



“Jaguar Land Rover Q3 FY12 Conference Call”

February 14, 2012



J.P.Morgan



**MODERATORS: MR. KENNETH GREGOR – CFO, JLR.
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Moderator

Ladies and gentleman, good day and welcome to the Jaguar Land Rover Q3 FY12 bond holders conference call hosted by JP Morgan India Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Aditya Makharia, India autos and logistics from JP Morgan India Private Limited. Thank you and over to you sir.

Aditya Makharia

Hi Ladies and gentlemen. Once again this is Aditya from JP Morgan. We welcome you to the JLR bond holder's conference call. We have with us today Mr. Ken Gregor, CFO of JLR and Mr. Ramakrishnan on the call. Management will give us a brief overview of the quarter and post that we will open up to Q&A. over to you sir.

Kenneth Gregor

Ken Gregor, CFO of Jaguar Land Rover here. Without further delay let me get into the results. Talking from the Slide presentation which I put it up on the internet, you have been able to look at. Second point would be, as someone's already pointed out on the equity call, now I am talking on IFRS results and perhaps there are certain differences in the results on IFRS versus on those on Indian GAAP. But turning to the Slide presentation just jumping in through Slide number 5 which is the first working Slide really strong quarter for Jaguar Land Rover. This quarter, the retail volumes are up and the wholesale volumes are up 34 - 37% respectively, accordingly with the revenue up to 3.7 billion pounds. Under IFRS, profit before tax 509 million pounds up from 296 in the same quarter in the prior financial year. That strong profit backed up by healthy free cash flow generation before interest and other financing of 385 million pounds as compared to 360 in the same quarter prior year with the higher level of product investments that we have talked about, being before more than offset by higher cash flows from operations. And ending the quarter with a very healthy position on the balance sheet in terms of cash and liquidity.

Slide #6 summarizes those numbers, it has EBITDA margins on IFRS about 17% this quarter, about the same as the quarter in prior year. So I guess positive thing is we have been able to grow the revenue, and volumes and maintain the EBITDA margin round about 17% mark.

Slide #7 talks about some of the drivers in terms of the improved profitability year-on-year. We launched the Evoque, that's contributed about 20,000 units (retails) and 23,000(wholesales) units. Land Rover volumes, were up 41%. Jaguar retail volumes also up 9% supported by the launch of the freshened XF 2.2 litre diesel in the quarter. We have seen a solid product mix and continued strong growth in China, we will touch that in the next Slide. The exchange rate environment in which we operated in the quarter has remained favorable or quite similar to the quarter in the prior year with the current dollar about 1.57 compared to 1.58 in the same quarter last year. Within the profit before tax number under IFRS is about 14 million favorable



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reevaluation of foreign currency balance sheets and derivative contracts. Turning to Slide #8, the retail volumes, you can see on the left hand side. The Jaguar volumes up 9% driven by increase in XF which is the 2.2l diesel and refreshend XF gaining a little bit attraction in the market place. On the Land Rover side and on the right you can see the contribution from the Evoque, about 20,000 units. Freelander down but we have all other car lines up and turning to Slide #9, you can see broadly that we have growth across the globe in overall retail volumes. Every market up with China leading the way up just under 60% versus same quarter in the prior year, taking the mix of China from last year about 10% to about 16% of our overall volumes in the quarter just gone.

Slide #10 has a little bit more detail on the income statement. I think I won't labour that and Slide #11 has a little bit more detail in terms of operating cash flow where you can see the cash flow from operations up in the quarter from £543m in the quarter ended December 10 to £716m in the quarter ended December 11. And that strong increase in operating cash flow is funding the increased product investment I already alluded to, maintaining a strong cash flow performance during the quarter and helping to generate that strong liquidity that I talked about.

Slide #12 has taken the liquidity story little further. It shows the cash on the balance sheet at the end of the quarter. Also talks of something during the quarter which was completed, a stand by facility or revolving credit facility in the quarter which as on December 11, size is just over £600 million. That's not drawn, that's an un-drawn facility there. It can be drawn should we need it going forward basically to provide an additional liquidity for the group. And that combined with debt that was drawn at the end of the quarter just over £1.5 billion, left us in a net cash position, just therefore debt equity ratio run about 6% which brings me to the last slide.

Slide #14, we saw a really strong quarter. I think we had number of factors help us, the favorable exchange rate environment continues, the Evoque has been very well received in the market place. We had volume growth across both the brands and clearly our intention is not to take anything for granted. Clearly the world is a tough place in certain places not only in Europe but our intent is to continue to build on what we have created for ourselves. And we will monitor sales, production trend very closely, balance production by market is required to keep the stocks in the right place. And of course continue to work to generate strong operating cash flow to fund the product investment which is our life for growth in the future. So with that, that's the end of my short walk through the numbers. I can now take the questions.

