

**“Tata Motors Limited
Q1 FY2019 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day, and welcome to the Tata Motors Q1 FY2019 Earnings Conference Call hosted by Motilal Oswal Securities. 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. Jinesh Gandhi from Motilal Oswal Securities. Thank you, and over to you, Sir!

Jinesh Gandhi: Thank you, Raymond. Good evening, everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to 1Q FY2019 post results conference call of Tata Motors. Tata Motors is represented by Mr. PB Balaji, CFO, Tata Group; Mr. Kenneth Gregor, CFO, Jaguar Land Rover; along with senior management and members of the Investor Relations team. I would like to thank the management for taking time out for the call. We will start the session with commentary from the management followed by Q&A.

I would now hand over the call to Mr. Balaji for his opening remarks.

PB Balaji: Thanks, Jinesh. Good evening, everybody, and apologies for the late start. We had a bit of a technical lapse here but now it has sorted. I also have with me Guenter as well as Ralf on the line, so we have a full house from our side here.

Let me quickly cut to the chase. You have already received the investor deck. I am sure you have already downloaded from the website, and let me just talk you through some elements of it.

For starters, this is the safe harbor statement. Just draw your attention to that. And in terms of the new developments of the quarter, it has been quite an action-packed quarter for us with I-Pace going on sale as well as the 18 Model Year Range Rover and Range Rover Sport including the PHEVs actually being launched. And domestically, of course, the relaunch of Tata Ace Gold, going back to the original version of Tata Ace, and the Nexon Hyperdrive were standouts for us. And the full Nex-Gen Ultra range of trucks has also a good 14-odd trucks got launched simultaneously. On track to start production, as we shared with you in the Investor Day, on the Slovakia plant as well as a software engineering center in Ireland was launched this quarter.

Moving into the market. It has been quite an interesting time for us. While India continues to shine, and we will talk about the Indian domestic business at a greater length later, we did face temporary headwinds in China because of the duty changes that came through. And at the same time, be it Brexit, be it diesel uncertainty or higher incentives and market cyclicity in the U.S., those continued this quarter as well. So our performance was impacted by these challenging conditions and what we believe as temporary headwinds as well as a combination of the two.

Moving to Slide 5, the consolidated results at a glance. Turnaround 2.0 has started off on a very strong note in the domestic business, and we will talk about it in slightly more detail later. And JLR was impacted by the market situation, including the China duty impact and planned destocking that we had undertaken. Revenue grew by 14.4%, where the strong domestic growth offset the JLR de-growth, and the reported EBIT at minus 0.8% is a tale of two halves, with TML Standalone improving it by 1,220 BPS and JLR declining by 490 BPS.

Profit after tax was fundamentally due to the very weak performance at JLR, and as a comparative versus the last year, this is the same period when we have the pension credit that was a one-off credit that we have received. And the FCF for the auto business was a negative Rs. 18,000 Crores, and we will talk about it a little bit later as well.

Just going down a little bit into revenue. Bulk of the revenue growth of about 14.4% came from two pieces: one is volume and mix; as well as the other was translation. And looking into individual companies, bulk of the growth, about Rs 7.6 Cr (13.0%) of this growth, came from Tata Motors Standalone, with JLR declining Rs 3.3 Cr (5.5%) at an overall level. And if I just go down into JLR numbers a little bit more, the revenue while the revenue was down 7%, reassuringly, the retails were up 6%. And particularly happy to see U.K. coming back to growth very strongly at 14.3% and as well as rest of the world at 20% and North America at 8.8%. So pretty strong retails coming through in some of our largest markets. The retails were slow in China fundamentally in the run-up to the custom duty change that is happening as well as Europe, which continues to be a challenge for us.

Wholesale, on the other hand, of course, probably the impact of the wholesale decline we are seeing all through the P&L and right up to the cash flows, it was declining by about 7.7% fundamentally due to sales deferral in China post the import duty cuts as well as planned inventory reduction. And we see some part of the planned inventory reduction to happen in Q2 as well, but that is well within our budgets that we have planned for the year. So this decline actually then took China down by about 25.4% and Europe down to about 16.3% negative and U.K. down at minus 14.8%, so a pretty significant number coming through because of the pipeline corrections and the duty deferral. At the same time, Tata Motors Standalone on other side was up 83%. Though the number is flatter to some extent, to the extent of the base impact that was there. And we saw broad-based volume growth in CV and PV. And as we had committed earlier that this time, we are splitting PV, CV results, and we will talk about that later in the presentation.

On EBIT, going to the EBIT slide on Slide 7. EBIT was down 130 BPS, with JLR losses partially offset by strong improvement in the domestic business. And if I look at the 0.5% going down to minus 0.8%, 3.6% out of it was the decline in JLR and 2.3% is the compensation that TML Standalone did to that particular P&L. So while it is disheartening to see the JLR EBIT down 490 bps, it has also heartening at the same time that the domestic business is coming to the party and actually holding up some of the numbers there.

So moving on to the Fit for Future update. This is something that we had said that we would continue to keep you updated as the year progresses. We have now taken a decision on the Thailand business, which a lot of you had raised at various points in time. Tata Motors has decided to revamp the business model in Thailand. For people who do not know the business, we entered the business in 2007 with a portfolio of pickups and with local manufacturing. The business, from the word go had challenges, lack of product competitiveness as well as weak channel delivery, which has led to subscale operations and consistent losses. And this we have now decided to therefore completely reassess this model and to cease manufacturing operations locally, and we will meet the needs of the Thailand market with a revamped product portfolio, which will be viable for us, as well as a CBU-based distribution model. And last year, this business lost almost Rs.170 Crores, and we intend to stem this loss at a turnover level of about Rs.70-odd Crores. It has quite a substantial loss that we incurred and some one-offs as well. But that is something that we intend to stem going forward, so this is one of the tougher decisions that we have to take. And as we speak, communications are going to employees, dealers, suppliers, etc., but we stay committed to the business in terms of whatever commitments we have made in this market in terms of product availability, spares, suppliers, etc., all that will be ensured that we retain it there.

So moving on to the 6 cylinders of the Tata Motors engine, we talked about it last time. Let me quickly hand you over to Ken and Ralf for taking us through the JLR side of the business. So Ken, over to you!

Kenneth Gregor:

Thank you, Balaji. Let me take you through Slide 12 and give a little bit more detail behind the headlines Balaji has just given you all.

On Slide 12, we have revenue down to GBP 5.2 billion compared to the GBP 5.6 billion in the same quarter a year ago, which reflects the lower wholesale volume. We had a loss in the quarter of GBP 264 million compared to a profit in the same quarter a year ago. And the EBITDA margin stood at 6.2%, somewhat lower than the 7.9% we had in the same quarter a year ago. And then you see the EBIT, minus 3.7% compared to the plus 1.2% that we had this time last year.

