Tata Motors Passenger Vehicles Group
Q1 FY27 earnings call transcript

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Presentation

Anish Gurav

Good day and welcome to Tata Motors Passenger Vehicles Limited Q1 FY27 Earnings Call.

Today we have with us Mr. Shailesh Chandra, MD and CEO, Tata Motors Passenger Vehicles Limited; Mr. P.B. Balaji, CEO, Jaguar Land Rover; Mr. Dhiman Gupta, CFO, Tata Motors Passenger Vehicles Limited; and Mr. Richard Molyneux, CFO, Jaguar Land Rover and we also have our colleagues from the Investor Relations team. Today, we plan to walk you through the results presentation followed by Q&A.

As a reminder, all participants will be in listen-only mode and we will be taking the questions via Teams platform. The same is already open to you to submit the questions. You are requested to mention your name and name of the organization while submitting the questions.

I now hand over to Mr. Dhiman Gupta to take over. Over to you sir.

Dhiman Gupta

Thank you, Anish. Another quarter of strong brand and product-led actions across the group. We continue to strengthen and augment our EV portfolio in India with the launch of the refreshed Tiago and Sierra.ev, which has helped improve our EV market position over the last several quarters. At JLR, we will continue to see the step-up in launched activities towards the introduction of four BEVs over the coming quarters. Next slide, please.

TMPV delivered revenues of Rs. 95,800 Cr for the quarter, EBIT margins at 2.4%, and PBT for the quarter stood at Rs. 1,600 Cr, down on a year-on-year basis. Richard and I will talk about it in greater detail in the subsequent sections. But in summary, JLR wholesales were down in part due to the temporary supply constraints and Middle East conflict. In addition, profitability was impacted as market conditions pushed VME up year-on-year, partially offset by favorable structural cost and other one-offs. The domestic business delivered strong revenue growth, however, elevated commodities moderated improvement in margins. Next slide, please.

Consolidated net debt stood at Rs.42,000 Cr at the end of the quarter. India business continues to remain net cash positive, while net debt at JLR was GBP 3.6 billion. Richard, if you could take the next section, please.

Richard Molyneux

Yes, of course. So, if you could move to the next chart. Thank you.

So, look, times at JLR are simultaneously both difficult and exciting. Exciting in terms of the many amazing cars we are about to launch. Difficult in that our financial results are not as good as the same period last year, and you can see this below. Wholesales were down about 10% year-over-year. This is partly caused by the run-out of legacy cars as we move to the launch of the new Jaguars, but also a fire at a supplier. I'll explain more later. This drove revenue to GBP 6 billion with EBIT of 2.8%, a positive PBT of GBP 109 million, but a significant cash outflow. It should be recognized our first quarter results are typically our weakest in cash, in particular suffers from a seasonal working capital swing. So, the results was weaker than we would have liked, are not inconsistent with our full year guidance. It will, however, require strong performance for the remainder of the year. Next chart.

So I won't go through this in detail. As per usual, this is the headlines for your future reference. Next chart.

So our wholesales as I've mentioned, were down about 8,000 and about 3,000 lower than we had internally planned as we run out old Jaguar models. Defender remains amazingly strong, up again in wholesales, whilst Range Rover and Range Rover Sport were the cars impacted by the fire at a chassis component supplier that happened early in the quarter and knocked several days of production that we were not able to recover. Discovery and Jaguar, as mentioned, are the two brands we are currently reimagining. On retails, you can see those below, we are down 14.5K year-over-year and over 5,000 of this is Jaguar run out or Middle East conflict driven. In addition, we did have some temporary quality holds right at the end of the quarter and we deliberately balanced out of lower margin products to improve mix. Next chart.

So regionally, looking at wholesales, the U.S. and MENA are flat year-over-year. Not surprisingly, the market with the biggest correction is China, down 25% year-over-year. All the competitors are finding the China market extremely difficult, and we are also impacted. Our focus there is on keeping discipline on retailer stock days, driving demand generation innovatively, and running out the last legacy cars to free our retailers from the associated financial burden. We have to get them and us focusing on the big three that drive their returns and our returns. Next chart.

So this walks our PBT from the GBP 351 million last year to the GBP 109 million this year. Volume and mix actually wasn't too bad given the wholesale drop, as we balanced more into Range Rover, Range Rover Sport and Defender, which are now 81% of our sales. Tariffs or U.S. duties actually show as favorable as the comparable quarter last year was the one where we paid tariffs at 27.5% before the trade deals came into force. Equally, emissions show as negative this quarter versus the big accrual release that we had in Q1 last year. VME in the second big column is significantly higher. It's now at 7.1%. China is the most difficult market year-over-year for us given economic and retailer stress and also the effect of the new luxury taxes that came into force after Q1 last year. The U.S. is also remaining high in terms of VME particularly versus a quarter one last year where we deliberately kept sales allowances low in response to the tariff implementation.

