

TATA IRON AND STEEL COMPANY (TISCO)

After earning a record net profit of Rs. 201 crore in the year 1991–92, Tata Iron and Steel Company (TISCO) experienced a decline of 41 per cent in its net profit, reporting Rs. 119 crore of net profit during the year 1992–93. Many feared that the flagship company of Tata that had prospered because of subsidies and high tariff walls had slipped into the red after government announced its new economic policy. Many speculated that the liberalization and new economic policies of the government aimed at increasing the efficiency of the domestic companies intensified the competition in India's steel industry and TISCO was unable to face the onslaught of the changed market condition. However, the performance of the company improved considerably during the last three years. The company reported a record net profit of Rs. 521 crore during the year 1996. The company also undertook a massive capital expenditure (CAPEX) programme as part of a modernization programme to update and improve their technology. The company has now completed four of the five phases of this programme. The total CAPEX budget for modernization, undertaken since 1990, was Rs. 7,407 crore. The company has tapped both the domestic and international market using several innovative instruments to raise necessary financial resources to fund their new investment projects. The company came up with a recent public issue of 'Trust Bonds' aggregating Rs. 500 crore to finance its CAPEX programme.

The company is currently facing a huge shortfall of Rs. 2,000 crore to finance the expenditure for modernization and expansion programmes during the next two years. The company also expects that after completing the expansion project, it will have 20 per cent market share in the domestic steel market. At the same time, the scenario in steel industry is showing signs of intensifying domestic and international competition.

BACKGROUND OF THE COMPANY

TISCO was set up in 1907 by the Tata Group, when India had no significant industrial base. The establishment of TISCO by Tatas gave a fillip to the modern steel industry in India. Though incorporated in the year 1907, commercial production at TISCO started only in 1911. At that point of time, the total capacity at the plant was only 125 thousand tonnes per annum. Tata Sons Limited and Ewart Investments Limited together held 8.71 per cent of total equity capital of the company at the time of incorporation. The promoter group, Tata Sons Limited

had a total investment in equity of Rs. 31.08 crore and Ewart Investments Limited an amount of Rs. 0.99 crore.

The main activity of business at TISCO is to produce finished steel which includes saleable steel. The product range at TISCO includes rails, fish-plates bars, high/heavy structurals, charge chrome, plates, galvanized billets special steels, bearings, welded/seamless tubes, etc. TISCO's plants are located at various places in the country. Its main plant is located at Jamshedpur in Bihar. The other plants are located at Adityapur and Jojobera in Bihar and Sonadih in Madhya Pradesh. The company's plant at Adityapur produces welded steel tubes, charge chrome, alloy steel ball bearings, and seamless tubes. At Jamshedpur, they produce saleable steel and at Jojobera and Raipur the products produced are ordinary portland cement and portland blast furnace slag cement. The raw material required by the company for the production of various products is sourced from mines, collieries and quarries owned by it in the states of Bihar, Orissa, Madhya Pradesh and Karnataka.

The first pig iron was produced in 1919 at Jamshedpur. The company also produced ferro manganese for the first time in India in 1915. Later a continuous castings plant was commissioned at Adityapur which enabled the company to produce billets from special steels. In 1973, the company's wholly owned subsidiary, West Bokaro was amalgamated with the company. Later on in October 1983, TISCO took over the bearings unit of Metal Box India at Kharagpur and in October 1985 it merged the Indian Tube Company with it.

TISCO accounts for roughly about 15 per cent of the total domestic steel production in the country. Apart from manufacturing steel TISCO has also entered cement production. The present turnover of each major industry segment in which the company operates is as follows:

Product Segment	Rs. in crore	Percentage (%)
Steel and Allied Products	5,084	86.46
Cement	253	4.30
Bearing	102	1.73
Ferro Alloys	441	7.50
Total	5,880	100.00

TISCO's average usage of raw material is about 7 million tonne which include iron ore, cooking coal, limestone, dolomite, magnesite, ferrochrome, refractories, etc. A total of seven collieries and 14 mines and quarries are owned by TISCO to cater to its production needs. The total power requirements is to the tune of 280 MW, out of which 160 MW is sourced through captive capacity and the balance is sourced from Bihar State Electricity Board and Damodar Valley Corporation.

