Tata Group's funding challenges manageable. We believe the group's liquidity position is comfortable at an aggregate level. Our analysis reveals several options available to Tata Group (represented by five largest listed entities) as a whole and to Tata Motors in particular: (1) Tata Motors has the asset coverage to to refinance a large portion of its bridge loan and (2) if push came to shove, Tata Sons has the financial flexibility to support a group company through stake sales.

Funding gap of over Rs100 bn at Tata Group largely restricted to Tata Motors

We believe the Tata Group of companies (represented by five largest listed entities) would generate Rs100 bn in free cash flows in FY2010E, against Rs117 bn in debt coming due for repayment/refinance, implying a funding gap of Rs17 bn. Coverage ratios at the group level are 2.8X net debt/EBITDA (4X debt/EBITDA) and 4.3X EBITDA/interest based on FY2010E EBITDA estimates. Within the group, the most pertinent issue remains Tata Motors' Rs113 bn debt coming up for repayment/refinance in FY2010.

Stake sale, special dividends could help bridge gaps in extreme conditions

We believe Tata Sons has the financial flexibility to support group companies in extreme cases such as a significant drying up of the debt capital markets or deterioration in the domestic and/or global demand environment. Options that could generate a significant amount of money include a sale of Tata Sons' stake in TTSL and TCS.

Adequate asset coverage should allow Tata Motors to refinance a large part of the bridge loan

We peg Tata Motors' incremental borrowing capacity at close to Rs115 bn (US$2.3 bn). Additionally, the company could raise Rs20-25 bn (US$400-500 mn) through stake sales in subsidiaries including Tata-Daewoo, Tata Construction and Tata Technologies to repay a part of the loan. Over the long term, however, an equity infusion might be required given the company's high leverage of 5.2X net debt/EBITDA.

Nature of fat-tail events is the biggest limitation of our analysis

Any stress-case scenario analysis is limited by the nature of fat-tails events being unpredictable. First, a concurrent call for cash infusion from two or more group companies, for instance, could greatly limit Tata Sons' ability. Second, we have assumed there is an appetite on the part of strategic or financial buyers towards acquiring stakes in Tata Group companies, which might not be the case. Third, this analysis is restricted to the top-five listed companies within the Tata Group, which account for over 80% of the group's capitalization and revenue.

INSIDE

Jairam Nathan CFA
jairam.nathan@kotak.com
Mumbai: +91-22-6634-1327

Kotak Institutional Equities Research

Important disclosures appear at the back

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OPTIONS AVAILABLE TO TATA GROUP

We believe Tata Sons has the financial flexibility to support its group companies in extreme cases such as a clamp down in the debt capital markets or a significant deterioration in the domestic and/or global demand environment. Options would primarily include stake sales and to a limited extent, special dividends.

Tata Sons might be required to infuse fresh equity into one or more group companies in case of a sharp deterioration in operational and financial conditions. Tata Motors and Tata Steel could be likely candidates, if the former is not able to refinance its bridge finance and experiences a further 10% deterioration in pricing, which would trigger debt covenants.

Debt covenants are negotiable and can be temporarily relaxed in return for higher security and/or interest rates. The bridge financing coming due at Tata Motors seems to be a more pertinent issue. While we believe Tata Motors and Jaguar Land Rover have enough borrowing capacity in terms of asset coverage to largely refinance the bridge loan, a significant clamp down in the lending environment could require some equity infusion from the promoters.

Exhibit 1 details the options we believe the Tata Group has to raise money towards equity infusion into group companies, if required. We have not highlighted extreme options including a spin-off and sale of some stake in the commercial vehicle business where Tata Motors has a stronger market presence.

Separately, the options outlined in Exhibit 1 may prove inadequate in extreme scenarios, for instance, in case of:

- two or more Tata Group companies needing to be supported concurrently
- a further significant deterioration in the macro environment resulting in a lower appetite for acquisitions, thus limiting cash generation from stake sales, if possible at all

A worse and prolonged decline in the global demand environment would require some tough decisions regarding restructuring the group itself, asset sales and reorganizations within companies. For instance, a decision might have to be taken if Tata Motors needs to be in both the passenger car and commercial vehicle businesses. In our view, issues with the passenger car business are overwhelming the commercial vehicles business, which is grappling with a cyclical rather than a structural issue.

