



## Tata Motors 2Q FY04 Review

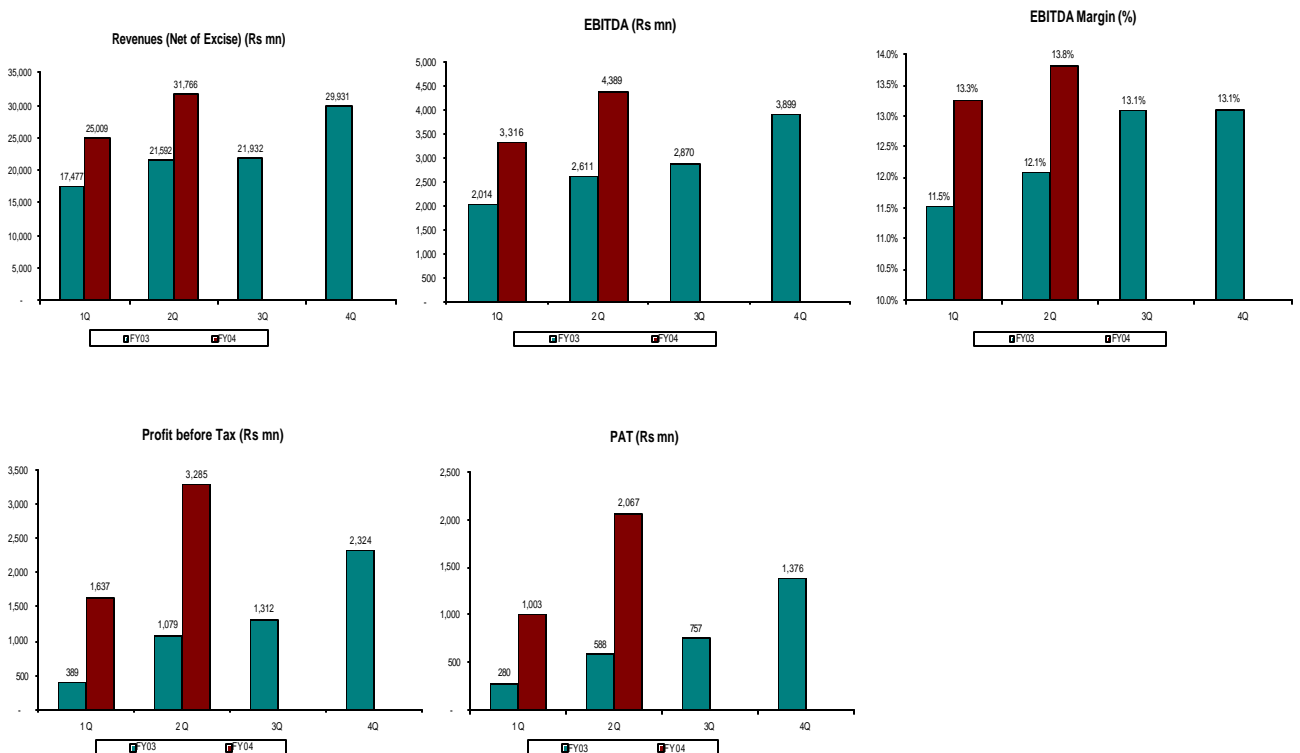
### Snapshot

#### Unconsolidated Financials

	2Q FY04 (Rs mn)	2Q FY03 (Rs mn)	Change %	2Q FY04 (*) (US\$ mn)	2Q FY03 (**) (US\$ mn)
Revenue (Net of excise)	31,766	21,592	+47%	699	447
EBITDA	4,389	2,611	+68%	97	54
EBITDA %	13.8%	12.1%	+172 bps		
Op. Cash Profit (Pre-Tax)	4,129	1,939	+113%	91	40
Extra-ordinary Items	(29)	-	N.M.	(1)	-
Profit / (Loss) before Tax	3,285	1,079	+204%	72	22
Net Profit / (Loss)	2,067	588	+251%	45	12
Basic EPS (Non-annualised) (Rs)	6.45	1.84	+251%		
	1H FY04 (Rs mn)	1H FY03 (Rs mn)	Change %	1H FY04 (*) (US\$ mn)	1H FY03 (**) (US\$ mn)
Revenue (Net of excise)	56,775	39,069	+45%	1,249	808
EBITDA	7,705	4,625	+67%	170	96
EBITDA %	13.6%	11.8%	+173 bps		
Op. Cash Profit (Pre-Tax)	6,907	3,153	+119%	152	65
Extra-ordinary Items	(230)	-	N.M.	(5)	-
Profit / (Loss) before Tax	4,922	1,468	+235%	108	30
Net Profit / (Loss)	3,070	868	+254%	68	18
Basic EPS (Non-annualised) (Rs)	9.59	2.72	+253%		