COMPETITION

Immediately after the economic liberalization policies of the government, the industry attracted many new companies. One of the factors responsible for intensifying competition

was the state-of-the-art technology of these new companies. The latest technology of new entrants helped the companies to manufacture better quality products. With the withdrawal of freight equalization scheme, the location of the plant became an important strategic factor. TISCO's experience in locational disadvantage is that it is cheaper to send steel from London to Maharashtra by ship than by rail from Jamshedpur. Many of the new companies located their plants near to their market. It was around this time that the company started showing signs of weakening performance. TISCO experienced the advent of fierce competition from within and outside the country. Public sector companies like Steel Authority of India (SAIL) started consolidating its position in the market. Various other companies in the private sector such as Lloyd's Steel, Essar Gujarat, and Jinal's Ispat became fierce competitors of TISCO.

The management of TISCO started thinking of the future of the company and its dwindling profits. The profits of the first quarter of 1993-94 were put at a mere Rs. 5 crore which was a worrying thing for the company. Almost every industry analyst started thinking about the future of TISCO and its large shareholding fraternity. They had virtually written off the company as the first major casualty of the economic liberalization policies in the country. This was the time when the management at TISCO started thinking in a different perspective. There was a change in the board and J J Irani took over as the Managing Director of the company.

MODERNIZATION PROGRAMME

It was in the late eighties that JRD Tata started a modernization programme at TISCO. The broad strategy of the modernization programme was its implementation in a phased manner. The modernization programmes were intended to increase production capacity and the introduction of modern technologies to improve operating parameters and reduce energy consumption. The company adopted energy efficient continuous casting technology and increased the proportion of higher value added flat products. The company envisaged a capital expenditure programme for achieving the above modernization programme.

The amount spent by the company under the CAPEX programme during the last 5 years is as follows:

<i>Financial Year</i>	<i>Rs. in crore</i>
1991-92	1,330
1992-93	1,445
1993-94	946
1994-95	540
1995-96	519

The main objectives of the CAPEX programme have been:

1. To improve the product mix by increasing the proportion of value-added products.

2. To increase the capacity of saleable steel from 2.7 million tonnes per annum (MTPA) to 3.2.
3. To introduce facilities required for the sustenance of production, replacements, increasing efficiency, etc.

The product-mix of TISCO has been going through a rapid change over the period (Exhibit I). The company's main strategy in this area has been moving away from low margin, high volume products such as semi-finished steel to high margin, low volume products such as flat products which include sheets, coil plates, etc.

The company has been able to produce the lowest cost hot metal. The hot strip mill has been manufactured at the Growth Shop of TISCO located at Adityapur, with technological know-how and supervision from Scholemann-Siemag of Germany. The Growth Shop of TISCO was established in 1969 to cater to internal customers for their requirements of plant and equipment. The company has plans to double the capacity of the hot strip mill.

Apart from the above, in 1993 the company diversified into the manufacture of cement. The company also has the plans to set up the biggest ever steel plant in the country at Gopalpur in Orissa for which an MOU has already been signed with the Government of Orissa and this project is being taken up with the technical consultation help from Nippon Steel Corporation, Japan.

The company's expansion programme at Jamshedpur is in its IV Phase and it is being done with the collaboration of Mannesmann-Demag of Germany. This expansion plan is to increase the production capacity from 2.7 MTPA to 3.2 MTPA by the year 1999. The company has also has plans to set up a Desulphurizing compound project at Jamshedpur, with the collaboration from Skw Metal Chemic, Germany. Commercial production at this plant is supposed to have started in October 1996. All these programmes at TISCO are slated to be completed by the year 2000.

FINANCIAL RESOURCES

As on March 31, 1996, the company has subscribed capital of Rs. 367.23 crore and reserves and surplus of Rs. 3,742.14 crore. Against this, the total borrowings of the company are Rs. 3,842.14 (Exhibit II and III). The company has been increasing its capital in phased manner since 1986. Some of the instruments used by the company to raise capital from the market are described below:

SECURED PREMIUM NOTES (SPNS) WITH DETACHABLE WARRANTS

The company made a public issue of SPNs with detachable warrants to raise Rs. 346.50 crore in 1992. Each SPN was worth Rs. 300 and had a detachable warrant which entitled the holder to subscribe to one share of TISCO at Rs. 80 per share (including premium of Rs. 70 per share)

within one and one and half years from the date of allotment. The detachable warrants helped the company raise additional Rs. 92.40 crore after the stipulated period.

SPN is a type of debt instrument, without a coupon rate. The terms of repaying the principal amount was in four equal annual instalments of Rs. 75 each from 4th year to the end of 7th year together with an equivalent additional amount of Rs. 75 with each instalment, which represented the interest or premium on redemption. The SPN holder had also an option to sell back the SPN at par at the end of the third year.

