Tata Motors Passenger Vehicles Group
Q2 FY27 earnings call transcript

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Presentation

Anish Gurav

Good day, and welcome to Tata Motors Passenger Vehicles Limited Q2 FY27 Earnings Call.

Today, we have with us Mr. Shailesh Chandra, MD and CEO of Tata Motors Passenger Vehicles Limited; Mr. P. B. Balaji, CEO, Jaguar Land Rover; Mr. Dhiman Gupta, CFO, Tata Motors Passenger Vehicles Limited; 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 question via the 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

Yes. Thank you, and good evening, everyone. Q2 was an exciting quarter in terms of launch momentum for both the businesses. In India, we unveiled Tata.CARS, our new customer-facing global brand identity. The year has seen an intense level of product interventions, all of which continue to deliver well. This quarter, we saw the launch of the all-new Aeris, giving customers a reason to choose a compact sedan. We landed our best-ever offtake and retail month in October 2026.

At JLR too, there were three new luxury electric vehicles were launched during the quarter, the deliveries of which are expected to begin from early 2027. Richard will talk more about it when he picks it up in the JLR section.

Next slide, please. Consolidated revenue for TMPV Group was ~96,000Cr, close to Rs. 97,000 Cr, up 34% year-on-year. EBITDA margin was 6.2%, EBIT margin 1.1%, and PBT before exceptional items stood at around Rs. 400 Cr. The year-on-year improvement mainly reflects JLR's recovery from the cyber incident in the same period last year.
Sequentially, EBIT margins moved from 2.4% to 1.1% as adverse mix at JLR and continuing commodity pressures in India weighed on margins.

We also recognized exceptional charges of Rs. 6,700 Cr this quarter, reflecting some of the difficult but necessary actions we've taken at JLR to position it for stronger long-term financial performance. Next slide, please.

Our consolidated net debt closed at ~Rs. 51,000 Cr at the end of the quarter, which also includes some working capital buildup for new launches at JLR. We expect to close the year lower at around Rs. 47,000 Cr as some of that unwinds. The domestic business remains net-cash-positive. Next slide, please.

Moving on to the India business. The industry demand remained robust, and our intense launch sequence through the year has been delivering well. Average monthly offtakes were 67,000 units on an average in Q2, up 40% year-on-year, with the Vahan market share at 14.3%.

The quality of the powertrain mix also continues to improve. Alternate powertrains now account for more than half of volumes. Sorry, for the interruption. In the domestic business, the India - the quality of the powertrain mix also continues to improve. Alternate powertrains now account for more than half of volumes with EV penetration at 23%. That gives us strong scale in a new future-ready portfolio.

On EVs, we delivered our highest-ever quarterly volumes. Average monthly offtake was 16,000 units, nearly double of levels since last year. Demand remains ahead of our current capacity which gives us further growth tailwinds as we scale supplies. Our EV market share rose to 43% despite rising competition reinforcing our market leadership while significantly scaling the segment. Next slide please.

Revenue touched a record Rs. 20,000 Cr in the quarter, up 50% year-on-year. Profitability was flattish sequentially, while scale in the business has come through very well with all the portfolio actions we have taken. The challenge has been in converting it to profitability improvements in the current elevated commodity environment we have seen in the last two quarters.

Next.

Year-to-date our calibrated price increases, cost actions have offset roughly 40% of the commodity increase, while we have absorbed the balance. We expect commodity pressures to remain elevated in Q3 with further increases in steel, rubber, and copper and the periodic FX resets that we expect to come through. We pull every available lever across - pricing, cost reduction, and PLI with the objective of holding margins. Not all of this we see as a structural permanent increase; we do expect the commodity curve to start plateauing in Q4 and also see moderation in some commodity groups. As the commodity environment evolves, we will keep calibrating pricing and cost actions to progressively improve margins while protecting our growth momentum.

H1 Capex was Rs. 2,700 Cr. We are running at roughly similar levels as last year, but we do expect to run higher over the next 18 to 24 months as the next phase of capacity builds gap of space.

Moving on to the cash flow side. H1 free cash flow was positive at about Rs. 2,000 Cr, aided by favorable working capital and receipt of last year's PLI cash release. Despite commodity-led pressures on margins, we continued to fund growth from operating cash and the current liquidity remains strong.

Shailesh, if you could take India business side and then we can move to JLR.

Shailesh Chandra

Okay. Thanks, Dhiman. Let me begin with the broader industry perspective in Q2 FY27. The passenger vehicle industry continued its strong momentum during the quarter with volumes at 1.36 million units, growing by approximately 29% year-on-year.

