Research Paper
Impact Factor: 3.853
Peer Reviewed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

TATA CORUS: POST ACQUISITION PERFORMANCE

Shailaja D.Kelshikar* **Dr. Manoj D.Shah****
**Assistant Professor, Smt. M.P.Patel College of Commerce and Center for Professional Courses, Gujarat.*
***Associate Professor, Dr.Babasaheb Ambedkar Open University, Gujarat.*

Abstract
Tata Steel acquired Corus, Anglo Dutch steel manufacturer Corus in January, 2007. It was one of the largest acquisitions which an Indian economy experienced. Tata set an example in the history of India. It was one of the largest deals that India has ever seen. The deal made Tata Steel world's fifth largest steel producer. Corus standalone capacity of steel production was 18.3 million tonnes, which was three times greater than Tata Steel's steelmaking capacity. It is now nine complete years of acquisition and Tata Steel had to find out the prospective buyer for their business in Europe known as Tata Steel Europe. April, 2016 Long Product Europe division of Tata's Europe sold out to Greybull Capital. The decision is reversed by Tata's here. Author has put in efforts to analyze the financial viability of Tata Steel pre and post merger period. For the study, the statistical tools like mean, standard deviation and paired t-test is applied along with ratio analysis as a financial statement analysis technique.

Key Words: Acquisition, Financial, Pre and Post Merger.

"I believe this will be the first step in showing that Indian industry can in fact step outside the shores of India in an international marketplace and acquit itself as a global player."

Ratan Tata

In 2006, Corus management met Mr.Ratan Tata. And there seeds of Corus acquisition sowed in the mind of Mr.Ratan Tata. He made the first offer of 455 p per share to buy Corus. Corus Board of Directors recommended the offer made by Tata to be accepted. Meanwhile Brazil steel maker Companhia Siderurgica Nacional (CSN) had shown the interest in Corus and made an offer of 475 p per share. On 28November2006, Corus declared 63% hike in quarterly profit. Tata has raised their offer to 500 p per share, CSN made it 515 and ultimately Corus accepted CSN offer. On 21st January, 2007 Corus closing share price was 545 p per share. The bidding process ended till three months. It was a battle between two steel titans: Tata Steel and CSN. After three months of bids and counter bids ultimately the last bid offered by Tata was of 608 p per share against the bid of 603 p per share made by CSN. And Tata won the battle and geographically expanded their existence in European countries. The bid finalized on 31st January, 2007 and Tata Steel made an announcement that Anglo Dutch steel giant Corus acquired by them.

Tata set an example in the history of India. It was one of the largest deals that India has ever seen. The deal made Tata Steel world's fifth largest steel producer. Corus standalone capacity of steel production was 18.3 million tonnes, which was three times greater than Tata Steel's steelmaking capacity.

The simple takeover transaction that converted into auction when CSN came into bidding war and has made the deal 50% more than the initial bid of $8 billion that was also approved by the Corus Group. This certainly has delayed the Tata Steel's break even by at least two years. [1]

The strategic objective of Corus behind accepting Tata Steel as a prospective buyer was to gain access to India's iron ore as Tata Steel were having their own raw material (coal and iron). Tata Steel was one of the largest private sector steel maker of India. The rational of Tatas for this strategic decision was an access to European market.

The financial analyst commented that the price paid for the acquisition was very high. The acquisition was over paid. The bid was finalized for the price of $12.1billion. It was a all cash deal and only $4 billion financed from company internal resources and two third of the deal was to be financed by debt. Tatas went with the long term loan arrangement with Citigroup, Standards Chartered and ABN Amro for the financing of $7.3 billion. Tatas balance sheet had a huge burden of debt as an outcome of this historical deal.
The expected synergies from deal were as follows:

- Geographical diversification in European market

[1] *(Manwani, 2013)*

- Economies of scale
- Shoot from the rank of 56th to 5th in the world combined Tata & Corus
- Enhanced purchasing power
- Gained operational efficiency
- Greater innovation through research and development
- Reduction of cost

April, 2016, exactly after 9 complete years of acquisition, Tatas now was reversing the decision of Corus acquisition.

