



Attendance List:	Mr Kenneth Gregor (KG) Mr Ben Birgbauer, Treasurer, Jaguar Land Rover (BB) Mr C Ramakrishnan, CFO and Investor Relations Team, Tata Motors (CR)
Title of Meeting:	Jaguar Land Rover Q1 FY15 Earnings Conference Call
Chair:	Mr Kenneth Gregor, Chief Financial Officer, Jaguar Land Rover
Operator	Ladies and gentlemen good day and welcome to the Jaguar Land Rover Q1 FY15 Earnings Conference Call. We have with us today Mr Kenneth Gregor, Chief Financial Officer, Jaguar Land Rover, Mr Ben Birgbauer, Treasurer, Jaguar Land Rover and Mr C Ramakrishnan, Chief Financial Officer and the Investor Relations Team from Tata Motors.
	As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during this conference please signal an operator by pressing * and 0 on your touch tone phone. Please note that this conference is being recorded and we will now hand the conference over to Mr Ken Gregor. Thank you and over to you sir.
KG	Thank you and good afternoon to everyone joining us on the call. Good morning for those of you in North America. Thanks for joining us for our Q1 for the fiscal year 14/15 call. Hopefully you have got the slide presentation in front of you which I will step through relatively quickly and we will have a bit of time for Q&A at the end.
	Stepping into Slide 5. A really strong quarter. Volumes 116,000 for the quarter, up 22% on the prior year with both brands up. Jaguar 12% up and Land Rover 24% up and that strong growth in volume driving revenue of £5.4 billion up, £1.3bn on the prior year. A very solid EBITDA of just over £1 billion with a margin of 20.3% which is 4.5 percentage points higher than the same quarter one year ago. That strong EBITDA combined with a couple of other factors driving PBT for the quarter £924 million, again up £500 million on the prior year.
	Free cash flow in the quarter before financing costs was positive at £5 million after investment of just under £700 million. All of that combined after dividend paid to Tata Motors in June to sustain the strong balance



sheet position we have got with healthy cash and financial deposits and liquidity.

Most of the key financial metrics I have called out already on Slide 6. Of course it's the wholesale volume that actually drives the top line revenue and that's up just under 25,000 units through 115,000 units compared to the same quarter a year ago.

Profit After Tax up £400 million on the same quarter a year ago. I think the other movements have already pulled out. A tiny bit more texture on Slide 7: in terms of Land Rover volume, it's up 24% and really driven by Range Rover, Range Rover Sport, Evoque and Freelander and so pretty much across the board. Jaguar retail volume up 2,000 units and reflecting the introduction of the new F-TYPE which we only had a partial quarter of this time a year ago plus we have got a second body style derivative in this quarter with the Coupe and the strong EBITDA performance in the quarter really reflecting that higher volume across both brands. A solid market mix with solid sales growth in emerging markets and a rich product mix partially offset by the less favourable foreign exchange and net of realised hedges and all of that was a relatively modest effect in the quarter.

The PBT effect interest expecting was lower. There were some revaluation of foreign currency debt and unrealised hedges which I will talk about a bit more in the PBT figure and there is higher depreciation, amortisation and the effective tax rate in the quarter of about 25%.

Slide 8 has those volumes by car line. You can see the movements actually that I have pretty much called out. The F-TYPE higher with the introduction of the Coupe and the XF also higher year-on-year. You can see the broadly based improvements across the Land Rover portfolio and particularly with the Range Rover Sport – we had a whole quarter of the new Range Rover Sport compared to this time a year ago where we had a part quarter.

By geography on Slide 9. You can see the growth. China leading the way with 61% up year-on-year. The UK, North America and Europe all with similar volume growth, 13%, 14% and 15%. Asia Pacific similar. All other markets are down 1% and that includes Brazil and South Africa both of which are down around about 15% offset by Russia which is actually up 6% and sales to a number of other markets also up and all of that netting out to a 1% reduction across quite a number of markets.

On the income statement - detail on Slide 10. There are a couple of the items that I called out. Within other expense and income, that is where hedge gains for the quarter are included. In the quarter there were £78 million of hedging gains within that other expense and income line. Compared to this time a year ago, the picture was a £13 million odd loss. In addition the revaluation of current assets and liabilities in that line of



other expenses and income of about £20 million. You have got those hedge profits plus a bit of revaluation of current assets and liabilities which are flattering that 811 number that you can see there as other increments and expense and that is why that number is lower than the same number in the 841 in the same quarter a year ago.

