



“Tata Motors Q2FY11 Results Conference Call”

November 09, 2010



Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tata Motors Q2FY11 Results Conference Call hosted by Tata Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal to the operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sreesankar from Tata Securities Limited, Thank you and over to you Sir.

Sreesankar: Thank you. Good evening all of you who have joined from Asia, Good afternoon to people from Europe, and Good morning to those who have joined from Americas. I have with me joining the conference call Mr. C. Ramakrishnan, CFO of Tata Motors and his colleagues. Over to you Mr. Ramakrishnan.

C. Ramakrishnan: Thank you Sreesankar. Thank you for hosting the call and my sincere apologies to all for the delay in starting the call. Our presentation material is already loaded on the site, but very quickly, we have seen one more quarter of very good underlying business performance, maintaining the Q1 trend in fact slightly improving on this. In Q2, the overall EBITDA margins at a consolidated level stood at 14.5% compared to 7.5% in the same period last year and compared to 14.6 in the previous quarter. PAT came in at 2200 crores for this quarter compared to 1988 crores in the last quarter. Just some of the highlights in terms of overall balance sheet size, the net automotive debt equity stood at 1.73 as of September and post the recent QIP issue that we did, the debt equity at automotive level has come down to 1.16 on a proforma basis. Overall capital expenditure spend has been about 4300 crores on a consolidated basis which comprises about 400 million pounds in Jaguar Land Rover and about Rs.1200 crores in Tata Motors.

Tata Motors standalone net EBITDA margin was a shade under 10% reflecting some of the cost pressures that we had shared with you from time to time. Hopefully with the 1st October price increase and the aggressive cost reduction plans that we have on hand, we should be able to get back to some more robust margins that we have seen in the past. Jaguar Land Rover operations have continued to perform very well. In this quarter, the EBITDA margins on Jaguar Land Rover stood at about 16% plus, 16.6% compared to 15.5 % in the first quarter. Significant volume, good product mix, and good market mix have contributed to this improved performance and compared to last year, we have seen some good direction in terms of exchange rate even though compared with the previous quarter exchange rates are more benign. The new XJ is doing well in the market. We have sold wholesale over 8700 units, and there is strong selling price realization across markets. With this, Jaguar Land Rover business has posted 4 successive quarters of profitable performance and in this quarter, net positive cash flow generated net of CAPEX and product development expenses and working capital changes of about 300 million, part of it has been used (about 240 million) for paying off some short-term debt.

With this, I will stop my initial opening remarks in view of the time we have lost. Overall, our direction both in Tata Motors and Jaguar Land Rover remains the same that we have shared with

you from time to time. We will continue to invest in new products, new introductions both in India in the form of launch of further variants on the Prima platform and other products with the new refreshed Safari in the next years. The recent launch, Aria is doing well in the market and is expected to strengthen our volumes in the passenger car. Indigo Manza continues to do extremely well and we are achieving some of our best market shares. In commercial vehicles, market share stands at about little over 60% overall. At Jaguar Land Rover, we will continue to invest newer products with Evoque coming in the summer of next year. Our discussions continue in terms of our various strategic options in China and that was announced in the recent press conference. We will shortly be commencing our assembly operations next year in India for Land Rover products. I will hand over back to Tata Securities for organizing the question and answers.

Sreesankar: Thank you Mr. Ramkrishnan. Melissa, can we take the questions please?

Moderator: Sure sir. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Firstly on Jaguar Land Rover, if you see we have almost around 7% ASP (average selling price) expansion on a sequential basis, so if I look at forex, it is slightly adverse for us versus Q1. If I look at regional mix in China, it is actually slightly lower as a percentage of sales versus Q1, so it means that it predominantly would be more driven by product mix. Am I correct in my assumptions on this?

C. Ramakrishnan: You are comparing with the immediately preceding quarter?

Binay Singh: Yes sir.

C. Ramakrishnan: China in terms of percentage of overall mix has been similar. UK sales have also come in quite strongly in terms of percentage to overall mix, 20% has gone up to 27%. In addition of course what you have mentioned in terms of the regional product mix, historically if you take something like X type product which is being replaced by XJ and the better realization across markets, so combination of product mix, better regional mix as well as product realizations.

Binay Singh: How much XJ did we sell in Q1?

C. Ramakrishnan: We started wholesaling XJ's in May 2010, mid May. So for Q1, it was available only for about a month, month and a half. More than 5000 sales out of 8700 have been in this quarter. If I remember my numbers, I think Q1 XJ number was about 2500.

