



## Tata Consultancy Services Ltd Tactical Opportunity: Participate in TCS Buyback 2023

IT & ITES

Sharekhan code: TCS

Reco/View: Buy

CMP: Rs. 3,513

Price Target: Rs. 4,200

Upgrade

Maintain

Downgrade

### 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red

+ Positive = Neutral - Negative

### What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

### ESG Disclosure Score

NEW

#### ESG RISK RATING

Updated Aug 08, 2023

11.42

#### Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

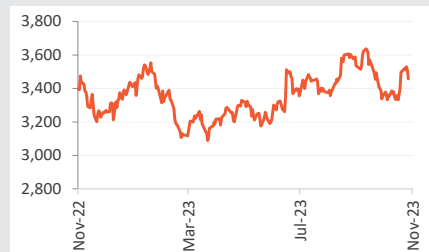
#### Company details

Market cap:	Rs. 12,85,461 cr
52-week high/low:	Rs. 3,680/3,070
NSE volume: (No of shares)	19.1 lakh
BSE code:	532540
NSE code:	TCS
Free float: (No of shares)	101.4 cr

#### Shareholding (%)

Promoters	72.3
FII	12.5
DII	10.0
Others	5.2

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	4.9	4.0	5.8	3.4
Relative to Sensex	0.0	1.2	-0.6	-3.3

Sharekhan Research, Bloomberg

### Summary

- ♦ **Buyback Details (October 2023):** TCS announced a buyback of Rs 17,000 crore at a premium price of Rs 4,150 per share through the tender route.
- ♦ **Opportunity for small shareholders:** Shareholders with a maximum of 57 shares as on the record date (25-Nov-2023) could participate in the buyback and benefit from the gap in current market price and buyback price.
- ♦ **Expected Acceptance Ratio:** Official entitlement ratio is ~17% based for small investors. However, the past experience shows that all shareholders do not participate in buyback and the final acceptance ratio could be at 30-35%.
- ♦ **Investor Strategy Post-Buyback:** Given the potential acceptance ratio and possible upside for retail/small investors, it is advisable to tender shares in buyback. After the buyback, investors have the option to reinvest in the same number of accepted shares at relatively lower prevailing market price. Fundamentally, we have Buy rating on TCS, with an unchanged Price Target (PT) of Rs. 4,200.

### Event: Buyback 2023

Earlier in October 2023, TCS had announced buyback of 17,000 crore at a premium price of Rs 4,150/share through the tender route. The Rs 17,000 crore buyback represents 1.12% of the company's equity. The total number of shares that would be accepted under the buyback would be 4.1 crore. Retail shareholders owning shares as on the record date of Rs 2 lakh or less will get a reservation in the buyback offer to the extent of 15% of the buyback size. As on the Record Date, the closing price on NSE was Rs 3,457.10 per equity Share. Accordingly, all eligible Shareholders holding not more than 57 Equity Shares (less than Rs2 lakh worth) as on the Record Date are classified as 'Small Shareholders' for the purpose of the Buyback.

**Opportunity for existing small shareholders:** Existing shareholders, who are holding TCS's shares for long term investment in their portfolio worth less than Rs2 lakh as on record date (25-Nov-2023), could use the buyback route and tender their shares (maximum of 57 shares), to get benefits premium buyback price of Rs4150 (around 19% higher than prevailing market price). Post the buyback settlement, investors can again buy back the same numbers of shares accepted in buyback at prevailing market price for long term investment and continue to hold unaccepted shares in the portfolio.

**Potential acceptance ratio to be around 30-35%:** The acceptance ratio has been 100% during the previous buybacks in 2017,2018 and 2020. However, the acceptance ratio was ~24% during the last buyback in 2022. Official entitlement ratio is ~17% based for small investors. However, the past experience shows that all shareholders do not participate in buyback and the final acceptance ratio could be at 30-35%.

