



“TATA Motors Q3 FY17 Conference Call”

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MODERATOR: **MR. YOGESH AGGARWAL – HSBC**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Tata Motors Q3 FY17 Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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: Thanks, Dan. Hello, Everyone! Good Evening. Welcome to the Tata Motors 3Q'17 Analyst Conference Call. We are very glad to have with us the management of Tata Motors represented by Mr. C. Ramakrishnan -- Group CFO of Tata Motors; Mr. Ken Gregor -- CFO of JLR; and Mr. Vijay Somaiya -- VP and Head of Treasury & Investor Relations, plus all the other members of the IR Team.

I will now hand over the call to Mr. C.R for "Opening Remarks" and "Presentation." Over to you sir.

C. Ramakrishnan: Thank you, Yogesh and thanks, HSBC for hosting this call, Good Evening, Good Morning, Good Afternoon to everyone wherever you maybe and thanks for coming on this call.

Before I quickly run through the presentation that we are put together, at the outset, from financial performance point of view it has been a disappointing quarter for variety of reasons with headwinds and some unexpected macro events in the domestic business as well as certain headwinds and timing events in Jaguar Land Rover. As you will see, as I go through the presentation, there are actions specific in addressing many of these areas and we hope to improve from here the next quarter and in the coming quarters. There are number of initiatives underway in Tata Motors, Transformational and Strategic Initiatives, which our MD advise from time-to-time, you must have picked up those in the media. Hopefully, this will help us significantly improve our performance as we go forward.

Quickly going through the "Presentation", the consolidated turnover net revenue was about Rs.67,000 crores, down marginally from Rs.70,000 crores in the previous year same quarter. EBITDA percentage drop to 8.9% from 13.8% and the Q3 PAT was about Rs.112 crores compared to Rs.2,900 crores in the same period last year.

I will not go through all the detail numbers including the quarter and nine months, etc., because the presentation is already on the website. Tata Motors standalone operations, just to remind you all, the standalone in the last 2-3-quarters includes effect of joint operations namely the JVs that we have in India, including joint operations, the net revenue was flat at about Rs.10,100 crores compared to Rs.10,000 more than the same number in the same quarter last year. EBITDA percentage dropped significantly to 1.5% from 6% of the same period last year and as a result PAT was about Rs.1,000 crores loss compared to Rs.100 crores loss in the same quarter last year.

Jaguar Land Rover, these are in pounds; net revenue was about £6.5 billion, an increase from £5.8 billion for the same quarter last year, EBITDA percentage however came lower at 9.3%, down from 14.4%, and PAT was about £167 million compared to £440 million in the same period last year. In terms of overall balance sheet, Jaguar Land Rover continues to have net cash positive position. We will see some details of it in the subsequent slides. Therefore, debt-to-equity ratio leverage does not really apply to Jaguar Land Rover, being net cash positive.

In Tata Motors, standalone automotive operations, net debt-to-equity touch about 0.93% to 1% at the end of the quarter. In terms of the operating profit performance for this quarter, as I said, EBITDA margin for the standalone business was about 1.5%, mainly impacted by degrowth of about 9% in the Medium and Heavy Commercial Vehicles. LCVs were flat with growth of hardly about 0.2% YoY. Car segment however grew for us well at 31% and we had good exports growth of about 34%. The degrowth in M&HCV was 9% in volume terms, affected significantly the margins along with the discounts and other factors that play in the marketplace.

Jaguar Land Rover on the EBITDA which was £611 million at 9.3%, mainly reflects the lower wholesale volumes in the quarter compared to a year ago. Less favorable product mix and partially offset by favorable market mix. The effect of this market, wholesale volumes and product mix and market mix that was almost 2% including the run out cost of the Discovery. Marketing expenses continue to increase and affected the margins by about 1.7%. New model launch cost and pay negotiation settlement payments also impacted the margin, both together by about 0.7%. If we have to relook at EBITDA margin differently, the realized losses if you remove it from the revenue, the equivalent EBITDA margin would have been about 10.1% instead of 9.3%.