Binay Singh: And sir how would you see the JLR margins going ahead like our other expenses? Passenger car sales have fallen quite sharply this quarter because of the reasons you mentioned, how would you see that going ahead?

C. Ramakrishnan: It is as demonstrated in the last two quarters after the period that we went through, it has demonstrated that it is good attractive margin business. Our endeavor will be to further tilt business. In terms of whatever happens on the exchange front, we would like to focus on

improving our margins. Last year, we undertook a major cost reduction initiative which is on target. We should see some contribution to the margin arising out of transformation initiative that's in place. So that any cost pressures or exchange adverse movements are properly balanced.

Binay Singh: And sir lastly on the India business margins like the staff cost are up almost 14% sequentially, any reasons for that?

C. Ramakrishnan: No, we have had our annual wage increases, salary increases, increments, promotions and of course the headcount also has marginally gone up.

Binay Singh: There is no one time in that?

C. Ramakrishnan: There is no one time.

Binay Singh: Thank you sir. I will come back later with further questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: First was on capacity, how much is the maximum production that we can do out of current facilities and are we looking to expand capacities in other countries like China?

C. Ramakrishnan: I presume your question is with respect to Jaguar Land Rover or?

Kapil Singh: Yes with respect to JLR.

C. Ramakrishnan: Historically if you see Jaguar Land Rover, the peak production it has achieved is close to about 300,000 cars. So one can say theoretically that would be the capacity and I am sure with additional shifts and better management and efficiency, some productivity improvements, we can marginally up that even further. Currently, we are at about 20,000 per month sort of run rate which is about 240,000 per year. So I believe we have for the foreseeable future sufficient headroom in capacities in terms of manufacturing capacities on plant and machinery and facility. If you remember between 2008 and 2010, we had reduced manpower significantly in Jaguar Land Rover. We had reduced headcount by almost 1800 people in this period. Therefore the mass capacity would be somewhat lower and we are almost had full in terms of manned capacity. So further production increase will of course result in some increase in manpower which we are currently engaged in. In terms of additional capacity, we may look at selective opportunities, China is one. The market volumes and the strategic partner arrangement in China would facilitate the market volumes do justify in China. We are also looking at India for possible assembly commencement. The volumes will initially be low, but there are certain locations that we are actively looking at for setting up capacity.

Kapil Singh: Right sir and secondly just to get a little bit more detail on the other expenses, they have come off sequentially so is there any item head where we have been able to get a substantial reduction?

- C. Ramakrishnan:** It is difficult to pin point one line item. As I said, we have series of initiatives in Jaguar Land Rover, almost 8-9 cross functionality teams and sub teams or various cost reduction and cost control areas that include fixed marketing trend, operating expenses, administrative expenses, IT expenses other than material and staff cost related. So there is no one time effect here. Lot of production activities are beginning to have their impact. One thing, if you are looking at the aggregate other expenses as happened in the last one or two quarters. The type of demand and price positioning and realization we are seeing, as a welcome for the new products in Jaguar Land Rover. We are also seeing considerably lower variable marketing expenses in addition to the fixed marketing and other administrative expenses.
- Kapil Singh:** Right sir and one more thing I wanted to check was on capacity constraints that the company is facing. We can notice that retail sales have been higher than wholesale, so how is the company placed on that and by when do we think that we will be able to overcome those issues?
- C. Ramakrishnan:** My apologies, can you repeat the question please?
- Kapil Singh:** Just wanted to check on capacity constraints which the company has been facing. We can notice that retail sales have been higher than wholesales, so by when does the company expect it will be able to address those issues?
- C. Ramakrishnan:** Again in Jaguar Land Rover?
- Kapil Singh:** You are right.
- C. Ramakrishnan:** It is not a capacity constraint in terms of manufacturing capacity in Jaguar Land Rover. There had some supply constraints. Engine availability from Ford has been somewhat constraining our numbers which we are working our way through, but last month we had a problem on one of our other supplier in terms of the machine breakdown, but these things happen from time to time. Over a period of time we have had some constraints on engine supply which we are working with Ford, to see how this we can improve. Otherwise, there is no capacity constraint at this point of time in Jaguar Land Rover.
- Kapil Singh:** And sir what will be the waiting period on overall basis that we have for our products now?
- C. Ramakrishnan:** I would say on an average; in some of the nearer markets, I would say about 4 weeks and some of the further markets distant markets about 4 to 6 weeks.
- Kapil Singh:** Okay sir, thank you.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Sir just wanted to know what are the capitalizations for product development in JLR for this quarter and for the first half of the year?

