

JUNE 26, 2018

Stock Details

Market cap (Rs mn)	:	7050704
52-wk Hi/Lo (Rs)	:	1900 / 1162
Face Value (Rs)	:	1
3M Avg. daily vol	:	4,247,369
Shares o/s (m)	:	3,829

Source: Bloomberg

Comparison

Y/E Mar (Rs mn)	3M	6M	1 Yr
KPIT TECHNOLOGIE	22	57	128
MINDTREE LTD	21	56	78
L&T IT	23	55	109
MPHASIS LTD	33	52	91
TECH MAHINDRA LT	12	41	87
TATA CONSULTANCY	32	41	58
L&T TECHNOLOGY SERV	3	31	77
HEXAWARE TECHNOL	17	31	80
CYIENT LTD	8	27	42
INFOSYS LTD	13	26	40
NSE IT	13	22	39
SONATA SOFTWARE	2	14	122
SENSEX Index	7	5	14
NIFTY Index	7	3	14
HCL TECH LTD	(6)	3	8
ECLERX SERVICES	13	(14)	1
WIPRO LTD	(6)	(14)	1

Source: Kotak Securities - PCG; Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	71.9	71.9	73.6
FII	17.0	16.9	16.3
DII	6.7	6.9	6.1
Others	4.4	4.3	4.1

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Tata Consultancy	2.7	32.0	41.0
Nifty	1.7	7.0	3.0

Source: Bloomberg

Price chart



Source: Bloomberg

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TATA CONSULTANCY SERVICES LTD (TCS)

PRICE Rs.1840

BUY BACK PRICE Rs.2100

NOT RATED

We expect TCS's buyback to have an acceptance ratio of more than 35% for retail investors. Based on this assumption, retail investors can buy 95 shares, assuming stock price remains at or below Rs.2100 on the record date.

TCS Buyback Details

- On 15th June'18, TCS has announced its second buy-back of Rs. 160 bn (max.).
- It will buy back upto 76.19 mn shares i.e. upto 1.99% of the paid-up equity capital.
- The buyback is proposed to be made under the tender offer route.
- The company has fixed a price of Rs 2,100/share, ~14% higher than CMP.
- Buyback will be supported by cash of Rs ~480bn as of March 2018, which would come down by one-third (Rs ~320bn) after the payouts.
- With reduction in share capital due to buyback we expect EPS accretion. However, the cash reduction would result in a decline in other income, which is dominated by a yield of 8% on a pre-tax basis on the cash.
- We expect the acceptance ratio for small retail investors to be high because of the SEBI's mandate that companies reserve 15% of the buyback for small shareholders with holdings of less than Rs. 2 lacs as on the record date (not yet announced).
- This implies a lesser acceptance ratio for institutional holders, depending on how much the promoter is tendering in the process.
- We expect breakeven price for retail investors to be ~Rs.1750/share as against CMP of Rs.1840/-

Conclusion

Considering, current volatile equity markets, rising global concerns and limited attractive stock ideas in the largecap space, we believe TCS buyback offers Low risk and moderate returns to retail investors and hence we suggest retail investor to accumulate ~95 share of TCS to participate in the buyback offer. We expect retail acceptance ratio to be healthy. The company management has indicated that the buyback process to be completed before end of Q2FY19.

Key details for BUYBACK

Buyback Details

C.M.P. (Rs./share)	1840
M. Cap. (Rs. bn)	7050
Total No. of Shares (mn)	3828.6
Open offer (In Shares – mn)	76.2
Open Offer Price (Rs./share)	2100
Outlay in buyback (Rs. bn.)	160
Open Offer (% of equity capital)	1.99

Source: Company

Overview of Funds Invested

1/3rd of the cash and cash equivalent will be utilized in the buyback offer

	As at March 31, 2018	As at March 31, 2017	As at March 31, 2018	As at March 31, 2017	As at March 31, 2018	As at March 31, 2017
	Current		Non-current		Total funds invested	
Investments in mutual funds, Government securities and others	35,707	41,636	243	203	35,950	41,839
Deposits with banks	2,384	896	-	-	2,384	896
Inter-corporate deposits	2,825	2,565	1,972	3	4,797	2,568
Cash and bank balances	4,555	3,131	-	-	4,555	3,131
Total	45,471	48,228	2,215	206	47,686	48,434

