

**Extracts of Mr. Ravindra Pisharody's interview at
Xenon Yodha launch on January 3, 2017**

Question 1: When you spoke about the pick-up segment and the growth it had, we have not been able to really catch up with the competition which was very dominant in the pick-up segment specifically. Then and now what are the gaps that have you filled with the new products? What is your assessment of why the market share went to the competition, as you were already a dominant player in the SCV space where Ace was already there?

Answer:

Mr. Ravi Pisharody: The reasons are fairly simple. When we started with Ace. It was successful because it occupies the points of a three wheeler and a pickup. The pickup in the current state of this structure has been there for a long time, below Tata 407. In the LCV, Tata Motors continues to be very strong for a long time, there has been a huge gap between three wheeler cargo vehicle and the pick-up and Tata Ace did that study and went in and really succeeded for a long time.

A lot of our competitors did not or were slow to react and even when they reacted with a vehicle equivalent of Tata Ace, they were not successful. Anytime the competitor introduces a new product our market share went down from 90% to 72-75%, but overtime the superiority of the Tata Ace compared to the Competitive offerings enabled us to get back to 80% share.

Then we saw a different type of vacuum where a conventional pick-up was repriced at a price, which is almost at Tata Ace level, so Tata Ace at say at Rs.4 lakhs, and with a pick-up after removing few features were priced at Rs.4.5 lakhs created an unequal vacuum. We did not want to discount Tata Ace at a lower price. That is sort of a situation that we had accepted. That has led to the change in market share. Suddenly our Tata Ace buyer had found a much large vehicle at a comparative price. But since the markets are developed and the space between SCV cargo and pickup has blurred, we introduced Super Ace, then there's another competitor that introduced a similar vehicle. We are now up with our Ace Mega. From its GVW, tonnage classification and other specifications, it is also a pick up now and with that we are now able to increase our market share dramatically.

So in the pick-up and SCV market, given that these are the largest market segment in the world having market share of 60-70% (High end SCV 27%), but in India they are not. In India it is yet to happen, in India, SCV totally is just about 50%. It is not a sustainable ratio. Similarly, what we had seen in that past LCV will grow at a much higher rate based on the infrastructure growth. This phase is still evolving. Speaking of Ace Vega and Tata Xenon, Xenon has been aggressive from the price point of view also. Current Xenon is priced at Rs6.5-6.7 lakhs. And with the BS IV variant and Xenon Yodha we are actually covering the entire spectrum of the pick-up vehicle.

When we say 'Pick-Up' it is not only this format (Xenon) but the Ace format and Super Ace format also. Once again we will be the only player present in all three formats for tonnage and price classes.

Question 2 : You just mentioned that the year 2017 will be the one where you would be making a comeback, where does this confidence come from given that , we have seen the numbers, the commercial market and as well as the PV market has been down on account of demonetization; within the CV fold the only sector that seems to be well at this point is the Construction equipment sector and a lot of industry research has been suggesting that the things are not going to come at any stage of normalcy at least for next 12 to 18 months; so where does the confidence coming from? And what is the roadmap for 2017, if that would complement this sort of optimism coming from your end?

Answer:

Mr. Ravi Pisharody: If you look at CV, particularly MHCV, it is cyclical and when the market goes down, that is really about postponement. There is a certain fleet replacement cycle, which gets pushed back and then the market comes back very furiously. There is no other segment barring the present scenario two-wheelers in the last two months because of the demonetization; there is no other auto segment which goes down by 25-30% and recovers later, but it also grows back by 30-35%. So I think we'll have two periods in the year, which is June 2016 to August 2016 when the buying was slow and then the post demonetization in November 2016- December 2016 when also then buying has been slow. So, we believe that the base is relatively low and that is holding the reasons for a comeback. We had our immediate reasons. So, in November 2016 the industry was at shock, even in the middle of December 2016 it was looking a little weak but the last week of December 2016, have really given us much more confidence. And if you look at our reported numbers, we are only 6-8% lower than the previous year, which is as compared to the November 2016 situation much better.

Now we have this situation in CV where BS III will convert in BS IV from April 1, 2017. And giving the preponement which has been happening, we are looking at a fairly strong January 2017- March 2017 quarter. The Infrastructure segment is already picking up very well, which is why we see the construction Tippers' growth even in this month is outgrows last month by about 22%. So construction Tippers will continue to do well. The Government stated and we also have seen in practice that Infrastructure has been improving, construction is growing and a lot of other projects have been kicked off like power, port, airports etc. For instance, Navi Mumbai really taking off now and the construction companies are getting ready and have started getting enquiries.