The other piece that I guess I will call out just in terms of numbers that are moving in ways that you might be interested in. There is debt and unrealised hedges MTM £70 million this quarter compared to £2 million loss in the same quarter a year ago. Again that is revaluation of foreign currency debt, revaluation of unrealised currency hedges and revaluation of unrealised commodity derivatives roughly in similar proportions and adding up to that £70 million compared to basically a flat number a year ago.

The income tax expense is obviously significantly higher year on year but in terms of proportion as a proportion of profits it's around about 25%.

On the cash flow on Slide 11 you can see the free cash flow before financing the £5 million compared to a cash out flow in the same quarter a year ago of 341. That is after growth in the investment and fixed assets and our product investment. Tax paid lower in this quarter than the same quarter a year ago reflecting some timing of tax payments in the prior quarter. A more normal situation in this quarter. Working capital with an outflow similar to a year ago reflecting the timing of production hair balls in the quarter. I think no other points to note. I am happy to answer any questions on that.

All of that leaving us with a solid balance sheet as I talked about before. A similar picture to recent quarters with cash at £3.3 billion and obviously with health liquidity having the bond facilities that we have in place driving net cash and decent ratios.

Looking forward at Slide 14. It is quite an exciting year for the business. We have got Jaguar XE which we have already announced and the premier will be on 8th September in London. The XE will go on sale in 2015. We are really quite excited about that car and it will take us into the heartland of the premium sedan segments where although there is lots of competition there we also have a great product coming and feeling quite positive about that vehicle. We have got Discovery Sport. That is actually not a picture of the Discovery Sport but a picture of the new age of Discovery concept car but we will also reveal Discovery Sport globally on 3rd September and again that will go on sale in 2015.

As you are also aware our new engine factory will commence production again in early 2015 and also our China joint venture also in the early part of 2015. So there is a lot going on in the business. New products as well as business structure changes as well. So we have got all of that to look



forward too but for Q1 just to finish off a really strong performance and our focus for the remainder of the fiscal year continues to build on that sales momentum that we have got on both brands and preparing for the launch of Discovery Sport, Jaguar XE, Ingenium family of engines and the new China JV that I have just talked about.

We do continue to plan to grow out product investment as we talked about on prior calls and in order to meet both consumer requirements, regulatory requirements and of course create the capacity required to continue to grow our volumes both in the UK and internationally and I do expect that our product and investment will still be in the range of between £3.5 and £3.7 billion in FY15 and our attempt is to continue to generate robust operating cash flows to support that investment. With that I think I am done and so I will hand over for your questions.

Operator Thank you very much. We will now begin the question and answer session. To ask a question please press * followed by 1 on your telephone.

Please stand by for your first question. We have the first question and it comes from the line of Alex Field from Credit Suisse please go ahead.

AF Hi good afternoon. My first question is just on a little bit more detail on the other expenses line. It looks like almost the entire 4.5 percentage point increase is due to the relative reduction in other expenses relative to revenue. You gave us some explanation with the hedging gains and the revaluation. But that only looks like it explains part of the relative improvement there. I was wondering if you could explain what other factors are coming into play because most of the line items in those other expenses look like they should grow plainly in line with the revenue.

That was my first question.

The second was just on dollar revenues and dollar costs. In the past you have given us rough guidance on how much of your revenue you have used dollar linked and how much of your cost you have used dollar linked. I was wondering if you could give us updated numbers for that. Thank you.

KG First let me answer the other income and expense. So just to give you a tiny bit of a reconciliation here - within the £811m there is £78m of hedging gain and £20m of revaluation. So if I was to strip £98m of foreign exchange related items within the £811m and if you were to strip those out you would have a number of £909m before those items. If you take the £841m in the same quarter a year ago the similar items are £46m cost; in other words it goes the other way. If I were to take those items out I would have a £795m number in the same quarter a year ago. So if you take the foreign exchange revaluation and hedging gains out of the number you go from roughly 795 to roughly 909. That is an increase of 14% year on year. That increase is less than the revenue increase which is clearly more like



25% and so what you have got there is for example fixed marketing costs. Year on year we are actually constant in absolute terms. So we have spent roughly just under £200 million on fixed marketing - in other words advertising, promotions and those sorts of costs in the quarter. That is similar to the same level a year ago but as a percentage of revenue it drops because the revenue went up by 25%. There is a similar principle also on engineering cost before capitalisation which is also in that line and also some other expenses. In other words costs that have either stayed flat or grown less than revenue. Of course the fact that I have just described of the foreign exchange hedging gains and a little bit of revaluation are in the number causing it to swing in opposite ways. Does that make sense?