EURO CONVERTIBLE BONDS

In order to meet the foreign exchange requirement of the company's modernization and expansion programme, the company raised US\$ 100 million by issuing 2.25 per cent Foreign Currency Convertible Bonds during 1993-94. The bondholders have the option of converting the bonds into global depository receipts (GDRs) representing shares at a price of Rs. 291 per GDR (one GDR representing one share of the company) during the period up to March 2, 1999.

NAKED WARRANTS

Over the period the equity stake of the Tata group in TISCO had diluted to 9 per cent. During the year 1994, the company allotted 30 million naked warrants to the Tata Companies against payment of option money of Rs. 36.30 crore. During the year 1996, the Tata Companies converted these warrants into equity shares at a price of Rs. 242 per share. This resulted in an increase of Rs. 30 crore in share capital and of Rs. 696 crore in share premium. The Tata group has intentions of increasing its stake in TISCO further. Tata group chairman, Ratan Tata said in an interview, "We would not protect our holding in TISCO by stopping an expansion of capital. I do not think we will hurt any company in that way. If we wish to increase our holding, it would be by injection of further funds into an expanded capital." (*Business India*, June 3-16, 1996)

TRUST BONDS

The public issue of secured, redeemable non-convertible bonds aggregating Rs. 500 crore comprised of two parts: placement portion and public portion. Under the placement portion, the issue was offered through the syndicate by way of the 'block building process'. The public portion is an offer to the public and is governed by the allotment procedures of stock exchanges. The issue was assigned a credit rating of 'AAA' by the CRISIL. There were three different types of bonds included in the offer, that is, regular income bonds, twin benefit bonds and discount bonds. These bonds also came with the option of exercising the right to early redemption by both the company and the bondholder.

INTERNAL GENERATION OF FUNDS

Internal generation of funds in TISCO has been one important source of funds to finance its growth and capital expenditure requirements. The total funds from internal sources (measured by retained profits plus depreciation) has been more than Rs. 200 crore during each of the last five years. The internal sources contributed about Rs. 700 crore in 1996. This contribution has been possible because of improving productivity of capital employed, better profit margins, and increasing retention of profit of the company. During the last three years, the company's productivity of capital employed and profit margin have shown an increasing trend (Exhibit IV). The retention ratio of the company has also increased during the last five years. The retention of profits which was about 55 per cent in 1990, increased to about 75 per cent in 1996 (Exhibit IV). The company has been paying dividends since inception. The dividend rate of the company has increased from 30 per cent in 1989–90 to 45 per cent in 1995–96.

COMPANY'S CAPITAL STRUCTURE

The total debt capital of TISCO increased significantly during the early 1990s. The debt-equity ratio (measured by total debt to net worth) was highest, that is, 1.54 in 1993. After this period, the debt-equity ratio has shown a declining trend, and has come down to 1.05 in 1996 (Exhibit IV). The company management feels that the existing debt-equity ratio is most favourable and the company will not go for high gearing.

SHARE PRICE PERFORMANCE

The total market capitalization of TISCO stood at about Rs. 6,000 crore in November 1996, thus making it one of the ten largest companies in the country. The company's track record in share market is closely related to the Sensex movement. The monthly returns of TISCO are plotted against the Sensex monthly returns from January 1990 to November 1996 (Exhibit V).

FUTURE REQUIREMENT OF FUNDS

The company's future requirement of funds is expected to be about Rs. 2,000 crore. These funds are necessary in order to finance the expansion requirements of the company. These investments are expected to help the company increase its market share to 20 per cent in domestic steel business.

What are the options available before the company? Will the company be able to sustain the higher growth in sales? Will the company be able to raise sufficient funds at acceptable terms?

DISCUSSION QUESTIONS

1. What are the options available before the company?
2. Will the company be able to sustain the higher growth in sales?
3. Will the company be able to raise sufficient funds at acceptable terms?

NOTE

This case is based on secondary sources of information published in *Business India* (June 3–16, 1996), *Business World* (April 19–May 2, 1995), *Business Today* (July 7–21, 1994), Annual Report (1996), Trust Bond Prospectus (August 1996), Right Issue and SPN Prospects (June 1992), *Business World*, April 19–May 2, 1995.

