INTERVIEW | BABA KALYANI

Birth of a low-cost industrial giant

Khozem Merchant talks to the chairman of Bharat Forge, India's largest auto components company, about a big acquisition in China

If managers in developed economies already fear their lower-cost rivals in India and China, what about a manufacturer that combines the strengths of both places under one roof?

That prospect moved an inch closer to reality last month when Bharat Forge, India's largest auto-components company, gained control of its counterpart in China, a division of First Automobile Works (FAW), the country's largest vehicles manufacturer.

The deal with FAW Forging provides capacity of 100,000 tonnes and a 30 per cent local market share, boosting Bharat Forge's total capacity to about 600,000 tonnes and placing it in the same ballpark as the industry leader, Germany's Thyssen Krupp.

The acquisition, Bharat Forge's sixth in four countries in the past two years, "completes our global strategy", says Baba Kalyani, chairman. "China's a must for anyone with meaningful global leadership ambitions."

Under the deal, Bharat Forge will take a 52 per cent stake in a joint venture with FAW's forging unit for about $50 million, people close to the deal say.

Kalyani says FAW Forging is "where we were 15 years ago", when Bharat Forge was just beginning to transform itself from a sclerotic, inward-looking group to the more externally focused global manufacturer of today.

Soon after gaining control of Bharat Forge, Kalyani embarked on a restructuring programme to integrate the company's manufacturing and engineering processes. The changes sharply reduced the number of days — and workers — required to produce the company's chassis and other forged engine parts.

Within half a decade, Bharat Forge was riding a new wave of demand for outsourced engineered products. Last year, the company's domestic capacity doubled to 240,000 tonnes, while acquisitions have added a further 360,000 tonnes of capacity. In the last financial year, consolidated sales totalled Rs 20.84 billion ($2.5 billion), of which 39 per cent was from overseas affiliates.

"He [Kalyani] has shown how globalisation can be done," says Suresh Bhojwani, boss of Bright Brothers, which manufacturers moulded plastic components for Hyundai, India's top foreign vehicle manufacturer.

For now, however, the most immediate challenge facing Kalyani is how to integrate the Chinese unit into the group. That is a task many managers would balk at, given the technology gap between the two partners. But not so Kalyani, who says the Chinese unit "will catch up with us in three years".

Bharat plans to inject operating expertise and product design skills into FAW Forging. The acquisition capital "will go straight into the company, allowing us to improve performance and add facilities such as a dyes and tools shop," Kalyani says.

If the prize for FAW Forging is increased technical capability, for Bharat Forge it is access to China's vast home market and a second low-cost base from which to serve its global customers.

The Chinese unit has forging requirements that exceed India's aggregate demand. FAW, the parent, has joint ventures with Toyota and Volkswagen, and manufactures 1.2 million cars and trucks. This is about a fifth of China's production, which is forecast to double to 10 million by 2010.

FAW also has 40 alliances with overseas component manufacturers, such as Johnson Controls. Bharat Forge, meanwhile, supplies Volkswagen in Germany, Toyota in India and General Motors via its US unit, Federal Forge, among others. "These are alliances we can leverage and take into China," says Kalyani.

Observers say Bharat Forge has its work cut out. "With several swift acquisitions in a short span it will have to start to deliver results, which means using the India advantage on technical capability to show value," says Andrew Holland at DSP Merrill Lynch in Mumbai.

This is a problem Kalyani seems to be aware of. He rules out an approach for GM's bankrupt US supplier, Delphi, saying the coming period will be one of consolidation and the realisation of synergies.

One problem facing him is management depth. Kalyani has always been the group's single force on strategy, operations and execution. But he admits: "We can't operate so many units in different places with the same management."

This month, the company made the first notable external addition to its senior management. Thomas Dueckers, a seasoned executive in Germany's auto sector, will run all global operations. Similar positions in technology and research and development may follow.

The group may also have to rationalise some of its acquisitions, including deciding how many of the 1,700 staff at FAW Forging to keep on.

In any event, Bharat's growing presence in China and elsewhere "reinforces the view that skills-based manufacturing such as engineered products is India's future", says Ramesh Mangaleswaran at McKinsey in Mumbai.

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