"Tata Motors Limited Q3 FY14 Earnings Conference Call"

February 10, 2014

MANAGEMENT: **MR. C RAMAKRISHNAN – CFO, TATA MOTORS LIMITED**
MR. VIJAY SOMAIYA – HEAD - TREASURY & INVESTOR RELATIONS, TATA MOTORS LIMITED
MR. JINESH GANDHI – SENIOR VP, EQUITY RESEARCH, MOTILAL OSWAL SECURITIES LIMITED

Moderator Ladies and gentlemen good day and welcome to the Tata Motors Limited Q3 FY14 Earnings Conference call hosted by Motilal Oswal Securities Limited. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Gandhi of Motilal Oswal Securities. Thank you and over to you, sir.

Jinesh Gandhi Good evening everyone. On behalf of Motilal Oswal Securities I would like to welcome you to this 3Q FY14 post results conference call of Tata Motors. Tata Motors is represented by Mr. C. Ramakrishnan – CFO and the investor relations team. We would like to thank Mr. Ramakrishnan for taking time out for the call. I would now handover the call to Mr. Ramakrishnan for his opening remarks which would be followed by Q&A. Over to you, sir.

C Ramakrishnan Thank you for hosting this call. Good evening everybody or good morning wherever you are joining from. Thanks for taking the time to join us on this results call for Q3 for this year. The financial performance in this Q3 as it has been in the last few quarters has been one of contrast. It continued underperformance in the India business and quarter-after-quarter a very successful and very good performance at Jaguar Land Rover UK. It is a repeat in this quarter of the same phenomenon you have seen for some time now. First at a consolidated level the net revenue for this quarter is about Rs. 64,000 crores up from Rs. 46,000 crores in the same period last year. EBITDA margin consolidated was 16.5% compared to 13.3% a year ago. Profit after tax about Rs. 4,800 crores compared to about Rs. 1,600 crores in the same quarter last year.

Similarly for the nine months period April to December revenue came in about Rs. 1,67,000 crores up from Rs. 1,33,000 crores. EBITDA margin at 15.9% compared to 13.7% and profit after tax about Rs. 10,000 crores compared to Rs. 5,950 crores. At a consolidated level in terms of the balance sheet the net automotive debt equity was 0.19:1. However, on a standalone basis as I said earlier the quarter has been quite depressed in terms of overall market scenario, volumes, demand and cost. The financial results reflect this position. Net revenue came in at Rs. 7,770 crores compared to Rs. 10,650 crores of same quarter last year. EBITDA was minus at Rs. 338 crores compared to Rs. 234 crores in the same period last year. The EBITDA percentage therefore was minus 4.3% compared positive 2.2%. Profit after tax however was Rs. 1,251 crores positive in this quarter compared to negative profit after tax of Rs. 458 crores last year. But this quarter profit after tax was impacted by two major items outside of the operations one is the result of profit on sale of investments which is in the course divestment we have done in Tata Motors standalone in favor of one of our subsidiary companies in Singapore.

In restructuring the holdings in our overseas subsidiary companies in to the Singapore Company I will explain this in a moment. This resulted in certain profit on sale of investments we are still in the process of completing it. Some part of it a much small part of it will come in Q4. The second positive impact was also reversal of tax provisions considering the performance and the huge R&D expenditure tax credit we get, we had tax reversal of about Rs. 600 crores in this quarter. Both this have contributed to profit after tax of Rs. 1,251 crores outside of operations. Operation performance itself at PBT would have been negative about Rs. 1000 crores plus.

Similarly for the nine months period Tata Motors' standalone revenue was about Rs. 25,700 crores compared to Rs. 33,700 crores same period last year. EBITDA this year is breakeven at Rs. 46 crores positive compared to Rs. 1,742 crores positive in the same period nine months last year. Profit after tax after the impact that I mentioned earlier and also the dividend income we received in the earlier part of the year profit after tax of Rs. 1,151 crores compared Rs. 614 crores same period last year. Jaguar Land Rover however had a one more outstanding quarter in terms of performance. Net revenue about £5.3 billion for this quarter compared to £3.8 billion last year. EBITDA was £955 million in the quarter compared to £533 million in the same period last year resulting in an EBITDA percentage of 17.9% up from 14% a year ago.

