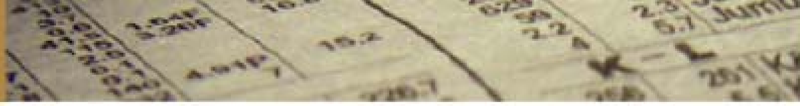

VERITAS
INVESTMENT RESEARCH

September 12, 2011

UB HOLDINGS LTD.
&
KINGFISHER AIRLINES LTD.

NSE - UB
Previous Close: INR 117.40

NSE - KAIR
Previous Close: INR 26.10

A Pie In The Sky

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A PIE IN THE SKY

UB Holdings Limited ("UB" or the "Company"), the parent of Kingfisher Airlines Limited ("KAIR" or "Kingfisher"), is teetering on the verge of bankruptcy, and incidentally, so is KAIR. However, a stock price of approximately Rs. 25 (<US$1) for KAIR and Rs. 114 (<US$3) for UB would suggest otherwise. We believe investors should SELL both stocks to salvage whatever is left.

We believe that KAIR's book equity has been wiped out although audited financials pretend otherwise. The airline is burning cash at a rapid rate, we estimate Rs. 3,011 Million (US$ 65M) in Q1F12, is in a business that requires capital perpetually, has no pricing power given six carriers fighting over the major hubs in India, is dependent on the vagaries of the price of oil and the largesse of state-run financial institutions in India, and its parent UB has run out of financial room to accommodate the needs of this capital-starved child.

Moreover, in spite of the so-called debt recast, we believe that once the non-cancelable operating and financing lease commitments of KAIR are included, KAIR's enterprise value is less than its contractually required cash obligations, implying negative residual equity value for KAIR, as illustrated in Figure 1. (All USD amounts @1USD = Rs. 46.45, Sep 9, 2011)

Figure 1
Kingfisher Airlines Valuation - A Pie in the Sky
(All amounts in millions of Indian Rupees and U.S. Dollars)

Valuation	FY11 (INR)	FY11 (US$)	Veritas Comments
EBITDAR	10,015	216	Veritas estimate adjusted for capitalization of engine overhaul costs. We assume no growth in F12. YOY Q1F12 EBITDAR declined 26%
EV/EBITDAR Multiple	8.0	8	Average for the Indian Airlines Sector. We view this as a high multiple. WestJet Airlines in Canada trades at 6.0X EBITDAR.
Enterprise Value	80,120	1,730	At 8.0x F11 EBITDAR
Less Debt	(53,320)	(1,151)	Debt post-recast as per June 2011 KAIR presentation
Less CRPS	(5,530)	(119)	7.5% Cumulatively Redeemable Preference Shares are equivalent to debt
Less OCDS[1]	(7,090)	(153)	Optionally Convertible Debentures with 8% coupon can be converted at the option of the holder and hence it is debt
Less Operating Lease obligation undiscounted*	(46,175)	(997)	Veritas Estimate based on F11 Annual Report
Less Financial Lease obligation	(6,757)	(146)	(As per KAIR presentation)
Equity value to common shareholder	(38,752)	(837)	THERE IS NO RESIDUAL EQUITY VALUE IN THIS BUSINESS
Shares Outstanding	498	498	June 30, 2011 SEBI disclosure
Value per Share	**(78)**	**(2)**	At 11.9x EBITDAR, KAIR has a common equity value approaching zero. That would be 60% premium to sector valuations in Asia.

*Source: Veritas and KAIR Annual Reports. *KAIR does not disclose discounted amounts. Operating leases are usually non-cancellable for periods up to twelve years, and the lease rentals are fixed over the term of the lease and therefore are accounted as debt in our analysis. Some numbers may not add up due to rounding.*

[1] *The holder of OCDS is a related party. Given that conversion implies significant dilution, which at the current market price will be 272.69 million shares or 54.6% of the current shares outstanding, we have accounted for the OCDS as debt. As per an August 25, 2011 filing with the NSE, the outstanding OCDS amounts could be considered as advance subscription towards a rights offering converting these into common equity sometime over the next eighteen months. In a SEBI filing dated June 30, 2011, Bharat Raghavan, the Company Secretary of KAIR, said that "Since the conversion price … is not known, it is not possible to compute the number of equity shares on conversion of the OCDS".*

UB Holdings under duress

With negative equity value at KAIR, it should be no surprise that UB, which has marketable assets of Rs. 47,134M (US$ 1,037 M), compared to guarantees provided on behalf of KAIR of Rs. 168,529M (US$ 3,638M), is also staring into a black hole[2]. We believe that the ill-conceived foray into the airline business has already cost UB shareholders dearly, and that their ownership of India's premier liquor and beer assets has been sacrificed at the altar of egoistic ambitions.