Greener powertrains have been driving this growth as the structural shift towards greener powertrains is gaining momentum. The industry's CNG penetration increased to around 25%, while EV penetration was around 8%. This takes the combined share of greener powertrains that is, EV and CNG, to around one-third of industry volumes. EVs in particular continue to significantly outpace the broader industry, with volumes growing by about 70% year-on-year. This growth is driven by rising customer preference, a wider choice of compelling products, and increasing OEM participation. The regulatory environment also continues to reinforce the shift towards greener powertrains, most notably through the recently notified CAFE III policy. Beyond this, the operating environment continues to be challenging across the industry. Commodity costs continue to exert pressure on margins, while supply constraints persist across select areas of the value chain.

Coming to our performance. Our Q2 was another strong quarter for TMPV with an industry-beating volume performance. We delivered our highest-ever quarterly volume of about 2 lakh units, representing 40% year-on-year growth. This enabled us to consolidate our position as the number-two player in the industry with a domestic market share of 14.3%. In October'26 as well, we saw a strong festive performance with record volumes of 75,000 units, and market share increased to 14.8%. We have seen sustained customer demand during the festive season with 10% year-on-year growth in retails on an already high base.

Importantly, our growth in Q2 and October has been broad-based across our portfolio as we continue to see record demand. In particular, Punch emerged as the highest selling model in India during the quarter while Nexon was among the top five models in H1 FY27.

We also continue to strengthen the portfolio through a series of launches including the all-new Tata Aeris which saw a very strong response. Our performance in greener powertrains has been particularly

encouraging. We delivered our highest ever quarterly volumes for CNG and EV on the back of our strong portfolio across both the powertrains.

In EVs specifically, we grew by 90% year-on-year while sustaining our market leadership. And we strengthened our market share by nearly 380 bps quarter-on-quarter to 43% even as the competitive intensity increased. We navigated the adverse impact of commodity prices through cost reductions across our portfolio and also calibrated pricing actions. Next slide, please.

I would like to talk a bit more about our products which have been the real engine of our growth. Over the last 12 months, we have significantly strengthened our portfolio with new nameplates and major refreshes, and each one has delivered. The launch of Sierra was a major milestone for us and with the Sierra.ev taking the proposition further, it marked our entry into a new segment across both ICE and EV, and customer response has been very encouraging. We have sold over 70,000 units of Sierra this year and now working to scale capacity further to meet the demand. The Punch facelift has built on an already successful product, and becoming the highest selling SUV in India since the facelift launch. The Punch.ev has further strengthened the brand, finding a clear sweet spot with EV customers. It is now the most popular EV in the market and the first EV to cross 5,000 units in a month. The refreshed Tiago strengthened our hatch proposition while the Tiago.ev enhanced accessibility in the entry EV segment. Together they have helped strengthen our position in the hatchbacks with volumes growing 35% quarter-on-quarter in Q2. We also launched the new nameplate Aeris which has seen a very strong response from the market. Demand has been ahead of our current capacity with Aeris selling over 4,000 units in its first month actually limited by its production. We are now expanding the capacity in response to the strong demand. We have an exciting pipeline of launches lined up and the response to our recent products gives us confidence that they will add further to our growth. With that, let me turn to our outlook for the second half. Next slide, yes.

For H2, the industry demand remains robust, although year-on-year growth rates are likely to moderate due to a high base post-GST 2.0. Commodity pressures for the industry are also likely to remain adverse in Q3. With this background, our priorities remain focused on building on our growth momentum while strengthening profitability. We plan to sustain our industry-beating growth on the back of a healthy demand pipeline, the strength of our product portfolio, and the new product launches. At the same time, we will continue to capitalize on accelerating transition towards greener powertrains driven by our strong portfolio in those segments. As we sustain this demand momentum, we will further scale up production capacity through key actions internally and with our suppliers. Alongside growth, strengthening profitability will remain an important priority. The external cost environment remains challenging, and accordingly we will take key actions to support our profitability. This will be through accelerated cost reduction initiatives, expedited PLI approvals and calibrated pricing actions, wherever required. All in all, we entered the second half with a positive outlook, supported by healthy demand and growing share of greener powertrains. Our focus remains on disciplined execution and profitability enhancement to sustain momentum and drive long-term value.

So, I would now ask Richard to take up the session on JLR.

