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TATA STEEL: the ACQUISITION OF CORUS[[1]](#endnote-1)

Ronak Batra and Neera Jain wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In 2007, Tata Steel (Tata) acquired Corus Group plc (Corus) and agreed to pay “a premium of 34 per cent to the original offer price to ward off a challenge from Brazilian miner and steelmaker Companhia Siderurgica Nacional (CSN).”[[2]](#endnote-2) Corus had already suffered a business failure once before, after a merger in 1997, and Tata was aware of the risk. Nevertheless, the company borrowed from Indian public sector banks to complete the purchase. The Corus acquisition made Tata “the fifth-largest steel producer in the world and the first Fortune 500 multinational company from India.”[[3]](#endnote-3) But the new status came with a heavy price. On March 29, 2016, the Tata board of directors decided to shut down operations in Britain, after much debt and continual losses, rejecting a turnaround plan for the British plant’s assets.”[[4]](#endnote-4) However, this was not the end of the company’s worries—Brexit opened a whole new plethora of possibilities.[[5]](#endnote-5) Further compounding Tata’s situation was the ousting of Cyrus Mistry as the chairman of the Tata conglomerate, marking a time of instability.[[6]](#endnote-6) How would leadership, post failure, bring about changes for creating a better future for Tata Steel Europe?

**TATA STEEL—THE ACQUISITION SPREE**

Tata was a part of the legacy of Tata Group, founded in 1868 by Jamsetji Tata,[[7]](#endnote-7) and was initially named Tata Iron & Steel Company Ltd. until 2005, when it was renamed Tata Steel.[[8]](#endnote-8) By 2016 the company was a global enterprise, operating in 26 countries and commercially present in over 50 countries.[[9]](#endnote-9) At the dawn of the 21st century, Tata set out on a quest to make a mark globally with a string of acquisitions.

**The NatSteel Acquisition**

Tata signed an agreement to acquire NatSteel for S$486.4 million[[10]](#endnote-10) on August 16, 2004, in an all cash deal.[[11]](#endnote-11) The acquisition of Singapore’s largest steel company was completed in February 2005, and along with it came the seven market arenas where the company operated: Singapore, Thailand, China, Malaysia, Vietnam, the Philippines, and Australia. The acquisition allowed Tata’s consolidated capacity to rise to 6 million tonnes per annum, from the then 4 million tonnes per annum.[[12]](#endnote-12) It was a substantial step that made Tata jump from number 56 to number 28 in terms of global ranking because it “provided Tata Steel with access to NatSteel’s customers and steel finishing capacity in Southeast Asia and East Asia.”[[13]](#endnote-13)

**Tata Steel Thailand**

Tata Steel (Thailand) Public Company Limited (TSTH) was formed after Tata took over the majority of shareholding from Cementhai Holding Company Limited in April 2006. The company became “Thailand’s largest manufacturer and distributor of long steel products,” with 92.5 per cent of sales generated from its domestic market and the remaining 7.5 per cent concentrated in the Association of Southeast Asian Nations region and neighbouring countries. It had a capacity of 1.44 million tonnes of steel making (billet) and 1.70 million tonnes of rolling (finished goods).[[14]](#endnote-14) Tata went on to make the historic acquisition in the global steel industry when it bought Corus. The deal was 10 times larger than any previous acquisition made by the group.[[15]](#endnote-15)

**CORUS: A BRIEF HISTORY**

Corus was formed from a merger between British Steel and Koninklijke Hoogovens in 1999.[[16]](#endnote-16) Before Corus, there was British Steel Corporation—an amalgamation of 14 major steel-producing companies in the United Kingdom (formed in 1967)—which had seen its own share of losses and profits over the years. In 1987, Corus was privatized and its assets were transferred to British Steel, a company that had survived the early 1990s low-demand period.[[17]](#endnote-17) A lot of investments were made in the Dutch side of the operation, which had become outdated by the time of the merger. Management issues had led to the larger profitability of the business being neglected. Reports indicated that “Corus Group’s market value in 1999 stood at US$6 billion (at the time of the merger) and fell to US$230 million in 2003.”[[18]](#endnote-18) “When we acquired the company, the fight between the British and Dutch sides was at its peak. We inherited a legacy,” stated a former Tata official who worked in the integration process of Corus and Tata.[[19]](#endnote-19)

