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Till debt do us apart. We analyze the balance sheets and debt positions of 15 highly leveraged companies (within our coverage universe) under hypothetical stress-case scenarios. We see some of them vulnerable to further deterioration in their operating environments (decline in volumes and pricing). Investors should expect that in case the stress-case scenarios come true companies/groups may have to explore the sale of assets and/or companies in the absence of traditional funding options—equity/debt.

Stress-case scenarios reveal cause for concern

Our stress-case scenarios for 15 companies show a high degree of vulnerability to further declines in volumes and pricing in case of (1) weak balance sheets and (2) uncertain operating cash flows. We do not rule out the possibility of a significant decline in volumes in the real estate and metals sectors, which could make those companies more vulnerable to an extended downturn in business conditions.

Availability of and ability to raise funding is very limited

(1) Likely weak capital markets restrict the ability of companies to raise equity capital and (2) companies' weak balance sheets preclude further raising of debt in certain cases. Also compounding issues over the next 1-2 years is the repayment of (1) ECB, FCCB money raised in 2006-08 (US\$16 bn) and (2) outstanding domestic debt.

Pledging of shares—promoters are already quite leveraged

We estimate that promoters have raised more than US\$11 bn from domestic banks and other financiers by pledging their personal stakes to banks. We note that promoters may have not much room for further financing through this route.

Life after debt: Group restructuring, asset disposals are some afterlife options

Diversified groups could well have to consider selling certain assets/investments to protect other group companies with vulnerable balance sheets. We see a higher scope of stake sale of companies in the telecom sector given the significant interest from foreign telecom companies. In our view, companies in the real estate sector would find it hard to dispose of assets; a steep cut in property prices to drive volume growth and generate cash flows may be their only option.

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The prices in this report are based on the market close of February 24, 2009.

DEBT: BIG PROBLEMS AHEAD IN SOME CASES

Our analysis of balance sheets, debt position and operating cash flows of 15 leveraged companies under our coverage universe show that some of these companies are vulnerable to further deterioration in their operating environments. We look at key capitalization, debt and interest coverage ratios to assess the vulnerability of companies to lower volumes and pricing versus our base-case assumptions.

Some companies are more vulnerable

Exhibit 1 gives a list of companies with high debt-equity ratios, high net debt-to-equity ratios and low free cash flows. As can be seen, we see very high net debt-to-EBITDA in several cases under our stress-case assumptions. Interest coverage (defined as EBITDA/interest paid) appears comfortable in most cases under our base-case assumptions but precarious in a few cases under our stress-case assumptions. We discuss some of the cases in more detail below.

Exhibit 1: Balance sheets of the select companies are significantly stretched under stress-case assumptions
Analysis of net debt/EBITDA under base-case and stress-case assumptions, March fiscal year-ends, 2010E-2011E (X)

		Base-case		Stress-case		Capex (Rs bn)		Free cash flow (Rs bn)	
		2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Aban Offshore	Others	3.7	3.1	5.7	5.2	1	1	20	23
DLF	Real Estate	1.9	1.7	3.3	2.2	31	—	39	—
Hindalco Industries	Metals	5.6	4.8	7.5	6.1	15	17	25	(3)
Housing Development & Infrastructure	Real Estate	4.1	3.3	5.7	4.2	0	—	6	—
Idea	Telecom	2.4	2.2	3.3	3.0	63	48	(32)	(6)
Jaiprakash Associates	Others	5.3	6.0	6.0	6.8	34	77	(16)	(55)
JSW Steel	Metals	5.7	3.7	25.8	15.1	17	10	12	44
Jubilant Organosys	Pharma	4.0	3.1	4.7	3.6	3	3	4	3
Pantaloon Retail	Retail	3.8	3.8	4.2	4.7	2	2	(2)	(4)
Reliance Communications	Telecom	3.3	2.6	4.3	3.6	135	94	(81)	25
Suzlon Energy	Industrials	5.0	3.7	6.3	5.2	13	10	14	3
Tata Motors	Automobiles	5.2	5.4	6.3	8.7	35	28	(7)	(4)
Tata Steel	Metals	2.8	2.2	11.2	14.2	111	—	45	—
Unitech	Real Estate	5.6	6.7	6.2	8.5	2	—	(4)	—
United Spirits	Consumers	4.5	3.7	5.9	8.3	1	1	2	4

Source: Kotak Institutional Equities estimates

- ▶ **Aban Offshore.** We believe Aban's continuing inability to contract its rigs will impact cash flows and may necessitate a refinancing or rescheduling of its debts. Its highly levered balance sheet (FY2010E net debt/equity at 4.2X and net debt/EBITDA at 3.7X) and risks to near-term cash flows raise concerns on its debt-servicing abilities, especially in case of a prolonged industry downturn. Exhibit 2 gives our stress-case analysis for Aban. The key risks to Aban's earnings and cash flows stem from the following issues.

Exhibit 2: Aban's net debt/EBITDA rises to 6.2X in FY2010E under our stress-case assumptions but interest coverage is comfortable
Stress-case analysis, March fiscal year-ends, FY2010-11E (Rs mn)

	Current assumptions		Utilization lower by 10% (A)		Dayrates lower by 10% (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
EBITDA (Rs mn)	28,357	28,253	23,679	23,468	23,679	23,468	19,469	19,162
Net debt (Rs mn)	105,610	86,290	108,175	92,903	108,175	92,903	110,483	98,854
Net debt/EBITDA (X)	3.7	3.1	4.6	4.0	4.6	4.0	5.7	5.2
Net debt/Equity (X)	4.2	2.2	5.1	2.9	5.1	2.9	6.2	4.0
EBITDA/Interest (X)	3.6	4.3	3.0	3.5	3.0	3.5	2.4	2.7

Source: Kotak Institutional Equities estimates

- **Pressure on utilization rates of rigs.** Aban has four idle rigs and four more of its rigs will become available over the next three-five months. We believe it will be difficult for Aban to secure new contracts under the current circumstances due to very low contractual activity globally and over 79 new build jackups likely to be added to the global fleet over the next 12 quarters (36 expected in CY2009E). We currently assume a 3-6 month delay in contracting of Aban's rigs in FY2010E; however, a longer delay can result in further downgrade to our estimates. Also, as per industry/news reports, two of Aban's contracted rigs (including a deepwater rig) face risk of contract cancellation/delays.
- **Pressure on dayrates.** We assume new jackup contracts at current dayrates of around US\$145-150,000/day and estimate dayrates to bottom out at US\$130-135,000/day. We highlight that our assumptions face further downside risks as dayrates were much lower (US\$80,000/day) in CY2001-02. However, we believe the impact will be felt more on utilization levels rather than through lower dayrates as contractual activity has almost stopped.
- ▶ **Jaiprakash Associates (JPA).** Exhibit 3 shows the sensitivity of JPA's net debt-to-EBITDA and interest coverage to our base-case and stress-case assumptions. JPA's net debt-to-equity appears high but it reflects (1) debt of power projects under construction (noticeably 1,000 MW Karchan Wangtoo) and (2) new and upcoming cement capacities, which are not yet running at optimum capacity utilization.

Exhibit 3: JPA's net debt/EBITDA rises to 6X in FY2010E under our stress-case assumptions
Stress-case analysis of JPA, March fiscal year-ends, FY2010-11E (Rs mn)

	Current assumptions		10% lower volumes (A)		10% lower pricing (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
EBITDA (Rs mn)	28,852	36,528	27,732	35,119	26,227	33,324	25,369	32,235
Net debt (Rs mn)	152,326	217,736	151,518	216,946	153,188	218,903	152,294	217,996
Net debt/EBITDA (X)	5.3	6.0	5.5	6.2	5.8	6.6	6.0	6.8
Net debt/Equity (X)	2.3	2.8	2.4	2.8	2.4	2.9	2.4	2.9
EBITDA/Interest (X)	1.8	2.0	1.7	1.9	1.7	1.8	1.6	1.8

Source: Kotak Institutional Equities estimates

- ▶ **Jubilant Organosys Ltd (JOL).** Exhibit 4 shows the weak financial position of JOL under our base-case and stress-case scenarios. We assume 12% sales growth and 140 bps EBITDA margin expansion in FY2010E, which results in 15% growth in adjusted PBT (adjusted for forex losses). In the stress-case scenario, we assume sales growth of 5% and flat EBITDA margins versus FY2009E. The key highlights of the stress-case assumptions are (1) late approval for generic Cardiolite (Sestamibi) from US FDA in FY2011E versus base-case assumption of approval in 4QFY09E; Covidien (another ANDA filing for the same product) received final approval in September 2008, (2) 20% decline in industrial segment sales in FY2010E versus 10% decline in base-case scenario, (3) 200 bps margin decline in the industrial segment versus flat margins in base-case scenario and (4) flat EBITDA margins in FY2010E in all other business segments.

