Chapter 2

Historical Perspective

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Chapter 2

HISTORICAL PERSPECTIVE

2.1 Introduction

The activities of buying and selling stocks and shares in the stock market are extremely important for the allocation of capital between various sectors of the economy. Since most of the business on the stock market consists of dealing in existing (i.e., secondary) securities, the prices of such securities provide important signals to both the company management and common investors. Companies whose share prices are at a premium to the book value of their assets have a ‘badge of approval’ which enhances their chances of borrowing capital on favourable terms and of raising capital by issuing new shares (Pratten, 1993). Also, transaction prices and quotations provide investors with an insight into the market value of their wealth which may influence their decisions about future consumption and investment expenditure. When shares trade at high price levels, it indicates confidence among investors and this, in turn, positively affects the confidence of businessmen and hence influence their investment decisions.

Though ‘value’ is a matter of perception, yet it is believed that the stock market is the best judge of a stock’s intrinsic value. However, market sometimes behaves irrationally. If a company’s stock is perceived to be undervalued by the market, should the company management intervene to correct this anomaly so that the market price of the stock fully reflects the good future prospects of the company? Again, assume, a company has huge cash reserves but it cannot find a profitable alternative to invest. What should the company do with the
excess cash in such a situation? To visualise another situation—say a company is facing takeover threat from a hostile raider, how could it protect itself? "Share buyback" gives a befitting reply to the above-mentioned problems.

Share buyback is the process of buying back of a certain percentage of its own floating shares from the existing shareholders by a company. That is, it enables the company to go back to its shareholders and offer to purchase from them the shares they hold. It is viewed by the experts that share buyback could be a better way for a company to send a strong signal to the market that it wants to reward the shareholders and is serious about delivering shareholder value so that it is able to achieve a firm's basic objective of maximising the market value of its outstanding securities as spelled out in financial literature (Millerchip, 1990).

Though the buyback strategy has been quite popular in the developed markets of the West, it is of recent origin in Indian corporate environment. So, a thorough understanding of the theory underlying buyback is necessary before moving on to analysing buyback practices in India. In this perspective, the present chapter makes an attempt to elaborate the meaning of buyback, methods of buyback, benefits of buyback, emergence of buyback provisions in India etc. in order to provide an insight into the concept of buyback. Thus, Chapter 2 lays down the foundation for the development of all subsequent chapters that follow.

The following issues have been identified and discussed in this chapter:

- What is buyback of shares?
- Why buyback provision has been introduced in India?
- Does buyback lead to capital reduction, or for that matter, what is the distinction between buyback and capital reduction?
- Is there any distinction between buyback and liquidation?
• What are the possible benefits of buyback?
• Under what circumstances buyback can be resorted to by a company?
• What methods are available for buyback and what are their pros and cons?

This chapter has been organised as follows — Section 2.2 explains what is share buyback. Section 2.3 discusses the reasons for introducing buyback provisions in India. Buyback is distinguished from capital reduction in Section 2.4 and share surrender is compared with buyback in Section 2.4(a). Section 2.5 draws a comparison between buyback and liquidation. Section 2.6 outlines the benefits of buyback while Section 2.7 lays down the conditions in which buyback may be undertaken by a company. Section 2.8 describes the methods of buyback followed by a discussion on treasury operations in Section 2.9. Section 2.10 discusses the emergence of buyback provisions in India and the effective date of commencement of the same. Finally, Section 2.11 summarises the present chapter.

2.2 What is share buyback?

Buyback of shares essentially means repurchase of its own shares by a company having substantial cash reserves particularly when the prevailing rate of its shares in the market is much lower than the book value or what the company perceives to be its true value. In effect, share buyback is an investment by the company in its own stock. Buyback of shares i.e., “buying of own shares” may be done either for reducing share capital or for treasury operations¹. Normally, buyback is undertaken for cancellation of share capital i.e., extinguishment of the shares which have been bought back by the company. This is done by reducing the par value of the equity shares bought back from the issued, subscribed and paid up capital, while the excess of price paid above

¹. Treasury operations on shares bought back have been explained in Section 2.9 of this chapter.
par value is reduced from reserves and surplus. Under the treasury operations, the share capital does not get reduced as the acquired stock can be reissued by the company at a later date or for employee option.

2.3 Reasons for introduction of buyback provisions in India

Buyback of shares was earlier prohibited in India in order to prevent improper use of the company’s assets by speculators in management of a company who, by such repurchase, might seek to obtain control of the company for their own advantage. That is, it was believed that share buyback might encourage the promoters to strengthen their holdings in the company by utilising the financial resources of the company. It was also apprehended that buyback might give rise to the possibilities of insiders’ trading and might act as a deterrent to competitive and healthy takeover. Moreover, such restriction on the acquisition of its own shares by the company was considered necessary to protect the interests of creditors and depositors who had advanced their funds on the basis of a certain capital structure.

But this perception changed in late 1980s and early 1990s, a period marked by a declining trend in Indian capital market, sub-standard corporate performance and low standards of corporate governance. For judging the performance of a corporate enterprise, investors focus on the market price of its shares because these prices on the floor of the stock exchanges act as indicators of the past performance and future prospects of the company. So, with the stock market in shambles in the late 1980s, it was widely felt necessary to adopt such measures which would shore up the sagging sensex, help restore the confidence of shareholders and make the corporates happy (Khanna, 1999). A consensus emerged among the government, captains of industry and the stock market fraternity to introduce share buyback in the corporate sector in India as one such measure to help resurrect the sagging capital market.
Accordingly, it has been observed that the share price of companies, which had announced buyback plans after introduction of buyback provisions in the Companies Act, performed well on an average in a relatively subdued stock market and helped revive the sensitive index. However, such positive gains shown by the capital market barometer may not be entirely due to buyback of shares by companies comprising the index, but may be because of other economic, political, social and cultural factors having a bearing on the movement of the index.

Inspite of a general restriction on buyback of shares, there was a procedure for share buyback through capital reduction process requiring Court approval, hearing of creditors' objections, etc. or a reduction as ordered by the Company Law Board under the old provisions of the Companies Act, 1956. This naturally raises the question why then a separate provision is required for buyback? Buying back own shares with the permission of the Company Law Board is a course of action which no company voluntarily commences as it arises out of petitions under Section 397\(^1\) or 398\(^2\) and the capital reduction process is so lengthy, troublesome and tiresome that few companies choose to go through it. Share buyback facilitates reduction of share capital without recourse to lengthy capital reduction process and hence needs to be specifically provided for in the Companies Act, 1956.