In the next column, industrial operations were hit by higher commodity prices. And the only other significant item is FX or commodities, which is largely the non-repeat of an GBP 83 million favorable revaluation gain in Q1 last year, and also unrealized commodity hedge losses as aluminum and palladium reduced from peaks that they had right at the start of the quarter. So, next chart, please.

Walking on to free cash flow, we generated over GBP 0.5 billion cash profit after tax. But as we near the peak of our investment cycle, it gives a free cash flow pre-working capital of negative GBP 352 million. Working capital reflecting a naturally high production and low sales quarter has built-up, though should largely reverse out through the year. For reference, Q4 last year, working capital was GBP 814 million favorable. In the quarter post-working capital, our free cash flow was just under GBP 1 billion negative. Next chart.

With six vehicle launches approaching, four imminently and two in the pipeline, our investment levels remain high, as do our capitalization levels, which was 74% in the quarter. Over the balance of the year, spend is likely to remain similar, but with a shift from engineering to capital as the new facilities come online and we start series production of those four cars I mentioned. All right, so then let's move on to a business update. So, next chart.

The challenges our industry face globally are intensifying, but they are well known. I've explained them before, so I won't repeat them here. What I want to focus on is our response. And as explained at Investor Day, we know we have to intensify our efforts on costs. But we also know this is an industry where you cannot shrink or save yourself to success. You have to grow and leverage scale. So we are setting a goal of 10% revenue growth per annum and focusing on the US market for a significant part of that.

Remember, the US has 40% of the world's millionaires, has a propensity to SUVs where we are strong, and has a strong affinity to our brands, Range Rover, Defender, and Jaguar in particular. On costs, our focus is the ex-works cost of our cars, warranty, and our fixed cost base. And our intent is to save $1.7 billion in this space. We will give you a much more detailed update as part of our Q2 results. All of this is aimed, bottom right, at building even greater resilience into our business model to allow us to navigate whatever lies ahead. And on the next page.

So, you can see an indication of the progress we are making on our strategy. If you look at the bottom left-hand side, this is the trend in our average sale price, continually rising and set to rise further as we launch our new products, should be in 18 months or so well north of GBP 80,000 per car and therefore north of $100,000 per car. In the middle, you can see our progress on customer metrics via the J.D. Power APEAL Study. Defender wins its segment and JLR ranked third out of 18 manufacturers. And on the right-hand side, probably one of the key metrics of luxury across all consumer segments is the ability to hold value. And Range Rover and Defender are number one in their segments in the States, with Range Rover and Range Rover Sport number one in UK. So, our existing cars are a great embodiment of our strategy. Next chart.
And it's not just the existing cars. After relatively fallow period, our product range is about to get a major uplift. Four imminent launches, two more in the way. The four below in the last stages of testing or in pre-build down the production lines. Range Rover and Range Rover Sport Electric come later this year. The radical Range Rover GT, which is bottom left, and Jaguar Type 01 early next year. The cars are fantastic. The excitement of the teams is electric, and I'm sure they'll help us drive both the top-line and the bottom-line of our company results in years to come.

With that, I will hand back. Thank you for your attention.

Dhiman Gupta

Thank you, Richard. Anish, next slide, please.

The demand environment in India has remained robust, and the strong traction that we saw on the back of new launches and refreshes over the last two quarters has continued to play out. We saw a 46% jump in volumes year-on-year. Our monthly volume run rate used to average about 45,000 to 50,000 not a long time back. And it has now consistently scaled to greater than 60,000 and perhaps could have been more if it hadn't been for some of the supply side constraints we have had to contend with. But nearly 2% improvement in market share on a year-on-year basis, establishing us as a firm #2 player on registrations. The Mid-Asia crisis has clearly altered consumer preferences towards greener fuels, and you see the clear shift in EV mix up to

19% in Q1. And actually, we exited at 23% in June and July. Next slide, please, Anish.

More on EVs. Volumes have doubled over the last one year, and at June exit was tracking 15,000 a month. Over the last one year, we have proactively refreshed and augmented our portfolio, which has helped maintain and grow our market share upwards of 40% despite increased competition in this space. Next slide, please, Anish.

India business revenues at Rs.18,000 crores, grew 65% year-on-year, but the gains were nearly entirely offset by the steep commodity increases we saw on a quarter-on-quarter basis. EBITDA margins were flattish at 4% year-on-year with EBIT margins and PBT improving due to the higher scale of the business. Next slide, please.

