

TATA MOTORS

Analyst/Investor Conference Call

July 26, 2006

Moderator

Good evening ladies and gentlemen. I am Gaurav, the moderator for this conference. Welcome to the TATA Motors conference call hosted by HSBC Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to SingTel. After that the question and answer session will be conducted for participants in India. I would now like to hand over to Mr. Anand Shanbagh of HSBC Securities. Thank you and over to you Mr. Shanbagh.

Anand Shanbagh

Yeah, thanks and warm welcome to everybody for today's call. We have great pleasure in welcoming the TATA Motors team led by Mr. Praveen Kadle, the Executive Director (Finance and Corporate Affairs). Over to you sir.

Praveen Kadle

Yeah, good evening or good morning or good afternoon to all the ladies and gentlemen. We already have the presentation, which we made yesterday to the press, on the net, so I am not going to repeat the whole presentation, I am just going to cover few major highlights and then may be we can have the question and answer session. We saw about 44% growth in quarter 1 with the volumes going above 126,000. Commercial vehicle segment grew by 69% mainly on account of the Ace volume. As you know in the last year we had launched the Ace, a small truck, in first week of May so we had much lower volumes in the first quarter last year as compared to that we have about an average of 4500 in the first quarter. Then, of course, last year we had the problems in terms of the availability of the critical components for medium and heavy trucks, thanks to the confusion created by the regulators in terms of the environmental issues and that had seriously impacted our overall supply chain position and therefore our production was significantly impacted in the last financial year, so compared to that the volume growth of 69% looks very high but then you need to consider all the abnormal factors which were there in the last years first quarter. The passenger vehicles grew by 22%, a good growth overall. The industry growth in the passenger segment was lower than 22% and we have out performed the industry in the passenger segment. The overall industry growth in the passenger segment, has been in the compact segment, the industry growth was 30% whereas our growth was 32.7% and the utility vehicle segment, the industry growth was 7.8%, our growth was close to 15% and the entry mid size segment while it declined the industry declined by close to 13%, our decline was only about 6%. So with both the commercial vehicles as well as the passenger vehicle segments doing quite well, we have out performed the industry in all these segments and therefore have improved our market share positions significantly even in the bus segment coming back to the commercial vehicle segment there again we have improved our market share position significantly. The international business, the growth has continued to be in line

with what we have seen in the last couple of financial years. In the first quarter these volumes grew by about 45%. The overall international business on a consolidated basis still is around 16% of the total revenue and we continue to have strong presence in the markets like South Africa, Middle East, South Asia, as well as some of the European countries. New markets which we are looking at are Russia and the some of the earlier communist countries in the Eastern Europe and also looking at some of the South East Asian countries. The vehicle financing business continues to grow robustly, growth in the first quarter was 121%. We disbursed funds to the extent of 2100 crores and overall our market share in terms of the vehicle financing, as far as TATA Motors vehicles, are concerned has gone up to 33% as compared to the previous year at 22%. In the four-wheeler auto-financing segment we are now No. 2 next to only ICICI Bank. Overall revenue net of its price on standalone business has gone up to 5783 crores from 3907 crores which is a growth of 48%. The margins were impacted in the first quarter on account of the significant increases on the input cost mainly on account of the all the commodity price increases which we have seen in the case of steel and in the case of copper, aluminum; not so much in the case of steel but more particularly in the case of copper, aluminum, and rubber resulting in the increase in tyre prices and of course in the first quarter we also had the significant depreciation of the Indian rupee against the dollars, so we had about FOREX loss of 78 crores which we booked in the first quarter. This is a notional loss and not the cash loss because most of the loss is related to our foreign currency convertible bond where the redemption is still 5 years away. During the quarter we had to reverse the income which we had booked last year to the extent of 36 crores on account of the export incentives where the government towards the end of the first quarter, reversed with retrospect effect, some of the incentives which one could claim. So that also has been accounted for and therefore the overall operating margin is down to 11% as against 12.46%. If you have the net of these notional FOREX loss and the foreign exchange earnings then the operating margin is much higher closer to 12.75 to 12.8%. The profit after tax is 382 crores as against 273 crores which is about 40% increase. The effective tax rate in the first quarter has come down to 23% in this quarter as against 26% in the previous quarter. The EPS is close to 10 rupees an increase of 38%. On the consolidated basis the revenue has seen 51% growth. The revenue has gone up to 6771 crores, which is as I said, 51% growth as compared to last year and profit after tax has gone by up 46% at 382 crores. One question which mainly we ask is why the profit on the standalone and consolidated basis in absolute terms is same is because of the play of the dividend income from the subsidiaries while the profit on the consolidated basis from the subsidiaries is booked for only one quarter that is the first quarter whereas in the case of standalone books of TATA Motors, the dividend which was stable related to the last years financial has been cashed in by TATA Motors in the first quarter, so that has been taken as other income by TATA Motors because dividend we always take on the cash basis and not on the accrual basis so that is the anomaly we can say. So the first quarter numbers both on standalone and consolidated basis are more or less at the similar level. However, you might have seen from the individual subsidiary companies performances all the subsidiaries have done exceedingly well not only the major subsidiaries but even the smaller subsidiaries have showed significantly better performance and going forward we will see this first quarter anomaly being corrected in the subsequent 3 quarters. So overall, I would say a good performance driven mainly by the volume. The pressures on the margins was significant and will continue and we are, from our side, doing cost reduction in line with what we had announced last year and we have increased our prices in the month of June. Whether there will be another price increase is too early to say. It will all depend upon the market conditions,. However, I don't think there would be any further price increase in at least in this quarter and we will have to see beyond that. The inflation pressures will continue thanks to the general inflation as well as the interest rate hikes as well

as on account of the overall input cost, but I think what we would like to do is continue to build the volumes and while the pressures will be there on the margins have a good performance in the subsequent quarter but it is going to be a tough job. So with that let me throw it open for the question and answers. Thanks.

