

TATA MOTORS
Conference Call
December 13, 2005

Moderator

Good evening ladies and gentlemen, I am Sunil, the moderator for this conference. Welcome to the Tata Motors Conference call hosted by J.M. Morgan Stanley. Mr. Satish Jain of J.M. Morgan Stanley is your call leader today. 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 the question and answer session will be conducted for participants at India. I would now like to hand over the floor to Mr. Satish Jain of J. M. Morgan Stanley. Thank you and over to Mr. Jain.

Satish Jain

Good evening ladies and gentlemen. On behalf of J. M. Morgan Stanley, I welcome you all to the Tata Motors Conference call to discuss some of the recent acquisitions by Tata Motors and the performance and prospects of some of the other subsidiaries. We have on the call Mr. Praveen Kadle, who is the Executive Director - Finance and Corporate Affairs, and Mr. Manish Gupta who Heads the IR function. I now request Mr. Kadle to make a brief presentation, after which we will throw open this call for Q&A. Over to you Mr. Kadle.

Praveen Kadle

Good evening to all of you and may be in some places may be it is good afternoon or good morning. Today, as Satish said, the objective of this conference call is to brief you on the progress or some of the actions which we have taken in some of our subsidiary companies. I would ideally not like to talk on our main business that is the commercial vehicles and passenger vehicles, that we can certainly do it some other day, but there have been lot of activities happening in some of our subsidiary companies, so I thought I will touch upon these activities very briefly.

To start with, last Friday we announced the 20% acquisition by Hitachi Construction Machinery Company in our subsidiary called Telcon. In fact this was a division manufacturing purely excavators at that time, and we had spun it off into a separate company, - 100% owned subsidiary company in March'99. Then Hitachi came as a 20% equity partner in January 2000 and we have been running this operation as an 80-20 joint venture for the last six years. As you know the infrastructure related investments is going to be the biggest thrust areas by the Indian government going forward, not only in the areas of road development but also in areas of irrigations, then the ports, airports, and lots of other activities in terms of the infrastructure related investments. So there is going to be a significant boom in the construction equipment business. There was recently the construction equipment industry global exhibition which was held in Bangalore, I think in the first week December, and various industry experts who made the presentation in that conference talked about at least 25% to 30% growth in the construction equipment business over the next six to seven years. Now, I do not know whether this would really take place or not, but one can safely talk about 15 to 20% growth year on year for the next, at least, five years.

Hitachi, which is the world leader in excavator business and also in the top five in the construction equipment business worldwide have been very keen to participate in this growth. We were also looking for the technology in various other products, we did not want to be only a purely excavator company and wanted to participate in the growth potential in the construction equipment business through getting into the new products.

Just to give you some indication, in the excavator business we are the market leaders in India with 54% market share in excavators. In the wheel loaders which is partly developed - some products have been partly developed by us and partly through Hitachi's technical collaboration, we have 22% market share, and we are second in that market segment next to Caterpillar. Then couple of years ago we started manufacturing backhoe loaders in collaboration with John-Deere. John-Deere is a business associate of Hitachi in the construction equipment business - in fact in US they have a 50-50 joint venture for manufacture of excavators with Hitachi. So through the association of Hitachi with John-Deere we started manufacturing backhoe loaders couple of years ago. We are small there. We are perhaps #3 there with about 7 to 8% market share, JCB being the largest player with almost about 80% market share.

We are now getting into the businesses like dumpers, dozers and graders which we are already manufacturing through our own in-house technology. We have started the business of compactors, and we are already into mobile cranes, we have got almost 100% share in crawler crane segment; and in the overall construction equipment business we are perhaps #1 or #2. I must say that the construction equipment industry is not as organized as the automobile, so we do not have the monthly sales numbers, but based on our own in-house research we believe that we are either #1 or maybe closely following #1 as #2 company.

So coming back to the market, the market is going to grow significantly; may be between 15 to 30%, that is the kind of industry estimate of growth over the next five years. Most of the international competitors are already there, many of them, in fact, have 100% presence in India, for example Caterpillar, Volvo, JCB; they are already there at 100% with 100% investments. Komatsu, which is also one of the top five players, is having 50-50 joint venture with L&T. There are some rumors and we do not want to comment upon that, but there are some rumors that L&T may surrender, or sell its 50% equity stake to Komatsu to make it as a 100% Komatsu unit. So, knowing the competition, knowing the significance of this market, Hitachi was very keen to partner with us and take a slightly higher equity stake. So over the last twelve months we have been interacting with Hitachi and Hitachi also has seen the kind of capability Tata Motors has in the automobile business, so we are not just talking about 20% equity stake to be taken by Hitachi, we are now talking about much broader scope up cooperation between the two companies, and some of the things which we have identified and agreed upon are in terms of sourcing the components and the machines from Telcon by Hitachi for its global distribution network. They would be also bringing some technology; they would be also setting up the product development laboratory or capability in India jointly with Telcon. They were quite impressed by Tata Motors' ERC facility in Pune as well as in Jamshedpur, and they would like to set up similar kind of a facility for the construction equipment in India, partly, it will be meant for the Indian market but also to a large extent meant for their global operations, especially in the areas of design and development where they would like to cooperate and work with Tata Technology. The other thing they would like to have is, they would like to use our service engineers quite extensively to maintain the installed base that they have all over the world and they would like to use our service engineers for maintaining these machines which would add significant service revenue for Telcon. They would also like to bring in some of the component manufacturers, especially the Japanese component manufacturers to get the localization done in India, which would mean some kind of a good component business for the country and more particularly advantage to Telcon in terms of cost, from the cost point of view. They are also as a part of improving Telcon's quality, as I mentioned they intend to use Telcon as

a global sourcing hub, at least as far as the Indian operations are concerned, they want to use them as the global sourcing hub, so from that point of view they intend to **post** about at least three to four or maybe even more technical experts in various areas like production, technical support, and quality where they would be incurring the cost, they would be kind of paying their salaries. They have agreed to look at the component supplies at the same level at which they would be supplying the component to their 100% subsidiaries. Same is the case in the **parts** pricing, the technical know how fees have been waved off and royalties have been brought down to the bare minimum 1% as against 3 to 4% which so far they were claiming.

