



The background features a blurred financial dashboard with several data points and charts. Visible text includes: 'OMXC25' with values '10916.69' and '10847.17' and a 'Buy' indicator; 'OMXRG1' with values '57.3180' and '6025.9680' and a 'Buy' indicator; 'INDEX' with values '28289.06' and '27956.04' and a 'Buy' indicator; 'OMX18' with values '1632.51' and '6230.9' and a 'Sell' indicator; and 'OMX ICELAND 8' with values '1172.94' and '0.81%'. There are also various percentage changes and small icons scattered throughout the interface.

# Buy Back of Securities

by Harsh Juneja

# Meaning

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BUY-BACK IS A CORPORATE ACTION IN WHICH A COMPANY BUYS BACK ITS SHARES FROM THE EXISTING SHAREHOLDERS USUALLY AT A PRICE HIGHER THAN MARKET PRICE.



# Reasons

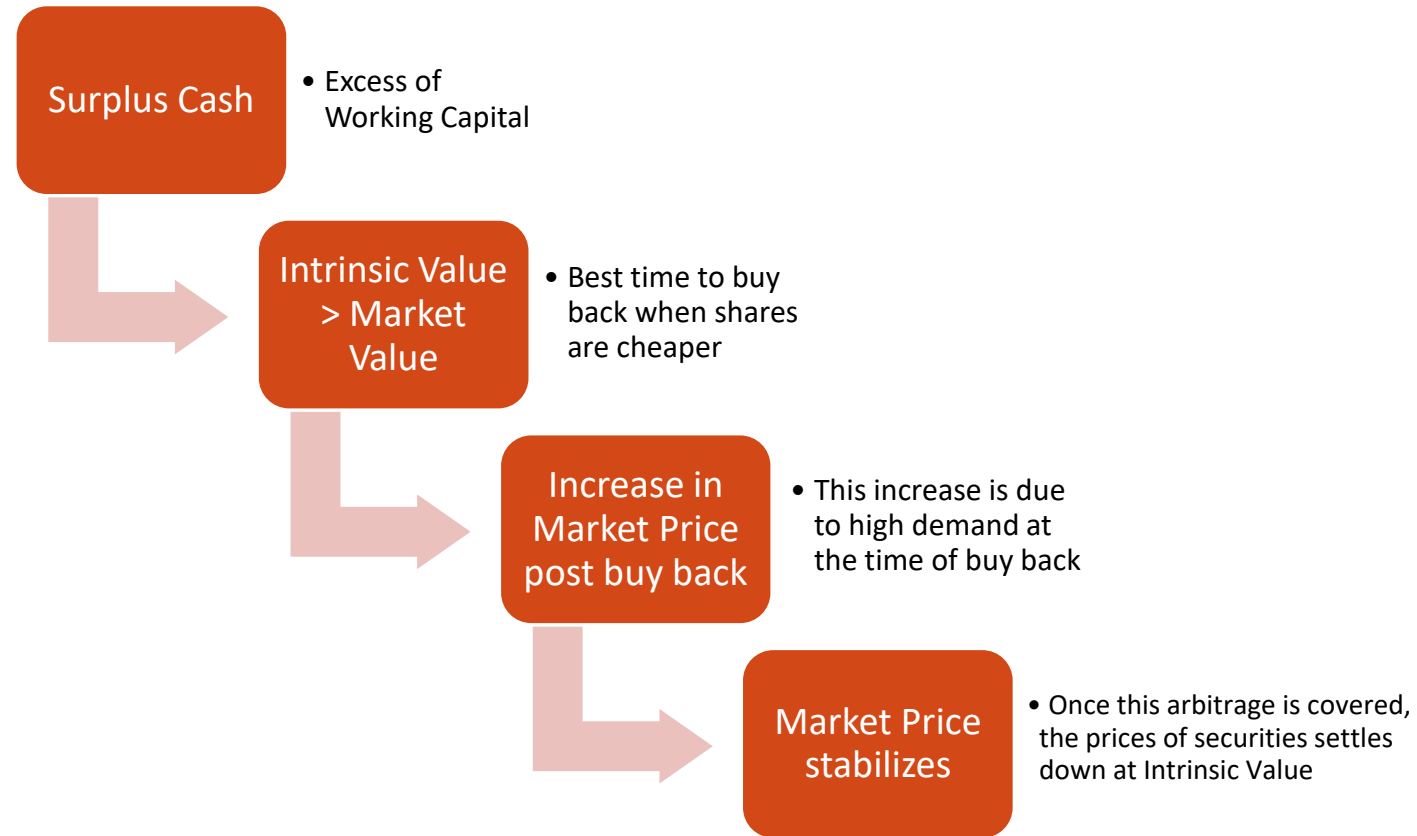
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- To increase promoters holding
- Increase EPS
- Maintaining shareholders' value in a situation of poor state of secondary market by a return of surplus cash to the shareholders
- Restructuring the debt-equity mix
- To counter a hostile takeover
- To return surplus cash not required by business to shareholders



