

Multiple negatives, Downgrade to HOLD

February 9, 2012

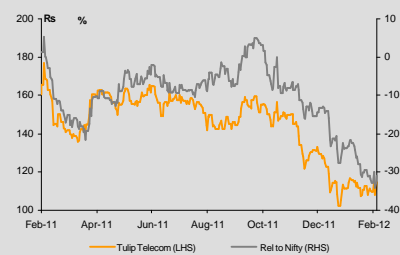
Reco	Previous Reco
Hold	Buy
CMP	Target Price
Rs115	Rs124
EPS change FY12E/13E (%)	-13.1/-18.8
Target Price change (%)	-43.1
Nifty	5,412
Sensex	17,831

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(23)	(23)	(27)
Rel. to Nifty	(10)	(26)	(27)	(29)

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	181/100
Market Cap (Rs bn/USD mn)	17/344
Daily Avg Volume (No of sh)	349126
Daily Avg Turnover (US\$m)	0.8

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	69.9	69.9	69.5
FII/NRI	18.7	18.8	19.0
Institutions	1.6	1.7	2.0
Private Corp	6.2	6.1	6.1
Public	3.6	3.5	3.4

Source: Capitaline

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- Q3FY12 results were below est. Revenue at Rs6.9bn grew 14.0% yoy. EBITDA at Rs2.0bn was up 16.0% yoy while PAT at Rs772mn declined 5.5% yoy
- Net-debt further increased by Rs2.5bn to Rs21.4bn, to fund ongoing expansion in both NLD & Data Centre. Debt/EBITDA stands at 3.0x & D/E at 1.7x
- Management's guidance for slower revenue growth led by tough economic conditions and continuous increase debt due to higher funding needs for NLD and DC becomes worrisome
- EPS cut by 13.1%/18.8% for FY12E/13E on account slower revenue growth and higher interest cost. Downgrade to HOLD with revised TP of Rs124 (from Rs218)

Results below expectations

Consolidated revenue for the quarter stood at Rs6.9bn with growth of 14.0% yoy, below our estimate of Rs7.2bn. EBITDA grew by 16.0% yoy to Rs2.0bn with margins at 29.0% improvement of 50bps yoy, led by low bandwidth cost due to bulk purchases and lower cost per subscriber on the back of economies of scale. PAT declined 5.5% yoy to Rs772mn (our estimate of Rs953mn). PAT Decline was attributed to 101% yoy increase in interest cost to Rs427mn and higher tax rate of 26.3% (v/s 25% run rate).

Fibre business and order inflows

Fibre segment is enabling higher wallet share per customer driven by expanded product and service offerings. Data connectivity business contributed 64% to the total revenue of Q3FY12. 83% of new order inflow continued on the fibre segment. Tulip won an order from Rajasthan State Crime & Criminal Tracking Network and Systems (CCTNS) worth Rs480mn and it got 6th R-APRDP project from Bihar state for Rs248mn taking total order book to Rs2.7bn.

Continuous increase in debt remains a cause of concern

Gross debt for the company further increased to Rs24.2bn from Rs17.8bn at the end of FY11, led by ongoing capex on fibre segment and Data Centre. The company has raised Rs2.5bn debt for immediate funding of Data centre and Rs2.5bn as mezzanine funding to bedrawn in progressive manner. Capex guidance for FY13E at Rs4.0bn for core and Rs2.3bn for Data Centre.

Slower revenue growth, increasing debt raise concerns – Downgrade to HOLD

Management has indicated slower revenue growth led by tough economic conditions and guided for ~15% yoy revenue growth for FY13E. Ongoing capex on fibre and Data Centre (Rs9.0bn over 3 years, out of which Rs2.4bn paid at the time of acquisition) has stretched its balance sheet with high debt. The company has FCCB redemption in August 2012 i.e. Rs5.0bn which is expected to get replaced with other debt instrument. Huge debt on balance sheet and slower than anticipated operational performance becomes a cause of concern. We cut our EPS est. by 13.1%/18.8% for FY12E/13E to Rs21.8/24.8 At CMP of Rs115, Tulip trades at valuations of 4.6x P/E and 3.3x EV/EBITDA for FY13E. Downgrade to HOLD from BUY with revised target price Rs124 (from Rs218).

Financial Snapshot

Y/E	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS % chg	ROE (%)	Rs Mn		
								P/E	EV/EBITDA	P/BV
March										
FY10	19664	5255	26.7	2755	19.0	10.0	34.2	6.1	3.6	1.8
FY11	23511	6631	28.2	3064	21.1	11.2	28.7	5.4	3.8	1.4
FY12E	27311	7814	28.6	3159	21.8	3.1	23.4	5.3	3.8	1.1
FY13E	31366	9087	29.0	3600	24.8	14.0	21.7	4.6	3.3	0.9

Data Centre operations on track, debt raising becomes a concern

The company has secured orders worth Rs6.0bn spread over 5 years for the Data Center. Billing from this segment would start from Q4FY12E. The company has been targeting for the strategic partner to fund its ongoing expansion Data Centre via stake sale but due to tough liquidity scenario it has not got strategic partner till date, leading to financial closure of Rs5.0bn. The company has raised Rs2.5bn through long term external credit lines and Rs2.5bn mezzanine funding drawn in progressive manner. Given the current debt position of the parent company, this debt raising would further put pressure on balance sheet and debt servicing cost would also dent bottom-line.