More importantly, we believe that unless the banking institutions have provisioned judiciously for the debt provided to KAIR - approximately Rs. 45,670M (US$ 986M) in loans to Kingfisher in addition to standby letters of credit, etc. – it renders the disclosed capital position of the banks unreliable.

We also find the recent exhortations by the Indian Civil Aviation Ministry involving Air India – the state owned carrier - to pull its act together duplicitous. Our view stems from the fact that it could be on the diktat of the regulatory authorities involving various ministries of the Government of India that an unviable airline, KAIR, which is competing against the incumbent state carrier and siphoning away its passengers on both the domestic and international routes, is being supported via taxpayer-funded financial institutions.

Indian exchequer funding a dying airline

It's not only the financial institutions that are suffering. As per the F11 AR, KAIR was also in default of the dues owed on behalf of its employees to regulatory authorities, which it doesn't count as debt. As per the auditors of Kingfisher, "*Undisputed amounts payable in respect of employees state insurance of Rs.0.75 lacs (US$ 1,619), provident fund of Rs.43.80 lacs (US$ 94,564), tax deducted at source of Rs. 42,297.52 lacs (US$ 93M), service tax of Rs.1,047.76 lacs (US$ 2.3M), professional tax of Rs.2.46 lacs (US$ 5,412) (In all cases relating to the years 2008-09, 2009- 2010 and 2010 - 2011) and fringe benefit tax of Rs. 450.70 lacs (US$ 1M) (balance of tax and interest for the financial year 2008-09) …). The due dates for these amounts are as per respective statutes*[3].

Clearly, KAIR is funding itself at the expense of its employees and the Indian exchequer, to which it owed tax deducted at source on behalf of its employees of Rs. 4,229M (US$ 93M) as per the F11 AR.

Auditors overruled by management

We also find that the auditors have "qualified" reported financials of KAIR, on multiple occasions, referencing accounting policy changes and expressing disagreement with management's interpretation of Indian Accounting Standards. Such practices would be subject to regulatory scrutiny in N. America. Therefore, we believe that investors have neither reliable nor timely information on Kingfisher.

Banks should sell collateral

With financial defaults galore, including salary delays, as outlined in recent media reports, it is time the financial institutions put an end to the misery of KAIR and let other airlines that can take to the sky, fly. Moreover, we also believe that the current management of UB has lost all legitimacy to run the vast liquor and beer business, and that the financial institutions should auction the collateral to the highest bidder and recoup whatever is left for their respective shareholders.

SELL UB Holdings Limited. SELL KAIR. We believe that both organizations are effectively insolvent.

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[2] *F11 Annual Report, page 59, Note 13 – Related Party Disclosures.*

[3] *KAIR AR F11, page 32. 1 Million Rupees (US$ 22,000) = 10 Lacs*

DEBT RECAST – DEAD MAN WALKING

In our view, the debt restructuring touted by KAIR is nothing to write home about. We believe that non-performing loans have been rechristened/repackaged into subordinated debt, and that Kingfisher has defaulted on its obligations is unquestionable. We do not believe that KAIR's antics would have found any takers in a responsible credit market and that the airline would have been liquidated by now.

Rearranging the deck…

During F10, Kingfisher defaulted in principal repayment of Rs. 2,031M (US$ 45M) and overdue interest of Rs. 816M (US$ 18M), for a total default of 2,847M (US$ 63M)[4]. Between July 2010 and March 2011, KAIR defaulted on interest payments of Rs. 3,498M (US$ 77M)[5]. Foregone principal repayments are undisclosed. Therefore, from the beginning of FY10 to the end of FY11, the airline defaulted on dues of at least Rs. 6,345M (US$ 140M) to the financial institutions. (Data for the period April-June 2010 is unavailable.)