Richard Molyneux

Perfect. Thank you. If you can get back to the start of my section. Okay. All right. So, with the launch of the Range Rover BEV, Range Rover Sport BEV, and the reveal of Jaguar Type 01, the future for JLR is really starting to look bright. But the present is challenging. We sold 82,000 units in the quarter with revenue of GBP 5.9 billion. This is flat versus Q1, but significantly up on Q2 last year. But, given that that year-over-year comparison is versus a cyber incident impacted quarter, I'm going to focus here on the quarter-over-quarter view. Both on EBIT and PBT, we did report small positives as per Q1. But cash fow was GBP 540 million negative given the scale of our current product investments and the market pressures I'll come on to describe. Year-to-date, at the bottom of the page, for the first half of the year, our EBIT was 2%, and PBT was GBP 115 million, with cash outflows similar to last year. As a note, below PBT, we took an exceptional charge of GBP 530 million in the quarter. GBP 295 million of this was related to our voluntary redundancy program, and I'll provide an update on that later in the pack. Next chart, please.

So, as usual, I'm not going to cover this chart in detail. It provides a set of headline summaries, for what I'll cover in the next chart.

Next chart please.

Okay. So, this looks at our sales by brand, and still focusing on the comparison versus Q1. We showed very consistent delivery on Range Rover and Defender, both a few hundred units higher than we sold in Q1. Discovery showed some strength, particularly in the UK, and our focus now on Jaguar is fully on Type 01. Year-to-date, on the bottom of the page, is probably the relentless strength of Defender that stands out, up over 20% year-over-year again.

The next chart looks at the same data by region and highlights some of the issues the industry is facing. UK wholesales were strong given the September registration plate change, but the bigger issues are in the market on the right-hand side, in China and in MENA. MENA demand and logistics continues to struggle as a result of the conflict, and the China market, far from stabilizing, is continuing to decline at alarming speed. Our wholesales were down 45% year-over-year in that quarter and 36% down year-to-date. There's no reason to assume that MENA won't ultimately recover. The same cannot be said about China, and I'll give more detail on that later on. Next page.

This chart walks our profit before tax from the GBP 109 million in Q1 to the GBP 6 million in Q2. The major impact is in volume and mix, and even though we sold more cars, as shown before, our car line mix towards Discovery and our country mix away from China and MENA to the UK hurt significantly. Our focus will remain on managing what we sell as aggressively as how many we sell. VME continues to trend marginally up but was largely offset by contribution cost reductions and both structural costs and FX in the quarter were relatively flat as you can see here. So, the big story is the mix deterioration by brand and by country. Next page.

So, walking our H1 EBIT to cash, our investment levels have been running higher than cash profit after tax, even though it's precisely those investments that are the ones that are going to drive EBITDA up in the future as they hit the market. The net of these two was a cash effect of circa GBP 800 million negative, with seasonal working capital also being negative, though we should recover most of that in Q4. With the effect of working capital included, our H1 cash outflow was GBP 1.5 billion. Next page.

In the interest of time, I'm not going to cover this one in detail. It shows a breakdown of our H1 investments. The total for the first half of the year was GBP 1.76 billion, and we're expecting H2 to be marginally below this, and then it will decline a little bit further into next year. All right, next.

So, I'll spend a little bit more time than usual explaining the current market dynamics and our response to them. It is, it's the opposite of easy out there at the moment. On top of wars in Ukraine and the Middle East, China's domestic market is shrinking, the splintering of EV adoption across countries continues, regulatory environments are tightening, and hard or soft trade protectionism is becoming endemic. But first on this list is China. So, a page specifically on that. Next chart.

We're not the only one feeling the pressure in China. In fact, the strength of our brands has protected our volumes longer than other OEMs. However, the scale of the changes means we're no longer immune.

On the left-hand side, you can see the growth of the domestic players, operating with significant overcapacity, crowding out global brands. And note that the China market has disappointed in terms of growth. It is down circa 5 million units this year, as you can see bottom left. But the companies are keeping their plants running and exporting wherever they can. Exports are up nearly 4 million units year-over-year, and that increase alone is circa 10% of the total global car market, if you exclude China exporting them, and the U.S., which is protected. That degree of change, that is seismic. In terms of our own performance. Our import volumes are hurting, but we are keeping the discipline on dealer stock levels. We know we have more to do, and we'll return with more detail next quarter in terms of our plans for China. Next page.

These challenges to our business model require a radical response. The lessons of history is that you cannot save yourself to success. You have to grow by building brands and launching new products, and our aim is to grow our top-line at 10% per year, through both our existing cars and the significant new launches that we're in the middle of. Cost-cutting, whilst not sufficient, is necessary. We are underway in all of our missions to reset our breakevens to 300,000 units. But we also need to build greater resilience and to free our people up from outdated systems and processes and bring them into a world of AI. So, in relation to growth in particular, I've got three charts. The first one is the next. Next chart, please.

