Tulip Telecom TULP.NS TTSL IN

TELECOMS

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2Q12 conference call take-aways

First Look

Breaking news, market events and company announcements

November 9, 2011

Rating Remains	**Buy**
Target price Remains	INR 230
Closing price November 8, 2011	INR 151

Following Tulip's 2Q conference call, we highlight key take-aways.

- Tulip reiterated that its efforts towards expanding its product portfolio positions it strongly to target a larger wallet share of the customer. With macro uncertainty, there is a rising focus on costs from enterprises and hence a greater push towards outsourcing (managed services, data centres) – this bodes well for Tulip.
- **Rising fibre contribution suggests upside to margin:** In 2Q, margins improved 100bp q-q y-y to 28.9%. In the last four quarters, margins have expanded by 100bp on average (y-y). We note fibre is still below 30% of the connectivity revenue pie, and with increasing contribution, there is room to drive further margin upside. Fibre is expected to contribute around two-thirds of revenues in the next two years.
- **Progress on data centre:** The launch of the new data centre is on track – Tulip has delivered 30% of its first order win (10K sq ft of total 30K sqft order win in 1Q) and billing is expected to begin in the near term. For FY13, the data centre is expected to contribute around INR2bn in revenues (i.e., 20% of the data centre's full potential of INR10bn at maximum utilization).
- Tulip notes that its initial priority has been to get the data centre operational, which would allow it to showcase its business proposition better. It expects to accelerate efforts towards bringing in a strategic partner in the near term.
- We understand that pricing trends in the data centre segment are relatively stable, with upward revisions driven largely from power tariffs.
- **Capex outlook:** Management reaffirmed guidance for capex for this year at INR4.5bn for the core business; Capex for next year is likely to be around INR4bn. Around 60% of this is spent on fibre with the remainder for wireless. For the data centre, aside from an initial payment towards purchase of the facility, INR980mn has been spent in capex and up to INR1.5bn could be spent this year on the data centre.
- **Leverage**: Management remains cognizant of investor concerns around debt and FCCB repayments, which are due in August 2012. Tulip has several options including: 1) monetization of QCOM investment; 2) internal cost focus, by outsourcing non core activities, vendor negotiations and managing receivables, etc; and 3) Tulip also has an approval in place for raising equity; these could all help to address this.
- **QCOM JV:** On the QCOM joint venture, Tulip clarified that the regulatory issues regarding the award of BWA licence have been resolved. Tulip is looking to monetize its investment as one of the options to lower its leverage.

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Appendix A-1

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Tulip Telecom	TTSL IN	INR 151	08-Nov-2011	Buy	Not rated	49

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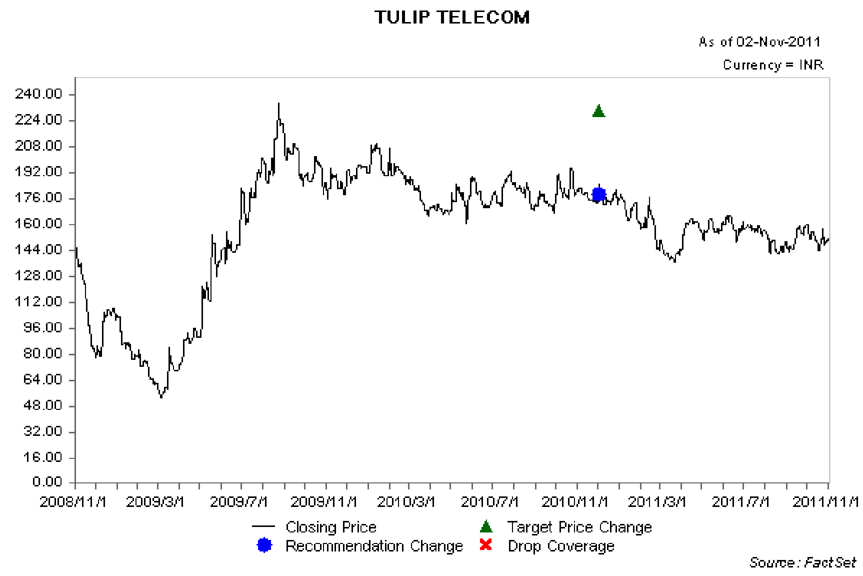
Issuer name	Previous Rating	Date of change
Tulip Telecom	Not Rated	03-Dec-2010

Tulip Telecom (TTSL IN) **INR 151 (08-Nov-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
03-Dec-2010		230.00	178.10
03-Dec-2010	Buy		178.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR230 is based on DCF valuation for the core business using a WACC of 12.3% and terminal growth of 3%, and it includes 50% of the implied value for the DC business based on management targets. The cashflows are discounted back to 2017.

Risks that may impede the achievement of the target price Downside risks include: slower-than-anticipated demand and profitability on the data centre side, increasing competition and macro slowdown.

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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