



TATA MOTORS

Q2 FY08 Conference Call Hosted by JP Morgan (India) October 31, 2007

Moderator

Good evening ladies and gentlemen. I am Ravi Bob, the moderator for this conference. Welcome to TATA Motors call hosted by JP Morgan (India) Private Limited. 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 WebEx International bridge. After that, a question and answer session will be conducted for participants in India. I would like to hand over to Mr. Bharat Iyer. Thank you and over to you sir.

Bharat Iyer

Hello, ladies and gentlemen. On behalf of JP Morgan I welcome you all to the second quarter post results conference call of TATA Motors. We have with us today Mr. Ramakrishnan, Chief Financial Officer, and the senior management team at TATA Motors. I now hand you over to Mr. Ramakrishnan to commence the proceedings. Over to you sir.

Ramakrishnan

Welcome to all of you. Since I am not sure which part of the world you have logged in from, good evening, good morning or good afternoon as the case may be. As mentioned just now I am C. Ramakrishnan, Chief Financial Officer, TATA Motors. I have the pleasure in introducing two of my colleagues in this call. I have with me Mr. P. M. Telang, Executive Director of our commercial vehicle business, and I have with me here Mr. Rajiv Dube, President of our passenger car business, Savitha Balachandran from our Investor Relations cell, and some of my colleagues from finance. While it was stated in the beginning that there will be a presentation mode in the initial stage and we will switch on to a Q&A mode. Instead of a presentation I would stop with a few introductory remarks and may be we should invest more time in question and answers in the next hour or so that we have.

You must have all had the results that the company has published a little earlier in the today and the press release that have accompanied that. As you would have seen the Q2 as well as the half year have seen pressures on the volume driven mainly by the market reality, it has seen pressures on market share in company's various segments, and in certain extent the certain pressures on the margins due to continued concerns on costs and lower volumes. The company has undertaken several measures including aggressive internal cost reduction program and there have been positives in terms of more favorable rupee-dollar movement, which has helped the company in terms of its foreign currency exposures and foreign currency management. The company has also had an income by way of technology transfer relating to its intellectual property on technologies and actions, and together with the various products that we have introduced in commercial vehicles and passenger cars in the first half year and the quarter which have improved the volumes and the internal cost reduction and other programs that we have continued to focus on and accelerate and the other measures that I mentioned/referred to you just now. The PBT and the PAT numbers have been better than comparable period last year.

I will end with a couple of comments on going forward. We believe that the product profile that we have and also what we have on the plan for the next half year in both our businesses together with some improvements that we see in market growth and may be softening of the liquidity and presumably hopefully some interest rate scenario going forward the second half year would be though challenging

and continuing to be under pressure should be better in the environment and in the industry. I would stop here and perhaps invite you to ask your questions as we go forward.

Moderator

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

International Moderator

Thank you moderator. We will now begin the question and answer session for participants connected to the WebEx International bridge. Please press *1 to ask a question. At this moment, there are no further questions from participants at WebEx international center. I would like to hand over the proceedings back to India moderator.

Moderator

Thank you Crystal. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press * and 1 on your telephone keypad. On pressing * and 1, participants will get a chance to present their question on first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press * and 1. First in line, we have Mr. Bala Jayaraman from Morgan Stanley. Your line is open sir.

Bala Jayaraman

Hi! I just have a few questions on the subsidiaries performance to start off and then probably if you could help us understand what would be the fiscal benefits we could expect on the Uttaranchal operations with the commencement of production, especially as to what is the level of value addition we are foreseeing in that plant and the level of excise and tax benefits because of the production in that facility.

Ramakrishnan

Your first question was ...

Bala Jayaraman

If you could throw some light on the subsidiaries' performance, we couldn't get the breakup on how the various subsidiaries like TATA Daewoo, HV Axles, HV Transmission, and probably some light on what is the gain you have booked on the transfer of technology, and what does it relate to?

Ramakrishnan

Okay, in terms of the subsidiary performance, TATA Daewoo commercial vehicles in Korea had a very good period in this half year. The turn over of the company increased over 40% compared to the same period last year, in equivalent rupee terms from about 1000 crores to 1400 crores, with nearly almost doubling of their profit after taxes from 44 crores to about 72 crores, and equally significantly in the Korean domestic market the market share for **TDCV** vehicles increased from 24% to about 33% from the same period last year to this half year.

