

Tata Motors Limited
Conference Call
January 10, 2005

Moderator

Good evening ladies and gentlemen, I am Ajay, the moderator for this conference. Welcome to the Tata Motors call hosted by JM Morgan Stanley. Mr. Satish Jain of JM Morgan Stanley is your call leader today. For the duration of the presentation, all participations' lines will be in the listen-only mode. After the presentation the question and answer session will be conducted for the international participants connected to CyberBazaar international bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Satish Jain of JM Morgan Stanley. Thank you and over to Mr. Satish Jain.

Satish Jain

Good evening ladies and gentlemen. Our apologies for the delay in beginning this call. We have with us Mr. Praveen Kadle, who is Executive Director – Finance of Tata Motors, and Dharmendra Grover to discuss the merger of Tata Finance and other subsidiaries with Tata Motors and the implications of this on the business and financials of the company. Over to you Mr. Kadle.

Praveen Kadle

Good evening or good morning to everybody. I do not know who are the participants and from which countries so I am wishing to everybody. Good morning as well as good evening. Just wanted to inform that the respective Boards of Tata Motors and Tata Finance finished their meeting in the evening and they have announced the scheme of merger between the two companies, Tata Finance merging with Tata Motors. The appointed date of scheme of merger is April 1, 2005, and it would be subject to the approval of the Bombay High Court and also subject to the approval from the stock exchange.

The valuation was conducted by the reputed chartered accountant, Mr. Bansi Mehta. The scheme is basically that all the equity shareholders of Tata Finance will get equity shares of Tata Motors in the ratio of 8 shares of Tata Motors for every 100 shares held in Tata Finance. So in turn, the valuation rationale was that we adopted the three factors, one is looking at the price-earning ratio of Tata Finance. We also looked at the net asset approach, and we also have some weightage to the market value.

The rationale for doing this merger, as you know that, most of the auto global majors have got very strong captive auto financing units, examples are GMAC, Ford Credit, Toyota Financial Services, and they contribute significantly to the bottom line of the parent company's revenue and they contribute also significantly to the retail financing of the vehicle sales of the parent company. Typically, the contribution made by the captive finance unit in terms of the retail financing of the parent company varies between 35% to 45%, and in terms of the bottom line contribution, they contribute around 19% to about 45% of the bottom line of the company. In the worst years of the parent company's performance, their contribution goes even up to 50%. Case in point is, last year's performance of General Motors where GMAC contributed almost about 50% of the bottom line of the parent company.

Currently, in Indian context, the market is becoming highly competitive. There are private banks, which are playing very aggressive financing role as far as auto finance business is concerned. Not only the private banks, but even the strong public sector banks are also entering into this business in a very active and aggressive manner. In some of the niche markets, even the cooperative banks are playing very important role. What we are also finding out is, consolidation in the form of some of the **NBFCs** merging with the banks, and some of the banks also exiting from the retail financing business. So the market is becoming highly competitive. The inefficient players are being weeded out and the mergers and acquisitions is becoming rule of the day in terms of the consolidation.

So success is going to be determined by two critical factors, one is the access to the low cost borrowed funds, and how close you are to the OEM manufacturer and the dealers of the OEM manufacturers. We followed this mechanism of working together between the BHPC and Tata Finance from August 2003. We formed the kind of virtual entity called Tata Motor Finance. It was not a merged entity legally. It started operating in August 2003, and in the last 12 months to 15 months, we have done quite aggressive business. Our growth has been about 53% last year, about 35% to 36% in the current year. The growth of the Tata Motor Finance business is higher than the growth seen by the parent company, i.e., Tata Motors Ltd, and in the process the combined entity has improved its penetration to almost about 18% in the current year. When we started, the penetration was less than about 14%. So we have improved the penetration significantly, and in the process improved, I would say, the profitability of the respective companies.

