Share buybacks could be back on table

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Mumbai, September 20

SHARE BUYBACKS BY listed companies could be back on the table, after finance minister Nirmala Sitharaman's announcement on Friday that listed companies that made these offers prior to July 5 will be exempted from the buyback tax.

Buybacks are the process by which companies repurchase their shares from stakeholders. The bought-back shares are extinguished shrinking the firms' equity base.

One of the beneficiaries of this move could be Larsen and Toubro's (L&T) long awaited buyback offer, which is still awaiting approval from the markets regulator. Some of the other companies like Infosys and Wipro could also benefit from the exemption in the tax. This move will help IT companies return surplus cash back to investors in a more tax efficient way.

So far in 2019, 50 companies completed their buyback offers of ₹38,844 crore. In 2017-18, IT companies drove up buyback offers to a 20-year high, while in all, 59 companies completed their share repurchase offers worth a staggering ₹53,306.94 crore.

The Friday announcement comes close on the heels of the announcement made by Sebi (Securities and Exchange Board of India) last month related to buybacks. The markets regulator had eased norms for buyback of shares by listed companies, especially those having subsidiaries in housing finance and NBFC sectors.

Forthcoming buybacks

Company	Board approval	Offer amount (₹ lakhs)
Eris Lifesciences	Jul 3, '19	10,000
Greaves Cotton	May 2, '19	22,750
Star Cement	Jun 21, '19	10,200
Sasken Technologies	Apr 23, '19	16,989
Welspun Corp	May 14, '19	39,000

SOURCE: PRIME database

Responding to *FE*'s query on how the recent changes in the buyback norms would affect L&T's buyback plans, R Shankar Raman, CFO, L&T, said: "We still need to get clarifications from Sebi on the queries we have raised on their recent guidelines on buyback by large conglomerates."

With the changes in buyback regulations by Sebi and the exemption on buyback tax now, some of these issuances are expected to hit the market soon.

Calling it a positive move, analysts at Axis Mutual Fund said: "Companies can look to use these benefits to return cash to shareholders".

According to analysts, the announcement of 20% tax on buyback of shares in the Union Budget 2019 had actually meant that it would make no difference to L&T if it chooses buyback or divident payout route to return excess cash to its shareholders.

"L&T's earlier decision was based on tax arbitrage (to opt for buyback) as it was considered to be a better way to reward shareholders," analysts at Motilal Oswal said. The announcement made in the Budget did away the tax arbitrage between dividend payout and buyback of shares.

Sebi in January had rejected L&T's ₹9,000 crore buyback issue on the premise that the consolidated leverage post buyback would exceed 2:1. While L&T's core business leverage is 0.2x; the reason for the high leverage on consolidated basis was due to L&T Finance Holdings, its NBFC arm, analysts said. L&T had contented this computation of debt equity ratio based on consolidated financial statement, which it said appeared internal to Sebi and not specified in its Buy Back of Securities Regulations.

Among the big buybacks recently done in the market, Wipro and Infosys closed buybacks of ₹10,500 crore and ₹8,260 crore, respectively. However, at 20% tax rate, the buyback tax for both companies would have meant an outgo of ₹2,100 crore and ₹1,652 crore, respectively.

Buybacks have become the preferred route for companies to return surplus cash to shareholders, especially since dividend income of over ₹10 lakh per annum is taxable at 10% in the hands of all residents, domestic companies, trusts or funds except those established for religious, educational or charitable purposes.