

July 29, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs157	Rs218
EPS change FY12E/13E (%)	NA / -1.5
Target Price change (%)	NA
Nifty	5,482
Sensex	18,197

Price Performance (%)	1M	3M	6M	12M
Absolute	0	0	(3)	(15)
Rel. to Nifty	2	6	(3)	(17)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	TTSL@IN
Equity Capital (Rs mn)	290
Face Value(Rs)	2
No of shares o/s (mn)	145
52 Week H/L	201/132
Market Cap (Rs bn/USD mn)	23/521
Daily Avg Volume (No of sh)	111966
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	69.5	69.0	69.0
FII/NRI	19.0	18.0	19.6
Institutions	2.0	1.9	1.9
Private Corp	6.1	6.9	5.7
Public	3.4	4.3	3.9

Source: Capitaline

Naval Seth

naval.seth@emkayglobal.com

+91 22 6624 2414

- Revenue at Rs6.5bn (better than our est. of Rs6.4bn) grew 24.5% yoy, led higher revenue realization in from the fibre business which aided the strong margins as well
- Q1FY12 EBIDTA grew 30.4% to Rs1.8bn and APAT grew 20.4% yoy to Rs772mn (our est. of Rs743mn). Strong revenue and EBITDA led to PAT growth of 20.4% yoy
- Net-debt rises to Rs16.5bn at the end of Q1FY12 v/s Rs14.3bn in Q4FY11, due to higher working capital requirements. Debt/EBITDA stands at 2.6x and D/E at 1.5x
- Valuations attractive at FY13E EV/EBIDTA of 3.3x & P/E 5.9x. Maintain BUY with TP of Rs218

Better than expected results

Consolidated revenue for the quarter stood at Rs6539mn with growth of 24.5% yoy, ahead of our estimate of Rs6367mn. Revenue growth was driven by strong order growth in high bandwidth fiber led data connectivity along with wireless business segment. EBIDTA increased by 30.4% yoy to Rs1848mn with margins at 28.3% increase of 127bps yoy. Strong revenue and EBITDA growth led to PAT growth of 20.4% yoy to Rs772mn (our estimate of Rs743mn).

Fiber based data connectivity business continues to drive revenue

Data connectivity business contributed 60% to the total revenue of Q1FY12. Revenue contribution from managed services increased from 21% in last quarter to 33%. 80% of new order inflow continued in the fibre segment. We believe as the contribution from the managed services to total revenue is increasing which would reduce the dependency on the fibre segment.

Net-debt further rise to Rs16.5bn

The net-debt on the books further increased to Rs16.5bn at the end of Q1FY12 v/s 14.3bn in last quarter. The increase has been primarily on account of higher working capital requirement. The company incurred capex of Rs1.4bn and generated cash profit of Rs1.3bn in Q1FY12. Capex guidance for FY12E maintained at Rs4.5bn.

New client additions

It added new customers during the quarter that includes Matrix Cellular, OICL, Karur Vysya Bank, Reliance Life Insurance, Gamesa, Deccan Charter.

Valuations attractive - BUY with target of Rs218

Debt on the books is continuously increasing and stretching the balance sheet. D/E of 1.23 for FY12E and net debt 15.3bn remains the key concern for the stock. While, stake sale in Data centre and divestment of Qualcomm investment could ease the debt on books and remains key trigger for the stock. Nevertheless, on the back of higher realization on fibre network, Tulip is expected to report healthy revenue and EBITDA going forward. We cut our EPS est. (fully diluted post dilution on FCCB) by 1.5% for FY13E to Rs27.6 on account of higher interest cost. At CMP of Rs156, Tulip trades at attractive valuations of 5.9x P/E and 3.3x EV/EBIDTA for FY13E. We retain BUY rating with target price Rs218.

Financial Snapshot

	Rs Mn									
Y/E	Net	EBITDA	PAT	EPS	EPS	ROE	EV/			
March	Sales	(Core)	(%)	(Rs)	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	19664	5255	26.7	2755	19.0	10.0	34.2	8.6	4.4	0.3
FY11E	23511	6631	28.2	3064	21.1	11.2	28.7	7.7	4.3	0.2
FY12E	28386	8209	28.9	3737	22.7	7.4	27.0	7.2	4.0	0.2
FY13E	32430	9471	29.2	4536	27.6	21.4	25.6	5.9	3.3	0.1

Data Centre operations commencement on track

The data centre facility at Bengaluru is expected to start its operation from Q2FY12E. It has won order worth revenue potential of Rs5bn for 30,000sq feet spread over 5 years.

