



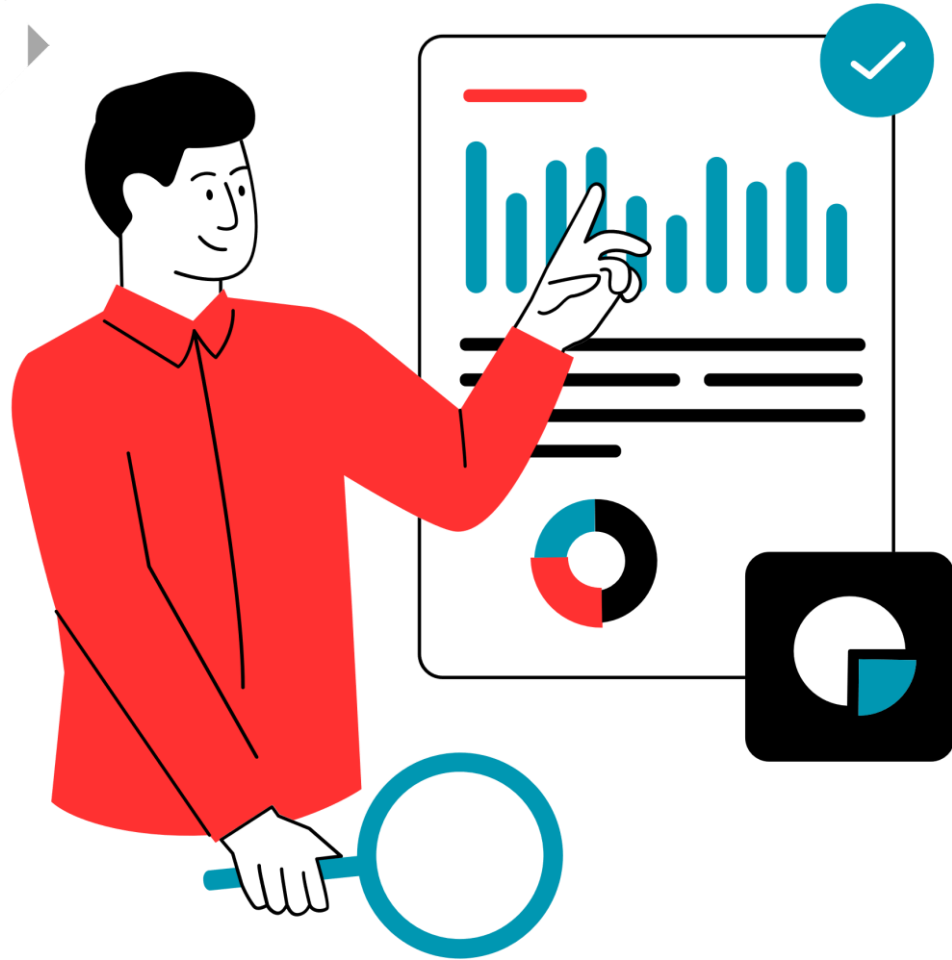
Corporate
Professionals



BUYBACK

As a Strategic Decision

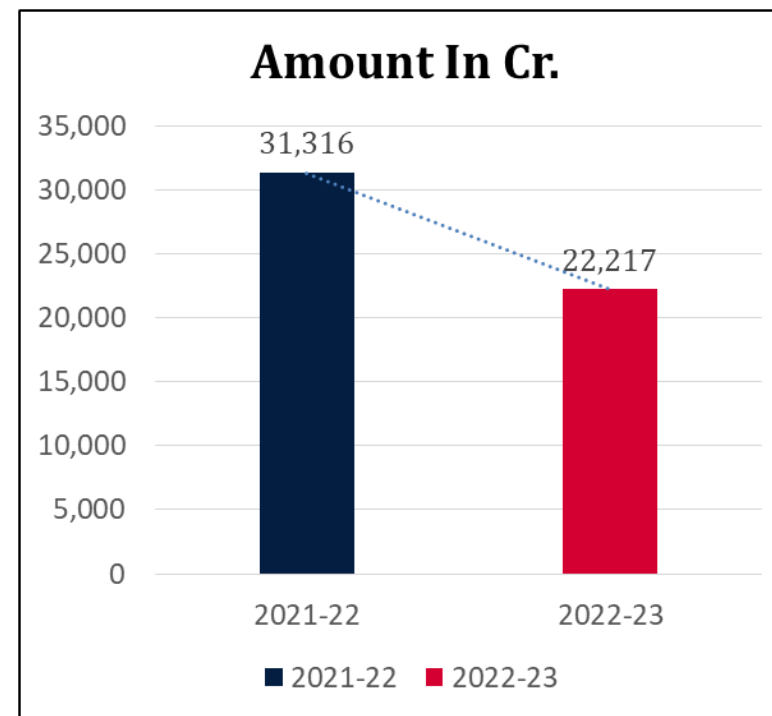
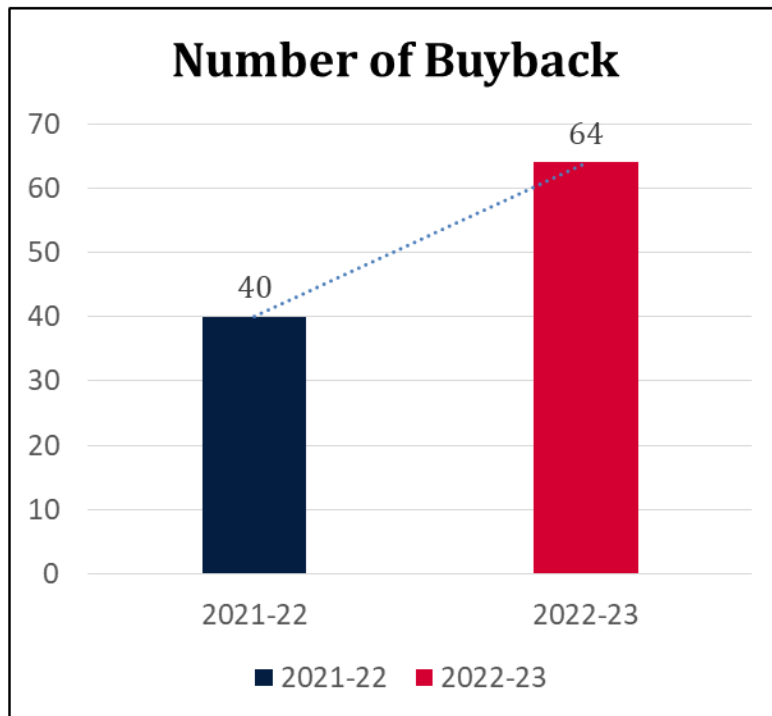
What Is Buyback?



A BUYBACK:

- also known as a **share repurchase**;
- when a **company buys its own outstanding shares**;
- to **reduce the number of shares** available in the open market.

Number of Buyback during last 2 years



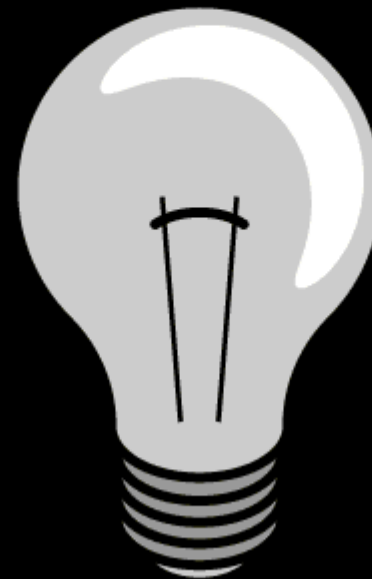
Some Recent Buybacks

Company Name	Buyback price (Per Share)	Market Price as on BM	Premium %	Issue Size - Amount (Cr)
Symphony Limited	2,000	1,047.30	90.97	200
VRL Logistics Limited	700	520.45	34.50	61.25
Sportking India Ltd	950	708.60	34.07	55.1
SMC Global Securities Limited	115	86.55	32.87	75
TeamLease Services Limited	3,050	2,328.15	31.01	100
Godawari Power & Ispat Limited	500	388.00	28.87	250

Some Recent Buybacks

Company Name	Buyback price (Per Share)	Market Price as on BM	Premium %	Issue Size - Amount (Cr)
Windlas Biotech Limited	325	253.55	28.18	25
VLS Finance Limited	200	160.45	24.65	70
Emami Limited	450	362.00	24.31	186
Natco Pharma Limited	700	568.00	23.24	210
Abirami Financial Services (India) Limited	28	22.78	22.91	1.68
Ajanta Pharma Limited	1,425	1,215.65	17.22	315
KDDL Limited	1,200	1,067.70	12.39	21

WHY BUYBACK??



