

GAIL Ltd. buyback tender offer At Rs.190 – an Arbitrage of opportunity of 1%-3.5%

GAIL Limited - headquartered in GAIL Bhawan New Delhi, India, is a government-owned natural gas corporation responsible for natural gas processing and distribution in India and operates under the ownership of Ministry of Petroleum and Natural Gas, Government of India.

The Company supplies 67% of total gas consumed in Fertilizer sector, 53% of gas consumed in Power and 60% of total gas consumption in CGD, in India.

GAIL posted 20% increase in Revenue from Operations to Rs 25,776 Cr in Q3FY22 as against Rs 21,515 Cr in Q2FY22, Profit before Tax (PBT) increased by 17% in Q3FY22 to Rs 4,308 Cr as against Rs 3,682 Cr in Q2FY22. The Profit after Tax (PAT) increased by 15% to Rs 3,288 Cr in Q3FY22 as against Rs 2,863 Cr in Q2FY22. 9MFY22PAT jumps 158%, surpassing PAT of previous fiscal years. The high growth is driven by Natural Gas Marketing/LPG-LHC segment items

With its leadership position in gas segment, Gail has been consistently rewarding its shareholders through regular dividends, issue of bonus shares and buyback of shares at a premium to its market price.

Recently, Gail Ltd. has come up with a buyback for 5.7Cr shares at Rs 190 each, aggregating to 1,083 Cr. This represents 2.50% of the total paid-up share capital of the company and free reserves for 5.7Cr shares.

GAIL Ltd. buyback details:

Intimation Date	25-Mar
Approval date	31-Mar
Record date	22-Apr
No of shares for buyback in Cr	5.70
Buyback price	190.00
Total buyback value in Cr	1,083
% of Total paid-up capital and reserves	2.50%
Type of offer	Tender Offer
CMP	160.04
% Premium offered	23.82%
15% Small Shareholder reservation	85,47,819
Lot size for small shareholder	1053 shares
No. of shares held by small shareholders (in Cr)	16.55
Minimum Acceptance ratio for Small shareholders	5%
Minimum Acceptance ratio for Non-retail	20%

Source: NSE, BSE, Company Research

Our take for investors: The company's strong performance is manifested in its improving financials. Assuming the current CMP will be the post-offer price and full participation by retail investors and with an acceptance ratio of 5%-20, an **arbitrage opportunity of 1%-3.5% over the period of 3-4 months.**

If 50% participation is assumed for small shareholders, the acceptance ratio would be 10%, giving an arbitrage opportunity of 1.6%. We recommend investors to participate in the said buyback opportunity

High/Low (Rs)	171/125
Market cap (Cr)	69,137
Avg. daily vol. (6m) Shrs.	7,85,378
No. of shares (Cr)	444

Shareholding (%)

	Jun-21	Sep-21	Dec-21
Promoter	51.45	51.45	51.45
FIs	16.83	18.22	19.56
MFs / UTI	8.61	9.1	7.87
Banks / FIs	0.03	0.11	0.08
Others	23.08	21.12	21.04

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Buyback Terms:

The company came up with a buyback offer on 25th Mar'22 and received approval for the same on 31st March 2022. The record date for the offer is 22nd April 2022.

- As per the regulations, **15% of the total number of outstanding equity shares are reserved for the small shareholder** (shares within the 750-5000 range). For the current buyback, this means a buyback of 85 Lc shares (15% of 5.7 Cr) for small investors; a total of 1,052 shares per investor will be tendered (assuming full participation).
- A small shareholder is a holder of not more than 2,00,000 rupees worth of shares as of the record date for the buyback.
- **Minimum Acceptance ratio** tells you how likely it is for your shares to be accepted by the company. This ratio is calculated as the percentage stake in the open offer divided by the percentage stake held by external shareholders.

Why do companies offer buybacks:

- The share buyback can be seen as an alternative, tax-efficient way to return money to the shareholder.
- It reduces the number of shares in circulation, which has the effect of increasing the earnings per share (EPS) and the company's share value.
- It also aids in improving the company's EPS and ROE

Shareholding Pattern for GAIL Ltd.:

Category of shareholder	No. of shareholders	No. of fully paid-up equity shares held	Total no. shares held	Shareholding as a % of total no. of shares As a % of (A+B+C2)
(A) Promoter & Promoter Group	1	2,28,45,90,082	2,28,45,90,082	51.45
(B) Public	7,12,449	2,12,58,21,297	2,12,58,21,297	47.87
(C) Non Promoter-Non Public	1	2,99,73,846	2,99,73,846	0.68
Grand Total	7,12,451	4,44,03,85,225	4,44,03,85,225	100

Source: NSE,BSE,Company Research

Shareholding Bifurcation for Publicly Held Shares:

