



“Tata Motors 4Q and FY '20 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the Tata Motors 4Q and FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Yogesh Aggarwal. Thank you and over to you, Mr. Aggarwal.

Yogesh Aggarwal: Thank you, so much. Good evening, everyone. On behalf of HSBC Securities, I welcome you all for the Tata Motors' quarterly results conference call. I am very happy to introduce the Tata management team today. We have with us Mr. Guenter Butschek – MD and CEO; Prof. Dr. Ralf Speth – CEO, JLR; Mr. P. B. Balaji – Group CFO; Mr. Adrian Mardell – CFO, JLR; Mr. Girish Wagh – CV Business Head; and Mr. Shailesh Chandra – PV and Electric Vehicles Business Head, along with members of the Investor Relations teams. Thanks again to the management team for taking time out today. We will start the session with some comments from the management, followed by Q&A. Over to you, Balaji.

P. B. Balaji: Thanks, Yogesh. Firstly, once again, thanks all of you for taking the time to join the session. I hope all of you are safe and sound along with your family and loved ones. So, without further ado, you already have the press release as well as the investor deck with you. So we will try and take out the specific slides that we would want to emphasize, and thereafter leave it open for questions to the maximum extent possible.

Prakash, can you move to the next slide, the standard Safe Harbor statement. Nothing new here. Other than a call out that we have tried to calculate the impact of COVID-19 on our numbers. And those are analytical purposes using our best estimate, that is the only call out that I have additional to what we normally have.

A few highlights of the year:

It's been a action packed year from a product and product offensive, as well as technology offensive perspective. In India, I think, the entire range got ready for BS-VI and transitioned smoothly to BS-VI. Then of course, there was an exciting Tata Altroz launch that happened. Nexon EV was unveiled in December last year. And from a JLR perspective, the most exciting launch of the year was in the form of a new Defender, as well as the Discovery Sport that got launched into China. And the PHEV versions of Evoque and Discovery Sport also came through. And we unveiled the Vector Mobility concept earlier this year.

And apart from the product launches which are quite intensive, going to the next slide, we also had a series of management actions that we have been taking. First was the whole Charge+ delivery, moving Charge to Charge+, now stepping up that number to now GBP 5 billion is what we are now calling out, having delivered at GBP 3.5 billion. And, of course, the collaboration

with BMW that we called out in our Investor Day, and the software over the air was announced, along with the Defender launch, including the new infotainment module.

On the balance sheet side:

We talked about the promoter equity support through a preferential allotment happened in this financial year. And of course, in March, we called out the subsidiarization of the PV business, which has been approved by the Board. And of course, one of the smoothest transitions into BS-VI with negligible inventory as we entered, despite COVID coming in at the most inappropriate time for the transition. All these have been delivered.

In terms of financials:

We have already seen these numbers, let me just call out the key things that stand out. On a full-year basis, we were near EBIT breakeven despite a 23% drop in volumes, and the revenue down almost 14%. And EBIT was at minus 0.2%, and the loss before tax before exceptional items was Rs. 7,700 crores. The exceptional item being the Rs. 2,500 crores charge that we have taken for asset write-downs and other provisions in the PV business.

And the call out that we would like to make is, that despite all these challenges second half of the year was positive free cash flows. Even this quarter was a neutral free cash flow despite all the challenges that we see. So, a combination of what started looking as a solid second quarter and third quarter performance coming in from JLR, and continued issues in India due to a variety of factors did get offset quite significantly by COVID as the quarter ended. And of course, the big ones in India being the medium and heavy commercial vehicles decline and the stock correction that we did. It has not been a great year, despite promising two quarters that came through.

Next slide. You have seen it, combinations of the reason for what happened. The call out here is, I think from a volume and mix perspective, that's probably the entire story of why the decline happened. And volumes from JLR were about 4% down, the biggest contribution coming from Tata Motors standalone, dropping almost 8% in the total 13% decline that you saw. The retails, of course, being higher than wholesales in India by almost 65,000 units by the time the year-ended.

The next slide. The EBIT walk, you have already seen. The good news is, JLR, despite all its challenges, increased its EBIT by about 50 bps, while almost the entire fall can be explained by the drop in the TML standalone numbers for reasons we have talked about many times in the past.

Moving on to Slide 8, this is how the debt is actually laid out. We ended the quarter with a Rs. 42,000 crores of net automotive debt, and then add on top of it a Rs. 6,000 crores of lease payments, that is basically IFRS 16, a combination of those two becoming Rs. 48,000 crores. But it was backed with strong liquidity both in JLR and in TML; JLR at GBP 5.6 billion and

Tata Motors standalone at Rs. 6,700 crores. And these debt maturities are well spread out. So the liquidity remains strong and the debt maturities are well spread out is a key call out in this slide. And even as we end May and look into June, the liquidity position continues to remain adequate as we look into the business coming out of the lockdown.

So a few set of slides on the corporate actions that is out there. As far as JLR is concerned, the key call out I am making here is the Charge+ delivery is now being increased to GBP 5 billion by 31 March 2021, an increase of GBP 1.5 billion over what we delivered in the 18 months to FY '20. CAPEX is being rationalized quite substantially by 40% to GBP 2.5 billion in FY '21, and FY '22 plans are being recalibrated, I will give you the context in the subsequent slides.

Similarly in India, the CAPEX is being rationalized by a significant 66% to Rs. 1,500 crores in FY '21, and FY '22 again being recalibrated. And India, again, is calling out a structural cash and cost out plan of Rs. 6,000 crores of cash improvements that have been launched, including Rs. 1,500 crores of cost saving is being called out. These are pretty sizable interventions to reduce the cash burn, both in JLR and in India, given the fact that the demand situation is quite volatile and likely to be subdued for a while.

Moving to the actions that we are taking on the PV business. And just pulling out all the actions that are coming together to make PV win sustainably. First, of course, is a call out of reimagining PV in order to rejuvenate the front end sales and service. And I am going to ask Sailesh to talk about it in his section. We also have the most refreshed range of cars that Tata Motors ever had, and therefore, this we will find drive salient and customer preference of this fully refreshed BS-VI range.

We had called out in March a separate legal entity in order we can make this business a long-term value creation entity. And this will drive transparent capital allocation and focus within the business. And we are now building an efficient cost base as well. If you recollect, we have already worked significantly in improving the contribution margins of this business. We will step it up even further and reduce fixed costs further in this business to reduce breakeven. And along those line, we are taking an exceptional charge for rationalizing the asset base and other provisions of about Rs. 2,500 crores in this business in India. And the aim of this business, we are now making it explicit, is to become cash positive by FY '23 through all these steps that have been laid out in front of you.

On the corporate actions front, again, a series of call outs that we are making. Number one question that keeps coming again and again, the Tata Motors Group is the flagship of the Tatas, and it enjoys full promoter support. And we are now calling a significant intervention in terms of change of strategy to significantly deleverage this business, the entire Tata Motors Group. And starting point of it is all the cash intervention that we talked about, and also along with that would be JLR becoming sustainably cash positive from FY '22 onwards, while becoming future-ready. These are big calls that have been taken to ensure that this business remains sustainably cash accretive in the long run. And would love to leave this with you in terms of how we are thinking about the business strategy going forward.

So let me now hand it over to Adrian, who can walk you through the JLR numbers. Adrian, over to you.

Adrian Mardell:

Many thanks, Balaji. Good evening, everybody. I just called out a few of these, of course, first year loss before exceptional items and tax was GBP 393 million loss, slightly worse than FY '19. Of course, quarter four was devastated by the impact of COVID and actually quarter four loss was GBP 494 million, GBP 763 million worse than PBT in Q4. You all know that our Q2 and our Q3 results were much stronger than prior year, and I think that starts to indicate how much impact COVID actually had in the final quarter.

We were headed for a pre-COVID quarter four of just over 6% EBIT. On a full-year basis, Balaji has mentioned, the EBIT margin did improve 60 bps actually versus prior year, to negative 0.1% and EBITDA margin was also 50 bps improvement versus last year as well to 8.7%. We will talk Charge later, which is clearly the underpinning of a significant turnaround in Jaguar Land Rover over the last 18 months. Temporarily, of course, COVID has impacted that. On volumes, retails were down 12%, to 508.7 K. Revenue was down 5% at just under GBP 23 billion. Of course, we had a very, very weak Q4, just a 110,000 retails in Q4, down more than 45,000 units from last year. Quarter four, of course, is always our strongest quarter. Market dynamics with the U.K. were significantly impacted.

From a cash perspective, even after the impact of COVID, we were still cash flow positive in Q4, GBP 225 million, full year negative GBP 702 million. We don't like that, but full year cash flow was GBP 563 million better than the previous year, even after COVID. Our cash breakeven has now fallen below 500,000 wholesales. It was significantly higher than that before the Charge program actually began.

