



“Tata Motors Q2 and FY 2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Motors Q2 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. During the course of the presentation, if any participant intends to ask a question, they can use the chat box option appearing at the bottom of the screen to submit the questions to the speakers. All the questions will be taken up at the end of the session. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prakash Pandey. Thank you and over to you, sir.

Prakash Pandey: Thank you, Pallavi. Good evening, everyone. On behalf of Tata Motors, I warmly welcome you all for our Q2 FY 2021 Results Conference Call. We have with us Mr. Guenter Butschek – MD and CEO, Tata Motors; Mr. Thierry Bolloré – CEO, Jaguar Land Rover; Mr. P.B. Balaji – Group CFO, Tata Motors; Mr. Adrian Mardell – CFO, Jaguar Land Rover; Mr. Girish Wagh – President, Commercial Vehicle Business, Tata Motors; Mr. Shailesh Chandra – President, Passenger Vehicle and Electric Vehicle Business, Tata Motors; and all my other colleagues from the Investor Relations team. As always, we will start the session with a brief overview of the performance from the management, followed by Q&A. Over to you, Balaji.

P.B. Balaji: Thanks, Prakash. Firstly, welcome all of you. Apologies for a slightly delayed start, we were just getting a few technical issues sorted out. I am sure now you are able to hear us loud and clear. This is the standard Safe Harbor statement, I hope you have seen that. The only attention I will draw into are a few changes that we have done in the definitions around EBITDA and free cash flows. And these are basically to ensure consistency of reporting as well as ensuring alignment with other OEMs who are out there. The big one would be on the free cash flow definition, where both on consolidated and on Tata Motors domestic, free cash flows will be net of interest, which is something which in JLR was always there, and we have now ensured consistency of the definition right across. The comparatives are available on the data bank. I am happy to clarify off-line any further clarifications you may need on this particular front.

Go to the next slide, Prakash. Again, an intense period of product launches during this quarter as well. You have seen all of them. The key call out I would make in Tata Motors has been on the CV side, a pretty intensive period with the SIGMA 55 launched as well as SIGMA 4825. For us, in passenger vehicles the results, of course, and the numbers you have already seen, but the milestone of the 300,000 Tiago and the 1,000 Nexon EV was something to celebrate about. And in JLR, the Land Rover Defender 90 is now available for sale. The F-PACE 21 model year we have launched. And so far, this year five PHEV and five MHEVs have also been added to our portfolio, furthering our electrification drive.

Go to the next slide. Growth wise, I mean, despite challenging period that we have seen, I think there has been a significant improvement in sequential performance. And even on a year-on-year basis, particularly the decline in revenues of 18%, notwithstanding, PBT has been managed too at reasonable levels. EBITDA decline has been reduced to just 160 bps and EBIT breakeven has been achieved in this period. And in line with our deleveraging commitment that we put out there, free cash flows of automotive has been Rs. 6,700 crores positive. So in a highly trying period, I think, happy with the set of numbers that we have put through.

Go to the next slide. If we have to peel this performance into what actually drove it? Bulk of it coming from a drop in volumes and mix, which is compensated with the rest of the factors. And overall, on the profitability, the big one that came down was JLR coming fundamentally on year-on-year basis, fundamentally because of the volumes that you saw earlier that came down. TML, of course, improved it. And overall, net automotive debt has now started its downward journey as it's supposed to go to. And we have reduced it about Rs. 6,000 odd crores this quarter.

Next slide. Debt profile is strong. Overall liquidity has remained strong with maturities well spread out. Additionally, on a memo basis, in JLR we had an additional \$700 million issuance that happened in the month of October, which further added to the liquidity. But overall, the liquidity profile has been quite strong.

Let me now hand this over to Adrian who will talk about JLR. And, of course, I will then invite Thierry to talk about how he sees the business having been 50 days on the job. Over to you, Adrian.

Adrian Mardell:

Right. Thank you, Balaji. And good evening, everybody. On this slide, so if you remember, when we talked in July, there were a few things we were signaling for this quarter. I am really pleased, most of those things have happened. In fact, some of them have happened more aggressively than we were signaling. You see here, the retail sales were higher than quarter one, significantly higher than Q1, although not as strong as last year, as we said last time. Revenues, similar to that, revenues actually are down 28.5% year-over-year, but significantly stronger than the previous quarter. We were profitable in the quarter, that is something we were not signaling in July, and we will take you through the reasons for that. EBITDA back into double-digit percentages, which, of course, is pleasing. And also a very strong free cash flow which we actually were signaling two months ago.

Next slide, please. So these are the headlines within the quarter. Significant improvement Q-over-Q; however, year-over-year down 28.5% on revenue. China and U.K. are the two regions that have actually returned to pre-COVID levels quickest, and our retailer inventories are down to ideal levels. I will take you through that in a moment that was another thing we signaled as an intent in July. Five PHEVs and five MHEVs already added to our product portfolio in FY 2021 with more to come, and I will take you through those in a few moments. We were profitable, as I said, GBP 65 million in the quarter. Some of that was exchange, so the EBIT was 0.3%. Charge did its thing again, GBP 300 million cost reductions year-over-year and also GBP 300 million investment. And CJLR, which was, again, for the second quarter running at the breakeven levels. So that consistent improvement year-over-year continues in our joint venture in China. And then, the GBP 463 million positive cash. As I mentioned, I will take you through the details of that in a moment.

Next slide, please. Thank you. Okay. So I mentioned a minute ago, U.K. and China have returned to pre-COVID norms, the quickest. So they are very, very close to last year's Q2 levels. U.S. down about 15%, although there were supply shortages to the U.S. in September. So we are obviously looking carefully at the Q3 results which we expect to be stronger in North America.

And the two regions have not yet returned to previous levels are Europe and Overseas, although 2021 model year PHEV offerings are very important to Europe, so we are expecting better things in Q3 and in the second half. And the Defenders are now being added to the Overseas lineup and, again, we will expect better sales in the second half of the year in Overseas regions. You see there, we are already returning to pre-Covid levels.

Next slide please, if you would. Thank you. So just on this one by nameplate, again, Range Rover and F-PACE showing the pattern significant over Q1, but short of last time. They are the two call-outs on this page. You can see the Defender top right, bigger in quarter two than any other quarter. And we expect that profile, of course, to continue in the second half of the year, and we will add the Defender 90 right at the back end of this calendar year into quarter four. So those sales will continue to increase in half two. Very confident on the Defender product. You see the powertrain mix there, we are adding those MHEVs, appealing well to customers. Proportionately, a large take-up of our ICE engines are now MHEV offerings. And we will get into some more details of that later in the presentation.

Next slide, please. Okay. So we called out dealer inventory in quarter one. Because as the dealers closed in March, those inventory levels increased. We were specific with our intent to bring that back into control in quarter two. We said at that time, when we had 90 days' worth of inventory, sub-55 days is the place we wanted to be. Really pleased, we are at 54 days at the end of September. So again, we are getting in the habit of doing what we say, which is really, really good. The absolute levels, top-line is a dealer inventory, 60,000 units. The bottom-line is inventory on the way to dealers, 33,700 units, which grew a little in quarter two only.

Next slide, please. Right. So where were we in the quarter on profitability versus last year? Balaji mentioned, it was down year-over-year. These are the reasons why dramatic reduction in volumes, as you saw earlier, almost GBP 500 million, although our JV position has improved substantially also. Now the big news here actually is the improvement in the marketplace, a rapid improvement, particularly in quarter two, particularly in markets like North America. And our headline VME was down to sub-4%. Important to note that the underlying was mid-6%, so a little better than we had achieved in previous quarters. And the release here of U.S. residual value reserves, which we put in place, when we saw the market deteriorating rapidly in March, April and May. And most of those reserves have now actually been released, which is a great sign of the second-hand marketplace and the health of the market, of course.