Moderator

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

Salvia

Thank you Gaurav. 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 a question please press 01 now. At this moment, there are no questions from participants at SingTel. I would like to hand over the proceedings back to Gaurav.

Moderator

Thank you Salvia. 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 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 only handsets while asking a question. To ask a question participants may please press *1 now. First in line, we have Mr. Pramod from ABN Amro. Mr. Pramod you can go ahead sir.

Pramod

Sure. Congratulations sir for the good set of numbers. I have 2 questions, one is with respect to the vehicle finance division, what has been the contribution in terms of the top line operating margins and the bottom line and what is the medium term outlook for this division considering the large funds requirements for the business of vehicle financing.

Praveen Kadle

The overall contribution of the TATA Motor Finance, the vehicle financing division, in terms of PBIT level or rather the EBIDTA level has marginally come down as compared to last year when it was about 9%, it has now come down to about 6-1/2% that is mainly because of the significant volume increase in the main business and therefore the operating margin from the main business has been quite strong and of course while the interest rates have been going up significantly. As you know in the financing business, the receivables are signed in advance say last year at a lower rate, so until the correction takes place you will always have some kind of what should I say the arbitrage will get reduced in the increased interest rates or increasing interest rate scenario? Coming back to the plan that we have, the volumes are increasing, the business is increasing and we are looking at taking the business to about 40% of the total vehicles of TATA Motors which would mean that the volumes can go up significantly and it is bit difficult to do the business on the balance sheet of a manufacturing company so we decided to do this business through a separate NBFC company, which would be a subsidiary of TATA

Motors and we have born the company, we have already applied for the license from RBI. Hopefully we should get it in this quarter and hopefully by the end of this quarter we should start that business.

Pramod

Okay, so that will reduce at least on the standalone the funding requirement for this business.

Praveen Kadle

Yeah we have about total portfolio as on 31st March of around 5000 crores and significant amount of cash has been getting into the financing business and TATA Motors will have its own CAPEX requirements and we already announced our plans of spending about 10,000 crores in the next 3 to 4 years. So doing the business on a separate balance sheet, which is a dedicated NBFC company, would certainly help us.

Pramod

Okay and second in terms of the cost pressure where you said that steel was not such a big issue in the first quarter even though the prices have in the open market have gone up and that too again in the month of July, have you signed your long term contracts and how you want to play this year in terms of long term and short term contracts and have the June prices taken into account the steel price impact?

Praveen Kadle

No it is like this that the contracts we usually sign in the first quarter and I think I had mentioned in the earlier conference call when we announced the last year result that we were expecting some kind of a tapering off the steel prices, so the annual contract quantity which we had booked usually is around 50 to 60%; In the previous years we had increased it to 75% which is down back to again 50-60%, so to that extent any increase in the spot prices would impact us. So it was moderate in the first quarter and these were 3 to impact in the second quarter and thereafter.

Pramod

Okay but at least for the 50% which you have booked for the long term the prices are fixed type of nature.

Praveen Kadle

Yeah.

Pramod

Okay, fine, thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Bomik Bhatia of Crystal Research.

Bomik Bhatia

Hello sir, a very good evening to you. Sir I wanted to ask 2 questions, in the commercial vehicles industry what kind of growth are you expecting for the financial year 2007 in both domestic and export market and I also wanted to know, which category do you expect to outperform in the commercial vehicle industry?

Praveen Kadle

Sorry what is the last second part?

Bomik Bhatia

Which category I mean LTV or MCVs or ICVs you expect to outperform; I mean which category do you expect to perform the best?

Praveen Kadle

That in the first part of your question the expected market increase this year could be as we had mentioned at the beginning of the year because of the very low base in the last year almost for 7 to 8 months. The growth could be perhaps as high as 20 to 25% and the growth of 69% which was there in the first quarter should not be really taken as a kind of for the remaining quarters because the first quarter base of the last year was very low and as far as the second question, second part of your question our target could be always to outperform in all the segments in the of the commission vehicle as well as in the passenger vehicle segment which is what we have done in the first quarter. I must say however that the light commercial vehicle other than the small truck, (that is the Ace segment), the rest of the light commercial segment is not really growing at very at the same rate as the other segments of the commercial vehicles are growing so I think that market is growing but it is growing at single and the single digit numbers of course even there we have also performed the industry.

Bomik Bhatia

Right, and sir if you could throw some light on the domestic and the export markets I mean the growth in the domestic and the export market?

Praveen Kadle

No as I mentioned we have seen 69% growth in the first quarter. I don't think it will get repeated, so I mentioned that we should see about 20 to 25% growth for the overall year. As far as the passenger vehicles are concerned, we should see about may be between anything between 10 to 15% growth and again here the interest rate movement will create some impact on the demand while the first quarter was good, but we need to really see how the interest rate movement is going to create the impact. So people are taking about additional increase on the interest side, so there could be some impact going forward and on the export side we have seen 45% growth and at the beginning of the year when we had the conference call in the month of May, I had said we should see about 25 to 30% growth in the international business.

Bomik Bhatia

Okay and sir you just mentioned that you are planning to have a capital expenditure of around 10,000 crores, so sir if you can throw some light on that I mean in the specifics on how you are going to spend that 10,000 crores?

Praveen Kadle

The bulk of the expenditure is going to be on the new product introduction and that would be almost close to about 7000 crores and then about 2200 crores is based on the capacity expansion and the normal sustenance, which is basically the replacement of the old machine from the point of your balancing equipment etc., that will be around close to remaining 1000 crores, so that is how we are going to spend the money.

