



“Tata Motors Limited
Q4 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Tata Motors' Q4 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. 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, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities. Thank you, and over to you, Sir!

Chirag Shah: Thank you, Rayo. Good evening, everyone. On behalf of Edelweiss Securities, I would like to welcome you all to Q4 FY2019 and full year FY2019 post-results conference call of Tata Motors. We thank the management for giving us the opportunity to host the call.

Tata Motors is represented by Mr. Guenter Butscheka, MD and CEO of Tata Motors; Mr. PB Balaji, Group CFO; Dr. Ralf Speth, CEO, Jaguar Land Rover; Mr. Kenneth Gregor, CFO, Jaguar Land Rover; along with senior management and members of Investor Relations team. We will start the session with an initial commentary by the management followed by the Q&A.

I would now hand over the call to Mr. Balaji for his opening remarks. Over to you, Sir!

P B Balaji: Thanks a lot, Chirag. Thanks all of you for joining the call. As like last time, we will try and keep it short and sharp in terms of the slides themselves, but we will try and keep as much time as possible for Q&A. Just to add on top of the people who Chirag introduced, we also have Mr. Joe Eberhardt, who is running our U.S. business, to talk to us a little bit about the JLR U.S. business as well. So thanks for joining Joe as well.

Okay, let me quickly cut to the chase. I will call out the slide numbers and move forward from there. Slide 3 in terms of challenging market conditions across the globe. I do not want to add anything further barring one additional point in terms of the domestic situation in India. The demand environment has been particularly muted, and the remaining other places, things continue in terms of what were earlier. You have already seen the products of other key developments out there. I would draw your attention to the Harrier sale in India. Evoque relaunch is happening globally as we speak. And of course, who can not mention the I-PACE being awarded the top 3 awards in the world, the first car ever to have won that. So great news coming through there.

Moving onto Slide 5. This is on the profitability of the overall business. TML returns to profits in a pretty challenging environment as we talked about earlier. Both Turnaround 2.0 and Project Charge are on track and delivering as well. If you look at the scale of the business, it is now a 3 lakh Crores business with volumes of almost 1.3 million. And the EBITDA trends show a decline over the last many years simply because of the challenges we faced in JLR, but at the same time also happy to see

that the TML standalone is starting to pick up broadly all of us are in the same range in terms of EBITDA numbers and obviously need to improve from here onwards.

With respect to the quarter gone, I think happy to see positive profit both in PBT bei, PAT as well as positive free cash flow of almost 19,000 Crores, with both Tata Motors stand-alone as well as JLR delivering profit free cash flows during the quarter. Overall, we ended the year at an EBITDA of 1.2% with a volume growth of 1.8% and revenue growth of 3.7%.

Moving onto the following slide, in terms of growth rates at an overall level, you will notice that bulk of our growth has come from Forex translation that is out there. And whatever we lost in JLR in terms of growth has been compensated by TML stand-alone as well as the others out there to a large extent. And that is what you see as net growth there. Call-out I would have is a retail growth in India, something that we have started reporting from last quarter onwards. The domestic retail growth for CV and PV are at 22% and 4.7%, respectively, with wholesales in CV being lower and PV being substantially higher. And this tells you the market conditions particularly in PV, which have come off quite dramatically as the quarter ended this year. And JLR at 6.8% down and the real reassuring part of that retails moving much faster than wholesales, albeit a decline because of China out there.

Following slide on profitability. Overall EBIT at 1.2% down almost entirely due to the drop that we see in the JLR profitability, reasons which Ken will cover pretty soon. On the net debt level because of the cash flow that came through in the last quarter, we now manage to pull back our net automotive debt from what was almost 48,000 Crores last quarter to about 28,000 Crores. And almost entirely the increase in debt from last year to this year same period is explained by where we are on JLR. And, but even then at a gross debt to EBITDA level, the metrics are healthy with JLR at 2.3 and Tata Motors stand-alone at 3.3, which has substantially reduced from what it used to be before at 5.5.

So this is what we had at an overall console level. To talk you through the individual pieces, let me first hand you over to Ralf, who will talk about Jaguar Land Rover, set the stage and then hand it over to Ken thereafter. Over to you, Ralf!

Dr Ralf Speth:

Okay. Thank you, Balaji. So first of all, thank you for joining us today also from my side to discuss the quarter 4, but also the fiscal year-end results for Jaguar Land Rover. I would like to take you through some highlights. We will then hand over to you for your questions.

I think, first of all, it is no secret that the automotive industry is facing multiple regulatory, geopolitical, economic and also technological disruptions. But the similar thing is that the nature of these macroeconomic drivers is unprecedented. Therefore, we have proactively initiated Project Charge and Accelerate, as you know, with clear targets to drive the improvement. Project Charge targets GBP 2.5 billion of investment, working capital and cost improvement. As you know, Accelerate delivers the longer-term structural improvements.

Overall, we have delivered the first 1.3 billion of charge improvements in fiscal 2019 and are concentrated on over achieving in fiscal 2020. It is on a very good track. At the same time, we have our strongest pipeline of new products ever. In fiscal 2019, we have been very fierce to launch a battery electric vehicle, the I-PACE, which has gone on to win multiple awards, including 3 World Car of the Year awards and European Car of the Year, in Norway, in Switzerland, in China. And the new Evoque which improves in ever and each way on what was already a great vehicle, and now we have also added powertrain options.

In quarter 4, as mentioned already, we have returned to profit and generated GBP 1.4 billion of positive cash flow in that quarter. Now in fiscal year 2020, we will be launching an all-new Defender later in the year, and we are incredibly excited to return with a new modern version of such an iconic vehicle and it drives sensationally now. And we also have started refreshed models of the Jaguar XE, the Land Rover Discovery Sport and a variety of vehicles, which we will announce later.

So overall, this strong product pipeline and Project Charge and Accelerate will enable us to return to sustainable profitable growth, and we expect to deliver improved results in fiscal year 2020.

Now prior to handing over to Ken, I want to announce that Ken, our CFO, has elected to leave the business and so this meeting with you would be his very last Jaguar Land Rover earnings announcement. And I would like to take the opportunity today with all of you to thank Ken. Ken has delivered a sensational and a very, very good contribution and was a huge help also for me personally. Ken has been in the business for 22 years, the last 11 as CFO, and he was really instrumental to the success of the business through good years, but also through the difficult times in the financial crisis and supported the company in so many areas. Ken, really, thanks a lot. It was a great pleasure working with you.

Now I am also pleased to announce that Adrian Mardell, who runs presently our transformation program, runs Charge. He is responsible for the Project Charge. He is appointed as CFO Jaguar Land Rover replacing Ken. Probably you all know Adrian. Adrian has worked for Jaguar Land Rover in a variety of roles for 28 years and most recently overseeing the launch, but also the complete responsibility for Project Charge, as I mentioned earlier. And I am confident that Adrian will hit the ground running as CFO of Jaguar Land Rover. So please, we wish Ken all the very best for the future, and please welcome Adrian in his new function. Thanks a lot. And with these words, I really would like to hand over to Ken.

Kenneth Gregor:

Thank you very much, Ralf, and thank you so much for your kind words. It is been an honor and a privilege to be the CFO of Jaguar Land Rover for the last 11 years, and I very much enjoyed working with you and also your guidance over these years.

For this earnings announcement, we are announcing that we have returned to profit in Q4, on Slide 13, with a PBT before exceptional items of GBP 269 million in the quarter on the back of 159,000 units of retail sales. That took the full year, obviously, with the losses we had in the first 9 months to a loss before exceptional items of GBP 358 million.