Thus, the reasons for allowing Indian companies to buyback their own shares may be summarised as below:

- The primary reason behind introduction of buyback provisions in India was to revive the sagging capital market. Since buyback boosts share prices, it would help arrest the downward trend in share prices if announced in a period of temporary weakness of the stock market.

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1. Section 397 of the Companies Act, 1956 provides for relief in cases of oppression of the minority by the majority members of the company.

2. Section 398 of the Companies Act, 1956 provides for relief in cases of mismanagement of the affairs of the company by the majority.
Moreover, such appreciation in the market value of the shares would create and sustain investors' interest in the capital market.

- Since buyback presupposes the maintenance of earning potential of the company post buyback, it might help *improve the standards of corporate governance and hence improve the performance of corporate enterprises* (Khanna, 1999).

- Share buyback would allow a company which is financially strong and has good reserves created out of past profits and/or share premium account to *return surplus cash to shareholders when there would be no proper investment opportunities to maintain the rate of return* (Working Papers of The Companies Bill, 1997).

- It would enable a company to *restructure its debt-equity ratio with minimum hassle* and hence reflect the correct financial structure of the company.

- Since buyback generally results in increasing the promoters' holdings, it would help *counter takeover bids of those companies where the percentage of promoters' shareholding is not very high*.

### 2.4 Buyback distinguished from Capital Reduction

*Capital Reduction*, technically known as *Internal Reconstruction*, is the process of cancelling any paid-up share capital which is lost or unrepresented by available assets. Generally, this process is resorted to write off past accumulated losses of a company. Thus, capital reduction enables reorganisation of the capital structure and re-introduces reality into the balance-sheet of a company. *Buyback of shares*, on the other hand, entails repurchase of its own shares by a company out of free reserves or securities premium account or the proceeds of any shares or other specified securities for extinguishment of the securities so bought back. Buyback of shares also enables flexible capital structuring and ultimately leads to capital reduction if
treasury operations are not permitted. Thus, there is qualitative difference between the two. Legally, capital reduction is regulated by Sections 100 to 104 of the Companies Act, 1956 while share buyback is covered under Sections 77A, 77AA and 77B of the said Act, the details of which are given in Chapter 3.

Section 100 of the Act provides that a company limited by shares or a company limited by guarantee and having a share capital may, if authorised by its articles, by special resolution, and on its confirmation by the Court on petition, reduce its share capital in any way, in particular (Company Law Manual, 1999) by:

(a) reducing or extinguishing the liability of members in respect of uncalled or unpaid capital and thus relieve the shareholders from liability on the uncalled capital;
(b) paying off or returning paid-up capital not wanted for the purposes of the company;
(c) paying off the paid-up capital on the footing that it may be called up again so that the liability is not extinguished;
(d) following a combination of any of the preceding methods;
(e) writing off or cancelling the capital which has been lost or is unrepresented by the available assets.

An analysis of the above provisions indicate that capital reduction under clauses (b) and (c) of Section 100 only amount to buyback. This is because, reduction of capital may be effected by any method as discussed above and need not necessarily involve return of paid-up capital to shareholders. It may also be done by reducing or extinguishing the uncalled liability of members of the company. But, share buyback essentially involves paying off paid-up capital by repurchasing the shares from the existing shareholders. So, only when paid-up capital is paid off to shareholders, capital reduction is similar to share buyback.
In order to reduce its share capital in any manner, a company must comply with the following conditions viz., authorisation by Articles of Association, sanction by a special resolution passed at the general meeting of the company, an application to the High Court for an order confirming the capital reduction and intimation to the Registrar of Companies by submitting a certified copy of the minutes of reduction of share capital. But if a company has to go through the lengthy process of court approval every time a fundamental change is to be made in the capital structure, the restructuring process gets delayed and severely hampered. Buyback of shares, on the other hand, makes a departure from this tradition and permits companies to return capital without any requirement for obtaining the Court's approval and the obligation to observe the other formalities as in case of formal reduction of capital. Hence, buyback as a restructuring tool is less time consuming than capital reduction. However, it may be noted that the formalities attending a conventional reduction of capital under the Companies Act are founded on the principle of conservation of capital of the company (Ferran, 1999). Since buyback does away with such formalities, it may be alleged that buyback fails to conserve the capital of a company. But by prescribing the limit for buyback, maximum amount of funds to be used for buyback and post buyback debt-equity ratio norms as pre-requisites to buyback, the legislators have attempted to overcome such criticism.

Capital reduction may involve a change in the face value of the shares i.e., a reduction in the par-value and hence necessitates passing of special resolution in order to change the authorised/nominal capital as stated in the Memorandum of Association of the company. But share buyback never results in reduction of face value of shares. Hence, buyback is effected without impairing the terms of total authorised capital as inscribed in the capital clause of the Memorandum charter of the company.

Capital reduction process simultaneously involves paying off paid-up capital and reduction of paid-up capital of the company. But in case of buyback,
the shares bought back are required to be extinguished and cancelled within the prescribed time. That is, there is a time gap between the time of buyback and the time of actual extinguishment by way of reduction of capital as shown in the books. Even if the extinguishment is done immediately on buyback, the purchase of shares takes place first and the extinguishment takes place thereafter (Thakur, 1999). So, while recording the transactions chronologically in the books of accounts, paying off paid-up capital and reduction of capital are recorded on the same date in case of capital reduction but on two different dates in case of share buyback.

Thus, it seems that there is a close link between capital reduction and buyback of shares. However, a few differences exist between the two as have been highlighted in the preceding paragraphs.

2.4(a) Share Surrender vs. Buyback

Share surrender is a mode of reduction of share capital whereby the shareholders waive their rights, benefits and liabilities in respect of the shares they hold by simply handing over the shares to the company. The shareholders, however, receive no consideration on such surrender.