Bomik Bhatia

And this new product introduction includes 1 lakh car plant.

Praveen Kadle

Yes.

Bomik Bhatia

Okay, okay sir thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Ashutosh Goyal from Edelweiss.

Ashutosh Goyal

Hello, good evening sir. I just wanted some details on the Ranjangaon joint venture that you have announced with Fiat, what is the time line and what is the current available infrastructure at that side?

Praveen Kadle

In Ranjangaon, the Fiat people had taken the land and they have constructed some incomplete building, so other than that there is nothing there. They had initially about, 7 years ago, started some setting up of building, the manufacturing clients but that is the building part I am talking about and that they had disbanded because of their own problems, but so I think there is nothing there. In terms of the time lines, I think it is bit too early because we have just signed the MOU to work on the joint venture agreement which would also include the overall business plan, the investment plan, and the time plan, and however we would like to do it as quickly as possible because we believe that they have some of the good products especially product like **Grande Punto** which could be brought into the Indian market as quickly as possible.

Ashutosh Goyal

Thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Kalpesh Parekh from ASK Raymond James. Mr. Parekh.

Kalpesh Parekh

Yes sir I have couple of questions first is on your tie-up, where we have seen that you know there are possibilities of exploring Latin American market, can you throw some more light on how big that market would be for your pick ups and you know what type of potential we can have in next couple of years in this market?

Praveen Kadle

You must have already read the press release and what we have said is, we will form the teams now to explore the potential of the market and the teams are suppose to come back in a period of next 60 days, so it is bit too early to comment in terms of how big the market is for our different products but I think at the end of 60 days, which means by end of September, we should be in a position to come back to all of you in terms of what that potential is.

Kalpesh Parekh

So even the clarity on this engine transmission also would come only after 60 days or probably we can get more clarity on that?

Praveen Kadle

No, engine is different because what I mentioned about 60 days is about the Latin American market, which was your first question. As far as engines are concerned, we already mentioned in the press release that we are looking for overall capacity of 250,000 engines. Along with that the supporting transmission life and as far as the car manufacturing is concerned we are talking about 100,000 cars.

Kalpesh Parekh

Right, so that would be for both domestic and export market what you would be exploring.

Praveen Kadle

Yes, yes.

Kalpesh Parekh

And my second question is sir we had started you know in this fiscal by saying that you know CAPEX plan will be somewhere around I mean 5000 to 6000 crores and in the annual report we

have seen of 10,000 crores, so is there any additional thing which has got added in this new product development apart from your up coming couple of platform CB and any additional platforms also have been added in this 10,000 crores CAPEX?

Praveen Kadle

No, if you recollect we had mentioned that original plan was 6000 crores but when we were really looking at the numbers and it was bit too early to talk about in terms of what that final number was going to be, because the work was still going on at that time and we had that last conference call in the month of May and we did finalize our numbers thereafter and therefore when we went to the share holders for approval, we talked about 10,000 crores. I just gave the numbers in terms of what that breakup is. We are expanding our capacities in all the product groups. I think the one of the reasons as to why we had earlier talked about 6000 was the small car numbers were still to be finalized. I must however say that the small car numbers are yet to be finalized. So we have made some estimates of the small car numbers into the 10,000 crores but depending upon finally what volumes we are looking at, whether we are looking at quarter million or half a million or 1 million numbers these numbers may still undergo change what we have undertaken right and what we have estimated right now is about quarter million numbers and when we are earlier talked about 6000 crores the small car numbers may not taken because, kind of an project details were still to be worked out.

Kalpesh Parekh

But sir again then can we get some more inputs on which platform would be coming from your end, because I think you are working on the platforms at one shot, so which platform you can expect to come first as such, will it be the UV platform which we have been hearing from long time or it will be the car platform, the new CV platform world class truck platform?

Praveen Kadle

See in terms of the chronological order, what we will have first will be the of the passenger car platform starting with the new platforms replacing the current Indica. Then the utility vehicle, then of course a small car and thereafter the new commercial vehicle platform. Of course in between we will have the expansion of the Ace and last year we launched only the commercial vehicle part of the Ace. We still have not launched various applications on that platform, so you will see lot of variant coming on the same platform then after there is going to be the passenger segment on the same platform, so that is going to be new segment, and we are expanding capacity there, so we are looking at now building the volumes and increasing the volumes there.

Kalpesh Parekh

My last question is on the funding part of your CAPEX, have we finalized or whether we would be going for debt in the other form or it could be entirely funded through internal resources only?

Praveen Kadle

We have not yet finalized any plans, whatever resolutions we had got from the shareholder approved where more of enabling resolution. Our effort could be, however, to try to get the

resources first from internal generation, failing which we will go for debt market, and failing which we will go for the equity market.

Kalpesh Parekh

Thanks sir and wish you all the best for your upcoming platforms and thank you.

Moderator

Thank you very much sir. Next we have Mr. Ashish from SSKI.

Ashish

Good evening sir. Sir just had couple of questions. The first question was on a subsidiary TATA Technologies, basically we have seen that the top line has grown you know by almost 364% that is obviously with the addition of the INCAT revenues but the profit has declined by 51% on a year-on-year basis, so I would just like to have a feel of the numbers that we can expect on the profitability front in particular.

Praveen Kadle

You might have seen the notes which we have given to disclose the numbers related to TATA Technologies. There was a change in the accounting policies, at least in the last year we were accounting for the employee performance bonus on a cash basis, because the employee performance bonus was declared after the years audit was over and was based on the years performance, the employees were paid the performance bonus and therefore it was accounted for on a cash basis. During the year, we decided to change that and make an estimate of the performance bonus for the current year in the current year itself as well as whatever was paid in the last year in the current year whatever was pertaining to last year.

