TATA MOTORS
Connecting Aspirations

Tata Motors Limited
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MR. SHAILESH CHANDRA – MD TMPVL AND TPEML

Sneha Gavankar:

Welcome to Tata Motors Q2 FY23 earnings conference call. I am joined today by Mr. Thierry Bolloré, CEO, Jaguar Land Rover; Mr. P B Balaji, Group CFO, Tata Motors; Mr Girish Wagh, Executive Director, Tata Motors, Mr. Shailesh Chandra, MD, Tata Motors Passenger Vehicles and Tata Passenger Electric Mobility Limited; Mr. Adrian Mardell, CFO, Jaguar Land Rover; and my colleagues from the Investor Relations team. Today we plan to walk you through the earnings presentation followed by Q&A. As a reminder, all participant lines will be in listen-only mode, and we will be taking questions via the teams platform, which is already open for you to submit your questions. You are requested to mention your name and the name of your organization while submitting the questions. I now hand over to Balaji to begin the presentation.

PB Balaji:

Thank you. Good day everybody. Thanks for taking the time to join this session. As is customary, we will try and keep a fair clip in terms of going through the slides and pointing out the key highlights, and then look forward to taking on the Q&A at the subsequent stage.

Next slide, please. So this is the standard Safe Harbor statement, the only call out, I would say is the segments - automotive segments, just to reiterate. We have done this and there is no change from last time, but just to confirm, when we say Tata commercial vehicles, it's all things commercial vehicles, wherever Tata-branded commercial vehicles are around. Similarly, Passenger Vehicles - all Tata-branded passenger vehicles, Jaguar Land Rover and Vehicle Financing are the four automotive verticals, and of course others which is the remaining segment. These are the segments. No change there. Next slide.

Again, an intense quarter this year. In India, the commercial vehicle space saw a flurry of activity with multiple launches in the medium heavies, light commercial vehicles and a full range of pickups that were launched. In the passenger vehicles segment, the big one was the Tiago EV launch, which was a blockbuster opening of 10,000 vehicles, which I am sure Shailesh is going to talk about later. On the JLR side, the key move was the stabilization and the ramping up of production of Range Rover, Range Rover Sports that we had committed to. The order bank of course grew to a record 205,000 vehicles and the chip supplies continued to create trouble for us, but as we start signing more and more partnership agreements, we do expect to see this easing and I am sure Adrian is going to cover that subsequently. Next slide please.

Before I get started, our key corporate action that was announced today. Tata Motors intends to voluntarily delist its American Depositary Receipts shares from the New York stock exchange, as objectives with which these were originally listed in 2004, are no longer relevant. There is a consistent drop in the participation in the ADS program and it's now less than 5% of the ordinary shares and we will file for a voluntary delisting of the ADS in Jan 2023, and also terminate our depository program that we have with Citibank N.A. And once the ADS's have been delisted from NYSE, there will be no over-the-counter market trading of the ADS's in the U.S. due to regulatory restrictions we have in India under the Indian law. And therefore, the holders will need to convert their ADS's into underlying ordinary shares. But you have time till July 2023 to make that happen. And we expect to file for deregistration with SEC in January 2024, a full 12 month after the delisting for ceasing our U.S. reporting obligations. Obviously the whole process is being done with an aim to simplify our financial reporting and also reduce administrative burden, and there is no cash out for TML due to this. Next slide please. And happy to take any questions that you may have on this subsequently.

At an overall revenue, we grew at about 29% with the global wholesales going up 33%, and profit before tax was a loss of ~ Rs. 1,800 crs. EBITDA went up 130 bps, EBIT went up 390 bps and we had a free cash flow breakeven of about Rs. 1,000 crs in the quarter. And the volume recovery was, and is fundamentally based on a better mix and lower breakevens, even though volumes were lower than planned particularly at JLR. Next slide please. Where did this growth of 29% come from?, 28% came from volume and mix, and reassuringly good 8% came from price, which means we are able to take prices in line with inflation that is there in the market which is also reflected in the results. Translation we lost a fair bit with as the pound sterling depreciated vis-a-vis the Indian rupee. And from a profitability perspective, all businesses came to improve the profits. We had a challenge in Tata Motors Finance, which we will talk about later. And the net debt came in at about Rs. 59,900 crs. The good part is the external debt is now down to Rs. 32,200 crs, almost Rs. 20,000 crs is because of working capital, mostly in JLR, a little bit in Tata Motors as well, which we intend to sort out as the growth comes back into the business. So that's overall from me.

Next slide, handing it over to Adrian for talking about JLR. Adrian, over to you.

Adrian Mardell:

Yeah, many thanks, Balaji. Next slide, if you would please. Okay. So, these are our KPIs. Top left, you can see retails did start to improve quarter-over-quarter of 12%, not yet back to last year's levels, but I'll show you the inventory build later in the presentation. So we're confident we're going to get there in the second half of the year.

I'm going down the page, double-digit EBITDA for the first time in a few quarters, and again, we're confident that's going to continue going forward. The revenue, a dramatic year-over-year increase of 36%, even though volumes were only up 17%. So, what you'll see in there is both an increase in volume and a substantial increase in mix of volume as a result of our Range Rover and Range Rover Sport vehicles now being presented to the marketplace. That's driven an EBIT positive in the quarter for the first time in those comparative two quarters. Substantial improvement of more than 5 percentage points. We were loss making obviously all of that was non EBIT and we'll take you through the implications of exchange on our numbers later, and we were close to cash break even, minus 15, substantially better than the comparative quarters with just 75,000 wholesales and all of that cash loss and more was actually working capital negative. So we've taken our breakeven underlying point down to 70,000 units, again which was the level we were at the end of last year that we didn't think we would be able to get back to. So there is a lot of positive information underlying within this data set, next slide please.

Okay, the only things I really haven't called out there is the order book. The order books are still very strong, more than 200,000 units. I'll take you through the details of that. The breakthrough on Range Rover and Range Rover Sport production now at the end of September up to 2,000 units a week. Let me remind you when I talked to you in July, I was referencing 1,000 units per week. That's a substantial increase there. Our Refocus program continues to be value generative, GBP 300 million in the quarter, GBP 550 million in the first half of the year and our liquidity is strong with GBP 3.7 billion cash, plus the revolving credit facility, GBP 5.2 billion in total. Next slide, please.

Okay. So these are the volume positions. I've talked to the top right hand side, the increases in the retails quarter-over-quarter. And not surprisingly with those Range Rovers now coming through all of that increase, most of it is actually in the Range Rover brand. From a wholesale perspective, we did 75,000 wholesales, a lot lower than the 90,000 we were signaling in July. We were decommitted on semiconductors in September, it had an impact both on September production and will actually flow into the September and the October wholesale bases, that decommitment is fixed. A long-term supply agreement is now in place with that source, so we do not expect further decommitments from that source going forward and again, the wholesale numbers you'd expect given the production increases on Range Rover and Range Rover sport is all in our very rich Range Rover brand. Next slide, please.

This is the same data but by region and as you know us well enough now, a lot of our Range Rovers are sold in North America and China. Therefore, it's not surprising and corroborated data that the big increases quarter-over-quarter are in those two regions in the retails and even more so in wholesales, of course, because our units flow from production to wholesale before retail. So again, good corroborative information of the trend to come on increasing those new Range Rover products. Electrification is stable at 65%, stable on PHEV and BEV 11%. We need more supply, particularly of those PHEV units, which will actually come on board as we go through the next several quarters. Next page, please.

