



“Tata Motors Q1 FY 2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Motors Q1 FY2017 earnings conference call hosted by Macquarie Capital Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra from Macquarie Capital Securities. Thank you and over to you, Sir!

Amit Mishra: Thank you. Good evening, everyone, apologies for this delay in start and many thanks for standing by. We have with us on this call Mr. C. Ramakrishnan, Group CFO of Tata Motors; Mr. Ben Birgbauer, Treasurer, Jaguar Land Rover; Mr. Vijay Somaiya, Head Treasury and IR, Tata Motors; and other members of the Investor Relations team. I will hand over the call to Mr. Ramakrishnan now for opening remarks and presentation. Over to you, Sir!

C. Ramakrishnan: Thank you, Amit, for that introduction and thanks for hosting the call. Good evening, everybody. Once again, as Amit said, my apologies for the delay in the start of the call. I can only blame it on the weather and the rains and the traffic in Mumbai, my apologies.

Before I start, just to put the context in terms of this quarterly announcement for 2016-2017. Tata Motors as required has adopted the regulatory Ind AS Accounting Standards from this quarter. So, Tata Motors standalone and Tata Motors consolidated are being presented to you at an Ind AS accounting. There will be some figures you will see in some of the slides particularly pertaining to Jaguar Land Rover standalone, which for clarity we are continuing to provide under IFRS, but when it is consolidated in Tata Motors, it is under Ind AS. So, a bit of a complexity in terms of understanding the numbers later on, I will try and refer to this as we go through the slides.

Coming to the financial highlights for the quarter. Tata Motors consolidated net revenue was about Rs.66000 Crores, up by about 10% from Rs.60000 Crores in the same quarter of last year. EBITDA margin was about 12.9% in this quarter compared to an exceptionally high quarter last year of about 19.4%. I will come back to this 12.9% in a moment and

profit after tax consequently with the lower EBITDA margin and certain other impact was lower at Rs.2200 Crores, down from Rs.5200 Crores.

The standalone Tata Motors India operations being under Ind AS, we are also including the financials of our joint operations, which includes our 50/50 joint ventures with Cummins and Fiat. So including the joint operations, Tata Motors standalone business in India net revenue was about Rs.10000 Crores, up from Rs.9300 Crores. EBITDA margin further improved to 6.6% from 6% of the same period last year, and profit after tax at Rs.26 Crores, down from Rs.290 Crores of the same quarter last year; however, you will recall that Rs.290 Crores in the first quarter of last year included some income by way of sale of certain investments for a profit of over Rs.300 Crores.

The standalone operations were benefited from continued growth in medium and heavy commercial vehicles as well as growth in the light commercial vehicle segment. In our business, car segment also witnessed a very strong growth in this quarter on the back of the recently launched Tiago car. If I remove the effect of the joint operations, the EBITDA margin in the standalone business was 5.7%, up by 100 basis points of 4.7% in the same quarter last year. For comparison as required, the quarter one of this year and quarter one of last year, both are under Ind AS.

Coming to Jaguar Land Rover, just to clarify, these numbers are under IFRS as naturally reported by JLR. Net revenue was £5.4 billion, up from £5 billion of same quarter last year; EBITDA margin was 12.3%, down from 16.4%; and profit after tax, £300 million compared to £492 million in the same quarter last year. We saw solid sales volume and revenue growth in JLR, but the EBITDA margins were affected significantly by an unfavorable FX impact both pre and more particularly post Brexit and certain lower market incentives we received in our regional markets in quarter one of this year compared to quarter one of last year. If I remove the effect of foreign exchange revaluation, the EBITDA margin was actually around 14% for this quarter, which is more comparable.

In the presentation that you will see in the website later on, we have also added a slide in terms of the foreign exchange impact and the unfavorable revaluation impact of the two quarters separately. I will refrain from going through that in detail here, but you will be able to look at it a little later in time when it is on the website. I have given you the highlight anyway. Just to pause a little bit, the next slide is more on the specifics of the Ind AS

accounting changes. I have taken the previous year April to June 2015 quarter both at standalone and consolidated level and to give a flow in terms of what is the profit reported last year under Indian GAAP and what is the profit under Ind AS that we have restated now. At a standalone level in Tata Motors, profit reported under IGAAP last year for the quarter was about Rs.257 Crores. In summary, that increases about Rs.290 Crores under Ind AS.