So while the equity stake is increased from 20 to 40%, it is majority owned still by Tata Motors. The status of Telcon would be on par with any of its majority or fully owned subsidiary company. In the process they are buying this 20% equity at a value of \$44.25 million. So there are no major changes in terms of the board or the composition of the board. It will be still managed and controlled by Tata Motors, although as I mentioned in some of the technical areas like quality, technical support, and production, they would be placing some of their senior executives, and going forward they believe that this company would be one of the major and important, part of the global network of Hitachi.

In case any questions on this deal, I would like to take the questions right now and then may be we can move to the next item, which is Tata Technology's acquisition of Incat, and where we are in terms of that acquisition.

Satish Jain

Mr. Kadle, what are the current exports by Telcon, both for machinery as well as for components, and how big would this components business grow?

Praveen Kadle

The export numbers are very small. Last year total revenue of this company was about Rs 900 odd crores, Rs 950 crores we can say, and the last year's export numbers were about Rs 15 crores, so which is about less than 2%. However, going forward we are expecting a lot of work to be done by the two partners, and by year 2010 we are expecting the same number to be around 6-7%, although I must say that both the partners believe that the 6-7% of the total revenue is still very conservative number, and why the number is still 6-7% is because Hitachi for the first time is looking at India as a kind of sourcing point as I mentioned, and going forward, and in the items which were identified will contribute around 6-7% of the total revenue, but once they get confidence in the Indian capability I am quite sure the numbers may increase significantly as we are talking in automobile, our auto business, we are talking about 20% of the revenue coming from international business, and I will not be surprised if even in Telcon it is in the mid double digit kind of numbers, sorry, 15-16% kind of numbers.

Satish Jain

Thanks.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Monica to conduct the Q&A for participants at the international bridge.

Moderator (Monica)

At this time, international participants may press *1 if they would like to ask a question. On pressing *1 participants will get a chance to present their questions. Once again, if you would like to ask a question please press *1. Your first question comes from the line of Christine Rawley Sloane Robinson.

Christine

Hi, I just wanted to ask if you could give us some feeling about volume projections for the construction venture after Hitachi takes stake? You mentioned industry growth would be strong, but how much stronger do you expect your subsidiary to do when Hitachi has a greater interest to introduce new products and types and segments into India?

Praveen Kadle

This year we are expecting our volumes to be around 3500, and we are expecting this growth to be almost three times of what we will be doing this year. As you said the market, as far as, construction equipment is concerned has been stagnant for many years and we have not really seen significant growth in the past, at least, the growth has been only in the last couple of years, in fact more particularly starting from 2004-2005. So the growth could be even higher but as I said, the many industry experts are talking about 30-35% kind of growth year on year basis for the next seven years, but we are making a very conservative assumption of around 25% growth and therefore tripling the number by 2010 from the current year's 3500. The global market, if you take India in terms of volumes, the Indian volumes are about 0.5% of the global market volumes and they are expected to be around between 2.5 to 3% by year 2010.

Moderator (Monica)

Once again, to ask a question please press *1 on your telephone keypad. At this moment, there are no further questions from participants outside India, I would like to hand over the proceedings back to the moderator.

Moderator

Thank you very much Monica. We will now begin the Q&A interactive session for participants connected to WebEx bridge. Participants who wish to ask questions please press *1 on your touchtone-enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. First in line we have Mr. Satish from Franklin.

Satish

Good evening sir.

Praveen Kadle

Good evening Satish.

Satish

I just wanted to, it is a followup on the previous question, if you could probably tell us what Hitachi is bringing to the table in terms of new products, new technologies, and what is the kind of roadmap you are seeing in terms of the product diversification because one is seeing a lot of interest in mining at the same time you do see a fair bit in road excavation, and I am

sure Hitachi probably has a product catering to each of these lines in terms of various types of infrastructural activities, so where exactly would this Telcon company benefit from an enhanced stake with Hitachi? And if you could also probably give a little bit of background as to why you wanted to give this additional 20% stake to Hitachi and what would be the kind of, I mean, I just caught the last end of your passage where you said that they are posting more people in the quality control and production process, but from Tata Motors' as a shareholder point of view, what would be the key benefits that you get either in terms of monetary or in terms of technology?

Praveen Kadle

Okay, in terms of the mining you talked about - Hitachi has got two products dumpers and dozers in which Telcon is not present today, and these would be the products which will be brought to the Indian market through the Hitachi technology. Similarly in the mining as well as, more particularly in mining some of the top end of the excavator which Hitachi has got in its product stable but which is not manufactured in India, those will be also manufactured in India. As far as the road construction is concerned, we would be having compactors through Hitachi or Hitachi associates. Backhoe loader which is another growing area where as I mentioned JCB has got almost 80% market share, though not directly from Hitachi but its business partner John-Deere, we would be bringing in the new products and technology in that area, and this is as you know is the largest growing sector or segment, perhaps even maybe, the growth is expected to be even higher than the excavators.

