

Tulip IT Services Ltd.**Rs 640**

.... get connected

Buy

Industry	: Computer - Hardware	BSE / NSE codes	: 532691 / TULIP
Company P/E	: 10 x FY08E	52-Week H/L (Rs)	: Rs. 678 / Rs. 162
Market Cap. (Rs)	: 18.57 bn.	Daily traded volume	: 3,82,000 / 6,96,000
Face Value (Rs)	: 10	Dividend (FY06)	: 10%

Investment Argument

- With the addressable market size of IP/VPN services in India increasing rapidly, Tulip has ramped up its presence from 350 cities in March 2006 to 650 cities across India now. Number of connects has increased to 35,014 as on 31.12.2006 & number of clients have increased to 406 for the same period. Tulip being fourth largest player in this segment having market share of more than 8% is expected to grow at a CAGR of 40% over next 3 years.
- Apart from volume growth, increasing share of IP/VPN services in its total revenue mix is improving operating margins for Tulip. Share of IP/VPN services have increased from 12.51% in Q3FY06 to 37.26% in Q3FY07, an increase of 198% on y-o-y basis. Operating Margins for the same period has also improved from 11.74% to 17.77%, which is expected to go up further with increasing share of IP/VPN services.
- Tulip has received Letter of Intent from DoT for National Long Distance (NLD) and International Long Distance (ILD), which will reduce Tulip's dependence on third party network for providing inter city connectivity to its clients, which will reduce down time of the network and will expand operating margins as well.

Company Background

Promoted by Lt. Col. (Retd.) H. S. Bedi in 1992, Tulip which started as a reseller of software and hardware products and provider of maintenance contracts for networks is presently engaged in providing Network Integration services including designing and developing of networks, identifying and procuring equipments, integrating and implementing network rollouts, apart from post-implementation network management and maintenance services. "Rural Connectivity" is one such product introduced by Tulip to tap rural connectivity initiatives of various State Governments. During FY06, Tulip has launched its IP/VPN services, offering last mile wireless connectivity for inter-city and intra-city data connectivity specifically to corporate clients.

Financial Highlights

- In terms of revenues Tulip has grown at the rate of 18.96% on q-o-q basis for last six quarters ended December 2006, where as in terms of PAT it has grown at the rate of 25.42% for the same period, mainly due to margin expansion.
- For 9 months ended December 2006, share of IP/VPN services was around 35% against 13% for the same period in preceding year. We feel, for FY07E, share of IP/VPN services to be around 37% and for FY08E to be around 50%, whereas for FY09E, the same is expected to be around 65%-70%. Increasing share of revenue from IP/VPN services will result in higher operating margins, which should be around 25%-26% in FY09E, though on conservative basis, we have estimated the same to be around 23%.

Areas of Concern

Significant Government regulations, competition from larger players including Wipro, HCL, Satyam and other Government controlled enterprises, technology obsolescence, non availability of frequency spectrum are some of the limitations under which Tulip operates.

Valuation

At the expected EPS of Rs.62 for FY08E, the stock is available at a PE of 10.4x. Looking at the ever increasing market for IP/VPN services and proven track record of Tulip in providing these services to marquee clients,

which includes HDFC, Samsung, Bajaj Allianz, Bharti Airtel and host of other leading players in different segments, we feel Tulip is well placed. We recommend investors to accumulate the stock with a price target of Rs. 1,000 over a period of 12-15 months. BUY.

Table 1: Profit & Loss A/c

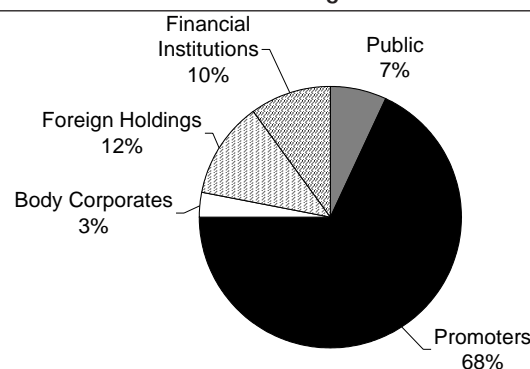
Year End Mar (Rs. Mn.)	FY05	FY06	FY07E	FY08E	FY09E
Income					
Sales	3,432	5,084	7,898	11,055	14,925
Other Income	6	12	7	10	12
Total Income	3,439	5,096	7,905	11,065	14,937
Expenditure					
Cost of Goods Sold	3,097	4,144	6,022	7,849	10,298
Administrative Exps.	70	179	316	497	672
Employee Cost	65	99	197	332	485
Total Expenditure	3,232	4,422	6,536	8,678	11,455
EBIDTA	207	675	1,370	2,387	3,482
Interest	35	64	105	97	88
EBDDTA	172	611	1,264	2,290	3,394
Depreciation	10	43	177	232	254
EBTA	162	568	1,087	2,058	3,140
Tax	27	78	141	268	408
PAT	135	490	946	1,790	2,732
Prior Period Item	5	(5)	0	0	0
Adj. PAT	140	485	946	1,790	2,732

Table 3: Key Ratios

Year End Mar (Rs. Mn.)	FY05	FY06	FY07E	FY08E	FY09E
EPS (Rs.)	4.83	16.71	32.61	61.74	94.21
P/E Ratio (x)	132.42	38.29	19.63	10.37	6.79
Book Value (Rs.)	16.15	64.42	94.75	153.07	242.72
Price to Book Value	39.62	9.93	6.75	4.18	2.64
Debt-Equity Ratio	0.51	0.40	0.45	0.22	0.11
EBIDTA Margin (%)	6.02	13.24	17.33	21.57	23.31
PAT Margin (%)	4.08	9.51	11.96	16.18	18.29
ROCE (%)	27.88	24.06	30.01	39.72	41.47
RONW (%)	29.92	25.94	34.42	40.34	38.82
EV/EBIDTA	90.48	27.93	14.35	7.72	4.69
Market Cap/Sales	5.41	3.65	2.35	1.68	1.24

Table 2: Balance Sheet

Year End Mar (Rs. Mn.)	FY05	FY06	FY07E	FY08E	FY09E
Share Capital	260	290	290	290	290
Reserves & Surplus	208	1,578	2,458	4,149	6,749
Shareholder's Fund	468	1,868	2,748	4,439	7,039
Secured Loans	238	756	1,226	986	746
Capital Employed	706	2,624	3,974	5,425	7,785
Gross Block	227	800	2,480	2,660	2,810
Less: Depreciation	31	73	250	482	736
Net Block	196	727	2,230	2,178	2,074
Investments	0	20	20	20	20
Inventories	206	263	395	531	672
Book Debts	609	1,458	1,738	2,432	3,284
Loans & Advances	25	144	180	225	250
Cash & Bank Balances	88	468	130	1,124	2,975
Total Current Assets	928	2,334	2,442	4,312	7,180
Current Liabilities	418	457	719	1,085	1,489
Net Current Assets	510	1,877	1,723	3,227	5,691
Capital Deployed	706	2,624	3,974	5,425	7,785

Shareholding Pattern

Price Performance Chart
