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Conference Call Transcript

Moody’s call on Tata Motors (JLR)

Moody’s Rating on JLR’s Senior Note

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Corporate Participants

Mr. Falk Frey
Senior Vice President, Moody’s

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Moody's Conference Call hosted by Edelweiss Securities Limited to discuss the Rating Rationale Assigned to JLR recently announced Senior Notes. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "*" and then"0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sachin Gupta from Edelweiss Securities Limited. Thank you and over to you, sir.

Sachin Gupta: Thanks, Inba. Good afternoon, everybody. Today, we have the pleasure of having with us Mr. Falk Frey – Senior Vice President at Moody's. Falk has a rich two decades of experience in the Automotive industry research. He has been with Moody's since 2002. Prior to this he was the Head of Research at Julius Baer. Now, I hand over the floor to Falk for his initial comments on his recent note on JLR's debt rating, which will be followed by Q&A. Over to you, Falk.

Falk Frey: Thank you. Welcome ladies and gentlemen today from my side as well. I guess you have seen the note that we published more than a week ago on the bond issue of Jaguar Land Rover. That was the second bond that they issued since we have assigned the rating and within 12 months or 15 months period. They I think surprisingly with regards to the credit rating of the company which is the 'high single-B' with 'B1' rating. The bond is issued on an unsecured level being guaranteed by the operating entity but I think that is quite enormous but there is unsecured debt outstanding at company with 'single-B' rating. What makes it different and what are the reasons behind that? I think first of all, the company published quite good results better than anticipated, also by the market, on the nine months period from April to December 2011. In addition, the bond markets were high yield issuance have been extremely well in the last couple of weeks. So, I think the company took the good opportunity and with a decision to go on the market and launch GBP500 million senior unsecured note which matures in 2020. I think you are well aware of the company and the business profile but just briefly the way from the risk perspective and the rating agencies give you a brief comment on the key points we are looking at here.

With regard to the business and the operations which you might be more interested if you are not an debt investor, the company is a niche player as you know, focus on two premium brands but also with regard to the market has been a narrow focus on the mature markets, North America UK and Europe, China is growing and we will come to that in a second.

But with regard to the operations and the profitability I think we have to anticipate that going forward margins and profits might be on a decline and there are several reasons and challenges that the company is facing now which would lead to that performance. And it is mainly that the company needs to invest heavily in capital expenditures, as you have seen already in the nine months period, they doubled their capital expenditures versus the previous year's period and we expect that to continue.

With regard to the increase they are building an engine plant what they recently announced they need to widen their capacities with increasing demand especially on the Land Rover side and definitely they need to grow and expand their model and also they invest into a new launch of model. In addition, they face this cost regarding the CO2 emission regulation besides they have derogation in Europe and some other targets in meet the whole industry. They are still running behind the target and have to invest in R&D and also in the technology which comes at a cost. So, I think those are the points we have. We have to have in mind when we talk about as a company definitely there is a strong brand recognition on the Jaguar but also on the Land Rover side which I think is a good opportunity for them to pursue their strategy, their growth strategy which we believe is a vital one but need some heavy investments upfront and therefore I think the opportunity they have taken to grow on the bond market again was quite a strategic one. So, I think that is a brief summary from my side. I am hoping you have some specific questions and we can go into details of further risks and the opportunities of the company and the challenges we see with your questions.

Moderator: Thank you very much sir. We will now begin with the question-and-answer session. Participants who wish to ask a question may press '*' and '1' on their touchtone telephone. Participants are also requested to use only handsets while asking a question. We have a first question from the line of Vaishali Jajoo from Aegon Religare. Please go ahead.

Vaishali Jajoo: This is regarding the Chinese sales of JLR. If you could elaborate a little bit, because if we see in a recent trend we had seen there are certain discounts in the Luxury Car market may not be for JLR specific as company has given. But if we look at the trend in the Chinese Luxury Car markets it has grown quite significantly in the last couple of years and in a recent couple of months the growth has seen coming down. So, could you give us a little sense if you know the penetration levels of Chinese luxury car market in the particular segment of people who are buying those cars and how it has gone maybe four, five years or so?

