

TATA MOTORS

Investors/Analysts Conference Call

October 30, 2006

Moderator

Good evening ladies and gentlemen. I am Sunil, the moderator for this conference. Welcome to the TATA Motors conference call hosted by JP Morgan. 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 there would be a Q&A session for participants connected to WebEx International center, and after that we will have the Q&A session for WebEx India participants. I would like to hand over the proceedings to Mr. Bharath Iyer of JP Morgan. Thank you and over to Mr. Iyer.

Bharath Iyer

Good evening ladies and gentlemen, welcome to TATA Motors 2Q results call. Representing TATA Motors are Mr. Praveen Kadle, Executive Director Finance and Corporate Affairs. We will start off with the opening remarks from Mr. Kadle on the 2Q results after which management will take questions. Over to you Mr. Kadle.

Praveen Kadle

Thank you, Bharath. I have got with me here Savitha and Mona from our investor relations group. Thanks ladies and gentlemen for participating in the conference call. I will try to quickly go through the Q2 results for the next may be 10 minutes or so.

The volumes in the Q2 have gone up by about 30%, 107,000 last year going up to 139,000 mainly on account of the commercial vehicles going up by about 40% and passenger vehicles by 25%. The exports have remained more or less flat mainly on account of the significant depreciation of the South African rand against the dollar and over the last few quarters our increase or our dependence in South African market has increased significantly. Although in the Q2 the exports have been stagnant, we are taking the necessary steps to improve the international revenues in the remaining two quarters. Overall, the volumes have seen 36% growth in the first half going up from 195,000 to 265,000. The commercial vehicle is a major segment in which the volumes have gone up almost by about 50%, 67,000 going up to 134,000.

Passenger vehicle also has seen good growth about 24 to 25%, 84,000 going up to 104,000, and overall exports going up by 18%, 23,000 going up to about 27,000. We have gained market share in almost all the segments. In Q2 we have improved our market share in medium and heavy vehicles from 61% to 61.9%, and in H1 on the YTD basis, the market share has gone up from 59.5% to 63.2%. In light commercial vehicles thanks to significant increase in the Ace numbers, the Q2 market share has gone up from 59.4% to 67.3% and overall on the YTD basis in H1, 56% market share has gone up to 68%. We have outperformed the competition in all the segments of commercial vehicles, both in the medium and heavy trucks as well as buses as well as in the light commercial vehicle trucks and buses.

In passenger vehicle segment, again we have improved our market share. Our volumes have gone up by 27% going up from 43,000 in Q2 to 54,000 in Q2 this year, which is about 27% improvement. We have improved our market share going up from 15.8% to 16.3%. In Q2, our market share in the three segments in which we compete that is: the compact segment has gone up from 18.2 to 19.5; in the entry mid size our market share has gone up from 30.5 to 37.4, and in the utility vehicle from 18.3 to about 21.7. On YTD basis, in H1 our overall market share has gone up from 15.6 to 16.3 and we have seen 34% volume increase, volumes going up from 84,000 to 104,000. As I mentioned in all the three segments that is the compact and entry mid size as well as in utility vehicle, our market share has seen reasonably good improvement. Overall our position continues to be second in passenger vehicle segment if you add both the car as well as the utility vehicle segment.

As I mentioned earlier in the international business, the numbers are flat at least about 1% improvement in Q2, but overall in first 6 months 18% growth. Hopefully we will address the South Africa issue and we will start seeing the numbers increase again in the remaining 6 months.

In the financing business, significant improvement was seen both in terms of vehicles financed as well as in terms of disbursements. We have seen the disbursements in Q2 going up from Rs. 1178 crores to Rs. 2094 crores, which is about 78% improvement. On the cumulative basis in the first half disbursements going from Rs. 2125 crores to Rs. 4184 crores, which is about 97% improvement. A similar improvement in terms of vehicle numbers, in terms of finance buyers, as you know we only finance our own vehicles and where our share has gone up now from 22.34% in the first 6 months of last year to about 31%, a significant improvement in terms of the market share.

In terms of the financial performance on the consolidated basis, the revenues have gone up by 42% in the second quarter; on the net of excise revenue which has gone up from Rs. 5429 crores to Rs. 7702 crores. The EBITDA margin on the consolidated basis has come down from 12.54 to 11.97 mainly on account of the steep increase in the raw material prices in the parent company, especially on the steel, aluminum, copper, and rubber, and more particularly on the commercial vehicle where a significant amount of steel and rubber gets consumed thanks to the number of tyres which we use for our heavy vehicles and for medium truck vehicles. The PBT number has gone up by about 36%; up from Rs. 536 crores to Rs. 729 crores and the net profit has gone up from Rs. 393 crores to Rs. 536 crores, which is about 36% improvement. Basic EPS has gone up from 10.45 to 13.95 for the quarter.

The first 6 months consolidated numbers, revenue has gone up from Rs. 9906 crores to Rs. 14,474 crores, which is 46% improvement. As I mentioned again the EBITDA margin has marginally come down from 12.5% to 11.72%. PBT has gone up by about 42% at Rs. 895 crores to Rs. 1266 crores, and net profit with 40% improvement Rs. 655 crores going to Rs. 918 crores. The EPS for the first 6 months has gone up from 17.40 to 23.92, which is a 38% improvement.

Standalone numbers have been already put on the web, so I don't want to go into the details, but we have seen about PAT number improving by 31%, Rs. 338 crores going up to Rs. 442 crores for the second quarter. The PAT number has gone up from Rs. 611 crores to Rs. 824 crores, which is 35% improvement. The EPS has gone up for the first 6 months from 15.23 to 21.46 on a standalone basis for the first 6 months.

Working capital continues to be tightly monitored. Inventories in terms of number of days have come down to 35 days as on 30th September 2006 as against 40 days last year same time. Receivables have come down from 8 days last year as on 30th September to 7 days. Balance sheet size, the net of financing receivables that will be vehicle financing receivables has gone up from Rs. 5266 crores as on June 2006 to Rs. 6599 crores, it is a combination of capital expenditure going up and also the investment which we have made in the vehicle financing subsidiary company to the extent of Rs. 350 crores.

Net of surplus cash that we have the debt is Rs. 4136 crores, which gives an debt equity of 0.64. Now that we have got the separate financing company, we expect the borrowings to come down significantly by end of March as well as see a significant drop in the debt equity ratio. We are targeting the overall borrowings to come down to about Rs. 3000 crores by end of March 2007.

Talking about the significant events, in end of July, we signed the memorandum of understanding with Fiat for forming the joint venture for manufacturing of passenger vehicles, engines, and transmission both for the Indian market as well as overseas market. The discussions are in the final stages and we are hopeful of signing the joint venture agreement with Fiat very soon, which would cover this industrial activity as I mentioned earlier.

