TATA MOTORS

Event: Tata Motors -Q3 FY'15 Results Conference Call
Date: February, 06 2015 20:30 IST

Operator

Ladies and gentlemen thank you for standing by and welcome to the Tata Motors Q3 FY '15 results conference call hosted by Nomura. At this time all participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. At this time, if you wish to ask a question please press star one on your telephone keypad and wait for your name to be announced. Please note, the participants are restricted to ask only two questions during the question and answer session. Please be advised that this conference is being recorded today.

And now it is my pleasure to hand over the call to your speaker for today, Mr. Kapil Singh. Over to you, Sir.

Kapil Singh

Hello everyone. Thanks for joining the call. We have with us today the group CFO of Tata Motors, Mr. C. Ramakrishnan, Mr. Vijay Somaiya, Head of Investor Relations and the IR team.

Sir, I'll hand over the call to you for presentation.

Vijay Somaiya

Thank you everyone for taking out time and joining the call. Thank you Kapil. I am Vijay Somaiya. Let me take you through the financial highlights for Q3 FY '15. Starting with the consolidated financials, the net revenue for Q3 came in at around Rs. 70,000 crores compared to almost Rs. 63,900 crores at similar quarter last year.

EBITDA was slightly lower at 15.4% as compared to 16.6% last year. The profit after tax was close to Rs. 3,600 crores as compared to Rs. 4800 crores the previous year. For the nine-month financials FY '15, the net revenue came in at Rs. 1,95,000 crores as compared to Rs. 1,67,500 crores. EBITDA was 16.8% as compared to 15.9% last year and profit after tax came in at Rs 12.270 crores as compared to 10,000 crores last year.

The net automotive debt equity as of 31st December 2014 on a consolidated basis is 0.15.

Moving over to Tata Motors Group India business, the revenue for third quarter was Rs. 9000 crores as compared to Rs. 7,770 crores in the previous quarter. EBITDA was negative, minus 8.5% as compared to minus 4.3% the last quarter and profit after tax came in at negative Rs. 2,123 crores as compared to Rs. 1,250 crores last year.

The EBITDA this year has been impacted by the provisions which we had taken for Singur, amounting to around Rs. 310 crores because of the uncertainty in the legal case. And you may also recollect that in the Q3 of FY '14 we had done a divestment of overseas subsidiaries from India to the Singapore holding company which had resulted in significant profit and that is why the profit after tax was on the positive side. So the two quarters are not exactly comparable.

For the nine-month FY 2015 the revenues at the India business came in at Rs. 25,500 crores, almost flat compared to last year. The EBITDA margin is at minus 4.5% as compared to 0.2% last year and profit after tax for the nine months came in at minus Rs. 3,575 crores as compared to Rs. 1,150 crores last year.

The net debt equity as of 31st December in the India business is 1.22, greater than 1:1.

Moving over to Tata Motors Group Jaguar Land Rover business, the amounts are in GBP million. The revenue for third quarter FY 15 came in at 5.8 billion pounds as compared to 5.3 billion pounds previous quarter. EBITDA was slightly lower at 18.6% as compared to 19.1% earlier, and profit after tax was also lower at 593 million pounds as compared to 619 million pounds last year.

For the nine months year-to-date the net revenues came in at 16 billion pounds as compared to 14 billion pounds last year. EBITDA was slightly higher, 19.4% as compared to 17.6% previous year and the profit after tax was 1.7 billion pounds as compared to 1.4 billion pounds. The net debt equity is negative 0.24 because JLR has cash of almost 4 billion pounds on their balance sheet.

Moving over to India business on the commercial vehicles side, we have seen a growth in M&HCV industry. The volumes for Tata Motors M&HCV segment were up almost 43% on a year on year basis with a market share was at 57.7% in Q3 FY15. This has been supported because of the positive business sentiment, the firm freight rates, improved freight availability, a lower fuel price, easing of inflation, and the improved profitability of operators, and also because of the early kick-in of replacement cycle.

The light commercial vehicle business, mainly small commercial vehicles still continues to be impacted because of the low transportation tonnage and the overcapacity of vehicles and also because of constrained financing environment.

