

“Tata Motors Limited Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Tata Motors Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Aggarwal. Thank you, and over to you, Sir!

Yogesh Aggarwal: Thank you, Aman. Good evening, everyone. On behalf of HSBC Securities, I welcome you all for the Tata Motors quarterly results conference call. I am very happy to introduce the Tata management team. Today we have with us, Mr. Guenter Butschek, MD and CEO; Professor Dr. Ralf Speth, CEO, JLR; Mr. P. B. Balaji, Group CFO; and Mr. Ken Gregor, CFO, JLR, along with members of the Investor Relations team. Thanks again to the management for taking out time today for the call. We will start the session with some commentary from the management, followed by Q&A. Over to you, Balaji!

P. B. Balaji: Good evening all of you and firstly thanks for attending this call. What we have tried to do today is that, we have given you the investor deck quite early on and base this popular request that we don't cover all those the slides, we only talk briefly about the things that you want us to highlight. I am not going to go through all the slides, but I will skip to the slides that are going to be relevant for this, if you would like to talk about a little bit in highlight and have far more time for Q&A, so that is the broad plan. So what I will try to do is, in the slide I will refer to the page number, so they can quickly skip to the particular number.

So with that, let me move to the Safe Harbor statement that is slide two. Nothing different here barring drawing your attention to an accounting change on IAS 20 to Ind-AS 20, which you can read at leisure, it is basically bases the institute statement on how brands have to be accounted, here we have followed that, so otherwise nothing there.

Moving onto slide three, which is the products and other developments, very, very action-packed quarter for both JLR and Tata Motors, and you see the products that are new and upcoming products that you see out there, in particular draw your attention to E-PACE, that is launching in China in September, and as well as some of the limited editions of Tata Motors, which cleared a fair amount of buzz in the Indian market. We will talk about that later as well.

The other big developments for the quarter has been the launch of project Charge and Accelerate, we are going to spend quite a bit of time on that, Ken, will walk us through that during the course of day today, as well as the inauguration of the Slovakia plant which happened last week. So an action packed quarter again.

Moving onto slide four, which is about market conditions, I think, it is fair to characterize the market conditions as tough and in particular the unanticipated decline in China took us by surprise as it did the market as well and while the situation in the other parts of the world be it in the U.K. or in Europe continue to be what it was in the previous period. China has been a surprise element for us this quarter. And India as far as Q2 is concerned continued to motor along, and I think, demand continues

to be strong on the India business there. So in this kind of conditions, I think performance has been impacted by these conditions in the market.

Moving onto slide five, this is how our P&L turned out with revenue of Rs.72,112 Crores and an EBIT of 1.7%, and an EBITDA of 10% is what we finally delivered. The mix of two stories, where in Tata Motors standalone, the growth, as well as the EBIT motoring along well and the challenges in the market didn't come through as far as JLR is concerned. So that is, be it on the EBIT line, be it on the turnover line as well.

So let me move on to the slide number six is known to you. So you can read it at leisure, what are the contributors of the growth. I will skip this slide.

Slide seven is also similar one, just an EBIT waterfall, where is that money is came from and where did monies go out off, we will skip this as well.

As far as slide number eight on the revenue growth, it is an 8% growth for the half year and an EBIT of 0.5%, and the FCF outflow of Rs.23000 Crores is probably the biggest line item for us to keep an eye on.

So let me now hand it over to Ken to talk about the challenges and the performance of JLR moving on to slide 11. Ken, over to you!

Kenneth Gregor:

Thanks, Balaji, and good afternoon to everyone on the call. Thanks for taking the time to join us. I am going to cover the JLR results for the quarter. We are obviously disappointed with that, because there is a loss of 90 million in the quarter. I will explain that and I'll also talk about the revised outlook that we have for the full year. But the most important thing I want to do is come to the decisive actions that we are taking in order to turnaround that performance, which I will conclude with. So those are the three parts of my presentation. Like Balaji said, I would not talk to every slide, because you have the full deck I will just focus on the ones that help guide us through that path.

Slide 11 has the highlights of the quarter which shows a loss of 90 million on the back of seeing lower sales, which I will come back to, and a warranty action included within the numbers of just under £40 million. Higher depreciation, amortization that obviously continues to run through our income statement based on the new models that we are introducing and some startup costs from our new manufacturing plants, all of that partially offset by reductions in other costs but not big enough to avoid a loss for the quarter. The first half numbers then build on that. So it is a lower loss than we had in Q1 but still a loss and you can see them have the half one numbers play out.

The next slide I was going to pause on, the slide 13, which gives you a picture of the overall retail sales and development in the quarter. Really the biggest feature in the quarter driving the overall sales result to be down 13% to 130,000 units whilst the sales performance in China, where we are very much seeing weaker consumer confidence on the back of the tariff changes and the trade tensions that

are taking place and the slower economic growth that is taking place in China having a disproportionate effect on our sales results down over 40% in the quarter from a year-to-year perspective, and similarly that impacting the wholesale volume as mentioned on the charts and therefore resulting in a weaker financial result for the quarter.

Slide 15 talks to some of the movements in the quarter. Here you can see the comparison versus a year ago. You can see the impact of the wholesale volume being down 23,000 units year-on-year and the impact of modestly weaker net pricing. You can see the impact of the warranty action I talked about and the extra plant costs that we have by virtue of the fact that we now have Graz producing E-PACE and I-PACE and we have Slovakia just in its launch phase right now, which is a good thing. There are cost actions and other items giving us almost £100 million of year-on-year improvements. However, being offset by a higher depreciation and amortization cost and you can see the foreign exchange was about flat year-to-year.

Slide 17 was the next slide I was going to touch on that talks to the cash flow which for the quarter was £624 million, working capital being about flat in the quarter slightly negative due to inventory being higher, but the big driver being obviously the loss that we had and the roughly £1 billion of investment spending that we had in the quarter.

That was the quarter and now just moving on to what I really want to talk to was slide 19 that starts to talk about what we are doing about the business results we face.

We have launched a turnaround and transformation plan in order to address the aspects that are causing the weak business results that we see. Clearly, we are needing to respond to more challenging market conditions and we understand that actually we may continue to see demand more muted than we would wish due to whether its Brexit, whether it is diesel uncertainty in Europe, regulatory issues, whether it is the China market continuing to be uncertain due to trade wars and tariff changes those things, and therefore our plans need to be shaped to take account of that more challenging market environment.

We clearly still want to grow our sales and rejuvenate our sales portfolio, sales performance and leverage the strong portfolio we had and resume profitable growth in China. We will talk a bit about that. We absolutely have to improve our cash flow and profitability. I will talk about project Charge and we have to fix deeper longer-term structural issues with project Accelerate that we have talked about before. Just taking each in turn, the really good thing about our business slide 20 we have a very strong model portfolio that is fresh and that we can leverage and we have some other models in the pipeline such as the new defender, which we have hinted that coming now with the spy shots that made its way into the media somehow and a couple of other models in our pipeline, and we have refreshed some of our existing car lines planned in the normal way through the lifecycle of those models. So the great thing is we have a very exciting pipeline of models, as well as fresh new models from which we can leverage and we will.