Profit after tax of £619 million for the quarter compared to £296 million last year. Nine months period Jaguar Land Rover net revenue about £14 billion up from £10.7 billion; EBITDA percentage is 17.5% up from 14.4%. Profit after tax about £1.4 billion up from £800 million for the nine months last year.

In Tata Motors' standalone the net debt equity ratio stands at 0.80:1 and Jaguar Land Rover level the net debt is negative and there the net debt equity is -0.15:1. I am not trying through the detailed presentation page-by-page you will have access to it in the website. Just in terms of highlights on the India business on the business side the commercial vehicles volumes was about 86,000 numbers for the quarter down from 102,000 numbers in the previous quarter that is Q2 of this year and down from 139,000 numbers in the same quarter of last year. Market share overall in commercial vehicles stood at 55.8% across all segments. Passenger vehicles the volumes came down from 35,400 one quarter ago that is Q2 of this year is down to 34,800 marginal reduction but significantly reduced from 53,700 vehicles we sold in the same quarter last year. Overall market share in passenger vehicles stood at 6% for the nine months period.

The overall slowdown in economic activities; slow down in infrastructure spending; tight financing environment for vehicle buyers and also under utilization of fleet and weak operating economies with freight rate is not going up and interest rates and other running cost like diesel, fuel, etc., going up; poor operating economies for the operators have contributed to this and overall intense competition in both CV and PV have also tended to push up or continue to push up the overall marketing cost including variable marketing expenses.

Several initiatives underway from the company point of view in terms of product launches and on value added services launched for the customers. New range of products both in commercial vehicles and passenger vehicles. Just to give an example in passenger vehicles we launched the CNG versions of Nano and Indica and Indigo branded Nano eMax, Indica eMax, etc. We are also making some strides and put some milestones in our international business map by launching Tata Xenon in Australia and Tata Aria in South Africa.

Jaguar Land Rover whole volumes and retail volumes for the quarter were about 116,000 and 112,000 respectively. The EBITDA numbers and the profit numbers have already mentioned these have been contributed by the wholesale volume increase, richer product mix with the launch of new products continue to having great pull and momentum in the market and richer geographic mix. Free cash flow for the Q3 was £234 million post capital expenditure and product development spend of about £788 million for the quarter and for the nine months period free cash flow was £323 million positive after product development and CAPEX for the nine months of £2 billion.

As on the balance sheet is concerned JLR continues to have very strong liquidity on the balance sheet cash and liquid resources on the balance sheet of about £3.2 billion and what I had mentioned earlier under on long term committed bank lines of credit which is completely unutilized of about £1.3 billion. In terms of some of the financial performance or market highlights in December Jaguar Land Rover issued new bonds of $700 million at 4.125% which matures in 2018. Subsequent to the end of the quarter in January 2014 Jaguar Land Rover issued further new bond of £400 million at 5% which is due in 2022. In parallel to the second issue of bonds we have also launched buyback tender offer for one of our old bonds issued about three years ago which was having a cost of about 7.75% to 8% depending on dollar or £ and we expect to close this buyback offer in the next couple of months.

We are also intended an arrangement with government authorities in Brazil to open a new manufacturing facility in Brazil which I had touched upon as an initiative from JLR in some of the earlier calls and interactions. In terms of overall mix of sales across different regions for Jaguar Land Rover China grew in this quarter to 24.8% up from 21.1% a year ago in third quarter. North America in this year third quarter was 19.1%; Europe was 19.7%; other overseas markets 17.6% and APEC about 4.9%; UK at 13.9%.

Looking ahead we continue see the India business impacted by the overall economic environment which continued to be weak and a matter of concern. We believe the demand will be subdued surely for rest of this financial year and may be well in to the next financial year. Even after the macroeconomic performance starts recovering and we see some investment flows or infrastructure spending, etc., being stepped up. In terms of the current situation of under utilization of capacity in the truck and other commercial vehicle operators by the time we see demand having a positive impact in our industry I think it will be another two quarters of lag at least. Competitive intensity will continue to remain high. From the company point of view we will continue to focus on newer products and expanding the range prima range, ultra trucks range, SUVs and pickups and we will continue to focus on value added services and several service offerings for our customers.