We note that JOL's financial position may be exaggerated on account of large amount of outstanding FCCBs and foreign debt on which it pays nominal interest. Assuming that JOL buys out the outstanding FCCBs (it is in the process of buying FCCBs), under our stress-case scenario, we expect the interest coverage ratio for FY2010E and FY2011E to deteriorate to 3.7X and 4.6X, respectively, from 5.9X and 6.9X.

Exhibit 4: JOL's interest coverage is boosted by low interest payment on FCCBs
Sensitivity of key ratios to stress-case assumptions, March fiscal year-ends, 2010-11E (Rs mn)

	Base-case scenario		Stress-case scenario	
	2010E	2011E	2010E	2011E
Implications on P/L				
Net revenues	40,028	49,341	37,536	48,358
Operating profit	7,619	9,604	6,598	8,628
EBITDA	7,819	9,754	6,798	8,778
Interest expense	1,300	1,400	1,772	1,872
Implications on B/S				
Gross debt	33,250	31,486	33,700	33,615
Cash and cash equivalents	1,656	1,656	1,656	1,656
Net debt	31,593	29,829	32,043	31,958
Implications on key liquidity ratios				
Net debt/EBITDA (X)	4.0	3.1	4.7	3.6
EBITDA/Interest (X)	5.9	6.9	3.7	4.6
Free cash flow	3.6	3.3	3.5	2.0

Note:

- Key assumptions of base-case scenario are (1) 12% sales growth and (2) 140 bps yoy margin expansion in FY2010E.
- Key assumptions of stress-case scenario are (1) 5% sales growth, (2) flat EBITDA margin yoy in major business segments (3) entire outstanding FCCB (US\$253 mn) bought back using cash reserves of Rs6.3 bn (as of Dec 2008), additional rupee debt of Rs4 bn (raised at 12% p.a) (assuming Rs1.5 bn is capex expenditure in 4QFY09E as guided by company).

Source: Kotak Institutional Equities estimates

- **Metals.** We find the balance sheets of several companies in the metals sector to be weak and their condition could deteriorate significantly in case of a prolonged weakness in global demand for metals. We do not rule out a decline in volumes versus our base-case assumptions in the event of lower-than-expected global GDP growth. We expect lower demand and volumes to be accompanied by lower pricing also. Exhibit 5 shows that the net debt-to-equity ratios of several companies could deteriorate significantly in case of a concomitant decline in both volumes and pricing. We assume a 10% decline in volume and pricing assumptions in our stress-case scenario; we keep pricing of raw materials constant in this exercise. However, we do not rule out weakness in raw material prices in a scenario of low demand, which would partly alleviate the negative impact of lower pricing for finished products. Exhibit 6 shows debt covenants of Hindalco and Tata Steel are likely to breach under our stress-case assumptions.

Exhibit 5: Balance sheets of Hindalco, JSW and Tata Steel may come under stress in case of a deep cyclical downturn
Analysis of balance sheet of metals stocks under stress-case conditions, March fiscal year-ends, 2010-11E

	Current assumptions		Volumes lower by 10%		Pricing lower by 10%		Volume/pricing both lower by 10% each	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Hindalco								
EBITDA (Rs mn)	41,706	53,613	37,923	51,371	35,641	46,311	32,170	44,438
Net debt (Rs mn)	235,362	259,240	237,599	263,752	238,948	268,665	241,001	272,697
Net debt/EBITDA (X)	5.6	4.8	6.3	5.1	6.7	5.8	7.5	6.1
Net debt/Equity (X)	0.8	0.9	0.8	0.8	0.8	0.9	0.8	0.9
EBITDA/Interest (X)	2.9	3.7	2.7	3.5	2.5	3.2	2.3	3.0
Jindal Steel & Power								
EBITDA (Rs mn)	25,407	32,834	19,269	25,725	19,267	19,645	13,743	13,854
Net debt (Rs mn)	51,861	45,617	56,573	56,292	56,575	60,962	60,815	70,102
Net debt/EBITDA (X)	2.0	1.4	2.9	2.2	2.9	3.1	4.4	5.1
Net debt/Equity (X)	73.3	52.1	0.9	0.7	86.3	85.7	1.0	1.1
EBITDA/Interest (X)	8.9	8.7	6.8	6.8	6.8	5.2	4.8	3.7
JSW Steel								
EBITDA (Rs mn)	28,558	35,826	17,347	22,801	16,908	22,371	6,869	10,699
Net debt (Rs mn)	163,476	130,879	170,634	146,886	170,912	147,459	177,322	161,798
Net debt/EBITDA (X)	5.7	3.7	9.8	6.4	10.1	6.6	25.8	15.1
Net debt/Equity (X)	1.4	1.0	1.6	1.2	1.6	1.2	1.8	1.6
EBITDA/Interest (X)	2.2	2.8	1.4	1.8	1.3	1.7	0.5	0.8
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
EBITDA/Interest (X)	4.2	5.7	3.1	3.6	2.0	2.9	1.2	1.2

Note:

- Financials of Hindalco, JSW and Tata Steel are on consolidated basis.
- Financials of JSPL is on a standalone basis; the steel business is the standalone entity.

Source: Kotak Institutional Equities estimates

Exhibit 6: Under our stress-case assumptions, debt covenants of Hindalco and Tata Steel are likely to be breached

Comparison of key financial ratios (1) required as per covenants and (2) likely under our stress-case assumptions, March fiscal year-end, FY2010E (X)

	Hindalco		Tata Steel	
	Covenant	Under stress-case assumptions	Covenant	Under stress-case assumptions
Net debt/EBITDA <=	4.0	7.5	4.0	11.2
Net debt/Equity <=	1.0	0.8	1.8	2.1
EBITDA/Interest >	NA	2.3	1.5	1.2

Source: Company, Kotak Institutional Equities estimates

- **Pantaloon Retail India Ltd (PRIL)**. Exhibit 7 shows the weak financial position of PRIL and the impact of lower volumes and pricing on the capitalization and coverage ratios. We expect slower growth seen in FY2009E in same-store sales (SSS) to continue in FY2010E and then stabilize in FY2011E. We model retail space addition of 1.6 mn sq. ft and 2.5 mn sq. ft in FY2010E and FY2011E versus 3.4 mn sq. ft in FY2009E. In the stress-case scenario, we have assumed (1) 10% lower total retail space versus our base-case assumptions and (2) a decline of 5% in SSS growth assumptions in all leading formats, which leads to a decline of 1-2% for SSS in FY2010E and 0% for FY2011E. Around 70% of PF's sales come from value segment sales (Big Bazaar and Food Bazaar), which should provide some buffer to double-digit decline in other segments.

Exhibit 7: PF's net debt/EBITDA rises to 4.2X in FY2010E under our stress-case assumptions

Stress-case analysis, March fiscal year-ends, FY2010-11E (Rs mn)

	Current assumptions		SSS lower by 5% (A)		10% lower real sales (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
EBITDA (Rs mn)	7,298	8,298	6,771	7,150	6,828	7,523	6,316	6,432
Net debt (Rs mn)	27,565	31,555	27,883	32,546	26,120	29,283	26,429	30,230
Net debt/EBITDA (X)	3.8	3.8	4.1	4.6	3.8	3.9	4.2	4.7
Net debt/Equity (X)	1.3	1.4	1.4	1.5	1.4	1.5	1.4	1.5
Interest coverage ratio (X)	1.6	1.7	1.5	1.4	1.5	1.5	1.4	1.2

Note:

1. SSS stands for same-store sales.

Source: Kotak Institutional Equities estimates

- **Real estate.** Exhibit 8 shows that the balance sheets of real estate companies are quite vulnerable to (1) lower volumes and (2) lower pricing. Unitech's balance sheet is already quite weak and could deteriorate further if it is unable to meet our volume and pricing assumptions. We note that the situation is similar for HDIL with net debt-to-equity ratio of 4.1X and interest coverage of 1.3X for FY2010E even under our base-case scenario.