The main components of this improvement, the major ones are improvement is basically the profit from joint operations, which I mentioned earlier; effect of reassessment of certain deemed costs of certain plant and equipment which are about positive Rs.48 Crores; negatively impacted by exchange movement on foreign currency instruments, which were earlier taken to balance sheet and amortized over the period of the loan which now require to be charged off in the quarter, that is about Rs.36 Crores lower; and there was a sale of investments of equity in the first quarter last year, which we had taken to the P&L, which had to be reversed to comprehensive income under Ind AS, that was a negative movement of about Rs.80 Crores. There are some further gains, roughly about Rs.13 Crores net impact, without getting into the details.

So net-net for standalone results for April to June of 2015, Rs.257 Crores profit reported under Indian GAAP improved to about Rs.290 Crores Ind AS. At a consolidated level, the Indian GAAP profit reported last year in the quarter was about Rs.2800 Crores, which improved significantly to about Rs.5200 Crores under Ind AS mainly positively impacted by the exchange movement of the previous year in that quarter where the exchange movement was very favorable; that is almost Rs.2000 Crores after this improvement and further by some smaller items. One item I would like the call out separately is also the effect in JLR mainly of accounting for cross currency hedges which is a different approach under Ind AS, which is also positive in that quarter last year of about Rs.742 Crores; and there is a negative impact at the consolidated level for reassessment of the future credit losses in our financing business, which is about Rs.330 Crores.

Just to clarify, the financing business Tata Motor Finance does not have to adopt Ind AS at this point of time. For them, the regulatory period for Ind AS adoption is post 2018. However, since we are reporting consolidated and Tata Motors is required to report under Ind AS, we have given effect to that change for Ind AS for that business as well in reporting for consolidated. A little bit more color on the operating profit performance. Standalone

business, as I mentioned earlier, the EBITDA margin improved by about 100 basis points mainly triggered by medium and heavy commercial vehicle growth which was at about 7.8%, a double-digit 11.6% growth in our LCVs, car segment grew for us by about 15% year-on-year and of course the effect of ongoing cost reduction and other margin improvement initiatives.

In Jaguar Land Rover the EBITDA, I already talked about the foreign exchange impact particularly on our Euro payables at the end of the quarter and the lower market incentive.

Coming to the businesses in commercial vehicles, the overall CV industry in India grew by about 11% year-on-year. Domestic CV volumes for the Company grew by about 9.9%, M&HCV 7.8% and LCV segment about 11.6%; however, in the industry, the variable marketing expenses continues to remain high. Our exports are up by about 2% year-on-year and some of the key highlights in our export businesses were order of over 500 units of Tata Xenon pickup from Malaysia, launch of the Prima in Bhutan, and launch of Ultra in Kenya. Passenger vehicle industry in the country witnessed a growth of about 7.4%. For Tata Motors, the domestic volume grew by about 6.3% in the same period.

Within the passenger vehicles, passenger car industry declined by 1% whereas the car part of our business had a growth of about 15.1% compared to an industry decline of about 1% and this was mainly triggered by the recently launched Tiago. You will recall the Company had launched the much awaited Tiago with the new impact design language, higher standards of fuel efficiency, and some other features which were best in class and industry leading.

Jaguar Land Rover wholesales and retails stood at 120,000 units and 118,000 units respectively; within which for China joint venture the wholesales retails stood at 14000 units, almost the same as the retails. We had significant growth in all the regions for our products mainly supported by the sale of F-Pace, XE, and Discovery Sport.

North America for us was up by about 17%, UK up by about 18%, China including the JV was up by about 19%, Europe 16%, and rest of the world about 6%. So, uniform significant growth across all markets. Capital expenditure and product development expenses for the quarter were £692 million. After this capital expenditure spends, the free cash flow was negative at £633 million driven mainly by the seasonal working capital which happens in

the first quarter every year increase in inventory build-up. If you recall in the same quarter last year April to June 2016, the free cash flow was negative by £834 million; however, the full year ended with a positive of about £800 million for the whole year. Cash and bank balances in JLR stood at about £3.7 billion and the committed bank lines of credit about £2 billion remains unutilized. We have that liquidity additional backup as well.

