

What is buyback?

Buyback is reverse of issue of shares by a company where it offers to take back its shares owned by the investors at a specified price; this offer can be binding or optional to the investors.

How can a company buy back its shares??

The company can buy back its shares in any of the following manners:

1. From the **existing shareholders** on a proportionate basis through the tender offer;
2. From **open market** through:
 - 2.1. Book building process
 - 2.2. Stock exchange,
3. From odd lot holders.

Provisions Governing Buy back of shares:

The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956. These were inserted by the Companies (Amendment) Act, 1999.

Objectives of Buy Back: Shares may be bought back by the company on account of one or more of the following reasons

- i. To increase promoters holding
- ii. Increase earning per share
- iii. Rationalise the capital structure by writing off capital not represented by available assets.
- iv. Support share value
- v. To thwart takeover bid
- vi. To pay surplus cash not required by business

In fact the best strategy to maintain the share price in a bear run is to buy back the shares from the open market at a premium over the prevailing market price.

Resources of Buy Back

A Company can purchase its own shares from

- (i) free reserves; Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve and details of such transfer shall be disclosed in the balance-sheet or
- (ii) securities premium account; or
- (iii) proceeds of any shares or other specified securities. A Company cannot buyback its shares or other specified securities out of the proceeds of an earlier issue of the same kind of shares or specified securities.

Conditions of Buy Back

- (a) The buy-back is authorised by the Articles of association of the Company.
- (b) A special resolution has been passed in the general meeting of the company authorising the buy-back. In the case of a listed company, this approval is required by means of a postal ballot. Also, the shares for buy back should be free from lock in period/non transferability. The buy back can be made by a Board resolution If the quantity of buyback is or less than ten percent of the paid up capital and free reserves;
- (c) The buy-back is of less than twenty-five per cent of the total paid-up capital and free reserves of the company and that the buy-back of equity shares in any financial year shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year;
- (d) The ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back;
- (e) There has been no default in any of the following
 - i. in repayment of deposit or interest payable thereon,
 - ii. redemption of debentures, or preference shares or
 - iii. payment of dividend, if declared, to all shareholders within the stipulated time of 30 days from the date of declaration of dividend or
 - iv. repayment of any term loan or interest payable thereon to any financial institution or bank;
- (f) There has been no default in complying with the provisions of filing of Annual Return, Payment of Dividend, and form and contents of Annual Accounts;
- (g) All the shares or other specified securities for buy-back are fully paid-up;
- (h) The buy-back of the shares or other specified securities listed on any recognised stock exchange shall be in accordance with the regulations made by the Securities and Exchange Board of India in this behalf; and

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(i) The buy-back in respect of shares or other specified securities of private and closely held companies is in accordance with the guidelines as may be prescribed.

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