



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India



Buyback of Securities and Open Offer of Shares

Disclaimer



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Buyback of Securities

Flow of Presentation



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- 1. What is Buyback of Securities**
- 2. Methods of Buyback of Securities**
- 3. Common reasons for Buy-back**
- 4. How to apply in a Buyback**
- 5. Points to ponder before participating in Buyback**

What is Buyback of Securities



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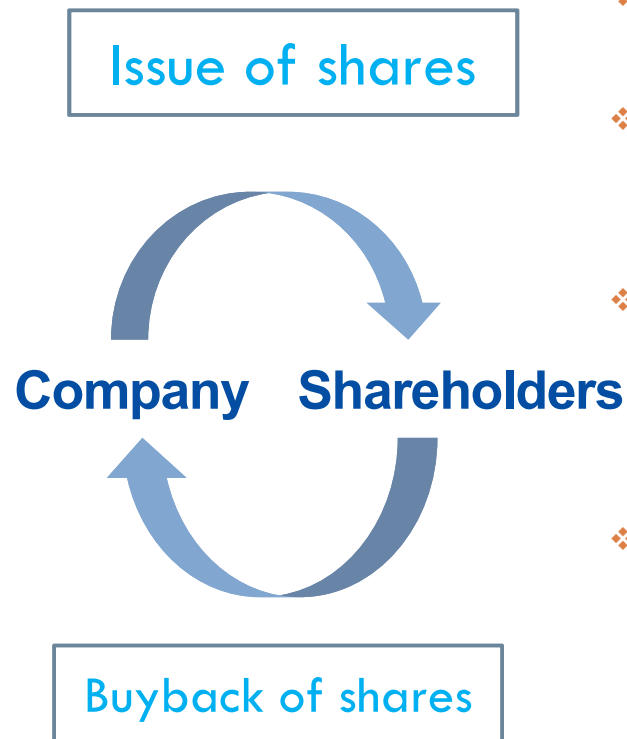
The Corporate action where a company repurchases its own shares from its existing shareholders

- ✓ Buyback : Opposite of public issue of shares
- ✓ In a public issue, company sells its shares in the stock market
- ✓ In a Buyback, company offers to buy shares from the investors. After buyback, those shares are extinguished.

Common reasons for Buy-back



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- ❖ To return surplus cash to shareholders
- ❖ Improve return on equity shares through distribution of cash
- ❖ Improve earnings per share (EPS) by reduction of shares (buy-back reduce the total number of shares of the company)
- ❖ Shareholders get option either to sell shares and receive cash or not to sell shares and get an increase in percentage shareholding post buyback without additional investment

Conditions for Buy-back



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Maximum Buy-back Limit

- $\leq 25\%$ of (Paid-up capital + Free Reserves)

Debt to Equity Ratio*

- $< 2:1$

Approved by Special/ Board Resolution

- Board Resolution would suffice if Buy-back $\leq 10\%$ of (Paid up capital + Free Reserves)
- Special Resolution required, if more than 10%

Cooling period#

- 1 year from the date of expiry of buyback period

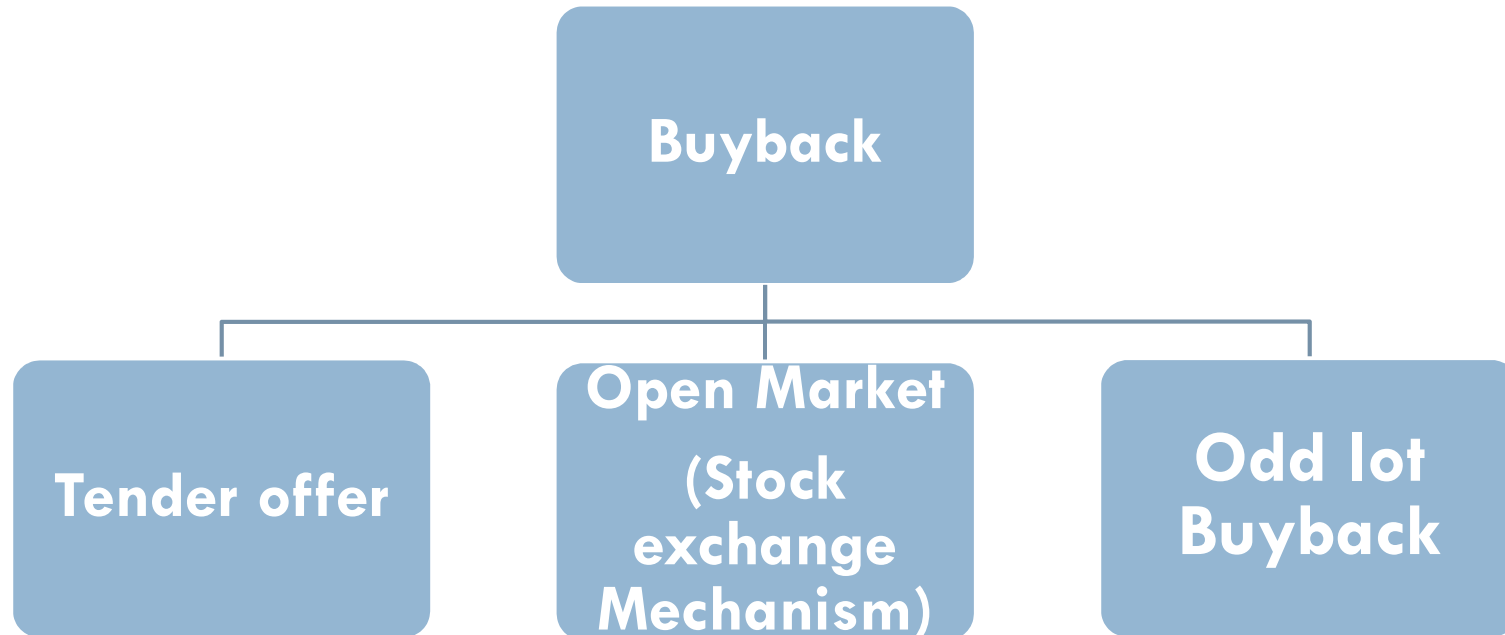
* Paid up capital & free reserve

No offer of buy-back should be made by a company within a period of one year from the date of the closure of the preceding offer of buy-back

