

May 13, 2011

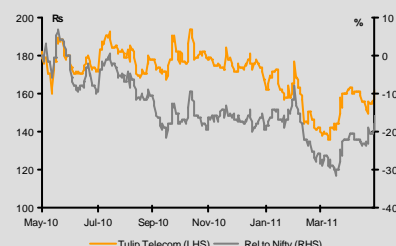
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs163	Rs218
EPS change FY11E/12E (%)	-11.5 / NA
Target Price change (%)	NA
Nifty	5,486
Sensex	18,336

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	3	(9)	(10)
Rel. to Nifty	8	(1)	3	(15)

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)	24/534
Daily Avg Volume (No of sh)	97477
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	69.0	69.0	69.0
FII/NRI	18.0	19.6	21.1
Institutions	1.9	1.9	2.0
Private Corp	6.9	5.7	4.0
Public	4.3	3.9	3.9

Source: Capitaline

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- Revenue at Rs 6.4bn (slightly below estimates) grew 20.2% yoy, led higher revenue realization in from the fibre business which aided the strong margins as well
- Q4FY11 EBITDA grew 20.8% to Rs1.9bn and APAT grew 25.7% yoy to Rs826mn (our est. of Rs 974mn). Lower PAT was on account of higher interest and tax outgo
- Net-debt rises to Rs14.3bn at the end of FY11 v/s Rs12.4bn in Q3FY11. Debt/EBITDA stands at 2.7x and D/E at 1.47x at the end of FY11
- Cut FY12E EPS by 11.5% due to higher interest & depreciation cost, going forward. Valuations at FY13E EV/EBITDA of 3.2x & P/E 5.8x. Maintain BUY with TP of Rs218

Revenue and EBITDA growth on track

Q4FY11 net sales increased by 20.2% yoy to Rs 6.4bn (our estimate of Rs6.7bn), led by strong order growth in high bandwidth fiber led data connectivity along with wireless business segment. EBITDA increased by 20.8% yoy to Rs 1.9bn (in-line with estimate) with margins at 29.3% v/s 29.1% in Q4FY10. Higher interest and tax outgo led to lower than expected PAT at 826mn.

Fiber based data connectivity business continues to drive revenue

Data connectivity business contributed 68% to the total revenue of FY11. 80% of the incremental order book during the quarter came from fibre network as compared to 70% in last quarter, which would support higher margins going forward. To enhance the capacity, the company has laid fibre from Mumbai to Bangalore at a capex of Rs600mn.

Net-debt rises to Rs13.5bn on account of data centre acquisition

The net-debt on the books increased to Rs13.5bn at the end of FY11 as compared to 12.4bn in Q3FY11. The increase has been primarily on account of newly acquired data centre. The company incurred capex of Rs1.8bn and generated cash profit of Rs1.3bn in Q4FY11. Capex guidance increased for FY12E from earlier Rs4.0bn to Rs4.5bn.

Highlights on new client addition and order wins

It added new customers during the quarter like Apex Bank Assam, MRF, GMR Group, HP India, Honeywell, Biocon. Order win in manage services segment stood at Rs210mn from Apex Bank, Assam for implementation of core banking solutions. Tulip also won R-APDRP project worth Rs320mn in A.P and couple of other orders in IDC segment.

Valuations attractive - BUY with target of Rs218

Huge debt on the books with D/E of 1.14 for FY12E and net debt 13.6bn remains the key concern for the stock. While stake sale in Data centre and divestment of Qualcomm investment remain key triggers 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 (fully diluted post dilution on FCCB) est. by 11.5% for FY12E to Rs22.7 due to higher interest and depreciation cost. At CMP of Rs163, Tulip trades at attractive valuations of 5.8x P/E and 3.2x EV/EBITDA for FY12E. 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	4.6	0.3
FY11E	23511	6631	28.2	3064	21.1	11.2	28.7	7.7	4.4	0.2
FY12E	28432	8177	28.8	3741	22.7	7.5	27.1	7.2	4.0	0.2
FY13E	32430	9471	29.2	4606	28.0	23.1	26.0	5.8	3.2	0.1

