Buybacks jump to two-year high in a pandemic-hit year

Stock repurchases offered by state-owned firms in this fiscal were also the highest since FY19

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Fast money

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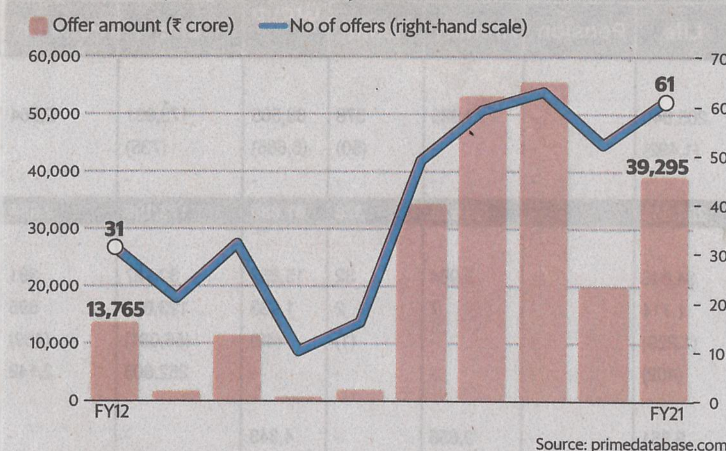

FAVOURED OPTION

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AMID the uncertainty around covid, firms did not have too many avenues to deploy the cash

ANOTHER reason for more buybacks is dividend taxation being in the hands of shareholders

Share buybacks by companies climbed to a two-year high in FY21, led by software services firms, indicating that these firms either did not have too many avenues to deploy the cash or lacked confidence in the business climate in a year hit by the pandemic. Notably, share repurchases offered by state-run companies in the last financial year were also the highest since FY19.

In FY21, 61 companies offered to buy back shares worth ₹39,295 crore, according to data from Prime Database. This compares to 52 and 63 companies that made similar offers totaling ₹19,972 crore and ₹55,587 crore in FY20 and FY19 respectively. In FY21, eight buybacks worth ₹8,949.08 crore, or 23% of the total amount, were offered by public sector undertakings (PSUs). In comparison, there were two buybacks by PSUs worth ₹328.25 crore in FY20 and 11 worth ₹15,988.85 crore in FY19.

"Buyback is a fast route to raise money to meet divestment targets of the government. Hence, buyback is often used by PSUs whenever the government wants to raise money without undergoing the tedious process of initial public offering (IPOs), follow-on public offer (FPOs), offer for share (OFS). While deciding the mode of raising money, the government has also to consider the extent to which its stake in the company can go down. Buybacks are an efficient way to raise money as it involves reduction in the equity capital, increase in earnings per share (EPS), and increase in return ratios of the company, all of which can help in improving valuations of the company," said Deepak Jasani, retail research head, HDFC Securities.

The biggest buyback offers in FY21 were Tata Consultancy Services (₹16,000 crore) and Wipro (₹9,500 crore).

Six out of 10 biggest buyback offers in FY21 were by PSUs. These are Hindustan Petroleum Corporation Ltd (₹2,500 crore), NTPC (₹2,275.75 crore), NMDC (₹1,378.06 crore), Gail India (₹1,046.35 crore), National Aluminium Company (₹749.10 crore) and Engineers India Ltd(₹586.90 crore)

"The government announced stimulus packages to shore up economic activity and revive consumer demand, while dwindling tax revenue (direct taxes) continue to affect the fiscal deficit. The government is thus looking at alternative, non-tax means to fill in the fiscal gap and raise revenue through disinvestment of stakes in profit making and cash-rich PSUs through buyback," said Sandip Khetan, partner and national leader, financial accounting advisory services, and Jalpa Sonchhatra, partner, financial accounting advisory services, EY India.

Firms with ready-to-invest cash were suddenly facing challenges in finding optimal investment options (both organic and inorganic) amid the uncertainty caused by covid-19 while also grappling with a fall in their stock prices, according to experts.

A rise in buybacks last year was seen as a global phenomenon with companies such as Apple and Berkshire doubling their share buybacks. Another reason for the jump in buybacks is dividend distribution taxation (DDT) being in the hands of shareholders, who are mandated to pay tax on dividends received at the applicable tax rate compared to a low (capital gains) tax rate in case of buybacks.

The FY20 budget put dividend taxation in the hands of shareholders while keeping buyback taxation in hands of companies. This led to buy-backs being a favoured option to reward shareholders while managing the recapitalization of companies and improving promoter shareholding and return on capital employed (ROCE) through reduction in overall capital, Khetan and Sonchhatra said.

Considering the ongoing uncertainty, if companies find it difficult to opt for investment opportunities that would help them to increase ROCE, it would not be advisable to continue to remain seated on a big pile of cash for long without optimum returns. This will negatively impact ROCE. In that case, it would be optimal for companies to return the capital to shareholders in the form of dividend or otherwise, they said.

However, current stock price, market capitalization, debt structure and regulatory compliances are also factors to consider for this decision. The ability of companies to raise debt at a lower rate of interest has also encouraged them to return surplus capital to investors and be able to borrow at attractive rates as and when the plan around growth shapes up, Khetan and Sonchhatra said.

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