

**Moderator:** Good evening ladies and gentlemen, thank you for standing by. This is Renuka, the conference moderator for your call today. We welcome you to the post results conference call of Tata Motors, hosted by ABN Amro Asia Equities India Ltd. We have with us today Mr. Praveen Kadle, Executive Director from Tata Motors and Mr. Pramod Amte, Analyst from ABN Amro Asia Equities India Ltd. At this moment, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. At that time if you have a question please press '\*1'. I would now like to turn the conference over to Mr. Pramod Amte. Please go ahead Sir.

**Pramod:** Good evening everybody. This is Pramod Amte welcoming you all on behalf of ABN Amro Asia Equities for Tata Motors post-results conference call. We have with us today Mr. Praveen Kadle, Executive Director of Tata Motors and Mr. Manish Gupta, Divisional Manager (Corporate Affairs). I would now hand over to Mr. Praveen Kadle for his initial remarks about Q3, FY-06 operations and financial performance, which would be followed by question-and-answer-sessions. Over to you Sir.

**Praveen:** Good evening ladies and gentlemen, I have my colleagues here - Mr. Manish Gupta, Ms. Mona Bahl and Mr. Siddarth Bhatt. What I will try to do in the next ten minutes or so is that I shall try to quickly capture the synopsis of our results, and then we can keep the floor open for discussion for question-answers. The volumes in the 2<sup>nd</sup> quarter have recorded about 12% growth at 107,000 as against close to 96,000 in the previous year 2<sup>nd</sup> quarter. The net revenue at Rs.4,781 crores is 15% higher than the previous year. EBITDA numbers in terms of actual numbers have gone up from Rs.520 crores to Rs.576 crores, which is about 11% growth. In terms of operating margin, it is 12.05% as against last years 12.5%. I need to mention here that at the end of the first quarter results in the similar conference call we had mentioned that the operating margins during the year will be between 12% to 12.5%. It may vary from quarter-to-quarter depending upon the product mix and I must mention that the product mix, if it is more skewed in favour of M&HCV trucks and buses the margins would definitely have some positive play where as if it is more in the form of lower configured vehicles like ACE or passenger cars, margins may get marginally impacted. So we haven't seen any kind of volatility in terms of raw material prices, the prices definitely have gone up as

compared to previous year. But in the last six months they have remained more or less stable though we may at a higher rate, hopefully at some stage they may start going down. But we haven't seen any kind of upward movement in terms of raw material prices, but as I said the product mix would have some kind of a play. But over the four quarters we would maintain the operating margin between 12% to 12.5%. So for this quarter it was 12.05%. After considering the other income, the net interest, the depreciation, amortization product development expenses etc., the profit before tax is Rs.454 crores as against Rs.427 crores, which is 6% improvement in the current year. The effective tax rate continues to be between 24-25%. So profit after tax was Rs.338 crores as against Rs.309 crores and improvement by about 10% compared to the previous year, and the basic EPS is Rs.9 as against Rs.8.60, which is about 4% improvement. When we look at the first six months combined results, the volumes have gone up by 8% to about 195,000, net revenue has gone up to Rs.8,600 crores, an improvement of 12%. Operating margins, which are 12.31%, same as that of last year. And after considering all the items related to other income, interest, depreciation, product development expenses, the PBT is Rs.814 crores for first six months as against Rs.730 crores which is about 11½% improvement and after the tax, as I mentioned effective tax rate of around 24%, the profit after tax is Rs.610 crores as against RS.533 crores which is about close to 15% improvement as compared to last year. EPS has gone up by 9% going up to Rs.16.23 as against Rs.14.90

The other factors like working capital management, we continue to keep the same control on the working capital management. There is some increase in inventory level, inventories have gone up from 33-34 days to about 40 days. One of the reasons as to why the inventories have gone up is because of the steel volatility. We have decided to import some steel and so to that extent the steel stock has gone up, also some of the input cost item stock has gone up. We however feel that going forward, we will bring down the inventories by March-end to a level of around 33-34 days, which we used to keep in the last few quarters. Receivables have come down; they are around 8 days, as against 9-10 days previously. We have balance sheet size of about Rs.7,336 crores, but that includes about close to Rs.3,200 of the finance receivables, the higher purchase or the Tata Motor finance receivables which, being the financial instruments, can be encashed any time if we need

to really get hold of good cash. But gross debt is Rs.2,839 crores, net of surplus cash it is about Rs.1,900 crores. We believe that the debt position will further come down in the next six months, that's from the financial performance.

Overall volumes, that I mentioned earlier, have gone up by 12%. The export volumes have gone up 121% in the second quarter. Overall, the international revenue now accounts for 18% of the total consolidated revenue. Talking specifically about commercial vehicle, we have since April, 2005, when they had problem of Euro-1, Euro-2 compliance and therefore, because of non-availability of some of the key components, our market share had gone down to 50%. Now as on September the overall market share of the commercial vehicle segment has gone up to 61%. Of course this improvement in the market share has to a large extent been held by the success of our LCVs and more particularly the Ace, the mini-truck which we launched in the month of May. Our market volumes in the LCV segment have gone up by 55%. In this quarter **M&HCV** went down by 5% as compared to the last year. We believe that most of our M&HCV problems are past us and going forward, we should be in a position to improve our volumes in M&HCV as well as the market share position in M&HCV. The utility vehicles are up by above 8%. However, in the car segment, the volumes are down by about 5%. Our overall market share has come down to 16% as compared to 17% last year. However couple of products, which were launched very recently, that is, Indigo Sx and Safari **Dicor**, have turned out to be good products. There is a good response and just few days before, we had launched Indica Turbo. Launch of 3 new products should help us in going forward in terms of the improvement in market share.