We are going to focus on the EBITDA margin walk this quarter instead of the usual PBT walk as the absolute movement we've seen this quarter does not really reflect some of the structural improvements we've seen in the business. While margins have remained flat at around 4%, we had significant gains coming from fixed cost leverage and another 2% material cost reductions, but it was entirely offset by 6% commodity impact we saw on a year-on-year basis. The commodity impact in Q1 was 4.5% and we are expecting another 3% plus residual impact to flow into Q2. We have already taken a 1% cumulative price increase across April and July and while we will be taking calibrated increases through the rest of the year, a large part of the set off for commodities will have to come through accelerated commercial reductions. PLI accruals for the quarter was Rs. 313 Cr and came largely from Nexon.ev and Harrier.ev. A refreshed portfolio and new launches are under various stages of certifications, which we should see materializing from Q3. And the combination of price increases, cost reductions and PLI should see us step-up margins in H2. Next slide, please.

Our Capex at Rs. 1,300 Cr for the quarter, this is still tracking last year's trends, but we will see it step-up as we execute our next phase of growth in line with our Investor Day guidance. Next slide, please.

FCF at Rs. 1,100 Cr for the quarter. While the operating cash profits have been subdued due to the commodity impact, favorable working capital releases has helped us maintain strong liquidity for the business.

Shailesh, if I could ask you to take the next few slides.

Shailesh Chandra

Yeah. Thank you, Dhiman. Let me begin with a broader industry perspective in Q1 FY27. The Passenger Vehicle industry remained on a strong footing during the quarter with volumes crossing 1.3 million units, which was supported by a healthy demand environment following the GST 2.0. While the industry reported a robust growth of 24% year-on-year, it is important to recognize that part of this steep growth number also reflects a relatively low base in the corresponding period last year. While volumes will continue at a strong level throughout the year, growth rates are likely to moderate in H2 due to a higher base. At the same time, the industry continues to see higher growth in greener powertrains that is CNG and EV.

The structural shift in the industry mix is gaining momentum as EVs and CNG vehicles together now account for 31% of industry sales as in Q1, highlighting the increasing pace of consumer adoption of these two tech. In particular, EVs remain the fastest growing segment in the industry, registering 77% year-on-year growth.

EV penetration continues to increase every month, as the industry exited the quarter with 8% penetration in June 26. This increasing mainstream adoption of EV is also supported by greater participation by OEMs, also the expanding product choices and improving customer sentiments and also the enabling policy environment. At the same time, the operating environment remains challenging. Supply chain constraints persists in select areas and commodity inflation continues to be a stress point across several key inputs and Dhiman already mentioned about the Q1 impact and what potentially we can see in Q2. These remain important areas of focus for the industry and sustained actions will be required to mitigate their impact.

Coming to our performance, Q1 has been a strong quarter for TMPV with industry beating growth across both PV and EV segments. We delivered overall wholesale volumes of about 182,000 units, which was a year-on-year growth of 46%, nearly twice the pace of the broader industry growth. As a result, we further strengthened our position as the number two ranked player in the industry, improving our market share by 200 bps YoY to 14.3%. Importantly, this performance has been broad-based with strong demand across our key nameplates. In particular, Punch and Nexon emerged among the top three highest selling models in India, during quarter one. We also strengthened our portfolio competitiveness through focused product launches. We launched the Tiago ICE Facelift in May, which enhanced the styling and tech quotient, ensuring greater aspiration for the hatch segment. And in EVs, we launched the Tiago.ev facelift, which strengthened the value proposition in the EV entry segment, and also launched the all-new Sierra.ev to further expand our portfolio in a key high-growth space. These launches have been received very positively in the market and have contributed to a healthy increase in bookings.

Coming to our EV performance, we delivered our highest-ever volumes of over 34,000 units in the quarter and sustained market leadership position. Now, roughly 20% of our sales came from EVs in quarter one. Actually, in July, it went up to 24%. And we have a strong EV order book as we scale-up production. This momentum has continued into July, as we exceeded 15,000 EV units for the month and increased our EV market share to 43%. Next slide.

