



“Tata Motors Limited Q3 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Tata Motors Q3 Earnings Conference Call. As a remainder, all participant lines will be in listen-only mode. During the course of the presentation, if any participant intend to ask questions, they can use the chat-box option appearing at the bottom of the screen to submit their questions to the speakers. All questions will be taken up at the end of the session. Please note that this conference is being recorded.

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

Prakash Pandey: Thank you, Diksha. Good evening, everyone. On behalf of Tata Motors, I warmly welcome you all for our Q3 FY 2021 results conference call. We have with us Mr. Guenter Butschek – MD and CEO, Tata Motors; Mr. Thierry Bolloré– CEO at Jaguar Land Rover; Mr. PB 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 our other colleagues from the Investor Relations team.

Like always, we will start the session with a quick overview of the financial and business performance from the management, followed by Q&A. Over to you, Balaji.

PB Balaji: Thanks, Prakash. Firstly, a warm welcome to all of you. Thanks for taking the time to attend this session. I hope all of you are safe and sound. And like last time, we will try and keep the presentation short, run through the key highlights of it, and then have as much time as possible for the Q&A as possible. Prakash, we will you go to the next slide, the standard Safe Harbor statement. Go forward.

It's been an intense period of activity for us despite COVID and the key call outs I would call here is that the passenger vehicle business in India reached 4 million vehicles, that's #WeLoveYou4million. And then, of course, Nexon reached 150,000 vehicles. What do you see out there is the launch of the legend, the Tata Safari is back and this is the twin brother of the Harrier, the same OMEGA architecture that comes through. And in JLR, I am so proud for the new Defender, which has been awarded the Top Gear Car of the Year. And a series of 2021 model year launches which we can talk about as well. And on the commercial vehicle side, what you see is a picture of those 3,000 of the 6,000 vehicles that have been sold to the Andhra Pradesh vehicles are quite a sight out there.

Next slide. Overall performance, happy that we had a strong all-round performance that came through where global wholesales dipped about 0.6% year-on-year but still, revenue went up 5.5%. And PBT on a year-on-year basis up 209% to Rs. 4,200 crores almost. And EBITDA at 14.8%, up 540 bps, and EBIT at 6.4%, up 450 bps. And the second consecutive quarter of strong free automotive cash flows as well. With this, our EBITDA is now touching Rs. 11,200 crores and a free cash flow of almost Rs. 8,000 crores. So, a strong performance coming through across the board.

Next slide. Components of this growth, if we were to talk about it in a minute, invariably coming in from volume and mix were against us because of the lower commercial vehicle sales on a proportionate basis, as well as JLR decline. Translation did help the overall revenue growth. From a profitability perspective, JLR, TML and all others also contributed. So, it has been a consistent value creation happening across all parts of the business and resulting in the EBIT actually touching 6.4%. In line with our deleverage plan, a steady reduction in net automotive debt, now down to ~ Rs. 54,700 crores, another ~ Rs. 7,000 crores.

Next slide, Prakash. Overall, debt profile is strong with liquidity is well spread out. Promoters exercised their warrants for Rs. 2,600 crores yesterday and this has increased the voting shares of the promoters to 45.82%. This is not there in the liquidity that you see in Tata Motors standalone, but that is something that will come up in Q4 as well. In JLR, a strong liquidity of GBP 6.4 billion, GBP 4.5 billion in cash, and GBP 1.9 billion in RCF means that bond issuance that we have done, as well as, the TMLHS bond issuance that we did in November, all have gone through well and liquidity is adequate and well spread out.

Next slide. Let me hand it over to Adrian to take us through the JLR performance. Adrian, over to you.

Adrian Mardell:

Many thanks, Balaji. Good evening, everybody on the call. Okay, so the headlines are really strong as you see there, the profits before tax was GBP 439 million, EBIT percentage is 6.7%, best Q3 EBIT for JLR in five years. And free cash flow positive GBP 562 million, the best Q3 cash flow in the history of Jaguar and Land Rover. It's important to look below the headlines so please, please listen on.

The pattern we see here is similar to the pattern that you saw actually last quarter. So, retail is higher quarter-over-quarter, but lower than the same quarter last year, of course, revenue would therefore be the same. We will talk about profitability and EBIT in some detail and also free cash flow.

Next slide, please. So, the headlines, obviously, as I said quarter-over-quarter improvement, a particularly good quarter again in China, you would see in a moment when we break out regional sales, year-on-year up almost 20%, and we are also talking about inventories maybe for the last time. Actually, they grew disproportionately at the end of March, but we have now made all the corrections we committed to make. And in fact, in many places inventory is actually lower than ideal at this point.

Profitability, I have talked about Charge+, doing what it does best. When we get on to that slide, you should start to note that it's no longer just structural cost reductions; improvements, and reductions in warranty costs, invariable marketing, also, as well as manufacturing efficiencies are starting to come through into the program. A care point around CJLR, probably one of the disappointing elements in the quarter, we did lose money in CJLR, as we tried up their year-end position, particularly, from the marketplace on variable marketing costs. And cash flow, as I said, significantly strong, including investments which were lower than last year by just about GBP 200

million. But this is now much closer to a normal quarterly level of investments you should expect to see going forward. Next slide, please.

So, these are the regional retail numbers. Again, you will see the same pattern as the total numbers in North America, in Europe, and overseas, i.e. quarter-over-quarter growth, but not yet at last year levels. U.K., of course, has a particularly big month in September which was in the Q2 data, and therefore, the year over year in the U.K. is a better comparison. And then China, China, again, has grown not only quarter-over-quarter significantly versus the same quarter last year, a 19% jump versus Q3 last year. And that is actually impacting the results significantly, both on profitability, on margin, and on cash.

Next slide, please. And by nameplates, again, I will just draw out the Defender from this page, because most of the classes I have talked about, are repeated on Range Rover, Discovery, and the PACE. On Defender, we are now getting towards a normal size and scale quarter. I told you in the past, about 5,000 units a month is a good barometer for us. You can see we broke that level across quarter three; margins are healthy as well. We are going to have a separate slide later on Defender to share more details.

And then, the electrified vehicles: 53% of the total in quarter three had some level of electrification. We have broken that down by the ICE, petrol, diesel, and the MHEV split, and then, particularly PHEV and BEV. A very strong quarter for BEVs for us, as we closed down some of the deals we had lined up in calendar year 2020. But note the PHEV proportions increasing now, particularly, as we bring those 2020 and a half and 2021 model year vehicles to the market, more of that in a few moments.

Next slide, please. Inventory, all down to target levels or slightly below, whether it be retailer inventory our own inventory or the day's supply. So we have done the job we committed to do, and we held it level, you can see that within the quarter. And I do not anticipate this to substantially change either way going forward.

Next slide, please. So, our profitability in the quarter versus the same quarter last year. A number of things happening here. You have seen already our volumes were down substantially, wholesale volumes, of course, this would be like 27,000 units, so we lost a GBP 0.25 billion of that, but a substantial swing in mix. And this mix swing happened for several reasons, of course, the markets of China and North America are more open and more active than in the U.K. and the European regions today. And they significantly sell our Range Rovers, our Range Rover Sports, our Defender products, i.e., the larger vehicles, the significantly profitable vehicles as well.

So, you see that within the mix column. We are also seeing there a shift towards Land Rover from Jaguar. We have talked about that as we have gone through the course of this year. And again, partially that's because of the regional health of China and North America, that shift already exists in those two regions.

