



“Tata Motors Limited  
Q1 FY2020 Earnings Conference Call”

July 25, 2019



**ANALYST: MR. YOGESH AGGARWAL - MANAGING DIRECTOR AND HEAD OF RESEARCH – HSBC SECURITIES**

**MANAGEMENT: MR. PB BALAJI - GROUP CHIEF FINANCIAL OFFICER - TATA MOTORS LIMITED**  
**MR. GUENTER BUTSCHEK – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR - TATA MOTORS LIMITED**  
**PROFESSOR DR. RALF SPETH – CHIEF EXECUTIVE OFFICER - JAGUAR LAND ROVER AUTOMOTIVE PLC**  
**MR. ADRIAN MARDELL – CHIEF FINANCIAL OFFICER - JAGUAR LAND ROVER AUTOMOTIVE PLC**  
**MR. NIGEL BLENKINSOP - DIRECTOR OF QUALITY AND AUTOMOTIVE SAFETY - JAGUAR LAND ROVER AUTOMOTIVE PLC**

**Moderator:** Ladies and gentlemen, good day, and welcome to Tata Motors Q1 FY2020 Results Conference Call hosted by HSBC Securities. 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, Managing Director and Head of Research. Thank you, and over to you, Sir!

**Yogesh Aggarwal:** Thank you, Stanford. 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 again. Today, we have with us Mr. Guenter Butschek, MD and CEO; Professor Dr. Ralf Speth, CEO, JLR; Mr PB Balaji, Group CFO; and Mr. Adrian Mardell, CFO, JLR, along with members of the Investor Relations team. Thanks again to the management team for taking out time today.

We will start the session with some comments from the management followed by Q&A. Over to you, Balaji!

**PB Balaji:** Yes. Thanks, a lot, Yogesh. Thanks all of you for taking the time to join the session. As of last time, what we have tried to do is to get the data in front of you as early as possible, and we will try and keep the presentations as short and sharp as possible, just calling out what the areas that we would like to highlight and then spend as much time as possible on Q&A.

So without further ado, I draw your attention to the safe harbor statement and then, of course, talking about the new developments in the quarter, particularly proud of celebrating the 10,000th consumer for the customer for the Harrier as well as a fair amount of action coming from JLR on Discovery Sport, which is now on sale as well as the BMW Tate, which we talked about in the Investor Day.

On the CV side, I think the launch of the compact truck INTRA is something that is been special for us. So a lot of action continues this quarter.

As far as the FY2020 consolidated numbers are concerned on Slide 4 at this point in time, the volumes came in down 20% and revenues down 7%, and that is actually coming out of a significant weakness across all markets that we have seen. And this, in particular, has, if I go down one level below, the real absolute reduction is coming from China and India caused maximum impact for this particular quarter.

As far as the EBIT is concerned, that is fundamentally coming of 2 areas and declines in EBITDA to negative 2.5%, out of the negative operating leverage because of the volume decline that we saw as

well as a higher warranty and marketing cost of JLR, which is something that we will talk about in slightly more detail, and we have Nigel with us who is going to talk us through that.

Overall, I think the good news is that cash outflows in JLR this quarter have been significantly lower than the same period last year, highlighting the impact of Charge as it starts to really bite in the business. And then India is concerned, it is a touch disappointing on our working capital, but we are very clear that we will get that right as we go forward. We could not handle the sharpness of the slowdown to the speed that we would like.

Overall, China is now starting to stabilize, and we expect to see growth hereon and Turnaround 2.0, which I will talk in slightly great detail later.

What I really like to draw your attention on is the revenue decline of 7.7%, a good part of the JLR revenue decline has now started to reduce and getting more into a manageable space and then we expect to see growth going forward. And in India, the retail performance is something that we have started talking about, and we now go unabashedly retail is starting to get quite significantly better than wholesale for the quarter.

On the slide 6, the EBIT margin fundamentally reflects the negative operating leverage to a large extent and both in India and in JLR as well. In India, I think, one thing which I will call out is the competitive intensity particular in the CV business has really intensified, and particularly in a situation of declining demand.

Moving on to the JLR; let me now hand over the slide to Adrian. And I ask to take it from there, Adrian. Over to you!

**Adrian Mardell:**

Thank you, Balaji. Good evening, everybody on the line. What Balaji just said is, of course, modeled within the JLR business as well. Retails were 128,600 units, down 11.6%, and the revenue along that was £5.1 billion, down 2.8%. I will take you through some details later.

EBIT for us was 5.5% negative. There were 3 significant pieces of that; higher warranty costs – we do have Nigel with us today – higher variable marketing costs mostly on older car run outs; and also, we had reduced volumes in 2 major areas: in China, where we have year-over-year reductions, and also as a result of our Brexit planning, which I will touch more on later. And as Balaji just said, the free cash flow was much stronger this quarter than the same quarter last year. And again, I will give you the texture on that.

Here are the volumes; you see the year-over-year units there for China versus same quarter last year, down 29%. As I have just said, we have seen year-over-year deteriorations in China but July is actually up month-to-date versus the same month last year and June was higher than May, even

though the marketplace is deteriorating. U.K. was better versus the prior year, same quarter, 2.6%. Also, the disappointing data for us this quarter around on volumes were in overseas markets, 3 or 4 places. We are talking about 4000 retails [fewer than prior year] in total.

Next slide, if you would. All of our nameplates were down overall with the exception of the new ones, the new Evoque and the I-PACE, I will cover those details later on, but both were increasing during the quarter, April through June.

This is the financial page for us. Our loss before exceptionals was £383 million. We did have £12 million exceptionals for redundancy costs mostly, as well. That is higher than last year for all these reasons stated. Half of the volume loss was China. The rest was the Brexit planning. You know we took a shutdown in April, where we took out about 8,000 vehicles that we did not build, wholesale and then retail.

We also had some certification issues, relatively modest, a few thousand units at the end of June. But in total, our Brexit planning cost is just over £100 million in the quarter. Net pricing; variable marketing increases up to 8.8% of revenue, we also know, Q1 is always our worst quarter, mostly because of model year run outs, and we had a lot of those this quarter Discovery Sport, because of the refresh and launch of the new Evoque. And also importantly, the release of the final CN5 units in our China market, where some older vehicles we have now put through to the dealers, and we are confident the plans we have in place will retail those units in July.

Contribution cost, most increases were in warranty, and I will hold that until we get to those slides for Nigel to take us through later. You can start to see the impact of Project Charge in several places, actually, but this is a structural cost impact. You can see there we have summarized it, savings pretty much across the line, in all of our structural costs, and we also benefited from the impairment and the reduced D&A in this quarter versus last year. As you can see that £86 there.

Exchange was actually favorable this quarter compared to the last quarter, pretty much in all areas. Our operating exchange was better at the weaker sterling level. The amount of hedges we have on the books are fewer, and therefore, those losses are lower and also net revaluation versus last year was favorable as well, although, we did take a hit on commodities. They were the details around the quarterly profit.

Cash is the really the good story for us in the quarter. Our free cash flow was limited to a £719 million outflow that was quite a huge £954 million better than the same quarter last year. Within that, we did start to drawdown on our receivables financing facility to a value of £305 million, obviously, that favorably impacted that number. But the rest was pure Charge, inventory reductions and also significant reductions you see there on investments.

If you go to the next slide this is the investment reduction. £795 million in total, much lower than the £1.066 billion of last year. Much of the reduction were real live projects, which we decided not to do several months ago as a part of Charge. So £170 of that £271 million reduction was a result of project activity that is lower in Q1 of this year than last year. And we also saw the favorable impact of reductions in our engineering and our engineering facilities with headcount as a part of project as well. Those costs were down £100 million.

