



## Tata Engineering 3Q FY03 Review

### Snapshot

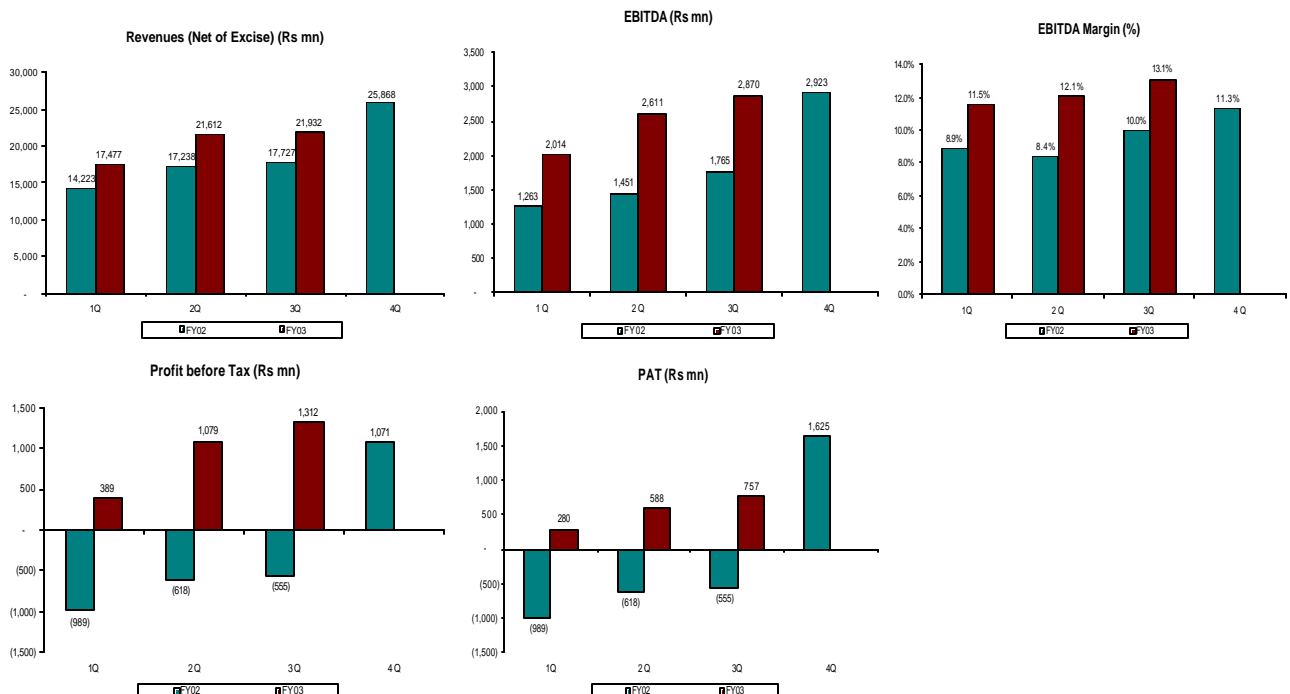
#### Unconsolidated Financials

	3Q FY03 (Rs mn)	3Q FY02 (Rs mn)	Change %	3Q FY03 (*) (US\$ mn)	3Q FY02 (**) (US\$ mn)
Volumes	51,148	42,931	19%		
Revenue (Net of excise)	21,932	17,727	24%	457	367
EBITDA	2,870	1,765	63%	60	37
EBITDA %	13.1%	10.0%	+313 bps		
Op. Cash Profit	2,199	786	180%	46	16
Extra-ordinary Items	-	(87)		-	(2)
Profit / (Loss) before Tax	1,312	(555)	N.M.	27	(12)
Net Profit / (Loss)	757	(555)	N.M.	16	(12)
EPS (Non-annualised) (Rs)	2.37	(2.17)			

	Apr-Dec'02 (Rs mn)	Apr-Dec'01 (Rs mn)	Change %	Apr-Dec'02(*) (US\$ mn)	Apr-Dec'01 (**) (US\$ mn)
Volumes	147,022	120,159	22%		
Revenue (Net of excise)	61,022	49,187	24%	1,272	1,020
EBITDA	7,495	4,478	67%	156	93
EBITDA %	12.3%	9.1%	+318 bps		
Op. Cash Profit	5,352	1,466	265%	112	30
Extra-ordinary Items	-	(259)		-	(5)
Profit / (Loss) before Tax	2,780	(2163)	N.M.	58	(45)
Net Profit / (Loss)	1,625	(2163)	N.M.	34	(45)
EPS (Non-annualised) (Rs)	5.08	(8.45)			

