



enter the dragon

Under Baba Kalyani, Bharat Forge has become the world's second company in its business (forged auto components). Once a purely Pune company, now it is eyeing the world.

It was a cold November day in 2003. Baba Kalyani moved a little closer to the forging machines to catch the warmth emanating from them. He was in Germany. In another few minutes he would sign documents, which would make the factory and these machines part of the Kalyani group. The man from Pune was upbeat, the acquisition of Carl Dan Peddinghaus GmbH (CDP) would bring him one step closer to becoming the world's biggest forging component maker. Standing next to Kalyani were members of the Peddinghaus family who had owned CDP for 150 years. A sign of the future, India's future.

If you are in the forged auto components business, you have to have a presence in the USA, Germany, Japan - and Pune, where Kalyani nurses a global ambition. The CDP acquisition was the second step in the process, and it made him the world's second largest player in the sector. Kalyani took the first step in the late 1990s, when despite a downturn in his business, he made large investments in Bharat Forge's production capacity. At the time, analysts carped at the huge cash outflows, but when the domestic and export auto markets resurged and demand for Bharat Forge's products hit the roof, the smiles were back.

"We made investments in plants when the industry was

in India JVs can work if you learn **RELATIONSHIP MANAGEMENT**. And relationship management is the job of the top man. In our group, I have to do it. The basic idea is to create **TRUST** and **CONFIDENCE**. Then leverage it and use the reach of the **GLOBAL PARTNER** to access overseas markets and/or superior technology

passing through a difficult time. But now we are reaping the benefits as our exports are on overdrive," a confident Kalyani told a group of investors at a meeting in Mumbai's splendid Crystal Room at the Taj Hotel. Global auto majors such as USA's Arvin Meritor, Japan's Mitsubishi Motors, Europe's Volvo and Mercedes Benz are making a beeline for him. Facing intense cost pressure, they have no option but to turn to Bharat Forge if they want low cost components. Timely and strategic investments in production capacity has made Bharat Forge the world's most attractive vendor.

Kalyani's manufacturing strategy was three pronged: create large capacities to benefit from economies of scale, remain in the forefront of technology and keep enhancing value addition. Bharat Forge's modernization resulted in cost savings of up to Rs6,000 per ton. And investment in technology continues: in 1991, for example, Bharat Forge installed a state-of-the-art, Rs1.45bn forging press line. Value addition comes from supplying components in machined forms instead of raw forgings. Earlier, the company forged components, which its clients would machine as per their specifications. Today, ready-to-fit machined components account for 49% of total sales as compared to around 15% in the late 1990s, allowing the company to charge 15% to

20% higher prices. Other areas of cost efficiencies: employee costs as a percentage of net sales fell from 10.4% in FY01 to 7.3% in FY03.

The CDP takeover was a critical part of Kalyani's customer acquisition strategy. He numbered most of the best US auto companies in his client base, but he had not been able to break into the European market. He understood that although Bharat Forge was cost efficient, German manufacturers rarely move outside their captive vendor base to source components. Hence to gain a foothold he acquired CDP, a major supplier of critical chassis components to firms such as BMW, Volkswagen, Audi, DaimlerChrysler and Volvo.

In an official statement after the acquisition, Kalyani pointed out, "this acquisition will help Bharat Forge strengthen and expand its business in Europe through the addition of prestigious new customers and build new business with existing customers through deeper relationships and enhanced technology capability. This is especially true in the case of the passenger car segment where CDP has a large presence." The two companies are a perfect fit in terms of product lines. Bharat Forge has a 30% market share in axle components, an area CDP is not strong in; and

smart achievements

- acquired Germany's Carl Dan Peddinghaus GmbH to become the world's second largest auto forging components maker
- expanded capacity by 50% to 120,000 tpa at its Mundhwa plant (Maharashtra)
- entered China in 2001: from zero exports, Chinese orders account for 35% of export revenues, five year contract with a leading Chinese auto firm
- building for the future: diversified into small car forgings and oil well forgings
- operational efficiencies: costs per ton reduced by Rs6,000, employee costs as a percentage of net sales fell from 10.4% in FY01 to 7.3% in FY03, net profit margin of 11.27% in FY03

securing a **SECOND CUSTOMER** in China is a step towards
ACQUIRING A LARGE SIZE of the Chinese market

CDP has a strong product base in pistons, an area where Bharat Forge has no presence. "Now we can better ourselves with their technology and efficient processes and maintain our cost advantage," says Kalyani.

Exports, a key driver for future growth, are steadily expanding. In 2000, they accounted for less than 15% of Bharat Forge's total revenues. The figure has jumped to 40%. The thrust now is for wider geographical reach. To balance the US centric export model (North America accounted for 69% of export sales) the company entered China less than two years ago. Today China accounts for almost 35% of exports, and a recent achievement is a five year contract from a leading Chinese auto company. Already Bharat Forge is supplying parts to both First Automotive Works and Second Automotive Works, the largest local carmakers in China.

With an eye on the future and to have a complete menu for export customers, Kalyani has embarked on a product diversification program. Large forgings for trucks and industrial applications are the current mainstay of the company. The global passenger car market is four times larger than the commercial vehicle market, and Bharat Forge is now diversifying into engine and suspension components for passenger cars. The company recently bagged large multi-year orders from Ford and Daimler Chrysler for their global passenger car businesses and Kalyani

believes that exports will contribute to more than 50% of revenue by 2005.