During the quarter, another highlight I want to draw your attention is further recovery of about £50 million arising from the Tianjin Port explosion for which we made a full provision last year and the third step of the recovery happened in this quarter. We had received some recoveries in the last financial year as well. In addition, we have now recovered about further £50 million and this has been recognized as an exceptional item in this quarter.

Our share of the China Joint Venture profits of the JV was about £45 million. The exciting new product pipeline continues in Jaguar Land Rover. F-PACE launched in April, XE in US the all-wheel drive launched in May, Evoque Convertible launched in June, and China JV the long wheel base XF is expected in the H2 of this year.

Jaguar Land Rover inaugurated its new technical center for special vehicle operations with an investment of about £20 million in this quarter. In this quarter, we also opened the plant in Brazil in June currently producing Range Rover Evoque and Discovery Sport. In the quarter again, Halewood plant of JLR received two prestigious Manufacturers of the Year awards in June and the plant has received as much as 13 awards since 2011. And this quarter also marked a major milestone in terms of five years of production of the Range Rover Evoque with accumulative production of 0.5 million vehicles.

Looking ahead in our India business commercial vehicles. We did see some market headwinds since June in commercial vehicles, particularly the medium and heavy commercial vehicles. However, we continue to expect growth momentum for the full year in medium and heavy. It may be somewhat uneven, but we expect the growth to be there for the full year mainly triggered by post good monsoon demand, continued replacement demand in fleet expansion, and towards the later part of the year a certain amount of pre-buying before the BS IV adoption in the country.

Similarly, we also expect positive growth in the buses and light commercial vehicle segments in this year. As I have shared with you before, our wide and compelling product range with several new launches in this fiscal we believe will provide a strong foundation for growth opportunities. In medium and heavy, we will expand the Prima LX and the Signa Range. In light commercial vehicle range, we will expand further the Ultra Range. And in small commercial vehicles and pickups, we will have refreshes and variants to further complement the ACE and Super ACE family.

Exports will continue to be a matter of high focus for us. And in defense we have strong order pipeline, both received and expected. Passenger vehicles business in India, we will continue to focus on launch of new products consecutively into the market and we have a well-defined robust product plan medium to long term. We will continue to focus on existing products for growth in volumes. As I shared before, dealer network expansion and customer centric and quality improvement activities are receiving further momentum where we saw very satisfyingly a third place in the JD Power rankings last year, we hope we improve it further.

Jaguar Land Rover, looking ahead; we will continue to invest in new products, technology, and manufacturing capacity to grow profitably. For this fiscal year, we expect the investment spending capex and product development, as I shared with you before, to be in the region of about £3.75 billion. We will continue to build on recent successful product launches and sales ramp-up of these products and new models yet to be announced. We will continue to closely monitor and assess market conditions in the UK and EU post Brexit as well as China as the target GDP growth rate in China comes under some challenge and may come down. The new product pipeline, both recently launched and to be launched, we expect to drive solid profitable growth for JLR going forward and maintain positive and strong operating cash flows to fund the ongoing investment.

Just a few words on the Brexit as far as JLR is concerned, Brexit will have two or three major implications for us. One of course is the currency, the extent to which pound continues to remain weak. Second will be on the tariff front that might result following the exit from EU across the ocean and impact, if any, on the overall economic growth and consumer confidence both in UK as well as the EU. Touching briefly upon these. In terms of currency implications, you all know very well we have shared with you before; JLR's revenue more than 80% comes outside the UK from Europe, China, US, and other markets.

We do source about 40% - 50% of our components from EU. Therefore, if you take a combination of these, JLR overtime would benefit from a continued weaker pound as a result of the Brexit. Even though it is partially offset by the higher import costs on what we import from Europe, overall with the manufacturing and revenue distribution being what it is with 80% of revenue coming from overseas turnover, a weaker pound will definitely benefit JLR over a period of time.