Really, there are 3 big factors in the quarter that drove the loss. Firstly, the impact of the China duty change, which was announced at the end of May, effective July 1. But during the quarter, well, that led to us and also our competitors reducing prices ahead of the duty change. That led to higher variable marketing expense but sales in China were still lower in the quarter as we saw some customer hold-off. We estimate that around about GBP 100 million is the impact in the quarter.

Secondly destocking has had an impact, which Balaji has already alluded to. And what I mean by that is whilst our retail volume was up 6%, our wholesale volumes were down a similar amount. And what that means was broadly the amount of stock that we had in retail is reduced in the quarter, which is good from the point of view of taking away some of the pressure on the market and the retailers, but obviously, it was painful for us because we have to accept lower wholesales in the quarter. And we estimate that the principal effect of the difference between wholesale and retail is worth about GBP

100 million. We also had a little bit of effect, again, in common with the rest of the industry, with changes at 19 Model Year related to wholesale timing connected with WLTP testing, and that was worth around 3,000 wholesales or GBP 30 million versus retail.

Thirdly, beyond the duty change and the destocking is foreign exchange revaluation. Sterling was weak in the quarter, for example, against the dollar, reduced from around GBP 1.40 to the dollar to around GBP 1.30 to the dollar in the quarter, with similar movements against other pairings. And that drove a negative revaluation of our foreign currency payables and other liability that was worth also around GBP 100 million in the quarter and produced actually quite a large year-on-year swing because in the same quarter a year ago, we had a positive revaluation. Those 3 things are getting at us.

Also from a year-to-year point of view, something that's been a trend and will continue to be is we will continue to see higher depreciation & amortization quarter-by-quarter as the investments in the new models we make come back at us through the income statement in the shape of depreciation, amortization. Those are the big pieces driving the tough Q1 figures that I have just described.

Turning to Slide 13. Just gets a little bit more textured by region around the retail results with some memos on the wholesale. You can see the retails were up about 6% with growth in the U.S.; growth in the U.K, which was good to see; more modest growth in China; growth overseas up with Europe down around about 2,000 units year-to-year. And you see the wholesales with the opposite effect, as the wholesales broadly were lower in most regions apart from overseas for the reasons I have just described.

By model, you can see on Slide 14 the new models drove volume growth, Velar and E-PACE in particular, which was pleasing to see as we started to roll those out. And with the I-PACE, early days for the I-PACE, I will come back and talk a bit more about that in a second, but really pleased by the market reception for the I-PACE although the figures in this quarter in retail terms are low.

Slide 15 has the bridge compared to a year ago. We start from GBP 133 million, which is the profit of the prior quarter excluding the one-time pension credit adjustment we had in Q1 FY2018. And then you can see the impact of the various items that I have described in the various parts, the lower wholesale, and the China duty-related net pricing impact. We currently have 2 more extra manufacturing facilities compared to this time last year, and that brings some operating costs with it. In the contribution cost bar, commodity costs are somewhat less favorable, and there was also a credit in the prior year income statement on warranty reserve revaluation that does not recur. And all of those 3 things adding up in about equal measure to the GBP 90 million negative year-on-year on contribution cost.

On the structural cost or the fixed cost, if you like, it has all explained by depreciation & amortization growth. Actually the other selling, general and admin costs were basically flat or slightly lower year-on-year,, but that has been offset by the continued growth in depreciation & amortization. And on the foreign exchange and commodities, you have got the revaluation effects I already talked about. That

is actually being partly offset by, more favorable operating foreign exchange as our hedge losses roll off. But one way or another, that rose through to the GBP 264 million loss we had in the quarter.

Slide 16 has the investment spending. Broadly, we remain on track and spent just about GBP 1 billion with our model investment program, split between R&D and capital investments in the proportions shown. And just to reemphasize, we do see full year spending in the GBP 4.5 billion regions for the full year.

Slide 17 has the walk between profits and cash flow for the quarter. The cash flow was a cash outflow in the quarter of GBP 1.7 billion after the investment. And this describes the various pieces of it. Obviously, the loss did not help in the first place. You add back the non-cash depreciation, amortization, and the investments I have already talked about. The piece that we saw in the first quarter that we expected to have and we did have because of largely seasonal factors is an unwind of the working capital largely due to the amount of production we have in the quarter compared to the prior quarter and the amount of wholesale we have in the quarter compared to the prior quarter resulted in a GBP 960 million outflow in working capital to get to the GBP 1.7 billion.

I would expect in the normal course of events just like in last year and the year before, in the second half of the year, we should see positive cash flow, positive working capital. But clearly, we have to absolutely keep on top of this and manage the pieces within it, such as the inventory, the payables, and the receivables, to make sure that that happens.

On the joint venture, Slide 19, we saw volume growth in the joint venture in terms of retail and in terms of wholesale. However, our share of the profits in the joint venture were lower this quarter than the same quarter a year ago. And there are 3 or 4 items that are within that.

The profitability, on Slide 20, was impacted by unfavorable model mix with the launch of the long wheelbase XEL. We did see higher fixed marketing spending to support the higher growth. We had higher variable marketing to reflect market conditions that we experienced in China and also higher depreciation and amortization. So a number of factors combining to cause lower profitability, albeit what I would say, the profitability we had in the quarter a year ago with an EBIT of 31% is never going to repeat. But that said, lower profitability in the quarter. But there was a 13% EBIT margin.

Turning to Slide 21. Clearly, we do remain very focused. We do not like the present financial performance, and we are committed to improving it. So this talks to the levers, the pressures, and of course, the business challenges, Slide 21, between the economic impacts in U.K. in particular with Brexit worries it is definitely having an impact. The electrification, the diesel uncertainty also likely to be having an impact for us in Europe and all the other trends in the market forces that are causing relatively more competitive market conditions that we are facing this quarter. Those are all the challenges that we face. Some of those have intensified in the quarter as I have talked about. Clearly, in the short, medium and longer term, we are very focused on turning this around. And we do see the possibility still for growing premium segments. We are very committed to delivering more exciting

new products in order to provide profitable volume growth and thereby, improve the operating leverage. Meanwhile, of course, driving cost efficiencies and our architecture strategies to build new models are as efficient as they can be and driving, therefore, towards a longer-term EBIT target between 7% and 9%, albeit within the short and medium term, we do expect to see EBIT margin, as we said before, in the 4% to 7% range.

The model range, Slide 22, continues to grow. I think we have talked about most of these already. But the big addition for us this year is the Jaguar I-PACE, which we are incredibly excited about and has a super reception.

Slide 23 talks to this year, just focusing back a little bit more on the short term and the items that we are clearly seeking to drive in the second half of the year in order to improve on the performance in the first half. And there are a number of factors, which we are clearly seeking to drive. There are some nonrecurring items such as the revaluation, the negative impacts of the price adjustments in China and in principle, the destocking, once we get that behind us in the first half, in principle, should mean that we can wholesale in line with the retail volume. We have got new and refreshed models, which we can build on, including the I-PACE, for example, the E-PACE, the 18 Model Year Range Rover and Range Rover Sport. In principle, the China duty change in the medium term should be favorable for us, so that ought to be a positive factor.

