

MANAGEMENT DISCUSSION AND ANALYSIS



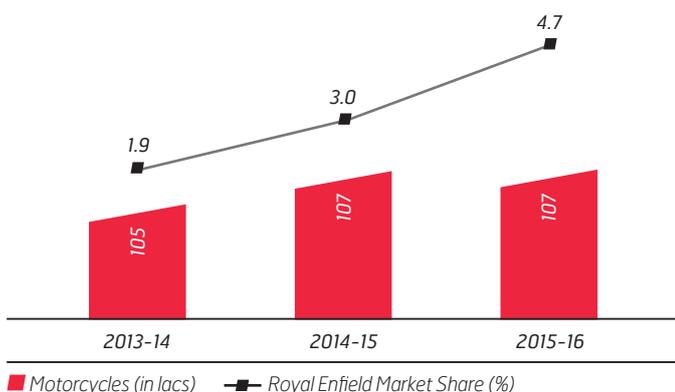
The financial year under review commenced on January 1, 2015 ended on March 31, 2016, being a period of 15 months. In the Management Discussion and Analysis section of the Annual Report, we have considered 12-month periods only. So, 2015-16 refers to period commencing April 1, 2015 and ending March 31, 2016. And the prior periods in this section also refer to 12-month periods. This has been done for better comparability between periods.

1. INDUSTRY STRUCTURE AND DEVELOPMENT

The motorcycle industry in India did not grow in 2015-16 over 2014-15. The size of the industry remained at 107 lacs for both the respective years. In 2014-15, however it grew by 1.9% over 2013-14. Royal Enfield, like over the preceding many years continues to outperform the motorcycle industry's sales growth. Royal Enfield's market share has grown from 1.9% in 2013-14 to 4.7% in year 2015-16.

The sales volume of India's motorcycle industry and the market share of Royal Enfield has been provided below:

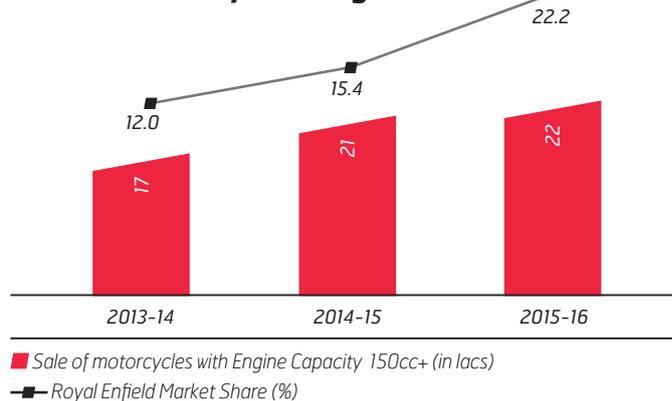
Chart 1// Royal Enfield's Market Share in the Domestic Market



Within the motorcycle industry, the sales of motorcycles of engine displacement of 150cc and above has grown from 17 lacs in 2013-14 to 22 lacs in 2015-16. Royal Enfield market share in this segment has grown from 12.0% in 2013-14 to 22.2% in 2015-16.

The sales volume of motorcycles with engine displacement of 150cc and above and market share of Royal Enfield has been provided below:

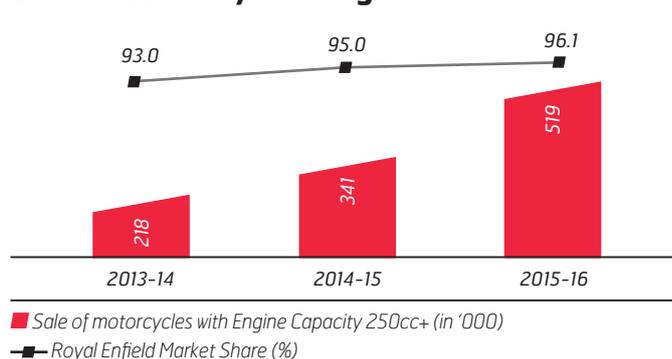
Chart 2// Royal Enfield Market Share in 150cc+ Motorcycles Segment



Within the motorcycle industry, the sales volume of motorcycles with engine displacement of 250cc and above has grown from 218 ('000) in 2013-14 to 519 ('000) in 2015-16. Royal Enfield's market share in this segment has grown from 93.0% in 2013-14 to 96.1% in 2015-16.

