

Tulip Telecom

No surprises – maintain Buy

Q4FY09 performance in line with estimates: Tulip Telecom's Q4FY09 results are in line with our expectations. Revenues for the quarter grew 5.9% QoQ and 13.5% YoY to Rs 4.7bn as against our estimate of Rs 4.8bn. The EBITDA margin, at 21.4% in Q4FY09, expanded by 50bps QoQ and was 110bps ahead of our expectations. The margin expansion was driven by a reduction in administrative expenses QoQ.

IP/VPN growth slows temporarily: Revenues from the IP/VPN segment increased by 48.5% YoY and 4.1% QoQ to Rs 3.5bn, the slowest growth in the last eight quarters. The performance of this vertical was hampered by the introduction of connectivity services on the optic fibre network. Migration of existing wireless connects to the optic fibre network and limited revenues from new client accounts dampened revenue growth during the quarter. However, we expect a recovery in Q1FY10. Revenues from the network integration segment continued to decline, in line with the company's strategy, dropping 32.8% YoY.

Capex mode to continue: Tulip incurred a capex of Rs 7.4bn in FY09. A bulk of the expenditure was directed towards expansion and upgrades of the IP/VPN network (Rs 4.5bn). Other investments were made towards the implementation of SWAN projects, and setting up of the optic fibre network and data centres. The management has given a guidance of Rs 6bn in capex over the next two years depending on revenue opportunities. For FY10, we expect capex to total Rs 3.5bn.

One-time items uplift net profit: Tulip recorded a one-time gain of Rs 730.3mn on FCCBs of face value US\$ 33.4mn that were bought back during Q4FY09. At the same time, it recorded a notional loss of Rs 218.6mn on outstanding FCCBs as the rupee depreciated further during the quarter. This resulted in a one-time positive impact of Rs 263mn, net of taxes, in reported net profit. Adjusting for this, net profit stood at Rs 803mn, in line with our expectations.

Increasing estimates and target price: We are increasing our revenue and earnings estimates for FY10 by 8% and 11% respectively. The revision in estimates is due to expectations of higher ARPU's in FY10, spurred by connect addition/migration to the optic fibre network. We are also introducing our FY11 estimates for the company. Consequent to the earnings revision, we are increasing our target price on the stock from Rs 815 to Rs 922. We have reduced our cost of capital assumption to 13.2% due to a reduction in risk-free rate and cost of debt. We maintain our Buy recommendation on the stock.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 844	Rs 922	BUY	HIGH

BSE	NSE	BLOOMBERG
532691	TULIP	TTSL IN

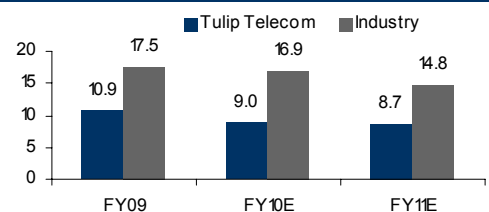
Company data

Market cap (Rs mn / US\$ mn)	24,472/511
Outstanding equity shares (mn)	29
Free float (%)	31.1
Dividend yield (%)	0.5
52-week high/low (Rs)	1,092/258
2-month average daily volume	420,335

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Tulip	844	24.0	142.2	66.7
BSE Teck	2,603	3.3	41.0	33.7
Sensex	14,494	(0.9)	49.3	50.2

P/E comparison



Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	15.5	10.9	9.0	8.7
P/E @ Target	16.9	11.9	9.8	9.5
EV/EBITDA @ CMP	13.3	9.7	7.2	6.3

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	12,190	16,144	21,004	22,578
Growth (%)	44.7	32.4	30.1	7.5
Adj net income	1,873	2,633	3,094	3,187
Growth (%)	93.7	40.6	17.5	3.0
FDEPS (Rs)	54.4	77.4	94.2	97.0
Growth (%)	63.3	42.2	21.6	3.0