Our business is seasonal, but we do see each year a stronger second half than first half due to timing of the U.K. registration plate change in March, due to the selling season in China ahead of the New Year and due to the model year change over in the U.S. Those things, in principle, we remain focused on, making sure we reap the benefit of those in the second half of the year. And of course, we are very focused on driving cost efficiency and material cost reductions in the second half of the year that also should help us.

It is never all in one direction, of course. I think we will also continue to see higher depreciation, amortization based on the investments we've already made and higher marketing costs in the second half of the year to help drive the volume that lies behind most of the other bars I have already talked about on that chart. But I wanted to go into a little bit more detail to give you a sense and shape of the actions we are driving in order to improve performance in the second half of the year.

Other items, Slide 24, talks to trends in industry volumes across the various regions. Most regions are fairly flat, it is fair to say, with the exception of the overseas region and with diesel demand really impacting Europe, Brexit uncertainty impacting the U.K., and the import duty changes have started to see an impact in China.

Slide 25 talks to the changing mix of our sales in the U.K. and the EU from diesel, where this - in 2017, we saw diesel mix north of 90%. Today, it has lower, albeit our customers still do choose diesel because it does offer very clean emissions as well as 25% more efficient CO₂. And therefore we do see diesel mix still at 85% of our volume. And as we talked about, during our Investor Day in

the medium term, we do see the continued development, of course, of powertrain on a global basis between diesel, petrol and, of course, battery electric vehicles and plug-in hybrids.

Exactly what the percentage of that is, one would need a crystal ball to guess. But that's why we are investing in architectures to enable us to meet those electrification trends, which is really what Slide 26 is talking about, through the introduction of plug-in hybrids such as Range Rover, Range Rover Sport, and the introduction of MHEV, PHEV or battery electric vehicles beyond the I-PACE that we've just launched this year. And from 2020, all of our new models coming with one or other form of electrification option.

On the I-PACE, really pleased by the reception. It has had super reviews. We've got a decent-sized order bank. We are going up the launch ramp-up curve in the production facility. So I think we are really pleased with the reception, and we will see that developing in the year. Also the case with the plug-in hybrid models, Range Rover, Range Rover Sport, the 18 Model Year, We are very pleased with the development of those in Slide– 27 and 28.

Turning to the cost side. We are focused on driving initiatives across the entire value chain. Material cost is our biggest single cost item, and we are absolutely focused on driving cost - negotiating cost reductions, design cost reductions, utilizing global sourcing supply base to drive cost savings, including improve sourcing in a lower cost location such as China, Hungary, Slovakia. Utilizing the focus on architectures to ensure that we reduce material cost in the longer term as well as the short term in order to get the lowest cost for our new models to make sure they're competitive in the marketplace through utilizing techniques such as a 'Should Cost' approach, working out, for example, what a part should cost and then using that information to leverage negotiations with our suppliers. So we buy it for what it should cost. Really good approach there.

On the engineering side, using our architectures to really utilize scale and give us the possibility of driving lower cost per unit through the sharing of commodities and architectures across multiple vehicles.

On the operating cost side, in manufacturing, we utilize the Harbour benchmarking productivity report to challenge ourselves to identify the most efficient way that we can manufacture vehicles given our scale and facility infrastructure. And of course, we are launching our new manufacturing facility in Slovakia that really enables us to design the facility for efficiency and for quality and will enable us to drive cost reductions for the vehicles that will be built in Slovakia compared to what they would've cost to build in the U.K.

We've been through a process of in-sourcing our engines, and that is one that we will continue and enables us to reduce cost compared to the cost of buying those externally.

On our cost reductions these do not stop at material and manufacturing, but also through our marketing and sales activity. A big lever is the continued rollout of dual-branded distribution facilities

for our retailer network, which they're investing in, and really facilitates synergies for them in terms of being able to support both brands through one common site with a shared back office and service capability. It is quite a big driver. As well as being a much more modern and inviting place, retail experience for our customers. And on the corporate side, we've taken and will continue to take a number of actions to manage our selling, general, administration cost below our revenue growth and gain operating leverage as we do so. And we gave a couple of examples of the things that we have done. For example, a big one was reducing the cost of our pension cost, which is an ongoing benefit beyond the onetime reduction that we had in the deficit that we booked in the same quarter a year ago.

In addition to that shorter-term focus on cost, we are also focused on pulling the levers between the medium and the longer term, addressing the – transformation initiatives for the business, to become fit for the future, if you like, across a number of levers and root causes behind our business performance. I talked to material cost for example. So we are very focused on how we source components, how we design to cost, how we leverage the scale through the life cycle through architecture planning, driving professionalism and improvements in our marketing and sales activity and promotional effectiveness and distribution network, for example, through the rollout of the new distribution network that I have just described. We are very focused on making sure that we launch our new vehicle programs on time through better planning, consistency, commonality, and a modular approach. Of course, in the premium business, we absolutely want to deliver the very best quality for our customers. Our mission in life is to create experiences our customers love for life; so making sure we deliver on the very best. Product quality is absolutely at the heart of our mission, and utilizing the 43,000+ people that we have in the business to leverage as best as we can those people in order to delivery everything we need to in terms of new models, more cost-efficient business and the other things I have talked about is critical. So that's also a focus that accelerates projects for the medium and longer term.

Slide 32. We are also focused, just coming back to cash management, on making sure that our investments are as efficient as they can be. We pay attention to every project as we approve it, having the right return on investments, being affordable within our spend versus our operating cash flow, and we pay attention therefore to the investment as a proportion of revenue and also the capex to D&A ratio.

Our efficiency drivers were committed to pulling levers we are committed to pulling in order to help drive more investment efficiency. Our architectures, in particular, the modular longitudinal architecture that can hold several products will help drive efficiency in execution of investment. And as I said for this year, we continue to target in the region of GBP 4.5 billion investment, and subsequently targeted at c.12-13% of turnover, which we should expect to come down as a proportion of turnover as we see the volume growth.

And with that, Balaji, I think I hand back to Balaji to talk to Tata Motors. Thank you.

P B Balaji:

Thanks a lot, Ken. As we can well appreciate, JLR undergoing a few challenges at this point in time, but as Ken as would've, I hope, clarified to you, the team is well seized of the issue and the urgency with which to fix the issue. And we are quite clear that the plan that we have put in place in terms of delivering the 4% to 7% range is very much something that we would love to meet as the year progresses. So that's JLR for you.

Moving on to Tata Motors Standalone, moving on to Slide 35. Happy to report back that the Turnaround 2.0 started off on a very strong note with revenue up 83%, yet the number does flatter a bit in terms of the base effect that is there. But the EBIT is up 1,220 BPS, which is a very, very strong improvement, you'll agree. And EBITDA today is now at 8.3%, while EBIT is 4.1% compared to the range of 3% to 5% that we had called out in our plan for the period between '19 and '21. PBT, of course, includes the dividend income of RS. 1,310 Crores, but despite that, it has a very strong start of the year with respect to the PBT piece as well.