Methods of Buyback



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- ❖ Tender offer : Shareholders can tender their shares on a proportionate basis
- ❖ Odd Lot Buyback : Provisions of buy-back through tender offer shall be applicable
- ❖ Open Market: Shareholder can sell shares in the secondary markets

Buy Back - Tender offer



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- ❖ Reservation for small shareholders: 15% of the no. of securities proposed to buy back or no. of securities entitled as per their shareholding, whichever is **higher**
- ❖ Public Announcement (**PA**) within 2 working days of special resolution or Board resolution.
- ❖ **Record date** for determining the entitlement.
- ❖ Dispatch of Final letter of offer within five working days from the receipt of communication of comments from SEBI
- ❖ Tendering period opens not later than 5 days from the date of dispatch of letter of offer
- ❖ Tendering remains open for a period of 10 days

Methods of Buyback (Comparison)



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For Buyback, a public announcement made by Company

| | TENDER ROUTE | OPEN MARKET ROUTE |
|---|---|--|
| Limit on Buyback Size | Up to 25% of Net Worth | Up to 15% of Net Worth |
| Pricing | Fixed Price | Multiple pricing subject to cap of maximum offer price |
| Shareholders Participation | Only Record Date shareholders | All shareholders |
| Retail Shareholders Reservations | 15% of buyback size to be reserved for small shareholders | N.A. |
| Offer Period | 10 working days | 6 months [^] |

[^] In open market route, the Company has the option to close the buyback, once it achieves the maximum buyback size or utilizes at least 50% of the amount earmarked for buyback, whichever is earlier

Offer Price & Record Date



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Offer Price

Price at which:

- Shares will be bought back by the Company
- Offer price determined by the Board of the Company

TENDER OFFER

Fixed Price

OPEN MARKET

Multiple pricing subject to cap of maximum offer price

When is it beneficial for shareholders to tender their shares?

- Offer Price is equal to/ higher than the market price
- Opportunity for the shareholders to exit thinly traded stock

Record Date & Significance

Cut-off to determine the:

- Eligibility to participate in buyback
- Entitlement Ratio
- Dispatch of LOF & Tender Form

TENDER OFFER

Record Date is determined

OPEN MARKET

Record Date Not applicable as buyback is open to all shareholders

Tender Route - How to Apply?



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SHAREHOLDER'S BROKER *

- Participate through Brokers APP/ Website
- Indicate buyback bid to the broker who will in turn place the bid
- Submit an application on plain paper by providing all requisite details

THIRD PARTY REGISTERED BROKER/ COMPANY'S BROKER

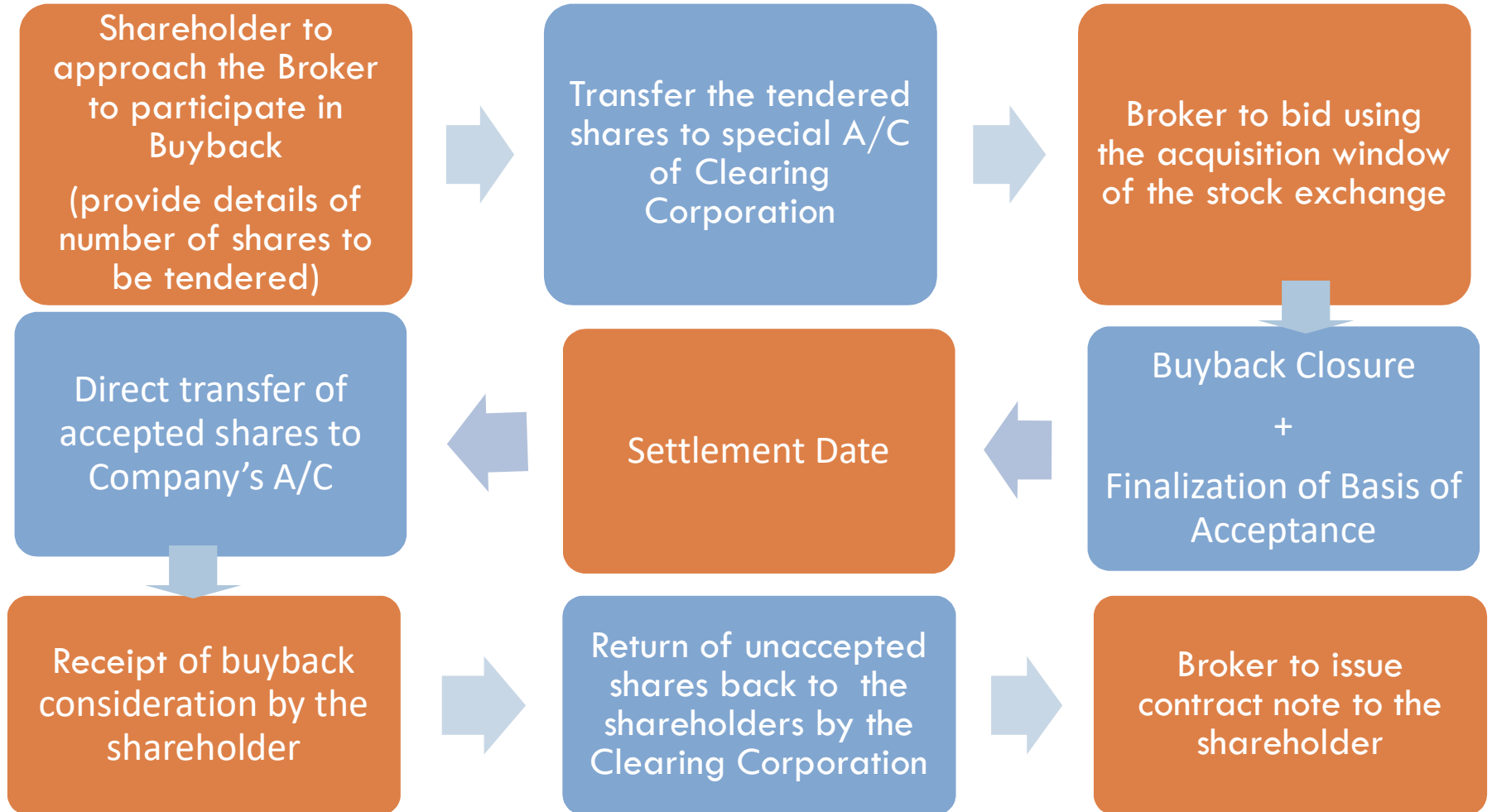
- Participate through stock broker and make a bid by using quick unique client code ("UCC") facility
- Will process bids received from eligible shareholders

