

“Tata Motors Q2 FY17 Earnings Call”

November 14th, 2016

SPEAKER: Management, Tata Motors.

Moderator:

Good evening, ladies and gentlemen. I am Irshad, your moderator for this session. Thank you for standing by and welcome to Tata Motors Q2 FY17 Earnings Call. For the duration of presentation, all participants' lines will be in the listen-only mode. We will begin the Q&A session after the presentation. I would like to now hand over the conference to Mr. Kapil Singh. Thank you and over to you, sir.

Kapil Singh:

Thanks, Irshad. Hi, everyone. Thanks for joining the call. Today we have with us Mr. C. Ram Krishnan, Group CFO of Tata Motors and Mr. Kenneth Gregor, CFO of JLR, Mr. Vijay Somaya, VP, Head of Treasury and Investor Relations and the IR Team of Tata Motors. Without much delay, I will hand over to you, sir.

C. Ramakrishnan:

Thank you, Kapil. Thank you for hosting the call as well. Welcome to all of you. Good evening, good afternoon, good morning wherever you are. The call, to let it clarify at the outset, is on our results for second quarter 2016-17 to the financial results we have just published. Coming to the presentation which we is already hosted on the website now Tata Motors group consolidated new revenue for the quarter was about 66,000 crores up marginally from 61,000 crores compared to the same quarter last year. EBITDA margin came a little lower at 10.7 compared to 12% in the same period last year. We will come back to that in greater detail later. And profit after tax was about 848 crores compared to a loss of 1740 crores in the same quarter last year. We will discuss this profit moment also a little later.

As far as the standalone operations are concerned, Tata Motors India net revenue was almost flat and marginally lower at 10,351 crores compared to 10,695 crores in the same quarter last year. EBITDA came in at 376 crores down from 874 crores in the previous quarter in the same quarter in the previous year. EBITDA margin of 3.6% down from 8.2% a year ago. Profit after tax was negative at 631 crores slightly up from about negative 300 crores in the same quarter last year. Jaguar Land Rover reported a net revenue of 5.9 billion pounds compared to 4.8 billion pounds in the same quarter last year, sales and revenue significantly up. EBITDA came in at 615 million pounds up marginally from 589 million pounds in the same quarter last year. EBITDA margin came in at 10.3% down from 12.2% last year and profit after tax was positive 244 million pounds compared to negative of 92 million pounds in the same quarter last year. At Tata Motors standalone level the net debt equity ratio is about 0.82 and JLR continues to have net positive cash position at consolidated level, net automotive debt equity was 0.26.

Standalone business performance Tata Motors India, as I said earlier, the EBITDA margin came in at 3.6% broadly reflected by significant degrowth in medium and heavy commercial vehicles of 16.5% year-on-year compared to same quarter last year. If you all recall last year September month in particular and the quarter was particularly strong for medium and heavy commercial vehicles with some element of pre-buying in advance of the first October safety and other norms which came in on first October of last year, so second quarter and more particularly September was very strong. So we had year-on-year de-growth of 16.5% in medium and heavy commercial vehicle industry. This was, however, partially offset by good growth in light commercial vehicles about

11% year-on-year. Our car segment growth at 26% and exports growth of about 20%.

A little bit of colour on Jaguar Land Rover business performance, as I said, the EBITDA was 615 million pounds, margin at 10.3% EBITDA margin, volume and mix were favourable for Jaguar Land Rover, however, the favourable operating exchange in terms of our sales realizations were offset by the valuation and realized hedgers on our hedge book. Unfavourable foreign exchange revaluation of current assets and liabilities and we also had a one-time provision for certain new customers and quality initiatives, excluding the effects revaluation and one-time provision for this customer quality programmes and adjusting the revenue realized foreign exchange head losses the EBITDA margin in comparable terms was actually at 12.9%, even though the reported margin is 10.3%

A little bit more colour on commercial vehicles in the India business, overall CV Industry witnessed pressure on account of demand pause in the medium and heavy commercial segment in Q2 in particular. If you all recall, it started somewhere towards end of the first quarter towards June and that position continued; it is more aggravated in Q2. Domestic CV volume for the company degrew by 2.9% year-on-year in Q2, the LCV segment growth at about 11.4% offset by M&HCV segment de-growth of about 16.5%. Variable marketing expenses continue to remain high in the industries. We begged an order for over 5000 buses from STUs across India. Commercial vehicle exports were up 21.6% year-on-year. Other key lights in the export markets were Forays into Bolivia, launch of Tata Super Ace in Vietnam and launch of new CVs, commercial vehicles in Indonesia.