Range Rover - we have started the BEV launch. Even without seeing the car or driving it, we have nearly 5,000 orders. And those who do drive it, the press, are amazed at what we've engineered. You see some of the quotes here. 'The best version ever designed.' 'Better than ever.' 'Everything I've hoped for.' just some of the quotes. It may have taken us longer than others to enter the BEV market, but now that we're there, we've done it right. Next page.

And then Jaguar Type 01, jaw-dropping in terms of its design, but also its dynamics. It's a true sports car. I was, to be honest, going to be saying a little bit more about this chart, but then I thought I'd just let you look at the pictures and read some of the quotes. This car is amazing. Next page.

So, these products and others, BEVs and ICE, will help us grow and win in North America. Our plans are in motion, and our H1 wholesales are 20% up on last year. Our plans revolve around recognizing that North America is a series of distinct micro-markets at either city or regional level, each requiring a bespoke

approach. Naturally, there are some common threads. Better-timed model year introductions, ensuring a smooth flow of product rather than a lumpy block build. And we will build out our service operations and customer service. A lot going on, and we know that others have similar ideas, but JLR is smaller, and we're more agile, and we'll use that to our advantage. Next page.

The increased costs of doing business, be it regulatory, tariffs, taxes, along with many of the market issues already covered, have driven our breakeven volumes too high. We know that. We're in the process of resetting it through our cost missions on ex-works, on warranty and on structural costs. And we've committed to save GBP 1.7 billion over two years and are making good progress, and you can see that split bottom right of this chart. In terms of cost efficiencies, we launched a voluntary redundancy program with the intent to reduce our salaried headcount by circa 4,000 over a period of time. As of today, we expect around 3,000 colleagues to leave us this financial year, and the majority of those will leave at the end of November, i.e. 17 days' time. We also have enough additional expressions of interest and applications that we're confident we'll reach our goals with the remaining thousand leaving next year as critical launch activities roll off. So, we are taking the hard decisions necessary to reset our cost base and our resilience. Next chart.

So, what does this all mean? For an industry characterized by multi-year programs and fixed costs, seismic market changes take time to offset, so we will have to change our FY27 guidance, now expecting EBIT in the 2% to 3% range and cash outflow of circa GBP 1.25 billion.

As the reset of our cost base and our growth initiatives take hold, and the new vehicles drive our EBITDA up, we are targeting double-digit EBITDA and cash generation in FY28 and aim to return to net cash by the end of FY30 as these amazing new product launches start to drive through.

That's all I have to cover today. Thank you for your time and attention and back to the team.

Yes. Thank you very much, Richard. Just to conclude the session before we move on to the Q&A. Looking ahead, we see strong underlying momentum across both our businesses, and the priority remains firmly on translating this into a stronger overall financial performance. We have heard Richard and Shailesh and I spoke about it too. There is a fair amount of work ahead for us. But you have heard that all the actions are underway whether through the Enterprise Missions at JLR or the pricing and cost actions in the domestic business. We know where the opportunities are, understand the challenges we need to address, and our focus remains firmly on executing this to the quarters ahead. Thank you.

Question and Answers

Dhiman Gupta

We move on to the Q& A, but I'd just like to state that because of the outage we've seen, we've had to change platforms at the last minute. We are also not very familiar with it. So, we are trying to figure out on the way. So, we've been a bit tardy, and you might see some interruptions during the Q&A session, too. So, kindly bear with us, and we'll do our best to address all the questions that come through.

I think the first set of questions have been coming. Shailesh, I'll start with you. There are a few questions your way. I think the first question is mostly around the demand of EVs and PLIs. I think the question from Kapil is, what percentage of our bookings we are seeing from EVs? What is the kind of wait periods we are seeing at dealerships? And some color around the PLI.

Shailesh Chandra

Yes. So, roughly 30% of bookings are EV bookings, whereas nearly 40% to 45% of pending bookings are EVs today. This will give you a sense of the inventory situation in channel, so that you get an understanding of the waiting period also. We have only 10 days of inventory for EVs, whereas overall our inventories are around 27 to 28 days. This includes the transit inventory of about six to seven days. So, definitely, in EV, we have huge pending bookings and significantly low inventory. So, there the effort is to continuously increase the production, and the effort is that in the next two to three months, we increase our production from roughly 16,000, which has been for the last two to three months, we now move towards the 20,000 level, which should then start bringing down the stocking of the inventory of the channel to support the rebates.

In terms of the second question is penetration, right, where do you see EV penetration for TMPV by next year? I think right now we are trending at 23%. We expect to grow both in ICE and EV. So, it would be around 25% or slightly above that. It can be higher because we will adjust to how the demand pans out in the next year. So, but it would be 25% plus for sure.

