The Big Read Tata Group

Tata: transforming a conglomerate for India and the world

The group aims to overhaul its European steel and car operations as well as cash in on ecommerce

Benjamin Parkin in New Delhi and **Michael Pooler** and **Peter Campbell** in London
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At an exclusive 2011 black-tie dinner in a London ballroom, the cream of Britain's political and business elite gathered to praise a man and company which over the previous decade had reshaped the UK economy.

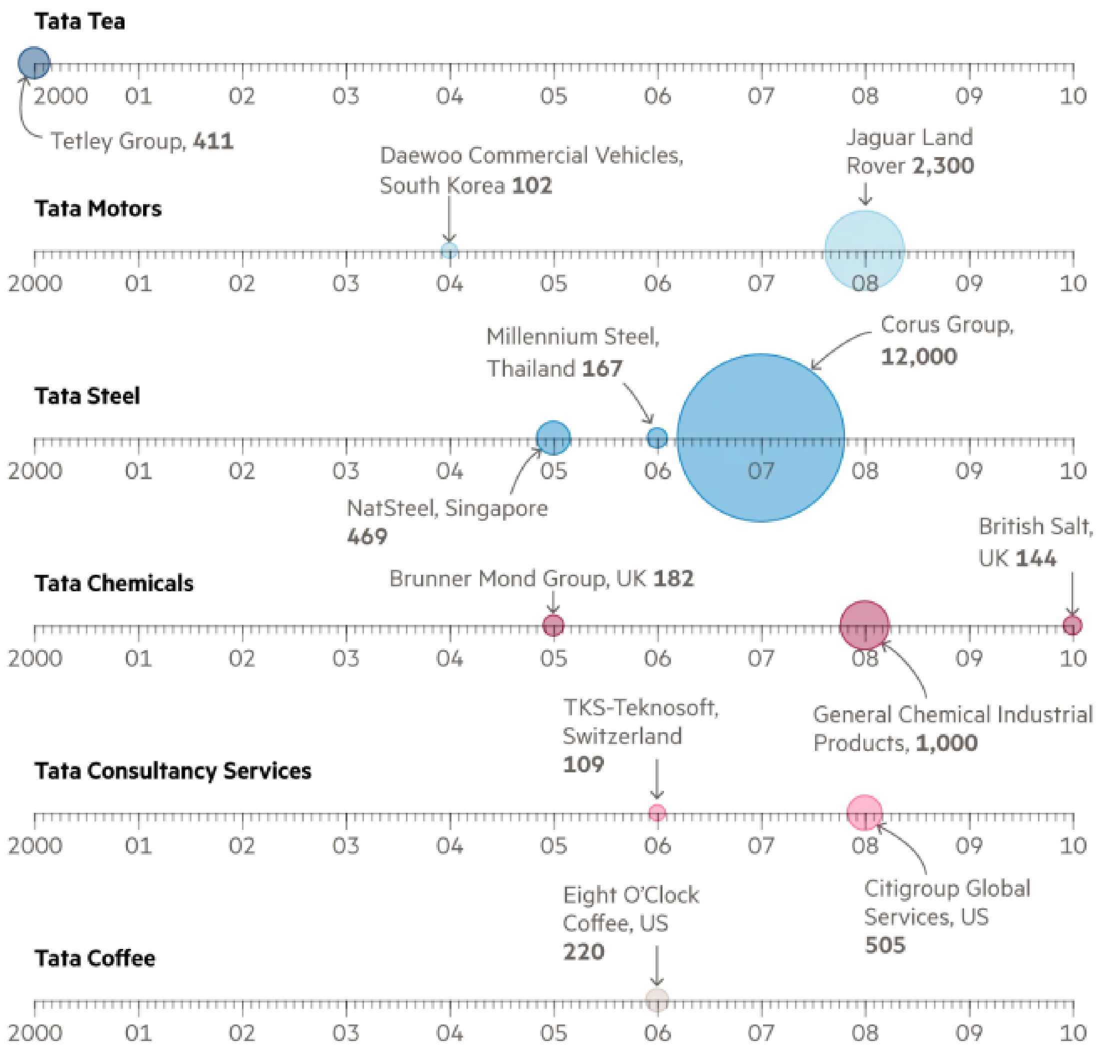
"You deserve such warm thanks, not only from everyone here . . . but from the country," Nick Clegg, then the deputy prime minister, told the audience at the event hosted by the Asia House think-tank. Former cabinet office minister Oliver Letwin extolled the virtues of "the most distinguished industrialist, and one who has brought huge benefit to our country and indeed to his own".