Even though in small compared to the total industry volume we expect the promise of the government budget of last year it should translate to some effective demand in decent numbers in terms of JNNURM buses for next year. The total order size from the government undertakings is likely to be between 10,000 to 15,000 buses and hopefully it should start converting in to orders and supplies next year. Commercial vehicles will continue to focus on expanding our international footprint. Passenger vehicles our four pillars in terms of transforming the passenger vehicles business which includes intense product focus and launching more exciting and newer products regularly some of which we have already witnessed. Focus on world class manufacturing quality and practices enriching the overall customer purchase experience and improving the quality of service at our dealer workshops. This will continue to be our main pillars of growth in to the future.

Recent launches we expect will drive growth compared to what we have seen in the recent past both Nano Twist and Vista VTec have received good response. Many of whom have seen also in the Auto Expo we unveiled some of our newer products coming up which is Tata Bold and Tata Zest. We also recently launched the new petrol engine family next generation engines and we will continue to expand opportunities in the international market like the examples that I talked about a little while early in Australia, South Africa, etc.

Jaguar Land Rover we will expect the sales momentum and the performance momentum to continue with the momentum maintained for many of the newer launches like Range Rover Sport, Jaguar XF, Sportbreak and Jaguar F Type. We have successfully launching the new F Type Coupe and other new derivatives. We will continue our focus on investment in new products and new technologies to meet the growth for the future and parallely invest in building manufacturing capacity in UK as well as in the Indian manufacturing facility that we have talked about earlier.

Free cash flow after investment the investment this year is likely to end up with there about £2.75 billion in line with the indication that we had shared with you earlier. After this investment of £2.75 billion we expect the company will be free cash flow positive which is stronger than what we had expected in the beginning of the year driven by the underlined significantly better business performance. Fort the next year we expect our capital spending to continue and in fact would increase to the region of £3.5 billion to £3.7 billion reflecting our more ambitious plan that we are undertaking in terms of newer products, technologies and capacities.

With this introduction I will stop here between Vijay Somaiya and my colleagues here and myself we will try and take your questions. Over to you for questions.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Binay Singh of Morgan Stanley. Please go ahead.

Binay Singh My question is on the JLR margin side like you see this quarter as I understand currency was at worst and would have hit margin by around 150, 160 basis point despite you have posted a very strong margin mainly on account of better product mix. Going back to Evoque experience how should we look at the model cycle of Range Rover and Range Rover Sport because in Evoque we had one or two quarters of very strong high derivate sale happening and then very sharply it went down in the following quarter. How would you see the experience of Range Rover and

Range Rover Sport in terms of the derivative that we are selling now versus what we expect to sell a year down the line be different?

C Ramakrishnan In any product for any manufacturer I think for the first depending on how successful the launches and how exciting the product is in terms of the consumer response there will be a curve where for the first two, three, four quarters the mix is likely to be richer for two reasons. The consumers also would like to experience the product in its full content and features and so and also the manufacturer because of the high demand, waiting period, etc., has an ability to allocate production to more enriched product variant offerings and also in terms of geographical distribution, in terms of global business like JLR. That is a phenomenon you will see in most manufacturers and most brands across the world. I would expect Range Rover and Range Rover Sport also will go through the same experience which is likely to be richer for the next couple of quarters after which it will level off or come marginally down in favor of lower content and lower features. It is a very natural curve.

Binay Singh And could you also talk a little bit amount the momentum that we are seeing now in both the models?

C Ramakrishnan The momentum is so far being good and we expect it will continue for some more time. I do not want to predict whether one quarter or two quarters, etc., but considering that both Range Rover and Range Rover Sport, etc., still have a very long waiting period. By the way one is not too happy about the length of the waiting period which can stretch to about four to six also in some of the markets but that apart considering the waiting period I think the momentum is likely to continue for some more time. The length of this momentum is depending on how exciting and how successful the launch has been. In our case I think the momentum is likely to be longer than average.

Moderator Thank you. Our next question is from Chirag Shah of Axis Capital. Please go ahead.

Chirag Shah Sir, I have a question on the capacity at JLR. If you can help us understand on daily basis what is generally the production run rate that you can do because we have been seeing your guidance getting up every time. So can you throw some light what is your capacity in terms of and assuming demand remains very strong what is the best you can produce as of date and how the road map is going ahead?

C Ramakrishnan Before we get to the numbers as we are increasing the guidance every time we thought we should be happy about it I suppose.

Chirag Shah So is it that you are adding capacity or you add because number of holidays and do you reduce number of holidays that are there by paying overtime and that is why we are increasing capacity. So can you just help us understand on per day basis how much you have the capacity?