Why Buyback



- » **Improve Financial Ratios.**
- » To support the falling Market Price.
- » To provide **liquidity** to the investors.
- » To provide an additional **exit route** to shareholders when shares are **undervalued or are thinly traded.**
- » To enhance consolidation of stake in the company.

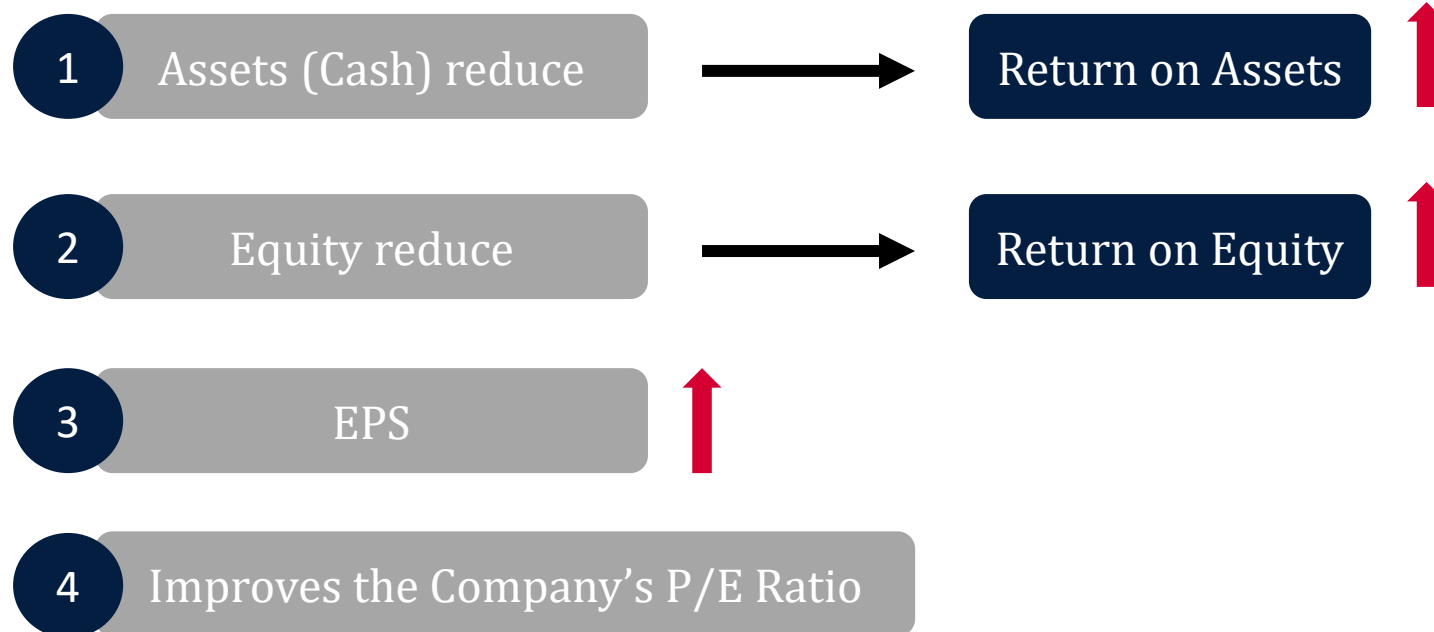
Why Buyback

- » Tax impact is less than Dividend.
- » To return surplus cash to shareholders.
- » To achieve optimum capital structure.
- » To service the equity more efficiently.



Why Buyback

Improving Financial Ratios



Key Reasons behind Buyback

**Shareholding
Consolidation**



**Tax
Efficient**



**Provides
Liquidity**



Impact on Balance Sheet



Capital reduce by face value



Reserves reduce by the premium value of Buyback and amount to be transferred to CRR

