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Young entrepreneur boosts Eicher Motors’ CV and motorcycle businesses with his global vision Page 40
Man of the Year 2013

SIDDHARtha LAL

It's been a decade of change at the Eicher Group's businesses and the results are now bearing fruit. Siddhartha Lal has led the Group to take some bold steps to secure its future. The recent launch of the premium Continental GT and the new range of CVs and engines by Volvo-Eicher under the Eicher brand are indicators of Eicher's ambitions. Sumantra Barooah gets an exclusive peek into Eicher's vision for its businesses in a wide-ranging conversation with its MD and CEO.
With the new Pro range, Eicher’s ambition is to be a key player in emerging markets across the world. The range also includes a 49-tonner (in red), a first under the Eicher brand.

From a company saddled with old models, struggling with quality issues and lacking a clear vision to one which now has global ambitions, Royal Enfield has come a long way. “We are now amongst the most profitable automotive brands in the world and we are breaking the record of the fastest growing auto brands in the world now among two-wheeler,” says Lal confidently.

Since 2010, Royal Enfield’s revenue has seen 50 percent year-on-year growth. It’s been “much more” on the profit side. During the last quarter, its parent company Eicher Motors’ standalone operating margin has been a little over 19 percent, its highest ever. Eicher Motors’ standalone operations include Royal Enfield. For a group, which is also racing towards the top as its track business as a result of the slowdown, Royal Enfield is playing a sizable role in ensuring Eicher’s good financial health. The growth in revenue and profitability has had a positive impact on the R&D and product development.

When it comes to products, Royal Enfield has drastically grown its gameplan for at least till 2023. Understandably, Lal doesn’t reveal all but gives us an insight. “The plan consists of differentiated products within the pure motorcycle sphere but that will be timeless in their appeal”. The Continental GT is one manifestation of that. Only when we believe we can address a totally different segment is when we will introduce another model,” says Lal. Given the niche positioning of Royal Enfield, the lead time to develop one may take longer than regular bikes. The Continental GT was four years in the making.

ROYAL ENFIELD HAS DRAFTED ITS GAMEPLAN TILL 2023. IT CONSISTS OF DIFFERENTIATED PRODUCTS WITHIN THE ‘PURE MOTORCYCLING SPHERE BUT TIMELESS IN THEIR APPEAL’. THE CONTINENTAL GT IS ONE MANIFESTATION OF THAT.

Eicher IS GUNNING FOR AN AMBITIOUS 15 PERCENT SHARE (UP FROM FIVE PERCENT NOW) IN THE HEAVY DUTY SEGMENT THAT IS DOMINATED BY VENERABLE NAMES LIKE TATA MOTORS AND ASHOKLEYLAND BY 2016.
'There's nothing that we do short-term anymore.'

In an exclusive interview with Sumantra Barooh, Siddhartha Lal talks about the marked evolution of vision in both Eicher's commercial vehicle and motorcycle businesses that is paying dividends.

Doesn't the actual game start now, in terms of physical delivery of the promises made while setting up the joint venture with Volvo? All the building blocks are in place. We have got absolutely by far the best manufacturing in India today and absolutely world-class Japanese level quality. That was the starting point. We have a distribution of 274 physical points right now, over 300 mobile points plus hundreds of container workshops. That is the foundation. So, just with the foundation alone, we have been able to improve market share. In addition, we now have an all-new product range.

We have got the full new philosophy in a sense of the professionalisation of Indian transportation. Our service offering, packages, distribution, sales points and training, all of that has now gone through a radical change with the launch of this new series.

Eicher now becomes an integral part of Volvo's multi-brand strategy globally. That gives you a unique advantage in terms of dipping into the combined positives of Swedish (Volvo), Japanese (UD) and French (Renault) brands, doesn't it? Absolutely. Our objective and vision was extremely clear even before we started the joint venture. We were sure that we are not petty people, either Volvo or Eicher. We don't care about making one rupee more or one rupee less as individual parent companies. Both of us always have had the habit of putting in more for the JV to make it very successful. That has been our aim. There's nothing that we do short-term anymore.

