

Conference Call Transcript

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Tata Motors Limited

Himanshu: Good evening ladies and gentlemen, I am Himanshu, the moderator for this conference. Welcome to Tata Motors Ltd. Conference Call hosted by Motilal Oswal Securities Ltd. Mr. Amit Kasat Senior, Analyst-Motilal Oswal Securities Ltd is your call leader today. For the duration of the presentation all participants' lines will be in listen-only mode. After the presentation the question and answer session will be conducted for international participants connected to Airtel International Center. After that a similar question and answer session will be conducted for the participants in India. Now, I handover to Mr. Amit Kasat of Motilal Oswal Securities Ltd. Thank you and over to you Mr. Kasat.

Mr. Amit Kasat, Senior Analyst, Motilal Oswal Securities Ltd: Thanks Himanshu. On behalf of Motilal Oswal Securities Ltd, I welcome you all to the third quarter post result conference call of Tata Motors. We have with us Mr. Praveen Kadle, Executive Director Finance & Corporate Affairs from the Management team. He will give his brief comments on the results and the industry outlook going forward. Over to you Mr. Kadle.

Mr. Praveen Kadle, Executive Director, Finance & Corporate Affairs: Good evening, good afternoon or good morning depending upon where all of you are. This is Praveen Kadle and I am joined by my colleagues Mr. Manish Gupta, Abhijeet Bhattacharya, Siddharth Bhatt and Mona.

Let me quickly give an outline or overview of the performance of the third quarter. We have seen about 13% volume growth in the third quarter at about close to 112,000 volumes. The net revenue has gone up 16% to 5075 crores. EBITDA margin on the face of it seems to have gone down by 1 percentage point, which has gone down as I said on the face of it from 13.32 to 12.28, but let me qualify my statement by saying that last year's third quarter had a foreign exchange gain of around 68 crores, whereas this year third quarter has got exchange loss of 38 crores. So, there is a swing of about 100 crores between the two quarters and if you set aside this foreign exchange gain or loss from the two quarters then last year's operating margin was 11.8% for the third quarter whereas this year for the third quarter it is about 13%. So that is about improvement on quarter to quarter basis. If you take out this notional exchange loss or gain, then there is a 120 basis point improvement in terms of operating margin. Let me also clarify that this exchange loss or gain in the two respective periods is more to do with the accounting standard where you have to bring in 'mark to market' kind of position as on quarter ending period.

Other income last year was 24 crores, it has now gone up this quarter to 168 crores, and out of that 168 crores, 164 crores is the one time gain on account of the sale of Tata Motor's holding in Telcon to strategic partner Hitachi. In the process they have booked this gain of 164 and Tata Motor's holding has come down from 80% to 60%. After adjusting the net interest, which has seen some kind of a increase because of the higher interest rates - as you know interest rates have been climbing up and also we had certain inventories, which increased as compared to the previous year period. The interest cost has gone up and after adjusting all the depreciation amortization, which has gone up by about 31 crores, the profit before tax has seen about close to 30% improvement going up from Rs. 456 crores to Rs. 592 crores. Tax rate has come down - it has come down to 22% for the quarter and overall profit therefore is Rs. 460 crores after tax as against Rs. 316 crores, close to 46% improvement. The basic EPS has gone up from Rs. 8.80 for the last quarter, going up to Rs. 12.20.

For the nine months period, the revenue growth is about 14%, net revenue going up from Rs.12081 crores to Rs.13720 crores. EBITDA margin is 12.30% as against last year's 12.70%. On quarter to quarter basis we have seen improvement from the second quarter margin of around 12% to 12.3% and when you talk about 12.3%, as I mentioned earlier, if you take away the exchange loss position, the margin has actually improved much more than just around 12.3%. And after adjusting all the expenses and the other income, when the profit before tax for the nine months period has gone up by about 19% going up from Rs.1,185 crores to Rs.1406 crores and profit after tax has gone up by 26% from Rs.849 crores to Rs.1,071 crores. EPS basic has gone up from close to Rs. 24 to about Rs. 29, 20% increase.

The overall volumes have gone up for the 9 months period by about 10% growth, 4% in the domestic segment and 81% in the exports segment. And in the commercial segment, for the nine months period, the growth has been.... overall about 6.4%, mainly driven by the light commercial vehicles where the growth has been around about 35%.

Over all market share in M&HCV is around 62%, LCV is about 58.4%, which has gone up from 50.2%. In M&HCV it is down from 66.7% to 61.7% and that was mainly because of the problems, which we had faced on account of the shortages in the first quarter, in fact first four or five months, where we had lost our market share too. Since then we have been regaining our market share and we are reasonably confident, that by March end we should cover the lost ground to a significant extent.

In the passenger vehicle segment, overall for the nine months period, the domestic industry has grown up by about 2%, our volumes have gone up by about 1% and we have lost marginally the market share in the passenger segment and more or less maintained the market share in the UV segment, it is about 17.9% as against 18.2% last year. As I have mentioned, the exports have seen significant improvement both in commercial vehicle as well as in passenger vehicle. Strong growth has happened in markets like South Africa, Turkey, South Asia and parts of Europe. The international business today accounts for 16% of our overall revenue and going by the current year trend on a consolidated basis, our international business revenue will be close to about between \$800 million to \$900 million, pretty close to a billion dollar figure.

Vehicle financing, the new activity, which we started also has seen significant improvement. Vehicle finance have gone up by 40%, retail overall financing has gone up by about 58% and it has gone up in terms of amount from Rs. 2,286 crores to Rs. 3,605 crores for the nine months period and overall the penetration of Tata Motor Finance as we call this division, in terms of financing Tata Motor's own vehicles at retail level has improved from 17.6% to 23.7%. Just for the sake of clarification, we don't finance any of our competitor's vehicles; we only do the financing of our own vehicles.