Particulars	Q4FY11	Q1FY12
Operating Profit	-9	-14
Fixed Assets	910	995
Goodwill	1244	1244
Net Current Assets	-21	180
P&L Debit balance / Misc. Expenses	13	40
Capital Employed	2146	2460
Shareholder's funds	2146	2140

Quarterly financials

Particulars	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Sales	5,252	5,853	6,022	6,380	6,539	24.5	2.5	5,252	6,539	(19.7)
Raw Material	3474.6	3834.1	3887.5	3992.0	4179.2	20.3	4.7	3,475	4,179	(16.9)
as % of sales	66.2	65.5	64.6	62.6	63.9			66.2	63.9	
Employee Cost	215.0	218.6	235.2	274.8	298.9	39.1	8.8	215	299	(28.1)
as % of sales	4.1	3.7	3.9	4.3	4.6			4.1	4.6	
SG&A expenses	144.8	167.2	183.8	246.5	212.6	46.8	(13.8)	145	213	(31.9)
as % of sales	2.8	2.9	3.1	3.9	3.3			2.8	3.3	
Total operating expenditure	3834.4	4219.9	4306	4513	4691	22.3	3.9	3834	4691	(18.3)
EBITDA	1417.4	1632.9	1716	1866	1848	30.4	(1.0)	1,417	1,848	(23.3)
Depreciation	375.0	419.5	440.9	478.5	495.1	32.0	3.5	375.0	495.1	(24.3)
EBIT	1042.4	1213.4	1275.0	1387.8	1353.0	29.8	(2.5)	1042	1353	(23.0)
Other Income	-13.4	13.8	11.3	-10.7	-10.8	(19.4)	0.3	-13.4	-10.8	24.1
Interest	184.8	189.6	211.8	266.9	319.1	72.7	19.6	184.8	319.1	(42.1)
PBT	844.2	1037.5	1074.5	1110.1	1023.1	21.2	(7.8)	844.2	1023.1	(17.5)
Tax	202.7	257.6	257.1	283.3	250.9	23.8	(11.4)	202.7	250.9	(19.2)
Effective tax rate%	24.0	24.8	23.9	25.5	24.5					
PAT	641.6	780.0	817.4	826.8	772.2	20.4	(6.6)	641.6	772.2	(16.9)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	27.0	27.9	28.5	29.3	28.3	127	-99	27.0	28.3	(127)
EBIT	19.8	20.7	21.2	21.8	20.7	84	-106	19.8	20.7	(84)
EBT	16.1	17.7	17.8	17.4	15.6	(43)	-175	16.1	15.6	43
PAT	12.2	13.3	13.6	13.0	11.8	(41)	-115	12.2	11.8	41
Effective Tax rate	24.0	24.8	23.9	25.5	24.5	52	-100	24.0	24.5	(52)

Financials

Profit & Loss

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	19,664	23,511	28,386	32,430
Growth (%)	21.8	19.6	20.7	14.2
Raw material	12,953	15,188	17,786	19,813
Employee cost	825	946	1,260	1,362
SG&A expenses	632	745	1,130	1,784
Total operating expenditure	14,409	16,880	20,177	22,959
EBITDA	5,255	6,631	8,209	9,471
Growth (%)	56.1	26.2	23.8	15.4
Depreciation	1,353	1,714	2,034	2,337
EBIT	3,902	4,917	6,175	7,134
EBIT margin (%)	19.8	20.9	21.8	22.0
Other Income	468	1	79	120
Interest expenses	716	853	1,279	1,206
PBT	3,654	4,065	4,976	6,048
Tax	899	1,001	1,239	1,512
Effective tax rate (%)	24.6	24.6	24.9	25.0
PAT	2,755	3,064	3,737	4,536
% Growth	10.0%	11.2%	21.9%	21.4%