Go to the next slide, if you would, please. This gives us a sense of where we actually are on our funding for this year. We did complete that \$700 million receivable facility. We actually did that in March, but we did not draw down until April. We are availing a new facility, which is actually with a number of external banks. But importantly, it will be supported by the U.K. Export Guarantee fund up to 80% of the value, and we expect to complete that £625 million facility in Q2. And we are obviously working on a number of other options, which we would expect to move to maturity during Q2 and into Q3 also. There are some bonds that mature this fiscal year. \$500 million will mature in November and \$500 million will mature in March, but we expect funding to be next positive this fiscal year.

Next one, if you would, please, so our plans for turnaround and transformation are exactly as they were the last quarter. There is basically 3 strands of it. There is a strong new pipeline of products, with I-PACE and Evoque, the first 2 of that, already in the marketplace. XE 20 model year refresh has significant interior update and the Discovery Sport also a significant interior refresh, in part to overcome those quality concerns where Nigel will talk you about. And of course, we have the amazing new Defender, which will be with us at the end of the year. Also, Project Charge will continue. It comes to the end of Phase 3 at the end of July. We will continue beyond that, even though we are confident we already have plans in place to over-deliver the £2.5 billion we have committed to you folks. And Project Accelerate is starting to fix the fundamentals, but will mostly be involved in future product launches rather than existing vehicles where Charge actually does its work.

Next slide, please. This is the new vehicles. You can see a couple of things here. Sales are increasing on the Evoque month-by-month as we go through Q1 and supply now comes on board for all markets. Launch of new Evoque in China is not until August. And you can also see here the I-PACE again, the sales are starting to rise almost 4,500 units in the quarter just finished as well.

Next slide, please. This is obviously a fundamental one for us, the China market, we all know it, these are the KPIs and you will start to see the KPIs have not only improved, but are starting to stabilize at that better level. We did over achieve our retail target for the first time in a long time in June, and we are ahead in July of last year's numbers already with 5 days to go. So that will continue. Retailer return on sales have strengthened over the previous 12 months, although did tick up towards the end of the quarter as we released more of those CN5 units into the marketplace. That is also the same reason why our retailer stock, even though it is dropped considerably over the last 12 months, did tick

up again in June. Those issues will be resolved in Q2. And the good news, of course, is most of the retailers continue to sell most of their cars in their local registration area, which is really important to us as well.

Next slide, if you would, please. Obviously, Brexit is incredibly topical, particularly this week with the change in the U.K. government. We did have our plans in place for March, as you know. And I have already mentioned, they probably cost us just over £100 million in the quarter just finished. We had been modeling 3 scenarios, but following this week's changes, the most likely is we are facing 2 scenarios, both of which will involve an exit from the EU on the October 31. We either leave with a deal, which of course, is what we want and what this company will continue to work towards. Obviously, that will give us a frictionless trade, which is fundamental, and we do expect an appreciation of Sterling if that were to happen. Our headline case is a gradual appreciation, but that is something, obviously, we need to monitor and watch. And we also expect to continue with the turnaround programs as announced irrespective of a deal or a no deal. If there is no deal, of course, one of the core points is how much friction is actually introduced into the supply line. We would do our planning, but obviously, we need to maintain stability at that friction level and we do not exactly know how much that will be yet. Of course, the duty regime will kick in, and we will look to offset that and mitigate that and if appropriate pass it on as much as we can. But obviously, the market will determine that one. And we would expect a weakening of Sterling, which in time would become a natural offset with our model to the incremental duty rates.

So in summary, we are expecting to leave on 31 October. We do expect it to be painful in the very short term. The considerations around that friction and the ability to pass on those duties will determine how difficult that is for us in FY2020. However, we do expect that to normalize with a natural offset of sterling depreciation going forward into FY2021. Hence, we do not expect a significant impact on our turnaround and growth programs.

Next one, if you would, please. This point, I would like to just ask Nigel to talk us through the 3 quality slides we have in the deck.

**Nigel Blenkinsop:**

Right. Good evening. It is Nigel Blenkinsop, Director of Quality and Automotive Safety. I'd like to start by giving an overview of the performance in Q1 and outline the key drivers behind the increased accrual associated with warranty between 2019 financial year and 2020 financial year. You can see 3 elements on the left-hand side of the slide; fundamental issues driving the increase associated with warranty: campaigns to drive improvement and reliability on legacy powertrains; we have also seen an increase in true-ups and goodwill, ensuring that we retain customer loyalty; and thirdly, we are making what I see as an investment in the deployment of software over-the-air to upgrade our customers to ensure that they can receive updates and fixes directly to their vehicles, both on the cars that are being released into the market now, but also some of the cars that are in the car parc. And

through that process also deploy an enhanced customer experience with the deployment of Apple CarPlay and Android Auto, which will create a significant improvement in customer experience.

On the right-hand side of the slide just outlined a number of the elements that underpin [how] the quality transformation has been driven. On the current product side, for the cars that are already in the hands of the customer, we are driving a rapid issue resolution process, which looks to streamline our approach and prioritize the resource and the focus on fixing customer issues rapidly, and as part of that because we are able to address and identify issues much quicker [fixes] have been deployed into customer vehicles directly and much quicker than we have been able to do previously.

We have also simplified strategy deployment around quality, reduce the complexity of quality reporting and improved the information flow on quality performance across the organization, and thereby, engaging a wider group of people in the transformation of quality. On the future product side, we are looking at engineering for a quality outcome and focusing our engineering efforts on the critical core systems, 34 systems on the vehicle. And primarily driving the reduction of technical risk early in the life cycle to ensure that we have got robust products function demonstrated and durable products going into the market. Reducing product complexity, we have a number of examples, both on the powertrain and chassis side where we have reduced complexity, which allows us greater time for validation and performance demonstration in the prelaunch phase. And then finally, we are also enhancing our product governance around project management and delivery to ensure that we have got clarity and transparency around the risks and the delivery of the products and the product development.

Next slide; just highlight on this slide the performance around how we are reporting in the U.S., the initial quality survey. We have made some very, very significant improvements, Jaguar and Land Rover ranked at 31 and 32, respectively, but we have seen the most significant improvements of all brands across that market and significantly closed the gap with our competition, which we are very, very pleased with. And we have done that through addressing some of the fundamental issues that have been reported in prior surveys. And then to the right-hand side, the J.D. Power China Vehicle quality survey, where we can see Jaguar reported very, very close to the top of the brand in terms of performance reported second Land Rover in the pack and equal to BMW and a number of our vehicles, including long wheelbase Range Rover and Range Rover Sport, performing at the top of their specific vehicle segments, so positive reporting. And then on the preferred chart, I just wanted to reinforce the fact that we are respecting and converting the information that is being fed through the J.D. Power Survey, and our new car buyer surveys and making sure that we are implementing changes to the way the cars are being developed and what is being contained in the development of the new vehicles. So infotainment, we are making the investment around SOTA that I described and for the interior, where we have picked up some criticism from our customers, we have seen significant improvements in the midcycle refreshes on XE, F-PACE and Discovery Sport. And we

have also significantly improved stowage on the vehicles that are going to launch in the near future. And that concludes this.

