

Tata Motors (NYSE : TTM)

Q3 FY09 Review

Snapshot

Standalone Q3 FY10 Financials (Indian GAAP)

	Q3 FY10 (Rs mn)	Q3 FY09 (Rs mn)	Change (%)	Q3 FY10 (*) (US\$ mn)	Q3 FY09 (**) (US\$ mn)
Revenue (Net of excise)	89,799	47,586	88.7%	1,916	952
EBITDA	11,519	909	1167.8%	246	18
EBITDA %	12.83%	1.91%	1,092 bps	12.83%	1.91%
Profit before Tax	5,550	(4,192)	232.4%	118	(84)
Net Profit	4,001	(2,633)	252.0%	85	(53)
Basic EPS - Ordinary Shares	7.36	(5.51)	233.6%	0.16	(0.11)
Basic EPS - 'A' Ordinary Shares	7.86	(5.51)	242.6%	0.17	(0.11)

(*) Average Conversion rate for Q3 FY10: 1US\$ = Rs.46.88

(**) Average conversion rate for Q3 FY09: 1US\$ = Rs.49.96

Standalone 9M FY09 Financials (Indian GAAP)

	9M FY09 (Rs mn)	9M FY08 (Rs mn)	Change (%)	9M FY09 (*) (US\$ mn)	9M FY08 (**) (US\$ mn)
Revenue (Net of excise)	233,634	187,659	24.5%	4,784	4,280
EBITDA	29,456	11,186	163.3%	603	255
EBITDA %	12.61%	5.96%	6.6%	12.61%	5.96%
Profit before Tax	20,099	2,840	607.8%	412	65
Net Profit	16,430	4,098	300.9%	336	93
Basic EPS - Ordinary Shares	31.39	9.82	219.7%	0.64	0.22
Basic EPS - 'A' Ordinary Shares	31.89	10.32	209.0%	0.65	0.24

(*) Average Conversion rate for 9M FY09: 1US\$ = Rs.48.84

(**) Average conversion rate for 9M FY08: 1US\$ = Rs.43.85

Business Review

Standalone Q3FY10 Financials (Audited)

- Tata Motor's Net Revenue for Q3 FY10 was Rs. 87.99 bn; up by 88.7% Y-o-Y.
- Driven by strong volumes growth, sharp decline in input costs EBITDA increased by 1167% by 11,519 Mn in Q3 FY10. EBITDA margin stood at 12.81%.
- The Company posted a profit after tax of Rs.4,001 mn, includes a notional exchange loss (net) on revaluation of foreign currency borrowings, deposits and loans given of Rs. 24.2 mn as compared to loss after tax of Rs.263.3 mn, which included a notional exchange loss (net) on revaluation of foreign currency borrowings, deposits and loans given of Rs. 2,257 mn in the corresponding quarter in the previous year.

Table 1: Volume Summary

	Q3 FY10	Q3 FY09	Change
Total CVs	93,520	49,546	88.8%
Total PVs*	61,593	42,187	46.0%
Total Domestic Sales	155,113	91,733	69.1%
Exports	10,300	7,027	46.6%
Total Volumes	165,413	98,760	67.5%

* include sales of FIAT and JLR vehicles

- In the October-December quarter of the Financial Year 2009-10, the automotive sector in India witnessed a substantial increase in demand due to revival in economy, fiscal support from the government, easy availability of finance and increased customer confidence. This, along with increase in freight availability led to an increase in the CV segment demand.
- In the quarter, overall CV industry increased by 97%. TML's Commercial vehicle business increased by 89%. YTD Tata Motors increased its market share in CVs by 280 basis points at 65.6% from 62.8% in 9MFY09.
- The passenger vehicle industry registered a volume growth of 48% during Q3FY10 supported by improved availability of finance, attractive interest rates and buoyant sentiments. Indigo Manza and Sumo Grande MK II launched during the quarter received an overwhelming response from the customer .
- The export volumes of the Company registered a increase of 46.6% during Q3FY10, during the quarter driven by stability in the global economic condition and easing liquidity.

