

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	18,943	0.7	6.3
Nifty	5,687	0.6	6.6
CNX 500	4,518	0.6	6.4
BSE Bank	13,082	1.2	10.5
BSE IT	6,333	(0.2)	3.7
BSE Oil & Gas	9,976	(0.0)	5.5
Dow Jones	12,198	(0.2)	(0.2)
Nasdaq	2,731	(0.5)	(1.9)
FTSE	5,904	0.1	(1.5)
DAX	6,939	(0.1)	(4.6)

Mkt Breadth	Advance	Decline	Unchanged
Nifty	33	17	0
Sensex	20	10	0

Turnover	INR Bn	% Chg
BSE Cash	32	-2.2
NSE Cash	124	2.6
NSE F&O	1,596	-8.1
Total	1,752	

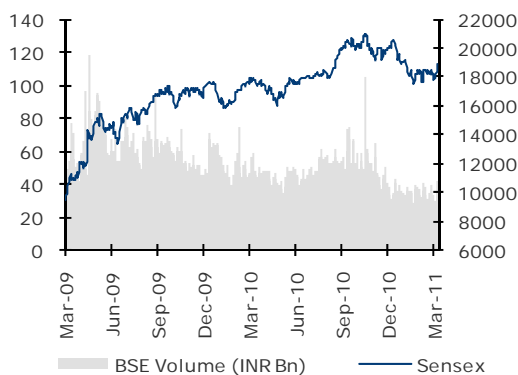
Fund Flows	US \$ mn	MTD	YTD
FII Equity	340	879	(1,334)
MF	18	167	612

Forex/Bond	Chg 1-d	Chg mtd
USD/INR	44.84	0.16 (0.43)
USD/EUR	1.410	0.00 0.03
YEN/USD	81.7	0.37 (0.14)
10 yr G-Sec	7.98	(0.02) (0.04)

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent (\$/bbl)	114.8	(0.7)	2.8
Gold (\$/oz)	1,421	(0.6)	0.6
Copper (\$/mt)	9,535	(1.6)	(3.5)
Aluminium (\$/mt)	2,615	(1.0)	0.6

ADR GDR	Scrip	Last Close*	% chg	% Prem.
	Dr Reddy's	35.0	(0.7)	1.2
	HDFC Bank	163.0	0.4	6.1
	ICICI Bank	48.7	1.9	(0.9)
	ITC	4.0	0.3	0.0
	Infosys	69.4	0.3	(0.9)
	Satyam	3.0	(1.0)	3.8
	Ranbaxy	9.8	(2.5)	0.7
	Reliance	46.3	(0.3)	1.2
	Wipro	14.1	(0.3)	37.2
	SBI	124.2	0.9	1.3
	Tata Motors	27.0	0.2	(0.9)

\* US\$

**Sensex**

**From the Research Desk**
**Tulip Telecom – Company Update**

Tulip Telecom, a niche player in the enterprise data connectivity market since our initiation in Dec'10 has declined by 20% as against a fall of 7% and 12% in Sensex and BSE Midcap Index respectively. However, the operating performance of the company has remained robust with its investment into fiber yielding results, driving growth and improving margins. For the 9M ended Dec'10, Tulip reported a YoY revenue and earnings growth of 19% and 33% respectively. We expect revenue and earnings CAGR of 15% and 28% over FY11-13 ex data center. We reiterate our Buy rating on Tulip with revenue and earnings drivers in place, attractive valuations, superior execution track record and strengthening middle and top management team. Tulip is currently trading at 5.6x FY12E earnings as against historical 9x one year forward earnings. Reiterate Buy with TP of Rs246 based on 10x FY12E earnings.