All the subsidiary companies have done exceedingly well. Just to give the 9 months figures, the turnover in the Tata Daewoo Korean Company has seen 26% improvement going to Rs. 1,109 crores. For the period ended December 2005, the profit after tax has gone up from Rs.16.7 crores to Rs.45.8 crores, an improvement of 175%. Telco Construction equipment or Telcon, which is the joint venture with Hitachi, the revenue has gone up for 9 months period by 38% going up from Rs. 573 crores to Rs.793 crores, on the profit after tax side which has gone up from Rs. 24 crores to Rs. 52 crores. Rest of the other companies also has seen the similar kind of a growth, I don't want to get into the individual company numbers, I just talked about two major subsidiaries. The consolidated audited numbers are also there on the website. At the consolidated level from Rs.1,070 crores, the consolidated profit for the entity for the nine months period has gone up to Rs. 1,205 crores, so earning per share on consolidated basis is Rs. 32.04 for nine months as against last year's Rs. 25.56 for December quarter, so there is about close to about Rs. 25.5 improvement in the EPS for the nine months period on the consolidated basis. We can take now the questions and all my team members and me will try to answer the questions.

Himanshu: Right Sir. Now I handover the proceedings to Aishah at Airtel International Center to conduct the question and answer session for international participants. After this we will have a question and answer session for the participants in India. Over to you Aishah.

Aishah: Thank you Himanshu. At this time international participants may press 01 if you would like to ask a question. On pressing 01, participants will get a chance to present their questions on a first-in-line basis. International participants who wish to ask questions may please press 01 now. The first question comes from Mr. Mike Sell of Thams River Capital, United Kingdom. Over to you Sir.

Mr. Mike Sell, Thams River Capital, United Kingdom: Good evening one quick question on the other income, if you strip out the gain from your sale in Telcon the other income dropped very significantly this quarter, could you just explain what that was please?

Mr. Praveen Kadle: In the previous year we had significant surplus amount, which we had got from the foreign currency convertible bond issue, which we had made in April 2004, we had raised \$400 million and almost the entire, at least 80% of that amount was not used and that was invested in mutual fund investments and all that, so we had certain good return that is why you see a reasonably good other income in the third quarter. The money is now being spent in terms of capital expenditure as well as some acquisitions, which we have made - we have made two acquisitions, one is the Spanish Bus Company, we also did the other acquisition through our subsidiary company Tata Technologies of the engineering services company called INCAT. And the new business, which we have added since last year third quarter in fact from 1st April 2005, the financing business, so lot of money which was lying by the way of the surplus in mutual fund investments is now being used either for funding the capital expenditure or for financing our auto financing business or for acquisitions, which I have mentioned just now.

Mr. Mike Sell: Thank you. My second question, could you just mention how much of your top line was contributed by Tata Finance in the quarterly?

Mr. Praveen Kadle: Not so much in terms of top line, but I can tell you the operating margins wise, it is about 7% of our operating margin is through the financing business.

Mr. Mike Sell: Okay and thirdly and just in terms of the various cost items, can we expect to see continuing trends going into the fourth quarter and into next year or is there any adjustments that will be required at the year-end accounting?

Mr. Praveen Kadle: You are saying what will be the trend in the fourth quarter?

Mr. Mike Sell: I am saying the trend that we have seen in terms of staff cost, the raw material cost, other cost will that continue into the fourth quarter and into next year or are there any sort of one off or large changes you are expecting, for example staff bonuses that kind of thing?

Mr. Praveen Kadle: No staff bonuses and all that we accrue on the accrual principle, so there is no one time, one off kind of expenditure which will hit us, the fourth quarter we should not see any major surprises from the staff cost, some expenses may marginally because if you see the way the results had to be published other than raw material, there are only three major elements of cost which have to be shown - other expenditure and staff cost, so other expenditure also improved, some part of the variable cost, marketing expenses and all that, so to that extent the other expenditure may see some kind of an increase, and to a large extent it will be linked to the volumes. Going forward in the rest of quarter there could be some increase in the salary cost because we are going to have wage settlement in one of our plants, the Pune plant as on September 2007 effective from September 2006, so we may have some wage cost in fact for seven months in the next financial year and of course the normal salary increases, but no major surprises.

Mr. Mike Sell: And the trends in terms of raw material cost is a trend of gradual improvement and we should expect to see that continuing.

Mr. Praveen Kadle: Yes, it will not go up.

Mr. Mike Sell: Perfect. Thank you very much.

Mr. Praveen Kadle: Thank you.

Aishah: International participant who wish to ask questions may please press 01, please press 01 now. At this moment there are no further questions from participants outside India. I would like to handover the proceedings back to Himanshu.

Himanshu: Thank you very much Aishah. We will now begin the question and answer interactive session for the Indian participants connected to Audio Conference Service from Airtel. Participants who wish to ask questions may please press *1 on their touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. To ask a question please press *1 now.

The first question comes from Mr. Kalpesh Parikh from ASK Raymond, Mumbai. Mr. Parikh you may ask your question now.

Mr. Kalpesh Parikh from ASK Raymond, Mumbai: Good evening Sir. Sir I have couple of questions, first is how much would be the tax impact of this extraordinary income of the Rs. 164 crores, Sir we want to see net off tax, what would be the figure?

Mr. Praveen Kadle: Your question is what is the impact of this one time gain?

Mr. Kalpesh Parikh: Yes, if you want to see the net off tax type of thing then what would be the figure?

Mr. Praveen Kadle: We had always mentioned that our tax liability will be around 25%, so it is now for this quarter is 22%, so you can....

Mr. Kalpesh Parikh: No even the same tax rate would be getting apply to Telcon sale

Mr. Praveen Kadle: All the capital gains are subjected to 10% tax.

Mr. Kalpesh Parikh: Okay fine. My second question is on the CV too, I mean the freight rates of late have moved up firmly during the last few months mainly because of the Supreme Court verdict, do you think such steep increase of freight rates is sustainable, first, and second, what is your take on, how much impact such Supreme Court verdict can have on commercial vehicle demand, can we expect demands for medium or the commercial vehicle, to go up in the range of 10% to 20% what is your pick on the same?

