

# “Tata Motors Limited Q3 FY2019 Earnings Conference Call”

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**Operator:** Good day and welcome to the Tata Motors Group Earnings Conference Q3FY2019 Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Balaji. Please go ahead.

**P. B. Balaji:** Hi, good evening all of you. Are you able to hear me clearly? I presume that should be fine. Let me get started.

Firstly, thanks for joining the call so late in the evening. As it is, like last time, I don't intend to cover all the slides and I'll probably just cover off slides that are relevant and you already have the decks in front of you. So I will refer to the page number and we'll take it from there.

Starting with the Safe Harbor statement, no additional information other than a critical information that you'll notice, which is on retail sales domestic of Tata Motors. I'm happy to announce that we are henceforth, on a quarterly basis, we will report retail sales for both CV domestic and PV domestic, like any other part of the world. And we would want to take this initiative from our end and we hope that other OEMs would follow soon as well. So that's on the Safe Harbor statement.

On market conditions, on slide number three, it's not a slide deck that we would actually like to see, but that's what it is. So in terms of all parts of the world really getting into trouble, be it US, Brexit-related matters in the UK. China in particular, if you notice a change from green to an amber to a red at this point in time; hence, that was in trouble. And, of course, India has been a very weak market situation at this point in time, and because of the muted demand environment that is there. So that's the environment that we see in front of us.

And an exciting product portfolio that has been launched in particular in – if I look at the Indian operation, I think two big numbers, one is Harrier being launched and Nexon getting its 5-star rating. And even more excited that TML has now been rated as a second most attractive overall brand and the most attractive automotive brand. So I'm quite happy with the progress that you've seen in the Indian business.

So going back into the models in JLR, we have the all new Evoque that has been launched and is now available on sale with hybrid options. And new Defender has been announced as well, the most eagerly awaited car, that is out there. And the other big one that we have this quarter was the workforce reduction scheme that has been announced with a target of 4,500 people being restructured during the course of the next quarter. And, of course, the investment in new battery assembly center has also been announced. So the investments continue at pace.

Next slide. If I look at the revenue for the quarter, I'm moving on to slide five, we had a revenue of Rs77,000 Cr with an EBIT that's a bit of flat EBIT, where you have the domestic TML business delivering robust profitable growth, while weak China sales impacted JLR. And I'll talk about the revenue growth in a while, in the next slide, but draw your attention to probably the biggest item in this particular slide, which is the impairment that we have taken of capitalized assets in JLR. I'll talk a little bit over it in the subsequent slide as well, but that's a £3.1 billion, a one-off impairment that we have taken.

And also, at the same time, the project Charge started well, delivering £0.5 billion of cash in this quarter alone. So we are on – we are now starting to move on that piece as well.

Moving to the next slide, I'm on slide 6 now. The only point I'd draw out in the slide is that bulk of the revenue growth – the volume growth has been muted. The bulk of the revenue growth has

come from Forex. But the real reassuring part is that retails are well ahead of all sales, both in TML, CV, PV as well as in JLR, which I think is a good start for a proper turnaround coming through everywhere. So that's the broad message here.

From a profitability perspective on slide seven, EBIT down 370 BPS, fundamentally let out of the drop in JLR profitability, which is partially offset by continued improvement in TML standalone, which I'll talk again subsequently as well.

Let me take a little bit of time to talk about the impairment that we have taken and the background to it and why we are doing it. First is from a point of view of how we are viewing it. We had already called out Fit for Future as one of the semantics in terms of ensuring that we are ready for growth going forward. So some of the interventions we have to make are tough to take, but it is something that is necessary for us. We had done a series of work in Tata Motors last year, and this year we have moved on to JLR and there is a Fit for Future charge that we've taken of about £3.1 billion of capitalised investments.

Now, the background to that is, as you're well aware, of all the challenges this automotive industry is facing, be it on market, be it on technological, regulatory, take your pick. And at the same time the need for investments in new models, keeping innovation continuing, ensuring that we stay ahead on the technology, all that continues to remain high.

So therefore, in this scenario of muted demand and this impact on the financials, the group has decided that the carrying value of the capitalised investments that we have done so far should be written down by £3.1 billion. And the way the impairment thing works is that it is only about the assets that are already in use. It does not consider any future investments we make; both future growth plans on new models as well as future Capex requirements are not considered in this

investment. This is just a restatement of what is the right carrying value of the assets that you already have in a very conservative assumption of growth, a conservative assumption on margin. And on that basis, we have written down the £3.1 billion.

And this just shows that we continue to take decisive actions, just like what we're doing in Charge and Accelerate, in order to make this business "Fit for Future", giving us the strategic flexibility to invest where you want and ensure that we are reducing our breakevens, reducing our costs, improving our cash flows to deliver sustainable profitable growth. So that's the background to this.

And if you just take a little bit time to understand the implication of this, first of all, it's a non-cash charge. The loss for the quarter is about £3.4 billion and the net worth after the impairment continues to remain robust at £6 billion. And just to see it in context, the gross debt of equity is 0.75 :1 even after the impairment has been taken, and the cash flows remain unchanged because of this. This will give us – this will reduce our growth in depreciation and amortisation in the coming quarters, coming years by almost about at a minimum of about £300 million per annum. That is what we see as a number and we are more than happy to take any questions that we have on this.

But just to remember that for JLR, the cash generating unit is single cash generating unit at an overall level and therefore the impairment is done at that level. And it is attributed to those assets that are recognizable. Where they are relevant assets, it will attributed to that and that work is being done.

So moving on to the six-cylinder of the Tata Motors Group engines, this you've already seen, no further news here. Let me start with the first engine and hand it over to Ken.

Ken, can I ask you to comment?

**Ken Gregor:** Of course. Thanks, Balaji, and good afternoon, good evening to everyone on the call. Thank you for joining us. Like Balaji, I'll try not to talk to every single slide, but instead call out the main points of the financial results for the quarter and the nine months to-date. And then move on to what we're doing about it in terms of moving forward strategically with our business plan and driving cost, working capital and investment reduction improvements through project Charge and Accelerate.

If I turn first to page 14 in the slide deck, before the impairment that Balaji just described, the loss before that exceptional item is £273 million in the quarter. That's really reflecting weak China sales in the quarter, together with some one-off effects related to destocking that we did and tax rebate non-recur that we had last year. And within that we had some favorable material and manufacturing cost. But, really, the big impact year to year is the reduction in our China volume driving that £273 million loss.

In the China joint venture on slide 15, we're really also reflecting those tough trading conditions in China with wholesale substantially lower, including reducing production in order to reduce inventory, which is the right thing to do faced with the fall in demand that we saw. But, of course, it's painful for the financial results, and hence, the profit after tax was a loss of £30 million for the joint venture in the quarter.

