MANAGEMENT **SPEAK**

The Tata Steel group continues on its journey of building long-term value through strategic and sustainable measures at all levels. Focussing on operational excellence is one of the key drivers to this end.

Mr. T.V. Narendran (Managing Director, Tata Steel India & South East Asia), **Dr. Karl-Ulrich Koehler** (Managing Director and Chief Executive Officer, Tata Steel Europe) and **Mr. Koushik Chatterjee** (Group Executive Director, Finance and Corporate) share their views on the strategy and performance in Financial Year 2013-14.

Mr. T. V. Narendran,
Managing Director,
Tata Steel India & South East Asia

Dr. Karl-Ulrich Koehler,
Managing Director & Chief Executive Officer,
Tata Steel Europe

Mr. Koushik Chatterjee,
Group Executive Director
(Finance and Corporate)

Q: What is your assessment of the operating environment in the last financial year and what do you expect in the current year in the various geographies in which Tata Steel operates?

A: The economic environment was a mixed bag in the last year. While the growth weakened in the emerging markets including India, the developed economies witnessed a gradual recovery. Slowdown in construction and infrastructure activities due to fiscal tightening and credit squeeze, degrowth of the automotive sector and delays in the investment spend in the corporate sector hurt steel demand, leading to an almost unchanged consumption compared to the previous year.

The European economy started to gradually improve towards the latter half of the year as the fiscal tightening eased to some extent and economic indicators looked up. The negative steel demand growth in the last two consecutive years turned positive and is expected to continue in the coming years, albeit at a slow pace. However, the overall steel demand remains significantly lower than the pre-GFC prior to 2007-08 and structural overcapacity continues to hurt margins.

The South East Asian operations faced headwinds in terms of import pressure from China and political instability in Thailand. Nevertheless, the construction outlook in the region remains positive. Rebalancing our geographical footprint and restructuring and closure of loss making operations have contributed to the stable performance of these units in the last year.

There is a hope that the Indian economic growth trajectory would see an uptrend post the recent general elections. It is expected that the new government would push for reforms and help restart the investment cycle in India. This should help in supporting steel demand growth with increased infrastructure and consumer spending. The economic indicators in Europe have been improving steadily in the recent past and the steel demand growth has finally turned positive after two consecutive years of decline.

Q: You have achieved good volume growth in all the regions while the overall market demand has been weak. What strategy did you follow to outperform the market?

A: During the last financial year, Tata Steel has outperformed the market in most regions in terms of volume growth. We have been very consistent with our operating and market strategy and that is leading to the consistent growth. Our strategy is domestic focussed in India. We continue to enhance our product quality, work closely with our customers and offer them an array of services rather than just selling products. We remain committed to our customers and maintain a long term relationship. This helps in gaining customer confidence while our commitment to quality of the products and differentiated service helps us get premium over the competitors. Our branding initiative has contributed significantly in differentiating our products from the competition. Making inroads into the SME segment and significant retail presence has helped us sell more volumes directly to the consumers without affecting realisation.

In Europe we have focussed on product innovations with more differentiated products. Our marketing efforts have been redesigned to target customer segments rather than on product categories so that we can focus on the whole product package. In South East Asian operations, we have significantly grown our presence in China where branding has helped and our products find increasing market acceptance.

Q: Financial performance of Tata Steel Europe has improved in the last year. What steps are you taking to enhance the profitability and make the operations self-sustaining?

A: Tata Steel Europe has reported steady performance over the last year on the back of better operating performance especially after the rebuilt of the blast furnace at Port Talbot towards the end of Financial Year 2012-13. We are producing more liquid steel and that is helping in improving our cost base. We recognised the need to differentiate our products versus the competition and we have seen the success of that strategy in the last year. We are working on a range of projects to increase premium steels for our customers in important markets. In the Financial Year 2013-14, we launched 30 new products in the market compared to 14 new launches in Financial Year 2012-13 and we will make further progress this area. We reoriented ourselves to focus on customer segments rather than on product categories and this has helped us in winning new orders. We have renewed our efforts on cost management and efficiency improvement. At the same time, we continue to restructure the operations to make it leaner and fit for a sustainable future.

Q: The mining sector in India has been going through a lot of regulatory scrutiny and changes. How do you see it?

A: For Tata Steel, mining is an integral part of our operating and business process. We have been miners for a century and have one of the largest captive mining operations in the country. Tata Steel has followed an integrated value management process from mining to downstream value-added products and services. We take great care in focussing on sustainable mining that is in compliance with all clearances and in the interest of mineral development and conservation.

In the long-term, if India has to grow competitive steel capacity, it would need captive iron ore requirements to make the steel investments financially viable and sustainable. Therefore, the country's mining regulations need to facilitate growth of steel capacity and take a long-term view of India's competitiveness.

Q: What impact will the on-going decline in raw material prices have on the Group?

A: Both iron ore and coking coal prices have been very volatile in the last year. Coking coal prices have declined throughout the last year with steady supply growth, especially in Australia. Both iron ore and coking coal prices have since rebounded from the bottom levels but given the demand-supply fundamentals, they are not expected to increase significantly from current levels.

Tata Steel India has its own iron ore mines but purchases the entire raw material requirement in Europe and slightly more than half of its coking coal requirement in India from the seaborne market. So, the declining raw material prices definitely help in reducing our manufacturing costs. However, the net benefit of cost decline also depends on the exchange rate movements and the spread between raw material costs and the steel prices. Also there is a lag between the reduction in the prices in the spot market and its effect in the accounts due to the duration of the supply cycle. Overall, the benefit of lower raw material prices should accrue provided the steel prices do not reduce by similar magnitude.

Q: Can you comment on the financial strategy of the company?

A: We are currently implementing our growth strategy in our preferred and more profitable Indian market. The 3 million tonnes per annum brownfield expansion at Jamshedpur is now fully ramped up and we are now targeting to commission the 3 million tonnes per annum first phase of the Odisha Project by the end of the current financial year. So, our capex requirement would remain elevated until then. While the project finance has been tied up, until now we have funded it largely from our internal sources.

We have also kept a close eye on our investment portfolios and have been monetising them opportunistically. Overall, the intention is to keep monitoring the capital structure so that it remains within a comfortable level and reduces overall financing costs. The working capital cycle is being monitored very closely and we are implementing various working capital management programmes across the Group. The free cash flow from operations in India has been very robust and has funded our growth opportunities. Therefore our financing strategy is primarily focussed on our internal cash generations to fund organic capital expenditure while ensuring that there is funding certainty through financing closure of projects.