



## LAB REPORT

# WIPRO BUYBACK

Wipro has recently approved the proposal for buyback through a tender offer route for an amount of 11,000 crores. The maximum price for the buyback will be 320 per equity share from all equity shareholders of the company on the record date. The company will buyback  $11,000 \text{ crores} / 320 = 34,37,50,000$  shares i.e. ( 7.06 % of the total paid up equity capital from the company ). As per this offer only 7 shares out of 100 should be accepted at 320 if all the shareholders participate and make the opportunity unattractive. However there are certain regulations on buyback that may increase the acceptance rate to 100% in this case.

The opportunity in this situation lies for “**Small Shareholders**”.

REGULATION :- 15% of the total number of equity shares which the company proposes to buyback are to be reserved for **small shareholders**. ie. 5,15,62,500 shares are reserved for small shareholders.

SEBI defines small shareholders as a shareholder of a listed company, who holds shares or other specified securities whose **market value**, on the basis of closing price of shares or other specified securities on the recognized stock exchange as on record date is not more than two lakh rupees.

The most important thing in this definition is the word “**market value**”.

People often tend to not focus on such words and end up paying for their mistakes by not being able to participate in such opportunities, as they don't find them lucrative enough.

### **UNDERSTANDING THE DIFFERENCE BETWEEN FACE VALUE AND MARKET VALUE :-**

As per the buyback offer by the company, to get qualified as a retail small shareholder you must hold shares upto rupees 2,00,000 on the record date.

As of today the share price of Wipro is 290, to qualify as a retail small shareholder you should hold less than 689 shares. To be on a safe side, we would recommend to buy 670 shares as the share price might increase and your holding value may exceed 2,00,000 and you may miss out on the opportunity.

Now let's try and find out the number of shareholders who will qualify in the category of small shareholders.

For this lets have a look at the latest quarter's shareholding pattern

Category & Name of the Shareholders	No. of shareholder	No. of fully paid up equity shares held	Nos. of shares underlying Depository Receipts	Total no. shares held	Shareholding % calculated as per SCRR, 1957 As a % of (A+B+C2)	No of Voting Rights	Total as a % of Total Voting right	Number of equity shares held in dematerialized form(Not Applicable)
Individual share capital upto Rs. 2 Lacs	246584	101911873		10,19,11,873	2.09	10,19,11,873	2.14	10,02,03,766

There are a total of 2,46,584 shareholders who cumulatively hold 10,19,11,873. But the company will jut buyback 5,15,62,500 shares from small shareholders. So how can the acceptance ratio be 100% or even near it?

“The opportunity doesn't seem lucrative. Let's give it a pass” - this is where the analysis for most of the people ends.

### Solving the mystery and making the opportunity attractive

The share holding pattern that the company submits every quarter is not based on the market value of shares which is the key determinant for being considered a small shareholder. Instead, this 2 lakh is based on the **face value**, also called the nominal value.

Wipro has a face value of 2 RS. This means anyone who holds upto 1 lakh shares will be considered a small shareholder. But the **market value** of 1 lakh shares would be  $1,00,000 * 290 = 2,90,00,000$  This surely doesn't qualify for a small shareholder category.

In order to get the number of shareholders that actually hold shares upto rupees 2,00,000 **market value** we have to check the shareholding pattern in latest annual report.

Category (No. of Shares)	31-Mar-17				31-Mar-16			
	No. of Shareholders	% of shareholders	No. of shares	% of Total equity	No. of shareholders	% of shareholders	No. of shares	% of total equity
1-5000	236,761	98.17	24,636,146	1.01	222,793	97.99	23,400,173	0.95
5001- 10000	1,626	0.67	5,824,521	0.24	1,605	0.71	5,697,804	0.23
10001- 20000	1,024	0.42	7,269,189	0.30	1,084	0.48	7,672,666	0.31
20001- 30000	365	0.15	4,469,797	0.18	423	0.19	5,185,043	0.21
30001- 40000	227	0.10	3,955,075	0.16	234	0.10	4,062,455	0.16
40001- 50000	145	0.06	3,251,627	0.13	154	0.07	3,451,385	0.14
50001- 100000	314	0.13	11,365,237	0.47	328	0.14	11,968,612	0.48
100001& Above	692	0.30	2370,128,973	97.50	748	0.32	2,409,275,152	97.52
<b>Total</b>	<b>241,154</b>	<b>100.00</b>	<b>2,430,900,565</b>	<b>100.00</b>	<b>227,369</b>	<b>100.00</b>	<b>2,470,713,290</b>	<b>100.00</b>

This is the shareholding pattern as per 31<sup>st</sup> march 2017. To qualify as a small shareholder you can't hold more than 689 shares ( calculated above ).

There is no such category in the above table that specifies the number of shareholder that hold less than 689 shares, but being conservative in our analysis and considering the worst case scenario we

consider all the shareholders in this category hold less than 689 shares.

The number of shares held by this category = 2,46,36,146.

The company will buyback 5,12,62,500 shares from small shareholder but the shares held by this category are only 2,46,36,146. This implies all the shares that the small shareholder wants to tender will be accepted by the company and the acceptance ratio will be 100% for sure.

BUT ,there's no such thing as a free lunch, **there's a little bit more complication to this**

Wipro had announced a bonus issue back in April 2017. We now need to adjust the number of shares for the bonus issue.

So the actual number of shares after adjustment =  $2,46,36,146 * 2 = 4,92,72,292$

Still 4.92 crore shares are less than 5.12 crore that the company will buyback from the small shareholders.

If the shareholding pattern hasn't changed much from march 2017, there is a possibility of getting a 100% acceptance ratio.

Also there are number of factors that increase the chances of acceptance ratio being close to 100%

- 1) Wipro bought back shares last year, but the acceptance ratio was very low and people lost money in that opportunity. This category is less likely to participate again in this buyback.
- 2) All retail shareholders are not closely tracking the company and hence are unaware of any such opportunity and are less likely to participate in the opportunity.
- 3) Many people don't find the opportunity lucrative enough and don't tender their shares in such buybacks.

#### PROCEDURE

- 1) The company will ask for shareholder approval via voting for the buyback of shares. This will most likely be approved as promoters own 73% of the shares ( **MAJORITY** ).
- 2) Once the voting is complete, the company will announce a record date for buy back. We need to be shareholders of the company on this date.
- 3) If you are a shareholder on the record date, company will send you a tender form. You will have to fill this tender form if you are willing to tender your shares in buyback.
- 4) Once you submit the form with your broker, all your shares will be tendered.
- 5) Once the procedure is complete, the actual acceptance ratio will be out.
- 6) The company will then buyback all the shares you tender @ 320 ( assuming the acceptance ratio

to be 100% )

If the situation plays out as we think, one can earn a return of around 10% in 3-4 months. This is what makes the opportunity attractive. This is not just a one time opportunity, such attractive offers keep coming up in the stock market, all you need to do is keep an open eye to maximise your wealth.