C Ramakrishnan I think I had mentioned even earlier that in the current location that we are in UK between the three factories we had started with may be couple of years ago I had given an indication that we can go up to about 500,000 to 550,000. In UK reaching that number will be a function of investment in manufacturing facilities because in capacity you had to deal with both technical capacity for the investment on the ground in terms plant, machinery, welding capabilities, paint shop throughput capacity, etc., that is one part of it and the second part of it is also manning and people. To some extent people and manning can add by contract work force you can add by some of the measures that you have talked about working on holidays and opening up a third shift or fourth shift, etc., overlapping shifts and so on. So it is a little difficult question to answer but in substance I would say between 450,000 to 500,000 should be possible at these current locations and theoretically it can go up to 550,000 to 600,000 in UK over a period of time. In addition in the period of time we will have the benefit of China capacity coming in which is another 130,000 which will provide some relief for better utilization for UK capacity for rest of the world.

Chirag Shah Would it be right to assume that by end FY15 your average volume could be in the range of 520,000 to 550,000 that is the kind of capacity you would have at the existing UK locals given the strong demand that you have? Because from 450,000 if you are highlighting only 500,000 units that indicates hardly a 10% growth given the volume momentum you are having there could be a much higher demand. So I was wondering how much you can stretch it further can you go it up to 540 kind of a number before the China entity start chipping in?

C Ramakrishnan I want to stop short of trying to predict a number for next year because many times when I respond to your capacity question later on it is quoted back to me saying that this is the volume you forecasted what happened, etc.

Chirag Shah I am reviewing given that demand remain strong I understand that demand you cannot forecast but how is your internal capacity line up are you geared up meet up to go up to this kind of number or no? There is a technical capacity restriction beyond which you cannot expand at least end FY15. So I wanted to understand up to what level you can expand the capacity for next 12 months?

C Ramakrishnan I just commenting on that we are just checking on some of the timing of some of this capacity investment that is also an important factor. By end of FY15 as of 31st March 2015 I think a capacity in the region of about 500,000 should be theoretically be possible. But some of this capability from about 450 to 500 can come during the course of the year or may be even towards the third quarter or fourth quarter of the year so it may not be available for the full year. So answer can be interpreted in many, many ways that is why I want to be cautious in what I am saying. But yes, by end of the year theoretically on that day I think a capacity of 500 there about should be possible.

Chirag Shah Second question was pertaining to other expenditures in JLR. We have seen a sharp reduction over there. So is there any specific thing or it is normal business operations if you can just give some light?

C Ramakrishnan It is normal business operations Chirag, it is also a function of fixed marketing expenses how many auto shows you were in. So if you look at the launches which were there not many launches and hence the other expenses area almost flat.

Moderator Thank you. Our next question is from Jamshed Dadabhoy of Citigroup. Please go ahead.

Jamshed Dadabhoy First question, could you please explain this sale of assets in the parent's books and the tax reversal that has happened?

C Ramakrishnan Number one, if you recall the when we acquired Jaguar Land Rover we had created a holding company structure in Singapore which in turn was holding the Jaguar Land Rover company. What had happened was whatever acquisitions or companies we started in overseas prior to that we are all held directly in the parent Tata Motors Limited in India. This includes a TDCV Korea which we acquired directly in Tata Motors. It included the company we started in Thailand for manufacturing operations again directly held in Tata Motors India and couple of other places like Indonesia, South Africa Assembly Company, etc. So to creating a structure where one subsidiary company namely Jaguar LandRover is held through Singapore and others were directly in India.

We wanted to correct that and bring everyone under the same umbrella and Singapore is a holding company also offered greater flexibility in terms of managing the affairs capitalizing or fund flows, etc. So we have brought all the other companies like TDCV, Korea; South Africa, Indonesia and Thailand under the Singapore holding company which in any case was holding Jaguar Land Rover from inception. So that is the divestment we have made. As far as Tata Motors standalone is concerned that is the divestment we have technically made in to our Singapore holding company. The Singapore Company has raised independently without any parental guarantee or anything funding on its balance sheet which is being used to acquire this companies from Tata Motors. One part of this which is the major part of it is about 80% to 85% of the total value Tata Daewoo Commercial Vehicles, Korea the transfer has taken place already. And the others are in the process of happening as we speak and those are really balance may be 10% to 15% of the value which will happen in the fourth quarter. With this at the end of this exercise all overseas manufacturing operating companies of Tata Motors will be held through Singapore.