(\*) Rate of exchange as on September 30, 2003: 1US\$ = Rs 45.45

(\*\*) Rate of exchange as on September 30, 2002: 1US\$ = Rs 48.38



## Business Review

### Summary

- The Company changed its name during 2Q FY04 to Tata Motors Ltd. to reflect its core business of design, manufacturing and marketing of automobiles.
- On operational & financial parameters, Tata Motors achieved the following performance in 2Q FY04:
  - Volumes of 78,125 (+42% YoY)
  - Net Revenues of Rs 31.8 bn (+47% YoY)
  - EBITDA of Rs 4.4 bn (+68% YoY)
  - PBT of Rs 3.3 bn, (+204% YoY)
  - PAT of Rs 2.1 bn (+251% YoY)
- EBITDA margin for the Company expanded by 172 bps to reach 13.8% for the quarter.
- The Company faced some pressure of commodity price increases (especially steel) during the quarter. The proportion of new products also went up during the quarter impacting the performance. However, the Company managed to better its operating performance through continuation of cost reduction efforts.
- The Company's cumulative lifetime production volume crossed 3-million mark during the quarter.

**Table 1: Volume Summary**

	2Q FY04	2Q FY03	Change	1H FY04	1H FY03	Change
Total CVs	37,426	23,719	58%	64,131	44,920	43%
Total PVs	36,855	28,969	27%	66,973	46,525	44%
<b>Total Domestic Sales</b>	<b>74,281</b>	<b>52,688</b>	<b>41%</b>	<b>131,104</b>	<b>91,445</b>	<b>43%</b>
Exports	3,844	2,420	59%	7,417	4,429	67%
<b>Total Volumes</b>	<b>78,125</b>	<b>55,108</b>	<b>42%</b>	<b>138,521</b>	<b>95,874</b>	<b>44%</b>

- The Company gained market share across almost all product segments during the quarter.
- Key subsidiaries have put in a turnaround performance during this quarter with a combined PBT of Rs 79 mn against a loss of Rs 75 mn in the corresponding period last year.

## Economic Scenario

1Q FY04 GDP grew by 5.8% YoY primarily on the back of industrial growth (+5.8% YoY) and services (+7.6% YoY). The impact of better monsoons on agricultural production is yet to get reflected in GDP growth. However, based on strong growth prospects in agriculture and continuing growth in industry & service sector, GDP is expected to increase by around 6.5% for the fiscal.

The upturn in the industrial economy (+5.6%) continued during the first two months of second quarter. The Manufacturing sector has grown by over 6% during the first five months of the fiscal.

The key economic developments observed in the first five months of this fiscal are:

- On-going infrastructure development
- Continued benign interest rate regime
- Growth in Housing & Construction
- Increase in Capital Goods (+7.7%) and Consumer demand (+8.9%)
- Prospects of good agricultural production (Foodgrain production expected to grow by 15-20% in FY04)
- Forex reserves above US\$85 bn
- Expansion in Non-Food Credit by over 15% (as on end-August 2003)
- On the flip side, international crude prices moved up to the reach US\$30/bbl mark, the highest in post-Iraq war period.