There were some doubts in the last year about the rates of GST. In fact, I am looking for the reasons which led to the slowdown in June 2016- August 2016, and I could not find any reasons barring the fact that there was very strong suggestion that GST will be 18%, which means it will be better to buy after GST. But it is becoming quite clear now that the GST pricing will be more or less matching with the current prices. If small cars have been announced a rate of 28%, that

is going to be the default rate for Auto, which means the taxation will not give any benefit. So there will be a small blip because of the transition from BS III- BS IV in the Q1 of 17-18.

We do believe that from an economy standpoint, reform standpoint, the effects of demonetization would have been gone out, GST would settle down. And let me remind everybody that one of the industry that will benefit from GST is the logistic industry. Logistic is heavily plagued by some issues today in terms of trouble at various border cross points, octroi nakas, loading- unloading etc. So, we expect the entire logistic process to smoothen. And this is what buyers look for, because they didn't buy in November 2016- December 2016 as they suddenly saw some uncertainty. When things will start looking better they will start buying. These are some of the reasons why we expect the 2017 to be much better.

From our side we see a number of very critical launches with Xenon Yodha being the first one. Staying about the SCV space, you'll see the Zip and the Mega space we are coming out with new products. One big innovation will be the extra deck length. We will also see extra deck length in Ace, Zip, which makes them very versatile. If I look at Signa, it has just moved into 49 tonnes and 40 tonnes. The next 12 months the Signa cabin is going to be at a 25k premium for 20 lac product, in which you'll get Telematics, suspended seats, new dashboard and a completely delightful cabin at the mainstream price points. There were views that Prima is a bit overpriced, but we don't want to compromise on that. Signa coming to the mainstream with features which are almost deluxe features. The Ultra platform, while it has been in buses for the last 18 months, it is not visible because the bus gets covered by bus body. Almost 50% of our buses are moved to Ultra platform. Ultra LCV, will kick off next year. We have just introduced one or two products in Ultra. The next year we will see a lot of products coming in, including an ICV in 14-15 tonnes segment, very recently we are coming out with an Ultra product to bridge that gap. So from the market standpoint as well as products, we are very bullish about the coming year.

Question 3. If I am right in my inference that 2017 will be a better year than 2016 but because 2016 saw a lower base, so are we talking of a lower base effect as well?

Mr. Ravi Pisharody: If I looked at SCV and LCV they have been struggling not just last year.

Reporter: yes, they have been struggling in the previous year as well.

Answer:

Mr. Ravi Pisharody: So you could say that they are really looking for a rebound, the financial commitment is slowly coming back, it was affected by the demonetization. Yes, in case of SCV and LCV there is a case of lower base but not just 16-17. It's the segment which has suffered for a long time and it has to come back. MHCV we have seen two strong years. 2015-16 almost pulled back us to the previous peak. So to that extent 2016-17 was a lower base and on the top of that it will grow back.

If I extend it a little bit further, once GST settles down and BSIII to BSIV is a history, people are

not talking about it, so the second half of the next year and the period beyond that will be good irrespective of the base. Let it be the low, medium or high base, we expect that to be strong.

Question 4: We are expecting the Q4 to be stronger because of the pre-buying and the wider expectations are that the next quarter of the next FY 18 to see in volumes of about 10-15% setback on account of higher amount of pre buying and also the fact that BSIV vehicles coming in would increase the operating cost because the Urea needs to put in at a regular interval, high electronic components are to be regularly maintained, diagnostics, so we are talking about a higher operating cost by 2-5%. Do you believe that the pre buying that we expect in Q4 will offset the downturn that we expect in next year?

Answer:

Mr. Ravi Pisharody: If this was October 2016, we had a very strong Diwali month, I would have been very vocal in saying that we'll have a bumper Jan –March period. But the fact that post Demonetization has happened, so we are talking at a time when we have had two difficult months, I did say the last days of December 2016 month have given us confidence that even for earlier vehicles customers were coming back.

Now it depends on the extent on pre-buying in Q4, if pre-buying is very strong, April 2017 –June 2016 will be blipped, now this is mainly MHCV phenomena, in buses, HCV and LCV the price increase is hardly there, Rs15,000-Rs20,000 is the price increase. Most metro cities are buying BSIV buses from us. So this pre buying and post buying is not a factor except for MHCV. So MHCV will see this impact but otherwise, if you look at our construction tippers, out of our December sales, continuously we are doing very well on our buses now. STU buying is now coming back, the lot of tenders are getting floated as we speak there are at least 3 or 4 big tenders which are in the offering and these are all for BS IV. Our growth is 59% on buses and it's been increasing for the last 3 months. This will continue. I think, buses are coming back to the space which is deserved but not had in the Indian economy. In fact, in countries like China, Bus to MHCV ratio is very respectable. In India it is a 1:5 ratio. We are seeing buses doing really well and the pre buying- post buying is a question regarding MHCV. I think at end of January 2017 we can be able to say about this much better. It's difficult to say whether it will be 30% higher or 50% higher.

