



“Tata Motors Q3 FY11 Earnings Conference Call”

February 11, 2011



**MODERATORS: MR. C. RAMAKRISHNAN – CFO, TATA MOTORS.
MR. BHARAT IYER – EXECUTIVE DIRECTOR, HEAD OF
INDIA RESEARCH, JP MORGAN INDIA PRIVATE LIMITED.**

Moderator: Ladies and gentlemen good day and welcome to the Tata Motors Q3 FY11 earnings conference call hosted by JP Morgan India Private 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 an 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. Bharat Iyer from JP Morgan. Thank you and over to you sir.

Bharat Iyer: Good evening ladies and gentlemen and welcome to Tata Motors third quarter earnings call. Representing the management, we have with us Mr. C. Ramakrishnan, CFO, Tata Motors and his colleagues. The management will start off by giving a summary of the results announced today and then take questions. Over to you Mr. Ramakrishnan.

C. Ramakrishnan: Bharat thank you very much. Good evening everybody. Thanks for joining us on this call. Let me start by conveying my sincere apology for delaying the call. Earlier in the day, we announced the third quarter results of Tata Motors both standalone and consolidated. The presentation at the press conference is available on our website. We will just quickly run through it.

The Consolidated P&L came strongly. Net revenue of about Rs. 31,600 crores representing a growth of about 22% over the same quarter last year. EBITDA margin was at 15.2% consolidated compared to 11.8 % in the same period last year and net profit after tax came in at Rs. 2400 crores that is a significant increase over Rs. 650 crores in the same period last year. We had talked to you from time to time about our debt equity ratio and containing the balance sheet size. After the QIP issue which we did in the quarter which just ended, the net automotive debt equity, including Tata Motors Jaguar and Land Rover consolidated came in at 0.80 at the end of the quarter.

To touch briefly on the standalone performance, net revenue of Rs. 11,500 crores as compared to Rs. 8900 crores in the same period last year, an improvement of 28%. EBITDA margin came in at 10.4% compared to 12.8% in the same period last year. PAT at Rs. 410 crores, slightly above what it was in the third quarter of last year at Rs. 400 crores. In commercial vehicles, we had significant growth in the volumes, about 27% overall growth in the volumes of 9 months period and 21% in the quarter-to-quarter. This quarter, October-December witnessed the change in emission norms from 1st October, but demand, however, continues to be strong and we haven't seen any drop in demand post the emission change which normally happens or which has happened on past occasions. Time to time, we do have some supply constraints in components which we are addressing one by one. Cost pressures continue. We also took a price increase in the beginning of the quarter on 1st October and just for your information since the beginning of the new quarter in January also, we have taken a price increase.

Passenger vehicles, the volumes are somewhat subdued in the quarter for Tata Motors. In the 9 months ending December 31, 2010, we saw a growth of 30% Y-o-Y. In this quarter, about 5% Y-o-Y. Nano was opened up during the quarter to about 12 states. We started open sales of Nano

sometime in August and we extended it gradually. By the end of the quarter, it was available for open sales in 12 states and since January, it is now available on an all India basis. Month to month, the volumes have been improving averaging about 10,000 vehicles a month currently. Our international business out of India also saw a good increase in this period, about 15,900 vehicles compared to 10,000 in the same period last year. Turning to our UK business, Jaguar Land Rover reported revenue of 2.6 billion pounds compared to 1.9 billion pounds in the same period last year. The EBITDA margin came in stronger at 17.4% compared to 9.8% in the same period last year. Profit before tax was 295 million pounds compared to 57 million pounds and profit after tax was 275 million pounds compared to 55 million pounds in the same period last year. The EBITDA margin 17.4 % is an improvement over the immediately preceding quarter Q2 which came in at 16.6%. Exchange rate continues to be favorable for JLR. Inventories are under control and during the quarter, a very small facility we had- Veneer Manufacturing Facility, we concluded sale of this facility. I am not running through some of the regional numbers which are available in the slides which are available for your access.