Falk Frey: Thanks for your question. I think that is a very interesting one. In China, as you know has been for most of the European manufacturers or some US manufacturers, key area of growth and especially on the Land Rover side, on the SUV side, there is a strong demand also for JLR in China. The company has started to enter that market relatively lately only in the last couple of years. Nonetheless, the growth we have seen is such rapid that in the first nine months period China accounts for 17% of the units as large as the US market which is about 20%. It is an important market. It is also an important market with regard to the profitability and profits being generate from that market as the volume mix and the prices are quite sound and above the average of what the company sells despite the tariffs and tax's, there is a sound profitability in that business. You are right what we have seen recently, last year was already rapidly lower growth rate compared to the previous years in China with regard to demand in particular, two months have been quite mixed. We still see that there is above average growth in those Luxury segment or for Luxury vehicles and I would include here Jaguar Land Rover cars or SUVs and we have seen the good strong numbers especially from the German premium manufacturers in the first two months of the year despite the market being zero growth. So, what we are seeing is that the growth might have come as a surprise. So, you are referring correctly to incentives that are being given from a lot of dealers in the country especially in the cities where the markets that might have become a little bit more mature or where there is more regulation on new registrations on the Tier I cities. The big question whether this stagnant market can be offset by growing demand from the Tier II and Tier III cities and with regard to the regional set up going towards the western part of China. We believe there is still a long-term growth part and there is a strong underlying growth of some 10% per year. This might not be reaching the current year; we are going for some 7.5%. As I said premium market is expected to outperform so that might come close to double-digit numbers. However, the pricing here is definitely an important point. As I said we believe the profitability is much better in these markets than average other markets especially in Europe. So, we are carefully watching the situation and not yet concerned about that especially the company while has not yet invested significantly in capacities there which might be underutilized. So, I am more carefully watching the situation here for especially the German premium manufacturers that want to double the capacity within the next couple of years in the market.

Vaishali Jajoo: The recent launch JV in China, would that help in saving some sort of the costing or the margin front for JLR or maybe Tata Motors?

Falk Frey: We are coming here at the point of, we are just definitely a weak factor not only for JLR but in particular, I think here as the company is quite focused with regard to its production footprint to the UK market. So, there is a lot of volatility or tendency on the foreign exchange rate. At the moment the foreign exchange rate is definitely a challenge. And the other point is not only risks but it is also the risk of changes in the import or taxes or tariff what we have particularly seen they have changed a little bit in Mercedes in Brazil, in China but also in Russia. So, it is more and more important therefore I think to go, locate and to start setting up local footprint and then that exactly aim and the target of tariffs or regulations that are being imposed here not only in China but also in that country. So, definitely, one need to be there with a lot of presence and that could definitely help them to at least secure growth in line with market and demand in the relevant segments.

Moderator: Thank you. Our next question is from the line of Nilesh

Dhamnaskar from Religare Asset Management. Please go ahead.

Nilesh Dhamnaskar: My question pertains to the rating. You have assigned 'B1 (LGD3)' rating for this particular kind of instrument for JLR. So, how does this compare with say the ratings given to the similar kind of instruments of other European auto companies?

Falk Frey: The 'B1' rating for this instrument is in line with the corporate Semi rating of Jaguar Land Rover. So, there is no difference in the rating. But as the company it is most of its debt is on unsecured spaces. There is no significant priority basis so therefore the rating level of this instrument in line with one of the company. It is 'B1' as you said they seem to be the benefits to some extent basically by one large from the fact that they are owned by Tata Motors and we anticipate that Tata will have a strong commitment to the company. Also, there is no guarantee being provided. In Tata's ratings it is one or two Basel-III that is 'Ba3' currently. So, there is a positive impact on JLR standalone rating. And for Tata Motors the company is so important it represents some 70% of the revenue in the first nine months and some 80% of the consolidated EBITDA. That may give some confidence here. Nonetheless, if you compare it with the mass manufacturers like French bond they are rated still higher. They are in the 'Ba' category. –

Nilesh Dhamnaskar: So which are those companies? Could you give us some examples?

Falk Frey: Yeah, sure, we have Renault which is a 'Ba1' with the stable outlook, we have Renault which is the 'Ba1' with a negative outlook, we have Fiat which also on Chrysler 'Ba2' with a negative outlook. So, those are the closest peers. On the other side of the equation, we have Aston Martin which is a very, very niche player, as you know they are selling some 4,000 cars only. They just have one plant and very exposed to this each of export market. They have a 'B3' with a stable outlook. So, that is notches below Jaguar Land Rover.

Nilesh Dhamnaskar: But how are the broad financials of these companies in terms of say, the key ratios which you see in terms of debt-to-EBITDA and debt-to-equity for Aston Martin?