The good amount of research has conducted on this historical acquisition. Researchers have thrown the light on the financial performance pre and post merger, pointed out the reasons even for the failure of this acquisition.

Literature Review

(Manwani, 2013) The author has investigated on how successful this deal was after the six complete years of acquisition. The paper has made us notice that the Tata Steel is two year s away from its break even. An attempt was made here to understand whether Tata Steel was able to achieve break even from the deal or not.

(Kimberly Freeman) The paper has described the entire acquisition process in detailed. It has given the time line of acquisition process initiating the meeting of Ratan Tata in November, 2005 and ending with an announcement of the fifth largest steelmaker in the world on 21st January, 2007. The author has discussed the strategic rationales behind the deal.

(Manoj Kumara N V, 2013) The impact of acquisition of Corus on Tata Steel was observed and analyzed in the mentioned study. The financial statements were analyzed with the help of statistical tool, correlation co-efficient and t-test. It was concluded that corporate integration has increased the capital base of combined entity.

(Dr. Ramakanta Prusty) Ratio analysis as a tool of analysis was used by the authors. Pre and post merger impact on profitability, EPS, liquidity, operational efficiency was analyzed by the authors. 2006-07 and 2007-08 have shown the positive symbols but due to recession in 2008, the financial performance was poor for the financial year 2008-09.

Objectives of the Study

The objective of the study is to analyse the post acquisition financial performance of Tata Steel on the basis of parameters like profitability, liquidity, leverage and operational efficiency.

Hypothesis of the Study

To test the post acquisition impact of Tata Corus deal, following hypothesis are formed:

H_0 (Null Hypothesis)

1. There is no significant difference in means score of profitability indicators in selected unit, before and after merger and acquisition.
2. There is no significant difference in means score of liquidity indicators in selected unit before and after merger and acquisition.
3. There is no significant difference in means score of leverage indicators in selected unit before and after merger and acquisition.
4. There is no significant difference in means score of operational efficiency indicators in selected unit before and after merger and acquisition.
5. There is no significant difference in means score of corporate performance indicators in selected unit, before and after merger and acquisition.

H_1 (Alternate Hypothesis)

1. There is significant difference in means score of profitability indicators in selected unit, before and after merger and acquisition.
2. There is significant difference in means score of liquidity indicators in selected unit before and after merger and acquisition.
3. There is significant difference in means score of leverage indicators in selected unit before and after merger and acquisition.
4. There is significant difference in means score of operational efficiency indicators in selected unit before and after merger and acquisition.

5. There is significant difference in means score of corporate performance indicators in selected unit, before and after merger and acquisition.

Financial Ratios of Tata Steel before Corus Acquisition

The following tables contain the pre and post merger ratios of Tata Steel. It reflects profitability ratios, liquidity ratios, operational efficiency ratios, leverage ratios and Proprietory ratios. For the analysis, mean and the standard deviation are calculated.

Particulars	01-02	02-03	03-04	04-05	05-06	Avg	SD
Profitability Ratios							
Gp Ratio	15.9	23.8	31.2	39.4	32.2	28.5	8.95321
Operating Profit Ratio	15.69	23.71	32.47	41.1	38.88	30.37	10.628
Np Ratio	2.78	11.52	16	23.72	22.78	15.36	8.63652
Liquidity Ratios							
Current Ratio	1.6	1.4	1.1	1.1	1.4	1.32	0.21679
Liquid Ratio	0.45	0.43	0.39	0.33	0.3	0.38	0.06403
Operational Efficiency Ratios							
Debtors Turnover Ratio	63	47	30	24	23	37.4	17.2424
Working Capital Turnover Ratio	-69.35	-54.79	-78.02	-48.7	-45.6	-	13.8909
Leverage Ratios							
Debt Equity Ratio	1.8	1.1	0.4	0.2	0.1	0.72	0.71903
Long Term Debt To Equity Ratio	1.25	1.28	0.72	0.37	0.25	0.774	0.48045
Proprietory Ratio							
Return On Capital Employed	7.53	20.68	38.77	56.06	43.72	33.352	19.2345
Return On Equity/ Return On Net Worth	5.49	31.77	38.67	49.21	35.94	32.216	16.2696

