

Mukesh Kumar

+91 22 67069926

mukesh.kumar@investsmartindia.com

Shareholding (%)

Promoters	56.2
FII's	7.2
MFs	4.9
Banks/FI's	17.9
Others	13.8

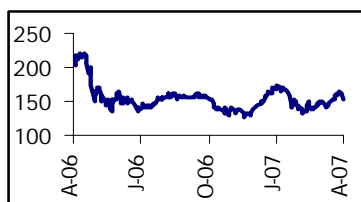
Share price performance

52-week high/low (Rs) 229/123

	-1m	-3m	-12m
Abs (%)	4.3	-8.7	-28.6
Rel* (%)	-3.0	-10.0	-45.3

*to Nifty

Stock chart



Core business decline continues; other income boosts bottomline

MTNL's operating performance continued to remain poor during Q4FY07. The company has reported Rs12bn of net sales, which is a decline of 17% YOY (2.6% QoQ). The company's EBITDA margins stands at 18.3% as against 13.3% in Q4FY06 (lower Q4FY06 margin was due to prior period Rs.4101.2 mn revenue sharing payments to BSNL). Higher other income led to a 5.8% YoY growth in PAT; the increase in other income was driven by a tax refund of Rs782mn. We continue to remain bearish on MTNL's telecom business, but do not rule out any positive stock movements on speculation of potential IT refund and real-estate story emerging in the counter.

- ▲ MTNL's number of fixed line subscribers increases by 37 thousand to 3.8mn. however, Q4FY07 ARPU for its fixed line business has fallen to Rs.721 from Rs.800 in Q3FY07, a QoQ fall of 10%. We expect fixed line ARPU remain under pressure as stiff competition from private players for its high end subscribers.
- ▲ MTNL's EBITDA margins stands at 18.3% in Q4FY07 as against 13.3% in Q4FY06(lower Q4FY06 margin was due to prior period 4101.2 mn revenue sharing payment to BSNL). Lower staff cost helps the company to improve its EBITDA margins to 18.3%in Q4FY07 from 16.5% in Q3FY07, however, there is a sequential fall of 2.6% in net sales for Q4FY07 to Rs.12bn.
- ▲ Other income was the highlight of the quarter; interest accrued on refund of income tax constituted Rs782mn of the Rs1,861 mn other income booked during Q4FY07. The tax refund was accrued due to the Income Tax Appellate Tribunal's ruling in MTNL's favour a few months back; the ruling pertained to tax disputes that occurred in the past.

Sell

Rs152

April 24, 2007

Market cap

Rs bn 96

US\$ mn 2,291

Avg 3m daily volume

3,294,766

Avg 3m daily value

USD mn 12

Shares outstanding (mn)

630

Reuters

MTNL.BO/MTNL.NS

Bloomberg

MTNL IN

Sensex

14,137

Nifty

4,142

Year-end	Sales	YoY	EBITDA	NP	EPS	YoY	PE	EV/EBITDA	DPS	Div Yield	Price/BV	RoCE
	(Rs m)	(%)	(Rs m)	(Rs m)	(Rs)	(%)	(x)	(x)	(Rs)	(%)	(x)	(%)
March												
FY2003	58,065	-5.5%	19,360	8,998	14.3	-31.2%	12.1	4.1	4.5	2.6%	1.2	13.7%
FY2004	63,696	9.7%	19,500	12,346	19.6	37.2%	8.8	4.0	4.5	2.6%	1.1	16.5%
FY2005	55,924	-12.2%	13,478	9,484	15.1	-23.2%	11.4	5.8	3.5	2.0%	1.0	11.2%
FY2006	52,597	-5.9%	8,805	5,881	9.3	-38.0%	18.5	8.9	2.1	1.2%	1.0	6.7%
FY2007	49,234	-6.4%	8,835	5,274	8.4	-9.9%	18.1	8.1	1.9	1.1%	1.0	6.7%
FY2008E	51,264	0.8%	7,575	3,734	5.9	-29.6%	29.1	10.4	1.4	0.8%	0.9	3.5%

MTNL

- ▲ We continue to remain bearish on the stock with little expected change in fundamentals in the short to medium term. However, speculation on MTNL developing/leasing out excess property in Mumbai and Delhi jointly with builders may be a short-term driver. However, revenues from such a project, if at all, are likely to be generated only in the long-term as MTNL is believed to have not even identified such surplus property.

Table 1. Quarterly result table

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Net Sales	12,000	14,453	-17.0%	12,319	-2.6%
Net Sales (ex interconnection)	10,007	8,776		10,228	
Staff Cost	4,240	3,176	33.5%	4,740	-10.5%
as a % of rev	35.3%	22.0%		38.5%	
Admin/Op exps	2,449	2,716	-9.8%	2,264	8.2%
as a % of rev	20.4%	18.8%		18.4%	
Lic fee exps	1,121	955	17.3%	1,191	-5.9%
as a % of rev	9.3%	6.6%		9.7%	
Rev share/interconnect exps	1,992	5,676	-64.9%	2,091	-4.7%
as a % of rev	16.6%	39.3%		17.0%	
Other Expenditure					
Total Expenditure	9,802	12,524	-21.7%	10,286	-4.7%
EBITDA	2,198	1,929	13.9%	2,033	8.1%
Margin (%)	18.3%	13.3%		16.5%	
Margin (ex rev sh) (%)	22.0%	22.0%		19.9%	
Other Income	1,861	1,492	24.7%	1,961	-5.1%
Depreciation	1,728	1,655	4.4%	1,704	1.4%
PBIT	2,331	1,766	32.0%	2,290	1.8%
Interest	1	29	-96.0%	2	-28.1%
PBT	2,330	1,737	34.1%	2,289	1.8%
Tax (total)	845	335	152.6%	782	8.1%
Eff tax rate (%) - total	36.3%	19.3%		34.2%	
Tax (current)	1,305	783	66.7%	976	33.8%
Eff tax rate (%) - current	56.0%	45.1%		42.6%	
Tax (differed)	(460)	(448)	2.6%	(194)	137.6%
Eff tax rate (%) - differed	-19.7%	-25.8%		-8.5%	
PAT	1,485	1,402	5.8%	1,507	-1.5%
% change - qoq					
EPS (Rs) - Quarterly	2.36	2.23	5.8%	2.39	-1.5%

Disclaimer Clause

This report has been prepared by the Research Department of IL&FS Investsmart Securities Limited (IISL). The information and opinions contained herein have been compiled or arrived at based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This report has been produced independently of the company, and forward looking statements, opinions and expectations contained herein are entirely those of IISL and given as part of its normal research activity and not as a Manager or Underwriter or any Offering or as an agent of the Company or any other person. Accordingly, if the Company should at any time commence an Offering of securities, any decision to invest in any such Offer or invitation to subscribe for or acquire securities of the Company must be based wholly on the information contained in the Final Prospectus issued or to be issued by the Company in connection with any such Offer or invitation and not on the contents hereof. This document is for information purpose only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. IISL, its directors, analysts or employees do not take any responsibility financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of the shares and bonds, changes in the currency rates, diminution in the NAVs reduction in the dividend or income, etc

IISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject IISL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently send or has reached any individual in such country, especially, USA the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purpose without prior written approval of IISL.

Foreign currency denominated securities, if any, wherever mentioned are subject to exchange rate fluctuations which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.