Exhibit 1: Stake sale primary option for Tata Sons
Options for Tata Sons to support group companies in extreme scenarios

	Option	Action	Implications
I	Stake sale in TTSL	Tata Sons could sell its 33% stake.	Tata Sons could receive US$3 bn (Rs150 bn) from the stake sale based on the US$10 bn valuation given by NTT DoCoMo for its 26% stake purchase. Given DoCoMo's strategic stake, we believe it would have the right of first refusal. NTT DoCoMo can raise its stake to 74%, allowing it the flexibility to buy Tata Sons' stake
II	25% stake sale in TCS	Tata Sons holds a 74% stake in TCS. A 25% stake could be sold.	Tata Sons could receive US$2.5 bn (Rs125 bn) from the stake sale assuming a 10% premium to current prices. We would not expect much interest from strategic buyers, given the lack of management control. However financial buyers could be interested.
III	Special dividend from TCS	TCS could distribute US$400 mn (Rs20 bn) as a special dividend.	Tata Sons would receive US$240 mn (Rs12 bn) for its 76% stake, net of taxes. We expect TCS to generate US$800 mn (Rs40 bn) in free cash flow in FY2010E. We believe it can dividend close to 50% of this.

Source: Kotak Institutional Equities estimates

Stake sales in TTSL and TCS

Tata Sons has a 33% stake in TTSL and in our view the most suitable course of action would be to exit the company. NTT DoCoMo paid US$2.7 bn for a 26% stake in TTSL, valuing TTSL at US$10 bn. NTT DoCoMo can raise this stake (post money) up to 74%, allowing it to buy the 33% stake from Tata Sons. Using similar valuations, Tata Sons could get US$3 bn (Rs150 bn) for its 33% stake. TTSL's weak position in the Indian telecom market (see Exhibit 2) and likely rapid deterioration in the operating environment of the Indian wireless sector with a likely reduction in termination charges and introduction of mobile number portability by end FY2010E might make this an opportune time to exit TTSL.

Exhibit 2: TTSL has a weak position in the Indian telecom market
Circle-wise subscribers ('000)

	Bharti	Reliance	BSNL	VOD	IDEA	TTSL	Aircel	MTNL	BPL	Others	Total	Penetration
Total subs - January 2009	88,383	66,295	42,673	63,340	40,016	28,212	16,761	4,109	2,007	684	352,481	(%)
Current mobile market share (%)	25.1%	18.8%	12.1%	18.0%	11.4%	8.0%	4.8%	1.2%	0.6%	0.2%	100%	31.6
Circle-wise subscribers ('000)												
Metro												
Calcutta	2,401	2,504	1,236	2,609		1,237	445				10,432	60.6
Chennai	2,088	1,362	1,014	1,508		293	2,385				8,651	115.3
Delhi	4,573	3,195		3,920	2,307	3,929		1,938			19,862	95.5
Mumbai	2,762	4,250		4,234	604	1,754		2,172	2,007		17,783	78.6
Circle A												
Andhra Pradesh	8,593	5,060	2,873	3,666	4,802	2,668					27,662	33.9
Gujarat	3,931	3,861	2,375	7,603	3,701	1,044					22,517	40.2
Karnataka	9,601	4,021	2,089	3,482	1,573	1,013					21,779	38.0
Maharashtra	5,545	3,864	3,332	4,226	7,040	3,436					27,443	31.7
Tamil Nadu	5,796	3,457	2,684	4,834		536	7,445				24,752	41.2
Circle B												
Haryana	1,238	1,275	1,408	2,082	1,485	1,143					8,630	44.6
Kerala	2,114	2,609	2,383	2,901	4,079	627					14,713	43.5
Madhya Pradesh	4,331	5,800	2,356	175	4,630	1,038					18,330	20.3
Punjab	3,714	1,309	2,584	2,081	2,379	1,076				312	13,454	48.9
Rajasthan	6,410	2,975	2,702	4,739	1,201	2,200				371	20,598	32.5
Uttar Pradesh (east)	5,552	4,709	5,212	6,091	1,804	1,260					24,629	20.1
Uttar Pradesh (west)	2,198	3,083	2,244	4,091	3,752	1,897					17,266	24.0
West Bengal and A&N islands	3,321	2,778	1,671	4,354		831	1,046				14,001	19.9
Circle C												
Assam	1,353	1,404	803	91			1,597				5,275	18.1
Bihar	6,852	5,359	2,340	328		1,457	1,306				18,172	14.8
Himachal Pradesh	938	983	693		131	129					3,014	45.6
North East	843	467	589	73			937				2,914	20.9
Orissa	2,711	1,969	1,252	233		589	809				7,564	19.1
J&K	1,518		833				668				3,040	26.9

