



**Tata Motors Limited**  
**Q1 FY11 Consolidated Earnings Conference Call**  
**August 10<sup>th</sup>, 2010**

**Operator:**

Thank you for standing by and welcome to the Tata Motors Q1 FY2010-11 consolidated results conference call.

At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press \*1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Govindrajan Chellappa now. Over to you, sir.

**Mr. Govindrajan Chellappa:**

Yes, hi everybody, good evening.

On behalf of Credit Suisse I welcome you all to this conference call from Tata Motors post the first quarter results.

Representing Tata Motors, we have Mr. Ramkrishnan the CFO, Mr. Vijay Somaiya, Head of Treasury and IR, and his team Namrata, Savita, and Yogesh.

Without taking much time, I would hand over the conference now to Mr. Ramkrishnan for his opening remarks post which we will give to Q&A session. Over to you, sir.

**Mr. Ramkrishnan:**

Govind, thank you very much. Thank you for arranging this call and this interaction. Thanks everybody for joining us on this occasion.

A short while ago we announced our Q1 consolidated and standalone results for Tata Motors for 2010-11 April to June quarter. It has been a very satisfactory and financial results wise a very good quarter. Improvement of about 54% in our consolidated revenues to about 27,000 crores. Improvement in EBITDA margin at consolidated level to about 14.6%. The net PAT at a global

consolidated level was close to about 2000 crores, about 1989 crores. I am not reading out the corresponding sequence of the previous year. Previous year we all know what we went through. So many times the previous period comparison becomes academic.

At a consolidated level, the automotive operations excluding the vehicle financing business we have in India, automotive operations level our net debt to equity came down below 2, it is 1.96:1 which is in line with the directional indications we had given earlier to de-leverage gradually over a period of time, we have brought it down to 1.96 at the end of 30<sup>th</sup> June.

Tata Motors standalone, 63% improvement in turnover crossing 10,000 crores in this quarter. EBITDA margin at 11.3% almost the same as the same period last year and PAT of 396 crores. The only clarification on Tata Motors standalone, same period last year first quarter we had a PAT of 514 crores, but as you will recall that 514 included about 300 crores of profit on sales of investments which was included in the previous year figure whereas this year there are no substantial gains of that nature.

Jaguar Land Rover, the first quarter turnover was about 2.2 billion pounds. EBITDA margin was at 15.5%, a significant improvement over a 3% EBITDA margin we had in the same quarter of the previous year. PAT of 221 million pounds. We have been aided in these results by a good volume improvement in Jaguar Land Rover, a good product and market mix, as well as favorable currency movement. Currency as you know they have significant exports in dollars, in exports to North America and certain other markets which are also dollar denominated. That movement was in their favor quarter on quarter as well as from the previous quarter. As far as Euros are concerned, they are a net importer of Euro in terms of materials. That movement also was in their favor, so currency wise they received a very good favorable quarter apart from growth in volumes and control over costs. As a combination of all this, Jaguar Land Rover reported a profit after tax of about 221 million pounds for the quarter. One interesting point is net of their product development and capital expenditure and engineering spend, actual spend for the quarter, they were free cash flow positive to the extent of about 23 million pounds in this one quarter.

Other subsidiaries, the significantly larger ones, Tata Motor Finance which had posted losses in the same period last year turned profitable with a net profit of about 24 crores for this quarter. Similarly, profitable performance continues in our Korean operation which improved its net profit from 18 crores to about 36 crores and good profitable performance in the other subsidiaries and joint ventures. Fiat after their startup period and ramp up period last year when they posted losses due to certain delays in launch of the products and slower ramp up, also posted profitable results in this quarter.

Going forward, we believe in Jaguar Land Rover, cost reduction initiatives are well under way including the significant medium and longer term cost correction initiatives that we had undertaken. We expect that these will benefit in the future quarters in terms of margins. Company will continue to spend on its new product and technology. We have also particularly in the engineering and product development area started selective rehiring of people, of course the exchange rate movement is something that we have to wait and watch as we go forward.

Tata Motors we continue to see strong domestic demand across our product range. Similarly, in the domestic business, we will have a spate of new products both in the commercial vehicles and passenger car range products and variants. In a very short term we expect this quarter will see some activity towards the end of the quarter in September on account of pre buying due to the emission change and hopefully from October with the festival season we should see not too much of a slack..

Commodity prices and cost pressures continue to be a matter of concern which we will try and address through more significant and stepped up cost reduction efforts internally and operating efficiency improvements as well as periodic price correction as we have done in the past. Interest rate movements and any sudden change in market for liquidity particularly for the vehicle consumers could be a matter of concern. This is something that the company will continue to watch and see how we need to react. On the financing front, our efforts of de - leveraging will continue.

Directionally, I would like to see as we have in the past more than a couple of years ago below 1:1 debt equity at the automotive debt level, we would like to see that position being reached without scissoring a timeframe that is the goal we would like to set for ourselves.

With these I stop my opening remarks. We will definitely be addressing many of these as we take up the question and answer session. Back to you Govind.

**Mr. Govindrajan Chellappa:**

Mamta, can you start the Q&A session please?

**Operator:**

Certainly sir.