- 1) Shareholders can tender shares as per their entitlement ratio (given in public announcement)
- 2) Shareholders holding physical shares shall bid through the broker
- 3) * If shareholder's broker is not registered with the designated stock exchange for buyback, then the shareholder can approach any registered stock broker/ Company Broker to make a bid, using UCC facility

Tender Route – Trade & Settlement



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Open Market Route – How to Apply?

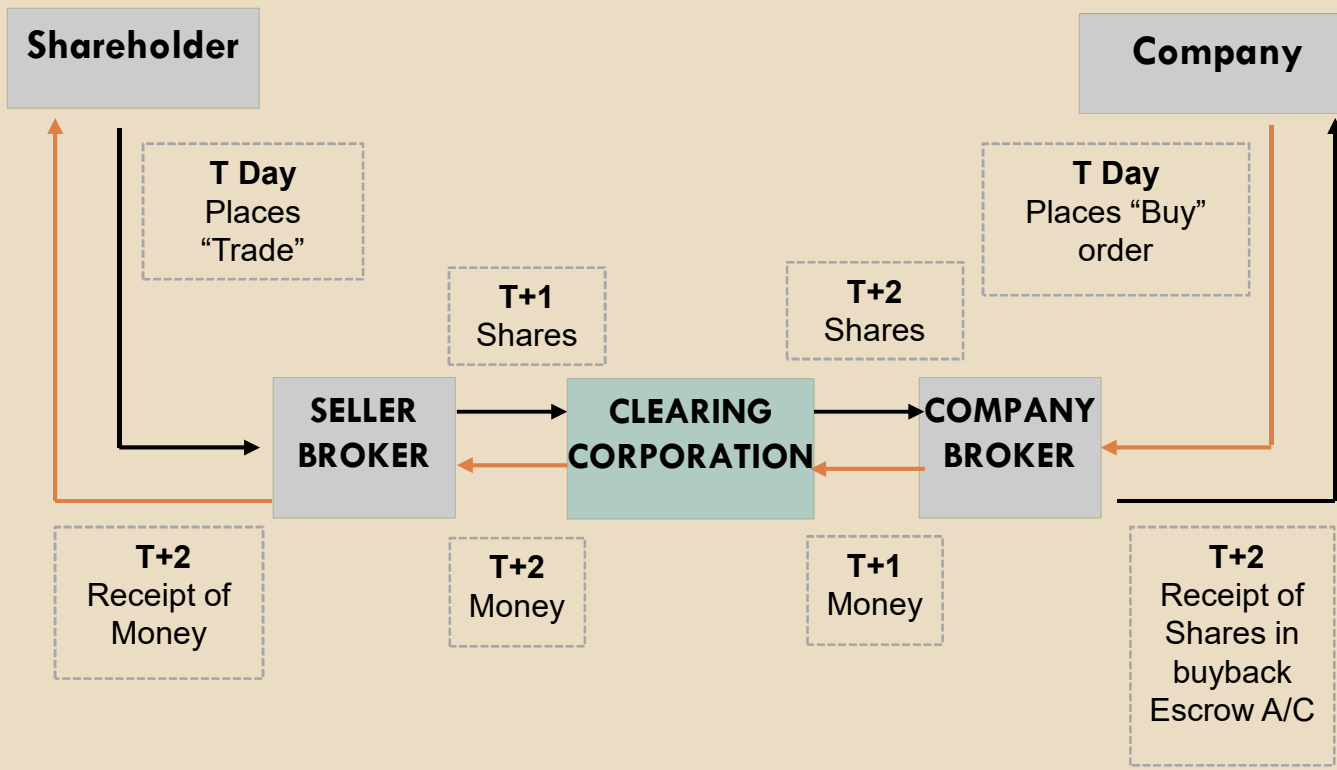


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DEMAT SHAREHOLDING

PHYSICAL SHAREHOLDING

SNAPSHOT OF OPEN MARKET TRADE



Tendering can be done only after shares are dematerialized and hence physical shareholders to approach the concerned depository participant for the same

