

TATA MOTORS

Investor/Analyst Conference Call

August 2, 2005

Moderator

Good evening ladies and gentlemen. I am Ganesh, the moderator for this conference. Welcome to the Tata Motors conference 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 participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. The question and answer session will be conducted first for participants connected to SingTel followed by a question and answer session conducted for participants at India. I would like to hand over the floor to Mr. Satish Jain of Morgan Stanley. Thank you and over to you Sir.

Satish Jain

Good afternoon ladies and gentlemen, on behalf of JM Morgan Stanley I welcome you all to the Tata Motors conference call to discuss the quarterly results and look at the path ahead. We have with us Mr. Praveen Kadle, Executive Director who is currently on a vacation in the US but has taken his time off to address this call. We also have Mr. Manish Gupta who heads the investor relations department at Tata Motors in Bombay who will be present on this call. I now request Mr. Kadle to give a brief presentation on the results after which we will throw open this call for question and answers. Over to you Mr. Kadle.

Praveen Kadle

Thank you Satish. Good evening ladies and gentlemen, or good morning or good afternoon depending on where you are. We saw volume growth of 3% **in the first quarter**. Actually the volume growth has come through the export volume growth which is 113%. Domestic volumes, however, both passenger car and commercial vehicles put together is down by 3%. As I was mentioning, the exports volume have gone up by 113% and overall our international business revenue, including our revenue of 100% subsidiary Tata Daewoo Commercial Vehicle Company, today is 17% of the total consolidated revenue.

Talking specifically about the numbers, the gross revenue has gone up from Rs 4,245 crores last years first quarter to Rs 4,568 crores. Net of excise it has gone up by about 9%, from Rs 3,574 crores to Rs 3,878 crores. EBITDA margin for the corresponding period last year was 12%, overall for the last financial year was 12.5%. This year it is 12.6% for the first quarter. In terms of absolute numbers it has gone up from Rs 429 crores to Rs 487 crores. After considering the other income, the net interest, depreciation and all the other charges, the profit before tax has gone up from Rs 303 crores to Rs 360 crores which is about close to 19% improvement. In terms of the pre tax profit it has gone up by about 15.5 %. After considering tax of Rs 87 crores as against Rs 80 crores last year, the effective tax rate is just below 25% at 24.7%. The profit after tax has gone up from Rs 223 crores to Rs 272.7 crores which is about 22% increase, and the basic EPS has gone up from Rs 6.3 to Rs 7.3 which is about 16% improvement.

We have, as I mentioned, maintained the overall volume growth. If you look at the first quarter numbers of the last three years the CAGR growth has been 15.7%. In terms of revenue it is 15.7%, in terms of volume CAGR growth of last three quarters has been 13.2%. The market conditions in the first quarter were quite tough because of emission related issues. As you know the emission compliance was to be with Euro-II for the whole of the country and Euro-III in the eleven major cities, both for commercial vehicles and passenger vehicles. However, thanks to some of the issues related to the availability of the fuel for Euro-II in the seven northern states which account for almost about 80% of our market share, the government decided to postpone Euro-1. The notification was issued late in March because of which we had certain component availability problem which impacted our volumes especially in the month of April, especially in the medium and heavy trucks. Since then we have tried to recover the position. Our market share in the month of April in the overall commercial vehicle segment had gone down to about 49.6%. Since then as the availability of the components improved, we have increased it to 56.6% in May 05, and in June 05 it has gone up to 57.4%.

In the intermediate commercial vehicle segment, the market share has gone up to about 38.9%, it is an increase of about 630 basis points. As I mentioned, the overall domestic volumes are down by 7%. Medium and heavy trucks in the first quarter they were down by 20%. LCV, however, recorded 22% growth mainly because of the Tata Ace launch, which we launched in the five states, four southern states as well as Maharashtra and the response has been extremely good. So overall, the LCV segment has recorded 22% growth. Exports as I mentioned have been doing extremely well. In the commercial vehicle segment there has been 74% growth. Medium and heavy trucks have recorded 29% growth in exports and LCV 97% growth.

In the domestic segment for passenger vehicles, the volumes were marginally up by 1% mainly on account of the utility vehicles. Exports volumes, however, went up by 241% in spite of the fact that we had no exports to MG Rover.

