

November 8, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs150	Rs218
EPS change FY12E/13E (%)	-2.7 / -2.2
Target Price change (%)	NA
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(3)	(4)	(17)
Rel. to Nifty	(11)	(2)	1	(1)

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	188/132
Market Cap (Rs bn/USD mn)	22/447
Daily Avg Volume (No of sh)	276798
Daily Avg Turnover (US\$m)	0.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	69.9	69.5	69.0
FII/NRI	18.8	19.0	18.0
Institutions	1.7	2.0	1.9
Private Corp	6.1	6.1	6.9
Public	3.5	3.4	4.3

Source: Capitaline

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- **Revenue at Rs7.0bn grew 20.1% yoy (in line with our est.), led by strong revenue from the fibre business which aided the strong margins as well**
- **Q2FY12 EBITDA grew 24.4% to Rs2.0bn with EBITDA margin improving 100bps yoy to 28.9%. APAT grew 11.6% yoy to Rs870mn (our est. of Rs865mn)**
- **Net-debt further increased to Rs18.9bn at the end of Q2FY12 v/s Rs16.5bn in Q1FY11, to fund ongoing expansion in both NLD & data centre. Debt/EBITDA stands at 2.7x & D/E at 1.6x**
- **EPS cut by 2.7%/ 2.2% for FY12E/FY13E on account of higher interest cost. Valuations attractive at FY13E EV/EBITDA of 4.1x & P/E 3.4x. Maintain BUY with TP of Rs218**

Results in line

Consolidated revenue for the quarter stood at Rs7.0bn with growth of 20.1% yoy, in-line with our estimate (our estimate of Rs7.1bn). Revenue growth was driven by strong order growth in high bandwidth fiber led data connectivity along with wireless business segment. EBITDA grew by 24.4% yoy to Rs2.0bn with margins at 28.9% improvement of 100bps yoy, led by low bandwidth cost due to bulk purchases and lower cost per subscriber on the back of economies of scale. PAT grew 11.6% yoy to Rs870mn (our estimate of Rs865mn). However, due high interest rates and continuously increasing debt on book, interest cost increased 82.0% yoy and 8.2% qoq.

Fiber based data connectivity business continues to drive revenue

Fibre segment is enabling higher wallet share per customer driven by expanded product and service offerings. Data connectivity business contributed 62% to the total revenue of Q2FY12. Revenue contribution from managed services was at 32%. 83% (v/s 80% in last quarter) of new order inflow continued on the fibre segment. We believe, as the contribution from the managed services to total revenue is increasing, it would reduce the dependency on the fibre segment.

Net-debt further rise to Rs18.9bn

The net-debt on the books further increased to Rs18.9bn at the end of Q2FY12 v/s 16.5bn in Q1FY12 and Rs14.3bn in Q4FY11. The increase has been primarily on account of ongoing expansion in both NLD and Data centre segment. The company incurred capex of Rs1.45bn and generated cash profit of Rs1.37bn in Q2FY12. Capex guidance for FY12E maintained at Rs4.5bn.

Valuations attractive - BUY with target of Rs218

Debt on the books is continuously increasing and stretching the balance sheet. D/E of 1.37 for FY12E and net debt Rs16.2bn remains the key concern for the stock. While, stake sale in Data centre and divestment of Qualcomm investment could lead to deleveraging of balance sheet and remains key trigger for the stock. Nevertheless, on the back of higher realization on fibre network and economies of scale would further lead to strong operational performance, going forward. We cut our EPS est. (fully diluted post dilution on FCCB) by 2.7%/2.2% for FY12E/13E to Rs25.1/26.9, purely on account of increase in interest cost. At CMP of Rs150, Tulip trades at attractive valuations of 5.6x P/E and 3.4x EV/EBITDA for FY13E. We retain BUY rating with target price Rs218.

