



**Corporate
Professionals**
WHERE EXCELLENCE IS LAW

20
YEARS OF EXCELLENCE

BUYBACK OF SHARES

–Perspective and Determinant–

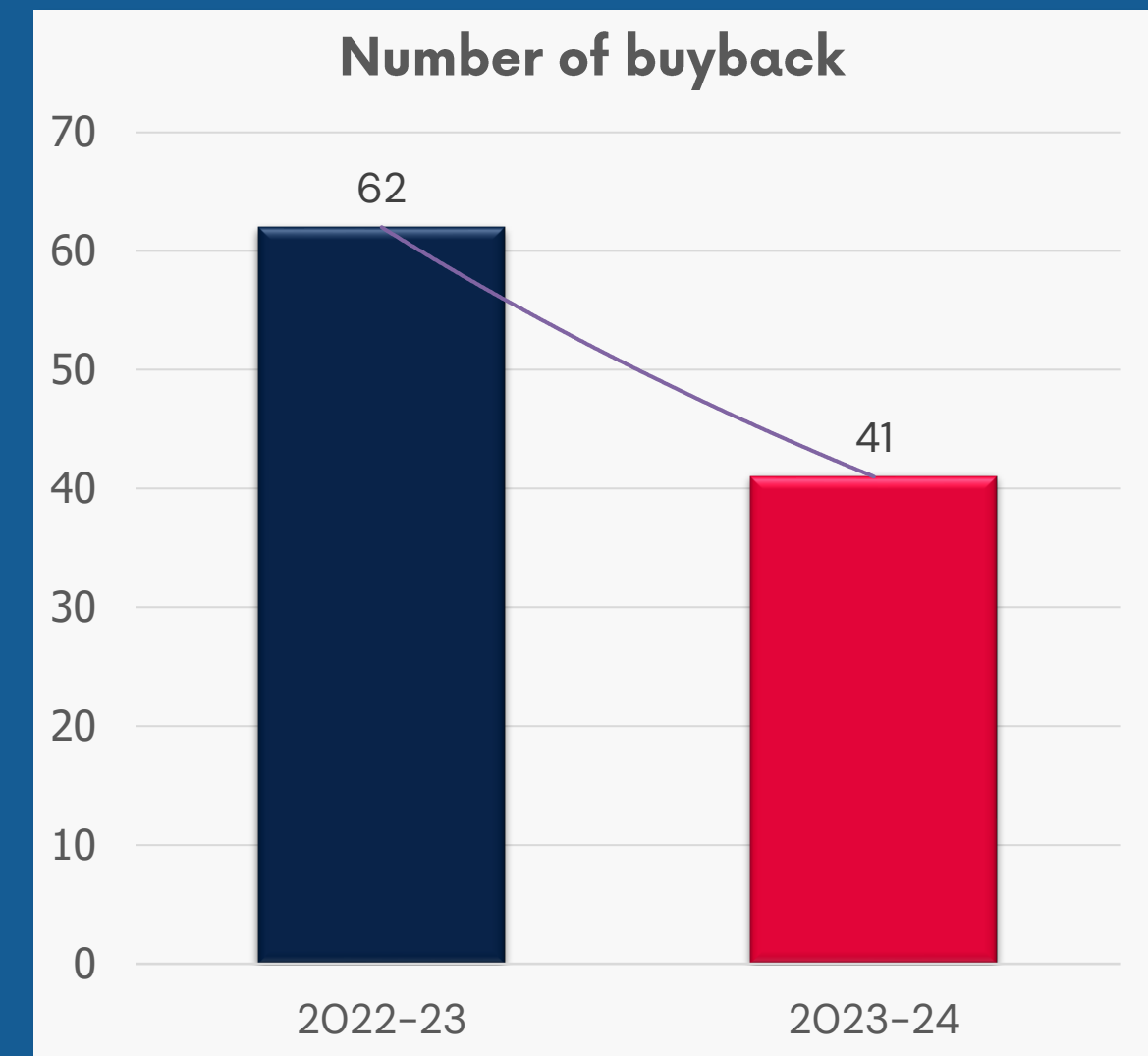
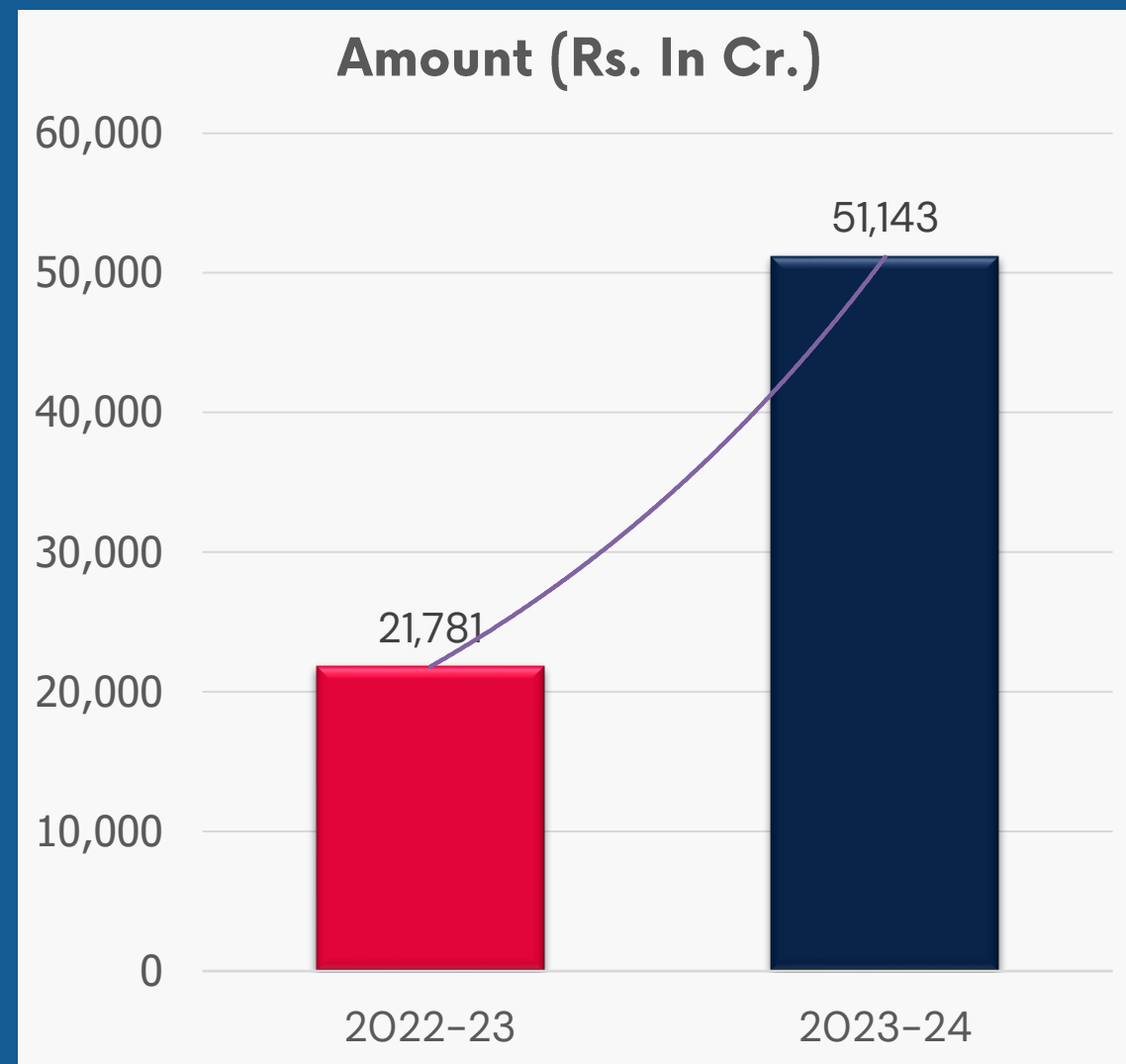