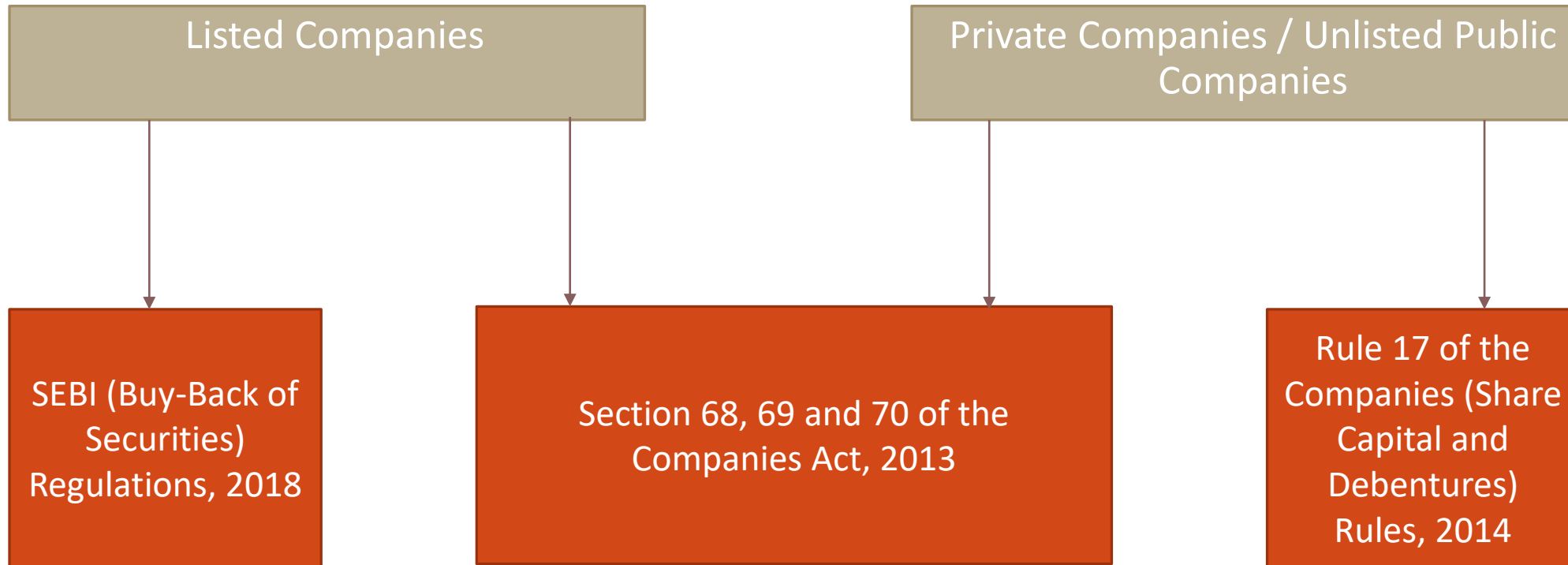
# Economics

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# Legal framework

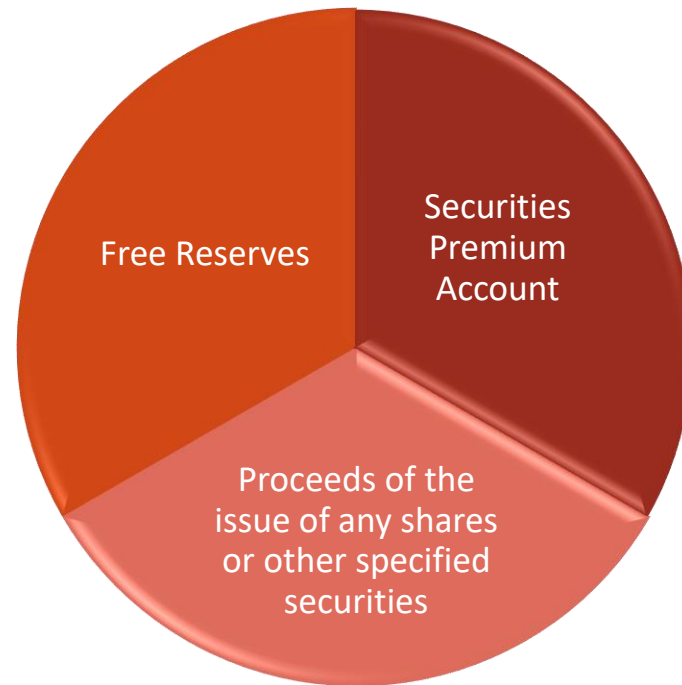
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# Section 68 - Power of Company to Purchase its Own Securities

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A company may buy-back its own shares or other specified securities out of-



No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

# Section 68 - Power of Company to Purchase its Own Securities

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## Conditions

- Authorization by AOA
- Board Resolution (at board meeting) is required if buy-back is up to 10% of the aggregate of paid up equity capital and free reserves
- Special resolution will be passed if the company wants to buy back more than 10% of the aggregate of the paid up capital (equity and preference) and free reserves
- In the case of buy back of equity shares only, the buy back in any financial year shall not exceed 25% of the paid up equity capital
- Debt-Equity Ratio post buy back  $\leq 2:1$
- All securities are fully paid up
- For listed companies, in accordance with SEBI Regulations
- For unlisted companies, in accordance with rules
- No offer of buy-back under this sub-section shall be made within a period of 1 year from the date of the closure of the preceding offer of buy-back, if any.



# Example

- 60,000 equity shares of Rs. 100 each
- General Reserve – Rs. 36,00,000
- P&L(Cr) – Rs. 40,00,000
- Security Premium – Rs. 4,00,000
- Secured Loans – Rs. 40,00,000
- Unsecured Loans – Rs. 20,00,000
- Offer Price – Rs. 250



