Management Discussion and Analysis

BUSINESS REVIEW

Business confidence continuously increased through 2003-04, as projections of growth of the Indian economy were progressively scaled up, from 6% at the start of the year to over 8%. India's GDP growth of 8.1% in 2003-04 was the highest achieved in over a decade, and amongst the strongest in the world this year. This growth was spread across all sectors, and is an indicator of the robustness of the Indian economy. The foreign exchange reserves of the country swelled to US$ 112 billion at the end of the fiscal year and are still continuing to rise. The Indian Rupee appreciated by about 8% to the U.S. Dollar in this one year. While this was a matter of concern for exporters, exports in 2003-04 were, nevertheless, higher by 17%. Imports grew by about 25%, and though the trade deficit increased, the year ended with a surplus current account. Inflation in 2003-04 stood at 5.4 % compared to 3.4% in the previous year. Investor confidence in the capital markets revived significantly, with the BSE Sensex remaining over 5,500 at the end of the year. India's economy continues to rely on growth in domestic demand compared to exports, and is a pointer to its resilience to external shocks. This has been a year of overall progress. India will need several years of such robust performance to mature into a developed economy.

The Management's views on the Company's performance and outlook are discussed below.

I. Steel Business Unit

Global Industry Overview

The year 2003 was characterised by several important events across the world. Global crude steel production has grown by 6.8% in 2003. This was also the second consecutive year in which steel consumption increased by over 50 million tonnes. China emerged as the new world leader in steel. Global demand and supply are now strongly influenced by China's actions. The dominance of China is evident from the fact that it's crude steel output grew by 21% in 2003 and this contributed nearly a quarter of the global steel production. Apart from China, steel consumption grew at a rapid pace in several countries in the Middle East, South and South East Asia, Eastern Europe and the CIS. The developed economies of USA, West Europe, and Japan witnessed stable demand, with marginal growth. Though capacity utilisation was high, steel demand exceeded availability. Given the long gestation period of new investments, substantial increase in production is not possible in the short run. The year also saw a steep increase in the prices of important raw materials such as iron ore, steel scrap, sponge iron and coking coal, primarily due to supply shortage. The steep hike in ocean freight rates brought the margins of steel producers under further pressure. Tight supply conditions are expected to continue in the calendar year 2004, though prices may, to some extent, witness correction, depending on the level of steel consumption globally.

Under increasing pressure from its major trading partners, the U.S. has withdrawn the safeguard tariffs under Section 201 in December 2003, after being in force for twenty months. However, the quotas announced earlier have been retained to check excessive imports. While India, which was exempted from its purview, is not directly affected, this will re-open the doors for free exports of steel to the U.S. In the long run, free trade across countries will ensure survival of the efficient and adequate availability of goods and services at optimal prices.

Domestic Industry Overview

Growth in industrial production in 2003-04, at 6.8%, was higher than in the previous year, and this growth was on a larger base. The quarterly growth figures of 2003-04 are higher than the corresponding figures of the previous year, indicating an industrial revival. In a developing economy like India, demand for steel is strongly correlated with growth in industrial production. During the year under review, domestic finished steel production increased by 8%, and apparent consumption of steel increased by about 6.5% over the previous year. Despite the strengthening of the Rupee vis-à-vis the U.S. Dollar, exports of steel witnessed another year of top performance. In the first two quarters of the year under review, the steel industry recorded the highest growth in the manufacturing sector, in terms of sales and profits. Major steel users such as automobiles, capital goods, consumer durables and construction achieved significant growth during the year.

In an environment of increasing global integration, domestic prices of globally traded commodities track global price movements. Firming up of steel prices has been a global phenomenon this year. The domestic steel prices have moved in line with this trend. Yet, the landed prices of imported commercial grade hot rolled coils (HRC), for instance, continue to be above the ruling domestic price. To bring stability to domestic steel prices, the Government reduced import tariff on steel imports. This was effected in two stages, by 5% each in quick succession, from 25% to 20%, and then to 15%. Special additional duty of 4% was also withdrawn. More recently, excise duty on steel products was halved from 16% to 8%. At the same time, DEPB benefits on steel exports have been suspended from 27th March, 2004.