Standalone Business for Commercial Vehicles: The industry witnessed significant demand shrinkage in the months of November and December following the demonetization that came into effect in the early part of November. Domestic CV volumes of the company declined by about 4.1% in all, within which M&HCV segment as I mentioned before, declined by about 9% in this quarter. However, strangely, this is the M&HCV, the Construct and Buses segment witnessed strong growth upwards of 30% respectively. As mentioned earlier, variable marketing expenses continue to remain high in the industry somewhat even more accentuated following in November and December. More recently, we see some trend in material cost increases and we have also taken some price increases towards the end of the quarter to mitigate.

Passenger Vehicles business in India from an operational point of view was good quarter for us. Passenger Vehicles industry posted a growth of about 1.9% in Q3. For Tata Motors we saw the Passenger Vehicles business grew by about 25%. Within this, Passenger Car segment for the industry, degrew by 2.4%, in our case the Car part of our portfolio grew by about 31%, supported by the strong performance of Tata Tiago.

Tiago also won several awards. I believe it is run into double-digits now. We have collectively got about 13 awards. I need to check whether this is something of a landmark.

Tata Hexa was unveiled in the quarter with strong responses and high acclaim from all stakeholders, including media, auto critics, and auto enthusiasts based on its features, design and technology.

Jaguar Land Rover: Wholesale volumes stood at about 130,000 units and Retail was about 139,000, almost the same. In the China JV, the Wholesale and Retail volumes came in at around 21,000 and about 19,000 respectively. In terms of Retail sales, we saw our North American market grow by about 20%. China, since I am talking Retail, this includes the JV sales into the Retail, China as a whole, the Retail went up by about 38%, Europe 7%, but however UK saw a decline of about 3%, and overseas even more slow at about 21%.

For the quarter, capital expenditure and product development spend was about little over £900 million, part of the annual indication we had given upwards of £3.5 million. After this investment in the quarter of £926 million on CAPEX and product development, free cash flow for the quarter was about £54 million positively.

I mentioned about the strong cash and liquidity position on the balance sheet. In cash and liquid investments we have about £3.8 billion and further we have another almost £2 billion of unutilized committed bank lines.

Little more color on the profit before tax, which came in at £255 million for JLR for the quarter, is down from £499 million in the same quarter last year, broadly impacted by the lower EBITDA which we talked about earlier. Higher depreciation, amortization charge of about £52 million which is a trend we have seen in the earlier many quarters. Unfavorable unrealized FX and commodity hedges and revaluation as well as US dollar debt revaluation about £42 million offset somewhat by higher China JV profits compared to year ago about £13 million and lower net finance cost of about £5 million. We also recovered further recoveries related to Tianjin fire loss of about £55 million. Just to add a comment, with this recovery in this quarter for Tianjin almost whole of the loss that we had once provisioned for, when the incident took place more or less of being fully recovered with something more to come shortly. Share of China JV profits of the quarter was about £35 million.

The next couple of slides are mostly Car pictures. I cannot dig into describe them over the call, so I will skip this, we can have a look at them little later.

Going forward, as I mentioned earlier in Tata Motors, we are focusing on “Six Strategic Initiatives” and “Transformational Journey”, which touches upon every aspect of the business and fundamentally reshaping the business to be ready for the future.

Centering around, intense top line focus, agility in our cost management, structural improvements, customer focus and centricity, new business models and new technologies, and

lean and accountable organization structure. These six themes have been rolled out in several projects and major initiative internally under the head impact improvement by action, impact projects and all these projects are significantly underway, rethinking and rechanging as it is executed the way we do our business. They have also made several announcements touching upon each of these. The new business models, new technologies, we have announced the sub-brand called TAMO, which will incubate new technologies for introduction in the future.

Lean and accountable organization, we are going through a major organizational realignment initiative and our organization's effectiveness program to rethink of the number of levels of hierarchy in the management, head count and the way we are organized in terms of accountability and responsibility, more focused on greater accountability and empowerment in the business units with the strong control functions in terms of central services. I can keep on talking about many of these initiatives, I will stop here.

