THE HINDU BusinessLine

Who says Cyrus Mistry has fared badly?

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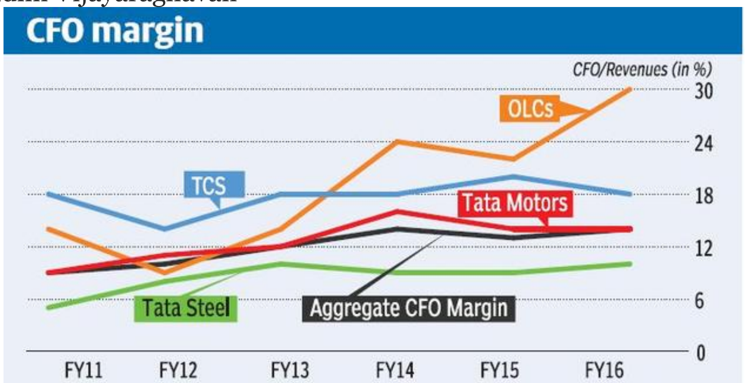
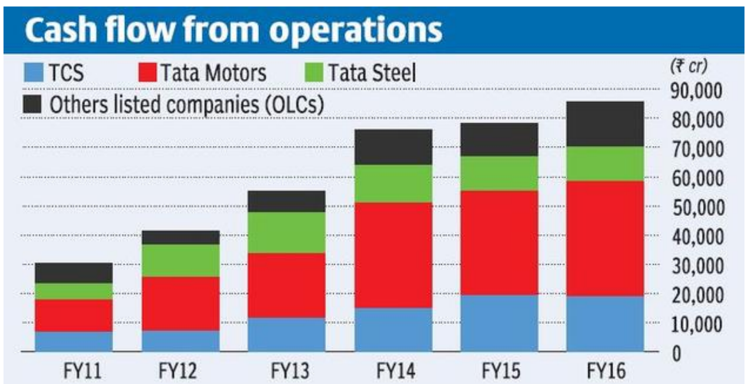
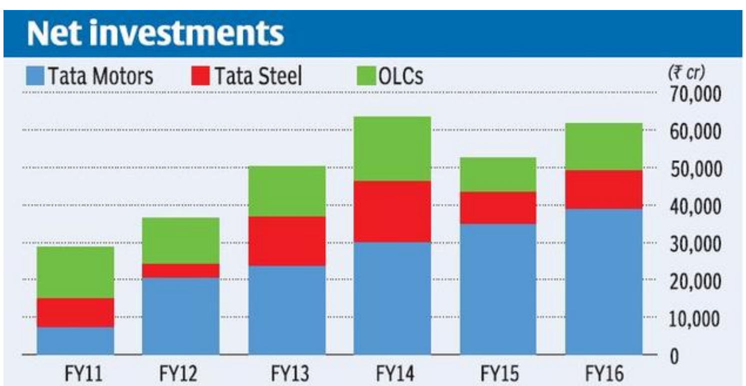
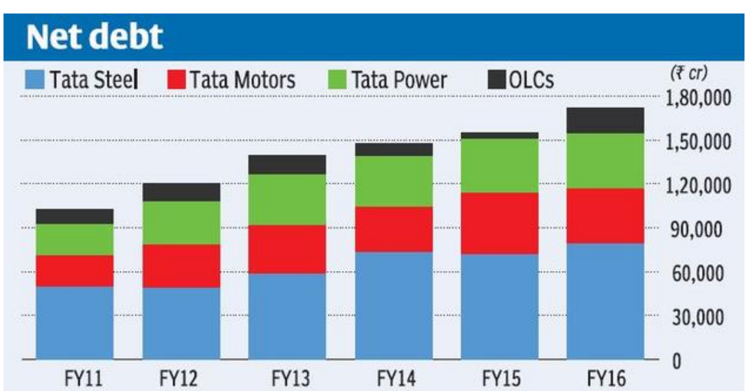




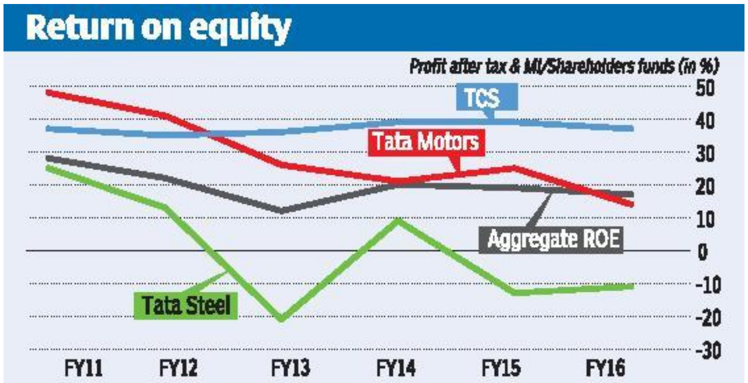




Restructurings, provisions & impairments

(in ₹ cr)