Source: Company (AR-FY18)

Shareholding pattern

Pre-Buyback Shareholding Pattern of the Company as on June 8, 2018

Shareholders	No. of shareholders	No. of shares (mn)	% of shares
Promoters	9	2753.35	71.92
Domestic Institutions	482	259.04	6.77
FII's	14,033	655.82	17.13
Resident individuals & others	585,438	134.80	3.52
Clearing members	1087	3.65	0.09
Bodies corporates	2543	21.92	0.57
Grand Total	603592	3828.58	100

Source: Company

Expected retail acceptance ratio

Particulars	Units	Calculation
Total equity shares	Mn shares	3,829
The company will buy-back	Mn shares	76.2
Max. Buy back price	Rs./share	2,100
Max. buy-back amount	Rs. Mn	160,000
Buy-back to total equity	%	1.99
SEBI guidelines (Reserved)	15% (Mn shares)	11.43
Small shareholders means	Rs.2 lacs (max)	95
1-100 shares	Mn shares	33.0
Acceptance ratio	%	35%
CMP	Rs/share	1840
Upside Pre-tax	%	4.9
Short-term tax	%	15
Upside post tax	%	4.2

Source: Kotak Securities - Private Client Research and company data.

Shareholding as on March 31, 2018:

Number of shares	No. of shares	%
1 - 100	32,951,792	0.86
101 - 500	32,604,208	0.85
501 - 1000	12,965,892	0.34
1001 - 5000	22,156,310	0.58
5001 - 10000	7,974,788	0.21
10001 - 20000	9,583,016	0.25
20001 - 30000	8,162,764	0.21
30001 - 40000	7,400,868	0.19
40001 - 50000	7,687,268	0.20
50001 - 100000	33,153,286	0.87
100001 - above	3,653,934,990	95.44
GRAND TOTAL	3,828,575,182	100.00

Source: Company. Note: For mere comparison purpose, we have adjusted no. of shares as on 31st March '18 for bonus issue.

Breakeven price for retail investors

Break-even	Rs./share
CMP	1840
BUYBACK price	2100
Gain	260
Acceptance ratio	35%
Breakeven price (before tax)	1,750

Source: Kotak Securities - Private Client Research

What if analysis?

We have worked out couple of scenarios regarding acceptance ratio and post buyback sale price.

Scenario analysis

Post Offer price	Acceptance												
	31%	33%	35%	37%	39%	41%	43%	45%	47%	49%	51%	53%	55%
1,550	-7%	-6%	-5%	-5%	-4%	-4%	-3%	-2%	-2%	-1%	-1%	0%	1%
1,600	-5%	-4%	-4%	-3%	-3%	-2%	-1%	-1%	0%	0%	1%	1%	2%
1,650	-3%	-2%	-2%	-1%	-1%	0%	0%	1%	1%	2%	2%	3%	3%
1,700	-1%	-1%	0%	0%	1%	1%	2%	2%	3%	3%	3%	4%	4%
1,750	1%	1%	2%	2%	2%	3%	3%	4%	4%	4%	5%	5%	6%
1,800	3%	3%	3%	4%	4%	4%	5%	5%	5%	6%	6%	6%	7%
1,850	5%	5%	5%	6%	6%	6%	6%	7%	7%	7%	7%	8%	8%
1,900	7%	7%	7%	7%	7%	8%	8%	8%	8%	9%	9%	9%	9%
1,950	8%	9%	9%	9%	9%	9%	9%	10%	10%	10%	10%	10%	10%
2,000	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%	11%	12%	12%
2,050	12%	12%	12%	12%	12%	13%	13%	13%	13%	13%	13%	13%	13%
2,100	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
2,150	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	15%	15%	15%
2,200	18%	18%	18%	18%	17%	17%	17%	17%	17%	17%	17%	17%	17%

Source: Kotak Securities - Private Client Research

Conclusion

Considering, current volatile equity markets, rising global concerns and limited attractive stock ideas, we believe TCS buyback offers Low risk and moderate returns to retail investors and hence we suggest retail investor to accumulate ~95 share of TCS to participate in the buyback offer. We expect retail acceptance ratio to be healthy.

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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