The recipient of this praise was Ratan Tata, a septuagenarian in his penultimate year as chairman of India's Tata Sons, which oversees a 152-year-old business empire spanning dozens of companies in everything from manufacturing to airlines, retail and IT. At the turn of the millennium it embarked on an overseas shopping spree — with the UK at its core — that for many encapsulated the heyday of an era of globalisation.

Tata acquired Jaguar Land Rover, Tetley Tea and Anglo-Dutch steelmaker Corus, which included the UK's largest steelworks in the Welsh town of Port Talbot. Having started operations under British colonial rule, Tata became the UK's leading industrial employer in a proud symbol of the shifting balance of 21st-century economic power.

Selected Tata overseas acquisitions, 2000-2010

By company (circle size indicates deal value), $m



Values converted using historical calendar year averages or reported figures at the time of the deal
Source: FT research

"In investing in the UK, I find that there's tremendous capability that lies unrecognised," Mr Tata told the guests that evening. "Look at what the UK could indeed do. It's all there."

The Tata Group's strategy at home and abroad, particularly its faith in UK industry, has been severely tested since. Its international acquisitions were mostly made before the 2008 financial crisis, which dealt a blow to European manufacturing, with problems subsequently exacerbated by Brexit and trade wars. Even Tetley has had to contend with a British public that is drinking less tea.

The economic downturn caused by coronavirus has added to its difficulties in dozens of countries across the vast $113bn-revenue group, and it may be forced to reduce its presence in key industrial sectors including in the UK.

Natarajan Chandrasekaran, the chairman, remains committed to Tata's UK steel operation but is not ruling out an exit if restructuring plans fall through. "We are at an inflection point with regard to Tata Steel," he says.

Hot rolled steel moves through a mill at the Tata Steel plant at IJmuiden, the Netherlands © Jasper Juinen/Bloomberg

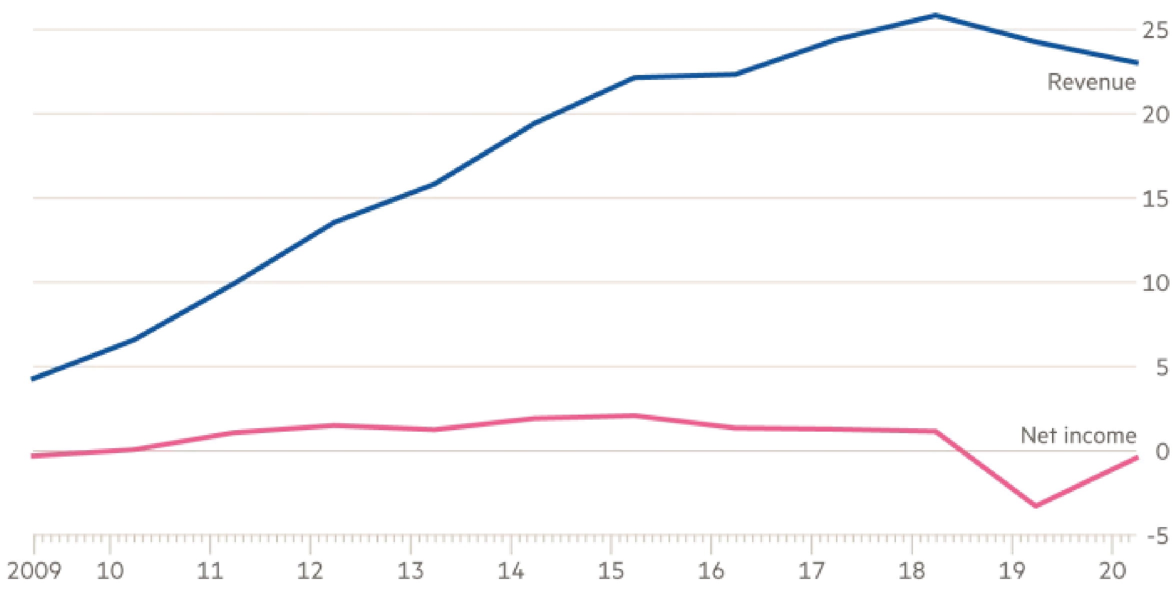
Its British steel operations, which have failed to break even at the operating level for a decade, are bleeding cash. Unrest among its Dutch workforce culminated in the first strike in almost 30 years this June at Tata Steel Europe's IJmuiden plant in the Netherlands. JLR, which has fallen behind other carmakers as it struggled with a lack of scale and bloated costs, is laying off an additional 1,000 agency workers as it looks for £6bn in savings by next March.