Source: TRAI

Additionally, Tata Sons has a 74% stake in TCS and a 25% stake could be sold. However, we see limited merit in divesting stakes in TCS at current low valuations. While a strategic buyer might not be interested in a non-controlling stake, a financial buyer could pay a 10% premium to the current market price. Tata Sons could get US$2.5 bn (Rs125 bn) in this case.

Special dividend from Tata Consultancy (TCS)

TCS currently has a 30% dividend payout ratio. We model the company to have Rs8 bn in cash at book value at the end of FY2009E. We expect free cash flow generation in FY2010E to be Rs46 bn. The company might have the flexibility to distribute dividends of up to 50% of free cash flow generation.

Our technology analyst Kawaljeet Saluja believes TCS would be able to pay out Rs20 bn. Net of taxes, Tata Sons would get Rs12 bn, which could be used by the promoters to fund a portion of the debt. Given the current environment, TCS management could be averse to any dividend distribution and might favor keeping cash in the books.

Monetize Tata Motors' commercial vehicle division—which could fetch Rs120 bn

This would be a typical extreme-case scenario where the company is forced to decide on staying in both the passenger car and commercial vehicle businesses. We value Tata Motors' commercial vehicle division at US$2.4 bn or Rs120 bn, assuming a 6X EBITDA multiple at an enterprise level. This value could be monetized through a stake sale, spin-off etc.

We expect limited interest as the majors—Daimler, MAN and Volvo have already invested in India through alliances with Hero, Force Motors and Eicher, respectively. Scania is the only major commercial vehicle manufacturer that is not tied in with a partner in India.

Options within Tata Motors (detailed on page 7)

Tata Motors can borrow up to Rs115 bn against assets in the books

We believe Tata Motors and Jaguar Land Rover have enough borrowing capacity to largely refinance its bridge loan. As illustrated in Exhibit 6, we estimate Tata Motors and Jaguar Land Rover have a total secured borrowing capacity of Rs210 bn based on the assets in their books and applicable advance rates. Net of the estimated Rs96 bn in working capital loans from banks as of the end of December 2008, the company's additional borrowing capacity is as much as Rs115 bn. We discuss this in detail in the Tata Motors' section.

Sell Tata Motors' subsidiaries such as Tata Daewoo, Tata Construction Equipment and Tata Technologies

Tata Motors stake in Tata Motors Daewoo could fetch US$180 mn (Rs9 bn) at 6X FY2009E EBITDA. Stakes in Tata Construction and Tata Technologies could fetch up to US$200-300 mn (Rs10-15 bn).

THE TATA GROUP

The Tata Group of companies makes up a diverse group of businesses operating in seven industrial sectors. The seven sectors the group participates in include (in order of revenues): materials (52% of revenues), engineering (17%), information technology (16%), energy (5%), services (3%), chemicals and consumer products (3%). Exhibit 3 lists the various Tata Group companies by sector.

Exhibit 3: Tata Group diversified across industries
Tata Group companies by sector

Industry/Sector	Companies
Material	Tata Steel
Engineering	Tata Motors
	Tata Auto Comp Systems
	Voltas
Technology	Tata Consultancy Services
	Tata Communications
	Tata Teleservices
Energy	Tata Power
Services	Indian Hotels
Chemicals	Tata Chemicals
Consumer products	Titan Industries
	Tata Tea

Source: Kotak Institutional Equities estimates, Company

Liquidity position of Tata Group as a whole

We focused on the top five listed companies by revenues and market capitalizations within the Tata Group—Tata Steel, Tata Consultancy, Tata Motors, Tata Power and Tata Communications for this exercise.

The above companies amount for over 80% of the total group capitalization and 90% of group revenues. The objective of the exercise is to look at these companies at a consolidated level and get a better perspective on the funding issues facing the group and the options available to them. Exhibit 3 shows the key statistics for the above-mentioned five companies on an individual as well as consolidated basis.