Why 20% additional equity? Apart from these points as I mentioned getting the technology, I think, one of the other thing was that both of us believe that going forward Tata, I mean Telcon could be an important player or important strategic piece for Hitachi for its international growth objectives. As I mentioned Hitachi is predominantly a Japanese company, they have operations in China, they have operations in Indonesia, they have operations in Europe, but they also are looking for a significant cost optimization, or let me put it this way, they are looking for a partner who can provide the significant cost reduction opportunities in the area of manufacturing, in the areas of manufacture of both components as well as machines, in the areas of product development, in the areas of looking at components sourcing as I mentioned, as well as in the areas of having the service engineers from India. So these options, and then of course the product development, in fact product development can be, they have realized that product development could be a greatest opportunity in terms of doing the business in India. Now, they could have perhaps done it themselves through a 100% entity, nothing stops them, but they believe the relationship which they are having with Tatas can really be leveraged to get all the benefits without setting up a 100% unit, but increasing in the process marginally there equity stake from 20% to 40%.

Satish

What is there for Tata Motors?

Praveen Kadle

I think Tata Motors through Telcon would like to participate in this significant growth that we expect in the construction equipment business, and having a strong partner would certainly help in terms of getting quickly into the market place in all the products and capturing the growth opportunities both in India as well as internationally, which without a good partner would mean significant time involvement, cost involvement, and at the end of the day we may or may not succeed. As I said all the international players are already here in the Indian market with 100% investment. So we thought we can participate in the growth opportunities in a big way through Hitachi and still maintain majority stake in that company.

Satish

So in terms of the monetary aspect...?

Praveen Kadle

As far as the placement of the people I think that is very least significant, and I also mentioned that in the process we are getting the preferred pricing treatment on all the components as well as parts pricing as well as on technical know how and royalty, which a typical 100% subsidiary would get. So we are, without being a subsidiary, we are getting the same terms as a typical Hitachi subsidiary will get. So that is the advantage from the joint venture point of view and therefore from Tata Motors point of view as a shareholder in that company.

Satish

Okay. In terms of, you mentioned that your volumes will go up from 3500 to 10,000, but typically the value component of each of these products could be different. So what would be the revenue growth that you expect in a similar timeframe from, and you also mentioned that you will have cost optimization strategy, product development for the parent, for Hitachi, engineering servicing, both locally and internationally, certain things like this. So what would be the kind of revenue mix that you are seeing when you say that by 2010?

Praveen Kadle

On a very conservative basis I think three times growth in revenue. On the profit side, yes, we expect both operating leverage and the financial leverage because the company has done significant amount of work in terms of clearing up its balance sheet. So both the operating and financial leverages would be contributing significantly to the bottom line of the company.

Satish

And synergistically sir since you have a lot of heavy - the heavy commercial vehicle is quite strong in Jamshedpur and a lot of work is getting done on the heavy axles and lot of things are in Jamshedpur, how would Telcon fit in terms of a geographic location?

Praveen Kadle

Telcon started its manufacturing operation in Jamshedpur. Over the last 4-5 years it has grown up significantly in Dharwad. We do not expect the Jamshedpur location to be contributing significantly in terms of its manufacturing growth. The growth will now onwards come from Dharwad.

Satish

But in terms of the heavy forgings and castings that you need to do for this activity, where would you actually get it done? I mean, because if it were close to Tisco's plant, then isn't there a logistic advantage that you would have as compared to doing it in Dharwad?

Praveen Kadle

No, but if you see the bulk of the construction activity or infrastructure related investments are going to happen in south as well as in west. So rather than having a fully manufactured

machine and then shipping it down to the south would add more to the freight cost than supplying some of the forgings and castings which you talked about.

Satish

Okay. And the other thing is that, what are the engines - what is the current set of engines that run on Hitachi's excavators, and how would Tata Motors supply engines and power train solutions for all of these products that you are planning to introduce? Would Tata Motors play as important a role or would this subsidiary be free to source its engines and transmission from other players as well?

Praveen Kadle

This subsidiary is free to source its components from any sources, however, I must mention that many of these engines are sourced from Tata Motors; some engines are also sourced from our joint venture Tata Cummins. Some are imported which are not manufactured in India, but as I mentioned, going forward there could be higher degree of localization.

Satish

Okay. But in terms of, so will this subsidiary also start making engines in house or, I mean, just wanted to get a sense as to whether Tata Motors would then run a line for this JV to manufacture engines? What would be the kind of structure for localizing the engine parts where Tata Motors can bring strength to the table?

Praveen Kadle

This company is not going to manufacture major aggregates like engine, they will be either manufactured as I said by Tata Motors which is anyway doing and expanding its capacity for its own engine range, or it could be through joint venture like Tata Cummins, or it could be some of the Japanese companies or other companies may come specifically from the point of view of capturing the growth opportunities. In that case, may be **TACO** could be one of the partners, or Telcon also could be one of the partners, or Tata Motors could be one of the partners clearly as an investment partner.

Satish

Okay. So internationally does Hitachi work with Cummins engines and transmissions?

Praveen Kadle

No, internationally Hitachi does not work with Cummins.

Satish

Hello. From the business between Telco and Telcon, what was it say in 2005, what do you expect the future trend to be between Tata Motors and Telcon?

Praveen Kadle

The question was not clear, could you just repeat it?

Satish

The business between Tata Motors and Telco Constructions, what was the business, I mean, as in what was the amount of raw materials that this construction company bought from Tata Motors, and what do you expect it to be in the future?

Praveen Kadle

Sorry actually, I just had to leave for a second, can you repeat the question?

Satish

Yes. What was the amount of items that the construction company bought from Tata Motors in 05 and what will it be in 06, proportion of raw materials, and what would be the future trend going forward? How much incremental revenue can Tata Motors hope to get out of this growth in Telcon?

Praveen Kadle

You know the Telcon just buy engines from Tata Motors, nothing else, maybe some axles may be, and the total value of purchase may not be extending 5-6% of its total purchases.

