TATA MOTORS

"Tata Motors Limited Conference Call"

February 14, 2013

TATA MOTORS

HSBC

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY13 Earnings Conference Call of Tata Motors Limited hosted by HSBC securities and capital markets. As a reminder all participants' line will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Yogesh Aggarwal. Thank you and over to you Sir.

Yogesh Aggarwal: Hello everyone. Thanks for joining the Tata Motors Q3 FY13 the call today. We are glad to have with Mr. C. Ramakrishnan, CFO Tata Motors and his team to discuss the results. Sir, over to you for further proceedings.

C. Ramakrishnan: Thank you Yogesh. Good evening or good morning everybody. To start of the call, I will quickly go through the presentation that we have put together for this earnings announcement and we can follow with question and answers later on.

At the consolidated level for this quarter Tata Motors consolidated reports in total Net Revenue of around Rs. 46,000 crores up from Rs. 45,000 crores in the same quarter last year and cumulatively for nine months period around Rs. 1,32,000 crores up from Rs. 1,14,000 crores in the same period last year.

EBITDA margin for this quarter came in at 13.3% down from 16% in the same quarter last year and 13.7% cumulative for the nine months period this year compared to 14.4 in the same period last year.

Profit after tax we report a PAT of around Rs. 1600 crores compared to Rs. 3400 crores in the same period last year and for the nine months period around Rs. 5900 crores down from around Rs. 7200 for the nine months period last year.

At a consolidated level, the total capital expenditures and product development expenses stood at close to around Rs. 14,000 crores that includes Tata Motors and Jaguar Land Rover. Again, at a consolidated level, net automotive debt-to-equity ratio stood at 0.37:1.

Coming to Tata Motors standalone, India operations, we have a phase with a very weak operating environment and weak macroeconomic situation in the country and with intense competitive pressures and the pricing pressure on the products increasing marketing spend. The medium and heavy commercial vehicles volumes are affected significantly.

The net revenue was around Rs. 10,000 crores for this quarter compared to around Rs. 13,000 crores in the same period last year. For the nine months period, the Net Revenue was around Rs. 34,000 crores compared to around Rs. 38,000 crores for the nine months in the previous year.

EBITDA margin took a sharp drop at 2.2% compared to 6.7% in the same quarter last year and for the nine months period; the EBITDA margin saw a similar drop at 5.2% compared to 7.5% last year.

At profit after tax level, this quarter we report a loss of around Rs. 450 crores compared to a modest Rs. 174 crores profit last year. For the nine months period, the profit after tax was Rs. 614 crores this year compared to Rs. 677 crores in the same nine months period last year.

Just to clarify, this year first nine months 614 crores PAT includes dividend that we received from Jaguar Land Rover which was around Rs. 1300 crores in Q2 FY 13.

In Tata Motors, the product development and capital expenditure for the nine months period was around Rs. 2,000 crores and net debt-to-equity ratio has gone up slightly and stood at 0.89: 1.

Jaguar Land Rover, while I run through these numbers, just to caution, only the Jaguar Land Rover numbers that I read out now are computed under IFRS reporting. Jaguar Land Rover net revenue stood at around GBP 3.8 billion for this quarter compared to around GBP3.7 in the same quarter last year and cumulatively around GBP10.7 billion for the nine months period, compared to around GBP9.3 billion last year.

EBITDA margin came in at 14% this quarter, down from 17% from an exceptionally strong quarter we had last year this time. For the nine months period, the margins are more comparable. For the nine months period, the EBITDA margin for Jaguar Land Rover was 14.4% this year compared to 15.2% in the nine months period last year.

Profit after tax, Jaguar Land Rover GBP 296 million compared to GBP 393 last year and for the nine months period GBP 837 compared to GBP 785 last year. We have cash and liquid funds in Jaguar Land Rover balance sheet, which crossed GBP 2 billion at the end of the quarter and product development expenses and capital expenditure in Jaguar Land Rover for the nine months period stood at around GBP 1.5 billion. For this period, post the capital expenditure spends, we generated positive free cash flow of close to about GBP 100 million.

Going a little bit into the India business, medium and heavy commercial vehicles; our market share in the overall commercial vehicles continues to improve sequentially quarter-on-quarter sequentially and for Q3 this year, our market share stood at 62.6%.

Talking about different segments, the medium and heavy commercial segment was affected quite significantly in terms of overall demand, which affected our sales as well. Low freight availability driven by sluggish economic activity, weak macroeconomic outlook and high operating costs of the operators affected the demand quite significantly.

Our growth in volumes in commercial vehicles was mainly driven by Ace and the small commercial vehicle volume. We are focusing on our network expansions, offering value-added services to our customers and intelligent vehicles and new product introductions in our Commercial Vehicle business.