Tata Motors Finance reported a profitable quarter. PAT came in at Rs. 32 crores compared to Rs. 39 crores in the same period last year. The book size stands at about Rs. 8600 crores. Tata Daewoo, however, reported a loss in this quarter, loss of Rs. 4.4 crores for the quarter, but overall for the year 9 months, it continues to be profitable enterprise at Rs. 38.9 crores profit. The competitive developments in the market place and the fact that Tata Daewoo is also operating during the last 6 months through its own distribution network in Korea having changed the distributor, affected their volumes and their competitive positions. Hopefully the company should get back to their levels in the coming quarters. Tata Technologies, our IT subsidiaries also had a much improved quarter. Net revenue of Rs. 313 crores compared to Rs. 279 crores in the same period last year. Profit after tax was Rs. 28 crores compared to Rs. 21 crores in the same period last year. Similar improvement in performance for our Axle and Transmission subsidiaries in India, HVAL and HVTL reported Rs. 20 crores and Rs. 22 crores profit after tax compared to Rs. 16 crores and Rs. 14 crores in the previous year respectively.

Going forward in Tata Motors, in commercial vehicles and the passenger cars, we continue to see a strong growth potential and volume. From the consumer point of view for commercial vehicles, the freight rates seem to be holding, appearing to be healthy. The supply constraints are being addressed, but we do have some challenges from time to time. We also have some concerns on further increases in commodity prices. Our supply chain and commodity prices are things that we are very watchful on and we will do what needs to be done at the appropriate time. Nano as I already mentioned is now available in January on an all-India basis and we expect the good demand growth that we have seen in the recent months should continue its trend. At Jaguar Land Rover, we are continuing investments in new products and technology. Range Rover Evoque is on schedule for summer of 2011. We continue to explore our opportunities for China manufacturing as well as India manufacturing and as and when decisions are taken, we will make the announcement, but efforts are on and internally the cost reduction and margin improvement opportunity in Jaguar Land Rover continue to be on schedule. Both on Tata Motors, Jaguar Land Rover in summary, we are cautiously optimistic. Cost pressures will continue to be addressed either through vehicle price increases or our internal cost reduction measures as appropriate.

Overall on the demand side, things seem to be on a good wicket. I will stop this initial remark and hand over back to you to take the question and answer session.

Moderator: Thank you. We have the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir just a request is it possible to upload more detailed P&L for JLR just like we do every quarter?

C. Ramakrishnan: No, what we are planning to communicate- we will put it on the website.

Kapil Singh: And just to understand JLR performance, we have again seen realization improvement and margin improvement. So if you can give some color on that as to where it has come from?

C. Ramakrishnan: With reference to JLR?

Kapil Singh: Yes.

C. Ramakrishnan: As I have stated in the earlier quarters, the overall mix in terms of product and in terms of markets are being quite favorable and there is a strong pull in the market particularly in the case of Land Rover/ Range Rover products more particularly and the pricing ability is there. Therein very low or no significant variable marketing or discounts and the regional mix has been favorable. On top of all this, currency also has been favorable vs. same period last year.

Kapil Singh: Sir what will be the China mix for the quarter compared to previous quarter Q3 versus Q2?

C. Ramakrishnan: China constitutes about 11-12% now.

Kapil Singh: And just wanted to understand this EBITDA growth for JLR is much higher than PAT growth if I look on a quarter-on-quarter basis. So has any of the cost below EBITDA increased more in this quarter?

C. Ramakrishnan: Below EBITDA something that you will be familiar with is Depreciation and Amortization. There will also be a gradual increase in the amortization for product development expenses.

Kapil Singh: So I guess you will be uploading that so we can have a look at that?

C. Ramakrishnan: No I said we will not be uploading.

Kapil Singh: Okay and last question on the domestic medium and heavy commercial vehicles, we have seen only 5% growth in January whereas we continue to see strong demand, so were there any of the reasons for slow growth in January?

