₹48,000 cr share buyback in Dec highest in 6 years

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As much as ₹47,810 crore was spent on share buybacks by 48 companies in 2023 — the highest amount since 2017. This surge in value was largely driven by a few large-sized issues, including those by Tata Consultancy Services (₹17,000 crore), Larsen & Toubro (₹10,000 crore), and Wipro (₹12,000 crore).

In 2022, 58 companies had repurchased shares worth ₹38,305 crore, according to data from Prime Database.

Other prominent buybacks last year were those by Piramal Enterprises (₹1,750 crore), Hinduja Global Solutions (₹1,020 crore), Triveni Engineering & Industries (₹800 crore), and Gujarat Narmada Valley Fertilisers & Chemicals (₹653 crore).

TCS topped the buyback charts in 2023 as its bought back shares worth Rs 17,000 crore in December this year. It was followed by Wipro which spent ₹12,000 crore on buyback last calendar year.

In all TCS has cumulatively spent ₹83,000 crore on five share buybacks since 2017, while Wipro has cumulatively returned ₹45,500 crore to its shareholders through five buybacks since 2016. It is followed by Infosys which has cumulatively spent ₹39,760 crore on four buybacks since 2017.

In the same period, TCS has distributed ₹1.29 trillion by way of equity dividend, while Wipro has cumulatively spent Rs 6500 crore on equity dividend since March 2017. A buyback is a process that a company employs to repurchase its shares from stakeholders shareholders. The bought-back shares are extinguished and the company's equity base shrinks, enhancing its financial ratios, such as earnings per share and return on equity.

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Year	Number of buybacks	Reacquisition worth (₹ cr)
2017	50	55,274
2018	63	32,385
2019	69	43,528
2020	55	36,517
2021	42	13,658
2022	58	38,305
2023	48	47,810

Source: Prime Database

This process 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).

The improvement in financial ratio post share buybacks boosts company's equity valuation and its share price. For example, TCS' price to earnings multiple is up from average of 18.2X in FY 2016-17 to 27.8X in FY 2022-23 and 31.2X currently. There has been a similar valuation rerating in case of Wipro and Infosys.

Buybacks have become increasingly popular over the years. Cash-rich companies with high promoter holdings, especially, prefer buybacks over dividends to return excess cash to their shareholders. This is because, the overall income tax on buyback proceeds are lower than the tax on dividend income in the hands of shareholders. Any company that buys back its shares has to pay a buyback distribution tax (BDT) on 23.29 per cent of distributed income. Distributed income is calculated by deducting the consideration paid by the company on account of buyback from the amount received by the company for the issue of such shares.

"While the company is liable to pay BDT when purchasing its own shares, the receipt of the buyback price in the hands of shareholders is exempt. To avoid higher tax costs in the hands of individuals falling under higher income tax brackets, buyback proves to be more tax efficient. However, in the open market route, the tax treatment does not change for corporates; the income from buyback becomes taxable in the hands of shareholders," said Rajarshi Dasgupta, executive director and national head of tax, AQUILAW.

According to analysts, it is often beneficial for investors to tender shares during a buyback, as the offer is typically at a premium to the market price. "If a company is generating free cash flow and if it does not have any immediate need as far as expansion of capacity or getting into new lines of business is concerned, it can go for share buyback. Share buybacks are most often at a premium to the company's existing share price that provides a financial incentive for investors to tender a part of their shares during buyback. And the opportunity increases if promoters or a section of shareholders abstain from tendering shares," said U R Bhat, co-founder of Alphaniti Fintech.