second only to ₹55,000 cr in 2017, market rally a key catalyst, which lifts sentiment, say analysts

₹48,000 cr: India Inc's Buyback Bill in 2023

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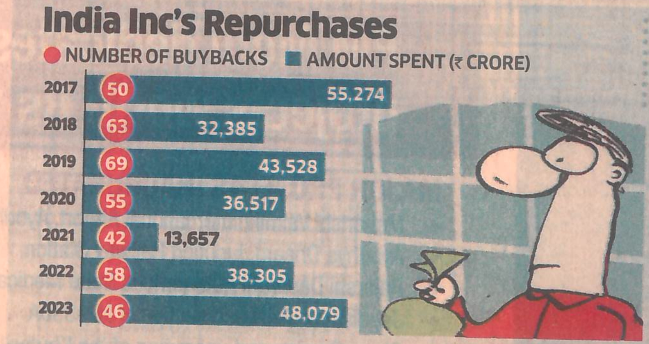
ET Intelligence Group: Last week, Bajaj Auto announced a ₹4,000 crore buyback — its second in two years. This is nearly 12% of the amount India Inc spent on buybacks in 2023.

Data sourced from Prime Database reveals that 48 companies spent ₹48,079 crore on buying back their stocks in 2023 — a year when the benchmark Nifty 50 appreciated over 20%. This is second only to the record of over ₹55,000 crore spent in 2017 when the benchmark index posted a return of 29%.



Top Spenders

Company	Buybacks in Past Decade	Amount Spent
TCS	Five	83,000
Wipro	Five	45,500
Infosys	Four	39,760
L&T	Once	10,000
NMDC	Three	9,906
HCL Tech	Two	7,500
NHPC	Three	5,584

(Fig in ₹ crore) Source: primeinfobase.com

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Like Apple in the US, TCS in India has spent the most on buying back its shares over the past decade. Through five buybacks between 2017 and 2023, India's largest IT company has cumulatively spent ₹83,000 crore — a little more than the total dividend the company paid in the last three fiscals. During this period, its stock price has appreciated 240%, outperforming the 150% gains made by the benchmark index.

Most companies that have gone for buybacks are typically from the cash-generating and low capex sectors such as IT, FMCG and pharma.

"The motivation to go for buyback is different from company to company," said Madan Sabnavis, economist at Bank of Baroda. "Most companies already account for their investment in R&D and incur their capex before going for a buyback. And they are doing so either because they believe that the stock price is undervalued or to reward the shareholders or to strategically use the surplus cash to reduce the free float stock available in the market."

According to Sabnavis, companies tend to go for buybacks when the stock market is rising to get the best response from their shareholders, who may not participate if the buyback price is not attractive enough.

Incidentally, buybacks tend to be more tax-efficient than paying dividends as pointed out by Ketan Dalal, managing director of Katalyst Advisors. The tax rate on dividends for individuals is capped at around 36%, and 25% if the recipient is a company. On the other hand, buyback tax is approximately 23%, but payable by the company making the buyback. Obviously, the company will factor in the tax while carrying out the buyback. "It is important to recognise that dividend would apply across the board to all shareholders, but buyback may be accepted only by some, whereas the tax would be spread across all the shareholders since it is paid by the company," Dalal added.

However, there are aspects that investors need to be mindful about.

"One must consider the quantum of share capital being reduced by the buyback," cautioned G Chokkalingam, director of Equinomics Research. "If the reduction is going to be 1-2% of capital, it will not benefit shareholders to tender a few shares. Incidentally, the majority of the buybacks help reduce 1-2% of share capital, which is not so beneficial."

Still, timing of a buyback, regardless of the size, is key, as the response hinges on the timing of the exercise.

"Many small- and mid-cap companies end up spending 1% or 2% of market cap in a buyback, where the buyback announcement ends up gaining multiples of these buybacks in market cap," Chokkalingam said. "Of course, if companies like large IT firms do buybacks consistently year after year even for 1% or 2% irrespective of market conditions, then the same would improve shareholder value over the years."

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