Falk Frey: Aston Martin, it is quite high with regard to our adjusted debt-to-EBITDA. Debt-to-equity the ratio we focus on particular but debt-to-EBITDA share at Aston Martin from the top of my mind I think it is more than five times.

Nilesh Dhamnaskar: In case of JLR as per your assessment is what, the same ratio debt-to-EBITDA?

Falk Frey: I do not have those.

Nilesh Dhamnaskar: No problem. The reason why I was asking these comparables was that from the way we see the financials the company is on a net basis debt-free company and also is generating a fairly good amount of cash flows. So, under these circumstances whether this rating scale was very much lower than what the other companies were getting. So, from whatever I could understand your main reason for assigning a lower rating for these kind of companies because the more niche it goes, the more susceptible it is to earning swings or EBITDA swings if the environment weakens, is it the right assessment?

Falk Frey: Absolutely. I got the just debt-to-EBITDA figure for the last 12 months as of December. It was 1.8 times. I think the leverage is not the problem which currently is that low leverage for their rating category. But it is more of the fact that the company needs to invest as I said and there is no track record of a successful profit of the company and sustainable profitable company. I think you all make sure in a year or the last nine months were extraordinary with regard to the profitability. Also, what you have to have in mind when you look at the profit the margin or EBIDTA margin is the fact that it is positively impacted let me say that by high capitalized of R&D; 84% of their total R&D is capitalized. And we adjust for that in our adjustment. We take this was to see what is capitalized in R&D and what is amortized and that is the good GBP400 million for the first nine months. So, if you deduct that from the reported EBIT of 1.1 billion roughly so you adjust it, it is only 660 million, this one maybe half of what has been reported. So, that is something when you look at our adjusted ratio which is going to be a little bit more in the line with other rated peers in that category. The other point as I said we cannot or we do not anticipate of that performance is being continuous as the company really has to step up here in investment. They need to broaden their scope, they need to broaden their regional presence and that will cost a lot of money in addition to the fact that they need they are challenged to renew their product, keep the product pipeline constant, broaden their product pipeline. Jaguar, in particular, in Sports Car side, that is the market that is not growing and also if you look at the historic performance of Jaguar with regard to unit sales they are declining. So basically it is the Land Rover brand which is quite flustering and that is the case because of strong demand in not only in North America, but in Russia and China as well. I think the companies compared to these mass manufacturers we are just talking about, the French for example Renault, Fiat, they are selling some 600,000 to 700,000 units compared to those companies which have five times there is a volume and selling 3 million and 5 million units.

Nilesh Dhamnaskar: And just a concurrent question pertain to Aston Martin, what kind of EBIT margins does Aston Martin make?

Falk Frey: I think the last week of the year I would say, EBIT margin maybe some 5%, 6%. They came down already in 2011.

Nilesh Dhamnaskar: Yeah and what percentage is capitalization…

Falk Frey: I think it is more on the 60% is also high or relatively high, but not as high as for JLR.

Moderator: Thank you. Our next question is from the line of Amit Adesara from Bharti AXA Insurance. Please go ahead.

Amit Adesara: In your initial remarks you mentioned that in the last quarter the margins of JLR surprised positively and you expect that these margins are not sustainable and it should trend down from here on. So, are there any specific reasons behind that?

Falk Frey: The key point as I already mentioned I think is the rising need the CapEx will further increase, it has already increased but it needs further increases. For example, for this engine plant construction and for production in China. But one point there is a higher CapEx anticipated. The costs are increasing due to the requirement for technology for R&D in order to reduce the CO_2 emissions, in order to keep the models updated and make them lighter which is that is the way and things like that. So, I think that is the key point then it is we already touched on a little bit, I think also the profitability from them they are currently clustering market is coming under pressure. First of all, the market growth is coming down in China. And secondly, with the slower growth rate there is a higher risk of margin pressure due to incentives for discounts in that market again. So, I think those are the key points notwithstanding the fact that there is definitely foreign exchange rate development at risk direction. Currently, it is positive definitely but there is also another risk.

Amit Adesara: What will be your ballpark estimate as to how much CapEx will JLR need to do for model upgradation, new product launches, emission norms, etc.?

Falk Frey: We do not provide figure to you on the forecast --

Amit Adesara: Let me put the question the other way. You currently have a 'B1' rating for JLR. So, if JLR goes beyond what CapEx would make you a bit nervous about this rating and you might be looking at downgrading the rating?

