

Tata Teleservices Maharashtra

Rs28; Not Rated

Result Update

Sector: Telecommunications

Market cap (bn)	Rs50.9/US\$1.3
52-week range	Rs31/17
Shares in issue (mn)	1,809.5
6-mon avg daily vol (no of shares)	16,193,744
6-mon avg daily vol (mn)	Rs455.9/US\$11.3
Bloomberg	HUGT IN
Reuters	TTSL.BO
BSE Sensex	15,401
Website	www.tataindicom.com

Shareholding Pattern (%)

Promoters	68.8
FIs	1.6
MFs/FIs/Banks	2.4
Public	23.4
Others	3.9

(As of 30 June 2007)

Price Performance (%)

	1M	3M	12M
Absolute	(0.4)	(2.6)	53.2
Relative*	(5.5)	(13.6)	9.9

** To the BSE Sensex*

Relative Performance


(As of 31 July 2007)

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Satisfactory

Tata Teleservices Maharashtra (TTML) announced satisfactory 1Q FY08 results. The net losses have declined sharply to Rs 282 mn from Rs 1256 mn in 1QFY07. However the performance was aided by gains due to the rupee appreciation. But, at the operational level, one can see the benefits of economies of scale that has resulted in margin improvements.

However, TTML's limited geographic reach pose concentration risks. Nevertheless, a possible merger with its parent company, TataTelservices, could address this concerns. However, there exists no timeline on this as of now.

Highlights

- **Revenues grew by 21.5% YoY and 3.4% QoQ to Rs3.9 bn**, primarily led by the growth in subscriber numbers. Total subscriber base of the company, across the two circles (Mumbai and Maharashtra- e.o.p) grew by 13.14% QoQ and 65.3% YoY to Rs3.48 mn.
- **In the Mumbai circle, TTML's subscriber base registered a growth rate of 9.9% QoQ and 36.9% YoY in 1Q FY08**, higher than the circle total growth of 5.81% QoQ and 17.7% YoY. **Similarly, in case of Maharashtra (ex- Mumbai), TTML's subscriber base grew by 15.75% QoQ and 96.4% YoY**, which surpassed the total circle growth rate of 9.4% QoQ and 46.7% YoY.
- **TTML's market share (Mumbai and Maharashtra) increased by 219 bps YoY to 11.1% and by 50 bps QoQ**. On the other hand, its incremental market share increased by 190 bps YoY and by 10 bps QoQ to 17.8% (see Exhibit-2).
- **Average blended ARPUs (Rs/sub/month) at Rs400**, decreased by 8.8% QoQ, and by 26.9% YoY reflecting an industry-wide trend.
- **EBITDA grew by 91% YoY, however declined marginally by 3.2% QoQ to Rs851 mn**.

Exhibit 1: Financial summary

(Rs mn)

Y/E March	FY04	FY05	FY06	FY07
Net sales	5,975	8,075	10,951	14,070
EBITDA	(510)	(951)	1,225	2,876
EBITDA (%)	(8.54)	(11.78)	11.18	20.44
Net Profit (Adj)	(2,697)	(5,279)	(5,411)	(3,107)
Cash Profit	(671)	(2,109)	(692)	1,355
EPS (Rs)	(1.3)	(1.3)	(2.5)	(2.5)

Source: Company data, ASK Securities. Note: Valuations as of 31 July 2007.

- **EBITDA margin increased by 780 bps YoY to 21.6% in 1Q FY08 as the benefits of economies of scale played out** in terms of lower network operating charges, administrative and marketing expenses (as a % of revenues). However the margins declined by 150 bps QoQ due to a rise in sales and marketing expenses that increased by 241 bps to 18.6% of revenues.
- **The other income component increased sharply** by 3,208% YoY and by 74.9% QoQ to Rs152.2 mn, largely on account of windfall gains due to rupee appreciation.
- **TTML's net losses declined to Rs282.3 mn in 1Q FY08 from Rs1,256 mn in the corresponding quarter last year.** Although the performance has been largely aided by the other income, there is also an improvement in its overall business.

