The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

*Risk comes from not knowing what
you're doing.*

- Warren buffet

BUYBACK

BUYBACK OF EQUITY SHARES

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* This presentation is for educational purpose only

BUYBACK OF EQUITY SHARES

WHAT IS BUYBACK?

- ❖ IT IS A METHOD OF FINANCIAL ENGINEERING.
- ❖ REFERS TO THE REPURCHASING OF SHARES BY THE COMPANY THAT ISSUED THEM.
- ❖ THE ISSUING COMPANY PAY ITS SHAREHOLDERS, THE MARKET VALUE PER SHARE FOR THE SHARES BROUGHT BACK.
- ❖ THE COMPANY RE-ABSORBS THAT PORTION OF ITS OWNERSHIP WHICH WAS PREVIOUSLY DISTRIBUTED AMONG PUBLIC AND PRIVATE INVESTORS.

WHY BUYBACK OF EQUITY?

- ❖ TO REDUCE THE NUMBER OF SHARES IN CIRCULATION IN ORDER TO IMPROVE THE SHARE PRICE.
- ❖ RETURN THE RESOURCES TO THE SHAREHOLDERS WHICH ARE NO LONGER NEEDED BY THE COMPANY.
- ❖ TO IMPROVE SHAREHOLDER'S VALUE, RESULTING IN HIGHER EARNINGS PER SHARE (EPS).
- ❖ TO PROVIDE A SAFEGUARD AGAINST HOSTILE TAKE-OVER BY INCREASING PROMOTER'S HOLDINGS.

HOW IS BUYBACK DONE?

BUYING FROM OPEN MARKET

- THE COMPANY BUYS ITS OWN STOCKS FROM THE MARKET.
- HAPPENS THROUGH COMPANY'S BROKERS.
- NO OBLIGATION TO CONDUCT THE REPURCHASE PROGRAM AFTER THE ANNOUNCEMENT.
- THE COMPANY HAS THE OPTION TO CANCEL IT.
- IT CAN PROVE TO BE VERY COST EFFECTIVE.

FIXED PRICE TENDER OFFER


- THE COMPANY MAKES AN OFFER TO BUY A FIXED NO OF SHARE AT A FIXED PRICE.
- THE PRICE OFFERED BY THE COMPANY IS ABOVE THE CURRENT MARKET PRICE.
- THE SHAREHOLDERS HAVE THE OPTION TO SELL BACK THE SHARE OR HOLD THE SHARES.
- IF TOTAL NO OF SHARES EXCEEDS THE SHARES REQUIRED BY THE COMPANY, SHARES ARE BOUGHT BACK ON A PRO-RATA BASIS.
- CAN BE CONDUCTED QUICKLY.
- CAN BE COSTLIER THAN BUYING SHARES BACK FROM THE OPEN MARKET.

DUTCH AUCTION TENDER OFFER

- THE COMPANY OFFERS A RANGE OF PRICES TO THE SHAREHOLDERS.
- THE MINIMUM PRICE IS ABOVE THE CURRENT MARKET PRICE.
- For example, a stock is currently trading at Rs. 100. The company offers to buy back 2 Cr shares within the range of Rs. 101 to Rs. 103. Investors will bid the no of shares and the minimum price at which he/she wants to sell the shares. The company will start qualifying bids from Rs.101 and move to higher prices until requirement of fixed no. of shares is fulfilled. If at Rs. 102, the requirement of 2 Cr shares is fulfilled, every qualified bidder is paid Rs. 102. Bids above Rs. 102 will be rejected. If total bidding at Rs. 101 and Rs. 102 exceeds the requirement of shares then shares are allotted on a pro-rata basis.



REPURCHASE BY DIRECT NEGOTIATION

- THE COMPANY APPROACHES ONLY THOSE SHAREHOLDERS WHO HAVE A LARGE BLOCK OF SHARES.
 - THEY ARE PAID A PREMIUM ABOVE THE CURRENT MARKET PRICE.
 - MORE LOGICAL APPROACH AS THE COMPANY CAN DIRECTLY NEGOTIATE WITH LARGE SHAREHOLDERS.
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INDIAN BUYBACK TREND

DATABASE COVERAGE: 1998-99 to 2018-19 (21 years)

