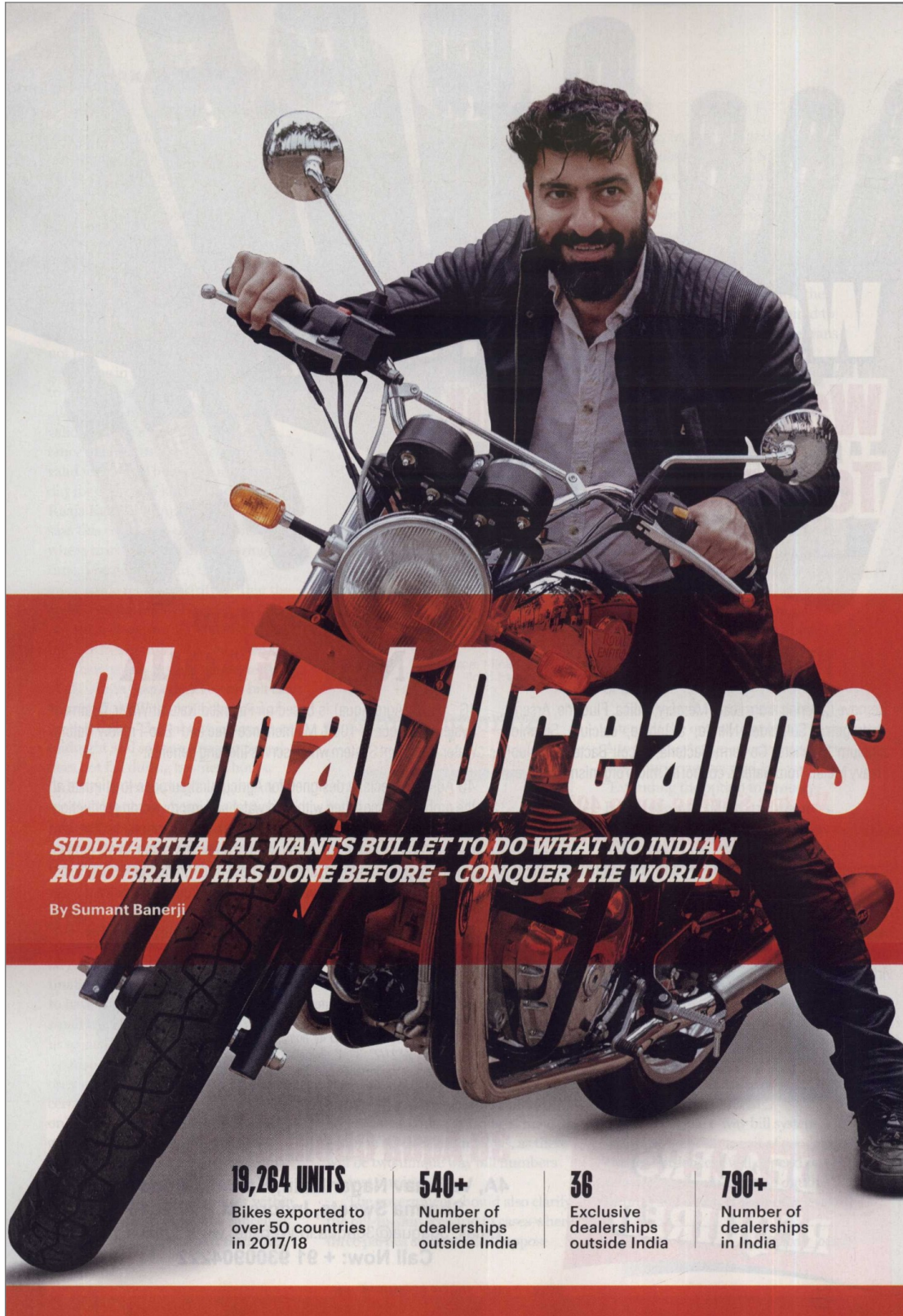


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