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Attendance List: Kenneth Gregor, CFO, Jaguar Land Rover (KG)
C. Ramakrishnan, Group CFO, Tata Motors (CR)
Ben Birgbauer, Treasurer, Jaguar Land Rover (BB)

Title of Meeting: Jaguar Land Rover Q1 FY16 Results/Earnings Call

Hosted By: Kenneth Gregor, CFO, Jaguar Land Rover

KG Good afternoon to everyone who has taken the time to join us on the call today. We've got the quarter one earnings call for Jaguar Land Rover here. I'll run through the presentation slide by slide, call out some of the highlights and at the end of the call we'll have some time for Q&A.

We've had a solid quarter from a financial point of view with retail volumes overall flat year on year at 115k units. Land Rover was up very slightly and Jaguar down a little due to some of the model changeover that's happening. Revenue of £5bn, down on last year with slightly lower wholesale volume year on year. EBITDA of £821m and solid PBT of £638m, both down on what was a very strong quarter last year. I think we always expected some normalisation versus that quarter, but solid overall numbers at £821m EBITDA and £638m PBT for the quarter with EBITDA margin of 16.5%.

Negative cash flow in the quarter just over £800m, driven by a couple of factors. Firstly, inventory build-up as we ramp up the production of the XE and build the pipeline of the launch in the quarter. Secondly, lower sales in China for the quarter which has caused us to have some inventory build up in the markets that we're working through right now and that has driven some of the negative cash flow in the quarter.

But strong financial position overall clearly with total liquidity of 3.3 billion of cash and liquid resources and the revolving credit facility recently increased with our banking group to 1.8 billion. And also to confirm that we did pay the dividends that we announced in the prior year end of £150m to Tata Motors in June 2015.

The metric on slide six shows a 2,000 unit reduction in wholesale volume year on year, I'll come and talk about some of the drivers for that. You can see the revenue, the EBITDA and the other figures that I've called out in the highlights of the prior summary page. Land Rover volume up a little with Range Rover Sport and Discovery all up. We



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also have the changeover of Freelander to Discovery Sport which is going well.

Jaguar volume is down with XF down ahead of the launch of the all new XF so we've got a changeover period on the XF.

We've got a 16 model year XJ coming with a modest refresh and some interior electronic entertainment coming, that's on sale in Q2 and we have run out the 15 model XJ contributing to a year on year reduction on the Jaguar side. This is offset by the retail sales of the new XE from May which will ramp up over the next six months.

The EBITDA margin is 16.5%, down on the very strong number we had in Q1 last year. That's reflecting more volume but within that a less favourable market mix due to the lower China sales that we experienced in the quarter for a number of reasons that I'll come and talk about and also within that less favourable model mix. This has been partially offset by the receipt of a local market incentive in China, which in prior years we've received either in Q2 or Q3 and we book it on a cash basis because of the uncertainty of when we're likely to receive it. This year we had the opportunity to receive it in Q1 so we applied for it, received it and accounted for it all in Q1.

The PBT of £638m is also down, clearly reflecting the lower EBITDA year on year but also the higher depreciation & amortisation. This has been offset by some favourable revaluation of foreign currency debt and mark to market of unrealised hedges not eligible for hedge accounting treatment. You'll remember of course in Q4 of the last fiscal year we had a negative on the FX revaluation as rates including the US dollar went to 1.47 to the pound and then in the last three months to the end of June, back up to about 1.57 to the pound. That's a seven or eight percent movement in FX rates causing that favourable revaluation running through the income statement which I think most of us understand will flow quarter by quarter so we have to look through that a bit, but it's there in the numbers.

The effective tax rate in the quarter was 23%. In terms of the retail sales, on slide 8, I'll come and talk about the detail of it in a second. You can see the adverse market mix with our China sales down in the quarter 33% compared to the same quarter a year ago, but the UK, US and Europe were up, offsetting that reduction and in all other markets we've got the effect that we've previously talked about with Russia being down and Brazil being down due to the economic circumstances in both. On the model mix on slide 9, you can see the impact of the start of retail sales of the XE, about 3,000 units. You can also see the



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start of the run out of the XF, down about 2,000 units, and also the XJ down about 1,000 units.

