

Tata Consultancy Services Ltd.

Buyback Offer Update

8-March-2022



Tata Consultancy Services Ltd. - Buyback Offer Update

Tata Consultancy Services Ltd. (TCS) has announced the buyback tender offer dates from 9th March to 23rd March 2022. The buyback will be at Rs 4,500 per share for 400 lakh shares entailing total outgo of Rs 18,000cr. We had earlier issued an opportunity note (reproduced below). Now as the company has issued the offer letter, we are updating the note.

Schedule of activities:

Buyback opens on	March 9, 2022
Buyback Closes on	March 23, 2022
Last date of settlement of bids on the Stock Exchanges	April 1, 2022

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 was Rs 3,563.8. Accordingly all Shareholders holding not more than 56 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 21.11 lakh Small Shareholders of the Company with aggregate shareholding of 410.51 lakh Equity Shares as on the Record Date, which constitutes 1.11% of the outstanding number of Equity Shares of the Company.

Fifteen percent of the number of Equity Shares which the Company proposes to Buyback i.e. 15% of 400 lakh Equity Shares which is 60 lakh Equity Shares are reserved for small shareholders. The entitlement ratio for small shareholders is 1 shares out of 7 shares held as on the record date which works out to 14.3%. It means that if all the small shareholders tender their full shares in the offer then only 14.3% of the shares would be accepted. In the 2020 TCS Buyback offer only 163364 small shareholders had offered their shares in buyback out of 801794 shareholders entitled. However then the difference in the buyback price and market price was small whereas now the difference is almost Rs.1000 or ~30%.

The General Category shall consist of 340 lakh Equity Shares. In the general category, the entitlement ratio works out to 1 out of 108 shares (0.9%). Here again in 2020 buyback, as against the entitlement ratio of 1.2%, 33.7% of shares offered were accepted from general shareholders.

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 few buyback offers we have seen that the acceptance ratio for small shareholders has mostly been in the range of 2x-5x of the entitlement ratio.

The CMP of the company is ~Rs 3,485. Small shareholders may thus offer the entire shares held by them on the record date in the offer, closer to the buyback close date. The record date for the Buyback was February 23, 2022. As the record date has already passed, new buyers will not be eligible to tender their shares in the Buyback.

The letter of offer is available here ([Link](#)). 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.

HDFC Securities clients can visit ([Link](#)) to get all the information regarding buybacks and the procedure to participate in them.

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Details of Buyback Tender Offers announced and completed in the last 1 year (data as of Mar 7, 2022):