Before effecting share surrender, all or any of the company's shares need to be sub-divided into shares of smaller denomination, e.g., 10,000 equity shares of Rs. 10 each may be sub-divided into 1,00,000 equity shares of Re. 1 each thereby keeping the total issued and paid-up capital constant. The need for such sub-division is to increase the number of shares eligible for surrender. Thereafter, the share capital gets reduced on surrender of shares by the shareholders. The surrendered shares are then reissued to the debenture-holders and creditors in satisfaction of their claims in the company as per the scheme of reconstruction.
It is interesting to note that a valid surrender of shares was outside the scope of the old Section 77 of the Companies Act, 1956 which prohibited the purchase of own shares by a company. Hence, it seems that there exists a difference between share surrender and buyback. The points of differences are as follows:

(i) Share surrender is a voluntary transfer of shares by the company's shareholders in pursuance of a scheme of internal reconstruction whereas share buyback is effected on invitation to the shareholders by the company to offer their shares for buyback.

(ii) No consideration, whether in cash or in kind, is paid to the shareholders on surrender of shares unlike buyback.

(iii) Shares surrendered are usually reissued by the company to satisfy the claims of the debenture-holders and creditors. But, as treasury operations are not allowed in India, shares bought back must necessarily be cancelled by the company.

2.5 Buyback vs. Liquidation

The legal process of winding up a joint stock company is referred to as liquidation. In order to dissolve the existence of a company, its assets are realised, its creditors paid off and the balance of the proceeds distributed amongst shareholders on some equitable basis. With the commencement of the winding up operations, the company's directors become defunct and a person, called liquidator, is appointed by the court to realise the company's assets, discharge all its liabilities and distribute the surplus amongst its shareholders in proportion to their paid-up capital in the company.

It may be argued that, in a sense, buyback of shares constitutes partial liquidation of the company because paid-up share capital gets reduced in buyback and the holders of the shares which are bought back and cancelled
by the company no longer remain the shareholders of the company (Thakur, 1999). So, it becomes imperative to draw a comparison between the two.

The similarity between liquidation and share buyback is that both involve paying off the company's dues to the shareholders. However, the two differ in the following major respects:

(i) A company ceases to exist as a going concern in the event of liquidation of the company. But the corporate existence of the company does not cease and its business continues as usual even after share buyback.

(ii) In case of share buyback, the amount to be paid to the shareholders whose shares are bought back by the company is the price mutually agreed upon by the company and its shareholders because any buyback proposal must be passed at the general meeting of a company. But in case of liquidation, the amount due to each shareholder is paid in proportion to their paid-up capital upto the extent to which the sale-proceeds of the assets realised exceed the liabilities to be discharged on winding up of the company.

(iii) A liquidator is appointed by the court to carry out the proceedings in connection with the liquidation of the company. But the company itself and its associates like merchant bankers etc. are responsible for carrying out the buyback operations.

2.6 Benefits of buyback

Buyback of shares is a company-sponsored initiative and has several benefits. These benefits are: earnings bump, increase in shareholder value, signalling, excess cash distribution, capital structure adjustment, takeover defence and the like. We summarise them in the following paragraphs.
(i) *Boosting EPS and improving the quality of equity servicing*: With the capital base of a company being larger than that required to be profitably deployed in the business, the EPS tends to be low for such a company. By effecting a buyback, the company may shrink its equity base and accordingly increase its earnings per share thereby making its investors a happier lot. The basic premise of buyback is that it may enable a company to reduce its capital base without in any way affecting the operating efficiency of the company. But, the EPS rise invariably with buyback even if the net profits remain the same because buyback reduces the number of outstanding shares thereby resulting in a proportionate increase in EPS.

As buyback reduces the number of shares in circulation in the market, it may help improve the quality of equity servicing because the company, in such a case, has to serve a reduced equity capital base and hence can assure a higher dividend yield to its remaining shareholders.

(ii) *Increasing underlying share value*: It is contended that if conveyed properly and done in a transparent manner, share buyback can bolster the confidence of the market in a company and help boost the stock price as well (Singh Sisodiya, 2000). Sometimes, the announcement that a company will buy its own stock is often enough to send stock prices soaring. This is because there are a number of buyers in the market at that price being higher than the prevailing market price and so the stock prices generally react positively.

Moreover, the process of buying back and extinguishing the shares by a company brings about a decrease in the number of shares in issue and a consequent increase in its EPS as highlighted in point (i) above. If it is presumed that the market sets prices by
mechanically capitalizing reported EPS at industry-wide P/E (i.e., Price/Earnings) multiples, then the market price of the scrip will rise proportionately to maintain the price to earning (P/E) ratio at the pre-buyback level. Hence, buyback improves shareholders' value through higher EPS and this, in turn, favourably affects the market prices of scrips of the concerned companies.

(iii) **Supporting share prices during periods of temporary weakness**: In anticipation of higher earnings for the company and a higher percentage return on net worth through a better utilisation of its high reserves, share buyback might help improve the market sentiment in the stock. This might impart some stability to the market prices of the shares which have suffered severe beating in the recent past.

(iv) **Correcting pricing anomaly in the event of perceived undervaluation**: Share buyback is particularly relevant for companies which are flush with free reserves and liquid assets and whose share prices do not reflect their intrinsic worth. By “intrinsic worth” or “book value” we mean share capital plus free reserves of the company divided by the number of shares outstanding in the company. It is commonly assumed that corporate managers have better information about the value of the firm and its future prospects than other market participants and hence share buyback appears to be a credible mechanism for “signalling” this information.

There are two different versions of this signalling story. One says that buybacks are intended to convey management's expectation of future increases in the firm's earnings and cash flows—a view that is not shared by the market. That is, the decision to buyback articulates management's confidence in the future earnings stream of the company out of its established businesses and hence investing in its own shares appears to be the best option to the management to utilise its surplus cash flows.
The second version holds that managers, by way of buyback, are not attempting to convey new information to the market, but are instead expressing their disagreement with how the market is pricing their current performance.

In either case, the firm's management views the stock as undervalued i.e., priced below its intrinsic value. The disagreement between the two stories is, however, over the cause of the discrepancy between market price and fair value (i.e., intrinsic value) of the stock. In the first case, it is the company's inability (without the buyback) to communicate its prospects convincingly to the market; in the second, it is the market's failure to reflect existing publicly available information in the current price. The first situation is technically defined as "informational asymmetry" between a firm's management and its shareholders whereas the second situation is technically termed as "market inefficiency".

