

Strategy

Embedded Value of Tata Sons in Group Cos

6 October 2020

Key Takeaway

Financial troubles at the Shapoorji Palanji (SP) group, which holds an 18% stake in Tata Sons – the group hold co – has triggered debate on Tata Sons' worth. Tata Sons' holdings across 14 listed cos works out to US\$100bn+. SP group's reported asking price is c.20% higher. Several listed Tata group cos hold a stake in Tata Sons. For Tata Chem, Indian Hotels, Tata Power, Tata Steel and Tamo the value of investment in Tata Sons is more than 50% of the market cap.

Stress at the SP group prompting likely Tata Sons breakup. The SP group's weak liquidity situation was made clear recently when on 25th Sep'20 it defaulted on a Union Bank owned Rs2bn commercial paper. Earlier, the group had tried to pledge part of its 18.4% shareholding in Tata Sons to shore up funding for its own businesses; but the same was stayed by the Supreme court (next hearing 28th October). Given such a situation, the SP group has sought monetisation of its Tata Sons' holding. The RoFR on such shareholding rests with Tata Sons.

Value of listed cos in Tata Sons c.US\$115bn. The Tata group companies, both listed and unlisted are usually controlled via the group holdco - Tata Sons. Tata Sons shareholding include a 72% stake in the group's largest company TCS (worth US \$99bn) and between 14-69% stakes in 13 other listed companies (worth US\$15bn). There is some cross holding as well amongst the group companies which results in Tata Sons' effective shareholding in group companies being higher than what is directly reported.

Moving parts to Tata Sons valuation - unlisted subs, super app, brand value, holdco discount. Other than listed cos, Tata Sons also has c.Rs160bn (FY18 annual report) invested in unlisted ventures, few of them in prominent ones. These include its 51/74% stake in general/life insurance JVs; its DTH business Tata Sky; two airline JVs (Vistara and Air-asia India), real estate business (Tata Housing), electronics retail chain (Croma) etc. Lately, Tata Sons Chairman was quoted by media articles suggesting that Tata's plan to integrate its range of consumer businesses via a 'super-app' may have significant value. Both the seller and buyer will have other points in their favor as well e.g. how to value the 'Tata' brand and a possible holdco / conglomerate discount that may be applicable.

Implications for Tata group listcos. The value of Tata Sons' holding in listed companies gives a US\$107bn valuation. Media articles suggest that SP group might be looking for a 20-25% higher valuation.

Several Tata group listed cos also own Tata Sons share. Applying the above valuation to their respective holding in Tata Sons, we find that Tata Sons share value as % market cap for certain listed cos is >50%. These include Tata Chemicals (253%), Tata Power (75%), Indian Hotels (73%), Tata Steel (55%) and Tata Motors (54%).

A potential buy-out of SP group's holding by the Tatas would entail a large cash outgo. If the burden of funding the same falls on listed cos, it can potentially negatively impact the investor sentiments on listed Tata companies including TCS.

Exhibit 1 - Value of Tata Group companies holding in Tata Sons

Company Name	Market Cap (Rs mn)	Value of holdings in Tata Sons based on listed investment (Rs mn)	Value of holdings in Tata Sons (as % of MCap)
Tata Chemicals	78,478	198,704	253.2
Tata Power	172,069	129,525	75.3
The Indian Hotels Company	120,353	87,347	72.6
Tata Steel	434,912	240,203	55.2
Tata Motors	445,242	240,203	53.9
Tata Consumer Products	463,754	34,065	7.3

Source: Company annual reports, Jefferies

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^Prior trading day closing price unless otherwise noted.

Exhibit 2 - Brief timeline of events in Tata Sons - Mistry's conflict

Date	Event
Oct-16	Mr. Cyrus Mistry, then the chairman of Tata Sons, is removed from his post. Mr. Ratan Tata was subsequently named the interim chairman
Dec-16	Cyrus Mistry resigns from all Tata Group firms. Mistry family backed investment firms, namely, Cyrus Investments and Sterling Power move the NCLT challenging Mistry's removal from position.
Feb-17	Cyrus Mistry was reportedly also from the post of director of Tata Sons.
Aug-17	A proposal to turn Tata Sons into a private company was passed by its shareholders.
Jul-18	The pleas challenging Mistry's removal from the post of Tata Sons' chairman was reportedly rejected by NCLT.
Aug-18	Cyrus Mistry approached the NCLAT against NCLT order that upheld his removal.
Dec-19	Cyrus Mistry was restored as executive chairman of Tata Sons. The NCLAT however, did add a 4 month suspension of the implementation of its order in order to allow Tata Sons time to file an appeal. The Tatas then approached the SC where they appealed against the NCLAT. The apex court stayed the NCLAT order.
Sep-20	The Supreme Court stayed Mistry family firms from either pledging or transferring any Tata Sons shares until Oct 28th, when hearings resume. The Tata Group, reportedly made an offer in court to buy back the 18.4% stake in Tata Sons that the Mistrys hold.