Tata Finance, which was making huge losses until about 2002-2003, in the year 2003-2004 for the first time after 3 years, it started making profits right from the first quarter. And in the current year again, the profit trend continues, in fact the profit before tax is significantly higher as compared to the corresponding period profit before tax in the case of Tata Finance. They have significantly improved its all business parameters. The cost of borrowings have come down from about 14% to about 8.5%. Although in the current context, for a finance company to have cost of borrowed funds at 8.5% is also still very high. So that is one of the reason as to why we are doing the merger to take advantage of the low cost funds of Tata Motors and significant cash that it has on its balance sheet.

Coming back to the restructuring, they had at one point of time external borrowings in the form of bank borrowings of about Rs. 2600 crores, which have come down to about Rs. 1200 crores. They had fixed deposits from the public to the extent of about Rs. 850 crores, those have now come down to just about Rs. 4 crores, and in the process the rating of Tata Finance has been improved by 3 notches, going up from "BBB" to "A."

As far as Tata Finance is concerned, while it would have still continued to be an independent company; however, its scale of operations would have been sub-scale. Its bottom line performance would have been average, and on a standalone basis it would not have really kind of, it would not have faced the competition that it has from the other competitors. So, merger was inevitable.

Coming back to the issue of the merger, I think, as I mentioned the merger was inevitable for Tata Finance. It could not have survived as an independent player, and that is the reason as to why we have gone ahead with the merger.

With this, let me know take the questions from your side.

Dharmendra Grover

Can we have the question and answers?

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceeding to Cynthia to conduct the Q&A for international participants. After this, we will have the question and answer session for India participants. Thank you and over to Cynthia.

Moderator

Thank you Ajay. At this time, international participants may press *1 if they would like to ask a question. On pressing *1, participants will get a chance to ask their question on a first-in-line basis. We will pause for just a moment to compile the Q&A router. At this moment, there are no questions from participants here. I would like to hand the proceedings back to our moderator.

Moderator

Thank you very much Cynthia. We will now begin the Q&A interactive session for participants connected to CyberBazaar India. Participants who wish to ask questions, please press *1 on your touchtone-enabled telephone keypad. On Pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use their handsets while asking a question. To ask a question, please press *1 now. First in line, we have Ms. Christine from Sloane Robinson.

Christine

Hi, I am pleased to hear your announcement about the integration of your companies. I have two questions, the first is, you indicated that Tata Finance financed about 17 or 18% of your vehicle sales. What do you expect that to rise to over the next two years?

And the second question is, from working through the shares that you will issue at the current market price of Tata Motors, it looks as if you are valuing Tata Finance on approximately two times its March'04 books, is that correct?

Praveen Kadle

Okay. To answer your first question, Tata Motor Finance today finances about, when I mean Tata Motor Finance, it is the combined entity of Tata Motors financing division and Tata Finance. So they account for about 18% of the vehicles sold by Tata Motors in the domestic market. And our plan is to take it to double the volumes or maybe even go up to about 45% of the vehicles sold by Tata Motors in the domestic market in the next 3-4 years. In terms of the valuation....

Dharmendra Grover

In terms of valuation, it is primarily that we have looked at all the three parameters....

Praveen Kadle

Yeah, we looked at all the three parameters in terms of the market value, in terms of the net asset value, as well as the earnings per share or multiples of earnings per share for both the companies and then arrived at the factor of valuation or the factor of the merger.

Christine

Okay, thank you.

Praveen Kadle

Do we have any specific question on this valuation?

Moderator

Thank you very much mam. Next we have Mr. Imran from Stratcap Securities.

Imran

Hello.

Praveen Kadle

Yes.

Imran

I would like to know what sort of a tax advantage will Tata Motors get with the carry forward losses in the Tata Finance, and what would be the effective rate of tax for the company?

Praveen Kadle

Let me first clarify that the tax efficiency was not the determining factor. It is only incidental factor. We have done it from the point of view of business efficiency rather than tax efficiency. We will of course get the tax efficiency but it all depends upon the assessing officers and all that, and you know, just because you do the merger, it is not that in the first round itself you will get all the benefits of the tax losses getting absorbed in Tata Motors. So, I would not like to comment upon what kind of effective tax rate it would be for Tata Motors.

