

Bliss or Curse? - An Evaluative Study of Acquisition of Bhushan Steel by Tisco

Dr. Saroj Vats
Associate Professor
Swami Sahajanand School of Management
Bhavnagar, Gujrat
Email- saroj_vats@yahoo.com

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Abstract:
From national emblem to Kutub Minar's rot iron pillar, there are "N" numbers of examples to show the importance of steel industry in India. The uses of iron and steel are as old as Mahabharata is. Weapons of Indian ancient gods or temples of Dravidian culture, shows Indians were very well aware of uses of iron.

Oligopolistic in nature, Indian steel industry contributes only 2 percent in GDP but it is second largest in world in terms of production and export. Indian steel industry is full of competition as well as wonders. Cost and price of raw material effects a lot in steel industry.

organizational change or cost hike in Europe or tough completion from china, Tata steel did not get a good experience in case of acquisition of Corus It is interesting to see whether this acquisition of Bhushan steels beneficial for Tata or not? This paper tries to get answer through financial leverage testing and Debt equity ratio testing as these two are parameters of financial health of a company.

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Introduction-

Steel is a very important part of any developing country for their infrastructure. Steel is a essential part of any modern economy and it is considered as backbone of human civilization The raw material of steel is very useful in oil & gas industry, engineering industry, automobile industry, transportation industry, transportation and pipes & tubes. So, that is the most important opportunities for the steel industry. As per various study reports about global steel industry the demand for steel decreases in very rare case. China is biggest competitor as they have rapidly growing in steel industry at home. Steel is majorly used in very large construction project. According to global steel industry every mega construction project uses steel nearly about 2 tones. That is the largest application of steel.

India's crude steel output during April 2017 grew by 5.4 % year-on-year to 8.107 MT. India comes on 2nd rank in production and business of steel industry. So we are major exporter of steel products .There are some major investments in Indian steel industry like Jindal stainless limited, JSW steel limited, TATA steel, Arcelor-Mittal SA etc. There are 3 types of steel :

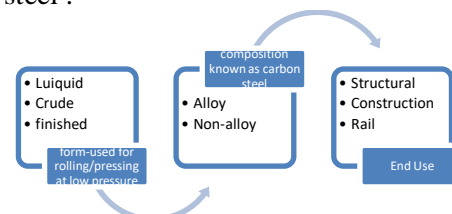


Figure 1- types and uses of steel ,Source- Author's conceptualization

Importance of steel industry:

The steel industry is not leading industry in India. The Steel industry is a major contributor

in economic growth and also helpful in any country's growth because it provides base for the industries like transportation, energy, heavy engineering and construction. In India

2% of GDP comes from contribution of steel industry. It was slowing down but GST came as an angel in disguise as a whole.

12% GST	Mathematics boxes, burners or stoves run by Kerosene, traditional Iron stoves for wood burning, kitchen or household items from sewing needle to kitchen shelves
18% GST	Rails in Railways or in industry for bringing goods, All kind of Tubes & pipes made of iron or steel, Reservoir to store water, multipurpose tanks, casks, drums for storage, multiple usage cans that made of iron or Steel, bridgestructures, lock gates in coastal areas, commercial usages of window, roof or any other like containers for compressed or liquefied gas, sewing & knitting needles, including embroidery needles made Of iron or steel, Barbed wires used for fencing, cables, ropes, made of iron or steel
28% GST	All kind of domestic appliances like Ranges, grates, cookers, barbecues, braziers, gas-rings, hot iron plate using iron or steel, Radiators used as central .Heating system

In 2016 under the economic reforms, the ministry of steel has formulated new national steel policy. It covers all the aspects of steel sector in all over the country which also included environment and facilities for new steel projects. Central government had given more priority domestically manufactured steel & iron products. Indian steel industry is getting

the benefits by adding 15% value to the product by importing the products or raw material from domestically region. In the Indian steel sector 100% FDI through automatic route is been allowed. The basic custom duty was reduce by 10% to 5% on manufacture of bearing of wind operated electricity generator.