MEANING OF BUYBACK



BUYBACK TREND

Last 2 Years



RECENT BUYBACKS

April 2024 to May 2024

S. No.	Name of the Company	Buyback Type	Issue Opening Date	Issue Closing Date	Issue Size (Amount in crores)
1	Freshtrop Fruits Limited	Tender offer	April 08, 2024	April 16, 2024	33.69
2	Tips Industries Limited	Tender offer	April 26, 2024	May 03, 2024	37.19
3	Ajanta Pharma Limited	Tender offer	Not disclosed yet	Not disclosed yet	285



“The Tough DECISION”



FUND UTILIZATION

(To Retain or Distribute)



DECISIVE FACTORS OF COMPARISON FOR FUND UTILIZATION

01

Financial Health
Assessment

02

Evaluation of
Investment
Opportunities

03

Analysis of
Market
Conditions

04

Understanding
Shareholders
Expectations

05

Examination of
Tax Implications

06

Consideration
of Cost of
Capital

07

Risk
Management
Considerations

08

Alignment with
Corporate
Strategy



WAYS OF RETURNING VALUE TO THE SHAREHOLDERS



BUYBACK



DIVIDEND



BONUS



BONUS | DIVIDEND | BUYBACK

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	Tax is payable by the Company; Exempt for shareholders
Non traceable shareholders	Abeyance and IEPF	IEPF	No impact
MP adjustment	As per Bonus Ratio	Dividend Value	No adjustment



IS BUYBACK AN ALTERNATIVE TO DIVIDEND

No. Both are independent Corporate Actions.

