International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-06, Issue-03, June 2020

TATA CORUS DEAL
A WIN-WIN SITUATION

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Abstract - **Since the start of the 21st century, acquisitions have become an elite pattern in the worldwide steel industry. This is clearly evident from the inexorably developing number of deals through mergers & acquisitions coming about with increasingly corporate combination particularly with existing endeavor of extreme globalization. Indian steel organizations have developed among the biggest steel makers on the planet by keeping their impression in worldwide steel map. Some Indian organizations like Mittal steel, Tata steel, have made noteworthy abroad acquisitions including Arcelor by Mittal, and Corus by Tata steel as endeavors to internationalize their activities, by dissecting the serious elements on the worldwide stage. The case study revolves around the key intention drivers and assesses the effect of Corus acquisition by Tata steel from being seen as a success win arrangement. This contextual analysis depends on auxiliary information including organization reports, money related exhibitions, papers articles, magazines, and the web. This case has been investigated from two alternate points of view i.e., the vital methodology and the monetary methodology. Since the examination depends on auxiliary information, it has its own limitations as far as those viewpoints which are not revealed by the organizations and the other data which however are in the public domains have certain biasness connected.**

***Keywords-- Acquisition, Capital Formation, EPS, Equity Capital*.**

I. BACKGROUND OF STUDY

The acquisition of Corus by Tata was righteous in all terms as the deal was a situation whereby one company i.e. Tata Group purchased most or all of another company's shares i.e. Corus Group in order to take control. An acquisition occurs when a buying company obtains more than 50% ownership in a target company. In this case the deal was a 100% acquisition and Corus was fully acquired by Tata Group. Tata Steel acquired Corus Group in April 2007 for £6.2bn. Tata Steel is India's biggest private division steel organization with 2005/06 incomes of US$5.0 billion and unrefined steel creation of 5.3 million tons across India and South-East Asia. Corus Group is Europe's second-biggest steel maker with yearly incomes of over £9.2 billion and an unrefined steel creation of 18.2 million tons in 2005. This is a fascinating securing as the obtained organization was just about multiple times the size of the acquirer as far as income. The consolidated company turned into the fifth biggest steel organization on the planet. The acquisition permitted Tata Steel passage into the European market.

II. WHY DID TATA STEEL BUY CORUS?

When Tata went into an arrangement to purchase Corus, the arrangement lined up with Tata's vital aim to profit by the more-modern client base, very good quality markets and the consistently extending development division, and a quickly developing car part. Tata's business strategy was "disintegrated business model" where steel making units are situated in nearness to the crude material source, and the finished products were made available to the customers quickly. The arrangement was extraordinary and a productive chance for Tata Steel to diversify in the market and the customer base further. The company would get edge and advantages of the following:

- This coordinated effort would permit the cross-enhancement of innovative work abilities in the car, bundling and development areas and there would be an exchange of best practices, innovation, and aptitude of senior Corus the executives from Europe to India.
- The entry into the European markets would bring in a higher degree of cultural compatibility.

 DOI : 10.35291/2454-9150.2020.0442

ISSN : 2454-9150 Vol-06, Issue-03, June 2020

- The company would be able take advantage of the price stability in the developed markets and get access to the low-cost raw materials for the required production.
- The cost of setting up Green field operations in Europe was much higher than the cost of acquiring Corus and hence the deal proving a profitable one.
- The marketing facilities and manufacturing methods of Corus were quite cost-efficient. The per-tonne cost of acquisition was lower than the Arcelor-Mittal deal.
- The expertise of Tata would bring down the cost element of Corus in the long run due to Tata steel's availability of iron ore at a cheaper cost.
- This deal would result in securing several finished facilities across the world.
- Tata's mastery in reducing manpower without hurting employee sentiment would cut the costs and improve the profitability of Corus.

III. WHAT WENT WRONG WITH CORUS?

There were several reasons for the Corus to accept the Tata's Bid. The market of the Europe was saturated and the company was facing financial constraints. There was constant decline in share and profit and so it was in an immediate need to expand its wings to the global markets and save the company's funds.