- C. Ramakrishnan:** Before we end this call, I will give you that number; just park it for a minute please. I will get back to you.
- Sonal Gupta:** And sir the other question was on other expenses in India on the standalone business because that has gone up quarter-on-quarter by about a percent and just wanted to understand what are the variable factors and what are the key fixed drivers in the other expenses item?
- C. Ramakrishnan:** Off-hand there is nothing extraordinary or one time movement in this. So this will include host of work operation and other corporate overheads as well as warranty and other expenses. So all I can say at this point of time is there is nothing extraordinary or one time big impact item.
- Sonal Gupta:** Sir, but this series have been sort of extremely variable I guess quarter-on-quarter basis. So anything which has changed quarter-on-quarter that you can highlight?
- C. Ramakrishnan:** There is no accounting change or any provisioning change or whatever, but the minute you keep comparing with turnover, the percentages may looked to be varying from time to time depending on the top line.
- Sonal Gupta:** But a large portion of this would be variable expenses?
- C. Ramakrishnan:** No, large portion I would say is more likely to be fixed in nature rather than variable or semi-variable. I cannot say something like travelling is variable or fixed, its supposed to be semi-variable.
- Sonal Gupta:** Okay sir thank you so much.
- Moderator:** Thank you. The next question is from the line of Sanjay Doshi from Macquarie Securities. Please go ahead.
- Sanjay Doshi:** On Jaguar Land Rover, just wanted to know whether we have taken any raw material cost hike there?
- C. Ramakrishnan:** In this quarter, no significant raw material cost increase.
- Sanjay Doshi:** So that should come up because our renegotiation is from July onwards so that will head next quarter onwards...?
- C. Ramakrishnan:** It may impact.
- Sanjay Doshi:** And sir also on the capacity wise, we had engine supply issues from Ford, but with China assembly that we are looking at, will that increase the overall capacity or it will just limited to what we have at the UK facility?
- C. Ramakrishnan:** I am not clear on the question.

- Sanjay Doshi:** Because most of the new capacities that we are talking about in India and China are mostly assembly facilities. So will there be a commitment from Ford for additional supplies or will still be...
- C. Ramakrishnan:** There will be. First of all while we are exploring the opportunity for China assembly etc., it is still sometime in the future. We are currently engaged with some discussions with some potential partners. We will have to short list one and then enter into the agreement. The investments have to start flowing. By time the assembly operations start, we are talking year or more away. We do have supply constraints from Ford on the current volume indications of the engines, but they do have ramp up plans for making the future demand.
- Sanjay Doshi:** Thank you very much for it.
- Moderator:** Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Number one, could you just share what the impact of currency has been on your JLR margins this quarter and second question, your 2011 models have they been launched and what sort of price increases have we all taken out there?
- C. Ramakrishnan:** Take the second question first. 2011 models have not been launched yet. They will be going into market shortly. As far as exchange is concerned, I think I had given directionally what type of exchange impact there is on Jaguar Land Rover business. Nearly 40-50% of the turnover comes in dollar or dollar linked currency and about 20% of the turnover is in Euro. Against that Euro turnover, we also have about 30-35% imports which are also denominated in Euro. If you do an exchange rate tracking you can get a fair assessment of the impact.
- Jamshed Dadabhoy:** Sir were you hedged for the 2nd Quarter?
- C. Ramakrishnan:** Partly yes.
- Jamshed Dadabhoy:** Okay and when were these hedges undertaken?
- C. Ramakrishnan:** Over the last quarter.
- Jamshed Dadabhoy:** Okay so typically you have got three-month forward covers?
- C. Ramakrishnan:** No, we do go beyond also. We do have covers going up six to nine months. We have not taken covers for one-year, two-year, three-year type of time frame. We have tried to operate within about a year outlook in terms of forward cover and we do not cover 100%. We have taken some percentage in terms of different quarter.
- Jamshed Dadabhoy:** When you are launching model year 2011, when will that hit the market?
- C. Ramakrishnan:** It should happen from December onwards.

