

12 May 2011

## Tulip Telecom

### Robust operating performance in 4QFY11

Tulip's 4QFY11 revenues and EBITDA were largely in line with our expectations (slightly ahead of consensus), although PAT came lower. We maintain our positive stance on the company due to its attractive valuations and strong fundamentals.

- **Strong operating performance.** Tulip recorded revenue and EBITDA growth of ~20% each in 4QFY11. The growth was driven by an increase in orders from the high-bandwidth business and from operating leverage. Adjusted PAT was up 41% yoy to ₹827m. PAT was 4%/8.6% below consensus/our estimates due to higher interest costs (higher interest rates, lower capitalization).
- **Strong traction in high-bandwidth business.** The high-bandwidth business constituted 80% of fresh orders in 4QFY11. Other highlights include: (1) addition of several clients in the connectivity business; (2) significant new orders of ₹300m in the managed-services business (incl. data centre); (3) a bandwidth contract for the R-APDRP project in Andhra Pradesh (project value of ₹320m over five years); (4) appointment of senior officials (ex-RCom, Tata Comm, Sify) in the data-centre business.
- **Capex and debt.** FY11 capex was ₹5.3bn (~22% of revenue). Net debt in 4QFY11 was ₹14.3bn (2.2x EBITDA); long-term debt was 89% of gross debt. The average cost of debt for FY11 was 9.9%; Tulip anticipates a rise in borrowing costs.
- **We maintain our Buy** on the back of attractive valuations (8x FY11 EPS) and strong fundamentals (EPS CAGR of ~20% over FY11-13e and ~20% RoE).

#### Tulip Telecom: Consolidated 4QFY11 quarterly results

Year end Mar, ₹m	4QFY10	4QFY11	% yoy	FY10	FY11	% yoy
Sales	5,307	6,380	20.2	19,664	23,511	19.6
EBITDA	1,545	1,866	20.8	5,255	6,631	26.2
EBITDA margin (%)	29.1	29.3	14bps	26.7	28.2	148bps
Interest expense	(185)	(267)	44.6	(716)	(853)	19.2
Depreciation	(155)	(479)	208.1	(1,353)	(1,714)	26.7
Other income	(80)	(11)		30	1	
PBT	1,125	1,110	(1.3)	3,216	4,065	26.4
Tax	(467)	(283)	(39.3)	(899)	(1,001)	11.3
Tax rate (%)	32.8	25.5	-728bps	32.8	28.0	-483bps
Reported PAT	658	827	25.7	2,316	3,064	32.3
Adj. PAT	588	827	40.7	2,061	3,064	48.6

Source: Company

Key data	TTSL IN/ TULP.BO
52-week high/low	₹201 / ₹132
Sensex/Nifty	18336 / 5486
3-m average volume	US\$1.1m
Market cap	₹24bn / US\$524m
Shares outstanding	145m
Promoters (%)	69.0
Free float (%)	31.0
- Foreign institutions	17.8
- Domestic institutions	1.9
- Others [a]	11.4

#### Tulip Telecom: Consolidated financials

Year end Mar, ₹m	FY12e	FY13e
Sales	27,718	32,064
EBITDA	8,051	9,381
Net profit	4,048	4,894
EPS (₹)	25	30
Growth (%)	27.8	20.9
PE (x)	6.5	5.4
EV/EBITDA (x)	4.5	3.4
P/BV (x)	1.5	1.0
RoAE (%)	29.1	23.0
RoACE (%)	15.5	16.6
Net debt-to-EBITDA (x)	1.4	0.2

Source: Anand Rathi Research

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Fig 1 – Tulip Telecom: Consolidated 4QFY11 results