Significant events:

- On 14th October 2009 Tata Motors launched its new generation sedan, the Tata Indigo MANZA. Built on its new car platform, the Indigo MANZA succeeds the highly successful Tata Indigo. The Indigo MANZA is an altogether new car. A complete new body on a new platform houses an all new interior and makes a bold styling statement. With a length of over 4.4m, a width of 1.7m, and a wheel base of 2,520mm.

- On 14th December 2009 Tata Motors announced the launch of Grande MK II, an upgraded version of its premium Sumo offering in the domestic market. The Grande MK II seeks to deliver added value to customers through substantial changes in the exteriors and interiors combined with improvements in drivability, ride and handling and comfort.

Economic Scenario

Key Highlights of Q3 FY10

1. GDP Growth

As per the latest data released by the Central Statistical Organization (CSO), GDP grew by 7.9 per cent in the quarter ended Sep 2009. This growth was a higher than 6.1% of the previous Quarter.

Major growth was seen in the manufacturing and mining and quarrying sector where y-o-y growth increased from 5.1% to 9.2% and from 3.7% to 9.5% respectively. Industry sector increased from 6.1% to 8.3% and construction sector fell from 9.6% to 6.5%. Agriculture and allied activities declined from 2.7% to 0.9%, this was mainly due to the fall in the cumulative seasonal rainfall (1st June -30th September 2009) for the country as a whole was 23 per cent below the Long Period Average (LPA). Services declined from 9.8% to 9.3% on a y-o-y basis.

The higher-than-expected growth in the 2QFY10 was due to the stellar performance by the manufacturing sector and pick up in domestic demand drivers. Going forward, though some adverse drag from agriculture sector is expected, its relatively smaller contribution to growth and the continuation in robust performance from the non-farm sector should help the economy maintain the growth rate at the last year's level of 6.7 percent.

(source: CRISIL,RBI)

Table 1: Quarterly trends in GDP Growth (%)

	2008-09	2009-10	2009-10
	Q2	Q1	Q2
Agriculture	2.7	2.4	0.9
Industry	6.1	5.0	8.3
Services	9.8	7.8	9.3
GDP	7.7	6.1	7.9

Source: CSO

2. Industrial Growth

Industrial production increased substantially on account of low interest rates and revival in economy. IIP growth for the month of October and November 2009 was 10.3% and 11.7% respectively. The cumulative growth for the period April-December 2009-10 stands at 7.6% over the corresponding period of the pervious year.

The impressive performance of the manufacturing sector, which has a weightage of 80 per cent in IIP, was the main reason for such robust industrial growth which grew by 12.7% in Nov'09. On the basis of use-based classification, consumer goods growth accelerated to 11.1% in Nov'09, also Capital goods and intermediate goods segment increased 12.2% and 19.4% respectively.

Table 2: Index of Industrial Production

Categories		Oct'09 vs	Nov'09 vs	Apr-Nov'08	Apr-Nov'09	Growth (%)
		Oct'08	Nov'08			
		Growth %	Growth %			
IIP	General	10.3%	11.7%	269.1	289.6	7.6%
Sectoral	Mining	8.2%	10%	167.8	181.8	8.3%
	Mfg.	11.1%	12.7%	288.4	310.7	2.8%
	Electricity	4.7%	3.3%	222.5	236.0	6.1%
Use-based	Basic	5.0%	6%	226.4	240.1	6.1%
	Capital	12.2%	12.2%	378.1	404.6	7.0%
	Intermediate	14.3%	19.4%	259.6	289.3	11.4%
	Consumer	11.8%	11.1%	295.6	314.1	6.3%
	- Consumer Durables	21.0%	37.3%	394.2	479.6	21.7%
	- Consumer Non-Durables	8.1%	7.3%	272.9	276	1.1%

(Source: CSO)

3. Infrastructure Index

During April-Sept 2009-10, six core-infrastructure industries having a combined weight of 26.7% in the Index of Industrial Production registered a growth of 5% (provisional) against 3.4% during the corresponding period of the previous year. Coal production grew 11.6% during Apr – Sept'09 compared with 8.0% in the corresponding period of last year while Crude Oil production registered a growth of (-) 1.2% compared to a growth of (-)0.8% during the same period of 2008-09. The Petroleum refinery production registered a growth of (-)3.6% compared to 4.5%, Finished (carbon) Steel production grew by 3.0% compared to an increase of 3.3%, Electricity generation grew by 6.8% compared to 2.6% and Cement Production grew by 12.3% in Apr – Sept'09 compared to an increase of 5.5% during the same period of 2008-09.