(v) Lowering tax incidence: Buyback is considered as the most tax-efficient way of distributing excess cash to the shareholders when there are no proper investment opportunities to maintain the current rate of return on capital. It is well known that dividends are taxed as ordinary income in the hands of the company whereas the buyback proceeds are taxed as capital gains in the hands of the shareholders and the company does not incur any tax liability on buyback.¹ Hence, buyback is an attractive means of returning to the investors the surplus cash generated through the business operations but are not required for ploughing back in the business.

(vi) Better utilization of funds: By returning the excess funds to the shareholders, buyback indirectly helps prevent companies from

¹. Since capital gains tax is about 10% lower than the tax rate applicable to dividend, the extent of tax incidence on investors is lower in case of buyback than in case of dividend. Thus, buyback is also tax-attractive from the viewpoint of investors.
"overinvesting"—that is, pursuing corporate size and growth at the expense of profitability and value. Buyback may ensure that the company focuses on its core business areas only and does not reinvest the surplus funds in the same business (i.e., expansion) at below-average rates of return (Krishna Murthy, 1999); or does not deploy the same for diversification into non-core areas which could depress the future earnings of the company; or does not go for growth through costly acquisitions.

(vii) *Restructuring capital structure*: Share buyback may help a firm in achieving a target capital structure. It provides flexibility to corporate entities to alter their capital structure and financial position keeping in view the needs of the business.

Buyback allows the companies to restructure their balance-sheets that may be perceived as skewed in favour of equity. Buyback can, thus, aid a company in achieving an optimum debt-equity ratio, especially when its equity is proportionately large. Moreover, such an adjustment in debt-equity ratio usually increases the company's financial leverage, lowers its cost of capital and hence enhances the profitability of the firm, other factors remaining constant.

(viii) *Increasing promoters' percentage holding*: The percentage shareholding of the promoters increases subsequent to buyback without buying extra shares because after buyback of shares from the other shareholders the capital base of the company gets reduced and the shareholding of such persons as a percentage of the reduced capital increases as a result.

(ix) *Defence mechanism against hostile takeovers by multi-national companies (MNCs) and other cash-rich companies*: In order to prevent a hostile takeover bid, companies having adequate cash reserves may announce a buyback programme which may lead to
increase in market price of its shares thereby making the acquisition more costly and unattractive due to decline in liquidity arising out of buyback.

(x) **Offsetting the dilutive effects of ESOPs**: Share buyback helps offset the dilutive effects of generous stock compensation packages for employees on earnings of the company. There has been a growing trend among the companies in recent years to issue stock options, commonly known as ESOPs (i.e., short form of *Employee Stock Option Plans*), in order to retain talented employees in the company. But earnings get "diluted" i.e., earnings per share reduces when the number of shares outstanding increases. So, when successful companies issue new shares to reward their employees under the ESOP scheme, the other shareholders' per-share earnings are, inevitably, 'diluted' (McCarthy, 1999). Since buyback has the effect of reducing the number of shares outstanding in the company, announcement of an equivalent buyback programme prior to exercising the ESOP ensures that the number of shares outstanding before and after exercising ESOP is maintained thereby nullifying the dilutive effects of ESOPs on EPS. Moreover, as buyback boosts the stock-prices, the employees may feel rewarded by holding stock-options because they may earn a huge gain by exercising the option at the market rate.

Buyback of shares may lead to certain indirect or consequential benefits to others. They are briefly given below:

(i) **Channelising investment into more promising sectors**: Share buyback, by way of returning excess capital to investors, play the critically important economic function of allowing investors to channel their investment from mature or declining sectors of the
economy to more promising sectors. Thus, companies may use buyback as a means of re-allocating capital from less productive to more productive areas in the economy thereby facilitating efficient allocation of resources between different sectors of the economy.

(ii) **Creation of goodwill** : Another auxiliary benefit of buyback is the goodwill generated amongst the shareholders due to refund of the money invested by them in the capital of the company at or above the prevalent market rates apart from the normal benefits of shareholding which continues even after buyback by way of increased dividend, bonus shares and market appreciation. This goodwill will be especially useful to the company management on such occasions when the shareholders' support will be required on key resolutions requiring their approval.

(iii) Buyback may help to eliminate the discontented shareholders, fractional shareholdings and odd lots or employees' shareholdings when the employment ceases.

### 2.7 When can buyback be undertaken?

We have mentioned possible benefits of share buyback in the previous Section. The next question that arises in our mind is: under what circumstances a company may resort to buyback of shares? The possible situations are:

- When a company is over-capitalised and there is no attractive investment opportunities for enhancing its rate of return in the foreseeable future.
- When future earnings are forecasted to be strong and buoyant, or at least stable, so that the company can boost its market capitalisation through buyback.
- When market prices of shares are quoted at levels lower than their intrinsic values and there is possibility of reversing the position soon.
When improvement of shareholder value by means other than buyback appears difficult.

When restructuring of the capital structure is considered imperative and it can be done so only through the buyback route.

In reality, a combination of the above situations may lead to buyback of shares by a company. Nevertheless, such an option has to be exercised by a company after considering pros and cons in the matter both before and after the buyback.

2.8 Methods of buyback

The possible methods of buyback are:

(i) Tender Offer method,
(ii) Dutch Auction repurchase (also known as Book Building method),
(iii) Open Market repurchase, and
(iv) Negotiated deals.

It would be useful to discuss, firstly, in depth the various methods of buyback so as to understand the modus operandi of each methodology of conducting buyback operations. A comparative study then follows to highlight the major points of differences among the first three methods.

(i) Tender Offer method

In a repurchase tender offer, the company offers to buy a specified amount of stock at a given price, known as the tender price, until a given expiration date. That is, in this method, the company usually sets forth the maximum number of shares that it is offering to purchase, the fixed price at which it will repurchase shares and the period of time during which the offer
will be extended. It is the company which fixes and announces the tender price which is usually set at a *premium* over the prevalent market price in order to act as an incentive to the shareholders to offer their shares for buyback and also to signal the correct share valuation. The shareholders, then, decide on the number of shares that each one of them wants to offer for buyback at this price. Note that the promoters of the company are permitted to participate in the offer. However, tender offer is made to those shareholders whose names and addresses appear in the Register of Members at a particular point of date. The tender offer remains valid for a limited period of time i.e., the expiration date is usually 15–30 days after the offer. The company may also reserve the right to extend the time period of the offer in case it is *undersubscribed*.