Slide 21 talks to China. Clearly, China is fundamental to the Jaguar Land Rover business, and we need to resume profitable growth in China. There are definitely challenges around consumer confidence, around dealer profitability levels and dealer stock levels that we have experienced and some of our competitors also experience. However, at the same time, there is still continuing premium segment growth albeit slower than we have seen in the past and there is the lower import duty for EU, UK cars into China than we saw in the past and also lower imports from the US. So, we are working in close collaboration with our retailer network to ensure healthy development for the future. For their businesses and for our businesses, in particular to balance supply and demand, in response to the market conditions and avoid otherwise further escalating incentive levels. We localized the fifth Jaguar Land Rover vehicle to be built in China the Jaguar E-PACE so that is just in the phase of ramp up as we speak and we have commitment to continue to collaborate with our partners as part of our strategy in China. And of course, we are going to continue to leverage and build the strength of both brands in China to support a pull strategy, which is what we really wish to aim for, because that supports higher transaction prices and that supports higher margins for both Jaguar Land Rover and it is and our dealer partners.

Just moving on, as we talked about product portfolio. I have talked about China, project Charge is very important for our future. Clearly, the losses that we are generating are not something that we like or can sustain, and therefore we have launched the project to drive a two-year to three-year turnaround plan to improve profitability and cash flows.

Focused across the entire business with a very high level Steering Committee together with representation of the Jaguar Land Rover PLC board members in the shape of Balaji and Hanne Sorensen, as well as Ralf and myself and my other executive committee members supported by consultants from Boston Consulting Group and an internal team that is mobilized with functional representatives from all across the business, meeting every two weeks making fast decisions in order to drive cash and cost improvements.

We have set ourselves some ambitious targets for that, to deliver £2.5 billion of costs, cash and profit improvements through the end of FY2020. And just to give you the shape of that because I know you will be thinking well, how have you got to such a massive number, how are you going to achieve that and it is a good question. We are revising down our plans on investment, while still seeking to protect the core of our product portfolio, because that is our lifeblood for the future, this business is about having fantastic products that our customers will love for life.

That said, we are seeking to reduce the investment from the previous level that we are running at roughly £4.5 billion per annum to target £4 billion in both this fiscal year and next fiscal year and thereby reduce what otherwise would be the cash flow by about £1 billion. In the second half of FY2019, we want to drive over £0.5 billion of inventory and other working capital improvements and going forward we are seeking to drive £1 billion of profit improvements and cost reductions. So those are sizable targets but that is what we are mobilizing the business about.

Slide 23 gives you a sense of the scope and broadly as you can see, it covers the scope of the entire business, everything from product and programs through what we do in China to be successful to IT, tax treasury through overheads, admin, sales, volume forecasting, inventory, working capital, everything is part of this approach. That is really what that slide says.

Slide 24 gives some specifics of what we have been doing, as well as reinforcing the targets. We have already commenced reducing the investment spend, which we previously guided would be £4.5 billion for this fiscal year, we are now targeting closer to £4 billion for this fiscal year and for the next fiscal year. And that is in progress the actions to deliver that are in progress. We are looking at stopping and/or deferring non-product spend and looking to alternatives there, and reviewing every line of our investment spending.

The working capital actions are underway and as you would have many of you would have read in the press we have been taking action to cut production. Specifically, for example, a two-week shutdown at Solihull in the second half of October and a three day week at Castle Bromwich and those actions of which there will also be more targeted to reduce inventory and ensure that we balance supply with demand. Our activities do not just span the industrial side of the business they also spend the commercial side of the business in marketing and selling. So, for example, we have already identified and implemented a £100 million of savings in fixed marketing and selling costs this fiscal year.

And we are, of course, looking at organizational efficiency and how, overall, we are designed and what that means to our headcount and employment levels within the business, and the employment costs we have within the business, as well as taking the obvious steps you would expect us to take on things like recruitment, freeze, stopping nonessential travel and those sorts of things.

Slide 25 talks to Accelerate, which we have talked to before. But it is really intended to address some of the underlying root causes and we have installed program leads across the business to create dedicated teams to each of these three programs at work, across enhancing our sales performance, delivering competitive material and variable cost for our products, and thirdly, by reducing delays in our new model delivery and deliver our customers the highest quality that they demand, and rightly, so.

And the slide gives some sense of the things that we are working on across those three pillars in order to address the root causes for these things and give us build on the project Charge, turnaround and transformation activity in order that in the medium-to-long-term we also address these factors. I guess your sense of what we are doing about the challenge. Just to pull it back to a little bit of the present and how we see the full year.

Slide 26, broadly says, we do still see the opportunity for stronger sales in the second half of the year compared to the first half of the year based on the new and refreshed models, some of the seasonal factors that help us and subject to us delivering the improvement in China and those things would give us the opportunity for stronger sales in the second half of the year. However, what we are saying

is overall that would result in sales for the year, which would be roughly in line with the sales that we saw last year.

Slide 27 builds on the theme in terms of what do we see the profitability performance, the margin performance of the business in the second half of the year and with the losses behind us in the first half of the year we, of course, want to target and are targeting profitability in the second half of the year; however, given the lower volume outlook and the weaker China conditions that we are experiencing, we are now saying that we expect the full year to be about breakeven due to those challenging market conditions and China factors.

On cash flow on slide 28, what we are saying is that, we do continue to target and expect positive cash flow in the second half of the year. In particular, on the working capital side, whereas I have said, we are targeting over £0.5 billion of working capital improvement and inventory reduction in particular in the second half of FY2019. However, given that the first half has already been negative to the tune of £2.3 billion, I therefore expect the full year cash flow to remain negative for the full year. And the final bit of guidance I have already mentioned, which is within that we are targeting the investment spending to be closer to £4 billion now than the £4.5 billion that we have been guiding to this point.

So with that, I hope I have covered both the fact that we had a loss in Q2 and we are clearly not happy about it. We see and revised our guidance for the full year based on the challenging market environment that we do not like, but we have to face up to and the challenges in China. But I also hope I have given you a sense of the very clear actions that we are taking to turn around the situation. And with that, I am going to hand back to Balaji to take us through the balance of the presentation.

P. B. Balaji:

Thanks Ken. Moving on to Tata Motors, I am on slide 31, revenue at 33% growth and an EBITDA of 4.5% of revenue. This gives us the confidence that talk about later to each of the profitability plan that we are internally working on there.

The PBT number of 150 Crores includes one-off charges and foreign currency re-val of between the tools and close to about 450 Crores and that needs to be added to the number arrive at the underlying PBT there. I am very happy to see the positive free cash flow of 600 Crores in the quarter. So that just tells me clearly the turn of two points was continued to gain momentum and we intent to try with that today.