Imran

Okay. But would any of the carry forward loss be set off against Tata Motors' profits?

Praveen Kadle

Yes, in the normal course, yes. But as I said, it is something, which is not so easy. It will be all decided by the assessing officer. I can't really comment therefore as to how much it will come down to. But yes, in the normal course, theoretically, yes, we can get the benefit.

Imran

Okay. The other question about your passenger car, what is the current capacity and has the expansion gone through?

Praveen Kadle

I think we are talking on the merger and not really capacity. We can answer all these questions when we announce the results for the third quarter.

Imran

Okay fine. Thank you.

Moderator

Thank you very much sir. Next we have Mr. Ashish Agarwal from Chrys Capital.

Ashish Agarwal

Hello.

Praveen Kadle

Yes.

Ashish Agarwal

I would like to know what will be the strategy of Tata Finance now as a part of Tata Motors in the used car financing market?

Praveen Kadle

Yes, in fact, we believe that this is going to be one of the key factors in terms of growing this business. The financing of the used cars is still in the early infancy stage you can say, and the merged entity in Tata Motors would really take it up as one of the growth challenges in the future years.

Ashish Agarwal

And would it be only used cars or used trucks also?

Praveen Kadle

Both.

Ashish Agarwal

Any targets on what kind of market share, what kind of disbursements would you expect in next three years?

Praveen Kadle

No, we can't really talk about in terms of what is kind of growth plans we have specifically for used cars and used trucks, but as I mentioned earlier, going forward it is going to be one of the key growth areas for us in terms of the financing business.

Ashish Agarwal

Got it, thanks.

Moderator

Thank you very much sir. Next we have Mr. Jigar Shah from KR Choksey.

Jigar Shah

Good evening sir, let me extend to you belated wishes for the New Year.

Praveen Kadle

Thank you, same to you.

Jigar Shah

Can you give some idea on the balance sheet impact of the merger and also what would be the final equity capital for Tata Motors, could you give some idea on this?

Praveen Kadle

As on the date of the merger, which is April 1, 2005, the asset side and the liability side will approximately go up by about Rs. 1200 crores. However, what we have in terms of our strategy and plan is to eliminate that liability of Rs. 1200 crores in the next 12 months time to bring it back to the original debt equity ratio of Tata Motors, which is negative right now on the net basis.

Jigar Shah

Sir, also any other balance sheet impact, any other liabilities which are coming along with this merger?

Praveen Kadle

No, apart from the pure financial liabilities in terms of the bank borrowings and the other long-term borrowings, there are no other borrowings. In fact, they are now only more or less short term borrowing not even long-term borrowings other than that nothing would come on the balance sheet of Tata Motors.

Jigar Shah

Also should we assume that there are no any hidden bad debts or anything like that which is coming along?

Praveen Kadle

Those have been already provided for in the books of Tata Finance before we decide to take over the merger, in fact lot of clean up activity has been already completed by Tata Finance in the last three years.

Jigar Shah

Thank you very much sir.

Moderator

Thank you very much sir. Next we have Mr. Sanjay of HSBC Bank.

Sanjay

Hello sir, I just wanted to clarify this 18% market penetration, which you are talking about, it is both commercial vehicle as well as the car business or it is only commercial vehicle business that you were talking about?

Praveen Kadle

Both combined put together.

Sanjay

Okay. Right now, between Tata Finance and its own **BHPC** what would be the distribution of financing, which is happening right now?

Praveen Kadle

Right now it is 50-50.

Mr. Sanjay

Okay, thank you very much.

Moderator

Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line we have Mr. Ashish Gupta of CLSA.

Ashish Gupta

Good evening Mr. Kadle.

Praveen Kadle

Good evening.