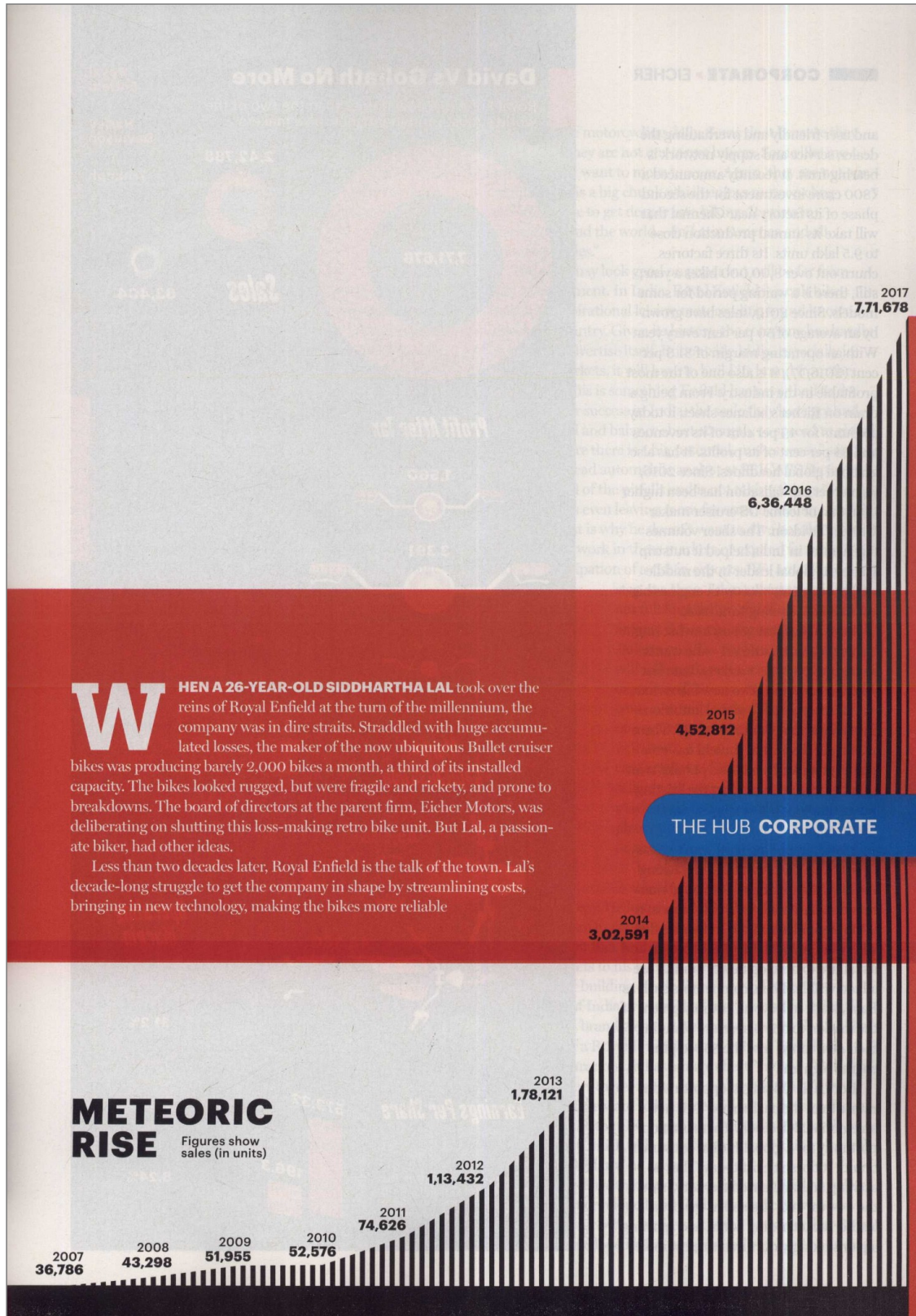
Global Dreams