Looking ahead, our priorities remain clear and consistent. Demand environment in the industry seems positive, and we see a clear opportunity to continue our industry beating volume growth. But at the same time, we must work on enhancing profitability through disciplined execution. From a demand perspective, the outlook remains encouraging, supported by demand momentum we continue to see in the market, which will be further strengthened by the upcoming festive season. Our immediate focus will be to sustain growth momentum on the back of our healthy order pipeline. And in addition, we will continue to launch new product interventions, such as refreshes, in a timely manner to sustain customer traction. We will also continue to capitalize on the industry's shift towards greener powertrains. We will take key actions in terms of product and front-end initiatives, through which we'll strengthen our market shares in these high growth segments. The third priority is to quickly alleviate supply side constraints which have been present in certain sections of our portfolio. We have already undertaken several debottlenecking actions and capacity expansion initiatives, particularly across some of the critical suppliers. We have seen positive momentum on this front in the past few months, and we will continue to drive actions to ensure that we are able to service the customer demand more effectively. Enhancing our profitability will continue to be one of our central priorities. The external environment has become more challenging due to elevated commodity levels. While these headwinds may persist in the near term, our focus remains firmly on mitigating their impact through levers that are within our control. Accordingly, we'll accelerate cost reduction initiatives across the value chain and focus on expediting PLI for new products that we have launched. We will also undertake calibrated pricing actions wherever necessary, balancing market competitiveness with sustainable profitability.

And in summary, we enter the coming quarters with a positive outlook. The market continues to offer attractive growth opportunities. Customer adoption of green mobility also is accelerating, and our product portfolio continues to strengthen. So while we remain conscious of supply chain commodity-related challenges, our focus remains on disciplined execution and profitability enhancement. I think these actions position us well to continue growing ahead of market while delivering sustainable value creation over the medium term.

So back to you, Dhiman.

Dhiman Gupta

Thank you, Shailesh. Anish, if you could move the last, the concluding slide before we move on to Q&A. Implications from global geopolitical developments and the luxury segment trends continue to be a key monitorable for us. This is an important transition year at JLR as it expands its portfolio into BEVs with expected launch of the four exciting new products in the coming months. In India, we focus on carrying forward the growth momentum and we will remain financially prudent with increased focus on accelerated cost reduction and calibrated price increase for offsetting the ensuing commodity price impact.

We will move on to Q&A.

Question and Answers

Dhiman Gupta

Richard, we'll start with you first, with a question on JLR and then there are a couple of questions there for Shailesh. The first one from Sridhar, Antique Stock Broking. You spoke about a couple of factors which impacted wholesale volumes in Q1. I think the question is whether we are behind some of those temporary issues and how do we look at volume recovery in Q2 and Q3? The second question, if you could also guide towards the production ramp-up plan for Jaguar Type 01?

Richard Molyneux

Yes, of course. So the Middle East, if you look through the number set, it was relatively flat in terms of wholesales, but down about 1,400 units of retail during the quarter as traffic through the retailer network was reduced. And also, to be honest, we had trouble getting some of the vehicles to the retailers anyway. The world is slowly adjusting to the new situation in the Middle East, where we, along with other manufacturers, are finding new routes into the region that avoid us having to go through the Strait of Hormuz.

So, I think progressively the world will adjust and, obviously, we all hope that, at some stage soon, the situation will normalize and we'll be able to use the routes that we were previously utilizing. But I think, as I say, I think the world is adjusting to a new reality in the Middle East and adjusting relatively fast.

In terms of Jaguar wind-down, yes, Jaguar was about 1500 units down versus last quarter in terms of wholesale. We are wholesaling the last vehicles that we have in stock over the next three to six months and then the new Jaguar Type 01, which by the way is absolutely fantastic, and we've just revealed some pictures of the interior, that will start production early next year. It is not going to have any material impact on wholesales for us in FY 27. It will come through in FY 28, along with the biggest impact of the Range Rover GT.

The supplier fire, yes, that's done. That was early in the quarter. It knocked out our production facility in Solihull, which is the one that produced the Range Rover and Range Rover Sport for several days. The issue is now fully resolved. And yeah, that's now ended.

Dhiman Gupta

Thank you, Richard. Shailesh, moving-on to you now, I think there are a couple of questions lined up on EV bookings, raw material prices and price increases.

I'll start with the first question is from Nishit from Axis.

Despite such strong raw material headwinds, we've only taken a 1% price increase. Do you believe that customers are, what do you see the price sensitivity that customers had despite demand being so strong?

Shailesh Chandra

No, it's a fair question. See, ideally, we would liked to have transferred all the price increase in the market. But unfortunately, we do not work live in an absolute world where we have no relative measures or benchmarks to look at. Unfortunately, every car that we have, we compare with the competitive set and what price increases they are taking. And therefore, we have to be around that to ensure that we don't lose on the competitiveness of each product. So, that has been broadly the reason why it has been 1% as of now. But from approach perspective or strategy perspective, we are very clear that to whatever extent we are able to accelerate and increase the cost reduction effort, whatever residual is left, we will pass it on to the market. And therefore, you will see more frequent but progressive price increases to ensure that we are able to compensate for the margin loss that we are suffering as of now. But taking a steep increase at this stage will definitely impact the competitiveness, less of volumes. And that's what we have to keep ourselves guarded. That's the only background of why we have taken 1%.