#Buybacks are more tax efficient, supports trading volume, improve Return ratios and help consolidation of Capital and shareholders base of the Company.

Procedurally dividend is smoother as it involves no Regulatory approvals, multiple documents filing, appointment of intermediaries.

Buybacks draws more media attention as compared to Dividend.

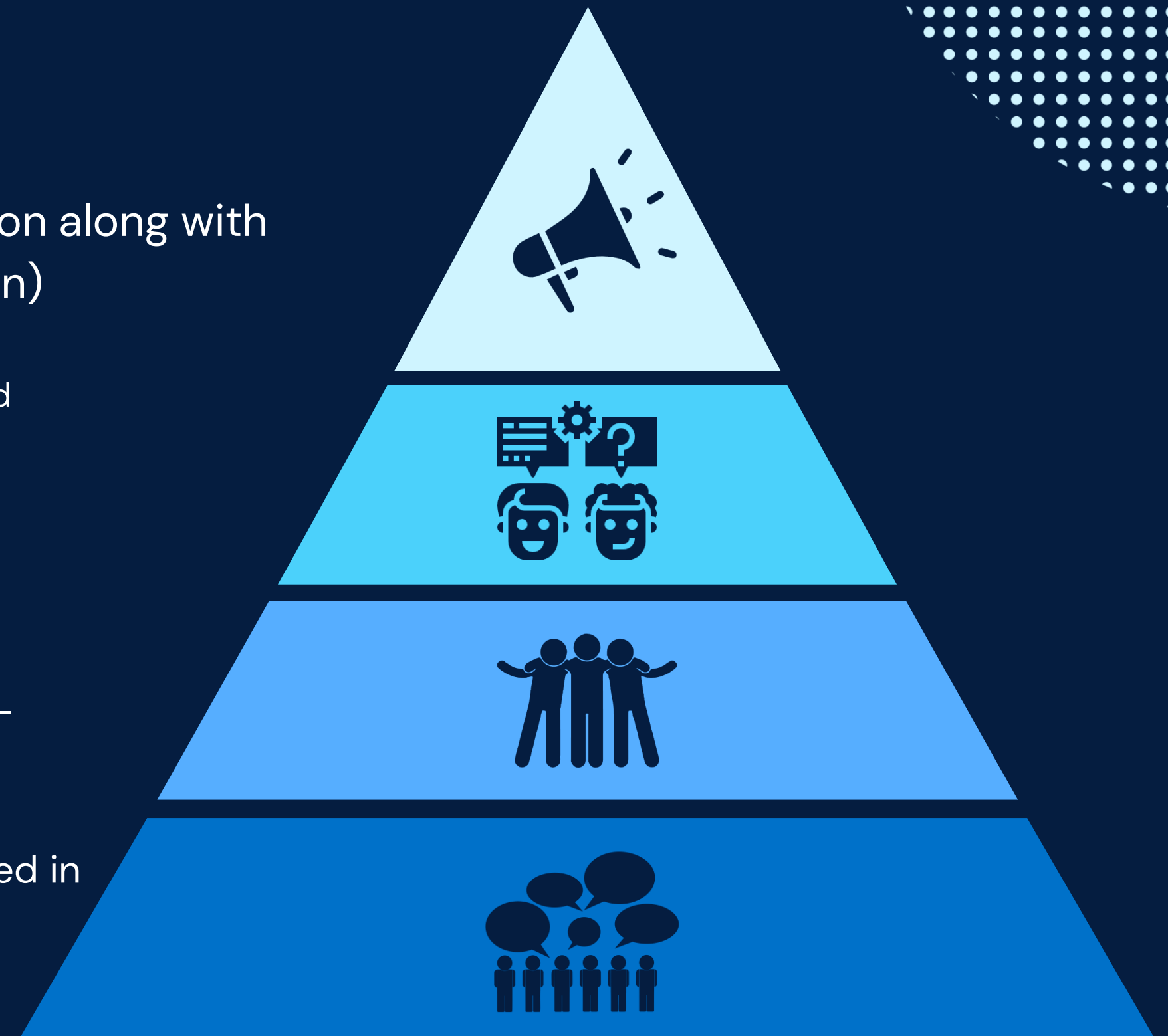


COMPOSITE FUND DISTRIBUTION

-Buy Back and Dividend

Many companies opt for dividend declaration along with Buyback offer. (Composite Fund Distribution)

- 01 Distribution of Tax Impact between company and shareholders.
- 02 Signal of Financial Strength.
- 03 Catering both income-oriented vs. growth-oriented investors.
- 04 Ensuring not all unclaimed funds are blocked in IEPF.