This from a Tata Motors' point of view has created a sale of investments and therefore a profit on sale of investments. Good part of it in this quarter and a much smaller part of it in the fourth quarter. The second part of your question which is the tax credit is arising out of the tax provisions we had created earlier the actual performance has been much worse than what we had anticipated and create when you create tax provisions in the accounts you create tax provisions based on the annual full tax expectation not tax for that particular quarter it is based on part of the taxation for the full year. So our expectation at the beginning of the year and also the continuing tax credit we will get in terms of weighted deduction for our R&D expenditure which because of the business performance being what it is gets carried over the tax provision had to be reversed which has also happened in the third quarter.

Jamshed Dadabhoy Does not this have like a time period of like 5 years or 7 years something you can carry it forward?

C Ramakrishnan No, this is a provision reversal what you are referring to is the MAT payment which even if there is a taxable loss because of depreciation or R&D tax credit or whatever if in the books you are showing a certain profit you will have to pay a minimum alternate tax of certain percentage that has a carryover limitation of about 10 years. Just to clarify on the restructuring the divestment of Singapore companies that is impacting in terms of profit only in the standalone and in consolidation it gets eliminated anyway. The consolidated results do not reflect that profit.

Jamshed Dadabhoy Given that the Pound has strengthened against the dollar how do we think about competitiveness of JLR over the next two, three years and in your forecasts or projections what outlook have you all factored in on the Pound-Dollar rate?

C Ramakrishnan At the begging of the year this Fiscal year about nine months ago when we had prepared our budgets, etc., our budgeting has been on a more conservative basis at about $1.65 to a Pound and the actual rates so far has been more favorable to it than this budget assumed rate. As we speak now the actual in the market is hovering close towards that between 1.61, 1.62, 1.63 and touching 1.64 in that range. So it is not outside of our expectations at the beginning of the year but yes, it is coming close to what we thought was a conservative assumption at the beginning of the year. When we prepare our plans for next year I think we will have to factor this trend very clearly in our plans. Yes, over a period of time it is not favorable for JLR we would definitely from a bottom-line performance point of view we will definitely prefer a stronger dollar which helps our export earnings this is something which I have highlighted from time-to-time our sensitivity to foreign exchange.

In terms of immediate competitiveness in the next one or two years, etc., at least for the next one year it is not much of a concern because we also have a run a huge hedge book where our receivables or our dollar inflows in the immediate future. At least for the next three months, six months or highly well covered on a rolling basis current quarter plus one quarter there is a next quarter we cover nearly 70%, 80% of our dollar inflows. One quarter later i.e. this quarter plus two quarters we cover may be a lesser percentage, etc., and that coverage goes down as we go in to the future. But yes, as an underlying business as we have cautioned you earlier it is in the sensitive exchange fluctuation; exchange movement of dollar-pound in particular.

Moderator Thank you. Our next question is from Rakesh Jhunjhunwala of Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala Sir, I want to ask you that next year you are going to invest £3.5 billion, right? And after that what would be the capacity that will be available for you as a group this includes the investment in Brazil also and so therefore we have capacity be 650 or more or less?

C Ramakrishnan As I said in the next one or two years I think capacity in UK will touch somewhere around 550. We will also have the capacity created in China which is about 130,000. Compared to all this Brazil is relatively small while Brazil investments are included in these numbers capacity will be relatively small. I think if I remember right it is about 25,000 annually.

Rakesh Jhunjhunwala So that means effectively in a period of 18 to 24 months you will have a capacity of about nearby 650 to 700?

C Ramakrishnan Yeah about 700 plus.

Rakesh Jhunjhunwala And sir, how you allocating it between Jaguar and Land Rover? Just I have another question. Sir, if your better margins also reflecting the fact that you are utilizing the same plants for higher production?

C Ramakrishnan Obviously in our industry high operating leverage adds a very healthy lead to the bottom-line.

Rakesh Jhunjhunwala Because I have not seen any analysts report which highlights this or no realization of the fact that higher utilization we see manufacturing should give you much higher margins?

C Ramakrishnan Yes sir, it does the industry functions on significantly on high operating leverage.

Rakesh Jhunjhunwala And sir, you are seeing very good demand at the ground level?