Dhiman Gupta

Shailesh, the next question, what are the inventory levels at the dealers? And what is your outlook on production amongst the supply challenges?

Shailesh Chandra

Yeah. So, inventory levels are right now around 30 days. We had an increase last month, as we were able to produce slightly more. Now, we have to significantly increase the inventory because these are not at comfortable levels ahead of the festive period. So, we are really expediting our efforts on the supply chain side to ensure that ahead of the festive season, we are able to build a healthy stock for a high retail in October. But we are as compared to the production that we were able to do in April, May and June, which was a lot affected because of labor issues as well as geopolitical issues, I think last month, if we had no rainfall issue in Sanand where we lost five days of production, you would have seen a much better number than 63,000. So hopefully, from this month, we will be seeing 65,000 plus production, more closer to 70,000 is what we are targeting for. But in the coming months, it should be more closer to 70,000 is what we are trying to achieve. But let's see, I mean, there are always surprises in the environment and we'll deal with that.

Dhiman Gupta

Okay. Shailesh, I'll try staying with you for another two, three questions before I go back to Richard. The next question again from Kapil. What is the kind of volume growth and margin outlook that you can provide for FY 27?

Shailesh Chandra

See, so far in Q1 and also I would say that if you take our growth, even in last financial year, we were twice the industry growth rate. I think in Q1, the industry grew by 24%, we grew by 46%. We would like to keep that kind of momentum going forward. So, I would definitely be targeting higher double-digit growths in FY 27. Margin outlook, as I said, we have to offset all kind of commodity increases that we are seeing through combination of price increase as well as cost reduction. So, we will try to neutralize the headwinds that we are facing through these two actions.

Dhiman Gupta

Okay. Shailesh, the next question. This one is on EVs. Is the EV booking on a rising trend, even on a month-on-month basis from April? And what kind of inflows are you seeing now?

Shailesh Chandra

Yes. So, it has been actually increasing because there have been new launches also, as you would have seen, and new refreshes which came after April also; Tiago.ev, for example, and Sierra.ev also got launched. So, if I compare with actually the pre-Mid-East crisis, which was Jan, Feb, whatever the average bookings that we used to get, that has gone nearly 3.5x of that.

Of course, we are not able to supply even close to those numbers. But every month, you would be seeing we are ramping up our capacities, say 3-4 months back, we were doing about 9,000 a month production, now we have, last month we crossed 15,000. And hopefully, in the coming months, this should further increase. So we are trying to overcome the gap that we have as of now between the demand that we are getting and the supply.

Dhiman Gupta

Thank you, Shailesh. Kapil, your last question, I think I've already answered. What was the price hike in Q2? We took a price hike of 0.5% each across April and July. And I think on the commodity pressure also I've mentioned, it was 4.5% in Q1. And we are expecting another 3% hardening in Q2.

Richard, I'll hand it back to you now for a couple of questions. One from Timothy, Citi. Has the JLR FY27 guidance been dropped or does it still stand? And with the focus on North America, do you intend to localize some production or do we assume lower margins on any incremental volumes that you sell through?

Richard Molyneux

Okay. So on the first point, I think I mentioned during what I covered, the results in Q1 were not 100% where we wanted them. They're not inconsistent with our full-year guidance, and those results don't imply that we have a need to change that guidance. On North America, look, at our scale, it doesn't make sense for us localizing existing production of existing vehicles into North America. So, for example, we sell c.30,000 Defenders in the U.S. each year. But we can never localize into a local plant in the U.S. sufficiently at 30,000 units or even at 50,000 units. So our approach to North America, I think we announced earlier, is we've signed an MoU with Stellantis looking at producing vehicles which are specific to the U.S. market in North America. So that's our approach. We know we need to get some production, let me say the right side of the tariff barrier, but it makes no sense for us just duplicating production of our existing vehicles. So we are going with new vehicles, new segments, Defender brand, U.S. produced.

Dhiman Gupta

Thank you, Richard. I'll ask you to take the next question, too. With all the roadshows and marketing that we're doing towards Type 01 model, can you give us any indication of what's the kind of response we've got so far?

Richard Molyneux

Big smiling faces. Everybody that sees the car and particularly everybody that has the opportunity to drive it or get driven in it comes out with an enormous smile. It is really quite impressive. Our engineers have done a stunning job turning what is an exceptional design into a sports car of exceptional quality. So yes, we're pretty happy with Type 01.

