

Tulip IT Services Ltd.

Rs 930

.... remain connected

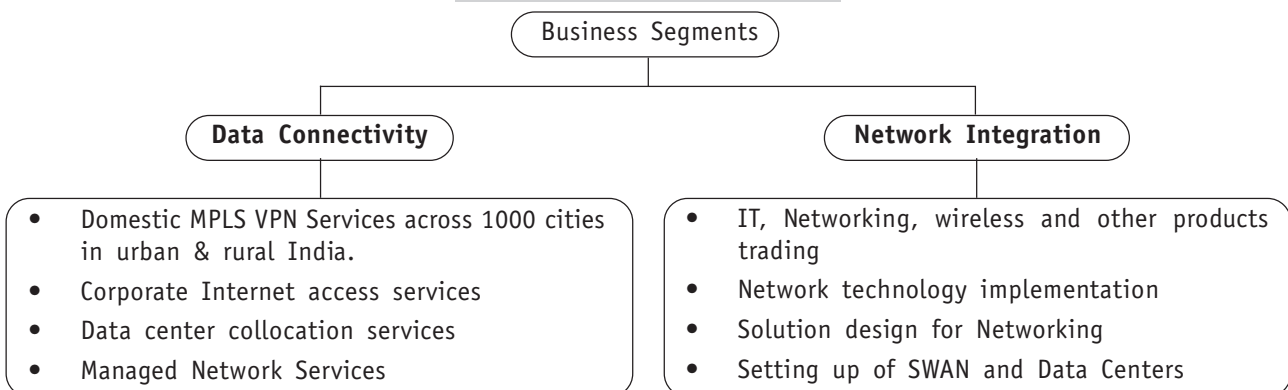
Buy

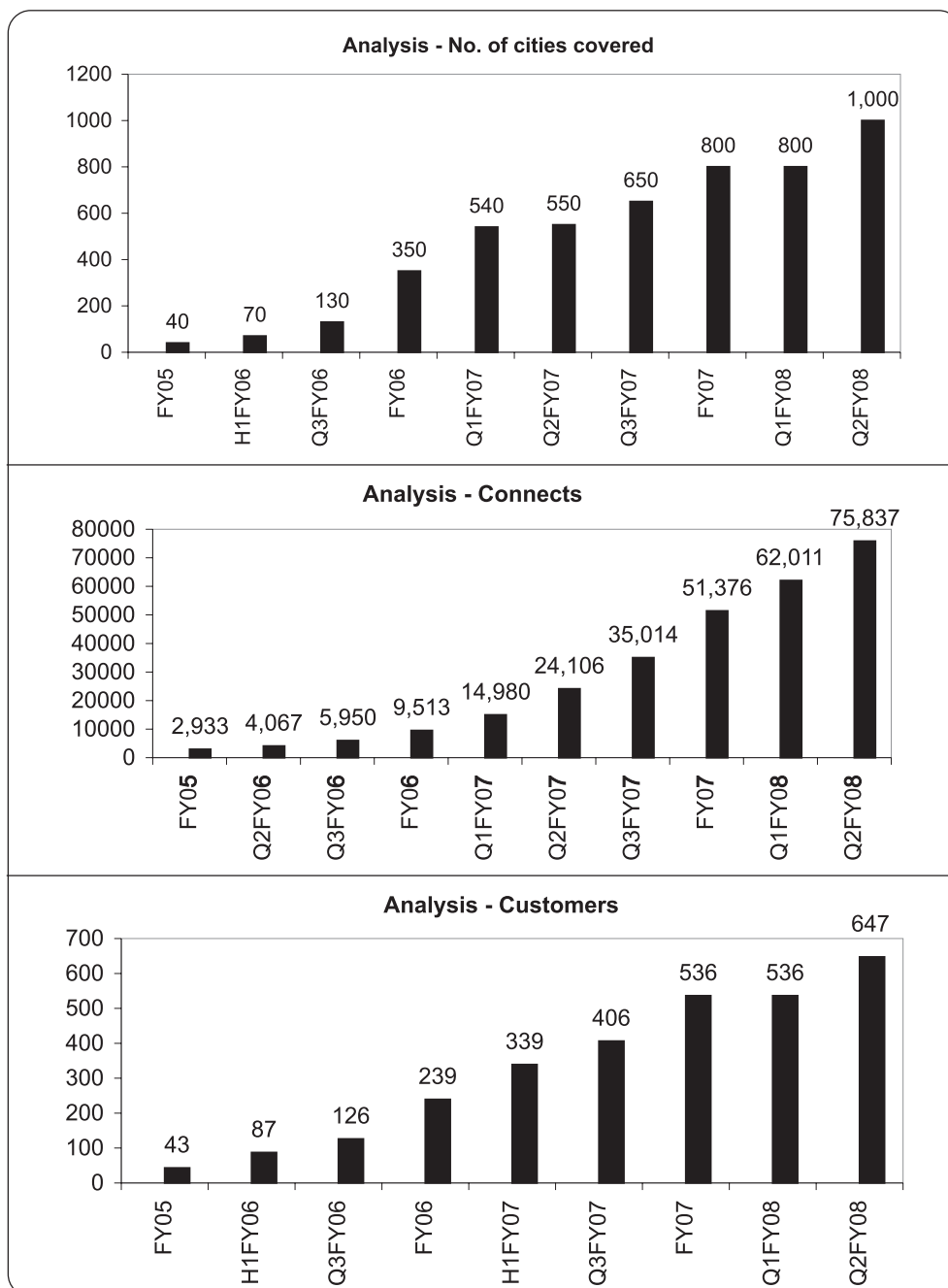
Industry	: Computer - Hardware	BSE / NSE codes	: 532691 / TULIP
Company P/E	: 11 x FY09E	52-Week H/L (Rs)	: Rs. 1,040 / Rs. 440
Market Cap. (Rs)	: 26.79 bn.	Daily traded volume	: 154,000 / 284,000
Face Value (Rs)	: 10	Dividend (FY07)	: 20%

