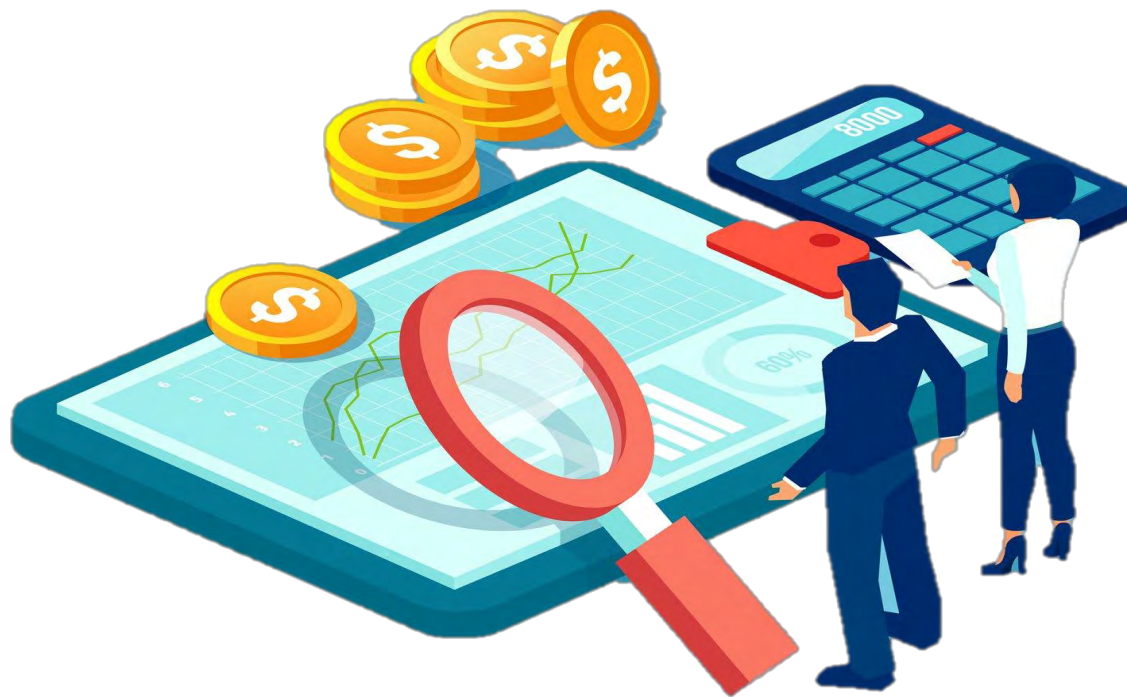
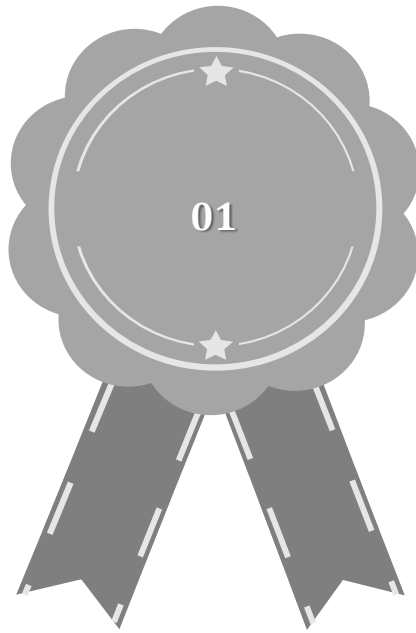


Returning Value to Shareholders

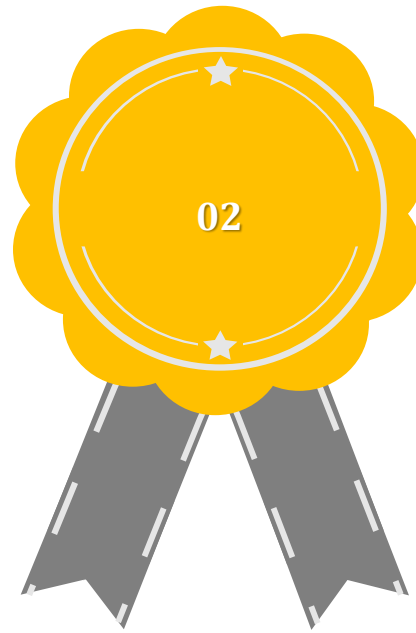
BUYBACK vs DIVIDEND



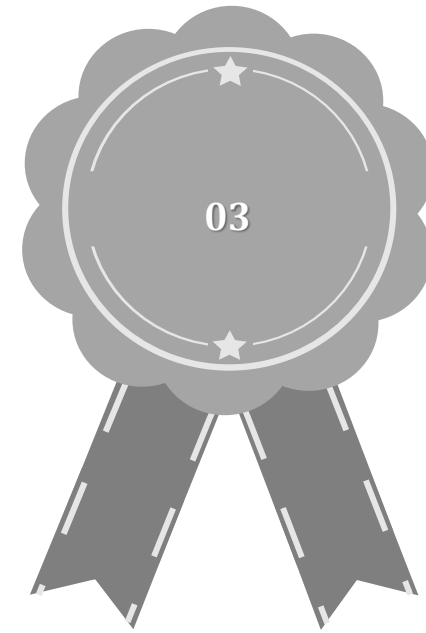
Modes of Returning Value to Shareholders



DIVIDEND



BUYBACK



BONUS

Modes of Returning Value to Shareholders



Dividend

A dividend is a distribution of profits by a Company to its shareholders.



Buyback

Also known as a share repurchase, a buyback is a corporate action wherein a company buys its own outstanding shares to optimize the number of shares available in the open market.