Moving on to Slide 36. Giving you the breakup of where the profitability improved from. Close to about 160 BPS of this improvement in 1,220 bps came from variable contribution margins. Now all relate to volume, mix, pricing as well as commodity impact and the individual breakup of that. And a significant amount of savings in ImpACT projects went through in this particular area. At the same time, fixed cost leverage, having held at just a RS. 31-odd Crores increase, meant that fixed cost leverage came at almost 11%. And those are the 2 big ones that actually contributed the number.

Moving on to cash flows, Slide 37. The cash profit after tax is more than sufficient to meet the investment need that is there. Some - there are 2 distinct stories in the working capital. One is some element of stock increase was a planned one, because if you recollect, we were not able to supply full supplies to the market in the previous quarter, the supply chain issues, that has now been fixed, and therefore, we have the full stock level that we need. And yes, there is some amount of work that we need to do on debtors, which is something that we are committed to bring back under control.

Moving on to investment spending at about 5.7% of revenue, slightly behind plan in terms of our expense revenues and investments spends, but we will ensure that we deliver there.

Moving on to the big, big shift as far as Tata Motors Standalone is concerned is segmental reporting, where we are now starting this quarter, as committed, we now split the commercial vehicles and passenger vehicles segment into 2 and reporting numbers against it. The basic trigger for doing this is the organization OE program that got launched last year, which shifted P&L, which created P&L-responsible business unit organizations. And this has been fully completed in FY2018; therefore, we are now ready to report back. And secondly, we have 3 distinctive strategies as we have called out in terms of what is CV trying to do and what is PV trying to do, CV 'Winning Decisively' and PV 'Winning Sustainably'. And that is what we have now tried to replicate in the commercial segment as well. You see these new segments that are out there. In the consolidated segments and the consolidated report, there will be 5 segments: Tata-branded Commercial Vehicles; Tata-branded Passenger Vehicles; Jaguar Land Rover; Tata Motors Finance; and Others. And you also see the

subsidiaries that will get added up into that particular segment. What we have done on the accounting and reporting side so that we are absolutely clear there. Wherever we are able to identify the P&L credits and debits, those have gone into their respective segments, and basically, domestic corporate expenses that we are not able to identify, we have kept them as unallocable. So there is a very, very clean P&L that you see between CV and PV.

As far as the balance sheet is concerned, the main assets, which are property, plant and equipment, intangible assets, inventory, trade receivables, all these have been allocated to segments. But the entire liabilities have been kept as corporate because of basic loans and creditors is something that we have decided to split simply because it has difficult to identify as the suppliers are common.

So with this in mind, let's get into the CV piece. As I had called out, we had aimed to "Win decisively" by driving all-around execution, that's what we had in mind. So happy to report back a strong volume growth of 63%. Even more reassuring is a share increase from low 44.4% now to consistently now improving to 46.8%, and particularly delighted that every subsegment of that actually increased share, which means we are now starting to go in the direction that we would love to do.

And to move a bit deeper into profitability, the first time I am sure you're seeing these numbers, I am sure that there'll be a lot of questions. And we thought we would try and address it comprehensively. EBIT margins are now sitting at about 8.8% with an EBITDA of 11.7%. That is the broad shape of the business. And you will notice that we are broadly averaging at about 12% EBITDA for this business over the last period, leave the 5.5% out, that's a one-off because of the BS-III to BS-IV migration and the delivery that happened last quarter, otherwise its, suffice it to say that it has broadly steady at about 12-odd percent on an improving trend, which we would love to see there.

As far as the PV business is concerned, its mandate was to "Win Sustainably" by getting its basics right. So for starters, it has got a strong volume growth of 49% and market share increasing, particularly in all the new vehicles that are there. Do not like the minus 0.1 in Hexa, but that's something that we will fix going forward. But this is a success story, to continue to be it the product, be it the design, be it the quality of the product that is coming through as well as the network expansion plans. All these are firing the right way. And probably the number that you are most eagerly awaiting for is the PV profitability, which has a 63.4% revenue and EBIT margin of minus 8.6% compared to the minus 34% that was there earlier. And an EBITDA almost nearing a breakeven at minus 0.7 is tantalizingly close, we will push it up further, and a trend of improvement that is quite reassuring. So we love the strong sequential improvement, but we are not satisfied with where it is currently there, and we will continue to work on it to improve that.

So moving to the segmental balance sheet. You're seeing the numbers there. All I can say is that CV has about Rs.21000, Rs.22000 Crores of assets sitting again, the CV business and the PV business has about Rs.16000 Crores broadly speaking, which is all the assets being split, and as I said earlier, liabilities have been kept as unallocable at this point in time.

So moving on to that EV side, which is something, which we are now starting to get traction. As we announced in the Investor Day, we have announced a new vertical on EV, which is a business vertical. Just to clarify, this gets subsumed into the PV business segment because the consumers are the same, and we do not intend and it has very, very small at this point in time. And we believe the key differentiator for Tata at this point in time will be the One Tata approach, with other group companies also working together to provide complete ecosystem solutions. That, we believe, is going to be a key differentiator.

And we will also be working JLR and TML teams will be working very closely in this area to ensure that we are sharing the learnings on electrification from both our sides; from 2 different directions we are coming at it. And the real standout this quarter has been the first batch of cars that have been delivered to Cognizant. They're the first batch of commercial fleet segments that we have introduced.

So to summarize, the Turnaround 2.0 is well underway as you were - as we had called out before.

So moving on to Tata Motors Finance, the first message there is they have now moved on to Ind AS. With this, I am hoping that all the accounting changes that are happening in our portfolio is all done and dusted and very happy to see the 35% AUM growth, which is in line with the plan the market - the team has chalked out. Market share continuing to increase at 130 BPS. And GNPA, it has particularly heartening to see them. They were at 4, if you'll recollect, and now going sub-4 at 3.7 with an ROE of 22.3%. Just on the ROE side, there is a huge amount of data that we have provided on the databank, which gives you the IGAAP to Ind AS migration. And more than happy to clarify off-line for people who really would need to understand it. But just 1 point there. Because of the Ind AS migration, 3 things happened. Number one, the debt equity ratio shoots up because what we call as cumulative preference shares, convertible preference shares, get reclassified as debt instead of equity, that's a key one there, as well as some of the creditors. So the data that we have in our books is something we need to do as per expected credit loss. So the accounting treatment changes, better 2 impacts have come. And because of that, your equity goes down, their equity goes up, ROE goes up. And also - but it does not have an impact as far as GNPA piece is concerned. And again, happy to confirm that all the regulatory ratios that are there as far as even after Ind AS, we are compliant with.