Warranty, we did have a campaign this quarter on the I-PACE. And also, this time last year there was a reversal of spend on a PHEV campaign in China, which makes the warranty. And we are actually working with the suppliers, the supplier network are trying to get themselves back into 100% operating effectiveness. And that is delaying our ability to take costs down in the first half of the year. That will improve in the second half of the year. Also, Charge has done its stuff on cost control and structural cost reductions, significant improvements again this quarter, obviously, measured year-over-year. And the reason why we were profitable there, foreign exchange, Sterling appreciated in the quarter, finishing just short of \$1.30 and that gave a

revaluation of the balance sheet, which, of course, we were not aware of at the point we communicated in July.

Next slide, please. Very pleased with this slide. So we did say we will be significantly cash positive. We did say overwhelmingly that was working capital, which it was. But if you go into that middle section, we were underlying cash negative, about GBP 65 million, but on 73,500 deliveries to the marketplace, that is a strong underlying performance, that's annualized deliveries sub-300,000 units. So again, mostly because of the health of the sale has been strong - we are not pushing volume, don't forget - we are pushing health of sale, quality of sale, value from sale, but also our structural cost reductions. I'll remind you, two years ago, our breakeven position was 575,000 units, this is signaling our breakeven position is a shade over 400,000 units. So dramatic improvements on the downside risk assessments that you can make on this entity.

Next slide, please. Investment, GBP 531 million. Again, I did say, in July investment will be close to quarter one levels. It was a shade lower, you see where those investments were. We have brought more of our engineers back to work at the back end of this quarter, so I do expect investment levels actually to increase in the second half of the year modestly. However, our full year guidance still stays at up to GBP 2.5 billion. And I think with GBP 1.1 billion spent in the first half of the year, you will see that we are actually in control of our investment spend.

Next slide, please. Okay. Shifting gears a little bit to environmental update. None of this will surprise you. I think the only surprise here is the speed that these things are coming at us. And potentially, they will come at us together now. COVID, of course, in the winter period, could get worse. May actually, again, means some instability in people's lives and for us in production. Brexit, of course, the completion of the process on the 1st of January, and there may be some friction at the border over that period of time, we will get into that later. We will know next week who's won the U.S. Presidency, so that will come at us very, very quickly. And you would expect the disruption we have seen in the marketplace off the back of all of these things. Markets are moving quickly based off single information sets at the moment. And that's just the environment we will continue to operate within. And I will touch on emissions on later slides.

Next slide, please. We use external intelligence and information, particularly on volumes from IHS. And you can see their mainstream case is actually a modest improvement over time in the marketplaces. Obviously, it wouldn't index in overwhelmingly any of the events I just mentioned. But standing down those binary impacts, we do expect a modest growth in our sectors across all of our regions going forward over the next 12 months, as IHS tells us we should.

Next slide, please. Defender, the marvelous Defender. So we did say vehicle deliveries from the factory will increase and sales will increase also. September does have our second largest month in the U.K. in there, so the retail level of 4,500 units in September was a bit higher in the U.K. Although now deliveries are actually coming at us more consistently, and with the 90 being now added, I do expect sales of 4,000 to 5,000 units per month going forward. Wholesale deliveries

to the market were increased as we start to fill and get our vehicles to the point of customer and the actual order bank still remains very, very strong. So we are still in the position of sales, being sold out for the rest of this year. And order bank is not reducing, they are actually increasing, including the addition of the Defender 90, which goes on sale at the end of this year. Next slide, please. We are overwhelmed and pleased with Defender sales performance.

Next slide. Great adds to our lineup with new PHEVs. These actually are of our D7a architectures, so this one is the F-PACE and the Velar. Big interior upgrades also. So we think these vehicles will be very appealing, particularly in our U.K. and European regions. So we are expecting these to underpin sales growth in the second half of the year. And also compliance, right, emissions compliance also will be enhanced off the back of it as well.

Next slide, please. Right, so where are we overall on our lineup from a PHEV and an MHEV perspective? Each time we talk to you about this, more of the covers come off. There is only one cover on one vehicle left from the PHEVs. We will announce tomorrow. We are actually adding the PHEV to the E-PACE as well, so that's the cover that will come off. And then later in the year, we will announce a second addition to the MHEV range. I am sure as you go through all the vehicles, it's becoming more obvious which that one is, but I am not in a position to actually say that second MHEV today. But most of our range now is in place and our second half of the year, particularly quarter three will be determined by the pace of bringing these vehicles to the marketplace, particularly the U.K. and the European region on time, but to quality, to quality, to quality. We will not compromise quality for speed. We will get these vehicles right before we deliver them to the marketplace.

Next slide, please. So where are we overall with our compliance targets by region? Lots of green on the page, so I won't focus on those. I am actually going to focus on U.K. and Europe for this calendar year. As a part of the delivery of those PHEVs, particularly, to the marketplace, which, as I mentioned in July, are and have been impacted by the COVID delays. They will actually be delivered to the marketplace later than we are originally anticipating. As a result of which, we have added within our quarterly results, first of all, and our end of quarter four results last year, reserves for potential fines we will need to pay in U.K. and Europe. We have built those reserves up to GBP 90 million. Now we will be compliant in Q4, this Q4 calendar year because, of course, these were assessed on a calendar year and not a fiscal year basis. And obviously, the compliance will be dependent on the number of registrations for the new PHEVs, but also the I-PACEs. So for the moment, the reserve level is adequate. And we are hopeful in the balance of this quarter we are now in, those reserves will start to fall. We have a compliant lineup in calendar year 2021. These are calendar year dates, not fiscal year dates. And so it's just simply a case of quality delivery of those vehicles to customers' hands, which will progressively happen through this quarter.

Next slide, please. Off the back of that, I wanted to remind you the journey we have been on. Our target was a 45% reduction from 2007 levels. We will be at that point when we get into next calendar year. We are progressing to that point quickly in this quarter. But overwhelmingly, we

have a compliant fleet in our U.K. and European markets post the introduction of these final PHEVs. So a great job by the team, 45% reduction in CO2 over that period of time.

Next slide, please. We will get into Brexit, I am sure in Q&A. Just simply to say, our base case is still that there will be a deal between the U.K. and the European Commission, i.e., we won't trigger WTO tariffs. That still becomes our base case. And if that becomes true, then a deal will be very similar to the Canadian position we expect. If there is no deal, we are expecting something like the arrangement Australia has with the European Union. And I will get into the details of what that means, again, as we talk about it most quarters within a Q&A, should anyone want to ask.

Next slide, please. So Charge has done what it does best, tight controls over cost and expenditure. It's done so well, people are starting to ask, are we underinvesting? We don't believe so. We think we are appropriately investing. And we will appropriately grow the speed of our investment as resources come to us over the balance of this year. This quarter, almost GBP 600 million additional savings; don't forget, last quarter we did GBP 1.2 billion. So in total, in the first half of the year, at GBP 1.8 billion worth of variable profit cost investment and inventory reductions. Charge is measured on a year-over-year basis, by the way, so this isn't notional internal stuff against internal targets. This is measured versus what we did in the prior year. Looking forward, we confidently, again, would say that the GBP 2.5 billion target for this year is absolutely within reach. And people like to ask where it's going to come from. You have seen in quarter two, it's about 50:50 investment in cost and profits, and that's broadly the splits we expect going forward. Also, we are mostly done on investment, we are at that GBP 3 billion level at the end of quarter two.

Next slide, please. So just a quick summary overall. I don't think there are any new points here for anyone. The Investor Day, I draw your attention to, for Jaguar Land Rover, we are looking at the Investor Day on Wednesday, 2nd December, and we are really looking forward to it. And to set that up just a quick discussion, I would like to ask Thierry to say a few words. Our new CEO, Thierry, if you wouldn't mind, just saying a few words to the investors.

