



“Tata Motors Limited Q2 FY 2020 Earnings Conference Call”

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Moderator: Ladies and gentleman, good day and welcome to the Tata Motors Limited Q2 FY2020 Earnings Conference Call, hosted by HSBC 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. Yogesh Aggarwal from HSBC Securities. Thank you, and over to you!

Yogesh Aggarwal: Thank you, Steven. Good evening, everyone. On behalf of HSBC Securities, I welcome you all for the Tata Motors quarterly results conference call.

I am very happy to introduce the Tata Motors management team. We have with us Mr. Guenter Butschek, MD and CEO; Professor Dr. Ralf Speth, CEO, JLR; Mr. P B Balaji, Group CFO; and Mr. Adrian Mardell, CFO, JLR, along with members of the Investor Relations team. Thanks again to the team for their time.

We will start the session with some comments from the management followed by Q&A. But before I hand over to Balaji, I would like to wish a very Happy Diwali to everyone on the call. Over to you, Balaji!

PB Balaji: Thanks, Yogesh, and wish you the same too and wish all of you a very Happy Diwali and hope you get some time to spend with your loved ones over the weekend. We have along with the rest of the people that Yogesh as referred, we also have Girish Wagh, who heads our CV business, I am sure there is a lot of questions that you would want to ask of him as well.

Let me cut to the chase, as like last time it will go quite fast on the slides because the time needs to be spent on the Q&A and without further ado, let me draw your attention to the Safe Harbor statement and then go to the key activities, developments for the quarter, which most of it you would have seen in the press, including the launch of the new Defender that we have, the new Infotainment system- Pvi Pro, ZIPTRON- the new EDU drive that we have, and of course the new product launches that we have. So an exciting quarter nevertheless, and that keeps continuing from our end.

On the numbers, really reassuring and delighted to see the JLR performance coming back and starting to improve. Unfortunately, of course, on the Indian market situation, which we have been discussing for quite a while now has been a very sharp market decline in the Indian business and we talk about that more in the coming slides as well.

In the case of China JLR, if you recollect, we did talk about the China recovery and happy to see that now translating the numbers on our side. As far as the EBITDA margin is concerned, it is amongst the highest that we have seen in the last 16 quarters. Therefore, it is a good delivery of numbers that we have.

On the JLR side, the delivery has been led out of better mix, better charge delivery as well as higher wholesale, but in the case of India, almost the entire numbers decline can be attributed to the M&HCV slowdown, and the result and mix being poorer because of that. Overall, the cash flow at Rs.1500 Crores negative, a significant improvement from what we have in the same time last year, and JLR almost now cash neutral for this quarter. In the case of India, as committed the stock and debtor situation has significantly improved and for creditors, the reason is lower offtake and how the growth translates into creditor days.

I would not spend too much time on the growth breakup, barring to say that highlight of our focus on retail is being significantly higher than wholesale. We have continued to execute in the case of Tata Motors, whether it is the essential in BS-VI transition, I will again talk about that in the subsequent slides.

Moving on to slide #6, which is the EBIT waterfall that you have, the 1.7% EBIT of Q2FY19 improved by 4.4% because of JLR delivery pulled down by Tata Motors by about 2.6%, and others being broadly flat. That is how we see the performance there.

We will take a little bit on the time on the preferential allotment that the Board has decided to allot shares to the promoter, Tata Sons Pvt Limited. This is in a situation where the business has delivered both in JLR and in Tata Motors, consistently delivered a strong turnaround, but the near-term demand situation, particularly in India being fluid and the debt levels in standalone business being high the Board has decided to raise the equity through a preferential allotment and this will come as a combination of shares and warrants and that will be at a premium to the last five-day closing average price by almost 11% at an issue price of Rs.150. This is a significant premium to the closing price by almost 18%. The expected proceeds close to about Rs.6500 Crores, of which Rs.3892 Crores will be received upfront, which is both for shares and 25% of the warrants, and the remaining will be there when the promoter decides to convert the warrants into shares.

This takes up post the exercise of warrants, the ordinary shares, the promoter group's holding in ordinary shares will be about 46.4% and a voting rights of 45.7%. This is a very fundamental intervention because first it of course strengthens the balance sheet of the group as a whole and particularly the domestic standalone balance sheet. It provides rating support for the group as a whole. It limits dilution because if it is the right issue, it would have diluted even more, this limits the dilution. Also signals a strong conviction or the promoter on the Tata Motors opportunity that we have. Of course, benefits all shareholders

because it allows the business to continue to invest and also execute its growth strategy that is there. So this is a very key intervention as part of this quarter is concerned.

Let me pickup speed in terms of numbers. You have seen the JLR numbers, which is on slide #10, which basically an EBITDA of 13.8%, a growth of 8% in revenue and an EBIT of 4.8%. You will agree with me that this is a well-rounded delivery that has happened from JLR, be it on revenue, be it on wholesale volumes, retail is also broadly there, strong performance coming through in China, albeit of a weak base, but the headline number is starting to stabilize and improve and the new launch is firing well. Of course, from a cost side, we see charge delivering as we had planned. At the same time, we also have lower D&A overall.

Let me now hand this over to Adrian, who will give you more flavor in terms of the performance of JLR, which is probably the highlight of the day. So, Adrian, over to you!

Adrian Mardell:

Thank you, Balaji. Good evening, everybody, on the call. As Balaji just said, that is our Q2 performance, revenue up 8%, favorable mix as well as increased volume in the quarter. Retails were slightly lower but a strong performance year-over-year in China and the Evoque came out of the blocks really well versus the old model. Profit, as a result of which, was significantly better; those volumes below the Charge impact of lower operating costs, D&A and favorable FX for the first time in a long time, and as Balaji also said, we were nearly breakeven in the quarter, a large £559 million better than the quarter last year, the higher profits, the lower investment, and we did also receive a grant of €65 million from the Slovakian government in the quarter.

On the sales volumes, two stories of note. This continues with the discussions we raised in the July call, China was much higher in the quarter, 24% [higher] than the same quarter last year. We indicated that in July and also the Overseas markets were much lower, as they were in the first quarter. That pattern in Overseas is likely to continue in the second half of this year. If I do the same by model, I have mentioned already the Evoque compared to the prior model in the same quarter was up significantly, 54%. The models that weren't doing so well, each of those are up for model year upgrade, 20 model year for Discovery Sport and the XF and there'll be a model year upgrade coming along on Discovery within 12 months or so. Range Rover Sport is doing pretty well again, as mentioned, and driving the high product mix.

Next one, if you would, talks to a waterfall chart that defies gravity that is nice to see for a change, isn't it. So last quarter, we were losing £90 million in Q2 FY2019, the £166 million has actually before exceptional items of £10 million. The PBT was £156 million. And you can see there are lots of positives and lots of places included higher volume, higher parts and accessories as the car parc grows. There are still opportunities for us to improve our

China JV business. Certainly, it was worse in the quarter. Again, as we indicated, we have done a lot to stimulate incremental volume. We have four new product replacements happening over the next six to nine months, and we would expect that performance to improve going forward.

Our VME was higher again. You have seen the other announcements, including the premiums are difficult to sell cars in the marketplace and VME is one symptom of that. We did actually take £25 million residual value reserves, additional reserves on a 16 model year Range Rover and Range Rover Sport products, which we booked in quarter two as well, do not anticipate additional reserves required on those model years. Really good news on cost control in several places, driven by the Charge program, as we talked on several occasions, manufacturing material costs, fixed margin, selling costs, all were lower than the same quarter last year.

Our interest charges are higher as well as you would expect. As I mentioned earlier, FX was positive in the quarter versus the same quarter last year. As we are starting to see the operational benefits of the weaker Sterling outweigh the contracts that are now running out over the course of FY20.

