms, consistent with the idea that investor skepticism in the presence of concentrated insider control. Hence, we test the following hypothesis:

H3a: Higher promoter ownership in event firms is negatively associated with the abnormal returns of non-event firms during repurchase announcements by affiliated event firms.

H3b: Higher promoter ownership in non-event firms is negatively associated with the abnormal returns of non-event firms during repurchase announcements by affiliated event firms.

Since repurchase announcements are often motivated by a belief that the firm is undervalued (Grullon & Michaely, 2002, 2004), the extent of undervaluation, commonly proxied by the market-to-book ratio (MKBK) and lagged returns (Bonaimé, 2012; Vermaelen, 1981, 1984), can influence the strength of the signal. Firms with lower MKBK ratios and poor past performance are more likely to be perceived as undervalued, thereby making such repurchase announcements more credible. Consequently, the spillover effect to non-event firms within the same business group should be more substantial when the announcing firm is perceived as undervalued. Hence, we test the following hypothesis:

H4: Repurchase announcement spillovers are stronger when the announcing firm is more undervalued.

3. Data and Variables

We have hand-collected documents of all the share repurchases in India between 2008 and 2024 from the Securities Exchange Board of India website (SEBI). According to the SEBI Buy-Back Regulation (2018), companies must publish an announcement, a corrigendum, and a post-repurchase document stating key indicators. We have chosen this hand-collected method because these are the only documents that report detailed information on repurchases. This website has 1854 documents reporting share repurchases during our sample period. Data cleaning (see Table 1) and the final sample of 472 announcements with portfolio-constructed CARs are considered. All other financial data is taken from CMIE Prowess.

Table 1 Data Collection and Cleaning

Particular	**Total**
Total Repurchase announcement from SEBI	1854
Less: Missing matching post-repurchase file	1161
Less: Repurchase announcement from non-BG firms	191
Less: Repurchase announcing firm is a financial or utility firm	30
Final Sample	472

All variables are discussed in Table 2, and Table 23 presents their descriptive statistics. We have taken control variables based on prior literature (Bonaimé, 2012; Chen & Chang, 2020; Cumming et al., 2024; Jha et al., 2022; Ota et al., 2019; Sodhi & Stojanovic, 2023).

Table 2. Variable Description

Variables	Description
Dependent Variables:	
CAR_Non_Event_firms	Cumulative abnormal returns (%) for the window (-3, +3) for an equal-weighted portfolio of non-event firms that share the same business group as the event firm, computed using the market model with its parameters estimated over (-255, -46) days with respect to the announcement
Independent Variable:	
CAR_Event_firms	Cumulative abnormal returns (%) over the window (-3, +3) for the event firm, computed using the market model with its parameters estimated over (-255, -46) days with respect to the announcement
Promoters_Event_firms	The total share (%) of promoters in the event announcing firm.
Promoters_Non_Event_firms	The total share (%) of promoters in the Non-event announcing firm.
MKBK	Market value of equity/Book value of equity of announcing firm
Past performance	Stock returns NIFTY-500 returns, estimated over a window (-40, -6), with respect to announcements are negative, or 0 otherwise (Bonaimé, 2012)
Poor performance	A dummy variable with a value of 1 if past performance is negative, 0 otherwise.
Firm-level Controls	
Size	Natural logarithm of the market value of the equity prior to the repurchase
ROA	Net income / Total assets
Leverage	Total debt / Total assets
MKBK	Market value of equity/Book value of equity
RandD	Research and development expenditure/ Total assets
Cash	Cash / Total assets
Group-level Controls	
G_Size	Natural logarithm of the mean market value of equity of all listed firms in the business group
G_ROA	Average ROA of listed firms within a business group
G_Leverage	Average Leverage of listed firms within a business group
G_MB	Average M/B of listed firms within a business group
G_RD	Average R&D of listed firms within a business group
G_Cash	Average Cash of listed firms within a business group
Group member	Number of listed group member firms

Route_dummy	The value is 1 if the tender route is taken for repurchase, or 0 otherwise