At this time, if you wish to ask a question, please press \*1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key. Participants who are on speaker phone are requested to pick up the handset and ask the questions.

First question comes from Mr. Pramod Kumar from J.M. Financial. You can go ahead sir

**Mr. Pramod Kumar:**

Good evening sir and thanks for taking my question and congratulations for a excellent set of numbers. Sir, my first question pertains to the realization improvement which we have seen on a sequential basis in JLR. So, if you can just throw some more light on that whether this is more like a sustainable performance and whether there is a pretty big currency contribution there, that would be my first question.

**Mr. Ramkrishnan:**

Okay, would you like to, if there are more questions you have, why don't you . . .

**Mr. Pramod Kumar:**

I think it will be more of a followup based on what is your answer sir. So I think I would request you to answer this question first.

**Mr. Ramkrishnan:**

Okay. As I said in terms of top line revenue numbers JLR has been favorably impacted by a better realization on the products. The variable marketing costs have been lower and they have been coming down particularly from the second half of last year, which I think I had outlined in many of our earlier interactions. The price positioning, the newer products from Land Rover range as well as the new XJ dispatches have been able to position us much better. With the growth in China volumes and also a relative better performance in US, the regional mix also has been better. Many of these we believe are indeed sustainable and growing fairly well. On the currency, on a sequential basis, approximately in terms of a range, the dollar-pound on average basis for the previous quarter which was more at 1.55 to the pound was about 1.49 or so which helped the company. Similarly, on Euro we saw a movement from 1.17 to 1.11 to the pound which also benefited the company. These I do not want to comment on the sustainability, but otherwise in terms of product positioning, realization, variable marketing, and in terms of regional mix, I do believe these are sustainable and can be enhanced further.

**Mr. Pramod Kumar:**

Okay. And sir, my second question pertains to the standalone entity in terms of the RM to sales on sequential basis has more or less remained flat whereas we have seen probably I think all the companies actually in this particular space reporting a pretty sharp increase in RM to sales. So I just wanted to get some light on that as to, is it that we had already factored in the higher cost in the fourth quarter to a great extent or our contracts are still at a lower rate and how will that move in the future in terms of our contracts on the commodity side?

**Mr. Ramkrishnan:**

It will be difficult to comment and analyze on a quarterly basis. I think it is a trend over time that we will have to watch. Some of the price correction actions we have taken and also the model mix in a particular quarter can affect the percentage, it is something that is difficult to comment on a quarter to quarter basis, but I think it is a combination of overall mix of models as well as price correction versus the actual inventory consumption of the higher prices.

**Mr. Pramod Kumar:**

Okay, JLR finally, pertaining to raw material. JLR, we are I think going forward on a quarterly contract, so it is still annual as it was in the case last year.

**Mr. Ramkrishnan:**

On the commodity raw material front?

**Mr. Pramod Kumar:**

Yes, sir.

**Mr. Ramkrishnan:**

It is a combination but mostly on annual basis.

**Mr. Pramod Kumar:**

Mostly on annual basis still is it?

**Mr. Ramkrishnan:**

That is right.

**Mr. Pramod Kumar:**

Thanks a lot sir and best of luck for the future, thank you.

**Mr. Ramkrishnan:**

Thank you very much. Thank you.

**Operator:**

Thank you Mr. Pramod. Next in question comes from Mr. Kapil Singh from Nomura. You can go ahead.

**Mr. Kapil Singh:**

Good evening sir. Hello.

**Mr. Ramkrishnan:**

Yes, please go ahead, good evening.

**Mr. Kapil Singh:**

Sir, just want to understand on JLR commodity contracts, will the second quarter of FY11 be the first quarter where we will see an increase or we have already seen some increase? If you can also explain what will be the percentage increase on an average that we expect?

**Mr. Ramkrishnan:**

Sorry, your question was pertaining to the commodity prices?

**Mr. Kapil Singh:**

Yes, for JLR with the raw material cost for JLR.

**Mr. Ramkrishnan:**

I think in terms of commodity prices, there will be some correction may be in the second half of the year depending on what extent we can manage it through cost management. Hopefully by that time a good part of our cost reduction initiatives also should start benefiting the bottom line as well as it will be an overall industry impact. There should be some price correction as well. It is a little difficult to predict because a lot depends on the global commodity situation for a variety of materials that we consume. We will be watchful both on the pricing front as well on the cost reduction front.

**Mr. Kapil Singh:**

Sir, my question was just to understand whether we have given some increases even in this quarter in the 1Q FY11 or most of that will come in from next quarter or may be second half?

**Mr. Ramkrishnan:**

Mostly it will be from the second half.

**Mr. Kapil Singh:**

Mostly second half of FY11, okay. Secondly, just on the JLR margins you know you are probably significantly ahead of competition at this point of time. So, what is the view on sustainability because our mix is continuously improving, China and other markets which have higher realizations are going up, and overall realizations have been moving up. So, is it a trend that we can assume will continue and therefore even if there is some increase in material cost going forward we would still be able to maintain margins?