Moving on to slide 32, just gives you the rock of the PBT numbers. I will draw your attention to three numbers there. One is savings from impact projects giving us almost 440 bps of improvement in profitability. The other one is the number with respect to some of the things that we always keep discussing on in terms of the discounting in the market, between volume, price, mix, net pricing, commodity impact and savings that we are actually positive, which means that we are actually stepping up realizations that we are having and covering for costs more than what the inflation is which is another good piece.

The last number is the fixed cost number of 3.9%, which just tells you the controls we are putting in fixed cost to ensure that we are able to deliver the operating leverage that we have. This is an area you would expect to see us continuing the action on and we will report back at appropriate intervals. So this combination has given us the 360 bps improvement in EBIT.

Going to the next slide on free cash flows, just for information how the positive free cash flow came from, basically investments being fully funded from cash from business. So, I will probably skip slide 34, move on to slide 35, which is the CV business, we are delighted to see that market share continued to increase, we are at 46% now, so the turnaround underway and a pretty elaborate set of actions implemented, which we shared with you in Investor Day, be it on customer engagement, be it on service levels, product pipeline, better and healthy process.

But there is one area which we put a lot of challenge for us this quarter, particularly is with the regulations changing on the axle load and the confusion that got created in terms of the one segment shifting from one to another, pretty nimble management on that front which we are happy about, and of course, the cost agenda continues to apace on that one.

Going to slide 36, this meant that the from a profitability perspective, EBIT at 8.7% and EBITDA is stable. As far as Q2 is concerned of last year there was few one offs in the base, but we should probably look at Q1 and Q2 together, because we had such a bad Q1, you also meant that some of your EMEs did not get spent in Q1. It had to be spent in Q2. So do not read it as a H1 number, but more importantly for the last three quarters EBITDA has been pretty stable.

Despite enormous step up in commodity inflation, the rupee depreciation, as well as other challenges in the market, in terms of axle loads, etc. So that meant that we have to be really on our toes on impact project savings, as well as driving mix harder to hold the EBITDA line. So quite happy with the way we have managed this and this is something, which we will continue to improve going forward.

So moving to PV, I think, the market share is up 50 bps, which is great news, particular call out to the 2 being in the two in the J.D. Power Customer Service Index. We went earlier last year we were joint two, this time we are the only two, which is good, and market share increase continues apace. This is the 33rd month we have grown ahead of the market and the market conditions particularly this quarter have been very, very poor for PV, which you are already aware of.

Moving to the next slide, something that, all of you have been asking me in terms of how sustainable is the PV turnaround. Happy to report that the EBITDA breakeven have been reached and we intend to keep building on this as we go forward, and this has happened despite seriously prime times from costs side, as well as market conditions side as well. Probably 39, I will skip but at this point in time, other than calling out EV deployment is now across multiple cities and the EESL's Phase 1 production is complete and Phase 2 has down been activated as well.

Moving to slide 40, I would probably stop for a minute on this one, to just share with you, our thinking on how we take Turnaround 2.0 and how we intend to push it forward. Starts with ensuring volume growth, we want to ensure volume growth is ahead of industry and we also want to ensure pricing is ahead of net inflation to secure MIPs. These are the two things, which you want to design the business on. And thereafter, we want to we will require, I mean, absolutely, clearly, focus on reducing breakevens through aggressive savings and when we do that, we will also ensure that, we want to drive process efficiencies to ensure working capital cycles are well controlled. This is the fourth intervention that we will make.

And when we do this, we also want to be sure that we are spending capex prudently and proactively at the same time in order to ensure that we are investing for growth going forward. And this alone is not enough. Whatever plans we put in place we have to stress test this plan to deliver value even in down times downturns. This is the way we are thinking about this business and you will find all our interventions are fundamentally falling within these buckets in order to ensure that we deliver value even doing fine times. So this is new for Tata Motors and that is something that we are very keen. We implement with Gusto in the coming years as well.

Moving on to slide, I will probably skip the slide on other development other than saying, no, actually let me skip it and go forward. Let us move to Tata Motors Finance, maybe there are two comments I will make on that. Despite challenges on liquidity this business continues to more prolong pretty well for us. Disburse the results, market share is up, ROE is up, G&P is down. So everything about it is going in the right track, so Tata Motors is now infusing 300 Crores of equity in October and we will probably do another 300 Crores of equity of during the course of this quarter and that is to ensure that we bolster the balance sheet of Tata Motors Finance and it will help us gear up and also finance our commercial vehicle business.

And we have been waiting for this turnaround in the Tata Motors Finance performance to ensure that they earn the right to grow where we want them to. Happy to report that has happened, and therefore, we are now going all in as far as Tata Motors Finance is concerned.

Let me take net debt out, and probably, go onto slide 45 and 46, yes net debt has net auto debt has increased by 8000 Crores odd from June of this year, primarily due to the cash outflow in JLR as we have talked about. But I would reassure you that the liquidities are adequate and the debt maturities are very well spread out.

We will have another \$1 billion of loan that is that we have signed in September and which we have drawn down in October. And with these two together the proforma liquidity of JLR stands at £5.3 billion at this point in time and Tata Motors is 4800 odd Crores. So there is adequate liquidity at this point in time and with our interventions both Charge and Turnaround 2.0 are focusing on a very strong cash recovery in the second half and going forward and on top of that is the fit for future

actions as well. So we believe we are well placed as far as liquidity is concerned in addressing the challenges of the market that is there in front of us.

So let me then move onto the outlook slide. Maybe I will stop a minute for slide 47 so that you can admire the new Harrier that is there as well as I-PACE that you have in front of you, cars that you will die for and let me move onto the outlook.

As far as the global market conditions we have talked at length, I think, it will remain challenging and China being a significant concern for us, so therefore that is a reality. And therefore the response to that from a JLR side is to ensure that the Project Charge is launched because demand will be uncertain means that we need to improve cash flow, but at the same time focus on growth.

So but the unfortunate part is as far as China's slowdown has resulted in a disappointing FY2019 for JLR for us, and therefore while we expect to see an improved performance in H2 on all matters, the sales, the profitability, our free cash flow, I was personally disappointed that we are just having flat growth rates and EBIT breakeven only unlike the 4% that we had originally planned for, not able to deliver that is really disappointing. But the plans are robust and the plans are granular, the plans are owned by the business and driven with a lot of intensity and therefore this to a target of £2.5 billion of profit opportunities and cash opportunities over the next 18 months is absolutely crucial for us, which we will be reporting back every quarter.

The investment plan and we are showing our intention to also already confirm that we have calibrated our capex down to £4 billion in this year and next, and then, thereafter 11% to 13% thereafter, that is a revision in the investment plan. But as far as next year onwards is concerned, this planning for EBIT 4% to 7% is a one year aberration, and thereafter, we will intend to get back into the roadmap that we have laid out.