**THE CORUS ACQUISITION**

January 31, 2007, marked a historic moment for Tata as it leapfrogged to the fifth position of the world’s largest steelmakers after having acquired the Anglo Dutch steel giant, Corus. A premium of 34 per cent to the original offer price[[20]](#endnote-20) was paid by Tata. From Corus’s perspective, this was a metamorphosis, considering that its stock was trading at £0.10[[21]](#endnote-21) per share only four years earlier.[[22]](#endnote-22)

Tata went from a solitary bidder position to a hostile bidding war with Brazilian steel giant CSN. Tata’s original valuation of £4.55 per share was no longer adequate, and the price soared to £5.00 in December. Tata’s high bid lasted only one day, as CSN upped the valuation again to £5.15. The bidding took on a nationalistic fervour for Tata, as it contested with CSN for eight bouts of bidding. Tata eventually won the bidding war with a cost of £6.08 per share and a US$12.1 billion valuation (see Exhibit 1).[[23]](#endnote-23)

After clinching the deal, some details were announced:

The net acquisition cost of Corus of [US]$12.9 billion will be financed through equity capital of [US]$4.1 billion from Tata Steel, which will be invested through Tata Steel UK, long term non-recourse debt financing from a consortium of banks amounting to [US]$6.14 billion, quasi-equity funding at Tata Steel Asia, Singapore, amounting to [US]$1.25 billion, and long term capital funding at Tata Steel Asia, Singapore, amounting to [US]$1.41 billion.[[24]](#endnote-24)

With some skepticism regarding the premium paid by Tata to acquire Corus, the liquidity and the financial prowess of Tata suffered a setback and led to negative evaluation of the company by many financial analysts and listing services. Many felt that such outstretching for an acquisition almost four times its size was unnecessary.

However, although expensive, the deal was consistent with Tata’s plan for global expansion and growth. According to chief executive officer (CEO) of Tata Group, Ratan Tata, acquiring Corus was a “unique opportunity for Tata Steel in terms of the scale, its location and its culture.” He noted how “Tata Steel saw a strategic fit with Corus in the UK and the Netherlands, which would give it a global reach in Europe and synergies with low-cost intermediates in India.”[[25]](#endnote-25) Tata had identified Corus, whose European operations produced 19 million tonnes of steel per annum,[[26]](#endnote-26) as a crucial part in its grand scheme of a global footprint. The euphoric CEO was quoted as saying “I think it’s a moment of great fulfilment for all of us in India because Tata Steel, as an Indian steel company, now has global scale with a footprint in Europe. I think it is the commencement of Tata Steel’s global strategy.”[[27]](#endnote-27)

**ATTEMPT TOWARD INTEGRATION**

In November 2007, a strategy and integration committee was formed by Tata. It was a seven-member committee, and the remaining six seats were filled by three senior members from both Tata and Corus. The focus was kept on expansion of synergies between the two firms, and the financial synergy per annum was expected to generate US$450 million by 2010.[[28]](#endnote-28) The company decided to retain the top management members in their own positions, although the board of directors was reorganized on each side to include members from both Tata and Corus. The company also agreed that in the future, U.K. operations needed to be given autonomy.

The international consultant, Accenture, was appointed “to look at performance issues as part of the integration process,” and a joint executive committee co-chaired by managing director B. Muthuraman and Corus CEO Philippe Varin was “to meet quarterly to review the overall performance.” For the purpose of integration, Tata and Corus were jointly sourcing and purchasing “materials, including ore, coal and refractories,” and had also agreed to explore new iron-ore sources in Africa, Australia, and Brazil. A senior official at Tata stated that “the idea is not to fuse the two functions, but plan activities in a co-ordinated manner. For instance, there are niche areas like R & D [research and development] and marketing, where the two companies could collaborate better.”[[29]](#endnote-29)

Commenting on the overall process of integration, Tata’s chief financial officer Koushik Chatterjee stated that the conventional rigidity of an acquirer was not Tata’s style. Chatterjee explained that Tata as an acquirer was more likely to co-create a vision for the enlarged organization, rather than just impose its own vision. According to Chatterjee, this was why Tata had sent only a few key “integrators” to Corus after the acquisition, rather than sending an entire management team.[[30]](#endnote-30) In the same vein, Malay Mukherjee (ex-board member of integrated steel company ArcelorMittal) stated that this synergy should be reflected in a short time to give assurance of its long-term success. He said that “for Tata Steel and Corus, the synergy never happened, and the European operation was kept totally as a separate unit.”[[31]](#endnote-31)

**LEADERS AT THE HELM**

After the acquisition by Tata in 2007, Corus embarked on a leadership history of constant change, marked by the varying styles of the respected leaders. Varin was asked to continue as the CEO of the company to help ease the process of integration. However, after the debacle of the 2008 recession, the company’s profits and growth were jeopardized. With the company not giving any sign of recovery after the market crash, Varin was forced to leave.