YEAR	AMOUNT (Rs. cr)	NO. OF ISSUES
1998-99	1	1
1999-00	300	12
2000-01	1,297	14
2001-02	2,154	27
2002-03	1,011	31
2003-04	52	8
2004-05	3,600	11
2005-06	363	10
2006-07	295	7
2007-08	2,004	10
2008-09	4,218	46
2009-10	824	20
2010-11	4,295	20
2011-12	13,765	31
2012-13	1,694	21
2013-14	11,380	32
2014-15	605	10
2015-16	1,834	16
2016-17	34,468	49
2017-18	53,307	59
2018-19 (as on 31/07/18)	1,717	11
Total	1,39,184	446

Source:

www.primedatabase.com

SOME SUCCESSFUL BUYBACK STORIES

- ❖ RELAINCE INDUSTRIES IN 2005 THROUGH OPEN MARKET OFFER - 3,900 CR - 8% RISE IN SHARE PRICE
- ❖ TCS (2017) - 16,000 CR - 10% RISE IN SHARE PRICE
- ❖ NMDC IN 2016 THROUGH TENDER OFFER - 7,528 CR - 2.2% RISE IN SHARE PRICE
- ❖ CAIRN INDIA IN 2014 - 5,754 CR - 5.7% RISE IN SHARE PRICE
- ❖ TCS INDIA PROPOSED ON 15TH JUNE, 2018 TO BUYBACK 17,190,476 SHARES WORTH RS. 16000 CR.

PROVISIONS OF BUY BACK

1. PURCHASE CAN BE MADE OUT OF:

- A) ITS FREE RESERVES;
- B) THE SECURITIES PREMIUM ACCOUNT; OR
- C) THE PROCEEDS OF THE ISSUE OF ANY SHARES OR OTHER SPECIFIED SECURITIES:

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.

2) **PRELIMINARY CONDITIONS:**

A) MUST BE **AUTHORIZED BY ITS ARTICLES;**

B) A **SPECIAL RESOLUTION** SHOULD BE PASSED AT A GENERAL MEETING OF THE COMPANY AUTHORIZING THE BUY-BACK, BUT THE SAME IS NOT REQUIRED WHEN:

I. THE BUY-BACK IS 10% OR LESS OF THE TOTAL PAID-UP EQUITY CAPITAL AND FREE RESERVES OF THE COMPANY; AND

II. SUCH BUY-BACK HAS BEEN AUTHORIZED BY THE BOARD BY MEANS OF A RESOLUTION PASSED AT ITS MEETING;

C) THE AMOUNT OF TOTAL PAYMENT TOWARDS BUY BACK OF EQUITY SHARES IN A YEAR SHALL NOT EXCEED THE AGGREGATE OF **25% OF THE PAID UP EQUITY CAPITAL** AND THE FREE RESERVES OF THE COMPANY.

D) **DEBT EQUITY** RATIO SHOULD BE **2:1**

WHERE: DEBT IS AGGREGATE OF SECURED AND UNSECURED DEBTS OWED BY THE AFTER BUY-BACK

EQUITY: IS AGGREGATE OF THE PAID-UP CAPITAL AND ITS FREE RESERVES.

E) ALL THE SHARES OR OTHER SPECIFIED SECURITIES FOR BUY-BACK ARE **FULLY PAID-UP;**

F) IF SHARES OR SECURITIES ARE **LISTED**, BUY BACK WILL BE IN ACCORDANCE WITH THE REGULATIONS MADE BY THE **SECURITIES AND EXCHANGE BOARD OF INDIA.**

G) NO OFFER OF BUY-BACK SHALL BE MADE WITHIN A PERIOD OF ONE YEAR FROM THE DATE OF THE CLOSURE OF THE PRECEDING OFFER OF BUY-BACK, IF ANY.

3) EXPLANATORY STATEMENT:

THE NOTICE OF THE MEETING AT WHICH THE SPECIAL RESOLUTION IS PROPOSED TO BE PASSED SHALL BE ACCOMPANIED BY AN EXPLANATORY STATEMENT STATING

DISCLOSURE, NECESSITY, CLASS OF SHARES, TIME LIMIT, DATES OF BOARD MEETING, BUYBACK METHOD, OFFER PRICE, MAXIMUM AMOUNT OF BUYBACK, ETC.

4) TIME LIMIT:

EVERY BUY-BACK SHALL BE COMPLETED **WITHIN A PERIOD OF ONE YEAR** FROM THE DATE OF PASSING OF THE SPECIAL RESOLUTION.