If you go to the next page cash flow, almost breakeven. The profits, obviously, the cash profits were higher than we have seen of late, £817 million worth of cash profit through the income statement to EBIT line. Investment was a bit lower. We said the control on investment will continue. I do anticipate that growing in the second half of this year but it was only \$841 million in the second quarter. We had a series of events in working capital, the biggest of which was actually an adverse increase in our receivable balances versus the end, mostly as a result of the selling rate at the end of September being much higher than the end of the previous quarter, which drove free cash outflow of just £64 million in the quarter, £559 million better than the same quarter last year.

Capital investment. That is the breakdown of the investment, less capitalization of product development costs, as you would expect. And also, the capital investment was a lower number than last year as well, down £154 million on the same quarter last year.

News on funding, we raised with you last time, we have completed the receivables facility early rather at the end of FY2019, we have drawn money on that in quarter one. No additional draw downs on that in quarter two. So it is still about £300 million of that facility used to-date. Two additional loans have actually gone in place in October. So not in the quarter numbers, not in the quarter cash flow actually happening in October. We completed quite a unique deal which was backed by the UK export funding guarantee, 80% of that £625 million deal was backed by that guarantee. That was completed this week, and money has been drawn down this week.

We also just today completed the second deal with Black Horse Financing on buyback, fleet deals, fleet vehicles, we buy back from the marketplace, mostly our own management car vehicles, which basically funded the flow of vehicles as they come back before they refurbished and sold into the marketplace. That deal is short-term through to 31st December 2020 secured and the vehicles being back. We also will look to take the opportunities as we need to over the course of the balance of the fiscal year as again, we have discussed with you previously.

Looking at the strategic areas, no change here, reason why there is no change is that the plan is actually working. So the turnaround and transformation plan is underpinned by stronger new product launch in pipeline, you will see the impact of the Evoque as we have launched it over the last quarter versus the previous model. We have got an amazingly exciting Defender coming out at the end of this fiscal year in spring which we are really excited about project Charge is starting to deliver in all facets of the program investment, inventory, people costs and overheads are all impacting there dramatically the data.

To-date over the four quarters project Charge has delivered £2.2 billion, and if you compare the last four quarters to the previous four quarters, you will see the improvement in cash is almost exactly that same number and then Accelerate obviously, will come along later, as we have discussed before, fixing some of those fundamental issues that we still have to resolve within our business.

Next slide, if you would. The amazing Defender, I cannot do it justice to talk to it. What I would like to say is we have had at least 640,000 complete configurations of this vehicle, which is significantly higher than other vehicles we brought to marketplace. So our anticipation on this vehicle selling well is cautiously optimistic let me say so clearly if any of you on the line are interested in taking one, you might want to put your order in quite early.

These are all the fantastic report we have had through the press on this vehicle is highly anticipated. It is creating amazing talk on social media and we are very, very proud of this new vehicle.

China. China, as you know, has been an area of challenge for us over the last 18 months or so. These are the KPIs we put in place. All of these KPIs continue to be positive. So the retail targets were again met through quarter two. The retailers are profitable in quarter two. They did have a dip in June, as we explained last time, because of the clearance of old CN5 units. Very importantly, most of those sales are local registration sales now and that went through, in September, our target of 85%, which is industry benchmark level and retailer stocks were also falling down to our target area of just over 1.5 months.

Finally, on the bottom there, you see the actual sales versus the marketplace where we are up over the previous year when the market is actually flat. Project Charge, these are the three areas. We said we would deliver £2.5 billion before March 2020. Investment is already higher than that. You saw the relatively lower investment number in quarter two. Working capital will go beyond this target in the second half of this year and we are now starting the increases come through in the important cost and profit areas.

Next slide, if you would these are the areas for the £1 billion challenge on cost and profit. Last year, we did £150 million. Of course, you are aware that the Project Charge, you can now start to see for the last two quarters significant reduction in people costs, £150 million over those two quarters, and material cost performance, always kicks in as you go through the year and you would have seen that kicking in in the waterfall chart on profits were £40 million in quarter two, and our overhead costs were a little bit lower than quarter one, actually in quarter two. So we are progressing really well with our overhead cost target.

Finally, because we know the EBIT side of the cash improvement is so important, we are already designing the next stage of project Charge, even though there are still six months to go, but we do actually think we will complete the £2.5 billion Charge benefits at least three months early and we will announce much more detail on the next stage which will have more EBIT focused when we talk in January.

Finally, the targets, the targets have not changed from the targets we showed you in July. So EBIT margin is still 3% to 4% range for this. And next fiscal year, although, again, I will repeat as July we are likely to be at the lower end of the range. This fiscal year, PBT is increasingly positive and will be in half two. Investment spending will be lower than £4 billion - likely to be close to £3.7 billion this fiscal year.

Free cash flow is negative. You saw the negative again in Q2, but it is improving and will be stronger in half two and our gross debt-to-EBITDA up to the 2.8x range. None of that guidance has changed. What we will do is we will continue to focus on launching those new vehicles, which you saw the anticipation in the market. We will continue to improve profits in the second half of the year and to drive down the cash flow through our Charge and Accelerate programs and we will actually design our next stage of project Charge before the completion of the old program and bring you further details of that when we talk in January.

Balaji, I think it is back to yourself.

PB Balaji:

Thanks Adrian. Quickly, getting on to Tata Motors, I think the focus of this quarter has been having recognized the slowdown is now definitely upon us and that focus has been ensuring that we manage the slowdown by doing it right. It required a bit of a deviation from how we have been approaching the Turnaround 2.0 but if you recollect the

Turnaround 2.0 is about ecosystem viability and not just our viability, it is just getting the right part of what we have to do. So the entire focus has been to ensure the ecosystem viability remains. So we are quite happy that we reduced our systems inventory by almost Rs.3400 Crores during the quarter. TML has knocked off about Rs.1000 Crores of stock and dealers' knocked off about Rs.2500 Crores of stock. Obviously, its end-results and then implication on what it does to a topline and the shape of the P&L, it is not a P&L that we really like, but I think it a P&L that we have to lump in, simply because that is a correction that we need to do on the systems stock level. We did not want to do any underlying kind of numbers were just too laid out there for you, saying that we are happy to see retails being higher than wholesales, almost 23,000 units and quite disappointed with the revenue drop off about 44%.

At an EBITDA level, I think this negative EBITDA does rankle and does hurt us and we are absolutely determined to correct it. But I think this was a bitter pill that we had to swallow this quarter and this decline in the profitability is almost entirely explained by the M&HCV decline, which I will talk about in a while shortly. At the same time, we had to take a write-off about Rs.233 Crores in the passenger vehicle business this quarter, on those models and those platforms that you do not intend to take forward looking ahead. As committed last time, the free cash flows, significantly lower cash burn this quarter compared to last quarter. And I will talk about this in a while as well.

Moving onto the profitability waterfall that you have, you would notice that almost entirely volume and mix has a declining numbers there. And out of the Rs.1500 Crores that you see as a decline in the profitability because of volume and mix, Rs.1200 Crores of M&HCV declines can be attributed to that, so it is almost the predominant chunk of that. The cost savings are firing quite well. Even if I look at the variable cost line is almost the bulk of the increase that you see there or the increase in cost that you see there, coming from the commodity price increases that we have to give last year during the same time. And this year actually is a significant savings that is offsetting that.

On the fixed cost line, we have managed to keep it extremely tight and that is why you see it is almost entirely the depreciation and amortization that you see against it. And forex is improved, so that I would not talk about that at all. So suffice to say that the elements of the P&L that are under our control and something that we really want to keep it tight, we managed to keep it tight and as far the volume is concerned it is fundamentally a correction that we have done to recognize the severe slowdown that we are seeing in the market today.

On the cash flow slide, clearly the profit after tax this quarter has been very poor coming from the correction that we have done on the stock level. But as a business we are focused on cash flows, and despite having significant inventory across system managed to get

receivables, inventory improve, the only decline that you see there in the payable side is more options for the condition that we are doing on the purchase side, the minute you correct that this will come back again.