SIDDHARTHA LAL WANTS BULLET TO DO WHAT NO INDIAN AUTO BRAND HAS DONE BEFORE - CONQUER THE WORLD

By Sumant Banerji

19,264 UNITS Bikes exported to over 50 countries in 2017/18	540+ Number of dealerships outside India	36 Exclusive dealerships outside India	790+ Number of dealerships in India
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and user friendly and overhauling the dealer, service and supply network is bearing fruit. It recently announced a ₹800 crore investment for the second phase of its factory near Chennai that will take its annual production close to 9.5 lakh units. Its three factories churn out over 8,00,000 bikes a year; still, there is a waiting period for some models. Since 2010, sales have grown by an average of 50 per cent every year. With an operating margin of 31.3 per cent (2016/17), it is also one of the most profitable in the industry. From being a drain on Eicher's balance sheet, it today accounts for 49 per cent of its revenues and 84 per cent of its profits. It has also grabbed global headlines. Since 2016, its market capitalisation has been higher than that of iconic US cruiser maker Harley Davidson. The sheer volumes it generates in India helped it outstrip Harley as global leader in the middle weight segment, bikes with engines bigger than 250cc, long time back.

But Lal has just got on to what might be his toughest battle yet — he wants to capture overseas markets. Late last year, he showcased two new bikes that would spearhead his global ambition — Interceptor and Continental GT. These are bigger than what Enfield has ever made, powered by a 650cc parallel twin cylinder engine, as against the existing range that tops out at single cylinder 500cc engine.

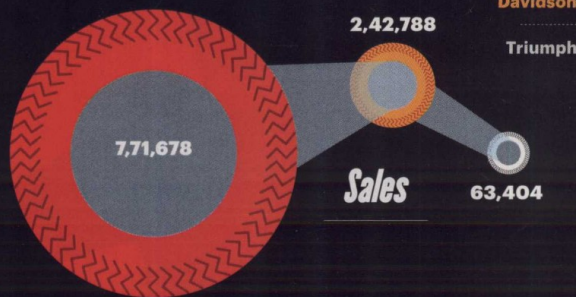
However, pulling it off won't be easy. Apart from the tough task of cracking the highly competitive developed markets that have their own cult brands, it is too dependent on the Indian market, where fatigue with the Bullet brand, and its failure to develop newer brands, are all too visible. Then, competitors such as Bajaj, loath to leave an entire segment of the market to one player, are planning their own forays into the 350cc-plus engine segment.

But Lal is looking at opportunities rather than the challenges. "It is not an emotional decision. There is an opportunity for a global Indian consumer brand. It doesn't exist today. That is exciting and uncharted territory," says the 44-year-old, dressed in the usual leather jacket, riding boots, and sporting a painstakingly nurtured thick stubble.

GRAPHICS BY AMIT SHARMA

David Vs Goliath No More

Royal Enfield is now bigger than the two of the world's most prominent superbike makers



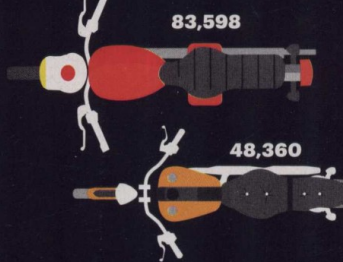
Profit After Tax



8,20,492

Number of bikes manufactured by Eicher in 2017/18

Market Capitalisation



Revenues

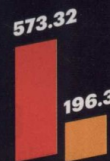


Operating Margin



Earnings Per Share

Revenues, Profit After Tax and Market Capitalisation in ₹cr; Earnings Per Share in ₹; Source: Companies



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Others have tried this before. The Tatas, at one point of time, thought they had a global disruptor in Nano. Mahindra also believed Scorpio would zip by the dozens on open highways of the US, the world's toughest market. The two have not succeeded. But Lal thinks he can make history. Like he has done in the past.