Dhiman Gupta

Thank you, Richard. And the next question is also for you. I think everyone's seen the kind of hardening of commodities in India, almost 4.5% this quarter, but I think we've not talked about any raw material impact at JLR. If you could give some color around it.

Richard Molyneux

Oh, phew. I'm glad that was the question because I thought, "why was JLR RM hit so low," referring to me, Richard Molyneux. So why was our hit so low? There's a couple of things. So, for us the biggest exposures are aluminum and let's say palladium, copper and a couple of the others. But actually in the quarter, aluminum prices came off, they were about $3,500 a ton at the end of March. They were about $3,150 a ton at the end of June. So although they remain high, during the quarter, some of our key commodities came down in price. We also have a hedging program on those, which mitigated some of any moves. Also, though to be fair, some of our contracts react on a quarterly basis. So, we would expect to see some of our prices, which are in Q2, reflecting the raw material prices in Q1. So, I would expect to see a little bit of an extra hit in Q2 from that effect. But that's fundamentally the logic there. Aluminum, which is our biggest exposure because most of our car is aluminum rather than steel, actually came down during the quarter.

Dhiman Gupta

Thank you, Richard. I'm going to ask you to take the next question, too, from Kapil. What is going to be the impact of rising EV mix on JLR margins? And if you could throw some color, whether they are going to be expected to be accretive or dilutive.

Richard Molyneux

Where we're looking at it at the moment, we expect them to be, at least neutral. As I think, I've mentioned, we're not launching mass market EVs. We're launching Range Rovers with an EV powertrain. And those EV powertrains are absolutely perfect for the cars that they represent. A Range Rover is supposed to be quiet and powerful. That's exactly what the BEV is. So, we're not pricing these at a discount. We expect to price them to be at least margin neutral. And if you think of the EMA cars, these are the smaller cars of which Range Rover GT is one. They are replacing vehicles which are at the end of their life and relatively low in terms of margin. So, versus the cars that the Range Rover EV and the subsequent EMA cars would be compared to, I would expect, again, those to be at least neutral, if not accretive.

PB Balaji

And just to add to that, Richard, Kapil, one of the key things for us since this brand-led and propulsion-next, the key thing to watch out for is how from a volume perspective, how much is it adding to the overall volume so that the level of cannibalization is minimal. And that's how we are seeing in the expressions of interest that is there in terms of overlap that we get. And for us, don't forget that we are from an operating leverage perspective, it is huge for this business. So, therefore, the more we are able to now prove that this is not cannibalized and we're able to step up volumes on the right product, then that flows all the way to the bottom line. So, therefore, for me, EV is absolute as the key thing to watch out for is not so much variable margins, which Richard has already explained, but even more powerful would be the amount of cannibalization that we are getting. And, therefore, if that's going to be minimal, then we are absolutely up and away.

Dhiman Gupta

Okay. Sticking with you, Richard, the next question from Jyothi Singh from Haitong Securities. That's about, this is on China, and given that our current revenue from China is 13%, how do we see that share kind of evolve? Are we expecting it to go up or down?

Richard Molyneux

I think the reality of China market at the moment where the economy is not growing at the pace that they are used to, and the retailers are suffering industry-wide from large overcapacity of domestic manufacturers, means that China is very unlikely to get any easier for us. It is most probably going to get a little bit worse before it stabilizes. We are in a decent place. We have been really disciplined in making sure that our retailer stock days are down to a level that do not encourage discounting, and we are focused on innovative ways of driving demand. But it would be incorrect of me to stand here and say that I think all the bad news from China is all done yet. I don't think it is.

PB Balaji

And just to add to that, compared to what we said, we were expecting China to actually be leveling off from at a lower end during the Investor Day. I think the recent tax moves that have happened in terms of retrospective taxes has meant there's increased pressure on the customer segment that we are targeting, and that's something as a watch out that we need to be careful about. So, that's an additional headwind that's coming through as far as China is concerned.

Dhiman Gupta

Okay. Thank you, Balaji. Shailesh, I'm going to come back to you for the next couple of questions. Sierra is doing well with a two, three-month waiting period. How do are we kind of given that there's a festive period out, how are we thinking of production and supply so that we can deliver it.

Shailesh Chandra

Yeah. So, for Sierra, we were badly affected because of the casting of engines mainly for the petrol, but also true for the diesel engines. And there were also sheet metal items which came under stress, with all the shared capacity that we had for other products also, but also true that the industry demand went up from 350,000 to 450,000. So that created press capacity issues in many sheet metal suppliers also. So, I think we have been working on that for the past four, five months. We will see improvement from this month and next two months. And the major additional capacity enhancement work that we have been doing will kick in from October, hopefully. So, that should give the bigger boost I would say in October. But next two months, we'll see the improvement.

