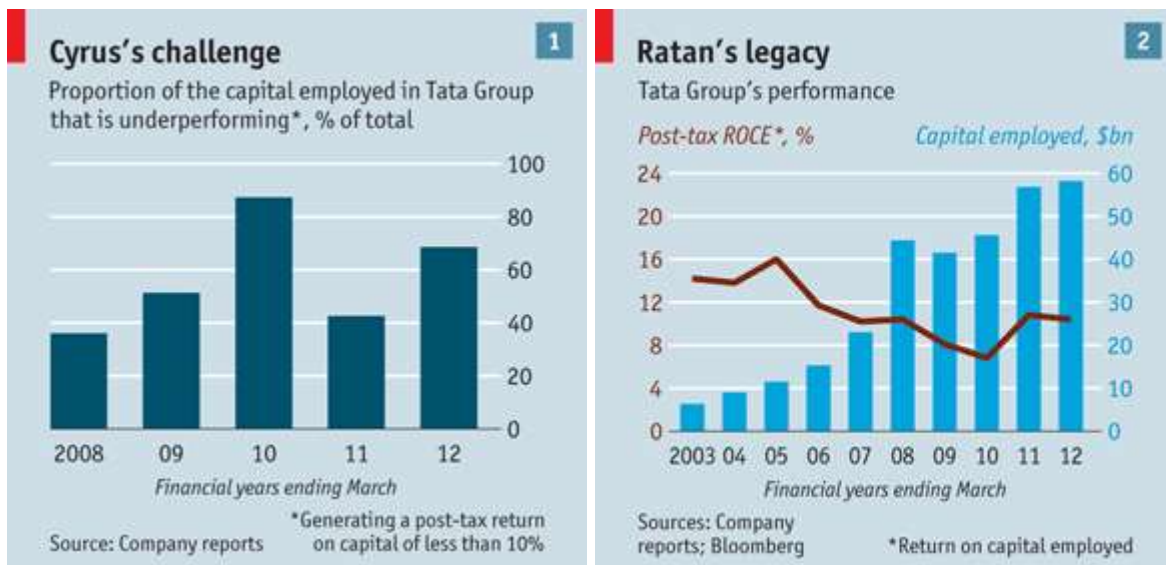


# Leadership transition at Tata Sons

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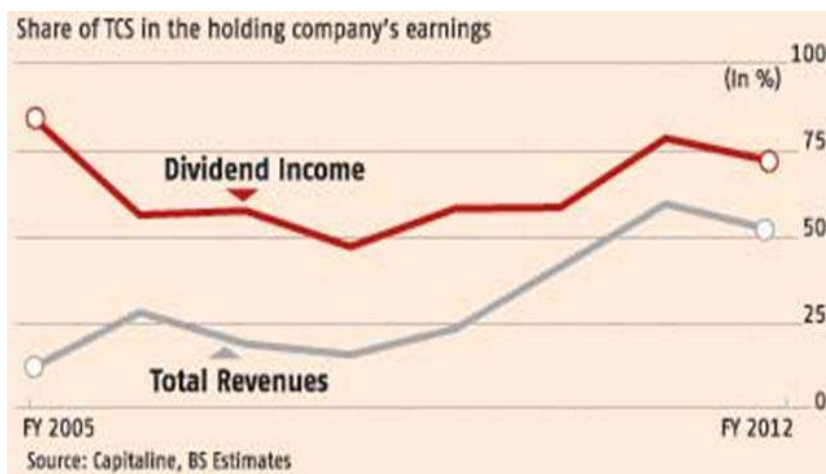
Tata Sons is getting ready for a leadership transition at the top with Mr. Ratan Tata making way for Cyrus Mistry. By all accounts, Mr. Tata has done a phenomenal job of growing the Tata group's revenues by some 51 times in the last 20 years or so. This is quite creditable, when we consider that the mood at the time Mr. Tata took over from JRD, the doyen of the Tata empire, was not so upbeat. I was working with Tata Steel then and we wondered whether the Tatas would be able to compete with more aggressive business groups like the Ambanis, in the liberalized business environment.

As Ratan Tata prepares to move on, the Tata empire is looking big and strong. But one thing is becoming clear. Not all the Tata group companies are doing well. In particular, Mobile telecom, Steel (overseas operations), Hotels and Power are all struggling with a substantial debt burden. (Pl see figures below taken from The Economist.) Indeed, if not for a few high performers, the Tatas might have found it difficult to fund their expansion in the past 20 years. You might have guessed where this is leading! Yes, TCS has been one of the few crown jewels of the Tata empire. And we will see shortly what a crucial role the tech company has played in shoring up Tata Sons' fortunes.



Finance theory tells us that the dividend decision is based not merely on balancing the need to conserve cash with the need to reward shareholders. It also has a lot to do with the promoter preferences and their strategic priorities. Since 2004, Tata Sons has invested Rs 34,000 crores in various group companies. During the same period, TCS paid dividends of Rs 10,000 crores to Tata Sons. (Another Rs 9100 crores came from divesting TCS shares, including the IPO and Rs 11,500 crores was raised through borrowings facilitated by pledging TCS shares.) There is little doubt that the strong cash flows and high market cap of TCS has given Tata Sons a lot of comfort as it has embarked on an aggressive global expansion plan in the past 10 years or so. Indeed, it has been a one sided story so far. TCS has supported Tata Sons in a big way but what it has got in return from the parent is not very clear.

The following figures and tables (taken from today's Business Standard) illustrate how TCS has supported Tata Sons' growth plans.



<b>WHAT CYRUS MISTRY INHERITS</b>					
In Rs crore	FY92	FY12		CAGR (%)	
		With TCS	Without TCS	With TCS	Without TCS
Revenues	8,884	452,857	403,535	21.7	21.0
Operating profit	1,643	66,399	51,535	20.3	18.8
Net profit	580	29,369	18,956	21.7	19.0
Equity dividend	1,950	8,669	3,776	20.9	16.0
Net worth	3,535	143,858	114,279	20.4	19.0
Assets	8,638	349,941	319,174	20.3	19.8
Market cap	29,068	454,645	226,074	14.7	10.8
Return on capital employed (%)	15.2	14.4	11.4		
<i>Source: Capitaline, BS Research</i>					
<b>TATA SONS: HOW IT EARNED AND SPENT</b> <span style="float: right;">(Rs crore)</span>					

Year	Dividend*	TCS Shares sale **	Borrowings	Investments
FY05	445.2	2800.0	0.0	3241.1
FY06	540.6	835.9	178.5	1640.7
FY07	753.7	696.6	1802.6	2610.6
FY08	740.7	3873.8	4662.5	9111.5
FY09	1019.2	892.5	1969.2	5772.9
FY10	1226.9	0.0	361.3	3032.7
FY11	2886.8	0.0	1661.9	4712.8
FY12	2453.8	0.0	446.3	2451.3

\* Dividend from TCS; \*\* Proceed from sale of TCS shares including IPO

Source: Capitaline, BS Estimates

While on the subject of dividends and investments, we may be aware that Azim Premji of Wipro has recently decided to spin off Wipro’s consumer products division to make the company’s financials more transparent. Unlike TCS and Wipro, Infosys is only in one business but thanks to promoter preferences, it too has been paying a decent dividend year after year. Within the industry, Cognizant occupies a unique position, having not paid dividends at all and not intending to do so in the near future. The company’s story has been one of reinvesting operating cash flows for growth. And that story has been successfully communicated to shareholders. Pl see figure (Ref: CLSA) below to get the “dividend story” of Indian IT services companies.