Exhibit 4 details the financial position of the five Tata Group companies. We highlight the liquidity and funding position and have attempted to determine the funding gap at the group level. We look at the overall group level with a bid to explore options that might not be available at the company level.

We expect the total debt of the Tata Group as of the end of FY2009E at over Rs1 trillion, of which Rs117 bn is due through March 2010. Additionally, total capital expenditure for the group is Rs216 bn in FY2010, with a bulk of this coming from Tata Steel and Tata Power. Net of the projected capital expenditure, we estimate free cash flow generation at the group level would be marginal at Rs10 bn.

Within the group, the Rs117 bn debt due shortly primarily comprises the US$2 bn (Rs100 bn) in bridge financing Tata Motors took to finance the Jaguar Land Rover acquisition. This comes up for repayment/refinance in June 2009. The Rs216 bn in capital expenditure is largely made up of Rs60 bn at Tata Steel and Rs92 bn at Tata Power. We discuss each of the companies later in the report.

Exhibit 4: Tata Group has over Rs100 bn of funding needs in FY2010E
Liquidity position at the group level (Rs bn)

	Major Tata group companies					
	Tata Steel	**TCS**	**Tata Motors**	**Tata Power**	**Tata Comm.**	**Total**
Key statistics						
Value (Rs/share)	157	461	143	673	408	NA
Market capitalization	129	451	80	150	116	925
Promoter stake (%)	33.9	76.4	47.0	33.3	76.2	61.0
Promoter stake	44	344	37	50	89	564
Stake pledged (%)	13.5	11.1	8.2	13.0	7.0	11.0
Stake pledged	17	50	6	19	8	102
Revenues FY2009E	1,584	280	302	80	38	2,284
Current financial position						
Total debt FY2010E	406	—	228	214	62	910
Cash FY2010E	68	29	6	10	7	120
Investments FY2010E	34	14	49	34	8	139
EBITDA FY2008	174	54	28	22	8	287
EBITDA FY2009E	209	66	25	35	13	348
EBITDA FY2010E	125	66	36	45	14	286
Gross interest expense FY2010E	35	—	18	7	7	67
Capital expenditure FY2010E	(60)	(10)	(35)	(92)	(19)	(216)
of which maintenance	(10)	(10)	(15)	(10)	(5)	(50)
Free cash flow FY2010E	147	46	(23)	(65)	(5)	100
Assuming only maintenance capex	197	46	(3)	17	10	267
Debt coming due in FY2010E	—	—	113	4	—	117
Financing requirement FY2010E	147	46	(136)	(69)	(5)	(17)
Assuming only maintenance capex	197	46	(116)	13	10	149
FY2010E Net debt/EBITDA (X)	3.2	NA	5.2	3.8	3.4	2.8

Source: Kotak Institutional Equities estimates, Company reports

TATA MOTORS

Tata Motors has the biggest funding gap to fill with Rs113 bn in debt due for repayment/refinancing in the next fiscal year on top of cash burn expectations of over Rs20 bn for FY2010E, including Jaguar Land Rover. We peg Tata Motors' and Jaguar Land Rover's incremental borrowing capacity at over Rs100 bn, which should help largely bridge the liquidity gap.

Tata Motors needs to refinance US$2 bn or Rs100 bn of the US$3 bn one-year bridge loan coming due in June 2009. There's another Rs13 bn of debt coming due in its own books. Tata Motors borrowed US$3 bn through its 100% subsidiaries TML Holding Pte Limited and JaguarLandRover Ltd to fund the Jaguar Land Rover (JLR) acquisition. The company issued a corporate guarantee for the loan and is liable to pay up to US$3 bn in the event of non-payment by the above subsidiaries. There are no financial covenants on the bridge. However, Tata Motors or its subsidiaries are restricted from undertaking sales and leaseback transactions and receivable sales. Tata Motors is also required to own 100% of JaguarLandRover Ltd (JLR) at all times.

