India Infosys stock gains on $1.8-billion buyback call

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Shares of Infosys gained as much as three percent Wednesday after three senior former executives urged the Indian outsourcing giant to stage a $1.8-billion-share buyback, saying the company is too cash-rich.

The proposal represents the first major challenge for new chief executive Vishal Sikka, who took charge August 1 with a mission to win back market share through developing innovative business lines.

An Infosys spokeswoman was non-committal on the buyback proposal, noting it had come from "only three retail investors".

But "should there be any development that will impact our shareholders, we will immediately inform the regulatory bodies", she told AFP in an email.

In the letter seen by AFP, former executives V. Balakrishnan, T.V. Mohandas Pai and D.N. Prahlad called for a 112-billion-rupee ($1.8-billion) stock buyback for all shareholders at 3,850-rupees-a-share—around a 52-week trading high.

The two former chief financial officers and ex-senior vice-president said that following discussions they believed big institutional shareholders backed the plan.

The proposal comes as Infosys, the second-largest outsourcer by sales and one of the pioneers of India's flagship outsourcing industry, goes through a major leadership transformation.

Sikka is the first outsider to run Infosys, managed since its 1981 establishment by a member of the seven-man founding team.

Analysts called the plan a "pressure tactic" to get Infosys's new chief to deliver results for investors impatient with share underperformance.

In the last three years, stock of rival TCS, India's biggest software outsourcing firm, gave a return of 119 percent while Infosys stock grew by just four percent, the letter noted.

Regardless of funds needed by Infosys for innovation or acquisitions, "the company is clearly over capitalised", the former executives said.

In fact, given its massive cash holdings, robust income and zero debt, Infosys is "perhaps the most over-capitalised company in the Indian corporate history", they argued.

The buyback would represent 40 percent of around 300 billion rupees in cash reserves, the former executives said, suggesting further regular share buybacks in the future too.

Cash-rich firms often buy back shares to drive up the price by reducing the amount of stock in the market as well as to boost sagging earnings-per-share ratios.

But critics say buybacks can flatter bottom-line performance without delivering substantive profit growth through investment and development.

"This is a pressure tactic to leave your conservative approach and do something—an acquisition, expansion. Investors have become impatient," Daljeet Kohli, research head at India Nivesh Securities, told AFP.

After rising by three percent, Infosys shares retraced some gains to close 1.53 percent higher at 3,557.95 rupees.

Sikka, 47, a former senior executive of German software maker SAP who has based himself in Infosys's main US market, has said the company must change from providing cheaper "mundane" software services and create higher-earning technology opportunities.

Sikka replaced Infosys co-founder Narayana Murthy, who was recalled from retirement last year to help Infosys regain market share, but achieved mixed results amid a string of top management exits.