For CJLR, a tough quarter for CJLR, basically, a breakeven result for the full year on the back of a loss in Q4 due to the more challenging trading conditions that we are experiencing in China that we will talk about later in the call and we talked about in the prior calls.

Just turning to Slide 15 just for the picture of the full year retail growth, 579,000 units, about 5.8% lower globally, but within, there is a story really of China, as we talked before in the prior earnings call, down 34% year-on-year for all of the challenges we discussed and we will update on later in the call. Actually, within that full year picture, really positive year in the U.S., which we will also talk about later, almost 140,000 units there, a record year, up 8% year-on-year. Record year also for the U.K., just shy of 120,000 units, both benefiting from new product introductions and continued strength of our brands in both regions. Europe, relatively flat, just under 130,000 units of volume and overseas growing at 95,000 units. So actually, although overall results are down, some quite encouraging results in geographies outside of China last year.

And really, Slide 16 talks to that being driven by the new products. E-PACE, I-PACE, Velar, Range Rover, Range Rover Sport, with the 2018 model year refreshes of the last 2 vehicles, all driving our sales up. We do have the other models down, largely reflecting China and Evoque run-out. But I think that, what this slide really demonstrates is the power of our new models in driving volume and profitable growth.

When I look at FY2019 and compare it to last year, we have moved, obviously, from the profit before exceptional items of GBP 1 billion, showed on Slide 17, now to the loss of GBP 358 million and what you can really see on this slide is the significant effect of China, the wholesales, including China joint venture down 68,000 units driving together with the higher variable marketing expense that we experienced, a large part of which was in China, really those things driving the majority of the movement down towards the loss of GBP 358 million. Within these results, we have the first benefit to the income statement of Project Charge. We have GBP 204 million of TVM, material cost savings, and total value management savings. We have GBP 150 million of fixed cost savings, fixed marketing, selling and administration costs coming through these results, although, as you can see, they are also offset by other headwinds, which we have called out in the results. Foreign exchange overall being net positive during the year.

We will move on. For the quarter, because, of course, most of that full year result we have already talked about, so if we just look at Slide 18, it is describing the movement from Q3 to Q4 and the return to profits, a big part of that, of course, being driven by the growth in volume into Q4 versus

Q3, the material cost savings, the structural cost savings, including the impacts of Project Charge within these numbers and also positive movements in foreign exchange versus Q3. So all of those things contributing to the stronger performance we have seen in Q4 with underlying basically a 3% EBIT margin in Q4.

Cash flow on Slide 19. Cash flow was positive, very positive in Q4, GBP 1.4 billion of cash inflow in Q4. And that being driven largely, as you can see on the notes, by a big, it is obviously being driven by the profitability and the cash profit that is arising from the profitability, but it is also being driven by the big improvement in working capital balances, reduction in inventory, the payables movements and other working capital aspects, all driving that GBP 1.4 billion of cash inflow. All that has driven the full year to a significantly less bad cash outflow than we were facing at the end of Q3. So although GBP 1.3 billion is, obviously, a big cash outflow for the full year, I think we are pleased with the big improvements we made also with Project Charge contributing to the reduction in inventory getting that back down to where we need to be through the quarter. Also, the investment spending you can really see which actually talks to the next slide, Slide 20, where the investment spending GBP 3.8 billion compared to the original guidance we gave for FY2019, which is GBP 4.5 billion, we have managed to under spend that investment through a variety of cost cutting, rescheduling investments to GBP 3.8 billion. So a significant effort from the team there to bring that number under GBP 4 billion, which we are really pleased about and helps contribute to the improved cash flow in Q4.

Just turning to the update on our turnaround and transformation plan. Obviously, as we have talked about in prior calls, and Ralf alluded to, our plan really comprises a number of strands. Really maximizing the benefit of the new and refreshed product pipeline that we have to improve sales and, of course, turnaround our business in China in the face of the difficult market conditions that we find there. And we have a really strong product pipeline, which we can leverage. We have launched Project Charge. We very much continue with Charge through FY20 in order to continue to reduce costs, improve profit and cash flow, and building on that, we accelerate work streams in order to create a more robust long-term sustainable business.

Slide 23 has the product portfolio. It is expanding this year with the introduction of the Defender and the new Evoque that Ralf talked about, the I-PACE, which we are pleased about.

The multi-award winning I-PACE; we see the sales start to develop. We look forward to seeing that development through the balance of FY2020.

The new Evoque, now on sale and rolling out across markets around the world, so we are really looking forward to the development of this through FY2020, given how important the first version of the Evoque was to our profitable volume growth back 2011, 2012, 2013.

And we talked about the Defender already. I think few cars are as eagerly anticipated as the new Defender. And I think the public is going to be really excited by that vehicle, which is, as you can see, undergoing its final stages of testing, here on Slide 26. And we would not stop there. As we have talked before, Slide 27 alludes to more opportunities to continue to grow our vehicle range across multiple aspects here.

So quick market update. I will talk very briefly to China and then hand over to Joe Eberhardt, who leads our U.S. sales activities from the U.S. But first, a couple of slides on China. Really, Slide 29 talks to the market conditions continuing to be relatively weak, with the premium market growing, sadly, at the slowest rate it has grown for many years. It is about 3%, the total industry having been down in Q2, Q3, Q4 and continuing to be down in Q1. So that underlying challenge on the industry and the slower growth of the premium market definitely a headwind for us. So as you can see on the right-hand side of that chart, the breakdown of the market development by segments with SUV4, Sedan5, SUV5, those are the bigger vehicles in segments in which we compete, all of those segments being down and versus the smaller segment where we are less well represented still growing in SUV2, for example. I think that is also, this breakup also helps explain why we have seen some of the development in sales that we have seen.

Premium-level discounts have plateaued, is what we might take away from the graph at the bottom of the chart, just seeing the discount level is still at a high level of 15%, but it is stopped getting worse, at least.

Our own, on Slide 30, operational KPIs we have seen stabilizing through the last quarter, but obviously much more to do. The retail target achievement, for example, continuing to grow and the amounts of sales we make in the local area per dealer growing, the stock level starting to come down, and we are continuing to work on that for every dealer, and the dealers' return on sales improving from a low point in July of last year. So those things all talk to some progress in stabilizing our business, but clearly more to do in correcting everything in China to get to, back to the trajectory we would wish to be on.

I think at this point, I will pause and welcome Joe Everhart to the call, who leads our U.S. business, hand over to Joe to take us through a bit of a deep dive on our U.S. business and its importance and development for Jaguar Land Rover.

Joachim Eberhardt:

Thank you very much, Ken. Good afternoon, everyone, good evening, and thank you for giving me the opportunity to briefly address the development of our business in the North American region. On Slide 31, you will see an overview on the current U.S. markets development, where we have seen a very stable environment for the past 5 years with total industry sales hovering around a 17 million unit mark and a very strong and steady premium markets that currently hovers around a 2 million unit annual rate. We do have a heavy, competitive environment with over 20 competitors fighting for that

volume. And I think what is slightly different in the U.S. compared to some of our other regions is that we have a very large percentage of domestic and Asian luxury OEMs that currently holds almost 50% of the segment volume, close to 1 million units. I think the economic development has helped the stable market environment. In addition, we were supported by very low fuel prices and continued strong availability of credit. 60% of our market is either leased or financed.

