

News monitored for: Royal Enfield

Siddhartha Lal draws up big plans for Royal Enfield

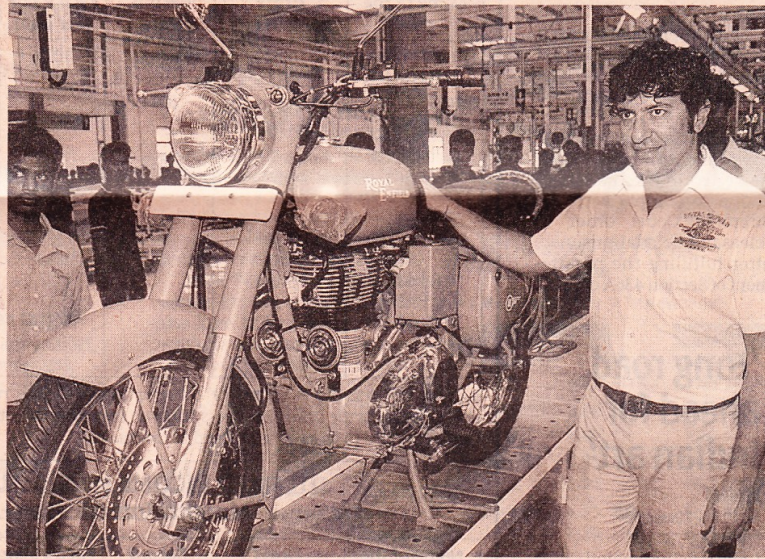
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If the board of commercial vehicles maker Eicher Motors had taken the decision that it felt was necessary in 2000, Royal Enfield, the mid-sized motorcycle maker, would have ceased production or been hived off. Its bikes returned poor sales and were plagued by quality issues. Today, Eicher must be thankful the board did not bite the bullet. Within a decade, Siddhartha Lal brought the brand back to life, enabling the company now to actually look at becoming a significant player in the motorcycle business.

Lal, managing director and CEO, Eicher Motors, admits that Royal Enfield, with a mere 1.5 per cent share in the two-wheeler market in India, is "not there right now", but is looking at bigger things in the months to come. Royal Enfield does not make commuter bikes, only leisure bikes in the 250 cc and above segments. Lal's target is 450,000 bikes next year, a big jump from the 78,000 it sold in 2012. There is a growing demand for Royal Enfields, as shown by the third quarter sales of 2014-15, when 82,000 units were sold, a 70 per cent growth over the same quarter in 2013-14.

Lal plays down the massive work that has gone in reviving the brand. "While the market wasn't buoyant in 2001, the leisure market evolved and we were able to succeed," he says, pointing out that the sales strategy to focus on metros and then expand to Tier II and rural markets worked well.

The products also went through a complete makeover. There were frequent complaints about engine seizures, snapping of the accelerator and clutch cables, electrical failures and oil leakages. Customers also found the vehicle too heavy, difficult to maintain, and the gear lever inconveniently positioned. The company invested both time and money to bring in changes both in manufacturing and in the supply chain. "We decided to inculcate the Japanese style of quality control," says Lal. The spending on research and development has been increased,



GROWTH DRIVE: MD & CEO Siddhartha Lal at the company's Oragadam plant near Chennai

and, as a percentage of sales, was 1.9 per cent in 2013.

Among other changes, it threw out the 1950s engine for a new one that has 30 per cent fewer parts and produces 30 per cent more power. By 2010, all Royal Enfield models had begun to use the new engine. And instead of producing everything from frames to seats in-house, the company began working with global suppliers. In addition to its workhorse, the Bullet, Royal Enfield added new models like Thunderbird and Classic that helped the company gain traction.

It was then time to move the goal posts. "In 2011, we took the decision to build a new plant. We also came up with a masterplan for 500,000 bikes," says Lal. Last year, a new ₹150-crore facility was set up at Oragadam near Chennai with the aim of making it the bedrock of Royal Enfield's plans for its second decade of the turnaround. In anticipation of bigger demand from across the world, the company also recently acquired a 50-acre plot in Vallam Vadagal near Chennai. "This prepares us for future

expansion needs," says Lal.

The current capacity of the two plants at Thiruvottiyur and Oragadam is 300,000 units. Total annual sales (both domestic and exports) is likely to be around 300,000 units this year, against 178,000 last year.

Lal is eyeing the smaller markets to boost sales. At present, around 50 per cent of its sales come from the top 10 cities. "We have set our sights on becoming the leaders in the global mid-sized motorcycling segment," he says.

Lal's enthusiasm is not unfounded. Bharat Gianani, research analyst at investment consultant Angel Broking, says that the demand for Royal Enfield bikes is likely to remain strong over the next two to three years, given the increasing accept-

ance of leisure biking in the country. "The demand continues to outstrip supply and Eicher Motors is constantly ramping up capacity," he says. "Further, Royal Enfield is likely to sustain higher margins on the back of strong pricing and the benefits of operating leverage."

Macquarie Research too had good news for the company.

Macquarie expects 57 per cent CAGR in earnings for the company in the next three years.

While the company exports its bikes to over 40 countries, it is looking at increasing its presence in places like the United States, the UK and Australia. But the big numbers are expected to come from South American and Southeast Asian countries. "The first market that we are entering in a meaningful way — Colombia — is still to start proper sales and that is going to happen this year end."

In 2016, Royal Enfield will come out with new motorcycles. It will continue to focus on the above 250 cc and sub-750 cc categories. Recently, Lal hired Pierre Terblanche, a leading industrial motorcycles designer who headed the design department at Ducati Motor. He is on board "to help us in our future motorcycles".

Given the company's buoyant sales when the automotive segment was experiencing weakness, the prognostication for the future is good. As Macquarie reported, despite quadrupling production in the last three years, the company is adding more new orders each month than dispatches, leading to delivery times of 6-12 months.