Bonus

Bonus is issuing of additional shares to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns.

Trends of Buyback in past

No. of Buyback Offers rose to 52 in FY 2019-20 from 16 in FY 2015-16.

This was due to changes in tax provisions.

Year	Amount (In crore)	No. of Issues
2016-17	34,468	49
2017-18	53,307	59
2018-19	55,587	63
2019-20	19,972	52
2020-21	39,295	61
2021-22	31,316	40
2022-23 (as on 11/05/22)	1,367	4

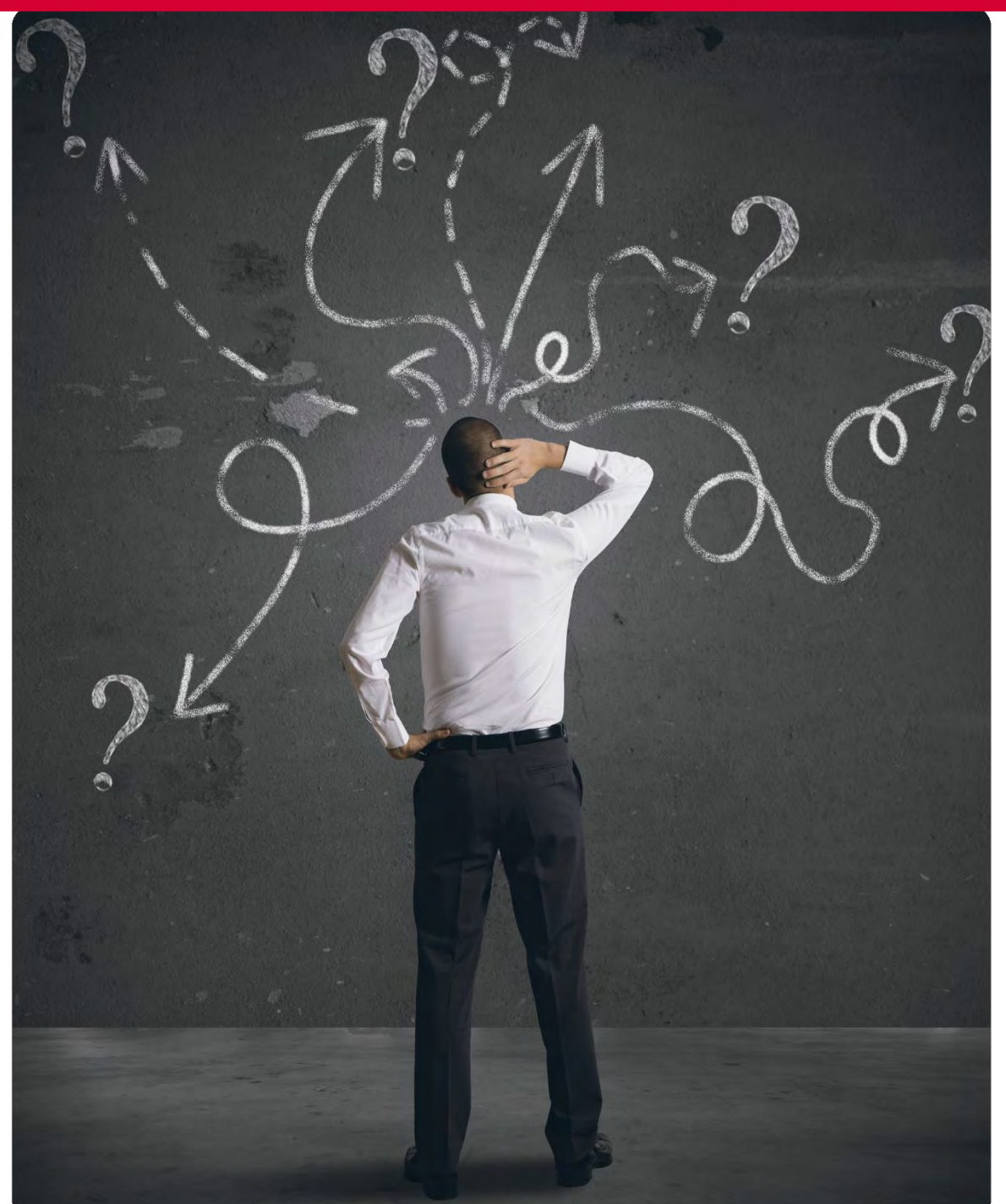


Increasing trends of Buyback

Below are Top 5 Indian Companies which are buying back shares consistently over the past few years.

Company	No. of Buy Backs	Value (In Crore)
Balrampur Chini Mills	4	601.67
Wipro	4	33,500.00
Aarti Drugs	4	111.00
Tata Consultancy Services	4	66,000.00
Jagran Prakashan	4	814.00

Why Buyback



Key Decision Points



- ✓ Taxation
- ✓ Inorganic Tool for Consolidating Promoter Holding
- ✓ Revocation after declaration and consequent Liability
- ✓ Funds Utilisation
- ✓ EPS & Return on Equity
- ✓ Price Movement

Taxation - Buyback

**No tax in the hands of the Shareholders in Buyback.
In the hands of Shareholders it's a Tax Free Income.**

In case of a Buyback, only the Company is liable to pay buyback tax @ 20% on the distributed income plus Surcharge and Cess on the differential price

@23.3% Effective Tax.

The capital gains tax on the income from the buyback of shares is exempted for the investor.



Taxation on Buyback

Computation of Tax under Buyback

*Tax of 20% (plus surcharge & cess) is to be paid on **Distributed Income** by the Company on buyback of shares.*

How to Compute Distributed Income ?

