Buybacks jump 2.6x this year as stocks take a tumble

51 companies have announced ₹37,519-crore buybacks so far

SUNDAR SETHURAMAN
Mumbai, 11 December

One97 Communications, the parent of Paytm, will soon join over 50 other listed companies to announce a stock repurchase programme in 2022. A sharp fall in stock prices over their 2021 highs has prompted many companies to launch buybacks.

The buyback tally this year is 2. 6x that of 2021's. So far this year, 51 companies have announced buybacks worth ₹37,519 crore. By comparison, 42 companies had announced buybacks worth ₹14,341 crore, according to data furnished by PRIME Database. The actual shares extinguished through buybacks in 2021 stood at ₹13,658 crore.

So far this year, shares worth ₹27,293 crore have been extinguished through share repurchases by companies. The tally is set to get a leg-up with the launch of the mega ₹9,300-crore buyback by Infosys on Wednesday.

Some companies that have completed their share repurchase programmes this calendar year include Tata Consultancy Services, MOIL —originally incorporated as Manganese Ore (India), Emami, and Bajaj Auto. Besides Infosys, buybacks of 10 other companies are currently active..

"Companies sometimes do buybacks to shore up their stock price. If the company has a certain amount of funds but does not need it for operations or capital expenditure, a buyback makes perfect sense," says Ambareesh Baliga, an independent equity analyst.

A buyback is carried out either through the tender route, where shareholders surrender their shares to the company in response to an offer received from it, or the open market (the company buys its shares in the open market).

Buybacks have gained popularity over the years as the preferred mode of returning cash to shareholders in a tax-effective manner, especially after the 10 per cent additional tax on dividend income came into effect in April 2017. The government then changed rules to make dividend income taxable in the recipient's hands. The government also introduced a tax on buybacks.

More than two-thirds of shares repurchased this year came from information technology (IT) companies. They are known to have high cash reserves, given their asset-light business model.

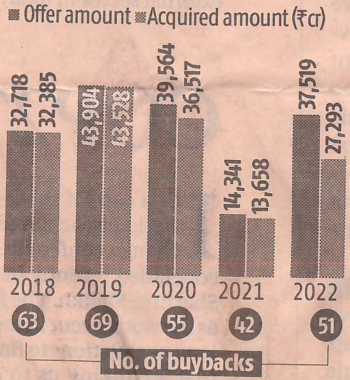
Analysts say IT companies had huge surplus cash that they were not able to deploy amid the present-day global uncertainty.

"Growth in IT companies in dollar terms is in single digits. It does not make sense to park funds in deposits or mutual funds where the return could be in single digits. When cash keeps growing, the overall return on capital gets suppressed," says Chokkalingam G, founder and managing director, Equinomics Research and Advisory.

The proposed buyback by Paytm has raised eyebrows as the company is yet to turn profitable. However, the company has said it has cash reserves of ₹9,182 crore.

Analysts have said as the company's stock price is available below its intrinsic value, a buyback will be a good tool to utilise reserve share capital. They have also said a buyback would demonstrate Paytm's confidence to become a free cash flow-generating firm.

ON THE RISE



Source: PRIME Database