



Tata Motors (NYSE: TTM) 2Q FY06 Review

Snapshot

Unconsolidated 2Q FY06 Financials (Indian GAAP)

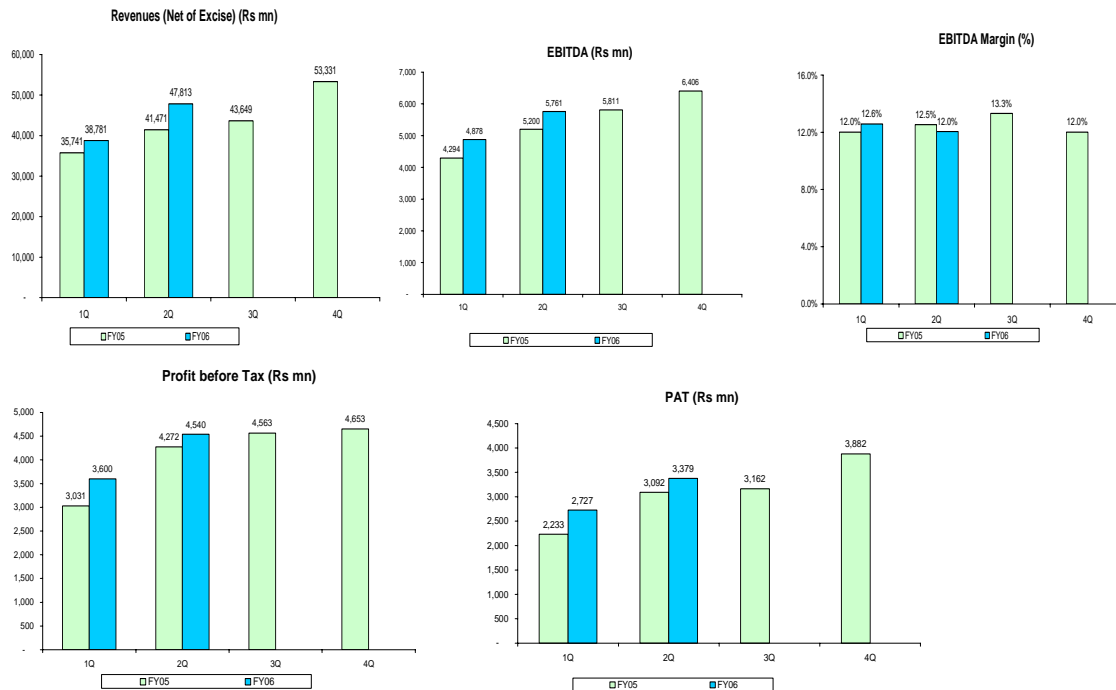
| | 2Q FY06 (Rs mn) | 2Q FY05 (Rs mn) | Change % | 2Q FY06 (*) (US\$ mn) | 2Q FY05 (**) (US\$ mn) |
|----------------------------|--------------------|--------------------|-------------|--------------------------|---------------------------|
| Revenue (Net of excise) | 47,813 | 41,453 | 15.3% | 1086 | 901 |
| EBITDA | 5,761 | 5,200 | 10.8% | 131 | 113 |
| EBITDA % | 12.05% | 12.50% | -45bps | 12.05% | 12.50% |
| Cash Profit (before Tax) | 5,880 | 5,508 | 6.8% | 134 | 120 |
| Extra-ordinary Items | -10 | -10 | 1.0% | -0.2 | -0.2 |
| Profit before Tax | 4,540 | 4,272 | 6.3% | 103 | 93 |
| Profit after Tax | 3,379 | 3,092 | 9.3% | 77 | 67 |
| Basic EPS (Non-annualised) | Rs.9.0 | Rs 8.6 | 4.1% | US\$0.20 | US\$ 0.19 |

Unconsolidated 1H FY06 Financials (Indian GAAP)

| | 1H FY06 (Rs mn) | 1H FY05 (Rs mn) | Change % | 1H FY06 (*) (US\$ mn) | 1H FY05 (**) (US\$ mn) |
|----------------------------|--------------------|--------------------|-------------|--------------------------|---------------------------|
| Revenue (Net of excise) | 86,449 | 77,174 | 12.0% | 1964 | 1,678 |
| EBITDA | 10,638 | 9,494 | 12.1% | 242 | 206 |
| EBITDA % | 12.3% | 12.3% | -45bps | 12.3% | 12.3% |
| Cash Profit (before tax) | 10,831 | 9,799 | 10.5% | 246 | 213 |
| Extra-ordinary Items | -20 | -21 | -3.8% | -0.5 | -0.5 |
| Profit before Tax | 8,140 | 7,303 | 11.5% | 185 | 159 |
| Profit after Tax | 6,105 | 5,326 | 14.6% | 139 | 116 |
| Basic EPS (Non-annualised) | Rs 16.2 | Rs 14.9 | 8.7% | US\$0.37 | US\$ 0.32 |