Quarterly financials

Particulars	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Sales	5,307	5,252	5,853	6,022	6,380	20.2	5.9	23,507	19,664	19.5
Raw Material	3301.0	3474.6	3834.1	3887.5	3992.0	20.9	2.7	15,188	12,953	17.3
as % of sales	62.2	66.2	65.5	64.6	62.6			64.6	65.9	
Employee Cost	223.0	215.0	218.6	235.2	274.8	23.3	16.9	944	825	14.4
as % of sales	4.2	4.1	3.7	3.9	4.3			4.0	4.2	
SG&A expenses	237.7	144.8	167.2	183.8	246.5	3.7	34.2	742	632	17.5
as % of sales	4.5	2.8	2.9	3.1	3.9			3.2	3.2	
Total operating expenditure	3761.7	3834.4	4219.9	4306	4513	20.0	4.8	16874	14409	17.1
EBITDA	1544.9	1417.4	1632.9	1716	1866	20.8	8.8	6,632	5,255	26.2
Depreciation	155.3	375.0	419.5	440.9	478.5	208.1	8.5	1713.9	1353.0	26.7
EBIT	1389.6	1042.4	1213.4	1275.0	1387.8	(0.1)	8.8	4919	3902	26.1
Other Income	-80.5	-13.4	13.8	11.3	-10.7	(86.7)	(194.8)	1.0	468.2	(99.8)
Interest	184.6	184.8	189.6	211.8	266.9	44.6	26.0	853.2	715.9	19.2
PBT	1124.6	844.2	1037.5	1074.5	1110.1	(1.3)	3.3	4066.4	3654.1	11.3
Tax	466.9	202.7	257.6	257.1	283.3	(39.3)	10.2	1000.7	899.4	11.3
Effective tax rate%	41.5	24.0	24.8	23.9	25.5					
PAT	657.7	641.6	780.0	817.4	826.8	25.7	1.1	3065.7	2754.7	11.3

Margins (%)						bps chg	bps chg				bps chg
EBIDTA	29.1	27.0	27.9	28.5	29.3	14	76	28.2	26.7	149	
EBIT	26.2	19.8	20.7	21.2	21.8	(443)	58	20.9	19.8	108	
EBT	21.2	16.1	17.7	17.8	17.4	(379)	-44	17.3	18.6	(128)	
PAT	12.4	12.2	13.3	13.6	13.0	57	-61	13.0	14.0	(97)	
ETR	41.5	24.0	24.8	23.9	25.5	(1,599)	160	24.6	24.6	(0)	

EPS Estimates cut by 11.5% for FY12E

Guidance for higher capex for FY12E at Rs4.5bn and capex on data centre would lead to higher depreciation cost. On account of higher interest cost and our revised estimates for depreciation cost, we have revised our EPS estimates for FY12E by 11.5% to Rs22.7 from earlier estimate of Rs25.7.

	FY12E			Introducing FY13E
	Old	New	Chg %	
Revenue	2,8452	2,843.2	-0.1	3,2430
EBIDTA	8211	817.7	-0.4	9471
EBIDTA %	28.9	28.8	-10 bps	29.2
PAT	4227	374.1	-11.5	4606
EPS	25.7	22.7	-11.5	28.0

Financials

Profit & Loss

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	19,664	23,511	28,432	32,430
<i>Growth (%)</i>	21.8	19.6	20.9	14.1
Raw material		15,188	17,739	19,813
Employee cost	825	946	1,166	1,362
SG&A expenses	632	745	1,351	1,784
Total operating expenditure	14,409	16,880	20,255	22,959
EBITDA	5,255	6,631	8,177	9,471
<i>Growth (%)</i>	56.1	26.2	23.3	15.8
Depreciation	1,353	1,714	2,225	2,455
EBIT	3,902	4,917	5,952	7,016
EBIT margin (%)	19.8	20.9	20.9	21.6
Other Income	468	1	120	120
Interest expenses	716	853	1,084	994
PBT	3,654	4,065	4,988	6,142
Tax	899	1,001	1,247	1,535
<i>Effective tax rate (%)</i>	24.6	24.6	25.0	25.0
PAT	2,755	3,064	3,741	4,606
<i>% Growth</i>	10.0%	11.2%	22.1%	23.1%