Bharat Forge is also increasing its exposure to the oil and gas industry by manufacturing wellhead equipment and is concentrating on the US and Chinese markets. It is a growth sector: the US drills around 20,000 wells a year, China 10,000 wells, while India drills 200 wells. The venture into the oil and gas sector forgings arena will help derisk the company's exposure to the auto sector as the oil and gas industry cycle differs from that of the automobile industry. Today this business accounts for 6% of Bharat Forge's total revenues.

Given the experiences of the last three years, Kalyani reckons that the "auto components growth rate in India

will exceed levels in the software sector. I don't see any stopping for the next ten years." Industry dynamism will no doubt be a critical input for the successful completion of Kalyani's dreams. The third step to global dominance will happen when Bharat Forge overtakes Germany's Thyssen Krupp. It's a long way to go: the German giant's automotive division, which is mainly in forgings, is a whopping 6,295mn Euros (approx Rs300bn). By comparison Bharat Forge and CDP have a combined capacity of 250,000 tons and revenue of Rs15bn. In fairyland, the snail beats the hare. Sometimes it happens in real life also.

from where to where...

He was born on 7 January 1949 to Sulochana and Neelakanth Kalyani, a Pune based technocrat and maker of auto components. Well known and well liked in Pune society and engineering circles, Neelakanth's curiosity and 'can do' attitude helped him in establishing a group of companies known for competent reverse engineering and quality in 1961. His son Baba graduated in mechanical engineering from the Birla Institute of Technology (BITS) in Pilani. He then flew to Boston, to complete his MS at the Massachusetts Institute of Technology (MIT). On his return he joined the family business, working his way through the ranks.

For over three decades, the Kalyani group saw healthy growth and established itself as major player in auto components. But like at many other family run Indian companies, its flagship firm, Bharat Forge, floundered due to lack of focus and diversified into seemingly unrelated operations during the early years of liberalization (1991). In 1993, for instance, it

established a financial services division and a windmill operation. The core business of auto components suffered and the economic recession of the late 1990s made the situation worse.

When Baba took over as Chairman of Bharat Forge in 1998, his first step was to spin off the non core businesses into a separate company. He concentrated on auto component manufacturing and slowly and steadily revived the declining fortunes of the group while most of his competitors vanished from the scene. "Our biggest advantage is that it is a very technology oriented plant, very modern and has tremendous product development capabilities," he says.

Fondly addressed as 'Baba Saheb' by most, he is one of the few industrialists in the country who, even in the bubble years of the 1990s, not only continued to swear by the manufacturing capability of the Indian engineering industry but also has always believed that India, like China, can be a global player in many fields of manufacturing.

management style


In 1997 when managers from USA's Arvin Meritor, one of the world's leading forgings companies, came to survey the Bharat Forge plant, they looked dubiously at its 3,000 front axle beams per month capacity. Meritor needed 6,000 but since they had come all the way from the USA, they nonetheless asked politely what was Bharat Forge's capacity. "Our capacity is what your requirement is," Kalyani shot back. Meritor was taken aback. Today, Meritor is one of Bharat Forge's largest overseas customers buying 12,500 beams per month. Aggressively pursuing customers and investing in capacity to meet their requirements is just one of the strategies adopted by Baba Kalyani to survive tough competition.

Baba Kalyani is a manager with a clear focus and vision. He defines his goals and then relentlessly pursues them. "I had set certain goals for my company; one was to be among the top three companies in the world. And we have reached

a major milestone in our journey today. In the next five years, Europeans and Americans will come to India to shop," Kalyani told reporters after the CDP acquisition.

Patience is another of Kalyani's managerial virtues. Even though his sector was in a downturn (in 1990s), he steadily ramped up capacity, waiting for fortune to shrug off sluggishness. The approach is similar to that of MS Oberoi, the hotelier, who bought a large plot of land in Mumbai's Nariman Point in the late 1960s. He had the money to build on only half the plot (Oberoi Towers). It took him almost twenty years to collect enough to build The Oberoi. He never lost hope, nor patience. Over in Pune, Kalyani's capacity expansions of the 1990s did not give him immediate profits, today he has an edge over his rivals. "Our current challenge is how to manage this growth," he smiles. ■

Research by:
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Name	Baba N Kalyani		
Date of Birth	7 January 1949		
Education	BEngg in Mechanical Engineering from Birla Institute of Technology, Pilani, Rajasthan; MS from the Massachusetts Institute of Technology, USA		
Mission/Vision	"to use our specialized skills and innovative technology to contribute to the welfare of society"		
Company Designation	Bharat Forge Limited Chairman and Managing Director		
Tenure in current position	1 July 1998 to today		
Experience	Almost 30 years of deep domain knowledge of forgings business, worked in several business in the family firm, including agriculture		
World class competency	courage and patience to make large capex investments before demand is born		
Salary	Rs12,021,523		
Google hits	444		
Contact	worldcenter@pune.com		
company performance FY00 - FY03			
Revenues	Rs6.89bn	Employees	2,581
Net profit	Rs815mn	Growth rate	6.24% CAGR
Net profit margin	11.27%	ROCE	33.74%