**Headlines**

- **ONGC** has emerged as provisional winner in 10 out of the 29 blocks it has bid for in the ninth round of the New Exploration Licensing Policy. (BS)
- **Reliance Infrastructure's** Rs10bn buyback will start from April 5, the company to buy shares at price not exceeding Rs725/share. (BS)
- SEBI has cleared the deal for Rs54bn acquisition of **Patni Computers** by **iGate**. (BS)
- **JSW Energy** and **GVK group** may partner with a third Indian Company to offer combined bid for the coals assets of **Hancock Coal**, valued at more than US\$2.7bn. (ET)
- **Bharti Shipyard** has sold two vessels to its ship owning unit **Great Offshore Ltd** for US\$58m after the German firm that had placed the orders cancelled it citing delays in delivery. (Mint)
- **IDFC** has collected Rs14bn from over 0.75m applications in the three tranches of its long term infrastructure bonds. (ET)
- **Intas Pharmaceuticals Ltd** has filed DRHP with SEBI for fresh issue of equity shares up to Rs4.25bn. (Mint)
- **Reliance Broadcast Network Ltd** to enter into regional television space with launch of Hindi entertainment channel Big Magic on April 4. (Mint)
- **Sundaram Finance** and **RSA Insurance UK** to invest Rs650m in general insurance venture **Royal Sundaram Alliance General Insurance** to fund expansion of insurance business. (ET)
- **Electrotherm Ltd** has entered into JV with **Immodo Solar SA** to carry out solar photovoltaic projects for solar farms, grid and off-grid applications. (Mint)

**From the Blogosphere****Calculated Risk: Here come the downgrades for Q1 GDP Growth (Source)**

Before the February Personal Income and Outlays report, most analysts were expecting real GDP growth of over 3% in Q1. As an example, Paul Kasriel at Northern Trust was forecasting 3.1% real GDP growth with 2.2% real Personal Consumption Expenditure (PCE) growth, and Goldman Sachs was forecasting 3.5% real GDP growth with 3.0% real PCE growth.

Both of those forecast now look too high.

Note: The quarterly change is not calculated as the change from the last month of one quarter to the last month of the next. Instead, you have to average all three months of a quarter, and then take the change from the average of the three months of the preceding quarter.

So, for Q1, you would average PCE for January, February, and March, then divide by the average for October, November and December. Of course you need to take this to the fourth power (for the annual rate) and subtract one. Also the March data isn't released until after the advance Q1 GDP report.

There are a few commonly used methods to forecast quarterly PCE growth after the release of the second month of the quarter report (February for Q1). Some analysts use the "two month" method (averaging the growth from October-to-January with the growth from November-to-February). Others use the mid-month method and just use the growth from November-to-February.

**Zero Hedge: If Spin Were Reality - We'd Have A Recovery (Source)**

If Spin Were Reality - We'd Have A Recovery

Wouldn't it be awesome if spin could actually solve problems? Then, you could just say the word 'recovery' every time you gave a speech, ignore any negative data, assume the markets are up because of general economic health and not a mass infusion of cheap money, and it would be so.

It wouldn't matter that New Home Sales are at their lowest rate since reporting began in 1962.

It would be fine that Existing Home Sales (the number of completed transactions) were down 9.6% over the month, and 2.8% since last year.

It would be cool that Pending Home Sales were down 2.8% over the month, and 1.5% over the year.

It would be a symptom of recovery that the average Sale Price for non-foreclosed homes is \$246,358 - below 2003 levels, and for foreclosed homes, is \$169,965.

It would just be a coincidence that 39% of homes sold in February were distressed (sold at a discount), many of those to investors, not to end-home-dwellers, up from 35% last February.

**March 29, 2011**

<b>Recommendation</b>	<b>BUY</b>
<b>CMP</b>	<b>141</b>
<b>Target</b>	<b>246</b>
<b>Stock Return</b>	<b>74%</b>

Nifty	5,687
Sensex	18,943

**Key Stock Data**

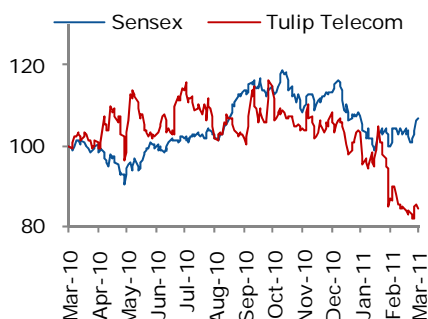
Sector	Telecom
Reuters Code	TULP.BO
BLOOMBERG Code	TTSL IN
No. of Shares (mn)	145
Market Cap (Rs bn)	20
Market Cap (\$ mn)	455
6 mth avg traded value (Rs. mn)	81

**Stock Performance (%)**

52 - Week high / low	Rs 201/132		
	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute (%)	(20.1)	(17.7)	(15.8)
Relative (%)	(13.6)	(12.6)	(22.7)