Points to ponder before participating in Buyback



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- ❖ Participation in Buyback is voluntary
- ❖ Shareholders holding shares as on Record Date shall only be eligible to tender their shares in the Buyback.
- ❖ Decide to participate if one feels that the share price in the market is overvalued or you don't believe company will perform well in going forward.
- ❖ Read disclosures made by company in the public announcement
- ❖ Basis for arriving at the buyback price
- For buyback through:
 - In an open market method : Understand the no. of shares, quantum, objective of buyback and maximum buyback price.
 - In a tender method: understand no. of shares, quantum, objective of buyback, entitlement ratio and buyback price.



Open Offer of Shares

Flow of Presentation



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- 1. What is Open Offer of Shares**
- 2. Methods of Open Offer of Shares**
- 3. Why Open Offer is mandated**
- 4. How to apply in an Open Offer**
- 5. Points to ponder before participating in Open Offer**

What is an Open Offer?



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What is an Open Offer?

An Offer given by an Acquirer to the shareholders of a company to buy their shares at a fixed price.

When is the Offer made?

Mandatory Offer – When the shareholding of Acquirer increases beyond the prescribed limit or in case of change in control of company.

Voluntary Offer – Voluntarily acquire through an Open Offer .

What should the size be?

Mandatory Offer – Min offer size of 26% of the total paid up capital up to max 100%.

Voluntary Offer – Min offer size of 10% of the total paid up capital up to max 75%

Why Open Offer is mandated



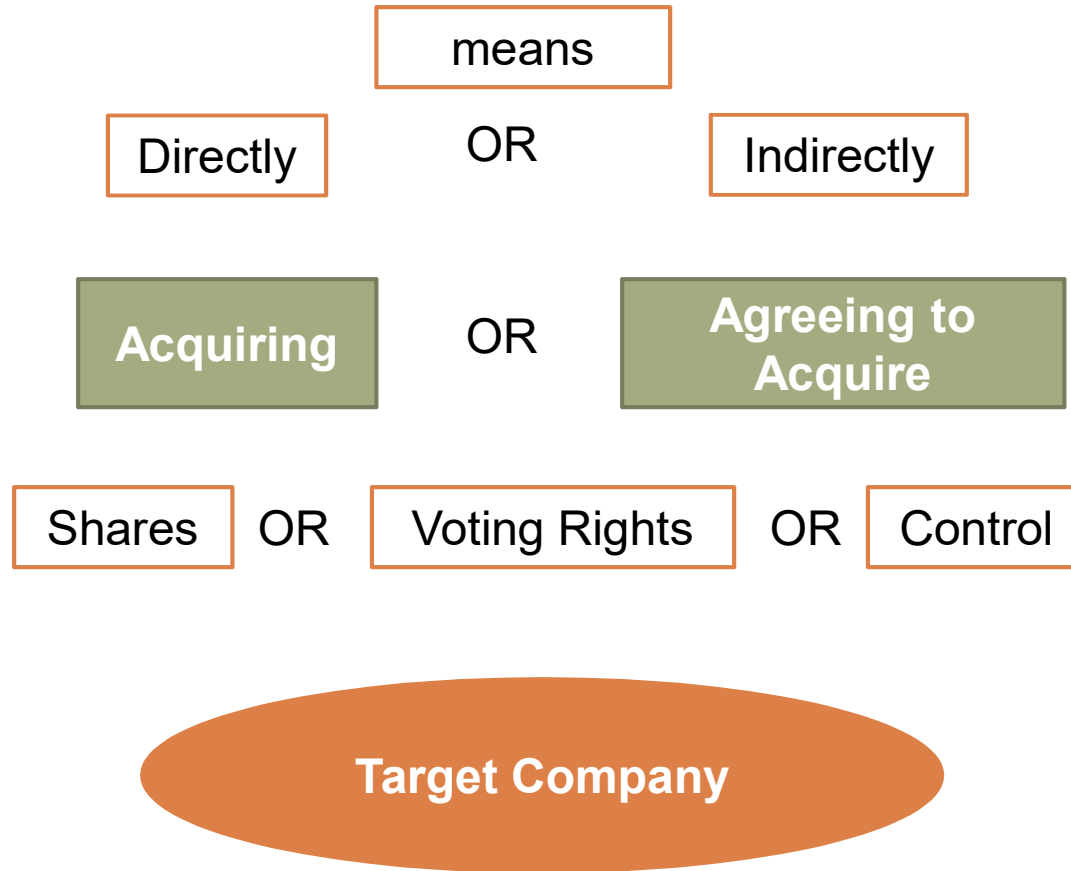
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- ❖ Any substantial acquisition of shares results in change in ownership
- ❖ Change in ownership of company may result following changes:
 - ❖ Company management
 - ❖ Business profile
 - ❖ Company Strategy
 - ❖ Business plans
- ❖ Hence, to give fair exit to investor in case they don't agree with change of ownership.

Acquisition



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Offer Size



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Number of shares to be acquired from public:

In Mandatory Open Offers:

Minimum 26% of the share capital

- ✓ If post offer holding > maximum permissible non public shareholding (MPNPS), acquirers to undertake to bring it back within 1 year.

