

Tata Motors (NYSE: TTM)

Q2 FY10 Review

Snapshot

Standalone Q2 FY10 Financials (Indian GAAP)

	Q2 FY09 (Rs mn)	Q2 FY10 (Rs mn)	Change (%)	Q2 FY09 (*) (US\$ mn)	Q2 FY10 (*) (US\$ mn)
Revenue (Net of excise)	70,788	79,788	12.7%	1616	1637
EBITDA [^]	5,355	10,657	98.9%	122	219
EBITDA margin	7.57%	13.36%	579 bps	7.57%	13.36%
Profit before Tax	3,580	9,068	153.3%	82	186
Net Profit	3,469	7,291	110.2%	79	150
Basic EPS (Non-annualized)	9.0	14.12	56.9%	0.21	0.29

(*)Average Conversion rate for Q2 FY10: 1US\$ = Rs 48.75

(**) Average conversion rate for Q2 FY09: 1US\$ = Rs 43.80

Standalone H1 FY09 Financials (Indian GAAP)

	H1 FY09 (Rs mn)	H1 FY10 (Rs mn)	Change (%)	H1 FY09 (*) (US\$ mn)	H1 FY10 (*) (US\$ mn)
Revenue (Net of excise)	140,073	143,835	2.7%	3,279	2,934
EBITDA [^]	10,278	17,937	74.5%	241	366
EBITDA margin	7.34%	12.47%	513 bps	7.34%	12.47%
Profit before Tax	7,031	14,549	106.9%	165	297
Net Profit	6,731	12,429	84.7%	158	254
Basic EPS (Non-annualized)	17.46	24.12	38.14%	0.36	0.56

(*)Average Conversion rate for H1 FY10: 1US\$ = Rs 49.02

(**) Average conversion rate for H1 FY09: 1US\$ = Rs 42.72

This document is also available on www.tatamotors.com

Business Review

Standalone Q2FY10 Financials (Audited)

- Tata Motor's Net Revenue for Q2 FY10 was Rs. 79.8 bn; up by 12.7% Y-o-Y.
- EBITDA came in at Rs.10.66 bn, 98.9% y-o-y growth compared with comparable period of previous year. EBITDA margin for the quarter is 13.36%, the highest in the last 10 quarters.
- PBT for the quarter was Rs 9.1 bn, up substantially by 153.4% y-o-y.
- The Company posted a PAT of Rs 7.3 bn in Q2 FY10, up 110.0% y-o-y.

Table 1: Volume Summary

	Q2FY09	Q2 FY10	Change
Total CVs	74,237	89,655	20.8%
Total PVs*	47,870	60,917	27.3%
Total Domestic Sales	122,107	150,543	23.3%
Exports	12,930	8,003	-38.1%
Total Volumes	135,037	158,575	17.4%

* include sales of FIAT vehicles and Jaguar LandRover vehicles

- TML's Commercial vehicle business grew by a robust 20.8%, driven by a strong revival in the domestic industrial activities and cheaper finance availability. During the quarter (July-Sep'09), TML's volume in MHCV segment grew by 5.3 %, first time since Q1FY09. Also LCV continued to clock robust growth and grew by 33%, driven by continued success of ACE platform and LCV trucks and buses.
- TML's Passenger vehicle business increased by 27.3% driven primarily by Nano (excluding Nano volumes from PV, the PV segment grew by 11.5%) and the continued success of Indica Vista. Majority of the volume growth came in the small car segment which grew by 48.7%. Decline was seen in the entry midsize and utility vehicle segment.
- The export volumes of the Company registered a decline of 38.1% during Q2FY10, due to market contraction in some of the prime export markets and impact of global slowdown.