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.*
Ajanta Pharma	28-Dec-21	2268.4	286	2550	14-Jan-22	03-Feb-22	16-Feb-22	25-Feb-22	1.7	9.2%	19.9%	56.2%	1741.6	-19.9%
MOIL	10-Nov-21	176.4	694	250	31-Dec-21	28-Jan-22	10-Feb-22	21-Feb-22	50.8	17.4%	19.7%	66.3%	171.2	94.6%
MPS Ltd.	27-Oct-21	703.3	85	900	17-Dec-21	14-Jan-22	28-Jan-22	08-Feb-22	1.4	16.8%	18.3%	46.6%	658.4	33.8%
Cheviot Co.	04-Dec-21	1453.0	43	1725	17-Dec-21	10-Jan-22	21-Jan-22	31-Jan-22	0.4	5.9%	9.2%	30.7%	1353.1	6.2%
Nucleus Software	24-Sep-21	599.4	159	700	27-Nov-21	03-Jan-22	14-Jan-22	25-Jan-22	3.4	17.5%	15.4%	50.4%	571.5	18.2%
SH Kelkar	29-Oct-21	144.4	61	210	12-Nov-21	15-Dec-21	28-Dec-21	06-Jan-22	4.4	7.6%	5.9%	29.9%	169.8	137.0%
Goldiam Intl.	13-Sep-21	1018.0	46	1200	27-Oct-21	26-Nov-21	09-Dec-21	20-Dec-21	0.6	3.9%	6.4%	55.2%	775.9	-3.0%
eClerx Services (2021)	13-Aug-21	2172.4	303	2850	30-Sep-21	18-Oct-21	01-Nov-21	09-Nov-21	1.6	6.9%	17.6%	45.2%	2379.3	80.2%
Mahalaxmi Rubtech	09-Jul-21	64.9	19	70	27-Aug-21	29-Sep-21	12-Oct-21	25-Oct-21	4.1	41.9%	34.2%	100.0%	77.6	26.6%
Star Cement	13-Aug-21	116.7	124	150	26-Aug-21	22-Sep-21	05-Oct-21	14-Oct-21	12.4	14.7%	12.8%	28.8%	104.0	2.8%
Gandhi Spl. Tubes	22-Jun-21	417.9	42	550	31-Aug-21	21-Sep-21	04-Oct-21	13-Oct-21	1.1	8.9%	12.5%	40.8%	434.2	49.1%
R Systems	06-Aug-21	198.2	30	225	27-Aug-21	20-Sep-21	01-Oct-21	12-Oct-21	2.0	5.2%	7.1%	87.4%	209.5	68.3%
Shriram Pistons	02-Aug-21	1026.0	36	1020	12-Aug-21	17-Sep-21	30-Sep-21	11-Oct-21	0.5	71.1%	87.8%	100.0%	925.3	-3.0%
Welspun India	14-May-21	101.3	200	120	24-May-21	22-Jun-21	05-Jul-21	14-Jul-21	25.0	9.8%	9.2%	78.2%	122.7	114.3%
Quick Heal Tech	10-Mar-21	199.4	155	245	30-Apr-21	31-May-21	11-Jun-21	22-Jun-21	9.5	22.1%	12.2%	100.0%	276.9	80.4%
SIS	15-Feb-21	433.8	100	550	09-Apr-21	12-May-21	27-May-21	07-Jun-21	2.7	35.3%	9.9%	23.8%	431.0	19.1%
Smartlink Hold.	04-Dec-20	90.1	32	95	01-Mar-21	30-Apr-21	14-May-21	25-May-21	5.0	25.3%	25.0%	100.0%	96.5	11.7%
Aarti Drugs	19-Mar-21	733.0	60	1000	01-Apr-21	27-Apr-21	10-May-21	20-May-21	0.9	4.9%	1.4%	9.4%	756.6	37.3%
Savita Oil Tech	19-Feb-21	1104.2	35	1400	05-Mar-21	15-Apr-21	29-Apr-21	10-May-21	0.4	5.4%	4.8%	19.2%	1065.1	10.4%
NIIT Ltd	24-Dec-20	207.4	237	240	24-Feb-21	12-Apr-21	28-Apr-21	07-May-21	14.8	15.6%	11.1%	30.4%	169.7	-21.3%
Gujarat Apollo	13-Feb-21	216.5	19	222	26-Feb-21	08-Apr-21	26-Apr-21	05-May-21	1.3	11.4%	13.7%	100.0%	212.7	11.4%
Suprajit Engg.	10-Feb-21	257.4	48	320	22-Feb-21	08-Apr-21	26-Apr-21	05-May-21	2.3	3.1%	3.7%	27.2%	255.0	25.8%
Bharat Rasayan	12-Jan-21	10514.2	107	11500	05-Mar-21	26-Mar-21	12-Apr-21	22-Apr-21	0.1	3.9%	15.2%	36.2%	9893.0	-1.4%

*=assuming balance unaccepted shares sold immediately on payout day

Tata Consultancy Services Ltd. - Buyback Offer Update

Tata Consultancy Services Ltd. – Buyback Opportunity

Tata Consultancy Service Ltd. (TCS) has announced the buyback tender offer. The buyback will be at Rs 4500 per share for 400 lakh shares entailing total outgo of Rs 18000cr.

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. Taking the buyback price of Rs 4500 to be on the safer side, an investor holding not more than 44 shares would be categorized as small shareholder.

Fifteen percent of the number of Equity Shares which the Company proposes to Buyback i.e. 15% of 400 lakh Equity Shares which is 60 lakh Equity Shares are reserved for small shareholders. If small shareholders participate with full force and each one tenders 44 shares then these shares will get exhausted with 1.33 lakh shareholders.

Likely scenario:

A study of the past buybacks of the company indicates that there was 100% acceptance in all the three buybacks. However, it needs to be noted that in the last 2 buybacks, the market price of the company was on a rising trend and was very close/above the buyback price on the last day of tendering. Thus, many shareholders could have stayed away from the buyback on expectations of a better market price.