Additionally, we estimate Tata Motors and Jaguar Land Rover would burn close to Rs23 bn in free cash flow during FY2010E. The cash burn estimate could be higher if Jaguar Land Rover is asked to fund a part or whole of the underfunded pension liability. Tata Motors might not have a lot of flexibility to cut its capital expenditure budget of Rs25-30 bn. Apart from maintenance capital expenditure of around Rs15 bn, the company has prioritized spending for Nano and the world truck project within commercial vehicles. The company has reduced its capital spending budget by Rs500-600 bn and there may be little room for a further reduction.

Exhibit 5 below lists the options available to Tata Motors towards funding its debt. We later look at the sensitivities and JLR in more detail.

Exhibit 5: Tata Motors has limited options given poor equity capital markets
Options within Tata Motors

Option	Action	Implications
I Borrow against assets	Raise upto Rs115 bn (US$ 2.3 bn) against assets at Tata Motors and JaguarLandRover	As illustrated in Exhibit 6, we estimate based on the assets in their books and applicable advance rates. Net of the estimated Rs96 bn in working capital loans from banks as of the end of December 2008, additional borrowing capacity is to the tune of Rs115 bn.
II Equity infusion	A Rs80 bn equity infusion by Tata Sons	Net debt/EBITDA would be at a comfortable 3X and promoter's stake would reach 75%
III Stake sale in subsidiaries	TTMT could sell part/whole of its stake in subsidiaries resulting in inflow of U$$400-500 mn	(a) Tata-Daewoo could fetch US$180 mn (assuming 100% stake sale, valued at 6X FY2009E EBITDA); (b) Tata Construction Equipment Company could fetch U$$240 mn (at 12X FY2009E EPS); (c) other subsidiaries could fetch US$200-300 mn

Source: Kotak Institutional Equities estimates, Company

Additional borrowing capacity pegged at Rs115 bn based on asset coverage

We believe Tata Motors and Jaguar Land Rover have enough borrowing capacity to refinance most of its bridge loan. As illustrated in Exhibit 6, we estimate that Tata Motors and Jaguar Land Rover have total secured borrowing capacity of Rs210 bn, based on the assets in their books and applicable advance rates. Net of the estimated Rs96 bn in working capital loans from banks as of the end of December 2008, additional borrowing capacity is to the tune of Rs115 bn. This should give Tata Motors enough flexibility towards refinancing the bridge loan.

For the purpose of this analysis, we used Ford Motor Company's US$15 bn secured debt deal in December 2006 as a precedent for assets that can be hypothecated and applicable advance rates. While the deal was done during a much better financing environment, we believe the circumstances and the deal size would make it comparable. For intellectual property and trademarks, we used 2% of sales as the value. Ford managed to get US$2.5 bn for the Ford brand, which comes up to 2% of annual revenues. We applied a similar metric for Tata Motors and Jaguar Land Rover. Exhibit 6 illustrates the amount of debt Tata Motors might be able to raise using similar advance rates as was applicable for the Ford deal.

In the current environment, advance rates may be more conservative. However, the exercise shows that Tata Motors has enough flexibility with regard to asset coverage.

Exhibit 6: We peg additional borrowing capacity at Rs115 bn
Assets with applicable advance rates, March 2008 (Rs mn)

Assets with applicable advance rates	Tata Motors standalone	Jaguar Land Rover	Total
Inventories @ 60%	14,531	34,560	49,091
Receivables @ 75%	8,480	21,915	30,395
Tata Motor Finance @ 75% of book value	9,057	na	9,057
Equity in other JVs, book @ 100%	37,026	na	37,026
Intellectual property & trademarks	4,800	11,520	16,320
Land @ 100% of book	1,190	—	1,190
Other fixed assets & capital WIP @ 40% of book	39,119	28,800	67,919
Total asset coverage	**114,203**	**96,795**	**210,999**
Secured debt outstanding	72,000	24,000	96,000
Incremental borrowing capacity	**42,203**	**72,795**	**114,999**

Source: Kotak Institutional Equities estimates, Company reports

The company's current debt/EBITDA and interest coverage are close to 6.5X and 2.2X on a standalone Tata Motors + JLR basis. In a stress-case scenario of domestic volumes falling a further 10% in FY2010E, we believe the debt and interest coverage ratios would deteriorate to 7.5X and 2X, respectively. Additional risks could come from JLR.