Satish

Okay, and that trend is not going to change?

Praveen Kadle

No, it will increase because Telcon's business will increase, but keeping in mind that Tata Motors' business is also increasing, so in terms of percentage it may not make a big difference.

Satish

Okay. And how the strategy of HV Axles, HV Transmissions all fit into this Telcon kind of a thing? Will they also participate in the growth or will that be focused primarily for the commercial vehicle segment?

Praveen Kadle

No, right now HV Axles, HV Transmission are not really manufacturing the kind of axles and gear boxes which are required by this company because the numbers are small, that does not make any economic sense to manufacture them. However, if the business grows as we talked about then certainly HV Axles, HV Transmission would look at supplying the requirements of Telcon as well.

Satish

Okay, excellent. And what about the impact of steel prices on Telcon, has it started cooling off, and would you get some additional benefit during the second half of the year?

Praveen Kadle

I think that is a general expectation from all the companies, all the industries, especially the engineering industry consuming big volumes of steel, they are all expecting the benefit, Telcon is no exception.

Satish

Right. Thank you very much.

Moderator

Thank you very much Mr. Satish. Next in line, we have Mr. Mahantesh of SBI Capital.

Mahantesh

Hello!

Praveen Kadle

Yeah Mahantesh, good evening.

Mahantesh

Good evening Sir. How are you?

Praveen Kadle

Fine.

Mahantesh

Sir, one question related to the plans of Telcon. The capex spending of Telcon has been just about 10 crores last year, that is what I noted, and it is operating at its peak capacity if I understand correctly, what does it mean for it to, you know, what are the capex plans that you have for Telcon for the next two years or three years? What kind of capacity increase can we see?

Praveen Kadle

Just to give you an idea, Telcon had made huge investments during the period from 2000-2003, and that capacity expansion especially in place like Dharwad, and that capacity expansion was quite useful from the point of view of meeting the current demand growth. As far as Dharwad plant is concerned, it is still not operating at its full capacity, so there is some kind of a room available in terms of meeting the future growth requirements, and one of the reasons as to why the investments were very low in the last one or two years is because as I mentioned between the period from 2000-2003, this company had made huge investments in Dharwad, especially, I think the investments were close to 100 crores, which was significant considering the size of the balance sheet of that company. Going forward, yes, the company does have plan to increase the capacity as well as, as I mentioned they are getting into the new product line, so we expect another maybe 150-200 crores of investment coming in the future three to four years' time.

Mahantesh

Okay, and how will that be funded?

Praveen Kadle

I mean, the projected cash flow seems to be quite robust, so it can fund its requirements through its internal accruals, but if there are any interesting growth opportunities, it may look at alternate funding options.

Mahantesh

My question would be, I just wanted to get a sense whether Tata Motors would fund any of this capacity expansion or Hitachi would do?

Praveen Kadle

Tata Motors has not invested a single rupee since it was hived off as a separate subsidiary company, and there are no plans from Tata Motors to fund any of its expansion programs. As I mentioned, the company's balance sheet is strong and it would fund all its requirements through internal accruals or the borrowings.

Mahantesh

I have one more question, Telcon has now floated, a JV with IVRCL. What kind of investment commitment does it have on that particular JV in the years to come?

Praveen Kadle

There is no investment plan at all in that company other than what has been already made.

Mahantesh

So, that JV is not moving anywhere?

Praveen Kadle

No, JV has made all the investments which were required to be made in the beginning, and going forward again as I mentioned the operations are self-sustaining.

Mahantesh

Okay. I think that is fair enough. Thank you sir.

Moderator

Thank you very much Mr. Mahantesh. Next in line, we have Mr. Sanjay of HSBC.

Sanjay

Hello Sir. I just wanted to get a bit more **sense** on the valuation at which this 20% stake has been sold to Hitachi, can you just elaborate on that sir?

Praveen Kadle

The valuation is around, I would say about 12 times of the EBITDA of 2005, which is comparable with any of the other comparable construction equipment companies - BEML was in the range of around 10.

Sanjay

I mean, if I say annualized the second quarter earnings, it is probably sold at about some 13.5 times earnings given the kind of 25% CAGR kind of earnings, in revenue which we were expecting, is there anything other than this 44 million which has been considered to Hitachi? That is what I just wanted to understand.

Praveen Kadle

We have already mentioned to you that one part of the benefit is in the form of sale of equity and the other form is in the form of all the benefits which I talked about in the beginning in terms of parts pricing, component pricing, waiver of technical know how fee, reduction in royalties, and sourcing of components and machines from Telcon, I mean, there are benefits in the form of business operations and there are benefits in the form of value they are paying for the investment purchase.

Sanjay

Okay, thank you very much sir.

Moderator

Thank you very much Mr. Sanjay. Next in line we have Mr. Neeraj from Mata Securities.

Neeraj

Sir I would like to know, you are talking about service engineering, so I would like to know what kind of **fees** Telcon would generate through service engineering of maintenance of Hitachi components worldwide?

Praveen Kadle

This is still to be worked out in detail, which will be worked out, but we believe that this would give good service revenue for Telcon.

Neeraj

Okay, thank you.

Satish Jain

Could we actually go ahead with the remaining part of the presentation Mr. Kadle and after which we could have the entire Q&A session?