(Source: GOI- MINISTRY OF COMMERCE INDUSTRY)

4. Inflation

Inflation as measured by year-on-year variations in the wholesale price index (WPI) India's annual wholesale inflation rose to 7.31 percent in December 2009, compared with 4.78 percent rise in November. Such a sharp rise in inflation was due increase in food article prices which increased 19.17%. Food prices have emerged as the most important factor driving the current surge in wholesale and retail inflation and are expected to do so for some more time further. Going forward, as even the low base is expected to contribute to this process, average annual headline inflation in 2009-10 is expected to be around 2.5 per cent and the year-end inflation to be around 7.0 per cent respectively. Inflationary pressure may oblige RBI to tighten monetary policy. Inflation may reach upto 7% by March 2010

5. Interest rates

RBI kept policy rates unchanged during the period Oct'09-Dec'09 in-order to support the economic revival. Earlier, in-order to boost liquidity and support economic growth, the Reserve Bank of India had reduce basic policy rates. However now with inflation touching 7.3% in Dec'09 the RBI may think of increasing the basic policy rates during their policy meet at the end of Jan 2010.

6. Freight Rates

For the period ending Dec'09, the freight rates increased 0.9% on a y-o-y basis. No fuel price increase was undertaken during the quarter. Though Freight index did not increase substantially but the freight availability increased substantially thus boosting profits of truck operators.

7. National Highway Development Project (NHDP)

As elucidated in the below table, 36.8% of the national highway development and other road projects under NHA was completed as on 31st December 2009 compared to 29.3% completed on 30th Nov 2008. With substantial portion of the Golden Quadrilateral having been completed, the focus of implementation has shifted to the NSEW and Phase III Though work on NHDP – V is under implementation and only 0.6% was complete as on 31st Dec 2009. also NHDP Phase VI and NHDP phase VII has started.

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

	Total Length (in Kms)	Completed	Under Implementation	Balance to be Awarded
GQ	5,846	98.3%	1.7%	0%
NS-EW	7,300	62.8%	26.3%	8.7%
Port Connectivity & others	1,342	84.16%	13.90%	1.9%
NHDP Phase III	12,109	4.82%	26.2%	64.0%
NHDP Phase V	6,500	0.58%	13.6%	84.1%
NHDP Phase VI	1,000	-	-	100%
NHDP Phase VII	700	-	2.7%	97.3%
Total	34,800	36.8%	18.03%	44.7%

(Source: NHA)

Commercial Vehicle Segment

Highlights

- Owing to the benefit of the low base effect of Oct-Dec period of last year, the recovery in the CV industry in the current financial year caused y-o-y growth in Q3 to soar to about 97%.
- On a cumulative basis, the CV industry grew by 25% in Apr-Dec'09 compared with Apr-Dec'08.
- YTD Tata Motors increased its market share in CVs by 280 basis points at 65.6% from 62.8% in 9MFY09.

Company Performance in Domestic CV Segment

Table 4: CV Domestic Sales Volumes

	Q3 FY10	Q3 FY09	Change	9M FY10	9MFY09	change
M/HCVs	53,790	31,575	70.4%	101,145	86,704	16.7%
LCVs	39,730	17,971	121.1%	154,246	108,488	42.2%
Total CVs	93,520	49,546	88.8%	255,391	195,192	30.8%

Table 5: CV Market Shares

	Q3 FY10	Q3 FY09	9M FY10	9MFY09
M/HCVs	63.3%	66.4%	64.7%	60.8%
LCVs	65.1%	67.5%	66.2%	64.5%
Total CVs	64.3	67.1%	65.6%	62.8%