Of course, we have usual short-term targets and sales targets. But all decisions are made towards "Can this help us in achieving breakthrough in Indian trucking? Can it help us take Indian trucking to a different place altogether?" Because we had that way of looking at things, that is where you see the best of both worlds. We have European, American and Japanese cultural elements coming in. We have the Indian element coming in very strongly as well. All of that comes together and it's really on a best principle on a pick-and-choose basis.

So that gives you the confidence to say you are a decade ahead of others, business model-wise? The model that we have created has not happened by accident, it has happened by design. So, once you start becoming the most profitable, the fastest growing, the most influential, the one that's moving the market, which is all of what all we are, that's when you say, "Okay look, can we challenge No. 2 and No. 1?" And we will do that. But all of that comes from the strength of the company that we have created which is that we don't do anything in excess. We make sure that we invest and get the benefit of every single rupee invested.

The main trucking environment has happened in one campus (Phithampur) and 100,000 production capacity will eventually come out of that one campus. We don't want to be spread out in 10 different places because we believe that if you concentrate your energies, what happens is that the processes, the people, the supplier base, the economies of scale, the quality.

What has helped the company achieve a strong balance sheet, especially in such tough times? We had a lot of surplus cash. The entire idea was when there is a time when we need to continue to invest, we would. We had these huge programmes of industrial and product investments which are happening. But the market is falling sharply and there's always cash flow problem for all companies. So, the JV partners and the management had the foresight to set ourselves up for a future where even if the situation happens, which it did, we will be able to continue to invest because we are looking at the long term. The usual knee-jerk reaction of people cutting investments is because the market is down. We aren't thinking like that as we believe in the Indian market. So we continue to invest.

Our entire investment in this Pro series of trucks and buses, the new engine line, new paint shop and new assembly line went according to, or ahead of, our plan. We even accelerated some of our investments. The same goes for our distribution. Our warehouse and dealerships are absolutely on track because we had the financial muscle to continue to plough in enormous amounts of cash in a time when the market was retracting and pulling back.

So when the market rises again, which it will happen at some point, we are again in a very strong position to get that inflection.

With the Volvo association, Eicher's global aspirations also get a leg up, right? Our long-term idea for the Eicher brand is to be an emerging market player. What we see in the 5-8 year horizon, is, of course South Asia, India, Nepal Bangladesh and Sri Lanka which are extremely important to us. Beyond that are Africa, Middle East, South East Asia. These are the next circle of influence we are looking at. We are already present in a few markets but our approach to international markets is substantially different now. The Pro series has been designed with a (new) perspective.

Previously our products were Indian trucks that we tried to sell internationally. But now the entire orientation is towards global markets.

On the other hand, Volvo is supporting us tremendously with its very strong distribution in Africa, Middle East and in South East Asian countries. There we are already working on using its distribution network to enter into all of these markets where we want to gain a very meaningful place. So, it's not about selling 500 or 1,000 trucks. It is about getting 10, 15, and 20 percent market share in each of these countries that we enter.

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Shifting the subject to motorcycles, you recently launched the Continental GT which marks a new phase for Royal Enfield, like the way the Pro series does for Eicher, doesn’t it?

Absolutely. In a different way, because the Pro series is really, if you see the Go Pro idea, the foundation for 15 years to come for the Eicher brand. The trucks series you see now is 12 different products, ground up new. So, it totally marks our future. You know our future direction now.

On the Royal Enfield part, the Continental GT is a very significant single product. What it marks in a slightly different way is our switch from being an Indian player, primarily, to our horizons now being in a global domain. You haven’t seen Royal Enfield’s product plan for the next 10 years like you have seen in our Eicher range. What you have seen is our orientation.

Royal Enfield is amongst the most profitable and fastest growing automobile brands in the world now, certainly in two-wheelers. That means that with that strength we have been able to gain financially, technologically, in manufacturing. We have also been working very hard on understanding on what is our brand promise in motorcycles. We want to create a type of motorcycling which is very different from any other brand.