Okay, so our profit bridge, our profit walk versus last year. I'll mention a few things here. I mention them because they are important to this quarter but that they are also important to the trends that you are going to see in future quarters. So, you will see volumes at a higher level that was worth £120 million versus last year. You will see a significant improvement in mix. Just with the value we actually fetched to the markets in Q2, that was £300 million higher than last year. Emissions was a last year credit not repeated this year, not a negative trend this year. Pricing, now those vehicles are coming to the marketplace and VME at very low levels will both continue into the second half of the year. And obviously, they're intended to offset the inflationary cost you see there in materials, which we suffered in the quarter versus last year. I have a slide on that later, so I will hold those comments till then. And the fixed costs are growing, but they're growing from historical lows, and this is still significantly lower than three years ago. They will lift a little bit as we go forward, because we do now want to begin to accelerate our transformation programs in commercial, InDigital, and obviously we're now scaling up our product engineering programs. So you'll see these numbers continue going forward, the adverse versus last year but still at historical lows and I will talk about exchange on the next page.

Very complicated exchange at the moment. So we thought we'd take the opportunity to lay it out for you and hopefully kill all the questions you may have around it. First big point our operational exchange is very positive, it will be, we are a predominantly a UK based manufacturer exporting 80% of those vehicles and obviously for any exporter, if your local currency for a sterling is at a low value, you do very well. This is a good operational model for us on exchange.

Of course, you also know we protect ourself for variability and downside risk on exchange and therefore a lot of that protection is coming through as negative versus a weak sterling, most of our dollar contracts ran around $1.30, and this will be with us for the next four to five quarters. And then, there was a big movement against Sterling in the quarter. So you see that within the revaluation, it totals 100 million pounds in total versus last year. The dollar effectively moved from 1.21 down to 1.11. We have a lot of liabilities on our balance sheet for dollar-denominated. And that's what you are seeing with in here. But it's a point-to-point adjustment reflecting a very weak Sterling at the end of September.

I think the bottom left is really important. It gives you what happens next. We have GBP 20 billion worth of hedging contracts, you see there. We've shown those same three points GBP 20.1 billion at the end of September. And if we were to strike those versus the 1.11 at the end of September, there'll be GBP2 billion of losses to come through. Look at the memo below that shifted with Sterling appreciation of just 4 cents in October, a drop from GBP 2 billion to GBP 1.4 billion. And let me remind you again against the top left, our operational exchange will be bigger than our loss is going for our income statement. And this is the theme that will continue with us over the next several quarters if we stay within this $1.10 to $1.15 dollar/sterling window which we seem to be into at the moment. Next slide if you would please.

Okay, so this is the cash position, we were cash negative of £15m, but just take a look at the working capital, it was £124m of the £15m and therefore again, we were underlying cash positive on just 75,000 units with an 18% MLA Range Rover, Range Rover Sport mix, which will grow going forward, of course. Effectively, we paid for more units in the quarter than we wholesaled to the market. Our wholesale pipelines are starting to lift, which is the signal actually of a better supply flow. Just look at the brown box there, our working capital negative over the last six quarters it has been more than GBP 2 billion pounds now. As our volumes start to increase and our mixes improve, that will slowly start to unwind the other way. So we are confident we are at the low point on working capital and that will build back, over the next six quarters. Next slide, please.

So break even look, we have taken the breakeven down to historical lows again, in part because we have been tough on expenditure even though we have allowed some to grow in part of course, because volumes are bigger, mostly because the mix is turning back to a more normal level of mix, we would actually expect. It's getting back to mixes we would have had in Q3 last year and that will improve in the second half of the year. We do expect expenditure to increase because we do want to continue with our change programs through to our reimagine strategy, which you're very clear about, I'm sure. But the mix will help offset the breakeven point to about 300,000 units full year. We feel, we're in a really good position in terms of the underlying structure of this organization. And the supply and the improving mix will both move in our favor as we go forward over the next several quarters. Next slide, please.

So, this is investment, and investment was higher in Q2 than Q1, but still just GBP 526 million. Few things to note, engineering investment is increasing as we're now bringing more engineers in place to move to our electrified architectures, that will continue over the next several quarters. We're now beginning to capitalize more of those engineers, because we've triggered a maturation in our architectures, which enables us to do so and in line with our accounting policy, which we've taken you through previously. Overall, we are at 40% engineering capitalization, and let me remind you, we expect to be between 50% and 60% at some point going forward over the next cycle again, I'm referencing three to four quarters often. Over that period, you will see capitalization increase to those levels again. Next slide, if you would, please.

Okay, business update. Let's talk semiconductors, next slide.

There we go look, look we are now in a position to do the first phase of what other OEMs are doing. We've got our new name plates out there, our Range Rovers and Range Rover Sport's, they are our valuable assets most valuable assets and we're in position now we can start putting those chips into our most valuable assets. All other OEMs have been doing that over the last 12 months. We've been in project change over the last 12 months. So it's not surprising the mix is improving in our favor and that will continue. So Phase 1 of the management of these challenges, we're now in a position to be able to do. Phase 2, we've been working on for a long time actually, that's engaging directly with the chip manufacturers, putting in place long-term supply agreements with them. We have again had breakthroughs over the last three months, including with the chip supplier, which decommitted us in September. And we are confident from those supply sources into calendar year 23 on quarter four this year for ourselves. And we continue to work to close out the residual items we have. We do have residual items left to close out. There is still a possibility we'll be knocked off course. But week-by-week, month-by-month, we are starting to put in place a more robust and more fit for purpose supply chain and agreements with our sources. So again, we are heading in a good direction, slower than we want to be, slower than others, but we are heading in a good direction here. Next slide please.

And this is really-really good, right. So this is the new Range Rover and Range Rover Sport. Its weekly production. I've given you the trend over the last five months. June was the last time we talked, we had the June data, I referenced a thousand units. You can see we improved as we went through the summer period, but the real breakthroughs were from September and has continued into October, this is weekly data. So, we're now building and shipping more than 2,000 cars a week, which means within a quarter MLA will soon, once these cars get to their destinations China and North America in particular, we will soon be posting 30,000 wholesales within a quarter into quarter four. Quarter three, some of those cars will be on water, but that will dramatically shift the mix of these units from sub 10% earlier in the year to 18% in quarter two towards 30% and beyond for quarter three, quarter four. So, that page and that profit bridge on both volume and mix will continue to be strongly positive as we go forward over the next several quarters. A really, really big breakthrough for us. And my compliments to the team who have worked tirelessly for the last nine months to get us to this position. Next slide, please.

And this is our order book. And of course, you'll see straight away that the breakthrough in supply is now starting to attack where our orders are. So, our very patient clients who've been waiting for these new vehicles for a long time will soon start to receive handover of said vehicles. It's grown over the quarter to 205,000 units. It's starting to taper off as our fulfilled orders, our handovers to customers are increasing and our new orders net of cancellations - you asked for cancellations - is within that data there at just about the 90,000 level. We really haven’t marketed these cars or any of our vehicles over the last 12 months because of supply. Once supply starts to come through, we have several tools and several weapons to drive up that new order intake, which we will actually do, but obviously keeping orders in place for longer than our clients wish for, has been a consideration, which is why we've held off on those marketing campaigns over the last several quarters. This is starting to feel better balanced and healthier and I don't expect all the totals to explode going forward like they have over the last five quarters. Next slide, please.

