

July 30, 2009

Rating	Accumulate
Price	Rs967
Target Price	Rs1,065
Implied Upside	10.2%
Sensex	15,388

(Prices as on July 30, 2009)

Trading Data

Market Cap. (Rs bn)	28.0
Shares o/s (m)	29.0
Free Float	31.0%
3M Avg. Daily Vol ('000)	122.3
3M Avg. Daily Value (Rs m)	89.4

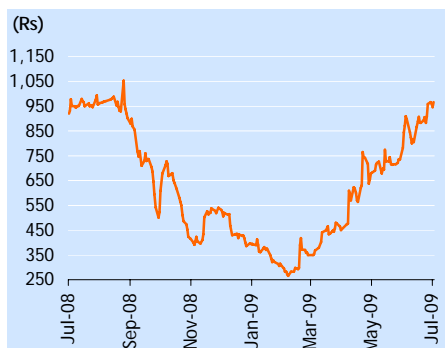
Major Shareholders

Promoters	69.0%
Foreign	24.2%
Domestic Inst.	2.6%
Public & Others	4.2%

Stock Performance

(%)	1M	6M	12M
Absolute	14.5	146.5	3.8
Relative	8.4	83.2	(3.9)

Price Performance (RIC: TULP.BO, BB: TTSL IN)



Source: Bloomberg

■ **Results in line:** Tulip Telecom (Tulip's) results were in line with our expectations, with revenues of Rs4,429m and YoY growth of 33%, primarily boosted by corporate/data service revenue. The company showed strong operational performance by adding 18.1K connects during the quarter (growth of 20% YoY). Forex fluctuation gain of Rs159m for the quarter and FCCB buyback gain of Rs144m, led to 64% YoY growth in profitability at Rs752m.

■ **Favourable business mix:** Contribution of the high-margin data segment grew to ~83% of the overall revenues for this quarter, as compared to 67% a year ago. This was primarily aided by higher recurring revenue from the old clients.

■ **Laying fibre in top 10 cities:** Tulip has rolled out fibre in the top 10 cities at a capex of Rs1.25bn to target the high bandwidth customers and provide internet services. This allows additional data service offerings including IPLC, corporate internet and VPN on fibre.

■ **Outlook & valuation:** Tulip corporate data services business continues to impress each quarter. Bandwidth requirement of the existing customers is also growing. Though the intensity of competition is expected to increase with telcos expected to deploy their wimax networks, they have a lag of at least 6-9 months post wimax auctions slated by end of this year. In the mean time, Tulip has rolled out fibre network for the last mile in top 10 cities which allows it to process high bandwidth demand of key customers. At the ruling market price of Rs967, the stock trades at 11.5x FY10E EPS of Rs84.4 and EV/EBITDA of 8.5x FY10E. We remain positive on the future growth prospects and niche application of Tulip but believe that the stock is nearing fair valuation.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenue (Rs m)	12,189	16,266	19,529	23,846
Growth (%)	44.7	33.5	20.1	22.1
EBITDA (Rs m)	2,456	3,391	4,523	5,771
PAT (Rs m)	1,872	2,525	2,776	3,184
EPS (Rs)	64.5	76.8	84.4	96.8
Growth (%)	87.6	18.9	9.9	14.7
Net DPS (Rs)	2.0	4.0	6.0	8.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	20.1	20.8	23.2	24.2
RoE (%)	51.6	44.8	34.3	29.4
RoCE (%)	24.0	18.7	17.4	19.0
EV / sales (x)	2.5	2.2	2.0	1.6
EV / EBITDA (x)	12.6	10.8	8.5	6.7
PE (x)	15.0	12.6	11.5	10.0
P / BV (x)	6.3	4.1	3.0	2.3
Net dividend yield (%)	0.2	0.4	0.6	0.8

Source: Company Data; PL Research

Nishna Biyani
NishnaBiyani@PLIndia.com
+91-22-6632 2259



Q1FY10 Result Overview

(Rs m)

