Tata’s hard choice

What is the issue?

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Tata Steel’s recent merger is a proof of hard commercial considerations in overseas acquisitions.

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What is the merger about?

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- Tata Steel had announced its tentative plans to merge their European steel operations in a 50:50 joint venture.
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- Tata Steel and Germany’s ThyssenKrupp AG have planned for this merger.
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- This merger will emerge as the second largest steel producer in the high value-added European market.
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- These companies clarified that this merger is driven more by “industrial and strategic logic” than the need for financial engineering or job cuts.
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What is the need for the merger?

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- This merger is more about reducing exposure to the barely-growing and over-supplied European market.
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- Tata Steel is keen to free up the capital from its overseas plants in order to double its Indian capacity.
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- Global operations have become a millstone around Tata Steel’s neck.
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- ThyssenKrupp has been progressively shedding its commodity businesses to

focus on high-margin capital goods.
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- This merger seems to be an intermediary step to a complete exit.
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What are the challenges in this merger?

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- The merger may have a rough passage with external stakeholders.
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- The labour unions and the governments of UK and Germany are already looking to ring-fence their interests.
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- Financial considerations are at play in this merger, with both partners looking to de-leverage their balance sheets.
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- Chinese export threat is continuing to loom large.
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- It is unclear that how this joint venture would pay off without pricing sacrifices, cost and job cuts.
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Source: Business Line

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