So capex continues simply because we are in the midst of a BS-VI investment phase, we cannot pull it off at this point in time. We need to be there and land this plane so that continues. But we will be calibrating our total capex this year close about Rs.4500 Crores is what we expect to bottom out on the capex side compared to the Rs.5,000 Crores that we had originally planned. So that will be a correction that we are doing as well.

On the CV side, I think, we called out the retails being significantly higher than wholesale and we are now the dealer stock level that is sitting at about 35 days, and which is broadly where we are likely to and we are focusing squarely on the dealer performance, their profitability while ensuring the network expansion happen and this ecosystem viability we had called out last quarter continues even in this quarter as well. So we have delivered that and we now believe we are at a comfortable level as far as dealer stock level, as the reduced retailer levels is what these days are about. So the minute the turnaround happens in the market, we expect to see a pickup here as well. So we believe we are in better position for, readiness for transition to BS-VI by keeping our system inventory quite tight.

We will move one level below on M&HCV performance I would like to pause a bit on this particular slide. What really has played out in this quarter and this year that I will draw your attention to the left graph on the volume growth. This is a business that typically delivers about 6% to 8% volume growth and we have seen that doing about 15%, 12% kind of volume growth last year and this year, and the year before and this year actually the first half, it is so far has declined by 45% which you are all well aware of. Under these conditions what we are reassured that our market shares continue to improve, which means we are not losing competitors in the market.

Interestingly, the portfolio post the axle loads has actually dramatically shifted. What you see in the graph is the various tonnage points. So you have the 49 tonner or to the 55 tonner or 50 tons or 46 tons. Just see the speed at which that is actually declined post the introduction of axle load and all of us are aware that these are the most profitable segments in the market and on top of it, we also have a situation on the absolute gross profits being higher on these vehicles compared to the other vehicles there.

While the smaller tonnage point like 15 tonners and 25 tonners, those have actually increased. So in this kind of a situation we need in terms of structural change that we are seeing in the market therefore we need to correct for that in terms of the profitability of these individual segments as well as profitability of the other ILCV and SCV signal, which you can see those things starting to pick up as well. So believe we are focusing squarely on

ensuring a comparator performance in this volatile environment from all sides and quite confident that we will be able to pull through with this and I am sure Girish want to talk about this subsequently when you are having questions as well.

So that is probably what I have to say though. The implication that the same thing on the respective CV and PV portfolio as well. On the PV side, the correction on retails has been severe, because they also corrected the dealer network, distribution organization which I called out last quarter. So that annualizes as we go forward, the dealer stock level that 48 days are high. But that is a midst of the early September is the start of the festive season. So this is at the lower retail level these numbers are there.

So as the festive season ends and we complete the BS-VI transition, this will now come down to 30 days and I just have to be committed on every other thing that we do we will get this done as well. It is just something we have to ensure that we did not want to lose sale in the peak of festival season that is where even this collection was slightly delayed on the dealer stock level.

Revenue, I mean, the key thing in that, I am quite disappointed with EBITDA breakeven, it is something that we could not deliver this quarter. That can be attribute or squarely to the corrections to the corrections that we had to take to ensure viability of the ecosystem. On top of it, they also taken the one-off, write-offs that we had as well. So as far as CV is concerned, I think our action continues. We continue to be an industry leader as far as volumes are concerned for the quarter, and the product range now starts, it is now starting to fill up quite rapidly. We now have the extended range Tigor that has been launched at 213 kilometers. We also have the new ZIPTRON extended of technology, on vehicle technology, which has got a series of promises in terms of what we are going to deliver in terms of range, in terms of quality, in terms of weighting debt the whole piece there.

We also now started to see strong profitability improvement in this, as we start understanding this technology better and better. So quite happy with the way this has progressed and the next big event for us is the launch of the Nexon Electric. So do await that, quite excited do draw your attention to the Milind Soman AV that is currently running out there, to show how it is the first electric vehicle to go from Manali to Leh out there.

Tata Motors Finance, it has been a quite a change in the way that business is starting to manage itself. In the midst of a severe slowdown the disbursals are down 37%, GNPA's are up 4.9%, but I am not concerned about it at this point in time. We are aware of the strategic suppliers who have had liquidity issues and therefore both people started have started to improve from September onwards, and our own collections team is undergoing a change as they put through Project Sparkle. Project Sparkle has now started to deliver and we are seeing the benefits coming through in the P&L, which is again good stuff but nothing takes

away from the fact that even though we have improved market share, the disbursements are down quite significantly reflecting the performance of the CV and the PV businesses.

The big news as far as Tata Motors Finance is concerned is the plans that we are now changing the pivoting the strategy out there, to start moving to an asset-light model while fixing the total investment that we put into that business and that have been substantially improved ROEs going forward. More about this, that is said as you start having the plans finalized and we talk about this in the coming quarters. So on a net debt level that you are seeing the liquidity and adequate and those reason why we had to intervene as a preferential allotment in that is what you see in Tata Motors standalone metric that are there on EBITDA. But otherwise, or with this correction coming through, we are confident that there is no stock coming back under control again.

The market situation continues to remain challenging. You have seen this many times. I would not talk too much about it barring the call or specific call I have to do, this just remains a challenge. You will know as much as I do in terms of what are likely to happen there. So let us wait for the good news to play out there. As far as India is concerned, the sharp slowdown is very much real and it totally not depends on how fast industry infrastructure spending tax coming through to take up CV and PV of course more of consumer sentiment issue. But of course the government has given strong signals to intervene in this and we are hoping for the best as far as this is concerned.

In this situation, how do you see the outlook JLR, Adrian talked about no change in plans. We remain confident of achieving it. So I will just leave it at that. As far as India is concerned, we remain confident on our medium to long-term plan, but the near term is fluid and therefore we are not in a position to comment. We will of course focus on retail growth, agility and weight measurement growth does pick up. We will be there to ensure we tap into it. And our entire focus remains on BS-VI migration, focusing on cost and cash and working on the liquidity across the entire system.

So this is what we had to say a half an hour is up. So let me open it back to you again as Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh:

Congratulations on a great set of results. Firstly on JLR, I wanted to check on the sustainability of the numbers. If you could give some colors, because you have seen the raw material to sales ratio, which is a gross margin seeing a very strong improvement in this quarter. So are there any one offs to call out there, and also the other expenditure if I see

even with revenue growing nearly 20% being that would be flat. So if you could just help us understand that first.

Guenter Butschek: Adrian, I guess you to make it, we also have highlighted it in our press statement. Adrian?

Adrian Mardell: Sustainability, as you mentioned, we had a really nice quarter, 4.8% EBIT margin. We do expect to be profitable in the second half of the year. We do expect volumes to actually rise also in the second half of the year. Second half of the year is a better selling season for us. We have this huge thing called Brexit still out there, which of course still has not been resolved and I am sure you are aware also that we will close our plants again in two weeks time for a whole week losing 12,000 units of production. That certainly will impact us in the short-term including Q2. Let me actually asked the question last quarter one, it was at least €100 million problem for us in that quarter. It is likely to be similar this quarter. However, we also expect over the balance of the year to trade through that and as long as we do not have another attempt to Brexit at the end of January, which gives us a problem in February, I expect us to be able to trade through the issues that Brexit provides assuming that is not a hard Brexit, of course. So cautiously optimistic the underlying trading results are getting better in very difficult market circumstances. But we have got the B word out there, which of course could actually impact that in the second half year.

Kapil Singh: My question on the specific line items, the gross margins and the other expenditure for the quarter, which we have seen a very strong improvement as a percentage of sales. Anything to call out there or these are sustainable, because there is almost a 200-basis plus improvement on the gross margins, and similarly for the other expenditure, it's actually down from 1Q in last year?