China JV, I have mentioned it was a disappointing quarter for the JV. There's work to do there, but we did have a really nice quarter on compliance, we talked about this last time, we did expect this quarter to be positive from a credit-generation perspective and we are able, as a result of that, to reduce our CO2 fine reserves, which we had at the end of September, by GBP 55 million from GBP 90 million to GBP 35 million. That's a one-off within these data sets, of course.

Net pricing, as we have started to constrain the supply to the marketplace, for reasons we have previously talked about and also for reasons I will expand on a little later. VME is a symptom of supply and demand in many respects, and we are starting to see reduced supply means reduced variable marketing also. The headline numbers is we are down to 5%. We haven't seen that level of VME for more than three years. The underlying is about 5.7%, again, sub 6%, so a really good place for us to be at this stage of our evolution. And we did actually release some residual value reserves, mostly in North America, GBP 36 million on a year-over-year basis. And that would be the difference between the underlying and the headline numbers.

Nice progress on warranty. Again, we picked this theme after the last four to six quarters. We did say previously, 4% was a good barometer line for us. You can see now we are quickly breaking through that line and the 3.2% underlying warranty number, particularly off the back of the 2020 model year units, we talked this point before, we saw improvement in quality of 2020 model year. It will be the best model year for at least three years for us as we are now making progress in terms of the consistency of the engineering within our vehicles and manufacturing efficiencies coming through.

A care point on commodity cost, where you would have seen yourself precious metals are actually increasing, and that obviously impacts our bill of material. We have a number of those, which would be in the FX and commodities columns. We continue, of course, to right-size our organization and only allocation spends that we believe are appropriate and year-over-year significant reductions in fixed marketing and selling. And again, because we believe we have got our pipelines at a much better place and our order books are healthier, you have to spend less money attracting people to buy the cars that you have.

So this is a part of the quality of sale and the health of sale, which we have consistently talked about. Our model isn't just absolute number, our model is quality of each sale, as a result of which those costs of sales are falling. Exceptional costs of VR redundancy and some pension true-ups as well.

And if you look at the EBIT, 2.7% in quarter three, last year 6.7%. Those one-offs, if we were to take those away at 2 points to 2.5 points, the underlying EBIT is closer to a 4% level, that was our target underlying for pre-COVID. So we do actually think our operating performance is back to pre-COVID levels and we are benefiting from some of the adjustments from those two poor quarters in the first half of this calendar year.

Next slide, please. Possibly the most dramatic slide actually. Free cash flow GBP 562 million. As I have mentioned, that is a quarter three record for Jaguar Land Rover. Historically, our free cash

flow has been significantly influenced by working capital movements, positive and negative. This was another positive quarter, as we said it would be. [Working Capital] was less than half of the free cash flow. Now the bulk of it this time was actually underlying. Now, again, as a result of that very sweet model we had on China, on North America, and a rich mix, it's starting to come through the cash profit as well. But cash profit after tax is just short of GBP 1 billion is a record for many years. We haven't had that in our Q3 and the investment level is GBP 600 and some, that's why it goes to the far right-hand side. So we are doing again what we said we would do, perhaps a little bit more dramatically than we indicated. A lot of that is to do with the mixture of sales we had in Q3 this quarter just gone.

Next slide, please. So, investment, a little higher this quarter, GBP 675 million as we started to lay down some of our investments for MLA. So this is probably at the higher level of a quarterly number you will see in recent times, and in times coming at us. We are still on track for the guidance we gave you nine months ago, GBP 2.5 billion investments this year, and this is GBP 217 million lower than last year and the GBP 200 million cost and profit improvements plus this made about GBP 400-plus million improvement on the Charge+ program in quarter three.

Next slide, if you will. All right. So you know, this one is starting to shape. The reason why we put this page in place just like this, sadly, COVID got in the way, but you will start to see the consistency of the quarterly data. When you look back 12 months, you will start to see that the current quarters are better than previous ones. If I take you from the start of Charge and you were to add up all of those numbers, we are net free cash positive since the start of the program despite the horrible events of COVID. So, we are particularly proud of the work we are doing on our turnaround program impacting our overall cash management. So of course, this underpins our commitment to get to net debt positive over the next three years. We are starting to see the balance between gross debt and cash available to us, including the RCF, even itself out, we expect that to continue over the next quarter as well.

Next slide, please. Okay, so a business update I will quickly go into. We talked these a couple of times already, we have got a dramatic 2021-model year series of product offerings. I mean, historically, I think, the industry has got used to a model year being minor change. This is dramatic change and not minor change. People should really understand these aren't just model years, these are significant vehicle upgrades and you can see the visuals we got here. Interior-wise, there is a step-change improvement, drive-wise similarly, electrification-wise with the PHEVs being introduced to three of these vehicles and MHEV into Discovery, we have almost a complete new range of products. We are very, very proud of the work we have done over the last 18 months, particularly, for a COVID period, right? So, this is the back end of, hopefully, towards the backside of this COVID period, we produced these vehicles in the marketplace. Please find a way test drive, you will be wowed.

Next slide, please. Defender. So you know we have been positive on Defender all year. We have slightly changed the layout of this so we can continue with a good message. The black line is retail, that continues to increase. So in December, we actually topped 6,000 retails for the first time. But I think even more dramatically you now see the order bank for this vehicle approaching three

months' worth of sales, more than 14,000 cars in the order bank as we have just started to release the Defender 90 availability. So I think, it's reasonable to assume that 5,000 units a month is going to continue to be beaten on a month-by-month basis. In fact, probably lifted from that level and the order bank situation over the next several months will be healthy. So, very, very pleased with the Defender progress. Top Gear Car of the Year winner and European Car of the Year nominee. It will continue to get dramatic reports and feedback from people driving it; from reporters reporting on it. Super job by the team.

Next slide, please. Okay, 12 of our 13 vehicles are electrified. This is the message that we get towards the backend of quarter three. You can see them all there, that underpins the 53% of our retails in Q3 had some form of electrification, which also, of course, underpinned the fact that we were significantly [emissions] credit-generating across the target, we have been set by the different countries in quarter three. So a super array of new products and electrification now hitting the marketplace.

Next slide, please. Okay, and this is where it plays back in terms of the financial data. So, we still do end up with that 2020 full-year problem. GBP 90 million, as I said, we believe, will fall to GBP 35 million when it's finally assessed by the U.K., European authorities. Everywhere else is green and we expect to be substantially green going forward as well. In total last year, across all of the regions, as compliance fines or our acquisition of credits totaled around GBP 60-some million. Now, as it ebbs and flows across the regions, for those of you doing your modeling, I think it's reasonable to assume that across the planet we will have similar amount of CO2 credit acquisitions in 2021. But our intention is to continue to be compliant, and that's what we, of course, will be working toward. That's the gold medal.

Next slide, please. Charge+, so by the end of September, the first nine months, GBP 2.2 billion worth of savings. I think you can start to see the mirror of this within our quarterly results. As I mentioned earlier, particularly pleased the cost and profits are no longer just the structural cost of people and marketing support costs, manufacturing, warranty, and VME savings are starting to come through and will continue as we go beyond into quarter four and beyond that level. Warranty at 4%; to say that we still hold that as a barometer, I think it's reasonable to assume that our warranty cost of a percentage of gross vehicle revenue will start with a (+3%) going forward into Q4 and beyond, with the quality of those 20 model year vehicles substantially improved, as previously mentioned. We will hit the GBP 2.5 billion guidance we set earlier in the year as well. That's pretty clear, now I think.