Next slide, if you would please. Okay, so this is the retail call out full-year 2020 by region. I think China is the one, of course, I am going to land on. COVID did have a more significant impact in China in Q4 because we all know it started earlier in China from the Chinese New Year date. If you remember, we were trending more than 20% higher year-over-year in Q2 and Q3 in China. On a full-year basis though you see here, we were down 8.9%, which shows the extent of the fall-off in February and March. But that was better than industry, industry minus 16.6%. Wholesales, which exclude CJLR, were 476,000 units, 6.3% down. And from a wholesale revenue, and therefore, of course, cash generation perspective, our quarter four was the second weakest quarter of the fiscal year after Q1. It's normally by far the strongest quarter because of those market dynamics, including of course, the biggest selling month in U.K. in March. So a dramatic impact on volumes in quarter four.

Next page, if you would please. Okay, so this is retails by nameplate. And full-year data as well, year-over-year by nameplate is shown beside. Standout is the Evoque, of course, the new Evoque, 25% up year-over-year even after COVID. I-PACE was also up year-over-year, almost 40%, so that's stand out as well for us. Although the Q4, as I mentioned, retails were only 110,000 units. You can see the winners and losers on the right hand side of the page.

And next slide, if you would please. Here we go. Here is the profit bridge year-over-year before exceptional items. We have done this one. I will remind you, last year we lost GBP 358 million, -0.7% EBIT margin. Our actual loss for this year was GBP 393 million before exceptional, -0.1% margin. Well, I will just call out a few things. We have talked them mostly previously, China JV we had a worst year, although we have stabilized the position actually in the JV, so you will see better results going forward, in fact, you will see year-over-year improvements going forward in our JV business in China. The most difficult assessment we had to do at the end of the year was on variable marketing, of course, we did have too much dealer stock as we stopped retailing units toward the end of March. We ended up with more than 100,000 dealer inventory, which is about 25% higher at least than we had wish to have. And our assessment has been around the incremental marketing support in this suppressed marketplace, obviously, to sell those cars into the market. That is significantly within that increase of net pricing you see there.

We also actually have an impact in our U.S. market on residual value. As you know, substantially all of our U.S. vehicles are sold on leases, which come back to us. And in April, particularly, the second hand residual value market was a very, very weak, low auction numbers as well. Although, May has picked up, and we believe the assessment we made at the end of March is still appropriate, but we did book another \$78 million at the end of March for those reductions in marketing support. Then the good stuff starts kicking in, some really good work in manufacturing. On material costs, all the structural cost improvements under the Charge program. We talked to them a lot before, I think we are really, really pleased they continued, obviously, on a full year basis. And through Q4, even though substantially that these costs wouldn't have been impacted by COVID, of course.

Exchange, perhaps to the right hand side of this page, what we have attempted to do here is call out specific things that we know were directly as a result of COVID, about GBP 599 million impact on the full-year basis. All happened over the last few weeks, and would just give a sense there where we are tracking, just mid 2.4% EBIT. Although, there was a collapse in Sterling as well over the last two weeks maybe, and we have ignored that from that impact assessment. We can talk more about that going forward if we wish to do so.

Next slide please. Cash, so our cash full-year outflow was GBP 702 million, that was GBP 563 million better than FY '19, and GBP 225 million positive in Q4 already mentioned. Estimated impact right at the end of March on cash was about GBP 760 million. We effectively didn't pass 16,000 plus units due to the marketplace. We were tracking very, very strong in the first 10 weeks of the quarter in most of our markets. It was repeating the trend of earlier quarter two and quarter three. So the price side of this is very, very straightforward for us to do. And the big news here is, before COVID, we think we would have been cash positive for FY '20. That's really important, that really shows the turnaround in the reassessment we have had in the business. Which is why we can confidently say, post-COVID we will get back on track, and we will be cash positive in FY '22, as Balaji has already said.

Next slide, if you would please. Okay, this is the investment, it is down significantly versus the previous year GBP 516 million, just under GBP 3.3 billion. And all areas have actually reduced over this period, as we have mentioned before, this hasn't been done by stopping significant programs, this has been done by diligence, efficiency, care over what you spend. There has also been some delays in the launches on Defender, but that car is ready to go once the dealers are ready to actually sell. So we are now in place, GBP 516 million lower on investment versus the previous year. That is the end of the financial update slides I believe. Just check next page if you will, please?

Okay, a quick look at other things happening to us. You know what, this has been an awful time for so many people. Jaguar Land Rover sadly have lost three of our employees to COVID. That's obviously the really awful side of this. The really good side of this is the response of people within this company really has brought out the good side of people. You can see here, we turned our 3D printing to 14,000 visors a week for the frontline. We actually lent 362 cars to those services. Our employees went out to help and putting themselves at risk. The spirit of this place, the reason why I love this place has been shown over the last several months of this sad affair. So that's what we have actually been doing in times when we have not been able to get back to work.

Next slide, if you would please. Okay. So what have we done to respond to COVID? Well, our response was really, really quick. The Board of Management of Jaguar Land Rover met more than 46 times from the end of March through to the end of May. One hour meetings, actions decision based, closure of plants very, very quickly because we knew that was happening and we knew we would have to stop retailing cars to the marketplace. And therefore, we have to slow down production. Of course, health and safety of our employees have been paramount, and I will talk about the restart at the moment. We had too much inventory at dealers because sales literally stopped. More than 40,000 retails didn't happen over the last few weeks of March. So managing down that inventory is really important. 89% of our retailers are now fully or partly open, 58% of which are fully open. So thankfully, all of the retails across all of the regions are now opening up.

We instigated rigorous cost controls and spending freezes. We call them internally Star Chambers. We run 155 Star Chambers cross-functional reviews of spend over the course of the period through to the end of May. Everything more than GBP 25,000 was crossed reviewed with a four eyes check. And it had a dramatic impact on the cost and spending leaving the business, and I will show you the impacts it's starting to have on cash over this horrible period. Balaji has mentioned investment, we believe the investment target range for this year is around at GBP 2.5 billion. We did put some investments on pause, and we will be talking in Q2 at what point we will be releasing those. We will give you that information when we talk to you after the quarter one results. And we have actually, given plants, were closed, of course, actually taken the benefit of the U.K. furlough scheme. At one point, more than 20,000 Jaguar Land Rover employees were on furlough at home, not actually working, even though a lot of those have now returned as we have started to rebuild cars.

Next slide, if you would please. Okay, so this is the stop and the restart policy on production. I would not go through them all, you can see them there. The only plant that hasn't yet started back is Castle Bromwich. Our inventory at Castle Bromwich was higher at the end of March, because that is a big selling season in the U.K., particularly for those products. And you will know, I think, that the U.K. and the European regions have opened up slower than China and North America. And therefore, the sales rate on those products has been lower. This is a demand-led production recovery, and that plant will be closed until the point in time when our dealer inventories are reduced. On the right hand side, you see the statistics, 89% there.

Next slide, if you would please. Okay, China, China, China. So you see here, I think, particularly on the left hand side what you could determine, a classic V-shape recovery for China. The sales actually from the end of March recovered very, very quickly. And you can see there, we are now at the end of May, more than 4% higher than May 2019, which I am not sure many people were predicting just a few short weeks ago. All of our showrooms are open, leads to strong closure rates are better, not many casual shoppers, most people coming into the dealership are seriously looking to buy vehicles. So we are very, very pleased of the return we have had in China. Of course, we cannot predict what is going to happen going forward, but this is certainly two to three months after the Chinese market starts or open up, this is a very encouraging position for us.

Next slide, please. Recovery by region. This is also important. I have talked about China on the left hand side, North America is starting to show a version of a V shaped recovery as well. Our year-over-year in May for North America was 32% lower than last year. We were predicting a little bit worse than that. So obviously, we are looking at that data closely in June, you can see what I was saying on U.K., bearing in mind that March number fell away dramatically over the last 12 days. We pretty much stopped selling. That's really sales through to about the 19th of March. You can see all of the dealers were closed. Some of them started to open up in May time, and we are watching the data very carefully in June, in the first 12 days we are actually quite strong. Europe, exactly the same story, but more dealers were open depending on market. And Overseas, as well as generally following a pattern similar to Europe, although the volumes are a bit less. You can see the absolute numbers; 24,000 in May; June will be bigger. So we are steadily, cautiously, improving our demand levels.

Next page, if you would please. This is the one; beautiful Defender. Okay, not launched at the dealers, but you can see the start of sales. date at the bottom there, U.K. and Europe have started. We already have more than 22,000 orders. We have actually put on pause the Defender 90, because we are making sure that the 110 actually gets an appropriate launch. 1.6 million configurations, we actually have, complete configurations of this vehicle. It's certainly unprecedented in the history of Jaguar Land Rover, it just shows the amazing interest that we have actually had. We will open up the Defender 90 and would show to world base later in quarter two, and we still believe this is a really promising start, even though, of course, it has been interrupted. And we are really, really hopeful for what this great vehicle is going to do. It's just an amazing drive.

Next slide, please. Okay, Evoque and Discovery Sport. The data here clearly has been more impacted. Of course, it really depends on where these are sold. These are heavily sold in U.K. and Europe, as you would know, and those are the regions most impacted by closures. And therefore, not surprisingly, this is a data that's most impacted negatively year-over-year. Not much else to say, we will just have to watch carefully as we go through the balance of the year. I do expect June to be much better, as I mentioned, both U.K. and in fact Europe started strongly in the first two weeks of June. So, we will have better results June year-over-year, but it will still be negative versus last year. The new PHEVs of course are in both of those vehicles from 2021 model year.