I repeat for a period of time in view of the hedging book that we have so our hedges unwind, we will see the business getting stronger with the current exchange scenario. As far as tariffs are concerned, UK vehicles exports into the EU roughly about 24% of our total could become subject to tariffs depending on the trade agreements. Similarly vehicles manufactured in the EU, which gets sold in UK in our competition products, could become costlier in UK. Component source from EU could also become subject to tariff; however, this would be recoverable because we export substantial part of the production in the UK since we re-export, the component import duties if any are there will be somewhat muted because of the large exports JLR has.

With this, I will end this presentation and open the line for Q&A. I am aware that we started the call a little late, but since we have one more engagement and commitment after this, I would request if people can keep their questions brief and not more than two questions per participant. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Sir couple of questions from my side. One is with respect to JLR, can you indicate what is the adjustment to the EBITDA margins in terms of quantum because in the presentation it is mentioned somewhere about £200 million odd and in another place about £110 million odd? So, can you clarify on the number? And secondly with respect to local market incentive, how much it was in this quarter?

C. Ramakrishnan: When it comes to FX particularly when you compare the last year first quarter and this year first quarter, we are almost talking about contrasting period. So the effect, if you aggregate, becomes very sharp particularly if you compare it to the previous year's first quarter. That said, in the current quarter April to June, the end of the quarter revaluation of the assets and

liabilities was of the order of £84 million negative, which was positive £34 million in the same period in the last quarter and the hedges which have been realized in the quarter accounted for about £123 million negative in this quarter. That is a total of £207 million.

If you keep the realized hedges aside for a moment, if you look only at the revaluation at the end of the quarter and if you adjust for that, both of these come under above EBITDA. But if you take only the revaluation of the assets and liabilities at the end of the quarter which was £84 million negative, the EBITDA margin improves to about 14% from 12.3%. As to your question on local market incentive, I am speaking from my memory and Ben can correct me if I am wrong. Last year in the same quarter if I remember, I think it was of the order of about £50 million, £60 million whereas this is just about a little below £10 million in the current quarter.

Jinesh Gandhi: Sir, one clarification with respect to standalone volumes given in Business Review, those volumes also include volumes of Fiat and other companies since it is including joint operations?

C. Ramakrishnan: No.

Jinesh Gandhi: Thank you, I will come back in the queue.

Moderator: Thank you. Next question is from the line of Robin Zhu of Bernstein. Please go ahead.

Robin Zhu: Thanks for taking my question. I have two questions; one, if we think about the £123 million of negative realized FX hedges and the idea that as we progress overtime these presumably gets more as hedging adjusts. Could you give us some color on just how much or how long that process may take assuming the pound stays steady? And then the other question really is just what are you seeing in terms of the China JV? It seems like you printed 20% net margins again, could you just go into a bit of detail about how long you expect that to be sustainable and at what point should we see a moderation of margins in the near future? Thank you.

C. Ramakrishnan: On your first question, I will not be able to put a time frame because it is over a period of time. Our hedge policy and our hedge book stretches across four, five years; however, in the near term if you take 12 months from now, the average hedge position would be of the order of about 65%, 70% within which the first quarter, the next three months, could be

higher and in a declining percentage. Second year, the hedge position would be lower and so on and so forth. By the time you reach fourth year, it will be not more than 10% or 15%. So, it is a declining percentage in terms of net exposure that we have as a hedging policy so as these hedges unwind definitely if the pound stays where it is you will start seeing the business emerge stronger and stronger over a period of time. I do not know whether that provided some clarity in response to your question. As far as the JV margins are concerned, yes, both in the immediately preceding quarter and in this quarter, the margins have come out rather strong. As I have explained in the last quarter call as well and in response to many of your questions, I think we need to give it a little time. I think the margins will moderate mainly because it is start-up activity and the full capacity is not kicking in, in terms of shifts and workings and additional costs. So, I think we need to wait for another one or two quarters and I think the margins will moderate somewhat.

Robin Zhu: Thank you.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjhunwala of Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Why do you consider only the 84 million as a loss to increase your EBITDA percentage and not the other portion? You have the loss of 207 million? One is 84 million and one is some 116 million?

C. Ramakrishnan: It is 120 million roughly.

Rakesh Jhunjhunwala: 120 million, then why do not you consider the 120 million also as part of your EBITDA?