**Mr. Ramkrishnan:**

Our endeavor would be to watch and sustain these margins. You also asked a very specific question on sustainability. As far as the company, the JLR business is concerned in terms of products, positioning, pricing, customer acceptance of the products, regional and product mix we will do everything we can to sustain and enrich this further. At the same time, the company is also very focused on implementing the cost reduction programs that we have undertaken for the last couple of quarters and these should be benefiting the company in the coming quarters in a bigger way. We have an endeavor but there are many things outside our control, exchange rate movement for example and unexpected commodity price pressures as an example, These are factors which are beyond our control and may affect from an industry point of view and may not be JLR specific. This is something which we will have to see how the market reacts and how the market prices. It is not something I would like to comment on. As far as the company is concerned, in terms of product positioning, pricing, and mix we would do everything we can to support these margins going forward despite the pressures.

**Mr. Kapil Singh:**

Right. And sir, just to understand I mean a couple of housekeeping questions really. What is the JLR gross and net debt and what is the capex we did for the quarter? What is the capex at JLR for the quarter and what is the gross and net debt at JLR?

**Mr. Ramkrishnan:**

Okay. If you can please hold on this question before the end of this call I will respond to this. If you can move on to the next question?

**Mr. Kapil Singh:**

Yes. Sir, just also on JLR wholesale volumes if you could give that number because the reported numbers if I add for the three months, they do not match with the presentations wholesale volume numbers, which I wanted to confirm what is the right number there?

**Mr. Ramkrishnan:**

It is possible there may be some elimination on account of consolidation and accounting at the end of the quarter. The actual wholesale volume for the quarter was 59,200 vehicles; 15,500 for Jaguar, and 43,700 for Land Rover. This 15,500 of Jaguar compares to 11,600 in the same quarter of the previous year, and 43,700 of Land Rover compares with 24,300 for Land Rover in the same quarter previous year.

**Mr. Kapil Singh:**

Right, sir. Thanks a lot.



**Mr. Ramkrishnan:**

Thank you. On the other two questions, I will come back before the end of the call.

**Operator:**

Thank you sir. Next question comes from Mr. Srinivas Rao from Deutsche Bank. You can go ahead sir.

**Mr. Srinivas Rao:**

Thank you very much. Just congratulations on strong numbers. Sir, I circle back to the question on JLR. You have mentioned there is an FX benefit. Two questions on that, one how was it accounted for, I mean the better realization is straight away reflected in your higher realizations, is that how it is reflected in their financials

**Mr. Ramkrishnan:**

That is right, so long as it pertains to turnover. On the Euro imports, obviously it will benefit by way of material consumption.

**Mr. Srinivas Rao:**

Okay, sir, I mean could you throw any light on the extent of potential benefits on a like for like basis, I mean if the dollar, and since I believe that is the bigger impact, on a like for like basis, what could have been the potential FX gain this quarter because even if I assume something like 30 million pounds, I do not know if I am taking the right number, it has a significant impact on how we look at the margin?

**Mr. Ramkrishnan:**

I understand Srinivas. If I give you directionally, as I said the dollar-pound moved from 1.55 to 1.49, and approximately about 20% of our volume is in North American markets and another 5% to 10% in other destinations with dollar or dollar-linked currency movements. So, rest of it I think the spreadsheet can help you.

**Mr. Srinivas Rao:**

Sir, thanks. Sir, just clarifying, I would imagine barring Euro everything will be dollar lined, right I mean even China would be essentially dollar linked, right.

**Mr. Ramkrishnan:**

You are quite right. As a currency it has a strong correlation.

**Mr. Srinivas Rao:**

So, Europe which is about 22% of your top line, besides that the balance 70% plus should be dollar linked, right, or pound is there.

**Mr. Ramkrishnan:**

Another 20-25 % pound is there.

**Mr. Srinivas Rao:**

Yes, sorry, my mistake. Finally, one more question - the debt level seems to have gone up, the net debt, automotive debt, is that because of working capital expansion or anything like that.

**Mr. Ramkrishnan:**

You are absolutely right. Overall the leverage ratio has come down to below 2, but this quarter the working capital movement has been against us and that is a phenomenon every year.

**Mr. Srinivas Rao:**

Thank you sir, I will come back. That is true, thank you sir.

**Operator:**

Thank you Mr. Srinivas. Next question comes from Mr. Binay Singh from Morgan Stanley. You can go ahead.

**Mr. Binay Singh:**

Hello sir. Congratulations for a good set of numbers. Sir, just on the JLR ASP expansion only, when we say that the product mix has improved, do we predominantly mean the launch of XJ? Secondly, could you comment on the launch of XJ, how many units should we sell, which all markets, are we through with launching it across markets?

**Mr. Ramkrishnan:**

The XJ itself the volumes have been around 2000 to 3000 in this quarter. While XJ volumes have somewhat enriched the Jaguar realization, that has not been very significant for this quarter.

**Mr. Binay Singh:**

Sir, when you say the product mix improvement, I means basically we are selling more higher variants of Land Rover and all.

**Mr. Ramkrishnan:**

That is right. In Land Rover we also launched a series of products in the last quarter of last calendar year which typically in those markets are called 2010 model, they have also been received extremely well, and you will see that in the Land Rover volumes as well.. They have also been priced high.

**Mr. Binay Singh:**

Anything on the discounts in the market, have they again come off this quarter?