The tender offer may or may not be contingent on a *minimum threshold* of shares being tendered. That is, the firm can set *maximum* or *minimum* limits on the amount sought. Minimum constraints imply that the firm may withdraw the offer if fewer shares are tendered than desired. But the vast majority of tender offers are “maximum limit” offers i.e., management agrees to buy all the shares tendered even if fewer than the number sought are tendered.

If the offer is *oversubscribed*, the company has the option to increase the size of the repurchase and buyback all the shares tendered even though it is more than the maximum number specified in the offer. When the offer is oversubscribed and the company does not want to extend the offer, then it purchases less than all shares tendered on a pro rata basis from each of the tendering shareholders and returns the balance of their tender in stock. That is, in cases where the number of shares tendered by the shareholders is more than the total number of shares to be bought back by the company, the firm

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1. In some cases, the company may slightly deviate from the precise pro rata repurchases to buy out odd-lot shareholders to reduce future servicing costs.
repurchases shares in proportion to the total number of shares tendered in the following manner:

Acceptances per shareholder (i.e., number of shares per shareholder accepted for buyback by the company) = A proportion of the number of shares tendered by each shareholder for buyback

\[
\text{Number of shares tendered by each shareholder for buyback} \times \frac{\text{Total number of shares to be bought back by the company}}{\text{Total number of shares tendered by all the shareholders for buyback}}
\]

This is the proportion which is bought back from each shareholder in case of oversubscribed offer.

If the offer is undersubscribed, then the firm either cancels the offer (provided it has been made conditional on a minimum acceptance), or buys back all tendered shares at the stated price.

The shares lodged with the company under a tender offer shall be deemed to have been accepted in accordance with the decision taken by the company unless a communication of rejection is made by the company.

In India, the shareholders are invited to respond to the company's tender offer for share buyback at a fixed repurchase price and pro rata acceptance is made by the company in case of oversubscription. In case of undersubscription, the company accepts all the offers received within the time schedule even though the number tendered is less than the maximum number of shares specified for buyback in the tender offer.

To conclude, the key issue in the tender offer method is the sustainability of the buyback price after the buyback operations are completed since the buyback price, which will be at a premium to the prevalent market price, is meant
to signal the correct share valuation and it is expected that the prevalent market price will move upwards to equal the buyback price during the course of the buyback operations (Krishna Murthy, 1999). If the growth of the company is maintained or increased during the post buyback period, in all likelihood, the market price would be equal to or higher than the buyback price, thereby ensuring that the company's objectives through buyback are met. If, however, the growth slows down during the post buyback period, in all likelihood, the market price will be lower than the buyback price, thereby defeating the objective of buyback.

(ii) Dutch Auction repurchase (or Book Building method)

In a Dutch auction repurchase, the company announces the maximum number of shares it wishes to buy during a stipulated period and sets a price range between which shareholder bids will be accepted. By this process, the shareholders are invited to tender their stock, if they desire, at any price within the stated range. At the close of the offer period, the company collects the individual offers (i.e., bids) and sorts them by price in ascending order until the specified number of shares has been accumulated. The precise price level at which the buyback is completed is arrived at by adding the number of shares offered starting at the lowest end of the company's price range. The price stops at that point at which the cumulative number of shares equals the size of the buyback program. The repurchase price is, therefore, the lowest price necessary to acquire the number of shares sought in the offer. All shareholders who submitted offers at or below the highest accepted bid are included in the repurchase program and are paid the same price for their shares, which is equal to the highest accepted bid. All shareholders who tendered at prices above the highest accepted bid price are excluded from the deal and their shares are returned to them.
Illustration 2.1 (with hypothetical data)

Current market price of company’s share : Rs. 45 per share

Maximum number of shares sought to be bought back by the company : 1,00,000

Mode of buyback : Dutch Auction (or Book Building method)

Price band announced by the company : Rs. (48 – 55) per share at which it will entertain offers for buyback

Quotes received from each shareholder are first arranged in ascending order of prices within the price range and thereafter the total number of shares offered for buyback at a particular price level within the range is arrived at by aggregating the number of shares offered for buyback in each individual bid at that price level. Such details and the mode of arriving at the buyback price is analysed as under:

Table 2.1
Illustration of the (Dutch Auction) Book Building method of share buyback

<table>
<thead>
<tr>
<th>Buyback price range announced by the company (Rs.)</th>
<th>Total number of shares offered for buyback arrived at after classifying the bids by prices and aggregating them</th>
<th>Cumulative number of shares offered for buyback</th>
</tr>
</thead>
<tbody>
<tr>
<td>48</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>49</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>50</td>
<td>30,000</td>
<td>70,000</td>
</tr>
<tr>
<td>51</td>
<td>35,000</td>
<td>1,05,000</td>
</tr>
<tr>
<td>52</td>
<td>55,000</td>
<td>1,60,000</td>
</tr>
<tr>
<td>53</td>
<td>75,000</td>
<td>2,35,000</td>
</tr>
<tr>
<td>54</td>
<td>80,000</td>
<td>3,15,000</td>
</tr>
<tr>
<td>55</td>
<td>1,50,000</td>
<td>4,65,000</td>
</tr>
</tbody>
</table>
It may be observed from the above table that at the price levels of Rs. 48, Rs. 49 and Rs. 50 within the price band of (Rs. 48 – Rs. 55), the aggregate number of shares offered by the shareholders interested in the buyback offer (i.e., 15,000, 40,000 and 70,000 respectively) is less than the total number of shares that the company has sought to buyback (i.e., 1,00,000). But from price level of Rs. 51 to Rs. 55, the aggregate number of shares exceed the number that the company intends to buyback. Thus, Rs. 51 per share is the lowest price (or the highest accepted bid) at which the buyback objectives of the company and that of the shareholders would match and hence buyback can be made at this price from the shareholders proportionately so that the total number of shares bought back is exactly 1,00,000. That is, as Rs. 51 per share is the lowest price within the price range at which the aggregate number of shares offered by the shareholders for buyback (i.e., 1,05,000) exceeds the number of shares sought by the company for buyback (i.e., 1,00,000), all shareholders who tendered at Rs. 51 per share or below Rs. 51 per share but not below the lowest end of price range (i.e., Rs. 48 per share) shall be included in the buyback program and shall be paid a common price which is the highest accepted bid price (i.e., Rs. 51 per share) for their shares. But their shares would be bought back proportionately in the ratio of 20 : 21 \( \left(1,00,000 \div 1,05,000 = \frac{20}{21}\right)\) so that the number of shares accepted for buyback by the company from each one of them aggregates to the number sought by the company for buyback (i.e., 1,00,000).