Okay, so health of our pipeline expressed with finished vehicles. Two data sets here, the blue black line, the one at the top, that's retailer inventory. That's vehicles where the retailers are waiting customer pick up. You can see the light blue bar at the top, that's a normal level of activity. So, in normal times that blue line should be within that top block, it was until May 21, it's fallen away dramatically. But the important point is it's steadily lifting from about February. It's steadily lifting to the point where we had 44,000 vehicles at dealers at the end of September, awaiting customer pick up. These are sold cars waiting for people to hand over, which is why our retail levels as I mentioned earlier, will now start to grow. Our own wholesaled stock, the stuff that we still own that's in transit to dealers is actually in the grey line. And you can see that started to lift. And you can see in September, it fell away dramatically. That was the supply decommitment we've mentioned already, which did impact dramatically September production, also impacted September wholesales, which is why we miss September and October wholesales. But we're now back on track, our production levels are now working to the level we expected. And again, we do expect the grey line to be back in that grey section as we go through quarter three and quarter four. So we're getting healthier. I've spent time on this. So it's clear that our data starting to turn slower than we want, but in several corroborative data points. Next slide, please.

Okay. So, inflation obviously is the other big thing. The big three supply, MLA and inflation, MLA is in a really nice place. The other two still work in progress. It's broadly what we anticipated at the start of the year, we referenced up to GBP1 billion, this is first half data GBP 430 million and of course our refocus program is there not only to offset inflation but to generate bottom line value. It's doing that, it generated GBP550 million in the first half of the year. So, we're positive cash GBP120 million. It's mostly doing that in the commercial space. Pricing, lower variable marketing, lower wait times and therefore lower discounts going forward. We are also starting to see the agile transformation come through in lower headcount, and people costs and investment is lower in the first half of the year. How do I expect this to shape, I expect inflation to be with us. We know it's going to be bigger and deeper than we thought six months ago. So, this level of inflation feels about right in the second half of the year for us. I expect refocus to continue at this level. We are reconfirming a GBP1 billion pound plus full year, but I expect the market performance to grow, the cost labor to be about the same, and the investment to fall away as we start to increase our product engineering investments over the second half of the year. Next slide, please. I think this my final one next one, thank you.

The first half metrics down the left hand side, what do we expect in the second half of the year. We expect our wholesales, our revenue-based volumes to be up about 10% more in Q4 than Q3 as supplies coming through and as MLA is still building, they had those vehicles have to get to their revenue recognition points, which as you know, some of those points are six weeks after build. So that will increase as we progressively go through month-by-month. Revenue will be bigger than £10 billion where we see it today it's closer to £11 billion, EBIT margin will be positive in the second half. In both quarters we anticipate. I've mentioned investment increases but the full-year guidance around £2.3bn and you know what, we can get back the cash, we didn't get in the first half of the year, we know it's all working capital. We think our trend of volumes is positive and therefore working capital will be positive. We've demonstrated for the last four quarters, we are underlying cash positive anyway. So, we believe we can get back the cash we lost in the first half of the year. Breakeven we're writing, but if you know us well enough, we want to do better than that. Key priorities, of course, it's all about chips, chips and chips. It's hard work for us, right. Now, we were behind the clock. It's a bit like turning up to the buffet two weeks late, right? Some of the stuff left isn't what you want, but we're breaking through this. We are working tirelessly and we're working in the right direction. Continue on New Range Rover, Range Rover Sport which we're doing. Volumes, I've mentioned, refocus I've mentioned, and also our intent to be positive positive on the KPIs EBIT and cash flow. I think, I am back to you, Balaji.

PB Balaji

Thank you, Adrian. Moving quickly on to the commercial vehicles. Change here, where we are moving to the registration Vahan market shares in our reporting. And the other thing you will also notice in this is traditionally we used to refer - our internal report metrics are on medium and heavy commercial vehicles, intermediate and light commercial vehicles, small commercial vehicles and pickups and then commercial passenger vehicle that's how it used to be. We would now love to ensure that it is as transparent and as easily picked up, you can pick it up from the Vahan portal yourself, and therefore we are reporting the

Vahan numbers itself here as in where as even in the splits that are there. So, here, from market share perspective, compared to 44.7%, we are lost about 150 bps this year so far, and we are definitely looking at what is the right way to win in this marketplace in terms of shifting to a demand pull business model, and I am sure Girish is going to talk more about it in his section as well. And the focus is on getting back to a double-digit EBITDA profitable growth as soon as possible. And you should see that playing out in the coming quarters. Next, slide please.

From our overall mix with only call out here, I would say is draw your attention to the CNG section, where in ILCV section, thanks to the way the CNG prices are starting to move up and the gap between Diesel and CNG has come off quite sharply and you would see that in the salience therefore of CNG and the overall segment actually come off quiet sharply. We have believed this is going to be temporary, and once these things - the international geopolitical situation stabilizes, the growth in CNG should be coming back again. Next slide, please.

Overall numbers wise, year-on-year growth of 35%, PBT positive at Rs. 300 crs. EBITDA year-on-year is 180 bps up, but I would draw your attention to the sequential drop that you see. This is basically coming out of residual commodity inflation. This is the last of the price increases as you close the contracts, which we went through. So, we do see reductions coming through from Q3 onwards. And that's already evident in our numbers from September, October as we see. So, this is what you see as a number there. And EBIT numbers of course, 260 bps improvement. And quarter-on-quarter is more linked to the same number you saw on the data. Next slide, please.

Shape of the way the drivers came from, you do see volume mix. I draw your attention to the realizations, it’s starting to now inch up above the variable cost increases. So, we are seeing numbers coming in and this is year-on-year basis. So therefore increase you see. And what is also, from a commodity perspective, we did see a few challenges particularly in the forex side, where with the international business significantly coming down because of the global situation, we had to take out a few covers, cancel a few covers, because the volumes are not supporting the covers- that's a lot of what you see there. Next slide, please. Girish, over to you.

Girish Wagh

Yes, thank you Balaji. So I think Q2 had a healthy growth of around 40% over the Q2 of previous year. Of course, the Q2 previous year was also COVID impacted. And I think from Q3 onwards with the improvement in the base, we will see normalization of the growth rates to a lower level. As Balaji spoke, the EBIT margin was impacted due to the residual impact of commodities, which was to the extent of almost 200 bps, as also lower export mix. We were able to offset it partly with improved pricing and also some cost reduction actions. We see a consistent growth in our spares and service penetration, which is a key focus area for us and the non vehicle business revenue grew by almost 50% for the entire first half as compared to the H1 of last year.

Balaji spoke about CNG salience coming down and it's almost down to now 17% and 15% in ILCV and SCV respectively from a level of almost 45% and 18% in the same quarter last year, and this is because the difference between diesel and CNG price, which used to be almost Rs. 44, Rs. 45, has come down to now Rs.15. Within the bright spots, of course, I think, the strong industry growth especially led by MHCV, of course, has a base effect of the last year. And the good thing is, the passenger vehicles, the buses have also come back pretty strong with good demand in school buses, employee transportation, and as also some demand coming in from STUs now.

I think with our consistent focus on retail communication as well as digital for lead generation, I think we have seen a consistent gain in the net promoter score as also top of the mind brand awareness and consideration by almost 100 bps, 200 bps and 300 bps respectively, and they are now at a highest ever level. So, I think our strategy of therefore, increasing the brand salience is working in the right direction which is going to support our retail acceleration initiative. We also strengthened our product play with launch of more than 30 new products and 70 variants, and within that, I think in quarter two we did launch our new range of pickups as also range of smart trucks, including some of the first in the industry safety features. The semiconductor situation has eased further, although it remains on our radar and in addition to that, we are also keeping a track of the new semiconductors which will get introduced in the vehicle when we migrate to BS6 Phase 2 as also some of the electric vehicles, where we are going to ramp up the production. Going ahead, clearly the focus will be on retail acceleration and track the Vahan share, which will also therefore help us to maintain the inventories at healthy level within the system as we gear up for the BS6 Phase 2 transition. Strong focus on margin improvement, we will continue through sustained Market Operating Price (MOP) increases. So, I think what we've been doing is, reducing the discount and increasing the market operating price and not touching the max retail price which is there. And in addition to that I think we also had a very good first half in terms of cost reduction, almost the best performance ever on cost reduction.

