

P B Balaji: 'We have delivered in CVs, in PVs, and we'll deliver in Jaguar Land Rover as well.'

PB Balaji, Tata Motors' Chief Financial Officer, whose mission and avowed goal is to put the company back on the road to profitability, speaks to **Hormazd Sorabjee** on how the turnaround plan is shaping up, winning sustainably in the passenger vehicle business, extending gains in commercial vehicles and collaborating with Jaguar Land Rover on electric vehicles, and plenty more.

2018 was a good year for Tata Motors. Volumes rose by about 27 percent, and even in terms of margins and profitability, you are inching towards the black. Can you tell us what went into achieving this?

From the time the Turnaround 1.0 call was given in July last year, the teams had already been working on a fair number of projects to get the business back into shipshape condition over the past two to three years. But the urgency to get it all together began from July 2018 after the first quarter performance, which wasn't up to the mark.

What we see today is a full-fledged turnaround plan. Typically, turnaround plans run into three distinct buckets. One which we call sales enhancement is about stepping up your portfolio, products, customer engagements and also sales activations.

The second bucket is about all things costs and cash where a significant amount of effort has gone through in terms of taking costs out of the business and ensuring that we are benchmarking with others,

ensuring we are driving design costs down, designing out needless complexity and also that we are value adding at various points in time so that we are able to deliver better sales.

The third bucket consists of some of the more fundamental issues in the business that we had to go and fix. For Tata Motors, one of the big areas that we had focused on is getting the reliability of our supply chain up across the board. So, comparing last year to where we are today, we are now able to put through products far more with a rhythm, with quality and on time. That was essentially the first turnaround 1.0 last year. After nearly five years, we generated positive free cash flows last year, which is quite an achievement under the circumstances.

We realised that this is a culture we would need to embed all the way down into the organisation. Thus, there is Turnaround 2.0 where the specific focus is on passenger vehicles (PVs). It was important that we get the PV business back to its heyday where it generated significant profits and also was a very strong No. 3 player in the market.



Tata Motors currently has a passenger vehicle market share of 6.90 percent and a UV market share of 8 percent.

'It was important that we get the PV business back to its heyday where it generated significant profits and also was a very strong No. 3 player in the market.'

Unlike commercial vehicles, where we were very clear that we have everything in it for us to win, in PVs we were far more circumspect. But we recognised that we have it in us to win but it's also important that we win sustainably, start stepping up profitability dramatically. The first milestone was EBITDA breakeven, which I'm happy we achieved last year. We need to ensure that we stabilise that and are able to get sustainable EBITDA breakevens and then move it from there into an EBIT breakeven and then to a PBT breakeven and then all the

way to a cash breakeven. It is very much doable.

Does this mean it's no more about getting market share or volumes at the cost of margins and profitability?

Absolutely. Each business has its own strategy clearly laid out. The whole Tata Motors Group is a six-cylinder engine, be it JLR, China JLR, CVs, PVs, Tata Motors Finance. All have a very clear role to play and within the Indian business, CVs has to win decisively and for PVs, it is about winning sustainably.





Tata Motors' Sanand Plant.

The auto industry and Tata Motors had a lot of inherent cost inefficiencies as a legacy issue. Has that been one of the biggest challenges – to get people to think leaner and be a lot more efficient in processes?

Not really because the turnaround call had already happened by the time I joined. So, for me, it was an easier job in terms of helping the team deliver and look at it more from different angles. I think the team has been amazing, given the kind of the work that has been happening on PVs and CVs. The energy is palpable because people have seen the opportunity of getting things done. The Tiago, for instance, this year we would have put through almost 360 changes to dramatically improve its profitability. Everyone including people on the shopfloor are giving ideas as to how to make this project more viable.

Currently, at 14,000 units a month, the business still seems very sub-scale. Is this still a big challenge because further investments are driven to

some extent by volume and amortisation thereof? Is scale an issue for you in this market?

Volume is important but it is not everything. We need to be a bit careful on this one because the auto industry does have this myth of saying that everything is volume, volume, volume. I will just nuance it by saying that it's not just volume; it's actually looking at value, looking at revenue as a larger measure.

So what this means is higher-margin products?

It may or may not, but this

'Volume is important but it is not everything. It's actually looking at value, looking at revenue as a larger measure.'