Ashish

That also got paid in this quarter as well as the estimate for the present year.

Praveen Kadle

Correct, so that we took the companies right off as well as provided for the performance bonus estimated for the current year in the first quarter. So we have on like-to-like basis take an extra charge of 11 crores so to that extent you can say the profit for the first quarter has been shown lower by almost 11 crores.

Ashish

Okay, so going forward this may not continue, this is a one time in nature for the whole FY07 we have given it in this quarter only?

Praveen Kadle

Yeah, yeah.

Ashish

Okay and sir just one more thing have we taken the TATA finance merger benefits?

Praveen Kadle

No we have not taken, we had mentioned this earlier also that we do not intend to take any tax benefits until they are conclusively decided in our favor.

Ashish

Okay fine. Thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Satish Ramanathan from Franklin Templeton.

Satish Ramanathan

Good evening sir.

Praveen Kadle

Yeah good evening.

Satish Ramanathan

Just wanted to understand the mechanism of this transfer, what would be the kind of investment into this NBFC and would it be raising fresh debt in the NBFC or would you be transferring this, would it be standing as a debt to the NBFC, how would that, because that will release a lot of cash if you raise the external debt into the NBFC?

Praveen Kadle

Yeah that is the intention.

Satish Ramanathan

Okay, but is it possible, I mean so you would be typically having an investment of something like 800 crores and raising the balance 4400 crores in form of external debt is it?

Praveen Kadle

Yeah something like, although we are still working out the numbers in terms of how we should structure the capital of the company.

Satish Ramanathan

Okay but is it possible to do it in single thing or would you be transferring assets and then raising the debt how would that be ?

Praveen Kadle

No, it would be combination of both partly we will do securitization on the balance sheet of TATA Motors, partly we will transfer the assets of portfolio to the books of the new company, so it will be combination of both.

Satish Ramanathan

Okay but in terms of your underlying finance business, we have had this Telco Dealers Vehicle Finance Association becoming merged into TATA Finance and then TATA Finance being merged into TATA Motors and then getting spun of once again, why do you want to be in the finance business per se and second is, what is the kind of I mean and you know this does expose the manufacturing company to considerable risk?

Praveen Kadle

There are two reasons as to why we do it. One is, you get to participate in the extended value chain of the entire car manufacturing and marketing business, first one and #2 it also is a support activity to the main business of manufacturing and marketing. So long as we put the right processes in place and keep the NPAs below the industry or around the industry numbers, I think it is still a good business.

Satish Ramanathan

That was very relevant at the time when finance in our country was so underdeveloped and you did not have the private sector banks pushing as aggressively as they are today, but today credit is available far more easily than it was say a decade back.

Praveen Kadle

No I disagree with you because the banks are you know take the decision based on the market condition and in the last quarter of the last financial year when the liquidity crunch was there, some of the very top known banks who claimed to be very aggressive in retail banking either had exited or had significantly curtailed their vehicle financing activity.

Satish Ramanathan

Okay. Sir the other clarification that I wanted is you said it contributed 6.5% of EBIDTA but what would be the net interest margin that you are making?

Praveen Kadle

No, the interest is more of an allocation, so one can show very high margin there because it is still the division but when we have separate company then we can really talk about as to what are the margins we are making as the next level.

Satish Ramanathan

Okay because presumably most of the incremental borrowing have come due to vehicle finance because the manufacturing division is still cash positive and it is free cash flow as of now.

Praveen Kadle

Yeah.

Satish Ramanathan

Okay and what would be the kind of time frame that we are talking of this asset hive of?

Praveen Kadle

As I mentioned we will be setting up this company and start the business by end of this quarter. So the entire hive off or this liquidation through securitization will happen by end of this financial year, let me however clarify that we are not going to completely de-merge the business as it has been reported in some of the newspapers. We will continue to keep some portfolio on the balance sheet of TATA Motors because we had taken the tax benefits and we need to continue the business on these books of TATA Motors.

Satish Ramanathan

Okay, but will not there be securitization losses at this point in time I mean what if one where to mark-to market the book what would be the kind of losses that we will be?

Praveen Kadle

No we would not have any losses, in the worse case situation we may have a breakeven situation.

Satish Ramanathan

Okay and the other issue is in terms of the passenger division if one way to look at the kind of phenomenal growth that you have achieved in the HCVs, especially the multi axel vehicles and the tractor trailers and one would have expected huge margin increase and one can only explain because of material price increases and the second is probably due to the passenger car, like Xeta and also the declining trend in the Indigo, which has impacted the margin significantly.

Praveen Kadle

So you have given the answer yourself.

Satish Ramanathan

But in just to understand what would be the strategy on the passenger car division because A there are being delays in model launches and you know the next 9 months would be extremely challenging.

Praveen Kadle

No I think our strategy is to grow the passenger volume significantly and so we may have to suffer the margins in the short term. But I think we would like to maintain our second position in the passenger vehicle markets. We grew our volumes and also improved our market share position so when we have our new products coming into the market place we would be in a more advantages position because you have already grown the market size and you have already increased your market share and then you get your new products.

Satish Ramanathan

Okay and when would be the new platform coming in I mean what is the kind of timeline that we are talking of?

Praveen Kadle

We are talking right from the beginning of 2008-2009 financial years.

Satish Ramanathan

Okay.

Praveen Kadle

Although I am not saying that in the current year towards the end of the current year we will have the long wheel based Indigo which will be there in the top end of the mix side markets.

Satish Ramanathan

Okay and also in terms of the success of Fiat integration how is that taken place?