Kirby Adams followed as Corus CEO until 2010. He was expected to take the struggling company forward after Varin’s departure. Adams was successful in initiating the process of restructuring the company. He also brought in operational profitability by cutting huge cost margins through labour reductions. Although the move brought Adams some credit in the eyes of the management team, it also brought him disrespect in the eyes of the unions at the U.K. operations. His failure to engage with the workforce resulted in the union’ disapproval.[[32]](#endnote-32)

Karl Koehler stepped in as CEO of Tata Steel Europe (renamed from Corus) after Adams’ departure in 2010. During his tenure of six years, he furthered the process of restructuring initiated by Adams. However, Koehler did not deliver on his initial promise to the CEO of the Tata Group that he would turn around the European operations in three years.[[33]](#endnote-33)

After Koehler’s exit in 2016, Koushik Chatterjee was given the additional role of Tata’s executive director for Europe, and Hans Fischer was appointed the new CEO. Fischer expressed hopes of continuing the customer-focus philosophy started by Koehler and of further strengthening the efficiency of providing higher value products to customers.[[34]](#endnote-34)

**Financial Health**

Financially, Tata seemed unable to overcome the setbacks of recent years. “The Tatas have already written off around [US]$2.8 billion in goodwill impairment from the books, apart from investing a fresh [US]$2.4 billion to modernize the plants of its British buy. The Tatas tried everything to make their trophy acquisition work—idling blast furnaces, cutting jobs and selling assets.”[[35]](#endnote-35) However, the company’s debt continued to override its profits, and the revenues from Corus never materialized after the first year. “Corus, which reported a topline of [US]$18 billion and a pre-tax net profit of [US]$1 billion at the time of the acquisition, reported a net loss of [$1.08 billion] in fiscal year (FY) 2015.”[[36]](#endnote-36) The company’s decline in operating profits between FY 2007–08 and FY 2014–15 was 30 per cent, but much sharper for Tata Steel Europe, at a decline of 35 per cent. The debt of the group had only been on the rise, reaching a net debt of more than five times its earnings before interest, tax, depreciation, and amortization (EBITDA) for FY 2014/15 (see Exhibit 2).

Pension Conundrum

The British Steel Pension Scheme had affected Tata’s financial status over the years. With a £15-billion pension scheme, Tata “is saddled with more than 130,000 savers who are entitled to a pension. Tata has already pared back the deficit in the steel pension scheme from £2 billion to £485 million by last March, and has agreed with the trustees to eliminate the shortfall entirely by 2026.”[[37]](#endnote-37) “The market value of the pension assets and liabilities are significantly higher than the net assets of Tata Steel Holdings UK, the subsidiary informed in its last annual report.”[[38]](#endnote-38)

**Global and Local Market Scenario**

Because the recession was a global phenomenon, its impact on the global steel industry was drastic. The slowdown in economic development resulted in a fall in steel demand, hitting the U.K. steel industry hardest. The recession singlehandedly brought down the steel industry’s output in the United Kingdom by 31 per cent in one year, from 2007 to 2008. When contrasted with the total manufacturing sector, which had only been growing on the whole since 1990, the loss showed that “the steel industry’s importance to the whole economy has declined over this period, from 0.4 per cent of total output in 1990 to the current total of 0.1 per cent.” The post-crash in steel production was largely overcome globally, mainly due to the rising Chinese production of steel, which amounted to 50 per cent of the global steel production in 2015. But in the United Kingdom, the recovery was subdued.[[39]](#endnote-39)

**Chinese Steel**

The easy availability and low-priced Chinese steel (approximately US$700 per tonne compared to the average of US$1,076 for imports from the European Union) had been a major threat for U.K. steel manufacturers. Chinese imports outweighed the domestic steel consumption figures by more than double, as far as the construction industry was concerned. Chinese steel imports in the United Kingdom were up from 303,000 tonnes in 2013 to 687,000 tonnes in 2014, as stated by the E.U. statistics agency, Eurostat.[[40]](#endnote-40)