Slide 16 talks to the volumes that we saw. I mean, the positive here is, outside of China, we actually saw some growth in the US, UK, relatively flat in Europe, a little bit backwards in

overseas. But as you can see year on year, the big change has been the China reduction that we've experienced, down 47% in the quarter compared to the same quarter a year ago, clearly offsetting the positive movements we've had on balance in the rest of the world.

And on slide 17, what you see is that our new models, E-PACE, I-PACE, the change to the MY18 Range Rover, Range Rover Sports, have also produced good growth for us year on year, but have also been offset by some product aging in the case of Evoque, which is now on run-out; and models, in particular in China, with Discovery Sport also going backwards year on year largely because of the challenges in China. But the new models providing growth, which is important for us.

Slide 18 gives an update on our retails in January. There were just under 44,000 units, basically a similar trend. China also lower year on year. And the rest of the world up in the US, flat in the UK, a little bit down in Europe, flattish in overseas, but continuing to see those China challenges.

Coming to just explain some of the numbers in a bit more detail in our year-on-year bridge and call out maybe a couple of other factors that are going on, in the same quarter a year ago we had a profit before exceptional items of £190 million. The net impact of the volume is £160 million, really reflecting that China reduction, partially offset by the increase in other markets, but net £160 million.

We had a quality-related cost of £89 million year-on-year impact within the contribution, partially offset by positive news on material and manufacturing costs. Within the structural costs, we had the impact of labor and overhead coming out of inventory related to the destocking. We reduced company inventory in the quarter by about 9,000 units and that's – which is positive for cash flow

to the tune of roughly £250 million, but the labor and overhead coming out of inventory associated with that reduction is worth minus £80 million .

Depreciation and amortisation continues to grow as we introduced new models, that's a £50 million increase, and then there's some non-recur of good news we had a year ago. And the other thing I should say, FX overall year on year is flat. But actually within the quarter we had negative revaluation of foreign exchange and negative revaluation of commodity hedges to the tune of about £100 million bad news in the quarter, with the FX piece really reflecting Brexit uncertainty weighing on sterling.

So within the £273 million loss without seeking to talk it away in any sense, there is about £100 million bad news for revaluation, there is about £82 million related to destocking, and there is warranty, within the warranty number there is about £60 million charge in the quarter. So those explained together quite a large amount of the loss of £273 million.

And slide 20 talks to the quarter-to-quarter view, where you see some of those same factors making an appearance, you see the revaluation making an appearance more quarter on quarter. You can see the destocking impact slightly different number when you look quarter on quarter. And the quality related cost is a bit different also quarter on quarter. But you can actually see the positive development of wholesale volume being higher in the quarter year on year, which is a positive sign.

Slide 21 has the cash flow, overall, the cash outflow in the quarter of £361 million. But actually within it, a positive in the inventory and other working capital improvements that we made in the quarter, which is towards our full-year improvements on inventory that we are pushing forward with, and I'll talk a bit more about as the call goes on. And those have been partially offset by a



payables impact of negative £300 million. That reverses in Q4. That's really related to the timing of production reductions we've done in the quarter. And if we had not had that, if you like, our cash flow would have been quite close to breakeven in the quarter.

And the other point to note on this is, as a result of the work that we're doing to reduce inventory, I do expect to see positive cash flow in Q4 as a result of targeting positive profit before tax and positive movement on inventory through further reductions in the level of company stock that we expect to see.

Investment spending, we're on track to achieve the lower target of £4 billion that we set ourselves. So, overall, reducing from the guidance we gave of around £4.5 billion, we're very much on track to spend £4 billion or slightly less in the full year. So that's good. But at the same time, of course, we're on track to continue our investments in our new products and technologies and electrification, which is the life blood for our future.

Turn now to the section on turnaround transformation and strategic elements. As we discuss slide 24, we've launched our turnaround and transformation plan. We expect to see demand remaining muted and therefore we're planning on that basis. And, of course, what we know is, therefore, that we have to reduce our cost and investment level in order to support that lower volume level that we expect to see. However, of course, we're also taking action to rejuvenate our sales and resume profitable growth in China in particular. And those things will be the focus for the discussion today.

In terms of rejuvenating sales, product is at the heart of everything that we do. And it's really exciting to be in the middle of the launch of our new Range Rover Evoque that includes mild and plug-in hybrid options and really moves the car forward in every way compared to the prime

model. We're very excited about it, it gives us a good opportunity to go out to customers this year with a really strong product offering.

Slide 26 talks to the I-PACE, which is launched globally, and we've got growing sales and a strong order book. And that gives us confidence that our new models are a driver for growth for us for the future, which is talked to on slide 27. We've got a strong product portfolio, we're launching the Evoque, we will be announcing and revealing the new Defender later this year. And we have a model pipeline that has further new models beyond that that we look forward to talking to you about in the future. And we continue to refresh and keep up to date our existing model lineup.

At that point, we should be joined by Qing Pan, who is our Head of Operations in China. And what we really wanted to do was a little deep dive into the challenges in China and also how we're responding.

So with that, I'm going to hand over to Qing for the next three or four slides.

**Qing Pan:** Good afternoon, good evening this is Qing, Qing from Beijing. In total, I have six slides and I do intending to go through all the six slides in little bit more detail.

On the page 29, I think the page 29 just indicating the current economic situation in China, still remains challenging, despite a significant expansion of state-owned enterprises value-added but the economic outlook still remains slow. And the private sectors have remained under pressure with flat development. And this is very critical because the private sectors are providing 80% of urban employment.

Other key factors during the second half of the 2018 was both PMI and the Shanghai Composite dropped significantly. And these are also important because the general economic situation will affect consumer confidence.

Slide 30. In 2018, the overall market experienced a negative development, which was the lowest since 1990s. Premium market continue to grow, but at a much slower rate at just 8%, the lowest since 2014. Underlying demand in the premium market during 2018 is even weaker than this, it has been driven by higher incentives. The growth of the premium market is predominantly driven by accessing the lower segment with a larger discount.

JLR discounts throughout 2018 were higher than the competition, but during the second half of the year we saw significant drop of the competitors while JLR remain unchanged. We fully recognise in this most competitive market the focus on the dealer profitability over pure volumes is essential to be sustainable in growth.

Slide 31, JLR overall, as you know, has been present in China for only nine years. And therefore, the dealer network is less mature in many sense versus the longer-standing competitors. First of the structure issues is, last year when we saw first the greater decline in the Tier 3, 4 and 5 cities and the problem is that the JLR is represented with almost 40% of its dealers in this less-developed cities. And during the last quarter, some of the Tier 2 cities also felt the impact.

The second factor, JLR is more concentrated on smaller number of dealer investor group. It means, we are affected greater by a smaller number of groups, if they face financial difficulties and we feel an immediate impact as a result.

Now the number three factor, as we are relatively young in China, almost 40% of our dealers are less than three years old. And I think that is clear that we need to continue to focus on the improvement of its quality and speed up building the aftersales business. Our focus therefore is to ensure we have fully balanced, capable and profitable network.