Adrian Mardell: In terms of the presentation, right, we had a nice mix. We had higher Range Rover SUV products, which is obviously important to us. So 8% revenue growth with 2.9% volume increase tells you that was a good healthy mix for us in the quarter. Parts and accessories are also higher in the quarter and then the increases in the actual EBIT performance through Charge is coming through is, in terms of a care point, care point within the data, the VME levels, which again was stubbornly higher at 7%, but apart from that, pretty every line that part of gross margin was positive for us versus the prior quarter data.

Kapil Singh: Thank you. Secondly, I just wanted to check one question I had from the Tata Motors group results data for Q2 FY2020. I see that on slide#10. We have realized forex exchange gain of Rs.509 Crores, and the standalone number is Rs.20 Crores. So where is the balance realize foreign exchange gain sitting?

Vijay B Somaiya: Kapil, Somaiya here. It is mainly sitting in Tata Motors realized gain. So we had canceled some of the hedges on the ECV and in Q2, we have seen a realized gain of Rs.144 Crores, which is there as a balance detect at JLR level. I could request Ben to chip in.

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

Robin Zhu: Thanks. I had three questions please if possible? The first one is the impact of FX one thing that is visible is that pound-dollar was 1.23 in the second quarter, which is quite a bit lower on a sequential basis. It has since gone back up again. Could you just clarify to what extent that FX impact revenue and the material cost and the margin of that the sort of direct margin sequentially would have been, we had that constant FX department from the Q1 from Q2? The second question is, on the China JV, I mean the equity income number continues to look very weak. One of the things that I think a little bit of issue was the fact that there is too much capacity. That is obviously on your books. I mean, if you could share any thoughts on what the strategic plan there might be to try and lower in the losses over time or is it just going to remain hard so long as your volumes remain regularly where they are today? Question three is more just accounting. I think it was mentioned that you had €65 million subsidy, just where that was booked and what that was in pounds. Thank you.

Adrian Mardell: All right. Let me take those. In the order that you asked them, so FX, if you go back into the actual waterfall chart, you will see us breaking that out. So we had definitely had some good operating exchange in the quarter. I think the number was £78 million. And of course, that is directly as a result of net effective Sterling actually being closer to that \$1.23 and that €1.12 level on the euro, so that was positive operating net income statements in the quarter. We did have some hedges of course. Our hedge book is rolling off from whether it is some backup in the paper on the roll off of those hedges, but of course, as the Sterling actually depreciates and the contract values increase. We had a large balance revaluation, obviously moving from \$1.27, I think it was the end of June to that \$1.23, which hit us on the FX reval line on that page you will see about £28 million and we had some unrealized commodities. So net-net, the operating exchange was very positive. The hedges crystallized, we are neutralizing out and it was the balance sheet revaluation end of September that was the partial offset. If you now move forward to \$1.29 obviously, which we are currently at \$1.28 this morning, the revaluation on the balance sheet reverses. On the China JV question, yes, it was a difficult quarter for us. We did say we were going to stimulate the sales on the JV. We have done that for several reasons actually. One because the selling rate was just too low so two, there is a huge refresh to the products in marketplace for the JV over the course of the last next six months to nine months. The first one of which the Evoque did start to sell quarter two and we are going to see a significant uptick in the sales rate and an improvement we believe in the transacting prices on all four of those products as

we go through the next six months to nine months, Evoque the first one, XE Long was the second one and then the Discovery Sport will be the third one that comes along. So we are expecting some improvements in the transacting prices although, it is a difficult marketplace for us and there are certainly still work in progress. I would expect it to be at a report some positives from that work when we talk in January. And the third one is the ground received from Nitra that gets put to the balance sheet obviously impacts cash and improved cash by €65 million in the quarter. It does sit in the balance sheet and we think in the quarter it probably at a favorable income statement impact of about €5 million.

Robin Zhu: Right, got it. And if I could just follow-up please on the China JV, has the company given any thought to potentially writing down some of the answers like you did few quarters ago, is that even possible, considering this 50:50 arrangement because otherwise you just have this big lump of fixed assets that weighs on the D&A line of the JV?

Adrian Mardell: Yes, we look at it each quarter, Robin, actually. I think what we are actually doing at the moment has been clearer exactly where we think the trading performance is going to be over the next 12 months and in the planning period. That normally is the trigger for revenue per willing to write-down those assets. If we continue to trade as we have in the last quarter going forward, there would be an asset write-down. But I think I'm signaling we do not expect to trade quite that way over the following 12 months.

Robin Zhu: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Good evening. Thanks for taking my question. A couple of questions. One on the JLR residual reserve of about \$25 million this quarter my understanding was that I mean, like in terms of you were not on the hook for some of these residuals on the lease book but are you because right now, we do not really have much liability in the balance sheet mean, can there be a liability from these agreements or other following model years?

Adrian Mardell: Okay. So, yes, it was North American business was on 16 model year vehicles for Ranger Rover Sport and Range Rover, prior contracts with Chase was a sharing 50:50 losses over 6.5% reduction I think. We have changed those contracts since 16 model year, so we do not expect any sizable increases on RV losses on our vehicles in the US over the following periods where we are trading at the moment, we are pretty much done we feel. So there is a sharing arrangement. That is a key point over a certain amount of losses overwhelmingly or, 100% before that is actually taken by Chase.

Sonal Gupta: Could you give us a sense of where your warranty costs was in this quarter compared to Q1 in for JLR?

- Adrian Mardell:** Yes, in Q1 warranty cost was 6%, if you remember back to Q1, we had two or three significant one-offs, one was the TDV6 recall, another one was the goodwill program software over the air, which we actually pull into the marketplace and we are rolling out of the course of this next three to six months. In Q2, there was a significant reduction in warranty as a percentage of revenue to just over 4%, so improved by two points, most of that improvement because we did not have one-offs. The underlying rate in most of our vehicles as a coverage level of warranty is broadly the same as quarter one levels.
- Sonal Gupta:** So, should we see a 4% of the more sustainable level, I mean, given that there are no one-offs in this?
- Adrian Mardell:** I think I said in July the range for us will be between 4% and 6%, so between the 4% and 6%, yes, without one-offs I would expect it to be closer to 4%.
- Sonal Gupta:** Great, and just lastly on the China volume outlook for JLR, I mean, we have seen an improvement of course but we are coming up a very low base as well. So, I mean, just in terms of absolute volumes, do you think sequentially how things could pan out? I mean, do you see significant improvement from current volume levels? Or do you think we will see more gradual improvements from here?
- Adrian Mardell:** We will see a gradual improvement from the levels we just delivered in Q2, but we do expect this to be positive in the second half of the year versus that level.
- Sonal Gupta:** Sure, thanks a lot. Thanks.
- Moderator:** Thank you. Your next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my questions. I have just two quick follow up on the China. Now, at this level of volume, the EBIT margin is still very, very negative. So how should we look at it? If the volumes were to improve only gradually, do you see the margin trajectory improving? Or we continue to see that this business will have a big loss for full year?
- Adrian Mardell:** We just check. I think you are talking about the JV rather than the import?
- Gunjan Prithyani:** Yes, but CJLR.
- Adrian Mardell:** I think, so there will be a gradual improvement. I think that the big point to note though of course is that there are four of the model lines are actually pretty much on run-out or just being changed and therefore you are seeing the impact of older vehicles at the end of their

current life and so, I will expect even at these levels of volumes for transacting prices to lift and for the losses in the JV to reduce substantially from the levels you see here in Q3.

Gunjan Prithyani: Okay. Any guidance you can give as to how should we see this trajectory improving, do we see this turning positive anytime soon or this sales negative until we really see the mix in terms of new products coming through?

Adrian Mardell: The new products are starting to come through. The Evoque was the first went through in Q2 has started selling, I think, in August. The XE long starts to sell later in this quarter, in December, I believe. So you will have to wait for those new products to come along. I think the important point is they are either here or very close to being here. And the job, obviously, to the old product, is to make sure you run them out quickly and orderly, and that is what you are seeing in some of the data that we posted within Q2.

