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MASTER'S THESIS

CORPORATE DIVERSIFICATION STRATEGIES: INDIAN PERSPECTIVE

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INTRODUCTION

In emerging economies like India, business groups account for a significant share of the private sector. Some groups operate as holding companies with full ownership in many enterprises, others are collections of publicly traded companies, but all have some degree of central control. The presence of such diversified groups makes the effect of group affiliation on firm valuation a relevant issue. The business environment, scope of organizations and business decision taken by companies determine the competitiveness and stakeholder value. Focusing on core competence is the *mantra* for western economies. While many conglomerates in the west have been broken down in last 20 to 30 years in order to make businesses competitive and increase firm value, diversified business group remain the most pertinent form of enterprise throughout majority of the rising economies. The present paper examines this aspect with focus on India as a case study and analyses the influence of grouping on the valuation of the firm by making a comparative study between the group firms and individual entities. There are several reasons for India being a unique in its business environment and performances. Investment in several sectors by the business houses is predominant compared to business interest in single product. Khanna and Palepu (1997) found that operating in an average of more than 3.5 sectors by the business groups of India is ample evidence towards group association.

A biased approach has been adopted in India where the public sector has been given major responsibility over the private sector in policy making and the same is clearly outlined in the Industrial Policy Resolution of 1956 adopted after independence (Office of the Economic Adviser, Government of India, Ministry of Commerce & Industry, n.d.). Even in the areas where the private sector had been allowed to operate were weighed down with lot of regulations, control in the form of licence raj and also a very narrow trade resolution. Moreover the political influence in disbursing the licence made the situation worse. This in turn compelled many firms to diversify into new sectors and that was substantiated by the fact of presence of functional joint ventures in substantial number (Encarnation, 1989).

The reforms process which started in the year 1991 led to new opportunities and challenges for business groups. On the one hand, the opening of areas earlier reserved for public sector created newer business opportunities, leading to the rise of several new ventures. On the other hand, the abolition of the licensing system and the important substitution programs challenged many of the established business groups. Companies faced intensified competition from both domestic and foreign competitors and suddenly faced the need to restructure and modernize. Several business groups were able to successfully rise to the challenge, while others could not adequately adjust to the new realities.

Although the markets were opened up after 1990, Indian companies faced a huge challenge in expeditious implementation of better corporate governance to access very important foreign investment. Groups erstwhile dictated by opaque ownership structures and complex networks had to rapidly re-orient them with modern standards of corporate governance and were able to benefit from increased access to foreign capital. Hence the emergence of number of business groups in the market horizon in the latter half of twentieth century is not only the fallout of the political, governmental, and economic regulations but also successful re-orientation to current realities and adoption of best practice in the business.

In fact a strong relationship exists between the performance of a firm in stock market and its diversification profile in various industries and markets, but there is varying opinion among the strategic scholars to establish any positive connection within the two. Berger and Ofek (1995), conclude that corporate diversification does not increase the value of the firm. On the other hand study suggests that appropriately organized conglomerates can be efficient (Klein, 2001). In developing economy where there is high industrial growth and not very developed and competitive market, industries have some opportunity to invest in unrelated business and improve profitability as compared to developed economy (Khanna & Palepu, 1997; Khanna & Palepu, 2000).

Lins and Servaes (2002) in one of the most complete study taking sample from approximately 1000 firms from seven rising markets in 1995 found their results in line with what is commonly perceived in western market that diversified firms are less profitable than firms concentrating on single business. The concession is most ruthless when management control on financial decision within group affiliates are significant and exceed their cash flow rights. Chacar and Vissa (2005) in their research present theoretical dissimilarity between the abilities of the firms. They compare some manufacturing firms in India and in the United States and come out with the result of similarity in performance, although they belong to totally opposite ends of economy. Interestingly they suggest in the contrary to the instant theory that firms in rising economies associated with a multinational company, are more likely to perform poorly than firms not associated with these intermediate governance structures. Menon and Subramanium (2008) claim that in many economic environments, the companies which are exposed to grater business risks achieve faster learning. They elucidate on the strategic decision of a firm and whether to focus on the same business or to diversify. They also establish that focus option is preferred over diversification choice for stabilization of risk.

Gaur and Kumar (2009) examine the link between international diversification and firm accomplishment for emerging economy firms. They suggests that there is a positive relationship between firm performance and degree of internationalization and further conclude that this performance is reduced for the firms which are affiliated to business groups in developing country like India.

Gubbi, Aulakh, Ray, Sarkar and Chittoor (2010) argue that there is limited understanding about the value created by international acquisition by an emerging economy firm. They suggest that such acquisition allows internalization of resources that take time to develop internally and are tough to trade through market transactions. Hence it constitutes an important strategic lever of increased value for emerging-economy firms. Furthermore, due to higher quality of resources in advanced economies such acquisitions create higher value and therefore, provide stronger match to the existing capabilities of emerging economy firms. They published their findings in support of their claim by studding 425 cross-border acquisitions by Indian firms during the period 2000–07.

Purkayastha, Manolova1 and Edelmanl (2012) spell out that although connection between diversification and performance has become a significant topic for research in various fields such as industrial organization, strategic and financial management but there is no detailed work of the research done in developed and emerging markets. They strongly advocate for the suitability of the types of diversification commensurate with market economies. They succeed to establish that related diversification is more pertinent in developed economy, and unrelated one in the rising economy.

Diversification is one of the choices for firms to develop and create value. Also when company's opportunities for growth in their field have been depleted they strategize for diversification into different business either by concentric (related) or conglomerate (unrelated) diversification. It is natural that a financially solvent firm will move to the segments of market providing more opportunities from the existing segment of operation where opportunities are becoming restricted. Three potentially value creating reasons for diversification are:

a) efficiency gains through applying the firm's existing resources or capabilities (Economics of Scope) to new markets and products or services (Goold & Campbeell, 1998);
b) stretching corporate parenting capabilities (Dominant general management logic) in to new markets and products or services for gain (Bettis & Prahalad, 1995);
c) diversifying into business where a firm can create competitive advantage over their competitors to increase market power (Markides, 2002).

The studies conducted in developed market show that the industrial diversification-performance connectivity is inverted with soft diversification doing better than both low and high degrees of diversities (Palich, Cardinal & Miller, 2000). With regard to the international diversification-performance connectivity, the result offers support for a positive and linear relationship with steady returns due to economies of scale and economics of scope (Hoskisson, Hitt & Robertson, 1994). In recent times the Indian companies which had diversified have shown mixed result. An attempt will be made to measure effect of diversification on Indian companies' financial performances and whether the emerging market gives better opportunity for diversification.

The purpose of this master thesis is to study the effect of corporate diversification on corporate value especially in Indian perspective. Efforts will be made to analyse the group affiliates in Indian market and how they have performed in their respective sectors. The motivation behind selecting the topic is to help in identifying diversification strategies for my company National Mineral Development Corporation Limited (hereinafter: NMDC). NMDC is debt free highly profitable iron ore mining company with huge cash reserves. The company is presently engaged in related diversification by vertical integration into ore beneficiation and pellet plant and forward integration by setting up 3.0 million ton per annum (hereinafter: MTPA) integrated steel plant which will be ready for production by 2016. The company is also expanding its business by acquiring new mines overseas. But in spite of consistent physical and financial performance the share value of the company has eroded over past three to four years. Effort will be made to understand how business risk affects firm value in spite of good consistent performance. Also how recession affects a single product firm and a diversified firm. This thesis will help in understanding the reasons for such value destruction and try to determine the scope for conglomerate diversification to improve its value.

The major research questions the master thesis attempts to answer are:

1. Why do firm diversify?
2. Which are challenges of corporate diversification?
3. What does diversification imply for industry structure and industry evolution?
4. Do international acquisitions in emerging economy create value?
5. Are firms in emerging economy less efficient?
6. What are strategic directional decisions for cash rich companies for conglomerate diversification in developing economy?

As there is contradicting results regarding company diversification and its performance, this study will clear some of the ambiguity created specially with the dynamics emerging market which will help in strategizing for Indian companies. This Master's thesis will be of practical value for NMDC management. In addition it will generalize the findings for other Indian companies who are looking for strategic decisions to diversify. As of late most of the Indian companies have been emphasising on corporate governance for being efficient and competitive and this has helped diversified companies to increase their firm's value.

This thesis is based on analytical and inductive approach. A combination of desktop research and empirical research will be used for the above study. On line literature survey by using various search engines like EMERALD, JSTOR, PROQUEST etc. has been done to define the problem and to derive the concept and hypothesis. Furthermore, government usually publishes a great extent of data online and it has been used in the research process. Data published by Security and Exchange Board of India (hereinafter: SEBI), Bombay Stock Exchange (hereinafter: BSE) (National Stock Exchange (hereinafter: NSE) and annual report published by the companies is used to get data to design the variables. These standard Indian databases are most widely used by academic researchers and executives to analyse Indian firms and business groups. Empirical research is used to collect data to analyse the research question. Both quantitative (interval and ratio) and qualitative (nominal and ordinal) method has been used to collect data.

Firstly macro environmental scanning of Indian market has been done using PESTLE framework for the Indian market. A sampling frame is used for all companies which are listed on BSE and 3 conglomerate diversified group of companies is identified based on total group turnover, market capitalization and have listed their different business or for which separate audited balance sheets are available for comparison. SWOT analysis has been done to businesses groups to understand their strategic capabilities.

The following variables are used:

1. annual turnover of the company;
2. profit of the company;
3. return on capital employed in percentage (ROCE);
4. asset turnover ratio (ATR);
5. age of the group in years;
6. international trade of the group;
7. product diversity;
8. market Capitalisation in Indian Rupee (Rs.).

The performance of each business of the groups will be analyzed for a period of three financial years for the financial year 2010–11, 2011–12 and 2012–13 with indices of BSE. As there is contradicting results regarding company diversification and its performance, this study will clear some of the ambiguity created specially with the dynamics of emerging market which will help in strategizing for Indian companies.

Problem definition, purpose of the research, research methodology and detailed outline of the master’s thesis is presented in the introduction. Theoretical and Empirical aspects are presented in four sections and finally in conclusion the results are summarized. A detailed outline is presented below:

Chapter 1 deals with the **theoretical perspective of the diversification strategies.** During last decade, many concepts on diversification and speculative costs (benefits) related with the diversification decision have been built. These theories offer no clear view on how corporate diversification eventually impacts value of the firm. That is, the ensuing cost of a diversification strategy will be based on whether the likely costs outweigh the impending benefits, or vice versa.

Chapter 2 deals with the presentation on my company ie. NMDC and three most diversified business groups: Tata Group (hereinafter: Tata), Reliance Industries Limited (hereinafter: Reliance) and Imperial Tobacco Company Limited (hereinafter: ITC). It consists of how these companies developed and what their areas of operations and their segment wise presence.

Chapter 3 focuses on business analysis and financial performances of these companies. To understand the business environment in India PESTLE analysis is brought forward based on World Economic Forum (WEF) report, CIA Factbook and World Bank Reports. SWOT analysis of the companies are presented to understand their capabilities, constrains and balance of their performances. Finally based on analysis characteristics of Indian diversified business groups are presented.

Last chapter analyses the results arrived in the previous section and try to summarize the findings in light of the research questions and identify directional strategy for NMDC for future growth.

1 THEORETICAL PERSPECTIVE OF DIVERSIFICATION STRATEGIES

1.1 Strategic Management

As per Johnson, Scholes, and Whittington (2010) strategy is the direction and scope of an organization over the long run that draws advantage in a changing environment through its arrangement of resources and capabilities with an objective of satisfying expectation of the stakeholders. Wheelen and Hunger (2012) define strategic management as a set of managerial decisions and actions determining the long run performances of a company. It includes both internal and external scanning of environment, formulation of strategy implementation of same and measurement and control.

1.1.1 Phases of Strategic Management

Strategic management concepts have evolved over the years and many of the American business companies like General Electric and Boston Consulting Group have used for their businesses. Initially it was used only by big diversified companies and as the businesses became more competitive increasing the risk and making the mistakes costlier and even impossible to revert, forced all organizations to use these concepts to remain competitive in an increasingly unpredictable environment. Increased use of these concepts over the years also refined them. In a changing dynamic world firm generally develop through the following four phases of strategic management (Gluck, Kaufman & Walleck, 1982, pp. 9–21):

Phase 1 – Basic financial planning: It is preparation of annual budget for the following year based on very little analysis with available information within the firm. It is done usually for one year.

Phase 2 – Forecast-based planning: It is a based on long term planning normally for five years. This is important as such planning includes projects that will conclude beyond one year. Unlike annual planning both internal information and some external available environmental data usually on an ad hoc basis are extrapolated and used for such planning.
Phase 3 – Externally oriented (strategic) planning: It is top-down long term strategic planning process initiated for increasing its receptiveness to rapidly changing markets and competition by strategic thinking. Planning is executed by trained planning staff in consultation with consultants. Information is gathered by planning staff based on the critical and innovative techniques provided by consultants. After strategy formulation by top management implementation issues are left to lower management levels.

Phase 4 – Strategic management: It is more inclusive planning involving all levels of management by forming workgroups. Strategic plans generally follow a top down approach but the modern day corporations encourage the plans emanating from any corner of the corporation involving employees at all levels. General Electric shows a better result can be obtained from shifting to strategic management from conventional strategic during the 1990s (Vaghefi & Huellmantel, 1998). Most other big ticket firms follow the suit.

1.1.2 Benefits of Strategic Management

Strategic management stresses on long-term performance. The analysis of businesses over the period confirms that there is an inverted U relation between growth and their period of existence (business life cycle). Companies must affectively use all their resources not only be able to perform current activities to remain competitive in the existing market, but they must also acclimatize those activities to satisfy new and changing market to be successful in the long-run (Beinhocker, 2006, pp. 77–87). Based on market performance, research tells that organizations that engage in strategic management generally achieve competitive advantage and outperform those that do not (Wirtz, Mathieu & Schilke, 2007, pp. 295–313). It has been shown by a seminal work of Zajac, Kraatz and Bresser (2000) a strategic fit between an organization internal and external environments will always yield better result for the organization. The importance of strategic planning is increasing with increase in complexity in the environment. Wilson (1994) carried out a survey of a few corporations varying across various industries and countries and concluded with three important aspects of strategic management:

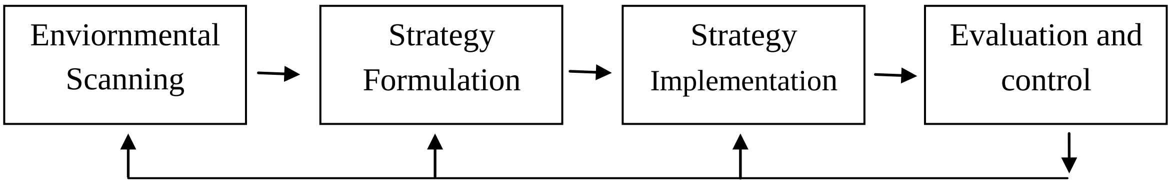
- firm should have clear strategic vision;
- firm should be aware of changes in external environment;
- firm should concentrate on strategically pertinent domain.

1.1.3 Elements of Strategic Management

Elements of strategic management are:

- environmental scanning (internal and external);
- strategy formulation;
- strategy implementation;
- measurement and control.

Figure 1. Basic Elements of Strategic Management Processes



Source: Adapted from T. L. Wheelen and J. D. Hunger, *Strategic Management and Business Policy: Towards Global Sustainability*, 2012, p. 53.

This model (Figure 1) is very important for any organization as it brings all stages of strategic management and creates a strong link between the strategic planning process, execution and evaluation, which is often overlooked. Although presented in a linear format for presentation purposes, it is more a circular process which is focused on continuous improvement.

1.1.4 Environmental Scanning

"Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors – those external and internal elements that will determine the future of the corporation" (Wheelen & Hunger, 2012, p. 64). Organizations are affected by both natural environment comprising physical resources and the societal environment. These cardinal factors are as follows:

- forces that are economic in nature and control the substitution of capital, resources and information;
- forces that are technological and create implementable inventions;
- forces that are political–legal and assign power and provide law and regulations;
- forces that are socio cultural and control the ethics and traditions of society.

Organizational performances are affected by both internal and external environment in which it operates. The simple and easy way to conduct environmental scanning is through

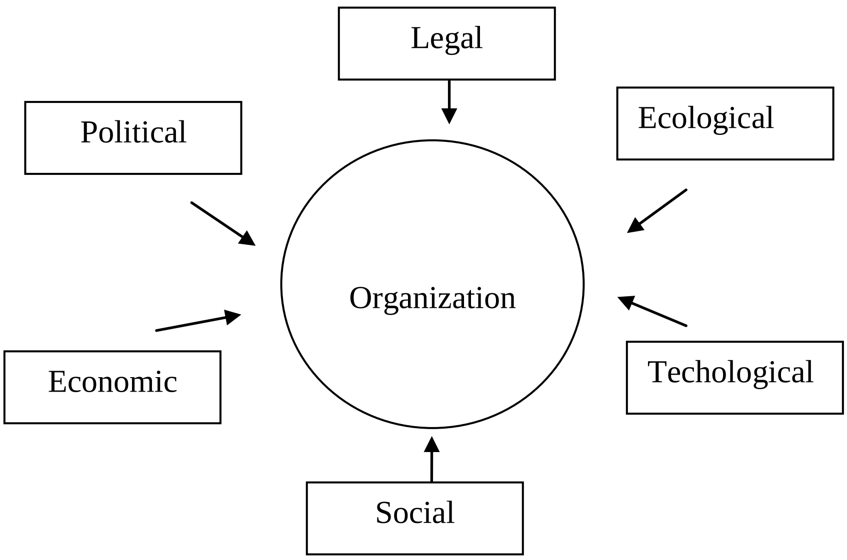
SWOT Analysis: SWOT is an abbreviated form of Strengths, Weaknesses, Opportunities, and Threats. Opportunities and threats are the variables existing in the external environment outside the purview of the organization and not under management control. Strengths and weaknesses are the variables existing within the organization and under management control. These include organization structure, culture, and the resources. Core competencies being generated from the key strengths are useful for an organization to have competitive advantage.

1.2 Analysis of Environment

1.2.1 General Environment (PESTLE) Analysis

General environment is made of factors external to the industry that may have a considerable impact on the firm's strategies. The general framework for strategic analysis of macro- environmental factors like political, economical, social, technological, legal and environmental (PESTLE) and a frame work is shown below in Figure 2.

Figure 2. PESTLE Framework



Source: Adapted from G. Johnson, K. Scholes and R. Whittington, *Fundamentals of Strategy*, 2010, p. 25.

