Buyback tally up 42% over FY20

Change in the dividend tax structure leads to revival in share repurchase programmes

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Buybacks for this financial year have zoomed past last year 's numbers after the mega share repurchase programmes were announced by Tata Consultancy Services (TCS) and Wipro.

Including the buybacks announced by the two IT giants, this year's buyback tally stands at ₹28,430 crore — 42 per cent more than 2019-20. In the last financial year, buyback activity had slumped 64 per cent, following the introduction of 20 per cent tax. Despite widespread demands, there has been no roll-back of the buyback tax. But a change in the dividend tax structure this financial year has once again tilted the scale back in favour of buy-backs as a vehicle to reward share-holders, especially promoters.

GAINING CURRENCY

After a dip last FY, buybacks have staged a comeback

FY	No. of issues	Offer amt (₹ cr)	Amt acquired (₹ cr)	Change (%)
2013-2014	32	11,380.39	5,665.59	572
2014-2015	10	605.21	435.76	-95
2015-2016	16	1,833.80	1,777.94	203
2016-2017	49	34,468.22	33,931.44	1,780
2017-2018	59	53,306.94	53,012.56	55
2018-2019	63	55,587.03	55,294.73	4
2019-2020	52	19,972.26	17,842.82	-64
2020-2021*	26	28,430.48	1,785.35	42

Note: *Includes TCS & Wipro buybacks, which are yet to commence; FY: Financial year

Source: PRIME Database

"Buybacks have emerged as the better choice of returning capital to shareholders ever since the amend-ments to the Finance Act. Dividend is now taxable at the hands of share-holders, whereas companies pay a tax on the 'distributed income' in case of buybacks. So it's more tax-efficient for promoters, at least Indian promoters, to take the cash out through a buyback as opposed to through dividends," said Manshoor Nazki, partner, IndusLaw.

Last week, TCS announced a ₹16,000-crore buyback. The com-pany had announced a similar-sized buyback in FY19, but gave it a miss last year.

On Tuesday, Wipro announced a ₹9,500-crore share repurchase programme. The Bengaluru-based company had conducted a ₹10,500-crore buyback last year. The firm was exempted from the buyback tax as it had made the buyback announce-ment before July 5, 2019, the cut-off date set by the government for the imposition of the new tax.

From April 1, 2020, the govern-ment, while removing 10 per cent tax on dividend distribution, said div-idends will be taxed at the hands of shareholders. As a result, promoters and other high shareholders, have to pay a tax of more than 40 per cent — the highest tax slab — on dividends.

Some believe the choice between buybacks and dividends under the current tax regime isn't that simple.

"With the change in the taxation of the dividend regime, whereby shareholders are taxed directly, instead of tax being paid by the distributing company, dividends will be preferred from a tax perspective, especially by a non-resident shareholder as some of the tax treaties provide for a tax rate as low as 5 per cent. However, resident shareholders continue to be taxed at high rates on dividend income and hence, will prefer buyback as a route to receive distribution," said Indruj Rai, partner, Khaitan & Co.

Market observers say cash-rich firms with high promoter holding may increasingly look at buybacks this year. Besides, being tax-friendly for promoters, buybacks also boost financials, which is another positive.

"A buyback, much like a dividend distribution, fundamentally works to improve investor confidence. Given that any commercially viable buyback will be offered at least at a reasonable premium to prevailing market prices, it signals to the mar-ket at large that the company has, and expects to continue having, strong financials in place. Besides, the immediate financial result of a successful buyback is a net positive for the company — as its earnings per share automatically increase," said Vaibhav Kakkar, partner, L&L Partners.