Thierry Bolloré:

Sure. Thank you very much, Adrian. Well, hello, everyone. My name is Thierry Bolloré, and it is my pleasure to introduce myself to you as the new CEO of Jaguar Land Rover today. Well, it goes without saying that these are unprecedented times with the health and economic impacts of COVID-19 compounding, many other challenges presently facing the industry. We have rapid technological change and political and trade uncertainties, such as Brexit, to name a few. However, Jaguar Land Rover is an iconic company with strong brands and talented employees to manage through these times. That Jaguar Land Rover generated a profit and positive cash flow this quarter is a testament to this, and I am confident the business will achieve a future of long-term sustainable profitability. I know many of you would like to ask about what I think about the company or what changes I might like to make. However, I have just joined the company in September, and I am still in the process of reviewing the business with the management team and I expect to be able to say more to you by the end of the year about my

vision for the future of this iconic business. So, I look forward to speaking again then. Thank you very much.

P.B. Balaji: Thank you. Thanks, Thierry. We lost you a little bit towards the end. Basically, his main point is, he would be very keen to engage with all of the investors on the Investor Day that is now scheduled for the 2nd of December. So look forward to seeing you there. That is his basic takeout.

Thierry Bolloré: Absolutely. Thank you.

P.B. Balaji: Thanks, Thierry. So, moving on to Tata Motors domestic business. A strong sequential movement in performance. Year-on-year growth of 3.4%, almost entirely led from the passenger vehicle piece. Revenue down 3% and PBT broadly in line with what was there last year. EBITDA, of course, what I really would love to call your attention to is the EBITDA improvement by 480 bps despite this holding the revenue line. Which tells you the amount of work that's happening on the cost line, and EBIT improving by about 300 bps. And again, reassuringly free cash flow after interest as per the new definition still positive at Rs. 2,300 crores.

Next slide, please. Performance highlights, if we have had to summarize, quarter-on-quarter improvement is something that's definitely there. CV, a gradual improvement in demand and with improving market share as the supply chain stabilizes. But the call-out is demand still remains weak. Obviously, improving within the month of October compared to where it was earlier, but still a long way to go in terms of the heydays of CV. Passenger vehicles, of course, has been on absolute boil. Very strong sales momentum coming through with our NEW FOREVER portfolio with increasing market share.

EBITDA was positive for Tata Motors despite the weaker mix, which is really noteworthy given what has been happening on the cost side. CV has improved sequentially, but real call-out, so many of you were asking me earlier in terms of PV EBITDA breakeven. Glad to report, it has been achieved. We are probably at our highest ever EBITDA for quite a while at 1.6%. Strong free cash flow, of course, we have called out earlier.

Next slide, please. So this you have already seen, so I won't spend too much time on this, nothing further other than what's on the slide.

Move on, please. Free cash flows. Again, we have talked about, so no further comments on that. You can move into the commercial vehicles slide, please.

Investment spending, you can skip the slide.

Cash savings, on this slide, a minute here. We had called out a Rs. 6,000 crores cash savings. And against that, we have delivered Rs. 2,475 crores. And as we look forward into the future, we are confident of delivering the Rs. 6,000 crores. I expect a bit of movement in the numbers

between investment and working capital, because we are seeing a very resurgent demand, particularly coming through in PV. So we will just need to ensure that the CAPEX is managed prudently while catering to that resurgent demand, but we will deliver the Rs. 6,000 crores, that we are confident of. And of course, cost and profits are very strong, Rs. 820 crores delivered, which is reflecting in the EBITDA improvement as well.

Keep moving. On the commercial vehicle side, market share is at 36.7%. It is starting to improve month-on-month, every month, we are seeing an improvement in market share, fundamentally coming out of supply chain issues as we stabilize post-COVID. M&HCV has continued to do well at 60% share. The call-out is on small commercial vehicles, where we need to improve our shares and the recent win that we have had at 6,400 vehicles for the Andhra Pradesh Civil Supplies is something, which will be something which will help us there. But more than that, you will see a lot of work happening in the second half of the year as the supply chain stabilizes there. The real call-out is CV passenger, which I am sure Girish will talk later, where we don't see much happening in this particular segment because of issues like working from home as well as schools not being there and state transport undertakings not having the money to buy.

Move forward. On the financials, despite it being a very weak mix, because M&HCV within commercial vehicles has actually been on a decline even further. Despite that, we have improved our overall position in terms of revenues and retail. You will find wholesale being higher than retail as we build inventory post BS-VI. And overall, EBITDA at 3.2% just reflects the situation on the mix line.

Move forward. On the CV market update. I think I am sure Girish is going to talk about it in the Q&A, but a quick run-up there. Girish, do you want to take a minute on this?

Girish Wagh:

Yes, Balaji, thanks. So, I think as Balaji put out, rightly, we have seen decline happening across the segments, which we see in Q2. The passenger segment has declined by 73%, M&HCV by 39%, ILCV by 30% and SCV 1%. I think the good thing in this is that these declines are far lower than the Q1 decline. And also if you see, within Q2, July, August, September, this decline has been reducing. So if you take M&HCV, for that matter, while for the quarter it is a 39% decline, for the month of September it was a very low single-digit decline. So I think gradually the volumes are picking up in all the segments. SCV and Pickup, in fact, was higher in September 2020 as compared to September 2019. And as a result of this, the small commercial vehicle in pickup salience has actually gone up by almost 20%, so it's now at 72% in this quarter.

Some of the good things that we are seeing at macro level, E-way bills, petrol consumption, GST collections are going up. Fleet utilization is gradually improving, and the sentiments that we track for customers in all the segments have also been going up. And essentially, within that, they are quite optimistic about the future, although not so satisfied with the current status. Rural demand, as all of us know, is growing and is very strong. We also see good movement happening in mining as well as infrastructure projects, especially driven by highways. And I think our BS-VI range has been received really very well across the range. We have seen fuel efficiency and TCO benefits, which is leading to a very good positive recall in the minds of the customers.

Some of the challenges as we go ahead, I think commodity prices have started going up again. And not only the precious metals, but also flat steel, long steel, both have gone up from the month of October, so something challenging. And I think on passenger, Balaji already spoke that generally, the demand for passenger is very low because of schools not working and a lot of employees working from home.

Prakash, can we go to the next slide? Thank you. So I think what is it that we have been doing? Again, same buckets that we spoke about in the last earnings call. In terms of demand generation, I think as COVID intensity is reducing, there is a lot of focus on on-ground activation, so a lot of back-to-back trials of the BS-VI products to prove the superiority. We are pushing a lot of value-added services, whether it is platinum AMC or it is uptime guarantee, turnaround time guarantee, extended warranty. I think a lot of these are being appreciated by the customer, especially in BS-VI era. And in financing, a lot of work is being done by closely coordinating with the financiers across. And a lot of good schemes have been brought up, which ensure that the EMIs are equivalent to the BS-IV era.

In terms of demand fulfillment, a very clear focus we have on debottlenecking the supply chain, and we are working on ramping up the supplies. I think month-over-month, there is a good improvement which is happening in the output. We are also driving a lot of flexibility in manufacturing. So for example, in Q2, two of our plant locations had a high impact of COVID. I think we were in a position to then shift some of the production of some variants at that location to other locations and therefore, negate this impact. Similarly, we are also working with our vendors to see to it that the COVID impact is minimized. We are also having almost now daily sales and operation planning process to ensure that there is a good bridge between demand forecast and what we are able to supply.

I think cost reduction, cash conservation, right on track, as Balaji mentioned. I don't want to spend more time. But all our cost reduction initiatives are on track. And in fact, now we are focusing on sustaining the gains in fixed expenses, although the scale of operation is increasing and coming back to pre-COVID levels. On CAPEX, I think we continue with a choiceful deployment. In some of the areas, due to increase in volumes, we are spending CAPEX, but otherwise it is controlled in other areas. And we are working with a very, very tight working capital cycle, which has led to good cash flows.

Balaji, back to you.