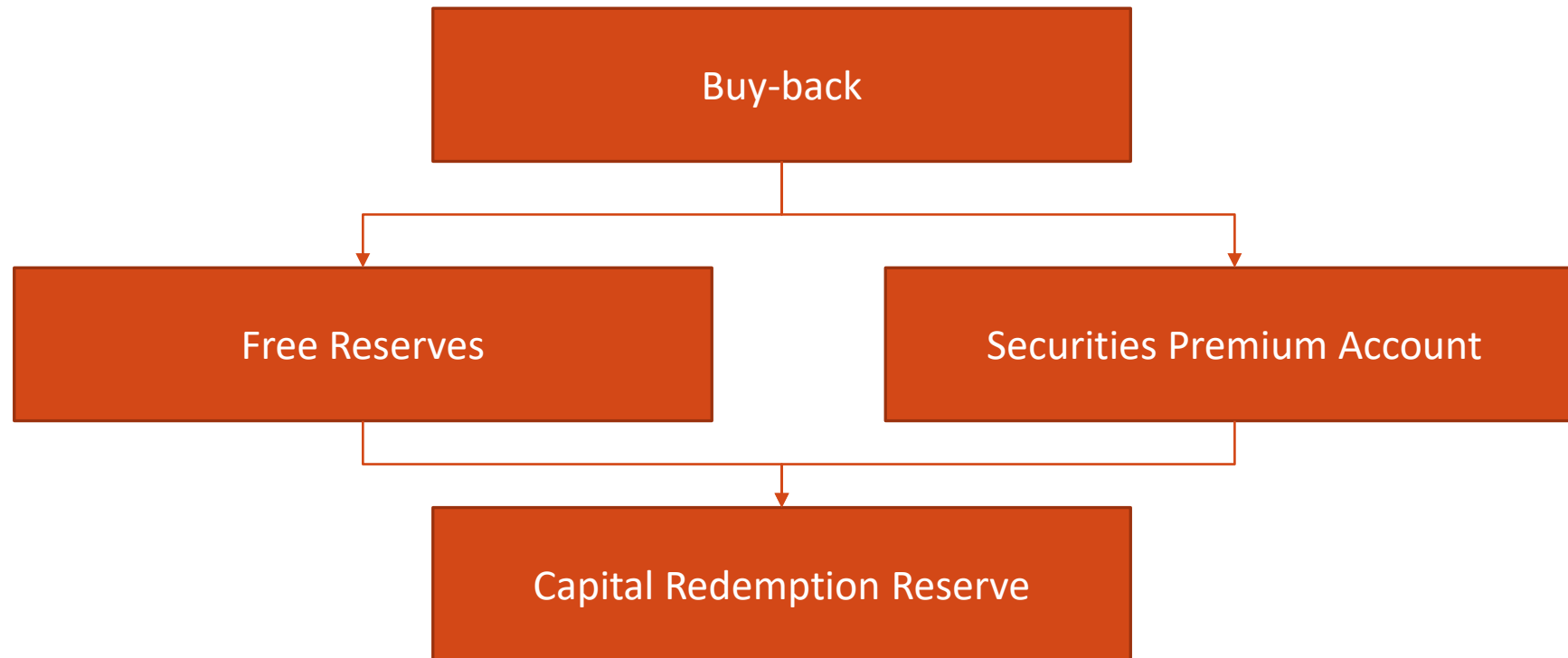


# Workings

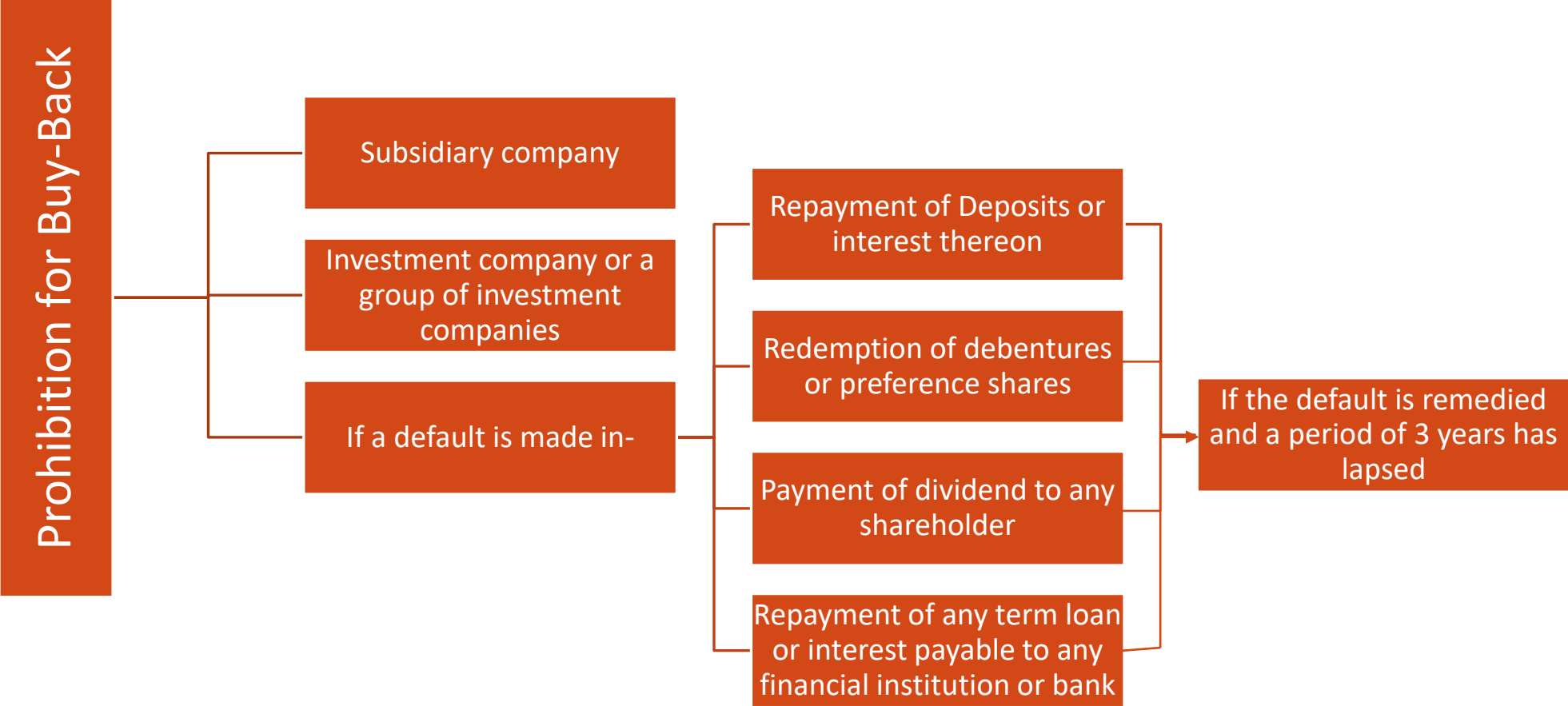
Conditions	Workings	Amount
Free Reserves	80 Lacs	80 Lacs
Paid-up Capital	25% OF 60 Lacs = 15 Lacs 15 Lacs/100 = 15000 shares 15000 x 250 = 37.5 Lacs	37.5 Lakhs
Debt-Equity Ratio	140 Lacs (-) 50% of 60 Lacs	110 Lacs
Paid up Capital & Free Reserves	25% of 140 Lacs	35 Lacs
<b>Number of shares for buy-back</b>	<b>35 Lacs/250</b>	<b>14000 shares</b>

