Should Infosys Go Ahead With the Share Buyback

CASE SYNOPSIS

In July 2014, former top executives of Infosys, T V Mohandas Pai, V Balakrishnan and D N Prahlad had demanded a buyback of shares immediately to the tune of US$1.83 billion at the 52-week high share price of Rs.3850 per share. They had also suggested the management to announce an ongoing buyback programme to the extent of 40% of the previous year’s net profit on a consistent basis. In a letter to the board dated July 29th, they had said that Infosys shares are undervalued and an immediate buyback would correct the situation by improving investors’ confidence, by reducing idle cash. They claimed to have investors support to buyback. This was a big challenge for Infosys specifically as the company was going through major leadership transition at the time. The demand had come just one day before Dr Vishal Sikka (Sikka) the former executive board member of SAP AG, formally appointed as the first non-founder CEO of the company. One month before in June, Narayana Murthy had retired as executive chairman of the board.

Infosys Ltd, the software giant of India was started in 1981 under the leadership of Murthy. In thirty years (1981-2014), it had grown to become a US$ 8.53 billion turnover company with a market capitalisation of US$ 31.87 billion, giving employment to 1,60,405 people, serving clients in more than 50 countries. The market price of Infosys share had appreciated from Rs 95 in 1993 to Rs.3428 in 2010. Infosys was an ethical and much respected company. But from 2011 onwards the growth of Infosys became very slow. Peers like TCS, HCL, and Cognizant outperformed Infosys. Investors criticised the company for its conservative strategy in the use of cash and demanded share buyback. The huge amount of cash and cash equivalents in the Balance sheet was criticised to destroy shareholders wealth. The buyback demand first came in the year 2012. With demand again surfacing in 2014 from former top executives added to the pressure for Infosys management. The analyst and investor community were divided on their opinion about whether Infosys should go ahead with Buyback or not.