TCS could have listed during 2001 IT boom but Ratan Tata said 'no'; a must-read for all shareholders

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While IT giant TCS has now grown to be India's second valuable firm by market-capitalisation after Reliance Industries, the firm wasn't listed during 2001, despite the dot-com boom. We take a closer look.

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While IT giant TCS has now grown to be India's second valuable firm by market-capitalisation after Reliance Industries, the firm wasn't listed during 2001, despite the dot-com boom. While Credit Suisse had valuated TCS at US $20.7 billion (Rs 97,000 crore), back then, the then group Chairman Ratan Tata postponed the listing keeping shareholder interests over group interests, says Dr Shashank Shah.

Interestingly, while firms such as TCS and Titan are well-known multi-baggers, investing equally into 16 different Tata Group firms would have multiplied investor wealth by 40x in the last 26 years, says Shah, quoting an analysis from his latest book- *titled 'The Tata Group: From Torchbearers to Trailblazers.'*

Sushruth Sunder of Financial Express Online recently interviewed Shashank Shah, who shares insights about the Tata Group's 150 year journey; why TCS wasn't listed during IT boom and multi-bagger stocks from the Tata Group apart from Titan and TCS. We bring to you edited excerpts.

The decision to turn TCS, its cash cow operating division, into a subsidiary and conduct an IPO required lot of thought. In 1999, when valuation of IT stocks was sky-rocketing, it was the best time to float TCS as an independent company. The promise of the opportunity on hand could be understood from the fact that a single e-commerce company like Amazon with a few thousand employees on its payroll commanded a greater market capitalization than the entire US steel industry that had a million employees. Notably, Credit Suisse First Boston had valuated TCS at US $20.7 billion (Rs 97,000 crore).

N.A. Soonawala, then vice chairman at Tata Sons, had shared some of these observations with chairman Ratan Tata and the benefits it would generate for Tata Sons. However, Ratan Tata turned it down. He observed (I paraphrase his observations), 'We all recognize that there is an IT-bubble that is being built up. We can certainly list TCS and get a ridiculous valuation; but 3-4 years down the line, after the bubble has burst and shareholders are still holding our stock, what they receive as dividends is in no way going to compensate them for the investment they would have made. They will remember that and hold it against us. As promoters, we cannot exploit the market because of a short-term situation.' Their decision underscored their priority to serve shareholder interests over group interests.

HDFC Group has surpassed Tata Group to become India's largest conglomerate in terms of market capitalization, with just 5 listed firms. The Tata Group has a total market cap of about Rs 11 lakh crore, while TCS alone enjoys a mcap of Rs 8.5 lakh crore. Does this imply that shareholders of other 28 listed Tata firms have been left with poor returns, or haven't enjoyed stellar growth of TCS shareholders?

This is a common observation in the analysts' ecosystem. The general belief is that except a few Tata companies like TCS or Titan, most others haven't given adequate returns to their shareholders. However, one needs to see the Tata companies over a long-term horizon, especially post 1991, from when the Indian economy was gradually unshackled.

In the analysis I have covered in my book, a simple review of shareholder returns across Tata Group showed that over a 26-year horizon (1 April 1992 to 31 March 2018), the Group outperformed the market and other well-known conglomerates in India and abroad. This was particularly important given that the companies analysed had lasted various economic, business and political cycles while they continued to be leaders in their sectors. Given Tatas' diversity, we identified 16 businesses that best represented the Group's presence across most sectors and decided to equally divide an investment of Rs 1,00,000 in these businesses. The 16 companies included: Tata Steel, Tata Motors, TCS, Indian Hotels, Tata Power, Tata Chemicals, Tata Communication, Tata Elxsi, Tata Metaliks, Tata Sponge Iron, Tata Investment Corporation, Tata Global Beverages, Titan Company, Trent, Voltas and Rallis. By 2018, the invested Rs 100,000 would be worth roughly Rs 40-lakhs, nearly quadrupling the same investment in benchmark indices. During the same period, a BSE Sensex investment would be worth Rs 10.26 lakhs and the Nifty would be worth Rs 10.73 lakh.

While India witnessed several notable conglomerates over the years that have benefitted shareholders, the Tata Group stood ahead of comparable size companies post-liberalisation. An investment of Rs 100,000 in January 2009 equally across the selected Tata companies would be worth Rs 998,200 (10x the initial investment) in March 2018. The same would be worth almost 5x and 2.5x in the case of Aditya Birla Group and Reliance Group respectively. The Tata Group also outperformed developed market peers in Asia, America and Europe. Annualized total shareholder returns over a 26-year period from 1 April 1992 to 31 March 2018 for Mitsubishi (Japan) were 5.2%, GE (USA) were 5.9%, Siemens (Germany) were 10%, Berkshire Hathaway were 14.2% and the Tata Group were 15.2%.

Given this analysis, it would be incorrect to say that all shareholders except those of TCS haven't enjoyed stellar growth. The example of Titan and its rise to becoming the Tata company with the second largest market cap at Rs 1 lakh crore is a case in point. Between 2002 and 2018, its net profit rose 188 times and dividends by 375%. I believe, Tatas have been committed to long-term wealth creation as emerges in my analysis.