Coming to India, Indian business, while Q2 has been good for us. We are cautiously optimistic on CVs coming in the near future. And as far as PV is concerned, the near what has happened in Q2 in terms of market declines are cause for concern and I look immediately forward with the liquidity in the market, the inflation and interest rate risks in the market and the rupee depreciation does leave us concerned on that front.

But from our side, we think that the external, let us do all that we can to ensure that we drive all-around performance to Turnaround 2.0 that is on and given a delivery of 4.5% for the second quarter, we believe we are on track, we could improve this further, because the market conditions at this point in time do not warrant us to take anything different from that and as far as the medium to long term remains as it is. So it is that is where we are. We are now I overrun by about five minutes to my plan so let me now hand it over to you back to Q&A.

Moderator:

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

- Chirag Shah:** Thanks for the opportunity and congratulations for good results in tough times. Sir, I had one question on the capex for JLR. Frankly, I was expecting a slightly larger cut in the capex outlay. If you can help us understand that in FY2020 when there will be no major growth capex, what are the areas that we are likely to spend this £ 4 billion?
- P. B. Balaji:** Ken would you like to take it?
- Kenneth Gregor:** Sure. As I said at the beginning, yes, we are reducing the capex spend compared to what we would otherwise have been spending, planning to spend, but we are still committed to delivering fantastic products that our customers love for life. And in that respect, we have got a model pipeline that has got more new models coming in addition to the ones we have already launched. We have refreshes of those models coming and we have electrification plans and partnering plans across all of our model lineup that are, clearly, important for the future. And those plans broadly drive that £4 billion of spending in each of FY2019 and FY2020, roughly split half and half between engineering, the physical tools and equipment to infrastructure required to support those new models and facilitization.
- Chirag Shah:** Thank you very much. Sir one question on this demand in Europe as a whole including UK, anti-dieselisation sentiment seems to be there for some more time. So how are you looking to handle that, because you have a very big exposure of diesel portfolio over there?
- Kenneth Gregor:** I mean on the positive side, the vast majority of our customers are still choosing our diesel engines in the UK and Europe, because of the fact that they offer performance as clean as petrol, but at 25% more fuel economy. So from the first point of view in terms of what we are doing, it is continue to ensure that our customers understand that and potential customers understand that those engines are so clean and offer fuel economy better than petrol engines. At the same time, of course, we work with the Governments and regulators to ensure that those messages get across in the marketplace. And thirdly, of course, to the extent that we need to react the good thing is that we do have a certain amount of flexibility across powertrains in terms of our model lineup given our engine manufacturing facility in the UK and the mix of powertrains between diesel and petrol if consumer demands do shift. But actually our customers continue to choose diesel engines despite, the uncertainty which we do believe is having an effect.
- Ralf Speth:** And I guess, I would just want to add that at the end of the day, we have to go away from our very emotional discussion, back to facts and figures. As Ken already alluded, the diesel engine is a very, very competitive engine in terms of particular NOx emissions but even more so in terms of CO2 and we have to think about all these kind of factors and that we will have the diesel engines for a very long period of time still in the product program. We need to have diesel but also petrol engines in the future. So therefore we also have to refine diesels and petrols and obviously we have to refine the internal combustion engines and cannot only really just on one technology. Battery electric vehicles are the future, but we have to have and offer a variety of choices for the customer.

- Chirag Shah:** Just an update on WLTP, is WLTP issue sorted out and behind us and it is a business as usual or there are some impending issues left over there?
- Kenneth Gregor:** Broadly, yes. The tests have been completed and the cars are being certified barring maybe one or two out of hundreds of tests. So basically, yes, that issue is dealt with.
- Chirag Shah:** Thank you very much and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Thanks for the opportunity. Congrats on the strong cost control that we are starting to see. My question was firstly on volumes. We have talked about flat volumes for the full year, which implies a significant improvement in run rates that we have been seeing in the first half. So and particularly if you could give some colour on how much of it do you expect from seasonality and new models? And also if you can talk about what is really happening in China because the first half volumes have significantly underperformed the market growth and what do you see happening there?
- P. B. Balaji:** **Ken**, I have brought up slide 26 for you, so you can stick to that.
- Kenneth Gregor:** Thank you. Yes. I mean in terms of let me take the last one first, in terms of China. Certainly, we have seen a significant volume reduction in the quarter and that is being driven by a mix of factors, GDP growth is slower, consumer confidence is lower and our retailers have also been suffering with profitability and also incentive levels have been rising. And when faced with those circumstances, it is fair to say that one could take the response to push more volume and continue to raise the incentive levels. But that risks devaluing our premium brands and that is not necessarily what we want to do, and to continue to drive higher incentives in order to push volume, which ultimately would not be profitable for us or our retailers. And therefore, what we really want to do is drive a pull strategy in China and elsewhere frankly which would enable us working with the dealers to enhance their profitability, dealing with the reduction of our dealer inventory, which we've have been working through in the second quarter and thereby consciously seeking to take action to move ourselves to a situation where we protect our premium brand image and target more sustainable profitability in the future. I think it is fair to say that we would also certainly like to see trade tensions between the US and China easing but that is outside of our control. And for all the actions that we are taking and we will continue to take I suppose one uncertainty will be the extent to which consumer confidence returns and we see those trade tensions easing and giving people who buy cars in China the confidence to spend their money. So we look to that but we are clear on the actions that we are taking. In the balance of the year outside of China, from a positive point of view we do have a model lineup that is fresh and we have just launched E-PACE as a locally produced car in China, for example, the I-PACE volume is ramping up and we also have a freshened 2018 model year Range Rover and Range Rover Sport and the first full year Velar here with us. So, all of those things give us the opportunity to drive improved sales performance in the second half of the year. From a seasonal perspective, without giving a precise number, the UK is stronger in the second half of the year

because of the March season. I mean, roughly 40% of cars in the UK are sold across March and September, and March is still in front of us, so that is important. And the US typically has a stronger selling season associated with the model year change and in advance of the Chinese New Year, although the Chinese New Year itself is not a good time for selling cars. The period from there through until then in a normal environment would normally be a strong period for China. We look to those things and the actions we are taking in order to seek to grow our sales in the second half of the year. But it is, obviously, subject to the market conditions that we find ourselves in particular in China.

Kapil Singh: Okay. And my second question was on margins. Should we expect slightly tougher margins in Q3 given that market conditions are tough and the Slovakia plant is starting before we see improvement in Q4?

Kenneth Gregor: The short answer is, yes. We actually say that I think on slide 22, we have a little strap line at the bottom of the chart, if you just call that one up we are getting slide number on.

P. B. Balaji: I mark it up, Ken, in slide 27.

Kenneth Gregor: 27, sorry, and just to be super clear the, you are correct, that the some of the actions that we are taking to reduce production to align to reduce inventory and to align supply with demand hit harder in Q3, and therefore, less production means less wholesales of vehicles. That is good from the point of view of reducing inventory is clearly bad from the point of view of revenue and profitability. So, actually, we are saying that we would expect Q3 to be relatively weaker due to that with the improvement that in the second half really coming in Q4.