Our overall domestic market share has marginally gone down to 16.1%. The overall market share in the passenger segment is, as I said, down by about 160 basis points. And going forward we believe that the market conditions will continue to be tough because the fuel hike which has taken place in the month of June, and of course the July and August months are typically months of, kind of lower activity months because of the heavy monsoons and which we have already seen at least in Bombay in the last one week. We expect the volumes to be either negative or flat as compared to the previous years.

Going forward, therefore, up to the end of second quarter we believe the volumes would be either negative or most probably negative as compared to the last year or flat, but from October onwards we see improvement in the commercial vehicles as well as in the passenger vehicles. How how the year will therefore turn out to be, is a bit difficult to say at this stage, but I would like to put the word of caution saying that the year would be marginally negative or kind of flat in the domestic market. Exports, however, has been thrust activity. The first quarter has seen 113% kind of increase. We would, therefore, see significant increase - maybe not 113% kind of a growth in the remaining three quarters, - but good volume growth in the exports.

On the cost front and on the margin front, we have started seeing some kind of a softening of prices on the steel side which should to some extent help, but we of course have about 55% of our contracts which are booked on the long-term basis, which I mean - annual basis. So we may not fully get the benefit of the softening of

the prices to the extent of the contracts which have been already booked for the year. Overall, however, we believe that margins we would see is between 12 to 12.5% for the remaining three months, and since I have already talked about the volumes, we will therefore like to take the questions from you.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceedings to the moderator to conduct the Q&A for participants connected to SingTel. After this, we will have a question and answer session for participants connected at India bridge. Thank you and over to Lucy.

Lucy

Thank you Ganesh. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask a question. Participants who wish to ask questions, please press 01 now. The first question is from Christine Rowley from UK, please go ahead madam.

Christine

Hi. One of the things you mentioned at the end of your last fiscal year results was plans to take out some costs from the company, and I think that you mentioned reducing operating costs by about 10 billion rupees over the next three years. When I look at the consensus forecast for your operating profits on Bloomberg, based on eight different local and foreign analysts, the consensus estimate is 23 billion rupees, which is about 3 billion rupees higher than what you did in fiscal 2005. Two parts of the question, do you think that your plans to reduce your operating costs are on track is the first question. And second, do you think that the negative operating leverage in other words the slower volume growth means that you won't see any underlying operating profit growth from the business such that the change from 20 to 23 billion is just an accurate reflection of you guys achieving one-third of your cost down objectives?

Praveen Kadle

Yeah, we had mentioned that we will reduce the cost by 10 billion rupees over the next three year, and we have specifically mentioned that this year's target will be three billion out of that 10. We are on track in the first quarter, and we believe that we should achieve the number of three billion for this year. Now, I do not want to comment up on the operating margin projections, which have been improved by 3 billion rupees as you mentioned, but as I said we are on track with regard to the cost reduction target of 3 billion rupees.

Christine

Okay, one last question in terms of your export forecast - obviously the first quarter of the fiscal year was excellent in volume terms, and would you be willing to give some sort of projection about what you expect to achieve in terms of export volume growth for the full fiscal year?

Praveen Kadle

Let me correct you, last year our exports had gone up by about 25 to 27%. This year it will be much higher than the 25 to 27% growth - would be between at least 35 to

45% kind of growth. If everything goes well it could be even 50%, but I think at least it could be 35% more as compared to last year.

Christine

Okay, thank you.

Lucy

Participants who wish to ask questions, please press 01 now. At this moment there are no further questions from participants at SingTel. I would like to hand over the proceedings back to WebEx operator, Ganesh.

Moderator

Thank you Lucy. We will now begin the Q&A interactive session for participants connected to India. Participants who wish to ask questions may 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 use handsets while asking questions. To ask a question, please press *1 now. We have first question from Mr. Sohail Zameer from Lucy Cap Research.

Sohail Zameer

Yes, good morning Mr. Kadle. Good afternoon Mr. Gupta. Quick question regarding the passenger vehicle section. We see some weakness there, and I was wondering with the increased level of competition in the Indian market do you have any new product launches planned or sales promotion to tackle this incremental competition that you are facing in this sector, and if so, what are the expected dates for these new project launches or sales promotions? Thank you.

