

## Tulip Telecom

## Q3 FY10 Earnings Review

<b>Recommendation</b>	:	<b>Outperformer</b>
CMP	:	Rs 969
<b>Target</b>	:	<b>Rs 1166</b>
Upside Potential	:	20.35%
Sensex	:	16,225

<b>Sector</b>	:	<b>Telecommunications</b>
Bloomberg code	:	TTSL IN
Reuters Code	:	TULP.BO

### AT A GLANCE

Issued Equity Capital (Cr. Shrs)	:	29.00
Mkt. Cap (Rs. in Crs)	:	2,677
<b>Major Shareholders</b>		
Promoters (%)	:	68.97%
Free Float (%)	:	31.03%
Avg. Daily Vol. ('000)	:	2762

**Background:** Tulip is one of India's leading players in the Enterprise Data Service segment with a market share of 12%. Its business can be broadly classified into Network Integration and Virtual Private Network (VPN). Tulip is the fourth-largest network integrator in India providing entire range of services from network design and development to remote network management and maintenance. It is the market leader in the IP VPN market with a market share of 38%. Its network is spread across over 1300 locations in India. It also offers managed services, corporate internet access, data centre hosting etc.

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### VPN segment continues to see traction

Tulip telecom's consolidated revenue for the quarter ended December '09 stood at Rs 501 crore, up 2% QoQ and 13.4% YoY. The company continued to shift its focus away from network integration segment and towards data connectivity business where the margins are higher. The contribution from data connectivity segment has increased to 86.5% in Q3 FY10 from 80.5% in Q3 FY09. The VPN segment reported healthy growth on the back of new client additions and connect growth. Revenues from VPN segment grew by 32% YoY to Rs 442 crore while revenue from Network Integration business de-grew by 42% YoY to Rs 59 crore. The shift towards VPN segment is in line with the company's strategy to shift towards the higher margin business.

### Focus on data connectivity improves margins

Operating profit for the quarter was at Rs 135 crore, up by 46% YoY. The operating margins improved by 1059 bps YoY to 26.96%. This was achieved by the company's continued focus in corporate data connectivity business which is a higher margin business. The depreciation for the quarter was higher at Rs 41 crore QoQ due to higher capex incurred. The company has done capex of Rs 202 crore during the quarter including Rs 157 crore on network expansion and fiber roll-out. Now the company is expected to cross its earlier capex guidance of Rs 300-400 crore in FY10 due to aggressive roll-out of fiber optic network. The net profit for the quarter was higher by 38% YoY to Rs 51.79 crore from Rs 50.16 crore.

### Fiber optic rollout and APDRP increases earnings visibility.

The company has completed the roll out of fiber optic network in 10 key business districts. Now the company has started Phase II fiber roll out covering 36 major cities. The fiber roll out in 20 out of 36 cities is near completion while roll out for remaining 16 cities has begun. The management plans to roll-out fiber in about 250 major cities over next 24-36 months. The company got the subcontract to provide bandwidth for ministry of power's APDRP project, to reduce transmission losses and establish a reliable and automated system for sustained collection of accurate base line data, and the adoption of Information Technology in the areas of energy accounting. The project is expected to complete in 6-9 months time frame. The management expects revenue of Rs 20 crore per state from this ARDRP project which is expected to increase going forward considering huge bandwidth requirement.

FY Mar (Rs Crore)	Turnover	EBITDA	Net Profit	EPS (Rs)	BVPS (Rs)	PE (X)	EV/EBIDTA (X)	D/E	ROE	ROCE
2009 A	1,614	358	250.53	86.39	234.60	10.68	9.90	1.65	44.51%	20.99%
2010 E	1,943	468	285.00	98.28	338.25	9.39	7.55	1.43	34.31%	19.03%
2011 E	2,258	589	338.18	116.62	454.86	7.91	5.84	1.24	29.41%	17.97%

## Outlook and Valuation

Tulip telecom reported a solid performance during the quarter. The roll out of fiber optic network to all major cities augurs well for tulip as it allows the company to offer additional data services including IPLC, DLC, and Corporate Internet on fiber, thereby increasing its addressable market share. The company has also been able to maintain the momentum in MPLS/VPN segment. Going forward, adoption of IT in areas of public administration, like energy auditing under the APDRP initiative, will provide additional revenue visibility. We upgrade or rating to **Outperformer** with a target price of **Rs 1166** which translates into 10x it FY11E EPS.

## Q3 FY10 Results summary and comments

Particulars (in Rs. Crs)	Q2 FY10	Q2 FY09	YoY	Q1 FY10	QoQ	Comments
<b>Revenues</b>	<b>500.87</b>	<b>441.78</b>	<b>13.38%</b>	<b>491.05</b>	<b>2.00%</b>	VPN business drives revenue growth
Expenses	365.86	349.37	4.72%	364.19	0.46%	
<b>EBIDTA</b>	<b>135.01</b>	<b>72.30</b>	<b>86.74%</b>	<b>126.86</b>	<b>6.42%</b>	
Depreciation	40.92	9.43	-	43.58	-	Increase in capex takes depreciation higher
Other Income	10.36	-20.11	-	3.66	-	
Interest	18.62	9.77	90.58%	18.71	-0.48%	
PBT	85.83	53.10	61.64%	68.23	25.80%	
Tax	17.22	3.46	-	16.44	-	
Extraordinary income	0	0	-	0	-	
<b>Adjusted PAT</b>	<b>68.61</b>	<b>49.64</b>	<b>38.22%</b>	<b>51.79</b>	<b>32.48%</b>	
EBIDTA margin	26.96%	16.37%	1059 bps	25.83%	112 bps	Increase in contribution from high margin VPN business
Tax rate	20.06%	6.52%		24.09%		
Net profit margin	13.70%	11.24%		10.55%		

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STOCK RATING: Outperformer: > 20% upside over the next 12 months; Marketperformer: trade within a +/-20% range over the next 12 months; Underperformer: > 20% downside over the next 12 months.