Profitability and return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	20.2	20.9	21.6	23.2
EBIT margin	16.7	18.3	18.2	19.1
Adj PAT margin	15.4	16.3	14.7	14.1
ROE	51.7	46.4	36.2	27.2
ROIC	30.7	22.2	20.7	18.3
ROCE	24.0	19.3	19.2	16.9





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	4,677	4,784	(2.2)
EBITDA	1,002	972	3.1
EBITDA margin (%)	21.4	20.3	110bps
Adj net income	803	807	(0.4)

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Revenues	3,325	3,846	4,418	4,677
YoY growth (%)	56.2	48.8	32.6	13.5
QoQ growth (%)	(19.3)	15.7	14.9	5.9
Cost of revenues	2,429	2,744	3,138	3,346
Gross profit	896	1,102	1,280	1,331
Gross profit margin	27.0	28.7	29.0	28.5
Other operating expenses	242	291	356	328
EBITDA	654	811	924	1,002
EBITDA margin	19.7	21.1	20.9	21.4
Depreciation	105	79	94	136
EBIT	550	731	830	866
EBIT margin	16.5	19.0	18.8	18.5
Interest expenses, gross	90	131	98	143
Other income	21	(55)	(201)	579
PBT	481	545	531	1,302
Income taxes	21	44	35	235
Reported net profit	460	502	496	1,067
YoY growth (%)	61.6	35.2	(8.2)	66.6
QoQ growth (%)	(28.2)	9.1	(1.0)	114.9
Adjustments	--	101	290	(263)
Adjusted net profit	460	603	786	803
YoY growth (%)	61.6	62.5	45.4	25.4
QoQ growth (%)	(28.2)	31.1	30.5	2.2

Source: RHH, Company

Fig 3 - Revenue contribution

(%)	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Network integration	33.3	31.6	24.2	25.5
IP/VPN	66.7	68.4	75.8	74.5

Source: RHH, Company

Revenues and profits in line with expectations; EBITDA margin 110bps higher than estimate

Revenue growth boosted by 25,177 connect additions in IP/VPN segment

EBITDA margin expanded QoQ due to lower administrative expenses

Other income includes a Rs 730.3mn gain on FCCBs bought back and a Rs 218.6mn notional forex loss

Net profit adjusted for one-offs is in line with expectations

Contribution from IP/VPN segment remained stable at 74.5%



Fig 4 - IP/VPN data

	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Connects data (nos)				
Number of connects	132,279	152,364	175,463	200,640
<i>Growth %</i>	12.9	15.2	15.2	14.3
A total of 83,463 connects added during the quarter				
Additions	15,102	20,085	23,099	25,177
Total customers	984	1,132	1,200	1,366
Connects per customer	134	135	146	147
<i>Growth %</i>	(1.8)	0.1	8.6	0.5
Network presence				
Number of cities	1,250	1,300	1,370	1,400
<i>Growth %</i>	4.2	4.0	5.4	2.2
Points of Presence	3,281	3,446	3,711	3,923
<i>Growth %</i>	2.3	5.0	7.7	5.7
PoPs per City	2.6	2.7	2.7	2.8
<i>Growth %</i>	(1.8)	1.0	2.2	3.4
IP/VPN revenue profile (Rs mn)				
Installation revenue	637	848	975	1,046
Revenue from old connects	1,373	1,495	2,035	2,075
Revenue from new connects	208	287	340	365
Total IP/VPN revenues	2,219	2,629	3,350	3,486

Source: RHH, Company

Fig 5 - Revised estimates

(Rs mn)	FY10E		
	Earlier	Revised	Change (%)
Revenues	19,483	21,004	7.8
EBITDA	4,207	4,529	7.7
EBITDA margin (%)	21.6	21.6	3bps
Net profit	2,915	3,094	6.2
FDEPS (Rs)	84.7	94.2	11.1