Moderator

Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Binay Singh from Morgan Stanley, please go ahead.

Binay Singh

Hello sir. Thanks for the opportunity. My question is with regard to your volumes, if you look at your volumes ex – Evoque, the rest of the portfolio has been pretty flattish on a YoY as well



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as sequential basis. Is that more representative of demand or is it because of capacity constraints. Could you throw some light on that?

Ken Gregor

I think if you took retail volumes for the quarter, if you take the Freelander, the Freelander is down, that's broadly because we have balanced production between Freelander and Evoque which is produced in the same manufacturing facility in order to launch the Evoque where there is very strong demand. We don't have any demand issues with Freelander. So although the volume is down year-on-year on Freelander, that's more due to production balancing and not due to underlying demand. Beyond Freelander actually if you look at all the other models, I think all the other Land Rover models are up Range Rover Sport up about 15%, Discovery up about 10%, the Range Rover up also about 10% and the Defender up a little. Also on the Jaguar side, actually the XJ flat and XK flat, and XF up. So once you take out the Freelander, actually there is s underlying growth, across the rest of the Land Rover range of portfolio.

Binay Singh

Right and sir secondly within the 3 variants that you have of Evoque, we believe higher end variant is what is the current mix within Evoque, what kind of order backlogs you have, which variant you see more in demand , because ASP difference across 3 variants are very high. What is the difference in the asp?

Ken Gregor

To be honest, I don't think I want to get drawn on specific mix, that's something that completely can change over time but fair to say initial demand for the Evoque has been strong. Typically in the launch ramp up one does see a higher mix, of the higher derivative product. So that may change a bit overtime. But in terms of order bank I don't want to be drawn on the specific numbers on order banks. But I would also say that our order books are full and for Evoque one has to remain optimistic about that launch.

Binay Singh

Great. And sir lastly if you could talk a bit about your product pipeline going ahead?

Ken Gregor

I mean we really don't like to comment on specific product. That would be feeding our competitors our information for the future, which we would prefer not to do. So you forgive me if I don't talk in detail about that one.. But suffice to say that we have got pretty exciting plans for the future. So I think I encourage you to watch this space.

Binay Singh

Great. Thanks a lot and wish you the best for the coming quarters.

Moderator

Thank you. The next question is from the line Stephanie Renegar from JP Morgan, please go ahead.

Stephanie Renegar

Thank you very much for taking my question. Just looking at the mix of Jaguar sales over the quarter, I don't know if you could shed any light to the profitability change in Jaguar now that we are seeing more sales coming out of China. My next question has to do with the balance sheets and the rating agencies. So obviously you guys have now 1.7 billion of cash, falling undrawn and you have a lot of liquidity of the company, was just wondering whether one of



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your expectations for the use of the cash would be considering a bond buy back, any dividend plans, as well as just a house keeping question about the CapEx, that you got expected for next year. I think you had guided still around 1.5 billion sterling range and that's it from me.

Ken Gregor There are some 4 – 5 questions Stephanie, thank you.

Stephanie Renegar Sorry.

Ken Gregor If I forget something please do ask again. You asked about the Jaguar volumes. Although I am not going to speak specifically about the profitability of specific models, your sense is quite correct with the growth in China, year-on-year, on the Jaguar business which is essentially driven by introduction of small powertrain about 9 months ago and making some further enhancements in XF models in China, has been quite a positive driver of margin improvement of the Jaguar business year-on-year. You asked about the balance sheets and the liquidity position update, I think you were asking a little bit about rating agencies, I have to say that it's not really for me to comment on the attitude of rating agencies. I am sure they will overtime take a look at our plans and they will continue to form their own independent judgments. I really prefer not to comment or speculate on that. Sorry I have got a memory lapse. Your other questions were?

Stephanie Renegar cash now, your cash balances are quite high compared to historic levels?

Ken Gregor I mean I think going forward we continue to look at improving the strength of the balance sheet, I think, and optimizing the drawn levels on our facilities where we have got flexibility to do so, obviously the bond is fully drawn, I don't have any plan to buy back any of the bonds which I think is one of your questions but in some of our bank facilities we do have flexibility to draw or not draw, we will continue to use that flexibility to manage both, the cash positions and also the working capital cycles we have on a monthly basis.

Ramakrishnan If I can step in, Stephanie there was also reference in your question, I don't remember how it was framed, I think there was also a question to dividend?

Stephanie Renegar Yeah.

Ramakrishnan As far as dividend is concerned, Jaguar Land Rover as you referred in later part of the question towards end of your question does have a large product development and CapEx program in the coming year. Historically over the last 4 – 5 years if you take, it was of the order of about 800 million pounds and thereabouts, it has been stepped up almost double of that. So they do have a large capital requirement in outlay in the coming years. From our point of view I think, Jaguar Land Rover requirements for investing back in to the business will also be highest priority and any sustained cash availability that we will see over the period of time that we will consider for dividend from time to time. But the first priority will always be for Jaguar Land Rover for investing back in to the business.