Going in relation to the size of various subsidiaries and cover most of the major ones, in terms of our construction equipment subsidiary, TELCON, again it has had a very good half year in this half year. Compared to the same period last year the turn over increased by over nearly 50%, 769 crores to about

1172 crores, a little over 50%, and profit after tax more than doubled. It continues to maintain its market leadership in the excavator segment and in many of the new segments that it has entered like wheel loaders, it has attained meaningful market share.

Bala Jayaraman

Sir if you could excuse, what are the exact PAT figure for TELCON?

Ramakrishnan

Last year for the first half year was 68 crores and this first half year is 147 crores.

Bala Jayaraman

Thank you.

Ramakrishnan

You also referred to HVTL and HVAL, Heavy Vehicle Transmission and Heavy Vehicle Axle companies. As you would all recall these companies were formed as separate subsidiary companies to specifically focus on medium and heavy commercial vehicle related axles and transmission, which is the business manufacture and supply of these transmissions and axles is what they are engaged in and primarily for TATA Motors requirements and therefore the contraction we saw in the volumes in the market in general and particularly in TATA Motors for medium and heavy commercial vehicle, the decline in the volumes affected these companies. The turn over increased from 78 crores to about 82 crores in the case of HVTL, the transmission; however, the profits dropped from 19 crores to about 17 crores. In the case of HVAL, the axle company, the turn over remained almost the same, marginally lower, from 87 crores it dropped to about 84 crores, and the profit also dropped from about 27 crores to about 22 crores. All profit figures I am quoting PAT.

Other major companies that I can share, here is TATA Technologies, our IT subsidiary company where the turn over for the first half of this year increased to 528 crores from 468 crores in the same period last year, an increase of about **12%**, and PAT more than doubled from 4 crores last year to about 11 crores, about three times increase.

Bala Jayaraman

If you could give us some color on what are the technology transfer and what was the gain on that?

Ramakrishnan

Yes. As I mentioned these companies were formed with a view as a strategic direction from TATA Motors years ago to start focusing and pursuing a focused growth in the respective areas, technologies for aggregate development on manufacturing for transmission and axles for medium commercial vehicles. In the last few years they are dedicated to manufacturing axles and transmissions for TATA Motors requirements and have focused on manufacturing and deliveries and supply chain management. As the next stage of the strategic evolution of these companies, we believe that it is necessary for these companies to be independent technology developers and technology owners so that they can pursue further investments and development of these technologies in a much more focused manner and may be facilitate their pursuing of external business and any cooperation and other technology opportunities. This is the background in which the technology transfer has been done of the axle and transmission technology of TATA Motors have been transferred to these companies and this will be used by them for commercial exploitation for supplies to TATA Motors and further growth and investment in these areas.

Also, with respect to your question on Uttaranchal project, in terms of the incentives or I think your question was specifically with relation to the incentives?

Bala Jayaraman

Yes, essentially how much of value addition you do within Uttaranchal state because that drives the level of excise duty and fiscal benefits, and if I am correct you produce only TATA ACE over there, right, or do we produce also other vehicles over there?

Ramakrishnan

Currently, it is planned and capacity is being created and ramped up for TATA ACE and all its variants, and Uttaranchal has seen in the last year or so and may be even over a longer time and particularly in the last year or so several ancillary and other industrial activities happening at a very brisk pace justifying the level of incentives that have been provided by the government to facilitate precisely what is happening there. So, this does facilitate a significant amount of localization and a lot of localization would be further enhanced by the type of volumes and growth we would be able to achieve in our product, which seem to be meeting with significant success in the market place, therefore this year while the production commencement, ramp up, and everything is happening, the full benefit of these will perhaps be realized in the next year and in the following year. We do hope to be able to achieve a significant amount of localization in Uttaranchal.

Bala Jayaraman

Just to add to that question, have we shifted completely the TATA ACE production from Pune plant so if it is going to be produced only from Uttaranchal, and if you could just give us some colour on what is the production we have achieved and what sort of capacity utilization we are looking to ramp it up to over the next one year or two years?

Ramakrishnan

Currently, production is happening in the both the plants. It is the intention that Uttaranchal factory will eventually focus exclusively on TATA ACE and its variants will be exclusively coming out of our Uttaranchal plant. You may recall that based on the very significant success and the acceptance in the market place for TATA ACE we have taken a strategic call to expand this production capacities many fold, not in percentage term but many fold, and also add more variants which also seem to have received very good response as a follow on product. The eventual capacity could be upwards of 200,000 vehicles annually at full ramp up, and it is the intention that the entire TATA ACE and its variants volumes will come entirely out of Uttaranchal; that is the current plan.

