Two-wheeler makers hitch a ride on exports

The domestic slowdown and growing acceptability of Made-in-India brands offer opportunities to accelerate the drive to global markets

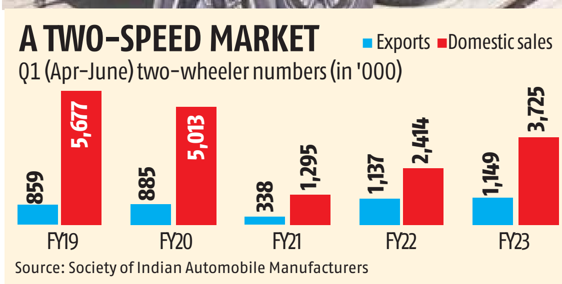
SHALLY SETH MOHILE
Mumbai, 26 July

An unexpectedly robust export performance and a sluggish domestic market have encouraged two-wheeler manufacturers to aggressively accelerate on the international expansion route in the coming years. They plan to make deeper inroads into traditional markets but also explore newer ones. Their ability and confidence to do so reflect a critical change in perception and acceptability of Made-in-India brands, allowing domestic two-wheeler makers to potentially earn higher margins by looking beyond the sub-continent.

The race is on. In the June quarter of FY23, overseas shipment of motorcycles and scooters jumped to 11,49,000 units, the highest since the June quarter of FY19, according to the Society of Indian Automobile Manufacturers (Siam). This acceleration was in sharp contrast to the domestic volumes, which plunged to the lowest in four years, Siam added.

"With the domestic market slowing down amid a structural slowdown and an electric vehicle push by the government, exports are inevitable," said Hemal Thakkar, director, CRISIL Research. An idea of two-wheeler companies' capacity under-utilisation can be had merely by looking at the domestic sales numbers, Thakkar added — 21 million units in FY19 and 13 million in FY22.

To be sure, companies are borrowing from the playbook of Bajaj Auto that has established itself as a poster boy of two-wheeler exports with record overseas sales of 2.5 million motorcycles in FY22. Bajaj Auto, which has its position firmly entrenched as the country's largest motorcycle exporter selling in over 70 markets outside India, is now looking to strengthen its position in the markets in which it already has a presence. As part of the strategy, the company established various wholly-owned subsidiaries in some of the key export destinations, according to the company's latest annual report. For instance, it recently established a wholly-owned subsidiary in Thailand. This was to pave the way for an International Business Centre (IBC) that will oversee sales in the ASEAN region. An Engineering Design Centre (EDC) will also come up under this subsidiary. The centre marks a new beginning for Bajaj Auto's R&D, expanding its design centre to trend-defining markets around the globe, the company said. The group also incorporated Bajaj Auto Spain S.L. as a wholly-owned subsidiary in Barcelona. An EDC and a subsidiary in Brazil are also on the cards this fiscal.



Meanwhile, Hero MotoCorp, the Pawan Munjal-led firm, targets tripling its revenue share from exports by 2024-25. This would be led by a continuous expansion into new markets and consolidating presence in the existing ones. It also plans to undertake market-specific product expansion as part of the so-called R4 strategy (revitalise, recalibrate, revive, revolutionise), according to the company's latest annual report.

This means drawing up plans to "strategically enter new, developed and fast-growing economies and forging more partnerships to drive growth", the company said. It's also working on consolidating its presence and increasing its market share through network expansion, brand-building and focusing on retail finance in its top six markets — Bangladesh, Sri Lanka, Nepal, Nigeria, Colombia and Guatemala.

Weakening of most currencies against the dollar and persistent inflation may play spoilsport for Indian two-wheeler makers

Compared to Bajaj Auto, TVS Motor and Royal Enfield, Hero MotoCorp has been a late entrant in export markets. This was primarily because the erstwhile Hero Honda joint venture could not export motorcycles beyond the Indian sub-continent as part of its agreement with Honda Motorcycles. It was only after the 26-year partnership with the Japanese two-wheeler maker came to an end in March 2011 that Hero was able to consider exports beyond the region.

After years of struggle, intense competition from homegrown peers, Japanese and Chinese manufacturers, Hero has been able to make some headway. Hero's exports jumped 57 per cent year-on-year in FY22 to 300,624 units against 191,609 units.

Last year, it started retail sales in Mexico and introduced an extensive portfolio of products as well, as in Argentina and Nicaragua. It has also strengthened its presence in the strategically important Gulf region by expanding the dealer network there. For Nigeria, it has launched the "Hunter", a motorcycle developed especially for that market.

TVS Motor, under Sudarshan Venu who was recently appointed managing director, has also made rapid strides in the export markets. The company exported 190,000 two-wheelers, a year-on-year growth of 43 per cent. During the year, TVS designed, developed and produced four motorcycle variants for specific segments of its international markets.

Royal Enfield is yet another two-wheeler brand that has seen its overseas brand acceptance grow steadily. "Our international business has been performing exceedingly well over the last few years and we have witnessed a strong growth momentum in markets outside India," a company spokesperson said, adding, "Over the past five years, we have invested hugely in growing our retail infrastructure across the world. Starting from one store in a city, Royal Enfield presently has over 150 exclusive stores and more than 660 multi-brand outlets in over 60 countries around the world."

In Thailand, Royal Enfield featured among the top three brands in the mid-size segment and was the top-selling motorcycle brand in New Zealand for June 2021 in the 250-1000 cc category. Its European market has grown 11 per cent in the past five years. "In the Americas (North America and Latin America), our sales have doubled almost every year since 2016, with a CAGR of over 70 per cent over the course of the last five years," the spokesperson said.

Africa and Latin America, where Bajaj Auto and TVS are early movers, are the two regions that have remained favoured export destinations and are expected to do well in the mid to long term. The duo accounts for 55-60 per cent of the exports from India, said CRISIL's Thakkar. The two-wheeler exports will easily achieve a compounded annual growth rate of 8-10 per cent over the next 5-7 years, he added.

Not everyone is as optimistic. "Most of the Latin American and African countries are struggling due to currency depreciation and high inflation. This will impact local demand and hence could impact exports adversely," said an analyst at a brokerage. Indeed, the weakening of most currencies against the dollar and persistent inflation sweeping the globe may play spoilsport for Indian two-wheeler makers as they seek to rev up their international business.