AF Yes that is clear and is that the trend you expect going forward that you should be able to keep those growing lower than revenues?

KG I think that there will be some timing effects if I am honest. I am trying not to give forecasts for individual line items but let me take the engineering for example. The engineering is part of our product investment and we have indicated that we expect our overall product investment to be £3.5 - £3.7 billion in the full year. So actually I do expect that to grow and if I were to take the fixed marketing we have got some vehicle launches in the second part of the year that I have just talked about on the XE and also on the Discovery Sport and so quarter by quarter it's very difficult to give forecasts because these numbers can swing a bit but those vehicles launches could drive that fixed marketing cost to grow in a quarter rather than to be flat in the quarter like we have just had.

Of course the foreign exchange will depend on what operating rates we see quarter to quarter which I know that you would understand.

AF Ok that is clear. Do you have the estimates on dollar exposure?

KG I was trying to think if I had given the estimates on dollar exposure before. I am not sure I had.

AF I might have been many years ago I have it in my notes from 2011 I think.

KG Can you explain the question and I will see if I can answer it in a different way?

AF I guess if you were hedged how would your profitability change if you for example had a 10% swing?

KG What I have said in prior quarters in the last couple of calls was that the effects of foreign exchange before hedging gains over the last couple of quarters compared to the same period a year ago was between 2-3 points of EBITDA before the hedging profits and the hedging profits have mitigated that to the tune of between 50-60% of that cost has been mitigated by



hedging gains quarter by quarter.

AF OK that is helpful thanks.

Operator Thanks for that question. The next question we have comes from the line of Richard Smith from Citi Group. Please go ahead.

RS Hi there thanks for taking my questions. Just I guess firstly on free cash flow. In the past you have indicated that the £3.5-£3.7 billion investment earmarked for this year would likely lead to a negative free cash flow performance for the year. Am I reading too much into the outlook statement in the presentation that makes no reference to that negative out flow or is it just business as usual in that sense?

KG I don't know if you are reading too much or too little to be honest. I am not sure that we have consciously left that statement out if you like. Clearly this has been a strong quarter and we are one quarter into a full year. I think that there is a bit of water to flow under the bridge. Internally within the business we are pushing very hard to fund as much, if not all, of that product investment out of operating cash flow this year. It is possible that we could see operating cash flow from the full year be marginally positive rather than marginally negative. That is possible and it is certainly the internal intent. I would hesitate to give a firm forecast at this point in the year. As I say we are only one quarter in.

RS OK and then I guess the elephant in the room at the moment is the Chinese market. In terms of what mitigants might be available to you to offset any loss of revenues generated out of that market, obviously potentially there is an impact from more competing product offering from the headline prices coming down. Are there any other measures that you envisage that could mitigate the impact?

KG To be honest as you have seen in the quarter we continue to feel positive about growing our business in China and if you look in the longer term most external analysts continue to expect the Chinese economy and the Chinese auto market to continue to grow slightly faster than the global average. With that sort of macroeconomic picture over a number of years I think that we would still feel confident about the opportunity to grow our business in China as that growth rate might not be quite as fast as we have seen in prior years or quarters. I think that growth opportunity is very definitely there and in terms of products we are clearly investing very heavily in new products which give us the opportunity to broaden our product range in markets across the world as well as in China. Of course in China specifically we also have the launch of our joint venture starting production beginning of the next calendar year and that offers the opportunity to compete with other localised products on a number of our products. It gives us the opportunity to grow our business in China and in China if you like with the joint venture. I think we have got quite a number



of opportunities to sustain the profitable growth that we have seen so far and when I think about the business outside of China as I have already said we have growth across most of our major markets across the US and across the UK and across Europe and that growth has been on the back of new products introductions as well as some economic recovery in various of those markets. I think that as long as we continue to investment and have successful new product launches we will have the opportunity to grow our volume and our profitability with it in those markets in China as well as outside of China.

RS OK thank you.

Operator Thank you for that question. Could I just request that parties limit themselves to two questions? The next question that we have comes from the line of Teo Lasarte from Merrill Lynch please go ahead.

TL Hi, two questions from me. The first one again is on China. There are different reports in the Press. I just wanted to ask you to clarify how many of your vehicles in China have you cut the prices on? Can you also tell us roughly it has been and also whether the prices have extended into the spare parts?

The second question is regarding your new engine facility. As you said you expect it to start operations next year. Can we expect any one off cost that would be to the start of the operation or can we expect any delays in production?