Next slide, please. Okay. So, a deal did get done. As we all guessed, it was less truly late, 24th of December, some of us guessed 29th. It was earlier than some of us feared, I suspect. We did get the deal mostly we were looking for. Clearly, the direct tariff imposition is not going to happen. You will know there are rules of origin to ensure that our vehicles do not fall subject to tariffs. So 55% of the content of ICE vehicles needs to be U.K., European; 40% [for] EVs, and that 40% will grow up through 2027 in step changes which will then be at a 55% level; and there's a 12-month period of phase-in. So overwhelmingly, in trade, this is the deal that we were looking for. The U.K. government has also actually put in place their own free trade deals to mirror the deals, which

the EU has made and the U.K. were previously benefiting from. So mostly from a trade perspective, we pretty much ended up where we said we thought we wanted, but actually did get it done and face a significant potential risk away.

From a compliance perspective, I talked about that already in earlier slides. Operationally, we shouldn't bypass the operational challenges here. I know from a U.K. government perspective, they would say Brexit means Brexit. Well, I think we are finding bureaucracy means bureaucracy, actually there is a huge amount of customs declaration and paperwork required. Our teams are working flat out across end-to-end supply chains to make sure we can get the parts to our operations on time. It has been a bit bumpy in January, it probably will continue to be so in February. But over time, these processes will be embedded into what we do from a day-to-day basis. So, I expect the operational frictions that we have seen and you wouldn't have witnessed because they are not at the borders, we have actually seen it but will eliminate as we go through the course of this quarter.

Next slide, please. And the more difficult one to assess, of course, is COVID. From a dealer perspective, we are locked down in the U.K., we are partially/significantly locked down in Europe, less so in North America, very little in China. This starts to explain why sales have been stronger in China, of course, and also sales have been stellar in North America and less so in U.K. and Europe. Which starts to explain the mix pattern we had, which were disproportionately to those Land Rover biased, heavier metal biased regions. From an operating perspective, our sites still do remain open. We have got an excellent record of health and safety which we are very passionate about the protection of the safety of our employees.

Obviously, suppliers are going through the same challenges and do on a day-to-day, week-to-week basis suffer from [people] not being able to attend work. So we expect this environment to continue through Q4, but we all hope and, of course, we all pray as well that this horrible virus actually becomes eliminated with the introduction of the vaccine as soon as possible. That I know is what we all pray for.

Offices, where people can work from home, of course, that's a safe place for them to be, where they can't and we make our offices safe as well. I myself, actually, work mostly from the office and I feel very safe and secure here. And of course, we will always, always observe government guidance. We have lots of health and safety people making sure that we are working to the highest standards, both within our production facilities and our plants. And of course, we have registered NHS sites at our main facilities in Jaguar Land Rover as well. We are one of the biggest testers in the country actually. In fact, I think, we are now the biggest tester for COVID in the U.K. And you know what, I am really proud of that and so are the management team, that is just an amazing response to these awful, awful events.

Next slide, please. So the outlook, I expect retail to be slightly higher than Q3 in Q4. We do expect a solid EBIT margin and also a positive cash flow in the quarter. Full-year positive EBIT, investments still, I will say for the fifth time, less than a GBP 2.5 billion, we have repeated that every quarter. And if we do in Q4 for cash, what we have done over the last two years, we will be

very, very close to that breakeven level. I mean the underlying, obviously, challenge here is whether dealers stay open and whether we can continue to safely build vehicles. And nobody can say both of those things were happening. But as we go through, will happen for sure. As we go through January, we are managing to navigate both of those challenges.

Risks; COVID, Brexit reduced, COVID still here. And of course, I think we are more compliant and have the product lineup over the next phase for the required electrification and emissions. And I should call out, of course, the JLR Investor Day is on the 26th of February and we have got some really exciting news for you on the 26th of February, which you will probably want to ask about today. So Thierry is with me today, well obviously, say what he feels he should.

Next slide, please, and maybe the last one actually. Many thanks.

PB Balaji:

Thanks, Adrian. So I will be moving on to Tata Motors standalone. Performance revenue wholesale growth of 18% and revenue growth of 35%, with a PBT loss of about Rs. 600 crores, halving what it was in the last quarter on a sequential basis. EBITDA up 570 bps at 6.8%, and EBIT breakeven, delivered with a 710 bps improvement here, and another quarter of strong free cash flows coming through as well.

Moving to the next slide, to unpeel this a bit. Overall volumes and revenues, the sequential recovery is strong. In the case of CVs, the recovery is led by medium and heavies and ILCVs, with a higher demand coming in from infrastructure, mining, and e-commerce. And in the case of passenger vehicles, that business is on tear, very, very strong sales momentum coming through with the New Forever portfolio with the highest ever sales in the last 33 quarters, and the highest revenue in its history in the quarter.

Profitability, EBITDA at 6.8% is the highest we delivered in the last seven quarters and EBIT breakeven has been achieved. In the case of CV, the EBITDA at 8% is now touching its traditional levels of 10%, 11% that it's supposed to be there, nearing there, with significant improvement in margins and mix. And in the case of PV, it is the highest EBITDA that we had in the last 10 years, with EBITDA further improving to 3.8%, and there is a particular point, which I will pick up when I come to the PV financials.

And cash we have talked about, on the cash savings, we had committed Rs. 6,000 crores of savings for the year. We have already delivered Rs. 5,100 crores and we are confident of delivering the remaining as well. Going ahead, where does this money come from? Slightly busy chart and need to pause a bit to explain what's happening. Within the category, the mix is improving. Because it take commercial vehicles, we are selling more M&HCV and ILCV, so that's actually starting to help us. Within passenger vehicles, we are selling more the Harriers and the Nexon. But actually, we are selling more passenger vehicles than commercial vehicles, and therefore, that's actually pulling us the other way around. So that's what is the dynamic that is playing out. Solid improvement in realizations, as well as, better volumes and pricing, these are the ones that are leading it. And pretty tight control on fixed costs are the ones that are helping us improve this. So, therefore, as the CV business starts coming back, you will start seeing this listing even further.

Go ahead. Free cash flows, again, very happy with the fact that the business is now funding itself. So the cash profit after tax is now higher than the investments that we are putting in place. And as far as working capital is concerned, I am aware that a few of you had some worries on this. Cash conversion cycles are very steady. JLR is neutral and we are sitting at about (-15) days, that's what we need to get to. So therefore, we are pretty comfortable on the working capital. And the reason this cash is coming out is as growth is coming back into this business, this negative cash in the cycle is what is skewing the cash coming through.

Going forward. Investment is Rs. 547 crores for the year, lower than last year by Rs. 771 crores. Compared to the Rs. 1,500 crores we had originally put out, we are now up a little bit at Rs. 1,850 crores. to manage the additional demand coming in from passenger vehicles and, therefore, that is something that we will dynamically manage going forward as well.

Go ahead. This is the slide on the Rs. 6,000 crores versus Rs. 5,100 crores. I expect on the investment side, for us to be slightly short of the Rs. 3,000 crores. But on the working capital side, we will exceed that and cost and profits we will deliver. So, therefore, the Rs. 6,000 crores will get comfortably net.