Many changes in the general environment are difficult to envisage with any degree of correctness. General environment is made up of many diverse but interconnected parts like demographic, socio-cultural, political/legal, technological, macroeconomic and global.

Political factors normally deals with the government and polices which intervenes and influences the businesses environment in general. This includes tax policies, environmental norms, liberalization policy and most important government stability for sustenance of congenial business environment. The business sectors which are opened up and others which are restricted also influence the investments and sectoral growth. Companies both domestic and foreign continuously scan this for making strategic business decisions. Bureaucracy and corruption have tremendous impact on business environment. Government policies also influence health, education and infrastructure the key drivers for doing business in any country.

Economic factors include gross domestic product (hereinafter: GDP), interest rates in capital market, exchange rates and the inflation rate and have major impacts on how businesses operate and make decisions. The world has experience major change in inflation rate due to fluctuation of oil prices. Another important issue that continue to play a major role in the macroeconomic environment are the trade and budget deficits because trade and budget deficits as they are ultimately financed by increasing debt or by the sale of national assets. The effect of trade and budget deficits lead to formulation of new government policy on taxation and other legal areas, which are often not favourable for general business environment. In developing country like India higher growth rates causes inflation forcing government to increase interest rates which affect a firm's cost of capital and impact their growth. Overall economy of a country greatly influences the strategies and performance of various industries and competitor within each industry. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

Social factors greatly influence the efficiency and productivity of a business and include the cultural aspects and include skills and literacy, attitude, health perception, population growth rate, age distribution.

Rapid development in technology leads to development of new products and also influences change in the level of capital investment and cost of production. New technology is a force for innovative obliteration. It provides better value in satisfying needs inspire investment and economic activity and long run consequences that are not always predictable. Scientist today is working on an amazing range of new technologies that transform product and production process. Hence to remain competitive firm should watch the accelerating pace of technological progress. Technological advancement in a country is hugely influenced by the innovative environment and way in which the businesses are done.

Industry performances are severely influenced by current and impending legislation and legal scenario. The successful firms gauge the scenario beforehand and garner the competitive advantage by being first mover. These legal factors have a huge bearing on the operating procedure and its resultant cost of operation and also demand for its products.

Environmental factors encompassing the climate and its protection are very important aspects influencing the viability and long term sustainability of an organization. Climate change and its subsequent fall out largely influences the operating domain of an organization and play a key role to look for a new market with the depletion of the existing one.

1.2.2 SWOT Analysis

SWOT Analysis is the acronym for Strengths, Weaknesses, Opportunities, and Threats. SWOT Analysis is important strategic management tool to analyze firm's environment to establish strong and weak points of the firm as well as the opportunities and threats that are forcing it. A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. The absence of certain strengths may be viewed as a weakness. SWOT summarizes the key issues from changing business environment and strategic capability of an organization that are most likely to impact on strategy development. The SWOT analysis is a comparative tool for understanding and decision-making for all kind of situations in business and organizations with respect to its competitors. Opportunities provide organizations option to deploy its strength and threats to prioritize its strategy to combat weaknesses. Changes in the external environment may present threats to the company. Apart from that any other external threats that may hinder in the success of the company should also be examined carefully.

SWOT matrix as the basis for performing strategies. SWOT Analysis is an efficient and effective way of identifying capabilities and limitations and of probing the opportunities and threats of an organisation. It helps to focus activities into areas of strength to competitively use opportunities. In general, SWOT analysis can be used to assess:

- capability of a company, a product or brand;
- a business idea;
- an investment opportunity;
- a strategic option to enter a new market or launch a new product;
- a prospect to make an strategic acquisition;
- altering a supplier;
- outsourcing a service, activity or resource.

SWOT analysis is not a very accurate strategic analysis hence to deal with the criticism a more compressive strategic tool is used. Presently strategic factor analysis summary (SFAS) matrix is used as an analytical tool for strategic analysis. A general framework of SFAS Matrix is shown below in Figure 3.

Figure 3. SFAS Matrix

Internal Strategic Factor	Weight	Rating	Weighted Score	Comments
• **Strengths** • **Weaknesses**				
External Strategic Factor	**Weight**	**Rating**	**Weighted Score**	**Comments**
• **Opportunities** • **Threats**				

Source: Adapted from T. L. Wheelen and J. D. Hunger, *Strategic Management and Business Policy: Towards Global Sustainability*, 2012, p. 226.

A firm must always strategize towards developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities and should not necessarily pursue the most lucrative opportunities. To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed as shown below:

- S-O strategies pursue opportunities that are a good fit to the companies' strengths;
- W-O strategies overcome weakness to pursue opportunities;
- S-T strategies identify ways that the firm can use its strengths to reduce its vulnerability to external threats;
- W-T strategies establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

1.2.3 Development of Competitive Advantage

Mostly companies can achieve competitive advantage by adopting innovation including both new technologies and new ways of doing things (Higgins & Vincze, 1993, p. 411). A firm when consistently perform efficiently and are in profits more than the average for its industry, the firms is said to hold a competitive advantages over its opponents. Porter (1990) identified two basic types of competitive advantage:

- cost advantage;
- differentiation advantage.

Competitive advantage creates positional advantage and enables the firm to generate a greater value for its customers and better profits for itself. Resource based value are the firm-specific assets useful for creating a cost or differentiation advantage. Optimum use of its resources creates a distinctive capability and together forms its distinctive competences.

1.3 Diversification

Diversification is a business development strategy for utilizing firm's resources and capabilities in new market or product and services. It can also be a response to market decline for a firm or successful means of risk management. When diversification is implemented based on firms intrinsic capabilities it improves efficiency and contributes towards keeping the company stable even during recession. Diversification of business activities brings competitive advantages through efficiency gains and corporate parenting capabilities allowing companies to reduce business risks.

Related Diversification (Concentric) can be defined as the corporate development beyond the existing market or product but within the capabilities of the organization. Related diversification is of different types and depending on the direction of company adopt after a strategic decision based on its capabilities, resources and opportunities.

Horizontal Diversification is providing new products and services by using firm's existing capabilities and resources in the existing market where it operates. In such process the company relies on sales and technological resources and effective and efficient use of existing product lines.

Vertical Diversification occurs when company grows by entering the value chain by either producing value added products from its existing products or start manufacturing input materials which the company normally depends on a supplier. This kind of diversification may also guarantee a regular supply of materials with better quality and cost efficiencies.

Unrelated Diversification (Conglomerate) is a form of diversification when the business moves to new or unrelated product lines and reach out to new markets beyond its current capabilities. There is no direct connection with the company´s existing business and is described as conglomerate strategy. The company aspires to achieve competitive advantage by allocating capital internally and use it efficiently and utilize the market opportunities for better cash flows and revenue. This is essentially an alternative initiative of the firm to achieve capability to deliver better internal capital and labour resources than externally available to its competitive advantage. Based on market and firm capabilities following are the routes adopted for conglomerate diversifications:

- expanding from existing markets into new ones and starting new lines of production;
- penetrating completely new markets;
- developing new competences to use new market opportunities.

Study of businesses across developed economies shows that performance of firms engaged in related diversification, outperform those firms that are in unrelated or conglomerate diversification. In spite of such findings in developed economy like the United States of America (hereinafter: US) there are firms which are conglomerates and doing well and there are firms which adopted restructuring in I980's and focused on single business perished from business scene. Unlike developed countries the situation in developing countries is different and conglomerates are more important than single business firms, accounting for a large share of economic activities in countries like India and Korea (Khanna & Palepu, 1997; Khanna & Palepu, 2000). Overall, the evidence suggests on an average that firms that are conglomerates and are internally better organized can be efficient (Klein, 2001; Stein, 2003).

There are arguments about effective allocation of resources and efficiency of unrelated diversification and there were serious doubts about such diversifications result in agency costs, a form of empire building, or a response to antitrust limits on horizontal expansion. Williamson (1975) offers one efficiency justification for a diversified firm based on intra-firm capital allocation as a substitute resource-allocation mechanism. In these firms there is central allocation of resources via an internal capital market among profit-centre divisions of the firm. This internal capital market replicates the allocative and disciplinary roles of the financial markets, ideally shifting resources toward more profitable activities by process of winner picking. According to the internal capital markets hypothesis, diversified firms arise when deficiency in the external capital market allow internal management to allocate and manage funds more efficiently than the external capital market. These efficiencies may come from several sources:

- top management has advantage over others as they have access to internal information and they strategize accordingly to their competitive advantage (Williamson, 1975);
- top management can easily to redeploy the assets of poorly performing divisions (Gertner, Scharfstein & Stein, 1994). More generally, they use their control for winner picking among competing projects when credit to the firm as a whole is constrained (Stein, 1997).
- the internal capital market has more manoeuvring space to react more logically to new information as they do not speculate. Bhide (1990) uses the internal-capital-markets framework to explain both the 1960s and 1980s merger waves, regarding these developments as responses to changes in the relative efficiencies of internal and external finance.

In a developing economy which is factor driven internal capital markets will tend to add value where the external capital markets are hampered by regulation, inefficient legal structures, and other institutional impediments. This basically explains the prevalence of diversified business groups in emerging markets (Khanna & Palepu, 2000). Early studies by Lang and Stulz (1994), Berger and Ofek (1995), found that diversified firms were valued at a discount relative to more specialized firms in the 1980s and early 1990s. The apparent poor relative performance of internal capital markets has been explained in terms of rent seeking by divisional managers (Scharfstein & Stein, 2000), bargaining problems within the firm (Rajan, Servaes & Zingales, 2000) or bureaucratic rigidity (Shin & Stulz, 1998). For these reasons, it is argued, corporate managers fail to allocate investment resources to their highest-valued uses, both in the short and long term. On the other hand diversified firms may trade at a discount not because diversification destroys value, but because undervalued firms tend to diversify. Diversification is intrinsic and the same factors that cause firms to be undervalued may also cause them to diversify (Campa & Kedia, 2002).

Apparently missing from this literature, however, is the role of organizational structure. All diversified firms are not similar. Some are tightly integrated, with strong central management; others are loosely structured, highly decentralized holding companies.

1.4 Theoretical aspect of effect of diversification

A number of theories pertaining to diversification strategy have been propounded over the decades and some cardinal points of the same are discussed below.

Agency Theory: The interest of the management is being given priority over that of the shareholder and the managers of an organization generally reap rich dividend:

- enhancing their clout, remuneration and incentives (Jensen & Murphy, 1990);
- decimating likelihood of their employability risk and aligning the same with firm risk (Amihud & Lev, 1981);
- or establishing their indispensability and increasing value differential with possible substitute (Shleifer & Vishny, 1989).

In the long run due to the wrong investment or over investment in a losing project depriving the shareholder their due, the value of the firm is being compromised by the manger for his own interest.

Theory of Internal Capital Markets: The jurisprudence of the firm is tested while allocating its rare resources that is internal capital in various segments. The cash flow generated from one segment is usually utilized to support investment in some other segments which have some future prospects. On the whole this arrangement is considered quite successful, but it can backfire if the segment with better growth potential is under invested and more investment is directed to the declining segments. Specifically, Stein (1997) argues that, in contrast to outside investors, the Chief Executive Officer has insider information and may indulge in winner-picking. The proper deployment of internally generated revenue across various divisions could be achieved by him. The competitive advantage may be gained by the firm considering the projects funded through internally generated fund or financed by external investment, but the overall value of the firm does depend on the cost benefit analysis of internal investment. Hence, internal capital markets are not essentially advantageous (Gertner et al., 1994). The investments in diversified firms are actually inefficient due to rent-seeking attitude of managers through cross subsidization across divisions (Scharfstein & Stein, 2000). Rajan, Servaes and Zinales (2000) show a bitter power struggle originates between the various business units on the allocation of capital resources by a firm on diversification mode.

Debt Co-Insurance Effect: Diversification or merger of businesses creates financial risk aversion through rationalization of assets and liabilities. A combination of different businesses, with improperly linked cash flows, reduces overall firm risk and thereby decreases the likelihood of insufficient debt service (Lewellen, 1971). Inderst and Muller (2003) investigate the effects of internal capital markets, as a result of centralized corporate funding for multiple projects. With a most advantageous contracting approach, they identify the benefits and costs of centralized project funding. On the one hand, excess liquidity can be used to relax financing constraints, but, on the other hand, it might lead to inefficient follow-up investments with no return for investors. This so-called debt coinsurance leads to a higher (potential) debt capacity and, in turn, to gains in firm value, through an increased tax shield, due to substitution of equity with debt capital.

Value-Maximizing and Dynamic Models: Diversification model as a part of value enhancing strategy for a firm by various academics might not succeed in the long run. Matsusaka (2001) diversification should be commensurate with the dynamic external environment and acts as a strategic fit with firm's organizational capabilities. He also finds that success of a new business could not be predicted in advance and it is also difficult to stress whether the same will match organizational capabilities. So where the outcome is uncertainty, it is better experimentation could be continued towards diversification. The hypothesis has certain ramifications. First of all, failure of venture should not be labelled as corporate failure, but rather should be coined as lacking synchronization. Secondly, the model can explain the being of a possible diversification discount, despite diversification being an ex-ante value-maximizing strategy. Maksimovic and Phillips (2002) show with the help of neo classical model where size and growth of the firm is considered optimum, how diversified firms apportion resources across various segments and how they cater to the industry shocks by re-arranging resource allocation vis-a-vis firms doing business in single-segment. The model thus impinges the decision of diversification rests not only on the efficiency of the segment but also on the industry demand.

Gomes and Livdan (2004) also develop a path breaking model where it indicates the path to enhance value of the firm particularly in the business which is in the matured or declining stage to go for fruitful diversification. Two benefits can be achieved by doing the same. The firm firstly can sustain in the market even after loss of profitability in its core business. Secondly the concept of economies of scope can be achieved by reduction in the fixed cost of production.

Corporate Refocusing Theory: The basic assumption behind this theory is trading of the diversifying firms at a discount, compared to the value of each segment, had it been segregated into individual entities. Corporate refocusing include a number of theories such as:

- asymmetry in information (Krishnaswami & Subramaniam, 1999);
- analyst specialization (Gilson, Healy, Noe & Palepu, 2001);
- transaction costs (Matsusaka & Nanda, 2002);
- market liquidity (Schlingemannet, Stulz & Walklng, 2002).

The instant theory does not comprehensively conclude on the enhancement on the value of the firm by adopting diversification strategy. A diversification strategy could be proclaimed successful only when potential benefit out of it prevails over the incurring cost. A number of pioneering research works have been carried out in this field to determine the impact of diversification on the value of the firm.

2 BUSINESS CHARACTERISTICS OF THE COMPANIES

India is a developing country with great potential for growth. In recent years the economy has developed quite rapidly and there is tremendous scope of future growth. Big Indian companies are taking strategic decision to utilize this opportunity to expand their business. For studding the performances of these diversified business groups three big private sector business groups have been identified based on their market capitalization and their degree of unrelated diversification and their performances and characteristics is compared with NMDC Limited a debt free largest iron ore mining company with huge cash reserves and analyse wheatear there is opportunity for Indian companies to strategize for unrelated diversification. These three group company are Tata Group, Reliance and ITC. Tata group operates through listed group of companies under one promoter companies. Reliance and ITC operates through single listed company and their subsidiaries.

Tata Group of companies is the oldest business group of India and operates companies under Tata Sons and most of their businesses are listed companies. For our present studies we will examine three companies of Tata Group and they are Tata Motors, Tata Consultancy Services and Tata Steel operating in engineering, information and technology and metal sectors respectively. The three robust sectors of engineering, material and information technology provided 83% of group revenue. The sales for the financial year 2012–13 of these companies are given below (see Table 1).

Table 1. Table of companies and their sales in 2012–13

Name of the Company	Sales in Rs. Crores	Segment of Operation
Tata Group	520469.00	Seven
Reliance Industries Limited	360297.00	Four
ITC Limited	29901.27	Five
NMDC Limited	10704.27	One

Source: Adapted from the reports: Reliance Industries Limited, *Annual Report 2012–13*, 2013. p. 117; ITC Limited, *Report & Accounts 2013*, 2013, p. 87; NMDC Limited, *Annual Report 2012–13*, 2013, p. 125.

The remaining four sectors in which Tata group operates contribute only 17% of sales revenue. The details of sector wise revenue are given in Chapter 3. Tata Consultancy Services is the largest listed company on Bombay Stock Exchange (BSE). Hence including Tata Motor and Tata Steel as a group is twice as big as the second company on list Reliance Industries Limited (Reliance) (Moneycontrol.com, n.d.). Oil and Natural Gas Corporation Limited (ONGC) is the largest Public Sector Company and second largest by market capitalization and is involved in oil and gas exploration and production. For our present study it is not considered because it is a undiversified public sector company. Instead it has been replaced with next company on the list Imperial Tobacco Company Limited (ITC). For a comparison purpose market capitalization of NMDC is also included. The top Indian companies based on their present market capitalization are given below in Table 2.

Tabe 2. List of Top Indian Companies based on Present Market Capitalization

Company Name	Market Capitalization (Rs. crores)
TCS	508,681.66
Tata Motors	162,977.12
Tata Steel	49,823.35
Tata Group (3 Companies)	**721,482.13**
ONGC	378,580.44
Reliance	331,574.59
ITC	279,056.96
NMDC	73,168.83

Source: Adapted from Market Capitalisation, *Market, Moneycontrol*, 2014.

Reliance Group was split into two groups in 2006 between the two brothers Mr. Mukesh Ambani who controls Reliance Industries Limited (RIL) and Anil Ambani who contols Anil Dhirubhai Ambani Group (ADAG) having their presence in information technology and communication, power, insurance and financial services after the death of Mr. Dhirubhai Ambani the founder of Reliance group. Before split together it was India's biggest and diversified group. After the Split the two Reliance groups had no contest agreement for not entering each other business segments for 5 years and now they have agreed mutually to enter any business of choice. Reliance is now entering telecommunication sector after the no contest period.