KG On the price adjustments in China. It was on 3 derivatives in China on the 5L V8 Range Rover, the 5L V8 Range Rover Sport and the 5L V8 F Types and so those were 3 of the derivatives of those products. On those particular derivatives we agreed price reductions of RMB 200,000 on each of those models which is roughly £20,000.

I can't really comment on dialogues going forward with the MDRC. We have a good working relationship with MDRC which is the Economic Development body in China and whether there will be further adjustments and whether that was on spare parts or other models at this point I can't comment.

Your other question was on engines. Would I expect to see delays in production etc? Not so much. I think we have planned the launch of the engine factory to have an appropriately lengthy launch period. We are in the launch of that engine facility right now. I was there just about a month ago and all the facilities are in. We still have roughly 6 months until we are in volume production. You can never say never but at the moment we are feeling relatively positive about how that engine factory is progressing.

The output replaces over time so we start with the diesel entering production which replaces the diesel engine we presently buy from Ford



and so we have worked out the handover of those engines in order to give us a smooth transition. Will there be some launch costs? Yes I think that we will see some launch costs associated with the engine factory and some of the other vehicles which we will see in the coming 2-3 quarters. Those sorts of costs will probably see them come through quarter by quarter. They will ebb and flow a bit with the launch of products and factories.

TL OK understood thank you.

Operator Thank you the next question we have comes from the line of Robin Zhu from Burnstein please go ahead.

RZ Hi thanks for taking my questions. One question on Solihull. You are obviously building a new line for the XE and so on and so forth. Could you remind us when we can expect to see additional Range Rover and Range Rover Sport capacity because obviously that is very tight at the moment? Is the new line also usable for the Range Rover Sport or is that going to depend on another expansion at Solihull at some point in the future? My second question was in terms of GBP and USD, it's right now over 1.70. Obviously you have the hedging gains which capture some of that but do you worry about underlying profitability as FX continues to edge further North?

KG Yes good questions. On Solihull yes we have installed or just completing the installation of the production facilities for the XE and it is the case that the trim and final facility at Solihull is a flexible facility that has the capacity to also build Range Rover Sport. That will enable some slightly higher production levels of Range Rover and Range Rover Sport in the fullness. We will probably see that by the end of the fiscal year. So yes on that question. On foreign exchange, I worry about a lot of things. I think the thing on foreign exchange first off is it has moved back in a sense in the last week or two weeks or it's about 1.68 today pound against the dollar. We have seen the dollar strengthen a bit on the back of strong GDP figures for the first part of the year.

Clearly it's one of those things that outside of our control so from the point of view of what do we try and do about that? We do hedge. As we have described before we have got a hedging policy that hedges on a declining balance basis about 70% and one year out of about 50% and two years out about 30% and 3 years out. That gives us the opportunity to provide, as you have seen in this quarter, for those periods when the foreign exchange rate moves up a bit. It gives us that offset and as it comes back down again it just softens the impact over time.

Internally clearly we have got the opportunity to grow our natural hedging proportions and so for example the joint venture in China will bring with it significant cost exposure in China that helps to balance our cost exposure with our revenue exposure a bit and for example production in Brazil which



is relatively modest but would help mitigate the foreign exchange exposure in Brazil also. Those are also long term thoughts in our mind about how to reduce the net foreign exchange exposure on the business.

RZ Just as a follow up to that can you provide us with any sort of guidance on what sort of GDP levels that you hedge out for FY15/16. Is it 1.65 or 1.70. Any sort of guidance on that would be great.

KG I will ask Ben to comment.

BB The levels that we hedge out are really driven by where the market is at the point in time. Last year we saw exchange rates in 1.50 territory and we did a fair amount of hedging then. We have a programme so we hedge all the time as we have been seeing exchange rates that have been less favourable and higher than 1.60 and even 1.70. We continue to hedge. Hedging really smoothes out and takes out fluctuations but at the end of the day you can't lock in through hedging better rates than what the market offers.

RZ OK. So there is not a rate which you would expect to have a zero hedging result?

BB Our policy basically has a high and low range for what to hedge at and basically no, at some levels we wouldn't not hedge, we would always hedge.

RZ No no no. On your current hedging book is there some level of pound/dollar where you would expect the hedging result to be neutral?

BB I think you are trying to get out what is the average exchange rate of the hedge book and I am really not going to give that answer.

RZ It was worth a try thank you.

Operator The next question we have comes from the line of Kapil Singh from Nomura please go ahead.