The fire which took place towards the end of the month in the paint shop of our car division in Pune plant, lot of work has been done to restore the production and we will be very soon going back to 750 vehicles per day in the month of November although I must say that we lost volumes of around 1000 vehicles in the month of September and we are expecting volume drop of about 3000 to 4000 in the month of October and November; however, thanks to the policy which we had taken for loss of profit as well as for the insurance cover for the assets, we don't expect any financial loss, although in terms of market share, yes we may see some drop in terms of market share because of the numbers which we will be loosing in the month of October and November.

We have achieved a significant milestone in terms of exporting 300,000 vehicles in July 2006 we achieved that milestone, and as I mentioned we have set up the new financial services company for taking care of the over flow of our financing business.

The Uttaranchal plant is progressing quite well in terms of getting ready for starting the commercial production for at least some time during the next financial year - in the first half of the next financial year. Our commercial vehicle business unit was awarded CII Exim Bank Award for Business Excellence.

Going forward, we expect the commodity prices to continue to remain reasonably high thanks to the oil prices which have now more or less stagnated at around say \$60 and also the kind of more intensified effort which we have taken on the raw material side especially in terms of cost reduction. While there will be pressure on the margins, we are hoping to see some improvement in margins in the remaining two months. We also have increased the prices of our trucks effective 1st of October, so we are hopeful of seeing some margin improvement in the remaining two quarters and we also expect the volumes to be reasonably buoyant. I do not want to make any predictions or projections in terms of what would be the increase in volumes in the second half, but as you know the base number of last year second half was quite strong, so we are comparing the base number of last year, so inspite of the strong base number for last year, we are expecting reasonably good numbers coming mainly in the commercial vehicle on the medium and heavy trucks, rather heavy trucks more

particularly, also on in the area of the mini truck Ace. Passenger vehicles, the market still seems to be reasonably buoyant, although on the light commercial vehicle and the pickup van (I am not talking about the Ace, but our 207 DI) and also in the medium trucks, the market seems to be slightly sluggish or may be even some slow down is expected, but overall we expect reasonably good numbers in the domestic segment. Exports also we see some good growth coming in the remaining two quarters, so with that I throw it open for the questions and we will do our best to answer all your questions. Thanks.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Zareena to conduct the Q&A for participants connected to SingTel. Thank you and over to Zareena.

Zareena

Thank you, Sunil. We will now begin the question and answer session for participants connected to the SingTel bridge. Please press 01 to ask a question. Once again participants with question to post please press 01 now. At this moment there are no questions from participants at SingTel. I would like to hand over the proceedings to Heather.

Heather

Thank you. We will now begin the Q&A interactive for participants connected to the international bridge. Please press *1 to ask a question. Once again press *1 to ask a question. At this moment there are no further questions from the participants at the WebEx International Center. I would like to hand over the proceedings back to the India moderator.

Moderator

Thank you very much Heather. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions 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. Participants are requested to restrict to only one question in the initial round of Q&A. To ask a question please press *1 now. The first question comes from the line of Mr. Chirag Shah of Stratcap.

Chirag Shah

Yeah, good evening sir.

Praveen Kadle

Good evening.

Chirag Shah

Sir, I just wanted to understand there are two questions, one is on overloading sir, we were getting some feedback that in certain pockets overloading has again began, you know where initially there

was stringent application say in January or is it that this kind of thing is there is some lack on the authority side on overloading ban sir? If you can help us understand that thing, how do you foresee this thing happening, is it in just pockets or how it is spreading sir?

Praveen Kadle

Now to be very frank, we had always mentioned right from the December quarter of last year when this overloading issue came into the picture, thanks to the Supreme Court order, that in the country like India, which is quite vast, it is going to be extremely difficult in terms of how it will be controlled, how it will be administered, so I am not surprised if you tell me that in some pockets it has not been as rigorously or vigorously administered as it used to be earlier in the year. And to be very frank more than the loading or overloading, I think the volume growth is likely to come because of the replacement demands mainly on account of the economic factors and not so much in terms of the loading or overloading. As I mentioned, the economic factors are basically the kind of a huge replacement demand, which is expected because even independent sources confirm now that the number of trucks which are there in the system are close to 3 million and out of which about 40% are more than 10 years old, and most of this 10 years old means then there was no euro compliance and when the trucks were typically medium trucks and on the new highways the medium trucks are going to be found to be totally inefficient, so with the new roads coming in most of the operators will have to replace their old trucks with the new trucks, which basically in the replacement market, which is mainly going to push the growth for the commercial vehicle and of course the economic growth in general.

Chirag Shah

Sir, what I was trying to understand is that if the thing becomes prevalent in more pockets and slowly it spreads on a longer term basis in the sense say next 8 months or so would it really impact the demand, I just wanted to understand that side sir?

Praveen Kadle

As I said, I don't see the demands growth coming in, it happened, we saw 30-35% growth starting from January till may be August or so, that is may be to some extent loading overloading factors contributed to such a big increase, but we have been always saying that one should expect at least around 8 to 10% kind of a growth. Now the growth may be even higher than 8 to 10% which I mentioned just now but it may not be 35%, now I don't want to make any projections to what would be the growth, but as I said there is a strong economic performance and the strong economic justification for replacing the truck because of the huge what should I say, huge factor of the old inefficient truck, which are there in the system.

Chirag Shah

Okay, fair enough sir.

Praveen Kadle

So, just to summarize, we don't really kind of give too much importance to this loading or overloading issue.

Chirag Shah

Fair enough sir. Sir second question I was just bit late to log in sir, can you sir explain me the financing side sir, how it is shaping up, any up date on the demerger or separation for financing business sir.

Praveen Kadle

A new company has been formed and we are not going to do any tax demerger for reasons which we had mentioned earlier that we have to carry out the business of financing at least for the next 4 years, but what we will do is we will try to cap it up at around say Rs. 4000 - 5000 crores and the overflow will get into the new company's books, and in the first 6 months we have done about close to Rs. 700 crores per month, this is about 97% improvement as compared to last year, so if we maintain this Rs. 700 crores per month kind of a run rate we could be doing anything between Rs. 8500 crores and Rs. 9000 crores in the current financial year.

Chirag Shah

Okay, so would it be right to presume that the incremental Rs. 4000 odd crores or Rs. 4000 crores would go into the subsidiary?

Praveen Kadle

Yes, something like that, yeah.

Chirag Shah

Sir but are we putting more money into the subsidiary beyond this or how are we going to put money in the subsidiary.

Praveen Kadle

We have already capitalized the subsidiary with the capital of Rs. 350 crores, but if the company needs more capitalization or more equity we will certainly support that.

Chirag Shah

Okay, but sir any kind of debt equity ratio market borrowing to ratio, what kind of leverage, 5 times, or what kind of leverage are we looking at?

Praveen Kadle

Yeah, around 5 to 6 times.

Chirag Shah

5 to 6 times we are looking at. Okay sir, thank you sir.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Bala Jayaraman of Morgan Stanley.

Bala Jayaraman

Good evening Mr. Praveen Kadle, I have one question on the export market and probably one more question, follow up question on the new platforms which are coming up. You did touch a little bit on the export market especially about the South African market, if you could just give us little bit more information on how does the margin compare between domestic market and export market and little bit color on is it margins are better in export market or in domestic markets, and then how/what was the other markets you are targeting for next 2 years?

