

What is a Share Buyback?

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What is Share Buyback?:

- When a listed company buys its own shares from the existing shareholders, it's known as a share buyback, which is also called a **share repurchase**.
- The process reduces the number of outstanding shares in the open market over a period of time.
- A company can buy back its shares from shareholders on a proportionate basis through a tender offer, or from the open market via book-building process, stock exchanges, or from odd-lot holders.
- The maximum limit of any buy-back is 25 per cent or less of the aggregate of paid-up capital and free reserves of a company.

What are the reasons for share buyback?

- One of the reasons for a company to go for the buyback of shares is when it feels that its stock is undervalued or has fallen too much.
- By buying outstanding shares, a company **reduces the number of shares in the market** and this can increase the value of the remaining shares.
- Share buyback also helps in **increasing the promoter shareholding**, which can act as a safeguard against any threat of hostile corporate takeover.
- There were instances when promoters also participated in the buyback and surrendered their shares.

What is the benefit for shareholders?

- Through buyback, a company can reward its **shareholders in a tax-effective manner**.
- The dividend that a company pays is taxed at the company level and also at the shareholder level.
- In the case of share buyback, the company pays the tax and shareholders are exempted from paying tax on the income generated in the process.
- If the company offers a higher price than the market price, shareholders, who are not keen to stay invested in the company, can surrender their shares and exit.
- While a company can go for repurchase of its shares when it is sitting on a lot of cash but does not have many avenues to invest and prefers to return cash to shareholders.

Who is eligible to participate in the buyback?

- To be eligible to participate in the share repurchase process, a shareholder needs to hold the shares of the company, which has announced the buyback, before the record date declared in the announcement.
- The share also needs to be held in the demat form.

Q1) What is Book Building?

Book building is the process by which an underwriter attempts to determine the price at which an initial public offering will be offered.

Source: Indian Express

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