Clearly, the loans given by the banks to KAIR are impaired and therefore under the pretext of a debt recast, the banks have converted some of these unpaid principal and interest amounts into cumulative convertible preferred shares {Rs. 7,550 million (US$ 166M) of term loans converted into CCPS of 7.5%} and cumulatively redeemable preferred shares {Rs. 5,530 million (US$ 122M) of term loans converted into CRPS of 8% with a maturity of 12 years}.

Figure 2 hones in on the top three banks in the consortium, which accounted for 62% of the CCPS. The convoluted logic of debt restructuring, via acquisition of CCPS, of an organization that doesn't have the cash to meet its obligations, - which were subsequently converted into ordinary shares of Kingfisher at a premium of 61.6% to the closing price of the underlying common share - speaks eloquently to the financial shenanigans underway at the banks and KAIR. Moreover, subscribing to common equity at a premium implies that the banking consortium is now sitting on a significant mark-to-market loss on its equity holding in the airline.

Figure 2
Debt Recast – Maybe Not!
(All amounts in millions of Indian Rupees, bracketed amounts in millions of U.S. $)

…to what end?

Bank	Value of CCPS Shares Acquired	Current Market Value of Holding after Conversion to Common Shares	Mark-to-Market Loss*
State Bank of India	1,822 (40)	721 (16)	1,102 (24.2)
ICICI Bank	1,700 (37)	672 (15)	1,028 (23)
IDBI Bank	1,125 (25)	445 (10)	680 (15)

Source: Veritas and SEBI disclosures.

* *Mark-to-Market Loss as of August 30th, 2011.*

Conflicting role

The banking consortium is now both an owner of and a creditor to the airline, thereby complicating an intractable situation further, and jeopardizing its role as the steward of shareholder and depositor capital.

[4] *KAIR Annual Report, F10.*

[5] *KAIR Presentation, February 28, 2011, page 41.*

Since the pricing was established as of March 01, 2011, under the Securities and Exchange Board of India ("SEBI") guidelines, and the securities were issued on March 31, 2011, some of these "mark-to-market" losses will begin to flow through to banks' earnings during F12.

Moreover, Figure 3 highlights that if the issuance of CCPS to the banking consortium can be used as a benchmark to isolate bank-specific exposure to the airline, then IDBI is especially exposed in terms of its total book equity at risk of impairment. We believe that investors in all three banks should explicitly inquire about their respective exposure to Kingfisher and any provisions that have already been made by the financial institutions for outstanding loans to KAIR[6].

Figure 3

Estimated Loan Exposure and Total Book Equity at Each of the Banks

(All amounts in millions of Indian Rupees, bracketed amounts in millions of U.S. $)

Banks should know better

	Estimated Exposure[7]	Book Equity	Proportion of Book Equity
State Bank Of India	11,096 (244)	834,712 (18,364)	1.3%
ICICI Bank	10,350 (228)	550,910 (12,120)	1.9%
IDBI Bank	6,850 (151)	145,670 (3,205)	4.7%

Source: Veritas, SEBI disclosures, Bank Annual Reports and Kingfisher.

IDBI was also the recipient of 20.3% of the 8% CRPS issued to the banking consortium. Given that State Bank of India is India's largest bank (recipient of 32% of the CRPS), its exposure to the airline is understandable (though not condonable), but that of IDBI is perplexing.

ICICI bank did not receive any CRPS. That implies ICICI's exposure could be less than that estimated by us in Figure 3. Banks provision for non-performing assets in the normal course of running day to day business operations. Therefore, we are not insinuating that by indulging in a bail out the banking consortium has been reckless in its risk management and financial disclosures.

IDBI needs to manage risk judiciously

However, we find it interesting nonetheless that IDBI took unprecedented risk in its exposures and that a single default could wipe out 4.7% of its book equity. That does not augur well for the risk management practices of IDBI specifically. As per IDBI, Rs. 6,980M of loans related to the air transport sector were in restructuring during F11 (IDBI Analyst presentation, April 2011).

Finally, foreign banks are absent from the banking consortium involved in the debt recast. Perhaps the lesson in there is that the Indian financial institutions have been caught on the wrong foot.