	1994-95	1995-96	1996-97	1997-98
Cash	101	92	17	104
Intangible Assets	2	2	16	36
Total assets	48	4,616	6,222	7,324
Equity Capital	70	230	442	535
Reserves and Surplus	31	1,315	1,701	1,809
Net Worth	101	1,545	1,988	2,325
Bank Borrowings	38	464	763	500
Long-term Borrowings	0	1	48	22
Debentures	38	419	670	1,172
Fixed Deposits	0	63	119	111
Other Borrowings	0	129	144	159
Total Borrowings	38	2,064	3,064	3,434
Accounts Payables	38	774	974	1,152
Other Provisions	0	148	126	109
Proposed Dividends	0	84	72	105
Total liabilities	76	4,616	6,222	7,324

Exhibit I

TATA IRON & STEEL COMPANY LIMITED

Trends in Sales

(Rupees in crore)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Saleable steel	1,509	1,757	1,949	2,303	2,886	3,673
Welded steel tubes					180	255
Cold rolled strips	23	24	24	25	15	11
Seamless tubes	75	80	79	63	80	94
Carbon & alloy steel bearing	3	2	3	5	3	9
Metallurgical machinery	5	8	5	1	10	45
Ammonium sulphate	2	1	2	2	3	2
Alloy steel ball bearing rings 17	27	24	27	40	48	
Bearings	33	44	50	70	76	102
Steel & scrap (semi-finished)	150	261	512	489	521	482
By products	16	15	20	19	16	22
Others	82	182	70	61	73	82
Agrico products	19	20	23	22	31	36
Ferro manganese	22	48	12	1	0	2
Charge chrome		60	120	158	173	206
Ordinary portland cement				11	39	70
Portland blast furnace slag ceme				0	48	155
Sponge iron/Hot briquetted iron				54	95	57
Sale of raw materials				128	147	274
Coffee, peper, shrimps, etc.				59	25	0
Continuous weld tubes	136	153	156	166		
Other raw materials	54		89			

Exhibit II**TATA IRON & STEEL COMPANY LIMITED****Balance Sheet***(Rupees in crore)*

	1991-92	1992-93	1993-94	1994-95	1995-96
Gross Fixed Assets	4,026	5,463	6,440	6,963	7,408
Net Fixed Assets	2,878	4,107	4,929	5,213	5,394
Investments	249	170	262	221	411
Inventory	798	973	835	865	1,077
Debtors	599	788	1,104	1,313	1,695
Cash	92	177	163	162	507
Intangible Assets	0	6	36	31	168
Total assets	4,616	6,222	7,324	7,806	9,251
Equity Capital	230	278	335	337	367
Reserves and Surplus	1,315	1,708	2,190	2,351	3,375
Net Worth	1,545	1,986	2,525	2,688	3,742
Bank Borrowings	464	763	500	543	950
Long-term Borrowings	989	1,369	1,492	1,425	1,386
Debentures	419	670	1,172	1,202	1,211
Fixed Deposits	63	119	111	112	103
Other Borrowings	129	144	159	300	262
Total Borrowings	2,064	3,064	3,434	3,583	3,912
Accounts Payables	774	974	1,152	1,257	1,204
Other Provisions	148	126	109	165	123
Proposed Dividends	84	72	105	114	270
Total liabilities	4,616	6,222	7,324	7,806	9,251

Exhibit III

TATA IRON & STEEL COMPANY LIMITED

Profit and Loss Account for the
year ending on March 31

(Rupees in crore)
(Rupees in crore)

	1991-92	1992-93	1993-94	1994-95	1995-96
Sales	3,036	3,637	4,038	4,915	6,256
Indirect Taxes	189	273	311	472	620
Net Sales	2,847	3,364	3,727	4,443	5,636
Other Income	151	166	117	123	169
Non-recurring Income	-8	18	18	-12	-145
<i>Total revenue</i>	2,990	3,548	3,862	4,554	5,660
Raw Material	972	1,272	1,428	1,543	1,861
Energy	149	215	275	359	422
Other Manufacturing Expenses	129	91	97	225	255
Wages and Salaries	477	552	591	676	855
Marketing and Distribution	261	306	330	445	545
Other Expenses	383	448	445	448	524
Depreciation	165	215	178	262	298
<i>Total expenses</i>	2,536	3,098	3,343	3,959	4,760
PBIT	454	450	519	595	900
Interest	189	330	338	331	379
PBT	265	120	181	264	521
Tax	64	1	0	0	1
<i>PAT</i>	201	119	181	264	521

Exhibit IV

TATA IRON & STEEL COMPANY LIMITED

Financial Analysis

	1991-92	1992-93	1993-94	1994-95	1995-96
CNT/NS	60.63%	55.80%	54.30%	57.21%	59.49%
OP/CNT	18.04%	33.76%	32.31%	27.80%	27.57%
OP/NS	10.94%	18.84%	17.54%	15.90%	16.40%
PBIT/CNT	26.29%	23.96%	25.64%	23.42%	26.85%
PBIT/NS	15.94%	13.37%	13.92%	13.40%	15.97%
NS/CE	0.79	0.67	0.63	0.71	0.74
PBIT/CE	12.57%	8.91%	8.71%	9.49%	11.76%
CE/NW	2.34	2.54	2.36	2.33	2.05
PBT/PBIT	58.29%	26.70%	34.86%	44.40%	57.90%
PAT/PBT	75.81%	99.17%	100.00%	99.91%	99.90%
PAT/NW	12.98%	6.00%	7.16%	9.82%	13.91%
DIV/PAT	40.16%	54.42%	53.39%	44.78%	30.15%