(*) Rate of exchange as on Sep. 30, 2005: 1US\$ = Rs. 44.01

(**) Rate of exchange as on Sep. 30, 2004: 1US\$ = Rs. 46.01



Business Review

Unconsolidated 2Q FY06 Financials (Audited)

- Tata Motors Net Revenue increased by 15.3% Y-o-Y from Rs 41.47bn in 2QFY05 to Rs. 47.8 bn in 2QFY06.
- 12% growth in sales volumes during 2QFY06. Details are given in the table below.
- EBITDA up 10.8% to Rs.5.76bn from Rs.5.20; EBITDA margins at 12.05% compared to 12.5% in the corresponding quarter.
- The operating margin declined because of continued pressures on the input cost, partially offset by the on-going cost reduction program and the relatively modest volume growth registered during the quarter compared to the corresponding period in the previous year.
- PBT for the quarter was Rs 4.54bn, up 6.3% Y-o-Y from Rs.4.27bn.
- The Company posted a PAT of Rs 3.4bn in 2Q FY06, a 9.3% increase compared to Rs 3.1bn in 2Q FY05.
- Tata Technologies, an engineering and design services subsidiary of the Company, acquired 99.4% stake in INCAT, a UK based PLM service provider. At 220 pence per share (Rs.169.40 per share), the total value of the offer was Rs. 4,114 mn (GBP 53.4 mn).
- On 22nd September 2005, The Company signed an Memorandum of Understanding (MoU) with Fiat S.p.A to analyse the feasibility of cooperation in the passenger cars business. The possible areas of co-operation would encompass development, manufacturing, sourcing and distribution of products, aggregates and components.
- As on 30th September, 2005, the share capital of the Company stood at 3.76bn compared to Rs. 3.62bn as on 30th June, 2005. This is on account of completion of merger of Tata Finance Ltd. into Tata Motors Ltd. during the second quarter of this fiscal.

Table 1: Volume Summary

| | 2Q FY06 | 2Q FY05 | Change | 1H FY06 | 1H FY05 | Change |
|-----------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
| Total CVs | 50,115 | 44,076 | 14% | 87,343 | 83,953 | 4% |
| Total PVs | 42,957 | 45,167 | -5% | 84,148 | 85,948 | -2% |
| Total domestic Sales | 93,072 | 89,243 | 4% | 171,491 | 169,901 | 1% |
| Exports | 13,994 | 6,333 | 121% | 23,067 | 10,593 | 118% |
| Total Volumes | 107,066 | 95,576 | 12% | 194,558 | 180,494 | 8% |

- The key drivers for the volume growth of 12% during 2Q FY05 are:
 - Volume growth in light commercial vehicles
 - Volume growth in Utility Vehicles
 - Robust growth in international business
- The Company launched two new products during the second quarter of this fiscal, namely, Indigo SX and Safari Dicor. Both the products have been received very well by the customers.

Economic Scenario

Key Highlights of 2Q FY05

1. GDP Growth

GDP of the country grew by 8.1% during April-June 2005. While Industrial and Services sectors grew at 9.7% and 9.8% respectively, agriculture sector recorded a growth of 2% during the first quarter of FY06.

Sporadic monsoons in the second quarter of this fiscal could adversely impact the agricultural output during the period. The industrial and services sector, however, are expected to record a healthy growth.

2. Infrastructure Index

Growth rate in Infrastructure Index for April – Aug 2005 was 5.1 % against 5.8% for the same period in the previous year. The growth in cement (11.4%), steel (7.6%) and coal (7.2%) sectors were the key drivers of this growth, which was partially offset by decline in growth of crude petroleum and petroleum refinery product sectors.

3. Index of Industrial Production

8.8% growth was recorded in the IIP in the first five months of FY06 cumulatively as compared to 7.9% growth in the index recorded in the same period in the previous year. While manufacturing sector led the growth on a sectoral basis, capital goods and consumer goods categories registered healthy growth on a use - based classification, in the first five months of this fiscal.