2.1 National Mineral Development Corporation Limited (NMDC)

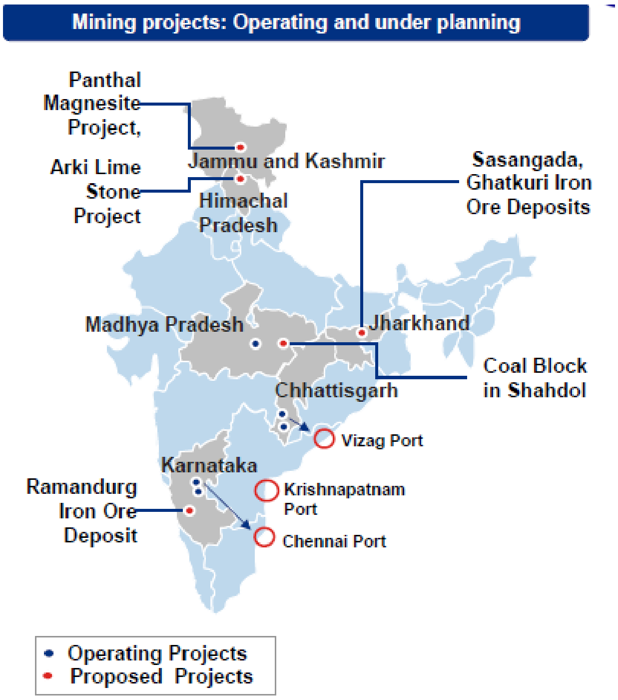
National Mineral Development Corporation Limited (hereinafter: NMDC) was incorporated in 1958 as a Government of India fully owned public enterprise. NMDC is under the administrative control of the Ministry of Steel, Government of India. Since inception it is involved only in mining sector and is engaged in the exploration of wide range of minerals.

NMDC is India's single largest iron ore producer, presently producing about 30 million tonnes of iron ore from 3 fully mechanized mines and for its consistent performance over the last 50 years was conferred with "*NAVRATNA*" status in 2008 by the Department of Public Enterprises, Government of India. *Navratna* was the title given originally to 9 Public Sector Enterprises (PSEs) identified by the Government of India in 1997 that have competitive advantages, giving them greater autonomy to compete in the global market so as to support them in their drive to become global giants. The status is conferred based on six parameters which include net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit before Depreciation, Interest and Taxes), capital employed, etc. The board is empowered to make investment decision up to Rs. 1,000 crore or 15% of their net worth on a single project or 30% of their net worth in the whole year (not exceeding Rs. 1,000 crores). Presently there are 17 *Navratna* Companies in India.

NMDC is presently producing about 20 million tonnes of iron ore from its two mining projects in Bailadila sector mines and 10 million tonnes from Donimalai sector mines. The ore from Baladila sector is a very high quality steel gray hematite ore and one of the best quality iron ore deposit in the world. NMDC project is strategically connected to Visakhapatnam port for export to Japan and China where there is huge demand for Indian high quality iron ore. NMDC has also strategically located their steel plant on the Baladila Visakhapatnam railway line reducing the infrastructure cost and nearness to both iron ore mines and to receive imported coking coal. The exports can also be handled through Visakhapatnam port. The area of operation in India is given below in Figure 4 (NMDC Limited, n.d.a).

NMDC has also taken initiative for green energy and has installed wind mills for power generation. Efforts are on the way to installed solar power plant and presently project viabilities are being worked out.

Figure 4. Mining Projects of NMDC

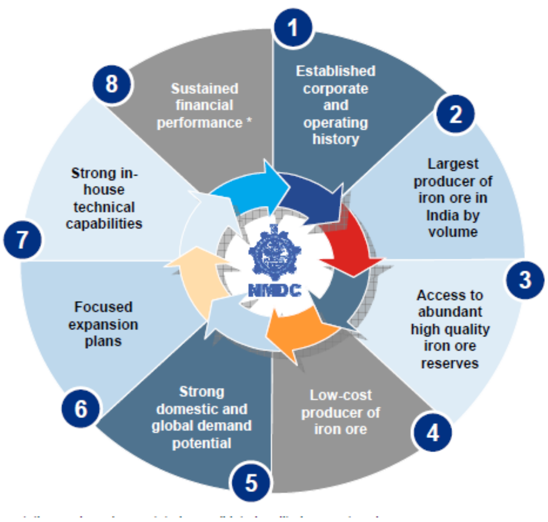


Source: *NMDC at a Glance, Company Information*, *NMDC Limited*, 2014a.

2.1.1 Key Capabilities

NMDC's core business is mining. Since inception the company has developed many Iron ore mines and their capabilities include all aspects of mine planning, development and operation.

Figure 5. Key Capabilities of NMDC



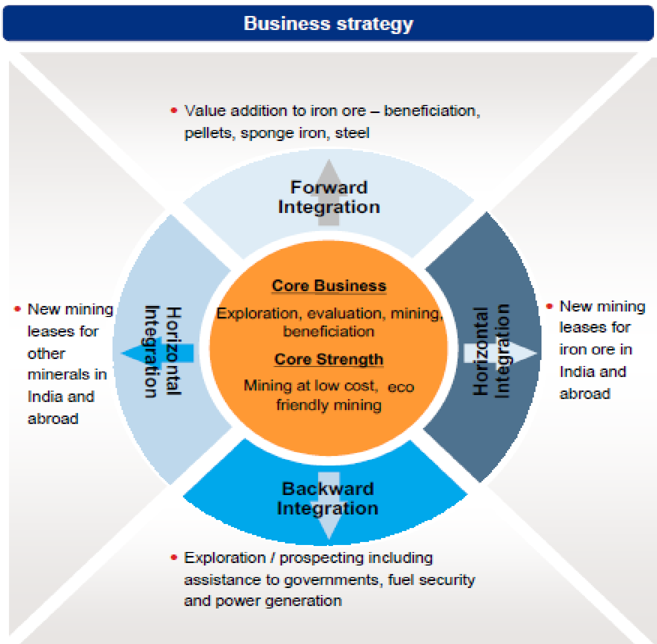
Source: NMDC Limited, *Corporate Presentation, Financial Details, NMDC Limited*, 2014b.

In the past, NMDC had developed many mines and later handed over to other companies in public sector and others became independent companies. NMDC is presently producing about 30 million tonnes of iron ore from its three Iron ore mines. NMDC is the only company in India having an operating diamond mine with a capacity of 0.1 million carats per year. The key capabilities of NMDC are in house technical competence in operation of large mines from planning to production and efficient cost control measures and good financial management.

2.1.2 Business Strategy

The business strategy of NMDC is aligned with the increase in demand for iron ore with increase of domestic steel production. The company is gearing up to meet the expected increase in demand by enhancing production capabilities of existing mines and opening up two new mines. The production capability would increase to around 50 million tonnes per year by 2020. NMDC is in on the path of diversification by under taking the forward integration of its mining business with setting up of 3 million tons per annum (mtpa) steel plant and 2 pellet plants with 1.2 million and 2 million ton capacity. NMDC also plans to go for other minerals like Coal, Diamond, gold etc. for which NMDC is looking forward for leases/buy properties from foreign countries directly/under Special Purpose Vehicle/Joint Ventures (NMDC Annual Report, Hyderabad, 2013). NMDC has various mineral beneficiation studies, value addition of mine waste and other developmental work through research and development. The business strategy of NMDC is shown in Figure 6 below.

Figure 6. Business Strategy of NMDC



Source: NMDC Limited, *Corporate Presentation, Financial Details, NMDC Limited*, 2014b.

2.2 TATA Group

Tata Group of companies is a global enterprise headquartered in India and comprises over 100 operating companies having presence in more than 100 countries across six continents and exporting products and services to over 150 countries. The group was founded by Jamsetji Tata in 1868. The total group revenue was around Rs. 624,757 crores (USD 103.27 billion) in 2013–14, with 67.2% of this coming from businesses outside India. Tata companies employ over 581,470 people worldwide (Leadership with Trust, Tata, n.d.a).

Tata Sons is the promoter of all Tata group of companies and holds significant share and these companies are commonly referred to as the Tata group. The Chairman of Tata Sons is normally acts as Chairman of the Tata group. The promoter company facilitates all Tata companies by investing in them for growth and to promote new businesses. Tata Quality Management Services, a division of Tata Sons, is the strategic group and supports Tata companies in their business initiatives through the Tata Code of Conduct, Tata Business Excellence Model and Management of Business Ethics. Further Tata Industries work under Tata Sons to promote and manage many Tata venture companies across the sectors and has two operating divisions which function as independent profit centres and they are Tata Strategic Management Group and Tata Interactive Systems. The former provides strategic management services to companies inside and outside the group for enhancing their competitive edge. Tata Interactive Systems provides project management and allied services to group companies.

Tata group has 32 publicly-listed companies. These Tata enterprises have a combined market capitalisation of about USD 135.25 billion as on August 21, 2014 and a shareholder base of 3.9 million (Leadership with Trust, Tata Group, n.d.a.). Among these 32 companies the major companies are Tata Consultancy Services, Tata Motor, Tata Steel, Tata Power, Tata Chemicals, Tata Global Beverages, Titan, Tata Communications, Tata Teleservices and Indian Hotels. Many Tata companies have achieved global leadership in their businesses. Tata Motors is among the top five commercial vehicle manufacturers in the world and Tata Steel is among the top 10 best steelmakers. Tata Global Beverages is the second-largest player in tea in the world and Tata Chemicals is the world's second-largest manufacturer of soda ash. The list of Tata Companies under Tata Groups and there sectors of operation is given below in Table 3.

Table 3. Operating Business Sector of Tata Group

Operating Business Sectors	Major Companies
Information Technology and Communication	Tata Consultancy Services Tata Communication Tata Teleservices

(table continues)

(continued)

Engineering Products and Services	Tata Motors Jaguar Land Rover Tata Projects Voltas
Materials	Tata Steel Tata Advanced Materials
Services	Tata AIA Life Insurance Tata AIG General Insurance Tata Capitals Indian Hotels
Energy	Tata Power
Consumer Products	Tata Global Beverages Titan Company Tata Ceramics Landmark
Chemicals	Tata Chemicals Rallis India

Source: *Adapted from Our Businesses, Tata*, 2014b.

Tata Group is totally a diversified global company operating in 6 continents in various sectors. The group acquired in recent years Corus Steels, Jaguar and Land Rover increasing their global presence. The global footprint of Tata group is shown below in Figure 7.

Figure 7. Tata Group Global Footprint

Source: *Corporate Presentation Leadership with Trust, Tata Group*, 2014c.

2.2.1 Key capabilities

The business excellence. Tata group with huge experience in operation in different sectors have developed competence to understand the business environment and take appropriate timely action in order to establish themselves on the global stage. They have developed capabilities to achieve international benchmark in all aspects of their operation through interactions at group level and to utilize resources of two or more companies to improve their competitive advantage. The group crates synergy and strategic fit for all the businesses by using a common platform of Tata Business Excellence Model (TBEM), which covers business aspects and the Tata Code of Conduct (TCOC) for regulating the conduct of the employees. Collaboration between the group companies to develop new product provides competitive advantage for the group.

Innovation. Tata group has focused on innovation as one of the drivers for their growth and to conduct their business in a world without boundaries. To create an innovative environment the group has implemented a three-pronged strategy to create and adapt innovation across business sectors and companies. The three key drivers are improved communication and recognition of innovative ideas and efforts, forum and facilities that enable learning from other companies, and support for collaborative research and partnerships with global research centres.

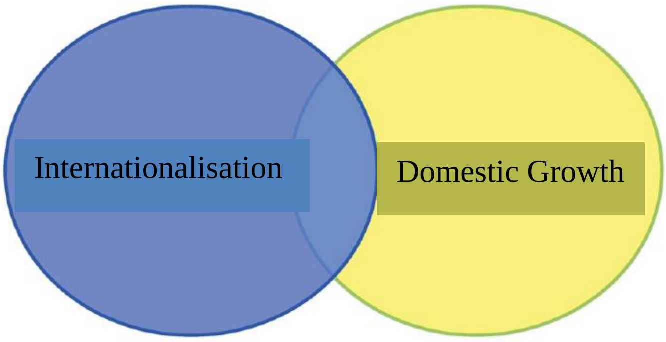
Managed by Tata Quality Management Services (TQMS) and Tata Group Innovation Forum (TGIF) is responsible for conducting programmes and workshops and fostering collaboration and research. They also initiate platforms for collaboration on technology and innovation both within the Tata ecosystem and with external organisations. These capabilities tremendously increase the group ability to strategize for entry into new sectors and for creating synergy among the group companies to their competitive advantage.

2.2.2 Business Strategy

The Tata group has prudent business strategy for growth by both internalization and focus on existing businesses in India. The group is strategizing for investments in acquiring companies abroad. The group is focusing on four new growth clusters like defence and aerospace, retail, infrastructure and financial services.

The group want to further improve strategy making body to nurture and harnessing synergy between group companies. They are focused on creating verticals in each sector they are present to be more competitive and leverage technology for their business. Key drivers for Tata group are shown in Figure 8.

Figure 8. Key Drivers for Tata Group



Source: *Corporate Presentation Leadership with Trust, Tata Group*, 2014c.

2.3 Reliance Industries Limited (Reliance)

The Reliance Group is a diversified conglomerate, founded by Dhirubhai H. Ambani (1932–2002), having presence in oil and gas exploration production and refining; petrochemical, retail and is now venturing into information technology and telecommunication business. Group's annual revenues are in excess of Rs. 3,960,000 crores (USD 66 billion). The flagship company, Reliance Industries Limited, is a Fortune Global 500 company and is the largest private sector company in India (Reliance Industries Limited, n.d.a). Reliance is second most valuable company in India (Business Today In, 2013a).

The strategic direction taken by Reliance is through backward vertical integration. The group started with textiles in the late seventies and then a strategy of backward vertical integration in polyester and other fibre and then to petrochemicals. To create further value they diversified into related business of petroleum refining and oil and gas exploration and production to be fully integrated along the materials and energy value chain and finally as logical step to improve its competitiveness ventured into exploration of oil and gas. The group after consolidation and growth in both the verticals of petrochemical and oil and gas diversified into retail and telecommunication where there is tremendous growth potential. Major Group Companies are Reliance Industries Limited, including its subsidiaries and Reliance Industrial Infrastructure Limited.

Products and Brands. The Company started with textile business in 1975 and diversified into petrochemicals and oil refinery. Group operates around 1,466 stores in 129 cities under its retail business that sells consumer goods, including apparel, food and electronics and is the second largest retailer in India (Reliance Industries Limited, 2013, p. 40).

The Reliance group's operations can be classified into four segments namely:

- petrochemicals business.
- petroleum Refining and Marketing business.
- oil and Gas Exploration and Production business.
- retail.

The group conducts its business through more than 140 subsidiaries and after the end of no contest period with separated ADA group is entering into telecommunication market in India by acquiring 4G licences in 22 telecom circles in India and the services are likely to be launched shortly (Reliance Industries Limited, 2013, p. 43).

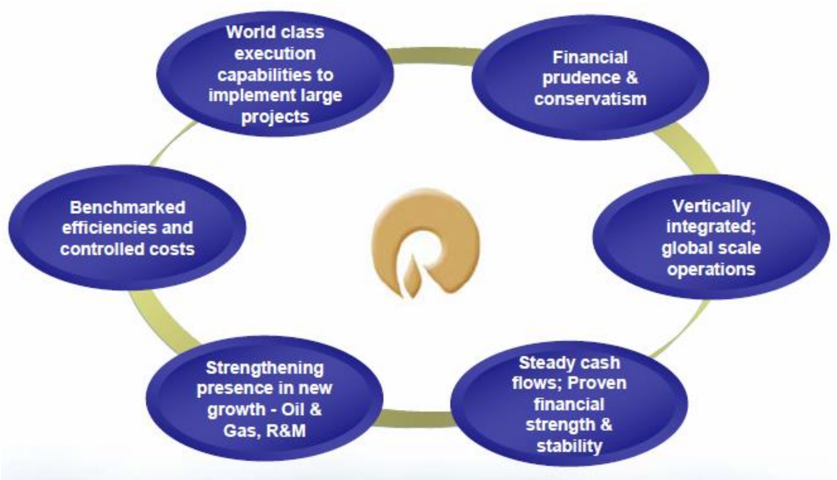
2.3.1 Key capabilities

Reliance is one of the Fortune 500 companies and has consistently performed over the years. The company has key capabilities in operating one of the world's most efficient oil refineries. It has distinctive ability to identify and enter a high growth business. The company has skill and ability to execute big world class projects in record time. It has also achieved global competitiveness and leadership position in most businesses it operates. It has developed capability to be low cost manufacturer and quality service provider and integration across the value chain. The company has developed prudence in financial conservatism and financing norms.

Innovation. Reliance to be cost effective across the value chain and sustain and enhance profitable growth has embarked on innovation to become a developer of leading edge technologies. They are setting up a centre which will act as central agency to provide leadership and support for creating world-class physical and intellectual capabilities. The Centre acts as a catalyst by harnessing cutting-edge, futuristic but practical, science, technology and innovation initiatives from both within and outside the organization. It will serve as a Nerve Centre with the sole quest of propelling Reliance to the forefront of global business leadership. The research and development activities of the group are coordinated by Reliance Innovation Council (RIC) which has been established to provide the vision to the innovation movement at Reliance through Reliance Innovation Leadership Centre. The innovation agenda of the group hinges around 4 key elements:

- Building innovation leaders within the group;
- Deploying best innovative practices to create competitive advantage in the group business;
- developing new business based on emerging technology;
- strategically deploy corporate venture capital fund to maximize value.

Figure 9. Business Model of RIL



Source: Reliance Industries Limited, *Reliance Industries Limited*, 2014b.

2.3.2 Business strategy

The key business strategy of company is to achieve competitive advantage through cost leadership and operational excellence. The company aggressively strategize on vertical integration in all businesses with focus on exports. The company is diversifying into retail, power and telecommunication sector.

The company strives for vertically integrated global scale operations with bench marked efficiencies and cost control. The company has huge cash flows from oil refining and petrochemical business and with prudent financial and strategic management capabilities effectively allocate resources to its competitive advantage. The company is presently engaged in implementing new technologies in its refining and petrochemical plants to develop new products for value addition.

The company is venturing in to production of coal bed methane to augment its falling production of natural gas and to effectively use its huge gas pipeline infrastructure. The company has also acquired shale gas assets in America and is implementing a programme for bringing liquefied ethane from there to its refinery in India for cracking.

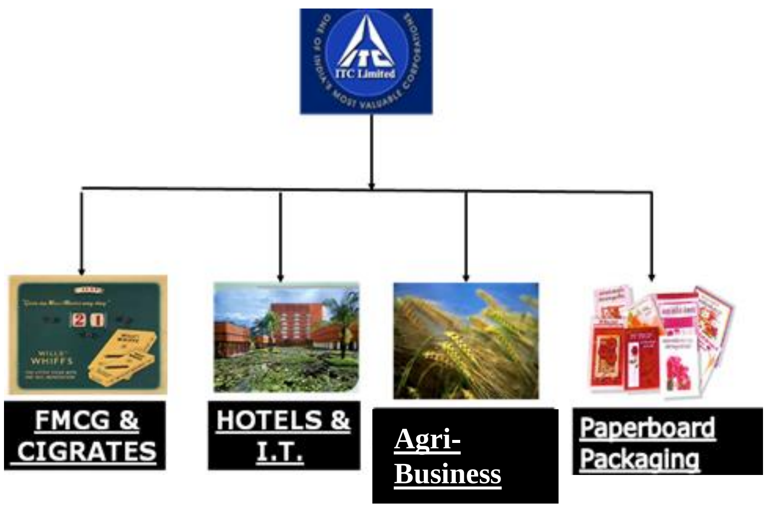
2.4 Imperial Tobacco Company Limited (ITC)

ITC Limited is an Indian conglomerate founded on 24 August 1910. The company (formerly known as Imperial Tobacco Company of India Limited) has its registered office in Kolkata. It employs over 20,000 people at more than 60 locations across India. ITC has established vital brands and becoming the fastest growing among the consumer goods companies operating in India. ITC also ranks among Asia's 50 best performing companies compiled by Business Week. ITC is India's third most valuable company (Business Today In, 2013b).

