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Tata Consultancy's IPO Plans Add to Peers' Listing Anxieties

By Eric Bellman

Tata Consultancy services' planned initial public offering, expected to be India's largest IPO, could hurt stocks process and further delay details already deferred by uncertainty over of the nation's new government.

Tata Consultancy Services or TCS, the largest software company in India by revenue, last week applied to the Securities and Exchange Board of India to sell 13% of its shares to the public. According to analysts' estimates, the stake could be valued at \$1 billion to \$1.6 billion, a huge issue for the market to absorb.

As a large, profitable and fast-growing company, TCS probably will have no trouble selling as many shares as it wants to — but its listing could depress other shares as investors raise cash for the IPO. An issue date hasn't been set.

"If they price it aggressively, people will sell things to buy, which won't be good for the market," says Jon Thorn, the managing director based in Hong Kong of India Capital Fund "The timing of this is quite tricky."

If TCS's price isn't exorbitant, investors will want a piece of the offering as a top holding in their India portfolios. While listed competitors such as Infosys Technologies and Wipro are better known, TCS, which is controlled by Indian conglomerate Tata Sons, is larger than both in terms of revenue and staff. Its long list of clients includes top US companies such as Boeing, General Electric and Bank of America.

TCS stands to be the first IPO in more than two months. After starting the year with a record amount raised in new issues, the IPO market has stalled on political worries.

The nation's public issue market started the year with its hottest streak ever, as more than \$3 billion in shares were sold through IPOs, privatization and convertible bonds. Since the beginning of May, though, there haven't been any. Corporate issuers and investors fear that the country's Congress party-led coalition, which won control of the government in May, could slow economic revisions and growth.

The benchmark BSE-30 Sensitive Index has tumbled 16% since early May on political concerns. And since Thursday when Tata Consultancy announced plans to list, the shares prices of Infosys Technologies and Wipro have fallen more than 5% each. Analysts say investors exited the software leaders on expectations their share prices would be hurt by TCS's public offer.

Monday, the index fell 1.8% to 4746.01. Infosys shares fell 2.2% to 4,996.20 rupees (\$110.85) each, while Wipro shares declined 2.5% to 1,442.75 rupees each.

More than 40 companies, including cellular phone companies BPL Cellular Holdings and Hutchinson Essar Telecom as well as domestic airline Jet Airways, have IPOs in the pipeline, according to capital market research company Prime Data base in New Delhi. But none are expected to come to market this month, says Ravi Kapoor, executive vice president of DSP Merrill Lynch in Bombay. Companies are waiting to see what is announced in the government's annual budget early next month before they decide to proceed with listing, he says.

"People want to see what (economic policies the government) wants to follow and how they want to deal with the fiscal deficit," says Mr Kapoor.

TCS's plans to list come just as this anxiety has seized would-be-fellow-issuers. The software maker's attractiveness could suck money out of the market that might have made these wary companies more inclined to list.

Even if the market rallies, most new issues may be delayed until September, when international investors are back from their summer vacations. "You can forget about August — nothing is going to happen, because everyone is on holiday," says Mr Thorn of India Capital Fund. "You have to do it the first half of July or [in] September."

If TCS decides to go through with its IPO after the budget, analysts say, it probably will be priced from 800 rupees to 1,100 rupees a share, which would be inexpensive enough to attract buyers. If the price is right, individual investors will buy the shares even if international institutional investors avoid the issue, says Prithvi Haldea, managing director of Prime Database.

"Appetite is a function of how hungry you are, how good the food is and what the price is," he says. "Forget the institutional money — we have enough retail money [in India] to do many issues."

While Mr Haldea thinks a successful listing by TCS could trigger more issues, other market watchers are more cautious. **Mr Thorn, for example, says the issue makes it harder for other companies to come to market. "Nobody else would do a pure IPO in these circumstances, he says "Nobody else has the pulling power."**

He says he will eventually buy TCS's shares, but if the market is weak when it lists he will wait until after the IPO. "A lot of people like me are going to sit around and say, 'maybe I will get a better price in the secondary market.'"