IV. WHY WAS THE DEAL A HUGE SUCCESS FOR TATA STEEL?

1. ***Raw Materials:*** Tata Steel had a relative cost advantage because it owned iron-ore mines which Corus did not. Corus was fighting to keep its productions costs under control and was on the lookout for sources of iron ore. (Tata Steel owns enormous volumes of high-quality iron ore and other minerals needed for steel-making. Captive raw materials linkages have given the modernizing and expanding Jamshedpur mill a competitive edge. Tata Steel was all set to build greenfield mills in iron ore-rich states of Orissa, Jharkhand and Chhattisgarh). The joint entity had a self-sufficiency in raw material.
2. ***Cultural Compatibility:*** There was a strong culture fit between the two organizations both of which highly emphasized on continuous improvement and ethics. Tata steel's Continuous Improvement Program 'Aspire' with the core values: trusteeship, integrity, respect for individual, credibility and excellence. Corus's Continuous Improvement Program 'The Corus Way' with the core values: code of ethics, integrity, creating value in steel, customer focus, selective growth and respect for our people.

   Importantly, the rest of cultural differences between the two companies had been taken care of and the two merged entities were working under their joint management. Tata Steel's earnings per share had improved after the merger.
3. ***Product Mix:*** Geographical and product mix possibilities. The combined entity would emerge as the second most geographically diversified steel company. It would have access to high valued- added product mix and strong market positions in automotive, construction and packaging.
4. ***Sharing common Strengths:*** Corus had strong Research and Development (the number one position in the entire world) and product development for value added products in auto, construction and packaging which compliment what Tata Steel is doing in the fast-growing Asian markets. A merger would complement their respective strengths.
5. ***Low Cost Slabs:*** Tata Steel had large supply of iron ore slabs from its green fields established in India in places like Orissa, Jharkhand, etc. Tata Steel could supply this slab to Corus once these green fields in India were complete.

   In addition, there will be other ways to create value, linked to the projects of Tata Steel in India today.
6. ***Patent and Technological Knowhow:*** Corus has eighty-one patents that have been filed and assigned to the Corus by the United States Patent Trademark Office. Tata's completion of the acquisition meant it ended up becoming the owner of these patents. There would be technology transfer and cross-fertilization of R&D capabilities between the two companies that specialized in different areas of the value chain.
7. ***Distribution Network:*** Tata has 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. 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 markets.

   With Tata Steel the cheapest manufacture of steel in the world the new company will become highly profitable.

V. AFTERMATH OF THE DEAL

The acquisition was not due to Corus' revenue size, but rather its market value. Even though Corus is larger in size compared to Tata, the company was valued less

 DOI : 10.35291/2454-9150.2020.0442

than Tata (at approximately $6 billion) at the time when the deal negotiations started. But from Corus' point of view, as the management has stated that the basic reason for supporting this deal were the expected synergies between the two entities. Corus has supported the Tata acquisition due to different motives. However, with the Tata acquisition Corus has gained a great and profitable opportunity to make an exit as the company has been looking out for a potential buyer for quite some time. Also, the main reason for Tata to acquire Corus was that it could enter the European market. Likewise, this Powerful blend of minimal effort upstream creation in India with the top of the line downstream handling offices of Corus will improve the intensity of the European activities of Corus altogether and this Combination will likewise permit the cross-preparation of innovative work capacities in the car, bundling and development areas and there will be an exchange, from Europe to India, of innovation, best practices and ability of senior Corus the board. The acquisition of Corus by Tata was one of the biggest Indian Overseas acquisition after which Tata bagged the 5th position in steel producer in the world. Tata acquired Corus which is an Anglo- Dutch steel company for US$ 12.11 billion. The acquisition of Corus group was done by Tata steel UK, a wholly owned subsidiary of Tata steel India by all cash means. The loans were raised by Tata Steel and its subsidiary for the purpose of acquisition and the whole acquisition was done by doing Leveraged Buy outs through cash means. The pattern of financing was long term with net acquisition consideration of USD 12.9 billion and the Tata steel UK which proposed the acquisition planned to fund the acquisition through Equity Capital from Tata Steel ltd worth USD 4.10 billion, Long term debt from banks worth USD 6.14 billion, Quasi equity funding at Tata Steel Asia Singapore for USD 1.25 billion and Long term capital funding at Tata steel Singapore worth USD 1.41 billion.