In terms of business outlook going forward in Commercial Vehicles, we expect infrastructure spending and pre-buying before the adoption of BSIV in April will result in improved medium and heavy commercials in particular demand for the Q4. We believe compared to the decline we had seen in one or two quarters in the current year, we will end the year at least on a flat basis compared to the previous year in terms of medium and heavy commercial vehicles which in turn would translate to hopefully a much stronger fourth quarter.

Within M&HCV Buses & Construct segment, which I mentioned earlier, we will continue to maintain the positive growth momentum which also augurs well for the performance going forward, and we expect this growth momentum to pickup in FY'18, even though post introduction of BSIV across the couple of months maybe somewhat muted.

As I have shared with you all before, wide and compelling product range with several new launches in the coming months and in this year in all segments medium and heavy commercial vehicles expansion of the new SIGNA Range across various tonnages. On the products side, we are very well prepared for the BSIV launches shortly, happening in Q4 partly and in April. It would be our aim and strong commitment to get back to the position of more than 60% market share for the next two years in the M&HCV segment from the current level of about 55% to 56%.

Similarly, in Light Commercial Vehicles and Intermediate Vehicles, we will see an expansion of the product range, Ultra, across different tonnages and applications, including introduction of new high performance 3-liter and 5-liter common rail engines. Same with the small commercial vehicles and pickups. We will ramp up the production of Xenon Yodha, which we launched recently, and strengthen the ACE platform across different applications and tonnages.

We expect export growth to continue in the range of about 30%. It will continue to grow at this rate into the next year and will steadily increase the share of our international business in Commercial Vehicles within the overall Commercial Vehicles portfolio. We have launch Prima and Ultra in many of the international markets.

We also have a good pipeline of Defense orders which I shared with you earlier, both received and being executed as well as expected.

Passenger Vehicles: We launched the Tata Hexa in January 2007. It has received as I mentioned very-very positive reviews and strong accolades from the auto media, journalists and enthusiasts. The strong response has been so positive. It has also reflected in the strong order book of more than two months even before the launch of the Hexa in January.

Tata Tigor and Nexon will follow later in this calendar year. Other areas of focus like dealer network expansion and customer focus and customer service improvements will continue to be emphasized. As a result, we have also improved our ranking to the third rank in the recent J.D. Power CSI Study.

We also launched as I mentioned earlier a sub-brand TAMO, which is an incubating vertical to drive innovation and future mobility solutions, demonstrating our technology capabilities.

As far as Jaguar Land Rover is concerned, looking forward, we will continue to invest to drive high profitable growth. Our strategy continues to be to invest in new products, technology, capacity, all of which aim to grow profitably. We will continue to build on recent successful product launches, which continue to have very strong demand pull in the marketplace and sales ramp up of the Jaguar F-PACE, XF long-wheel base in China, and the all new Discovery, and other products to be announced later this year.

More particularly on the fourth quarter, the start of sale of new Discovery wholesale, the annual March peak season sales in UK and other seasonal factors, we expect to support a solid final quarter. We continue to have a balanced sales profile and we will continue to closely monitor and assess market conditions in key markets.

Before I end, just a couple of comments on some of the balance sheet-related corrections particularly in India following the introduction of Ind AS accounting standards which mirror mainly the IFRS with certain carve out and exceptions. We have done fair valuation of some of our assets, notably land to the extent of about Rs.4000 crores, including certain re-statement of foreign exchange loans, etc., as required by the standard. We have also have taken this opportunity to fair value some of the assets and product development and other engineering expenses in some of the programs which may not continue to be relevant in the future, as well as incremental provisions or some of the finance receivables, which continue to perform not according to the expectations but lower than expectations. Net-net taking into account all these adjustments, in terms of IndAS, we also have the effect of equity method of accounting for certain joint ventures. Combined and all these at a standalone level, net of the fair valuation upward and downward we see net impact positive in the equity of about Rs.900 crores. You will see more details of it in the presentation as it available on the website, standalone was Rs. 990 crores.

I will stop here with my presentation and a brief context in terms of the performance of the quarter. As I said in the beginning, surely a disappointing quarter, but see some headwinds and somewhat crowding of some of the one-time and peaking of some expenses as well as the domestic economy disturbance in terms of demand fluctuations arising from some of the legislations. We hope and expect that there will be a recovery in the fourth quarter and in the periods recover with all the actions that are being initiated. I will stop here gentlemen and operator for your question and answer.