Praveen Kadle

We are actually working on bringing some new products - more in terms of the variants of our existing products both in Indica and Indigo, and we should also have the CRDI Safari - our utility vehicle in this year. The new product launches in terms of the platform vehicles related to the new Indica and new utility vehicle platforms will be available from 2007-08 onwards, so we have maybe another year or two, at least two years in terms of bringing totally new products, till then we will have the variants of the existing products.

Sohail Zameer

Right, when you talk about the new product platforms, do you also mean redoing the suspension and the chassis for the existing product line or is this basically remodeling your product and marketing them?

Praveen Kadle

Are you referring to the new platform or new variants?

Sohail Zameer

The new platforms?

Praveen Kadle

New platform will be totally new product including suspension and tooling whatever you talked about just now.

Sohail Zameer

Great, thank you very much.

Moderator

Thank you very much Sir. We have our next question from Mr. Satish from Franklin.

Satish

Good afternoon sir.

Praveen Kadle

Yeah Satish, good afternoon.

Satish

Just a take off on that question, because what we wanted to understand is more in terms of the overall product development cost versus, with the product development cycle contracting and product developing cost being where it is, do you think it is still viable to build a new platform. If you take the Toyota Innova, they are selling close to 700,000 vehicles around the world, whereas for an India dedicated platform, would the cost in India justify an India dedicated platform.

Praveen Kadle

We are developing the platform only for India, and as I have been mentioning in every conference call that we are looking at international growth and international growth is happening, as I said, the overall revenue is now in 17% from international business of the total revenue. So whatever developments we are doing are not just meant for the Indian market.

Satish

But in the passenger related business...?

Praveen Kadle

Yeah, actually our passenger business as I mentioned in the first quarter grew by almost around 200%

Satish

Passenger exports?

Praveen Kadle

Yeah, I am talking about passenger exports. So this was in spite of the, sorry, export volume in the passenger segment grew by 241% in the first quarter, of course, it is a

bit aberration because last year our dependence on MG Rover, at least in the first two quarters was quite heavy, so we did not have the MG Rover numbers, so the volume growth is 241%, but as I mentioned in the earlier questions which Christine Rowley had asked, we should be growing both the commercial vehicle and passenger vehicle business by about at least 35%.

Satish

Okay, but the issue is in terms of the fit and finish versus getting an international model in India, I mean, has the cost dynamics changed because if Toyota were to launch an international model once in two-three years, can an Indian company match that every three years?

Praveen Kadle

Yeah, it is a challenge, but then we have to, being in this business, meet the challenge. Therefore we have to look at our cost structure and try to reduce the cost on a continuous basis, and at the same time have a product which matches the international quality.

Satish

Because in terms of changing the product because the international companies, especially the large ones can afford to re-skin a product probably once in three to four years, whereas an Indian company cannot afford to do that, so it is really the market that you are addressing, a passenger car market where people want variety as well, I mean, has there been any thought or any kind of strategic initiative on that front?

Praveen Kadle

Yes, when I talked about launching a new platform, we are not just looking at the domestic market, in fact trying to bring a product which would be both for domestic and international markets. In other way that means you can bring the international features into the domestic market even in our products, and at the same time take care of the cost and have the same kind of a profitability as we have been now kind of looking at.

Satish

Okay, sir what is the geographical exports, I mean, when you talk of commercial vehicle exports, to which geographies are you exporting, and the passenger exports to which geographies?

Praveen Kadle

Commercial vehicles we have been traditionally very strong in the South East Asian market as well as, particularly the South Asian market, and some parts of Africa and the Middle East. Now, we have added two new markets, one is South Africa where we are doing quite well. The other one is Turkey and we are now making small entry in a small way in the Russian and the East European market. As far as passenger cars are concerned, again, we were strong more or less in the same markets as I mentioned for commercial vehicles, expect that we were also there in Western Europe for the last almost 10 years, and our thrust for passenger vehicle export in Europe still continues. Again in passenger vehicles we have made a successful

entry in South Africa and we are also looking at some of the other east European markets or even the South East Asian markets like Malaysia and other markets.

Satish

And capex for the next few years sir.

Praveen Kadle

We had mentioned recently in our annual report that we would be spending about Rs 6000 crores in the next four to five year's time, so that continues.

Satish

Okay, thanks. Thank you sir.

Moderator

Thank you very much sir. We have next question from Mr. Krishna Kumar from Sundaram.