**Mr. Ramkrishnan:**

Sequentially on quarter to quarter basis they might have come off marginally, but I think the movement has been there since last July August almost. They have been gradually coming down from the peak we had seen in the early part of last year, but even sequentially they have come off a little bit.

**Mr. Binay Singh:**

Sir, lastly on the India business margins, like on the JLR side we have been saying that we will try and sustain these margins, any views on the India business profitability?

**Mr. Ramkrishnan:**

As I said, I think on the India business the margins will tend to be under pressure for a couple of reasons. Number one, as I outlined even in the last quarter annual call as well as earlier, I think we will see some impact of the commodity price movements. Earlier in the press meet our MD talked about a last one year to 15 months the type of movement in natural rubber and also the type of movement we have seen in steel. I don't want to take a prediction, but I would think margins will come at a pressure because of the cost pressures on the commodity front. We will endeavor to do price correction as much as possible and control over cost, it will be our endeavor to keep the margins high at the current levels, but I think the pressure will be on the other side.

**Mr. Binay Singh:**

Okay sir. Thank you sir. We will wait for the numbers on JLR basically, capitalization of R&D and all that.

**Mr. Ramkrishnan:**

Sure, I will share that.

**Mr. Binay Singh:**

Thanks sir.

**Operator:**

Thank you Mr. Binay. Next question comes from Mr. Pramod Amte from RBS.

**Mr. Pramod Amte:**

Hi! Sir. This is with regards to get some sense on the demand side. Which all models are available off the shelf for you and which are on a wait period as seen in the recent times, and what is the amount of waiting available in XJ?

**Mr. Ramkrishnan:**

On an average I would say it can vary from country to country and model to model, but in general I would say there is a waiting period of about couple of months on the Land Rover models, and two to three months on the XJ.

**Mr. Pramod Amte:**

Is it across Land Rover models or specific?

**Mr. Ramkrishnan:**

I would say across.

**Mr. Pramod Amte:**

Sir, I just want to get some explanation on this annual report page #98, where on the consolidated side you had highlighted as a part of manufacturing expenses, two line items; one is reversal of provision towards the residual risk of vehicles sold, which was almost a pretty big amount of 400 crores. I wanted to know why it arises and would you be able to give us some color how it was in this quarter?

**Mr. Ramkrishnan:**

Sorry, page number?

**Mr. Pramod Amte:**

98 of the annual report. I think it pertains to JLR, if I am not wrong.

**Mr. Ramkrishnan:**

That is right. As you know in JLR particularly in the US and to some extent in Europe we have tie up with finance providers, Chase in US and Fiat Financial Services these are the two companies with whom we have tied up for financing where in the market the usual practice is the manufacturer shares a certain portion of the residual risk with the financier. So, this is something which is marked to market. Last year saw a severe impact of this during some part of the year and gradually the markets started recovering. In this quarter to the extent I immediately recall, I can confirm this, to the extent I immediately recall there has been no movement on this front in this quarter.

**Mr. Pramod Amte:**

Inspite of the fact that the index went through the roof?

**Mr. Ramkrishnan:**

Which index?

**Mr. Pramod Amte:**

Basically residual value index which is tracked? I think it hit a historic high in the quarter.

**Mr. Ramkrishnan:**

No, I don't think quarter to quarter it went through the roof.

**Mr. Pramod Amte:**

In a same way there you have indicated an exchange gain of around 665 crores for the full year. Where does it generate, which subsidiary help you to generate that? On the same page, on the same line item.

**Mr. Ramkrishnan:**

The exchange front on a consolidated level is difficult to explain, because it is influenced by revaluation in terms of borrowings and whole host of movements. So, it will be difficult to explain in the call.

**Mr. Pramod Amte:**

But the borrowings you take on the P&L below the line, if I am not wrong?

**Mr. Ramkrishnan:**

Yes.

**Mr. Pramod Amte:**

This is part of the manufacturing expenses.

**Mr. Ramkrishnan:**

You are talking about the same page?

**Mr. Pramod Amte:**

Yes, same page sir. It is just below the provisions.

**Mr. Ramkrishnan:**

That is also the exchange gain on some of the imports and trade transactions.

**Mr. Pramod Amte:**

But this pertains to JLR sir?

**Mr. Ramkrishnan:**

This is at a consolidated level.

**Mr. Pramod Amte:**

So, any similar number for the quarter, anything to be looked at?

**Mr. Ramkrishnan:**

Quarter wise I will not be able to share the details, but as I said the currency movement in JLR has been mostly favorable in this quarter, uniformly favorable.

**Mr. Pramod Amte:**

Sure, and last question is between your acquisition and now, there has been a lot of change in the demand trend and the cost and your utilization and also the product mix for both the divisions, would you now give some color in terms of how does Jaguar compare versus Land Rover when you report the margins now? Is it Land Rover still remains ahead of the Jaguar or what is the direction?

**Mr. Ramkrishnan:**

Directionally, yes, Land Rover is generally more profitable than Jaguar.

**Mr. Pramod Amte:**

Inspite of launching the XJ?

**Mr. Ramkrishnan:**

As I said the XJ volume itself in this quarter has not ramped up to its full potential, I am sure going forward it would change for the better.

**Mr. Pramod Amte:**

Sure. Thanks, and all the best.