Table 3. Summary Statistics

VARIABLES	(1) N	(2) Mean	(3) SD	(4) Min	(5) Max
CAR_Non_Event_firms	419	0.011	0.037	-0.151	0.229
CAR_Event_firms	434	-0.009	0.059	-0.223	0.283
Size	410	23.670	2.341	18.260	31.300
ROA	430	2.599	15.850	-128.800	62.460
Leverage	427	43.340	108.700	0.000	453.063
MKBK	382	4.282	17.940	0.079	262.300
RandD	441	0.002	0.015	0.000	0.154
Cash	417	0.036	0.067	0.000	1.000
G_Size	472	25.460	1.794	19.540	29.180
G_ROA	471	3.798	5.684	-18.080	88.420
G_Leverage	471	39.990	19.510	1.258	93.810
G_MB	471	3.866	6.386	0.361	116.000
G_RD	471	0.001	0.009	0.000	0.102
G_Cash	471	0.037	0.018	0.001	0.134
Group member	472	24.450	17.080	2.000	46.000
Route_dummy	472	0.585	0.493	0.000	1.000
Prom_Event_Firms	470	0.455	0.499	0.000	1.000
Prom_Non_Event _Firms	420	0.498	0.501	0.000	1.000
MKBK	437	5.217	4.755	0.410	19.941
Poor performance	400	0.021	0.079	-0.235	0.233

4. Empirical Results

To analyse the effect of repurchase announcements on the market reaction to event and non-event firms, we consider the newspaper publishing date of the repurchase announcing firm as the event day. We have calculated the Cumulative Abnormal Returns (CAR) for each firm by adding their respective Abnormal Returns (AR) over a particular time period, as shown in equation (i) following Brown & Warner (1985). These AR are market adjusted, using the CAPM model[3].

$$AR_{i,t} = R_{i,t} - \left(\alpha_i + \beta_i\left(R_{m,t} - R_{f,t}\right)\right) = R_{i,t} - E_{i,t} \quad \text{(i)}$$

Where α_i is the stock-specific intercept, β_i is the stock's sensitivity to market returns. $R_{i,t}$is the actual return of stock i at time t, $R_{m,t}$ and $R_{f,t}$ are the market return and risk-free rate at time t and $E_{i,t}$ is the expected return calculated using NSE500 index.

[3] Risk-free rate of return is been taken up from https://faculty.iima.ac.in/iffm/Indian-Fama-French-Momentum/

Finally, the CARs are calculated by summing up ARs within the event windows estimated over 255 to 46 days prior to the event. It is estimated as:

$$CAR_{t1,t2} = \sum_{t=t1}^{t2} AR_{i,t} \quad \text{(ii)}$$

Table 4 shows both parametric and non-parametric tests to assess the significance of CAR values. Panel 1 shows results from the skewness-corrected test. Additionally, to address the possible influence of outliers, we conduct the Wilcoxon signed-rank test (Wilcoxon, 1992). Results from both tests indicate that repurchase announcements generate positive returns for non-announcing firms within the same business groups, indicating a positive spillover effect. The muted response on the exact event day may reflect inefficiencies in the Indian market, where the diffusion of information and subsequent price adjustment occur with a delay (Shleifer, 2000). Results support H1a, showing that repurchase announcements by event firms positively impact non-event group firms through positive revaluation.

Table 4. Market Reaction to Repurchase Announcements

Event Window	**Event Firms CAR Value**	**Non-Event Firms CAR Value**
	(1)	**(2)**
Panel 1: Skewness-Corrected T test		
(-1, 1)	0.004 (1.177)	0.001 (-0.724)
(-3, 3)	0.018*** (3.742)	0.011*** (2.711)
(-5, 5)	0.028*** (4.996)	0.008* (1.882)
Panel 2: Wilcoxon Signed-Rank Test		
(-1, 1)	0.004** (2.023)	0.001* (1.953)
(-3, 3)	0.018*** (4.209)	0.011*** (3.186)
(-5, 5)	0.028*** (5.167)	0.009*** (3.003)

*Note: Table 4 presents cumulative returns for different time windows around repurchase announcements for the repurchase announcing (Event firms) and their respective BG-affiliated firms (Non-Event Firms) in columns (1) and (2), respectively. Panel 1 shows the result from the skewness-corrected test. Panel 2 shows the result for the Wilcoxon signed-rank test. T-value is in parentheses. *** Denotes a significance level of 1%, ** for 5%, and * for 10%.*

4.1 The Contagion Effect

To estimate the spillover effect of a repurchase announcement by a group-affiliated firm on other non-event firms within the same business group, we calculate an equal-weighted cumulative abnormal return (CAR) for a portfolio comprising all non-announcing group firms. This portfolio-level approach is econometrically superior as it mitigates concerns related to

cross-sectional correlation among individual firm returns (Szewczyk, 1992). Our methodology aligns with prior research that examines intra-group spillovers arising from corporate announcements (Bae et al., 2008; Joe & Oh, 2018) and is particularly well-suited to capturing group-level investor reactions in the context of share repurchases.