Financial Snapshot

Y/E	Net Sales	EBITDA		PAT (Rs)	EPS (Rs)	EPS % chg	ROE (%)	Rs Mn		
		(Core)	(%)					P/E	EV/EBITDA	P/BV
March										
FY10	19664	5255	26.7	2755	19.0	10.0	34.2	7.9	4.2	2.3
FY11	23511	6631	28.2	3064	21.1	11.2	28.7	7.1	4.1	1.8
FY12E	28386	8205	28.9	3634	25.1	18.6	26.4	6.0	3.8	1.4
FY13E	32431	9471	29.2	4434	26.9	7.5	25.3	5.6	3.4	1.3

Data Centre operations commencement on track

The data centre facility at Bengaluru is expected to start its operation from Q3FY12E. It has won order worth revenue potential of Rs5bn for 30,000sq feet spread over 5 years from IBM in Q1FY12. Out of the total contracted space of 30,000 sq feet, 10,000 sq feet is expected to commence operation in Q3FY12E. It won co-location order from IBM for 5,000 sq. ft. in Q2FY12. Order wins in Q2FY12E seems weak but management is confident of achieving committed target of selling 175k sq feet of space by the end of FY12E.

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

Quarterly financials

Particulars	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Sales	5,853	6,022	6,380	6,539	7,029	20.1	7.5	13,568	11,105	22.2
Raw Material	3834.1	3887.5	3992.0	4179.2	4443.5	15.9	6.3	8,623	7,309	18.0
as % of sales	65.5	64.6	62.6	63.9	63.2			63.6	65.8	
Employee Cost	218.6	235.2	274.8	298.9	338.8	55.0	13.3	638	434	47.1
as % of sales	3.7	3.9	4.3	4.6	4.8			4.7	3.9	
SG&A expenses	167.2	183.8	246.5	212.6	215.6	29.0	1.4	428	312	37.2
as % of sales	2.9	3.1	3.9	3.3	3.1			3.2	2.8	
Total operating expenditure	4219.9	4306	4513	4691	4998	18.4	6.5	9689	8054	20.3
EBITDA	1632.9	1716	1866	1848	2032	24.4	9.9	3,880	3,050	27.2
Depreciation	419.5	440.9	478.5	495.1	502.2	19.7	1.4	997.3	794.5	25.5
EBIT	1213.4	1275.0	1387.8	1353.0	1529.3	26.0	13.0	2882	2256	27.8
Other Income	13.8	11.3	-10.7	-10.8	-25.7	(286.8)	138.5	-36.5	0.4	-
Interest	189.6	211.8	266.9	319.1	345.1	82.0	8.2	664.3	374.4	77.4
PBT	1037.5	1074.5	1110.1	1023.1	1158.5	11.7	13.2	2181.6	1881.8	15.9
Tax	257.6	257.1	283.3	250.9	287.9	11.8	14.7	538.8	460.3	17.1
Effective tax rate%	24.8	23.9	25.5	24.5	24.9					
PAT	780.0	817.4	826.8	772.2	870.6	11.6	12.7	1642.8	1421.5	15.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	27.9	28.5	29.3	28.3	28.9	100	64	28.6	27.5	112
EBIT	20.7	21.2	21.8	20.7	21.8	102	106	21.2	20.3	93
EBT	17.7	17.8	17.4	15.6	16.5	(125)	83	16.1	16.9	(87)
PAT	13.3	13.6	13.0	11.8	12.4	(94)	58	12.1	12.8	(69)
Effective Tax rate	24.8	23.9	25.5	24.5	24.9	3	33	24.7	24.5	24

Financials

Profit & Loss

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	19,664	23,511	28,386	32,431
<i>Growth (%)</i>	21.8	19.6	20.7	14.2
Raw material	12,953	15,188	17,922	19,814
Employee cost	825	946	1,290	1,362
SG&A expenses	632	745	969	1,784
Total operating expenditure	14,409	16,880	20,181	22,959
EBITDA	5,255	6,631	8,205	9,471
<i>Growth (%)</i>	56.1	26.2	23.7	15.4
Depreciation	1,353	1,714	2,034	2,334
EBIT	3,902	4,917	6,172	7,138
EBIT margin (%)	19.8	20.9	21.7	22.0
Other Income	468	1	23	120
Interest expenses	716	853	1,358	1,345
PBT	3,654	4,065	4,837	5,912
Tax	899	1,001	1,203	1,478
<i>Effective tax rate (%)</i>	24.6	24.6	24.9	25.0
PAT	2,755	3,064	3,634	4,434
<i>% Growth</i>	10.0%	11.2%	18.6%	22.0%