Of note, over the past 5 years in particular, there is a significant growth of the SUV segment, making up now almost 70% of the total market, including also the luxury segment and, clearly, that segment shift, which has been driven by improved fuel mileage, improved ride and handling of SUVs, has very strongly benefited us with a heavy emphasis on SUVs with Land Rover brand and the recent introductions of the PACE family for the Jaguar brand.

The U.S., as Canada, is a build-to-stock market with customer orders only around 10% of our total volume. We are trying to reduce our stock levels and continue to make the progress there, where today, we are at 55 days of supply, which is down 12 days from April last year, and Jaguar roughly at the industry average, which currently stands at 76 days of supply.

Page 32 then gives you an overview of the total volume development, where we grew at an average compound rate of 15% over the last 5 years to this year's number in the U.S. at 125,000. The right side of the chart gives you breakdown by model line, and clearly, you can see that on the Land Rover side, we are very heavily focused on the upper end of the portfolio being the largest market in the world for both Range Rover and Range Rover sport, making up a significant portion of our total Land Rover volume. And then on Jaguar, as I have mentioned, we have had the good fortune of entering the rapidly growing SUV market here as well to the point where today, F-PACE, I-PACE and E-PACE made out the significant share of the Jaguar overall volume.

Clearly, Land Rover is very well positioned. And Jaguar, we are facing, like all of our other competitors, the strong decline of the saloon and sedan market, and we are in the run out phase of the XJ as well. So overall, you can see our share has dramatically improved over the past 5 years, currently stands at close to 10% combined for the 2 brands.

Page 33 then gives you an overview of the revenue performance of the business. We have, in addition to benefiting from the strong product portfolio, spent significant energy on using analytics to drive the financial performance of the business and structure our offer in the marketplace in a way that it is fully addressing customer needs and requirements. That has resulted in an above industry average transaction price of almost \$78,000 for the Land Rover brand and then Jaguar is still outpacing the industry average transaction price. But clearly, with a recent introduction of lower-end models, such as XE and E-PACE that compete in the compact end of the market, we have on the Jaguar side brought our average transaction price down slightly, yet still significantly above the industry average. And then I think of note is that we were able to keep the incentive spend, which is an important driver

of profitability, significantly below industry average combined for the 2 brands, with Land Rover being still the lowest incentive spend brand in the industry, and that generates high and positive residual values, which is absolutely key component to be able to also drag this lease payment a longer term. And Land Rover as a brand and, in particular, Range Rover, Range Rover Sport and Velar as individual models have won the very prestigious premium residual value awards again in 2018.

So overall, very positive financial performance, and you can see, as a result, our share of the global sales outstanding at 27% and through that disciplined revenue management and the use of analytics supported by the segment trends, we have been able to dramatically turn around the profitability in the North American market and U.S., in particular, from fiscal year 2017 through 2019.

And then finally from me on Page 34 an overview on our retail network, which has been a significant driver and support for the success we have seen in North America with a very well established retail network that is solidly profitable, mostly on the back of the Land Rover profitability, which is leading the luxury industry in terms of franchise profitability. And then over the past 3 to 4 years, we have started to drive implementation of the new common corporate identity across the network to the point where they are to say we are on our way to have an industry best and industry-leading retail presence in North America, all of which is supported by our very strong partnership with Chase Automotive Finance, which we have had in place for 10 years, and they have been a phenomenal partner helping us finance and drive that growth in the marketplace.

So that is a very brief overview of the North American and U.S. market, and I would like to hand it back to Ken.

Kenneth Gregor:

Thanks, Joe. Slide 36, so just giving an update on where we are on Project Charge, short story, it is very much on track. Back when we announced Project Charge in our first half earnings call, we set a target of GBP 2.5 billion of cost, investment, working capital and profit improvement, and savings are broken down on the left-hand side of Slide 36 and we are looking to achieve that through FY20.

On investments, we are very much ahead, already saved GBP 0.7 billion versus our GBP 4.5 billion guidance that we had given and very much on track to deliver at least GBP 500 million lower than GBP 4.5 billion in FY20. So we feel very much green there. On working capital, same, we set the target to reduce inventory by GBP 0.5 billion in the second half of FY19. The 0.4 billion that is shown on the chart is actually the full year number for working capital movement. So we are kind of just being a bit cautious in the number that we have called, but in, it is fair to say in the second half of FY2019, we actually drove GBP 800 million worth of inventory improvement, so I think very much over-delivered on the inventory and working capital side also with more to go out in FY20.

On the cost and profit side, definitely more to do, but off to a good start, it takes a bit more time for those savings to come through the income statement, but already about GBP 150 million of savings

via Project Charge in FY19, going through every line of the income statement, as you would expect, focusing Tiger teams on our material costs to seek to deploy it as a rapid delivery of material cost reductions across various car lines, and we obviously already did the workforce reduction. A total of about 6,000 heads is what we targeted, most of which have already now left the business at the end of March, delivering annualized savings of something in the region of GBP 400 million a year. So very much under way on the cost and profit side with more to do, talking on Slide 37, the remaining GBP 1.2 billion in FY20. As I said on the investments, we see a good line of sight to under spending the GBP 4.5 billion. In fact, we should be sub-GBP 4 billion for investment spending in FY20 also. So that is GBP 0.5 billion there. The working capital we see GBP 100 million to GBP 200 million further inventory pipeline and production scheduling opportunities that we are going after the full benefits of the labor and overhead savings will be seen in FY2020. Obviously, you see hardly any of that in FY19. That is something we see more of in FY20, and then we work through, as I say, every line of the income statement to find further efficiency than cost reductions, with the focus really being on achieving sustainable cost savings beyond FY20 as we deliver those this year.

And we continue to transition also as we deliver short-term benefits that we are well progressed with Project Charge; translating that into sustainable savings through our project Accelerate to focus on delivering our vehicle programs on time, improving our quality, delivering competitive material costs and enhancing the sales performance and the experience that our customers will love.

This really takes me to Slide 39, which talks to our plans looking ahead and giving a bit of insight here into what we are planning. And we have really grouped it into 3 sections here, FY20-21; FY22-23 and then beyond. And just taking it in pieces, retail sales growth with our new model introductions targeting growth faster in premium segments. On EBIT margin, looking to build on our Q4 results with EBIT margin in FY20-21, 3% to 4% and then building from there 4% to 6% in FY22-23 and then beyond 7% to 9% range that we wish to be and clearly targeting positive PBT. Investment spending, as I said, GBP 4 billion or below. And on free cash flow, it is fair to say we do see negative cash flow continuing as we fund that investment spending, which is our lifeblood for the future in FY20 and then in FY21 returning positive through FY22 and FY23 and beyond.

Couple of pieces to point out on the footnotes. In FY20, I think it is very fair to say, Q1, so the April to June quarter, will be a tough quarter. We have had an extra week of plant shutdown in April for the potential Brexit in addition to historical sales and production seasonality. We are expecting Q1 to be a loss with negative cash flow, and we thought we should call that out here, so it is not a surprise when we come and talk in our next earnings call, with profit expected in the subsequent quarters and improving cash flow through the year.

In FY21, the plans reflect the impact of Range Rover and Range Rover Sports and present model changeover and run-out. That will make FY21 a really interesting year of changeover with its own challenges. But we have some time before we get there to talk a little bit about what we see coming

out. We are very much committed, clearly, to competitive, consistent cash accretive growth over the medium to long term and that is really what this slide is talking to. And with that, I will hand it back to Balaji.