Praveen Kadle

I think let me clarify the margins for some products in the international market are as good as they are in the domestic market especially in the commercial vehicle, but in some of the other segments more particularly in the passenger segment, the margins are not comparative, however, we make reasonably good amount of money even in those products and our strategy has been to go into the international market, grow that business mainly because (a) it improves our overall profitability. It also is a strategic decision, so that we don't depend only on one market and we spread our risk across many countries. It also improves our cost competitiveness because when you are in the international business you need to be cost competitive. It also improves our technology base because we need to also have our products matching the international technology requirement, so we don't look at it purely in terms of : are we making the same money as we make in the domestic market, so let me clarify that point. In terms of the new markets, we are looking at Russia and some of the east European countries and quite seriously looking at the South American markets, though at this stage I may not be in a position to say whether it is going to be X country or Y country, but we are certainly looking very strongly at the South American markets.

Bala Jayaraman

Okay, the next question was on the platforms, we don't know about new platforms, which are coming on stream especially the global car as well as the global truck, if you could provide us with any update on that like how it is progressing and are we at any time line per se on this main product launches?

Praveen Kadle

The work is progressing as per the schedule with respect to almost 7 to 8 different products. We are talking about starting with the face lift of the current products and as far as the new products are concerned, we are talking about the long wheel base that is kind of a long wheel based products on

our current Indica platform, which has been the top end of the mid size where we don't have the presence right now. We are also talking about the new platform for Indica. We are also talking about the new platform for utility vehicles. We are also talking about our global truck products, which will take care of right from the smaller series going up to the medium and heavy trucks. We are also looking at introducing a new platform for our pick up van, which is basically we are talking about 207 DI kind of a product, and we are also talking about small cars. Now if you add all these main platforms and then you look at various segments and various products which are possible to be developed on these platforms, then we are talking about a significant number of new products coming in starting from the beginning of the next financial year till 2009, so we will have almost may be 3 to 4 products coming in from the beginning of next financial year.

Bala Jayaraman

Okay and just if I may just add one follow up question to it, could you give us any update on how is the small car project coming along and how/what are the capex done till date in that particular project?

Praveen Kadle

The capex done so far is not much because what we have spent is more in terms of product development expenditure. We have already processed the design. We have decided the bill of materials - the cost is more or less frozen, but of course we are trying to get further reduction on the cost side. We are still not very happy with the costs which we have got. The project will be profitable; the project will be making money on its own strengths. We use a very strong or fixed criteria of evaluating a project, and the project if we try to discount it at the rate of 16% per annum and then over a period of 5 years if it is NPV positive then we get into that project, so the small car project is positive from that point of view and therefore we are getting into that project. As I mentioned the product designs have been frozen and once the land issue is resolved, which we are hoping to get resolved by end of December, once the land issue gets resolved then we will get full fledged into the execution of the project.

Bala Jayaraman

Okay, if I may add one last question, sorry for extending it.

Moderator

Mr. Bala, sir we have many participants on line sir, could you please come up with the follow up question.

Bala Jayaraman

Sure, I will do that. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Shrinivasan from Emkay Shares.

Shrinivasan

Good evening sir. My question is basically on your commercial vehicle is a very profitable and really superior franchise, and I would also guess that you know you have one of the best negotiation power vis-à-vis the component vendors, yet I find if you look at Maruti Udyog, which is only in passenger car, which normally people think is less profitable, they have an EBITDA margin of around 14% for Q2 whereas TATA Motors is only around 11.5, 11.4 to 11.5% in Q2. Where exactly does the disconnect lie?

Praveen Kadle

I think frankly you know the product which we make as you rightly said it is a mix of both commercial vehicles and passenger vehicles, and I must mention that when we compare the performance of the two companies it is strictly not comparable in the sense that we have strong commercial vehicle numbers and coming more particularly in the heavy truck side where more steel is consumed, where more rubber in the form of tyres is consumed as compared to a typical passenger vehicle company. In the case of steel and rubber, especially in the case of rubber, the prices have gone up significantly up. The tyre companies as you perhaps know in the second quarter also towards the end of the first quarter they started increasing the prices significantly, and if the price increase was not granted they had formed some kind of a cartel and they were not kind of agreeing to give the delivery of the tyres. So you are to some extent right that yes we being the largest player in commercial vehicle segment, we have the kind of ability to influence the purchase cost, but when there is a cartel which is formed by your vendors then you are really not in a position to do that, use that kind of a buying power, so I think first to be very frank I don't think it is a fair comparison to compare the EBITDA margins of car companies with that of a company which has got larger commercial vehicle numbers. I think what you should really look at is how TATA Motors has compared with some of the other commercial vehicle companies, but I don't want to kind of elaborate this point too much. Let me tell you one thing, our EBITDA margin also is not just purely on account of raw material, what we have also done in the Q2 is we have taken some review of our provisioning for employee related cost especially the cost related to the gratuity superannuation and some of the future liabilities on account of leave encashment, medical liabilities, and so on and so forth, and in line with the increased salary cost, which we have given in the last couple of years, we have significantly changed the assumptions and we have made large amount of contribution or provision towards these liabilities, that is one. So second thing is we have also spent a significant amount of money in some of our plants to improve our productivity as well as improve the sustainability of these plants, especially in plants like Jamshedpur and also to some extent in Pune, which also is now almost about 30-year-old plant, and these expenses have been written off and these appear in the other expenses. So these are other two reasons apart from raw material cost, which I talked about, because of which there has been some impact on the operating margins.

Shrinivasan

Okay, sir how is the response for your Novus, the TATA Novus, the heavy end products.

Praveen Kadle

Is okay, but I think it can still be improved, and we are relooking in terms of what we need to do to improve that demand.

Shrinivasan

My last question sir, the Fiat Global CEO is on record on Bloomberg, they have quoted that the TATA joint venture will extend to other countries also, can you give us a little bit more light on this particular statement sir?

Praveen Kadle

Yeah, we are looking in terms of how we can partner together in many other countries in terms of either joint manufacturing or marketing or combination of both and also looking at getting, going forward into future product development for some of the international markets.

Shrinivasan

Will it also go into commercial vehicles or will it be restricted to passenger cars?

Praveen Kadle

Right now it is purely passenger vehicles, but we are not restricting ourselves to only passenger vehicles.

Shrinivasan

Thanks sir.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Pramod Gupta of Principle Asset.

Pramod Gupta

Hello sir, I just wanted to get some clarity on how much has been the capex till date in this year.

Praveen Kadle

Rs. 900 crores.

Pramod Gupta

Rs. 500 crores.

Praveen Kadle

Rs. 900 crores.

Pramod Gupta

And what is the plan for the full year.

Praveen Kadle

It should be around anything between Rs. 2000 to Rs. 2300 crores.

Pramod Gupta

And what is the product development cost, which has been capitalized if any in the year to date and what is likely to be there for the full year?