WILL BUYBACK REALLY LEAD TO VALUE CREATION?



- By virtue of reduction in number of shares, the EPS goes up, but, it is not an indicator of value creation.
- It does not lead to any change in the Share's intrinsic value.

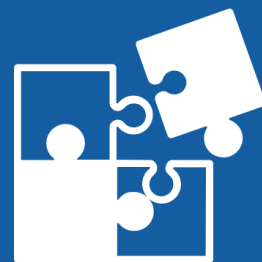
TRUE VALUE INDICATORS ARE:



- It gives a signal of what the management really thinks about the company's prospects.
- Whether the Cash utilized towards buyback will translate into better performance as compared to its present usage.
- Whether the cost of funds utilized in buyback is more or less than the benefits derived out of buyback.



Impact on Shareholders and their Value



DIVIDEND YIELD

Buybacks can increase the dividend yield for existing shareholders by reducing the number of shares outstanding.



TOTAL RETURN

When executed at the right price, buybacks can enhance total shareholders return by boosting the EPS and signaling a better stock price.





MARKET SENTIMENTS

VIS A VIS

BUYBACK NEWS



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



Companies have growth forecasts for business and also do reinvestment in the business with a view to distribute returns to its valuable shareholders.



Buyback is restricted to only maximum of 25% of Company's Networth.



A Company announcing Buyback, is left with ample funds to do CAPEX as well, for expansion of Business.



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



Buyback as a corporate action is determined by varied factors.



Consolidation of Promoters' holding is not the sole objective of a Buyback.



In the Tender Offer Buybacks, Promoters themselves also participate, along with other shareholders.



Is buyback biased to any category of shareholders



Buyback remains a totally unbiased corporate action.



In an Open market BuyBack & Book Built BuyBack, all public shareholders can participate.



.In a Tender Offer, even the Promoters can participate.



Surely gives all shareholders an equal opportunity to be a part of the Value return band wagon.



In SEBI Regulations allow no room for unfairness with Small Shareholders. They even have reservation of 15%.



IMPACT OF BUYBACK



IMPACT ON BALANCE SHEET

Pre-Buyback Balance sheet			
Liability	Amt.	Asset	Amt.
Capital 10,000@10	1,00,000	Cash	40,000
Reserve	50,000	Bank	1,10,000
–	–	–	–
Total	1,50,000	Total	1,50,000

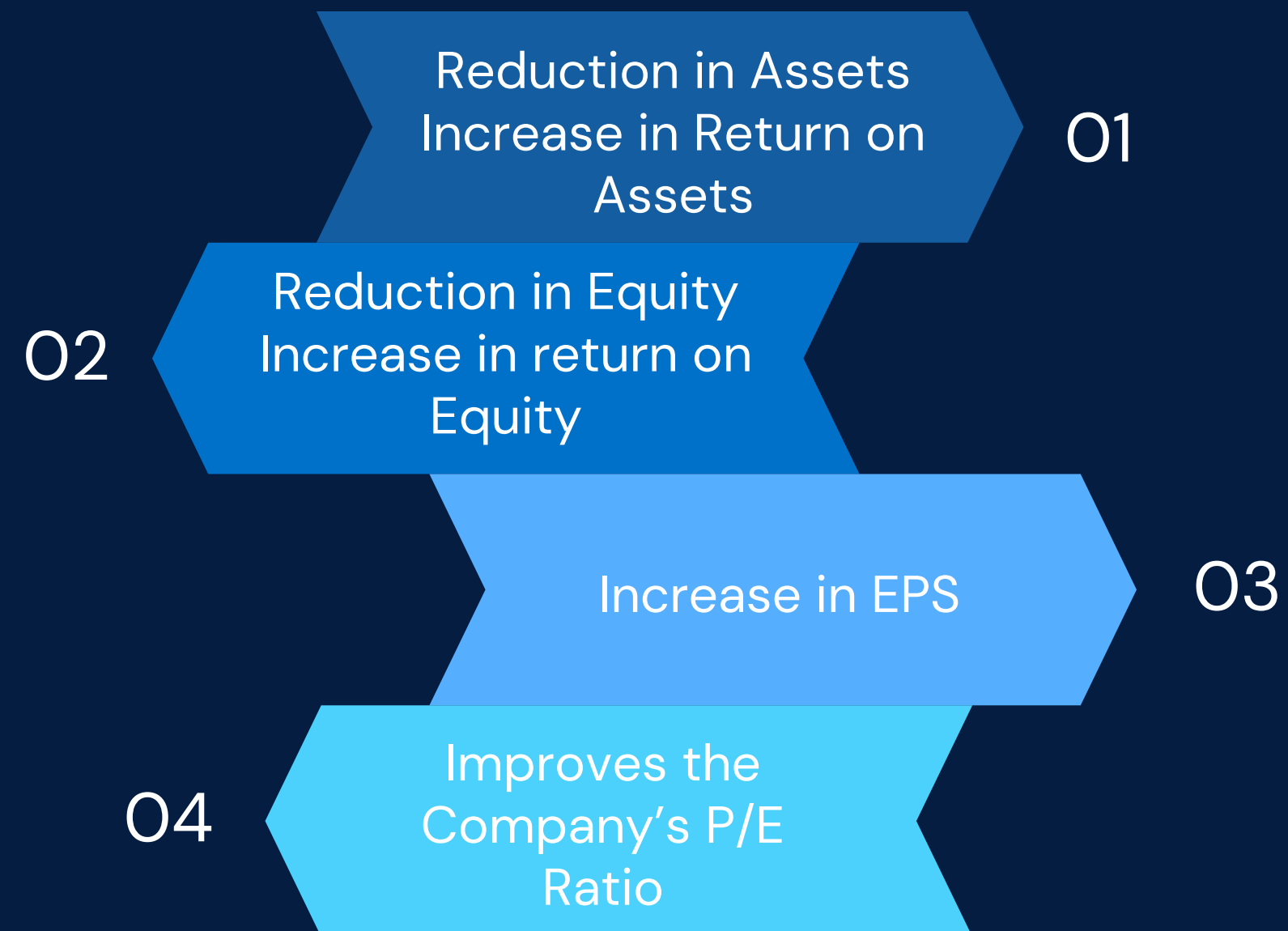
*Buyback of
2,500 shares
of Rs. 10/- at
Rs. 20/- each.
i.e., Buyback
size Rs.
50,000/-*