What is the roadmap for PLI? What is the other question?

Dhiman Gupta

What is the roadmap, what is the kind of, what is the coverage of PLI of our portfolio right now?

Shailesh Chandra

Yes, about 40% right now is covered under PLI. And there are two pending models where we have already secured AAT, but we are awaiting the TCA, which is the techno-commercial clearance and approval.

Dhiman Gupta

So, our cumulative accruals in H1 has been about Rs. 831 Cr, and Q2 is about Rs. 500 Cr. There will be a few in-and-outs on the portfolio.

Shailesh Chandra

Is Rs. 831 Cr is for both the quarters?

Dhiman Gupta

Yes, both the quarters.

Shailesh Chandra

You need to describe it.

Dhiman Gupta

Yes, Rs. 831 Cr, sorry. Rs. 830 Cr is the cumulative accruals over Q1 and Q2. In Q2 itself, it's about Rs. 530 Cr, and we believe that at least that's the minimum run rate we are going to maintain towards H2.

Shailesh, the next question also for you from Raghu. How do you see the commodity impact? You have seen an intense level of commodity in Q1 and Q2. What's your expectation in Q3, and how are you looking at prices hikes moving ahead?

Shailesh Chandra

So, in the first two quarters those commodity impacts were significant, including the FX impact. In Q3 also we have seen adverse situations on commodities, specially for steel, rubber and copper, whereas softening for some of the commodities means the pressures reduce. We hope that the FX part will be more stable as compared to the earlier quarters. Price hikes, yes, it is going to happen in Q4, slightly higher than what we have been taking. We will also watch after assessing the full impact of what commodity will hit us in Q3. We might consider a price increase in this quarter also. One price increase in Q3 and maybe another in Q4. But for sure in Q4, this is what we have, we can reconfirm, but also potentially one in Q3.

How the festive period has been? So, already as I mentioned that there was already a high base from last year, it was a post-GST situation, but still we were able to grow by about 10% in retail growth as compared to the festive period last year.

Which products are seeing highest traction in waiting periods? I think it is difficult from a model perspective because right now we are constrained on production. This is the demand that we are getting. It is broad-based as I mentioned across all the models. But from a powertrain perspective, I already mentioned that EV and CNG, we are significantly falling short of the demand.

The next question is, EV, how much is the revenue? It would be I would say that so 23% is the volume penetration. For revenue, this would be now greater than a third of the overall revenue for EV. PLI I think we have already answered that question.

Dhiman Gupta

And, Shailesh, there is one more related question from Nishit, if you could take it together, I think. The question is related to what Raghu asked is why do we -- why are we not looking for faster rate of price increase when the RM inflation is so high? And are we really worried about demand going down since the growth has been so high in that last couple of quarters?

Shailesh Chandra

Yes. So, see, this is something which we take a slightly midterm view because we have seen the cycles of

commodity, and you would have also been seen. We make an assessment of what part is going to remain structural as an increase and what will lose steam and come down because unlike a commodity industry we don't keep on increasing and decreasing our prices. Generally, we increase the price gradually in a very volatile commodity environment. So, we are taking very calculated price increases because there is an equally accelerated effort on the cost reduction side. So, we combine the two and we also consider what level of softening can happen in the next 12 months or so and basis that we have been deciding in terms of how much price increase we are going to take. Of course, a step jump in price can impact demand and therefore we have been taking rather more frequent and gradual price increases and that will be the approach going forward also.

Dhiman Gupta

Thank you, Shailesh. Balaji, if I could request you to take the next question from Kapil.

P.B. Balaji

Yes.

Dhiman Gupta

Brand is a key moat for luxury car companies, but we've seen some disruption in the China market with the local China OEMs have taken that market. Do you really see that playing out in other markets too?

P.B. Balaji

I think so, it's a great question Kapil and from our point of view of what's happening in the Chinese market the disruption has also led I would argue from a consumer durables perspective. We're just coming in with established brands and wanting to take on the traditional automotive industry at large and the familiarity of those brands already exists for them.

And I would also argue that the Chinese automotive industry, from a brand perspective, is over-indexed on the tech as well as the interiors, as well as the way the -- what do we call, the living space is envisaged, and that's something that has done extremely well for them.