ITC started as a tobacco company and diversified to strategically move to non-tobacco businesses and has presence in cigarettes, hotels, paperboards and ppecialty Papers, packaging, agri-Business, packaged foods and confectionery, information technology, branded apparel, personal care, stationery, safety Matches and other fast moving consumer goods (hereinafter: FMCG) products. The group apart from being a market leader in its traditional businesses of cigarettes, is also doing equally well in totels, paperboards, packaging and agri-exports. ITC is one of India's foremost private sector companies with a market capitalization of over Rs. 2,700,000 crores (USD 45 billion) and a turnover of R s. 420,000 crores (USD 7 billion) (ITC Limited, n.d.a) and is currently ranked third in before tax profit among private sector companies in India. ITC's Agri-Business is one of India's largest exporters of agricultural products.

The group has strategically involved Indian farmers with an innovative business model called *e-Choupal*. *e-Choupal* is an initiative of ITC Limited to link directly with rural farmers via the Internet for procurement of agricultural and aquaculture products like soybeans, wheat, coffee, and prawns. *e-Choupal* tackles the challenges posed by Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of intermediaries. The programme installs computers with Internet access in rural areas of India to offer farmers up-to-date marketing and agricultural information. This transformational strategy has already become the subject matter of a case study at Harvard Business School. The Company’s e-*Choupal* initiative has received wide spread global acclaim and has enabled Indian agriculture significantly enhance its competitiveness by empowering Indian farmers through the power of the Internet. This transformational strategy has already become the subject matter of a case study at Harvard Business School.

Figure 10. Business Portfolio of ITC



Source: Adapted from *Business, ITC Limited*, 2014b.

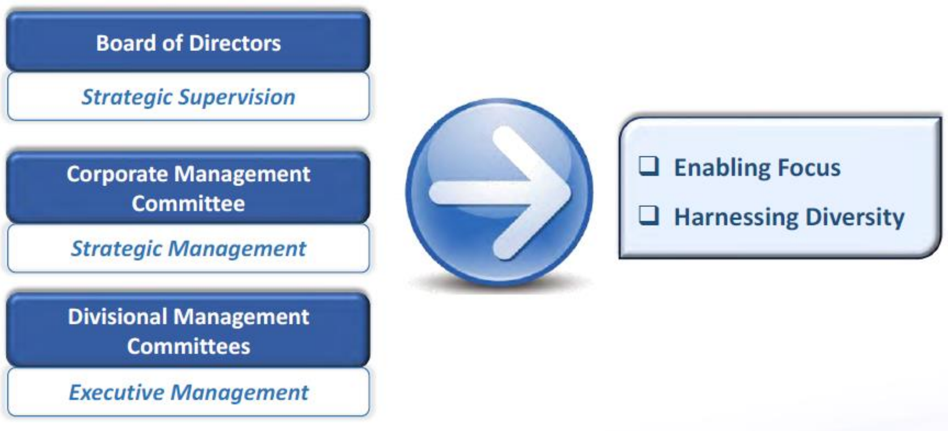
2.4.1 Key capabilities

ITC in short period of time diversified into unrelated businesses of FMCG sector which has high growth prospect. The company has developed strategy to pursue multiple drivers of growth based on its proven competencies and strong synergies between its businesses and prudent research and development activities. ITC’s ability to leverage internal synergies that exist in across its diverse businesses provides a unique source of competitive advantage to its products and services. ITC is the country's leading player in the FMCG sector and clear market leader in the Indian Paperboard and Packaging industry, a pioneer in farmer empowerment through its wide-reaching Agri-Business, the second largest Hotel Chain in and is one of India's fast-growing IT companies in the mid-tier segment. ITC has developed capabilities to drive each of its businesses towards international benchmarks.

2.4.2 Business Strategies

ITC is a board-managed professional company, committed to creating enduring value for all stakeholders. The company formulate its policy at the corporate level based on its business capabilities to enable focus and to harness diversity. The top management does the strategic supervision while the local management is responsible for implementation of business policies. The strategy of the company has been to effectively deploy it resources and capabilities to create synergy across the business.

Figure 11. ITC Business Strategy



Source: ITC Limited, *Corporate Presentation, ITC Limited One of the India most Admired and Valuable Companies*, 2014d.

ITC’s corporate strategies are:

- developing a portfolio of world class businesses that best matches organisational capability with opportunities in domestic and export markets and create multiple drivers of growth;

- benchmark the health of each business comprehensively across the criteria of market standing, profitability and internal vitality;
- continue to focus on the chosen portfolio of FMCG, Hotels, Paper, Paperboards & Packaging, Agri-Business and Information Technology;
- ensure that each of its businesses is world class and internationally competitive;
- create distributed leadership within the organisation by nurturing talented and focused top management teams for each of the businesses;
- enhance the competitive power of the portfolio through synergies derived by blending the diverse skills and capabilities residing in ITC are various businesses;
- continuously strengthen and refine Corporate Governance processes and systems to catalyse the entrepreneurial energies of management by striking the golden balance between executive freedom and the need for effective control and accountability.

3 BUSINESS ANALYSIS OF FIRMS

Before we analyse the performance of these business groups along with NMDC we try to evaluate the business environment in India. Nowadays organizations find themselves operating in a dynamic changing environment that is changing faster than ever before. The process of analyzing the implication of these changes and modifying the way that the organization reacts to them is known as business strategy. The three year period for financial 2011, 2012 and 2013 were not particularly good due to recession and political instability in the country. In spite of unfavourable markets these firms were able to perform better. For environmental scanning of India we will use the PESTE method. We will try to see how these firms have strategized in this environment to their competitive advantage. We will briefly see the financial performance of the firms and try analyze the following key indicators:

- **Net Sales –** the total amount of products or services sold by the company.
- **Profit after tax** – also referred as the bottom-line, is a measure of the profitability of the company after deducting all its expenses.
- **Return On Capital Employed –** It is defined as total assets less current liabilities. Return on Capital Employed (ROCE) is a ratio that shows the efficiency and profitability of a company's capital investments. The ROCE should always be higher than the rate at which the company borrows money and the formula is shown below in equation (1).

$$\textit{Return on capital employed} = \frac{\textit{Operating profit before interest and tax}}{\textit{Shareholders fund + long term debt}} \quad (1)$$

- **The asset turnover ratio (ATR)** – It measures the ability of a company to use its assets to efficiently generate sales. The higher ratio indicates that the company is utilizing all its assets efficiently to generate sales and the formula is given below in equation (2).

$$\textit{Asset turnover Ratio} = \frac{\textit{Sales}}{\textit{Total assets}} \qquad (2)$$

A SWOT Analysis will be performed on these companies to analyze their strength and weaknesses internal factors and opportunities and threats which are present for these business groups.

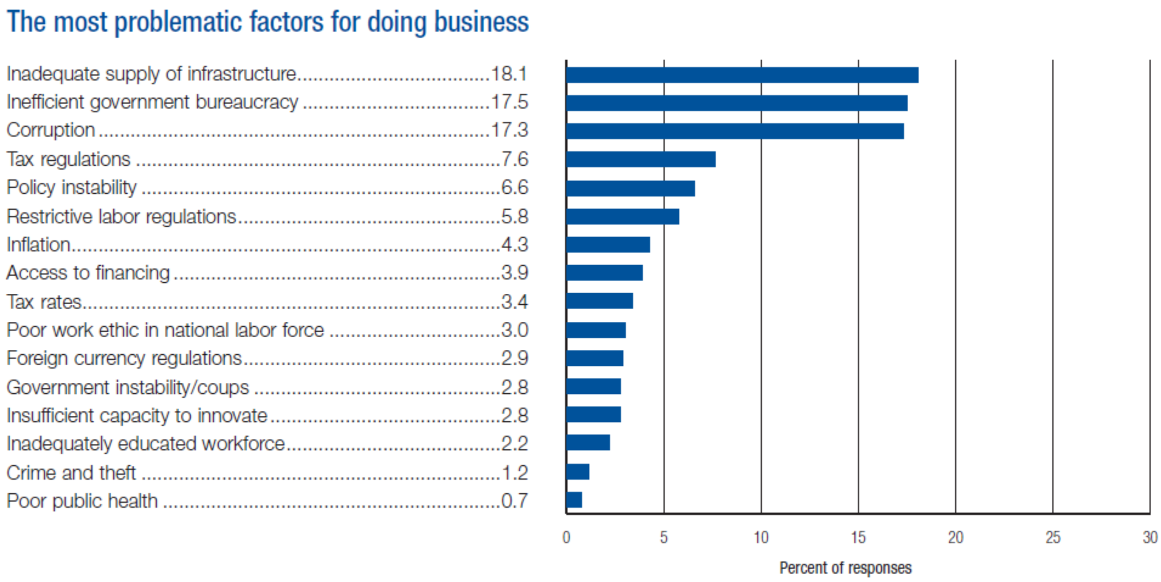
3.1 PESTLE Analysis of India

Political. India, the world's largest democracy, has a population of 1.24 billion people (Central Intelligence Agency, 2014). Stable political situation prevails in the country. After independence in 1947, Indian National Congress (hereinafter: INC) dominated the first general election held in 1951. Throughout its reach history, INC led the federal Government of India. Several national parties such as the Bharatiya Janata Party (hereinafter: BJP), the Communist Party of India (hereinafter: CPI), including the INC dominate state level politics. Besides national parties, various regional parties play vital role in formation of government. In the recent elections held this year in 2014 the BJP and their Alliance partners got absolute majority thus forming a very stable government. The previous government of 2009 Indian elections, the United Progressive Alliance (UPA) consisting of INC and other small regional parties had a dismal performance due to coalition problems within the alliance and corruption allegation. In recent time we have seen that many political decisions and intervention of the Supreme Court the highest have impacted the business environment. The Global Competitiveness Report by World Economic Forum (WEF) indicates lack of supply of infrastructure, government bureaucracy and corruption as most problematic factors for doing business in India (WEF, 2013) and is shown in figure 12.
These are the major determining factors of the political environment in India:

- **Bureaucracy:** There is problem as the business groups influence the government in formulating policies and also there is the nexus between the politicians and the bureaucracy. There is substantial delay in policy formulation which tremendously impacts the business environment. The government is also not determined for disinvestment of public sector enterprises and opening of sectors like retail and insurance completely for foreign direct investment.
- **Corruption:** Corruption is one biggest challenge for the country. It has severely impacted the growth. In recent year the county had two big scams related to spectrum allocation for telecommunication and coal scam related to allotment of coal mines.

Both the allotments were declared illegal by Supreme Court and cancelled. More than 50 companies have been affected by these recessions.

Figure 12. Factors Affecting Business Environment in India

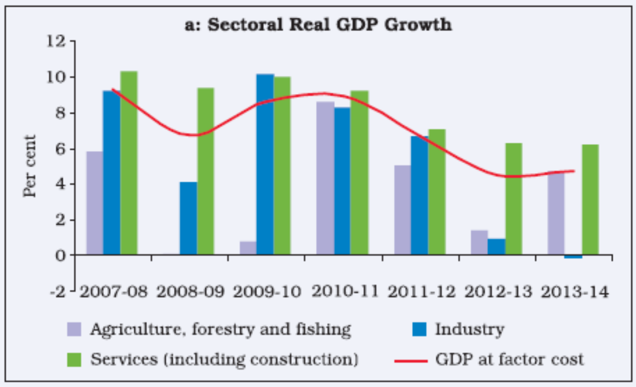


Source: World Economic Forum, *The Global Competitive Report 2013–2014*, 2014. p. 216.

- **Tax regulation:** The union government, the state governments and the urban and rural local bodies are three pillars of three-tier federal structure. In accordance with the provisions of the Indian Constitution, Government at each level has got its own tax structure. The Union Government is empowered to levy income tax, customs duties, central excise and sales tax and service tax. The present corporate tax rate for domestic company is 30% and for foreign company is 40% respectively. The state governments levy sales tax, stamp duty, state excise, land revenue, and duty on entertainment and tax on professions and callings. The local bodies impose levy tax on properties, octroi tax on markets and tax/user charges for utilities like water supply, drainage, etc. The country wants to migrate to single tax structure goods and services tax (GST) but there is no unanimity with in the states and presently government is negotiating with them to implement it. Other major problem is implementation of retrospective taxes for many business transactions making it very risky.

Economical. India is a growing and open-market economy. The country is in the transition stages with traces of its past autarkic policies remain. Diverse factors such as growth of the services sector, higher investment, and dependence on domestic consumption are fuelling the booming economic growth of the country. Diversified Indian economy consists of traditional village farming, modern agriculture and large number of services, handicrafts, and wide range of modern industries. Though 50% of the work force is engaged in agriculture, economic growth lies primarily in service sectors. Services accounts for nearly two-thirds of India's output with less than one-third of its labour force. Large numbers of educated English-speaking population help the country to become major exporter of business outsourcing services, information technology services, and software workers. In the early 1990s, India started the process of economic liberalization measures, including industrial deregulation, privatization of state-owned enterprises, and reduced controls on foreign trade and investment. Liberalization geared to accelerate the country's growth, which averaged around 7% per annum from 1997 to 2011 and stands as the fourth largest economy in the world (Reserve Bank of India, 2013–14). The GDP growth for 2012–13 was lowest in last decade at 4.5% and slightly improved to 4.7% in 2013–14 and this year it is likely to be above 5%. The details of GDP growth based on RBI Annual Report 2013–14 is shown in Figure 13.

Figure 13. Indian Sectoral GDP Growth Rate



Source: Reserve Bank of India, *Reserve Bank of India Annual Report 2013–14*, 2014. p. 15.

From 2011, economic growth of the country is slowing down due to decline in investment, caused by high interest rates, rising inflation, and investor pessimism about the government's commitment to further economic reforms and global slowdown. The present lending rates of scheduled commercial bank in India is around 12%. In the end of 2012, the Indian Government undertook additional reforms and deficit reduction measures, including allowing higher levels of foreign participation in direct investment in certain sector of the economy. Still the prospect for India's long-term growth is moderately positive due to a young workforce and corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy.

However, the country has to counter and mitigate many challenges including poverty, violence and corruption. Discrimination against women and girls is the challenge with the country is facing which is affecting international tourism. With no proper policy on allotment of coal reserves and natural gas has crippled power generation and distribution system. Entry of foreign companies is impacted due to ineffective enforcement of intellectual property rights, insufficient transport and agricultural infrastructure and business outsourcing services. Low level of non-agricultural employment opportunities, unavailability of quality basic and higher education, high spending and poorly-targeted subsidies, poor healthcare system and accommodating rural-to-urban migration are barriers for growth. In 2013 growth reduced to a decade low, as country's economic leaders could not improve India's wide fiscal and current account deficits. Investors shifted capital away from the country due to rising macroeconomic imbalances in India and improving economic conditions in Western countries and led to depreciation of India Rupee. However, in early 2014, reduction of the current account deficit and expectations of post-election economic reform and improvement of GDP growth led to improve investors' perceptions which have resulted in a surge of inflowing capitals and improvement of the rupee.

Social. Demand for a firm's products and the availability and willingness of individuals to work can be influenced by changes in the social trends. Ageing population of the country has increased the costs for firms who are committed to pay pension payments for their employees because their staffs are living longer.

It describes the characteristics of the society in which the organization exists. Demographic features, customs, lifestyle, literacy rate, values, beliefs, and mobility of population are essential features of social environments. Managers of a corporation shall observe the trend in which the society is moving and formulate progressive rules, policies commensurate with changing social scenario. Population of the 2nd populous country, India, is divided in the following age structure (Central Intelligence Agency, 2014):

Table 4. Age Structure of India

Age Structure	**% of Population**
0–14 years	28.5%
15–24 years	18.1%
25–54 years	40.6%
55–64 years	7.0%
65 years and above	5.7%

Source: Central Intelligence Agency, *The World Factbook*, 2014.

India has strong trade union activities in industry and most of these unions have political affiliations hence it is difficult for government to implement labour reforms to improve business confidence and productivity.

Technological. In the last few decades India has demonstrated its advancement in making their own launch vehicles, communication satellites, frontline fighter aircraft, and mission to the moon, powerful parallel computer and intercontinental ballistic missiles, etc. On the other hand, the country is cursed with largest number of illiterates in the world. India houses 25% of the world's diabetes patients, wastes more than 40 % of fruits and vegetables grown, has highest road accident rate with smallest vehicle numbers, abysmally poor sanitary conditions and drinking water, and so on. The country has to improve on innovation by transforming our education system. In a highly bureaucratic country like India, the product life cycles are shorter than decision making cycles. The second grand challenge to country is creating an ‘innovation ecosystem’, in which questioning attitudes and healthy irreverence can grow. India has to grow from factor driven to innovation driven country to make it globally competitive. India has tremendous capabilities in IT services. With the advancement of technology, the country can achieve reduced costs, improved quality and innovation. Global Indian companies are investing on research and development in field of engineering, minerals and metals consumer durables water purification and renewable energy sources to take up the impending challenges. Indian companies should realize that future for growth is through innovation.

Legal. Successful business environment of any country cannot ignore legal factors. Legal aspects represent the outlook of the Governmental structure of that country. Every enterprise shall consider this legal set up while formulating the organizational goals, vision and objectives. It is essential for efficient and healthy functioning of the enterprise. Legal set up enables the enterprise to know about the rights, obligations along with the challenges that it may have to encounter.

An Indian company has to abide by the prime law, Companies Act, 1956 which relates to all legal aspects such as formation of a company, authority and responsibilities of the directors and managers, capital raising, holding company meetings, maintenance and audit of company accounts, corporate governance, reconstruction and amalgamation of a company and even wrapping up of a company. An important Legislation, The Indian Contract Act, 1872, guides all the transactions of a company including the general principles such as formation and enforceability of contracts; rules for the provisions of an agreement and offer; the various types of contracts including those of indemnity and guarantee, bailment and pledge and agency. It also guides relating to breach of a contract. The Industries (Development and Regulation) Act 1951; the Arbitration and Conciliation Act, 1996; the Foreign Exchange Management Act (FEMA),1999; Trade Unions Act; the Competition Act, 2002; laws pertaining to intellectual property rights; laws relating to labour welfare are other major legislations related to corporations.

