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Forging ahead: Chairman Baba Kalyani has set sights on the industry's top slot

**BHARAT FORGE IS ALREADY THE WORLD'S SECOND BIGGEST FORGINGS MANUFACTURER. BY 2008, IT WANTS TO BE THE NO. 1 PLAYER.**

BY SWATI PRASAD

**W**E ARE THE INFOSYS OF manufacturing," says Baba Kalyani, rather smugly. To his detractors, this may seem like laying claim on the moon. But the 53-year-old Chairman and Managing Director of the Rs 689-crore Bharat Forge Ltd (BFL) has the uncanny knack of proving his detractors wrong. Let's prove that by going back a bit—to 1996. The auto industry was reeling under a sudden drop in demand. Almost all players had to contend with huge overcapacities. At the industry level, there was an overcapacity of 50 per cent and this adversely affected auto component manufacturers like Kalyani's Pune-based BFL. Rather than tighten his belt and put all investment plans on the backburner, Kalyani decided to diversify into new products and foray into overseas markets. It was, what he calls, a 4x3 strategy.

From being a supplier to primarily the commercial vehicles industry and having 87 per cent of its exports shipped to just one company overseas (Meritor in

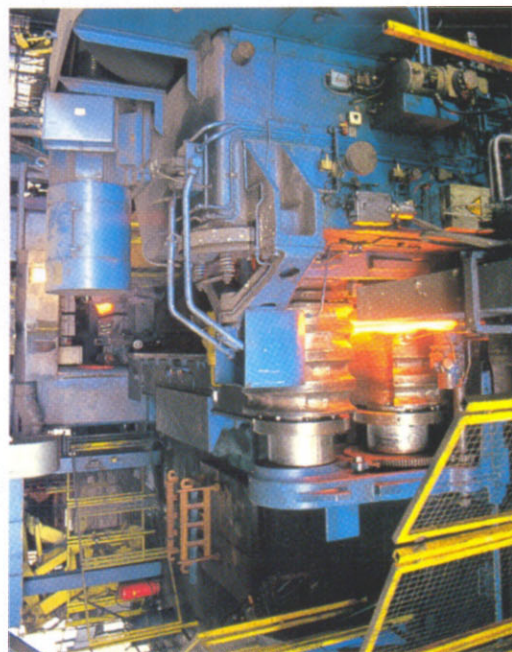
**BHARAT FORGE**

**FROM PUNE TO**

**PEDDINGHAUS**

the US), Kalyani decided to get into passenger cars, diesel engines, and other businesses (like railways, oil and gas, and construction—a diversification brought about in 2001, when BFL acquired the order book of a European firm, Dana Kirkstall). He also decided to expand geographically and get customers in Europe, the US, and Asia. Kalyani invested Rs 300 crore in additional capacity during 1996 and 2000. There were people who thought BFL was stretching itself thin. But today that Rs 300 crore investment has paid rich dividends. BFL clocked a turnover of Rs 519 crore in 1997-98, but in 2003-04, it is expected to post a whopping Rs 1,500 crore in revenues.

A good Rs 600 crore of that would come from Carl Dan Peddinghaus (CDP), a German forgings company that BFL acquired last year at a cost of Euro 29 million. This acquisition has made BFL the world's second largest forgings manufacturer. Kalyani's target now is to look for acquisitions in the US and China. For, by 2008, Kalyani wants to turn BFL into the world's largest forgings player. "Luck favours the brave," says A.K. Taneja, Senior Executive Director, Shriram Pistons and Rings. "Kalyani has created several USPs for Bharat Forge such as compressing the time required from design to development, and has acquired an interesting scale of operation through organic expansion and acquisitions," says Taneja.



GOING THE WHOLE HOG

One of the things that has worked in Kalyani's favour is that he hasn't waited for a boom before expanding capacity. Rather, he has invested in anticipation of one. He is using the same strategy even today. He now wants to double BFL's plant capacity by 2008. Reason: He wants to beat the \$800-million Thyssen Krupp Gerlach of Germany, which is at present the largest forgings company in the world. Thyssen Krupp has plants in Germany, France, the US, the UK, Brazil, and Mexico. Besides forgings, it manufactures other auto components and makes steel. For 2002-03, the combined turnover of CDP and BFL adds up to around \$300 million. This year's turnover should be considerably higher, although it would still be hugely short of Thyssen's topline.