Falk Frey: It is not one figure honestly, it is we have certain ratios that we see a some key rating driver but that is not the CapEx as an absolute number. The CapEx is impacting the free cash flow for example. CapEx is impacting your EBIT margin, your profitability for example. So, then you should look at those ratios which is best to EBITDA for example which is EBITDA margin, which is the free cash flow over debt. We will also have other cash flow metrics like repaying cash flow before working capital changes for example over gross debt and over net debt would leave this cover ratios so those are the ones. But definitely, the CapEx is a restricting factor with regard to the profitability and also with regard to the cash flow generation. So, that is I think one of the elements that impact the profits going forward.

Amit Adesara: Lastly, from my side, you have seen premium SUV demand which is outstripping premium car demand. So, what is your thought? Why are not the other premium car manufacturers getting more aggressive in this segment?

Falk Frey: It is a good point. There is always the rate for market share to some extent even for the premium manufacturers so I believe against their peers. So that is rate of BMW or Lexus or Mercedes or Audi being the largest premium manufacturer in the world in certain markets. So, there is a competition against the peers which drives the ambition to grow your volume and as long as you are making money each of these unit you are selling, you might be tended to make those compromises and say, okay, we do not get 10% margin on the car, let us do it because we get 5% or we earn an additional amount of dollars on the sale anyway. So, that is the problem and as long as that rival competition continues and that will continue for ever then I think we always have this rates and this risk of price discount. They are new entrants and want to enter the market, want to gain market share from others who are again customers from other if you are new to a country, you migrate, you have to get your customers from somewhere, so you have to attract them by either incentives or good products or new products and so there are various reasons for that. And especially, when the market is not growing by itself as we know currently witness in China but we expect the company want to make the growth by themselves and by incentivizing.

Moderator: Thank you. Our next question is from the line of Raman Chandna from Edelweiss. Please go ahead.

Raman Chandna: First and foremost I would like to ask you, given the fact that they do not possess any evasive norms how do you see them progressing in terms of meeting the carbon emission norms and the targets there? And secondly, what is the minimum size of the scale that they need to justify the high CapEx model that they have?

Falk Frey: The first one is easier one to answer so I start with that. As I said, they ask for derogation in Europe at least on the CO_2 emission targets which we find that 130 gram CO_2 per km by 2012 and now they target for 2015 at an average for the industry of 120. It verify by the weight of the car and by the size of the car for each manufacturer, but JLR they do not form from that general rule and calculations and if they have lower volume in Europe. So, their target is to reduce the CO_2 emissions by 25% from the level of 2007 until 2015. I think perhaps to achieve 178 gram CO_2 per km. So that are being the challenges are less than for most of the others. As you know their contracts until 2020 buying the engines so they do not have their own engine technology and production everything, but also I think the first step or I think prior to that they decide to build an engine plant to become independent from Ford and also to satisfy the increasing volumes in that respect. So, compare to other manufacturers there are quite some areas where they have to catch up and that is why the CapEx as I said is anticipated to be at that high level in order to become more independent from other suppliers and become a full set of manufacturers. So, that is definitely the key element in the rising CapEx and also in R&D. The second question on the CapEx level?

Raman Chandna: The high CapEx model that they have the minimum size or scale that they will require…

Falk Frey: I mean longer-term when they had caught up over the medium-to-long-term I think if you look at, compare it with other manufacturers it should be affordable for car manufacturer to spend around 10% of your revenues for CapEx plus R&D, so both together and then depending on how much technology-driven company you are or more on the match market side, it is more often gear towards R&D than CapEx. I think in the example of JLR it is maybe, if you take this 10% and divide them it is more maybe from 6% to 7% for the R&D and 4% for the CapEx but that is something for the medium-to-longer-term. I think currently CapEx overrates that because they are expanding in capacity, expanding in production of engines and things like that, and therefore, also the 10% might not be enough if you take some of R&D and CapEx.

Raman Chandna: Another thing, given the fact that most of the growth in JLR actually came in the last one year and the next year is going to be through Evoque and given that they do not have any other blockbuster launch which is scheduled for the next two years. I think two years after this they have III series coming in.