P B Balaji:

Thanks, Ken. Let me quickly take you through the Tata Motors domestic business as well as the Tata Motors Finance business. Three highlights on Slide 42, which I would like to draw your attention to. One is revenue growth of about 20%, though Q4 has been a negative growth because of the market conditions that we see. Overall, EBIT, we finally landed at 3.8% of revenue, a touch below what I would have loved, but still a strong performance, nevertheless. The real good part is if you look at even in this declining volumes growth scenario, we managed to improve our EBIT margins this quarter. And overall, PAT for the year, we have landed at 2,000 Crores profit, which is coming off pretty significantly long time in our business. And the real reassuring part is free cash flow is now positive for second year in a row. And those will be the highlights there, but keeping on the Q4 revenue, it is basically coming from an impact of a liquidity stress that we see in the market, the axial load norm changes, which is referred to an excess capacity as well as an overall slowing economy. So it has been a tough quarter for us, nevertheless, and Guenter is going to talk a little bit about it towards the end.

Overall, PBT margin, I mean EBIT margin improvement from last year to this year of almost 330 Bps is what it has happened. And all parts of the P&L fired, be it volume, be it mix, be it fixed costs, Forex, the whole lot, so quite happy with the way it has come through, and impact projects continue to deliver value for us.

On the quarter-on-quarter, year-on-year kind of delivery for this particular quarter, when EBIT is up 60 bps led by nonrecurrence of one-off charges that we had in the previous period, but the thing that we need to watch out for is the negative operating leverage this quarter. And we are quite acutely aware that we are in an area where we will keep a close watch on as the business navigates the next 2 quarters, which is likely to be tough.

Free cash flow for the full year landed up at 1,539 Crores, with a bulk of it coming in the last quarter. And overall, cash profits after tax, we are ahead of investment and that ensured that positive free cash flows continued in this year as well. Overall investment spending was about 5,300 Crores. You would be surprised to see that number, but if you adjust for BS-VI, it is almost about 1,100 Crores. We are in line with what we normally would be spending at about 4,000-odd Crores. So that continues at pace. So this is likely to be in this mode for this year's event, and subsequently, we expect to see this part of it tapering off. On the commercial vehicle business, the strategy of winning decisively has come through quite nicely. We grew wholesales, if you recollect, we started reporting wholesales from, retails from last quarter onwards. We see the retails are quite ahead of wholesales for the year. So a strong performance that has come through while also tightening the supply chain inventory. And as far as going forward is concerned, I think the key call-out for us is Q4, where the growth impact has

been quite significant and something that we see 1 or 2 quarters for it to take before it starts easing out.

And of course, another big challenge for us this year is going to be the migration, the smooth migration to BS-VI, and we are well on track to deliver on that particular project as well.

Going to Slide 48, the market shares, CV. While the headline looks as though it is stable market share, but if you cut it open into the individual subsegments, barring one, which is CV passenger vehicles, which is basically coming from some of our Magic and Iris smaller-end vehicles, which are going to run off because of their, they will not be able to meet the crash norms for BS-VI, the rest of the places we have picked up share, particularly delighted to see the strong improvement in the M&HCV market shares this full year, which is great news, and save with ILCV as well. So a strong performance there.

And on the EBITDA margin, I think it is been stable, while EBITDA has improved despite the second half being significantly challenging there. So this has come despite intense competitive pressure in the market as well as slowing second half, which just tells you the power of the impact project savings that have been pushed through, and we are clearly now industry leading when it comes to the profitability of the business.

On passenger vehicles, the domestic business, the wholesales were about 13.9%, while retails is just 4.4%, which tells you the sharpness of the slowdown that happened. We were well ahead wholesale and retail till Q3. I think the Q4 has been quite a substantial correction in the overall retail space, and that is something that we are watching quite closely.

And volume growth has been high and also keep in mind that Harrier will be wholesale. So to that extent, retails have not got started to the extent that we wanted to. That is also another factor in the wholesale situation that you should keep in mind. But the improvement in market share is reassuring. And Harrier, at this point in time, on Slide 51, is a 2-month order cover. Right now production is what is ramping up as we speak, and we intend to ensure that we service all our orders pretty soon.

On the EBITDA business, absolutely delighted to report back an EBITDA breakeven for a full year basis that has been achieved in PV versus 11.4% negative that we had last year. And overall, EBITDA has also substantially improved. Yes, a long way to go, not happy with the minus 9.3%, but that is where we have completed the year.

With this, let me hand you over to Guenter to give his perspectives on where he sees the turnaround and the challenges of the near and the long term.

Guenter Butschek:

Balaji thanks a lot for explaining and summarizing the financials of the fourth quarter and the last year. Good day, everybody, in this conference call. I would like to actually give you a bit of peek on the Tata Motors turnaround story, since we have just completed Turnaround 2.0, and I can imagine that lots of you have been waiting for the announcement of Turnaround 3.0. This is not going to be announced for a couple of reasons. First of all, Turnaround 2.0, the winning messages per segment have blended quite well and got anchored in the organization. And as we always said, we have finally embedded turnaround into the culture and into the DNA of Tata Motors. To be a little more operational to allow it to decode what it effectively means is shown on Page 53 on the right-hand side because there are 6 key objectives, which have been deeply rooted in the organization. The one talks about volume growth ahead of industry, the one is pricing ahead of net inflation in order to, at the same point of time securing the mix, reduce the business breakevens through the aggressive savings, something where we have very successfully demonstrated the effectiveness of the turnaround in the fourth quarter, where we have seen a renewed demand across all the different segments. We drive process efficiencies for best-in-class cash conversion cycle, as just explained by Balaji, that is now fully incurred and secured in the organization, and the prudent and proactive Capex to drive the cash accretive growth. And most important is the sixth bullet point, the stress test plan to deliver value even in the downturns, nothing to add, except the reference to the fourth quarter.

On Page 54, I would say that is the heads up. That is the warning signal because after Turnaround 2.0, no intention to cross over to 3.0, it is really required that we ensure that we speak to the turnaround mentality as such because largely being focused and economically active in the Indian market, and the Indian market at the same point of time known to be extremely volatile even in periods where we do not necessarily expect the volatility as such as it has been confirmed in the fourth quarter. It is required that we never take rest, that we never take a break and that we actually always look for intensified headwinds or significant close, respectively, what we have recently seen the degrowth in the market. The chart on the left-hand side shows you the traumatic story we have gone through in the last couple of months. In the meanwhile, 11 consecutive months of degrowth in PV and a significant decline in the CV ever since the increased axial load has actually become effective.

The next Page 55 is more a reminder that something I am going to talk about. But India is facing the same disruptions in technologies, in business models, in partnerships as we do globally. The only point is, for us, it is much more important that we find recipes, that we find answers to these challenges that we turn disruption into an opportunity in order to actually gain the market in the Indian market by being ahead of the curve as far as these kinds of changes are concerned. It is extremely demanding, this kind of play in India because the Indian market is highly competitive and at the same point of time it plays in the price bracket, where some of these technological challenges require very indigenized solutions in order to make it affordable for the customers.

