

Strategy of tata corus acquisition

Business



Strategy of Tata Corus Acquisition BY prafulla1987 On April 2, 2007, Tata Steel Ltd. (Tata Steel) completed its acquisition of the Corus Group (Corus) for IJS\$ 12. 1 billion.

The combined company went on to become the fifth largest steel producer in the world and had a crude steel production of 27 million tonnes in 2007. 1 The acquisition was driven by the need to gain access to better technology and to new markets. The synergy arising out of the acquisition was valued at IJS\$76 million for the financial year 2007-08.

Further, Joint integration teams were formed for key areas and this team identified synergies worth IJS\$ 450 million to be realized by the year 2010. 2 | Analysts felt that the acquisition of Corus would lead to cross fertilization of the research and development capabilities in the automotive, packaging, and construction sectors and technology transfers from Europe to India.

Tata Steel was also expected to gain from the best practices and expertise of senior Corus management.

The combination of Tata Steel's low cost upstream production in India with the high end downstream processing facilities of Corus was likely to improve the competitiveness in the European operations, analysts said. Tata Steel was expected to retain access to low cost raw materials and exposure to high growth in emerging markets, and to achieve price stability in developed markets. As a result of large scale consolidation, synergies were expected in Joint procurement. Economies of scale were likely to result during raw material purchase negotiations and also while implementing product price changes.

These synergies were expected to increase the merged entity's profitability. After the acquisition, the top management team of Corus was retained as Tata Steel believed that a high degree of cultural compatibility existed between the two companies. This was expected to facilitate an effective integration of business over a period of time, according to analysts. Tata Steel's manufacturing strategy was to produce slabs/ primary steel in low cost countries and produce high end products close to the client base both in Europe and in India.

It also intended to sell low profit Corus assets and aimed to increase its return on invested capital to 30 percent. ³ Some analysts, however, criticized the Corus deal on account of the likely outcome and effects on Tata Steel's performance.

Corus' EBITDA (Earnings before Interest, Tax, Depreciation, and Amortization) was 8 percent, which was much lower than Tata Steel's 30 percent in the financial year 2006-07. ⁴ Some financial analysts were of the opinion that Corus was overvalued and concerns that the Corus acquisition would result in significant equity dilution of Tata Steel.

The company would also become highly leveraged due to the significant increase in debt in its capital structure. The US\$ 6.14 billion debt⁶ that was raised to finance the acquisition had been secured by the assets of Corus and would be serviced by the cash flows generated by Corus.

Financial experts pointed to the risk taken by Tata Steel as it passed the debt burden on to Corus. ¹ There was danger that if the business

performance of Corus declined, the company's cash inflows would reduce, leading to a default on the loan taken.

Q1) What in your opinion, were the advantages accruing to Tata Steel through the acquisition of the Corus Group? Q2) What are the risks or limitations associated with the acquisition of the Corus Group by Tata Steel?

Abstract: On January 31, 2007, Tata Steel Limited (Tata Steel), one of the leading steel producers in India, acquired the Anglo Dutch steel producer Corus Group Plc (Corus) for IJS\$ 12. 11 billion (,→ 8. 5 billion).

The process of acquisition concluded only after nine rounds of bidding against the other bidder for Corus – the Brazil based Companhia Siderurgica Nacional (CSN).

This acquisition was the biggest overseas acquisition by an Indian company. Tata Steel emerged as the fifth largest steel producer in the world after the acquisition. The acquisition gave Tata Steel access to Corus' strong distribution network in Europe. I I Corus' expertise in making the grades of steel used in automobiles and in aerospace could be used to boost Tata Steel's supplies to the Indian automobile market. Corus in turn was expected to benefit from Tata Steel's expertise in low cost manufacturing of steel.