- Jamshed Dadabhoy:** Okay. So you all are now constrained right now for engines. When you think about setting up assembly plants in China etc., does that imply that you all are confident that Ford will be able to rapidly ramp up engine capabilities over the next couple of years?
- C. Ramakrishnan:** Yeah, they should because current engine constraint that we are talking about is against the plan that we had given to Ford in terms of engine volumes. The actual volumes happened to be much higher than what we had indicated. And I must clarify that Ford is delivering more engines than what was contracted or indicated but our demand seems to be even higher than that.
- Jamshed Dadabhoy:** Will this lead to a re-negotiation even in the rates? Is there an escalation clause built-in that beyond a certain point you end up paying much more per engine?
- C. Ramakrishnan:** No, the engine prices are fixed and linked to the raw material prices and the input costs and there are also cost-reduction targets agreed between us and Ford.
- Jamshed Dadabhoy:** Sir last question, what are your warranty expenses and percent of sales in JLR in this quarter?
- C. Ramakrishnan:** Warranty expenses average between 4% to 5% in JLR which is slightly on the higher side compared to its peers and competitors and we do have a program for bringing it down.
- Jamshed Dadabhoy:** I mean because now the old S and X type have been discontinued.
- C. Ramakrishnan:** And there have been significant initiatives on improving the quality as well so warranty expenses should come down.
- Jamshed Dadabhoy:** They are still 4% to 5%?
- C. Ramakrishnan:** Yes.
- Jamshed Dadabhoy:** Okay, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Govindrajan Chellappa from Credit Suisse. Please go ahead.
- Govindrajan Chellappa:** A quick question on CAPEX in JLR. What is the kind of run rate that we are looking at now? Earlier we had indicated about 700 to 800, are we increasing those CAPEX targets? Second question is on tax rate. What kind of tax rate do we expect for a consolidated entity during the year? If you could explain how much of tax we have in JLR still left that we could exhaust over the next couple of years or whatever. And lastly, if you could tell me, I know this is a tough question, in your opinion what is a sustainable margin in JLR in the long-term? 16.5 seems extraordinarily high compared to margins that any car company makes globally. So if you could give a sense of what you think is a sustainable margin?

C. Ramakrishnan: Okay there are a set of four questions there. The first question was on CAPEX indication in JLR. For the half year April to September our capital expenditure and product development expenditure aggregated about £400 million and I had given an indication directionally over the next 3-5 years we will be spending between £800 to £1 billion annually. So in terms of run rate for the half year we are at about 400 or so in this year.

The second question was on tax rates. It is difficult to comment on consolidated tax position because being different taxable legal entities it is difficult to arrive at the global tax percentage in simplistic terms. In India, our tax rates have been hovering between 20% to 25% which I think will be the range. We will try and maintain it at that band. In JLR they are two types of tax streams that happen, one is tax on U.K. profits and the other is tax on different national sales entities across the world and all these national sales companies get taxed separately in their countries. On an average, outside of UK, in all the national sales companies the tax outflow in JLR annually has been around £30 million to £40 million. I think it will continue to be in that range. As far as the UK operations are concerned JLR doesn't have a tax liability with accumulated tax credits based on the capital expenditure and product development expenses that have been incurred in the past and continue to incur. We have carry-over tax credits available in UK of over £2 billion to £2.5 billion which, I think, should help us have a very low or nil tax rates as far as the UK operations are concerned.

The last question was on sustaining the profitability. As I said earlier, there are risks to the profitability in terms of sudden adverse exchange rate movements and directional changes in exchange rates as well as pressure on commodity prices. Hopefully many of the cost reduction initiatives for which some of the benefits we should see in the coming quarter we should try and meet the challenge of what you have said of maintaining the profitability. It will be tough. It is very attractive good margin but we will endeavor to do so.

Govindrajan Chellappa: If you could also give us a sense of how incentives have been across various markets? What was the average incentive spent in JLR in the current quarter versus last quarter?

C. Ramakrishnan: Quarter-to-quarter I do not think there has been any significant movement in incentives. In the last couple of quarters we have seen the variable marketing spend totally; both in terms of incentives or financial subvention etc. have been fairly low, we have not seen any adverse movement or positive movement significant worth mentioning at the first.

Govindrajan Chellappa: Okay, I will come back with more questions later, thank you.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Enam Securities. Please go ahead.

Sahil Kedia: I had the question again on JLR. If you can help me understand what is the debt that we have on JLR books. As per your presentation you seem to have reduced the short-term borrowings by 240 million in the first half. If you can give us a sense of what the debt on the books of JLR is? And additionally sir a question on the Evoque, we understand it is going to get launched

next year. Sorry to come back again on the question of the engines, if you can tell us a) will you be sourcing the engines of the Evoque and future platforms and products also from Ford or you are looking to either develop that individually or two other contracts or suppliers globally?

