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MANAGEMENT  
DISCUSSION  
AND ANALYSIS*



# MANAGEMENT DISCUSSION AND ANALYSIS



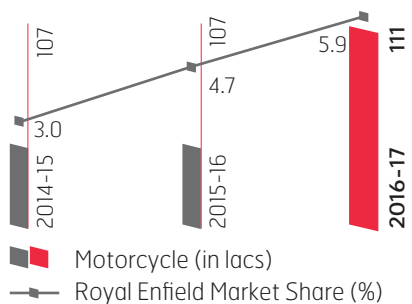
The financial year under review commenced on April 1, 2016 and ended on March 31, 2017, being a period of 12 months. The previous financial year 2015-16 commenced on January 1, 2015 and ended on March 31, 2016, being a period of 15 months. In the Management Discussion and Analysis section of the Annual Report, we have considered 12 month period only for 2015-16 as commencing from April 1, 2015 and ending on March 31, 2016. And the prior periods in this section also refer to 12 months periods. This has been done for better comparability between periods.

## 1. INDUSTRY STRUCTURE AND DEVELOPMENT

The motorcycle industry in Indian grew by 3.7% in 2016-17 over 2015-16. The size of the industry was at 111 lacs in 2016-17 against 107 lacs in 2015-16, registering a growth of 3.7%. Royal Enfield, like in many preceding years continues to outperform the motorcycle industry's sales growth. Royal Enfield's market share nearly doubled from 3.0% in 2014-15 to 5.9% in 2016-17.

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

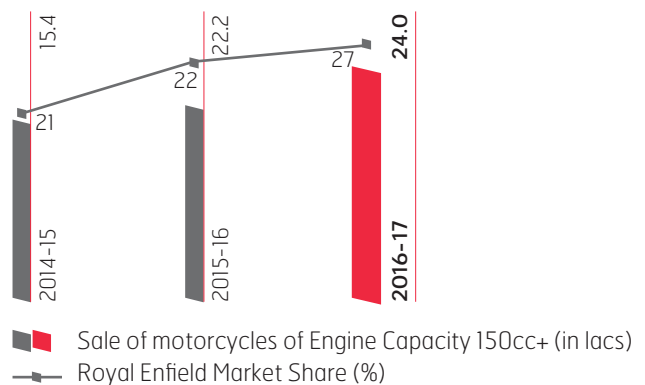
**Chart 1 // Royal Enfield's Market Share in the Domestic Market**



Within the motorcycle industry, the sales volume of motorcycles engine displacement of 150cc and above has grown from 22 lacs in 2015-16 to 27 lacs in 2016-17, a growth of 20.1%. Royal Enfield market share in this segment has grown faster as compared to overall industry growth from 22.2% in 2015-16 to 24.0% in 2016-17.

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

**Chart 2 // Royal Enfield's Market Share in 150cc+ Motorcycle Segment**



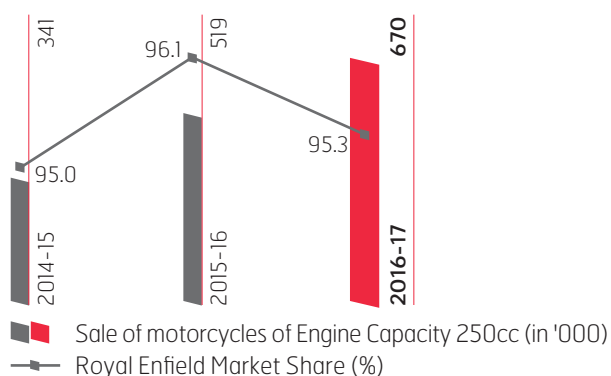
# 6,66,493

## Motorcycles sold in 2016-17

Within the motorcycle industry, the sales volume of motorcycles with engine displacement of 250cc and above has grown from 519 ('000) in 2015-16 to 670 ('000) in 2016-17. Royal Enfield's market share in this segment continues to be above 95%.

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

### Chart 3 // Royal Enfield's Market Share in 250cc+ Motorcycle Segment



With more than 95.0% market share in each year, your Company's Royal Enfield motorcycles continue to dominate the 250cc and above segment. Your Company is executing many long-term initiatives to further expand the mid-market motorcycle segment.