Source: SIAM Industry Data and Company analysis

- With the revival of domestic demand triggered by stimulus support and return of liquidity for vehicle financing, the commercial vehicle industry witnessed growth of 25% in 9MFY10. Growth in Q3FY10 appeared much stronger at 97% compared with the corresponding period of last year where the CV demand for the quarter collapsed impacted by the financial crisis. In line with the industry trend, sale of Tata Motors commercial vehicles grew at 89% in Q3FY10 and at 31% for the period Apr-Dec'09.
- The MHCV truck industry continued to post positive y-o-y sales for five months in a row supported by improved freight and finance availability. Growth of 139% in sales of Q3 reflects the low base effect of last year. Tata Motors which witnessed relatively lesser decline in sales during Q3 of last year and thus gained market share, grew at a rate of 128% in MHCV trucks against last year's base.
- Improved market conditions created greater optimism and triggered a preference for high payload, more fuel efficient vehicles which caused the HCV market to grow at a faster pace in Q3 compared with the MCVs which were opted by truckers last year due to risk aversion and fall in average payload.
- The tipper segment remains to be the only category within the MHCV segment that shows a cumulative negative growth till date. This is contrary to the sales trend of last year where tippers outperformed all other categories. The weakness in the current year may be mainly attributed to slowdown in the construction sector and in highway development as well as reduced iron ore imports by China. However the last 3 months have seen improved performance in tippers but at a lesser pace than the industry.

- The cumulative market share of Tata Motors in the MHCV truck market stood at 68%, one of the highest levels in over a decade, supported by new products and well distributed presence within India.
- LCV market, which was the first to turnaround in the CV market, continues to maintain its robust growth trajectory. Tata Motors has held its market share at 60.5% YTD in the LCV truck market compared with corresponding prior period.
- In the passenger carrier segment while both MHCV and LCVs witnessed growth in Q3 on a y-o-y basis. However due to decline in H1, cumulative MHCV bus growth stands at a lower level of about 12% compared with 45% of LCVs which has witnessed strong incremental growth sequentially in each quarter this year aided by improved performance of Ace Magic.
- Withdrawal of Government's fiscal stimulus support and monetary tightening of RBI are expected to adversely impact demand going ahead.

Passenger Vehicle Segment

Highlights

- Domestic passenger vehicle sales recovered strongly supported by active participation by auto loan providers and improved consumer sentiments.
- With sales of 61,593 units (Tata + Fiat + JLR in India) in Q3, Tata Motors retained its market share in the PV market at 13.1%
- Nano production at existing location ramped up.

Table 7: PV Domestic Sales Volumes (including Fiat and JLR volumes)

	Q3 FY10	Q3 FY09	Change	9M FY10	9MFY09	Change
Small Car	36,461	26,153	44%	107,247	78,102	37%
Mid-size Car	18,694	9,896	91%	43,004	36,584	18%
UV	6,375	6,138	4%	22,071	27,821	(21)%
Total PV*	61,593	42,187	46%	172,414	142,507	21%

**Including JLR and Fiat volumes*

Table 8: PV Market Shares (including Fiat volume)

	Q3 FY10	Q3 FY09	9M FY10	9MFY09
Small Car	12.4%	12.6%	12.8%	11.8%
Mid-size Car	25.0%	19.8%	21.7%	21.3%
UV	9.9%	15.8%	11.5%	17.3%
Total PV	13.1%	13.2%	12.9%	13.2%

Source: SIAM Industry Data and Company analysis

- The passenger vehicle industry registered a volume growth of 48% during Q3FY10 supported by improved availability of finance, attractive interest rates and buoyant sentiments.
- In the Small car segment, sales of Indica range, Nano and Fiat Grande Punto witnessed growth of 39%. Tata Motors + Fiat combined market position saw a marginal decline to 12.4% from 12.8% in Q3. However YTD market share stood at 12.8% compared with 11.8% last year. Till date 17,537 units of Nano have been delivered.
- The Indigo range recorded sales of 15,970 units a growth of 63.5% over Q3 last year, substantially higher than the 35% growth of the Entry mid-size sedan market, based on the continued enthusiastic response to the newly launched Manza in the market. Combined market share of The Indigo and Fiat Linea in the Mid-size market grew to 25% in Q3 compared with 19.8% of last year.
- Competitive pressures dented Tata Motors' market share in the Utility Vehicle segment. However the growing acceptance of the new Grande Mark II, launched in mid-dec'09 along with the planned launch of the crossover 'ARIA' is expected to aid recovery of performance.
- Tata Motors celebrated the 10th anniversary of the launch of the Indica on December 30, 2008. To mark this milestone, a 10th Anniversary Limited Edition Indica Vista was launched.