KS Hi this question is on employee costs. We have seen a slight bit of down take on that. Is there anything happening there and how do you see this spanning out especially in the light of capacity expansions and the engine facility as well?

KG Good question on employee cost. The explanation is quite similar to the explanation I gave on a couple of the line items on other income. As you can see the cost has gone up from 361 to 429 in the quarter and that is reflecting the growth in the business and the growth in engineering costs and the growth in manufacturing with the higher volume and also starting to take on people for those future products. You can see actually quite a significant growth in that number but the growth is slightly less than the growth in the revenue and so as a percentage of revenue it's a bit lower.



Going forward it's difficult to say what the percentage of revenue is going to be but I would expect with everything that I have just described higher product development and new engine factory and Jaguar XE, Discovery Sport. I would expect the absolute cost to continue to grow over the coming quarters.

KS My question was largely because revenues for the last 3 quarters has been in a fairly similar range and employee costs has been up and down. That is what I was trying to understand. What is really happening there for the last 3 quarters. I would have assumed that there would have been more employee costs and this would be a rising trend and there would be hikes as well. If you could just help us understand.

KG It is rising and it is rising quarter by quarter. Whether there are any one offs that appear to be causing it to fluctuate I am happy to take the question offline if you like but basically it's what I have said. The product launches and the continuing investment in R&D and the incremental volume are all causing the employee costs to rise quarter by quarter. If you have got a particularly detailed question then I am happy to take it outside of here.

KS OK thanks and just one more thing. Is there a substantial demand coming from other markets outside China as well which you are not able to service at this point of time because of production constraints? My question is particularly for Jaguar really as it is seeing slightly weaker numbers in the US but pretty strong numbers in China so just trying to understand what is happening there.

KG I think on Jaguar the demand picture is a little bit more balanced it's fair to say than on Land Rover so you are right. Jaguar and North America was down quarter 1 of this fiscal year compared to the quarter 1 of the prior year. I think reflecting primarily lower XF sales in the quarter. Whereas those in the UK for example actually Jaguar was up quite strongly. Europe a bit flatter. There is a little bit more of a mixed picture on Jaguar but I think what you have got on Jaguar is that we have good growth on China and we have got good growth on the F Type. The XF has grown full year but there are some ups and downs in a couple of the markets and I think for Jaguar we are very much looking forward to the Jaguar XE that gives us the opportunity for a real step forward in terms of product architecture from our aluminium architecture that will also form a number of other vehicles that we have got to look forward to on the Jaguar side. I think that it will help to give us some strong sales momentum on the Jaguar side also.

CSW Right thanks a lot and all the best.

KG Thank you.

Operator Thank you and the next question we have comes from the line of Srini Rao from Deutsche Bank. Please go ahead.



SR Thank you very much. My question is on your platforms and models which some time back you had mentioned that your goal was to reduce the number of platforms and have around 2 models per platform. Where are we on that part and how soon do we expect to get there?

KG I think it's a journey. But we are still on that journey. In terms of the last step on that journey I guess with the launch of the Range Rover Sport had the Range Rover Sport shared the same architecture as the Range Rover and so that brought those two vehicles together in terms of vehicle architecture and the Discovery Sport will share architecture with the Evoque. So those two vehicles will share an architecture. As I just described the Jaguar XE will be the first vehicle on a new aluminium architecture that will be the back bone for a number of other models and at least two other models on the Jaguar side and those vehicles will also share an architecture. I actually feel quite positive that we are moving in the right direction with our architecture strategy. It's a journey and it will take time over the fullness of a number of years to get where we want to get to but we are still confident that we are headed in the right direction.

SR Thanks and my second question is on your accounting for the China JV. You would be accounting on a joint venture line by line accounting or will be it a single entry and associate line?

KG A single entry. It's a single item which at the moment is within the next finance expense and income line item. At the present time it's a modest loss because what we have got in the China joint venture is operating costs right now as we are in the set up phase. Clearly once we get into production etc we hope that that would turn into a profit. It would probably be helpful if we broke the line out so that you could see it.

SR So it would be similar to what your peers are doing in China would that be fair?

KG Yes in terms of accounting. Yes it's on an equity basis with just one line item in this income statement. That is similar to what our peers do yes.

SR Thank you very much.

Operator Thank you. Ladies and gentlemen due to time constraints no further questions can be taken. I will now hand the floor back to Mr Ken Gregor for closing comments.

KG Thank you for taking the time to join us out of your busy days. Obviously we are really pleased with the results for the quarter so thank you.

[End]