**Mr. Ramkrishnan:**

Thank you.

**Operator:**

Thank you Mr. Pramod. Next question comes from Mr. Sonal Gupta from UBS Securities. You can go ahead.

**Mr. Sonal Gupta:**

Good evening sir. Sir, just a few questions from my side; one, I wanted to understand on the JLR front, what is our capacity utilization right now, I mean what are we looking at?

**Mr. Ramkrishnan:**

As I said the wholesale volumes were about 60,000; if you pro rate it and take it on an annual basis we are at about 240,000 or so. At one point of time the peak production which was very near to the full capacity in JLR was something like 290,000 to 295,000, almost 300,000. That is where we are at. As far as 300,000 is concerned, since then due to head count reduction etc., the

manned capacity came off a little bit, so you can take a number 275 – 280, compared to that we are at an annualized rate for this quarter at about 60,000 in this quarter.

**Mr. Sonal Gupta:**

Okay, so 275 – 280 is what we should look at in terms of total capacity.

**Mr. Ramkrishnan:**

Correct. But it can be increased to 300,000 and thereabout through additional manning.

**Mr. Sonal Gupta:**

Right. And sir in terms of cost reduction goal that we had that we wanted to reduce the break even point to 60 or 65% for JLR, are we there, or we still expect that to happen some time sooner?

**Mr. Ramkrishnan:**

That still remains our goal.

**Mr. Sonal Gupta:**

Okay, so you wouldn't say you have already achieved that?

**Mr. Ramkrishnan:**

I said that still remains our goal. As we said just now we are operating at about 240,000 on an annualized basis compared to about 300,000, which is about 80%, and you have seen the financial results. So, I think we are almost there.

**Mr. Sonal Gupta:**

Okay. And sir, I just wanted to understand what are the I think if there are any key ROW markets within JLR which are meaningful and important in the growth because we are seeing fairly decent growth on those numbers as well?

**Mr. Ramkrishnan:**

The rest of the world we have our presentation with you, the total sale as I said is about 59,000 for the quarter.

**Mr. Sonal Gupta:**

No, I just want to understand if there are any countries which are meaningful say something like a 1000 units or above in that number?



**Mr. Ramkrishnan:**

The five major ones as you know are UK, North America, China, Europe and Russia, Europe of course would include the Western Europe continent. Outside of this we have sales in Japan, we have sales in South Africa, and we have sales in Middle East. Among the rest of the world these are some of the relatively larger markets.

**Mr. Sonal Gupta:**

Right sir. And sir, just to get it straight, I mean your commodity contracts would be renewed for JLR from the second half of the fiscal year?

**Mr. Ramkrishnan:**

Yes.

**Mr. Sonal Gupta:**

Okay, and sir could you tell us how much or what is the price action you have taken on the CV side during the quarter in the domestic markets?

**Mr. Ramkrishnan:**

During the quarter , there was one price increase on the CV front effective 1<sup>st</sup> of April, approximately that was around 1% or so. Post the quarter, again July we have increased the price.

**Mr. Sonal Gupta:**

That is about again 1.5.....

**Mr. Ramkrishnan:**

Similar magnitude. The second one is 1<sup>st</sup> July, and there was one in 1<sup>st</sup> of April.

**Mr. Sonal Gupta:**

Okay sir, thank you so much.

**Operator:**

Thank you sir. Next question comes from Jamshed Dadabhoy from Citi Group. You can go ahead.

**Mr. Jamshed:**

Just a couple of questions on the Jaguar Land Rover product line up sir, we have been reading in the press that as far as Jaguar is concerned you all are thinking of introducing a car at the lower end somewhat of like a replacement for the X type or the S type. Can you give us some thought on this development?

**Mr. Ramkrishnan:**

I am sorry to interrupt. Can you please repeat the question if you don't mind?

**Mr. Jamshed:**

Sir, there have been reports in the press quoting the CEO that as far as Jaguar is concerned it is expected that probably some time next year you all will launch a new model to sort of fill in the gap that the X type has created. Could you provide some details on this in terms of what sort of capacity creation you would require for this and also the capex involved for this?

**Mr. Ramkrishnan:**

I will not be able to talk about capacity creation investment or capex involved for a particular car or a product, I think we have talked about overall investment for the business in terms of capex and product development in total numbers, it will be not possible to comment on an individual project at this stage. In generally I think directionally what he had mentioned was that we will see some movement towards smaller Jaguar and a smaller engine capacity etc.

**Mr. Jamshed:**

Okay, that is first, and second question in your opening remarks you mentioned that one of the reasons why pricing has improved this quarter is because of the acceptance of the 2010 models. Now, is my understanding flawed or is it that the 2010 models were launched in this quarter? My understanding was that they were launched about six months ago.

**Mr. Ramkrishnan:**

They were unveiled 6 months ago. The deliveries would start naturally from 2010.

**Mr. Jamshed:**

Model which are 2010 in a market like Britain and North America, which quarter are you referring to sir, from a calendar year perspective?

**Mr. Ramkrishnan:**

I will be from January, but the volumes ramp up and build up will start more towards March April and in the current year.

**Mr. Jamshed:**

I see. Sir, broadly very directionally in terms of pricing, how much pricing improvement have these given vis-à-vis last year?