The variable marketing expenses for commercial vehicles continue to remain high in the industry, and in this quarter we have launched primer trucks in Nepal and the ultra-range of trucks in Sri Lanka.

Moving over to passenger vehicles of the India business, the passenger vehicle industry saw a growth of 4.3% in Q3 as compared to last year on the back of low vehicle ownership cost due to reduction in fuel prices, improvement in the environment andGDP. Tata Motors, passenger vehicles grew 4.6% and the car segment grew much stronger at 16.9% on the back of Zest which we had launched in the month of August. After almost eight quarters, we saw increase in market share for car segment, which increased by 60 basis points to 6.5%. Zest has won multiple awards in the compact segment since the launch in the month of August.

Moving over to Jaguar Land Rover business, the wholesale volumes for the quarter came in at 122,000 units and the retail volumes at 111,500 units. The EBITDA for the quarter was 1 billion pounds and it was reflecting an increase in wholesale volume compared to the previous quarter, a solid product mix on the back of the Range Rover and Jaguar F Type sales and a strong market mix with sales growing in U.K. and China and also a favorable foreign exchange which was impacted by the realized losses on the existing hedge book.

The profit before tax came in at 685 million pounds, which was lower year-on-year by 157 million pounds because of the unfavorable revaluation of foreign currency debt and unrealized hedges and higher depreciation and amortization charges. We have continued to invest for the future, and the cumulative spend for nine months in this financial year is close to 2.3 billion pounds.

Post investment spending, we are free cash flow positive for the nine months at around 456 million pounds. And as I said earlier, we have cash and financial deposits which are at close to 4 billion pounds, and undrawn committed lines at around 1.48 billion pounds.
We will start the retail sales of Discovery Sport and the China JV Evoque in the fourth quarter of this financial year, and the XE will go in sale from the first quarter of next financial year. I will not go through the pie chart which depicts the different share of volumes for this quarter as compared to year-on-year last year.

Moving ahead India Business Way-Forward, the improved economic outlook and business environment is expected to accelerate the sales in the next financial year, FY '16. On the commercial vehicles side, we have already started seeing the impact on the M&HCV growth which is expected to consolidate in FY '16. Small commercial vehicle segment which has been impacted by financing, we expect the recovery to start happening from second half of next year, FY '16.

JnNURM Phase II will continue to drive bus volumes in M&HCV vehicles and we have a very wide and compelling product range and have plans for launching several new products in prima and ultra range of products and in small commercial vehicles and in pick-ups, Super Ace Mint and Ace Mega, which will provide a strong foundation for future growth.

The growth in exports will continue to be in high focus. In passenger car business the new products and mid-cycle enhancements will drive growth for us. It would be a full year for Tata Zest,Tata Bolt and recent launches our Nano Twist
We have plans for new generation models which will drive growth on the back of the launches of Zest and Bolt. The product strategy for PCBU has already been defined till the year 2020 and we plan to launch two new vehicles every year and we will continue to avail opportunities for extending to the export market.

Moving forward to the Jaguar LandRover Way-Forward, 2015-2016 is an important and exciting year for JLR with major developments, including the launch of new products like Discovery Sport, Jaguar XE and F- Pace. Also, the launch of the new engine plant in U.K., which will produce the Ingenium engines. And as already said, we have also launched the joint venture with Cherry in China from where the Evoque will start getting dispatched to consumer in Q4 FY15. and we have plans to launch two more products in the China JV over next 18 months.

These developments are expected to support the growth and profitability of JLR with strong EBITDA margins. However, the EBITDA margins for the coming year 2015-2016 could be slightly lower than the current financial year because of the startup of the China JV. As you are aware it's a 50-50 joint venture, so JLR would accrue only 50% of the JV profits. Since we're launching the new engine factory, the new China plant and XE, we would have a model mix and launch cost associated with the new products. And the market conditions across the world are mixed. As you are aware, Russia and Brazil are underperforming, while US, UK and China still continue to grow. However, JLR is very confident of significant volume growth in 2015-2016 with the launch of new products.

