

## Background & Business

Incorporated in 1982, EIML, promoted by Delhi based Vikram Lal group, is one of the leading players in the domestic 2W & CV industry. The former business is housed under the standalone entity, which is engaged in manufacturing & distribution of the iconic motorcycle brand “Royal Enfield (RE)”. The latter business of CVs is through a JV with AB Volvo, Sweden housed under VE Commercial Vehicles (VECV – formed in 2008) in which EIML has 54.4% economic interest. The areas of business of VECV are – Eicher Trucks & Buses, Volvo Trucks India, VE Power Train, Eicher Engineering Solutions & Eicher Engineering Components. Company has also entered into a 50:50 JV with US-based power sports major Polaris Industries, for manufacture of a range of PVs suitable for India & other emerging markets.

## Investment Thesis

EIML is a unique company which houses the RE franchise and has a JV with leading CV manufacturer Volvo (VECV). Both the businesses have their own strengths – while the ones for RE are apparent, the VECV story is a long term story; but with strong legs for growth. Some of the arguments in favour of EIML are:

- a) Management is **strongly focusing on increasing their RE sales in under penetrated tier 2 markets** like Bihar, MP, Rajasthan etc by increasing their distribution network. Company is also focussing on developing markets like LatAm and South East Asia by offering an aspirational product at an accessible cost and expanding its exclusive dealership outlets. New and upcoming launches would further help establish its presence in these markets.
- b) **Capacity expansion to bridge demand-supply gap** (RE production capacity is targeted to reach ~9,00,000 units by FY19; the company has been pro-active in combating competition from Bajaj’s Dominar by expanding capacity before schedule),
- c) **Demographic dividend and brand image** (In India, RE is benefiting from the shift in Young India’s buying preferences from mileage/value-for-money to aesthetics and ride quality, which reflects in the reducing average age of RE customers),
- d) **VECV is well equipped to handle changes in emission norms and would be biggest beneficiary of economic recovery** (VECV is well prepared for implementation of BS-VI norms as it has a very strong moat in terms of readiness with complete engine manufacturing for these stringent emission norms; incumbent competitors who have used discounting a great deal might find it challenging to meet VECV’s product benchmarks and pricing).

## Outlook

As per the rationale highlighted above we expect EIML to deliver healthy performance in medium term. Strong outlook of RE business, readiness to grab the opportunities arising through CV cycle recovery, strong management pedigree along with the presence of Volvo Group and benefits arising out of implementation of BS-VI norms are some of the levers which would support company’s growth in medium term.



From : 30-05-2014  
To : 31-05-2018  
Performance : 359%  
Recommendation : OPEN

