'Aerospace is one of the next opportunities'

The Rs 4,500-crore plus Bharat Forge operates in virtually every segment of the forging business in North America, Europe and Asia with plants across the world. Nearly 75% of its sales are from outside India. Chairman and managing director **Baba Kalyani** *tells* **Murali Gopalan** *that the auto business will cede to non-auto business by 2015*

Do you see your non-auto business being a big growth driver in the future?

Today, our non-automotive portfolio (in 2007) is roughly 17-18% of sales; by 2010-11, our endeavour is to increase this to 40% and you are going to see a very large scale-up in a growing market. My gut feel is that, by 2015, it could occupy even a larger space than the automotive sector. As a forging business, we are about $1.2 billion, and by 2010-11 and 2015, we will be much bigger, where the non-auto business will play a significant part. Over the last two years, 80% of our capital investments (Rs 450 crore) was in the non-automotive arena, where we earmarked two plants.

How is it that you are you so bullish on the capital goods business?

Quite unlike our automotive business, where a bulk of our revenue is from other countries, the capital goods focus is largely India-centric. It is my view that we are going to see a huge shortage of supplies here. In our area of business (forgings), we will put up capacities to fill some of these gaps.

The investment pipeline for capital goods in India is over $500 billion, of which a large part is metal equipment for refineries, boilers, turbines, petrochemicals, power plants, mining and construction equipment, locomotives, railways etc.

The big plant we are setting up in Pune will make large forgings up to 70 tonnes. We are also commissioning a facility in Baramati to make 2.5 tonne forgings for locomotive crankshafts, marine parts etc.

Where do you see the other big opportunities in the non-auto sphere?

I would certainly think these would be in aerospace, energy, marine applications etc. Aerospace opportunities will come largely out of the programmes that India is mandating and there will be a large supply base emerging in the next 2-3 years. If any big multi-billion dollar programme is clinched, suppliers would be needed in India and there is a genuine shortage worldwide.

China is way ahead here; they have built aerospace supply companies in the last 15 years and India can ill-afford to lose the opportunity to be in this business. I am also bullish on the railways for applications in locomotives, tracks as well as high-speed trains, which would be typically 400 kmph between Delhi and Jaipur or Agra for instance.

Where would this leave your core automotive business?

We have put up a fairly good strategy for our automotive space in the last few years and executed it well. We have large capacities across the world, which includes both India and China. For the next 2-3 years, our focus on the auto space is to increase the productivity of these capacities and thereby increase our market.

We also set up our innovation centre in Europe 18 months ago and have a slew of new technology development projects in the automotive sector, which will give us new market penetrations.

The automotive business will continue to grow both in India and China as well as Europe on the back of the new technologies we are developing. The same holds true for North America. We have a lot of capacities in place and need to make them more productive.

Do you see the auto business in India benefiting from your global operations?

There is a sense of consolidation happening within OEMs worldwide. Everybody is going everywhere, though I think this process will eventually be completed in the next two years. Look at trucks, for instance, in the Indian context, where you suddenly have all the big global names, be it Daimler, Volvo (which has taken a bigger position), ITEC and others.

Now, these companies would be comfortable doing business with their supply base overseas. Bharat Forge already caters to their needs in Europe and, possibly, they would be comfortable replicating this business model in India.

OEMs will want suppliers with global footprints/capabilities who can deliver the same product with the same standard anywhere in the world. This is only available with only a few companies, in fact a miniscule fraction of the supply chain.

We have the capacities in place and only need to get them productive and get the technology processes in place to take advantage of the huge market opportunities. By the end of the day, being a global supplier is imperative, if you want to be a large player. Otherwise, you will simply disappear.

But can every manufacturer manage to do this?

There is always going to be a section within the industry which is more commodity or cost-focused and less technology-focused. However, a large part of this segment is going to work towards being a technology and development partner with OEMs and look at newer products.

How do you plan to meet the challenge of new technologies in terms of lighter cars, emissions etc?

Our technology development is working precisely in this direction. For every OEM in the world, we are developing new products which are lighter with better material and metallurgical processes. Everyone wants lighter, smaller and stronger components with more durability. It is a challenge, but if you have the platform to do this, it is quite exciting.

What is really driving all this is the issue of global warming, which, of course, has different meanings for different people.

Across North America, Europe and Asia, it defines emission norms mandatory for cars and trucks. To achieve this, you need to make the vehicle lighter, so that you use less power to move the same distance and emit less. The other option is to make the engines efficient in terms of opting for hybrids or fuel cells. The modern diesel engine, in my view, is as clean as the hybrid.

How have your operations in China been?

China has been good for us in terms of the size of the market and growth. It is also challenging to operate in the manner you want to operate.

If I were to explain this, it means that our company (and this is true for many others) needs to come to grips with issues relating to people and culture, and convert these into an operating structure that is efficient, productive and world-class in terms of processes and skilled people.

Are you, therefore, implying that not everything has been hunky-dory in China?

It has been a bigger challenge than what we thought but it is easily surmountable. It calls for more attention where people from here can be sent there to train their counterparts as part of a larger engagement. This is quite different from our operations in Europe or the US where a change in strategy or direction and motivating the workforce can work wonders. In places like China, there are additional things to do.