Moving over to the next page, JLR strategy continues to invest substantially in future products, technologies and capacities. For 2014-2015, earlier we had indicated that our Capex and product development spend would be somewhere around 3.5 to 3.7 billion pounds. At this point of time we expect this to be slightly lower, close to 3 to 3.2 billion pounds.

For next year 2015-2016, we expect the spend to be similar to this financial year in the range of 3.6 to 3.8 billion pounds. Because of our investments in product development expenses and the launch of new products, we expect the depreciation and amortization charge will catch up over the coming years. The strategy for JLR is to continue to drive strong operating cash flows to fund investments, and for 2014-2015, after spending 3 to 3.2 billion pounds, we expect the net free cash flow to be positive. For 2015-2016, because we are speaking of a slightly higher investment and because of the launch costs and product mix effect, we might be free cash flow negative. However, we are supported by 4 billion pounds of cash and cash equivalents on the balance sheet and undrawn credit lines of around 1.5 billion which will support the investment plans.

With this I would stop, and we would be happy to take any questions that you may have.

Question-and-Answer Session

Operator

Anyone who wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel, you're requested to press the hash or the pound key. Participants on a speakerphone are requested to take the handsets and ask the questions. Once again, to ask a question its star one on your telephone keypad.

Your first question comes from the line of Binay Singh from Morgan Stanley. Please go ahead, Sir.

Binay Singh - Morgan Stanley

Hello sir. Thanks for the opportunity. My first question is basically on your guidance that you are guiding for JLR. The margins will be slightly weaker next year versus this year. Are you taking into account the currency, like what kind of currency assumptions are you taking in, because currency should be fairly favorable for you next year.

C Ramakrishnan

Currency is an unknown factor. I think the general guidance, on the margin is due to several activities unfolding in next fiscal year as mentioned in presentation. Also there might be some impact of launch cost and mix economic environment across the Globe. I would say the currency assumption, if you take it as constant, there would be pressure on the margins.

Binay Singh - Morgan Stanley

So when you say constant, you mean currency remains where it is today and the head is rolled from there on, not what it is the average of FY 2015?

C Ramakrishnan

I think I would say, on an average if it remains at 2014-2015 and 2015-2016 levels on a comparable basis.

Binay Singh - Morgan Stanley

Okay, okay. And sir, secondly on, then JLR margin this time, is there any incentive being added from UK we have been talking about?

C Ramakrishnan

We have received the incentive from China, which is around 54 million pounds this quarter.

BinaySingh - Morgan Stanley

Okay sir. Like, what is the nature of this incentive, like it comes once every year in one quarter?

Vijay Somaiya

Yes, it comes once every year. You are right.

Binay Singh - Morgan Stanley

Okay, okay. And sir, lastly just on the India business, apart from the Singur expenses, is there any one-off expense from the Zest launch or something because the Other Expenses seem pretty sizable. Is it mainly car launch expense or it's because of the mix being slightly more adverse. Could you throw some light on that?

C Ramakrishnan

More than mix, I think it is more the effect of one-time provisions. Singur of course is a major provision. And we have also additional one-time provision for receivables and write-off and inventories and so on. The effect of launches etc. would be there in the quarter, but much less, not very material. But the one-off items have been fairly crowded in this quarter

Binay Singh - Morgan Stanley

Okay, great sir. Thank you. I'll come back in the queue. Thanks.

Operator

Thank you. Your next question comes from the line of Pramod Kumar from Goldman Sachs. Please go ahead, sir.

Pramod Kumar - Goldman Sachs

Yeah, thanks a lot for the opportunity. Sir, my first question pertains to China business. As you roll forward Evoque into the market through the JV, how are you reading the demand environment in China, especially for imported brands because what we learn is, few other brands are actually indicating that demand for imported models could be kind of flattish for the year. So how are you looking at for your portfolio on the import basis.

C Ramakrishnan

From an overall market footprint point of view, whether it be JLR brand supplied from UK or from the China production, overall I think the market footprint in the retail segment for JLR will see a strong growth. The demand continues to be quite favorable for product lineup that we have.