C. Ramakrishnan: Both 120 million and 84 million are accounted above the EBITDA line.

Rakesh Jhunjhunwala: So, therefore both of them are reducing your EBITDA. So in increasing your EBITDA margin, why do you take only 84 million, why do not you take the other 120 million?

C. Ramakrishnan: If you were to take both into account, the margin actually would come at about 16%, but that will be arithmetic and not perhaps a very logical deduction.

Rakesh Jhunjhunwala: That means you take that 120 million as a part of the regular business cost and the 84 million you treat as an exceptional. Am I right?

C. Ramakrishnan: No, it is not so much regular business and exceptional. What happens is that 123 million relates to the hedges that we had taken in the past, which have unwound during the quarter. Corresponding to that, the trade exposures that were covered would have come in at a higher exchange rate so we would have already had the benefit above the EBITDA. So, we thought it is not appropriate to take the double benefit.

Rakesh Jhunjhunwala: That means you booked the bill at 110 million and you have hedged 130 million so the difference you take as a loss, am I right?

C. Ramakrishnan: That is right.

Rakesh Jhunjhunwala: That you treat as part of business, but what you mark as part of what is outstanding as on that day?

C. Ramakrishnan: That is a more fair way to report that. If you have to add both being foreign currency hedged transactions, the EBITDA margin would look at 16%, but may not be the completely correct way of looking at it.

Rakesh Jhunjhunwala: Another thing I wanted to say is Sir, why do not you give us in exact what your hedges in foreign exchange are? Because foreign exchange component now has become such an important part of your profit so therefore to guide us as to how you have hedged your profit in numerical terms, you give us a better assessment of the future profitability and Infosys and a lot of other companies are giving the quantities and rates at which they are hedged.

C. Ramakrishnan: Rakesh Ji, this year in the slide presentation we have added a slide at least in terms of the impact above EBITDA and before EBITDA in the foreign exchange transactions, which in response to many of the questions we have received.

Rakesh Jhunjhunwala: No, not for the current quarter, what about the future?

C. Ramakrishnan: I understand. We will try and improve the disclosure details.

Rakesh Jhunjhunwala: Because what happens is this. This is something, which is very complicated, and generally something not undertaken by Indian companies. Such complex revenues; you account in pounds, you sell in dollars, you buy in euros, is that right? You are accounting in pounds, your 80% of the sale is in dollars, and you are buying in euros.

Ben Birgbauer: You can only have one functional currency.

C. Ramakrishnan: I understand the complexity.

Rakesh Jhunjhunwala: No. If there is a paper explaining the complexity and also giving us some idea because we are at loss to understand what will happen in the future quarters unless the hedges are known.

C. Ramakrishnan: No, I think we have been sharing with you the currency exposure mix in JLR. I repeat about 80% of the operations are exported out of UK. In terms of currencies, about 60% of the revenue will be either dollar dependent or dollar linked, Euro forms about 25% of our revenue and about 50% of our costs. These are the two, three major currencies.

Rakesh Jhunjhunwala: Do you hedge the Euro for the sales or you set it off against the components that you import?

C. Ramakrishnan: That is right. For the component that we import where we have to pay in euro, we hedge the Euros.

Rakesh Jhunjhunwala: You hedge the Euro, but you get a revenue also in Euros, no?

C. Ramakrishnan: Correct, so we hedge the net position.

Rakesh Jhunjhunwala: You take the net Euro. That means net Euro and net pound will get 60% in dollars?

C. Ramakrishnan: That is right.

Rakesh Jhunjhunwala: How is the market in August and September? How are the sales in August?

C. Ramakrishnan: You are talking about India or Jaguar?

Rakesh Jhunjhunwala: Talking about Jaguar?

C. Ramakrishnan: Jaguar Land Rover continues to roll. The product pipeline, I think I have mentioned in the calls earlier and also in many of our interactions. I think the product, the pipeline, the performance, and the demand-pull in the market continues to be quite heartening. For the

April to June quarter, you saw some of the double-digit growth we have posted across almost all markets whether it is US, Europe, China, or UK.

Rakesh Jhunjhunwala: Do you expect the growth to continue because you are making such a big investment in Slovakia?

C. Ramakrishnan: Yes, we do expect the growth to continue. Sorry, let me change it slightly. We hope the growth will continue.