Exhibit 8: Unitech appears to be the most vulnerable to a prolonged downturn in real estate demand

Analysis of balance sheet of real estate stocks under stress-case conditions, March fiscal year-ends, 2010-11E

	Current assumptions		Volumes lower (A)		Pricing lower by 10% (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
DLF	No commercial volumes							
EBITDA (Rs mn)	53,015	57,985	41,049	65,949	44,888	46,962	34,107	53,879
Net debt (Rs mn)	101,967	99,919	110,276	107,285	105,512	110,608	112,840	117,637
Net debt/EBITDA (X)	1.9	1.7	2.7	1.6	2.4	2.4	3.3	2.2
Net debt/Equity (X)	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
EBITDA/Interest (X)	3.4	4.7	2.6	5.4	2.9	3.8	2.2	4.4
HDIL	No TDR and FSI sale							
EBITDA (Rs mn)	8,072	9,918	7,239	9,918	6,641	8,533	6,027	8,751
Net debt (Rs mn)	32,933	33,213	33,109	33,952	34,318	36,662	34,357	37,054
Net debt/EBITDA (X)	4.1	3.3	4.6	3.4	5.2	4.3	5.7	4.2
Net debt/Equity (X)	0.7	0.6	0.7	0.7	0.8	0.8	0.8	0.8
EBITDA/Interest (X)	1.5	1.9	1.4	1.9	1.2	1.7	1.1	1.7
Unitech	Volume assumptions unchanged							
EBITDA (Rs mn)	17,305	15,451	17,305	15,451	15,885	12,739	15,885	12,739
Net debt (Rs mn)	96,621	102,956	96,621	102,956	98,651	107,787	98,651	107,787
Net debt/EBITDA (X)	5.6	6.7	5.6	6.7	6.2	8.5	6.2	8.5
Net debt/Equity (X)	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8
EBITDA/Interest (X)	1.3	1.1	1.3	1.1	1.1	0.9	1.1	0.9

Source: Kotak Institutional Equities estimates

We believe lower pricing will likely lead to higher volumes and improve cash flows of the companies. Our stress-case assumption of a further 10% lower pricing versus our base-case assumptions translates into a cumulative 40-45% decline from peak prices. We believe affordability will increase significantly at those levels of real estate prices; in fact, affordability will improve to FY2005 levels.

We see no other option for real estate companies but to accelerate generation of cash flows through more pragmatic pricing policies. We do not see the sale of land as an option. We note that the net debt-to-equity ratio is reasonable but the net debt-to-EBITDA looks uncomfortably high.

- **Suzlon.** Suzlon's weak financial position has been a matter of concern for sometime now. Even under our base-case assumptions, Suzlon has a very high net debt-to-equity ratio; the current precarious position could deteriorate further in case volumes and pricing were to decline simultaneously (see Exhibit 9). This probability increases given (1) Suzlon's operating problems (blade-cracking issues) and declining presence in the key US market, (2) difficulty in booking new orders (see Exhibit 10) and (3) erosion in competitiveness of wind power at the current low levels of oil and natural gas prices. We highlight that Suzlon could possibly breach its debt covenants in FY2010E even in our base-case scenario.

Exhibit 9: Suzlon likely to breach debt covenants in FY2010E even in base-case scenario
Stress-case analysis, March fiscal year-ends, FY2010-11E (Rs mn)

	Current assumptions		Volumes lower by 10% (A)		Pricing lower by 10% (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Suzlon								
EBITDA (Rs mn)	22,989	30,408	20,257	27,239	19,729	23,214	17,323	20,765
Net debt (Rs mn)	115,000	112,434	111,980	111,513	112,385	109,929	109,522	108,949
Net debt/EBITDA (X)	5.0	3.7	5.5	4.1	5.7	4.7	6.3	5.2
Net debt/Equity (X)	1.2	1.0	1.2	1.1	1.2	1.1	1.2	1.1
EBITDA/Interest (X)	1.8	2.6	1.5	2.3	1.4	1.8	1.2	1.5

Note:

- Following are the debt covenants:
 - Net debt:Equity \leq 1:1, (b) Net debt:EBITDA \leq 4:1, (c) Debt service coverage ratio $>$ 1.33X.
- Net debt for FY2010E and FY2011E includes debt for purchase of Martifer's stake in REpower.
- Data is for Suzlon and Hansen only.

Source: Kotak Institutional Equities estimates

Exhibit 10: Suzlon's order book has significantly declined in 3QFY09
Suzlon's sales and order book data, March fiscal year-ends, 2007-09

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09
Order book (MW)											
Domestic	207	206	372	267	315	369	441	160	267	236	98
Export	610	1,237	1,271	1,692	2,567	2,882	2,916	3,294	2,772	2,269	1,818
Total	817	1,443	1,643	1,958	2,882	3,251	3,357	3,454	3,040	2,505	1,916
Order book (Rs bn)											
Domestic	8	8	15	14	17	20	24	9	14	13	5
Export	30	58	62	81	118	143	147	174	150	133	99
Total	38	66	77	95	135	163	171	183	165	147	104
Sales (MW)											
Domestic	171	216	190	379	125	238	270	341	146	205	168
Export	25	172	149	154	192	445	275	424	192	522	511
Total	196	388	339	533	317	683	545	765	338	727	679

Source: Kotak Institutional Equities estimates

- **Tata Motors (TTMT).** We note that the balance sheet of TTMT is already quite stretched with a very high net debt-to-equity ratio (see Exhibit 11). An improvement in demand for commercial vehicles is critical for TTMT's cash flows. We model an 11% yoy and 5% yoy increase in M&HCV and LCV volumes in FY2010E, respectively, followed by 15% and 9% growth in FY2011E. However, continued high capital expenditure will likely result in negative FCF for TTMT in both FY2010E and FY2011E.

Exhibit 11: Balance sheet of Tata Motors is already quite stretched

Analysis of Tata Motors' balance sheet in stress-case scenarios, March fiscal year-ends, 2010-11E

	Current assumptions		Volumes lower by 10% (A)		Pricing lower by 10% (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
EBITDA (Rs mn)	36,443	36,136	32,366	28,216	34,147	31,056	30,300	24,101
Net debt (Rs mn)	189,156	196,934	190,794	204,165	190,911	203,180	192,373	209,432
Net debt/EBITDA (X)	5.2	5.4	5.9	7.2	5.6	6.5	6.3	8.7
Net debt/Equity (X)	1.3	1.2	1.3	1.4	1.3	1.3	1.3	1.5
EBITDA/Interest (X)	2.1	2.0	1.9	1.6	2.0	1.7	1.7	1.4

Source: Kotak Institutional Equities estimates

On a standalone basis, TTMT's position looks relatively safe with net debt-to-equity of 0.6X and 0.6X for FY2010E and FY2011E, respectively, and interest coverage ratio of 2.5X and 2.4X. We believe the Tata group may have to possibly consider a restructuring of TTMT (dispose of JLR for the best possible realization) and/or restructuring of the group (dispose of an asset) if global macro-economic conditions worsen and remain dismal for an extended period.

- **Telecom.** Exhibit 12 shows that the balance sheets of certain Indian telecom companies are in reasonable shape but could deteriorate in case of pressure on pricing due to enhanced competition in the sector and concomitant slowdown in subscriber additions. We do not have information on the balance sheets of the unlisted entities in the wireless telecom sector but we suspect that the balance sheets of those entities are quite weak.

Exhibit 12: We see significant scope for decline in pricing and thus, pressure on balance sheets of telecom companies

Analysis of balance sheet of telecom stocks under stress-case conditions, March fiscal year-ends, 2010-11E

	Current assumptions		Volumes lower by 10% (A)		Pricing lower by 10% (B)		Combination of (A) & (B)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Idea Cellular								
EBITDA (Rs mn)	36,004	44,903	31,760	39,669	31,095	38,822	28,434	35,434
Net debt (Rs mn)	85,272	98,201	90,497	100,710	91,293	101,949	94,477	106,905
Net debt/EBITDA (X)	2.4	2.2	2.4	2.4	2.9	2.6	3.3	3.0
Net debt/Equity (X)	0.6	0.6	0.6	0.7	0.7	0.8	0.7	0.8
EBITDA/Interest (X)	4.6	4.9	4.1	4.3	4.0	4.2	3.6	3.9
Reliance Communications								
EBITDA (Rs mn)	113,116	141,780	101,110	125,027	98,974	122,374	90,430	111,765
Net debt (Rs mn)	378,549	367,737	404,018	407,719	404,658	419,994	407,218	439,094
Net debt/EBITDA (X)	3.3	2.6	3.8	3.1	3.9	3.2	4.3	3.6
Net debt/Equity (X)	1.0	0.8	1.0	0.9	1.0	1.0	1.0	1.0
EBITDA/Interest (X)	5.5	6.4	4.9	5.6	4.8	5.5	4.4	5.0

Source: Kotak Institutional Equities estimates

We would focus on net debt-to-EBITDA ratio in case of telecom companies and ignore debt-equity and interest coverage ratios. In some cases, (1) the equity base is inflated by revaluation of assets and goodwill and (2) aggressive accounting policies do not result in full interest cost and cost of borrowing (FC loans) reflecting in the P&L of the companies. In particular, we highlight RCOM's policy of capitalizing losses on FC loans due to unfavorable currency movements but booking of gains on corresponding hedges in the P&L.