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[6] *As per a CNBC report of August 31, 2010, RBI has allowed banks to restructure the loans without classifying them as non-performing assets.*

[7] *Estimated exposure calculated based on SBI receiving 24.3% of the CCPS of the total available to banking consortium. Therefore, loan exposure is estimated at (24.3%*45,670). Banks have not disclosed their respective exposures to KAIR specifically.*

ACCOUNTING POLICIES – THE AUDITORS DISAGREE

That management of KAIR is treating its auditors with contempt, and is off-side Indian accounting standards, is clearly evidenced by the following quote from its FY10 AR.

*"Attention is invited to note 29 of schedule 21 regarding change in **the method of accounting of costs incurred on major repairs and maintenance of engines of aircrafts taken on operating lease** during the year aggregating to Rs.20,700.76 lacs (US$ 45M) which have been included under fixed assets and amortized over the estimated useful life of the repairs. In our opinion, the revised accounting treatment is not in accordance with current accounting standards". {Emphasis Added}*

Auditors have no say

Page 33, F10 Annual Report

Once again in F11, the auditors highlighted the following:

*"Attention is invited to note 27 of schedule 19 regarding **method of accounting of costs incurred on major repairs and maintenance of engines of aircrafts taken on operating lease** during the year aggregating to Rs.12, 256.85 lacs (US$ 27M) {year ended March 31, 2010 Rs. 207, 00.76 lacs (US$ 45M)} which have been included under fixed assets and amortized over the estimated useful life of the repairs. In our opinion, this accounting treatment is not in accordance with current accounting standards". {Emphasis Added}*

Page 29, F11 Annual Report

That would suggest that Indian financial institutions are willing to accept audited financials that would not pass muster in N. America.

DEBATABLE COST CAPITALIZATION

The auditors are referring to the accounting policy change adopted by KAIR, whereby in F10 and in F11 the company decided to capitalize the expenditures associated with engine overhauls, rather than expensing those costs as a current period expense. The benefit of capitalizing costs is that both the EBITDAR and the EBITDA metric – dear to KAIR – are inflated and remain unaffected by the subsequent increase in amortization that flows below the EBITDA/EBITDAR line. Moreover, in its F10 and F11 financial presentations, KAIR has been touting improved EBITDA and EBITDAR to the investing community, without referencing the accounting policy change that boosted both metrics by Rs. 2,070M (US$ 46M) in F10 and Rs. 1,225M (US$ 27M) in F11[8].

The advent of IFRS for F12 and beyond will put a spotlight on Kingfisher's current practice. According to Air Canada, "*Major engine and airframe overhaul costs that were charged to aircraft maintenance expense under Canadian GAAP on operating lease aircraft will continue to be expensed as incurred, except for end of lease return obligations which will be accrued during the term of the operating lease*[9]."

[8] *Page 33- AR F10, Note 6. The amounts on Page 69 providing explanation are slightly lower.*

[9] *Air Canada, Annual Report 2010*

THE LESSOR IS AT ODDS WITH KINGFISHER

Where it gets interesting is that the opinion of International Lease Finance Corporation ("ILFC") – one of the largest aircraft lessors in the world and a lessor to KAIR– is diametrically opposite to that of KAIR[10].

The lessor believes otherwise

As per ILFC, *"In the context of an aircraft lease, we believe the use of the aircraft is the past event that gives rise to the obligation on the part of the lessee to pay for the maintenance of the aircraft. Any unperformed maintenance by an operator that is required for the continued use of the aircraft will result in regulatory and operational restrictions enforced by the FAA or other similar governmental agency. The use creates a contractual and regulatory obligation either to perform and pay for the maintenance in accordance with FAA or other regulatory requirements, or pay the lessor an amount equal to the unperformed maintenance to meet contractual lease return conditions at the time of return. As such, we believe this obligation represents a present duty on the part of the lessee as a result of a past event and meets the definition of a liability".*

"…the lessee does not have "the ability to decide whether to use the asset in such a way to avoid the need for future maintenance," In the context of leasing an aircraft, this would presume the operator would not use the aircraft at all"[11] .

Given that the lessor firmly believes it is the past use of the aircraft that gives rise to the current maintenance obligation, KAIR has to accrue for maintenance costs on an ongoing basis, even if the expenditure itself is a lump sum that results in cash outflow after a certain number of flying hours are attained by the aircraft. Moreover, the lease agreement establishes clear benchmarks for the return conditions associated with the aircraft, and if the final maintenance is scheduled just before the return of the aircraft, capitalizing the expenditure under the current policy would not be possible, since there would be no future aircraft to depreciate it over; meaning the current accounting policy should be reassessed.