Bala Jayaraman

Okay, is there any number which you could share with us on the production actually done during the quarter or how we are going to ramp it up there, because the ultimate capacity is around 200,000 plus but at what capacity we have initiated with and started with?

Ramakrishnan

Currently, I would think I am not giving a cumulative number from start up, the current production capability exceeds about 6000 to 8000 a month, and that will ramp up very quickly in the coming months.

Bala Jayaraman

6800 per month?

Ramakrishnan

6000 to 8000.

Bala Jayaraman

Oh! Sorry. Just following ...

Moderator

Mr. Bala I am sorry to interrupt. May I request you to come back for the follow-up questions sir?

Bala Jayaraman

Perfect, thank you.

Moderator

Thank you very much sir. May I request the participants to limit to one question in the initial round and come back for the follow-up questions. Next in line we have Supriya from ICICI Direct.

Supriya

Congratulation sir for the good set of numbers. I really wanted understand on the performance like when we are planning to list these companies because we are continuously in talk for this companies, so just wanted to understand wherein we will be listing these companies? And the second thing I just wanted to understand our acquisition, we are trying to acquire the brands under Land Rover and Jaguar, what is the progress over there?

Ramakrishnan

You asked two questions. One...

Supriya

Regarding the listing of our subsidiaries.

Ramakrishnan

Yeah, it looks like on both my answer is going to be not meeting your full expectations, one may be partly and other one not at all. On the first question of your question on the listing of these companies etc., I presume you are referring to HVAL and HVTL?

Supriya

No, even TATA Daewoo and TATA Construction and even TATA Technologies.

Ramakrishnan

I understand. We would definitely look at our subsidiary companies and we would realize value at the appropriate time; unfortunately, I can't give you a calendar or a table or companies which would go at what time at this stage, it would not be appropriate or not possible at this stage, but the company TATA motors will definitely look to extract value out of their investment in these companies. Beyond that I am

not in the position to comment at this stage. On your second question, my answer would have to be I have no comments to make.

Supriya

Okay. I have two more questions on the core business, I will come on later.

Ramakrishnan

Thank you very much.

Supriya

Yeah, thanks.

Moderator

Thank you very much mam. Next in line we have Mr. Rajesh of Voyager.

Rajesh

Sir I just had two questions.

Ramakrishnan

Sorry, Rajesh from?

Rajesh

Calling from Voyager Investment.

Ramakrishnan

Yeah.

Rajesh

I have one question that is with reference to your volume growth outlook for second half of the current year as well as further the next year. Are you seeing any signs of improvement and how is the overload effect right now?

Ramakrishnan

I would refrain from talking specific numbers or percentages in terms of forecast of growth rates that I think it will be a matter of our adjustment and your adjustments, we do believe that the second half, particularly if there are significant movement in terms of liquidity constraints evening up and peaking if not softening of the interest rates, the second half growth should be better than what it was in the first half, and more importantly I think in our case at least with further product launches and ramping up of the products that we have introduced in the market place there should be volume growth in terms of occupying further segmental market share as well. It will continue to be a challenging year. It will continue to be challenging on top line and bottom line, I think the company is conscious of that and undertaking aggressive measures in the market place through its product launches and cost reduction program to ensure that it operates at the best possible efficiency and returns.

You also asked a question about overload factors and what is happening in the commercial vehicle industry and how it is going to impact. I would request my colleague, Executive Director, Mr. Telang to comment on his perspective on the commercial vehicle industry, particularly on these factors.

P. M. Telang

Hello every one. Last year when the Supreme Court gave the directives we thought most of the states were responding very positively, but we are finding that there is some amount of slackening in the process with a result probably that is also taking a little bit of toll on the total demand. Having said that, we are looking ahead with cautious optimism in the period ahead. In the long run we are more bullish because we believe that the economy is on the right track and the golden quadrilateral and the corridor roads development that is still slow, it is certainly moving, and once it gets to right size one would see substantial demand as potential and we are equipping ourselves with that and obviously we are covering up our product range also to offer suitable products for faster movement on these roads.

Rajesh

And my second question is with reference to profitability outlook, do you see some improvement of the margins, how is the cost structure behaving in the raw material.