C Ramakrishnan Yes, we continue to have for JLR very good market pull for all our products particularly the more recently launched one Evoque continues to have a good run. Range Rover, Range Rover Sport continue to have long weeks of queuing and waiting from the consumers.

Rakesh Jhunjhunwala So sir, what are you doing to correct it in your view trying to raise capacities fast?

C Ramakrishnan We have to balance it. Just capacity increase by itself may not address fully the issue we also run neck-to-neck in terms of our engine availability. So some part of the capacity issue also will have to be solved by better availability of engines partly from our own plant which will come on stream by end of this calendar year. I think I had spoken sir, if you remember I had spoken about our investing in our own engines smaller engines four cylinder two liter engines that first of the vehicles with the engine will come by end of this calendar year and engine manufacturing plant also will ramp up its capacity over a period of next three, four months.

Rakesh Jhunjhunwala And sir, will it be reasonable to assume that post FY15 your capital expenditure will then fall off in a major way?

C Ramakrishnan Not necessarily because post-FY15 next year our capital expenditure we have given an indication will be likely to be in the region of about 3.5 to 3.75.

Rakesh Jhunjhunwala So a major part will be for the new plants?

C Ramakrishnan Major part of this nearly 50% or higher will be for new products introduction, new variants, new platform vehicles coming up and some part of it is also going in to creating this manufacturing capacity, engine plant, investment in China, etc., Brazil and so on. More important than the absolute number I think it is important to look at it as a percentage to revenue. Right now we are running at least 200-300 basis points; 2% to 3% basis points higher in terms of capital spending compared to our revenue; compared to our competition. I think this higher level may be around 15% to 16% of turnover will continue to be there for the next two, three years. And over time I think it will fall off more nearer to the segment competition which is more like 10%, 12%.

Rakesh Jhunjhunwala That means you have big investment plans?

C Ramakrishnan Yes, we have shared with you from time-to-time the type of platform and new product and new segment that we are not present today the type of plans that we have both for the Jaguar brand and for Land Rover, Range Rover brands.

Rakesh Jhunjhunwala Sir, but you are not afraid that you are going to too many segments your brand may be affected?

C Ramakrishnan It is a question of which segments you are talking about. Both Jaguar and Range Rover vehicles will maintain their product appeal and the brand and the value they stand for. Then we are not getting in to massive volume segments or lower level segments. Evoque is an example we have maintained the values that Range Rover brand always has carried and we have come out with a slightly smaller Range Rover which was the Evoque and you have seen what type of response. I think it is a question of which segments you careful chosen how you present the vehicles in that segment. We are launching the Mercedes C class or BMW 3 series equivalent vehicle in Jaguar brand that will come up later this year towards the end of this calendar year. That again is a premium luxury segment but the low end of the luxury segment. We know that we have no plans of entering mass or volume segments.

Rakesh Jhunjhunwala Do you expect that your debt may not increase even after this kind of capital expenditure?

C Ramakrishnan In the Jaguar Land Rover?

Rakesh Jhunjhunwala Yeah.

C Ramakrishnan Jaguar Land Rover, yes there will be some shortfall in funding and free cash flows may be from time-to-time in some of the years. I think we have significantly strengthen the balance sheet position in Jaguar Land Rover by raising money in the last two, three years continuously all of them have been five years, eight years, ten years instruments. As we speak now Jaguar Land Rover is sitting on £3 billion of solid cash in its balance sheet and we also have another £1 billion of committed lines of credit five year lines of credit from banks which we have not utilized at all. So we are talking about liquidity pool available in JLR both cash and available credit of nearly £4 billion. As business continues we hope to perform the way it has performed so far. I think funding this expenditure should not be a challenge.

Moderator Thank you. Our next question is from Robin Zhu of Bernstein. Please go ahead.

Robin Zhu My question is as follows. One of the investors' concerns coming in to this quarter have been foreign exchange headwinds particularly in your emerging markets like Brazil, Russia which are obviously very significant for the company. Currency fell in both countries but you do not seem to show much evidence of FX had in your results. Could you just comment on how much overall FX had on your results and specifically to Brazil and Russia how you manage the currency in those markets?

Vijay Somaiya Robin, Somaiya here. As you are aware in JLR we have currency impacts both above EBITDA and below EBITDA. Above EBITDA is the actual weighted average realization for the quarter. At the EBITDA level because of the Pound-USD adverse movement and a favorable movement for the Pound-Euro the net impact on EBITDA was £ (-116) million which is there. Below EBITDA there was a gain on account of hedges and revaluation of loans which was a gain of £92 million. These are the impacts at a broad level above EBITDA and below EBITDA.

