

## Larsen and Toubro

Larsen and Toubro (L&T) at its board meeting held on October 3, 2018 approved to buy back 6.1 cr shares (4.35% of its equity) through a tender offer at a price of INR 1,475 per share resulting in a total offer size of ~INR 9,000 cr. As per SEBI regulations, 15% of the offer size (~INR 1,300 cr) is reserved for small shareholders holding shares up to a value of INR 2 lakhs as on the record date (October 15, 2018)

### Buyback offer details:

- ✓ Size: ~INR 9,000 crore
- ✓ Price: INR 1,475/share
- ✓ CMP (based on closing price of 10-Oct-18): INR1221/share
- ✓ Premium: INR 254/share (21%)
- ✓ Record date: Oct 15, 2018; Ex-date: Oct 12, 2018; implies shares can be bought up to Oct 11, 2018 to be eligible for the offer
- ✓ Total number of shares to be bought back: 6.1 crore shares (4.35% of paid-up equity)
- ✓ Shares reserved for small shareholders: ~0.9 crore shares (15% of buyback offer)
- ✓ Based on Buy Back price of INR1,475, one can buy upto 135 shares (2,00,000/1475) to be eligible for Retail category for a total investment of ~INR1.65 lakhs

### Shareholding distribution as per FY2018 annual report (as on March 31, 2018)

No. of shares	% of shareholding
<b>Upto 500</b>	<b>5.8%</b>
500-10,000	10.6%
10,000 and above	83.6%
<b>Total</b>	<b>100.0%</b>

Source: Company Annual Report

## Opportunity:

- ✓ The retail holding in L&T is less than 5.83% (as on March 31, 2018)
- ✓ 15% reservation for the buy back of 4.35% of paid-up equity implies at least 0.65% of paid up equity will be bought from retail investors (as on March 31, 2018)
- ✓ Acceptance ratio =  $0.65/5.83=11\%$  (as on March 31, 2018); However, we expect the acceptance to ratio to be in the range of 30-40%.

Retail investors looking for short term opportunity can buy the shares (upto the value of INR 2 lakhs - as on the record date) from the open market and tender them in the buy-back offer. Assuming acceptance ratio (range from 30-40%) and the market price INR 1,221, investors can earn an absolute return between **6%-8%** (subject to short term capital gains tax) over the next 1-2 months (average time to payout in recent tender offers). Any change in acceptance ratio could impact absolute returns.

Amount invested (INR)	Acceptance	Profit (INR)	Absolute return
1,64,835	20%	6,858	4.2%
1,64,835	30%	10,287	6.2%
1,64,835	40%	13,716	8.3%
1,64,835	50%	17,145	10.4%
1,64,835	60%	20,574	12.5%
1,64,835	70%	24,003	14.6%
1,64,835	80%	27,432	16.6%

## Key risks to the opportunity:

- ✓ Additional retail shareholders buy the stock before the record date leading to lower acceptance ratio
- ✓ The current market price (assumed for calculation of profits) drops before one is able to exit post buy back

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