Financial Ratios of Tata Steel after Corus Acquisition

Particulars	07-08	08-09	09-10	10-11	11-12	Avg	SD
Profitability Ratios							
Gp Ratio	13.9	12.6	9.1	14.4	10.2	12.04	2.31149
Operating Profit Ratio	41.94	37.68	35.7	39.06	33.99	37.674	3.06547
Np Ratio	23.43	21.09	19.96	22.94	19.23	21.33	1.82665
Liquidity Ratios							
Current Ratio	1.87	1.78	1.50	1.91	1.82	1.776	0.16196
Liquid Ratio	3.52	0.57	0.76	1.31	0.69	1.37	1.23497
Operational Efficiency Ratios							
Debtors Turnover Ratio	28	39	44	40	41	38.4	6.10737
Working Capital Turnover Ratio	520.93	-4.56	20.53	123.01	-10.22	129.938	225.07
Leverage Ratios							
Debt Equity Ratio	1.99	1.65	1.8	1.6	1.2	1.648	0.29287
Long Term Debt To Equity Ratio	1.07	1.31	0.68	0.56	0.45	0.814	0.36281
Proprietory Ratio							
Return On Capital Employed	16.59	16.43	5.62	12.46	9.98	12.216	4.62212
Return On Equity/ Return On Net Worth	21.52	21.1	13.45	14.68	12.72	16.694	4.27421

Calculation of Mean Standard Deviation and t-test of Tata Steel

Particulars	Pre Acquisition		Post Acquisition		T-Test
	Avg	Sd	Avg	Sd	
Profitability Ratios					
Gp Ratio	28.5	8.95321	12.04	2.31149	0.0188
Operating Profit Ratio	30.37	10.628	37.674	3.06547	0.2712
Np Ratio	15.36	8.63652	21.33	1.82665	0.2368
Liquidity Ratios					
Current Ratio	1.32	0.21679	1.776	0.16196	0.0078

Liquid Ratio	0.38	0.06403	1.37	1.23497	0.1397
Operational Efficiency Ratios					
Debtors Turnover Ratio	34.4	17.2424	38.4	6.10737	0.9262
Working Capital Turnover Ratio	-59.292	13.8909	129.938	225.07	0.1402
Leverage Ratios					
Debt Equity Ratio	0.72	0.71903	1.648	0.59287	0.0183
Long Term Debt To Equity Ratio	0.774	0.48046	0.814	0.36281	0.6070
Proprietory Ratio					
Return On Capital Employed	33.352	19.2345	12.216	4.62212	0.1024
Return On Equity/ Return On Net Worth	32.216	16.2696	16.694	4.27421	0.1510

Data Analysis and Findings
Hypothesis 1
Ho: There is no significant difference in means score of profitability indicators in selected unit, before and after merger and acquisition.

H1: Thereis significant difference in means score of profitability indicators in selected unit, before and after merger and acquisition.

Ho = μ1 =μ2
H1 = μ1 = μ2
5% Level of Significant table value = 2.776.

Profitability Ratios	Avg	SD	Avg	SD	T-Test
Gp Ratio	28.5	8.953	12.04	2.3115	0.0188
Operating Profit Ratio	30.37	10.63	37.67	3.0655	0.271
Np Ratio	15.36	8.637	21.33	1.8267	0.237

The calculated value of T is 0.0188, 0.271 and 0.237 for GP ratio, Operating profit ration and NP ratio respectively and table value of T is 2.776, (At 5% level of significance). Hence,
Tcal< Ttab
The calculated value of‘t’ is less than the table value. So the null hypothesis is accepted.

Hypothesis 2
Ho: There is no significant difference in means score of liquidity indicators in selected unit, before and after merger and acquisition.

H1: There is significant difference in means score of liquidity indicators in selected unit, before and after merger and acquisition.

Ho = μ1 = μ2
H1 = μ1 = μ2
5% Level of Significant table value = 2.776.

Liquidity Ratios	Avg	SD	Avg	SD	T-Test
Current Ratio	1.32	0.217	1.776	0.162	0.0078
Liquid Ratio	0.38	0.064	1.37	1.235	0.1397

The calculated value of T is 0.0078, 0.1397 for current ratio and liquid ratio respectively and table value of T is 2.776, (At 5% level of significance). Hence,
Tcal < Ttab
The calculated value of‘t’ is less than the table value. So the null hypothesis is accepted.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Hypothesis 3

Ho: There is no significant difference in means score of leverage indicators in selected unit, before and after merger and acquisition.

