

RESULT UPDATE

MID CAP

Share Data

Reuters code	TULP.BO
Bloomberg code	TTSL IN
Market cap. (US\$ mn)	594
6M avg daily turnover (US\$ mn)	3.0
Issued shares (mn)	29
Target price (Rs)	1,026

Performance (%)	1M	3M	12M
Absolute	(3)	6	138
Relative	3	4	34

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	85.6	99.0
+/- (%)	41.2	15.6
PER (x)	11.1	9.6
PBV (x)	3.1	2.4
Dividend/Yield (%)	0.4	0.4
EV/Sales (x)	1.9	1.8
EV/EBITDA (x)	7.4	6.6

Major shareholders (%)

Promoters	69
FII's	25
MFs	2
Public & Others	5

Financial highlights

(Rs mn)	2QFY10	3QFY10	QoQ (%)	3QFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	4,910	5,009	2.0	4,418	13.4	16,083	19,977	24.2	21,430	7.3
EBITDA	1,269	1,350	6.4	924	46.1	3,355	5,167	54.0	5,764	11.5
EBITDA Margin (%)	25.8	27.0	-	20.9	-	20.9	25.9	-	26.9	-
Other Income	37	104	182.7	(201)	-	(386)	317	-	160	(49.5)
Interest	187	186	(0.5)	98	90.5	462	757	63.7	651	(14.0)
Depreciation	436	409	(6.1)	94	333.9	414	1,693	308.5	1,834	8.3
PBT before extraordinary	682	858	25.8	531	61.6	2,093	3,034	45.0	3,439	13.3
Extraordinary income	-	-	-	-	-	730	145	-	-	(100.0)
Tax	164	172	4.8	35	397.7	327	551	68.5	569	3.1
Reported PAT	518	686	32.5	497	38.2	2,496	2,627	5.3	2,870	9.2
Adjusted PAT (After extraordinary)	518	686	32.5	497	38.2	1,766	2,483	40.6	2,870	15.6
Adjusted PAT margin (%)	10.5	13.7	-	11.2	-	11.0	12.4	-	13.4	-
Adjusted EPS (Rs)	17.9	23.7	32.5	17.1	38.2	60.9	85.6	40.6	99.0	15.6

Tulip Telecom

Maintain Outperformer

Price: Rs 947

BSE Index: 16,358

30 January 2010

3QFY10 Result – Reducing focus on network integration

Tulip Telecom's 3QFY10 top line was below expectation, as revenue for Network Integration (NI) segment declined by 20% QoQ. This, in a way, is good, as NI segment has a lower margin (5-8%), as compared to 25-28% for the Data Connectivity (DC) segment. Revenue for the DC segment, at Rs 4,422 mn (B&K estimate: Rs 4,475 mn), increased 48% YoY. Details on the connect addition is not given; however, we feel that the company would have added ~25,000-26,000 connects during the quarter. Positive surprise came on the margin side, as EBITDA margin moved up 112 bps, to 27%, as Tulip's transition to high margin segment continues. Employee cost also dropped by 2.8%, on a sequential basis. PAT grew by 32.5% on QoQ basis on the back of low depreciation (down 6.1% sequentially) and contained interest charges. Tax increased by 4.8% to Rs 172.2 mn on QoQ basis. Tax rate this quarter was 20%. Capex for the quarter was Rs 2,020 mn and capex for nine months FY10 stands at Rs 3,977 mn. Net debt-to-equity stands at 1.26x. This ratio is likely to move up, as the company continues to invest in building fibre capacities.