We will continue to engage with the key financiers as also the other stakeholders, especially with the kind of MOP correction that we are taking, and also with the rising interest rate, need to ensure that we provide all the right solutions for our customers, both retail, as well as the key accounts. Readiness for BS6 Phase 2 i.e. the real world driving emissions is absolutely key and there is lot of focus within organization and we remain on track for this transition from April 23. As Balaji mentioned, in the international markets, I think the total industry volume has declined sharply and I think our focus has been clear on maintaining market shares, margins, as well as the channel health. I think within this we have seen a sharp decline in Sri Lanka, followed by Nepal, and even Bangladesh and also Sub-Saharan Africa has declined by around 10%. Next slide.

Coming to our future businesses updates. On the electric mobility, I think we have been able to complete the in-market trials of Ace electric vehicle with our leading e-commerce customers at two locations in the country. I think the product has delivered very well in terms of range and the load it can carry and seems to have a significant competitive advantage over the current solutions. I think we should be starting actual deliveries within this quarter. We are also gearing up, not just operations but also supply chain for the new set of order that we have for electric buses also. This is I am referring to the CESL Phase 1 tender which we had won for around 3,600 numbers. There is a bit of a change in that likely to happen but otherwise, we are gearing up for start of supply of these buses from Q1 of next year. In terms of our smart city mobility solutions, in the last quarter we completed delivery of 100 more electric buses to Delhi transport corporation. And with this now, the total e-bus fleet has covered more than 51 million kilometers cumulative. As I said, we received a LOA, letter of acceptance for 3,600 buses of Delhi, Kolkata, and Bangalore as a part of the Phase 1 tender. The Kolkata one is being reviewed in light of the recent court order, which has come in this regard. In addition to this, there was a new tender which was floated by Jammu and Kashmir for 200 e-buses for own and operate model, which we have won. And even delivery of these buses will start during the next year. So, we have a healthy order pipeline, not just from tenders from the governments, but also from private sector, especially for employee transportation in corporates. I think amongst the fleets we have been able to deliver more than 96% up time across the buses, which is better than what we have committed in the contacts. The total revenue from this business in H1 has now crossed Rs. 200 crs. So, that's where we are in terms of revenue from this new business line. On digital front, I think fleet edge continues to do a pretty well. Now, we have more than 290K trucks, connected trucks on the road and within that you see in more than almost 80% active users now with good usage during the day. During the last quarter, we launched the minimum viable product - MVP 2 on fleet edge, which includes a lot of new features and reports for the customers and the fleet owners, as well as their workshop managers. And they see a lot of value coming in from these reports and insights, which will help them to improve their total cost of operation. Lastly, E-dukaan, which is our online spare parts marketplace, has been doing pretty well. In fact in H1, the revenue has grown 3 times from what we had achieved in H1 of FY 22. So I think, we continue to build the back-end, and then have more and more customers coming onto this app, which will help us to grow this revenue at similar rate. So that's about CV. Back to you Balaji.

PB Balaji

Thanks Girish. Moving on to passenger vehicles, a pretty strong quarter coming through - 57% retail growth and domestic market share steady at 14%, 8% EV penetration, and 10% CNG penetration. Those are the key highlights. Next slide.

EV slide I think the strongest quarter that we have had. We are almost now at 88% market share and more than that the penetration is continuing to increase; the charging infra is continue to increase. So, we do expect to see this continuing to drive penetration up. Next Slide.

On the financials, 71% revenue growth, PBT breakeven again. And EBITDA was down 70 bps, but a lot of it is the same, two reasons here on a sequential drop. One is the residual commodity inflation that is there and the other was a one-off that was taken in this quarter, which is, which will correct in the subsequent quarters. So, no, major concern there. We will continue to keep this profitability improving. EBIT of 200 bps improvement.

On the financials, this is what I just referred to, I think on a year-on-year basis, volume, realizations, continuing to increase. There is still a scope for pricing, we have just put through a pricing in the first week of November and of course, from an overall perspective, the one that is that I will want to draw your attention to is the depreciation and amortization, where we are taking more into the P&L than to the balance sheet. And on the commodities the hedges are paying off at this point in time, and the currency depreciates. Next slide. Shailesh, over to you.

Shailesh Chandra

Thank you, Balaji. Let me start with the key highlights of the industry first. In quarter two, the industry wholesales reached the highest level crossing 1 million mark, the very healthy growth rate of 38% year-on-year. As we know that last year, the base was low because of semiconductor issues that the industry was facing. Segmental trend continues to grow strong in favor of SUVs. So, SUVs further increased their share in the total TIV, whereas Hatches continued to see significant decline. As far as Tata Motors is concerned we further strengthened our market share in H1 to 14.1% as compared to 12.1% in FY 22 and in PV and EV the business grew by 84% and 371% respectively. It was, of course, the highest ever offtake for us, in quarter 2. We maintained our number one SUVs position as well as Nexon also retained its number one SUV position, among the 40 plus SUV models that we have in the industry. EV also posted its highest-ever quarterly sales at 12,000+, with a market share of 87%. Balaji, talked about the launch of Tiago EV and very strong response that we got on the first day of opening the booking. We crossed 10,000 bookings in the first day itself. And so far, we have received very, very healthy bookings for Tiago EV, even while the customers have not test driven the car, so very, very encouraging response seen for Tiago EV.

Talking about the bright spot that we foresee in Q3, we believe that industry will sustain the momentum what we have been seeing the past quarters. The focus in this quarter for the industry would be retail. There will be moderation in off take as all the players would like to reduce the channel inventory as we are approaching the calendar year end. Also, semiconductor supplies have been strong and we have seen that's the reason why last quarter there were 1 million supplies in the industry and this quarter also, we don't see a major issue, because of semiconductor supplies. As far as Tata Motors is concerned, across all the models we are seeing the demand remaining strong, because of a strong customer appeal for our products. There has been consistency in supplies. And you have seen quarter-after-quarter we have been sequentially growing our supplies. Also we did debottleneck some of the capacities in our existing plant. So, it is therefore going to support the demand well. And we will see strong growth trajectory as far as EV is concerned. Challenges in the industry would be now preparing towards transitioning to the new emission norms from April 2023. So, the work will start from now. And market growth is going to normalize as I mentioned, especially in this quarter as the effort would be to reduce the channel inventory.

So, how we are planning to overcome the challenge? I think, as far as demand is concerned, we will continue sustained initiatives at micro market level, for different products. We will also start transitioning to BS6 phase 2 from Q3 end itself. And hopefully Q4 will be a seamless transition for us. And there is a clear glide path that we have created for our profitability improvement, using nine levers and that is also pretty much on track and there's a very strong rigor as far as execution of this aspect is concerned.

Back to you Balaji.

PB Balaji

Thank you, thank Shailesh. Next slide. Overall CV and PV on the cash side, the cash profit after tax and investments, very well-funded. So the business is generating the cash it needs to invest and you can see the working capital changes flow through as growth comes up is what I would expect to see in JLR as well, as growth comes back. So we still have a way to go to knock off Rs.2,600 crs adverse working capital for a full year basis and I'm sure as the year progresses we'll get back to those numbers as well. Next slide, please.

