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T V Narendran on Tata Steel's strategy for growth

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T V Narendran

'We will be seeking a good balance between capital- and knowledge-intensive materials'

With responsibilities across Tata Steel's diverse international portfolio of steelmaking assets, CEO and managing director T V Narendran has a wide-ranging view of, and experience in, the global steel industry. He told Kunal Bose about the company's strategy to thrive in a changing world for major steel producers

Tata Steel is a lot more than just one of India's leading steelmakers. The Tata group of which it is part enjoys the status of a prized national institution. One reason for this is because when it started making steel at Jamshedpur well over a century ago, overcoming all odds from identifying iron ore and coal deposits to mobilizing funds, that marked a major step towards India's economic self-reliance during colonial times. In addition, Tata Steel's rigorous corporate governance and care for its employees and communities around its mills are seen both in the private and government sectors as a benchmark for the industry.

In an interview with *Metal Market Magazine*, Tata Steel CEO and managing director T V Narendran said: "We will always be guided by the principle laid down by our founder Jamsetji Nusserwanji Tata that the 'community is not just another stakeholder but the very purpose of our existence.' We faithfully put that into practice in all that we do."

Respected on the world steel stage as well as in India's domestic industry, Narendran faced a litmus test last year in the face of the rapid countrywide spread of the Covid-19 virus and a two-month national lockdown that started on March 25. The challenge in his own words was manifold. "While we had the permission during the lockdown to keep our plants running under the Essential Services Act, we found most of our supplier partners in the country and also our customers were not operating. Therefore, keeping our long and complex supply chain operational to ensure that our mills were not shut for want of raw materials was a major challenge. Of great concern for us was to keep our employees coming to factories safe and healthy. That led us to enforce strict protocols," he recalled.

As local demand was down in the first quarter (April to June) of the year 2020-21, Tata Steel faced the prospect of rising inventories of finished steel even though production was cut in April and May. "Producing steel products that we could not sell would have sucked out cash from the system.

'The community is not just another stakeholder but the very purpose of our existence'

We had to think quickly on our feet. We shifted our focus from the domestic to export markets. That resulted in as much as 50% of our first-quarter production being exported. And much of our exports went to China where recovery was faster than expected. By June end, we were back to full production," said Narendran. While he found the first half of 2020-21 highly challenging because of pandemic-related uncertainties, he saw domestic steel demand improving since, aided by "accommodative policies, stepped-up government spending and easing of mobility restrictions."

In synchronization, Tata Steel in India produced its highest ever quarterly crude steel output of 4.75 million tonnes during the period January to March 2021, along with its all-time best quarterly Ebitda. Recovering rapidly from the pandemic-related slow start in 2020-21, "We managed to deliver a strong performance in India with broad-based, market-leading volume growth supported by our agile business model. We performed extremely well in all

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segments, especially automotive steel. This happened due to our powerful distribution network, robust customer relationships, strong brand equity and unwavering focus on new product developments and their commercial launches," said Narendran. He also pointed out that the company's robust digital marketing platforms enabled it to reach new markets and to be future-ready.

Benefiting from all these factors, Tata Steel actually lifted steel deliveries in the final quarter of the 2020-21 year to 4.67 million tonnes, up by 16% year on year for that quarter. Helped by a good market and improved demand in the second half, Tata Steel achieved a per tonne Ebitda of Rs26,309 ($358) or an Ebitda margin of 40.9%, Narendran noted. The difficulties in the first two quarters, however, reduced whole-year 2020-21 steel production to 16.92 million tonnes from 18.20 million tonnes in 2019-20, reflecting wider steel sector trends.

At the same time, under the watch of Narendran, who is a distinguished mechanical engineering alumnus of the National Institute of Technology, Trichy, India, and who has an MBA from the Indian Institute of Management Calcutta, steel deliveries of Tata Steel Europe (TSE) in the final quarter were up 3% year-on-year to 2.47 million tonnes, with Ebitda posting a "sharp rise to £125 per tonne during that period." He is also an alumnus of the CEDEP-INSEAD institution for executive development in France.