Krishna Kumar

Good evening sir. Sir could you talk about the kind of ramp up that you are seeing in Ace, and for the full year would you launch it nationally, or how are the production plans on Ace, and could you also talk about the gains in shares in that segment vis-a-vis competition?

Praveen Kadle

We launched this product to start with in four southern states, then we added Maharashtra, and now slowly we will add the other states also. We started with a capacity of about 30,000 vehicles per annum on annualized basis. We now believe that, since the response has been extremely good for this product, if we have to launch this product on all-India basis, this 30,000 may not be sufficient, so we are trying to double the capacity. Hopefully, this capacity expansion should be over in the next 12 months. It will not all happen at the end of 12 months. The capacity increase will happen gradually, and more from, you can say from January-March quarter onwards. The other thing is when we had looked at the launch, we had looked at purely the commercial segment of this particular market segment. Now, we would be also looking at the passenger segment - passenger in the sense for the movement of passengers. And of course this vehicle is designed in such a way that in smaller towns or rural areas this could be also used as a kind of commercial cum passenger kind of a vehicle, so I think we expect the demand to be good, as I mentioned we are doubling the capacity and we are hoping that the market response will continue to be good.

Krishna Kumar

Sir, and if you could just give us some numbers in terms of the investment that went into development of Ace and the capacity, and what will be the incremental capex to double the output to the 60000 level, how would this compare?

Praveen Kadle

We invested for both product development and the complete plant and everything all put together, about Rs 175 crores. Regarding the expansion which we are talking about, we are still working on in terms of how much would be the actual investment, but if we started with the full product development and the capacity, and the totally new plant at say Rs 175 crores, you can appreciate that the actual money that we will be spending on the expansion will not be much.

Krishna Kumar

Okay. And in terms of your 207 vehicle, how has it been faring in the market, and I believe lot of aggressive financing was done on that and a lot of inventory is lying with the dealer network, your comments on them and the strategies for disposing the same?

Praveen Kadle

I think the financing market in general has become extremely competitive, which is not just the financing from our side, you know, we have all the banks, the private sector banks, the nationalized banks, and then we have the cooperative banks, and then we have NBFCs, so the market in general for financing is extremely competitive, So naturally, people would really offer very attractive financing option so that they can really get good business share for the financing activity. There could be some increase in the inventory at the dealers level also, perhaps could be because of this issue of monsoons. I do not really see a big problem in terms of the dealer inventory because these kind of things we do go through once or twice in a year, but it is not something related to the demand at the retail level going down. I am talking specifically with reference to 207.

Krishna Kumar

207, yeah. And in terms of component sourcing strategies, I believe, you started to buy some important components from China, so what would be the kind of strategy in terms of components that you would probably look at sourcing from China, and in terms of value terms on a per truck basis, how much have you moved sourcing from China, and going forward how do you see yourself in terms of Chinese buying.

Praveen Kadle

I think it is not only China, to be very frank, you know, as a part of our overall cost reduction strategy we are looking at global sourcing, so it is not just China, it maybe Thailand, it could be Korea, it could be even some parts of the European market. Now, as the duties are coming down or India is signing the FTAs with many countries, you will find that importing some of the components without compromising on quality could be a very viable proposition. So as a part of the overall strategy of cost reduction, it is not just China alone, but a part of that 10 billion rupee reduction which we are talking over a period of next three years.

Krishna Kumar

Okay, yeah. Specifically, I would like to understand in terms of, I believe, you are outsourcing steering gears from China, so being a safety critical component, could you share some thoughts on that in terms of the kind of quality and reliability approvals that go into buying such critical components from outside existing suppliers, and the cost savings that are coming in with this kind of, if you could quantify some on the cost saving front also?

Praveen Kadle

Certainly, this is very confidential information, I cannot really share these kind of a numbers. However, I must tell you that we are not compromising in terms of quality. As I mentioned, we are looking at our products not just for Indian market but for international market, and we are not making any differentiation between the product meant for Indian market or a product meant for international market. So in no way our sourcing from any country whether it is China, Korea, or any of the countries we are going to compromise in terms of quality.

Krishna Kumar

Sir, but the kind of, what we understand from the market is that the cost reductions are quite substantial, and probably even sometimes below variable cost of production, so do you think that...

Praveen Kadle

Cost reduction below variable cost for whom, I did not understand...

Krishna Kumar

On existing suppliers basically, you know, probably...