I talked about exports - exports cumulatively have gone up from Rs.536 crores to Rs.934 crores for the first six months, which is, in value terms, about 74% improvement. I think the efforts which, we took in terms of intensifying our export efforts in some of the key countries like South Africa, Turkey has really helped us a lot. Going forward we see some kind of a similar kind of a number coming up from the Russian market as well as the East European markets. Subsidiary companies like Tata Daewoo has done quiet well in this quarter, overall revenue has gone up by 49%, going up from Rs.238 crores to Rs.333 crores. The profit after tax for the quarter has gone up significantly,

it has gone up from Rs.2.20 crores to Rs.15.9 crores or say Rs.16 crores. This is inspite of the fact that the Korean market is still going through a kind of a slow down and the domestic volumes have not picked up. However we have improved the numbers significantly through exports. This is inspite of the fact that the Korean Won has appreciated significantly over the last 12-18 months.

Telcon, the Hitachi joint venture, has also done very well. The revenue has gone up by close to 50% - going up from Rs.187 crores to Rs.280 crores. And profit after tax has gone up almost 169-170%, from Rs.6.70 crores to Rs.18 crores.

Tata Technologies - while the revenue has gone up by 22%, in terms of profit there is a decline of 32% going down from Rs.3.80 to Rs.2.60 crores. That's mainly on account of the some of the expansion activity, which we have taken including recruitment of new manpower. But I think the INCAT acquisitions which is now completed, we have already acquired about 99.4% equity holding in that company. And with that acquisition we should see larger integration value coming in to Tata Technologies and much more improvement in the offshore business and therefore the profitability of this company. So, we should be going forward for some benefits coming into Tata Technologies arises out of this new acquisition.

For HV Transmission & HV Axles, which are closely related with the fortunes of Tata Motors commercial vehicles and more particular the medium and heavy vehicles, the profits have marginally gone up 31% in HV Transmission - from Rs.5.50 crores going up to Rs.7.20 crores. Revenue has gone up only by 6%. In HV Axles, the revenue has gone up by about 5% from Rs.34 crores to Rs.35 crores. However the profit after tax has gone up by about 16% - gone up from Rs.9.10 crores to Rs.11 crores.

TAL Manufacturing solutions has unfortunately reported the negative positions - as against last years Rs.70 lakhs profit they have got Rs.1 crore loss. The revenue has gone up significantly almost by 24%, but what is to be seen is that some of these orders which were received have come with lower operating margin or lower contribution and the some stock escalation also taken place. So we need to take certain actions with reference to restructuring of the operation of this company. Overall, however, the

subsidiary companies the revenue has gone up by 41% going up from Rs.554 crores to Rs.785 crores. PBT has gone up by 73% going up from Rs.46 crores to Rs.80 crores and profit after tax has gone up by 91% going up from Rs.27 to Rs.54 crores. We believe that the 8 to 10% kind of a growth which we had seen, would be there in the remaining six months. The Reserve Bank Governor just today morning presented his outlook of economy and he is talking about 7.5% GDP growth which he has raised it by about  $\frac{1}{2}$ %, so that is a good news. However we have some concerns with regard to the oil prices and therefore there could be some more increase in fuel prices, and we need to really see if that happens what could be the impact on the automobile industry. So input cost, while it is not volatile, it is still at a fairly higher level and we need to look at the interest rates, perhaps which may go up by about 0.25% or so in the remaining six months. So I would say we are cautiously optimistic as a very favourite kind of a term which many people use, but we need to really do significant things in terms of getting the market share, which we have lost in M&HCV.

In terms of cost reduction, we are on track. We have reduced our cost base by about Rs.140 crores in the first 6 months. We had mentioned at the beginning of the year that we have set the target of reducing the cost by Rs.1000 crores over the next 3 years. And we have said that we are trying to reduce our cost base this year it by Rs.300 crores. In the first six months we have reduced it by Rs.140 crores, so we are on track.

Tata Motor Finance is fully integrated - growing at the rate of 45% - has contributed reasonably well to the bottomline of the company. I already talked about Tata Technologies & Telcon. We are in discussions with Hitachi to broadbase the scope of relationship with Hitachi to make the Indian joint venture with an agenda to increase the scope of activities significantly. HV Axles, HV Transmission, we are in discussions with the strategic partners and we are making good progress. So hopefully we should conclude the transaction within the next 6-9 month's time. So that is from our side, we now would like to have the questions from your side, and we will do our best to answer the questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press '\*1' on your push-button phone and wait your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing the '#' key. We have our first question from Mr. Rajesh of DSP Merrill Lynch. Please go ahead Sir.

**Rajesh:** Good evening Sir. This is basically with reference to your outlook on CV, you said that you are looking at 8-10% growth. Could you tell us in terms of M&HCV and LCV, how do you look at independent segments?

