

## AUTO

# Track realities: Royal Enfield's margins could come under pressure, as Harley, Triumph rev up output

By Shobha Mathur & Ami Shah Oct 11, 2023, 04:00 AM IST



B. Govindarajan is the Chief Executive Officer at Royal Enfield. He also serves as Wholetime Director on the Board of Eicher Motors Ltd; image credit: special arrangement

## Synopsis

Royal Enfield has a monopoly with around 90% share in the mid-size motorcycle market. Of late, there have been a number of new launches from Hero-Harley and Bajaj-Triumph partnerships. Both of them have their sights on Royal Enfield's monopoly and have plans to step up their production numbers. Does Royal Enfield have its house in order to tackle the competition?

In a July 2023 earnings call, Jochen **Zeitz**, Harley-Davidson's chairman, president and CEO, when asked about the company's India strategy, said, "To date, there has really only been one competitor in the market that has essentially had a monopoly,

and that we are trying to break into.”

Zeitz was referring to Eicher Motors' **Royal Enfield**.

Though it says a lot about the grip Royal Enfield has over India's mid-size motorcycle market, it also says much about what Royal Enfield has coming.

In fact, Siddhartha Lal, managing director and CEO, Eicher Motors, himself acknowledged this while speaking to the media at the Q1FY24 results. “In the very long term, unless our competition really messes up and screws up, you know there is only one direction that a 90% market share can go and that's South.”

While Lal indicated Royal Enfield (RE) was “okay” with a market share in its 80s in the 250cc-750cc market in the future, he was clear it would be a fight to the finish with rising competition, read Bajaj-Triumph and Hero-Harley combines, battling it out for supremacy.

And the wheels have started rolling in too.

From the Bajaj-**Triumph** camp, the Triumph Speed 400 has already made its debut in July with a pre-order of 10,000 bookings, Triumph Scrambler 400X was launched on October 10.

Rajiv **Bajaj**, managing director of Bajaj Auto, has said they will scale up production capacity at their Chakan facility where the Triumph motorcycles are being made, as demand intensifies.

Hero-Harley is also shifting gears.

Hero MotoCorp has started ramping up production capacity at their Neemrana plant in Rajasthan from July for their first co-developed bike Harley-Davidson X440 which starts deliveries this month.

Till now, Royal Enfield (RE) has not seen any impact due to the competition in the mid-weight premium segment.

But the next fiscal could see a twist in the story. So how is the market reading the room?

### **In the rear view**

Aniket Mhatre, institutional research analyst, HDFC Securities says, “Royal Enfield is seeing a tremendous rise in competition in the recent months post the recent launches from Triumph and Harley-Davidson, which are positioned in line with

its Classic 350cc. While H-D has commenced deliveries from October, Triumph is expected to ramp up production to 5,000 units per month in the coming months.”

## New challengers for Royal Enfield Classic 350

	Royal Enfield Classic 350	Royal Enfield Hunter 350	Triumph Speed 400	Harley Davidson X440	Triumph Scrambler 400X	Honda H'ness CB 350
Price (ex-showroom) -INR	193,000	150,000	233,000	240,000	262,996	200,000
Engine (cc)	349	349	398	440	398	348.4

Source: Company data; Jefferies equity research

 ETPrime

He adds, “Already September volumes for RE were down 4% YoY, without the full ramp up by both these peers. This increase in competitive intensity would mean RE would have to realign its pricing strategy in order to limit its market share loss to peers. We are factoring in RE margins to decline to about 23% by FY25 from 26% reported in Q1FY24.”

The mid-size motorcycle market is pegged at close to a million units and is expected to grow from 1.5 million to 2 million units in five years.

**"Our strategy is to not only continue making great motorcycles but also apparel, accessories, rides and experiences. We are eager to continue building our community through new rides and experiences and we are confident that consumers will naturally be drawn to our brand."**

— *B Govindarajan, CEO, Royal Enfield*

An analyst, requesting anonymity says, “Royal Enfield has done reasonably well as a brand, but it hasn’t been a bumper success. The biggest threat is that Harley-Davidson in collaboration with Hero is launching the Harley-Davidson X440, which will compete with RE. Other premium brands are also going to launch in the same segment. This might eat up some of RE’s market share.”