Passenger vehicle business, the passenger vehicle industry witnessed a growth of about 18% year-on-year in Q2. Domestic volume of Tata Motors in passenger vehicle grew by about 20.5% slightly better than the industry. Within that passenger car industry grew by 11.4% and for Tata Motors the car segment outperformed the industry with the growth of 26.4% compared to industry growth of about 11.4. Tiago has received a very strong response and continues to have a very strong order book. We also launched the Tiago in Nepal in the quarter.

Jaguar Land Rover wholesale and retail volume for Q2 stood at around 124,000 units and 129,000 units respectively. And for China JVC JLR wholesale and retail volumes stood at around

15,000 and 13,400 respectively. In all regions retail sales reflects strong sales of F-Pace, XE, EVOQUE and Discovery Sport. North America retail sales was up 39%, UK about 28%. China retails, since we are talking retails, it includes the JV. Overall, retails in China up by about 49% and Europe 31% and the rest of the overseas up by about 1%.

CapEx and product development spent for the quarter was about 784 million pounds for the quarter; post this CapEx spend free cash flow was about 70 million pounds. As I said earlier, cash and financial deposits on the balance sheet was about 3.8 billion pounds in addition to the undrawn bank lines of credit of close to about 2 billion pounds that we have which remained undrawn. Profit before tax was 280 millions up from the loss of 157 million in Q2, again, reflected by the favourable volume and mix offset by one-time provision for the customer quality programmes, revaluation of unrealized FX and commodity hedges. And last year, if you recall, which I referred to earlier we also had 245 million pounds which was an exceptional provision for the Tianjin port blast charge we had taken in the quarter. Share of China JV profits was for Q2 our share was about 33 million pounds and China JV in the quarter also declared the first dividend and JLR share was about 0.6 billion RMB mostly invested in the JV.

Jaguar Land Rover we have other developments in the quarter, launch of exciting new products, the all new XF Long-Wheelbase in the China market. First Jaguar was produced of the China JV, a retail sales about 600 units in September. All new discovery will be launched; light weight aluminium construction which is close to about 500 kgs lighter, CO2 emissions at about 159 gms per kilometre, flexible interior provides was seven full-sized adult seats; wholesales to start in Q4 of this financial year.

Going forward, Tata Motors Group in the standalone business company will continue to explore capital optimization through better operating efficiencies in working capital exception and monetization of non-core assets in some of its investments. In commercial vehicles on the back of infrastructure spending and good monsoon we expect M&HCV to grow in the second half of fiscal 2017 leading to full year M&HCV growth somewhere in the single digit. In cash of pre-buying before country-wide adoption of BS4 scheduled from 1st April 2017 overall M&HCV growth this year may be higher. Similarly, we expect the buses and L&CV segment will continue to maintain their positive growth rest of the year. We continue to have a wide and company product range with

several new launches in FY17 which provides a strong foundation for our growth in pursuance of the overall commercial vehicle strategy we've finalized. We have several market and the key accounts and service offering initiatives which we will aggressively execute. Despite the intense competition, we had geared to further strengthen our market leadership and committed to striking the right balance between sustainable growth and profitable growth. M&HCV, in particular, we will see the expansion of Prima LX and the new SIGMA range across tonnages and applications. We aim to get back to position of more than 60% market share over the next two years in 15 tons and above segment from the current level of 55 to 56%.

LCV and ICV, as I said earlier, expansion of the new ultra range across different tonnages and applications. In small commercial vehicles and pickup refreshes and variants to further complement and strengthen the Ace and Super Ace family. Exports growth in FY17 is expected to be in the range of 20-25% and over time over the next couple of years we aim to take the export contribution to the total CV revenue to about 25%. Company continues to have a good pipeline of defence orders both which have been received as well as expected. As far as passenger cars India business is concerned, we will continue to launch new products. The launch of new Tata Hexa will be in January of 2017. It has received very positive reviews and accolades from the auto media, journalists and enthusiasts. Launch of product code named Kite 5 and Nexon will follow. We focus on dealing network expansion and customer centricity will be continuously aimed for which is also reflected in the significantly improved ranking as a third name in the recent JD Power CSI; it's the second rank as a third name.