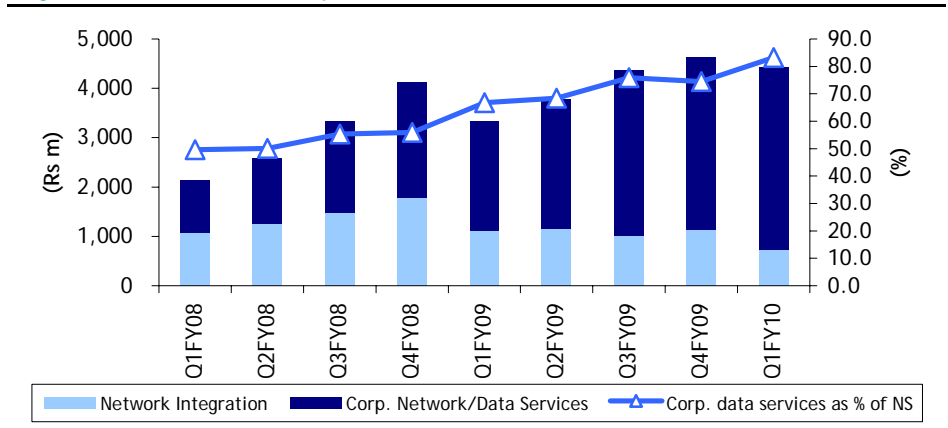
Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
No. of Connects (End of Period)	218,763	132,279	65.4	200,640	291,263	132,279	120.2
Cities Covered	1,415	1,250	13.2	1,370	1,700	1,250	36.0
Segmental Break-up							
Network Integration	742	1,106	(32.9)	1,130	3,047	4,643	(34.4)
<i>% of Net Sales</i>	<i>16.8</i>	<i>33.3</i>		<i>24.2</i>	<i>15.6</i>	<i>28.5</i>	
Corp. Network/Data Services	3,687	2,219	66.2	3,486	16,413	11,519	42.5
<i>% of Net Sales</i>	<i>83.2</i>	<i>66.7</i>		<i>74.5</i>	<i>84.0</i>	<i>70.8</i>	
Net Revenues	4,429	3,325	33.2	4,677	19,529	16,266	20.1
Expenditure							
Raw Material	3,035	2,429	25.0	3,346	13,649	11,657	17.1
<i>% of Sales</i>	<i>68.5</i>	<i>73.0</i>		<i>71.5</i>	<i>69.9</i>	<i>71.7</i>	
Employee Costs	185	155	19.9	199	771	713	8.2
<i>% of Sales</i>	<i>4.2</i>	<i>4.6</i>		<i>4.3</i>	<i>3.9</i>	<i>4.4</i>	
Other Expenditure	121	87	38.8	129	586	505	15.9
<i>% of Sales</i>	<i>2.7</i>	<i>2.6</i>		<i>2.8</i>	<i>3.0</i>	<i>3.1</i>	
Total Expenditure	3,341	2,671	25.1	3,675	15,007	12,875	16.6
EBITDA	1,088	654	66.3	1,002	4,523	3,391	33.4
<i>Margin (%)</i>	<i>24.6</i>	<i>19.7</i>		<i>21.4</i>	<i>23.2</i>	<i>20.8</i>	
Other income	271	21	-	579	521	344	51.3
Depreciation	353	105	237.5	136	1,455	414	251.2
EBIT	1,006	571	76.3	1,445	-	1,477	
Interest	158	90	75.9	143	538	462	16.4
PBT	848	481	76.4	1,302	-	1,303	
Total Taxes	96	21	352.5	235	275	334	(17.9)
<i>ETR (%)</i>	<i>11.3</i>	<i>4.4</i>		<i>18.0</i>	<i>-</i>	<i>25.7</i>	
PAT	752	460	63.6	1,067	2,776	2,525	9.9

Highlights

Favourable business mix expanded margins

Higher contribution from data/corporate services helped Tulip to have a favourable revenue mix. The company has reduced its low margin network integration business to 17% of net sales v/s 34% a year ago. ARPU's, on installation charges, were almost flat for the quarter at Rs42k, whereas recurring revenues ARPU (cumulated annually) was up 7.5% QoQ at Rs55k per connect which is impressive.

