

“I am not going to wait for orders... I will put in money to build these plants and create these capabilities”

Kalyani Group Chairman **Baba N. Kalyani** has been trying to position himself as an equipment supplier for India's defence forces for the past 30 years, but with little success. Now the \$2.5-billion Group has a new strategy. Its defence holding company, Kalyani Strategic Systems, will not wait for orders from the Ministry of Defence. Instead, it is going ahead to build capability and capacity in artillery, air defence systems, ammunition and armoured vehicles. In an interview with **Prosenjit Datta, Rajeev Dubey and Goutam Das**, Kalyani talks about the stop-and-start nature of the defence business and what needs to change in the government's procurement policy. Excerpts:

The share of private sector companies in the government's capital acquisition orders for the air force and army stood below 2 per cent in 2013/14. How do you plan to move the needle from 2 per cent to, say, 10 per cent?

One, all of us – the industry, government, bureaucracy and the media – should strive to change the needle from 2 per cent to 70 per cent. We need to aim high. This is exactly what Prime Minister Modi has been saying. If you take his speech at the aero show (Aero India) and read it paragraph by paragraph, it is an amazing speech. I have read it 10 times. Each paragraph has a significant message. We need to set a very high goal. Two, we have an amazingly competent person today as the defence minister. He is a technocrat and an engineer. He has experience of running a small scale defence unit before he got into politics. It is a pleasure talking to him – I have had several opportunities as Chairman of CII's Defence Committee – because he has full grasp of what's going on. He may not have the solutions in place, but he has, at least, got the grasp.



Now, what are the key issues? One, the procurement policy. The intent of the policy is good. But once you read the 300 pages, (you will realise that) we need to convert it to just 15 pages. By the time you read the first 10 pages, you will just get lost. Even the most brilliant mind will say 'what does it exactly mean?' It is concocted. It is left to the system to deal with it. And, anybody can interpret anything in our system. Therefore, it needs to be clear, and it needs to be simple. Two, you need to take away all the

is government to government...

That is going to change. Why is there no questioning of PSUs? Everybody is questioning coal blocks. The Supreme Court is coming down heavily. You are right. To an extent, when you give it to a PSU, at least, no question will be asked in terms of 'have you done it a favour, or for gratification?'. Because the PSU cannot gratify the bureaucrat. But corruption is not just about gratification.

“I started much before Prime Minister Modi’s government came to power”

Jane’s defence handbooks. This is the world encyclopedia of what every company in the world is doing for each product in defence. It is a good thing because it is a huge information base. The bad thing is, when the system, whoever it is, is putting in the GSQRs (General Staff Qualitative Requirements for procurement of a defence product), you go to a Jane’s book and pick up four companies making the same product, pick up the best element in each one of them, and compile. And then, nobody can make it happen. You get into all kinds of situations where (each action could be challenged) “you said this and you are giving this”. The real issue, of what it needs to deliver in terms of force and force multiplier, and in terms of fighting power, is all lost. We will get into things like ‘if it was one inch high or two millimetres more’ – the non-relevant things. I am exaggerating, but we need to put in requirements that are more functional than requirements that are non-functional. If you want a gun that, say, should fire 40 km, you don’t need to say 40 km, and then put 50 conditions which have no meaning. In procurement, everybody has to tick every box and then it can go on for 14 years.

Three, there’s a trust deficit of going to the private sector for procurement. There is a huge trust deficit in the country, not only in defence, but in almost every field. We are all Indians. We need to be proud of doing something for this country. We need to make things happen. From an industrial point of view, we don’t have more than 10 years to make this happen. Because 10 years later, technology is going to be so different that you will have a hard time even playing catch-up.

Is the government trying to avoid being questioned? When a contract is given to a public sector unit, there is no questioning. It



What has happened to the government’s Long Term Integrated Perspective Plan (2012-27)?

It is there and it is very sound. There is no problem with the planning of the services. They are very clear with what they want, how much fighting power they need. The long-term integrated plan is for 15 years. It has been done articulately and we have a very competent Army, Navy and Airforce. These guys prepare the integrated plan in terms of what they need. Then it goes to a system which generates specifications – you get all the Jane’s handbooks out. Then it comes to procurement, which is the Ministry. You have multiple agencies dealing with the same thing. Here, it kind of gets lost. Today, procurement supply-chain has become a science which is taught in universities. You can’t look after animal husbandry somewhere for three years, and then come to defence procurement because that’s where you are transferred. Defence supply-chain management is a very sophisticated science and is far more complicated and complex than the automotive and industrial world. There are different types of equipment, different vintages... coupled with certain political problems. The

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bottom line here is you need to create a supply-chain organisation which is highly professional with supply-chain experts. Supply chain is not just about negotiating a price – that is a very small part. Whereas here (in the present set-up), it seems to get a larger-than-life proportion.