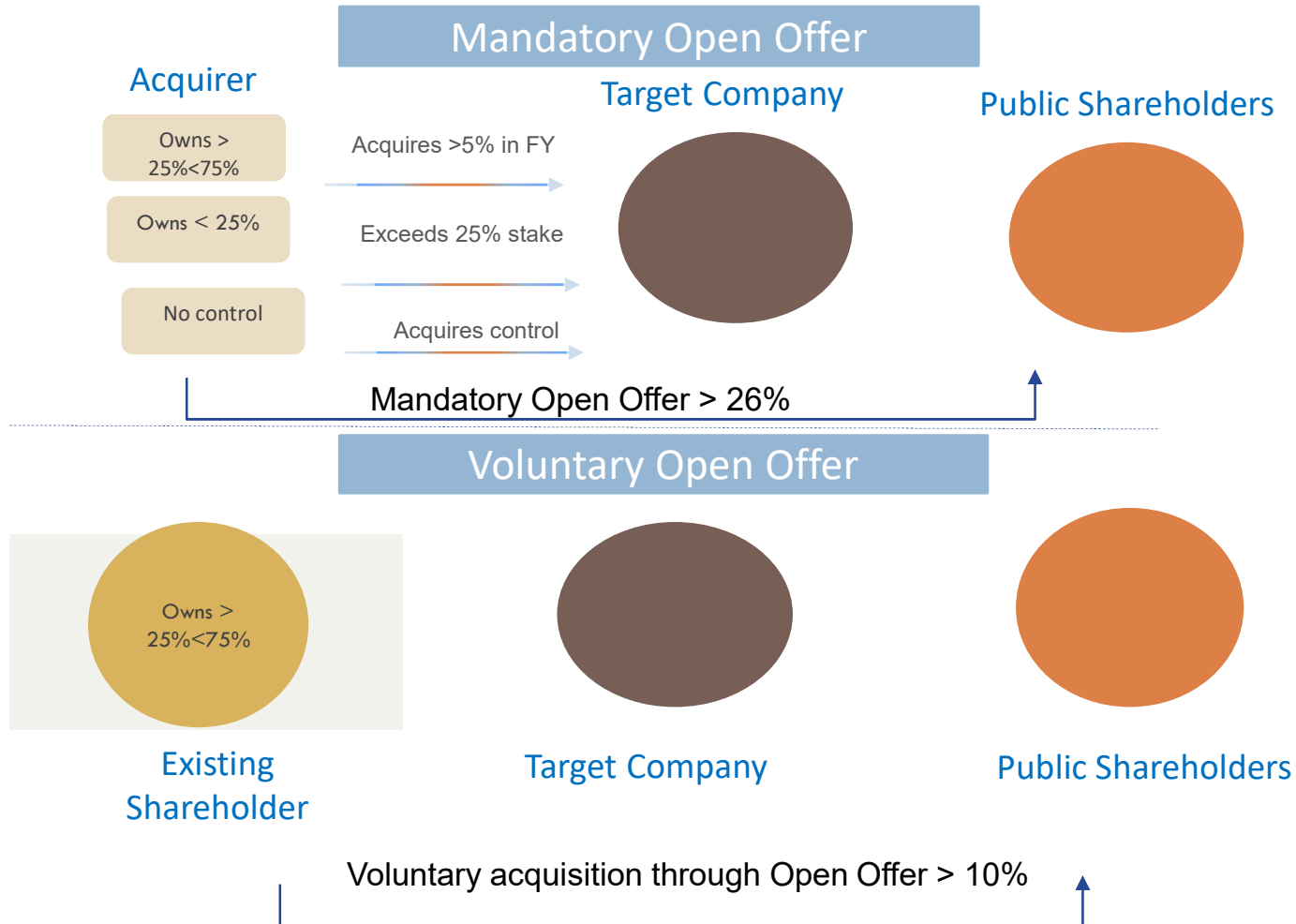
In voluntary offers by shareholders holding more than 25%

- ✓ Size at least 10%, shall not be such so as to cross MPNPS.