Coming to Jaguar Land Rover our investments will continue to drive profitable growth. JLR strategy continues to invest in new products, technology and manufacturing capacity to grow profitably. Investment spending in the current year is likely to be somewhat lower than the prior indication which was 3.75 billion pounds; we expect we come a little lower. We continue to build on recent successful product launches with continued sales ramp up of the Jaguar F-Pace, XF Long-Wheelbase in China, Evoque Convertible and future models including the new Land Rover discovery and others to be announced.

Increasing sales of these new products and planned startup of new discovery wholesales are expected to drive profitable growth and support the solid second half in this fiscal year. We continue to

have a balanced sales profile and we will continue to closely monitor and assess market conditions in key regions. I will stop here with the presentation and, maybe, throw it open for Q&A.

Moderator:

Thank you, panellist. if you wish to ask a question, you may please press “0” and “1” on your telephone keypad and wait for your name to be announced. Participants are also requested to restrict themselves to one question at a time so that we can accommodate all. You are also requested to use a handset while asking a question. To ask a question you may please press “0” and “1” now.

To ask a question you may please press “0” and “1”. So we take the first question which is from Mr. Pramod from CIMB. Mr. Pramod, please go ahead and ask your question, sir.

Pramod:

Yeah. Hi. Two questions, one, with regard to the quality and new customer acquisition programmes which you talked about, what’s the cost involved in the quarter, how much of them are historic ones and related to the quarter?

C Ramakrishnan:

Sorry. You are talking about JLR?

Pramod:

JLR quality and customer acquisition programmes.

C Ramakrishnan:

Overall, the impact on the EBITDA would have been slightly less than 1%.

Pramod:

Are they historical or all are lumpy in Q2, sir?

C Ramakrishnan:

It’s a one-time provision including certain catch up.

Pramod:

Okay. And why the LR year till date has been on a very slow single-digit growth or even declining, what you attribute the reason for the same excluding the discovery rundown and what are the plans to recover and when do you see that to come back to a double-digit growth rate, sir?

C Ramakrishnan:

As I said earlier, these ups and downs in a quarter would also coincide with ramp up of volumes of products recently launched and the launch of the all new discovery, so we expect to get back to the growth as full availability of all products happen in all the markets.

Pramod:

Sure. Thanks a lot.

- C Ramakrishnan:** It's more timing issue.
- Pramod:** Thank you.
- Moderator:** Thank you very much, sir. Next question, we take from Mr. Chirag from Edelweiss. Over to you, Mr. Chirag.
- Chirag:** Yeah. Thanks for the opportunity. Sir, a question on this margins on the Forex, can you explain what is the Q-on-Q movement, sequential movement on the Forex?
- C Ramakrishnan:** Just give me a minute.
- Chirag:** Realized FX hedges as well as current assets and liabilities.
- C Ramakrishnan:** Q1 to Q2 we realized FX hedges for Q2 was close to about 280 million pounds negative and Q1 was about 123, which is an increase of about 153 million in the current quarter compared to the immediately preceding quarter; rest of it is insignificant.
- Chirag:** Fair point. So around 150 million GBP sequential negative impact?
- C Ramakrishnan:** 150.
- Chirag:** 150, right?
- C Ramakrishnan:** Yeah. Approximately.
- Chirag:** Yes, sir. And second is if I try to reconcile with the
- C Ramakrishnan:** Sorry? Reconcile with?
- Chirag:** Sir, report EBITDA margin 10.3 for JLR and you have indicated it is 12.9 FX revaluation in one-time customer acquisition, so the differential between, if it is completely attributable to one-time customer acquisition, right, because FX you have indicated 58 million?
- C Ramakrishnan:** No. FX I said... Yeah.
- Chirag:** Sir, the difference is completely attributable to just one-time programme? And can you explain what exactly are these programmes, right, what do you mean by customer enhancement programmes?