Moderator: We will now begin with the Question-and-Answer Session. We take the first question from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani: My first question is an accounting question on the results. If I look at the JLR reduction in EBITDA on YoY basis is around £220 million which is around Rs.1,900 crores, similarly, in the standalone it is around Rs.450 crores of EBITDA decline, but on a consolidated basis, it is close to Rs. 4,000 crores EBITDA decline from Rs.9,700 crores to Rs.5,900 crores. So is it just accounting difference or is there any other businesses in which the losses have expanded, if you can just clarify on that?

C. Ramakrishnan: One factor you need to take into account in the consolidated is, when you translate the JLR profit into the consolidated, YoY basis, there is exchange translation impact also that comes in, year-on-year last year, the pound-rupee parity was different in Q3 of last year compared to Q3 of this year. That alone would account for major portion of the difference that you are talking about.

Aryn Pirani: So there are no like expanding losses any of the other business that is not...

C. Ramakrishnan: No, in fact almost all of it is the translation of JLR profit in rupees in the consolidated accounts between Q3 of last year and Q3 of this year.

Aryn Pirani: My second question is on the hedging losses in JLR. Now, obviously, difficult to pinpoint, which quarter the losses will come off, but at least we would have expected that in 3Q the losses would have more or less been stable compared to 2Q, but they have actually expanded. So directionally based on the hedging that you have done in the last 4 to 5 quarters, I know, you cannot give the quantum, but which quarter could see slight reversal or at least stabilization in the quantum of the losses?

C. Ramakrishnan: I will just offer a couple of comments and may be request Ken, who is also on this call to supplement. As we have said before JLR runs fairly large hedge book, extending into almost 4 to 5-years. Arguably, there are 5th year out or 4th year out, the percentage covered will be much less. Over the next one or two quarters, the hedging ratio amounts to almost 80%, 90% they keep coming down to 70%, 60% and so on. We continue to hedge maintain this cover because as it turns out, we believe that is the right strategy to ease the business for which a substantial amount of production and cost are in pound sterling and almost 80% of the revenue is in other currencies. It is necessary to deal in the business with firm rates on the exchange

front. So if the currencies remain constant from today, it is very difficult to comment based on currency movement into the future. If currencies remain constant as they are today, I would expect over the next 4 to 5-quarters, you will see more and more diminishing impact to the wallet change, hedge factor coming into the P&L line.

Kenneth Gregor:

I think you captured the essence of it CR. May be just two additions; one would be remember that the hedges are being offset every quarter by more favorable operating foreign exchange than was expected to the time when we took the hedges out, so for example in this quarter if you look year-to-year, we have over £440 million good news of operational exchange, that is being offset by the nearly £400 million of year-to-year incremental hedge losses. So net FX is actually a good thing for the business, but its undeniable we have the some hedges losses around us. Yes, I would expect them to be over the next four quarters or so to run into similar level and then start to reduce thereafter.

Moderator:

Thank you. We take the next question from the line of Pramod Kumar from Goldman Sachs Asset Management. Please go ahead.

Pramod Kumar:

My first question pertains to the consolidated cash flow for the quarter, sir. If you can just highlight...you highlighted the JLR cash flow a bit. But if you can kindly highlight what has been the consolidated position on cash flows this quarter and how much of the CAPEX is kind of run rate what we are looking at in the standalone business?