Next please. Charge, Charge, Charge; move to Charge+. Really strong quarter, again, it really wasn't influenced by COVID, this was all done by the time it started to impact. Investments were lower, working capital -- big working capital gain year-over-year. We did hit the GBP 1 billion profit target, which I know a few of you were interested in, as you thought we had a slow start in the first half of the year. We did say, please watch, please wait, please be patient, and we have actually delivered the results. You have seen it in the bridge as well, the really positive thing is that results have come from across the total business. And as a result of which, Balaji mentioned, we are increasing the target to GBP 5 billion. And I really feel good about that target. Actually, it wouldn't surprise me if going forward we would increase it again in the second half of the year, where of course, COVID, we need to watch carefully.

Next please. We saw earlier the GBP 4 billion Charge / Charge + target increase to GBP 5 billion on Balaji's speech, I don't need to say anymore.

Next please. Alright, I will give you a bit of indication, because I know you are keen on what type of program is it. We are basically now thinking about this as a 50:50 program, investments will be low, we signaled that. Inventory, one of the things we will do here is, we will go again on the inventory. We will lean out our inventory, we will lean out the dealer inventory, we will bring it back down to a level even lower than the levels we had pre-COVID, and that's what we have got on the page here. In other savings, one one-off savings like the furlough scheme from the U.K. Government will bring up our one-time non-recurring cash benefits mostly to GBP 750 million we are saying here. We got plans for more than GBP 750 million there.

The other piece is the sustainable pieces, the flow-through pieces. We have got three very strong work streams now. We have been working at them for a few months; variable profit, net revenue improvements, of course, the marketplace has been significantly disturbed. So you will need to be patient with us on that one for maybe a quarter or so, but we have got clear plans. Material costs, we have signaled the Ignite program at the end of January. Those plans are in place and we are now confident those reductions will start to come through once we bring out 2021 model year cars. And of course, a lot of this is change on vehicles, and we will come along a change points to vehicles, the next of which is 2021 model year. So as you will see that coming through as we go into the second half of this fiscal year.

And finally, our overhead costs, our people reduction costs and selling and general admin costs will be significantly lower, and that will be really the story on that right hand side of the first half of this year, where our Star Chamber processes have kicked in and have had a dramatic impact, much bigger than the impact you would have seen previously. That's the GBP 5 billion. You can talk to us on October what the new number is, I am definitely confident that that's going to grow.

Next page, please. Alright, funding. We have been able to get funding over this period of time as well. We did complete a deal with the syndicat of banks in China last week, that's the full value of RMB 5 billion over three years, we will take Q&A on that. And we also completed early on in the process in April, an extension for our fleet buyback in the U.K., and that was a worth of GBP 63 million as well. So through these difficult times, our network, relationships and people who trust and believe in this company are still prepared to put money forward. That is a greatest sign I can give you about how we are trusted by this external environment.

Next slide, please. Okay, looking ahead, quarter one will be significantly impacted by COVID, of course. We have given you an indication, the cash positions, April and May GBP 1.5 billion cash outflow, that is actual data. It overwhelmingly is driven by one-time working capital unwind. We are not building cars, we are paying our suppliers off, and therefore, working capital is unwinding on us. We think that is the best part of GBP 1.2 billion of that GBP 1.5 billion, which tells you even when volumes are 50% of last year, the underlying cash loss over two months has only been GBP 300 million, that's how dramatic an impact we are having on this place. The outflow for FY '21, quarter one is expected to be less than GBP 2 billion. And with two weeks to go we are definitely on track to be lower than the GBP 2 billion outflow in Q1.

So let me repeat, we have not drawn down our RCF facility. There is no need at this point in time for us to draw that facility down. Adequate liquidity is available with the new funds. Present liquidity including the RCF is around GBP 4.5 billion. Outlook, full year performance outlook provided when we get better clarity going forward on what that demand is. It is a demand-led production and wholesale and revenue and cash generation. So it would be inappropriate for us to second guess that with so much uncertainty still around, pace of pick-up in the marketplace, people coming into the dealers. We would drive in free cash flows though from Q2 to Q4, that's the plan, and we expect to deliver on that plan.

I think that may be my last slide. Just check. Next to Balaji please.

P. B. Balaji:

Thanks, Adrian. Looking into the Tata Motors' domestic business and the challenges we faced, call out would be in terms of the growth decline of almost 37%, in which the M&HCV declined almost 50%. EBITDA, obviously, getting impacted significantly because of this collapse in demand that we saw. And the system stock is now almost nil, so we don't have any dealer inventory in CV because the BS-VI buildup was planned in the second half of the March, and we had the lock-down at that time. So looking forward to picking up that demand as and when it comes through, and PV also had an all-time low on BS-VI inventory. Overall, I think from a profitability perspective, the exceptionals I have already called out. And would also like to call

out that, even though overall free cash flow was trending well in March before the lockdown impacted, second half of the year we had a positive cash despite everything, the mayhem that you see in terms of numbers there.

And moving on to the next slide, so actually I would summarize our performance. Go back Prakash a minute. If I summarize the performance of Tata Motors, I think we are quite disappointed that despite the robust internal turnaround plans and actions that are delivered, we are unable to compensate for these shocks that are just coming one after the other, and look forward to watch interventions from our end to navigate this crisis. The profitability bridge, as you notice, almost it's entirely volume mix and pricing, as the BS-IV to BS-VI migration was happening. And the structural cost, we have managed to keep it flat, once you adjust for the depreciation and amortization of the whole BS-VI investments that you see. And we do expect this to start trending down as we start cutting out CAPEX in the coming years. As far as, overall piece is concerned, the EBIT margin is more or less explained again by volume mix and net pricing, and the COVID impact for the quarter was almost about Rs. 500 crores.

On free cash flow side, the good part of the free cash flow is the way the receivables and inventory has come down. But of course, the sad part of it is the whole operating cash flows not able to fund the investments that are out there. And that's one more reason why the call out on the capital reduction, particularly in a scenario where demand is not likely to be strong, has been done. And the COVID impact for the quarter is almost Rs. 2,000 crores because of collapse in payables and acceptances, very similar to what Adrian called out as well. Investment spending, just go forward, the same numbers, you have already seen it, rather than the call out that FY '21 is restricted to Rs. 1,500 crores. And it will be fundamentally on regulatory spends and products that have already reached advanced stages of landing. And everything else will be kept in abeyance till we are able to see demand coming through, and we are on our right to grow.

Market shares has been a good story for us on the key categories of medium and heavy commercial vehicles and intermediate light commercial vehicles. These are quite high shares that are coming back after a long period of time, so we are quite happy with that. At the same time, disappointed with the small commercial vehicle and pickup segment, where this is a volume segment and therefore, this does talk from a salience of the total category. This does have significant salience. And therefore, that's the reason why the overall market share has been held. Clearly, plans are afoot and Girish can talk about in terms of how to pick this up, but it is good to see M&HCV and ILCV picking up despite very, very clear focus that we are not focused on wholesale, we want to do the retail focus, and that's helping deliver sustainably.

On the P&L of the CV business. Move forward, Prakash. Overall, I think the EBITDA numbers just comfortably trends on double-digit has definitely been impacted by the collapse in the business on the M&HCV side. And while we believe that while the inventory levels have all been well managed there, clearly the operating leverage hasn't kicked in at all. And that has really created the problem that you see here. On the passenger vehicle side, despite shutting down the retail sales system under Concorde, as well as the distribution arm, the wholesale market shares were held, and from a point of view of the during the course of the year, retail

market shares were in line with last year of roughly about 6%. And this is something that has helped us in terms of keeping our dealers interested in this and ensuring that they do not get into trouble with BS-VI. But this is not good enough and this is what Shailesh will talk about in his section.

And the profitability is fundamentally coming out of drop in operating leverage as well as the inventory correction that we have done, all contributing to the drop in operating leverage. The good part is, contribution margins are steady, in line with the turnaround plans already implemented. We now need volumes to kick in for this business to start picking up, and that's the brief that Shailesh is working towards. And what is our response? Similar to what Adrian talked about in terms of the focus, from our side, the three clear imperatives in the India business; one, is to secure growth, secure cost and secure cash. On the secure growth side, I will leave it to Girish and Shailesh to talk about it briefly. On the cost side, we have clearly put out a plan to reduce Rs. 1,500 crores of costs in the Tata Motors system, both variable and fixed. And on the cash side, one is about the CAPEX and working capital reduction of almost Rs. 4,500 crores and also secure a funding of Rs. 4,000 crores, which we are in final stages of close out. That is the overall funding situation which I will talk about in a while.

Let me hand it over to Girish, who is on the line, to talk about briefly the CV challenges that he is seeing in the market and how we plan to step up customer engagement. Girish?