In order to become the world's largest forgings company, BFL would need to invest Rs 500 crore at its Mundhwa plant in Pune. While Rs 350 crore will be invested by 2006, another Rs 150 crore worth of investments will be made between 2006 and 2008. At full-year capacity, BFL alone clocks a turnover of Rs 1,000 crore. So by 2008, the company should rake in over Rs 2,000 crore from India and exports. And perhaps, an equal amount should come from BFL's plants overseas.

At present, BFL has two plants in Pune. Currently, all the investment is going into the Mundhwa plant (there's another in Chakan).

HOW GLOBAL?

SALES*	2002-03 689.22	2003-04 (NINE MONTHS) 651.52
NET PROFIT*	88.67	81.09
EXPORTS/OVERSEAS REVENUES*	88.67	81.09
OFFICES IN:	India, USA, Germany and China	
MANUFACTURING FACILITIES IN:	Mundhwa (Pune), Chakan (Pune) and Satara	
WORKFORCE IN INDIA:	3,800	
WORKFORCE OUTSIDE INDIA:	800	
NUMBER OF NATIONALITIES IN WORKFORCE:	5 (Indian, Japanese, German, American and Chinese)	
OVERSEAS LISTING:	None	
NUMBER OF NATIONALITIES REPRESENTED IN BOARD OF DIRECTORS:	Only Indians	
ACQUISITIONS OVERSEAS:	Carl Dan Peddinghaus GmbH, Germany, for Euro 29 million	

\* Figures in Rs crore

HOW THE ACQUISITION OF CDP WILL HELP BHARAT FORGE

For one, it makes tapping European customers that much easier.

WHEN BHARAT FORGE acquired a small Europe-based Dana Corporation firm—Dana Kirkstall—three years ago, it taught the company two things: how to acquire customers and how to enter the new markets. And the company practiced the lessons it learnt by pitching for a bigger forgings company—the Euro 116-million Carl Dan Peddinghaus GmbH of Germany. The acquisition of CDP, at the cost of Euro 29 million, in November 2003, brings five advantages to Bharat Forge. One, it has acquired a formidable customer base in Europe. CDP's customer base includes auto majors like BMW, Volkswagen, Audi, Volvo and General Motors. If not for

the acquisition, getting such a customer base would have been very difficult. Besides, when large OEMs set up shop in new markets, they mostly take their vendors along. Many of CDP's customers are eyeing the growing Chinese market and want to set up greenfield operations there.

Two, CDP is a major supplier of critical components to leading car and commercial vehicle manufacturers. About 51 per cent of its revenues come from passenger car components. Against this, only 6 per cent of BFL's revenues are accounted for by the passenger car segment and 63 per cent from commercial vehicles. Hence, the combined entity will have a

diversified presence in commercial vehicles and passenger cars, thereby hedging against any cyclical downturn.

Three, CDP's strength lies in manufacturing powertrains, forging pistons, building chassis, and construction equipment-related components. BFL's strength lies in crankshafts. After the acquisition of CDP, BFL would offer complementary products. Four, CDP is strong in technology and would serve as a technology centre. Its technological advantages will be synergised with the low-cost advantages present in India. Finally, when BFL and CDP start purchasing raw materials jointly, they would be able to extract better bargains from their suppliers.

However, in a year or two, Kalyani wants to start looking for a site for a third plant in the Mumbai-Pune region, since the company is running out of space at Mundhwa. He is, however, waiting for the new Special Economic Zone policy, and the sops therein. In mid-2003, BFL bagged orders to supply to Ford Motor Company and DaimlerChrysler. While most vendors take anything between a year and 18 months before beginning supplies, BFL has already started exporting to Ford, and supplies to DaimlerChrysler should start in the first quarter of 2004-05.

According to Ramesh Rajan, Partner, PricewaterhouseCoopers, Indian companies that are going global need to focus on consistent quality, scalability of operations (involving making

upfront investment and being prepared to quickly scale-up volumes), invest in research and innovation, exports, logistics, warranty and liabilities, and cost competitiveness. "They must align themselves with the cyclical nature of the global industry," says Rajan. And that's something Kalyani is undoubtedly focussing on.