Having said that, we have identified for our place, across the 2 business units PV and CV, 5 angles of attack. The one is the product where design, in particular PV Impact 2.0 plays an important role. The second one is scale. We drive scale and efficiency through modularity, commonality and by volume growth. That is one of the reasons why we pay close attention to the architecture approach in PV. Just as a reminder, alpha omega architecture, and we have recently heard and read about a similar kind of approach in CV across the range of products, but even more so by the INTRA which is going to be launched during the course of this week, which is a full modular product given once that further than what we have presented last year in May with the market introduction of the ULTRA, where we presented in one go 14 different types of the ULTRA range of trucks. So we have made huge inroads as far as modularity and economies of scales are concerned. Strong focus, rigorous focus on cost, technology, not treated as a set, as an opportunity in order to actually gain so the market share and post our leading market position and something, which has enjoyed great attention in the last couple of months despite the fact that we have been focusing on our turnaround story as far as the sales enhancement, cost reduction and debottlenecking our supply chain against demand was concerned was a very strong focus on the digital play. With the digital, the backbone established within Tata Motors where we now have the opportunity to actually build different system applications to digitize literally speaking all of the processes, concentrate the focus on service, on sales, on service on parts, but also with a big deal of digitization within Tata motors and more to come. In order to make sure that we, as an organization, do not lose the sight and that we do not become too shortsighted in our approach, we have recently launched effectively on the 1st of April, our new vision statement where we have gone for an extended horizon up to 2024, which some considered as a provocative statement. For us, it is a motivational statement for the entire organization and the entire value chain saying that we are going to become by 2024 the most aspirational Indian auto brand, consistently winning in consolation to the turnaround. And something you will most probably love to hear where we have put on top delivering superior financial returns with the integrated message that we are moving towards mobility solutions, where we would like to exceed customers' expectations. And at the end of the day, we have acknowledged that this is only going to be possible with a highly engaged workforce. More background, more details according to then how would it is finally be looks like but how it feels in Tata Motors are going to be shared at the Analyst Day at the end of the month. Thank you. Back to you, Balaji.

P B Balaji:

Thanks, Geunter. So without further ado, let me get into the Tata Motors finance. Took all out there, I think GNPA down to 2.6% if you recollect because even FY2019 earlier so coming through there. And the AUM growth of 37% to 38,000 Crores even in an environment of significant liquidity stress is reassuring. And the ROE of this business is on about 12%. It is a clear focus area this year to look at the cost-to-income ratio of that business and step it up further. And some not will be talking about it in our Analyst Day in slightly more detail.

Overall, on the debt side, I think we talked about it. I just follow 2 things here, which is the overall liquidity situation in JLR sitting at GBP 5.7 billion and Tata Motors standalone of 4,500 Crores. We believe we are, our maturities are pretty well spread out and the liquidity is adequate. Of course, we are still to be there to ensure that we would continue to bring it down across the EBITDA numbers.

So coming to the last section, which is outlook. I think the challenges in the remaining part, I would not the belabor barring 2 callouts, which is basically the big one is in India, where the change we are now seeing the next 3 to 6 months, demand is likely to be tepid as the liquidity normalizes and capacity overhang a bit. So we are going to see some stress coming through in the local business. And at the same time, we also see the rest of the places, particularly on China; I think the positives should start emerging going forward once the issue of trade, stocks and the challenges there remains. So let us see how that plays out.

With this, the final callout on our outlook for the year and how we see our plans going forward. Ken talked about the overall numbers piece. Q1, he talked about, and in FY2020, I think, we are clear that we will improve our PBT and cash flows. And the EBIT margin, we are expecting about 3% or 4%, and we are focused on getting charge delivered for the GBP 2.5 billion.

On the Tata Motors side, the near-term performance I talked about that will be impacted by continued weakness in demand, and we expect to get this to improve gradually as the year progresses and the focus of the year is going to be absolute focus, ruthless focus on execution as we go after every ounce of demand that comes our way. And we will also focus on getting, migrating to BSVI on a seamless manner, and we will continue to focus on getting our net debt reduced through positive free cash flows as well as noncore disposals.

With this, let me stop and then hand it over back to you for questions.

Moderator: Sure, thank you very much. We will now begin with the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. Balaji, my first question pertains to the JLR outlook. I think given what is happening with the tariff between China and the U.S. and what they are picking up from Europe in terms of slowdown that does not seem to be kind of weighing down on your FY2020 guidance in terms of both outperforming the premium car industry and the overall profit targets. So if you can just help us understand. And I read this with a bit of a caution. On Slide 36, on the cost reduction program, as in the GBP 800 million is the bulk of the incremental cost reduction that you are targeting? And how does all this play out in terms of the uncertain demand environment and your cost reduction aspiration? And how should one read that into the FY2020 expectations for JLR?

P B Balaji : Three things on this Pramod. I think, number one, and first is the driver for profit improvement and the first one will be demand and growth. And in this, we have the China turnaround as a very fundamental part of our plan going forward. You would recollect that we used to be selling about 150,000 vehicles in China. And last year, we sold about 98,000. And it is a clear plan, we can start getting back our growth in China, which we should expect to see in the second half of the year starting to rock it up and evoke also localizes there. And also, the execution metrics in China is starting to stabilize, and then it should start improving thereafter. So that is the primary driver of getting our profitability back. You just heard Joe talk about the performance in U.S. That should continue to be something that we would like to see moving forward as well.

And as far as the turnaround, charge delivery itself is concerned; you would notice that the recent 750 million is all the people that were asked for leaving there also. They are there till the end of March. They moved from March onwards. So therefore, we are picking up; ramping up the momentum as far as of delivery is concerned. We first focus on investment, then focus on working capital and now the focus starts shifting towards fixed cost and then variable costs. So that's how we are moving away from our prices into a proper turnaround and then back into growth and delivery thereafter. Third angle to it is the whole depreciation credit that we will get depending on, because of the impairment that we have taken earlier, which we have signal last time itself. So at this point in time, the range that you have indicated of 3% to 4%, it has a lot of thought, we have put the whole number. And we will keep you updated as things progress.

Pramod Kumar: Fair enough. And second question is on JLR itself. On the Capex side, we have seen a fair bit of tuning of Capex. And at the same time, we are seeing some of your very large peers actually joining hands for alliances, deep alliances and even looking at joint ventures possibly for autonomous cars and electrification. So given all the big picture changes, which are happening, and global giants joining hands with much better technology pool right now, how should one look at JLR's longer-term future preparedness? Because it can be the greatest cut in Capex, which is totally discretionary and it should not hurt us. So can you just help us understand actually how will we make up for this? And in part of that, is a deeper alliance or a technology understanding part of the longer-term kind of a comeback for whatever we are losing out in the near to medium term?

P B Balaji: Ralf, would you want to take this question. Ralf?

Ralf D. Speth: I will take it. First of all, we are continuously focused on our corporation, which means that we invest continuously in the expansion that they also renewal of our corporate program. And we are doing those. We are spending on one side in ICE or say internal combustion engine, but also in the electrification so that we can offer customers a lot of, let us say, choices in the very near future and all of our vehicles will be electrified from 2020 onwards. So therefore, I guess, we have, based also on our advanced technology in electrifications, we have managed the opportunities to surround by 200, let us say, pending patents. And patents are there and technology is really very well launched. So I

guess you can manage that and whether we are going to invest in that department. The tools, we also reduced, let us say, in the complexity. And so that in turn reduced the investment overall.

Pramod Kumar: Okay thanks a lot and best of luck.

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

Binay Singh: Congratulations for all the awards that the I-PACE is getting, pretty impressive. My question is basically on China, like if you see in the presentation we are seeing that the variable marketing expenses for the year was around 267 million. Will it be fair to assume that the higher discounts in China, higher dealer payout in China is a part of this number? And if so, what percentage of this number would be attributed to the weakness that we saw in China that we have to support?