We also highlight that RCOM has outstanding FCCBs of US\$1.5 bn convertible/payable in March 2011 (US\$0.5 bn) and February 2012 (US\$1 bn). These FCCBs are convertible at very high prices compared to RCOM's current stock price and are thus, unlikely to be converted into equity.

- ▶ **United Spirits (UNSP).** Exhibit 13 highlights UNSP's debt position and coverage ratios in our base-case and stress-case scenarios. We have assumed a volume growth of 14% in FY2010E and 10% for FY2011E, as against 18% in FY2009E (UNSP's 9MFY09 volume growth was 19%) and 11% in FY2008. Similarly, we have assumed price growth of 8% and 7% for FY2010E and FY2011E as against our assumptions of 7% in FY2009E and 5.6% in FY2008. We highlight that the price increases are due to a combination of (1) price increases and (2) improvement in product-mix, which leads to higher realizations per case sold.

Exhibit 13: UNSP's balance sheet appears quite weak currently

Analyzing implications of extreme situations for United Spirits, March fiscal year-ends, 2010-11E

	Current assumptions		Volumes lower by 10% (A)		No price increase (B)		Combination of (A) & (B)	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
EBITDA (Rs mn)	14,163	16,084	12,145	11,436	12,834	11,913	10,934	7,980
Net debt (Rs mn)	63,512	60,238	64,418	63,736	64,083	62,939	64,938	66,042
Net debt/EBITDA (X)	4.5	3.7	5.3	5.6	5.0	5.3	5.9	8.3
Net debt/Equity (X)	2.4	1.8	2.5	2.1	2.5	2.0	2.6	2.3
Interest coverage ratio (X)	2.1	2.6	1.8	1.8	1.9	1.9	1.6	1.2

Source: Kotak Institutional Equities estimates

Our stress-case scenario assumes domestic volume growth of 4% and 0% for FY2010E and FY2011E, respectively, 10% lower than our current assumptions and without any increase in pricing. UNSP's sales grew in low single digits in FY2005-06. We note that pricing in the alcohol sector depends to a large part on the government-mandated price increases, which have to be negotiated with each state government. Additionally, a deterioration of the product-mix due to down-trading could lead to downward pressure on prices.

FUNDING: LIMITED OPTIONS

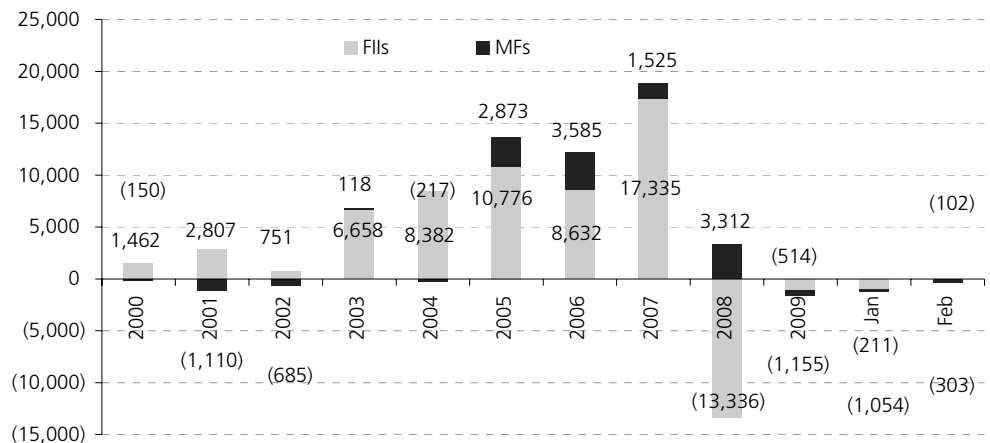
We believe limited funding options may force certain companies and diversified groups to explore options such as the sale of assets and/or companies in cases of further deterioration in operating environment and continuation of current anemic capital market conditions. Many companies have already tapped available sources of funding—debt, equity, convertible and promoters' funding.

Limited funding options

We see limited funding options for companies with high gearing. We rule out the traditional sources of funding.

- **Equity.** We rule out companies being able to raise equity for the next several months in light of current very weak capital market conditions. Net selling by FIIs and small investments by domestic financial institutions suggests that investment sentiment is very weak and will likely remain so for the next several months (see Exhibit 14). Exhibit 15 shows that fund raising through IPO/FPOs has declined to negligible levels in FY2009E. Some of the high-debt companies have also practically exhausted the option of equity financing from extant shareholders through rights issues. These issues have to be largely subscribed by the promoters (see Exhibit 16), which also reflects the current bleak investment sentiment.

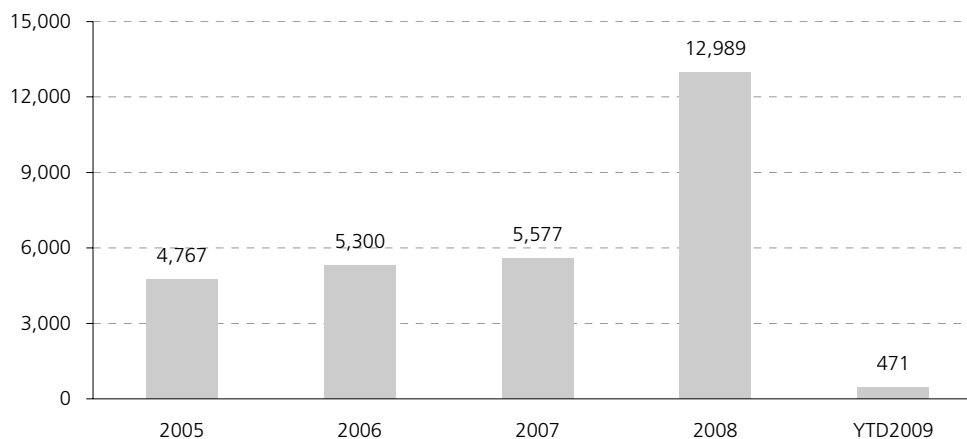
Exhibit 14: FIIs continue to remain net sellers in CY2009
Net FII inflows, calendar year-ends 2000-09 (US\$ mn)



Source: Bloomberg

Exhibit 15: Very little equity funding raised in FY2009E

Amount raised by Indian companies through equity issuance, March fiscal year-ends, 2005-09 (US\$ mn)



Source: Prime database, Kotak Institutional Equities

Exhibit 16: A significant portion of recent rights issues was subscribed by the promoters

Allotment schedule of major rights issues in FY2009

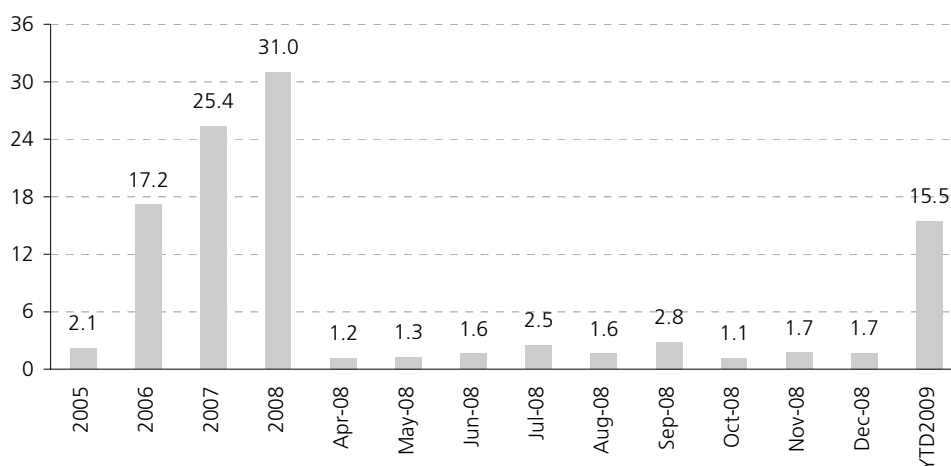
	Date	Amount (Rs bn)	Aggregate shares (mn)		Subscribed (X)	Allotment of shares (%)			Promoters
			Offered	Allotted		Shareholders	Renounees	Underwriters	
Dish TV	12-Dec-08	11	518	518	1.0	40.2	19.2	—	40.6
Hindalco Industries	22-Sep-08	50	526	473	0.9	16.8	0.1	34.0	39.1
Tata Investment Corp.	27-Sep-08	4	7	7	1.0	65.5	0.2	—	34.2
Tata Motors	29-Sep-08	22	64	64	1.0	41.3	0.3	—	58.2

Source: Prime Database, Kotak Institutional Equities

- ▶ **Foreign borrowing (ECBs or FCCBs).** We do not see the current global macro-environment and weak financial condition of most global financial institutions as conducive for raising ECBs or FCCBs over the next several months. We note that Indian companies have been fairly active over the past few months in raising ECBs (see Exhibit 17). However, we are unsure whether the frenetic pace of borrowings can sustain with the growing global credit pressures.