Raw material prices, too, have risen rapidly across the world, with scrap and coke availability reducing significantly. Prices of other inputs, including energy and metallics have also increased continuously. For instance, spot FOB prices of iron ore, scrap and coking coal have more than doubled during the year. Sharp increase in ocean freight rates have increased the landed cost of imported raw materials like coal. This has brought the margins of the domestic steel industry under pressure. The import duty on coking coal with ash content of less than 12% was totally withdrawn. Sustained availability and stability of raw material prices are pre-requisites for smooth operations and stable output prices, for a capital-intensive industry like steel.

Future Outlook

The upbeat outlook for the global economy is indicative of another year of strong steel demand. While China has shown exceptional growth in the recent past, sustaining this momentum may be difficult in the long run. The growth in other developing countries, and stable demand from the large consumers of the developed economy, provide a balance to the expected slowdown in China. In this scenario, global demand and domestic demand for steel are expected to grow at about 6% in the current year. The continuing revival in industrial production, together with the Indian Government's focus on infrastructure improvement would, in our opinion, sustain the steel prices during the current year. Some intermediate correction, however, is possible.

During the current year, Tata Steel proposes to increase the gross saleable steel output to 4.15 million tonnes, despite a planned shut down of 'G' blast furnace for 100 days for upgradation. The proportion of semi finished steel is expected to come down from the current year's level of 5% to 2%. The product mix will be further enriched, with higher volumes of CRCA sheets, CR galvanised sheets and speciality long products.

With the expansion plan already under way, the Company's saleable steel capacity will increase to about 5 million tonnes in 2005-06. Plans are being drawn to further enhance the capacity by another 2.5 million tonnes in Jamshedpur. It is the Company's vision to be a 15 million tonne company by the year 2010. This would be achieved through organic growth and through acquisition of steel capacities, both within and outside the country.

Review of Company's Operations

The Company is currently operating at a level of 4 million tonnes of crude steel per annum. It meets all iron ore requirements, and the bulk of coal requirements internally. This has enabled it to insulate itself from the adverse impact of increase in input costs, in comparison with other global steel makers. It has a dominant domestic market share in its areas of focus. Through continuous modernization and expansion of its production facilities and innovative work in the market place, Tata Steel has focused its product mix to meet the high standards of customers in the automobile, appliance, construction, and engineering segments. The expansion project, to increase steel making capacity by 1 million tonnes per annum at Jamshedpur, is currently underway. This is expected to be completed progressively by 2005-06. With this, the Company will be in a position to manufacture about 5 million tonnes of saleable steel annually. In 2002-03, the Company established a significant position in the wire industry, and in 2003-04, it acquired management control of the Indian Steel & Wire Products Ltd. in Jamshedpur, through the BIFR process. It also acquired the business of Mascons, a wire making company in Sri Lanka, through its 100% subsidiary, Lanka Special Steels Ltd.

To meet the high demand, innovative solutions were deployed to overcome capacity constraints in iron making. These included using oxygen-enriched air blast, higher input of metallics, lower ash coke, and lower alumina sinter in the blast furnaces. These changes enabled the Company overcome operational problems at three of its blast furnaces, and achieve a highest ever hot metal output of 4.47 mil. tonnes. A breakthrough initiative resulted in reduction of ash in clean coal from 17% to 16% at West Bokaro and Jharia. The iron ore production was at a record 8.8 mil. tonnes during the year.

At 4.09 million tonnes, for the first time in the history of the Company, gross production of saleable steel surpassed 4 million tonnes. Gross production of hot rolled coils was higher by 6% at 2.87 mil. tonnes *(2002-03 : 2.71 mil. tonnes)*. Output of CRCA and CR Galvanised improved by 8% and 19% to 0.914 mil. tonnes and 0.439 mil. tonnes respectively *(2002-03: 0.846 mil. tonnes and 0.369 mil. tonnes)*. Among the Long Products, Wire Rod Mill and Merchant Mill had their best years, with production increasing by 8% to 0.401 mil. tonnes *(2002-03 : 0.372 mil. tonnes)* and 10% to 0.294 mil. tonnes *(2002-03 : 0.268 mil. tonnes)* respectively.