**Praveen:** I think that the LCV segment as I mentioned has grown significantly. Of course, the growth will continue because the Ace was launched in the current year and there is nothing in the previous year. So I am talking about the growth to come hopefully in the M&HCV side where we have seen 5% decline as compared to the previous year.

**Rajesh:** 8-10% growth you are looking for M&HCV segment for your company in particular, am I right?

**Praveen:** No, I said that M&HCV we have seen 5% decline as compared to last year. So we are hoping to get back to the number of the previous year in terms of volume and in LCV, yes, we should see much bigger growth but I think we are talking about very cautious kind of a growth because we need to really see what would be the impact on account of the fuel prices. Let me clarify, what we are really trying to do is M&HCV we should at least go back to the numbers which we have seen in the previous year. That's the kind of number growth we are looking at. LCV, thanks to Ace, we would see much larger growth but if we have to get back to the numbers of M&HCV, what we have achieved last year then I think as I mentioned, we will have to really see the what's going to happen on the fuel side.

**Rajesh:** So when you say you are cautiously optimistic, do you think six months back, what you were mentioning that time the outlook looks better than what it was looking six months back.

**Praveen:** I think, let me also caution you that when I mentioned six months back I had mentioned that there is going to be big kind of a confusion arising out of this

Euro-2, Euro-1, Euro-3. That confusion is behind us no doubt, but one also needs to keep into account that October, 1 onwards the entire country is now on Euro-2. We saw some kind of an advantage on Euro-1 in seven northern states in first six months. So we had seen some kind of advancement in purchases. Fortunately for Ashok Leyland they could take the advantage to their benefit, because perhaps as compared to us they did not have the component problem, they could capitalize on it. But I think we will now see that the advancement of purchases, which happened in the first six months, would have some kind of a negative impact in the remaining six months. So one has to be careful when we talk about optimism is there or not.

**Rajesh:** And how do you see next year, if you can just try to give some outlook on overall for the industry in general, how do you look at FY-07?

**Praveen:** I think the market will get adjusted by end of March, the market will get adjusted to the Euro-2 & Euro-3 pricing and you should see over all economy is still doing well then I think you should see reasonably good growth going forward from next year onwards.

**Rajesh:** So basically in terms of the cyclicity of the industry or structurally you don't see any problem?

**Praveen:** No we have no reason to change our opinion, we have always maintained the view that this year is going to be a tough year because of all this Euro-1, Euro-2 and Euro-3 compliance related issue. To add to that the cost of input also there has seen a significant increase. We have always maintained that this year would be kind of a year of aberration, a year of adjustment, but structural changes are happening and therefore our view on long-term growth has not changed really.

**Rajesh:** Thank you Sir, thank you very much.

**Moderator:** Thank you very much Mr. Rajesh for your question. We have our next question from Mr. Krishna Kumar of Sundaram Mutual Funds. Please go a head Sir.

**Kumar:** Good evening Sir, could you give some more colour in terms of the competitive pull in the market, the discounting that is happening vis-à-vis the competition. And also some idea in terms of, are you seeing any rates of

billing delinquencies going up from the operator side. Could you give us some idea about that Sir?

**Praveen:** Are you referring to commercial vehicles.

**Kumar:** Yeah.

**Praveen:** Commercial vehicles discounting has gone up, and we are trying to avoid getting into discounting war. But we can't really exclude ourselves but at the same time we are not giving the discounts to the extent which our competitors are doing. Talking about the delinquencies so far we have not seen any delinquencies from our dealers. Infact, to be very frank we are bringing down our over dues in our vehicle financing business. And we are making conscious effort to get the best quality customers as well as putting the processes in place where by we can bring down our overdue. So to answer your question we haven't seen any delinquency.

**Kumar:** Okay.

**Praveen:** Whatever they are, they are in the number, which we usually budget for the business, nothing extraordinary.

**Kumar:** Okay, and in terms of you know other indicators like second hand truck rates and also turn around time, what is your company's observation on those issues Sir.

**Praveen:** Actually if you look at the other indicator like specifically talking about steel production, cement production or the white goods production or consumer durable production, this is all so far been quite positive - nothing negative. That is why perhaps the Reserve Bank Governor was more optimistic and has increased the outlook numbers as per as the GDP growth is concerned. If you look at the freight index rate as compared to the diesel price increase as on end of Septmeber, what we feel the diesel price and the gap between the diesel price freight rate index is more or less is the same level. The freight rate index was higher by about 9%.

**Kumar:** Sure.

**Praveen:** Sorry, I was just looking at some of the charts and here there is a gap which is uncovered in terms of cost increase. The cost has gone up on year-on-year basis. The

diesel prices have gone up by 12% where as the freight index has gone up by 9%. Now you are aware that there have been two prices increases in the last four months and this could be one of the reasons as to why the freight index has not kept pace with the increase in the diesel prices. However, as I mentioned earlier, the overall economic activities still seem to be quite bullish and there is, at least for the time being, nothing which seems to be a kind of a worrying factor. I think having said so, the market economic can change very easily and one needs to keep a track on the continuous basis in terms of all these indications, which can really lead you to say whether the economy is doing well or not. (25.46)

**Kumar:** And lastly Sir, you had initiated a lot of cost cutting efforts by sourcing from some of the Chinese manufacturers. Could you just share your experience with us in terms of quality and reliability and dissatisfaction on those fronts into these products?