➤ **Significant events:**

- ◆ On 17th July 2009 Tata Motors delivered its first Nano. As planned, Tata Motors has commenced deliveries of the Tata Nano this month to different towns and cities of the country. Dispatches to dealerships have begun from the Pantnagar plant, where the car is being produced, in accordance with schedules informed to customers.
- ◆ On 2nd September 2009 Tata Motors unveiled its all new 'Tata 407 Pickup' and the new offerings from the Ace Platform -- 'Tata Super Ace' and 'Tata Ace EX' -- across the country. The introduction of these new products- Tata 407 Pickup, Tata Super Ace and Tata EX are all set to vitalize the sub-one-tonne to 3 tonne segment with more payload options and greater power for the changing demands of its customers.
- ◆ On 9th Oct 2009, Tata Motors Limited ("Tata Motors") has issued today 29,904,306 new equity shares in the form of Global Depository Shares ("GDSs"), at a price of US\$12.54 per GDS, aggregating US\$375 million and 3,750, 4% coupon convertible notes ("Notes") due 2014 at a price of \$100,000 per Note, aggregating US\$375 million (together, the "Offering"). These GDSs and Notes, together aggregating US\$750mn, will be listed on the Luxembourg Stock Exchange.

The Offering was successfully executed against the backdrop of volatile equity market conditions with strong investor interest resulting in the book being closed in less than an hour from launch generating a demand of US\$1.25 billion from 40 investors. The deal size was upsized from a base \$600mn to \$750mn. The GDS pricing represents a tight 1.5% discount to the closing price on Oct 8, 2009 of Rs. 589.25, while the Notes were issued at a 7.5% conversion premium over the GDR price with a yield to maturity of 5.5%.

Economic Scenario

Key Highlights of Q2 FY10

1. GDP Growth

As per the latest data released by the Central Statistical Organization (CSO), Quarterly GDP at factor cost at constant (1999-2000) prices for Q1 of 2009-10 is estimated at Rs 8,30,555 crore, as against Rs. 7,82,619 crore in Q1 of 2008-09, showing a growth rate of 6.1 per cent over the corresponding quarter of previous year. The economic activities which registered significant growth in Q1 of 2009-10 over Q1 of 2008-09 are, 'mining & quarrying' at 7.9 per cent, 'electricity, gas & water supply' at 6.2 per cent, 'construction' at 7.1 percent, 'trade, hotels, transport and communication' at 8.1 per cent, 'financing, insurance, real estate and business services' at 8.1 per cent, and 'community, social and personal services' at 6.8 per cent. Poor and delayed rainfall in the current monsoon season has adversely impacted agricultural activities as a result growth in the agricultural and allied sector is impacted. The growth rates in 'agriculture, forestry & fishing' and 'manufacturing' are estimated at 2.4 per cent and 3.4 per cent respectively during this period. Among the services sectors, the key indicators of railways, namely, the net tonne kilometers and passenger kilometers have shown growth rates of 5.9 per cent and 9.8 per cent, respectively during Q1 of 2009-10. In the transport and communication sectors, the production of commercial vehicles, cargo handled at major ports, cargo handled by the civil aviation, passengers handled by the civil aviation registered growth rates of (-)19.18 per cent, 1.9 per cent, (-)5.6 per cent, (-) 4.7 per cent respectively during Q1 of 2009-10 over Q1 of 2008-09.

(source: CSO, CMIE)

2. Industrial Growth

Industrial growth revived due to low interest rates and availability of liquidity coupled by improved economic conditions in the domestic market. The cumulative growth for the period April-August 2009-10 stood at 10.4 % compared to 4.9% during the corresponding period of the pervious year. Performance of the manufacturing sector, which has a weightage of 80 per cent in IIP, showed an impressive growth. While, on an average, the manufacturing sector grew by 5.2 per cent in April-August 2008 on cumulative basis, it grew by 10.25 per cent in April-August 2009. The cumulative growth during April-August, 2009-10 over the corresponding period of 2008-09 in the three sectors viz Mining, Manufacturing and Electricity have been 12.9%,10.2%,10.6% respectively, which moved the overall growth in the General Index to 10.4%.