We employ the following model to determine the contagion effect.

$$CAR\_Non\_Event\_firms = \alpha + CAR\_Event\_firms + Firm\ Controls + Group\ Controls + \epsilon \quad (1)$$

Table 5 shows the results for specification (1). Columns 1 and 2 show that CAR_Event_firms are significantly explained by CAR_Event_firms by adding firm-level controls and group-level controls, respectively. Column 3 shows results including further fixed effects (FE).

Specifically, in column (3), the coefficient on Event CAR is +0.114, suggesting that for every 1 percentage point increase (decrease) in the announcement return of the event firm, the average return for non-event group firms increases (decreases) by 0.114% basis points. This finding is both statistically and economically meaningful, pointing toward a positive spillover or contagion effect of the repurchase signal across affiliated firms. These results also support the second hypothesis.

Table 5. Contagion effect of repurchase announcements within BG

	Dependent Variable: CAR_Non_Event_firms		
VARIABLES	(1)	(2)	(3)
CAR_Event_firms	0.126***	0.091***	0.114***
	(0.036)	(0.034)	(0.037)
Size	0.001		-0.001*
	(0.001)		(0.001)
ROA	-0.000		0.000
	(0.000)		(0.000)
Leverage	0.000		0.000
	(0.000)		(0.000)
MKBK	-0.000		-0.000
	(0.000)		(0.000)
RandD	-0.191		-0.193
	(0.144)		(0.266)
Cash	0.023		0.000
	(0.043)		(0.040)
G_Size		0.005***	0.005***
		(0.001)	(0.001)
G_ROA		-0.002***	-0.001*

		(0.000)	(0.000)
G_Leverage		0.000	0.000
		(0.000)	(0.000)
G_MB		-0.001***	-0.001**
		(0.000)	(0.000)
G_RD		-0.180	0.179
		(0.218)	(0.478)
G_Cash		0.283	0.366*
		(0.177)	(0.205)
Group members		-0.000	-0.000
		(0.000)	(0.000)
Route_dummy		0.032***	0.020***
		(0.007)	(0.008)
Constant	0.004	-0.111***	-0.084**
	(0.025)	(0.032)	(0.038)
Observations	289	382	289
R-squared	0.308	0.401	0.436
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes

*Note: Table 5 presents the results of specification (1), with Columns (1) and (2) containing only firm and group controls, respectively. Finally, in column (3), firm, group, and fixed effects controls are applied. Standard errors are given in parentheses. * Denotes a significance level of 1%, ** for 5%, and * for 10%.*

4.2 Promoters' Ownership: For Event and Non-Event Firms

Promoter ownership reflects concentrated control and can shape how investors interpret repurchase announcements. Since, such announcements may be seen as serving the interests of controlling shareholders (Kahle, 2002), investors may respond with skepticism. This cautious response can extend to even non-event firms within the group. In order to test this, as hypothesized in H3a and H3b, we propose the following specifications (2) and (3) respectively:

$$CAR\_Non\_Event\_firms = \alpha + Prom\_Event\_Firms + CAR\_Event\_firms + Firm\ Controls + Group\ Controls + \epsilon \quad (2)$$

$$CAR\_Non\_Event\_firms = \alpha + Prom\_Non\_Event\_Firms + CAR\_Event\_firms + Firm\ Controls + Group\ Controls + \epsilon \quad (3)$$

Table 6 suggests that higher promoter ownership significantly affects the CAR of non-event firms. However, the spillover is negative when both event and non-event's promoters' ownership level is higher. This supports H3a and H3b and reflects investor skepticism toward the credibility of repurchase signals from firms with concentrated insider control, likely due to concerns over self-serving motives (Kahle, 2002). This suggests that investors perceive such

firms as more prone to weak governance and thus less likely to benefit from credible information spillover. The results supports both H3a and H3b.