The depth of the strain has forced Tata to seek UK government bailouts. But while Tata said last week that it is not currently looking for government funding for JLR, it has continued to seek support for its steel business.

Tata is now facing calls from analysts and others to pull back and refocus on India, its home market, where rising incomes, consumption and internet use among the 1.4bn population make Europe look comparatively less promising. But Mr Chandrasekaran, who took over in 2017 with a mandate to deleverage and simplify the conglomerate, says he is committed to reviving its underperforming UK manufacturing operations even as the group seeks new opportunities at home.

Jaguar Land Rover's strong performance has waned in recent years

Revenue vs net income (£bn)



Source: S&P Capital IQ

Tata is banking on a post-pandemic boom in India and worldwide for its flagship moneymaker Tata Consultancy Services, an IT outsourcing group with more than $20bn in annual revenue and a presence in dozens of countries. The group is also exploring new ventures, including plans for an ambitious "super app" that it hopes will propel it to the forefront of India's booming consumer tech market.

"The focus on geographies should continuously shift depending on where the demand, where the next big opportunity is," Mr Chandrasekaran says. "This is not to say we're pulling out of globalisation."

Second home

Soon after Jamsetji Tata founded an eponymous textile and trading company in 1868, he travelled to England to see the country's mills first hand. By 1907 the Tata Group was opening its first overseas office in London, but it would take almost another century for Tata, thriving in a newly liberalised Indian economy, to make its biggest strides abroad.

"It was Ratan Tata's vision and interest to expand overseas, seeing limited opportunities left in India because they are in so many sectors [already]," says one person close to the group. "They thought that London would be the right place and they started scouting."

After first acquiring Tetley in 2000, Tata entered Britain's heavy industry when it bought Corus for an eye-watering £6.2bn in 2007 following eight hours of head-to-head bidding against a Brazilian rival. But Tata Steel's European foray soon proved problematic. Not only was it expensive — a 68 per cent premium to the Corus share price pre-bid — but it coincided with the peak of the commodities boom.

Problems have snowballed since. Europe's steel industry never fully rebounded from the 2008 financial crash and Tata Steel has not taken dividends from its European subsidiary.

Though the company's Dutch IJmuiden plant benefits from economies of scale and its own deep seaport, the UK business suffers from a legacy of under-investment, high energy costs and geographically dispersed factories which pile on logistics costs.

Boris Johnson weighs tea bags during an election campaign visit to the Tetley factory, part of Tata Global Beverages, in Stockton-on-Tees, last November © Daniel Leal-Olivas/Pool/Reuters

The Dutch workforce complains that their steelworks normally generates a profit and yet it has to prop up the ailing sister plant at Port Talbot, resulting in tensions that were expressed during the recent strikes in the Netherlands.