Ramakrishnan

My apologies, can you repeat the question?

Rajesh

My question is with reference to the operating profit margin, how do you see the trends in terms of the, profitability particularly like raw materials to sales ratio over the next couple of quarters?

Ramakrishnan

It has not been our practice to comment on forecasts or profitability margin specifically going forward, but I would offer a comment that material costs would continue to be under pressure and it would have to be watched very closely. While we may not see increases to the extent that we have witnessed in the last year and year and a half on particularly raw material prices and other cost increases, we expect that they may have peaked and perhaps there may be a marginal softening or at least peaked and not go up further, and at the same time the company continues to keep its watch on the material cost both in terms of its own value engineering and other effort, better purchasing efficiency and better management of supply chain. It is an area that the company has to continuously watch very carefully.

Rajesh

Thank you sir.

Moderator

Thank you very much sir. May I request the participants to limit to one question in the initial round and come back for the follow-up question. Next in line we have Mr. Ajay from Enam Securities.

Ajay

Hello. A couple of questions; one, the management did indicate about the supply constraints on the engine side, can you just throw some light in terms of whether the situation has been normalized or not?

P. M. Telang

We have been primarily using the Cummins engines for our medium and heavy commercial vehicles, trucks and buses, and Cummins had planned to expand their capacities and shut down was required to be taken in the first quarter of the year or augmenting the capacities and that is why the availability was constrained to some extent. The shut down work is completed and things are back on normal, and we are expecting to get the requisite quantities of engines in the second half as per our requirements.

Ajay

Okay, and the second question on some balance sheet items; one, can you give us your exposure in assets and liabilities in dollar terms? And second, what is the capex plan for this year and how much has been incurred in first half?

Ramakrishnan

Can I hold that question and may be at the end of the call I will share the numbers with you.

Ajay

Okay, fine. Thanks.

Moderator

Thank you very much sir. Next in line we have Ms. Hetal Gandhi from CRISIL Research.

Hetal Gandhi

Hi! Good evening sir. This is Hetal Gandhi from CRISIL Research. I had specific questions on the conversion for **FCCN**, I would like to know the status of the number of conversions, amount that has been converted for the first half and also would like to know if you have any plans to raise **FCCNs** in the next half?

Ramakrishnan

Again FCCN, conversions during the first half I will hold it and give you at the end of the call. In terms of further fund raising depending on our capital expenditure programs and the funding needs we would look at appropriate instruments from time to time.

Hetal Gandhi

Okay. Also, I would like to know that in your total debt, are there short term loans which are in foreign currency or it is only the long-term loans?

Ramakrishnan

It is the long-term loans.

Hetal Gandhi

Okay, thank you.

Moderator

Thank you very much mam. Next in line we have Ms. Komal Iyer from Sharekhan.

Komal Iyer

Good evening sir. I wanted to understand how is the inventory situation in the industry and with the company right now, which I believe had gone up in the first quarter?

Ramakrishnan

When you say inventory situation in the industry you are talking about the delayed inventories?

Komal Iyer

Yes.

PM Telang

It is quite under control and as a matter of fact we didn't have the inventory reduction as compared to the first quarter, so I think we are in a pretty good shape.

Komal Iyer

Okay, and I wanted to understand the logic of booking this 169 crores technology transfer to two subsidiaries in sales or income from operations, have we booked any profit from that in our P&L account?

Ramakrishnan

This has gone to our income statement, so naturally it will go down to the profits.

Komal Iyer

Okay, but we could have reported it as extraordinary, is there any specific reason for reporting it as part of sales or income from operations?

Ramakrishnan

I am not sure there is a justification for showing it as extraordinary. It is an integrated part of our plan and strategic mission that we have for these companies. You may get value out of technology by sale of the technology, and in another year you may collaborate with somebody and make your technology available for their use for royalties or license fees. You may recall a few months ago we announced that we have signed up with Fiat for a license to manufacture a vehicle in Latin America. Such pursuits will continue, I am not sure that it is an extraordinary income for an automobile company, but in order to ensure that the financial statements are given in the full context and full understanding is provided we have provided by way of a note that this includes that income.

Komal Iyer

Okay, thank you sir.

Moderator

Thank you very much mam. Next in line we have Chirag Shah of Emkay Shares.

