A CASE STUDY ON TATA STEEL – CORUS: A STRATEGIC PERSPECTIVE

Rashmi R [1] **Dr. Manoj Kumara N V** [2]
Research student [1] Associate professor[2]
Department of management science, Maharaja Institution of technology, Mysore, Mandya , India
Email – [1] rr7299915@gmail.com [2] manojkumara_mba@mitmysore.in

Abstract: *In the fast changing business world, companies have to strive hard to achieve quality and excellence in their field of operation. Every company has the prime objective to grow profitability. The Mergers and Acquisition is the statistical tool used by every companies towards their growth. In the present case it focuses on analyzing the impact of Post- Merger period (2013-2017). The study includes descriptive Statistics about the Mergers and Acquisition. The study has undergone various statistical and financial tools to find the difference between the samples collected to find the required result. Therefore, the study explains about the financial performance of the companies for the implications of the strategies like Mergers and Acquisition.*

Keywords: *Ratios, profitability, Merger and Acquisition and T-test.*

1. INTRODUCTION:

In the fast changing business world, companies have to strive hard to achieve quality and excellence in their field of operation. Every company has the prime objective to grow profitability. The profitability growth for the company can be possible internally as well as externally, the internal growth can be achieved either through the process of introducing the new products or by expanding or by enlarging the capacity of existing products or sustained improvement in sales and External growth like acquiring of existing business firms. M&A are being increasingly used the world over as a strategy for achieving a larger asset base, for entering a new markets, generating greater market share/ additional manufacturing capabilities, capacities and gaining complementary strength and competencies to become more competitive in the marketplace. Thus, M&A for corporate sector are the strategic concepts to take it up carefully.

2. BACKGROUND O F THE CASE:

Tata acquired Corus, which is 4times larger than its size and the largest steel producer in the UK. The deal which has results the world’s 5thlargest steel maker in India. It is largest ever foreign takeover and follow Mittal steel’s $31 billion, acquisitionof rival arcelor in same year. Tata acquires Corus on the 2nd of April 2007 for a Price of $12billion, the price per share was 608pence, which is 33.6% higher the first offer which was 455pence (Paris currency). For the fiscal year ended March 2006, the company generated revenues of $3693.6 million (IR 17144.22 crs), an increase of 0.1% over the previous fiscal year. The company saw a net income of $755.4 million (IR3506.38 crs) an increase of 8% over Fiscal 2005 months.

2.1 COMPELLING VISION:

- Improved cost positioning.
- Global players with a balanced and Strong presence in both develops and fast growing Asian markets.
- Well positioned to services a globalized customer base.
- Enjoy economies of scale in plant utilization and R & D.
- Take advantage of large pool of talented management.

2.2 Reasons for Mergers&Acquisition:

- **FOR CORUS:**
  - Total debt of Corus is 1.6bn gbp.
  - Corus needs supply of raw materials about lower cost.
  - Through Corus has revenue of $18.06bn its profits was just $ 626 mn.
  - Corus facilities were relatively old with high cost of production.
  - Employee cost is 15% while that of Tata Steel is 9%.

- **FOR TATA:**
  - Tata was looking to manufacture finished products in mature of Europe.

- A diversified product mix will reduce risks while higher end products will add to bottom line.
- Corus holds a number of Patents & R&D facility.
- Tata is known for efficient handling for labor and its aims at reducing the employee cost and improve productivity.
- It will move from 55th position in world to 5th in production of Steel Globally.

