

# Old Dog, New Tricks



Baba Kalyani will spend Diwali meeting customers in the US as he tries to open up new frontiers to reduce Bharat Forge's dependence on the auto sector

**:: Suman Layak**

**A**nnappa Kalyani started life as a mail-runner for a rich man in a rural hamlet called Kole, in the interiors of Maharashtra, in the early 1900s. He would run and walk every morning to the Karad railway station 15 kilometres away to fetch mails. Kole and Karad are in Satara district, about 161 kilometres from Pune. Even as a runner, Annappa Kalyani figured the art of working his way up the ladder. Eventually, he turned to trading in turmeric and did well enough to be called the turmeric king of Karad, before he died in 1954. Grandson Baba Kalyani was five at the time. However, the young Kalyani had imbibed the spirit of leapfrogging from his grandfather.

Baba Kalyani can also be described as the eldest son of Neelkanth Kalyani, sugarcane farmer-turned-cooperative activist-turned-industrialist founder of Bharat Forge. Yet, Baba Kalyani is best known as the man who took Bharat Forge, where he started working in 1971, into a different league. It is the largest forgings company in the world and a prestigious parts supplier to the world's top auto companies with close to a billion dollars of sales.

Today his business needs his best days to be ahead of him. At 64, he faces a tough challenge: to hold on to what he has built and to inch back to the billion-dollar mark, which, in rupee terms has become a shifting goalpost. Thanks to the slump in the automobiles sector Bharat Forge might need another leapfrogging act.

In 2012-13, Bharat Forge's net profit dropped 56% from ₹410 crore a year ago to ₹182 crore. Sales dropped 9.2% from ₹6,279 crore to ₹5,702 crore. According to estimates (See *Sales have fallen...*) put out by Angel Broking's analyst Yaresh Kothari, the company will take another one and a half years to recover lost ground. Says Kothari: "The company is highly dependent on the domestic commercial vehicles industry which is not doing well. It is betting on a recovery led by exports to Europe and the US. It is doing well to get exposure to other industries."

#### Back to Running

In his 60s, Baba Kalyani still loves the outdoors. He claims to be the pioneer of water-skiing in

Pune – at the Khadakvasla dam – and even wind-surfing. "I had my own motor boat which we would take to Khadakvasla, but that was 40 years ago," says Kalyani. Today, at 64, he is restricted to treks and walking during short breaks at his bungalow in Mahabaleshwar and an occasional trip on his Harley Davidson motorcycles. "They weigh 800 kilos each, and when stationary if they tilt you have to let them fall; you can't hold them or pull them back," says Kalyani about the monstrous bikes.

Age, however, has not curbed his ability to travel, and Baba Kalyani is now touring on work almost 20 days in a month. On Diwali Sunday, he will be in the United States, meeting prospective customers.

"Fortunately we had diversified," Baba Kalyani says, with the gloom in the domestic – and international – automobiles sector as a backdrop. "We are working feverishly with customers. In shale gas drilling in the US we are supplying parts now. We are working with the power industry all over the world. We are meeting customers in aerospace and getting them to tour our plants. It takes two



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**Baba Kalyani**

years to get customers on board."

Baba Kalyani adds that his company is an expert in shaping and forging metal and there are opportunities to supply to many industries. The defence sector is one of them and Bharat Forge has been working on building howitzers – artillery guns. The company has, says a person close to the development, already built prototypes for the guns but cannot test them as India still does not allow the private sector to do it. Baba Kalyani says: "All the defence majors had a background like ours. Bofors was a steelmaker that became a forgings company and then went on to build guns. Companies like Krupp and Thyssen were in steel and forgings before entering defence. There are similar examples in the UK, it is a natural progression."

Kalyani is also moving backwards into steel in a big way. A joint venture with Mukund, Hospet Steels is investing in increasing steel production capacity. His group has two more steelmakers, Kalyani Steel and Kalyani Carpenter Special Steel. "We are waiting for some iron-ore allocation in Karnataka before we can invest more in steel," says Kalyani.

### Engines and Engineers

Bharat Forge has worked with Indian Railways to build locomotive crankshafts. In 2012, it bagged the first order from Indian Railways, which always imported the crankshafts. Bharat Forge is the first Indian company to develop the technology and has even started exporting crankshafts for locomotive engines.

Around the time when Neelkanth Kalyani started setting up Bharat Forge in 1964, Baba Kalyani went to study engineering at BITS Pilani. "I would come back and be involved whenever I was not in college," he says. After completing the course, he moved to the US to study at the Massachusetts Institute of Technology. Two years later, in 1971 he was called back by his father to join the family business. "I had the option of building a career in the US. Many of my friends who went at the time did not come back, but for me building the family business and being with family was worth it," says Kalyani who joined Bharat Forge at a monthly salary of ₹500. "I became a general manager within four months as I used my education to improve productivity and output," he says.