Table 2: Index of Industrial Production

Categories		Apr-Aug08	Apr-Aug'09	Growth (%)
IIP	General	264.7	292.3	10.4%
Sectoral	Mining	160.4	181.1	12.9%
	Mfg.	284.0	313.0	10.2%
	Electricity	221.6	245.1	10.6%
Use-based	Basic	226.0	248.6	10.0%
	Capital	372.0	402.7	8.3%
	Intermediate	258.3	295.2	14.3%
	Consumer			
	- Consumer Durables	394.5	482.3	22.3%
- Consumer Non-Durables	258.4	267.9	3.7%	

(Source: CSO)

2. Infrastructure Index

During April- August 2009-10 six core-infrastructure industries registered a growth of 4.8% (provisional) as against 3.3% during the corresponding period of the previous year. Out of the six sectors in the infrastructure index, the Crude Oil production registered a growth of (-) 1.3% (provisional) during April-August 2009-10 compared to (-) 0.9% during the same period of 2008-09. The Petroleum refinery production registered a growth of (-) 4.9% (provisional) during April- August 2008-09 compared to 4.8% during the same period of 2008-09. Finished (carbon) Steel production grew by 2.6% (provisional) during April-August 2009-10 compared to an increase of 3.5% during the same period of 2008-09. Coal production grew by 12.2% (provisional) during April-August 2009-10 compared to an increase of 7.3% Electricity generation grew by 6.4% (provisional) during April-August 2009-10 compared to 2.2% during the same period of 2008-09. Cement Production grew by 13.5% (provisional) during April-August 2009-10 compared to an increase of 5.0% during the same period of 2008-09.

(Source:: GOI- MINISTRY OF COMMERCE INDUSTRY)

3. Inflation

India witnessed deflation (negative inflation) on wholesale price front beginning from first week of Jun'09 till Aug'09 mainly because of high base effect. Y-O-Y rate of inflation for week ended 29th August 2009 was -0.12%. The high base effect is evident in fuel prices that fell by - 9.0% from Apr-Aug'09. Since the second week of Sep'09, Y-OY WPI inflation turned positive and registered the growth of 0.12%. During the week ending on September 19, 2009, inflation was 0.82% on Y-O-Y basis.

4. Interest rates

Considering the global recessionary trends and slowdown in the domestic economy the Reserve Bank of India (RBI) has adopted pro-growth easy money policy. In order to make available funds to the industry at lower costs, the RBI reduced reserve ratios (CRR, SLR) and policy rates (repo and reverse rates) on several occasions during the last two years. As a result, there has been a softening of interest rates. Current level of CRR is 5%, SLR 24%, Repo Rate 4.75% and reverse repo rate 3.25%. Maximum Prime Lending Rate (PLR) has declined to 12% from 14% a year ago.

5. Freight Rates

Freight rates increased marginally by 0.5% during the second quarter of 2009. On a y-o-y basis, freight rates have fallen marginally by 0.65%, during this period diesel price has risen by 7%. Thus like previous quarters increase in freight rates has failed to keep pace with rise in diesel price –and this is likely to i) impact profits of truck operators marginally, and ii) encourage overloading.

6. National Highway Development Project (NHDP)

As elucidated in the below table, 35% of the national highway development and other road projects under NHAI was completed as on 31st August 2009. Work on the two new phases of the NHDP project ie Phase VI and Phase VII was started during the current quarter.

Table 3: Status of the NHDP as on 31st August 2009

	Total Length (in Kms)	Completed	Under Implementation	Balance to be Awarded
GQ	5,846	98.03%	1.97%	-
NS-EW	7,300	56.88%	32.23%	8.73%
Port Connectivity & others	1,342	79.51%	35.8%	1.94%
NHDP Phase III	12,109	7.95%	19.89%	72.16%
NHDP Phase V	6,500	2.02%	13.89%	84.09%
NHDP VI	1000	-	-	-
NHDP VII	700	-	2.71%	-
Total	34,797	34.61%	17.38%	42.72%

(Source: NHAI)

Commercial Vehicle Segment

Highlights

- CV domestic sales volumes increased substantially by 20.8% y-o-y; 89,655 units in Q2FY10 as compared to 74,273 units in Q2FY09.
- CV market share stood at 65.5% for the quarter; up 350 bps from 62.0% in Q2FY09. TML's volume in MHCV segment grew by 5.3 %, first time since Q1FY09

Company Performance in Domestic CV Segment

Table 4: CV Domestic Sales Volumes

	Q2FY09	Q2 FY10	Change	H1FY09	H1 FY10	change
M/HCVs	33,024	34,782	5.3%	68,781	61,415	(10.7)%
LCVs	41,213	54873	33.1%	76,865	100,456	30.7%
Total CVs	74,273	89,655	20.8%	145,646	161,871	11.1%