3. LITERATURE REVIEW:

Warren.D.Kissin, Julio Herrera, (1990)[1],**Jerayr Haleblian, Cynthia E. Devers, Gerry Mcnamara, Mason A. Carpenter, Robert B. Davison (2009)**[2]In this study the author says about how the M&A has increasing in from the two decades. It has occupied a large attention from the corporate world, and public as well. Many companies adopt these strategies to realize cost synergies against the competition, pricing, asset concentration etc. ,**Nir N. Brueller, Abraham Carmeli, Israel Drori(2014)**[3],**Krishnan Maheswaran, Soon Chin Yeoh (2005)**[4],**Jing Zhou, Shung J. Shin, Albert A. Cannella, Jr (2008)**[5]M&A considered as an external growth strategy because of LPG adopted by the many countries **Kevin C. Farmer, Phd1, Ashok K. Gumbhir (1992)**[16], **Rikard Larsson, Michael Lubatkin (2001)**[17]. Many reasons are there for the companies to go for M&A but the main intention was to create a shareholder's value **Linda Canina, Jin-Young Kim, Qingzhong Ma (2010)**[6], **Naeem Zafar, Victoria Chan (2012)**[8].The booms in Mergers and Acquisitions suggests that the organizations are spending a significant amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them **Jing Yang, Woo Gon Kim, Hailin Qu (2010)**[7] **Raymond Da Silva Rosa, Philip Lee, Michael Skott, Terry Walter (2004)**[18], **Martin Bugeja (2011)**[19], **Spyros Arvanitis, Tobias Stucki (2014)**[20].The study about how the activities of M&A take place for the betterment of the business entities and long run **David R. King, Svante Schriber (2016)**[9]. The author also explains about all types of mergers like vertical, horizontal & conglomerate etc. how the companies adopt these kinds which suits their operations and also about Pre and Post acquisition which is impacted more on the firms., but some authors describes that M&A has not affect the business entity **Katty Marmenout (2010)**[10], **Yaakov Weber (1996)**[11]. There has been extensive research on M&A both from domestic as well as international standpoint **Derek K. Oler, Jeffrey S. Harrison, Mathew R. Allen (2008)**[12],**Isabel Feito-Ruiz, Susana Menéndez-Requejo (2009)**[13]. The companies goes to the decision of mergers and acquisition for reasons like to enter the economy and to build a competitive advantage and to expand their business activities, many companies goes for these activities with a deal for cash or stock exchange **David M. Schweiger, Philip K. Goulet (2005)**[14], **Jisun Yu, Rhonda M. Engleman, Andrew H. Van De Ven (2005)**[15].Hence, this study aims at understanding the strategies which is best fit for the betterment of the respect of M&A as a main strategic objectives and impact of it on different kinds of firms in different countries.

4. OBJECTIVE OF THE STUDY:

- To analyze the impact of M&Ain Post-acquisition period.

5. METHODOLOGY:

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research.

5.1 Type of Research: Descriptive research is used to describe characteristics of a population or phenomenon being studied. Descriptive research is used for the study about the case.

5.2 Sampling Design

SAMPLE:

SL.NO	ACQUIRING	ACQUIRED	TYPE OF RESEARCH	DEAL VALUE	YEAR OF OCCURANCE	STRATEGIC MOTIVES
1	TATA	UK Based Company CORUS	Acquisition	$12billion	April 2nd2007	Tata was looking to manufacture finished products in mature markets of Europe.

5.3 Sources of Data: Secondary data is used to increase the sampling size of research studies and is also chosen for the efficiency and speed that comes with using an already existing resource. It includes Common sources of existing secondary data include data collected by government public services departments, libraries, internet searches, articles, journals, books are used for the study about the case.

5.4 Hypothesis:

H_0= There is no impact of M&A on firms performance in Post -acquisition.

5.5 Tools for Analysis:

a) STATISTICAL TOOL:

i) Descriptive Statistics is a research is used to describe the characteristics of population or phenomenon which are being studied. It is used in this study to know the variations and changes in the financial performance of the bidder company.

ii) T-test is used for the study. A t-test is an analysis of two population's means through the use of statistical examination; a t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variances of two normal distributions are not known. A t-test looks at the t-statistic, the t-distribution and degrees of freedom to determine the probability of difference between populations; the test statistic in the test is known as the t-statistic. To conduct a test with three or more variables, an analysis of variance (ANOVA).

iii) Mean: A mean is the simple mathematical average of a set of two or more numbers. The mean for a given set of numbers can be computed in more than one way, including the arithmetic mean method, which uses the sum of the numbers in the series, and the geometric mean method. However, all of the primary methods for computing a simple average of a normal number series produce the same approximate result most of the time.

iv) Standard deviation: Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

v) Kurtosis: kurtosis is a statistical measure that is used to describe the distribution. Whereas Skewness differentiates extreme values in one versus the other tail, kurtosis measures extreme values in either tail. Distributions with large kurtosis exhibit tail data exceeding the tails of the normal distribution (e.g., five or more standard deviations from the mean). Distributions with low kurtosis exhibit tail data that is generally less extreme than the tails of the normal distribution.

vi) Skewness: Skewness is a term in statistics used to describe asymmetry from the normal distribution in a set of statistical data. Skewness can come in the form of negative Skewness or positive Skewness, depending on whether data points are skewed to the left and negative, or to the right and positive of the data average. A dataset that shows this characteristic differs from a normal bell curve.

b) FINANCIAL TOOL: The Ratios which are taken into consideration for the calculations are Adjusted Cash Margin, Net Profit Margin, Adjusted Net Profit Margin, Return on Capital Employed, and Adjusted Return on Net Worth, Current Ratio, Quick Ratio, Debt Equity Ratio, and Long Term Debt Equity Ratio.

i) Adjusted Cash Margin: Adjusted gross margin is a calculation used to determine the profitability of a product, product line or company. The adjusted gross margin includes the cost of carrying inventory, whereas the gross margin calculation does not take this into consideration. The adjusted gross margin, therefore, provides a more accurate look at the profitability of a product than the gross margin allows because it takes an additional costs out of the equation that affect the business bottom line.

