

Wipro Ltd – Update on opportunity due to tender buyback

Tender Dates:

Wipro has announced the buyback tender offer dates from 14th Aug to 28th Aug 2019.

Schedule of activities:

Buyback opens on	August 14, 2019
Buyback Closes on	August 28, 2019
Last date of settlement of bids on the Stock Exchanges	September 6, 2019

Small shareholder quota:

As defined in the Buyback Regulations, Small Shareholder includes a shareholder, who holds shares whose market value, on the basis of closing price on the recognized stock exchange registering the highest trading volume, as on Record Date, is not more than Two Lakh Rupees. As on the Record Date, the closing price on the NSE, having the highest trading volume, was Rs 285.85. Accordingly all Shareholders holding not more than 699 Equity Shares as on the Record Date are classified as 'Small Shareholders' for the purpose of the Buyback.

Based on the above definition, there are 5.16 lakh Small Shareholders in the Company with aggregate shareholding of 11.53 cr Equity Shares as on the Record Date, which constitutes 1.91% of the outstanding number of Equity Shares of the Company and 35.70% of the maximum number of Equity Shares which the Company proposes to buy back as a part of this Buyback.

Fifteen percent of the number of Equity Shares which the Company proposes to Buyback i.e. 15% of 32.31cr Equity Shares which is 4.85cr Equity Shares are reserved for small shareholders. The entitlement ratio for small shareholders is 71 shares out of 159 shares (4.85/11.53) held as on the record date which works out to 42%. It means that if all the small shareholders tender their full shares in the offer then only 42% of the shares would be accepted.

The General Category shall consist of 27.46cr Equity Shares. In the general category, the entitlement ratio works out to 52 out of 1121 shares. The Promoter and Promoter Group have expressed their intention to participate in the Buyback and may offer up to an aggregate maximum number of 437.15cr Equity Shares out of 445.60cr shares held by them.

Likely scenario:

A study of the past few tender offers indicate that generally not all the small shareholders participate in the offer and the acceptance ratio is higher than the entitlement ratio. In the last IT company tender buyback offer of Tech Mahindra which closed on April 5, 2019 against the entitlement of 10.5% the acceptance ratio was 26.7%. On an overall basis in the past offers of IT companies, the acceptance ratio is 1.2x (Mphasis) to 2.5x (Tech Mahindra) times the entitlement ratio. Going by this trend, Wipro small shareholders could see an acceptance ratio of between 50-100% of their offered shares.

In Wipro's FY18 buyback (held in Nov-Dec 2017) small shareholders got acceptance of 99.3% of the offered shares. However the awareness among small shareholders/investors has increased post that offer and the acceptance ratio could be lower than 99.3%. In the previous buyback there were 3.39 lakh small shareholders holding 7.44 cr shares. Compared to that presently Wipro has 5.16 lakh small shareholders holding 11.53 cr shares. We think the acceptance ratio could be between 62-66%. The balance returned shares can later be sold in the market. The small shareholder may thus offer the entire shares held by them in the offer.

Assuming an entry price of Rs 285 for 620 shares, 66% acceptance and selling balance shares in the market later at Rs 250 (CMP Rs 251), an investor would still end up with an absolute return of ~Rs 8,990 (pre-tax) on investment of Rs 176,700 and annualised return of ~13.4% p.a (pre-tax) for 144 days investment.

The letter of offer is available at <https://www.wipro.com/content/dam/nexus/en/investor/buy-back/buyback2019/wipro-letter-of-offer-for-buyback.pdf>. Please ensure to correctly follow the Procedure to be followed by Eligible Shareholders (Residents, Non Residents and shareholders holding physical shares) so that the bid is valid and is not rejected on technical grounds.

Links to previous report on Wipro Buyback

Wipro – Buyback Opportunity note:

<https://www.hdfcsec.com/hsl.docs//Wipro%20-%20Buyback%20opportunity%20note%20-%20200419-201904201032154630023.pdf>

Details of Buyback Tender Offers from large IT companies (data as of Aug 13, 2019):

Company	Board Approval Date	Price on Board approval date + 1 (Rs)	Buyback Size (Rs Cr)	Buyback Price (Rs)	Record Date	Offer Open Date	Offer Close Date	Last Date for Payout	Shares reserved for small sharehol. (lakhs)	Theoretical Acceptance Ratio based on Ann. Rep.	Entitlement ratio as per offer letter	Actual Acceptance Ratio	CMP on Payout Date (Rs)	Annualised Returns p.a.
Tech Mahindra	21-Feb-19	825.2	1956	950	06-Mar-19	25-Mar-19	05-Apr-19	16-Apr-19	30.9	9.5%	10.5%	26.7%	797.1	10.4%
HCL Tech	12-Jul-18	984.9	4000	1100	31-Aug-18	18-Sep-18	03-Oct-18	09-Oct-18	54.5	98.2%	48.4%	100.0%	1066.5	48.0%
TCS	15-Jun-18	1830.7	16000	2100	18-Aug-18	06-Sep-18	21-Sep-18	25-Sep-18	114.3	69.4%	44.8%	100.0%	2183.1	52.6%
Infosys	19-Aug-17	873.4	13000	1150	01-Nov-17	30-Nov-17	14-Dec-17	26-Dec-17	169.6	59.0%	28.4%	55.8%	1034.4	73.1%
Wipro (2017)	20-Jul-17	269.0	11000	320	15-Sep-17	29-Nov-17	13-Dec-17	22-Dec-17	515.6	104.6%	69.3%	99.3%	301.1	44.5%
HCL Tech	12-Jul-18	984.9	4000	1100	31-Aug-18	18-Sep-18	03-Oct-18	09-Oct-18	54.5	98.2%	48.4%	100.0%	1066.5	48.0%
TCS (2017)	20-Feb-17	2506.5	16000	2850	08-May-17	18-May-17	31-May-17	06-Jun-17	84.2	42.9%	45.0%	100.0%	2695.4	47.2%
Mphasis (2017)	31-Jan-17	559.8	1103	635	31-Mar-17	12-May-17	25-May-17	02-Jun-17	26.1	155.1%	74.5%	100.0%	619.2	40.2%

*=assuming balance unaccepted shares sold immediately on payout day

1-year price movement



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Disclosure:

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