Gunjan Prithyani: My second question, I had was on the capital raise now, this is entirely going to be used for a standalone operations as I understand. Is there any thought process to think about looking at the funding gap at JLR because clearly your own guidance is that it stays negative for two years and I mean what is the thought process that is there going to be any infusion to bridge the funding gap there?

P B Balaji: Let me take that. I mean, first of all to put this in context, I think this is first intervention happening to correct the group's overall debt level and bring it down as one. The other pieces also have strong signal to support from a promoter to support the business in terms of how they see this as an opportunity. You would have also notice that we have got a premium for the current market price and therefore, this is being done actually signal as much as the fund that is one. Number two as far as the usage of these funds is concerned, these will be used to repay debt and the way the ratings work is JLR folds up into Tata Motors totals and that is how the ratings work and then we are now intervening at a group level to get the rating towards going financial benefit JLR and its bondholders as well. So therefore, at this point in time this is used to clear down group debt and the usage can be in Tata Motors, it will be JLR, it will be anywhere, and totally we run it as a complete group and it comes to how we want to manage the net debt overall. That is how the rating companies looks at it as well. So that is how we are looking at it. At this point in time, the debt reduction is happened on the standalone entity because we are facing this maximum challenge at this point in time. As far as JLR is concerned, it is a very strong balance sheet as I keep reiterating again and again. Their debt equity ratio is quite comfortable. Their gross debt EBITDA numbers were also quite comfortable particularly with this performance also starting to turn and therefore we will watch this space closely. The sign of the promoter is to say that we believe in Tata Motors and that is how this intervention is coming in.

- Gunjan Prithyani:** Okay got it. Just last question, if I can squeeze in on the alliance with BMW and we have also spoken about looking at such more alliances, could you throw some more light on it, I mean, what kind of alliances we are looking at and does that mean that you know, there is a case for capex to be or lower from where we are currently at JLR?
- Dr Ralf Speth:** All I can only really share your opinion. We are looking for technological partnerships like BMW and beyond that by far partnerships in more areas. Think about the partnerships in China with Alibaba or Baidu, maybe really out in the IT area or think about we also have a lot of support by TCS in going forward in the IT sector. This is very important because no company can really be perfect and leading in every and each segment.
- Gunjan Prithyani:** Okay. Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** My first question pertains to JLR. In fact, a couple of questions for JLR. One is on the material cost reduction, which you have highlighted in the presentation of £300 million, how much of that has been achieved in first half? Second question pertains to JLR tax rate in this quarter, any reason for tax rate to be so high in second quarter?
- Adrian Mardell:** Let me take the first question, you asked. I think probably when you say the £300 million you are probably referring to the Charge page. It did not actually happen within quarter two of course, you go to the waterfall bridge, you will see in quarter two, there was about a £40 million, I think improvement in material costs even though there is some commodity costs in there as well. So, what we are signaling there is, we as a part of the Charge program, we are expecting in a full year, to actually reduce material by about £300 million. From a tax rate perspective, can you just repeat your question again if you would?
- Jinesh Gandhi:** If you look at the effective tax rate for JLR in this quarter, it is almost close to 36%. I know it is not the right way to look at it because of the addition of taxes and PBT losses at some of the entities. But what would be the sustainable tax rate for the full year?
- P B Balaji:** Can I come in here? I think it will be interesting what would be important. The effective tax rates (ETR) do look for a full year number, so these are volatile numbers. Full year JLR tax rate nothing has changed from what it would have been done over the previous years. What you see is the Consolidated why you see the tax number also being extremely high is basically profits in JLR being taxed at nominal rates, losses in Tata Motors deferred tax asset not recognized and that combination just reads this number overall. So ETR is always better to be looked at on a full year basis. And we do not see any changes as far as JLR's ETRs are considered.

Jinesh Gandhi: Should that be around 25%, 27% or higher?

P B Balaji: 20% to 25%. 22% typically they are on that.

Jinesh Gandhi: Third question pertains to near business, particularly on the CV side. I mean, what are the trends we are seeing now after last quarter of corrected inventory but retails were still substantially down for commercial vehicle business. So if Mr. Wagh can highlight about how, what are the emerging trends on the M&HCV business and LCV business and outlook for second half.

Girish Wagh: Yes. Okay. So I think the last quarter was pretty bad as you can see and in fact the total industry volume in September was the lowest in a September over past 10 years. I mean that was the kind of fall when as seen and if you look forward very difficult to project, what kind of growth or de-growth is likely to happen. But we are seeing some green shoots in the demand drivers. Not demand so to say but there are some green shoots in the demand drivers, some of which are like the freight availability post monsoon is looking up slightly, the freight rates are firming up slightly and we look back what we call it as a transporters sentiment index, which is actually the indication of their satisfaction with the current business and they are likelihood of purchase going ahead. And what we have seen is this, for the cargo trucks, the transporters sentiment index actually bottomed out in Q1 and has slightly moved up in Q2, which augers well for cargo. If you look at the tipper sentiment index, in fact, has further gone down in Q2 over Q1. So that is the mix that one sees in the medium and heavy commercial vehicles. I think post the relief package by the government one has started seeing some selective fund disbursement happening on the infrastructure projects which will gradually get things moving. We are awaiting actually start off some of the new projects and allocation of new projects, giving up some mining licenses also. So therefore I think there are some green shoots on demand drivers. If you look at the fleet operators as such and more or less I am talking about medium and heavy commercial vehicle they have actually started coming forward and inquiring because it makes a lot of business sense for them to buy the BS-IV vehicles by replacing their five, seven, 10 year old BS-II, BS-III vehicles because there is a huge operating cost advantage when one moves to BS-IV vehicle and we can also avoid the likely price increase, which is going to happen in BS-VI. So that is what we see in the medium and heavy commercial vehicles. Right now this month, you still do not see green shoots in demand. We very clearly see green shoots in demand drivers so something positive may pan out as we go ahead. If you look at the remaining segment intermediate and light commercial vehicles actually has been the one which has dropped the minimum amongst all of the segments and this actually continues to do well. Drop is less as compared to other ones and that is how it is going ahead. We see more customers coming here and asking about new vehicles, the BS-IV vehicles we get into BS-VI. I think small commercial vehicles currently the festive season is there and therefore

me do see the annual increase in the retail. But we will have to wait as to how the small commercial vehicles pan out as we go ahead.

Jinesh Gandhi: Sure. Thanks for this detailed reply. I will come back in queue.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Thanks for the opportunity. Just firstly, on China, most of the press releases of JLR are pointing out as China recovery being the key driver for profits turning. So is that coming from the import business? Because clearly, in the JV business, we have not seen any improvements in the wholesale dispatches to China sequentially upgrade sharply and all the pricing recovery happening over there, so just to understand that which part of China has seen recovery?

Adrian Mardell: Yes, it is the import business as you quite rightly say that is having an impact in Q2 -modest impact - but it is having impact in Q2. And we will look to, as I mentioned earlier, build the value from our China import business steadily and go through the balance of this fiscal year.

Binay Singh: So the retail dispatches of China are up only 1,500 units quarter-to-quarter. That means wholesale must have gone up significantly. So inventory levels in China would have gone up. Is that correct?

Adrian Mardell: No. That is certainly not correct. I showed you the China page, you can see inventory levels not going up.

Binay Singh: Okay. So it is really surprising that just 1,500 units would make such a big difference. But secondly, coming to project Charge, we were targeting our plantation next year.

P B Balaji: Binay can I intervene for a minute here I think if you see the waterfall slide on the EBIT improvement you will notice that it is a pretty well-rounded delivery coming in from JLR on its performance. I would not attribute this only to China, yes. And yes, there is a better mix coming in because Land Rover sold better than Jaguar, charge of sale over. There is substantial pieces of the puzzle that have come in the right way this quarter. So therefore, China is definitely one of them, important but not only thing out there. Yes.