ii) Net Profit Margin: It is the ratio of net profits to revenues for a company or business segment. Typically expressed as a percentage, net profit margins show how much of each dollar collected by a company as revenue translates into profit.

iii) Return on Capital Employed: It is a financial ratio that measures a company's profitability and the efficiency with which its capital employed. It is calculated as ROCE= Earnings before interest and tax (EBIT) / Capital Employed.

iv) Current Ratio: The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

v) Quick Ratio: The quick ratio is an indicator of a company's short-term liquidity, and measures a company's ability to meet its short-term obligations with its most liquid assets. Because we're only concerned with the most liquid assets, the ratio excludes inventories from current assets.

vi) Debt Equity Ratio: Debt/Equity (D/E) Ratio, calculated by dividing a company's total liabilities by its stockholders' equity, is a debt ratio used to measure a company's financial leverage. The D/E ratio indicates how much debt a company is using to finance its assets relative to the value of shareholders' equity.

vii) Long term Debt Equity Ratio: The ratio is calculated by taking the company's long-term debt and dividing it by the book value of common equity. The greater a company's leverage, the higher the ratio. Generally, companies with higher ratios are thought to be more risky.

viii) Adjusted Return on Net Worth: Adjusted net worth calculates the value of an insurance company, using capital values, surplus values and an estimated value for business on the company's books. It starts with the estimated value for business and adds unrealized capital gains, the capital surplus and the voluntary reserves.

6. DATA ANALYSIS & INTERPRETATION:

Table - 6.1 FINANCIAL RATIOS

YEARS	2013	2014	2015	2016	2017
ADJUSTED CASH MARGIN	4.41	6.39	4.21	4.85	8.58
NET PROFIT MARGIN	-5.23	2.41	-2.81	-2.6	-3.77
ADJUSTED NET PROFIT MARGIN	-5.22	2.41	-2.79	-2.51	-3.75
RETURN ON CAPITAL EMPLOYED	**7.9**	**9.96**	7.17	**5.61**	**9.87**
ADJUSTED RETURN ON NET WORTH	0.07	9.1	-0.08	2.79	11.28
CURRENT RATIO	0.99	0.86	1.01	0.87	0.71
QUICK RATIO	0.69	0.65	0.62	0.85	0.53
DEBT EQUITY RATIO	1.68	1.74	2.28	3.02	2.38
LONG TERM DEBT EQUITY RATIO	1.44	1.35	2.17	2.48	1.87

Sources: Authors Calculation: Annual Report Databases

INTERPRETATION:

- ACM in 2013 resulted 4.41 and in 2017 it is8.58. Hence, the ACM is increased from 2013 to 2017.
- NLM in 2013 resulted -5.23 and in 2017 it is -3.77. Hence, the NLM is decreased from 2013 to 2017.
- ANLM in 2013 resulted -5.22 and in 2017 it is -3.75. Hence, the ANLM is decreased from 2013 to 2017.
- ROCE in 2013 resulted 7.9 and in 2017 it is 9.87.Hence, the ROCE is increased from 2013 to 2017.
- ARONW in 2013 resulted 0.07 and in 2017 it is 11.28. Hence, the ARONW is increased from 2013 to 2017.
- CR in 2013 resulted 0.99 and in 2017 it is 0.71. Hence, the CR is decreased from 2013 to 2017.
- QR in 2013 resulted 0.69 and in 2017 it is 0.53. Hence, the QR is decreased from 2013 to 2017.
- DER in 2013 resulted 1.68 and in 2017 it is 2.38. Hence, the DER is increased from 2013 to 2017.
- LTDER in 2013 resulted 1.44 and in 2017 it is 1.87. Hence, the LTDER is increased from 2013 to 2017.

Table- 6.2. **DESCRIPTIVE STATISTICS**:

Descriptive	ACM	NPM	ANPM	ROCE	ARNW	CR	QR	DER	LBER
Mean	5.63	-2.4	-2.37	8.10	4.63	0.89	0.67	2.22	1.86
Kurtosis	0.53	2.88	2.83	-1.49	-1.91	-0.09	1.59	-0.27	-1.93
Skewness	1.21	2.92	1.46	-0.28	0.51	-0.66	0.85	0.64	0.21
SD	1.88	1.49	2.8	1.85	5.26	0.12	0.12	0.55	0.48
Minimum	4.14	-5.23	-5.22	5.61	-0.08	0.71	0.53	1.68	1.35
Maximum	8.58	2.41	2.41	9.96	11.28	1.01	0.85	3.02	2.48

Sources: Authors Calculation: Annual Report Databases

INTERPRETATION:

- The descriptive statistics of ACM resulted with the Mean Value of 5.63, Kurtosis value of 0.53, Skewness value of 1.21, SD value of 1.88, Minimum value of 4.41, and Maximum value of 8.58.
- The descriptive statistics of NPM resulted with the Mean value of -2.4, Kurtosis value of 2.88, Skewness value of 2.92, SD value of 1.49, Minimum value of -5.23 and Maximum value of 2.41.
- The descriptive statistics of ANPM resulted with the Mean value of -2.37, Kurtosis value of 2.83, Skewness value of 1.46, SD value of 2.8, Minimum value of -5.22 and Maximum value of 2.41.

- The descriptive statistics of ROCE resulted with the Mean value of 8.10, Kurtosis value of -1.49, Skewness value of -0.28, SD value of 1.85, Minimum value of 5.61 and Maximum value of 9.96.
- The descriptive statistics of ARNW resulted with the Mean value of 4.63, Kurtosis value of -1.91, Skewness value of 0.51, SD value of 5.26, Minimum value of -0.08 and Maximum value of 11.28.
- The descriptive of statistics CR resulted with the Mean value of 0.89, Kurtosis value of -0.09, Skewness value of -0.66, SD value of 0.12, Minimum value of 0.71 and Maximum value of 1.01.
- The descriptive statistics of QR resulted with the Mean value of 0.67, Kurtosis value of 1.59, Skewness value of 0.85, SD value of 0.12, Minimum value of 0.53 and Maximum value of 0.85.
- The descriptive statistics of DER resulted with the Mean value of 2.22, Kurtosis value of -0.27, Skewness value of 0.64, SD value of 0.55, Minimum value of 1.68 and Maximum value of 3.02.
- The descriptive-e statistics of LBER resulted with the Mean value of 1.86, Kurtosis value of -1.93, Skewness value of 0.21, SD value of 0.48, Minimum value of 1.35 and Maximum value of 2.48.

Table-6.3 **One-Sample Test**

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ACM	6.704	4	.003	5.63	3.30	7.97
NPM	-1.862	4	.136	-2.40	-5.98	1.18
ANPM	-1.845	4	.139	-2.37	-5.94	1.19
ROCE	9.790	4	.001	8.10	5.80	10.39
RONW	1.970	4	.120	4.63	-1.89	11.16
CR	16.478	4	.000	.89	.74	1.04
QR	12.706	4	.000	.67	.52	.81
DER	9.097	4	.001	2.22	1.54	2.89
LTDER	8.695	4	.001	1.86	1.27	2.46

Sources: Authors Calculation: SPSS Database

Interpretation: From the above table represent the calculation of one sample t-test considering the study period of 5 yrs. using profitability variables of the firms. The study found, all the profitability variables t-test resulted positive as well as negative with the degree of freedom at 4. The study find that NPM ,ANPM & RONW resulted more than 0.05 significance level therefore it proven that there is no significant changes in the profitability ratio with respect to NPM ,ANPM & RONW. Further, it observed that, the remaining ratios resulted P-value less than 0.05 significance level. Therefore H_0 is rejected. Henceforth, it’s proven that there is a significant impact of M&A on firm’s performance in Post- acquisition.

7. FINDINGS AND RECOMMENDATIONS:

- After Post - Acquisition of Tata Steel with Corus the overall financial ratios has been increased from 2013 to 2017.
- After Post-Acquisition Tata Steel has reached Global markets with a balanced and Strong presence in both develops and fast growing in Asia.
- After Post- Acquisition Tata Steel has resulted with the profitability Ratios (ACM, NPM, ANPM, ARNW, and ROCE), Liquidity Ratios (CR, QR), Solvency Ratios (DER, LBER).
- After Post-Acquisition the t-test resulted with the both positive and negative values.
- After Post- Acquisition the Tata steel reached the Economies of Scale.
- Through the Tata Steel has acquired the Corus and the financial ratios have been increased still the company results with Net loss for the financial year the company should focus on improving the over the losses.
- The Tata Company acquired the Corus to gain a competitive advantage over the pool of talented Management, hence its operations towards the motto was much satisfactory. Hence, the company should more focus on liquidity of the company.
- If the company focus on the Profitability ratio the Tata Steel Company can able to reach its goal of improving the cost minimization.

- The company motto has gained some benefits if the company wants to survive more than the expected they have to think globally the other strategies that can be obtained to have a long growth and sustainability in the global markets.

8. CONCLUSION:

The Tata steel company acquired Corus in 2007 to enter into the global markets with giving a huge competition to the other leading competitors were their strategy of acquiring Corus has resulted with positive as well as negative impact on the operations of the company if the negativities will be improved the company can go on for the further strategies of expanding their business into globally more than the present situation and can come up with more competitions for the other leading companies in the world wide.

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