At the same time, we have been able to hold our own in this environment for quite a long time, given the pedigree of our brands, and that's what we have seen us navigate all this while. But we do see that, we shouldn't forget that the Chinese market itself overall is down almost 30%. And, to that extent, there is quite a bit of competitive intensity out there, and with the interventions currently happening be it on the luxury tax, etc., there is also a significant price challenge that is coming in the market for luxury players like us. Most luxury industry in China is also at this point in time in a bit of a flux and therefore that's the reason we consciously called out that we watch this space. And if I contrast that with let's say a price competition coming into UK for instance, we fared very well for us this quarter. It is impacting the lower end of our portfolio where residual values are coming into stress because if I have to go for a second hand, people who want to buy a second hand let's say a Range Rover Evoque are finding more attractiveness in some of the cars that are out there. So, that's putting pressure on residual value. But the core offering of the brands be the main Range Rover, Range Rover Sport or Defender continue to see good growth momentum there so therefore the brand does hold its own.

However, we should be absolutely clear here that there is, the brands also have to remain contemporary in the way they offer the technology stack. They also have to ensure that they create value for our customer and they remain true to who they are. So, therefore the brand is a necessary condition, but I think for it to be a sufficient condition we need to ensure all the other aspects of it, be it service, be it quality, be it technology or price offerings, all continue to play well. So, we need to be staying close to our customers and ensuring that we are living up to their expectations.

That's probably my hypothesis. I would I mean I would hardly argue that I am the deep marketing expert, but I believe this is what is happening from my perspective. Happy to have a chat with you offline on this.

Dhiman Gupta

Yes. And, Balaji, since I have you on the mic, if I can request you to take the next question from Dhruv Joshi on the longer-term plans on China, given that we've seen the imported side of the business.

P.B. Balaji

Yes. I think,- give us some time on this because this is the first year, after many years we have seen stress in

the China volumes at this point in time. So, the percentage of share, China share in our overall portfolio used to be about 17% odd till last year. And this year it has come down sharply. And we are watching this closely, we also want to be sure that we don't overreact without understanding what's happening on the ground. So, give us some time, we are reading it closely, we will come back to you once we are ready.

At the same time, let's be very clear, we will also continue to remain invested in China. It's a very important market for us, and we want to ensure that China is the fountainhead of innovation on the technology front, so we would continue to be in that market. And, as far as the joint venture with Chery is concerned, the reason we have licensed the Freelander brand, ensure we also want to participate in the Chinese market through other means as well. And therefore. we continue to be excited by the market opportunity. It's just that we need to be clear how we tap that opportunity going forward, but at the same time, the market itself has declined by 30%, then it's probably cyclical, structural, those are things we just need to read correctly. And we just want to take our time to get that right.

Dhiman Gupta

Okay. Thank you, Balaji. Richard, I'll now move to you for a bunch of questions, first from Raghu and then from Kumar Rakesh. First, from Raghu, we have a small cut in revenue guidance, is that mainly due to China? And we've also seen gross margin compression this quarter, led to EBIT margin decline. Is that purely because of mix, or have we seen commodity inflation in JLR too?

Richard Molyneux

Okay. So, let me try and take those in turn. For small cutting guidance, I think it would be reasonable to assume that China, if it had hit the plans that we set out for it at the start of the year, then there would not have been a change in guidance. So, yes, I think you can reasonably assume your first point is correct.

On gross margin. Cost inflation, yes, absolutely, we have seen it. Copper prices, aluminum prices, petrochemicals, plastics, etc., are going up. We have had an ex-works cost reduction mission live for some time, and it is starting to be able to offset some of those. So, when you look at the walk that I took you through in the pack in terms of profit from Q1 to Q2, material cost isn't an item that stands out for us. So, we are managing to offset the headwinds through the good work that all of the teams are doing on material cost reduction. You had a point about mix. So, what's impacting mix? There's two things in the quarter. First of all, China. China going down, MENA going down, and then balancing into other regions has a net negative effect for us. Secondly, we had a big push on discovery in the quarter. And even though Range Rover and Defender were up versus the first quarter, their percentage of our total was down. So, we had a small reduction in Range Rover, Range Rover Sport and Discovery, I'm sorry, and Defender versus Discovery. So, it's both the country mix and a sort of car line mix that hurt us in that quarter.

And you've got another question there around ramping up production of Range Rover Sport and Range Rover EV. Look, we're in the -- we're in a ramp up curve now. If I could produce more, I would love to have more. However, we need to give our manufacturing colleagues the time to learn and to grow through their ramp-up curves. So we're really happy with the demand that we've seen before anybody in a retail world has even seen the car that'll let drive it. So, we will ramp up production as fast as we reasonably can.

And then the fourth one, how will revenue recognition happen for Freelander? Freelander for us is not consolidated. It's a license fee income that we receive from Chery, that license being in relation to the brand that they have licensed for us and the design of the brand world and the vehicles that they have licensed for us. So, it is not something that gets consolidated in every line of the P&L. It shows in license income.

