

Tata Motors (NYSE : TTM) 1Q FY07 Review

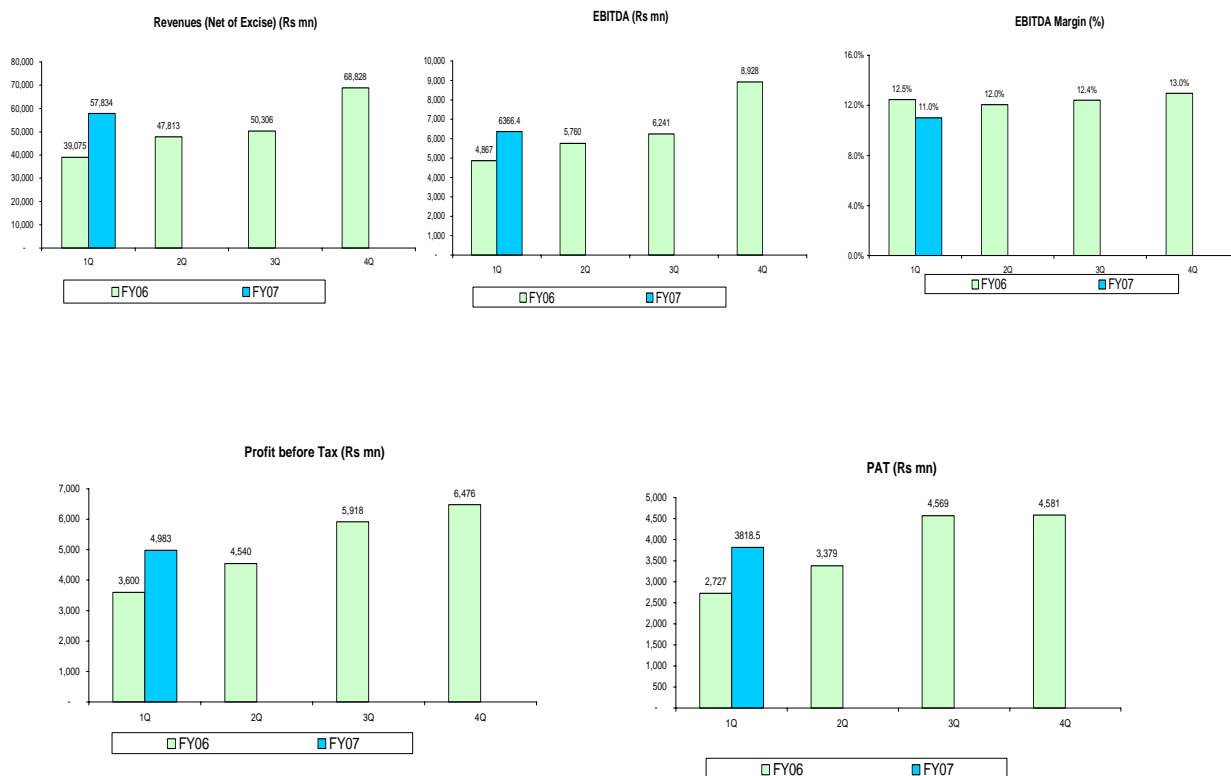
Snapshot

Unconsolidated 1Q FY07 Financials (Indian GAAP)

	1Q FY07 (Rs mn)	1Q FY06 (Rs mn)	Change (%)	1Q FY07 (*) (US\$ mn)	1Q FY06 (**) (US\$ mn)
Revenue (Net of excise)	57,834	39,075	48%	1273	898
EBITDA	6,366	4,867	31%	140	112
EBITDA %	11.01%	12.46%	-145 bps	11.01%	12.46%
Extra-ordinary Items	-3.8	0	n.m	-0.1	0.0
Profit before Tax	4,983	3,600	38%	110	83
Net Profit	3,819	2,727	40%	84	63
Basic EPS (Non-annualised)	Rs.9.97	Rs. 7.25	38%	\$0.22	\$0.17