**Praveen:** I think we had covered these in the earlier conference call also and it's still bit early but whatever couple of products we have seen, we are quite happy with the quality and we are quite happy with the pricing. I also must mention that based on this initial feedback or inputs which were shared with the local suppliers, even they have come forward with their own price reduction program. So, I think some competition is always helpful.

**Kumar:** Yeah, thank you very much

**Moderator:** Thank you very much Mr. Krishnakumar. We have our next question from Mr. Sachin Kochar of SSKI Securities. Please go ahead Mr. Kochar.

**Kochar:** Sir, congratulations on your decent set of numbers. Just one thing, in the consolidated numbers, you have not talked about Concord Motors, so anything specific in terms of how it's been the run rate there and how would that business be looking?

**Praveen:** Concord Motors has also done reasonably well, I don't have the numbers in front of me just now. May be before the end of the call, I will try to give the numbers of Concord but Concord has also done reasonably well.

**Kochar:** Okay, the other thing is as regards the Tata Finance merger - have the tax benefits been taken in the tax rates for this quarter or it would basically span out towards the year-end?

**Praveen:** No, we have not yet considered the tax benefit of Tata Finance, we are looking at it very closely. See, there are two issues, one is you are filling of the return therefore you have cash flow and the other one is taking the benefit for accounting purposes. Now as a conservative accounting methodology, we may not perhaps take the benefits in the current year until the matters are finally decided in favour of the company because these are all the past tax assessment of Tata finance. Whereas from the accounting-wise, we may not take the benefit which we have not done so far in the first two quarters. However for the purposes of the tax, cash outflow, when we file our advance tax returns, we are going to take that into account and that is quite significant.

**Kochar:** Okay, thank you very much Sir.

**Moderator:** Thank you very much Mr. Kochar. We have our next question from Mr. Mihir Zaveri of IL&FS. Please go ahead Mr. Zaveri.

**Zaveri:** Sir, just wanted to know, can you give the bifurcation of the CV, M&HCV and LCV sales this quarter as well as last quarter. And secondly what will be your Capex plan for this year and next year and new launches?

**Praveen:** Volume-wise, CV, commercial vehicles overall and I am giving the domestic percentages for overall numbers. CV numbers have been 47% this quarter as against 43% last quarter. The passenger vehicle numbers this quarter have been 40% as against 47% first quarter and the export volumes have been 13% this quarter as against 10% in the previous quarter. Within the CVs, first quarter numbers of **M&HCV** trucks and buses were 62% whereas in this quarter they are 58%. The light commercial vehicle including the Ace and the 207, first quarters they were 38%, this quarter they are 42%. I have mentioned earlier in the call that to a large extent the operating margin would also depend upon the product mix. What I explained to you just will give the explanations as to why the operating margin for this quarter has marginally gone down. Therefore I mentioned

earlier the operating margin what we are trying to keep is between 12% and 12.5%.

**Zaveri:** Okay, Sir what about the Capex plan for this year and next year?

**Praveen:** Capex, this year we should be spending around Rs.1200 crores, we had spent around Rs.500 crores to Rs.540 crores upto end of September. Next year it will be around Rs.1400 crores to Rs.1500 crores, but this is as per the plan but going nearer to the year-end, I can fine tune it and tell you what the exact number would be.

**Zaveri:** Sir, what this is regarding Sir, any details about this?

**Praveen:** As you know, we have been talking about our new Indica platform, the utility vehicle platform, then we are also talking about the small cars, we are also talking about many of the product variants including our engine development plans and so on and so forth. So this is kind of covering the entire product range - right from the light commercial vehicles to pick-up vans going up to the heavy traffic as well as passenger car range.

**Zaveri:** Okay, I guess there is a lot of FCCB loan taken by Tata Motors in the annual report that is for the expansion, but I want to know what is the hedging strategy of Tata Motors for this FCCB loan?

**Praveen:** What is the strategy, which strategy?

**Zaveri:** Hedging?

**Praveen:** I think we do take a regular view of our hedging and out of this \$400 million, close to \$200 million, which is still outside of India, we don't need to take any kind of a hedge there. Balance 200 crores is something which we will keep on taking a view in terms of how the currency goes up and down and whether rupee is permanently going to depreciate or it's a temporary phenomenon. So, it's a kind of a complex subject. We do take hedge, but then it's not a 100% hedging we take.

**Zaveri:** Okay, Sir last thing, you had reported the cost reduction of Rs.140 crores in this first half. So we want to know what are the exact method or means, can you

elaborate on what has been done for reducing this cost apart from the Chinese manufacturing, out sourcing of Chinese material?

**Praveen:** No, let me clarify - the Chinese outsourcing benefit or purchase benefit is very small and whatever we are doing is all on account of internal, real efforts taken in terms of cost reduction to supply a part, target costing, value engineering, e-commerce and so on and so forth. So, I think a lot of work is being done in terms of reducing the cost base of by about Rs.1000 crores for over a period of three years, we need to do a lot many things, so it's a culmination of all these efforts.

**Zaveri:** Okay Sir, thanks a lot.

**Moderator:** Thank you very much Mr. Zaveri for your question. We have our next question from Ms. Seema Chngam of CMIE. Please go ahead Ms. Chngam.