P.B. Balaji:

Yes. Thank you. So that gives you a sense of where commercial vehicles is going. On to passenger vehicles, let's move. Call-out is the 7.9% market share after a long period of time, so this is now starting to move. As we have said, watch this space. All the four nameplates that are out there, Tiago, Tigor, Altroz, Nexon, and of course, Harrier, starting to now really do well. And Shailesh, I am sure, is going to talk about it in the Q&A as well. And between Harrier and Altroz, we are really seeing momentum pick up in this particular segment. So these are niche five vehicles that we put out there in the Alpha and Omega architectures. And therefore, on an industry growth of (-34%), happy to see a first half growth of (+10%). So this is quite noteworthy

because this includes the lockdown period. So despite lockdown, complete shutdown for two and a half months, this business has delivered a 10% growth. And Nexon EV is now almost 61% of industry volumes with a very strong market share there. So the clear focus on reimagining PV is now starting to yield results and is also showing in the P&L.

Move to the next slide, please. Where this was a wholesale of 107% growth, retail of 73%. And absolute numbers, almost, there is nothing to talk home about. There is no inventory being built anywhere, we don't have inventory at this point in time. And revenue of Rs. 4,000 crores for this quarter is a high over many, many quarters that is out there. And EBITDA at 1.6% is extremely reassuring that this business is back into what it was before, it is not a flash in the pan. And overall, next target is now to get the EBIT to breakeven and then the cash to breakeven, which is what we are on to.

Move forward. So let me hand this over to Shailesh for an understanding of what's happening and what's driving the step-up in performance. Shailesh, over to you.

Shailesh Chandra:

Thank you, Balaji. So, some of the key actions that we took to drive the kind of improvement in sales that you have seen in the last six months. First and foremost was the focus on retail and seamless demand-supply synchronization. This was very essential to ensure fast cash flow rotation for the dealers, especially in the COVID times, otherwise, it would have been a trouble, especially in the initial months. But this is what led us to absolutely align the production to what was needed in the market. And this ensured that we were able to, therefore, do double of what was the working capital capacity of the dealers.

The second most important action that we took was to increase our share of voice. We realized while we were interviewing the customers in the lockdown period, April and May, that the awareness of our New Forever product was very low. And that's why we took a call that we will go high on share of voice, right from July itself. And that has helped us to not only increase the awareness but also consideration of all our cars. And as Balaji mentioned, that it is not a story about one car or so, each and every car, five cars that we have in our portfolio, some of them who were not doing well also in the earlier years, all five are doing really well as far as their pull is concerned in the market.

The third action that we took was a significant revamp of the dealer policies, incentive structure, which enabled us a significant jump in the profitability. And there were significant section of dealers who were not profitable. And I am very happy to share that now a majority of our dealers are profitable with the kind of growth we have seen. And with the action on the dealer policy change that we have done, that meant enhancing the margins and also revamping the incentive structure, which was aligned to the growth that we wanted to drive, specifically in areas like some of the products which I said in the portfolio, which were not doing well; at the same time, specifically on the diesel portfolio also. So this has really helped us drive traction and also as far as our booking generation is concerned.

The fourth action was on the digital. As you know, in the times of pandemic, the customers were not ready to venture out of their houses and go to the showrooms. So digital was the important source of inquiries, and we took several actions and especially the Click to Drive initiatives where a customer could view the video brochures, could get an immersive experience. And on the back of that, it really drove a lot of online bookings for us. And beyond that, we are also working on a very holistic initiative, which will drive a seamless digital experience for our customers in their entire journey.

The last one is a focused work to enhance rural penetration in key micro market, which is 20 urban micro markets that we have identified. And there are several set of initiatives that we have taken, which includes hyper local marketing and focus with marketing activities, network strengthening, etc. And also nuanced marketing for rural markets and the EMO expansion, what is emerging market outlet expansion. So these are the set of initiatives which we have taken in the last five, six months, which has led to this kind of performance for us.

Back to you, Balaji.

P.B. Balaji:

Thank you. Go to the next slide, please. Moving on to Tata Motors Finance, this is one area where we did express is we want to watch September as a critical month when the moratorium ends. Here, again, happy to see that things have actually been better than what we had anticipated. The business had a CV market share improving to 37%. We have consciously removed the market share here because public sector banks are absolutely picking up humongous market shares on PV, and we will never be competitive there. So CV market share is something we are choicefully deploying our money in, with a positive PBT despite significant overlays coming through. And overall, GNPA at 4.8%, below what it was last year, despite moratorium is something that is really reassuring. And therefore, this focus on cost-to-income ratio, focus on efficiency has really helped. We are now at 44%, down from the highs of 70s, then the 50s, now at 49s, now below at 44%. And of course, liquidity has been extremely strong in this business, no concern on that front. So overall ROE at 6.1%, it will move to a double-digit ROE as we tighten this business in terms of its efficiencies and its disposal.

Move forward. So looking ahead, you have seen the slide. The key call-out I would have is second half is expected to be much better than first half as demand improves and our focus on cost and the cash continues to drive harder. And therefore, we are absolutely committed to deleveraging this business over the next three years and become sustainably cash positive. And the focus areas are there for all to see, no new news there other than brilliant execution of our exciting portfolio and continuing to manage the costs tightly.

Last slide. There will obviously be a more deeper dive on the business strategy post-COVID, both in TML and in JLR on the 1st and 2nd of December and look forward to seeing you there.

With this, let me hand it back to you for any question and answers that you may have.

P.B. Balaji:

Okay. I think we already started seeing questions coming through on the moderator view, it says Media Frame live. Anyway, this is the Chorus Call. First one is from Pramod Kumar, Goldman Sachs. Congrats on a great performance. What was driving the record ASP and gross margin? And are these sustainable at current levels? Number one. Number two, can you please provide an update on Defender customer order book and explain the gap between wholesales and retails of 8-K since launch? And three, what are you going to do to arrest market share declines across the CV segment, say, medium and heavy commercial vehicles?

So Adrian, can you take item one and one? And Girish, I will probably divert you to item three.

Adrian Mardell:

Yes. Okay, Balaji. Thank you for the questions. So margins, I think - I am on record saying, look, we are looking to grow the health of our margin rather than the quantity of sales. We have taken a number of actions, including making sure with the overstocking we had in the marketplace from April, May and June, including making sure that we are only building cars that we needed to build. So we brought our plans back up to speed based off a demand-led recovery. Starting off with Nitra, which builds the Defender, of course, and the Discovery. And at the same time, on the 18th of May, we brought back Solihull plant where the Range Rovers are built. The quickest region to come back has been China, and that's why the year-over-year performance in China, actually, in the quarter has been good. I think you know we sell more of our SUV-5 units in China and, therefore, the margins are healthier on those units from China. So the regional profile of change and growth back has driven a strong margin performance for us. In the quarter also, I refer back to some of the VME U.S. residual value reserve releases, GBP 64 million. Although we have had negative headwinds as well, which do offset those reserve releases, including booking an extra GBP 30 million just in case we don't get those PHEV's to the marketplace within our compliance cost reserves, and also a difficult performance on cost down for suppliers. So overwhelmingly, the underlying factor there is health of sale, particularly because of the speed of return to sales from our China region.

And Defender, of course, Defender is an all-new vehicle and, therefore, there is a lag between production, then into wholesales, then into retails. The order banks would tell us we don't yet have enough cars actually in the customers' hands or to the face of the customer. Therefore, I do expect as that gets built up, that our wholesales will be higher than our retails because, of course, the car has to go through our own hands into dealers and then into customers' hands. That will continue a little bit into the second half of the year, but a lot of that is in place now on the Defender 110. We will bring the Defender 90 on-stream later in the year, and you will see the same profile. Production in the early days will outweigh wholesales, and they will be higher than retails because, of course, we have to get the vehicles down the lines into customers' hands, again. That will level out, I expect, in quarter four.