C. Ramakrishnan: I will take the second question first. Evoque will have Ford engines. The question was also, I think, related to future engine strategy. We do have options to look at alternate engines; it is not an exclusive arrangement with Ford. Sometime ago I had mentioned that we could also look at possibly common engines between some of the high end requirements in Tata Motors and Jaguar Land Rover. These are some of the options that we are evaluating in a preliminary way. These options do exist.

Sahil Kedia: Okay, but we are not considering manufacturing engines in-house at this point in time?

C. Ramakrishnan: Manufacturing engines in JLR at this point in time?

Sahil Kedia: Yeah.

C. Ramakrishnan: No, that is not in the plan.

Sahil Kedia: Okay.

C. Ramakrishnan: You also asked a question about debt level in JLR. The net debt is about £800 million.

Sahil Kedia: Okay. One more question if I may, in your presentation you have mentioned that you seem fairly confident of meeting the 2012 deadline. Just wanted to get a sense in, therefore, can we expect more product changes in that sense because today even after some of the newer products we are still not meeting the 2012 emission standard laid down. So I wanted to get your thoughts on that in terms of are we saying that all our products will be compliant by the time the deadline comes? Just wanted a clarification there sir.

C. Ramakrishnan: First of all the requirement is not on a product-to-product basis.

Sahil Kedia: It's on a fleet basis.

C. Ramakrishnan: It's more on a fleet average. There are a series of plans that we have in terms of the mix between petrol-diesel in terms of hybridization of the vehicle. In terms of technologies we can introduce across your fleet. We introduced already last year Stop-Start technology in some of the Land Rover models which can be extended. Series of measures in across the product range including product mix which will help us achieve this. We are well on track. Some of the smaller vehicles like Evoque will also help us move towards the desired fleet average.

Sahil Kedia: Alright sir. Thank you so much. I will come back for more questions.

Moderator: Thank you. The next question is from the line of Jairam Nathen from Kotak. Please go ahead.

- Jairam Nathen:** The £400 million in CAPEX in R&D, can you break that out in R&D and CAPEX please?
- C. Ramakrishnan:** The break-up between product development and capital expenditure?
- Jairam Nathen:** Yes.
- C. Ramakrishnan:** As I said, just give me a few minutes I will come back. There is also an earlier question on product development expenses capitalized. Just bear with me, before the end of the call I will share that number with you.
- Jairam Nathen:** Okay just had a follow-up on that. That almost seems like 10% of your sub sales. So is that a normalized kind of number or do you think you can get that down over a period of time?
- C. Ramakrishnan:** Between capital expenditure and product development, as I said our annual outflow will be to the order of about £800 million to £1 billion.
- Jairam Nathen:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from M.K. Global. Please go ahead.
- Chirag Shah:** Just a clarification on the hedges you indicated. Your cross currency exposure on Euro it is 30-35% of sales right? For imports you said 30-35% of your imports are denominated in Euro.
- C. Ramakrishnan:** Yes.
- Chirag Shah:** That will be the percentage of sales?
- C. Ramakrishnan:** Yeah.
- Chirag Shah:** And also if you can tell as a policy what is the hedging policy at JLR? What is the broad range that generally you would like to hedge your position? Or what is the un-hedged position that you are generally comfortable with on the currency side?
- C. Ramakrishnan:** Of course, this is something in terms of comfortable position; it is something that you would review from time to time. There is no one fixed comfort I can indicate for all times to come. We are not right now looking at a hedging for a very long period of time, we are looking at next 3 to 4 quarters and depending upon our view from time to time either in the short-term or in the medium-term we will look at different percentages in terms of overall cover to be achieved. That's a percentage that we will review from time to time and we will look at more conventional products and not exotic or leverage products.
- Chirag Shah:** Okay, second your follow-up question on raw material side, you have indicated that the new contracts have not yet filtered in our P&L. So what is the kind of hike that has been demanded

or what kind of negotiations you are having? Can you throw some color on the raw material side?

C. Ramakrishnan: Obviously you do not expect me to comment on that at this stage. It would be inappropriate. All I can tell you is it's a high content car luxury segment and top-end model that we are talking about. Unlike commercial vehicle in India, in fact, the impact of raw material prices on the margins are relatively less. So we do hope that we should be able to take it in our stride.

Chirag Shah: And how is the demand, you can raise prices to counter it to maintain these kinds of margins or that is a tough call to take as of now? How is the underlying demand strength across regions?

C. Ramakrishnan: Across regions it is not different. Some of the markets like China, UK seem to be strong. US is okay. Europe is somewhat of a concern and we are watching it very closely. After a very low base Russia seems to be improving and coming back quite smartly and rest of the world is picking up. So it's a mixed bag. While you asked me whether it is a tough call to take on the product price increases, more than a tough call I would say it's tougher to answer that question.

