

Dear All,

### **What is a Buyback ?**

A buyback, also known as a repurchase, is the purchase by a company of its outstanding shares that reduces the number of its shares on the open market.

#### **Companies buy back shares for a number of reasons, such as**

- To increase the value of shares still available by reducing the supply of them or eliminate any threats by shareholders who may be looking for a controlling stake
- A large cash surplus in the balance sheet. Ideally, too much cash on books is not considered financially healthy as it shows inefficiency in utilizing assets. A business needs to utilize its cash either to grow its capacity or grow inorganically through acquisitions. Cash that is not being reinvested is being under-utilized. A buyback is one way to make use of this surplus.
- The company may be reducing some of its dividend liability by buying back shares and reducing cost. Second, it could be a signal that there aren't any worthwhile investment opportunities for the company to increase capacity or through acquisitions
- Another reason is when a company feels the market value of its shares is below the discounted fair value. A buyback in such cases signals that the company itself is confident of its business and potential future value to investors.

Keep in mind though that buying back shares can improve the overall earnings per share as the number of shareholders reduce, but fundamentally the value of the business remains unchanged. There could be an accounting impact on financial metrics like return of equity, which measures the earnings, or net profit generated per rupee of equity capital, but that should not be seen as a reflection on the business operations.

#### **Increase in Buyback Offers in India over last 18 months- So, what is it that has prompted these companies to come out with offers for buyback of shares?**

Some listed companies have announced consideration of buyback of shares in April 2016. Buyback of shares has not been a common phenomenon till now. It is purely the

tax advantage of share buybacks, as against taxation of dividends, that has triggered this preference for buybacks.

The 2016 February Budget has changed the taxation of dividends. Besides the dividend distribution tax (DDT) of 20.90% payable on dividends by the company distributing them, the individual shareholder receiving dividends in excess of Rs.10 lakh will also have to pay a tax on such excess dividends at 11.85% (10% plus surcharge and cess, if the income exceeds Rs.1 crore). The dividends would, therefore, attract tax of almost 32.75%, which is about the same rate as any other income.

On the other hand, buybacks of shares can now be effected through the stock exchange route. Such buybacks are routed through share brokers on the stock exchange, and are, therefore, subject to securities transaction tax (STT). In case of listed companies, buyback of shares is subject to capital gains tax in the hands of the shareholder. Long-term capital gains on transfer of equity shares, on which STT is paid, where the equity shares have been held for more than 12 months, is exempt from tax. Similarly, short-term capital gains arising on transfer of equity shares, on which STT is paid, is subjected to tax at 15% (effectively 17.77%). The company does not pay any tax on such buyback of shares.

It is evident that the scales have been significantly tilted in favour of buyback of shares by listed companies, as against payment of dividends, on account of the recent changes in the tax laws.

### Recent Share Buyback Announcements

	HCL	Infosys	TCS	Wipro
Buyback Size in Crs	3,500	<b>13,000</b>	16,000	<b>11,000</b>
Expected Acceptance Ratio for Retail Shareholders	80%	<b>60%</b>	40%	<b>100%</b>
Actual Acceptance Ratio	67%	<b>??</b>	100%	<b>??</b>
Buy Back Price per share	1000	<b>1150</b>	2850	<b>320</b>
CMP	883	<b>893</b>	2489	<b>290</b>
Price at the time of announcement of buyback	852.35	<b>925</b>	2336	<b>290</b>
Buyback Premium	17%	<b>28.78%</b>	22%	<b>10.34%</b>

Reservation in Buyback for Retail Share Holder	15%	<b>15%</b>	15%	<b>15%</b>
No of Shares for Buyback in Crs	3.5	<b>11.30</b>	5.61	<b>34.375</b>
No of Shares in Buyback for Retail	0.53	<b>1.70</b>	0.84	<b>5.16</b>
No of Retail Shareholders as per last Annual report 31st March 2017	0.66	<b>2.87</b>	2.10	<b>1.02</b>

**Tendering shares in Buyback - Investors can invest in the retail lot (less than 2 lacs) as on the record date for Wipro (expected acceptance of 100%) and Infosys (expected acceptance of around 60% with a buyback premium of 28% offers adequate cushion from a steep fall in the share price)**

**Investors can also apply in multiple pan for allocating higher amount at a family level and tender the same in the Buyback offer.**