**Adrian Mardell:**

Thanks, Nigel. So if I go back to the presentation. I am on the Project Charge slide. You can see, we did £400 million in the quarter, the £300 million already talked to on investment, plus another £100 million on costs and profits, which you saw on the page earlier also. If I go to the next slide, as you will see from the last one, we have already achieved our investment targets with 9 months to go, and we will over achieve our working capital target, that is why you have seen how much we have done in the quarter compared to prior year - £750 million better than prior year. And so we are focused very heavily, as you would expect us to be, on the EBIT. We did £150 million last year; that is done. We have actually completed our redundancy programs with 6,000 people leaving in total that would be worth £400 million. If we measure on a year-over-year basis, it is about £250 million. We are very, very focused on our material cost improvements also. A modest amount in Q1 that is not untypical actually, as negotiations continue into later quarters. We are highly confident of the £250 million we have done for material cost as well. And the £200 million overhead, you would have seen a great start to that in quarter 1 already. And we are still TBD on the final £150 million, which to date are undefined, and we will be working towards delivery of those during the second half of this fiscal year.

Next page, if you would. Looking ahead, this is the guidance page we gave at the Investor Day. If I go down the FY2020 position, given the deterioration, our expectations year-over-year in Q1, we are at the lower end of that 3% to 4% this year. I think we signaled that to you previously, both at the end of the full year results, but also on the Investor Day, but PBT will be positive. We will under spend £4 billion, and even though, cash flow is going to be negative, it will be improving, of course, quarter-by-quarter and better than last fiscal year.

Our gross debt, EBIT number 2.8x is actually higher than we discussed last time, that is purely the IFRS data now coming on to our balance sheet. We added about £534 million assets and debt onto our balance sheet. So that is the technical adjustment of that standard, moving up from 2.5x to 2.8x debt-to-EBITDA. So in summary, we have had a really, really positive last 6 months. Our cash has been almost £700 million positive in the last quarter last year and first quarter this year. Given our volumes are falling and we have had difficulties in China it just shows how the Charge program has impacted the cash disposition over the last 6 to 9 months of this company. Thank you, Balaji.

**PB Balaji:**

Thanks, Adrian. Just to close the point on JLR, I think one of the lines I do draw your attention is that we expect to see an improved PBT margins and cash flow in FY2020 as the year progresses. And also what China stabilizing and now start getting back to growth here on. So those are the 2 colors looking ahead as well. So moving on to Tata Motors, I think the big point here is the way the market turnover this quarter has been challenging to say the least. And in this situation, what we looked at is how do we take care of our own destiny, and therefore, Turnaround 2.0 has actually delivered in full measure with our, and we will continue to focus on retail, cost reductions and cash flow going forward, that is



our entire focus area. EBIT came in at 0.8% of revenue. And to go back in time, the last time the similar number happened was in FY2018 second quarter, and there was another 0.9% EBIT at that point in time, but the only difference is that compared to that period to now, the elementary volumes have dropped by 30%. So just profit driver went down 30%, and still we are able to hold our EBIT, which is clear delivery of the Turnaround 2.0 numbers there. And we talk a little bit about where this is coming from.

Moving into the following slide on PBT improvement, EBIT was down 330 bps, but if we actually split it up, almost entirely coming because of volume and mix going down. And then adverse mix because of the M&HCV portfolio going down caused the problem and the rest of it, not much out there.

On free cash flow, I think, this is an area where we are not happy with our performance at 4,600 Crores negative, almost entirely in working capital. And this is attributable to 2 factors. One is the sharpness of the slowdown and also our inability to actually accept the fact that the market has actually come down so dramatically, we just could not see that kind of a, we could not accept that kind of a number there. And therefore, we had to take actions. We waited for quite a while before it happened to be 100% sure that this is indeed the case in the market. And therefore, that is the single biggest agenda for us going forward as we will correct our positions here.

Moving on to investments, nothing new here in line with what we had originally talked about, bulk of it, those increase coming squarely from the BS-VI investments that are out there. Talking about CV performance if you recollect, we talked about the focus on retail so the retail growth higher than wholesale growth, which is reassuring. But it is fair to say that the growth has been severely impacted by the higher axle loads, liquidity stress, low freight availability, take your pick, it is not been an easy time for us. And in this time, we would definitely want to look at market share improvement, where the key segments like M&HCV, ILCV we are improving market share. SCV, in particular, we saw severe stress of liquidity within that particular segment. So fair enough to say that we have lost a bit of competitiveness there, which we need to fix as well. But that is more wholesale. So I am not particularly worried about it for the immediate period, but we will keep a very close eye on that particular point. On the turnaround focus, I think it is going to be retail, retail and retail from us, focus on market activations. And I think the time to really focus on dealer profitability, performance, working capital cycle has actually never been more current. At least, the good part for us, we started at least 6, 7 months back. And therefore, inventory is going to be a very, very key factor for us as we transition into BS-VI and Guenter will talk about that as well. Our cost production focus continues, and I think we will also look at getting into the market with customer finance solutions because we need solutions for the dealer, for the customer. So it is going to be a fair amount of work on that particular front, while at the same time, ensuring we do not increase risk in the marketplace. So the implication of the M&HCV volume reduction we have seen in the EBIT line where at 4.7% EBIT, it is not something that we like what we see, but that is a reality of what the market is. And the negative

operating leverage, combined with a loss in M&HCV markets size though we increased share, impacted the performance there. CV has been a great story where, I think, first of all, we are now focused on retail as we called out last time increase, there was retails declined by 7% versus wholesales declining by 30%. So we are very clear that we want to get the basics right and not go after temporary metrics. We also rationalized our distribution organization. So right now, we have Tata Motors distribution legal infrastructure that entity is now being wound down as we speak. And we have removed all the, we sell directly now from here on, that will consolidate stockholding into Tata Motors and it will also simplify operations. The retail growth is definitely impacted by low consumer sentiment and liquidity. And in this time period, I think our focus is going to be on strengthening the brand in the innovation intensity stemming out of the 2 architectures that we have, and again focus on dealer profitability and shift the focus to retail. There was a new showroom, the brand image of Tata Motors in this PV showrooms, the first one got launched day before yesterday. So you are seeing it for the first time. And this is something that will roll-out across the country as the year progresses. On the PV's revenue growth though declining by 17.7%, very reassured and that tells me the strategy is firing on winning sustainably, where the EBITDA improved to 1.2%, despite revenue decline. And this has been achieved fundamentally through cost reductions and improved product mix coming our way. And this is likely to continue going forward as well.

With this, let me pass it on to Guenter to talk about BS-VI readiness plus EV business.

**Guenter Butschek:**

Balaji, thank you. Good evening, everybody. BS-VI readiness respectively BS-VI, that was called out at the Investors Day, as the single largest challenge in the 15 years, the single largest investment for the Tata Motors have ever performed. And just as a reminder, the challenge is to convert by the due date 31st of March 2020, all of our product portfolio to be as fixed and to be launch-ready for the ramp-up of the capacity and to delivery and registrations, effectively as of the 1st of April. Having said that and providing technical background, as part of the presentations on the Investors Day, a quick update on our development and design, which was reviewed it intensively yesterday afternoon with all relevant agencies within Tata Motors is perfectly well on track. All of our powertrains has already been certified. Now the vehicles are lined up in front of the authorization agency for testing all of the certifications of all the new products on time in order to go for phased launch in PV and CV in the coming months.

Manufacturing capability is also on track, but not only our own capability also the one of the suppliers. So the entire supply chain is already stress tested, and we will be ready to ramp-up capacity according to plan. Inventory planning is a challenge not only as far as the phase-in of the BS-VI components is concerned, it is even more valid for the phase-out of the specified BSIV inventory, where we need to make a cautious call. And meanwhile, we have shortened our review process on the monthly review as part of an integrated S&Op process to weekly reviews in order to take latest developments in the market into consideration for the placement of the orders in order to keep full control of the BSIV-specific issues to prevent any kind of obsolescence risk by the end of the fiscal

year. But since BS-VI is a significant step-up in technology, we have already launched an intensive sales and service personnel training in order to build the skills and also make the special tools and infrastructure available. And we have also provided our customers' education programs in order to make sure that BS-VI is not only valid by retail, but also well received by our customers.