Chirag Shah

Good evening everybody. If you can just throw more light on first of all on the inventory side, because if I look at our numbers we have had a reduction in inventory, and if I compare it with other automobile players in different segments everybody has reported a increase in inventory, but in your disclosures you have shown a reduction in inventory. So, was that there was some kind of an inventory pile up at our end, be it our end or be it dealer end, and the correction has happened in this quarter, point #1? And, if you can share more light, where exactly has been this inventory adjustment taking place, on the passenger side or on the commercial vehicle side?

Ramakrishnan

One overall comment would be that the inventory reduction reflects the quickness with which we have been able to control our inventory in response to the market demand growth and market situation. I would take it more as a positive proactive management of the inventories and the working capital lock up. And, in response to your second question it happened both in passenger car and commercial vehicle business.

Chirag Shah

Okay, and if you can share some light on the excise benefits on the previous question that we have at Uttaranchal, if you can share some more light what exactly would be the benefit that would be coming to us?

Ramakrishnan

The benefits available in Uttarakhand I think are in the public domain in terms of the excise and the income tax benefits for the first few years.

Chirag Shah

Okay but excise benefit would be more on value addition part or....

Ramakrishnan

That is right, just to repeat what I had mentioned earlier, being an excise benefit and because of the MODVAT the excise benefit would be substantially be available to the products to the extent we are able to add value in the state, which is what promotes the industrialization of the state which is objective with which this scheme is provided. We do hope to achieve significant value add in the state and as the state industrialization happens as it is intended, which is really happening at a very brisk pace in the last 12 to 18 months, and with the type of scale that we are talking for our TATA ACE product and may be other follow on products, we do hope and we do believe that we will be able to achieve very significant localization there.

Chirag Shah

Thanks a lot. I do have some more questions but I would come later on. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Ashutosh of Edelweiss.

Ashutosh

Good evening sir. I want to dig a little more into the transfer of technology and other gain that we have booked on transfer of finance business to TATA Capital, is it by way of cash transaction or is it in return for something else like may be an additional equity in those subsidiary?

Ramakrishnan

No, both are cash transactions.

Ashutosh

Okay, and second is that you know then what is the tax implication on these gains that we have booked, you know what kind of tax rates that we would have paid on this?

Ramakrishnan

Both are taxable in the hands of TATA Motors and provision is being made either as tax for the period or as deferred tax.

Ashutosh

So, this will be at the marginal tax rate of 33% or it will be a long-term gains with concessional rates of 10 or 20%, if you can just give me some indication on that?

Ramakrishnan

That is long-term capital gain rate.

Ashutosh

Okay, and similarly for the foreign exchange gain that we have been booking is that also taxable sir?

Ramakrishnan

The foreign exchange booking in terms in so far as it pertains to the assets for which I think it is not taxable that is claimed as depreciation, so that also lowers the tax rate, which is one of the reasons a combination of all this why in this particular quarter you see a lower tax rate average rate for the company mainly because of this 3 to 4 factors. But going forward I would think if that is the question if I can just offer one more comment, I would think a range of 20 to 25% average tax rate is more sustainable than what you see in this quarter.

Ashutosh

Okay, but you know you are mentioning lowering of tax rate, but I was referring that if you are booking foreign exchange gains and are we paying tax on those gains?

Ramakrishnan

Partly the gains are taxable, the operating gains are taxable, and to the extent to which these gains will link to capital asset and the loans and advances given they are not taxable, but that again will be event of the quarter. In the next quarter we may reverse that taxable. So, it will be a dynamic and moving figure

as we move from quarter-to-quarter, that is why I offered the other comment, on a sustainable basis the broad tax indicator.

Ashutosh

Thank you sir. That is all from my side.

Moderator

Thank you very much sir. Next in line we have Mr. Pramod of ___ Mutual Fund.

Pramod

Hello, good evening everybody. Just a couple of small questions I needed; one is, what has been the R&D expense which has been amortized in the first half and what is the total amount that is sitting in the balance sheet and what are the policies regarding kind of amortizing these R&D expenses, if you can just elaborate on that? That is my first question. Second question that I have is regarding what kind of slippages are you seeing on your loan portfolios which you had in the receivable side from the vehicle loan which are securitized, and if you could just also elaborate what are the installment receivables which are there which have not been paid and how much you would have provided in the first half for them? If you could just answer these two things that will be great. Thank you.

Ramakrishnan

Quite a number of questions in one, I will answer to the best of my thing just now. Among the statistics may be we can leave and share later.