The Foreign Investment and Promotion Board (hereinafter: FIPB), the Reserve Bank of India (hereinafter: RBI) and India’s central bank are the key Indian regulatory authorities in the context of Foreign Direct Investment (hereinafter: FDI). FIPB develops foreign investment policy. RBI is responsible for implementing and enforcing foreign exchange regulations and government policy. Recently India is undergoing through substantial legal changes that have affected firms' behaviour. Foreign investors are availing benefits of FDI policies of liberalized India. Government of India has not permitted 100% FDI in sectors like retailing and telecommunications. But the government is taking steps to attract investors in these sectors also. Under the present policies, India is viewed as heaven for investment by foreign investors.

Environmental. From the end of 1980s, the Supreme Court of India is issuing many directives regarding environmental issues. It interprets and introduces new guidelines in the environmental jurisprudence directly. New principles have been laid to protect the environment. Initiatives have been taken to interpret environmental laws, create new institutions and structures, and confer additional powers on the existing ones through a series of directions and judgments.

The reasons for the increasing interjection of India's Supreme Court in governance arenas are, experts claim, complex. A key factor has been the failure of government agencies and the state owned enterprises in discharging their constitutional and statutory duties. This has prompted civil society groups to file public interest complaints with the Courts, particularly the Supreme Court, for suitable remedies. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities. . Companies intending to do business in India should have good technology to adhere to strict environmental norms.

3.2 NMDC Limited

3.2.1 Financial performance

NMDC operating income decreased in the year 2012–13 by 5% and profit after tax reduced by 13% as compared to previous year. Due to cyclic nature of the business due to recession in steel industry the turnover was reduced during the period of review. The detail of financial performance is given in the Table 5.

Table 5: Profit and Loss Statement of NMDC Limited

Financial Year	**2012–13**	**2011–12**	**2010–11**
Category		**Amount (Rs. crores)**	
Operating income	10,704.27	11,261.89	11,368.94
Other income	2,238.87	2,016.49	1,205.00
Expenditure	–3,326.30	–2,387.26	–2,722.49
Interest	–13.20	–1.48	0.00
Profit before dep. and tax	96,03.64	10,889.64	9,852.15
Depreciation	–138.52	–130.17	–124.98
Profit before tax	9,465.12	10,759.47	9,727.17

(table continues)

(continued)

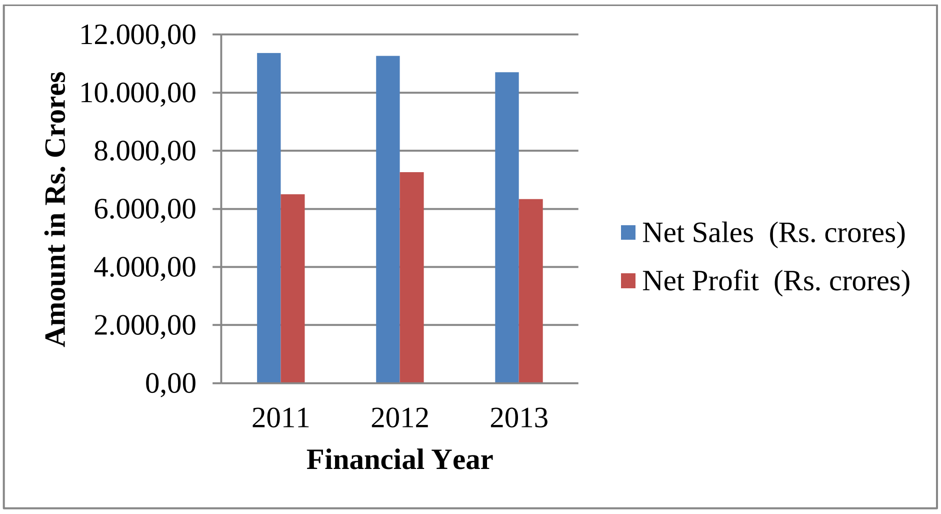
Tax	–3,122.75	–3,494.08	–3,227.95
Net profit	6,342.37	7,265.39	6,499.22
Equity capital	396.47	396.47	396.47
Reserves	27,114.49	24,009.89	18,818.05
Basic EPS	16.00	18.33	16.39
Net profit margin	59.25	64.51	57.17
Cash EPS	16.35	18.65	16.71
ROCE (%)	34.44	44.30	50.62
Book value	69.39	61.56	48.46
Asset turnover ratio	0.41	0.52	0.68

Source: Adapted from *NMDC Limited Financial Results Annual Trend*, 2014b.

NMDC had a very low return on capital employed (ROCE) as the company is a debt free company and has huge cash reserves. Also the asset turnover ratio was very less indicating in efficient use of its assets. The delay in effectively deploying it cash reserves due to economic recession in general and particularly in the steel sector and due to naxalite problem in its region of operation has slowed down investment plans. The present political and legal implications for mining industry are also affecting the growth.

The price variation of iron ore and increased operating cost impacted the profits of the company. In 2011–12 the profits improved on lower sales as company was able to maintain good iron ore price. But in 2012–13 the sales decreased along with decrease in net profits. The net profit of NMDC decreased by around 12 % from Rs. 7,265.39 crores in 2011–12 to Rs. 6,342.3.70 crores in 2012–13. The details are shown below in Figure 14.

Figure 14. NMDC Sales Profit in 2011–2013



Source: Adapted from Table 5.

3.2.2 NMDC SWOT Analysis

The iron ore industry is very volatile due to cyclic fluctuations in demand. To identify the capabilities and the area of improvement for NMDC SWOT Analysis is performed to take strategic steps to improve performance.

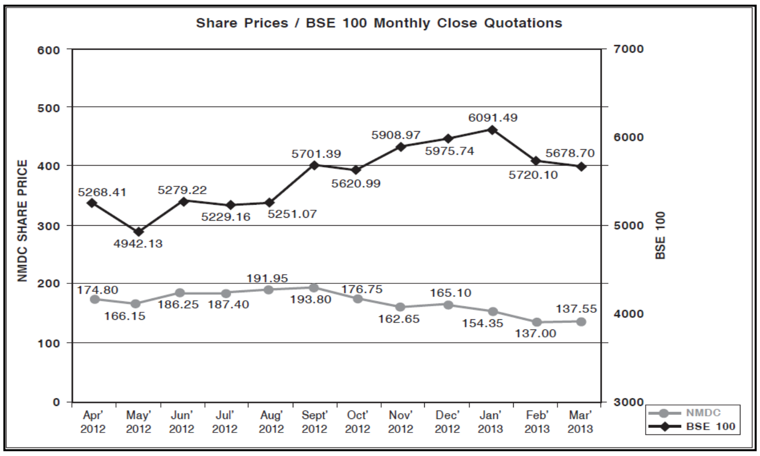
SWOT Analysis

Factor Location	Factor Type	
	Favourable	**Unfavourable**
Internal	***Strength*** • Large reserves of iron ore • High quality of ore • Low cost and largest producer of iron ore by volume in India • Capability to operate efficiently and integrating production from two to three mines in a region. • Good financial reserves and zero debt company • Excellent infrastructure and capability establish mechanized iron ore mines • In house R&D and Exploration Capabilities • Forward diversification into manufacturing of Steel, Pellets and other value added products.	***Weakness*** • Difficulty in human resource management in terms of talent acquisition and retention due to remoteness of projects. • Most of the operations in forest area causing delay in forest and environmental and other clearances delaying commissioning of new mines and affecting future investment plans. • Extreme weather conditions causing stoppage of mining operations at Bailadila complex during monsoon months. • The Company is not diversified and any fluctuations mining sector hits the profitability of the Company.
External	***Opportunity*** • Good domestic demand of iron ore enabling diversifying and expanding its mining activities and product • Create competitive efficiency and develop into an integrated producer of iron and steel • Infrastructure for evacuation and increasing production • harmonize resources to improve infrastructure and operational capabilities through international acquisition and joint ventures	***Threat*** • Disturbances in region of operation due to naxalite activities. • Intense competition in securing fresh mining leases due to change in government policy. • Multinational company entering into Indian iron ore mining. • Sharp cyclic fluctuation in iron ore. • Regulatory issues and legal intervention currently in Indian mining industry is affecting allotment of mining leases.

The major risk NMDC is facing is the prevailing law and order situation and naxalite attack on its assets in their major region of operation. Based on strengths and opportunities NMDC should continue to diversify by forward integration and should look for assets outside disturbed region for future growth.

As a result of declining performance NMDC performed below par on BSE and had a PE ratio of 9.95 against industry average of 17.26 (Moneycontrol, n.d.). Due to deteriorating performance of NMDC the company performed bellow par on the Bombay Stock Exchange as compared to the bench mark indices as shown in Figure 15.

Figure 15. NMDC Performance on BSE



Source: NMDC Limited, *NMDC Limited Annual Report 2012–13*, 2014, p. 68.

3.3 Tata Group

3.3.1 Financial Performance

The performance of Tata Group was quite impressive and total turnover increased by 40% from Rs. 379,675 crores in 2010–11 to 527,047 crores in 2012–13.

Table 6. Sector wise performance of Tata Group

Financial Year	**Total revenue**	**Sales revenue**	**Exports revenue** Rs. Crores
Group Total			
2012–13	527,047.00	520,469.00	57,292.00
2011–12	475,721.00	471,045.00	46,555.00
2010–11	379,675.00	374,687.00	37,852.00
Engineering			

(table continues)

(continued)

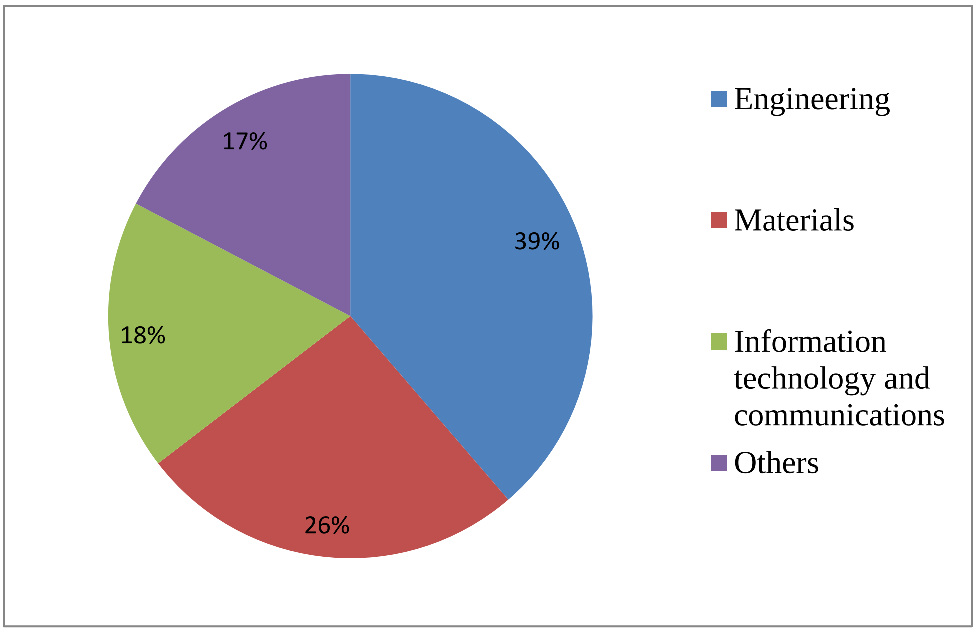
2012–13	202,416.00	201,394.00	4,499.00
2011–12	183,710.00	182,847.00	4,116.00
2010–11	134,959.00	134,714.00	4,396.00
Material			
2012–13	135,267.00	134,787.00	2,938.00
2011–12	134,660.00	133,076.00	1,917.00
2010–11	119,842.00	118,854.00	2,448.00
Information & Technology			
2012–13	95,765.00	94,193.00	46,953.00
2011–12	77,968.00	77,133.00	36,095.00
2010–11	62,194.00	61,058.00	28,101.00

Note. Own table created using Financial Result.

Source: *Tata Group Sector-wise Operations*, 2014d.

The three robust sectors of Engineering, material and information technology provided 83% of group revenue. The details are furnished in Figure 16.

Figure 16. Sector wise Performance of Tata Group in 2012–2013



Source: Adapted from Table 5.

The market capitalization of Tata group stood at 132. 31 billion USD and it is the largest business group in India.

Table 7. Market Capitalization of Tata Group Companies in 2014

Name of the Company	Rs. Crores
Rallis	4,277.00
Taj Group	7,207.00
Tata Chemicals	9,531.00
Tata Communications	10,263.00
Tata Consultancy Services	476,346.00
Tata Elxsi	1,887.00
Tata Global Beverages (Tata Tea)	9,712.00
Tata Motors	164,985.00
Tata Power	22,141.00
Tata Steel	52,115.00
Titan Company	32,596.00
Trent	3,855.00
Voltas	7,938.00
Total	**802,853.00**

Source: Market Capitalization of Tata Companies, 2014e.

All the three companies had higher ROCE and turnover ratio consistent with the sectors they operate and did not show any side effect of conglomerate diversification with less efficient performance against stand-alone firms. Tata motor achieved a PE ratio of 357.67 against industry average of 248.08 and performed better than their competitors Ashok Leyland and Esscorts. TCS and Tata steel achieved PE ratio of 26.77 and 7.92 respectively (moneycontrol, n.d.) Due to diversified business the three Tata Company performed well showed volume sales growth due to addition of new capacities with in the group.

Table 8. Profit and Loss Statement of Tata Group (3 Companies)

Rs. crores

Financial Year	2012–13	2011–12	2010–11
Net sales of TCS	62,989.48	48,893.83	3,7324.51
Net sales of Tata Motors	44,765.72	54,306.56	48,040.46
Net sales of Tata Steel	38,199.43	33,933.46	29,396.35
Total net sales	**145,954.63**	**137,133.85**	**114,761.32**
Net profit of TCS	14,075.69	10,523.45	9,189.79
Net profit of Tata Motor	301.81	1,242.23	1,811.82
Net Profit of Tata Steel	5,062.97	6,696.42	6,865.69
Total net profit	**19,440.47**	**18,462.10**	**17,867.30**
ROCE of TCS	48.07	55.31	44.38
ROCE of Tata Motors	5.95	10.26	10.75

(table continues)

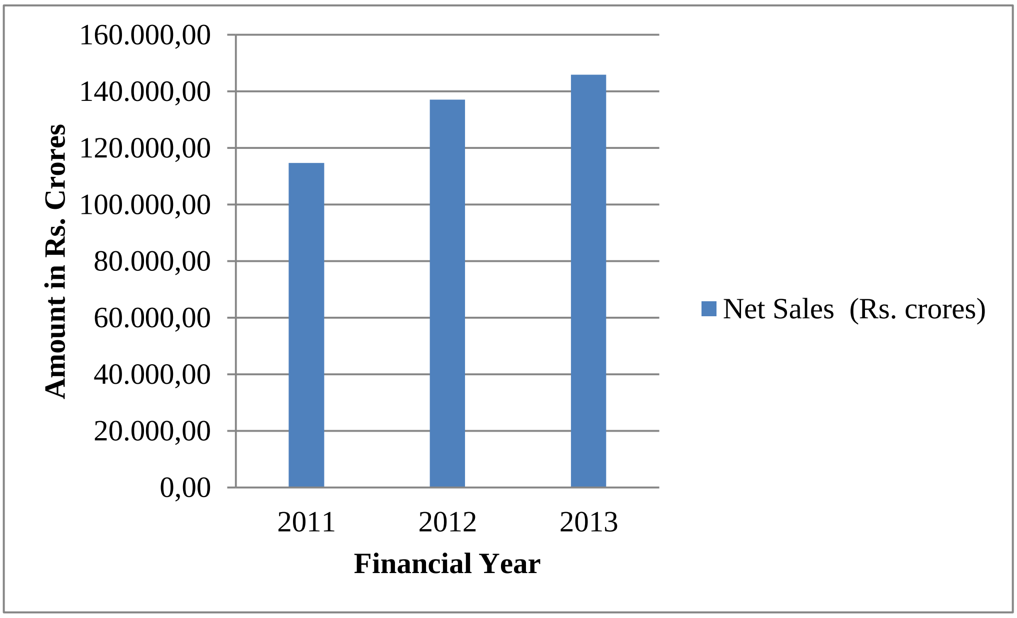
(continued)

ROCE of Tata Steel	12.80	14.77	14.86
ATR of TCS	1.68	1.74	1.68
ATR of Tata Motors	1.40	1.66	1.43
ATR of Tata Steel	0.49	0.45	0.43

Source: Adapted from *Tata Consultancy Services Financial Results Annual Trend Consolidated Results*, 2014d; *Tata Motor Financial Results Annual Trend Standalone Results*, 2014e; *Tata Steel Financial Results Annual Trend Standalone Results*, 2014f.

The three selected company of the Tata group performed well within three year period the total sales increased from Rs. 114,761.32 crores in 2011–12 to Rs. 145,954.63 crores in 2012–13 an increase of around 27%. Due to diversified business and increase in revenue from other segments as we have seen earlier there was increase in total sales in the corresponding period.

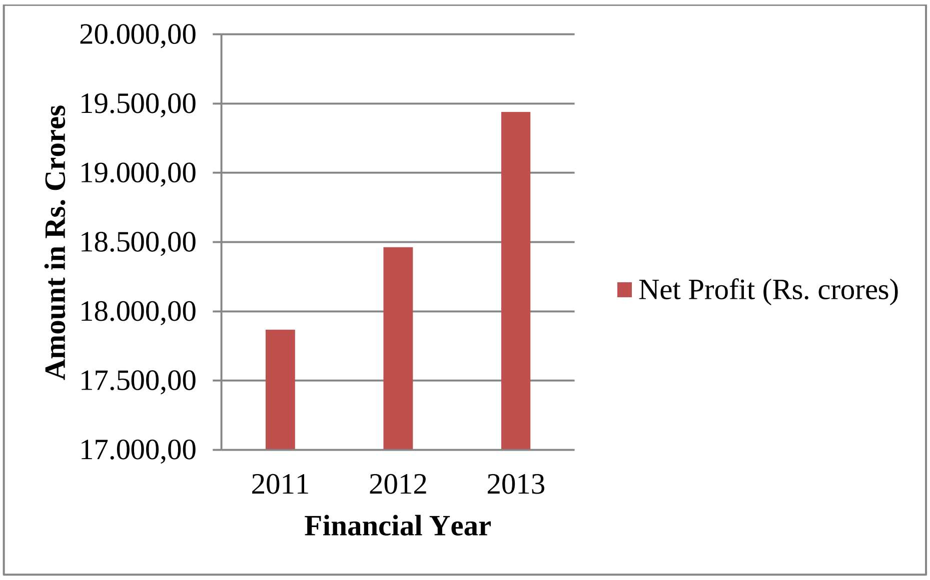
Figure 17. Tata Group Net Sales in 2011–2013.