Thus, Dutch Auction repurchase is also a fixed price deal like tender offer method. But the price paid in a Dutch Auction is comparatively lower than that paid in a tender offer as the company pays less premium in Dutch Auction repurchase. Promoters of the company can also participate in Dutch Auction mode of buyback.
(iii) **Open Market repurchase**

Open market repurchase through the stock exchanges is the most commonly practiced method of buyback of shares. In this method, the company buys shares through the stock exchanges either directly or through intermediaries till it reaches the maximum number of shares it had originally set out to buyback. That is, in open market repurchase, the company announces the maximum number of shares it intends to buy from the secondary market over a specified period of time and the maximum price at which such buyback will be made. The price at which shares are actually bought back by the company is, however, determined by the market i.e., prevailing share price on the stock exchange at the time of buyback becomes the buyback price and it is only the extent of buying pressure that the company exerts vis-a-vis supply that determines the movement of the share price during the buyback period. But the need to specify the maximum buyback price is simply to ensure that buybacks are not made at very high prices that may subsequently prevail on the stock exchanges during the buyback period because it is quite likely that the share prices may shoot up each day after buyback. Since repurchases are made at the prevailing market price, the company does not offer any premium to the market price when it buys back under this mode. Promoters are not allowed to participate in an open market repurchase offer in order to minimise the possibility of their involvement in insider trading. There is no definite time frame for completion of an open market buyback program and hence the company may announce an indefinite open market program.

Open market repurchase method is, however, resorted to when the number of shares sought to be bought back is small. Moreover, the identity of the company as a purchaser must be shown on the electronic screen in the stock exchange in order to enable the shareholders know that the buyer is a company in case of an open market purchase.
The major points of *differences* among the three buyback methods may now be summarised in table 2.2.

**Table 2.2**

**Comparison of the Tender Offer, Dutch Auction and Open Market repurchase methods**

<table>
<thead>
<tr>
<th>Tender Offer method</th>
<th>Dutch Auction repurchase (Book Building method)</th>
<th>Open Market repurchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. It may be used to retire a large block of shares say about 15% – 20% of the outstanding shares.</td>
<td>1. This method is also used to buyback large number of shares.</td>
<td>1. It is resorted to when the number of shares sought to be bought back by the company is relatively small say about 2% – 5% of the outstanding shares.</td>
</tr>
<tr>
<td>2. The buyback price is fixed by the company.</td>
<td>2. The price setting is done by the shareholders through their preferences for tendering various volumes for buyback based on an assessment of the fair price of the shares.</td>
<td>2. The buyback price is determined by the market forces of demand and supply.</td>
</tr>
<tr>
<td>3. The company offers a single price to all shareholders for a specific number of shares for buyback.</td>
<td>3. The company announces a price band and solicits information from the shareholders that allows the company to form a final price. That is, the company compiles the shareholder tendering responses creating the supply curve for the stock and pays as the purchase price the lowest price that allows it to buy the number of shares sought in the offer.</td>
<td>3. In open market buyback, though the company announces a maximum price for buyback, shares are actually bought back at the prices prevailing on the stock exchange at the time of buyback.</td>
</tr>
<tr>
<td>4. It is a fixed price deal.</td>
<td>4. It is also a fixed price deal.</td>
<td>4. It is not a fixed price deal as buyback is made at prices prevailing on the stock exchanges.</td>
</tr>
<tr>
<td>Tender Offer method</td>
<td>Dutch Auction repurchase (Book Building method)</td>
<td>Open Market repurchase</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>5. The buyback price is set initially before the process starts in a tender offer mode.</td>
<td>5. The buyback price is revealed towards the end of the process in Dutch auction method.</td>
<td>5. The price is revealed during the process of buyback.</td>
</tr>
<tr>
<td>6. The company offers shareholders a significant premium for its shares over the prevailing market price.</td>
<td>6. The company also pays a premium but as the company solicits information from the market and reveals less about its own views, the premiums are smaller as compared to the tender offer mode. Hence the price paid is generally lower than that paid in a tender offer.</td>
<td>6. It does not permit any payment of premium over the market price for buyback because open market buyback is effected at market prices only.</td>
</tr>
<tr>
<td>7. As the extent of premium is quite significant, this method strongly signals under­valuation of the company's stock.</td>
<td>7. As the premiums are smaller, the signal is said to be weaker in this method.</td>
<td>7. This method does not enable the company to directly signal any undervaluation in the share price.</td>
</tr>
<tr>
<td>8. Offer period is between 15 – 30 days.</td>
<td>8. Offer has to be open for a minimum period of 15 days and a maximum period of 30 days.</td>
<td>8. The company may announce an indefinite open market repurch­ase program.</td>
</tr>
<tr>
<td>9. It is an inflexible method of buy­back.</td>
<td>9. It is less flexible than open market repurchase.</td>
<td>9. Open market programs are, by design, flexible in terms of when and how companies buyback stock.</td>
</tr>
</tbody>
</table>
Table 2.2 (contd.)