**Chngam:** Good evening Sir. Are there any plans of improving prices of the commercial vehicles in the near future? I would also like to know your growth forecast separately for heavy trucks, buses and passenger cars for the year 2005-06?

**Praveen:** We would not like to talk about the price increase because it is a factor to be governed by the market conditions and we just now talked about the market conditions which, at least in this year, seem to be quite tough. So I wouldn't really like to react on to the price increase in the M&HCV segment.

**Chngam:** Growth forecast separately for heavy trucks, buses and passenger cars. You were even doing very well in the LCV segment but as far as the heavy trucks is concerned, the performance have been not upto the mark.

**Praveen:** First of all, let me clarify the points. For the last almost four years we have been consistently improving our market share in M&HCV. Just in the first six months we have lost the market share. As Mentioned earlier that this was mainly on account of the initial problems of component supply and all that.

**Changam:** Yeah, but what kind of growth do you see in the second half and if you could give me the figures for the full year, for these segments?

**Praveen:** No, I think as I mentioned earlier, let me just clarify this point about market share. As compared to market share we had in the month of April, our market share has been improving and in the month of September. Just to give you the starting point and the closing point - In the month of April, our market share in M&HCV trucks was 55%, it has gone up to 61%. This is both trucks and buses put together from 55% in April, it has gone up to 61%, so we are improving the market share position. The numbers are down as compared to the previous year, but that's mainly on account of the problems I mentioned about the initial problems. And I infact to be very frank, if we take the six month's view, then our numbers for the M&HCV are about 8% higher for the first six months in M&HCV, although in the quarter two were lower, but in overall we are about 8% higher in the current six months. So I think the same kind of a growth should continue in the remaining six months.

**Changam:** Alright, and what about the passenger car industry?

**Praveen:** Passenger Car Industry has seen about 7% growth overall this year and the same kind of a growth should continue in the remaining six months.

**Changam:** Okay, Sir one more thing one last question, the 8-10% growth that you talked about, is it for your company or for the industry as a whole, in CV?

**Praveen:** I talked about our company's growth and may be industry we were talking about the markets, we want to improve our market shares, may be the industry growth may be marginally lower.

**Changam:** Alright, thank you so much.

**Moderator:** Thank you very much Ms. Changam. We have our next question from Mr. Deepak Gupta of JM Morgan & Stanley. Please go ahead Mr. Gupta.

**Gupta:** Good evening Sir, I wanted to know what is the proportion of financing business on the profit of the company for this quarter?

**Praveen:** Overall, Tata Motor Finance, which is a financing business that we have, in terms of the EBITDA numbers, have contributed reasonably well and for this quarter the contribution is about close to 9% of the overall EBITDA numbers for the quarter.

**Gupta:** Okay, and so what about tax, on profit after tax or profit before tax, what would be the contribution?

**Praveen:** You are talking about the percentage?

**Gupta:** Yeah, in terms of percentage.

**Praveen:** What is more interesting and important will be the EBITDA numbers because many a times in a combined business, you can always debate the question of what the interest allocation should be. So, I think the more interesting part is what is the EBITDA numbers contribution, so that's about close to 9 to 10%.

**Gupta:** Okay, and Sir one last thing, can you throw some light on this tie-up between with Fiat, what is the status update on it?

**Praveen:** We have just signed the MOU to explore the scope of relationship between Fiat and Tata Motors and teams have been formed to look at various possibilities or various avenues of co-operation between the two companies. They will come back, this will be the joint team, which will work together and they will come back and tell us about both the companies management about what scope of relationship we can explore. And then the real work will start in terms of doing some kind of a feasibility study. So its very preliminary at this stage.

**Gupta:** Okay, thank you Sir.

**Moderator:** Thank you very much Mr. Gupta. We have our next question from Mr. Amrish Mishra of Tower Capital. Please go ahead Mr. Mishra.

**Mishra:** Good evening Sir. First of all congratulations on the numbers for the second quarter. Sir, my question is on the contribution of Ace to the over all LCV volumes for the second quarter as well as for the first half of the year.

**Praveen:** Ace has contributed around first six months about 10% of our volumes of our commercial vehicles. I just now mentioned that overall commercial vehicles contributed about 45% of our total numbers in the domestic market. So, to take the overall percentages it's close to about 5% of our total volumes for the company.

**Mishra:** And, Sir what was the figure in Q2?

**Praveen:** Q2 specifically was about 14% of the commercial vehicle number.

**Mishra:** Right Sir, and I just wanted to understand if the floods has actually affected our volumes in to whatever extent, if they have really affected?

**Praveen:** Yes, generally it has affected most of the commercial vehicles and passenger car. But I can't quantify the number in terms of how many vehicle sales we lost because of the flood.

**Mishra:** But generally we can say they have been one of the factors which have affected.

**Praveen:** Certainly yes, the whole of July to some extent even in August, we have seen the impact.

**Mishra:** And Sir, I just wanted to understand in terms of exports, because we have really done very well in the exports front, commercial vehicle as well as passenger vehicle. On the commercial vehicle front, I would like to understand how the Tata Daewoo has helped us in terms of achieving these numbers. Have they actually helped us in achieving these export numbers?