Table 1: Equity Capital breakup of USD 4.10 billion (Tata Steels USD)

Internal Generation	**USD 700 Million**
External Commercial Borrowings	USD 500 Million
Preferential Issues of equity shares to Tata Sons ltd	USD 640 Million
Rights Issue of Equity Shares	USD 862 Million
Un-Linked Rights issue of Convertible preference shares	USD 1000 Million
Foreign Issue of equity related instrument	USD 500 Million
Total	USD 4.10 billion

Figure 1: Corus Stock Price Movement

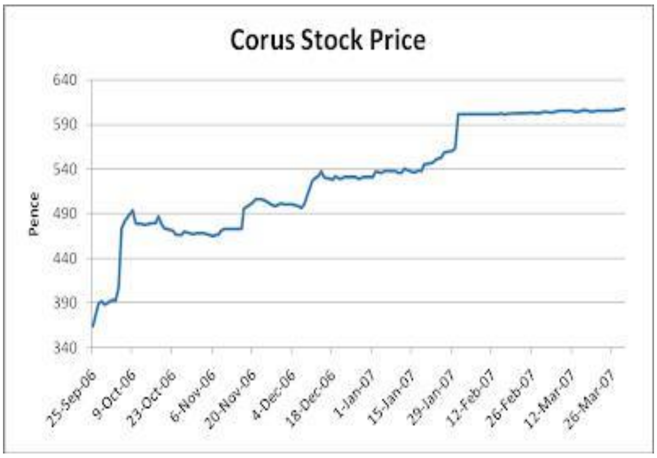
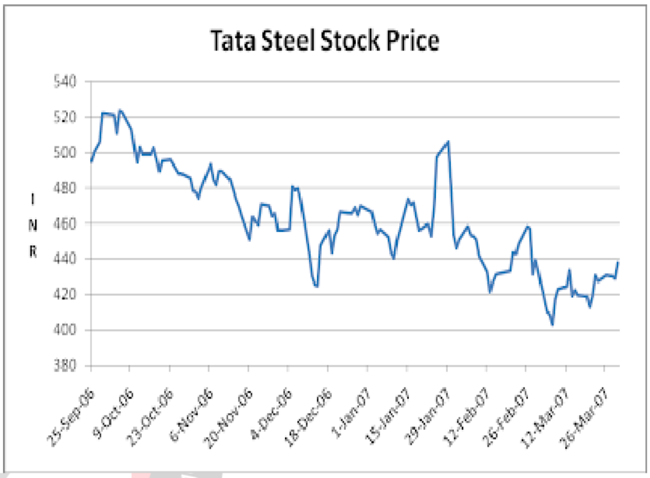


Figure 2: Tata Steel Stock Price Movement



Corus Stock Price (Fig 1) moved upwards as the bids moved upward and there was a massive growth in the share price as the deals were anticipated. During the entire process the price saw volatility in terms of its market value and in terms of the volume traded Tata steel stock moved downwards showing some volatility. The share price showed fluctuations because of the pessimistic behavior of the shareholders because of the over price bid submitted by Tata Steels. Market Sentiments were volatile because of sceptics in the market. From the announcement date till the deal completion, Corus stock gained 67% and Tata Steel stock lost around 12%. This was mainly because of the sceptics in the market and the overpricing of the Corus share by Tata Steel.