# Section 69 – Transfer of certain sums to Capital Redemption Reserve

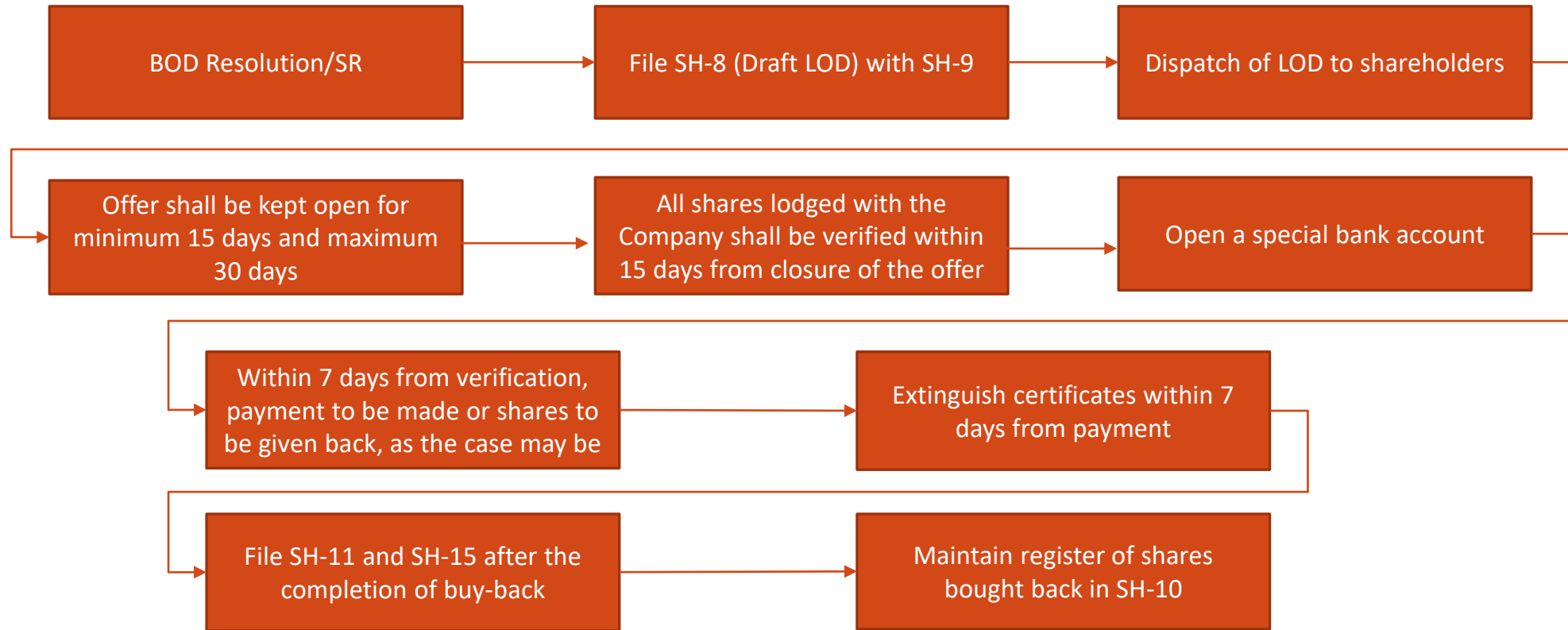
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# Section 70 - Prohibition for Buy-Back in Certain Circumstances