Table 2: IIP

| | Categories | Apr-Aug'04 | Apr-Aug'05 | Growth (%) |
|-----------|-------------------------|------------|------------|------------|
| IIP | General | 193.7 | 210.8 | 8.8% |
| Sectoral | Mining | 145.9 | 148.8 | 2.0% |
| | Mfg. | 201.9 | 221.6 | 9.8% |
| | Electricity | 179.4 | 190.0 | 5.9% |
| Use-based | Basic | 170.7 | 182.6 | 7.0% |
| | Capital | 202.9 | 226.9 | 11.8% |
| | Intermediate | 208.8 | 215.4 | 3.2% |
| | Consumer | 205.4 | 236.5 | 15.1% |
| | - Consumer Durables | 282.7 | 320.1 | 13.2% |
| | - Consumer Non-Durables | 187.6 | 217.2 | 15.8% |

Source: CSO

4. Inflation

During the period July – September 2005, the average inflation in the country was 3.7% and the average WPI index during April- September, 2005 grew 4.4%.

5. Interest rates

The interest rates in the country did not firm up during the quarter despite the 25 basis point hike in the US Fed rates mainly on account of adequate liquidity in the economy. However, possibility of upward movement in interest rates in India continues to exist subject to international trends and credit demand in the country.

6. Fuel Prices

International prices of Brent crude oil rose to a high of USD 67/ bbl during the quarter on account of supply constraints likely to be caused in US post the damage caused by the hurricanes. Consequently, on 6th September, 2005, the Government of India increased the price of petrol and diesel by Rs. 3/ ltr and Rs. 2 / ltr , respectively, a hike of around 6%.

7. Freight Rates

As on 30th September, 2005, the benchmark freight rate index was higher by 9% y-o-y. Growth in the freight rate index reflects continued freight demand in the economy and the resultant ability of the truck operator's to pass on the costs to the consumers.

The diesel price index as on 30th September 2005 was 24% up Y-o-Y as a result of the recent fuel price increase announced by the Government following the steep increase in international crude oil prices.

8. National Highway Development Project (NHDP)

As of September 30th, 2005, 43% of the targeted 14,303 km of NHDP was completed as against 29% as on 30th September, 2004.

Table 3: Status of the NHDP as on September 30, 2005

| | Total Length (in Kms) | Planned date of completion | Completed | Under Implementation | Balance to be Awarded |
|-------------------------------|--------------------------|-------------------------------|------------|-------------------------|--------------------------|
| GQ | 5,846 | Sep-06 | 86% | 14% | - |
| NS-EW | 7,300 | Dec-07 | 11% | 51% | 38% |
| Port Connectivity & others | 1,157 | Dec-07 | 33% | 47% | 20% |
| Total | 14,303 | | 43% | 29% | 27% |

(Source: NHAI)

In addition, work has commenced on NHDP Phase III A project, which includes road length of 4,015 kms, of which 22% is already under implementation.

9. Railways

During the period April-September, 2005, the revenue earnings of Indian Railways from goods transportation increased 18.3% while freight carried increased by 28.7% to 313.5 million tones in April – September 2005 from 284.8 million tones carried in the same period in the previous year.

Apart from the Rail Freight Corridor programme announced by the Indian Railways, it has provided freight sops for certain commodities transported in the under utilized routes to boost the transportation of freight by railways.

10. Emission Norms

With effect from 1st October, 2005, the six states of Western UP, Uttaranchal, Himachal Pradesh, Punjab, Jammu & Kashmir and Madhya Pradesh have also been subject to the applicable BS - II emission norms. With this, the emission norms in the whole country stand upgraded to BS II and BS III levels.

Outlook

- Infrastructure development and growth in Industrial production are likely to be the key drivers for Commercial Vehicle demand in the country.
- Continued liquidity and increase in disposable income will continue to provide impetus to passenger vehicle demand in the country.
- Steel prices and crude oil price movement needs to be watched closely as there is uncertainty in their price trends.
- Inflationary pressures could set in as a result of unabated increase in the international crude oil prices and low base effect.
- Possibility of hardening of interest rates in the near term following the international trends and the domestic inflationary pressures.
- Marginal impact on freight transport by road likely as a result of initiatives of Indian Railways to boost the freight transport by rail.