The Tata Group has been around for more than 150 years. How were the early years for the Group?

The Tata tale has been quite representative of the story of India Inc over the last 15 decades – with all its adventures and achievements, dilemmas and downfalls. The easiest would be to study the salient features of the Tata Group's evolution under its four noteworthy chairmen.

how an individual could achieve so much in a lifetime of just 65 years, of which nearly 15 years were spent at sea travelling to the countries to the east and west of India – to learn from their industrial success stories and bring the best talent and technology to the Indian shores. He presided over the inauguration of the Taj Hotel in the penultimate year of his life as a gift from his personal wealth to the city he loved – Bombay. He also bequeathed 50% of his property for an endowment for the Indian Institute of Science, which eventually came into existence 7 years after his demise, and is today India's leading university and among the best in Asia.

From 1904 to 1932, Jamsetji's elder son – Sir Dorabji Tata, was the chairman of Tata Sons (synonymous with Tata Group). He worked hard and along with the other founding members of the Group – Sir Ratan Tata and R.D. Tata, accomplished the unfinished task of Jamsetji's vision – of starting Tata Steel and Tata Power. Not just that, he ventured into newer industries including banking, insurance, cement, FMCG, civil aviation and several others. Some of them succeeded and some did not survive the aftershocks of World War I. Yet, he played a pivotal role in sustaining the Tata Group in the first half of the 20th century. Moreover, both the brothers left behind a legacy in the form of the Tata Trusts – bequeathing all their wealth, properties and personal belongings for the benefit of society. In later years, these Trusts funded landmark institutions including Tata Memorial Hospital – Asia's largest cancer-care facility, Tata Institute of Social Sciences – Asia's pioneering school of social work, Tata Institute of Fundamental Research and the Bhabha Atomic Research Center – the cradle of India's nuclear programme, and a dozen others.

What major milestones did the group achieve under JRD Tata and Ratan Tata?

From 1938 began the era of JRD Tata. Son of one of the founding members of Tata Sons, JRD had the unique privilege and responsibility of leading the Tata Group as its chairman for an uninterrupted 53 years. For those five decades up to 1991, the Tata Group and JRD Tata were synonymous. He played a major role in expanding the social footprint of the group by incorporating mandatory CSR as part of the Articles of Association of leading Tata companies, and initiating pathbreaking labour welfare and employee empowerment initiatives through a documented labour policy at Tata Steel, the TAS programme, Tata Management Training Center Pune, Tata Industries – the first technocrat driven holding company in India, and several others. His first love was Air India, a Tata company, which was nationalized by Prime Minister Nehru in 1952. He remained its chairman for the next quarter century and nurtured it into one of the world's finest civil aviation companies. Within the Group, Tatas expanded into locomotives and automobiles through Tata Motors, chemicals through Tata Chemicals, cosmetics through Lakme, IT through TCS, consumer durables through Voltas, tea through Tata Tea, watch-making through Titan and a score more.

From 1991, the Ratan Tata years began. Son of Naval Tata, former vice chairman of Tata Sons and adopted son of Sir Ratan Tata (Jamsetji's younger son), Ratan Tata's major contributions have been threefold: transforming the Tata Group from individual-focused to institution-centric decision making and leadership, building a culture of excellence and innovation in a century old group with solid silos, and pioneering global acquisitions, new age companies and transforming Tata Group into India's first and largest multinational conglomerate with a product/service presence in 150 countries. In his 21 years as chairman, Tata Group's revenues increased from Rs 24,000 crore to Rs 650,000 crore with 65% coming from overseas sales. In the post-liberalization era when multinationals from across the world entered India and provided tough competition, he guided the turnaround of legacy Tata company like Tata Steel, Tata Motors, Tata Chemicals, and Tata Tea into market leaders. A public sector company like VSNL was acquired and transformed into a global telecommunication major – Tata Communications. Despite bureaucratic hurdles and political blockage for 20 years, Vistara was launched in collaboration with Singapore Airlines, and has now become India's third full-service international carrier. TCS has become the poster boy of India's IT success story and Titan the retail mascot of India with nearly 50% market share in the organised retail jewellery business.

It would be unfair to give all the credit for the Tata story to the Group chairmen. Over the last 15 decades, the company-level leadership have played a phenomenal role. In recent years, the leadership and contribution of Dr. JJ Irani, S. Ramadorai, Bhaskar Bhat or N. Chandrasekaran, the current Group Chairman is laudable.

It is rare that a conglomerate that has existed since the Victorian Era of the 1800s, continues to lead an economy into Industry 4.0 while contributing nearly 4% of India's GDP and 2.25% of its taxes. That's the 150 years of the Tata Group for you in a capsule.

(The above interview is based on a book by Dr Shashank Shah titled 'The Tata Group: From Torchbearers to Trailblazers.' Dr Shah is a Visiting Scholar, Harvard Business School and Consulting Editor at The Business India Group. Views expressed are his own)