

RESULTS REVIEW
Mahanagar Telephone Nigam Limited
Sell
Share Data

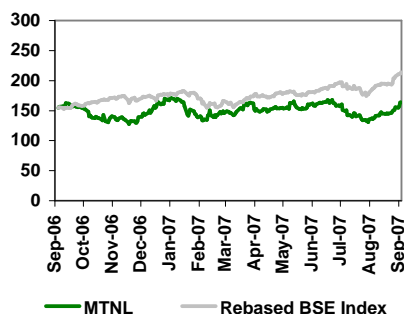
Market Cap	Rs. 103.38 bn
Price	Rs. 164.1
BSE Sensex	17,150.56
Reuters	MTNL.BO
Bloomberg	MTNL IN
Avg. Volume (52 Week)	0.69 mn
52-Week High/Low	Rs. 175.7/124.0
Shares Outstanding	630 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	7.6	7.2
+/- (%)	(12.6)%	(4.6)%
PER (x)	21.6x	22.7x
EV/ Sales (x)	2.0x	2.2x
EV/ EBITDA (x)	9.8x	10.7x

Shareholding Pattern (%)

Promoters	56
FII's	9
Institutions	24
Public & Others	10

Relative Performance

Declining trend to continue

Mahanagar Telephone Nigam Limited (MTNL) reported bleak results for 1QFY08 with net sales decreasing 6% yoy to Rs. 11,956.9 mn. The decrease in sales was primarily a result of poor performance in the wireline segment partially offset by higher sales in cellular segment. EBITDA declined 4% yoy to Rs. 2,617.1 mn, however, EBITDA margins jumped 50 bps to 21.9% because of reduction in administrative expenses. The Company's net profit decreased 6.2% yoy to Rs. 1,109 mn due to higher depreciation cost coupled with declining sales.

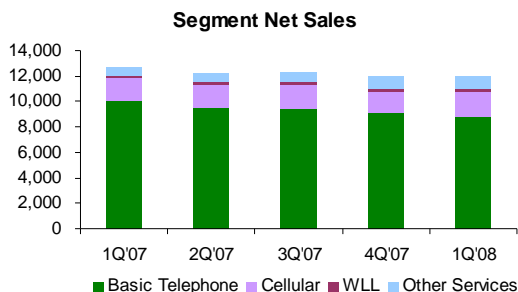
With the expected decline in wireline subscriber base coupled with lower ARPU, the Company's net sales are estimated to decrease at a CAGR of 8.3% for FY06-FY09E. At the current price of Rs. 164.1, the stock is trading at a forward PE of 21.6x FY08E and 22.7x FY09E. With operations restricted to two metropolises and an inability to scale outside the country, we maintain **Sell** on the stock with a target price of Rs. 129 over a period of 9-months.

Result Highlights

MTNL's net sales declined 6% yoy to Rs. 11,956.9 mn on the back of declining wireline subscribers. Wireline segment which accounts for 72.9% of total sales experienced a dip by 13.7% yoy to Rs. 8,713.8 mn. This decrease was a result of continuous decline in the subscriber base coupled with lower average revenue per user (ARPU).

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	12,725	12,000	11,957	(6.0%)	(0.4%)
EBITDA	2,727	2,198	2,617	(4.0%)	19.1%
<i>EBITDA Margins</i>	21.4%	18.3%	21.9%		
GSM Subscribers	2.2	2.7	2.6	20.2%	(5.0%)
Basic cum WLL-F subscribers	3.9	3.8	3.8	(2.6%)	(1.3%)
WLL-M Subscribers	0.1	0.1	0.1	50.6%	2.7%
Internet Subscribers	1.5	1.8	1.8	21.9%	2.9%
Postpaid GSM ARPU	350	303	276	(21.1%)	(8.9%)
Prepaid GSM ARPU	206	174	184	(10.7%)	5.7%
Fixed line ARPU	800	721	687	(14.1%)	(4.7%)
Broadband ARPU	452	442	490	8.4%	10.9%
Per Share Data (Rs.)					
EPS	1.9	2.4	1.8	(6.2%)	(25.3%)



*Administrative cost control
helped in margin improvement*

WLL segment sales too declined by 10% yoy to Rs. 212.5 mn due to declining ARPU's despite registering an increase in subscriber base. However, revenue growth of 14% yoy in the cellular segment restricted the overall decline in sales. The increase in cellular segment was driven by rising subscriber base along with a marginal increase in ARPU. MTNL also experienced an increase in ARPU and subscriber base for its broadband segment. However, MTNL's cellular and broadband businesses are not growing as aggressively as its peers.

EBITDA declined by 4% yoy to Rs. 2,617.1 mn primarily due to reduction in sales. However, margins climbed 50 bps yoy to 21.9% as a result of decline in administrative expense led by various cost reduction measures implemented by MTNL. Adjusted net profit reduced by 6.2% yoy to Rs. 1,109 mn because of rise in depreciation cost coupled with lower net sales.

Key Events

- Merger plan of MTNL and BSNL was put on hold by the Department of Telecom.
- MTNL announced its plan to develop an information technology park at Noida in Uttar Pradesh. The park will be spread over 80,000 sq. meters.
- The Company plans to introduce a low-cost, Internet technology-based phone service. In addition, MTNL also plans to increase its broadband capacity from 524,000 lines to nearly 1.3 mn in over 3 months.
- MTNL has tied up with Novatium to sell low cost personal computers along with internet connection for just Rs. 4,500.

Key Risks

- The Company is having surplus land and is planning to lease it out by way of long term lease or revenue sharing arrangements. Unlocking of land value can provide an upside to the rating.
- Renewal of merger talks between MTNL and BSNL.

Continuous decline in wireline subscribers coupled with lower ARPU's across major segments

Outlook

We have reduced our estimates on the back of poor 1QFY08 results. With the expected decline in wireline subscriber base coupled with lower ARPU's across major segments, the Company's net sales is likely to decline. We expect the net sales to decrease at a CAGR of 8.3% for FY06-FY09E. Moreover, with presence in only two circles Delhi & Mumbai and with pan India players like Bharti Airtel Ltd and Reliance Communications growing aggressively, the Company will face difficulties in retaining its market share. Though MTNL has tried to give value added services such as broadband, IPTV and more recently managed networks or virtual networking, each of them have hit the wall.

At the current price of Rs. 164.1, the stock is trading at a forward PE of 21.6x FY08E and 22.7x FY09E. We maintain **Sell** on the stock with a target price of Rs. 129 over a period of 9-months.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07E	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY06-09E)
Net Sales	55,886	55,721	51,542	47,419	42,914	(8.3%)
EBITDA	13,644	8,524	10,154	9,721	8,926	1.5%
<i>EBITDA Margins</i>	24.4%	15.3%	19.7%	20.5%	20.8%	
GSM Subscribers	0.9	1.9	2.7	3.2	3.5	
Basic cum WLL-F subscribers	4.1	3.9	3.8	3.6	3.4	
WLL-M Subscribers	0.2	0.1	0.1	0.1	0.1	
Internet Subscribers	1.0	1.4	1.8	2.0	2.1	
Postpaid GSM ARPU	482	308	303	270	250	
Prepaid GSM ARPU	358	280	174	154	138	
Fixed line ARPU	819	805	721	620	570	
Broadband ARPU	531	582	442	475	490	
Per Share Data (Rs.)						
EPS	15.1	9.6	8.7	7.6	7.2	(9.0%)
PER (x)	7.6x	19.1x	18.9x	21.6x	22.7x	

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