Mr. Praveen Kadle: I think the freight rates, I am not too sure whether they are gone up only because of the Supreme Court verdict. Yes in the last few days they have gone up, they have gone up to almost between 17% to 18% in the last two months and, if you do the indexation then the freight rate increases in the last couple of months is more than the diesel hike, so to that extent yes, it is also perhaps correlated somewhat because of the Supreme Court decision came at around the same time, but to a large extent the freight rate index is also dependent upon the economic growth and also dependent upon to what extent either road transportation take the share from railways and vice versa, so it is the combination of both and if the economic growth continues to be what it is and recently you have seen the numbers that the GDP growth is expected to be 8.1% for this year, industrial growth has been almost at around 9% or so and if this kind of a growth continues then rate index should be very strong. I am not too sure whether it will be 18% or no, I cannot predict that but it should be quite strong rate index. It will be no doubt also helped by the decision of the Supreme Court in the terms of overloading, that certainly will help but that may not be the only factor, as I mentioned earlier.

Mr. Kalpesh Parikh: But Sir, what sort of growth outlook we have for the commercial vehicle segment in fact, and in fact in the first nine months, we have seen some slow down, but I think if you see Sir, I mean the last two three months, there has been some really good pick up which was happening. So what type growth outlook we have for commercial vehicle segment, I mean I

am not asking any benchmark type of percentage, but I mean can we have 1.5 ton GDP or 2-ton GDP type of growth what we can...

Mr. Praveen Kadle: Again, let me clarify, we had even before the year had started, as on April 01, 2005 said that 2005-2006, we will make either flat or negative growth in M&HCV, but that as not because of the cycle or anything, we had said that two-three things are happening that if the country is going to see the change in term of environmental compliance going from Euro one to Euro two or Euro two to Euro three and that would mean significant price increases on account of the cost of engine getting escalated and therefore, there would be lot of advancement of purchases in the last four or five months of the previous year, which is what has happened and to that extent the demand definitely got impacted in the first four or five months. To add to that there was this confusion, which was created in term of the announcement of Euro two or Euro three and then getting it withdrawn in the last minute just before the year end, therefore there was this issue always about non-availability of components, so these are few reasons as to why the demand uptake in the current year has seen some kind of negative growth. Going forward, I think we should see steady growth, it may not be double digit kind of a growth. There are various reports, which are floating around, including the report issued by some of the well-known reputed research agencies-the growth is expected to be between 5% to 10%. It could be, I don't want to put the specific numbers, but as I said going by the independent agency report, the growth is expected to be between 5% to 10%. Now when you look at the growth it may sound to be small, but keep it in mind that the base level has increased significantly because of 25% to 30% increase, which we had seen from 2000 up to 2005, so the base level has gone up and then you see this 5% to 10% growth on that, that makes big impact.

Mr. Kalpesh Parikh: Right. Sir, my second question would be on your on the Fiat strategy, I mean we had heard that in the press release that, I mean statement that you know Kurla plant could be used for this production, so can we know that will it be a joint production or will it be by only Fiat or and what benefit we foresee for Tata Motors beyond India from this tie-up?

Mr. Praveen Kadle: I think Fiat **does** not have any plant today other than the Kurla plant. So if Fiat has to manufacture and start selling cars the Kurla plant has to be used. We have not really gone into the discussions to finalize anything with regard to who will be manufacturing or who will operate the Kurla plant. Our scope in current agreement is only distribution, so we will distribute the Fiat vehicles through select dealers of Tata Motors, as well as the Fiat dealers, so you will have some Tata Motors dealers who will also sell the Fiat products apart from Tata Motors vehicles and as well as the Fiat dealers, who would sale both the products. Our scope of agreement today is only restricted to distribution. In fact in the press conference, which Mr. Tata had held along with Mr. Macyoni in the Auto Expo on 13th January. It was made very clear that the scope can be unlimited. We are starting with totally clean canvas and it is for the two partners to define the scope, which could be India centric or could be outside of India also.

Mr. Kalpesh Parikh: So when can you expect more clarity on this?

Mr. Praveen Kadle: The work is going on, both the teams are working on it, too early to really make any kind of announcements on that.

Mr. Kalpesh Parikh: My last question would be on the bus platform Sir. That is, I mean we have been hearing in press statement that you are planning to make Spain, Korea and India as a common platform and use Hispano as a major platform for the thing. Can you throw some more light on the same?

Mr. Praveen Kadle: Yes. We acquired Hispano company and naturally there is therefore scope to use the Hispano platform both in India, as well as outside of India, we are working on it, it will all depend upon the economics of the whole thing, but because we have acquired this company of course, it is not fully acquired, but we have taken 21% equity stake, technology ownership is

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now with us. So, we have those kind of options and possibilities in terms of using the Hispano platform wherever we want, either in India or outside of India.

Mr. Kalpesh Parikh: Okay. Thank you. Sir.

Mr. Praveen Kadle: Thank you.

Himanshu: Thank you very much Sir. The next question comes from Mr. Raghunandan from First Global Bank, Mumbai. Mr. Raghunandan, you may ask your question now.

Mr. Raghunandan, First Global Bank, Mumbai: Hello Sir, congratulations on good set of numbers.

Mr. Praveen Kadle: Yes. Thank you.

Mr. Raghunandan: As such my question Sir is already answered, just one quick question, can you just repeat the foreign exchange profit / loss you told about Sir?

Mr. Praveen Kadle: The Forex notional loss in this quarter is Rs. 38 crores, last year third quarter, there was a gain of Rs. 62 crores, there is swing of about 100 crores between the two quarters

Mr. Raghunandan: Yes Sir, Thank you very much Sir. That is all.

Mr. Praveen Kadle: Thank you.

