Baba Kalyani's Invisible Wealth

The Kalyani Group has several relatively small unlisted companies that have huge value locked up in them. MAHESH NAYAK

UMESH GOSWAMI

A balancing act: Baba Kalyani's betting big on steel, forging and infrastructure

MENTION BABA KALYANI and the first (and in many cases, only) company that comes to mind is Bharat Forge, and for very good reasons, too. It is his flagship, accounts for almost 50 per cent of the group's turnover, and is the second-largest forgings company in the world. But the Kalyani Group also has four other listed companies—Kalyani Steels, Automotive Axles, Hikal and BF Utilities—with a combined turnover of Rs 1,500 crore and combined net profit of over Rs 175 crore. That's not all. The group's nine unlisted companies clock combined sales of Rs 1,796.3 crore and profits of Rs 143 crore (see *The New Wealth Creators*). Bharat Forge remains the fulcrum of the group's fortunes, but it is the smaller companies that are driving Kalyani's ambitions in the steel, auto ancillary and software and BPO sectors. Says Ambareesh Baliga, Vice President, Karvy Stockbroking: "The group is incubating these companies. Most of them will create value once they become scalable."

Kalyani's betting big on steel. Kalyani Steels, a listed company, recently acquired the Andhra Pradesh-based SJK Steel, which manufactures 0.25 million tonne of wire rods, for Rs 24 crore. "Steel is one of our principle businesses along with forgings and infrastructure, and we are targeting a production of one million tonne of engineering steel by 2008-09," he adds. Kalyani Steels apart, the group includes the unlisted Kalyani Carpenter, a joint venture with Carpenter Technology of the US, which manufactures specialty and high alloy steels that are mainly used in the automobile industry. The idea seems to be to integrate backward and use these unlisted companies to straddle the entire value chain. "We plan to move into high value steel and are also increasing the capacity of Kalyani Carpenter to 240,000 tonne," says Kalyani.

Logically, there can be a case to merge all its steel interests into one company. "In the past, Kalyani Carpenter was a part of Kalyani Steels; we separated the businesses and inducted a joint venture partner who holds 26 per cent in the company in order to move into the higher end of the business. However, in future all our steel businesses can merged into one unit," says Kalyani, while declining to share any further details about the company. Says Baliga: "Being in the same industry, a merger makes sense. Apart from unlocking value and cutting overheads, the process of integration will also be smooth as the companies are part of the same group."

Happy Marriages

Unlike the steel sector, however, a merger of the group's auto components companies looks unlikely, as each of them have different joint venture partners. Says Kalyani: "These (auto component JVs) are happy and

The New Wealth Creators

UNLISTED COMPANY	PROMOTER'S STAKE*
Kalyani Lemmerz	15
Kalyani Thermal	100
Kalyani Carpenter	74
Kalyani Net Ventures	100
Kalyani Software	100
Bharat NRE Coke	40.19
Meritor HVS (India)	50
Epicenter	N.A.
Synise Technologies	N.A.

Total Revenues
Rs 1,796.3 crore
Total Profit
Rs 143 crore

* In per cent NA: Not available
Source: Company, CMIE

The Visible Empire

Company	Revenues 2006-07	Revenues 2005-06	Revenues Change (%)	EBITDA 2006-07	EBITDA 2005-06	EBITDA Change (%)	Profit 2006-07	Profit 2005-06	Profit Change (%)	Promoter's Stake (%) 2006-07	Promoter's Stake (%) 2005-06
Bharat Forge*	3,085.1	2,001.4	54	588.9	431.3	37	250.5	201.1	25	35.76	37.64
Kalyani Steel	670.3	771.9	-13	158.2	92	72	101	43	135	55.07	55.11
Automotive Axles**	460.8	355.8	29	84.2	68	24	43.4	36.9	18	71.04	71.04
Hikal	459.1	339.7	35	58.9	56.6	4	33.5	35.7	-6	74.97	75
BF Utilities^	11.5	25.1	-54	7.6	20.3	-62	-0.8	1.9	n.a.	51.87	52

^ Results for 2006-07 are only for nine months ended June 2006 *Consolidated results ** Full year ending September '06 Figures in Rs crore Source: Company, CMIE