The big message here is, there is more demand than supply at the minute, and those order banks will stay strong throughout the balance of this fiscal year. And there are good healthy sales as well, the mix of sales that the customers are ordering is stronger than the mix profile as we anticipated when we estimated the initial six months' worth of sales. So there is nothing

extraordinary happening apart from attempting to get those vehicles into customers' hands as soon as we possibly can.

P.B. Balaji: Thanks, Adrian. Girish, would you want to take the question on what are you going to do to address the market share declines across CV segment, say, medium and heavy commercial?

Girish Wagh: Yes. So see, this market share decline which has been there, is essentially due to the supply-side constraints. I think from our pipelines in terms of demand generations have been quite good. And you can see the month-over-month market share, I think we have consistently grown, starting from May, June onwards as the availability of the vehicles have increased with debottlenecking of the supply chain. In fact, if you look at September alone market share, I think we are almost close to what we had in September 2019. So we will continue on this journey. And as we know, I think the market in H2, the total industry volume in H2 is going to be more than double of what it was in H1. And therefore, it is going to give us a very good opportunity to recover this as the supply-side constraints are addressed.

I think some of the key factors that Balaji also mentioned, I think the key here is going to be actually the small commercial vehicle and pickup segment where the salience has increased to 72%. And therefore, any loss in this actually gets aggravated at the overall business level. So here, not only is the pipeline in the retail market good but also we recently bagged this order from Andhra Pradesh's supplies of around 6,400 vehicles. So all this is part of our calculation, which will help us to get the market share back across all the segments, either in Q3 or towards beginning of Q4.

P.B. Balaji: Thanks, Girish. Second question comes from Prateek Poddar, Nippon Indian Mutual Fund. First question is addressed to Thierry. Is there a need to relook at the JLR nameplates and sharpen the brand positioning of Jaguar in your view? Would you look at pruning the product portfolio such that models don't cannibalize each other?

Let me respond to that. I think as Thierry has said that he is keen to speak to us on the 2nd of December. I would rather - we wait for that conversation as he makes up his mind on this - would be my response to you, Prateek.

Second question, Girish, is to you, to say that can you talk about the outlook for M&HCV and how is the confidence among CV operators? Internally, Tata Motors has leading indicators of predicting M&HCV demand, what are they indicating? Would you want to take that, Girish? Next question, I will pick it up after that.

Girish Wagh: Okay. So some of the lead indicators of M&HCV that we look at, first of all, of course, what is the kind of spend which is happening on mining and infrastructure? As also e-commerce, what is the kind of agri produce? What is the kind of output from steel and cement industry? I think these are some of the lead indicators that we are looking at. And the good thing is, most of these indicators seem to be doing well, number one.

Number two, I think gradually over Q2, the utilization of the fleet and the freight rates are kind of firming up, which is also good. I mean, this is something that we can see from the e-way bills. And this is another good indicator. One indicator that we track internally is the sentiment index, the Consumer Sentiment Index, so to say, which is a multiplication of what is their satisfaction with the current status as well as future expectations. In that, we see that while the current status is slightly improved over Q1, but the future expectations have significantly improved, which means that they are looking forward to the business to grow.

As I said, in the first quarter, the M&HCV segment had degrown by almost 90%. In Q2, it degrew by 39%, 40%. But if you look at just the month of September, I think it degrew by only 3% to 4%. So gradually, in medium and heavy commercial vehicle, volumes are growing and are catching up with what we were last year. Of course, last year itself was a good amount of decline over the year previous to that, which was high. So I think overall, some of the lead indicators are falling in place and we do see that the medium and heavy commercial vehicle demand, therefore, should go up gradually as we go ahead. Balaji?

P.B. Balaji:

Yes. Thank, Girish. Third question is, how should we think about investment and CAPEX over the medium term given that investments in BS-VI are over and major platform investments in PV are also done with.

I presume your representation are more domestic. And here, it is fair that the investments will continue to remain tight. And at the same time, we don't want to lose demand because of capacity constraints or anything. So we will be very choiceful about that, but I don't expect that coming through here. So we should be in and around the ballpark saying that Rs. 1,500 crores to Rs. 2,000 crores kind of range and because we also have a very clear imperative of deleveraging the business. So as I keep saying earlier as well saying that we will start to talk about free cash flow generation to pay down the debt, is one more reason why we changed the definition of free cash flows to net off interest cost. So we know that, that money is available to pay down the debt. And therefore, CAPEX will be a derived number from that perspective. At the same time, not compromising on growth.

So let's move to the next question, that's from Sonal Gupta, UBS. For JLR, can you indicate what was the share of BEVs and PHEV in U.K. plus EU volume for Q2 FY 2021? You are provisioning for some fines for JLR in terms of meeting EU CO2 targets, can you indicate what was the **provision in this** quarter? Also, to meet the 2021 target, what should be the PHEV, BEV share that you need to achieve? Adrian, do you want to pick this up?

Adrian Mardell:

Yes. Thank you, Balaji. And thank you for the question also. So, the data we show you actually in the presentation, of course, is global 3% and 3%. Normally speaking, if you divide the world into five, and crudely say each one is a fifth, the 40% of our sales ultimately will be U.K. and Europe, so 3% PHEV times divide by 2.5, you get to say 7% or 8% of the marketplace. That will increase as we go through into next quarter as we release these PHEVs into the market, of course. And we have broadly given guidance three or four years out, we have given guidance that we expect these to be up to 24%, 25% of our sales. The level of increase, of course, is

important. And partially, that will be driven by the speed of those vehicles to market. But I would anticipate double-digit percentages for both PHEV and BEV in the quarter three period of time. So 11%, 12%, 13%, 14% levels of those sales will be PHEV/ BEV units is our expectation in Q3. Going forward beyond that, yes, reserves grew to GBP 90 million at the end of September. They were just about GBP 60 million at the end of June, so we increased those reserves by about GBP 32 million, actually in the quarter, GBP 58 million to GBP 90 million. We do expect that to come down in Q3 fiscal, i.e., the balance of this calendar year, but it really depends on the release of those vehicles as I mentioned earlier.

P.B. Balaji: Thanks, Adrian. Next question is from Yogesh Aggarwal, HSBC. Again for JLR, Adrian coming to you. Do you plan to move XE and E-PACE on the MLA platform over the coming years?

Adrian Mardell: No comment.

P.B. Balaji: Okay. I am not surprised. Market share continues to fall in China, reasons behind that? And I think you already answered the question on provisions. To clarify, Yogesh, it is part of the P&L of this particular quarter. So nothing outside the P&L. So can you take this question on market share in China, Adrian?

Adrian Mardell: Yes. So China, particularly we talk about health of sale rather than quantity of sale, that lands greatest in China. I think we have shown you in previous quarters, we have really been working on the health of sale. And there is a number of metrics that we use to show that within our China organization, including where we sell the vehicles, localize sales rather than absolute number of sales. So we are up to 90% on that metric, including the level of inventory that we actually have in place. Dealers, we're at 1.3 and 1.5 months on that metric and including where we actually sell the vehicles in the responsible area with 93% on that metric. We also have a return on sales metrics for our dealers, which we want to be, of course, positive. Dealers like to sell your cars when they make money, and we return to positive territory at the dealers in quarter three. As a result of that, health of sale drive, we actually reduced the variable marketing support we put behind the units in China import business to around 5% underlying in the quarter.

So we are about health of sales. As you know, the SUV-5s are our highest selling units within that import business. And we feel the size and the scale of the business with those two vehicles, in the seventh and eighth year of their life is incredibly rich at this point in time. And margins are incredibly strong from China. So we are very, very pleased where we are in China. We think we can do better going forward, but by driving those metrics, we set dealers a target, we expect them to hit that target. We expect them to sell that car locally rather than outside of their region. We expect them to be profitable, and we expect them to have lower stock levels. And we have delivered all of those things again in the quarter. And delivering those things, we are less sensitive about absolute share of market, although we think we can improve that going forward also.

