

# Up for the count

**Ishaat Hussain**, the finance director of Tata Sons, talks down the recession and speaks up on how Tata companies have navigated the choppy waters of recent times in matters of liquidity, stability and growth

Now that everyone and his economist is in agreement that the recession of 2008 is in retreat, if not a relic of the recent past, it comes as a bit of a surprise to hear Ishaat Hussain say that, as far as India was concerned, the monster never really raised its head. “The large economies of the world, the United States, Japan and those in Europe, were technically in recession,” explains the finance director of Tata Sons, “and, given their size and spread, this caused the global economy to shrink, but India and China continued to grow. That’s why I say there was no recession in our domestic economy.”

Hear Mr Hussain — the point person on most matters financial in the Tata group — on the troubles, recessionary and otherwise, of the last 18 months and you begin to better understand what is difficult even for experts to fathom. In this context, his reading of how Tata companies have coped with the pressures of operating in a globalised business world offers reason for cheer, with the caveat that the challenges this world throws up have a knack of showing up without warning and far too often for comfort.

His take on the recession in India aside, Mr Hussain acknowledges that not all sectors have escaped unscathed. “Yes, in manufacturing there was a drop in output,” he says. “For example, there was

a slump in demand for commercial vehicles, as also for construction equipment and capital goods. This affected Tata Motors in particular, but other Tata companies have performed well, domestically speaking, even those in manufacturing.”

In the same boat as Tata Motors but to a lesser extent, says Mr Hussain, was Tata Consultancy Services (TCS), mainly because the markets it is strong in were in recession. “TCS did not see a big drop in volumes, but its growth rate slowed to a crawl. Despite this, it has managed to outperform the sector. It has done this through a huge amount of cost cutting, by reviewing each item of expense carefully, and by correcting the ratio between onshore and offshore work.”

The services sector, where the Tata group has an increasingly significant presence, has been a much more positive story for the group, according to Mr Hussain. “We have weathered the storm well here. Titan, which is shaping up more and more as a retail company, has bet on new store formats and price positioning, and it has done well.”

“Westside, on the other hand, has held its own at a time when a large part of the market it operates in is reeling under losses.” That, Mr Hussain says, is because the fashion chain has calibrated its growth to ensure it has a good mix of profitable stores and stores that make sense strategically. Croma too, he adds, has got its act right. “You can’t expect them to make profits so early in the game, but then again, they are moving forward in a calculated manner, rather than rushing in with the herd.”

The watchword for Tata companies during this period, explains Mr Hussain,



**Ishaat Hussain**

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The international operations of Tata companies, Mr Hussain admits, have proved more problematic, none more so than Corus, the Anglo-Dutch steelmaker that Tata Steel acquired in 2007. "I won't use the word extreme, but it has been a difficult situation for the steel industry," says Mr Hussain, a former Tata Steel man. "I spent 25 years in the industry and I never imagined that demand for steel would collapse the way it has in the western world."

Steel production has picked up since the worst of the recession in the west, but plants are still operating only up to 75 per cent of their capacity. This scenario has dealt a severe blow to Corus, but the company has been far from felled. "The response from Corus has been quite dramatic," says Mr Hussain. "They saw the worst coming and initiated a programme called 'weathering the storm'. And when the storm arrived, they unrolled another programme, this one called 'fit for the future'. They have done some significant cost cutting and taken bold decisions. That's what you have to do when a cyclone hits."

What Mr Hussain finds most creditable in these thorny circumstances is that Tata companies have "right across the board met all their financial commitments". The finance maven in Mr Hussain comprehends the significance of this well enough and he makes no bones about the pride he feels. "I don't think there are many examples in the world today of companies meeting commitments to banks, etc. And it's something the global financial community is talking about."

Mr Hussain reckons it has been a help that most Tata companies were in pretty good shape when the recessionary crisis hit. "Take Tata Chemicals, where the management has been extremely competent in understanding events

and their sequence. So too Tata Power, which has been proactive, and Voltas, which continues to record quarter-on-quarter growth."

Farsightedness, for one, has played a part in Voltas staying ahead of the business curve; its decision to downsize its Dubai engagement being an example. "Intuition, experience and analysis," says Mr Hussain, was what led the company to play it safe in the now-troubled emirate. "We noticed that the margins in Dubai were much lower than in the rest of the Middle East. Dubai is indisciplined in the manner in which it implements projects; the chopping and changing that goes on there is at an unacceptable level. We were stunned by one or two bad legal decisions that we felt were perverse."

The recession may or may not be history, but the wounds it inflicted remain unhealed. As Mr Hussain sees it, dealing with the consequent discomfort is one of the principal challenges businesses continue to face. "We have to be concerned about the financial architecture of the world in the aftermath of the crisis," he says. "A large chunk of the banking industry is now controlled by governments, less so in the United States, more so in Europe. What will be the attitude of these banks to lending in emerging markets? Once governments move in, they will have to meet national objectives before they look elsewhere. So will money, especially in the debt market, continue to be as easily available as it has been in the past? We'll have to wait and watch."

A second issue concerns the stimulus packages that governments around the globe have put in place. "There are two schools of thought on this," says Mr Hussain. "One says that it will be business as usual from now on; I think that is too smug an assessment. The other is saying that the stimulus packages are wearing out and there need to be further packages; these people are putting growth ahead of inflation. Those in opposition believe we created a huge potential for inflation by pouring in so much money and that this could be as destabilising as the crisis itself."

The financial challenge is

something Mr Hussain thinks will stay with us awhile. "But that challenge has been with us for a long time," he says. "We have to ensure that we are always liquid. The Reserve Bank of India is not keen on having too much debt coming into the country, so we have to rely on our domestic resources. Of course, we have businesses abroad that we can fund through overseas debt, and we are doing that."

Mr Hussain has some pragmatic advice on money matters: grab it when it is available. "In India I have been quite surprised that, despite this huge government deficit, liquidity is available so easily. That's why I say, 'Take the money when it is there; that's the principle of funding.' And that's why Tata companies are doing a lot of fundraising at this point. This is partly for refinancing requirements but also because money is available."

Mr Hussain, who has played a key role in many of the Tata acquisitions of recent years, sees them as a strategic move to secure a long-term future. From here on, he says, circumspection will count for a lot. "One has to be extremely watchful. For the time being, I would advocate a period of consolidation."

In Mr Hussain's view, the role of Tata Sons, one of the promoter companies of the group, goes beyond the paternalistic. "You've got to look at the group company by company, because governance rests with the board of each company," he says. "All strategic decisions relating to individual companies are taken by the respective boards. Being the single largest shareholder, and in some cases the majority shareholder, Tata Sons has nominees on the boards of all group companies; and effectively therefore, there is a consultation between Tata Sons and group companies on their strategic direction."

Mr Hussain thinks this is a delicate period for all Tata enterprises. "We have to ensure that we have sufficient liquidity all the time. That aside, you have to secure yourself as best you can. But you know what they say about the best-laid plans of mice and men..." ●

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