5) OPTIONS FOR BUY BACK:

THE BUY-BACK CAN BE:

- A) FROM THE EXISTING SHAREHOLDERS OR SECURITY HOLDERS ON A PROPORTIONATE BASIS;
- B) FROM THE OPEN MARKET;
- C) BY PURCHASING THE SECURITIES ISSUED TO EMPLOYEES OF THE COMPANY PURSUANT TO A SCHEME OF STOCK OPTION OR SWEAT EQUITY.

6) SOLVENCY DECLARATION:

A DECLARATION OF SOLVENCY TO BE SIGNED BY AT LEAST TWO DIRECTORS OF THE COMPANY STATING ITS CAPABILITY OF MEETING ITS LIABILITIES AND WILL NOT BE RENDERED INSOLVENT WITHIN A PERIOD OF ONE YEAR FROM THE DATE OF DECLARATION ADOPTED BY THE BOARD.

7) EXTINGUISHMENT OF CERTIFICATE

8) NO FURTHER ISSUE TILL 6 MONTHS: (EXCEPT BONUS ISSUE, CONVERSION OF WARRANTS, STOCK OPTION SCHEMES, SWEAT EQUITY OR CONVERSION OF PREFERENCE SHARES OR DEBENTURES INTO EQUITY SHARES)

9) REGISTER TO BE MAINTAINED

10) RETURN OF BUY BACK & A DECLARATION

11) PUNISHMENT FOR ANY DEFAULT:

1 LAKH TO 3 LAKHS FOR BOTH, COMPANY AND OFFICERS INVOLVED.

IMPRISONMENT 1 TO 3 YEAR FOR OFFICERS.

12. CAPITAL REDEMPTION RESERVES AND UNITIZATION:

A SUM EQUAL TO THE NOMINAL VALUE OF THE SHARES SO PURCHASED SHALL BE TRANSFERRED TO THE CAPITAL REDEMPTION RESERVE ACCOUNT. CAN BE UTILIZED TO PAY FULLY PAID BONUS SHARES.

Procedure for Buyback of Equity Shares

- NOTICE OF BOARD MEETING HAS TO BE GIVEN – MINIMUM 7 DAYS' NOTICE BEFORE BOARD MEETING.
- IN THE BOARD MEETING, PASS RESOLUTION FOR BUY BACK, FIX DATE FOR EGM, APPROVE NOTICE FOR CALLING EGM WITH EXPLANATORY STATEMENTS.
- SEND NOTICE OF EGM – GIVE MINIMUM 21 DAYS CLEAR NOTICE BEFORE DATE OF EGM.
- IN EGM, PASS SPECIAL RESOLUTION.
- WITHIN 30 DAYS OF EGM, FILE FORM MGT14 WITH ROC.
- AFTER PASSING SPECIAL RESOLUTION, LETTER OF OFFER IN FORM SH-8 SHALL BE FILED WITH ROC WHICH SHALL BE SIGNED BY MIN 2 DIRECTORS ONE OF WHOM SHALL BE MD IF ANY.
- ALONG WITH FORM SH-8, A DECLARATION OF SOLVENCY IN FORM SH-9, SIGNED BY 2 DIRECTORS, 1 OF WHOM SHALL BE MD IF ANY SHOULD BE FILED ROC AND (IN CASE OF LISTED COMPANIES).
- WITHIN 20 DAYS FROM DATE OF FILING SH-8 WITH ROC, LETTER OF OFFER SHOULD BE DISPATCHED TO SHAREHOLDERS. OFFER SHALL REMAIN OPEN FOR MIN-15 DAYS TO MAX- 30 DAYS FROM DATE OF DISPATCH.

- WITHIN 15 DAYS FROM THE DATE OF CLOSURE OF THE OFFER, THE SHARES OR OTHER SECURITIES LODGED SHALL BE DEEMED TO BE ACCEPTED UNLESS A COMMUNICATION OF REJECTION IS MADE WITHIN TWENTY ONE DAYS FROM THE DATE OF CLOSURE OF THE OFFER.
- SEPARATE BANK ACCOUNT SHOULD BE OPENED AFTER CLOSURE OF OFFER.
- IN THE BANK ACCOUNT, DEPOSIT THE TOTAL AMOUNT PAYABLE AS CONSIDERATION FOR THE SHARES OFFERED FOR BUY BACK.
- WITHIN 7 DAYS OF VERIFICATION/ ACCEPTANCE, CONSIDERATION SHOULD BE PAID IN CASH.
- WITHIN 7 DAYS FROM THE LAST DATE OF COMPLETION OF BUY-BACK, SHARES/ SECURITIES BOUGHT BACK SHOULD BE PHYSICALLY DESTROYED.
- AFTER COMPLETION OF BUY BACK, REGISTER OF SHARES/SECURITIES BOUGHT BACK IN FORM SH-10 HAS TO BE MAINTAINED.
- WITHIN 30 DAYS OF COMPLETION OF BUY-BACK, RETURN OF BUY-BACK WITH ROC IN FORM SH-11 SHALL BE FILED.