International portfolio

Improving the performance of the operation of TSE, which produced liquid steel output of 9.55 million tonnes in 2020-21 by comparison with 10.26 million tonnes in the previous year, is another focus for Narendran. Attempts to form a joint venture between TSE and Germany's ThyssenKrupp Steel, which would have created Europe's second largest steelmaker after ArcelorMittal, failed in May 2019 due to the opposition of the European Commission's business competition authorities.

Asked about other future options, Narendran said: "We made attempts to drive further consolidation in the European steel industry. This we thought was important for the long-term future for steelmaking in Europe. However, this didn't happen for a number of reasons. We are now focused on continuing the transformation work in both the Netherlands and the UK. We expect our European business to do well this year on the back of the good work by the teams there and also favorable market conditions. We are separating the Netherlands and the UK businesses as each has unique challenges and calls for different approaches."

In the meantime, continuing improvement in steel fortunes and progress in Tata Steel's south-east Asia business centered in Thailand and Singapore have led the company to do away with a former classification for that business as "assets held for sale." The decision of the Narendran-led management is to focus on further improving the "fundamentals of south-east Asian business" where the operating profit improved significantly in 2020-21.

Prospects in India

Almost as late as in March 2021, the industry was drawing comfort from the World Steel Association (Worldsteel) forecast that Indian steel demand would grow by 19.8% to 106.1 million tonnes this calendar year after there was a sharp fall in consumption by 13.7% in 2020. The sentiment was further buoyed by the IMF saying that India's GDP this financial year will be growing at the fastest rate of 12.5% among all emerging and advanced economies. Narendran is a member of the executive committee of Worldsteel, for which he has also served as a board member.

There are questions now about whether those forecasts will hold good when over 200,000 people have been contracting Covid-19 daily in India and state after state is declaring lockdown. Narendran said: "No doubt the second and the third wave of Covid-19 will leave an impact on India and elsewhere. But I'm confident that in the medium and long term, steel demand will be strong in our country and also globally. Consider this – we in India traditionally had consumption-led growth and so steel-use growth in most years was less than our GDP growth rate. But now with the focus being on infrastructure building, I am seeing more-investment led growth and that is more steel intensive. I shall, therefore, be expecting steel consumption growth to mirror GDP growth or higher than that. This was the case with China for most of the past two decades."

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He is also positive about global steel demand outlook in the context of governments from the US to China seeking to "spend their way out of trouble through big spending in infrastructure." Narendran's observation, therefore, supports Worldsteel's forecast that global steel demand could grow by 5.8% to 1.874 billion tonnes in 2021.

The way that Tata Steel went on adjusting production, domestic sales and exports month by month during 2020-21, depending on the severity of the pandemic, is an example of the agility of a Narendran-led management. Some of his colleagues suggest that it also reflects the personal agility, discipline and flexibility needed for his long-held passion for drumming as a hobby – a musical talent that he occasionally demonstrates at Tata Steel functions.

Domestic and global demand

The deteriorating environment for public health in India is once again making the country's steelmakers wary about short-term demand for various steel products. Take automotive steel, where Tata Steel has a domestic market share of around 40%, for example. Supply chains are again being disrupted by Covid-19. Upstream, cryogenic tankers usually used to transport industrial gases are now being used to carry oxygen for medical application. Downstream, many car and two-wheeler buyers are postponing purchases to a better day, which has led automobile


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industry leaders such as Maruti-Suzuki, Toyota, Hyundai and Honda to advance maintenance shutdowns. This is likely to result in a sharp fall in automobile production in May and June, if not beyond.

Difficulties in mobilising migrant workers in times of lockdown and shortages of gas are interfering with construction and house-building work. Narendran said that Tata Steel's priority will at all times be to make maximum supplies of steel to the domestic market. "But in case there is demand fall here, we have the option to export," he added. Tata Steel scaled down exports to 25% of production during July-September 2020 from 50% in the previous quarter. Now exports are in the "range of 10% to 15%."