Distributed Income = (Buyback Consideration/Buyback Price) – (Amount Received by the Company for Issue of Such Shares/ Issue Price of such Shares)



Taxation - Buyback

Issue of Shares

No. of Shares = 1,00,00,000

Issue Price = Rs. 10/-

Amount received by the Company for Issue = Rs. 10,00,00,000/-

Buyback

No. of Shares Bought Back = 1,00,00,000

Offer Price = Rs. 100/-

Amount of Buyback Offered = Rs. 100 Cr.

On which amount tax is to be paid ?

Distributed Income

Calculate Distributed Income

Distributed Income = Buyback Consideration - Amount received by the Company for Issue of such shares

DI = 100 Cr. - 10 Cr.

DI = 90 Cr.

Tax Payable = DI * 23.3%

Tax Payable = 90 Cr * 23.3%

Tax Payable = 20.97 Cr

Taxation on Dividend

Finance Act 2020 shifted the taxability on dividend income from the hands of the company declaring the dividend to the individual investors.

What is threshold limit for Deduction of TDS while paying Dividend ?

TDS will be deducted by the Company on dividend paid in excess of Rs. 5000/- in a year to a shareholder.

What is the rate of TDS ?

The normal rate of TDS is 10% on dividend income paid in excess of Rs 5,000 from a company.



Illustration

Particulars	Amount
Promoter Holding	60%
Non Promoter Holding	40%
Profit before Tax	1,00,00,00,000
Tax @ 25%	25,00,00,000
Profit After Tax	75,00,00,000
Dividend Declared	75,00,00,000
Promoter - 60%	45,00,00,000
Non Promoter – 40%	30,00,00,000

- Dividend received by the Shareholders will be additionally Taxed under Income Tax at applicable tax rates.
- If a company declares dividend its getting taxed at different levels in hands of the Company and the Shareholders.

Tax Comparative

	Buy Back	Dividend
In the hands of Company	Rs. 20.97 Crore	Rs. 25 Crore
In the Hands of Promoters	No Taxation	Rs. 45 cr. * 42.74% = Rs. 19.23 Crore* (Assuming maximum marginal tax rates)
In the Hands of Public Shareholders	No Taxation	Taxed at applicable Slab Rate of Individual

If a company declares dividend its getting taxed at different levels in hands of the Company and the Shareholders.

Tax Comparative

Buy Back	Dividend
Rs. 20.97 Crore	Rs. 42.23 Crore and Additional tax on Non- Promoter Shareholder's Income

Inorganic Tool for Consolidating Promoter Holding

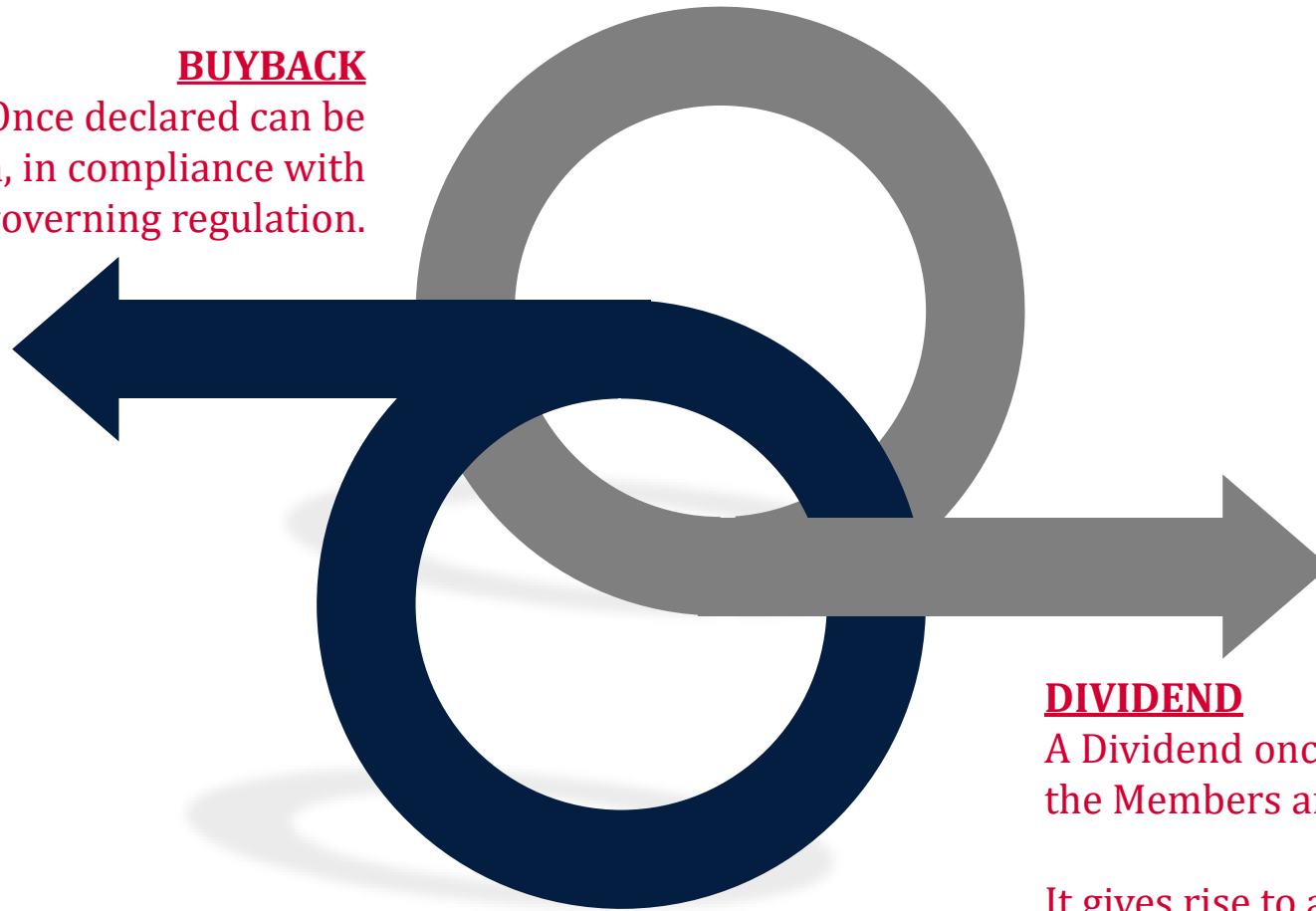
Provides protection
from Loss of
CONTROL



Revocation after declaration and consequent Liability

BUYBACK

Buyback Once declared can be withdrawn, in compliance with governing regulation.