P B Balaji: Ken, do you want to take that?

Kenneth Gregor: I would. I mean in very round terms, I would say perhaps half of the movement there relates to China from a year-to-year point of view. Within that, the dealer compensation that we paid at the beginning of the year relating to the duty change that occurred in China in the first quarter of the fiscal year is a large part of that. It is fair to say we have also seen higher levels of incentive spending across more competitive markets around the world. So this, it is not just China. We see that trend in much of the geography.

Binay Singh: But just to reconfirm, the higher discount in China, the onetime dealer support in China, all of that would be included in the 267 million numbers?

Kenneth Gregor: Yes.

Binay Singh: Right. So in a way it means that actually the bigger hit of China slowdown has come more because of leverage loss, right? Because when China came off, the leverage that you would have lost, that is a more sizable impact rather than the increase in discount and dealer support in China.

Kenneth Gregor: Probably you can see from the waterfall chart that was there that the volume reduction that we saw in the year was the biggest negative we saw from the year, and a substantial part of that was coming from China, and you are right, that then has the impact of negative leverage, negative operating leverage, on the business impacting the EBIT margin accordingly, yes.

Binay Singh: Right. And the second question is that like a very impressive performance we saw in the U.S. market where margins have expanded. Despite that, we have seen overall margin dropping down, which means that China obviously played a big role in all this. What are you expecting on China in your

guidance that you are giving for next 2 years? What sort of improvement in volumes or so are you targeting this year in China?

P B Balaji: I think, Binay, I think we do not want to cut up numbers by quarter, and we are just giving the perspective on U.S. earlier. But I think we, there is only one set of numbers we would like to put as a plan and the guidance is what we see out there. Because it is a volatile market condition, we would like to keep as many degrees of freedom as that we would love to and not get tied into geography level numbers, yes? So what I gave as a plan to Pramod earlier was a shape of how we think about the 3% to 4% number that we see out there, but would not want to get drawn into individual geography level plans, that not be affect.

Binay Singh: Great thanks a lot. That is it from my side. Thanks.

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

Robin Zhu: Hi, thanks for taking my questions. So just 2 questions please. First of all, I saw the presentation reference warranty costs again. It is been sort of your quarterly accounts, that the warranty cost has been rising as a percentage of revenues. So I just wanted to get your thoughts on where are we in that process of remedying that. How far would you think we are from these costs starting to get down again? And then the second question is...

Ralf D. Speth: Sorry. May I interrupt? I cannot understand anything anymore. Could you repeat the question, please?

Robin Zhu: Sorry. Yes. So what, the presentation referenced warranty cost. And I was just wondering at what point, I mean, it is been clear for some time that the warranty cost has been going up. I was wondering if you could share some thoughts on when this warranty costs might peak and when they might start to improve again as a contributor to margins. And then...

P B Balaji: Robin, let me repeat your question just to help people. I think there is a bit of an echo in your line. If I understand you right, the question you are asking is warranty costs have been going up, what is your time plan for getting it down. And that is the question that I understood, am I right?

Robin Zhu: Yes, please.

P B Balaji: Okay. Ken, do you want to pick that up? Or Ralf?

Kenneth Gregor: Let me have a go, and Ralf can maybe focus on it. In terms of the drivers of warranty, obviously, in terms of how it moves where, from an accounting perspective, some of what we are seeing here are accruals today based on what we call internally rules of the road. In other words, we accrue for future warranty costs based on recent performance trends. And although, of course, we are working day in,

day out to deliver the best quality for our customers and improve the quality for our customers, it can take a little bit of time for that to come through the income statement until the performance in the marketplace from vehicles, as they have been in the marketplace for a period of time, starts to mature. And therefore, that can then be read back into the accruals on a per unit basis that we are making in our income statement.

So I think that could take a period of time. But what I would say in terms of the focus in the business on the physical actions to drive improved quality and the very best customer experience, those physical actions have been happening day in, day out and continue to happen.

Ralf D. Speth: Right. [Inaudible], the introduction of a new engine and engines going to 3 and 6 cylinder engines, [Inaudible] So overall, I guess we will make a huge step in improving the vehicle quality. Therefore, they were reducing also the warranty.

Robin Zhu: I have a second question if I may. Balaji, I think when we spoke in the past, you and I agreed that there may be some more structural decisions to be made about JLR, including potentially some of the product lineup, including possibly capacity. Just wondering if we could get an update on, in terms of how far you think we are from an announcement on some of these things on top of the current cost reductions and turnaround plans. Thank you.

P B Balaji: Yes. I think, Robin, if you recollect the conversation that we had, we said the way the entire turnaround and transformation plan will happen is in stages, where we said the first stage we are focused on the cash burn. Second stage, we will start looking at the working capital, fixed costs, and variable costs, some of the more long-term conversations we need to be having. I think it is just a sequence with which any turnaround happens. We have done the same thing in Tata Motors as well, where we looked at some of the more supply chain conversations we needed to be having here as well. So I think that is how typical turnarounds always happen, and therefore, as and when we are ready for a conversation on that, we will definitely share it with you. We do not want to hold back once we have made up our mind.

Robin Zhu: Okay, great .Thank you.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil R. Singh: Couple of questions. Firstly, I wanted to check in terms of gross margins, I see that there is a drop for the last couple of quarters both at JLR as well as in Q4; we are seeing that in India as well. So is this a reflection of higher costs or this is a reflection of product mix and worse pricing environment? This is for both India as well as JLR.

P B Balaji: Let me try and explain. I think one of the things that you will notice is China is almost profitable part of the business in JLR, and therefore, when there is a Chinese, and then be it on variable, a strongest variable cost, variable profit part of the mix. And therefore, when that growth comes on at an overall mix level, it does hit your overall contribution margin levels that you are referring to. As far as domestic Tata Motors is concerned, you would notice that this quarter has been a weak one for both portfolios CV and PV as well. And therefore, when you have a situation where your main M&HCV business, this is something that has declined, then it does create the problem that you have from a mix perspective again, which is the reason why we called it out saying that we would like to take a very, very close look at that.

And some of the commodity reduction that we saw came towards the latter part of the quarter, and therefore, in a highly stressed environment, we were also careful with the pricing that we put through to cover off costs. So you will notice that we lost a fair bit of margins on our net price level, if I take volume mix plus price less cost savings. Therefore, that is something that we are aware of. We are keeping a close watch on it. And as the demand situation starts changing, we will be correcting those.

Kapil R. Singh: Okay. Second question. I wanted to check on the cash flow guidance. Previously, we had guided for FY2020 to be negative and positive thereafter. When I look at the current guidance, you are guiding for FY2021 also to be FCF negative. From what I understand, the company seems to be doing quite well as far as cost reduction targets are concerned. So can you help us understand what exactly has changed in your assumptions for you to say that FY2021 will be also negative FCF?

P B Balaji: Thanks for raising it. It is good that you have asked that question. We can clarify it. One thing, if you noticed, as we do our product plan, the Range Rover and Range Rover sport relaunched and the new products come in, in that time period. So there is a run out of the old RR, RR Sport that will happen, and that is the reason why we are saying as we do a more detailed product planning and when is the launch happening, which market, when does it go, you then realize that you will need to plan for that. So that is what we have factored in. It is something that is, and is the most profitable products that we have. And when they go in for relaunch, it is natural to expect that. But other than that, there is nothing else that is hiding in the woods.