**Praveen:** No, these are numbers which are without Tata Daewoo numbers. Tata Daewoo numbers are whatever exports they have recorded they go 100% into the numbers of Tata Daewoo, so when I talked about Tata Motors export numbers they are all exported from our Indian clients.

**Mishra:** Okay, I mean I wanted to understand because we have also other contributions, our export market in the South-East Asia also. Are we in some way or the other being helped by these subsidiary of ours?

**Praveen:** Yes, in fact the exports in the second quarter have gone up by 23% in case of Tata Daewoo and therefore you can say that, and the Korean market has been completely flat. So whatever growth has been recorded by Tata Daewoo is purely on account of exports, so whether it is South-East Asian market or African market or Middle-East market and going forward may be even the European market. East European market to a large extent, the numbers would be going from the Tata Daewoo plant.

**Mishra:** Right Sir, just also wanted the number in terms of market share in separately in the medium and heavy commercial vehicles as well as on LCV on a year-on-year basis?

**Praveen:** I mentioned earlier, that our market share in M&HCV is specifically now 61% as on September, and in LCV it is close to 59%

**Mishra:** And what was it the same period last year?

**Praveen:** The same period last year was about 66% in M&HCV and 48% in LCV. In M&HCV, we have lost a market share, which is the point I was making earlier, which we intend to make good by end of the year. In LCV the market shares will be significant.

**Mishra:** Rightly Sir, also wanted to understand in terms of passenger car segment, now most of the entire industry has actually faced the most difficult times in the first half. What is the strategy going ahead in terms of taking on the competition because we are looking at many MNCs now coming out with new launches into the market. So how does Tata Motors try to place itself in the market going ahead.

**Praveen:** As I mentioned in the last three months we have launched three new products. They may be variants of our existing products or face-lifted products whatever you want to call but we have launched three products in the last three months. And going forward we will have another couple of products which will be launched in the next 6-8 months time, so we are also keeping pace in terms of bringing new products. We intend to intensify our marketing efforts.

The third thing is fortunately the Tata Motor Finance with internal division of financing has now got the scale,

economies of scale. So I think even that division should contribute towards the improved marketing efforts of the passenger car business.

**Mishra:** I just wanted to understand in terms of capacity, are we still facing any capacity constraints?

**Praveen:** We don't have the capacity constraints on the passenger car.

**Mishra:** So, can I have the detail on what is the current capacity across the board? Can I just get the number as to what is the capacity as of now with us?

**Praveen:** In terms of passenger car, we had mentioned earlier that we are increasing capacity from 150,000 to 225,000 per annum, so that's in place.

**Mishra:** Right, okay, thank you sir and all the best.

**Moderator:** Thank you very much Mr. Mishra. We have our next question from Mr. Dipane Sanghvi, of Pranav Securities. Please go ahead Mr. Sanghvi.

**Sanghvi:** Sir, my question has been partly answered. I just wanted to know given the very low growth infact passenger car volume has fallen by 4% in first half, and the same is the trend with Maruti that the volumes are not so encouraging. So what kind of an industry growth are we looking at in the second half to be in general and to be specific when in the end of 2000 we are expecting Maruti as a diesel vehicle. So are you seeing any kind of competition directly to Indica and any strategic planning for the same?

**Praveen:** Maruti coming as diesel engine option is definitely a direct competition, there's no doubt. But we are also trying to improve our products portfolio and also the other one of the action plan or strategic plan will be to do kind of a better penetration in the petrol field.

**Sanghvi:** Okay, Sir any comments on the passenger car volume growth in the second half, for FY-06?

**Praveen:** The industry in the first six months has grown up by 7%. I think industry as I mentioned earlier would grow at around the same percentage, one that we have seen in the

first six months. We are hopeful of improving our numbers and get into the positive growth numbers in the overall period of 12 months.

**Sanghvi:** Okay, continuing from same points, I mean given the launch of Maruti's diesel vehicle in FY-07, are we seeing any kind of growth pick up from that point or will the growth be continuing from the single-digit from there on, even for FY-07?

**Praveen:** yeah, I think as I mentioned what I mentioned about commercial vehicles earlier that this is the year of adjustments for the industry, is also true for passenger cars. And we have no reason to believe that the market should continue to see declining growth going forward from next year onwards. In fact there will be a growth, we may not have a 25-30% kind of a growth that we had seen in the last 2-3 years. But I think steady growth of 8-10% on a base figure of 1.1 million vehicles, which we saw in the domestic market last year, can we say 8-10% growth on that kind of a base is a good number.

**Sanghvi:** Okay, thank you.

**Moderator:** Thank you very much Mr. Sanghvi. We have our next question from Mr. Sanjay Satpati of HSBC. Please go ahead Mr. Satpati.

**Satpati:** Good evening Sir, my question is, can I get a sense of, what is the consolidated profit for this quarter and specifically I would like to know, how has been the performance of the associates and the profit in respect of the associates. Is it possible to get a sense of that?

**Praveen:** Tata Motors numbers were Rs.610 crores for the first six months. The profit after tax for the consolidated numbers are Rs.655 crores which is around 14-15% growth as compared to the previous year. We'll be publishing those numbers also very soon. You can see the Rs.654 crores as the consolidated number for the Tata Motors as one entity, the share of the associate companies has gone down marginally because one company which used to be an associate company is not longer an associate company - we have sold our share at the end of the last year and that is Tata International. So our holding is still there in that company, but the holding is below the threshold limit of calling that company as an associate company.