	FY11	FY12	FY13	FY14	FY15	FY16
IHCL	-	-	373.00	351.71	306.51	-
Tata Steel	2,310	-	8,356	45	6,053	9,721
Tata Communications	-	-	-	150	190	208
Tata Motors	-	177	88	224	-	44



The financials of the Tata group indicate that the group companies transited from an expansion phase under Ratan Tata to one of consolidation under Mistry

The ouster of Cyrus Mistry as Executive Chairman of Tata Sons on October 24, 2016 and the mudslinging that ensued was uncharacteristic of both Tata Sons and Mistry. In an attempt to understand the performance of the Tata Group and the reasons that led to Mistry's replacement, I have summarised below the performance of nine major, listed Tata companies and the unresolved queries the analysis and communiqués from the opposing sides raise.

These nine companies are a subset of the 100 Tata companies. As information on the unlisted companies and the holding companies is not available in the public domain, the analysis is restricted to the nine major listed companies.

The nine companies are TCS (accounting for 58.3 per cent of the Nifty Tata Group Index market capitalisation), Tata Motors (17.24 per cent), Tata Steel (5.24 per cent), Titan (3.73 per cent), Tata Power (2.60 per cent), Tata Communications (2.44 per cent), Tata Chemicals (1.59 per cent), Voltas (1.36 per cent) and Indian Hotels Company (1.31 per cent), which together account for 93.81 per cent of the Nifty Tata Group Index's market capitalisation as of November 30, 2016.

The analysis captures the trend in the performance of the nine listed companies for six years ending March 31, 2016, comprising the three financial years (FY11 to FY13) when Ratan Tata was at the helm and three years (FY14 to FY16) when Mistry was the chairman. Since Mistry assumed charge in December 2012 , it is appropriate that the FY13 performance is attributed to Ratan Tata.

Revenue slows down

First off, revenue momentum slowed down during Mistry's tenure. The aggregate revenue growth during FY14 to FY16 was 27 per cent; much lower than the 70 per cent reported during the last three years of Tata's tenure.

However, the 70 per cent growth was achieved off a much lower base of ₹ 276,586 crore in FY10 and the 27 per cent growth during FY14 to FY16 was achieved off a considerably higher ₹418,918 crore revenues in FY13. Also, it must be noted that steel prices were rising for most part of the period when Tata was the Chairman (FY11 to FY13) and declining during Mistry's tenure (FY14 to FY16).

Cash flow from operations (CFO) improve and stabilise: A positive development during Mistry's tenure is the improvement and stabilisation in the listed companies' CFO, both in ₹ terms and as a percentage of revenues. The CFO margin (CFO/Revenues) which ranged from 10 per cent to 12 per cent during FY11 to FY13, improved to 14 per cent during Mistry's tenure.

This improvement was broad-based and spurred not just by the sound performance of TCS and Tata Motors. Even Tata Steel, the responsibility for whose poor performance has been laid squarely at Mistry's doorstep, reported an improvement in CFO Margin to 10 per cent by FY16 from 8 per cent in FY12.

While you may argue that the improvement in marginal, it is a commendable when seen against the backdrop of falling prices.

Debt increases; but financial leverage moderates: Tata Sons, in its communique dated November 10, 2016, stated that group indebtedness had increased by ₹ 69,877 crore to ₹ 225,740 crore in the last four years.

While it is true that debt in ₹ terms has increased in the last four years, financial leverage i.e. net debt (debt less cash) as a proportion of CFO, has moderated (improved) to 2.01 times as of 31 March 2016 from an eight year peak of 3.38 times in FY11. TCS' sustained net cash (cash exceeding debt) position and Tata Motors reducing its dividend payout aided the deleveraging process, despite the significant increase in Tata Steel's financial leverage driven by falling steel prices.