# Procedure for Pvt Co./Unlisted Public Co.



SEBI (Buy-Back of Securities) Regulations, 2018

Tender Offer

Open market

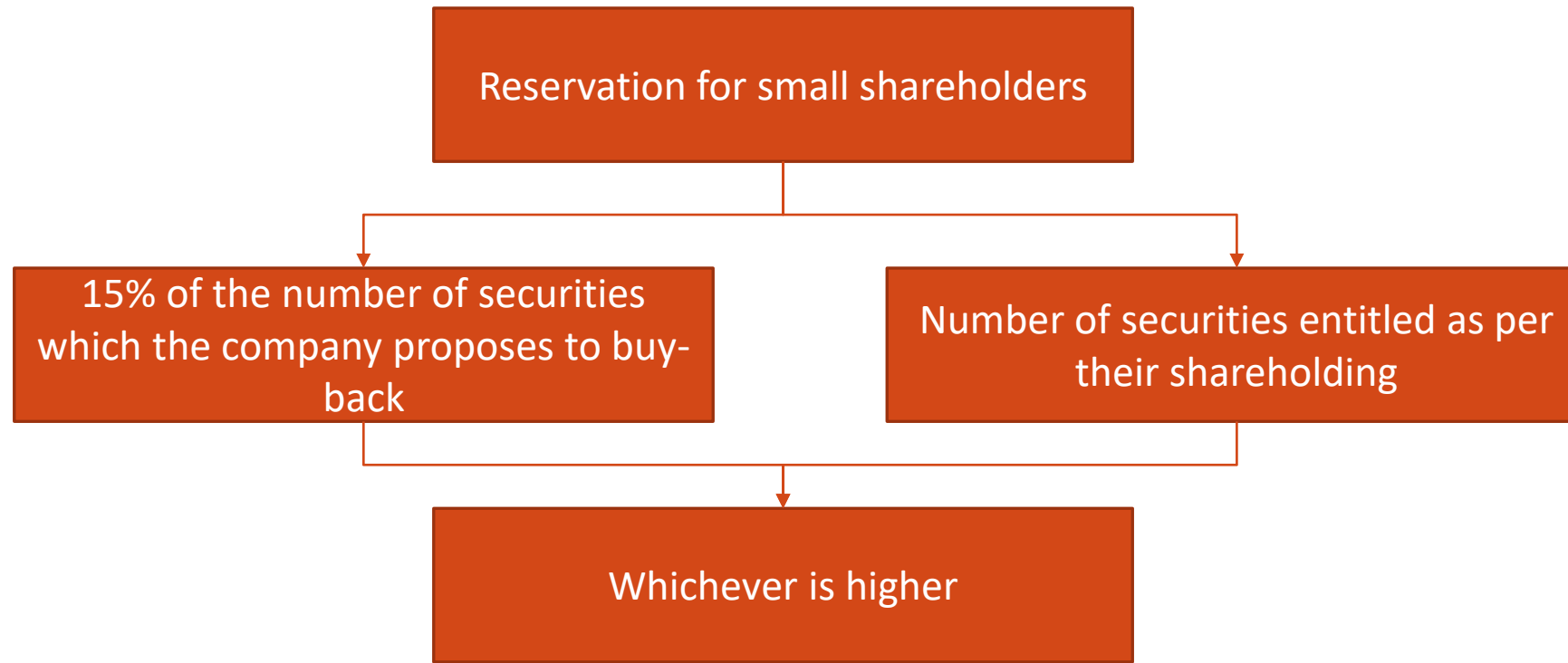
Odd-lot holders

Book-building process

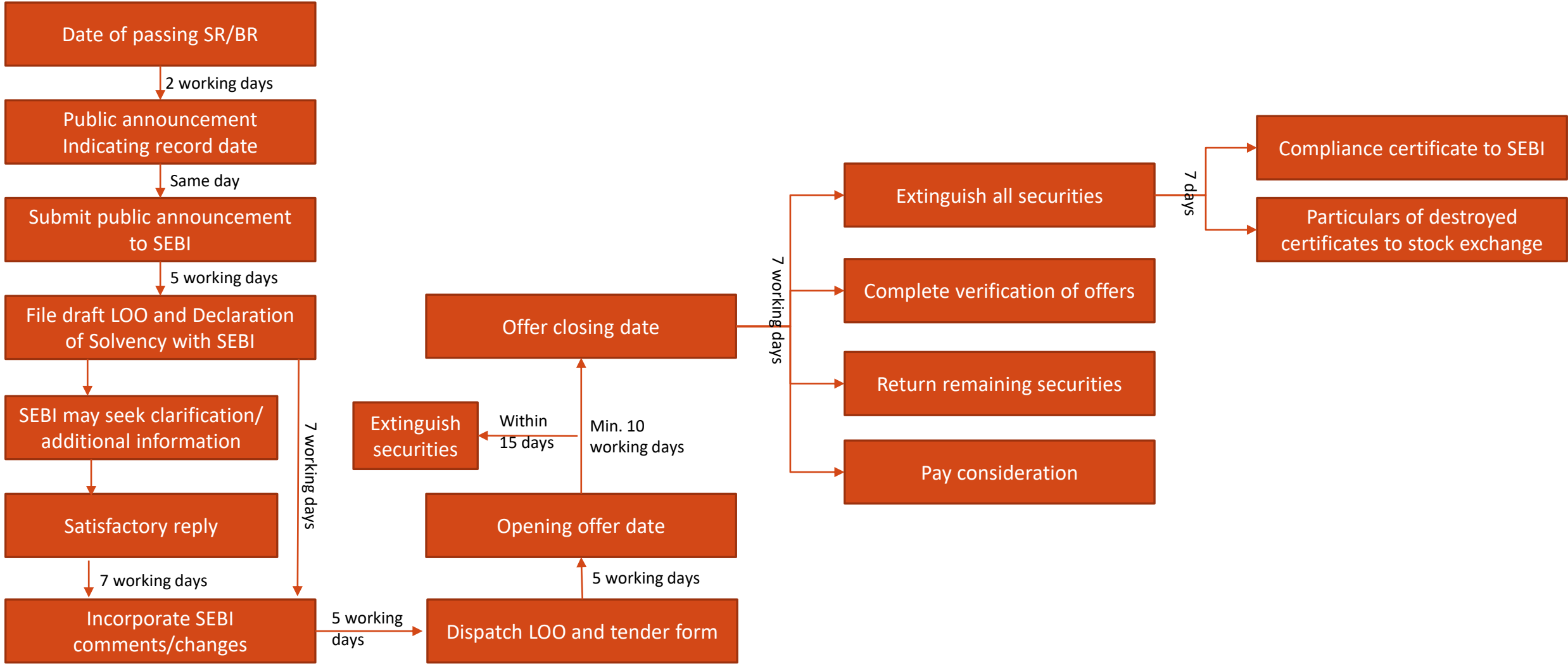
Stock Exchange

# Tender Offer

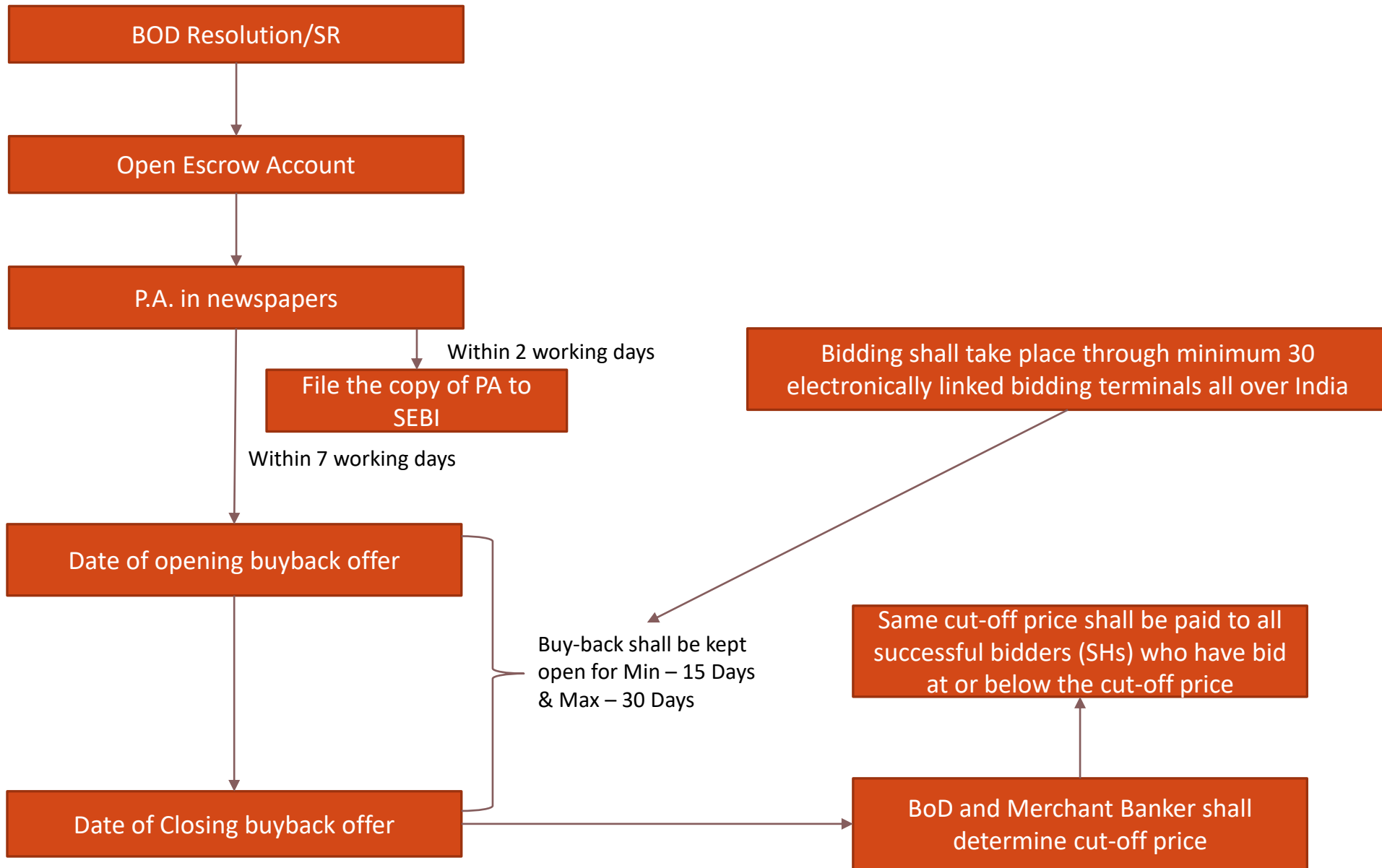




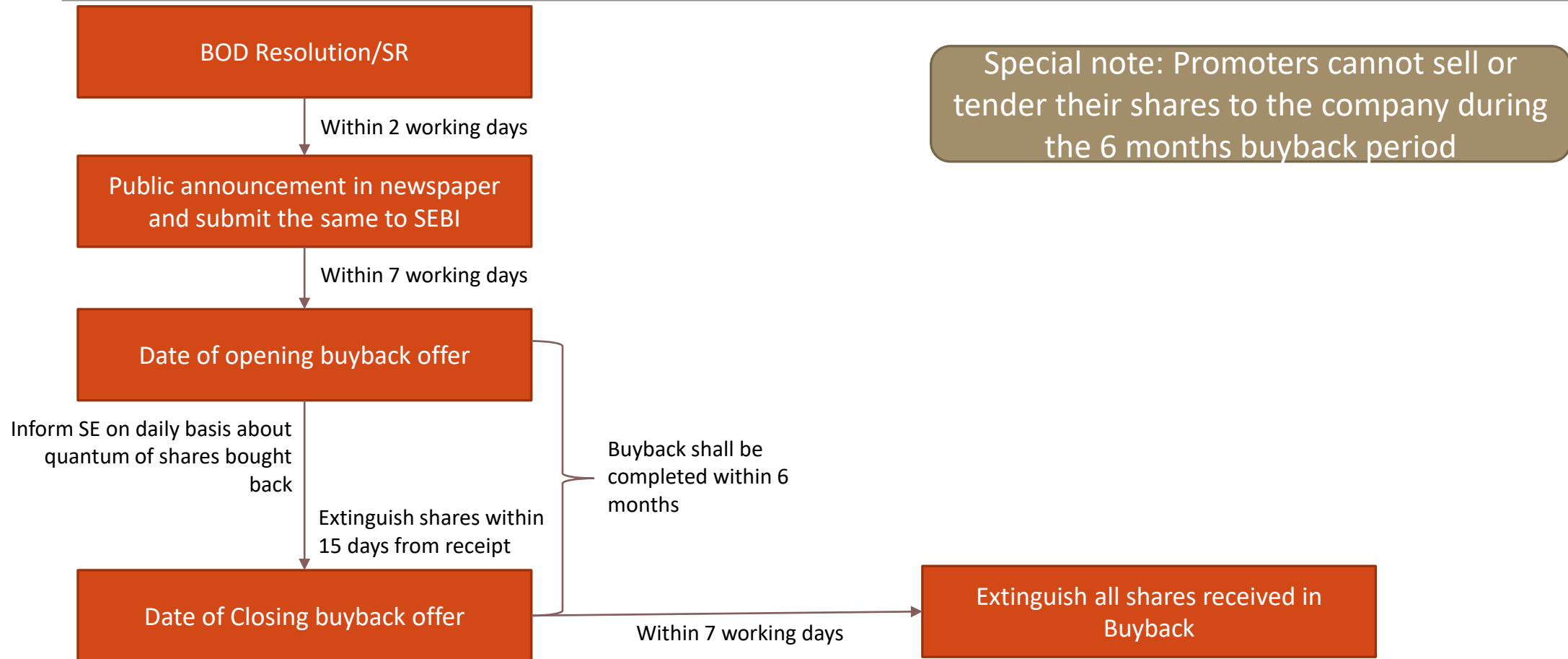
Small shareholders means shareholders holding shares of a company whose market value as on record date is not more than Rs. 2 Lacs



# Book Building



# Stock Exchange



# Tender Offer vs Open Offer

Basis of distinction	Tender Offer	Open Offer
Promoter Participation	✓	x
Allotment on Pro rata	✓	x
First-cum, first-serve	x	✓
Special Bank Account	✓	x
Reservation for Small Shareholders	✓	x
Letter of Offer	✓	x
Tender Period	Minimum 10 Working Days	6 months
Spill Over	✓	x
Buy Back Price	Fix	Fluctuates
Record Dates	✓	x