DIVIDEND

A Dividend once declared becomes a debt due to the Members and hence cannot be revoked.

It gives rise to an enforceable obligation or creates a debt enforceable immediately or in the future.

Funds Utilization

BUYBACK

The fund outflow is limited to the extent of tendering of shares. The Company has to pay only up to the level of tendering, thus limited outflow

DIVIDEND

Once announced, the entire amount is needed to be paid off. Even the unpaid amount is to be transferred to unpaid dividend a/c and later to IEPF account.

EPS & Return on Equity

BUYBACK

As buyback is a reduction of the outstanding capital, it improves the EPS and hence the Valuations.

DIVIDEND

Dividend does not impact the EPS, rather reduces the net worth of the Company.

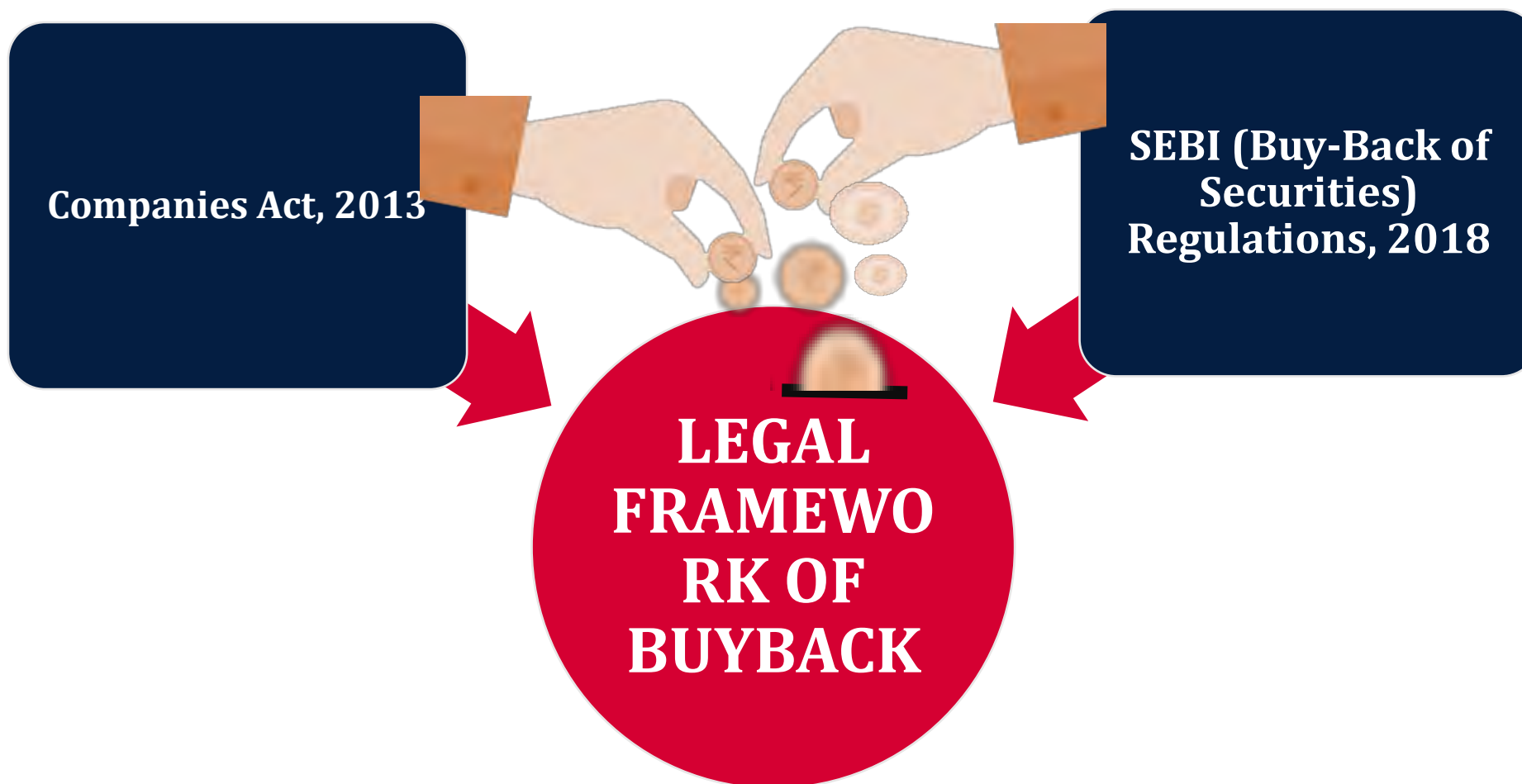
Price Movement



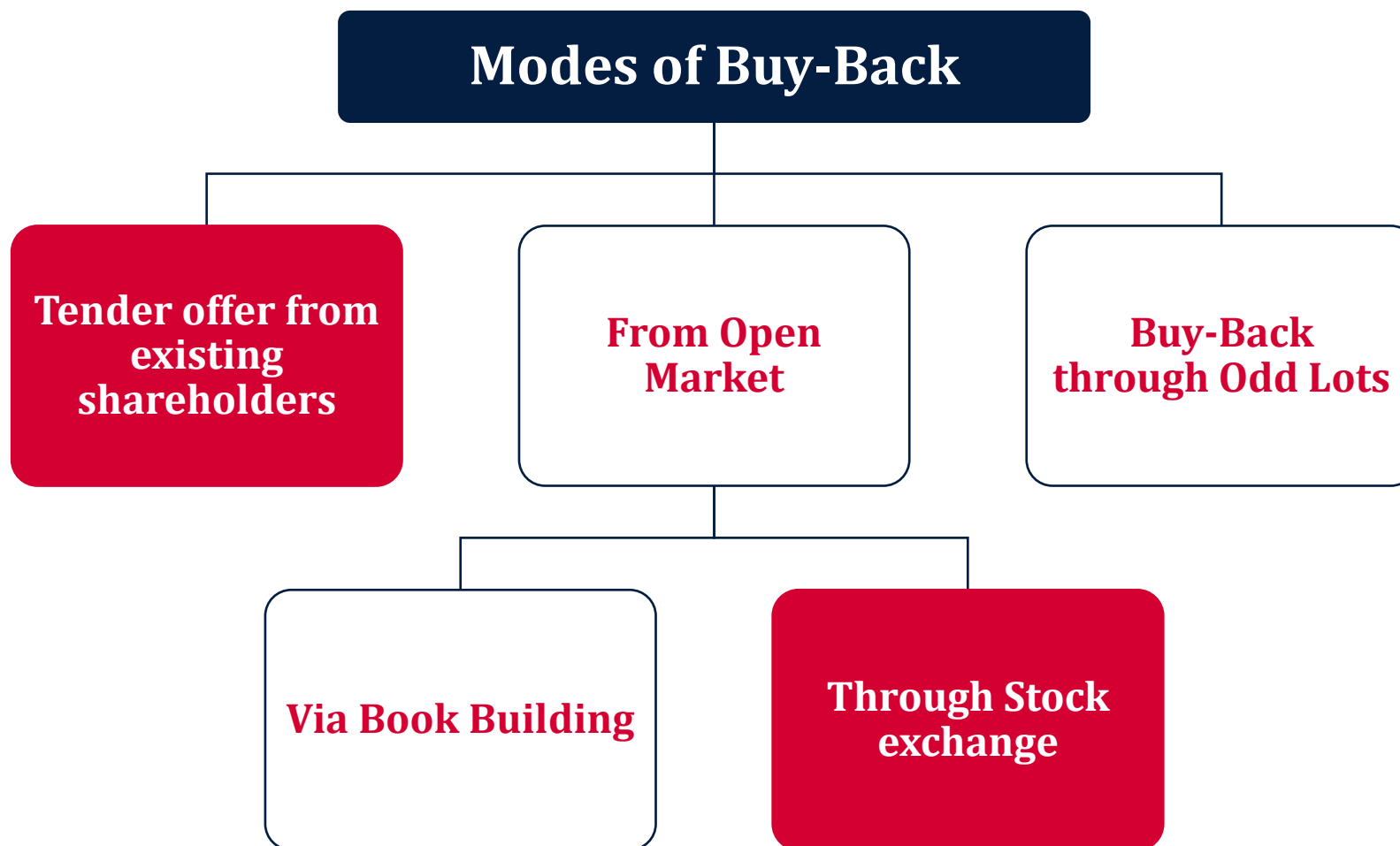


How to do Buyback

Buyback – Listed Companies



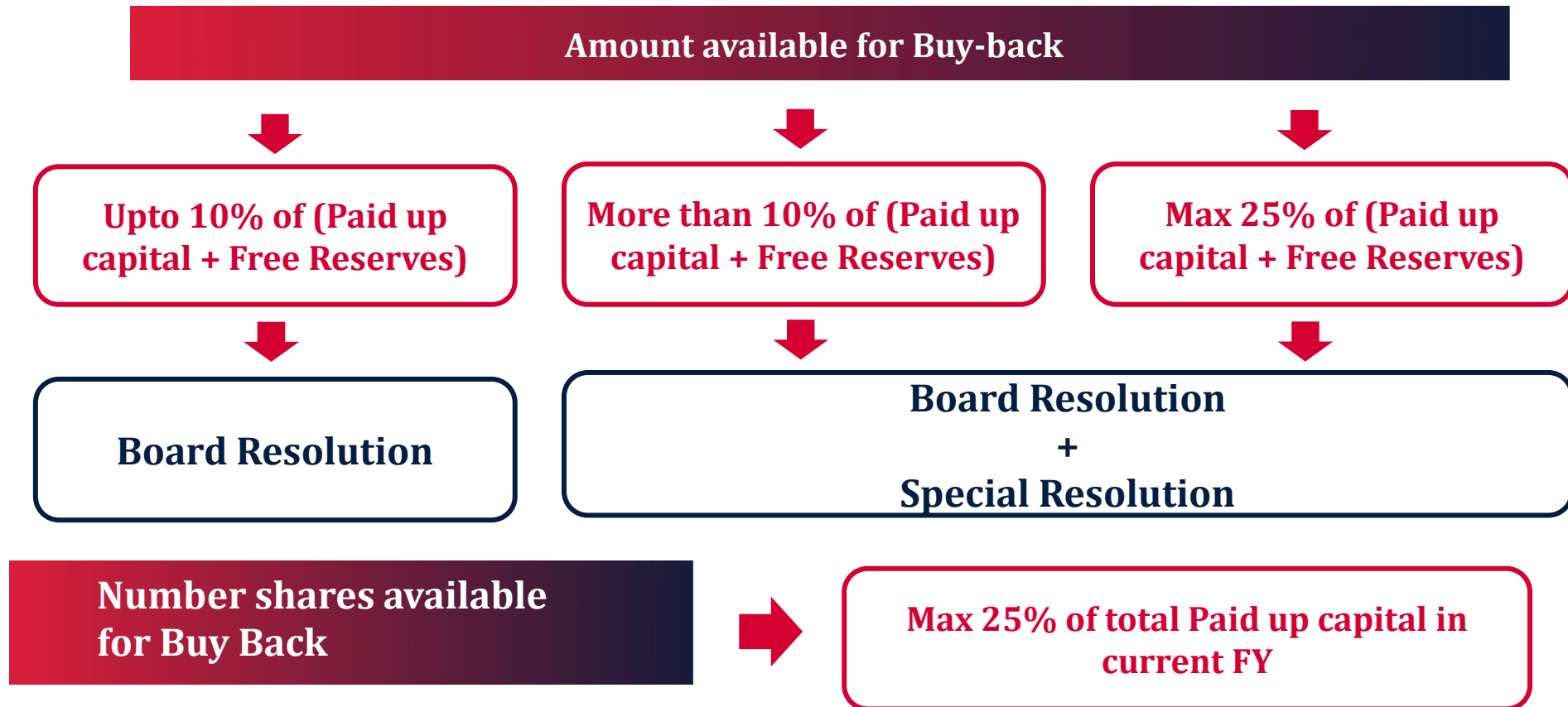
Modes of Buyback