Vinay Singh: Right, that is helpful. Just on the project Charge, you were targeting our £0.8 billion cost savings on the cost front. How much have you achieved in H1? And are we tracked to £800 million for the whole year?

- Adrian Mardell:** Yes. So that is £500 million delivered so far under the Charge program, £150 million of that was last fiscal year, which means £350 million of that is the first half of this year.
- Binay Singh:** So we are on track to do the remaining £450 million in H2.
- Adrian Mardell:** The difference is in the second half of the year more of the material cost reductions as negotiations get closed down and back dated. More of the material cost reductions did come through in the second half of the year. So yes, we are on track.
- Binay Singh:** Just one question on the India business, one on CV and one on PV. On the CV side, we have seen discounts going up quite sharply in the last quarter. So when inventory pressures are eased down. Do we expect discounts to ease down over there? And the question on PV, is that market share has come down on the wholesale side quite sharply. So could you share some insights on retail market share?
- P B Balaji:** Let me come in here. As far as CV discounting is concerned, you are right, the intensity of discounting the market is indeed high. I think to your question on how does this play out going forward. We are happy that our inventory levels is connected to almost normative levels that we want it to be, but the levels of market discounting will totally depend on how each of the player's inventory levels are, which we are not privy to so we will have to just wait and see how it plays out. Suffice it to say that from our point of view we will remain competitive to ensure that we do not lose market share. Girish, do you want to amplify that?
- Girish Wagh:** Yes, so what I would also add is that I think our stocks are now at a six quarter low and the demand-supply mismatch, which was there in Q2, more towards supply being more than demand getting committed as Balaji said. And I think this with some green shoots on demand drivers I think one will see the realizations firming up as we go ahead.
- P B Balaji:** As far as PV market share is concerned, it is a conscious correction in the wholesale market share that you have. I think I will hand it over to Guenter to clarify anything else you have.
- Guenter Butschek:** As you have already rightfully mentioned further that the market share came down. I would say that it is officially somewhat uniquely measured in India. We took a conscious call in preparation of transition BS-IV to BS-VI and because of the fact that the market literally collapsed in the second quarter in particular in expectation the GST rates might get reduced. And the GST Council had its meeting in the September 2019, we decided to address cut the production with the cut of production, we also just will fill accordingly. And since we have anyway shifted focus completely from to wholesale to retail as of the April 1, 2019. We took the conscious impact on our market share, dropping below 5%. But for us, it was much more important to reduce the stock level. For us it was much more important to actually speak to our commitment towards the dealer network to reduce the stock level and to

unleash working capital on their side because as far as the retail was concerned, I mean we have seen a lot of the slides presented by balance sheet our retail was significantly higher than wholesale as to the size of the effort to reduce the stocks. On retail, although there is no official specific available in India, we would officially content it although we are pushing up even with SIAM and FADA which is the association, representing the dealer to actually focus on the ground reality as it is retail, and there we have not seen any compromise in drop in our market share, which was during the first half of the year consistently between 6% and 7%, which has actually confirmed trust that they are doing the right. This is what we had one of Balaji's presentations in order to correct the market situation and to adjust the system stock, as we call it. So not only on the cap on the dealers also in Tata Motors side to the best possible extent and by the end of the month. As we look forward, end of the month of October, we expect to be back to the normal level, which gives us further comfort for transition BS-IV to BS-VI.

- Binay Singh:** Sir the 6% to 7% is overall PV retail market share that is your best estimate, right?
- Guenter Butschek:** That is what we see on what we can read from the statistics available and what we can re-estimate from the market's feedback.
- P B Balaji:** Vinay just to keep yes this is an estimate with the annual idea of knowing the retail share retail growth of verifiable numbers with basis what was the market intelligence, we believe it around 6% in the quarter end.
- Binay Singh:** Great. Thanks a lot. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir two housekeeping questions first. In India business, this Rs.233 Crores charge on the PV business you have taken where it had been accounted for?
- P B Balaji:** It is inside the EBITDA line, other expenses that will be there.
- Chirag Shah:** It is in there.
- P B Balaji:** Other expenses.
- Chirag Shah:** The second question is to Girish, one your comment on shift to lower tonnage, which is there in the presentation. Is it more prevalent into the slowdown that we are seeing or is it more to axle norms, which is the bigger reason, because both have coincided the same time. So what gives you confidence to activate more to axle norm rather than slow down?

Girish Wagh: The slowdown which has happened Chirag, is also different in different end use segment, right. It is two two-axle and three-axle trucks and especially those in long wheelbase segments are mostly used for the e-commerce segment. That is for logistics of e-commerce companies and this is one segment which has been growing pretty well and therefore one sees that share as a segment has actually gone up as compared to the multi-axle vehicles and tractor trailer. So multi-axle vehicles, tractor trailers, which are used for cement, steel, transportation or some of them might be used in road construction for raw material transportation, I think those segments have gone down. And as a result of fall in these segments is actually higher than the overall industry volume fall. That is the reason that the smaller tonnage vehicles have gone up. As we go ahead, depending upon how one sees the end use segments growing in the remaining half, the second half of the year, I think the different segments will kind of change their contouring the overall industry volume.

Chirag Shah: Yes. This is helpful. And question on the JLR, one, when I look at your EBITDA per vehicle as a metric, we have the best EBITDA per vehicle since 2Q FY2016. So how do we look at this number, because EBITDA per vehicle can it improve further from here on or there are certain business pressure, which could come in for us. I understand that the current performance is driven by new launches, the sustainability of new launch and its impact on profitability if you can help us understand?

Adrian Mardell: Let me take that question, if you may. So we had a really good EBIT and EBITDA in Q2. I think just back into the answer I gave earlier in terms of the second half of the year, I do expect volumes to be stronger in the second half of the year, maybe because of the volume, either be a little bit of a weakening in the mix on a per unit basis, we would not quite get the same level of profitability. There is the issue called Brexit coming out in Q2 and Q3 again, which will impact we're only building 120,000 cars in the quarter. That will certainly have an impact on the quarterly results. I would encourage you to wait to see what the shape of the quarter as when we talk in January. However, the underlying profitability on the vehicles are stronger than they were earlier in the year. I will go back to quarter one to help you understand that. In quarter one, we had a VME of 9% of GVR that was down to 7% in quarter two and I expected that level go forward this fiscal year and the quarter one we had a warranty of more than 6% of GVR and that has down to 4% in quarter two and I am expecting a level closer to 4% in the second half of the year. So there is basically a four point improvement in those two areas in quarter two. I mean that level of spend and coverages I expect in the second half.

P B Balaji: Chirag, I think just to close the point, I think that is the reason we are confirming that we hold our full year plans, it is within 3% to 4% EBIT. And all the interventions that we are making is to ensure that we get more and more robust in terms of delivering within that

particular corridor and we will reconfirm how we are performing again certain every quarter as we go forward.

Chirag Shah: Yes. Thank you and all the best.

Moderator: The next question is from the line of Elaxi Yanis from Black Rock. Please go ahead.

Elaxi Yanis: Thank you for taking my question. This is a more JLR focused question. What are your plans regarding potentially accessing the bond market and if so what are your thoughts about whether secured versus unsecured financing would be more likely.

Ben Birgbauer: I will take that. So this is Ben Birgbauer, I am the Treasurer of JLR. So in terms of accessing the bond market, one of the slides in the JLR presentation shows what we have done today in terms of funding and that we will be looking at other funding options for the rest of the year. And one of the things, noted there is definitely looking at bonds, we will continue to do the same thing we always do, which is monitor to the bond market and decide when the right time to access it is. We will obviously be taking a look at the market after it absorbs these results. And we will look at whether it would make sense to go sometime yet this year. Maybe we wait until next year. So I think at this point that still remains to be decided. In terms of the question of security, we have been very, very clear that we have no plans to issue secured debt, our strategy has always been around funding on an unsecured basis and there is no change to that strategy.