**Mr. Ramkrishnan:**

Sorry, I will not be able to comment on that.

**Mr. Jamshed:**

Okay sir, thank you very much.

**Operator:**

Thank you sir. Next question comes from Mr. Jairam Nathan from Kotak. You can go ahead sir.

**Mr. Jairam Nathan:**

Hi! I have two questions; one on the annual report and one on the quarter. On the quarter can you give us an idea of the tax rate, you know, for the quarter it was 26, but how should we think about it for the full year?

**Mr. Ramkrishnan:**

Overall, I think we would target to maintain it between 20-25%.

**Mr. Jairam Nathan:**

Okay, and on JLR specifically the tax rate seemed you know pretty low compared to the increase in PBT, can you explain that?

**Mr. Ramkrishnan:**

Yes. In JLR the tax liability arises on account of the various statutory companies they have in different markets for distribution operations, what we call as national sales companies. UK profits in JLR business do not have any tax liability because of the accumulated depreciation and tax losses they have. Okay, so the tax liability in JLR mainly arises on account of the national sales operations in different jurisdictions.

**Mr. Jairam Nathan:**

Okay, my last question on the annual report, you know, we saw a significant increase in incentives/commission to dealers, it was like an over 50% increase compared to the volume growth of probably 20-25%. Was there any change in the commission structure or you know I would have expected at least on the incentive side it should have come down from compared to fiscal 09?

**Mr. Ramkrishnan:**

Not necessarily. If you compare fiscal 09 and fiscal 10, you are talking about somewhat similar year except that the position reversed in the sense 2009 fiscal the first half was very good with low market support or commission or incentives etc. in compared to a much higher requirement in the second half of the year. Last year the position was slightly different. In the first half it was still under pressure and second half improved. So, it is not a very different year except that we had to step up in between.

**Mr. Jairam Nathan:**

Okay, but still the increase was much higher than the volume increase or the revenue increase, so I am just like there was no change in the structure.

**Mr. Ramkrishnan:**

No, there was no change in structure or accounting or anything.

**Mr. Jairam Nathan:**

Okay, thank you.

**Operator:**

Thank you sir. Next question comes from Mr. Sahil Kedia from Enam. You can go ahead.

**Mr. Sahil Kedia:**

Sir, thank you for taking my question. Sir, I have two questions. You mentioned that there is a waiting period that you are seeing on the JLR side, just wanted to get some clarity that this is because of capacity constraint or the fact that the mix is different, just wanted to get some color here, and additionally, I wanted to also check if you are maintaining your capex guidance of 500-600 million pounds in JLR, I just wanted to see if that number still holds or that has been revised?

**Mr. Ramkrishnan:**

Just to clarify on the second point, I had talked about product development engineering spend of about 500-600 million and the capital expenditure on toolings, dies, etc., of about 200-250 million. So, these two should be taken together.

**Mr. Sahil Kedia:**

Okay, so that number stands, correct sir, as of now?

**Mr. Ramkrishnan:**

Yes, directionally. But, year to year it can change because of the cascading of the products and the sequencing of the produce development efforts, but broadly yes.

Sorry, the first question was on?

**Mr. Sahil Kedia:**

You were saying some waiting period that is on JLR on the Land Rover side.

**Mr. Ramkrishnan:**

I think it is a whole question of supply chain logistics and movement of the vehicles to those markets. As we explained a short while ago in the press conference, we do have some constraints in terms of engine availability, while we are dependent on Ford for the engines and Ford are delivering much higher numbers than what is contractually required, the volume requirement is even higher than that, so we are also fighting a battle in terms of engine availability.

**Mr. Sahil Kedia:**

Sir, my question is now from a little longer term because you have launched the XJ and your volumes on the Land Rover side also are doing well and you are already at close to 80% capacity. In light of this there is some talk of you shutting down one plant within JLR, so just wanted to understand how will this look, because if your demand continues you would be at optimum level of utilization very soon. So, would this mean that you would need to put up a fresh capacity either can you expand capacities at your existing plants or would you consider new plant, I just wanted to get some thought process on a little longer term point of view?

**Mr. Ramkrishnan:**

The longer term is a little premature at this stage. First of all in terms of shutting down one plant it is not so much capacity reduction, we were talking more about rationalizing the capacity the current numbers, two manufacturing locations instead of three, that is not so much a cut back, and we were also talking about this rationalization may be post another couple of years, from 2013 or beyond and not immediate. So, depending on the sustainable volume growth and the product mix, we will look at fresh investments if they are called for.

**Mr. Sahil Kedia:**

Okay, sir last question if I may, on the standalone side, what are the kind of capex numbers that you are looking at for this year sir?

**Mr. Ramkrishnan:**

In Tata Motors?

**Mr. Sahil Kedia:**

Yes sir.

**Mr. Ramkrishnan:**

In Tata Motors I would think even directionally like JLR we had said, Tata Motors we would spend something like 2500 crores to 3000 crores annually. That number I think would directionally be a valid number.

**Mr. Sahil Kedia:**

Sir, could you give us the capex for the first quarter sir? You are anyway giving it for the JLR, so can you also give us.....