Company	Board Approval Date	Price on Board approval date + 1 (Rs)	Buyback Size (Rs Cr)	Buyback price (Rs)	Record Date	Offer Open	Offer Close	Payout	Shares reserved (lakhs)	Entitlement ratio as per offer letter	Shares tendered (lakhs)	Acceptance % *	Number of shareholders who tendered	CMP on payout date (Rs)	Annualised Returns p.a.*	Average shares tendered
TCS (2020)	07-Oct-20	2825	16000	3000	28-Nov-20	18-Dec-20	01-Jan-21	12-Jan-21	80.0	40.0%	61.3	100%	163364	3173	23.3%	37.5
TCS (2018)	15-Jun-18	1830.7	16000	2100	18-Aug-18	06-Sep-18	21-Sep-18	25-Sep-18	114.3	44.8%	40.2	100%	66280	2183.1	52.6%	60.6
TCS (2017)	20-Feb-17	2506.5	16000	2850	08-May-17	18-May-17	31-May-17	06-Jun-17	84.2	45%	41.9	100%	100266	2695.4	47.2%	41.8

*=assuming balance unaccepted shares sold immediately on payout day

Going by the statistics of 2020 buyback, the offer was undersubscribed, as 1.63 lakh shareholders offered an average of 37.5 shares, tendering a total of 61.3 lakh shares vs offer of 80 lakh shares. Hence, only ~24.5% shareholders took advantage of the buyback offer. This may also be because of the fact that, there was very little difference between the then prevailing market price and the buyback price. As the offer was undersubscribed, all the shares tendered were accepted.

The closest data available for small shareholders in the FY21 Annual Report indicate that there were 8.75 lakh shareholders (upto 100 shares as on 31-Mar-21) holding 223 lakh shares. As per the shareholding pattern submitted by the company as on 31-Dec-21 to the stock exchanges, we have seen an increase of 4.6 lakh shareholders in 'individual share capital upto Rs 2 Lakhs' and an increase of 63.8 lakh shares. Assuming all these shareholders would come under small shareholder category, the theoretical entitlement ratio comes to 20.9%. However, this ratio could be lower as there could be many more buyers post 31-Dec-21 till the record date of 23-Feb-22.

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Currently, there is wide gap between the buyback price and the market price. 4.62 lakh new shareholders have been added in the category of 'face value upto Rs 2 lakh' between 31-Mar-21 and 31-Dec-21. Assuming that most of these shareholders would be holding less than 44 shares, a total of ~11 lakh shareholders would be eligible to offer their shares. **We think that the likely acceptance ratio would be between 45-70%. Even at this low acceptance an investor buying shares from the market till 21-Feb-22 and tendering the shares in the buyback could make decent absolute and annualized returns, provided the stock price does not fall below Rs 3500 on the payout date.** Our Institutional team has a one-year target price of Rs 4400 on TCS in their report dated 13-Jan-22. At a price of Rs 3500, TCS will quote at FY24 P/E of 25.5x vs 22.7x for Infosys based on Infosys's current price. TCS has traditionally quoted at a premium to Infosys.

The CMP of the company is ~Rs 3750. The Record Date for determining the shareholders eligible to tender in buyback is 23-Feb-22. Thus, the last day to purchase shares for the purpose of tendering in the buyback would be 21-Feb-22. Small shareholders may offer the entire shares held by them on the record date in the offer, closer to the buyback close date.

Sensitivity of Absolute returns

Post Buyback Price	Oversubscription (x) / Acceptance (%)						
	1x / 100	1.11x / 90	1.25x / 80	1.43x / 70	1.67x / 60	2x / 50	2.5x / 40
3400	20.0%	17.1%	14.1%	11.2%	8.3%	5.3%	2.4%
3500	20.0%	17.3%	14.7%	12.0%	9.3%	6.7%	4.0%
3600	20.0%	17.6%	15.2%	12.8%	10.4%	8.0%	5.6%
3700	20.0%	17.9%	15.7%	13.6%	11.5%	9.3%	7.2%
3800	20.0%	18.1%	16.3%	14.4%	12.5%	10.7%	8.8%

likely scenario

Sensitivity of Annualised return based on 2 months investment period

Post Buyback Price	Oversubscription (x) / Acceptance (%)						
	1x / 100	1.11x / 90	1.25x / 80	1.43x / 70	1.67x / 60	2x / 50	2.5x / 40
3400	121.7%	103.8%	86.0%	68.1%	50.3%	32.4%	14.6%
3500	121.7%	105.4%	89.2%	73.0%	56.8%	40.6%	24.3%
3600	121.7%	107.1%	92.5%	77.9%	63.3%	48.7%	34.1%
3700	121.7%	108.7%	95.7%	82.7%	69.8%	56.8%	43.8%
3800	121.7%	110.3%	99.0%	87.6%	76.2%	64.9%	53.5%

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