B Govindarajan, CEO, Royal Enfield tells ET Prime that they have their guard up.

“We have an exciting pipeline of products for the next few months. Despite the

entry of new entrants, we remain firm and well-prepared to further grow our volumes with the expanding market," he says, adding that the company had recently introduced the 2023 Bullet in a new avatar that is receiving a good response from their consumers.

We'll get to 2023 Bullet's demand in a bit but given that the mid-size motorcycle market is seeing new entrants, the question is, how will Royal Enfield stave off threats to its leadership position?

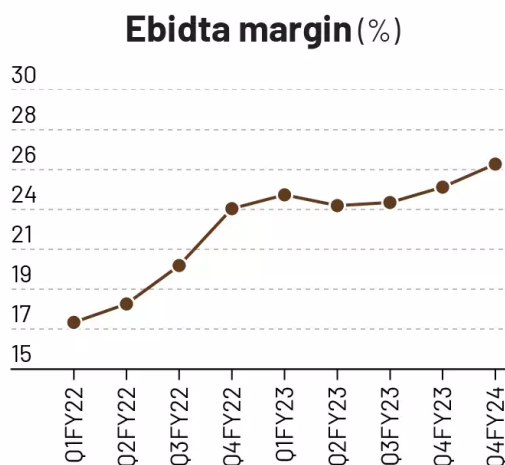
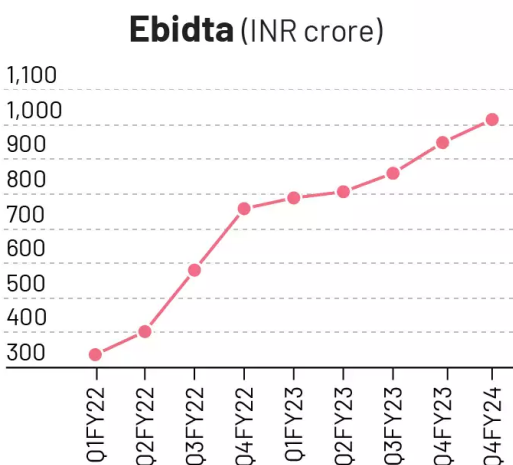
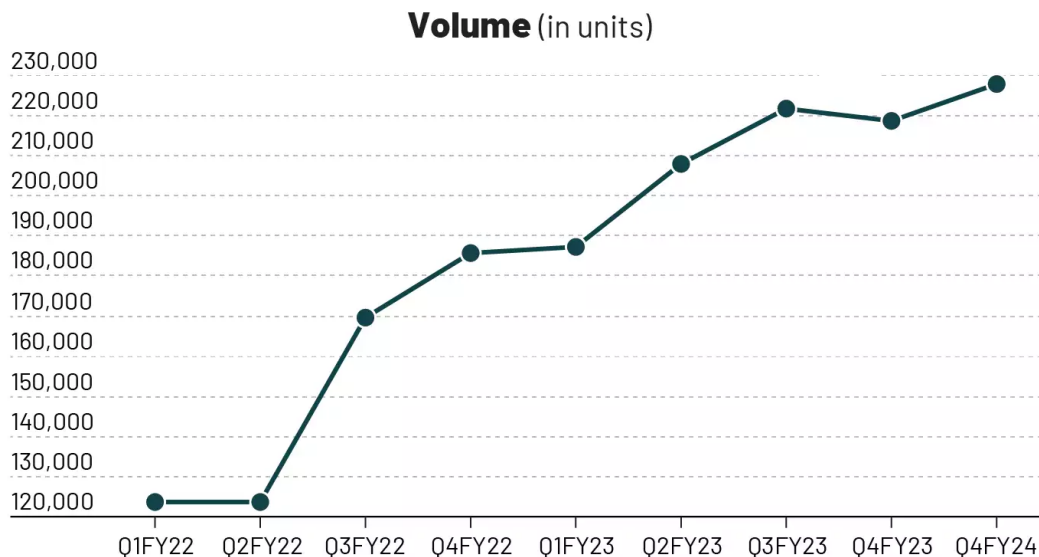
### **Sustaining growth**

"Our strategy is to not only continue making great motorcycles but also apparel, accessories, rides and experiences. We are eager to continue building our community through new rides and experiences and we are confident that consumers will naturally be drawn to our brand," adds Govindarajan.