Elaxi Yanis: Thank you very much.

Moderator: The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan NL: Thank you, Sir for the opportunity. Congratulations on a very good set of results. My first question was on JLR. If I look at the market share between April and September in various geographies there has been a reduction in market share. When I calculate market share, I am taking the top four, five players and seeing how the market share has changed for JLR. So just wanted to understand how do you see the strategy to recover the share going forward?

Dr Ralf Speth: At the end of the day, I am not interested that we sell more cars, but reserve profitable cars. Market share is important for us on totally different level and ideally even more constant, this confusion is all over the place. We have some critical items, the one of the other country because legislation and regulatory issues, especially in overseas, but in the rest of some markets we see as straight to area. The issue is have also now the UK where we see the customers who had back because of these kind of Brexit debate, US is more as a stable and we will continue and we will have a stronger third and fourth quarter.

Raghunandhan NL: Thank you, Sir. My second question was to Girish, there has been a lot of news on the scrappage policy of late. So just wanted to understand how you see that and what are your thoughts about it.

Girish Wagh: So, two or three things on the scrappage policy. First of all, for it to make any meaningful difference on the demand, the life of the vehicle should be somewhere 10 years. Right now, initially there was a talk of 20, and there was a talk of 15 years. I think if the period is made anywhere between 10 and 15 years, then it could be helpful. If it goes more towards 10 years, then I think it will have a good impact on demand, number one. Number two, I think the policy is yet to be fully fleshed out in terms of definition of what is the end of life? Right so end of life need not necessarily be by number of years, but it can also be in terms of usage, the number of deliveries and so on and so forth. So there is also a need to flesh out the policy better, so that it actually ends up into defining the end of life properly. Third thing is after the end of life has also been decided there is a need for good number of scrappage facilities across the country. Because this is something cannot be localized at one location with high-capacity the way vehicles are based. So this is another requirement which is there and on the organized scrappage facilities, I think things have just started moving. So all these three things need to fall in place either in terms of clarity or in terms of capacity and then one can see a good impact happening on demand. But as a CV OEM, one would certainly look at this coming in when there is a transition to BS-VI, when it will certainly lead to a good incentive for people to call forward and buy new vehicles.

Raghunandhan NL: Thank you, Sir. That was helpful. One last question if I may. How was the festive season on the car side?

Guenter Butschek: I am going to take this question. As mentioned already earlier up to the September 20, 2019 of the GST council meeting literally look too much of a festive season, this is an improvement on the inquiries and certainly not on conversion and detail because they expected a movement on GST while this situation actually changed as of the September 21, 2019, where we saw in the last week of the month of September, significant increase in inquiries and also a good improvement under conversion. Retail was still somewhat below because lots of Indian customers prefer that actually a peak to hit explicitly in the month of October for kind of a different reason. In the month of October as we speak, we have seen a continuation of the positive trend as far as the inquiry level is concerned the inquiries will almost on the level of what we have seen a year ago in the same festive season. The only thing which we have seen is a continuous trend of a change in the mix of the inquiries from what we call the nature will walk till inquiring more toward digital inquiries, digital leads. Where I think overall the industry as a matter of fact, that although the number of inquiries is higher, the conversion rate on the digital leads is not close yet to what we are used to from the nature inquiries and the walk-in. But this is something that Tata Motors has

planned as far as our digital leads is concerned, dedicated to digital lead teams has established with most of our dealers because it is a particular skill set required to analyze the leads to talk to the customers and to finally offer them test drive where we need to match the digital lead with the physical reality of our business. As far as conversion rate is concerned, the conversion rate in general has improved in the month of October. The retail has picked up and so therefore we expect a significantly better month in the month of September. But I will make the same caveat like Girish, this is the festive season, all the players have actually put the efforts would forward as far as the festive season offerings are concerned, this is certainly not going to continue in the quarter till the end of the year. So we are actually seeing, where we get out of the festive season and we actually get back to business as usual. How strong the demand situation is going to be? We expect in line with the normal seasonality that November is most probably going to be somewhat on the lower levels. But towards the end of the year, as far as the calendar year change is concerned, we expect that retail is going to increase, which would give us actually the best starting point for the transition BS-IV to BS-VI, because as of the next quarter, we are going to introduce the BS-VI vehicle in preparation of the transition effective as the April 1, 2020.

Raghunandhan NL:

Thank you, Sir. Thank you for the detailed answer. That was very helpful.

Moderator:

Thank you. The next question is from the line of Rahul Doshi from Pinpoint Asset Management. Please go ahead.

Rahul Doshi:

Congratulations on the good set of numbers. Just one question, when Mr. Balaji in the opening remarks said that the government is contemplating more measures in terms of boosting demand. What exactly are we guys referring to as in some color in terms of the steps that have been taken apart from the scrappage, which has already been discussed?

P B Balaji:

Yes. I think a combination of factors if you recollect the conversation over the last one and a half months of there in the public domain, I think the big one is the infrastructure where investment with the government is keen to front end and that will effectively have a significant impact on the construct segment for us in course of synod effects thereafter. Then of course the interventions happening on payments and liquidity is getting infused in the system and that was again will be a big area for us to actually see the unlock of demands that we are already seeing. Some of the NHA projects starting to come back against those in start generating demand and then of course the entire cycle of the multiplier effect of all these things coming through and the rest of the economy as well. So we remain cautiously optimistic that these are things that should start benefiting us going forward. Then on top of it is scrappage then of course in the sentiment changes. Is there a Bonanza of BS-VI pre-buy, BS-IV pre-buy those things related to agency?

- Rahul Doshi:** So what according to you is a rational timeframe in terms of expand the demand improvement apart from the scrappage, let us say scrappage is not announced. What according to you would be the timeframe over which you see the demand getting back to normalcy?
- PB Balaji:** I think your guess is as good as mine, earlier the better, which is the reason we left outlook as the near term is fluid. So I think more than waiting for demand to come our way, our objective is to say that remain average and as nimble as possible. So that in the demand does, because we are able to jump onto it immediately. So that is our in fact focus at this point.
- Rahul Doshi:** Right. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stockbroking. Please go ahead.
- Priya Ranjan:** Thanks for taking the question. One question is on the material cost reduction on the JLR side. You have talked about £300 million. So where do you see, I mean what are the scopes in terms of where do you see the reduction it can happen? The second part is on the warranty cost, I mean, you have talked about that there is a 2% reduction. But when we look at the call out in the warranty charges in £5 million material impact of warranty cost even in this quarter compared to last year?
- Adrian Mardell:** Let me take the first question first. The material cost, yes, we are expecting the £300 million reductions on a full year basis compared to prior year, quarter-by-quarter, of course, as more negotiations get closed down and the claims mostly get back dated to the start of the fiscal year the number for each quarter grows. The net number in Q2 was £40 million and it will be bigger than that in quarter three and it will be biggest in quarter four as the final negotiations get closed down and back dated back to April 2019. So we are relatively confident that the material numbers on a full year basis in Charge will be delivered and you can see what we actually did in Q2. On warranty costs, I think there is a clarification there. When I answered the question earlier, I was answering versus the level of spend in quarter one 2020 fiscal year, which was just over 6%. It was the part of the losses that we talked to you about in July for quarter one. The level in quarter two is just over 4%. Now the page, you referring to here is nothing to do with quarter one. It is actually the same quarter last year, i.e., Q2 FY2019 and the absolute level was about the same or £5 million less. That was a clarification around which quarter you are comparing to.
- Priya Ranjan:** Yes, I got it. I mean the warranty costs each and every quarter it has been going up. So I mean is there any end to it or I mean, if the top line is keeps growing I mean the number of vehicles etc., will keep increasing. So will it be increasing, I mean, what are we doing to

change that in the entire direction in percentage to see it looks nice, but I mean, in terms of the absolute number, if it can be reduced?