Praveen Kadle

Fine. The other part of the discussion which we wanted to do was the acquisition of company called Incat by Tata Technologies. We had announced this acquisition around 17th-18th of August, since then we laid that offer to all the shareholders of this company. As you perhaps are aware, this company was listed on London stock exchange through AIM route, Alternate Investment Market Route, and since then we have acquired 100% of this company. It has become 100% subsidiary of Tata Technologies and we have recently delisted that company from London stock exchange. The work related to integration has started and we are now talking about three clear business lines, one is the, what we call as the engineering automation group which would include engineering design services as well as implementation in the areas of PLM, that is the product life management or product life cycle management services including not only just the design work but also including the

consultancy work. Then the second area is going to be the enterprise solution group, which would be in the areas of enterprise resource planning plus customer relationship management, which is called as CRM. The first enterprise resource planning is ERP, so ERP, customer relationship management that is CRM, then the supply relationship management which is SRM, and the last one is supply chain management which is **SCM**. Now you need to keep it in mind that the customer base of this company is predominantly auto and aerospace, 65% of its revenue comes from automobile industry, around 30% of its revenue comes from aerospace, and about 5 to 7% comes from other engineering companies. So, the company strategy is going to be to bring in all the capabilities both in the engineering automation group as well as enterprise solution group to the customers in these segments, that is the engineering automation group, to the customers in this segment, predominantly in automobile and aerospace and general engineering. We also have through this company acquisition we also have got access to some of the products where the IPRs are owned by this company, especially in the knowledge management area as well as in the training and education areas related to PLM, and the product revenue although I have not mentioned at this stage is very small, not more than couple of million dollars, but going forward we believe that is also going to be one of the key segments. So we are going to bring special focus through what we call as knowledge solution group or the product group, so that will be the third product area.

The combined revenue on an annualized basis this year is going to be close to about, and talking about 06 year ending will be around close to \$185 million, however, all of that revenue will not be booked in the current year's published accounts because the company will become effective 100% subsidiary only from October-November onwards. The going forward we are expecting significant improvement in terms of growth. We are still working on in terms of what should be the five-year business plan, but we expect at least 25-30% minimum growth in this business in the immediately next financial year.

The acquired company did not have any offshore development capability, whereas Tata Technologies over the last two years has made significant investment in the offshore center at Hinjewadi in Pune, and thanks to this acquisition we believe this capacity will be fully utilized. Whatever investments we have made, whatever SG&A we have spent in terms of building the capability will be fully utilized through the offshore center in Hinjewadi, which would also improve the profitability of the company, which will also bring in some tax efficiencies into the system.

The company, the combined entity is no longer now two separate entities in the sense from the point of view of going to the market. The management integration has happened, the human resources integration has happened, we are now looking at some of the systems related integration like accounting system, financial system, etc., which would hopefully get over by March or April 2006. The company will have three major geographical locations, one in the North America having operations in US, Canada, and Mexico. The other one in Europe, which would have presence in UK, Germany, France, Netherlands, and may be Spain, because we are also operating in Spain. And in Asia Pacific where it would be in the countries like Japan, Thailand, and Korea as well as may be in China. They already have operations in Singapore, so Singapore operations will be also covered in that part of Asia-Pacific.

From the tax point of view, we will structure the business in such a way that we can get the benefits of tax advantages of both India as well as some of the international head quarter tax facilities which are available in some countries. So that is how the business will be structured.

At this stage may be I can give only this much of information, but as I said we are still working on in terms of preparing the next five-year business plan, but immediately for the

next year we are assuming about 30% growth but much more significant improvement in terms of bottom line.

May be I can take questions on this subject now.

Moderator

Thank you Mr. Praveen. Next in line we have Mr. Dhananjay of Fidelity.

Dhananjay

Hello

Praveen Kadle

Yeah, go ahead Dhananjay.

Dhananjay

I had a question on the Hitachi JV actually, does Hitachi have an option to buy further stake in Telcon, and if so at what price?

Praveen Kadle

We have said that we would always like to keep this as a subsidiary of Tata Motors.

Dhananjay

Okay, but there is no negotiated price at which they can take a further stake?

Praveen Kadle

No. We have in principle said that going forward we would like to keep the equity stake at the same level where we are today.

Dhananjay

Okay, thank you.

Moderator

Thank you very much Mr. Dhananjay. Participants who wish to ask questions please press *1 now. We have a followup question from Mr. Mahantesh of SBI Capital.

Mahantesh

Good evening sir. Just wanted to understand how is TTL going to go forward in the next two years considering that in the first half its profit growth, PAT growth has been virtually static? How do you see that, you know, the TTL's profitability itself improving?

Praveen Kadle

As I mentioned we did not have the marketing engine which was available in Tata Technology. Tata Technology had done the investments in the infrastructure, and the marketing engine was somewhat missing. Through the acquisition of Incat we get that

marketing engine, we get access to the customers in automobile segment in the North American market, European market, as well as in the Asia Pacific market. Some of their customers are General Motors, Daimler-Chrysler, Ford, then in the European companies again companies like Renault. Then they are also in the auto segment catering to the Toyota, Honda, and Nissan. They also do some work for Hyundai by the way, and they also do a lot of work for many of the component manufacturers in Europe as well as in European markets. Companies like Magna Steyr, companies like Lotus Engineering, so they have got GKN group in UK, so they have got a good mix, then in **Denso**, so they have got a mix of both OEM as well as in component manufacturers, a good mix of customers in all parts of the world. So, we get the market access, and through the Hinjewadi offshore development center we get the access to the low cost product development capabilities. So, it is kind of blended cost of delivery option, and that is why the profitability will improve. Yes, your observation is right. Tata Technology was stagnant in terms of its profitability, but it was mainly on account of lack of marketing engine and huge investments made and SG&A built over the last couple of years.

Mahantesh

So, what exactly happens in terms of marketing engine? If I take FY05 revenues of TTL, how much came from Tata Motors and the rest, versus what will it be in say FY06 in terms of revenues from Tata Motors and revenues without Tata Motors?