C. Ramakrishnan: Not able to comment on January in this call.

- Kapil Singh:** Alright. Thanks. I will come back with followup questions.
- Moderator:** Thank you. The next question is from the line of Shreya Gaunekar from Morgan Stanley. Please go ahead.
- Binay Singh:** Hello this is Binay Singh from Morgan Stanley. Sir just continuing on the question on JLR, I guess what we can imply is that the R&D expenses for Jaguar have gone up from Q2 to Q3 levels. Going ahead, will that be more like a sustainable level or incrementally we should see them trending up. Secondly on sale of VMC, is there any gain or loss that we booked within JLR and lastly if you could probably comment upon India realizations going up by around 6% Q-o-Q?
- C. Ramakrishnan:** R&D spends what I mentioned was the amortization is catching up. It is not a reflection of the actual spend going up from Q2 to Q3. This is something which we have discussed in the earlier calls. We acquired the company in June 2008 and since then we have been capitalizing the product development expenses if it relates to future products. As and when the products are launched or that program matures you will start the amortization clock. As time passes, more projects come into this. It is not a function of new spend between quarters, it is a question of amortization increasing and that trend will continue and just to give a flavor of the total product development and capital expenditure spend that I have been giving an indication that it will be an odd billion pounds on an annual directional basis, but what I said a short while ago is more on the amortization level going up. The second question was on Veneer Manufacturing Facility. There is no significant one-time gain. It is a very small facility. I think the total consideration was less than a few million pounds 3 or 4, I do not remember the exact number; it is a very small facility. If I remember, I think the book value assets was something like 2 million pounds. On India realization, it is a function, of course of the price increases we have done over the quarters which have come through. We did a price increase in April; we did a price increase in July. The cumulative effect of that and possibly there can be some on account of the model mix changes.
- Binay Singh:** Could you just give us the price hikes that you have taken in Jan both across in HCV and LCV?
- C. Ramakrishnan:** Around 1 to 1.5%.
- Binay Singh:** Thank you sir. I will come back with further questions.
- Moderator:** Thank you. The next question is from the line of Govind Chellappa from Credit Suisse. Please go ahead.
- Govind Chellappa:** I had three questions. When I go through your business review, there seems to be some indication of weakness in excess volumes in few markets surprisingly in China as well. So if you could comment on that I think it is particularly highlighted in US and China. If you could comment on that and also on weakness of Jaguar in Chinese market in the December quarter. Secondly can you give us what the cash flow from JLR? I think last quarter you mentioned about 290 pounds or somewhere in the ballpark in the first half. What would be the corresponding

numbers for the third quarter and lastly you spoke about launching Evoque during summer, could you talk about what is the size of the target market and what is the kind of steady state volume you want to achieve, what is the kind of volumes that we are looking at?

- C. Ramakrishnan:** On the first one in terms of overall volume and outlook performance, regionally most of the markets in terms of volumes particularly for Jaguar Land Rover seem to be doing well. In China for Jaguar, we needed to incorporate some product features in our models particularly on the rear seat entertainment and that is being introduced into the product just now. I think that should support our further volume growth in China. The second question was relating to the cash profit in Jaguar Land Rover for Q3 was 395 million compared to the immediately preceding quarter Q2 of this year of 330 million and the third comment was on Evoque volumes. At this stage since the product is still about 5-6 months, sorry I do not want to comment on the volumes. There will be a launch announcement and our expectations and detail plans will be shared, but we are very excited about the product.
- Govind Chellappa:** Could you give us an indication of the target market, what is the relevant market, what is the total market in that price point?
- C. Ramakrishnan:** It will be somewhat of a product that defines itself. It will be difficult to make a comparison, but definitely the volumes could be very interesting.
- Govind Chellappa:** I will come back with more questions later. Thanks.
- Moderator:** Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy:** Sir Couple of questions. One could you please tell us your absolute debt number in rupees for both the automotive debt and the overall gross debt that is my first question. My second question is do you think that going forward, you will have to increase your CAPEX spend on the Jaguar Land Rover side I mean we have been seeing this number gradually pick up over the last one year and given the fact that your competitors are spending quite aggressively launching new models. Do you think this CAPEX number could trend up to a 1.2 billion number over the next couple of years?
- C. Ramakrishnan:** Coming to the gross debt consolidated including the automotive and vehicle financing debt total for the company, gross debt was Rs. 34,000 crores; net debt consolidated was Rs. 21,000 crores; gross debt for automotive activity or net debt for automotive activity was about Rs. 15,000 crores. Are these the numbers that you are looking for anything else?
- Jamshed Dadabhoy:** Yes sir, this is fine. I wanted to know when we see debt number actually beginning to trend downward sir.

