

# Indias tata steel company analysis



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By acquiring Anglo-Dutch steel firm Corus, India's Tata Steel is now one of the world's top five steel makers. Professor Tarun Khanna says the fact that the deal is the largest out of India and generated by the private sector makes this a notable event. But now comes the hard part-making the merger work. Can Tata avoid mistakes made by Chinese companies?

Key concepts include:

- \* Tata's acquisition of Corus is notable not only for creating a new steel giant, but also because this deal was a private sector venture far from Indian government influence.

- \* Tata should be able to make the merger work by virtue of its position of financial strength as well as previous cross-border experiences. The West should not underestimate this heretofore relatively unknown competitor.

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## **INTRODUCTION**

TATA STEEL COMPANY:-

Tata Iron & Steel Company Ltd. (TISCO) is the iron and steel production company associated with the Tata group of some 80 different industrial and other business enterprises in India, founded by members of the Tata family. TISCO operates as India's largest integrated steel works in the private sector with a market share of nearly 13 percent and is the second largest steel company in the entire industry. Its products and services include hot and cold rolled coils and sheets, tubes, construction bars, forging quality steel, rods, structural, strips and bearings, steel plant and material handling

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equipment, Ferro alloys and other minerals, software for process controls, and cargo handling services. Through its subsidiaries, TISCO also offers tinplate, wires, rolls, refractories, and project management services. Tata Steel was established by Indian Paris businessman Jamsetji Nusserwanji Tata in 1907 (he died in 1904, before the project was completed).

#### CORUS STEEL COMPANY:-

Corus Group was created in October 1999 through the merger of British Steel and Koninklijke Hoogovens, and consists of mills and service centers, that produce and distribute steel products to customers worldwide.

Corus service Centres, part of Corus Group with sales of over \$2 billion, process and distribute products such as coil, sheet, structural sections, bar, tube, and plate products. They provide a variety of processing services such as slitting, levelling, shearing, sawing, and a range of multi-step plate processes.

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## **LITERATURE REVIEW**

### **CHANGE MANAGEMENT AND LEADERSHIP:**

**CHANGE MANAGEMENT:** It is a organized approach to trade with change, both from view of an organization and on in the individual level.

This of change management assignment relates to transformation theory.

As in an organization changes transform by the leader Mr. RattanTata (CEO) for the reputation and profitability of an organization.

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CHANGE MODEL: The three stages of change that are still the basis of many approaches today.

### **Unfreeze:-**

The term ‘ change ready’ is often used to describe people who are unfrozen and ready to take the next step. Some people come ready for change whilst others take a long time to let go of their comfortable current realities.

### **Changing:-**

may be hard for the individual, often the hardest part is to start. Even when a person is unfrozen and ready for change, that first step can be very scary.

Transition can also be a pleasant trap and, as Robert Louis Stephenson said, ‘ It is better to travel hopefully than arrive.’ People become comfortable in temporary situations where they are not accountable for the hazards of normal work and where talking about change may be substituted for real action.

### **Refreeze**

At the other end of the journey, the final goal is to ‘ refreeze’, putting down roots again and establishing the new place of stability.

In practice, refreezing may be a slow process as changing seldom stop cleanly, but go more in fits and starts with a long tail of bits and pieces.

There are good and bad things about this.

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### **LEADERSHIP:**

It is the influencing process of leadership and followers to achieve organisational objectives through change.

For achievement and growth of the company, Mr. Rattan Tata change the leadership with employees.

### **STYLE OF LEADERSHIP:**

Transformational leadership in terms of how the leader affects followers, who are intended to trust, admire and respect the transformational leader.

He identified three ways in which leaders transform followers:

Increasing their awareness of task importance and value.

Getting them to focus first on team or organizational goals, rather than their own interests.

Activating their higher-order needs.

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### **OBJECTIVES OF CHANGE**

The main objective of Merger & Acquisition transaction is as follows:

Proper utilization of all available resources.

To prevent exploitation of unutilized and underutilized assets and resources.

Forming a strong human base.

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Reducing tax burden.

Improving profits.

Eliminating or limiting the competition.

Achieving savings in monitoring cost.

REASONS FOR MERGING

### **FOR CORUS:-**

Total Debt Of Corus Is 1. 6 Ban Gap.

Corus Needs Supply Of Raw Material At Lower Cost.

Though Corus Has Revenue Of \$ 18. 06 Ban Its Profit Was Just Of \$626 MN.

Corus Facilities Were Relatively Old With High Cost Of Production.

Employee Cost Is 15% While That of Tata Steel Is 9%.

Tata had a strong retail and distribution network in India and SE Asia. This would give the European manufacturer an in-road into the emerging Asian markets.

### **FOR TATA:-**

Tata Was Looking To Manufacture Finished Products In Mature Markets Of Europe.

A Diversified Product Mix Will Reduce Risks While Higher End Products will add to bottom line.

Corus Holds A Number Of Patents And R&D Facility.

Tata Is Known For Efficient Handling For Labour And It Aims At Reducing Employee Cost and Improve Productivity.

It Will Move From 55th Position In World To 5th In Production Of Steel Globally.

Tata was a major supplier to the Indian auto industry and the demand for value added steel products was growing in this market. Hence there would be a powerful combination of high quality developed and low cost high growth market

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CHANGES:-

Corus' legal identity was changed last November to Tata Steel Europe. Kirby Adams, MD and CEO of Tata Steel Europe. " With the transition to Tata Steel name our customers have the reassurance that the technical ex annual revenue and work force of 50, 000 employees Valuing the Acquisition.