Dhiman Gupta

Thank you, Richard. If you could pick up questions from Kumar Rakesh as well. I think the first part of the question is, we've seen macro weakness and we've also, in the past, talked about the aging portfolio on RR Sport till the time we refresh it. So, what are really the drivers in the FCF turnaround in FY28, which you've given in the outlook?

Richard Molyneux

Okay. So, a couple of spiky questions, Kumar. I would absolutely not accept the concept that Range Rover, Range Rover Sport and Defender are getting dated. If you look at the sales volume, both Range Rover and Defender continue to rise and are up Q2 versus Q1. So, not sure I agree with that. How do we see the turnaround in cash generation? I think you need to look at the fact that we have a very lumpy cycle plan. We announced a while ago, we have an investment program of GBP 15 to GBP 18 million -- billion, sorry, over five years. And we've invested GBP 11.5 billion of that already. And a large chunk of that are in five vehicles that we're going to be launching over the next 18 months. And those vehicles will drive our EBITDA

up at the same time as our investment levels will start to peak and come down. So, that's where the turnaround in cash generation will come from. Our EBITDA will grow and our investment levels will reduce at least slightly and then progressively. So viewed in the other way, we've managed our financial performance to date whilst investing the large chunk of GBP 11.5 billion and seeing as of now, no financial return for it. That's what's behind the turnaround.

Second point, Chinese OEMs are gaining significant share in Europe, especially in the UK and elsewhere, actually. I mentioned to you that even their increase in exports versus last year represents 10% of the global car market, excluding the U.S. and China.

So, we are absolutely, and Balaji I think has been very clear on this, we're determined that we will defend our intellectual property. Range Rover, you can see the design here and the technology of the vehicles, we've invested billions of pounds in optimizing this. And we're not simply going to give it up. So, we will take whatever action is necessary to protect our intellectual property. We have a great relationship with Chery. We've been with them for 14 years in China. That's about all I'm going to say on the issue.

Dhiman Gupta

Thank you, Richard. One last question before I move back to Shailesh. You've spoken about the Capex reduction in FY27. Would it help to shed some light to where it's coming from?

Richard Molyneux

Yes. A lot of it goes back to the cyclicality that I mentioned beforehand. We're not in the lucky position where we have one car launch per year flat. We've had very little for the last three or four years, to be honest, and we've got five cars coming all at once. So, our investment is inevitably not smooth. And the fact that some of these vehicles are now in production, and others are very nearly in production, means that there will be a natural decline in our investment levels over the next 18 months. And some of that is already starting to show through.

So, it's largely product-cycle plan driven. There are some parts of our business, including IT and cyber, where we'll probably have to invest a little bit more, but our product investments and the investments in our new BEV powertrain systems, they will start to come off their peaks as we go through the next 18 months, two years.

Dhiman Gupta

Thank you, Richard. Shailesh, if I can move over to you for taking the next two questions. One question from Kapil, how do you see what's likely to be the total Capex in FY27 for the domestic business?

Shailesh Chandra

So we don't give a specific number, but just to give you guidance, it will be between 6% to 7% of the revenue.

Dhiman Gupta

And, Shailesh, there's a lot of talk around the Aeris and the dealer feedback is very strong. What's worked and how are you looking at the volume, potential and capacity?

Shailesh Chandra

Yes. I think, we have some very strong response post the launch of this product. Primarily based on what we have heard from the dealers and what we are also listening on the social media, people have liked the refreshing design, which otherwise was a very boring segment, where innovation was not being seen on the styling.

Also, people have appreciated the features that have been given many of them are first time, first-in-class features. And particularly on the safety perception, that is coming out as one of the strong points. And all of this coming at a very attractive price is not only attracting customers from compact sedan, but also a lot from premium and high-hatch segment.

What is the volume potential and capacity? Right now, capacity is constrained. First month, we supplied about 4,000 numbers. We are trying to now increase it to 5,000, and we have to increase it more basis the demand that we are seeing.

Dhiman Gupta

Yes. Richard, the next question is for you, for JLR any guidance in terms of how you see the VME spends

going forward?

Richard Molyneux

Yes. So, you'll have noted in Q2 it was marginally up on Q1. I think the reality is until the effect of Range Rover BEV, Range Rover Sport BEV, Type 01, and Range Rover GT come into effect, it may go up a little bit more, and then during the course of the next financial year, as those vehicles start to become significant in our mix, it will go back down again. So, a little bit more to come in the balance of the year, and then down in FY28

Dhiman Gupta

Thank you. And, Richard, if you could also take the question from Chandru. Are there other costs related to some product recalls that you had in the past? Are they kind of behind us? And the EV supply chain has been tight globally, and we are in the midst of deliveries from Q4, how well are we prepared for the deliveries in Q4?