Passenger car saw a quarter of intense competitive pressure. Our overall market share in passenger vehicles stood at 10.1% for the period till December. Our recent product introductions like notably the Safari Storme has been received quite well and based on the early signals, we expect the most recently launched Indica Vista D90 will also be received quite well.

We have initiated several actions in our Passenger Vehicle business for transformation of the business to enhance our dealership experience effectiveness. We will continue to focus on new product and various introductions and enhance sales and service experience for our customers.

During the quarter, we also saw strong retail sales which did not reflect in our wholesale as we went through some inventory corrections both at the dealer end and at our end during this quarter, which affected our wholesale numbers in passenger vehicles a little more than the earlier quarter.

For the India business, exports from India also saw a decline about 17% in this quarter. Export volumes came down to about 12,000 units compared to about 14,000 units in the same period last year and similar drop to about 13% for the nine months period. While we did reasonably well in some of our markets like Nepal, Thailand, South Africa etc, our strong volume markets like Sri Lanka, Bangladesh continue to decline.

Turning to Jaguar Land Rover, we saw an exceptionally good quarter this year, volumes up about 18% cumulatively for the nine months period and about 10% for this quarter. Range Rover Evoque and Freelander drove the volume growth mainly and in terms of region; China continues to grow quite strongly with over 50% year-to-date growth.

In this three months period, China accounted for about 21% in terms of our overall global sales volume, followed by Europe again, about 24%, North America about 19%, U.K. about 15%. The share of China region has further grown from Q3 of last year to Q3 of this year from 18% to about 21%.

Our 2013 model year products including the XF Sportbrake, All-Wheel Drive, smaller engine derivatives of XF and XJ and the recently launched new Range Rover have been received very well.

Some of the highlights in Jaguar Land Rover, as I said earlier: Revenue of GBP 3.8 billion reflecting strong demand for our products. EBITDA margin at 14%, which is in line with the recent quarterly performance, but lower than an exceptionally strong quarter a year ago, mainly influenced by product mix, continuous effect of slowly creeping up marketing costs compared to the levels which were exceptionally low in Q3 of last year.

Cash and bank balances and liquid investments stood at about GBP2.1 billion. In addition, we have unutilized but committed facilities close to about a billion pounds, aggregating to a very good liquidity pool.

In Jaguar Land Rover, we launched and completed a very successful 10-year bond offering of $500 million priced at 5.625% per annum. Our work, on building the engine plant in U.K. continues and during this quarter, we laid the foundations for our joint venture in China with Chery.

The entire presentation has been uploaded on the website. So I'll keep the slide on just to touch some of the highlights. Our vehicle-financing subsidiary in India Tata Motors Finance reported good earnings. PAT for the quarter improved to about Rs. 84 crores for the quarter in Tata Motor Finance compared to Rs. 71 crores in the same quarter last year.

Our IT and engineering subsidiary company in India Tata Technologies again reported a strong performance. PAT coming at Rs. 75 crores compared to Rs. 58 crores in the same quarter last year. Our Korean subsidiary in commercial vehicles, Tata Daewoo Commercial Vehicles which reported negative performance last year in this quarter turned and reported marginally positive numbers in this quarter, about 0.59 billion Korean won PAT. TML Drivelines which is our heavy axles and transmission subsidiary in India reported similar decline in profit and profit after-tax coming in at Rs. 12 crores, compared to about Rs. 60 crores in the same period last year, which is reflective of the lower demand in medium and heavy segment.

Going forward, we continue to see the external environment and the overall economic activity to remain stressed, resulting in overall demand continuing to remain under pressure and this is particularly true for the medium and heavy-vehicle segments.

The outlook on small commercial vehicles continues to remain strong and easy growing numbers there. Competitive intensity will increase, which will add further pressure to the marketing expenses.

From the company point of view we will continue to leverage on our strengths on the Commercial Vehicle business, a very strong understanding of the domestic market requirement, a very wide and compelling product portfolio, strong brand and customer support, widespread distribution networks and large economies of scale in this business.

We will continue to update our products, provide value-add services and solutions for our end customers. In passenger cars, I shared with you some of the underlying activities that are happening in the business in transforming and turning around our performance in passenger car, which has been under pressure for many quarters now. Many initiatives under aggressive implementation, which includes regular product refresh plans which are in pipeline, improving the customer experience and engagement, further expansion of the distribution network and significantly improving its effectiveness and efficiency and managing our cost and quality performance, much better than we have in the past.

In Commercial Vehicles and Passenger Car business, some of the new products in pipeline for the Financial Year ‘13 include further variants from our Prima range of trucks. The new Light

Commercial range of trucks branded the 'Ultra', variants on the Ace platform, variants for the Nano and refreshed car models, which will be across the car portfolio.

We will continue to focus on extending our export potential for the products. On the cost side, we expect material cost and commodity cost to be under control in the coming quarter. For the company of course, cost optimization, cost reduction efforts will be further aggressively pursued.