Robin Zhu So is it fair to say that if the currency had not gone against you then the EBITDA margin will then substantially higher than what than even the spectacular result that you posted?

Vijay Somaiya Yes, if you remove the impact of £116 million your margins on a net basis would have been higher to that percentage.

Robin Zhu And specifically to Brazil and Russia I mean my understanding is that these currencies are tremendously difficult to hedge I mean I just wondering how the company is able to manage your exposure in these markets?

Vijay Somaiya Robin, can we come back to you after the call and discuss that on Brazil and Russia hedging,

Moderator Thank you. Our next question is from Pramod Kumar of IDFC Securities. Please go ahead.

Pramod Kumar Sir, my first question is pertains to the consolidated FCF and the second one is on the Baby Jaguar. Given the fact that you stated that with the good performance of Range Rover, Range Rover Sport your margins have naturally been favorably impacted. So how should one look at Baby Jaguar directionally as given the competition intensity and the price point at which it comes. So those will be my two questions.

C Ramakrishnan What is the first question? The second one was regarding the smaller.

Pramod Kumar The first one was on consolidated free cash flow, sir. Because you talked about JLR free cash flow but what would be on a consolidated level?

C Ramakrishnan JLR free cash flow positive for this quarter has been on the order of about £300 million for nine months. Your question is about the nine months, right?

Pramod Kumar No, sir I am taking about the consolidated free cash flow including the standalone overall business.

C Ramakrishnan No, I understand I am just taking it in parts. In Tata Motors of course free cash flow is negative. If you remove the Singapore fundraising and the restructuring that we have done that is contributed to some extent in Tata Motors we have also had the benefit of dividend inflow from Jaguar Land Rover in the earlier part of the year. If you either aggregate or disaggregate considering the free cash flow positive in JLR has been of the order of £323 million close to about Rs. (+3000) crores for the nine months period. In Tata Motors standalone the free cash flow negative without taking in to account the dividend and the restructuring fundraising that we have done would be of that magnitude. So at a consolidated level there will be a marginal free cash flow negative.

Pramod Kumar My second question is on the Baby Jaguar and the impact on profitability?

C Ramakrishnan Okay, I would not call it Baby Jaguar. The smaller Jaguar yes, as vehicles gets smaller and we get in to more competitive segments it is definitely a competitive segment. The individual margin of the product will be somewhat lower compared to our traditional products. Jaguar margins have always been lower than the Range Rover margins and smaller Jaguar the margin is likely to be lower. But if you look at the earlier in the call there was a question about operating leverage and volumes impact on that if you look at the total market for the segment which is still a premium segment even if we talk about somewhere around 5% market share we are still talking about Jaguar volumes on a standalone basis increasing 3-4x compared to what they have been operating in the last two, three years. So I think the equation will balance itself out and hopefully it should contribute well to the overall bottom-line.

Moderator Thank you. Our next question is from Kapil Singh of Nomura. Please go ahead.

Kapil Singh I just wanted to check there was some comments regarding the China capacity getting delayed so if you can just give some color on that and whether it affects your overall production plan as well?

C Ramakrishnan Not really technically it is a shift by one quarter may be we sit towards end of this calendar year it may be in to the early part of next calendar year.

Kapil Singh And sir, how much do we plan to utilize that capacity in the first year I mean will it be full scale production or will it be doing assembly of CKDs, etc., as well?

C Ramakrishnan It cannot be full scale production to start within any case and the capacity utilization normally does not become 100% on day one. So it will be a ramp up over the next three to four quarters.

Kapil Singh Sir, I asked because typically we see that if the utilization is below 50%, 60% than in the first year there is a loss so is that something that I mean how do you look at it will the first year be around 50% utilization or?

C Ramakrishnan It is difficult to answer something like this on a call let me come at it slightly differently. In phase one the full capacity in China will be about 130,000 cars which in the second phase we will increase it about 150,000, 160,000. So just now we are restricting our discussion to this 130,000 it will obviously happen the capacity itself 130,000 will come over a three year period from start up. So the setting up of the full capacity in terms of availability of 130,000 vehicles to be produced will be reached over a three year period and you do it in different stages. But each stage when you start the production on day one let us say in stage one you start with 10,000, 20,000, 30,000 capacity 40,000 capacity you cannot achieve this fully. It will take about two to three quarters to ramp up to that level. Then it goes in to the next phase of expansion and reach 130,000 over a three year period. You do it both in a modular fashion and also in a ramp up fashion in terms of various operations and so on.

Yes, in the initial period there will be setup cost; there will be lower productivity in terms of if you could do x number of vehicles given full shift availability in UK can JV manufacturing in China for first time can they achieve the same numbers per shift on day one it cannot. There will be set up cost; there will be perhaps rework or lower productivity and efficiency to start with it will build over a time. And we are also talking about whole lot of supply-chain logistics here in terms of UK supplies and local China procurement. So there will be under-recovery of some of the investment cost in the initial phase after two, three quarters or may be first year, year-and-half but not very significant that will be at the JV level not at Jaguar Land Rover levels.

Kapil Singh Just a small question on sir, what is the debt that we have on the Singapore subsidiary and when we report this net automotive debt do we include that debt as well?

C Ramakrishnan Net automotive debt consolidated when we reported. We have obviously included the Singapore subsidiary debt also.

Kapil Singh And how much is that?

C Ramakrishnan As of now the debt at Singapore holding company is close to $900 million. We have raised it in two transits Singapore Dollar and US Dollar last year and this year. So transits in earlier part of this Fiscal year and more recently now; SGD350 million in May and $500 million in November.

Kapil Singh And that will be serviced out of the dividend that it receives from JLR?

C Ramakrishnan And Korea, etc.

Moderator Thank you. Our next question is from Sahil Kedia of Barclays. Please go ahead.

Sahil Kedia Sir, just wanted to clarify one point. This quarter or on a sequential basis we have not seen the share of China go up as much in JLR on the other hand we have seen the share of Range Rover and Range Rover Sport go up quite sharply. So just wanted to understand the improvement in margin that we have seen is it purely a function of product mix high utilization or are there are some cost benefit I mean certain cost reduction, etc., that are also taking place given that both the new Range Rover and Range Rover Sport are on the same platform if you can just help us understand kind of what is leading to the improved margins?

C Ramakrishnan More than cost reduction or cost factors I think it has been more on the realization mix and higher content and richer product mix. When I talked about richer geographical mix I was referring to comparison of Q3 to now where China has seen an improvement. But on a sequential basis if you see I think it has been contributed more by product mix and content and variants mix and better realization of product and lower overall variable marketing expenses. Not so much on the cost factor costs have been more or less benign I would say.

Sahil Kedia And sir, can you give us an update as far as your distribution footprint in China is concerned where are we reached and are we still on track to reach that 200 kind of number by FY15?

C Ramakrishnan We are on track I am not sure whether I can give an update on every quarter. I think beginning of this year I think our dealership strength in China will about 130 dealers. We do expect it can go up to 170 to 200 in that region in the next year, year-and-half. We are on track for that.

Sahil Kedia But sir, as I understand that off that 130 only about 100 odd were operational is that so can you give us a sense of how many are operational?

C Ramakrishnan No, we are talking about 130 operational dealers.

Sahil Kedia So that number is going to go to about 170 to 200 in the next 12 to 15 months?

C Ramakrishnan Yeah, of course the touch points could be more; one dealer could have more than one showroom or whatever but I am talking about dealerships.

Moderator Thank you. Ladies and gentlemen, due to time constraints that was our last question.

C Ramakrishnan May I interrupt for one minute before we end the call? There was one question earlier where I said before the end of this call I will revert with this specific numbers. The question related to distribution of capacity when we talk about 550,000 or 600,000 or what is the broad distribution from between Jaguar and Land Rover capacities. In line with overall mix in terms of our total number of vehicles the capacity consistently will be planed about one-third; 30% to 35% for Jaguar and about 60% to 65% for Land Rover and Range Rover. I just thought since I mentioned I will mention it before the end of the call I just thought I will the person who was there for half the question if he is still there, sorry I could not reply immediately.

Moderator Thank you very much, sir. I now hand the floor to Mr. Jinesh Gandhi of Motilal Oswal Securities for closing comments.

Jinesh Gandhi On behalf of Motilal Oswal Securities I once again like to thank all for joining the call today. Thanks.

Moderator Thank you. On behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.