This was our learning curve in India, too, where 15 years ago, many companies could not make quality products and did not have the consistency or cost-competitiveness.

They could not export too much either, but have since put their house in order. This is exactly what we need to do in China.

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Nike ousts Adidas as French soccer sponsor

Will pay $63 million for 7 ½ years contract starting 2011

Gregory Viscusi & Holger Elfes

Scoring a goal

In addition to Nike and Adidas, the contract was contested by French sports company Airness

Nike also makes uniforms for Arsenal and Manchester United of England's Premier League

Adidas outfits soccer clubs from England's Liverpool to Los Angeles Galaxy, whose roster includes star midfielder David Beckham

Nike Inc, the world's largest maker of athletic shoes, ousted Adidas AG as uniform supplier to France's national soccer team, breaking up a 37-year relationship.

The new contract starts in 2011 and runs through 2018, Jean-Pierre Escalettes, head of the French Football Federation, said on Sunday at a press conference in Paris. Nike will pay 42.7 million euros ($63 million) annually for 7 1/2 years for the rights, and may make further payments based on France's performance in the 2014 and 2018 World Cups.

Nike seeks to topple Adidas as the top maker of soccer apparel by the 2010 World Cup. Sporting-goods companies compete for sponsorships to boost revenue by selling replica jerseys, and place their logos on team gear. Nike, which supplies Brazil's national soccer team, tried last year to end Adidas's five-decade status as uniform sponsor for the German national team.

"It hurts the image, but I wouldn't overestimate the negative impact on the Adidas brand," Tim Burkhardt, an analyst at Landesbank Baden-Wuerttemberg in Stuttgart, Germany, said in an interview. Burkhardt, who recommend investors buy

Adidas shares, sees support for the company as it repurchases stock.

In addition to Nike and Herzogenaurach, Germany-based Adidas, the contract was contested by French sports company Airness. "These were three offers of high quality, and there was only the price to separate them," Escalettes said.

Adidas, Europe's biggest sporting-goods maker, is paying 10 million euros a year under its current contract, which began in 2004, Escalettes said.

"It's a great day for Nike football," Charlie Denson, president of the Nike brand, wrote in an e-mailed statement.

The Beaverton, Oregon-based company also makes uniforms for Arsenal and Manchester United of England's Premier League. Adidas outfits soccer clubs from England's Liverpool to Los Angeles Galaxy, whose roster includes star midfielder David Beckham. The company replaced Umbro Plc as uniform supplier to Premier League club Chelsea in 2006 and is set to take over this year from Admiral as sponsor to England's national cricket team. —Bloomberg

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Airlines face credit fears

And it is not just SpiceJet, which is sacrificing depreciation to fund its aircraft purchase. Credit crunch has forced other airlines also to go in for sale and leaseback and capacity rationalisation.

Industry sources say shortage of funds has compelled the Mallya-owned Deccan to defer delivery of some aircraft and GoAir to rationalise its fleet.

Analysts believe that if the credit crisis in the aviation industry sets in completely, it will slow down capacity addition in the market, which would balance out the demand and supply situation. This, they believe, will improve profits of efficiently run airlines.

"Many airlines have diluted their equity because of heavy losses. These airlines may face difficulty in raising funds from the banks and this could affect their expansion plans. It is a self-balancing mechanism, which will work well for the industry," avers an aviation analyst with a broking firm.

ICICI Bank joint managing director and chief financial officer (CFO) Chanda Kochhar says there is no general squeeze on lending to players in the aviation sector; it was based on case-to-case basis depending on the business model of the airline.

"There is nothing like holding back from lending to airlines. There is no renewed decision to do so. It is a known fact that aircraft financing has long gestation period, and depends on the business model of an airline," says Kochhar.

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Bhel, NPCIL plan JV

At present, NPCIL generates about 3,900 MW of electricity from its 16 power plants. The company plans to more than double its capacity to 10,000 MW over the next six years.

Among the joint ventures being planned by the company is one with Tehri Hydroelectricity Development Corporation of India for setting up hydropower units in the county.

NPCIL plans to add 2,660 MW over the next two years, taking the total number of reactors to 23 with a capacity of 7,280 MW.

Bhel has, in the past, supplied equipment and taken up jobs for NPCIL. In fact, currently, about 80% of the country's nuclear-based electricity is generated from sets manufactured and supplied by Bhel.

Outgoing Bhel chairman AK Puri had earlier told *DNA Money* that the company has access to technology for manufacturing steam turbines and turbo-generators, up to a rating of 1,000 MW for nuclear applications. The largest size executed by Bhel is 540 MW.

Government-owned NTPC and the Anil Ambani-controlled Reliance Energy Ltd had earlier approached NPCIL for partnership in setting up power plants. NPCIL is the only company mandated by the government to set up power plants so far. NTPC plans to set up a 2,000 MW plant by 2017. It is anticipated that the country, over the next decade, would add 20,000-40,000 MW nuclear power capacity to the existing 3,310 MW. At the current level, nuclear energy constitutes only 3% of the country's installed capacity.

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