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BULLET RAJA

The iconic Royal Enfield is driving most of Eicher Motors' growth and the pillion rider is enjoying the ride

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RIDING ON SUCCESS : Although it has a current capacity of 300,000 bikes, one has to wait for five months to get hold of one

RA CHANDROO

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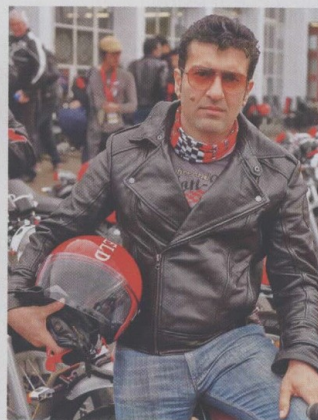
In a country obsessed with 'maa' and cinema, you know your brand has hit the motherlode — pun fully intended — when Bollywood decides to name one of its many wannabe-Western flicks after it. Unlike the tepid thriller named after it, however, Royal Enfield continues to find success with a generation that grew up listening to tales of daddy's first Bullet — the latter being the colloquial term given to the iconic bike's noisy retort. It is not just pop culture that is benefiting from the bike's legend, though — for a while now, Royal Enfield sales have been driving the fortunes of Eicher Motors, and CEO and MD Siddhartha Lal is not com-

plaining. A quick glance through Eicher's third quarter (the company follows a calendar year) results would be enough to fool an outsider into thinking there was never a slide in the automotive sector. "Royal Enfield continues to do well in Q3CY14, with our best quarter results so far," says Lal.

Royal Enfield has registered a phenomenal year-on-year growth of 70% this year, selling 81,977 units in Q3CY14, compared with 48,242 units in Q3CY13. Its Ebit margin improved to 23.4% in Q3CY14, from 17.5% in Q3CY13. Speaking to *Outlook Business*, Lal admits that he is a bit surprised at the pace of growth the company has witnessed in the recent past, adding that Eicher "wanted to be here." Though Lal believes that the time and energy invested in building an interesting motorcycle brand has paid off, Enfield's growth story can be traced back to almost a decade ago. "For nearly 20 years, we grew at just 3%, much slower than the industry. So, between 2000 and 2010, we put all our energy and focus into building the Enfield brand. We stayed true to our belief that there was a market for mid-size machines," says Lal.

Today, Enfield dominates the mid-size 250 cc to 499 cc segment; analysts back Eicher's claims of holding 99% market share in this

segment, adding that the company has hardly any competition here. Lal has the numbers to back his company's claims as well. "Enfield has grown nearly six times in terms of volumes over the past five years. We were barely selling 50,000 bikes a year in 2010; this year, we are set to touch 300,000," he says. That's quite a leap of faith, especially in the gloomy auto sector. Even today, you have to wait anywhere between three to five months to own an Enfield bike. "But that's nothing compared with



“We were selling 50,000 bikes a year in 2010; this year, we are set to touch 300,000

—SIDDHARTHA LAL
MD and CEO, Eicher Motors

an 11-month wait four years ago,” says Joseph George, research analyst at IIFL Institutional Equities, who covers Eicher Motors.

NO TRUCK WITH BIKES

But Eicher Motors isn't just about throaty, hot-blooded bikes. The company has traditionally sold medium and light-size trucks and buses, and is the third-largest player in this segment after Tata and Ashok Leyland. In 2008, Eicher inked a joint venture with Sweden's Volvo Group to form Volvo Eicher Commercial Vehicles (VECV), which manufactures and markets trucks and buses. It entered into another JV with Polaris Industries to design, develop and eventually manufacture a full range of off-road personal vehicles; no products have been launched so far, though. Enfield continues to dominate the company's books, nevertheless. "Till three to four years back, Enfield contributed 14% to our top line; now, it contributes nearly 33%," says Eicher CFO, Lalit Malik. The bottom line is even more interesting — in 2011, Enfield contributed 22.7% to the company's Ebitda, the contribution shooting up to 60% by 2013. The number is set to be even higher this year. Does he have an ideal business contribution mix in mind for CY15? "Money has no colour," smiles Malik. "As long as we are growing, we don't care where the money is coming from," seconds Lal.

While that is a great thing to wish for, the going has not been smooth for Eicher's commercial vehicle business, which has suffered on account of the lethargy that has taken over the commercial vehicle industry in the past 36 months. According to numbers released by

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the Society of Indian Automobile Manufacturers (SIAM), Eicher's commercial vehicles arm sales dipped 9% over the last year, with just 345,476 units sold in the first six months of the current fiscal, compared with 380,246 units over the same period last year. However, the mid-and light-size commercial vehicle segment registered a marginal improvement with 2% growth in the first six months of 2014. Meanwhile, operational margins of industry leaders Tata and Ashok Leyland continue to be in the red. Eicher scores on this front as well, with VECV's operational margins being in the 5% range; the JV has managed to sell 31,291 trucks and buses in the first nine months of 2014, compared with 32,984 trucks

and buses in the first nine months of 2013. Enfield's sales volume, on the other hand, went up from 123,018 units to 220,377 units during the same time period.