World is Calling

Enfield's global ambition has been in the works for over three years. It was sometime in 2014 that it realised it could not succeed globally with its existing range. It needed bigger engines, with two cylinders instead of one, to make the bike more balanced, along with higher speeds for open freeways of Indonesia, Thailand, Australia, the UK and the US. This realisation was based on feedback from its almost 550 outlets in developed markets like the US, Europe and the UK (most of these are multi-brand outlets but the company also has at least 30 exclusive stores). "In a lot of markets outside India, the performance of our bikes did not match the requirement. In India, a Classic 500 is a lovely highway motorcycle as you are riding below 100 kmph. You are not doing 140 kmph," says Lal. "But on western highways, when you go at 140 kmph, I can understand why so many people feel that

base of people motorcycling daily. Some do it because they have to, but they are not our target buyers. Some like motorcycling but want to move to a car. Again, they are not our target. There is a big chunk which enjoys motorcycling and would like to get deeper into biking. It exists in markets around the world—in Latin America and all Asean countries."

The plan may look good on paper but will be far from easy to implement. In India, Royal Enfield is a cult bike maker, an aspirational leisure motorcycling brand known across the country. Given its history, the company has hardly ever had to advertise itself. But outside India, especially in emerging markets, it will have to build its brand from the ground up. This is something Enfield has never had to do.

"After their success in India, the scale they have got and their financial and balance sheet strength, to spread to global markets, where there is a big potential, makes sense," says Chirag Jain, lead automobile analyst at SBICAPS Securities. Lal is mindful of the pitfalls and is not taking things for granted. He is even leaving room for error by taking one step at a time. That is why he doesn't want to dive headlong into spreading network in these markets or expand factories in India in anticipation of a rise in exports. "We are taking one step at a time. I don't want to go in without full knowledge and then retract. We are just doing one store each in Bangkok, Jakarta and Sao Paolo. A second store will follow after a year, year-and-a-half of experience," he says. "Some markets will come naturally to us. Like in Bangkok, our expectation was 30 units a month, with best case scenario of 50 units. But we are selling well over 100 units. There are markets that started well but are plateauing a bit, so we are working hard on them."

In developed markets where Enfield is already present, Lal is following a different strategy. He knows Enfield is loved there for its legacy and retro looks. But it is also a fringe player there. He does not expect that to change but wants to use the maturity of these markets to his benefit. "These markets are very important for building credibility. They will never give us the volumes of India or even Thailand, Indonesia or Brazil, but to make a brand global, developed countries should like it," he says. "If a Royal Enfield is seen in New York, Paris, London or Barcelona, it has a huge effect," he says. "Besides, they (customers there) are so demanding that they keep us on our toes. If we want to be successful in markets such as Europe, the US, the UK, Japan and Australia, our levels of refinement, fit, finish, ride handling and everything else will have to be pulled up," he adds.

"The twins have the top specifications required anywhere. They were not developed with Indian specifications and then adapted for other markets. It is the first time that Royal Enfield has developed bikes not primarily focused on India,"

The design, technology and validation are a significant step up. I expect sales of these bikes to be a lot more broad-based

Rudratej Singh, President, Royal Enfield



even the 500 gets rough after a few hours. It does not have a balanced engine. At relatively low speeds, it does the job superbly, but at high speeds, it takes a bit of a toll. Our bike could not be the only bike for a serious rider. That is where Interceptor comes in. It does the job anywhere in the world."

Lal is being reasonable. He is placing most of his bets in emerging markets such as Indonesia, Thailand, Colombia and Brazil, markets similar to India in terms of demography with a large section using commuter bikes for daily use. Here, like in India, Lal realised the lack of a credible alternative for somebody who wanted to upgrade from a 100-150cc motorcycle to something bigger but not too big. Most cruisers from Harley and Triumph or sports bikes from Kawasaki and Ducati are a step too far.

"There is a gaping hole internationally. It is like seeing an unprotected goal on a football field and you know you have to go for it even if you are at the halfway line," says Lal. "In emerging markets, it is an India-like story. There is a huge

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says Rudratej Singh, President, Royal Enfield, fondly referred to as Rudy. "The design, technology and validation are a significant step up. I expect sales of these bikes to be a lot more broad-based, unlike our other bikes, which predominantly sell in India."

Trouble Back Home?

The biggest challenge may come from the home market. The cult of the Bullet in India is such that it overshadows everything else at Royal Enfield. This is a potential irritant.