Post Buyback Balance sheet			
Liability	Amt.	Asset	Amt.
Capital 7500 @10	75,000	Cash	40,000
Reserve	–	Bank	60,000
CRR	25,000	–	–
Total	1,00,000	Total	1,00,000

Size of Balance sheet reduces by the amount of Buyback.



FINANCIAL IMPACT



OWNERSHIP CONCENTRATION/ CONSOLIDATION OF SHAREHOLDING/ SHAREHOLDER ACTIVISM

- Buybacks improve ownership concentration among existing shareholders.
- Companies may use buybacks as a defensive strategy against activist investors seeking to influence corporate decisions.



IMPACT OF BUYBACK ON A COMPANY WITH STOCK MARKET PERSPECTIVE

Positive
Market
Reaction



Stock
Price
Support



MARKET RESPONSE, AS PER TYPE OF INVESTORS

EXAMPLE: Different reaction by different type of investors for Buyback of Paytm @ Rs. 810/-

- **IPO Allottees** – having acquisition price of Rs.2150/-
- **Buyback seekers** – who time their entry and exit strategically
- **New Investors who entered** – below Buyback price
- **Growth seekers** may to stay with the Company and prefer not to participate in Buyback
- **Income seekers** : to generate present income through BB/ Dividend and exit



SUITABLE TIME FOR BUYBACK



When the price of the company's stock is low in the market.