Praveen Kadle

In today's Tata Technology's revenue books, Tata Motors account for about 60-65% of the revenue. Going forward, we expect it to come down to about 10-15%.

Mahantesh

That means we are talking of something like 170 crores, am I right? That is the revenues of TTL currently FY05, and Incat will be about 850 crores?

Praveen Kadle

Yeah.

Mahantesh

There itself, there is a huge dilution. If you leave aside Incat 850 crores, then where does that 65 within TTLs operations, 65% coming from Tata Motors revenue be in FY06 next year if we for the time being just leave Incat aside because Incat is a huge turnover company?

Praveen Kadle

As I said, if you take aside the Incat revenue, Tata Motors would still account for a larger portion of Tata Technology revenue, maybe 60%-65% may drop down to 50-55%.

Mahantesh

That is what I just wanted to understand. TTL will be able to use this marketing engine and outgrow Tata Motors revenue, that is what will happen, right?

Praveen Kadle

I do not know what is the exact question, but let me just make a statement that through the integrated model Tata Motors share of business in the overall structure would drop down to around 10-15%, which is today 60-65%.

Mahantesh

Great. I think that should be fine. Thanks a lot. Thank you very much.

Moderator

Thank you very much Mr. Mahantesh. Next in line, we have Mr. Dharmendra from Artemis. Over to you sir.

Dharmendra

Hello!

Praveen Kadle

Hello!

Dharmendra

Yeah, good evening sir, Dharmendra here. How are you?

Praveen Kadle

Good evening Dharmendra. I am fine.

Dharmendra

I just wanted to understand about the value unlocking in the subsidiaries, one step is this deal which has happened with Hitachi, but going forward is there any roadmap that you can see in terms of either Telcon or TTL or **HVTL** where value unlocking will happen?

Praveen Kadle

You mean, further value accretion?

Dharmendra

Either monetisation or any kind of value accretion that will happen in these companies?

Praveen Kadle

Are you referring to IPO...?

Dharmendra

IPOs or any strategic stake sale even further down the road...?

Praveen Kadle

In both these companies, we are open to the IPO option, but I think the IPO option is at least a couple of years away from happening because we just acquired this company called Incat,

so we need to - a.) do a successful integration, and b.) grow the business in a big way as well as in a profitable way. So I think that is the first priority and not the IPO. As far as Hitachi-Telcon is concerned, yes, there is an IPO option, which we may explore maybe a couple of years down the line.

Dharmendra

And for **HVAL/HVTL** any progress on the...

Praveen Kadle

HVAL/HVTL, we are working on in terms of getting a strategic partner. We have made significant progress; however, if for any reason if it does not come through, then we will go for an IPO route.

Dharmendra

Any timeframe for that when you come to a conclusion on **HVAL/HVTL**?

Praveen Kadle

Hopefully HV Axels, HV Transmission, we should be trying to get the partners in either this year or early part of the next year, but if it does not happen then we said we will do the IPO, that is sometime in 06-07.

Dharmendra

Thanks a lot

Moderator

Thank you very much Mr. Dharmendra. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Krishna Kumar of Sundaram.

Krishna Kumar

Good evening sir. Sir could you give us an idea of how EBITDA margins could move in Tata Technologies after this integration?

Praveen Kadle

The EBITDA margin of Tata Technologies today is around 10-12% that has been low as compared to the typical IT company benchmark, and as I mentioned earlier one of the reasons as to why the EBITDA margin has been lower has been because of the significant investments made by the company in building its infrastructure in the form of recruiting the people for its offshore development center. Typically in the business like this, the EBITDA margin should be around 35%, and, as I said, we are still working in terms of the business plan for the next five years, but that is something what we would be aiming at in the fifth year or so.

Krishna Kumar

In terms of the construction business is there any restrictions in terms of markets that you can access for your products?

Praveen Kadle

We have become now part of the global network, so it will be treated on par with any of the Hitachi plants and therefore we would access the international network or international markets of Hitachi through the Hitachi international marketing network.

Krishna Kumar

Sir lastly, given the new products that you are going to bring in and the cost involved, how do you see margins in that subsidiary moving over the next 2-3 years sir from current...?

Praveen Kadle

You are talking about the Telcon margins?

Krishna Kumar

Yeah, Telcon sir.

Praveen Kadle

Telcon margin last year was about 4% post tax, and in terms of EBITDA margin I think it was about 9% or so, 9-10%. I think as I mentioned earlier, one question which was asked, both in terms of operating leverage and financial leverage the company would be taking advantage of all these leverages. So we expect the EBITDA margin to go to around 12-13%, and typically for an engineering company the profit after tax of 7-8%, is quite a good margin and that is what we would be aiming at.

Krishna Kumar

You did mention during your opening remarks that there was lot of waiver of technical know how fees and other benefits that came by but if you could quantify some of them in terms of the initial valuation you have done, if you could talk to us in terms of waiver of technical know how fees, what kind of value would that be of, could you just talk about, comment on them.

Praveen Kadle

Some of these things are confidential, I am not allowed or permitted to disclose this because of the collaboration agreement, and as I said would not be in a position to share this, but as I said it will get reflected in the improved EBITDA margin as well as profit before tax and profit after tax margins.

Krishna Kumar

Thank you very much sir.

Moderator

Thank you very much Mr. Krishna Kumar.

Satish Jain

Actually we could go ahead with the presentation, probably the entire presentation and then probably we will have more time for Q&A.

Praveen Kadle

In fact, I do not have anything specific on HV Axles and HV Transmission. As I mentioned we are very seriously working in terms of getting the strategic partners in both the companies, at least in one company we are in advance stage of discussion and closure, but if for any reason this does not happen in both the companies or either of the companies, we will certainly go for an IPO option. So I do not want to say anything more on the HV Axles, HV Transmission. I can talk on the vehicle financing business if you want so.