The Tata Corus deal included Tata bidding against their Brazilian competitors CSN for Corus Group. Tata had acquired the Corus group which was almost 4 times its size. The main reason why Tata bid for the Corus is because of its dominance on the UK market and wanted to enter the global market. Tata financed the deal by the following sources Equity Capital from Tata Steel Ltd - USD 4.10 billion, Long-term debt from consortium of banks - USD 6.14 billion, Quasi - Equity funding at Tata Steel Asia

 DOI : 10.35291/2454-9150.2020.0442

Singapore - USD 1.25 billion, Long term Capital funding at Tata Steel Asia Singapore - USD 1.41 billion - Total USD - 12.90 billion.

Table 2: Debt-Equity Ratio Breakup (Pre-post acquisition)

YEAR	DEBT EQUITY RATIO	YEAR	DEBT EQUITY RATIO
2000	1.08	2008	0.66
2001	0.96	2009	0.84
2002	1.42	2010	0.77
2003	1.31	2011	0.52
2004	0.75	2012	0.53
2005	0.39	2013	0.52
2006	0.26	2014	0.49
2007	0.68	2015	0.45

We can clearly see in the above table (Table 2) the difference in the change in the debt-equity ratio between the periods of pre – acquisition to the period of post – acquisition. The debt-equity ratio during the period of the acquisition was as less at 0.26% in 2006 to 0.68% in 2007. This sudden rise in the ratio was because of the huge debt of 6.14 billion dollars that it had acquired for financing this deal. Debt equity ratio on post- acquisition increase because Corus debt was high it was 1.6 billion pounds to buy Corus and so its debt is almost 116% more than in pre - acquisition. The Corus group's debt to equity ratio became 0 because of this acquisition.

Thus, the acquisition of Corus by Tata steel helped the company to expand its chain globally by making it one of the most reputed private steel company in the world. The acquisition not only helped the companies to revive their position but it also gave Tata steels access to premium customer base and easy transfer of technology, materials and increased procurement knowledge from Europe to India.

VI. CONCLUSION

The Tata Corus bid was the biggest private acquisition went into by an Indian organization out of India. Basically Tata Steel had its operations focussed in Asian and African countries and Corus in the Eupopean markets. Corus, even after having a production four times and revenue around five times as compared to Tata Steel wasn't able to gain as much profits as Tata Steel. Corus could only manage a profit of 5% when Tata Steel booked a profit of around 40%.This was possibly because of the excessive production cost Corus was incurring which ultimately grabbed Tata's interest in acquisation. The thought was to combine cheap raw material with excessive consumer markets which ultimately shooted up the production by 5 times in the first year of acquisation thus making it the 5th largest steel producer in the world.

It is to be noted that the amount which Tata Steel had paid in excess of Corus's fair value reflects as a goodwill entry in the excerpt attached. It can be seen that goodwill consolidation has incresed by around 18000 crore in the balance sheet of the aquisition year. Tata had taken huge debts in order to aquire Corus at a price much higher than its actual value. This was done in order to hit the global markets in a fast and comparitively cost effective manner. This opened gates for Tata both at the Asian as well as the European markets.

On July 23, 2007, Tata Steel stock arrived at a 52-week high close of 721.00 on the Bombay Stock Exchange's (BSE) 30-stock Sensex subsequent to hitting a low of 399.00 on March 8, 2007. Tata Steel was one of the market chiefs for the BSE

Sensex up 27% in 2007. Standard& Poor's Ratings Services cut its assessment to BB from BBB and expelled them from the negative watch list on which they were put after the financing structure for the securing of Corus was declared. The rating was changed to an uplifting viewpoint.

Ultimately, Tata Steel was one of the most beneficial steel organizations on the planet and the arrangement got it significant testing time and learning space. The merger would complement both the parties. Tata Steel would gain from Corus' strength in the production of high-end steel use in the automobile sector and also the extensive hold on research and development. In the same time Corus would gain from Tatas' exceptional management expertise and cost advantage in production.