Rakesh Jhunjhunwala: And in India, Sir?

C. Ramakrishnan: India, overall I would say for the year I think commercial vehicle industry will see the growth notably in medium and heavy commercial vehicles and since January as I have shared before, we have also seen growth coming back in light commercial vehicles and small commercial vehicles.

Rakesh Jhunjhunwala: Sir, what do you think this government is talking about the scrapping of old trucks?

C. Ramakrishnan: We need to see how we have to see some more comprehensive solutioning for the customers.

Rakesh Jhunjhunwala: But Sir, suppose they give announce it, then it should be a big kicker to demand in sales for us?

C. Ramakrishnan: Yes, it will be for all.

Rakesh Jhunjhunwala: It will be a game changer actually.

C. Ramakrishnan: First of all from the country point of view, I think it will change the face of the trucks that ply on the roads, which will lead in perhaps to lesser pollution, more efficiency in logistics, and a whole host of other benefits. The newer trucks will also be from a driver point of view, will definitely be much more comfortable both driving and in terms of the cabin comfort. So, from all points of view; from the logistics, operators, or drivers, and the manufacturers; I think it will be a very, very positive step.

Rakesh Jhunjhunwala: And how is the defense order, Sir?

C. Ramakrishnan: I think I have mentioned before, we received more than 1200 vehicle order recently in the last three, six months, that supplies are continuing and we are already in discussions on further orders which are in the pipeline.

Rakesh Jhunjhunwala: Thank you and congrats on a good quarter.

Moderator: Thank you. We have the next question from the line of Yogesh Aggarwal of HSBC. Please go ahead.

Yogesh Aggarwal: Good evening. Two questions, firstly Sir, over the last two years your revenue per car and COGS per car has come down, which is understandable because of the mix, but employee cost and other expenses have gone up quite sharply by more than 20% over the past two years. Is it because you are localizing more or is there anything else, if you can help explain?

C. Ramakrishnan: Yogesh, I suppose your question is more on Jaguar Land Rover.

Yogesh Aggarwal: Yes, it is Jaguar.

C. Ramakrishnan: In the same period, you must remember that Jaguar Land Rover is also investing heavily in capacity production ramp up and in terms of the product pipeline and the capex and product development cost that we have, we are also investing heavily in engineering and other skills. Just to give you an example, if you recall if I go back about six, seven years when we acquired, the company had a total strength of about 15000 people; out of which 2000 were overseas and about 13000 in UK. And immediately post that when the 2007-2008 turmoil happened, we actually reduced the headcount by a couple of thousand people. So, we were operating more at about 12000, 13000 people somewhere in 2008 or 2009. Today on a comparable basis, the headcount in JLR will be 30000 plus.

Ben Birgbauer: Almost 40000.

C. Ramakrishnan: Almost 40000 as we speak. That is the type of ramp-up and you would see it in volumes and so on and so forth. So, you need to get the capacities and also the people, skills, and capabilities in place to cater to the volumes. So, volume growth will happen post your ability to bring in the right people and the right skills and the production workforce. So, that is the trend line. Hopefully we have to bring two, three foundations for growth; one is the

product pipeline itself, second is building up capacities. Capacities start normally building at least couple of years or two or three years in advance and you start bringing the people on board at least a year in advance and you also have to add people in a whole host of service functions; be it purchasing or design engineering, finance, and other support areas. So, the company is going through a massive expansion on all fronts. So, you will see these trends happening from time to time. Hopefully the growth will bring us better profitability and better bottom line as we go.

Yogesh Aggarwal: Sir, secondly, the EBITDA margins for JLR in the first quarter. If I look at the clean margin ex the hedging cost and the reval, they are down 200 basis points year-on-year despite 8% fall in pounds. So, is it the entire impact of mix?

C. Ramakrishnan: My apologies, can you repeat the question, the first quarter EBITDA margin?

Yogesh Aggarwal: Year-on-year is down 200 basis points ex of hedging losses and reval impact and this is despite pound weakness. So, is it the mix impact?

C. Ramakrishnan: It is mix and region. I am trying to recollect first quarter. I think the first quarter of last year was an exceptionally good year for JLR. The EBITDA margin also included.