Therefore, we believe that the accounting policy change is opportunistic in character, does not conform to the realities of the airline business, cosmetically improves non-GAAP operating measures, and overstates the operating cash flow. Given that KAIR failed to disclose the important policy change to investors in its various presentations, while touting its improved operational performance highlights weak governance and disclosure standards.

Unreliable EBITDAR

In absence of the accounting policy change, for F10 KAIR would have reported an EBITDAR of Rs. 1,910M (US$ 42M) instead of Rs. 3,980M (US$ 88M) lower by 52%, and for F11, Rs. 10,015M (US$ 220M) instead of Rs. 11,240M (US$ 247M), lower by approximately 11%. Charges of Rs. 396M in F11, and Rs. 3,576 M in F10 incurred on account of early termination of aircraft lease contracts were also excluded from the reported EBITDAR by KAIR.

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[10] *ILFC leases at least 14 airplanes to Kingfisher as per www.planespotters.net.*

[11] *FASB Emerging Issues Task Force, Draft Abstract, Issue No. 08-3, Accounting by Lessees for Nonrefundable Maintenance Deposits. Mr. Anthony Valoroso, Deputy Comptroller, Director of Accounting Policy, ILFC,*

FICTIONAL DEFERRED TAX ASSET

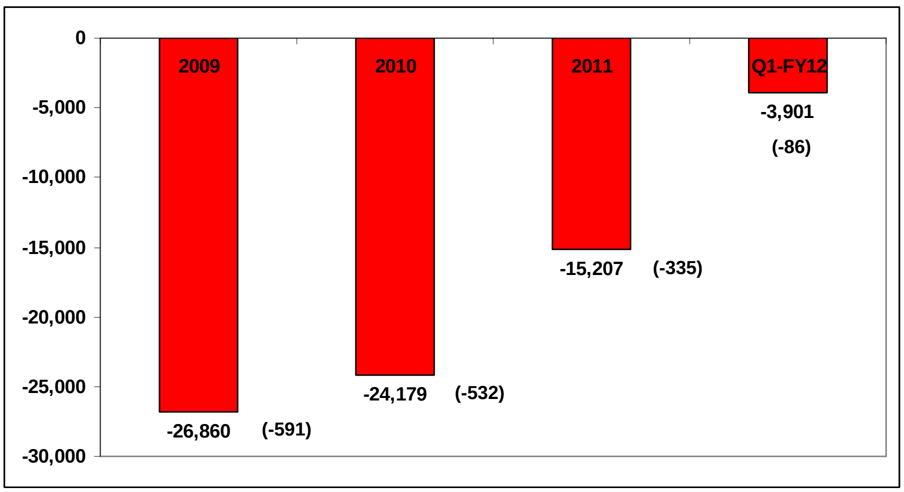
In its F11, Kingfisher reported a deferred tax asset of Rs. 29,277M (US$ 644M); an increase of 20.3% or Rs. 4,943M (US$ 109M) YoY. It is not unusual for companies to report a deferred tax asset on the balance sheet, which arises, among other reasons, when unused tax losses exist to shelter future taxable income. As per the Converged Indian Accounting Standard for Income Taxes ("Ind AS 12") as well as AS 22 issued by ICAI, "*Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.*"

In the spirit of AS22, Figure 4 outlines the reported profit before tax trend at KAIR.

Figure 4

Profit before Tax – F09 to Q1-F12

(All amounts in millions of Indian Rupees, bracketed amounts in millions of U.S. $)



Source: Veritas and Annual Reports

The business is not turning around

For the three fiscal periods ending F11, Kingfisher's cumulative losses were Rs. 66,246M (US$ 1,457M). The airline reported a further loss of Rs. 3,901M (US$ 86M) for Q1-F12. As already discussed, reported losses are understated on account of accounting policy changes related to engine overhaul expenses, amongst other issues.