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	290	290	329	329
Reserves & surplus	8,989	11,781	15,247	19,511
Net worth	9,279	12,071	15,576	19,840
Secured Loans	5,476	12,239	13,689	11,689
Unsecured Loans	6,715	5,537	5,537	5,537
Loan Funds	12,191	17,776	19,226	17,226
Net deferred tax liability	29	32	32	32
Total Liabilities	21,499	29,879	34,834	37,098
Gross Block	14,502	19,762	25,742	28,622
Less: Depreciation	2,414	4,277	6,311	8,648
Net block	12,088	15,485	19,431	19,974
Capital work in progress	1,209	2,000	1,000	1,000
Investment	0	1,550	1,550	1,550
Goodwill	0	1,237	1,237	1,237
Current Assets	11,037	12,594	14,687	16,577
Inventories	688	994	1,065	1,115
Sundry debtors	5,320	6,339	7,148	8,225
Cash & bank balance	3,470	2,716	3,887	4,652
Loans & advances	1,559	2,544	2,587	2,586
Current lia & Prov	2,838	2,990	3,075	3,243
Current liabilities	2,838	2,990	3,075	3,243
Net current assets	8,199	9,604	11,612	13,334
Misc. exp & Def. Assets	4	4	4	4
Total Assets	21,499	29,879	34,834	37,098

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12P	FY13E
PBT	3,186	4,064	4,896	5,928
Depreciation	1,353	1,714	2,034	2,337
Interest	716	853	1,279	1,206
Other Non-Cash items	-4	3	0	0
Chg in working cap	-2,297	-2,159	-838	-957
Tax paid	-899	-1,001	-1,239	-1,512
Operating Cashflow	2,054	3,473	6,132	7,002
Capital expenditure	-2,502	-5,902	-4,980	-2,880
Free Cash Flow	-447	-2,429	1,152	4,122
Other income	468	1	79	120
Investments	0	-2,786	0	0
Investing Cashflow	-2,033	-8,688	-4,901	-2,760
Equity Capital Raised	1	-1	39	0
Loans Taken / (Repaid)	966	5,585	1,450	-2,000
Interest Paid	-716	-853	-1,279	-1,206
Dividend paid (incl tax)	-271	-271	-271	-271
Financing Cashflow	-20	4,460	-61	-3,477
Net chg in cash	0	-754	1,171	765
Opening cash position	3,470	3,470	2,716	3,887
Closing cash position	3,470	2,716	3,887	4,652

Ratios

Y/E, Mar	FY10	FY11E	FY12P	FY13E
Profitability (%)				
Core EBITDA Margin	26.7	28.2	28.9	29.2
Net Margin	15.0	15.8	16.3	16.5
ROCE	32.7	25.1	23.3	23.8
ROE	34.2	28.7	27.0	25.6
RoIC	52.6	34.9	30.2	30.2
Per Share Data (Rs)				
EPS (adjusted)	19.0	21.1	22.7	27.6
CEPS	28.3	33.0	35.1	41.8
BVPS	64.0	83.2	94.6	120.5
DPS	1.6	1.6	1.4	1.4
Valuations (x)				
PER	8.6	7.7	7.2	5.9
P/CEPS	5.8	4.9	4.6	3.9
P/BV	0.3	0.2	0.2	0.1
EV / Sales	0.1	0.1	0.1	0.1
EV / EBITDA	4.4	4.3	4.0	3.3
Dividend Yield (%)	1.0	1.0	0.9	0.9
Gearing Ratio (x)				
Net Debt/ Equity	0.9	1.1	0.9	0.6
Net Debt/EBIDTA	1.7	2.0	1.7	1.2

Recommendation History: Tulip Telecom – TTSL IN

Date	Reports	Reco	CMP	Target
13/05/2011	Tulip Telecom Q4FY11 Result Update	Buy	163	218
15/02/2011	Tulip Telecom Q3FY11 Result Update	Buy	168	218
18/01/2011	Tulip Telecom Event Update	Buy	168	240
16/11/2010	Tulip Telecom Q2FY11 Result Update	Buy	178	240

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2011	Bharti Airtel Event Update	Accumulate	411	464
22/07/2011	DB Corp Q1FY12 Result Update.pdf	Accumulate	238	271
20/07/2011	Dish TV Q1FY12 Result Update	Accumulate	89	99
18/07/2011	HT Media Q1FY12 Result Update	Buy	159	183

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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