85% of JLR's sales come from UK, Europe (ex UK and Russia) and North America. For 2008, JLR sales were down 32% in US and 15% in Europe. Industry sales in UK and Europe registered a 31% and 27% yoy decline in sales for January 2009 after falling 7% in all of 2008. North American industry registered a 37% decline in January 2009 after falling 18% in 2008.

Exhibit 7 illustrates our earnings and cash flow model for JaguarLandRover (JLR). We have modeled a 15% decline in volumes in 2009, a 2% decline in pricing and a 2.5% decline in raw material costs. Things were much worse in January, with JLR sales down 50% yoy in Europe and down 25% in the US. On the pricing front, discounts have been running in the US$3,000 range or 6% of sales. Therefore, there could well be further downside to our US$200 mn EBIT loss estimate. We have modeled a cost savings of US$340 mn coming from US$100 mn from labor cost savings and a 2.5% reduction in per unit raw material costs. Our model is very sensitive to volume and pricing assumptions. Every additional 5% decline in volumes and every additional 1% point deterioration in pricing would lower EBIT by around US$100 mn.

Exhibit 7: JLR financials could get worse
JLR income and cash flow model, calendar year-ends, 2005 -09E ($ mn)

	under Ford				under Tata Motors		
	2005	**2006**	**2007**	**Jan-May'08**	**Jun-Dec'08**	**2008E**	**2009E**
Jaguar Land Rover income statement							
Volumes (000s)	275	268	286	133	132	265	225
Sales	12,462	12,969	14,942	7,071	6,675	13,746	11,168
Cost of sales	(10,955)	(11,292)	(12,258)				
R&D	(821)	(683)	(829)				
SG&A	(1,520)	(1,417)	(1,421)				
Other	336	66	215				
EBIT	**(498)**	**(357)**	**649**	**625**	**(266)**	**359**	**(213)**
EBITDA	**(48)**	**93**	**1,099**		**(4)**	**809**	**237**
EBIT Walk		**2006**	**2007**			**CY2008**	**2009E**
Prior year EBIT		**(498)**	**(357)**			**649**	**359**
Volume		(70)	180			(215)	(397)
Pricing		824	1,036			(76)	(516)
Cost		(613)	(210)			—	341
Current EBIT		**(357)**	**649**			**359**	**(213)**
Less: Jan-May'08 EBIT		**na**	**na**			**625**	**na**
Jun-Dec'08 EBIT to Tata Motors						**(266)**	
Jaguar Land Rover cash flow statement							
Net Income	—	—	—	—	(233)	204	(272)
D&A	450	450	450	188	263	450	450
Working capital	(485)	113	165	(30)	(150)	(180)	—
Operating cash flow	(35)	563	615	162	(121)	474	178
Capex	(918)	(565)	(496)	(150)	(225)	(350)	(400)
Free cash flow	**(953)**	**(2)**	**119**		**(346)**	**124**	**(222)**

Source: Kotak Institutional Equities estimates and company reports

OTHER GROUP COMPANIES MANAGEABLE

Tata Steel: Termed-out debt profile & flexible capital expenditure should help weather the storm

Tata Steel is expected to have Rs636 bn in consolidated debt at the end of FY2009E and Rs406 bn by FY2010E. However, at estimated EBITDA of Rs125 bn for FY2010E and cash of Rs68 bn, net debt/EBITDA is not alarming at 3.2X. In interest coverage too, the company does not fare too badly with over 3.5X EBITDA/interest ratio. Most of the debt in the balance sheet is termed out.

We expect Tata Steel to generate Rs147 bn in free cash flows for FY2010E as the company reduced its capital expenditure budget to Rs60 bn from over Rs100 bn. In a stress-case scenario, we believe Tata Steel's EBITDA would reduce to the Rs100 bn range in FY2010E. However in such a scenario, the company could have the flexibility to further reduce its capital expenditure budget, given maintenance capital expenditure of only Rs10 bn.

Rahul Jain, Kotak's metals analyst, believes debt covenants Tata Steel India (see Exhibit 8) could come under strain under a stress case but currently are at manageable levels. Tata Steel's consolidated net debt as of September 30, 2008 stood at US$11 bn (including working capital loans and CARS) which, when compared to its loan covenants, is at comfortable levels. Since these covenants are computed on an annual earnings basis, the risk of breach appears remote at this stage.

