**MERGERS & ACQUISITIONS: A STUDY OF GLOBAL STEEL MARKET**

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**ABSTRACT**

*Steel has had a major influence on our lives, the cars we drive, the buildings we work in, the homes in which we live and countless other facets in between. Steel is by far the most important, multi-functional and most adaptable of materials. The development of mankind would have been impossible but for steel. The backbone of developed economies was laid on the strength and inherent uses of steel. Global Steel production grew enormously in the 20th century from a mere 28 million tonnes at the beginning of the century to 781 million tonnes at the end. The steel industry has been witness to some mega deals recently through mergers and acquisitions, with Mittal Steel reaching the pinnacle in steel production across the globe, while others have only been too keen to followed suit. The foremost reason for this strategy is to increase commercial production capacity within the stipulated time period with minimum investment. This paper highlights some of the major mergers and acquisitions in steel industry across the globe in the last 5 years. The objectives of this paper are:*

1. *To study the importance of steel and steel industry*
2. *To study the overview of Global steel Industry and Indian steel industry*

*To study the major M&A deals in steel sector especially Tata Corns and Arcelor Mittal.*

*Key words: Global Steel Industry, Indian Steel Industry, Mergers and acquisitions***.**

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**INTRODUCTION**

Mergers and Acquisitions have become very popular over the years especially during the last two decades owing to rapid changes that have taken place in the business environment. Business firms now are facing increased competition not only from firms within the country but also from international business giants. Thanks to globalization, liberalization, technological changes, etc.

Generally the objective of M&As is wealth maximization of shareholders by seeking gains in terms of synergy, economies of scale, better financial and marketing advantages, diversification and reduced earnings volatility, improved inventory management, increase in domestic market share and also to capture fast growing international markets abroad. But astonishingly, though the number and value of M&As are growing rapidly, the results of the studies on the impact of mergers on the performance from the acquirers' shareholders perspective have been highly disappointing. Making the mergers work successfully is not that easy as here we are not only just putting the two organizations together but also integrating people of two organizations with different cultures, attitudes and mindsets.

Meticulous pre-merger planning including conducting proper due diligence, effective communication during the integration, committed and competent leadership, speed with which the integration plan is integrated all this pave for the success of M&As. While making the merger deals, it is necessary not only to make analysis of the financial aspects of the acquiring firm but also the cultural and people issues of both the concerns for proper post-acquisition integration.

**IMPORTANCE OF STEEL AND STEEL INDUSTRY**

Steel has had a major influence on our lives, the cars we drive, the buildings we work in, the homes in which we live and countless other facets in between. Steel is used in our electricity-power-line towers, natural-gas pipelines, machine tools, military weapons-the list is endless. Steel has also earned a place in our homes in protecting our families, making our lives convenient, its benefits are undoubtedly clear.

Steel is by far the most important, multi-functional and most adaptable of materials. The development of mankind would have been impossible but for steel. The backbone of developed economies was laid on the strength and inherent uses of steel.

Steel is, perhaps the most widely used material in large existing buildings, structures and very important due to its characteristics. A good example is the construction of suspension bridges, where the wires, the trusses and beams that support these are made of steel.

The speed of construction makes it the favourite material for most of the builders, steel demands less time for the completion of a building, and the more quickly it will achieve major profits, also in comparison with concrete buildings, steel is more light, offer much broader space, permits easy made panoramic windows and buildings can be higher.

The volume of steel consumed has been the barometer for measuring development and economic progress. Whether it is construction or industrial goods, steel is the basic raw material. Today steel is the one of the, most common materials in the world and is a major component in buildings, infrastructure, tools, ships, automobiles, machines and appliances.

**GLOBAL STEEL INDUSTRY**

Global Steel production grew enormously in the 20th century from a mere 28 million tonnes at the beginning of the century to 781 million tonnes at the end. That was the period when the steel industry developed in western Europe and USA followed by the Soviet union, Eastern Europe and Japan. However steel consumption in the developed countries has reached a high stable level and growth has tapered off.

After being in the focus in the developed world for more than a century, attention has now shifted to the developing regions. In the west, steel is referred to as sunset industry. In the developing countries, the sun is still rising, for most it is only a dawn.

Towards the end of the last century, growth of steel production was in the developing countries such as China, *Brazil* and India as well as newly developed south Korea. Steel production and consumption grew steadily in china in the initial years but later it picked up momentum and the closing years of the century saw it racing ahead of the rest of the world.

**Global Stainless steel production**

|  |  |  |  |
| --- | --- | --- | --- |
| Region | 2005 | 2006 | 2007 |
| Asia | 12,498 | 15,074 | 16,850 |
| America | 2,688 | 2,951 | 2,850 |
| W.Europe & Africa | 8,795 | 9,971 | 9700 |
| Central & Eastern Europe | 310 | 363 | 400 |
| World Total | 24,292 | 28,358 | 29,800 |

Source: Steel world, Feb 2008

**INDIAN STEEL INDUSTRY**

The Indian Steel industry is regarded as the most important component for the development of nation, because steel industry (heavy industry) is considered as a very important and influential parameter for the development of any modern economy. India was producing only around a million tonnes of steel at the time of its independence in 1947. By 1991, when the economy was opened up steel production grew to around 14 million tonnes. Thereafter it doubled in the next 10 years and then it is doubling again, may be over a slightly longer span.