Comparative – Methods of Buyback

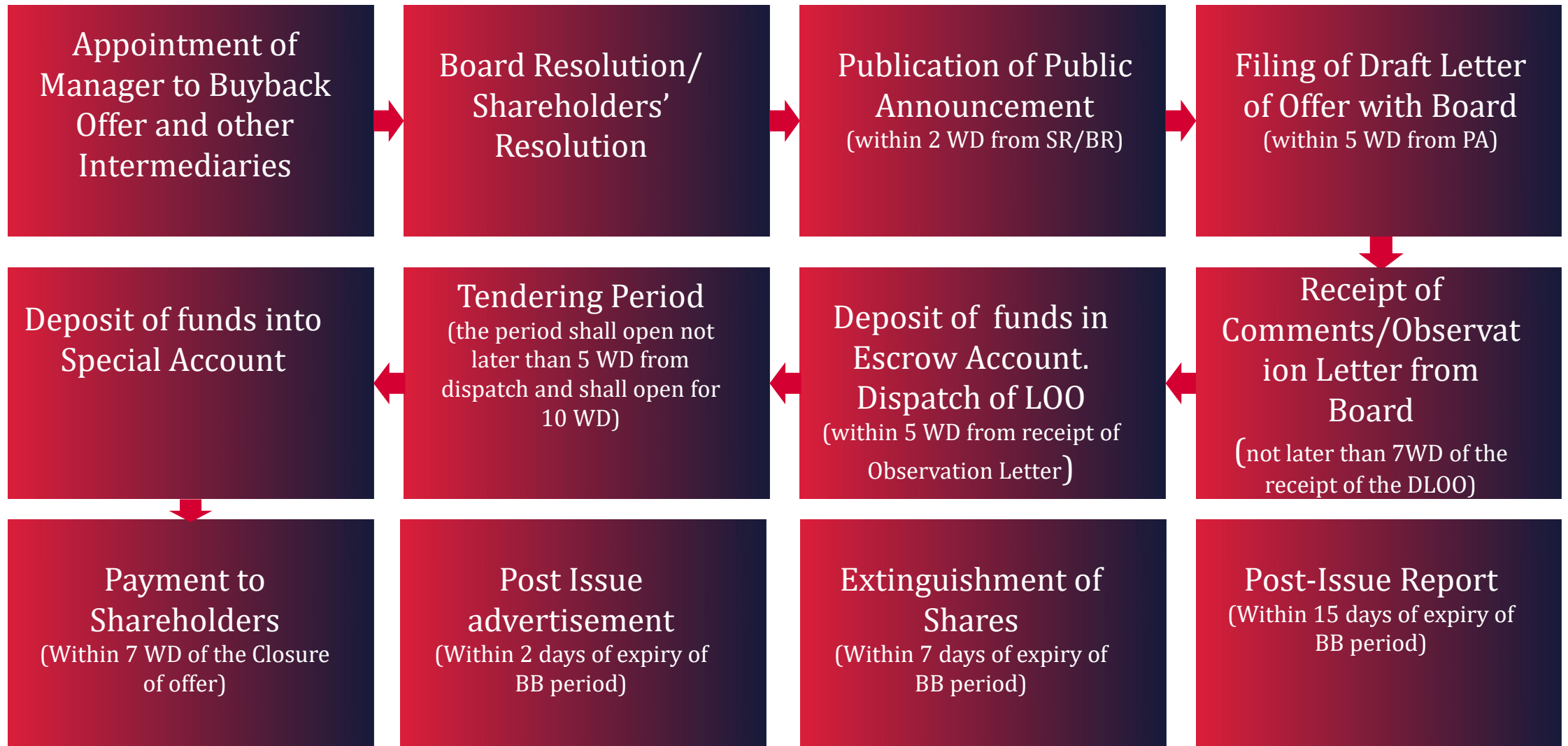
Particulars	Buy Back through tender offer	Buy Back through Open Market
Mechanism	Bidding	Stock Exchange Mechanism
Promoter Participation	✓	×
Fixation of Record Date	✓	×
Price	Fixed	Running Market Price
Obligation	No obligation as to offer completion	50% of the Amount mentioned in the resolution shall be utilized for the buyback
Duration	10 working days	Upto 6 months from the date of opening of offer