**Table 2: Macro Economic Indicators**

Growth (%)	Categories	Apr-Aug'03	Apr-Aug'02
IIP	General	5.6	5.2
Sectoral	Mining	4.4	7.6
	Mfg.	6.2	5.1
	Electricity	2.3	4.3
Use-based	Basic	4.3	5.6
	Capital	7.7	7.8
	Intermediate	3.3	1.9
	Consumer	8.9	7.3
	Consumer Durables	4.8	-5.4
	Consumer Non-Durables	10.2	12.4

Source: CSO

## Outlook

- Demand growth in the last two years has vindicated the Company's strategy of identifying the high potential segments and offering the right value proposition to its customers. The Company believes that the structural changes taking place in the Indian economy will have a sustainable impact on the domestic Auto Industry over the coming years.
- The outlook on volumes in both the product categories continues to remain positive. However, the base effect of last year may subdue the growth rates in 2H FY04.
- The expansion of Commercial Vehicle fleet size may impact the transporters' profitability negatively if the economic rebound fails to generate sufficient freight volumes for the same. Therefore, caution needs to be exercised in extrapolating the current growth trends in domestic CV volumes.
- With Passenger Car deliveries to MG Rover slated in 2H FY04, exports volumes are expected to gain further momentum.
- Input prices continue to remain an area of concern. The Company is working extensively with its vendors and at its plants to mitigate the impact of these cost pressures.
- Increasing proportion of exports in revenues in 2H FY04 may also have some impact on operating margins.

## Commercial Vehicles

- Commercial vehicle (CV) volumes at 37,426 units (+58% YoY).
- Growth in haulage as well as bus segments.
- CV market share at 60% (+578 bps). Gains in both M/HCVs & LCVs.
- Volume ramp up in Pick-ups

The Company's CV sales gained further momentum in 2Q FY04. Volumes were up on the back of increase in haulage (+64%) as well as bus segments (+29%).

**Table 3: Domestic CV Sales Volumes**

	2Q FY04	2Q FY03	Change	1H FY04	1H FY03	Change
M/HCVs	25,075	16,126	55%	42,456	30,670	38%
LCVs	12,351	7,593	63%	21,675	14,250	52%
<b>Total CVs</b>	<b>37,426</b>	<b>23,719</b>	<b>58%</b>	<b>64,131</b>	<b>44,920</b>	<b>43%</b>

- Volumes of M/HCVs trucks improved in 2Q (+56% YoY). All haulage segments – HCVs, MCVs & ICVs registered higher growth during the quarter. This growth was primarily led by availability of low cost finance and increased freight arising from improved industrial economy and continued infrastructure spending.
  - HCV truck sales were up 78% YoY and the Company improved its market share in this segment to 61% (+104 bps).
  - In the ICV segment, the Company gained market share of 488 bps to reach 32%.
- In 2Q FY04, the Company's benchmark freight rate index grew 4% sequentially while the average diesel price for the quarter was lower by 3%. The transporters also benefited from lower interest rates and good freight availability despite the monsoon when the freight movement is normally slack.
- The M/HCV bus segment has witnessed a revival in 1H FY04 on the back of private operator led demand. With a strong pick up in sales during the 2Q FY04 (+52% YoY), the M/HCV bus market share increased to 52% (+456 bps).
- Riding on the success of the new products launched in the LCV segment, the Company's LCV YoY market share in 2Q FY04 improved from 41% to 52% - highest in the last three years.
  - Backed by a consistent increase in sales, 207DI Pick-Up captured a market share of 40% in the quarter, a significant improvement from the year-beginning share of 33%. This performance, within just over a year of its introduction, signifies the wide customer acceptance of the model in this high volume potential segment and the marketing efforts put in by the Company to expand the market.
  - In the rest of the LCV truck market too, the Company saw its market share improving from 65% to 71% in 2Q FY04.
  - The Company's market share in the LCV Bus segment moved up to 40% (+439 bps), boosted by additional volumes from the City Ride Bus (4T GVW Fully Built bus launched in end-FY03).
- The Company is on target to meet its objective of doubling the sales volumes of Fully-Built Vehicles (FBVs).