Go ahead. On the commercial vehicles side, the market shares have been sequentially improving. This is on a cumulative three months, six months, and nine months. That's what you see there. M&HCV steady at about 60%. ILCV sharply improving as inventory levels started lifting. Small commercial vehicles also improving. This does not include the almost 3,900 vehicles that we sold to the Andhra Pradesh State Civil Supplies Corporation. That will come up in Q4, because of the revenue recognition - that's not recognized as revenue, therefore, we have taken it out of market share as well. Otherwise, this would have been sitting at almost 36% is what my sense is. SCV is about 35%. And therefore, this will continue to improve further as well. So, commercial vehicles market share coming back as the year is progressing.

Go ahead. On the financials, this is an important one. I will pause a bit to explain what is happening. On the wholesale, we are down 8%, but on retail it looks like optically it is down 23%. I draw your attention to the absolute number of vehicles we have sold. You recollect, we started the year with zero inventories, so therefore it's broadly the same. So that is, whatever we are producing we are able to put out there, we are able to retail the following month. So nothing happening as far as wholesale, retail is concerned. We are still working our way to improve the channel inventory.

As far as revenue is concerned, if you notice that the wholesales is down 8%, revenue is up almost 21%, which just tells you there is a significant pickup in realizations happening thanks to the BS-VI price increase, as well as, lower VMEs that we are operating under. So even though volumes may not hit, volumes may not pick up, the turnovers are now starting to move quite fast. And that augurs well in terms of overall operating leverage going forward. And this is something for us to keep in mind. So we shouldn't get locked into just volume. There is a very different dynamic happening on revenues picking up faster than volumes.

On the EBITDA, we are now at 8%, touching distance of the double-digit, and therefore as we go forward this will start moving in that direction and EBIT also starting to improve.

Next one. Let me hand it over to Girish to give a quick update on what's happening. Girish?

Girish Wagh:

Yes. Thanks, Balaji. So, let me speak about the market side first. So the industry grew by more than 40% in Q3 over Q2, whereas, we, at Tata Motors actually grew by almost 50%, therefore, outpacing the industry growth. There is a broad-based revival, which is being seen if we look at M&HCVs. The revival is happening due to good growth in infrastructure projects, housing construction, mining, e-commerce. So across, if you see, I think there is a good growth happening. And therefore, M&HCVs, for the first time, the salience reached almost 24%, 25%.

Same case with intermediate and light commercial vehicles, I think e-commerce and growth in manufacturing has been driving this improvement. At the same time, we have also recently introduced vaccine transportation trucks, considering the requirement of the country.

In small commercial vehicles and pickups, e-commerce has been driving the demand. One has also seen urban demand coming back in the first two quarters, it was more from the rural side. I think the urban demand is coming back, and consumption also seems to be going up. So, that is something which is driving the small commercial vehicles.

The CV passenger, I mean, buses and vans is something which still remains a concern. So while some employees have started going to the offices and a large part still working from home, schools not operating, STUs running at a very low level of utilization, therefore, leading to little demand in passenger.

We have seen a sequential market share growth across all the segments, as Balaji spoke. And we worked on supply constraints which were seen in Q1 and Q2, so most of those constraints have been behind us. But of course, as many of you know, there are a few new constraints coming up which I will speak about. Therefore, on the back of this, we have seen the highest EBITDA margin in six quarters due to the continuous cost reduction efforts and also higher M&HCV salience, which has therefore led to positive PBT in Q3.

Going to the bright spots, I think what has seen improvement in most macro, as well as some of the micro indicators that we look at. So, whether it is the e-Way Bill, fast track collection, container traffic, monthly diesel, and petrol consumption, or the freight rates, I think everywhere things are gradually going up, which is, therefore, improving. The fleet utilization is almost 90% to 100% of pre-COVID levels and the profitability of the fleet owners is also going up.

The consumer sentiment index is something which we track internally every quarter. And the good thing is that the index is now trending up. The index has actually scraped the bottom in Q1. It improved in Q2 and in Q3, it has further improved. And the good thing within that, in sentiment index is a multiplication, a combination of both satisfaction in the current state and future

expectations. So within that, I think the future expectations are even doing better. So this is also something which augurs well for the industry.

In terms of our BS-VI products, I think, we have been focusing a lot on back-to-back trials in the market with respect to our own BSIII, BSIV vehicles, as well as, competition vehicles. I think the purpose is to demonstrate to the customers the improvement in the total cost of ownership. And therefore what is the payback for the higher price that they are paying for the BS-VI technology. So I think, this is also something that is helping us in terms of higher realizations, which Balaji mentioned.

Looking ahead, some of the challenges. I think, since Q3 we started facing the semiconductor issue. It started with one supplier and then gradually a few more. But we are continuously tracking the situation. We are also talking directly with the semiconductor manufacturers to see how we can manage this situation. So, this does remain a very important agenda for us, and it's going to drive the volumes in this quarter.

Increase in commodity prices is something which is an important thing which is happening. And I think something we have been tracking. We have been able to negate it through cost reduction, as well as price increases. So we have taken price increase in Q3. We have also taken price increase in Q4. So this is something which is helping us to tackle this commodity price inflation.

And finally, the CV passenger segment, which I spoke about, I think the demand remains a concern. The industry has collapsed by almost 80%. And schools yet to open up, business and leisure travel is yet to normalize. So we are tracking this to see how this last segment within the commercial vehicles can come back.

So this is a summary of commercial vehicles. Back to you, Balaji.

PB Balaji:

Thanks, Girish. Moving on to the next slide, on passenger vehicles, a quick run-up on the numbers. Draw your attention to the graph below. Again, it's an industry decline of 15% in the year-to-date so far, we have grown 39%. And that has ensured that our market share has stepped up strongly from 4.8% to 7.8% holding there.

Also draw your attention to the powertrain mix where EV, which is negligible, is now starting to make its presence felt to the 2% contribution of the powertrains. And Nexon EV is now almost 64% of the EV industry volumes in the last nine months. And vehicles Tiago, Tigor, Altroz, Nexon, all of them in the top 10 in their respective segment. Harrier is a particular call out which is now crossing 3,000 vehicles per month, with a very strong growth rate compared to last year. And Altroz, of course, has been a blockbuster success for us as we started. We just launched the iTurbo a week back and expecting a continued strong performance on this front. I think the overall point on PV being, the New Forever range as well as the entire focus on the front-end activation, which Shailesh covered extensively two quarters back, is starting to pay results. And we will talk about this quite extensively in the Investor Day that's coming soon.

Next slide. On the financials, 85% growth. Here again you will notice there is very limited inventory there. We sold ~ 70,000 on our own from the wholesales, ~ 77,000 got to retail. So actually, the dealer inventories are precariously low, resulting in a huge lead time increase for orders. Revenue is touching Rs. 5,000 crores for the first time. EBITDA increasing substantially over last year, by 780 bps. And really draw your attention to what's happened to the EBIT line. We always talk on EBITDA, but with the operating levels starting to kick in, you see that while we increase EBITDA by 780 bps, we are able to move EBIT quite substantially by 1,400 bps. And therefore, the next target for this business is to now get to an EBIT breakeven and then, of course, a cash breakeven. And we are confident of pushing that through as well.

And the good part is, every line of the P&L is now starting to work, contribution, mix, operating leverage, and, of course, the fly in the ointment is commodity inflation, which we have to take on the chin and manage it as well.

Go forward. Shailesh, would you just want to take this slide?

Shailesh Chandra:

Thank you, Balaji. Let me give a quick update on the business performance turnaround for PV, which is a result of actions taken broadly in three areas: demand generation, demand fulfillment, and profitability improvement actions.