(*) Rate of exchange as on June. 30, 2006: 1US\$ = Rs 45.44

(**)Rate of exchange as on June. 30, 2005: 1US\$ = Rs 43.51



Business Review

Unconsolidated 1Q FY07 Financials (Audited)

- Tata Motors' Net Revenue for 1QFY07 was Rs. 57.8 bn ; up by 48% Y-o-Y.
- EBITDA was Rs. 6.4 bn - up 30.8% y-o-y. EBITDA margins, however stood at 11.01% for the quarter compared to 12.46% in 1QFY06 as a result of the forex loss of Rs 783 mn incurred by the Company during the quarter.
- PBT for the quarter was Rs 4.9 bn, up 38.4% y-o-y.
- The Company posted a PAT of Rs. 3.8 bn in 1Q FY07, up 40.0 % y-o-y.

Table 1: Volume Summary

	1Q FY07	1Q FY06	Change
Total CVs	63,082	37,228	69%
Total PVs*	50,151	41,191	22%
Total domestic Sales	113,233	78,419	44%
Exports	13,161	9,073	45%
Total Volumes	126,394	87,492	44%

* includes sales of FIAT vehicles

- Volume growth of the Company in the domestic market was driven by:
 - Strong freight availability
 - Continued impact of ban on overloading
 - Low base effect
- The export volumes of the Company continued to register a healthy growth during 1QFY07, having registered a 45% growth during the period.

Economic Scenario

Key Highlights of 1Q FY06

1. GDP Growth

As per CSO, the overall GDP for 4QFY06 grew at 9.3%. Agriculture, industry and services posted a growth of 5.5 per cent, 8.9 per cent and 10.9 per cent, respectively, in 4QFY06.

The Indian economy grew by 8.4% during FY06 as against 7.5% growth registered in FY05. The growth was driven by the service sector (10% increase) and the industrial sector (8.7% increase). The agricultural sector registered a growth of 3.9% in FY06.

A quarterly breakup of the economic growth in all the three sectors is tabulate below:

	1QFY06	2QFY06	3QFY06	4QFY06	FY06
Agriculture	3.4	4.0	2.9	5.5	3.9
Industry	10.2	7.8	8.1	8.9	8.7
Services	9.8	10.0	9.4	10.9	10.0

Source : CSO

2. Industrial Growth

Robust growth in industrial sector continued in to the first two months of Fiscal 2007 with the IIP growing at 12.2% during this period. Manufacturing sector continues to drive this growth, which is also reflected in the high growth rates of capitals goods and consumer durable indices during April – May 2006.

Table 2: Macro Economic Indicators

Categories		Apr-May'06	Apr-May'05	Growth (%)
IIP	General	234.4	209.0	12.2%
Sectoral	Mining	162.2	154.7	4.8%
	Mfg.	247.6	218.3	13.4%
	Electricity	205.6	191.7	7.3%
Use-based	Basic	202.5	182.6	10.9%
	Capital	271.4	217.5	24.8%
	Intermediate	234.6	211.8	10.8%
	Consumer	262.2	236.7	10.8%
	- Consumer Durables	385.5	318.4	21.1%
- Consumer Non-Durables	233.8	217.9	7.3%	

Source: CSO

3. Infrastructure Index

The Infrastructure Index grew at 5.9% during April-May 2006 as compared to 7.1% in April –May 2005. The infrastructure index was driven by growth in steel, coal, electricity and cement though partially offset by decline in the crude petroleum production and petroleum refinery sectors.

4. Rise in inflation

An average inflation rate of 4.4% was registered during the 1QFY07. This was led by increase in fuel prices during the quarter and supply constraints on primary articles.

During the quarter, the government partially passed on the increase in the international crude oil prices to the domestic consumers by increasing the price of diesel by Rs 2 per litre and that of petrol by Rs. 4 per litre. Rise in international Crude Oil prices continues to be a major cause of concern. Select State governments changed the tax rates and import duties applicable to crude oil, to mitigate the impact of this price increase.