Falk Frey: That is a very good point. As I mentioned in here and in fact I am touching for the second on that. Definitely, you see very strong growth rate at JLR and that to a large extent driven by the strong demand and the successful market acceptance of Evoque currently. I think they could sell more than they can produce. And the car from the profitability perspective definitely I think on the margin side definitely there is no carry on the margin for the large Land Rover car generate but it should come with decent profit and therefore contribute also to the growth of profitability to some extent and that is also at least for the next two to three years as demand should stay that high, there is also an offsetting and mitigating factor towards the fringing demand in certain markets. So, I think if anything goes wrong they will definitely outperform the car market demand in general and just to put into perspective to say going for some 80,000 or 100,000 units of Evoque as compared to nearly double the volume of Land Rover. So, that is a significant step. There is a question might be what is after the Evoque when can we further grow the Land Rover brand and the brand unfortunately like the Jaguar brand is quite limited at least from the current perspective to what the SUV segment and the Jaguar what Sports Car segment, and that is another limiting factor with regard to the growth potential, and with regard to the diversification potential of the company. So, I think that is another good point to be considered at least over the longer-term perspective and with regard to the longer-term strategy of the company.

Raman Chandna: Absolutely, because FY13 I think is okay, but beyond that I do not see anything FY14 would be a year where there would be a gap in terms.

Moderator: Thank you. Our next question is from the line of Dipen Sanghvi from Enam Asset Management. Please go ahead.

Dipen Sanghvi: My question is the company has been reporting fairly healthy EBITDA margins since last quite a few quarters and they have been surprising even on this rate on that parameter? So, what are the factors do you see which can pose the risk to the current EBITDA margin the company is reporting and where do you see the sustainable EBITDA margin once Evoque volumes have stabilized and rest of other things are their currency and keeping all things in mind?

Falk Frey: That is a very much forward-looking question honestly and I think there is no track record for that company and for those two brands. I am afraid I cannot satisfy your question with regard to the EBITDA margin. As I said they are indeed in inferior position to what other premium manufacturers that they are much smaller that they are selling much smaller volumes on the same platforms they are purchasing lower volumes from suppliers. But they also have high cost for keeping the dealer network and expanding the dealer markets and things like that, therefore I would not necessarily expect the margins to be at the same level than those of some other premium manufacturers like BMW and Mercedes. So, I think it could be somewhat lower honestly, but unfortunately, we have no track record on how the company is being able to sustain I believe manage the profitable business as they have been doing so in the past, and that is all I can say on that issue here. But we say we do have the size and the capability and the strategies and also the financial backing which means they can implement a business model that they are currently doing that is securing a sustainable, standard profitable business, and the first thing you should have in a car manufacturer in such a volatile and cyclical industry is you should be able at least over the cycle to generate the cash flow you need to invest from your operations so you should have positive cash flow through the cycles, that is something I think that is a key relevance. And all the companies that you see, we have downgraded in the last couple of years following the declining trends with regard to their ratings and I mentioned a couple of those previously. Those have not been able to generate the free cash flows through the cycles whereas the others, the Volkswagen and Daimler and BMW are the ones who still have high ratings in the 'single A' category that has been able to manage to do so.

Moderator: Our next question is from the line of Parth Trivedi from ASK Investments. Please go ahead.

Parth Trivedi: Hi, my question is many auto magazines have given a very good positive feedback on the Evoque. So, I want to know what is the customer feedback on the Evoque? Has it been good, neutral or how it has been?

Falk Frey: The demand for the cars speaks for itself. I think customer reaction in demand is quite positive and I think that is the case to all the markets what we can read here in Europe in the car magazines with regard to the test drives of the car and so, they are quite positive. The real test when you are introducing a brand new car without a predecessor in a new segment or new market niche, the test drive of this will be successful on sustainable basis and the good example is the mini brand for example that is something which turns out to be the case after you have passed the peak of the first cycle. So, after the first two-and-a-half, three years of production, when demands are still sustainable, I think then the first point to say that is something that is successful. The initial reaction and demand could be misleading especially in the case that is why I was referring to the mini brand from BMW, in the case where the cars are quite niche products and unique with regard to their design and their concept and to some extent, I think Evoque is also some more unique at least with regard to the design. So whether this is something people want to see and are longing to purchase in three, four, five years, I think that is the key question to be answered with regard whether this has been successful or not.

Moderator: Thank you. We have our next question from the line of Abhishek Agarwal from IDBI Federal Life Insurance. Please go ahead.

Abhishek Agarwal: Two questions from my side. Some reports suggest that JLR is looking to develop engines on their own rather than sourcing it from Ford which is the current policy. Would it impact the P&L going forward? And second question is on operating margins in Chinese market. How do you see that is panning out?