Profitability on the Tiago has improved sharply, what with having received nearly 360 changes, many through ideas from shopfloor personnel.



gives me more degree of freedom to strategise. I can start thinking about the brand, premiumisation, the mix, about different offerings, what is the value the customer is willing to pay. Is that value equation I'm able to get it right? Then volume is an important piece, but it at least helps me think differently. Otherwise, there's only one strategy if you say volume – push more cars out of your factory. But that can't be the only strategy. Therefore, I'm very keen and maybe my previous experience would help here to say let's think

bigger on this, how to unravel this rather than just focus on one metric.

Industry is in a state of flux what with new challenges in IC engines, EVs, autonomous driving, and connectivity. Where do you deploy your resources because you have your bread-and-butter IC engines and the future says electric. How are you engaging with these multiple fronts where investment and technology is needed?

That's a great question and something that every automaker globally is dealing with. Where we need to be clear is which part of this value chain would you want to take the lead on and which part of the value chain actually would you like to outsource, which part of the value chain would you want to share with somebody, and which part just buy it off vendors.

Most of the components in an auto OEM are typically bought from vendors. Assuming the contribution margin of the business is about 20 percent, then the remaining 80 percent is bought from outside and some of it is the conversion cost which is there.

So 80 percent value is already bought out and therefore we need to ensure that we're working with the best of the qualities and the Boschs and the best of the people who are out there, which anyway we are doing with the best of the world there. Where we need to be careful is to get the maximum value out of it. I am thinking long-term.

The ALFA and OMEGA platform architecture enables us to start thinking about the next four or five years of cars coming in. This means if I am negotiating with a vendor on a particular product, I am not negotiating only for that part but looking for the next five cars coming through on the platform itself. That gives me scale and that also ensures

that I'm partnering with the right person with the right capability to deliver that whole piece.

Are there more opportunities for us to do it? Absolutely. Take electric vehicles for instance. The partnership with EVs is a very neat way of actually taking a start-up into your ecosystem and putting a product out in four months flat. In electric, one of the biggest collaborations currently happening is between Jaguar Land Rover and Tata Motors because with the I-Pace SUV, they have actually proven to the world that they can do stuff in style and with a technology that is absolutely world-beating.

I want to touch upon collaboration and specifically about JLR. The sense one gets is that there's no overlap right now between Tata Motors, which is more at the budget end, and JLR at the premium end.

At the heart of it, I don't think there's much scope of an overlap. But when it comes to software, connectivity, ADAS, and newer-age technologies, I think there's a clear case for the teams to start sitting alongside, starting to share information. We will be able to find solutions from there, there's a clear case or sharing back end processes. There are so many other ways to collaborate rather than just what is physically out there.

I think the D8 architecture showed us that we could take something out there and make it different for ourselves. This is just the start of the journey, on the scale of 1 to 10 on the exploration of opportunities, I think we are probably at 2 or 3, I can very clearly see it going to 6 or 7, but as we start thinking through these disruptions that are coming down our track. Because when you pick up a start-up and start looking at it, both JLR and Tata Motors can

look at the same thing in two different ways because they can take it to the top end and we can take it to the bottom end and both can actually give you scale for both parties. Those are conversations that we are having with JLR and there are some very good conversations happening on electric vehicles.