Girish Wagh:

Thanks, Balaji. I think before I get into customer engagement, just a point of information on the market share. So, as Balaji mentioned, we grew the market share in both medium and heavies and intermediate and light commercial vehicles. And you will recollect that this growth has now happened for second year in succession. And especially, in medium and heavy commercial vehicles, we actually had grown the market share last in FY '10. So FY '11 to FY '18 there was a downtrend which was reversed last year, and this year we continued to grow. So that's how I think the market share in this medium and heavies and LCVs have grown for two years in succession.

Coming to this year, I think as we entered into or we were exiting the last financial year, I think the COVID struck us. And the first thing which hit us was disruptions in the supply chain, especially where our material was coming from China and Europe. And then started the national lock down in the last week. So the first step that we took was to develop a business continuity plan for ourselves, and then we also deployed this business continuity plan to all our channel partners, both in domestic market as well as international market. So this business continuity plan essentially focused on a few things, 10 things essentially. So on employee safety, then social responsibility, cash conversion, cost reduction and then also as we start getting back into the restart phase, how do we look at demand generation and demand fulfillment. So this business continuity plan has been a very good mechanism for us to keep the company on track, as well as the channel partners on track. And all of them have found it to be very useful.

Coming to the customer engagement, I think in this period, both the customers as well as our dealers have learned the digital way of increasing very well. And I can tell you that more than a

million customers have been engaged during this period for two reasons, one is to explain to them the BS-VI product range and also to start generating the pipeline. In addition to this, there has been a lot of engagement with the other stakeholders in the business, so be it financials, body builders and so on and so forth. So this has also helped us to finalize all the financing schemes which are required for the BS-VI vehicles. And in quite a few segments we have been able to finalize the schemes in a manner that the equated monthly installment is equivalent to the BS-IV EMI. So this gives a good lead for the customer.

This year, we are also focusing on looking at the segments that are likely to grow or likely to show better growth as compared to the others. So we see a few segments, which are coming up. The first one you see is, for example, tipper in medium and heavy commercial vehicles, and this is comparative to the cargo range of vehicles. We also see good demand coming in for e-commerce for petroleum, oil and lubricant segment and also for segments like transportation of agricultural and daily produce. So we are focusing on these micro-segments and engaging with the customers to generate their demand, to generate pipeline.

We also started seeding the BS-VI vehicles for the initial lot of identified customers, which is a good thing. So retail of BS-VI has obviously started. And we have also increased our focus on the non-vehicle business, or more so, after sales business. So here we see that more than 95% of our workshops across the country are open now. We also see that the job parts of the number of vehicles serviced in our workshops have approached very close to the per-COVID level, which means that the workshop revenue for the dealerships are coming close to the earlier period, as also the spare parts revenue for us. In addition to this, used vehicles business is likely to go up this year and that remains our focus area.

Coming to the cost reduction and cash conservation, so Balaji has already spoken about it. So in cost reduction, we have actually repurposed our teams, mostly the engineering and operations team, to look at cost reduction. And this cost reduction program goes even beyond what we have been doing over the last few years. So this is focusing on direct material cost, as well as all the variable and fixed conversion costs, and as well as other fixed costs. So significant targets have been taken across all the cost heads, and we have good plans for almost the entire amount that we have targeted. And for rest of the plan also we have good visibility to these areas, as the teams work toward idea generation.

In terms of production, I think we are working with strong guidelines for inventories, as well as receivables, and also the CAPEX has been reduced by a great extent as compared to the previous two years. So in previous two years, we have done bulk of our investments in the BS-VI transition as also improving the product propositions. And now, this year, as well as next year, we are going to focus on some of the remaining BS-VI products. The Phase-2 ones which we had intentionally decided for Phase-2, as also preparing for the next set of regulations. So that's where we are focusing and have been able to cut down the CAPEX, very, very well.

In terms of demand fulfillment, as you know, we have five plants in commercial vehicles. All the plants have started -- have become operational now. From 18th of May, we started the first

plant, and 28th May it was the last plant which started. And all the plants are functional now. We have around 30% of the manpower, which is coming to the plants to start the production. So transition to the BS-VI has happened now, and we have started producing the BS-VI vehicles. As a part of this, we are also tracking the suppliers' ramp up. So we were tracking almost 1,000 supplier sites within the country to ensure a smooth ramp up. And I am very happy to tell you that more than 95% of all these vendor sites have started working, which actually supply the material to us. And as a part of that, we are in a good stage now for ramping up our BS-VI production. We are maintaining the social distancing measures within the plants. And the MHA guidelines have been converted into very clear standard operating procedures. So more than 100 standard operating procedures have been put in place, be it for our plants or channel partners. And there is also a strong audit mechanism to ensure that all these procedures are adhered to.

During this entire period, we also looked at our social responsibility and support to the community, especially to the driver community. So we have ensured that the insurance policy that we were giving to our drivers, the medical insurance policy, also covers COVID testing and treatment now. Within our plant, we have continued to support all the temporary workforce, as well as the local communities around the plant. And through our channel partners, a lot of support has been provided to drivers all across the country, especially when the lockdown started, the lot of vehicles which were stranded, the drivers were stranded, and our channel partners have provided a lot of support to them during this entire period. So these are the actions, which are in place in the buckets for demand generation. So we did start off the pipeline generation as the country comes out of lock down. Demand fulfillment, I think we are ramping up our production for BS-VI, and we will be in a position to supply the pipeline that we generate.

And finally, I think, a very strong focus on cost reduction and cash conservation actions also continue to ensure that we are absolutely on track. Balaji, back to you.

P. B. Balaji: Thanks, Girish. Can we quickly move to the PV slides, and I will hand it to Shailesh on his plan. Shailesh?

Shailesh Chandra: Yes, thank you, Balaji. So as far as PV business is concerned, as mentioned by Balaji, now we have a very strong product portfolio in place, which provides higher addressable market on the back of a completely new refreshed range. And this provides us an opportunity to reimagine the PV business and secure its future growth. So the approach would be to deliver on some key milestones in a very time bound manner and through very strong rigorous execution. And as you can see, these milestones are driving higher sales to achieve double-digit market share on the back of these strong products. We would be focusing on strengthening the operating cash flow and ensure it would be through structural corrections in the variable cost and fixed cost. And of course, then expand and strengthen the product portfolio through the internal accruals and potential partnership going ahead.

So in order to support these milestones and drive systematic actions, we are going to focus on six key areas to reimagine the business and prepare it to be relevant and fiercely competitive in future. So the first one is reimagining sales. And we will focus here in driving change and

mindset towards retail. And we would direct the policies and work practices that drive this behavior, and also bring forth cohesive working between the Tata Motors sales team and the dealers, which would ensure better client engagement as well as a very strong focus on the customer experience. The second one, which is reimagining the PV dealer process and resources. In this initiative, we are going to focus on driving twin objective of growth and network profitability by really defining the dealer systems and the HR practices to ensure that we don't compromise on the sales attractiveness.

The third one is around reimagining the product delivery. And as I mentioned, we now have a very comprehensive and refreshed product portfolio in place, now the focus of this initiative will be to ensure that an agile system and a team is in place that keeps the portfolio relevant, basically through timely and speedy interventions so that we keep the market excitement on as far as our portfolio is concerned. The next one is reimagining the PV digital transformation. As you know, digital is going to be the key source of differentiation and a key interface in the new evolving customer journey. And we see that COVID has just accelerated the shift toward greater mix of the customers to get an end-to-end immersive experience on digital platform. And therefore, digital transformation initiative is focused on delivering enhanced user experience, customer connect and reach.

Now, the fifth one, which is reimagining PV after sales. Sure it is of great importance, I think, for the business. And we have the aspiration to be seen as a leader in after sales experience. We have covered some distance in this regard by being ranked Number 2 in CSI for the last three years. But I think we definitely need to bring greater transformation to achieve our aspiration. And this specific initiative is going to focus on the same. Last, but not the least, reimagining PV brand and marketing. Over the last few years the new products that we have launched and the strategy of focusing on being NEW FOREVER has actually helped us in establishing stronger connect with the personal segment customers, and also relate to the younger customers. And it gets reflected in the fact that our NPS score has been increasing over a period of time and today it stands at around 25. And therefore, we need to continue working on enhancing our brand imagery to build very strong perception of the PV business in the market, which is very essential to drive the future growth.

Apart from this, pretty much similar to what Girish mentioned about cost reduction initiative. There is a very steep reduction which we have planned for both bringing structural improvements in variable costs as well as fixed costs. And the focus here is to take it to the next level of what we have been doing for the last two to three years, and we would take it to the next level by implementing new cost reduction levers, making the decision-making faster. And also, we have significantly increased in the last two months also the intensity of ideation workshops. So we are pretty confident that the stretched targets that we have taken as far as variable cost and fixed cost reductions is concerned gets delivered.

So this is in summary what we are planning to do as far as reimagining the PV business is concerned. Back to you, Balaji.