Himanshu: Thank you very much Sir. The next question comes from Mr. Mahantesh from SBI Capital, Mumbai. Mr. Mahantesh, you may ask your question now.

Mr. Mahantesh, SBI Capital Mumbai: Good evening Sir Mahantesh here.

Mr. Praveen Kadle: Yes. Mahantesh, good evening.

Mr. Mahantesh: Sir a little different question what new products can we expect next year?

Mr. Praveen Kadle: Next year we will have products in both passenger car, as well as commercial vehicles. We will make the announcement once we kind of finalize our date lines in term of introducing these products. We have seen almost about 6 to 7 products introduced in this year right from the Greenfield product like Ace to different variants of our existing products, so the same trend will continue even in the next year.

Mr. Mahantesh: So we can again expects 5, 6 variants kind of product in next year?

Mr. Praveen Kadle: A good number, I don't know whether it will be 5 or 6. That as I said, when we will announce the fourth quarter result and when we will talk about the next year we will certainly make that announcement, though not very specific product by product so that you know what we are going to do.

Mr. Mahantesh: And any specific numbers you can tell us in terms of what are your product development expenses say for expected to be for FY06 and what is could be in FY07?

Mr. Praveen Kadle: You are talking about what will be the product development expenses for this year and next year?

Mr. Mahantesh: Yes. Any rough idea you could leave us with?

Mr. Praveen Kadle: This year if I remember correctly and I may have to check specifically, but this year will be around close to 200 to 250 crores is what we would be spending and next year it could be slightly higher, but I cannot really tell you the very specific number because we are still finalizing our budgets and all that.

Mr. Mahantesh: But overall CAPEX plan for the next three year is close to 5000 crores.

Mr. Praveen Kadle: Yes, you are right.

Mr. Mahantesh: So can we expect the considerable increase in product development expenses starting next year FY07, so that 250 crores could be substantially high in FY07.

Mr. Praveen Kadle: Possibly, yes.

Mr. Mahantesh: Sir just to take on from one question that was asked and your answer about financing income to the operating margin was, you said in the third quarter was about 10% to 11%?

Mr. Praveen Kadle: It is overall for the nine months period, it is more or less constant, it is between 10% to 11%, between 10% and 11% or 11.5% for the nine months period.

Mr. Mahantesh: And what could it have been for the previous year?

Mr. Praveen Kadle: Previous year it was hardly anything, as I said, we are only on BHPC, it hardly contributed anything and the business volume also I had not seen that kind of a growth.

Mr. Mahantesh: Okay, so are we saying that the operating profit and operating margin improvement this year is a phenomena of financing income going up or in other words if you were exclude the financing income would the operating margin improve from third quarter last year to third quarter this year?

Mr. Praveen Kadle: It would have perhaps been at the same level because if you take out the exchange loss or gain and if you take out the financing business operating margin, then it could be more or less at the same level in last quarter and this quarter. I think keep it in mind that we have been seeing significant steel price and other commodity price increases and therefore the overall raw material cost as the percentage to turnover was going and continued to grow even in the current year at least till the second quarter and now the steel prices seem to have stabilized and even soften, but the other commodity prices have gone up. So coming up to the operating margin one needs to really plan it out. We had mentioned when the year started itself that we will try to maintain our operating margin between 12% to 12.5%. So, if we have to maintain the operating margin between 12% to 12.5% and then if you get challenged because of all this freight price increases on the raw material side, we have to find out a way within your own existing business lines or by expanding your current existing business line, how you can get better operating margins and still we remain within the 12% to 12.5% operating margin, that is the management challenge and we will continue to look at how to satisfy or meet that challenge.

Mr. Mahantesh: Does it mean that you are also looking for FY07 or similar operating margin at the around 12.5%?

Mr. Praveen Kadle: On a long-term basis we would like to maintain it between 12 and 12.5. In one year it may go up to 14, which had happened in the past or it may go down, but our effort would be to maintain it around that on the long-term basis.

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Mr. Mahantesh: Sir. Again on the finance income, we are seeing that the interest rates are moving up and the interest spread is getting squeeze, so financing as a business, since you have considerable exposure now with Tata Finance under Tata Motors, do you foresee any surprises coming out of that in the next year?

Mr. Praveen Kadle: As interest rates are also increasing. We are also trying to increase our IRRs in terms of what returns we get.

Mr. Mahantesh: So you would like to pass on the interest cost to the customers?

Mr. Praveen Kadle: To the extent it is possible.

Mr. Mahantesh: But ICICI Bank your main competitor is still holding on to that interest rate. Am I right?

Mr. Praveen Kadle: ICICI also has increased the rates, they may not have fully passed on the interest cost burden, but let me not talk about ICICI in particular. Most, in fact all of these bankers have increased it, some have increased more, some have increased less. It is individual bank's or company's strategy.

Mr. Mahantesh: Okay. Sir just one final question, your stock change for the nine months period is Rs. 670 crores. If this were to come down in the next quarter, should we see a huge contraction in margin?

Mr. Praveen Kadle: Just give me a second. The stock change is about Rs. 600 crores.

Mr. Mahantesh: Significantly higher from Rs. 271 crores of last year and as the year draws to close, you would like to see this

Mr. Praveen Kadle: You are taking about nine months figure.

Mr. Mahantesh: Yes Sir.

Mr. Praveen Kadle: Last year it was Rs. 400.

Mr. Mahantesh: Rs. 271 versus Rs. 670 crores Sir

Mr. Praveen Kadle: Rs. 271 versus Rs. 670. Yes, go ahead.

Mr. Mahantesh: As the year draws to the end, this stock change would typically come down and would it mean that the gains that you have seen in the nine months period adding to your operating profit would be reversed?

Mr. Praveen Kadle: As I said earlier, all these challenges will keep on coming, stock change, increase in the raw material prices, increase in stock cost, increase in other expenditure, all of that is going to happen that is the part and parcel of our life. So our challenge is how to maintain the margin between 12% to 12.5%.