Kapil R. Singh: Okay, great. Thanks, wish you all the best.

Moderator: Thank you. The next question is from the line of Gunjan P. from JPMorgan. Please go ahead.

Gunjan Prithyani: Just a follow-up on this guidance for F2021. So is this the rundown of RR and RR Sport, which is also driving the EBIT margin down for F2021, the guidance?

P B Balaji: Absolutely, it is impacting both the EBIT and the cash flow line, both.

Gunjan Prithyani: Okay. Got it. And on the, I had a question on the CO2 emission norms. Where are we in terms of our targets? And if you could share something around the hybrid rollout that you are doing across your portfolio.

P B Balaji: Ken, Ralf, do you want to pick that up?

Ralf D. Speth: Sorry. Could you repeat that again?

P B Balaji: This is on the CO2 norms progress and where are we against it. Ralf, either yourself or Ken. Ralf, you are having some problems in your line again. You are also; it is very difficult to understand you. So something wrong in the line.

Ralf D. Speth: Probably this you needs to understand, will you please again, repeat it again so that, I can take it, but I have to understand it first.

P B Balaji: Let me repeat it. CO2 emission norms, where are we against it? And how do we see it progressing particularly with the various hybrids that are being launched?

Ralf D. Speth: Our CO2 emissions norm have been challenging from 2020 onwards. As you know, it is drastically strengthened in the CO2 environment. From our point of view, the offer for the vehicles was not hybrid, BEV hybrid, battery electric vehicle. So overall we are in a good position to deliver to the customer very good value, but we will achieve and we will be within the limits of the CO2, let us say, legislation. So we are in a very good position, and one element is the I-PACE. And now one thing is quite clear, we have to see the, also the infrastructure, as promised, for the battery electric vehicles but also for the hybrids will be installed in a way that the customers are thinking over and could find more of this kind of vehicles. That is important because without this kind of additional, let us say, mix in the complete product portfolio not only for us but also for other OEMs, it will be difficult. But we are on a good track there.

Gunjan Prithyani: And this PHEV which we are launching or I mean which we are rolling out, is there any given we have to achieve these targets, and these are eventually very aggressive targets across the industry, is there any kind of discounting that OEMs or you would have to do to accelerate the sales of your EVs or PHEVs in the run-up to the emission targets?

Ralf D. Speth: That will be very, very difficult. At the moment, batteries are the most expensive element of the battery electric vehicle, and batteries will become cheaper over the course of the next one or two year, the cost they supply is just limited. We are all limited by our battery requirements. There is hardly any, let us say, leverage to this, the overall vehicles, vehicle costs. On the other hand, I guess although the consumer has learned that the vehicle, which has a very, very high opportunity to recuperate from,

the cost of ownerships are so much cheaper in many areas, services are cheaper, the vehicle is a very good alternative to vehicles very good design. So it is a very interesting concept.

Gunjan Prithyani: Okay, got it. Just last question on the FCF this quarter. There was a meaningful relief that you saw because of the working capital. Is there any reversal in this you expect that could happen in the next 1 or 2 quarters? Or do you think this relief is sustainable and we will have additional reduction coming through the FY2020?

P B Balaji: Gunjan, I think one thing on the working capital cycles, so this is a cyclical industry. And therefore, just like any seasonal industry, it does go through seasons. You will recollect Ken talked about the shutdowns we are seeing multiple factors at play. But suffice it to say on a full year basis, our endeavor is to hold inventory levels as they are today and it is not improved marginally, that we are talking about the 100 million and as far JLR is concerned. And as far as Tata Motors is concerned, I think, BS-VI is going to be an interesting transition where we need to knock off the entire BS-IV inventory, and then do the ramp-up of the BS-VI inventory as well. And therefore, that is another one to be kept in mind, and we see now that inventory across the entire supply chain. So lots of moving parts on this one. So I would not be too fussed about quarter-by-quarter moves as far as inventory is concerned because we may want to do a full-fledged ramp-up of a particular aggregate because that is important. So we will definitely be keeping the flexibility open there.

Gunjan Prithyani: Okay got it, thank you so much.

Moderator: Thank you. The next question is from the line of Pramod Amte from CGS CIMB. Please go ahead.

Pramod Amte: First of all, congrats on the impressive progress on Project Charge and being ahead of the deadlines. My first question is with regard to China. If I look at the Slide 30, it seems to be taking longer than expected to cut down the dealer inventory levels. It indicates as of like end of year you will reach your targets. So in that context, do you feel the JV needs a much bigger cost reduction so that the breakeven points can be reduced substantially lower? Or how do you expect to turnaround the channel operations if the volumes does not come back soon?

P B Balaji: Ken, do you want to pick that question up?

Kenneth Gregor: Yes, sure. I think as we talked about on the last earnings call, there are a number of streams to turning around the China business via, as Qing talked about, our project Dragon. It is our internal name for it. One part of that is reducing dealer inventory. Restoring dealer profitability, another part. Definitely yes, reducing costs in CJLR and lowering the breakeven point there is work that is underway and needs to continue and building, rebuilding our brands in China, all of those things together with professionalizing sales network and the dealership, the way we sell to our customers, all those things

that Qing talked about, they are all parts of turning the business around in China as well as, yes, the cost approach with CJLR.

Pramod Amte: Okay. The second question is with regard to the EV journey. Even though some of the products are pretty impressive and you are ramping up, considering that, as you also alluded, there is shortage of supply and considering that the others are already jumping in to do medium-term contracts for battery supplies or to that extent, the manufacturers themselves jumping in to produce batteries. Can you give some comfort toward next 3 years how you plan to play this game; either you want to enter yourself? Or would you announce much bigger types or capacities on battery?

Ralf D. Speth: I can take it, and maybe Ken will continue. So overall, I guess it is quite clear that we have discussed there is also supplier demand and we have really protected our further rollout of the electrification energy suppliers. In terms of production, [Inaudible] but are setting up an assembly manufacturing center, and we are also setting up an own EBU facility in our engine manufacturing centers. The site, it is not only one element. The battery has seen many more sites around about 30% the overall value of the battery. And we are going to fill the battery completely in-house, and that is the reason why we are really assembling the batteries on our own.

Pramod Amte: Sure, thanks a lot.

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

Sonal Gupta: Hi, good evening thanks for taking my question. So just on the, I want to understand like we have seen clearly the pound has been weak for a while. We are seeing a runoff of the FX hedges that we had. So you have indicated that we had liked a GBP 500 million of positive FX hedging gain. I think that is probably above the EBITDA line. And I just wanted to understand, when you are giving your 3% to 4% EBIT margin guidance for next couple of years, does that include that? Obviously, I would imagine that most of the FX hedges would have rolled off by next year or in this year, FY2020. So would not that really be a tailwind, significant tailwind for you, I mean, despite the other pressure?

P B Balaji: Ken, do you want to take that?

Kenneth Gregor: Short answer is yes, the reducing level of hedge losses, it is part of what we would expect to see as EBIT improvement in FY2020 compared to FY2019 as the hedges that obviously took a significant hit post the Brexit vote a couple of years ago start to unwind.

Sonal Gupta: So that should be a positive tailwind or positive movement for you, right?

Kenneth Gregor: Yes. And sorry, just to be clear, that effect is included in our guidance.

Sonal Gupta: Okay, okay. Sure. Got it. And just my next question, India. It seems like, again, I mean, like you seem to have lost some market share on the medium and heavy commercial vehicle space if I look at the data over the last 4 to 5 months. So any thoughts there? I mean because clearly, I mean, there seems to be, your number seems to be much below your biggest competitor.