(\*) Rate of exchange as of December 31, 2002: 1US\$ = Rs 47.97

(\*\*) Rate of exchange as of December 31, 2001: 1US\$ = Rs 48.24



## Business Review

### Unconsolidated 3Q FY03 Financials

- Tata Engineering posted a Profit after Tax (PAT) of Rs 757mn in 3Q FY03 compared to a loss of Rs 555mn in 3Q FY02. Profit before Tax (PBT) for 3Q FY03 was Rs 1.3bn against a loss of Rs 555mn in the previous year.
- With this quarter performance, the Company has achieved Rs 1.6bn PAT YTD against a loss of Rs 2.2bn last year.
- 3Q FY03 Revenues (Net of Excise) were Rs 22bn, an increase of 24% YoY; Total volumes went up by 19% to 51,148 units.
- Despite the input price pressures, the Company achieved an EBITDA of Rs 2.9bn, up 63% YoY. YTD EBITDA has increased by 67% to Rs 7.5bn.
- EBITDA margin expanded by 313 bps to reach 13.1% during the quarter.
- The focus on improving the quality of balance sheet continued during the quarter. The total balance sheet size has been brought down further to Rs 46.2bn as on Dec. 31, 2002 (against Rs 47.4bn as on Sep. 30, 2002 and Rs 47.7bn as on March 31, 2002).
- The total debt has also been brought down further to Rs 20bn as on Dec. 31, 2002 from Rs 23bn as on Mar. 31, 2002

### Performance of Key Subsidiaries

- The key subsidiaries have posted a Profit before Tax of Rs 36mn, first positive PBT performance in last seven quarters. This compared to a loss of Rs 242mn in 3Q FY02 reflects the efforts being taken to improve performance of the subsidiaries.
- The combined EBITDA margin of these subsidiaries has stabilised in the last three quarters in the early double-digit figure.
- Combined debt of these key subsidiaries has declined from Rs 4.8bn as on March 31, 2002 to Rs 4.1bn as on Dec. 31, 2002.

### Economic Scenario

Agriculture Income growth was flat during 2Q FY03 against 4.4% growth in 1Q FY03. While the industrial economy continued to witness an uptrend during the third quarter, there have been some concerns emerging on the consumer demand impact of the Kharif harvest and the oil price impact on the economy. The question ahead is whether the momentum in IIP growth seen so far is sustainable or not. In our opinion, while there may be certain blips (like slowdown in Consumer non-durables IIP in November 2002) on the demand side in the short term, the increase in government spending (up 19% YoY) and benign interest rate regime should keep up the economic buoyancy in the medium term.

**Table 1: Macro Economic Indicators**

Growth (%)	Categories	Apr-Nov'02	Apr-Nov'01
IIP	General	5.2	2.5
Sectoral	Mining	5.6	0.7
	Manufacturing	5.4	2.6
	Electricity	3.9	2.6
Use-based	Basic goods	4.7	2.1
	Capital goods	9.9	-4.9
	Intermediate goods	2.6	2.1
	Consumer goods	7.3	5.8
	Consumer Durables	-6.0	12.9
	Consumer Non-Durables	12.7	3.1

Source: CSO

Key positive triggers for the economy in FY03

- Government spending on infrastructure – likely to be sustained
- Lower inflation and decline in interest rates - likely to be sustained
- Retail finance boost to housing sector - likely to be sustained
- Growth in external trade (Exports +16% & Non-POL Imports +12%) - likely to be sustained

Areas of concern

- Decline in agricultural output – temporary impact on private consumption
- High international crude prices with future direction still uncertain

## Quarter Review

- PAT (unconsolidated) of Rs 757mn during the quarter as against a loss of Rs 555mn in 3Q FY02.
- **The key feature of the quarter was the effort to expand the presence in the Passenger Car segment with launch of Indigo and signing of the agreement to export Indica to MG Rover.**
- Despite the seasonally weak quarter in terms of volumes and pressures of input price hikes, operating performance has strengthened during the quarter with a 63% YoY growth in EBITDA to Rs 2.9bn. EBITDA margin has increased by 313 bps during the quarter to 13.1%.

