

**Biocon's Biggest
Bet Yet** PG 82

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business today

for tomorrow

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Left to right:
Shantanu Prakash, Managing
Director of Educomp Solutions,
Vijay K. Thadani, CEO of NIIT,
and **Ashok K. Chauhan**, Founder
President of Amity University

The Advent of EDUPRENEURS

New entrepreneurs are rushing into the sector and old ones are expanding frantically. Is education finally a recognised business? PG 40



A man with glasses, wearing a light blue button-down shirt and dark trousers, stands in the center of a large, dark industrial furnace. Behind him, a bright orange and yellow glow emanates from a large, gear-shaped opening in the furnace wall. The scene is framed by a large, dark circular structure, possibly a part of the machinery. The overall lighting is dramatic, with the bright light from the furnace contrasting with the dark surroundings.

Prompted by the sudden collapse of the global auto industry, the Kalyanis want to transform Bharat Forge—the world's second-largest forgings maker—into a high-value engineering giant.

ANAND ADHIKARI

Baba Kalyani's New Growth Engines

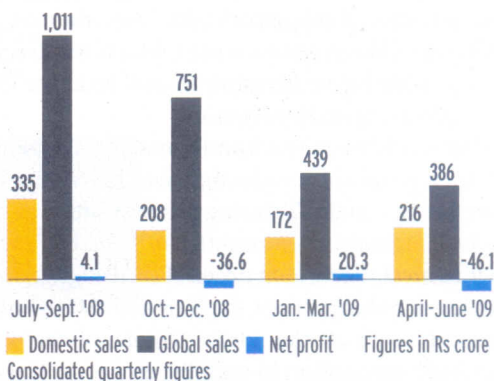
Baba Kalyani: "We thrive in challenges. Something good always comes out of new ones"

Harley-Davidson, the cult American motorcycle brand, has earned a place in the history books for being one of just two motorcycle manufacturers to survive the Great Depression of the 1930s (the other was a brand called Indian). It did so by getting into new businesses like industrial engines and also launching a three-wheeled delivery vehicle. At a time when a recession not too different from the one that started some 80 years ago has taken its toll of global economies and industry—including the automobile sector and, of course, Harley all over again—the American motorcycle maker's decision to move away from its bread and butter business could be a good case study for companies trying to survive the downturn.

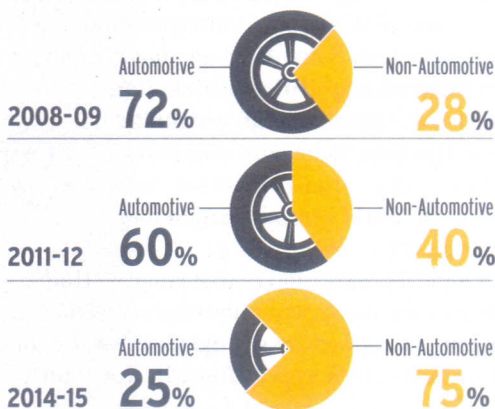
At his sprawling headquarters at Mundhwa on the outskirts of Pune, the Harley lesson wouldn't be lost on Babasaheb Neelkanth Kalyani, who knows a thing or two about these big bikes; he owns two of them, and till not too long ago could be seen on weekends cutting through Pune's hilly outskirts on one of his giant machines. "I hardly have any time now," shrugs the Chairman & Managing Director of the \$2.4-billion Kalyani Group's flagship Bharat Forge Ltd (BFL), a business that Kalyani picked up from his father and transformed into the world's second-largest maker of forgings. (Forgings are used to make, amongst other things, components for auto chassis and suspension systems.)

If the 60-year-old isn't seen on his road kings these days, it's because Kalyani is virtually living out of his suitcase, visiting the company's dozen manufacturing plants that span the globe, from Scotland to Germany to Sweden to the US and to China. Yet, one is tempted to draw a parallel between the MS from MIT's recent detachment from the Harleys and his conscious attempt to reduce BFL's exposure to the automotive segment. At the same time, however, to battle the raging recession in the auto sector, BFL—a supplier to the likes of Ford and Volvo—is doing something pretty similar to what Harley did in the 1930s to survive the Great Depression: Looking beyond its mainline business and seeking out new markets (incidentally last fortnight, the US cruiser maker announced it would start its India operations by 2010). Just as Harley moved into the market for industrial engines; BFL is keen to take its high-end engineering skills into other sectors like aerospace, energy, railways and oil & gas by making highly-specialised products for them. "We thrive in

The auto recession has taken its toll on growth...



