Tata Engineering
1Q FY04 Review

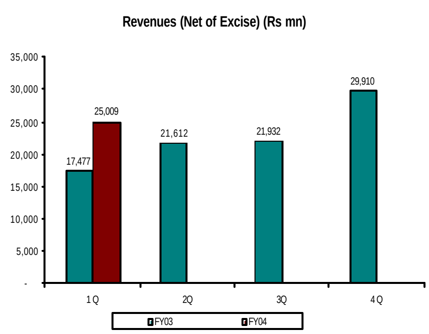
Snapshot

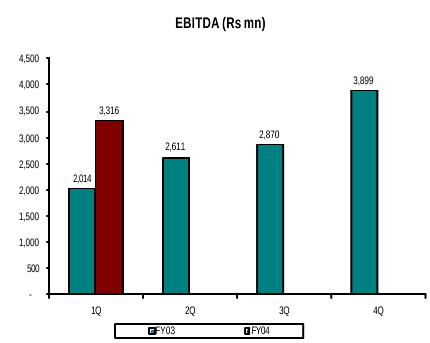
Unconsolidated Financials

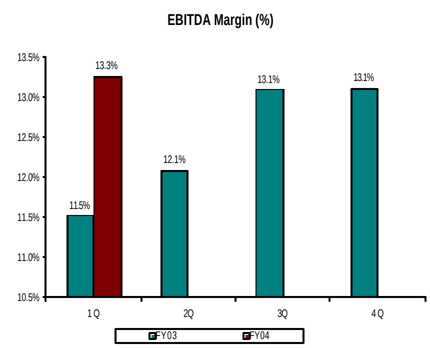
	1Q FY04 (Rs mn)	1Q FY03 (Rs mn)	Change %	1Q FY04 (*) (US$ mn)	1Q FY03 (**) (US$ mn)
Revenue (Net of excise)	25,009	17,477	43%	538	357
EBITDA	3,316	2,014	65%	71	41
EBITDA %	13.3%	11.5%	173 bps	13.3%	11.5%
Op. Cash Profit	2,778	1,214	129%	60	25
Extra-ordinary Items	(202)	0		(4)	0
Profit before Tax	1,637	389	321%	35	8
Net Profit	1,003	280	258%	22	6
Basic EPS (Non-annualised) (Rs)	3.14	0.88			

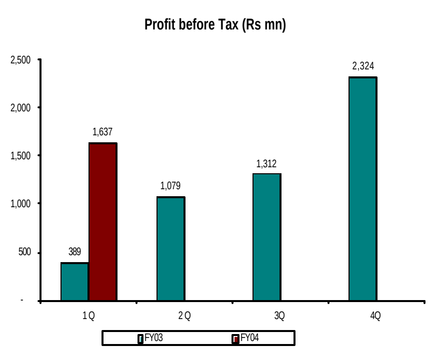
(*) Rate of exchange as on June 30, 2003: 1US$ = Rs 46.46

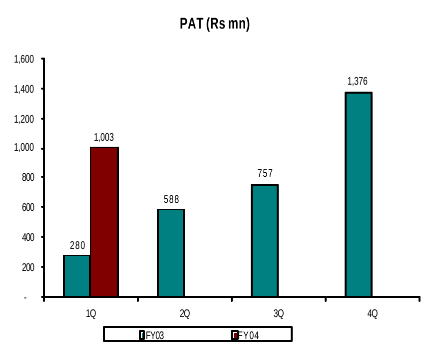
(**) Rate of exchange as on June 30, 2002: 1US$ = Rs 48.88











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Business Review

Unconsolidated Financials

- 1Q FY04 Net Profit for Tata Engineering increased by 258% to Rs 1.0 bn from Rs 280 mn in 1Q FY03.
- PBT for the quarter was at Rs 1.64 bn compared to Rs 389 mn achieved in 1Q FY03.
- Net Revenues increased by 43% to Rs 25 bn on the back of volume increase of 48% to 60,396 units.
- EBITDA for the quarter grew by 65% to Rs 3.32 bn with margin expansion of 173 bps to 13.3%. **This is the highest EBITDA margin achieved in any quarter since April 1998.**
- **The fact that this performance has been achieved with volume mix shifting in favour of Pick-ups & Passenger Cars (45% of total volumes during 1Q FY04), highlights the progress made by the company in these businesses.**

Subsidiary Performance

- The combined loss before tax of the key five subsidiaries decreased by 58% during 1Q FY04 to Rs 47 mn (1Q FY03: loss Rs 112 mn).
- The combined debt of these subsidiaries has also been pruned significantly during the quarter.