H1: There is significant difference in means score of leverage indicators in selected unit, before and after merger and acquisition.

Ho = µ1 = µ2
H1 = µ1 = µ2
5% Level of Significant table value = 2.776.

Leverage Ratios	**Avg**	**SD**	**Avg**	**SD**	**T-Test**
Debt Equity Ratio	0.72	0.719	1.648	0.5929	0.0183
Long Term Debt To Equity Ratio	0.774	0.48	0.814	0.3628	0.6070

The calculated value of T is 0.0183, 0.6070 for debt ratio and long-term debt to equity ratio respectively and table value of T is 2.776, (At 5% level of significance). Hence,
Tcal < Ttab
The calculated value of'‘t’ is less than the table value. So the null hypothesis is accepted.

Hypothesis 4

Ho: There is no significant difference in means score of operational efficiency indicators in selected unit, before and after merger and acquisition.

H1: There is significant difference in means score of operational efficiency indicators in selected unit, before and after merger and acquisition.

Ho = µ1 = µ2
H1 = µ1 = µ2
5% Level of Significant table value = 2.776.

Operational Efficiency Ratios	**Avg**	**Sd**	**Avg**	**Sd**	**T-Test**
Debtors Turnover Ratio	34.4	17.24	38.4	6.1074	0.9262
Working Capital Turnover Ratio	-59.292	13.89	129.9	225.07	0.1402

The calculated value of T is 0.9262, 0.1402 for debtor’s turnover ratio and working capital turnover ratio respectively and table value of T is 2.776, (At 5% level of significance). Hence,
Tcal < Ttab

The calculated value of‘t’ is less than the table value. So the null hypothesis is accepted.

Hypothesis 5

Ho: There is no significant difference in means score of corporate performance indicators in selected unit, before and after merger and acquisition.

H1: There is significant difference in means score of corporate performance indicators in selected unit, before and after merger and acquisition.

Ho = µ1 = µ2
H1 = µ1 = µ2
5% Level of Significant table value = 2.776.

Proprietory Ratio	**Avg**	**SD**	**Avg**	**SD**	**T-Test**
Return On Capital Employed	33.352	19.23	12.22	4.6221	0.1024
Return On Equity/ Return On Net Worth	32.216	16.27	16.69	4.2742	0.1510

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

The calculated value of T is 0.1024, 0.1510 for return on capital employed and return on equity/ net worth ratio respectively and table value of T is 2.776, (At 5% level of significance). Hence,
Tcal < Ttab

The calculated value of‘t’ is less than the table value. So the null hypothesis is accepted.

Conclusion
The study concluded that the acquisition that has been done with lot many expectations have not proven to be profitable or synergetic for Tata Steel. The post-merger financial performance of the Tata Steel is satisfactory. Even if the latest three financial years2012-13, 2013-14 and 2014-15,financial performance has a downward flow.

As a result, an acquisition, which made Tata Steel, world’s fifth largest steel maker in 2007 nine years later in April, 2016 Tata Steel sold its UK business to group Greybull Capital to control its deteriorating financial performance. The reasons for this action discussed are global oversupply of steel, increase in third country export into Europe, high manufacturing cost, continuous weakness in domestic steel market demand.

Bibliography
1. Dr. Ramakanta Prusty, P. P. (n.d.). Are Mergers and Acquisitions Beneficial?The Case of Tata’s Corus Buy. International Journal of Financial Management .
2. Kimberly Freeman, S. G. (n.d.). Achieving Global Growth through Acquisition:Tata’s Takeover of Corus. Journal of Case Research in Business and Economics , 1-17.
3. Manoj Kumara N V, D. S. (2013). An Analysis of the Impact of Merger and Acquisition of Corus byTata Steel. IOSR Journal of Business and Management (IOSR-JBM) , Volume 11 (Issue 1), 41-47.
4. Manwani, A. M. (2013). Tata Corus Deal: How successful it is Till 2013? SVIM e-Journal , I (I), 6-12.