Praveen Kadle

No, let me stop you here. I think I must tell you that market is becoming competitive whether for our suppliers or for Tata Motors. Tomorrow, if Indian market gets flooded, as the duties come down, if the Indian market gets flooded with pick up vans or trucks or even passenger cars at prices which are significantly lower than what we are selling today, what do I do? Forget about my supplier, I am asking Tata Motors. What do I do? I need to look at my cost base; I need to reduce my cost. I cannot say that the quality of imported vehicles is very bad, it is the customer who decides, not I. If the customer says you know I am quite happy with imported stuff which is brought into the country at price which is say 30% lower than what Tata Motors is selling, can I go on cribbing that you know the market is flooded with imported goods, I had to do something in house. So I think the things are changing, the rules of the game are changing, everybody needs to change, they need to look at cost.

Krishna Kumar

Okay. And in terms of product pricing, what are the kind of pricing actions, if any, you have done in the first quarter on both the passenger and the commercial vehicle segments, if you could just take us through that?

Praveen Kadle

In terms of the price?

Krishna Kumar

Product prices?

Praveen Kadle

Yeah we did increase between 1.5 to 2% at the beginning of the year both in commercial vehicles and passenger vehicles.

Krishna Kumar

You know, given the cost increases due to the emission standards and other subsequent changes, and the need to probably take another increase, do you think the market condition is right enough to pass on further costs sir?

Praveen Kadle

It will all depend upon the market conditions, as I mentioned when I was answering your question about the competitive pressure, if the competitive pressure is there, if the market demand continues to be sluggish, I think the answer does not lie in increasing our prices, the answer lies in reducing our costs so that we can maintain the margins which we are just now talking about.

Krishna Kumar

Okay. Thank you very much sir.

Moderator

Thank you very much sir. We have next question from Mr. Manishi from UBS.

Manishi

Hi, good evening Mr. Kadle, good evening Manishi. Congratulations on a great set of numbers. I had actually two questions, firstly, you have merged Tata Finance along with yourself from the 1st of April, could you give us some break up as to the impact of this merger on top line, EBITDA, and PBT? That is number one. And secondly, in your revenue side, is there any one-time item whatsoever?

Praveen Kadle

No, in revenue item there is no one-time item. As far as the Tata Finance is concerned, our overall financing business accounts for about 3% of our revenues, and in terms of the incremental, as you know, we always used to do the financing business through our earlier division called **BHPC**. So, Tata Finance has added the incremental impact to the bottom line position, so at the operating level or even at the PBT level the impact is about close to 0.5 – 0.6% of our operating margins,

Manishi

So I mean one could say, correct me if I am wrong, that if Tata Finance had not been there, then your EBITDA margin would have been maybe 12% or so?

Praveen Kadle

Yes.

Manishi

Okay. Just one more question from my side, regarding the CV volume outlook that you gave, we have noticed in the first quarter, your M / HCV volumes have declined for whatever reasons, regarding production constraints, but Ashok Leyland has actually increased, and even the full year growth target that they seem to have is significantly higher than yours, because you seem to be saying that it could be flat to marginally negative in the domestic market, I mean, why do you think Leyland is gaining market share?

Praveen Kadle

I think one should really look at it over a period of 12 months and not just on a quarterly basis. And, yes, the point is valid that our volume proportion of M / HCV declined in the first quarter as compared to last year's number as well as the corresponding period for the first quarter last year. But I think as I mentioned we had this problem related to component suppliers, and we got more impacted because of this Euro-1 problem in North where we have 80% market share, and therefore we got more impacted as compared to let's say Ashok Leyland or any other competition. I think one should really look at this market share position not based on month on month kind of thing, but over a longer period, and I think we are trying to get back to our original market share as far as M / HCV are concerned. Now, if Ashok Leyland says the market is going to grow by 10-15% or whatever numbers they are talking about, let me react to that by saying that our objective, our goal, and our target is always to outperform the market. So if the market grows by 10%, we will be happy to grow by 12 or 15%.

Manishi

Okay, great. Thank you very much sir.

Moderator

Thank you very much sir. We have our next question from Mr. Rakesh Jhunjunwala from Rare Enterprise.