Input cost pressures continue to prevail, primarily as a result of the increase in fuel prices.

5. Interest rates

The interest rates, especially for short term, hardened further with RBI announcing a 25 bps increase in the repo rates during the first quarter. Liquidity tightening, domestic inflationary pressures caused by increase in price of international crude oil and increase in US Fed rates were the key reasons for the hike in the domestic interest rates.

Consequently, there has been an upward revision of vehicle financing rates during the quarter.

6. Freight Rates

The continued impact of the overloading ban and substantial freight availability resulted 27% increase in our benchmark freight index as on 30th June, 2006 compared to that on 30th June, 2005. Freight index increased 1.5% in the first three months of fiscal 2007.

The diesel price index also increased by nearly 14% y-o-y as a result of the increase in domestic fuel prices. A price hike of Rs. 2.00/litre in diesel and Rs. 4.00/litre in petrol was announced by the Government during the quarter. Select State governments changed the tax rates and import duties applicable to fuel prices, to mitigate the impact of this price increase.

7. National Highway Development Project (NHDP)

The national highway development project was 36% complete as on 30th June 2006. The latest update on the programme is as given below:

Table 3: Status of the NHDP as on June. 30, 2006

	Total Length (in Kms)	Planned date of completion	Completed	Under Implementation	Balance to be Awarded
GQ	5,846	Dec-06	93%	7%	0%
NS-EW	7,300	Dec-07	12%	69%	19%
Port Connectivity & others	1,325	Dec-07	30%	67%	3%
Phase IIIA	4,015	Dec-12	1%	27%	72%
Total	18,486		36%	40%	23%

(Source: NHAI)

Outlook

- The Indian economy is projected to grow at the rate of 7-8% during FY07 (source : CMIE, Crisinfac)
- Robust Industrial growth, driven largely by the buoyancy in the capital goods segment, is expected to continue during fiscal 2007.
- Increase in interest rates as a result of expected shrinkage in liquidity, both in domestic and global economy, and an upsurge in the international crude oil prices are likely to be the key economic challenges.

Commercial Vehicle Segment

Highlights

- CV domestic sales volumes grew by 69% y-o-y; 63,082 units in 1QFY07 as compared to 37,228 units in 1QFY06
- CV market share stood at 65.8% for the quarter; up 106 bps from 55.2% in 1QFY06.

Domestic CV Industry

- The CV industry registered a volume growth of 42.0% during 1QFY07.
- The industry volumes in the M/HCV segment increased by 43.5% y-o-y and those in the LCV segment grew by 39.8% y-o-y during 1QFY07.

Company Performance in Domestic CV Segment

Table 4: CV Domestic Sales Volumes

	1Q FY07	1Q FY06	Change
M/HCVs	36,563	22,993	59%
LCVs	26,519	14,235	86%
Total CVs	63,082	37,228	69%