Method used Enterprise Value Multiple. (EV represents a company's economic value -the minimum amount someone would have to pay to buy it outright)

Precise and capability earned over a long and successful period will be enhanced by aligning a world-class product with a global leader in steel production.

**IMPLEMENTATION OF CHANGE MODEL:**

Market has not responded well to this deal as the price of the stocks fell.

Investors are worried about cash outflow and the resultant strain on company's balance sheet. Of the total cash to be paid in the deal \$4. 1 billion will be forked by Tata steel, rest of the money will be as debts and will be returned from Corus cash flows.

No merger is riddle free and almost every has a bit of it. Tata steel needs to concentrate on bringing down the production cost, which is high now. They need to use the best of their management skills. Rattan Tata's dexterity has worked out for the benefit of the group and this time will be no exception.

The shareholders need to keep their faith intact in the group and this will pay as it has before.

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AFTER MERGER:

THE GLOBAL STEEL INDUSTRY:-

The current global steel industry is in its best position in comparing to last decades. The price has been rising continuously. The demand expectations for steel products are rapidly growing for coming years. The shares of steel industries are also in a high pace. The steel industry is enjoying its 6th consecutive years of growth in supply and demand. And there is many more merger and acquisitions which overall buoyed the industry and showed some good results.



The subprime crisis has led to the recession in economy of different Countries, which may lead to have a negative effect on whole steel industry in coming years. However steel production and consumption will be supported by continuous economic growth.

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### **CONTRIBUTION OF COUNTRIES TO GLOBAL STEEL INDUSTRY**

The countries like China, Japan, India and South Korea are in the top of the above in steel production in Asian countries. China accounts for one third of total production i. e. 419m ton, Japan accounts for 9% i. e. 118m ton, India accounts for 53m ton and South Korea is accounted for 49m ton, which all totally becomes more than 50% of global production. Apart from this USA, BRAZIL, UK accounts for the major chunk of the whole growth.

The steel industry has been witnessing robust growth in both domestic as well as international markets. In this article, let us have a look at how has the steel industry performed globally in 2007.

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### **CAPACITY:-**

The global crude steel production capacity has grown by around 7% to 1.6 bn in 2007 from 1.5 bn tonnes in 2006. The capacity has shown a growth rate of 7% CAGR since 2003. The additions to capacity over last few years have ranged from 36 m tonnes in 2004 to 108 m tonnes in 2007. Asian region accounts for more than 60% of the total production capacity of world,

backed mainly by capacity in China, Japan, India, Russia and South Korea. These nations are among the top steel producers in the

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AFTER MERGER:

### **BENEFITS:-**

Corus' well known strength is the production of high-end steel-used in construction automobile and aircraft as well as its impressive research and development will complement Tata Steel. The merger will also give it access to the important markets of Europe. All that will benefit Corus is the management expertise of the Tata's and their cost advantage in producing steel. With their acumen they will bring down the production cost of Corus. Tata Steel expects to earn \$300 million per year through cost savings.

Market has not responded well to this deal as the price of the stocks fell. Investors are worried about cash outflow and the resultant strain on company's balance sheet. Of the total cash to be paid in the deal \$4. 1 billion will be forked by Tata steel, rest of the money will be as debts and will be returned from Corus cash flows.

No merger is riddle free and almost every has a bit of it. Tata steel needs to concentrate on bringing down the production cost, which is high now. They need to use the best of their management skills. Rattan Tata's dexterity has worked out for the benefit of the group and this time will be no exception. The shareholders need to keep their faith intact in the group and this will pay as it has before.

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### **CHANGE AGENT:**

“ I believe this will be the first step in showing that Indian industry can in fact step outside the shores of India in an international marketplace and acquit itself as a global player.”

“ RATAN TATA”

### **RESISTANCE:**

Takeover defences include all actions by managers to resist having their firms acquired. Attempts by target managers to defeat outstanding takeover proposals are overt forms of takeover defences. Resistance also includes actions that occur before a takeover offer is made which make the firm more difficult to acquire. The intensity of the defences can range from mild to severe.

Mild resistance forces bidders to restructure their offers, but not prevent an acquisition or raise the takeover price substantially. Severe resistance can block takeover bids, thereby giving the incumbent managers of the target firm veto power over acquisition proposals. A natural place to begin the analysis of takeover defences is with the wealth effects of takeovers. There is broad agreement that being a takeover target substantially increases the wealth of shareholders.

Historical estimates of the stock price increases of target firms are about 20% in the mergers and about 30% in tender offers. The large gain for target stockholders in takeovers seems to imply that all takeover resistance is bad. Resistance makes the firm more difficult to acquire. If the defence works, it

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lowers the probability of a takeover and stockholders are thus less likely to receive takeover premiums. Takeover resistance can benefit shareholders. Stockholders are concerned about the market value of the firm

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## **CONCLUSION:-**

Conclusion With Corus in its fold, Tata Steel can confidently target becoming one of the top-3 steel makers globally by 2015. The company would have an aggregate capacity of close to 56 million tonnes per annum, if all the planned Greenfield capacities go on stream by then. We can conclude that if the acquisitions well planned, Executed and the necessary precautions taken for the deal a company can achieve its strategic objectives and thus ensure its growth through Acquisition.

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