Forging global leadership the hard way

Among the first Indian firms to go global, Bharat Forge, the world's biggest forgings-maker, has entered a new phase of growth, by diversifying into manufacture of high-tech engineering products so that it is no longer just called India's auto-vendor to the world

20TH YEAR OF REFORMS

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AT MUNDHWA, a nondescript suburb of Pune, trapped by an old railway crossing, the world's largest forging company has no airs of its international status. The collective opulence of a blue Porsche Cayenne and a couple of S-class cannot hide the modesty of the two-wheelers neatly parked inside the sprawling, green campus. It may sound incredible, but it is a fact that almost every car in the world, including Mercedes-Benz, Toyota, BMW, Volkswagen, Audi, Renault and Ford, and every second truck built in the US and Europe has some part made by this unassuming company.

Welcome to Bharat Forge. Auto forging is definitely not as dirty and messy as Europeans believed it could be. In fact, it is a real money-spinner. This is where the MIT-educated Baba Kalyani invested around Rs 140 crore over two decades ago, precisely in 1989 in his family-owned forging company, before he went on to create an engineering behemoth with revenues of over $1 billion a year and manufacturing operations across nine locations and six countries — two in India, three in Germany and one each in Sweden, Scotland, the US and China. Since then, it has diversified into sectors like infrastructure, power and aviation, and is growing to become an engineering conglomerate.

The 44-year-old flagship of the $2.4 billion Kalyani group (established in 1966) is one of the rags-to-riches stories. The 70s, when new players entered the domestic forging industry, was a period of growth and consolidation for Bharat Forge. In the next couple of decades, it grew from an automotive ancillary firm to one focused on technology and customer orientation.

It began forging ahead with exports to Russia in early 80s. "This was our first inflection point. It was a great learning experience of understanding the standards overseas," says Kalyani.

However, quality-conscious Europe and the US rejected it. "We tried hard to export to the West but it was really hard, not because of quality, price or competitiveness," says Kalyani. It was just a perception that India could not meet their quality standards. That was a challenge that Bharat Forge took head on.

This provided the company a big opportunity to do it on its own. "In hindsight, it was good as any technology relationship restricts you in the geography that you operate. The real problem in the Indian component sector is that most of them have collaboration or joint ventures which restrict their markets," says Kalyani.

So in 1991, Bharat Forge installed two press lines and it took them two years to master them. "We hired a lot of young engineers from colleges, who had no baggage and were willing to learn and start from scratch. And we were successful and began making components," he recalls.

As exports boomed, dreams soared too. To scale to the top of the league, the management knew that it was important to be present in the US, Europe and China. Bharat Forge then went on a buying spree abroad, and the rest is history.

It bought loss-making companies with good client base in Europe. The strategy paid off. At that time, the Indian automobile market started looking up, which helped the company to generate enough cash for overseas acquisitions. Then the whole world came crashing down on the company with the global financial crisis in 2008. An acute cash crunch and losses at overseas subsidiaries took the wind out of its sails for almost a year.

Though investors in Bharat Forge had got super returns up to 2006, from the second half of that year its shares were pummelled even as the overall market was on its way to new highs in January 2008. During the crisis, investors left the company in droves and its shares plummeted to a low of Rs 85 by January 2009.

The declining fortunes of the forging industry hit the company hard and its year-on-year net sales growth stagnated at 2.47 per cent in 2008-09. But even then its average growth was better than that of its peers — Ahmednagar Forgings, Kalyani Forge, MM Forgings and Mahindra Forgings — who lost 7.21 per cent. But next year, Bharat Forge fared badly than its peers by contracting 30.26 per cent compared with their average of 26.62 per cent. And then, for the first time in 20 years, the company slipped into the red by Rs 46 crore in 2009-10, after adjusting for exceptional items.

But today, it is back on track. "Exports are once again booming, and this year promises to be the highest the company has achieved. This is despite the fact that Europe and North America are far from being normal," says a Mumbai-based equity analyst.

PH Ravikumar, an independent director on the board of Bharat Forge, and managing director and CEO of Invent Assets Securitisation & Reconstruction, has an interesting take on how the company learnt the best way forward the hardest way. "The company has successfully come through a difficult patch. In the mid 90s, it realised that it could not be totally dependent on the domestic market and 2008 brought the realisation that being totally dependent on western markets too may not be good. They quickly got the hang of what needs to be done," he says.

Farrokh N Cooper, CMD, Cooper Corporation, a large forging company and exporter, believes Bharat Forge will do well with its overseas acquisitions because of its proactive Indian management style. "They are always looking for better ways to produce goods," says Cooper.

Acquisition of companies in Europe and the US could not have been the end of the journey for Bharat Forge, the company that wanted to rule the world. It had to enter China, whose automobile market is 6-7 times bigger than India and is the largest exporter of complex forging components to the US. Further, it wanted to learn more on low-cost production and technology from China.