Page 32. Despite the short-term issues, the longer-term opportunity remains substantial. We remain optimistic about China and the potential for JLR. Premium market is already the largest market with 2.8 million sold during 2018. Overall market demand could continue to grow to an annual market pace of over 35 million units.

Importantly for JLR, this means by 2025, we'll see a total core premium market of around 4 million cars, with a further 3 million new premium market providing an upgrade opportunity. The longer-term outlook remains positive for the new brand such as ours, and if the carpark per 1,000 inhabitants will mature to a more developed country level, the total carpark might increase 3 to 4 times.

Page 33, during 2018 we saw another significant issue that we took action to address. Supply and demand was out of balance. So JLR took immediate action to reduce the stock. In addition, the ability of the dealer to become self-sustained and profitable was an issue and therefore, our current immediate focus has been to create a sustainable dealer business model as we move to a Pull system.

In addition to the chart, I might want to just give you a quick update on January. Actually, in January we made a lot of changes, which include firstly a clear sales strategy on the model and

also on the city level. Secondly, the distribution system upgrade; we're focusing very much on the transparency, stock control and forecast tools. The third element was simplify the dealer communication and I think that we utilise the score cards, adjunct reports and the forecast tools. And the last one is simplify the dealer commercial policies, and here is very much focused on the dealer profitability and the sales quality.

And our overall, the 2019 target for the dealer stock is around 1.5 months, ensuring that we constantly keep the right balance between supply and demand. January overall is just one month, but a positive trend with dealers following our strategy and about 82% could achieve the maximum sales policy. And we move also away the incentives from the wholesale to the retail, as well as that we're very much is aiming to provide the right support to enable dealers to be profitable.

Page 34. In line with January actions, we would like to advise that we have already launched a comprehensive turnaround strategy in China called Dragon to drive change at a rapid pace. Turnaround is focused into three phases: civilisation, regain confident and sustainable growth. With Dragon, our main focus are short-term actions for this year, but many will continue into the future, such as brand building and organisation efficiency. We also started the journey of the local research and development and we will continue also to drive local sourcing strategy to enhance the competitiveness of our global cost base.

Thank you. Now, may I hand back to Ken.

**Ralf Speth:** Gentlemen, just a moment, I might be forced to step out of this call within minutes, so I really would like to make one additional remark. First of all, thank you Balaji, Ken, Qing, you presented the facts and figures very well. Overall, 2018 was indeed a tough year with a lot of headwinds,

but you can see as a seismograph, we act very quickly, we act with consequence and we do the very best in order – based on a very good product portfolio, and a good directional strategy giving us also electrification in the future. And we were the very first one as you know, with the high base in the market, giving us an opportunity to expand our business and come back with profitable and sustainable growth.

So I'm quite confident that we have taken every actions and we haven't stepped away from tough decisions. We take it and we bring the company forward. Thank you.

**Ken Gregor:** Thank you, Ralph. I shall just conclude with three or four slides to talk on the cost side on the project charge and finish up with guidance for how we see the balance of the year and then hand over to Balaji. So five more minutes for me.

Just finishing off the sales section, I think Qing has given us a really good overview of everything that we're doing in China. And not forgetting of course that we have actually got really encouraging sales growth in the other major markets supported by the new products with the US, the UK and Europe all up year on year in Q3, as shown on slide 35.

Turning to Project Charge, I'd say we're off to a really solid start and well on the way to achieving our £2.5 billion target.

Slide 36, got a little bit of an assessment of that. On investment, if you remember we said that we would be targeting £1 billion reduction in investment versus the £4.5 billion that we were planning on spending for FY2019 and FY2020. We're very much on track with that. And £300 million of that £1 billion already realised through December 2018.

On inventory and working capital, we said we wanted to reduce the working capital versus the end of September position by at least £0.5 billion. There's already over £200 million of that achieved through the 9,000 unit reduction in Q3 and I'm expecting to see a bigger reduction of company inventory in Q4. So on track to meet or beat the £0.5 billion.

On the cost side, takes a little longer to see the benefit of the costs coming through the income statement, but we will do and we see about £40 million through the quarter three coming through the income statement, but with more to come. So we've made a really solid start and we're on our way here, which is good.

Slide 37 talks to those – a little bit more detail on the work streams and I'll maybe call a couple of pieces out without going through every word. On the investment, as I say, actually we've got plans in place to be at £4 billion this year, to be at £4 billion next year and therefore the £700 million on the chart is pretty firm and that will be achieved.

The inventory piece is another £300 million of the £0.5 billion. And with the production reductions we've done, we've really been tough in cutting production hard. That's meant down time in all our factories in the UK, it's meant change of shift patterns, it's meant work force reductions and the same also in Jiangsu in China. But that's what's necessary so that's what we do. And we are therefore on track to deliver at least £300 million in Q4 of inventory reduction.

On the cost side, as I say, it takes a little bit longer typically for cost savings to start coming through, but we've made a really solid start. We announced last month a reduction of – a further reduction of 4,500 of the workforce through release of agency workers and the voluntary

redundancy program. And that should, together with the 1,500 workers we already released in 2018, contribute to a circa £400 million reduction in workforce costs in 2019.

There will be – and so just to point out, we will have a one-time restructuring cost, presently estimated in the region of £200 million, which I expect to book in the fourth quarter as an exceptional cost of that voluntary redundancy program. But well on the way with redesigning our organisation to fit with the 6,000 fewer workers that we will have in 2019.

We've got cross-functional teams, for example, on product cost. Of course, it's the – it's our biggest cost, is the material cost of our cars. We've got a huge amount of focus on optimising the product cost of our vehicles and putting actions in place for our MY2020. Across the entire business – for example, in the commercial area, we're very much seeking through a mixture of getting our inventory in the correct place to improve the pressure on transaction prices, reduce the pressure on our variable marketing spend and see benefit for that, next year.

So we're well on the way. The workforce reductions take us forward. And across the entire business, and I've called out a few areas, we're working forward to realise the balance of the cost reductions we need over the next 18 months.

Slide 38, I'm not going to talk at length about Brexit, because it's clearly uncertain, but what we have done is in the event of – because we know that in the event of some disruption relating to Brexit at ports and border crossings in April, that could result in some disruption to our production plans in the UK and the shipment of vehicles.



As a result, we've decided to approve forward five days of scheduled holiday into Easter, and we're taking an additional five days of planned downtime in April, and we're increasing a little bit the production buffer stop that we're doing as well as having a Brexit steering committee in place. And those actions put in place to really manage our way through the possibility of any border disruption to our production plans.

Slide 39 talks to guidance in terms of how we see the future. Clearly, for the full year FY 2019, given what's behind us, we see our full year retail sales book for FY 2019 to be negative. Overall, given the losses that are behind us in FY 2019, I expect to see the full year EBIT margin marginally negative. PBT for the full year will be negative. Investment spending will be in the region of £4 billion. Free cash flow will be negative. Notwithstanding, as I already said, I expect to see a positive cash flow in Q4 and before the exceptional items, we are targeting to have a positive profit in Q4. But notwithstanding that, the full year would be negative.