**Shareholding Pattern (%)**

Promoters	69.0
FIs & Local MFs	1.9
FIIIs	19.4
Public & Others	9.8

*Source: Company*
**Sensex and Stock Movement**


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Tulip Telecom, a niche player in the enterprise data connectivity market since our initiation in Dec'10 has declined by 20% as against a fall of 7% and 12% in Sensex and BSE Midcap Index respectively. However, the operating performance of the company has remained robust with its investment into fiber yielding results, driving growth and improving margins. For the 9M ended Dec'10, Tulip reported a YoY revenue and earnings growth of 19% and 33% respectively. We expect revenue and earnings CAGR of 15% and 28% over FY11-13 ex data center. We reiterate our Buy rating on Tulip with revenue and earnings drivers in place, attractive valuations, superior execution track record and strengthening middle and top management team. Tulip is currently trading at 5.6x FY12E earnings as against historical 9x one year forward earnings. Reiterate Buy with TP of Rs246 based on 10x FY12E earnings.

**Growth drivers in place with investment in fiber yielding results**

Revenue growth drivers remain in place for Tulip with robust demand for high bandwidth connectivity services both from existing and new customers. Post bandwidth constraint on wireless networks, Tulip's last mile fiber roll-out has helped it increase the addressable market by 5x to Rs75bn. Tulip's investment in fiber is enabling it to tap the high bandwidth IP VPN and internet services. Investment in fiber enables Tulip to reduce the cost of connectivity and improve margins. Tulips' management guide for Rs40bn in revenue (2x current revenue) excluding data center which could contribute additional Rs10bn by FY14. We remain conservative in our estimate which could provide additional upside.

**Data center – long term value creator**

Data center due to inherent nature of business of higher initial capex and fixed cost, would take 3-4 years for break-even. Near term earnings dilution in FY12 and FY13, we estimate at 4.2% and 7.8% and NPV of Rs37 (assuming 55% stake for Tulip with balance for strategic/financial partner) for data center business, however haven't incorporated the same as part of our TP. Additionally data center to have synergistic benefits in boosting the revenue's for core connectivity business.

**Table 1: Financial summary**

Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,688	27,411	31,157
Growth (%)	44.7	32.4	21.8	20.5	15.7	13.7
EBITDA	2,456	3,367	5,255	6,637	8,086	9,503
Growth (%)	84.9	37.1	56.1	26.3	21.8	17.5
EBITDA Margin (%)	20.2	20.9	26.7	28.0	29.5	30.5
Adj. Net Profit	2,498	2,743	3,171	3,986	5,078	2,498
EPS (Rs)	10.9	15.4	17.0	19.6	24.6	31.4
Growth (%)	62.8	41.6	10.0	15.6	25.7	27.4
P/E (x)	12.9	9.1	8.3	7.3	5.8	4.5
EV/EBITDA (x)	9.5	8.3	5.5	4.5	3.6	2.6
ROE (%)	51.6	44.3	34.1	29.9	29.5	26.7
ROCE (%)	21.5	16.6	14.9	16.3	18.1	19.9