**Table 2: Volume Summary**

	3Q FY03	3Q FY02	Change %	Apr-Dec'02	Apr-Dec'01	Change %
CV	27,815	20,643	35%	73,413	55,180	33%
PV	21,938	19,037	15%	68,547	58,056	18%
<b>Total Domestic Sales (*)</b>	<b>49,753</b>	<b>39,680</b>	<b>25%</b>	<b>141,960</b>	<b>113,236</b>	<b>25%</b>
Exports	1,395	3,251	-57%	5,062	6,923	-27%
<b>Total Volumes</b>	<b>51,148</b>	<b>42,931</b>	<b>19%</b>	<b>147,022</b>	<b>120,159</b>	<b>22%</b>

(\*) – incl. deemed exports

- The growth momentum in Commercial Vehicles has continued in 3Q FY03 and has been more uniform across the segments – Trucks (MAV, MCV & LCV) and Buses. Passenger Vehicle segment registered strong growth during the quarter with Indigo initiating its volumes in December 2002.
- Employee costs are higher by Rs 831mn YTD, primarily due to higher production volumes (accounting for 35% of the increase) and even distribution of employee benefit scheme provisions over the quarters in FY03 (accounting for 43% of the increase) as against the provision required to be made in 4Q FY02 due to reduction in effective annuity interest rates by LIC in April/May 2002. The balance increase is on account of normal salary revisions.
- The Other Expenses have increased by Rs 2.3bn YTD. The key reasons for this increase are:
  - Higher production volumes affecting the processing charges, indirect materials etc accounting for 56% of the increase.
  - Provision for write-offs accounting for 28% of the increase.
- Despite the pressure from the input price increases, the cost reduction efforts yielded a savings of Rs 791mn during the quarter. YTD savings of Rs 2.2bn are ahead of our year-beginning target. We expect the total savings for the fiscal to be around Rs 3bn.

**Table 3: Cost-reduction benefits**

Rs mn	3Q FY03	Apr-Dec'02
Material & Variable Cost Reduction	554	1,348
Savings on Gross Interest	237	856
<b>Total</b>	<b>791</b>	<b>2,204</b>

- Tighter working capital controls have enabled the Company to bring down the total capital employed further by Rs 1.2bn during the quarter to keep the total balance sheet size to Rs 46.2bn as on Dec. 31, 2002 despite capitalisation of the Indigo Project towards the end the quarter.

**Table 4: Inventory & Receivable position**

	Dec. 31, 2002	March 31, 2002	Dec. 31, 2001
<b>Inventory</b>			
Rs bn	11.3	9.9	11.3
No. of days of turnover	40	41	49
<b>Gross Receivables (Non-HP)</b>			
Rs bn	5.3	5.8	6.5
No. of days of turnover	19	25	29

- Net Working Capital as on Dec. 31, 2002 stood at less than one day of the turnover, in line with the year-beginning position and our intent.

- These controls and higher operating cash flows have also helped in lowering the borrowings as on Dec 31, 2002 to Rs 20bn as compared to Rs 23bn as on March 31, 2002.
- The interest burden has also come down to Rs 671mn due to consistent efforts in bringing down the borrowings and cost of debt through repayments of costly debt.

#### Subsidiary Companies – Financials

Subsidiary	Turnover (Net of excise) (Rs mn)		PBT (Rs mn)	
	3Q FY03	3Q FY02	3Q FY03	3Q FY02
Telco Construction Equipment Co. Ltd (Telcon)	1,561	1,356	29	(104)
Tata Technologies Ltd (TTL)	247	192	48	10
HV Transmissions Ltd (HVTL)	194	170	17	(42)
HV Axles Ltd (HVAL)	236	157	32	(26)
TAL Mfg Solutions Ltd (TAL)	209	136	(89)	(81)
<b>Total</b>	<b>2,447</b>	<b>2,011</b>	<b>36</b>	<b>(242)</b>

- The key subsidiaries have posted a combined PBT of Rs 36mn, first positive PBT performance in the last seven quarters.
- Combined capital employed of these subsidiaries has also decreased to Rs 7.5bn as on Dec. 31, 2002 compared to Rs 8.4bn as on March 31, 2002.
- Combined debt of these key subsidiaries has declined from Rs 4.8bn as on March 31, 2002 to Rs 4.1bn as on Dec. 31, 2002.