We believe that the world motorcycle market had polarised into smaller and heavier motorcycles but it will now start converging to midsize motorcycles. And there is also our entire idea is that in emerging markets where people are, already like in India where we have seen that if you have a very good option, if you have an interesting motorcycle people will upgrade.

In developed markets, where there has been an excess of speed, price, power, weight and unignorably, what has happened is that a lot of the bigger and sportier bikes have become unapproachable. We want to bring motorcycling back to the uncomplicated, hands-on, genuine experience where it is not so much about technology as much as it is about having great fun. It is about unintimidating motorcycles which don’t cost you the earth.

Could the Continental GT spawn a new range of products?
That was always our intention. We launched the Thunderbird over 10 years ago and then we launched the new Thunderbird in 2012 and created a new category different from our Bullets. And we did it successfully. Clearly, the Continental GT takes it to a different level which is a sporty bike but it is a classic sport, not conventional sport.

The Continental GT comes from a brand which less than 10 years ago was looking for a strategic partner to be competitive in the business. From that stage to now, it has come a long way. How did the turnaround happen?
Certainly at that time we were looking at, and had intentions to get in someone, more from a technological aspect not as much from the brand aspect. We always wanted to control the brand always, so probably for good that it didn’t work out for us.

Our idea was always that even though in the early 2000s there was no market for midsize bikes for India, we were very clear that we wanted to create that market. It took us a decade. We plugged it, made the product and the distribution better. We did everything we thought was the right thing and the right steps not knowing when and what will happen eventually. We didn’t know there will be an inflection like there was.

In 2010, fortunately all the things collided. The Classic happened and like the Thunderbird but with the backdrop of a better manufacturing, better quality, a better distribution, a better reaction time. A product is required to stimulate the customer but if the next-level factors like retail network and quality are not in place, he’s not going to buy your bike. There also we put all the building blocks in place over 10 years. In 2010, we hit the ramp. But now what we are doing is, because we need a position of strength now, we have invested tremendously.

We will have over 300 dealers by the end of 2013 and we have by far the best premium motorcycle distribution in the country today. We have over 95 percent share of the above 250cc market in India because we created it, we are the ones there and that’s what our value is in the market today.

You have been doggedly pursuing this dream. When did Royal Enfield turn profitable?
I can’t remember the exact year that it turned profitable because during the 2000s there were a lot of years when it was plus, minus but it was always on the margins. It was 3, 4, 5 percent. It was always just about head above water. It was not exciting but it was not burning cash. Let’s put it that way. We didn’t make any huge moves. The only big move we made eventually was the UCE engine. But it was all within our affordability set. Then of course, with the Classic and everything else together in 2010, we hit a big ramp.

Over the last three years, it’s been a 50 percent growth year-on-year on the revenue side. It’s been much more than that on the profit side. So, what was maybe 3, 4, 5 percent or maybe slightly higher is now, at last count during the last quarter we hit 19-odd percent in EBIT margin. We are now at the top of the heap. What that affords us is the ability to invest in new platforms and new geographies, strategically.

We are now very convinced that there is a global market for the type of motorcycling we are evangelising in some sense. We are going after, one by one, many individual global markets to make a strategic presence there and become a No. 1 or No. 2 player in the midsize motorcycle segment of each of these markets.

Our ambition now is to globally become the No. 1 player in the midsize motorcycle market. If we had said this six years ago, we would have been laughed out of the room!”
Which are the regions where you think Royal Enfield’s products will find takers?
In motorcycles, we split the world into two — the richer countries and the emerging countries. In the former, the UK is our beachhead. That’s where our brand comes from, that’s where we have a lot of salience, and want to put a lot of energy.

What we feel is that strength in the UK will transform into strength in Europe, USA, Japan and Australia. That becomes a beachhead for our strategy in richer countries. We expect these markets to become very important markets for us but they will not be the biggest volume drivers. The volumes will come from India-like markets. Even more advanced markets than India – Latin America and South East Asia, where the per capita income or the motorcycling habits are even more advanced in some sense. Just as we have been able to upgrade the commuting base in India from commuter bikes to midsize bikes and more efficient and fuel efficient motorcycles, we think the LatAm and South East Asian markets are ripe for that kind of upgrade. So, our future product strategies, market, investment and brand strategies are all focused on these types of markets.

