Incorporated by jamshedji tata tata steel marketing essay

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TATA STEEL LTD.

Background

Incorporated by Jamshedji Tata, Tata Steel is the largest private sector integrated steel producer in India. A century old company, it has an established presence across the entire value chain of steel manufacturing, from mining and processing iron ore and coal to producing and distributing finished products. The company ranks second in the domestic steel industry after SAIL with annual revenues of Rs. 22, 189 crore in 2007--08. The steel division contributes an average 90 per cent to the total turnover of the company. It majorly caters to the automotive and construction industries. As per company sources, Tata Steel enjoyed a 41 per cent and 26 per cent market share in these segments, respectively in 2007--08. Tata Steel's plant is located at Jamshedpur in Jharkhand. In May 2008, the company completed brownfield expansion at this plant, which scaled up its total capacity from 5 to 6. 8 million tonnes. Additionally, the company has a production facility in Jamshedpur which manufactures welded steel tubes. The company also has a ferro chrome plant in Orissa, bearings plant in West Bengal and wire manufacturing facilities in Maharashtra and Karnataka. Its marketing network spans 24 cities in India and 15 countries across the globe in North America, Europe, southern Africa and Asia. Access to captive mines with 80 per cent raw material security makes Tata Steel one of the lowest cost steel producers in the world and the most profitable company in the domestic steel industry. The company sources 100 per cent of iron ore and 60 per cent of coking coal requirements from its captive mines. 40 per cent of its coal needs is met from Australian imports. Encouraged by the continued buoyancy in steel prices, the company is setting up three greenfield steel plants in eastern India in Chattisgarh, Jharkhand and Orissa with plans to add 23 million tonnes of fresh capacity. Additionally, the company's plant in Jamshedpur is poised to become a 9. 7 million unit by December 2010. While the company is self--sufficient in its current ore requirement for Jamshedpur operations, it has sought mining leases to support its greenfield projects in Chattisgarh, Jharkhand and Orissa. In line with its vision of becoming a global company with 50 million tonne steel capacity by 2015, the company grew its size through the acquisition route. Tracing the company's history of inorganic growth in recent years, Tata Steel acquired Natsteel in February 2005, having a capacity of two million tonnes per annum. Further, in April 2006, it completed acquisition of Tata Steel Thailand (formerly Millennium Steel Company) with an annual capacity of 1. 7 million tonnes. In a giant leap, the company acquired Corus in April 2007, the second largest steel producer in Europe and the ninth largest steel producer in the world for USD 13. 7 billion. Corus has production facilities in the United Kingdom and The Netherlands and downstream manufacturing facilities in Germany, France, Norway and Belgium. With the acquisition of Corus, which is four times the size of the Indian operations of the company, Tata Steel became the world's sixth largest steel company, having an annual crude steel capacity of 28 million tonnes and a presence in nearly 50 countries. Within a span of three years, the company has transformed into an international steel company having global scale and size with a balanced presence in the developed European and fast growing Asian markets. Corus's strong distribution network in Europe and its strong product portfolio in the value added downstream segment create immense synergies for the combined entity. However, since Corus does not have any captive sources of iron ore and coal, the raw material security of the combined entity at 22 per cent is significantly less as compared to Tata Steel's standalone operations. Tata Steel aims to focus on enhancing raw material security in the coming years. The company plans to reorganise its group structure by creating an international company for consolidating its raw material assets that are spread across the world. It owns raw material assets to secure availability of iron ore and coal for Corus operations in UK and Netherlands. For instance, the company inked a joint venture agreement with Riversdale Mining to develop a coking coal project in Mozambique. The company would invest USD 100 million for a 35 per cent stake and 40 per cent of the coal derived from the project will be supplied to Tata Steel's facilities in Europe and Asia. The company also formed a 50: 50 joint venture agreement with SAIL for coal mining. Additionally, the company entered into a 75: 25 agreement with mining development company, Sodemi based in Ivory Coast, Africa. The alliance would explore and develop Mount Nimba iron ore mine having estimated reserve of more than 500 millionThe Tata Iron and Steel Company, located at Jamshedpur is the best known symbol of India's industrial growth. The company has exported products worth more than US $ 182. 3 million in 1996-97. Tata Steel remains India's largest single explorer of value added high quality steel products. It is a blue chip company, and has successfully raised US $100 million through Euro Bonds. Tata Steel is India's single largest integrated steel works in the private sector with a market share of over 13%. It has, over the years, employed state-of-the-art know-how and processes to manufacture a wide range of steel and engineering products as well as minerals and Ferro-alloys. Its steel products include HR coils, tubes, bars, rods, structures, strips, sheets and bearings. The steel plant is integrated with activities ranging from mining of raw materials to finished rolling of steel. Over the years the company has promoted several associate companies in related areas such as engineering, refractors and rolls. Turnover: Rs 64, 335 million Year of Establishment: 1907 No. of Employees: Works 29, 648(Total 68300).