Narendran does not deny that there is local industry temptation to export since hot rolled coil fetching around \$1,500 per short ton in the US and over €1,000 per tonne in Western Europe commands a good premium over prices in India. Besides his group's commitment to give preference to the domestic market, Narendran also has to contend with many import restrictions in the US and the EU. He also cannot ignore the eagle-eye that New Delhi is keeping on steel and cement prices because they have a major cost impact on infrastructure development. Tata Steel has a target to raise crude steel production in 2021-22 to 18.3 million tonnes through mill debottlenecking and is not yielding to the temptation to export and thus restrict supplies to the domestic market.

An expansion of Tata Steel's major Kalinganagar steelworks should be completed by 2023-24

Global experience

Narendran joined Tata Steel as an executive on completion of his MBA in 1988. Over the years he was given assignments that ranged from international and domestic marketing to the handling of long and flat products, as well as managing NatSteel in south-east Asia, which was the steel group's first overseas acquisition, made in 2004.

Exposure to operations and marketing as well as a stint as principal executive officer to former managing director B Muthuraman prepared him to move to take up that role himself on November 1, 2013.

At 48, Narendran became the youngest managing director of Tata Steel, the crown jewel of India's largest conglomerate which also has a major presence in IT, automotive and retail sectors. On taking up the leadership role, Narendran set out to make Tata Steel a "global cost leader" through digitization of processes and functions, enhancing employee productivity, and improvement in logistical and supply-chain efficiencies alongside capacity expansion. The goal is to be "future ready, structurally, financially and culturally." At the same time, Narendran is negotiating the challenge of holding on to an Indian steel market share of around 20% by expanding capacity, both organically and through acquisitions.

'We must remain among the most cost-efficient steelmakers in the world'

Planning and initial work for a greenfield steel mill at Kalinganagar in Orissa's Jajpur district began well before Narendran was made managing director. But his success in convincing the local community of the good that the steel plant would do in the region and speeding up project implementation enabled the commissioning of the 3 million tonne per year (tpy) mill in November 2015. Named the Kalinganagar plant, it is designed to produce hot rolled coil. It has a 4,300 cubic metre blast furnace and a 5.8 million tpy capacity sintering unit.

Beyond commissioning, Narendran ensured that the mill achieved its rated capacity in a short time and that work started on second-phase expansion that will make Kalinganagar an 8 million tpy unit. But the challenge that he has given himself is to finally expand it to 16 million tpy. The available land, infrastructure and logistics will enable the Kalinganagar plant to become the country's largest single-site steel plant.

This project, together with the scope for significant capacity expansion at a mill in Orissa acquired in May 2018 and since renamed Tata Steel BSL (TS BSL), will give Tata Steel enough capacity for flat steel production in India. Given these circumstances, Narendran's decision is to bid for future assets for long steel production.

For example, Narendran said that he will be interested in acquiring the 6.3 million tpy shore-based long product mill of Rashtriya Ispat Nigam Limited (RINL). This is prompted by New Delhi's resolve that "RINL will ▶

be privatized despite opposition from the host state Andhra Pradesh and trade unions." In addition to being next door to two major ports – Vizag and Gangavaram – facilitating imports of raw materials and exports of finished products, the profit-making RINL owns considerable areas of surplus land, which offers scope for a big capacity expansion.

Narendran is also keeping an eye on the privatization of 1.1 million tpy capacity Neelachal Ispat Nigam Limited (NINL). The NINL plant, which produces pig iron and billets, has scope for investment in downstream finishing mills. Narendran's interest in NINL is threefold. NINL is in Orissa, where Tata Steel already has two big plants, at Kalinganagar and TS BSL at Angul. That would help in terms of regional synergy of operations. Secondly, NINL will add long steel production capacity. And thirdly, NINL owns iron ore deposits.