Investment spending will be up to Rs. 6,000 crs, and FCF will still remain positive, that's broad message here. Next slide.

We will take a minute on Tata Motors Finance, we had an AUM of Rs. 46,000 crs, I will also draw your attention to the GNPA line of 8.5%. Before, the two comments, one is TMF and TMFSL, the two NBFC's are classified as middle layer by RBI and the process to demerge the NBFC business - we will combine the two, Tata Motors Finance and Tata Motors Financial Solutions. It will consolidate and simplify the group, very similar message to the ADR message that I said earlier. So that's on the corporate side. But the main one is the central line, which is the point related to the sharp slippage is that we've seen in the restructured portfolio, COVID linked stuff that is there. The underlying portfolio is pretty healthy and continuing to do well. But the restructured portfolio is something that has seen sharp slippages. And we will be monitoring this closely, and that's why you see the loss this quarter as well. So this is something that does concern us, and we will aim to therefore tweak some of the approaches in Tata Motors finance to focus squarely on improving sourcing quality on underlying business to offset some of this and also stepping up the targeted collections that we have there. But at the same time, capital adequacy is fine, the debt equity ratios are fine, liquidity is fine. So, we just have to ensure that the execution on the ground in Tata Motors Finance steps further and the team is on message to get that done. Next slide, please.

Overall outlook. Demand remains strong for now and will remain a key monitorable because, the geopolitical uncertainties are pretty large and wouldn't want to be complacent as far as demand is concerned. And the same time no worries at this point in time. So, we will remain watchful. Chip supplies as Adrian indicated earlier will improve to further there. India we do not see a concern and therefore the volumes will continue to ramp up steadily. In India, definitely and JLR as well, cooling commodity prices will aid improvement in underlying margins and we do expect to deliver strong improvement in EBIT and free cash flows in H2. On JLR, priorities, we already talked about. Coming to Tata Motors priorities, definitely delivering market beating revenue growth. So product innovation, service quality in the new demand-pull model is going to be a very important one and a sharp improvement in realization and EBITDA margins is what the business is focused on. And we are already starting to see the first successes of that. And we will deliver as far as PV is concerned, market beating growth and continuing steady improvement in profitability and cash flows. And as far as EVs are concerned, its about driving penetration. So, this is all we have to say.

Questions and Answers session

The flurry of questions that have already landed up. Let me try and lump them together because it's going to be always be a fair amount of repetition. There's a broad set of themes Adrian coming your way

One related to chip supplies in the theme of when the global chip supplies are actually starting to ease, why are we doing long-term contracts? So that is one kind of questions that are there. Second is, now that you have secured chip supplies are the, 160K production for second half, full sales for second half we have signaled, is it on the conservative side? And thirdly, will that also mean that the margins that we are also putting out there is on the conservative side. So these are the I think there's one theme around semiconductor that I see. If you could pick that in the, meanwhile let me try and summarize other questions as well. Over to you Adrian

Adrian Mardell

Yes, sure. Thierry will answer the question on semiconductors, then I'll go into the profitability stuff afterwards.

Thierry Bolloré

Yes. Well, good afternoon, good morning, everyone. I think this chip supply is absolutely fundamental to understand that's, we have almost finalized all our long-term supply agreements. But it is very clear that if you miss one, it's enough to create the problem that we have had, you know, and that Adrian explained in September. The good news is that now we have finalized all our supply agreements and but let's take the example of the last one that we could sign. It's going to be effective by calendar year 2023, which means that we can see already very positive signs in the way we are dealing with our problems in an effective manner, that's why we are very confident of our ramp up. But, the full effect of these long-term agreements is going to come into action gradually with the global supply base and with our tier ones. So, that's the reason why it's a gradual improvement, and we should not also forget that the crisis supply in terms of chips is really a crisis in our sector. So, we can see improvements, but it's going to continue when I'm discussing with the CEOs of all the industry. It's going to continue in the coming years. It's not a matter of months or quarters, but it's going to be a matter of years before we come back to a situation which is much more normal than what we can see today.

Adrian Mardell

And if you let me build from that theme into the second half of the year, one thing we have said is that we are more certain of supply from January than we are from October. I told you earlier in the presentation that we were decommitted in September and that carried through into our production and wholesales into October, which is this quarter. So it's reasonable for you to assume 160,000 in the second half of the year we have guided you, but we'll be stronger volume in quarter four i.e. from January than in quarter three.

What we're seeing from an overall volume position in quarter three is a little bit better than Q2, but not a dramatic improvement. However, our mix because of the units we're now able to build within FA3 and Solihull will improve and therefore, total units in Q3 will be modestly increased, but average selling price and average revenue per unit will increase a lot above the 70,000 pound per unit level, which we started to see towards the end of September. So that's what you're going to see over the next three months, with then an increase in supply in our quarter four. The balance is added to the 160,000 units. Don't forget we don't want to put a number out there that we're having to explain why we didn't either. So a part of this is learning from our Q2 experience, because Thierry's other advice is, at a point in time, you can actually be de-committed outside of your expectations, and it just takes one part for us not to be able to complete and ship a vehicle. So, that's why the guidance you will see it in the second half of the year and the intent behind what we're trying to do here and the complexity that there still is for ourselves and for everybody else in the automotive industry by the way.

PB Balaji

Thanks, Adrian. I think let's probably take the other two questions also coming your way, which then takes this to the next logical question saying that, what does the reduction in production and cash flow, or guidance in JLR mean for our FY24 guidance of becoming debt free? And how do you see the revised guidance?

Let me take that. I think at this point in time, the near net debt free target remains as it is, we are not changing it simply because we don't want to update it every now and then. But we do understand the stretch that is there in trying to get there. So obviously, we will work at all, look at all options as far as trying to see how close we can get to that. I think the better time to do this discussion would be at the end of the financial year, as we are able to see as Adrian and Thierry talked about. Q3 is a transition period, and then Q4 is when the full calendar year benefits come through as well. That will give us the better time in terms to talk about it. So, we are aware of the challenges to get there, at the same time wouldn't want to run ahead of ourselves in terms of putting a number out there. So that's on the net debt.

Related point on this in terms of your funding, Adrian, does it also mean that you may be coming to the bond market sooner rather than later in terms of taking care of this GBP 1 billion that is currently not in your plan?

Adrian Mardell

Thanks, Balaji. Ben, what are thoughts?

Bennet Birgbauer

So, we did end the quarter at GBP3.7 billion of cash, and that does include a buffer for unforeseen cash requirements or to cover maturities if we don't want to go to the market at the time. So, we already gave guidance that we would be significantly cash flow positive in the second half of the year. And we have about GBP 800 million of bonds maturing in February and March and basically the free cash flow guidance that was put on the page you saw was GBP 750 million pounds. So that would about cover it and so you really wouldn't be eating into the buffer. We could do scenario planning and say what happened, what would happen if that didn't happen. But I think that what would happen is we would just use some of the buffer, and I think we are in a situation where, yes, over time, we'll always want to maintain that buffer and maintain good liquidity. But rates in the market right now are not very attractive, and I think we do have flexibility for the reasons that I just said to wait until we see rates that are more attractive to us to issue at.

Adrian Mardell

Okay. Thanks, Ben.