Coming to Jaguar Land Rover, our investment in capex, new technologies and product pipeline will continue. Last month when we made the bond offering, we had given an increased guidance on our capital spends. You may recall, we had mentioned earlier, our annual capital spend will be in the region of GBP 2 billion with near opportunities that we see in Jaguar Land Rover and more aggressive product plans and need to invest in enhancing our capacities. We expect in the coming years, our capital spend is likely to be in the region of GBP2.75 billion.

We will continue to focus on profitable volume growth and we will continue to balance production and sales to keep the inventories and our activities in check. I'll stop here and throw the line open for questions. Yogesh, back to you.

Yogesh Aggarwal: Yes, Shyma, can we start with the Q&A please.

Moderator: Participants we will now begin with the question and answer session. We have the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: First on, MHCV volumes, we have seen a dip in market share this year compared to last year and in some of the months like January it has been even below 50%, so is it related to inventory correction or is it related to growth or decline in volumes in markets where Tata Motors is stronger, how would you explain that and what is the plan to gain back the share?

C. Ramakrishnan: I think you have touched on the two factors, which are both, important, I think there is a play of both. Inventory correction is not so much at our end, our inventories have been under control in the Commercial Vehicle business, but there could have been inventory correction in some of our competitions and there is a regional play as well. We expect that we will maintain the market share and come back to the market share we had earlier, in the coming quarters.

Kapil Singh: Sir, in retail you would have around 60% kind of a share?

C. Ramakrishnan: I don't have the number right now readily here,.

Kapil Singh: Secondly, as far as profitability is concerned for M&HCVs or even for that matter for LCVs, is there an increase in competitive intensity and when the market recovers, do you think we will be able to get back to historical level of margins that we used to see two or three years back, or do you think that because of higher competition the margins maybe a tad lower than what we were seeing earlier?

C. Ramakrishnan: It is difficult to predict on the margins given where we are today. In general, I would say, there is a bit of a pressure on the margins for everybody, and definitely in our case, due to the competitive intensity we face not only in the commercial vehicles, but also the passenger cars in particular, it will tend to increase the marketing cost, particularly the variable marketing expenses. I think it will be a tactical play from quarter-to-quarter. But in terms of an underlying long-term trend, I think margins will be somewhat under control.

Kapil Singh: Okay and finally, has there been any price increases or reduction in discounts that has happened in January or February?

C. Ramakrishnan: During the quarter, October to December, on an average in commercial vehicles we would have taken a price increase of about 1%, , and we did so, in January as well. So, we have been taking general small doses of price increase from time-to-time, as we have done in the past in the Commercial Vehicle business. Discounts, I am not seeing any particular reduction in January, February compared to a quarter ago. It remained intense.

Moderator: Thank you. We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, first, I have a question on the JLR front, why have the realizations dropped like 6% on Q-on-Q basis? Was it driven mostly by discounts? We know that there is a higher mix of Evoque and Freelander also, but what was the extent of discounts and if you can detail out that? Secondly, the margins have come up quite well at around 14% despite realizations dropping so much, so can you give some color on that as well.

C. Ramakrishnan: The realization has been mix of many things, including regional mix, and model mix, and variants mix as well as exchange. I will focus more on the margins, which as you have said, have remained reasonably strong compared to the sequential quarters. It is difficult to comment on net realization mix. It is a function of many things, but not necessarily reflective of any significant increase in this current quarter, Variable Marketing Expenses. They have been on the increase, in general, I would say over the last year, but nothing exceptional or strong in this quarter.

Hitesh Goel: Sir, would we say that this is largely driven by higher Evoque and Freelander volumes?

C. Ramakrishnan: That is right.

Hitesh Goel: Because the geographical mix for China and all remains the same, so I can only think about product mix?

C. Ramakrishnan: Yes, it a more a model mix and within the model may be the variant mix.

Hitesh Goel: But then margins should also have got some impact but there is no impact on margins front and also if you can give some outlook for next quarter per se that would the marketing cost and stuff will be much lower next quarter as compared to third quarter levels and how do you see currency shaping up for fourth quarter?

C. Ramakrishnan: On currency shaping up for fourth quarter, maybe I should take an average of predictions from all the analysts in this meeting.

Hitesh Goel: Sir, because the currency has started to move in your favor in January, February, that is why I am asking that question?

C. Ramakrishnan: That is true. There will be some play of that in the coming quarter, but generally I would say margins will remain strong at the current level.

Hitesh Goel: But the marketing expenses, will it go down or do you see more marketing expenses?

C. Ramakrishnan: I do not see a significant change either way.

Hitesh Goel: Finally, Sir if you can throw some light on the tax rate and the depreciation expenses that have gone up in JLR and tax rate in the consolidated is around 39%, so if you can give some color on that?

