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Sebi halves time for share buybacks

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Share buybacks by companies through tender offers are set to get shorter and completed in nearly half the time taken under existing regulations.

The Securities and Exchange Board of India (Sebi) has rationalised the timelines for various activities involved in the buyback process.

As per the detailed minutes of a meeting held on January 2, released on Tuesday, the market regulator plans to cut the entire process — from shareholder's resolution authorising the buyback to payment of consideration to shareholders — from 63-114 days now to 34-44 days.

Experts believe this will benefit both shareholders and companies.

"The curtailment of process timeline seems to be logical and fairly practical. The revised guidelines for buybacks would provide fair treatment for all shareholders," said Girish Nadkarni, executive director and head (equity capital markets), Avendus Capital.

Last week, the capital market regulator came out with a note mentioning changes in buyback norms. Under revised norms, companies are required to announce a ratio for buybacks, similar to rights issues. Also, the company needs to fix a record date and acceptance of shares shall be made only to the extent of entitlement.

Mehul Savla, director at Ripple-Wave Equity Advisors, also believes that though not many companies use the tender offer route for buybacks, the proposed changes and crunching of timeline would make the route more attractive for companies looking to utilise surplus cash to extinguish shares and improve their financial parameters.

"As the market dynamics are changing fast, the reduced timeline would save time and cost for companies. Earlier, with lengthier process timeline, the whole process used to get redundant if the share prices fluctuated too much for companies to complete the buyback," he said.

Under the proposed regulations, companies would no longer be required to issue public notices and have to make public announcements within two working days from the date of the board or shareholders' resolution.

Sebi has also proposed that the offer shall remain open for a period of 10 working days, as against the current practice of 15-30 days.

Similarly, the verification and acceptance of offers received, along with payment of consideration, needs to be completed within 10 working days as against the current trend of 15-22 days.

In a separate circular, the market regulator also detailed the procedure to be followed by promoters for share sales through two new methods — institutional private placement (IPP) and offer for sale through stock exchanges (OFS) — allowed last week.

Under the IPP route, promoters can make fresh issue of shares or dilute their existing stake by offering up to 10% stake in a company to institutional investors.

“The issue shall remain open for minimum one day or maximum of two days. Also, there shall be at least 10 allottees in every IPP issuance subject to demand at the offer price and pre-disclosed allocation criteria. No single investor shall receive allotment for more than 25% of the offer size,” the regulator said in its circular.

Experts believe that though both the methods - IPP and OFS — have their own merits, the latter may be widely adopted by companies considering the lower restrictions and higher flexibility in pricing.

“The auction route, or offer for sale through stock exchanges, seems to be market friendly and more transparent, with much wider investor participation and not much restriction. In the current environment, this is likely to be used by more private and public sector companies as it is much faster and cost-efficient,” said Savla2.

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