Quantum of Buyback

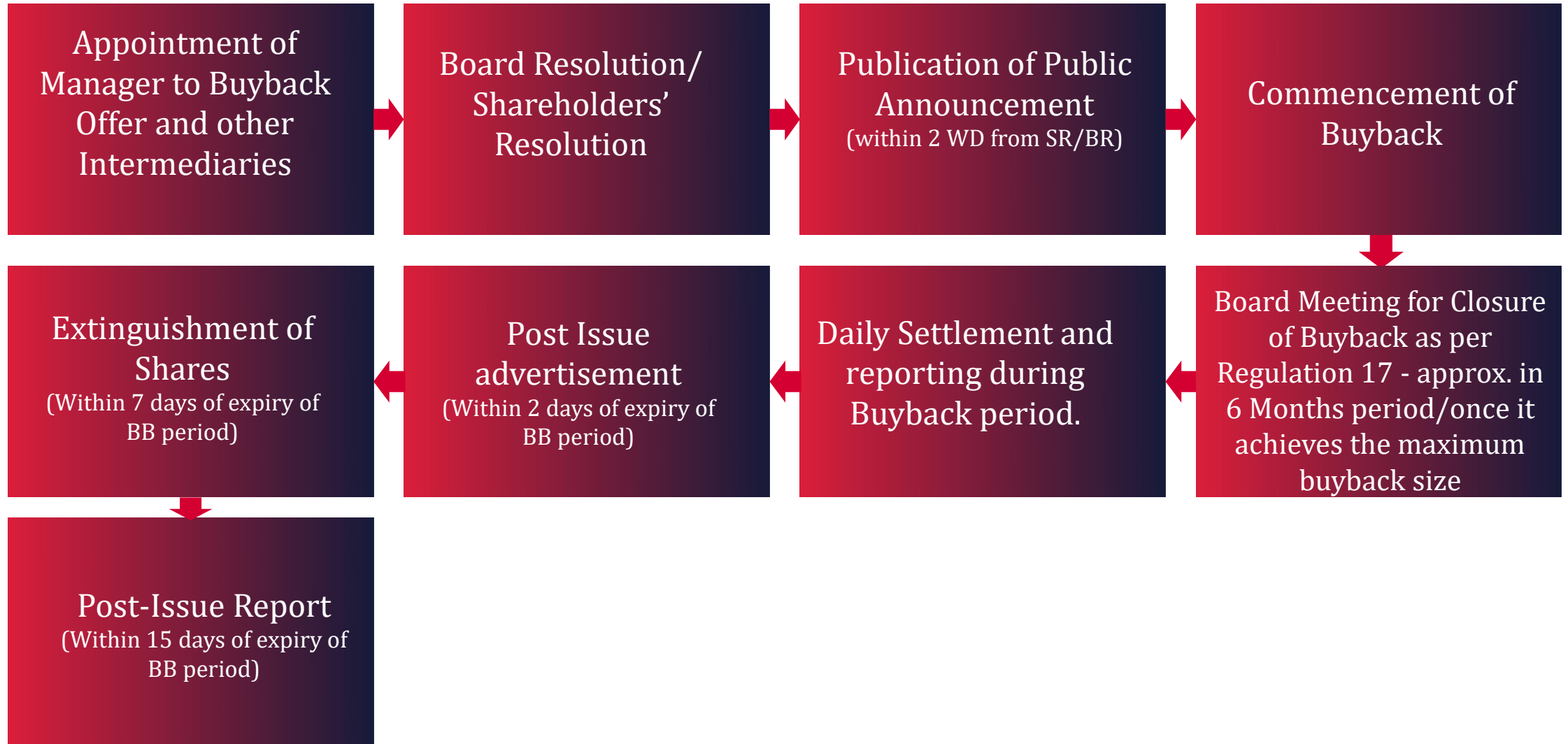


In case of Buyback through Open Market the maximum limit on amount available for buyback is upto 15% (Paid up capital + Free Reserves) instead of 25%.