Praveen Kadle

Year to date that is position as on 30th September, the total amount capitalized or sitting in the fixed asset schedule is around close to Rs. 575 to Rs. 580 crores, but it is all related to the future products, which I have mentioned earlier. We have got host of new products coming in right from the small car going up to the big trucks, so it will get kind of charged off over the next 3 to 5 years as and when we launched the product from the date of start of production.

Pramod Gupta

Sure and finally I want to know sir, we keep on hearing in the press about very big capex plans where the company to the tune of some Rs. 10,000 odd crores in the next 3 years may be 3 to 4 years or that period of time, how much truth is there in that and what is the actual, I mean the right estimation to look at basically?

Praveen Kadle

Yes, we actually did go to our shareholders for the approval to spent that money, so we are talking about Rs. 10,000 crores in the next 3 to 4 years timeframe, and roughly, I think it is about Rs. 1000 crores, which will be spent or around Rs. 700 to 800 crores which will be spent on improving our capability on the engineering research center, other than that all the rest of the money, just give me a second, I will tell you exactly, the commercial vehicle and passenger vehicle will account for almost about, sorry I made a mistake out of Rs. 10,000 crores, the capital expenditure on the engineering research side is about Rs. 150 crores and the rest of the amount will be about more or less say 45% on CVBU that is the commercial vehicle and 55% on passenger vehicle.

Pramod Gupta

Okay, thank you sir and all the best.

Praveen Kadle

Thanks.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Niran Chaturvedi of Crisil.

Niran Chaturvedi

Hello sir.

Praveen Kadle

Hello.

Niran Chaturvedi

Sir, I just wanted to know as you said you have tied up with Fiat and you are in the final stage of discussions with them, does this also include and also the fact that you said that you are looking at South America in particular, does the tie up include the possibility of jointly manufacturing at the Cordoba facility in Argentina?

Praveen Kadle

I don't want to comment on specifics you know as you mentioned just now, but yes we are looking at many markets on our own as well as through Fiat.

Niran Chaturvedi

Okay, sir the other question that I wanted to ask you is that you said you plan to launch 3 to 4 products starting the next financial year, how many products can we see from TATA Motors in the next 3 years per se?

Praveen Kadle

I talked about various products range from the mid size car, the top end of the mid sized car, then I also talked about facelift of existing cars, new utility vehicle that form which will have kind of a right from the top end SUV going down to be rural vehicle, then I also talked about the small car, I talked about the Indica platform replacement, so when we talk about Indica platform replacement then we talk about hatch back car, about sedan cars, both in the entry mid size as well as the top end of the mid size, then I also talked about the entire range of commercial vehicles starting from the pick up brand, which today we have got 207 DI to the big trucks, so I talked about the entire range.

Niran Chaturvedi

If a number, if you could just give a number to it, over the next 3 years.

Praveen Kadle

No, I gave you the numbers just now.

Niran Chaturvedi

Sir okay, the other question I want to ask you second quarter results the other expenditure component is slightly higher than what analyst expected, if you could just list out the reasons for that?

Praveen Kadle

Partly, the second quarter numbers when you look at it you know the other expenditure also includes some of the variable expenditure which is not covered in the raw material or in the staff cost, so part of which it is related to the volume increase, which is almost about if you look at between say last year second quarter and this year second quarter is almost 36% increase, so when you look at last year's 676 crores and so close to 200 crores is because of the volume increase, and the rest is the some of the expenses which I mentioned just now in terms of the maintenance cost, in terms of the increase in the maintenance cost in maintaining the plant and also some related expenditure has really accounted for this increase.

Niran Chaturvedi

Sir, just one last question, when do you expect to produce; I mean revive normal operations at the Pune plant?

Praveen Kadle

End of November, actually, we are almost there in terms of 750 vehicles per day, but that is by taking help from our paint shop facility in commercial vehicle as well as by taking the help from Fiat at its a Kurla plant, but by end of November our own car plant will be in a position to go up to 750 vehicles per day.

Niran Chaturvedi

By end of November.

Praveen Kadle

Yeah.

Niran Chaturvedi

Thanks a lot sir. Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Vikram Kotak of Birla Sunlife.

Vikram Kotak

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Vikram Kotak

I just want to have a little color on the two-component subsidiary, any capex plan laid for HV Axel and HV Transmission, and what are the fund raising options?

Praveen Kadle

Yeah, as I mentioned earlier also we are looking at strategic partnership, but if does not happen then we will do the IPO to fund the capex plans. The capex plans are still being worked out, that could be around 200 crores for each of this two companies.

Vikram Kotak

Okay, okay, and one more question, I missed that, total proportion of the TATA vehicle finance by TATA Finance, can I get the number?

Praveen Kadle

Yeah. We financed about 31% of the total vehicles sold by TATA Motors in the domestic market.

Vikram Kotak

Okay, 31%?

Praveen Kadle

Three-one yeah.

Vikram Kotak

Three-one, okay. Thank you very much.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Govind Agarwal of UBS.

Manishi

Hi. Good evening Mr. Kadle, this is Manishi from UBS.

Praveen Kadle

Yeah Manishi?

Manishi

Hi. I had a couple of questions, firstly you had earlier guided to maintaining EBITDA margin in the range of 12 to 12.5% for the year. Do you still stick to that target? And secondly, if you were to demerge the financing business today as it exists on your balance sheet, how much would your debt reduce by?

Praveen Kadle

Yeah. Taking your first question, yes we are still aiming at getting to 12% margin by end of the year. One should not really get into quarter-by-quarter margins, which can be very misleading. So, I would like you to look at the overall year's number and whereas I mentioned at the beginning itself we are hopeful of improving the margins in the next two quarters and thereby achieving or reaching the 12% operating margin.

Manishi

Are you seeing any kind of flattening out in any of the commodity prices, lets say, steel or rubber?

Praveen Kadle

Rubber prices I think now are stagnant and therefore we are also taking some kind of extra effort in terms of addressing this cartel issue. So, we are reasonably hopeful of kind of addressing that issue. And on the steel side getting some mixed kind of signals, but I think there again we should be in a position to kind of manage that issue. On your next question was if you were to demerge the financing business completely then what kind of debt position we will have. I have mentioned about debt as on end of September is Rs. 4160 crores, say round it off to Rs. 4200 crores. My estimate is if we were to completely demerge the financing business one could reduce the debt by about Rs. 2000 to 2500 crores.

Manishi

Okay, great, and sir one last thing you mentioned these two things, you know, higher provisioning for employee related cost and some extra spending in the plans to improve productivity, what would be the quantum of these two expenses in Q2?

Praveen Kadle

Both put together will be close to Rs. 45 crores.

Manishi

Rs. 45 crores. Okay, and are both of them accounted for in the other expenses or the employee part in the employee expenses?

Praveen Kadle

No. The employee cost is in the employee side and the maintenance cost is on the other expenses.

Manishi

Perfect. Okay. Thank you very much sir.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Dipen Sanghvi of Pranav Securities.