Commercial Vehicles

- CV domestic sales volumes of 50,115 units as compared to 44,076 units, y-o-y growth of 14% in 2Q FY06
- CV market share at 60.3% for the quarter
- Exports volumes of 7,858 units from 4,837 units, up 62% during the quarter

CV Domestic Business

Table 4: CV Domestic Sales Volumes

| | 2Q FY06 | 2Q FY05 | Change | 1H FY06 | 1H FY05 | Change |
|------------------|---------------|---------------|------------|---------------|---------------|-----------|
| M/HCVs | 29,052 | 30,513 | -5% | 51,042 | 57,894 | -12% |
| LCVs | 21,063 | 13,563 | 55% | 36,301 | 26,059 | 39% |
| Total CVs | 50,115 | 44,076 | 14% | 87,343 | 83,953 | 4% |

Table 5: CV Market Shares

| | 2Q FY06 | 2Q FY05 | 1H FY06 | 1H FY05 |
|------------------|--------------|--------------|--------------|--------------|
| M/HCVs | 61.5% | 66.4% | 59.0% | 66.7% |
| LCVs | 59.4% | 48.7% | 56.7% | 48.4% |
| Total CVs | 60.3% | 59.7% | 59.7% | 58.0% |

- The volumes in the CV industry grew 13% Y-o-Y during the 2nd quarter of Fiscal 2006. While M/HCV segment grew 4% Y-o-Y, the LCV segment grew 27% Y-o-Y during July – September 2005.
- Despite a 5% decline in the M/HCV volumes of the Company during 2QFY06, the Company steadily gained market share from 54.9% in April'05 to 59.1% in June'05 to 61.0% in September'05.
- Fuel price increases, uncertainty on account of the emission norms, floods in states of Gujarat and Maharashtra and supply constraints faced by the Company mainly accounted for the decline in volume growth of M/HCVs in 2QFY06.
- In the M/HCV segment, the Company sustained its truck sales volumes in 2QFY06 at the same level as that in the previous year. The Company continued to be the market leader in all the categories of M/HCV truck segment in 2QFY06.
- While volumes in the ICV truck segment of the Company recorded 59% growth and those in HCV truck segment grew marginally by 1%, sales volume in MCV truck segment declined 11% during 2QFY06.
- On account of the enthusiastic customer response to Tata Ace, volumes in the pick-up segment of Tata Motors increased 143% y-o-y during 2QFY06. An average number of 2,200 Tata Ace vehicles were sold during the quarter. The Company became a market leader in this segment with a market share of 58.0% during 2QFY06.
- Volumes in the LCV segment other than pick up segment also grew 64% y-o-y in 2QFY06 resulting in a market share of 42.7% during this period.

Passenger Vehicles

- Domestic PVs clock sales of 42,957 units during the quarter compared to 45,167 units in the corresponding period in the previous year.
- Indigo SX and Safari Dicor launched during the quarter.
- 2Q FY06 PV market share at 15.6%

PV Domestic Business

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

Table 7: PV Domestic Sales Volumes

| | 2Q FY06 | 2Q FY05 | Change | 1H FY06 | 1H FY05 | Change |
|----------------------|---------------|---------------|------------|---------------|---------------|------------|
| Compact | 25,096 | 27,320 | -8% | 50,096 | 52,456 | -5% |
| Entry-level Mid-size | 9,621 | 10,195 | -6% | 18,469 | 19,166 | -4% |
| UV | 8,240 | 7,652 | 8% | 15,583 | 14,326 | 9% |
| Total PV | 42,957 | 45,167 | -5% | 84,148 | 85,948 | -2% |

Table 8: PV Market Shares

| | 2Q FY06 | 2Q FY05 | 1H FY06 | 1H FY05 |
|----------------------|---------|---------|---------|---------|
| Compact | 19.3% | 22.3% | 18.9% | 22.9% |
| Entry-level Mid-size | 30.5% | 30.9% | 30.4% | 32.2% |
| UV | 18.3% | 18.2% | 17.4% | 18.0% |
| Total PV | 15.6% | 17.2% | 15.8% | 17.3% |

- The volumes in Utility Vehicle segment of the PV Industry increased 7.1% during 2QFY06.
- Sales volumes of the Company's Utility Vehicle segment increased by 8% from 7,652 units in 2QFY05 to 8,240 during the second quarter of fiscal 2006.
- The Company launched Safari Dicor, Tata Safari fitted with a Direct Injection Common Rail engine, during the quarter and has received an overwhelming response.
- The passenger car market in the country grew by 4% during 2QFY06 on account of modest demand scenario. While compact segment grew by nearly 13% during the quarter, the mid-size grew at 2.6% during the period.
- New product launches and aggressive discounting by competition adversely impacted the passenger car sales of the Company.
- While Tata Indigo continued to be the market leader in the entry-level midsize segment, the Company launched Indigo SX, a premium variant of Tata Indigo.