Falk Frey: With regard to the engines, as I said the contract with Ford runs until 2020. Definitely, the company will enter into new locations quite upfront. While they would decide to do the next generation on their own I think they need sometime to prepare to do the plant but especially develop the engine and prepare for production. I think the decision to do it with Ford again or not will be maybe three or four years ahead of that. But there is still some time or enough time to decide on that to calculate whatever is needed. The requirement on CapEx is we have seen that the company has already enhanced their engine plants, they were talking about GBP600 million or GBP500 million, I cannot remember. It will definitely come at a high cost and they have to calculate over the spread of each other but this is quite sometime ahead but it is one of the issues that I also mentioned previously with regard to the fact that if you compare to the other manufacturers is not a complete in this sense not a complete manufacturer as they build a lot of the stocks from external partners. And your second question was sorry?

Abhishek Agarwal: On the operating margins in the Chinese market?

Falk Frey: China is an extraordinary market when you compare it with other emerging markets in this market you have nearly high transaction prices you have to levy a strong policy mix with regard to the equipment of the cars and with regard to the size of the cars and the segment that are so there, if you compare it with Brazil where the fleet is much smaller in size and much less expensive. Nonetheless, it is also producing excellent profit margin so far for most of the companies except GM. But China is an exception here. Definitely, normally it is a rule of economics that any market where you get higher yield than average it is definitely a market that attracts more competition and more peers. And then rules itself to do the fact that this above average profitability will migrate or transition to what maybe the average or even below average. I think longer-term those margins will definitely come down to what maybe you use to see in Europe which is close to zero on average or what you use to see in some of the markets maybe the US which is very volatile but it is on average more profitable than Europe.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand the conference back to Mr. Sachin Gupta.

Sachin Gupta: Thanks, Inba. Falk, it is the best of my understanding that JLR is net cash positive. So what in your view would have led company to raise fund. Is this more opportunistic raising a fund without having a need for it?

Falk Frey: I think they do have the need. I see the need for further as I said in investments and high category investments going forward. That is a key point that is driving the decision here and they again remind of the engine plants GBP350 million or GBP360 million but also the expansion of the dealer network in those emerging markets and regions, development of new product, existing products i.e., again if the company wants to grow they need to grow also with regard to their product pipeline and with regard to the regional presence and that requires more than just the maintenance capital expenditure, that is one point. And the other point was currently it was quite a favorable market environment that you can refinance and you see that for high yield companies, refinance at attractive ways.

Sachin Gupta: Because I thought that given the kind of sales scale they have reached is they are doing now above 300,000 a year and Evoque has been such a blockbuster, they would be generating a lot of free cash flow out of it as well. Now if I extrapolate your answer so when do you see the debt level coming down and what kind of timeline you are seeing, because this CapEx is an ongoing requirement given the business that they are in?

Falk Frey: As we wrote in our note as well we reiterate that the company's free cash flow will be negative over the medium-term with a high CapEx requirement. So, therefore I think that will not come down from an absolute level.

Sachin Gupta: And second one is related more of an industry. As we have been hearing what are the companies have been talking about and I am restricting myself to the premium car makers like BMW and Daimler, so, their body language kind of every quarter seems to be changing; in one quarter they are optimistic, in second quarter they are conservative. So, is this Europe effect which is playing out and also Lehman collapse were not long ago, is that conservatism that reflects or is it that something that we need to worry about? Because we just want to subsidiary diversified.

Falk Frey: That is a good point. To a large extent the companies are still alerted and carefully watching your intake and then market signals and still has in mind what happens after the Lehman collapse when the demand came down suddenly and surprisingly for them, they were up to for production cuts and inventories there are much too high and then they definitely suffer a lot from that and they definitely want to avoid such a shocking news again. So, that is why and certainly that is also reflected in their tone when they speak about the outlook and most cases remain cautious. But that is good really for Europe the market in general is in our view is going shrink by 6% here. So they need to offset that decline by other markets, namely in China, Russia to some extent, Brazil, North America for the premium manufacturers as well. That means that they are dependent on the inputs, on the possible changes of regulation with regard to tariffs, taxes, exchange rate and things like that. So that makes it much more difficult to form a strong view and a very optimistic view on the future. So, they have to stay cautious because there are so many unpredictables that they do not have in their hands and there was pending sovereign indebtedness in Europe, which nobody knows how it turns out and this security packages and declining economies and rising unemployment rates. So, there are a lot of uncertainties and there are a lot of negatives that are still not solved.

Sachin Gupta: Thanks, Falk. With this we want to thank you for doing this call for us and we also want to thank the participants to take time out and attend the call. Good bye and have a nice day.

Falk Frey: Thank you. Bye-bye.

Moderator: Thank you very much sir. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.