- C. Ramakrishnan:** While I talked about the gross numbers Rs. 35,000 crores, if you look at on the other side, we also have large cash balances. So that net debt is what we normally go by which is about Rs. 21,000 crores.
- Jamshed Dadabhoy:** Yes sir but given that the fact the debt is fairly high cost especially some of those debentures; do you plan to prepay anything?
- C. Ramakrishnan:** We will look at those opportunities. The second question was on CAPEX in JLR, I think we have indicated it could be in the range of 800 billion pounds annually. Possible it may trend upwards. Since you are talking about directionally over the next few years, but there is a possibility it may trend upwards. As new programs come in and new projects come in, there is a possibility always that this may trend upwards.
- Jamshed Dadabhoy:** So do you have a sort of benchmark indicator in terms of how much of your sales you would like to reinvest in CAPEX?
- C. Ramakrishnan:** I would expect it will be in the order of about 10% to 11% both on capital expenditure and facilities and toolings, fixtures etc. as well as in product development in new technologies. Given a 10 billion pounds turnover we are talking about a billion pounds.
- Jamshed Dadabhoy:** And this number you think will remain constant sir?
- C. Ramakrishnan:** No I do not think it will be remaining constant. There will be changes to this number as you add new programs or it may happen in a particular year because the crowding of the programs one particular year may go, but directionally I think...
- Jamshed Dadabhoy:** Directionally we think this should be about 10% to 11% with slight upward bias?
- C. Ramakrishnan:** Yes.
- Jamshed Dadabhoy:** That is fine and in terms of your amortization; could you give us the absolute number for this quarter?
- C. Ramakrishnan:** I do not have it right now, but before the call is over I will convey.
- Jamshed Dadabhoy:** And will you be providing cost details of JLR on a quarterly basis going forward?
- C. Ramakrishnan:** No, the presentation what you have shared in the press conference has already been put on the website.
- Jamshed Dadabhoy:** No sir, but that is quite sparing in terms of its details as far as JLR goes?
- C. Ramakrishnan:** No that is what we have given for Tata Motors and this is what we are giving on a consolidated basis.

- Jamshed Dadabhoy:** Any reason why you all have stopped giving those cost related items?
- C. Ramakrishnan:** No, there is no particular reason. That is something which we had started about a year ago where we had started giving the detailed P&L, but considering the performance I think it may not be required quarterly any longer.
- Jamshed Dadabhoy:** Sir do you expect that there will be reclassifications on the cost related items due to roll forward to IFRS?
- C. Ramakrishnan:** No.
- Jamshed Dadabhoy:** Okay sir, thank you.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from JM Financial. Please go ahead.
- Pramod Kumar:** Sir on the capacity side for JLR considering that Evoque is coming in another probably 4-5 months, considering the engine supply contracts what we may have with Ford, what is the kind of production capacity we are looking at for FY12 and how it will trend up in FY13 broadly as what are the production capacities we are looking at for FY12 and FY13?
- C. Ramakrishnan:** Evoque is coming somewhere in the middle of the year. So you have to factor that in terms of production capacities. Last year, I think I had indicated for the fiscal 2011, we would end up somewhere around 240,000 units. In terms of headroom for growth, JLR can go up to 300,000 units and little beyond in terms of capacity and there can be some further augmentation there.
- Pramod Kumar:** And this you have already factored in the engine for engine supply from Ford as well?
- C. Ramakrishnan:** Yes.
- Pramod Kumar:** And after the budget in UK, is there any change in the kind of tax shield which you will enjoy and considering the current run rate by when do you expect us to become a full tax paying company in terms of the corporate tax rates in UK?
- C. Ramakrishnan:** There is no change in the availability of the tax shield for JLR and on current trends, I would think we may not have UK tax paying situation at least for the next 3 to 4 years.
- Pramod Kumar:** And sir general request I know you said that you would not be providing it, but because JLR constitutes the bulk of the overall value. It will be really great if you can share that information because standalone we do get to know the information from the BSE filing, but just a request if you can consider it positively. Thank you.
- Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

- Srinivas Rao:** I wanted to ask two questions. First any update on the Fiat JV, we have been hearing some news reports which talk about the potential future of the JV so that is number one and number two some tyre companies have been talking about softness in the replacement market, but your commentary seems to be slightly contrary to that, so if you could enumerate on that, that will be great and finally any percentage you could give on the current stage of the low cost country sourcing with JLR?
- C. Ramakrishnan:** On the Fiat JV, your comment was little bit generic that you have been hearing about the Fiat JV, etc. I am not sure what you had in mind.
- Srinivas Rao:** People are talking about the breakup of the JV frankly?
- C. Ramakrishnan:** No that is completely incorrect and I am struggling to find a stronger word to use.
- Srinivas Rao:** What is the capital invested by Tata Motors up until now on that?
- C. Ramakrishnan:** Both the partners have invested close to about 1000 crores and there is no question of breakup of the relationship of the JV. But of course we are not quite happy about the volumes and the numbers. I think there is a lot more potential to do and we will get our working more efficiently both in the JV and with the partners and we will try and achieve much better results. That is what we are working at jointly- all the entities put together are fully engaged in that, but there is absolutely no truth in whatever you may have heard.
- Srinivas Rao:** And on the softness in India?
- C. Ramakrishnan:** Right now, I cannot say that we are witnessing any softness surely not on the commercial vehicle side and that will be incorrect for the passenger car as well. Whether it will continue like this, I do not want to predict but we have not seen any significant softness that I can comment upon.
- Srinivas Rao:** Thank you sir. Finally any number on the percentage of the component basket which is sourced from low cost countries?
- C. Ramakrishnan:** It will be close to about 20%.
- Srinivas Rao:** Fair enough sir.
- Moderator:** Thank you. The next question is from the line of Sahil Kedia from Enam Securities. Please go ahead.
- Sahil Kedia:** You mentioned that you will be looking to add capacity in JLR, just wanted to clarify sir initially we believe that the planned capacity was 270,000 units while the installed capacity was 300,000 units in JLR, does that still stand?
- C. Ramakrishnan:** Yes, broadly that is correct.