International Business

During 2Q FY06, The Company's exports registered a volume growth of 121% y-o-y.

Table 6: Exports Volumes

| | 2Q FY06 | 2Q FY05 | Change | 1H FY06 | 1H FY05 | Change |
|---------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
| Commercial Vehicles | 7,858 | 4,837 | 62% | 13,572 | 8,112 | 67% |
| Passenger Vehicles | 6,136 | 1,496 | 310% | 9,495 | 2,481 | 283% |
| Total Export Sales | 13,994 | 6,333 | 121% | 23,067 | 10,593 | 118% |

- The key export destinations during 2QFY06 are South Africa, Turkey, South East Asia, Middle East and Europe.
- To meet the upgraded emission norms, the Company will launch Euro IV version of its passenger cars in European countries shortly.
- Revenues from international business formed around 18% of the total revenues of the company during 2QFY06.
- TDCV registered total sales volume of 1,256 units during 2QFY06 against 1,198 units in 2QFY05, up 5% y-o-y. The market share of TDCV in the domestic market was 30.9% during July – September 2005 as compared to 31.4% in 2QFY06.
- During the period, the exports increased by 23% from 259 units in 2QFY05 to 318 units in 2QFY06.
- Hispano received an order of 800 urban buses from Casablanca's urban transport operator, M'Dina Bus, during the quarter.

Finance

- Post the completion of merger of Tata Finance Ltd. with Tata Motors Ltd., 376.3 mn shares (Face value Rs. 10) of the Company were outstanding as on 30th September, 2005.
- While the operating profit (EBITDA) of the Company was up 10.8% from Rs 5.20 bn in 2QFY05 to Rs 5.76 bn during 2QFY06, the EBITDA margin was under pressure, down from 12.50% in 2QFY05 to 12.05% in 2QFY06, on account of input cost pressures and modest volume growth registered by the Company during 2QFY06.
- Rs. 580mn earned towards other income during the quarter (2Q FY05 : Rs 706 mn) comprises of dividends from long-term investments and income from investible surplus.
- The Net Interest cost in 2QFY06 increased 15.8% y-o-y to Rs.461 mn from Rs.398 mn. This was mainly on account of high cost debt acquired post the merger of Tata Finance with Tata Motors, majority of which has been paid back.
- The Gross total debt (inc. FCCNs) stood Rs. 28.4 bn as on 30th Sept, 2005 compared to Rs 28.1 bn as on 30th June, 2005. The Company's Net Debt (Net of the surplus investible funds) stood at Rs 19.9 bn as on 30th September, 2005. During this quarter, the Company retired Rs. 2.8 bn of high cost debt acquired from Tata Finance Limited.
- As on 30th September, 2005, the Company's net debt to equity ratio stands at 0.27:1.
- Out of the FCCBs issued in July 2003, around 89.4% have been converted into ADRs at a premium of Rs 240.75 per share by Sep. 30, 2005.
- The Company's Balance sheet size stood at Rs 81.80 bn as on Sep. 30, 2005. Net of the investible surplus, the Company's capital employed was Rs. 73.36 bn as on 30th September 2005 as against Rs 61. 81bn as of June 30, 2005.
- The Company's Balance Sheet as on 30th September 2005 includes an amount of Rs. 31.4bn towards receivables and loans related to vehicle financing business.
- The Company had an investible surplus of around Rs. 8.45 bn as on September 30, 2005.
- The following table shows the days of sales of inventory and receivables of the company.

Table 7: Current Assets

| No. of Days | Sep. 30, 2005 | Sep. 30, 2004 |
|----------------------|---------------|---------------|
| Inventory | 40 | 33 |
| Receivables (non-HP) | 8 | 9 |

- The Company has incurred capital expenditure of around Rs 3920 bn during the second quarter of FY06.