#### Based on Buyback Entitlements, ratio of Buyback for both categories is provided below

Category of Eligible Shareholder	Ratio of Buyback (i.e. Buyback Entitlement)
Reserved category for Small Shareholders	1 Equity Share for every 6 Equity Shares held on the Record Date
General category for all other Eligible Shareholders	2 Equity Shares for every 209 Equity Shares held on the Record Date

Source: Company

#### Scenario Analysis – Potential gains from tendering shares in the buyback

Particulars/Acceptance ratio	17%	24%	30%	45%	50%
Current Price (Rs.)	3513	3513	3513	3513	3513
No of existing shares	57	57	57	57	57
Buy Back Price (Rs.)	4150	4150	4150	4150	4150
Shares accepted in Buyback	9	13	17	25	28
Profit from Tendering (Rs.) pre tax	5732	8280	10827	15923	17833
Shares remaining (unaccepted in tender offer)	48	44	40	32	29

Source: Company, Sharekhan Research

**Note:** Market price may vary in run up to closing of buyback offer on 7th December 2023. The above illustration for small shareholder holding 57 shares, the return may vary for different shareholders.

### Historical and Current Buyback details

TCS	2017	2018	2020	2022	2023(Current)
Announcement date	20-Feb-17	15-Jun-18	07-Oct-20	12-Jan-22	11-Oct-23
Buyback size (Rs. Cr)	16,000	16000	16,000	18,000	17,000
Number of shares (Cr.)	5.6	7.6	5.3	4.0	4.1
% of shareholding	2.85%	1.99%	1.42%	1.08%	1.12%
Maximum Buyback price (Rs.)	2850	2100	3000	4500	4150
Record date	08-May-17	18-Aug-18	28-Nov-20	23-Feb-22	25-Nov-23
Reserved for small shareholders	84,21,052	1,14,28,572	80,00,000	60,00,000	61,44,578
Shares validly tendered	41,97,408	40,16,984	61,25,386	2,53,42,996	NA
<b>Final acceptance ratio (retail)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>23.7%</b>	<b>NA</b>

Source: Company, Sharekhan Research

### Schedule of activities

Sr. No	Activity	Date	Day
1	Date of Board Meeting approving the proposal of the Buyback	11-10-2023	Wednesday
2	Date of declaration of results of postal ballot for special resolution by the Equity Shareholders of the Company, approving the Buyback	15-11-2023	Wednesday
3	Date of Public Announcement for the Buyback	16-11-2023	Thursday
4	Date of publication of the Public Announcement for the Buyback	17-11-2023	Friday
5	Record Date for determining the Buyback Entitlement and the names of Eligible Shareholders	25-11-2023	Saturday
6	Last date for dispatch of Letter of Offer	29-11-2023	Wednesday
7	Buyback Opening Date	01-12-2023	Friday
8	Buyback Closing Date	07-12-2023	Thursday
9	Last date of receipt of completed Tender Forms and other specified documents including physical share certificates (if and as applicable) by the Registrar	07-12-2023	Thursday
10	Last date of verification of Tender Forms by the Registrar	11-12-2023	Monday
11	Last date of providing Acceptance/Non-acceptance of tendered Equity Shares to the Stock Exchange by the Registrar	13-12-2023	Wednesday
12	Last date of settlement of bids on the Stock Exchange	14-12-2023	Thursday
13	Last date of dispatch of share certificate(s) by the Registrar/return of unaccepted Equity Shares by Stock demat Exchange to Seller Member/ Eligible Shareholders	14-12-2023	Thursday
14	Last date of extinguishment of Equity Shares	26-12-2023	Tuesday

Source: Company

## Outlook and Valuation

### ■ Sector view - Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds, the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macroeconomic headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

### ■ Company outlook - Staying ahead of the race

Being one of the largest IT services companies worldwide and having preferred partners as clients, TCS can capture a fair share of spends on digital and Cloud transformation initiatives and is well-positioned to participate in clients' transformation journeys. Further, the company is well-placed from a competitive perspective, especially in newer technologies. A stable management, full-service capabilities, the ability to structure large multi-service deals and multi-horizon transformation demand would help TCS to deliver strong revenue growth in the next three years. The management intends to keep the payout ratio at 80-100% of free cash generated.

### ■ Valuation - Maintain Buy with unchanged PT of Rs. 4200

Despite the challenging macro environment, the recent large deal wins and robust orderbook provides decent revenue visibility for the quarters ahead. We expect 8.4%/10.9% Sales and PAT CAGR over FY23-26E. We believe the company with its strong domain expertise, geographical presence, ability to cross sell makes it well placed to win large cost optimisation and transformational deals and tide over the uncertain macro environment. Hence, we maintain Buy rating on TCS with an unchanged PT of Rs. 4,200.

## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
<b>Negative</b>	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
<b>Positive</b>	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

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