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Tata Consultancy Shares Rise on Trading Debut

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Shares of Tata Consultancy Services Ltd., India's biggest software developer, rose as much as 27 percent on their first trading day, as investors increased holdings in one of the country's fastest-growing industries.

The stock rose as high as 1,080 rupees, from a sale price of 850 rupees, before closing at 987.50 rupees on the Mumbai stock exchange. The initial sale by the Mumbai-based company this month drew bids for 7.7 times the 63.8 million shares offered.

Tata Consultancy and rivals Infosys Technologies Ltd. And Wipro Ltd. are taking advantage of wages a third of those U.S. competitors pay to win global business. India's software exports will rise by a third this year to more than \$16 billion, the National Association of Software & Service Companies forecast.

"People want to own some of it because it's going to be the biggest market cap information technology stock in India," said Jon Thorn, who manages about \$115 million in Indian stocks at India Capital Fund Ltd. and bought the shares in the initial offering. "Any mainstream fund that follows the index has to own this one."

Tata Consultancy displaced Infosys as the third-largest Indian company by market value, after oil explorer Oil & Natural Gas Corp. and refiner Reliance Industries Ltd. At \$10.2 billion, Tata Consultancy's market value compares with Infosys's \$8.9 billion and \$8.5 billion at Wipro.

Benchmarks

The software maker will probably be included in benchmarks including Morgan Stanley Capital International indexes and the Mumbai Stock Exchange 30-member Sensitive Index.

"Infosys and Wipro have been around as listed companies for some time but its difficult to predict with any degree of accuracy how Tata Consultancy will perform on a quarterly basis," said Vinay Kulkarni, who manages the equivalent of \$454 million of stocks at UTI Asset Management Co. in Mumbai. "At 1,000 rupees it is quite expensive, because that values it at 22 times the earnings per share estimates."

Even so, that is less than the estimated 24 times earnings per share at which Infosys trades and 27 times for Wipro.

The initial sale of Tata Consultancy, which is owned by the 135-year-old Tata Group and counts General Electric Co., General Motors Corp. and Citigroup Inc. as customers, valued the software company at about 407 billion rupees.

Response

"We underestimated the enthusiastic response from the retail investors," Ratan Tata, 66, chairman of Tata Sons Ltd., said

at the share-listing ceremony. Tata Sons owns an 81 percent stake in the software maker.

Tata Consultancy's profit in the three months ended June 30 rose 71 percent to 5.19 billion rupees from a year earlier. That compares with a 39 percent rise to 3.88 billion rupees at Infosys and a 73 percent increase in profit to 3.57 billion rupees at Wipro.

The company raised 54.2 billion rupees (\$1.2 billion) from the sale of a 13 percent stake. The software maker has said it wants to use publicly traded shares to fund takeovers. Expansion may help Tata Consultancy improve profitability.

"There are a few areas where Tata Consultancy lags Infosys and Wipro," Arindam Bhattacharjee, who helps manage about \$4.7 billion in equities at Emerging Markets Management LLC in Arlington, Virginia, said in a phone interview. "Its margins are a little bit lower and it has a significantly higher onsite component."

Lower Margins

Tata Consultancy obtains 64 percent of its sales through software engineers stationed at client sites or development centers outside India. Profit margins are lower on such so-called onsite deployments as companies have to pay higher salaries to employees outside India.

Tata Consultancy's operating margin, or the percentage of net sales left after subtracting production, marketing and some other costs, is 27.3 percent for the year ended March 31, lower than rival Infosys at 28.3 percent and Wipro's global software services business, according to analysts.

The Tata Group may consider combining its computer-related companies such as Tata Infotech Ltd., Tata Elxsi Ltd. and CMC Ltd. with Tata Consultancy.

"We'll do it only if it is in the interest of those companies and Tata Consultancy," Tata told reporters at the share-listing ceremony.

Shares of Tata Infotech, Tata Elxsi and CMC have risen this month on expectations that the companies may be merged with Tata Consultancy. Tata Elxsi, which gained 5.5 percent in August, fell 5.3 percent to 131.25 rupees on the Mumbai exchange. CMC, which gained 16 percent this month, shed 1.5 percent, to 684.95 rupees. Tata Infotech rose 6.5 percent in the same period.

The benchmark Sensitive Index gained 2.17, or 0.4 percent, to 5088.56. The Mumbai stock exchange's technology index fell 1.2 percent to 1312.89.