So moving to net debt, probably towards the end of the presentation and then moving on to Q&A thereafter. I think the big, big development on debt and disappointing there is ratings downgrade due to the operational challenges that we face in JLR as well as the challenging global market conditions. So despite improvements in the domestic business, which has been well received by the rating agencies, they believe this is a reason why we will need to go down 1 notch. But reassuringly, it has a stable outlook. And therefore, We are very, very clear that this is not something that we like and would love to work our way backwards into the investment-grade in a sensible time frame. So that's what we have in mind.

So finally, the last one is the outlook. As far as the global markets are concerned, they are likely to remain challenging. The positives being that the lower import duty in China kick in from now

onwards, so that will be - will improve going forward. As far as our concerns are concerned, Brexit, diesel and diesel taxes in the U.K. are the concerns as well as higher incentives in the U.S. These remain our concern. As far as India is concerned, we remain positive as far as medium to long term is concerned. There could be some near-term concerns because of the new axle load norm that has come through. And our response to that, I will just talk about in a minute. As far as inflation is concerned, we expect it to remain high and continue, but we believe are well equipped to manage it at this point in time. And the investment need is likely to remain high given the various challenges that we face.

On JLR, you heard Ken talk about it at length. We plan to invest about 4.5 billion in new products this year. And there are intensive efforts underway as you have well understood during the course of the conversation today to step up growth, drive cost efficiencies as well as management investment spending to improve cash flows. And we do not see any change to what we had outlined earlier. We expect higher sales growth and improved profitability in FY2019 and the performance to improve as the year progresses. This statement is exactly in line with what we said last time, and we are planning to land between 4% and 7% EBIT between FY2019 and 2021 and 7% to 9% thereafter.

As far as Tata Motors is concerned, the key brief right now is to ensure that Tata Turnaround 2.0 continues to fire on all cylinders. And we have an immediate here and now point of action on the new axle launch so we will respond with speed. That's what the teams are working towards. And no change as far as planning EBIT is concerned or the Fit for Future portfolio is concerned.

So with this, let me now turn you over to Q&A and happy to take.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Kapil Singh from Nomura Securities.

Kapil Singh: Particularly heartening to see the domestic passenger vehicles performance. Is it something that is sustainable, and do you see further improvement going ahead?

PB Balaji: Yes. Thanks, Kapil. Sustainable, more importantly, that are we happy with the number? I think it has good that we have come to this level but definitely not happy with where it is today and we will have to get breakeven at all levels. It is just tantalizingly close EBITDA breakeven; we have to EBIT breakeven and headed to cash breakeven. So we are absolutely committed to it and that's what we will drive towards.

Kapil Singh: Okay. The second question is on Jaguar and Land Rover. So there are quite a few onetime things going on here. So just if you can explain on the P&L side how much was the impact of, say, the card stack you had to take on pricing in China. Because I think 110 million that you were showing on Slide 12 include both the volume and the price cut impact. So could you call those out separately? And similarly, WLTP you mentioned some impact, so what exactly is that? And also on the China JV, There is too much volatility between numbers, so on a full year basis should we expect profitability to remain where it was last year or broadly in the same range?

- PB Balaji:** Yes. Ken, can I request you to take that, given you have all the details?
- Kenneth Gregor:** Yes, of course. Just break out the various duties. On the P&L impact of the China duty change, the majority of the impact is in the form of lower net pricing. In other words, higher variable marketing. So where you see that is within the revenue line on the income statement. There is an element of wholesale volume being lower to the tune of about 1,000 units of volume. So you would also see that in the revenue line. But the biggest piece is the net pricing. WLTP relates to some re-timing of wholesale volumes that we had from between quarter 1 and quarter 2, rephasing in order to complete test work for new emissions test legislation in the EU that all manufacturers are doing right now, both the testing and completing the paperwork. So we are re-timing some vehicles from Q1 to Q2. That's a wholesale volume impact so the effect is substantial in the revenue line. On the China JV, yes, it has fair to say you're right. The results, especially quarter-by-quarter, do have volatility in them, connected with timing of local markets incentives. Although in the past - that should be something that's a bit smoother now going forward given that we've changed the accounting methodology for that. But broadly, the EBIT performance that we have in Q1 is more like the 13% we see which is more within the normal range of the EBIT performance that we expect to see for the JV as opposed to the 31% EBIT that we had in the same quarter a year ago.
- Kapil Singh:** Can you just explain why there is such a big change taking place because broadly last year you were close to 20%, sort of, EBIT?
- Kenneth Gregor:** In the same quarter a year ago, we had a 31% EBIT.
- Kapil Singh:** No, I am talking about full year. Full year.
- Kenneth Gregor:** Yes, I am here talking about the Q1 results, but broadly, in the full year last year, we also had a favorable impact of changing the accounting methodology for the local market incentive, and that helped our full year results to be higher than the normal running rate. That can help the results have a 20-something percent EBIT margin as opposed to what I would expect going forward, which is the EBIT margin more in the teens.. Additionally what we do see in the China market is relatively more competitive market conditions and that has driven somewhat higher level of variable marketing in the marketplace this year compared to last year. So that's another thing driving compared to how you saw the EBIT margin last year to a somewhat lower EBIT margin this year.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Just following up on the previous question in a bit more. So firstly, when you look at destocking, I know you're talking about 11,300 units of destocking hit. What exactly is destocking? How much of it is already done? How much of it will happen in Q2? Because you mentioned WLTP separately. So firstly on destocking and secondly on WLTP, what is the impact of that in the Q2 and Q3 quarter, if you could talk a little bit about that?

- Kenneth Gregor:** Just to be a bit more specific about the destocking, broadly, this is where when market conditions become somewhat more competitive, one can find oneself with a retail rate that does not meet what one is previously expecting, and therefore with more inventory of vehicles that we have already wholesaled to dealers in the dealer show rooms and that the dealers need to retail (?)**Binay Singh:**
Mainly negative signs...
- Kenneth Gregor:** We keep a very close eye on the level of dealer inventory as well as the level of our own inventory of finished vehicles in pipeline at all times. And what we saw, as we got to the end of last fiscal year, the level of the inventory in the dealerships being higher than we would wish, and therefore have consciously sought to reduce production and wholesale through Q1. It will also continue through Q2 in order to enable the level of inventory in dealerships to reduce and lessen the pressure on the market in terms of the possibility of oversupply. I would see that continuing through Q2. And then I think I could update you after that.
- Binay Singh:** Yes. Just to follow on that, so when you say that the GBP 100 million loss versus last year on destocking, this is mainly the operating leverage lost because volumes are lower on account of demand became weaker?
- Kenneth Gregor:** Good question. I will be honest. That is an illustrative number associated with the difference between retail and wholesale. In other words, had we wholesaled as many cars as we had retailed, then we would have had roughly 11,000 more wholesales that would have had and the value associated of gross profit, if you like, in the order of GBP 100 million. So it has a real effect, but the number itself is somewhat illustrative
- Binay Singh:** Okay. Secondly on WLTP, like what kind of impact do you see in the coming quarters?
- Kenneth Gregor:** I think in the coming months, we are broadly on track with the testing. There is a lot of paperwork to be worked through vehicle-by-vehicle to make sure we homologate all those vehicles in every market around Europe. And that is something that we will work through over the coming months. We may continue to see some timing effects with wholesales between months and quarters, but in principle we should be through that through the next quarter.
- PB Balaji:** Binay, just so that I can step in here for a minute, businesses, the way we look at it is that there are pluses and minuses that will happen at various points in time within a time period, et cetera. One of the things that we are trying to help you to understand us better is to still look at what are the total yearly number we are looking at and what's the kind of plan that we have put in place and whether that's realistic and is it something that we have committed to deliver. So I will probably urge you to take a look at it at a holistic sense as well, but yes, there are individual line items that will move. So these are best estimates that Ken is trying to put through to help you understand our results. But what we actually will stick by is the fact that we are going for the 4% to 7% range that we indicated. And that is probably the pertinent point from an overall perspective.

