Twitter Thread by EquityManiac



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Buyback Analysis

How to deal with these Special Situation Events?

A Thread.■

1/n Before we start with our Buyback Calculation let’s understand some basic term to ease our understanding

2/n Buyback of shares is approved by two routes

1) Tender Route

2) Open Market Route

3/n
1.Tender Route
Tender Route is the most common way for the buyback. In the tender route, the current shareholders have to make an application for the buyback of shares and based on the demand, the company buy back the shares on the pro-rata and quota allocation basis.

4/n
2. Open Market Route

The open market is a simple and easy one. The company buyback the shares from the exchanges and complete the buyback process but due to such a heavy demand in the shares, the share price rises,

If the company has a less free float than substantially it will lead to buying at a very high cost than expected and this make buyback process costly.

5/n what are Announcement Date, Record Date and Ex-Date?

Announcement Date= Date at which the company announced a buyback of shares.

6/n
Record Date= Date at which company records the shareholders who will be entitled to the buyback.

Ex-Date= After this Date nobody is entitled to participate in the buyback.

7/n Example-Justdial

Just dial Board had approved the buyback on 30th April 2020, as per this date buyback was a lucrative bet, so let’s dig further to understand buyback.

8/n
Step 1- Visit the BSE Website, check the corporate action, you will get Buyback details (Announcement made by the company). (Link shared below)

https://t.co/WfLqUjWGkW

9/n
Step 2-
3 details to be fetched from the announcement.
1) Buyback Amount (Total amount of shares they are going buyback) = 22 Cars
2)Buyback Share price (share price for buyback) =700rs
3)Total shares buyback (No. of shares they are going to buyback)= 3142857

10/n Step 3
Get Theoretical Buyback Ratio(TBR)= Total shares for buyback/ total Number of shares Outstanding.
Which will be 3142857/64903692 =4.84%.
TBR Explains the total per cent of shares company will be engaged for buyback (This info. is available in the corporate action)

11/n
Step 4 – Let’s consider a scenario for retail investors for the time being.
(Retail quota is a quota mandated by SEBI for companies to set aside 15% of the total buyback size for retail investors,

these investors are those who are holding shares worth up to INR 2 lakh on the record date of the buyback process i.e. you can maximum buy 526 shares at CMP of 380). We have 15% of the Quota reserved for the retail shareholders.

12/n So let's calculate.

We can see that 471428 Shares are applicable for the buyback for the retail Shareholders (15% of 3142857 which is 471428)

Particulars	Particulars
Buyback Amount	2,20,00,00,000.00
Buyback Share price	700.00
Total Outstanding shares	6,49,03,692.00
Market Capitilisation	24,66,34,02,960.00
Total Shares Buyback	31,42,857.00
Theoritical Buyback %	4.84%
Promoter Participation	Not Participating
Promoter Holding pre buyback	33.44%
Public holding Pre buyback	66.56%
CMP	380.00
Amount of shares to buy	526.00
Under 5000 shares	1720248
Retail Quota	4,71,428.55
Acceptance Ratio	27%

13/n Now how do you know how many shareholders are falling into minority shareholders who can apply for retail Quota?

Here is the catch you get a shareholding pattern in the annual report which shows how many shares are under 1-5000 Category, 50000-100000 Category and so on.

14/n Check the below image which shows 1720248 Shares are under 1-5000 Category i.e these shareholders may apply for the buyback for retail quota. (You can Download annual report form BSE Website or Company's website)

Distribution of Shareholding as on March 31, 2019

No. of Shares Held	No. of Share Holders	% of Total Share Holders	No. of Shares Held	% of Total Shareholding
Upto 5000	35,641	96.84	17,20,248	2.66
5001-10000	540	1.47	3,96,996	0.61
10001-20000	236	0.64	3,53,907	0.55
20001-30000	85	0.23	2,17,417	0.34
30001-40000	42	0.11	1,48,470	0.23
40001-50000	36	0.10	1,66,479	0.26
50001-100000	63	0.17	4,42,258	0.68
Above 100001	162	0.44	6,13,11,330	94.67
Total	**36,805**	**100.00**	**6,47,57,105**	**100.00**

15/n Step 5- Now let's find the acceptance ratio which leads to what per cent the company will accept the shares in the buyback
Acceptance Ratio(AR) = Total Shares are available for retail Quota/ Total No of shares held under minority category which is =471428/1720248 = 27%

27% is the minimum AR by the company for the buyback of the shares.

16/n Step 6- Scenario Analysis

Particulars	Particulars	Worst Case	Base Case	Best Case
A	% of Acceptance	**27%**	**45%**	**60%**
B	Total amount Invested	199880	199880	199880
C	Total Amount of shares	526	526	526
D	Shares tendered for buyback (A*C)	142	237	316
E	Shares untendered (C-D)	384	289	210
F	Amount recieved on Buyback	99,414.00	1,65,690.00	2,20,920.00
G	Amount of shares Untendered	145912.4	109934	79952
H	Exit Price(at cost)	380	380	380
I	Amount Received(F+G)	2,45,326.40	2,75,624.00	3,00,872.00
J	Profit/loss for the period (I-B)	45,446.40	75,744.00	1,00,992.00
K	Profit/loss % (J/B)	**23%**	**38%**	**51%**

17/n
Worst Case= Only 27%(As per Acceptance Ratio) Shares can be Tender for the buyback and 73% shares remain untendered which we will exit at cost.

