

RESULTS REVIEW

Share Data

Market Cap	Rs. 54.97 bn
Price	Rs. 87.25
BSE Sensex	12,961.68
Reuters	MTNL.BO
Bloomberg	MTNL IN
Avg. Volume (52 Week)	0.85 mn
52-Week High/Low	Rs. 219.45/86.5
Shares Outstanding	630 mn

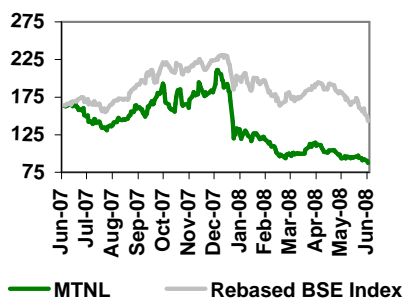
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	7.2	7.0
+/- (%)	(10.2)%	(2.6)%
PER (x)	12.1x	12.4x
EV/ Sales (x)	1.0x	1.0x
EV/ EBITDA (x)	6.1x	6.0x

Shareholding Pattern (%)

Promoters	56
FII's	7
Institutions	23
Public & Others	14

Relative Performance



Mahanagar Telephone Nigam Limited

Sell

No signs of silver lining

Mahanagar Telephone Nigam Limited (MTNL) revenues and earnings continued to drop in the quarter ended 31 March, 2008.

Poor performance by the fixed-line segment: MTNL's wireline customers increased by 2.6% qoq to 3.8 mn, but average revenue per user (ARPU) dropped 3.3%. Besides, interconnection revenues decreased substantially by around 29.5%. As a consequence, wireline revenue dropped 5.9% qoq to Rs. 7.8 mn.

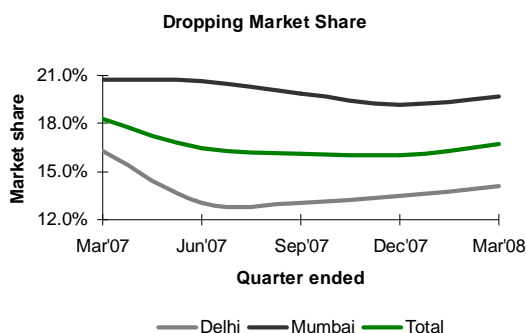
The cellular segment fails to capture the market boom: The segment registered a modest growth of 5.7% qoq due to a slower than industry average subscriber addition and sliding ARPU.

Higher operating costs suppress the margins: Adjusting for the change in accounting policy which reduced the staff cost by Rs. 1,440 mn, the EBITDA margin dropped to 7.6% as against 15.3% in Q3'08.

In Q4'08, MTNL failed to display any improvement in its fixed line operations. In addition, the marginal growth of the cellular business reflects the Company's inability to capture the boom in the domestic telecom market due to its limited operations. With the competition getting stiffer in the Mumbai circle, we expect revenue to drop at a CAGR of 1.5% for FY08–10E. Although the stock has touched its 52 week low of Rs. 86.5 on June 30, 2008, we reiterate our Sell rating on the stock due to limitation on the scope of business expansion and poor operating margins.

Key Figures (Standalone)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY'07	FY'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	11,888	11,897	11,566	(2.7)%	(2.8)%	49,093	47,288	(3.7)%
EBITDA	2,046	1,817	2,319	13.3%	27.6%	10,059	8,257	(17.9)%
EBITDA Margins	17.2%	15.3%	20.0%			20.5%	17.5%	
(Subscribers in mn)								
GSM	2.7	3.0	3.2	18.0%	9.7%	2.7	3.2	18.0%
Basic cum WLL-F	3.8	3.7	3.8	0.1%	2.6%	3.8	3.8	0.1%
WLL-M	0.1	0.1	0.2	35.6%	13.5%	0.1	0.2	35.6%
Internet	1.8	1.9	1.9	9.3%	3.8%	1.8	1.9	9.3%
(ARPU in Rs. per month)								
GSM	204	197	187	(8.3)%	(5.1)%			
Fixed line	721	691	668	(7.4)%	(3.3)%			
Broadband	442	608	551	24.7%	(9.4)%			
Per Share Data (Rs.)								
Adj. EPS	2.3	1.5	1.5	(34.2)%	(3.2)%	10.1	6.1	(39.9)%



Result Highlights

The services revenue plunged by 2.8% to Rs. 11.6 bn, attributable primarily to sliding wireline revenue. The wireline revenue dropped 5.9% qoq to Rs. 7.8 mn, mainly because MTNL was not able to add enough subscribers so as to offset the effect of dropping ARPU and around 29.5% drop in interconnection revenue. Cellular revenues grew by 5.7%, but was nowhere comparable to the growth rates of its wireless peers. Besides, MTNL's wireless market share has slipped from 18.3% in Q4'07 to 16.7% in Q4'08, although it showed marginal improvement in this quarter.

- The subscribers in basic telephony increased marginally by 2.6% qoq to 3.8 mn, whereas the ARPU dropped by 3.3% to Rs. 668.
- Cellular revenue increased by 5.7% qoq to Rs. 2.2 bn on the back of 9.7% growth in the subscriber base. However, ARPU dropped by 5.1% to Rs. 187.
- Broadband performed fairly with 11.5% increase in customers to 5,70,591 with a 9.4% drop in ARPU to Rs. 543.

