



An Understanding of TATA-JLR deal with the concepts of Downsizing, Corporate Culture and Leveraged Buyout

KEYWORDS

Merger, Downsizing, Leveraged buyouts, Acquisition and Corporate Culture

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ABSTRACT

The present scenario of the world is about Glocalization where the Organizations have to explore the domestic market as well as the International Market. One of the critical factors which is affecting the Organization in International Market is Recession. In the Competitive market for attaining the Success, one needs to be a global player. A company can assess its potential only in the Global Environment, which provides prospects for exploring new perspective and transforming entities. This paper covers the Strategy of acquiring the Cross Border merger. In the Cross border Merger; the Acquirer has to face many problems such as Downsizing, Leveraged and change in Corporate Culture which affects the whole business of that Organization. This paper demonstrates through the case of "TATA Jaguar- Land Rover Deal." This acquisition had affected badly on TATA in many ways such as Financial, Corporate Culture and the domestic business. Simultaneously this acquisition doesn't prove prolific to the country as they have projected.

INTRODUCTION:

TATA GROUP is 150 year old, owns Tata Motors, earlier known as Tata Engineering and Locomotive Company, Telco. It is India's largest passenger automobile and commercial vehicle. Tata Motors was established in 1945 Listed on the New York Stock Exchange in 2004. TATA Motors is live example that has a number of Acquisition, subsidiaries, Associate Companies and Strategic Tie-up. The expansion continues with the Acquisition of Jaguar Land Rover, two of the world's most respectable and iconic brands. Through this Acquisition TATA Motors has come of age and join a league of Worldwide Entities that operate in the premium Global Car Market.

MERGER: Merger is said to occur when two or more companies combine into one company. Merger is defined as 'a transaction involving two or more companies in the exchange of securities and only one company survives.

ACQUISITION: Acquisition is defined as 'A purchase of a company or a part of it so that the acquired company is completely absorbed by the acquiring company and thereby no longer exists as a business entity.' Takeover is considered as a form of acquisition.

The concept of M&A can be better understood with the case of TATA Jaguar- Land Deal. The deal basically focuses on the prime sector of automobile and the reputation of these companies at their own segment. Globally, the number and size of deals is heading toward record levels, with cross-border deals taking centre stage, as companies take advantage of cheap financing to pursue their expansive M&A strategies. Ford Motors Company (Ford) is a leading automaker and the third largest multinational corporation in the automobile industry. The company acquired Jaguar from British Leyland Limited in 1989 for US\$ 2.5 billion. Ford acquired Land Rover for \$2.75 billion in 2000. But the US auto major put the two marquee on the market in 2007 after posting losses of \$12.6 billion in 2006.

Today, corporate strategy is focused firmly on M&A as a tool to foster future growth and create sustainable value. As a result, companies are aggressively seeking and buying compatible and synergistic businesses to bolster core strengths, and shedding non-core operations. But they are overlooking the evil effects of M&A to weaken the position of a country after acquiring the firm and not running competently.

Merger of one company with another was viewed, as a sign of failure. The laws and regulations previously allowed the acquisition of only sick, dying, moribund (declining), and im-

possible, unviable and almost hopeless units. The acquirer was driven mostly by the tax benefits of the loss carry forward.

Merger and acquisition ('M&A') activity in India, though currently at its peak, is not as vibrant as that in the U.S. or Europe. M&A transactions tend to be financed largely by equity and / or by cash. While debt-financed deals are a handful, financing of acquisitions using high-yield bonds is non-existent in India.

BODY OF THE PAPER:

Mergers and acquisitions are strategic tools in the hands of management to achieve greater efficiency by exploiting synergies and growth opportunities. Mergers are motivated by desire to grow inorganically at a fast pace, quickly grab market share and achieve economies of scale.