Pramod Kumar - Goldman Sachs

Okay, what would you like to quantify what the calendar year growth we will be looking for in China?

C Ramakrishnan

Beyond saying that we remain positive and confident about it, I don't want to give a number.

Pramod Kumar - Goldman Sachs

Sounds good. And sir, second question pertains to your Other Expenditure line in the JLR results. If you can just help us walk through what are the quantum of gains and losses on the Forex - on the realized side, that will be very helpful.

Vijay Somaiya

Sure. If you look at Q3 FY '15 incremental compared to Q2 FY '15 on a quarterly basis, the net incremental impact of exchange fluctuations is close to adverse 140 million pounds.

Pramod Kumar – Goldman Sachs

Above EBITDA.

Vijay Somaiya

Above EBITDA.

Pramod Kumar - Goldman Sachs

Okay, 140 million pounds. And last quarter we had a favorable impact, right, net impact?

Vijay Somaiya

Yes please - last quarter meaning the previous quarter?

Pramod Kumar - Goldman Sachs

Yeah, the Q2. Sorry, I'm referring to Q2. We had a...

Vijay Somaiya

Q2 FY '15 there was a positive impact, close to 120 million pounds. In Q3 FY '15 the impact is minus 20 million pounds, so you should look at the swing, it is 140 million pounds adverse.

Pramod Kumar - Goldman Sachs

Okay. Sorry, apologies for this, but I'm just going through the notes from the last quarterly call. In other expenditure you had talked about a 80 million realized gain on hedges and 30 million pounds realized loss on the balance sheet items.

Vijay Somaiya

We are talking above EBITDA, so on the loan side it will be below EBITDA.

Pramod Kumar - Goldman Sachs

Okay. So you're saying between the quarters that is $140 million swing with minus 20 being in this quarter and there was 120 positive last quarter.

Vijay Somaiya

Yeah, this is above EBITDA. And let me speak to you what happens below EBITDA. So below EBITDA Q2 of FY '15 there was an adverse exchange fluctuation of 85 million pounds. In Q3 of FY '15, we have an adverse exchange fluctuation of 137 million pounds. So the net delta there is minus 52 million pounds. So if you come back both above EBITDA and below EBITDA, the bottom line impact is as what I have spoken about.

Pramod Kumar - Goldman Sachs

Okay. And sir, finally, where are these incentives being routed? The China incentive, is it being - which line item?

Vijay Somaiya

It is in Other Expenses.

Pramod Kumar - Goldman Sachs

Other Expenditure. Thanks a lot, sir. I'll come back in the queue for more questions, and best of luck. Thank you.

Operator

Your next question comes from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy from Citigroup

Yeah hi, good evening sir. So just to clarify, you mentioned that if you all have a constant currency year on year between FY '15 and FY '16 in JLR the margins will be under pressure. So what I wanted to check is, when you mean average currency, you are taking the full run-through all the way from the first quarter to the fourth quarter, or are you looking at the currency as it is today?

C Ramakrishnan

The guidance is the performance of 15-16 compared to 14-15. It is difficult to get into a detailed calculation and the weighted average impact and the constant impact at a point of time etc. In general, compared to 14-15 and 15-16 currency remaining same between the two years

Jamshed Dadabhoy from Citigroup
Sir, how much will the swing be? Like how much compression do you expect and can we expect that in fiscal year '17 this reverses, because it will be one-off due to startup costs etc.

C Ramakrishnan
There will be two or three impacts; one is the startup of China production and the ramp-up in China before volumes get shifted from UK production to China production and whatever is the share of the JV profit in JLR UK we will consolidate at the PBT level rather at the EBITDA level and the startup and the ramp-up of the engine production in the new car and the launch of this happening in 15-16. It's difficult to give a range, but in general I thought it's fully fair to say that these impacts will happen in 15-16 and we should be prepared for that.

Jamshed Dadabhoy from Citigroup
Okay. And sir, could you give any number for that

C Ramakrishnan
Don't want to give a number forecast, which we never do.