Source: Media articles, Jefferies

Exhibit 3 - Ownership structure of Tata Sons

Name of Holder	Shareholding (%)	Est. value of holdings (Rs mn)
Sir Dorabji Tata Trust	28.0	2,194,670
Sir Ratan Tata Trust	23.6	1,848,079
Sterling Investment Corporation Pvt. Ltd.	9.2	720,551
Cyrus Investments Pvt. Ltd.	9.2	720,551
JRD Tata Trust	4.0	314,448
Tata Social Welfare Trust	3.7	292,611
Tata Education Trust	3.7	292,611
Tata Steel	3.1	240,203
Tata Motors	3.1	240,203
Tata Chemicals	2.5	198,704
RD Tata Trust	2.2	171,549
Tata Power	1.7	129,525
The Indian Hotels Company	1.1	87,347
Tata Consumer Products	0.4	34,065
Tata Investment Corp	0.1	6,328
Others	4.5	353,171
Total	100.0	7,844,617

Source: Tata Sons FY18 Annual Report, Jefferies

Exhibit 4 - Value of Tata Sons holding in listed companies

Company Name	Market Cap (Rs mn)	Tata Sons Holdings (%)	Value of Tata Sons Holding (Rs Mn)
Listed Companies			
TCS	10,153,203	72.0	7,312,336
Titan	1,060,327	20.8	226,910
Tata Consumer Products	463,754	29.4	138,106
Tata Motors	445,242	39.5	176,405
Tata Steel	434,912	32.9	143,999
Tata Communications	243,333	14.1	85,053
Trent	237,963	32.5	77,885
Voltas	221,329	26.6	60,246
Tata Power	172,069	35.3	60,826
Indian Hotels	120,353	38.1	46,059
Tata Elxsi	83,809	42.2	35,384
Tata Chemicals	78,478	28.5	22,374
Tata Investment Corporation	43,190	68.5	51,524
Tata Motors DVR	33,104	5.3	1,771
Tata Teleservices Maharashtra Ltd	5,767	19.6	1,129
Tota value in listed companies			8,440,009
Less: Debt (FY18)			595,393
Equity Value			7,844,617

Source: Company Annual Reports, Jefferies

Exhibit 5 - Book value of Tata Sons investment in unlisted companies

Company Name	Tata Sons Holdings (%)	Book value of investments (Rs Mn)
Unlisted Companies		
Tata Capital Limited	96.1	34,015
Tata Housing Development Company Limited	100.0	16,229
Tata Industries Limited	53.6	15,985
Tata Sky Limited	62.2	12,592
Tata Realty and Infrastructure Limited	100.0	11,750
Tata AIA Life Insurance Company Limited	74.0	9,963
Tata Limited, London	100.0	9,470
Tata SIA Airlines Limited	51.0	8,262
Infiniti Retail Limited	100.0	7,000
Tata AIG General Insurance Company Limited	51.0	6,771
Tata Advanced Systems Limited	100.0	5,496
Tata Petrodyne Limited	100.0	5,271
TS Investments Limited	51.0	5,229
Taj Air Limited	80.5	2,722
AirAsia (India) Limited	49.0	2,243
ATC Telecom Infrastructure Limited	34.7	2,080
Tata International Limited	52.3	1,101
Tata Autocomp Systems Limited	74.0	741
Tata Asset Management Limited	100.0	518
Indian Rotorcraft Limited	81.5	491
Conneqt Business Solutions Limited	49.0	479
Niskalp Infrastructure Services Limited	99.8	399
Impetis Biosciences Limited	79.1	121
Tata Consulting Engineers Limited	100.0	100
Tata Projects Limited	6.7	47
Tata International AG, Zug	100.0	4.8
Tata Incorporated	100.0	2.0
Tata Trustee Company Limited	100.0	0.3
Tota book value of investment as per FY18 Annual Report		159,081

Source: Tata Sons FY18 Annual Report, Jefferies

Exhibit 6 - Value of Tata Group companies holding in Tata Sons

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- Tata Motors (TTMT IN: INR133.90, BUY)
- Tata Power (TPWR IN: INR53.85, UNDERPERFORM)
- Tata Steel Ltd. (TATA IN: INR382.15, BUY)
- Titan Company (TTAN IN: INR1,194.50, HOLD)
- Trent Limited (TRENT IN: INR669.40, BUY)
- Voltas Limited (VOLT IN: INR669.00, BUY)

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Distribution of Ratings						
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