So, we invested 1,99,880rs for the buyback. Now we have only 27% as the acceptance Ratio that leads to 142 out of 526 shares can accept in the buyback and 384 remains untendered.

18/n 142 shares are sold at 700rs per share (Buyback price decided by the company) and remaining we will sell at the cost (the price we bought).
We earn a good amount of money i.e 45,446 Profit in the invested amount of 1,99,880 (~23%)
(As stated in the image below)

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18/n Let us calculate the

A. Worst-case scenario,

B. Base-case Scenario

C. Best-case Scenario

19/n Base Case= Only 45% (Assumed) shares tendered for the buyback and 55% shares remain Untendered which will be exiting at cost.

20/n Why base case and best-case scenario?
We considered the category of under 5000, Even in this category there will be very fewer shareholders who hold less than

500 shares which fall under retail quota, we have already been conservative in terms of a worst-case scenario

21/n Best Case=Only 60% (Assumed) shares tendered for the buyback and 40% shares untendered which we will exit at cost.
As per our analysis, in worst case Scenario we are earning ~23% in the buyback Period(which is mostly 2-3 months of duration)

In the Best Case Scenario, we are earning ~51% profit for the buyback period.

22/n Unpopular fact:

We calculated the buyback for the share price prevailing on the announcement date and made consideration for our different scenario but you should know that the company records shareholders name on the record date

we don't know what price will be prevailing due to volatility.
If your value will be more than 2 lac then you are no more applicable for the retail category and you will be considered in HNI(High Net worth Individuals) category. For simplification buy shares of 1.5 -1.75 lac

23/n
Let take one more Example
Thomas Cook.
Let's See how much Viable it was.

24/ n Thomas Cook
Share Price as on 49.35 (Announcement Date).
Acceptance ratio is 19.34 %.

Particulars	Particulars
Buyback Amount	1,50,00,00,000.00
Buyback Share price	57.50
Total Outstanding shares	37,07,81,499.00
Market Capitilisation	18,29,80,66,975.65
Total Shares Buyback	2,60,86,956.00
Theoritical Buyback %	7.04%
Promoter Participation	Not Participating
Retail Quota Max Amount	1,99,880.00
CMP(as on 27/02/20)	49.35
Amount of shares to buy	4,050
Under 5000 shares	20229623
Retail Quota	39,13,043
Acceptance Ratio	19.34%

25/n Let's see the scenario analysis for Thomas Cook.

Particulars	Particulars	Worst Case	Base Case	Best Case
A	% of Acceptance	**19%**	**21%**	**23%**
B	Total amount Invested	199880	199880	199880
C	Total Amount of shares	4,050	4,050	4,050
D	Shares tendered for buyback (A*C)	770	851	932
E	Shares untendered (C-D)	3281	3200	3119
F	Amount recieved on Buyback	44,249.02	48,906.81	53,564.60
G	Amount of shares Untendered	161902.8	157905.2	153907.6
H	Exit Price(at cost)	49.35	49.35	49.35
I	Amount Received(F+G)	2,06,151.82	2,06,812.01	2,07,472.20
J	Profit/loss for the period (I-B)	6,271.82	6,932.01	7,592.20
K	Profit/loss % (J/B)	**3.14%**	**3.47%**	**3.80%**

26/n We can analyse in the worst-case scenario, we can just make 3.14% of the profit, while in the best-case scenario we can make 3.8% profit. Due to low acceptability and due to high opportunity cost, we will try not to participate in such a buyback Scenario.

27/n

Conclusion Note

Don't participate in the buyback which looks lucrative on the price basis, in Thomas cook buyback prices are lucrative i.e 57.5 compare at CMP (49.35) but the acceptance ratio is way too bad and so retail investors can make a minor loss(Due to volatility)

28/n

When you apply for the buyback, go with the above steps provided, so that you can play a safe bet and earn a lot of money in an example of JUST DIAL and capital can be protected while investing in a better outcome

29/n

We have to assure that the buyback is a good opportunity or not. In Just dial, it is 1 in a Million scenario where we can make a massive amount of money. While before applying for the buyback, follow these steps provided to value the buyback process

30/n

One of my favourite twitter handler @tycoonmindset05 had made analysis on NTPC buyback. Just check is it worth of investment.

https://t.co/Xkw3wEx6Hm).

31n

If you are still with me, you have great potential and eagerness to learn.

Stay Investing!!

I'm tagging you not for the follower count, rather to educate innocent and ignorant Individuals

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