Tax shift throws a wrench in the gears of '24 buybacks

TAX PENDULUM SWINGS: ₹13,423 cr repurchases in '24, down 72% from '23

BUYBACKS THROUGH THE YEARS: PEAKS, PIVOTS, AND PLUNGES

Year	Number of issues	Acquired amount (₹ cr)
1999	11	110.8
2000	15	1,160.85
2001	19	504.45
2002	27	716.58
2003	20	113.55
2004	9	145.76
2005	13	533.52
2006	5	15.18
2007	9	1,097.16
2008	32	2,167.18
2009	37	683.97
2010	12	1,102.78
2011	29	4,258.70
2012	25	4,647.67
2013	29	4,143.75
2014	16	2,019.28
2015	13	1,263.15
2016	37	27,887.44
2017	50	55,273.77
2018	63	32,385.25
2019	69	43,528.39
2020	55	36,517.08
2021	42	13,657.90
2022	58	38,305.33
2023	48	48,078.89
2024	48	13,422.50

Source: PRIME Database

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After reaching a six-year peak in 2023, the amount spent on buyback offers by companies shrank last year following the government's decision to shift the tax burden from companies to investors.

In 2024, 48 companies repurchased shares worth ₹13,423 crore, compared to ₹48,079 crore spent on share buybacks by the same number of companies in 2023.

The government's move to tax share buybacks at the shareholder level, similar to dividends, discouraged companies from pursuing buyback offers. Robust equity markets, which reduced investor willingness to tender shares, also contributed to the decline in share repurchases.

"The benefits of buybacks that existed previously are no longer available. Dividends are now more efficient because, unlike buybacks, there is no need to engage merchant bankers to facilitate the process. Also, companies are not subject to Sebi compliance. Dividends can be distributed quickly, whereas buybacks take weeks to complete," said Deepak Jasani, former head of retail research at HDFC Securities.

The changes in buyback taxation, which increases the tax burden on recipient shareholders, took effect on October 1, 2024. Since the new rules were implemented, only one buyback offer has been completed: Matrimony.com's ₹72 crore buyback. No buybacks occurred in November and December 2024. November 2024 marked the first month since May 2018 without any share repurchase offers.

Before October, companies undertaking buybacks were subject to a tax of over 20 per cent. Meanwhile, shareholders who tendered their shares were not liable for any taxes. In response to the higher tax burden on dividends, many cash-rich firms, particularly in the information technology sector, favoured buybacks as a way for promoters to reduce tax liabilities. The increase in buyback value in 2023 was largely driven by several large-scale issues, including Tata Consultancy Services' ₹17,000 crore buyback.

Some of the large buyback offers in 2024 included those from Bajaj Auto (₹4,000 crore), Indus Towers (₹2,640 crore), Aurobindo Pharma (₹750 crore), Chambal Fertilisers and Chemicals (₹700 crore), and Zydus Lifesciences (₹600 crore). The remaining deals last year were all under ₹500 crore.

Looking ahead, the recent market correction may prompt some promoters to consider share repurchases as a way to reward shareholders.

"Many investors saw a wealth wipe-out during the recent market meltdown. If overall market capitalisation declines further, promoters may consider buybacks to reward shareholders and increase their stake. Investors should assess whether the buyback is symbolic or if a substantial portion of the share capital is being repurchased. Some companies have repurchased up to 8 per cent of their total share capital. In such cases, the impact on earnings per share will be more pronounced," said Chokkalingam G, founder of Equinomics Research.