Table 5: CV Market Shares

	Q2FY09	Q2 FY10	H1FY09	H1 FY10
M/HCVs	59.8%	63.5%	59.5%	65.6%
LCVs	63.8%	66.8%	63.3%	66.8%
Total CVs	62.0%	65.5%	61.5%	66.3%

Source: SIAM Industry Data and Company analysis

- The domestic CV industry registered a robust volume growth of 14.2% during Q2FY10 driven mainly by strong revival in industrial activities growth and cheaper finance availability. LCV posted robust growth of 27% y-o-y while on the other hand MHCV market recorded a decline marginally by (0.7)% y-o-y during the quarter.
- The industry volumes in the MHCV truck segment declined by 10.5% y-o-y, while industry volumes in the LCV truck segment grew by 9.5% y-o-y during Q2FY10, driven mainly by mini-truck segment.
- During the quarter (July-Sep'09), TML's volume in MHCV segment grew by 5.3 %, first time since Q1FY09. However, during the same period Industry truck market declined marginally by 0.7%. TML's market share in the MHCV truck market increased from 65.4% in Q2FY09 to 66.9% in Q2FY10.
- LCV volume of Tata Motors increased by 33% in Q2FY10,
 - Combined volumes on the ACE platform increased by 31.8% and stood at 40,616
 - Strong growth in higher tonnage LCV Trucks and bus segment which grew by 26.2% and 50.2% respectively
 - Passenger Carrier going strong led by Magic and Winger.
- During Apr-Sep'09 Tata Motors gained substantial market share in the Bus segment mainly due to greater acceptance of ICV Marcopolo and Super Milo buses. Also, Tata Motors gained market-share in the private and STU bus segment.
- During the quarter the Company unveiled its new offerings from the Ace Platform - 'Tata Super Ace', 'Tata Ace EX' and the new '407 pick-up'.

- For the balance of the year the growth momentum may strengthen considerably due to factors such as lower base, advance vehicle purchase prior to emission norm change and continuing strong economic activity will drive growth in H2.

Passenger Vehicle Segment

Highlights

- Domestic passenger vehicle sales stood at 60,888 (including 8,165 Fiat vehicles) during Q2FY10; an increase of 27.2% y-o-y.
- Market share of Tata Motors vehicles stood at 11.6% in Q2FY10.

Table 7: PV Domestic Sales Volumes

	Q2FY09	Q2 FY10	Change	H1FY09	H1 FY10	change
Small Car	23,883	35,518	48.7%	49,556	64,376	29.9%
Mid-size Car	13,635	9,574	(29.8)%	26,688	18,497	(30.7)%
UV	9,318	7,631	(18.1)%	21,683	15,696	(27.6)%
Fiat	1,034	8,165	689.7%	2,393	12,223	410.8%
Total PV*	47,870	60,888	27.2%	100,320	110,792	10.4%

* PV volume includes TML and FIAT vehicles only

Table 8: PV Market Shares (including Fiat volume)

	Q2FY09	Q2 FY10	H1FY09	H1 FY10
Small Car	11.5%	14.0%	11.4%	13.0%
Mid-size Car	21.9%	19.4%	21.9%	19.7%
UV	16.2%	11.5%	17.7%	12.4%
Total PV	13.0%	13.4%	13.1%	12.9%

Source: SIAM Industry Data and Company analysis

- During Q2FY10 PV industry grew by a robust 23.0%, driven primarily due to, new product launches in the form of variants, finance availability, pre-festive season buying.
- Indica Vista continues its strong performance. Consequently, Tata Motors market-share in the small car segment increased from 11.0% in Q2FY09 to 12.4% in Q2FY10.
- Company commenced Nano deliveries in the current quarter and has delivered 7,506 Nano cars year to date.
- During H1 FY10 the Company sold 12,223 Fiat vehicles, a substantial growth of 411% mainly driven by Grande Punto and Linea.
- Launch of new Indigo 'Manza' to revive growth in the entry-midsized segment.