Chirag Shah: Fair enough. Thanks sir I will come back with more questions.

C. Ramakrishnan: Okay.

Moderator: Thank you. The next question is from the line of Jatin Chawla from IIFL. Please go ahead.

Jatin Chawla: You have given retail volumes for half year and when I subtract the 1st Quarter number the China mix seems to be almost flat on April to June and July to July to September. Maybe I will get back to you after the call on that.

C. Ramakrishnan: Maybe if you can drop a mail with your numbers we can clarify that.

Jatin Chawla: Sure. Also a similar question on the inventory part because your retail seems to be better than your dispatches and one of the comments indicates that your inventory days on a quarter on quarter basis gone up from 77 to 85. So wanted a clarification on that?

C. Ramakrishnan: Inventory base is both company inventory as well as dealer inventory; it is a combination of both.

Jatin Chawla: Okay that's fine, thanks.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: My question is on JLR. You indicated that any adverse impact of Forex would be offset by cost saving measures which you are undertaking. Can you throw some light on what cost initiatives you have undertaken which will benefit in our immediate future?

- C. Ramakrishnan:** There is a whole series of initiatives we started in Jaguar Land Rover sometime last year. There are specific targets and initiatives across different line items of cost including material cost through variety reduction, commonizing of parts across models and platforms, low-cost country sourcing. Short while ago in response to a different question I also commented on work that is being done on quality improvement and warranty expense reduction and we have already achieved a certain amount of expense reduction on the labor wage cost side. We had reduced over 1800 people over the last year and year and a half and a series of improvements in positioning of the products and better control on fix marketing and variable marketing spends. Some of the national sales companies operations are being rationalized. IT costs, administrative overheads and every area is being attacked, there are 9 or 10 initiatives and projects being launched.
- Jinesh Gandhi:** Okay, so effectively you expect that to contribute over the next 6 to 12 months?
- C. Ramakrishnan:** It should because some of these measures particularly on the material cost side etc. take their time to work through in terms of the bottom line. While we have had some initial positive impact we do expect more of this flow through.
- Jinesh Gandhi:** And secondly a question on the domestic operations on the commercial vehicles side. Given that, BS-III, we have now behind us, how is the demand at the ground level currently and how is the inventory situation?
- C. Ramakrishnan:** Sorry can you repeat that please?
- Jinesh Gandhi:** For the domestic operations on the commercial vehicle business, given that BS-III is now totally implemented how is the demand situation at the ground level and how is the inventory days now?
- C. Ramakrishnan:** During the switch over to BS-III, we have had some supply constraints as well, particularly on the FIPs and, therefore, the inventory levels are quite low, very low in fact on the commercial vehicle side, particularly on the medium and heavy commercial vehicles. I think we have overcome most of the supply constraints. The underlying demand seems to be strong and the freight rates are holding up. So we do expect healthy top line growth.
- Jinesh Gandhi:** Okay. So is the demand strong enough to pass on any further cost push?
- C. Ramakrishnan:** We do not want to predict on that. Since the beginning of this financial year alone we have taken three price increases in commercial vehicles. On 1st April, 1st July and also on 1st October. Of course, the company has also continuously invested in cost reduction and cost management programs which we will continue to do. So cost increases from time to time. If it is required, we will have to look at price increase in an appropriate time.
- Jinesh Gandhi:** Okay and last question on your net debt you mentioned it is 1.16. What could be the absolute rupees post QIP?