For FY 2020 we're targeting retail sales growth, roughly in line or ahead of the premium segment with our new module introductions and beyond. But we're very much seeking to plan on a realistic volume basis and size our cost base to fit with that cost base. We're targeting an EBIT margin at a minimum of 3% and growing through the business plan period, we clearly want to get back to positive profits. And that's what our plans are all targeted towards.

Maintaining our investments spending, which is some might ask, 'Why don't you cut your investment spending more?' And I understand that. But it's our life blood for the future, our new models, as is electrification and the technology required to compete. And therefore we're really fighting, through our cost reductions and efficiency programs, to maintain our ability to invest in the future and hence we see it being in the region of £4 billion over this period per annum.

That said, I expect cash flow in FY 2020 to continue to be negative, but positive thereafter is what we're targeting. And clearly beyond that, we're building to a place where we want and are targeting to achieve competitive EBIT margins, positive cash flow and investment spending starting to, as a percentage of revenue, come back into the range of the overall industry in the region 11% to 13%.

With that, thanks for bearing with us through that section. There's obviously a lot to talk about, I'm happy to take questions. I'm going to hand back to Balaji and Guenter to talk Tata Motors.

**P. B. Balaji:** Thanks a lot, Ken. I'll make it quick in terms of numbers where I am sure there is a lot of Q&A lined up on this, but that was important that you hear Qing and Ken explain the JLR performance. Tata Motors is – the real thing that delights me in this particular quarter is that the revenue growth, despite being just 1.5%, we continue to deliver profitable growth, held our margins – in fact, improved our margins by almost 70 bps in an extremely difficult environment that we faced. And the growth in this particular quarter was impacted by both liquidity stress and the impact of axle load changes which hit the MHCV segment by far the most. But despite that, we managed to hold our margins and I'll talk about in a little while.

The thing that we are not happy with our performance is on the free cash flows, where we have an outflow of Rs1,500 Cr. But the only piece there is it is impacted almost entirely by lower creditors because the festive period went quite into the quarter. It is only after the festive period, having read demand, we had to cut our production. We wanted to wait until that and that meant we lost some creditors, while we gained on stocks.

So stocks and debtors are down, but creditors is something that should definitely come back. This is going to be an area of focus for us squarely because we are committed to deliver a positive free cash flow for the year. So that is a key to call out for us from our perspective.

Moving to the next slide, I am on slide 43. Just to explain now how the PBT has moved and EBIT margins have moved. The challenge in the market and the kind of commodity inflation you had is – explains the first three bars, which is contributing to a negative of almost 40 bps. An extremely challenging market condition and despite input- through pricing in the face of significant commodity inflation came through this quarter.

But what is really heartening is that the rest of the pipeline, FX costs or Forex, Forex is something, if you notice, was a negative last quarter, because of reset and that just came back this quarter. And the control on fixed costs continues to be tight. So operating leverage continues to give us the benefit.

So this quarter is actually the first time we can confirm that the Turnaround is well and truly underway, even in low-growth scenarios we're doing it and it's our intention to continue this way going forward as well.

Just to split CV and PV, first message was on retail growth being significantly higher than wholesale and that's the right focus for us. Particularly in challenging environment, the focus needs to be on retail so that dealers continue to remain profitable. We have done that.

And we will continue to focus on market activation, continue to drive realizations up. Our cost reduction plans continue. And in particular, we want to focus acutely on S&OP processes,

inventory and debtors. Because we also have a BS6 coming up and therefore the inventory management and the run-up to that needs to be absolutely immaculate, and therefore that's something we are focused on. But the good part is, despite these challenging market conditions, market shares continue to improve during the quarter, the nine months cumulative continues to remain positive.

On the financials, I draw your attention to the fact our EBITDA is held at a very, very stable level under all kinds of growth scenarios, decline scenarios M&HCV growth, SCV growth, full combinations there. That tells you the business is starting to get flexible in the way it pull its various levers. We have to continue down this path, it's a good start. We need to keep at it from that perspective. But an EBITDA margin of 11.6% on a business that typically spends about 2%, 3% on capex is a very, very strong business that we're talking about here and we intend to keep it that way.

Moving on to PV, again market share gains continue well ahead of industry over many, many months. Even though, it's a much more challenging market that it is today, we've grown ahead of the market. And here again the retails at 9.7%, well ahead of the wholesales that you saw at about 2.9%. So again, a good performance coming through, focusing on the right areas. And we have seen – particularly the launches are giving us the benefit in a muted demand environment scenario.

And here I think number one, the first milestone for us was to ensure that we stabilize our EBITDA breakeven. I am happy to confirm that we have done that, even though we have grown only at about 2.9%. And we have stabilised EBITDA breakeven, the objective is to keep it that way and keep moving on from here onwards. So that was PV for you.

Moving on to Tata Motors Finance, a quick slide there, AUM growth continue to remain strong and GNPA came down further to 3.3%. What you see this year is – this quarter, is a loss of Rs17 Cr, against a gain of Rs95Cr, broadly split into 50-50 as a one-off in the prior quarter. But about 50 of this quarter is fundamentally is coming because in the early period, October and November this year, because of the liquidity stress, we had a lot of good customers having challenge in the 0-90 day bucket. And as per IndAS those provisions actually go up and also we had a higher cost of borrowing.

This is an area that both of these have improved since December and we are expecting to see a strong close to the year, don't see any concerns on this one. But it also is a – it's a message to us to ensure that we have to remained absolutely focused on collections on the 0-90 day bucket versus the earlier standard where we are waiting for GNPA. GNPA alone is not good enough, we need to move it even further to 0-90 day bucket, that's our focus. But the net NPA at 1.9% down 200 bps. I think we are getting every piece of this business one-by-one right going – already and we'll do the same going forward as well.

Net debt profiles, I think debt maturities are well spread out. In the case of JLR, the gross debt to last 12 months EBITDA, if you take, is moved up from 1.3 to 2.1, still at a comfortable level. But it is important that we keep a close watch on that. And for Tata Motors, what used to be quite worrying 7.7 is now down to 4. And as we keep improving the business performance, this number should come down and also when you pay down the debt through our divestment, they should come down even further. So quite confident, this is on the right trajectory. Liquidity is adequate both in terms of cash, as well as undrawn facilities in the RCF, so no concerns on that one as well.

Moving on to the market outlook and I'll take a minute on this. Let me start with India. The near-term challenges are real, in terms of retail growth quite impacted still by the liquidity crisis. As far as CV is concerned, the axle load capacity overhang is going to take a little bit of time for it to work its way through. And as far as PV is concerned, we would love to see the customers coming in and also buying more. The walk-ins are there, but we will need conversions and therefore credit in the market is still not as liquid as we would want it. But the positives in the medium to long term still remains robust.