The economic reforms initiated by the Government since 1991 have added new dimensions to industrial growth in general and steel industry in particular. Licensing requirement for capacity creation has been abolished, except for certain locational restrictions. Steel industry has been removed from the list of industries reserved for the public sector. Automatic approval of foreign equity investment up to 100% is now available. Price and distribution controls have been removed from January, 1992, with a view to make the steel industry efficient and competitive. Restrictions on external trade, both in import and export have been removed. Import duty rates have been reduced drastically. Certain other policy measures such as reduction in import duty of capital goods, convertibility of rupee on trade account, permission to mobilise resources from overseas financial markets and rationalisation of existing tax structure for a period of time have also benefited the Indian Steel Industry.

**Contribution of major companies in world steel production**

|  |  |  |
| --- | --- | --- |
| Rank | Country | World steel(%) |
| 1 | China | 36.0 |
| 2 | US | 9.0 |
| 3 | Japan | 6.7 |
| 4 | South Africa | 4.6 |
| 5 | India | 4.2 |
| 6 | Russia | 3.3 |

**Source: JSW steel AR FY08**

**MERGERS & ACQUISITIONS IN STEEL SECTOR**

The steel industry has been witness to some mega deals recently through mergers and acquisitions, with Mittal Steel reaching the pinnacle in steel production across the globe, while others have only been too keen to followed suit. The foremost reason for this strategy is to increase commercial production capacity within the stipulated time period with minimum investment.

Arcelor accepted India-born L N Mittal group's takeover bid with improved quoting by 10% to 25.9 billion euros ($32.4 billion), thus creating the world's largest steel entity. This acquisition positioned Mittal Steel as the largest steel producer in the world with about 10 per cent of total steel production worldwide.

Tata Steel acquired the 5th largest steel producer of the world, Corus, scoring over Brazil's CSN at $12.2 billion in cash, making it the largest acquisition by an Indian company and the second largest in the industry after Mittal Steel's acquisition of Arcelor.

Essar Global Limited, through its wholly owned subsidiary, Essar Steel Holdings Limited, completed its acquisition of Algoma Steel Inc. The transaction was effected under a statutory plan of arrangement, pursuant to which an indirect subsidiary of Essar Steel Holdings Limited acquired 100 per cent of the outstanding Algoma common shares for cash consideration of $56 per Algoma common share or an aggregate equity value of approximately $1.85 billion.

Jindal Vijayanagar Steel (JVSL) acquired Euro Coke and Energy Pvt. Ltd, Euro Ikon Iron & Steel Pvt. Ltd and JSW Power Ltd (JPL) by way of a merger between the companies.

**Steel consumption Level in India (1991-2009)**

**APPARENT CONSUMPTION OF THE STEEL IN MILLION TONNES**

Table 1.tif

Source**: Indian Ministry of steel (Figures in brackets are showing % growth compared to previous year)**

**ARCELOR -MITTAL DEAL**

In June 2006, creating the world's largest steel company, Mittal Steel and Arcelor reached to an agreement to combine the two companies in a merger of equals. The terms of the transaction were reviewed by the Boards of Arcelor and Mittal Steel which each recommended the transaction to their shareholders. The combined group, domiciled and headquartered in Luxembourg, was named Arcelor Mittal.

The Mittal group was formed when two sister companies in the Mittal family, LNM Holdings and ISP AT International, were merged to form Mittal Steel in 2004 and Arcelor was created through the merger of Arbed (Luxembourg), Aceralia (Spain) and Usinor (France). The three European groups were determined to mobilise their technical, industrial, and commercial resources in order to create a global leader in the steel industry.

The Year 2006 was started with the historic launch of the Mittal Steel offer to the shareholders of Arcelor to create the world's first 100 million tonne plus steel producer. The aim was increasing globalisation and consolidation, which was necessary in the steel industry.

L N Mittal's big dream finally came true. A hot pursuit which started on January 27, 2006 had a happy ending for the world's richest Indian on June 25, 2006. After a much publicised and dramatic five-month long battle, the Arcelor board unanimously accepted Mittal's offer of 40.44 euro per share, which was 26.9 billion euro or $33.6 billion, making Arcelor-Mittal the largest steel company in the world.Mittal had earlier faced severe criticism from Arcelor which termed his bid as hostile. But finally, his higher offer and unrelenting perseverance paid off, establishing his prowess in the steel industry. Lakshmi N Mittal became the president of the new steel giant Arcelor-Mittal. Arcelor-Mittal, the new entity was to be based on the Arcelor industrial model. It was decided that the management board will have 7 members, including four from Arcelor - including CEO Guy Dolle and three nominated members from Mittal Steel.