Kapil Singh: Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Bank of America. Please go ahead.

Sahil Kedia: Thank you for this. I wanted to get a sense of how fast we should expect the Slovakia plant ramp up to happen in terms of productions. And can you give us a sense of the cost that we have seen associated with the starting up of the plant. Is that for the full quarter, is it been for or not for the full quarter and how should we think about that as we as the production ramps up?

Kenneth Gregor: On the plants, it is in a phased ramp up stage right now, just starting relatively low volume of build of the Discovery, which is ramping down production at Solihull over the next roughly six months. So we will have a period of dual running between the plants before production in Slovakia takes over fully from Solihull and at which point we will be producing Discovery there. As you know and we have talked about in prior periods we have plans for another model to be produced in that plant, which will then start to build up the volume in the plant towards the capacity of the first phase. But that is when over the course of the next 12 months to 18 months we will start seeing that development. In terms of the plant costs in the quarter that is probably around about just to give you a sense £20 million/£25

million pounds in the quarter. I do not have all the details to my fingertips to be able to give you a more precise answer on exactly how that develops. But, clearly, what I would say is the plant operating cost is very competitive due to its position in Slovakia and the lower cost base that we have there relative to the UK cost base.

As we move forward in time and as the plant utilization levels increase I expect to see that be a positive contributor overall to the efficiency of the Jaguar Land Rover business because and together with that by the way, as well as the lower labor cost for the manufacturing plant itself the opportunity to source parts for the vehicles that would be produced there from a wider supply base in Eastern Europe. So that is something that, again it will take time to see the benefits of in our results, because really we need to plan to be at full utilization of capacity, which as we launch the second model in there we will get there, but we will then be reaping those benefits of efficiency of that lower cost footprint.

Sahil Kedia: In the meantime there should be higher depreciation costs attached to the plant, considering the plant has just come on stream is that right to expect?

Kenneth Gregor: Yes. Also again I do not have the specific figure at my fingertips to be honest with you, but part of the growth in depreciation and amortization that you should expect to continue to see will be coming from the manufacturing facility, yes, that is true.

Sahil Kedia: And one more question here. The warranty actions of 39 million that we have taken this quarter, which seem to be additional as per the commentary from you guys. Is that a one-off or is this now kind of the new run rate that we should expect when we think about the other expenditure line in your P&L?

Kenneth Gregor: In principle that is a one-off to deal with some specific issues that we needed to deal with.

Sahil Kedia: Okay. I have one follow up question. This is to Balaji, there seems to be some one-off charges in the standalone earnings. Can you tell us what those are, for please?

P. B. Balaji: If you recollect we had called out for 'Fit for Future' in each of the cases, and wherever we are looking at investments we do not intend to invest the forward we have taken those charges and that is what hit us in the domestic one. We believe we are nearing the end of scrutinizing our investments. But yes, let us keep a close watch on that. The other one that hit us in the PBT was the forex, foreign currency revaluation of about 250 Crores that is the second item there and on the consolidated you have a hit coming fundamentally because of the restructuring charges we had to take on Thailand, which we have called out last quarter in terms of the decision to exit manufacturing operations. Those are the costs there. But that is again there is a true cost that has been taken there.

Sahil Kedia: Just to clarify Sir, the 8.7% EBITDA margin that you guys have reported, based on your based on the filings it is more like 6.2%. The difference is all either the FX or the one-off, is that correct?

- P. B. Balaji:** No. The other way round, because some of these, the close to about 100-odd Crores out of this one-off charges sits in the below EBITDA and close to 100 Crores is actually inside EBITDA. Therefore the underlying EBITDA is higher to the extent of 100 Crores, because of this one-off charges taking.
- Sahil Kedia:** Okay, Sir. I will take this offline. Right. Thank you.
- Moderator:** Thank you. The next question is from the line of Robin Zhu from Bernstein. Please go ahead.
- Robin Zhu:** Thank you very much. I have three questions. One is just the capital structure of JLR. Given the cash burn in the last couple of quarters and it sounds like your guidance points to more certainly in FY2019 and seem fairly likely thereafter. If the company was solely focused on debt as a way of financing the investments on the growth of the company or might that this could be a consideration in terms of equity or how management thinks about, the sort of securing the financial stability of the company as in light of the cash burn? And the second question is on China. You mentioned dealer profitability issues and this is something that is like true more broadly. If you could share some thought on the likelihood of a payment to be used and in the sense that the one-off incentives or anything sort of most structural. There was news that BMW had paid a reasonably substantial additional amount, so that dealers would be compensated for towards the summer weakness, if you could share that, has it already been done or if that is likely to come in the coming quarter or so or more that will be great? Thanks.
- P. B. Balaji:** Let me take the first one and Ken if you can take the second one. As far as JLR is concerned, the underlying equity that we have, the network of the company is very strong. What we have issue is the, cash flow issue here and what we have is a profitability issue that we have at this point, and therefore, the entire focus of project Charge to restore the profitability is to restore the cash flows of the business, so that we get back to cash accretive growth. In the meanwhile, we have sufficient liquidity at this point in time, which I have talked about, and we are accessing the debt market as needed. But the clear plan of action is getting the business back to generating more cash, which is what our intention is. So in this action, we are keeping a close watch on the performance of the business, as well as external factors and as the Chairman said in the Investor Day as well, we will do whatever is needed. But at this point in time, if it is a very important investment for us, and therefore, we would absolutely clear that, we will work closely with them to ensure that the cash is generated within the business, and whatever support is needed is available. Ken?
- Kenneth Gregor:** Thanks. Yes. We see some of the very large payments that some of our competitors appear to be making to the dealers to ensure the dealers are profitable. We would prefer to take an approach where we make sure that our retailers are profitable through the models that we sell generating them margin and incentivizing our retailers to achieve that linked to volume and margin performance. So one way or another we do believe in having a profitable retailer network and we will take action to ensure that we do. But we would prefer to do it in a way in which it enables us both to be profitable and drive positive behaviors in the marketplace and sales performance rather than pushing unprofitable volume

on to the retailers and then making very large compensatory profit support payments. I do not know if Ralf wanted to add anything to that statement. I will just leave that open, but that is all I was going to say on it.

Robin Zhu: Ken, if I may just follow up, I think last quarter you said that China inventory levels are about two-and-a-half months. If I could get an update on where that stood at the end of September that will be appreciated?

Kenneth Gregor: I am going to have to pause on that question maybe I will pick it up later in the question in the Q&A just in order to get the correct facts and figures and not mislead you or we deal it deal with it as a follow up outside of here. We will come back to it later.

Robin Zhu: Obviously. Thank you.

Moderator: Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta: Just on the cost savings front, you said that you are going to talking about £1 billion on the cost of profit segment that is there. Could you give us a little bit more color on that because, if I look at your half-yearly income statement, you have got about £4 billion pounds of employee and other expenses, so you are running at about £8 billion annualized tariff this £1 billion were to be targeted at that, you are talking about 12.5% cost reduction. And does that also imply lower headcount going forward or is it merely about more efficiency and squeezing out more from vendors, dealers, etc.?