Mr. Mahantesh: Okay Sir. Thank you very much Sir.

Mr. Praveen Kadle: Thank you.

Himanshu: Thank you very much Sir. The next question comes from Mr. Vivek Pandey from Man Financial, Mumbai. Mr. Pandey you may ask your question now.

Mr. Vivek Pandey, Man financial, Mumbai: Good evening Sir. My first question is related to the cost structure. I just wanted to know whether the raw material cost to sales in this quarter is in line with the quarter one and quarter two or is there any change.

Mr. Praveen Kadle: This margin is lower as compared second quarter of this year, but the marginally higher as compared to last year's third quarter. As you know, between last year's third quarter and the current year second quarter, the cost definitely had gone up and as I mentioned in the beginning of my conference call, the cost, especially, at least the main item of steel has remained stable or has marginally soften.

Mr. Vivek Pandey: But quarter to quarter sequentially is it flat or it has gone up?

Mr. Praveen Kadle: It has gone down as I mentioned marginally.

Mr. Vivek Pandey: Okay gone down, but are we seeing any benefits from lower steel prices like some other companies have reported the numbers, reflect some improvement in raw material cost, but you being CV based focused player where CV gives at least 2/3 of your revenues, but the cost structure in the passenger class is different from CV, so I just wanted to know whether, is there any relief in your raw material cost related to passenger cars because in CV, I think you had incur you may not be able, which you are not able to pass on fully through price hikes and all. I just want to understand you know can we see any?

Mr. Praveen Kadle: Revenue shares even in (passenger car, market is in fact more competitive) the passenger car and today you are not in a position to pass from the entire cost increases to your to your customers.

Mr. Vivek Pandey: But the softening in steel prices is it giving any kind of benefit or at least in the last quarter can we expect any benefits?

Mr. Praveen Kadle: You should perhaps see some benefits, but too early just because for the last two, three months the prices are down, in fact there was a report in the morning in today's morning paper that the prices may go up. So as I said this is part and parcel of our life now in terms of prices of raw material going up and down. As I said we need to maintain consistently the operating margin between 12% to 12.5%.

Mr. Vivek Pandey: But normally when we renew the steel cost, steel procurement contracts in April does it apply for the price or is it applicable only for the supply, I mean the quantity and all?

Mr. Praveen Kadle: No, it is all mainly applicable to the price. And that mean of course price and quantity both.

Mr. Vivek Pandey: So we are covered for the full year or is it a biannual or?

Mr. Praveen Kadle: Yes, by the way we don't cover 100% of our uptake under the one-year contract, typically the percentage in the normal situation is between 50%to 60% because of the likely price increases, steel price increases, we had covered almost if I am not mistaken between 70% to 75%. So if the price is volatile to the extent of 20%, 25%, yes we get either the benefit or we get hit and it is a kind of forward contract you do when the prices go up or down, you always have either the benefit of the impact / negative impact, until that contract is fully owned.

Mr. Vivek Pandey: So as regards to the price in nine month or have you seen any benefits because year on year steel prices have gone down?

Mr. Praveen Kadle: I mentioned that 25% of purchasing stock purchase, so there is some benefit yes.

Mr. Vivek Pandey: Okay Sir. My question is regarding aluminum cost, aluminum prices have been, you know rising consistently in last couple of months. Is it something to worry about, I mean just wanted to know, what will be the consumption in passenger cars, will it lead to extra cost in the last quarter?

Mr. Praveen Kadle: Aluminum accounts for consumption in passenger cars and in commercial vehicles, you are right, yes, as I said this cost and we have even made the statement in our release, which we have put on the website that while the steel prices are coming down, there are prices of aluminum, coppers, rubbers these are going up. So as I said, you know I have been maintaining this point even when Mr. Mahantesh asked this question earlier, all these are going to happen, somewhere you will find some benefits, somewhere you will get impacted. We have to manage our business in such a way that we have the consistent return between 12% to 12.5%. So yes, the aluminum prices will impact us; steel prices going down may give us some benefits. Our staff cost may go up, but all of that we have to manage in an efficient manner.

Mr. Vivek Pandey: Okay, and my next question is regarding your January sales numbers. In January your passenger car sales have been very robust but I also heard that your Tata Motor financing penetration has gone up from 17% to 24% in quarter three. So, and recently that you have been focusing more on used cars. I think that is pulling a lot of the demand for new passenger cars from your company. Does it, I mean, does the January numbers reflect the higher penetrations from your financing business, I mean...

Mr. Praveen Kadle: No, it is combined, it is not only because of financing, we have stepped up our marketing activities, our penetration into many segments of the markets where we perhaps were weak earlier, we setup our sales promotion activity, financing also has played the role. So it is kind of a weak joint effort of the marketing team, our finance team, the financing unit team, and in fact we are now helping the dealers to liquidate their retail stocks and, intensify their own marketing efforts to get more business at the retail levels so that, their uptake from us also improves. So, all of that has contributed towards that.

Mr. Vivek Pandey: Is it a trend like thing, I mean, can we expect this the volume to sustain going ahead and are we seeing any kind of switch from passenger petrol cars to diesel cars because of higher petrol prices?

Mr. Praveen Kadle: As we started the diesel market in India and I think the diesel market today is at most 25% of the total market size. So from 0% in 1999 in the last 6 years is gone to 25% - it is the very fact that some of our competitors who were earlier not at all looking at the diesel segment, they are also looking at the diesel segment itself is an indication that the market will move towards diesel. I cannot really predict the percentage distribution between diesel and petrol, but it will happen as it has happened in Europe and even the US is now looking at the diesel segment. So, yes the shift will happen.

Mr. Vivek Pandey: Okay Sir, and Sir my next question is regarding the LCV sales, Sir LCV volume growth has been very strong this year. I just wanted to know, you know, if we adjust the Tata Ace, what will the LCV growth for 9 months?