Impact of PIT regulations



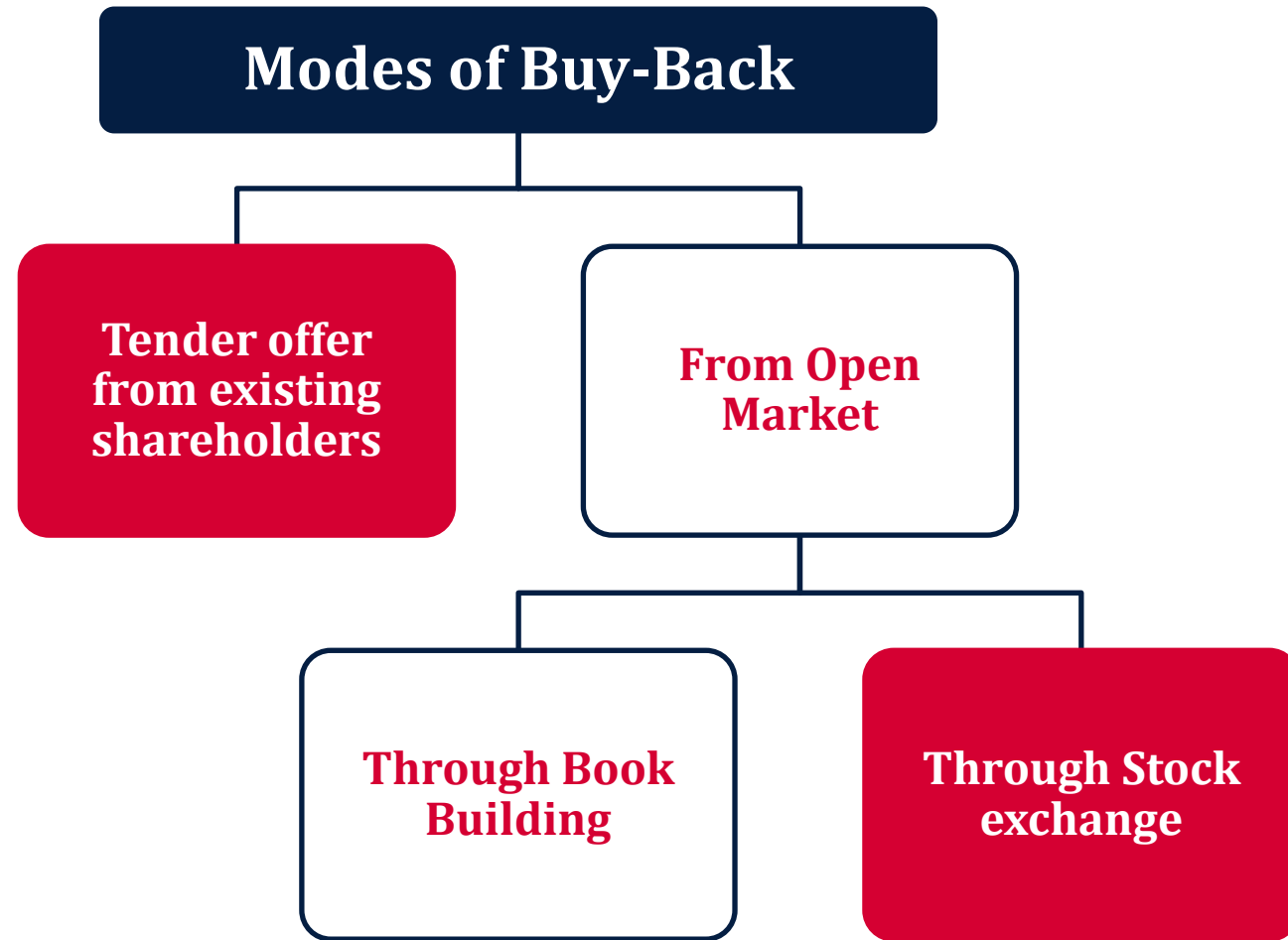
Impact of SAST Regulations



Legal Framework of Buyback



Modes of Buyback



Modes of Buyback

Particulars	Buy Back through tender offer	Buy Back through Open Market		Remarks
		Through Stock Exchange	Book Building	
Promoter Participation	✓	×	×	Only tender offer method allows promoter to participate in Buy Back Offer
Board Resolution or Shareholder resolution	✓	✓	✓	Depending upon the quantum of Security to be bought back
Public Announcement	✓	✓	✓	
Draft Offer Document to SEBI/ SEBI Approval	×	×	×	Requirement of review of draft letter of offer by SEBI is removed
Fixation of Record Date	✓	×	×	
Final Letter of offer to be sent to Shareholders	✓	×	×	Public announcement shall disclose that letter of offer to be dispatched electronically within 2 working days from the record date.