On the next page the 2, the EV future. I think we all have read about the development on the EV front. First, a very important message was sent by the government and its intention to get all electric in India, passing the same through incentive of 10,000 Crores even before the elections. We are all quite keen to see how the government is going to translate it into action after the election. And what we have seen in the last weeks clearly demonstrates that this was not just an approval of an incentive framework that this is strongly supported by company actions in order to boost the faster adaptation towards electrification in the months. I will almost say in the months to come and the years to come. And there are currently 2 main messages, which are key ingredient for this movement so one is the GST reduction from 12% to 5%.

The GST council was supposed to decide on it today. We have not received any news, I guess, but a basic assumption on all prior indications is that this is going to happen. What has already been decided is an income tax deduction of 1.5 next against the interest paid on the EV loans. If you take both together, it has an impact on the overall development of the EV business because the total cost of ownership going to be reduced by these 2 measures, which is going to close the gap, let is say, to a diesel or conventional and petrol internal combustion engine.

In terms of cost of acquisition of the vehicle in the private and the personal segment and it finally creates a positive business case for the shared segment. So for shared mobility for aggregators in the Indian market, maybe, people transport of large corporate or maybe the shared fleets available in different formats in the Indian markets. As far as our share is concerned, although we have always been considered as getting late into the electric vehicle space we said, although we are late, we are going to claim the leadership. And by all the contracts available in the market, largely in the travel and in the people transport segment of large corporate, we have claimed the market share of 65% in Q1. Now some by last year we have 65% market share in Q1 equals 160 EVs sold. But this is the count reality where we expected these volumes will go relatively up triggered by the initiatives of the government.

But very important is that we have been able to establish our strategy as far as a strong presence in the corporate lead is concerned, with 60% of the market and as far as the government is concerned, where we have currently 14 departments as customers. We even own at this point of time, 72%. We opened up to personal segment to 10 fleets across to 5 cities. So that means even with the small volume we are currently rapidly expanding our footprint of electric vehicles across India, and that will get us well positioned for the next step or further volume increase in the months in years to come. We have put a picture on the side electric bus on the left-hand side, we have won additional tenders as far as electric

buses are concerned, and they currently claim 56% of the market in the EV buses. And in the first, by the end of May, I do not have full and final figure end of June or end by now, but we had already a fleet of more than 250 electric buses across India in operation. And the feedback of the customers is extremely convincing so that we believe that in particular on the bus side on the public transport side, we are extremely well positioned also leveraging the capabilities of the Tata Group, as far as infrastructure as far as charging is concerned, to further develop these business opportunities in the years to come.

Coming back to FAME-II as a reference, more than 7,000 electric buses are expected to be subsidized by FAME-II, which is giving a huge boost to this business opportunity and we have the strong intention to actually defend our current dominant market position in the electric bus business in the coming 3 years.

So having said that, back to Balaji as far as Tata Motors Finance is concerned.

**PB Balaji:**

Yes. Thanks, Guenter. A few comment on Tata Motors Finance something that I have alluded to earlier as well, it is the need to get fit for the future and get ready for the future disruption. We now started the projects Spark there, which is an organization restructuring cum technology adoption cum customer service, customer response and they rectify. They kick started from May of this year, and we are now seeing good progress on that. It is a temporary impact of organization changes, getting us closer to the customer and also getting us for the future, and this has impacted collections during the quarter. So I would not be unduly concerned about some of the deterioration metrics that we see, we had internally expected that. And as the things stabilize during October 2019, we expect to see a significantly improved performance thereafter. Market share has continued to do well so no major concern on that particular front. And of course, the Tata Motors Finance is working to diversify its funding sources as well.

Overall, our net debt, nothing further to add other than that IFRS impact, maturity is well spread out, liquidity adequate and Adrian did not talk about the U.K. funding as well. On the outlook, let me quickly cut the chase in terms of headwinds are likely to continue, we do not see any respite on that in the immediate future. But if I take the final slide in terms of our plan, JLR, I already talked about no change to what we had communicated in the past, continue to focus on 3% to 4% EBIT margin. We will return to profit in that range, a negative, but improved cash flow. As far as Tata Motors is concerned, we are reflecting the changes that are there in the marketplace at this point in time. And new ones hitting a little bit where we expect EBIT to see slightly lower at 3% to 4% as far as this year and next is concerned, and getting back to our normative plans thereafter. As far as this year is concerned, we expect performance to gradually improve as the situation, both demand and liquidity situation starts to improve. And we will continue to focus on retail in both CV and PV and work closely with the banks and NBFCs to start addressing the liquidity stress across the value chain in clever manners, which do not increase risk but provide solutions.

So with this, let me stop here, hand it over to you for any questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will begin the question and answer session. The first question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

**Ruchit Mehta:** Just on the warranty side for JLR, could you explain this a little better? Because the delta cost that you have seen on the run rate basis seems pretty high. So my question will be one, how do you see this itself panning out over the next, say, 4 to 8-odd quarters? And how much of the increases are happening because of historical product issues? And when you say historical product issues, for example, powertrain quality campaign, what is it that you are incurring the cost on?

**PB Balaji:** Adrian, would you want to take that up?

**Nigel Blenkinsop :** I think there are a couple of parts to the question. Yes we can, in the midterm, see a reduction in the overall expense unit. And one of the primary drivers for that is the benefit of deploying SOTA to the fleet, which means when we have a software update on one of a number of modules in the vehicle, we are able to do that directly to the customer, and we do not need to bring the customer in at great expense for a hardware connection at the retailer. And that gives us a significant opportunity to reduce cost. With regards to powertrain, and we outlined with regards to legacy issues, what we are doing is having to diagnose and in some cases, replace legacy engines in markets across the world, and that is picking up on issues that go back a fair way beyond the existing warranty period. But unfortunately, the warranty accrual is affected by having performed replacement for those legacy engines. And on the powertrain side, one of the positive opportunities that we have is also the transition into our own in-house engines. So we have fully transitioned into diesel 4 cylinder and petrol 4 cylinder in Ingenium family. We are launching and have launched over the last 4 to 5 months the Ingenium 6 cylinder engine, replacing one of our 4 legacy engines, and we are in the process of launching and going through the final validation of the new diesel 6 cylinder. Again, we have incorporated a significant level of lessons learned from our legacy engines into the new engines, and I review this on a very regular basis, personally, a significant effort in to prevent and recurrence of issues and the failure avoidance of issues in those new engines that have been incorporated into our vehicles.

**Ruchit Mehta:** Okay. So for the legacy engines, can you give some indication of what percentage of your old fleet outstanding that would necessitate these changes have already undergone those changes or fixes? And how much more is yet to sort of go through? I mean, historically, you used to have per unit cost of £1,500 or thereabout, and this is double of that. And I am just trying to understand, how does it pan out in the future? Because if you are having to replace engines or engine parts for previously sold vehicles, I mean, exactly, when does this all stop?

**Nigel Blenkinsop :** Sorry, I think the question is fundamentally, when do we think it stops. It stops when we transition into the new powertrains and we get the benefit from the investment in our own core engines and

manufactured in our control. And the benefit, as I have outlined, is happening as we migrate into those engines. In terms of the percentages, I think it will be very, very difficult over the phone to actually lay that outside we have to trust the implementation of our own investment in powertrain. And we are seeing that come through already in the costs.

