Shobhana's edit

Focus on profits, the market cap will follow

For a man who so far seems to have his eye more on the bottom line than on the top line, Cyrus Mistry’s wanting the Tata Group be among the top 25 most-valued firms globally comes as something of a surprise. Equally surprising is the investment target of $35 billion (R2.1 lakh crore) to be spent over the next three years, not a small sum. On a rough reckoning, the group would have had spent something in the region of $25 billion in the last ten years, the bulk of it on the acquisitions of Corus and JLR, a bunch of hotels, and on keeping Tata Teleservices afloat.

Some clues to the spends can be found in the business clusters that the Tata Group intends to focus on—consumer and retail, financial services, defence and aerospace, and realty and infrastructure—all of which can turn out to be big capital guzzlers depending on how quickly one wants to scale up. Moreover, with the exception of Tata Consultancy Services, all the group’s other existing businesses will need funds periodically. A glance at Mistry’s blueprint for 2015 suggests that, by then, there will be few sectors the group will not have a presence in; the two large spaces that come to mind are oil & gas and pharmaceuticals, given the banking foray is likely to be revisited if the regulations are eased.

If that seems like the group is spreading itself too thin and going against the traditional wisdom of sticking to one's knitting, it is also true a developing country like India presents myriad opportunities. For instance, given its strengths in engineering, it would be a pity if the group didn’t play the defence sector—defence procurement is projected to grow from $16 billion right now to $80 billion by 2025. One is less sure about banking, which is a highly competitive space in which differentiation isn’t easy, but the choice of e-commerce can be explained by the existing presence in retail—both in the multi-brand and cash & carry segments. While it must be tempting to participate in the growth potential in a host of segments, many of which fetch attractive margins, there clearly cannot be a repeat of Tata Teleservices and the conservative Mistry would be mindful of that as he would not like to fritter away resources on expensive acquisitions. Given the group’s ability to attract both talent and capital, growing businesses will not be an issue. Which is why the Tata Group chairman can afford to take his eye off stock prices; where there are profits, market capitalisation will follow.