<table>
<thead>
<tr>
<th>Tender Offer method</th>
<th>Dutch Auction repurchase (Book Building method)</th>
<th>Open Market repurchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. The target audience is limited compared to the open market repurchase.</td>
<td>10. The target audience is more than in case of tender offer mode but less than that in open market repurchase.</td>
<td>10. The target audience is maximum in case of this method as buyback is effected in the open market.</td>
</tr>
<tr>
<td>11. Promoters are eligible to participate in this method.</td>
<td>11. Promoters can also participate.</td>
<td>11. Promoters are not permitted to offer their shares for buyback under this method.</td>
</tr>
</tbody>
</table>

(iv) Negotiated deals

In negotiated trades, the companies can restrict the right of participation in the buyback operations to a shareholder or a specific group of shareholders and can bargain for the prices at which their shares shall be bought back. One such example of negotiated deal is the buyback effected through option contracts. The purchase of a call option (i.e., option to buy shares) allows companies to lock in a maximum price (known as the strike price) for repurchasing a given quantity of stock. If the price settles below the strike at expiration, the option expires worthless; but this also means that market prices have not moved against the firm, thus allowing it to collect shares in the open market at market prices. If the market moves up and prices close above the strike at expiration, the company can take delivery of its shares while paying only the lower strike price. On the other hand, the company, by selling a put option (i.e., option to sell shares), promises to buyback shares should market prices fall below a specific point. If the company sells a put and simultaneously applies those proceeds to the purchase of a call with the same parameters, the company shall have a pre-set price and shall be assured of taking delivery of its shares once the options reach maturity regardless of whether the market prices move up or down.
Thus, each method of buyback of shares has its own merits, relative power to signal undervaluation and costs associated with implementing the process. Consequently, no one method actually dominates. Each company chooses the method most suitable to its operations and based on the level of stock undervaluation as perceived by it. In India, companies are, however, not permitted to buyback shares through negotiated deals, spot transactions and private placements.

2.9 Treasury operations

The shares bought back by a company meet either of the following two consequences:

(i) The shares may be treated as cancelled and shall be extinguished and physically destroyed after completion of buyback and the amount of the company's issued share capital shall be diminished by the nominal value of those shares accordingly. But such repurchase and cancellation of shares should not be taken as reducing the amount of the company's authorised share capital.

(ii) Alternatively, the shares bought back may be held in treasury so that they can be reissued again at a later date by the company.

Under the treasury operations, a company's own stock that has been issued, fully paid for and reacquired by the company, but not retired, is held by the company in its treasury for safe-keeping. Hence such shares may be referred to as the 'treasury stock' and reissue of treasury shares does not constitute an increase in the issued share capital for any purpose.

A company may acquire treasury stock for any of the following reasons:

(1) Reissue of such shares to officers and employees of the company under a bonus or stock option plan.
(2) Increasing the trading of company's securities in the capital market by reducing the number of shares in circulation in the securities market and hence enhancing the market value of the company's shares.

(3) Making available with the company additional number of shares for use in the acquisition of other companies.

(4) Reducing the number of shares outstanding in the company and thereby increasing EPS.

(5) Eliminating discontented shareholders and hence preventing a hostile takeover bid.

One of the main characteristics of treasury shares is that such shares shall not enjoy voting rights or right to dividend, bonus issue or a rights offer while they are held in treasury. This is because, though such shares are borne on the register of members of the company, yet they are non-existent for all practical purposes i.e., the capital represented by these shares are not employed in the business. Therefore, it is illogical for these shares to participate in a rights issue or in the capitalisation of reserves (i.e., bonus issue) created out of accumulated profits in the process of earning of which these shares did not participate. But after reissue, such treasury shares shall rank equal in all respects with the then existing shares and shall become entitled to dividend, bonus rights, etc.

Issue of treasury shares is not permitted in India. In the U. S., treasury operations are permitted.

It is often debated that though treasury shares give additional flexibility to the companies with regard to the management of their capital structure, yet it has the potential for manipulation of share prices (i.e., price rigging) by the promoters and persons in control of the affairs of the company (Ferran, 1999). In order to remove such allegation of insider trading, the law regulating share
buyback operations should expressly prohibit the exercise of voting rights attaching to treasury shares held by the company and impose the following accounting and disclosure requirements — disclosure of the proportion of shares held in treasury; treatment of dividend payments whilst they are so held; procedures for authorising reissue and publicising its occurrence; and possible restrictions on reissue at price-sensitive times and during takeovers.

2.10 Emergence of buyback provisions in India

Way back in 1887, the House of Lords in England laid down in *Trevor V. Whitworth* case that it was against jurisprudence to permit a company to purchase its own shares primarily because of the need to protect the interests of the creditors against the adverse consequences of reduction of capital. They opined that allowing the companies to buyback own shares would tempt them to indulge in an unhealthy practice of influencing the market price of its shares or reducing its share capital without complying with the statutory provisions on reduction under which confirmation of the competent court is required.

Based on the same logic, in India the Companies Act, 1956 has, in *Section 77(1)*, prohibited a company limited by shares or a company limited by guarantee and having a share capital from buying its own shares unless a consequent reduction of capital is effected and sanctioned in accordance with Sections 100 to 104\(^1\) or Section 402\(^2\) of the Act.

Over the years, the situation has changed. Now the companies have to work in an entirely new and challenging economic environment marked by a sea change in society, market volatility, customer behaviour, competition and technological advancements. All these factors, coupled with the spectacular growth of the securities market, have led to a paradigm shift in the approach,

1. Sections 100 to 104 deal with the provisions and procedure for reduction of capital.
2. Section 402 authorises the Company Law Board to order purchase of own shares by the company to give relief in a petition of oppression/mismanagement.
attitude, focus and outlook of the company management, market regulators and legislators across the world. All the rules that were governing and restricting buyback of shares gradually diluted in many developed countries with the result being that the UK Companies Act was amended in the year 1981 to introduce provisions for buyback. Soon after, the other countries of the world followed suit in making exhaustive provisions for buyback.

In keeping with this change in business environment, the corporate sector in India started demanding that necessary changes be incorporated in the Act so as to bring company law in line with that prevailing in other developed countries of the world. The most pressing demand was the permission to buyback their own shares and the companies were eagerly awaiting a nod from the Ministry of Law, Justice and Company Affairs for the same. In its endeavour to be contemporary with international practices, the Government of India introduced the buyback provisions for the first time in the Companies Bill, 1997. But due to some unavoidable circumstances, the Government took the Ordinance route to incorporate the necessary changes relating to buyback in the Companies Act, 1956 in order to foster the economic development of the country and revive the sagging capital market. Thus on 31st October, 1998, the Union Government promulgated the Companies (Amendment) Ordinance, 1998 permitting Indian companies to buyback their own shares. The Ordinance inserted two new Sections — 77A and 77B in the Companies Act, 1956, which laid down the provisions and restrictions relating to buyback of shares. Since the Ordinance, 1998 could not be enacted, Companies (Amendment) Ordinance, 1999 was promulgated in January 1999 and finally Companies (Amendment) Act, 1999 [containing Sections 77A, 77AA and 77B relating to buyback provisions] was passed to give effect to the buyback provisions contained in the Ordinance, 1998 and modified subsequently. Thereafter, the Securities and Exchange Board of India (SEBI) notified the Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 to govern
buyback of securities made by the companies that are listed on any recognised stock exchange(s). Subsequently, the Ministry of Law, Justice and Company Affairs, laid down the guidelines regulating the buyback of securities by private limited companies and unlisted public limited companies.