His purchase of the steel business of Usha Martin Limited (UML) through a Tata Steel subsidiary, now called Tata Steel Long Products Limited (TS LPL), in 2019, and also his plans to bid for two public sector undertakings (PSUs) earmarked for privatization are seen as attempts to secure a major profile in the long steel business. At Tata Steel's over 10 million tpy Jamshedpur plant, long products have a share of 3 million tpy. TS LPL has crude steel capacity of 1 million tpy, but its finishing capacity is only 650,000 tpy. The subsidiary's new management is ramping that up to 700,000 tpy through debottlenecking.

Narendran's immediate priority is to give a push to a capacity expansion by 5 million tpy of the Kalinganagar plant, after "we took a pause last year because of the pandemic." He is now poised to step up capital expenditure in view of a better market environment and a good outlook for steel prices. But he will not in any way "compromise on deleveraging the company." During 2020-21, the net debt of Tata Steel was pared by close to $4 billion, and now he is targeting yearly debt reduction of $1 billion.

Tata Steel plans to increase the capacity of its works at Jamshedpur to 14 million tpy

"We should be completing the Kalinganagar expansion by 2023-24," said Narendran. But the 2.1 million tpy cold rolling mill and the 6 million tpy pellet plant "should be ready in the next financial year." Other major features of the expansion are installation of a 5,800 cubic-metre blast furnace and raising the capacity of the hot strip mill to 6.5 million tonnes from 3 million tonnes. The expansion will enable Kalinganagar to make high-value-added cold rolled galvanized and annealed products, further strengthening Tata Steel's presence in automotive, general engineering and white goods sectors.

Keeping around 20,000 construction workers safely stationed at Kalinganagar during the pandemic for the expansion work to be completed there on time will be a challenge, but whatever the hurdles faced, Narendran is confident of making Tata Steel a 25 million tpy group by 2025. Beyond that, he will be working to take combined capacity at the company's present three sites to 40 million tpy – Jamshedpur to 14 million tpy, Kalinganagar to 16 million tpy and Angul to 10 million tpy.

Prudent investments

Tata Steel has made significant successful investments under Narendran's leadership. The acquisition of TS BSL under India's insolvency and bankruptcy code (IBC) has given the company a unit that produces flat steel for the automotive, oil and gas and white goods sectors. The TS LPL mill at Jamshedpur, which makes high-alloy long steel products for the automotive industry and for wire rope production has also proved to be a rewarding acquisition.

Some other steel companies in India that repeatedly failed to service bank loans were put up for auction under the supervision of the country's National Company Law Tribunal, providing plenty of acquisition options. Narendran had to decide which one in terms of size, asset quality, product profile and scope for expansion would be most suitable for Tata Steel. After purchasing the 5.6 million tpy Bhusan Steel (now TS BSL), Narendran had to select a small team from his company to impart Tata Steel's work culture to the acquired steelmaker. Sooner than expected, both TS BSL and TS LPL, the latter bought outside IBC, embraced Tata Steel's way of working, including safety practices, care for the environment, strict compliance with government regulations and discharge of corporate social responsibility (CSR) to communities around the mills.

Narendran said that both the acquired units "have reached rated capacity as we expected and we are making plans for their expansion. It has been a good story of cultural integration, operational performance and financial turnaround." The arrival of Tata Steel offered job security and that boosted the morale of existing staff at the units acquired. The employee positivity created, synergies in raw materials procurement and the marketing of the finished products of TS BSL and TS LPL by using the Tata Steel's large distribution network aided the quick turnaround.

Securing iron ore supply

Tata Steel continues to meet the iron ore requirements of all its existing steelworks from its mines in Orissa and Jharkhand. But why did Narendran – given his ambition to first lift Tata Steel capacity to 25 million tpy by 2025 and then to 40 million tpy and to make new acquisitions – not buy any iron ore mines in India's recent round of auctions?