JOURNAL ENTRIES

❖ IF SHARES TO BE BOUGHT-BACK ARE NOT FULLY PAID-UP, THEN A FINAL CALL SHOULD BE MADE TO MAKE THEM FULLY PAID-UP:

➤ MAKING OF FINAL CALL

SHARE FINAL CALL A/C... DR
TO SHARE CAPITAL A/C

➤ RECEIPT OF FINAL CALL AMOUNT

BANK A/C... DR
TO SHARE FINAL CALL A/C



❖ **BUYBACK FUNDING**

➤ **ARRANGEMENT OF CASH FOR BUYBACK BY SELLING ASSETS/INVESTMENTS**

BANK A/C... DR

TO ASSETS OR INVESTMENT A/C

NOTE: THE SALE OF SUCH ASSET/INVESTMENT MAY BE AT A PROFIT OR LOSS AND THE SAME WILL HAVE A CREDIT OR DEBIT EFFECT RESPECTIVELY IN THE ABOVE JOURNAL ENTRY. IT WILL ALSO HAVE A REFLECTION IN THE PROFIT AND LOSS A/C UNDER RESERVES AND SURPLUSES IN THE NEW BALANCE SHEET.

➤ **FOR ISSUE OF DEBENTURES, IF ANY**

BANK A/C.... DR

TO DEBENTURES APPLICATION A/C

DEBENTURES APPLICATION A/C.... DR

TO DEBENTURES A/C

➤ **FOR ISSUE OF PREFERENCE SHARES, IF ANY**

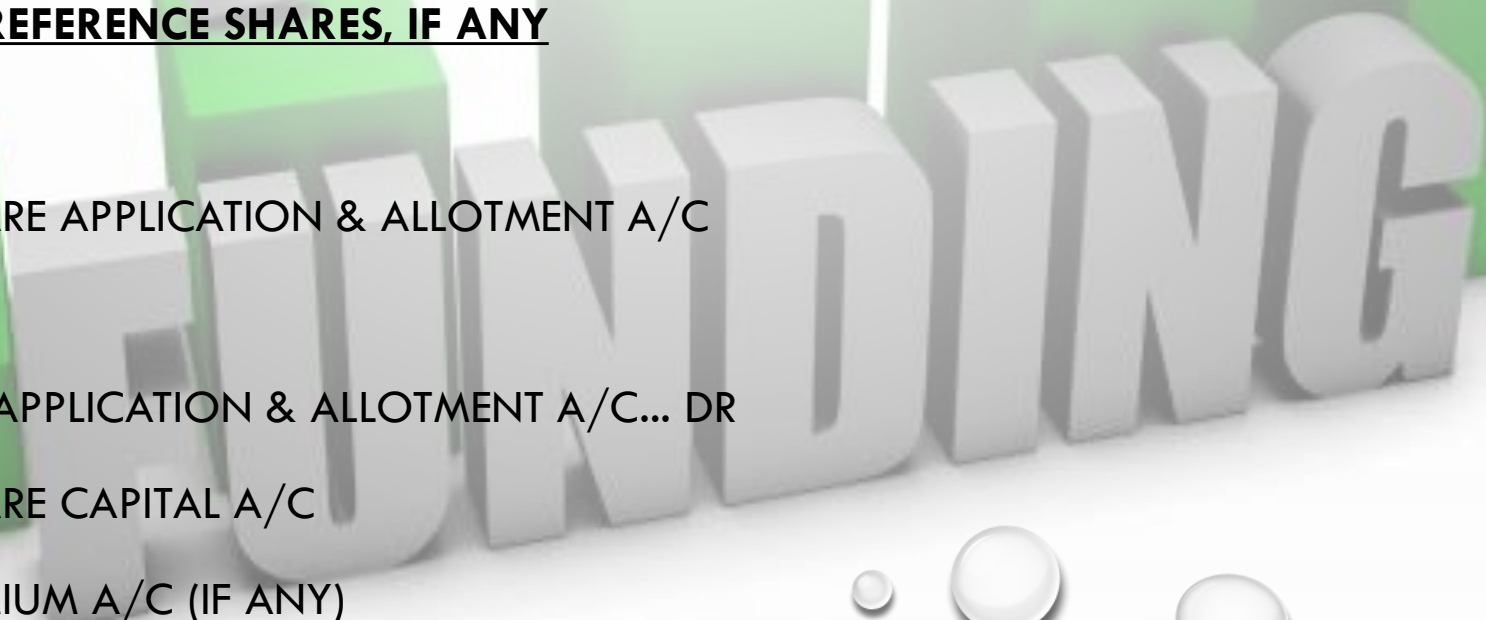
BANK A/C... DR

TO PREFERENCE SHARE APPLICATION & ALLOTMENT A/C

PREFERENCE SHARE APPLICATION & ALLOTMENT A/C... DR

TO PREFERENCE SHARE CAPITAL A/C

TO SECURITIES PREMIUM A/C (IF ANY)



❖ **EQUITY SHARES DUE FOR BUYBACK (AMOUNT PAYABLE)**

EQUITY SHARE CAPITAL A/C... DR

PREMIUM ON BUY-BACK OF EQUITY SHARES A/C... DR (IF APPLICABLE)

TO EQUITY SHAREHOLDERS A/C

NOTE: OF BUYBACK IS AT DISCOUNT, THE DISCOUNT AMOUNT IS CREDITED TO CAPITAL RESERVE A/C.

❖ **ADJUSTMENT OF PREMIUM ON BUYBACK (TO BE DONE POST BUY-BACK)**

SECURITIES PREMIUM A/C... DR

DIVISIBLE PROFITS A/C... DR

TO PREMIUM ON BUY-BACK OF EQUITY SHARES A/C

FREE RESERVES/DIVISIBLE PROFITS