Praveen Kadle

Right now there is this distribution, which has happened quite well. Still early because they started only from end of March.

Satish Ramanathan

Okay and would you be getting the sales tax benefits that Ranjangaon that FIAT was entitled to at that point in time?

Praveen Kadle

We need to see that, because whatever benefits were there they were dependent on certain conditions like start of manufacturing by Fiat before certain date which did not happen. So we will have to really look at that aspect totally independently.

Satish Ramanathan

But why would you want to take Ranjangaon when you could probably go to Uttaranchal and get brand new plant with the tax breaks as well as the excise duty benefits?

Praveen Kadle

You know Uttaranchal there is a sunset clause of 31st March 2007. We just signed the MOU to look at all the business plans and all that so even if we do an excellent job in terms of finalizing the JV agreement and business plans in the next 2 months, I think we are going to have hardly about 6 months to set up a green field project in the Uttaranchal.

Satish Ramanathan

Okay and in this 10,000 crores it is inorganic growth opportunities also included?

Praveen Kadle

No.

Satish Ramanathan

Okay and what would be the total tax benefits of TATA Finance?

Praveen Kadle

100 crores around.

Satish Ramanathan

100 crores, okay, right, so but you would continue to follow a kind of a predatory pricing in the passenger car market to kind of keep the market share?

Praveen Kadle

Wherever it is necessary, not in all products. You see, it is only in the Xeta, which is the petrol segment.

Satish Ramanathan

Okay and the Indigo, what would you attribute to decline in the Indigo sales because it was doing phenomenally well for fair period of time?

Praveen Kadle

Basically the entire entry level mixed size market, which has come down. I read out the numbers that the overall markets have seen about 12% negative growth whereas our negative growth has been only 6% and we have actually improved the market share and the overall market has not seen any or there is a negative growth because there is no new product which has come in that segment.

Satish Ramanathan

Okay, right. Thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Vivek from Man Financial.

Vivek

Sir good evening and couple of questions, sir firstly on your capacity side what will the capacity utilization in the commercial vehicle excluding the TATA ace?

Praveen Kadle

Around 80% or so.

Vivek

And the CAPEX which you are saying that 2200 crores, what kind of addition can we see in the CV assembly line for existing products?

Praveen Kadle

We are looking at margins of closer to our overall capacity of closer to which of course would include Ace also so we are looking at a capacity of almost close to 500,000 or half a million rate.

Vivek

Okay and your current capacity in ace will be around 60,000 right.

Praveen Kadle

Yes.

Vivek

And are there any plans of you know putting up another plant for TATA ace at some other location?

Praveen Kadle

We are looking at Uttaranchal as another project side.

Vivek

That will be for the passenger or the goods one?

Praveen Kadle

That will be for both.

Vivek

Okay and another question I have related to the FOREX losses pretty huge you know on this quarter what is the total you know outstanding FCCB money which is you know lying abroad and how much of that is you know yet to be converted?

Praveen Kadle

The FCCB money is very small portion lying abroad because we are using it for the CAPEX so it gets converted into the local currency. Our total FOREX loan including the FCCB and plus the some part of the Yankee bonds which we have issued in 1997 also together we have total exposure as on date of around close to \$450 million closer to \$500 million.

Vivek

So whatever you have brought to India and using you know we are using it for CAPEX and if it is not converted there is a liability on that because of the rupee depreciation right?

Praveen Kadle

Yes you are right.

Vivek

Okay. Sir one last thing on your debt you know what will be your total debt including the TATA Finance business now?

Praveen Kadle

We have total debt of around 3200 crores as on June end.

Vivek

This includes everything?

Praveen Kadle

Sorry 3800 crores at the gross level.

Vivek

Okay, are we looking at any increase in the debt levels because you know interest rates you know have hardened in recent times.

Praveen Kadle

No we are expecting significant reduction on the other hand, the position will improve because of the separation of the financing business on the parent company.

Vivek

But the main business you think will require funding by way of debt kind of CAPEX program we have ahead?

Praveen Kadle

Yeah hopefully our cash flow this year will help us in terms of reducing the debt level much lower than what it is today.

Vivek

But will it be you know because of reduction in the standalone business or will the reduction come because you know the financing business will be hived off or both?

Praveen Kadle

It is the combination of both you wait for the numbers and we will announce the numbers every quarter and you can see how the improvement is happening.

Vivek

Okay, okay sir. Thanks a lot.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Govind from Deutsche Bank.

Govind

Yeah, hi sir. I had a couple of questions. The first was on the project X1 earlier we were working on a diesel engine for project X1. Now with the Fiat deal, is there a possibility that you would use Fiat 1.3 liter engine rather than developing it yourself?

Praveen Kadle

No we already have our engine, so there is no question of our developing totally new engine. The engine will have to be upgraded to meet the new Euro requirement. Our current engine already meets the Euro 3 requirements because we are exporting the diesel Indicas. So we would have, you can say 2 options, one is our own engine and the second one is the Fiat engine.

Govind

Okay and then that engine will also be a common engine?

Praveen Kadle

Yes.

Govind

Okay. My second question was I just wanted some clarity on the CAPEX, if I understood right almost all the increment from 6000 crores to 10,000 crores is because of the small car project?

Praveen Kadle

No, no, no let me clarify we had when we talked about 6000, we had not talked about increasing the Ace capacity beyond 60,000. We are now talking about almost going up to close to 200,000. We are also talking about of course the small car and we are also talking about increases in the capacities for commercial vehicles and passenger vehicles overall so those increases have come.

Govind

Like just to understand may be it repeating numbers the total car capacity today is 225,000.

Praveen Kadle

Yes.

Govind

And what are we looking at post the CAPEX period?