Kalyani also wants to make use of the tremendous design and engineering potential in India. By July this year, BFL's design, product development, and testing facility would start functioning. Auto companies across the world want to reduce costs and they achieve that by outsourcing design work to its vendors. Earlier, if a car company took five years to come out with a new car platform at a cost of \$2 billion, today car companies want a new

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platform on the road within two years and are not willing to shell out more than \$500 million for it. And Kalyani's BFL would help them achieve their stringent cost targets.

#### SPREADING ITS WINGS

In 2001, BFL acquired the order book of a small company, Dana Kirkstall, in Europe that belonged to Dana Corporation. That acquisition taught BFL how to enter new markets and acquire new customers. The Dana Kirkstall plant was later shut down. "The acquisition gave us a lot of confidence and experience," says Amit Kalyani, Baba Kalyani's son, who is also BFL's Vice President and Chief Technology Officer. Kalyani Jr, 29, plays a crucial role at BFL. He is in charge of SAP implementation, looks into manufacturing, investor relationships, strategy (acquisitions, planning marketing), and technology. "For the last three years or so, we had been on the look out for a company in Europe. We wanted a technologically advanced company in the same product range as BFL in order to get us a foothold in Europe," explains Kalyani. According to him, CDP and BFL are a fantastic fit.

BFL now wants to have a manufacturing base in the US and China. It already has a large footprint in the US via exports, but it has come to realise that if it wants to be No.1, then a physical presence may be inevitable. How does Kalyani plan to manage the high cost of manufacturing in the US and Europe? "As in the case with CDP, we will have to synergise between the plant here and the one in the US. This would help us get better value and volumes," says Kalyani. As per the plan, all the new business for CDP will come to India. "Bharat Forge bought CDP at an attractive price of Euro 29 million. As per my estimate, BFL should be able to recover the investment within the next two years," says Kalpesh Parekh of ASK Raymond James.

The German firm has an impressive client base. "When a CDP customer knows that the auto component firm now has a low cost strategy, they will support CDP all the more," feels Kalyani Sr. Part of the business then gets shifted to India. In the auto supply chain, engineering and product development, relationships are critical, and Kalyani believes that it is not possible to develop deep relationships with, say, a BMW, Audi, or Volkswagen sitting in Pune. It happens only when you go to their country. Besides, between the two companies, some 250 tonnes of steel is bought annually. Kalyani also

## "WE'LL BE THE WORLD'S LARGEST FORGINGS COMPANY BY 2008"

Having acquired Carl Dan Peddinghaus (CDP) GmbH, a forgings shop in Germany, at a cost of Euro 29 million, Baba Kalyani, Chairman of the Rs 689-crore Bharat Forge, is now on the lookout for acquisitions in the US and China. His goal: Become the world's largest forgings company, by 2008, he tells BT's Swati Prasad.

**With the acquisition of CDP, you have become the world's second largest forgings company. Are you aspiring for the top slot?**