#### Outlook

- The Commercial Vehicle demand has remained strong in the first nine months of the fiscal. Given the trend of strong industry growth and market share gain by the Company with EX-series of vehicle, the Company expects to end FY03 with a CV growth rate of around 25% against our earlier expectation of 15 – 18%.
- The Company maintains its Passenger Vehicle (Cars & MUVs) domestic volume estimate of around 100,000 for the fiscal.
- Input prices have hardened during the quarter and continue to remain an area of high priority for the Company. However, the Company will continue its efforts to reduce the impact of these cost increases through its on-going cost reduction programme.

## Commercial Vehicles

- Domestic volumes up 35% in 3Q FY03.
- Significant growth in all haulage segments in 3Q FY03.
- Good customer response to recently launched EX series and 207 DI.
- Market share gain in HCV, MCV & ICV Truck segments.

The Company's Commercial Vehicle (CV) domestic sales grew by 35% during the third quarter, on the back of buoyant sales in both, MHCVs as well as LCVs.

**Table 5: Domestic CV Sales Volumes**

	3Q FY03	3Q FY02	Change (%)	Apr-Dec'02	Apr-Dec'01	Change (%)
MHCV	19,423	14,141	37%	50,506	37,864	33%
LCV	8,392	6,502	29%	22,907	17,316	32%
<b>CVs</b>	<b>27,815</b>	<b>20,643</b>	<b>35%</b>	<b>73,413</b>	<b>55,180</b>	<b>33%</b>

- The Company's Truck segment expanded by 33% during the quarter on the back of continuing strong demand drivers of foodgrain movement, replacement demand, IIP growth and continued spending on road infrastructure.
- The HCV truck sales (led by Multi-axle vehicles) bounced back with a growth of 28% in 3Q, after having slowed down in the previous quarter. We expect the secular market shift towards HCVs (which offer better operating economics) to be the future theme of the road freight industry in the country.
- The Company outperformed the market in the HCV segment with the success of recently launched EX series and consolidated its position with a market share of 69% (+230 bps) during the quarter. Consequently, MHCV truck market share has gone up to 70% in 3Q FY03, highest in last 5 years.
- One of the critical success factors behind this strong performance has been the efforts put in to strengthen the sales & distribution network both at the company level and at the dealer level.
- The private operator-led demand saw a 45% growth in the bus (both in MHCV & LCV) segment during 3Q FY03.
- Following the roll-out in more states during the quarter, 207 DI, the pick-up vehicle, launched in 2Q FY03, has received tremendous response from the customers. The Company improved its market share in this segment to 21% in 3Q (vs 5% in 3Q FY02) despite not having the full national foot-print. The Company expects to attain presence in all the regions by the end of this fiscal in this segment and in the process, improve its market share in LCV segment in 4Q.
- Our benchmark trunk-route freight rate index was on an average 9% higher in 3Q FY03 compared to the previous year and up 3% compared to 2Q FY03. Higher freight rates and falling diesel prices during 3Q widened the gap between the freight index and the diesel price index. However, if the global crude prices continue to remain high, there is likely to be some pressure on the future profitability of the road freight industry.

**Table 6: CV Market Shares \***

	3Q FY03	3Q FY02	Apr-Dec'02	Apr-Dec'01
MHCV	67.5%	67.1%	65.0%	63.2%
LCV	44.1%	45.8%	42.8%	44.0%
<b>Total CV</b>	<b>58.2%</b>	<b>58.5%</b>	<b>55.9%</b>	<b>55.6%</b>

\*As per the new SIAM classification w.e.f. April, 2002

## Future Plan of Action

- The Company plans to launch complete range of fully-built Buses in the near-term to address the evolving needs of the segment.

## Passenger Vehicles

- Market share in Passenger Vehicle segment up from 13% to 13.5% in 3Q.
- Volume growth of 15% during the quarter against industry growth of 11.5%.
- Indigo marked the Company's entry in the mid-size segment.
- Indica volumes up 18% in 3Q FY03; 60bps gain in market share in Compact car segment.