Starting with demand generation. The key actions actually were focused on strongly on retail, which was well supported and backed by a very synchronized demand-supply planning. Channel partner margin structure and policies were revamped to enhance their profitability. And this was very important because this is what enabled the enhancement of working capital, which was extremely important for supporting growth, which was nearly doubling the growth. We just kept our share of voice high through marketing campaigns, and it continued in Q3 also to support the demand generation of our New Forever product range. And therefore, we have been able to garner very strong bookings in quarter three also. And we expect that in quarter four also the demand is going to remain strong for us, particularly, because our channel inventory is possibly the lowest ever in our history. And as I said that we have a very strong pipeline of bookings.

Talking about the demand fulfillment side, I think the demand generation could not have been supported if we did not do enough on the demand fulfillment side in the pandemic times. And I would say, it was a unique situation for us where we were possibly the only player who was able to ramp up the production to twice what we were as an average in the last financial year. Particularly on the petrol vehicle production, we increased more than 2x as compared to the average of last financial year. And this has involved not only a lot of debottlenecking actions internally, but more so on the supplier side for many critical items, where there was a very good partnering between Tata Motors and the suppliers to debottleneck capacities many a times without any CAPEX and through multiple Kaizen activities. So this has really helped us in debottlenecking fast. Yes, the challenge, as Girish also mentioned in CV, the semiconductor and steel availability will be a concern, but we are taking several mitigation steps to see how we can minimize the impact of this global disruption what has happened.

The last one on the profitability and cash improvement actions, efforts were actually put to optimize the product mix and variant mix, both actually because Balaji covered on the product mix, but there was an effort in terms of tweaking the pricing of the variants also within the product, so that the movement of demand was in favor of more profitable product. And this had an impact, as you can see, on the profitability. Driving scale was one of the biggest motto for us, and in parallel, we kept the fixed costs under control. And this was crucial to improve our EBITDA margin, and we have seen the result of that. There was a very systematic cost reduction initiative undertaken, which has involved nearly 600 employees who have been generating a very strong pipeline of ideas. In the last quarter, we did more than 150 idea-generation workshops, and we have actually done a very strong pipeline of ideas.

So this was in summary of the actions that we took on the PV side. Back to you, Balaji.

PB Balaji:

Thanks, Shailesh. Next slide, please. Moving on quickly to Tata Motors finance, we made a PBT of Rs. 55 crores with an ROE of 7.3%. AUMs increased to Rs. 41,000 crores during the quarter, and we did manage to assign about Rs. 729 crores out of that. And GNPA at 5.6% is stable, and NNPA is at 4.2%, marginally down. The real good news is the graph on the collection efficiency that you have seen before, sequentially improving, hit 105% in December, and continuing strong in January as well. And therefore, while collection will remain a focus area, starting to get more reassured that this thing is starting to come back correctly, but we cannot take our eye off the ball. Excellent performance on cost-to-income ratios which are now down to 32%, has fallen a long way over the last three, four years, and the business has pretty adequate liquidity at its command. So, business doing well, and business starting to move on track to an asset-light ROA accretive model.

Next. So in conclusion and looking ahead, I think we talked demand I think the situation we expect it to continue to improve despite continuous lockdown. I think the entire focus for all of us is on the various supply bottlenecks, disruptions, Brexit-related logistics matters; these are all causing a lot of irritation in the supply chain, and that's something we have seized of and working through it. Commodity inflation needs to be managed everywhere. And despite all this, we intend to consolidate the gains that we have had in Q3 and finish the year strong, which will then place us well for the subsequent year ahead. That will be the broad message and the individual line items for each of them we have already seen.

Move to the next slide, please. We are really keen to see you at the Annual Analyst Meet which will be there on the 22nd of February for Tata Motors, and 26th of February for JLR. And look forward to seeing you there and sharing our plans in more detail there. Over to you and then over to any questions that you may have.

Moderator:

Thank you very much. We will now begin the question-and-answer session.

PB Balaji:

Okay. We have the first question that has come up from Yogesh Aggarwal of HSBC. Great set of results. Thanks, Yogesh.

Questions: Why was Discovery volume so weak in the third quarter? Was it due to the upgrades? And number two, XE volumes are now almost negligible. Has it been discontinued now? Adrian, would you want to pick this up?

Adrian Mardell:

Yes. Thanks, Balaji. I would love to. So I think on Discovery, there is a few things to note on the Discovery product. One is, the 2021 model Discovery is a dramatic refresh. And therefore, I would encourage you to think about Discovery volumes as we go through Q4 and into next year. Two, of course, it does share production facility and production lines with the Defender and you have seen how strong our volume demand is for Defender at the moment, it's outsold. So, there are some imbalances we do [have] across those product lines. And I think the third point to note is, there has been some cross-shopping between Discovery and Defender over the first 12 months. So again, we will see as Defender balances out, whether that continues to impact Discovery post 2021 model year or not. XE volumes, they are mostly negligible.

Now, okay, of course, we have talked a lot to you previously about health of sale. I also said our model isn't just to sell more cars, our model is to sell more profitable cars. We had a significant refresh again on XE into 2021 model year which is just coming through into the marketplace. But the important thing to note here, we are also repositioning that nameplate in some key markets like the U.K. where we have taken some price changes. And we have consolidated in North America our XE, and XF just for the XF going forward. So it's all a part of our strategy to put cars into the marketplace that customers have appetite for. And we can make good solid returns on, and XE isn't one of the most profitable nameplates we have.

PB Balaji:

Thank you, Adrian. Next question from Sonal Gupta, UBS. Can you share the BEV plus PHEV volume share in the U.K. and EU? The reason the question being asked is, how much does this need to increase further to achieve the CY 2021 target?

Adrian Mardell:

So it's around 30% BEV plus PHEV for U.K. and Europe in quarter three. And obviously, that was a substantial credit realization position. Going forward, you will see going forward that 4% to 6% of total global demand is where we would expect to see in this quarter. It really ebbs and flows, depending on regional changes. So actually, we expect PHEV proportions in Q4 to be higher than a normal quarter. Why? Because it's a strong selling month in quarter four, of course, March for the U.K., so we will sell more PHEVs and BEVs in quarter four. It will level out a little bit as we go forward.

PB Balaji:

Thanks. The next one from Sonal again, what portion of JLR revenues are hedged for FY 2022? And what is your hedging strategy for aluminum and other key commodities? And how much do you expect from the impact of the rise in commodity prices in Q4?

Adrian Mardell:

Our hedging differs by currency, of course. There are prime currencies, as you know, U.S. dollar, RMB, and Euro, more than two-thirds of U.S. dollar and RMB are likely hedged. It really depends on what the gross vehicle revenue is, of course. But that will be our expectation, slightly less on the euro closer to 50%. Commodities, we hedge those 12 months out also, broadly 40% of our

commodity acquisitions on aluminum, on platinum, maybe a little bit higher next year are already hedged in place, a little bit less on copper.

PB Balaji: Okay. Moving to the next question from Chirag, Edelweiss. There are few questions on CJLR down as well, so maybe, Adrian, you may want to wrap this all in one question. CJLR quarter-on-quarter ASPs have declined and margins are negative, anything specific or anything else you want to talk about on the CJLR piece so that we can take all CJLR questions in one short?