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- Stephanie Renegar** Okay great. Thank you very much. Appreciate the colour.
- Ken Gregor** Thank you.
- Moderator** Thank you. The next question is from the line of Maggie O'Neil, Deutsche Bank, please go ahead,
- Maggie O'Neil** Hi I was just wondering if you could talk a bit more about China and the developments there. Volumes have come up quite dramatically I was wondering if this is the sort of run rate one would see or would you expect the continued growth and in double digits or would you see normalize growth next year?
- Ken Gregor** Yeah that's a great question. The auto market of China has been through a period of amazing growth for the last couple of years. And I think I don't want to get drawn on specific forecast for Jaguar Land Rover. If I talked a little about what most market commentators expect, broadly my view is in line with those. Most market commentators are expecting the growth rate of China market as a whole to moderate a bit, single-digit growth for the industry as a whole broadly in line with GDPs, probably the central bank forecast for 2012. Within that I think there is an expectation that the premium segments might grow faster, might be double digit mid-teens sort of growth rates. And with the products that we have launched, and particularly with the Evoque which is in early days in the quarter that we just launched in China, that's for sure. Then I think we would hope to be able to continue to take advantage of growth in the premium segments based on the product launches that we have. So to a point I suppose, yes, I'd expect to see the growth rate normalize a bit but I would expect to continue to see growth there.
- Maggie O'Neil** Great thank you.
- Moderator** Thank you. The next question is from the line of Alex Field from Credit Suisse, please go ahead,
- Alex Steel** Hi. Just on a few of those answers I guess on the Evoque rollout, I was wondering where you are by country. You just mentioned China, you have just started. Second question is, are you seeing production constraints anywhere else in your business besides Freelander? And third was just quickly are you seeing any signs of sort of premium for the price of the Evoque in China which is decreasing at this stage. And I just want to sort of pop one quick thing on dividends. Have you repaid any intra-company loans or preference shares in the quarter? Thanks.
- Ken Gregor** Okay thank you. In terms of intra-company loan repayments, they are none repaid during the quarter. You will recall that in the 9 months we repaid of the order £435 million, if memory serves of preference shares but that was in quarters 1 and 2 but not in the quarter just gone. In terms of Evoque, I think I am right in saying that we are launched now in all markets, we have certainly launched in all major markets but may be 1 - 2 prioritize first but all major markets it



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has launched, in China, launched in November. So I think as I said already we are seeing strong demands for it, our order schedules are full, so I think we remain optimistic there. You asked further if I am seeing any constraint anywhere else beyond Evoque and Freelander in terms of production? Broadly we are running pretty full on the Land Rover side. I think it is fair to say on Land Rover, Range Rover Sport and Discovery where we are running at a healthy level and engine supply we have continued to work on to address most of the constraints that we have. And we continue to work through those constraints on engine supply which are largely around the smaller engines in order to leverage any potential constraints we have.

Alex Steel

Are you seeing any kind of premium for prices in China coming down?

Ken Gregor

Yeah it's a good question too. I mean frankly not really. It's the short answer. We are not complacent but at the same time the demand levels in China remains strong. The incentives that we have to offer to sell products in China remain very low. Clearly, we watch and monitor markets very closely. So, if that situation changes, obviously we need to respond but as of the present time we continue to see a healthy position in China.

Alex Steel

Okay thanks.

Moderator

Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup, please go ahead.

Jamshed Dadabhoy

Yeah just a couple of questions from my side. So I noticed that there has been some creation of preference shares over the past few months which carry a 7.25% coupon. Just wanted to confirm that Tata Motors is the holder of all the preference shares, that's number 1, second question I noticed that if you look at Jaguar across geographies excluding Europe, China, and rest of the world volumes on year-on-year basis seem to be flattish-to-down. Could you shed some light in terms of what's happening on Jaguar specifically in Europe, and are you all concerned, when you all look at the Jaguar volumes in the UK and North America?

Ken Gregor

The preference shares that you talked about, they haven't been created. They were already on the balance sheet. They are the preference shares which I am referring to as a substantial proportion of which we have prepaid in quarter 1 and quarter 2. All preference shares are by Tata motors but no new preference share issue has happened. And on the Jaguar side, I take your point that certain of the segments in which Jaguar competes, however, are very competitive and certain of the geographies in which it competes are not easy places to compete and yes if you look quarter-on-quarter in the UK and US in particular, you can see the Jaguar volumes down year-on-year but in both places we are responding. We are making sure that in the UK we have got the right market offer that's competitive. In the US, we are making sure where we think we have got the right market offers and are making sure customers know about it. So it's fair to say that those markets are tough. But our plan going forward is to continue to seek to drive momentum and profitable volume in to both brands. So although I'd like to see volume growth in Jaguar, I don't actually want to see volume growth at any price.