As per its F11 Annual Report, KAIR reported book equity of Rs. 23,972M ($527M) compared to a deferred tax asset of Rs 29,277M (US$ 644M)[12]. On that basis we estimate that since inception, the airline has accumulated losses of approximately Rs. 81,761M (US$ 1,799M). Our review of financial statements of KAIR and its predecessor entity, Deccan Aviation Limited, shows that the airline has been unprofitable in every year since FY06[13].

[12] *As of F10, 92% of the deferred tax asset was on account of unabsorbed losses and depreciation under the Income Tax Act 1961.*

[13] *Deccan Aviation reported a loss of Rs. 3,367M (US$ 74M) for the 15- month period ended June 30, 2006. Deccan Aviation Limited AR FY07.*

We are of the view that KAIR is an unsustainable business. So far there is no definitive evidence to suggest otherwise. However, management outlined in Q1-F12 that, "*there is virtual certainty supported by convincing evidence*[14]" that the deferred tax asset will be realized.

WHAT'S THE OPINION OF THE AUDITORS?

The auditors have taken the course of least resistance by saying, "*In view of explanation 1 to clause 17 of Accounting Standard 22, we cannot express an independent opinion in the matter*[15]."

Veritas can. Explanation 1 to Clause 17 of AS 22 primarily says the following, and we have paraphrased to ensure readability:

- *Virtual certainty cannot be based merely on forecasts of performance, such as business plans. Virtual certainty is not a matter of perception and is to be supported by convincing evidence*.

Management pushing the envelope

- *Evidence is a matter of fact. To be convincing, the evidence should be available at the reporting date in a concrete form.*

- *A projection of the future profits made by an enterprise based on the future capital expenditures or future restructuring etc., submitted even to an outside agency, e.g., to a credit agency for obtaining loans and accepted by that agency cannot, in isolation, be considered as convincing evidence.*

Based on the standards, clearly KAIR is off-side. We believe that management should take a valuation allowance against its deferred tax asset. Management has perhaps bludgeoned its auditors into submission, but facts are the facts.

A valuation allowance against its deferred tax asset would send KAIR's book equity into negative territory wiping out its net worth, meaning it is an effectively bankrupt/and or insolvent organization, surviving merely via the beneficent backing of its lenders.

In its F11 annual report, the auditors said, "*Attention of the members is invited to note 24 of schedule 19 regarding the financial statements of the Company having been prepared on a going concern basis, notwithstanding the fact that its net worth is completely eroded. The appropriateness of the said basis is interalia dependent on the Company's ability to infuse requisite funds for meeting its obligations".*

It is insolvent

Clearly the auditors are skeptical of the "going concern" credentials of KAIR.

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14 *Source: Press Release of August 10, 2011.*

15 *F10 AR, Page 34*

UB HOLDING – UNDER DURESS

If KAIR is insolvent, then what about UB which owns approximately 55.57% of KAIR in addition to other investments used as collateral for its airline business? Figure 5 outlines the valuation of UB's key investments that are readily marketable.

Figure 5

UBHL Investments and Market Valuation

(All amounts in millions of Indian Rupees, bracketed amounts in millions of U.S. $, except share price)

	UB Engineering Limited	United Spirits Limited	United Breweries Limited	Mangalore Chemical and Fertilizers Limited	McDowell Holdings	Total
Share Price (Aug. 30/11) INR (US$)	52.85 (1.2)	897.40 (20)	422.95 (9)	31.50 (0.69)	59.80 (1.3)	
Total Shares Outstanding	17,066,949	125,594,329	240,048,255	118,515,150	12,144,281	
Total Shares Held by UBHL	6,345,554	36,558,163	30,295,911	29,043,797	4,392,691	
% UBHL Holding	37.18%	29.11%	12.62%	24.51%	36.24%	
Market Value of Total Holding	**335 (7.4)**	**32,807 (722)**	**12,813 (282)**	**916 (20)**	**263 (6)**	**47,134 (1,037)**

Source: Veritas, SEBI and UBHL

We have omitted KAIR from Figure 5, given that we have already established that it is effectively insolvent. In addition to the publicly traded assets outlined in Figure 5, there are some privately held assets – which we do not believe are worth much, as a few are in bankruptcy – and the UB city project owned 55% by UB.