Pratap Pawar, younger brother of Union minister and politician Sharad Pawar, was at BITS Pilani with Baba Kalyani. Pawar, who runs the *Sakal* newspaper and is on the board of Bharat Forge and heads its audit committee, says about Baba Kalyani: "He is technologically very sound and knows how to use technology to fulfil his vision."

The Pawars and Kalyanis have been family friends for many years and Kalyani has also invested in Baramati, the pocket borough of Sharad Pawar. Pratap Pawar adds: "Every board meeting I see even the foreign board members feeling satisfied learning something new on technology," he says.

Kalyani's passion for hi-tech gets one more endorsement from Tridibesh Mukherjee, independent director at Bharat Forge. "Kalyani is keen to develop new technologies and use them as his strength," says the former deputy managing director of Tata Steel.

Baba Kalyani's son Amit Kalyani is today an executive director with the company handling strategy, finance and human resources. He says: "It is our strategy to use the downturn to prepare for the boom."

### Transition Time

At the ₹12,000-crore Kalyani Group, it is also transition time in more ways than one. While the flagship company Bharat Forge is trying to move from a domestic automobiles industry focus to a company with largely export earnings and across different industrial sectors, the role of Amit Kalyani is also growing in the group. Baba Kalyani is not yet ready to discuss succession, but it slips out. "I have had a 42-year-long career, there are a few more years left," he says. But he immediately dispels any thoughts of retirement.

Amit Kalyani has been introduced as a director on the boards of most of the group companies and more often than not is the public face of the company. Although an engineer by training, the 38-year-old looks more like a numbers man. "Our asset utilization today is at 60% and we are going to sweat our assets to earn more cash and use the cash to reduce debt," says Amit Kalyani. As of September

### The New Odds...

- Auto demand nosedived with auto sector output, specially commercial vehicles, falling rapidly
- India's tryst with the power sector and huge capacity additions every year did not happen
- While Bharat Forge is ready to produce howitzers in India, the government is not yet ready to try them
- The American unit had to be shut down as the company's relations with the unions deteriorated

### ...and how Bharat Forge is responding

- Looking for more export orders and new markets like China
- Focus on new sectors like shale gas in the US for growth
- Reducing dependence on the Indian automobiles market
- Focus on orders from overseas power, oil & gas and railways sectors



Baba Kalyani with his 4-year-old granddaughter Vasudha; (R) Son Amit Kalyani

ber 30, 2013, Bharat Forge's debt stood at ₹2,322 crore.

Numbers are something important in Baba Kalyani's scheme of things too. "We Indians are very good with numbers," he says. After the takeover of the German company CDP in 2003, Baba Kalyani managed to turn around the company in three months, even before the formalities were completed. "Maybe this has to do with our growing up in scarcity and always having to manage with less. As Indians, given a set of numbers, we have an uncanny ability to spot where we can save money," Kalyani senior says.

In the US, where Bharat Forge had taken over a company in bankruptcy, there has been less success as negotiations with the trade unions did not go well and the plant has been shut down. "We are looking at starting something new in the southern states of the US. All industry is moving to the south away from Texas and Kentucky – towards Louisiana, Arkansas and the Mexican border. Labour is \$15 an hour

over here against \$35 in the north and they have a 'right to work' rule that allows workers to work without being with any trade union," Baba Kalyani explains.

### Fresh Air

What Baba Kalyani loves the most about his escapes to Mahabaleshwar, the old British hill station, is the "fresh air" that he can breathe in as he goes on his walks. In many ways his travels across the world searching for new horizons for his company are also an attempt to introduce fresh air into it.

"All this is about de-risking our business," he says, explaining his drive to get new customers in new businesses and new countries. China is also a big part of his plans.

The 'other' businesses or industrial segments like oil and gas, power, railways, marine and aerospace engineering, construction and mining equipment and defence contribute around 40% of the business today while the rest comes from the auto sector. Baba Kalyani wants the non-auto share to go up to 60%.

Right now the eurozone is driving Bharat Forge's export thrust, and Baba Kalyani also draws a lot of inspiration from the region. For example, in Germany, almost 80% of the innovations are done by small and medium companies started by technocrats, explains Kalyani; these companies, typically between €50 million and €250 million, are driving technology in Germany, he believes.

There was a time when Kalyani would model himself on such technopreneurs, especially when he started with a company with ₹3-crore in revenues. But he has outgrown that phase and is in a bigger league. In fact, he claims, in the first seven years he doubled the company's sales every year – the stellar stint that led to his early promotions under his father's regime. Today the company needs a repeat of that early innings. ■