"What we see is that [for more than] 20 years — and also in the time of Corus — we make the profit here and the money goes to Britain," says Roel Berghuis, director at the FNV trade union, representing the Dutch workers. "That's the feeling in IJmuiden." The company denies that Tata Steel Netherlands has ever covered losses at Tata Steel UK.

Tata threatened to quit the UK steel industry in 2016, but in the absence of a credible buyer was persuaded to stay by the government. A proposed European joint venture with Germany's Thyssenkrupp was blocked by the European Commission last year on competition grounds. In the interim it focused on more successful operations in India, acquiring a bankrupt steelmaker in 2018. The domestic business now accounts for two-thirds of steel capacity and Europe one-third.

Tata has examined replacing the twin blast furnaces at Port Talbot, pictured, with electric arc furnaces that recycle scrap metal © Matthew Horwood/Getty

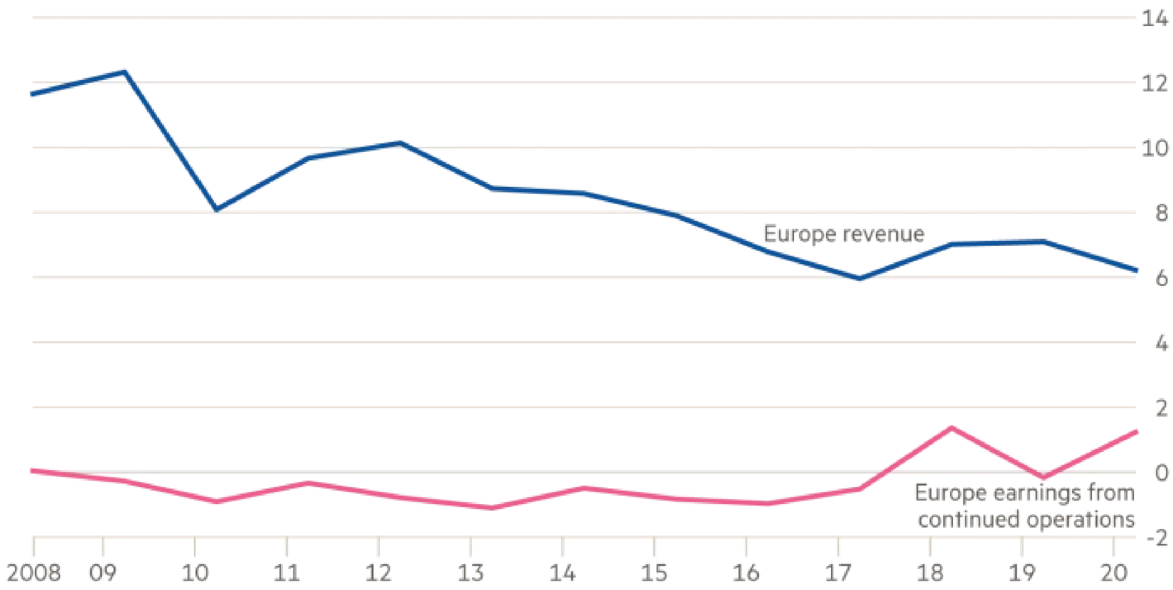
The group now needs to decide whether it keeps funding its UK steel business, with scant prospect of making money in the short term, or cuts its losses by closing Port Talbot and selling off the smaller factories. Given its other British interests, the latter would be politically fraught.

One option that Tata examined is replacing Port Talbot's twin blast furnaces with electric arc furnaces that recycle scrap metal, a more environmentally sustainable solution. But the overhaul would require hundreds of millions of pounds of investment and inevitably mean significant job losses as electric furnaces are less labour intensive.

"If we can figure out this plan," Mr Chandrasekaran says, "we will be able to transform that industrial area in Wales for longer-term sustainability. [But] if that becomes unviable, then we will have to explore other options." And while Brexit did not in itself make the UK unattractive, he adds, tariffs or disruptive customs checks could make the group's businesses "uncompetitive".