As far as China is concerned, the second one, I think the macro headwinds and low consumer confidence as the challenge, continues. But it's good to know the Tier 1, Tier 2 demand is still good and premiumisation is a megatrend out there. And therefore we are on the right side of the trend in terms of two absolutely distinctive brands; that is Jaguar and Land Rover. And it's our intention to keep strengthening that and leverage that opportunity.

UK, you've talked about it, we've spoken at length and same with Europe. A minute on US, I think the challenges will remain that the fact that the market cyclicalities is kicking in and therefore the high incentive is an area of concern, tariff risks are real as well. And the positives are the strong SUV demand that continues to flow through there. So this is a mixed bag of market outlook. But it's fair to say that the demand outlook is weak at this point in time in the near-term, and there is a lot of promise for the medium to long-term.

In this scenario, this is what our outlook plan is. I would leave you to read it, barring I just speak out one piece there. Our EBIT margin plans that we are working with on – between FY 2020 and 2022, we have talked about a 4-7% earlier. We are sort of calibrating it slightly and bringing it down to 3-6%, given the challenging environment that we see in the market.

If you would recollect we had done exactly the opposite in Tata Motors, we had stepped it up last time when you saw demand coming in. So we are sharing with you the way we think, the way we plan so that you are also aware of our thinking that goes behind it. Otherwise, all the rest are in line with what we had indicated earlier. And yes, it's fair to say that all of us, as a group, are quite disappointed with our FY 2019 performance in JLR due to the unexpected slowdown in China. That will be a fair statement to make.

And as far as India is concerned, we are quite confident the Turnaround 2.0 will deliver despite challenging market conditions. But it is not going to be easy for us in the coming months and we are quite – absolutely convinced that we'll be on message and ensure that we work through this problem. So that's what I had to say. Let me now hand it over back to you for Q&A.

**Operator:** And if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star one to ask a question. And we will take our first question from Prateek Poddar from Reliance Mutual Asset Management. Please go ahead.

**Prateek Poddar:** Yes, hi. Am I audible?

**P. B. Balaji:** Yes. Go ahead.

**Prateek Poddar:** Hello. Yes, okay. So my question is, if you go to slide – if I go to slide 33, is it fair to say that we haven't been able to liquidate inventory in China, which we had guided for at the end of

quarter two and we had guided that by quarter four? By quarter three most of the inventory liquidation would have happened. Is that a fair understanding?

**P. B. Balaji:** Qing, would you want to take this question?

**Qing Pan:** Sure. I think that you see that the balance of the supply and demand is one of the key element in our current strategy. And therefore the entire team, starting from the target setting to the distribution to the flexible manufacturing, I think we are moving towards the right direction in terms of more proactive retail stock management process.

I mentioned it before, January actually is the month I think that is also very true. It's a month that we achieved our own target and that the dealer stock is reducing. And at this current moment, the dealer stock is still higher, slightly higher than the targeted 1.5 month. And we aim to maintain those balance between the demand and supply. And the reason why I mentioned this one, although that January is just one month. But I believe that's a good sign and a good starting of the new year because 82% of all the dealers followed our strategy. They are able also to enjoy the maximum amount of the fruits.

**Prateek Poddar:** Okay. And sorry, just two questions to this. How do you plan to come out of this, how do you plan to get back your market share and grow in line with the market? Could you just talk a bit about this? And just one small clarification with regards to JLR China sales, when you say you want to come to 12 months guidance as per end of 2019, year 2019 or by March 2019?

**Qing Pan:** Sorry, I'm not understanding the question.



**P. B. Balaji:** Qing, just a minute. Can you just go on mute once you have asked the question because we are hearing a lot of noise from your side? And then I'll leave it and hand it over to Qing for the questions.

**Prateek Poddar:** Should I repeat my question or should I just go on mute? Okay. So my question was, how do you plan to come out of this – how do you plan to come out of this, how do you plan to get back your market share in China or grow in line with the market? And a small clarification, when you say that you want the inventory to be at 1.5 months, is it by the full year 2019 or by March 2019?

**Qing Pan:** Okay. Thank you for the question. I think that what we introduced in terms of turnaround program, as mentioned before, we are focused very much on the short term, although that some of the brand and organizational and the network-related issues are rather long-term related. And in the short term, what the team is focusing very much on is to push very hard to change the entire distribution system into a rather pull system. And pulling for us, one is we are aiming for September growth. And I know that China might no longer seeing the golden age go astray. But we are all confident that China will remain as the biggest market in the world.

And in this sense, it means we need to start it from now on and to balance the demand and supply, but I think it is not contradictory to what we're trying also at the same time to do, to optimize our market potential.

The second element of the pull strategy is growth in quality. And I think that we started the year with brand new strategy and it worked. And what we need to do is to be consistent, follow our strategy. We need to streamlining the network and the training, coaching and do everything possible to rebuild the sales organization. And the last one, the pull strategy means we need to be profitable.

And I think that we are aiming on the win-win with our dealer networks together. I think this is not helpful if the retail will so much rely on the discount to sell the cars. And I think one of the elements why in the past in the JLR saw higher discount, besides the structure-related problems, is the stock. And for that simple reason the team is aiming of reducing the stock level to the ideal level in the very short term.

**Prateek Poddar:** Okay, okay. I still have some doubts, but maybe I'll come back later. Just one small question, the £400 million of workforce reduction, the savings, this is on an annualized basis and this should come from next quarter, is that a fair understanding?

**P. B. Balaji:** That's correct.

**Prateek Poddar:** Okay. I have a lot of other questions, but maybe I'll join back in the queue. Thanks.

**P. B. Balaji:** That's right. That would be helpful. Yes. Thank you.

**Operator:** And we will take our next question from Kapil Singh with Nomura. Please go ahead.

**Kapil Singh:** Yes, hi. Yes. Thanks for the opportunity. I wanted to check the guidance that we have given of 3-6% range. Does 3% – I mean, in what scenarios do we see 3%, when do we see 6%? Does no Brexit kind of scenario mean we would still be at 3%? And does the guidance – margin guidance for current year of marginally negative EBIT margin include the £200 million charge that we are likely to take next quarter?

**P. B. Balaji:** Yes. Let me comment here. I think as far as the 3% - 6%, as I shared, again, this is a plan that we are working towards, so that we are sharing with you how we intend to look at the business at this point in time. And this is a range that we have given over a period of time and not necessarily that first year is 3% and the last year is 6%. We are not working like that; that's the range that we look to operate under. That's one.

As far as the £200 million is concerned, Ken has already clarified it is an exceptional item. And therefore, that is outside EBIT and will be treated as such.

**Kapil Singh:** So in case of a no-deal Brexit we are still targeting 3%. Would that be the right way of understanding it?