Particulars (Rs mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Operating Profit	-9	-14	-16	-16
Fixed Assets	910	995	1863	225.5
Goodwill	1244	1244	1244	1244
Net Current Assets	-21	180	119	31
P&L Debit balance / Misc. Expenses	13	40		
Capital Employed	2146	2460	3344	352.6
Shareholder's funds	2146	2140	2140	2140

Quarterly financials

Particulars	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Sales	6,022	6,380	6,539	7,029	6,866	14.0	(2.3)	20,434	17,127	19.3
Raw Material	3887.5	3992.0	4179.2	4443.5	4337.5	11.6	(2.4)	12,960	11,196	15.8
as % of sales	64.6	62.6	63.9	63.2	63.2			63.4	65.4	
Employee Cost	235.2	274.8	298.9	338.8	337.3	43.4	(0.4)	975	669	45.8
as % of sales	3.9	4.3	4.6	4.8	4.9			4.8	3.9	
SG&A expenses	183.8	246.5	212.6	215.6	200.4	9.0	(7.1)	629	496	26.8
as % of sales	3.1	3.9	3.3	3.1	2.9			3.1	2.9	
Total operating expenditure	4306	4513	4691	4998	4875	13.2	(2.5)	14564	12361	17.8
EBITDA	1716	1866	1848	2032	1991	16.0	(2.0)	5,870	4,766	23.2
Depreciation	440.9	478.5	495.1	502.2	525.6	19.2	4.7	1522.9	1235.4	23.3
EBIT	1275.0	1387.8	1353.0	1529.3	1465.1	14.9	(4.2)	4348	3531	23.1
Other Income	11.3	-10.7	-10.8	-25.7	10.3	(9.0)	(140.1)	-26.2	11.7	(323.3)
Interest	211.8	266.9	319.1	345.1	427.3	101.8	23.8	1091.6	586.2	86.2
PBT	1074.5	1110.1	1023.1	1158.5	1048.1	(2.5)	(9.5)	3229.7	2956.3	9.2
Tax	257.1	283.3	250.9	287.9	275.5	7.2	(4.3)	814.4	717.3	13.5
Effective tax rate%	23.9	25.5	24.5	24.9	26.3					
PAT	817.4	826.8	772.2	870.6	772.6	(5.5)	(11.3)	2415.3	2238.9	7.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	28.5	29.3	28.3	28.9	29.0	50	9	28.7	27.8	90
EBIT	21.2	21.8	20.7	21.8	21.3	17	-42	21.3	20.6	66
EBT	17.8	17.4	15.6	16.5	15.3	(258)	-122	15.8	17.3	(146)
PAT	13.6	13.0	11.8	12.4	11.3	(232)	-113	11.8	13.1	(125)
Effective Tax rate	23.9	25.5	24.5	24.9	26.3	236	144	25.2	24.3	95

Outlook and revision in estimates: EPS cut by 13.1% /18.0% for FY12E /13E

Q3FY12 results were below our estimates on all the aspects. Management has indicated slower revenue growth led by tough economic conditions and guided for revenue growth of ~15% yoy for FY13E. Q3FY12 performance and management's guidance for slower revenue growth to weigh on stock price in near future. High interest cost due to increasing funding needs and higher working capital would dent bottom-line. The company has FCCB redemption coming up in August, 2012 which would be replaced by other debt instrument and not be converted as stock price is trading at huge discount from conversion price of Rs237. Management also stated that is looking at various options to re-finance FCCB. If the FCCB is replaced by long term debt, then it would further increase the interest cost, impacting bottom-line going forward. We cut our EPS est. by 13.1%/18.8% for FY12E/13E to Rs21.8/24.8.

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	28,386.1	27,310.5	-3.8	32,430.5	31,366.4	-3.3%
EBIDTA	8,205.2	7,814.0	-4.8	9,471.2	9,086.9	-4.1%
EBIDTA %	28.9	28.6	-29 bps	29.2	29.0	-23 bps
PAT	3,634.1	3,159.0	-13.1	4,434.3	3,600.0	-18.8%
EPS	25.1	21.8	-13.1	30.6	24.8	-18.8%