C. Ramakrishnan: JLR, if you recall, last year in March we brought in the deferred tax accounting and took credit for the future deferred taxes. Therefore in JLR, we will be fully accounting between deferred taxes and current taxes we will be fully accounting for the tax as an expense item in P&L. So there is a difference in tax treatment in JLR, which I think we explained in the last two, three quarters. In addition to this, I recall, during this quarter JLR also had a tax incidence on the dividend it started getting from various overseas operations.

Hitesh Goel: Sir, JLR tax rate is at 27% and I am talking about the consolidated tax rate, which is at 39% despite a tax credit in the standalone operation. So we are not able to understand that.

C. Ramakrishnan: That is primarily driven by the JLR tax. JLR has tax both in U.K. even though the cash payment of tax in U.K. is low and overseas operations. I think we had explained in one of the earlier calls, JLR in all its NSE operations will have to pay the local income tax on its local assessment including in China.

Hitesh Goel: So that has already been factored in JLR operations, right, but if we look at the consol tax rate it is like 39% versus JLR tax rate of 27%. There is some Rs.240 crores difference even if I translate…

C. Ramakrishnan: Maybe we can send the details to you offline after the call.

Hitesh Goel: Okay Sir. The depreciation expenses in the JLR front, how should we look at that now if you can explain that?

C. Ramakrishnan: Depreciation expenses in JLR, depreciation, amortization in general in JLR will keep going up as a line item. As you know, post when we acquired and whatever product development and existing expenses have been capitalized in JLR, as the new models get launched and we do have aggressive model and product introduction plan going forward, so you should see this expenditure going up in the coming quarters.

Hitesh Goel: Sir, how should we look at 90 million to 100 million pounds increase every year, it is difficult to give an estimate, but how should we monetize the capitalized R&D expense? Should we do it over a 10-year period? How are you looking at it?

C. Ramakrishnan: In general, I would say over a five to seven-year period.

Moderator: Thank you. We have the next question from the line of Pramod Amthe, CIMB Securities. Please go ahead.

Pramod Amthe: Currency has seen a lot of fluctuation. Would you like to reveal whatever hedges and at what levels for JLR especially?

C. Ramakrishnan: In terms of currency hedges, I can give you a general directional comment in terms of the hedging policy or principles that we follow. In any particular quarter, the immediately coming quarter we would remain mostly hedged upwards of 80%, 90% and successfully lower percentage in terms of our hedge position for the succeeding quarters. We normally go up to two to three years with lower and lower percentages.

Pramod Amthe: So, is it fair to say that the benefit which you have seen in the last couple of weeks on the currency will not immediately flow through and it will be more back-ended?

C. Ramakrishnan: It will be more gradual over a period of time.

Moderator: Thank you. We have the next question from the line of Vijay Nara, Fortune Financial Services. Please go ahead.

Mahantesh Sabarad: This is Mahantesh Sabarad here. I just ask you this question. One, on the tax guidance JLR, I understand the corporate tax rates are coming down year-over-year by one percentage points. So what would your tax rate be in FY'14 as far as JLR is concerned?

C. Ramakrishnan: I cannot give you an answer offline. But Mahantesh, I can let you know later on.

Mahantesh Sabarad: Corporate tax rate in U.K. has been reduced, can you confirm that at least between FY'12 to FY'13 and it will reduce further in FY'14 again. They also follow, for tax purposes, the April to March calendar year. Can you confirm that?

C. Ramakrishnan: It has come down, but in JLR, accounting terms, between deferred tax and cash tax, you will be almost at the marginal rate.

Mahantesh Sabarad: Okay and related to that same tax question, you happen to mention that the various JLR subsidiaries are giving dividends to the parent in U.K. So it will receive dividend income tax free to itself, right?

C. Ramakrishnan: In U.K.?

Mahantesh Sabarad: Yes.

C. Ramakrishnan: Yes. That is right.

Mahantesh Sabarad: That would mean the overall tax rates in JLR should actually come down also on account of this?

C. Ramakrishnan: No, but there will be tax correspondingly in NSE's' other income.

Mahantesh Sabarad: But that is a dividend distribution tax that would be typically a lower rate than the corporate tax rate?

C. Ramakrishnan: Dividend distribution tax or the income tax on their profit, whichever is applicable in the country.

Mahantesh Sabarad: I just wanted to understand a bit more on the marketing spends that you have mentioned as being higher, the launch expenses especially for the new Range Rover. So can you quantify how much is that for the quarter?

C. Ramakrishnan: It is difficult to quantify for a quarter, the discounts on the marketing expenses. I have been giving you a directional thing. If you take the last one-year, particularly, compared to Q3 of last year to Q3 of this year, we are talking about a very exceptional strong quarter last year, October to December compared to this. In these two time periods, I would say the marketing expenses have generally been on the increase.

Mahantesh Sabarad: I am referring to the launch expenses that have been talked of?

C. Ramakrishnan: Overall, in terms of marketing expenses, I would say it would have increased by about a percentage point.