Exhibit 17: Significant amount raised by Indian companies through ECBs and FCCBs

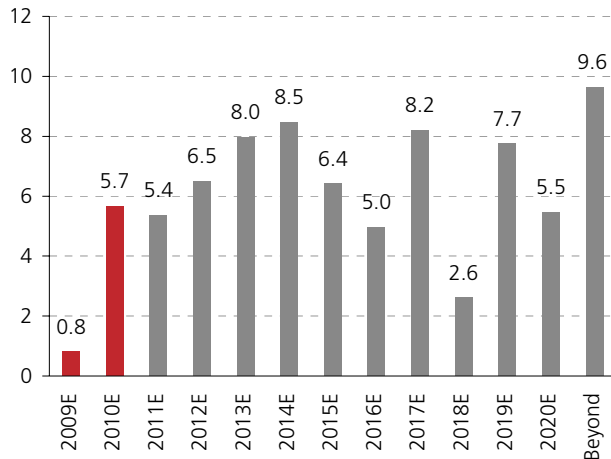
Amount raised by Indian companies through ECBs and FCCBs, March fiscal year-end, 2005-2009 YTD (US\$ bn)



Source: RBI, Kotak Institutional Equities

On the other hand, Indian companies will have to repay increasing amounts of ECBs and FCCBs raised earlier from FY2010E. Exhibit 18 shows the maturity profile of ECBs raised by Indian companies and Exhibit 19 gives the same data for FCCBs. We expect very few of the FCCBs to convert since most of them are trading well below the conversion price.

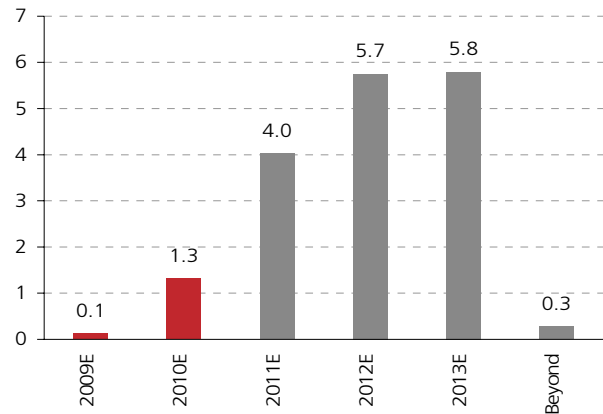
Exhibit 18: Large repayments due in FY2010E and FY2010E
Year-wise maturity profile of the ECBs (US\$ bn)



Source: RBI, Kotak Institutional Equities, Bloomberg

Exhibit 19: Major amount of FCCBs are convertible/due for repayment after FY2010E

Year-wise maturity profile of the FCCBs (US\$ bn)

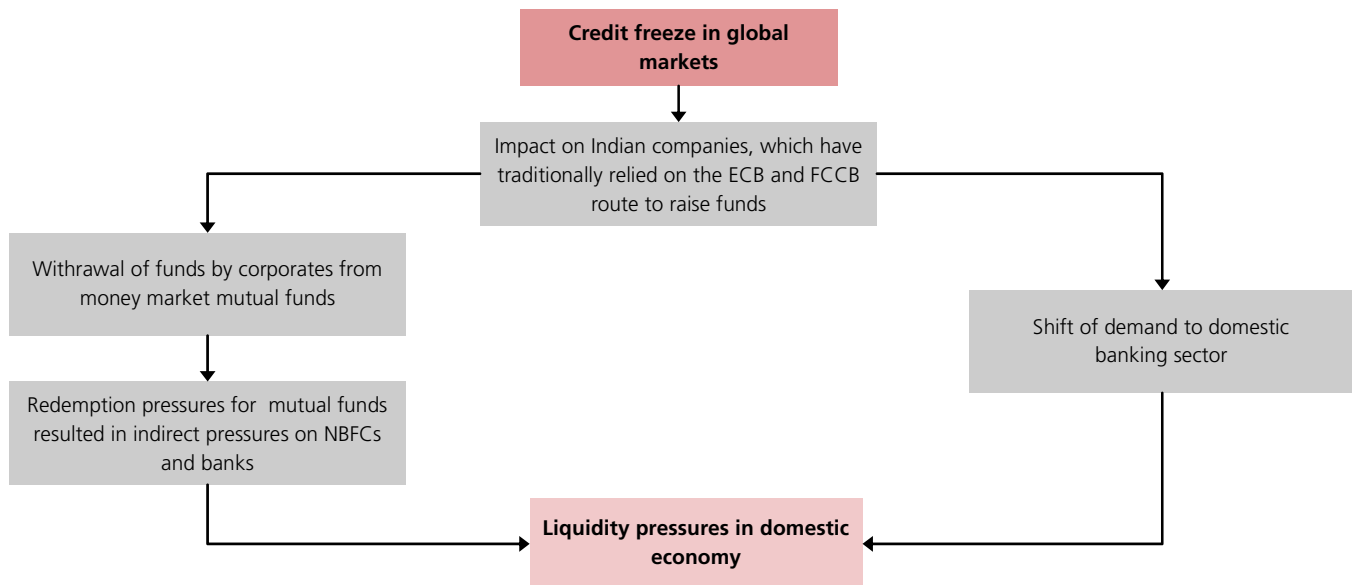


Source: Kotak Institutional Equities, Bloomberg

- ▶ **Domestic borrowing (banks).** We are skeptical about banks increasing their exposure to highly leveraged Indian companies. We assume a significant portion of the outstanding debt of these companies would be to Indian banks. Additionally, we expect banks to be increasingly careful in increasing their exposure to companies/group with weak balance sheets given their concerns about likely increases in NPLs in the banking system in general.

We highlight that the entire burden of funding has fallen on the banking system following the collapse of the credit cycle in September/October 2008 (see Exhibit 20). Exhibits 21 and 22 shows credit growth has slowed down over the past few months; however, we note that a portion of this is due to decline in borrowings by the government-owned downstream oil companies. The borrowings of these companies had peaked in early November, 2008 but have declined subsequently due to improved cash flows from (1) steep decline in global crude oil prices relative to domestic selling prices of regulated products and (2) receipt of oil bonds of Rs610 bn in 9MFY09 from the government.

Exhibit 20: Credit turmoil in global markets has impacted the liquidity scenario in India
 Chart explaining liquidity pressures arising in domestic market due to global credit crisis

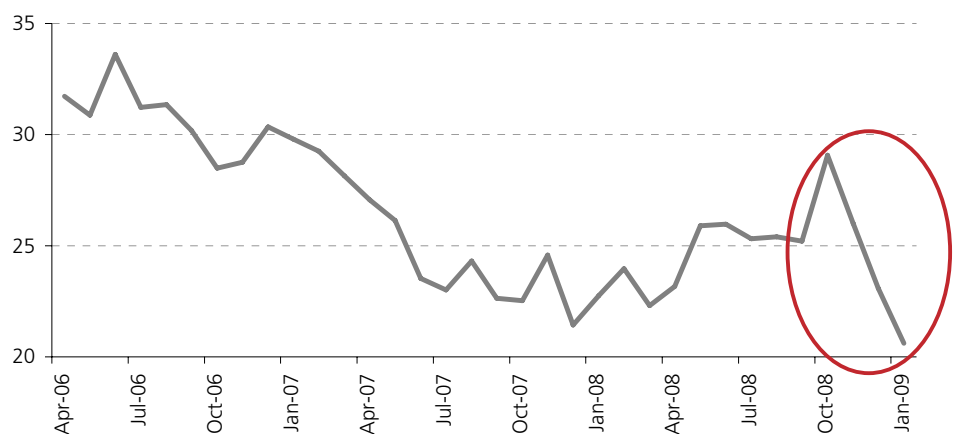


Note:

1. The chart is derived from speech of Duvvuri Subbarao, RBI Governor, at the Symposium on "The Global Economic Crisis and Challenges for the Asian Economy in a Changing World" organized by the Institute for International Monetary Affairs, Tokyo on February 18, 2009.

