Men on a mission: Baba Kalyani (left) and his son, Amit, plan to invest close to ₹2,000 crore over the next three years in new plants, processes, teams and products

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BHARAT FORGE REMOULDS

The world's second-largest forging company is recasting its business to tap opportunities in the fast-growing power and infrastructure sectors

Arijit Barman

Bharat Forge and Alstom, its Paris-based partner, recently edged out local heavyweight Bharat Heavy Electricals Ltd (Bhel) and Chinese price warriors to win the ₹9,200-crore contract from state-owned power producer NTPC for five supercritical turbine generators of 660 MW each. Such orders are always placed with the lowest bidder, provided it has the technical expertise. Bharat Forge and Alstom, it is learnt, quoted a price that was significantly lower than others.

Also on Bharat Forge's radar screen is an order from the Indian Railways to make 800 electric locomotives. The order will be executed over ten years, but it comes with a maintenance contract for 15 to 25 years. The business is lucrative; not for nothing is General Electric too trying hard to bag it. Next up could be another order from the Railways for 100 diesel locomotives. Together, the two could yield business worth €15 billion (₹92,700 crore).

You could call it the latest avatar of Bharat Forge. In the last 15 years or so, Baba Kalyani, the chairman & managing director of the company, now with his son, Amit, by his side, has not hesitated in giving the destiny of Bharat Forge a helping hand. In the mid-1990s, when the demand for spare parts fell because of hassle-free new-generation cars, largely from Maruti Suzuki, he aggressively grew abroad. The last few years have seen automobile makers squeeze the last penny out of their vendors. This led to the diversification, five years ago, into components for the mining, oil & gas, construction, aviation and marine sectors. And now Kalyani is ready for the next move: Infrastructure.

"The new focus of Bharat Forge, or the entire Kalyani group, is in line with the infrastructure growth story. Power equipment and capital goods are all wheels of this growth story. And all this is synergistic to the group's core forgings business," says Sidharth Rath, president (corporate banking), Axis Bank, one of the group's principal lenders. The numbers sure are big. According to the government's estimates, power capacity of 100,000 Mw will come up over the next five years in the country; this would entail an investment of ₹500,000 crore. No less ambitious are the targets for roads and urban infrastructure. This is the opportunity Kalyani has in his crosshairs. "We are now converting our automotive component business, which is Bharat Forge, into a metals business which in five years time will have a much larger activity in the form of industrial equipment," says Kalyani.

Father and son are "men on a mission" mode ready with their close to ₹2,000 crore-and-growing investment plans over the next three years in new plants, processes, teams and products. In the process, they are also stepping into an audacious diversification spree and taking a much bigger risk. This could well be the biggest gamble of Kalyani's eventful carrier.

BE IT CLEAN AND SUSTAINABLE ENERGY SOLUTIONS, OR URBANISATION AND INFRASTRUCTURE, BHARAT FORGE AND THE KALYANI GROUP WANT TO PLAY THE CATALYST TO TAP INTO THESE NEW DEMAND CENTRES

The target has been set: By 2012, Kalyani expects the non-automotive initiatives will double their contribution to 40 per cent of total sale. This in the long run is targeted to go as high as 75 per cent. Power alone can potentially be a $4 billion piece for the company. "In some sectors in the capitals goods space, we realised India didn't have technology or global scale. In the power equipment space, Bhel has been the only incumbent. The same goes for the rail transportation vertical. You need to overhaul the entire technological base here. It's a defining time to enter these sectors." adds Amit, the executive director of the company. From equipment, the story here blends with an overarching infrastructure and sustainability theme. From wind turbines to highways and special economic zones and steel, each vertical is charting its own growth story but at the same time trying to seek group synergies, exploring ways to weave into or interlink each other's operations.

Power play

Bharat Forge's power equipment strategy underlines a fundamental shift in the way it does business: It's now all about partnerships. So far, Kalyani has acquired small companies to lay hands on their technology, and has stayed away from tie-ups. Now Bharat Forge has two joint ventures: One with Alstom to build critical turbine generators and related auxiliaries, and the other with NTPC for the balance of power equipment including high-pressure valves, pumps and pipings. Areva could be another potential ally for the nuclear programme. "At the component level we have our own technology, and we are as good as anyone else. But when we transit from components to products, clearly we didn't have the know-how to build world-class boilers, turbines or generators. And that's why we need partners who are high up on the technology scale. And it's not just today's products, you need someone who will also give you products for tomorrow," Kalyani is candid in his admission.

Rarely does a vendor get a turnkey project — contracts are usually split into two to three big pieces. "Our two joint ventures ensure that we cover 70 per cent of an installed power plant. And if we need boilers, then Areva has agreed to supply from its joint venture with Bhel," says Kalyani. The idea is to capture as much of the business as possible whenever a power project comes up. Kalyani wants to build European standard equipment in the country at Indian costs, and leverage this competitiveness eventually to build a hub for exports. It's early days to say if the grand plans will come to fruition. But Kalyani is moving methodically. To break things down, there will be two independent ventures with Alstom. The turbine generator alliance will see the French company own 51 per cent equity, while the one for the auxiliary parts will have Bharat Forge on the driver's seat with the majority stake. Bharat Forge will also own 51 per cent in the venture with NTPC.