Your first question was related to R&D and the amortization policy. The product development and research development expense for the company is on major platforms and aggregates, it is capitalized and carried forward and amortized from commencement of the commercial production of the relevant program, otherwise all supportive nature of capital R&D and product development for ongoing products etc. are charged off in the year in which they are incurred. Rest of the questions we have noted down in terms of some of the statistics and figures that you have asked for. Again, if I can make the same request, we will hold that and may be we will get back with all the numbers at the end of the call.

Pramod

Okay, that is it. Thank you.

Moderator

Thank you very much sir. May I request the participants to limit to one question in the initial round and come back for the follow up question. Next in line we have Mr. Mahantesh from Prabhudas Lilladher.

Mahantesh

Good evening CR, if I may call you CR, this is Mahantesh here. Good evening to Mr. Telang, and Mr. Dube, and if I am right I heard Mr. Gaurav also speak there.

Gurav

That is right.

Mahantesh

Good evening sir, just one question, this exceptional item that you have booked, 169 crores on transfer of IP rights as well as the 30 crores on the telecom finance business. We understand this is all in the income. What is the profit element out of that that we should consider?

Ramakrishnan

I do know I would be in a position to comment on that. As far as I would think this is self-explanatory in the sense the technology that we have transferred is the value that we have assessed through independent valuation, which has been developed over the years. So, in the particular quarter in these 3 months one would not find significant expenditure donated to that.

Mahantesh

Right and sir why was this particular quarter or can you throw some light on what is the timing for this particular you know is it Q2 with eventual listing of the subsidiaries because this subsidiaries were spun off more than 4 years back where you could have done this around that time, so why the change in strategy now?

Ramakrishnan

I will address your last question first which was very specific one, why the change in strategy now. I just want to repeat what I said earlier there is no change in strategy, the companies were planned and expected to be independent, transmission and axle manufacturing and axle transmission and axle technology companies. We wanted to do it in a phased manner. We had to focus on their manufacturing capabilities and build capacities to the extent of TATA Motors last 3 to 4 years and next 2 to 3 years requirements. It takes an appropriate time to open up the next phase of their growth plan, next phase of the strategy being rolled out. It is consistent with the long-term vision that we had for this company and there is no change in that strategy.

Mahantesh

And just a quick question on your Cummins engine front, Mr. Telang did mention there are no production constraints there, but your competitors like Eicher and even Asia Motor Works are using the same engine from the same plant, am I right sir? Will that put any pressure on TATA Motors sourcing these engines?

P. M. Telang

There is a sharing formula between the partners, as per that a certain amount of engines can be sold by them to outside. There are no concerns about our requirements. We believe that will be adequately covered.

Mahantesh

Thank you sir, thank you very much.

Moderator

Thank you very much sir. May I request the participants to limit to one question in the initial round and come back for the follow up question. Next in line we have Mr. Pramod of ABN Amro.

Pramod

Hello sir, this is with regard specific to M&HCV outlook and that to Mr. Telang, we have seen the interest rates easing in the last few months but the demand for M&HCV still seems to be lack luster, what can be the trigger going forward for that to come back into a full fledged growth phase considering that the last year second half is very high base effect?

P. M. Telang

We would like to state that may be the earlier part of the year probably there were lot more resistance in the market place, but last month and a half we see that some easing up taking place and probably the sector were moving a shade better. We would like to view it with cautious optimism at this point of time and we are keeping ourselves prepared that in case in the demand goes up we should be able to address it adequately.

Pramod

And my second question is to Mr. Ramakrishnan, if I have to look at in the first half and taking out all the extraordinaries and all those things, your operating profit is down almost like 25% or so as compared to your top line volume being flat and top line being flat, looking at the historic performance of yours where chairman had taken some remarks saying that you have to tighten the belt in the past cycle, what is happening at your end in terms of cost cutting targets and are there any aggressive targets in terms of cost cutting and how that is going to get reflected in the coming quarter?

Ramakrishnan

The cost cutting and the other initiatives are continuing to be a focus area for the company with the pressures we have seen in the market and volumes and the material cost input cost increase that we have seen both for the first half and also the full impact of the last year increases, the material cost has been under pressure in this half year, the figures are available with you, but I just want to assure you that the cost reduction programs and watching our belt as you call it and tightening it not only in material cost but in other overheads and may be areas of operation including labor productivities that continues to be a major thrust area for the company.

