TATA STEEL

Tata Steel, with its rich operating history of 99 years, is firmly entrenched as a low cost producer among the global steel majors.

Background

Tata Steel (earlier known as Tata Iron & Steel Company or Tisco) was established in 1907. It represents the country's single largest, integrated steel plant in the private sector. The company has a wide product portfolio, which includes flat and long steel, tubes, bearings, ferro-alloys and minerals as well as cargo handling services. While in terms of size, Tata Steel ranks 34th in the world; it was ranked first (for the second time) among 23 world class steel companies by World Steel Dynamics in June 2005.

With its plant located in Jamshedpur (Jharkhand) and captive iron ore mines and collieries in the vicinity, Tata Steel enjoys a distinct competitive advantage. The main plant at Jamshedpur manufactures 5 MTPA of flat and long products, while its recently acquired Singapore-based company, NatSteel Asia, manufactures 2 MTPA of steel across Singapore, China, Philippines, Malaysia and Vietnam. Apart from the main steel division, Tata Steel's operations are grouped under strategic profit centres like tubes, growth shop, bearings, ferro alloys and minerals, rings, agrico and wires.

The company has many firsts to its credit and has been honoured multiple times at various national and multinational forums for its operational efficiency, quality standards, labour relations, corporate social responsibility, corporate governance, leadership, knowledge management and other key aspects. It has constantly reinvented itself technologically and updated its product portfolio to meet changing market dynamics. Its expansion and modernisation attempts have been accompanied by continued focus on maintaining high standards of municipal facilities and civic amenities in its planned township at Jamshedpur.

Tata Sons along with other companies of the Tata Group hold the majority stake in the company amounting to 26.72 per cent. While the general public holds 26.98 per cent equity in the company,

Company	Products	Established	Founder	Distribution	Production plants
Tata Steel	Finished steel	1907	J N Tata	Domestic & exports	India, Singapore, China, Philippines, Malaysia, Vietnam

foreign institutional investors and Indian financial institutions hold 40.89 per cent of the stake.

Products and brands

Tata Steel's products include hot and cold rolled coils and sheets, galvanised sheets, tubes, wire rods, construction re-bars, rings and bearings. The products are targeted at automobiles, white goods, construction and infrastructure markets. In an effort to de-commoditise steel, the company has introduced brands like

- Tata Wiron (wire rods for farming and fencing segment),
- Tata Steelium (cold rolled steel for auto ancillaries and the general engineering segments),
- Tata Shaktee (corrugated galvanised sheets for rural house builder segments),
- Tata Tiscon (re-bars for individual house-builder semi-urban segment),
- Tata Pipes (pipes for individual house builder and farming segments),
- Tata Bearings (bearings for original equipment manufacturer and replacement market) and

- Tata Agrico (agricultural equipment for farming and construction segment).

The company has focused on increasing the sale of its branded products and the sales of these products as a proportion of its total sales has shown a constant increase over the last few years.

Financial analysis

Increasing capacity and a recovery in the steel prices over the last few years have helped the company to increase its revenue. Its rich product mix (evinced through presence of high-grade value-added cold-rolled products) as well as continuous improvement in operating efficiency (e.g. lowering of raw material consumption, coke rate, specific refractory consumption and business process reengineering) have contributed significantly to the improved operating margins of the company. While steel firms across the globe have been affected by rising input costs, the company has been able to leverage on its vertical integration by accessing raw material from its in-house mines and collieries. Rightsizing of its employees, along with a concomitant rise in employee productivity through emphasis on training, modernisation and automation has lead to improved financials for the company.

Tata Steel's contribution in making "Made in India" global

Steel is a capital-intensive industry and hence its profitability is dependent on its operating rates. Thus, producers need to maintain a minimum level of capacity utilisation to recover fixed costs. With the Indian market having an inadequate demand for steel, Tata Steel was one of the pioneers in accessing the export market to improve its sales and realisations. Its cost-competitiveness in the international market has further helped it to improve its market share in the export market.

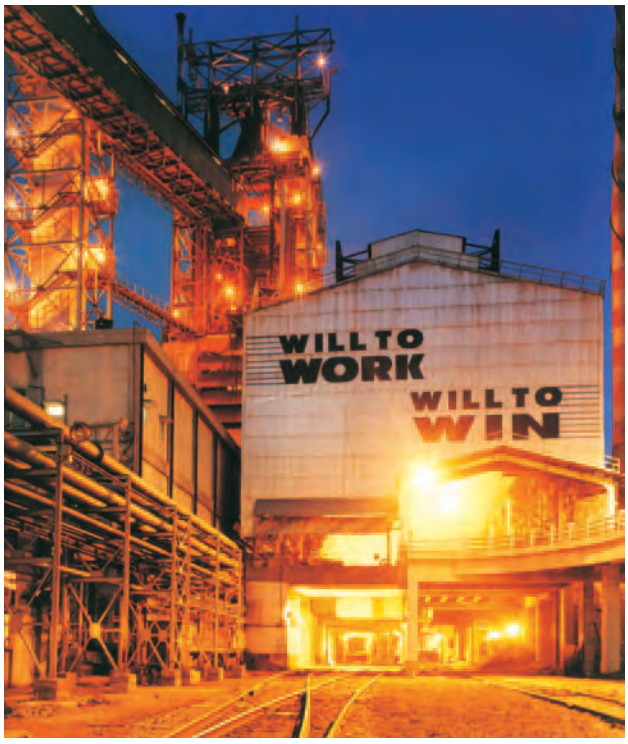
Some of the markets targeted by the company included USA, Canada, China, South and Southeast Asia, Middle East and Europe. The major items of steel export include hot rolled coils and plates, cold rolled and galvanised products, wire rods and wires. While initially the company channelled its exports through its in-house Export Division, it currently exports through a group company, Tata International Ltd; having trading offices at Chicago, New York, London, Ukraine, Turkey, Dubai, Saudi Arabia, Iran, Johannesburg, Kathmandu, Bangladesh, Colombo, Hong Kong, Thailand and Singapore.