China was previously catering to the restricted market of Asia, but with low demand in China, it started to sell its steel in the global markets at a comparatively cheaper price, even though it meant incurring a loss. According to the World Steel Association, Chinese steel production doubled over the decade from 2004 to 2014, rising from 25.6 per cent to 49.4 per cent (see Exhibit 3).[[41]](#endnote-41)

Several factors made the production of steel much cheaper in China. Producing steel in an unregulated industry had given Chinese exporters of steel an advantage in the global steel industry. According to a report for the German government by Ecofys, a renewable energy consultancy, 77 per cent of the electricity generated in China came from coal in 2013, one of the highest polluters, compared to 36 per cent in the United Kingdom.[[42]](#endnote-42) China could produce steel in a rather notorious way, compared to the United Kingdom, because of its unbinding legal framework. There was also no pressure on Chinese manufacturers regarding the regulation of carbon emissions. When coupled with cheap labour costs, this factor made the export of Chinese steel significantly a much cheaper deal.

U.K. companies could not compete with Chinese manufacturers. For several reasons, steel production in the United Kingdom was an expensive affair. Industrial electricity prices in the United Kingdom, which were more than 50 per cent above other major E.U. economies,[[43]](#endnote-43) and expensive business costs, such as the strong value of the pound against other European currencies, made exports difficult. However, the sole reason laid out by the European Steel Association for this mishap had been the weak stance made by the U.K. government on Chinese exports. As per the association, the U.K. government was influential in preventing any measures aimed at raising taxes on the steel China exported to Europe. This conduct by the U.K. government hurt the interests of its own stakeholder, that is, local steel manufacturers, and the policy that it had been backing in the first place: the *Climate Change Act*.[[44]](#endnote-44)

Tata Steel Europe versus European Peers

Tata was not the only company affected, but it was definitely caught in the centre of the storm and positioned much worse than its competitors. German steel maker ThyssenKrupp had also incurred losses of more than “8 billion euros between 2011 and 2013 as construction problems and currency swings destroyed the original business case,” after having pumped billions of euros into a new Brazilian steel plant.[[45]](#endnote-45) Tata’s toughest competitor and the world’s top steel maker, ArcelorMittal, had also been reporting net losses. In FY 2015, ArcelorMittal reported a net loss of US$7.9 billion (US$4.8 billion of impairments and $1.4 billion of exceptional charges), with the fourth-quarter EBITDA amounting to US$1.1 billion, which was 18.4 per cent lower than the third-quarter EBITDA of FY 2015.[[46]](#endnote-46) But Tata fared most poorly because “it is one of the world’s most indebted steel makers and the group’s overwhelming dependence is on its profitable operations in India to fund losses abroad. At the end of FY [20]15, its consolidated debt was twice the equity (or net worth) and much higher than the industry average of 70 per cent.”[[47]](#endnote-47)

Troubles at Talbot

As a group, Tata had always taken pride in being an organization that cared for its employees. However, Tata Steel Europe succumbed to the prevailing circumstances, which led to a series of job cuts across its plants in the United Kingdom. The Port Talbot plant was suffering losses of approximately £1 million per day.[[48]](#endnote-48) Port Talbot stuck with the blast furnace despite the need to embrace new advances in furnace technology. On January 18, 2016, after the confirmation of over 1,050 job cuts across the United Kingdom, Karl Koehler, the then-CEO of Tata Steel Europe, was quoted as saying “I know this news will be unsettling for all those affected, but these tough actions are critical in the face of extremely difficult market conditions, which are expected to continue for the foreseeable future.”[[49]](#endnote-49)

The Dutch Side

The gravity of the situation was more dire in the United Kingdom compared to other demographic areas. The Ijmuiden plant in the Netherlands provided a study in contrast. With a 9,000-strong workforce, it was a major contributor to Tata Steel Europe operations. “We won’t let them wreck our plant” was written on the safety helmets of the workers to signify the demise of the British Steel venture. But more importantly, it was a statement of intent regarding the future of the Dutch plant. Ijmuiden had continued to register profit margins of about 3 per cent.[[50]](#endnote-50) The Dutch plant of Tata Steel Europe had displayed brighter prospects in terms of reporting an increase in the operating profits in FY 2015 from €170 million[[51]](#endnote-51) in FY 2014 to €308 million. The net profit recorded after tax, with an increase of €147 million, amounted to €279 million. The plant had continued with its commitment to create long-term value for its stakeholders through a safe financial framework that included an attractive sales product mix.[[52]](#endnote-52)