Economic Scenario

The economy has begun FY04 on a positive note. Apr-May 2003 witnessed a continued recovery in IIP led by strong growth in the Manufacturing sector. The buoyancy in Capital Goods (+8.1%) & Consumer Goods (+9.1%), a rise in non-POL imports (+25%) and exports growth (+10.5%) are indicative of the sustained momentum in industrial growth. Based on these initial indicators, FY04 Industrial growth is expected to range between 6% – 6.5%.

The critical areas of concern at the end of FY03 - the performance of agriculture (after a year of severe drought) and volatility in international crude prices - seem to be behind us. The progress of the monsoon in the current year has been encouraging. After a poor performance in FY03 (-3.2%), agriculture is expected to bounce back in FY04. Global crude prices have declined from the highs in Feb-Mar 2003, reflecting in lower fuel prices in the domestic economy as well. The forex reserves are at a comfortable level at US$ 83 bn.

The ongoing Government infrastructure spending programme and a pickup in construction and housing are expected to be the key drivers of industrial growth in FY04. This, coupled with continued resilience in services, a turnaround in agriculture, low inflation and the availability of consumer finance will provide an impetus to GDP growth in the current fiscal (expected to be around 6%).

Table 1: Macro Economic Indicators

Growth (%)	Categories	Apr-May'03	Apr-May'02
IIP	General	5.0	4.1
Sectoral	Mining	4.1	5.7
	Mfg.	5.2	4.0
	Electricity	3.4	3.7
Use-based	Basic	3.7	5.1
	Capital	8.1	2.2
	Intermediate	1.1	0.0
	Consumer	9.1	7.8
	Consumer Durables	2.7	-1.7
	Consumer Non-Durables	11.2	11.3

Source: CSO

Quarter Review

- Tata Engineering posted a PAT of Rs 1.0 bn in 1Q FY04 compared to Rs 280 mn in 1Q FY03. This is the highest Net Profit achieved in 1Q since April 1998.

- Prior to a Tax Provision (Current & Deferred Tax) of Rs 634 mn, PBT for the quarter stood at Rs 1.64 bn, up by 321% compared to 1Q FY03.

- Net Revenues of Rs 25 bn were up 43% backed by volume growth of 48%.

- EBITDA saw a significant improvement of 65% to Rs 3.32 bn during the quarter. EBITDA margins increased by 173 bps to 13.3%, the highest in the last 21 quarters. This coming on the heels of the product mix changes in favour of Pick-ups and Passenger Cars clearly outlines the significant progress made in these businesses.

Table 2: Volume Summary

	1Q FY04	1Q FY03	Change
Total CVs	26,705	21,201	26%
Total PVs	30,118	17,556	72%
Total Domestic Sales	**56,823**	**38,757**	**47%**
Exports	3,573	2,009	78%
Total Volumes	**60,396**	**40,766**	**48%**

- The volume growth momentum maintained during the quarter is attributable to:
    - market share gains in both the businesses
    - success of the new models launched last year (207 DI & Indigo)
    - market expansion in Passenger Vehicles due to excise duty reduction

  However, some proportion of this growth is also due to low base effect of the planned Car plant shutdown last year in April-May 2002.

- In terms of cost reduction, FY04 is going to be the year of cost containment at the aggregate level. The impact of hardening input commodity prices is being neutralized by the on-going cost reduction programmes (including interest cost reduction).

- The increase in Other Expenses during the quarter is primarily on account of higher production volumes.

- Interest cost has been brought down further by 33% to Rs 538 mn for the quarter through a combination of lower borrowings, restructuring of debt portfolio and lower interest rates.