Dipen Sanghvi

Hello.

Praveen Kadle

Yeah. Good evening.

Dipen Sanghvi

Sir, my question is on the mini truck if you know, now that the vehicle Ace has been very much successful, do you see any kind of opportunities or possibilities of developing, you know, may be kind of version of a passenger vehicle on the same platform?

Praveen Kadle

Sorry, I did not get your question.

Dipen Sanghvi

I mean, since your mini truck Ace has been very much successful and well received in the market, do you see any kind of opportunity or possibility to develop a variant or a version of a passenger vehicle on the same platform?

Praveen Kadle

Yes. We are looking at that in terms of bringing; I think I did mention in my previous call also that we are looking at possibility of looking for public transport vehicle on the same platform.

Dipen Sanghvi

Okay, and one more question was, can I get the breakup of the other income, I mean, just other income was seems to be slightly on a higher side if compared to previous quarter, so is there any kind of one-time gain or some unusual in nature?

Praveen Kadle

No, there is no one-time gain, it has been thanks mainly to the good dividend, which we got from most of the associate companies which have done exceptionally well in the last financial year.

Dipen Sanghvi

Okay. Thanks a lot.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Sanjay of HSBC.

Sanjay

Sir, I had a question relating to your EBITDA margin. Hello sir.

Praveen Kadle

Hello.

Sanjay

Yeah, I just wanted to know that was there any impact of creating this hire purchase subsidiary on the EBITDA margin of the standalone entity, in the sense you have transferred some auto finance business and which is why your auto finance income was little lesser in this Q2 and hence the EBITDA margin looks little less?

Praveen Kadle

Yeah, may be to some extent yes because we started the new company operation from 1st of September, but frankly not much, it is not significant enough to be mentioned, so that is why I did not mention that.

Sanjay

Okay sir, and sir my next question is that if you can give me some color on the performance of your key subsidiaries Daewoo commercial vehicles, TATA Technologies and your TATA Construction.

Praveen Kadle

Yeah, okay, there we will be putting the numbers on the website definitely give the numbers of some of the major subsidiaries of TATA Daewoo's profit, I am just giving the numbers for Q2 and sorry also for the H1 numbers. Last year, Rs. 21 crores was the profit of TATA Daewoo for Q2, this year it is Rs. 33 crores. Telcon i.e., Telco Construction Equipment last year's Q2 profit after or rather before tax for Q2. So let me read the after tax numbers, the profit after tax for TATA Daewoo, last year for Q2 was Rs, 16 crores, this year it is about Rs. 24 crores. Telcon last years profit after tax for Q2 was 18 crores, this year it is about Rs. 37 crores then HV transmission last year it was Rs. 7

crores for Q2 after tax, this year it is about Rs. 9.63 crores, HV Axles last year was 10.60 crores this year it is 12.50 crores, and TATA technologies last year was Rs. 2.6 crores, this year it is about Rs. 3.1 crores.

Sanjay

Thank you sir. My last question is that on your 35 ton goods vehicle, I mean, how did the profitability as the percentage compared with your other vehicles, because my assumption was that with vehicle product mix in favor of those vehicles to a margin will be improving, is there a substantial difference between them or not if they just were to be compared?

Praveen Kadle

So, in terms of margin, percentage contribution of margin is not much, same more or less.

Sanjay

Thanks a lot sir.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Amit Kasat of Motilal Oswal.

Amit Kasat

Sir, this is Amit from Motilal Oswal.

Praveen Kadle

Yeah. Good evening.

Amit Kasat

Good evening. Sir, I just wanted to clarify the two costs, which have been incurred in one-time cost, which is the maintenance cost as well as the staff cost related which is to the tune of Rs. 45 crores, how much of this cost will be recurring going forward.

Praveen Kadle

The employee related cost and the maintenance cost are more or less one time you can say.

Amit Kasat

One time. This Rs. 45 crores will be one time in this quarter. Okay sir. Thanks.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Ashutosh Goel of Edelweiss Capital.

Ashutosh Goel

Good evening sir. Sir, just a question on the JV proposed with Fiat at the Ranjangaon manufacturing facility. Is it likely to utilize the existing assets of Fiat at the Kurla plant?

Praveen Kadle

We are still in a process of looking at it and finalizing it, but yes there is hope for using some assets.

Ashutosh Goel

Sorry?

Praveen Kadle

Yes, I said there is some hope for using some of the assets at the Kurla plant.

Ashutosh Goel

And when do you expect it to be operational, sir?

Praveen Kadle

I will not be in a position to answer the exact date but sometime during the third quarter of next financial year.

Ashutosh Goel

Okay, and just one another small question on the fire incident at the paint shop, I mean, although you have said that there is no loss of profit as well as the asset is insured, but what is the estimate of, you know, the kind of loss that was incurred?

Praveen Kadle

Actually, I will not be in a position to tell you at this stage because we have filed the claim with the insurance company and I do not want to make the comment on that until finally ascertained and approved by insurance company.

Ashutosh Goel

Right. Yeah, thank you sir. That is all.

Moderator

Thank you very much sir. The next question comes from the line of Ms. Seema from Dun & Brad Street.

Seema

Good evening sir.

Praveen Kadle

Good evening.

Seema

Good set of numbers for the first half. Your company continues to outperform the overall industry. During the last conference call, you mentioned that you expect CV industry to grow by 20-25%. Are we maintaining this growth rate for the rest of the year or are we more optimistic now?

Praveen Kadle

No, I mentioned in the beginning that we would not like to make any specific projection, but since I had said that yes overall for the year we should see about 20-22% increase because of the strong growth numbers in the first six months, may be yes, but I do not want to get into the specific projection.

Seema

Okay, and sir what is your outlook for the next year. Do we see some kind of a slowdown setting in?

Praveen Kadle

No, I think one should expect 8-10% growth certainly.

Seema

All right, and sir, has the ace achieved break even?

Praveen Kadle

Oh yes, right from the almost beginning because the ace product started with the capacity of 30,000 and in the first year itself we made those numbers.

Seema

All right, and what has been the total investment on these so far?

Praveen Kadle

The investment for the first Rs. 30,000 was hardly Rs. 160-170 crores because we did not really spend any money in terms of setting up a new plant because by using the existing plant, existing machines and what was really spent was only some SMV operation assets and the products development expenditure.

Seema

Okay. Sir, one last question, what kind of impact do you expect the car industry to see once your one lakh car is launched if you could quantify in terms of the expansion in the market, sir?

Praveen Kadle

I think we ourselves have to finalize the numbers in terms of how much capacity we start with but I think you can easily expect somebody else also follows TATA Motors in getting into the similar kind of a project then one can really expect about 10-15% of the market from two wheelers to this particular segment, now two-wheeler market today is about 7 million, so one can easily expect at least about a million vehicles in 2-3 years time frame after we start manufacturing.

Seema

All right. Thank you so much sir. Thank you.

Moderator

Thank you very much mam. The next question comes from the line of Mr. Ajay of Enam Securities.

Ajay

Hello.

