

YOU HAVE TO HAVE FAITH IN INDIA AND THE INDIA STORY



*Baba Kalyani is Chairman and Managing Director of Bharat Forge, the leading Pune-based forging company. In an exclusive interview with Govindraj Ethiraj on the show **Bottomline**, which airs on **Headlines Today**, he talks about the economy and what to look forward to in 2013. Edited excerpts:*

It has been an interesting year, 2012. Most people felt that, perhaps, towards the end of the year, things will start looking up. We had a new finance minister, new announcements were made, there were new directions laid so to speak. Are you getting a sense that things are finally looking up now?

The steps that are being taken now will definitely have a positive impact but it is going to take some time because an economy as large as India's and as diverse as

ours has a tremendous inertia and anything that you do takes a couple of months. So you are going to see a few quarters before you will start seeing results coming in. If you look at 2012/13, the first half was very good. Most people did very good, but suddenly the second half doesn't look so good. We are beginning to see a contraction in demand in almost every sector of the economy and this is largely due to the prevailing system or circumstances that we are seeing around ourselves. The whole decision-making process getting frozen, not



much activity happening, projects getting blocked either because of land or environmental issues or political issues... it is better to wait and watch rather than start moving and making investments.

Let us talk about the automotive component business, the forging business for which you are really known all over the world. That's not growing as fast today because of demand contraction in the auto business. Right?

Yeah. We have seen a demand contraction, largely in the commercial vehicles' side of the automotive business. That's a large part of our portfolio, not only in India, but also outside India. And in India, we are seeing a demand contraction of almost 25 to 30 per cent in the commercial vehicles' segment and outside India it is 10 to 15 per cent. Europe is 15 per cent and North America is about 10 per cent. China is as bad as India, 25 to 30 per cent. There has been demand contraction, but it is cyclical, temporary. So, I am not very concerned.

You are very optimistic about 2013, at least for the automotive part. What do you think is going to spur this relative turnaround that you feel will happen?

It is different reasons in different markets. If you look at India, we have had a very, let's say, difficult year (2012) in this sector. The demand has contracted, production is low, consumption of products is low. It is largely related to overall issues within the economy and with the steps that the government is taking, the finance minister is taking, you will start seeing easing up of this situation in 2013 and the demand will come back because the potential demand is pretty high.

You, for instance, announced at least two projects, one in Madhya Pradesh, which is a sponge iron plus power plant, and in Maharashtra, which is a power plant. What are your own experiences?

Madhya Pradesh, we have just announced. We are just starting on this. For us, this is a sector that

we would like to grow. Steel, energy, these are the sectors we want to grow because we honestly believe that irrespective of the problems we are seeing today, India as a country and its economy will continue to grow and if it continues to grow it needs more energy, it needs more steel, it needs more automobiles, therefore it needs more components. You have to have faith in India and the India story from a longer term perspective.

Companies like yours have also, in time, become global. I think most of your acquisitions, for instance, happened between 2003 and 2005. That was also a strategy. It was maybe to de-risk, it was to look at opportunities overseas. Now, when you look back, how does the strategy look?

Two things. First, that strategy worked extremely well. We grew 10 times in eight years because of that, because we took a measured approach to globalise ourselves.

Before we started this process, we were a \$100-million company and by 2008, we were over a billion-dollar company. So, it was rapid growth in a short time. Second, that strategy has a great meaning for the future growth of India. Many players in the Indian market are the same players that we serve today in Europe and North America. Whether it is Daimler, Volvo, Volkswagen, Audi, they are all getting into India and they are going to have significant market shares in the next 10 to 15 years. Now, this business is cyclical. Every three to four years, there is a cycle – right now it's a down cycle. So, things don't look as bright as they look in an upside but the upside will come very quickly.

The bottomline question, therefore, for a global company like Bharat Forge, which has now expanded considerably across the world, is to what extent does the India story matter?

The India story for the next decade is extremely important for two simple reasons. If you look at the automotive business, we are



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going to grow from three million vehicles – four wheelers – to almost nine million or plus. So, it is going to be three times growth in the next 10 years. Clearly, the opportunity for anybody who is in the automotive space here is tremendous. We are not only looking at growing in what we do today but we are also looking at growing in what else we can do in the automotive business tomorrow. That is one of the areas we are focusing on. Second, a lot of multinationals in the automotive space are beginning to now look at India from a strategic point of view to make it the supply hub for Asia. This is where India's manufacturing story is going to start coming in. India is going to emerge as a very strong manufacturing destination for technology products.

India has an advantage in manufacturing, particularly at the higher value-add level. And that really is our only advantage compared to China in manufacturing. When people say that, they really mean companies like yours. To what extent will this make the India story stronger?

This is true conceptually. There are companies like ours and others which have demonstrated that they are extremely competitive and savvy in technology and technology applications, and in products. But we do not have the scale of China, which is six times bigger in size and scale in almost every space. If you look at automobiles, they are the world's largest. In railways, they have the world's fastest train. Similarly in infrastructure and everything else.

China has its own space in the global economy, it will probably be the second-largest economy. But in 10, 15 or 20 years, India can become the third-largest economy, and pretty much close to China. That's an amazing economic proposition. That largely will depend on how we derive our policy and systems. How do we get scale? Everytime we take one step, we cannot get bogged down in environment, governance and legal issues. If we get into a mess every time, we are going to get into the wrong direction.

At Bharat Forge, you continue to focus on maintaining profitability. It has not been such a bad time for you.

It has been a difficult time. We have had two good quarters and now we are going to have two bad quarters. But you do things in a downturn that you wouldn't have time to do when business is booming. We are developing new customers and new products. We are getting our costs down. We are optimistic. ♦

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