Ashish Gupta

Sir I just wanted to clarify what is the imputed price to book that is being paid for Tata Finance assuming the current market price of Tata Motors, is it four times March 2004 book?

Praveen Kadle

Can you just give me a minute, I just want to see the exact working, just hold on for a second, maybe few seconds. Approximately four times, yes.

Ashish Gupta

Is that not aggressive considering you yourself mentioned that existence of Tata Finance has a standalone entity would have been in doubt and that was one of the reasons for the merger?

Praveen Kadle

Let me mention this that there are not many companies today, which do business exclusively for Tata Motors Vehicle Financing.

Ashish Gupta

Okay.

Praveen Kadle

So therefore one has to consider, because if you really look at the all the **NBFCs** they do business for all the manufacturers. So there is not one single company other than Tata Finance, which does the business for only Tata Motors dedicated.

Ashish Gupta

Sure.

Praveen Kadle

So from that point of view definitely there is a lot of value, which can be put in Tata Finance in terms of the merger. Then of course the quality of its asset portfolio is much higher, much better.

Ashish Gupta

Okay.

Praveen Kadle

Their portfolio has been always considered AAA by the rating agencies whenever they do the securitization.

Ashish Gupta

Yes.

Praveen Kadle

And also the third important thing is the kind of restructuring, which has been done by Tata Finance in terms of its ability to pay off all its debts and obligations and the last important thing is the synergy between the two units in terms of, you know, Tata Motors did not have the direct business. It was always dependent on the dealer driven business, so right from the day one Tata Motors can have access to the direct selling business model, which was built by Tata Finance. It has now access to the branch network, it has access to the sales staff, and most importantly the independent customer database, which I remember correctly they have between 3 and 4 lakh customer database which is now available to Tata Motors. So I think when you look at the value to the book you need to consider...

Ashish Gupta

So basically you are saying the franchise is more valuable than just the book.

Praveen Kadle

Yeah, you need to consider both the intangibles as well as tangibles, and not just look at pure tangibles.

Ashish Gupta

Sure. Sir the other question is more in terms of the business per se, because we know that vehicle financing is extremely competitive business and the competition you would face in this business is from the banks with the cost of funding now on an incremental basis is 3.5-4%, and as you mentioned Tata Finance current cost of funding is 8.5% but surely the incremental cost of funding would be lower, but still, even with say 6 to 7% cost of funds, how do you say that this is a workable business plan as compared to say just having a tie-up with the bank, you have been working with tie-ups with several banks yourself and other manufacturers are also doing that.

Praveen Kadle

I think one needs to look at not just the cost of borrowing of Tata Finance but the cost of funds of Tata Motors. Tata Motors' cost of borrowing now is comparable with the cost of funds of any bank, which you have in mind, which is very aggressively doing the business in this field. So that is one part, but I think being a captive finance unit working with the **OEM**, we can get significant advantages in terms of bundling the financing options with the overall marketing. We can expand the market range of all our products. We can also improve the channel profitability. We can also have the flexibility in terms of pricing the main offering so that the product offering becomes more attractive. We can also have better synchronization in the retail market in the form of capturing the early signals of the industry trends and retail buying patterns.

Ashish Gupta

Sure.

Praveen Kadle

We get a continuous feedback on the product quality and the product economics and life cycles of the products by getting involved in the retail marketing. It also improves the replacement market because we can then really play in the life cycle in terms of the replacement and we can also control the replacement cycles. We can also enhance the customer loyalty significantly, by having much more touch points with the customers and not just related to the sale of a vehicle but subsequent value chain points, which you can capture through this option. Then, I think the most important is you can capture the entire value chain in the life of the vehicle and overall improve the profitability of the business, especially when there is a downturn in the economy and the business, the main business is impacted by the cycle.

Ashish Gupta

Sure. And lastly does it not go against the strategy that you have been following in the last four years of cutting down on the balance sheet size, it takes up the balance sheet size by nearly 15 to 20%, and per se on a standalone basis this business cannot deliver in my opinion more than 15 to 16% ROE, and therefore will it be a drag on company's overall ROE?