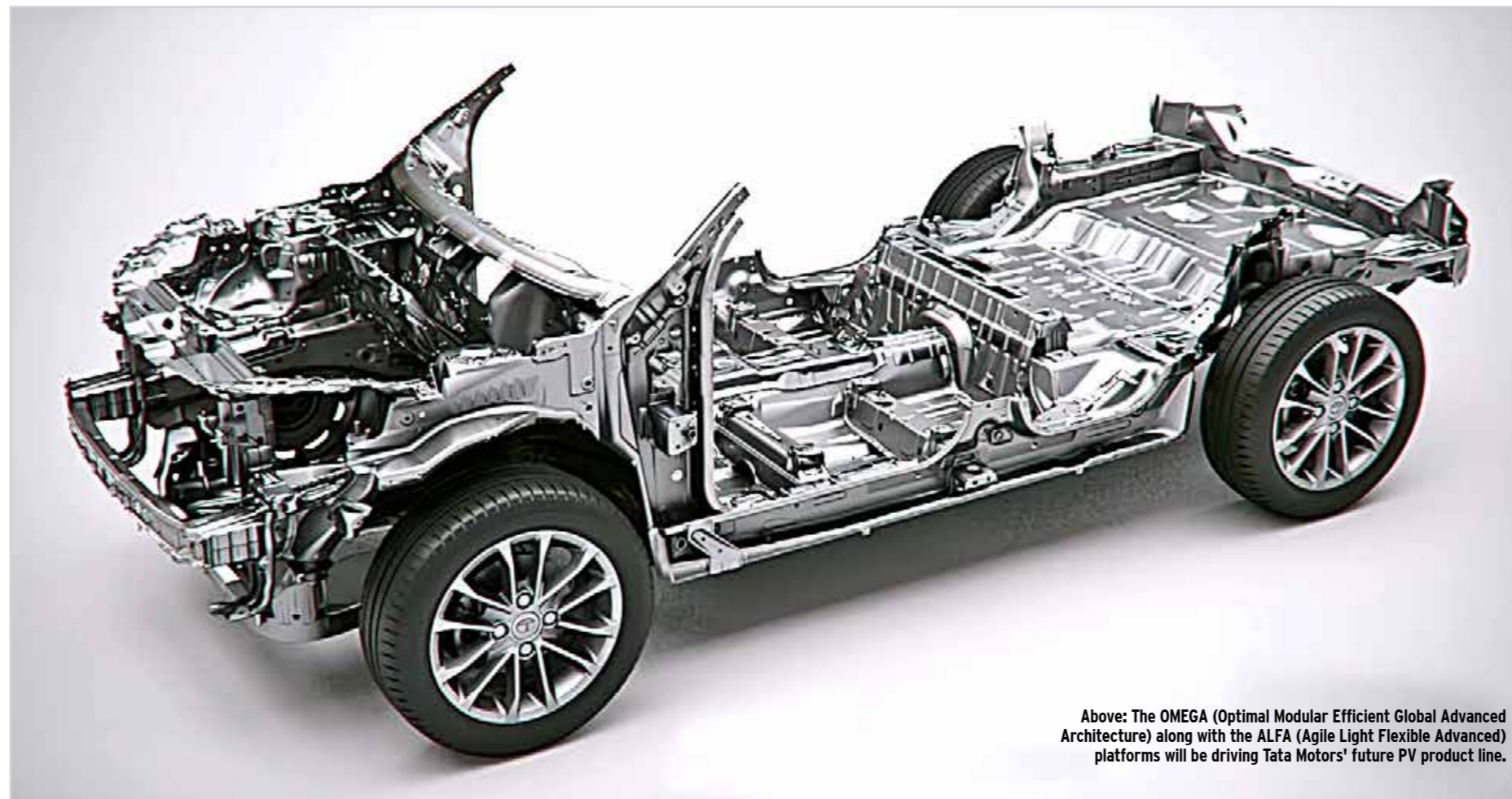
In terms of collaborations, platform sharing with other OEMs, would you still be open to that. Do you think at some point you would have to partner with someone for the next generation of vehicles?

We are always open to looking at partnerships. We need to get the right partner and we will then see. Having said that, the immediate focus is get our own house in order and ensure that with the new ALFA and OMEGA architecture and the next four, five years of investment plans are already laid out. That will be done on our own steam. But if something kicks in and we see the value and the chemistry works, we should be able to do it. We've never said no to collaborations but it needs to be meaty on something that we can deal with and it needs to be the right partner.

The two platforms will obviously give cost efficiencies and easier amortisation but it also means there will be some products which will not be there as part of your portfolio. Body on frame is going to disappear, and no four-wheel drive after 2020. Is this an issue?

At this point in time, what is selling for us and what is actually delivering value are all what we call the 'bridge' products on the XO or X4 platforms. With the two architectures coming in place and with the Harrier launch, slowly we are starting to see the portfolio fill up.

Our addressable market, which is sitting at about 60 percent, increases to around



Above: The OMEGA (Optimal Modular Efficient Global Advanced Architecture) along with the ALFA (Agile Light Flexible Advanced) platforms will be driving Tata Motors' future PV product line.

95 percent there but it is still not 100 percent. There are still gaps in our portfolio that we'll have even after filling up the whole platform. Time will tell as we pull the whole portfolio together.

It's not about what was in the past. It's about what the consumers are looking for in the future that we need to be able to address and that is something we believe we have our portfolio plan more or less sorted with the two architectures and if there are gaps, we will address them as we go along.