And on the Land Rover side you can see the effects of the Discovery Sport coming in, 17,000 units compared to the Freelander this time last year 16,000 units, so it's actually making a very strong impact in the market place across the world right now which we're pleased about. Evoque was down year on year, and that's mostly down to what we're experiencing in China which I'll talk more about in a second. Range Rover Sport and Range Rover were up and Discovery also up just over seven or eight percent year on year. A solid performance when you stand back and look at the world performance for Range Rover, Range Rover Sport, Discovery Sport and Discovery. The Evoque is also very solid in most of the world except some challenges in China which I'll talk about in slide ten.

We anticipated over the last three/six months when we issued some earnings guidance back in the beginning of the year that 2015 would become relatively more challenging for the business, for a number of reasons, more perhaps a less favourable environment that we might experience in China, also model mix and launch effects this year for our business. I think it's fair to say China has probably evolved faster than we have seen previously. The normalisation that we're seeing in the marketplace and the challenges are for the industry as a whole where we have seen the industry down for example 3% year on year in June.

It's fair to say our sales were down more than the industry as a whole due to a number of factors. We have experienced slower sales ramp up of the new locally produced Evoque that we were selling as the import vehicle a year ago, combined with the start-up of the new integrated marketing sales and service organisation joining the energies and resources of our joint venture sales and marketing organisation and their understanding of the Chinese market with our own national sales company in China to form a new integrated marketing and sales organisation.

A very experienced head called Mark Bishop was appointed to lead this new organisation but it's fair to say that's been in the start-up phase and may have been part of the reason we've seen a slower sales ramp up of the Evoque than we had planned. It is the case that I've already mentioned the run-out of the Freelander and the launch of the Discovery Sport. We are carefully managing the volume of the Discovery Sport as an import vehicle, because at the present time the Discovery Sport is being imported into China at a higher price compared to locally produced vehicle. We will announce the details of



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the locally produced Discovery Sport in China later this year. We're working quite hard particularly in this phase as the market is normalising to make sure we don't over supply the market on imported Discovery Sport's so that when we start the production in autumn of the localised Discovery Sport we're able to make a good start on that product.

It's doing really well in all the markets outside of China and therefore we do expect it to be successful as a localised product. Whilst the current imported model is selling at a reasonable volume in China, what we expect is when it starts selling as a localised product in China we'll have the opportunity to lower price and gain more volume from the joint venture. Currently, there is still the transition effect between run out and run-in with that volume lower than what the Freelander was a year ago so we are managing the volume carefully.

As I already alluded to we do have the run out of the XF in the market place and XJ in advance of the new XF and the 16 model year XJ. We also have XE sales starting later in the year in China and in the rest of the world from autumn. In China we've been working collaboratively with our retail partners and also our JV partner to address the situation and make sure we do a number of things; first of all ensuring that production and sales are aligned to reflect the reality of a market that is slowing and normalising and that we deal with model transition issues to keep supply and demand in balance and part of that will involve a bit of rebalancing of production that we've got planned in the rest of the year to shift a modest amount away from China to other markets in order to ensure that we keep the supply and demand in balance over time and the inventory position in China back to where we want it to be.

We have also looked at some price realignment, for example, on the localised Evoque we have announced a further price reduction about 6% on top of about 15% reduction from the import vehicle to the localised vehicle we originally had. And we do plan to ensure that the pricing for the new Jaguar XE is very competitive when we launch it in China. We're working on setting up and really moving forward with our IMSS organisation including the appointments of Mark Bishop and we addressed a number of issues the dealers/retailers had with some of our payment terms relating to marketing payments which we basically sped up and moved some of those payment terms to a normalised term that is more aligned to our competition. This has caused a negative movement in cash flow this quarter of about £100m.



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So there has absolutely been some challenges in the short term in the quarter, some of them related to model transition issues that we were always going to have this year affecting our business. There is also the normalisation of the market and the impact of the localised Evoque in particular running slower than we would wish right now but we're clearly working on that. When you step back, in the fullness of time, you know we do believe China will be a growing market for premium vehicles and for Jaguar Land Rover, it does represent the largest car market in the world. Its economy may not be growing at 10% any more but it's still growing at six and a half percent on a very large base which clearly provides plenty of opportunity for the increasingly affluent who do aspire to own premium vehicles.

And the positive thing from our point of view is that we do have a growing pipeline of new models coming, such as the new XE, the all new XF, the 16 model year XJ, and in particular for Jaguar the new F PACE crossover vehicle that we've announced and is just a little bit in front of us in terms of production launch in the early part of the next calendar year but we think that's a product with a lot of potential for China and across the world as well as the localisation of the Discovery Sport which we think offers us really good potential.

And just to look at some of the other markets, if you look outside of the world excluding China our sales, were up over 12% compared to the same quarter year ago, so really quite a strong performance in Europe, the UK and the US, reflecting strong Range Rover, Range Rover Sport sales and the ramp up of the Discovery Sport which I've already mentioned being received very well, as well as the start of Jaguar XE sales, and that's a story that will evolve over the coming months.

Area by area, Europe was up 28%, outperforming the industry growth across France, Germany, Italy and Spain. The pleasing thing for me is seeing the Range Rover and Range Rover Sport performing strongly as well as the new products which we felt would do particularly well in Europe like the Discovery Sport and the XE which we feel offer some promising possibilities for growth. The UK, our home market of course, is also a good market for us with 20% growth in the quarter year on year ahead of the general market growth, which is strong it's fair to say with the UK economy having recovered well from the last few years. Again, it is a similar picture with similar growth in Range Rover and Range Rover Sport as well as the ramp up of Discovery Sport and XE.



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Similarly for the US we're seeing growth of 13% ahead of the market growth and a similar picture with Range Rover and Discovery. We were a bit constrained on Discovery in the same quarter last year which is perhaps explaining the real year on year jump on Discovery but you get these effects from time to time, so quite positive.

The Jaguar XE is quite an important product for the US. In fact, it is the last large market to launch XE and coincides with introduction of the petrol engine into the XE at the beginning of 2016.

In all other markets, we are seeing what we saw emerging in the latter part of last year as the Russian economy started to weaken, so we have seen unfortunately Russia sales down 50% given those well documented issues. But we also see positive sales performance in Middle East and also South Korea, despite the challenges there.

So I think outside of China, very solid performance and it just illustrates the potential of the new models in our business which clearly is, has been and will continue to be the key to our future growth.

On slide twelve I've got a bit more detail on the income statement, you can see the growth for example in our product development costs and EBITDA figures I previously mentioned, but you can see also the depreciation & amortisation growing, which as I've said before is a feature we should continue to see given the growth in the product investment and the launch of the new models. This quarter is really being driven by the launch of the XE and Discovery Sport impacting the increase in D&A.

You can also see the debt and unrealised hedges mark to market £150m in the quarter, compared to £70m in the same quarter a year ago.

I think I've probably covered most of the factors there. And on the cash flow on slide thirteen, I'd previously talked about the inventory growth and also the faster payment terms for some of our variable dealer margins and variable marketing payments for our retailers in China. That's driving the working capital which is typically negative in Q1 in the April to June period for seasonal reasons just like it was last year, but this year it is clearly bigger. This is partly because of the ramp up of the pipeline of the Jaguar XE, partly because of the inventory build up as sales slowed in China in the quarter, and partly because of the cash to payment terms to our retailers.



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You can also see the continued growth in investment in fixed and intangible assets, it's still running at less than the running rate that we've flagged for the full year where we do continue to expect to see investment in the £3.5 to £3.7bn range overall. It's not quite running at that level yet but with the launch of the XF, the F PACE and some of the other product actions, I do expect to see it slightly higher in the subsequent quarters of the year.

As on slide fourteen, you see the liquidity picture we normally show. Very healthy position despite the cash outflow in the quarter.

In terms of our business, my perspective on the quarter is that we have got challenges. China undoubtedly has challenges as the market normalises and of course it's a very important market for us that's been a big driver for our growth. But I think it's also the case that we have to look beyond one quarter. For Jaguar Land Rover, product is our life blood and therefore we have been investing in and will continue to invest in our product pipeline. As illustrated on slide sixteen and seventeen, we've got a very healthy pipeline of new products which is great because especially in relatively more challenging times, I think having a pipeline of new models is exactly what you want. So I think we're going to find some of those new model introductions such as on the XF, the 16 model year XJ, the F PACE, as well as the other things we're working on. I think we'll find those actually quite well timed in order to sustain our momentum over the course of the coming quarters and years. And just those are illustrated on slide sixteen/seventeen.

So, a summary and then a bit of time for Q&A. Solid profitability in Q1 FY16 despite that weak China market that I've tried to explain and to add some of the texture on what we're seeing. As I say we remain very focused on building on the success of the launch of the Discovery Sport, building momentum on the Jaguar XE that we've just launched and following that up with the XF and XJ. Continue building momentum into the localised Evoque in China and we also have the F PACE coming in 2016. There is also a convertible version of the Evoque coming, timed for spring next year. It just helps add excitement around what is a very fashionable product.

We believe those new products can provide us with significant volume growth this year. Although as I previously indicated for the last earnings call and the one before that, we do expect EBITDA margins to be lower than the higher levels that we experienced in the prior financial year, reflecting some of the factors discussed previously such as model mix, so some of those new products like the XE, and Discovery Sport. They're good products with decent margins but they



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are a bit lower than the average margins and we will see launch costs this year. With these new models and in their launch phase you do end up having the launch costs at that time before you get to a steady running at rate.

We do also have the reporting effects of the China JV right now. Although that's clearly being impacted by the sales of the localised Evoque and mixed economic conditions that we're experiencing, we've seen that normalisation happen quite fast. Product is our life blood and we do plan to continue to execute the growth strategy that has provided us with our success to date and will drive our success in the future which is investing in product development and the technologies that are required to meet the consumer requirements as well as the CO2 challenges coming in the future. We will also be exploring the expansion of our manufacturing capacity in the UK and overseas, which will have the potential for delivering profitable growth. And with all of that of course, focused on generating strong operating cash flow to support that continuing investment in the business estimate in the range of £3.5bn to £3.7bn pounds in FY16.

I think I'll now hand over to you guys to take some questions. I will be happy to answer your questions and also we've got Ben Birgbauer on the call who may take some of the questions. Thank you for bearing with me as I've run through that.

Operator	Your first question comes from Richard Smith (RS), from City Group.
RS	I'm just trying to get to grips a bit with the impact of the CJLR joint venture. And in particular trying to work out obviously what are you able to give in terms of any kind of guidance as to what proportion China Evoque wholesale volumes actually went through that joint venture rather than through the more historically traditional routes? Because I know that whilst EBITDA is down 25%, actually growth margin is actually pretty strong. And so the weakness in the EBITDA line is driven as far as I can see more by other expenses than anything else. I'm just trying to get to grips with what the impact on the numbers was of that joint venture.
KG	Sure. Just wondering, Ben, do you have a couple of those figures at your fingertips that you might be able to give some texture on?
BB	In terms of how much China Evoque wholesales, I guess what I'd say is for China Evoque wholesales I don't think any are imported units any more. I think that all the sales in China are now being produced out of the JV.



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RS Sure. The wholesale volumes are off, about 4%, do they include CJLR volumes? The revenues are off only 7% decline, bearing in mind as I understand it, these would not include the CJLR revenues, seems it's quite a modest decline.

BB So the wholesales that we published in the presentation exclude CJLR so it is a bit confusing. We've got retail sales which we have included CJLR sales in because I think we want to give a picture of what's the total sales volume of JLR in the market. But then we've given wholesale volumes excluding CJLR because in terms of what flows through EBITDA it's the wholesale volumes that flow through EBITDA and the profits related to CJLR flows through PBT below the line.

RS Okay, that helps reconcile one of the bits I was trying to get my head around. I guess the other one then is...

KG Sorry, just in terms of CJLR volumes, to give you some flavour. Sorry for the delay in trying to find the right page. I've got retail figures here rather than wholesale and Ben if I get this wrong correct me. But in the April to June period last year we retailed nine and a half thousand units of Evoque in China, so roughly 3,000 units a month. And so we...and we would have wholesaled a similar number, I don't have that figure at my fingertips, but we would have wholesaled a similar number.

So this year, from a year on year perspective, that importation of those units into China on Evoque in particular which has now been localised is clearly down. The absence of 9,000 units in the wholesale volume effect and you're also seeing it in the revenue. That's being replaced of course by wholesale volumes the joint venture is doing. For example, again I'm talking retail in the quarter rather than wholesale but for example in the quarter we saw 5,000 units of Range Rover Evoque in China of the localised products. So it's a bit more than half of the same level year ago. So we're clearly down on those, and again I'm not talking wholesale, but just to give you a flavour of the direction of the numbers.

Those sales were made by the joint venture to the retailers, that revenue is not reported in our revenue line and the EBITDA is not reported in our EBITDA line. The share of the profits of the joint venture is below EBITDA although of course it's a very modest number this quarter. Given the performance, what you're seeing is the nine and a half thousand units of the China Evoque coming out of the wholesale and the EBITDA being replaced by, in this particular quarter, 5,000 units' worth of sales happening but coming in the share of JV



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profit line which, as I've indicated, is pretty small in this particular quarter.

It is a bit hard to see it's fair to say, so it might be something in future quarters that we try and provide more texture on to help you see the true effects.

RS That's very helpful. As a follow up on that then, two sub questions. One, can you give a bit more colour on the driver behind the increase in other expenses and then also in terms of JLR receiving any kind of royalties etc from CJLR? Would that go through the revenue line or does it come in as other income? What's the accounting treatment for that?

KG That would come in as other income. So we do receive a royalty on wholesale sales from the joint venture, percentage of that plus a mark up on parts that are not localised in China, but that runs through other income, yes.

And in terms of other expenses, we do have the continued growth in our product investment. Therefore we've got the head count associated with that larger engineering activity this year and we also have the other costs associated with that. We've got launch costs with the launch of the engine factory as well as just having an engine factory this year compared to not having it last year adds cost into the various lines. Last year as we bought in engines, for example, that cost was in the material cost line so there's an effect there of where the cost in our business is accounted for.

So there's a number of factors getting to it this quarter.

BB I think the one other item, because I think Richard is looking at other income and expense, the one other item that's running through there is basically the realised foreign exchange losses on some of our hedges are and that's offsetting good news that would be in revenues from dollar and RMB and good news would be in costs in Euro.

KG You are absolutely right Ben, that effect is in there. That's probably one of the bigger effects actually, sorry for not getting to it faster.

RS Okay that's very helpful, thank you.

Operator The next question is from Yogesh, from HSBC Securities.

Yogesh Hi, good afternoon. Can I ask I have a clarification? So this quarter you had £62m of market incentives. So if I remember correctly, this is an



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annual incentive you get each one quarter in a year. So this is going to go away next quarter right?

KG

Yes, correct. This time, we booked it on a cash basis because of the uncertainty over the size of it and the timing of when we're going to receive it. So that 62 million is the full year's worth all received in one quarter and last financial year we received it in Q3, so we are going to see some year on year effects as we run through the quarters and quarter to quarter effect. It won't be there next quarter.

Yogesh

Great. So now my question is, the margins are around 15.2% which is like you know 500 basis points down year on year. That factors in the China slowdown etc. Would you believe you are closer to the bottom of the margin for now considering China is just 14% of volumes now and from here on anyway, you know even local production will pick up, new models will ramp up. So will you feel that you are at the bottom for the margins?

KG

Good question. I think we've always expected, and I've previously guided that I did expect to see margins more towards the lower end of the range of what we've experienced over the last three to five years. What we experienced last year and the year before were perhaps, relatively speaking, at the high end of the range. Exactly where it lands quarter by quarter, I think we'll continue to see fluctuations if I'm honest with you and clearly if the process of China normalisation takes a bit longer rather than shorter then we may see some further fluctuation.

So I think it's always very hard to say where do I see it at the bottom or top of a range. But it's certainly closer to where I was expecting it to be when I gave the guidance this time six months ago.

I think there's a bit of water to flow under the bridge to be honest because there's quite a lot of moving pieces and as I say, this year has always been and will be a bit of year of transition with the engine launch costs which is still ongoing as we ramp up engines with the model launch cost which we've got all the way through this year. So I think we've got a bit of time to see how that lands.

Yogesh

Right, okay, thanks.

Operator

The next question is from Ramad Tamir, from Goldman Sachs.

RT

My first question pertains to the transition on the geographical side in terms of you reducing the volume in China or the profit. I just want to understand how much of the impact in China we've seen in terms of



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pricing is already flowing through the P&L in terms of how much of the dealer rebates have already been paid...how much of the current discounting, in terms of what we're seeing with the new normalised pricing in China, we're seeing from manufacturers has actually passed through the P&L?

KG

I think actually in the quarter we've seen a growth in variable marketing expense, so incentive spending in the quarter, which is across most of our model lines, focused more on the Jaguar products in the quarter. Also with the localised Evoque we reduced the price a further 5% and supported it in the JV with some more incentive spending, relatively higher than we saw this time last year on the other products.

I feel there's a process here that is likely to continue to run over coming quarters and years to be honest as we see China normalise. In fact it's one of the things internally in the business we're staring in the face and factoring that into our business planning going forward. So I think we've seen the first elements of it. I think we've got Discovery Sport well positioned in the market with the plans that we've got for pricing on that. It will rely less on the imported vehicles, which will position it nicely against the competition. I think on the 16 model year XJ we'll have a competitive price position also.

I think the straight answer is, we've seen part of the effect. Exactly how fast it continues to move and over what timescale, as I say, there's a bit more water to flow under the bridge and I think we will see it evolve. So it's quite difficult to give a forecast on that.

CR

Just to supplement what you said. Yes it is true. If you step away from the quarter and particular market like China, the last couple of years for, generally the industry and particularly the premium segment, I think we've been witnessing a fairly soft market in terms of discounts and variable marketing expenses. These marketing expenses have been at the very low end of the scale and we are likely to see it go up over time.

On the other hand, in the case of JLR we will also see further momentum in the underlying product platform and strategy following on from the growth strategy that we embarked on in 2011/12 with the launch of the Evoque and other products. So I think a huge shift in platform, many more models, including in spaces that we've not been present before, will aid our growth in volumes and provide a certain amount of leverage for the business, generating greater efficiencies in model execution and launch.



I think a lot of this will make other areas of the business, in terms of supply chain, manufacturing and design much more cost efficient.

So I think in general, the direction of the business will take a lot of cost out of these areas and invest some of it in other areas of the business such as marketing, not only invariable marketing but also marketing expenses to support the brands and models in various markets. I think this journey must be approximately halfway through. Much more to come in terms of models and growth in our footprints in the marketplace.

We remain confident in terms of how to contribute to the business. The journey is halfway through and I think we'll have more episodes of top line growth and, hopefully, bottom line.

RT And just to take that forward, you've been guiding for a longer term margin of 14 to 16 percent. So just want to understand whether that given the way China has played out and no one was expecting it to happen so fast, is that bottom of 14% still holds good during the current business?

CR First of all, I think one shouldn't rush into this in terms of one quarter performance. In this particular year I think we've been talking about a huge change in JLR, both in terms of model launches, the launch of the several models in a particular space of 12, 15 and 18 months. A completely new engine plant ramp up happening. The first international manufacturing plant opening with the associated production the ramp up. We've also been guiding that the Company will experience these added pressures.

Long term margins will continue to be in the range what we indicated in previous years. There will be ups and downs in terms of a particular quarter or half year and perhaps exchange impact. I think we will continue to build a stronger business as we add more models and grow. I think we will see the strength in the business continuing its momentum.

RT Thanks. My second and last question is on the free cash flow and what it does to your CAPEX because this quarter we have seen a negative of almost a billion pounds. I just want to understand how much of this has got to do with one-time adjustments in revised payment terms in the market. And how should one look at working capital going forward in the next periods as you get more models from Jaguar where the market or the demands are much lower and also the competition is much more intense. The last three/four years has been fairly good in terms of payments from the working capital level. So just want to



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understand that and how do you see your FCF now and is there any changes on the CAPEX on the longer term from what you've been guiding for 14/15 and revenue for the near future?

KG

All good questions. I think in terms of the working capital position, as I said, first off we do always have seasonal factors when you go back and look quarter by quarter in the business and frequently the quarter that we've just reported is a negative working capital quarter. Typically the fourth quarter of the year is a positive working capital quarter and I am expecting to see a similar profile this year. Still expecting to see that should help balance out some of the negative cash flow we've seen in the first quarter. Although it is the case that if I just take the full year as a whole I did previously give some guidance that I did expect that there was the possibility of being negative for the full year and that is still my expectation.

On the new models, typically the introduction of new models has worked favourably for us and yes, we have the inventory but we do also have the payment terms to suppliers where we pay on 45 to 60 day terms but the ideal level of company inventory is more like 30 days inventory in the pipeline through to our retailers around the world on average. So typically we do see positive working capital as volumes grow.

I think we still have that possibility for the full year to help balance out some of the negatives we've seen in the first quarter. I think in the quarter as I said, it's roughly a three figure number, £100+m relating to the payment terms change to our retailers in China and we may see a bit more of that in Q2 I think it's fair to say. We're factoring that into our planning for the full year and it does represent a normalisation to more usual payment terms for the retailers.

We just have to take it on the chin a bit. We've had the benefit in the prior couple of years and this year it's going to normalise. In terms of investment, as I said, £3.5bn to £3.7bn is our outlook for the year. I think there is the possibility we could see it run towards the lower end of that range this year just as our CAPEX has tended to run a bit lower. That is the range I'm guiding here. I think at the half year stage I'll be in a better position to see how the first six months have run on the CAPEX and provide some update guidance then.

BB

I was just going to say one other point I'd make on cash flow. We've talked about the working capital outflow but in the context of talking about spending I think it's worth pointing out that actually if you look at EBITDA and even after tax payments, it pretty much covers the CAPEX in the quarter. So the negative cash flow in the quarter really



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should be thought of as a working capital increase rather than a spending event.

RT Yes and in the medium term, do you stick to the CAPEX range of somewhere of 15 to 17 percent of revenue?

KG Good question. Yes. I think it's going to continue to turn relatively strongly for the next couple of years with the plans that we've got. In the following fiscal year we've still got some water to flow under the bridge. Until we get to that point and we are in the phase of reviewing all our plans right now for 2016/17. So bit of water to flow under the bridge.

But as I said at the beginning, product is our life blood and we do continue to plan to invest in that as well as finishing the investments that we started on new products, for example, plans in the past for Range Rover products, a replacement for the Discovery, a crossover for Jaguar. We're working on an electric vehicle project as well as plug in hybrid products for many of our range. All those things are in our product cycle plans for the next three/four years.

With that of course, is the CAPEX spending in order to bring those products to fruition in the marketplace. So there is that continuation of product spending and I expect it to continue to run north of 15% of revenue over the coming couple of years yes.

RT And just curious about your realigning pricing of the Jaguar XE in China. Just want to understand, this is for the import model, right?

KG Yeah, I mean it's... It's a funny one that because it's really a realignment versus our expectations because we're not actually in the market with the XE already. Although that's an area where we see some good possibilities, it's a fast growing segment and there is the opportunity for example, and as we work with our joint venture partners for opportunity for localisation for products in those sort of segments, but nothing further to announce in this space yet.

RT But if you localise it as and when there will be another price cut because of the savings on import duty.

KG Yeah for sure, there would be, but as I say, probably at this point I'm adlibbing a bit, because if we were to do that, it's a couple of years in front of us. But those possibilities are there for us. It is the case that with the localisation of the Evoque we've been able to reduce the



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price, save on import duty, save on the material costs with the lower cost sourcing in China compared to that of Europe. That does enable decent margins to be earned on those products despite the lower prices.

Clearly the challenge on Evoque as I've already talked about is to get the volumes running back to a stronger level. But when we do that, I think the competitive cost base that we've got in China will help drive decent margin for the joint venture.

RT Great. Thanks a lot. And best of luck.

KG Just to say thanks to everyone for taking the time to join us for the call today. An interesting quarter, one in which we are seeing China evolve and I think it's going to continue to evolve. But as I also said, we're very much focused on meeting the challenges in the longer term and continuing our product roll out as that is our life blood and the key to continued success for Jaguar Land Rover. So, thank you.

[END OF CALL]