Moderator: Thank you. We have the next question from the line of Sanjeev Dhingra from Myriad Asset Management. Please go ahead.

Sanjeev Dhingra: Can you reconcile Indian GAAP with IFRS as far as JLR is concerned?

C. Ramakrishnan: That is a tough one in this call, but we will be able to help you separately, because earlier I have noticed when we report Indian GAAP for Jaguar Land Rover, people used to find it difficult, because Jaguar Land Rover was reporting separately IFRS. I was asked to reconcile the other way round, and then we said, as far as JLR is concerned, we would report consistently everywhere and share with you the IFRS results. So I do not want to start the story all over again this time the other way round, but if you are keen we can have it exchanged with you separately.

Moderator: Thank you. We have the next question from the line of Ritesh Gupta from JP Morgan. Please go ahead.

Aditya: This is Aditya here. Just on the Indian commercial vehicle business. Are you expecting the demand in the northern markets to pick up because I believe that is where currently we have seen some sort of weakness?

C. Ramakrishnan: Frankly in the commercial vehicle business and that is not only true for Tata Motors, I think overall from market point of view the signals are quite weak and it is linked so much to the external economic environment, economic activity infrastructure investment, capacity creation in the country, the industrial capacity creation in the country etc., all of which are under somewhat of pressure or showing lack of activity at this point of time. Rather than giving a time related answer, I would say if the government re-charge some revival programs or start taking some major decisions, actions to tone up our revived the economy even then I would think it will take at least a quarter or two to work its way to the system and start reflecting in medium and heavy truck demand.

Moderator: Thank you. We have the next question from the line of Rajasa K from Jefferies. Please go ahead.

Govind: Govind here. I had a couple of questions. The first one was can you talk about trends in variable marketing expenses in JLR. I mean you had mentioned that discounts are creeping up now. I guess that is partly to do with a model change but it is also to do with discounting across the entire portfolio. Could you just speak about how the variable marketing expenses have changed?

C. Ramakrishnan: That is true. I think it is a play of both. You will find the new model comes and the old model tends to be run out a little faster particularly at the dealer end. It does not necessarily mean the model run out, many times it may be at the dealer end and may not flow back to the manufacturer. Rather than quarter-to-quarter, I would say year-on-year compared to this of course we must keep in mind that last year October-December was particularly strong quarter where we saw historically low levels of some of these expenses. Compared to this if I take a 12 months span I would say overall increase of about 1% in our total marketing spend at a rough guess I would say equally distributed between variable marketing and fixed marketing.

Govind: Okay so it is a combination and when you say fixed marketing general assumption is that there is one time cost because of Range Rover launch. Would that be a fair assumption to make?

C. Ramakrishnan: It would be a fair assumption except considering our aggressive product plan in the past year or in the coming quarters. I do not know how much comfort to say that it is a one time. It will be a one time for every quarter.

Govind: Okay the reason will be different?

C. Ramakrishnan: In each quarter may be different but given the product program, which we have shared with all of you for Jaguar Land Rover in the coming period, I do not know there is too much comfort in saying it is one time.

Govind: The other confusion that I have and I do not know if other analysts have this is: the reported percentage margin is a mirage I mean it is a derived arithmetic number but if I look at you profit per car this is from the time you started reported quarterly numbers it is probably the second lowest or at least since Q1 the IFRS numbers at least since the second lowest. Now there was a comment by JLR CFO that margins will be at 14%. Now that 14% has relevance only if you know what is the realization is going to be and which is the mix of a million things. So how should we think about this? I mean should be think about profit per car remaining where it is for the next few quarters as he has guided or it is 14% of an unknown number?

C. Ramakrishnan: It is convenient for me to say if the 14% of an unknown number. First of all I think what may be the press might have reported and what was said was the question that was put across short while ago was in the same period last year we had almost 17% margins and this time we are talking more about 14%. There is a question on the sharp drop and will we get back to 17% etc., to that Ken had responded saying that 17% was an exceptionally strong quarter and it is not appropriate to compare or target that as a steady margin. Margins will be more steady state in this region. I do not think he picked a number and margins will be at 14%. I think directionally in terms of range I think we are at the current range, which is more realistic rather than 17%, which was a combination of several things last year. That is the context in which the response was given.

Back to your other question, which is profit per car, I cannot, on this call, contest whether it is the second lowest in recent history because I do not have the numbers right in front of me. I am finding it a bit difficult to explain margins and predict margins every 90 days. It is a combination of far too many things. If you take the next few years as our product launches happen and we have many, many more models in the market place than we have had historically and in the same time we have lesser platforms the per platform extraction of value in our entire product strategy improves significantly. That is the major play on the margins. In this business you will have a positive influence on account of operating leverage as our volumes increase. Then our regional factors like China and other more attractive regions growing much sharper than other regions and so number of things in which margins can be improved in a business like Jaguar Land Rover apart from operating efficiencies, material cost reduction and internal efficiencies, a lot of this can also be affected on the negative side with marketing spend, launch cost, marketing discounts, which are more of function of how the market is behaving at a particular point of time. So every quarter it is becoming difficult to have this margin discussion in detail, but generally I would say the 17% was more of an exception where we are today we would hope to improve on it but I cannot give a guarantee that will be always support. It is a long-winded answer to your short question.