Adrian Mardell: Yes. We are working hard to reduce the absolute number. If you were on the calls in July you will remember our Quality Director Nigel Blenkinsop basically talked to 15 minutes of what we are doing about it. The quarter one was specific recall and goodwill actions. So the absolute number will increase as our volumes increase. And therefore the warranty car parc out there gets bigger. But obviously, 4% of revenue is not acceptable, and we are working hard to reduce that, mostly in the powertrain and the infotainment areas. That is where the higher levels of warranty challenge that we have on the vehicles.

Priya Ranjan: One thing on the write-downs, I mean, do we need to take the write-downs for engine plants sometimes in future as well with more I mean, the diesel engine plants, etc., which we have set up in UK?

P B Balaji: Let me comment here on this one. I think, if you recollect the conversations on when we did the impairment, I think we have put our best foot forward in terms of what we think is an assessment of the risk that we see on this. At this time, we do not see anything further that is coming up in front of us.

Priya Ranjan: Second part is on the India business. I mean, in terms of PV business, I mean wholesale and retail, I mean you have now been correcting. What the problem might have been occurring since last one year. So how much do you attribute to the bill, but not delivered kind of scenario, which is very normal practice in the industry? I mean, typically, when your concord as face some kind of issue in recent past? So or do you see that?

P B Balaji: I think from a retail perspective, the focus on retail is ensure that we keep up front end clean and ensure that it has done in the right manner. That is where our focus remains. As far as measures on how do we ensure that the wholesale reflect those retails and do not get ahead of themselves that is the correction that we have been putting in place. So therefore we believe we are in the right place on that one and that is how we intend to take it forward.

Priya Ranjan: Last one for Girish. How do you see this in the entire decline, how much do you attribute to the entire construction, etc., I mean the construct segment going down in the last six months or so? Because I guess, the last year entire M&HCV volume was driven by construct or the mines, tippers, etc., primarily driven by tippers?

Girish Wagh: Yes, that is right. So within the M&HCV drop which has happened, which is almost around 45% in H1 I think the tipper segment has contracted more and as I mentioned in the beginning, even the sentiment index for tipper customers is actually continuously going down. And in Q2 was even lower than that of Q1, whereas in cargo, the sentiment index has

increased, which means that they are looking forward from buying possibly ahead. In tippers what we have said, what is going to help start the buying season again is actual funds disbursement from the government for various projects, is number one. Number two, expediting licensing of some of the new infrastructure projects and third is also renewing our new mining licenses to be expedited. I think these things will kind of bring back the demand for tipper. But with the government's focus on infrastructure and the amount that they have indicated they will invest in infrastructure. I think one does see in the year's long term that tipper should do very well.

Priya Ranjan:

One, I mean, a little longer-term question. I mean, if I can, is on time, the impact of DFC, there has been a lot of talk about DFC impact on commercial vehicle side, at least on the Delhi, Mumbai corridors. So how do you send, what is your reading on that?

Girish Wagh:

So as we move, there are two corridors. One is northeast and the second one is northwest. The northeast dedicated freight corridor when it comes up, we will be used mainly for transportation of minerals and coal, etc., and actually, to a great extent, these commodities are anyway being transported by rail freight today, because the best means of transportation for these. Therefore, the impact of the Eastern corridor is going to be muted. If you look at the western corridor, which is Delhi-Mumbai I think there is a lot of container traffic related to export/import, which happens on this corridor and therefore, there is likely to be some impact happening on the tractor trailer market, which uses these containers for transportation. One does see some impact happening on the tractor trailer market in the Western corridor. But even there, I think the impact is not going to be huge, maximum it would be around single-digit shipped happening back from roadways to railways.

Priya Ranjan:

Lastly, if I can, just on the PV side and there has been a lot of talk or debate on the diesel/petrol for the BS-VI and there has been a lot of cost differential etc. So what is your thought? I mean, on that front because markedly there is trying to move out of diesel, so what is your strategy on that?

P B Balaji:

We were seeking an official position on it, as you might recall, saying deal for the time being is well and an opposition for certain used cases, in particular as far as accumulated mileages in the market concern, but we expect the deals with these used cases, petrol becomes an option with new comparison on TCO, taking the higher acquisition costs of the diesel after BS-VI into consideration. This whole discussion is certainly going to be accelerated when we look two years of work, so it is of April 2022. We kept the norm as Phase 2, because they need to become even more stringent which requires an additional piece of technology to be added, where we expected in particular the lower diesel displacements, largely the discussion become more will become even more expensive so that even borderline use cases today, which will justify diesel engine actually might not

make the TCO calculation. So therefore we have decided to continue with diesel, we do see these used cases, although we expect a lower percentage of diesel after transition to BS-VI. Talking about larger displacement on aggression, this is kind of displacement side is going to continue because the business speaking no real option available as far as petrol is concerned for this class, because 4.6 meters SUV is best equipped with diesel engine and gives the customer at the driving pleasure in terms of power and convenience, but we will be closer, carefully monitor the situation at the lower end and will take our decisions accordingly. For the time for the time being, we will move forward.

Priya Ranjan:

Thank you. That is all from my side.

Moderator:

Thank you. We take the last question which is from Stefini Tinzenze from JP Morgan. Please go ahead.

Stefini Tinzenze:

Thank you very much for going through it. Just one quick question about the emission mandates that are coming through starting in 2020. Just wondering what your view is, we have seen some articles about, for example perhaps some of the heavier vehicles being pushed, I guess, towards year-end and the start of next year as the mix needs to change for most of the automotive OEMs, and I did not know if you could perhaps comment on that. And just as well looking at the sustainability of the cost-cutting exercises that you have done you may have already said on the call, so I apologize for repeated yourself. How are you looking that also in the context of like raw materials as we move through the back half of the year?

P B Balaji:

Yes. Let me tell you clarify your questions first, are you referring to the BS-VI migration in India or the emission norms in Europe?

Stefini Tinzenze:

For JLR, the European Union.

PB Balaji:

Okay, fair enough. Adrian, do you want to pick it up?

Moderator:

Sir the line for JLR team is disconnected. Trying to call them back.

P B Balaji:

Let me comment on the material cost piece and the sustainability of the profit improvement there. If you notice that Adrian did talk about that in terms of why we believe that some of the number correction that have happened are sustainable, particularly from the point of your warranty decreases as well as some of the charge interventions coming the way we want it to play and the benefit of the overall volume starting to pick up. The fly in ointment of course is Brexit, we just need to wait and see how that plays out in the coming months and that could spoil the picture if we are forced to one more round of stock correction and shutdowns we need to do in the next transition. As you are aware that we are taking one in

November and that is something that we need to watch and see. Other than that, I think we believe the underlying performance is now starting to improve and we like what we see there. As far as emissions in 2020, the complaint is concerned, so we are comfortable with the compliance norms for 2020 and our plans in the roadmap for the future also factors in the outgoing compliances that are going to come up in the subsequent years as well. And given the mix of product and the launch is coming in particularly with the three new architectures coming in, does give us confidence that we are on the right track there. Adrian, would you want to just one question. I think Adrian has joint back in; there is one question on the emission compliance for JLR for the year 2020 and what is your confidence on adhering to that?

Adrian Mardell: Well, we know what the targets are. We know the challenges are, at the moment all of the actions we would need to take next year have not been taken, but we are reframing our plans and our expectation is overwhelmingly, we will be compliant next year.

Stefini Tinzenze: I appreciate the color. Thank you very much. Great quarter.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to the management for closing comments.

P B Balaji: Thank you. I thank everyone for joining the call. Once again wish you a happy Diwali and seasonal greetings for others as well, and hope you get to spend some time with your loved ones in the coming weekend. Take care. Catch you soon in the next quarter. Bye-bye.

Moderator: Thank you. Ladies and gentlemen on behalf of Tata Motors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.