Praveen Kadle

Hello.

Ajay

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Ajay

This is one question, what is the outstanding forex debt on your books as of now?

Praveen Kadle

We have about \$475 million.

Ajay

\$475 million. Okay fine. Thanks.

Moderator

Thank you very much sir. The next question comes from the line of Ms. Rashi Talwar of Kotak Institutional.

Rashi Talwar

Good afternoon sir. I just wanted to ask you there was a report on the Bloomberg that there was a forex gain of Rs. 253 million this quarter?

Praveen Kadle

Yes, it is there in our published results, if you see the notes for these.

Rashi Talwar

Okay, fair enough, and this was against, last year the same quarter it was how much? a loss I believe.

Praveen Kadle

Yes, it is there in the note if you see.

Rashi Talwar

So, actually adjusting for this margins would be somewhere around 10.9%?

Praveen Kadle

Yes and no, because I have also talked about the expenses, which we incurred.

Rashi Talwar

Correct.

Praveen Kadle

On staff related and the one-time plant maintenance related.

Rashi Talwar

Correct, fair enough, putting that aside.

Praveen Kadle

Yeah.

Rashi Talwar

Thank you sir.

Moderator

Thank you very much mam. The next question comes from the line of Mr. Pramod Amte of ABN Amro.

Pramod Amte

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Pramod Amte

In terms of the raw material you have been repeatedly saying about steel and the rubber, can you give us sense to what extent you have given hikes to the vendors on both these key commodities and considering rubber has substantially come down from its peak of Rs. 100 per kg, do you look forward for any reductions in the third quarter point number 1, and 2, you have increased the truck prices by 2% starting of the third quarter, does it more than compensative for the increased commodity prices?

Praveen Kadle

You know, the prices increases which we have given to our vendors, it is a confidential information, I would not like to divulge, but going forward as I mentioned in the beginning, yes, some of these prices have stabilized even in some cases they are even coming down, so we do expect the pressure to slightly reduce in the second half and also we have made the prices increase from the commercial vehicle as you have just now mentioned, so that also should help and that is the reason as I said at the beginning we are hopeful of increasing the margin in the second half.

Pramod Amte

Okay, and touching upon the current. Hello.

Praveen Kadle

Yeah, yeah go ahead.

Pramod Amte

Yeah, touching upon the CV industry where, especially in the M/HCV, you have gained market share and the industry is growing like a phenomenal speed, in spite of that there have been some hesitation in terms of pricing power, considering that there is a raw material pressure, what is the strategy of the company considering such a big buoyancy seen in the sector?

Praveen Kadle

You see, we do increase the prices; it is not that we do not increase the prices. The hesitancy part which you therefore mentioned may not be true, one can question to what extent one should have increased the prices and there I would say that we are more concerned about the overall economics of our customers, not so much in, you know, kind of improving our margins for the sake of improving the margins, and I think in the long run why TATA Motors has continuously maintained its market shares, leadership is because of the value pricing which we do for our customers.

Pramod Amte

Sure. Thanks.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Rajesh Kothari.

Rajesh Kothari

No thanks, my question has been answered.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Vinay Goenka of Kotak Securities.

Vinay Goenka

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Vinay Goenka

Sir, interest costs have gone up significantly this quarter, you talked about lowering our debt to around 3000 levels by the end of the year, so this interest cost will also fritter down say in a similar way or will it continue such a high rate?

Praveen Kadle

See, the borrowing level will come down by end of the year, so we may not see immediate decrease in the interest cost, but it will happen over the period.

Vinay Goenka

Okay, okay, and sir one more thing again on the input side, I mean, the steel and the rubber, will be fair to say that it has been more on the rubber side than on the steel side in the quarter?

Praveen Kadle

I think it is an equal contribution because the amount of steel we consume is much high.

Vinay Goenka

Okay, great, and sir in the last conference call we had talked about entering into long-term contracts for steel, we do not have any such contract for the tyre segment?

Praveen Kadle

No, we did not have.

Vinay Goenka

Okay, okay. Thanks a lot sir and all the best.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Mahantesh of Prabhudas Lilladher.

Mahantesh

Good evening sir, Mahantesh here.

Praveen Kadle

Yeah. Good evening.

Mahantesh

Sir, last con call after the first quarter you had announced 60 days joint study with Fiat, what is the progress on that study sir, what was the outcome of that study?

Praveen Kadle

I mentioned this just while in the beginning that we have more or less in the final stages of the discussion and negotiation and we would be hopefully announcing it in the next few months or the joint venture last month.

Mahantesh

I understand the joint venture is happening, but what I wanted to understand is what was the outcome of the study, what were the key highlights that came out?

Praveen Kadle

You certainly do not expect me to make that announcement until we have finalized among ourselves.

Mahantesh

Fine sir, and another question I had was, sir, what kind of discounting have you seen between this quarter and previous quarter and similar comparison, YOY sir, i.e., sales promotion discounts?

Praveen Kadle

Discounting and sales promotion expenses, yes, we are on a higher side that is because of the industry trends. The amounts are larger in Q2 as compared to Q1 or as compared to previous year Q2.

Mahantesh

And that is on a percentage basis or it is a just volume driven amount increase?

Praveen Kadle

No, percentage basis apart from volume driven.

Mahantesh

Apart from volume. Fine sir. Thank you very much.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Janesh Shah of Net Worth Stock.

Janesh Shah

Good evening sir. Sir, I just have few queries, one is on your Subsidiary Tata Technologies where I would like to have some more details on that and if you see the profits in TATA Technologies, which I think is consolidated of the INCAT technologies, there we have seen the decline in the profits could we just have what kind of strategy you have for that acquisition because you had earlier expected to or you had earlier given the guidance of improving the margins on that front which was very low and putting it on the inline with the industry trend as such.

Praveen Kadle

Yes, I did say that but we also said that this is the first year post acquisition, so this would be the year of integration between the two companies any I would say that our integration work is still not complete and therefore we have not yet fully got the benefits of the integration. The revenue side, to be very frank, we are seeing that the revenue is growing inline with what we were expecting, but the product mix of the revenue is not through our satisfaction, we have not yet started seeing the benefits of off shoring. Off shoring, which we expected to happen especially in the design services, the customers are still averse doing the off shoring there as compared to typically in the IT area like we have seen in the case of banking and finance industry or so many other industries, but I think what decision we had taken in terms of acquiring these companies is still a right decision because the American auto companies have to survive and if they have to survive then they have to come out with new products and if they have to come out with new products at much faster pace and at much lower cost and what they have been spending so far then they will need to do out sourcing and out sourcing to companies or countries like India and thanks to the acquisition, we have the right kind of strategy in place having the front-end marketing which interfaces with all these customers in USA as well as in Europe and in the Asia Pacific with markets, not only the auto segment but also in aerospace and as you know aerospace thanks to the significant order placement by the Indian companies.