P. B. Balaji:

Thanks, Shailesh. Let me now move forward, Prakash. Just get in to the funding slide. At this point in time, we are in final stages of securing a Rs. 4,000 crores of term funding; Rs. 1,000 crores already done, another Rs. 3,000 crores will be done in the week itself. And we will continue to evaluate other options at an appropriate time. And we believe, therefore, we are well placed from a funding perspective.

Tata Motors Finance, I will take a minute on that. It's a business that is now actually implementing the strategy that we had called out assiduously. And it's going asset light, it's looking at its ROE improvement plan. And even though the disbursements have slowed down, thanks to the market situation, continues to hold a steady market share of about 27%-odd. And its asset-light strategy meant that it has securitized or assigned more than Rs. 9,000 crores of assets that we have sold down our assets. And the overall GNPA, we would want to track it both on and off book so that the quality of the assets that we are managing is there, so that is about 5.1%. And most importantly, the cost to income ratio, which was about 67% last year is now down to 51%, and it will go down further in the coming year as well. Sufficiently liquid, and we are not seeing any challenges with respect to it getting its money that is needed. And this business has now delivered a PBT of Rs. 149 crores compared to Rs. 123 crores last year, an improvement despite the challenges that the NBFC market and the industry actually face.

Move forward. So last but not the least, I will leave looking at slide with you, calling out two things. One is, at this point in time, we will suspend the outlook till we get clarity on the demand. With the minimum revenues both in JLR and here, we do expect Q1 to be significantly impacted. But we do expect to see a sustained improvement in cash flows from Q2 onwards as things pick up, and both in TML and in JLR. And therefore, the plan on with a very clear call out on deleveraging, which I called out earlier, and the focus on JLR getting cash positive next year and TML from cash positive from this year itself, we believe that we are on the right track. But obviously, the COVID crisis means that the level of challenge that all of us are dealing with has gone up multi-fold, so that means we need to respond also with the same level of intensity. And we believe with the intervention that we have planned on cash, on cost, on Charge, on CAPEX and explicit call out on deleveraging, we believe we are moving in the right direction. And as and when we have further actions in this direction, we will share with you. But the theme of deleveraging is something that I would want to leave you with as a take off.

With this, let me now hand you over to questions. Yogesh, over to you.

Yogesh Aggarwal:

Thank you, Balaji. Operator, can we take questions now?

Moderator:

Yes. Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pramod Amthe from CGS CIMB. Please go ahead.

Pramod Amthe:

Yes. Hi. This is Pramod here. Two questions. One, with regard to the stimulus packages launched in the global car market, how do you view them as they are more inclined towards CVs? And how you feel JLR is positioned to benefit from the same?

- Adrian Mardell:** Do you want to cover that one, Balaji?
- Moderator:** Hi, Adrian. Yes, please go ahead.
- Adrian Mardell:** So the first question, wasn't the first question on PV? It's very difficult to understand the questions here. So we have problems to understand it.
- Pramod Amthe:** Okay. If I can repeat. Basically, considering that there are stimulus packages being announced globally for reviving the car demand, what is your view on the same? And how JLR is positioned to benefit from the same?
- Adrian Mardell:** JLR stimulus package for what, excuse me?
- Pramod Amthe:** For car demand revival in Europe and other countries.
- Ralf Speth:** Oh, the stimulus at the moment from the countries is quite different. In Europe, difficult to understand. In Norway, we are the very first one in introducing premium electric vehicles, and we have our I-PACE, the award winning car. So in this kind of going green, we can maybe benefit. In addition, we have six PHEVs already in the marketplace, so we have a very, very young model line. So also in that context, I guess it will help. And I see in the U.K., still the discussion about the order of stimulus, so I cannot give you a clear picture about that.
- Pramod Amthe:** Sure. Second question is with regard to the PV business. What is the interest you are looking at or a timeline for bringing a partner into the PV business? And how should we look at those milestones? Thanks.
- P. B. Balaji:** Yes. So the partner, I think we are in conversations with various OEMs and multiple levels of interest is there in this. And at an appropriate time when we are planning the right partner we will definitely tell you. One of the reasons for the subsidiarization is also to enable us to get a right partner in the subsidiarized entity and is very much part of our plan to make PV sustainable over the long run.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Sorry for your loss at JLR to COVID. My first question pertains to the debt covenants, Balaji. As in, is there any risk of any of the debt covenants across the Group companies is getting breached, given what is happening with the financial performance? And also, related to that is, basically, the existing financial support what you guys are getting from the U.K. government and how much does it impact your ability to really right size the U.K. operation given the substantial drop in volumes and substantial scale build up outside of U.K. So, if you can address both of them, please. Thank you.

P. B. Balaji: Yes, I can confirm we don't have any financial covenants that are onerous or that get breached because of this. So, those are well under control. As far as U.K. government, the last one we had was a U.K. funding that happened, and that is something that we took it in October last year, and those have been well received and as part of the funding plan for the year. For the new ones, as JLR has called out earlier as well, conversations continue on a variety of area. And as and when something fructifies, we will let you know. And I think from our plan, those are refinancing debt, they are not a fresh debt because the overall deleveraging plan is basically being called out to ensure that we take down the levels of debt to more sustainable levels. And hence, as and when something fructifies, we will share with you.

Pramod Kumar: And any restrictions which come attached with these funding arrangement on your ability to right size or shut one of the plants, anything like that?

P. B. Balaji: The conversations happen on multiple forums on this. And we have said, at this point in time, we will take the debt that we believe is comfortable for us in terms of adhering to the requirement our strategy as well. So, still I think these are still in discussion stages. If something fructifies, we will share with you.

Pramod Kumar: And second question is on the JLR negative working capital. This is one of the few companies which has got a negative working capital cycle. How sustainable it is given the headwinds for the dealer community is also facing and the shrinking volumes right and the increasing complexity of the business? Because that's a big source of capital for us in terms of cash flow generation. What is the level of confidence on this being the sustainable factors, even say two years to three years, five years out from the management level?

Adrian Mardell: So let's be clear about why the negative working capital is actually happening. It's happening because we stopped building vehicles in the third week of March for seven weeks and therefore we stopped bringing parts into our factories, and therefore we were paying suppliers for previous deliveries two months before which we actually are no longer building vehicles. It will reverse once our plants open, as they have. It will reverse once we start bringing parts into our factories and it will fully reverse once demand lifts toward pre-COVID levels. So, it's purely as a result of settling supplier payments for the previous six weeks to eight weeks worth of production, and not actually building cars from the end of March through to the end of May. The restart process page we showed you, showed that most of our plants began building again, we commenced in the 18th.

Pramod Kumar: Adrian, apologies. My question was on the sustainability of the negative working capital model where you get the money from dealers upfront and you pay your vendors with the delay. How sustainable is this practice of getting the money from the dealers upfront? Because most of your global peers don't run a negative working capital cycle, wherein working capital is a source of cash flow. My question is pertaining to the sustainability of this in the longer term.

Adrian Mardell: We work with funding partners within all of our regions. We have referenced North America where we work with Chase that's a well-established model that. We actually put in place just

after we came out of Ford Motor Company 11 years ago in the great crisis. So, that is incredibly sustainable as a model and it will continue. And the working capital negative will reverse once we start building cars.

Ralf Speth: Thanks a lot to Goldman Sachs to increase the forecast. So credit is really very interesting.

Pramod Kumar: Thanks a lot, and best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Balaji, my first question pertains to really a housekeeping one on gross margins. We have seen across businesses in this quarter gross margins deteriorating, essentially with YoY. So, any specific reasons for that? Is it more because of inventorization or there has been pressure on commodities or pricing pressure also?

P. B. Balaji: Two, three things that come to mind straight away. One of course is, if I take the India business, the mix has been completely out of whack given medium and heavy commercials going down. So, that has been a headwind against us. Then of course is VME both here and JLR, because of the BS-VI migration, BS-IV inventory being taken out, discounts in the market because of a stressed out market situation. And JLR, of course, Adrian did talk about the residual value impact coming from, let's say, an area like U.S. And third of course is, given the entire China situation that we had during the course of the year, your mix from a geography perspective also works against you as far as JLR is concerned. And the combination of these mean that you do have a challenge on the contribution margin. And those are the things that we hope to reverse as we look ahead of it. Commodities per se, as we look into the future, no major inflation expected as far as purchased material. Yes, there will be here and then things there, particularly some of the things like rhodium, platinum would be things there to watch out for. But barring that, no major commodity inflation coming up.

Chirag Shah: And the second question was on the comment made in JLR breakeven level has been brought to around 500,000 units. How much more it can go up over next 12 months, the breakeven levels in JLR?

P. B. Balaji: Adrian, would you want to pick that up?

Adrian Mardell: Yes. We are really struggling to hear the questions. I am sorry. The line clearly isn't very clear. So, could you repeat your question please?

P. B. Balaji: Yes, let me, I think Chirag's line has got a problem. The question was, at 500,000 units cash breakevens have come down significantly to 500,000 units. How much further can it go down basis your experience was the question?

Adrian Mardell: It would be much lower in this fiscal year. So, at least another 10% lower than that this fiscal year. But my view is, once we actually reappraise what COVID means, we will be better placed

to actually respond to that question. But it certainly can and will be lower in FY '21 than the 500,000 units, significantly lower.