Performance of Key subsidiaries

Table 8: Key Subsidiary Financials

| Subsidiary | Revenues (Rs mn) | | Change (%) | PBT (Rs mn) | | Change (%) | PAT (Rs mn) | | Change (%) |
|---|------------------|---------|------------|-------------|---------|------------|-------------|---------|------------|
| | 2Q FY06 | 2Q FY05 | | 2Q FY06 | 2Q FY05 | | 2Q FY06 | 2Q FY05 | |
| Tata Daewoo CV Ltd., Korea (TDWCV) | 3,537 | 2,383 | 48.5% | 213 | 29 | 625.8% | 159 | 22 | 636.7% |
| Telco Construction Equipment Co. Ltd (Telcon) | 2,801 | 1,874 | 49.5% | 282 | 110 | 157.3% | 181 | 67 | 169.2% |
| Tata Technologies Ltd (TTL) | 592 | 484 | 22.4% | 38 | 68 | -43.7% | 26 | 38 | -32.4% |
| HV Transmissions Ltd (HVTL) | 312 | 295 | 5.7% | 111 | 100 | 10.7% | 72 | 55 | 31.2% |
| HV Axles Ltd (HVAL) | 352 | 336 | 4.9% | 158 | 148 | 6.8% | 106 | 91 | 16.4% |
| TAL Mfg Solutions Ltd (TAL) | 216 | 174 | 24.1% | -9 | 4 | | -10 | 7 | |

| Subsidiary | Revenues (Rs mn) | | Change (%) | PBT (Rs mn) | | Change (%) | PAT (Rs mn) | | Change (%) |
|---|------------------|---------|------------|-------------|---------|------------|-------------|---------|------------|
| | 1H FY06 | 1H FY05 | | 1H FY06 | 1H FY05 | | 2Q FY06 | 2Q FY05 | |
| Tata Daewoo CV Ltd., Korea (TDWCV) | 6,843 | 6,199 | 10.4% | 281 | 247 | 13.6% | 213 | 174 | 22.5% |
| Telco Construction Equipment Co. Ltd (Telcon) | 5,075 | 3,625 | 40.0% | 439 | 194 | 126.3% | 278 | 121 | 129.5% |
| Tata Technologies Ltd (TTL) | 1081 | 877 | 23.3% | 64 | 75 | -14.7% | 45 | 45 | -0.9% |
| HV Transmissions Ltd (HVTL) | 574 | 580 | -1.1% | 195 | 192 | 1.6% | 127 | 106 | 19.4% |
| HV Axles Ltd (HVAL) | 628 | 652 | -3.7% | 274 | 239 | 14.7% | 184 | 161 | 14.0% |
| TAL Mfg Solutions Ltd (TAL) | 344 | 374 | -8.0% | -37.5 | 8 | | -39.7 | 11 | |

Operational Highlights of Key Subsidiaries

TDCV

- TDCV registered total volume sales of 1,256 units during 2QFY06, up 5% y-o-y from 1,198 units.
- At 2,410 units, the Korean HCV market was flat as compared to 2,414 units for the corresponding period in the previous year.
- The market share of TDCV in the domestic market improved to 30.9% during 2QFY06 from 29.0% in 1QFY06. It was, however, marginally down from 31.4% in 2QFY05.
- The exports increased by 23%, from 259 units in the second quarter of previous year to 318 units during 2QFY06.

TTL

- TTL acquired 99.4% stake in INCAT, a UK based PLM service provider, through its subsidiary TTUS at total value of Rs. 4,114 mn (GBP 53.4 mn).
- The profitability of TTL has declined because of change in product mix and induction of global workforce.

TELCON

- Registered 48.5% growth in volume sales, from 1,064 units in 2QFY05 to 1,580 units in 2QFY06.
- Market leader in excavators during the April-September, 2005 with 52% market share.
- Market share in wheel loaders and backhoe loaders at 22% and 9% respectively during 1HFY05.
- Initiated manufacture of Z-axis 450.
- Cost Reduction and Total Productivity Management programs started during 2QFY06.

TAL

- Very strong order book position; deliveries scheduled in due time.

HVAL & HVTL

- Sales Volume impacted on account of marginal sales growth in HCV segment of Tata Motors.
- Increased focus on improving the non-TML share of revenues.

Shareholding Pattern

Table 9 : Shareholding Pattern as on Sep. 30, 2005

| | |
|---|--------|
| Tata Group | 34.3% |
| Daimler Chrysler | 6.8% |
| Indian Financial Institutions / MFs / Banks | 14.7% |
| ADR/GDR Holders / Foreign holders–DR status | 7.1% |
| Foreign Institutional Investors | 23.2% |
| Others | 13.9% |
| Total | 100.0% |

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