**Table 4: CV Market Shares**

	2Q FY04	2Q FY03	1H FY04	1H FY03
M/HCV	65%	63%	64%	63%
LCV	52%	41%	50%	41%
<b>Total CV</b>	<b>60%</b>	<b>54%</b>	<b>59%</b>	<b>54%</b>

## Passenger Vehicles

- Highest ever quarter volumes in PVs. Market share up from 16% to 17% in 2Q FY04
- Volume growth of 27% YoY in 2Q - outperformed industry in both Cars and MUVs
- Indigo maintains its leadership position in the entry-level C segment of cars
- Rebound in MUV sales volumes (+33% YoY) in 2Q

With volume sales of 36,855 units in 2Q FY04, the Company maintained its position as the second largest player in the domestic PV market.

**Table 5: Domestic PV Sales Volumes**

	2Q FY04	2Q FY03	Change	1H FY04	1H FY03	Change
Passenger Cars	29,096	23,128	26%	53,119	35,005	52%
MUVs	7,759	5,841	33%	13,854	11,520	20%
<b>Total PVs</b>	<b>36,855</b>	<b>28,969</b>	<b>27%</b>	<b>66,973</b>	<b>46,525</b>	<b>44%</b>

- The Company's PV volume growth of 27% YoY surpassed the industry growth of 19% YoY to achieve a market share of 17% in 2Q FY04 (+ 113 bps).
- Driven by the strong sales of Indigo, the Company achieved an above industry growth of 26% YoY in the passenger car segment to improve its market share to 17% (+115 bps). This performance, in an intensely competitive environment with substantial discount offerings by competing brands points to the high quality of growth achieved by the Company.
- With monthly sales averaging 2,500 units during the quarter, Indigo captured a market share of 27% in the entry-level C segment, up 160 bps sequentially. On the back of this performance, the Company maintained its leadership position in the segment not only in 2Q but also in 1H FY04.
- 2Q FY04 comparison of Indica sales volumes is vitiated by the high base effect of 2Q FY03 which had witnessed the pent-up demand after the closure of the Company's Car plant during April-May 2002.  
  
In 1H FY04, Indica continued to outperform the compact car segment with a growth of 14% YoY to achieve a market share of 24% (+69 bps).
- MUV demand saw a sharp increase in 2Q FY04. The Company's volumes improved by 33% YoY during the quarter compared to 7% YoY growth in 1Q FY04. The Company's market share in the segment went up by 37 bps to 22%. Variants of Sumo and Safari, launched in FY03, have received a positive market response. Safari volumes witnessed a growth of 37% in 2Q FY04.

**Table 6: PV Market Shares**

	2Q FY04	2Q FY03	1H FY04	1H FY03
Passenger Cars	17%	16%	17%	13%
Compact Cars	24%	28%	24%	23%
Entry-level Mid-size Cars	27%	-	27%	-
MUVs	22%	22%	21%	23%
<b>Total PV</b>	<b>17%</b>	<b>16%</b>	<b>16%</b>	<b>14%</b>

## International Business

**Table 7: Exports Volumes**

	2Q FY04	2Q FY03	Change	1H FY04	1H FY03	Change
M/HCVs	1,127	745	51%	1,844	1,432	29%
LCVs	1,676	1,164	44%	2,494	1,862	34%
Passenger Cars	619	401	54%	1,750	848	106%
MUV	422	110	284%	1,329	287	363%
<b>Total Exports</b>	<b>3,844</b>	<b>2,420</b>	<b>59%</b>	<b>7,417</b>	<b>4,429</b>	<b>67%</b>

- The Company expects to commence the shipments of Passenger Cars to MG Rover in 3Q FY04.
- The Company has bagged an order worth US\$ 19 mn for supplying 500 buses to Senegal, overcoming stiff competition from several global CV manufacturers.
- As part of its thrust on key volume markets, the Company has started focused marketing efforts in Sri Lanka and Bangladesh. The efforts are already beginning to yield results in these markets.
  - The supply of over 800 CNG Indica taxis to Bangladesh was completed in 2Q FY04.
  - The Company has also recently received an order for 500 CNG buses to Bangladesh.
- The Company is actively exploring other high potential CV markets like South Africa and SE Asia.
- During the year Safari exports have picked up on the back of increase in shipments to European markets.
- The Company has also been selected as the "Preferred Bidder" for acquiring Daewoo Commercial Vehicle Company Ltd. (DWCV), Korea. The "Preferred Bidder" status would require it to enter into a Memorandum of Understanding to be negotiated with DWCV, followed by a detailed due diligence process.