Financials

Profit & Loss

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	19,664	23,511	27,311	31,366
<i>Growth (%)</i>	21.8	19.6	16.2	14.9
Raw material	12,953	15,188	17,247	19,279
Employee cost	825	946	1,312	1,506
SG&A expenses	632	745	938	1,495
Total operating expenditure	14,409	16,880	19,496	22,280
EBITDA	5,255	6,631	7,814	9,087
<i>Growth (%)</i>	56.1	26.2	17.8	16.3
Depreciation	1,353	1,714	2,056	2,510
EBIT	3,902	4,917	5,758	6,577
EBIT margin (%)	19.8	20.9	21.1	21.0
Other Income	468	1	4	80
Interest expenses	716	853	1,526	1,792
PBT	3,654	4,065	4,236	4,865
Tax	899	1,001	1,077	1,265
<i>Effective tax rate (%)</i>	24.6	24.6	25.4	26.0
PAT	2,755	3,064	3,159	3,600
<i>% Growth</i>	10.0%	11.2%	3.1%	14.0%

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	290	290	290	290
Reserves & surplus	8,989	11,773	14,660	17,989
Net worth	9,279	12,063	14,950	18,279
Secured Loans	5,476	12,296	18,746	18,746
Unsecured Loans	6,715	5,473	5,473	5,473
Loan Funds	12,191	17,769	24,219	24,219
Net deferred tax liability	29	32	32	32
Total Liabilities	21,499	29,863	39,201	42,529
Gross Block	14,502	18,643	24,873	31,333
Less: Depreciation	2,414	4,132	6,188	8,698
Net block	12,088	14,511	18,685	22,635
Capital work in progress	1,209	3,228	5,228	4,228
Investment	0	1,550	1,550	1,550
Goodwill	0	1,244	1,244	1,244
Current Assets	11,037	12,316	15,856	16,735
Inventories	688	992	1,009	1,084
Sundry debtors	5,320	6,344	7,311	8,152
Cash & bank balance	3,470	2,434	4,359	4,320
Loans & advances	1,559	2,546	3,177	3,178
Current lia & Prov	2,838	2,990	3,367	3,867
Current liabilities	2,838	2,990	3,367	3,867
Net current assets	8,199	9,326	12,489	12,868
Misc. exp & Def. Assets	4	4	4	4
Total Assets	21,499	29,863	39,201	42,529

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	3,186	4,064	4,232	4,785
Depreciation	1,353	1,714	2,056	2,510
Interest	716	853	1,526	1,792
Other Non-Cash items	-4	-7	0	0
Chg in working cap	-2,297	-2,164	-1,239	-417
Tax paid	-899	-1,001	-1,077	-1,265
Operating Cashflow	2,054	3,459	5,499	7,405
Capital expenditure	-2,502	-6,157	-8,230	-5,460
Free Cash Flow	-447	-2,697	-2,731	1,945
Other income	468	1	4	80
Investments	0	-2,794	0	0
Investing Cashflow	-2,033	-8,949	-8,226	-5,380
Equity Capital Raised	1	-1	0	0
Loans Taken / (Repaid)	966	5,578	6,450	0
Interest Paid	-716	-853	-1,526	-1,792
Dividend paid (incl tax)	-271	-271	-271	-271
Financing Cashflow	-20	4,453	4,653	-2,064
Net chg in cash	0	-1,036	1,925	-39
Opening cash position	3,470	3,470	2,434	4,359
Closing cash position	3,470	2,434	4,359	4,320

Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	26.7	28.2	28.6	29.0
Net Margin	15.0	15.8	15.7	15.5
ROCE	32.7	25.1	19.8	18.8
ROE	34.2	28.7	23.4	21.7
RoIC	52.6	36.1	29.0	26.6
Per Share Data (Rs)				
EPS (adjusted)	19.0	21.1	21.8	24.8
CEPS	28.3	33.0	36.0	42.1
BVPS	64.0	83.2	103.1	126.0
DPS	1.6	1.6	1.6	1.6
Valuations (x)				
PER	6.1	5.4	5.3	4.6
P/CEPS	4.1	3.5	3.2	2.7
P/BV	1.8	1.4	1.1	0.9
EV / Sales	1.1	1.2	1.2	1.1
EV / EBITDA	3.6	3.8	3.8	3.3
Dividend Yield (%)	1.4	1.4	1.4	1.4
Gearing Ratio (x)				
Net Debt/ Equity	0.9	1.1	1.2	1.0
Net Debt/EBITDA	1.7	2.1	2.3	2.0

Recommendation History: Tulip Telecom – TTSL IN

Date	Reports	Reco	CMP	Target
08/11/2011	Tulip Telecom Q2FY12 Result Update	Buy	150	218
29/07/2011	Tulip Telecom Q1FY12 Result Update	Buy	157	218
13/05/2011	Tulip Telecom Q4FY11 Result Update	Buy	163	218
15/02/2011	Tulip Telecom Q3FY11 Result Update	Buy	168	218

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/02/2012	Bharti Airtel Q3FY12 Result Update	Accumulate	354	412
02/02/2012	Telecom Sector Update			
01/02/2012	Jagran Prakashan Q3FY12 Result Update	Accumulate	97	116
25/01/2012	Sterlite Technologies Q3FY12 Result Update	Hold	38	34

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