Pankaj

Hello. Manish, Hi, this is Pankaj here. Just picking up from the last question on the market share thing, in the analyst meet which we had about couple of months back, we had guided for a industry growth of about 8-10%, so what has happened over the last 2-2½ months which has made you change outlook for the industry, if you could just throw some light on it?

Praveen Kadle

I think the, one of the reasons has been maybe we perhaps didn't expect the kind of slowdown which would, not slowdown but the impact we could have because of the component issue, number one. Number two is the price increase on the diesel front has been quite steep, and we haven't seen a kind of corresponding increase on the freight index side. Yes, there has been some increase but it is very marginal. So gap in terms of the freight index and the diesel index has been widening, to that extent the profitability of the truck operators is getting impacted, and I think therefore, the operators are going to kind of wait and watch in terms of replacing their old trucks. I think going forward as I mentioned at the beginning we should see the growth coming from October onwards, now whether that growth will overall increase the

growth for the whole year to 8 or 10%, bit early. That is why I was making a very cautious statement of either negative or margin growth.

Pankaj

But if we look at the industry then so far we haven't seen any such signs from the industry perspective whereas the raw material component sourcing is an issue which is more specific to our own sales. So, are we saying then that the industry is going to witness a negative growth, sharp negative growth in the second half to end the year on balance with you know flat growth or something like that?

Praveen Kadle

As I said, yes, I was earlier reacting to the question that our target is always to outperform the market, so we are expecting kind of a, flat kind of a curve this year because of the problems in the first 5 or 6 months, but then the growth would be there in the second half, but overall maybe flat kind of a curve, and if the growth is much more than what we anticipated, we are ready, we are increasing our capacity, our component supply problems are behind us, and therefore, and our product development has been always on track in commercial vehicle, so we don't see any problem, if the market picks up, to even outperform the industry.

Pankaj

Could you also comment on the inventory situation that prevails in the industry?

Praveen Kadle

Yeah, the dealer level inventories have gone up. The problems are because of, as I said the, I mean, the whole issue of this Euro-1, Euro-II, Euro-III, really has complicated the management of the inventories and the dealers happen to have more inventories. Then, of course the floods also has perhaps created some problem for the dealers. Typically we try to maintain the overall inventory, that is the system inventory as we call between the dealers and Tata Motors, not more than 35 days. It has gone beyond that, so we will try to bring it down to a level which will be about 35-37 days kind of a thing.

Pankaj

And finally if you could just comment on the performance of or the reception of **Starbus** and **Global** as to how they have been performing?

Praveen Kadle

Response has been good, and we have been getting lot of orders. The problem has been, because of this whole component supply issue, we could not deliver or could not convert these orders into actual deliveries. As I mentioned we should, going forward, get these orders fully converted into actual deliveries.

Pankaj

Would you like to comment on some market share, what kind of market share gains is possible for us post these two products?

Praveen Kadle

We always have been traditionally maintaining the market share in the bus segment at around 50%. Our objective is to go beyond 50% and grow significantly. I do not want to make a target mention here in terms of the market share for buses because it is bit too early. We have launched new products, we need to see the response. And why we have brought the new products, and that too about 19 models towards the end of last financial year, was to increase the market share significantly because we believe that going forward we should see similar kind of a growth in the bus market as we saw in the truck market in the last three years.

Pankaj

Okay. Thank you sir.

Moderator

Thank you very much sir. We have our next question from Ms. Rashi Talwar from Kotak.

Rashi Talwar

Good morning sir. How are you?

Praveen Kadle

Excellent.

Rashi Talwar

Just wanted to know what has been the income from securitization of receivables this quarter?

Praveen Kadle

Income from securitization, I don't have the data right now in front of me, but any specific question if you can expand on that?

Rashi Talwar

No, wanted to know how much of it was in this quarter, I mean, I saw your annual report of last year and I saw that it was about 14 crores for full of last year, so I wanted to know how that had changed given the merger, etc..

Praveen Kadle

I was mentioning that this year the securitization will be higher than what it was there in the last year or previous years. On an average we do about 50-60% of our total asset portfolio, we securitize. This year it would be higher because we have taken the loans from Tata Finance books on our balance sheet, and on the opening day we took the overall loans of about Rs 1300 crores on our balance sheet. Our own loans or borrowings were about Rs 2400 crores at the end of the year, so overall borrowings went up to Rs 3700 crores, so you can see the first quarter interest is higher therefore as compared to last year's first quarter. We would like to bring down our overall borrowings by end of the year back to the original number, that is Rs 2400 crores. So we will do higher securitization this year as compared to what we have

been doing in the previous years, and therefore the securitization income will certainly grow because of the sheer volume, but you also need to take into account that interest rates have gone up, and therefore the securitization rates have gone up. So to that extent the income also will get impacted because of the higher interest rates.