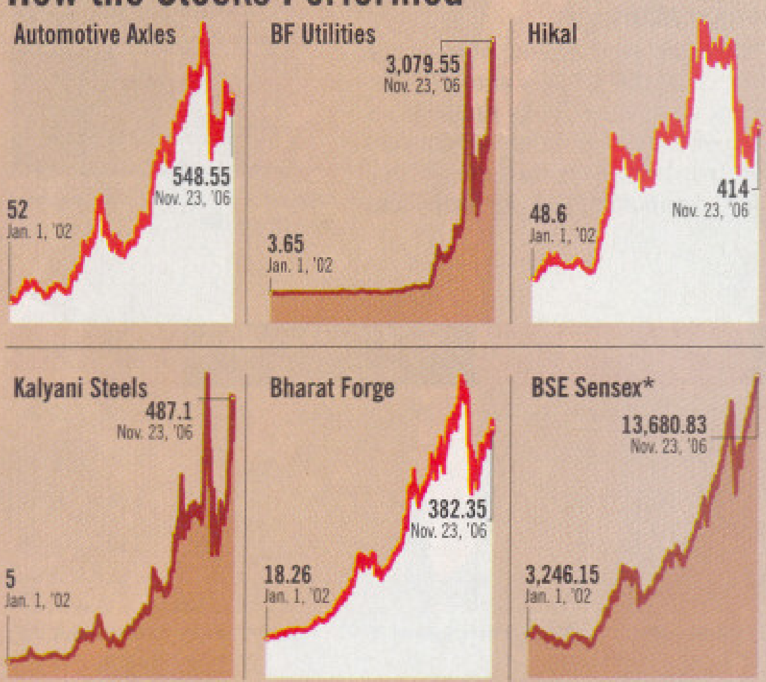
Planning for Future Growth

The Kalyani Group will, henceforth, focus primarily on three businesses—forgings, engineering steel and infrastructure. "We don't want to be only known as an auto components player. That is why we are getting into the non-automotive forgings business. Forgings and metal components form the largest part of our portfolio and we see it growing significantly over the next few years," says Baba Kalyani. The company is not limiting itself to just forgings in the components sector and is looking at the defence, shipping, aerospace, energy and the non-automotive sectors.

"The opportunity is as huge as in the automotive business. By 2012, we expect the non-automotive business to contribute 40 per cent of Bharat Forge's revenues," he says. "By 2007, we will be ready with the manufacturing capacity. Then, we will roll this out on a global basis in 2007-08 and build up global scale thereafter." The company is investing Rs 350 crore on creating new capacities for the non-automotive business and expects it to generate revenues of Rs 1,000 crore by 2008. Currently, 16-17 per cent of Bharat Forge's revenues come from the non-automotive segment. It is also scouting for acquisitions in North America and Europe in this space.

By the end of 2006-07, the capacity of the automotive components business will increase from 1.6 lakh tonne to 2.4 lakh tonne. "We have product development capabilities and are also moving into systems-oriented supply assemblies (this means assembling the complete unit rather than making one part). Our investments will move in this direction," says Kalyani, adding: "The group is focusing on creating cutting-edge manufacturing technology. After spending time creating high quality human resources, our next step is to create intellectual property. To stay competitive in this business, we have to create our own cutting edge technology."

How the Stocks Performed



KULDEEP

Figures are adjusted share prices in Rs *In points

successful marriages; why would I want to break them (by merging the companies, thus, forcing some partners to opt out)? Secondly, axles, especially rear axles, require heavy doses of applications engineering and engineering R&D; therefore, it makes sense to keep this unit separate from the others." Meritor HVS, an unlisted company, is involved in the design, development and marketing of drive axles, non-drive steer axles, brakes and suspensions for commercial vehicles; and Kalyani Thermal makes forgings for two wheelers and manufactures thermal furnaces for the steel and auto sectors. Here, Kalyani declines to get into details of each individual company (since they are all unlisted, he isn't obliged to place details in the public domain) except to say that all of them have developed specialised knowledge in their respective fields and that he proposes to unlock their value by focussing on exports in a big way. "Apart from de-risking the business, you create new markets for your products in Europe and the US. Already, 50-60 per cent of Kalyani Lammerz's output is exported," he says. This gives the Kalyani Group vital bridgeheads in these highly competitive markets that other group companies can then leverage.