But finding an appropriate joint venture partner was a key challenge, says Kamal Rungta, managing director, EJ McKay & Co India. "FAW Forgings was a good fit, and in 2005 Bharat Forge formed a 52:48 JV with it," Rungta says.

It took 2-3 years for the company to rationalise cost of production. "The Chinese JV gave Bharat Forge a good learning experience," says Ravikumar.

By now, Bharat Forge's strength lay in its reputation with international clients. "It is a top-class company," says Wilfried Aulbur, outgoing managing director and CEO of Mercedes-Benz India. Bharat Forge supplies crankshafts for the German luxury carmaker's diesel models. "We have had good experience and great pricing for the components sourced from them," says Aulbur.

It is also a supplier of quality forgings to General Motors globally, points out P Balendran, director and vice-president – corporate affairs, General Motors India. But Bharat Forge is not just about automobile components. In 2005-06, it decided to enter the global non-automotive forgings market. Since then, the company has diversified into manufacturing components for industries like oil and gas, energy, construction, mining, marine, railways, aerospace and a range of heavy engineering applications.

Amit Kalyani, son of Baba Kalyani and executive director, Bharat Forge, is upbeat about the rapid growth of the company's non-automotive business, which will generate 30-35 per cent of total revenue in FY11. "In 2007-08, the non-auto business contributed 18 per cent of the total revenue and it climbed to 21 per cent in 2008-09, but it fell to 20 per cent in FY10 due to demand downturn in all geographies and across product groups. We are targeting to increase it to 60 per cent in 2014-15," says the junior Kalyani.

Bharat Forge and its French partner Alstom have a 51:49 joint venture to manufacture turbines and generators for supercritical thermal power plants. It has also formed a 51:49 joint venture with NTPC Energy Systems with a manufacturing facility at Solapur in Maharashtra that will be operational in 2012-13. Further, the company has also entered into a preliminary joint venture with Areva, France, to build a manufacturing facility for heavy forgings in India.

The company is investing over Rs 1,500 crore over the next three to five years in new plants, processes, and products. According to Ravikumar, it is managing diversification prudently through lateral recruitment and sourcing of talent in sectors such as power.

Bharat Forge has grown from a company with market capitalisation of Rs 314.55 crore on December 31, 1991 to Rs 8,818.46 crore on December 31, 2010. Today, it employs 7,500.

What is Kalyani's dream now? "It is to make India a high-tech manufacturing destination. India's power will lie in high-tech manufacturing and we can achieve this in the next 10 years," he says.

(With inputs from Yassir A Pitalwalla, Ravi Ranjan Prasad and Anto T Joseph in Mumbai, Rajesh Gajra in New Delhi)

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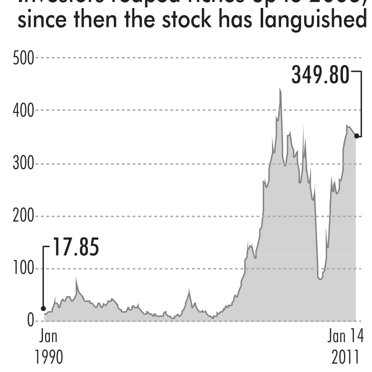
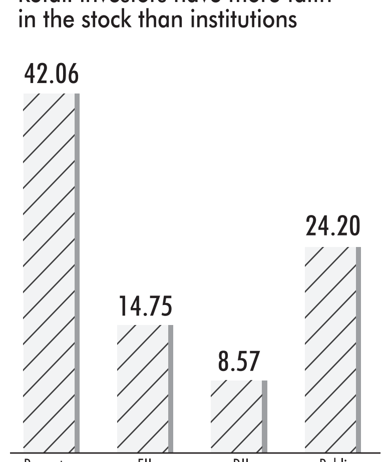
Decent performance

Investors reaped riches up to 2006, since then the stock has languished



Strong domestic support

Retail investors have more faith in the stock than institutions



Figures in per cent • As of Sep 30, '10 • Source: Capitaline Neo, FCRB

Faltering after strong start

Financials grew robustly in the early half of the second decade

FY- ended	Net Sales	Adjusted Net Profit	Total Debt	Total Assets
Mar '10	3,286	-46	2,253	3,795
Mar '09	4,711	66	2,191	3,930
Mar '08	4,598	302	1,654	3,379
Mar '07	4,149	299	1,790	3,311
Mar '06	2,971	249	1,159	2,425
Mar '05	1,941	201	580	1091
Mar '04	797	123	286	537
Mar '03	597	81	324	495
Mar '02	410	21	382	558
Mar '01	469	33	413	562
Mar '00	496	60	409	810
Mar '99	405	37	396	804
Mar '98	532	45	462	851
Mar '97	517	51	427	817
Mar '96	434	51	358	771
Mar '95	306	23	357	606
Mar '94	229	11	252	422
Mar '93	229	7	242	384
Mar '92	259	9	192	274
Mar '91	230	14	146	223

