

State-run firms asked to buy back even when shares take a beating

Centre's move aimed at improving PSUs' stock performance

NIKUNJ OHRI

New Delhi, 16 May

The Union government has asked public sector undertakings (PSUs) to opt for buybacks even when their shares underperform, a move that would signal to the market that their stock is more valuable than its traded value.

Companies announce share buybacks as a means to reward the investors by offering to buy shares from them, generally at a higher price. This is done when the company's financial performance is good and it decides to utilise its excess capital on rewarding its shareholders, mostly the government, in case of PSUs.

However, PSUs have been told to opt for buybacks when their stocks take a beating, and are trading at a steep discount. Buying back shares would help PSUs in relinquishing such shares and reducing the number of outstanding shares in the market. This would improve its financial ratios, its earning per share as well as its share price.

"At times when shares of PSUs take a hit, they should consider buying back shares from the market. This would send clear indication that PSUs are not convinced with the valuation the market is offering," an official said.

The condition is one of the parameters for PSUs in the memorandum of understanding (MoU) they sign with the Department of Public Enterprises (DPE) as part of 'specific disin-



ILLUSTRATION: BINAY SINHA

FINANCIAL REWARD

No. of buybacks announced by private companies



BUYBACKS BY PSUs

FY20: MOIL

FY21: RITES, HPCL, KIOCL, NMDC, NTPC, EIL, GAIL, NALCO

FY22: MOIL

Source: primedatabase.com

vestment milestones'. This has been done to nudge PSUs to opt for buybacks to improve their financials and share price, and not just consider it as a reward for its shareholders even when share buyback attracts tax at the rate of 20 per cent.

However, such a move would impact PSUs' ability to adhere to the 25 per cent minimum public shareholding norm, as buyback would increase the government's shareholding in respective PSUs.

Sandeep Shah, managing partner at N. A. Shah Associates LLP, said the move would send a correct signal to the market. The ability to buy back shares would be

limited as many PSUs will not meet the minimum public shareholding norms post buyback, Shah said.

"However, PSUs may face constraints on raising capital for the next 12 months after completion of the buyback, as mandated by the current norms," said Shah.

In the last financial year, 39 private companies announced share buybacks while only one PSU — MOIL Ltd — announced buyback in FY22, according to data by primedatabase.com. In the past three financial years, 143 private companies announced share buyback as against 10 public sector peers, data showed.