There is lot of increase by the aerospace companies in terms of off shoring the design development growth to Indian markets, so I think it is only a matter of time when we start seeing the full benefits of this integration. It may not have happened in the first six months of the current financial year, but going forward we expect the things to further improve. Partly, one of the other reasons as to why the profit is lower, is also because of the accounting treatment, which I had mentioned in Q1 where we took a significant charge in the first quarter related to the performance bonus and employee performance bonus, so that was almost about 14 crores hit which we took in the first quarter, so that is also the implication.

Janesh Shah

Okay, but when do you see the completion of the integration for this company?

Praveen Kadle

We hope to do it in the current year itself.

Janesh Shah

Okay. Thank you.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Vivek of Standard Chartered.

Vivek

Hello. Good evening sir.

Praveen Kadle

Yeah. Good evening.

Vivek

I just have a query regarding your input prices, now correct me if I am wrong, but the input prices to say have taken a breather vis-à-vis at least the last quarter, i.e., Q1, but still we have seen that across about the auto companies have been reporting margin pressures, is there some kind of a disconnect or something that I am missing over here or something relating to sourcing or something?

Praveen Kadle

No, let me clarify, this question was very much there in Q2 actually started sometime towards May-June in 2006 and was very much there till end of September, such a breather which you are talking about may happen in this quarter, that is the expectation.

Vivek

Okay, sales stand that till at least May or June you still saw that pressure on the pricing?

Praveen Kadle

It started as I said, started from May and continued till at least September.

Vivek

Okay, okay, okay. Yeah, thank you sir. That is all.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Anupam from CLSA. Mr. Anupam?

Anupam

Yes sir.

Moderator

Please go ahead sir.

Anupam

Sir, could I please have your capex for the first quarter and the second quarter because I recalled you saying that in the first half your capex was Rs. 900 crores, so if you could please help me with?

Praveen Kadle

I will have to check that, I think it must be 400 or 500 something, 400 in Q1 and 500 may in Q2.

Anupam

Roughly 400, 500, right sir? Okay sir, and I might have missed this in a sense so I am sorry for that but if you could help me with the balance sheet size as at September end.

Praveen Kadle

Overall balance sheet size is Rs. 11,000 crores.

Anupam

Rs. 11,000 crores?

Praveen Kadle

Rs. 11,000 crores, just give me a second, it is Rs. 11,730 crores as in September.

Anupam

Rs. 11,734?

Praveen Kadle

Rs. 11,730.

Anupam

Yes sir.

Praveen Kadle

But if you net off the vehicle financing receivables then it is Rs. 6599.

Anupam

11730 crores and 6599 crores.

Praveen Kadle

So, we are financing receivables to the extent of Rs. 5130 crores.

Anupam

Yes sir.

Praveen Kadle

As on 30th September.

Anupam

Right sir. That is my last question sir. Thank you very much.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Arvind Jain of Religare Securities.

Arvind Jain

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Arvind Jain

My question is regarding your new car platform. As you would be launching your vehicle based on the new platform in the first quarter of next financial year, so would that be fitted with Fiat CIDR engine?

Praveen Kadle

That may not be.

Arvind Jain

Okay, but would that again be fitted with the diesel engine or a petrol engine?

Praveen Kadle

You are talking about the first launch in the next financial year?

Arvind Jain

Yeah, right?

Praveen Kadle

So, that will be with both options.

Arvind Jain

Sorry?

Praveen Kadle

Both diesel and petrol technology.

Arvind Jain

Okay, but the diesel may not be the CIDR engine.

Praveen Kadle

Yes.

Arvind Jain

So, when you plan to launch a vehicle based on that engine?

Praveen Kadle

As I said, the new plant will start sometime around the end of third quarter next financial year, so, may be in the fourth quarter of next financial year.

Arvind Jain

Okay and another last query regarding the car. Would that be positioned in the premium segment of the compact car, I mean, in competing with Swift or Getz or would it be type lower?

Praveen Kadle

Which one you are talking?

Arvind Jain

The compact car.

Praveen Kadle

Compact car will be inline with the current market offering.

Arvind Jain

Okay, okay. Okay, thanks a lot sir.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Ramnath of SSKI Securities.

Ramnath

Yeah. Good evening sir.

Praveen Kadle

Good evening.

Ramnath

Sir, just one specific question. We have been speaking to the car manufacturers and two-wheeler manufacturers in the feedback from them, is that since the 1st of October, all of them are talking of input cost increases specifically fresh negotiations on steel and things like that, unlike them I think we are giving what is the feedback that I get from you is that probably in our case that might not be true, so is it because of some long-term contract that we have in that does not come for negotiation in October or something else, if you could throw some light there sir?

Praveen Kadle

Yeah partly because of that and let me clarify what I said was that we do expect the price pressures on the raw material side, but we are hopeful that we have been in a better position to mitigate that pressure in the second half as compared to what we could do it in the first year.

Ramnath

Okay, fair enough, sir. Sir, just one last question and that is specific to the employee part wherein in this quarter as you mentioned there was certain bit of extraordinary expense, is that likely to continue or it is only specific to this quarter?

Praveen Kadle

I think I have mentioned earlier, did not we?

Ramnath

Sorry, yeah I just forgot.

Praveen Kadle

No, it is related to this question.

Ramnath

Okay, which means the next quarter onwards you will have normalized to that extent. Fair enough, sir. Thank you very much.

Praveen Kadle

Thanks.

Moderator

Thank you very much sir. Mr. Bharath.

Bharath

Yeah.

Moderator

Sir, do we have time for more questions sir?

Bharath

Mr. Kadle, would you like to take more questions?

Praveen Kadle

May be couple of more I said.

Bharath

Yeah, okay. I think you can have few more.

Moderator

Fine sir. Next in line we have a follow up question from Mr. Chirag Shah of Stratcap Securities.

Chirag Shah

Good evening sir.

Praveen Kadle

Good evening.

Chirag Shah

Can you help me understand on TATA Daewoo's, what kind of integration we are having sir. We had recently launched the medium vehicles over there.

Praveen Kadle

Yes, the medium vehicle, which we launched in December 2005, has been doing quite well. We have got about close to 30% market share there in the Korean market and we are hopeful of improving the market shares as we, kind of, make more penetration into South Korean market.

Chirag Shah

Sir, what I was coming to is this can we have the size of the market and how it is in terms of pricing sir, in terms of margins how the market is? Hello.

Praveen Kadle

About the market, if I am not mistaken, but I will have to again go through the papers, but I think it is about Rs. 85,000 increase per annum.

Chirag Shah

Rs. 85,000, and sir, are the margins in the market as compared to India or to the competition.

Praveen Kadle

South Korean market is the highly competitive market. We cannot compare these margins in South Korea and to any of the margins of India with South Korean market.

Chirag Shah

Okay, and sir, is anymore restructuring left in TATA Daewoo or we are through with major part of the restructuring activity, sir?

Praveen Kadle

We are looking at cost reduction on ongoing basis. I do not know what do you have in mind when you talk about restructuring.

Chirag Shah

Yes sir, because I was just looking at the numbers and, you know, they are significantly below TATA Motor per se if you put I say for example, in terms of, you know, on various financial parameters. I am just wondering whether.