Mr. Praveen Kadle: If we adjust the Ace then the LCV market growth is flat.

Mr. Vivek Pandey: The industry or your growth?

Mr. Praveen Kadle: You see the point is, to be frank if you look at Ace, Ace is still a part of the pick up segment and whenever you bring a new product in that particular family, there is always some shift that happens from the old product to the new product. I think, what you are asking in

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the various simplistic assumption. One should look at it in totality. We should keep it in mind that we are trying to grow the overall LCV market. We should look at it that way.

Mr. Vivek Pandey: Okay Sir. Then I have another question on new products and all. Recently there was news that you will be launching your Indica in the British market after the MG-Rover, is there any progress in that?

Mr. Praveen Kadle: Yes we are talking to dealers there and they are very keen and we are trying to put the arrangement into place so that we can distribute the vehicles through a intermediary to the dealers. So in due course you will see some announcement coming from our side.

Mr. Vivek Pandey: Okay, Sir, you have already launched Tata Novus in India. At the auto-expo you also had displayed the Novus multi XL that is the 25 ton. Are you launching this year, I mean, or next quarter?

Mr. Praveen Kadle: We are assisting the market. Cannot really comment in terms of timing.

Mr. Vivek Pandey: Okay Sir one last question regarding your cash flow and all, can you tell us what will be your FCCB fund available, you know, net on net as on December?

Mr. Praveen Kadle: About \$ 100 billion dollars are still unused. We used it for acquiring the company INCAT and it would be perhaps fully use by March end.

Mr. Vivek Pandey: And you have been raising some fresh fund also like you said your interest cost has gone up because of CAPEX and acquisitions and all the interest is moving up have you added taken any debt or fresh debt?

Mr. Praveen Kadle: No.

Mr. Vivek Pandey: Can you give the net cash figure for 9 months?

Mr. Praveen Kadle: It is not much as I mentioned in the first question, which was asked to me in terms of why other income is lower and I made it very clear that the surplus money that we had has been only used in the asset financing business as well as in the CAPEX and acquisition so we do not really have much surplus cash.

Mr. Vivek Pandey: As on second quarter you had said that after you will be rating some 1300 crores of debt of TATA Motor Finance, you will be ending with up with 2500 crores of that for the full?

Mr. Praveen Kadle: Why don't you wait till the year-end position? I had said that by year-end we will be hopefully back to where we were as on 31 March. So why don't you just wait for year-end position?

Mr. Vivek Pandey: Okay Sir.

Himanshu: Thank your very much Sir the next question comes from Mr. Sohail Ahmer, Lusight Research, Canada. Mr. Sohail you may ask your question now.

Mr. Sohail Ahmer, Lusight Research, Canada: Good evening My question was more with regards to margin, I know you have spoken about it, but would it be possible to give some sort of indication in terms of what is your margin that are divided between the three segments, which would be commercial vehicles, passenger vehicles and exports?

Mr. Praveen Kadle: We treat the entire business as one segment, but just to tell you at a very broad level the margins are between commercial vehicle and passenger vehicles are more or less at the same level and between the domestic and exports, exports being more competitive and the TATA brand is still unknown in many markets, so the margin is lower in exports as compared to the domestic.

Mr. Sohail Ahmer: So if exports as a portion of your total volumes are going up then is it reasonable to assume that, it is going to have some sort of an effect on your margins going forward?

Mr. Praveen Kadle: No, I think, as I said very clearly that company as a whole we would like to maintain the margin between 12% to 12.5% percent so if exports grow then we have to make more margins in the domestic markets.

Mr. Sohail Ahmer: Understood.

Mr. Praveen Kadle: Or the profitability of the export market also needs to be improved as compared to where we are there today.

Mr. Sohail Ahmer: Right. Finally could you shed some light on what portion of your raw material and component cost are hedged?

Mr. Praveen Kadle: Typically, steel is what we hedge on a annual basis and steel is about 20% of our total raw material. 75% of that is booked through the forward contract so, roughly about 15% to 16% and then of course we also have almost annual kind of purchasing contract with most of our vendors where it is not like commodity contracting or advance forward contracting it is more in terms of locking in the vendors with annual procurement prices.

Mr. Sohail Ahmer: Right, now just a clarification, your CAPEX for FY07 and fiscal year '08, would that be Rs. 5000 crores each?

Mr. Praveen Kadle: No, we said over a period of three years it will be 5000 crores.

Mr. Sohail Ahmer: Okay got it. So that would be divided between the three years.

Mr. Praveen Kadle: Yes.

Mr. Sohail Ahmer: Alright, great and that is being financed largely internally or do you plan on raising more debt to finance that?

Mr. Praveen Kadle: We keep our debt equity ratio between 0.50 to 0.60 so long as we are within that norm we may raise fresh debt, otherwise it will be all internal.

Mr. Sohail Ahmer: Great. Thank you very much Sir.

Himanshu: Thank you very much Sir. I would request participants to ask only two questions at a time due to time constraint. Thank you. The next question comes from Mr. Rahul Chadha from Standard Chartered Mutual, Mumbai. Mr. Chadha you may ask your question now.

Mr. Rahul Chadha, Standard Chartered Mutual, Mumbai: A sense which was coming from the market was that this excess overloading, which was there was to the tune of about 30%. Wanted your inputs whether this number is correct or not and secondly there was a feel, which was coming from major trucking centers that I mean there is shortage for trucks and this thing, just wanted your inputs on this Sir?

Mr. Praveen Kadle: I think as a broad percentage what have you said is right in terms of overloading and in some product segment, yes, there could be some shortages.

Mr. Rahul Chadha: Okay and also Sir market share gains are always difficult so you seem pretty confident of gaining 5% in a quarter, could you elaborate on that Sir?

Mr. Praveen Kadle: No, I did not specify the numbers, I said whatever we had lost in the first quarter we are confident of gaining part of it.