Govind: The other question I had was in January when you guided for the margins and higher capex. There was also this statement that you expect free cash flow to probably be negative next year. Now I just wanted broad assumptions that go into that statement, because I am assuming that when management made the statement you are fairly aware of the strong growth that we saw in January in the retail volumes and wholesale volume of JLR and probably had expected a similar runrate for the next year as well. So you have a very strong volume runrate. You have a fairly rapidly improving mix. Both in terms of product portfolio as well as geographic portfolio and you still expect a 2.75 billion pounds of capex and R&D, free cash flow to be probably negative. So I am just a little confused there.

C. Ramakrishnan: I think our guidance was also to some extent based on the fact that we are increasing our spend from 2 to GBP2.75 billion, which is the other broad assumption you need to keep in mind while there are a lot of positive factors that you talked about in terms of volumes or mix and the region growth and strong January outlook that we had at that point of time, but to base the3 next 12 to 15 months cash forecast based on one 15 days or 20 days spend in January would have been somewhat inappropriate. Secondly, it could also be affected due to pressure on margin. We operate in several different geographies. I think ours was the balanced one that there is a probability that the cash flow could be negative particularly because the capital spends is increasing quite sharply year-on-year.

Govind: Lastly, was there any assumption of working capital change? Because I think for the first time in many quarters we have seen some deterioration in working capital in JLR?

C. Ramakrishnan: Working capital did play a role in this quarter, but I do not think that plays a very major role in the negative cash flow for next year. It is almost remaining flat.

Moderator: Thank you. We have the next question from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Sir my first question is on the domestic passenger vehicle business. We were looking at targeted dealership for particular products and may be the UV segment. So how are we moving on those plans? How many dealerships have we added in those categories?

C. Ramakrishnan: You are talking about the exclusive dealerships? Nano exclusive and UV exclusive?

Sanjay Doshi: Yes Sir.

C. Ramakrishnan: I am quoting some numbers of my memory. We have over 100, nearly 150 plus in terms of Nano exclusive dealership across the country and about 30 to 40 UV dealership.

Sanjay Doshi: How do we plan to take it forward from here Sir?

C. Ramakrishnan: What we wanted to achieve was to see if we could provide a more focused experience in these dealership for the particular product line, particularly in localities and regions where the attraction is for that particular product. For example, Nano in more interiors, etc., I think we have to see the experience and the business model in each of these dealerships and see how we can take it forward. We would like to take it forward further, but we also need to see how and what type of experience, both from a business point of view and from the customer point of view, how it takes shape. It has proved to be quite positive and there is a chance we will improve on it further.

Sanjay Doshi: Sir on the passenger car business in particular is there any market share target that we have in our mind maybe for the next three years time period from the current 10%?

C. Ramakrishnan: Passenger car not very long ago,if I take two to three years ago, I think we had gone up to 16% to 17% market share. There is no reason why we should not reach there or go beyond.

Sanjay Doshi: Slide #19 does not mention any new model launch it is mentioned about refreshers so is the passenger car segment not working on any new models?

C. Ramakrishnan: This slide is more meant for the near term.

Sanjay Doshi: Last on the JLR side just wanted to understand what is the current man-capacity. I mean the kind of production that we expect on an annual basis now and what can it be there for the next year?

C. Ramakrishnan: I am not going to respond on the next year potential capacity. Current year, if you take, for example, about the last quarter of last financial year, I think we did close to about 90,000 – 95,000 vehicles for the quarter. If you take that on an annualized basis, the capacity would have been about 360,000/ 370,000 vehicles for this fiscal year and we have been investing further in expanding and creating further production capabilities across our plants. I think you may have heard the reports Ken mentioned a short while ago, that in many of our facility, across the three factories we are running nearly three-shift or two-shift operations across all three facilities. So we are running practically full up on capacity and then the runrate of last quarter, 360,000/ 370,000 vehicles is thereabouts where we are today. But, of course, we are working on increasing it on an ongoing basis.

Moderator: Thank you. We have the next question from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.

Vishal Saraf: Sir, just wanted to understand more on the CV business. Last time we saw such a sharp down cycle in FY '09 where we saw similar kind of decline for two quarters in M&HCV segment. But at that point of time, we saw significant price increases led by Tata Motors and margins rebounded sharply from around 2% level to 1% to 2% to back to 10% in just two quarters. This time again margins have slipped down to below 2%. So when do you think we can see volumes come back and pricing come back for us and that translating to better margins?

C. Ramakrishnan: I have tried to answer this in many different ways. If you are talking particularly in terms of medium and heavy commercial vehicles, it's not that from Tata Motors we have a magic wand and the volumes go up. It is extremely dependent on external macroeconomic conditions, the industrial output in the country, the capacity creation in the country, the infrastructure, mining activity and so on. Current quarter is looking no different. It is continuing to be somewhat damp in terms of overall demand at the industry level for medium and heavy commercial vehicles. I think a lot would depend on the tone and outlook externally, how it changes and once we see some actions, and specific projects, and steps, and policies, and thesethings falling in place given a couple of quarters, I would expect the volumes should start to improve, the overall demand to improve. I am afraid I cannot give you more…

Vishal Saraf: Sir volumes **will** be difficult to predict but how do you see the scenario on the pricing and margin side because that is where being the leader possibly Tata Motors would be the one to take the call first?

C. Ramakrishnan: In terms of product pricing, we have been on an average increasing the price across our range by about 1% each quarter, that trend will continue. But given the market situation and the volume and the overall demand situation, I think the competitive pressure, and the variable marketing, and the discount levels are running quite high today. So I think the net margins will continue to be under pressure for some time.

Vishal Saraf: You do not see a scenario where the discounts reduce going ahead, if the volumes remain at these levels?

C. Ramakrishnan: At least we have not seen it so far in January and February.

Vishal Saraf: Sir, in an earlier question, I thought you were mentioning about retail market share being higher against wholesale, can you just elaborate more on that point and has that actually happened because of dealer inventory reduction or if you could throw some more light on that?

C. Ramakrishnan: Our dealer inventories have been under control steadily for the last few quarters. We have not seen dealer inventory going up in the past nor is there any sharp reduction currently taking place, so our dealer inventories and therefore our wholesale and retail mix has been fairly balanced consistently in our Commercial Vehicle business. But if you are talking about market share, we are talking about relative performance in reference to the market and competition. There has been some mismatch and inventory correction also.

Vishal Saraf: For us, there is no inventory correction, so the market share will be there only if there is a huge built up in dealer inventory by competition. So do you think that is what has been happening?

C. Ramakrishnan: To some extent yes.

Moderator: Thank you. We have the next question from the line of Amit Kasat from Standard Chartered. Please go ahead.

Amit Kasat: CR, if you can give us the capacity utilization for the domestic business for the different segments that will be helpful.

C. Ramakrishnan: If I start on the commercial vehicle side, we continue to remain quite high in terms of small commercial vehicle range in terms of capacity utilization. In fact, I think I had mentioned in one of the earlier calls, we are investing in expanding the capacity further on the Ace and its family. So the capacity utilization is very high in that part of the business. Medium and heavy commercial vehicles, where our capacity utilization was at about 70% plus the earlier has fallen to more like 50%, 55% now if you take on the current runrate, in passenger car vehicle and passenger and utility vehicles it remains on average at around 50%.

Amit Kasat: 50% right? Is it possible for you to give the capacity utilization for the Nano plant?

C. Ramakrishnan: Nano will be somewhat lower. We created capacity on an average about 25,000 per month. You know our current runrate that is lower than the average that I talked about for the Passenger Vehicle business.

Amit Kasat: Sir, I am just extrapolating about the M&HCV plant, right now in the third quarter, our utilization was 50%, 55% and if the fourth quarter happens to be the similar or a disaster that is what the outlook is. Any sense you can give of what is the breakeven for that plant?

C. Ramakrishnan: That is not very easy to define in terms of breakeven point for a particular segment of the business. I would stay away from that.

Moderator: Thank you. We have the next question from the line of Pramod Kumar from IDFC Securities. Please go ahead.

Pramod Kumar: Sir, my first question was a clarification on your treatment of incentives and commissions at JLR. Just want to understand are they set off from the net sales for respective models or are they part of the other expenditure line?

C. Ramakrishnan: The variable marketing expenses, incentives, commissions, etc., are reduced from the topline.

Pramod Kumar: The fixed marketing spends will be in the other expenditure?

C. Ramakrishnan: That is right.

Pramod Kumar: Sir, just an outlook on your standalone capex, because you did mention that you have the aspirations of getting back to 16% market share in PV and also need to prepare for increasing competition at M&HCV. So just want to understand is there any upsizing of the capex of standalone entity as well?

C. Ramakrishnan: No. My earlier indication was on an average we would spend about Rs.3000 crores in the domestic business on new product investment, technologies and capex. Our guidance would remain broadly the same, year-to-year it may vary between Rs.2500 crores and Rs.3000 crores, but it will be in that range.

Pramod Kumar: Sir, on China, just wanted to understand, what is the current dealership count what we have on JLR and what is the target by this year end in terms of number of touch points?

C. Ramakrishnan: In terms of touch points, in terms of number of dealership, it will be well over 100 today about 120 and 130, but if you talk about touch points, dealership may have more than one locational operation I think to be much closer to both.