- Sahil Kedia:** And what would be the average waiting period because you mentioned in the initial comment, it is still seeing a fairly a robust demand for the Land Rover and Range Rover, is there still some waiting period that is being seen in the key markets. So my question was that if there is waiting period and coupled with the fact that Evoque will come, would you look to expand capacity in excess of 300,000 units eventually?
- C. Ramakrishnan:** We may have to do that. We have not taken that decision yet. We will watch the development. We also talked about possible manufacturing footprint in China, which could be one way to augment the capacity. Some of these are still in exploration stage. We will reach those decisions quickly.
- Sahil Kedia:** But for the immediate future, this year or the next year, it is unlikely that those numbers will come into play right sir?
- C. Ramakrishnan:** No, on a 300,000 units operating base, there is always a potential to extract more out of that capacity base.
- Sahil Kedia:** Fair enough. Sir secondly wanted to get your sense on the benefit that we have got in JLR till date which has been linked to the currency being weak versus the product mix changing. I know it is little difficult to quantify, but even a directionally good sense on that sir?
- C. Ramakrishnan:** Directionally I had mentioned in my earlier call and also discussions we have had, given an outline of what the currency impact for JLR is, if you recall about 50% of the revenue is in dollar or in dollar linked currency; and on the purchase and expense side, about 25% is in purchases denominated in Euro. So depending on the dollar, Euro rates that have been prevailing or you predict you can easily work out the impact.
- Sahil Kedia:** Sure and last question it was mentioned on the earlier conference calls that the raw material contracts that JLR would be up for negotiation in the second half, my question is that have we given any price increases on this raw material side in JLR in this third quarter?
- C. Ramakrishnan:** Not in the third quarter.
- Sahil Kedia:** Are they expected to now come in the fourth quarter, when are they expected to come in sir?
- C. Ramakrishnan:** It may be next financial year.
- Sahil Kedia:** Alright sir, thank you so much sir.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from RBS. Please go ahead.
- Pramod Amte:** The questions pertain to JLR, the realizations from the exit of last year fourth quarter and now on a blended basis have gone up by almost 17%, what are the actual price increases you have taken across the world for JLR mix and how much is more for currency and geography mix?

- C. Ramakrishnan:** Again what I can add to is what I have already stated. You are comparing with the same period last year or...?
- Pramod Amthe:** No, I am comparing the March quarter of last year realizations versus this year December quarter, the realizations have gone up almost by around 17% which looks humongous for Auto Company. So in that context may be you can start with how much actual price increase you have taken for JLR products?
- C. Ramakrishnan:** On a same apple-to-apple to comparison, model-to-model in terms of absolute prices right now, there haven't been significant price increases. Favorable is more on account of the product mix changes and also you must remember the new XJ comes in at a much-much higher price compared to the model that it replaced which was there earlier and thirdly as I said, the regional mix has been much more favorable. And I should say not benefiting this is the situation we had where we also experienced and somewhat continue to experience engine non-availability. We have also been able to allocate the products to more attractive markets and segments so that has in a way sort of helped. One of the other things that I mentioned in the last call which I think I mentioned earlier in the beginning, also the net realizations have also shown an improvement because of large reductions in variable marketing support and support that you offered to the dealers. On top of all this, you had a more favorable currency realization.
- Pramod Amthe:** But any scope to quantify?
- C. Ramakrishnan:** Which one? On the currency part, I have already given you the.....
- Pramod Amthe:** Currency I can understand, more about product mix change and because it is very difficult to model them in considering the amount of geographies which you work and the type of models?
- C. Ramakrishnan:** We can share with you the model wise volumes and region wise volumes.
- Pramod Amthe:** Sure that will be great and coming to the geographic spread, would you be able to give us some sense in terms of profitability, which region stands out in your total profits in terms of rankings?
- C. Ramakrishnan:** I will not be able to give you a rank.
- Pramod Amthe:** At least top 3, 4.
- C. Ramakrishnan:** Suffice it to say China would be amongst the top in terms of profitability.
- Pramod Amthe:** In terms of your overall profit per se sir? I understand in terms of profitability every premium car maker says China is the best, but in terms of total profits if I have to look at, then also China is the largest?
- C. Ramakrishnan:** Are you talking in absolute amount?
- Pramod Amthe:** Yes.