PB Balaji

Let me turn to India. I think there are the questions coming through on the profitability of the Indian business. The Indian business margins, I think this comes from Gunjan, Bank of America. The Indian business margins have declined sequentially in both segments despite price hikes and better operating leverage. How should this span out ahead? What sort of metal corrections tailwind we expect in second half if you can quantify?

I think let me take that question, Gunjan. I think if I see PV and CV individually, close to about 70-odd bps of residual inflation came through in this current quarter in our overall profitability, which we expect to actually neutralize and turn and actually go forward start giving credits in Q3 and beyond. We do as I said earlier itself, the intention is for the CV business to get to as close to double digit EBITDA at the earliest, and PV will continue to have a steady improvement in profitability going forward for which commodities is one of the levers. But it's fair to say that the operating leverage from a PV perspective is now juiced to the limit, and we would want to now see the contribution margins and mix continuing to play and keep improving and there's enough and more opportunities on that front. So, that's what we see is from an improvement perspective. Other thing on the PV we should keep in mind, I think we've lost some more, not lost, I think that we've taken a charge : one-off charge of almost about 50 odd bps this quarter related to few obsolescence issues that are there, and those are sitting in underlying business, but they are one-offs and should not repeat going forward. So, that's on the profitability side.

Girish, this one coming your way, I think when you see CV margins, they are very weak despite industry volumes, which is for an industry itself, being very weak. So can CV business margin reach double-digits? Are they closer to double-digit like, let's say 9% kind of a close double-digit there? How do you see the profitability of the industry?

Girish Wagh

Yes. So I think as Balaji mentioned, we as market leader have actually taken this upon ourselves to increase the realizations from the market, and that's a big change that we've done in towards second half of Q2. And we have been increasing our market operating prices with which we will see that the margin should improve. And as Balaji mentioned, I think our target will remain to get to a double digit margin EBITDA. And I think the good thing right now is the transporter sentiment index we do see, it remains quite positive, which is good. So, the demand is going to be there. We also see that the fleet utilizations are good. Freight rates are also at a good level. So despite the increases in diesel prices and the vehicle prices at whatever level they are, the transporter profitability is intact. So this should help us to firm up the realizations as we go ahead. And with commodities tapering-off and our cost reduction actions, I think we should be getting towards our double-digit EBITDA target.

PB Balaji

I'm getting question to both Shailesh and Girish in terms of BSVI Phase 2, what kind of cost inflation can we expect?

Girish Wagh

So, I can say at this juncture that the cost increases for the BSVI Phase 2 are going to be lower than what we had seen in the BSIV to BSVI transition. So, in terms of price increases, therefore it may be lower than what we had to take from BSIV to BSVI. I think it depends upon the technology also, but the statement that I am making is applicable to most part of the diesel portfolio. That's where we are. I think we obviously are very light on gasoline, there is only one product in gasoline. But gasoline anyway will have much lower cost impact, so that's where we are in terms of cost impact due to RDE migration.

Shailesh Chandra

Similar response. I think the transition that we had seen earlier from BSIV to BSVI echoes a double-digit kind of an increase. So as far as price was concerned, you're not going to see that kind of a price increase in this time, and diesel, when specifically talk about diesel, because that gets impacted the most but you'll see different kind of cost increases for different manufacturers depending on the technology selection. So that's what we now see going forward, but it's not going to be as significant increase as we had seen from BSIV to BSVI.

PB Balaji

Thank, Shailesh. Adrian, this is coming your way. Given that lot of your cash outflows coming out of working capital, the fact that you are now guiding to a 160k volume with semiconductors having taped-up, is that number conservative, number one, which you had answered the in a part. But its implication on cash flows, given that working capital rewind should give you a better benefits going forward, are we being conservative on the cash flow?

Adrian Mardell

Yeah. Okay. Thanks, Balaji. So are we being conservative on the cash flows, there's two or three things happening into the second half of the year within there. One is, and all of them have actually referenced on the call, but good to play it back in terms of the data here. One is, we will be building more cars and therefore working capital will start to turn in our favor. Ultimately it depends on how many cars we build in the last six weeks of the year of course. Right so, but our assumption is we will build more cars over the end of Q4 than we are building at the end of Q2. Therefore, there will be a working capital turn in our favor in the second half of the year. There is a mix improvement, so even though volumes aren't as high as some people wish, the mix improvement and the value per unit and the average selling price will grow as well. All of those things will be positive. Don’t forget what I've also said to you on the call is we expect investments to increase in the second half of the year in two or three places, one of which is the optical investment number, which the guidance we've given you is GBP200 million higher in the second half of the year than the first half of the year. With the supply starting to improve, we're also anticipating improving other investments like fixed marketing to generate more orders, which we're deliberately not generating today because of the size of the order banks, and we will also allow expenditures to grow in other places alongside our digital transformation. So, our spend will grow and our cash receipts will grow and it will net out to the flavor of the GBP 750 million you see there. I'm not consciously and deliberately being conservative, although we're being very balanced and it is possible to overachieve those numbers should we get more supply or more of our units to end destinations before the end of March.

PB Balaji

Thank you. Adrian, one more coming your way, this is on the order inflow. Q2 seems to be around 93K, lower than the 100K+ that you have reporting in the previous quarters. So the broader question that's coming through is, is this because of a demand slowdown, or is it because the long wait periods? What's causing this throughput rate to come down, and therefore, how are we seeing the cancellation rates as well as overall demand environment?

Adrian Mardell

Yeah, okay. So we are about 10,000 units lower than we were by quarter earlier in the year. Obviously a part of that is the reasons I've just said, we're not stimulating new demand. But what you're also seeing in the absence of that stimulation in demand is the aggressive increases in orders for new Range Rover, for example have started to flatten off, and we're building more of those units as well. So that's what you're seeing here. You're seeing up the original spike launch of new Range Rover now starting to flatten off. There's been no marketing spend behind that vehicle at all, advertising or indeed, variable marketing. So ,there's plenty of opportunities for us to stimulate that demand. The other thing you are seeing we're starting as the Range Rover Sport is becoming visible into the marketplace. You'll actually see the database increase Range Rover Sport orders as we go month-by-month in the second half of the year. So, we're waiting and watching to see whether it naturally, because of that second reason gets to a 100,000 or whether we actually need to start to stimulate some of that demand. And a fourth reason is that we know dealers are holding back on some orders at this point, because we don't have delivery times for them. So, when you put that flavor together, Balaji, we are super confident we're going to stimulate orders more than a 100,000 going forward once we get the supply.

PB Balaji

Thank you. I will leave you with a teaser on pension that's going to come your way, but let me before that move to Shailesh. Two questions, Shailesh, on EVs in particular. One, value proposition of EVs, how's it better than hybrids? So that's one. And second, EV margins, the impact of EV and overall margins of PV, can you talk about these two?

Shailesh Chandra

Sure. So as far as EV is concerned and the way the ramp up we have seen in terms of demand of EVs and Tiago is one big example, first day getting 10,000 bookings, we had never seen this kind of a response even for some of our very successful ICE cars. Clearly shows that it is being well understood the strength of the value proposition not only versus hybrid that I'm saying versus normal ICE vehicles also. And the biggest proposition here is the low operating cost, and the low operating cost is really translating into big benefits in terms of annual saving and therefore, the justification for the premium that you have to pay for EVs. It is a very smooth automatic transmission vehicle, at the same time for which it is being appreciated, and also in terms of performance and drivability pleasure, it is proving to be much superior.