Jamshed Dadabhoy from Citigroup
Sure. Sir, what has led to the sharp deceleration in the Capex spends? You've said that certain projects were deferred to next year. I mean if you just look at the Capex to sale this year is looking quite moderate vis-à-vis what we expected going into the beginning of this year and even next year at 3.6 to 3.8 there does seem to be a deceleration. So what has led to this change in Capex outlook?

C Ramakrishnan
This year at the beginning of the year we had indicated about 3.5 to 3.7 as the range in which the capital expenditure would be for 14-15 financial year. It's not so much the deferment of projects. Remember, there is also more of an impact in terms of timing of the commitments and the cash flow. It's more of that effect rather than any lead timing or postponement or delay as far as this year is concerned. So we expect that we will end up at about 3.2 or so instead of 3.5 to 3.7 range that we had indicated earlier. Yes, definitely it is lower, but more on account of timing and the commitments and cash flow impact.

I think we have been saying, even in the beginning of the year we said that it'll be between 3.5 to 3.7 for 14-15 and we had said it will continue at that level for the next two to three years. So for the following year, that is 15-16 financial year, we are still saying 3.5, 3.6 or whatever, 3.7. I don't think there is any reduction that we are guiding to for the next year.

Jamshed Dadabhoy from Citigroup
Okay. Okay, sir. And just on the domestic business, if you look at the business on a rolling quarter basis, it looks like the gross margin has shrunk quite meaningfully. Could you shed some light, especially on the new passenger vehicle rollouts because I was under the impression that there were to be vendor discounts and cost reduction initiatives which would flow through the new platforms. So could you just give us some indication when you expect some concrete improvements to happen on the domestic business please?

C Ramakrishnan
As I said, I think the significant overall financial performance and bottom line performance should start happening from next year on account of two key reasons; we have seen some early signs as we said in the earlier calls a short while ago in the press conference, we have seen some early signs of smart recovery in volume growth in medium and heavy segment at this point of time. It has not yet percolated to small commercial vehicles and other segments which are also fairly large in numbers. Passenger vehicles, we have seen a good beginning with ZEST and BOLT. The numbers are low as we have launched ZEST in August-September and Bolt has just been launched. So as the volumes ramp-up and growth happens, triggered by these products and more products to fall out of the new platform in the coming years, we will see some signs of positive impact on the bottom line from next fiscal onwards I think you should see some recovery in the financial performance.

Jamshed Dadabhoy from Citigroup
Okay, thank you Sir. I'll come back for more questions.

Operator

Thank you. And next question comes from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Q – Jinesh Gandhi – Motilal Oswal

Hi, my question pertains to domestic business, and there were instances you indicated there were some one-time provisionings apart from Singur project, provisions for debtors, inventories, etc. Can you quantify that,

C Ramakrishnan
It's almost on the same magnitude in terms of three, four - four, five different line items from Rs. 300 to 400 crores.

Q – Jinesh Gandhi – Motilal Oswal

Okay, okay. And just secondly, in domestic business we had seen a very strong improvement in net realizations, so what would you attribute this kind of improvement to, especially considering that mix has been more favorable on passenger vehicles side.

C Ramakrishnan
Is it one of that you touched upon, which is the mix improvement. If you take the passenger vehicle business, the new products are definitely catching up well, and we have been able to get good revenue impact on that. And on the commercial vehicle front also the growth has been in the large segment, which is the medium and heavy rather than in the small commercial vehicles. It's mainly the mix effect.

Q – Jinesh Gandhi – Motilal Oswal

Okay, okay. No major price increases during the quarter?

C Ramakrishnan
Price increase, we had one price increase

Q – Jinesh Gandhi – Motilal Oswal

And how big that would be?

C Ramakrishnan
I think it was about a one, one-and-a-quarter percent almost across the board.

Q – Jinesh Gandhi – Motilal Oswal

Right, right. And sir, last question pertains to JLR tax. You mentioned in the presentation that there was, tax was lower due to deduction and China withholding tax. What would be impact of that and would it be, would it mean an lower overall tax rate going forward?