Source: Adapted from Table 8.

The net profit of group also showed increase and during the assessment period although due to recession their peer companies had reduced growth. The performance of the Tata group shows the competitive advantage a company achieves when a company undertakes unrelated diversification as a directional strategy for growth and is able to get a strategic fit for all their businesses.

Figure 18. Tata Group Net Profit in 2011–2013



Source: Adapted from Table 8.

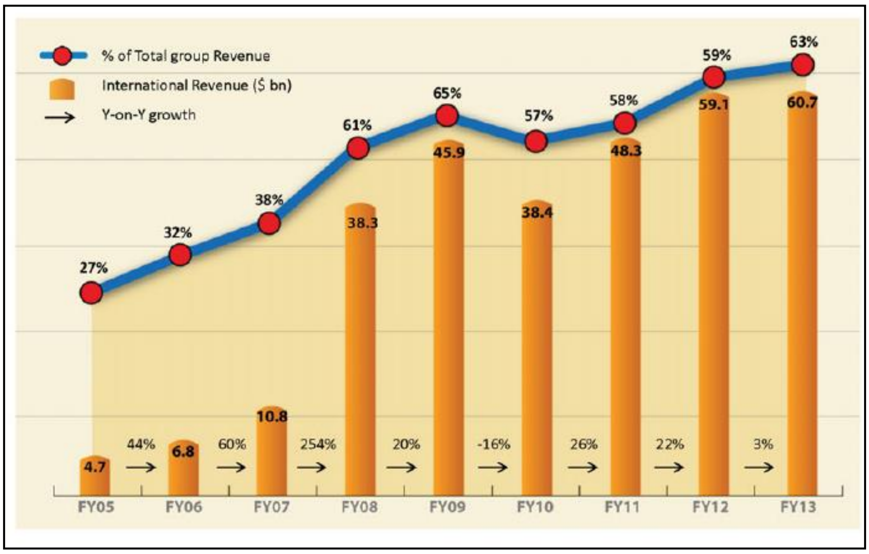
The Tata group revenue (figure 19.) has increased by 10 times in 11 years between 2001–02 and 2012–13 from around 10 billion USD to around 100 billion USD.

Figure 19. Tata Group Revenue

Source: Tata Group, *Corporate Presentation Leadership with Trust*, 2014c.

The Tata group international revenue increased from 27% in 2005 to 63% of total group revenue in 2013. This indicates the directional strategy of internationalization by Tata Group.

Figure 20. International Revenue of Tata Group



Source: Tata Group, *Corporate Presentation Leadership with Trust*, 2014c.

Tata group have concentrated on internationalization in last 10 years and the international revenue has increased from USD 4.7 billion in 2005 to USD 60.7 billion in 2013 as shown in figure 20.

3.3.2 SWOT Analysis

The Tata group is a big conglomerate and with rate of growth and internationalization has made it one of the most valuable groups and SWOT is performed to identify its capabilities.

Factor Location	**Factor Type**	
	Favourable	**Unfavourable**
Internal	***Strength*** • Market share leadership: High command on domestic market. • Strong brand equity (TATA) and reputation management. • Strong Ethics. • Cost Advantage. • Strong domestic presence. • Wide and extensive distribution and service network. • Market leader in the taxi ,and rental segment.	***Weakness*** IT Services • Not very strong in product segment. • Focus on commoditized services. • Lag in high-end consulting offering. Engineering • Return on Investment for shareholders is comparatively low.

	• Expert service professionals available. • International exposure through associations like Jaguar Land Rover, Hispanso, Macropolo and Corus. • Dedicated engineering and R&D department. • High employee base and Brand goodwill. • Highly diversified product portfolio. • Operations in various Countries.	• Brand limitation in Luxury segment due to perception deficit. • Mainly located in the eastern part of India. Consumption of Steel is high in western and southern part of India. • High cost of capital. • Low labour productivity. • It is located 250 Km away from nearest port, which adds to its cost when importing raw material or exporting finished steel.
Factor Location	**Factor Type**	
	Favourable	**Unfavourable**
External	***Opportunity*** • Emerging markets. • Product and services expansion in advanced analytics. • New emerging markets. • Good sectorial growth in automobile market. • Increasing potential customer base due improved purchasing capability. • Leveraging mergers and acquisitions to acquire newer technology. • Enormous scope for increasing consumption of steel in almost all sectors in India. • More export market penetration. • Growing rural market of India. • Focus on infrastructure projects viz. industrial freight corridors, new ports and new cities planned along the freight corridors. • Access to alloy steel technology with takeover of Steel plants in Europe.	***Threat*** • Attrition and Employee loyalty. • Taxes and duties structural changes. • Increasing fuel costs competition from other big automobile giants for better performing engines. • Product innovations and economical engineering by competitors. • Increasing cost of raw material affecting profit. • India is plagued with violent agitation against land acquisition. • Global Economic Slowdown. • Aggressive expansion both in private and public sector and new entrants in Business throughout India. • Good market share of Low cost small producers. • No allocation of new iron ore mines for expansion projects.

The capabilities of the group is unique with experience in diverse sectors and with present financial cash flows and access to new technologies in Europe due to merger and acquisition they can leverage it to their competitive advantage by introducing them in India which has got tremendous potential.

3.4 Reliance Industries Limited

3.4.1 Financial Performance

Reliance posted an excellent performance in three year period and its net sales increased by 45% from Rs. 248,170 crores in 2010–11 to Rs. 360,297 crores in 2012–13. The company had a strong cash flow and cash reserves and strategically looked for investment opportunity during the period. Reliance also ventured into telecommunication by acquisition and merger. During this period they successfully concluded a new agreement on non-contest with his brother group (ADAG) which was agreed after the split of the group in 2006. Before split the group was a truly conglomerate with diversified presence in petrochemicals, oil, energy, telecommunication and financial services.

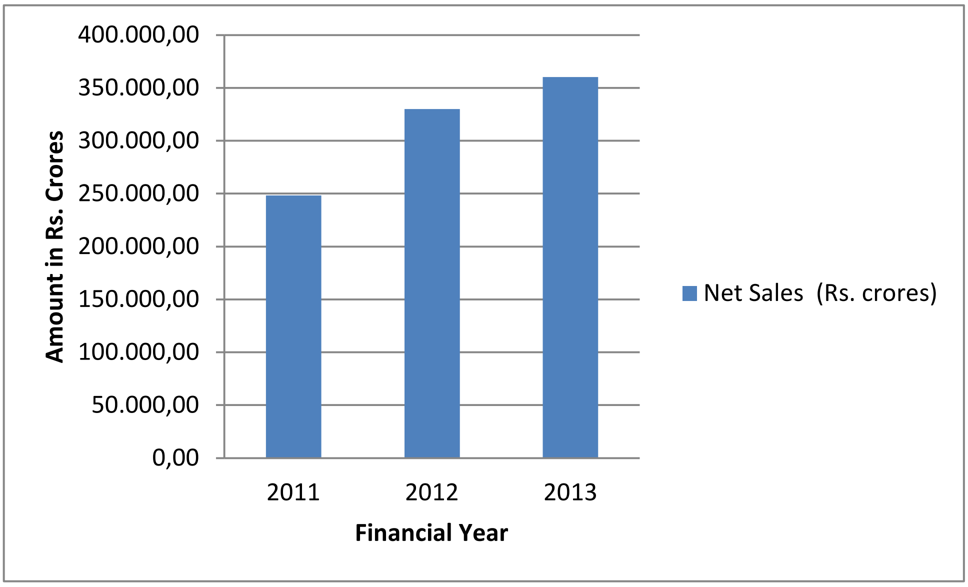
Table 9. Profit and Loss Statement of Reliance Group

Financial Year	**2012–13**	**2011–12**	**2010–11**
Category			**Amount (Rs. Crores)**
Operating income	3,60,297.00	329,904.00	248,170.00
Other income	7,998.00	6,192.00	3,052.00
Expenditure	–329,510.00	–296,285.00	–210,044.00
Interest	–3,036.00	–2,667.00	–2,328.00
Profit before depr. and tax	35,749.00	37,144.00	38,850.00
Depreciation	–9,465.00	–11,394.00	–13,608.00
Profit before tax	26,284.00	25,750.00	25,242.00
Tax	–5,281.00	–5,710.00	–4,956.00
Net trofit	21,003.00	20,040.00	20,286.00
Equity capital	3,229.00	3,271.00	3,273.00
Reserves	175,711.00	159,698.00	142,800.00
Basic EPS	64.8	61.2	62
Operating profit margin	10.76	12.07	16.59
Net profit margin	5.83	6.07	8.17
ATR	1.57	1.49	1.19
ROCE	12.5	12.18	12.6
Cash EPS	94.36	96.1	103.56

Source*:* Adapted from *Reliance Industries Limited Financial Results Annual Trend Standalone Results*, 2014c.

The company's shale gas output in the US is increasing gradually. But the gas price there is under pressure due to a supply glut. It may pick up if export of shale gas from the US is accelerated. Reliance's foray into other businesses such as retail and telecom are also long-gestation in nature and will take time to show results.

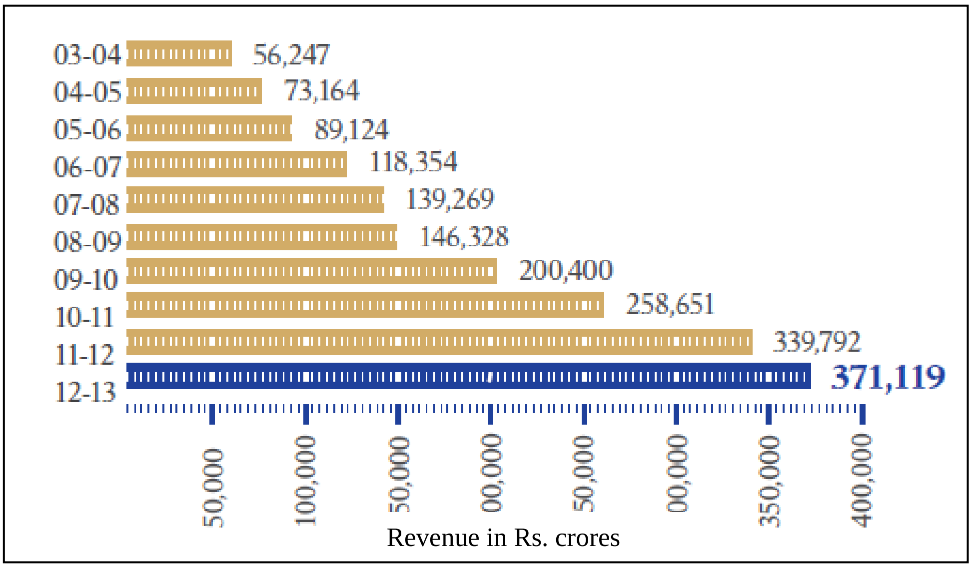
Figure 21. Net Sales of Reliance Group in 2011–2013



Source: Adapted from Table 9.

The Reliance group has performed very well over the last 10 years and increased it turnover by more than six times.

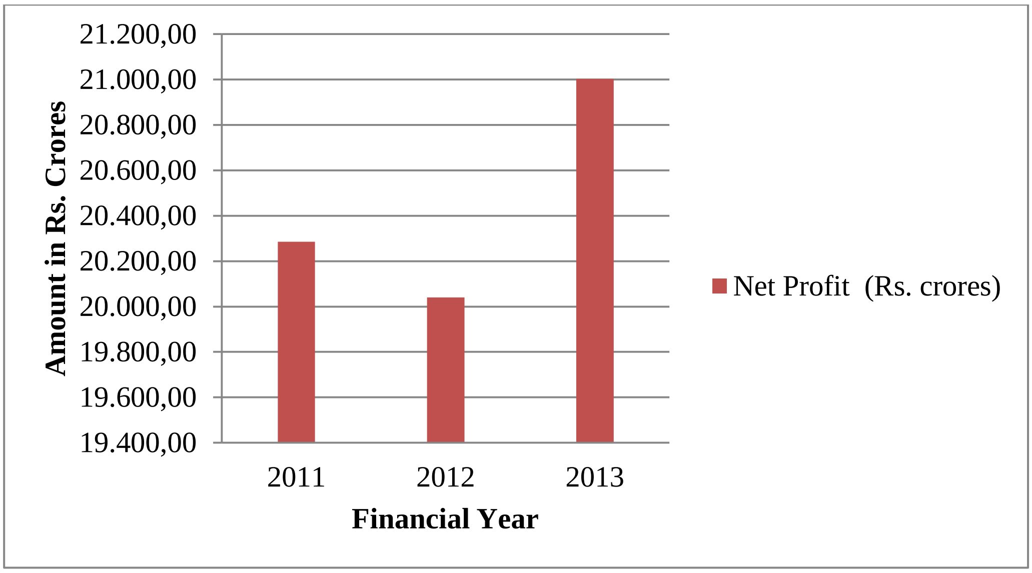
Figure 22. Revenue of Reliance Group



Source: Reliance Industries Limited, *10 Year Financial Performance*, *Annual Report 2012–13*, 2014, p. 3.

The company showed consistent profit during the three year period and its entry into retail and telecommunication and type of growth it is having in the retail business will show further increase in profits in years to come.

Figure 23. Net Profit of Reliance Group in 2011–2013



Source: Adapted from Table 7.

The company operated efficient with good consistent ROCE and increase in asset turnover ratio from 1.19 in 2010–11 to 1.57 in 2012–13 an increase of around 32%. The performances of RIL refineries achieved and efficiency of 110% in production, one of the best performances in the world. RIL's debt-to-equity was a reasonable 0.4 times. Adjusting for cash reserves, the company is debt-free. The major portion of the sales was from oil refining and marketing followed by oil and gas and together they constituted around 98% of the sales.

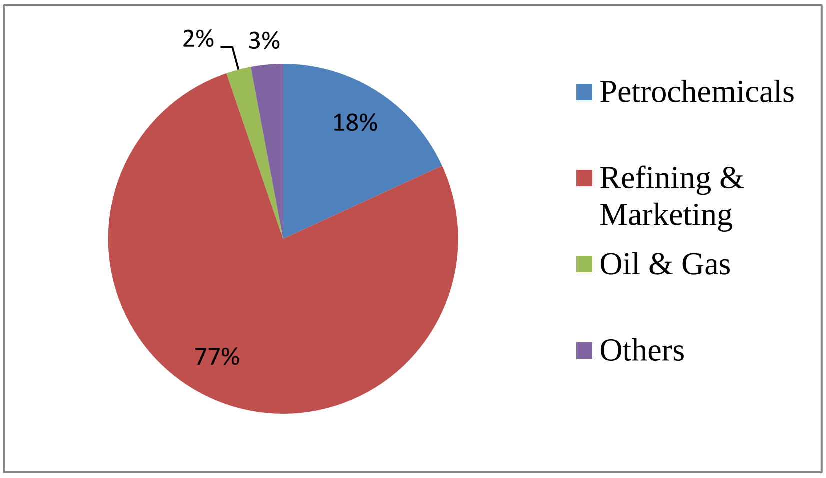
Table 10. Segment wise Performance of Reliance Group in 2012–2013

Segmental Break-up Rs. Crores	**2012–13**
Petrochemicals	87,370
Refining & Marketing	368,911
Oil & Gas	11,010
Others (Retail)	14,265

Source: Adapted from Reliance Industries Limited, *Reliance Industries Limited Annual Report 2012–13*, 2014, p. 199.

Although the revenue from Retail business is only Rs. 14,265 crores the retail business is second largest in India after Future Group. The growth in Retail Sector of Reliance is facilitated due to restriction of Foreign Direct Investment in Retail Sector in India.

Figure 24. Sector wise Performance of Reliance Group in 2012–2013



Source: Adapted from Table 10.

3.4.2 **Analysis**

Reliance performance is drawn from being a competitive player in their operations across sectors. Across our businesses, they have demonstrated abilities to build world-scale capacities and infrastructure. To assess their capabilities SWOT is done on the group and is presented below:

<table>
<tr><th rowspan="2">Factor Location</th><th colspan="2">Factor Type</th></tr>
<tr><th>Favourable</th><th>Unfavourable</th></tr>
<tr><td>Internal</td><td>Strength
• India's one of the biggest players.
• Strong brand name.
• Operational efficiency in refining.
• Shale gas joint venture.
• Excellent financial position.
• International recognition due to Forbes list presence.
• Large employee and retail shareholder base.</td><td>Weakness
• Long term debt.
• Legal issues.
• KG D6 gas controversy.
• Accusations of being favoured by the government.
• Declining production from major exploratory blocks (age factor).</td></tr>
<tr><td>External</td><td>Opportunity
• Growing demand for petroleum products.
• Buyout of competition.
• Implementation of large polyester projects.
• Partnership with BP.</td><td>Threat
• Government regulations.
• High Competition.
• Environmental laws.
• Economic instability (rising operational cost).</td></tr>
</table>

Reliance group has over the years have performed consistently have developed distinct capabilities of being cost efficient in all business verticals they operate. They have diversified logically based on their existing business and opportunities. They are among the top 100 companies in the world and have been globally felicitated consistently for shareholder value creation over the past three decades. They are aggressively going for expansion of their businesses and are aggressive in retail and telecommunication and are committed towards investing in group's future. Their large capital expenditure plan will allow them to take full benefit of their dominant market position and accomplish their growth ambitions.

3.5 ITC Limited

3.5.1 Financial Performance

ITC performance has been consistent and they have utilized their capabilities to create growth even during the extremely challenging business context of economic slowdown. Net Sales Revenue at Rs. 299,012.70 million grew by about 19% primarily driven by around 26 % growth in the non-cigarette and agri-business segment and around 13 % growth in the Cigarettes segment.