Praveen Kadle

Not really because you can always do securitization.

Ashish Gupta

Okay.

Praveen Kadle

With the significant improvement in the liquidity, I think you have always the ability to securitize your asset portfolio.

Ashish Gupta

Okay. Thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Rosemary from Reuters.

Rosemary

Hi Mr. Kadle. I am sorry to barge into your analyst conference call. We just, very quickly we wanted to know what kind of premium are we talking of that you are actually paying for Tata Finance with this kind of deal?

Praveen Kadle

If you look at the current market price of Tata Motors and then if you look at the ratio which we are talking about, it is in line with the average price of Tata Finance for the last 12 to 15 months, so we are not really paying any kind of a premium.

Rosemary

But at today's price would be fair to say something like 15% premium.

Praveen Kadle

No, but I think if you look at today's price of Tata Finance is more driven by speculation.

Rosemary

So, you are saying it is not fair to consider 15% premium, that calculation would be incorrect.

Praveen Kadle

I would not like to comment on any premium percentages, as I said it is a fair value. It is in line with the last 12 or 15 months of pricing of Tata Finance's stock.

Dharmendra Grover

And there is very set methodology which has been used to arrive at this price.

Rosemary

Okay. All right, thank you.

Moderator

Thank you very much mam. Next in line, we have Ms. Christine.

Christine

I had one other follow up question, does Tata Finance have a certain part of its book associated with non Tata Motors contracts?

Praveen Kadle

No, over the last two years or three years, we have been exiting from, I am talking we in the sense in Tata Finance, we have been exiting from all the non-core businesses. So right now there are no assets other than the assets related to the Tata Motors' core business, which is either the vehicles or the construction equipments. Construction equipments like excavators, which is the business which is done by one of the subsidiary companies of Tata Motors which is a joint venture between Hitachi and Tata Motors.

Of course, we have wind mills on the books of Tata Finance, but that windmill was basically generating power at low cost for Tata Motors itself, so the windmills will be now, you know, will be in the books of Tata Motors.

Christine

Okay, just coming back on valuation one more time, in your press release you said that Tata Finance had a profit before tax of Rs. 15.6 crore, which I guess is 156 million rupees. If you annualize that then it implies the valuation for the acquisition is something over 20 times current year earnings assuming the second half of fiscal 05 as similar to the first half. Is that correct or is the second half of fiscal 05 could be much stronger for Tata Finance?

Praveen Kadle

Yeah, I was just looking at the numbers when you were talking about it. Yes, your calculations are by and large okay, so what was the question?

Christine

Sir, is it correct that this is roughly four times book and 20 times current year earnings?

Praveen Kadle

Yeah, it is four times the book. In fact, there was one question, which I answered by saying that you should be not looking only at the tangibles, but also the intangibles and I will make this point again. There is no other company today in India at least, which is only exclusively doing business for Tata Motors. So by acquiring this company you get that access, number 1. Number 2 is the synergy which you get in terms of the direct business.., the dealer driver business which Tata Motors is doing, and if you want grow the business you cannot really drive the business through the dealer driven model, which Tata Motors is doing. We need to have the business grown through the direct channels, which was the kind of forte of Tata Finance. If Tata Motors were to do this business on its own in terms of growing the direct channel business, it would take at least about two or three years in terms of the coverage that Tata Finance has created in the domestic market. The most important thing is they got very active database of at least about 300 to 400 thousand customers, which today you then get access to and therefore you can then, you know, have the kind of a business potential from these customers. The other point is of course the kind of asset quality. Tata Finance's asset quality has been always rated AAA by the rating agencies. So you need to consider all the intangibles and not just look at the pure book value.

Christine

And obviously once you are able to implement to lower cost of funding, then the profitability of the business will improve significantly.

Praveen Kadle

Yes, yes, that is what I meant by synergies.

Christine

Okay, thank you.