- C. Ramakrishnan:** No, I will not be able to comment on that.
- Pramod Amthe:** Or the rankings for the countries or regions?
- C. Ramakrishnan:** As I said China would be on top, UK would be very healthy, US, Europe.
- Pramod Amthe:** And going forward into FY12, what would be the growth driver for JLR volumes both in terms of products and geography wise, if you can give us some color what are you looking at on a high base growth?
- C. Ramakrishnan:** Your question was on the growth drivers. Basically the segment has further potential to grow. After all, the segment has seen 300,000 volumes three years ago. On top of that, you add some of the products which have been very well received from JLR portfolio and the new product is coming in. We are fairly confident on the volume front.
- Pramod Amthe:** In terms of geography, it will still be China predominantly or anything else?
- C. Ramakrishnan:** In terms of growth, yes. As I said earlier, in terms of overall global volumes of JLR, China is about 11-12%.
- Pramod Amthe:** Sure sir, thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Just wanted to get a sense on your realizations, Q-on-Q the realizations are up by 7%. So if you can give some color on the standalone part on that and on the JLR if you can give some sense what is the variable incentive as a percent of sales now in the third quarter versus a year ago?
- C. Ramakrishnan:** On the India front, on the realizations, I think I had already commented in response to the earlier question. The fact that we have taken periodic price increases and play in terms of more favorable model mix, if you look at the overall average in terms of realization that will definitely trend up. The second question is more on JLR, on the variable incentive, I am not sure that I can give a number, but over the same period last year the variable marketing expenses have come down fairly well. Hardly any discount in the market place, hardly any incentive support to the dealers.
- Hitesh Goel:** Sir just wanted to get a sense on the margins on the domestic front, are you seeing any cost push on the steel and tyre side in the fourth quarter?
- C. Ramakrishnan:** Yes. As we have talked about in the initial comment I said yes cost pressures are building up and you have touched on the right items steel, tyres, etc. We are beginning to see some cost pressures.
- Hitesh Goel:** Okay sir, thank you.

- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** What is the capitalization of product development expenses in JLR for this quarter?
- C. Ramakrishnan:** I would just hold that question, but I will share that number before the call is over.
- Sonal Gupta:** And sir there is a sharp increase in standalone for the domestic business in other expenses although it is similar to last quarter, is this sustainable trend or what may be driving this growth year-on-year, still pretty high year-on-year?
- C. Ramakrishnan:** There is no specific one-off item that I can mention in this quarter.
- Sonal Gupta:** And somewhere in your opening remarks, you mentioned Nano is doing about 10,000 a month. Is that a retail number or something?
- C. Ramakrishnan:** Even in wholesale.
- Sonal Gupta:** But in terms of the SIAM numbers, it has not yet been reflected I guess sir.
- C. Ramakrishnan:** I am saying we are doing at that rate now.
- Sonal Gupta:** Okay. And finally on this JLR, I mean you said that you are looking at to spend 10 to 11% of sales on R&D and CAPEX, currently I guess your margins are still very healthy at about 17-17.5%, but there is obviously variability in the business. Do you think this is sort of level do you want to operate at and will that give you enough free cash flow to pay down the current debt that you have?
- C. Ramakrishnan:** Yes I would think so.
- Sonal Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Emkay Global. Please go ahead.
- Chirag Shah:** Sir my question was a follow-up on average realization, is it right to assume that the variable incentive has completely gone up from our book or there is still scope for improvement in realization on account of various incentives that you give for JLR?
- C. Ramakrishnan:** I think I would not say variable incentives have come down to zero, but I think they are at one of the lowest points.
- Chirag Shah:** And we have obtained all the benefits, these are more of a normal business incentives that you generally have. That is the right way of looking at it?
- C. Ramakrishnan:** Yes.