By 2013, the turbine generator plant at Mundra in coastal Gujarat will be ready for production. Around the same time, or probably even a year before, the factory for the NTPC joint venture should be ready at Solapur in Maharashtra. "At 5,000 Mw, the Mundra plant will be the largest integrated turbine generator capacity for Alstom globally," Amit claims. It's being designed to handle up to 1,600 Mw turbines, keeping in mind the new realities in the market. "If Areva wants to set up nuclear plant in India, it will need these 1,600 Mw turbines. These are a different animal altogether," says Kalyani.

Power is where most of the action is visible for the moment. But that's not how it will pan out. It's all about catching the megatrends, as both Kalyani and Amit will tell you. Be it clean and sustainable energy solutions, or urbanisation and infrastructure, Bharat Forge and the Kalyani group both want to play the catalyst to tap into these new demand centres and growth opportunities.

And it's not just a grand plan on paper. Kenersys, a Kalyani group company, is busy expanding its footprint in India and Europe, designing, manufacturing and marketing wind turbines. The wind farms of BF Utilities, another group company, at the moment generate power for captive use, but the group plans to expand its green energy portfolio to 500 MWs of solar and wind energy through separate special purpose vehicles with players like Areva. Similarly Nandi Infrastructure Corridor Enterprises is co-developing on a build, own, operate and transfer basis an ambitious infrastructure corridor between Bangalore and Mysore, and has done the financial closure. Real estate development along the project is also set to kick in. Bharat Forge is probably one of the few corporations that have not shelved their plans for special economic zones. It, along with Maharashtra Industrial Development Corporation, has till date pumped in close to ₹2,000 crore in its multi-product and services SEZ at Khed, near Pune. Kalyani Steel, which feeds most of the group's metal-based manufacturing business, is also on the verge of adding new production capacity of three million tonnes.

"WE ARE CONVERTING OUR AUTOMOTIVE COMPONENT BUSINESS, WHICH IS BHARAT FORGE, INTO A METALS BUSINESS WHICH IN FIVE YEARS TIME WILL HAVE A MUCH LARGER ACTIVITY IN THE FORM OF INDUSTRIAL EQUIPMENT"

BABA KALYANI
CHAIRMAN & MANAGING DIRECTOR, BHARAT FORGE

Roadblocks ahead

Power, in a way, is a natural extension for Bharat Forge because of its strength in making components. But there are other pieces of the jigsaw that need to fall in place. For one, the transition from a component supplier to a project manager requires a new mindset. Does the group have the managerial bandwidth to chase opportunities in infrastructure and then execute them? Aware of the challenge, Kalyani has put in place a new team led by former bureaucrat Sunil Chaturvedi who works from New Delhi, the policy hub of the country. This new team, filled with public sector recruits, has hit the ground running and is chasing power projects in India to energy exploration contracts in North and South America, especially for shale gas exploration. The current 120-member team is expected to double in one year.

"People know we have been smelling metals for the last few decades. So getting talent for a new team has not been a very tough assignment. To play an active part of a $1 trillion new challenge is what draws talent," says Chaturvedi, the COO of the capital goods division of Bharat Forge. Senior people hired from NTPC and Bhel are nurturing the second generation of young project managers.

But the incumbents — state-owned Bhel and private players like L&T, Reliance Infrastructure or Gammon — won't sit pretty either. Pricing alone won't do, which is why Kalyani is getting the best global partners for technology. Chaturvedi claims the group has another ace up its sleeve. "We control the value chain. Our own iron ore and coal mines supply the raw material. Our steel company makes high grade specialty steel. The components required are made in-house, and now even the equipment will be made by Bharat Forge. Who has a better competitive advantage?"

But where does this massive build up leave the automotive forgings division? Bharat Forge, after all, is the second-largest forging company in the world. Its turnaround is very much work in progress. Most of the overseas operations are still dragging the consolidated bottom-line, and are working at 50 to 75 per cent capacity. India alone is holding out strong. But the worst days that saw a complete freeze in operations, cancelled orders and dried-up credit flows are over. Like many of its peers saddled with European acquisitions, the slowdown saw Bharat Forge shelling out ₹74 crore as redundancy payouts to downsize almost 30 per cent of its workforce, shutting its Scottish operations and even posting a consolidated loss for the December 2008 quarter, a rarity in its history.

"But it was also a time for product development," says Amit. "We developed new processes in the aluminium forgings business for premium vehicles and got it patented. In Germany, we developed precision forging products which we are now launching. It was also a time to work closely with our customers for the future. All the development work has in 2010 more or less replaced what we lost in the downturn."

So it's exciting times at Bharat Forge. And one can feel the buzz the moment one reaches the usually quiet chairman's floor in its Pune headquarters. "We should be at the right place and the right time," says Amit. Nobody doubts the intent. The challenge is to make the most of the opportunity.