*Source : Company, HDFC Securities Institutional Research*

Institutional Research

Tulip's valuation chart

Chart 1: 1yr fwd EV/Sales

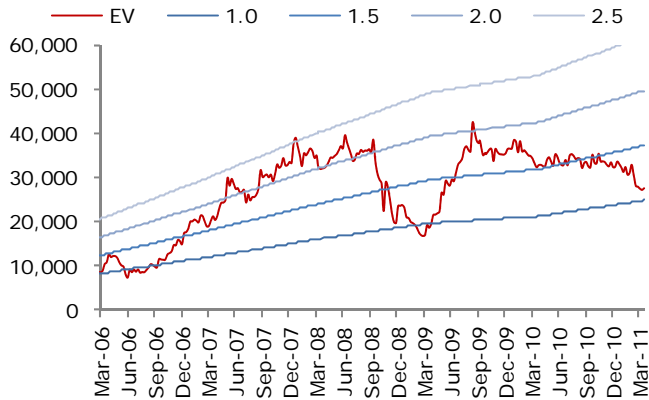


Chart 2: 1yr fwd EV/EBITDA

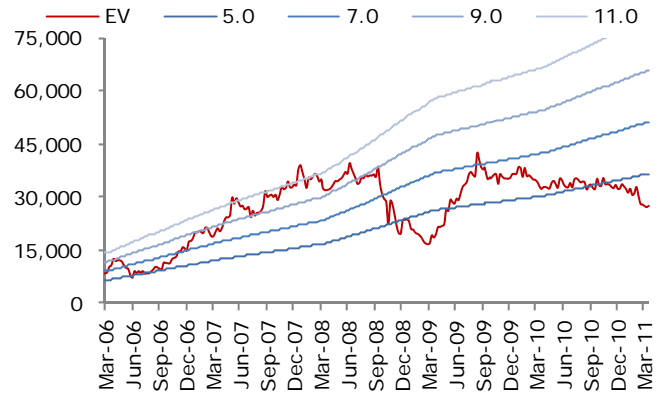


Chart 3: 1yr fwd P/BV

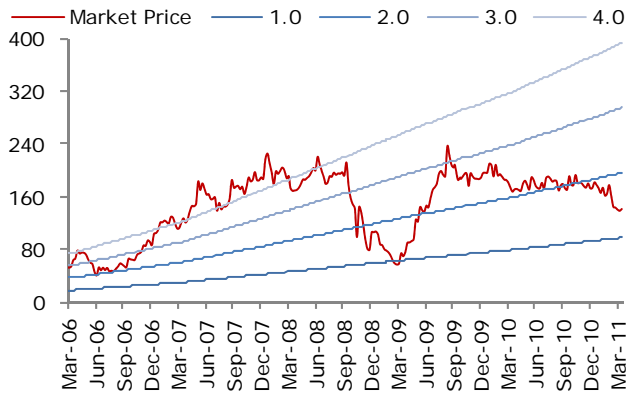
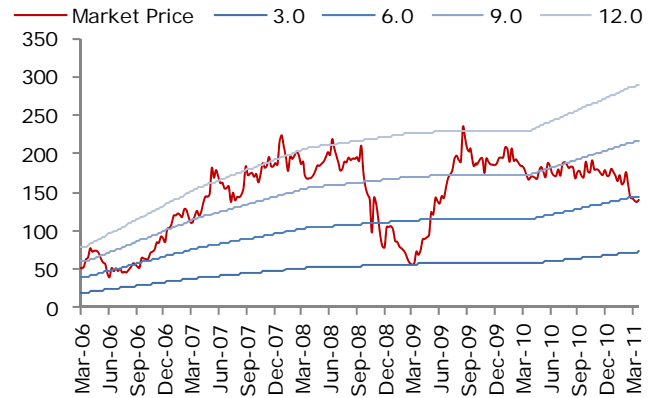


Chart 4: 1yr fwd P/E



Source : Bloomberg, HDFC Securities Institutional Research

**Table 2: Income statement**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,688	27,411	31,157
<i>Growth (%)</i>	44.7	32.4	21.8	20.5	15.7	13.7
EBITDA	2,456	3,367	5,255	6,637	8,086	9,503
<i>EBITDA margin %</i>	20.2	20.9	26.7	28.0	29.5	30.5
<i>Growth (%)</i>	84.9	37.1	56.1	26.3	21.8	17.5
Depn & Amortz	418	414	1,353	1,675	2,100	2,475
<i>% of revenue</i>	3.4	2.6	6.9	7.1	7.7	7.9
EBIT	2,038	2,953	3,902	4,961	5,986	7,028
<i>EBIT margin %</i>	16.7	18.3	19.8	20.9	21.8	22.6
<i>Growth (%)</i>	74.2	44.9	32.1	27.2	20.7	17.4
Finance chg/(inc)	258	462	716	861	760	334
<i>% of revenue</i>	2.1	2.9	3.6	3.6	2.8	1.1
Other income	230	344	468	128	89	77
EBT	2,010	2,835	3,654	4,229	5,314	6,771
Income taxes	138	330	899	1,057	1,329	1,693
<i>Effective tax rate (%)</i>	6.8	11.6	24.6	25.0	25.0	25.0
+ /(-) Prior period (exp) / inc.	(2)	(8)	(12)	-	-	-
Reported net income	1,871	2,498	2,743	3,171	3,986	5,078
<i>Net income (%)</i>	15.4	15.5	13.9	13.4	14.5	16.3
<i>Growth (%)</i>	87.6	33.5	9.8	15.6	25.7	27.4
O/s shares Basic (mn)	145	145	144	144	144	162
O/s shares Diluted (mn)	172	162	162	162	162	162
Adj. Basic EPS (Rs)	13	17	19	22	28	31
Adj. Diluted EPS (Rs)	11	15	17	20	25	31
<i>Growth (%)</i>	62.8	41.6	10.0	15.6	25.7	27.4
DPS (Rs)	0.4	0.8	1.6	3.0	5.0	8.0