He says that over the last 15 years, RE has grown the mid-size motorcycle segment from a paltry 50,000 units a year to almost 9,00,000 units a year. "We saw a gap in this segment globally and the reason for this gap was that it was not being served well," he adds.

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# Tracking Royal Enfield's profitability journey



Source: HDFC Securities



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The new entrants in the mid-size motorcycle segment, the company believes, will help in growing the market further while also offering customers more options to choose from.

Govindarajan says RE will continue to boost its product portfolio, quality, scale, distribution and brand. “We see huge potential for growth in the mid-size market and with our product portfolio, and new launches we will maintain our growth momentum,” adding, “We wish to enter newer segments with our products to capture a larger audience.”

Barnik Chitran Maitra, managing partner - India and South Asia at consultancy firm Arthur D Little feels RE has a stronghold in the 350cc segment from which over 90% of their sales volumes come. They might look to expand their presence in

the 500cc and above segments going forward.

RE has a capex of INR1,000 crore lined up for FY24 up from INR650 crore in the previous fiscal, a large part of which will go towards product development, especially its e-bike coming around 2025-2026.

### **Electric thump?**

Speaking of electric bikes, that are a lot quieter than normal bikes, what will happen to the RE's signature thump?

"I believe that Royal Enfield is now at RE 3.0," says Govindarajan elaborating that it is fine-tuning its celebrated thump for the electric bike, which gives their motorcycles their own distinctive and loud exhaust note. "The thump represents a unique calming rhythm and we don't want to do anything to fake it as we feel authenticity is more important," he says.

The company is developing the supplier ecosystem, building development and testing infrastructure for EVs in-house. In addition to this, several ideas/prototypes are in advanced stages of testing. "The technology is changing fast so your routine decisions have to be taken at a faster pace. For example, if a programme management review of an ICE runs once in 30 days, for EVs it will run every seven days. However, there will be a strong complementarity between the ICE and EV teams," elaborates Govindarajan.

Wherever the chassis, lighting, electrical, or ride-handling is concerned, the ICE team has a better understanding and will contribute significantly. The company says it is bringing in the best resources and adapting them into the manufacturing of its products.

### **Demand equation**

In a September report, Axis Securities said their interaction with dealers of RE in east, central, and northern India, revealed the demand for recently launched Bullet 350 is high in northern and central states with relatively lower demand in the eastern region of the country. The demand is higher in tier 2 and tier 3 cities than in urban metropolitan areas.

The brokerage believes the overall volumes are expected to get a boost with high demand in the 350cc segment (>70% of sales mix) during the upcoming festive season.

"As per dealerships, competition from the launch of Triumph and Harley-Davidson is not yet visible on the ground and clarity on the same will be available over the next 6-12 months," Axis Securities said in its report.

Mhatre believes that demand in mature markets like the metro cities is already saturated and now incremental volume growth is being driven by tier II and III towns.

### **RE's domination**

Typically, RE has been quick at rolling out model upgrades of its flagship models at regular intervals and tapping into new segments, says Prajyot Sathe, research manager — mobility, Frost and Sullivan India.

“The key aim of the partnerships between Hero-**Harley** and Bajaj-Triumph is to serve domestic demand and also focus on future exports. Exports to their key markets is one of the main goals apart from which collaborations on designing and leveraging Harley's premium bike platform will be an important element in the partnership,” Sathe adds.

In the 350cc-500cc segment, Bajaj is the market leader and with more offerings coming under the Triumph brand, Bajaj will try to cement a strong position, believes Maitra. This segment is growing faster than the 350cc category.

Harley-Davidson used to be the market leader four to five years ago in the 500cc-800cc segment before Royal Enfield launched the 650 Twins. “In the next two to three years, as Harley-Davidson launches more models in this segment, it will give tough competition to Royal Enfield and can potentially regain its segment leadership,” believes Maitra.