Guenter Butschek: Yes, a fair observation. In particular, if you would draw a year-over-year comparison, month-to-month, we have indeed lost some market share, but this is one of the unique occasions where year-over-year comparison is interesting to do. Because as the year ago, our competitors perform the major stock adjustment, which has actually let, while we had a good run also with the launch of new products, had gained some market share, overall we have gained market share during the course of the year. It is somewhat got reconciled, getting back into a normal place. Nevertheless, as we actually saw in my presentation, the decline in TIV for the medium and heavy, even stronger across cargo as well as the construct segment, we have seen a severe increase in competition in the market, a serious increase of discounts are granted. And being on the one side interested to reach to reduce the stock, maintaining or increasing our market share, we also paid very close attention to our contribution margin, respectively, even more important to the market's operating price because such kind of structural weakness of the market should not lead to a drop in MOP, because the MOP could easily turn into a structural damage to the marketplace as such not just for quarter, but even longer lasting.

So therefore, I would like to make reference to what we have said earlier. We have been proving stock reduction. My reference is to Page 47 of the presentation, where wholesale is lower than retail, so that means that is, the clear indication that we have been performing a stock reduction or stock adjustment, so to say, in, with respect to our working capital but also the working capital and profitability of our dealer network. And at the same point of time, we decided, deliberately and consciously decided not to go after certain opportunities in the market for the reasons I have just explained.

So, therefore, market share is often a short-term indication. In particular, the market with fluctuation and the volatility and the seasonality like the Indian one. And since market share is measured on wholesale, it is anyway not representative of the market position of a particular company, or particular product in a particular segment. So therefore, please do me one favor, treat it with caution. So therefore, your question is appreciated, and I am saying no reason to be concerned. We are well on track as far as our retail is concerned, and that can be matters to most in a muted market demand environment.

P B Balaji: Just one more additional point to build on Guenter's point. As this year progresses, this focus on wholesale-related market shares will actually be dangerous because you will be making corrections to your pipeline, but you are clearing out inventory of BS-IV across the board. So we are absolutely focused on ensuring the retail growth continues, and we will continue to keep sharing those numbers on a quarterly basis with you, so that, we also want to be sure that you are competitive as well.

- Guenter Butschek:** From our point of view, the strong focus in India on wholesale is misleading, misguiding and supports a certain wrong development, which can be in the interest of the industry. And we do hope that with our initiative, being the first reporting on the retail figures, that we can actually help to change the entire approach of the industry from a wholesale focus to a retail focus because this is going to give a much more objective picture on the real demand situation in the market.
- Sonal Gupta:** Sure. And just on that, I mean if, going forward, since you are sharing retail numbers, if in the market share slide also could you share the retail market share, that could, I think would be very helpful.
- P B Balaji:** Would love to provide we have reliable information of competition retail, and so far, the data sources are not good enough so not for me to put an auditable number out there.
- Sonal Gupta:** Okay, great. Thank you so much.
- Moderator:** Thank you. We will be able to take one last question. We take the last question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** Hi sir, my question pertains to the cost saving targets of 1 billion, of which we have attained 150 million in this year. 150 million would be without any contribution from workforce reduction, right?
- Kenneth Gregor:** Yes, that is correct. Because, largely correct because the workforce reduction mostly takes effect from the 31st of March when the majority of people left the business, so we will see that benefit in FY2020.
- Jinesh Gandhi:** Okay. And so effectively the balance, 850 million of cost saving target would be largely, I mean, almost 50% will be supported by workforce reduction. Where the balance 50% are we aiming for?
- Kenneth Gregor:** Across material cost reductions, where we have what we call internally Tiger teams working on driving improvements across all of our model lines to the costs of those across all of our overhead and other fixed costs, if you like, selling, general and administration costs and across the balance of our variable cost lines, manufacturing, drive efficiencies year in and year out in terms of the hours per car and the utilization rates of our factories as the volume recovers, freight costs, every line of the income statement we are obviously working hard to drive efficiency.
- Jinesh Gandhi:** Sure. Do we see further scope of cutting down on variable and fixed marketing spend?
- Kenneth Gregor:** Yes. But absolutely, it is a focus area on variable marketing. I think that a big chunk of it relates to competitive market forces and matching the price of our competitors, who are obviously out there with some very competitive offers. So there is a certain amount that is following the competition there, but equally that said, our own activity to keep the product pipe, keep the pipeline of vehicles

... tied to our dealers, get stock down to ideal levels, those things help to reduce variable marketing expense. And fixed marketing, of course, we look to drive efficiency in every area, make sure every pound that we spend, every dollar we spend, every renminbi that we spend of our marketing money is working as effectively as it possibly can and look for efficiencies there, whilst of course balancing that with the need to continue keeping our wonderful products and brands in the eyes of our customers to help drive profitable volume growth.

Jinesh Gandhi: Okay, second question pertains to the depreciation and amortization. So this quarter charge of 465 million is a full and fair reflection of the impairment which we took, and this should be sustainable run rate going forward. Or we should see some bit of increase, I mean apart from the normal increase which will happen because of investments that you are doing.

Kenneth Gregor: The Q4 figure on D&A, yes, includes the impact of the impairment, which obviously we took in December, so that reduced the level of depreciation and amortization by something like GBP 100 million to GBP 150 million versus what it would otherwise have been. And I would expect to see that impact continuing in FY2020, but of course, the results of an underlying growth in depreciation and amortization caused by our new model program, that will continue to add assets to the balance sheet and therefore, add depreciation and amortization.

Jinesh Gandhi: Right, right. And if I may ask one more last question. At the beginning of the year, we had indicated that we will be capitalizing less in expense and more in JLR. We are yet to see that material change happening on that. Our cap rate is still about 80% of R&D. So is there any road map to shift towards around, say, close to 70% cap rate, or we should not expect that in the near future?

Kenneth Gregor: I think that is an effect that takes a little bit of time to come through. I could talk about some of the detail as to why, but the short answer is it takes a year or 2 for that to flow, for you to see the impact of that effect because the change happens on new programs, as we started to engineer new programs, and the later point of capitalization and the change in the capitalization rate kicks in on those new programs. So it takes a year or 2 for that to, that effect to build out. In the meantime, you see, therefore, the capitalization rate remaining relatively high. I think we will see it start to reduce somewhat in FY2020.

Jinesh Gandhi: Okay understood. Great, thanks and all the best.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Ralf D. Speth: Yes. I would like to recognize that, ladies and gentlemen, I really would like to end by saying that Jaguar Land Rover has the fundamental creativity, strength, skills and technology to achieve this long-term sustainable profitability. And we have an award-winning product portfolio. We have been

really unbelievable, [winning a] number of awards every year, and as I said, better than others. And so I thank you for this meeting. I thank you for your interest. But my special thanks today goes to Ken. And I guess on behalf of all of us, I would like to say, we want to wish Ken all the very best for his future. Ken, all the best. Thank you so much.

Kenneth Gregor: Thank you very much, Ralf.

P B Balaji: Thank you. Thanks to all of you. Look forward to catching you again in the following quarter results.

Guenter Butschek: Thank you. All of the best.

Moderator: Thank you very much.

Ralf D. Speth: Thank you.

Moderator: On behalf of Edelweiss Securities, that concludes the conference. Thank you for joining us, ladies and gentlemen, you may now disconnect your line.