And of course, there is a change in mind-set and greater trend of younger population also to move towards more cleaner vehicles and be responsible to the environment. All this trends make it a very strong proposition, and we are clearly seeing that translating into demand. So, this is answer to the first question. The second question was on margin. I would say that margin of EVs is not very different than what we see for the ICE segment in PV. And this should further strengthen from next financial year as the PLI benefits also start coming in.

PB Balaji

In terms of your volume outlook for domestic PV, now that the pent-up demand is more or less met up and semiconductor situation has normalized, how do you see it, one question? And second in terms of how do you expect to gain market share going forward on the PV business?

Shailesh Chandra

Sure. So, as far as this H2 is concerned, H1 itself was very strong, and we saw nearly 1.9 million vehicle which got sold in H1. Typically you would see a 48:52 kind of a ratio between H1 and H2. This time, you're going to see nearly 50:50 kind of a ratio. So, it's going to be a very strong year, highest-ever industry volume is what we are going to witness in this financial year, possibly going up to 3.8 million-plus. And therefore, I don't see right now, the demand really going down, except that you'd see moderation on offtake this quarter, and then it should again pick-up in the next quarter not to the full extent, I would say, because of the transition from BSVI Phase 1 to Phase 2, but still, it will be good enough to do similar kind of volume as we have seen for the H1. Definitely, then the question will be in FY 24, whether you will have similar kind of growth? I would not expect that, because a lot of pent-up has got released already in H1, and therefore now it will be more triggered through the new launches, and there will be segments which might get impacted, which will be mostly the entry segment, as there will be some price increases coming because of some regulations, which are going to hit, which is, one, the Phase 2, RDE and then the safety regulations, which will also hit in October 2023. So I think FY 24, I would just hold my comment right now, because we have also then triangulate based on what projections we are going to see from various agencies. What was the second question, Balaji?

PB Balaji

EV margins, you've covered it, right?

Shailesh Chandra

Covered

PB Balaji

Let me probably take the comment- Adrian, coming your way, JLR pension liability, situation of the provision needed due to the bond yield changes. Do you want to pick it up?

Bennet Birgbauer

So Balaji, Adrian asked me to pick this one up. So, I think this question is relating to the extreme volatility we saw on gilt price in gilt yields following the mini budget that was announced in the UK in late-September, and that did cause liquidity challenges for pension plans in the UK, because they have interest rate hedging arrangements, and they had to post collateral against those interest rate hedging arrangements. And JLR was no different. We did see increased collateral requirements in the pension plan related to our hedging arrangements, and we did take action in the pension plan to reduce the hedging levels and sell assets to cover those collateral requirements and we acted very, very quickly when that came up. So the pension plan remained liquid throughout the issue. Rates have, of course, normalized now. They had risen by 2 percentage points to something like 5.5%, and they're back now down into the mid-3s again. I think an important point here is that it was always a liquidity issue only not a funding or solvency issue. And the ironic thing is that actually, the pension plans of JLR, the accounting basis surplus actually rose from the end of Q1 to the end of Q2. So the accounted surplus is actually over a GBP1 billion at the end of September, and it was slightly under a GBP1 billion at the end of June.

PB Balaji

Yes. Thanks, Ben. One more question on the JLR side. Other expenses to sales are flat quarter-on-quarter, not seeing any leverage gains, any key drivers for that? Adrian?

Adrian Mardell

No, not really. Look, I mean even though we've broken through on MLA, we still only have 13,500 Range Rover, Range Rover Sport wholesales within quarter two. It was just 18% of the total volumes. So, we will be stronger and better than that in the second half. Optically is incredibly powerful with that GBP300 million year-over-year. But, we're not punching our full weight yet by any means on MLA, and that will actually increase the average revenue per unit, and the total revenue in Q3. And therefore, you may see a change as a counterweight to that. I think I've already answered. We are going to start to lift some of those costs and some of those expenditures. And of course, the inflationary pressures in the second half of the year particularly on employee settlements will start to come in place to lift the cost as well. So I see a revenue lift, I see a cost lift, and broadly speaking, the balance between the two will be reasonably close going forward as we see it today, Balaji.

PB Balaji

Thank you. One additional question is on the VME. Do you see any pressure in China and EU on non-RR portfolio?

Adrian Mardell

No, no I don't. I mean, particularly on the way as we bias our product towards the higher end of the business, the discounting of the higher end of the business is lower, and therefore again, it will be a part of the margin improvements which will start to do in the second half of the year. Once free-supply comes through, and we start to build greater quantities of the smaller vehicles, the SUV-3s, that's when I expect it to be more competitive, and that's when I expect VME to start increasing as an average and as a percentage of total revenue.

PB Balaji

Okay. And one more question before I move back into CV here. The revised wage settlement at JLR, has it been reflected in this quarter's results, one, and two, timeline for the debt repayment of the GBP1.7 billion in 2023?

Adrian Mardell

Yeah. The wage settlement is effective from Q3. So, there's no impact earlier in the year on this reported period that will kick-in in the second half of the year, and there's a part of the explanation even though I recognize some of that will go into the margin rather than other expenses, that was a part of our last explanation. But it's in front of us rather than behind us. And the profiling of the debt kicks in in February and between February and June, there is GBP1.5 billion in sterling equivalent we pay back.

PB Balaji

Okay. Second, now this coming back into India, Shailesh, your way, customer profile of the Tiago EV bookings versus Nexon, any interesting anecdotes there? And are they first time buyers, what are the mix, first car versus second car?

Shailesh Chandra

We would not have that clear picture of Tiago. But for Nexon, I won't have the split of first only car, but between only car and primary car, it is nearly 70%, which has grown significantly for what it used to be, it used to be 25%. Otherwise, it was generally a second car. People who are now using i.e. the Nexon EV buyers, who are using it as the only car or primary car is really now 65% to 70%. On Tiago EV, we have only regional kind of a mix, which is very strong we have seen in states like Kerala, Maharashtra, Gujarat, NCR, Rajasthan and these kind of places and Telangana. So pretty, I would say, similar kind of states where we had been selling, but also some of the states in East have also started showing interest in EV. So that's what we have so far information here.

PB Balaji

Thank you. I think there's one question that's coming back again and again. So, let me pick it up in terms of what are the reason for lower profitability of CV and PV despite better volume? And I think there are also questions about how much is a commodity impact for the current quarter, how's it likely to change in next quarter. I think, let me cut the problem into two. As far as CV is concerned, the main reason that we had was a residual commodity increases, the last lap of it, it is just the way negotiations close, they just overflew into July, August, and those are now settled and completed. And we should see the decrease coming from Q3 onward. That's how the negotiations happen. Additionally, on top of it in CV going forward, you should also see realizations increase as we move to a demand pull strategy. So that will also keep increasing the profitability. And therefore, we would expect by Q3 this business to ramp up in terms of profitability and intention is to get as close to double-digit EBITDA as soon as possible. So that is the plan there. Coming to PV, yes, the residual impact was also there in that. But on top of it, there also one-offs which we have taken with respect to obsolescence that we had to write-off, and that's almost 50 bps of write-offs that got taken there. So, those are the two reasons why the profitability came down. And both are now behind us. And therefore, that's something that we should expect to see the things changing here on.

So, moving into a set of questions that are coming in terms of ADRs, DVRs, basically saying that if you have simplified the structures through de-listing the ADRs, what are the plans on DVRs? At this point in time, there are no plans, and as and when there is something coming up, we will definitely share it with you.

