Motorcycle Saved a $50 Billion Empire

Siddhartha Lal was all of 26 when he took over as CEO of Royal Enfield in 2000. If you had spent Rs 55,000 to buy a Royal Enfield motorcycle in 2001, you would now have an old, rugged bike. But if you had invested the same Rs 55,000 in shares (at Rs 17.50 per share) of Eicher Motors, the company that makes Enfield bikes, your investment will be worth Rs 7.30 crore now.

The twin credit for building a rugged bike as well as enormous value for shareholders goes to Siddhartha Lal, MD and CEO, Eicher Motors.

In some ways, it all came to one big decision Lal took based on his love for Enfield. It was 2004. Lal was 30 and had just taken over as CEO of Eicher Group. The group had a diverse spread of about 15 businesses including tractors, trucks, motorcycles, components, footwear and garments, but none was a market leader.

Lal undertook an intense portfolio analysis and took a hard call. He decided to divest 13 businesses and put all money and focus behind Royal Enfield and trucks, two businesses where he believed the group had a genuine shot at leadership.

"In my mind the basic question was: do we want to be a mediocre player in 15 small businesses or just be good in one or two businesses," recalls Lal. "That's why we sold 13 out of the 15 businesses, the big one being tractors to TAFE. We removed the clutter and focussed on two promising businesses."

Back then, conglomerates viewed businesses as family jewels. It was a cardinal sin to sell anything. But Lal sold almost everything. "Many did think Eicher was going out of business," recalls Lal.

"Motorcycles was the joker in the pack," says Lal, referring to the portfolio of businesses he inherited. It was also his pet business. "I did the mathematics, projections and all we needed was to get the motorcycle business to the next level (in terms of sales)."

Decision made, Lal put his full weight behind Royal Enfield and the trucks business. A decade later, Eicher Motors earns over Rs 7,378 crore in revenues and makes a net profit of Rs 702 crore (FY14). Royal Enfield brings in about 80% of these profits.

This is a case of passion leading to profits. "Siddhartha Lal is Royal Enfield's biggest asset," says RL Ravichandran, who was CEO of Royal Enfield for five years from 2005 and continued on the board of Eicher Motors till December 2014. "He is an authority on British bikes of the post-World War era as a historian, a follower and a hands-on rider," he adds.

Eicher Motors' stock prices have shot up from Rs 224 in 2006 to Rs 15,612 now.

"The stock price rise is fully justified by fundamentals. The company has no debt and redeployed money into further expansion and product innovation," says Raamdeo Agrawal, joint managing director of Motilal Oswal Securities. Adds Ambish Mishra, director (research), JM Financial Institutional Securities: "Performance has consistently surpassed analyst expectations over the past five years. Royal Enfield has successfully capitalised on growing preferences for leisure biking through product differentiation, strong brand positioning, capacity build-up and rapid network expansion."

The long climb up

In 2005, the company was selling only about 25,000 bikes every year. "I was clear that it would be an amazingly profitable business," recalls Lal. But the company needed manufacturing scale. Fixed cost had to be spread around 100,000 bikes. "This set the building blocks for the next decade," says Lal. He focussed on Enfield first, leaving trucks for later.

Lal engineered and improved Enfield bikes by riding hundreds of kilometres himself. He also initiated a motorcycling culture in the team.

Ravichandran says Lal always leads from the front. "He is both passionate and practical and has a deep sense of understanding of what separates Royal Enfield from the other brands," he adds.

Under Lal, as quality improved, sales grew too. By 2010, the company was selling 50,000 bikes, but on three platforms. That was when Lal decided to build all Enfield bikes on a single platform to maximise economies of scale. The Enfield Classic, launched from this single platform, caught the fancy of customers. Sales shot up six times in half a decade from 50,000 units in CY10 to 300,000 in CY14. Now, the target is 4,50,000 units in CY15.

"By becoming smaller (selling businesses and one engine platform) we have become bigger," says Lal.

Now, Lal is ready to drive into international markets. He believes Royal Enfield can be a sizeable player in international markets a decade from now. He is already doing some strategic hirings with this goal in mind.

Rod Copes, a former Harley Davidson manager, has been hired as president of North America (based in US); Pierre Terblanche, head of the industrial design team was snatched from Ducati; James Young, head - engines has worked in Triumph, and was hired in UK. Simon Warburton, head - product planning and strategy (new projects) also comes from Triumph. Mark Wells, head - programme (new projects) and Ian Wride, worked on Enfield's Classic and Continental GT models while they were with the design firm 'Xenophoy.' Both have now joined Royal Enfield at its UK tech centre.

Lal also realises that good marketing is as important as fine engineering. Which is why he recently hired Rudratej Singh from consumer business giant Unilever. Singh joined as president in January 2015.

Lal draws inspiration from global brands. Two of the most studied examples are Mini Cooper and Porsche, both of which...