Why did you get into artillery guns? What is the status of the two guns that you had made?

I did it for very different reasons. I started much before Prime Minister Modi’s government came to power. I have been working in the defence space for the past 30-odd years. I had made no headway.

A little over three years ago, when procurement of artillery guns made the headlines (for all the wrong reasons), we decided to get bold and show the system that Indian companies can make products which are world class, instead of trying to get an order or contract first. I went around the world – to the British Ministry of Defence because all our defence factories were built by them. It was the logical place to start. To my surprise I found that the entire British design, development of military hardware, which was part of the government, like our DRDO, is now part of Cranfield University. It is a private university. It has a department of defence research, especially in land systems. They were very open. I met a lot of professors and students. I realised it was not as difficult as everybody makes it out to be. Then I got hold of the head of artillery programme at Cranfield. I spent a lot of time to understand what I have to do to make artillery. The roadmap was clear. Sometimes, you also need luck in business. There was an artillery plant available in Switzerland belonging to RUAG. It was considered the Rolls Royce of artillery. They wanted to sell the plant because they were doing work for

the American army in Afghanistan and Iraq. That work was over because the US Army was heading home. I bought the plant within 24 hours and, in the following month, I moved it to Pune. I put 50 engineers on the project and in around 18 months, we built our first artillery gun. It was a success. Now, we have built four platforms, including an ultra light. Two platforms – the ultra light and the 155mm/52 – have gone for firing tests.

Didn’t you have problems to get the trials done in India?

The government is very interested in the two programmes, the ultra light and the 155mm/52. So, they are doing the firing tests. Our problem is that as a manufacturer, we should have the ability to test. Here, we are expecting that everything will be right the first time. That can happen sometimes, but not all the time.

So the first order is still to materialise?

We don’t have any order yet.

You can sink a lot of money in this business...

I have put a lot of money. I have taken a leap of faith. I took it before Prime Minister Modi came up with his ‘Make in India’ initiative. My initiative was not based on this scheme. But, of course, it has now got accelerated. My simple logic is if I can make a product which is better than what is available in the world today and at a price which is extremely competitive, then why would India not buy it? That is the position I took with all my business in the last 20 years. That’s how I am a global business leader. Nobody

gave me an order. I put up my new plants, I went to Europe, America. And, I got business.

Except that in defence you have one customer and you cannot export...

It is not necessarily just one customer. We went and participated in defence fairs in the UK and Abu Dhabi. The

Explosives. They make explosives, and have the land, required isolation and permissions. We have now applied for a license to make ammunition. We have already started making the metal parts. It is a question of putting the metal parts and explosives together. The only item we don't make is the fuse for which we have now tied up with a German company. We are also in the process of setting up an armoured vehicles facility. It is a specialised area. It is less of



amount of enquiries I am getting for guns is unbelievable.
Can you export?

I have to ask the defence ministry. We can export but the ministry has to give an NOC for to whom we can export. We can't export to all countries. Syria, for example.

But you can set up a plant in another country?

We don't want to do that. I have enough faith in India, and enough faith in our new administration. They mean well. I think the industry needs to take one foot forward in doing this. This is the only way you can bridge the trust deficit that is there. Part of the trust deficit comes from the fact that they genuinely believe you can't do it.

What next after guns?

We are now putting up four plants. One plant on artilleries is already in place. We are going to put an air defence system (anti-tank air defence) – a joint venture with an Israeli company – in Hyderabad. We are going to get that going very quickly. Then we are going to make ammunition because India imports a lot of ammunition. It will require a specialised facility but is not rocket science. We have joined hands with a company in Hyderabad, Premier

a vehicle and more of military technology. I am not going to wait for orders. I am going to put in money. It is risky. But, I will build these plants and create these capabilities.

How much have you invested in defence so far?

I won't tell you that. But, I will put in a ₹1,000 crore over the next three years.

You said you have been investing for the past 30 years. Did you set aside a certain amount of your turnover?

I have not been investing for 30 years. I have been trying to find out how I could supply equipment to our defence services for 30 years. I will give you an example. When the Kargil War happened, the system ran out of ammunition. One day a defence ministry official visited my office unannounced and said that the services needed ammunition for the Bofors guns as soon as possible. We had set up an ammunition line earlier – empty ammunition without explosives. But because we had no orders it was lying idle. We re-tooled it and, within six months, we delivered all the ammunition that was required. This is how a start-and-stop business can be. ♦

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