UB is insolvent too

As outlined in Figure 5, the market value of UB's holdings is only Rs. 47,134M (US$ 1,037M), compared to debt on its books of Rs. 23,316M (US$ 513M), in addition to debt guarantees and collateral provided on behalf of KAIR of Rs. 168,529M (US$ 3,638M)as per its F11 Annual Report. That could mean only one thing: Both UB and KAIR are at the mercy of Indian financial institutions and shareholders should not stick around for worse to come.

Both, UB and KAIR are effectively insolvent.

RUN FOR COVER

Why stay?

Kingfisher's disclosure is poor, accounting policies capricious, balance sheet is in duress, free cash flows are absent, collateral provided to financial institutions by its holding company is insufficient and the actual liabilities on Kingfisher's books are understated.

Moreover, Kingfisher is already in arrears of Rs. 430M (US$ 10M) on the CCPS and CRPS issued as part of the debt recast in March 2011, excluding the Rs. 12,863M (US$ 283M) of guarantees/letters of credit given by banks on behalf of the airline that KAIR does not acknowledge as debt.

The banks would be better off to let the airline go under, thereby lifting the survivors in the sector.

UB shareholders should also decamp, given that liabilities, debt and guarantees provided on its books, are far in excess of its cash flows and marketable assets.

SELL UB.

SELL KAIR.

The pieces just don't fit.

APPENDIX 1 – THE DEBT RECAST REVISITED (INR)

The Debt Recast – Rearranging the Deck (INR Cr)

In Cr INR	Debt Before Interest	Conversion of Debt				Additional Loan		Debt Post Recast
		to CCPS	to CRPS	to OCDS	to WCTL	FITL	RTL	
Working Capital	590.50				(297.40)			293.10
Term Loan	4,263.49	(750.10)	(553.10)		297.40	248.42	768.30	4,274.41
PDP Loan	166.44							166.44
Promoter Loan	656.30	(648.00)						8.30
Inter Corporate Deposit	1,137.32			(709.32)				428.00
Total	**6,814.05**	**(1,398.10)**	**(553.10)**	**(709.32)**	**-**	**248.42**	**768.30**	**5,170.25**

New term loan sanctioned by the bank

Promoter & Bank debt which were converted to Compulsorily Convertible Preference Shares @7.5%, pursuant to the Debt Recast were further converted into equity at Rs. 64.48 (prevailing market price of INR 39.90). Banks now own approximately 23.4% of KAIR.

Rs. 553.10 Cr of term loans converted into Cumulative Redeemable Preference Shares (CRPS) @8%, with a maturity of 12 years is a form of debt as unpaid dividends are accumulated over the term.

Some of the unpaid interest amounts have been converted to loans by the banks.

After the adjustments, the exposure of the banks to KAIR debt remains approximately the same, in addition to the newly acquired equity exposure. If KAIR, defaults on its lease obligations, as owners of the airlines the banks could be exposed too.

CCPS - Cumulative Convertible Preference Shares
CRPS - Cumulative Redeemable Preference Shares
OCDS – Optionally Convertible Debentures

WCTL – Working Capital Team Loan
FITL – Funded Interest Team Loan
RTL – Rupee Team Loan

APPENDIX 2 - THE DEBT RECAST REVISITED (USD)

The Debt Recast – Rearranging the Deck (US$ M)

In US$ M	Debt Before Interest	Conversion of Debt				Additional Loan		Debt Post Recast
		to CCPS	to CRPS	to OCDS	to WCTL	FITL	RTL	
Working Capital	129.91				(65.43)			64.482
Term Loan	937.98	(165.022)	(121.68)		65.43	54.65	169.02	940.37
PDP Loan	36.61							36.61
Promoter Loan	144.38	(142.56)						1.82
Inter Corporate Deposit	250.21			(156.05)				94.16
Total	**1,499.09**	**(307.58)**	**(121.68)**	**(156.05)**	**-**	**54.65**	**169.02**	**1,137.46**

New term loan sanctioned by the bank

Promoter & Bank debt which were converted to Compulsorily Convertible Preference Shares @7.5%, pursuant to the Debt Recast were further converted into equity at US$1.42 (prevailing market price of US$0.87). Banks now own approximately 23.4% of KAIR.

US$121.68M of term loans converted into Cumulative Redeemable Preference Shares (CRPS) @8%, with a maturity of 12 years is a form of debt as unpaid dividends are accumulated over the term.

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