Marketing & Sales

Steel sales, at 3.958 mil. tonnes *(2002-03 : 3.905 mil. tonnes)*, recorded an increase of 1%. While export volumes were lower by 7% at 0.609 mil. tonnes, total export revenues moved up further to a new record of Rs. 1,497 crores (2002-03: Rs. 1313 crores), aided by buoyant international steel prices. In equivalent US$, exports were higher by 20% at US$ 328 mil. *(2002-03 : US$ 272 mil.)*. About a third of the steel exports went to India's neighbouring countries and about 30% to China and the Far East. Domestic sales increased by

3% to 3.349 mil. tonnes *(2002-2003 : 3.251 mil. tonnes)*. Out of the total sales of 3.958 mil. tonnes, Flat Products accounted for 70% of the product-mix, the balance being Long Products.

Marketing initiatives, such as customer value management (CVM) and retail value management (RVM), were undertaken to increase the market share in focus segments. The Company generated value-creating ideas, by working jointly through CVM projects, creating significant benefits for customers. RVM has brought about significant retail capability improvement in a majority of channel partners and has enhanced the reach for key branded products. The Company's share has increased significantly in the Original Equipment Manufacturer (OEM) markets like 'auto-direct', 'auto-ancillaries' and 'appliances', and has emerged as the preferred supplier to major companies in the automobile and appliances segment. In the domestic steel market, characterised by commodity behaviour, the company has successfully established brands for steel products – TISCON rebars, TATA SHAKTEE galvanized corrugated sheets, and the recently launched STEELIUM cold rolled sheets. TISCON and TATA SHAKTEE have been positioned as premium products. Turnover of branded products increased by 82% over the previous year and moved up from 14% to 21% of total sales in this period.

In collaboration with Arcelor, the largest steel manufacturer in the world, the Company has started promoting use of galvanised cold rolled steel to automobile and appliance manufacturers in the country. Some of the domestic automobile manufacturers have started using galvanised steel for certain components. In addition, trial orders are in hand for galvanised sheets, for use in export markets. In another development, crash barriers are being made with the Company's steel for the Baroda-Ahmedabad Expressway project.

The Company has followed a philosophy of building strong relationships with its customers in its focus market segments. In line with this, its pricing strategy has focused on long-term contracts with relationship customers. In 2003-04, the Company was amongst the few global steel companies, which entered into long-term contracts and honoured them to the fullest, despite tremendous market upheavals and input cost increases. In an effort to nurture long-term relationships, the Company has assisted its key customers with additional volumes at contracted prices, as far as possible. Approximately 75% of the Company's flat product sales are covered by contracts and the balance 25% sold in the spot market.

II Other Business Units

Production at all other major business units reached record levels during the year. The Ferro Alloys & Minerals Division's operations improved, with an 8% increase in output of both ferro chrome and chrome ore/chrome concentrate. Production of ferro chrome and chrome ore/concentrate increased to 103,514 tonnes *(2002-03 : 95,480 tonnes)* and 1,650,009 tonnes *(2002-03 : 1,522,228)* respectively. The Tubes Division's output increased by 3% to 0.185 mil.tonnes *(2002-03 : 0.179 mil.tonnes)*. The Bearings Division's production was higher by 10% at 22.0 mil. nos. *(2002-03 : 20.0 mil. nos.)*.

Ferro-Alloys & Minerals

Global production of stainless steel increased by 10.4 % to 23 million tonnes in the year 2003. This increase, coupled with a scarcity of stainless steel scrap, fuelled an increase in ferro chrome consumption from 5.0 to 5.5 million tonnes. South African producers raised ferro chrome prices on the back of steep increase in coke cost, freight rates and a rapid appreciation of the Rand vis-a-vis the U.S. $. The company's exports of ferro chrome went up by 45% to 46,154 tonnes *(2002-03 : 31,757 tonnes)*. While China continued to be a major consumer, India's share of exports of chrome ore to China dropped from 76% to 62 % due to export ceiling. The Company's exports of chrome ore and concentrate increased marginally by 2% to 564,687 tonnes *(2002-03: 552,879 tonnes)*.

Domestic sales of ferro chrome increased by 9% to 67,818 tonnes *(2002-03 : 62,399 tonnes)*, enabling the Company to maintain a 34% market share. Domestic sales of chrome ore saw a quantum jump of over 100% to 423,578 tonnes *(2002-03 : 211,228 tonnes)*. Domestic sales of both ferro chrome and chrome ore/concentrate are new records for the company. Total ferro chrome sales were higher by 21% at 113,972 tonnes *(2002-03 : 94,156 tonnes)*. Total sales of chrome ore/concentrate were higher by 29% at 988,265 tonnes *(2002-03 : 764,107 tonnes)*.