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Jamshed Dadabhoy I guess my question is more what's going right in Continental Europe because it's a bit counterintuitive because it is the main stay of the Germans.

Ken Gregor To be honest I think it's probably as much about specific factors, economic weakness in the UK and tougher trading positions in the US than it is about necessarily what's going right in the Europe. The volumes are up a little in Europe. But it's relatively small.

Jamshed Dadabhoy That's true. Alright thanks so much.

Moderator Thank you. The next question is from the line of Vishal Singhal from Nomura, please go ahead.

Vishal Singher Hello. I have a couple of small questions basically. One is, in terms of we have seen a very good response to Evoque, which has been your new launch on the Land Rover side. When can we see some similar responses to new launches on the Jaguar side? And if you can give some sense of when you are putting new products on the market on the Jaguar side? Another question is if you can give us some sense, not specific numbers, but some sense whether the new products that you have launched whether Evoque or 2012 XF, are these products having better margins than these existing products? Third question mostly on your exceptions for the net debt by the yearend and do you expect to fund most of your CapEx per se next 2 years through internal accruals or do you think there could be some funding needs which you would need to access markets on. And fourthly if you can give some idea on your outlook for the premium car markets in some of your major market especially UK, North America, and Europe. Thanks.

Ken Gregor Okay let me try and cover those. I think I have already talked about China. I think if I work back to the markets North America again you know most commentators are actually expecting to see a growth in the North American car market. This year with the North American economy picking up in the last quarter or so and so I think I would be cautiously optimistic but there will be bit of growth in North American and we would be able to take advantage of that. I think Europe is going to be tough. I think everyone is expecting Europe to be tough. Probably the overall car industry will be down in Europe year-on-year through various markets in 2012. So I think for us in Europe 2012 is going to be more about product promotion and launch of Evoque rather than necessarily any industry improvement which I don't really expect to see. The UK to be honest I am expecting to be pretty flat economically, pretty flat in the car market or down a bit perhaps. And again I think that's going to be more product-driven than it is market driven in 2012. Outside of that picture, in Russia as you can see strongly I am expecting some continued further growth in Russia and through the other markets Brazil, South Africa, and Australia couple of other places I think those have grown about 40% year-on-year. I think we continue to be a little bit cautiously optimistic we see some further growth in the rest of the world market. You asked about margins I really don't like to get drawn on specific product margins, etc. We have got a balanced portfolio of products clearly as you know margins tend to be bigger on the larger products and a little bit smaller on the smaller products and Evoque is somewhere in that middle range. On the Jaguar side, the excess is balanced by the XJ in terms of margin



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performance to give you some sort of sense. You talked about new product launches. I am trying to think of a number that I could quote but I have got asked this question already I think we have said externally, we have got something like 30 plus product enhancements or our new products, product derivatives, engine derivatives or replacement planned for the next 3 – 5 years and so I might have got one or two numbers wrong there but that is your sense of, there is a lot of product traction happening. They range from things like putting a new engine, which might not see on the face of it to be exciting but that's been a key drivers I have already said driving the volume growth on XJ in China. They range from that sort of action to launching all new products like the Evoque just launched but as I have said already the markets are very competitive. We don't want to give our competitors enough of hand here. No doubt they are listening into my call right now so I think I will keep quiet on rest of our product actions just to say "watch the space". You talked about funding requirements. My challenge is to continue to meet the investment requirements from operating cash flow which is what we said we would seek to do this year. And what we clearly have done and that's my challenge going forward. I haven't got any therefore major lending need for meeting those requirements in the foreseeable future. But of course we would just like putting the revolving credits which is a bit of standby, we continue to explore opportunities for fund raising to look to build on the overall capital strength of the balance sheet and maturity profile and also cost optimization to manage the overall cost of that funding.

- Jamshed Dadabhoy** Sure. So do you expect your net debt to go up by end of the year and any idea on that?
- Ramakrishnan** Between now and end of the year we are talking about 45 days, so unlikely.
- Jamshed Dadabhoy** Okay thank you sir.
- Moderator** Thank you. That would be the last question. I would now like to hand the floor over to Mr. Aditya Makharia for closing comments.
- Aditya Makharia** Yeah we would like to thank the management for addressing the queries. Once again thank you ladies and gentlemen.
- Ken Gregor** Thank you Aditya. Thank you everyone for joining us today. I appreciate your time.
- Moderator** Thank you. On behalf of JP Morgan India Private limited, that concludes this conference. Thank you joining us. You may now disconnect your lines.