**Satpati:** I believe that this TACO, which is an associate company of yours, has done a turn around and how is the momentum in terms of the profit been there?

**Praveen:** I think the turn around has happened and going forward we should see improvement but right now its not much of an improvement in the immediate first six months. But going forward yes, certainly that company should contribute.

**Satpati:** Sir, my other question is relating to the margin. We have seen that margins have declined quarter-on-quarter and it is despite the contribution of **M&HCV** to the overall vehicle sales increasing and..

**Kadle:** Sorry, actually I mentioned that the share of M&HCV in this quarter has come down.

**Satpati:** This is as a part of CVs as a percentage of overall vehicle it has..

**Kadle:** Yes, overall it has comedown, I mentioned that if you look at it, it was 62% in the first quarter and it is now about 58% in this quarter.

**Satpati:** Right Sir, that is as a percentage of the commercial vehicle?

**Kadle:** Yeah, but if you look at it, it is more or less the same percentage as compared to the previous quarter. You are right, its not gone up, its more or less the same percentage. But let me also tell you when you talk about the margins in the first quarter, the 7 states were still Euro-I where the margins were better. And progressively from July onwards many of the states have become Euro-II compliant, where the margins to start with are lower as compared to Euro-I. That also had an impact on the margins.

**Satpati:** Sir, other assumptions, could it be that Tata has relatively lesser margins compared to other product in the commercial vehicles portfolio?

**Kadle:** Yes, for the vehicles certainly, yes.

**Satpati:** Okay, thank you very much, Sir.

**Moderator:** Thank you very much Mr. Satpati. We have our next question from Ms. Rashi Talwar of Kotak Institutional. Please go ahead Ms. Talwar.

**Talwar:** Good evening Sir, just wanted to know if you could throw some colour on your other income, interest and employee cost?

**Kadle:** What would you like me to answer?

**Talwar:** Well, basically your other income was flat over last quarter and you had mentioned that you had gone into a situation where temporary workers were being hired. So what is the scenario?

**Kadle:** Let me first give the explanations on the other income. The other income in this quarter is lower as compared to the last quarter. It was Rs.70 crores in the previous year, went down to Rs.58 crores. Last year in the second quarter, we had significant capital gains which we had booked on account of the sale of our shareholding in Haldia and that was about Rs.27-28 crores, which is not there in this quarter. We don't really have any extraordinary gains in this quarter. So to some extent you can take out the Rs.27-28 crores out of our profit of Rs.309 crores last year and then compare our numbers for this quarter. So strictly speaking, if you take Rs.27-28 crores of Rs.309, then last years our profit was Rs.280 crores post-tax, which is now Rs.338 crores. Talking about the staff cost, Rs.259 crores last year, going up to Rs.274 crores which is about Rs.15 crores increase. This is mainly because of the salary revisions that we had to give. You all know that the staff-cost is growing for each industry including your industry significantly. People leave the companies including your industry, if we don't increase the salary, so we have increased the salary and including the performance, bonuses and all that. And therefore the salary cost has gone up but if you take it as a percentage to the overall turnover, the first quarter is towards 7.1%, this quarter it is 5.7% and as compared to last year, which was 6.4% for the corresponding quarter. Its now overall specifically for second quarter it was 6.2% last year, its now 5.7% for this quarter. It has come down in percentage terms. In absolute numbers it has gone up for the reasons, which I have mentioned. And what was your next question?

**Talwar:** Interest sequentially has come down.

**Praveen:** Yeah, sure. So, you want me to answer that?

**Talwar:** Yeah Sir, is that trend going to continue? Or what is the further normal aberrations?

**Kadle:** No, let me clarify why it has sequentially come down. When we did the merger of Tata Finances in the 1<sup>st</sup> of April, we took almost close to Rs.1000 crores on our balance sheet, the loans of Tata Finance on our balance sheet and all these loans were quite expensive. We could not retire all these loans on day one. Some of these loans were of fixed maturity period and therefore our first quarter interest was on a higher side. We still have some of these loans on our balance sheet, so the interest cost will come down but it will not come down to a large extent.

**Talwar:** Fair enough Sir, also what is your utility vehicles, you have just launched the DICOR. The fuel injection system is manufactured by whom?

**Kadle:** By Delphi.

**Talwar:** And given Delphi's current state, how does that impact you on, going forward?

**Kadle:** The Delphi is a strong company; they have gone for Chapter 11 doesn't mean that company is closed.

**Talwar:** Fair enough, so that would continue the way it is?

**Kadle:** You know the famous case of Chrysler that went for Chapter 11 and then not once, twice and then they did extremely well.

**Talwar:** Fair enough Sir, thank you.

**Moderator:** Thank you very much Ms. Talwar for your questions.

**Kadle:** Can we have the last question because it is already one hour.

**Moderator:** Sure, we have our last question from Mr. Mahentesh from SBI Capital Market. Please go ahead Sir.

**Mahentesh:** Good evening Sir, Mahentesh here. Sir, couple of questions, one is related to the sequential raw material cost, that is first quarter to second quarter, there is an increase of something like 320 basis points. Any particular reasons for that? My second question is related to depreciation which is virtually flat, again sequentially at around 127 crores. Is there no Capex that is happening, is there no capitalization that is happening? That was my second question and my third question is related to other income. How much is Tisco dividend out of your other income this quarter and what was it last year on a similar quarter?

