Management Discussion and Analysis

BUSINESS REVIEW

The Company's performance during the year ended 31st March, 2003 and the Management's views on future outlook are discussed below.

I. Steel Business Unit

The calendar year 2002 was characterised by a recovery in steel demand in the international markets, particularly with the increased consumption in China and the rest of Asia. Consequently, there was a significant increase in steel prices. At the same time, quantitative restrictions and/or additional tariffs on steel imports were introduced by the U.S. and a few other countries, in an effort to protect their domestic steel industries. The world steel community is now engaged in discussions to bring about a better balance between demand and supply, by eliminating inefficient capacities around the world.

The steel market had a marked turnaround during the year. World crude steel production of 65 countries, constituting about 98% of the global steel production, showed an increase of over 6% at 887 mil. tonnes in Calendar Year 2002, compared to 834 mil. tonnes in 2001. Amongst the major steel producing nations, China outpaced the rest with an increase of 20%. Steel consumption is estimated to have risen from 780 mil. tonnes in 2001 to 829 mil. tonnes in 2002.

The strong Chinese demand as well as the regional imbalances arising from import restrictions provided an impetus for the strong run-up in international steel prices, despite increased global production. The prices of commercial quality, commonly traded, hot rolled coils rose by about 40% in Europe, from the low levels at the end of the previous financial year. The steel cycles are becoming increasingly sharp and unpredictable. While, last year, a better year for the industry had been projected, the dramatic turnaround in steel prices that was actually witnessed surpassed the expectations of the entire industry.

China is expected to continue to dominate the global steel trade. It has emerged as the single most important market, and its ability to sustain its rapid growth will have a fundamental impact on the global supply of steel and prices. The International Iron & Steel Institute (IISI) is cautiously optimistic that the world consumption of steel will grow by 4.6% in 2003. The international community will also watch with keen interest the ongoing efforts to shut down inefficient capacities in various countries.

India, last year, had one of its worst droughts of the past two decades, as the monsoon failed after several years. However, to the credit of the economy, it showed great resilience in withstanding this shock and did not permit this natural calamity to adversely affect the other sectors of the economy. Had it not been for the shrinkage in agricultural output, the economy would have seen one of its best performances in recent years. The GDP is estimated to have grown at about 5.1%, as compared to 5.6% in the previous year, pulled down by a sharp contraction in the Agriculture sector, which registered a negative growth of 1% as compared to a healthy growth rate of 5.7% in the previous year. The Manufacturing and Services sectors recovered smartly from last year's recession. Industrial production grew by 5.7% compared to 2.7% in the previous year.

The Indian steel industry was driven by a significant pick-up in most user segments. The capital goods segment, which had actually contracted in the previous year, grew significantly. The automobile industry too displayed strength, doubling its growth rate. Consumer durables were, however, adversely impacted due to a fall in rural disposable incomes. While Manufacturing and Services did well, the exception was Agriculture, which tends to have a knock-on effect on the industrial sector. The recovery of global markets rubbed off on domestic demand and prices firmed up, particularly for flats. The increase in prices was sustained right through the year, albeit from the very low base of the previous year. Trade actions by several countries distorted the market equilibrium and resulted in the peculiar phenomenon of their domestic prices being substantially higher than the international prices. Indian steel exports are estimated to have risen by 35% over the previous year, with the U.S. and China being the primary markets. Exports of hot rolled coils from India to the U.S. were adversely affected by continuing anti-dumping duties. However, shipments of CR galvanised, which were outside the purview of punitive actions, surged as the exporters found a ready and lucrative market in the U.S.

With most of the end user segments showing improved growth, demand for steel picked up during the year. Domestic production was higher by 8% at 28.9 mil. tonnes *(2001-02: 26.7 mil. tonnes)*. Apparent domestic consumption rose by 6% during the year at 26.8 mil. tonnes *(2001-02: 25.3 mil. tonnes)*. Flat and Long products are estimated to have grown by 6.5% and 5.6% respectively.

Several factors have reinforced the Company's belief that the domestic steel industry holds promise, in the near to mid term. The Reserve Bank of India has projected a growth in GDP of 6% during the current year. The recent budget proposals of the Government of India to include 48 new road projects with a total length of over 10,000 kms under the National Highway

Development Project (NHDP), the development of JNPT and Cochin ports as well as the Delhi and Mumbai Airports to international standards, the development of a railway network for the Golden Quadrilateral, and the grant of infrastructure status to mass housing projects, augur well for demand for steel in the next 4-5 years. Alongside a steep decline in the cost of capital, the better demand environment is expected to provide a favourable backdrop for higher levels of investment.