Mandatory and Voluntary Open Offer



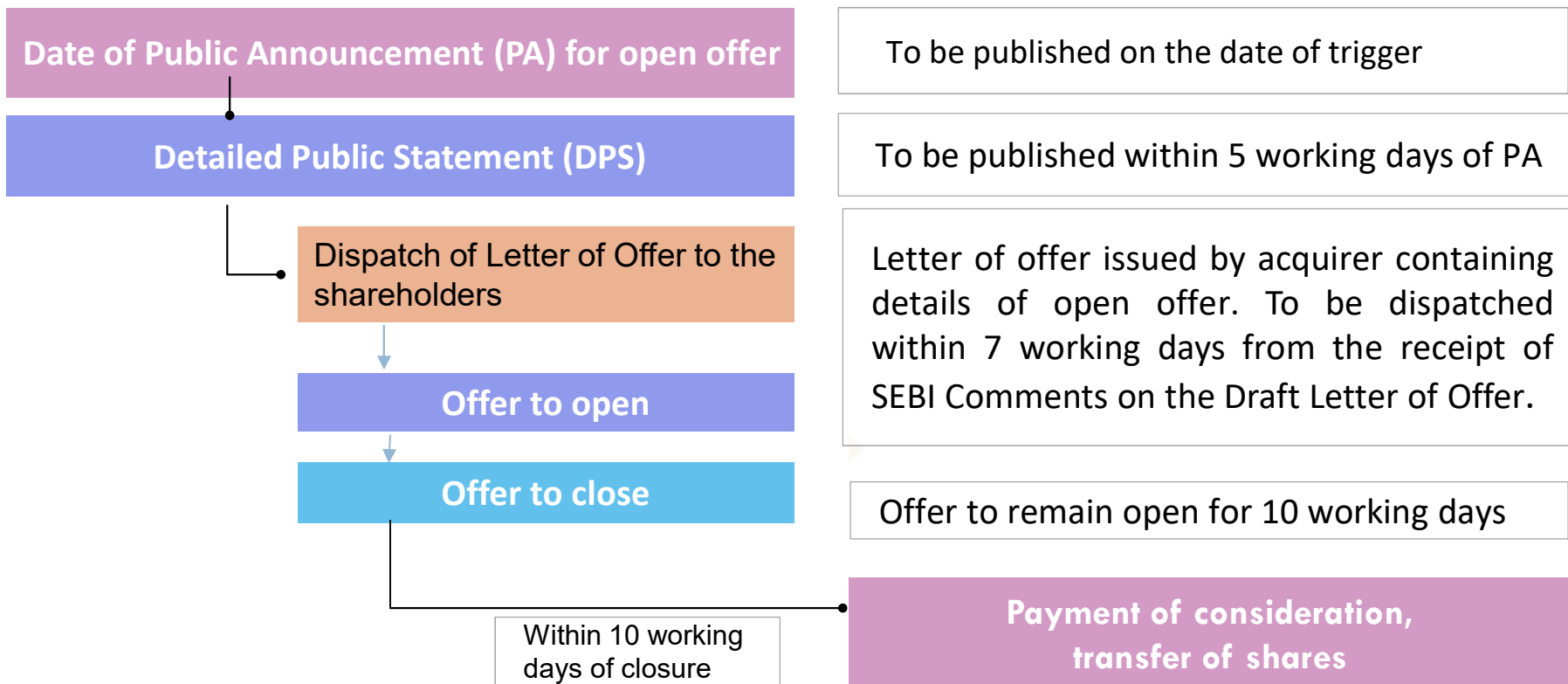
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Activities and Timeline



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How Offer Price is Arrived at



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Offer Price

Offer Price is the price at which shares will be bought from the shareholders by the Acquirer

Frequently traded shares*

The **highest** of:

(i) Highest price paid by Acquirer / Person acting in concert:

- **negotiated price** under the agreement
- The **volume-weighted average price** for acquisitions, during the **52 weeks** immediately preceding the date of the public announcement
- The **highest price** for any acquisition, during the **26 weeks** immediately preceding the date of PA

(ii) The **volume-weighted average market price** for **60 trading days** immediately preceding the date of PA (from the exchange where maximum volume is recorded during this period)

Infrequently traded shares

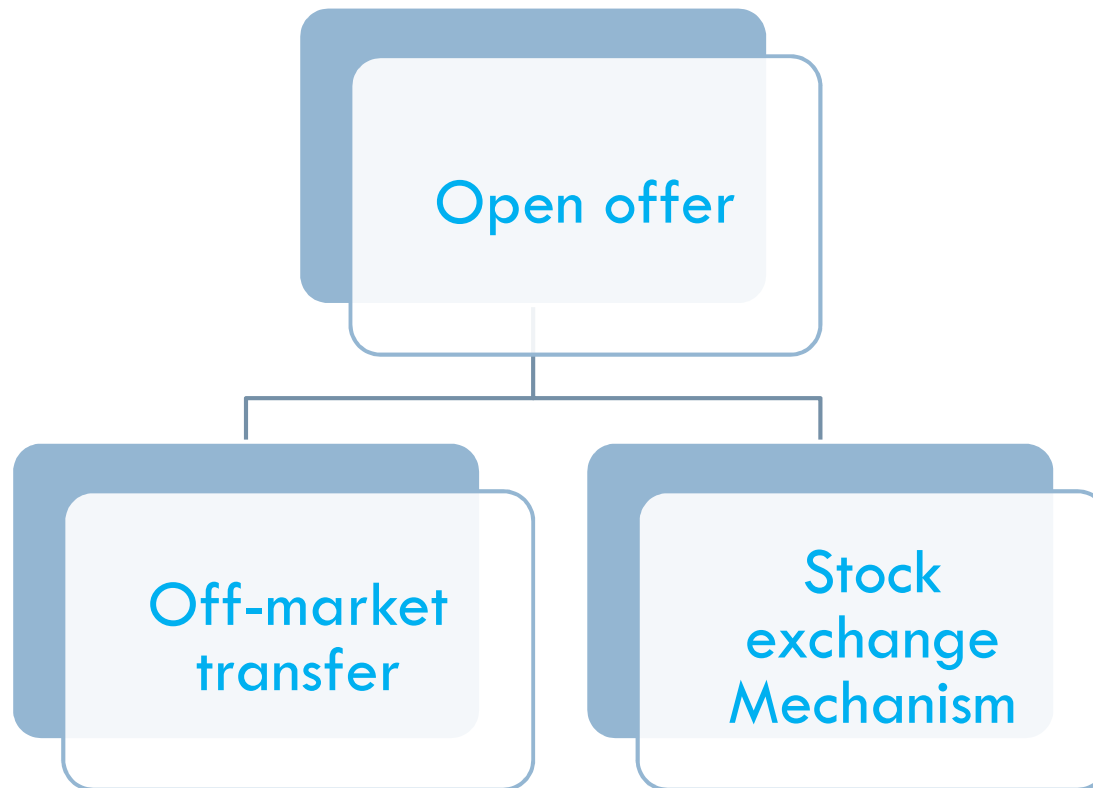
- Determined by the Acquirer and the Manager to the open offer
- Based on valuation parameters including,
 - * book value
 - * comparable trading multiples, and
 - * such other parameters as are customary for valuation of shares of such companies