Tata Steel's European business has struggled since the financial crisis

Earnings (£bn)



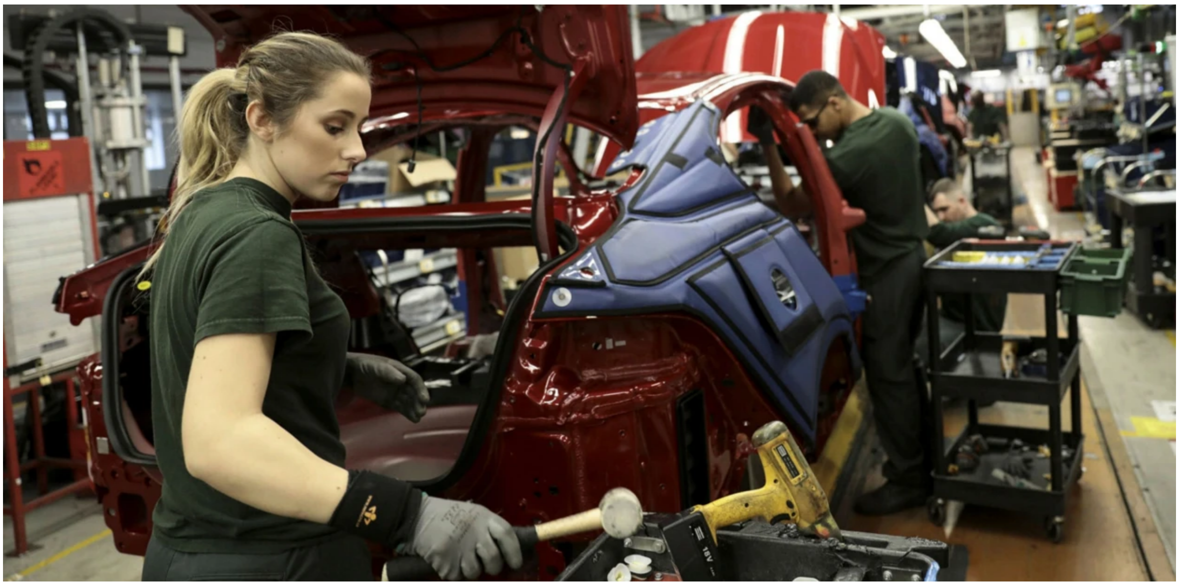
Source: S&P Capital IQ

Car trouble

The group's stronghold in British industry was cemented with the 2008 purchase of Jaguar Land Rover from Ford by Tata Motors.

When the luxury car group was put up for sale, Mr Tata flew to Britain on a highly secretive scouting expedition, at the behest of British industrial champion Kumar Bhattacharyya. Travelling around Jaguar's sites in the West Midlands in a borrowed Mini Cooper, Mr Tata saw in the dilapidated car plants the chance for the Indian group to strengthen its international operations.

For close to a decade after the £1.5bn takeover, Tata's ownership of the group was a textbook example of international management. The company installed a leadership team led by former BMW executive Ralf Speth, injected funds into the business and then largely left the carmaker to run itself. Annual revenues grew from £4bn at the time of the acquisition to £25bn last year.



Employees work on a Jaguar car on the production line at Tata Motors' JLR assembly plant in Castle Bromwich © Simon Dawson/Bloomberg

But the years of abundance, spurred by Chinese demand for the sport utility vehicles that are the group's hallmark, masked underlying problems that have been exposed by a slowdown in the global auto industry. Overspending, a muddled vehicle line-up that pitted its two brands against each other and a failure to invest significantly in electric technology have left JLR lagging behind its global peers.

The business is shrinking in an industry where even the largest players are still bulking up. Automotive companies — even premium marques such as BMW and Mercedes-Benz-owner Daimler — measure their sales in millions. JLR last year sold just 500,000 cars.