- C. Ramakrishnan:** On a proforma basis till 30th September balance sheet if you adjust the QIP issue the net debt would come to about 20,000 crores (less QIP proceeds) that is across the board, consolidated.
- Jinesh Gandhi:** Sure. This is including financing book debt on automotive financing?
- C. Ramakrishnan:** Yes.
- Jinesh Gandhi:** Okay sir that's all from my side, thanks.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead
- Aryn Pirani:** Thanks for taking my question. One thing I wanted to clarify. Hello?
- C. Ramakrishnan:** I am sorry just to clarify; the earlier number I gave you was excluding vehicle financing debt. I don't know if Jinesh is still on the call. The number I gave on net debt on a post QIP proforma basis was excluding vehicle finance. Sorry please go ahead with your question.
- Aryn Pirani:** You mentioned and you have been mentioning earlier that there are supply constraints on the engine side from Ford. So as of now you are being able to do 20,000 per month in JLR. Do you see that number going up if the demand is there based on what you understand of when the supply constraints from Ford can get resolved and what kind of a number can we achieve say by the end of this month, given that demand is there in the market.
- C. Ramakrishnan:** We will not be able to comment on this question.
- Aryn Pirani:** Okay as of now can we assume that 20,000 per month is the number that you can do given your capacity and the engine capacity for now or can you do more as of now if the need be?
- C. Ramakrishnan:** We can do more. I think I answered a question earlier. In terms of overall capacities with sufficient manpower increases we can go up to 300,000 a year in terms of production capacity and capability in Jaguar Land Rover.
- Aryn Pirani:** Okay sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from RBS. Please go ahead.
- Pramod Amte:** You recently signed a wage agreement for JLR; can you give the financial impact of the same and also in terms of productivity gains if you are looking at anything going forward?
- C. Ramakrishnan:** We have achieved a much greater degree of flexibility in terms of employment across the plants. We have also achieved lower intake wages for the new recruits and earlier we had concluded discontinuation for the new recruits of the defined benefit scheme on the pensions. These are some of the measures that we have been able to achieve. Hopefully this agreement would give us a good flexible platform for growth to meet the increasing volumes.

- Pramod Amte:** Would you quantify the quarterly impact immediately?
- C. Ramakrishnan:** No.
- Pramod Amte:** How does it bring down your employee cost which hovered in the past anywhere between 9% to 11% in the medium-term?
- C. Ramakrishnan:** In the medium-term I think it will remain that level. It may be at the lower end of that or somewhere in the middle of that.
- Pramod Amte:** Okay. And second with regard to the JLR sales volume, the typical September spike did not happen. Does it bother you going forward with regard to the demand situation?
- C. Ramakrishnan:** No it doesn't bother me.
- Pramod Amte:** And coming to your domestic business especially the LCV exports seems to be taking a bigger shape even though you might be facing some competition on the domestic LCVs. Would you give some color where it is driving and what is the broader picture you are trying to put across on the LCV exports?
- C. Ramakrishnan:** You are talking about overall commercial vehicle exports?
- Pramod Amte:** If I look at the volume breakup within exports I think the LCVs are the ones which are driving much stronger. Is it all again Tata Ace getting into new territories?
- C. Ramakrishnan:** No, it is a mix between some Tata Ace and also our conventional LCV exports. I am not sure which part you are referring to. The total numbers that we have given in terms of break-up and growth in international business is commercial vehicles and passenger cars. Really confused when you said specifically light commercial vehicles.
- Pramod Amte:** Sir based on monthly numbers which you release and in which you get an exports break-up which is moving anywhere between less than 2000 to now oppose of 3000 numbers plus.
- C. Ramakrishnan:** Yes, there is an increase partly contributed by Ace but it covers across the range different light commercial vehicles which include Ace, it includes the pick-up, it includes the 4 to 7 ton range.
- Pramod Amte:** Okay sure sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Amul Bidana from Elara Securities. Please go ahead.
- Amul Bidana:** Sir as you said the capacity utilization in terms of man capacity is almost 100% on JLR so is it fair to assume in going forward your staff cost will move in line within the top line?

- C. Ramakrishnan:** Yeah I hope. It will not exceed from the current levels in terms of overall percentages we are looking at increasing the manpower to cater to the increased volumes.
- Amul Bidana:** Okay. So it will move in line with revenues in that case. And secondly sir, as you said the cost reduction program is still on in terms of, say, other expenditure which is almost down to, say, 287 million in this quarter. So going forward is there a further room to take this number down in an absolute number assuming that your quarterly run rate would be more or less same in terms of volumes?
- C. Ramakrishnan:** Yes, there should be scope. As I said the cost reduction program is well on target but there is more room and more scope and we are working on every line item.
- Amul Bidana:** Sir in that case you said the only threat to the margins that you have reported is in terms of the exchange rates and the raw material cost. And as you yourself said the raw material cost can be easily be passed on in the luxury business; then one can say that this is the real EBITDA, we can grow further in terms of, say, cost cutting?
- C. Ramakrishnan:** I do not want to take a prediction one way or the other on the exchange rate.
- Amul Bidana:** Sir that can go either way.
- C. Ramakrishnan:** Our hope and expectation would be we should be able to manage on the cost increases through effective cost reduction programs. I did not say earlier that in the luxury business you should be able to pass on through price increases easily. That was not quite what I said. I said being a high content car, high-technology, high-performance car, the impact of raw material content on total cost is relatively less compared to a typical commercial vehicle business or a passenger car business in India where you would see a material content in a vehicle upwards of 50-65% it is not of that magnitude in JLR. What I said was it's a more manageable problem something which we can take in our stride, partly mitigate through more aggressive cost-reduction plans and from time to time looking at market opportunities I think it is a combination of these things. I do not want to sound sanguine about price increases.
- Amul Bidana:** Secondly the incentives, where do they fit in terms of say, cost items, the increase or decrease where would it reflect going forward?
- C. Ramakrishnan:** The realizations are netted off in JLR.
- Amul Bidana:** Okay. Sir second thing is on standalone basis the increase in the staff cost as well as other expenses does it reflect the Nano impact, the Sanand plants have been recently commissioned, and does it largely reflect the Nano impact?
- C. Ramakrishnan:** Yes there is a headcount increase over a period of time compared to last 2-3 quarters.