Praveen Kadle

What we are looking is taking it in the first stage to 1000 vehicles per day and then the second stage looking at the possibility of taking it even to 1200 vehicles per day.

Govind

And in commercial vehicles what is the total capacity now which is going to 500?

Praveen Kadle

What is 500 you mean?

Govind

You had mentioned the total CV capacity that you are looking at is 500,000?

Praveen Kadle

Yeah.

Govind

After the, post the CAPEX what is it currently?

Praveen Kadle

It is a kind of a there is nothing like a fixed capacity you can increase and decrease based on the final assembly capacity between 350 and 400.

Govind

Okay that is going to 500?

Praveen Kadle

Yeah.

Govind

Okay. My final question was on safari post the price cut, how has been the impact on demand and secondly have you sacrificed any profit margins to what extent have we sacrificed profit margins after the price cut?

Praveen Kadle

The demand has been quite good. In fact we sold 1100 vehicles in the first month and we are hopeful of maintaining that close to 1000 vehicles per month. In terms of the margin reduction, yes there has been some reduction but that will be made good by the profit increase.

Govind

Sure and the comparable product in this price segment now would be Scorpio if I am right?

Praveen Kadle

Yeah.

Govind

So why limit ourselves to 1000 vehicles per month when the Scorpio sells 3000?

Praveen Kadle

Yeah I will communicate this to our marketing department.

Govind

Okay, thank you sir.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Abhay Shrivastav from Birla Sunlife.

Abhay Shrivastav

Hello good evening sir actually my questions are answered, and basically I wanted the CAPEX mix, so thank you very much on that.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Chirag Shah from Strat Cap Securities.

Chirag Shah

Hello, yeah good evening and congrats for good set of numbers, hello.

Praveen Kadle

Yes, yes good evening.

Chirag Shah

Yeah, sir there are few follow up questions like sir first of all can you just throw light on the Ace expansion that you are looking at, by what time can we look at the expansion of 200,000 units?

Praveen Kadle

Next 15 months timeframe.

Chirag Shah

Okay by the next 15 months and second thing again, now post the launch of Xeta, can you just throw light on the petrol and the diesel contribution to Indica volumes and what kind of volumes are we looking in the petrol segment of Indica?

Praveen Kadle

The mix is around 20-80 now.

Chirag Shah

20-80 and what kind of mix are we looking at in say going forward in next 12 months or till the time we come out with the new vehicle replacing Indica?

Praveen Kadle

I think around 25 could be the mix.

Chirag Shah

Okay 25 okay sir and sir you know sir you spoke about our overall growth in the CV segment of 20 to 25% sir, sir can you can give me kind of break up like what kind of looking M&HCV segment in that case?

Praveen Kadle

Yeah I gave the overall percentage for the overall CV segment of the industry and I have also mentioned that M&HCV is doing very well, the Ace is doing very well, but the light commercial vehicle is more or less stagnant.

Chirag Shah

Yeah sir that is also because of Ace to an extent in the light commercial segment sir.

Praveen Kadle

Yeah.

Chirag Shah

But on overall basis if we see can we expect same kind of growth in even M&HCV segment, I am just trying to work out my number then I was thinking that at 17 to 18% growth, we need 8 odd percent in the remaining part of the year?

Praveen Kadle

You don't ask me to do your work.

Chirag Shah

Okay sir, yeah sir rest all of my questions have been answered sir.

Praveen Kadle

Thank you.

Chirag Shah

Thanks a lot.

Moderator

Thank you very much sir.

Moderator

Next we have Ms. Komal Iyer from Share Khan.

Komal Iyer

Hello, good evening sir. I wanted to know the CAPEX does not include the CAPEX you will have to incur with the MOU with Fiat?

Praveen Kadle

That will come more as investment because it will be an equity investment from our side which is not really CAPEX.

Komal Iyer

Okay and what kind of price increases have we taken across CVs and PVs, if you could mention that?

Praveen Kadle

CVs is around 2% to 3% and passenger car is hardly 1% kind of it that too only in the utility vehicle.

Komal Iyer

That is what I wanted to ask in the cars or in the UVs, only in the UVs.

Praveen Kadle

Yeah.

Komal Iyer

And if you could just give me the break of other income, I mean how much has come as a dividend and the rest of the items.

Praveen Kadle

Bulk of it is dividend.

Komal Iyer

Bulk of it is dividend okay, thank you sir.

Praveen Kadle

Thank you.

Moderator

Thank you very much mam. Next we have Mr. Manishi from UBS.

Manish

Hi, good evening Mr. Kadle and congratulations on a great set of numbers. I just had couple of questions. Firstly traditionally we look at certain indicators to figure out whether the CV cycle is slowing down, like defaults from dealers or asking for extended credit period etc. My first question would be are you seeing any possible signs of any of these happening in the market or if for example interest rate increases, how badly do you think the transporter can be hurt, I mean or they making enough money right now at the current flat rates, so those are the 2 questions that I had?

Praveen Kadle

We have not seen any default rises from our final retail customers and nor have been seen in the side of the defaults from our dealers. Of course all our dealers are buying from us on a cash basis and they have their lines of trade from some of the bankers which we have recommended and we follow or we kind of a closely monitor their outstanding position with these banks and I can tell you that there is no default there may be some what should I say some delays beyond the normal due dates but that happens on a regular basis even in a very good business cycle it happens.

Manishi

All right.