P.B. Balaji: Thank you. There is a question on strategy. Does the CEO want more models on the portfolio or lesser? Yogesh, as I said, let's keep this question for December 2nd.

Next question comes from Mr. Rakesh Jhunjhunwala of Rare Enterprises. How important is the scrappage policy? Girish, can I ask you to take that question?

Girish Wagh:

Yes, Balaji. So, I think for commercial vehicles, the scrappage policy is indeed going to be very important. Because we have seen that over the last two years since the downturn started seriously almost way back in 2018, when the increased axle load regulation was notified. Since then the most of replacement demand has been very low and, therefore, it will create a window for having that kind of demand coming up with the scrappage policy. I think it also depends on how the scrappage policy is going to be defined. And as it appears now, it is going to be based on not only number of years of usage of the vehicle but also on the health assessment of the vehicle, and health assessment basis emissions and safety. And if the vehicle is found to be not meeting some of the norms, then I think it will be subjected to some disincentivization and being forced to scrap. So, I think this is what it appears the scrapping policy will be.

In addition to this, it also needs to be supported by health assessment centers across the country, as well as scrappage centers in an organized manner across the country. So we are indeed looking forward to the scrappage policy, because it will ignite some amount of replacement demand, which has not been there for the last two years because the fleet utilization was low. Balaji?

P.B. Balaji:

Yes. Thanks, Girish. Next question is coming from Chirag Shah, Edelweiss. First on Brexit, what models you make today in EU, excluding U.K.? And what models can be made there if forced to? And what kind of investment will be needed for that? Adrian, we will take it one question after other because there are a lot of questions out there. Chirag, you had a party with it.

Adrian Mardell:

Okay. Thank you. Thanks, Balaji. And thank you for the question. So at our Nitra plant in Slovakia, we build the Defender and the Discovery models; and Magna Steyr build on our behalf in Graz in Austria, the E-PACE and the I-PACE. So those are the models today we currently build within Europe. And of course, they are shipped globally, both to the U.K. and across the rest of the world. I don't really want to speculate about what it would cost to shift other models to other plants in Europe or whether we have the intention to do so. All of these things are possible. Anything we would talk about strategically from a model footprint perspective or which particular models will we emphasize more on going forward rather than less, these are the types of questions that we may choose to get into as a part of the Investor Day. So speculating what we could, you can do anything, right, just costs a lot of money to do things. So it really would be an assessed return on investment which we wouldn't do without clarity of actually what the trading circumstances are likely to be going forward. The good news after a long time, that clarity should come at us very, very quickly over the course of the next 60 days.

P.B. Balaji:

Thanks, Adrian. Second question is on the strategy and portfolio mix. I will skip that. The third one is, from here on, what will drive free cash flows, working capital, volumes or profitability, in terms of order of priority?

So let me take that. I think the one that you see, and it also talks to your next question you have, Chirag. The working capital pullback that you saw this quarter was strictly a correction of the unwind that happened in the previous quarter. And we called that out explicitly. And therefore, going forward, working capital won't be the main driver. Other than the fact, since you are sitting on a negative working capital to the extent of growth, you will always see some working capital credit coming through, but nothing more than that. The main driver going forward will be a combination of volumes and profitability. Of the two, I think the profitability, the base is actually starting to get set. To some extent, particularly the material cost savings in JLR will come towards the end of the year. So there will be an improvement there. But volumes have to start coming through to start playing up on the free cash flows. Which is why if you see the comparison today, the operating cash flows less CAPEX is near zero, that needs to start turning positive for us to become sustainable. So that's all what we are focusing on.

Then this adds to the question on your rising payable. It is not a rising payable, it is more a question of we have industry norms in terms of what the payable days are, and we don't intend to go beyond that. But at the same time, we need to have our rightful payable in this particular market. JLR, market share, the fifth question is on JLR market share, how do you look at it? In the past, market share failed to yield adequate profitability. Adrian, would you want to comment on that?

Adrian Mardell:

Yes. I will go back to the previous responses. We are very, very focused on health of sale. Of course, market share is an important consideration also, but health is more predominant. So we have, over the course of the last two to three years, actually as a part of the Charge program started to take out some powertrain and model offerings, which were loss-making. And we will continue to do that. We think most of that is now actually where it needs to be. And you will see increases in volumes going forward and also increases in shares as well.

P.B. Balaji:

The last question, again, that's something which I will ask the question, but I will push it into the December 2 question mark. BEV, you seem to be focusing more on PHEVs rather than BEVs as compared to your peers. You announced a series of expected launches and set aggressive targets. Adrian, would you want to take this question now or you defer it to the December 2nd?

Adrian Mardell:

Yes. I mean, simply put, we have different targets to a lot of our competitors. Of course, we are a smaller volume seller in U.K. and Europe. There is a derogation value up to 300,000 units. Our strategy, understandably, it is very, very different to our competitors' strategy over the next five or six years through to the late 2020s. That means we will just do things differently over the next phase because it works for us. They will have to do things more aggressively that will drive competition between themselves over the next five or six years, some of which we will not need to get into. The rest, we will cover at the Strategy Day.

P.B. Balaji:

Great. Thanks, Adrian. So moving on to the next question, it's from Kapil Singh, Nomura. What is JLR's best strategy? When do we plan more BEV launches as several new competing launches are coming up in the next two years? I think Adrian just answered that.

Second, what are the maintenance CAPEX of JLR and India? What are the key reason for increasing CAPEX and guidance for next year in FY 2021 for the India business?

I think the maintenance CAPEX as we are talking about, if I understand you right, if you recollect, you are saying that what is the level of CAPEX that below which we cannot go? I think post-COVID, the numbers that we have put out is probably is pointing to that. Below that, it's going to be difficult for us to have a sustainable business. We may not have the models when growth does come back. So therefore, we believe at this level we are really scraping the barrel. And as far as India is concerned, all we are signaling is that CAPEX will look at dynamically. Because if you are going to see 100% kind of growth rates coming through in PV, with the model mix changing towards petrol, you will need to do a few corrections out there. But none of this changes the fact that our main focus is to deleverage the business. And therefore, CAPEX will continue, the need for CAPEX will be significantly higher than the availability of CAPEX, we can assure you that.

Where do we account for reversal of residual values in the U.S. market? Adrian, would you want to pick that up?

Adrian Mardell: Yes. So it's a part of our VME, of course, releases, and it's on the balance sheet. It's in other provisions.

P.B. Balaji: Got it. Thanks. So moving to the next question, which is from Jinesh Gandhi of Motilal Oswal. For JLR, any further furlough benefits expected in the third quarter? Are you looking to reduce further inventory at the dealer levels? And what scope is there to reduce VME from the underlying VME of 6% in the second quarter?

Adrian Mardell: So overwhelmingly, the furlough scheme is coming to an end, as you would know, in the U.K. We had 2,500 people, I think it was in October on the scheme, they will progressively come back into the business during quarter three. VME levels in quarter three, well, of course, we are extending the 2020 model year period, pending the arrival of those 2021 model years. So I do expect to overextend it, particularly in U.K. and Europe, those VME levels will be slightly higher than 6% in Q3, and Q4 will be a better measure for us. As we get those new programs out there, there's new products out there, it's a good selling season for us quarter four. So at that point in time when I would expect those levels to be at the lower end of 6% rather than the high end or maybe even into 7% for this quarter. And I have said to you for four or five quarters, 7% and below is a good place for us, 7% above is not such a good place. So we are looking to get back into that happy place of sub-7% in the second half of the year.

P.B. Balaji: Thank you. So the next question is on potential EU fines. I think we have covered these questions and, therefore, I will skip that.

The next question is from Arvind Sharma of Citi. Could you please shed some light on the provision for EU CO2 fine? Will it later be, I think the key point is, will it be offset later on? And also, how do we stand vis-à-vis competition?