"Improved distribution, coupled with a sharp increase in production, has helped Enfield deliver strong volumes," says Jinesh Gandhi, research analyst, Motilal Oswal Securities. And that's not all. Demographic changes and increasing incomes have helped turn the legendary niche brand into a lifestyle product. "We have created a desirable brand that is not really bought on the basis of its features," beams Lal. Understandably, the parent has worked hard to improve Enfield's distribution and availability, setting up a new plant in

Chennai in 2012-13 and adding 100 dealers between 2011 and 2013 to take the total tally to 300. "We aim to touch 500 by next year, with the majority of new dealerships to be set up in smaller towns and cities," says Malik. Currently, Bengaluru, Mumbai, Delhi are the top three markets for Enfield, with Chennai, Hyderabad, Pune and Kolkata next on the list. "We plan to spend an additional ₹600 crore over the next two years to set up two units in Chennai. By June, we expect to reach a capacity of 450,000 bikes, and then touch 600,000 by 2016. Only then will we take a call on expanding capacity further," he adds. Capacity expansion will help bring down the present waiting period for the bikes.

ACCORDING TO SIAM, EICHER'S COMMERCIAL VEHICLES ARM SALES DIPPED 9% OVER THE LAST YEAR



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Powering the rise

Volume growth is expected to keep pace with the rise in dealerships

Year	Volume
2011	72,800
2012	113,400
2013	177,646
2014*	305,441
2015*	424,776
2016*	588,779

*estimate Source: ICICI Direct

Though Enfield has witnessed an astounding 70% spurt in volumes in 2014, it remains to be seen how sustainable such high growth is. Lal, for his part, says he doesn't like to mull over growth numbers. "Instead, we want to focus on improving our offerings and distribution. We like to stay agile," he says. But analysts believe a taper in growth is due soon. "Growth

will taper in the future as Enfield's base is growing. They plan to hit 300,000 in terms of volume this year, with our forecast for next year being around 430,000. That would mean that Eicher will see a 40% growth next year, as against 70% this year," says George. Enfield currently enjoys a 2% market share in the overall two-wheeler market, which is dominated by 100

cc-125 cc bikes that are sold almost like commodities. Consequently, there is enough scope for the brand to expand. "Enfield's growth will be driven by higher use for regular commuting (versus leisure biking in the past), expansion of addressable market, increasing affordability and doubling of dealer network. With almost 50 million regular motorcycles coming up for replacement over the next five years, Enfield will be in the reckoning for potential upgrades," George adds.

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Stomach churning return

The stock price of Eicher has gone up nearly 25X over the past five years

Date	Price in ₹
18 Nov 09	587
5 Dec 14	15,213

MY WAY OR THE HIGHWAY

So far, Lal has powered Enfield on the road to success by doing things in his own unique way. Is there any chance Eicher will tie up with strategic technology partners in the developed world, the way Hero and Bajaj have in the past? "We have moved beyond tie-ups and buyouts," Lal says. "Enfield has a strong business model, advantageous cost structure and in-house technology — we don't want to dilute that. We want Enfield to stay

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Taking money off the table

The Lal family trust has been a prominent seller recently

Buyers			Sellers		
Investor name	Value (₹ m)	Shares (m)	Investor name	Value (₹ m)	Shares (m)
Franklin Adviser, Inc	23.09	0.17	Lal Family Trust	-457.57	-4.06
Norges Bank Investment Management (NBIM)	10	0.12	First State Investment Management (UK)	-13.59	-0.14
RBC Asset Management UK	7.37	0.06	Morgan Stanley Investment Management (India)	-10.59	-0.07
Motilal Oswal Asset Management Company	5.41	0.03	William Blair & Co, LLC	-8.29	-0.04
Cartica Capital	4.79	0.02	Schroder Investment Management (Singapore)	-6.77	-0.04

Source: ICICI Direct

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true to its DNA.” For now, the company leadership is happy to avail the services of global technology consultancies from time to time to help it become the world leader in the mid-size motorcycle segment. “Our bikes are currently available in 40 countries, including the US, the UK, Japan and Australia. We are doing a lot of ground work to develop our brand and channels in these markets,” adds Lal. In August, ex-Harley Davidson man and industry veteran Rod Copes was appointed as president of Royal Enfield North America and assigned the task of driving Enfield’s

businesses in the United States and Canada. Lal recently also brought on board Pierre Terblanche, an industrial designer of motorcycles and the erstwhile head of design at Ducati. Clearly, Enfield is leaving no stone unturned to push for

EICHER MOTORS EXPORTS 3,000 TO 4,000 BIKES FROM ITS CHENNAI PLANT EACH YEAR

success in global markets, shipping 3,000-4,000 bikes from its Chennai plant each year.

In fact, VECV seems to be the only slow mover in the Eicher shed. Though it enjoys a 34% market share in the light and medium duty truck segment at the end of Q3CY14, its overall share in truck and bus market is stagnant at 12%. All that is set to change with the latest Pro range of trucks and buses VECV launched last year, the first few models of which were rolled out in early 2014. “A lot of serious investment has gone into this product, its technology and capacity. Now, we are waiting for the market to revive,” says Malik, with Lal adding that Eicher “can disrupt this market.” Aided by Volvo’s technological might and Eicher’s low-cost manufacturing capability, analysts believe the Pro range of trucks will drive market share gains for VECV over the medium term. “However, it is not possible for one company to capture a large share in a short period of time. VECV’s growth will be gradual as its competitors are also modernising their offerings,” cautions George. That note of caution doesn’t worry Lal. It took two decades of self-belief and hard work to get Royal Enfield the much-needed escape velocity and he seems prepared to wait for Eicher’s trucks and buses to follow suit. ☺



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