**Ruchit Mehta:** Thanks.

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

**Pramod Kumar:** My question is to, for Mr. Balaji. Just one clarification, Sir the EBIT margin guidance for 3% to 4% is for FY2020 and 2021. So if you can just split that for FY2020? Because I do see that the unrealized savings of almost £760 million could give you another 4 percentage on the EBIT front, but we had a minus 5.5%. So theoretically, if we have to get to a 3%, we need more than a 10% delta from the first quarter. So I am just trying to understand, what are you looking for in FY2020 as a EBIT margin guidance, Sir?

**PB Balaji:** It is fair to say that we will be on the lower end of the range as far as 3% to 4% of the FY2020/2021 in JLR, and so in the case of Tata Motors as well. And the intention is to see how much further we can improve on that. But at this point in time, it is fair to say they are at the lower end of the range.

**Pramod Kumar:** So because even at 3, you need a 10%-plus delta from the first quarter levels. I see 4% coming in from the various cost reduction initiatives. But I am trying to understand is, what kind of a volume number are we projecting here for JLR, because the rest has to come from necessarily operating leverage and some kind of mixed improvement. So if you can just help us understand what kind of a volume number are we working here for the lower end of the guidance?

**PB Balaji:** If you recollect that we did talk about China stabilizing and returning to growth hereafter. And that is part of the plans that we have put in place, and those volumes are baked in into this revised plan. And you can rest assured; these are a fair amount of sensitivities that have been done before. We are reconfirming and reiterating our guidance range for JLR after backing us. And if you recollect, there are also called orders. As far as Q1 is concerned, there is nothing new in those numbers. This is exactly what we have signaled when we started the whole thing. It was a one-off issue that we had planned at that point in time, and that is what is playing out as we speak. So there is no change from what we had originally planned.

**Pramod Kumar:** Okay. And the second question is on the India business. There has been dramatic collapse in the, sorry, for the use of such strong words, but our commercial vehicle margins have seen a major hit. And how do you see that evolving over the course of the year given that economic slowdown has kicked in? We have seen category-wise demand deterioration. So if you can just help us understand

what kind of guidance are you providing for the industry growth numbers? And whether, in that context, are we expecting a meaningful improvement in the pricing environment for us to kind of get to the guidance level for India business?

**PB Balaji:**

Yes, 2 things on that. I think the sharpness or the slowdown that one saw in the M&HCV segment is something that did catch us by surprise, it is fair to say that. And that is the reason you saw the working capital also shoot up on that. And along with that is the intensity of competition, because I think if all of us are reacting to just could not believe the speed that this particular segment has gone down. And it is a very significant part of our absolute profitability as well as a percentage profitable, absolute profits and the percentage profitability. And that adverse mix is what came and hit us. And despite that, I think the work happening on cost-out over the last period of time, meant that the remaining parts of the portfolio are starting to lift and take it forward. And as we look ahead, I think, we do see this now gradually coming back to the measures introduced by the government on liquidity easing as well as the infrastructure investments starting to unlock and move again. So one does expect to see and of course, the festival season starting to come through as well for this company. And that is something, which we are working on, we are making assumption on. I think there is, of course, an outstanding question on the pre-buy that will happen on BS-VI, how far it will be and how deep it will be, very difficult to predict at this point in time because the sentiments are also not necessarily great at this point in time in the market. But it is fair to say that whether increase in pricing coming through on BS-VI, the market will pick up and move. And we know these markets move very fast, and they decide to move because it is a PC or conversation. It is, people see the value, I mean, how to do the business case and they put it forward. It will move fast as well if it starts to move. So your guess is as good as mine in terms of how do we see the, how much of the demand go back to. But it is fair to assume that the worst is behind us as far as the CV piece is concerned. And there is a fair amount of interventions happening at an economy level, which would also help us lift this going forward.

**Pramod Kumar:**

And final clarification on the India's. If you can just explain quickly, how much has been the impact of the EBITDA level for the India business?

**PB Balaji:**

Broad, both businesses are broadly about 35 bps at an EBITDA level and that knocks off, the PBT level, not much of an impact because it just compensates for the interest cost line. So no, not material at a PAT, PBT level, but broadly about 35 bps at the EBITDA level. It is not soft at a EBIT level in any case, bulk of it also goes out in depreciation.

**Pramod Kumar:**

Thanks a lot and all the best. Thank you.

**Moderator:**

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

**Robin Zhu:** Couple of questions for me, please. One, you mentioned that the potential where we come to benefit JLR. I just wanted to understand the latest situation on FX hedging. How big the hedges reverse at the moment? How far you are hedged-outs into the future? And to what extent do you expect FX hedging to offset the benefit from weaker pounds in the next, assuming that we have an exit in the next few months and the pound weakens? And second, I noticed that the savings on Project Charge, I mean, the working capital and the investment savings seem to be coming along nicely, but the cost and profits saving appears to be quite limited so far. I just wanted to get your thoughts on at what point will that change? What will it take for that to change for the cost and deposits to savings to come to into that to improve the overall performance?

**PB Balaji:** Adrian, do you want to take that?

**Bennett Birgbauer:** I can take the FX piece of it, Balaji. So the answer on the FX piece is that the hedge reserve in total was about £611 million at the end of June. And most of that is maturing in the next 12 months. So a good portion of that is current portion. And in terms of FX, how far we hedged out? So we do hedge out as far out as 5 years. Although given the uncertainty of Brexit, we have been scaling back on the hedging percentages that we have actually been doing and how far out we have been hedging. And so what you actually saw in this last quarter was that we actually saw improved operational exchange of £58 million from the weaker pound, but you actually also saw reduced hedging losses with the weaker pound, £63 million reduced from a year ago, and that is just because the percentage hedging that we have been doing has been reduced to reflect the uncertainty around it.

**Robin Zhu:** And so if you could spell out what, how much you are hedged out for the next couple of years in terms of your revenues that would be very helpful.

**Bennett Birgbauer :** I think that is a question probably if it is almost better covered offline. We have said our policy is to hedge up to 60% to 75% over the next year and then the selling percentages thereafter. And that is what we do. What we have been doing is hedging at the lower end of that range just because of the uncertainty of Brexit, as I described. As I said, that is ultimately reflected in the overall hedge reserve being at approximately £600 million.

**Robin Zhu:** And then the savings, Charge savings, please.

**Adrian Mardell:** Yes. I will take the Charge savings, but I am mostly going to repeat what I said earlier, and that broadly is these 4 categories of major activity. If you go into the detail of the income statements, you can see an absolute to absolute £77 million reduction in the quarter on [staff costs]. We think the full year impact of that will be £250 million. The action is done. It is just the timing of the money coming through. The second piece is our material cost savings. This is on Slide 25 for folks listening. Second piece is material cost. We are highly confident of getting to that £250 million number this year. Only a small element of that was in the first quarter statement. So that will progressively come through,



actually in half 2, but the number will be bigger in quarter 2. Based of the work you have seen already in quarter 1, we are also confident of getting to that third piece, the £200 million. And then, we do not yet have plans for the fourth piece, which is the last £150 million, about £170 million as we stand and we are working on those. So they are more likely to come through at the back end of the year, certainly into half 2.

**Robin Zhu:** Thank you.

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

**Kapil Singh:** Sir firstly wanted to check in terms of your volume growth guidance for JLR, 1Q has not been good. We have seen a 12% decline, while we target to grow ahead of the premium industry. So if you could talk about market-wise, where you are looking to be on track? And how are each of the markets developing?