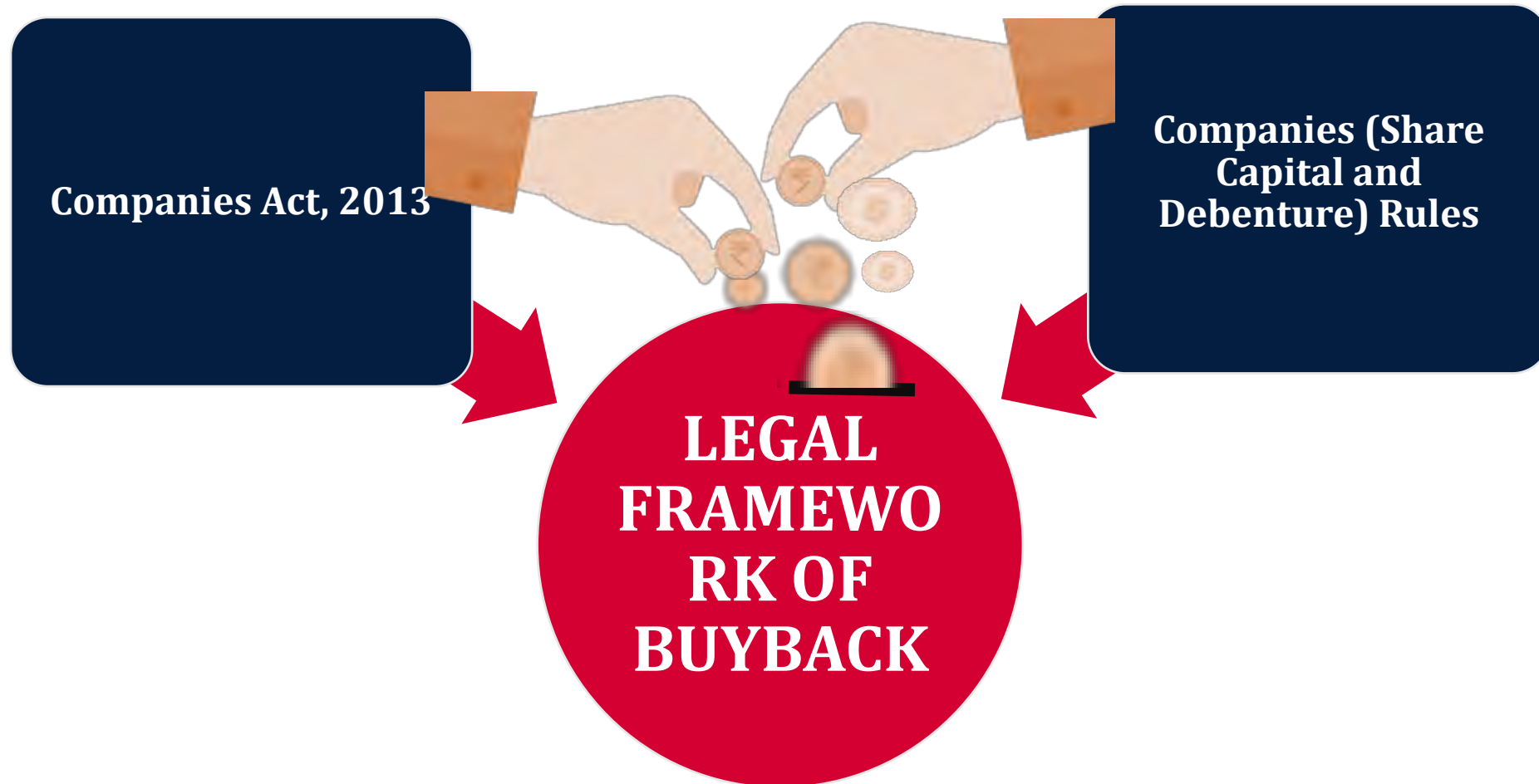
Timeline – Tender Offer



Timeline – Open Market



Buyback – Unlisted Companies



Buyback - PSUs



Companies Act, 2013



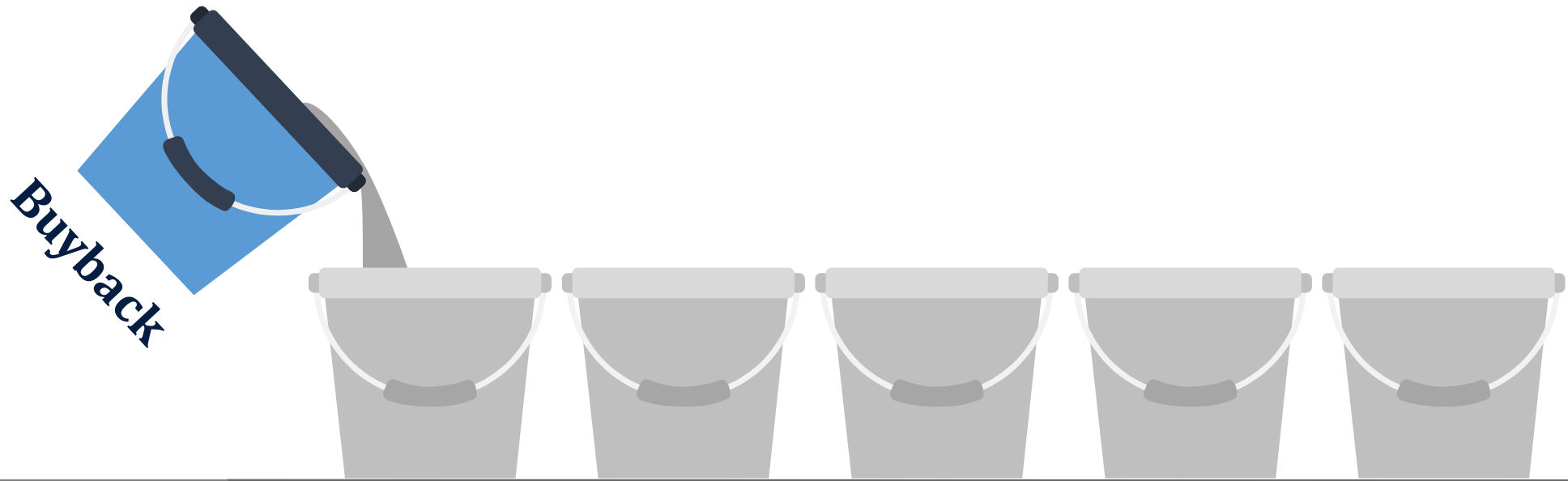
Guidelines on Capital Restructuring of CPSEs” issued by Ministry of Finance, Department of Investment & Public Asset Management (DIPAM)



SEBI (Buy-Back of Securities) Regulations, 2018

Which mode to be Chosen?





Tax

**Value
Return**

Financials

Ratios

**Optimizat
ion of
Capital
Structure**

Buyback is beneficial for both
Leaving and Staying
Shareholders



THANKYOU



Ms. Anjali Aggarwal

Partner & Head - Capital Market Services

D-28, South Extn. Part- I, New Delhi 110049

M: +919971673336

T: +91 1140622230

E: anjali@indiacp.com

W: www.corporateprofessionals.com

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