**Mr. Ramkrishnan:**

Yes, can we just take a pause and get back to the earlier question that was asked?

Two questions were there; one was the net debt in JLR as of 30<sup>th</sup> June, that was about 900 million pounds. The second question was relating to product development and capital expenditure, the total spend in JLR capital expenditure and product development and others the total spend was about 270 million pounds which compares to a cash profit of about 333 million pounds and therefore a net free cash flow of about 23. As far as consolidated capital expenditure ....., okay I think your question was about Tata Motors' capital expenditure, that was about 500 crores.

**Mr. Sahil Kedia:**

For the quarter?

**Mr. Ramkrishnan:**

Yes

**Mr. Sahil Kedia:**

Sir, is it possible for you to give the break up of JLR this 270, can you just give us the break up for in terms of what is the capex versus the product development expenses sir?

**Mr. Ramkrishnan:**

It is roughly about a 100 million pounds plus on product development and engineering.

**Mr. Sahil Kedia:**

Okay fine sir. Thank you so much sir.

**Mr. Ramkrishnan:**

About 130.

**Mr. Sahil Kedia:**

130 for product development.

**Mr. Ramkrishnan:**

That is right.

**Mr. Sahil Kedia:**

Alright sir. Thank you so much.

**Mr. Ramkrishnan:**

Thank you.

**Operator:**

Thank you Mr. Sahil. Next question comes from Mr. Jatin Chawla from IIFL. You can go ahead.

**Mr. Jatin Chawla:**

Hi! Most of my questions have been answered. Thanks.

**Operator:**

Thank you Mr. Jatin. Next question comes from Mr. Pratik Mehta from Bajaj Alliance. You can go ahead. Mr. Pratik, you can go ahead.

**Mr. Pratik Mehta:**

Good evening. My question is related to I mean if you can share with us in terms of what percentage of our operating costs are denominated in Euro of let us say 1.91 odd billion pound that we spend in first quarter?

**Mr. Ramkrishnan:**

I don't think I have a percentage readily available in terms of the total operating expenditure base, but good part of our material...., mainly I presume the question pertains to JLR and you are talking about our Euro exposure in terms of imports.

**Mr. Pratik Mehta:**

Right.

**Mr. Ramkrishnan:**

We do have a fairly large quantum of imports from Europe as we said earlier in terms of exports, our exports in Euro will be around roughly about 20% of our total and the imports are larger than that, so that net-net we are a consumer of Euro rather than receiver.

**Mr. Pratik Mehta:**

But would you be able to give some broad idea in terms of would it be let us say 30% or ....?

**Mr. Ramkrishnan:**

It will be more than that, it will be between 40-50%.



**Mr. Pratik Mehta:**

Okay. Second question is you know in our annual report there is an item in terms of loss on redemption of investment in preference share held in a subsidiary company which pertains to.....

**Mr. Ramkrishnan:**

You are talking about the last quarter, Q4.

**Mr. Pratik Mehta:**

Yes, this basically is 850 crores which is there in our annual report wherein you know there have been redemption to TML Holding Singapore. So, can you just explain in terms of what this pertains to and I mean what was this required for?

**Mr. Ramkrishnan:**

Actually this pertained to two companies that we had formed for the acquisition of Jaguar Land Rover, we formed one special SPV company in Singapore and one SPV company in UK, these were the vehicle companies that we used for acquisition of Jaguar Land Rover. These companies were capitalized through a combination of equity and preference share and the entire acquisition related expenses as well as some of the debt servicing costs were accumulated in these companies which results in an accumulated loss being carried forward in these companies. As a one time correction of the balance sheet and setting right the losses, we allowed the companies to redeem their preference shares which Tata Motors has invested in those companies at a deep discount so that their loss is set right and the balance sheet was cleaned up.

**Mr. Pratik Mehta:**

Okay, so basically this was an exercise to clean up the balance sheet of the subsidiary and loss being booked in one particular quarter.

**Mr. Ramkrishnan:**

That is right. It is an inter-company transaction between the parent and the subsidiary.

**Mr. Pratik Mehta:**

Which gets netted off in the consolidation exercise.

**Mr. Ramkrishnan:**

Absolutely.

**Mr. Pratik Mehta:**

Okay, thank you

**Mr. Ramkrishnan:**

Thank you.

**Operator:**

Thank you Mr. Pratik. Next question comes from Mr. Jinesh Gandhi from Motilal Oswal Securities. You can go ahead.

**Mr. Jinesh Gandhi:**

Thanks. My questions have been answered.

**Operator:**

Thank you Mr. Jinesh. Next question comes from Sai Anjali from Capital Market. You can go ahead.

**Ms. Sai Anjali:**

Hi! I would like to know you were saying that going forward for the Indian business we would consider a price action, if I am right, with regard to the commodity prices.

**Mr. Ramkrishnan:**

Yes.

**Ms. Sai Anjali:**

So, when would that be and how much?

**Mr. Ramkrishnan:**

That is a question I have no answer for.

**Ms. Sai Anjali:**

Okay, but tentatively do you all have any plan, and also with regard also to the emission norms what kind of price increase are we going to see there?

**Mr. Ramkrishnan:**

The price increase will be dependent on our call on the market absorption, we still have time; there will be a price correction.