C Ramakrishnan
No, it is a one-time correction. In IFRS, we have been providing tax impact at average tax rate. Since the withholding tax rate in China is reduced from 10% to 5%, there is a one-time reversal in this quarter to give effect to lower withholding tax impact since the beginning of the year. Going forward the effective tax with be around 25%.
Q – Jinesh Gandhi – Motilal Oswal

Okay, but what would be the impact in this quarter?

C Ramakrishnan
It's relatively small. If I remember, I think it was somewhere around 70 million pounds.

Q – Jinesh Gandhi – Motilal Oswal

Okay, okay. This is - but I'll come back in queue, thanks.

Operator

Thank you. And next question comes from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia - Barclays

Thank you so much for the opportunity. Sir, one question on the realization in JLR. There has actually been a pretty sharp jump in the revenue side. Is there any one-off in the revenue that we have booked, or is it just product mix? - Volume and product mix.

C Ramakrishnan
Mainly the volume,overall product mix and richer geographical mix.

Sahil Kedia - Barclays
And sir, the one thing, I'm sorry to go back to the cash negative numbers or the guidance that you have mentioned. You're already tracking, if I annualize your EBITDA numbers, mostly about 4 billion more than that, while your guidance seems to be between 3.6 to 3.8. So just wanted to understand, does this imply a pretty sharp correction as far as your profitability is concerned. That's number one. Number two, new capacity is coming up in the UK. Can you just give us a status of that and lastly, how your China distribution footprint is going to look and what our targets are there?

C Ramakrishnan
In the same order in which you asked the questions - I don't want to get further into pinpointing a number on the EBITDA or the cash flow negative etc. I think what was intended was a general guidance. One can look at it in different ways and don't want to get to the extent of putting a number in terms of our guidance. From a business expectation point of view we expect, and I think it's only fair to share with you all that there will be some negative trends which have an effect on the EBITDA, lowering the EBITDA in FY 15-16, all of which mostly you will be aware of in any situation where the manufacturing gets shifted from UK to the JV company in China the EBITDA accounting will be different when you account for the China JV profitability. And the JV is also starting its production in the Greenfield plant. A complete new family of engines is starting now and getting built up. And because of the crowded product calendar that we'll have, there will be launch and other related costs also for many of the products in the next year.

Vijay, already in his opening comments has talked about some of the performance in some of our global markets. I think it's a combination of all this, and we don't want to get beyond this. Our aim would be to ensure that we are able to generate cash flows to meet our expenditure, but it's fully fair that we provide a warning for this, shape of the underlying business factors that are expected for next year. I don't want to go beyond this in terms of giving the precise amount or quantifying this.

The second question was related to capacity. We have talked about this before. By end of March 16 fiscal year, the manufacturing capacity in UK will reach about 550,000 vehicles, around that level, and we will have the China capacity at about 130,000. That will be our global capacity of the JLR cars.

The third question was about the China distribution footprint. And as I recall, we are at about 160, 170 distribution points at this point of time. We expect it will cross about 200 plus by next financial year.

Sahil Kedia - Barclays

All right, sir. Thank you so much. I'll come back in the queue.

Operator

Thank you. And next question comes from the line of Govind Chellappa from Jefferies. Please go ahead.

Govind Chellappa - Jefferies

Yeah, thanks. I had two questions. Number one, you mentioned and you quantified the amount of write-offs on receivables in the current quarter. Could you also tell us what has been the delinquency support to Tata Motor Finance? I think last year was a little short of 1000 crores. That's question number one. Second, just to refresh your memory - and this question hasn't been relevant for a long time, what is your capacity across various product lines in India, M&HCVs, LCVs and cars? And my third question is, do we have any clarity on the new Bharat state norms?