Volatility in the market

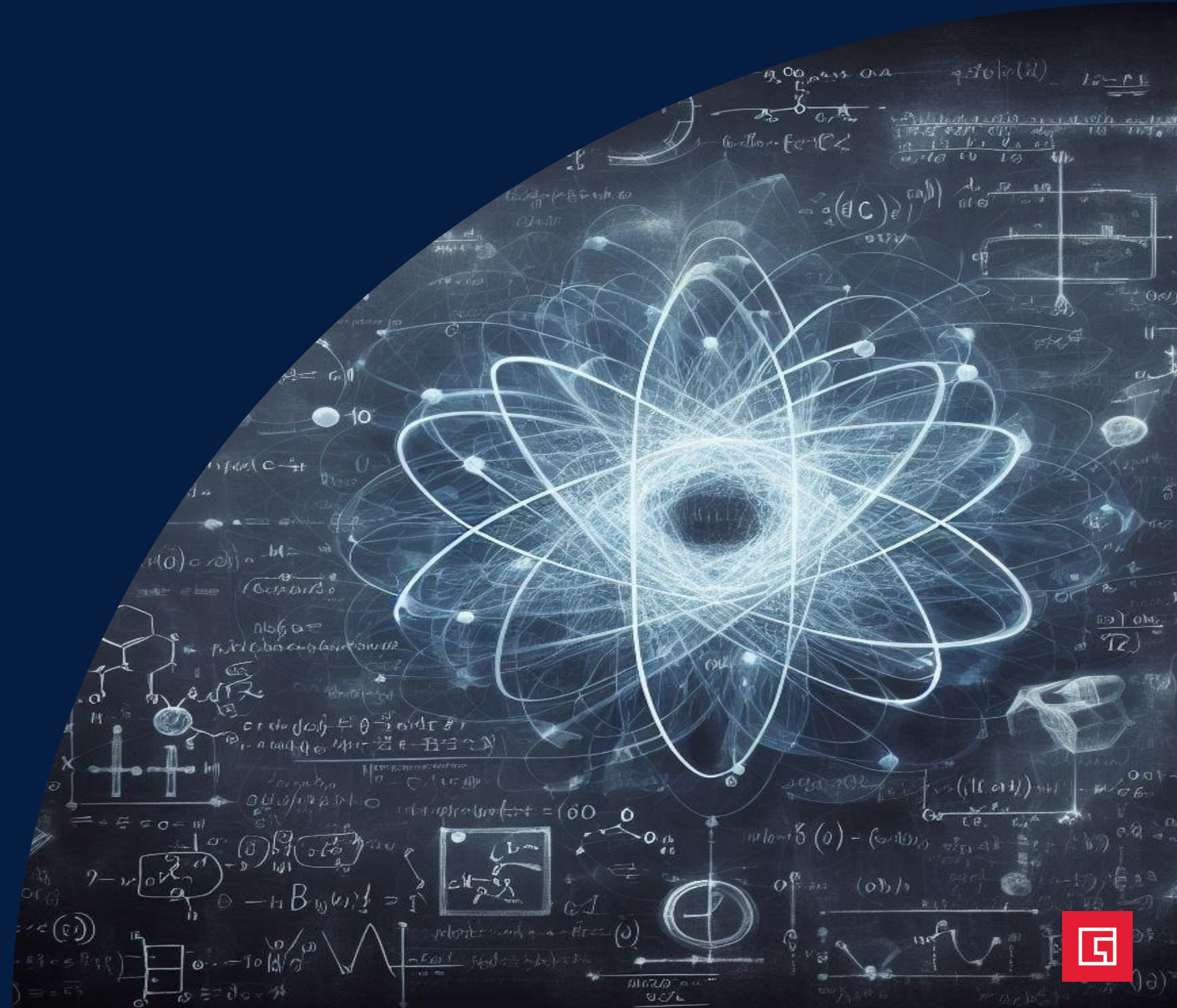


After closing of financials (Annual / Half year)