RESERVES AVAILABLE FOR DISTRIBUTION OF DIVIDEND.

INCLUDES P & L A/C, GENERAL RESERVE, DIVIDEND EQUALISATION RESERVE, FUNDS AFTER DEDUCTING LIABILITY, INVESTMENT FLUCTUATION RESERVE.

DOES NOT INCLUDE REVALUATION RESERVE, OLD CRR, DRR, SHARES FORFEITED A/C, PROFITS BEFORE INCORPORATION, CAPITAL RESERVE, STATUTORY/TAX RESERVE LIKE INVESTMENT ALLOWANCE RESERVE, DEVELOPMENT REBATE RESERVE, EXPORT PROFIT RESERVE, FOREIGN PROJECTS RESERVE, FOREIGN EXCHANGE EARNING RESERVE, ETC. (BECOMES FREE ONCE UTILISED)

❖ CREATION OF CAPITAL REDEMPTION RESERVE

(TO BE CREATED OUT OF DIVISIBLE PROFITS WITH SECURITIES PREMIUM, IF NEEDED)

DIVISIBLE PROFITS A/C... DR

TO CAPITAL REDEMPTION RESERVE A/C

[CRR = NOMINAL VALUE OF BUYBACK - FRESH ISSUE]

❖ **PAYMENT TO EQUITY SHAREHOLDERS**

EQUITY SHAREHOLDERS A/C... DR

TO BANK

NOTE: AS PER RULE 17 (8) OF THE COMPANIES (SHARE CAPITAL AND DEBENTURES) RULES, 2014, PRIVATE COMPANIES AND UNLISTED PUBLIC COMPANIES ARE REQUIRED TO OPEN A SEPARATE BANK ACCOUNT AND DEPOSIT THE ENTIRE SUM DUE AND PAYABLE AS CONSIDERATION FOR SHARES TENDERED FOR BUY-BACK. ENTRIES ARE.....

SHARE BUY-BACK BANK A/C... DR

TO BANK A/C

·
EQUITY SHAREHOLDERS A/C... DR

TO SHARE BUY-BACK BANK A/C

❖ **ISSUE OF BONUS SHARES**

CAN BE OUT OF CRR, RESERVES AND SURPLUSES AND EVEN SECURITIES PREMIUM.

➤ **DECLARATION OF BONUS**

CRR A/C...DR

DIVISIBLE PROFITS A/C... DR

TO BONUS TO EQUITY SHAREHOLDERS A/C

➤ **ISSUE OF FULLY PAID BONUS SHARES**

BONUS TO EQUITY SHAREHOLDERS A/C... DR

TO EQUITY SHARE CAPITAL A/C

BONUS



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