Corporate

The Road Ahead

Baba Kalyani, Chairman & Managing Director of Bharat Forge, has been shopping. Since 2000, he has spent nearly $120 million in acquiring companies in the UK, the US and Germany. Ask him why and he says: “We believe that to serve customers better across geographies, capacities need to be spread across the globe. The concept revolves around creating ‘dual shore’ manufacturing facilities that complement each other,” he explains. But the bottomline is that Bharat Forge is on the move.

The flagship company of the $1.5 billion Kalyani Group, Bharat Forge Ltd (BFL) is currently a full service supplier of engine and chassis components. It is the largest exporter of auto components from India and one of the leading chassis component manufacturers in the world. The Indian stockmarkets have given the company the thumbs up. Since July last year, BFL’s stock has more than doubled in price.

With manufacturing facilities spread over eight locations and five countries — two factories in India, three in Germany, one in Sweden, one in Scotland and one in North America — the company manufactures a wide range of critical components for passenger cars, commercial vehicles and diesel engines. BFL also makes specialised components for the railway, and the construction equipment, oil & gas and other sectors. It is capable of producing large volume parts in both steel and aluminium.

Until a few years ago, it led a very sedate existence. Today, this company based in Pune (160 km south of Mumbai, India’s financial capital) is fighting for marketshare globally. “In 1997, we worked with the Tata Strategic Management Group (TSMG) to draw up a five-year strategic plan for our company,” says Kalyani. “Part of the objective was to aggressively grow our business by access-

A SUCCESS STORY: Bharat Forge now has fire in its belly
ing global markets, and to be among the top three global players in our industry segment.

What made BFL abandon its earlier sedentary style? A host of external factors spurred the international foray - aligning of interest rates with global rates, lowering of import barriers, and easy access to international funding. However, to stay competitive, Indian companies have to build a global workforce, integrate various operations, and successfully manage their global businesses. And this is the blueprint that BFL has etched for itself to keep to the road while speeding up even further.

Today, it is the world’s second largest forgings manufacturer. It has a presence in every important world market for passenger cars and commercial vehicles.

Part of this success story is because of the freedom allowed by the new India. The other half lies in the opportunities thrown up because the big boys failed to read the writing on the wall. Rising costs, a capacity glut and stiffer competition forced carmakers such as DaimlerChrysler, General Motors and Ford to cut costs. This pressure was passed to parts suppliers, forcing them to either seek cheaper manufacturing locations or shut shop. Some of these companies, based in the US and Europe, were up for sale at bargain prices.

Enter Bharat Forge. After moving from its traditional Russian and East European markets, BFL trained its sights on the US, Western Europe and China. The pick of the

**BABA KALYANI:** “We are following a strategy to achieve global leadership partly through expansion and partly through acquisitions”
Q. Could you chart out the path BFL is taking to achieve the target of becoming a $1 billion company?

In response to developments in the global automotive industry, we have in the past 10 years implemented a strategy that is designed to optimally respond to global market opportunities. During this time we have put in place the required building blocks that have enabled us to establish Bharat Forge as a leading global player in the auto component supply chain. There are three distinct elements to our strategy. These include development of products for global customers; setting up global capacities; and creating an integrated organisation with world-class technology, processes and people.

Q. What is the genesis of this strategy?

In 1997, we worked with the Tata Strategic Management Group (TSMG) to draw up a five-year Strategic Plan. The objectives were:

- To grow our business aggressively by accessing global markets; to be among the top three global players in our industry segment; to set global industry benchmarks in cost, quality, technology, speed-to-market and customer service; and to create sustainable competitive advantage by taking strategic initiatives in areas of marketing, technology & product development, operations and human resources. With market conditions being as dynamic as they are, we have over the years continuously finetuned our strategies to respond to new challenges and opportunities.

Q. What is your strategy in China?

Till 2003, Bharat Forge did not export to China. However, our first breakthrough into that market gave us immense satisfaction. It came at a time when China was increasingly being regarded as the “Manufacturing Workshop of the World”. What we were able to establish is that when it came to skill-intensive components, we had a clear competitive advantage vis-à-vis our Chinese competitors. In the past three-four years, we have developed a significant market presence in the Chinese market through exports. This encouraged us to establish a manufacturing footprint through a joint venture with the First Automotive Works Group, the largest automotive company in China.

Q. What is most critical in becoming a global company?

Strategically we believe that to serve customers better across geographies, capacities need to be spread across the globe. The concept revolves around creating “dual shore” manufacturing facilities that complement each other. While facilities closer to international customers’ production hubs should focus on product design and development and manufacturing high-end critical components, high volume manufacturing can be undertaken at low cost locations.