Segmental revenue break-up

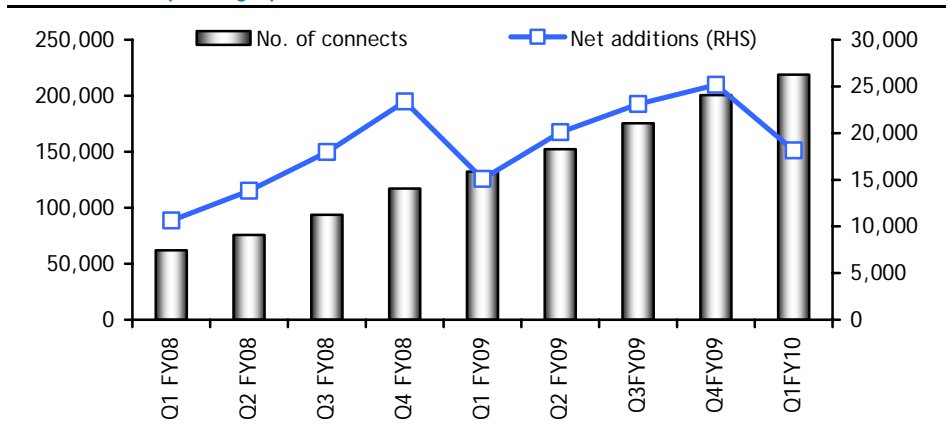


Source: Company Data, PL Research

Net additions of 18k for the quarter

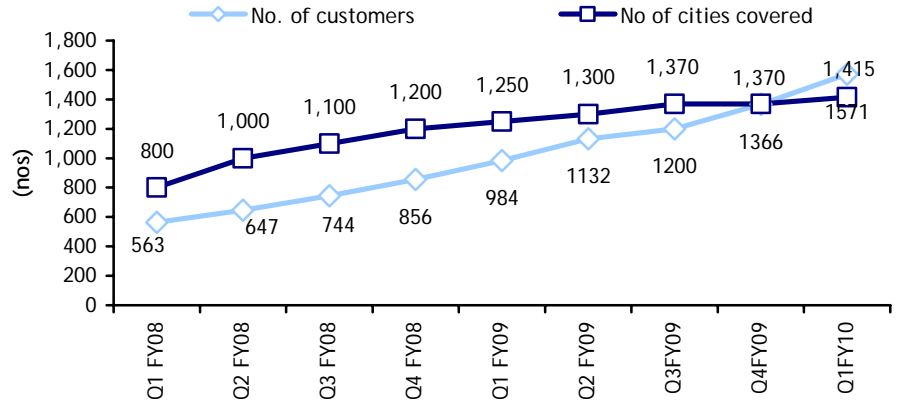
Tulip continued to accelerate net additions in Q1FY10. It added 18k connects; increased its reach to 1,415 cities and added 205 customers during the quarter. The new customers signed in this quarter included Aircel, Maruti suzuki, BNP paribas, Allied Digital, D-Link etc.

Net additions picking up



Source: Company Data, PL Research

Increased coverage and no. of customers

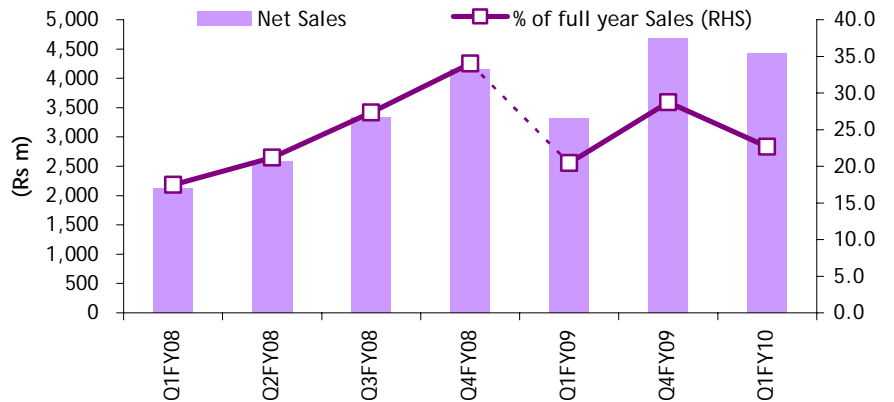


Source: Company Data, PL Research

Seasonality in business, Q4 being the best

Tulip's business follows a seasonal pattern, with the fourth quarter representing ~30-35% of its overall revenue. The company has shown good set of numbers for Q1FY10. The recurring revenues from clients continue to remain buoyant with strong number of connects.

Revenue flow seasonal



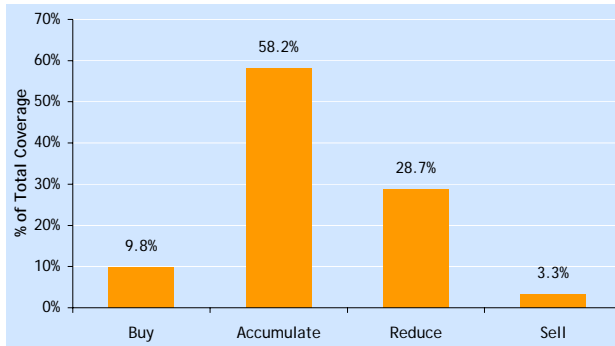
Source: Company Data, PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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