Tata Teleservices (Maharashtra) Ltd.

14th Sep. 2007

Buy: CMP 34

	2005	2006	2007	2008
Price H/L	36/23	28/16	35/19	-
EPS	-	-3.24	-1.74	-1.58
CEPS	-	-0.14	0.72	0.66
Rev. GR	-	-	30%	30%
EPS GR	-	-	86%	10%
D/E	-	1.22	0.91	1.00

Rational

TTML should be bought with TATA POWER and VSNL in a ratio so as to take a position in Tata Teleservices Ltd-TTSL (which owns the Tata Indicom business). Consider the entire holding as a single stock (pre-IPO holding) in TTSL which is in turning around stages and should be listed sometime in the future. TTML if bought singly would be a speculative grade investment.

Proof

Tata power is the single largest shareholder with 35% stake in TTSL and VSNL holds 19.9% stake. Also, 40% stake in TTML is held by TTSL and 10% by Tata Power. This means about 50% of stake in the Tata Indicom business can be achieved by investing in these cos after a careful analysis for deciding the proportion of investment in each. You'll be amongst the very few like Temasek to get a portion from the Indicom pie before an issue actually hits the market.

For the price Temasek paid in for a 10% stake in TTSL, the Market Capitalization of TTSL should be around 15000 cr. Tata power's stake of 35% would give it a Mcap of 5250cr from TTSL alone. Its 10% stake in TTML would give it an additional 720cr in the Indicom business taking the total MCap to 6000cr (out of its current 16000cr). Giving it any further premium for the eventual value realization of Indicom stake and the current net worth of 6000cr would leave the amount you pay for the future possibilities of the current business very low. Better if bought at still lower price as the margin of safety will be very high.

Similar Analysis as above for the VSNL shows that out of its Mcap of 12000cr Tata Indicom is 3750cr. Given its balance sheet size of 4000cr and any premium for the Indicom business you again pay very less for the current business if bought at the right price.

That leaves a portion of TTML to be added to the portfolio so that you have a shareholding in the current float of the Indicom business. Of the current Mcap of Indicom - TTML is 32% and TTSL is 68%. Your positions in Tata Power & VSNL take care of the privately held part while that in TTML will give you a shareholding in the public portion of it.

Risk

The above portfolio startegy would also include buying the real businesses of Tata Power & VSNL.
This would mean that you undertake the risks involved in the Power and VSNL businesses as well along with those that characterize the Indicom business. The buying price of Tata Power & VSNL should be sufficiently low to take an exposure only to the TTSL business and minimizing any exposure to their real businesses whatsoever.

TTSL is currently a loss making co. expected to turnaround soon. In case it unexpectedly takes a longer time, it might mean that you would need to hold the portfolio for a longer duration.

Turn over for detailed business analysis

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Business Provides telecom services in 2 circles of Mumbai and Maharashtra & Goa.
CDMA service provider comprising CDMA Mobile & CDMA Fixed Wireless.
Curently operates in 410 towns & cities with a subscriber base of 3.074Mn.

Business Trend Sales growing at 30% CAGR & subscriber base at 68% CAGR over last five years.
Currently loss making and accumulated losses exceed the equity i.e negative net worth.
In its two circles, its share of new additions in the wireless market was 15%.
Promoter shareholding increased after it subscribed to unsubscribed portion of the rights issue.

Company Setup after acquisition of Hughes Tele business and is a subsidiary of Tata Teleservices Ltd (TTSL).
Shareholders: TTSL - 40%; Tata Power - 10%; Tata Sons - 18%.
Holds all India Internet Services and intenet telephony license.
Uses the Tata Indicom brand owned by parent TTSL.

Fin.

Rs. Cr	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Revenue			1096.79	1421.86	1848.418	2402.9434	
EBITDA			124.71	302.6	393.38	511.394	
Interest			145.77	171.76	188.936	207.8296	
Dep.			471.9	446.23	490.853	539.9383	
Tax			0	0	0	0	
Net			-492.96	-315.39	-286.409	-236.3739	
Capital			1520.59	1809.5	1809.5	1809.5	
Reserves			215.21	413.87	413.87	413.87	
Debt			2111.85	2028.87	2231.757	2454.9327	
Liabilities			1074.79	1071.79			
Op. CF			363.01	345.15			
Inv. CF			-594.25	-559.6			
Fin. CF			177.05	271.26			

Not very meaningful as this is a loss making and turning around case. Just for your info.
Revenues & EBITDA projected to increase at 30%.
Equity capital to remain const and debt to increase marginally because major capex of 5300 cr is already through

Value Using the TATA INDICOM brand name of the parent.
Turning around and can give handsome returns once it starts making net profits.
Well poistioned to take on the rural India story in Maharashtra & Goa.