... which is why Kalyani wants to make non-auto the largest piece...



... by driving into new sectors.

Aerospace		Structural and rotating components
Energy		Windmill shafts, gas engine components
Railways		Engine components & turnouts
Construction Equipment		Engine components
Oil & Gas		Valve bodies, choke bodies
Marine		Engine components

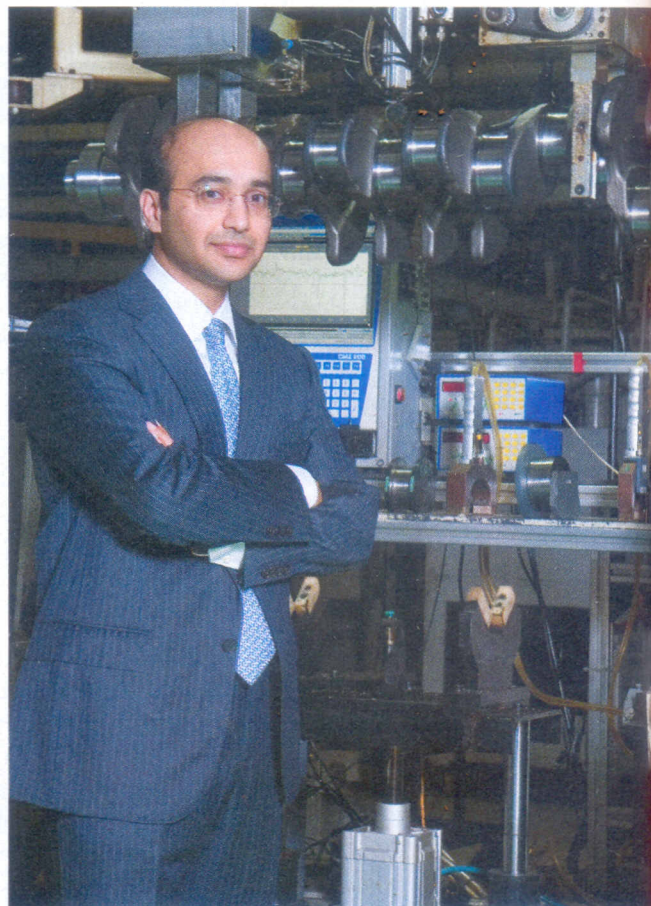
Source: Bharat Forge

challenges," declares Kalyani. "Something good always comes out of new ones."

The similarity with Harley-Davidson ends there (bikes, after all, will always be its mainstay, unlike what BFL is trying to do). The "something good" that Kalyani sees at the end of the tunnel has the potential to make BFL three times its current size. "In energy itself—between thermal, wind and nuclear—we can generate Rs 15,000-20,000 crore annually. Compare that to what we are doing today—Rs 4,000-5,000 crore—and you will realise the scale of this opportunity," says the CMD. Adds his 34-year-old son Amit Kalyani, who is the Executive Director: "Our future investments will be in the faster-growing non-automotive sectors."

That would be quite a transformation for a company that, till a couple of decades ago, was known more for its smokestack manufacturing prowess rather than its high-tech aptitude. BFL was started in 1961 by Kalyani's father to meet the forging needs of the fledgling Indian automotive industry. Over the '60s and '70s, BFL did its bit amidst a bevy of other forging companies in India to foster industrialisation in socialist environs. It wasn't until the junior Kalyani took over the reins in 1971 that BFL's penchant for technology came to the fore; archaic processes were mothballed and a bloated work force replaced with a more skilled one. But it was only in the last decade that Kalyani's international aspirations came to the fore. Since 2004, BFL has made a string of international acquisitions, including that of Carl Dan Peddinghaus GmbH, one of the largest forging companies in Germany. By 2008, BFL had become the world's second-largest forgings company.

A logical progression at that stage, perhaps, would be to gun for the global *numero uno* position in forgings and strengthen its stranglehold on the automotive component sector; after all, automotive was



RACHIT GOSWAMI

Amit Kalyani/ Executive Director/ Bharat Forge

"Our future investments will be in the faster-growing non-automotive sectors"

accounting for close to three-fourths of revenues, and increasing that would appear a lucrative option (gross margins are in the 20-22 per cent region in auto components). That's, however, when Kalyani decided to make a crucial strategic shift to de-risk the business model and increase the non-auto share. A couple of quarters after taking that decision, the global automobile sector began to collapse in the wake of the recession triggered by the sub-prime crisis in the US. "We had already begun to steer the company in a different direction, but in a manner in which we can use the strengths of the company," says Kalyani.