International Business

Highlights

- The Company's export volumes increased by 46.6% y-o-y during Q3FY10.

Company Performance in International Business

Table 10: Exports Volumes

Business Unit	Q3FY10	Q3FY09	Change	9M FY10	9MFY09	Change
Commercial Vehicles	8,364	5,319	57.2%	18896	23,049	18.0%
Passenger Vehicles	1,936	1,708	13.3%	4,627	6,128	24.5%
Total Exports	10,300	7,027	46.6%	23,523	29,177	19.4%

- Exports volume increased by 46.6% during the quarter due to stability in the global economic condition and easing liquidity.
- Passenger vehicles volumes increased by 13.3% . Increase in volumes was seen markets like Italy and South Africa
- Commercial vehicles too saw a 57.2% increase in volumes due to sharp rise in sales in markets like Bangladesh, Nepal and Sri Lanka.

Finance

- On the back of 67.5% growth in y-o-y volumes, the company registered a Net Revenue of Rs. 89.8 bn in Q3FY10; Change of product mix in favour of large trucks and price increases caused realisation per vehicle to grow by 12.7%. Excise costs were 7.2% of net revenues, same as Q2FY10, due to contribution of production from our facility at Uttarakhand.
- Increase in costs of commodities especially steel and tyres during the quarter caused Inflationary pressures on material costs. Consequently raw material cost as percentage of net revenues of the Company to rose to 68.5% on a sequential basis. Similarly other expenses also witnessed increase in line with increased levels of operation compared with Q3FY09.
- Consequently, EBITDA for the quarter soared to Rs. 11,519 mn. EBITDA margin stood at 12.83%, significantly higher than 1.9% of last year. EBIT came in at Rs. 8,651 mn, 9.6% of Net Revenues.
- Continuing product development and capex program caused depreciation and amortization to grow 33% y-o-y although they remained at 3.2% 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.
- Effective tax rate for quarter Oct-Dec'09 stood at 26.7%. The increase was mainly on account of increase in profitability and lesser proportion of the tax free income in Q3FY10.
- While profit before tax for the quarter was Rs. 5,550 mn compared to a loss of Rs. 4,192 mn in the corresponding quarter of last year, the PAT for the current quarter was Rs.4001.4 mn compared with a Loss after tax of Rs. 2,633 mn in Q3FY09.
- As on 31st Dec'09, the balance sheet size of the Company was Rs. 350 bn as compared to Rs 318 bn as on 30st Sep'09. Net of vehicle financing loans and receivables of Rs. 11 bn the Company's capital employed was Rs 339 bn as on 31st Dec'09.
- In Oct'09 company issued 29,904,306 Global Depository Shares (GDS) each representing one share aggregating US\$ 375 million and 4% Convertible Notes due 2014 aggregating USD 375 mn. Consequently the share capital of the company increased from 514 mn shares to 543.9 mn shares and Gross total debt (inc. FCCNs) increased to Rs 202 bn as on 31st December'09 as compared to Rs.190 bn as on 30th Sep'09. The proceeds of the issue were invested in the 100% subsidiary TML Holdings Pte Ltd, (Singapore) for downstream investment in its 100% subsidiary in the UK to facilitate repayment of the balance bridge loan taken by it for financing the acquisition of Jaguar Land Rover business.
- Company's net debt to equity ratio stood at 1.44
- The following table shows the days of sales of inventory and receivables of the company

Table 11: Current Assets

No. of Days	31 st Dec'09	30 th Sep'09	30 th June'09
Inventory	34	33	32
Receivables (non-HP)	21	21	18

Shareholding Pattern

Table 13: Shareholding Pattern as on December 31st, 2009

	%
Tata Group	38.19
Daimler Chrysler	5.34
Indian Financial Institutions / MFs / Banks	13.66
ADR/GDR Holders / Foreign holders–DR status	12.27
Foreign Institutional Investors	15.67
Others	12.64
Total	100.00

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