SEZs as an initiative to boost steel industry

Developer Under sez	Location Allocated	Product to be prcdcd
Viraj Profiles Ltd	Thane, Maharashtra	engineering products
SAIL Salem SEZ Pvt Ltd	Salem, Tamil Nadu	Steel
Orissa Industrial Infrastructure Corporation	Jaipur, Orissa	Metallurgical in ancillary industry
Tata Steel Special Economic Zone (TSSEZ)	Gopalpur, Odisha	Steel and allied downstream industries

(sources : Indian Brand Equity Foundation)

REVIEW OF LITERATURE

Gupta,(2012), an objective of author behind this particular research was to provide the hypothetical framework of mergers and

acquisition and to look at the M & A as the strategic concepts for the nuptials of corporate sector. Here in this paper author has try to understand the overall concept of mergers and

acquisitions. Mergers and acquisition are different from one another but both can be used as engines of growth.

Dr. VivekSingla (2013), A comparative study of financial performance of sail and Tata steel ltd, mentioned in his paper that efficient management of finance is very significant for the success of an enterprise. The term financial performance is very important. The subject matter of financial performance has been changing very fast. In existing time greater importance is given to financial performance. So, here an attempt is made by me to evaluate the financial performance of the selected units that is steel authority of India and Tata Steel Ltd.

RoohOllah Arab, SeyedSaadatMasoumi and AzadehBarati (2015), mentioned in their study that financial performance of few specifically identified units in Indian steel industry in with inferences of financial ratios such as liquidity, solvency, activity and profitability position have distinguished themselves within the industry . A group companies listed in the stock exchanges in India namely. Top five companies of Indian steel sector were selected for this study. To evaluation the impact of selected variables on the financial performance of identified units in the steel industry.

Dr. Ashish K Desai (2015), in their paper about a comparative financial analysis and study of few particularly selected steel companies which were listed too in different stock exchange in India , these companies compared on the of “ functional ratio” for a period 5 years stating from 2009-10 to 2013-14 to check the statbility. Data analysis of came with interesting results. It was found that these is a statistically significant difference in financial performance of these companies. It has been found from that Tata Steel Company remains at the top position in that era.

Research Objectives -

to find out impact of financial leverage of Bhushan steel over financial leverage of Tata steel

1. To find the co relation of leverages.
2. To check impact of debt equity ratio of Bhushan steel and Tata steel before and after purchase of Bhushan.
3. To find out the Threats and Opportunities for Tata steel after acquisition of Bhushan Steel.

Research methodology-

Market type- Oligopoly

Population-12

Sample size- 2

Sampling Unit- Tata steel and Bhushan Steel

Type of data- secondary and cross transactional

Time period of study-only 3 years. Year 2017 to year 2019.

Test run- Paired T test

Tools for testing-Debt Equity Ratio and financial leverage of Tata steel and Bhushan Steel

Data collection source- moneycontrol.com

Technical software used- SPSS 21

Why Tata and Bhushan as case study?

2017, NCLT declared Bhushan steel as insolvent and the Tribunal has announced the bidding process for the same. The company was having 36,400 crores rupees as debt where as Tata bid for 16,500 crores. Therefore the total fixed finance cost increases too much and the co. Can't make good by increasing its revenue. This makes this an interesting case to go for because Tata-Corus merger was a failure? Will Tata succeed in domestic market?

Research Hypothesis-

First hypothesis-

H₀- There is an impact of Bhushan steel purchase over the financial leverage of Tata steel

H₁- There is no impact of Bhushan steel purchase over the financial leverage of Tata steel

Second Hypothesis-

H₀- There is an impact of Bhushan steel purchase over the D/E ratio of Tata steel

H₁- There is no impact of Bhushan steel purchase over the D/E ratio of Tata steel

Data analysis and hypothesis testing-

Particular	2016-17	2017-18	2018-19
Contribution	12290.41	16542.62	22968.02
--Deprecation	(3541.55)	(3727.46)	(3802.96)
EBIT	8748.86	12815.16	19165.06
--Interest	(2688.55)	(2810.62)	(2823.58)
EBT	6060.31	10004.54	16341.48

Table 1- Source- money control.com and self calculation

Leverage of Tata steel standalone is as follows-

Leverage	2016-17	2017-18	2018-19
Operating	1.4048	1.2909	1.1984
Finical	1.4436	1.2809	1.1728
Combine	2.0279	1.6535	1.4053

Table 2- Source- money control.com and self calculation

Its clearly visible that operating leverage of Tata steel is decreasing year by year so it show a positive impact on cost effectiveness as lower the operating cost , lower the leverage

would be. Where as when we look at the financial leverage, that too is decreasing but we must give benefit of doubt to the company as organizational change is huge for tata steel.