# SEBI Informal Guidance in the matter of M/s Infosys Limited

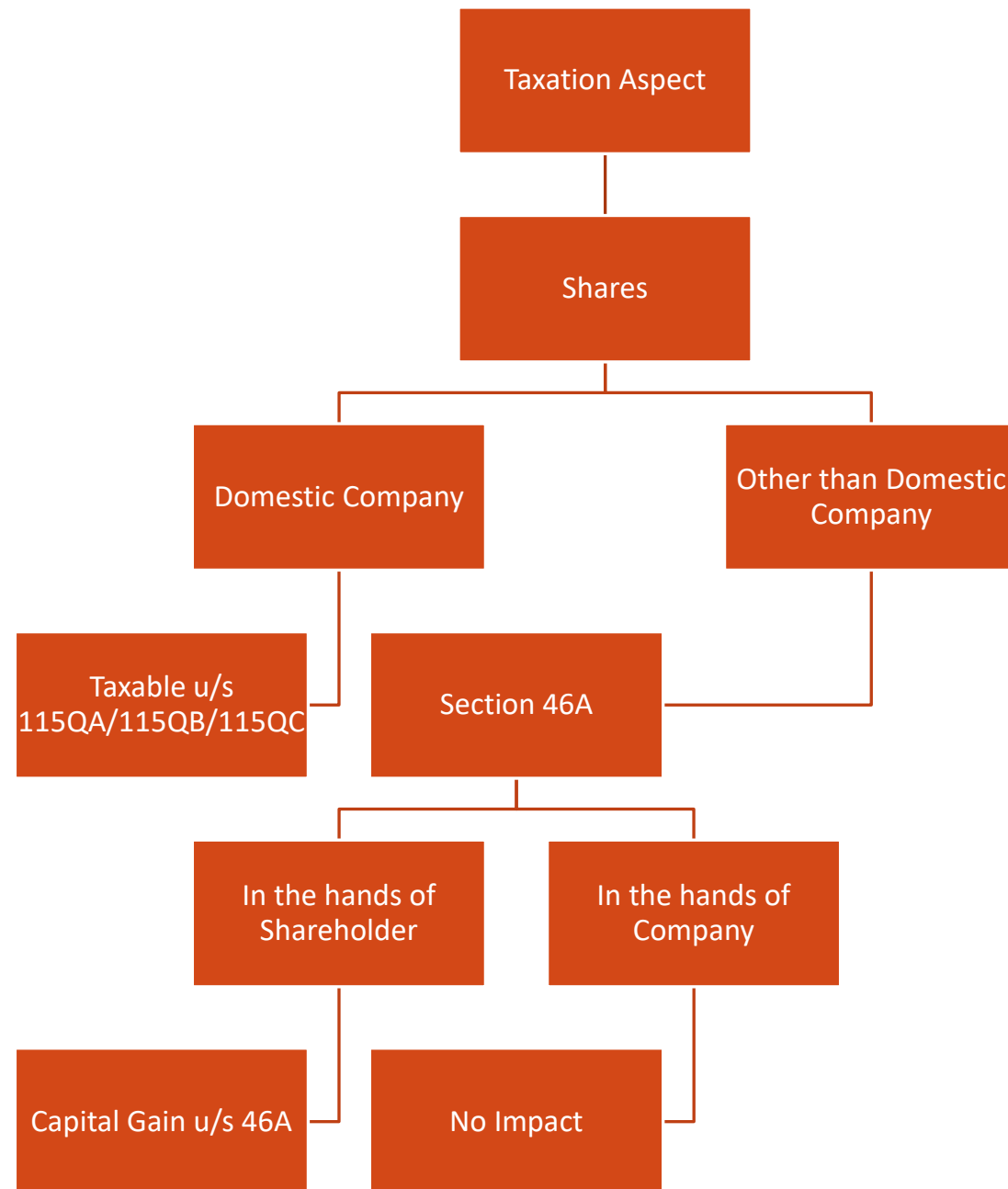
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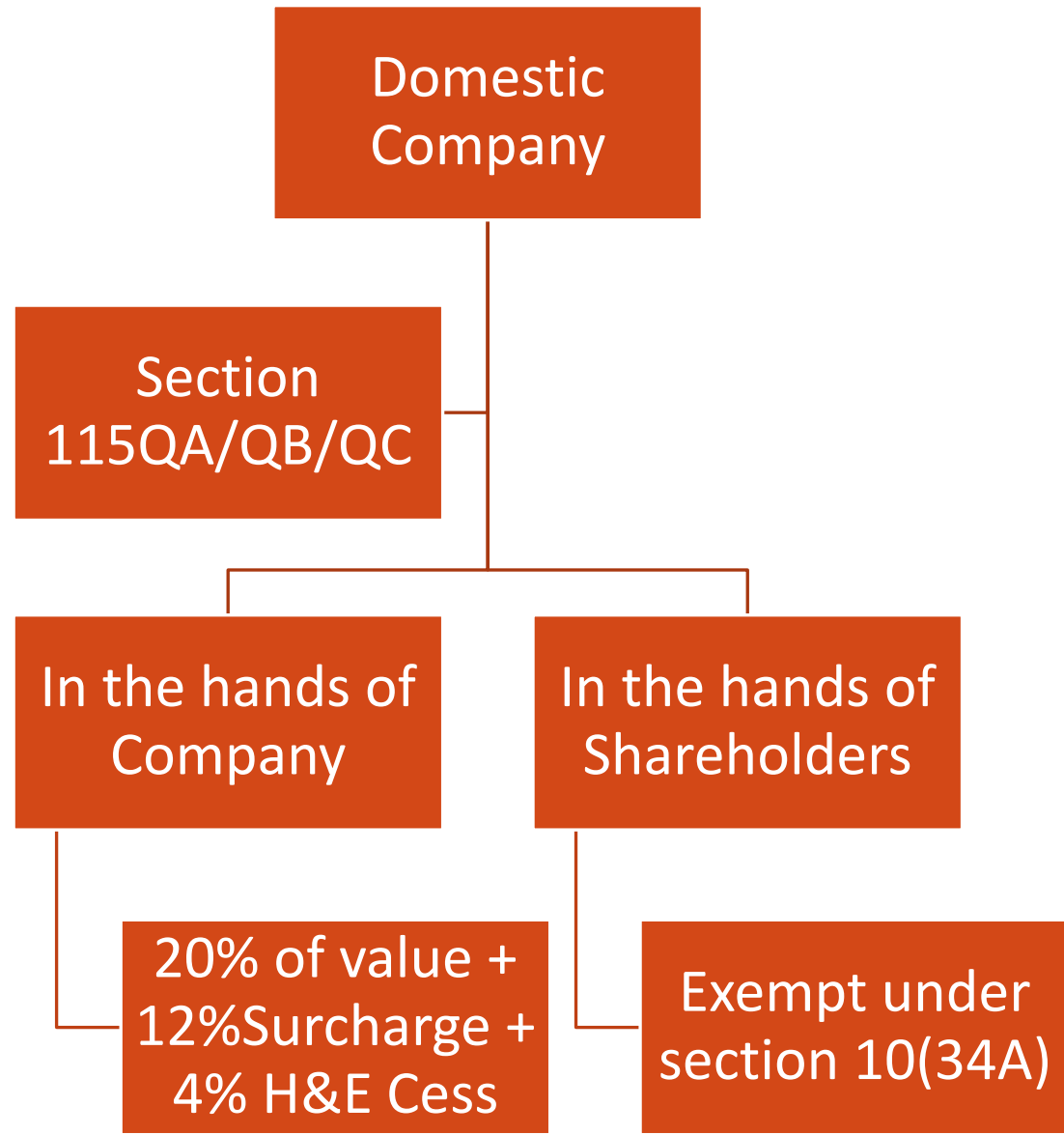
- Regulation 24(i)(b) does not prohibit a company from issuing stock options grant letters during the offer period.
- A company may issue Grant Letters granting ESOPs to eligible employees during the Buyback period in accordance with its Plan
- The minimum vesting period of one year to be computed from the date of issue of grant letters.