Ben Birgbauer: If we talk about the variance in FX being 118 million on reval, that plus the lower local market incentive explains almost the entire difference of the reduction in EBITDA margin from last year.

Yogesh Aggarwal: Thank you.

Moderator: Thank you. Next question is from the line of Chirag Shah of Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. Sir, first question is on Discovery Sport and its supplies to China. Can we hear your capacity ramp up plans because it seems there are vendor shortages or shortages of component supply especially for Discovery Sport and Evoque combined line?

C. Ramakrishnan: You are talking specifically about the China JV operation?

Chirag Shah: Yes, China JV and in general the Discovery Sport capacity?

- C. Ramakrishnan:** No, that is not quite correct, I am not sure where you got the input from, yes, the product lines, particularly in UK are running fairly full. March 31, 2016 our overall capacity would have been something like 500000, 550000 and last year itself we did total wholesale of about 520000, 530000. Apart from that while we are ramping up capacities, I cannot recollect any component shortage or any particular constraint on Discovery Sport either in UK or in China.
- Chirag Shah:** What are our plans for ramping up the Discovery Sport volumes in China? How is the demand over there any more engine options to be introduced, if you can just share some light over there?
- C. Ramakrishnan:** In terms of headroom for growth in China, as you remember, the overall capacity in the joint venture we have set up is about 130000 cars. This year as all the products kick-in into the joint venture that is Range Rover Evoque which went in last year and Discovery Sports a little earlier and XF which will move in now; we expect all the products will be fully in place in the joint venture and we hope we will be able to fill up the capacities in terms of the growth, in terms of our capability to supply and produce. In terms of market demand, as I said earlier, China continues to be an important market. Whether you take the call or I take the call and we put a percentage in terms of overall GDP growth 5%, 6%, or 7%; for a large economy, it is still an impressive growth. We may see some bumps on the way, but overall I think the trend line will be one of growth. And with the attraction and the strong demand-pull for our products, we expect our growth will be faster than the overall industry growth.
- Chirag Shah:** Sir, just a clarification on this GBP84 million current assets and liabilities revaluation, we would not be hedging this book, right? And if the currency stays where it is, this is likely to be an actual loss in subsequent quarters because our payables would go up to that extent? It is not necessary an extraordinary or a long dated item. Our payment terms are around 60 days to 70 days if I understand correctly to vendors.
- C. Ramakrishnan:** The payment terms are typically between 30 days and 45 days, I cannot recall 60 days to 75 days. Some of them may be 60 days.
- Chirag Shah:** On the engine procurement side, we have a slightly elongated cycle as far as payment to the engine suppliers?

- C. Ramakrishnan:** No, no. That is also 30 days. Let me just clarify. It is incorrect to say that we do not hedge our payables. I think I answered in the earlier question that Rakesh asked. We also receive revenues in Euros for our sales into Europe. We also have payables in Europe. We hedge the net position.
- Chirag Shah:** Okay. So, this loss is likely to reverse because what I understand is it is kind of a reoccurring loss that could happen if the currency stays where it is?
- C. Ramakrishnan:** But presumably lower and lower. The hedge cover also would be lower as we go into the future quarters and future years.
- Chirag Shah:** This was really helpful and all the best.
- Moderator:** Thank you. The next question is from the line of Govind Chellappa of Jefferies. Please go ahead.
- Govind Chellappa:** I had two quick questions. One, what was the production of Ingenium engine in the current quarter and last year? And second, if I recall right, your total payable position as of March 31 was between GBP5 billion and GBP6 billion. GBP85 million of MTM seems very low in context of how large that is, if you could just explain that?
- Ben Birgbauer:** On Ingenium, I am sorry, I do not have the production figures in hand so I think that is one thing you would need to come to us offline. The simple or the qualitative answer on that is basically it is supplying most of the 4-cylinder 2-liter diesel engines now for most of our products at this point in time. So, I think that is the simple answer. But I think if you wanted a more detailed answer, we probably need to cover that offline. And I think on your second question, you were talking about the GBP84 million of revaluation. And I think what we said is it is mainly Euro payables, but there are other balance sheet items that are in there. We do have some dollar payables that get revalued and we also have things like warranty reserves denominated in Euros that are also getting revalued. So, all of those things are in that balance sheet revaluation figure.
- Govind Chellappa:** My question was the amount of the actual payables is about GBP5.8 billion or so and the currency has moved from balance sheet date of March 31 to June 30 depending on which currencies moved 5% to 7%. So, the number should have been much larger.