JLR is facing strong headwinds right now, facing difficult times. What is the game-plan over there?

Let me split the whole JLR approach into four buckets – product, geography, cost, and cash balance sheet. Typically, if I address these four things,

the JLR question invariably gets answered.

As far as product is concerned, JLR has a pretty rich product pipeline coming through because we have the new Evoque launches just now. The Defender will come in subsequently as also the E-Pace. We have a full year of 18 models, the PHEVs of the Range Rover and Range Rover Sport. Therefore, the product pipeline is absolutely full. Over the next three to four years, we will move to 16 nameplates from the current 12, and then by 2020 we have all the products available on some electric option or the other.

In terms of geography, this year probably barring China, we will meet our numbers in every other market in terms of our total growth. This is despite diesel taxes, Brexit and other challenges. China is where we have our issue



Left: The I-Pace is the most revolutionary car in Jaguar's production history. It is the first-ever fully electric model, one that sets the course for future Jaguars. And Tata is collaborating with JLR on EVs.

and basically where we are resetting our priorities as to how we go to market there. From a push strategy of pushing volumes to more of a pull kind of strategy where we are a premium OEM, with a focus on branding, dealer profitability and exclusivity. Do this and then automatically volumes start coming in.

We are confident that with this China should start delivering for us. That's why we have taken the hit on our chin in terms of volumes, on growth rates in that market.

However, the market is going to get even tougher simply because there's Brexit that we need to deal with. There are still more clouds on the horizon. The US has

had a peach of a ride but no one knows whether US will get more sanguine and an inverted leaker is not something that anybody would like.

In that situation, we need to be clear that come what may, demand is likely to be challenged. We have our plan of action ready. We need a plan B, which is why Project Charge got launched with one of the key focus areas being cost and cash.

Everything is identical to the turnaround plan at Tata Motors. We have delivered in CVs, in PVs, and we'll deliver in Jaguar Land Rover as well. There's no debate about it. Project Accelerate is all about fixing their capability issues.

We have a pretty clear plan of action on costs and over the next 18 months we are going to take out 2.5 billion out of that place – 1 billion coming out of capex. This year, we will deliver the 4 billion, next year also we'll deliver 4 billion of capex. From 4.5 we'll reduce it to 4. We will improve working capital by at least 500 million. That alone is 1.5 billion and then this year and over the next 18 months, 1 billion of cost will come out of that place – be it on material, be it on VME, FME or other indirects.

This is identical to what is happening at Tata Motors. With this in place, if 2.5 billion cost comes out, you then have your threshold EBITDA margins which are now sitting at 10 percent going to about 14-odd percent.

We are committing that going forward, it will be 11-12 percent of our capex, which fundamentally means we have become a cash-accretive business thereafter. Thus, there won't be an issue of balance sheet, or an issue on borrowing in that place, which means going back to their heyday.

We have a comprehensive plan of action at JLR ready and those executions are happening methodically.

You'll notice that the reorientation of the US more towards Land Rover coming out of Jaguar is happening as well. I'm getting more and more confident that our strategy is working on the ground with respect to JLR.

Could there be some unpredictability or circumstances beyond your control which could be a spanner in the works? It could. Brexit...

Is there a dilemma: will diesel demand completely fall off a cliff and will electrification pick up the way it should?

It is a worry. We have called that out in Europe and the UK where diesel demand will come down. Almost 30 percent will go out of diesel into some form of electric. That's part of our plan and we need it anyway for CAFE norms. Hence, we are quite confident that this plan that we are laying out will deliver to the brief that we are looking for.

Coming back to the domestic market, 2019 has just opened and there already seem to be a lot of headwinds – the market is down, crash regulations and upcoming BS VI.

As the world only gets more and more challenging, that's what gets us out of bed and into office. 2019 will be challenging, there's no doubt about it and India is not a market that people will just roll over and give you market share. It will have to be fought and we are up for it.

I think all that matters is the kind of people that you have around you, what are the kind of capabilities that you build and what are the kind of relationships that you have with your vendors and with your dealers. I think we are in a very good place from that perspective. Challenges will be there, but that's what the doctor ordered for us. ■

'2019 will be challenging. India is not a market that people will just roll over and give you market share. It will have to be fought and we are up for it.'