- Binay Singh:** Right. That's clear. The other thing is that while we have the margin range, we do not have the, sort of, a volume estimate, which is why...
- PB Balaji:** I heard you, just to clarify that.
- Binay Singh:** And then just one last point, like, when you look at the GBP 100 million loss from China, it looks quite sizable given the fact that you probably would be having 5,000, 6,000 cars in the market. So this is basically the write-down of inventory and your repricing cars, right? Maybe the inventory in China was much more than 1 month, 1.5 months sale, is that the right read-through?
- Kenneth Gregor:** It is the impact of reducing price and supporting the reduction of price of vehicles that are already in dealer stocks as well as our own stocks in the quarter. So yes, it has quite a sizable effect given the importance of China to our overall business.
- Moderator:** Thank you. Our next question is from the line of Robin Zhu from Bernstein. Please go ahead.
- Robin Zhu:** Two questions please. One to follow up on the last question on the GBP 100 million of duty impact in China. I mean, you mentioned it has quite I mean it has quite a sizable number. If I multiply your China outlook GBP 80,000- GBP 85,000 by a number of cars, it seems like it has several months of sales. Can you please confirm that that is the case? Or are you actually cutting the price for dealers more than the you cut from the MSRPs that you put out? So that is the first question. And then the second question is in terms of absolute inventory levels, could you give us some guidance in terms of where we stand in the key regions, China in particular, but U.S. and, say, Europe?
- Kenneth Gregor:** On the inventory question, to be honest, Robin, that's one maybe we should take off-line it has a bit more detailed to be able to go through region-by-region, the inventory today. I think I prefer to handle that off-line via the Investor Relations team. On the China duty impact, basically yes, it involves a couple of months' worth of sales, but also remember that, we are not cutting the price by and large by more than the wholesale production. It has really just reflecting that. But remember what I said was within the 100. There is also the impact of some retiming of wholesale volume within that as well. So that 100 has got a couple of different effects as well as the impact of the price reduction.
- Robin Zhu:** Okay. I mean just to return to the inventory question, can I ask, is it exactly the issue here where if you look at your cash generation last year compared to the year before, the thing that seems to made a big difference is net working capital, and payables, in particular, seems to be a lot more negative than the year before. I mean, can you just go through what is it that you're doing that's going to lose - more broadly is there anything different that you are doing on your working capital compared to, say, last year?
- Kenneth Gregor:** Yes, good question. On the payables, no, There is nothing really that we are doing differently. It has a mechanical effect caused by the payment terms that we collect revenue on which is from our dealers, given the wholesale financing arrangements that we've got covering 85% of our sales volume is fast,

within 2, 3 days and the payment terms that we pay our suppliers for the parts that we build into cars, which is broadly 45 to 60 days. And what that means is that when, in a quarter, such as the quarter that we've just done, April to June, we produced roughly 35,000 to 40,000 less volume than we produced in the January to March period, then we have less production and less wholesales. And that drives an unwind on our payables, because in the quarter, we are still paying for units that we built in the prior quarter. In other words, 45 to 60 days away. And that is a normal effect that we get in the April to June quarter because there are always fewer production days in that quarter given the timing of holiday Easter shut down compared to the January to March quarter that is - unless Easter is early, generally full of production days. And in combination, as I have described, we have taken action to selectively reduce production in the quarter also to enable part of the destocking that I have described. So the payables impact is a mechanical one. And in principle, once the production level returns to the prior production level and we wholesale the volume associated with that production, then, in principle, the payables winds back up, if you like. But clearly, for that to happen, we have to return to the prior level of production and wholesale.

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

Yogesh Aggarwal: I just have a couple of questions, if I may. Firstly, I wanted some views on Evoque and F-PACE in particular. So if we continue with the existing run rate, the Evoque volumes will be just about half of what it was at the peak in FY2014, and we are starting to see similar decline in F-PACE as well. So any views on such sharp fall in Evoque volumes and F-PACE?

Kenneth Gregor: No. I think broadly, you have some of the effects of the normal aging curve on results that is clearly launched back in 2012. So we would expect as part of the normal aging and decay curve, if you like, to see lower volume, I think that's something that we expect and we plan for. F-PACE, also very strong here the first year. But actually we still see solid consumer demand for F-PACE. So feel overall good about the direction of travel there, albeit it has a bit lower year-on-year than in its launch years.

Yogesh Aggarwal: Okay. And secondly, one, the capitalization ratio still seems to be higher this quarter, around 80%. I thought you guys are seeing it lower last quarter. And also the employee cost last 8 quarters goes up absolute terms every quarter now. So is there a level at which, in absolute terms, it will be flattish or start to decline?

PB Balaji: Let me probably comment here. Okay go for it, Ken. No problem.

Kenneth Gregor: No problem. You go first, Balaji, after you.

PB Balaji: Sure. I think you have been talking for a while now, so I can stay and help you out a little bit here. One of the things, Yogesh, the way the capitalization policies work is that at a particular point in time, in a particular stage gateway onward, we start capitalizing. So it is just totally time dependent in terms of when a particular project you're actually ending up in which gets there, what kind of things are

happening. But the policy is active as of 1st of April onward. So that is just the way the nature of project that we incur expenditure on during the course at this point in time so that this one. As far as people costs are concerned, you will notice that Ken did allude to the kind of work that's happening on sales, general and admin expense as well as other areas as well. It has a clear call out from our end saying that we will be looking at all items of cost expenditure. And therefore, this will also be looked at very, very closely, very similar to what we've done in Tata Motors here.

Yogesh Aggarwal:

Okay. And Balaji, I am sorry I missed it in your prepared remarks, what did you say about the impact of new Axle norms on the CV outlook?

PB Balaji:

Two things we said. One is at this point in time. We expect some temporary market challenges to be there. Because right now market is in confusion in terms of what is the implication of this norm. So what we have now said that is - from our side, there are 2 actions that are currently underway. One is to work closely with authorities to ensure that there is clarity on what are the implication of this on the existing part of vehicles that is out there. And second are to ensure that we get our products get ready for the new standard as soon as possible. So that is what is happening on the war footing. At the same time, this is something, which we need to give clarity on the part of vehicles there. But at this point in time, there is a bit of confusion in the market, and therefore there is likely to be some temporary issues but the inherent demand in the market is very strong. So that is something that should blow over as time goes by.