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

Sonal Gupta: So one, on JLR just wanted to understand, there seems to be a very sharp decline in average selling price per unit in this quarter versus previous quarter. So, any exceptionals which are going in the revenue, I mean, in the VME? How big was the VME for this quarter?

Adrian Mardell: Yes. So, there is two pieces impacting that, obviously in Q4, COVID actually impacted China more than other areas, and that's important to us. On a VME basis, we had two significant adjustments to make, one was a reappraisal on the marketing required to actually sell the 100,000 units that we actually had at the end of March. We booked about 2 percentage points increase in VME for that within the quarter. And the rest was, I think, I referred to earlier about the incremental residual value risk we fed in which was \$78 million, which is just over 1 percentage point. As a result of weakening of residuals and the option prices in April and May, although they did actually strengthen in May. We think that \$78 million incremental provision is about right. That was the latest assessment we did toward the end of May. They are the two big pieces within the quarter that dramatically impacted the net revenue.

Sonal Gupta: Sure. Thanks. And Balaji, the other question I have is, I mean like, what is your thinking in terms of raising further equity for the company? And what will drive that? So, just want to understand, I mean, like how do you see the funding requirement from an equity perspective.

P. B. Balaji: I think two comments here. One, if you look at the internal plans for the business, very clearly looking at significant cash generation, both in JLR and in TML going forward. And I think additionally, the call out on deleverage has also been done. So, I think the key trigger for this if you look at what is the level of our demand and how fast it is coming. And basis that, we will need to decide how do we ensure that the business remains in sustainable levels of debt. And at Rs. 48,000 crores and also the call out on the Q1 numbers, we believe definitely this debt is unsustainable. And therefore, the operational plans have been put in place. And then we believe that is good enough from a point of view of ensuring a level of cash generation that we can show the debt to start coming down. And then we need to look at other options subsequently. But the entire focus is to get the operational performance up and not just look at it from an equity perspective alone. But the issue is not a debt equity issue per se, it's about sustainability of debt per se, and the interest cover that you need to operate with. And the demand shock is what we are watching, which we believe is going to get worse, then we will need to think about it.

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

Vinay Singh: The first question is on China. As the chart shows, we have started to see volume recovery. Could you comment a little bit about discounts in the market? How is the profitability of China, and how do you see the profitability of China JV going ahead? That's the first question.

Adrian Mardell: Okay. Let me take that one before your next question. So, think about China as two pieces of our business. One is an import model where most of our larger SUV 5 units go. Actually, through this recovery period of April and May, transacting prices have increased, and therefore marketing support has been a little lower. So, not only do we get a bounce back over year-over-year, actually the price that the customer is paying in the market was slightly higher, 1% to 2% more than in pre-COVID periods. From a JV model, we have done a lot of work as a team with the joint venture over the course of the end of 2019 calendar year. That was impacted by COVID. The plant actually was the first of our plants to close at the end of January, but we did actually introduce the Charge+ program at the JV, and it was sponsored by our partner Chery as well. So, we now believe we have actually reduced the breakeven point in China operations very, very close to the forecast volume for this year. So, you will see improvements. And that's all areas, just like the Charge+ program. So that's some manufacturing cost, that's on structural cost, that's on marketing cost, that's on material cost, and also net revenues. So, we are working hard to increase the net prices for all of our vehicles. I think I had mentioned before that four of the five nameplates have been refreshed over the previous 12 months. We took a lot of action to reduce the stocking levels and that is all starting to come together. So, I can confidently say on the track we are on, you will see year-over-year improvements from Q1 and going forward for our JV business.

Ralf Speth: It really looks positive.

Vinay Singh: Yes, that's encouraging. The second question is, when we look at the Charge+ plan for 2021, how dependent is it on underlying volume, especially the sustained improvement target that you had for GBP 750 million? Or the other way around, what is your sort of underlying volume framework when you are setting out for this GBP 1.5 billion of savings?

Adrian Mardell: Yes. Less based on volume than you might think, of course, elements for the Charge program, like our material cost would be. If we take a pound out the car and produced 500,000 cars, it's more than if we produce 450,000 cars. So there is a direct link on our material cost element of the program. But I did mention I think earlier that, that particular element to the program will kick in, in the second half of this fiscal year, where we do expect volumes to be higher. The other elements, warranty cost is a big piece of it, much less volume-dependent, actually, more about where we sell which cars. And the energy we are now getting in speed of effects which has dramatically improved over the course of the last 12 months, as well as the early signals that we are starting to see on '20 model year vehicles, they are definitely tracking better than the last three model years, particularly 2018 and 2019, which is the really great news here for us. Rules of the road do not allow us to start to show that until the vehicles become more mature. But at the end of quarter one and certainly quarter two, if we continue on this track, we will see improvements on warranty cost performance.

Parts and accessories will be partly actually be impacted by volumes. Of course, as you would expect, there is a link to volume there as well. Other elements like overheads, if anything, we have been more aggressive through the Star Chamber. So, those structural costs will likely be lower in the first half of the year than they would otherwise have been as we have constrained the organization in partial hibernation while we just haven't been building. So, it's a mixed bag, but the pieces that flow strongly will be the material cost piece, the parts and accessories, the warranty and the elements of that structural cost piece. So, the program is really well balanced actually, and I think you will be quite impressed as we go forward in the quarters.

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

Kapil Singh: This is Kapil. Thanks for the opportunity. Balaji, I wanted to know what is the sustainable level of CAPEX that we should think about, both the India and JLR business? And how much is the R&D and maintenance split for both?

P. B. Balaji: Yes, I will let Adrian talk about the JLR business. As far as India is concerned, I think the starting point of it is about what is the level of demand that is out there and what is the level of affordability that you can have. And obviously, one does want to ensure that the products are out there, but all these also require a demand on the other side. So at this point in time, it's the recalibration of the CAPEX of Rs. 1,500 crores, all of it is CAPEX. And this will have bulk of the focus will be on regulatory compliance and the new products that we intend to launch. Not much as far as on the ground and factory investments are concerned. Yes, they will be to the extent of tooling or jigs and fixtures and robots that we have put in place, that's about it. But bulk of it will be related to regulatory and products. As far as sustainability of it is that, I think it totally depends on what sort of affordability that you have. And then a plan to deleverage, we will obviously look at all options, including partnerships to ensure that we are managing this in the right way. Yes, Adrian, on the JLR side, would you want to pick it up?

Adrian Mardell: Yes, thank you. Well, we have given you the guidance on the GBP 2.5 billion for this year. Just so you are clear on that, we do have some of our programs on pause. Obviously, the ability to actually work all the programs the way we are attempting to work is more difficult. So you should see, and you would expect to see actually half one investment being lower proportionally than the second half of the year. We do expect to lift those pauses as we go through the course of Q2 into Q3, which is the GBP 2.5 billion. And by the way, within that, just to repeat, there was no significant change or cancellation of any of our programs. Clearly, affordability and speed, speed of development will be judged going forward. We will build our liquidity, that's most important. We are determined to be free cash flow positive. Within there, there is a level of affordable investment and we will moderate for time without actually missing a drumbeat on the product. So we have given previously guidance of up to 4%, it will be lower than that. We will come back later in the year once we figured out speed of liquidity build and affordability and what that means for those programs on pause.

P. B. Balaji: And then, Kapil, just to add to it. There was a precise reason why we are giving ourselves degrees of freedom, with the interventions on cost and cash both here and in JLR, because it's not sustainable, you can't cut your way to prosperity, you will need to grow your way to prosperity. And the cuts are more disciplined to ensure that we choose the right vehicles to invest in. So, this is not the norm, this is more a way to ensure we survive the crises. And then once we tighten the belt, get our processes right, nothing stops us from getting back on track again. But we need to acknowledge the external reality.

Kapil Singh: Yes, fully appreciate that. Second on Defender, we have 22,000 bookings. Are these retail bookings with deposits? And could you give some color what kind of demand you are seeing there, I mean, monthly bookings or something?

Adrian Mardell: Yes. So these are dealer orders, just under half of which have already been pre-sold to customers. We have seen quite a positive - as we often do in early parts of the program - mix of those vehicles is proportionate across all of the regions. There is no one region any stronger than the others necessarily. So, we have got a good balance of those sales, a good mix of the sales across all regions. We got more than three months forward cover. And bear in mind, we haven't had one dealer launch yet. So, we have really sold this off our virtual event, with just the 11 we have actually contained all orders on the 90. So it's a really, really very strong start. Clearly, we are in an unusual environment and an unpredictable environment. And again, I know I keep saying this, but we will be much stronger placed in three months to be able to give you some direction you may be looking for from what we can expect from this product. But very excited over the first few months.

Ralf Speth: You should drive one, it's fantastic.

Moderator: Thank you. The next question is from the line of Gaurav Khandelwal from Mirae Asset. Please go ahead.

Gaurav Khandelwal: My first question is, I wanted to understand how well is the pension account in JLR funded? And while you are there, with the decline in interest rate, is there a risk that you would have to invest one-time in the pension account?