Product Mix

HR Coils, Plates & Sheets - are manufactured at Tata Steel's 1 million ton Hot Strip Mill. This source of raw materials backed by a fourth generation automated mill guarantees consistently high quality HR Strips. Billets - are produced at the company's six strand continuous billet caster. These billets of uniform dimension are suitable for rolling of wire rods, deformed bars and structurals. Wire Rods - manufactured at Tata Steels’ Bar and Rod Mill, are designed to meet exacting international standards. Steel plant Equipment and Consumables - a wide variety of equipment like cranes, hoppers and other steel plant equipment are made at the Tata Steel Growth Shop. Rings - are manufactured at the Rings Plant of Tata Steel. The plant delivers international standard forged or rolled rings and automotive components. Tubes - are manufactured at the Tube Mills of Tata Steel. These comprise standard and precision welded. Cement - is manufactured at Tata Steel's split-location plant. It produces both OPC and PSC configurations with latest cement making technology. Bearings - are manufactured at Tata Steel's Bearing Division using state-of-the-art technology and customised to suit various client requirements, primarily to meet the demands of the automotive sector. Wire Ropes - are provided to customers in bright galvanised finish and are approved by Lloyds Register of Shipping, American Bureau of Shipping, American Petroleum Institute and Bureau Veritas. Fasteners - are manufactured by accredited vendors using high quality inputs, mostly from Tata Steel. These fasteners find their application in the construction and automotive industries. Strengths, Weaknesses, Opportunities and Threats

Strengths of TATA STEEL:

1. Abundant Mineral ReservesTata Steel has two collieries in West Bokaro and Jharia, in the state of Jharkhand. The iron ore units are located in Noamundi, Joda and Katamandi in the states of Jharkhand and Orissa. Tata Steel Limited also has a manganese mines and dolomite quarries in Orissa. These mines are located at an approximate distance of 150 kms from Jamshedpur, home to the steel company's manufacturing facility. The Steel Company's iron ore units produce 9 million tons per annum of various grades of high quality iron ore including rich blue dust ore. The company in India is having mines of 281 million tonnes reserves in its mines in Jharkhand and thus having minerals to cater its needs for more than 20 years. The company has also been acquiring stake overseas in Canada, Mozambique,

Australia etc. to boast its reserves for clean coking coal which is rarely available in India. 2. Credible and Capable Management TeamTata Steel has a highly credible management team who has displayed their skills in expanding the company through inorganic route. The company has successfully acquired Nat Steel of Indonesia, Millennium Steel of Thailand and more importantly Corus. The company's virtuosos of finance have been able to find innovative ways to tackle the company's burgeoning debt and keep the bottom line in the green zone despite lowering demand and huge debts accumulated. 3. Leveraging Information TechnologyThe entire mining operation of the Company is safeguarded against accident occurrence. Proactive measures are undertaken to ensure the employee's health and productivity through ergonomically designed work stations and by protecting them from occupational hazards. All its mines are ISO-14001 -Environmental Management System Certified. Tata Steel's collieries use 'Surpac', a state-of-the-art mine planning software that estimates the volume of coal in every seam. This software is coupled with qualitative detailing that focuses on output consistency. To maximize productivity and utilization, a voice and data equipped Global Positioning System is used, which helps to supervise mining activity for machine movement and engine status. 4. Proactiveness of TATA Steel with respect to its competitorsTata Steel has the lowest operating cost for steel manufacture in the world. Further it has displayed effective means in adopting an eco-friendly and sustainable approach towards the manufacture of steel thus proactive measures are undertaken to ensure the employee's health and productivity through ergonomically designed work stations and by protecting them from occupational hazards. 5.

