ROLE OF PHARMACEUTICAL SECTOR IN BUYBACK OF SHARES

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Abstract

The Buyback is being undertaken by the Company in accordance with the provisions of Article 13 of the Articles of Association of the Company, the provisions of Sections 68, 69 and 70 of the Companies Act, 2013 and all other applicable provisions, if any, of the Act, the Companies (Share Capital and Debentures) Rules, 2014, to the extent applicable, and in compliance with the Buyback Regulations. The Buyback has been duly authorized by a resolution passed by the Board of Directors at their meeting held on June 23, 2016. Since the Buyback Size is less than 10% (ten percent) of the paid-up capital and free reserves (including securities premium account) of the Company under the board of directors approval route, as provided under the proviso to Section 68(2)(b) of the Companies Act, 2013, the approval of the Equity Shareholders of the Company is not required. The Buyback is subject to such other approvals, permissions and sanctions as may be required from any statutory, regulatory or governmental authorities as may be required under applicable laws and is subject to such conditions and modifications, if any, as may be prescribed or imposed by such authorities while granting such approvals, permissions and sanctions, as may be required and which may be agreed to by the Board or any person authorized by the Board in this regard.

Keywords; Buyback, pharmaceutical sector, regulations, roles etc.,

INTRODUCTION

The Buyback is being undertaken by the Company to return surplus funds to the Equity Shareholders. Additionally, the Buyback is being undertaken for the following reasons, The Buyback will help the Company to distribute surplus funds to Equity Shareholders broadly in proportion to their shareholding.
thereby, enhancing the overall return to Equity Shareholders. The Buyback, which is being implemented through the Tender Offer as prescribed under the Buyback Regulations, would involve a minimum reservation for Small Shareholders (viz. Reserved Category) of 15% (fifteen percent) of the Equity Shares to be bought back under the Buyback. The Company believes that this minimum reservation of 15% for Small Shareholders would benefit a large number of public shareholders, who would get classified as Small Shareholders. The Buyback may help in improving financial ratios like earnings per share, return on assets and return on equity calculated on the basis of consolidated financial statements, by reducing the equity base of the Company; and d) The Buyback gives an option to the Eligible Sellers to either choose to participate in the Buyback and receive cash in lieu of their Equity Shares which are accepted under the Buyback or choose not to participate in the Buyback and get a resultant increase in their percentage shareholding in the Company post the Buyback, without additional investment.

BUY BACK IN PHARMACEUTICAL SECTOR

Pharmaceutical Industries, at their meeting held on June 23, 2016 (the “Board Meeting”), pursuant to the provisions of Article 13 of Articles of Association of the Company and Section 68, 69 and 70 and all other applicable provisions of the Companies Act, 2013, as amended and the Companies (Share Capital and Debentures) Rules, 2014 to the extent applicable and in compliance with the Buyback Regulations and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications, if any, as may be prescribed or imposed by the appropriate authorities while granting such approvals, permissions and sanctions, which may be agreed by the Board or any person authorized by the Board, approved the Buyback of Equity Shares by the Company of its fully paid-up Equity Shares of face value of ` 1/- (Rupee One Only) each not exceeding 75,00,000 (Seventy Five Lakhs) Equity Shares (representing up to about 0.31% of the total paid-up Equity Share capital of the Company) at a price of ` 900/- (Rupees Nine Hundred Only) per Equity Share payable in cash for an aggregate maximum amount of upto ` 675,00,00,000/- (Rupees Six Hundred Seventy Five Crores Only) excluding costs such as brokerage, securities transaction tax, service tax, stamp duty, etc. (“Transaction Cost”) which represents 3.79% of the fully paid-up Equity Share capital and free reserves (including securities premium account) as
per the audited standalone balance sheet of the Company as on March 31, 2016, on a proportionate basis through the Tender Offer route using stock exchange mechanism as prescribed under the Buyback Regulations from all of the Equity Shareholders of the Company who hold Equity Shares as on the Record Date i.e. Friday, July 15, 2016. The Buyback Size does not include any other expenses incurred or to be incurred for the Buyback like filing fees payable to SEBI, advisors fees, Public Announcement publication expenses, fees and expenses payable to the Stock Exchanges, charges payable to the Depositories and Registrar, printing and dispatch expenses, and other incidental and related expenses.

The aggregate paid-up Equity Share capital and free reserves (including securities premium account) of the Company as on March 31, 2016 was ` 178,078.0 Millions. The funds deployed for Buyback shall not exceed 10% (ten percent) of the paid-up capital and free reserves (including securities premium account) of the Company under the board of directors approval route, as provided under the proviso to Section 68(2)(b) of the Companies Act, 2013. Accordingly, the maximum amount that can be utilized in the present Buyback is ` 17,807.8 Millions. The Company has proposed to utilize an aggregate maximum amount of up to ` 6,750.0 Millions for the Buyback which is within the maximum amount as aforesaid and which represents 3.79% of the paid-up capital and free reserves (including securities premium account) and 3.49% of the networth (viz. total of shareholders’ funds reduced by the amount of revaluation reserves and miscellaneous expenses to the extent not written off) of the Company as on March 31, 2016 as per audited standalone financial statements for the financial year ended on March 31, 2016.