**Ms. Sai Anjali:**

Okay, also you will have actually plans to have additional long term resources to be raised and increase the borrowing limits, could you throw us more light on these things?

**Mr. Ramkrishnan:**

We had taken the share holders' approval through a postal ballot recently, the results have been announced today. The postal ballot last date was yesterday and we have announced the results today. All the resolutions have been passed with 93, 94 or 98% agreeing to the proposals. There were three broad proposals. The first was an enabling approval from the share holders for raising up to a billion dollars by way of equity or equity related instruments – the shares, ordinary shares or the differential voting shares or convertibles in domestic or in overseas markets, an enabling resolution. We have also taken the approval of the share holders for allowing the convertible instrument we have issued in 2005, which was convertible into an alternate reference security, we have taken the share holder approval for enabling allotment of a ordinary shares, a differential voting share against this convertible bond, that is the second in principle approval. Thirdly, to provide for the future requirements and if possible to benefit from managing our interest costs better, we have also taken additional borrowing powers approval. These three approvals are all enabling approvals, and we are examining some options and as and when it is desirable, we will go ahead.

**Ms. Sai Anjali:**

Okay, also I mean most of the companies are talking about you know supply constraints on \_\_\_\_\_ side, so are you also seeing that happening with you also?

**Mr. Ramkrishnan:**

Yes, we do have issues, I said a short while ago in the call as far as Jaguar Land Rover is concerned, we do have a constraint in terms of engine availability from Ford, even though Ford is supplying beyond their contract or indicated volumes we are trying to see if we can get even more engines, because the volume growth is quite strong. As far as the India business is concerned, from time to time we do have some constraints on tyres, FIPs (Fuel injection Pumps) etc.

**Ms. Sai Anjali:**

Okay, but how do you see it with the festive season coming and also then this pre emission norm buying, then there are the Common Wealth Games, so how do you all see you all are going to handle the situation, do you think that is going to hinder it or what is your view on it?

**Mr. Ramkrishnan:**

We are hoping to do the best we can, but it is a daily fight for growth.

**Ms. Sai Anjali:**

Okay.

**Ms Namrata**

Can we take the next question from Srinivas due to constraint of time please? And that would probably be the last one.

**Operator:**

Okay fine. Last question comes from Mr. Srinivas Rao from Deutsche Bank. You can go ahead.

**Mr. Srinivas Rao:**

Sir, just two questions; one, you have mentioned Evoque in your release, that is the LRX, just want to confirm that.

**Mr. Ramkrishnan:**

That is right.

**Mr. Srinivas Rao:**

Secondly, you mentioned that the engines are coming from Ford, so, two related things, one, since you are buying more than the contracted amount, is there a higher price for that? Secondly, given that the engine would be a large part of the component basket and transmission also is purchased, how much of this sourcing is from low cost countries and how much can all those things can actually impact the bottom line even on a slightly longer term basis?

**Mr. Ramkrishnan:**

As far as Eoque is concerned, that is the LRX.

As far as the engine is concerned, we can work with Ford even for better management of the cost. We do work with various suppliers on the suppliers' cost management as well.

As far as the additional volumes are concerned, no, they are not at an incremental price.

**Mr. Srinivas Rao:**

Okay, I mean basically if you are able to reduce the cost of the engine that benefit comes directly through you, I mean even though it is sort of assembled by Ford?

**Mr. Ramkrishnan:**

It will be like it happens in many situations, even in India it happens, many times we work with the suppliers and agree on both sharing the benefits of any cost improvement.

**Mr. Srinivas Rao:**

True. Okay, fair enough sir. Thank you so much sir.

**Mr. Ramkrishnan:**

Thank you.

**Mr. Govindrajan Challappa:**

Can I ask one question, Govind here?

**Mr. Ramkrishnan:**

Oh! Yes, sure.

**Mr. Govindrajan Challappa:**

Sir, there have been some talk about equity raising, and one of the proposals being considered is raising through the differential voting shares and the concern with lots of investors seems to be that you know you will be diluting that with an instrument which is trading at 30-40% discount to the main shares. So, what is the thought process, if you could just clarify no this issue?

**Mr. Ramkrishnan:**

That surely is an instrument that we will look at, that is one of the options the company has today, and the approval we have taken from the share holders enables us to allow issuance of a ordinary shares as well. As you said depending on the overall dilution and overall pricing levels, we will look at these options.

**Mr. Govindrajan Chellappa:**

Okay, but you know the fact is even today the a shares are at 30% discount to the normal shares. So, would you be considering if the discount remains at these kind of levels or higher, would you still be considering, I mean obviously I don't expect you to commit, but would you be considering at all diluting through the a shares.

**Mr. Ramkrishnan:**

It is good you said you do not expect me to commit, we are looking at all options, we will do something which is most optimum from all points of view.

**Mr. Govindrajan Chellappa:**

Okay fine, thank you sir. Mamta, we can close the call.

**Operator:**

Thank you sir. That does conclude our conference for today. Thank you for participating. You may all disconnect now.

**Mr. Govindrajan Chellappa:**

Thanks all, thanks for participating. Thanks Mr. Ramkrishnan and the team.

**Mr. Ramkrishnan:**

Thank you.