METAMOVE
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IN CONVERSATION

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Forging new opportunities

Bharat Forge, the flagship company of the $2.5 billion Kalyani Group, has become a true multinational Indian component manufacturer, with several plants in India and abroad. For long, it solely depended on the auto sector. But realising the pitfalls of placing all eggs in one basket, it started focusing on the industrial sector at large. Defence manufacturing is one area that the Kalyani Group is really upbeat about. In an interview with *Financial Chronicle*, **Amit B Kalyani**, executive director and son of founder-chairman Baba N Kalyani, spoke about the group's plans and growth strategy.

■ The government has increased the FDI limit in defence manufacturing. What opportunities does it offer for Indian companies?

The focus on procurement of arms locally has been there since the defence ministry released the defence production policy (DPP) in 2011. The current initiatives appear to be aligned towards operationalisation of that policy. This initially reflected in DPP 2013, when the ministry laid out the priority for acquisition (giving higher priority to 'buy Indian, and buy and make Indian') and later in some of the announcements made during the current year. This operationalisation of the intent will benefit all Indian industries, both large and in the MSME segment. We hope to benefit from our chosen focus areas like artillery systems, armoured vehicles, ammunition, air defence and defence electronics.

The recent decision to increase FDI to 49 per cent is a positive step and indicates the intent of the government to give a boost to defence manufacturing in the country. But equally important will be to address the problems associated with approvals and grant of industrial licences in a time-bound manner. Currently licences are in the pipeline for many years and we still do not have clarity on issue of ownership and investment through FII or portfolio route. The Indian companies will benefit from this policy in the medium to long term, as it will open avenues for joint ventures with foreign OEMs.

■ Which areas of the defence sector is your group focusing on?

The Kalyani Group is focused on number of segments that include artillery systems, armoured vehicles, futuristic ammunition, air defence systems, defence electronics and protected vehicles. The list would grow with the passage of time, as and when the sector is further opened to private sector participation.

We have made significant investments in this sector over the last two-three years. Our group is focused on major growth in the non-auto segment, which forms an important part of our growth strategy.

We are following a multi-pronged strategy that focuses on organic as well as inorganic growth. All the group companies are playing a part in enlarging the basket of offerings from materials to components to subsystems and systems.

In fact, we have been a supplier of many parts and assemblies like tank wheels, shells, forgings, axles, tracks, barrels and many other items for last many decades.

The focus is now to move to systems space. We are following a product strategy where we develop products and then go to the market. We are now in the process of developing various products. We exhibited the 155/ 52 caliber towed gun Bharat-52 and light weight gun system Garuda 105 during the Defexpo. We are now developing products like mine protected vehicles, ground penetration radar and ultra light gun system. The going has been good and we expect this to translate into major growth in the years to come.

The outlook for this sector is good and we are hopeful that the new government will provide a level-playing ground to the Indian industry. We are hopeful of *acche din*.

■ Where would you like to see the Kalyani Group in the next five years?

Five years down the line, the Kalyani Group will be a bigger, stronger and more resilient entity with focus on technology-oriented and value-added manufacturing. Hopefully by then, we would have realised our goal of having the five non-automotive verticals each contributing more than $100 million to the top line. The automotive side of the business will also be more diverse in terms of product offerings and value addition compared to what we do today. We hope our capital goods foray through the joint venture, which today has an order book of 3.3 GW, would have gained critical mass by 2020 and start contributing to the profitability and cash flow of the consolidated entity.

■ What strategy has the company drawn up in terms of investment? Will it favour the automobile or industrial segment?

Our aim is to grow our business across verticals. On the CV side, the growth will come by way of new product development aimed at enhancing our wallet share with the customers, while continuing to focus on market share gains and new geographic penetration. The growth on the PV side will be driven by orders won over the past year or so, which will start ramping up in FY16. We see all-round growth in the non-auto side driven by market share gain, new product development coupled with moving up the value chain and new segment penetration. So we are looking at holistic growth.

■ You have a large presence across geographies in the overseas market. How are the opportunities and growth in those markets?

Our business model is pretty simple. It's to focus on leveraging our strength in technology and innovation to partner with our customers to deliver solutions by way of light weighting of components resulting in better fuel efficiency; improved performance of the product by way of enhanced fatigue life, which translates into improved total cost of ownership. Once we become a supplier to a global OEM, we ensure that as the relationship matures, we are able to cater to their requirement in various geographies.

For example, a relationship with an OEM that started in Europe has extended over the years to North America, Asia and India. All of this has enabled a highly de-risked customer base and more reach in various geographies.

■ Your revenues are dependent on the fortunes of the global auto sector and hence vulnerable to ups and downs in the sector. What's your key enabler that helped you sail through the economic downturn?

We used to be highly dependent on the automotive industry for growth, but all that has changed. Today more than 40 per cent of our revenue comes from the non-automotive sector. FY14 is a classic example of the de-risked business model enabling us to grow despite headwinds. In FY14, while our exports have grown by over 15 per cent, domestic sales have been flat despite tough market conditions in India. The key enabler is our focus on a de-risked business model and having a philosophy of treating every single customer, irrespective of how small or big they may be, with the same level of importance. This has ensured our growth, even in trying conditions.

■ Your industrial business segment has witnessed good growth with revenues increasing in the last five years. What's really helped?

The key to success has been our constant focus on technology and innovation. Our core skill sets of metallurgy and metal forming coupled with our full service supply capability have enabled us to make critical breakthroughs such as becoming the first Indian supplier of fully machined crankshafts to the Indian Railways. We believe that we are at the start of the 'S' curve and growth in the non-auto space will only accelerate with time, as we gain experience and customers in various segments.

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