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Growth

Increasing the number if towns/cities under coverage area.
Has identified Rural market penetration as the thrust area & capex to increase network coverage.
Considerably low teledensity of 18% in India, even much below the developing market standard.
Internet Services and telephony especially for the enterprise business where it is quite strong.
Aggressive plans and marketing with innovative schemes for customers.

Plans

Spent 5300cr in last two years to increase network coverage in all of Maharashtra & Goa.
Enhanced coverage is the base for extensive foray into the still untapped rural markets.
To double the number of coverage towns from the current 410.
Increasing range of products & services and very aggressive marketing.

Mgmt.

Almost 70% stake by the TATA group. Mostly TATA people in board of directors
Management with vast experience in various fields.
MD has 25 years experience in Motorola.
Tata Sons increasing stake in rights issue displays groups commitment to the co.
Aggressive plans by mgmt indicate the long term view they have in the business.

Value Enhancing Factors

The co has started making cash profits but losses due to high depreciation and interest.
Network towers is being hived off into a different co and will decrease depreciation expense also.
Started showing signs of decreasing operating losses.
Aggressive plans started showing results with 70% subscriber base increase in last year.
Share of new additions vis-à-vis competitors increasing.

Turn over for detailed business analysis

Basis For Expectations

TTML is 32% of the current market capitalization of the Indicom business. Hence to gain from the growth and turnaround of that business, should be invested in with a long term horizon.

Has a long term approach and past investment and efforts have started showing results - cash profits, market share in new additions, subscriber growth rates, aggressive plans etc.

Tata Group and Mgmt have shown commitment to the effectively long term and cash guzzling opportunity.

Increasing network coverage and increase in rural and urban penetration.

Extremely low teledensity in India.

Risks

License for business only in Mumbai and Mah & Goa. That caps the sales some point in the future.

TTSL services in other cirlces would mean that the co would not even bid for licenses there.

Intense competition from Airtel, Relaince and Vodafone in the two operating circles.

High depreciation and interest costs makes me nervous about uncertainities that they bring along.

Any merger with TTSL in near future can be rules out as TTSL itself plans to get listed.

A bloated equity of 2200cr is as high as RelInfo & Airtel with one tenth the sales.

Conclusion

TTML in itself is a specualtion. But when purchased together with Tata Power and VSNL as indicated in our 'Indicom Strategy' report, it makes a whole lot of sense. With 32% of the Mcap of the Indicom business an exposure to it is definitely required to gain from the Indicom Story. In itself the co would take a few years to turnaround and could give handsome returns. Immediate merger with TTSL does not seems likely due to the weak balance sheet but eventually this may be a possibility when both TTSL & TTML start generating profits.

Taemasek TTSL Value					12408	410	30.3
TCS					Final MarCap	Total shares	Price
TTSL	100	4100	15006		15006	410	36.6
TTML	100	1800	7200		7200	180	40
					22206		
Value of Telecom							
		Total Shares	Mar Price	Total MarCap			
Tata Power (TTSL)	5252.1	19.78	830	16417.4			
Tata Power (TTML)	720						
Total	5972.1						
Value of Power Business				10445.3			
Value of Past (Balance Sheet)				6033.11			
Value of Future (P&L)							
Value of business				4412.19			
VSNL	3751.5	28.5	422	12027			
Value of Existing business				8275.5			
Balance Sheet Value				4000			
Value of Ongoing biz				4275.5			
VSNL+ TP				28444.4			
Value of Indicom				9723.6	34%		
Val. of TTML+ TTSL through	**9723.6**		Private	68%			
Tata Power & VSNL			Public	**32%**			
% of total Value	44%						
- TP	27%						
- VSNL	17%						