Segment Net Sales

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%
Basic Telephone	9,039	8,330	7,837	(13.3)%	(5.9)%
Cellular	1,769	2,080	2,199	24.3%	5.7%
WLL	205	249	210	2.3%	(15.7)%
Other Services	987	1,238	1,320	33.8%	6.6%
Total	12,000	11,897	11,566	(3.6)%	(2.8)%

The remarkable sequential improvement in EBITDA by 27.6% to Rs. 2.3 bn, reported by MTNL, was primarily due to a 837 bps decline in staff cost as a percentage of sales. The decrease in staff cost was due to a change in the accounting policy of lab cost and asset creation. Excluding the effect thereof, EBITDA margin dropped by around 768 bps to 7.6%.

MTNL also reported an extraordinary increase in net profits by 125% qoq to Rs. 2.2 bn. Other incomes included an amount of Rs. 2 bn towards the interest on the refund of income tax. Excluding the effect of this and above mentioned staff cost, the Company reported the net loss of Rs. 890.2 mn.

Adjusted net profit margin dropped by 486 bps to 8.1% for the FY08

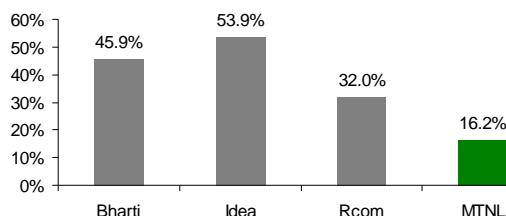
Key Events

- The Department of telecom (DoT) has allotted the international long distance (ILD) to MTNL. Earlier, the Company was routing its calls through Tata Communications Ltd.
- The Company is working on an undersea cable project to carry its own ISD traffic from India to Singapore and Malaysia.
- MTNL will lay down Rs. 15 bn Singapore project alone after BSNL pulled out of the project.
- DoT has asked TRAI to consider the abolishment of license fees on the fixed-line telephony in order to promote the rural telecommunication in the country.
- MTNL introduced a new M-commerce service for its landline and GSM subscribers under which users would be able to pay their bills through SMS.
- Aksh Optifibre Ltd., a manufacturer of cable and optical fibre, in collaboration with MTNL, launched 'icontrol' branded IPTV services in Delhi and Mumbai, which enables consumers to watch the TV programmes they desire on their own convenient time.

Key Risks

- The abolishing of license fees on fixed-line telephony would result in margins to move up by 9–10%.
- Due to limited opportunities in the domestic market, the Company looks forward acquiring licenses for overseas operations through acquisitions. Any success on that can yield an upside to our estimates.
- The Company has surplus land and is planning to lease it out by a long-term lease or revenue-sharing arrangements. Unlocking of the land value can be a key risk to our rating.
- Broadband and IPTV services may result in higher ARPU from the wireline subscribers.

Growth comparison



Outlook

Dropping ARPU has been a trend across the sector due to tariff cutting and lower disposable income of marginal customers. But the Company cannot escape on this ground as despite presence in high ARPU circles, Mumbai and Delhi, its blended GSM ARPU is only Rs. 199 for FY08. Besides, the GSM market same will be difficult to maintain with the new private players like Idea entering the operating circle of MTNL. Apart from this, as both the metros have the penetration levels nearing saturation, adding more subscribers will be a challenge. In such a scenario, MTNL can augment its revenue only by expanding its operational scope besides the two metros. In addition, the introduction of number portability by Q1'CY09 will put pressure on the weak players like MTNL.

With the limited growth in wireless business and continuously sliding wireline revenue, we expect the Company's revenue to drop at a CAGR of 1.5% for FY08-FY10E. At the current price of Rs. 87.25, the stock is trading at a forward P/E of 12.1x FY09E and 12.4x FY10E. Though the stock has witnessed a correction of more than 55% in H1'CY08 and has touched its 52 week low of Rs. 86.5 on June 30, 2008, we reiterate our Sell rating on the stock due to limitation on the scope of business expansion.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)							(FY08-10E)
Net Sales	55,886	55,741	49,401	47,288	46,578	45,880	(1.5)%
EBITDA	13,644	8,544	8,726	8,257	7,713	7,827	(2.6)%
<i>EBITDA Margins</i>	24.4%	15.3%	17.7%	17.5%	16.6%	17.1%	
(Subscribers in mn)							
GSM	0.9	1.9	2.7	3.2			
Basic cum WLL-F	4.1	3.9	3.8	3.8			
WLL-M	0.2	0.1	0.1	0.2			
Internet	1.0	1.4	1.8	1.9			
(ARPU in Rs. per month)							
GSM	398	287	204	199			
Fixed line	819	805	721	679			
Broadband	531	582	442	543			
Per Share Data (Rs.)							
Adj. EPS	15.1	9.6	7.9	8.1	7.2	7.0	(6.4)%
PER (x)	7.6x	19.1x	18.5x	10.8x	12.1x	12.4x	

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