Table 5: CV Market Shares

	1Q FY07	1Q FY06
M/HCVs	63.9%	57.7%
LCVs	68.7%	51.6%
Total CVs	65.8%	55.2%

Source : SIAM Industry Data

- The Company registered 69.6% volume growth during 1QFY07 from 37,228 units in 1QFY06 to 63,082 units in 1QFY07. The market share in this segment was 65.8% in 1QFY07 as compared to 55.2% in the corresponding period in the previous year.
- The M/HCV goods carrier segment registered a 54.4% growth y-o-y with sale of 33,515 units during 1QFY07 as compared to 21,709 units sold in 1QFY06. The market share during the quarter was 64.5%, up by around 410 bps y-o-y.
- On going infrastructure development and increase in international trade were the key drivers of robust demand for HCV goods carrier during the quarter. Consequently, there was a 97.5% increase in volume sales in this segment from 10,148 units in 1QFY06 to 20,044 units in 1QFY07. The Company achieved a market share of 63.3% during 1QFY06, up 700bps from 56.4% in 1QFY06.
- Within the HCV goods carrier segment, the tractor trailer segment registered a 112.9% growth while the Multi Axle vehicles registered a 95.7% growth during 1QFY07.
- ICV goods carrier also registered robust growth of 74.3% y-o-y from 2,020 units in 1QFY06 to 3,521 units in 1QFY07 and achieved a market share of 48.9% during the period as compared to 37.0% in 1QFY06.
- Volumes in the MCV goods carrier segment of the Company increased by 4.3% y-o-y from 9541 units in 1QFY06 to 9950 units in 1QFY07. The market share in this segment stood at 75.7% during the first quarter of this fiscal.
- Passenger carrier segment in the M/HCV category registered a volume growth of 135.9% y-o-y from 1,292 units in 1QFY06 to 3,048 units in 1QFY07. The volume growth was driven by improved supply position and low base effect. Market share during the period also increased significantly from 32.7% in 1QFY06 to 58.3% in 1QFY07.

- The LCV segment registered a volume growth of 86.3% during 1QFY07. 26,519 units were sold in 1QFY07 as compared to 14,235 units in 1QFY06. The market share of the Company in this segment also increased to 68.7% during the first quarter of FY07 as compared to 51.6% in the corresponding quarter of FY06.
- Tata Ace sales averaged at around 4,300 units per month for the period April – June'06. The sale number breached the 5000 unit mark in June'06 owing to the capacity increase to 60,000 units from 30,000 units.
- The Company sold 18,010 units of Pick up vehicles in 1QFY07 as compared to 6,213 units sold in 1QFY06, thereby registering a robust 189.9% y-o-y growth. The Company continues to be the market leader in this segment with a market share of 73.1% during 1QFY07 as against 45.8% achieved in 1QFY06.
- Volumes in the LCV bus segment grew by 24.8% y-o-y from 2,567 units in 1QFY06 to 3,205 units sold in 1QFY07. The Company achieved a market share of 50.8% during the first quarter of FY07 as compared to 44.5% in the corresponding quarter of FY06.

Passenger Vehicle Segment

Highlights

- Domestic TATA passenger vehicle sales of 49,907 units during 1QFY07; up 21.2% y-o-y
- Market share of 16.2% achieved in 1QFY07.

Domestic PV Industry

- The passenger vehicle industry registered a volume growth of 20.4% during 1QFY07.
- During 1QFY07, industry volumes of utility vehicle segment grew by 7.8% and that of the passenger car segment grew by 23.7% y-o-y.

Company Performance in Domestic PV Segment

The Company retained its #2 position in the domestic PV market.

Table 7: PV Domestic Sales Volumes

	1Q FY07	1Q FY06	Change
Compact Car	33,173	24,999	32.7%
Entry-level Mid-size Car	8,316	8,849	-6.0%
UV	8,418	7,343	14.6%
Total PV	49,907	41,191	21.2%

Table 8: PV Market Shares

	1Q FY07	1Q FY06
Compact Car	20.0%	19.6%
Entry-level Mid-size Car	32.7%	30.3%
UV	17.6%	16.6%
Total PV	16.2%	16.1%

Source : SIAM Industry Data

- The Company registered a volume growth of 21.2% during 1QFY07. 49,907 units were sold during the quarter as compared to 41,190 units sold in the corresponding period in the previous year. The market share in this segment was maintained at 16.2%.
- The utility vehicle volumes of the company grew by 14.6% y-o-y from 7,343 units sold in 1QFY06 to 8,418 units sold in 1QFY07. Market share increased by 100 bps y-o-y to 17.6% in 1QFY07. The new Safari range launched in the latter part of the quarter received enthusiastic response from the market.
- Boosted by launch of Indica Xeta and Turbo Diesel, volumes in the compact car segment registered 32.7% y-o-y growth from 24,999 units sold in 1QFY06 to 33,173 units sold in 1QFY07. The market share in this segment was 20.0% during 1QFY07, up 40 bps y-o-y.