Says Avinash Gorakshakar, Head of Research (PCG), Emkay Shares and Stock Brokers: "The wheel business will not enjoy the high valuations that engine components makers enjoy as margins are lower. However, if the group plans to offload its stake to a private equity player or FIIs or even decides to come out with an IPO, these companies, which are all profitable, will generate huge cash for the promoters."

Infrastructure Foray

The Kalyani Group's infrastructure foray is led by another small com-

Star performer: Bharat Forge is one of the best-known companies in the Kalyani Group

Unrelated Business? Goodbye

LAST AUGUST, THE KALYANI GROUP exited from Kalyani Brakes by selling its 40 per cent stake to its foreign partner, Bosch, for Rs 285 crore. The Kalyani Group had invested Rs 4 crore about 20 years ago. Prior to that, the group had offloaded its stake in Kalyani Sharp, a consumer durables company that manufactures televisions, and brought down its stake in Kalyani Lemmerz, which makes wheel rims for utility vehicles, LCVs, HCVs and tractors.

Says Amit Kalyani, Executive Director, Bharat Forge: "Kalyani Sharp was an unrelated business. We got into it during the old license regime; we had nothing to contribute, and, therefore, exited that business. In the case of Kalyani Brakes, too, we didn't have much to offer. Therefore, it made sense to exit the business."

Says Avinash Gorakshakar, Head of Research (PCG), Emkay Shares & Stock Brokers: "The group is exiting non-core businesses. It wasn't good at manufacturing brakes; so it made sense to move out. Given the right price, we may see the group disassociating itself from other non-core businesses."

UMESH GOSWAMI

Bharat Forge's Amit Kalyani

pany, BF Utilities, a listed company that came into existence in 2001 following a restructuring of Bharat Forge. Its primary operating business is generating wind power and supplying it to Bharat Forge; but it is also one of the group's main investment arms and holds shares worth Rs 560 crore in listed companies. "It's our infrastructure arm. We've identified infrastructure as a core business," says Kalyani. BF Utilities holds a 74 per cent stake in Nandi Infrastructure Corridor Enterprise (NICE) that is building the Rs 2,250-crore BMIC (Bangalore-Mysore Infrastructure Corridor) Project. The Kalyani Group has already invested close to Rs 600 crore in the first phase. The price of the scrip, which has a face value of Rs 5, was Rs 3,233.35 on November 24, despite BF Utilities incurring a loss of Rs 83 lakh on revenues of Rs 11.48 lakh for the nine months ended June 30, 2006. "The premium is purely for the BMIC Project. The market has discounted the future cash flows of the company," says Kalyani.

BF Utilities is also expected to lead the Kalyani Group's Special Economic Zone project in Pune. Kalyani and other company officials, however, were tightlipped about it and refused to reveal any details.

Last fortnight, the company signed a joint venture agreement with Singapore Technologies Kinetics, for designing and manufacturing high technology and critical systems for the Indian defence market. The exact contours of the deal are still a secret, but senior Kalyani Group executives say ST Kinetics will design and develop products that the Kalyani Group will manufacture.

More Jewels?

Launched initially to cater to in-house demand only, the software and BPO companies—Kalyani Net Ventures, Synise Technologies and Epicenter—are a growing business for the group. "It's still at the nascent stage but we see huge potential in the coming years," says Amit Kalyani, Executive Director, Bharat Forge. With a topline of Rs 50 crore, Epicenter is the BPO service arm of the Kalyani Group and provides voice-based services in the areas of collections, telemarketing and customer care. But the Kalyanis don't actively participate in its day-to-day affairs. "We are like a venture capitalist in Epicenter," says Amit Kalyani, adding: "It's a small company, but I see it doubling organically in the next few years. And we don't deny the possibility of inorganic growth. A global business model will help us accelerate growth." Kalyani Net Ventures is another company which the Kalyanis think has great potential.

All these are small companies. But if the Kalyani Group's plans for them materialise, we will hear a lot more about them in future. ■