Richard Molyneux

Okay. So, any recalls, be it on Range Rover or Defender or anything else that we have had, we accrue appropriately at the point of time that they are announced. So, that's all I would expect to say on that one.

In terms of the EV supply chain, at the moment we source our cells from a partner, and those cells we have been receiving for some time and we have a stock of them which is sufficient for our purposes for many months. At that point in time, our sister company Agratas should start production of cells initially in India and then in the UK. So, we're relatively confident we have the right sources of cells. We have them coming in the right cadence. We expect to be not oversupplied nor undersupplied. So, we're keeping a close eye on things as always.

However, we're not seeing any supply constraints on either cells or other BEV components at this point in time. To the extent that our eyes are open into the supply chain in terms of where constraints may come, to be honest at the moment it is more focused on semicon and DRAM chips than it is in terms of lithium, cobalt, nickel or whatever goes into BEVs. So, we're very focused on that, we're keeping our eyes very closely on it, but it's not an issue at the moment.

Dhiman Gupta

Thank you Richard. Shailesh, if you could take the last two questions from Chandru before I move on to Richard for the last question of the day. The PLI scheme is expiring in 2028, so how do you really look at the profitability of the new trials beyond that?

Shailesh Chandra

Yes. So, there are, we have a 12 to 18 month clear set of initiatives which are going on the cost reduction side. These are very involved initiatives. So, one is going to be a much steeper cost reduction than normally we would do for the ICE side. So, this is already underway and in next 24 months we have taken a very steep target with a clear idea of how to get behind it.

And then we will also keep increasing the price progressively in models where we would have the headroom available. And, as a combination of these two, we are confident that we will be able to offset the benefit that we are getting currently for PLI.

Dhiman Gupta

Thank you. I think you also asked a question on what is the rough price hike that you have taken this year. I think across the ICE and EV portfolio on average, we have taken about 1.7% price increase across three hikes in April, July and September. And I think Shailesh has already answered extensively on how we look at it going forward.

Richard, if you could help take the last question from Gunjan. One is on the enterprise missions, what's the kind of benefit we are likely to get in our P&L in FY27 and FY28 and any additional pipeline on cost reductions that you see going forward?

Richard Molyneux

Yes. Let me take those questions in turn. So, the bottom right of the chart you're referring to shows the split of GBP 1.7 billion between what we're anticipating from ex-works, what we're anticipating from warranty, and what we're anticipating from cost efficiencies. It also shows the proportion that we're

expecting to come this financial year, next financial year in terms of known and our plans and proper initiatives, and the areas where we still have more work to do.

And we have more work to do in ex-works, we know we have more work to do on warranty, but we have a decent line of sight on the savings that we need from cost-efficiencies of which the largest part will be the effects of 4,000 people leaving our organization over the next year or so. And that should deliver all in, including all including all fringe costs, etc., to the tune of GBP 400 million per year of ongoing savings.

I will note, and you should be aware, that not all of those savings will be P&L. Some of the people that are leaving us are in the engineering community, so they would be working on projects which would be capitalized and go through the balance sheet. So, when I talk about total number of savings, I'm talking about savings that will get reflected through the P&L, and also savings that will generate cash through lower investment numbers. There was a second part of your question.

More about Range Rover GT. It will get launched as a BEV only early next year, and it will come as an HEV, a hybrid electric vehicle, within a reasonable timeframe of the launch, but not in the next year. Positioning, it's a lower Range Rover. It is absolutely fantastic in terms of its design. When we showed the retailers, this car, they were swooning over it. So, it is obviously a slightly lower, less high seating position vehicle, but still retains the luxury, the smooth and free ride of a Range Rover with the power that a BEV powertrain can deliver. So, I've driven the car myself, it is absolutely fantastic. It will be positioned, in terms of price, obviously a little bit below the big Range Rover, but this is still a luxury car. So, it's going to have a luxury price tag.

The third part of your question was to give details on the restructuring cost. So, GBP 530 million this quarter, of which GBP 295 million was related to the voluntary redundancy program. And the balance was related either to some product investments, which we moved out, or some other assets that we decided need to sit on the balance sheet at a slightly lower value. Is there more to go? Not that I am aware of at this point in time.

Dhiman Gupta

Thank you, Richard. And that brings us to the end of our earnings call. I know the adjustment to the platforms hasn't been easy, but hopefully we have managed to take all your questions. But, in case you missed any, please do feel free to reach out to our IR team, and we'll get back to you. Thank you. Thank you, everyone, for joining.