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	290	290	290	329
Reserves & surplus	8,989	11,773	15,135	19,298
Net worth	9,279	12,063	15,425	19,627
Secured Loans	5,476	12,296	15,746	13,746
Unsecured Loans	6,715	5,473	5,473	5,473
Loan Funds	12,191	17,769	21,219	19,219
Net deferred tax liability	29	32	32	32
Total Liabilities	21,499	29,863	36,676	38,878
Gross Block	14,502	18,643	23,373	27,333
Less: Depreciation	2,414	4,132	6,166	8,499
Net block	12,088	14,511	17,208	18,834
Capital work in progress	1,209	3,228	3,228	3,228
Investment	0	1,550	1,550	1,550
Goodwill	0	1,244	1,244	1,244
Current Assets	11,037	12,316	16,942	18,016
Inventories	688	992	1,171	1,190
Sundry debtors	5,320	6,344	7,605	8,695
Cash & bank balance	3,470	2,434	4,995	4,966
Loans & advances	1,559	2,546	3,171	3,166
Current lia & Prov	2,838	2,990	3,500	3,998
Current liabilities	2,838	2,990	3,500	3,998
Net current assets	8,199	9,326	13,442	14,018
Misc. exp & Def. Assets	4	4	4	4
Total Assets	21,499	29,863	36,676	38,878

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	3,186	4,064	4,814	5,792
Depreciation	1,353	1,714	2,034	2,334
Interest	716	853	1,358	1,345
Other Non-Cash items	-4	-7	0	0
Chg in working cap	-2,297	-2,164	-1,556	-605
Tax paid	-899	-1,001	-1,203	-1,478
Operating Cashflow	2,054	3,459	5,447	7,388
Capital expenditure	-2,502	-6,157	-4,730	-3,960
Free Cash Flow	-447	-2,697	717	3,428
Other income	468	1	23	120
Investments	0	-2,794	0	0
Investing Cashflow	-2,033	-8,949	-4,707	-3,840
Equity Capital Raised	1	-1	0	39
Loans Taken / (Repaid)	966	5,578	3,450	-2,000
Interest Paid	-716	-853	-1,358	-1,345
Dividend paid (incl tax)	-271	-271	-271	-271
Financing Cashflow	-20	4,453	1,821	-3,578
Net chg in cash	0	-1,036	2,561	-29
Opening cash position	3,470	3,470	2,434	4,995
Closing cash position	3,470	2,434	4,995	4,966

Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	26.7	28.2	28.9	29.2
Net Margin	15.0	15.8	16.3	16.5
ROCE	32.7	25.1	22.3	22.5
ROE	34.2	28.7	26.4	25.3
RoIC	52.6	36.1	32.0	31.7
Per Share Data (Rs)				
EPS (adjusted)	19.0	21.1	25.1	26.9
CEPS	28.3	33.0	39.1	41.1
BVPS	64.0	83.2	106.4	119.2
DPS	1.6	1.6	1.6	1.4
Valuations (x)				
PER	7.9	7.1	6.0	5.6
P/CEPS	5.3	4.6	3.8	3.6
P/BV	2.3	1.8	1.4	1.3
EV / Sales	1.3	1.4	1.3	1.1
EV / EBITDA	4.2	4.1	3.8	3.4
Dividend Yield (%)	1.1	1.1	1.1	0.9
Gearing Ratio (x)				
Net Debt/ Equity	0.9	1.1	1.0	0.6
Net Debt/EBITDA	1.7	2.1	1.8	1.3

Recommendation History: Tulip Telecom – TTSL IN

Date	Reports	Reco	CMP	Target
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
18/01/2011	Tulip Telecom Event Update	Buy	168	240

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2011	Lakshmi Machine Works Q2FY12 Result Update	Accumulate	1,935	2,466
24/10/2011	Jagran Prakashan Q2FY12 Result Update	Buy	107	135
24/10/2011	HT Media Q2FY12 Result Update	Buy	140	172
21/10/2011	Idea Cellular Q2FY12 Result Update	Accumulate	91	105

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