Bennett Birgbauer: Do you want me to take that question?

Adrian Mardell: I would love you, Ben, to take that question. Thank you.

Bennett Birgbauer: Okay. So, because of the way rates moved at the end of March with many of the distortions in the market, we actually ended the year with a pension surplus of over GBP 400 million. So I would say that was in part a result of unusual rates, particularly wide credit spreads at the time. And so, as credit spreads have normalized, I would expect that we see the pension return to a deficit position as it was before. So, I think that is what I would say. I think it is a manageable burden at this point in time.

Gaurav Khandelwal: Thanks. Good to hear that. And Balaji, any indication what kind of a funding you would need to invest in Tata Motors Finance?

P. B. Balaji: None for the year. You will notice that we have gone in for an asset-light strategy and we are selling that down. And the debt equity ratios, measures are all trending well, and therefore no plans to invest at this point in time. And they will be self-sufficient in their funding requirements by sourcing and selling down assets. We will go asset-light there. We are already at about Rs. 32,000 crores and we will bring it all the way down to Rs. 23,000 crores.

Gaurav Khandelwal: Balaji, last question from my side on the domestic business. If I just draw horizontal comparison on a quarter-on-quarter, employee costs and other expenditures, I think both these expenditure have been very sticky in the stand-alone business from the last eight quarters, particularly the employee cost. And now your volumes, because of exceptional reasons, have been down at almost around 40%, 50%. But what gives you confidence that you will be able to cut down your costs going forward when in the last two years these costs have actually not reduced there, they have only increased on absolute basis?

P. B. Balaji: Okay. We shouldn't forget that as a business that was growing at about almost 40% U-turn and then drops to 37%. There is a lead time to actually to navigate that kind of a fall that is there. And if you look at percentage turnover, three years in a row that employee costs, the percentage turnover was actually trending well down. And our entire focus in Tata Motors, if you recollect I stated multiple times, while fixed costs have been tightly managed, our intention was to go look at the variable cost and get it right. And now with the collapse in volumes of this magnitude, I know by coming through this, the current cost road plan will have all aspects of course looking at it, including fixed cost. And therefore, those plans will be put in place to ensure that we reduce our breakeven in a collapsed volume scenario. It's a question of focus that we are working on. And at that point in time, with the growth in volumes, we had one kind of an objective. And now with FY '20 turning the way it did, you will obviously have to correct for it going forward. And that's part of the plan for the year.

Moderator: Thank you. Next question is from Sahil Kedia from Bank of America. Please go ahead.

Sahil Kedia: I have a question for Balaji. Balaji, what happens to your hedging strategy in the FOREX side at JLR, considering that there has been such a sharp decline in volumes, how are you thinking about that? Because some of the hedges would be taken before. So first, if you can kind of give us your thoughts on that?

P. B. Balaji: Yes. I am sure Ben is itching to go on this particular point, but let me just hit the context and then hand it over to Ben as well. Hedging and underlying go together, and as the volumes start coming off, we consistently keep reviewing our hedge position and we do dial down, dial up depending on the ranges that we operate under. So, this is a dynamic process and it is very similar to ordering inventory, we order hedges on that respect. And that's how we put it out and take it out depending on what is the external demand out there. So therefore, we do not expect any dramatic noise on the hedges because of this. Once you take underlying plus hedges together,

which is what we have been consistently reporting. Let me hand it over to Ben in case he would love to give more color to it than what I've given.

Bennett Birgbauer: Yes, the only thing I would also mention is that, just because of all the uncertainty in the world, with Brexit and otherwise, we have been more conservative about our hedging level. So, we went into this with lower hedge levels than perhaps we would have in the past to start with. It is the case that we have been dynamically monitoring the reduction in volumes and we have been proactive and essentially are closing out hedges as soon as we see any risk of over hedging involved. And that hasn't involved any significant release of P&L as a result of those closeouts, just because of where the de-designated hedges have been relative to the hedging rates they were originally done at.

Sahil Kedia: Thank you. I have one more question. So you guys have taken the advantage of the furlough from the U.K. government. Can you tell us what is the amount or what is the likely amount that you could have done? And what is the benefit that you got? If you could just help us quantify that.

Adrian Mardell: So we expect over the quarter one period the monthly amount to be close to GBP 50 million, 20,000 people were furloughed at maximum. That is now reducing in June, of course, now we have 13,000 people. If you use the GBP 2,500 a person, you broadly get to the monthly amount.

P. B. Balaji: Before we go onto the next question, it's 8 o'clock now here, and we had the call so that we are ending at this time. But given there is a fair number of questions in queue and maybe the presentation overrun a bit, happy to extend it by, say, 15 minutes, if it works for all of you. And else, happy to take it down here depending on how each of your individual diaries are. So, we are happy to say here in case of further questions are coming up for the next 15 minutes.

Moderator: Sure. Thank you very much. We take the next question from the line of Rakesh Jhunjunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjunwala: Yes, Sir. Good evening, sir. I applaud your great fight back. My question is, one on the electric cars, since your electric car I-PACE has got such a good response, what is the capacity we have to manufacture? How can it be scaled up?

P. B. Balaji: Shailesh, can you pick this question up?

Shailesh Chandra: Balaji, this was regarding I-PACE?

Rakesh Jhunjunwala: Regarding Jaguar's electric cars.

P. B. Balaji: Oh, Jaguar I-PACE?

Rakesh Jhunjunwala: Yes.

P. B. Balaji: Adrian, this is about Jaguar I-PACE capacities and ability to scale up further.

Adrian Mardell: Yes. Well, it's more about battery supply actually, I think for us. So, you see the volumes there within our FY '20, 16,000 units. I think we referenced on several occasions, the demand ebbs and flows with different incentives from governments. Ralf mentioned that earlier, we have capacity to scale that number up based off the battery supply contracts we have, 30%, 40% relatively easily. So, we don't see any upside misses or upside losses as a result of potentially scaling up as those government incentives shift going forward.

Rakesh Jhunjhunwala: And is there gross contribution in this product as much as the other products?

P. B. Balaji: I think the question was, is the gross contribution of this product as much as other products?

Adrian Mardell: Well, the propulsion system, as you know, I think is more expensive than the other products. Where it holds, where the market price holds up, you don't oversupply, it can be certainly yes. We are learning what those supplies are and they are changing very quickly on us because changes to government incentives. But as a base contribution, we actually make a considerable margin. And don't forget, of course, it's also there as a strategy, as a part of our CO2 compliance. Obviously, that full BEV units are the most compliant units and it's a part of our overall portfolio which enables other sales and other nameplates as well. So there are two reasons, obviously, the vehicle itself and the value we make on the vehicle, but also it aids our compliance strategy which is so important to us.

Rakesh Jhunjhunwala: Adrian, how good is the demand?

Adrian Mardell: How good is the demand?

Rakesh Jhunjhunwala: Yes.

Adrian Mardell: Well, I think I have answered that. I think there is some upside capacity we could build should the demand be there. And the demand ebbs and flows really quite quickly depending on government's approach toward the full BEV units.

P. B. Balaji: Just to add just from numbers perspective, if we look at, like, the current year, the I-PACE sold about 16,000 units and it is one of the growth drivers in terms of 4000, 5000 units more than what it sold last year in these challenging times. So, we believe there is opportunity here. And now with all the PHEVs and other electric options coming through in the cars, we believe this is something that is going to reduce the risk profile of the sales in JLR across markets, across the board.

Rakesh Jhunjhunwala: No, no. I am talking from the point of view of price-earning ratio. But look at the way Tesla is valued, as you are selling electric cars, why should you also not be valued there? Another question I had is, can you give us the quantum on hedges that you have? To what percentage or what is your hedges? Because the pound has recovered very sharply against the dollar. So the question is that, what are you are hedging your dollar revenue/ And what are your open hedge, what are your hedges amount?

- P. B. Balaji:** Ben, would you want to pick this up, in terms of your dollar revenues and the hedges that you have, and your hedging rate, all of which is there in the update that you gave.
- Bennett Birgbauer:** I am sorry. I apologize, Balaji, I couldn't quite understand the question. What is the question?
- P. B. Balaji:** Yes. The question is, what is the dollar volumes that we have? What are the dollar hedges and absolute that we maintain? And typical hedge ratios we operate under.
- Rakesh Jhunjhunwala:** No, no. I would like to correct it. We maintain accounts in pounds, so therefore we are hedging the pound against all currency, our revenue is finally recognized in pounds.
- P. B. Balaji:** That's correct, sir.
- Rakesh Jhunjhunwala:** Okay. So what is the quantum of hedge that we have, both on the supply side and on the sales side?
- P. B. Balaji:** Correct. So, Ben, the question is, what is the revenue hedges we have got in place?
- Rakesh Jhunjhunwala:** And at what rate it has been hedged.
- P. B. Balaji:** Correct. What are the revenue hedges and the rates at which we do it? And what are the supply rates and the hedges, particular in euro and what is the rates at which we have done it?
- Bennett Birgbauer:** Balaji, that's a little bit too specific a question. I actually need to pull up the notional principle of the hedges and come back. I don't know if we could go to another question and I will pull that information up and then we will respond.
- P. B. Balaji:** Yes, can we just take this question in two minutes, sir, as he pulls the data?
- Rakesh Jhunjhunwala:** And I must congratulate you all for your response. I mean, it's very good and limiting the **return** but I think things will improve dramatically.
- P. B. Balaji:** Thank you, sir. We will come back to your point on this one once Ben pulls up. Just WhatsApp me once you are ready, yeah? In the meanwhile, we go to the next question.
- Moderator:** Sure. The next question is from Aryn Pirani from CLSA. Please go ahead.
- Aryn Pirani:** My question was on the fact that you have cut your CAPEX significantly, especially in India, and you have taken write-downs also with respect to the Passenger Vehicle business. So, what are the trade-offs which have been done in terms of future launches? Because part of the strategy for Passenger Vehicle business turnaround was new launches and improving gross margins. So, how does that work going forward?
- P. B. Balaji:** Okay. Maybe, Shailesh, you would want to pick this up as to how you're prioritizing your portfolio?