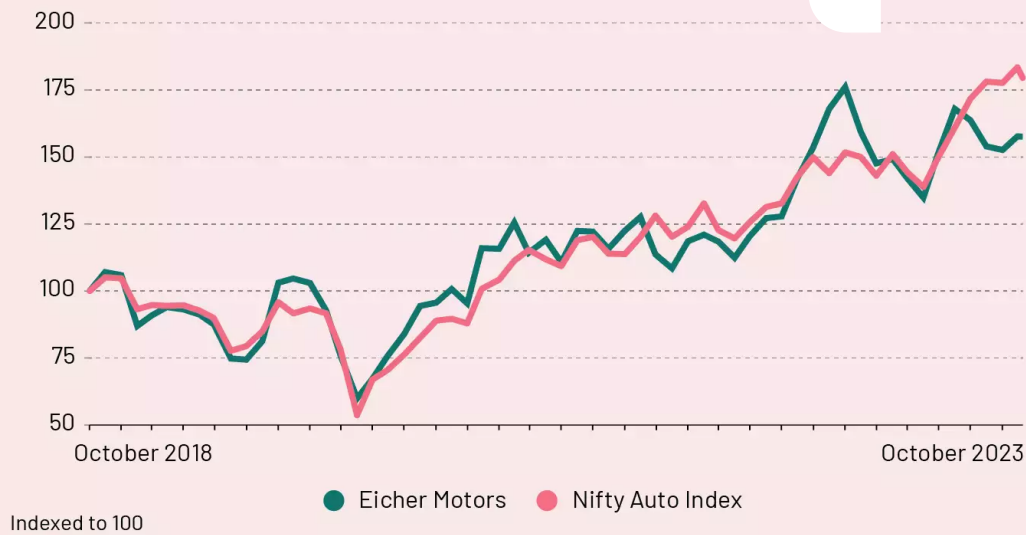
### **Stock performance**

Shares of Eicher Motors have underperformed their peers and are up merely 7% for the year to date to INR3,460, compared to a more than 26% rise in the Nifty Auto index during the same period.

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## Eicher Motors vs. Nifty Auto index

### Stock price performance over five years



### Analysts' views

- Of the 36 analysts tracking the stock, 18 have a strong buy or buy rating, 13 have a hold, and the rest of them rate it as a strong sell or sell.
- Analysts acknowledge it is uncertain how the market share dynamics will play out from here with rising competition, and have a mixed view.
- Jefferies believes Eicher Motors has strong tailwinds of two-wheeler demand recovery, industry premiumisation and potential to grow exports.
- The brokerage has a buy rating with a target price of INR4,150 from INR4,000 earlier.
- It sees potential for RE multiples to expand if it is able to largely protect its market share in the ongoing most-formidable phase of competition.
- On the other hand, JM Financial believes RE's growth and market share may still witness moderation going ahead. It says that aggressive pricing may impact margins.
- In August, the brokerage downgraded the stock to 'hold' from 'buy' with a revised target price of INR3,500 from INR3,750 earlier.

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Source: Ace Equity; ET Prime research

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"The cost differential is not a lot compared to rivals, and this might prompt some shift of sales towards the premium brand. Also, rising competition means RE will have to put in more funds towards advertising and marketing too. All this will exert pressure on margins. So, there is not much going for Eicher Motors stock right now," says an equity analyst who did not want to be named.

### The final cut

The 500cc-800cc market is the fastest growing segment with 5X growth in the last five years, while the 350cc segment hasn't shown any growth over a five-year



horizon, according to Maitra.

This clearly indicates that customers are opting for heavier bikes and growth in demand for performance two-wheelers is coming from more premium offerings. Therefore, Harley-Davidson and Triumph, with their launches in the market, will further fuel premiumisation of the industry.

Earlier, bike makers like RE increased prices whenever there was an input-cost rise. With rising competition, pricing will have to be a calibrated move as it will not be all that easy passing on the price hikes to the consumer.

Similarly, long-waiting periods will have to be reined in.

*(Graphics by Mohammad Arshad)*

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