Moderator

Thank you very much mam.

Satish Jain

Yeah, this is Satish Jain.

Praveen Kadle

Yeah, Satish.

Satish Jain

Sir, what happens to the shares that Tata Motors holds in Tata Finance, will they be held in a trust or....?

Praveen Kadle

No, they will not be held in a trust, we having now got the scheme announced, rather the merger announced, we are fine tuning the scheme and we will either perhaps cancel the shares or may be they will be, let me not answer in clearcut, yes or no, because we are examining various possibilities, but it will not definitely go to a trust.

Satish Jain

And what would be the promoter share holding in Tata Motors now after this merger.

Praveen Kadle

The current holding of promoters is 32.5% and it will go up to about 34.5% or 34.6%.

Satish Jain

Right, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Sanjay of HSBC Bank.

Sanjay

Sir just wanted to find out what is the current rate of financing of the trucks, which the BHPC is doing and what Tata Finance is doing, what is the current rates which both these companies are

working on, and in future what are the kind of rates, basically the company is expecting to maintain?

Praveen Kadle

I must say that I would not like to go into this specific rate, but I can tell you that today we are competing on par with whatever is the rate quoted by competition. Again, the rates varies from different segments. There are different rates for large fleet operators, different rates for small operators or single truck operators. So there is a kind of host of rates in the market place. So we cannot really talk about a particular rate. As far as the market share is concerned, our market share in the commercial vehicle is about 25% about 29% in **UVs**, and we just started in the passenger car. So our market share is there about 7%. We were not there in the market for financing passenger car. So this is going to be one of the growth areas for us when I mention that we want to take the penetration from current 18% to about 35% to 45% in the next three to four years.

Sanjay

Thank you very much sir.

Moderator

Thank you very much sir. Next in line we have Ms. Pallavi of Principle Asset Management.

Pallavi

Hello sir.

Praveen Kadle

Yes.

Pallavi

Sir this is regarding the, you know, the investment that Tata Finance holds.

Praveen Kadle

Yes.

Pallavi

What would be the book as of September?

Praveen Kadle

It is roughly about 100 crores.

Pallavi

So what would be the market value?

Praveen Kadle

You know, but out of this 100 crores or Rs.1 billion, most of the investments are in the form of subordinate **PTCs** on account of the securitization, which has been done by Tata Finance over

the last two to three years. So these are related to the main business and nothing in the form of unrelated investments.

Pallavi

Okay sir. With regard to this, any equity investments?

Praveen Kadle

Sorry, any equity....

Pallavi

Any un-quoted equity investments in the total investment book?

Praveen Kadle

They have some very small investments in Tata Industries, and then I think one of the dealers it had financed, that non-convertible debenture, but it is less than about, it is about 4 crores out of 100 odd crores.

Pallavi

Right sir. Thank you sir.

Satish Jain

Can I request if we can have last two questions on the call.

Moderator

Sure sir, I will just make the announcement. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Praful of ABN Amro.

Praful

Hi sir this is Praful, just had one question, the company has sufficient cash reserve, why didn't it opt for paying out in cash than share swap.

Praveen Kadle

We would like to use the cash for growing this business.

Praful

What is the equity dilution in this case like?

Praveen Kadle

Equity dilution will be about 4%.

Praful

Okay, thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions, please press *1 now. Participants who wish to ask questions please press *1 now.

At this moment there are no further questions from participants. I would like to hand over the floor to Mr. Satish Jain of JM Morgan Stanley for final remarks.

Satish Jain

On behalf of JM Morgan Stanley, I thank you all for participating in this call. Thank you Mr. Kadle and Mr. Dharmendra for addressing this call.

Praveen Kadle

From our side, I also thank all the participants, and Satish I also thank you personally as well as JM Morgan Stanley for organizing this call, and sorry for the delay in participation. Thanks for all your help. Thank you, bye. Good day or good night.

Moderator

Ladies and gentlemen, thank you for using CyberBazaar's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
