Twitter Thread by AnshumanCharts



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TCS: Co. Approved Rs 18,000 Cr buyback at Rs 4,500 per share today

■Let us know a brief on buyback.

■ What is buyback , how will it benificial for shareholders and company itself.

Read the whole thread ■, if you like it plz share

■A buyback of shares is buying back of own shares by a company that was issued earlier. It is a corporate action event wherein a company makes a public announcement for the buyback offer to acquire the shares from existing shareholders within a given timeframe.

The buyback of shares is also known as a stock buyback or repurchase of shares. The company announces an offer price for the buyback that is generally higher than the current market price.

Source BSE / Chittorgarh .com

■Reasons of buyback

1. Undervalued stock
When the management feels that their stock is undervalued, they adopt the buyback to rectify the stock price. Stock buyback reduces the number of shares in the market and thus gives a price boost to the remaining shares in the market.

2. Tax-efficient method of rewarding shareholders

The dividends get taxed at two levels. First, at the company level and a second time in the hands of the shareholders. However, in the case of a buyback, only the company is liable to pay a buyback tax.

3. Strengthen promoter holding in the company

The company promoters can increase its stake in the company by forfeiting the buyback offer. This strengthens their hold over the company and acts as a defense strategy in the case of hostile takeovers.

4. To achieve optimum capital structure
The capital structure of a company gets represented by its debt-equity ratio. Each industry has a different capital structure requirement.

Some may not be suitable to rely on more debts, whereas some other business models may require large debts to run their business. Thus as per company requirement, a company may opt for buyback as a tool and repurchase its equity from market to achieve an optimum capital structure

5. Other Reasons

■To return surplus cash to shareholders
■To achieve optimum capital structure

■Advantages of Buy Back

1. Buybacks boost the share prices rectifying the prices of undervalued stocks.
2. Buybacks improve the company's Key Financial Ratios like EPS , ROE , Return on Asset.
3. Buyback provides an easy exit route for shareholders for undervalued stocks.

4. Buyback helps optimum utilization of free cash with not many options of investment.
5. Buyback serves as a health check on the company's financial position as only the companies with good liquidity position are allowed to announce buyback offers.

■Some Rare Disadvantages
1. The improvement in the financial ratios of the company may not be real. The increase may be due to a reduction in the denominator on account of a decrease in the number of equity shares and assets. However, that may not be a real profit.

2. Possibility of diversion of excess cash for buyback rather than a productive investment opportunity,

■ Methods for Buyback of shares

1. Through tender offer
2. Through Open Market

3. Buyback of shares from Odd-lot holder
(This method of the buyback is less common in India)

■Who can participate in buyback

1. To be eligible to participate in the Tender offer buyback, a person needs to be an existing shareholder as on the Record Date of the buyback offer.
In the Tender offer, the shares can either be in physical form or Demat form.

2. In case of an open offer, any shareholder holding the shares of that company during the buyback period can participate in the buyback offer.

in an open offer, generally only the Demat shareholders can be a part of the buyback offer.

■Is buyback of shares good?
The buyback of shares is generally perceived as a good opportunity by the shareholders as it provides an easy exit route at a premium price. However, one should not view the buyback offers just by the price

My views -
Long term shareholders should not apply for tender. If you are bullish on company's future growth , financials rerating and its management.

Thank You