Praveen Kadle

So nothing alarming and in fact things are as good as they were say about 3 or 6 months ago. As far as the slow down, I did mention that the light commercial vehicle other than the Ace segment is not really growing it is more or less stagnant. The growth may be just hardly 4 or 5%

at this point. So it is not really growing so one can say okay fine that is something which is stagnating or in the light of what growth we have seen in the other segments. The other question was in terms of the debt rates have really gone up. Rate interests have really gone up significantly as compared to where it was in the last May and between say since April 2005 and June 2006 in 15 months time frame we have seen about close to 27% year-on-year increase in the freight index side. And diesel price hike on the other hand is about just 14% in the same period so the margins for the freight operators is quite good and therefore so far they may be at a position to absorb the interest hike. I think 2 things, one needs to watch now whether there will be further interest hikes and see whether there will be further diesel hike which is likely to happen. Then it will be important to see how these rate index and the diesel index have their interplay and then one will have to really see whether the demand will get impacted or not. So I think the overall factor is still the Supreme Courts order on the overloading, is still meticulously followed by the administrative authorities and the overall rate quite well, so there is sufficient demand for the truck transportation.

Manishi

Okay, great so. In your opinion they are still making adequate money, adequate returns on a new truck that they purchase?

Praveen Kadle

Yes in fact if you just read the freight index and the difference between the freight index and the diesel index, it has increase in the last 15 months. For freight operators profitability has remained.

Manish

Right in fact you know a related question to this how much leverage do you think we still have in terms of interest rate increases. I mean, for instance if interests rates increase by may be 100 basis points or may be you know 50 to 75 basis point, at what stage would it be worried about profitability of their transporters?

Praveen Kadle

I think, as I mentioned earlier the interest rate hike, I am talking only in the truck segment I am not talking about the passenger segment. In the truck segment one is to look at the interest not in isolation and one also needs to look at the freight index and the diesel index because it is an interplay because operating a truck is a business. So one is to really see the complete interplay of all the 3 factors and so I think in isolation I may say that you are up to 100 basis points increase can be absorbed. Even though the interest rates have gone up the interest rates have compared to the traditional interest rates are very low, so I think purely if one looks at the interest rates in isolation then one should not be any complaint. But one needs to then over to look at the overall interplay of all the factors. But in the passenger segment yes I think the any further increase or even say up to may be 50 basis points the interest rates could be the hike could be absorbed but beyond that there could be some impact on the demand. And especially if you know see the Indian consumer is reasonably well tuned to be global trends. And if Mr. Bernanke you know says I am not going to raise the interest rates once again by any further increase and therefore it means that our investors or our consumers start saying okay so Dr.

Reddy will not now increase the rates. Then they would like to postpone their decision to by the cars.

Manishi

That is right, great, okay, thank you very much sir.

Praveen Kadle

Thank you.

Manishi

Okay.

Moderator

Thank you very much sir. Next we have Mr. Mahantesh from Prabhudas Leeladhar.

Mahantesh

Good evening sir Mahantesh here.

Praveen Kadle

Good evening.

Mahantesh

Excellent set of numbers surprised me really and I had a couple of questions. TATA Technologies has acquired Incat. The way I look at it TATA Technologies is a smaller company and has acquired a very fairly large company. In terms of operation how is the integration happening in terms of and what are the plans will Incat be merged into TATA technologies or how will it happen and who are the team and what kind of team structure do you have that you know takes this business forward?

Praveen Kadle

Okay first of all because of the cross border acquisition and thanks to the legal requirements and the tax requirements the actual merger will not happen because we will have Incat as a separate entity, which operates in 15 different countries. So it will continue to be a kind of a subsidiary of TATA technologies. But in the countries where both TATA Technologies and Incat had their operations like in the countries like USA, UK, Singapore, and there we have already merged the 2 entities into 1 entity either merged or in the process of merging there. So in terms of the integration the management integration, the employee related integration has happened. Today you might have seen in the press conference announcement by them where they already launched the products and service offerings from Incat. So the services will be offered under the brand name of Incat, and the products will be offered under the brand name of I Knowledge Solutions, which would all be owned by TATA Technologies as a parent company. In terms of

the management structure, Mr. Patrick is the managing director and the two senior executives of Incat will work as president and the chief operating officers and then there is a common CFO and so on and so forth so the management team is in place, which is working for operations of the entire global operations of TATA Technologies.

Mahantesh

Okay, thanks for that I will come to very specific question about interest rate increase that means that the dealer funding that we have with preferred banks for their purchases of trucks or their purchases of cars from you then would have been an increase in their cost as well right?

Praveen Kadle

Yes.

Mahantesh

How much is that increase from a dealers perspective and how much of that portion are you subsidizing in the form of say higher incentives.

Praveen Kadle

We are not subsidizing anything there on the interest side, but the volumes are really helping them. The volume growth is helping them and we are encouraging them to earn more income from operations other than vehicle sales.

Mahantesh

But what is their interest cost increase for them, if I understand earlier the interest rate was in a way quite subsidized for them. Is that continuing?

Praveen Kadle

As you know since you were very much there as part of TATA Motors, we have the interest which the dealers pay which is in line with the market rate for the short term borrowings. Then the cash discounts which you give is really affected by the market dynamics.

Mahantesh

So that means the cash discount would be up because the interest rates are up?

Praveen Kadle

The cash discount is not up.

Mahantesh

It is not up. Okay then just what kind of incentive levels are you looking at, have you seen from last years first quarter to this year's first quarter on a per vehicle basis, how much is the increased that is happened or keep it at the same level?

Praveen Kadle

In percentage terms they are more or less at the same level.

Mahantesh

But per vehicle basis.

Praveen Kadle

Per vehicles you know depending on model-to-model they may go up and down and medium and heavy trucks they may go down because there was a big demand light commercial vehicles they may have gone up because of the sluggishness and demand.

Mahantesh

Right, thanks for answering my queries. I have no more questions.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Krishna Kumar from Sundaram BNP.

