

[NTT Japan Buys 26% of Tata Tele Services \(TTS\) for US\\$ 2.7 Billions \(Rs. 12850 crores\)](#)

## NEWS

**Event: 2008/11/12** – Tata Tele Services – NTT DoCoMo- Japan purchases

NTT DoCoMo Japan's and perhaps world's largest telecom company was rumored to have bought 26% stake in India's Tata Teleservices Ltd (Unlisted), parent of Tata Teleservices (Maharashtra) Ltd. (TTML) a bleeding child of Tata group for over 3 years. The consideration is US\$ 2.7 billions or Rs 12,825 crores or Rs 128,250 Millions at current rate of Rs 47.50/dollar. (It may go higher or lower on the date you read this) Bloomberg News links is [Bloomberg- NTT Tata deal](#) Also read in greater detail in India's [Business Standard](#)

It is also reported today that a press advertisement has been released in which mandatory offer of Rs 24.70 has been posted under SEBI's takeover rules.

## Analysis

1. It is not known whether NTT buys 26% stake from existing shareholders of the Parent TTS or on its expanded equity...
2. TTML has 190 crores shares outstanding today. Under mandatory offer of 20%, the company may be required to buy about 38 crores of shares from the market. The average volume of this counter has been low of late at 3 Million shares (30 Lakhs) of late, and it used to be over 10 millions shares on NSE alone. It will take 10 days of heavy volume or nearly 20 days of moderate volume on NSE to buy 38 crores of shares (380 millions) from the open market. Look at [6m TTML NSE Volume : Yahoo](#)
  - a. The premium offered to be paid is only 25% on closing price on 12-Nov-2008
  - b. It seems that the company has worked out the Offer Price in terms of [SEBI Regulations for Offer Price - See 20\(4\)\(c\)](#) under which average of last 26 weeks high and low is taken as basis.
- c. This is not the correct bid. NTT has paid TTS on the basis of Rs 19,334 per subscriber. TTML reportedly has 5 millions subscribers (as per BS report) in Maharashtra and Mumbai. Thus the valuation comes as under:

Total Amt Paid by NTT	US\$ 2,700 Bln	Rs 12,850 cr
Stake taken by NTT in TTS	26%	
No. of subscribers TTS has	50 Million	
Amt offered by NTT/subscriber	Rs 19,334	
No. of subscribers TTML has	30 Million	
% of subscribers of TTML/TTS	60%	
Due share of TTML from NTT		Rs 7,710 cr
No. of shares TTML	190 cr	
Amt due per shareholder		Rs 40.58
<b>Current Offer per SEBI</b>		<b>Rs 24.20</b>
Discount on Cost Value/share	<b>-67.69%</b>	Rs 16.38
Loss to TTML shareholders/share	-67.69%	Rs 16.38

.3. As per BS report, NTT appear to have worked out acquisition price based on per subscriber at Rs 19,334. Obviously, NTT may have worked out the purchase price with reference to industry standard ARPU (Average Rate Per User).

4. Please note that some reports do suggest that TTML has only 30 Mln subscribers (against BS report of 50 Millions). If that is true, the correct price could be Rs 24.35 or as offered now.

For NTT, this is a bargain. They are paying less because of 20% appreciation of Yen vs. dollar and 20% depreciation of Rs vs. \$. Thus, the deal works out 40% cheaper in favour of NTT in Forex alone.

## ***Other Important Financial Implications:***

Depending on the deal,

1. The TTML will have deep pocket shareholder with latest technology. The past is history
2. Its debt may disappear sooner or later. It could be a debt free company in era of monetary crisis
3. It will have access to latest technology, never seen by any of its competitor, including Vodafone
4. TTML can now expand at fastest rate. Its rate of growth is over 25% compounded in sales. The growth rate could possibly expand to 50% (CARG) for next 3 years at least
5. TTML can now bid for major and minor town's circles and large non-metro cities.
6. Funding will not be a major problem. While TATA has been under acute pressure, as anticipated by this author 10 months ago, NTT is reportedly having no funding problem. With Yen rising, the funding task become less daunting for NTT
7. Other operators from Bharati (Airtel), RCom (Anil Ambani's telecom outfit laden with debt), and Idea (Birla's outfit laden with heavy debt) will face immense competition. They do not have the level of financing in current difficult credit environments – TTML will outpace them by yards.
8. On its own, TTML is now on the verge of breaking even. Its current losses are dominated by non cash charge of depreciation. Look at the following numbers
  - a. Between 2007 and 08, the sales rose by Rs 298 crores and losses dropped by Rs 170 crores, That is with incremental sales of Rs 298 crores, the losses were reduced by Rs 170 crores. Current losses are Rs 148 crores, In one more year, the TTML could break even. It could be earlier with this deal.
  - b. With increased sales growth next 12 months @40% due to availability of funds with this deal, the increased sale of 680 crores could generate Rs 388 cr of income that could wipe out the deficit of 148 crores and make net gain of about Rs 240 cr. The interest cost (Rs 182 crores) could be reduced to zero If parents remit extra cash to TTML.
  - c. It looks like that surplus cash may be retained by the parent TTS and not much cash benefit may accrue to TTML. In fact, the company is entitled to 60% of cash received by parent TTS from NTT. (Rs 9000 crores) being its share of total enterprise value. If it receives Rs 6000 crores (less than 50%), it will wipe out the debt completely and also earn interest income before expansion @ 10% or about Rs 600 crores.
  - d. TTML could earn (240 +180 + 600) or Rs 1000 crores given the margin for error. With revised 190 cr shares outstanding, the EPS could be Rs 3.90 or about.
  - e. If TTML does not pass on cash benefits to TTML, to which it is entitled to, the EPS may drop by Rs 3 per share or to Rs 0.90 only. In that case, the price target will come down drastically. It all depends how TTS treats TTML – as normal parent or as sucker – to take all gains and pass on all losses.