- C Ramakrishnan:** This is a closer customer reach programme which is a comprehensive and full-time customer engagement in terms of the cars that come for servicing. It's a much more rigorous and more comprehensive programme that we have undertaken across our models and across markets. The EBITDA margin explanation I gave you is partly consisting of the FX impact and partly the provision for the programme.
- Chirag:** And this is a reoccurring programme, right, it will keep on reoccurring in subsequent quarters also?
- C Ramakrishnan:** Maybe, to a lesser extent because this also includes certain catch up provisions.
- Chirag:** Great. This was really helpful, sir, and all the best.
- Moderator:** Thank you very much, sir. Next in line we have Mr. Robin from Bernstein. Over to you, sir.
- Robin:** Hi. Thank you for taking my question. Two questions, please. First of all, if we look at the movement of pounds and, I think, last quarter the management said the margins would benefit from the depreciation of GBP and so far we've not seen that, even if we add back the realized FX and the underlying margin seems to be roughly the same level as Q1, just wanted to understand how much of this is because of, you know, the product startup cost from the discovery or if you could quantify just how much the quality provisions actually were doing in the quarter? Secondly, fairly longer term, I mean, we've seen in the news Nissan that it seems to have committed the building some new models in the UK on the basis that they've got some assurance, I think, that was in the news do you have any understanding of what those assurances were in nature and could we expect similar impacts with JLR, benefits with JLR if, you know, we do kind of break the scenario that's beneficial also for the industry? Thank you.
- C Ramakrishnan:** Okay. I will, maybe, request Ken to take up the second question particularly on the Nissan assurances, maybe, better for Ken to answer, but in the meantime on the first question the question was about 2-3 smaller questions put together. As we had explained to you in the past in terms of our hedging strategy for more nearer quarters the immediately next quarter, the second or the third quarter at any given point of time, our hedge book runs at 75-80%, 70% and so on and so forth in a declining percentage. So by the time you see the full benefit of the weaker pound on our operating

margins it will apply to over a period of time and it will bound to happen, but it is going to play out over a period of time. Even if the hedge is in terms of stabilizing the foreign exchange exposure of the company and compared to the losses that I've indicated, the underlying realizations also have started improving, but that is somewhat offset by the losses that you incurred on the hedge book. A year from now at any point of time fourth quarter or the fifth quarter the hedge ratios would be much lower; that's why it will start benefiting from more up-to-date exchange rates given the current exchange rate position. So it's definitely benefit, since Jaguar Land Rover costs are substantially in pounds and realizations are substantially in dollars and other currencies, but because the hedge book just basically an insurance for the company to stabilize its earnings benefit of the weaker exchange will definitely happen over time.

Robin: If you want to quantify customer quality program?

C Ramakrishnan If I can finish? If I have to quantify?

Robin: Yes, sir. Right.

C Ramakrishnan: Approximately if I say the 10.3% and margin versus the 12.9% which I mentioned earlier, it will be more or less equally distributed between 1% each between the revaluation of current assets liabilities of foreign exchange and the one-time provision. In addition, there's also a statistical difference of about half odd point or 0.6% which is because of netting out the adjusting the realizations in the revenue itself instead of showing it as an expenditure; that's more a statistical one. The real impact is almost equally distributed at 1% each between the one-time provision for the quality initiative and the revaluation of current assets and liabilities in foreign currency. I will stop here for a moment. Maybe, Ken can answer the second question about the Nissan programme and the assurances we talked about. Ken, you are on the call, would you be able to take it up?

Kenneth Gregor: Yes, C R. I mean, I think I will say this that we are not party to any discussions or assurances that may or may not had been given to Nissan. On our part what I can say is we are actively engaging with the UK government on reinforcing what we wish to see the UK achieve following a BREXIT and specifically the importance of tariff-free trade between Britain and the EU the preservation of present labour rules which enable cross-border movements of labour and then also continuation of the present European-wide

framework of industry regulations and the associated customs union. So we've been very clear that we believe those interests and the best interest of our customers and Jaguar Land Rover and the automotive industry not just in the UK but also in Europe, so we've been very clear about that, but I am not party of any discussions that have taken place with Nissan.

Robin:

Thank you. Sir, just next point, if I may follow up briefly? If I take your 10.3% EBITDA margin, I add back the one-time both on the quality side and on the mark-to-market FX and then if I add back the realized FX hedging losses, I get to the margin of something around 16% that quarter-on-quarter is about the same level as Q1, given the trajectory of the pound from Q1 to Q2, I mean, shouldn't we expect the pre-hedging loss margins to go up somewhat given the outlook on the realization.

C Ramakrishnan:

Ken, maybe, since you are on the line, you can also take this. If you add back the realized hedge losses, yes, the margin would look at 17 point some percentage.

Kenneth Gregor:

I mean, I can see it the maths that you are doing in your arithmetic you are doing, so, yes, I can and I have on those sort of adjustments myself. I think, what I would say about the year is we don't run the business quarter-to-quarter; we manage it over the full year. And, as we look forward, we've got the product launches which C R. mentioned, we've to ramp on launch of the all-new Land Rover discovery and other products that are coming, I think, in the fullness of time it will give us the opportunity to grow and clearly we are very focused on driving the profitability of the business as well as the volume of the business and therefore cautiously optimistic about that as we look forward, but, yes, I see your maths as of Q2.