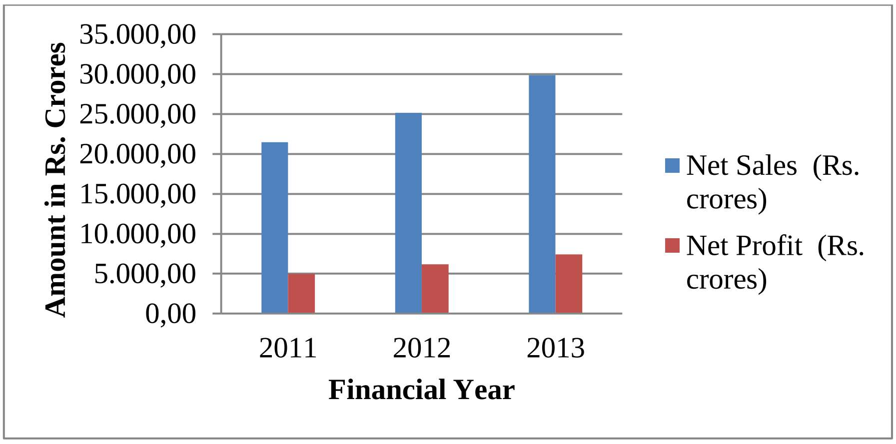
Table 11. Profit and Loss Statement of ITC

Financial Year Description	**2012–13**	**2011–12**	**2010–11**
		Amount (Rs. Crores)	
Operating income	29,901.27	25,173.82	21,468.25
Other income	938.70	825.34	518.17
Expenditure	–19,273.76	–16,325.20	–1,4014.14
Interest	–86.47	–77.92	–48.13
Profit before dep. and tax	11,479.74	9,596.04	7,924.15
Depreciation	–795.56	–698.51	–655.99
Profit before tax	10,684.18	8,897.53	7,268.16
Tax	–3,265.79	–2,735.16	–2,280.55
Net profit	7,418.39	6,162.37	4,987.61
Equity capital	790.18	781.84	773.81
Reserves	21,444.92	17,957.00	1,5126.12
Basic EPS	9.45	7.93	6.49
Operating profit Margin	38.68	38.43	37.14
Net profit Margin	24.81	24.48	23.23
Cash EPS	10.40	8.78	7.29
ROCE	48.18	46.95	44.94
ATR	1.45	1.44	1.4

Source: *ITC Limited Financial Results Annual Trend Standalone Results*, 2014a.

ITC showed the most robust performance among the three diversified company and net sales increased from Rs. 214,682.50 million to Rs. 299,012.70 million with an increase of around 39% during the three year period. There was also steady increase of profit after tax and the company showed no sign of recession. The company also showed a improve ROCE and asset turnover ratio further emphasising the correctness of strategic directional shift from a risky business of cigarettes to other FMCG products, agro business, paper and packaging and hotels.

Figure 25. Net Sales and Net Profit of ITC in 2011–2013



Source: Adapted from Table 10.

After Tata group it is the most diversified and it is evident from the performance that segment wise the company strategically moving away from their core business of cigarettes and earning more revenue from other sectors of operation. This transition by diversifying in to unrelated business with increase in performance without impact presents the classic example for companies in developing countries to seek unrelated diversification to their competitive advantage.

Table 12. Segment wise Revenue of ITC in 2012–2013

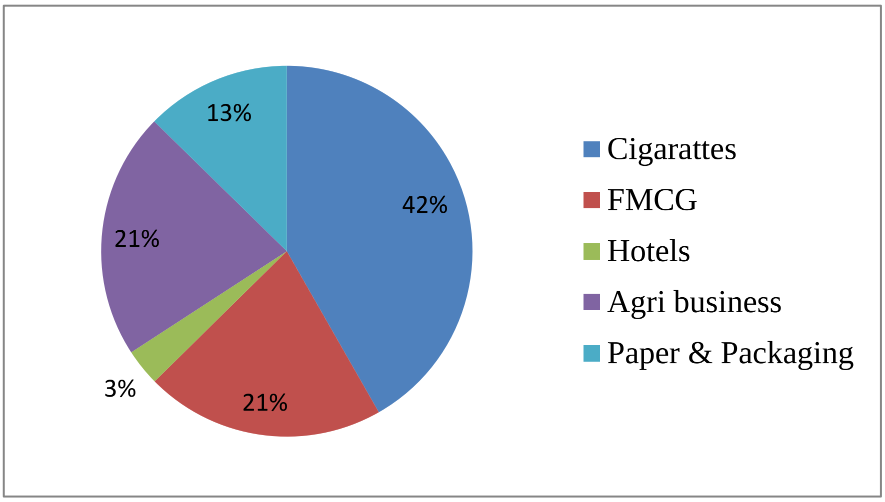
Segment wise revenue 2012–13	**Rs. Crores**
Cigarettes	13970
FMCG	6983
Hotels	1074
Agri business	7201
Paper & Packaging	4237

Source: ITC Limited, *Corporate Presentation: ITC Limited One of the India most Admired and Valuable Companies*, 2014c.

ITC registered a good growth in the non-cigarette segment and agri-business segment and also a reasonable growth in the Cigarettes segment. Non cigarette business contributed

58% to the total revenue. ITC Continued with a strategy of creating multiple drivers of growth by diversifying in to non-cigarettes business and today it is the most important FMCG marketer in India and the second major Hotel chain in India, the comprehensible market leader in the Indian Paperboard and Packaging industry and the country's leading player agri-business player.

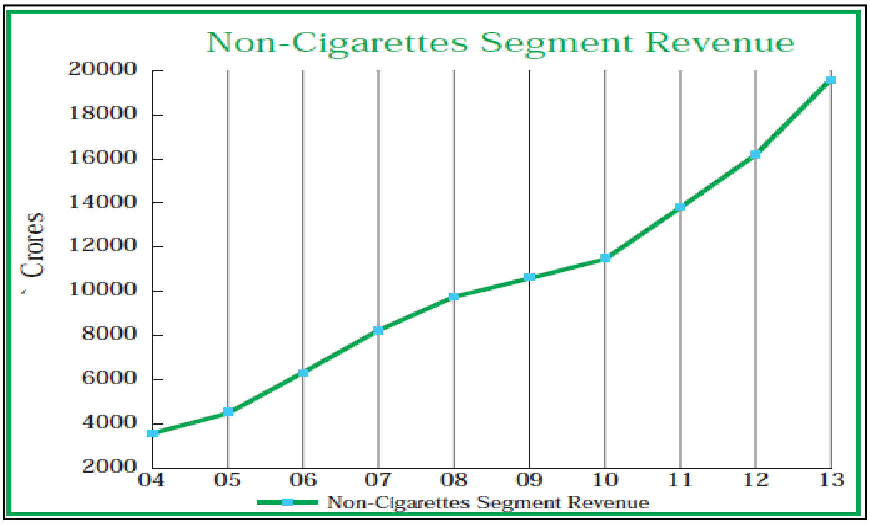
Figure 26. Segment wise Revenue of ITC in 2012–2013



Source: Adapted from Table 11.

The non-cigarette revenue has increased by five times in last 10 years vindicating company's directional strategy and making it one of India's largely acknowledged and important corporations.

Figure 27. Non Cigarettes Revenue of ITC



Source: ITC Limited, *10 Year Financial Performance, Report & Accounts 2013*, 2014.

3.5.2 SWOT Analysis

ITC's effective management of diversified businesses and enhanced capability provides the inherent ability to efficiently deal with business risk. The SWOT Analysis of ITC is presented below.

Factor Location	Factor Type	
	Favourable	**Unfavourable**
Internal	***Strength*** • **ITC** successfully entered businesses different from their existing one and develop new brands for new segments. • ITC is a conglomerate company having dominant presence across the business sectors. • Presence in Information Technology and lea verging it across all other sectors. • Strong brand portfolio. • Good distribution network in both urban and rural areas.	***Weakness*** • Strong Competitors and threat from substitute products. • Less focus on exports. • Utilizing revenue from tobacco business for providing capital for guzzling FMCG start-up. • 80 % of the company profit comes from cigarette business where in it accounts for around 40% of the company's turnover. • Threat of unrelated diversification is also a major weakness of ITC.
External	***Opportunity*** • Huge population and large potential for growth in their business segments. • Using strategic marketing tools core brands such as Aashirwad, Mint-o, Bingo! And Sun Feast (and others) can be further developed. • ITC is moving into new and emerging sectors including Information Technology, supporting business solutions. • e-Choupal is a well thought of initiative that could be used in other sectors in many other parts of the world. • Per capita consumption of personal care products in India is the lowest in the world. • Untapped rural market. • Increase in per capita expenditure.	***Threat*** • Frequent change in tax and regulatory structure. • The obvious threat is from mimic brands and competition. both domestic and international. • Intense competition in FMCG sector. • Removal of import restrictions resulting in replacing of domestic brands. • Impact of recession on people spending on FMCG products.

3.6 Characteristics of Indian Diversified Company

From the performances of these diversified groups we can conclude that they are the top most companies in India and over the years have shown fast growth and created value for all shareholders. They have distinct competitive advantage in all the sectors of businesses they operate. Some of the charterstics of these business groups are:

- all business groups have their presence in more than three sectors and are well diversified conglomerates;
- they operate under one promoter holding company with operations in each sector either as a separate company or as a subsidiary;
- all businesses either as a company or subsidiary operate at a arms length with the promoter company as per as the operational issues are concern and their performances are evaluated and published on standalone basis for listed companies or as a separate mention in groups annual report.
- All businesses of the groups operate under central control as per as strategic management, financial management and quality management is concerned;
- the promoter company provides investments from their cash flows and reserves for all the businesses and acts as institutions of internal capital market and loans are given to these businesses at competitive market rates so that there is no cross subsidisation of the performances thus maintaining share holder confidence;
- due to huge cash flows and reserves these groups mobilize funds from internal resources and international capital market at very competitive rates and leverage bargains during acquisition of big companies;
- all these groups have invested in information and technology across businesses and have common standard strategic management initiative of the group to improve synergy and to crate strategic fit under the group providing competitive edge for the businesses;
- India is a developing country and is a factor driven economy. In the absence of innovation and skills these business groups have undertaken activities in association with global research and development centres and reputed business schools to create innovative environment and learning. The synergy between the group companies under central strategic control provides opportunities of learning from different group businesses and implement in their own businesses to improve their performances and create competitive advantage by being the first movers in the market;
- all groups over the years have worked towards penetration and consolidation by vertical integration and product development. The groups have also have created new markets by internationalization and major portion of their revenue is generated from foreign markets;
- the core business group has superior industry and company information and they manoeuvre on directional strategy for growth of the companies;

- all companies after creating vertical integration of their core businesses have entered into new unrelated businesses and created new verticals and horizontal integration between two verticals creating good operational synergy and competitive advantage some time acting as entry barriers for new entrants;
- all groups being in consistent operation for more than 50 to 100 years have created brand value which has given huge competitive advantage in all their businesses.

4 ANALYSIS OF RESULTS

In the previous two chapters organizational capabilities and performances of the companies have been presented and our result indicate that conglomerate diversification create value for the firms. Even though the strategies for diversification adopted by these companies were different, all three companies strived to embark on being a true conglomerate. Tata and Reliance additionally apart from developing capabilities for unrelated diversification also strategized for international diversification through merger and acquisition. Two of the group, Reliance and ITC operate through one centralized company with subsidiaries and on the other hand Tata operates through different listed companies under one promoter company of Tata Sons. Although our assessment period was from 2010 to 2013, the period of recession, all these companies showed consistent performance better than the undiversified companies they compete in each of the sectors they operate.

On the other hand in spite of consistent performance in their core business of mining NMDC reduced their value owing to present environment of risk which looms on them because of legal issues in India across the mining sector and particularly due to antigovernment activities by naxalites in one of the region where NMDC operates their main iron ore mines. The performance of the company was also affected due cyclic nature of the business of iron ore demand.

4.1 Tata Group

Tata Group over the years has immerged as giant Indian multinational conglomerate company with presence in seven business sectors: communications and information technology, engineering, materials, services, energy, consumer products and chemicals. It has developed competitive advantage by efficiently managing operations in more than 80 countries across six continents. The group started its business with Iron and Steel and after consolidation and growth diversified in to Automobile and Engineering and then information and technology followed by telecommunication. Finally the group has embarked on growth through international acquisition.

If we evaluate the performance of Tata group it evolves that group companies operate in strong synergy with the promoter company Tata Sons. Tata sons through corporate parenting crates unique competitive advantage for the companies by creating synergy and strategic fit within the group. The companies utilizes the capabilities of Tata Sons in strategic management and work on common platform truly integrated by use of information technology, code of conduct, quality management and human resource management. The promoters efficiently allocate funds from cash flows within the group by winner picking and acts as an internal capital market. This creates competitive advantage for the group companies even more when external capital market is hampered by regulations and inefficient legal structure which is presently prevalent in developing country like India. Further it leverages the capabilities of the company in case of acquisition and merger of companies as they can mobilize the cash more efficiently and bargain a good deal with the strategic seller. Further due to business profile and quality assets they can mobilize debt at a cheaper cost. This was evident during acquisition of Corus, Jaguar, and Land Rover. This strategic move made Tata Steel and Tata Motors as star performers.

The group has created efficiency in each of its verticals by forward and backward integration and specific industry size by acquiring companies internationally. Tata Steel from single location plant is now a truly global by their presence in Europe and Southeast Asia apart from presently constructing their second plant in India. By multi location presence they have mitigated their business risk to large extent. Similar moves by Tata Motors have given them the same capabilities. Further the group creates synergy between two or more group companies by sharing their learning to develop new product and services to enter new market. Nano car by Tata motors a Rs. 2,40,000 (4000 USD) family car is the best example.

Tata Group is fast learning company creating innovative environment by accessing world class research and development facilities they acquired along with their strategic takeover of the companies in Europe. All group managers interact and are working together to develop new technologies. The group is looking to diversify into precision engineering, aerospace and manufacturing of defence equipments which the group views to be sectors with great growth.

4.2 Reliance Industries Limited

Reliance is an Indian conglomerate holding company and operates in four major segments: exploration and production, refining and marketing, petrochemicals, retail and is currently venturing into telecommunications. Unlike Tata group the Reliance group operates all its businesses as subsidiaries under one holding company of Reliance Industries Limited.

Reliance started as Textile Company and diversified into polymer business by setting up of a petrochemical plant and undertook forward and back word integration by setting up of one of the biggest and efficient petroleum refinery and then strategically entered exploration and operation of oil and gas. The business strategy remained at creating competitive advantage by fully integrated and cost effective operations. The company before split diversified into a true conglomerate by venturing into telecommunication, entertainment, power and financial services. In 2005 it was the biggest conglomerate. The group was split between the two brothers in November 2005 and the diversified business of telecommunication, entertainment, power and financial services was handed over to ADAG group and petrochemical and refinery business remained with the Reliance. The two split groups entered into agreement not to enter into the business of each other for 5 years period.

In 2010 the non-contest period was over and Reliance had strategically taken diversification into unrelated business of broad band services for 4G by acquiring Infotel broad band. Further they entered into agreement with his brother group to share infrastructure facility for its operations. The group in spite of being late starter the group is strategically positioning themselves as a major player in telecommunication sector. The group's present business performance in sectors across India shows that the group is has taken right strategic decision to invest on retail where it is a star performer. The group has used the present government policy of not allowing FDI in retail to its competitive advantage. Finally it has successfully moved to mitigate its business risks of oil and gas exploration and production business by entering into joint venture with British Petroleum which will infuse both capital and technology to improve its performance. The group has strategically acquired share in US shale gas production and will use it supply Indian market where it already has pipeline infrastructure and will augment its falling domestic gas production.

Like Tata steel the business is controlled by centralized strategic management group of skilled manger with effective financial management capabilities for implementing cost effective strategies across all business verticals. The group is a cash rich company which allows it make strategic investment decision.

4.3 ITC Limited

ITC showed impregnable performance over the year and showed tremendous increase in both top line and bottom line making it a truly competitive conglomerate. ITC growth is as a result of research and development creating innovative environment and use of information technology to create synergy between all sectors it operates. Like Reliance they also operate through one listed company and all its businesses as subsidiaries.

ITC has embarked upon strategic shift from cigarettes to other diversified sectors because of the growing risk which is present with tobacco business. There is lot of campaign against smoking and lot of restrictions on smoking in public places and increased imposition of taxes and duties. ITC timely decision on entering into other sectors has created tremendous value for its shareholders. This shows faith and focus of the group on Strategic Management principles and tools. ITC is a classic example of conglomerate diversification with enhanced performance and value creation.

ITC has efficiently utilized its earnings from tobacco business to grow its star businesses hotels, paper and packaging, agri-business and to also develop its FMCG Personal care business. The information technology is also a moderately growing business and the back bone of its group in creating synergy between all the sectors they operate.

4.4 Recommendations for NMDC

NMDC is engaged in operation of three fully mechanised iron ore mines with production capacity of 30 million tons per annum and operates the only diamond mines in India. It is also involved in the exploration of iron ore, copper, rock phosphate, limestone, dolomite, gypsum, bentonite, magnesite, diamond, tin, tungsten, graphite etc. NMDC is cash rich debt free company diversifying into other raw materials for steel industry like low silica limestone and dead burnt magnesite. It is also focusing for acquisition of mining assets globally to utilize its capabilities in the field of mineral exploration and mining. NMDC is venturing into development of high value mineral assets like gold, diamond etc., as joint ventures in some of the African countries. They have already acquired stake in Australian iron ore mining company Legacy and moved towards internationalization.

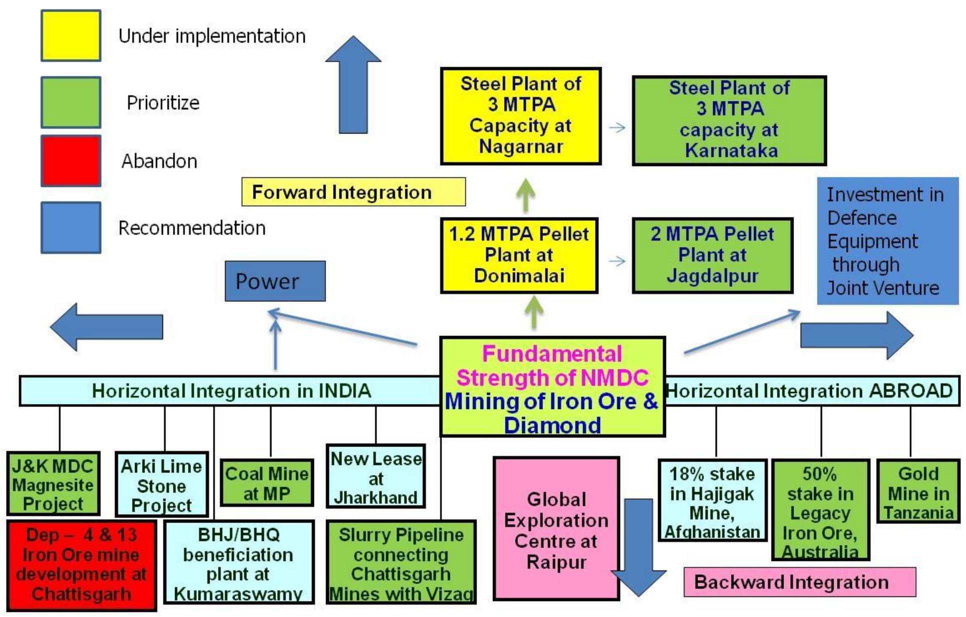
NMDC is currently engaged in related diversification to create vertical integration of its core iron ore mining business with pellet and steel businesses. A 1.2 million ton per annum capacity pellet plant is likely to be commissioned this year enabling value addition to its mining business. Furner it is setting up a 3 MTPA capacity green field Integrated Steel Plant at an estimated outlay of around Rs. 18,000 crores as part of its forward integration and the plant is likely to be commissioned by 2016. Within five years NMDC will be truly diversified integrated company creating competitive advantage and improved shareholder value for the investors.

