

Infosys Ltd – Update on opportunity due to tender buyback

Tender Dates:

Infosys has announced the buyback tender offer dates from 30th Nov-14th Dec 2017.

Schedule of activities:

Buyback opens on	November 30, 2017
Buyback Closes on	December 14, 2017
Last date of receipt of completed tender forms and other specified documents	December 18, 2017
Last date of settlement of bids	December 26, 2017

Small shareholder quota:

As defined in Regulation 2(1)(la) of the Buyback Regulations, a “Small Shareholder” is a Shareholder who holds Equity Shares having market value, on the basis of the closing price on November 1, 2017, i.e., the Record Date, of not more than Rs.200,000 (Rupees Two Lakh only). As on the Record Date, the closing price on NSE, being the Recognized Stock Exchange having the highest trading volume, was Rs. 927.05 per Equity Share. Accordingly, all Eligible Shareholders holding not more than 215 Equity Shares as on the Record Date are classified as ‘Small Shareholders’ for the purpose of the Buyback Offer.

Based on the above definition, there are 9,37,429 Small Shareholders, with an aggregate shareholding of 5,97,21,969 Equity Shares, as on the Record Date, which constitutes 2.60% of the outstanding paid up equity share capital of the Company and 52.83% of the maximum number of Equity Shares which are proposed to be bought back as part of this Buyback Offer. This compares with 6,27,030 shareholders as on March 31, 2017 holding upto 200 shares with aggregate shareholding of ~287.2 lac shares. Post announcement of buyback it seems that about 3 lac investors have bought Infosys shares (average holding ~100 shares) with a view to tender the shares in the open offer.

Fifteen percent of the number of Equity Shares which the Company proposes to buy back, i.e., 15% of 11,30,43,478 Equity Shares, works out to 1,69,56,522 Equity Shares are reserved for small shareholders. The entitlement ratio for small shareholders is 23 shares out of 81 shares held as on the record date which works out to 28%. It means that if all the small shareholders tender their full shares in the offer then only 28% of the shares would be accepted.

The General Category shall consist of 96,086,956 Equity Shares. In the general category, the entitlement ratio works out to 7 out of 163 shares. Promoters have shown willingness to offer 1.77 cr shares in the offer out of 29.28 cr shares.

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 HCL Tech which closed on June 23, 2017 against the entitlement of 37.5% the acceptance ratio was 68%. On an overall basis in the past offers, the acceptance ratio is either 100% or 1.8 to 4.7 times the entitlement ratio.

Assuming a 70% higher acceptance for small shareholders in Infosys, shareholders holding 200 shares may end up with ~97 shares being accepted in the offer. The small shareholder need not offer the entire shareholding but needs to do that based on the expected acceptance ratio. Hence the small shareholder has the option to take a call on the expected acceptance ratio, offer 5-10% higher shares and sell the rest in the market currently to lock in the gains. The closing price of Infosys on August 21,

2017 (the date on which our first note on Infosys Buyback was issued) was Rs.873. Assuming an entry price of Rs.890, 70% higher acceptance and selling 95 shares out of 200 shares in the market now (CMP Rs. 962), an investors would still end up with an absolute return of ~Rs.23600 (pre tax) and annualised return of ~51% p.a (pre tax). This will enable locking in to the returns and reducing the uncertainties on account of a different level of acceptance ratio.

The letter of offer is available at <https://www.infosys.com/investors/news-events/events/Documents/buyback-letter-offer.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 reports on Infosys Buyback

Infosys – Buyback opportunity note:

<https://www.hdfcsec.com/Admin/CmsApp/MediaGalary/hsl.docs/Infosys%20-%20Buyback%20Opportunity%20Note%20-%2020210817-201708211405189687173.pdf>

Infosys – Buyback opportunity update:

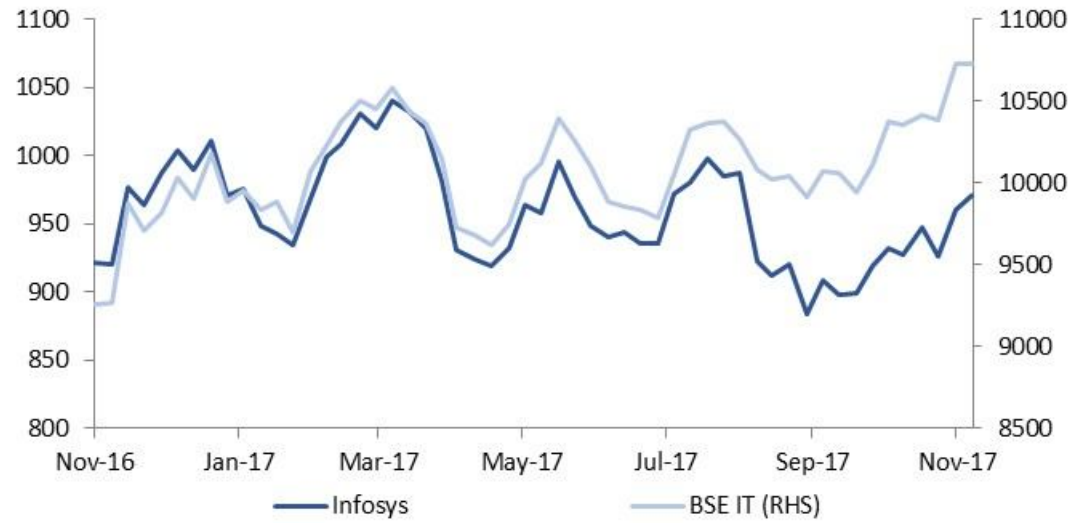
<https://www.hdfcsec.com/uat.hsl.docs//Infosys%20-%20Buyback%20Opportunity%20Note%20Update%20-%2020101017-201710120947452843519.pdf>

Details of recent Tender Offers (data as of Nov 20, 2017):

Company	Board Approval Date	Price on Board approval date (Rs)	Buyback Size (Rs Cr)	Buyback price (Rs)	Record Date	Offer Open	Offer Close	Payout	Shares reserved (lakhs)	Shares tendered (lakhs)	Acceptance %	Entitlement %	Number of shareholders who tendered	CMP on payout date (Rs)	No. of Small Shareholders as per the latest Annual Report	No. of shares held by such small shareholders at the respective year end (lakhs)	% of shares tendered	% of shareholders who tendered shares	Returns earned by investor who bought after announcement and tendered in offer
Infosys	19-Aug-17	923	13000	1150	01-Nov-17	30-Nov-17	14-Dec-17	26-Dec-17	169.6			28%			627030	287.2			
Wipro	20-Jul-17	269	11000	320	15-Sep-17	29-Nov-17	13-Dec-17	22-Dec-17	515.6						236761	246.4			
Mphasis	31-Jan-17	560	1103	635	31-Mar-17	12-May-17	25-May-17	02-Jun-17	26.1	23.9	100%	74%	9733	619	25704	16.8	142.1%	37.9%	40.2%
Hexaware	25-Oct-16	202	137	240	06-Jan-17	02-Feb-17	15-Feb-17	22-Feb-17	8.5	38.8	22%	5%	8790	219	97439	173.6	22.3%	9.0%	32.0%
TCS	20-Feb-17	2507	16000	2850	08-May-17	18-May-17	31-May-17	06-Jun-17	84.2	41.9	100%	45%	100266	2695	544880	196.3	21.4%	18.4%	47.2%
HCL Tech	20-Mar-17	863	3500	1000	22-May-17	12-Jun-17	23-Jun-17	04-Jul-17	52.5	76.7	68%	38%	57933	840	127449	62.6	122.5%	45.5%	34.4%
Sasken	27-Oct-16	416	118	410	06-Jan-17	03-Feb-17	16-Feb-17	28-Feb-17	4.3	2.8	100%	23%	1414	391	23953	18.7	14.8%	5.9%	-4.3%
SKF	13-Feb-17	1407	209	1500	07-Apr-17	23-May-17	05-Jun-17	14-Jun-17	3.9	0.0	100%	57%	24	1613	21364	21.8	0.0%	0.1%	19.8%

*=assuming balance unaccepted shares sold immediately on payout day

1-year price movement



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