Source : Company, HDFC Securities Institutional Research

**Table 3: Balance Sheet**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Cash	64	946	2,405	1,864	1,086	1,494
Other Current Assets	2,994	5,252	7,567	7,967	9,220	10,480
<i>Current Assets</i>	3,058	6,198	9,972	9,832	10,306	11,974
<i>Current Liabilities &amp; Provisions</i>	729	2,821	2,838	2,920	3,755	4,268
<i>Net Current Assets</i>	2,329	3,376	7,133	6,911	6,551	7,706
<i>Investments</i>	5,874	2,524	1,065	1,400	1,400	1,400
Net Fixed Assets	5,197	12,148	13,296	15,819	17,492	18,347
Goodwill	0	0	0	-	-	-
Other Non-Current Assets	1	4	4	4	4	4
<b>TOTAL ASSETS</b>	<b>13,401</b>	<b>18,053</b>	<b>21,499</b>	<b>24,134</b>	<b>25,447</b>	<b>27,457</b>
Loan funds	8,938	11,224	12,191	12,191	10,362	4,443
Other liabilities	9	9	29	-	-	-
Shareholder's Equity	4,454	6,819	9,279	11,943	15,085	23,014
<b>TOTAL LIABILITIES</b>	<b>13,401</b>	<b>18,053</b>	<b>21,499</b>	<b>24,134</b>	<b>25,447</b>	<b>27,457</b>
BVPS	31	47	64	83	104	142
Adj. Net debt	3,000	7,754	8,720	8,927	7,876	1,549
Adj. Net debt ex FCCB	(2,995)	1,671	4,355	4,561	3,511	(2,816)

Source : Company, HDFC Securities Institutional Research

Flat EBITDA margin in FY09 due to rupee depreciation against USD thus impacting the connectivity installation margin's

Increase in tax rate in FY10 is due to expiry of Sec 80IA benefits of 100% tax exemption in profits for first five years of operations

Increase in BVPS in FY13 due to assumed conversion of FCCBs in Aug'12

Tulip has \$97mn FCCBs convertible into 17.5mn equity shares @Rs221/share

Change in investments in FY11 represents Rs1.4bn investments made in Qualcomm JV

**Table 4: Cash flow statement**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,290	2,919	4,128	4,847	6,086	7,553
Non-cash adjustments	0	1,014	(970)	-	-	-
Changes in working capital	(908)	(173)	(2,312)	(348)	(418)	(747)
<b>Cash flow from operations</b>	<b>1,382</b>	<b>3,760</b>	<b>845</b>	<b>4,499</b>	<b>5,668</b>	<b>6,807</b>
Capital expenditure	(3,118)	(7,365)	(2,501)	(4,198)	(3,773)	(3,330)
Change in investments	(5,534)	3,350	1,459	(335)	-	-
Other investing cash flow	-	(0)	(12)	-	-	-
<b>Cash flow from investing</b>	<b>(8,652)</b>	<b>(4,016)</b>	<b>(1,054)</b>	<b>(4,533)</b>	<b>(3,773)</b>	<b>(3,330)</b>
Issue of equity	-	-	-	0	-	4,365
FCCB issue/exch fluc.	5,849	(925)	(745)	-	(1,829)	(5,919)
Issue/repay debt	1,527	2,199	2,684	-	-	-
Dividends paid	(68)	(136)	(271)	(507)	(845)	(1,514)
<b>Cash flow from financing</b>	<b>7,308</b>	<b>1,138</b>	<b>1,668</b>	<b>(507)</b>	<b>(2,673)</b>	<b>(3,068)</b>
<b>Change in cash &amp; cash eq</b>	<b>38</b>	<b>882</b>	<b>1,460</b>	<b>(541)</b>	<b>(779)</b>	<b>408</b>
Closing cash & cash eq	64	945	2,405	1,864	1,086	1,494