- C. Ramakrishnan:** The number should have been much larger?
- Govind Chellappa:** Yes. I mean I am just saying the extent.
- Ben Birgbauer:** Maybe we need to take this offline again, but I think that payable figure that you are quoting sounds larger than I would recognize to be honest. I am wondering if that's all payables you are picking up rather than just what are euro denominated payables.
- Govind Chellappa:** Yes, I am taking up all, but all of them need to be mark-to-market, right?
- Ben Birgbauer:** A lot of them are in pounds so they do not get mark-to-marketed off.
- Govind Chellappa:** I will take this offline. Thanks.
- Moderator:** Thank you very much. Due to time constraints, we will be able to take one more question. Last question is from the line of Jamshed Dadabhoy of Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Just one question. So, you will have recorded almost a 15000 Crores loss on the hedge reserves, which has been routed through OCI. I just wanted to understand is this the last of the losses that we would see assuming currency remains at 1.3, 1.32 or going forward will there be some future recurring losses which will hit your network?
- C. Ramakrishnan:** That is starting with the assumption that the currency stays where it is, which is somewhat of a difficult assumption to accept. If the currency stays where it is, I do not think we should have further impact on the OCI at least. The revaluation will not.
- Jamshed Dadabhoy:** It is fair to assume that a further depreciation will lead to another hit?
- Ben Birgbauer:** It goes both ways. If there is depreciation, there will be another hit and a revaluation; if there is an appreciation, there will be a gain.
- Jamshed Dadabhoy:** Could you give us some sense on the hedge book like I know you all hedge 70% and then 50% and then 30%; but weighted average duration of the hedge book could be about two to two-and-a-half years from a time perspective?
- Ben Birgbauer:** I would not want to do that math for you. I just think as a guide, I have said this before. We hedge 65% to 85% one year out, 45% to 65% two years out, and descending percentages

thereafter. And I think that is giving you a fairly good guide of how much of our exposure is hedged.

Jamshed Dadabhoy: Is there some thought that you might want to curtail or bring down the size of the hedge book? I mean given that we seem to be in a depreciating currency scenario, it just seems that you all are losing money year after year?

Ben Birgbauer: I think these things are scenario specific. We hedge to smooth volatility in currency and the reality is we have had a historically weak pound for about a year-and-a-half and sharply weaker after Brexit and so as a result, the hedges have had losses. But on the other hand, we have improvement on the underlying operating exposure and so it is smoothing our overall financial results. I think it is wrong to focus just on the hedges without looking at the underlying and looking at them in conjunction to one another.

Jamshed Dadabhoy: You all have not commented on the variable marketing incentives this quarter, could you just give us a sense how they moved versus last quarter or versus the first quarter of last year, I mean just the trend?

C. Ramakrishnan: When you ask about variable marketing expenses, I just need to clarify you are talking about Jaguar Land Rover or commercial vehicles?

Jamshed Dadabhoy: Yes, JLR.

C. Ramakrishnan: I am more concerned about the commercial vehicle variable marketing expenses rather than JLR. No, I do not think at least from our point of view we have seen any significant attention to be drawn to this item. Or if you take a period of last couple of years, I think they would have been generally inching upwards but nothing in terms of cause of concern as yet. One thing in our case at least, the successful and successive launch of products, I think has kept the brand fairly with a good amount of pull. And the new products normally you are able to manage with a much, much lower incentive that would be necessary. And also if we look at the product pipeline coming up in the future while the overall trend if you take three, four, five-year period may be upward, I think we are able to manage it fairly well.

Jamshed Dadabhoy: Thank you Sir. That is useful.

Moderator: Thank you. That was the last question. I would like to hand the line back to the management for any closing comments.

C. Ramakrishnan: Sorry about this time pressure and the delayed start once again. Thank you very much to all of you for taking the time and joining us in this call. And Amit from Macquarie, thank you once again for hosting the call.

Moderator: Thank you very much. On behalf of Macquarie, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.