The sales volume of motorcycles with engine displacement of 250cc and above and market share of Royal Enfield has been provided below:

Chart 3// Royal Enfield Market Share in 250cc+ Motorcycles Segment



5,08,099
MOTORCYCLES SOLD IN 2015-16

Eicher Motors Limited is executing many long-term initiatives to further expand the mid-market motorcycle segment.

With more than 93.0% market share in each year, your Company's Royal Enfield motorcycles continue to dominate the 250cc and above segment.

2. OPPORTUNITIES, THREATS AND OUTLOOK

Your Company is determined to emerge as a dominant player in the global mid-size (250 cc to 750 cc) motorcycle market. It is evident from the data presented above that your Company continues to grow handsomely and enjoys a dominant position in 250cc and above segment where it enjoys a 96.1% market share in India. With such a commanding market share, your Company can grow by expanding this segment. Your Company is executing many long-term initiatives to further expand the segment. These initiatives include focussed marketing programmes, network development and product launches.

In the last few years, your Company has been focusing on growing in international markets. Its global strategy combines its learning from the success in India, and is calibrated for specific international geographies. Your Company has received an encouraging response for its unique brand proposition and highly differentiated products.

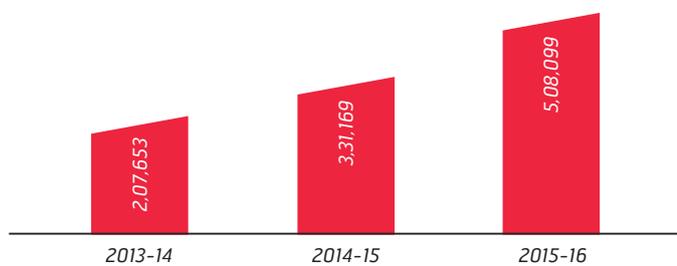
3. BUSINESS PERFORMANCE

Your Company sold 5,08,099 motorcycles in 2015-16, registering an annualised growth of 56.4% as compared to 2013-14 sales of 2,07,653 motorcycles. Of 2015-16 sales, 9,309 motorcycles were sold in international markets registering an annualised growth of 16.4% over 2013-14.

The sales volume of Royal Enfield motorcycles and it's annualised growth has been provided below:

Chart 4// Royal Enfield Sales Volume

CAGR* ↗ **54.6%**



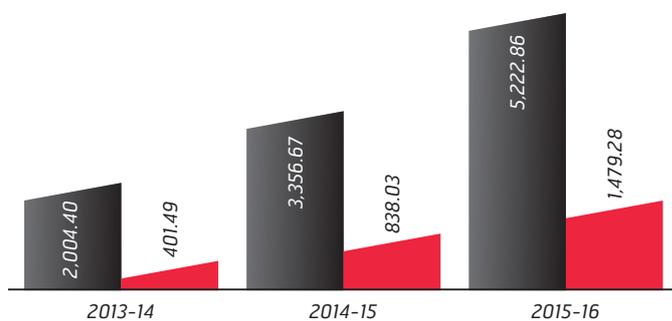
■ Royal Enfield Motorcycles (unit sold)

Total revenue from operations for 2015-16 was Rs. 5,226.87 crores, registering an annualised growth of 61.5% over 2013-14 (Rs. 2,004.40 crores). Like in the past, your Company continued to grow profits faster than net sales from operations. Your Company's earnings before depreciation & tax for 2015-16 was Rs. 1,479.28 crores, registering an annualised growth of 91.9% over 2013-14 (Rs. 401.49 crores).