**P. B. Balaji:** Right now, the base case assumption, we have no idea of how Brexit is going to look like, and what form or shape it will come. As far as our base assumption that we are working towards is a frictionless, trade-free operation. And we have been maintaining consistently that that is what our wish is, for business to continue as usual. And therefore, a negotiated settlement with the EU is what we will prefer as soon as possible. And that should then give us frictionless trade and that should help us there. For the preparations on no-deal Brexit that you've talked about, are worst case preparation anyway we have to be ready with. And that's how we look at it.

**Kapil Singh:** Okay. And second question was if you could call out if there were any non-recurring charges in Q3, particularly above EBITDA. One thing that I can notice is that raw material to sales has seen a sharp spike compared to the levels we've been seeing for last many quarters. So any color there would be helpful. This is for JLR.

**P. B. Balaji:** Ken, would you want to take that?

**Ken Gregor:** Sure. I think I called out the significant chunky items. I called out the impact of labor and overhead coming back out of inventory as we destocked 9,000 units in the quarter. That was about £80 million. I called out quality related warranty reserve adjustment where the absolute amount was circa £65 million, had a slightly bigger effect year on year.

Actually overall on material cost, the overall manufacturing material cost was actually – the performance element was slightly positive, but we're definitely seeing negative on the percentage due to the market and product mix. The percentage of overall material cost as a percentage of revenue rises because of the reduction, year on year, in the China volume.

And I also – and then – not in EBIT so much, but I called out the foreign exchange and commodity revaluation in the quarter was round about £100 million, but most of that not in EBIT.

**Kapil Singh:** Thanks, that's quite helpful. I'll come back in the queue.

**Operator:** And our next question will come from Jatin Chawla from Credit Suisse. Please go ahead.

**Jatin Chawla:** Yes, good evening. Just on your EBIT margin guidance, this cut from 4-7% to 3-6% actually seems an even bigger cut when we take it into context that you've taken about £300 million of depreciation out of it at JLR. So effectively, it almost implies a 2% cut on the margin guidance.

So I just wanted to understand what are the kind of factors that have led to such a sharp cut within a quarter?

**P. B. Balaji:** Yes, I'll draw your attention to the margins progression slides that we've shared with you. What you would notice in that is a consistent headwind of depreciation that's coming at it. So charge, for instance, the work that we are doing addresses what I call as controllable cost from a current perspective. So it is looking at people, it is looking at overhead, it is looking at variable cost. But one area of cost that is not able to addressed head-on is because of the depreciation and amortization number. So that was a headwind that we are anyway facing.

So this impairment that we are taking, yes, it gives you a depreciation credit, but also it is going in – it is only stemming the runaway increase in depreciation that we have. And therefore, this is offsetting that from that perspective. So it's as much a call that we are making in some of the decisive interventions that we are making.

And more importantly, as the next £4 billion investments goes through, it is also giving us strategic flexibility to direct the investments to where we want it to go. Otherwise, this depreciation headwind is basically is only forcing us to cut out investments and not getting us or giving us a liberty to decide where we want to direct our invest to.

So I truly believe that this is giving the right strategic flexibility that the business desperately needed, which is not getting addressed through charge. So with this intervention, now we are actually having all the lines of a P&L available for us to flex and direct it the way we want it to be and to make us Fit for Future.

**Jatin Chawla:** Okay, thanks. And on the China JV margins, we've seen a really sharp fall quarter on quarter, despite not two different volumes quarter on quarter. I know it's marginally lower, but the margin fall is very acute. So I just wanted to understand what's kind of driving that.

**P. B. Balaji:** Ken, would you want to take that?

**Ken Gregor:** Yes, I mean, really it is the impact of the lower volume year on year that's really driving the results in the China joint venture. And it's the volumes are over 50% lower – the wholesale volume over 50% lower year on year as we faced up to the lower retail volume and the stock position that we found ourselves with. And therefore took a significant amount of production downtime in Q3 in order to reduce the inventory and that also lowered the wholesales. So fundamentally that's what's going on.

**Jatin Chawla:** On quarter-on-quarter basis, was the production down significantly on a quarter-on-quarter basis? Because I think the wholesales are broadly similar, but was the production down very significantly and has that impacted margins?

**Ken Gregor:** Yes, he's asking quarter on quarter. Let me come back to you on the specific numbers, but it is basically the volume that is driving the reduction here and the weak profitability. And yes, there's less production – there was less production in Q3 than Q2, but I can't give you the specific figure at my fingertips here.

**Jatin Chawla:** Okay. And just one clarification. You mentioned that you're looking to reduce inventories by about £300 million in 4Q. And then in terms of the Brexit speculation you mentioned that you are looking to create some buffer. So how do both of these things tie in?

**Ken Gregor:** Yes, all of that is part of our plan. I mean, we're very focused on having a very lean inventory pipeline in order to be better placed to deal with one or other challenge that the market may give us. And because having less inventory in the pipeline creates less pressure on our dealer network and in principal should be – avoid higher levels of bearable marketing.

And we've taken into account the inventory reduction that we need to make in Q4 and the production downtime that we're planning in Q1 of the next fiscal year with our demand projections. Which also include, by the way, the seasonal factors that we anyway see normally through the next six months of the year in order to drive an inventory level, which is low and keeping it tight in order to provide the headroom in case market conditions continue to be challenging. So all of that planned in.

**Jatin Chawla:** Okay, thank you. I'll come back to the queue. I have a few more questions, but I'll come back, thanks.

**Operator:** And once again, that is star one if you would like to ask a question. And please limit yourself to two questions. And we will take our next question from Robin Zhu with Bernstein. Please go ahead.

**Robin Zhu:** Hi guys. Can you hear me?

**P. B. Balaji:** Yes, Robin go for it.

**Robin Zhu:** Thank you. So yes, just two questions please. One, a lot has been said about the turnaround plan and the measures that you plan to take. I see it as the P&L impact is taking a bit of time to come through. Just wanted to get your thoughts on management. Now clearly the workforce has taken a hit as a result of the company challenges. Just wanted to get, Balaji, particularly your thoughts on where management stands – in terms of the framework of the company's realignments and restructuring, any thoughts on central changes here, going forward?

Second question on China, first of all, you seemed to provide an absolute number for the inventory levels now stands. But more importantly, I think I wanted to get your thoughts on, is there a risk – given that the deals has been under quite a lot of pressure and has been quite unprofitable in China, is there a risk that JLR would have to, at some point in the next few quarters to basically – as a set of reconciliatory move or to sort of reset the relationships between yourself and those. Thank you.

**P. B. Balaji:** Yes, let me take the first one and I'll set the context for the second one and hand it over to Qing for further amplification of that. I think the headcount numbers that you see is actually going across the entire company and not just workforce. So it's a complete top-down intervention that is happening and at all levels, very, very carefully scrutinized and managed. And therefore, this is not just you have one-place kind of a setup that we are looking at.