TATA Jaguar- Land Deal

The deal has started in June, 2007 when FORD had announced to sell two prime brands such as Jaguar & Land Rover. At that time there were many players interested to acquire such as Apollo Management, TPG Capital, Cerberus Capital Management, Mahindra & Mahindra and Tata Motors. From them only two main bidders have bid for acquiring the Jaguar & Land Rover, one was Mahindra & Mahindra and second was Tata Motors. In June 2008, India-based Tata Motors Ltd. announced that it had completed the acquisition of the two iconic British brands - Jaguar and Land Rover (JLR) from the US-based Ford Motors for US\$ 2.3 billion. Tata Motors stood to gain on several fronts from the deal. One, the acquisition would help the company acquire a global footprint and enter the high-end premier segment of the global automobile market. After the acquisition, Tata Motors would own the world's cheapest car. The US\$ 2,500 Nano and luxury marquee like the Jaguar and Land Rover.

SYNERGIES EXPECTED FROM DEAL

The deal was anticipated to generate a lot of synergies such as well known brands, customer preferences for that car brands, emerging Indian car market, product being taken over by Tata group. This Deal generates two synergies such as Cost Synergies and Revenue Synergies. In the Cost Synergies the TATA Motors has the Competitive Advantage from the overall International Market through the Tata Group.

Cost Synergies include the following things.

- The TATA motors have Joint Venture in Auto Ancillary Space.

- In International Market they have acquired Corus, which provided the Raw Material at Lower Cost for manufacturing Cars.
- Tata Consultancy Services provide the help regarding the engineering design.
- Revenue Synergies
- It was expected in the long run TATA group and Tata Motors should help Jaguar & Land Rover diversified the geographic dependence.

LEVERAGED BUYOUTS

A leverage buyout ('LBO') is the acquisition of a business, typically a mature company, by a financial investor whose objective is to exit the investment after 3-7 years realizing an Internal Rate of Return ('IRR') of in excess of 20% on its investment over the horizon. The term 'Leveraged' signifies a significant use of debt for financing the transaction.

The purpose of a LBO is to allow an acquirer to make large acquisitions without having to commit a significant amount of capital. A typically transaction involves the setup of an acquisition vehicle that is jointly funded by a financial investor and management of the target company. Often the assets of the target company are used as collateral for the debt.

Typically, the debt capital comprises of a combination of highly structured debt instruments including prepayable bank facilities and / or publicly or private placed bonds commonly referred to as high-yield debt.

Buyout

The term 'Buyout' suggests the gain of control of a majority of the target company's equity. The target company goes private after a LBO. It is owned by a partnership of private investors who monitor performance and can act right away if something goes awry. Again, the private ownership is not intended to be permanent. The most successful LBOs go public again as soon as debt has been paid down sufficiently and improvements in operating performance have been demonstrated by the target company.

TATA Jaguar- Land Deal

This deal has provided the Leveraged to TATA Group in many ways to repay the amount for the deal.

- Rs. 1.92 Billion underwriting agreement with J M financial Consultants.
- Rs.1.75 Billion was raised through a deposits scheme from the Public.
- Additional subscriptions by promoter companies such as TATA sons, TATA Capital and Investment.
- And above that TATA was leveraged by British Government also.

Buyout was done to improve the following things but its shrink back the issues such as Cost Rationalization initiatives were taken to improve cash flows, Single shifts and down time at all three UK assembly plants, Supplier payment terms extended from 45 to 60 days in line with industry standard, Receivables reduced by £133 million from 38 to 27 days and Inventory reduced by £217m between June 2008 and March 2009 from 70 to 50 days.

Tata Motors had to incur a huge capital expenditure as it planned to invest another US\$ 1 billion in JLR deal. This was in addition to the US\$ 2.3 billion it had spent on the acquisition. Tata Motors had also incurred huge capital expenditure on the development and launch of the small car Nano and on a joint venture with Fiat to manufacture some of the company's vehicles in India and Thailand. Basically in this deal FORD had leveraged by TATA for relinquish of the past losses and to run the production at the required phase. But the above mention benefits recoil for the TATA's to work out the future scenario for the running the operations as per desired manner.