**Prof. Dr. Ralf Speth:** I can take this kind of statement from my side. Can you hear me?

**Kapil Singh:** Yes, Sir.

**Prof. Dr. Ralf Speth:** Overall, we have given you a very precise number for the quarter. That would mean at the end of the day that you can describe our discussion in China and the U.S. is in the end or Brexit at the end of the day will influence the U.K. and/or Europe. So therefore, I cannot give the volume figure, okay? And by the way, we never have done it anyhow. So, but I see that Europe at the very moment is weak still, this season, but the retails are now stabilizing. And you know that we have a higher vehicle percentage. So overall, this is a positive direction. I see North America coming a little bit there. It was going down, and it will slightly go down overall for the complete volume segment. So that the premium segment still can be stable. I see also China stabilizing again. We have seen the latest figures last month. They are really encouraging. So also China is going to come back. We had some very special elements in overseas. I guess, there is always something in overseas and so I guess, we can cope with it. Then the overall, I see the complete volume output. And the forecast, cautiously, very cautiously getting tough, but we have an outstanding product portfolio. We are bringing more awards than any other car company. We have an outstanding, and we are leading in electrification and the vehicles are really standing out also from a design point of view.

**Kapil Singh:** In conclusion, are you confident of achieving this target that we have of growing higher than premium industry growth?

**Prof. Dr. Ralf Speth:** Yes. I am confident that we will come back to a solid state.

**Kapil Singh:** Okay. Great to hear that. Second question is on the China JV, some color there in terms of what exactly is hurting and what to expect over there over the next couple of years in terms of profitability?

**Adrian Mardell:** All right. So we think and evidence, actually, when you start to see our second quarter sales, both import and local, we will start to see year-over-year improvements in China, which broadly means that the levels of volumes will start to increase. We are monitoring very, very carefully, the transacting prices in the marketplace, particularly on the local products. And of course, we are determined to ensure that not only ourselves, but the dealers make money on those products also. There will be incremental marketing costs in the local JV during the course of quarter 2 to support those things, and we will take a view later in quarter 2, whether those marketing costs need to continue through the balance of this calendar year.

**Prof. Dr. Ralf Speth:** In addition, I can say we are at the very moment, reorganizing IMSS, so that we have a lean and better approach and really can detect the issues in the market, TP price as mentioned by Adrian already, but also starting with really improving the dealer in terms of training, capability and sales. We have reduced the stock level quite also drastically, we have reduced, let us say, aged vehicles also so that we are doing it in a way that we can really do it in a pull version, and we have not pushed anything into the market. So I guess, we are on a good trend and you will see it may be on the chart.

**Kapil Singh:** Any guidance there on profitability by when do we hope to achieve profitable financials over there?

**PB Balaji:** Maybe let me comment here, because we would love to stick profitability at an overall level. There are multiple levers that we pull, and therefore, would want to split it out by and it becomes very difficult business to manage thereafter but having said that, it is very clear that the road to profitability there also is an equally important one. But I would rather stick to our overall plans on that, yes, if you do not mind.

**Kapil Singh:** Thank you.

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

**Jamshed Dadabhoy:** Could you give us a sense of what your dealer inventory is in volumes in China and the JLR overall and also on the CV side in India? That is my first question.

**PB Balaji:** Let me comment here. From a China perspective, the dealer inventories that you have seen in the slides is now at a multiyear low, and we are happy with the way that it is turned out and we intend to keep it that way going forward as well. As far as India is concerned, at an absolute level, inventory levels are very similar to what we have been seeing during the course of the year. And our intention is to bring it down further to reflect the reality in the marketplace of a significantly slower demand situation that we see. And those interventions are happening as we speak, and we intend to continue

with them, which is why you will see that the wholesale numbers are significantly lower than retail, both in CV and in PV.

**Jamshed Dadabhoy:** So just to clarify, this number that you said on China, this is 1.7 months, yes?

**PB Balaji:** That is correct.

**Jamshed Dadabhoy:** Okay. And about 2 months and when you look at it, what is the base that you will use? You will use the retail sales for that particular month? How do you measure this? I am keen to understand what is the basis?

**PB Balaji:** Two levels on this. In our internal planning, we look at stock covers basis future orders that we have. That is how we do the planning and as far as external reporting is consensus here only the officially announced sales numbers. So we go by the past historical 3-month trend.

**Jamshed Dadabhoy:** Three-month trend?

**PB Balaji:** Three months trend, that is right.

**Jamshed Dadabhoy:** On retails.

**PB Balaji:** That is correct.

**Jamshed Dadabhoy:** Okay. Second question on the VME expenses, almost 9% of sales now. When do you think we start to come off by? What, in which quarter, or which year would we actually see VMEs beginning to trend down? Or do you think this is sort of, it was earlier 5% and it became 7%, now it is almost 9%.

**Adrian Mardell:** Let me take that one, if you can. In quarter 1, you would look back historically at what was the highest level of variable marketing. And a significant amount of that is our business, our older model years come towards their close actually in quarter 1 of our fiscal year. And then we refresh and replace the model years as we go through into quarter 2 mostly. That was increased this time because of the CN5 points that I raised earlier on. So within that quarter 1 number beyond the normal level of increases, there were certainly some further costs for China for those older CN5 units. So no, you should not expect this to be a trend going forward. However, we also know the marketplace is getting more difficult going forward. And therefore, the historical levels, it would depend on how we balance out and how good we are estimating those volumes and making sure we keep really lean on inventory, which is ultimately the big trigger for the excesses.

**Jamshed Dadabhoy:** Thank you.

- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Just continuing with that question. The VME expenses like you said, in the chart is going up from 6.9% to 8.8%. And I know you called out to China, CN5 impact. But last year also we had a special impact of about £100 million in China because of the tariff price cut. So I am just curious to understand, I mean, despite that exceptional base-wise the VME going up so much?
- Adrian Mardell:** Well, again, if you take it to an absolute level, and you look at the levels of VME, we have had over the course of the last 2 to 3 quarters, you will see in this quarter the increase is about 2 to 3 points. And I have been explaining away a significant amount of that 2- to 3-point increase. It is really unlikely that our VME is going to go back to levels in this marketplace of sub-6%, I would suggest. However, obviously, it really just depends on the significant control points within the individual markets. For example, overseas, VME will likely be higher in quarter 2, simply because you can see we did not sell at the levels which we are expecting in that quarter. I would expect China VME to be lower in quarter 2 because our CN5 units are now in the marketplace. And importantly, we have programs to ensure that they get retailed by the dealers as well. So we will have inflow. 9% is not the norm. 6% and below is most likely, it will end up in Q2, somewhere between those points.
- Sonal Gupta:** Okay, sure. And just related since you are discussing China and before my, the other part I had was just on this warranty cost. But just in China, I mean, like you have indicated, because of the CN5 discount and you have put some more CN5 units in June. So how much of your retail boost has come because of the CN5 clearance really speaking and which potentially will sort of whither off, right?
- Adrian Mardell** Yes. Retail, less clear at this stage the programs are in place, but all those units have not retailed. That is why you actually see the dealer inventory increasing at the end of June because we have wholesaled those units to the dealers. From a wholesale perspective, we only have about 150 cars left in our inventory in China to pass through. So overwhelmingly, they have actually been pulling to the dealer network as a wholesale, not yet as retail.
- Sonal Gupta:** And just lastly, again, on the warranty cost, like \$319 million in this quarter. So I mean, is this the \$125 million? I mean, do we see some part of that as a one-off? Or do you think that the warranty cost on a quarterly run rate will still be somewhere between \$250 million to \$300 million, I mean, on a full year basis.
- Adrian Mardell:** The warranty this quarter was 6% of revenue. That is \$300 million of \$5 billion revenue. Previous to this quarter, warranty was 4%. So my expectation, again, in quarter 2, the level of warranty will be between the 4% and 6% level, but not at the 6% because there were significant one-offs in this quarter, just as Nigel set out.
- Sonal Gupta:** Thanks a lot, thanks for answering my questions.