- Chirag Shah:** And second thing was just to touch base, if you can just share what was your free cash flow for the quarter on consolidated basis?
- C. Ramakrishnan:** Okay, can we move on to the next question, but I will definitely come back to this.
- Chirag Shah:** My questions are answered. All the questions are answered. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** My question is on your pricing power which we have seen in domestic market so far considering that you have taken price increase consistently over the last couple of years, do we still have that kind of pricing power considering demand on the commercial vehicle side, if there is further cost push do you think market can absorb it now?
- C. Ramakrishnan:** It is a difficult question to answer about market ability to absorb further price increases. It will be a function of quite a few other things. It will be a function of interest rates for commercial vehicles and will also be a function of how the fuel prices go up. So we have to do this carefully. For any raw material price increases or commodity price increases, our first aim would be to manage as much by way of cost reduction and intensifying our own efforts and what is required to be done after that we will do by way of price increase and one may have to do it in stages. So there may be a lead and lag effect here.
- Jinesh Gandhi:** But are we seeing any impact of higher interest rates at ground level on commercial vehicle demand?
- C. Ramakrishnan:** So far no.
- Jinesh Gandhi:** And availability of finances also fairly good?
- C. Ramakrishnan:** Reasonably good, both so far have been good.
- Jinesh Gandhi:** And sir the price increase which you took in January, does it cover our entire cost push which you have witnessed in 3Q, 4Q combined?
- C. Ramakrishnan:** The January price increase yes.
- Jinesh Gandhi:** So effectively our margins on standalone basis are sustainable at these for now at about 10% to 10.5%.
- C. Ramakrishnan:** It is subject to what happens on the material price increases in the coming month.
- Jinesh Gandhi:** But our RM cost or other commodity cost would be covered till March if I am not mistaken?

- C. Ramakrishnan:** Yes, but there may be other cost increases. There may be supply, not direct raw material, but may be other vendor items..... There is pressure there.
- Jinesh Gandhi:** And lastly how should one look at your margins on JLR front considering that you have been consistently surprising the street with a very good set of margins obviously you did to some extent be affected by favorable forex and favorable product and market mix. Would you look at these kinds of margins 17-17.5% as sustainable or medium term or you see pressure to these margins going forward?
- C. Ramakrishnan:** I think the margins as you rightly said have also been favorably impacted by exchange. Our endeavor would be independent of what happens on the exchange front. Through our efforts, we would like to sustain the margins at current yearly or at about current levels. So even if the exchange goes sideward we should be able to overcome by way of our own internal cost reduction efforts that will be the endeavor, but I cannot comment on a quarter-to-quarter basis. Things can change from quarter-to-quarter. On a steady trend, our endeavor would be to maintain at the current level.
- Jinesh Gandhi:** But this cost saving initiatives which we have taken at JLR, we have seen it on the employee cost front where there were savings which were visible, can we expect savings from next 3 to 6 months or may be next 12 months to offset any cost push on JLR?
- C. Ramakrishnan:** Cost reduction efforts?
- Jinesh Gandhi:** Yes.
- C. Ramakrishnan:** That is what I said. Our internal efforts are on, very much on target and cost push or exchange negative impact; our endeavor would be to overcome through the realization of these efforts.
- Jinesh Gandhi:** Even in the short term?
- C. Ramakrishnan:** Yes.
- Jinesh Gandhi:** Okay sir, thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.
- Bhagyesh Kagalkar:** Sir just one query, this is regarding the JLR division. In Land Rover, we have a decent lineup now coming up that is the Evoque, but in the Jaguar Car Range, we have recently launched XJ and the XF and there is perception that at the entry level, entry level means the C series as of now, we do not have any product. So when will the Jaguar Range be refreshed totally?
- C. Ramakrishnan:** We are working on few products for Jaguar Range; we may not be able to share the details in the call, but what is on, is on few product combinations for Jaguar other than the XJ which has been launched and the earlier XF.