C. Ramakrishnan:

I will take the second question first. In the standalone business, I think we had mentioned before the CAPEX will range between Rs.3,500 crores to Rs.4,000 crores on an average in a year for the current year and for the next few years. It could be slightly higher in the coming years depending on the timing of certain expenses and incurrence and commitment. This season we expect the CAPEX will level off at around Rs. 3,500 crores, even though we had indicated earlier it could be higher at Rs.4,000 crores. I think will come off a little lower at about Rs.3,500 crores. That is for the entire business in India both Commercial Vehicles and Passenger Vehicles. If I may add the Passenger Vehicles share of the capital expenditure this year and going forward will be more like 60-65% and about 35-40% in Commercial Vehicles. In terms of cash flows, I had already mentioned to you about the free cash flow marginal positive about £55 million to £60 million in Jaguar Land Rover. The domestic business for a couple of reasons both in terms of the EBITDA performance and in terms of CAPEX the free cash flow have been negative and borrowings have increased in the domestic business. In addition, without expecting the demonetization, but planning for a step up in volume offtake in advance of BSIV introduction in April, we were anticipating a much stronger third quarter and possibly fourth quarter. So the working capital impact has also been negative in domestic business, so it is free cash flow negative, and has increased the borrowings in the domestic standalone business. To give you a certain color, as of December, the net automotive debt-to-equity in standalone business was about 0.93, which is up from about 0.8 or so if I remember just in the preceding quarter. In terms of net debt in the standalone business, we are at about Rs.20,000 crores, which is also up from about Rs.18,000 crores or so if I remember right as of 30th September.

- Pramod Kumar:** CR, just a clarification; this 0.93x is after all the changes what you have done on the balance sheet because of the IndAS, right?
- C. Ramakrishnan:** Yes, the net impact as I said in terms of equity correction in the IndAS is about Rs. 900 crores plus in equity, which is an improvement, this 0.93 is after correcting that. So if we did not do the net impact of valuations then debt-equity ratio will be slightly high, more like 1:1.
- Pramod Kumar:** My question pertains to JLR and this is a bit out in the future in the sense, it is not very certain as to what will be the outcome, but what are your initial thoughts on the border tax proposition and whether independent of that we are already kind of looking at a US plant from a slightly medium term perspective given that it is a major market and probably one of the biggest market which can see potential growth as well going forward, given whatever is going to happen in that economy in terms of job creation. So how are you guys thinking about the US plant?
- C. Ramakrishnan:** We have looked at expanding manufacturing capacities beyond UK from time-to-time and there have been some specific initiatives undertaken. We went to Europe and Slovakia. We have set up in assembly plant in Brazil. There was a time also when we looked at the possible manufacturing footprint in Saudi Arabia, which we did not go through further. We have a large capacity which we have set up and growing, and growing well profitably in China. Further manufacturing capacity expansion I think it will be a function of the potential market, sustainable volume, volume also should be sustainable in terms of investments on the ground for the range of products and the high end product that Jaguar Land Rover has, you need to have sufficient volume and depth in manufacturing and therefore heavy investments. This has to be a balanced decision. We will look at these opportunities from time-to-time. But as and when we focus on something, it has to be justified by the opportunities in that market and in that region. This is a general comment without specifically talking about the US plant. Coming to the border tax potential risk and any consequential action, my response would be I think it is little premature to jump into any scenario painting and premature, even more so to be jumping into specific investments or alternative plans or mitigation plans at this stage. In a business which is mostly centered in UK and now expanded into China with 80% revenues coming from all over the world, taxes and duties like this will definitely have an impact on the business, but we need to wait and see how it pans out and what we could do about it. Right now I cannot comment, it is very premature to comment on what could have been and even more premature to comment on what could be the mitigation actions.
- Pramod Kumar:** CR, in that case, is that right to assume that there is no new big Greenfield assembly plant capacity which has impacted in your CAPEX guidance for the foreseeable future?
- C. Ramakrishnan:** For the near-to-short-term future, no. We are investing quite heavily even this quarter investment and this year investment bulk of it has gone in the manufacturing capacity set up in Europe, we are not looking beyond that. Then there may be some expansion of facilities here in India, where more product lines are getting added, but beyond that in the immediate future or short-term future we are not looking at any major investments of this nature.