* Compound Annual Growth Rate

The Revenue from operations and Earnings before depreciation & tax are as below:

Chart 5// Revenue and Earnings before Depreciation & Tax



■ Revenue from Operations (Rs. in crores)
■ Earnings before Depreciation and Tax (Rs. in crores)

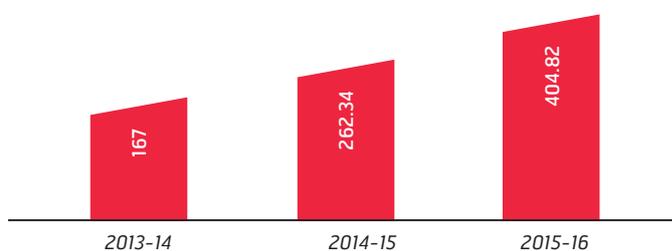
The Earnings before depreciation & tax as a proportion of Revenue from operations has grown from 20.0% in 2013-14 to 28.3% in 2015-16.

Revenue from sale of spare parts and services grew to Rs. 404.82 crores in 2015-16, registering an annualised growth of 55.7% over 2013-14 (Rs. 167.01 crores).

The Revenue from spare parts and services is as below:

Chart 6// Revenue: Spare Parts & Services

CAGR* ↗ **55.7%**



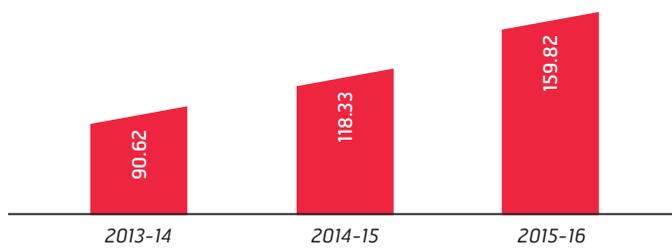
■ Revenue from sale of spare parts and services (Rs. In crores)

Revenue from international markets grew to Rs. 159.82 crores in 2015-16, registering an annualised growth of 32.8% over 2013-14 (Rs. 90.62 crores).

The Revenue from International Markets is as below:

Chart 7// Revenue: International Markets

CAGR* ↗ **32.8%**



■ Revenue from international markets (Rs. In crores)

4. DOMESTIC BUSINESS

Royal Enfield has substantially expanded and upgraded its pan-India distribution network. In 2015-16, it added nearly 100 new dealerships taking the total dealership network to over 500. The Company nurtures a culture of customer orientation. Hence, dealers are equipped to help customers in a variety of ways, ranging from sales of motorcycles and gear, supply of spare parts and service of motorcycles.

A couple of years back, the Company embarked on a journey to upgrade all dealerships in a manner that reflect its new “Brand Retail Identity”. The objective is to create an ambience inside the stores that reinforces the brand’s innate strengths, and its promise of ‘Pure Motorcycling’. Now the stores look highly differentiated, and the effort has produced significant results in terms of higher footfalls and stronger sales.

5. FOCUSED INTERNATIONAL THRUST

Your Company sees tremendous growth opportunities in international markets. Your Company is executing geography specific long-term and sustainable strategies to achieve this growth. In the financial year 2015-16, your Company set up a 100% subsidiary in one of the most important markets in the world, North America. This subsidiary, Royal Enfield North America Ltd. took over the distribution in North America market from January 2016. Your Company also set up a 100% subsidiary, Royal Enfield Brasil Comercio de Motocicletas Ltda to manage the distribution in one of the biggest motorcycle markets in the world, Brazil.

During last two years, your Company set up twelve exclusive Royal Enfield stores including five in Colombia, two in London and one each in Jakarta, Bangkok, Paris, Madrid and Dubai. These exclusive stores will be key in establishing the brand in these markets as they will be the beachhead of sales, marketing and riding initiatives of the Company.

The Brand Retail Identity rolled out in Indian market is now being implemented in international markets as well.

6. LAUNCH OF THE HIMALAYAN

Your Company launched the Himalayan, a motorcycle purpose-built for adventure and touring in the Himalayas in March, 2016. Bringing together 60 years of Himalayan riding experiences in a completely ground-up design, and powered by a new LS 410 engine, the Royal Enfield Himalayan paves the way for a purer, non-extreme and more accessible form of adventure touring in India. In fact, its top-notch road capabilities help the rider navigate through potholed urban locations with as much ease as treacherous mountain trails.