DOWNSIZING

Downsizing is a cutback in a company's operations and usu-

ally implies a reduction in its employee headcount as well. Downsizing results from many factors, including increased global competition, new technologies, and weaker labor unions; it takes various forms and has various outcomes. Some firms use downsizing as part of a long-term effort to transform their businesses; others turn to downsizing simply to slash costs and boost earnings. Sometimes downsizing boosts employee morale by giving the remaining workforce new responsibilities and opportunities; in other cases, downsizing leaves a demoralized staff that is undermanned when economic conditions improve. Some firms carry out downsizing relatively gently by offering workers strong incentives to retire; for other companies, downsizing means chopping heads as quickly and cheaply as possible. Whether downsizing generally helps or hurts a company's long-term profitability remains controversial. Evidence can be presented on both sides, but most would agree that the answer greatly depends on how the downsizing is executed.

TATA Jaguar- Land Deal

TATA wants to avoid the downsizing concept but on the contrary they have to implement the downsizing for some of the plants. TATA has reduced the Agency staff by 800. They had left 300 workers of Bromwich and Solihull plant. Beside that TATA has additionally left another 450 employees which were including of 300 managers. They have made an agreement with Unions to implement pay freeze and longer working hour's equivalent to approximately 20% reduction in labor costs.

CORPORATECULTURE:

Culture is a system of Shared values, Beliefs, Behavioral norms, Observed behavioral norms, Dominant values and Learning the ropes for newcomers. In terms of globalization, enterprises have to be aware of their own identity, values and thoughts and develop a grasp for interaction with foreign cultures. Culture is an "everyday thing"; it is present in every situation. It is a guideline for living together in large groups, giving rules to act and behave. In most instances these facts are not written down but unexpressed rules. There are many definitions in literature. The most widespread definition is likely "Culture refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving". Already the Egyptians and Romans created their own distinct hierarchies, laws, knowledge bases and values and tried to preserve it over several hundred years. Culture is needed to organize and administrate a group of people or whole population. Nowadays, this leads to sophisticated cultures in every country of the world. These cultures are non-static grown individual reflections of society that are always adapting to their environment.

TATA Jaguar- Land Deal

The one of the big issue in the deal was to handle and maintain the culture of the organization which will be handled by the TATA after acquiring the FORD. And simultaneously they have to face the Human Resource issues also. You cannot hire and fire the person without giving satisfactory reason for that. And you have to face the some of the racism issues also for firing the candidate. The failure of several Mergers and Acquisitions (M&A) has been a matter of concern. HR issues are a key factor in unlocking value through the M&A route.

CONCLUSION:

Over the past decade, Mergers and Acquisitions (M&A) have reached unprecedented levels as companies use corporate financing strategies to maximize shareholder value and create a competitive advantage. Acquisitions occur when a larger company takes over a smaller one; a merger typically involves two relative equals joining forces and creating a new company. Most mergers and acquisitions are friendly, but a hostile takeover occurs when the acquirer bypasses the board of the targeted company and purchases a majority of the company's stock on the open market.

Morgan Stanley reported that JLR's acquisition appeared negative for Tata Motors, as it had increased the earnings volatility, given the difficult economic conditions in the key markets of JLR including the US and Europe. This, coupled with the downturn in the global automobile industry, was expected to impact the profitability of the company in the near future.

Domestic Market Effect: The Nano was targeted at the segment of two-wheeler drivers. The Nano was touted to be the least expensive car in the world. Tata Motors spent approximately US\$ 430 million on developing the Nano. The company had invested more than Rs 20 million on the Singur plant, which had created many problems for the TATA's to shift the plant for safety of Labours.

A merger is considered a success if it increases shareholder value faster than if the companies had remained separate. Because corporate takeovers and mergers can reduce competition, they are heavily regulated, often requiring government approval. To increase chances of the deal's success, acquirers need to perform rigorous due diligence-a review of the targeted company's assets and performance history-before the purchase to verify the company's stand-alone value and unmask problems that could jeopardize the outcome.

But this deal had created the big issues for the TATA such as drop in share prices, failure of rights issue, and huge debt burden by acquiring the giant and the sales volume had decreased by 35.2%. Nobody was interested if TATA wants to Issue Following Public Offer (FPO).

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