- **The company carried out an Employee Separation Scheme (ESS) during the quarter and the entire cost of Rs 202 mn in this regard has been charged to P&L in 1Q FY04 against the past practice of treating it as deferred revenue expenditure and then amortising it over the future periods of benefit.**

- Following the adoption of new Accounting Standards on “Intangible Assets” (AS-26) by the company, the amortization charge for the quarter is higher by Rs 49 mn.

- The company continues to pay Minimum Alternative Tax (MAT) due to tax shields available from the past operations. The provision for Deferred Tax has been made at the marginal tax rate.

- The company’s balancesheet size as on June 30, 2003 stood at Rs 43.9 bn compared to Rs 41.6 bn as on March 31, 2003. The debt has increased marginally to 15.4 bn as on June 30, 2003 compared to 14.6 bn as on March 31, 2003.

- Continued efforts on Working Capital reduction have led to a significant improvement in inventory and receivables position in 1Q FY04. The Net Working Capital continues to remain negative.

Table 3: Working Capital

No. of Days	June 30, 2003	March 31, 2003	June 30, 2002
Inventory	35	39	42
Receivables (non-HP)	18	18	24

- The capital expenditure (including product development) incurred during the quarter was Rs 270 mn.

- Other Income includes Rs 103 mn towards additional consideration determined in respect of a trade investment sold in FY00, in terms of the sale agreement.

Key Subsidiary Companies – Performance

Table 4 – Key Subsidiary Financials

Subsidiary	Turnover (Rs mn)		PBT (Rs mn)	
	1Q FY04	1Q FY03	1Q FY04	1Q FY03
Telco Construction Equipment Co. Ltd (Telcon)	1,261	924	(11)	(88)
Tata Technologies Ltd (TTL)	308	204	9	23
HV Transmissions Ltd (HVTL)	217	193	25	3
HV Axles Ltd (HVAL)	213	206	27	6
TAL Mfg Solutions Ltd (TAL)	106	140	(98)	(57)

- The combined turnover of the key five subsidiaries has increased by 26% to Rs 2.1 bn during the quarter and the combined loss before tax has come down by 58% to Rs 47 mn from Rs 112 mn in 1Q FY03.

- The combined debt of these companies has been brought down to Rs 3.3 bn as on June 30, 2003 compared to Rs 4.2 bn as on March 31, 2003. The Capital Employed has also been reduced by 9% during the quarter.

Commercial Vehicles

- Domestic volume growth of 26% in 1Q FY04
- Strong growth across the board
- Significant market share gains in MHCV Bus and LCV segments
- 207 DI continues to make inroads in the pick-up segment

The Company recorded domestic Commercial Vehicle (CV) sales of 26,705 (+26%) during the quarter, on the back of robust sales in the truck as well as the bus segments.

Table 5: Domestic CV Sales Volumes

	1Q FY04	1Q FY03	Change
M/HCVs	17,384	14,546	20%
LCVs	9,321	6,655	40%
Total CVs	**26,705**	**21,201**	**26%**

- The uptrend in MHCV truck sales continued (+17%) during 1Q FY04, the primary demand drivers being the buoyant industrial economy, spending on infrastructure projects, and increased construction and housing activity. All the haulage segments – HCVs, MCVs and ICVs registered strong growth during the quarter.

- HCV sales picked up during the quarter with a growth of 20% (led by strong growth in tractor-trailor sales). The company's HCV 1Q FY04 volumes have more than doubled over the last two years, indicative of the structural shift in the domestic truck market.

- The company outperformed in ICV truck segment with a growth of 46% and improved its market share to 32% (+390 bps).

- The domestic fuel prices declined by 13% in 1Q FY04 (from the peak in March 2003), consistent with the global trend. However, with freight availability continuing to remain high, the company's benchmark domestic truck freight rate index saw only a marginal drop of 2% sequentially for the quarter indicating that the transporters have been able to retain the benefits of the decline in fuel prices to a great extent.

- The Company's MHCV bus volumes grew by 31%, resulting in a market share of 57% (+810 bps).

- The highlight of the quarter performance has been the substantial market share gain in LCV segment (48% against 42% last year). New products, robust sales processes and focussed marketing efforts have resulted in market share gains in both the truck and bus segments.