- Bhagyesh Kagalkar:** Thank you sir.
- Moderator:** Thank you. The next question is from the line of Ambrish Mishra from Daiwa Capital. Please go ahead.
- Ambrish Mishra:** What I was trying to understand is because we have a significant exposure in terms of dollar denomination and Euro denomination in JLR, do we follow any hedging strategy? In that case if at all can you share anything on that?
- C. Ramakrishnan:** We do have a hedging policy in JLR. We normally look at the next 12 to 15 months in terms of exposures. We have not looked at long-term 3-5 year type of exposures. Our hedging is, view is more 12 to 15 months and we look it on a net basis and we look at covers and forward covers, etc. in quarterly buckets. Depending on view at any point of time, we do move up the percentage that one would want to be covered in each quarter separately 30%, 50%, 70%, you can be flexible on those percentages, but we have not taken very long-term view in taking forward covers in JLR. The view has been restricted to more like 12-15 months.
- Ambrish Mishra:** Do we understand that since we take at least 12 to 15 month view that we would be hedged at current rate at least for another 1 to 2 quarters?
- C. Ramakrishnan:** Not fully.
- Ambrish Mishra:** But largely?
- C. Ramakrishnan:** No, I do not want to enter into a debate.
- Ambrish Mishra:** But we do have a strategy and we do hedge ourselves.
- C. Ramakrishnan:** We do have a strategy and we do take covers from time-to-time.
- Ambrish Mishra:** And sir second question was if you can share some information on the commercial vehicle side, domestic market capacity for us and the expansion plans on that?
- C. Ramakrishnan:** Commercial vehicles our range is in medium, heavy, and light commercial vehicles, we are fairly okay on capacity with sufficient headroom for the next 2-3 years.
- Ambrish Mishra:** Across the board?
- C. Ramakrishnan:** In medium and heavy and light commercial vehicles. As I have shared earlier in the small vehicle range which is the Tata Ace and Family, we are looking at additional capacity investment.
- Ambrish Mishra:** Can you quantify numbers for these capacities if readily available?
- C. Ramakrishnan:** Which capacities?

- Ambrish Mishra:** The LCV capacities how much are we now and or you can give an idea about the utilization so we can actually work that out.
- C. Ramakrishnan:** In M&HCV and LCV on average, our utilization will be more like 60-65%. I think that gives you a sense.
- Ambrish Mishra:** Thanks a lot sir and all the best.
- Moderator:** Thank you. Ladies and gentlemen we will take one last question from the line of Bharat Gorasiya from ICICI Bank. Please go ahead.
- C. Ramakrishnan:** Can you hold on with the question just to share information, which was sought earlier. The total spend on product development and R&D in JLR for the quarter was 172 million pounds, 116 million pounds was capitalized and the balance was expensed out. I promised to get back with this information before the end of the call. Sorry to interrupt please go ahead with the question.
- Bharat Gorasiya:** I had few questions. With regards to China since it makes around 11% of your JLR Land Rover sales, recently there is a Beijing license implemented and going forward, likely there are restrictions in the Tier-1 cities. So just wanted to know what is the proportion of tier-1 sales that you are doing China and what is your take on this?
- C. Ramakrishnan:** We have looked at that and to the extent I have understood from JLR colleagues; we do not believe it will impact our volumes in the near future.
- Bharat Gorasiya:** And sir one more thing on the cost of debt. Since we are making cash profits say to the tune of 350 million pounds a quarter and I observed the Indian cost of debt roughly was translated 11% whereas globally there is a huge arbitrage, are you looking at those options or how do you plan to do that?
- C. Ramakrishnan:** Sorry I am not clear on the question.
- Bharat Gorasiya:** Basically what I am looking at is your cost of debt.
- C. Ramakrishnan:** Are you saying borrowing in foreign currency there in rupees?
- Bharat Gorasiya:** Yes sir.
- C. Ramakrishnan:** Is it what you are saying.
- Bharat Gorasiya:** Yes sir. Do you have any plan as such which you would outline because you translating to roughly 1.4 billion GBP annually your cash flow if you translate to GBP 350 million...?
- C. Ramakrishnan:** I understand the question. What you are saying is after JLR since on a consolidated basis, you have foreign currency inflows or foreign currency earnings, would you also manage your balance

sheet with more foreign currency debt which in turn can turn out to be cheaper. Is that in fact your question?

Bharat Gorasiya: That is my question sir.

C. Ramakrishnan: That is one option. We also have to manage the individual company exposures to foreign currency. We will look at some of these options and we will arrive at a more optimal debt structure from cost point of view and from maturity point of view.

Bharat Gorasiya: That is all from my side. Thanks a lot.

Moderator: Thank you. I would now like to hand the floor back to Mr. Bharat Iyer for closing comments. Please go ahead sir.

Bharat Iyer: Thank you Mr. Ramakrishnan for sharing the details of the third quarter results and taking questions. Thank you ladies and gentlemen.

Moderator: Thank you gentlemen of the management. Thank you Mr. Iyer. Ladies and gentlemen on behalf of JP Morgan that concludes this conference call. Thank you for joining us and you may now disconnect your lines.