Debt was incurred to fund investments: While the Tata Sons' communique states that borrowings increased, it is silent on the use of debt raised. Gross debt of the nine listed companies covered in this analysis increased by ₹ 39,906 crore and funded just 23 per cent of the ₹ 177,342 crore net investments (capital expenditure + acquisitions – asset disposals – divestments + interest income + dividend income) made between FY14 to FY16. Moreover, the net investments made during this period represented a 54 per cent increase over the ₹115,274 crore net investments made during the last three years of Ratan Tata's tenure (FY11 to FY13)!

Understanding dividends

Tata Sons says dividends from all companies excluding TCS had declined during Mistry's tenure. The key reason for the decline in dividends seems because of a conscious decision by Tata Motors to cut its dividends in order to fund its sizeable investments. Tata Motors' dividend payments declined from ₹ 1,551 crore in FY13 (the year in which Tata was the Chairman for the first nine months followed by Mistry for three months) to ₹ 720 crore per annum in FY14 and FY15 and finally to a meagre ₹ 174 crore in FY16. Tata Motors' investments for the period FY14 to FY16 was ₹103,371 crore i.e., 58 per cent of the ₹177,342 crore net investment made by the nine listed companies.

The cut in Tata Motors' dividends served to strengthen the company's liquidity and capitalisation. Tata Motors' consolidated cash balance improved to ₹32,880 crore as of March 31, 2016 from ₹21,115 crore as of March 31, 2013. Shareholders' funds more than doubled to ₹80,783 crore as of March 31, 2016 from ₹37,637 crore as of March 31, 2013.

Tata Sons' argument is that TCS's contribution was key to group dividends during Mistry's tenure. The situation was quite similar when Tata was the chairman of Tata Sons and group companies. During FY11 to FY13, dividends paid by the nine listed firms was ₹35,650 crore, of which TCS' share was 57 per cent and that of the other listed companies was 43 per cent.

Of the ₹40,925 crore dividends paid from FY14 to FY16, TCS' and other listed companies share was 79 per cent and 21 per cent respectively. We need to keep in mind that TCS paid hefty dividends of ₹17,106 crore and ₹9,524 crore in FY15 and FY16, which tends to inflate TCS' share of dividends during FY14 to FY16. TCS paid ₹ 5,737 crore dividends in FY13, the maximum during the last five years of Tata's Chairmanship.

Messy impairments

Impairments are non-cash charges made in accordance with accounting principles to reflect a permanent reduction in the value of a company's asset. Tata Sons' in its communique of November 10, 2016 stated that "During the last three years the group has written down, written off or made provisions for impairment worth thousands of crore".

While the statement is factually correct, the troubling aspect is that it completely ignores the thousands of crore of provisions and impairments even during Tata's tenure. Tata Steel's restructuring, provisions and impairments during FY11 to FY13 was ₹ 10,666 crore and from FY14 to FY16 was ₹ 15,819 crore. Tata Steel's sustained trend of impairments is primarily driven by its historically expensive acquisitions in UK and Europe.

Stable RoE, higher alpha

To put Mistry's performance in context, the aggregate RoE for the nine listed companies ranged from 17 per cent to 20 per cent during FY14 to FY16.

The lower ROE during Mistry's tenure was despite the rising trend of profit after tax and minority interest and driven by year on year strengthening of shareholders' funds, driven by Tata Motors' higher retained earnings. Interestingly, Tata Steel reported the lowest RoE, in the six year period FY11 to FY16, of negative 21 per cent in the last year of Tata's tenure as chairman, i.e., FY13.

The 148 per cent increase in share prices of the nine listed companies during the final four years of Tata's tenure is significantly higher than the 89 per cent increase during Mistry's tenure.

However, the 148 per cent return during 2009 to 2012 was just 51 per cent higher than the 98 per cent return generated by Sensex and NIFTY during this period. The 89 per cent increase in share price during Mistry's tenure was twice the 42 per cent return generated by Sensex and 45 per cent by NIFTY. Simply put, the Tata stocks outperformed benchmark indices by a higher margin during Mistry's tenure as compared to that of the last three of Tata's reign at the helm.

In sum, Mistry's tenure, like the tenures of the heads of most large corporations, was an amalgamation of certain positives like improving CFO, focussed investments in remunerative initiatives, significant deleveraging and share prices outperforming the market and weaknesses including TCS and Tata Motors continuing to drive Tata group's performance and the sustained weak performance registered by Tata Steel, Indian Hotels and Tata Telecommunications.

The Tata group, by strategy and driven by market factors, was in a consolidation phase during Mistry's tenure after the rapid expansion during Tata's tenure. The financials of the listed companies do not support the view that Mistry was an under performer.

The writer is a Singapore-based corporate finance professional

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