Source: RBI, Kotak Institutional Equities

Exhibit 21: Sharp decline in non-food credit growth in January 2009
 YoY growth rates in non-food credit growth (%)



Source: RBI, Kotak Institutional Equities

Exhibit 22: Banks are going slow with incremental loans coming off in 3QFY09
Incremental loans of banks, March fiscal year-ends, 1QFY08-3QFY09 (Rs bn)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09
Public banks						
Andhra Bank	28	8	32	(5)	24	56
Bank of Baroda	120	53	112	45	83	77
Bank of India	73	78	111	81	64	68
Canara Bank	7	32	87	27	94	96
Corporation Bank	23	18	47	(2)	46	14
Indian Bank	26	40	35	43	36	24
IOB	27	33	64	24	63	20
OBC	18	44	41	7	51	45
PNB	58	1	180	(51)	160	111
State Bank of India	190	315	265	264	502	104
Union Bank	49	57	16	—	107	64
Total public banks	618	678	991	433	1,228	679
Old private banks						
Federal Bank	15	13	14	14	10	2
J&K Bank	8	2	6	12	12	(6)
New private banks						
Axis Bank	34	39	110	15	77	65
HDFC Bank	84	91	(80)	334	54	(34)
ICICI Bank	88	84	101	(15)	(22)	(95)
Total private banks	230	229	152	360	132	(68)
Total	907	907	1,143	793	1,360	611

Source: Company, Kotak Institutional Equities

- **Pledging of shares.** We do not see this as a meaningful option with promoters of several Indian companies having already pledged a significant portion of their shareholding (see Exhibit 23). The promoters of several Indian companies have raised significant amounts of funds to (1) increase their shareholding in their companies (voluntary or forced), (2) fund egregious expansions in related and unrelated areas and (3) make acquisitions.

Exhibit 23: Promoters of Indian companies have raised >US\$11.8 bn through the pledge of shares
Sector-wise pledged share information (US\$ mn)

	Value (US\$ mn)	Major companies included
Telecom	1,601	Reliance Communications, Tata Communications, Tata Teleservices
Technology	1,205	Tata Consultancy Services
Consumers	1,203	United Spirits, Asian Paints, Dabur
Power	1,138	Tata Power, Reliance Infrastructure, Jaiprakash Hydro
Metals	950	Tata Steel, JSW Steel
Diversified	738	Adani Enterprise, GMR Infrastructure, Sintex
Engineering	682	Suzlon Energy
Pharma	662	Dr Reddy, Lupin
Oil&Gas	605	Essar Oil
Construction & Property	474	Akruti City, Parsvnath Developers
Automobiles	338	Mahindra & Mahindra, Tata Motors
Cement	315	India Cements
Media	261	Zee Entertainment, Network 18
Fertilizers	191	Tata Chemicals
Sub-total	10,362	
Total (US\$ mn)	11,839	
Analyzed (%)	87.5	

Note:

1. Our calculations are based on number of shares pledged X current price of the stock.

Source: BSE, Kotak Institutional Equities, Bloomberg

Group restructuring/disposal of assets a way out in some cases in extreme scenario

We do not rule out diversified groups having to sell off certain strategic investments and companies having to sell assets in case of a severe global recession and prolonged downturn in certain industries. We clarify that the following discussion is not a forecast of corporate strategies but merely our attempt to explore options in front of some companies/groups deeply impacted by (1) the severe global recession, (2) weak operating environments in their respective sectors and (3) moribund equity and debt capital markets for an extended period of time.

- ▶ **Aban Offshore.** We believe Aban will have to continuously refinance its debt and gradually pay down its current very high debt over a period of time through its operating cash flows. We do not see Aban facing financial difficulties if it can sustain a reasonably high utilization rate for its extant rigs. Although Aban's net debt-to-equity for FY2010E appears uncomfortably high at 3.7X, its high interest coverage ratio (3.6X for FY2010E) allays some concerns of an imminent default on interest payment. Thus, we believe Aban can refinance its debt repayments as and when they become due. We estimate Aban will need debt refinancing of about Rs23 bn in FY2010-12E as its operating cash flows will be insufficient to meet its debt repayment obligations. However, we would caution that the cash flow shortfall can be higher in case of further delays in contracting of rigs or decline in dayrates below our estimates.

Aban's shareholders may have to live with the specter of very high net debt-equity ratio for the next few years unless (1) capital markets improve, which would allow an equity issuance and (2) dayrates increase significantly from current levels. This will also act as an overhang on its share price. Aban can explore the option of selling certain rigs to alleviate its debt position, especially, if conditions in the global drilling market were to deteriorate significantly. In our view, Aban's high market capitalization-to-net debt (9X based on FY2009E net debt) precludes a rights issue or equity financing.

- ▶ **Aditya Birla (AV Birla) Group.** Exhibit 24 shows the various options for Aditya Birla group. In our view, a stake sale in Idea Cellular Services (49% owned by AV Birla group) may be least painful and perhaps, most fruitful option. Telekom Malaysia, which owns 14.99%, (will increase to 19.1% post Spice merger and share swap) would be presumably interested as it had bought the stake in Idea Cellular at Rs157 per share in June 2008. We view the telecom sector as entering into a value-destructive era with enhanced competition, low pricing power and likely slowdown in subscriber additions. We doubt the group would want to sell any of its 'traditional' companies such as ABNL (erstwhile Indian Rayon), Grasim Industries and Hindalco.

However, the group's financial issues could be addressed significantly if it is able to resolve issues regarding Novelis/Hindalco. Other group companies such as Grasim are financially solid companies, enjoy tremendous competitive positions in their respective businesses and will comfortably tide over any prolonged industry downturn.

Exhibit 24: Stake sales by Aditya Birla Group in various group companies could improve financial position of group companies
Various options for Aditya Birla Group to improve overall financial position

	Options	Action	Implications
I	Sell Idea	Aditya Birla group can sell its entire or part of its 49% holding in Idea for Rs200 bn	The stake sale will result in cash inflow of Rs200 bn (valued at 20% discount to Telekom Malaysia's acquisition price of Rs157/share).
II	Sell garment and insulator division of ABNL	Can raise Rs7 bn	Valued at 20% premium to current EV.
III	Sell Novelis	Hindalco can sell 100% stake in Novelis to raise US\$1 bn and reduced its overall debt burden	Will result in cash inflow of US\$3.5 bn (valued at 7X mid-cycle EBITDA of US\$500 mn) of which US\$2.5 bn will go towards existing debt of Novelis. The balance of US\$1 bn will be adjusted towards the SPV debt of US\$1 bn.

Source: Kotak Institutional Equities estimates

- ▶ **Hindalco.** Exhibit 25 shows the various options for Hindalco. In our view, Hindalco will have to take a call between (1) exiting from Novelis at a large loss compared to its original acquisition price of US\$6 bn and (2) holding on to Novelis with the assumption that Novelis will pay down its debt (US\$2.4 bn outstanding at end-3QFY09) over a period of time. The latter option will weigh on Hindalco's share price for a long time, in our view. However, we note that both Hindalco and Novelis would be profitable at current levels of aluminum prices of US\$1,400/ton (assuming no gains/losses from hedging and contracts) and as such, there is no necessity to take an immediate decision. Both entities can meet their interest obligations and refinance payment of debt with net debt-to-equity ratio at 0.8X and EBITDA/interest ratio at 2.3X for FY2010E under stress-case assumptions. Our stress-case scenario factors in aluminum price at US\$1,530/ton, about 10% above current levels.