- Amul Bidana:** Okay. Sir but then for a breakeven on a Nano count, are you looking at some sustainable volumes on a monthly basis. What is the outlook for Nano for FY11 and FY12 if you could give some guidance on volumes?
- C. Ramakrishnan:** I would not like to comment on future volumes but if you go by the capacity that you have created the plant has a capacity of 250,000 which can be increased to about 300,000 or even 350,000. So, on an average our hope and expectation would be we should be able to do about 20,000 to 25,000 cars a month
- Amul Bidana:** Where would be the break-even in terms of EBTIDA margins, if you could give us a rough idea?
- C. Ramakrishnan:** I don't think we have shared on a product category basis or a product specific basis break even or contribution margins, etc., but broadly you should know that typically in a small segment car the margins are low, it's a volume and scale issue. Typically one would operate at around 60% to 65% break even. I do not want to comment specifically on Nano but that is typically the broad picture in passenger car industry particularly in these segments.
- Amul Bidana:** Okay sir. Fair enough sir. Sir I just needed a couple of numbers if you could share the Fiat quarterly profits or whatever the performance is and the Tata Cummins as well?
- C. Ramakrishnan:** Both are joint venture companies. I will not be appropriate for me to share some of these numbers. Maybe in course of time when you see the annual results or whatever we will be able to share it.
- Amul Bidana:** Okay sir second thing you said the proforma debt equity has come down to 1.16.
- C. Ramakrishnan:** Net automotive debt.
- Amul Bidana:** Right which is 20,000 crores right?
- C. Ramakrishnan:** Yes. Less the QIP proceeds.
- Amul Bidana:** Okay in that sense your equity should be somewhere around 16,000 to 17,000 crores?
- C. Ramakrishnan:** Including the net worth at the end of half year and the value of the QIP that we have issued.
- Amul Bidana:** Okay fine sir, thank you.
- C. Ramakrishnan:** Before we end the call, there was a question which I said I will come back regarding the product development expenses capitalized in Jaguar Land Rover in this quarter. That was about £144 million. Sorry I do not know who asked that question but for this quarter, Q2, the product development expenses capitalized in Jaguar Land Rover £144 million, the sales figure year-to-date April to September period totals to about GBP 278 million.

- Amul Bidana:** Okay sir if I can slip-in one more question. You said that the total CAPEX plus R&D expenses, you said the range would be in between 800 million to 1 billion annually. Sir we have been upping this number for the last couple of quarters, initially starting from 700. I understand it is in line with the kind of volumes growth that we have seen. So going forward what could be the trend. These expenses would actually go in line with the volumes?
- C. Ramakrishnan:** These expenses would not be weighing with volumes year-to-year but there will be a review of these expenses from time-to-time in terms of new product programs, newer technologies and if required, capacity increases and it is also incorrect to say that we have been upping this number over the last few quarters. I think I have been giving a range of £800 to £1 billion consistently over the last couple of quarters.
- Amul Bidana:** Okay sir by the end of FY11 will we be closer to £1 billion higher end?
- C. Ramakrishnan:** I can give you a directional guidance. There is nothing more I can add here in terms of a prediction for a particular year. For the half year we have spent about £400 million in all for April to September period. Annually I think we should operate within £800 to £1 billion.
- Amul Bidana:** Okay fine, thanks a lot.
- C. Ramakrishnan:** Yeah.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Sreesankar for closing comments. Please go ahead.
- Shiv Shankar:** Mel, Thank you. Let me take this opportunity to thank Mr. Ramakrishnan and his colleagues from Tata Motors and all the participants who participated in this call late in the night back in India. Thank you.
- C. Ramakrishnan:** Thank you very much.
- Moderator:** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Tata Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.