During the year, the Division posted the highest ever turnover and profits, mainly due to substantial improvements in operations and higher volume of sales. Strong demand for stainless steel is expected to drive ferro chrome/chrome ore sales in the current year. However, this must be viewed in the context of rising input costs, withdrawal of DEPB scheme and hardening of the Indian Rupee against the U.S. Dollar. Overall, the business outlook for the current year remains positive.

Tubes

The Tubes Division completed 50 years of tube making in 2004. The production of Commercial and Precision tubes, taken together, improved by 3% over the previous year. Sales volume (included in the total steel sales) were higher by 10% at

0.205 mil tonnes *(2002-03 : 0.186 mil. tonnes)*. Precision tubes achieved a 27% growth in sales and export volumes more than tripled at 3,528 tonnes *(2002-03 : 1,078 tonnes)*. Sales of Commercial tubes were converted to cash basis. Similar to the Company's steel business, the Tubes Division has initiated Customer Value and Retail Value Management programmes.

About 75% of the tubes cost is accounted by steel. An increase in input costs, therefore, exerts significant pressure on margins. Due to the steep rise in steel prices, the Tubes industry was compelled to increase its prices. At current price levels, the threat from substitute products like PVC pipes is higher, as these become more competitive in a few technologically acceptable applications.

The Division is already a leader in the industry. It plans to further strengthen its position in the current year, with the advantage of its proximity to the Steel Division. The forecast for the current year is a moderate growth of 3% for Commercial tubes and a more robust 10% for Precision tubes.

Bearings

The organised sector of the domestic bearings industry co-exists with a large unorganised sector. The organised sector has grown by about 10% during the year. The growth could have been more, but for cheaper imports which have captured the lower end of the market.

Major customers of the Bearings Division are in the Automotive and the Engineering industry. A large market exists for Replacement sales as well. Sales volume increased by 21% to 22.88 million nos. *(2002-03 : 18.86 million nos.)*, on the back of improved performance by the Automobile sector. The growth was lower, at 8% in value terms, due to lower realisation arising from fierce competition in the industry. Excess capacity, resulting in severe under-cutting of prices, and the threat of cheap imports, have been the bane of the industry. Several operational improvements were initiated to reduce costs and the Division posted a better profitability over the previous year.

The bearings industry is expected to grow by 10% in the current year, with the auto sector providing the impetus. However, the division will have to contend with challenges in the form of excess capacity, cheap imports and rising input cost of steel.

INTERNAL CONTROLS & SYSTEMS

The Company has proper and adequate system of internal controls commensurate with its size and nature of operations to provide reasonable assurance that all assets are safeguarded, transactions are authorised, recorded and reported properly and applicable statutes, the Tata code of Conduct and corporate policies are duly complied with.

The Corporate Audit Division continuously reviews the adequacy and efficacy of the internal controls. The scope of the audit activity is broadly guided by the annual audit plan developed by the Corporate Audit and approved by the Audit Committee and the Managing Director.

The Company has an Audit Committee which comprises three non-executive Directors: Mr. P.K. Kaul - Chairman, Mr. S.M. Palia and Mr. Ishaat Hussain - Members. The Committee meets regularly to review the reports submitted by the Corporate Audit Division. The audit observations are followed up for implementation of corrective actions. The Committee also meets the Company's statutory auditors to ascertain their views on the adequacy of the internal control systems in the Company and their observations on the financial reports. The Audit Committee's observations are acted upon by the Management.

RISK MANAGEMENT

Risk is inherent in business activity, particularly in the steel industry. The Company has processes in place to identify warning signals at an early stage to hedge itself against potential threats. On the other hand, these processes enable early recognition of opportunities emerging in the business environment.

The steel industry displays strong commodity characteristics and is subject to cyclical price movements in business cycles. The Company has sought to mitigate the impact of this commodity characteristic of the steel industry in its focus markets and it has achieved some measure of success in this endeavour. An increasing volume of the Company's products are marketed as brand, including the popular TISCON rebars, Tata Pipes, Tata Bearings, Tata Shaktee and Tata Steelium. These branded products command a premium over non-branded products in the market and the turnover of these products has almost doubled in the past one year. A key feature of the marketing strategy has been the development of strong relationships with key customers, through customer value management programmes, and long-term pricing contracts. On the production front, the development of value added products has significantly enriched the product mix, which is relatively less susceptible to price cycles. The Company follows prudent financial norms and practices. It is the considered opinion of the Management that it has taken all possible steps to maintain and enhance the competitive position of the Company.

