

## Infosys Ltd – opportunity in the short term due to tender buyback

### Record Date:

Infosys has announced 1<sup>st</sup> November as the Record Date for determining the entitlement and the names of the Equity Shareholders, to whom the Letter of Offer will be sent and will be eligible to participate in the buyback. Therefore, as per T+2 settlement period, investors purchasing the stock upto and on 30<sup>th</sup> October shall be eligible to participate in the offer. This record date will also be for determining the eligibility of investors who are entitled to receive interim dividend to be decided at the board meeting to be held on Oct 24, 2017 (last year 220% interim dividend declared on Rs.5 face value ~Rs.11 per share).

We had released an **Infosys – Buyback Opportunity Note** on Aug 21, 2017 which we are reproducing below.

### “Offer:

Infosys at its board meeting held on Aug 19, 2017 announced to buy back 11.30 cr shares (4.92% of its equity) through a tender offer at a price of Rs 1150 per share resulting in a total offer size of Rs 13,000 cr. The company has not indicated about the intention of promoters to participate (or not) in the offer.

SEBI in 2012 had amended the buy back regulations by passing SECURITIES AND EXCHANGE BOARD OF INDIA (BUY-BACK OF SECURITIES) (AMENDMENT) REGULATIONS, 2012 as per which small shareholder holding shares as on the record date of Rs.2 lakhs or less will get reservation in the buyback offers to the extent of 15% of the buyback size.

As per SEBI regulations, 15% of the offer size i.e. Rs 1950 cr will be reserved for small shareholders holding shares upto a value of Rs 2 lakhs as on the record date (which should typically be 53-77 days from the date of approval in the board meet).

### Opportunity:

- We have studied the recent tender buybacks conducted by companies and feel that acceptance ratio for Infosys could be high. Most small shareholders do not take part in such offers with the result that the acceptance ratio becomes high. The data published by the companies on distribution of shareholding in their annual report gives us an idea on the likely acceptance ratio if all the small shareholders (holding from 1 to 200 shares) tender their shares in the buyback offer which works out to be 59% for Infosys. We don't yet have the data of exact number of shareholders holding shares of market value **of Rs.2 lakhs** as on the record date.
- Infosys is buying back the shares at a premium of 27.8% to the current price of ~Rs 900 per share. Investors looking for short term opportunity can buy the shares (upto the value of Rs.2 lakhs – as on the record date) in the open market and offer them in the tender offer.
- Investors can earn an absolute return of 25-30% (subject to short term capital gains tax) over the next 4 months (average time taken from board approval to payout in recent tender offers) leading to an annualized return of 75-90% p.a.
- In another such huge buyback approved by TCS in Feb-17, only 21.4% (vs the theoretical ratio of 233.1%) of the outstanding shares held by shareholders holding less than 100 shares as per FY16 Annual Report were offered in the tender offer resulting in 100% acceptance ratio (vs theoretical acceptance ratio of 42.9% in case every eligible small shareholder tendered their shares). Hence it is very likely that acceptance ratio would be high (>59%); if not 100% even in Infosys.

### Risks:

- Post Mar 2017, if a lot of new shareholders have been added (holding less than 200 shares) then the acceptance ratio could be less than stated above. Similarly if a lot of new investors buy at current price (from now till the record date) with the objective of tendering the shares in buyback then the acceptance ratio is likely to drop.

This was seen in Mphasis and HCL tech where the tendering was more than the shares held (on the last annual report date) resulting in low acceptance ratio. Investors who now buy the shares to benefit out of this opportunity will then have to sell the unaccepted shares in the open market which could result in lower return based on the then prevailing market price.

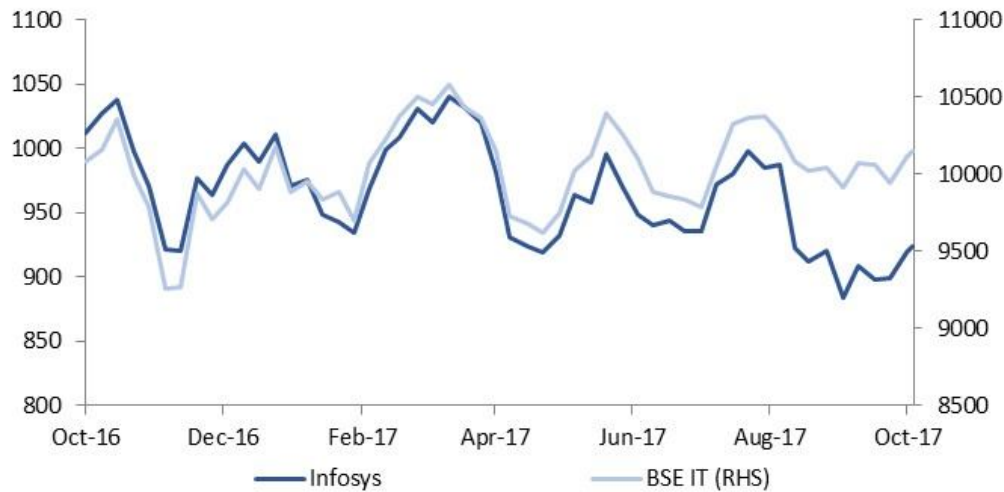
- If the share price of Infosys rises by the time of record date, it could result in lower % return (if the new buyer postpones the buying) or in a shareholder becoming ineligible to tender the shares if the value of his holding exceeds Rs.2 lakhs as on the record date. Hence it is advisable to buy say Rs.1.75-1.80 lakhs worth shares now.

**Details of recent Tender Offers (data as of Aug 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 %	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	% 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					169.6					627030	287.2			
Wipro	20-Jul-17	269	11000	320					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%	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%	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%	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%	57933	840	127449	62.6	122.5%	45.5%	34.4%

\*=assuming balance unaccepted shares sold immediately on payout day"

**1-year price movement**



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