Based on present business of NMDC we can conclude that directional strategy for diversification adopted by the company is pertinent. The main source of revenue for NMDC is through operation of its iron ore business and based on current performance the company has sufficient reserves and cash flows to internally fund its diversification plan. The company in future can enter debt market if the opportunities become favourable in domestic and International financial market to optimize its cost of capital. Opening of an iron ore mine outside India will tremendously improve company image and shareholder confidence hence this should also be factored for future expansion.

The immediate challenge for business is that among the three iron ore mines two are operating in disturbed area where there is insurgent activity. These two mines presently contribute around 70% of the revenue therefore increasing the business risk and eroding shareholders confidence. To mitigate its business risk NMDC should create sufficient capacities of iron ore mining in other area outside Bailadila region (which is in central part of India and is presently a disturbed area). In Bailadila NMDC should try to integrate its existing operations in all mines for effective use of resources and create synergy in operation by integrating information and technology. The company should strive to leverage its capabilities of being most cost efficient mining company into integrated multiple mine operation to achieve a competitive advantage. Strategic plan should be incorporated to improve operational efficiency with increase in production capacity.

The next challenge for the company is to create a business platform to integrate iron ore mining and steel production as NMDC unlike other steel company will maintain both the businesses as their dominant business. Therefore steel plant expansion should not only to be seen as a forward integration but as an additional business and plans should be initiated to strategically fit steel business into the company current business model. The strategic focus for growth should be innovation and implementing information technology. Tie up with foreign research and development organization and creation of better learning and innovative environment will be key drivers for achieving growth. The diversification road map is shown in figure 28.

Figure 28. NMDC Diversification Road Map



Source: Adapted from NMDC Business, 2014.

Finally we have seen three conglomerates we studied in this thesis have various degree of unrelated diversification and have superior performance and growth even during global recession. ITC diversified from its risky cigarette business to FMCG and other businesses with a business model were all businesses are able to compete and perform. Reliance mitigated their risk in KG Basin by getting a strategic partner British Petroleum and acquired shale gas assets in US to augment their falling natural gas production in India and diversified into retail sector. Tata has adopted a growth model by international acquisitions. All the companies by diversification have reduced their business risk and are able overcome cyclic business change.

Hence NMDC apart from their present diversification plan can also strategically make an endeavour to enter energy sector where there is tremendous scope and manufacturing sector particularly precision engineering in the defence sector by technological collaboration and joint ventures which has got huge growth potential in domestic and international market. The government has already identified defence investment in India under strategic focus enabling opening of the sector partially for foreign companies to enter into joint venture with Indian companies with up to 30 % share in the alliance company. NMDC can also identify a sector can enter as a strategic financial partner in them allowing improved return on their cash reserves.

CONCLUSION

Emerging markets provide business groups with an array of growth opportunities through diversification, as the market is not totally a competitive market. Firm diversify to attain competitive advantage and growth through economy of scope. From the history we know that business environment is very dynamic and keep on changing and to survive these changes the firm diversify to remain relevant. In India we see well diversified firms like three firms we analysed have grown significantly over last two decades. Many of the undiversified firms have run out of business. Diversified firms adjust better to business life cycle. Companies having diversified products or operating in different sectors or countries survive well during recession. The three financial years from 2010 to 2013 which were period of recession and used for evaluation of performance of firms confirms this view. Enhanced performance over a prolonged period of time creates a brand image of the company making it easier to enter into new markets

The growth was better when there is two or more dominant business of the companies. As new sectors are opened up and existing ones are liberalized, it poses a big challenge before business groups necessitating need to diversify for survival. The most noticeable part of this thesis is that all three companies, Tata Group, Reliance Group and ITC analysed are conglomerates and thus substantiate that conglomerate diversification creates firm value in a developing market. These three groups are top three groups as per market capitalization.

Conglomerate diversification also poses certain challenge and achieving success depends on the focus of the management on each business, steps to avoid agency problems and proper allocation of resources to improve efficiency. The major theoretical findings of this paper are the outcome that as long as a diversification strategy of an affiliated firm is perfectly aligned with the dominant logic of the business group, firm performance will be enhanced. A high strategic fit is important for creating benefit to overall group interests.

In a developing country like India where external socio political environment and external capital market are hampered by regulations and legal structure diversified firms provide efficient corporate culture, innovative environment and internal capital market to give sectoral competitive advantage and acting as barrier for new entrants.

All the three firms we analysed are top groups by market capitalization and also most valuable as per the business time's survey. I feel that with critical learning through strategic management tools and transparent analysis of performance and good corporate governance the risk of agency problem can be mitigated and the firm can prevent value destruction. With healthy competition within the group affiliates gives opportunity for winner picking and strategic investment decision.

The learning achieved by firms when they diversify can provide good information for the organization which improves its capabilities for better environmental analysis and accurate forecasting giving them advantage to be first and dominant mover in the market.

Internationalization through merger and acquisition allow firms to grow more rapidly and with acquisition they also get good brands to launch them in domestic market. Indian domestic market is one of the biggest markets and with high rate of growth provides excellent opportunity to launch international brands. Finally with high sales revenue and high cash reserves the diversified companies can mobilize funds for aggressive merger and acquisition by better bargaining power on one side and tap international market for cheaper rate of finance reducing their interest burden thus improving groups profit.

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APPENDICES

TABLE OF APPENDICES

Appendix A. List of Abbreviations

NMDC – National Mineral Development Corporation Limited
MTPA – Million Tons per Annum
SEBI – Security and Exchange Board of India
BSE – Bombay Stock Exchange
NSE – National Stock Exchange
ROCE – Return on Capital Employed
ATR – Asset Turnover Ratio
Rs. – Indian Rupee
Tata – Tata Group
Reliance – Reliance Industries Limited
ITC – Imperial Tobacco Company Limited
BHJ – Banded Hametite Jasper
BHQ – Banded Hametite Quartzite
GDP – Gross Domestic Product
TCS – Tata Consultency Services Limited
FMCG – Fast Moving Consumer Goods
FEMA – Foreign Exchange Management Act
RBI – Reserve Bank of India
FDI – Foreign Direct Investment
p/e – Price/ Earning
US – United States Of America
USD – United States Dollar
Cr. – Crores
1 Crore – 10 Million
1 USD – RS. 60

Appendix B. Key Financial Ratio of NMDC Limited

	Mar '13	Mar '12	Mar '11
Profitability Ratios			
Operating Profit Margin (%)	68.89	79.25	76.03
Profit Before Interest And Tax Margin (%)	55.91	66.24	67.80
Gross Profit Margin (%)	67.60	78.10	74.97
Cash Profit Margin (%)	50.05	56.08	52.65
Adjusted Cash Margin (%)	50.05	56.08	52.65
Net Profit Margin (%)	49.00	54.71	51.69
Adjusted Net Profit Margin (%)	49.00	54.71	51.69
Return On Capital Employed (%)	34.44	44.3	50.62
Return On Net Worth (%)	23.05	29.76	33.82
Adjusted Return on Net Worth (%)	23.04	29.97	33.82
Return on Assets Excluding Revaluations	69.39	61.56	48.46
Return on Assets Including Revaluations	69.39	61.56	48.46
Return on Long Term Funds (%)	34.44	44.3	50.62
Liquidity And Solvency Ratios			
Current Ratio	7.73	10.58	10.24
Quick Ratio	7.54	10.37	10.02
Debt Equity Ratio	--	--	--
Long Term Debt Equity Ratio	--	--	--
Debt Coverage Ratios			
Interest Cover	717.84	7,305.73	6,442.25
Total Debt to Owners Fund	--	--	--
Financial Charges Coverage Ratio	728.34	7,393.68	6,521.95
Financial Charges Coverage Ratio Post Tax	491.98	4,998.00	4,384.82
Management Efficiency Ratios			
Inventory Turnover Ratio	16.79	24.54	27.37
Debtors Turnover Ratio	11.77	18.43	24.92
Investments Turnover Ratio	16.79	24.54	27.37
Fixed Assets Turnover Ratio	4.46	5.07	5.41
Total Assets Turnover Ratio	0.39	0.46	0.59
Asset Turnover Ratio	0.41	0.52	0.68

Appendix C. Key Financial Ratio of Tata Motors Limited

	Mar '13	Mar '12	Mar '11
Profitability Ratios			
Operating Profit Margin (%)	3.83	7.69	9.90
Profit Before Interest And Tax Margin (%)	-0.21	4.68	6.95
Gross Profit Margin (%)	-0.22	4.73	7.01
Cash Profit Margin (%)	5.43	6.25	6.98
Adjusted Cash Margin (%)	5.43	6.25	6.98
Net Profit Margin (%)	0.64	2.26	3.81
Adjusted Net Profit Margin (%)	0.64	2.26	3.81
Return On Capital Employed (%)	5.95	10.26	10.75
Return On Net Worth (%)	1.57	6.32	9.05
Adjusted Return on Net Worth (%)	3.80	9.31	9.78
Return on Assets Excluding Revaluations	59.98	61.84	315.36
Return on Assets Including Revaluations	59.98	61.84	315.36
Return on Long Term Funds (%)	7.31	11.38	12.55
Liquidity And Solvency Ratios			
Current Ratio	0.42	0.50	0.52
Quick Ratio	0.40	0.43	0.54
Debt Equity Ratio	0.75	0.56	0.73
Long Term Debt Equity Ratio	0.42	0.41	0.48
Debt Coverage Ratios			
Interest Cover	1.43	2.58	2.69
Total Debt to Owners Fund	0.75	0.56	0.73
Financial Charges Coverage Ratio	2.74	3.90	3.68
Financial Charges Coverage Ratio Post Tax	2.53	3.34	3.29
Management Efficiency Ratios			
Inventory Turnover Ratio	10.05	11.84	12.10
Debtors Turnover Ratio	19.78	20.45	18.86
Investments Turnover Ratio	10.05	11.84	12.10
Fixed Assets Turnover Ratio	2.03	2.66	2.55
Total Assets Turnover Ratio	1.48	1.98	1.46
Asset Turnover Ratio	1.40	1.66	1.43

Appendix D. Key Financial Ratio of Tata Consultency Services Limited

	Mar '13	Mar '12	Mar '11
Profitability Ratios			
Operating Profit Margin (%)	29.54	29.30	29.96
Profit Before Interest And Tax Margin (%)	26.65	25.49	27.67
Gross Profit Margin (%)	27.88	27.52	28.12
Cash Profit Margin (%)	26.82	29.10	27.21
Adjusted Cash Margin (%)	26.82	28.07	27.23
Net Profit Margin (%)	25.24	26.42	25.42
Adjusted Net Profit Margin (%)	25.24	26.15	25.44
Return On Capital Employed (%)	48.07	55.31	44.38
Return On Net Worth (%)	39.32	44.24	38.80
Adjusted Return on Net Worth (%)	39.32	44.24	38.80
Return on Assets Excluding Revaluations	165.86	126.49	99.53
Return on Assets Including Revaluations	165.86	126.49	99.53
Return on Long Term Funds (%)	48.19	53.63	44.45
Liquidity And Solvency Ratios			
Current Ratio	2.85	2.48	2.45
Quick Ratio	2.88	2.47	2.44
Debt Equity Ratio	0.01	0.01	0.01
Long Term Debt Equity Ratio	0.01	0.01	0.01
Debt Coverage Ratios			
Interest Cover	513.84	841.63	435.25
Total Debt to Owners Fund	0.01	0.01	0.01
Financial Charges Coverage Ratio	540.06	857.98	462.68
Financial Charges Coverage Ratio Post Tax	444.80	712.23	406.19
Management Efficiency Ratios			
Inventory Turnover Ratio	7,638.19	9,386.18	5,451.71
Debtors Turnover Ratio	4.77	5.59	7.19
Investments Turnover Ratio	7,638.19	9,386.12	5,451.66
Fixed Assets Turnover Ratio	5.32	5.39	4.91
Total Assets Turnover Ratio	1.48	1.56	1.50
Asset Turnover Ratio	1.68	1.74	1.68

Appendix E. Key Financial Ratio of Tata Steel Limited

	Mar '13	Mar '12	Mar '11
Profitability Ratios			
Operating Profit Margin (%)	29.12	33.99	39.06
Profit Before Interest And Tax Margin (%)	24.25	29.82	34.54
Gross Profit Margin (%)	24.83	30.60	35.16
Cash Profit Margin (%)	18.86	21.07	24.60
Adjusted Cash Margin (%)	18.86	21.07	24.60
Net Profit Margin (%)	12.94	19.23	22.94
Adjusted Net Profit Margin (%)	12.94	19.23	22.94
Return On Capital Employed (%)	12.80	14.77	14.86
Return On Net Worth (%)	9.17	12.72	14.68
Adjusted Return on Net Worth (%)	10.39	11.75	13.29
Return on Assets Excluding Revaluations	568.46	541.81	487.55
Return on Assets Including Revaluations	568.46	541.81	487.55
Return on Long Term Funds (%)	12.81	14.78	14.93
Liquidity And Solvency Ratios			
Current Ratio	0.86	0.93	1.53
Quick Ratio	0.61	0.69	1.31
Debt Equity Ratio	0.47	0.45	0.56
Long Term Debt Equity Ratio	0.47	0.45	0.56
Debt Coverage Ratios			
Interest Cover	5.53	5.85	6.26
Total Debt to Owners Fund	0.47	0.45	0.56
Financial Charges Coverage Ratio	6.41	6.45	6.92
Financial Charges Coverage Ratio Post Tax	4.57	5.08	5.62
Management Efficiency Ratios			
Inventory Turnover Ratio	7.27	6.98	7.44
Debtors Turnover Ratio	44.91	51.1	68.46
Investments Turnover Ratio	7.27	6.98	7.44
Fixed Assets Turnover Ratio	1.01	1.48	1.32
Total Assets Turnover Ratio	0.47	0.45	0.40
Asset Turnover Ratio	0.49	0.45	0.43

Appendix F. Key Financial Ratio of Reliance Industries Limited

	Mar '13	Mar '12	Mar '11
Profitability Ratios			
Operating Profit Margin (%)	8.54	10.25	15.24
Profit Before Interest And Tax Margin (%)	5.78	6.70	9.65
Gross Profit Margin (%)	5.91	6.80	9.76
Cash Profit Margin (%)	8.27	8.97	13.24
Adjusted Cash Margin (%)	8.27	8.97	13.24
Net Profit Margin (%)	5.70	5.99	8.08
Adjusted Net Profit Margin (%)	5.70	5.99	8.08
Return On Capital Employed (%)	12.50	12.18	12.60
Return On Net Worth (%)	11.66	12.29	13.88
Adjusted Return on Net Worth (%)	11.66	11.42	13.42
Return on Assets Excluding Revaluations	557.49	498.21	446.25
Return on Assets Including Revaluations	557.49	507.77	462.95
Return on Long Term Funds (%)	13.14	12.78	13.37
Liquidity And Solvency Ratios			
Current Ratio	1.43	1.44	1.16
Quick Ratio	1.12	1.17	0.94
Debt Equity Ratio	0.30	0.36	0.46
Long Term Debt Equity Ratio	0.24	0.3	0.38
Debt Coverage Ratios			
Interest Cover	9.66	10.12	11.66
Total Debt to Owners Fund	0.30	0.36	0.46
Financial Charges Coverage Ratio	12.78	14.39	17.40
Financial Charges Coverage Ratio Post Tax	11.04	12.78	15.56
Management Efficiency Ratios			
Inventory Turnover Ratio	8.43	10.42	9.59
Debtors Turnover Ratio	23.78	18.40	17.05
Investments Turnover Ratio	8.43	10.42	9.59
Fixed Assets Turnover Ratio	2.24	2.05	1.58
Total Assets Turnover Ratio	1.73	1.91	1.66
Asset Turnover Ratio	1.57	1.49	1.19

Appendix G. Key Financial Ratio of ITC Limited

	Mar '13	**Mar '12**	**Mar '11**
Profitability Ratios			
Operating Profit Margin (%)	35.54	35.55	34.08
Profit Before Interest And Tax Margin (%)	31.88	31.99	30.05
Gross Profit Margin (%)	32.88	32.77	30.97
Cash Profit Margin (%)	26.63	26.10	25.17
Adjusted Cash Margin (%)	26.63	26.10	25.17
Net Profit Margin (%)	24.05	23.97	22.91
Adjusted Net Profit Margin (%)	24.05	23.97	22.91
Return On Capital Employed (%)	48.18	46.95	44.94
Return On Net Worth (%)	33.28	32.88	31.36
Adjusted Return on Net Worth (%)	33.28	32.07	30.34
Return on Assets Excluding Revaluations	28.21	23.97	20.55
Return on Assets Including Revaluations	28.21	24.04	20.62
Return on Long Term Funds (%)	48.18	46.95	44.95
Liquidity And Solvency Ratios			
Current Ratio	1.22	1.08	1.08
Quick Ratio	0.66	0.51	0.50
Debt Equity Ratio	--	--	0.01
Long Term Debt Equity Ratio	--	--	0.01
Debt Coverage Ratios			
Interest Cover	124.56	131.91	123.30
Total Debt to Owners Fund	0	0	0.01
Financial Charges Coverage Ratio	133.76	109.56	100.46
Financial Charges Coverage Ratio Post Tax	95.99	79.84	73.25
Management Efficiency Ratios			
Inventory Turnover Ratio	4.53	6.53	6.05
Debtors Turnover Ratio	27.82	26.50	23.91
Investments Turnover Ratio	4.53	6.53	6.05
Fixed Assets Turnover Ratio	1.80	1.81	1.69
Total Assets Turnover Ratio	1.34	1.34	1.34
Asset Turnover Ratio	1.45	1.44	1.40