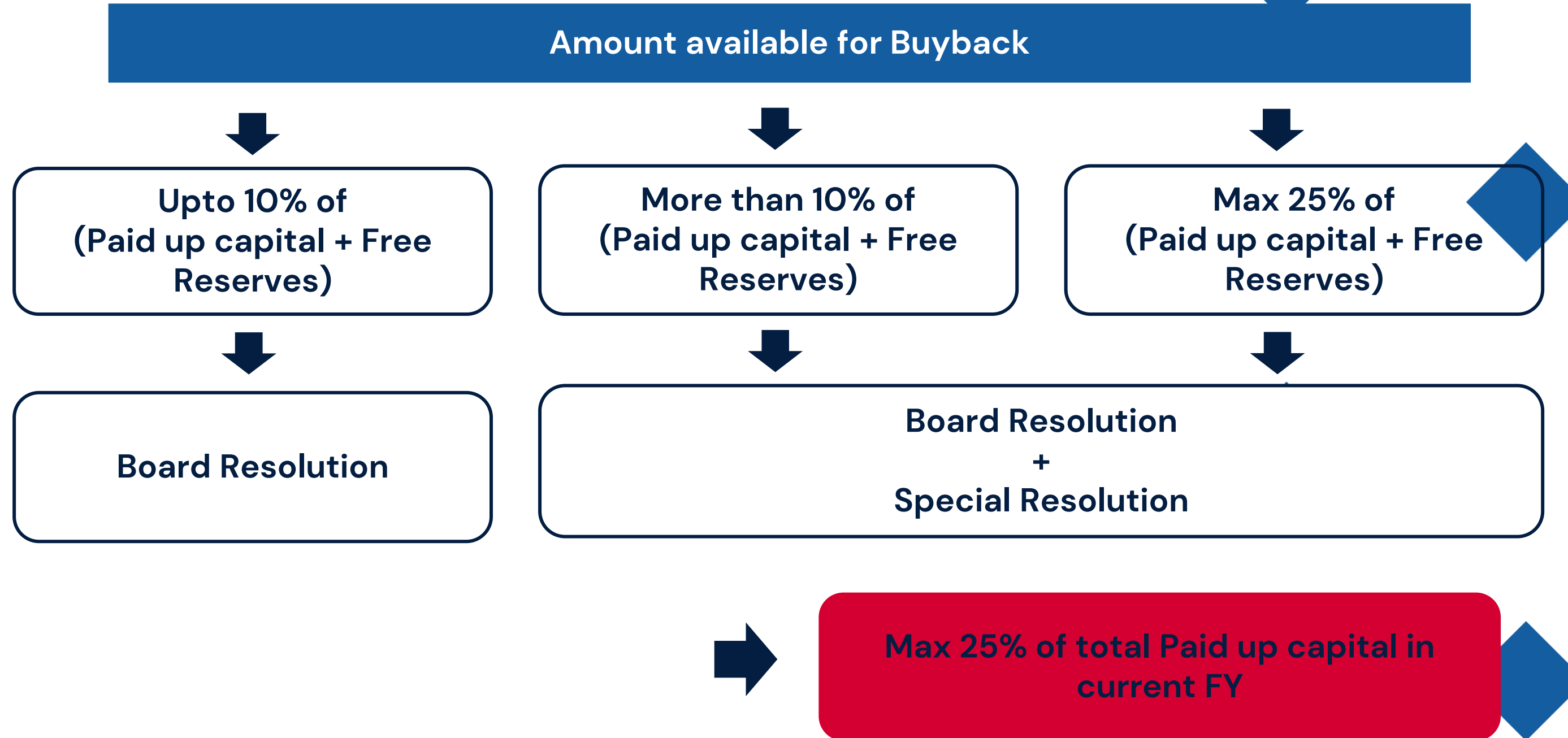
MODES & PROCESS OF BUYBACK



Quantum PERMISSIBLE



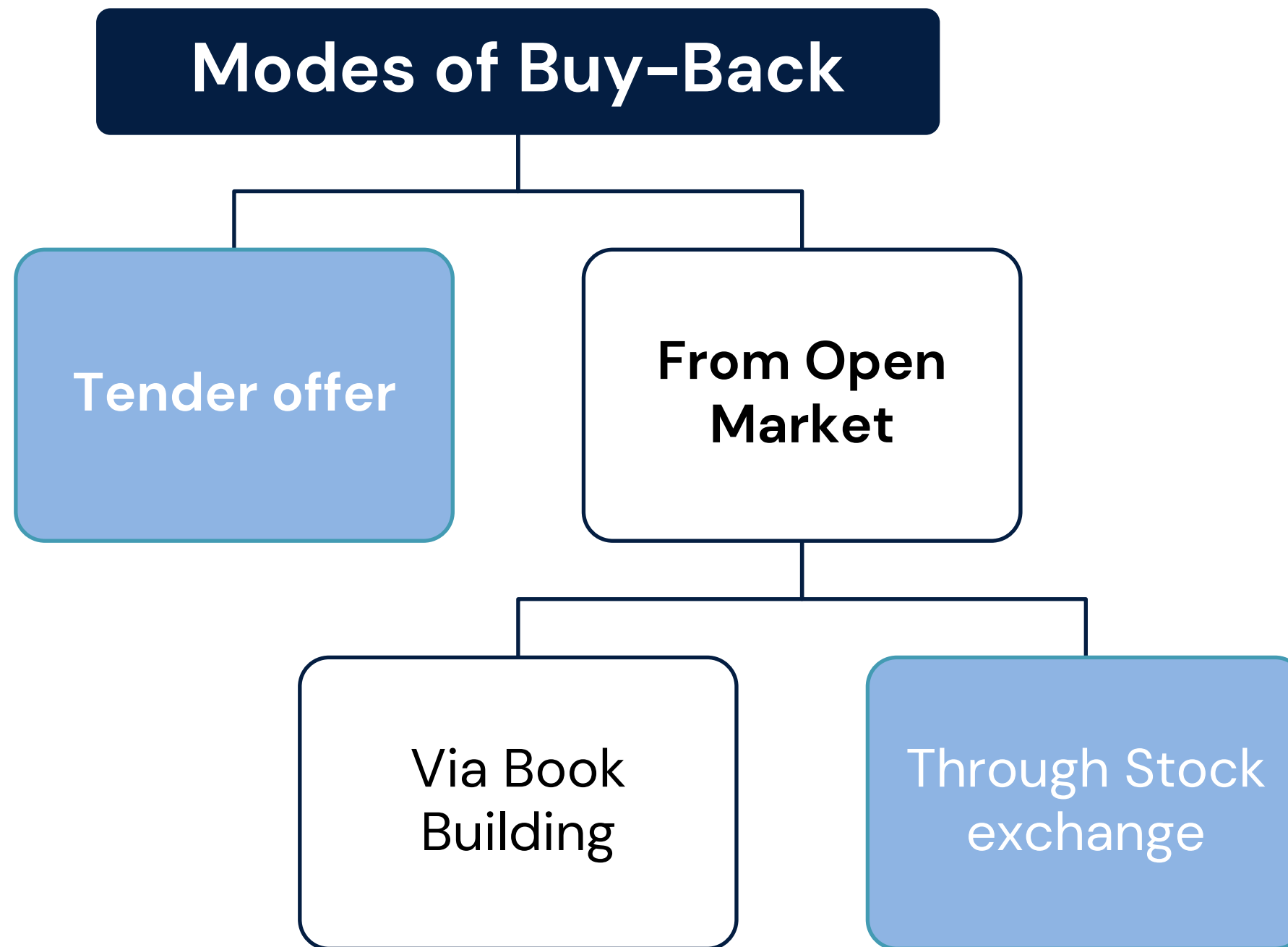
QUANTUM OF BUYBACK



In case of Buyback through Open Market the maximum limit on amount available for buyback is 5% of the paid up capital and free reserves of the company till March 31, 2025.



MODES OF BUYBACK



Promoters can participate only in a Tender Route Buyback

In Tender Offer, 15% of the number of securities which the company proposes to buy-back, shall be reserved for small shareholders, but in Open Market, no such reservation



BUYBACK PRICING

Tender Offer

Under Tender Route the Buyback is freely priceable, which is generally at a premium to the running market price.

Open Market

Here a maximum price is to be given which generally at premium of Running Market Price, though Buyback is done on daily basis at daily market prices.

Book Built

An Upper End and a Lower End of the Price Range is to be provided, considering the Co. is frequently/In-Frequently traded.

And final price shall depend upon the price discovered through the bids received



TIMELINE



PROCESS CHART – TENDER ROUTE

01

Appointment of
Manager to Buyback
Offer and other
Intermediaries

02

Board Resolution/
Shareholders' Resolution

03

Publication of Public
Announcement

04

Deposit of funds in Escrow
Account.

08

Payment to
Shareholders

07

Deposit of funds into Special
Account

06

Tendering Period
(5 WD)

05

Dispatch of LOO

09

Post Issue advertisement
(Within 2 days of expiry of BB
period)

10

Extinguishment of
Shares
(Within 7 days of expiry
of BB period)

11

Post-Issue Report
(Within 15 days of expiry of BB
period)



PROCESS CHART – OPEN MARKET

01

Appointment of
Manager to Buyback
Offer and other
Intermediaries

02

Board Resolution/
Shareholders' Resolution

03