Source: RHH

Increasing revenue and EPS estimates for FY10 by 8% and 11% respectively



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	12,190	16,144	21,004	22,578
Growth (%)	44.7	32.4	30.1	7.5
EBITDA	2,457	3,367	4,529	5,230
Growth (%)	84.8	37.1	34.5	15.5
Depreciation & amortisation	418	415	717	919
EBIT	2,039	2,953	3,812	4,311
Growth (%)	74.1	44.8	29.1	13.1
Interest	258	462	684	674
Other income	229	344	607	252
EBT	2,009	2,835	3,735	3,890
Income taxes	138	330	307	702
Effective tax rate (%)	6.9	11.6	8.2	18.1
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,871	2,505	3,429	3,187
Adjustments	(2)	(128)	334	-
Adjusted net income	1,873	2,633	3,094	3,187
Growth (%)	93.7	40.6	17.5	3.0
Shares outstanding (mn)	29.0	29.0	29.0	29.0
FDEPS (Rs) (adj)	54.4	77.4	94.2	97.0
Growth (%)	63.3	42.2	21.6	3.0
DPS (Rs)	2.0	4.0	4.0	4.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09E	FY10E	FY11E
Net income + Depreciation	2,289	2,920	4,146	4,106
Non-cash adjustments	1	(468)	(896)	216
Changes in working capital	(908)	(645)	(56)	(111)
Cash flow from operations	1,382	1,807	3,194	4,211
Capital expenditure	(3,118)	(6,985)	(3,519)	(2,800)
Change in investments	(42)	(43)	-	-
Other investing cash flow	0	-	-	-
Cash flow from investing	(3,159)	(7,028)	(3,519)	(2,800)
Issue of equity	-	(0)	(0)	(0)
Issue/repay debt	7,375	2,736	68	(80)
Dividends paid	(68)	(75)	(152)	(148)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	5,531	(2,560)	(410)	1,183
Closing cash & cash eq	5,556	2,996	2,586	3,769

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09E	FY10E	FY11E
WACC (%)	13.5	13.4	13.2	13.2
ROIC (%)	30.7	22.2	20.7	18.3
Invested capital (Rs mn)	8,033	15,501	18,354	20,341
EVA (Rs mn)	1,382	1,360	1,376	1,034
EVA spread (%)	17.2	8.8	7.5	5.1

Balance sheet

Y/E March (Rs mn)	FY08	FY09E	FY10E	FY11E
Cash and cash eq	5,556	2,996	2,586	3,769
Accounts receivable	2,006	2,961	3,406	3,399
Inventories	701	911	668	812
Other current assets	287	384	456	525
Investments	382	425	425	425
Gross fixed assets	5,844	12,893	16,462	19,312
Net fixed assets	4,833	11,831	14,684	16,615
CWIP	364	300	250	200
Intangible assets	-	-	-	-
Deferred tax assets, net	(9)	(14)	(19)	(24)
Other assets	1	0	0	0
Total assets	14,120	19,796	22,456	25,721
Accounts payable	481	660	762	718
Other current liabilities	49	639	754	892
Provisions	198	367	315	553
Debt funds	8,938	11,225	10,456	10,250
Other liabilities	-	-	-	-
Equity capital	290	290	290	290
Reserves & surplus	4,164	6,616	9,878	13,017
Shareholder's funds	4,454	6,906	10,168	13,307
Total liabilities	14,120	19,796	22,456	25,721
BVPS (Rs)	163.6	248.1	360.6	468.9

Financial ratios

Y/E March	FY08	FY09E	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	20.2	20.9	21.6	23.2
EBIT margin	16.7	18.3	18.2	19.1
Net profit margin	15.4	16.3	14.7	14.1
ROE	51.7	46.4	36.2	27.2
ROCE	24.0	19.3	19.2	16.9
Working Capital & Liquidity ratios				
Receivables (days)	51	56	55	55
Inventory (days)	18	25	20	18
Payables (days)	17	18	18	18
Current ratio (x)	16.1	5.6	4.7	5.3
Quick ratio (x)	14.3	2.3	2.2	2.1
Turnover & Leverage ratios (x)				
Gross asset turnover	2.9	1.7	1.4	1.3
Total asset turnover	1.3	1.0	1.0	0.9
Interest coverage ratio	7.9	6.4	5.6	6.4
Adjusted debt/equity	0.3	0.4	0.4	0.3
Valuation ratios (x)				
EV/Sales	2.7	2.0	1.6	1.4
EV/EBITDA	13.3	9.7	7.2	6.3
P/E	15.5	10.9	9.0	8.7
P/BV	5.2	3.4	2.3	1.8