Satish Jain

Yeah, I think an update on that, as well as on Tata Automotive Components if you have an update there. I think that would also be useful.

Praveen Kadle

Okay. Let me talk about the financing business. After we did the merger of Tata Finance, we have reached, I think last financial year in 2004-2005, the total retail financing which was done by this unit, that is Tata Finance separately and our own internal unit separately, both combined together we had done something like 3200 crores of vehicle financing at the retail level. And in the four-wheeler automobile financing business, we were #4 with about close to 5.5% market share next to ICICI Bank, HDFC Bank, and Citi Financial. I must, however, mention that all the three named earlier who were ahead of us were doing the financing of all the competitors vehicles plus that of Tata Motors, whereas our unit was only financing our own vehicles, in spite of that we were #4.

In the current year, we are looking at a target of financing about, at the retail financing level vehicles approximately of 5000 crores, which would give us about 23% market share in terms of financing our own vehicles at the retail level. So far at the end of nine months, we are on track and we believe that we should be in a position to achieve the target. With that we believe that we would be #3 in the four-wheeler financing business, next to ICICI Bank and HDFC Bank. Citi Bank as a part of its overall global strategy has decided to slow down the financing of the vehicles business and therefore we would be at #3, and in fact we are at #3 right now at the end of ninth month. As I mentioned, this is in spite of the fact that we are financing only our vehicles whereas all others are financing all other competitors' vehicles as well.

And we are looking at various, right now we are in the business of only hire purchase, customer financing by way of loans and refinancing, but going forward we are going into the new business activities of fleet management, refurbishing of vehicles and financing, financing for big vehicles, financing for reconditioned engines. We will also go into some of the corporate finance activities like channel financing for our dealers and supply chain finance for our vendors as well as our subsidiary companies. In fact, this company is already doing the financing for our construction equipment business done by Telcon and there we are #1, with about 22% market share in the business of Telcon.

We also intend to get into the fee based financing business like insurance broking and related services, and very soon we would like to get into the international vehicle financing in the markets in South Korea and South Africa. So this is the kind of a growth opportunity we are looking at. We are targeting a share of 40% in our own retail financing from current 23%, which hopefully we would like to get it by 2010, and until we achieve that we would not like to finance any of our competitor's vehicles. So, first target is to get to about 40% market share and then maybe look at other competitor's products.

Satish Jain

And on **TACO**?

Praveen Kadle

At this stage, I would not like to cover **TACO** because as I said we would like to do it at the end of third quarter as a part of the Results Conference, but I must mention that **TACO** is doing quite well. They have now signed two more joint ventures in the last nine months. It is doing quite well in not only just the component business but also in some of the other related businesses in the services area.

Satish Jain

Okay. So, now we could throw it open to Q&A once again.

Moderator

Thank you very much sir. Next in line we have Mr. Kalpesh Parekh of ASK Raymond James.

Kalpesh Parekh

Good evening, I have a question on Hitachi once again you mentioned that exports are right now lower and we are looking at three times the sales in the next four or five years, and what would be the growth coming from exports what you are looking at in the next couple of years, and which are the geographical areas where Hitachi is more positive, and probably even they must be having their own units in various locations. How would this impact Telcon on the price competitive front?

Praveen Kadle

Export of components and machines and it would be in Africa, Middle East and South East Asia to start with, and perhaps it can expand beyond that, but these are the markets which we are looking at. And in terms of, sorry, what was the last point?

Kalpesh Parekh

Yeah, and Hitachi must be having various subsidiaries or units across locations, so how would this Telcon unit compare on a price competitive front?

Praveen Kadle

In fact, the competitiveness is there that is why they are looking at making India as a sourcing point. So while they have their own tie ups with some of their subsidiaries or associate companies, but ultimately business economics will dictate the future plans of Hitachi.

Kalpesh Parekh

Okay sir, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Vijay of JP Morgan.

Vijay

Good evening, my question Mr. Kadle was, who are the principle competitors of Incat Technologies currently and what is the size and scale and profitability? And my second question would be what is the potential market size if any we are talking about in the engineering automation space which seems to be the important driver of revenues going ahead?

Praveen Kadle

You know in engineering design services as well as in the PLM service there are many companies, and there is not a single company which could be really identified as a major player in this field. There are, as far as, the total market is concerned, in India itself if you know you will find that among the Indian competitors Geometric Software is one company, Satyam is also in this business, TCS is also in this business, and Infosys is also in this business, but if you look at some of the numbers of most of the competitors in this business they are far below what we are talking today. So from the Indian market place I think TCS and Tata Technologies would be the two largest players in the areas of engineering design services. TCS of course is not in some of the areas which we are - like in the areas of typical design services of PLM, they are more in plant automation and in terms of manufacturing services. So if you look at the pure design services and the PLM play, then I think we are the largest in India and we are perhaps one of the largest in the world. I think there is no single company today which you can talk about with billion dollar revenue operation.

The revenue potential right now in terms of offshore development in the engineering design field is, it is a totally virgin area, very difficult to point out the numbers, but the NASSCOM study which had come out with its report, they are, along with it I think there is also a McKenzie study, and they are talking about immediate potential of about billion dollars from India, and worldwide it is huge, I think they are talking about, the NASSCOM report itself talks about the US engineering market alone at about 35.7 billion, which was in 2001, this report is slightly dated report, and is expected to be around 64 billion by 2006. As far as the Indian market is concerned, there is some mention of NASSCOM that it could be as high as 7 billion in the next four to five year's time.

Vijay

But Tata Technologies would address only the automation space or would it be looking beyond just...?

