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## INDIA'S MOST RESPECTED COMPANIES



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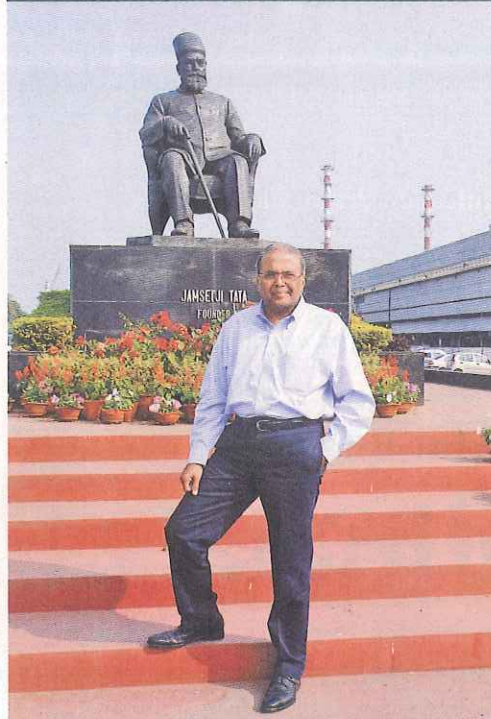


# Climbing The Stairs Of Success

Winner: **Tata Steel**  
Total score: **5,437**  
MD: **H.M. Nerurkar**

**TATA STEEL**

With its ambitious expansion plans, Tata steel is trying to focus more on increasing the crude steel production in the country



**I**T is, perhaps, Tata Steel's handling of Corus — now called Tata Steel Europe or TSE — a company five times its size when the acquisition happened in 2007, which had peers ranking it as the most respected steel company in India. In fact, Tata Steel ranked way ahead of the others on all seven parameters of the Most Respected Companies survey 2011.

On a consolidated basis, Tata Steel has delivered profits for four successive quarters starting Q3 of 2009-10, following losses in the first half of FY10, thanks to the global economic downturn impacting TSE's operations. Capacity utilisation fell to 65 per cent, leading to losses of Rs 2,238.53 crore in the first quarter, and Rs 2,719.80 crore in the second quarter.

"These two quarters had us all worried," says H.M. Nerurkar, managing director of Tata Steel, reflecting on the company's first ever loss recorded in its 104-year history. Cost reduction initiatives through streamlining of operations helped cut flab, and return to growth ways of the European auto industry got Tata Steel back into the black in the next two quarters.

In India, too, net profits dipped in the first half of 2009-10 to below the usual Rs 1,000-crore mark, but rebounded thereafter. This fiscal, things have steadily improved. Its net profit in Q2 of 2010-11, Rs 2,065 crore (standalone), was its highest ever in a quarter, with net profit margin of almost 30 per cent. "They can sustain their high net profits because steel prices might rise, and though there is a higher cost of coking coal, Tata Steel has captive sources," says Bhavesh Chauhan, senior analyst for metals and mining at Angel Broking, adding that he expects standalone Q3 net profits to also cross Rs 2,000 crore. The impact of captive sources can be gauged from the fact that net profit margins of Sail and JSW Steel were 10 per cent and 7.7 per cent, respectively, in Q2 of 2010-11.

Chauhan, however, feels that the coming quarters would be challenging for Tata Steel's European operations, and it could slip back into the red in Q3 as also in the next two quarters on

BHOLA PRASAD

**METALS**

UNION GOLF & COUNTRY CLUB

RESPONDENT  
SPEAK

“ Tata Steel has done a number of good acquisitions in the recent past and it has been able to maintain continuous growth

It is one of the oldest steel companies and has been maintaining cordial relations with employees and customers

The company is considered one of the global giants in the steel industry with very good product quality

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the back of rising raw material costs. Apart from an improvement in the business environment, profitability of TSE is likely to improve once the company's newly acquired captive raw material mines in Mozambique (coal) and Canada (iron ore) become fully operational.

Over the next few years, though, India is the big focus. Recently, Tata Steel tied up with Japan's Nippon Steel, the world's fourth largest steel maker, to manufacture automotive cold-rolled flat products at its Jamshedpur plant. Over the next two years, the joint venture will set up a processing line to produce 600,000 tonnes of auto-grade steel per annum.

The move could not have come at a more appropriate time, given the growth the auto industry is witnessing, and given similar moves made by its competitors such as JSW Steel, which has partnered with Japan's JFE Corporation, and Bhushan Steel, which has tied up with Japan's Sumitomo. With global car majors such as Honda, GM and Hyundai importing steel into India for making their cars, the opportunity is there for the taking.

Opportunity for steel, of course, is ample. The auto industry growth apart, the phenomenal rise in infrastructure in the country — be it roads, ports, airports and even property — has sent steel companies scrambling to build capacity to meet the exploding demand. According to the 2009-10 annual report of the steel ministry, 222 MoUs have been signed between companies and state governments of Orissa, Jharkhand, Chhattisgarh, West Bengal and others, which would increase India's crude steel production capacity by 276 MT (current capacity is 65 MT) by 2015-16, but conventional wisdom says such high capacity cannot be set up in so short a time. Besides, much of this could turn out to be a chimera given the companies' struggle with land acquisition for projects.

Companies such as Steel Authority of India — India's largest steel maker with 12.84 million tonnes (MT) capacity — JSW Steel (which recently took over Ispat Industries to become India's second largest steel maker), Essar Steel,

Bhushan Steel and Tata Steel have lined up ambitious expansion plans. If successful, the expansions would propel the likes of JSW and SAIL into the ranks of the top 10-15 steel producers in the world. Tata Steel, of course, is already there, at No. 7, thanks to Corus.

Tata Steel's recent follow-on public offering — which helped it raise around \$765 million (Rs 3,400 crore) — was oversubscribed six times. A large chunk of this money would be invested in the expansion at the company's Jamshedpur facility. A visit to the plant shows a beehive of activity in the expansion area. Work on the plant — to expand capacity by 2.9 MT — is expected to complete in 2011, says Nerurkar.

What worries Nerurkar is that India is becoming increasingly dependent on imports. “Steel demand is growing at 10 per cent, but we are not putting in greenfield capacity at that rate,” he says. The big problem in greenfield expansion is land acquisition. In states such as Orissa, Chhattisgarh and Jharkhand, local people, especially tribals, are up in arms against industry acquiring land for factories.

This has hit the plans of all major players in the steel industry, including Tata Steel. “Compensation has not probably gone in a fair manner to the right people,” says Nerurkar, blaming the rush for SEZs as well for contributing to the problem. “But it is very easy to blame the government. It has to be solved by everybody getting together, so that India, which is at a tipping point, does not tip back but goes forward.”

For Tata Steel, land acquisition for its greenfield projects at Chhattisgarh (5 MT) and Jharkhand (10 MT) is yet to commence. But it has made some progress in its 6-MT Orissa plant (in Kalinga Nagar), with ground levelling and fabrication work having begun. “We have got possession of 75 per cent of the land,” says Nerurkar. “For 25 per cent we are still talking to the people.” That's a big headway for Tata Steel, which is looking to double its total output, an effort that could take it even higher in the ranks of the world's biggest steel makers.

*Alokesh Bhattacharyya*



No 2:  
SAIL

C.S. Verma, chairman, has ambitious expansion plans that, if successful, will put SAIL among global leaders



No 3:  
Jindal Steel & Power

Naveen Jindal, VC & MD, has seen both revenues and profits decline in 2009-10; plans a \$1.2-billion IPO soon