**IMPORTANCE OF BUYBACK**

The Buyback is being undertaken by the Company to return surplus funds to the Equity Shareholders. Additionally, the Buyback is being undertaken for the following reasons: a) The Buyback will help the Company to distribute surplus funds to Equity Shareholders broadly in proportion to their shareholding, thereby, enhancing the overall return to Equity Shareholders; b) The Buyback, which is being implemented through the Tender Offer as prescribed under the Buyback Regulations, would involve a minimum reservation for Small Shareholders (viz. Reserved Category) of 15% (fifteen percent) of the Equity Shares to
be bought back under the Buyback. The Company believes that this minimum reservation of 15% for Small Shareholders would benefit a large number of public shareholders, who would get classified as Small Shareholders; c) The Buyback may help in improving financial ratios like earnings per share, return on assets and return on equity calculated on the basis of consolidated financial statements, by reducing the equity base of the Company; and d) The Buyback gives an option to the Eligible Sellers to either choose to participate in the Buyback and receive cash in lieu of their Equity Shares which are accepted under the Buyback or choose not to participate in the Buyback and get a resultant increase in their percentage shareholding in the Company post the Buyback, without additional investment.

**ROLE OF BUYBACK IN PHARMACEUTICAL SECTOR**

We believe that the Buyback is not likely to cause any material impact on the profitability / earnings of the Company except to the extent of reduction in the amount available for investment, which the Company could have otherwise deployed towards generating investment income. Assuming that the response to the Buyback is 100% (full acceptance) from all the Eligible Sellers in proportion of their respective Buyback Entitlement, the funds deployed by the Company towards the Buyback would be ` 6,750.0 Millions (Six Thousand Seven Hundred and Fifty Millions only). 9.2. In terms of the Buyback Regulations, under the Tender Offer, the Promoter and Persons in Control have an option to participate in the Buyback. In this regard, Promoter and Persons in Control have expressed their intention vide their letters each dated June 23, 2016 to participate in the Buyback and tender up to an aggregate maximum number of 297,419,890 Equity Shares (as detailed below) or such lower number of Equity Shares with the intent that subsequent to the Buyback, the aggregate shareholding percentage of the Promoter and Persons in Control does not fall below the aggregate shareholding percentage of the Promoter and Persons in Control as on the Record Date, to the extent possible.

The Promoter and Persons in Control vide their further letters each dated June 27, 2016 have requested the Company to first allocate the Buyback Entitlement (to the extent not exercised) of the Promoter and Persons in Control who have not tendered Equity Shares against their respective Buyback Entitlement either in full
or in part against the Additional Equity Shares, if any, tendered by them with a view to maintain the aggregate shareholding percentage of the Promoter and Persons in Control at the same level post Buyback, to the extent possible, or with a view to ensure that the aggregate shareholding percentage of the Promoter and Persons in Control does not fall below the aggregate shareholding percentage of the Promoter and Persons in Control as on the Record Date, to the extent possible.

In view thereof, in the event that some members of Promoter and Persons in Control of the Company do not tender Equity Shares against their respective Buyback Entitlement either in full or in part, it is proposed that any Additional Equity Shares tendered by the remaining members of the Promoter and Persons in Control over and above their Buyback Entitlement will first be accepted against the Buyback Entitlement (to the extent not exercised) of the Promoter and Persons in Control who have not tendered Equity Shares against their Buyback Entitlement either in full or in part. Thereafter remaining Additional Equity Shares tendered by such Promoter and Persons in Control, if any, and Additional Equity Shares tendered by Eligible Sellers other than Promoter and Persons in Control over and above their Buyback Entitlement, if any, shall be accepted in the manner specified in regulation 9(7) of the Buyback Regulations.

Assuming the response to the Buyback is 100% (full acceptance) from all the Eligible Sellers in proportion to their respective Buyback Entitlement, the aggregate shareholding of the Promoter and Persons in Control post the Buyback may increase to 54.97% prior to Buyback. Please refer to paragraph 13.6 for further details.

Assuming the response to the Buyback is 100% (full acceptance) from all the Eligible Sellers in proportion to their respective Buyback Entitlement, the aggregate shareholding of the Equity Shareholders other than Promoter and Persons in Control, post the Buyback may decrease to 45.03% prior to Buyback.

**SOURCES OF FUNDS FOR THE BUYBACK**

Assuming full acceptance, the funds that would be utilized by the Company for the purpose of the Buyback would be ` 6,750.00 Millions (Rupees Six Thousand Seven Hundred and Fifty Millions only). 11.2. The funds for the Buyback will be sourced from balances of cash and cash equivalents and/or surplus funds and/
or internal accruals of the Company and/or other permissible sources of funds but not from any borrowed funds.

CONCLUSION

Where transaction for transfer of such equity shares (i.e. buyback) is transacted through a recognized stock exchange then the taxability will be as under (for all categories of shareholders. LTCG arising from such transaction would be exempt under section 10(38) of the Income Tax Act; and STCG arising from such transaction would be subject to tax @ 15% under section 111A of the Income Tax Act. Further, in case of resident Individual or HUF, the benefit of maximum amount which is not chargeable to income-tax is considered while computing the tax on such STCG taxable under section 111A of the Income Tax Act. In such cases, where the total income as reduced by such STCG is below the maximum amount not chargeable to tax, then such STCG shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income tax and on the balance of STCG, if any, income tax @ 15% is charged. As an overall point, since the buyback is undertaken on the stock exchange, such transaction is chargeable to Securities Transaction Tax ("STT"). STT is a tax payable in India on the value of securities on every purchase or sale of securities that are listed on the Indian Stock Exchange. Currently, the STT rate applicable on the purchase or sale of shares on the stock exchange is 0.1% of the value of security transacted.

REFERENCES


