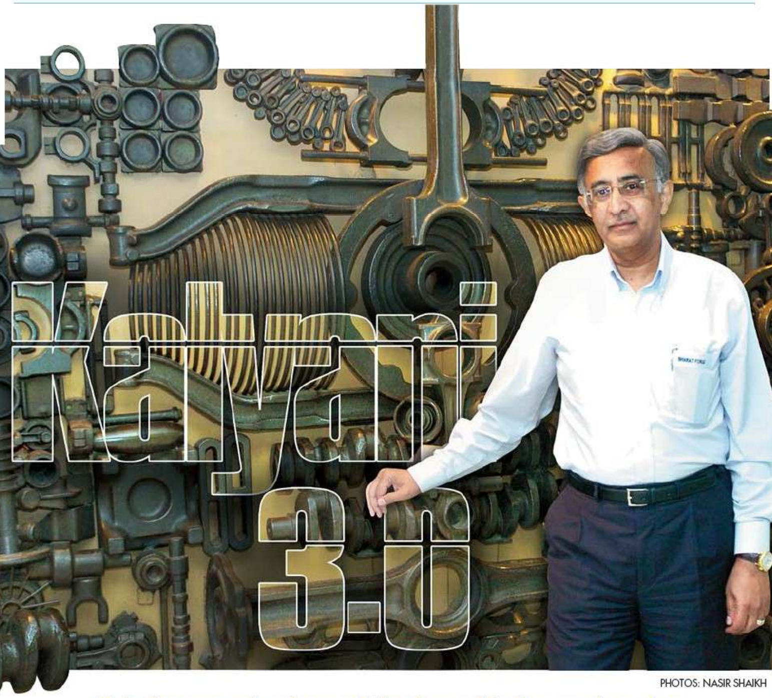
Priyanka Sangani



Kalyani 3.0

PHOTOS: NASIR SHAIKH

He's the man who changed the face of Indian engineering globally. Now Baba Kalyani is breaking the mould — yet again

"It was 1995 and I was visiting one of the auto companies in Europe. I introduced myself and said we make auto components and would like to supply engine parts to you. The person just stopped short of grabbing me by the collar and throwing me out of his office for making such a ridiculous suggestion. 'This is high-tech manufacturing and there's no way I'm letting an Indian company do it,' he said. Somewhere that lit a fire in me, and I decided that we needed to change that." 12 years after that first meeting, Bharat Forge has 100% of that business.

When you listen to Babasaheb Neelkanth Kalyani describe his early encounters with European auto majors, the reputation that Indian manufacturing had globally hits home. Companies weren't willing to differentiate between the country and a company then. So it is even more remarkable that today, about 70% of Bharat Forge's business comes from outside India. From a $1.3 million enterprise when he joined in 1972, Bharat Forge is now the flagship company of $2.5 billion Kalyani Group with interests in engineering steel, auto and non-automotive components & equipments, renewable energy and infrastructure and speciality chemicals. Kalyani realised early on that the traditional Indian model which used 'muscle power not brain power' was highly uncompetitive. He went about investing in technology instead. Unskilled labour became redundant and was offered voluntary retirement. Hiring top grade engineers became a priority. This set the ground for the kind of growth the business was about to experience.

The meeting with Kalyani happens after much planning, not surprising given that the Chairman & Managing Director of Bharat Forge spends a lot of his time away from Pune, at the company's 11 facilities spread across the world or making an impassioned case for Indian manufacturing at forums like Davos. The journey from a Pune-based auto component maker to an Indian multinational has taken time, but along the way, he's added almost every auto maker in the world to his customer list. The company boasts a global market share of 30-40% in all the segments it operates in and not surprisingly, is India's leading auto component exporter.

Not one to rest on his laurels, Kalyani has now set his sights on the non-auto forgings business. The new areas of focus: oil & gas, railways and locomotives, construction equipment, marine, aerospace and defence. If the last 15 years were about making a mark as a global auto component maker, first through exports and then acquisitions, the next few will see the evolution of the group to an engineering conglomerate. Say hello to Bharat Forge 3.0.

The rationale behind focusing on the new areas is two-fold: to de-risk the auto business which is among the first to be hit in case of any kind of slowdown, and to tap into the increasing investments in these sectors by developing economies. "A couple of years ago, we decided we must take advantage of the other sectors of the industry which can use the knowledge and competencies we've developed in the auto component business. There is a lot of infrastructure development in emerging markets around the world (including India), and there is tremendous scope for growth there," says Kalyani.