**3Q FY03 marked a watershed in the Company's Passenger Vehicle history with the launch of Indigo and expanding presence in the global market place through agreement with MG Rover.**

**Table 7: Domestic Passenger Vehicle Sales**

	3Q FY03	3Q FY02	Change (%)	Apr-Dec'02	Apr-Dec'01	Change (%)
MUV	5,081	5,188	-2%	16,612	16,674	0%
Passenger Cars	16,857	13,849	22%	51,935	41,382	26%
<b>Passenger Vehicles</b>	<b>21,938</b>	<b>19,037</b>	<b>15%</b>	<b>68,547</b>	<b>58,056</b>	<b>18%</b>

- Despite substantial discount offerings by the competition, the Company has been able to achieve a high quality above-industry growth rate of 15% in 3Q FY03 in the Passenger Vehicles segment.
- Indica ended the quarter with a market share of 24.1% in the Compact car segment, a gain of 60 bps over the previous year.
- MUV sales were marginally lower during the quarter. However, YTD sales volumes have been flat.
- Safari continued to do well with domestic volume growth of 13% during the quarter.
- Indigo with its better suspension and enhanced power has opened a new segment in the Indian Passenger Car market with its attractive pricing. The advantage of platform leveraging and complete indigenisation is evident in this project with significantly lower expected break even point on the incremental investment.
- The customer response to Indigo has been very positive with large number of inquiries.

**Table 8: PV Market Shares\***

	3Q FY03	3Q FY02	Apr-Dec'02	Apr-Dec'01
MUV	18.8%	20.3%	21.4%	22.1%
Compact Cars	24.1%	23.5%	23.3%	21.4%
Mid-size Cars	2.4%	-	0.7%	-
<b>Total Passenger Vehicles</b>	<b>13.5%</b>	<b>13.0%</b>	<b>13.6%</b>	<b>12.2%</b>

\*As per the new SIAM classification w.e.f. April, 2002

## Future Plan of Action

- The Company is working on the near-term launch of Indica Sport and the Estate version of the Tata Indigo.

## Exports

**Table 9: Exports Volumes**

	3Q FY03	3Q FY02	Change (%)	Apr-Dec'02	Apr-Dec'01	Change (%)
M/HCVs	442	650	-32%	1,418	1,316	8%
LCVs	541	1,119	-52%	2,170	3,169	-32%
MUVs	35	711	-95%	315	1,603	-80%
Passenger Cars	377	771	-51%	1,159	835	39%
<b>Total Exports</b>	<b>1,395</b>	<b>3,251</b>	<b>-57%</b>	<b>5,062</b>	<b>6,923</b>	<b>-27%</b>

The exports volumes are down YTD primarily due to disruptions in the political and regulatory conditions in the Company's key markets. However, with the improvement in the situation in those markets, the Company's expects exports volumes to pick up in the near-term.

The organizational structure of Exports has been recast recently with the realignment of the division with the two business units. The strategies to increase presence in international markets are being drawn and will bear result in FY04. Certain recent initiatives in traditional markets have already begun in this direction. This coupled with agreement with MG Rover will be the key drivers for the exports volumes going forward.

## Shareholding Pattern

**Table 10: Shareholding Pattern as on December 31, 2002**

	%
Tata Group	32%
Daimler Chrysler	8%
Indian Financial Institutions / MFs / Banks	20%
GDR Holders	6%
Foreign Institutional Investors	14%
Others	20%
<b>Total</b>	<b>100%</b>

## Investor Relations Contacts

### **Dharmendra Grover**

3<sup>rd</sup> Floor, Nanavati Mahalaya,  
Homi Mody Street,  
Fort,  
Mumbai – 400 001  
India

Phone: 91-22-5665 7237

Fax: 91-22-2204 1575

Email: [dgrover@telco.co.in](mailto:dgrover@telco.co.in)

### **Radhika Koppikar**

3<sup>rd</sup> Floor, Nanavati Mahalaya,  
Homi Mody Street,  
Fort,  
Mumbai – 400 001  
India

Phone: 91-22-5665 7230

Fax: 91-22-2204 1575

Email: [rvk@telco.co.in](mailto:rvk@telco.co.in)

This document is also available on [www.telcoindia.com](http://www.telcoindia.com)

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