Rashi Talwar

Right. But also if you plan to bring your overall borrowings down, going forward what do you think will securitization, income from securitization remain that high or..., I mean, how sustainable would it be?

Praveen Kadle

If we continue to book 50-60% of our assets by way of our securitization, yes, it would remain high. It would be kind of, you know, the benchmark is as I said 50-60%, and as our asset base on the balance sheet increases, the income will continue to grow.

Rashi Talwar

Okay. Sir, on account of Tata Finance, the losses, I mean, have you got the tax break from it already in this quarter, has it already been accounted for or not, because there was some confusion on this?

Praveen Kadle

No, we have not accounted for, and you know there are two things, one is accounting and the other one is actual cash flow. Now, accounting as a matter of prudent accounting policy you may or may not take into account until the matter is finally decided in your favor. On the other hand, as far as the tax payment is concerned, that is something which you can always take into account, but that has nothing to do with accounting.

Rashi Talwar

So, so far we haven't seen the benefit of it?

Praveen Kadle

In the books, no. Financial results, no.

Rashi Talwar

In the financial results we haven't seen the benefit. Thank you sir. That is all.

Moderator

Thank you very much mam. We have next question from Mr. Imran from Strat Cap Securities.

Imran

Hello. I would like to know your vehicle financing loan book as well as what are the yields and NIM we get?

Praveen Kadle

Are you talking about yields means, IRR kind of a thing?

Imran

Yeah, something, what sort of return, gross returns you get on the financing business?

Praveen Kadle

Gross return can be very confusing word, it can be gross return on capital employed, the spread in terms of your..

Imran

Okay, the spread, one is the spread, NIM I mean the spread.

Praveen Kadle

Okay, let me just first of all say that typically we get about in terms of IRR about 9-10%, so you can calculate because let us say even if you take interest it is 6.75% to 7%.

Imran

Okay. And what would be our loan book outstanding as of 30th June?

Praveen Kadle

Our assets, you are talking about the assets?

Imran

Financing, yeah?

Praveen Kadle

The financing assets as on 31st March were Rs 2800 crores.

Imran

Okay. And what would be as of June?

Praveen Kadle

You asked me June, no?

Imran

Okay, these are June – Rs 2800 crores?

Praveen Kadle

Yes.

Imran

Okay, thank you.

Moderator

Thank you very much sir. We have our next question from Mr. Apoorva from Crisil.

Apoorva

Hello, good evening sir. Just had two questions. One related to Tata Ace, I believe Tata has done very well since its launch in the last two months, what kind of sales targets have you kept for this financial year? And the second question..

Praveen Kadle

So far we have sold, on an average, 1200 numbers per month It is only in 5 states, and as I said we had the capacity of 30000 vehicles. As we go into the other regions and states, we believe that we may find the capacities to be short of what market demand could be. Now, I don't want to get into the market target and our own target for this year because as I said it was more of a initial launch and then slowly ramping up the volumes. So, our numbers were very conservative, and talking specifically for this year may not be the correct thing.

Apoorva

Okay. And another question, I believe in the first quarter, the growth has mainly come from the pickups and the tractor trailer segment, and the 16-25 ton segment has not done very well, so do you believe this would be continuing for the whole year or there would be, the 16-25 category segment will pickup in later months?

Praveen Kadle

You are talking about this year?

Apoorva

Yes.

Praveen Kadle

No, I think this year it should pickup, but as we had mentioned all along that going forward the demand for trucks will go up on the – go to the tractor trailer segment, and medium segment, especially below 16 tons or even 16 tons will get impacted. 25 tons according to me, it will continue for some more time, at least for another 2-3 years.

Apoorva

Okay, fine. Thank you sir.

Moderator

Thank you very much sir. We have our next question from Mr. Rajesh from DSP Merrill Lynch.

Rajesh

Sir, just couple of questions from my side. You are saying that CV volume growth you are expecting negative to marginal, is it primarily because of April to July which is a bad period due to abnormal reasons because of unavailability of components so on and so forth, or is it because of structural slowdown and signs of higher inventory with dealers and kind of thing?