As far as the dealer, one of the key pieces that is – of the puzzle that on China, and also to answer the earlier question that was there as to what happened about inventory in Q3, is that it has taken us a while to put together our plan on moving from wholesale to retail. And more importantly get dealer alignment on this plan and getting them to sign off. And therefore that has taken us a little bit more time, but that is now being mostly signed off starting calendar year Jan –



I mean, starting this January onwards. So that has taken us a little bit of time, including whatever else that we had in the past have to be closed out.

So Qing, would you want to pick that piece up?

**Qing Pan:** Sure. Thank you, Balaji, and thank you Robin for the question. I think that 2018 overall is a year that we need to be improved on and the dealer profitability in those are up to our expectations. I think the phenomenon of compensation, which you are probably addressing on, in China is really a common phenomenon. But I think in the last weeks and the months, we did have a lot of dealer communications, investor communications. We agree with the dealer councils and the strategic investors, this type of the sales support will not solve any of the fundamental issues. The same applying to the cash incentives. And – which you see in the last month and the different OEMs really sharply increasing. And because of this could eventually cause even higher discount level in China and no OEM can really afford of doing that. And therefore for us, agreed with the dealers, is we need to improve the dealers' capabilities, we need to restructure the distribution system and the network, provide the customers with the right product and premium experiences at the end of the day.

I mentioned before, January for us is a good sign that the dealer followed our strategy, which Balaji kindly explained. I think the strategy what we are aiming for is a simple one. We're telling the dealer very clear what are the models we're driving for the volume, what are the models that we are aiming for very healthy profitability. With a clear sales policy and driving at the target achievement, but more important is, since I said 82% of the dealers in January followed our strategy and this give us a very good confidence that with the – all data, the dealer profit results of January will see a very positive trend.

And therefore, Robin, I think that we agree with the dealer councils and the investors and compensation is not in lasting effect. We rather than focusing on the improvement of the dealer capabilities and our own organizational capability.

**Robin Zhu:** Could I just follow up on that? I mean, from what you just said, my understanding is that you've discussed with the dealers. It sound to me like the decision is to accept a lower level of volume in China and rather than put the market through that and avoid more discounting. Can you confirm that?

**Qing Pan:** I think what I said earlier to answer the other gentlemen's question is, we are shifting away from a push to a pull strategy. And Robin, I'm fully aware that they are falling in the sector in many years. And then you are aware certainly of the past development in similar situation made by our competitor. I think exactly those are the areas we're aiming for and focusing on and taking few examples, like we like to put the right product with the right position into the market. The second one is the planning should be based on the potential. The third one we will see very much on the demand and supply. And we will focus on the quality improvement to gain the customer experience.

But I think other company show that also how important it is that we create an efficient organization. And so, I mentioned that the turnaround program consist of the Dragon project with a lot of short-term focus. But all those five areas – product, planning, given principals, focus on quality and organization efficiency – I think that will take time and we are aiming to improve our quality. But at the same time, I don't think that would hinder us to go after market potential.

**P. B. Balaji:** So just to build on that, Robin, I think one thing that we are trying to nuance the messaging, nuanced approach is to say, yes, volume is important, but volume is not everything. And

therefore it is crucial that we generate value over the long-term. And therefore we are looking at far more sustainable metrics, brand health, metrics like dealer profitability. Ensuring that we're segmenting the brand offerings in the market, maximizing the absolute profits overall with a balancing of what's the right volume, what's the right mix and what are the right dealer profitability that we have.

So it's a far more well encompassed, and well-rounded approach we are adopting and the play is for the medium to long-term and not worry about in-month numbers. Because the opportunity that we are – the reason why we are taking so much pain on this – because it's very easy for us to do a short-term approach on this. But the reason we want to actually do it the right way is what Qing called out in terms of the long-term opportunity that we have there. Because in the core premium alone, by 2025 it's a £4 million market. And then an abbreviation opportunity of £3 million is up there, what are we talking about in terms of 140,000 vehicles that we sold last year. The sky is the limit in terms of how much we can upgrade. And why we're so confident of that? Because premiumisation is a mega trend in China. The consumer is seriously status conscious. If your brands are there strong and firing, you should be able to see growth coming to you.

So we would rather want growth come to us, rather than we chase growth. And what we have to do is to ensure that we do everything right for the long term; then this is a business that would really give us long-term return. So that's the reason why we're taking it on the chin in terms of pain, but that's the right thing to do at this point in time and we are absolutely convinced about that.

**Robin Zhu:** Got it, Thank you. Very helpful.

**Operator:** And we will take our next question from Binay Singh with Morgan Stanley. Please go ahead.

**Binay Singh:** Hi, team. Thanks for the opportunity. Just continuing on China, we didn't hear anything on the product side from you guys. Like what is the product strategy over there? What are the products that you think going to drive volume growth going ahead? And could you talk a little bit more on that side, what is doing well in China? What do you think will sort of shrink now?

**P. B. Balaji:** Qing, absolutely up your alley.

**Qing Pan:** I think that's – as you all know, that in China, that we're presented since nine years. In the meanwhile, that the entire product portfolio with 16 nameplates are available. And in China, we're very grateful. Those are – those products are superior in capability. I think that's what we need to do and need to focus is rather than be more precise. So address to the right customer group. China is the largest market, but for sure is also one of the most competitive market. And China has a lot of noise. And in order to make an outstanding brand, I think we need to focus on positions and by utilizing a lot of digital technologies.

And talking about the product, I think what we also changed significantly to nine years ago is we are more specific and dedicated to serve the Chinese customers' needs. And if you're looking to the sedan that we launched in XE and the XF, both are extended versions and I think both vehicles were accepted in their ways. And on top of that, with all the other newly launched vehicles also in the infotainment area, so in the connectivity areas, in fact we are dedicated of developing some of the latest gadgets and the features for the Chinese consumer, knowing those consumers are very open to the latest technologies.

And related maybe that's one of the interesting area for everyone is also in the EV area, in the new energy vehicle area. I think certainly, China will follow the global product strategy. And we launched lately the I-PACE and I think the I-PACE is doing the ramp up, but we successfully already obtained the green number plates in the mega cities like Beijing and Shanghai. And so that we can serve a very elite circle of the customers.

But beyond all that the JLR is cooperating with the local dealers. And in last April and related to all the product and product development, we announced strategy for the dual engine and dual power strategy means that we will develop simultaneously in UK, and also in China, some of the key technologies. But also it means that we, JLR, is one of the power but we will utilize also a lot of the local heroes in China.

Now in the battery-specific area, for instance, that JLR is cooperating with one of the largest battery manufacturer in the world, through CATL, of creating and developing the next generation of the products.

Overall, I think our product portfolio is well accepted, but since we are a young company, I think specifically for the brand Jaguar we still need to strengthen the communication and be more specific. And for that reason, we also launched lately the brand strategy. But I think to keep it short, the product as such were accepted. We are localizing a lot of the features to serve the Chinese customers' needs and we do – in certain areas like in the fixed marketing and in the brand communication, we need to speak up more.