H1FY08 Performance Highlights

- Financial Highlights:** During H1FY08, top line grew from Rs. 3280.63 mn. to Rs. 4779.02 mn., a growth of 45.67%, whereas top line grew from Rs. 340.75 mn. to Rs. 696.96 mn. - a growth of 104.54% on y-o-y basis. The growth in bottom line was driven mainly by higher share of IP/VPN business (almost 50% from 33% a year ago), which has led to higher operating and net profit margin. Taking in to account the nature of seasonality on q-o-q basis (about 60%-65% of the revenues are generated in last two quarters), we revise our FY08E top line estimate from earlier Rs. 11,055 mn. to Rs. 13,000 mn. and PAT is estimated to be Rs. 2,123 mn. from our earlier estimate of Rs. 1,790 mn. We expect this momentum to continue in future, though at lower growth rate.
- Expanding service Profile:** During H1FY08, Tulip has implemented State Wide Area Network (SWAN) project for Hariyana Government and has got order from West Bengal and Assam government for similar project. Tulip is aggressively eying Rural Connectivity projects of State Governments through out India. Tulip has launched 2 Data Centres, one each at Delhi and Mumbai, as a natural extension of Data Connectivity services. Tulip has also launched Managed Network Services and Managed Video Services in Delhi and Mumbai.
- FCCB Issue:** Tulip has completed FCCB issue amounting to \$ 150 mn. in August to raise long term fund to finance expansion of existing network, development of new data centers, investment in SWAN and for acquisition and expansion in international market. Tulip plans to invest \$ 65 mn. for FY08E and FY09E in development of data centers at Chennai and Bangalore apart from investing in SWAN projects under implementation for West Bengal and Assam state governments.
- Business Growth:** During H1FY08, Tulip has spread its presence across 1,000 cities with 75,837 number of connects and client base of 647 from 550 cities, 24,106 connects and 339 clients a year ago. Majority of this growth is coming from Tier II and Tier III cities, where penetration level for corporate network and data connectivity is comparatively low, hence, the Average Realisation Per User (ARPU) for new customers has remain stagnant at Rs. 0.41 lakh against Rs. 0.42 lakh a year ago. This reduction in ARPU has been offset by higher volumes. However, presence in Tier II and III cities, makes Tulip eligible to get orders from big nationalized bank for its branch connectivity e.g. recent order from Punjab National Bank, for connecting about 6,000 branches across India. Tulip has deployed fibre connectivity in the commercial areas of 10 major cities in India, which has allowed the company to provide end-to-end fibre connectivity to its customers.