In the course of achieving its best ever financial results, new records were set by the Company in several areas. Iron production was higher by 10% at 4.44 mil. tonnes and crude steel output crossed 4 mil. tonnes for the first time in the history of the Company. Gross production of saleable steel was higher by 8% at 3.94 mil. tonnes over the previous year's 3.64 mil. tonnes. All the Finishing Mills, viz. Wire Rod Mill, Merchant Mill, Hot Strip Mill and the Cold Rolling Mill substantially improved their performances. In particular, CRM production was higher by 52% at 1.11 mil. tonnes *(2001-02: 0.73 mil. tonnes)*. The Unit reached its rated capacity in Sept. 2002 and since then has been producing in excess of its capacity. The Hot Strip Mill, which has been operating at higher than its rated capacity for some time now, increased production by 12% at 2.71 mil. tonnes *(2001-02: 2.43 mil. tonnes)*. Records were established in the production of hot metal, crude steel, as well as at the mines and collieries.

The Company's total steel sales rose by 10.5% to 3.905 mil. tonnes *(2001-02: 3.533 mil. tonnes)*. Due to an 83% increase in export volumes, domestic sales were higher by only 2% at 3.251 mil. tonnes *(2001-2002: 3.175 mil. tonnes)*. Increased market shares were achieved in the Automobiles sector (OEMs at 33%, and Ancillaries at 29%) and Appliances sector (13%) as well as in products such as GC Sheets (18%), Tiscon rebars (5%), High Carbon Wire Rods (45%), and Low Carbon Wire Rods (33%). Sales of branded steel (long and flat products), where the Company realises a premium over the market price, increased by about 33% over the previous year. In addition to Tata Tiscon and Tata Shaktee, the Company introduced a new branded product for CR steel styled as 'Tata Steelium' in the month of February 2003. Market share of CRCA coils and CR Galvanised have increased to 34% *(2001-02: 21%)* and 21% *(2001-02: 12%)* respectively. With substantial step up of Hot rolled coils, value-added CR and Coated products, exports turnover more than doubled to an all time record of Rs.1313 crores *(2001-02: Rs. 581 crores)*. In equivalent US$, exports were higher by 125% at US$ 272 mil. *(2001-02: US$ 121 mil.)*.

The Company closed its 45-year old Bar Mill, with effect from 31st March, 2003. The Mill was manufacturing light and medium steel structurals and forging quality steels, using the ingot casting route, which has now become obsolete and uncompetitive. With the closure of this Mill, the Company will change over to 100% continuous casting from the current year.

II. Non-Steel Business Units

Production at all major non-steel business units improved over the previous year. The Tubes Division's output increased by 3% to 0.179 mil.tonnes *(2001-02: 0.174 mil.tonnes)*. The Bearings Division's production was better by 14% at 20.1 mil. nos. (2001-02: 17.6 mil. nos.). After a rather lacklustre previous year, ferro-chrome output increased substantially by 46% to 95,129 tonnes *(2001-02: 64,976 tonnes)*. Production of chrome ore/concentrate and pyroxenite almost doubled to 1,917,001 tonnes *(2001-02: 990,130 tonnes)*. Conversion of chrome ore to ferro chrome was more than doubled to take advantage of the rising domestic market.

Tubes

The combined production of Commercial and Precision tubes improved by 3% over the previous year. Capacity utilisation of these units continued to be above 90%, as compared to an industry average of 50-55%.

The industry was able to increase prices following the steep increase in HR/CR steel prices. However, the entire increase in input costs could not be passed on to customers due to intense competition and the continuing excess capacity in the industry. Emphasis was, therefore, given to the development of new products and markets.

Sales of the Company's Tubes products (included in the total steel sales) were 0.186 mil. tonnes *(2001-02: 0.181 mil. tonnes)*. Exports at 1,078 tonnes *(2001-02: 218 tonnes)*, continued at a token level, to maintain a presence in the international market. Sales of new products and to new markets contributed 5% and 13% respectively of the revenues of Commercial and Precision tubes. The Tubes business also earned 12% of its revenues through sustained campaigns in the rural markets, which are seen as a growth area for the future. The industry is hopeful of a modest 3% growth in the Commercial tubes business in the current year, while the Precision tubes business is expected to grow at about 9%.

Bearings

The organised sector of the domestic bearings industry is estimated to have grown by 12% during the year under review, while it remained stagnant in the previous year. However, due to lower prices, the growth was only about 8% in value terms. Over-capacity in the industry and cheaper imports of bearings from China and East European Countries continued to exert pressure on prices. The growth was largely driven by the improved performance of the two wheeler industry, particularly the motorcycle segment. The other user segments more or less stagnated at the previous year's levels.