Publication of Public
Announcement

04

Procurement of Separate
Window from Stock Exchange

05

Commencement of
Buyback

06

Daily Settlement and
reporting during Buyback
period.

07

Board Meeting for Closure of
Buyback as per Regulation 17 –
approx. in 66 days
period/once it achieves the
maximum buyback size

08

Post Issue advertisement

09

Extinguishment of Shares

10

Post-Issue Report



PROCESS CHART – BOOK BUILDING

01

Appointment of
Manager to Buyback
Offer and other
Intermediaries

02

Board Resolution/
Shareholders' Resolution

03

Publication of Public
Announcement

04

Procurement of Separate
Window from Stock Exchange

05

Intimation to exchanges

06

Email and SMS to
shareholders 2 WD prior to
Identified Date

07

The Book Building shall
commence

08

Offer Opening Announcement
shall publish on the day of
commencement of BB
And shall remain Open for
Atleast 2 Trading Days

09

Payment of consideration shall
be completed

10

Post Issue advertisement

11

Extinguishment of
Shares

12

Post-Issue Report



TAX IMPLICATIONS IN A BUYBACK

- Only the Company is liable to pay buyback tax @ 20% on the distributed income + Surcharge + Cess on the differential price (BB price – Issue Price).
- Buyback proceeds are not taxable in the hands of the shareholders.



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 ?

$$\text{Distributed Income} = (\text{Buyback Consideration}) - (\text{Issue Price of such Shares})$$

Issue Price of Shares

- FIFO Method
- Issued on conversion of preference shares or bond or debenture etc.
- Issued without any consideration-Bonus Issue
- If there has been a Split of Face Value
- Issued pursuant to conversion from firm, sole proprietor to Company
- Shares issued pursuant to a Scheme of Arrangement.

THANK YOU

Connect with us.

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