Thus, the sequence of events that have brought about the necessary legislative changes permitting share buyback is given in table 2.3.

Table 2.3

Events (arranged chronologically) leading to introduction of legal provisions on buyback in India

<table>
<thead>
<tr>
<th>Date and Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996 – mid 1997</td>
<td>Appreciating the issues emerging from the recent developments of the economy, a Working Group on the Companies Act, 1956 was constituted in the year 1996 to undertake the responsibility of recodification of the Companies Act, 1956. The Working Group recommended lifting of the restrictions on buyback. After the release of the working papers, a lot of discussions and seminars took place till mid 1997. As a result, a consensus emerged among the experts in the fields of company law, accountancy and management, stock exchange authorities, eminent industrialists and noted economists that the provision for buyback of securities of a company should be incorporated in the Companies Act, 1956. Accordingly, Clause 69 of the Companies Bill, 1997 was drafted to contain provisions relating to buyback and in this fashion, share buyback made its entry for the first time in the Indian corporate sector.</td>
</tr>
<tr>
<td>14th August, 1997</td>
<td>The Companies Bill, 1997 was introduced in the Rajya Sabha to replace the Companies Act, 1956. The Bill was, however, referred to a Standing Committee on Home Affairs and before the report of the Committee could be received, the Parliament was dissolved and hence the Bill was not enacted.</td>
</tr>
</tbody>
</table>
Table 2.3 (contd.)

<table>
<thead>
<tr>
<th>Date and Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st October, 1998</td>
<td>The President promulgated the Companies (Amendment) Ordinance, 1998 based on the modified Bill (1997) considering the urgency of the matter and the fact that the Parliament was not in session then. The Ordinance, 1998, <em>inter alia</em>, made provisions for buyback in Section 4 thereof through the introduction of Sections 77A and 77B in the Companies Act, 1956.</td>
</tr>
<tr>
<td>14th November, 1998</td>
<td>Pursuant to the power conferred on SEBI by Section 77A(2)(f)(^1) of the Companies Act, 1956, SEBI issued the Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 for companies whose shares are listed on a recognised stock exchange.</td>
</tr>
<tr>
<td>22nd December, 1998</td>
<td>Based on the comments received from the public, marketmen and industry on the buyback provisions as contained in the Companies (Amendment) Ordinance, 1998, the Central Government introduced in the Lok Sabha the Companies (Amendment) Bill, 1998 containing modified provisions (Sections 77A, 77AA and 77B(^2)) relating to buyback.</td>
</tr>
<tr>
<td>7th January, 1999</td>
<td>Since Companies (Amendment) Bill, 1998 could not be enacted during the winter session of the Parliament, the President re-promulgated the Companies (Amendment) Ordinance, 1999 based on the Companies (Amendment) Bill, 1998 but with such modifications relating to the scope of the section as are viewed by industry and capital markets to continue the provisions for buyback in the Act.</td>
</tr>
<tr>
<td>19th March, 1999</td>
<td>SEBI decided to amend the SEBI (Buyback) Regulations and issued the amended SEBI (Buyback of Securities) Regulations(^3) consequent upon the promulgation of the Companies (Amendment) Ordinance, 1999.</td>
</tr>
</tbody>
</table>

1. Section 77A(2)(f) of the Companies Act, 1956, as introduced by the Companies (Amendment) Ordinance, 1998, required the buyback to be in accordance with regulations made by SEBI in this behalf.
2. The provisions of Sections 77A, 77AA and 77B inserted in the Companies Act, 1956 have been detailed out in chapter 3.
3. The provisions of Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998, as amended subsequently, have been discussed in chapter 3.
Table 2.3 (contd.)

<table>
<thead>
<tr>
<th>Date and Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st April, 1999</td>
<td>The Companies (Amendment) Ordinance, 1999 was replaced by the Companies (Amendment) Bill, 1999 which was passed by the Parliament in its February, 1999 session and received the President's assent on this date. The provisions of the Ordinance, 1999 relating to buyback are now contained in the Companies (Amendment) Act, 1999 and is deemed to have come into force on 31st October, 1998. It is to be noted that prior to the introduction of buyback provisions with effect from 31.10.98, share buyback in India was strictly prohibited by Section 77 excepting a few rare occasions governed by Sections 100 to 104 or Section 402 of the Companies Act, 1956.</td>
</tr>
<tr>
<td>16th July, 1999</td>
<td>Pursuant to the powers conferred on the Central Government by the Companies (Amendment) Act, 1999, the Ministry of Law, Justice and Company Affairs, Department of Company Affairs notified the Private Limited Company and Unlisted Public Limited Company (Buyback of Securities) Rules, 1999 in the Official Gazette of India to regulate buyback of securities by Indian private limited companies and unlisted public limited companies.</td>
</tr>
</tbody>
</table>

The Companies (Amendment) Act, 1999 came into force on the 31st October, 1998 (i.e., the date of the issue of Companies (Amendment) Ordinance, 1998 whose provisions on buyback have been modified and continued in the Amendment Act, 1999) vide Sub-section (2) of Section 1 of the Amendment Act, 1999. Accordingly, buyback of shares by Indian companies was permitted with effect from 31st October, 1998 i.e., buyback could be carried out by Indian companies any time on or after that date. But there were two limitations that delayed the buyback by Indian companies — firstly, apart from the authority needed in the company's articles of association, buyback also needed approval of the company by way of a special resolution. Further, listed
companies had to wait till the SEBI Regulations were notified on 14th November, 1998 while unlisted companies and private limited companies could buyback their shares on or after 16th July, 1999 i.e., with effect from the date on which the Central Government prescribed the rules governing buyback of securities by private limited and unlisted public limited companies.

2.11 Summary

This chapter has, thus, made an attempt to elaborate the meaning of buyback, methods and benefits of buyback, emergence of buyback in India, etc. in order to provide a conceptual foundation. Once this is done, the next chapter examines, among others, the legal provisions and other regulatory measures relating to buyback of shares in India.