Praveen Kadle

Financial parameter you are referring to.

Chirag Shah

Sir, margins in comparison of, you know.

Praveen Kadle

I think that I mentioned to you. The South Korean market cannot be compared with the Indian market as per as the operating margins are concerned. # 2, this company is more in the assembly operation than as a fully integrated manufacturing unit as we are in India, so the margins are lower as far as the full assembly operation, but if we look at return on capital employed, if you look at the debt equity ratio, if you look at the asset turnover then the numbers are fairly comparable kind of numbers.

Chirag Shah

Yes sir. Okay, sir, and sir, one more question sir. Can you help me understanding the bus segment that where are we gaining markets, is it PSUs or STUs or where are we gaining markets here?

Praveen Kadle

It is a combination of everything because market

Chirag Shah

Because we have gained markets significantly, in fact, hello.

Praveen Kadle

As I was mentioning the market today in the bus segment, not just the state transport undertaking, this is a mix of both private and public sector.

Chirag Shah

Yeah. How mix it was coming to that I would like to understand how well are we in terms of STU orders, you know, or say vis-à-vis two years back, how strong are we?

Praveen Kadle

We are much better. I do not want to say that we are much stronger, but we are much better as compared to what we were in couple of years.

Chirag Shah

Okay. Thank you sir.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Amit Kasat of Motilal Oswal.

Amit Kasat

Sir, just one question. What is the contribution of vehicle financing at the EBITDA level in this quarter? Hello.

Praveen Kadle

Yeah, yeah. This quarter is close to 7%.

Amit Kasat

Close to 7%. Thank you sir.

Moderator

Thank you very much sir. Next we have a follow up question from Mr. Bala Jayaraman of Morgan Stanley.

Bala Jayaraman

Hello Mr. Praveen Kadle. One final question on the pricing environment, especially in the car in the mid size segment. You did indicate that you have been gaining significant market share in that just to if you could give us brief summary on how the pricing environment is evolving in the passenger car segment and the competition per se in that mid size or in the compact car segment.

Praveen Kadle

I think the pricing environment is quite tough, there are hefty discounts given by all the players and also the excise duty reduction also has, you know, the initial period after the price the excise duty reduction was announced, the discounting came to some kind of normalcy - starting from June-July, once again we are discounting or even I think from May onwards the discounting has increased and has increased significantly. So, overall the pricing power in passenger car segment is not really there.

Bala Jayaraman

Okay, but you are not seeing incremental pressures because of the global OEMs in the mid size segment as compared to compact car segment or is there any different from this?

Praveen Kadle

No, I thought you were asking on the compact size.

Bala Jayaraman

No, mid size segment.

Praveen Kadle

Same pressure is there even in mid size.

Bala Jayaraman

Okay. Thank you very much.

Moderator

Thank you very much sir. Next we have a follow up question from Ms. Seema of Dun & Brad Street.

Seema

Sir, your company has decided to setup plant in West Bengal so as to say one cause because you have planned to import from China. What kind of cost advantage do you see from importing from China vis-à-vis locally procured auto parts?

Praveen Kadle

Sorry I do not know, I am hearing this for the first time that we are setting up the plant in Bengal because of the import of China is basically predominant factor.

Seema

Okay. This was doing the rounds in the newspapers, that is what I heard.

Praveen Kadle

No, I do not know.

Seema

Okay, sir, one final question what kind of what was your outlook on the car segment and the MUV segment for the next year?

Praveen Kadle

I think the independent agency like Crisil in fact has been talking about 10-12% growth, so we stick by that somehow.

Seema

Okay. Thank you so much sir.

Moderator

Thank you very much mam. Next we have a follow up question from Mr. Anupam of CLSA.

Ashish

Hello. Good evening sir, this is Ashish here.

Praveen Kadle

Good evening Ashish.

Ashish

Sir, I just wanted to confirm with you that is the policy for write off of product development expense still 36 months?

Praveen Kadle

Yes.

Ashish

So, you have about close to a Rs. 600 crores block of development expense which is capitalized?

Praveen Kadle

Yes.

Ashish

So, we can expect to see a sharp rise in the P&L charge in the next two quarters.

Praveen Kadle

No, that is from the day when we launch the product.

Ashish

Okay.

Praveen Kadle

So, we are incurring this expenditure for many products, which are likely to be in the market as I mentioned over the next three years, so, it will not start from the next two quarters.

Ashish

Okay, and the other thing is the balance sheet size has gone up by about Rs. 1400 crores this quarter and you mentioned capex for Rs. 350 crores for capitalization of the subsidiary, any other major head?

Praveen Kadle

The financing business.

Ashish

But that has basically been at the similar level of 5000 - 5100 or 5200 crores if I look from June to September.

Praveen Kadle

Yeah, one is the capex Rs. 500 crores, Rs. 350 crores of the investment in the new subsidiary company, so that is Rs. 850 crores, and about Rs. 100-200 crores will be partly advance at stage partly also the financing business.

Ashish

Okay. Thank you sir.

Moderator

Thank you very much sir.

Praveen Kadle

Can we have the last question?

Moderator

Sure, sir. Next we have a follow up question from Mr. Srinivasan of EMKAY Shares.

Srinivasan

Sir, you had Novus platform, you know, to scale up across markets that is probably going to be your heavy end product. What is the kind of timeframe, I mean, being you know, very costly product, it is not like selling LCV lower cost light commercial vehicle. What is logically the kind of time period it will take for you to scale up and be present in some of the other markets, like say, South Africa or you know the whole of Africa.

Praveen Kadle

In fact, we Novus products which we are selling in the international market has been doing very well. I must mention that 2/3rds of South Korea's heavy truck export come from our TATA Daewoo plant, so that itself is a good indication in terms of how that product has been well distributed in many international markets.

Srinivasan

What about the other markets, sir?

Praveen Kadle

Other markets means?

Srinivasan

Like, you see, the last month I had been to Kenya, I mean, most of the trucks there are at Kenya, I mean, you know, I would guess you have a less costly, I mean, you know, more cost efficient product in the Novus. If you see that kind of a product in say South Africa or the other similar countries, it should do very well, is not it?

Praveen Kadle

Yeah, in fact, that is why I have mentioned that we are looking at African markets, both the East African, West African as well as the South African markets in a big way, and what you said is right, this will be a product which will be sold in reasonably good numbers.

Srinivasan

So, can we expect that volume ramp up in other markets to happen over the next one or two years.

Praveen Kadle

Yes.

Srinivasan

Okay, sir. Thanks.

Praveen Kadle

Thank you.

Moderator

Thank you very much sir. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Bharat Iyer for final remarks.

Bharat Iyer

Well, thank you Mr. Kadle, Savitha and Mona for agreeing to do the call. Thank you participants very much.

Praveen Kadle

Thank you Bharat and also to JP Morgan and all the participants.

Bharat Iyer

Okay, sir.

Praveen Kadle

Thank you.

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.