- Kenneth Gregor:** I do feel this quite amount of water to flow under the bridge on the border tax before we will be able to really access what it meant for us or indeed what mitigation to place. Yes, also on the manufacturing capacity, our sites are very clearly sets on continuing to build in Slovakia which we commenced last year. So that is the focus we have right now.
- Moderator:** Thank you. We take the next question from the line of Rakesh Jhunjunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjunwala:** As you hedge about 80% for the year-end quarter, in general, so when the pound declined in June, 80% for the September quarter, 70% for the December quarter. Am I right in general that is how you do it?
- C. Ramakrishnan:** Yes, your basic premise is correct.
- Rakesh Jhunjunwala:** So that means, because extra fall in the pound, right, you would have hedged for the next 8-quarters on a sliding basis @140 or 160 whatever, the pound was between 140 and 160 primarily. So as the quarters come off in the second quarter about 60% hedge at the higher rate, now in the current quarter 50% will be the higher rate, am I right?
- C. Ramakrishnan:** Yes, but it is also a continuous hedge program, right.
- Rakesh Jhunjunwala:** Yes, it is a continuous hedge program. For the June quarter you would have been hedged 80% for September quarter, 70% for December quarter, and 60% for January quarter. So, obviously you are heading which start from July will be at a much lower rate, am I right?
- C. Ramakrishnan:** Yes, that is right, that is the sliding scale I was talking about if currency rates remain where they are today as we go into the future...
- Rakesh Jhunjunwala:** Every quarter, first of all, your realization of the unhedged amount is at a lower value of the pound as compared to the previous year?
- C. Ramakrishnan:** That is correct.
- Rakesh Jhunjunwala:** Second is your amount of pound hedged at the rate around above 140 or above 130, would be also low. So every quarter your realized hedges should go down know, you realize hedges loss?
- Kenneth Gregor:** Maybe what I would say is, in principle, I think what you are describing is correct, but maybe the differences, just to provide a little bit more texture, we are hedging, our hedge program does not just hedge one-year out, we hedge one-year out it is up to 80%, two years out it is up to 60%, three years out it is up to 45%, four years out it is up to 25% and even little for fifth year
- Rakesh Jhunjunwala:** Whatever you hedge for the quarter January to March 2017, some part of it is hedged after June 2016 no, when the pound collapsed?

- Kenneth Gregor:** Some part of it, but because of the nature of the process of averaging in over time then only a small part of the quarter, if you take the quarter January to March '17, let us take the quarter that we are in right now, only a very small part of that would have been hedged post June of last year.
- Rakesh Jhunjhunwala:** As time progresses more and more of the hedging would have imposed, for the next quarter, the hedging for June will be greater?
- Kenneth Gregor:** Yes, for the next quarter the hedging post-June will be greater but because of the fact that we are hedging in gradually over time 80% 1-year out, 60% 2, 40% 3, then it takes time then we are only talking about a relatively short period of time since June. So for the quarter that we are in, I would say probably a very small proportion has been hedged since...
- Rakesh Jhunjhunwala:** One thing is very clear; because you have hedged beyond 1.25 you are always going to have hedging loss?
- Kenneth Gregor:** Yes.
- Rakesh Jhunjhunwala:** Your actual realization is the profit. If you have not hedged, £450 million, am I right?
- Kenneth Gregor:** Right, it is the nature of hedging, we hedged in order to protect the business against ...
- Rakesh Jhunjhunwala:** I will take it offline sir.
- C. Ramakrishnan:** Okay, let me know, Mr. Jhunjhunwala, we can meet up separately.
- Moderator:** Thank you. We take the next question from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** Just a small clarification; in terms of the hedging losses, should we expect Realized Hedging Losses to taper down as the quarter's progress or you are saying that for the next one year they should be the same range of £450 million, that is what we are trying to get at?
- C. Ramakrishnan:** Yes and no. First of all, in the question there is a fundamental assumption it in the next one year, what will be the going forward market exchange rate. That will be difficult to predict. I do not think your question will be addressed from that point of view. In the dates remain where there are today, the hedging losses over a period of time next four to six quarters and thereafter should start tapering down, no doubt about it.
- Kapil Singh:** But, can you at least give a sense that whether this quarter is the peak assuming rates do not change or we cannot say that right now?
- C. Ramakrishnan:** It will be difficult to say, I am not able to comment on it right now unless Ken has any comment. If rates remain same suddenly at the end of a quarter, I suppose that quarter would

be the peak anyway theoretically because you are booking the valuation also. That would be the highest quarter any case in terms of coverage.

Kenneth Gregor: I do not think this quarter is necessarily a peak, but I do not think that the hedging levels change materially in an absolute sense over the next couple of quarters.