One of the most anticipated motorcycles of 2016, Royal Enfield Himalayan is available in two signature colour options — Granite and Snow. Built on a rugged duplex split cradle frame (designed and developed by Harris Performance) the Himalayan is equally stable and agile. A strong mono shock rear suspension with linkage provides convenience in long travels and delivers a hassle-free riding experience, notwithstanding the challenges of terrain.

The Himalayan is powered by a completely new and evolved overhead camshaft engine platform that forms the base for its new long stroke LS 410 engine. The all new engine delivers high torque and usable power at lower RPMs. This makes for smooth riding in higher gears at lower speeds, making it easy to climb hills, or to manoeuvre through dense traffic. Contemporary design and engine strength provide enhanced efficiency and low maintenance; and the engine can perform effortlessly for 10,000 kilometers between oil changes.

Touring utility is built inherently into the Himalayan. A 15-litre fuel tank provides a long range of around 450 kilometers. Luggage mounting points for hard panniers, soft luggage and jerry cans are integral to the motorcycle’s design. Most importantly, an ergonomical sync between footpegs, handlebar and seat height provide a comfortable upright riding posture, that is necessary for long rides.

An accessible 800 mm seat height with lower mass-balance ensures the ease of planting feet on ground for complete control. Royal Enfield

Royal Enfield media ride in Paris, France



9,00,000

**TOTAL BUILD CAPACITY
TARGETED BY 2018-19**

600

**PERMANENT EMPLOYEES
ADDED DURING 2015-16**

Himalayan comes fitted with dual-purpose tyres that lend a confident grip and performance across a range of conditions. In addition to complete braking control, the 300 mm front and 240 mm rear disc brakes help to reduce braking effort.

Royal Enfield has also launched meticulously designed, purpose-built protective riding gear that caters to the long range rider, who travels to inhospitable locations, challenging terrains and extreme weather conditions.

The protective gear range includes the 4-season Royal Enfield Darcha riding suit made in collaboration with REV'IT; versatile touring jackets and trousers with Cordura, protective armour, removable thermal liners and breathable waterproof lining. The collection also has riding gear (gloves, trousers and boots).

Himalayan is the result of meticulous testing and benchmarking across multiple terrains, starting from the Bruntingthorpe airfield in the UK to the race track in Sriperumbudur, Chennai; from off-road terrains to urban settings; and then in the Himalayas. The motorcycle has clocked lacs of kilometers and cumulative mileage, before hitting the production line. The Himalayan is a purpose-built versatile motorcycle, inspired by the celebrated strength and grandeur of the Himalayan range.

7. STRENGTHENING PRODUCT DEVELOPMENT

Over the years, your Company's growth has been driven by design and development of products that are true to the brand ethos of the Royal Enfield brand. This drives differentiation of your Company's products. Designing and developing evocative and exciting products lies at the heart of your Company's future strategies. To translate its long-term growth objectives into reality, the Company has laid out an elaborate roadmap for developing new generation platforms and products.

Your Company has initiated multiple projects to significantly augment product development infrastructure and capability.

In May 2015, your Company acquired the brand, technical know-how, intellectual property and the business of U.K.-based Harris Performance Products Limited, one of the leading experts in designing, manufacturing and marketing motorcycle chassis and components. Before this acquisition, your Company had a long standing relationship with the firm. Harris Performance was responsible for the chassis development of the Royal Enfield's Continental GT model. Their proven expertise, deep insight and understanding of motorcycling will be invaluable for your Company in its product development journey.

In the financial year 2015-16, your Company commenced the construction of 2 technical centers - a larger technical centre at OMR, Chennai, India and a satellite technical centre in the Leicester area of UK. These centers will provide considerable strength to your Company's product development capability by enhancing ability to attract relevant talent in India and internationally, as well. In UK, your Company already has

a team of more than fifty engineers with deep experience in design and development of motorcycles. These centers once built will be equipped with state of the art testing and validation infrastructure.

8. CAPACITY EXPANSION

Your Company's production capacity at its existing manufacturing facilities at Thiruvottiyur and Oragadam in Tamil Nadu, India will soon peak to its maximum. In October 2014, your Company acquired a 50-acre plot at Vallam Vadagal, near Chennai, India. This is the site of your Company's third manufacturing facility.