## 2. OPPORTUNITIES, THREATS AND OUTLOOK

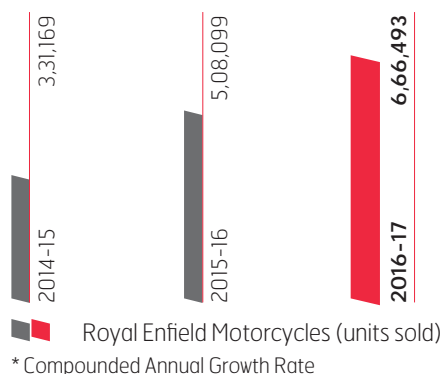
With such a commanding market share, your Company can grow further by expanding this segment. Your Company is executing many long-term initiatives to further expand the segment. These initiatives include focussed marketing programmes, distribution expansion, enhancing customer experience and product launches. In the last few years, your Company has been focussing 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 6,66,493 motorcycles in 2016-17, registering an annualised growth of 31.2% as compared to 2015-16 sales of 5,08,099 motorcycles. Of the total sales in 2016-17, 15,383 motorcycles were sold in international markets registering an annualised growth of 65.2% over 2015-16.

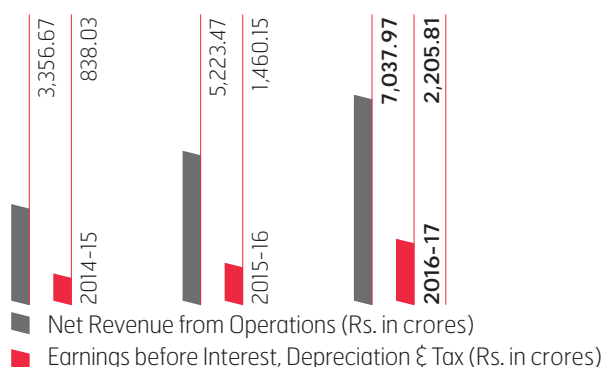
The sales volume of Royal Enfield motorcycles and its annualised growth have been provided below:

### Chart 4 // Royal Enfield Sales Volume CAGR\* 41.9%



The Net Revenue from operations and earnings before interest, depreciation & tax are as below:

### Chart 5 // Net Revenue and Earnings before Interest, Depreciation & Tax



2016-17 & 2015-16 numbers are stated as per Ind AS, while 2014-15 as per Indian GAAP

Net revenue from operations for 2016-17 was Rs. 7,037.97 crores, registering a growth of 34.7% over 2015-16 (Rs. 5,223.47 crores). Like in the past, your Company continues to grow profits faster than net sales from operations. Your Company's earnings before interest, depreciation & tax for 2016-17 were Rs. 2,205.81 crores, registering a growth of 51.1% over 2015-16 (Rs. 1,460.15 crores). The Earnings before interest, depreciation & tax as a proportion of Net Revenue from operations have grown from 28.0% in 2015-16 to 31.3% in 2016-17.

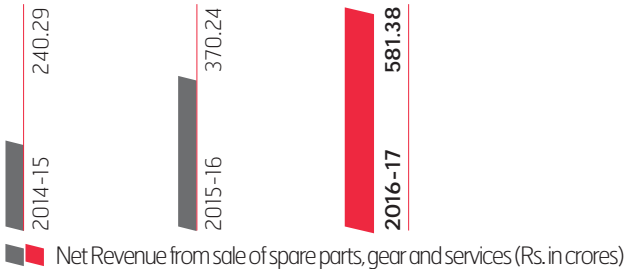
Net Revenue from sale of spare parts, gear and services grew to Rs. 581.38 crores in 2016-17, registering a growth of 57.0% over 2015-16 (Rs. 370.24 crores).



The Net Revenue from spare parts, gear and services is as below:

### Chart 6 // Net Revenue: Spare Parts, Gear & Services

CAGR\* 55.5%



2016-17 & 2015-16 numbers are stated as per Ind AS, while 2014-15 as per Indian GAAP

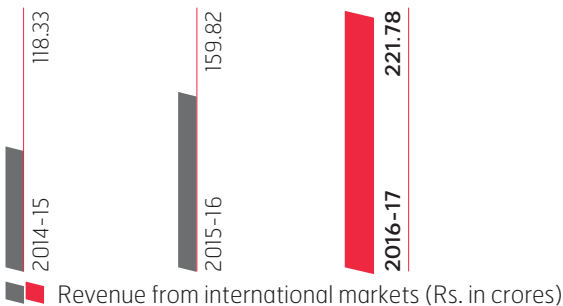
\* Compounded Annual Growth Rate

Revenue from international markets amounts to Rs. 221.78 crores in 2016-17, registering a growth of 38.8% over 2015-16 (Rs. 159.82 crores).