Mr. Rahul Chadha: Okay and one final question Sir, I will not take too much of your time. I mean, you are the market leader, which is planning to enter the diesel car version by the year-end, so what is your take on that? Are you launching new products to kind of take on competition?

Mr. Praveen Kadle: Yes. We will improve our product offering in the diesel segment and that is what we have done in the last six months when you see some of our diesel offering, which we will do also next year.

Mr. Rahul Chadha: Okay. Thank you Sir.

Himanshu: Thank you very much Sir. The next question comes from Mr. Ram Nath of SSKI Securities, Mumbai. Mr. Nath you may ask your question now.

Mr. Ram Nath, SSKI Securities, Mumbai: Good evening Sir. This is with regards to....again a question related to the freight rates, we have this large vehicle financing companies, who quite often come out and say that there is sudden increase in the freight rates in the last one or one and half months more to do with one the fuel cost increases that did not take place in the remaining part of the year, and the big difference beginning of the year and the second being that it can also be largely attributed to this Supreme Court ruling of overloading where the truck fleet operator used to make significant amount of his profits, so part of that gets transferred on to this. So, is that true in that sense. You also have some sort of an indication also coming in that some large fleet operators are also going slow in terms of their repayments back so where is TATA finance, how do you see that scenario, is that still continuing or things are pretty fine in terms of the guys, who have borrowed money?

Mr. Praveen Kadle: We have not seen any defaults in terms of repayment of our retail financing portfolio. With regards to the first point, I think, I have already answered that question that just because the Supreme Court issues an order or something happens, people are not either going to buy or stop buying in a big way. It all depends upon the industrial production. If economy is good, if the industrial and agricultural production is also very robust and if there is a good distribution need then yes it will happen, then of course between the road transport and rail transport, which are the two major transportation media today, so that is what will decide in terms of the demand for the trucks fleets. It is all linked up with the industrial activity, interest rates. I'll just take you back into the history when Supreme Court had issued this banning of buses beyond 15 years that did not suddenly create big demand.

Mr. Ram Nath: Fair enough. Just one last question, In the beginning of last year you rightly pointed out this is going to be a slow year in terms of the heavy commercial vehicles sale and we could rather end with flattish or with a small positive growth and rightly so you have been proved absolutely right. I would not like you to comment on the competition but competition talked about 20% growth at the beginning of last year and they grew probably, at the end of the year about 10% to 12% as the case may be. I think they have again indicated that next year it is going to be very strong and they would be growing at 20% plus, while you in your opening remarks were trying to indicate that the number could be somewhere between 5% to 10%, if you could just throw some more light on where do you see 2006 and 2007 in terms of growth rate for the heavy commercial vehicle market, Sir?

Mr. Praveen Kadle: We never think ill loss of our competitors; we have always wished them good luck. If somebody is staying at 20% growth, we will still wish them all the best. As far as our growth numbers are concerned, I did mention that there are independent reports, which are floating around, which talks about 5% to 10% growth. We believe that growth will be between 5% to 10%. I do not know whether it will be 5% or 7%, too early to comment but the growth would be there between 5% to 10%.

Mr. Ram Nath: Fair enough Sir. Sorry but just one thing that Ace has been doing brilliantly well. What is the capacity expansion that you planned for the Ace next year?

Mr. Praveen Kadle: We are doubling the capacity from 30,000 to 60,000 and that should be effective in terms of actual production very soon.

Mr. Ram Nath: Okay. Fair enough Sir. Thank you very much, all the best for the year.

Himanshu: Thank you very much Sir. The next question comes from Mr. Abhijit Nayak from Kotak Institute, Mumbai. Mr. Nayak you may ask your question now.

Mr. Abhijit Nayak, Kotak Institute, Mumbai: Sir, two quick questions, one is other than the Forex loss that you mentioned, is there any other one-off on your operating side.

Mr. Praveen Kadle: We talked about the other income other than that nothing.

Mr. Abhijit Nayak: Other than nothing, okay. **Initiatives on** H V Axles and transmission, any indications on when and what form that may happen?

Mr. Praveen Kadle: We are still in discussion in terms of getting the right strategic partner, so the work is in progress.

Mr. Abhijit Nayak: Okay Sir. Thank you very much.

Himanshu: Thank you very much Sir. The next question comes from Mr. Deepak Gupta from J M Morgan Stanley, Mumbai. Mr. Gupta you may ask your question now.

Mr. Deepak Gupta, J M Morgan Stanley, Mumbai: Good evening Sir, this is actually a follow up question on a question asked earlier. Sir, there has been an increase in stock and trade in this quarter from about Rs. 20 crores to about Rs. 184 crores year-over-year, so have there any some kind of idea to build up the inventory level for the fourth quarter? Or it just happened by chance?

Mr. Praveen Kadle: No, typically the third quarter is, lower volume optic, therefore the production is lower, sorry let me not talk about production. The volume optic is lower in the third quarter and you see big increases in terms of optic in the fourth quarter. We never really bring down our production rate in the month of December so partly the increase in the stock levels is because of that reason.

Mr. Deepak Gupta: Okay and Sir one last question. The tax benefit that would be riding out of merger with Tata Finance, what is the status on it, I believe it will not be taken this year?

Mr. Praveen Kadle: We had answered that question in the last quarter's conference call and we are decided not to accrue that benefit until we actually realize the benefit through the tax assessment process.

Mr. Deepak Gupta: Okay. Thanks a lot Sir.

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Himanshu: Thank you very much Sir. The next question comes from Mr. Sanjay from HSBC Securities, Mumbai. Mr. Sanjay you may ask your question now.

Mr. Sanjay Satpati, HSBC Securities, Mumbai: Sir, it may be bit of hypothetical question, under the event that the government decides to cut excise duty on small cars may be up to 1000 cc, what will be your response to that kind of change in tax structure?

Mr. Praveen Kadle: The response we are seeing is to be positive. We really would like to have that kind of excise duty reduction. It will help the industry. It will help the consumers. It will help the overall economy.