Your Company has commenced construction of this facility and is expected to be commissioned in the second half of 2017-18. By 2018-19, the total built production capacity of your Company is expected to be 900,000 motorcycles annually.

Through its Supplier Rationalisation Program the Company consolidated its supplier base and brought in best in class supplier partners and worked closely with them in improving the efficiency and quality.

Leveraging scale benefit, value engineering, reduction in non-value added activities in the process, waste eliminations and consolidated buying of raw material and packing costs optimization has helped tremendously in keeping the material cost under control.

9. RISKS AND CONCERNS

Your Company evaluates potential risks, and has evolved over the years a comprehensive risk-management strategy. It takes into account changing market trends, competition scenario, emerging customer preferences, potential disruptions in supplies and regulatory changes, among others.

Your Company has established a Risk Management Committee comprising select Board and management members. Risk Management Committee reviews the risks, effectiveness of the mitigation strategies and its implementation progress.

10. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a comprehensive system of internal control to safeguard its assets against any loss from unauthorised use and ensure proper authorisation of financial transactions.

The Company has internal control systems commensurate with the size and nature of the business. It has experienced personnel, positioned adequately in the organisation to ensure internal control process and compliances. Your Company has a comprehensive internal financial control framework that covers all entity level and process level controls. The Company has deployed a robust ERP system based on SAP platform. This ensures high degree of system-based checks and control and continuous monitoring of the effectiveness of the controls.

Your Company's internal audit team performs audits in all its areas. The audit findings and management's resolution plans are reported on quarterly basis to the Audit Committee of the Board, headed by a Non-executive Independent Director.

11. HUMAN RESOURCES

The Company's performance is critically dependent on the knowledge and skills of its people, their ownership of the organisational and functional objectives, an enabling operating environment, and an all-encompassing culture of motivation and enthusiasm to perform with pride.

As part of its growth journey, during the year, the Company added more than 600 permanent employees. It continued to hire and deploy resources in international locations as part of its international growth strategy. At the same time, it continued to align its organisational



A Royal Enfield Squadron Blue limited edition Despatch motorcycle at Khan Market, Delhi

structure with its three-year strategic business plan for enhanced effectiveness. The Company significantly strengthened its brand building, IT and product development capabilities through strategic hiring.

The Company worked on simplifying and automating processes throughout the year; and have implemented on-line systems to manage people processes efficiently. The attrition level remained below 6%, reflecting an engaged and committed workforce.

As an on-going exercise, the Company will continue to undertake initiatives seamlessly to enhance productivity and efficiency. It motivates its people to take challenges in their strides, strengthen their knowledge base and help create a happy, transparent and productive environment.

The Company's talent base (full time), as on March 31, 2016 stands at 1,882.

12. ENVIRONMENT AND HEALTH & SAFETY

Your Company's plants are certified for compliance by the Government Pollution Control departments. The Company has a zero-water discharge policy where all water consumption and water treatment is handled in a manner that no water is sent out of the plant. Rain-water harvesting is done to recharge the ground and have been planted around 3000 trees inside the manufacturing plant premises towards carbon neutrality.

Your Company associates and operators are trained on safe working environment to ensure accident-free and safe working environments. All the workstations are ergonomically designed to avoid fatigue while working.

For all the operators your company has a policy of annual health checkup and also conducts health and fitness education as an on-going process. On health and safety, your Company's Oragadam plant is chosen as a model plant by Government of Tamil Nadu for other industries to emulate the systems and process.

13. CAUTIONARY STATEMENT

Certain Statements in the Management Discussion and Analysis describing the Company's view about the Industry, objectives and expectations etc. may be considered as 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied in the statement. The Company's operations may be affected with supply and demand situation, input prices and their availability, changes in Government regulations, tax laws and other factors such as Industrial relations and economic developments etc. Investors should bear the above in mind.

For Eicher Motors Limited

Siddhartha Lal
Managing Director
DIN 00037645

S. Sandilya
Chairman
DIN 00037542

Place : Gurgaon
Date : May 05, 2016