Quarterly trend

Particulars	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Revenue (Rs mn)	4,122	3,325	3,846	4,418	4,677
YoY growth (%)	40.9	56.2	48.8	32.6	13.5
QoQ growth (%)	23.7	(19.3)	15.7	14.9	5.9
EBITDA (Rs mn)	686	550	731	830	866
EBITDA margin (%)	16.7	16.5	19.0	18.8	18.5
Adj net income (Rs mn)	640	460	603	786	803
YoY growth (%)	93	62	62	45	25
QoQ growth (%)	18	(28)	31	30	2

DuPont analysis

(%)	FY07	FY08	FY09E	FY10E	FY11E
Tax burden (Net income/PBT)	91.0	93.2	92.9	82.8	81.9
Interest burden (PBT/EBIT)	90.7	98.5	96.0	98.0	90.2
EBIT margin (EBIT/Revenues)	13.9	16.7	18.3	18.2	19.1
Asset turnover (Revenues/Avg TA)	213.2	128.7	95.2	99.4	93.7
Leverage (Avg TA/Avg equitiy)	169.4	261.3	298.6	247.5	205.2
Return on equity	41.5	51.7	46.4	36.2	27.2

Company profile

Tulip Telecom (Tulip) is the market leader in India's fast growing IP/VPN connectivity market. The burgeoning use of information systems like ERP and CRM is resulting in a favourable industry scenario. The company has India's largest VPN network with points of presence in more than 3,446 locations spread across 1,300 cities in the country. Driven by an aggressive IP/VPN network expansion drive, Tulip has witnessed rapid growth in the number of connects during the past few years.

Shareholding pattern

(%)	Sep-08	Dec-08	Mar-09
Promoters	68.9	68.9	68.9
FII's	24.5	24.9	24.2
Banks & FIs	2.2	2.1	2.1
Public	4.4	4.1	4.7

Recommendation history

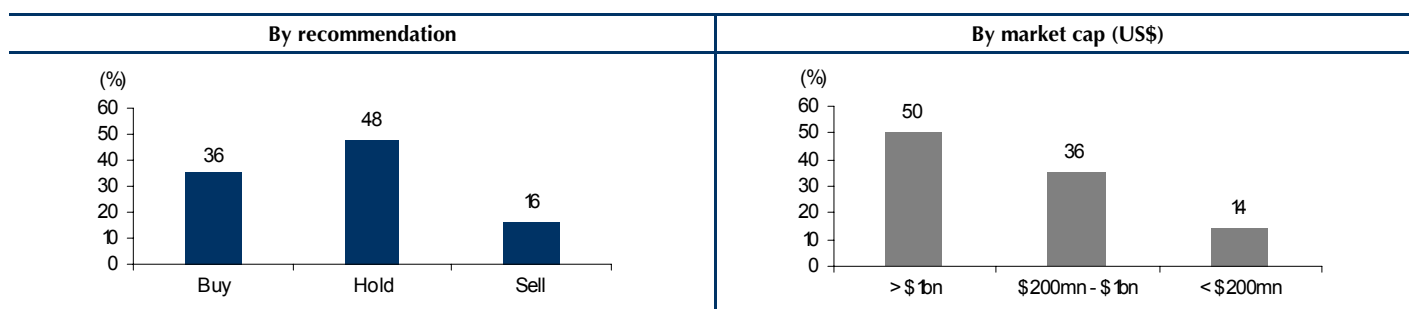
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	953	1,287	Buy
3-Nov-08	Results Review	648	961	Buy
2-Jan-09	Quarterly Preview	520	752	Hold
2-Feb-09	Results Review	390	510	Buy
29-May-09	Investor Conference	678	815	Buy
30-Jun-09	Results Review	844	922	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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