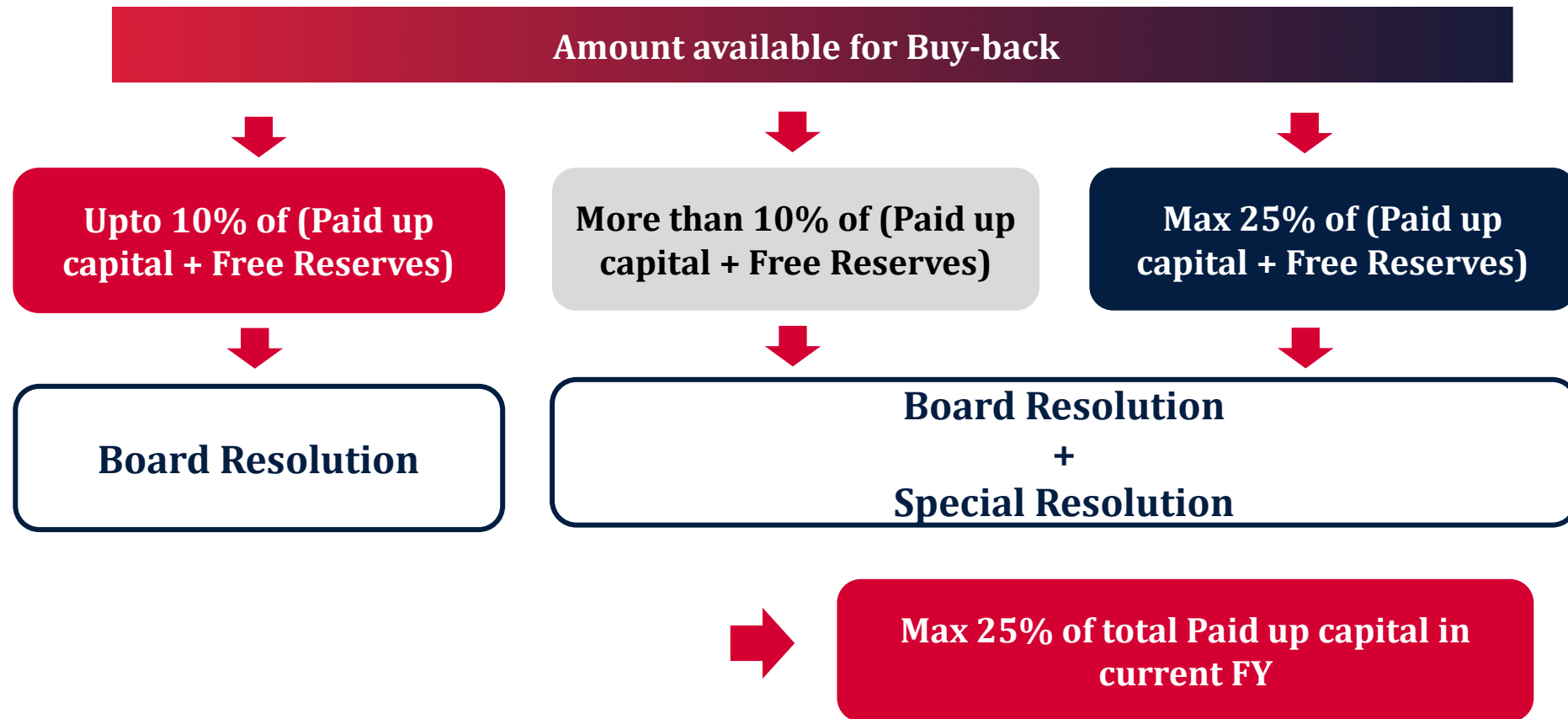
Modes of Buyback

Particulars	Buy Back through tender offer	Buy Back through Open Market		Remarks
		Through Stock Exchange	Book Building	
Tendering period	5 working days	Time period for completion of buyback -6months w.e.f April 01,2023- 66 working days w.e.f. April 01, 2024- 22 working days w.e.f April 01, 2025- Will not be allowed	15-20 working Days, as per revised mechanism notified.	This mode would be eradicated in a phased manner.
Offer Opening Date (4 working days from record date)	✓	✓	×	The offer opening date has been reduced from “5 working days from the date of dispatch of L00” to 4 working days from the record date.

Modes of Buyback

Particulars	Buy Back through tender offer	Buy Back through Open Market		Remarks
		Through Stock Exchange	Book Building	
Requirement of separate trading window	✓	✓	✓	
Reservation for small shareholders	✓	×	×	15% of number of securities proposes to buyback or securities entitled as per their shareholding whichever is higher to be reserved.
Revision in Buyback price	✓	×	×	Revision in the offer price till one day prior to opening of offer allowed
Obligation	No obligation as to offer completion	75% of the Amount mentioned in the resolution shall be utilized for the buyback & minimum 40% to be utilized within the initial half of the specified duration.		