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	290	290	329	329
Reserves & surplus	8,989	11,781	15,214	19,513
Net worth	9,279	12,071	15,544	19,842
Secured Loans	5,476	12,239	12,239	10,239
Unsecured Loans	6,715	5,537	5,537	5,537
Loan Funds	12,191	17,776	17,776	15,776
Net deferred tax liability	29	32	32	32
Total Liabilities	21,499	29,879	33,351	35,650
Gross Block	14,502	19,762	25,742	28,622
Less: Depreciation	2,414	4,277	6,501	8,956
Net block	12,088	15,485	19,240	19,665
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	13,400	15,437
Inventories	688	994	1,065	1,115
Sundry debtors	5,320	6,339	7,128	8,225
Cash & bank balance	3,470	2,716	2,620	3,512
Loans & advances	1,559	2,544	2,587	2,586
Current lia & Prov	2,838	2,990	3,080	3,243
Current liabilities	2,838	2,990	3,080	3,243
Net current assets	8,199	9,604	10,320	12,194
Misc. exp & Def. Assets	4	4	4	4
Total Assets	21,499	29,879	33,351	35,650

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT	3,186	4,064	4,868	6,022
Depreciation	1,353	1,714	2,225	2,455
Interest	716	853	1,084	994
Other Non-Cash items	-907	909	-308	-308
Chg in working cap	-2,297	-2,159	-813	-982
Tax paid	-899	-1,001	-1,247	-1,535
Operating Cashflow	1,151	4,380	5,809	6,646
Capital expenditure	-2,502	-5,902	-4,980	-2,880
Free Cash Flow	-1,351	-1,522	829	3,766
Other income	468	1	120	120
Investments	0	-2,786	0	0
Investing Cashflow	-2,033	-8,688	-4,860	-2,760
Equity Capital Raised	1	-1	39	0
Loans Taken / (Repaid)	966	5,585	0	-2,000
Interest Paid	-716	-853	-1,084	-994
Dividend paid (incl tax)	632	-1,178	0	0
Financing Cashflow	883	3,553	-1,045	-2,994
Net chg in cash	0	-754	-96	892
Opening cash position	3,470	3,470	2,716	2,620
Closing cash position	3,470	2,716	2,620	3,512

Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	20.9	26.7	28.2	28.8
Net Margin	16.2	15.0	15.8	15.7
ROCE	35.9	32.7	25.1	23.3
ROE	44.5	34.2	28.7	27.1
RoIC	155.7	52.6	34.9	29.2
Per Share Data (Rs)				
EPS (adjusted)	17.3	19.0	21.1	22.7
CEPS	20.1	28.3	33.0	36.2
BVPS	47.0	64.0	83.2	94.4
DPS	0.8	1.6	1.6	1.6
Valuations (x)				
PER	9.4	8.6	7.7	7.2
P/CEPS	8.1	5.8	4.9	4.5
P/BV	0.3	0.3	0.2	0.2
EV / Sales	1.4	1.2	1.0	0.9
EV / EBITDA	7.5	4.6	4.4	4.0
Dividend Yield (%)	0.5	1.0	1.0	1.0
Gearing Ratio (x)				
Net Debt/ Equity	1.1	0.9	1.1	0.9
Net Debt/EBITDA	2.3	1.7	2.0	1.7

Recommendation History: Tulip Telecom – TTSL IN

Date	Reports	Reco	CMP	Target
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
10/08/2010	Tulip Telecom Q1FY11 Result Update	Buy	183	240

Recent Research Reports

Date	Reports	Reco	CMP	Target
05/05/2011	Bharti Airtel Q4FY11 Result Update	Hold	358	406
02/05/2011	Sterlite Technologies Q4FY11 Result Update	HOLD	59	54
15/04/2011	Telecom Sector Event Update			
13/04/2011	Telecom Event Update			

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