**Tata Teleservices (Maharashtra) Ltd.**

Profit & Loss Accounts (Rs. in millions)						
	March - 2008 (12 months)	%	March - 2007 (12 months)	%	March - 2006 (12 months)	%
Sales	17,071.90	+0.96	14,069.80	+0.99	10,951.30	+1.00
Other Income	689.00	+0.04	168.10	+0.01	20.50	+0.00
Total Income	17,760.90	-	14,237.90	-	10,971.80	-
Raw Material Cost	78.00	+0.00	33.60	+0.00	0.00	
Excise	0.00		0.00		0.00	
Other Expenses	12,939.10	+0.73	11,145.50	+0.78	9,720.80	+0.89
Operating Profit	4,054.80	+0.23	2,890.70	+0.20	1,230.50	+0.11
Interest Name	1,822.70	+0.10	1,776.10	+0.12	1,420.20	+0.13
Gross Profit	2,232.10	+0.13	1,114.60	+0.08	-189.70	-0.02
Depreciation	4,393.50	+0.25	4,462.30	+0.31	4,719.00	+0.43
Profit Bef. Tax	-1,472.40	-0.08	-3,179.60	-0.22	-4,888.20	-0.45
Tax	9.30	+0.00	7.00	+0.00	8.50	+0.00
Net Profit	-1,481.70	-0.08	-3,186.60	-0.22	-4,896.70	-0.45
Other Non- Recurring Income	224.30	+0.01	74.90	+0.01	-513.90	-0.05
Reported Profit	-1,257.40	-0.07	-3,111.70	-0.22	-5,410.60	-0.49
Equity Dividend	0.00		0.00		0.00	

The stock could therefore see good rise in value in short to longer term. It is also possible that Tata will have to sell larger stake in future, could sell out entire company to NTT, to get out of debt trouble at Tisco and Tata Motor. In any case, even without NTT bid, TTML would have come to profit in 12 months. It would earn about Rs 0.90. If NTT cash is infused proportionately, it could earn Rs 3.90 per share. Its EPS could rise to Rs 10.70 in 3 years based on 40% compounded growth. If credit crisis is settled by then, the stock at could command modest 12x multiples. It can have following target depending on whether the parent pass on cash to TTML to the extent of its contribution to overall business:

If TTS TS treats TTML	12/2009	12/2010	12/2011
Normal EPS of TTML on is own	0.90	1.26	1.77
Price range to trade ( <b>Conservative</b> )	Rs 14~28	Rs 18~32	Rs 26 ~42
If TTS remits cash to TTML (Min 6000 cr)	3.90	5.85	9.78
Price Range if cash received (Liberal)	Rs 20~60	Rs 30~80	Rs 60~160
<p>In the absence of information relating to cash benefits, we have to go by the present position of the TTML. The price target (Conservative) as per second row in that case which is not very attractive to own this stock.</p> <p>If only TTML receives the proportionate cash from its parent TTS, the price target could be higher. Since Ratan Tata is in serious debt trouble, the possibility of TTS parting with large cash is rather remote. Even Tata could behave like Ruia when in trouble. Crows are black everywhere be they from Jamshedpur or Jamnagar.</p>			

The purchasing price of Rupee will go higher (don't look at \$ vs. Rupee) domestically. (If property prices go down by 40%, it means that Rupee's purchasing power has gone up by 40%)

## Strategy

We have much higher upside for TTML now. Even so, my target is as per above table. It is safe to buy. It will be tomorrow's blue chip. We take the view that RCOM and Idea will go down relatively more.

Buy the stock up to Rs 20. There will not be any counterbid I am sure – no one has money now, even Rs 100 crores, forget 12000 crores.

Following is my strategy:

1. Buy and accumulate TTML up to Rs 20 for 2 months and Rs 16 after the completion of offer.
2. Also Buy stocks like GTL Infrastructure Ltd who makes telephone towers. I was negative on that stock, but the things have changed. I will post my recommendation later in Stock Watch.
3. Swap from high debt telecom players. I would sell part of every other telecom stock (15%) and swap them into this one. If TTML is receiving more cash from its parent, then I will sell more of other telecom players (50%) and swap them into TTML.
4. For the time being, it is better to swap less than Rs 40 stocks into this one immediately. Ride the rally, book the gain and go back to your counter if still good.
5. The stock is not going beyond Rs 20 today – the offer is only for 20% and there is no guarantee that your share will be bought by TTML. It may therefore trade at discount of 10% to 20% from Bid Price or Rs 24.20. It is possible that it may go to max Rs 22 before the close of the offer.
6. Caution: there could be "reverse split" later on the stock. It could be 5:1 later because company like NTT does not like penny stock. 5:1 will reduce the number of shares by 80% to 38 cr shares (380 Millions against 1,900 Millions now) . With supply side less, and Fund Managers demand more for this *potential Blue Chip*, the price rise could be sharper than above target.

## ACTIONS

1. Buy first some small quantity. Be aggressive if the stock goes to Rs 16 or so
2. I would buy up to 10,000 shares at current prices (Rs 18 or so)
3. Swap from other telecom counters which are slow movers or have too much of debt. I would avoid Rcom and Idea only due to high level debt. Both promoters are less liquid.
4. In 3 years time, this stock could possibly go up 4 to 6 times.
5. The market overall worsening. It is coming close to total liquidation. So start booking profit if you get opportunity.

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