Dhiman Gupta

Thank you, Shailesh. I'll just ask you to stay for the next question too. We have been a market leader in EVs, and our market share, we spoke about how they've been rising to 40% and beyond. If you can throw some color as to how you see this market share evolving for us and what's the target we are looking at in the medium term?

Shailesh Chandra

Yeah. I think we have to see in light of, of course, one that the market is growing very fast. But at the same time, the good news is that there are multiple players with their new models also which are coming in and therefore, competition is also intensifying significantly.

If you would have seen in the last one year, actually, we have increased our market share from 37% to actually last month it was 43%, and that has been possible because of two reasons. One that existing products have been significantly enhanced in terms of their value proposition which has multi-fold increased the demand for these vehicle. Example is Punch.ev. We today have, despite supplying about 4,000-4,500 a month, we are still with 8 to 10 months of waiting period. This month onwards, we are further enhancing the capacity. So that kind of action has helped increase the demand for our existing portfolio. On top of that, we are coming with additional products. As you would have seen, Sierra.ev was one product that got added. There will be one more additional product which will get added to the portfolio in this financial year and two big refreshes also. So, I think, this space we are therefore going very systematically, giving options to customers right from Rs. 7 lakh to Rs. 30 lakh. And this whole space, every model is punching above its weight. So, I think, we are very confident that we'll not be able to only protect our market share, but hopefully increase it despite a significantly intensifying competition.

Dhiman Gupta

Thank you, Shailesh. The next question is from Raghu. If you could help me on question number one and then I'll take the rest. For India PV business, congrats on the strong sales performance. How do you see our exports planning out for FY 27 and FY28?

Shailesh Chandra

Yes. I think, these are early stages of our growth in export business. As you know, that last year, we opened the South Africa market and that has really helped us significantly grow our export. Last financial year, we grew by 4x on a low base of course, but this year, we are targeting more closer to 2x growth of what we did last year. So, that is the outlook for FY 27.

Dhiman Gupta

Thank you, Shailesh. On the next two questions, the first question is on proportion of revenues that we are receiving PLI and when do we expect our certifications for all the models? Right now, only two of our products are qualified for PLI, which is Nexon and Harrier.ev. All the other refreshes and the new launches including Tiago.ev, Punch.ev, Sierra.ev are under fresh certifications.

Shailesh Chandra

Curvv as well.

Dhiman Gupta

And Curvv. And we expect that we will be getting the PLI certifications as well as the TCA and start accruing the PLIs from Q3. And by Q4, almost our entire portfolio should be PLI accredited.

The last question, how much is the commodity inflation impact? I've answered this. In Q1, it is 4.5% and in Q2, we are expecting another hardening of 3%

Shailesh Chandra

Okay. however, you would also like to give in terms of how you are going to offset that and to what extent to.

Dhiman Gupta

Yeah. we've kind of mentioned that in Q2, well, the hit is going to be 3%. We've spoke about some of the levers that we are kind of using to offset the commodity impact. The first one is price increase. We've taken already a 0.5% increase in July, which has not reflected in our Q1 financials. We will be taking further calibrated increases through the year. We are also having strong cost reduction programs that we are accelerating. We had a 2% benefit YoY. In Q1 itself, we had 1.5%. We'll get incrementally more this quarter. And third is, in Q1, we had the seasonal impact of IPL which was to the extent of 1%. We won't have that in Q2, so there's a benefit of 1%. Net-net, in Q2, despite the 3% commodity hit, we are expecting margins to be flattish with respect to Q1. Thank you Shailesh.

We've got one question from one of our analysts on email as he couldn't join the call. Shailesh, I'm going to have to read it out to you. India PV, could you provide some color on when we are going to launch Avinya? And where does it sit in your portfolio? Is it above or below Safari in terms of aspirational value for customers?

Shailesh Chandra

I think, it just kind of democratizes the experience that you get in a luxury vehicle and therefore it is, I would say, significantly premium in for Safari as a comparison. So that was your second part of the question.

In terms of when Avinya is going to get launched, I had been talking about 2026 end, but we had to, you would have seen the news articles and then our response to that we had to shift our platform strategy to Freelander platform of CJLR. And that is going to delay the project a bit, but in 2027, we should be able to launch the product.

Dhiman Gupta

Thank you, Shailesh. I think the second part of the question also, if you could take it, are we having any discussions with the government for extension of PLI beyond FY 28.

Shailesh Chandra

So far, we have not taken it with the government. But in future, we'll see to what extent we are able to consume our target or quota, and then we'll look at that.