Pramod

But any specific number to be shared with the analyst community in terms of what you have achieved and what you plan to do for the remaining year in terms of cost cutting?

Ramakrishnan

May be one way if you recall in the last 2 to 3 years we have talked about over 1000 crores cost reduction that has been achieved over a period of 2 to 3 years, and such 3 years programs for 1000 crores plus cost reduction would continue to drive the company towards our goal, that is the order of magnitude I can give.

Pramod

Thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Umang Shah from Dalal and Broacha.

Umang Shah

Good evening sir, this is Umang Shah from Dalal and Broacha, I just had a very small question like you mentioned earlier that going forward probably you might have some tie ups wherein you might be entitled for some kind of a royalty for technology transfer or something like that, just wanted to understand like for the technology transfer you have done to our subsidiaries is there any kind of royalty agreement between us or this is just a one time payment that we have received?

Ramakrishnan

It is one time and we will be having royalty inflow as they go forward for use of the technology for third party supplies, so it has both the income streams.

Umang Shah

Okay, so probably going forward we may be in the next fiscal or something we can see some kind of a royalty income flowing in for the company?

Ramakrishnan

From these technologies I cannot say whether it will happen next year. It would depend on how well it is exploited for third party supplies, and how quickly can be done.

Umang Shah

Okay, thank you so much sir.

Ramakrishnan

But the potential is there.

Umang Shah

Alright, yeah, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Amit from Deutsche Bank.

Amit

My questions have already been answered. Thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Govind from Credit Suisse.

Govind

Yeah, hi, couple of questions. I wanted to understand why we are looking at listing HV Axle and Transmission and the other subsidiaries, are we not looking at strategic alliances as an option as we suppose we were a year or two ago?

Ramakrishnan

Your question is why we are considering listing or why we are not considering that?

Govind

No, why are we considering listing and not strategic alliances, what is the benefit of listing these two subsidiaries?

Ramakrishnan

In fact the company would be open to pursue all options. We had looked at technology partners and we would continue to be interested in this if the technology partnership or alliances or if we conclude it on mutually satisfactory terms and the technology is relevant for the future requirement of TATA Motors and the Indian markets, I don't think we are closing any doors or options.

Govind

Okay, but listing is definitely one option that you are looking for these two subsidiaries?

Ramakrishnan

As I said we are looking at all options. It may happen in stages now later and that is not only true for these companies we will look at the value realization from our subsidiary companies, HVAL/ HVTL, surely we are looking at it.

Govind

My second question was on the car industry, we have seen substantial market share erosion for all our segments be it small car or mid segment car or even utility vehicles, what are the steps that we are taking, what is the product launch schedule that we have for the next 6 months?

Rajiv Dube

I think the first correction that I would like to bring is market share erosion is actually I think is an over qualification. If you look at the hatch back segment the Indica which operates in the hatch back segment continues to grow in the first 6 months albeit in a sluggish fashion but it is amongst the matured brands if you take the Alto and the Santro as competitors vis-à-vis let us say the Alto which has grown at 2.5% Santro that has declined at 6%, the Indica has grown at 1.1%. In terms of market share amongst all small cars, if I compare these three brands again because these are the top three selling brands in the industry, the Indica market share among small cars is now from 17.7 to 15.8. Santro is down from 19.6 to 16.3, and Alto is down from 26.7 to 24.2. So, the Indica has lost the least market share amongst its volume competitors.

Govind

Yeah I understand that sir, but you know be it Maruti or Hyundai from today they have addressed it by having additional products which bring them overall market share incremental over to offset the market

share losses that they have had in these cars. My question was what is our product launch schedule going forward?

Rajiv Dube

We have made a statement in the past that from 2008 onwards we would see the new generation of our products coming to the market and I think that will be visible. Every company has its time line of launches and it is difficult to react to every new launch that happens in the market with a counter launch in the same year, because product development cycles are 3 to 4 years. So, I do not think any competitor will react instantaneously to any new launch that takes places, but yes over a period of time we would continue to compete quite aggressively in this segment, and as I have demonstrated with figures even on the small car segment despite the fact that the small car segment has witnessed three new entries, various face lifts, we have defended our market share and lost the least amongst our competitors.

Govind

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Manish from UBS. Mr. Manish your line is open sir. Next in line we have Mr. Sachin of HSBC Securities.

Sachin

Most of my questions have been answered; I have just one question to ask in terms of days what would be your inventory level at your end?