Kenneth Gregor: Yes. Good question. And to be honest, it is about all of those things and so just to give you a sense, we have to target lower material costs across our vehicles in order to drive efficiency there across the current vehicles in production, albeit that actually we need to do that anyway, because there are additional costs associated with those vehicles related to CO2 compliance costs and technology costs, so material cost on our present vehicles are absolutely a part of it. Efficiencies in non-headcount spend be that marketing spend, be that sales spend, be that variable marketing expense, yes, all of those things also in scope. Be that design and development spend that we spend on engineering, but with our suppliers also in scope, logistics spend in scope, headcount and employment cost also in scope. And some of the actions that we take there will be matters for the future perhaps in terms of discussing the impact and the quantum. But I am fairly clear that in order to drive profits and cost improvements all over £1 billion a year that we need to tackle every area and that includes employment cost.

Just while I am talking I will just a give, in terms of retailer inventory in China at the end of September in terms of, and this is only a partial answer, because it is dealing with the import vehicles, we had roughly 7,000 units, which is roughly one-and-a-half months of projected sales of those import vehicles. So that is in a better place than it was at the end of June, and therefore, that is a

trajectory that we continue to want to head in and also make sure that we head in that direction also for the locally produced cars. That was an answer to your prior question.

Ruchit Mehta:

Yes. Just a couple of more questions, one is on your cost reduction on the capex side has that resulted in cancellation or deferral or are you stepping away from a particular model line or a particular set of cars that you would have thought you would have added or would have refreshed going forward? Secondly, just going back to the previous participants question on dealer finance incentivizing in China. We have seen that comment come from all your three major competition and their volume performance has been at the margin better than yours. If the system in China is looking at something like this to have push to volumes, would you change your stance going forward?

Kenneth Gregor:

I think, going forward, we are pretty clear we want to build a long-term sustainable profitable business in China that generates profitability for both us and our retailer network and we do want to do so by supporting pull performance in terms of demand driven sales in China. So beyond that, I do not necessarily want to speculate on the future, we will have to clearly react to whatever market environment we find ourselves in, but we are clear about how we want to proceed that is for sure. Your other question was on, yes, sorry, on the capex profile. We are seeking to reduce our capex spending broadly through, while still protecting the core of our new model portfolio and our model lineup. So, therefore, that remains intact and therefore the 16 new models that, sorry, the 16 new model lineup including two or three new models that we talked about back in June on our Investor Day remains the same.

Within that of course we are looking at the timing of our product spending and we are looking at the content of model refreshes, we are looking at the non-directly model related spend such as capacity related spending, such as infrastructure related spending, such as office building spending, such as testing facility spending, those sorts of areas are capital spending and looking to drive reductions in those through either stopping or deferring or reshaping those projects in order to reduce the investment spending. We have made a fair amount of progress already towards our getting down to the target of about for through those means already, which has been good. It is clear we are going to have to do more. But what we also want to do whilst preserving the core of our model lineup, because that is our lifeblood and so we fight to drive the cash inflow in order to continue to fund the product lineup, because that is ultimately what will deliver the best long-term outlook for this business, which is what we are seeking to do.

Ruchit Mehta:

Okay. Thank you.

Moderator:

Thank you. The next question is from the line of Prateek Poddar from Reliance Mutual Fund. Please go ahead.

Prateek Poddar:

First is, I mean, congratulations, you guys have doing or you guys have had a breakeven in the PV business congratulations for that. My question is on slide if you go to slide number 28. Most of your

free cash flow generation in FY2019 for JLR is driven by inventory and payables, could you just talk a bit about that?

Kenneth Gregor:

Yes. I mean in the first half of the year, we have had some growth in our inventory of our inventory of finished vehicles and as part of the reduction in working capital in the second half of the year, we are seeking to basically turn that around by, A, not have the negative cash flow associated with inventory metric growth in the first half, and B, having the positive cash flow through reducing that inventory in the second half. And that is why that that bar on that chart on slide 28 is the size it is because it is a half to half chart that such as a first non-recur of the negative in the first half and then also have the positive in the first half of about equal size. So broadly, we are seeking to reverse the negative working capital movement we have had in the first half, largely through inventory reduction. There is some parts of this by the way, not wanting to get into an esoteric discussion on payables. But there is also an element of normal working capital profile within the first half to second half because of the timing of production relative to the payment terms we pay our suppliers on, which is typically 45 days to 60 days relative to the timing of how we collect cash from our retailers which is relatively fast within two to three days. That working capital profile broadly gives us an outflow in payables in the first quarter of the year and generally gives us an inflow of payables in the last quarter of the year. So that is another part of the first half to second half cash flow movement. But the biggest physical thing that we are driving is seeking to target an inventory reduction in the second half of the year of our inventory of finished vehicles.

Prateek Poddar:

How much is the inventory? because this is like, I mean, the size this is huge right, this is like most of your free cash flow generation is coming out of this, so I am just trying to understand how much is the inventory as of now which we had, which we plan to liquidate in quarter two and quarter three and quarter four?

Kenneth Gregor:

In terms of inventory reduction it is over 30,000 units and it is circa £0.5 billion of inventory and other working capital actions we are seeking to drive, just a give you a couple of metrics around it. It is sizable, yes.

Prateek Poddar:

And £0.5 billion is around payables, which you are planning to further squeeze from?

Kenneth Gregor:

Sorry, I am clearly confusing, £0.5 billion is inventory and payables, working capital reduction, it is across both.

Prateek Poddar:

Okay. Second question was on China; some of the dealers in China have been talking about zero percent gross profit margins when it comes to JLR. The JLR inventory, which we sell. What are your thoughts about that and how do you plan to compensate dealers? And in addition to this, we have lost market share in each of our geographies. How do we plan to get that back? Thank you.

Kenneth Gregor:

Yes. Good question. I mean, look, on dealer profitability it is really about ensuring that our retailers and ourselves are not needing to continue to chase higher volume at the expense of margin by needing

to put ever higher incentive and discount levels behind our product. If that means accepting lower volume as a consequence of seeking to maintain higher margin then that will be something that we take on in order not to chase ever higher volume at higher discount levels and reducing those discount levels that both ourselves and our retailers put behind the product is the important part of enabling the retailers to get back to the situation of better profitability.

Prateek Poddar: So, sorry, just you talked about one-and-a-half months of inventory of China with China dealers, what kind of inventory are you comfortable with?

Kenneth Gregor: Yes. Good question. Between one month and one and a half months is where we would wish to be. And I think given the given the market environment our instinct is to plan to target being at the lower end of that range in order that the retailers do not have the sort of more stock around them that they feel comfortable with them that they then feel that they need to discount in order to turn it into cash. So that has been part of the painful process over the last three months which will continue over the next three months to get inventory levels into the right place so that we are better able to meet supply with demand and not have that kind of higher level that causes discomfort for the retailers. And as I say, given the way the numbers are, there is a bit still to do, to get that into the right place over Q3 given the market environment that we find ourselves in.