- Moderator:** Thank you. The next question is from the line of Sahil Kedia from Bank of America. Please go ahead.
- Sahil Kedia:** I have 2 questions. There has been some talk about a shortage of China fixed components and that likely to affect production. Are you facing any of that? That is number one. Number two, there is also an article or an announcement that said that you will be making electric car components and assembly in the U.K. Any sense on what kind of investments will be required for that?
- Adrian Mardell:** Let me take the first one first. There has been some talk. Clearly, we have all of the information to make sure that talk is managed with our internal processes and our volume position that we had for Q1 and Q2 will be unlikely to be affected from any of those potential shortages. If we do get into a shortage position, we manage those in the same way you would expect us to do so.
- Sahil Kedia:** So if I may ask a follow-up question on that. The shortages that are being talked about, are they for more the local production? Or are they from the imports as well? I would assume it would be more for the local production. Is that correct?
- PB Balaji:** That is not correct. It is really covering the complete product portfolio.
- Sahil Kedia:** Okay. And the second question?
- Adrian Mardell:** Could you repeat that second question, if you would? I think it was about investment levels or...
- Sahil Kedia:** Yes. So there has been a press release from you guys saying that you will be making and assembling electric vehicles and some components in the U.K. as well. Would that require a fresh round of investments? If yes, how much? And is that part of the kind of longer-term outlay that you guys have done?
- Adrian Mardell:** Yes, sure. The investment levels that we have announced in the U.K. earlier this month at Castle Bromwich are fully contained within the investment guidance we have given.
- Sahil Kedia:** Okay. Sir, can you recap the specific amount that you will be putting? And is there a capacity, et cetera, that you have also outlined? Or that information is not public yet?
- Adrian Mardell:** No, we do not put that information at our calls.
- Sahil Kedia:** All right. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir, 2 questions. On the Tata Motors Finance, you indicated that there is a 10 Crores PBT loss. And one of the reason is the stress in the market. Credit loss, I mean, credit loss of around 10 Crores. Can

you just indicate what exactly, what kind of stress you are seeing? And is this, all the stresses are continuing stress? And you can expect that kind of number going ahead also?

**PB Balaji:** Yes. Let me clarify. Maybe I was not clear, apologies for that. What we are seeing in Tata Motors Finance is a PBT of 10 Crores positive. The 10 Crores positive PBT when I compare it against the 56 Crores of PBT last year, one of the areas we typically look at the new IFRS standard is if collection efficiency is something as a metric that needs to be measured. And depending on the collection efficiency where we take provisions. And therefore, this time, you saw a different collection efficiency of about 96% this quarter, and that is fundamentally coming because we had a significant change in our collections organization as we were rationalizing and restructuring the organization. This is something that we had, we knew that there is going to be a bit of a wobble on this one, but we are comfortable of what we see in terms of the new teams coming on board. And they will be taking charge of this during the course of this quarter. So that is what you are seeing there. And otherwise, nothing structural that we are worrying about. They are getting the funding that we are requiring. The AUM continues to be strong at 38,000 Crores. And that provision that you see is what flows into the GNPA number as well. So our agenda #1 is to get our collection efficiency back to the 100% level, and we are confident of getting there. Does that clarify?

**Chirag Shah:** Yes. And you are saying that by October 2019. So from October, you will be at normal collection efficiency levels?

**PB Balaji:** Absolutely. This is more an internal issue, nothing to do with the market or anything. It is just internal. So far, we just need go through the organization changes. It is just people coming on board, training and getting into new jobs within the organization and getting back to the efficiency levels, but the relationships can go forward. It is important for us to do this because our cost-to-income ratios are not necessarily where we would like them to be, and this is an intervention that is happening to get back on track, which will then help us in the long run. This gets us ROE of greater than 15%, which we are quite comfortable and as we look at our plans on doing that.

**Chirag Shah:** Yes. So just to clarify that there are no external stresses where your customers are unable to meet their...

**PB Balaji:** That is, at an overall level, that is always there. As we do see a better external market stress over there. But I would not externalize this problem at this point in time because we had an internal issue always in these scenarios. But let us look internal first, before we look external. But it is fair to say that there is external market stress, we have called it out. But I would attribute this to only the external market situation, if you know what I mean.

**Chirag Shah:** And just second question, again, it is a housekeeping question on stand-alone business. In the current quarter, there seems to be a good amount of improvement in gross margin on sequential basis also,

while our EBITDA margins seem to be still on the weaker side. Is there any accounting issue that we have seen in the P&L? Or it is largely because of inventory accretion that has happened in our, in books also?

**PB Balaji:** I think, if we look at the, there are 2 things in this. Passenger vehicles, you are absolutely right, continues to see significant step-up in contribution margin. As far as CV business is concerned, the mix went against us because of the M&HCV decline of 30-odd percent. This automatically means that you will be stressed as far as contribution margin is concerned for the CV part of the portfolio, but you do not disclose this individually. But fair enough to say that, as we combine this all together, you are going to see a slight different contribution margin, which I am explaining if I look at my PBT work that is there. If you look at our volumes, our material and net pricing is add the 3 together, that is a decline of almost 310 bps that you see, which is on all practical purposes is a contribution margin that you will see. And against that, we did see benefits coming through FX and other fixed cost structure there, which also the lost operating leverage. Combination of operating leverage and adverse mix is what caused the EBIT margin to move.

**Chirag Shah:** Okay. And just a clarification on commodity cost benefits. So if you can share some input on that, how much we have gained and how much we can...

**PB Balaji:** About 80 bps. You can see the Slide 31, I have called it out, set it up in individual pieces. 80 bps is a benefit which we are seeing on the variable cost line, almost entirely coming from commodity cost reductions and the cost savings measures that we put as part of the Turnaround 2.0 plan. But we are seeing soft commodities at this point in time, unlikely to recollect last year same time when we were concerned about some commodity cost running away. To spend, that is not a situation because, obviously, the demand situation where it is, it is not, one is not expecting to see normal inflation at this point in time.

**Chirag Shah:** So we can expect a similar kind of benefit in the subsequent quarter all year.

**PB Balaji:** Yes. As we look forward, we do not see, at this point in time, any dramatic shift as far as commodity situation is concerned. There could be a few upsides on that one. And the same with the currency as well. Rupees are not expecting any significant move at this point in time unless, of course, I am not a currency expert, but this is what we are internally planning with.