Adrian Mardell: Yes. So the fines are actually assessed over a calendar year basis. So this is why this is a really big quarter for us because it's the last quarter in the calendar year. We do believe this will be a compliant quarter. And we are also hopeful it will actually be a quarter where we are in credit and, therefore, the ultimate amount of fines will be lower than the GBP 90 million we would hope at the back end of this year. The actual payment period for the fine and the pure assessment from externals will be into the second or third quarter next year. So, we are hopeful GBP 90 million is the worst it's going to get, and we do expect it to actually reduce. It really depends on the timing of those PHEVs coming through, as mentioned earlier.

P.B. Balaji: Thank you. Then moving on to the next question, again, from Jinesh. In India PVs, what is your aspiration of market coverage on product portfolio perspective? And by when would you be able to achieve it? And what are the gaps that you would like to fill? Shailesh, would you want to take that?

Shailesh Chandra: Yes, Balaji. So if we really see the next five years in the segments which are going to really grow in the coming years, there are three, four segments. One is the compact SUVs, the other one is the mid-sized SUVs, including the 7-seater versions that we have seen gaining traction. In hatches, it will be the premium hatch that will see growth. And then there will be a growing demand for subcompact SUVs also, which will be even smaller than the compact SUVs that we see today.

I think as far as we are concerned, this is how we had planned our product portfolio also. And therefore, if you see in compact SUVs, we have a Nexon, which is a very refreshed one. In the mid-size SUVs, we have the Harrier. But at the same time, as I said, that 7-seater version is also gaining a lot of traction, and therefore, the Gravitas is going to fill the space for us as and when we launch it. The premium hatch segment we have entered this year, which is Altroz, and therefore, it will serve us and we will be coming with variants like the DC, the automatic transmission as well as turbocharged version in the future. And the subcompact SUV, I think, the one which we have already announced is with HBX or code named Hornbill, this is going to fit in this space.

So our portfolio is pretty much aligned to those segments, which are going to grow in future. And with the launch of Gravitas and Hornbill, I think our portfolio will be complete and sitting in a very sweet spot of where the market is going to grow for us. Electrification will be another area where the penetration is going to progressively increase in the years to come. And as per our plan, we should have the widest portfolio there also. Back to you, Balaji.

P.B. Balaji: Yes. Thank you, Shailesh. A related point on PV coming from Aditya Makharia from HDFC Securities. Last quarter we were despondent, and this quarter we have turned EBITDA breakeven. Are plans to find an investor partner now delayed?

I wouldn't characterize last quarter as despondent. I thought we said do watch the space, there is a lot of work is happening. We were driven as a better way of putting it there. Our decision on the investor or a partner is long-term. And we did say that we need a partner not as an imperative

for today, the turnaround of this business will be done by us, with our own portfolio that's out here. It is more about the opportunity for tomorrow, which is what we are trying to capture with this particular move of getting a partner in. And conversations are underway. And as and when something comes up, we will definitely share it with you.

So moving on, this is Raghunandhan from Emkay Global. This is on, over the medium-term xEVs could reach a sizable portion of the volumes in the luxury segment. Would you be confident that JLR can have a similar market share in the xEV segment? Can you quantify or give some color on the CAPEX R&D spend planned for EVs over the next few years and also the areas of tie-ups and alliances that the company is exploring. Adrian?

Adrian Mardell:

Thank you, Balaji. Would I be confident? Well, I will be confident that we will hit the targets we are intending to hit, which will underpin the capital investments we need to make. I think I referenced earlier, our growth towards EV will be a little slower than the competitors. Technology is changing significantly quickly, as you know, so we will put in place the technologies we need at the point in time we need to be compliant. We definitely will be compliant, we want to be compliant. We aren't happy that we won't be in calendar year 2020. A lot of that has been taken out of our hands due to the unfortunate events. Of course, we were intended to be compliant in CY 2020 as well, and we will be again in CY 2021. I am not going to break down investments by what's EV, what's BEV, what's PHEV. We will talk in more detail on the 2nd of December about our strategy, and we will share some of the technologies, and we will give you a lot more information about what we are planning to do over the next five to seven years at that point in time also.

P.B. Balaji:

Thank you. Thanks, Adrian. Second question from Raghunandhan again is, on the target of becoming debt-free in three years, can you indicate how important will divestment be to meet this target? And also please indicate which all entities are likely to be considered for stake sale?

As we said, there are three verticals that we see in terms of using our debt to a near zero, automotive debt to near zero. Number one will always be free cash flows. These are business operations led and these ensure the more we generate free cash flows, we continue to earn our right to win in this market. And therefore, we have to earn our right to grow and win in this market. So therefore, free cash flows being positive is an imperative, and that will be a very important and large lever that we will play with, number one.

Second lever will be divestment, and there are two non-core investments we have already identified that is Tata Technologies and Tata Hitachi. We are also looking at parts of the business that were core for us earlier. But when we look at it, it may not be the future core, and therefore, that is something that we will take a hard look at, and we have time to do that entire piece.

And lastly, once you have done these two, then whatever is remaining in that, there is an equity top-up that is needed, we will look at it at that point in time. That's how we see that. So divestments are important, but even more important are the operating and free cash flows of this business.

Moving to next question from Amin Pirani, CLSA. The emission charge for EU is under which line item? And in which quarters was it charged? I think quarters, we already talked about. Can you just clarify the line item, Adrian?

Adrian Mardell: I think it goes into other expenses and then it's on the balance sheet as a part of the legal and product liability reserves.

P.B. Balaji: What is the level of PHEV and EV penetration you need in order to meet the emission forms of EU going forward?

Adrian Mardell: It will be in double digit percentages, so low double digits for CY 2021.

P.B. Balaji: Okay. And what are the level of model flexibility you have between U.K. and EU capacity? I think we have already covered this question. Next question is from Mr. Rakesh Jhunjhunwala again. What is the capacity of Defender that you have?

Adrian Mardell: Well, it depends on how many shifts we pull on. We are looking to pull up to 5,000 units a month into the marketplace.

P.B. Balaji: Okay. Question from Kapil Singh, Nomura, again. Tata Motors Finance, what is the collection efficiency as of the latest available figure?

We are now starting to cross the 92% mark, and that was September month. And October, we expect to improve that even further. But overall, I think we are seeing far better collections than what we were worried about, but at least sometime in September moratorium.

Moving on to the next question. I think this is from Sonaal Sharma, IDBI Capital. Is the company still looking for a strategic partner for its PV segment? And how is the company planning to be debt free? I think we have covered both of these in my comments.

And I think I have one from Tata Mutual Funds, Surjit Singh Aurora. In your assessment, when is the M&HCV industry likely to report growth? And how quick could that replacement demand for CV's? Girish, would you want to take that?

Girish Wagh: Yes, Balaji. So as I said, month-over-month, the M&HCV volumes have been growing. And the degrowth over the same month previous year has been going down. I mean, here in September, we have seen a very low single digit kind of a degrowth with respect to September month and looking at the way the pipeline is, I think in this quarter itself we will probably start seeing the Y-o-Y growth in a particular month. We are not still talking of the entire quarter, but at least a month or two within this quarter, one should certainly see that. And I think, as I also spoke earlier, there are quite a few lead indicators, new I infrastructure, steel, cement, doing pretty well. I think we will keep on tracking how these lead indicators are moving, basis which we can then start looking at a very good growth in M&HCV going ahead. Balaji?

P.B. Balaji: Yes. Thanks, Girish. I have the next question from Basudeb Banerjee, AMBIT Capital. With JLR inventory now under control, would it be right to assume approximately 30% rise in wholesale volume in third quarter and a larger assumption of flat retails quarter-on-quarter, thus better operating leverage going further? Adrian?

Adrian Mardell: Yes. Thank you and thank you for the question. So yes, dealer inventories are now back where we wish them to be. Therefore, going forward, our levels of production and our level of the wholesale and our retailers outside of CJLR, excluding CJLR, should broadly be consistent with each other. And yes, they will be higher than quarter two. And as a guide for quarter three, 30% increase quarter-over-quarter or thereabouts is a good guide, actually, maybe a bit more.