Kapil Singh: Secondly, we have called out certain items for JLR business performance. So, if you could help us understand what are sort of non-recurring type of items which in your opinion should see some sort of reversal, for example, product mix and what is different in terms of variable marketing spend this year compared to what we usually have, some color on that, and same thing for pay negotiation, what is different this year which maybe non-recurring?

C. Ramakrishnan: I would be hesitant to call most of them as non-recurring because these are in the ordinary course of business; #1, you will see some wholesale market volumes fluctuate from quarter-to-quarter, so obviously it cannot be recurring. Similarly, market impact like product mix, etc., also something we have to live within the course of our business. Unfavorable variable marketing expenses, which I think I have been cautioning for more than a year now. I have always been saying that we expect variable marketing expenses to keep going up and we have seen this trend for quite some time, again, not recurring. But, in general, what I would say about this quarter is I think combination of these factors have all occurred in one quarter. Sometimes, the variable marketing expense will go out, you do see offset by better product mix or it may be a quarter where there may not be particularly any significant launch cost etc., When I talked about headwinds or whatever you want you to call it in the JLR business. I think it is a combination of all this happening in the one quarter tends to exaggerate the impact of that in a quarter P&L. This is something variable marketing expenses going up. You would expect to recover through wholesale volumes which are regional mix, etc., But if all these are unfavorable in a particular quarter, the impact can be quite significant which is one of the reasons why I said Q4 we expect many of these trend to reverse. We do expect strong Q4 and smart recovery from what you have seen in Q3. The wholesale volumes are expected to be stronger, and with the launch and ramp up cost behind us, the launch of the new product also should give us in terms of the margin performance. So some of these we will definitely expect to see unwind in the next quarter and hopefully in the quarters thereafter. It is the combination that is more hurting.

Kapil Singh: Just one more question on the domestic business as well. We have given some roadmap in terms of improving market share. Any roadmap or general what you have on profitability of the domestic business and also some color on, when we are talking about reaching 60% market share, will it largely be through the new SIGMA Range we are talking about, so just some thoughts on both market share gains and profitability when we look in the medium-term?

C. Ramakrishnan: Surely, the domestic vehicle profitability is not where it should be and not where we like it to be. There have been quarters in the past and even full years where we have achieved double-digit EBITDA margins in the domestic business of the whole 10, 11, 12%, etc., It is not impossible to go back to those levels. Since you talk about EBITDA margins, even if you talk

about Q3 of last year, even that quarter, EBITDA margin was about 6%. If you compare some of the best quarters, we have had in the past they have touched around 10-11%. So that is the target one would look to work for in the coming quarters and coming years. We have seen significant turnaround, early stages, but major upward trend in the performance of our Passenger Vehicles business, improving the volumes, market recognition and welcome for the new products, which gives us over a period of time a better pricing power and a better capacity utilization which is at present still low in Passenger Vehicles. In Commercial Vehicles, though more dependent on macroeconomic factors, the industrial growth in the country so far, in terms of overall profitability, definitely we intend to be much more focused through a series actions on the market share; #1, in some of the segments the product gaps becomes a key factor which will be addressed in the coming one or two quarters with launch of some of the expanded product ranges. In some of the segments in addition to product I think we also need to get much more focus in terms of market actions. When I say 'market' I do not necessarily mean higher discount levels, but more in terms of customer connect, dealer effectiveness, dealer expansion and network strengthening and so on. All these actions are underway. When I talked about 60% market share, I was specifically referring to medium and heavy commercial business, within commercial vehicles, which is an important part of the commercial vehicles business both in terms of vehicle value and the margins. So that is where we said from the current level of 55-56% within the next six to eight quarters we hope to get back to where we were at one point of time which is (+60%). There is definitely a series of action plans behind that, some of which I may not be able to share with you today, but yes, you are right, product action is surely one part of it.

Moderator:

Thank you. We take the next question from the line of Robin Zhu from Bernstein. Please go ahead.