Moderator:

Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte:

Balaji, first question is, are there any one-offs in the car margins, which you have displayed for this quarter? Because there seems to be a substantial volatility in the last year, one. And second, with regard to the same, how soon you expect the car to come into profit zone in the coming quarters?

PB Balaji:

There is no one-off in the number as far as this quarter is concerned otherwise we would not have called it out. Yes, there is a base impact that is out there because this is the same period last time when the market also, for us, was overall down. So that is something, which is there. But having said that, the PV business was less impacted compared to the CV business during the same time period. But suffice it to say that we are building momentum in the PV business and the shares are picking up as well also. So that is the only thing that is between last year and this year that is out there. As far as how soon we will want to do it, I would only say that we are all hands are on the deck to ensure that we get it as soon as possible. But we need to be realistic, at the same time we do not want to get ahead of ourselves. We will win by making high-quality products, which are well received by the consumers. And as long as we are doing it the right way, we will get sustainable profitability. That is what the call out for the strategy is "Win Sustainably". It is not just from profits, it has also about when you win the customer, you have to stay won. It would be wrong English. Apologies for the appalling English.

- Pramod Amte:** And second question is with regard to JLR. The extent of destocking looks pretty high, in the sense of almost you're talking about 11,000 units. Whereas in the quarter sales it was almost around 100,000 units. So you have cut down almost - but you lost almost a 10% of your sales. Which are the markets these are specific to, and how soon you expect them to come back to normalcy?
- PB Balaji:** We do not want to get into individual market level reasons for obvious competitive reasons. So won't go there on individual markets. But fair to say that we have taken a fair chunk of it this quarter and is likely to overflow in the next quarter as well. But impact, in terms of intensity to be lower compared to this quarter, but with that I think we should be done and dusted on the corrections.
- Pramod Amte:** And a follow-up if I can ask. I think U.K., the Department of Transport has given out a policy on Road to Zero for the EV transition for car industry. What are your remarks about the same, are you surprised by any of the observations made there for 2040 transformation? And how are you planning to play it forward?
- PB Balaji:** Ken, would you want to take that?
- Kenneth Gregor:** I mean, broadly, we are very supportive. I think Ralf and I are just talking about it. Anything to add, Ralf?
- Ralf Speth:** We are leading in electrification technology with I-PACE, and we are prepared also, let us say, to move with demand. We still have large diesel mix in some markets that the latest diesel engines are, very good engines. On the dealerships, we are going to see, especially in the transport of goods or in long distances a continued demand for diesel. So it has not that all of a sudden in 2030 that everybody will be at the end of the day, at the Road to Zero, with electric vehicles. Two things, which are very, very important. One is affordability and the other one is convenience. As you know, the electric vehicles are still very expensive if you want to have a certain range. So that even at the end of the day, electric vehicles is something for the rich at present. On the other hand, to be able to target to achieve a certain number of electrification vehicles, convenience is progression also about the infrastructure, how fast can you charge and where. And there is still a lot of work to do, in fact no OEM can do it on its own. Everybody has to come together and get involved, government, cities and also academia and the industry across many sectors to make really a breakthrough on a global level.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** My first question is on the VME levels. So could you indicate starting where was it this quarter? And specifically on China as well because you called out on China so, Ken, what we have got in terms of feedback do the discount levels continue to be very high in China. So any thoughts there on how that will shape up through the rest of the year now that you are getting your inventory back on track.
- Kenneth Gregor:** Yes. The VME level in the quarter was higher than the same quarter a year ago. In the region of about 8 points of revenue across the business compared to the 6 points of revenue that we had in the same

quarter a year ago. But note that, that does include the impact of the price adjustments in China that I have described. So it is somewhat higher than I would expect to see in the remainder of the year and I would hope to see it more like the level that we were previously at. Still running with more competitive market conditions, still higher than we have seen in prior years, but actually, overall, not overly high in the overall context of the industry.

Sonal Gupta:

Right. And just in terms of like now that - I mean, 2 related questions. One is do we have given that we will still have some inventory reduction going in the second quarter, on a full year basis, is there a broad range of volume guidance that you can give? I mean, or whatever you are comfortable with, 0 to 5, 0 to 10 or whatever, in terms of what sort of growth you would expect for the full year? And secondly, again, do we expect now with the inventory being in control or coming under control that these levels will come off on the VME site, say, from the normalized level not the 8% but versus the 6% last year?

Kenneth Gregor:

On the VME, I think I already said I would expect I mean, yes, the level should drop from Q1 because we wouldn't see the same impact of China in the remaining quarters, but if I would expect it to see remain at the 6% level just due to market conditions. On the destocking, I think Balaji and I already answered. We hope to be through the bulk of that through the first half of the year. And on the volume guidance, we do not give full year volume guidance but I would point to the 6% growth that we have in Q1. Obviously we want to continue to build on that with new models that we've got through the balance of the year.

Moderator:

Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy:

Just a couple from my side. So somewhere in the presentations I read that petrol vehicles as a percent of your sales, you expect it to go from 15% to 60% in the near term. What exactly is driving that? And when you say near term, how fast are you expecting that transition?

Kenneth Gregor:

Yes. Okay, good question and useful for me to clarify. One side of that chart, it was Page 25, was the UK and EU that is very heavily diesel. And the other side of the chart was our global sales, where, because the demand in the U.S. in particular and China is much more heavily weighted towards petrol, gives a global mix of petrol more like 60% today. And then we would see that, over time, reducing somewhat as BEV and plug-in hybrids come in, but if I know exactly when that was, I would be better at fortune telling as I am. I think it has a trend that we will see develop as manufacturers introduce more BEV and plug-in hybrids like we are doing. We will inevitably see the mix of those grow but it depends on how fast manufacturers introduce those new products and how fast we see consumers embracing those.

Jamshed Dadabhoy:

So just to clarify, today already at 60%, globally?