International Business

Highlights

- The Company's export volumes declined 38.1% y-o-y during Q2FY10.

Company Performance in International Business

Table 10: Exports Volumes

Business Unit	Q2FY09	Q2FY10	Change	H1 FY09	H1 FY10	Change
Commercial Vehicles	9,985	6,265	(37.3)%	17,730	10,532	(40.6)%
Passenger Vehicles	2,947	1,738	(41.0)%	4,420	2,691	(39.1)%
Total Exports	12,932	8,003	(38.1)%	22,150	13,223	(40.3)%

- Exports volume declined by 38.1% during the quarter, due to decline in some of the prime markets which
- Sales declined by 41.0% in the passenger vehicles which saw decline in sales in markets such as Poland and Syria.

Commercial vehicles saw a 37.3% decline in volumes due to decrease sales in markets like Ukraine and South Africa.

Finance

- On the back of 17.4% growth in volumes for the quarter, the company registered a 12.7% y-o-y growth in net revenue to Rs.79.79 bn during Q2FY10. The topline growth was lower than the volume growth due to increased proportion of the light commercial vehicles which have continued to sustain strong growth.
- Excise duties witnessed reduction due to increased contribution of production from our plant at Pantnagar, Uttarakhand, which as per declared industrial policy is a 'excise free' zone.
- Continued benefit from lower prices of commodities and components and vehicle price increases taken during FY09 and in H1FY09 aided to bring the raw material cost as a % of net revenue sequentially lower to 65.6% during the quarter compared with 66.8% in Q1FY10 and 72.9% in Q2FY09. Despite y-o-y growth of 16% and 24% of staff costs and other expenses, increased volumes led to better fixed cost absorption.
- This saw EBITDA come in at Rs.10.66 bn, 98.9% y-o-y growth compared with comparable period of previous year. EBITDA margin for the quarter is 13.4%, the highest in the last 10 quarters.
- Continuing product development and capex program caused depreciation and amortization to grow 31% although they remained at 3.3% of revenue for the quarter. Similarly increase in borrowings compared with same period last year to fund business requirements increased interest cost to Rs.2.8 bn, a y-o-y growth of 92.6%.
- During the quarter company sold about 10 Mn shares held in Tata Steel and realized a profit of Rs. 3,699 mn, which is included in other income.
- Effective tax rate for quarter July – Sep'09 stood at 19.3% as compared to 1.8% in Q2FY09 and 6.2% in Q1FY10. The increase was mainly on account of increase in profitability and lesser proportion of the tax free income in Q2FY10.
- PAT was Rs.7.29 bn, a growth of 110.18% compared with Rs. 3.46 bn in Q2 FY09.
- As on 30th Sep'09, the balance sheet size of the Company was Rs. 317.82 bn as compared to Rs. 292.23 bn as on 30th June'09. Net of vehicle financing loans and receivables, which as at Sep'09 stood at a reduced level of Rs. 15 bn, the Company's capital employed was Rs 302.5 bn as on 30th Sep'09.
- The Gross total debt (inc. FCCNs) stood Rs 190.42 bn as on 30th September'09 as compared to Rs. 174.12 bn as on 30th June'09. The Company's Net Debt (Net of the surplus investible funds) stood at Rs 186 bn as on 30th Septemebr'09 while the Company's net debt to equity ratio stood at 1.60.
- The company prepaid USD150 mn, part of the refinanced acquisition loan at the UK SPV - JaguarLandRover limited, mainly through proceeds from sale of long term investments. As at the end of Sep'09 stood at USD 700 mn.
- The following table shows the days of sales of inventory and receivables of the company.

Table 11: Current Assets

No. of Days	30 th Sep'09	30 th June'09	31 st March'09
Inventory	33	32	28
Receivables (non-HP)	21	18	14

Shareholding Pattern

Table 13: Shareholding Pattern as on September 30th, 2009

	%
Tata Group	40.62%
Daimler Chrysler	5.69%
Indian Financial Institutions / MFs / Banks	15.03%
ADR/GDR Holders / Foreign holders-DR status	13.10%
Foreign Institutional Investors	11.25%
Others	12.37%
Total	100.00%

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