Figures in Rs crore • Financials for Mar '05 to Mar '10 are consolidated and the rest are standalone • Adjusted net profit is profit after tax adjusted for exceptional & extraordinary items
Source: Capitaline Neo, FCRB

BHARAT FORGE'S WORLD

		% of holding
SUBSIDIARIES	CDP Bharat Forge	100
	BF Beteiligungs	100
	BF America	100
	BF Holding	100
	BF Aluminiumtechnik	100
	BF Aluminiumtechnik	100
	BF Hong Kong	100
	BF Kilsta	100
	BF Scottish Stampings	100
	BF Daun	100
	BF New Technologies	100
	BF-NTPC Energy Systems	51
	Kalyani Alstom Power	51
JV	FAW Bharat Forge (Changchun)	52
ASSOCIATES	Kalyani Carpenter Special Steels	0
	Technica UK	30
	Alstom BF Power	49
	BF-Areva	entered into preliminary JV

Pinaki Paul

While Baba Kalyani (top) built a reputation on high quality, son Amit Kalyani (above) is leveraging it to expand business into new areas

Q&A

Baba Kalyani
Chairman and managing director
Bharat Forge

Denied tech, we did it on our own

■ **You are once again at the point of making mega investments?**
The Indian economy is growing. We have no choice but to make large investments. For our power business we will invest over Rs 1,500 crore, and a couple of hundred crores of rupees for the joint venture with NTPC. Right now, these are the active businesses. Our focus will be to get enough capability in these businesses. We want to look at innovation and technology in a different way. We're growing in automotive and non-automotive sectors.

■ **How do you look back on your strategy to buy distressed companies in the past decade?**
We bought distressed companies and turned them around quickly in less than a year. We knew the business and how to control costs very well. We got the customer and engineering interface. That interface was extremely important from a long-term perspective. And we won credibility that an Indian company can do good business in Europe. All this happened in the last 7-8 years. It helped us grow our top and bottom line. Exports crossed Rs 1,000 crore. And in 2008, we were a $1.2 billion company.

■ **Did the financial crisis force you to develop non-automotive business?**
We began to de-risk 4-5 years ago and entered non-automotive business and it had nothing to do with the global financial crisis. We thought we should get into manufacturing power equipment as the major components used are forged ones. But these are assembled and manufactured differently, so we had to go and get a joint venture partner (Alstom). I got a good partner and we are now putting up a plant.

This year we will end up with close to 38 per cent of our revenues coming from non-automotive sector. If you look at forge, engine and factory components, Bharat Forge has become a lead centre developing new products.

■ **What were the initial challenges faced by Bharat Forge?**
The initial 15-20 years went into warming up and forming the company. Because, in the early 1960s, manufacturing in India was not up to date and well established. People had all kinds of notion about manufacturing. Gradually, we got our feet on the ground. Our first inflection point was in the early 80s when we first began exporting our products to Russia. We never knew the end customer but we sold crankshafts for some engines through Russian trade offices. This was the time we started gaining confidence in our business. It was a great learning experience of understanding the standards overseas. We also tried hard to export to the West but it was hard because nobody believed we could produce to the required quality and consistency and they were right.

We believed we could produce products of quality and consistency to meet their requirements. We wanted to get into the Western markets anyhow and we decided in mid 80s to invest a large sum in modernising our facilities and in leapfrogging technologies. The catch was nobody wanted to give us the technology, so we had to do this on our own. I did not want any restriction. I wanted to go wherever I wanted to sell my products.

■ **So the US market opened for Bharat Forge?**
After turning the business model of manufacturing process upside down and replacing the blue-collar workforce with over 2,000 white-collar staff (with minimum graduate engineering degree), the US market opened up for us from 1992 onwards. The challenge of replacing blue-collar workers with white-collar staff began in 1989 and strengthened our highly skilled workforce. It took us 10 years to complete the transformation as workers retired and availed of voluntary retirement schemes. By the end of 1990s, we were exporting all over the world as our technology was better than anybody else's.

■ **When did your exports really take off?**
After we created a fairly good track record, clients came and saw our facilities. We also had a bit of luck. By the end of 1999-2000, we had a fairly large volume of exports to every continent and that's when we started building and getting into global leadership in business. We wanted to be among the top 3-4 companies of the world. For that we needed to be in American, European and Chinese markets. We wanted the world's top OEMs like BMW, GM and Porsche as our clients. So we began formulating our acquisition strategy. We bought companies which had these customers and turned around them.

■ **Do you regret any decision?**
I may have had ups and downs in shaping and growing the footprints of the company globally. I have enjoyed every journey with my teammates. I don't regret any decision.