'We will enter countries where we can lead the market and grow it'

In a market where mass motorcycle makers are slugging it out to increase sales amid challenging macro economic conditions, Royal Enfield has posted a growth of a little over 50 per cent in sales volumes for the nine months ended September. Profit margins have increased to 16.5 per cent from around 13 per cent in the year-ago period. The robust numbers have attracted many to look at products in the mid-size category for the Indian market. **SIDDHARTHA LAL**, the managing director and chief executive officer of Eicher Motors (they make Enfield), tells **Sharmistha Mukherjee** the competition would only expand the size of the pie and translate into absolute volume gains for the company, both in motorcycles and commercial vehicles. Edited excerpts :

Q&A

SIDDHARTHA LAL
MD & CEO, Eicher Motors

Royal Enfield has been a success story for Eicher – one which has attracted many others, including Triumph and Harley-Davidson to consider entering a segment (mid-size motorcycles) once fading in the motorcycle market. What do you make of the competition?
We took our call long ago. Our focus and intention is to create and grow the midsize motorcycle market in India. We were very clear that we did not want to be in the commuter segment. We have done our work ground-up and created a market for premium motorcycles over a decade. We own that market, with a share of over 95 per cent. The growth and profitability in this segment has clearly attracted a lot of players. There is certainly space for other types of motorcycles. We will stick to ours and expand that genre. We are working on new products, platforms and on distribution to create a definitive motorcycle brand and retain that position.

What is important is that the size of the market will grow manifold with the entry of new players. I cannot expect to retain 95 per cent share of that market but can be a leading number-one player. If I can have 60-70 per cent share of a market which is five times the size, I would be happy.

Royal Enfield has stated intentions to become a global leader in the midsize segment. How much progress has taken place in those plans?
Our international thought process largely has two parts. We have some presence and strong focus in developed markets, in the UK, US, Japan and Australia. Britain is the nerve centre and in our thinking, it is important for the brand to be strong there. We are at a planning stage for entering emerging markets. The midsize motorcycle segment is extremely underserved with good products. We will enter countries where we can lead the market and grow it, like we have done in India. We have the product and are trying to work out the rest of the pieces. Our ambition is to make a deep impact.

Sales in the commercial vehicle (CV) industry have been registering a decline for nearly two years. What are the measures you've taken at Eicher which helped in improving Ebit (earnings before interest and taxes) margins (up to 8.9 per cent from 7.9 per cent in Jan-Sept 2013), despite the slowdown?
As soon as we see a slowdown, we cut production. We monitor our dealers' stocks as closely as our own inventory. We look at the entire ecosystem and take action quickly. Long-term, we have chosen to stay very lean. Over the years, we have opted not to get into too many adjacencies, into backward integration. We have stuck to a single plant environment and not added facilities in different parts of the country. We have invested capital but concentrated on one location, both in CVs and motorcycles, to keep fixed costs low. It is our way of thinking and doing things.

Through the past two years, we have continued to invest in long-term activities. On the industrial side, we have invested in the plant, in the engine manufacturing facility, in products. On the front-end, we have developed our distribution and servicing network. The Indian trucking industry till now has been an amateur; the 'Eicher Pro' range which we unveiled earlier this month is top of the line. When we started the joint venture (with Volvo) five years earlier, we knew we would be going through an enormous investment cycle and that the market would be cyclical. We have the strongest balance sheet and business model in the CV industry and that helped us fund investments, despite the slowdown. I have a strong belief that whenever we come out of the downturn, let's say it is in 2014, we will by far be the player in the CV business which is going to outgrow in market share and profitability.

Now that Eicher has unveiled 11 new CVs in the Eicher Pro range, would it be right to assume all major investments have been accomplished on the industrial side for now by the company?
Broadly, there are three major areas of investments. Most of the investments in industrial areas in plant and machinery are behind us. Capacity we can scale up gradually. The 11 new products we unveiled would be launched over the next 12-18 months. So, in the product investment curve, we are halfway through. In the retail and after-market side, we are growing our network. Since 2008, we have invested ₹1,800 crore in the joint venture (VECV). We will be investing an additional ₹700 crore over the next 12-18 months.

VECV can scale up to producing 100,000 units annually at Pithampur (MP). Given the available capacity, would you look at growing your footprint abroad?
The Pithampur investments are complete in the paint shop. We need some additional investments (in the machine shop) to make operational the entire capacity. This can be done on a modular basis only for the required volumes. It would allow us to scale up with a very short time lag, of three to six months. Our ambition is to be seen in India as a disruptive player in the heavy-duty truck market.

That said, we are working closely with Volvo to figure out our international plans. In a five to seven years horizon, we want to be in emerging markets, in South Asia, Africa, West Asia and Southeast Asia. We are working with Volvo to establish the distribution network. The Eicher Pro range has been developed keeping international markets in mind. Eicher has complementary products and does not compete directly with Volvo brands.

The potential in emerging markets is enormous. We are a very deliberate company now. A lot of Indian and Chinese companies enter new markets and after the initial success, get a weak reputation because of poor aftermarket support systems. We have spent a lot of time in planning, in architecture. It might seem lengthy but we are in it for the long haul. We want to be a significant player in the markets we enter and have market share of at least 15-20 per cent in those countries.