Krishna Kumar

Hello, sir you are talking about a 7000 crores expenditure on the new product development program, so could you give some more details in terms of CVs, UVs, and cars what is the kind of spend and what kind of time line do you look at you know in terms of the cashment on this sir?

Praveen Kadle

The NPI or the new product introduction related expenditure is about, you are talking of product development or you are talking about the?

Krishna Kumar

Yeah, you can give details on both sir, if possible?

Praveen Kadle

Okay the overall new products investment are 7000 crores which I mentioned, which in CV it is about 2500 crores to 2300 crores and the rest is for passenger car segment and usually about 40% of this expenditure is in the form of product development.

Krishna Kumar

Okay.

Praveen Kadle

So it is not just for product development but tools and fixtures and dyes and all that. The time frame is which we had mentioned 3 to 4 years.

Krishna Kumar

Yeah but if you could split cash out flow in terms of time frame that would be helpful sir?

Praveen Kadle

More or less evenly distribution.

Krishna Kumar

Okay. Sir and do you anticipate any cost push coming from any regulatory issues in terms of safety or emission norms etc., in the next year?

Praveen Kadle

Regulatory issues related to the safety & emission and all that yes time to time the government has been introducing new measures so that kind of a cost increase may come.

Krishna Kumar

But you are aware of any such.

Praveen Kadle

Right now no.

Krishna Kumar

Nothing, okay and thirdly in terms of logistics business, we see lot of opportunities there, so as an extension and participation in the value chain do you think TATA Motors would get into it ?

Praveen Kadle

Group is looking at it we are not looking at it.

Krishna Kumar

Would not you be a part of that.

Praveen Kadle

When the group is looking at it, we may join as one of the shareholders, but it will not be TATA Motors initiative.

Krishna Kumar

Okay. Lastly you have drawn up huge plans for Ace but you could definitely feel lot of competition coming into the segment from various players. So what would be your strategy to keep your market share and enhance going forward, would it be more from a price perspective or would it be more from application driven strategies could you throw some light ?

Praveen Kadle

It is will more application driven, so that we offer better value to the consumer. And I think the market is totally kind of a untapped market, because so far it was all dominated by the 3 wheeler segment and when any new product comes in it opens up the market quite significantly. So I think don't go by what we have told so far, I think there would be place for the competitors also it will all depend upon what individual players has to offer to the consumer.

Krishna Kumar

Okay and sir lastly could you give some idea in terms of the growth that you saw in the first quarter in terms of on a tonnage basis from the trucking side sir?

Praveen Kadle

See somebody I think Satish or somebody said that the market is moving towards the multi axel and tractor trailer segment, so that means the market is certainly moving towards the Heavy tonnage and we are now selling more of 25 tons, 30 tons, 35 tons vehicles as big as the 16 tonner, in fact that market has not really grown up. I will not have immediate answer in terms of how much increase we have seen in terms of tonnage but the mix which I told you just now can perhaps give some indication.

Krishna Kumar

Okay and sir just a follow up question on the investment that you are making in the UV space, sir with this 2500 crores of money being spent there, what is the kind of growth that you see there in terms of volumes and in terms of you know the overall market and your market shares there?

Praveen Kadle

I never said that we are investing 2500 crores in Uvs.

Krishna Kumar

Yeah you gave split up just....

Praveen Kadle

Commercial vehicles and passenger vehicles.

Krishna Kumar

2500 crores each?

Praveen Kadle

No, no I said 2200 crores in commercial vehicles and around 5000 crores in passenger vehicle.

Krishna Kumar

Okay and how much of that would go into UV sir?

Praveen Kadle

I will not be in a position to give that information because this is a confidential information.

Krishna Kumar

Okay, thank you sir.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next we have Mr. Urmit from Parag & Parekh.

Urmit

Good evening sir. Sir I just would like to know that hello?

Praveen Kadle

Yeah, yeah good evening.

Urmit

I just want to know that thing this 10,000 CAPEX plan includes any of investment or anything regarding the Fiat tie up.

Praveen Kadle

No, I already answered that thing that will come under extra investment above the CAPEX, this is purely capital expenditure.

Urmit

Okay, thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Vivek from Man Financial.

Vivek

Just couple of small follow up questions. Sir have you already announced any price hikes on your various products in recent times?

Praveen Kadle

Yeah in the month of June. I just mentioned that how much price increases we gave.

Vivek

I missed that sir I mean, how much was that 1 or 2%?

Praveen Kadle

I did mention that between 2 and 3% of Commercial Vehicles and 1% on utility.

Vivek

Okay sir and on the export incentive which you have written off can we expect this in the subsequent quarters also?

Praveen Kadle

No the reversal is one time, we reversed it, we don't have any reversal.

Vivek

Okay and this was netted off from sales.

Praveen Kadle

Yes from the revenue side.

Vivek

Okay sir. Thanks a lot.

Praveen Kadle

Thank you.

Moderator

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

Sanjay

Sir I have 1 question this is Sanjay here, on the Fiat joint venture is it possible to give the structure like how much TATA Motors will have a stake in that company?

Praveen Kadle

We did say that it will be a 50-50 joint venture.

Sanjay

Thank you sir.

Anand Shanbagh

Probably we can just close the session, as we have no more questions.

Praveen Kadle

Yeah, thank you.

Moderator

At this moment there are no further questions from participants, I would like to hand over the floor back to Mr. Shanbagh of HSBC Securities for final remarks.

Shanbagh

Thanks a lot Mr. Kadle for attending this 1 hour session and thanks a lot to the participants who attended this conference call.

Praveen Kadle

Thank you. Thank you Mr. Shanbagh and HSBC thanks for all the help.

Moderator

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.

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