Praveen Kadle

I think the part shift is due to first quarter problems, and the problems because of the monsoon and diesel hike in the second quarter. But I think structurally no changes are happenings. The demand for the investment on infrastructure and road development is continuing. In fact, the prime minister as you know on 17th May after he completed first year of his term in the office did talk about significant investment in infrastructure and road development activities, and therefore I think the demand for the trucks going forward for the next 3-4 years will continue. I think what is happening and what we are seeing now is some kind of a technical correction in the space, and therefore it is more of a short term adjustment in this year, but going forward I think the demand will continue to grow quite well.

Rajesh

Is basically at medium to heavy commercial vehicle side, am I right? And what about the total CV volume growth you are looking at in the domestic side, for the industry in general in the current year, total commercial vehicle, including light?

Praveen Kadle

As I said, there might be a decline in the growth of heavy truck, so may be you can say flattish kind of growth.

Rajesh

For total commercial vehicle?

Praveen Kadle

Yes.

Rajesh

For the full year?

Praveen Kadle

Yes.

Rajesh

So what kind of decline, therefore in medium to heavy commercial vehicle, what kind of decline you are seeing? Because I thought it was for **M/HCV**?

Praveen Kadle

Yeah, I talked about **M/HCV**..

Rajesh

No, my question is, what kind of total volume growth you are looking for in the domestic industry for total commercial vehicle, including medium, heavy, and light.

Praveen Kadle

As I said flat.

Rajesh

So, it means there is a significant decline at medium and heavy commercial vehicle side, am I right?

Praveen Kadle

What I said was there will be decline in M/HCV and that decline will be offset by the growth in the pickup segment and the light commercial vehicle segment. Overall it will be flat or a marginal kind of a growth. Now, I can not make the very precise expectation of what will be the decline or growth in terms of percentages.

Rajesh

Okay. And my second question is with reference to steel prices, can you throw some light in terms of, you know, what is our kind of strategy to handle this thing?

Praveen Kadle

We would like to take advantage of this spot prices going down and therefore this year we have reduced the annual contract booking from, traditionally we do about 65-70 %, this year we have done about 50-60%, so we would like to take advantage of the spot prices going down in the future.

Rajesh

Okay. Thank you sir.

Praveen Kadle

Can I take the last question?

Moderator

Sure sir. We have next question from Mr. Kalpesh Parekh from ASK Raymond James.

Kalpesh Parekh

Good evening. Sir I have one question mainly on, there is some media reports after your AGM that, you know, about unlocking value of your investment in any of your

subsidiary companies, have we finalized anything or have we short listed any company on that front?

Praveen Kadle

I did mention, subsequently also after it was mentioned by Mr. Tata in the AGM that three targets HVL, HVTL, and Telcon, the work is going on, and we should see some kind of, hopefully, some kind of unlocking in these three companies by end of the year.

Kalpesh Parekh

So, when can we expect, in this year or probably one or two years as such?

Praveen Kadle

Either this year or early next year.

Kalpesh Parekh

Okay. My second question is on the bus segment, I mean, we saw a decline happening in this quarter, is it due to production related constraint or is it kind of structural slowdown happening in the bus?

Praveen Kadle

Mainly because of components, I did mention in one of earlier questions that we have orders and we will now start the deliveries of these orders.

Kalpesh Parekh

Right. So, I think, sir your, the new 19 series of Global or Starbus range of buses, I mean, you mentioned that the response has been good, but is it that more than your expectations, so can we expect some pickup happening in the subsequent quarters, at least for that buses?

Praveen Kadle

The response has been good. I would not say whether it is less or more than our original expectation. And I think people also would like to see the buses and after they start using them, and then one can really talk about how good is the response. Yes, but initial response is quite positive.

Kalpesh Parekh

Right. Okay sir. Thank you.

Moderator

Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Satish Jain for final remarks.

Satish Jain

Thank you ladies and gentlemen for participating in this call organized by JM Morgan Stanley. I also thank Mr. Kadle and Mr. Manish Gupta for addressing this call. Thank you sir.

Praveen Kadle

Thanks for all the efforts taken. Thank you to all the people who asked the questions as well as those who participated in the question and answer session. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx 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.