Adaptability of the company in the fast change of the environmentTata Steel has displayed immense agility in the recent past during the global financial tsunami. Its virtuosos of various fields have adopted various methods like lowering of production and even shutting down of steel plants owing to the lack of demand, managing the balance sheet efficiently etc. The company has 70% of its procurement of raw materials for its operations in Asia through long term contracts and so its margins can be shielded from the nuances of the volatility of the financial markets. 6. Brand valueThe TATA brand owing to its highly ethical and a socialistic approach to business have made its name synonymous to trust. After the acquisition of Corus another powerful brand, the brand value of the company has enhanced further. 7. Corporate governanceTata Steel has had an impeccable record for corporate governance. It has set the benchmark in global corporate governance principles of transparency, accountability and equity for others to follow. Tata Steel has been consistently receiving prestigious awards at both the national and the international arena. Recently it bagged the Best Governed Company Award for corporate practices presented by Asian Centre for Corporate Governance. 8.

8. Excellent integration with Corus

Corus has a great reserve of around2000 metallurgists and technology which could be exploited by Tata Steel on several fronts. 9.

9. Robust Procurement philosophy

Tata Steel has around 70% of its supplies through long term contracts. Thus it can be shielded from the volatility of the financial markets.

10. Spawning upon opportunities

Tata Steel has been amongst the earliest to spot the escalation in the demand for steel in the forthcoming years. It has hence invested heavily in the expansion of its existing facility at Jamshedpur and is setting up other green field projects at Orissa, Jharkhand etc.

Weaknesses of TATA Steel-

1. Huge debt burdenTata Steel is having a total debt of 10. 2 billion USD in its books. It has a debt equity ratio 0f 1. 6 which means that the assets of the company is largely financed through debt. With the inflation on a rise the central banks of most all the countries are intending to tighten in the liquidity in the money markets. As a result of which the interest rates are on a rise. In India the banks are mulling the option of a rate hike and most analysts feel that the RBI is going to increase the repo rate by almost 100 bps further after a CRR hike of 75 bps in late February this year. Thus it would add to the interest burden of the company which would further increase the liabilities of the company and thus degrade the quality of its balance sheet further. 2. High attrition rateTata Steel has traditionally faced the brunt of high attrition rate. In its Jamshedpur plant many engineers constantly change their jobs to SAIL in Bokaro and vice-versa. Thus the formation of a core team of capable individuals across all departments is very difficult as the size of the team is ever changing. 3. Products in the portfolio lacking demand-The company has certain products in its portfolio like aerospace steel which lacked demand in the recent past. Primarily due to the slow down of the aviation sector which led to delay in the delivery of

aircrafts as a result of cutting of capacity by airlines. The company also had certain Cast products largely marketing in the UK which has been witnessing slowdown in demand since 2001. Hence the company had to close down its Tee Side plant. 4. Degradation in brand value owing to job losses-TATA group has made its name synonymous to job security of it employees. But the shutdown of its plants in the UK and The Netherlands will dent its image to a certain extent. As a result of which around 1600 employees would lose their daily livelihood. 5. Low cost recoveryThere are specific products like the aerospace steel and cast products which has received feeble response in the past. The company has failed to recover costs in this business front. 6. Laggard in technological frontCompanies like SAIL has efficiently introduced the XRF (X-Ray Fluorescence) in its plants at Durgapur and Bokaro over 12 months back which the Tata Steel has failed to do. 7. Bad raw material procurement philosophy of its subsidiaries-The largest subsidiary of Tata Steel, Corus has high exposure to spot prices and a higher operational gearing among the larger European steel companies. Hence it has the risk of volatility associated with pricing, one of the key elements in determining profitability of a commodity company.

Opportunities

1. Positioning of the company as a world leaderTata Steel is the second largest producer of steel in India and the sixth largest producer in the world.

2. Opportunities arising from use of newer technologies –

i) The Corex process combines an iron melter/coal gasifier vessel with a pre-reduction shaft to produce a liquid product that is very similar to blast furnace hot metal. Coal, oxygen, and pre-reduced iron are fed into the melter/gasifier to melt the iron and produce a highly reducing off- gasii) The HIsmelt processIron reduction and coal gasification take place in a liquid metal bath. The fundamental processes of HIsmelt began with early experiments in Germany with bottom-blown oxygen steelmaking converters (LD, LD-AC, KMS, among others) to allow for coal, lime, and/or iron ore injection through the bottom nozzles. iii) Direct Iron Ore Smelting(DIOS) process in Japan and the AISI direct steel making process in North America produced two similar routes to hot metal production. Both processes utilize a smelting reactor where the primary reactions occur in a deep slag bath as opposed to in the metal phase. 3. Opportunities in the field-India has geared up for rapid expansion in the field of infrastructure. The Government of India (GoI) had earmarked Rs. 1, 70, 000 crore for infrastructural spending for the fiscal year 2011- 2012 and the trend is set to escalate up to the fiscal year 2025 when India is slated to become the third largest economy in the world. Further many private players either independently or by undergoing public private partnerships (PPP) have also come into the fray. The consumption of steel has been steadily increasing with the rapid investment in the infrastructure and real estate projects. The annual steel production of India has touched 200MT and according to governments steel policy is expected to touch around 250 MT by 2013-2014. The demand for Indian made steel is escalating overseas out of the 200 MT of steel currently produced in India around 50% of it is exported. In the first six months of the fiscal year 2009-2010 the Indian steel export almost doubled to 9. 3MT from 4. 4MT in the same period the previous fiscal year.