The UCE engine, many say, hasn’t addressed all the quality issues that Enfield bikes have had over the years. What do you have to say in response to that?
Quality perception in people’s minds takes time to catch. The UCE compared to our old family of engines is far better in terms of fault frequency, in terms of failures.

Every mechanical product in the world, whether it is cars, Japanese or anybody else’s, has some failures. It happened for several reasons. It’s difficult to predict what will happen. But what we have learnt from the Japanese systems, we have been able to match the matrix in terms of fault frequencies, in terms of failures and all other things.

Internal company matrix and, most importantly, customer failure matrix. We have benchmarked and are very close with the best in the world.

The type of failures we see are very, very insignificant compared to those before. Earlier, we used to have large piston barrel failure issues in the early lifecycle. Now we don’t have those kind of issues. We are extremely close to the market. We figure it out, bring it back, understand the exact reasons for the problem. I think we are up there in terms of quality processes in the world and our product is also showing that now.

When you talk about the global aspirations of the Royal Enfield brand, how will you tackle global biggies like Harley-Davidson and Triumph?
There will certainly be more intense competition. It will precipitate quicker because of our growth and success but we are not as worried about that because we are trying to create what we believe is very different. There is place for many other motorcycle companies, many other brands and other styles of motorcycling. A lot of the players you are talking about represent different styles of motorcycling, if somebody’s really interested in our style of motorcycling, they will come to us.

What would be the way forward to build the business through retail, merchandise?
We will certainly move into contiguous areas which help our customers experience this pure motorcycling. There is space for gear – bike and rider apparel, accessories — all of which is also underserved.

We are coming out with a range, which is really attuned from a motorcycling perspective; it is small now but will be large next year. While a large chunk of our range comprises very heavy pieces with full armour etc. for very hardcore riders for long-distance travelling, a lot of our riding range is what we call ‘urban protection’. It means that it offers you a layer of protection but it’s good for urban wear. On the motorcycle, it offers better protection.

Royal Enfield is not so much about the numbers game, but how often would you like to come out with a new product?
The way each of our four product lines is thought through and designed is that from day one, they must be timeless in their appeal. The way we also looked at the Continental GT is that when 20 years from now if a young person sees it he says: “Wow, this is really nice”. So, when we look at it from that lens, it means that we don’t want to have a revolution, we want to have evolutionary models.

By when do you think you may have to add more production capacity? The waiting list continues even as you ramp up production.
We are advancing our production capacity increase ahead of the original schedule. As we announced in April when we started this new facility, we wanted to make 150,000 motorcycles in 2013. Then we talked of producing 175,000 units. We will go slightly ahead of that this year. We are looking at how to go further than the 250,000 units planned for next year. It is also about our supplier capacity. Above all, we must also maintain our quality levels.

On a personal note, what drives you?
This is the age of specialisation, not diversity. Those surviving with diversity are because there has been some protection or other things so far.

Our current two main operating businesses are absolutely independent. I pulled out of the VECV businesses because we needed specialisation. And Vinoil (Aggarwal) has specialised in the VECV business. Within motorcycles, we are extremely specialised. Everyone has aspirations. But I don’t care about revenues and all of that and being in 50 different areas and being king of everything.

What I want to do is, as in life, whatever we do, we do exceptionally well. That is the only criterion. We should be willing to take a very long-term position. So whether you look at the truck or motorcycle businesses, we are thinking of the next 20, 25 years.

Do you have any role model, any motto that you live by everyday?
I take inspiration from a lot of people, a lot of industries or companies and non-companies. I think you can pick up inspiration from any conversation — from a chaiwala or from the biggest companies in the world.

When your mind is working towards one goal, everything that you touch can give you some insight into what you want to accomplish. Anything which is done well can be a part of the inspiration. So, there’s no single role model.