Table 6. Repurchase Announcement Spillover and Promoter Ownership

	Dependent variable: CAR_Non_Event_firms	
Prom_Event_Firms	-0.022***	
	(0.004)	
Prom_Non_Event_Firms		-0.007**
		(0.003)
CAR_Event_firms	0.126***	0.123***
	(0.040)	(0.038)
Constant	-0.046	-0.062
	(0.041)	(0.039)
Observations	288	285
R-squared	0.513	0.446
Firm Controls	Yes	Yes
Group Controls	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes

*Note: Table 6 presents the results of specifications (2) and (3) in columns (1) and (2), respectively. Column (1) includes the promoter dummy of event firms. Column (2) shows the promoter dummy for non-event firms. Both time and industry-fixed effects have been controlled in columns (1) and (2). Standard errors are given in parentheses. * Denotes a significance level of 1%, ** for 5%, and * for 10%.*

5. Sub-Sample Analysis

To address potential heterogeneity, we conduct a sub-sample analysis based on the undervaluation signal provided by the repurchase-announcing firm. Since undervaluation is the most observed motivation for repurchase announcements (Grullon & Ikenberry, 2000). Prior literature suggested that undervaluation signals through Market to Book value or past performance convey the credibility of repurchase programs (Bonaimé, 2012; Grullon & Michaely, 2002, 2004). Therefore, we split the sample based on the median market-to-book ratio. Further, the past stock performance is split on the basis that firms' negative past returns are classified as poor performers, while those with positive past returns are categorized as good performers. We have used specification (1) for the testing sub-sample analysis, and its results are summarised in Table 9.

Table 7. Repurchase Announcement Returns and Undervaluation of Event Firms

	Dependent Variable: CAR_Non_Event_firms			
VARIABLES	(1) Lower MKBK	(2) Higher MKBK	(3) Poor Performance	(4) Good Performance

CAR_Event_firms	0.261**	-0.054	0.685***	-0.004
	(0.108)	(0.109)	(0.090)	(0.082)
Constant	0.376**	-0.076	-0.371***	-0.033
	(0.158)	(0.056)	(0.092)	(0.072)
Observations	151	120	84	158
R-squared	0.623	0.729	0.704	0.614
Firm Controls	Yes	Yes	Yes	Yes
Group Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

*Note: Table 7 presents the results of specifications (1), Columns (1) and (2) include the firms that are lower and higher MKBK with firm-group and fixed effects controls. Columns (3) and (4) include the firms with poor (negative returns) performance and good (positive returns) performance in the past, signalling undervalued and overvalued firms, respectively. Standard errors are given in parentheses. * Denotes a significance level of 1%, ** for 5%, and * for 10%.*

Table 9 examines how the degree of undervaluation moderates the spillover effects of share repurchase announcements. Our analysis reveals that there is a significantly stronger spillover to non-event firms when the announcing firm signals higher undervaluation, either through a lower MKBK or negative past returns. These findings provide strong support for H6, underscoring the importance of signal credibility. Investors appear to respond more positively when undervaluation signals are more convincing (Dittmar, 2000; Vermaelen, 1984), amplifying the spillover impact across business group affiliates.

6. Limitations and Conclusion

This study investigates whether share repurchase announcements by group-affiliated firms generate spillover effects on the market valuation of other firms within the same business group in India. Anchored in signalling theory and the information spillover hypothesis, our findings reveal that repurchase announcements not only impact the announcing firm but also positively influence the abnormal returns of other affiliated firms. This effect is stronger when the undervaluation signal is credible, proxied by indicators such as promoter holding, market-to-book ratio and past performance. It highlights how investor reactions vary depending on the credibility and context of the repurchase announcement. This underscores the informational role of financial policy decisions within interlinked corporate structures and highlights how capital market participants may interpret such announcements as group-level signals.

This study highlights several important insights for stakeholders. First, investors should consider the broader business group context when evaluating repurchase announcements, as positive spillovers can enhance value beyond the announcing firm. Second, for regulators, the findings emphasize the importance of transparency and monitoring of repurchases within

business groups to prevent potential misuse of mere announcements to enhance BG performance. Third, managers should be aware that repurchases can serve as group-level reputation signals, especially during periods of uncertainty or when firm-specific information is limited. Overall, the study contributes to the literature on business group dynamics, financial signalling, and emerging market behavior, while offering practical insights for investors and regulators concerned with the broader implications of corporate actions.

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