The Bearings Business Unit caters to the Automotive, Engineering and Trade segments. The focus was on the automotive industry in general and two/three wheelers in particular. Production of bearings by the Company increased by 14% to 20.0 million nos. *(2001-02: 17.6 mil.nos.)*. While sales volumes were higher by 12% at 18.9 mil. nos. *(2001-2002: 16.9 mil. nos.)*, revenues grew by only 2% due to reduced realisations on account of intense competition. The adverse impact of lower prices was mitigated to some extent, through improvement initiatives in operations, which brought down the cost of bearings by about 9% during the year. To improve the market spread, 11 new symbols were developed. The range of taper roller bearings will be further increased in the current year.

During the year, the Unit obtained 'Environment Management Certification' ISO 14001. It was conferred a 'Performance Excellence Award' by one of its important clients, M/s MICO, Bangalore, for the years 2001 and 2002. The Unit also received an award for quality from M/s. Toyota Kirloskar Motors Ltd.

The bearings industry is expected to grow by 5-6% in 2003-04. Excess capacity and cheaper imports will, however, remain a threat to the industry.

Ferro-Alloys

Global production of stainless steel increased by 4.5% to 18.74 million tonnes in the year 2002. This increase, coupled with a scarcity of stainless steel scrap, fuelled an increase in ferro chrome consumption from 3.7 to 4.1 million tonnes. According to industry forecasts, stainless steel production and ferro chrome demand are expected to increase to 30 million and 7.5 million tonnes respectively, by 2010, with South Africa remaining the dominant supplier.

International prices of ferro chrome dropped to a historic low in the year under review but recovered some ground in the last quarter. The low prices resulted in China starting the import of ferro chrome from neighbouring Kazhakhstan for the first time. Consequently, chrome ore prices dropped to their lowest ever. However, India managed to maintain its market share of 74% in China's chrome ore/ concentrate market, and the Company retained its number one position by increasing its market share to 33% from 27% in the previous year. With increasing acceptance of the Company's chrome concentrate in Japan, and new market development initiatives in South Africa and Europe, exports of chrome ore and concentrate touched a record at 552,879 tonnes *(2001-02 : 422,798 tonnes)*, with the Company's global market share increasing to 13% from 11% in the previous year.

On the domestic front, prices of ferro chrome were more attractive. A record domestic sale of ferro chrome of 62,399 tonnes confirmed the Company's status as the market leader, with a market share of 34% (up from 32% in 2001-02). Domestic sales of chrome ore also scaled new heights at 211,228 tonnes. With sustained cost reduction to counter the price downturn and increased volumes, all production units set new records. The ferro chrome plant at Bamnipal reached 100% capacity utilisation for the first time, with production reaching 50,606 tonnes *(2001-02: 44,059 tonnes)*. The Ferro Alloys Plant at Joda produced 42,350 tonnes of ferro manganese, an increase of 33% over the previous year. The Sukinda chromite mine surpassed the 1 million tonne mark.

Domestic sales of chrome ore were higher by 19%, while exports of chrome ore/concentrate increased by 31%. Total sales of chrome ore/ concentrate were higher at 764,107 tonnes *(2001-02: 600,378 tonnes)*. Domestic Ferro Chrome sales were higher by 39%, while exports were lower by 6%. Domestic sales were maximised in view of more remunerative prices as compared to exports. Total ferro chrome sales were higher by 20% at 94,156 tonnes *(2001-02 : 78,598 tonnes)*.

Excluding the year ending 31st March, 1996 when ferro chrome prices exceeded 80 cents/ lb cif, the Division achieved its highest ever profits during the year, despite the average ferro chrome prices being about 30 cents/ lb. This was possible mainly on account of substantial cost reduction efforts through improvement in operations and higher volumes of sales.

INTERNAL CONTROLS & SYSTEMS

The Company has adequate internal control procedures commensurate with its size and nature of business. These internal policies ensure efficient use and protection of assets and resources, compliance with policies, statutes, the Tata code of conduct, and reliability as well as promptness of financial and operational reports.

The internal control system provides for well documented policies, guidelines, authorisations and approval procedures. The Company has a full-fledged Internal Audit Division, which carries out audits extensively throughout the year. The Corporate Audit Charter released during the year emphasises the commitment of the Management to foster an environment of good corporate governance within the organisation.

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 regularly reviews the significant observations of Internal Audit. The Committee also meets the Company's statutory auditors to ascertain their observations on Financial Reports and control concerns. The Audit Committee's observations are acted upon by the Management.

RISK MANAGEMENT

Industry & Market

The steel industry witnesses cyclical price movements. The fortunes of the industry move up and down in line with the market trend of prices. This phenomenon has become more uncertain and unpredictable with increased integration of the domestic and global markets. Further, excess steel capacity available in the country necessitates increased dependence on exports.