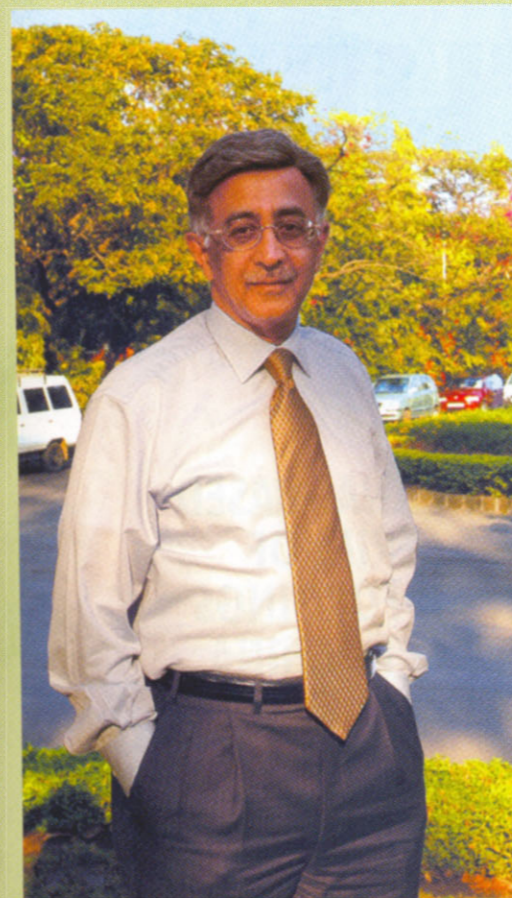
Of course. The largest forgings company in the world is the \$800-million Thyssen Krupp Gerlach of Germany, which has plants in Germany, France, the US, the UK, Brazil, and Mexico. If we add up the turnover posted by Bharat Forge and CDP for 2002-03, our combined turnover comes to around \$300 million. But this year's turnover should be considerably higher. In any case, we are around \$450 million behind Thyssen. Our internal target is to be the world's largest forgings company by 2008. This means a lot of hardwork. We hope to roughly double our plant capacity at a cost of Rs 500 crore by 2008.

**After having obtained a foothold in Europe (CDP), what's your next destination?**

We would now be looking at America and China. We have a fairly large footprint in the US through exports. But if we want to be the largest forgings company in the world, then we have to be physically present in the US. Between China and the US, the latter is more important. But we have started work in both the countries.

**At a time when developed countries are outsourcing from India, you are on the lookout for acquisitions. How would you deal with the high cost of production in the US and Europe?**

It is not possible to develop deep relationships with large OEMs sitting here in India. You need front-end operations in these countries. In the case of CDP, all new business for CDP will come to India. When a European customer knows that CDP has a low-cost strategy, they will support CDP



all the more. Part of the business then gets shifted to India.

**When do you see BFL as an MNC?**

Our workforce today includes Japanese, Germans, Americans, and Chinese. We are a global company now. We have 31 customers across the world. I guess when a company's external business becomes more than the internal business, the company becomes an MNC. We aren't an Indian company anymore. Only 31 per cent of our turnover comes from India. Another 26 per cent comes from Germany, 16 per cent from Europe, 10 per cent from China and 17 per cent from the US. One acquisition has made us an MNC. By 2008, the India share in our turnover should drop to 25 per cent.

plans to reduce costs by purchasing steel together.

#### INORGANIC GROWTH

Talk to Kalyani and it becomes obvious that he considers acquisitions to be the best way to go global in a relatively short span of time. Indeed. You don't just get a manufacturing base overseas almost overnight on a platter, but also there's no pressure on prices, since no new capacity is getting created, but only ownership changing hands. And then, you get the acquired company's existing customer base. Says Dhawan of McKinsey: "The duration of business cycle in the auto industry is around five to seven years. And M&A options help Indian companies in building an international franchise in a short span of time so that they can hedge against a downturn in the domestic market." There are others who feel that while M&A is one of the routes of going global, it may not always be the right one. For instance, acquisitions at a price significantly higher than the fair value may nullify the competitive advantage. Similarly, cultural mismatches and a lack of synergies may result in destruction of shareholder value.

Kalyani, however, asserts that he has taken care of most of the cultural issues. A team from BFL would go once a week to Germany in order to monitor the operations of CDP. "We are undertaking a 100-day programme at CDP for relationship building," adds Kalyani. "We are today the most profitable forgings company in the world and the Germans respect that. Today, we are not viewed as a company from the Third World ruling over a German firm." His group's workforce today includes Japanese, German, American, and Chinese people. It has 31 customers across the world, and only 31 per cent of its turnover comes from India. Another 26 per cent comes from Germany, 16 per cent from Europe (other than Germany), 10 per cent from China, and 17 per cent from the US. By 2008, he wants India's share in BFL's turnover to drop to less than 25 per cent.

Despite the group's impressive global customers and revenue figures, industry watchers say that becoming a truly global MNC may be no cakewalk. "There are other ambitious players in cost-competitive markets like Brazil who are also gunning for the same position," says Taneja of Shriram Pistons. But obviously, Kalyani has a headstart. His group is already No. 2, so making the leap to the No. 1 slot should be relatively easy. **bt**