P.B. Balaji: Okay. Thanks, Adrian. Next is from Nitin Arora, Axis Mutual Fund. Two questions, JLR EBITDA is GBP 481 million and CAPEX is GBP 531 million. So JLR has not generated any free cash flows, it looks more of working capital, which went higher in Q1 that got reversed and JLR generated cash. How much of this working capital reversal can happen which generates free cash flow or is it largely done?

I think we answered this question in terms of the sequence of how we see the priorities. This quarter was important to get back the free cash flow loss because of working capital unwind, so we have done that. And going forward, it will obviously be a mix of demand as well as profitability improvement for us to drive the free cash flows that we are looking for.

Second, we are seeing JLR losing market share, especially in China. Do you think you are running a risky strategy of reducing CAPEX, which looks like will be equal to your depreciation rather than working on model cycle and generating free cash flow?

This, again, I think Adrian has covered at length saying that we are looking at health of the sale that we are doing out there in China and improving and driving the profitability. I don't think that I agree to the point saying that reducing CAPEX is impacting market share in China today. We are ensuring that we are having a healthy ecosystem between us, our dealers as well as an exciting range of products that is out there. Don't forget that we launched Defender in the peak of a pandemic, and we are continuing to introduce our electrified portfolio, and we will continue to have the top products that are coming into the market there. So CAPEX and its implications going forward and the portfolio, I think, it will be a very good discussion that we can have on the 2nd of December. And we will talk about this in greater detail there. But let me reassure you that we are not looking to become a zombie company, where we cut our CAPEX or generate cash, pay down the debt. And after that, we have no product to sell thereafter. That will not be acceptable, and that will be quite a silly strategy, too.

So, we now have one from Shyam Sundar, Sundaram Mutual Fund. On JLR retail inventory, we see that inventory days are at pre-COVID levels. Are you seeing the need for further destocking? And housekeeping question. Depreciation in JLR U.K. P&L has been lower quarter-on-quarter. All plants other than **Castle Bromwich** were operational, can you help us understand this depreciation number? Adrian?

Adrian Mardell: Yes. Okay. Thank you for the questions again. So at the average, average plant level, dealer inventories are absolutely where we'd wish them now to be. When we break that down by market and by nameplate, there are still some nameplates in some markets which are higher, some Overseas markets, in particular, and we will continue to take those down. Conversely, there are also some nameplates in some markets, which are too low. And good examples of that would be rest within North America in quarter two, which is why I mentioned earlier, North America retails were partially lower in the quarter year-over-year because of supply constraints. We expect all of those market-by-market nameplate issues to be resolved as we go through Q3 and into quarter four.

Is depreciation year-over-year lower? Yes, that's overwhelmingly as a result of the Range Rover and the Range Rover Sport. Those cars are now almost eight years in life. And therefore, the residual depreciation to go is much, much lower than it was 12 months ago. Ultimately, in 18 months' time, those cars will be replaced with all new fresh vehicles. That's partially as a result of COVID and everything going back a little bit, but mostly speaking, those cars are still significant in the marketplace, selling really well, generating a lot of money, but they have just gone beyond a natural 8-year cycle, and therefore, D&A is not much left to write off.

P.B. Balaji: Thanks, Adrian. The next question is from Antique Limited, Priya Ranjan. What are we doing to contain warranty cost increase as quarter-on-quarter has increased again?

Adrian Mardell: Let me take that one as well. Many thanks for the question. So quarter-on-quarter, the increases were, we spoke around the campaigns. I referenced them, I-PACE campaign and the reversal last year of a PHEV campaign in China. I have also mentioned, I think, on at least two or three occasions, we can see the underlying data for our 2020 model year vehicles is actually performing much better than '18 and 2019 model years. We have accounting rules of the road, which only allow us to take effect of those 2020 model years at a certain point in time. 75% of the sales need to be through into customer hands of a model year. That will start to happen in quarter three. So my expectation is, you will start to see warranty from quarter three this year, below 4%. Don't forget, just like I mentioned, 7% was a line of good or bad for VME, 4% is that line in warranty. So my expectation is, we will be lower than that level in the (3% +) range in quarter three. So that's where the warranty will start to come through as a positive in the second half of the year.

P.B. Balaji: Thank you. One more question coming through, which I will take, we have seen the withdrawal of Jaguar XE from the U.S. Can we see more such withdrawal of Jaguar models? Do hold your questions on anything related to portfolio till December 2. That may be a better time to answer it comprehensively.

How long can we see plant CAPEX going on related to the modular platform? This, again, is linked to industrial footprint and portfolio, best pick it up on the December 2nd call.

Next question is from JPMorgan, Jemma Permalloo. Can you please give us some indication on how increased electrification will impact gross margin? And second question, an updated view on how much excess inventories JLR will need to hold in case of a no-deal Brexit? Adrian?

Adrian Mardell:

Okay. Thank you for the questions. So margins, obviously, depends on how you measure the margin. If you measure it before fines, then there obviously is a reduction of the margin we will make on electrified vehicle rather than a traditional ICE. However, we put vehicles into the marketplace for compliance purposes. And if we were not to do that, the losses we would make on those vehicles will be even higher. So our compliance strategy, our electrification strategy follows our value maximization strategy, and it's the right thing to do also as well, of course.

From an excess inventory level, again, we are on record, previously, we continue to raise our parts inventories, particularly just in case there is friction at the borders over the first days and weeks of January. We have done the same again over the last several weeks, leading up to the end of this year. So we have added an extra day's worth of buffer inventory and stock, which is in place. We can't hold inventory forever, of course, and therefore, it will help us with days rather than weeks into January. Finished vehicle inventory similarly, we will grow it in between U.K. and Europe over this period of time, just to avoid that level of friction. Our expectation is over time, whatever the challenges are at the border, they will be factored into working capital, into operational requirements over the following months. I suspect we will work through this during quarter four or it's likely to be a big deal in the early part of quarter four, but we will work through it. So we are doing exactly what we have done in previous quarters. We have built where we can, but you can't hold inventory. There is just so many parts come into our factories, you can't hold enough to trade through that uncertain period.

P.B. Balaji:

Yes. Thanks, Adrian. Question, Girish, coming in your way. This is from Siddharth from Edelweiss. India M&HCV, what's your understanding on the willingness of financiers to fund new trucks, especially M&HCV? How is the resale value of trucks and risk of default/repossession post the end of the moratorium period? And then the next question is to PV. So if you could take these two?

Girish Wagh:

Okay. Thanks, Siddharth. I think we have seen gradually from Q1 and then to Q2 that the financiers have reduced their risk aversion and I think they are coming forward and funding not only the large customers but also the retail customers. Even the loan-to-value ratios have been improving as we move from Q1 to Q2. So I think there is a good openness and funding which is now available for the M&HCV customers.

On your second question regarding what is the status after moratorium two. I think it would have been better answered by my colleague, Samrat. But as I know from him, I think this is also being managed very well as we moved from moratorium one to moratorium two, and from moratorium two to structured loans, so to say. And I think we don't see too many NPAs which are happening as we go ahead in the M&HCV, not only M&HCV, but even in the ILCV domain. So that's how I see the financing environment. There has been a very good improvement as we moved month over month from Q1 to Q2 and as we stand now. Balaji?

P.B. Balaji:

Yes. Thanks, Girish. I think conscious of time, I think we have run out of time. Once again, for the rest of the questions that are out there, do reach out us, we will meet with you in any case, at that time we can answer these questions. Once again, thanks a lot for your time and patience in going through the questions and listening to us. Look forward to seeing you again in the coming days. And thanks to the team on the call as well. Response is much appreciated. All of you stay safe and catch you soon and look forward to seeing you on December 1st and December 2nd in the two Investor Days. Thank you.

Moderator:

On behalf of Tata Motors Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.