NS: Net Sales;

CNT: Proxy for Contribution defined as NS - (RM + Energy);

OP: Operating Profit (PBIT + Other Income and other non-recurring income);

CE: Capital Employed defined as Net Worth + Total Borrowings;

NW: Net Worth defined as Paid-up Capital + Reserves and Surplus;

PBIT: Profit Before Interest and Tax;

PBT: Profit Before Tax;

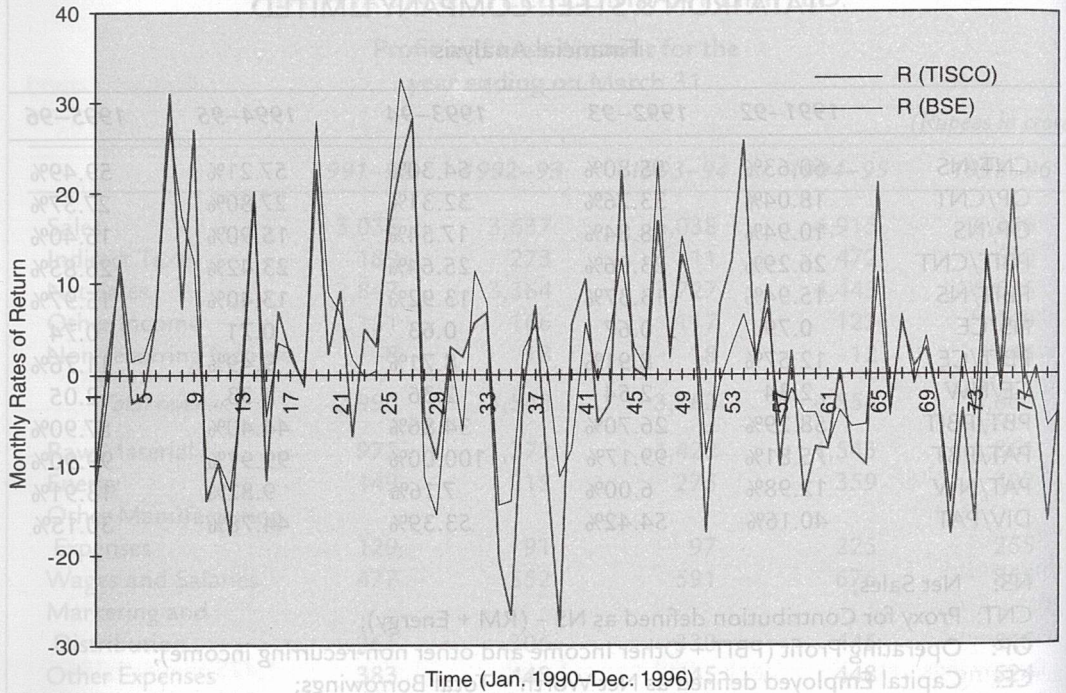
PAT: Profit After Tax;

DIV: Total Dividends;

In the seven years since inception, TPSL had acquired close to 200 blue chip clients, across industry verticals, such as banking, NBFC, asset management, telecom and utilities. A critical success factor common to all these industries is the process payments quickly, efficiently and painlessly. A government-sanctioned framework for processing small payments electronically had existed in the country since the mid-90s, but not quite taken off to the extent expected, primarily due to service issues. TPSL had invested in technology and geographical presence across the country; but flawless execution and consistently high service levels were also equally responsible for its success.

During the last three years, electronic transaction volumes had grown at 31 per cent per annum. The number of physical cheque transactions was still growing in absolute terms, though growth had slowed down to 6 per cent. Electronic transactions now comprise roughly one-fourth of the total transaction base (see Exhibit I). Electronic Clearance System (ECS) Debit transactions in particular had grown more than 100 per cent year-on-year in the same period. In this category of transactions, TPSL enjoyed a 70 per cent market share.

Exhibit V



Total expenses	2,536	3,098		
TIBT	454	450	519	
Interest	181	330	338	
TBT	262	121	181	
Tax	64	1	0	
PAT	101	119	181	264