Adrian Mardell: Yes. Okay. So yes, this wasn't a good quarter for CJLR. It's definitely something we will be working on more determinedly than we already have been. There was the end of the year position for them, we have gone into a position, we have talked a lot about, our supply lines for Jaguar Land Rover. We have got two months' worth of stock locally for local produced products, and it's starting to show itself as higher discounting. So, we do need to pull back, we do need to pull back on the level of supply into the marketplace, which we will begin to do over the next few months. I would encourage you to assess the impact of that, probably, not in the next quarter but in six months' time where I would expect us, again, to be back towards that breakeven position on CJLR on lower volumes. We are looking for volumes to be to 5,000, 5,500 units a month and they are a little higher over the quarter three period. Of course, quarter three is the biggest selling quarter for Jaguar Land Rover in China and for the local business as well. I think we saw a little bit of discounting around the highest-selling quarter also. So judge us in three to six months' time is what I would suggest.

PB Balaji: Got it. Another one on mix. I think we will pick all the mix questions together. For JLR, volume contribution, Range Rover, Range Rover Sport and Defender in wholesales is an all-time high of 47%. How should one look at it from here on?

Adrian Mardell: Well, in total there's about 6 to 8 points swing from Jaguar to Land Rover across the quarter from what we would expect to be a normalized quarter. So, 84% Land Rover, we would expect about 78%. And that swing was heavily as a result of China and North America being open for business a lot more than the other regions. So, it's less about more sales in those regions, although China did very well. It's more about less sales in our historical U.K. and European regions. So, that's really what's happening here. Volumes are lower than we would have expected on a pre-COVID period and they are dramatically impacting the regions of the U.K. and Europe, lower margin areas.

So this will normalize out as we sell more cars. I would encourage you, as we come out of quarter four, in eight to 10 weeks' time, to look at the mixes and the absolute volumes in that quarter. Because I think Q4 is going to be closer to a normal quarter than the abnormality of Q3. I think there will be about a 6 point swing back to Jaguar. So Land Rover high 70%, rather than mid-80%. And a lot more of that will play itself out as a total proportion of lower Range Rover Sport and Defender, which will be 40-low percent rather than 40-high percent, would be my expectation.

PB Balaji: Okay. Again, another one on the one-off, Adrian. So you mentioned some one-offs in the EBIT of 6.7%, what are they and can you quantify them?

Adrian Mardell: Yes. So there is some binary one-offs in there. So we have talked about the compliance reserves, GBP 55 million. We talked about the residual values, GBP 25 million or GBP 36 million year over year. So, the binary one-offs were about 1.5 percentage points. It really then gets into that abnormal high level of risk and how you would evaluate that. Now, my view is, some of that is abnormal and therefore that's overly influenced the EBIT as well. So, you should think about underlying EBIT closer to 4%. However, quarter four is normally better than quarter three.

PB Balaji: So, a comment on commodity inflation, which I will pick up. How much is visible in Q3 for India JLR, can you quantify it? We have called that out in the JLR side of about GBP 19-odd million. And as far as India is concerned, the inflation has started now and the bulk of the impact you will see it more in Q4 rather than Q3.

Moving on to the next question from Aryn Pirani, CLSA. What are the retail trends in U.K. currently?

Adrian Mardell: Yes. We showed you on the slide, Q3 versus last year was down 9%. That's been typical of the scale of the reduction that we would have expected to have seen. Q4, as you know, in the U.K. is the biggest selling quarter, particularly biased to the biggest month, in March. Normally speaking, therefore we would expect the higher quarterly volumes in the U.K. to be this quarter. Clearly, at the moment, dealers are closed and therefore, we are not selling at a normal level. If COVID actually starts to allowed us to open dealers up for our biggest selling month in March, I would anticipate again quarter four to be the highest U.K. retail of this year. Clearly, versus last year, we started to close down in March. So again, I would expect year-over-year quarter four U.K. retails to be higher than last year quarter four.

PB Balaji: We will go to the next one from Binay Singh, Morgan Stanley with respect to earnings. Questions are on JLR. EBIT per unit is now almost at 15-quarter high. Could you share your thoughts on how you think of FY 2022, 2023 EBIT per unit?

And the question is also coming later from Pramod, Goldman, on any views on FY 2022, 2023 CAPEX with margin?

That's an easy point to answer, which I will pick up the first one, the hard one, I will give it to Adrian. 2022, 2023, just give us a bit of time. The Investor Day is a better time to say that as we put our strategy also together along with that. There, we will also share the cost plans that we have.

So, the question more on the EBIT per unit, Adrian, how are we supposed to think about this?

Adrian Mardell: Yes. So think about the underlying level we talked about for quarter three. We are now back to where we were pre-COVID. So I do have to say, depending on how COVID develops, of course, you would expect me to say that. But if that increasingly becomes in control, I expect us to continue to trade at those pre-COVID levels. So on an underlying EBIT of around the 4% level, ebbs and flows by quarter. As you know, Q1 tends to be a weaker quarter for us, Q4 a stronger quarter.

Don't forget, over the next 12 to 18 months we do have some significant product changes, and therefore, we will give you better guidance quarter by quarter as we go forward.

PB Balaji:

Okay. A quick question given the accelerated of regulatory timeline, regulatory timelines maybe are on the around the world what will be quarterly impact in the CAPEX. We will cover that in the Investor Day.

Moving to the next question, coming from Shyam Sundar. Great performance. In PV, can you please talk about cost reduction initiatives? What if the PV side turns around, how will we manage margins? How are you seeing Indian PV demand in FY 2022? Shailesh, would you want to pick this up?

Shailesh Chandra:

Yes, Balaji, I will pick this up. So, starting with the cost reduction program, I mentioned while I was presenting my slide, that we have initiated a very structured program on cost reduction with very stretched targets, which involve nearly 600 employees in the company, working in a very cross-functional structure. And they have been organizing multiple workshops through which idea generations are done. And the key areas of focus would be value engineering, for example, or new variant creation, which leads to profitability improvement, commercial reduction through should be cost approach. Then it would also include ideas of import substitution, reduction in outbound logistics, and so on. So these are the initiatives which are going on. And very steep cost reduction targets have been taken, and you are already seeing the result of those initiatives which have fructified in the last several months. So, this is broadly as far as the cost-reduction initiative is concerned.

Talking about how we see the market as far as FY 2022 is concerned. All the estimates show that if the economy rebounds back, and also given that the vaccine is there now, PV industry on the back of two years of decline which has been pretty steep in the last financial year and this financial year is also, it is expected to be around 5% or so decline, and 20% decline in the last year, it is expected to see a steep recovery is what is expected. And some estimates hover around 3.2 million to 3.3 million market in FY 2022 is what we anticipate.

PB Balaji:

Thanks, Shailesh. Question on JLR from Shyam Sundar again. Can you talk about your electrification plans? More importantly, what is driving such faster adoption of EVs in Europe? Is it driven by the supply push to minimize compliance costs? Or is it driven by subsidy, what's your take?

Adrian Mardell:

Okay. Well, look, we talk a lot about the current nameplate plans, 12 out of 13 of them now electrified in some form. Anything else, I think, I am simply going to say, we have got a super Investor Day set up on the 26th of February. You have the pleasure to listen to our CEO, Thierry, and he will talk about this much more eloquently than I could. So please humor me and allow us to give you a really full outline of how we are thinking, how we are shaping our thoughts and what you should expect, but be excited.

PB Balaji: Okay, production and other expenditures in JLR, can you give some color on how much of this we have spent?