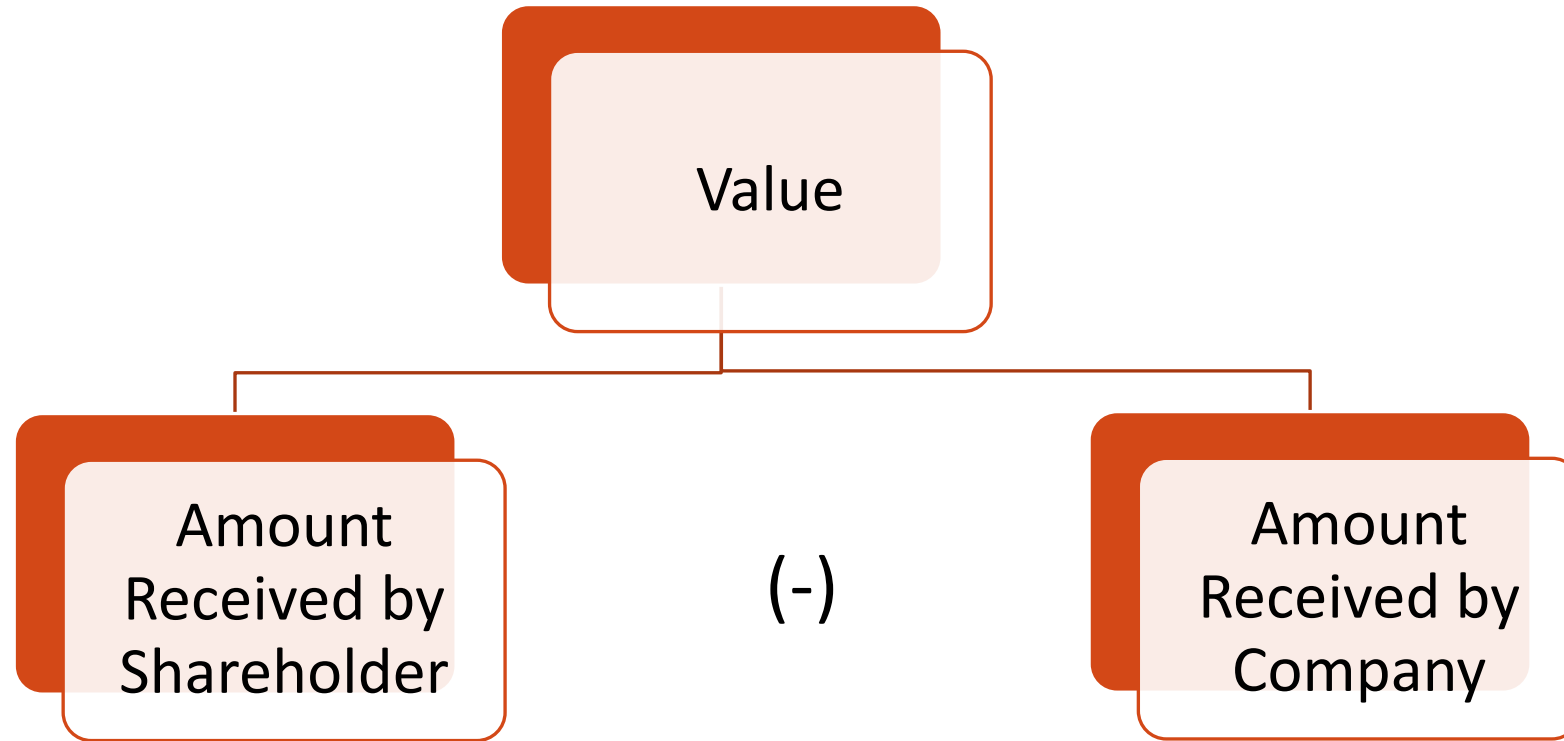
The Informal Guidance can be accessed [here](#)



# Taxation Aspects







As an example, suppose XYZ originally issued shares for Rs 10. The shareholder bought the shares at Rs 400. The company XYZ goes for buy-back of shares at Rs 600. In such case, as per Section 115QA, tax is payable on Rs 590 (Rs 600 – Rs 10).

Parameters	Reduction of Capital	Share buy-back
Restrictions on size	No restrictions	Restricted upto 25% of paid-up capital and free reserves
Regulatory process/ approvals	SEBI, Lenders, NCLT	Board of Directors approval and under section 68 of the Companies Act, the Special Resolution, but subject to limitations of quantum and Compliance with SEBI Regulations
Income tax	<ul style="list-style-type: none"> <li>· Upto to the extent it is treated as deemed dividend – maximum 30% plus surcharge/cess.</li> <li>· Beyond such deemed dividend, taxable as capital gains at the rate of 20% plus surcharges, if long-term in nature and 15%, if short term.</li> </ul>	20% plus surcharge/cess payable by the company

Credit -

<http://www.lawstreetindia.com/experts/column?sid=510>