Data analysis for Bhushan steel-

Leverage	2016-17	2017-18	2018-19
Operating	2.2883	4.4722	1.5792
Financial	(0.3177)	(0.09)	(1.9710)
Combine	(0.7276)	(0.4024)	(3.1126)

Table 3 , Source- money control.com and self calculation

The above figures show that leverage of the company is falling year by year. By the end of 2019 it's highly negative. One should not wonder as a company which is being taken over recently is supposed to have highly negative returns. But the good part is, the operating leverage too is reducing. But in the

year of purchase i.e. 2018, the operating leverage was highest which was year of declaration of purchase of Bhushan. Bhushan steel liquidity and solvency condition is not good after the march 2015. They were fighting with cash crunch, which ultimately resulted in to sale of the company.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 TATA FINANCIAL LEVERAGE - BHUSHAN FINANCIAL LEVERAGE	2.092	0.93157	0.53784	-0.22214	4.40614	3.89	2	0.06

Hypothesis testing-

First Hypothesis-

H₀- There is an impact of Bhushan steel purchase over the financial leverage of Tata steel

H₁- There is no impact of Bhushan steel purchase over the financial leverage of Tata steel

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 TATA FINANCIAL LEVERAGE	1.2991	3	.13631	.07870
BHUSHAN FINANCIAL LEVERAGE	-.7929	3	1.02660	.59271

Analysis-

The first hypothesis is accepted as the impact is visible in the above test. The value of 't' is falling within the vertical lines of normal distribution. So the financial leverage of Tata steel is directly affected by purchase of Bhushan steel.

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 TATA FINANCIAL LEVERAGE & BHUSHAN FINANCIAL LEVERAGE	3	.731	.478

Analysis- these a strong positive co relation visible between Tata and Bhushan steel during statistical analysis. If financial leverage of Tata is reducing then Bhushan too is getting effected by the same.

Testing of second Hypothesis-

The second hypothesis is based on ratio analysis as ratios are acid test for overall financial performance of any company.

H₀- There is an impact of Bhushan steel purchase over the D/E ratio of Tata steel

H₁- There is no impact of Bhushan steel purchase over the D/E ratio of Tata steel

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error
TATA D/E RATIO	.5100	2	.14142	.10000
Pair 1 BHUSHAN D/E RATIO	16.8450	2	23.82243	16.84500

Paired Samples Test

	Paired Differences				t	df	Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower				Upper
Pair 1 TATA D/E RATIO - BHUSHAN D/E RATIO	-16.33500	23.96385	16.94500	-231.64164	198.97164	-.964	1	.512

Analysis-

The Null hypothesis is accepted as the impact is visible in the above test. Though value of ‘t’ is negative and it is falling within the vertical lines of normal distribution. So the financial performance of Tata steel in terms of D/E ratio is directly affected by purchase of Bhushan steel.

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 TATA D/E RATIO & BHUSHAN D/E RATIO	2	-1.000	.000

There is a negative co relation is seen between debt equity ratio of Tata and Bhushan steel. Before doing further work,Tata should take note of it. In short run one can ignore it as there are orgnaisational changes going on but in the long run if the same is continued then it will create a big problem for TISCO.

Conclusion-

Tata purchased Bhushan steel due to its plant as it is considered as best plant in India. It has immense production capacity. It will help in competing with China which comes on 1st rank in steel industry. They are selling their product at cheapest price due to high production capacity and low labor cost. In steel industry cost and price of raw material effects a lot. So, it is quite difficult to produce and sell it.Frequency change in government policies. From this study it is found that Tata Steel Company’s financial leverage is deeply affected by purchase of Bhushan steelwhereas

debt equity ratio of Tata is negatively correlated after acquisition of Bhushan steel. It was found in study that; Tata steel company’s long-term return fund is less in due to their investment in Corus. Presently it is favorable as the leverage is under control and still not negative. Being a giant it will take a little time to cover up. And Tata steel is having its coverage not only in international but in domestic market too. But it is presently the ball is court of Tata steel and apparently the game is infavor. Tata should remember lessons learned from deal of Corus, because market is changed from international to domestic but challenges remain the same.

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