Analysts say up to £6bn of cuts in the past two years are still well short of the overhaul needed. "JLR seems to be sticking to incremental cost cuts rather than address the big issues facing the company," says Robin Zhu, a Hong-Kong based auto analyst at Bernstein.

Yet Mr Chandrasekaran says he is bullish about the automaker's prospects. "Jaguar Land Rover has been a great story," he says, rejecting calls to axe the underperforming Jaguar brand and to sell a stake in the business. "We are committed to both [JLR] brands."

Natarajan Chandrasekaran, Tata Sons chairman, centre-right, poses for a selfie with an attendee at a Tata Motors news conference at trade show in Noida, Uttar Pradesh, in February © Prashanth Vishwanathan/Bloomberg

In July Tata Motors named former Renault boss Thierry Bolloré as the new JLR chief executive, to forge a future for the business.

Mr Chandrasekaran also promises to help Tata Motors ease its debt burden, cutting the group's debt levels by the middle of the decade. "We will significantly deleverage in the next three years," he says. But the lack of overlap between Tata Motors, JLR's immediate parent company with its own management team, and the UK business has long baffled analysts and even company insiders.

The starkly different model offerings — premium SUVs at JLR, low-cost cars and commercial vehicles at Tata Motors — means even rudimentary cost savings like sharing vehicle platforms are not available.

"Ralf [Speth] thinks in one direction, Guenter [Butschek, Tata Motors CEO] in another, and both report into Chandra," says one former senior Tata director. "It's a mess." Sir Ralf will remain at JLR as non-executive chairman.

Mr Chandrasekaran's vision includes a broader push into electric vehicles in India as well as "global aspirations" for its domestic commercial vehicles arm. "Tata Motors has got a huge potential to grow," he says.

Domestic criticism

In India, the Tata Group is facing difficult questions about its international scorecard.

Former chairman Cyrus Mistry, who is engaged in an acrimonious court dispute with the group over his 2016 ousting, argued in June court filings that "a set of ill-conceived global acquisition[s]" contributed to "the largest value destruction in Indian corporate history." And he claimed that Tata's performance had worsened since his departure.

In a rejoinder to the court, Tata Sons strongly contested Mr Mistry's claims and defended the group's record. It argued that Mr Mistry spent his time at the helm "more often than not 'finger-pointing' and 'blaming' the past" while burdening the subsequent management with hundreds of billions of rupees in unaddressed impairments.

Stalls outside a Tata Steel plant in Jamshedpur, Jharkhand, India. The company is facing calls to refocus on the country and its 1.4bn population © Anindito Mukherjee/Bloomberg

Nirmalya Kumar, who was head of strategy under Mr Mistry, argues that Tata has not paid enough attention to its domestic market. "Given the opportunities of India versus the rest of the world, when combined with the capabilities of the Tata Group, we had gone overboard in the past with respect to the international versus domestic mix," he says.

Mr Chandrasekaran counters that the group continues to expand overseas and sees the UK as a "second home" even as it doubles down on new Indian pursuits.

India has recorded more than 3m cases of coronavirus, and Tata's collection of businesses in the country have faced mixed fortunes during the pandemic. Severe blows to its airline and hotel companies are balanced partly by robust demand for everyday staples like salt or tea, as well as TCS which is ploughing into areas like artificial intelligence and cloud services.

Central to Mr Chandrasekaran's vision is a project to transform Tata into a consumer-focused digital group at a time when global tech companies are pouring funds into ecommerce in India, and hundreds of millions are using smartphones and shopping online for the first time.

Tata has brought its food and beverage brands into a new global consumer goods company, including a new-look Tetley. It is also pushing ahead with ambitious plans to launch a Tata "super app" that for the first time brings together its disparate range of products and services — from food and grocery delivery to financial services and electronics.

Taking stock of the group's ups and downs over the past two decades, the chairman says he has no intention of backing down — in Europe, or anywhere else.

"We are doing all the things necessary to be able to address the future," he says. "We are getting ready to capture the opportunities."