Exhibit 8: Under our stress-case assumptions, debt covenants of Tata Steel are likely to be breached
Comparison of key financial ratios (1) required as per the covenants and (2) likely under our stress-case assumptions, March fiscal year-end, FY2010E (X)

	Tata Steel	
	Covenant	Under stress-case assumptions
Net debt/EBITDA <=	4.0	11.2
Net debt/Equity <=	1.8	2.1
EBITDA/Interest >	1.5	1.2

Source: Company, Kotak Institutional Equities estimates

Separately, the UK debt covenants call for maintaining EBITDA at 2.75X of finance charges, net debt at maximum of 4.25X of EBITDA and cash flows to be equal to net debt service and on all these there is a 50% cushion based on 1HFY2009 UK results. There are no group level covenants and cross defaults for Tata Steel UK to Tata Steel India.

Exhibit 9 lists the EBITDA and coverage ratios under stress scenarios. Tata Steel's debt covenants would be breached if pricing declined another 10% from here.

Exhibit 9: Debt covenants would be breached in case of a 10% decline in pricing from here
Analysis of Tata Steel's coverage ration under stress-case conditions

	Current assumptions		Volumes lower by 10%		Pricing lower by 10%		Vol/pricing lower by 10% each	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Tata Steel								
EBITDA (Rs mn)	144,386	152,589	107,750	95,418	70,074	78,226	40,595	32,935
Net debt (Rs mn)	402,277	332,287	413,297	375,388	447,028	437,563	453,737	467,697
Net debt/EBITDA (X)	2.8	2.2	3.8	3.9	6.4	5.6	11.2	14.2
Net debt/Equity (X)	1.3	0.9	1.5	1.3	1.8	1.8	2.1	2.5
Interest coverage ratio (X)	4.2	5.7	3.1	3.6	2.0	2.9	1.2	1.2

Source: Kotak Institutional Equities estimates

Tata Power: Cash and investments should help fund equity gap

While Tata Power has a significant capital expenditure budget of Rs91.6 bn, Aman Batra, Kotak's power sector analyst, believes the company is in a comfortable position with regard to funding the 30% equity portion of these projects while debt funding for the remaining has been secured.

Tata Power has adequate cash and investments in its balance sheet that could be used to fund the company's cumulative equity funding gap of Rs12.6 bn through FY2012E. The equity funding gap is calculated as equity funding required for projects at hand, net of free cash flows from existing projects. The bulk of the Rs12.6 bn funding gap would need to be funded in FY2010E. Exhibit 10 details the funding gap by fiscal year.

Exhibit 10: Cash flow gap will likely be filled by sale of investments or debt
Cash flows March fiscal year-ends 2009E-2012E (Rs bn)

		2009E	2010E	2011E	2012E
Free cash flow generation					
Mumbai		(0.52)	4.98	4.48	4.40
Delhi		0.27	0.67	0.66	0.90
Tala Transmission		0.21	0.23	0.34	0.34
Other assets (18%RoE)		0.98	1.18	1.36	1.36
Total free cash generation		**0.94**	**7.06**	**6.83**	**7.00**
Requirement for Mundra		(6.75)	(14.88)	(6.38)	(8.50)
Requirement for Maithon		(3.71)	(3.21)	(2.11)	
Total equity investment requirement		**(10.46)**	**(18.09)**	**(8.48)**	**(8.50)**
Net equity funding gap		(9.52)	(11.02)	(1.65)	(1.50)
Cash and investments - end FY2008	**11.1**				
Cumulative cash requirement		**1.6**	**(9.4)**	**(11.1)**	**(12.6)**
Our valuation of investments		**41.87**			

Source: Kotak Institutional Equities estimates

We value Tata Power's investments at Rs42 bn, made up of Rs29.5 bn in telecom investments, Rs10 bn in direct and indirect holding in TCS and Rs2 bn in other miscellaneous investments. Exhibit 11 details the investments and their valuation.

