

TCS Ltd – Update on opportunity due to tender buyback

Tender Dates:

TCS has announced the buyback tender offer dates.

Schedule of activities:

Buyback opens on	6-Sep-18
Buyback Closes on	21-Sep-18
Last date of receipt of completed tender forms and other specified documents	23-Sep-18
Last date of settlement of bids	3-Oct-18

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 recognised stock exchange registering the highest trading volume, as on Record Date, is not more than Rs Two Lakh. As on the Record Date, the closing price on the NSE, having the highest trading volume, was Rs 2012.75. Accordingly all Eligible Shareholders holding not more than 99 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 5.9 lakh Small Shareholders in the Company with aggregate shareholding of 255.1 lakh Equity Shares as on the Record Date, which constitutes 0.67% of the outstanding number of Equity Shares of the Company and 33.48% 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 762 lakh Equity Shares which is 114 lakh Equity Shares are reserved for small shareholders. The entitlement ratio for small shareholders is 43 shares out of 96 shares held as on the record date which works out to 45%. It means that if all the small shareholders tender their full shares in the offer then 45% of the shares would be accepted.

The General Category shall consist of 6.48cr Equity Shares. In the general category, the entitlement ratio works out to 4 out of 235 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 5.48cr Equity Shares out of 275.33cr 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 previous such buyback of TCS in May-17 against the entitlement of 45% the acceptance ratio was 100%.** On an overall basis in the past offers, the acceptance ratio is either 100% or 1.8 to 5.6 times the entitlement ratio.

Assuming a 70% higher acceptance for small shareholders in TCS, shareholders holding 99 shares may end up with ~75 shares being accepted in the offer (a higher proportion is also likely given the fact that the CMP of TCS i.e. Rs 2070 is close to the buyback price of Rs 2100). The small shareholder has the option to take a call on the expected acceptance ratio, sell the balance shares in the open market and offer the rest in the buyback offer to lock in the gains and reducing the uncertainties on account of a different level of acceptance ratio.

The closing price of TCS on 18-Jun-18 (the date on which our note on TCS Buyback was issued) was Rs 1829. Assuming an entry price of Rs 1830, 70% higher acceptance and selling 29 shares out of 99 shares in the market now (CMP Rs 2070), an investors would still end up with an absolute return of ~Rs 25,800 (pre-tax) on an investment of Rs 181,200 and annualised return of ~47% p.a. (pre-tax) given the investment period of ~3.5 months.

The letter of offer is available at ([Click here](#)). 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 TCS Buyback

TCS – Buyback Opportunity note ([Click here](#))

1-year price movement



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Any holding in stock – Yes

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