Adrian Mardell: Yes. So this is where all the interesting stuff goes. So within there, other expenses, the reductions in engineering, the FME we called out earlier on the slides, reduction in all other expenses, warranty is also finding its way in there and the emissions compliance as well. So you will see a significant drop. And I will remind you, some of that's one-off and a lot of that has underlying. The thesis we call out in the structural cost income, think of mostly underlying. Our expectation is we will manage our business within those funding levels going forward. And you can see by the results, we are actually managing it pretty darn successfully.

PB Balaji: Okay. Question coming from Gunjan from Morgan Stanley while we appreciate the profit focus, any thoughts on market share? And how should we think of volume growth at JLR over a couple of years? And a similar question from someone else on the China market share loss as well or how do we see market share in China?

Thierry Bollore: I can answer, if you wish, to the first part of this question concerning the semiconductor shortage. It's for the whole car industry, that is a real issue. And it's a real issue in terms of allocation, in fact, at the moment because of the capacities of these big actors toward all sectors. As a matter of fact, we are not impacted at the moment because the team is doing a great job in order to get in touch with those Tier 2, Tier 3, and sometimes Tier 4 suppliers, compared to us, in order to make it such that the allocations are positively happening to our company. And it's working mainly because we are so small compared to other actors that, in fact, our allocation doesn't change the picture for the other customers of these companies. And they understand that it may have a huge impact on us. And with this type of approach, we have been very successful for now to be supplied.

PB Balaji: Thanks, Thierry. Question on market shares....

Adrian Mardell: Yes. Let me answer that one, Balaji. I am sorry, you are breaking up a little bit, but I think I got the question. Those of you on the line would know me well, right, I have not been a great driver of market share over the last 18 months. I have talked about health of sale and quality of sales. So, when we talk about market share, I am a little bit looking at the results. However, you have asked the question, you have asked it, particularly to China. We told you that we were up significantly versus last quarter and previous year about 20%. When we look at our competitor data, I think, BMW was up 10% over that same comparative period, Daimler 22%. So it would suggest our share is pretty much commensurate versus the growth that they are seeing as well, and therefore, the share isn't changing that much. Now that would be my expectations going forward as well. We do have aspirations to sell more vehicles, of course, we have aspiration to sell more vehicles in China, of course, but we don't have aspiration to challenge the quality of those sales simply for volume. And where that ultimately ends up on a share-by-share, quarter-by-quarter, we will explain as we go through the quarterly results as explained in Q3.

PB Balaji: Thanks. From Joseph George, IIFL. GBP has appreciated sharply in the month, when will the negative impact of the same be visible in JLR's P&L based on the duration of the hedges? What's the way out to avoid the hit?

Ben Birgbauer: Okay. Balaji, I can answer. I am Ben Birgbauer, the Treasurer. So the answer is, it's already coming through our results. So for example, in this most recent quarter, operational exchange was unfavorable year-on-year GBP 46 million. It's just that, that was more than offset by hedges, GBP 88 million of gains on hedges in the period year-on-year. And that over coverage of it, it reflects the fact that we still had hedges last year that were heavily impacted by Brexit rates. So, the better rates are why year-over-year why we saw over covering it. Going forward, the reality is, we will continue to see an unfavorable effect on our operational exchange on revenue but we do hedge, and our hedging policy is to hedge up to 75% one year out and then descending percentages thereafter. For example, on dollar power, we are hedged about 75% in FY 2022, and about 50% in FY 2023. So, that's how I can answer the exchange question.

PB Balaji: From Rakesh Kumar, BNP Paribas. As residual value normalizes in the coming quarters, how do you see it playing out on the margin?

Adrian Mardell: Yes, don't forget what happens on residual values. It really shows itself in that year-over-year average, right? We showed out very clearly what underlying is and what headline is, right? Now, most of the residual value reserves we put in place actually progressively over last year. Finally, with the COVID reserves that we saw at the end of March, most of those are now unwind wind. So what you should expect to see going forward, VME, as a proportion of revenue closer to the underlying level, 5% high rather than the headline level, 5%. That will be my expectation. But it particularly depends on what we sell, where we sell, by region, because it's no average-average VME year, of course. VME differs by nameplate and by region, but broadly the underlying number is a better guide going forward.

PB Balaji: Okay. Let me go ahead. Apologies for that. Question from Rajat, ICICI Prudential. For JLR, what are the sustainable VME and warranty level in the next one, two years?

Adrian Mardell: I have gone on a journey with you on this, right? My first quarter, if you remember, I talked about 9% VME, and 6% warranty, so 15% of revenue. 12 months later, we started to talk about 7%, and 4%, 11% of revenue. I think it's reasonable to assume, we expect it to be lower than 11% of revenue going forward. I think we had a really super quarter, Q3. So may not be hitting those levels every quarter but it will be sub-11% across the two for the foreseeable future. And you know, the improvements we have been making on health of sales and on quality you would expect over time that to be progressively improved beyond that point as well. So sub-11%, maybe even sub-10% from this point.

PB Balaji: Okay. The question about market share from Aditya and Jinesh from Motilal Oswal. There's some accounting question, Jinesh, if you can pick up with Prakash. Where is the reversal of these fines accounted for and which line item? We will pick it up offline with Prakash. Other expenses, we

have already talked about. CJLR realizations, we have talked about. Brexit is a new one. Brexit rules of origin criteria of 40% EV, is it including of MHEVs and PHEVs?

Adrian Mardell: So, it doesn't include MHEVs. MHEVs go along with the ICE rules of origin rules. So, 55% is the MHEVs fees. It does include PHEVs. So BEVs and PHEVs go together, MHEVs and ICE go together.

PB Balaji: Good. Second, R&D capitalization rate has been in the 62% to 64% range. Is this a new normal? Or will you revert back to the 70% range, which you had indicated earlier?

Adrian Mardell: We will go with the 70% range at the minute, of course, we have still got some people in Q3, particularly in October, who were out on furlough, and as a result of this none of their costs were capitalized. So stay with 70% for the moment. But we have explained over the last 18 months and you have been very patient with us, I do agree that the new norm is below the 80%, down to the 70% level, and we would expect over time for it to decrease from that. But not yet, there's abnormality in the Q3 data still because of furlough.

PB Balaji: Thank you. So moving to the next question from Aditya Makharia, HDFC. As growth is expected to revive, both in India and JLR, will we turn more aggressive towards our CAPEX programs?

Aditya, we will take India, for instance. We had started the year with Rs. 1,500 crores of CAPEX, we are now running more like Rs. 1,850 crores of CAPEX. That's basically to take care of the delta demand that is coming through to cater to that. And also ensuring that we are accelerating some of the product programs to continue delivering on the growth going forward. So, we will not compromise on growth under any conditions. As Adrian rightly put it, the value create and growth, no debate about that.

As far as CAPEX therefore is concerned, it will be managed dynamically, but within the broad range that we had indicated, because equally important for us is to ensure that we reduce our debt levels and go net debt-free in the next three years. That is a hard constraint, and we will want to ensure that we get there. And whatever CAPEX we are investing is anyway feeding growth, and therefore, that will come back as cash as well. So we are managing this dynamically.

Question from Kapil Singh, Nomura. Congrats on a great performance. Questions for JLR. Mix headwind, will there be a mixed headwind from here as we head into Q4? I think Adrian has talked extensively about the LR versus J splits, so I will skip this, Kapil. Other expenses, he's again talked about that.

Many OEMs are investing heavily into BEVs and autonomous driving. Some of them are comfortable not generating free cash flows for the foreseeable future. What is JLR's plan and investment for these? Thierry, would you want to pick this up?