**Chirag Shah:** Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

- Jatin Chawla:** First question is on your EBIT margin guidance. Just wondered if you had given them EBIT margin guidance whole in the case of a hard EBIT as well or if a hard EBIT were to happen, would you be forced to come and write it down?
- PB Balaji:** I think that will be in a realm of pure conjecture where we can only prepare for, we have given you our plans from a risk perspective. Let us see how it plays out because I believe there will be, things will settle up.
- Jatin Chawla:** Because it seems like a reasonable probability right now. It was a low probability, when the probability has definitely gone up?
- PB Balaji:** I am sure if you ask every person in this call, everyone will have a different perspective on this. That is the reason why it is an event risk. Let us see how it plays out. Our job is to prepare for it, and rather than be definitive about, but we are not in a position to be definitive on that one at this point in time.
- Jatin Chawla:** Sure, sure. No worries. You also pointed out some WLTP issues. I thought this was something that was well settled a few quarters back. So on what products have they exactly cropped up? And is this more to do with the WLTP compliance deadline for this year or just exactly what the issue with it?
- PB Balaji:** Adrian, do you want to take that?
- Adrian Mardell:** Yes, we have to recertify every one of our nameplates. So in terms of in what product does it turn up, every nameplate needs to be recertified. In terms of our end of June position, we did not complete that certification on a small number of those products. We believe it impacted our revenue and volumes by just under 3,000 units at the end of June, maybe £30 million, a little bit higher perhaps just for that piece. We know we will work through these issues as we get through Q2. So we should not be talking about this again when we talk on the Q2 talk call.
- Jatin Chawla:** And one more quick one you had this on the employee cost savings. You mentioned £60 million delivered in 1Q FY2020. Now is that a net number, like the £250 million number? Or is it a gross number, like a £400 million reduction number for employee cost?
- Adrian Mardell:** I caught the end of that question, could you repeat the start of the question, please?
- Jatin Chawla:** So that £60 million that you have delivered in 1Q FY2020, I am saying is that a net number comparable to the £250 million number, in which case, this number will not go up in the future quarters? And if it is a gross number comparable to the £400 million number, then we should expect more from this going forward.
- Adrian Mardell:** Yes, excuse me. You should expect more going forward.



**Prof. Dr. Ralf Speth:** Maybe I will make a statement [about] WLTP. We have now certified, Adrian mentioned, based on, let us say, preparing also for Brexit, not only in the U.K. but also in Europe. And at this time, we did not have to do it. The very first time in Spain, and it is waiting. And at the end of the day, everybody worked hard for the coordination in between. And all the time needed to coordinate this is taking more time, and that was the reason at the end of the day why we lost this kind of volume. Giving that means also that we will be, also the authorities will be better prepared next time.

**Jatin Chawla:** That is useful. Thanks.

**Moderator:** Thank you. The next question is from the line of Prateek Poddar from Reliance Nippon Asset Management. Please go ahead.

**Prateek Poddar:** Two questions, both are on China. One is, last quarter, you had given some disclosures regarding the premium segment, the premium market segment-wise in China. So SUV-5, SUV-4. Please give a bit of color about that. How are we or how is the industry positioned over there? And which segments are seeing growth? Is it still the entry premium segment, which is seeing growth? That is question number one. And second is, last quarter, if I were to look at the local registration rates versus this quarter, there has been a drop of almost around from 87% to 79%. Any specific reason for that? Yes, those are the 2 questions. Thank you.

**Adrian Mardell:** So yes, on the first question, we are seeing the premiums hold up better. So we actually do expect to continue in SUV-5 sales into quarter 2. SUV-4, a little bit difficult. So I am less clear on exactly where the SUV-4 segment will be short term. In saying that, these are all just estimates and expectations. We do know the marketplace in China has continued to suffer. And it is really, really difficult for us to estimate quarter-by-quarter exactly what the impact will be, given the external political environment. So that guidance is always given by a huge care point because, like a lot of markets, there is huge unpredictability in that market in the near and the short term. If you could repeat your second question, please?

**Prateek Poddar:** Yes, sorry. Just a clarification on this. So you are seeing some reversal when it comes to, I mean, within the market, I mean, the end markets for SUV-4 and 5 are seeing some reversal rate in the quarter 2, and you expect this to further strengthen going forward, right?

**Adrian Mardell:** We expect our position in the marketplace in quarter 2 to be consistent to quarter 1.

**Prateek Poddar:** Okay. And Sir, what kind of visibility do you have on China at any point? I mean, just from a forecasting perspective, I just wanted to understand what kind of visibility do we have really on China? Or it is very difficult to predict, for example, in India, I mean, at least, we can do some work or something with that. But in China, is it easier for you to have any visibility on that?

- Adrian Mardell:** It is not different to anywhere else. We are diligent in collecting information on a day-to-day basis, and we do that in China, like we do everywhere else. So we have the ability to track and predict day-to-day, week-to-week how we are progressing, which is why I was able to say to you earlier that versus last year, our sales in China will be higher in July.
- Prateek Poddar:** Understood. And the second question was, if I were to look at your China operational KPIs, local registration rate in the March quarter was higher than what it is in this quarter. Is there any specific reason for it? So it was 87% in the last quarter. It has dropped down to 79%.
- PB Balaji:** Let me comment here. I think what we are trying to put out there are direction trends in this whole market, and would not want to get into each metric by quarter. It just becomes the multiple market mechanisms that move on this. So you will be able to track this, and we will share it with you as and when they become relevant. So do bear with us on quarterly number explanation on every metric that is out there. This is more to explain what we are trying to do there, if it helps, yes?
- Prateek Poddar:** Okay.
- Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh K. Gandhi:** My question pertains first to JLR. In this quarter, we have seen almost 3.5% Q-o-Q improvement in realizations. So is that a reflection just of mix? Or is there anything beyond that?
- Adrian Mardell:** So just to be clear, are you asking that, are you asking whether the revenue has dropped less than the volumes, is that the question?
- Jinesh K. Gandhi:** Right.
- Adrian Mardell:** Yes. Our average gross vehicle revenue has increased in part, of course, if you remember, when I went through the explanation of where we are in terms of the position on Sterling. In the longer term, a weak sterling is actually a good thing for our business model, a significant U.K. exporter with significant overseas revenues, that is starting to impact favorably in Q1. If you go to the slide where we talk about changes year-over-year on profit, you see it clearest within the top line operating exchange, £58 million.
- Jinesh K. Gandhi:** Okay, okay. That answers my question. Secondly, with WLTP 2 norms, how are we prepared? Do we expect similar disruption as WLTP 1? Or broadly, we are fully prepared and we should not see any disruption during WLTP transition.

- Guenter Butschek:** In anticipation of this kind of, let us say, additional, let us say, work, we had certain conditions. We will increase this kind of Chinese contingency even further to be more solid. We are working also with different agencies and different countries to make it stable again.
- Jinesh K. Gandhi:** Okay, okay. Understood. And last question pertains to India business, more of a housekeeping question. If we look at depreciation in this quarter, it is almost 100 Crores or almost 12%, 15% lower than the previous quarter, fourth quarter. So is there any one-off? Primarily, this should have been higher just because of AS 116, but there seems to be something that is in the way out.
- PB Balaji:** Sorry. Can you just repeat your question? Maybe I missed you there. Can you just repeat that, please?
- Jinesh K. Gandhi:** The depreciation on Q-o-Q basis in India business has come off by about 100 Crores or roughly about 12% on Q-O-Q basis, despite AS 116 implementation.
- PB Balaji:** Can I take this on the off-line because I do not offhand remember anything moving on this particular part. It is a pretty routine line item there. And as you rightly said, only the IFRS 15 implications are the only one that is coming through. Can I touch base with you off-line? Apologies for that.
- Jinesh K. Gandhi:** Sure. Not a problem. Thank you, I am done thanks.
- Moderator:** Thank you. Ladies and gentlemen, I now hand the conference over to the management for closing comments.
- PB Balaji:** Before I complete, I think we just want a quick confirmation. We do not see this coming, but let us take this offline on the depreciation. You all catch up me by surprise on that one. But having said that, let us quickly review 1 minute. Just stay on the line for a minute, please.
- Depreciation and amortization, last year to this year is up by 72 Crores. So we will have to check base. It is to what it is. We will figure it out off-line.
- Thanks a lot for staying on the line. I hope you found the engagement useful. Do feel free to reach out to us if you believe there are any further clarifications needed from us or any further explanations on any front. Thanks for that, and see you soon. Take care. Thank you. Bye-bye
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Tata Motors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.