The Revenue from International Markets is as below:

### Chart 7 // Revenue: International Markets

CAGR\* 36.9%



2016-17 & 2015-16 numbers are stated as per Ind AS, while 2014-15 as per Indian GAAP

\* Compounded Annual Growth Rate

## 4. DOMESTIC BUSINESS

Royal Enfield has substantially expanded and upgraded its pan-India distribution network. In 2016-17, it added nearly 150 new dealerships taking the total dealership network to 675. Your Company dealers are equipped to serve 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'. As at end of the year 2016-17, almost all stores have converted to this new brand identity.

There is tremendous potential in the domestic market for Royal Enfield. We plan to expand our sales and service reach in the country to over 800 dealers covering about 600 towns. Your Company is working to enhance customer experience in the dealerships - both during the sales process and during motorcycle service. To achieve this, your Company is working towards improving capability of dealer workforce, implementing best in class processes and leveraging technologies. Till now several processes have been established across sales, service, Gear for delivering customized experiences as per customer profile.

## 5. FOCUSED INTERNATIONAL THRUST

Your Company has an innovative city led distribution strategy to set the foundation of the brand in its chosen markets to create a strong growth momentum and eventually market leadership in mid-size motorcycles in its focus markets. The approach in markets with high commuter base is to provide commuters with an evocative and accessible upgrade from existing commuter offerings, quite similar to the approach in India. That fulfills customers' desire for leisure motorcycling, and also performs their regular commuting very well. In mature markets, your Company will leverage the existing motorcycling culture and the residual brand equity to expand the segment with accessible, yet aspirational non-extreme alternatives.



## 6. LAUNCH OF THE REDDITCH SERIES, EURO-4 & BS-4

Your Company introduced three new colour options - Redditch Red, Redditch Green and Redditch Blue for its classic 350 model line. These bikes have been designed as a tribute to the retro look of British motorcycles in the post World War II era. These were received extremely well by the customers.

Your Company also introduced Euro-4 models which have additional safety features of ABS in Europe & other International markets.

## 7. COMPLETE TRANSITION TO BS-IV

Your Company completely transitioned all its motorcycles from BS-III compliant to BS-IV emission norms in India with zero inventory of motorcycles of BS-III as at end of March 2017. This was a remarkable achievement and was due to extremely low inventories that your Company carries at any point in time.

## 8. STRENGTHENING PRODUCT DEVELOPMENT CAPABILITY AND CAPACITY

Your Company's Technology Centre at Leicester, United Kingdom is established with a team of more than 100 design and development engineers occupying the new purpose-built facility.

The team has been built in the last two years with a wide range of international experience in motorcycle design and development, and will work alongside our established team in Chennai to design the next generation of Royal Enfield motorcycles.

The facility has a state-of-the-art Industrial Design studio, development workshop and Engineering office, and is situated in a secure compound with a test track just a few hundred metres away. In addition, equipment for testing and validation of key aggregates including emissions testing will be installed at the same site, which will be fully commissioned and operational in Q4, 2017-18.

In Chennai, we have started work on the India Technology Centre. Based at Old Mahabalipuram Road, Chennai, this facility will house all engineering and design teams under one roof. It will have state-of-the-art engine, chassis and component test equipment and will be ready for the Engineering, Test and Industrial Design to commence work in September 2018, with final completion and full occupancy in April 2019.

With the establishment of these 2 Technology Centres, your Company's ability to execute its long range product development plans will be greatly enhanced.

## 9. CAPACITY EXPANSION

Your Company's production capacity at its existing manufacturing facilities at Thiruvottiyur and Oragadam in Tamil Nadu, India is nearly at its peak. In October 2014, your Company

# 8,25,000

## Total Build Capacity Targeted by 2017-18

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 at this site and the manufacturing facility is expected to be commissioned by August 2017. By 2017-18, the total annual production capacity of your Company is expected to be 8,25,000 motorcycles.

Through its Supplier Rationalisation Programme, 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 optimisation have helped tremendously in keeping the material cost under control.

## 10. 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 to review the risks, effectiveness of the mitigation strategies and its implementation progress.

## 11. 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 successfully deployed the Governance Risk and Compliance module of SAP to ensure segregation of duties and monitor maker-checker relationships for all transactions.



## 500

### Permanent Employees Added During 2016-17

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.

#### 12. 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 500 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 structure with its 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. Your Company's low attrition level reflects an engaged and committed workforce. As an on-going exercise, your 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, 2017 stands at 2,274.

#### 13. 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 are handled in a manner that no water is sent out of the plant. Rainwater harvesting is done to recharge the ground and the Company has planted around 3,000 trees inside the manufacturing plant premises towards carbon neutrality. Your Company's 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 the Government of Tamil Nadu for other industries to emulate its systems and process.

#### 14. 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.