  - The 207DI pickup, launched mid-FY03 continued its upward run enabling the company to capture a market share of 37% in pick-up segment during the quarter compared to 3% in 1Q FY03. This helped the company to improve its market share in LCV trucks to 52% (+750 bps)

  - The Company's fully built 4T LCV bus (City Ride - launched end-FY03) has received a positive response from the customers. The Company's market share in the LCV bus segment increased to 37% (+170 bps).

Table 6: CV Market Shares

	1Q FY04	1Q FY03
M/HCV	63%	63%
LCV	48%	42%
Total CV	**57%**	**54%**

Future Plan of action

- In FY04, the Company plans to launch an improved range of Fully Built Buses, spanning the entire spectrum in LCV and MHCV segments.

- More fully-built solutions on Trucks will be offered during the year with improved fuel efficiency, reliability and comfort.

Passenger Vehicles

- Market share in Passenger Vehicle segment up from 12% to 16%.
- Outperformed industry with a volume growth of 72%
- Car volumes more than doubled
- Indigo maintains its dominant position in the C-segment
- Indica cumulative sales crossed 250,000 mark during the quarter
- Safari volume growth of 13%

In 1Q FY04, the Company clocked Passenger Vehicle (PV) sales volume of 30,118 units to maintain its position as the second largest player in the domestic PV market.

Table 7: Domestic Passenger Vehicle Sales

	1Q FY04	1Q FY03	Change
MUVs	6,095	5,679	7%
Passenger Cars	24,023	11,877	102%
Total PVs	**30,118**	**17,556**	**72%**

- The Company significantly outperformed the industry growth of 28% to improve its market share to 16% (+390 bps).

- During the quarter, the Company's Passenger Car volumes more than doubled to 24,023 units, bolstered by the success of the Indigo. Even after taking into account the fact that part of this growth is on account of the low base (due to planned closure of the Car Plant in 1Q FY03 for switch over to the sedan facilities), the Company achieved above-industry growth in the Car segment.

- In an intensely competitive market with the presence of several global players, Tata Engineering's market share in the Passenger Car segment improved to 16%, a notable gain of 570 bps.

- The Indigo registered a consistent increase in volumes in 1Q FY04 to capture a market share of 26% for the quarter in the entry-level C-segment. Barring April 2003 when the Company faced production constraints on account of the truckers strike, Indigo has maintained its leadership position in its segment in the first six months of its launch.

- Indica saw its market share in the Compact Car segment improve from 18% to 23% during the quarter with a volume growth of 54%. In 1Q FY04, Indica reached another milestone with cumulative sales crossing the quarter million mark.

- Focussed marketing and new variants have led to 7% growth in UV sales volumes during the quarter. Safari volumes were up 13%.

Table 8: PV Market Shares

	1Q FY04	1Q FY03
MUVs	21%	24%
Compact Cars	23%	18%
Entry-level Mid-size Cars	26%	n.m.
Total PV	**16%**	**12%**

Future Plan of action

- The Company's plans to introduce Indigo Station Wagon and Indica Sport are on track.

- The Company also plans to launch variants in the MUV segment in the current fiscal.

Exports

Table 9: Exports Volumes

	1Q FY04	1Q FY03	Change
M/HCVs	717	687	+4%
LCVs	818	698	+17%
MUV	907	177	+412%
Passenger Cars	1,131	447	+153%
Total Exports	**3,573**	**2,009**	**+78%**

- The company is following its International Business Strategy in a focussed and systematic manner in Commercial and Passenger Vehicles.
- Shipments of Indica to MG Rover will begin towards the latter half of this fiscal as per the agreement.
- The Company plans to put a major thrust in certain key markets with high potential including existing ones like Sri Lanka & Bangladesh, and emerging markets in Africa and other parts of Asia.

Shareholding Pattern

Table 10: Shareholding Pattern as on 30th June, 2003

	%
Tata Group	32%
Daimler Chrysler	8%
Indian Financial Institutions / MFs / Banks	19%
GDR Holders	6%
Foreign Institutional Investors	15%
Others	20%
Total	**100%**

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