The shift towards non-auto is inevitable at a time when the flagship business is under pressure, more overseas than at home (global operations account for close to 70 per cent of BFL's business). For the June quarter, BFL on a consolidated basis was in the red to the tune of Rs 46 crore. Overseas

SPREADING WINGS WITH JVS

Bharat Forge is bullish on energy.

JV Partner	Year	Product Focus	Project Status
NTPC	Feb. '08	Power plant equipment	Production to start by 2012
Alstom	Nov. '08	Wind turbines, generators and auxiliaries	Mundra selected for plant site; to come on stream by 2012
Areva	Jan. '09	Heavy forging for nuclear plants	Dahej and Krishnapattanam shortlisted for plant site; to start by 2012

sales have been falling for three straight quarters now, and are down by more than half since the July-September period of the previous fiscal.

The downturn has only accelerated BFL's push towards creating a larger non-auto footprint. That's evident in its increasing contribution: To 32 per cent of total revenues in the April-June period of the current fiscal, up from 28 per cent for 2008-09. The target is to hit 40 per cent by 2012 and go up to 75 per cent by 2015. "We will use our manufacturing capabilities to become an engineering conglomerate," says Kalyani.

Betting Big on Energy

One industry that Kalyani is betting big on is energy, right from wind to thermal to nuclear. In wind energy, for instance, BFL has a small presence: It designs, engineers and manufactures wind turbines at two units, one in Baramati, Maharashtra, and another in Germany (as the technical and engineering talent for such products are available there). The venture is in start-up phase and the projects in hand include installing a wind turbine in India and another in Europe. These wind turbines will be the first pure engineering product from the Bharat Forge stable. "We own the product, technology and the patent," says Kalyani.

Realising that he needs to build competencies to become a full solutions player (rather than just a supplier of components) in the energy sector, Kalyani has embarked on a string of joint ventures with Indian and global majors—NTPC for power plant equipment, Alstom for wind turbine and generators and Areva for heavy forgings for nuclear plants. Kalyani has yielded a majority stake to the partner in all the JVs, except in the NTPC venture, which are all expected to come on stream by 2012.

In aerospace, BFL is taking baby steps, beginning with the manufacture of structural components. Kalyani is keen to make engine components but admits that is some years away. Similarly, the company is looking at

THE BHARAT FORGE GLOBAL EMPIRE

How Kalyani became a global leader in auto components.



Bharat Forge: Manufactures forged & machined components for auto & non-auto sector.



CDP Bharat Forge: Supplier for forged chassis, engine components & non-auto systems.



Bharat Forge Aluminium-technik: Manufactures aluminium-based auto components.



Bharat Forge Daun: Manufactures products for construction machinery industry.



Bharat Forge America: Supplier of critical components in chassis & engine.



Bharat Forge Kilsta: The second-largest manufacturer of heavy crankshafts in Europe.



Bharat Forge Scottish Stampings: Manufactures front axle beams & suspension arms.



FAW Bharat Forge: JV with a Chinese company FAW Corporation for forging business.

various components in transportation (railways and marine) and oil & gas.

Utilising Auto Capacities

The biggest challenge for Kalyani in the nearer term, however, is to utilise the huge auto capacities he's created globally—suddenly the tag of the world's second-largest forgings company in the world doesn't sound so attractive. Kalyani may have no option but to shut down some of the plants. Will he? If demand is going to come down by 25 per cent, it doesn't make sense to operate half a dozen plants, agrees the Chairman. But that may not necessarily mean shutting down capacity by that much. The BFL top brass is currently looking at how it can use its global capacities for its non-auto businesses.

The meltdown hasn't taken away Kalyani's appetite for international acquisitions. The big difference, though, is they will now be smaller, and of firms with specialised engineering skills. "We will replicate the same model (acquisitions of forgings firms) in the non-automotive sector," says Kalyani.

In the nearer term, however, BFL has to get its house in order on the bottom line front, even as it lives with the reality of a sagging top-line. "We have done a lot of work on trimming down the costs so even at a lower level of sales we hope that we will have an equivalent

amount of profits," says Amit Kalyani.

The senior Kalyani's focus, however, is on the big picture. Just as his father passed on a local forgings firm, which he transformed into a global giant, the Chairman might be hoping that his son is able to play a crucial role in enabling the ongoing revamp—and eventually take over the reins of a company with a larger size and scale and with more specialised skills. Perhaps, Kalyani will then find time to hop onto one of his Harley cruisers. ☺

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