

# Royal Enfield kickstarts entry into new markets

With a new plant and product line, the bike has buoyed Eicher Motor's fortunes too



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Chennai-based Royal Enfield's British heritage gives it an authenticity that still commands a cult following in European and American markets. Custom-made bikes from its stables have made their way to celebrity garages for ages. No one batted an eye-lid when one of its bikes became the powder-blue ride of Harry Potter and Hagrid in the series' penultimate movie.

Soon, bike enthusiasts in African and South American markets can get access to these bikes as well. The leisure bike specialist, a part of the Delhi-based Eicher Motors, is taking its bikes to new markets. But not before it has fed the parent's stellar financials in the last quarter of 2012-13.

Eicher Motors recorded a sterling set of results for its motorbike division with a quarter on quarter rise of 46.6 per cent in the period ending March, 2013 (yearly growth in

box). Not only has the demand for Royal Enfield's three sub-brands — Classic, Bullet and Thunderbird — led to a revenue increase, but analysts point out that margins for the company have improved by 3.5 per cent year on year. "Both sales and margins increased for the brand because it gradually unlocked capacity from say, 8,000 units a few months ago to 10,000, while using the same overheads for more sale units, leading to better margins," says Basudeb Banerjee, research analyst, Quant Broking. The brand's runaway demand has propped up the stock price of Eicher Motors, at a time when commercial vehicle makers (Eicher depends on its commercial vehicles sale for over 80 per cent of its revenue) are slowing down.

The oldest surviving motorcycle-making company in the world and one of the smallest in India, Royal Enfield, makes bikes styled for comfortable cruising with engine capacities ranging from 350cc-500cc.

While Royal Enfield's bikes don't have competition with a

similar product — a leisure bike which is not an all-out cruiser — brands with comparable pricing and engine specs in India have not fared well in the last year either (see box).

Despite loyal followers, it was not so sunny for the motorbike brand a decade back. Selling just 2,000 units a month in the year 2000 because of quality issues, it was on the verge of being sold off or shut down. The turnaround of the Bullet-maker was scripted by Siddhartha Lal, now the managing director and CEO of Eicher Motors.

His team introduced modern and more resilient features to the iconic single-cylinder engine with a long stroke, without giving up the bike's heritage look and feel that die-hard fans swore by. From the under-utilised 6,000 bikes-capacity in 2000, the company now has a demand backlog of six months.

But there is a new plant that is operational since last month, opening up possibilities for Royal Enfield. It is now looking to create new follow-

ers. While in India, it is a premium bike brand (pricing and engine capacity), in worldwide rankings, its bikes are known as mid-sized, which encompasses 350 cc- 850-cc-engine rides. Lal says, "We want to be a global leader in the mid-sized category. We believe we can become a leader over the next 5-10 years. We have started planning for this. We have built a world-class facility whose quality is at par, if not the best. We aim to have a significant share in each country we will expand to in the mid-sized category."

The new plant at Oragadam, Chennai, built at a cost of ₹150 crore, has an annual initial capacity of 150,000 units, which is being scaled up to 250,000 units per year by 2014. With additions made to its older plant, too, the company hopes to churn out 500,000 units annually in the next few years. It has already revised its estimate for the year (2013-14) to sell 175,000 units, up from 150,000 units, projected earlier. By the end of next year, it hopes to achieve sales of 250,000 units.

Its exports to countries in Europe and the US bring in just three per cent of its overall sales, which stood at 1,24,270 units. "Traditionally the developed countries like the US and Europe have been the markets for us, and they will continue to be important but bigger growth will come from the emerging markets, where people are looking for upgrades", adds Lal.

With the new markets in sight and renewed capacity, it plans to increase exports to 10 per cent. After all, volume players such as Bajaj Auto and Hero MotoCorp are also venturing into Africa and Latin America.

However, Royal Enfield's true competitor, Triumph, may have missed its deadline to launch in India, but has not given up and is working on a new assembly plant near Bangalore. Royal Enfield, which is readying its Continental GT (formerly called Cafe Racer) for launch, is working on several new products for the emerging markets that would equally complement its existing range. For the Indian market, it had launched a 350-cc bike in 2009, the Classic (and what the characters rode in *Harry Potter and the Deathly Hallows Part 1*) to bring in more volumes. It had waiting-periods of up to 12 months (six months on an average for the other two brands).

## IN THE CONSIDERATION SET

Brands	2011-12	2012-13	%
Royal Enfield (350 cc onwards)	78,546	120,694	0.5
Honda CBR 250 (250 cc)	15,135	5,485	-0.6
Hero Karizma (225 cc)	47,549	43,671	-0.1
Bajaj Pulsar + Bajaj Avenger (220 cc) + Kawasaki Ninja (250,300 cc)	84,087	78,247	-0.1

[SIAM domestic sales figures; Bikes that cost Rs1,00,000 - Rs3,00,000; engine capacity 200 cc - 300 cc]