## Finance

- The Company raised US\$ 100 mn during the quarter through FCCBs in the international markets at a coupon rate of 1% p.a. payable semi-annually. The Bond has a tenor of 5 years and is convertible into one GDS at a premium of Rs 240.745 per share. Around 16% of the outstanding FCCBs have been converted into GDSs (all in Oct. 2003). Consequently, equity shares outstanding of the Company have increased by 3 mn as of end-Oct. 2003.
- Out of the 25.5 mn warrants issued by the Company during its Rights Issue in FY02, around 1.46 mn warrants (0.81 mn in Aug. 2003 & 0.65 mn in Oct. 2003) have been converted at a premium of Rs 110 per share since the opening of the conversion period in June 2003.
- In line with its year-beginning intent, the Company has retired expensive debt worth Rs 2.1 bn in 2Q FY04 (Rs 3.6 bn YTD). Swapping of debts and lower interest rates have helped in bringing down the 2Q FY04 Interest cost to Rs 260 mn. However, this is after adjusting for Rs 127 mn of accrued interest income on Income Tax Refunds during the quarter.
- Other Income for the quarter comprises primarily of Dividend Income from long-term Investments.
- The Company continues to pay Minimum Alternative Tax (MAT) due to tax shields available from the past operations. Provision for Deferred Tax has been made at the marginal tax rate.
- The Company has been able to maintain its balancesheet size at Rs 48.8 bn, not significantly higher than Rs 43.9 bn as on June 30, 2003. This increase is primarily on account of surplus investible funds of around Rs 9.2 bn as on Sep. 30, 2003.
- With gross total debt of Rs 17.6 bn (inc. FCCBs) as on Sep. 30, 2003, the Company has retained its debt : equity at 0.61. Net of the surplus investible funds which the Company intends to utilise for capitalising growth opportunities, Net Debt position of the Company stood at around Rs 8.4 bn as on Sep. 30, 2003 (against Rs 13.9 bn as on March 31, 2003).
- Working capital reduction continues to remain a key focus area. The Company has been able to keep its Net Current Assets in the negative territory.

**Table 8: Working Capital**

No. of Days	Sep. 30, 2003	March 31, 2003	Sep. 30, 2002
Inventory	35	39	38
Receivables (non-HP)	16	18	20

- The capital expenditure (including product development) incurred during the quarter was around Rs 825 mn. YTD the total capital expenditure has been Rs 1.1 bn.
- Given the rising commodity prices, the Company has maintained that FY04 will be the year of cost containment at the aggregate level. The Company is taking measures to neutralize the impact of these cost increases through on-going cost reduction programmes (including interest cost reduction).

### Key Subsidiary Companies – Performance

**Table 9 – Key Subsidiary Financials**

Subsidiary	Net Turnover (Rs mn)		PBT (Rs mn)	
	2Q FY04	2Q FY03	2Q FY04	2Q FY03
Telco Construction Equipment Co. Ltd (Telcon)	1,508	997	70	(22)
Tata Technologies Ltd (TTL)	334	227	14	28
HV Transmissions Ltd (HVTL)	272	185	58	5
HV Axles Ltd (HVAL)	293	198	87	4
TAL Mfg Solutions Ltd (TAL)	163	85	(150)	(90)

- The key five subsidiaries have put in a combined turnaround performance during the quarter with a PBT of Rs 79 mn against a loss of Rs 75 mn in the last year.

- The combined turnover of these companies in 2Q stood at Rs 2.6 bn, up 52% YoY.
- The combined debt of the subsidiaries has declined to Rs 3.1 bn as on Sep. 30, 2003 from Rs 4.0 bn as on March 31, 2003.
- The Capital Employed has been brought down by 9% during the 1H FY04.

### Shareholding Pattern

**Table 10: Shareholding Pattern as on 30th September, 2003**

	%
Tata Group	32%
Daimler Chrysler	8%
Indian Financial Institutions / MFs / Banks	18%
GDR Holders	5%
Foreign Institutional Investors	20%
Others	17%
<b>Total</b>	<b>100%</b>

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