In terms of Capex in India, first half of the year, we have spent about Rs. 15 billion, but we are guiding for about Rs. 60 billion. What is our current plan? I think, this is up to Rs. 60 billion is what we had set i.e. Rs. 6,000 crs. And we do have plans that are rear-ended, typically that's how it invariably happens as the proposals clear. We will keep a close watch on it, and we will spend as is prudent and rest assured, we are not cringing on investments and the intention is to keep supporting the growths there. I think one question coming your way, Adrian, Euro 6 emissions that are there, are there any additional expenses that we have to undergo to meet the new emission norms?

Adrian Mardell

Yeah. Well, the Euro 6 legislation is behind us Balaji. I think we are looking ahead towards Euro 7 at this point in time, which I'm told has been delayed by 24 hours, the announcements until later this week. I think the EU 7 ones are the ones we're looking forward to. If they get confirmed in the timeline, then there will be additional expenditures which will be contained within our investment targets we have given you going forward.

PB Balaji

Okay. So Ben, one coming your way, given the pound depreciation against INR, shouldn't there be an exceptional gain sitting in the P&L due to debt on the JLR books? Is it again, I know that's related to INR or is it USD that you're referring to?, because JLR has its debt in USD. What you also see is that, there's a translation impact of that, not definitely a P&L. And as far as the OCI is concerned, we do see it's in the OCI in JLR. Ben, anything further you want to add, assuming the question is vis-a vis USD?

Bennet Birgbauer

Yeah. I mean, I think, it's harder for me to answer the question relative to INR. I guess all I can say is that, I'd go back to the slide that we looked at earlier that showed exchange. And basically, it showed that the exposure benefit, net of hedges, was favorable about GBP 55 million in the quarter compared to a year ago. And we did have a revaluation on the debt. In the end of the day, debt is largely hedged either by derivatives or by foreign currency cash holdings or in some instances designated against future revenue. So, we don't really -- I really think about foreign exchange revaluation on net debt, including hedges and that is broadly neutral. We did then have about GBP 90 million of balance sheet revaluation for other non-sterling liabilities that showed up in the income statement. It's all on that slide that we looked at earlier.

PB Balaji

Okay. One question to you, Adrian, in terms of an announcement from another OEM related that the high inflation in Europe could result in moderation of demand next year? Do you share this view and is there a risk to volume or pricing, given discounting currently is at a record low?

Adrian Mardell

Yes. Okay, Balaji. I think I touched on this actually when I talked through the VME explanation. Right, for the larger vehicles, the Range Rovers, Range Rovers Sports coming through, we are not seeing any discounting, we are not seeing any fall-off in demand. There is a flat lining of new orders, but not a fall-away of new orders and the flat line is absolutely consistent with the profiles we have in the demand books, order books we have in place. I think once supply starts to free-up for us above the level that we are currently indicating in the second half of the year, then we will be building more of the units, let me say, in the SUV-3 segments. I think those segments are more competitive, always from a support VME perspective, from a aggressiveness of supply, of other OEM actions. So, I do expect higher VME at some point in time on those nameplates. But clearly, we need the supply to build them at the moment. The ones where we will be building over the next six months in time, I don't see this as a risk at all.

PB Balaji

Okay. I think there's slightly different question, but again linked to the high energy costs. Is there a risk of shortage of components due to gas shortage or very high energy costs from vendors?

Adrian Mardell

We are not seeing any of that at the moment. We are seeing cost increases flowing through of course. Just to give you a sense of that, our base energy bill is around GBP200 million a year, and therefore you know that's certainly increasing. It's in part in our first half year. And it will be a reason I talked inflation earlier. I said the numbers broadly going to be the same. And if you put together the two responses we have given Balaji, the commodities are going to start to fall, while other cost categories, including utilities and including pay awards will start to kick-in which is why I am saying, overall the costs will broadly be the same in the second half of the year, just come at us in different places. We don't see risk of supply at this point in time. Obviously, as a nation, we are less reliant on supplies from Russia of course. Most of our supplies come from other places like Norway. We do have alternative supplies particularly for the buildings outside of our processes, production processes like paint shops. So, we have other alternative for other sources. We don't have gas storage. If you wanted to get into gas storage, we know our facilities in Europe and our governments in Europe do have a gas storage, which will get them through most versions simulated of a winter. So, we are not actually expecting shortages of supply to impact our production facilities over the second half of the year. We haven't seen any yet, but we are expecting cost increases. This is a summary of where we believe we are going to be on gases in the second half of the year.

PB Balaji

Yes, thanks. I think the question on the Ford plant acquisition, Shailesh, when are we going to see production out of the Ford plants that we have acquired? Just to clarify, we have not yet acquired, we will close the transaction, the intention is to close it by end of this calendar year or early in the new year. Everything points to that kind of timeline, so all systems go on that one. Production?

Shailesh Chandra

Yeah. So Balaji, so we are right now in the process of government approvals and all are final stages of finalizing the model location mix with changes now, because whatever we are producing, many other factories are going to relocate to some extent to this factory also, and the new EV models which are going to come. So, FY24 is where we are going to see some start of the activity in the later part of FY 24. It's the current, what to say, estimate of when we'd be able to retool this plant for the models that we are going to shift to this factory, and some of the new EVs which are going to be made there.

PB Balaji

Okay. There's a question on what, how important is JLR to Tata Motors and the wider group's growth strategy and what level of support does the former envisage going forward? I think it's absolutely categorical. We have made that many statements that JLR is absolutely core to Tata Motors, and it is as much Tata as any other company is and therefore within the group as well, it's a crown jewel, and we will keep it that way. In terms of one interesting question, post the launch of Tiago EV, do you see any pressure on demand Nexon EV? Shailesh?

Shailesh Chandra

Tiago EV is a very different product segment with very new customers. And, so, we don't see any impact on the Nexon EV demand as of now.

PB Balaji

Thank you. So maybe the last question unless there something comes up now. This is on Tata Motors Finance, how much of the incremental loan formation is dependent on Tata Motors PV, CV, EV? What are the plan to improve the operation of Tata Motors Finance? I think, let me take a few minutes to explain this one. There are few things that we are working with Tata Motors Finance on. One is, that their underlying business, which is a running portfolio, is in a good quality. There's no concern on the running portfolio. But, we'd like to step it up further in terms of reducing the level of GNPA there, and ensure that we step-up the quality of sourcing. Thereafter of course in parallel, we are also working to tighten the collections infrastructure there, and you should see these playing out in the coming quarters. And it is very clear, it's an independently-managed company. Tata Motors and Tata Motors Finance, we would love to keep it as from a decision framework separate. But of course as much synergy as possible, they should drive. But intention is to ensure they take their own decisions on credit and decide whom to fund or what to fund. Their portfolio from a new vehicle perspective is entirely Tata Motors, but their used vehicle portfolio does have sourcing from other OEMs as well, that's the market. So, we get a fair share of our market, of the vehicle park that is out there. So, this is clearly a task for the team there. And I'm sure, given their commitment, they will come back on track. It is only their restructured portfolio that is giving us the pain, and that is completely related to the pandemic and the fact that we had back-to-back pandemics for two years in a row. The MSME, particularly small commercial vehicles, some ILCVs and MHCV's, those individual fleet operators have been in stress. So, we will need to deal with this, and we are committed to deal with it as well, and it brings this business back in to the pink of health. It needs to get to a double-digit return (ROE) business, and we will be there.

So, I think it's more or less done for the day. So thanks everybody. We have no further questions. So, thanks everybody for attending the session, and also thanks to the team around the table as well as in JLR for a lively Q&A session and response there. And in case you do have any further queries, don't hesitate to reach out to us. We will try and respond to the best of our abilities. Thank you, and have a good day. Take care. Bye-bye.