Source : Company, HDFC Securities Institutional Research

**Table 5: Ratio analysis**

FYE March	FY08	FY09	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios</b>						
EBITDA margin (%)	20.2	20.9	26.7	28.0	29.5	30.5
EBIT margin (%)	16.7	18.3	19.8	20.9	21.8	22.6
Net profit margin (%)	15.4	15.5	13.9	13.4	14.5	16.3
ROE (%)	51.6	44.3	34.1	29.9	29.5	26.7
ROCE (%)	21.5	16.6	14.9	16.3	18.1	19.9
<b>Working capital &amp; Liquidity ratios</b>						
Receivables (days)	60	73	99	85	85	85
Inventory (days)	21	21	13	13	13	13
Other Curr Assets (days)	9	25	29	25	25	25
Payables (days)	22	64	53	45	50	50
Current ratio (x)	4.2	2.2	3.5	3.4	2.7	2.8
Quick ratio (x)	0.1	0.3	0.8	0.6	0.3	0.4
<b>Turnover &amp; Leverage ratios</b>						
Gross asset turnover (x)	2.1	1.7	1.4	1.2	1.2	1.2
Total asset turnover (x)	0.9	0.9	0.9	1.0	1.1	1.1
Interest coverage ratio (x)	7.9	6.4	5.5	5.8	7.9	21.0
Adjusted debt/equity (x)	0.7	1.1	0.9	0.7	0.5	0.1
Adjusted debt/EBITDA (x)	1.2	2.3	1.7	1.3	1.0	0.2
Adj. debt/equity (x) ex FCCB	(0.7)	0.2	0.5	0.4	0.2	(0.1)
Adj. debt/EBITDA (x) ex FCCB	(1.2)	0.5	0.8	0.7	0.4	(0.3)
<b>Valuation ratios</b>						
EV/Sales (x)	1.9	1.7	1.5	1.3	1.0	0.8
EV/EBITDA (x)	9.5	8.3	5.5	4.5	3.6	2.6
P/E (x)	12.9	9.1	8.3	7.3	5.8	4.5
P/BV (x)	4.6	3.0	2.2	1.7	1.4	1.0

Source : Company, HDFC Securities Institutional Research

Decline in ROE in FY13 is due to conversion of FCCBs into equity

**Institutional Research**
**Table 6: Quarterly financial trend**

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenues	3,846	4,418	4,677	4,429	4,910	5,009	5,307	5,252	5,853	6,022
YoY growth (%)	-	-	-	33.2	27.7	13.4	13.5	18.6	19.2	20.2
QoQ growth (%)	15.7	14.9	5.9	(5.3)	10.9	2.0	5.9	(1.0)	11.4	2.9
EBITDA	811	924	1,002	1,086	1,269	1,350	1,545	1,417	1,633	1,716
EBITDA margin (%)	21.1	20.9	21.4	24.5	25.8	27.0	29.1	27.0	27.9	28.5
YoY growth (%)	-	-	-	66.0	56.5	46.1	54.1	30.5	28.7	26.8
QoQ growth (%)	23.9	14.0	8.5	8.3	16.8	6.4	14.4	(8.3)	15.2	5.1
Adj. NP	502	496	1,067	591	518	686	795	642	780	817
Adj. NP margin (%)	13.0	11.2	22.8	13.3	10.5	13.7	15.0	12.2	13.3	13.6
YoY growth (%)	-	-	-	28.5	3.3	38.2	(25.5)	8.6	50.6	41.7
QoQ growth (%)	9.1	(1.0)	114.9	(44.6)	(12.4)	32.5	15.9	(19.3)	21.6	4.8

Source: Company, HDFC Securities Institutional Research

**Table 7: Shareholding Pattern**

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoters	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
FIIIs	24.5	24.9	24.0	24.2	22.8	24.7	24.7	25.0	21.0	19.4
Banks & Fis	2.2	2.1	2.1	2.7	2.0	1.6	1.6	1.3	2.0	1.9
Public	4.3	4.0	4.9	4.2	6.3	4.7	4.7	4.7	8.1	9.8

Source: Company, HDFC Securities Institutional Research

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