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Return of the Engineer

In a distinct break from strategy, for its foray into the capital goods and infrastructure sectors, Bharat Forge has tied up with a number of companies to benefit from the expertise they can bring to the venture (see table). A significant share of the industrial goods business comes from outside India, and Kalyani expects it to be a while before it will take off at the same scale at home. It already has an established customer base in North America, Europe and Russia and over time, will tap into other developing economies. While aerospace is still a nascent industry, he expects a trickle down effect from the huge spends that have been announced for both military and civil aviation in India. The shift in gears is already showing results. "We had set a target of 40% contribution of industrial products to the standalone group turnover by 2012-2013 and we are on target to achieve that," says Kalyani.

Arun Kejriwal, founder, Kejriwal Research says, "To expect all sectors to do badly at the same time is a tall order, so in that sense the diversification is a good move for the company. The company was affected by the slowdown in the auto sector and this will considerably help de-risk the business." The other big shift that Kalyani is effecting is moving towards complete systems. "So far we have been a component maker, but the future is moving towards industrial products and complete systems," he says. This explains the JV with Alstom, where the company will be building complete power plants and wind turbines instead of just the forged parts that go into it.

Having announced an investment of Rs1500 crore in 2010 for the non-auto business, Kalyani says that the company intends to use it's existing facilities in India for this expansion. The bigger investment will be in people and to this end, the company has tied up with BITS-Pilani, Warwick University, UK and IIT-Powai to provide on campus engineering programmes for employees. The employees who undergo these training programmes will then be deployed in the industrial manufacturing business.

"Their whole core capability is the metallurgical space. The thinking is how to leverage the metals capability in markets where there is huge advantage. The automotive industry is cyclical and a very difficult one, so getting good returns is tough. There are larger opportunities where these capabilities can be used and that's what they are chasing. Time will tell whether this works or not," says the head of a consulting firm.

But while Kalyani may be looking at increasing the share of the non-auto business, by no means does it mean that the core will suffer. As demand for autos continues to go up globally, so also he expects this part of the business to keep pace with that growth. However, the dual shore model which was a key part of his strategy for auto won't apply to non-auto forgings. "The investments and set up is more complicated and so it would be difficult to replicate that in the industrial sector. Besides, manufacturing in India also brings in cost competitiveness," he adds.

If the auto components business has seen its ups and downs given how it directly gets impacted by everything from an economic slowdown to fuel and commodity price fluctuations, the diversification into non-auto too isn't without its share of risks. For one, most of these sectors are closely linked with government policy and can be infuriatingly slow. Deepak Jain, who tracks the company at Sharekhan, says that the key risk as far as the non-auto sector is concerned is the delays in awarding of projects in India. "Even if projects are awarded, there can be delays on account of other issues and this can impact the investments that the company has lined up for these ventures," he says. There has been some talk controversy about not getting environmental clearances at Mundhra where its plant with Alstom is coming up. Also for the first time Bharat Forge will have to compete against established engineering companies. Kalyani isn't too worried though. For one, a large part of the industrial goods business is targeted at companies outside India. Besides, he points out, he didn't need to set up any of the facilities from scratch, just tweak his existing factories, which meant that the investment risk was fairly minor.

Building Bharat Forge to be the company it is today hasn't been an easy journey. When the company decided to upgrade its technology in the 90s it realised that no one was willing to partner with an Indian company. Rather than give up, it went about creating the capabilities in-house and reached a stage where it was competing with the best in the sector internationally. "Initially when we went to manufacturers in North America and Europe, we'd ask them to come and look at our facilities in India. Most of them would be surprised to see that it was far more advanced than what they had back home. That's when the export orders started coming in. And of course, nothing succeeds like success," he smiles. Then, having built up its exports business, the company realised that if it truly wanted global leadership in its industry, it couldn't be done sitting in India; it had to have a presence in every geography. That triggered the first in a series of acquisitions in 2000. "Once people saw how we were running the factories there, people started having more faith in us," says Kalyani.

Kalyani takes great pride that the company competes on technology, not price, and deals in highly engineered products. In a way, Bharat Forge's success opened up the floodgates to the possibility of India as a manufacturing destination. Indian companies have realised the importance of investing in technology and people and today, a number of companies have made it a manufacturing base for global markets. MNCs too have started setting up international purchasing offices here, and to a large extent, it is pioneering companies like Bharat Forge and a few others who share credit for it.

His vision 2020 for his company is clear. Where does he see himself by then? "I hope to be retired from business — of course not completely. I am slowly taking half a step back every year and focussing more on mentoring, people building and creativity. Maybe I'll teach, who knows," he says.

Joint Ventures for non-auto business

2008: NTPC:
Power plant equipment along with balance of power plants

2008: Alstom:
Super-critical equipment for power plants

2009: Areva:
Heavy forgings for power sector applications

2011: David Brown Systems :
Building and aftermarket opportunities in the heavy engineering sector

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