- Kenneth Gregor:** Yes, globally. Because of the mix of our business across China, the U.S., the rest of the Middle East, for example, all heavily petrol-dominated markets relative to the U.K. and Europe, which are heavily diesel-dominated markets.
- Jamshed Dadabhoy:** All right. Second question, so if we look at your margins and add back only for the one-offs that came through, EBITDA was close to about 11%. And then if you assume that your EBIT guidance remains at - in the low end that you'll have given a 4% add back depreciation, et cetera. The implied EBITDA margin for the next 3 quarters lands at close to about 15-odd percent. I mean just back-of-envelope calculations. Ken, you mentioned that you hope that VMEs come down by about, call it, maybe 2% or so. First quarter was a little elevated because of what happened in China, etc. What is going to lead to the other uptick in margins? How much of that is going to come through, just better mix and better product? Cost cutting element that is going to start ticking in from the second quarter, third quarter, which you would like to shed a bit more light on. I am just curious to understand where the delta and margins was coming.
- Kenneth Gregor:** Predominantly through operating leverage is the main factors I talked through on Slide 23. We have a business, which is seasonal. And because of our profile being very strong in the U.K. market, that means that we normally have stronger sales in the U.K. in the second half of our fiscal year compared to the first because of the timing of the registration plates change on the 1st of March. The China business tend to see more sales in October through...
- PB Balaji:** This is Balaji here. So I think we lost London. Hello?
- Jamshed Dadabhoy:** Yes, Balaji, do you want to elaborate a bit on that? I mean, I understand the seasonal bits but given that the markets are so volatile all your end markets...
- PB Balaji:** Even if you look at last year, Jamshed, if you look at last year, the first quarter at 1.1%, we ended the year at 4%. So here the lot of those reasons why this number went down this year is all one-offs, and therefore when those correct, that will change. And second, the currency is also an important part of this loss that is there, as the pound selling went from 1.4 to 1.3. And therefore, we would need to see that even if it hold at this level, that delta won't be there. So that's how we are looking at it. At the same time, yes, that is a very clear efficiency plan that Ken has already talked about that is already underway, which will also be delivering results as the year progresses. So we would want this business, given its cost structure, as I have said time and again, volume is an important part of it. And therefore, with the retail coming at 6%, it gives us the assurance that the intrinsic consumer uptick is there. It has about ensuring that what it is - it is mixed slightly different, because U.K. is coming harder or much faster than what we saw earlier and China slowed down compared to what it used to be earlier. So if that starts coming back into the equation, things do change which is what I have called out in my outlook slide as well.
- Jamshed Dadabhoy:** So how much - how fast do you think China comes back?

- P B Balaji:** That is what we will have to wait and see and work out as well.
- PB Balaji:** Can you just get the JLR management as well, dial them in, please?
- Moderator:** Sure. We are trying to dial them.
- PB Balaji:** And in the meanwhile, go ahead.
- Moderator:** In the meantime, we will take the next question from Shyam Sundar Sriram from Sundaram Mutual Fund.
- Shyam Sundar Sriram:** You spoke about continuing WLTP changeover impact, which specific models are you talking about? And has there an impact on your cost, both recurring and nonrecurring? Any broad color there, yes.
- PB Balaji:** Ken, have you joined back in?
- Moderator:** Yes, we have him connected.
- PB Balaji:** Ken, did you manage to get that question?
- Kenneth Gregor:** Yes, I did. And apologies for disappearing off the line mid-answer, on the WLTP it is really all models. And in terms of costs going forward, the - broadly, this new testing protocol, yes, it adds regulatory costs to the business that we just have to take it in our stride.
- Shyam Sundar Sriram:** So this will be more of one-off costs, understood, yes. So despite the U.K. retail volumes improving for JLR, You have called out further challenges in U.K. and also continuing diesel uncertainty in Europe. If you can elaborate on that, please?
- Kenneth Gregor:** I think the Europe piece, we saw the volumes down year-on-year in the quarter. And we do believe that part of that is driven by the reducing mix and customer demand for diesel in Europe that just continues to have uncertainty over the marketplace in Europe. So that's definitely something that's impacting us. And in the U.K., the impact of economic uncertainty potentially related to Brexit is being a factor as the industry and the economy continue to react to those challenges.
- Shyam Sundar Sriram:** So just an add-on to that, in terms of absolute volumes in U.K. and Europe, are you seeing these 2H absolute volumes in U.K. and Europe to be lower than the 1H that we are seeing, give the challenges that you're highlighting?
- Kenneth Gregor:** Sorry, I did not quite follow the question I apologize. Perhaps you could repeat it.

- Shyam Sundar Sriram:** Yes. So given the challenges that you are highlighting in U.K. and Europe in terms of absolute volumes, are you seeing the 2H absolute volumes for JLR being lower than the first half volumes that we may see?
- Kenneth Gregor:** No. I hope to continue to see volume growth in the balance of the year in both the U.K. and in Europe. All I am calling out is the fact that there are definitely pressures in those regions for the reasons that I have described. For us, our challenge and what we are driving is to realize the benefit of the models that we have launched and leverage that through the course of this year in order to drive profitable volume growth despite the fact that certain markets are relatively more challenging than they were this time last year.
- Moderator:** Thank you. The next question is from the line of Ashwani Kumar from Reliance Mutual Fund. Please go ahead.
- Ashwani Kumar:** I just want to understand, when you forecast 4% to 7% EBIT margins in the near term and 7% to 9%, I am interested in knowing how do you really forecast your volume. Because all these margin assumptions are based on certain volumes. So what is the basis of forecasting? How much visibility you have got, let us say, today, on July 31, across those full sites and markets, how do you really forecast what is the real basis and how much far you can look into in terms of what kind of volumes did you do?
- Kenneth Gregor:** It's a great question and hard to do justice to in a short answer. There are various approaches to take to forecasting volume. I think if I will start with some longer-term first. Clearly, an external inputs in the shape, for example, of market provided by companies like IHS and others to inform our view on how we view the long-term trend of the segments in which we compete and across the various markets around the world. So that is a key source of planning. And then within that, obviously, we think about what market share we should be able to create given the products that we are launching into those segments. So that is broadly the longer-term approach. In the shorter term, by the way, we also use that external approach to understand what's happening to segment volumes in which we are competing and what we look at the market share that we achieved segment-by-segment and then use that to understand and compare it to the running rates. We are seeing what we reasonably might think we should be able to sell in the second half of the year. And of course, all of that informed by the expertise of the sales and marketing team and teams around the world and informed by the levers that we can use to drive sales in terms of marketing promotion and the variable marketing. But external insights, leveraged with internal expertise is brought on to summary.
- Ashwani Kumar:** Just one more additional thing, as compared to competition, let's say, BMW, Mercedes, Audi, etc., what would be the percentage of repeat customers, basically, essentially, people, if you sell 600,000 vehicles, how many vehicles in both categories come from customers who already own your brands and how many come from outside?

- Kenneth Gregor:** I think that's quite a difficult question to answer especially for a business that has grown its volumes significantly over the past few years as we have done. If you think about it, 3 years ago, we sold 450,000 units or so. This last year, we sold over 600,000 units. So by definition, for Jaguar, Land Rover, we have to conquest, I think, a proportion of our sales from our competitors and from customers, who are moving into the premium segment and within premium segments that are 2 million to 3 million units in size for SUVs and sedans, so in principle, within very big segments. But for sure there is a country mix as we grow our business, so we need to conquest sales, as I say, from competitors and from those new entrants into the segment.
- Moderator:** And we will take that as the last question. I would now like to hand the conference back to the management for any closing remarks.
- PB Balaji:** Yes. Thank you. First, we appreciate the time and the questions that you had. I hope you found the interaction useful and expect to continue to stay in touch with you guys in the coming days as well. Thank you, and have a nice day. Bye-bye.
- Moderator:** Thank you very much. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.