C Ramakrishnan

First, in terms of the provisions and write-offs, both in terms of receivables, inventories and others, in the quarter it has been a little over 300 crores. That includes a variety of three, four items. As far as the delinquency and other support, it can be in the form of interest subvention that we provide to the financiers for more attractive interest rates than what they would like to charge as far as the customers are concerned, so it can take in different forms. The delinquency support to Tata motor finance is a item which we have been providing for on a quarterly basis. Including that is the amount that I told you for the quarter. It's about 300 to 400 crores, in this particular quarter in Q3

The second question was capacities in India. At the current level of operations, we are roughly operating at about - it's difficult to put one magic number for capacities because of our wide portfolio of products ranging from trucks to small commercial vehicles to cars and UVs. Overall in the commercial vehicle business if I have to put an average number, we would be operating between 50% to 55% in terms of capacity utilization and about 30% in terms of passenger vehicle business.

Last question was on the Bharat stage norms. No, the position is not very clear at this point of time. We have to wait and see what happens.

Govind Chellappa - Jefferies

What proportion of your truck sales today is BS4?

C Ramakrishnan

I don't think I'll be able to give you an offhand answer at this point of time. We will come back to you separately on this

Vijay Somaiya

Govind, on the Bharat stage norms what the government has said that the new fuel would only be available in late 2017, so effectively we should wait and see. So it does look as if it is pushed out in time by two years.

Govind Chellappa – Jefferies

If we could slip on a related question, there is also some talk that we'll go directly from BS4 to BS6 by 2020. If that were to happen, how prepared are we?

C Ramakrishnan
I need to pass that question at this point of time. I'm qualified enough to answer that, but I will come back to you separately.

Govind Chellappa – Jefferies

Okay, I'll follow-up later Sir. Thank you.

Operator

Thank you. Your next question comes from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta - UBS

Yeah, hi, good evening sir, thanks for taking my questions. Just wanted to understand, I mean, has there been a significant impact in this quarter of the impact of Freelander runoff in this quarter, because your ASPs have improved and I guess that's because of the FX being favorable this quarter. The raw material costs has not really dropped down, so if you could give some explanation as to what is keeping the raw material cost constant despite better ASPs.

C Ramakrishnan
You are right. Freelander has been a runout model and typically when a model runs out you have to support it with a slightly higher variable marketing expense. So that is correct what you are speaking about, Sonal.

Sonal Gupta - UBS

But would you be able to quantify anything on the raw material cost side what sort of...

C Ramakrishnan
No, I don't think we'll be able to quantify, Sonal.

Sonal Gupta - UBS

Okay. And sir, the other thing in terms of your EBITDA pressure points, you mentioned the new family of engines, so I mean, my sense would be that since you are moving it in-house, it should, I believe be EBITDA accretive; how does it become EBITDA negative for you?

Vijay Somaiya

So we are talking about the launch costs. When you start a commercial production, the launch costs would be charged off to the P&L. I think what you are talking is, after the engine plant achieves the full ramp-up, if you recollect what we had said earlier that while we will definitely save Ford's profit margin on this, however the investments are fairly high and the depreciation and interest charge would be on the higher side. So, start of the commercial production there would be higher launch costs, but once you reach the ramp-up stage, it would be EBITDA accretive and neutral at PAT

Sonal Gupta - UBS

So EBITDA accretive and EBIT neutral, right?

Vijay Somaiya

PAT neutral.

Sonal Gupta - UBS

Okay, so just going back to the Freelander thing, have we seen the most of the runoff thing in this quarter itself or do you still expect something in Q4?

C Ramakrishnan
I think we still expect something in Q4.

Sonal Gupta - UBS

Okay. And just the negative impact of FX hedging this quarter is minus 20 million, is it?

C Ramakrishnan
Yeah, the realized hedges and revaluation of current asset and liabilities

Sonal Gupta - UBS

Above the EBITDA line, the realized hedges, yes.

C Ramakrishnan
Yes, please.

Sonal Gupta - UBS

Okay sir. Thank you so much. Thanks.

Operator

Ladies and gentlemen, and now it's my pleasure to hand the call flow back to Mr. Kapil Singh for the final remarks. Over to you sir.

Kapil Singh

Hi everyone. Thanks for joining the call and thanks to the management of Tata Motors for taking this call and joining late in the day. We will close the call now. Thank you.

Operator

Ladies and gentlemen that does conclude the conference for today. Thank you for participating. You may all disconnect.

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