Question 5: A lot of banks jumped on to the cutting interest rates. A few automakers are taking note of that basically in the PV space. Will the SCV space benefit by the significant low interest rates?

Answer:

Mr. Ravi Pisharody: Definitely, from the entire CV perspective the lower interest rates are important in terms of generating fresh investment to the economy. The CV space is closely linked to the economy. The fact is that for our certain period investment in capital goods right

now. The lower interest rate will trigger more investment, but lower lending rates is definitely a positive sign. But particularly for SCV and pickup segment, the customer appraisal has become very tough. People who got the loans 4-5 years back and finding it difficult to get a down payment which is within their pocket. If you see the peak of SCV – LCV in 12-13, the down payment was as low as 5-10%, and that was not just for one year. In recent years the down payment is increased to 20-25%, which means the customer needs to shell out at least a lakh of rupees to buy a vehicle. The lower interest will lead the monthly installment to go down. But we will also like to see the reduction in down payment. That will give a much bigger flip to the SCV and Pick-Up industry. For MHCV this is not the factor and the interest rate makes the difference.

Question 6: The customer showed in the slides having a monthly income of 10,000- 25,000; Has there been any dialogue between any NBFCs or bankers to this regard?

Answer:

Mr. Ravi Pisharody: That dialogues we have continuously, there are at least 15-20 bankers who are part of our regular discussions. They also have difficult situation in 2015-16, but they are in the business of disbursing the money so they also find ways and means to improve the disbursement. That's the dialogue we have continued.

Mr R. Wasan: It is not just the NBFCs that we work with, there are also Public Sector, Co-operative banks we work with. Particularly we use these network in the rural areas and their relationships with the customers to be able to provide finance to the local people. Additionally, these banks with the focus and emphasis on the rural market from the Government side are also ready to do that kind of funding. So we are in tie-up with the number of banks. And with the interest rates coming down, these banks will percolate the same to the rural customers.

Question 7: As we speak of the volatility back home, how are exports contributing in off-setting the volatility back home? Also, what are the ambitions for Xenon exports? Could you elaborate that?

Answer:

Mr. Ravi Pisharody: Our exports are doing extremely well. This year, like the last 2 years we are targeting our exports to grow at 22-25%. For exports we also need to see that the global market had also seen a lot of ups and downs. If we have been able to grow by 20-25%, it's because we have a basket of countries, and aren't depending on only one geography. The Africa and Middle east has been affected by a downturn in crude and also the current currency situation in Africa. In some of the markets the currency vs the Dollar has been depreciated almost by 50% in two years. So that makes it difficult. But then we have markets like Asia which are giving us the benefits. So I think we are on a good track on exports.

Xenon is already an exported vehicle. As Mr. Wasan showed globally pickups is a largest category in CV while in India, MHCV continues to be the largest category and Yodha will be added to our export portfolio.

Question 8: When you said that January 2017- March 2017 will be a bumper quarter for CV, are you saying that the effects of demonetization will be over or the markets will take some time to recover?

Answer:

Mr. Ravi Pisharody: The effects are still not over, there are many aspects of demonetization which are still getting uncovered but gradually our system is falling in place. In our personal life also, we have all found ways and means to pay partly cash partly bank transfers or through checks, so similarly, it made the impact on MHCV at the highest. For Tippers there was not much impact. Because the customers for tippers are companies. The cargo segment is really affected. It took some time for them to recover. The businesses are also not getting enough cash from the banks. Gradually the limits are easing, so there will be more cash available and at many places they have started taking PayTM and other wallets. The system is falling in place but that's not will happen overnight. But what is giving some comfort is the fact that the second half of December 2016 many people started taking decisions which they were postponing. So while the pipeline is of November 2016 – December 2016 the actual purchases took time, these started in the last week of December 2016.

Question 9: Can you tell us about impact on LCV in rural economy due to demonetization?

Answer:

Mr. R. Wasan: To an extent the LCV and the SCV had been impacted, given the fact that the rural economy where a large number of these vehicles being sold and the cash availability in the rural market is not as regular as urban areas. But we do believe that the easing of constraint right now, we'll see strong demand in these markets as well.

Question 10: Can you tell us the regions where the sales picked up in the last week of December 2016?

Answer:

Mr. R. Wasan: It picked up all across the country. Very clearly things were slow till the middle of the month, it looked like it would be a difficult month following the November 2016, but clearly in the last 10 days the things really improved with the pipeline improving and the conversion rates improving, we actually saw a significant growth of 30% over the month of November 2016.