

# Bloomberg News

---

## Ratan Tata's British Steel Ambitions Cost Investors \$1 Billion

By Debarati Roy

Ratan Tata's \$12 billion victory in the Corus Group Plc auction has cost his investors \$1 billion in market value.

Shares of Tata Steel Ltd. have slumped 11% since October 5, when the Mumbai-based company said Chairman Ratan Tata might make an offer for Corus. The stock of Arcelor Mittal, the world's largest steelmaker, rose 35% in the period, and US Steel Corp. gained 44% to a record.

Tata beat Brazil's Cia. Siderurgica Nacional SA in the bidding yesterday for Corus, with an offer of 608 pence (\$11.94) a share, 34% more than an original offer. The chairman is already defending his strategy for buying the U.K.'s biggest steelmaker.

"With due respect to analysts, I think they are taking a short-term view," Tata, 69, said at a press conference yesterday in Mumbai. "Looking back in time, we hope that people will see this as a prudent investment."

Tata will add finishing mills in Europe that supply Ford Motor Co. and Volvo AB to plants in India, a country with the world's fifth-biggest iron-ore reserves. The combined company will have annual sales of \$24.4 billion, with two-thirds of the revenue coming from Europe.

The acquisition is the industry's second biggest, behind Mittal Steel Co.'s \$38.3 billion takeover of Arcelor SA of Luxembourg last year.

The offer is nine times Corus's earnings before interest, taxes, depreciation and amortization, or Ebitda, based on results for the 12 months ended September 30. Mittal, based in Rotterdam, paid 4.46 times the earnings of Arcelor. Tata shares fell almost 11% to 463.95 rupees yesterday in Mumbai, their biggest drop in eight months.

### 'DEBT BURDEN'

**"This deal will significantly elevate the debt burden at Tata and that means free cash-flows will go to the holders of debt, rather than to the shareholders," Jon Thorn, who manages \$250 million in Indian stocks at the India Capital Fund, said by phone from Hong Kong. "Hence the disappointment."**

Tata's Corus bet may take time to pay off. It took five years for Corus to earn a profit after it was created by the combination of British Steel Plc and the Netherlands' Royal Hoogovens NV.

Corus shares fell by more than 50% in five years before Mittal's bid for Arcelor last year renewed investor interest in steelmakers globally.

Corus Chief Executive Officer Philippe Varin, who took over in 2003, has pushed through plant closures and job cuts.

"Corus is not one of the lowest-cost producers in the world. It started making profits only in 2004, when the steel cycle turned up decisively," said Bijal Shah, an analyst at Brics Securities Pvt. in Mumbai. "We don't expect any immediate realization of synergies between these two companies."

### PRICES SURGE

Prices of hot-rolled coil, a steel industry benchmark, fell to a 20-year low in 2001. They've almost tripled since then.

Prices surged 60% in 2004, helping Corus return to profit.

Tata Steel Managing Director B. Muthuraman said the Corus purchase will help cut costs at the merged company by \$350 million a year.

"The price won't affect our ability to complete announced projects, pay dividends and service loans," Muthuraman said in an interview. "Investors are overreacting."

Corus's board has backed Tata's offer, the U.K. company said in a regulatory filing. Shares of Corus jumped 6.8% to 601.5 pence on the London Stock Exchange. The stock has risen 48% since Tata said it was considering a deal.

### FAMILY BUSINESS

Ratan Tata joined the family business in 1962, soon after he graduated with a degree in architecture and structural engineering from Cornell University in Ithaca, New York. He became the group's chairman in 1991.

The Tata group was founded by Jamsetji Tata, who started a textile-trading business in 1868 and then built the country's first steel mill and hydroelectric plant. Today, it comprises 96 companies, with total sales of \$21.9 billion in the year ended March 31, or about 2.8% of India's gross domestic product.

The Tata group and Tata Tea Ltd., the world's second-biggest tea company, have spent \$1.3 billion since 2000 to buy beverage companies overseas. Those acquisitions suggest Tata Steel may eventually profit from the Corus deal, some investors said.

Shares of Tata Tea fell 58% in 2000 after the company announced its 271 million-pound purchase of U.K.-based Tetley Group Plc. The stock has since more than tripled.

"The story is similar to what had happened to Tata Tea shares after the Tetley purchase," said Bharat S., an analyst at Sundaram BNP Paribas Mutual Fund. "Shareholders get worried when there's strain on the finances. Once the company announces exactly how much money will be raised and who is paying the rest, shareholders may feel a bit more confident."