**TATA – CORUS DEAL**

On January 31, 2007, India based Tata Steel ltd acquired the Anglo Dutch Steel company, Corus group for US $ 13.70 billion. The merged entity, Tata Corus, employed 84000 people across 45 countries in the world. It had the capacity to produce 27 million tons of steel per annum, making it the fifth largest steel producer in the world as of early 2007.Commenting on the acquisition, Ratan Tata, Chairman, Tata & Sons said, "Together we are a balancing company, strategically well placed to compete at the leading edge of a rapidly changing global steel industry".

Tata Steel outbid the Brazilian steelmaker Companhia Siderurgica nacional's (CSN) final offer of 603 pence per share by offering 608 pence per share to acquire Corus.Tata Steel had first offered to pay 455 pence per share of Corus, to close the deal at US $ 7.6 billion on October 17, 2006.CSN then offered 475 pence per share of Corus on November 17, 2006.fmally, an auction was initiated on January 31, 2007 and after nine rounds of bidding, Tata Steel could finally clinch the deal with its final bid 608 pence per share, almost 34 % higher than the first bid of 455 pence per share of Corus. Many analysts and industry experts felt that the acquisition deal was rather expensive for Tata Steel and this move would overvalue the Steel industry world over. Commenting on the deal, sajjan Jindal, Managing Director, jindal South West said, "The price paid is expensive and all steel companies may get rerated now but it's a good deal for the Industry"

On January 31, 2007, Corus shares rose by 6.8 % to 601.5 pence on London stock exchange. However the TATA steel's shares fell by 10.7% to rs 463.95 on the Mumbai stock exchange. Indian investors were really unhappy about the premium that Tata steel had agreed to pay to acquire corus.The acquisition by Tata amounted to a total of 608 pence per share and US $ 12 billion which was paid in cash. The price that they paid represents a very high 49 % premium over the closing mid market share price of Corus on 4th October 2006 and a premium of over 68 % over the average closing market share price over the twelve month period. Moreover since the deal was paid in cash so automatically it became more costly which implied huge cash outflows from Tata Steel.

**ARCELOR MITTAL** VS **TATA CORUS**

Refusing to be drawn into a comparison with global steel tycoon L N Mittal, Tata group chairman Ratan Tata said Corus acquisition was not driven by intention to match the world's largest steelmaker. The combined entity of Tata-Corus will have a tremendous beneficial reach and scale of 24 million tons per annum and many synergies, but the market is not willing to wait for the benefits to come through. Besides, at an EV/EBITDA (enterprise value/earnings before interest, tax and depreciation) of more than 8 times CY06 financials on consensus estimates and a replacement value of $679 per ton , analysts believed that transaction valuation was stretched. In the Mittal Steel-Arcelor deal, the EV/EBITDA was 6.2 times. In terms of EV/ton too, Tata Steel's price, at $700-710 per ton was higher than what Arcelor commanded at $586 per ton. Also, in case of Mittal Steel-Arcelor, the deal involved a share swap along with cash. Tata Steel had to shell out hard cash for Corus. And that means not just more debt on the Tata Steel balance sheet, but also an equity dilution. The company's gearing was low at around 0.26:1, so it was in a position to take on debt of around Rs 8,000 crore, without the debt-equity ratio going for a toss. As for the equity dilution, Tata Steel had issued warrants to Tata Sons in July 2006, Tata Sons was issued 2.7 crore shares of Rs 10 each at a price of Rs 516 per share aggregating Rs 1,393 crore.

The leading steel groups that follow Arcelor Mittal are quite a distance from owning 50 million ton capacities each. In an industry with a capacity of nearly 1.3 billion tons, the ideal scene would be half the capacity being owned by not more than ten groups. Tata Steel's audacious, but successful bid for Corus at an enterprise value of £6.7 million, including debts of £500 million, gives it a capacity of 28 million tonnes, including 8.7 MT of its own. But the immediate stock market reaction to Tata Steel running away with the trophy in a head-to-head bidding with Brazil's CSN was negative, as market participants thought Corus at 608 pence, representing a premium of 153 pence on the opening offer, was an expensive buy. Whether the Tatas are paying an inflated price for Corus remained a subject of debate for some time. Ratan Tata was emphatic that he was not paying anything that is beyond prudence. It may not look so at this point, but the acquisition cost for the Tatas will be justified, as the valuation of steel assets around the world will keep on rising. Coras got sold at 9 times its earnings (EBITDA). Prior to that, Mittal muscled his way into Arcelor by paying 6.2 times the target company's earnings. To put it differently, Corus costs the Tatas $700 for each ton of steel against Mittal's payment of $670 a ton for Arcelor.

**Global Steel Ranking of Arcelor mittal and Tata Corus**

|  |  |
| --- | --- |
| Company | Capacity(in Million tones) |
| Arcelor-Mittal | 110 |
| Nippon steel | 32 |
| Posco | 30.5 |
| JEF steel | 30.0 |
| Tata- Corus | 27.7 |
| Bao steel China | 23.0 |
| US steel | 19 |

Source: International Iron and steel Institute

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