Q. BFL is focusing on creating a position of leadership. How is the dual-shore manufacturing model helping in this and what kind of innovations can we see in the future?

Q. BFL has become one of the best examples of an Indian manufacturing company’s global capabilities. What are the lessons learnt while globalising the company?

There are several lessons that we have learnt but I would like to highlight what I consider the most important - the need to build a world-class talent pool and organisation.

In my opinion, the key lever of competitiveness is the quality of a company’s human resources. We need to develop what I call “Global Managers” - people who have the ability to operate across borders with confidence; who can rise above regions and cultures; who revel in diversity; and can operate in spite of high ambiguity and frustration. This is the cadre of people we are trying to develop.
beleaguered pack was snapped up. Part of the production was moved to India, where low cost labour gives a pricing edge.

BFL's trophies include Kristall Forge of the UK (acquired in 2000 at $4.5 million), and two German companies - CDP and CDP Aluminiutechnik (in 2003-04 at $50 million and $8 million respectively). In early July 2005, the company announced its acquisition of Michigan-based Federal Forge Inc ($10 million) and Imatra Klista AB and its subsidiary Scottish Stampings ($55 million). Today, BFL derives 64 per cent of its consolidated revenues of around $445 million from the international markets.

The acquisition of CDP has been particularly advantageous. BFL's total forgings capacity has gone up 40 per cent to 190,000 units. Production, which was heavily concentrated at its plant in Pune, is now segregated in a volume ratio of around 2:1 between India and Germany. All eggs are no longer in one basket.

However, Kalyani wants more. He is targeting a consolidated turnover of $1 billion by 2008. According to him, it will be achieved by leveraging existing relationships with global automobile companies and their Tier I suppliers to become a development partner, where BFL can play an active role in product design and development, offering solutions from conceptualisation to product delivery. This will also give BFL a captive market, as automobile companies have deep relationships with such suppliers.

Analysts are bullish. "Despite its seemingly high valuation, we remain positive on the stock owing to the company's cost competitiveness, export scalability and proven delivery capabilities," says auto analyst S. Ramnath from SSKI India, one of the country's leading brokerage firms. K
alyani has also invested wisely in technology and has understood its importance from early on. He roped in foreign collaborators like Rockwell International and Bendix Corporation for axles and brake systems. At present, the company is planning to set up technology development centres in Europe and the US, while using its production base in India for lower-cost output. Technology investments have been accompanied by a focus on quality.

Given the cost edge in India, wasn't expanding at home a better option? It doesn't quite work that way. First, original equipment manufacturers (OEMs) require a high degree of indigenisation. It helps to be
physically close. Second, existing companies come with contacts, networks and relationships. It is possible to replicate that, but it takes time. If you are in a hurry, takeovers are the only option.

BFL is currently focused on creating a position of global leadership in engine and chassis components for passenger and commercial vehicles and has embarked upon a three-pronged strategy to offer customers dual-shore design capability, dual-shore forging manufacturing capability, and dual-shore machining capability. That means offering these facilities from different centres, whichever is the most appropriate in each individual case. It has also set up a centre of excellence in Germany with a specific focus on frontline product development capability and participation in the product development initiatives of customers.

BFL is convinced that it needs to reconfigure its product mix. Both domestically and globally, the car and sports utility vehicles market is about four times the size of the commercial vehicles market. However, currently, only 9 per cent of the company’s sales are to car companies while 60 per cent are to truck companies. The company’s long-term strategy is to increase sales to car companies.

Automobiles are the future. Meanwhile, BFL continues to pay special attention to the truck segment.

The company is already a supplier to Arvin Meritor, Dana, and Cummins in the US, and to Caterpillar and Perkins in Europe.

BFL also became one of the first Indian companies to bag large orders from China. Last year, it signed an agreement with First Auto Works for $25 million worth of forgings annually for the next five years and $15 million annually for the next three to five years with Second Auto Works. Both these Chinese companies produce a large range of vehicles from cars to trucks.

There’s more happening in China. In December 2005, BFL entered into a joint venture (JV) with FAW Corporation. The Indian forging major will hold a majority 52 per cent stake in the JV. FAW Bharat Forge will manufacture highly engineered forged auto components.

“We are following a strategy to achieve global leadership, partly through expansion and partly through acquisitions,” says Kalyani. “We have made acquisitions in Europe and the US, and we will now have a presence in China, which will give us an entry into the world’s third-largest car market.” The FAW group has ties with Volkswagen, Toyota and Mazda.

A new world deserves a new look. BFL has recently unveiled a new identity. The baseline is “Driving Innovation”. And, if Baba Kalyani has his way, it will be a drive across the world.