

The Tata way

'Why wasn't TCS floated during the IT boom?'

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This has been a common question asked by analysts, investors and market-watchers for nearly two decades. The reasons exemplify the Tata way of business. In May 2004, the NDA government lost the elections. The BSE Sensex nosedived from an all-time high of 6,250 to 4,300. In an unfavourable milieu, TCS decided to go public in June 2004. In 2003, TCS had already become India's first billion-dollar software firm.

Though a much-awaited IPO, its timing raised apprehensions among investors and analysts. Half a decade earlier, in the penultimate year of the 20th century, when valuation of IT stocks was skyrocketing, it was the best time to float TCS as an independent company that was operating until then as a division of Tata Sons. The promise of the opportunity on hand could be understood from the fact that a single e-commerce company such as Amazon with a few thousands on its payroll commanded a greater market capitalisation than the entire US steel industry that had a million employees.

There was a lot of pressure from corporate watchers and market analysts on Tata Sons to consider listing TCS in those years. They even provided the kind of valuation TCS enjoyed. For example, Credit Suisse First Boston had valued TCS at \$20.7 billion (₹97,000 crore). In the mid-1990s, the capitalisation of the five or six biggest Tata companies was about ₹20,000 crore. If Tata Sons considered this option and monetised a relatively small percentage of the TCS stock after it went public, it could take every single listed Tata stock in India, including Tata Steel, Tata Motors, Tata Chemicals and Tata Power. Most Tata companies could also become debt-free. This was also one of the priority areas identified by Ratan Tata.

Then why didn't the Tatas exploit the opportunity?

Mukund Rajan, then chief sustainability and group ethics officer, recalled that NA 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: "We all recognise that there is an IT bubble that is being built up. We can certainly list TCS and get a ridiculous valuation;

but three-four 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."

His stance was a classic example of what the famous US footballer Curtis Martin once said: 'Never let a short-term desire get in the way of a long-term goal.' The listing could have created billions for the group but would have eventually erased the hard-earned money of millions of shareholders who had faith in the Tatas.

The decision underscored the Tatas' priority to serve shareholder interests over group interests. In 2004, when the decision for listing TCS was made, Tata Sons being the promoters of the issue agreed to retain 82.69 per cent stake in the newly formed Tata Consultancy Services Ltd. In June-July 2004, the ₹5000-crore TCS IPO emerged as the biggest IPO in India and the second-largest tech IPO in Asia. At the time of opening for trading, it created a record by commanding a premium of 41 per cent and was oversubscribed 7.7 times.