Business Segments





Valuation

Tulip trades at 11x FY09E and 7.7x FY10E and considering the increasing addressable market size for IP/VPN services in India, exponential growth in terms of increasing presence in cities across India, number of connects and clients, margin expansion on account of higher share of IP/VPN services and proven track record of Tulip in providing services to marquee clients, which includes HDFC, Samsung, Bajaj Allianz, Bharti Airtel, Jet Airways, Vodafone, Orange, Future Group, Reliance Capital, L&T, Aditya Birla Group and host of other leading players in different segments, we feel Tulip is well placed. We had set a price target of Rs. 1,000 on the stock earlier, which has been achieved. We continue to remain bullish on the stock with a price target of Rs. 1,450 over a period of 12 months.

Table 1: Profit & Loss A/c

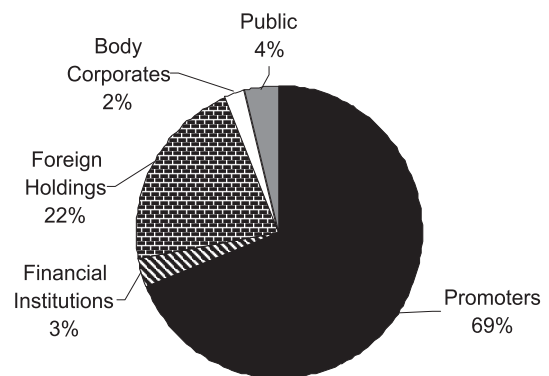
YE - June - Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Sales	5,084	8,426	13,024	17,550	22,815
Other Income	12	24	275	180	235
Total Income	5,096	8,449	13,299	17,730	23,050
Cost of Goods Sold	4,144	6,572	9,508	12,461	15,971
Administrative Exps.	179	184	586	790	1,027
Employee Cost	99	342	391	570	684
Total Expenditure	4,422	7,097	10,484	13,821	17,682
EBIDTA	675	1,352	2,815	3,909	5,368
Interest	64	131	97	88	63
EBDTA	611	1,221	2,718	3,822	5,305
Depreciation	43	159	274	381	456
EBTA	568	1,063	2,445	3,441	4,849
Tax	78	93	322	447	630
PAT	490	970	2,123	2,993	4,219
Prior Period Item	(5)	27	0	0	0
Adj. PAT	485	997	2,123	2,993	4,219

Table 3: Key Ratios

YE - June - Rs mn	FY06	FY07	FY08E	FY09E	FY10E
EPS	16.71	34.39	73.21	87.13	122.80
P/E Ratio	56.84	27.63	12.98	10.90	7.74
Book Value	64.42	96.46	166.25	393.73	681.23
P/BV	14.75	9.85	5.71	2.41	1.39
Debt-Equity Ratio	0.40	0.51	1.48	0.07	0.00
EBIDTA Margin (%)	13.24	16.00	21.17	22.05	23.29
PAT Margin (%)	9.51	11.80	15.99	16.88	18.30
ROCE (%)	24.06	28.32	21.24	24.40	20.90
RONW (%)	25.94	35.65	44.04	22.13	18.03
EV/EBIDTA	41.24	21.16	10.33	6.98	3.39
Market Cap/Sales	5.42	3.27	2.12	1.86	1.43

Table 2: Balance Sheet

YE - June - Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Share Capital	290	290	290	344	344
Reserves & Surplus	1,578	2,507	4,531	13,183	23,060
Shareholder's Fund	1,868	2,797	4,821	13,527	23,404
Secured Loans	756	1,416	7,123	936	96
Capital Employed	2,624	4,213	11,945	14,462	23,499
Fixed Assets					
Gross Block	800	2,726	4,206	5,656	5,856
Less: Depreciation	73	229	502	883	1,339
Net Block	727	2,497	3,704	4,774	4,517
Investments	20	0	4,720	4,720	11,720
Current Assets:					
Inventories	263	205	624	790	1,027
Book Debts	1,458	1,399	2,860	3,861	5,019
Loans & Advances	144	367	414	551	725
Cash & Bank Balances	468	366	930	1,564	2,790
	2,334	2,337	4,828	6,766	9,561
Current Liabilities	457	621	1,308	1,797	2,299
Net Current Assets	1,877	1,716	3,520	4,969	7,262
Capital Deployed	2,624	4,213	11,945	14,462	23,499

Shareholding Pattern

Price Performance Chart