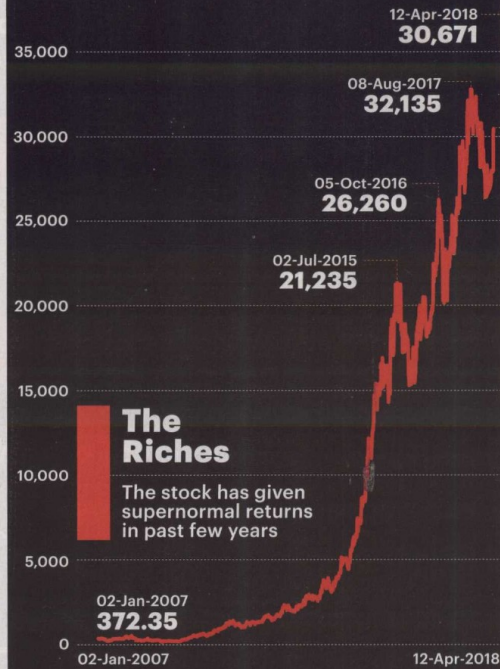
Classic and Bullet 350 account for the bulk of sales. The others, including the newer launches like Himalayan, have been modest successes in relative terms. The inability to create more than one blockbuster brand makes Enfield overly reliant on just two products. It also makes it vulnerable.

"In India, there is a propensity to create a single model that has a life of its own. We have seen this in 100cc motorcycles, scooters, where models, if they are nurtured right, shine really bright. That is what has happened with Classic 350," says Lal. "It is our bread and butter. We are still at the upward curve of visibility. The more people see Classic 350, the more it will be in demand. Under this (Classic 350) umbrella, we are planting other saplings. Some will take longer, others will be quicker, but that is okay."

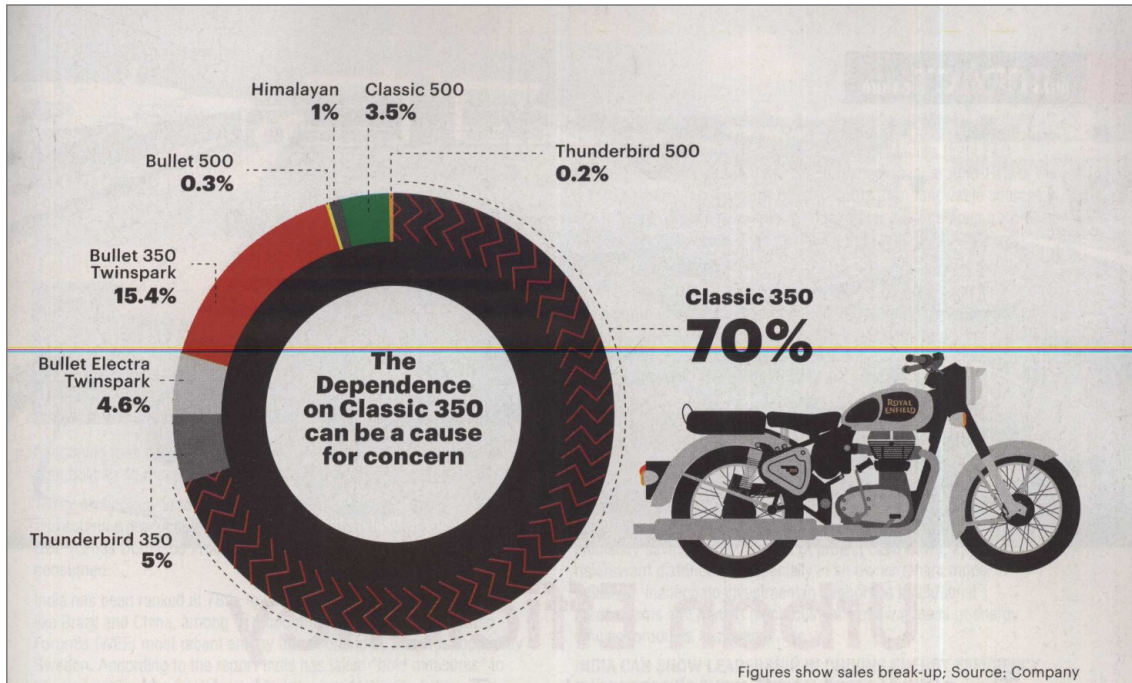
Experts, however, say brand fatigue with Classic and Bullet has already started to set in. The waiting period has come down and in some high demand states there is an inventory. Since September, when Eicher shares hit an all-time high of ₹33,483.95, the stock has tumbled over 8.4 per cent. The fear is that Enfield may not be able to continue its scorching pace of growth. "Enfield has grown too fast, too soon. Brand fatigue is evident in some early adopter markets such as Maharashtra and Karnataka. We believe this weakness is spreading to other markets," says Jain of SBICAP Securities. "The growth we see today is based on network expansion. On a same-store basis, they are declining. There is a limit to which you can grow by expanding your network."