Category & Name of the Shareholders	No. of shareholder	Total no. shares held	Shareholding % calculated as % of Total
B1) Institutions			
<i>Mutual Funds/</i>	28	34,93,50,619	7.87%
<i>Alternate Investment Funds</i>	2	34,400	0.00%
<i>Foreign Portfolio Investors</i>	667	86,83,26,802	19.56%
<i>Govt. Pension</i>	1	5,12,43,724	1.15%
<i>Financial Institutions/Banks</i>	10	36,64,430	0.08%
<i>Insurance Companies</i>	26	32,02,45,867	7.21%
Sub Total B1	733	1,54,16,22,118	34.72%
B2) Central Govt.	5	34,96,38,784	7.87%
B3) Non-Institutions			
<i>Individual share capital - Rs 2l</i>	7,00,583	16,55,68,948	3.73%
<i>Individual share capital in excess 2 Lacs</i>	475	2,73,72,691	0.62%
<i>NBFCs registered with RBI</i>	5	20,704	0.00%
<i>Any Other (specify)</i>	10,648	4,15,98,052	0.94%
Sub Total B3	71,1,711	23,45,60,395	5.28%
B=B1+B2+B3	71,2,449	2,12,58,21,297	47.87%

Source: NSE,BSE,Company Research

Scenario 1:

Minimum Acceptance Ratio for Small Shareholder (upto 2 lacs) portfolios:

Total no.of shares offered for buyback	5,69,85,463
15% shares- Small shareholder reservation	85,47,819
Lot size for small shareholder (upto 2lacs)	1,053 shares
Individual share capital upto Rs. 2 Lc, no. of shares held, as per Dec21 shareholding	16,55,68,948
Minimum acceptance ratio	5.16%

Source: NSE,BSE,Company Research

For the small retail investor (individual share capital upto 2 Lc), the number of shares held is 16.55 Cr on a total of 85 Lc shares reserved for the RII category. This gives us a minimum acceptance ratio of 5% for the reserved category (assuming full participation).

At a 5% acceptance ratio, 54 shares would be accepted out of a lot size of 1,053 shares, giving a ratio of 1:19 for this buyback (1 share accepted for every 19 shares tendered).

The arbitrage opportunity on a 5% acceptance ratio results in a return of 1%, assuming the share price after buyback equals the CMP over the period of 3-4 months and if the offer receives full participation.

A 30%-50% participation by retail investors would give a 20% and 10% acceptance ratio respectively, resulting in 3.5%-1% arbitrage returns.

Scenario 2:

Minimum Acceptance Ratio for Publicly held Portfolios(excess of 2Lc):

Public Holding for non-retail	in Cr
Total Public Shareholding (shares)	213
Less: Shares held by holders up to 2lc in value	17
Total shares available for non-retail buyback	196

Public share holder unlikely to participate	For 0% participation In Cr	For 10% participation In Cr
MF and AIF	34.94	31.44
Ins	32.02	28.82
Foreign port inv	86.83	78.15
Central Govt.	34.96	31.47
Net publicly held shares available	7.27	26.14
Tender offer (less 15% reserved)	4.84	4.84
Minimum Acceptance Ratio	67%	19%

- Based on the public shareholding pattern and assuming only 10% of the institutional public holding is tendered for buyback, we expect a minimum acceptance ratio of 20% for this buyback offer.
- This implies an arbitrage opportunity of a 3.5% return if the price after buyback equals the CMP over the next 3-4 months.
- Below is a sensitivity analysis that showcases the arbitrage opportunity of 1% - 3.5% over a range of share prices for this buyback.

SENSITIVITY ANALYSIS:

Share price	Acceptance Ratio							
	5.16%	10%	20%	24%	30%	35%	37%	40%
120	-22.94%	-20.82%	-16.46%	-14.71%	-12.09%	-9.91%	-9.04%	-7.73%
130	-17.02%	-15.21%	-11.47%	-9.98%	-7.73%	-5.86%	-5.11%	-3.99%
140	-11.11%	-9.60%	-6.48%	-5.24%	-3.37%	-1.81%	-1.18%	-0.25%
155	-2.24%	-1.18%	1.00%	1.87%	3.18%	4.27%	4.71%	5.36%
160	0.72%	1.62%	3.49%	4.24%	5.36%	6.30%	6.67%	7.23%
180	12.54%	12.84%	13.47%	13.72%	14.09%	14.40%	14.53%	14.71%
190	18.45%	18.45%	18.45%	18.45%	18.45%	18.45%	18.45%	18.45%
200	24.37%	24.06%	23.44%	23.19%	22.82%	22.51%	22.38%	22.19%

Source: Company, Axis Research

About the analyst

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Analyst Bio: Eesha Shah has done CFA and has over 4.5 yrs of experience in the field of Finance. Eesha was involved in developing option trading strategies in her previous company and is currently handling the special situation analysis.

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