Contingent Liabilities

Details of contingent liabilities are given in Schedule M of the Notes on Balance Sheet and Profit and Loss Account.

Statutory Compliance

On obtaining confirmation from the various units of the Company of having complied with all the statutory requirements, a declaration regarding compliance with the provisions of the various statutes is made by the Managing Director at each Board Meeting. The Company Secretary, as Compliance Officer, ensures compliance with the SEBI regulations and provisions of the Listing Agreements. The Chief Financial Officer, as the Compliance Officer for prevention of insider trading, ensures compliance with the Tata guidelines on Insider Trading, which are more stringent than the SEBI guidelines.

ENVIRONMENT MANAGEMENT

The Company's efforts at continual improvement of its environment is well recognised. Apart from the Main Works at Jamshedpur, Jamshedpur Town Division, the Ferro Alloys Plant, Tubes Division, Bearings Division, West Bokaro and Jharia Collieries, Noamundi & Joda East Iron Mines and Sukinda Chromite Mines have all been certified to the requirement of International Standard ISO-14001.

Some of the important achievements during the year in improvement of environment and resource conservation include a reduction in greenhouse gas emissions by 2%, raw material consumption by 5%, water consumption by 4% and increased waste reuse and recycling from 79% in the previous year to 82%.

Over the years, the Company has been attempting to bring down the use of water in the process of steel making. Today, the plant uses much less water for every tonne of steel produced against that used a decade ago. The Company does not use any ground water source for industrial or domestic use at Jamshedpur. Its increased emphasis on water recirculation in all process units has contributed to considerable reduction in specific water consumption. The quality of potable water supplied by the Company, which caters to the requirements of the entire city of Jamshedpur, meets all international norms and parameters. The Company has entered into an agreement with a world water management expert to take care of its water supply and sewage treatment plant, as well as to suggest ways to conserve water.

Jamshedpur has become the first Asian city to join a select band of six global cities that will be a part of the United Nation's Global Compact Cities Programme. Under the programme, each of these cities will be required to join hands with a neutral partner and conduct a pilot socio economic project using a standardised UN model. The Global Compact Cities Programme has two objectives: to mainstream nine guiding business principles and catalyse actions in support of UN goals.

Having espoused the philosophy of sustainable development, the Company's operations are now inextricably interlinked with the progress of the enterprise, the welfare of the people and the health of the environment.

INDUSTRIAL RELATIONS & HUMAN RESOURCE MANAGEMENT

The Company celebrated seventy five years of industrial harmony in the month of February 2004. The president of India, His Excellency, Dr. A.P.J. Abdul Kalam, the Governors of Jharkhand and West Bengal and the Chief Minister of Jharkhand, graced the occasion. The Company is proud of this record and the Board of Directors and the Management of the Company wish to place on record its appreciation to all employees for making this possible. During the year, the long pending issue of wage arrears was amicably resolved. Under a Memorandum of Settlement with the Tata Workers' Union and the Collieries' Unions, a one-time lump sum payment of arrears has been agreed, without any contingent liability to the Company.

Further rationalisation of the labour force during the year resulted in a reduction in the men on rolls from 43,248 at the end of the previous year to 41,211 as on 31st March, 2004.

AWARDS AND RECOGNITIONS

Among the important awards/recognitions received during the year were:

— Ranked second in Leadership Development among companies in Asia Pacific in a study conducted by Hewitt Associates.

— Received the TERI Award for Corporate Social Responsibility 2002-03 in recognition of Corporate Leadership for good Corporate Citizenship and Sustainable Initiatives.

— Asia's Most Admired Knowledge Enterprise (MAKE) Award 2003.

— Global Business Coalition Award for Excellence in the community for HIV / AIDS.

— Ranked as the sixth best employer in India 2003 by M/s Hewitt Associates.

— Best IT user in manufacturing sector by Nasscom and Economic Times.

— Received a Certificate of Appreciation for Excellence in Cost Reduction 2003, at the Cost reduction programme organised by the Institute of Costs and Accounts, India.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/ supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.