Exhibit 2: TTML's Operational scorecard

Operational data	1Q FY08	1Q FY07	% chg YoY	4QFY07	% chg QoQ
TTML's total subscribers (eop, mn)					
Mumbai	1.5	1.1	36.9	1.4	9.91
Maharashtra	2.0	1.0	96.4	1.7	15.75
TTML's total subscribers (eop, mn)	3.48	2.10	65.3	3.07	13.14
Average ARPU (/Subscriber/Rs/ month)	400	547	(26.9)	439	(8.88)
Revenues (Rs mn)	3,933	3,238	21.46	3,804	3.39
Average Subscriber Base (mn)	3.3	2.0	6.5	2.9	13.79
Subscriber base- Mumbai Circle (CDMA+GSM+WLL-F) (mn)	13.2	11.2	17.7	12.5	5.81
Subscriber base- Maharashtra Circle (CDMA+GSM+WLL-F) (mn)	18.0	12.3	46.7	16.4	9.46
Subscriber base (Mumbai+Maharashtra) (mn)	31.2	23.5	32.8	28.9	7.88
TTML's mkt share (Mumbai+Maharashtra) (%)	11.1	9.0		10.6	
TTML's Incremental mkt share (Mumbai+Maharashtra) (%)	17.8	15.9		17.7	

Source: Company data, ASK Securities.

Exhibit 3: Quarterly Performance**(Rs mn)**

Y/E March	1Q FY08	1Q FY07	% chg YoY	4Q FY07	% chg QoQ
Revenue	3,933	3,238	21.5	3,804	3.4
Expenditure					
<i>Access and interconnection charges</i>	1,038.1	1,038.1	0.0	1,025.3	1.2
<i>Ntwk op costs</i>	601.0	540.5	11.2	626.0	(4.0)
<i>Employee costs</i>	227.3	134.5	69.0	249.0	(8.7)
<i>Admin and Other expenses</i>	484.0	446.1	8.5	408.7	18.4
<i>Marketing & Business Promotion exp.</i>	731.5	633.0	15.6	615.8	18.8
Total Expenditure	3,081.9	2,792.2	10.4	2,924.8	5.4
EBITDA	851.5	445.9	91.0	879.5	(3.2)
EBITDA (%)	21.6	13.8	57.2	23.1	
Other income	152.2	4.6	3,208.7	87.0	74.9
Depreciation (Incl. Amortization)	1,036.0	1,242.4	(16.6)	1,044.8	(0.8)
PBIT	(32.3)	(791.9)	(95.9)	(78.3)	(58.7)
Interest costs	250.0	464.6	(46.2)	435.0	(42.5)
PBT	(282.3)	(1,256.5)	(77.5)	(513.3)	(45.0)
Income tax	0.0	0.0	(33.3)	0.0	300.0
NP before unusual items	(282.3)	(1,256.5)	(77.5)	(513.3)	(45.0)
Extraordinary Item	-	-		(54.8)	
Adjusted Net Profit	(282.3)	(1,256.5)	(77.5)	(458.5)	
EPS (Rs)	(0.2)	(0.7)		(0.3)	
No. of shares O/S (mn)	1,809.5	1,809.5		1,809.5	
Cash Profits	753.7	(14.1)	(94)	531.5	(46)
As a % of Revenues					
<i>Access and interconnection charges</i>	26.39	32.06		26.95	
<i>Network op costs</i>	15.28	16.69		16.46	
<i>Employee costs</i>	5.78	4.15		6.55	
<i>Admin and Other expenses</i>	12.30	13.78		10.74	
<i>Marketing & business promotion exp.</i>	18.60	19.55		16.19	
EBITDA (%)	21.65	13.77		23.12	
PBDIT Margins	25.52	13.91		25.41	
PBIT Margins	(0.82)	(24.46)		(2.06)	
PBT Margins	(7.18)	(38.80)		(13.49)	
NPM	(7.18)	(38.80)		(13.49)	
Other Income/PBT	(53.91)	(0.37)		(16.95)	
As a % of Expenditure					
<i>Access and interconnection charges</i>	33.68	37.18		35.06	
<i>Network op costs</i>	19.50	19.36		21.40	
<i>Employee costs</i>	7.38	4.82		8.51	
<i>Admin and Other expenses</i>	15.70	15.98		13.97	
<i>Marketing & business Promotion exp.</i>	23.74	22.67		21.05	

Source: Company data, ASK Securities.



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