Exhibit 25: Hindalco can likely raise Rs27.3 bn from stake sale of investments

Various options for Hindalco to improve overall financial position

Options	Value (Rs bn)	Implications
I Sale of Novelis	—	Sale of Novelis will result in cash inflow of US\$3.5 bn (valued at 7X mid-cycle EBITDA of US\$500 mn) of which US\$2.5 bn will go for repaying existing debt of Novelis. The balance of US\$1 bn will be adjusted towards the SPV debt of US\$1 bn.
II Sale of investments including group companies		
(A) Promoter group companies		Sale of stake in promoter group companies will likely result in cash inflow of Rs27 bn
2.5% stake in Grasim	2.6	
9.1% stake in Aditya Birla Nuvo	6.3	
7.4% stake in Idea	17.1	
(B) Sale of other investments		
Sale of investment in Nalco (1.1% stake)	1.0	
Stake sale in other subsidiaries	0.4	
Total from sale of Novelis and stake sale of investments	27.3	

Source: Kotak Institutional Equities estimates

- ▶ **JSW.** Exhibit 26 explores various options for JSW management in case of a prolonged downturn in the global steel industry. JSW's non-integrated operations and very high debt position make it the most vulnerable among domestic large steel manufacturers. In our view, JSW has somewhat limited options.

Exhibit 26: Sale of iron ore mines (in Chile) or coal mines (Mozambique) will likely improve financial position of JSW Steel

Various options for JSW Steel to improve overall financial position

Options	Implications
I Sale of iron ore mines in Chile	(1) This could raise US\$125 mn (50% of acquisition cost given the sharp deterioration in iron ore prices and uncertainty over future investment required)
II Sale of Mozambique coal mines	We believe that selling these mines will not help much as (1) these are mining rights requiring significant investments for the development of mines and (2) coking coal prices have declined sharply resulting in much lower valuation
III Sale of SISCOOL	(1) JSW could raise US\$300 mn (Rs15 bn) based on 5X FY2010E EBITDAs (SISCOOL has a capacity of 1 mtpa and captive iron ore)
IV JV with international majors such as Arcelor Mittal, Posco	(1) In our view, there would be many equity investors given that (a) steel prices have come off sharply in the past six months and (b) cash flows are strained across the industry. (2) Since there have been very few foreign direct investments in the Indian steel industry, Arcelor Mittal/Posco could buy stake in JSW to set up presence in India (3) Chinese resource companies have become active in the M&A space and have recently acquired stake in Rio Tinto, OZ Minerals, etc. They could look at entering India via JSW Steel

Source: Kotak Institutional Equities estimates

- **Suzlon.** Exhibit 27 shows Suzlon's cash flows and options to extricate itself from its current difficult position. We believe Suzlon has the fall-back option of divesting a stake in REpower in case it needs to. We highlight that cash available in Hansen and REpower is quarantined and Suzlon can not use that to meet any of its wind business obligations. We have assumed that most of Suzlon's extant debt will get replaced by equivalent debt from other source. Suzlon requires additional cash of about Rs14 bn in early FY2010E for acquisition of Martifer's stake in REpower.

Exhibit 27: Improvement in working capital cycle and stake sale in subsidiaries will likely improve Suzlon's balance sheet position
Options available with Suzlon to raise cash for near term requirements

	Probability	Cash inflow (Rs bn)	Net debt outstanding (Rs bn)	EBITDA		Net debt/ EBITDA (X)	Interest coverage ratios	
				3QFY09 (Rs bn)	FY2010E (Rs bn)		at 14%	at 12%
Net debt outstanding as of Dec 2008			111	7	23	4.8	1.5	1.7
Our comfort levels			92		23	4.0	1.8	2.1
Options available for Suzlon								
(A) Working capital reduction								
Cash generation from squeezing working capital	High	10						
(B) Stake sale in subsidiaries			101		23	4.4	1.6	1.9
10% stake sale in Hansen Transmissions at GBP1/ share	Medium	5						
(C) Equity dilution			96		23	4.2	1.7	2.0
Sale of equity at Rs42/share resulting an equity dilution of 5%	Low	3						
Coverage ratios post (A)+(B)+(C)			93		23	4.0	1.8	2.1

Source: Kotak Institutional Equities estimates

Suzlon reported equity of Rs110 bn and net debt of Rs111 bn at the end of December 2008 at the group level. Thus, it is just about meeting its debt covenant of net debt-to-equity ratio of 1X. Any further raising of debt funds would lead to breaching of this covenant. We expect the net debt-to-equity ratio to increase to 1.2X and net debt-to-EBITDA ratio to increase to 5.0X by end of FY2010E, thereby breaching two of the three debt covenants. We highlight that in a stress-case scenario (decline in volume and prices by 10% each), Suzlon would breach all of the three debt covenants in FY2010E.

- **RCOM.** Exhibit 28 considers the various options for RCOM to reduce its current high debt. In our view, the most convenient option would be stake sale in its 95% tower subsidiary, Reliance Infratel Ltd (RITL). We value RITL at US\$3.2 bn and a 25% stake sale at a 25% premium to our valuation can result in US\$1 bn of additional cash for RCOM. This would bring down RCOM's debt-to-EBITDA ratio to 3X from our projected 3.5X for FY2010E.

Exhibit 28: Equity dilution and stake sale in Reliance Infratel could improve the financial position of Reliance Communications
Various options for Reliance Communications to monetize investments and improve overall financial position

	Probability	Cash inflow	Debt outstanding (gross)		EBITDA		Debt/ EBITDA (X) FY2010E	Interest coverage ratio (X) FY2010E
			3QFY09	FY2010E	3QFY09	FY2010E		
Current debt situation			267	398	23.5	113.1	3.5	3.9
Our comfort levels				283			2.5	4.6
Options available for RCOM								
(A) Subsidiary stake sale								
(1) Sale of stake in Reliance Infratel, the tower company (25%), at an equity valuation of US\$3 bn	Medium	38					3.1	4.2
(1) Sale of stake in Reliance Globalcom (25%) at an equity valuation of US\$1 bn	Low	13						
(B) Equity dilution							2.6	4.5
(1) 26% equity dilution in the parent company at an equity valuation of US\$8 bn	Medium	104						
Coverage ratios post (A) and (B)							2.2	4.9

Source: Kotak Institutional Equities estimates

- ▶ **Tata Motors (TTMT).** In Exhibit 29, we look at various options for TTMT. We see equity infusion by the major shareholder of TTMT as the only real option for TTMT to reduce its debt position if operating cash flows do not improve meaningfully. More important, the major shareholder of TTMT may have limited options to raise funds without a group restructuring or stake sale in one or more entities.

Exhibit 29: Tata Motors has limited options to get out of a difficult financial position

Analysis of various options for TTMT to reduce debt

	Options	Implications
I	Equity infusion by Tata Sons/group companies	(1) Equity infusion (from promoters) required would be Rs80 bn to reach a comfortable net debt/EBITDA of 3X FY2010E
		(2) Promoter's stake in the company will go up to 75.3% from 41.8% currently
		(3) Seems difficult without large availability of funds in Tata Sons
II	Monetize assets of JLR	(1) Outstanding SPV debt of US\$2 bn would have to be serviced by TTMT
		(2) TTMT's exposure to pension liabilities (unquantified as of now) would remain in case of a shutdown of JLR's facilities
		(3) In case of winding up, pension liabilities will be ranked in line with those of unsecured creditors
		(4) TTMT would save on expected cash burn of US\$200 mn in CY2009E and equivalent amounts in subsequent years
III	Sell JLR	Seems unlikely as none of the global auto companies seem to be in a position to buy out JLR's assets
IV	Stake sale in subsidiaries	TTMT could sell part/whole of its stake in subsidiaries resulting in inflow of US\$500-600 mn
		(a) Tata-Daewoo could fetch US\$180 mn (assuming 100% stake sale, valued at 6X FY2009E EBITDA)
		(b) Sale of stake in Tata Construction Equipment Company could fetch US\$240 mn (at 12X FY2009E EPS)
		(c) Sale of stake in other subsidiaries could fetch US\$200-300 mn

Source: Kotak Institutional Equities estimates

- ▶ **Tata Group.** Exhibit 30 explores the various options for the Tata group in case of a very bad scenario for demand and financing. In our view, the most suitable course of action would be to exit from its telecom company, TTSL, as we see limited merit in divesting stakes in TCS at current low valuations. We see (1) NTT DoCoMo's keen interest in TTSL (it is putting in US\$2.7 bn for a 26% stake in TTSL), (2) TTSL's weak position in the Indian telecom market and (3) likely rapid deterioration in the operating environment of the Indian wireless sector with likely reduction to termination charges and introduction of mobile number portability (MNP) by end-FY2010E. We highlight that the group's liquidity position is comfortable on an aggregate level (see Exhibit 31).