Thierry Bollore: I think the first element we should say is that all the evolution in terms of drivetrain is, of course, because of the CAPEX expenditure, which is already in our figures, first element. Second element,

it is designed by construction by the way our programmes have been moved forward to generate profits. It's a matter of a business equation. And it is clear that it's not because we are moving towards electrification that suddenly we would reduce our ambition in terms of profitability by nameplates. That's the second point.

The third point is that all the technologies which are being used in order to get electrified even towards EV, it's moving forward extremely fast as well. And it means that the value chain is moving and it's being translated. And we are also making such that we take our chunk from that new value chain. So far, we can get robust and continuously robust in our profit prospects.

PB Balaji:

Thanks, Thierry. Then moving to the next question from Yogesh, your PV business has been a real bright spot in India, are there any market share targets for FY 2022? And again, the standard question, what are the new launches that we have already explained what we are going to do. Shailesh, would you want to pick up the point on market share targets that you internally planning?

Shailesh Chandra:

Yes, Balaji. So I would say no specific number that I would, but definitely would like to clear that we would be in double-digit market share is what the immediate short-term target would be. And this will be supported by the launch that we are going to have, Safari, in the next month. And then in the same calendar year, this calendar year, we would have the launch of Hornbill. And these two would enable us to be in the double-digit market share. And as I said that the market is expected to cross 3 million next year, so this will be a very strong growth that we can expect next year also. What was the second question, Balaji?

PB Balaji:

No, that was it. Product launches, you have answered it. You have answered it. Thanks, Shailesh.

Question coming up for Girish, India CVs. And this is from Chirag Shah, Edelweiss. How should one look at the ability of the players to pass on the cost in the current cycle as this time cost inflation is coinciding with early stage recovery? Should it be relatively easy to pass on this cost? And also can you indicate the nature of the buyers, large fleet versus medium versus small fleet, current demand should be more of a replacement demand. Is that the way we should look at it? Girish?

Girish Wagh:

Right. So thanks, Chirag. I think it is never easy to pass on the cost increases. But at the same time, generally, one has seen that cost inflation, commodity inflation does happen when the CV cycle is on the upside. So we are quite conversant with it. I think, as I said, we are addressing it on two fronts; one is continuing our cost reduction efforts, and the second is price increases in steps. So we took a price increase in Q3, we have also taken a price increase in the beginning of Q4.

I think also what is more important is how do we communicate the value of the BS-VI products and whatever higher investments they are doing with respect to BS-IV, how fast is the payback. I think that's what we are focusing on, which is helping us to, therefore, let the customers digest these price increases.

In terms of nature of buyers, always in upcycle it is the large fleet owners who come forward first, and that's what started happening in Q2. I think towards the end of Q3 we have also started seeing

the small fleet operators coming in. And I am talking specifically about M&HCV. In LCVs and small commercial vehicles, one has always seen small fleet operators coming forward.

In terms of the current demand, I don't think the replacement demand has come up yet because the BS-VI vehicles are getting established in the market. The customers are still experiencing the benefit in terms of TCO, so they are watching both the technology, as well as, the TCO benefit. And once they see this happening, with more customers experiencing it, I think, we will see replacement demand coming in, wherein replacing the earlier BS-III, BS-IV vehicles will make economical sense. Balaji, back to you.

PB Balaji: Thanks, Girish. There's another one from Ronak Sarda from Systematix. Girish, back to you again. What's your view on SCV, ILCV, and M&HCV demand outlook in FY 2022? And secondly, are we also seeing an easing in the financing availability?

Girish Wagh: So, let me take the demand one first. I think we have seen that when the industry fell, it was led more by M&HCV. So M&HCV has fallen the most. Of course, if you look at the pandemic period, it is the passenger, that is the bus segment, which has fallen the most. And therefore, if you look at the next year, of course, there are a lot of uncertainties in terms of second wave or semiconductor supplies. But if we keep those aside, I think, it is expected that one will see maximum demand upside on CV passenger, that is buses, but that's on a very, very small base. That will be then followed by M&HCV. So, M&HCV also should see a fairly good recovery. Followed by then ILCV and small commercial vehicles. I think overall, it appears that the industry should be upwards of 0.7 million to 0.75 million given next year.

In terms of financing availability, yes, there has been a significant improvement which has been happening gradually month-over-month, so in Q2, Q3. And we see good financing availability happening now. And apart from that, I think, the financiers have also come forward with very, very innovative and aggressive products, considering the price increase which has happened in BSVI. So all this, therefore, is helping the customers also to come forward and buy the BS-VI vehicles. Balaji, back to you.

PB Balaji: Thanks, Girish. One more coming to you again, your time under the sun. You talked about a sentiment index, Girish. Where is it compared to what it was in 2018, 2019? This is from Kapil Singh of Nomura.

Girish Wagh: Yes. In explained in my presentation, the sentiment index more than the absolute value, it is the trend which is important. And across all the segments, we have seen that the trend is moving up. And we did scrape the bottom in Q1, after that the sentiment index is going up. But if you insist on absolute values, I think we are still behind 2018, 2019, which is quite understandable. I mean, FY 2019 was our previous peak when we crossed 1 million in volumes. I think this year, it is most likely that we will be touching around 0.55 million or more than that, 0.55 million kind of a volume. So in terms of overall volumes, we are still below FY 2019. Balaji?

PB Balaji: Yes. Thanks, Girish. Question to me on Tata Motors finance, what percentage of the loan book has been restructured? Kapil Singh again. Kapil, two comments, I would say. One is, to answer your question directly, broadly 4% is the book which has been restructured on MSME credit. Also, another point, I don't think I did it when I presented. The GNPA that you are seeing is at 5.6% is the IFRS GNPA or the IndAS GNPA. We have not taken any benefit because of the Supreme Court ruling on GNPA. So this is the real GNPA that we are carrying in our books, just for information which I missed when I presented.

Question from Pramod, Incred Capital. Is the worst margin impact of EV already captured in the financials, or will it continue to haunt for the coming quarters? I will take India and then, Adrian, if you could take JLR. In India, the EV the contribution margin that we are currently delivering are broadly in sync with the category contribution margins. So, therefore, we do not see any drag because of EV. And as we start improving the contribution margins for the rest of the business, we will also be working on the EV side as well. Adrian, on the JLR side?

Adrian Mardell: No. We actually provided and supplied more BEV and more PHEV units into the market in that quarter than we were originally anticipating. So, we got the benefit of reversing some of the costs that we had previously booked and accrued. Q4 is going to be a better sense of what normality is. Overall, I expect volumes to be higher and margins to be on average lower in quarter four and a small piece of that normal quarter, a small piece of that will be increased U.K. and European volumes. And a part of that slight margin degradation is the cost of these units, which obviously we need to supply to the marketplace. So you know, if Q3 is not a normal quarter, Q4 will be. But I will repeat what I said earlier, I expect us to continue to trade at pre-COVID levels. And therefore, even with the mixing towards the BEV and PHEV units, we have made significant changes in our business model and efficiency to offset the challenges and the cost of these compliances. And that's the right thing to do, and that's what we have committed to continue to do.

PB Balaji: Okay. I think we are now on the hour. So with this, I will probably call it a day. Thanks, all of you for the time that you have taken and the probing questions that you had. Feel free to reach out to us further in case you want us to discuss anything specific. More than happy to chat with you on this. Once again, thanks a lot. Thanks, everybody for joining. Do stay safe, all the best, and look forward to catching up with you soon. Take care. Bye, bye.

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