Robin Zhu:

Can you sort of describe why we went from £270 million in Q2 to £450 million this quarter -- is it because the delta between what you took the hedges out and the price they were realized was much bigger, is it because there was just suddenly a lot more in terms of hedging instruments that sort of matured during the quarter, which of those growth the bigger increase. From what I have been hearing on this call, you seem to be guiding for that £450 million number to be sort of occurring over the next few quarters. That seems to contradict what you said on the last call, when you said in starting FY'18 the losses to come off more meaningfully. So just wondering where you stand on that. Second question, you guided for 370 basis points of cost that contributed to the margin decline. Part of it was because of the Discovery run out, part of it was the MY16 run outs, if you could just go into difference in those two, and within the 370 basis points how much of that do you think it was due to the Discovery changeover in essence and how much of that goes away in the coming quarters?

Kenneth Gregor:

First off on the hedging, for me enough to say that FX is not the biggest moving parts in this quarter when looked at from year-over-year basis, and the reason I say that is yes, obviously, I see the £455 million and I see the year-on-year effect of the hedge losses which have increased £384 million over the year, but the operational FX benefit year-on-year is £438 million. So net-net, operating FX is about £50 million positive benefit to the business year-on-year. What I

would say is that, yes, we are talking sort of around numbers. When I look at the schedule of how I expect the hedges to evolve if exchange rates carry on at these present levels, then yes, quarter-by-quarter into the second half of next year, it would be somewhat lower than £455 million pounds, but for the next couple of quarters it is in that ballpark. So I am just giving a bit of texture. But the reason if you like not wanting to give a very precise answer on it is that the thing that is going to move it around is foreign exchange rates, and that brings me back to an answer to what you asked, "Why does it move from Q2 to Q3?" It moved from Q2 to Q3 because Sterling, we can buy further 5% quarter-on-quarter at average rates from Q2 to Q3 against the dollar, by doing that against the dollar similar movements against the RMB and other currencies which are important for us and therefore that caused the overall level of our hedge losses to be bigger just by itself. When I come to your question on the operating FX, one of your questions was in relation to '16 model year versus '17 model year, what that relates to I am going to turn into the car salesman here, nice infotainment upgrade on Range Rover Sport at 2017 model year when we put in our next generation infotainment system into both vehicles. It is fair to say that is actually quite a big change from electrical point, architecture point of view and features point of view, so that did have a bit of a changeover effect in the quarter and that did cause us, had a couple of effects, it caused the '16 model year in the US to run out for a little bit longer and it cause production of wholesales of Range Rover and Range Rover Sport to be modestly lower in the quarter year-on-year than the year before, that caused an adverse product mix effect, which perhaps is worth a point of EBITDA and of the higher level of incentive level spending that we have seen as CR said that it is something we have been talking about all year, and it is something we have seen more modest levels in prior quarters but that did have an extra effects of the run out of '16 model year in the US in particular that perhaps worth half a point of EBITDA in the quarter itself on top of the underlying level of incentive spending being a bit higher generally quarter-on-quarter or also year-on-year.

Robin Zhu: So within that 2% including the run out of the Discovery, could you quantify how much of that was the run out of Discovery versus whatever else it was?

Kenneth Gregor: Essentially it is most of the balance, I do not really want to try to give a precise answer, although I am trying to break my EBITDA down into individual factors and then we can have a discussion about which order to do the variance is in, but yes, I will say that the biggest next part is impact of the run out of the Discovery because if you look year-on-year, we have got the thick end of 10,000 fewer wholesales of Discovery in Q3 this year compared to Q3 last year and Discovery earns good solid margins, so that 10,000 units is quite a big effect from a profitability point of view year-on-year. So yes, that is the other parts of the EBITDA margin change that we called out related to volume.

Moderator: Thank you. Ladies and gentlemen, that was the last question. Due to time constraints, we will end the concall. I would now like to hand the conference over to the management for closing comments.

C. Ramakrishnan: Thank you everybody for joining us in this call. There is nothing much I would like to add in terms of closing comments, I think I have said the context and what we are looking forward to

in the coming quarter and in the quarters to come. Thank you very much for taking the time to come on this call. Bye.

Moderator:

Thank you very much. On behalf of HSBC, that concludes this conference. Thank you for joining us and you may disconnect your lines.