*Frequently traded shares means shares of a target company, in which the traded turnover on any stock exchange during the 12 calendar months preceding the month in which the PA is made, is at least 10% of the total number of shares of such class of the target company

Methods of Tendering shares



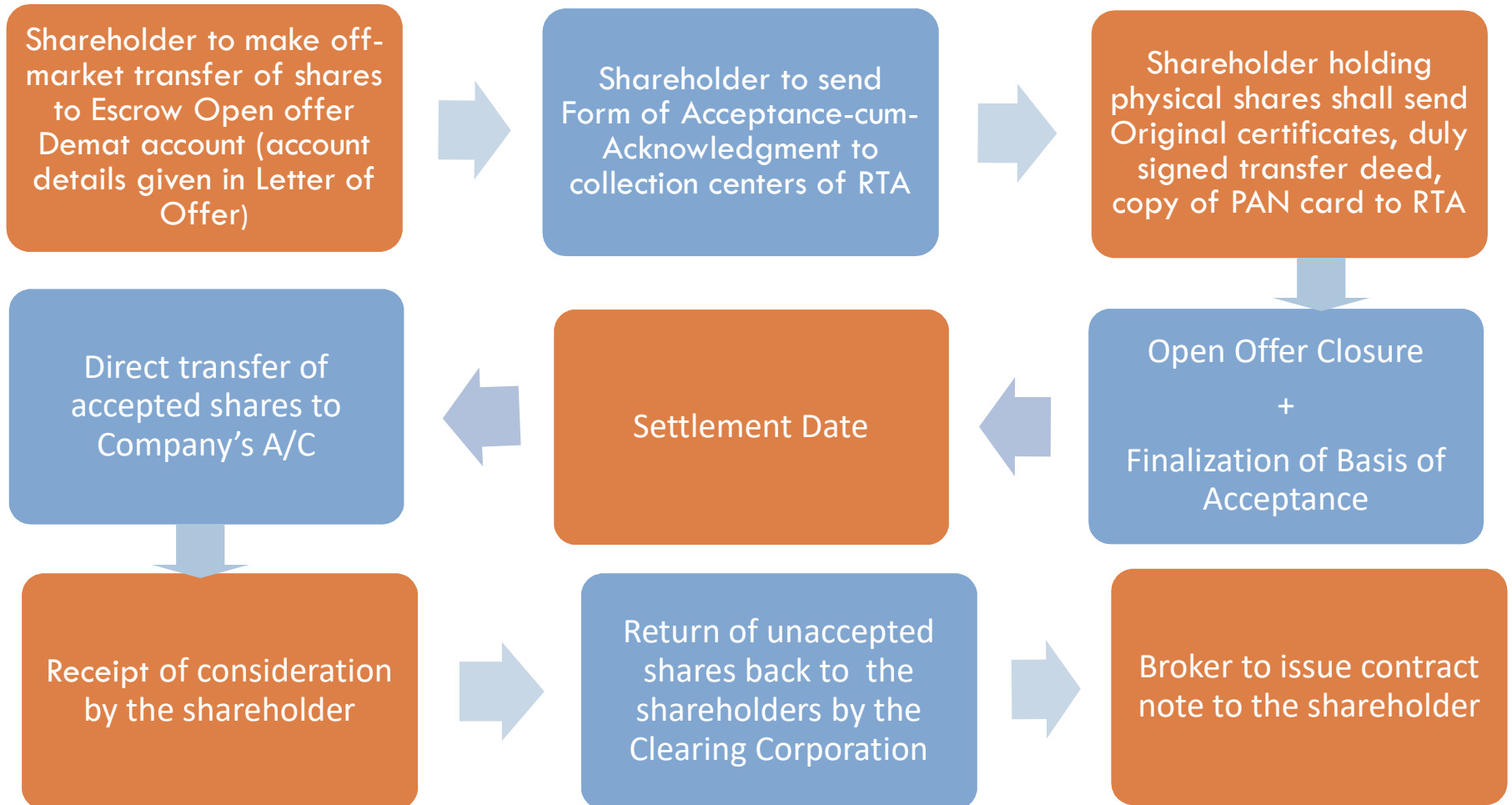
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Offer Route – Off-market