“The steel industry asks for a long-term orientation—high investments and long construction time for new installations—which does not fit in with the Anglo-Saxon model of the London financial elite,” said Peter Joustra. Joustra, who worked in the industry for 36 years, including time spent at Tata’s operations in South Wales, has written an academic thesis on steel.[[53]](#endnote-53)

**TATA STEEL: THE WAY FORWARD?**

“We demonstrated our commitment to improve the international competitiveness of the U.K. operations of Corus through significant investment over a number of years,” said Mukund Rajan, a member of the Group Executive Council and Brand Custodian of Tata Sons. “But business conditions have further deteriorated—the company has faced in recent months what many have described as the perfect storm.”[[54]](#endnote-54)

Brexit added to the uncertainty, as the exit from the European Union brought along its own set of potential scenarios, which would pan out in the near future. Little did the group know that they would be facing a crisis of their own. With a successor to Cyrus Mistry yet to be decided, there was a sense of uncertainty on the leadership front. Amid this chaos, how would the leadership, after this setback, bring crucial changes to revive the fortunes of Tata Steel Europe?

Exhibit 1: TATA–CORUS ACQUISITION TIMELINE

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| --- | --- |
| **Date** | **Events in the Acquisition Process** |
| January 1, 2006 | Tata Steel (Tata) starts out on the journey to become the world’s fifth-largest steelmaker, after winning an acquisition battle for Anglo-Dutch steelmaker Corus Group plc (Corus)—a historic event for an Indian firm in a global arena. |
| October 17, 2006 | Tata makes a proposition to the management of Corus for a £4.1 billion takeover with a price per share of £4.55. The proposal is an all-cash deal. |
| October 20, 2006 | Tata’s proposal gets the approval from Corus. |
| November 17, 2006 | In a sudden proposal by Brazil’s Companhia Siderurgica Nacional (CSN), a price of £4.75 per share for Corus is unveiled. |
| November 27, 2006 | Allowing more time for CSN to prepare a counterbid, Corus adjourns the stakeholder’s meeting from December 4 to December 20. |
| December 10, 2006 | In a counter to CSN’s bid, Tata raises the bid to £4.7 billion (i.e., £5.00 per share for Corus), and the revised offer is presented to shareholders. |
| December 11, 2006 | CSN declares the raised bid for Corus of £4.9 billion, in cash, at £5.15 per share. |
| December 19, 2006 | A deadline of January 30 is set for both Tata and CSN to make revised offers. |
| December 22, 2006 | The European Commission declares in favour of Tata to buy Corus. |
| January 26, 2007 | Britain’s takeover panel announces an auction procedure for the launch on January 30. |
| January 29, 2007 | CSN’s bid for Corus is cleared by the European Union. |
| January 31, 2007 | After the auction, it is announced that Tata’s offer price for Corus is £6.08 per share in cash. Tata’s bid tops the final bid of £6.03 by CSN. |

Source: Prepared by the author with information from “Chronology: Tata Steel Wins Auction for Corus,” Reuters, January 31, 2007, accessed June 14, 2016, http://uk.mobile.reuters.com/article/idUKL3077625820070131?irpc=932.

Exhibit 2: Net Debt/EBITDA ratio (Tata Steel)

Note: EBITDA = earnings before interest, tax, depreciation, and amortization; FY= Fiscal year.

Source: Tata Steel, *108th Annual Report 2014-2015,* accessed June 24, 2016, [www.tatasteeleurope.com/static\_files/Downloads/Corporate/News/Publications/Annualpercent20reports/annual-report-2014-15.pdf](http://www.tatasteeleurope.com/static_files/Downloads/Corporate/News/Publications/Annualpercent20reports/annual-report-2014-15.pdf).

Exhibit 3: Crude Steel World Production (2014)

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| --- | --- | --- | --- |
| Others Comprise: | | | |
| Africa | Central and  South America | Australia and  New Zealand | Middle East |
| 0.9% | 2.8% | 0.3% | 1.7% |

Note: EU = European Union; CIS = Commonwealth of Independent States; NA = North America.

Source: Prepared by the author with information from “World Steel in Figures 2015,” World Steel Association, accessed June 24, 2016, www.worldsteel.org/en/dam/jcr:2e76bbc6-6db4-4d20-90ee-0e6e91ceeda8/World+Steel+in+Figures+2015.pdf.

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