Mr. Sanjay Satpati: But Sir, because you do not have a product in that particular segment, will you take significant amount of time to come out with a product in that segment?

Mr. Praveen Kadle: I think it is a hypothetical question but if it happens eally the way you are talking about, as you know we are already developing our small car, which will be less than 1000 cc.

Mr. Sanjay Satpati: But Sir that is about more than two years away from now so then immediately there may not be any product from your side?

Mr. Praveen Kadle: No, there could be various options available and I don't want to disclose this as every company has got its own strategy; we would like to keep it with itself so I would not like to disclose.

Mr. Sanjay Satpati: No, sir I just wanted to confirm that in case this kind of event happens, Tata Motors won't be left in the lurch in terms of... they may lose market share?

Mr. Praveen Kadle: May be in short-term, yes, we may have problems but not beyond short-term.

Mr. Sanjay Satpati: Okay Sir. Thanks a lot.

Himanshu: Thank you very much Sir. The next question comes from Mr. Ambrish from Tower Capital, Mumbai. Mr. Ambrish, you may ask your question now.

Mr. Ambrish, Tower Capital, Mumbai: Good evening everyone.

Mr. Praveen Kadle: Good evening.

Mr. Ambrish: Sir, just wanted to understand if I look at the LCV numbers for the nine month, it is almost 40% of the total commercial vehicles. Can you just add as to what was the contribution of Ace total volume for the nine months?

Mr. Praveen Kadle: You are talking about contribution in terms of volumes?

Mr. Ambrish: Yes Sir, for the first nine months.

Mr. Praveen Kadle: In the third quarter we had sold 2,800, average. It is 2,200 per month.

Mr. Ambrish: Okay, so this is for per month, first nine months. Right!

Mr. Praveen Kadle: Yes, 2,200 is started in end of May so you can take about seven months out of these nine months.

Mr. Ambrish: Okay, and what is the rate that we are currently working on?

Mr. Praveen Kadle: 2,800.

Mr. Ambrish: Okay, Sir just the last question. Can you just brief us on the capacity like current you know, basically what the passenger car capacity and the commercial vehicle capacity at different locations and at what utilization lines they are running on?

Mr. Praveen Kadle: Commercial vehicle is almost working to the full level, almost close to 90%-95% of the capacity.

Mr. Ambrish: Passenger vehicles?

Mr. Praveen Kadle: No, commercial vehicles.

Mr. Ambrish: Okay.

Mr. Praveen Kadle: So, we are expanding the capacity there but it is more in the form of shortage in the aggregate capacity. In the passenger vehicles, we have already set up a capacity for 2,25,000 vehicles and by year-end we will know how much would be the capacity utilization but right now it varies from 65% to 75%.

Mr. Ambrish: Okay. Are we planning to move our commercial vehicle capacity from Pune to any other locations like Jamshedpur and all?

Mr. Praveen Kadle: No, not really.

Mr. Ambrish: Not now. Okay Sir, thank you so much.

Mr. Praveen Kadle: Thank you.

Himanshu: Thank you very much Sir. The next question comes from Mr. Gaurav, an Investor from Mumbai. Mr. Gaurav, you may ask your question now.

Mr. Gaurav, Investor, Mumbai: Good evening Sir.

Mr. Praveen Kadle: Good evening.

Mr. Gaurav: Sir, what are the benefits that we see for TATA motors from the Fiat tie-up? And don't Fiat's products compete with us? Is there something I am missing in this?

Mr. Praveen Kadle: No, right now if you see the product which they would be distributing through us, on the face of it may seem to be competing but it actually kind of enlargement of our product portfolio.

Mr. Gaurav: Okay fair enough. But can you throw some more light on what kind of things we can see going ahead with them?

Mr. Praveen Kadle: No, I answered that question at the beginning by saying the current scope is only distribution. There are various options available and both the teams are working on it. It is too early to comment in terms of where it would take us in terms of our relationship.

Mr. Gaurav: Thank you Sir. That is all.

Mr. Praveen Kadle: Can we have the last question now?

Himanshu: The last question comes from Mr. Anish from Emkay Share and Stock Brokers, Mumbai. Mr. Anish, you may ask your question now.

Mr. Anish, Emkay Share and Stock Brokers, Mumbai: Hello Mr. Kadle. Good evening Sir.

Mr. Praveen Kadle: Good evening.

Mr. Anish: Sir, couple of questions, one on the commercial vehicle side. We have seen that you have reported tremendous improvement in the 7 ton to 11-ton category, probably by two new products in the 9-ton and 11-ton segment. Now, what would be your strategy in terms of the 16-ton segment and 25-ton segment where probably there is some loss of market share?

Mr. Praveen Kadle: We have not really lost any market share in 16 ton or even if we have lost in 16 and 25, it can be because of the initial problems, which I mentioned. 16 ton is one of our stronger segments and will continue to be, and whatever market share we have lost is temporary aberration because of the initial supply issues.

Mr. Anish: Okay and Sir one question on the Bus segment. When do you think we should start seeing some strong growth coming there?

Mr. Praveen Kadle: No, Bus segment I think.... as we did mention even earlier also that the Bus segment should start seeing the growth from 2006 to 2007 onwards. I cannot really say how much it would be, but so far the market in the Bus segment has been flat and we should see some growth coming from 2006 to 2007 onwards, initially it may be very marginal growth but thereafter it should start picking up.

Mr. Anish: Okay Sir. Thank you very much.

Mr. Praveen Kadle: Thank you.

Himanshu: Thank you very much Sir. Now, I handover the floor to Mr. Amit Kasat for the final remarks.

Mr. Amit Kasat: Thanks. On behalf of Motilal Oswal Securities Ltd. I once again would like to take this opportunity to thank all the participants on the call and the Tata Motor Management team for being on the call. Thank you and goodbye.

Himanshu: Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening.