TATA MOTORS Connecting Aspirations JAGUAR LAND ROVER

# "Tata Motors Earnings Conference Call"

## May 23, 2018

**MANAGEMENT:** **MR. N. CHANDRASEKARAN – CHAIRMAN, TATA GROUP**
**MR. GUENTER BUTSCHEK – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, TATA MOTORS**
**MR. RALF SPETH – CHIEF EXECUTIVE OFFICER, JAGUAR LAND ROVER**
**MR. P B BALAJI – GROUP CHIEF FINANCIAL OFFICER -- TATA MOTORS GROUP**
**MR. KENNETH GREGOR – CHIEF FINANCIAL OFFICER – JAGUAR LAND ROVER**
**MR. VIVEK G – HSBC**
**MR. VIKAS S – HSBC**

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

**Moderator:** Ladies and gentlemen, good day and welcome to Tata Motors Earnings Conference Call hosted by HSBC. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then 'o' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Aggarwal from HSBC. Thank you and over to you, sir.

**Yogesh Aggarwal**: Thank you, Stanford. Good Evening, everyone on the call. On behalf of HSBC Securities, I welcome you all for the Tata Motors Q4 FY'18 Results Conference Call. I am also very glad to welcome the entire Tata Motors management team on the call. Today we have with us Mr. N. Chandra – Chairman, Tata Group; Mr. Guenter Butschek – M.D. & CEO, Tata Motors; Dr. Ralf Speth – CEO, JLR; Mr. P B Balaji -- Group CFO, Tata Motors; and Mr. Kenneth Gregor -- CFO, JLR and other members of the Investor Relations Team.

I would now hand over to Mr. Balaji to take it forward.

**P B Balaji**: Thanks a lot, Yogesh. Firstly, before we get started, apologies for this slightly delayed start, we had a bit of a traffic issue coming from the media press conference to here, so, apologies, and we will try and catch up on time.

Standard Safe Harbor Statement:

The only thing I will draw your attention to in this safe harbor statement is a definition of underlying EBITDA. We will talk about it as we go forward. And the other is on the reported EBITDA. You will notice that product development charges are also consistently now being charged into the P&L across the entire company. So, two call outs on this one.

Moving on to the Top Developments for the Quarter:

I think an exciting quarter for us both in JLR as well as in Tata Motors. I-PACE is now available to order, E-PACE is introduced in the China JV, and locally here in India, the Nexon AMT has been launched to some very good reviews.

Our other developments, the two things that really stand out for me from JLR side are the Velar winning the World Car Design of the Year and of course the Waymo partnership which we will talk about subsequently later.

As far as the Tata Motors side is concerned, both these products you saw in the Auto Expo (H5x and 45X), exciting new products coming in on the passenger vehicles side as well as the first rigid 6-axle truck coming on the CV side as well. So, excitement continues there.

Going to the Market Conditions:

China and India continue to shine for us while there are challenging market conditions elsewhere, particularly draw your attention to the UK situation where between Brexit, diesel uncertainty, taxation as well as market cyclicality, we do see stress in the UK and as we look ahead we are going to cover that as well. But strong performance as far as markets are concerned both in India as well as in China, Europe is slightly better than what it was before, so, last time it was red, we are now calling it amber, and US continues to have its challenges there. So, I am happy, in this situation, the group has delivered profitable growth in these challenging conditions.

To give a quick sense of numbers:

Q4FY18 Volume up 18%, revenue up 18% yoy. It is one thing which I am really keen to call out is, if you recollect last time in analyst call, we talked about 'fit for future' as a key thematic where we said we will review our assets, we will review our investments, we will review our policies, and then accordingly take decisions and update you as and when it happens. So, we have now taken a hard call on our product development cost capitalization policy which I will cover slightly later. But because of that change we are going to introduce from 1st of April onwards, we have taken a review of all projects that we do not intend to take forward at this situation and taken a one-off charge. That is the reason while you see that number there; it is almost Rs. 2,000-odd crores for this quarter and that is contributing to the PBT number, the way it stands, and the same thing on the higher number as far as underlying EBIT. If you remove for these one-off, underlying EBIT is actually at 6.6%, is down 90 bps, fundamentally coming out of depreciation and amortization with two clear messages. As far as for Tata Motors standalone is concerned, the number has actually moved by (+460) bps and JLR down 200 bps. As far as cash is concerned, good quarter for cash with about Rs.8,900 crores of cash coming through, both in JLR and TML generating positive FCF.

Just a split of this 18%, 10% of this 18% came from volume, 1% from price and 7% from translation, basically pound to rupee landing up about 7%-odd. So 11% of intrinsic volumes coming net of translation and almost 3% of this particular 18% growth came from JLR and 8% came from Tata Motors. So the Tata Motors standalone contributing quite substantially to the overall growth number as well.

Going down to the EBIT Number:

The underlying EBIT was down 90 bps. On an absolute level, JLR declined by about Rs.762 crores and TML more than made up that entire number. So at an overall level, TML standalone's absolute profit are actually starting to move the overall EBIT needle, and on a percentage level while underlying EBIT was down 3.8% because of JLR, Tata Motors standalone about 2.4% up and all the others have the numbers moving through there. If you look at JLR, also the fundamental issues coming out of primarily higher D&A costs and higher incentives coming up in parts of the world. As far as Tata Motors is concerned, it is a complete across the board delivery, be it mix, and be it realization, savings, impact projects, operating leverage, the whole work.

At a full year level, volumes are up 11%, revenues up 9% and PBT at Rs.11,155 crores, up 20% due to exceptional pension credits fundamentally in Q1 this year which we talked about offset by Fit for Future exceptional charges. This net credit of Rs.1,512 crores is what been the 11,155 number. On a full year, FCF outflow of Rs.7,300 crores. If you recollect last quarter, cumulative JLR outflow was about 2 billion, they have improved it to about (-1) billion at this point in time, but it did mean that there is an overall FCF outflow. Probably most hearteningly Tata Motors standalone after five years has actually generated free cash flows on a full year basis which is great news.

Now, a little bit of time spend on Fit for Future because I understand there will be a lot of questions on this front. Two things we looked at -- One was the PDC Capitalization Policy, which if you recollect when I met with most of you, you did raise this point as a key point that you would like us to take a look at. Happy to report back that we have taken a very hard look at this, we have spent significant amount of time reviewing our policy, benchmarking with others, and what we believe is the right level to capitalize in an industry that is actually getting significant disruptions that are underway. So therefore, we have now looked at this and now we have introduced a "New Capitalization Gateway" in our product approval process on affordability, which means even though if there is a business case that is valid, we will take it forward only if it meets the affordability gateway, and therefore these changes will now come from FY'19 onwards and EBIT will be impacted as you see on the table below, which brings our overall capitalization down to about 70% for JLR and roughly about 60%-odd for the Commercial Vehicles business, in fact much lower than that we expect and the Passenger Vehicles at about 62%-odd. The EBIT impact of this is about 100 bps for JLR, and roughly about 70-odd bps for Tata Motors overall.

Now, the question that arises is that, are we comfortable at this level of capitalization? We absolutely are because we believe that the stage of product development that we are in and the kind of technology that we are currently taking on, we have actually taken the capitalization at that point in time, where we believe we start to make commitments fit for the future, which are going to now change the nature of the expenditure. So, we are very comfortable with it, signed off with the auditors as well as with the Audit Committee today and that is the reason this change has happened.

Because of this policy having now starting on 1st of April, we immediately reflected on what is the implication of this on our current projects, current assets that are there. Therefore we had to take a charge on that one. So, therefore basis future affordability view is what you see there, be it JLR, be it TML and overall consol level, we have actually taken additional charges, some of it are exceptional in nature because these projects are not going to be taken forward at all, and some of it are just asset write-off that we had to take because these are restructuring projects that we have undertaken to save cash. So, the thematic that I would like you to keep in mind is that we are really going to be very careful on the kind of cash that we are going to spend, and wherever we can optimize cash, we are planning to do that, if it means that the P&L chart, so be it.

First was policy, second was assets, now, we will talk about investments. On the investments we have now taken a hard look at the subsidiaries of Tata Motors in India and looked at what was the strategic roadmap, what was the role, why do we think we will win competitively in the future. On that basis now taken some very clear calls. All of you are already aware that the defense business, the sale is in progress. We are now holding for sale our stake in Tata Technologies as well as Tata Hitachi as well as some of the small shareholding that we have in other companies like Tata Steel etc., those are all held for sale. We are winding up our Spain business, which is already in final stages as well as Tata Precision, that is Singapore-based business, that has been wound up. We are also bringing all like and core capabilities together, for example, we have various design capabilities and various companies, be it Trilix, be it TMETC, those are all coming together under one umbrella.

Of course, we are very clear that we will now continue to invest as far as Tata Motors Finance is concerned. We will maintain control as far as Tata Motors Finance is concerned, but clearly there is no intention to say that we should always hold it at 100%, that is also clear. As far as others are concerned, the strategic review is underway, and these will be updated in due course.

Now, moving on to the Review of the Various Cylinders of Tata Motors Engine. One thing we are trying bring together is clarity on what are the Tata Motors Group about and we are seeing it as a six cylinder engine where JLR, CJLR are two strong cylinders that you are aware of, the CV business and PV business are two additional cylinders, a very clear call out on Tata Motors Finance, and of course the net debt and subsidiaries of all other miscellaneous stuff along with the net debt we are putting it all together is the sixth bucket. This is our intention that each of these six cylinders needs to fire to ensure that it delivers consistent, competitive and cash-accretive growth which is the call out.

So, with this, let me hand over to Ken, who will walk us through the JLR and CJLR piece and Ralf will take us through the strategy, the key piece for the JLR piece. With this, over to Ken.

**Kenneth Gregor**: Very good. Thank you, Balaji. Looking at Slide #13 here, just talking about our Q4 and full year results. In Q4 revenue of £7.6 billion which gave us profit before tax of £364 million and the headline EBIT margin of 5.5%. Couple of points to note on that; the volume were in retail terms were 173,000 units and wholesales were 162,000 units, up by 3,500 units led by the introduction of the Velar as well as YoY the new Discovery. Within the EBIT of 5.5%, we did have the impact of higher depreciation and amortization. Just building on what Balaji said, that also included round about £97 million of write-off for certain engineering charges, and without those, the EBIT margin would have been closer to 6.7% for the quarter. That takes us to the full year revenue of £26 billion on the back of 614,000 units of retail sales, driving profit before tax of £1.5 billion and EBIT margin of just under 3.8%. And just to note that EBIT margin excludes the exceptional pension credit of £437 million that we had in Q1, that is included in the PBT. If we had not had the engineering charges in Q4, the EBIT margin would have been just about 4.2%.

Just looking at how the volumes developed and taking into account Q4 and the impact for the full year. Basically, we had strong growth in China, up 20% YoY, so very much back on the front foot in that region, which is good to see, on the other hand, we did see the impact of diesel uncertainty in the UK which also impacted volumes in Europe and we saw sales overall down in both those regions as a consequence, but on the other hand, US and our Overseas markets up in the region of 5% to 3% respectively.

Turning to the next page by model, we saw our new models doing well and really pleased to see Velar in a part year do 46,000 units in the last fiscal year. E-PACE where we just had a couple of months' worth of sales we saw 9,000 units so that was also positive. We saw new Discovery continuing to build to 46,500 units. All those models are still ramping up together with Range Rover and Range Rover Sport where we have given them a really fantastic refresh including plug-in hybrid options for those vehicles and we hope to see the benefits of that refresh and those electrified options in FY'19.

In terms of profitability development in the quarter, the profit overall was down compared to the same quarter a year ago. We did see the continuation of higher levels of incentive spending, reflecting the competitive environment that we continue to face. We also have the continued growth of depreciation and amortization particularly of course as we introduce the new models that we hope to get the benefits in forthcoming years and we see this depreciation and amortization kick in and that is a significant reason for the profit being down in the quarter. We saw FX and revaluation of commodity hedges produce a net YoY £50 million reduction in PBT, and then overall the one-off items were a net negative £64 million including that £97 million impact of write-off of engineering charges took us to the £364 million PBT for the quarter. And then in terms of where that took us for the full year, on slide #17 £1.5 billion on the right hand side, the benefits of the higher volume, but we do see then on the full year basically one extra point of revenue of higher variable marketing spend really reflecting those more competitive market conditions in various regions. We are very focused on driving our costs to offset some of these headwinds and you see the benefits of that in lower material cost and other contribution cost being positive, favorable £191 million overall, but you do also then see the full year impact of higher depreciation and amortization again together with some higher marketing cost in order to drive the volume development in the year. Overall, foreign exchange and commodity revaluation actually in the full year was positive £206 million, and the net of the pension credit together with the engineering charges offsetting that and also the benefits of an accounting policy change we made for China local market incentives where we moved to an accrual basis gave us £262 million favorable compared to the prior year.

Just moving on then to Slide #18. In terms of cash flow, we had a strong quarter for cash flow in Q4 with 949 million cash inflow, which was really good to see. Of course, we had a cash outflow for the first three quarters of around £2 billion so that took the full year to £1 billion cash outflow as is shown on the bridge between profits and cash. What you can see there is £4.2 billion of investment being mostly funded by those operating cash flows.

Moving to Slide #19 that provides a breakdown of that 4.2 billion of investments, of course, we do continue to plan to invest in new models like the Velar, E-PACE and the Jaguar I-PACE coming this year, the technology that we need in order to be at the forefront of the electrification wave that is coming and also remain competitive in the marketplace. Also of course when we introduce new models, we need the capacity to build it, so we are also investing in our factory in Slovakia. All of those things together driving the investments of £4.2 billion split for the R&D split and the traditional CAPEX you see on the page.

Moving on, we have an update on our dividend policy which also to provides some clarity for investors, including bond investors in Jaguar Land Rover. Over the last few years, we have paid an annual dividend to Tata Motors of £150 million a year. For this year, we have declared a dividend payable to Tata Motors of £225 million that represents 20% of the after-tax profit for the year that we plan to pay that in June of this year. Going forward, we plan to target payout ratio of 25% profit after tax which benchmarks well with industry peers and with that of course being subject to liquidity, tax, legal and other considerations which the board needs to judge each year.

Turning to the second cylinder, CJLR, just going to Slide #22 here. We had another positive year and quarter for CJLR with revenue continuing to grow with solid profitability. I will just note that the profitability is benefiting from a change to an accrual methodology for accounting for local market incentives; that is benefiting the quarter and benefiting the full year here. So you need to understand that, but underlying that a really solid result for CJLR.

Slide #23 shows the volume development at the joint venture, 88,000 units in FY'18, a significant step forward from the prior year, up 35% benefiting from the introduction of the XF long wheel base and a part year of the XE long wheel base as well as continuing to build on the locally produced Discovery Sport. So really good to see the developments of the volume there and all of that helping to support joint venture profits in both the quarter and the full year including of course that impact of the change to accrual accounting for local market incentives.

With that, I hand to Ralf to really talk about the future and our strategy going forward.

**Dr. Ralf Speth**: Ken, thanks. Overall, I guess Ken has shown you already the performance of Jaguar Land Rover but also has given you certain outlook about the vehicles which we are going to launch or roll out in the years to come.

I highlight Page #24, we have a clear strategy. We have a clear defined purpose for our company based on the values that you see in our business blueprint and in our business model.

Next page, you see our current product portfolio. We now have 14 different nameplates and we have grown from 8 to 14 nameplates in the years under the leadership of Tata. Jaguar is divided in three pillars, Luxury with all the Sedans from XJ down to XE, the Sports Cars, F-TYPE coupe and convertible and the lifestyle vehicles F-PACE, E-PACE and I-PACE. We are very proud to highlight that it is not only let us say quantitative rollout, but also quality improvement which

we have greatly improved, we have won World Car of the Year and World Design of the Year with F-PACE and just a few weeks ago again in US we won World Car of the Year with the Ranger Rover Velar. So very good proof that we have really delivered outstanding products with this kind of very special design and engineering integrity. You can also see that the third pillar of the Land Rover side is still empty but you can be assured that we are working on the iconic Defender. We are also celebrating the 70th anniversary of Land Rover this year and it is quite clear the Defender is an icon and we will bring it back into the market.

Overall, our strategy is consistent and we know exactly what we need to do. We also know what we need to do from a technology point of view, you can see also that we have real ambition for Fiscal 2019 sales growth and you see some reasons why we expect that.

We can also see on slide #28 the change really from the internal combustion engine environment to an environment with autonomous, connected and electrified vehicles. We clearly highlighted already that from 2020 onwards that customers can decide about the degree of electrification in their JLR vehicle with the ability to choose mild hybrids, plug-in hybrids and also battery electric vehicles. We now offer the refreshed Range Rover and Range Rover Sport, with a plug-in hybrid option and it is quite clear that we are rolling out electrified vehicles throughout the range.

Furthermore, if you go to slide #29, you see that very first premium battery electric vehicle from the premium OEM which is from a technology point of view the very latest, we have many patents in the drive train starting with motors, which delivers a very good performance. If you have got a little bit time, please go to YouTube the I-PACE compete with the competition - you are going to see impressive acceleration 0 to 60 miles per hour where we are outperforming, and we have delivered a very good product with a completely new design language, completely new technology and a very compact vehicle but with ample space of excellent quality.

On the next slide we highlight our long term partnership with Waymo and we are really proud that we are working with them at the forefront of autonomous driving technologies, delivering 20,000 I-PACE’s to Waymo with the latest technology over 2020 and 2021, which gives us even more data and more experience to accelerate the rollout of these technologies.

Now at this very moment we see geopolitical issues, especially in Europe and the UK. The UK not only has uncertainty around Brexit, but also higher taxes on diesels and we’ve seen the detrimental impact on the market with significant falls in sales. As you know, the UK is our home market, so we particularly feel the reduction in sales volumes, despite the fact that we have significant international sales.

We clearly recognize the higher degrees of competition in the market but overall, we are quite optimistic that with our premium, advanced vehicles we can continue our profitable sustainable growth. The change in our long-term EBIT target largely reflects the change in PD cost capitalization, where we will capitalize less going forward.

So overall, I guess we know exactly our strategy, we are confident that our strategy is going to work, we are working in principle on three topics -- Firstly, the refinement of the current portfolio with internal combustion engines, which diesel is still very much a part of, secondly investment in new technologies and thirdly increasing growth. This is a very interesting time we are living in but it is also quite clear that one Jaguar Land Rover team with two iconic brands can capitalize on the changes we see.

**P B Balaji**: Thanks, Ralf. We then move on to the next section which is on Tata Motors. If you notice that I have combined the two cylinders that we have three and four that is going forward from next quarter onwards, we will give you separate numbers on CV and PV as well, but for the time being, we will start with overall of our business. The revenue is up for this quarter about 45% and underlying EBIT is up 460 bps, which means very clearly the turnaround has delivered the positive free cash flows for the full year after five years. The reported EBITDA was 6%, but underlying EBITDA at 7.4% was up to 90 bps, while underlying EBIT is up almost 460 bps. PBT while it looks negative at Rs. (-474) crores has actually been impacted by Fit for Future exceptional additional charges which we have talked about earlier of Rs.1,236 crores, which means this quarter is a PBT-positive quarter and so it is for the entire year, where we will see positive PBT for these one-off charges that we have taken, which is translating into positive free cash flow that you see down the road. Of course growth wise, the continued strong growth of 32%-odd for the full year despite a very, very weak start in Q1 of FY18. On the PBT numbers, the PBT is actually higher by Rs.313 crores and underlying EBIT margin is up 460 bps. What I am really reassured by and I am quite happy to report is despite an excise cost of about 70 bps, we delivered positive 40-odd bps improvement between volume, net pricing and commodity impact, which means we are pricing and delivering value ahead of the commodity inflation and huge fixed cost leverage of almost 7.1% that is coming through which is translating into almost 460 bps improvement in the underlying EBIT.

On a full year basis, the story is very similar where fixed cost leverage is about 500 bps and all the projects that you see if you adjust for the Uttaranchal exercise is 100 bps improvement in overall contribution margins that you see with every lever actually firing the way we would like you to see. So underlying EBIT improvement is almost 400 bps because of that.

On a cash flow basis, full year cash flows were positive at Rs.1,339 crores which is the first time in the last five years. What is reassuring is the cash profit after tax of almost Rs.4,083 crores is funding almost entirely the investment that is not just working capital leverage that you are seeing on this number.

On investment overall about 6.1% of revenue is what we have invested, of which we have expensed out about Rs.780 crores and capitalized including BS VI investments of close to about Rs.1,329 crores and total investment spending is about Rs. 3,554 crores that you see it is 6.1% of revenue.

Sitting specifically on CV, if you recollect, we have called out winning decisively as you have seen as far as CV is concerned. We delivered volume growth of 34%, revenue growth of 41%,

first time a market share increase, I would probably say categorize it as arresting the share of our market share bleed, 70 bps improvement that we see, which is great news, and then of course, we had a large set of portfolio gaps that we had earlier, but most of it is now plugged and the plan is now to start creating the gaps from our side. Of course, we will continue to work on enhancing the customer experience and also leverage the superior SCR technology that we have. We are still not fully out of the woods as far as some of our supply chain bottlenecks are concerned. So therefore, actually the numbers that you see are after the supply chain bottlenecks that we have. So we need to work on that. As far as cost reductions are concerned, the game has just begun and therefore we will continue to drive aggressive cost reductions to improve our profitability.

Talking about PV, slightly different, we love to win sustainably here by getting basics right, but very happy to see volume growth of 35% and revenue growth of 49% with market shares improving, second year in a row, and we exited this year at about 6.8% market share which is great news. Just to keep in mind, this is happening despite almost 50,000 vehicles being lost in the car segment, which means all the new products are the ones that are firing helping us in terms of contribution margin and we are seeing sequential improvement in contribution margins, which we will talk about in the next quarter as well. But of course, focus areas remain again that we have started product development and user experience needs to continue to improve, network expansion is a job that still needs to be done, and of course #1 priority for the business is rigorous cost reduction to deliver an early breakeven is a clear follow-up.

With this let me hand you over to Guenter to talk about how we are shifting gears to turnaround 2.0.

**Guenter Butschek**: Before I am going to talk about shifting gears towards Turnaround 2.0, to-date most frequently asked question was what has effectively happened in the last fiscal year to actually get to the financial performance improvement as just introduced and commented by Balaji. About end of June, beginning of July, after a very difficult start into the fiscal year '17-18 we decided to shift gears from transformation as a good launch in 2016 to turnaround as we call it today, Turnaround 1.0 what has actually delivered the success it was a single-minded focus on execution along three pillars of the turnaround. The first one was sales enhancement with the strong focus on domestic commercial vehicles with the entry of new products and stronger market activation. Secondly, the rigorous cost reduction in order to drive profitability where the lion share of the bottom line improvement has come from what we call the 'Impact project', I am going to elaborate on it a little bit more on one of the coming pictures. The third one was leveraging production and supply chain efficiency, that means eliminate the supply constraints, and take the pinpoint of time opportunities to consolidate the supplier base in order to get more robust supply for the future.

As already indicated, we have decided for the fiscal year '18, '19 to shift gears again by introducing "Turnaround 2.0", which is the stringent consolation of our lessons learned from the last fiscal year. But with the aspiration to invest the Turnaround mentality into DNA and to the daily way of thinking and working at Tata Motors and to actually add to the scope, to the focus on top to the commercial vehicles, where we are going to continue with the same aspirational

targets and with the same approach to also add Passenger Vehicles. Balaji mentioned already on PV with an aim to win sustainably with the approach on Turnaround 2.0.

On Page #43, we have summarized what we call first green shoots. I would call it the trust and confidence in our ability to demonstrate strong turnaround in the Passenger Vehicles business as well. We have seen a very strong response on the new products. With the TIGOR EV, we have made a strong entry into the e-mobility space. We are leading the e-mobility space in India. We have seen very positive feedback in the market on our Impact 2.0 design, which has given us a very strong identity for the brand and a good feedback by the customers giving higher preference and getting under consideration.

Most important for us was that we have been in the past to the largest extent in terms of sales share a commercial fleet vehicle provider. We have managed the transition towards 87% of our total sales to private customers, and we have also been able to change the age structures of the consumer profile in age as well as in disposable income, which gives us the confidence that we have really arrived in the Indian passenger vehicles private customer market on which we can effectively build our further growth story. This is certainly supported by progress which we have made on the J.D. Power CSI, where we have become rank #2, together with the largest player in the Indian market, where the perception in terms of after sales also significantly changed where we enjoy more trust and confidence in the brand than in the past. With all the cost reduction efforts triggered by last year's Turnaround, we have seen good improvement of our contribution margin on which we are going to build the further growth story towards sustainable financial performance for the Passenger Vehicles business

As mentioned the backbone of all the improvements in PV and CV and across the two business units was largely in the cost reduction side our improvement by the Impact projects in which look into the key areas in PV, it is a spell of activities from design to cost, higher capacity utilization, common architecture, modularization, that is already highlighted and documented by the two vehicles presented at Auto Expo in Delhi, it is about advanced new product launches and leveraging the electric vehicle opportunity. On CV, it was all about improving on the product and contribution margin, strong and very stringent introduction of modularity in order to build economies of scale and to get on the modularity to largest breadth with our product offerings, improving on warranty and focus on spares and after sale services.

On the common side, for both of the business units, distribution logistics, manufacturing footprint in line with higher capacity utilization, integrated S&OP planning and also become much more stringent and to give along the horizon for the planning all of our suppliers. I mentioned the very strategic supplier base, acceleration time to market and elaborating business opportunities in the digital space. Further details in this regard will be shared at the Investor Day because we have some more details to be shared which would exceed today's con call. I hand back to Balaji.

**P B Balaji**: Thanks, Guenther. To further align this pretty exciting Turnaround 2.0 plan to delivery and reward the delivery of this. The Board and remuneration committee today has decided to approve

a proposal to provide ESOPs to key talent. This is a very big call for the company and objectives are very clear, drive long-term focus on competitive, consistent, cash accretive growth, ring fence critical talent on during the turnaround phase, match employee payoffs the long-term gestation period of key initiatives, because there are long gestation projects like new product development or Turnaround 2.0, therefore we need to ensure payoffs are aligned to that and those drive short-term thinking, and also drive owner mindset and collaboration amongst all employees. So very, very clearly calling on what are the enablers to deliver the Turnaround 2.0. Just to give you a bit of a flavor of this proposed scheme, firstly, this needs to be approved by the shareholders in the AGM that we put up for approval at the AGM. The ESOPs are proposed to be granted on Q2 2019 based on the average 90-day average price covering delivery over a three performance periods – performance period from '19-'21 at Q1 '21, '20-22 at '22 and what has been tabled below. Criteria: so this has basically covered key talent in TML domestic, roughly about 200-odd people is what we are looking at. The criteria will be cumulative delivery over the performance period for the following three key metrics -- Market Share Gain, EBIT Margin Improvement, Free Cash Flow as a Percentage of Revenue, all of the domestic business. This will be equity settled with Tata Motors shares by issuing fresh shares to employees. So the more details of the scheme will be there in the AGM notice that we will be sending out and if required a separate clarification required, we are more than happy to provide on this one. That is on the ESOPs.

Moving on to Fifth Cylinder at Tata Motors Finance, something that we have not talked too much about, but something it is absolutely the right thing to do is a very strong broad-based rebound that we see in Tata Motors Finance. Its AUM has improved by almost 24% this year, market share up 300 odd bps for the year, and probably the most heartening to see is gross NPA has gone from almost 18% last year down to 4% and the business actually generates an ROE of 17%, and the AUM is about Rs.28,000 crores including we manage book in business but that is a very small portion of about Rs.1,000-1,500 crores in that. So, a very good performance.

Going to the next slide: If I just see historically how this has moved and we just picked up the last four years. Market share has now picked up dramatically from 21% to 25% this year, ROE is up to 17% and GNPA slide is something that from 26% peak is down to about 4% now and its net NPAs are around 3%, it is our intention to take this down even further as year progresses. So, something that is very, very crucial for us.

The last cylinder, which is all the net debt and other subsidiary. We already talked about Fit for Future investment decisions that we have taken, but this is where it all comes together. At this point in time, liquidity is adequate and our maturities are well spread out, and we do not see any concern on this one, but we will be talking about how we are intending to monetize some of our non-core assets. You are aware of the defense deal that we have done, where we have done two things there -- One, we are slump selling the defense business within Tata Motors to TASL that is Tata Advanced Systems Limited, and along with that we are also doing a share sale of our subsidiary called TAL as well. Both of these are basically to ensure that we are able to deliver scale from a business and requiring specialized focus. From Tata Motors perspective, as far as the defense business is concerned, we will have an upfront consideration of Rs.100 crores, earn-

out of about 3% on future revenues, close to about 15-odd years, up to Rs.1,750 crores max. As far as from TAL side is concerned, we will generate an enterprise value of consideration we will receive worth Rs.625 crores. So this is our intention that as we look at the assets that are held for disposal, we are able to populate this even further, generate the cash and reduce the amount of debt that we are currently sitting on, that is the plan.

Going to the outlook which I am sure the one that you are looking for. As far as the demand is concerned, global markets are likely to remain challenging. Uncertainties in UK and Europe arising from diesel and Brexit likely to continue. We see cyclically weaker markets in the US at this point of time, and of course China is likely to remain strong.

Coming closer home to India, I think we are optimistic on the demand environment in India. Higher infrastructure spending as well as enforcement of overloading rules are likely to give us better demand as well as GDP growth. The concern remains on inflation and interest rate rises because of inflation. So that is something that remains a cause of concern. But on net basis, we are optimistic on the demand in India. Commodity costs we expect to be higher as we go forward, and investment needs also likely to remain high at this juncture, coming basically from ACE's related work that Ralf talked about as well as in India, the BS VI migration that needs to be done and of course new products investments that we need to continue to make.

So, this is a context. In this context what is the response as far as JLR is concerned? We continue to invest around £4.5 billion in new products, technology and capacity to drive long-term, sustainable profitable growth. We also expect higher sales growth with improved profitability in FY'19 compared to FY'18 and we expect this performance to improve gradually as the year progresses. We are also planning our EBIT delivery in a range of 4% to 7% in the period between FY'19 to FY'21, and this is after the PDC policy changes that we referred to earlier, and 7% to 9% over the long-term which means the long-term EBIT guidance that we had given pre-PDC policy still hold, we are just giving the stepping stones of how we intend to achieve that in terms of time horizon. As far as Tata Motors standalone is concerned, we will continue to drive all round performance improvement through Turnaround 2.0 while also investing in future growth. We are planning for 3% to 5% EBIT post PDC policy changes again between FY'19 and FY'21 and 5% to 7% over the long-term. ESOPs that we have talked about earlier will also be reflecting this kind of step-up that we need to do in our delivery. Of course, Fit for Future portfolio decisions will have to be completed and we will have to ensure releasing cash and coming into releasing the net debt levels as well.

So, therefore on summary level, as a group, we are committed to competitive, consistent, and cash-accretive growth over the medium-to-long-term, and our approach will remain launching existing new models, driving cost efficiencies, and of course operating leverage with affordable investment spend. That is where we intend to drive this particular strategy.

With this, let me hand it back to Yogesh for the Q&A Session.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

**Kapil Singh**: Two set of questions; firstly, on the Fit for Future charges, just want to understand, in case of JLR, they have been taken in which line item and in case of Tata Motors standalone which line item they have been taken?

**P B Balaji**: Other expenses is where you will see it in the JLR side. In Tata Motors, it is in two levels -- one is at an exceptional item is also there… just to help you why we are doing this, JLR follows IFRS. IFRS is stringent on what goes as exceptional. IND AS gives you optionality of creating a policy on what goes into exceptional. Therefore, on that basis, all products or categories that we are not intending to continue further have all been taken an exceptional for Tata Motors. But what we have done is to ensure complete clarity, both of them have been combined together to ensure that we are able to see the underlying EBIT number and underlying EBITDA. So, there is no confusion from an accounting standpoint as to what exactly has got treated in. We are also netting off if you see my press release, we have talked about the pension credits also being netted off in the total number. So, we are being absolutely clear about the final number.

**Kapil Singh**: But the presentation says that changes from FY'19, but you have taken the charges in Q4 as well. So, are we taking it from Q4 onwards, and should we expect more exceptional charges to come, how should we think about it?

**P B Balaji**: Great question. I think the policy is changing from FY'19 onwards, which is the (PDC), Product Development Capitalization policy, and the policy says very clearly that going forward, affordability becomes an important criteria, which means on March 31st, I need to be checking my current projects, is there anything that I am going to afford going forward which I need to take a charge off. So, therefore we have taken the difficult decision of actually wherever we do not intend to fund in our strategy plan going forward. Those projects are being culled because the policy is about capitalization, this is intervention on saying, if that is the policy going forward, I need to impair stuff that we do not intend upon going forward. That is one kind of charges we have taken. This will basically save us cash flows going forward, because we will not be funding it. And we also believe these are projects on the lower end of the return spectrum that we have. Second set of interventions we have made and this is particularly true in Tata Motors is assets have been restructured, where we believe it is better to reuse this asset in a different place compared to the current place, for example, at a paint shop, which we have now moved it way from one particular location to another location, that means I write off all the installation charges here, at the same time I save on cash as far as the other place where it is going to is concerned. So, therefore it is again a difficult decision because it is easy to capitalize it and keep it, but you end up wasting cash. So you would notice we are being very-very choiceful in terms of spending cash in the right place to generate the maximum returns, because we are acutely aware that there is a lot of demand for CAPEX.

**Kapil Singh**: Second question is on JLR volume. So, I am referring to slide number 27, it's a interesting slide, which gives a color of where you are expecting growth from. What it shows is that apart from

the production on the slide, other models you are expecting a decline. So is this a right understanding that apart from these models other models will see a decline? And related to that, if you can also give some color on what are the kind of say waiting periods or overall volume growth that you are looking at particularly in case of JLR, Range Rover and Range Rover Sport as well, will it be a substantial growth after refresh or will it be a little bit of growth that you are expecting after the refresh when we have full year of these models?

**Kenneth Gregor**: Would I see all other models down? Not necessarily, this graph is more of a schematic intended to drive the understanding given that we have got a full year of Velar, full year of E-PACE, a full year of XE long wheel base in the joint venture, I would say it is obviously going to be a part year launch this year and the full year of '18 model year Range Rover and Range Rover Sport, but those things should be expected to drive growth. And then within other models we could be expected to see pluses and minuses normal ageing that sort of effect depending market-by-market exactly what happens. This is a bit more of a schematic in terms of the overall growth. So we do not plan to give volume forecast, but we intend very much in FY'19 to build on all the fantastic cars and SUVs that our customers love that we launched last year which we have got the opportunity to take a step forward with this year.

**Kapil Singh**: If you do not want to give specific volume guidance, I understand that, but in terms of waiting periods or order book on some of these products, I-PACE or some of the other ones, how are you seeing that? Secondly Range Rover and Range Rover Sport after the refresh, are you expecting a substantial growth especially with the hybrid variants?

**Kenneth Gregor**: I think if I try to talk about waiting periods, they vary market-by-market, vehicle-by-vehicle, I could be here a while. All I would say is we are really pleased with the developments of the Velar having done 46,000 units since we launched it last July and 9,000 units of E-PACE since last November, and we have got customer deliveries expecting to start in the summer on I-PACE and we do have an order bank building there, but I think perhaps I do not want to get into the detail model-by-model, market-by-market.

**P B Balaji**: But we can say we really have an order bank. So if you sign quickly then we can deliver.

**Kapil Singh**: Any comment on Range Rover or Range Rover Sport?

**Dr. Ralf Speth**: Really pleased with the developments and the consumer reaction to the plug-in hybrids in particular actually that it is going to be very interesting to see how consumers react to that and what the additional performance as well as the fuel efficiency that the plug-in hybrids offer. So, yes.

**Moderator:** The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar:** Before I get on to the question, just one clarification on your EBIT guidance. Does it include the China joint venture contribution… the share of profits in China or is it before the share of profits from China?

**P B Balaji**: Consistent to what have we been following so far, no change in far that treatment is concerned.

**Kenneth Gregor**: Short answer is, yes, it includes the joint venture contribution as Balaji said with prior treatment.

**Pramod Kumar**: The first question is basically on the China import duty revision. And if you can just provide some color on that as to how big was China in FY'18 in terms of imports, exports out of UK to China of your overall revenues and also how are you thinking about the reduction in the import duty -- Do you expect it will be kind of passed on fully to the consumer and resulting in some bit of additional demand or is there a thought that some of the companies or the market demand environment may let you retain some of the benefit to the P&L?

**Kenneth Gregor**: We really welcome the import duty change that has been announced in China from yesterday from 25% import duty down to 15% import duty. Obviously, you could expect that we have been doing some planning and obviously very careful thinking about what we plan to do, but I am not going to announce that here right now. The first place we will announce that would be in the market in China. But overall I am positive about the customers in China should see and benefit from the opportunity of lower prices. I think it is positive for trade and the development of free trade to see import duties come down in China. I think the Chinese government is to be congratulated for what is quite a farsighted and good development for the overall industry in China.

**Pramod Kumar:** Then we will wait for the market announcement. The second question pertains to the India business. This quarter even adjusting for the one-off exceptional charges what you have taken, the margin seems to have kind of come down from the December quarter despite meaningful buildup in volumes and the mix actually seeing some bit of improvement. So if you can just help us understand was there any additional headwinds which are additional chargers which are more particular to the year-end quarter or is it more of a recurring performance and going forward one should expect or kind of forecast on the current quarter levels?

**P B Balaji**: Three comments on this one; one is there were a few additional charges that are there, too small to call out on an individual level, therefore, we are not in a position to call them one-off and therefore we just left it there. Two, commodity increases, you did see in Q4 and therefore pricing has gone from April onwards, you have seen the price increases in CV, etc., three, keep in mind that the mix impact in terms of an overall consol level with PV going higher sometimes does create a bit of a drag on us, but we are committed that PV also start improving profitability, we will take it. So therefore that is the reason why we have actually put out there a very clear plan on what we intend to do with respect to profitability going YoY basis. So, I would urge you to look at a full year number for these kind of things rather QoQ kind of movement on this one.

**Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay Singh**: I had three questions relating to accounting practices only. Firstly, on the China change in policy, now being to approval. I can understand that it will impact positively quarterly profitability, but why will it impact positively for the full year profit?

**P B Balaji**: The fact that move from cash accounting as to when it was received to accrual accounting will automatically mean we are entitled to that number. We are now sure that there is absolute surety the money will come, therefore, we will have to move to accrual accounting on that. That is what we have done once we got clarity on that. That is valid for Q4 as well as full year itself this number would be there. In-quarter number, we will be adding to the full year number as well.

**Binay Singh**: So the number is an incentive that you have already received in this quarter?

**P B Balaji**: The clarity on that was achieved and therefore on this basis we have taken an accrual which will mean it hit both Q4 as well as full year number.

**Binay Singh**: Secondly, when you talk about Slide #9, existing and additional in Fit for Future, could you explain under assets we are talking about additional charge and exceptional charge, you are breaking down Rs.877 crores into two parts, can you explain the nature of these additional charges and exceptional charges?

**P B Balaji**: Yes. Only difference is accounting standard wise, when there is a very clear call out basis policy, what is that is exceptional that goes in there. In the case of JLR, the fundamental exceptional that you see sitting for this year is a pension credit, and as far as last year is concerned, we have the non-recurring Tianjin credit from last year also sitting there. There are also product stoppages that we have put out there are also treated as exceptional. As far as TML is concerned, bulk of those exceptional items are projects that are not being taken forward, so consolidated level to call this throughout. With respect to what JLR and IFRS accounting, different accounting standard to the Indian accounting standard, for them, the one-off that they call out, the 96-odd million that is there, the whole total is sitting at 877. Yes, but in contract forced to split the two together. That is just nature of the accounting standard. My request is if you look at the total, take a look at the fact that we have split out clearly what is JLR, what is TML and the fact that we are giving you underlying number independent of this. I request not to get too locked in into splitting hairs on this one. It is just the way the accounting standards work. We are working with three accounting standards here -- IFRS for JLR, iGAAP for Tata Motors Finance and IND AS for Tata Motors. So, it does create a bit of idiosyncrasy. We are trying to level best to keep it nice and simple for people to understand this.

**Binay Singh**: The last question is on the JLR dividend policy. Generally in the past, the company has guided about future cash flows. There is always a statement that you make that we expect to have positive cash flow in the coming years, wherein this presentation, we are seeing a guidance on dividend. So how do we read that change? In fact, the dividend for JLR is actually going out whereas one would imagine with volumes slowing down, JLR may not be actually positive every year. Is this sort of an endorsement that you have very strong confidence in JLR having strong FCF in the coming year, thus you are raising the dividend payout ratio?

**P B Balaji**: Let me go pull back a bit; I think first of all, dividends do not impact FCF at all. Cash flow from operations less CAPEX, less taxes for FCF, so therefore dividends do not impact. As far as the dividend itself is paid, it is after profits are made, which means PAT is already there and 25% of PAT is what is there, 75% of PAT is available there for reinvesting. So that is a second part of it. Third, if you look at the net debt position as far as JLR is concerned, it is a very healthy position. Yes, we would want to make it stronger, no debate about it, and therefore, this 25% that we are currently seeing from next year onwards brings us into the lower end of the auto OEMs dividend payout ratio. So therefore, it is after a lot of careful consideration that the board of JLR has agreed to do that.

**Binay Singh**: Basically I was trying to think that JLR probably should be preserving cash if there is a lot of CAPEX coming in and this policy sort of points out that JLR will be paying out more?

**P B Balaji**: No-no, just be careful there, we have explicitly called out next year the CAPEX of JLR is likely to be about 4.5 billion, at the same time, we are making difficult choices. The write-off that has been taken in JLR has not been a pleasant decision for any of us because we would love to invest in model, but we also know that cash accretive growth is another one equally important metric as well. So, therefore dividend has got nothing to do with free cash flows, free cash flows positivity is anyway needed for a business, independent of what the dividend payout is.

**Binay Singh**: Dividend would have helped JLR in building the balance sheet?

**P B Balaji**: There is a very strong balance sheet that we have there.

**Moderator:** Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

**Jamshed Dadabhoy**: Three quick questions. Could you give us a sense of what your incentives are as a percent of sales for JLR this quarter?

**Kenneth Gregor**: We share a sort of general view of the incentive spending, what I want to say varies by model by market, but overall was 6% of revenue for the overall business in Q4, it is actually on the slide #16.

**Jamshed Dadabhoy**: So, it has trended down slightly from the 6.5 or so that was a quarter ago, yes?

**Kenneth Gregor**: What you get also by the way quarter-to-quarter it obviously varies depending on market seasonality factors. So I would prefer to look at the YoY, in which case you see it is actually fairly flat. As I said for the full year, I think it is fair to point out that it was almost a point higher than the same quarter through as a full year. Seasonal factors in there with the UK markets and Chinese New Year as well as general trends.

**Jamshed Dadabhoy**: Second question, this 877 crores which is the exceptional Fit for Future charge. Just to be clear this is under IFRS accounting, this is all sitting above JLR EBITDA line, yes?

**P B Balaji**: That is correct and that is the reason we have called out underlying EBITDA for JLR, underlying EBIT as well in JLR.

**Jamshed Dadabhoy**: In this 4% to 7% kind of EBIT margin guidance which is there for JLR, this is on the constant currency, yes?

**P B Balaji**: Yes, it is in pound sterling, that is right.

**Jamshed Dadabhoy**: That constant currency, what is the sort of exchange rate that you all have assumed because given how GBP is fluctuating against USD it makes it kind of tough for us to sort of fathom, what sort of exchange rate are you all targeting?

**Kenneth Gregor**: It is a really good question and this also makes it somewhat relatively more challenging for us to manage the business with for example the pound being as recently as two weeks ago being over 1.40 to the dollar and then today being 1.33 to the dollar. We think about fair values for our long range planning and the fair value pound to dollar perhaps is in the 1.45 region, fair value pound to the euro perhaps in the 1.20 region, Renminbi is difficult to call, it is fair to say. But we plan the business of fair value rates which are presently sterling is perhaps a little bit weaker than but not hugely.

**Jamshed Dadabhoy**: So, this is done targeting like 1.45 and 1.20? How much self-help is there in the business from a cost cutting perspective? You all have said that market conditions are little soft in the US, challenging in Brexit and yet you have got decent EBIT margin sort of expectation. How much can you cut and how much fixed cost can you remove from the business assuming volumes sort of grow in mid-single digit kind of framework for the next couple of years, how much self-help can you extract?

**P B Balaji**: One area we will talk about a slightly more detail when you are there for the investor day, because we can actually spend a fair amount of time talking about our various cost interventions that we have in mind. So my suggestion is give us that time needed to explain it better. So we have given you the areas in the slides that Ralf talked to. But I think we can give far better clarity on that and the individual members can talk about it when you are there in the Coventry a month from now.

**Moderator:** Thank you. The next question is from the line of Robin Zhu from Bernstein. Please go ahead.

**Robin Zhu**: Two quick questions please. One is could you give us an update on the shares and the volumes in the UK and Europe? Related to that what is the time line that you guys are expecting in terms of having the plug-in hybrid rollout across more than just the Range Rover across the small cars? Second question, you are guiding for 4.5 billion of investment spending in FY'19. How does management think about the need to balance cash-accretive growth versus you need to investment in $CO_2$, EVs, autonomous you are currently working? If you could provide some thoughts on when you think investment needs might peak, whether it is this year, whether it is a few years in the future?

**Kenneth Gregor**: I will start Ralf, and perhaps you are free to fill in if I do not cover all of it. On the cash flow, yes, the investments in FY'19, we do see as we said round about 4.5 billion which could mean that cash flow in FY'19 will be negative. That is why we have strong liquidity to manage our way through the investments that we are making, and the requirements continue to invest in all of those technologies. Beyond that obviously we are only giving guidance on the investments in one year, and I think exactly how it depends it goes thereafter will depend on decisions that we are yet to take. But obviously, we are committed to continuing to the electrification of all of our models that you asked about. You asked about the timing of it. I think the slide although we would not want to talk about specific introduction dates for specific models, slide #28 was intended to give you a shape of how we see the development in terms of volumes, and then obviously through Fiscal '19 we continue with the Range Rover and Range Rover Sport plug-in hybrids and the I-PACE being launched this summer, you can see there that through 2018 through 2019 where we see mild hybrids and plug-in hybrids over some other of our models and then from 2020 mild hybrids, plug-in hybrids that variants available across our range. So we prefer not to give specific introduction timings of specific models really for competitive reasons to keep our powder dry in the marketplace, but to obviously help you as investors in business understand the overall direction of which we are aiming, this is very clear, electrification is our future and therefore we plan to continue to invest in it.

**Dr. Ralf Speth**: Maybe I can add, Robin, one issue. Ken is right about one rollout, but you also asked when will the segment open up? First of all, we cannot really predict the future or forecast institute give us totally different numbers of electrification for each different technology. The most known one probably is this 80-20 for electric cars in 2025. What that means is 80% still will be general combustion engines, but you also can have 60-40 ratios for other ones. In addition, if you open and see today's news about government in the UK, they want to now get rid of also mild hybrid. So, we really do not know what process and also the governments are going to question in the near future. Therefore, we also have to talk our rollout plans according to the governmental requirements.

**Robin Zhu**: Could I just follow up on the diesel sales in Europe and UK?

**Dr. Ralf Speth**: Diesel at the moment is going down in Europe but also quite clearly in the UK, in the UK quite drastically each month. We are flexible in our production, we really can manage, but overall that creates a kind of buyer hesitation and that means at the end of the day the complete market is going down in the UK. I really would like to highlight because also you asked about this ratio in between normal internal combustion engines and electrified ones. We have to make sure that everybody knows that internal combustion engines will be in the market for many years to come and that all the current diesel engines are very good engines by the way in terms of Nox and particulate emissions and delivering lower tailpipe C02. We have to make sure that we come back to the scientific facts and figures and to counter the emotional discussion points.

**Robin Zhu**: The Range Rover, Range Rover Sport, these are very key models for you. Do you think we are looking at the normal sort of seven-year cycle or is it going to be like the last generation was went longer?

**Dr. Ralf Speth**: By the way, Range Rover and the Range Rover Sport do not have any normal cycle right from the beginning, and it is normal and not a fashion good for an investment, therefore, it has different cycles.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta**: Just a couple of questions from my side right now. On the JLR side, in terms of the volume growth you changed like you have pointed out to amber for Europe. So given that we have continued to see a drastic decline in diesel share, I just want to understand your thoughts around Europe in particular, why it has gone from red to amber, are you seeing that the diesel negative is sort of peaking out? And then again related to volumes, while you pointed out that you have these new models which are coming in which for the full year effect is yet to come in, but if you look at Q4, you had a negative retail growth of 4% despite these new models being there, Velar was there for the full quarter, E-PACE was largely there, and despite that we have seen volumes decline. So, can we really be hopeful of a positive volume growth for FY'19 given that effect was already there in Q4 and we still saw volume decline?

**Kenneth Gregor**: In terms of the amber, I think, what we are balancing on that slide is really the sense of what is happening more broadly in the economy as well as the car market as well as how we see things for our developments, and the UK economy and car market overall perhaps has got quite a number of risks surrounded with Brexit being well documented. Also from our point of view diesel uncertainty related to tax and government policy around diesel. On Europe, actually the overall economic backdrop in Europe is perhaps somewhat stronger and therefore that perhaps provides a little bit of counterbalance to what we also are experiencing though which is consumer uncertainty on diesel also. So it is not underplaying those issues, it is just how we came to determine it being amber. In terms of the development of volume in Q4, what you saw in Q4, yes, overall, the retail volumes were down. That is partly because we did see in the prior year Q4 abnormally strong UK volume development which came ahead of a tax change in Q4 last year and hence we saw Q4 volumes in the UK down 21% in our Q4, that was part of the reason our volumes were down. European volumes were also down in Q4, fair to say as a result of some of the diesel uncertainty, but China volumes were up 11%, overseas was up 9% and the US was up 4%. So, clearly while there is continuing uncertainty per that geographic slide that gives a sense of how we see things in terms of the UK continuing to have economic uncertainty, diesel uncertainty, some diesel uncertainty still in Europe, US economically actually continuing to do fairly well. China never without its pluses and minuses, but overall developing relatively well, with these interesting developments of the duty change that has just been announced. I think for Jaguar Land Rovers plus we have some uncertainties around the world from a global point of view. What we do have is the benefit of models that we have only just introduced in the form of a full year of E-PACE or full year of Velar. We do have the Range Rover, Range Rover Sport we have been talking about with '18 model year refreshes which is quite significant enhancement really giving customers new technologies and reason for thinking to invest in their next Range Rover and Range Rover Sport as well as having I-PACE in the marketplace from this summer. So I think all of those things do give us the opportunity to step forward during the year. Clearly,

there are uncertainties region-by-region, market-by-market that we continue to work through, that is for sure, that is our life, our challenge if you like.

**Sonal Gupta**: Just my second question is on Tata Motors Finance. You highlighted the strong reduction in gross NPA. If I calculate it, it has gone from like Rs.4,000-odd crores to Rs.1100 crores. So, what has been the main driver? Is this just write-offs or have you been able to recover what is the driver of the reduction in gross NPA?

**P B Balaji**: We have also increased profits, Rs.290 crores profits that we have reported, it is not write-off, a lot of it is focused collections and processes that are disciplined choosing the kind of places that we are actually going to lend money to. So, it has been a comprehensive piece of work. So what we intend to do to give more color to this is the Tata Motors Finance will almost session for about an hour on the Investor Day on June 5th. So you can definitely appreciate all the efforts that have been taken. So it is something that they have been very hard on over the last two years, I think this year, they have really come to the party in terms of delivering numbers and I am only seeing them going from strength to strength from now onwards.

**Moderator:** Ladies and gentlemen, we will take the last question from the line of Sahil Kedia from Bank of America. Please go ahead.

**Sahil Kedia**: Two questions here. You said that the Slovakia plant is going to start production at the end of the year. How should we think about this considering that the volume growth outlook is actually pretty weak at this stage? How is it going to set up in terms of your cost reduction, Second question, in the FX strategy page, you said that there is 200 million of a positive gain on YoY basis with FX losses actually coming down, but there is 190 million offset charge, can you tell me what that is because it seems that on an EBITDA level despite the fact that the FOREX losses have come down, it does not look like it has added anything to EBITDA, can you please clarify these two for me?

**Kenneth Gregor**: Let me try with the FX first and I will focus on the full year. The YoY impact of FX net of the commodities was 206 million. In terms of the elements that make that up, what we had in the full year was a non-recurrence of negative FX revaluation in the region of £180 million that we have had in the year to March '17 and we had a positive revaluation of foreign exchange in balance sheet in FY'18, and those effects were split across both working capital impact that are reported in EBITDA and non-working capital, in other words revaluation of dollar debt and few other balances that are outside of EBITDA, so it is somewhat complicated, and those effects are also being offset by a net change in commodity revaluation. In terms of Slovakia, I think probably I would say watch the space in terms of announcements on Slovakia. But let me just talk about the overall economic impacts. Slovakia does have a really positive effect for us as a relatively lower cost manufacturing location compared to the UK and it therefore offers the opportunity for lower labor cost in the manufacturing facility and also access to supply base, that is in general terms further east in Europe than we presently have in UK and that offers the opportunity of cost reductions for the models that we will produce there. So, we look forward to the development for the business in future years.

**Sahil Kedia:** One follow-up question if I may. On the China policy it seems that the auto component import cost has also come down. Does that also benefit Chery JV in terms of localization levels and so on and so forth?

**Kenneth Gregor**: In principle, yes, you are right that the duty change has come down also for imported materials although the size of the reduction is a fair bit smaller to me. It depends on the sort of commodity but it is in the region 1% or 2% duty rates. Yes, in principle, there are parts of the vehicles, some of the commodities in the vehicle that we produce in China are imported into China, so for that proportion they would enjoy lower duty, but the majority of the car that we build in China is sourced in China. So therefore, it is a relatively smaller effect in principle.

**Sahil Kedia:** Could you share with us what the broad localization in China would be? I know it is impossible to do it on a product-by-product basis but a thumb rule or an average localization for the China plant?

**Kenneth Gregor**: Yes, in principle in the region of two-thirds of the material of the car plus/minus it depends on the model of when it was localized, is sourced in China and by value of the car.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**P B Balaji:** Firstly, thanks for everybody for being here and taking this call. It has been very useful for us to spend time with you to explain where things have taken us. A lot of moving parts in the numbers. So therefore, this is the time well spent in doing it. So thanks a lot and look forward to catching you on one-on-one as we go forward. More importantly, look forward to seeing you in the Investor Day, 5th of June for Tata Motors in Mumbai and 22nd of June for JLR in the UK, so, see you there. Thank you and see you later.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Tata Motors and HSBC that concludes this conference. Thank you for joining us and you may now disconnect your line.