**Kadle:** Mahentesh, I will have to review this specific details of how much is Tisco dividend last year and this year and we can send it to you. I don't have offhand the answers. None of my colleagues would be in a position to answer that. So we can give you that details and Manish or Mona will send you this details

**Mahentesh:** Fine.

**Kadle:** The question which you asked about the depreciation and amortization, that is sequentially flat as compared to the first quarter and second quarter, let me just look at the numbers. When you talk about the first quarter this year, the depreciation charge was Rs.127 crores and this quarter it is Rs.127 crores. Yes, you are right, it is actually the capital spending as I mentioned is happening and it is continuing to happen that Rs.540 crores is something which we added, partly it is sitting in capital working progress, partly it is actually capitalized. But much of it has happened towards the end of the second quarter. So you may see some increase in the remaining quarter. Also many a times depreciation is also a factor of some of the machines which get out of the production, that also happens and so you get the depreciation charge keeps on changing accordingly. Specifically about your raw material costs, you are saying it has gone up by 320 basis points as compared to the first quarter?

**Mahentesh:** Yes, Sir, raw material and stock change combined as percentage to net sales is in the first quarter 65% gone upto 68.2% in the second quarter.

**Kadle:** See, many a times and you know the answer very well, the stock change plays an important role in the material consumption percentages. It will be the production in the second quarter and in the first quarter and the volume sold, we had produced 92,000 in the first quarter. What we sold in that first quarter was 87,492. So stock change played an important role in the first quarter. As compared to that in the second quarter the production was 98,739 and sales have been 97,120.

**Mahentesh:** In both quarters the stocks have been added?

**Kadle:** What I am trying to say is the production and the sales numbers are more or less in the second quarter and therefore the stock change, because we compare one quarter to the other. So it is not like it gets on added. You are talking about the deferential point. So that stock change which played a very positive role in the first quarter, did not really play that kind of a positive role in the second quarter. Then I have also talked about the overall mix, in the first quarter, second quarter and let me read out the numbers for your benefit and you can easily understand what kind of an impact it would have played on the overall percentages. The overall export numbers in the second quarter were 13% of the total volumes, whereas in the first quarter it was on the 10% and within that the passenger vehicle exports and you know very well, what role did they play and the overall consumption. They have gone up from 3359 in the first quarter to 6138 and Ace numbers which were just about 5% of the total commercial vehicles have gone up to 14%. So product mix plays an important role. The domestic and export volumes also plays an important role and stock changes also plays an important role. If you look at the correlated raw material cost between first quarter and second quarter, there is not much of a change. I mentioned that in the beginning itself that the raw material prices we have not seen any volatility as in the last 6 months, yes, in comparison to the last year's first two quarters the raw material cost has gone up. But within the 6 months there is no volatility, they are definitely at a higher level and we are hopeful that going forward maybe they should come down.

**Mahentesh:** Fine Sir, do you expect...?

**Kadle:** And out of the 3-4 points which I should have mentioned earlier that, which I did mention when I answered

other question that compared to the first quarter that we had Euro-I medium and heavy trucks in all the 7 states, progressively they have become Euro-II in the second quarter. So that same year cost increase also has played a role in terms of this percentages.

**Mahentesh:** And any role played by cash discounts on marketing expense in terms of bringing this percentage or raising this percentage?

**Kadle:** Cash discounts - we have been always netting it off against the revenues and we haven't increased the cash discounts.

**Mahentesh:** So you haven't seen quarter-on-quarter any great increase in terms of cash discounts?

**Kadle:** No.

**Mahentesh:** Do you expect the product mix to further affect you in the coming quarters in terms of raw materials percentage to sales?

**Kadle:** No I think as I mentioned earlier we need to and we are looking at the overall EBITDA margin between 12-12.5%. So I think, the product mix will change in one quarter you may have as we had 12.05% operating margin last quarter it was 12.5%. I can't really predict in terms of what could be the exact operating margins next quarter and as you know operating margins is a factor of also raw material consumption percentages. Overall we should be maintaining our operating margin between 12%-12.5%.

**Mahentesh:** And that is without a price increase that can possibly happen?

**Kadle:** I don't want to comment on price increase.

**Mahentesh:** Fine, I think that answers all my questions. Thank you very much.

**Moderator:** Thank you very much Mr. Mahentesh.

**Kadle:** If there are no other questions, can we close this session?

**Amthe:** Sure Sir.

**Kadle:** Thank you for listening to me patiently and thanks to all my colleagues here and hopefully we will have similar kind of good sessions going forward in the subsequent quarters.

**Amthe:** Sure sir, I thank on behalf of ABN Amro Asia Equities both Mr. Praveen Kadle and Mr. Manish Gupta of Tata Motors and all the participants for actively participating in the call. Thanks a lot, have a nice evening, bye.

**Moderator:** Ladies and gentlemen, that does conclude your conference for today. We thank you for your participation and for using TATA Indicom conferencing services. You may please disconnect your lines now. Thank you and have a pleasant evening.