His reply: "We were there at the auctions. However, we found the prices being bid for mines would not work for us. We will certainly participate in future auctions. But our bids will be based on what are long-term viable prices to pay." By refusing to pay fancy prices for mines, Narendran avoided the winner's curse, which fell on some of the winning bidders who, after having paid unreasonably high prices for mines, realised that they could not run them profitably. Thinking through the long-term implications of securing steelmaking raw material supplies at a commercially viable price has served Narendran and Tata Steel well.

In parallel with building new capacity through organic and inorganic growth, Narendran is working to protect Tata Steel profits at all times. "We have a multi-fold approach to reducing our vulnerability to the steel cycle," he said.

"First, we must remain among the most cost-efficient steelmakers in the world. This will ensure that we are the last group standing in a down-cycle and generate significant free cash flows during the up-cycle. Second, our focus will be on maintaining leadership in high-end segments such as automotive and oil and gas. Third, we will go on leveraging our brands and distribution and service center network to make deep inroads into B2C and B2 ECA (emerging corporate accounts representing mainly small and medium enterprises)," he explained.

'We have started working with start-ups in several areas'

Innovative outlook

Narendran also has a strategy in place to make the company "bigger and stronger" in downstream businesses such as tube, wire and tinplate. "As we go forward, we will be seeking a good balance between capital-intensive and knowledge-intensive materials," he said. This explains Tata Steel's growing investment in building a portfolio in graphene, fiber-reinforced polymers and ceramics. Narendran is targeting up to "30% of our revenues coming from services and solutions and new materials by the decade end."

He believes that Tata Steel should leverage the innovative potential of start-ups by way of collaborations and partnerships and he says a new "platform called 'Innoventure' has been created to take the idea forward. Though it is still at an early stage, we have started working with start-ups in several areas. We identify a problem, invite start-ups to make a pitch offering a solution and then decide who to work with." This trailblazing initiative has also become a model for some other corporations in India.

Narendran is keen to "embed circularity in Tata Steel business strategy." He wants the commissioning of the company's first 500,000 tpy steel recycling plant at Rohtak in Haryana in July 2020 to be followed up by building similar scrap-processing units in other parts of the country. The group already has rich recycling experience in south-east Asia. Narendran wants to use that for "shaping the way recycling is done in India."

Formalization of scrap generation in an environment-friendly way is the first step for him to start making "long products through the recycling route, which is highly carbon efficient" in different parts of India. Narendran is also working on reviving the 300,000 tpy idled EAF at TS BSL under the TS LPL umbrella, which will provide more long steel production capacity.

Narendran claims to be making "tremendous progress" both in Europe and India on the comprehensive digital transformation of steelmaking. "This digitization journey will not only take cost efficiency to another level through analytics and predictive maintenance, but it will also give our customers and suppliers a superior experience in working with us," he said.

"We are also banking on digitization for safety improvement, emissions reduction and quicker product development and project execution. We will remain engaged in leveraging technologies available today and which are in process of development."

CSR strategy

However busy he may be in pushing Tata Steel to ever greater heights, Narendran will remain deeply involved in multi-dimensional CSR work, which "every year will touch over 1.5 million lives." Tata Steel's CSR embraces health, education, creation of livelihood opportunities in areas around mills, sports and the welfare of Adivasi (the original inhabitants of the Indian subcontinent).

India has still not been able to rid itself of the menace of child labour. Narendran takes pride in saying: "We have made many places child-labour free by ensuring that all school-age children end up attending classes."

The best of an individual, as of a company, sometimes comes out in a crisis. Last year during the pandemic, "We were feeding over 50,000 people every day, besides doing some wonderful work for migrant workers and daily wage earners," during the pandemic, Narendran said. And as the country is now overwhelmed by a ferocious second wave of coronavirus, Tata Steel is supplying large volumes of liquid medical oxygen on a daily basis to ease national supply shortages.