International Business

Highlights

- The Company's export volumes increased 45% y-o-y during 1QFY07.

Company Performance in International Business

Table 6: Exports Volumes

Business Unit	1QFY07	1QFY06	Change
Commercial Vehicles	7,792	5,714	36%
Passenger Vehicles	5,369	3,359	60%
Total Exports	13,161	9,073	45%

- The key export destinations during 1QFY07 were South Africa, South Asia, Middle East and parts of Europe.
- Revenues from international business formed around 16% of the consolidated revenues of the company during April – June'06.

Finance

- The net revenues of the Company increased by 48.0% to Rs 57.8 bn during 1QFY07 from Rs 39.1 bn in 1QFY06. Operating profit (EBITDA) grew 30.8% y-o-y from Rs 4.9 bn in 1QFY06 to Rs 6.4 mn in 1QFY07. The EBITDA margin for the quarter was 11.01% compared to 12.46% corresponding period in the previous fiscal.
- The raw material cost as percentage of net revenues of the Company was 61.7% in 1QFY07; up 200 bps from 59.7% in 1QFY06.
- Average vehicle realisation of the Company increased by 2.7% during the quarter. However, the margins were under pressure on account of increase in commodity prices and the domestic fuel prices, partially offset by the positive impact of the ongoing cost reduction programme (saving of Rs 508 mn).
- The Company registered a forex loss of Rs 783 mn during 1QFY07 as compared to forex gain of Rs 145 mn recorded in 1QFY06. After adjusting for forex loss and gain in the respective periods, the EBITDA margin of the Company for 1QFY07 increased to 12.36% compared to 12.09% in 1QFY06.
- The Net Interest cost in 1QFY07 increased to Rs.725.5 mn from Rs. 510.1 mn in 1QFY06, an increase of around 42.2% y-o-y. This increase is largely attributable to increase in working capital requirements on account of vehicle financing business during the quarter.
- As on 30th June'06, the balance sheet size of the Company was Rs. 103.1 bn as compared to Rs 96.8 bn as on 31st March'06. Net of vehicle financing loans and receivables the Company's capital employed was Rs 52.7 bn as on 30th June'06 against Rs. 50.4 bn as on 31st March'06.
- As on 30th June'06, 383.12 mn shares (Face value Rs.10) were outstanding on the balance sheet of Tata Motors.
- The Gross total debt (inc. FCCNs) stood Rs 37.9 bn as on 30th June'06 as compared to Rs. 29.4 bn as on 31st March'06. The Company's Net Debt (Net of the surplus investible funds) stood at Rs 30.8 bn as on 30th June'06. As on 30th June'06, the Company's net debt to equity ratio stood at 0.52: 1.
- The increase in debt is mainly on account of the increase in working capital requirements of the company during the quarter.
- As on 30th June'06, 91.14% of the FCCBs issued in July 2003 and 85.07% of those issued in April 2004 (\$100 million Zero coupon tranche) were converted into ADRs or ordinary shares as applicable.
- The Company's Balance Sheet includes Receivables and loans of Rs. 50.5 bn on account of vehicle financing business as on 30th June, 2006.
- The Company had an investible surplus of around Rs. 7.1 bn as on 30th June, 2006.
- The following table shows the days of sales of inventory and receivables of the company.

Table 7: Current Assets

No. of Days	30 th June'06	31 st March'06
Inventory	38	31
Receivables (non-HP)	8	10

- Tata Motors Finance (TMF) disbursed Rs 20.9 bn during April –June'06, up 121% from Rs.9.47 bn in April –June'05. During 1QFY07, TMF financed 37,626 units of vehicles, which is 116% higher than 17,393 units financed in 1QFY06. Consequently, the market share of TMF increased to 33.3% during April – June'06 from 22.1% in April –June'05.