4. Opportunities for aquisition

In the aftermath of the global meltdown various mineral assets are available globally at a price which is just a shade of their prime valuations. The governments of various countries have been putting up coal blocks under the hammer. Tata Steel has been very active in the asset acquisition space and has bagged various coal blocks in Asia, Africa etc. which is essential for its security of raw materials. 5. Opportunities for raising prices based on demandThe demand for steel is on arise both domestically and internationally as a result of the enhanced focus upon infrastructural development. Secondly with other steel projects of international giants POSCO, ARCELOR MITTAL stalled due to land acquisition problems the prices of steel are slated to soar. In the month of April 2010 the steel prices were increased by Rs. 2500/ton and that marked just the brink of the U-Shaped economic recovery and the prices are on a trend to rise further in the near future. 6. The opportunity for gaining cost advantage by breaking the value chainIndia is the only country in the world where steel can be made cheaper and there is consumption. Then there are other countries like Ukraine, Iran, Brazil, Australia and Bangladesh where steel can be made cheap because of the availability of iron ore and coal. Tata Steel has been to Iran, Ukraine, Bangladesh - all in the last year and is looking at China for finishing capabilities Ukraine is like India, where the factors of production are competitive. The sustainable level of demand in Ukraine is 12 million tons (MT), but one can make much more steel because of the availability of ore. Secondly, the labour is cheap in India and so is the cost of energy. Hence, Tata Steel's strategy is based on breaking up this value chain and putting each part where it's the most cost-effective. So primary steel will be produced in India, where there are large deposits of iron ore. But the Asian markets, now a key focus for Tata Steel, will be better addressed by taking the semi-finished steel to these countries for finishing and then selling there. For now, Jamshedpur will provide the semi-finished steel for the NatSteel bases. Tomorrow, it could well come from Iran or Ukraine; these countries have abundant iron ore and are therefore ideal for primary steel making.

7. Opportunities for diversification-

With the demand for various products of steel soaring presents us with the right time for upstream diversification.

Threats faced by Tata Steel-

1. International competition-

Companies like Arcelor Mittal, Posco have landed in the shores of India and have proposed to set up 8 MT and 12 MT respectively. Companies like these are amongst the largest steel producers in the world and have a high chance of eating into the market share of Tata Steel. Indian market is also plagued with cheaper Chinese made steel which is easily available everywhere and is significantly eating away through the pie of all Indian steel makers including Tata Steel.

2. Financial Crises -

Tata Steel is having a huge debt of 10. 2 billion USD in its books and hence a huge interest burden. With the volatility of the financial markets and the tightening of the liquidity by the central banks in order to contain inflation this rate is slated to go up and hence would further increase the interest burden on the company.

3. Regulatory norms-

The government of India has introduced a strict norm for the clearance of a plant through environmental impact assessment (EIA). To get clearance from the concerned authority demands more than eight months thus leads to delay and project cost escalation.

4. Adverse effects of land acquisition picketing-

India environment is tensed currently with violent agitation against land acquisition. A recent example being, the hindrance in land acquisition process for company’s plant in Orissa. It was stalled primarily due to the uprising of the land losers in the concerned area. Events like these will severely dent the company’s expansion plans of the future.

5. Decrement in the sales volumes-

Some of the Tata Steel products (like aerospace steel) have witnessed a severe reduction in sales and as a result of which the production facilities of the company in the UK and the Netherlands is facing the brunt of shut down.

6. Brand equity of the products-

Tata Steel brand is a very powerful one but only this cannot take a product very far. Beyond that it will be necessary for the product to strike ahead with its own brand. If a villager who goes to buy steel in the marketplace does not know what Tata Steel is bringing to this steel. All he knows is that it is a Tata product. That villager needs to be told about the superiority of Tata

Steel’s product over others. This is the work of the brand. Branding has begun to yield rich dividends.