Enfield's meteoric rise is also attracting others. Bajaj has already taken a swipe at it with its 400cc Dominar. It has also formed a venture with Triumph to build middle-weight motorcycles to take on Enfield. Harley is also developing smaller specification bikes — it makes its entry-level Street 500 in India but does not sell it here. At some point, it will bite the bullet (pun intended). Similarly, Honda recently patented its 300cc cruiser, Rebel, expected to be launched soon.

All this will test Enfield's resolve. Will the global foray be an unnecessary digression? "We are still an exceedingly focused company. In the last seven-eight years, we have expanded so much that we can take away 20-30 per cent focus of the top management



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without harming the India story," says Lal. "The India story will always be at the core and it is only on its back that we can do anything outside."

While premiumisation in the two-wheeler industry, where consumers graduate to higher specification bikes, is an accepted trend, it is not visible in Enfield's line-up. Simply put, its vast base of 350cc Bullet or Classic consumers is not buying Classic 500 or Thunderbird. They are either staying put or moving to Harley or Triumph that have more premium brand equity. This does not augur well for the success of the twins in the domestic market.

"The legendary status of Bullet is a sort of trap. Enfield is generally associated with Bullet in rural markets and Classic in urban markets. Nothing else matches up to it, so the consumer wants only that," says Jain of SBICAPS. "It is not easy to create a new blockbuster in two-wheelers. The success rate is low. It is a trial and error method and others are constantly doing that — Honda in motorcycles, Hero MotoCorp in scooters, Bajaj in commuter motorcycles. Enfield will also have to do that."

Lal wants to give more time to some of his newer brands and is hopeful that they will become as legendary as Bullet and Classic. "We enter a product category and stay invested forever. For us, even Himalayan is successful. At least people did not reject it outright," he says. "Even Classic did not grow overnight. Over time, hopefully the next 5-10 years, we will have not only Classic but other brands as well (as blockbusters)."

The problem is, there may not be enough time. The end of the crest may have come sooner for Bullet in the domestic market than what the company would have expected. A new

bestseller to complement it is still not ready.

"The Indian consumer is enamored by the traditional bikes of Enfield. It will be challenging to sell the other bikes in large numbers. This is something that we already see with Classic 500, Thunderbird and Himalayan," says Abhimanyu Sofat, Vice President, Research, IIFL. "They need a cracker of a product at the lower end and they need it soon to bring in the kind of volumes they are used to. It is a great company and will continue to grow strongly but there is likely to be reduction in the growth rate. Double-digit growth is feasible but they were probably expecting high-teen growth. That may not be possible."

For a company with such a deep foundation in India, a mere tremor in the domestic market may see its global aspirations crash. While analysts have reasons to fear, Lal, who is not an MBA and does not conform to the usual decorum of corporate behavior — he hates wearing suits and neck ties for example — has none. "I have always felt fearless, being able to do what I thought was right as opposed to what the general convention was or what businessmen were supposed to do. When we sold Eicher Tractors, for example, you were supposed to hang on to your empire and not sell off your crown jewels," he says. "The business community is always following a code and they would rather fail while following the code than try something different. Fear of abject failure is what keeps everyone following the straight and narrow. That was the difference that I grew up with."

That difference may just do the trick. To venture into uncharted territory, after all, is not for those who fear. **BT**

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