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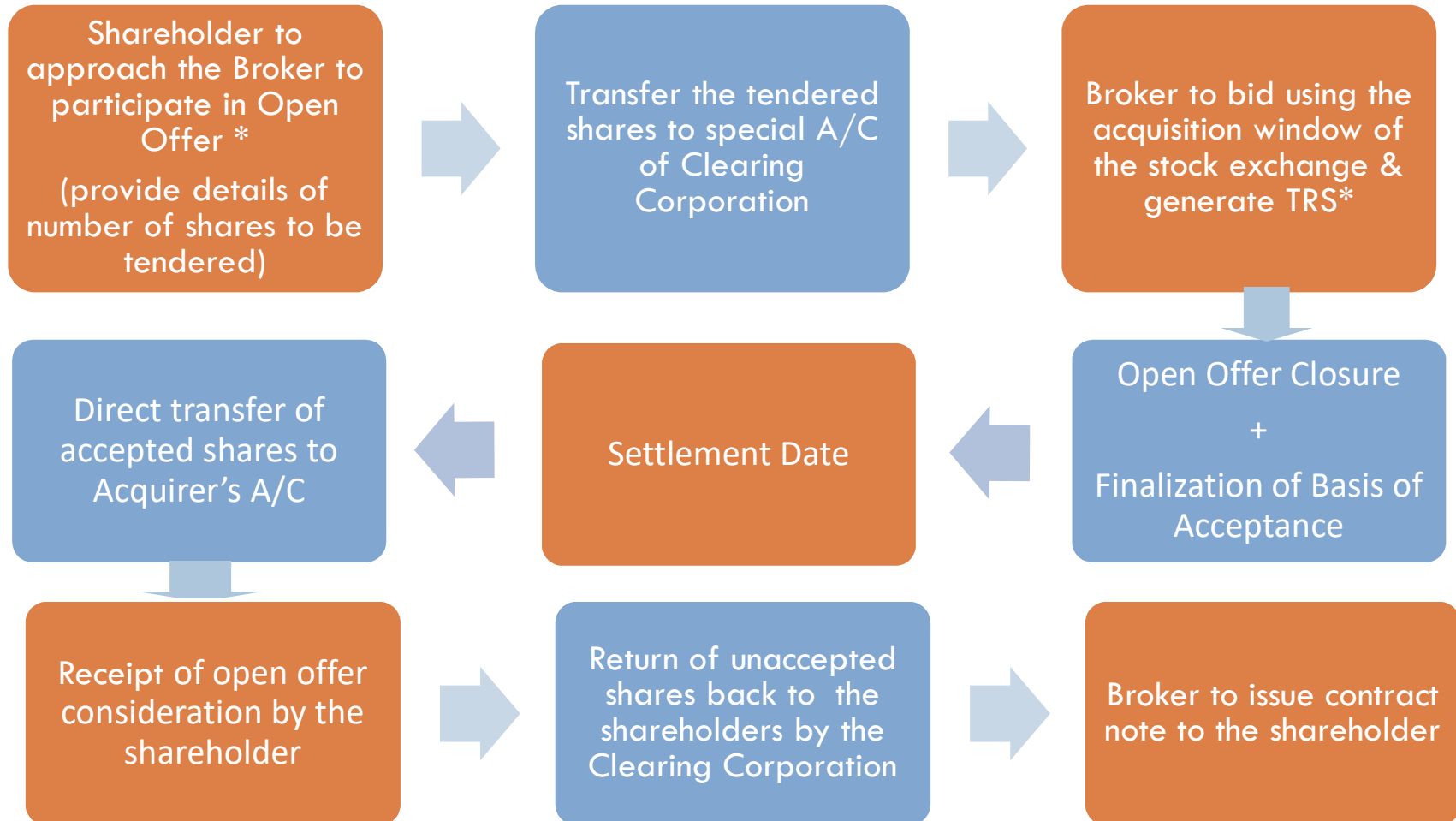


Offer Route – Stock Exchange Mechanism



In case of dematerialized shares

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* TRS: Transaction Registration Slip : Contains no of shares tendered, Bid Id No., etc

Offer Route – Stock Exchange Mechanism

In case of Physical shares



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- ❖ For shareholders holding physical shares - Post placement of bid by broker, following documents along with Transaction Registration Slip (TRS) shall be submitted to the Registrar and share transfer agent (RTA)
 - ❖ Original share certificate(s)
 - ❖ Duly filled valid share transfer form(s) (Form SH-4)
 - ❖ (by all registered shareholders in same order and as per the specimen signatures registered with the Target Company)
 - ❖ Duly witnessed at the appropriate place authorizing the transfer in favour of acquirer
 - ❖ Self-attested copy of the shareholder's PAN card (in case of joint holders, PAN card copy of all transferors)

Withdrawal of Open Offer



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Offer once made cannot be withdrawn **EXCEPT** in the following circumstances

Statutory Approvals required have been refused.

Acquirer, being natural person, has died.

Any condition in the agreement is not met for reasons outside the reasonable control of the acquirer

Circumstances as in the opinion of the SEBI, merit withdrawal

Points to ponder before participating in Open offer



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- ❖ Participation in open offer is voluntary.
- ❖ Read disclosures made by acquirer in the public announcement.
- ❖ Read recommendations of independent directors of the company published in the newspapers before deciding to participate in the open offer.
- ❖ Decide to participate after considering: (i) if believe that the ruling share price in the market is overvalued, (ii) if don't believe that the company will perform well in going forward upon change in control.
- ❖ Tendered bids / shares cannot be withdrawn by the shareholders.
- ❖ Upward offer price revision can be made at any time prior to 3 days of tendering period.
- ❖ Provision for interest payment to the shareholders in case of delay.

Additional Information



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- ❑ For further information you may visit the following websites:
 - ✓ www.sebi.gov.in
 - ✓ www.investor.sebi.gov.in

- ❑ For grievance redressal you may visit:
 - ✓ www.scores.gov.in

- ❑ Or you may call at SEBI Toll Free Helpline Numbers between 9:00 am to 6:00 pm:
 - ✓ 1800 266 7575
 - ✓ 1800 22 7575
 - ✓ The helpline is available in 8 languages; English, Hindi, Bengali, Gujarati, Marathi, Kannada, Telugu and Tamil



THANK YOU