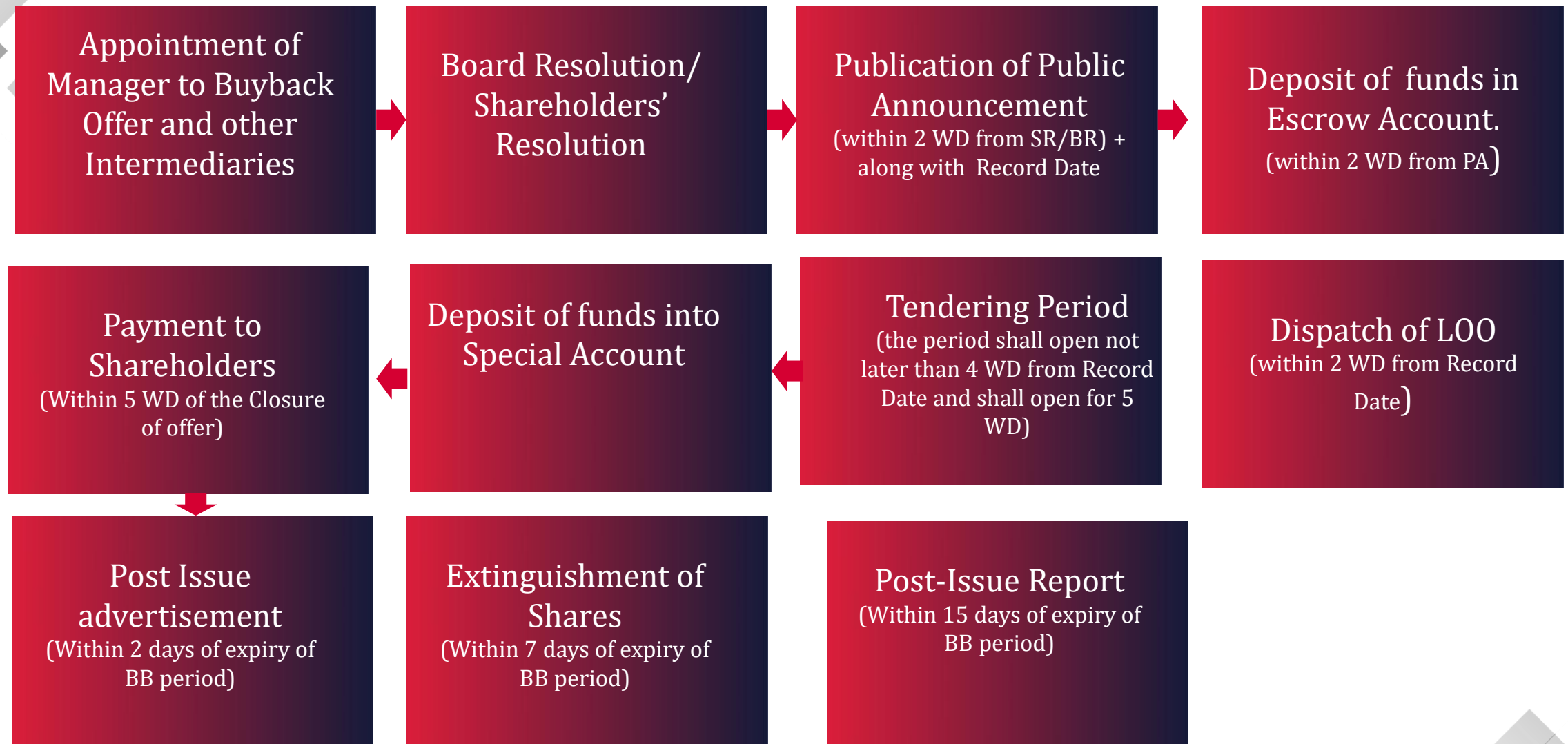
Quantum of Buyback



In case of Buyback through Open Market the maximum limit on amount available for buyback is

- ✓ 15% of the paid up capital and free reserves of the company till March 31, 2023;
- ✓ 10% of the paid up capital and free reserves of the company till March 31, 2024; and
- ✓ 5% of the paid up capital and free reserves of the company till March 31, 2025.