Prateek Poddar: And one question on market share I think that is unanswered. Across various countries we have lost market share, what are your thoughts with that?

Kenneth Gregor: I do think I may have broadly answered it. I mean, obviously, we know market share, we are aware of market share and all other things being equal. Of course, having a higher market share broadly is better than having a lower market share. However, at the same time, one of our strengths that we can build on is being relatively smaller than our competition and maybe not quite so dependent on needing to slug it out for every last unit of volume in order to fight to boast as who has the biggest market share and instead seek to create a business based on sustainable, profitable growth with sustainable volume growth and if that means having a slightly lower market share than we might otherwise wish then, so be it. So I think that is my general thought unless Ralf wishes to add any more to that.

P. B. Balaji: Let me comment here, Ken. One is if you look at our performance UK and overseas going ahead of industry and we expect to be called out that our strategy is to ensure that we grow ahead of industry. So there we are picking up share. China, yes, there has been a tough period and I think we have done a fair amount of discussion on that in the call today. So to that extent yes, we have lost share there. But the intention is with all the products and by resuming growth in China, the intention is to grow share. By ensuring not as a share for share's sake but as Ken put it, ensure that you do profitable growth and if share happens so be it, but the intention is to grow ahead of business, and ahead of market and in a manner which is profitable and sustainable. Yes.

Prateek Poddar: Yes. Thank you so much.

Moderator: Thank you. The next question is from the line of Pramod Amthe from CGS-CIMB. Please go ahead.

Pramod Amthe: Thanks for the detailed presentation and having the confidence to give your estimates for the full year. First, with regard to the JLR outlook, which you are projecting, if I have to look at the first half performance, how much of the deterioration of performance do you attribute to internal factors versus the external shocks? And as a result how much of a second half recovery is dependent upon the external factors than your own internal actions?

P. B. Balaji: Let me come in here in terms of the philosophies, which you might consider. If you look at the turnaround plan itself, we have said that demand situation is likely to remain muted. Therefore we are actually seeing that the business needs to move into a twin gear, where there is one side of the business, which is all about growth, innovation, getting the product out there and selling exciting cars, which is all business as usual. There is no change as far as that aspect of the business is concerned. The thing that we are now clearly teasing out is that be that as it may, in a situation where the external factors can be volatile, it is important that we have a Plan B and that is the reason why the turnaround plan has been exclusively called out, where it is a quantified absolute number, it is not a number that we are seeing linked in demand, it is more about we need to take out £1 billion of cost to improve profits, we need to take out £1.5 billion of cash from capex and working capital. So that we want to take charge of our destiny and run with that. And then if demand comes and all the work that is happening on the demand side if it delivers that is the jam on the cake. But that is something, which you want to move the business into a twin focus of business as usual as far as growth is concerned and business unusual as far as cost and capex is concerned. That is what I hope we are able to communicate to you during the course of the discussion today. So with that in mind if you go look at the first half of the year, I think, I would say that we have issues related to some of the issues related to diesel etc., are more external, and yes, if you keep and always treat that is internally this is we had an electric version earlier, but that is water down the bridges no point talking about it now. Things like Brexit, things like tariffs are clearly something that is external to us. But things like for example dealer profitability are more internal to us where we will we believe we can do more on it and get it right there. So it is a fact that we would love to have look at both internal and external issues. If I look at the Accelerate slide that we put out there, there is a host of internal issues that we have called out that we want to go ahead and fix as well. So one way to look at it is that we can use this crisis to our strength and ensure that we come out of it stronger compared to how we went into it. So that is our philosophy and mindset. The JLR team has been absolutely positive in its approach with a sense of using this as a lever to open up the intrinsic capabilities of the business. So that is the philosophy with which we want to approach it. Hope that helps.

Pramod Amthe: Yes. And second one with regard to China sales, if I had to look forward either for the industry or for you what would be the lead indicators we should be looking for, for your turnaround in China's sales volume or for profitability?

P. B. Balaji:

I will get Ken to comment next. From my perspective the way I look at it I think transaction prices and the kind of discounting in the market I think would be a good one to look at as it is starting to pick up. Profitability of dealers, number two. Brand health measures, number three. And overall, then when we get all these right, then we start seeing wholesales and your retail starting to come through. And then, of course, external factors related to market conditions, growth kind of walk-ins that you see. So it is going to be a meticulous affair and the only thing that I can reassure you is that exactly what we have done in passenger vehicles in Tata Motors here and exactly what we have done in commercial vehicles here. So I believe there is a fair amount of knowledge sharing from our side between the two teams, and as well as it is a pretty experienced team we have in JLR who wants to know exactly what needs to be done on this and working through this meticulously. So that is how I would look at the lead indicators for this. Ken, anything that you would like to add?

Kenneth Gregor:

I felt that is a really comprehensive answer, Balaji. Thank you.

Pramod Amthe:

And a last question from my side with regard to India business. On the LCV side there seems to be some concern in terms of dependence on the NBFC funding. Have you seen any of the stress in related to the LCV sales or NBFC funding and how you plan to handle if it comes through in the coming quarters?

P. B. Balaji:

No. It is fair to say that the liquidity in the market is stressed. It is not an issue of availability of liquidity, it is more about the cost of the liquidity and the bit of holding back as people have their CP repayment cycles et cetera planned out. So is there something that we need to watch or watch for very closely, the answer is absolutely yes. As you well imagined commercial vehicles liquidity is a very, very important part, financing is a very important part of the commercial vehicles business, and therefore, we are watching it closely. So far we could see caution there rather than we are pressing any panic button at this point in time. That is not what we think, but there is definitely an element of caution that we need to have. One other things we are trying to do from our end is one of the reasons why we want to put in more capital into Tata Motors Finance putting a 600-odd crores into Tata Motors Finance, as well as ensuring that we are working with all the banks to get them in the right place. There is a hell a lot of work that is currently underway to unlock that part of the puzzle. As far as the three companies here which is Tata Motors Finance Holdings Ltd, Tata Motors Finance Ltd, and the Tata Motors Finance Solutions Ltd. The lending company do not have liquidity issues, they are very well in the market, because keep in mind that, commercial vehicles and those assets are extremely liquid assets, and they have a real business sitting behind it as the economy is growing and people are getting freight rates. The repayment cycle is comfortable. You see our G&PA levels coming down, collection efficiencies continue to remain strong. So all that is we are watching, keeping a fox eye on that. The thing that we need to ensure that we get it right as a holding company piece, which is a CIC and that as a company where the equity investing is going and we are ensuring that has corrected, so that the asset liability mismatches there are ironed out. We are in a pretty good place, but we want to be absolutely fullproof on that which is the focus at this point in time. So we are approaching this quite proactively to ensure that we do not get into trouble on this one.