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ANNEXURE I

Annual Financial Performance of Tata Steel Europe Since Acquisition

	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08	FY 07
Turnover (in Cr)	79,878	84,666	78,012	82,153	73,844	65,843	109,570	100,218	1,00,218
Profit Before Tax (in Cr)	(6,649)	(3,684)	(12,789)	(4,281)	1,725	(7,712)	(184)	-	-
Profit After Tax (in Cr)	(6,724)	(3,011)	(12,649)	(4,242)	1,641	(7,504)	138	-	-
Liquid / Crude Steel Production (in Million Tonnes)	15.2	15.5	13.4	14.0	14.6	14.4	15.8	20	-
Deliveries (in million tonnes)	13.7	13.9	13.1	14.0	14.7	14.2	19.0	23	-

 DOI : 10.35291/2454-9150.2020.0442

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ANNEXURE II

Consolidated Balance Sheet of Tata Steel 2007-2008

TATA STEEL

Hundred and first annual report 2007-08

Tata Steel Limited and its Subsidiaries

Consolidated Balance Sheet as at 31st March, 2008

Schedule	Page		Rupees crores	Rupees crores	As at 31-3-2007 Rupees crores
		FUNDS EMPLOYED :			
A	230	1. *a* SHARE CAPITAL		6,202.63	*580.00*
		b SHARE WARRANTS (See Note 25(a), Page 262)		—	*147.06*
B	230	2. RESERVES AND SURPLUS		27,971.35	*13,895.14*
		3. TOTAL SHAREHOLDERS' FUNDS		34,173.98	*14,622.20*
		4. WARRANTS ISSUED BY A SUBSIDIARY COMPANY		17.46	*17.46*
		5. MINORITY INTEREST		832.70	*598.39*
		6. LOANS			
C	231	*a* Secured	35,415.22		*4,961.23*
D	231	*b* Unsecured	18,177.53		*19,964.30*
		c Total Loans		53,592.75	*24,925.53*
		7. DEFERRED TAX LIABILITY (See Note 23, Page 262)		2,464.68	*792.87*
		8. PROVISION FOR EMPLOYEE SEPARATION COMPENSATION (See Note 13(a), Page 250)		1,080.05	*1,118.30*
		9. TOTAL FUNDS EMPLOYED		92,161.62	*42,074.75*
		APPLICATION OF FUNDS :			
E	232	10. FIXED ASSETS			
		a Gross Block	1,05,125.54		*23,410.15*
		b *Less* — Impairment	3,223.50		*100.41*
		c *Less* — Depreciation	59,938.92		*9,089.21*
		d Net Block		41,963.12	*14,220.53*
F	233	11. INVESTMENTS		3,367.43	*16,497.50*
		12. GOODWILL ON CONSOLIDATION		18,049.96	*92.07*
		13. PURCHASED GOODWILL		—	*127.59*
		14. DEFERRED TAX ASSET (See Note 23, Page 262)		10.26	*6.93*
		15. A. CURRENT ASSETS			
		a Stores and spare parts	1,654.97		*692.97*
G	233	*b* Stock-in-trade	21,409.37		*3,195.16*
H	234	*c* Sundry debtors	18,696.32		*1,686.53*
		d Interest accrued on investments	8.96		*1.16*
I	234	*e* Cash and Bank balances	4,231.64		*10,887.96*
			46,001.26		*16,463.78*
J	234	B. LOANS AND ADVANCES	15,465.46		*1,980.34*
			61,466.72		*18,444.12*
		16. *Less* : CURRENT LIABILITIES AND PROVISIONS			
K	235	A. Current Liabilities	26,393.91		*5,444.19*
L	235	B. Provisions	6,457.59		*2,079.57*
			32,851.50		*7,523.76*
		17. NET CURRENT ASSETS		28,615.22	*10,920.36*
M	235	18. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		155.63	*209.77*
		19. TOTAL ASSETS (Net)		92,161.62	*42,074.75*
		Contingent Liabilities (See Note 3, Page 247)			
N	236	NOTES ON BALANCE SHEET AND PROFIT AND LOSS ACCOUNT			

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