Robin:

So can I understand the fact that the underlying margin hasn't gone up is that essentially because the startup cost and related to new plants, new cars and discovery and so on is that basically why?

Kenneth Gregor:

Is that basically why? All I can say is certainly a contributing factor is that we are in a phase of transition for the Jaguar Land Rover business which is a positive phase because we are launching new products quarter-by-quarter. This quarter we've been going through the launch of the early phase of the launch of the Land Rover discovery and I think this cost will continue for a number of quarters, but we are very focused on delivering the promise of the investment that we've made in the business. So I do look forward

over the coming quarters and years to seeing that profitable, sustainable growth.

C Ramakrishnan: Just to supplement in the interest of full and fact disclosure, the startup cost and the launch-related cost I wouldn't care to cull it out especially for this quarter it has been there in the earlier quarters or the previous quarters and we will continue to do so. So I am not very sure that I can cull it out as a special impact for this Q2.

Kenneth Gregor: Yeah. I think that's true.

Robin: All right. Thank you.

Moderator: Thank you very much, sir. I will take the next question from Mr. Jatin Chawla from Credit Service. Mr. Jatin, over to you, sir.

Jatin: Thanks for the opportunity. Just continuing on the previous question, is there any significant rise in incentives on a Q-o-Q basis which has kind of cancelled the ForEx improvement that one would have normally seen?

C Ramakrishnan: You said incentives?

Jatin: Yeah.

C Ramakrishnan: No.

Jatin: And on the JLR presentation you've called out that, you know, the favourable volume and mix was offset by manufacturing and certain one-time cost, so is there any one-time cost on the manufacturing side as well apart from this customer acquisition thing?

C Ramakrishnan: No. I didn't say manufacturing. I said manufacturing at best you can say some of the launch-related, but I am not sure that you can specifically cull out a significant one for the current quarter. But apart from these quality initiatives that we have launched, I don't care to cull out anything specifically in terms of the cost.

Jatin: I just take because it was mentioned on the JLR presentation. Thanks. That's all.

Moderator: Thank you very much, sir. Next in line, we have Mr. Suraj from UBS Securities.

- C Ramakrishnan:** This may have to be the last question, gentlemen, since we have another call following this.
- Moderator:** Sure, sir. Taking a note of it. Mr. Suraj, you may go ahead with your question, sir.
- Sonal Gupta:** Yeah. Hi. Good evening, sir. This is Sonal Gupta from UBS, so just again on the same question. Basically where I am coming from is if I look at your Jaguar Land Rover raw material cost to sales on a quarter-on-quarter basis, it's actually gone up 10 bps or whatever or roughly flat, while ideally, I mean, I understand that the cost and the FX losses, et cetera coming in at the other expense line item. But even despite the very favourable FX impact we haven't really seen an improvement in the gross margin, so to speak, so are there any cost related to FX which are coming in gross margin also or, I mean, are there any other factors which are pushing up this margin, this mix effect, I mean, could you just share some light on that?
- C Ramakrishnan:** I can request Ken to reconfirm. On the cost side I don't recall or need to cull out any exceptional impact on account of foreign exchange. Some of these material costs and other costs to revenue is also impacted by several factors such as regen., volume mix or et cetera; it may be difficult to explain it quarter-to-quarter, but trend-wise I think our cost structure compared to our revenue should improve over a period of time. I am not sure I will be able to comment specifically on such percentages from quarter-to-quarter which is influenced by number of factors. Ken, I don't know whether you care to elaborate further on this. Please feel free
- Kenneth Gregor:** No. I think you captured the essence, C R.
- Moderator:** Thank you very much, sir. I will hand over the floor back to you for final remarks.
- C Ramakrishnan:** Okay. First of all, my apologies for the rescheduling this call a couple of times and causing inconvenience to everybody, but still thank you very much for joining and your questions. And I also apologize at the end for the duration from 45 minutes to 30 minutes, since we are running short of time and we have one more call to follow, so my apologies. But I am sure we will have opportunities for continuous engagement, as we always do, from

our IR team and myself over a period of time. Thank you very much for joining today.

Moderator:

Thank you very much, panellist. Thank you very much, attendees. That does conclude the conference for today. Thank you for participating. You may all disconnect now. Thank you.

C Ramakrishnan:

Thank you, Kapil.