Consolidated Results and Performance of Key subsidiaries

Table 11: Consolidated Unaudited Financials

	1Q FY07 (Rs mn)	1Q FY06 (Rs mn)	Change (%)	1Q FY07 (*) (US\$ mn)	1Q FY06 (**) (US\$ mn)
Revenue (Net of excise)	67,709	44,931	51%	1490	1033
EBITDA	7,740	5,581	39%	170	128
EBITDA %	11.43%	12.42%	-109 bps	11.43%	12.42%
Profit before Tax	5365.5	3590.9	49%	118	83
Net Profit	3,802	2,559	49%	84	59
Basic EPS (Non-annualised)	Rs 9.97	Rs 6.95	43%	\$0.23	\$0.16

Table 12: Key Subsidiary Financials

Subsidiary	Turnover (Rs mn)		Change (%)	PBT (Rs mn)		Change (%)	PAT (Rs mn)		Change (%)
	1QFY07	1QFY06		1QFY07	1QFY06		1QFY07	1QFY06	
Tata Daewoo CV Ltd., Korea (TDCV)	4,666.8	3,328.2	40%	280.8	67.8	314%	204.4	53.0	286%
Telco Construction Equipment Co. Ltd (Telcon)	3,701.2	2,576.8	44%	478.0	156.6	205%	311.3	97.4	220%
Tata Technologies Ltd (TTL)	2,270.0	488.9	364%	18.8	25.7	-27%	9.5	19.3	-51%
HV Transmissions Ltd (HVTL)	374.1	261.7	43%	145.9	84.4	73%	97.1	54.6	78%
HV Axles Ltd (HVAL)	424.4	270.6	57%	218.5	116.3	88%	143.7	78.3	84%
TAL Mfg Solutions Ltd (TAL)	322.2	143.8	124%	14.4	(29.1)	n.m	13.5	(30.1)	n.m

Operational Highlights of Key Subsidiaries

TDCV

- During 1QFY07, volumes in the Korean M&HCV segment of the commercial vehicle industry increased marginally by 1.3% y-o-y.
- With sale of 1,633 units, TDCV recorded a total volume growth of 48.7% y-o-y in 1QFY07.
- In the domestic market, TDCV registered a volume growth of 28.4% y-o-y from 791 units sold in 1QFY06 to 1,016 units sold in 1QFY07. The Market share of TDCV stood at 25% during the first quarter of FY07.
- Exports from TDCV at 617 units increased by 101% y-o-y during 1QFY07.

TTL

- Post the acquisition of INCAT, TTL has increased its global share of revenues with 50% business coming from US, 23% from Europe and 14% from Asia Pacific.
- INCAT integration was completed during the quarter and the organization structure required to support the identified growth was finalized.

TELCON

- Registered 51% growth in volume sales in 1QFY07
- Increased market share in excavators to 54% during the first quarter of FY07 against 51% in Q1FY06.
- Market share in wheel loaders stood at 16% during 1QFY07
- Increased market share in back hoe loaders to 10% during 1QFY07 against 8% in 1QFY06.
- Debtors reduced to 39 days of sale as on 30th June 2006 from 42 days of sale as on 30th June, 2005.

HVAL & HVTL

- HVAL reported 57% increase in revenues and 84% increase in profitability during 1QFY07
- HVTL reported 43% increase in revenues and 78% increase in net profits during 1QFY07.
- Value unlocking in one of the above subsidiaries is expected during the fiscal 2007.

Shareholding Pattern

Table 13: Shareholding Pattern as on June 30, 2006

	%
Tata Group	33.63
Daimler Chrysler	6.68
Indian Financial Institutions / MFs / Banks	14.93
ADR/GDR Holders / Foreign holders–DR status	8.40
Foreign Institutional Investors	23.99
Others	12.37
Total	100.00

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