Shailesh Chandra: Yes, I will take it up, Balaji. So, thanks for the question. I think there is going to be no compromise as far as some of the future launches are concerned, and that is pretty much on track. And the significant release of CAPEX has come from the work which we have completed as far as the regulatory work was concerned. As you would have seen that at the start of the year, not only did we launch a new product like Altroz, but also took this transition from BS-IV to BS-VI to completely refresh and do model cycle enhancements, mid-cycle enhancements also with the significant changes in the product styling etc. So, a lot of investment has been made already, and that allows us that we are able to bring down the CAPEX for the time being. And there are new products which are also in the pipeline. This is something which we are continuing to invest on and therefore there is going to be no significant compromise as far as our future our product line is concerned. Of course, as we improve our profitability, our cash generation from the business that allows us to more strengthen and grow our portfolio has been better, that is something which is a decision, which we will take as we also come out of this very uncertain environment. And then, we would also have to invest into the next step of regulatory changes which are going to come emanating from CAFE as well as BS-VI Phase-2 and RD. So, I think we should be pretty much on track if everything goes as per the plan. So, not major compromises is what we have made.

P. B. Balaji: And then just to amplify that point further, I think, this is not the way it will happen forever. We need to be clear that at some point, I mean, you need to get back into product creation mode and we don't want to leave gaps in the portfolio because of that. But it is just cognizance of the collapse in demand for us to sometimes take this bitter pill of saying that let's just pause it a bit and get back to normalcy before we start again. We can't just keep burning cash.

Bennett Birgbauer: Hey, Balaji, we can go back to that question, if you want.

P. B. Balaji: Sure. Go for it, Ben. Mr. Jhunjhunwala, if you are there. Ben, go for it, yeah.

Bennett Birgbauer: Yes. Okay, so the outstanding value of our hedge book in terms of notional principal and recognize that we are hedging out as far as four years or five years on some currencies is about GBP 3 billion on renminbi, about GBP 8 billion on dollar and then on euro around GBP 6 billion equivalent and then smaller amounts on some other currencies. So, that is the amount of hedging. In general, we are hedging between 60% and 75% one year out and then descending in 20% drops from thereon beyond that. So for example, we would be at 55% to 40% two years out. So that is the policy that we operate.

Rakesh Jhunjhunwala: So, what is the rate at which you are hedged?

Bennett Birgbauer: So as an example, in this year, the hedge rate on the dollar portfolio is in the mid-1.30s descending to the low-1.30s after this year. The hedge rate on the euros is around 1.13 to 1.14 in FY '21, and a little bit lower than that in the years further out as an example.

Rakesh Jhunjhunwala: And the renminbi, the Chinese currency?

Adrian Mardell: On the renminbi, the average hedging rate is in the low-9s in FY '21 and FY '22. But I guess I would just point out that the renminbi, because the hedging market doesn't go out as far we only hedge out two years on the renminbi.

P. B. Balaji: Thank you, sir. I think we have time for maybe one last question before we wind down.

Moderator: Sure. We take the last question from the line of Sri Ranjan from Antique Broking. Please go ahead.

Sri Ranjan: My question is for Girish. You have been gaining market share in last two years too, I mean, as you have said you said roughly 57% in M&HCV, even ILCV. So what is the aspiration there? I mean, how do you look at it? Say, we were at some point of time at round 60%, 65%. So that is our aspiration? And then the second part is on the BS-VI products. I mean, how do the products do, probably you know even the competitor product etc., also. So how do you see, I mean, are you prepared in jacking up the market share again?

Girish Wagh: Right. So I think on the first question regarding market share. Yes, I think we would like to continue with this trend. But it is very important to note that we have to take a balance between market share as well as the realizations. I think in the previous year, the realizations have taken a hit because of the inventory which was piled up when the market collapsed suddenly. So this year we have a target to get both market share as well as realizations up. So that is the response to the first question.

On the second question, I think we have done pretty well in terms of our BS-VI range. So right almost three years back when we conceptualized this products we were clear that we are not going to use this milestone as for just regulatory compliance, but actually deliver more value to the customer. And that kind of planning and conceptualization happened across the entire range. So we see almost entire range we have better total cost of operation being delivered to the customer. In addition to that we have also come out with a lot of value enhancers across the products, which is something that the customers were looking forward to. And we have also improved our performance across most important attributes that the customer value during the purchase decision making.

So if you look at it, I think, therefore, we have a very good product range. We have also selected the technology most aptly depending upon the segment and the usage. So we have, for example, in medium and heavy commercial vehicles, two engines from Cummins and one of them, of course, is the largest selling engine in the commercial vehicles globally. We have also used the technology expertise in after equipment, both for their engines as well as some of our engines. So I think, both from technology point view and from value proposition point of you, we are very well placed in the commercial vehicles and accessing the entire range. And with this, we will evaluate this, dial-up our communication to ensure that we gain market share across the segment.

Sri Ranjan:

Yes. And just lastly, I mean, on the small commercial vehicle side. So, how do you see the future? Because, I mean, there are couple of three-wheeler players who are also thinking that some of the products will not be available so small commercial vehicles market will probably shrink. So we will be actually getting, I mean, three-wheeler will be gaining at expense of four-wheeler small commercial vehicles. So what is your thought on that?

And one more question to the passenger vehicle side. So the products are ready, I mean, most of the products we have filled the white spaces broadly. But in terms of features and all, I mean, like we have seen in case Harrier, we have launched many new features after the year or so. So how do we see, I mean, so can we think of launching all the barriers, all the features at the same time so that we don't lose out in terms of the customers, which has happened particularly in Harrier?

Girish Wagh:

Right. So let me take the first one. As far as small commercial vehicles are concerned, this segment will also de-grow during this year as it did last year. But the rate at which the de-grows is always less than that of medium and heavies and intermediate and light commercial vehicles. And that is the kind of trend we are seeing this year also. So the demand generation that I spoke about, I think the pipeline is healthier on small commercial vehicle as compared to the larger vehicles. That is Number one. Number two, I think three wheelers hitting into small commercial results, the actual trend that we see is exactly opposite, and I am talking about goods carrier segment. So over the past few years, actually customers have been moving up the ladder and moving more towards four wheeler like an Ace, because that gives them better total costs of operating as well as better earnings during the month. And I strongly believe that especially BS-VI with the kind of range that we have, even in Ace, the starting from gasoline, which almost retains the BS-IV pricing point, the CNG version as well as the diesel version, we have a very strong lineup. And in fact, we are actually priced to take away market from three wheelers. Passing on to Shailesh for the next question.

Shailesh Chandra:

Yes, sure. So I think it's a pertinent question as far as Harrier is concerned. But I must qualify that our attempt has always been to do a proper featuring study of what are the features which are going to be relevant three, four years from now, whenever we will develop a product. And try our best to ensure that those are incorporated in the product definition itself. Also especially when you talk about Harrier, it is basically the option of automatic that we could not deliver coinciding with the manual transmission, and therefore, this has to go on and delayed. But henceforth that I said that as a process, our attention has always been to ensure that we are bringing a comprehensive set of options as well as all the features which are relevant in that particular segment. And if you recall, in the slide which I presented, also talked about the topic of a strong focus in product delivery and this system is exactly going to focus on the same aspect that even if there are certain features and options which are left out, we are able to speedily bring it to the market, but henceforth the attempt would also be that our featuring study is robust, and we are able to coincide all the options and features altogether in one launch that we do at any point of time during the year. So that would be the attempt. A pertinent point I would say, can't deny, that in Harrier we have missed that opportunity. But this would be our effort and endeavor going forward.

Sri Ranjan: And lastly on the...

P. B. Balaji: My suggestion, just take it offline if need be. I think we are running behind here. We had run into another call as well. And therefore, request if this can be taken offline.

So thanks, everybody. Thanks all of you for staying on for another 20 minutes. I appreciate that. And look forward to speaking to you soon. Stay safe and catch you soon. Take care. Bye, bye. Thanks all of you.

Moderator: Thank you very much. On behalf of HSBC, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.