Increasing trade co-operation through countries in the form of trade agreements has lead Tata Steel to incorporate changes in its strategy. While exports currently constitute about 14 per cent of the turnover, the company has also started looking at overseas acquisitions / joint ventures to cater to lucrative markets by having appropriate production facilities in their vicinity.

Tata Steel undertook its first major overseas investment in NatSteel Asia, which will give it a manufacturing footprint in the Asia Pacific region, including China. The company has also announced the commencement of necessary modalities for other global projects, some of which are:

- Definitive Agreements signed with Cementhai Holding Company - a 100 per cent subsidiary of the Siam Cement Company, Thailand to acquire its shares and invest additional equity in Millennium Steel Company subject to certain conditions. It is the dominant steel producer in Thailand and the three operating units of the company have a cumulative capacity to produce 1.2 MTPA of steel through the electric arc furnace route and a long products rolling capacity of 1.7 MTPA

- Joint Venture Agreement with Iranian Mines and Mining Industries Development and Renovation Organisation (IMIDRO) to join them in their proposed steel-making projects and mining operations in Iran. The company would partner IMIDRO in establishing a 1.5 MTPA steel slab making facility, a 1.5 MTPA of steel billet making capacity, a separate 3 MTPA export oriented steel plant and in exploration and mining of iron ore mines



- Agreement to buy a 5 per cent interest in the Carborough Downs Coal Project located in Queensland, Australia; a large global producer, shipper and trader of high-grade metallurgical coal.

The company has also had a long association of having technical collaboration for best-in-class technology processes and product development with international steel companies and technology partners. An example of such collaboration is the development of 'galvannealed' cold rolled steel with technical assistance from Nippon steel and Arcelor for high-end auto applications.

Similarly, the company has entered into a 50:50 joint venture with Bluescope Steel, an Australian firm with expertise in the area of flat steel solutions. The new company, christened Tata Bluescope Steel Ltd. would manufacture and supply flat steel products and provide building solutions. The joint venture will manufacture zinc / aluminium metallic coated steel, painted metallic coated steel and roll-formed steel products and deliver pre-engineered buildings and other building solutions, across four locations in India.

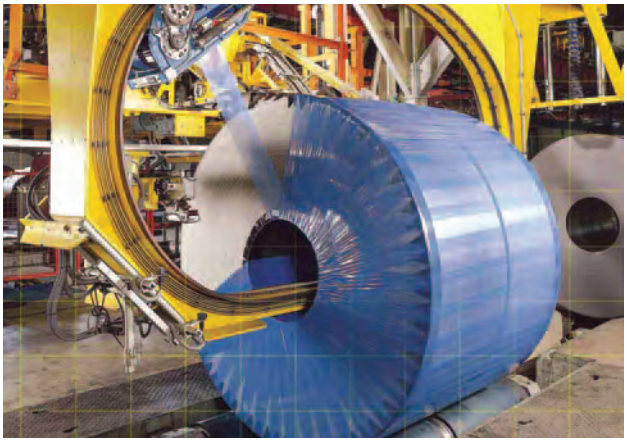
Factors fuelling Tata Steel's global initiatives

Tata Steel maintains a cost advantage over most of its global peers due to its captive raw material resources. The company internally sources its iron ore needs and nearly 60 per cent of its coal needs. With the company embarking on capacity expansion, it is identifying new iron ore and coalmines to ensure that its backward linkages help it to maintain its cost competitiveness.

To further build on its share in the global market, the company's has evolved a strategy of 'de-integrating' the value chain. While earlier the company adopted the strategy of creating vertical integration at a single manufacturing location, it is now adopting the strategy of split-location manufacturing facilities. This is based on the maxim that maximum value addition can be achieved by making semi-finished products (slabs / billets) at locations with proximity to raw materials and by finishing them at locations which are near to markets.

Future plans

The company intends to raise its capacity to 35 MTPA over the next 10-15 years. The capacity at Jamshedpur is expected to manufacture 10 MTPA, while the balance capacity will be built or acquired elsewhere in India and overseas, at an expected capital investment of US$ 23 billion. The company has announced a 6 MTPA steel plant in



Kalinganagar, Orissa, a 5 MTPA plant in Chattisgarh, a 17 MTPA in Jharkhand and a 2.4 MTPA facility in Bangladesh. The funding will be done mainly through internal accruals and partially through debt funding.

Globalisation at a glance

- *Presence across USA, Canada, Europe, Asia Pacific, Middle East*
- *Offices in 15 locations outside India*
- *Acquistion of NatSteel Asia, adding manufacturing facilities in South East Asia, including China*
- *Agreements with various companies for investments in the steel industry in Thailand, Iran and Australia*
- *Technical collaboration with Nippon Steel and Arcelor*

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