Exhibit 11: Investments in group companies valued at Rs42 bn
Details of investments held by Tata Power

	Book value			Holding	Our estimate		Value	
	(Rs mn)	(No mn)	(Rs/share)	(%)	(Rs/share)	(Rs mn)	(Rs/share)	Methodology
Tata Teleservices Ltd. (TTL)	7,966	711	11	8.6	29	20,696	93	Our telecom analyst has assigned an EV of US$5 bn for TTL .
Panatone Finvest Ltd.	5,000	500	10	40.0	12	6,211	28	Panatone Finvest acquired 43.14% stake in VSNL at a price of Rs202 per share for a total sum of Rs25.9bn. This is funded by Rs12.5bn of equity and Rs13.4bn of debt (putting the total capital of Panatone at Rs25.9bn). Currently it holds 40% stake in VSNL.
Tata Teleservices (Maharashtra) Ltd. (TTML)	1,197	137	9	8.0	15	2,086	9	We have valued it at a 20% discount to the current market price of Rs19.
VSNL	1,218	3	473	0.9	224	577	3	We have valued it at a 20% discount to our telecom analysts' valuation of Rs280/share (excluding value for real estate).
Telecom	**15,381**					**29,570**	**133**	
Tata Sons/TCS	2,420			1.6	650	10,275	46	Based on direct and indirect holding of 1.5% in TCS.
Others (Haldia Petrochem, Tata Inds.)	2,028					2,028	9	Haldia Petrochem. - Rs60mn, Tata Inds. - Rs319mn
Total	**19,828**		**89**			**41,873**	**188**	

Source: Kotak Institutional Equities estimates

Debt funding has been secured. On a standalone basis, TPWR currently has net debt/equity is 0.3:1 and, in our view, will be able to raise additional debt at the corporate level, if needed.

Tata Communications: Funding aggressive capex plan could be challenging

Tata Communications expects to spend US$2 bn in FY2009-12E on expanding its submarine cable, IP and retail broadband infrastructure. In addition, the company is spending aggressively on new services like data centers, telepresence and other managed services. We believe funding this aggressive plan could be a challenge.

Tata Communications has a net debt position of US$900 mn as of December 2008. Net debt/EBITDA comes to 3.3X and already appears stretched. We believe the company will have to resort to equity funding or unlock some of its investments, including TTSL. We value TCOM’s stake in TTSL at US$500 mn. At NTT DoCoMo’s takeout valuation the stake would be valued at US$1 bn.

appendix 1

Tata Group
Companies

Exhibit 12: Tata Group stretches across sectors
Financial details of listed Tata Group companies, March fiscal year-end, 2008 (Rs bn)

Company	Mkt. cap	Revenues	EBITDA	Net income	Net debt
Indian Hotels	21.0	29.6	9.2	3.1	22.0
Tata Chemicals	28.9	42.1	13.2	0.2	22.0
Tata Communications	115.8	32.8	7.7	3.1	3.5
Tata Consultancy Services	471.9	228.6	59.4	50.2	(29.7)
Tata Motors	83.4	285.2	35.1	20.3	38.8
Tata Power	162.9	108.9	22.0	7.1	87.1
Tata Steel	134.0	1,315.4	180.2	62.3	501.9
Tata Tea	35.8	43.7	7.9	3.4	2.1
Tata Teleservices (Maharashtra)	44.4	17.1	4.9	(1.3)	26.0
Titan Industries	33.8	30.0	2.4	1.6	1.5
Voltas	11.9	30.9	2.8	2.1	(2.2)

Source: Kotak Institutional Equities estimates, company reports

"I, Jairam Nathan, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

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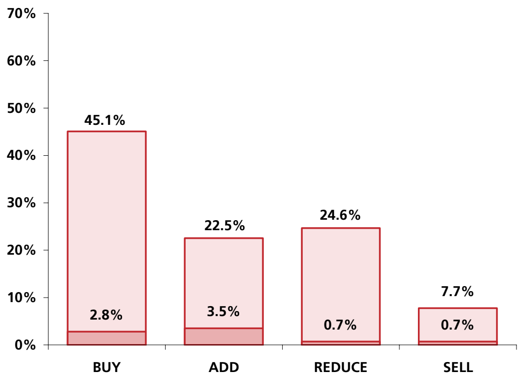

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Source: Kotak Institutional Equities

As of December 31, 2008

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Jairam Nathan, the lead analyst in this report, also covers the following companies

Covering Analyst: Jairam Nathan	
Company name	**Ticker**
Bajaj Auto	BJAT.BO
Hero Honda	HROH.BO
Mahindra & Mahindra	MAHM.BO
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Source: Kotak Institutional Equities Research

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Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

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