Ramakrishnan

The overall company level the inventory levels have come down compared to the same period last year. Last year to this year it has come down by 3 days, last year same time it was about 35 days a little over a month and now it is just about a month.

Sachin

Okay, thank you.

Ramakrishnan

This will be total inventory at the company level.

Sachin

Thank you.

Moderator

Thank you very much sir.

Ramakrishnan

Can I just take this opportunity to run through some of the numbers that were asked for earlier for the benefit for everybody?

Moderator

Yeah sure, please go ahead.

Ramakrishnan

One of the data that was sought was the capital expenditure for the first half and outlook for the second half. The total capital expenditure of the company for the first half was about 1800 crores and we expect it to be marginally higher in the second half at the extent. Another related question was the product development and related expenses carry forward in the balance sheet as of 30th September, that is about 1100 crores compared to about 900 crores as on 31st March. There was also another question related to foreign currency exposure on loans and assets. The total loan portfolio and the balance sheet in foreign currency is about \$1.1 billion. There was also a question related to provisions and the action being taken for recoveries etc. On our finance portfolio we follow a fairly conservative provisioning principle, but in terms of our subsequent actions etc. our delinquencies have been low and under control. What we have seen is in the last 6 months or longer we have seen pressures coming by way of delayed payments and delayed recoveries consistent with what is happening in the market place particularly in the commercial vehicles, which we are watching and we believe that our provisioning policies adequately cover this and we have also stepped up our recovery efficiencies. We do not believe that there is uncontrolled exposure or a concern area.

Bharat Iyer

Can we have the last two questions please?

Moderator

Sure sir. Next in line we have Mr. Amrish of MF Global India.

Amrish

Good evening sir and just one question, what has been the performance of both Winger and Magic vis-à-vis what we have been expecting out of them and some idea about the capacities with our JV with Fiat in India?

P. M. Telang

On the Winger and Magic, we have introduced this in the market place and we have been getting pretty good customer responses, so we are quite delighted that whatever we expected these products to perform in the market place they are doing that, but having stated this, these address the regulated segments from the market and specific permissions are to be taken from various state transport commissioners, so that process is on. So at the moment Magic is already retailed and something like about 4 or 5 states, Andhra Pradesh, Chattisgarh, Madhya Pradesh, Assam come to my mind immediately, and the progress is going on and we expect by end of this financial year we should be going pan India. We expect that Magic should really get good volumes as we go forward. So far as Winger is concerned, it is going in different versions, 12 seater, 13 seater, and a luxury version where there is air conditioning and 9 seater version, and there will be an ambulance version. So all of these are moving in the market place in certain predetermined fashion and we believe that this also should perform very well.

Amrish

And secondly, can we get some idea about the capacities that we are currently working on with the Fiat JV?

Rajiv Dube

The capacity that is being established in the Ranjangoan for passenger cars is 100,000 units per annum.

Amrish

It is already on and running?

Rajiv Dube

It is in the process of being set up. Currently, the Ranjangoan is producing only the Palio.

Amrish

Okay, and can we specifically get some figures for Magic and Winger that we have already done?

P. M. Telang

We do not have the exact numbers up front, but I can tell you what we are doing in the month October. October the Magic would be roughly about 1300 and Winger will be about 400.

Amrish

Thanks a lot.

Moderator

Thank you very much sir. Next in line we have Mr. Ravi Mehta from Indsec Securities.

Ravi Mehta

Hello, good evening.

Ramakrishnan

Good evening.

Ravi Mehta

My question is on the forex gain which you booked, is it booked on the entire exposure in that quarter or it is booked in the phased manner?

Ramakrishnan

It is as per the accounting standards requirements. It would be booked on the entire exposure, the entire liabilities and assets, accounting standards does not permit you to take the foreign exchange gains or losses in a phased manner.

Ravi Mehta

Okay, thanks a lot.

Moderator

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

Bharat Iyer

I would once again like to thank Mr. Ramakrishnan and the senior management team at TATA Motors for addressing the investor queries. Thank you ladies and gentlemen for your participation on behalf of JP Morgan India.

Ramakrishnan

Thank you very much everybody for taking the time and joining in this conference call and also thanks to Bharat and his colleagues with JP Morgan for the efforts in putting this and facilitating this. I really appreciate your time and all your efforts and interest in the company. We will continue to interact closely as we go forward. Thank you very much.

Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.