**Binay Singh:** So between the localized models and the imported models, which one do you think will grow more in 2019 versus 2018?

**Qing Pan:** In 2019 –

**Binay Singh:** Or like you were mentioning that you're asking dealers to –

**Qing Pan:** In 2019, in January, you see that we launched a different sales strategy. In one of those sales strategy, we split the product into two groups. One is called Hero Cars, one is called Brand Ambassadors. And the Hero Cars are those cars would bring the dealer but also the OEMs for certain amount of basic volumes. I think it is important for the dealers so that they can have a sustainable growth in the long run. And for those areas, both areas; so in the imported cars and in the local manufacturer cars we have models defined in Hero Cars.

In Hero Cars category for January, so for the last quarter of the fiscal year, two of the models XEL and the Discovery Sport has been defined as Hero Cars. And this strategy we will pilot – we're piloting at the current moment and hopefully we will consistently roll out even further models in the coming months.

**P. B. Balaji:** Binay, I think we need to move on. I think – one request, I think we have kept Qing online for quite a while in the midst of his Chinese New Year. So I think it'd be nice if we can move questions away from China into other parts of the business as well, which I'm sure you'll be keen to talk about.

**Operator:** And we will take our next question from Pramod Kumar with Goldman Sachs. Please go ahead.

**Pramod Kumar:** Thanks. Thanks a lot for the opportunity. Balaji, before I start the question, just wanted to understand the assumption what you're making for the premium industry group for 2019 and 2020. The reason why I asked this is that Daimler has just put out a guidance that the market is expected to be flat globally for the calendar year 2019. So I just want to check what assumptions are we baking in?

**P. B. Balaji:** I think from our point of view we are a very small OEM. And our objective is to grow ahead of the market, whatever is the market growth, and that is the only way we would like to look at it. And it's a dynamic, as you can well imagine and we need to play it quarter by quarter.

**Pramod Kumar:** Fair, enough. And on the China side, this is for Mr. Pan, given the fact that quite a lot of your dealers are in – sorry hello? Can I?

**P. B. Balaji:** Yes, I just said I think we've done a fair amount of questions on China, which I'm sure you would want to maybe go with this one and thereafter we'll prefer to move questions out of China. Because there are other areas with others may want to talk about.

**Pramod Kumar:** Yes, as on China basically – yeah, thanks for that – for China we see that the underperformance – I can understand the retail weakness and the fact that – the inventory weakness actually, that inventory was quite high and we're kind of trying to reduce it. But the fact that even in January we've probably underperformed the retail growth versus peers in a very big way, very substantial way despite having new launches. What I'm trying to understand, is there any attrition at a dealer network level itself where smaller dealers in Tier 3, Tier 4 or smaller cities are kind of not finding it viable in a way? In short, have we kind of lost any dealers or – and where do we stand on our dealer count currently in China?

**Qing Pan:** Thank you for the question. I think I would like to answer in the two-fold. Number one, from the OEM perspective and generally, yes, you're right, on a year-over-year comparison in China was still far below the last year. But I mentioned before the turnaround program has three phases; phase one is stabilization, the second one is raising the confidence and the third one is sustainable growth.

Stabilization, that is the first phase which we are aiming for at the current moment. If you do look into the December numbers these retailers got around 9,000 units. Usually every year the December number is the highest for the JLR and the January should be at least 10% below that number. But if we compare the January number with the December number, I think we are very much on the same level, and therefore, which I also underlined, 82% of the dealers are following us. I think it is a very good sign, a positive start of the year.

The second part of the question, I mentioned before in the Tier 3, 4, 5 cities last year we've seen a slowdown first. But last year we already constrained the growth in the dealer network. So last year we had 251; today we still have 251 dealers. But one thing that we are focusing on is we are improving the quality of the dealer network.

Improving dealer network, it is possibly also not a convenient task because it means for us we need to proactive to consolidate the dealer network. And that will be effective in the coming month as well. But now in certain cities, if the dealers build oversize in the good economic time, it will help the dealers to downgrade the format so that the business model will be more sustainable is one.



Second one, for those dealers was continuously to underperform, particularly in the megacities, I think we will probably chose the termination or support the dealers for the buyout. And the third one is in chosen cities, very limited number of cities where we are under-presented, we might add additional dealerships. Those are the plan for the retail network, but so far we didn't lose dealers.

**Pramod Kumar:** Fair enough, thank you. The second question is pertaining to the funding

**P. B. Balaji:** Hold it – sorry. I'm sorry, apologies, we have another two, three minutes to close out. So we probably have time to take one more question from outside. So if you could really stick yourself to one and then we need to move on to last person.

**Operator:** And we will take our final question from Jinesh Gandhi from MOSL. Please go ahead.

**Jinesh Gandhi:** Hi. So my question pertains to this workforce reduction that you're talking of, that's 4,500 people plus 1,800 which we reduced last year. This net savings would be about \$400 million is what we're guiding for, right?

**P. B. Balaji:** Ken, would you want to take that?

**Ken Gregor:** Yes, it's of that order; together with other headcount cost reductions and people cost reductions that we're making, it's of that order, yes.

**P. B. Balaji:** On pound sterling?

**Ken Gregor:** Sorry, pound sterling.

**Jinesh Gandhi:** Sure. So £400 million is including other cost savings as well including headcount reduction?

**Ken Gregor:** It's substantially the headcount reduction connected with 6,000 people.

**Jinesh Gandhi:** Sure. And just one clarification, the one-offs that you've referred to 260 basis points – that's on slide 19 – it's primarily pertaining to destocking and warranty cost, right?

**Ken Gregor:** Yes. Yes, so primarily the – yes, exactly that.

**Jinesh Gandhi:** Okay. So that won't be recurring in fourth quarter onwards.

**Ken Gregor:** To be honest, I would expect to see in Q4, we are doing further destocking. So it's entirely possible we see continuation of destocking related cost. But once we get through that destocking, I'd expect to see the situation normalize.

**Jinesh Gandhi:** So the destocking thing would get over by fourth quarter or it will, do you think, further inventory reduction in 1Q as well?

**Ken Gregor:** After the fourth quarter, we'll be in a more normal situation of the normal ebb and flow of this amount, instead of the significant swing that we've got this quarter and the further swing that I'd expect to have in Q4.

**Jinesh Gandhi:** Understood. Okay, great. Thanks.

**P. B. Balaji:** Okay. I think I will take this opportunity to thank you all of you staying put on the call and asking and clarifying stuff that you wanted to clarify. I hope this met your expectations and in terms of the quality of the coverage, the information as well as it was nice to have Qing on the call in the midst of his Chinese New Year. Thanks a lot, Qing, and see you guys soon.

Take care. Thank you.

**Operator:** And this concludes today's conference. Thank you for your participation. And you may now disconnect.