Performance in 4QFY10 will be even stronger, considering the seasonal pattern. Reducing focus on the NI segment augurs well with the company's strategy of focusing on providing bandwidth connectivity. Limited focus on the NI segment (like State-Wide-Area-Network projects) will be in order to get subsequent bandwidth orders. The underlying theme, of country's connectivity need, remains strong. Tulip has organised a conference call on 02 February 2010, where we expect the management to provide more details (connect additions-fibre versus wireless, average revenue per user, etc). We value Tulip at 7x FY11E EV/EBITDA. Maintain Outperformer, with a fair value of Rs 1,026.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	12,164	16,083	19,977	21,430
<i>Growth (%)</i>	44.7	32.2	24.2	7.3
Operating expenses	(9,708)	(12,728)	(14,810)	(15,666)
Operating profit	2,456	3,355	5,167	5,764
EBITDA	2,456	3,355	5,167	5,764
<i>Growth (%)</i>	85.0	36.6	54.0	11.5
Depreciation	(418)	(414)	(1,693)	(1,834)
Other income	230	(386)	317	160
EBIT	2,269	2,555	3,791	4,089
Interest paid	(258)	(462)	(757)	(651)
Pre-tax profit (before non-recurring)	2,010	2,093	3,034	3,439
Non-recurring items	0	730	145	0
Pre-tax profit (after non-recurring)	2,010	2,823	3,179	3,439
Tax (current + deferred)	(138)	(327)	(551)	(569)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,873	2,496	2,627	2,870
Prior period adjustments	(2)	(8)	0	0
Reported PAT	1,871	2,488	2,628	2,870
Adjusted net profit	1,871	1,758	2,483	2,870
<i>Growth (%)</i>	87.7	(6.0)	41.2	15.6

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable sec.	5,932	3,458	2,683	3,309
Other current assets	2,986	5,223	5,835	6,730
Investments	1	16	0	0
Net fixed assets	5,191	12,138	14,495	14,661
Total assets	14,109	20,834	23,013	24,700
Current liabilities	711	2,797	910	1,030
Total debt	8,938	11,224	13,288	12,121
Other non-current liabilities	9	9	0	0
Total liabilities	9,658	14,031	14,198	13,151
Share capital	290	290	290	290
Reserves & surplus	4,161	6,514	8,525	11,260
Less: Misc. expenditure	(1)	(0)	(0)	(1)
Shareholders' funds	4,451	6,803	8,815	11,549
Total equity & liab.	14,109	20,834	23,013	24,700
Capital employed	13,398	18,037	22,103	23,670

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,010	2,823	3,179	3,439
Depreciation	418	414	1,693	1,834
Change in working capital	(919)	(151)	(2,499)	(775)
Total tax paid	(137)	(327)	(561)	(569)
Other operating activities	2	0	0	0
Cash flow from oper. (a)	1,375	2,759	1,812	3,929
Capital expenditure	(3,111)	(7,361)	(4,050)	(2,000)
Change in investments	(1)	(15)	15	(0)
Cash flow from inv. (b)	(3,112)	(7,376)	(4,035)	(2,001)
Free cash flow (a+b)	(1,737)	(4,617)	(2,223)	1,928
Equity raised/(repaid)	(147)	0	0	0
Debt raised/(repaid)	7,522	2,286	2,064	(1,167)
Dividend (incl. tax)	(68)	(136)	(136)	(136)
Others	(3)	(8)	(480)	0
Cash flow from fin. (c)	7,305	2,143	1,448	(1,303)
Net chg in cash (a+b+c)	5,568	(2,475)	(775)	626

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	64.5	60.6	85.6	99.0
Growth	87.7	(6.0)	41.2	15.6
Book NAV/share (Rs)	153.5	234.6	304.0	398.2
Dividend/share (Rs)	2.0	4.0	4.0	4.0
Dividend payout ratio	3.6	7.7	5.5	4.7
Tax	6.8	11.6	17.3	16.5
EBITDA margin	20.2	20.9	25.9	26.9
EBIT margin	18.7	15.9	19.0	19.1
RoCE	25.8	16.3	18.9	17.9
Net debt/Equity	67.5	114.2	120.3	76.3

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	14.7	15.6	11.1	9.6
PCE	12.0	12.6	6.6	5.8
Price/Book	6.2	4.0	3.1	2.4
Yield (%)	0.2	0.4	0.4	0.4
EV/Net sales	3.1	2.4	1.9	1.8
EV/EBITDA	15.5	11.3	7.4	6.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	15.4	10.9	12.4	13.4
Asset turnover	1.3	0.9	0.9	0.9
Leverage factor	2.6	3.1	2.8	2.3
Return on equity (%)	51.7	31.2	31.8	28.2

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
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