Pramod Kumar: In that case, what will be the year-end dealership target, Sir? The current 120, 130, or what is the target you have for the year-end? I just want to understand how much of the market is yet to be tapped in terms of interior China?

C. Ramakrishnan: Sorry, I do not know that I have a number ready for you to give you in terms of target before the end of the year for number of dealerships in China.

Pramod Kumar: But we continue to look at expansion in terms of number?

C. Ramakrishnan: Of course.

Pramod Kumar: Final question on the group consolidated cash flows. How would you see them for the next couple of years, considering the capex upsizing in JLR and the current slump in the domestic business?

C. Ramakrishnan: I think cash flow will remain somewhat under pressure and I think we have already said that with the increase in JLR, JLR business could see some possibly negative free cash flow. The domestic business I expect the business will turnaround at some point of time with the external economic improvement. We remain fairly okay in terms of overall balance sheet, leverage and borrowing. We are under one in terms of debt-to-equity ratio, even at the consolidated level we are at 0.37:1 and in domestic business; we are at about 0.8:1, which is slightly higher than where I would have liked to see it. But in terms of overall leverage and liquidity, we are fairly okay.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Edelweiss Securities. Please go ahead.

Ashish Agarwal: This is Ashish Agarwal here. Sir, my question is, first, with respect to some news article that we had seen, saying that, since we are cutting the production, the vendor health, the vendor financial health is under bit some of our question and there could be some support program that we may run for them. Could you through some light on this, sir?

C. Ramakrishnan: You are obviously talking about the domestic India business?

Ashish Agarwal: Yes.

C. Ramakrishnan: In India, our vendor base has been there with us for sometime, many of them are completely reliant or significantly reliant on us for their business. It is a relationship that has remained strong over a period of time. In ups and downs in the business, we have worked together. So when the whole market is down and everybody is under pressure, if there is any specific support or help required at the vendor level, we will definitely extend that. It does not necessarily mean that a financial package is being put together or whatever. In many cases we work with the vendors to help them to reduce cost or help them improve quality or help them improve their operating efficiencies etc., and such help and collaborative working with the vendors will always be there.

Ashish Agarwal: So it is not a financial package, it would be more in terms of process improvement?

C. Ramakrishnan: It may take different shapes on a case-to-case basis, there is no major announcement I have to make, it will depend on a case-to-case basis. We are faced with an extraordinary situation in the external environment, the whole industry is severely affected and our Medium and Heavy Business is affected. In Passenger Car, we see a competitive intensity and low volume and across the board for most manufacturers, relatively low levels of capacity utilization. Naturally in terms of the backward process, the supply chain is affected. I think all manufacturers including Tata Motors will have to see how we can find more and more ways of working together with our vendor base.

Ashish Agarwal: My next question is with respect to JLR; I see that raw material cost per vehicle has declined by about 5.1% during the quarter, sequentially. Would this also be because of mix of models and variants?

C. Ramakrishnan: Mix of models, I would slightly expand that is partly a model mix and it could also be regional because we are taking percentage to topline, that can be a function of two, three variables.

Ashish Agarwal: I am deducting my raw material cost with the number of vehicles sold?

C. Ramakrishnan: Yes. So it can again be influenced by any of these factors. So if you sell one product in U.K. versus the same product in China, the percentage could be different.

Ashish Agarwal: My last question is if you could just throw some light on the emission requirements with respect to U.S. So across the fleet where would we be on the weighted-average emissions and efficiency as compared to where we are?

C. Ramakrishnan: Sorry, I don't think I have off-the-cuff answer; I want to be correct in responding to you. I am afraid you may have to drop us a mail or something, so that I can respond exactly.

Ashish Agarwal: Second, sir, from what I understand is that there is a gap in terms of what is required vis-à-vis where we are. This is across the board. Then there are some credits that we may have to purchase, which can be accumulated or the debits maybe accumulated. So how do we account for these emission debits that we may be generating if at all?

C. Ramakrishnan: The question of accounting for it at present does not arise, because across the different regions I do not see a situation where we are buying debits or credits in any significant way to be explaining any accounting impact of this. We are fairly okay in terms of the emission norms in the near-term. The hesitation for me to answer your question is, when you ask specifically about U.S. going forward over the next five, six years, I cannot answer that readily, but we do not have a concern of not meeting the norms or paying penalties at this point of time or in the near-term.

Moderator: Thank you. Participants that was the last question. I would now like to hand the floor back to Mr. Yogesh Aggarwal for closing comments, over to you, Sir.

Yogesh Aggarwal: Thanks for your time today and thanks everyone for joining the call. Have a good evening.

C. Ramakrishnan: Thank you very much, Yogesh. Thanks.

Moderator: Thank you. Ladies and gentlemen, on behalf of HSBC Securities & Capital Markets, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.