While the industry has learnt to cope with the business cycle, it has also learnt to be less dependent on increases in prices for better profitability. This is particularly evident in the case of the Company which, despite one of the worst price scenarios during the previous year, managed to be modestly profitable even while much of the domestic industry was in the red. Besides cost cutting initiatives and enriching the product mix, the Company has strengthened its channel marketing and endeavoured to widen the market base through rural marketing programmes. The share of branded steel products has increased from 9% in the previous year to 12%. A new brand styled as 'Tata Steelium' was launched for CR sheets. This is in addition to the existing brands 'Tata Tiscon' (rebars) and 'Tata Shaktee' (GC Sheets). The Company believes that there is a vast potential for steel consumption in the rural housing sector. Accordingly, prototype homes have been built, which are cheaper than conventional brick and mortar houses, and take much less time to build.

Problems of overcapacity continue in the Tubes and Bearings markets. The Company is endeavouring to develop new products and improve on operating costs to remain competitive.

Power remains an important element of cost in the Ferro Chrome business, accounting for almost half of the production cost. Power costs in India are expected to remain high in the near to medium future. It is in this context that the Company has decided to set up a high carbon ferro chrome plant in South Africa to take advantage of the substantially lower cost of power and also be in closer proximity to its target markets.

Technology

With the completion of a series of modernisation programmes and regular replacement of obsolete equipment, the Company's Jamshedpur plant is one of the most modern plants in the World. One area that would need attention is the replacement of the older blast furnaces. Nevertheless, the Management does not perceive technology/ equipment obsolescence as a problem in the near to medium term.

Financial

The year under review has turned out to be the most profitable in the history of the Company. Even under the most trying circumstances, the Company has demonstrated its resilience to remain profitable, as evident from the previous year's performance. The results of the year ended 31st March, 2003 have considerably strengthened the Company's Balance Sheet.

During the current year, it is proposed to reduce the debt further by prepayment of some of the existing loans, a large part being foreign currency loans. This is expected to bring down the interest burden and foreign currency exposure further during the year. At the same time, exports were given a big push. If conditions in the international markets are favourable, the momentum will be maintained.

The debt - equity ratio of the Company was better at 1.05:1 as compared to 1.22:1 in the previous year, and is expected to improve during the current year.

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.

ENVIRONMENT MANAGEMENT

The Town Division of the Company has been certified, in October 2002, by IRQS to be conforming to EMS (ISO – 14001:1996) standards. With this, Jamshedpur has become the first and only town in the country where civic amenities and town services are provided by a Private Company, to be certified to this international standard.

The Company has been included in the top 100 companies worldwide by Sustainability International, a London based organisation which conducts research on sustainability issues on a global basis. While the reports of the developing economies do not feature strongly on this list, a notable exception has been the report of the Company, which was shaped heavily by the Global Reporting Initiative (GRI) Guidelines. The other entities covered by the GRI are from the developed world.

A note on the Company's efforts to comply with the Global Compact principles is included in the Annual Report.

The Company believes in going beyond mere compliance with applicable legislation, to create a healthy environment both within and outside the Works. The Company's main Steel Works at Jamshedpur, Tubes Division, Bearings Division, Ferro Alloys Plant, Jamshedpur Town Division, Noamundi and Joda East Iron Mines, West Bokaro and Jharia Collieries and Sukinda Chromite Mines are certified for compliance to the requirements of International Standard ISO – 14001.

Specific measures taken during the year to improve the environment and conserve scarce resources include reductions in greenhouse gas emissions by 2%, specific energy consumption by 3.9%, raw material consumption by 3.5%, water consumption by 1.6%, and increased utilisation of waste from 72.6% to 79%. In addition, air quality underwent further improvement, with lower levels of suspended particulate matter, sulphur dioxide and oxides of nitrogen.

The challenges ahead lie in closer and better integration of financial performance with the achievement of the Company's social objectives including better environment management.

INDUSTRIAL RELATIONS & HUMAN RESOURCE MANAGEMENT

The continuing right sizing efforts of the Company resulted in a reduction in the men on rolls from 46,234 at the end of the previous year to 43,248 as on 31st March, 2003. During the year, 2,031 employees separated under the employees' separation scheme. A new bonus agreement was signed covering the Company's unionised employees, which ascribes a higher weight to financial performance. Industrial relations remained cordial during the year. The Management acknowledges the contribution of all employees in achieving the record performance.

RECOGNITION BY WORLD STEEL DYNAMICS

The Management is pleased to announce that World Steel Dynamics, in its recent assessment, has rated the Company as the third most competitive steel plant in the world for the year 2002, behind Posco, South Korea and BaoSteel, China.

AWARDS

The Company won the Prime Minister's Trophy for the Best Integrated Steel Plant for the year 2000-2001. This is the fourth time, and the third year in succession, that the award has been conferred on the Company. Other important awards won by the Company during the year under review include the Golden Peacock Award for 2002 for excellence in Corporate Governance and Corporate Social Responsibility in the private sector category; and the Best Company Trophy in 15th Workskills National Competition organised by CII in December 2002.

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.