Steps involved in Buyback Through Tender offer



Steps involved in Buyback Open Market



Amendments in Buyback Regulation



GENERAL

- Introduction of definition of '**Frequently traded shares**' and '**Secretarial Auditor**'.
- Clarification in calculation of limits for buyback.
- Prior consent of lenders to be obtained.
- Escrow account shall be opened within two working days of the public announcement.



Amendments in Buyback Regulation



BUYBACK THROUGH TENDER OFFER

- Allowed upward revision in Buyback.
- No SEBI Approval.
- Reduction in time period of tendering period.
- The extinguishment certificate shall be signed Secretarial Auditor instead of Statutory Auditor.

Amendments in Buyback Regulation



BUYBACK THROUGH OPEN MARKET

- Companies with **frequently trading shares** can come out with a buyback through stock exchanges.
- **This method of buyback shall be eradicated in a phased manner** with effect from April 1, 2025.
- **Instead of 50% now 75% of the amount earmarked for buy-back** shall be utilized mandatorily.



Amendments in Buyback Regulation



BUYBACK THROUGH OPEN MARKET

- Minimum 45% of the amount earmarked is to be utilized within the initial half of the specified duration.
- Separate window to be obtained.
- The extinguishment certificate shall be signed Secretarial Auditor instead of Statutory Auditor.

Amendments in Buyback Regulation

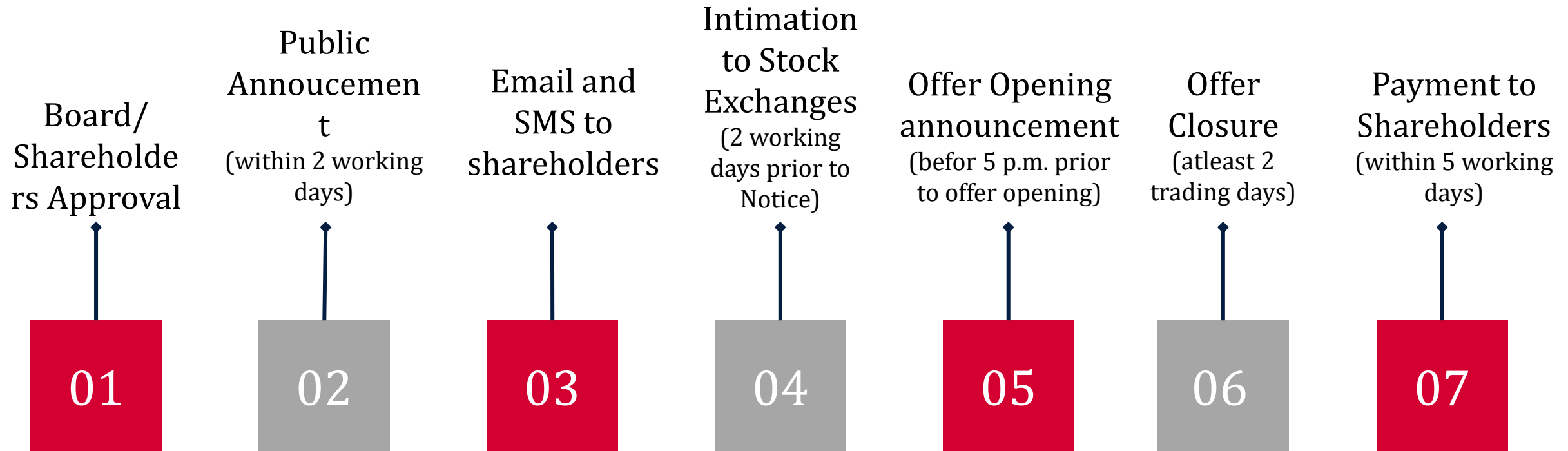


BUYBACK THROUGH BOOK BUILDING

- The process for buyback through Book building process have been completely revamped.
- Promoters along with their associates cannot participate in buy-back through book building.



Amendments in Buyback Regulation



BUYBACK AS A STRATEGY - MANAGEMENT PERSPECTIVE & DECISION POINTS



Buyback Price and Quantum

PRICE

As per the market trend, the companies came up with buyback at an average of 25% premium from the market price, however some companies gives 80% to 90% premium.

QUANTUM

Future Capex,
Capital Consolidation,
Expected future stability and
Tax Factors

Should promoters participate or not?

- Promoter's confidence in the company.
- Company's future earning capacity.
- Future growth plan of the company.