Exhibit 30: Stake sales by Tata Sons in various group companies could improve financial position of the Tata Group

Various options for Tata Group to monetize investments and improve overall financial position

	Options	Action	Implications
I	Stake sale in TTSL	Tata Sons could sell its 33% stake in TTSL to NTT DoCoMo or other interested global telecom companies.	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 their 26% stake purchase. Given their strategic stake, we believe they would have the right of first refusal. NTT DoCoMo can raise its stake to 74%, allowing them the flexibility to buy Tata Sons' stake.
II	25% stake sale in TCS	Tata Sons holds a 76% stake in TCS. A 25% stake could be sold but this will likely be a gradual process	Tata Sons could receive US\$2.7 bn (Rs130 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. TCS is expected to generate US\$800 mn (Rs40 bn) in free cash flow. We believe it can pay dividend close to 50% of this amount.

Source: Kotak Institutional Equities estimates

Exhibit 31: Liquidity position of Tata group is comfortable at group level
Liquidity position at group level; only major listed entities considered (Rs bn)

	Major Tata group companies					Total
	Tata Steel	TCS	TTMT	TPWR	TCOM	
Key statistics						
Value (Rs/share)	172	485	131	747	418	NA
Market capitalization	141	475	73	166	119	974
Promoter stake (%)	33.9	76.4	47.0	33.3	76.2	
Promoter stake	48	363	34	55	91	591
Stake pledged (%)	13.5	11.1	8.2	13.0	7.0	
Stake pledged	19	53	6	22	8	108
FY2009E revenues	1,584	280	302	80	38	2,284
Current financial position						
FY2010E total debt	686	—	228	214	62	1,190
FY2010E cash	273	29	6	10	7	324
FY2010E investments	34	14	49	34	7.7	139
FY2008 EBITDA	174	54	28	22	8	287
FY2009E EBITDA	186	66	25	35	13	325
FY2010E EBITDA	144	66	36	45	14	306
Gross interest expense in FY2010E	35	—	18	7	7	66
Capital expenditure in FY2010E	(111)	(10)	(35)	(92)	(19)	(267)
of which maintenance	(10)	(10)	(15)	(10)	(5)	(50)
Free cash flow in FY2010E	59	46	(23)	(65)	(5)	12
Assuming only maintenance capex	160	46	(3)	17	10	229
Debt coming due in FY2010E	—	—	113	4	—	117
Financing requirement in FY2010E	58	46	(136)	(69)	(5)	(105)
Assuming only maintenance capex	159	46	(116)	13	10	112
FY2010E Net debt/EBITDA (X)	2.8	NA	5.2	3.8	3.4	2.4
FY2010E EBITDA/Interest (X)	4.2	NA	2.1	6.6	2.1	4.6

Source: Kotak Institutional Equities estimates

- **Unitech.** We do not see many options in front of Unitech management other than the sale of various land parcels, perhaps at distressed valuations, and a stake sale in its telecom subsidiary (see Exhibit 32). The option of partnering with REITS, real estate sector funds and private equity players in SPVs may not be feasible in the current apathetic environment for investment by financial institutions in the real estate sector and Unitech's poor track-record in executing projects. We note that Unitech had floated a company on AIM (Unitech Corporate Parks) by carving out six of its properties and raised GBP360 mn. Most of the projects in this entity have seen very limited progress (see Exhibit 33). Unitech's gradual exit from its telecom subsidiary may help it monetize its investment and transfer cash to the parent entity.

Exhibit 32: Unitech may look at a combination of options to improve its balance sheet
Analysis of options before Unitech (Rs bn)

Options	Probability	Cash inflow	Debt		EBITDA		Debt/EBITDA (X)		Interest coverage (X)	
			FY2010E	3QFY09	FY2010E	EBITDA (X)	at 14%	at 12%		
Debt outstanding as of December, 2008			100	2.4	17.3	5.8	1.2	1.4		
Our comfort levels			50			3.0	2.5	2.9		
Options available for Unitech										
(A) Telecom deal										
(1) Telenor acquiring 60% stake in Unitech Wireless	High	15								
(B) Sale of assets										
(1) Sale of hotel properties in Gurgaon and Kolkata	Medium	6			17.3	4.9	1.5	1.7		
(2) Sale of office property in South Delhi (Saket)	Medium	4								
(C) Equity dilution										
(1) Sale of equity worth Rs25 bn-833 mn shares at Rs30/share resulting an equity dilution of 50%	Low	25			17.3	4.3	1.6	1.9		
Coverage ratios post (A)+(B)+(C)			50			2.9	2.5	2.9		

In case (B) and (C) work out, we expect borrowing cost for Unitech to drop to 12%

In case (B) and (C) do not work out, we expect Unitech to get into a corporate debt restructuring

Source: Kotak Institutional Equities estimates

Exhibit 33: We observe large delays in completion of commercial projects
Current status of various projects as part of Unitech Corporate Parks

UCP Assets	Start date	Estimated completion date		
		Initial	3QFY08	3QFY09
G2- IST (Gurgaon)	Oct-05	Mar-09	Jul-10	Jan-11
K1 (Kolkata)	Dec-05	Apr-10	Oct-10	Apr-11
N1 (Noida)	Jul-06	Dec-08	Oct-09	Sep-10
N2 (Noida)	Jan-07	Jun-09	Feb-11	Feb-11
N3 (Greater Noida)	Jan-07	Jun-09	Mar-12	Mar-12
G1- ITC (Gurgaon)	Feb-07	Jul-09	Nov-11	May-12

Source: Company, Kotak Institutional Equities

- **United Spirits (UNSP).** UNSP is already exploring the option of a stake sale to Diageo, a US\$16 bn (turnover in CY2007) beverages company. A 17% stake sale (money into UNSP rather than stake sale by the promoter of UNSP) to Diageo or any other interested entity would give UNSP a tranche of Rs18.6 bn. This would bring down UNSP's FY20010E net debt-to-EBITDA to 3.2X from our current estimate of 4.5X. Exhibit 34 shows the options available with United Spirits to improve its balance sheet.

Exhibit 34: United Spirits can look at a combination of options to improve its balance sheet
Analysis of options before United Spirits (Rs bn)

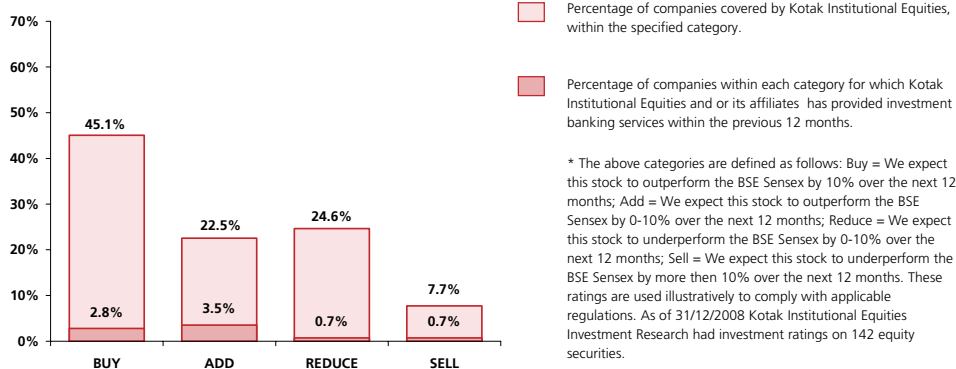
Strategic Options	Action	Comments
Sale of strategic stake	Sale of 18.6 mn shares representing 17% stake	Likely to get premium if sold along with controlling stake (open offer). Strategic sales in sector have been at 13-16 X EV/EBITDA. At Rs1,000 per share, UNSP can get US\$350-370 mn.
	Sale of promoter stake	Secondary pledge of 36% promoter stake for airlines business could force management to sell out. Sale of company could get a premium unrelated to current valuations.
Sale of stake in subsidiaries	Stake sale in S&N	Committed to sell 49%; S&N deal could be decoupled from potential deal for India operations. Options include separate listing for W&M or increase stake sale. Need to overcome antitrust issues.
	Stake sale in IPL franchise	Owns 100% of Royal Challengers franchise in IPL. Can monetise valuable franchise. Recent deal for Rajasthan Royals values franchise at US\$140mn.
Sale of brands/assets	Has 17 'Millionaire' brands	McDowell brand is the largest consumer brand in India in value terms. Bagpiper is India's largest selling non-scotch whisky.
	Scotch inventory in S&N	Current valuations put S&N scotch inventory at GBP457 mn. Control 20% of non-captive market for scotch.
	Manufacturing assets in S&N	Monetise over-capacity in S&N by selling some manufacturing assets.

Source: Kotak Institutional Equities estimates

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