- Pramod Amthe:** Sure. Thanks and all the best.
- P. B. Balaji:** Thanks.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains first for JLR, the impact of £45 million for Slovakia and Austria plant startup cost would that be recurring in third quarter as well?
- Kenneth Gregor:** Broadly yes, because those costs are sort of mostly the operating cost of those plants starting to show through in our business results. They popup here because this time last year they were not there in principle as I said earlier, in principle it is the volume builds in those plans then that operating cost starts to get paid for itself, but there is also and there is also, although, I do not have the precise figure at my fingertips. Also within those numbers there are launch costs for Slovakia within there.
- Jinesh Gandhi:** Okay. And secondly the China, so after turbulent second quarter, are we are seeing signs of volumes normalizing and pricing also normalizing or do we look at the 16% margin of JV as new normal?
- Kenneth Gregor:** I think it has certainly been a challenging quarter for the JV, likewise with our own business results and we are not happy with those, the joint venture team is very focused on rebuilding that EBIT performance in the balance of the year. That said, of course, we are facing challenging market conditions and some of the volume adjustment and inventory reduction that has been taking place is also happening in the joint venture. And hence I would expect to see in the balance of the year relatively weaker profitability from the JV than what we have seen in prior years. And in Q3, I would also expect to see a relatively weak result as I just described for JLR, because some of the production adjustments that we are doing to continue to move the inventory to get to the right place is taking place in Q3.
- Jinesh Gandhi:** Okay. And lastly clarification on the capitalization rate, so in Q4 you had indicated that the capitalization for R&D would be around 70%, but if you look at the first half cap rates have been close to 82%. So, is there any change in stance or are we expected to normalize FY2019 still to be close to 70%.
- Ken Gregor:** There is no change.
- P. B. Balaji:** Let me take that Ken let me take that. Both Tata Motors and the JLR the same issue will be there. See the accounting policy is a gate-based policy. It totally depends on the how the products are coming through the gates and then if there are not many products are coming through, it is quite likely most of the expenditure is happening on products, post approval our gates in this case are more likely to be capitalized. As far as earlier piece is concerned, if you are going to get more products coming in terms of thinking, then it is likely they will get expanded out first, and more that they once they passed the

gate, they get onto the other side. So it is just in a phasing of projects are moving rather than there is no change in accounting policy, if that is the accounting policy it stays fixed.

Jinesh Gandhi: Okay. There could be years where it could be higher, but when it passes through, then it gets adjusted in the following your likely is that the right way to look at?

P. B. Balaji: One way to look at it, think of it as anything up to a particular gate gets expense, post that particular gate is getting capitalized, think of it that way. If a lot of projects are getting started off, then it is quite likely you will see though it is a capital expenditure, most of it is likely to get expensed out, because you will not hit the gate to pass, and you are just starting off a lot of projects. When you are putting an affordability envelop, then it is natural to expect that the number of projects that you start off are getting reduced. But you want to do bigger and better projects and to that extent you will have whatever expenditure is getting expensed is more towards the projects that are getting later on and as we have tighten the Capex, you will also have lesser projects that are starting off. You will only start projects that are likely to see all the way through. So that is the dynamics that you are seeing reflected in the numbers.

Jinesh Gandhi: Understood. Okay, Sir. Great. Thanks and all the best.

P. B. Balaji: Yes. Thanks.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will be able to take one last question that is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. My first question is regarding the macro. I just wanted to understand the dramatic improvement what we are expecting in second half both in volumes and profitability. How much of this is kind of based on the macro recovery especially in China what is the expectation on the China market per se from the management for a second half, because we have generally seen all other all your peers be it for Volkswagen, BMW, they are all torn down their guidance's and profitability targets, while kind of continuing to step up on Capex especially on R&D. So I just want to understand how much of is this a macro call?

Kenneth Gregor: Yes. I think what I would say is, what you have heard from us today is that we have also toned down our guidance and our profit outlook for the full year and the second half of the year per compared to our prior calls. In terms of how much of it is macro, slightly difficult to say in precise terms, but perhaps, what I would say is, that the present overall environment is one that we are expecting to continue that we find ourselves in more challenging market conditions for sure and we are not assuming that those market conditions suddenly become benign overnight. It is also the case I would say just to be clear though that if we saw some further significant worsening in market conditions that could clearly impact us further whether that be further macro headwinds in China or further Brexit uncertainty or if there is an escalation in trade wars, those things could cause some further uncertainty for us. But we are not assuming that there would be some rapid return to much more benign market

conditions. We are therefore more focused on the actions that we can take to improve our brand health and performance balancing our supply and demand and leveraging the really super portfolio of new models that we have launched over the past two years to three years and maximizing the performance of those in the marketplace, despite the more challenging market conditions which undoubtedly we find ourselves in.

Pramod Kumar: Thanks, Ken for that. And the second question is on the competitive intensity, because I do agree when you say that you are looking at profitability and not exactly chasing volume. But how does that tie up with the volume aspiration because at one end we are aspiring to get the volume momentum back and kind of close the year on a double-digit growth towards the Q4 and have a full flat year, but at the same time, we are also looking at dramatic improvement in profitability and as we understand the discounting pressure just getting higher and higher in the market. So I am just trying to understand how you are going to find that balance?

Kenneth Gregor: Yes. Look it is actually quite difficult to give you a clear answer to that other than what you just said. It is about finding that sweet spot finding that balance, because clearly, volume is important in the car business given the significant fixed cost base and investment pressures that, obviously, we face. So we do need a certain level of volume to support that and equally it is finding that balance between the volume being not too little but not so much that it causes us to need to push incentives. And I think I will just leave it at that because it is really about finding that balance that challenge for us as a management team.

Pramod Kumar: And final question on alliances, that is something, which you still have not kind of done, where most of your peers seem to be taking that approach more and more. Is there any thought now that you can do more by engaging in partnerships and alliances to a greater degree? Are you guys looking at alliances and also probably part divestment of some of the brands like say Jaguar, which we understand is clearly in a much bigger trouble given that the recent launches have not exactly worked the way the management expected them to be?

P. B. Balaji: Let me come in here, Pramod. I think number one, we have every intention to support Jaguar, there is absolutely no intention of any Jaguar divestment or anything. So that is off the table, number one. Number two, as far as alliances, partnerships, JLR is already onto a lot of them and that is an area we continue to keep looking for alliances 'Waymo' as a classic one that is out there in the area of autonomous investment. So that is an area we will continue to actively look at whenever we consider such things. So rest assured that is something that we are looking at extremely closely all the time.

Pramod Kumar: Thanks a lot, gentlemen, and wish you all the best. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you!

P. B. Balaji:

Yes. Firstly, thanks. I hope that you have had a better sense of the numbers, as well as the ability to ask more questions than what you had. But do feel free to write back to us in case you believe there is further work that we can do to improve the process. Open to it all the time. So, thank you and see you soon. Bye-bye.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Tata Motors, that concludes this conference. Thank you all for joining us.