Frequency of Buyback

One Time	Frequent Buybacks	Within 1-2 years of listing
Bajaj Auto Ltd	Balrampur Chini Mills	One 97 Communications Ltd
Filatex India Limited	Wipro Limited	Windlas Biotech Limited
Bharat Rasayan Limited	Aarti Drugs	
Indian Toners & Developers Limited	Tata Consultancy Services	
	Jagran Prakashan	
	Infosys	

Buyback Tax Impact



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

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.



Buyback | Dividend | Bonus
**As a way of returning value to the
shareholders**

Buyback | Dividend | Bonus

Basis	Bonus	Dividend	Buyback
Impact on Reserves	Capitalization of reserves	Giving off reserves	Giving off reserves
Capital	Increase	No Change in Capital	Decrease
Cash outflow	No	Yes	Yes
Taxation	LTCG/ STCG	Slab Rate	Effective tax rate: 23.3%, to be paid by the Company
Non traceable shareholders	Abeyance and IEPF	IEPF	No impact
Price adjustment	As per Bonus Ratio	Dividend Value	No adjustment

Buyback as a Method to return value

- If we think as a perspective of Company then Buyback has its own benefits as well as hurdles.
- Dividend virtually serves no other benefits while Buybacks are more tax efficient, supports trading volume, improves Return ratios and helps consolidation of Capital and shareholders base of the Company. But procedurally dividend is smoother as it involves no Regulatory approvals, multiple documents filing, appointment of intermediaries.
- One More benefit is that Buyback draws more media attention as compare to Dividend.

Buyback as a Method to return value

Although the calculation of the change in EPS is of interest for Company, it is not an indicator of value creation.

The real issue is not whether a capital decrease will mechanically dilute earnings per share, but:

- whether the price at which the shares are repurchased is less than their estimated value;
- whether the Cash utilised towards buyback will translate into better performance as compared to where they were invested; and
- whether the marginal rate of return on the funds returned to shareholders by the buyback was less than the cost of capital.

These are the three sources of value creation in a capital decrease.

Is buyback biased in category of shareholders

There is no litmus test to it and a very subjective decision. Though Buyback as a strategy for returning value to investors is totally unbiased and well through legislations by Indian Bourse's regulator SEBI allows no room for unfairness with Small Shareholder. They even have reservation of 15%. But yes many companies which use Buyback for certain hidden objectives like :

Announcing Buyback just for market goodwill but ending up buyback at very less premium or a very low CMP instead of declarina high premium in offer letter.



SOME MYTHS AROUND BUYBACKS



Does buyback reflect that company has no use of its surplus funds/ is not doing well?

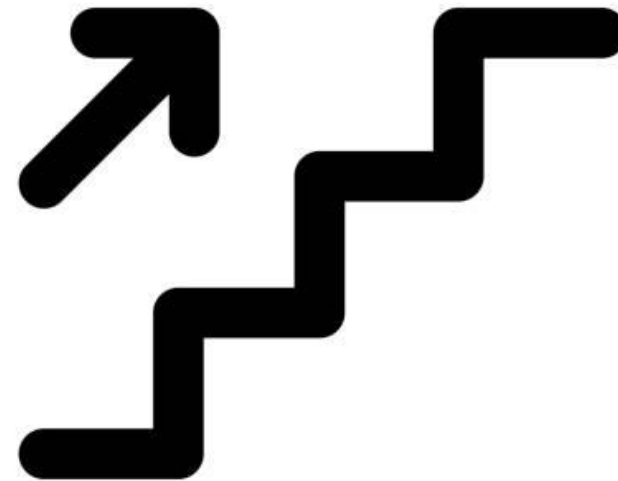
NO, NOT AT ALL!!

- It has been observed that mostly companies use part of their reserves towards Buyback which is at max 25% of its Networth. And are also doing CAPEX in following years for expansion of Business.
- These companies have growth forecast for business and also do reinvestment in the business with a view to distribute returns to its valuable shareholders.
- In a period of April 2020 to March 2022 there were approximately 64 Buybacks through Tender Offer. Out of these companies approx. 35 companies have made Capex on an average of 17%.

Buyback is done only to increase the promoter's holding?

NO, NOT AT ALL!!

- Although Buyback is used as a Shareholding consolidation Corporate Strategy many a times by Companies but that's not the sole objective.
- In the Tender Offer Buybacks, Promoters themselves also participate, along with other shareholders.





Thank You