Dhiman Gupta

Okay. And Richard, I'm going to have to read this question out to you too. I'll be slow so that you're able to catch it. The first question on JLR. What sort of EV mix do you need in Europe once the Euro 7 norms possibly kick in from 2027? And if you could take that one, please, and I'll move on to the next question after that

Richard Molyneux

Yes. I mean, progressively, and we would expect our launch volumes of Range Rover Electric, Range Rover Sport Electric, and Range Rover GT, their sales mix will be primarily UK or primarily initially UK and Europe as that is where the leverage of BEVs are. So, we will have enough capacity in our production systems to be able to be legislatively compliant and will hope production and demand will get us there. But yes, our BEV rollout will undoubtedly not match our ICE mix. We will sell progressively more ICE in North America, progressively more BEV in the UK and in Europe.

Dhiman Gupta

Thank you, Richard. And I'm going to read out the second part of the question. If you could please share some color on the exploratory partnership discussions on potentially manufacturing our vehicles in the U.S.

Richard Molyneux

Yes. We signed an MoU a couple of months ago. We are aiming to get that to a formal and definitive agreement by the end of the year. And yes, discussions are live and underway to be able to do that. So, as soon as I've got any more, I will let you know.

Dhiman Gupta

Thank you, Richard. The last two questions for the day before we close the call coming your way. The first question from Rishi, if you could throw some color on the kind of hedge book position we have on GBP, USD on our books and how do we look at profitability basis the current exchange rates that we are seeing?

Richard Molyneux

Okay. I don't actually think I've ever said our hedge book is around 1.28. But to be entirely honest, you're not that far wrong. Look, we prefer a weak sterling environment as an exporter. We are the biggest exporter of goods in the entirety of the United Kingdom. So as an exporter, we prefer the scenario where cable is in the 1.20s than the 1.30s. That's the reason we have a hedge book, and we will use that to manage both risk and return. Obviously, our hedge book is marked-to-market largely, so the profitability of that hedge book is already on the balance sheet. And yes, we will manage our exposure and our hedges to ensure that we manage that. Also, of course, if you think through the scenario with Stellantis, and if that becomes real and goes into production, then we end up with much more of a natural hedge to what is at the moment an extremely large, long dollar position. So that's another small piece of our thinking behind the move to that MoU with Stellantis is to give us slightly more of a natural hedge on cable.

PB Balaji

Yes. Just to add to that, to what Richard has said, all of it is right. Two additional angles there. One is we do put through cash flow hedges on the borrowings, which are in dollars, so that we are able to create a natural hedge on that, on the dollar side, number one.

And Number two, if you recollect the thought in the Investor Day, we did talk about one point, in order for us to get our break-even down to the 300,000 units, we obviously have to think about taking out cost, including the fixed cost. A lot of it is pound denominated, and therefore, those are actions that are already underway.

And we continue to keep -- we will keep a very tight leash on the cost structures as well, because that's finally the actions on getting a natural hedge and ensuring that we keep a very tight leash on pound costs are the ones that are going to deliver us on this. Hedges are more to ensure the volatility on this is ironed out rather than the structural profitability.

Dhiman Gupta

Thank you. And I think that there's one more question that has come in. So last two questions, Richard, for the day. One is if you could, I think the debt at JLR is now up to GBP 3.6 billion. So I guess the question is, what is the view that the credit rating agencies have on the credit rating, and what's the linkage to the overall cost of debt at JLR?

Richard Molyneux

So, look, we're in constant contact with the rating agencies, obviously, and we'll take them through today's announcements. Up until now, the current situation where we're just on those borders of investment grade, but on negative watch, I think are likely to remain in place, but we'll stay in close contact with them.

Dhiman Gupta

Thank you, Richard. Last question for the day, Balaji, and this is coming your way. What is the volume we can expect from JLR EV in FY 27 and more so in FY 28? And what's the peak volumes we can assume from the four new models we're planning to launch?

PB Balaji

So, let me not go all the way on that. Starting point is, of course, the launches that begin in September, when we start the Range Rover Electric. That's the first launch that starts in September. And, of course, as Richard rightly pointed out, we've got a slew of launches coming in, in the next six months and beyond. And therefore, as far as FY 27 is concerned, basis the production start that is planned, I think we are tentatively penciling about 12,000 cars this year on the EV space. And then we will keep you posted as how it goes along.

Dhiman Gupta

Thank you, Balaji. And that brings us to the end of the analyst call for this quarter. We wish you all a good evening, and we'll see you in the next analyst call in a couple of months from now. Thank you. Enjoy your evening.

Note – this transcript has been edited for readability & any inadvertent errors.