Praveen Kadle

We just talked about, we are looking at automobile, aerospace and the engineering, and some of the work which we intend to do, let me just give you some idea, we are planning to do CAD migration, drawing conversion that is 2D to 3D and so on and so forth. Then we are planning to do, in fact some of this work is already being done, digital mockup, three dimensional modelling, conceptual designing, analysis, then design validation and design automation, then manufacturing coordination, providing the field support including some kind of a data center support specifically for the engineering design and **PLM** work. Then consulting in e-engineering solutions as well as in systems architecture. So these are the broad areas which we have identified, some of which is already being done by Tata Technologies and Incat.

Vijay

So just finally on the Incat, who would be their competitors internationally, actually Incat is competing with which companies for jobs overseas?

Praveen Kadle

Right now I can immediately think about the company called _____ these are the two companies which I can think about immediately, they are in the region of, revenue wise about 800 to a billion dollar, but they are not purely design services, their bulk of the revenue is in the design services but they also do lot of other work outside of the design services work. IBM Global Services also does that work but then we do not know what kind of revenue they get from this field.

Vijay

Okay, thank you.

Praveen Kadle

In fact I must mention since you asked this question, this is a totally untapped area and I think the, I would say this particular field is at an inflexion point. One can see significant growth potential in this business if it is done properly and we offer the right value offering to the customer.

Vijay

So is there anything edge that Tata Technologies has from our resource base or CMM Level certification base or anything like that which would give it an edge in terms of winning orders as compared to TCS or anybody else?

Praveen Kadle

Talking specifically about the certification, it is a CMM 5 certified company which is I think the highest in the area. No other design services company has got this kind of a rating certification. The other thing is, it brings the domain knowledge of Tata Motors, they do all our work in areas which I just now mentioned.

Vijay

Okay, okay all right, thank you.

Praveen Kadle

In fact, there is no other company like Tata Technology which can provide the end-to-end solution, which fortunately Tata Technology has that capability, thanks to Tata Motors.

Vijay

But largely a large part of this would be done in-house, isn't it? The Japanese would be doing a lot of this in-house and so would be some of the Europeans, isn't it?

Praveen Kadle

You see, they can do in-house, but then as I said all auto companies, thanks to be cost pressures, are now looking at outsourcing options where by they can reduce the cost, in-house cost significantly.

Vijay

And are there usually any conflicts actually outsourcing these jobs and things like that?

Praveen Kadle

No, I do not think so, otherwise we would not have got..., Tata Technology on its own was already doing work for companies like Daimler-Chrysler, they were doing work for GM. So we do not think there will be any conflict.

Vijay

All right. Thank you very much.

Moderator

Thank you very much Mr. Vijay. Next in line we have a followup question from Mr. Mahantesh of SBI Capital.

Mahantesh

Good evening sir, about **TACO** I just wanted to understand, it is a associate company and Tata Motors holds about 50%, virtually 50% of its stake, right?

Praveen Kadle

Yeah, we hold 50%.

Mahantesh

How big is **TACO** in terms of revenues?

Praveen Kadle

By the way it is an associate company for Indian accounting purposes, subsidiary under US GAAP.

Mahantesh

How big are the other revenues of **TACO**? What is the profitability of **TACO**?

Praveen Kadle

Last year's total revenue of TACO which we have, kind of, what should I say, consolidated, the last year's revenue was 767 crores, which is inclusive of excise duty, net of excise was 664 crores.

Mahantesh

654?

Praveen Kadle

664.

Mahantesh

Okay. What would be the EBITDA and PAT like?

Praveen Kadle

EBITDA has been still not at the best levels because as you know the company is just about 7 years old, and the real numbers have started flowing in only from the last year onwards, so we are I would say still suboptimal and we are hoping to get the numbers which we see in the auto component business may be in the next couple of year's time. The company is profitable I must mention.

Mahantesh

But how much would be the PAT be, like on 664 crores...

Praveen Kadle

Around 4%.

Mahantesh

Sorry sir?

Praveen Kadle

Around 4%.

Mahantesh

Around 4%, and how do you expect TACO to performance in say FY06 and FY07?

Praveen Kadle

I cannot specifically talk about FY06, I think I will unnecessarily then give insider information, but as I said typically over a longer period of 4-5 years, we would like to as I mentioned in some other questions which I have answered that for typical engineering companies and component companies a PAT of 7-8% is a good number, so that is what we will be targeting.

Mahantesh

From TACO?

Praveen Kadle

Yes.

Mahantesh

You have another big associate company, Tata Cummins, that is also 50% subsidiary, associate company. What are its revenues and PAT like?

Praveen Kadle

Last year the company had revenue of around 700 odd crores and I think the profit margin if I remember correctly was about 6% or so post tax, it is solid profitable company.

Mahantesh

And 700 crores does not go into your consolidation under US GAAP?

Praveen Kadle

No, not even under Indian GAAP.

Mahantesh

How will this company, you know, expected to perform? What do you say are the future prospects for Tata Cummins in terms of revenue growth?

Praveen Kadle

Good.

Mahantesh

Okay sir, thanks.

Moderator

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

Satish Jain

Probably we could take the last two questions or so.

Praveen Kadle

Yes, I think so, yes.

Moderator

Participants who wish to ask questions please press *1 now. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Satish Jain of Morgan Stanley for final remarks. Over to you Sir.

Satish Jain

Thank you Mr. Kadle for taking time off and providing information on your subsidiaries. Thank you all for participating on this call.

Praveen Kadle

Thank you.

Moderator

Ladies and gentlemen, thank you for using WebEx Conferencing Service. You may now disconnect your lines. Thank you for your participation. Thank you and have a nice evening.

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