Year end Mar, ₹m	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	4QFY11e	Variance (%)	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
<b>Total revenues</b>	<b>5,307</b>	<b>5,252</b>	<b>5,853</b>	<b>6,026</b>	<b>6,380</b>	<b>6,432</b>	<b>(0.8)</b>	<b>20.2</b>	<b>5.9</b>	<b>19,664</b>	<b>23,511</b>	<b>19.6</b>
<b>Operating costs</b>	<b>2.82</b>	<b>1.93</b>	<b>10.05</b>	<b>2.16</b>	<b>4.69</b>							
Cost of goods/services	(3,301)	(3,475)	(3,834)	(3,888)	(3,992)	(4,096)	(2.5)	20.9	2.7	(12,953)	(15,188)	17.3
Employee costs	(223)	(215)	(219)	(237)	(275)	(260)	5.7	23.3	15.8	(825)	(946)	14.8
G&A costs	(238)	(145)	(167)	(186)	(247)	(200)	23.3	3.7	32.3	(632)	(745)	17.9
<b>Total operating costs</b>	<b>(3,762)</b>	<b>(3,834)</b>	<b>(4,220)</b>	<b>(4,311)</b>	<b>(4,513)</b>	<b>(4,556)</b>	<b>(0.9)</b>	<b>20.0</b>	<b>4.7</b>	<b>(14,409)</b>	<b>(16,879)</b>	<b>17.1</b>
<b>EBITDA</b>	<b>1,545</b>	<b>1,417</b>	<b>1,633</b>	<b>1,715</b>	<b>1,866</b>	<b>1,875</b>	<b>(0.5)</b>	<b>20.8</b>	<b>8.9</b>	<b>5,255</b>	<b>6,631</b>	<b>26.2</b>
EBITDA margin (%)	29.1	27.0	27.9	28.5	29.3	29.2	10bps	14bpt	80bps	26.7	28.2	148bps
Depreciation	(155)	(375)	(420)	(441)	(479)	(474)	1.0	208.1	8.5	(1,353)	(1,714)	26.7
<b>EBIT</b>	<b>1,390</b>	<b>1,042</b>	<b>1,213</b>	<b>1,274</b>	<b>1,388</b>	<b>1,401</b>	<b>(1.0)</b>	<b>(0.1)</b>	<b>9.0</b>	<b>3,902</b>	<b>4,917</b>	<b>26.0</b>
Other income (incl. interest income)	(80)	(13)	14	11	(11)	15				(188)	1	
Gross interest expenses	(185)	(185)	(190)	(212)	(267)	(218)	22.6	44.6	26.0	(716)	(853)	19.2
Exceptional items	0	0	0	0	0					218	0	
<b>PBT</b>	<b>1,125</b>	<b>844</b>	<b>1,038</b>	<b>1,073</b>	<b>1,110</b>	<b>1,199</b>	<b>(7.4)</b>	<b>(1.3)</b>	<b>3.4</b>	<b>3,216</b>	<b>4,065</b>	<b>26.4</b>
Taxes	(467)	(203)	(258)	(257)	(283)	(294)	(3.5)	(39.3)	10.2	(899)	(1,001)	11.3
<b>PAT</b>	<b>658</b>	<b>642</b>	<b>780</b>	<b>816</b>	<b>827</b>	<b>905</b>	<b>(8.6)</b>	<b>25.7</b>	<b>1.3</b>	<b>2,316</b>	<b>3,064</b>	<b>32.3</b>
<b>Adjusted PAT</b>	<b>588</b>	<b>642</b>	<b>780</b>	<b>816</b>	<b>827</b>	<b>905</b>	<b>(8.6)</b>	<b>40.7</b>	<b>1.3</b>	<b>2,061</b>	<b>3,064</b>	<b>48.6</b>
Shares outstanding (m)	145.0	145.0	145.0	145.0	145.0	145.0				145.0	145.0	
Diluted shares (m)	162.5	162.5	162.5	162.5	162.5	162.5				162.5	162.5	
<b>Adj. EPS (diluted)</b>	<b>3.62</b>	<b>3.95</b>	<b>4.80</b>	<b>5.02</b>	<b>5.09</b>	<b>5.57</b>	<b>(8.6)</b>	<b>40.7</b>	<b>1.3</b>	<b>12.69</b>	<b>18.86</b>	
Effective tax rate (%)	32.8	24.0	24.8	24.0	25.5	24.5	102bps	-728bpt	157bps	28.0	24.6	
<b>Capex [a]</b>	<b>708</b>	<b>936</b>	<b>1,233</b>	<b>1,386</b>	<b>3,921</b>					<b>4,685</b>	<b>7,476</b>	
Capex-to-sales (%)	13	18	21	23	61					24	32	
<b>YoY changes (%)</b>												
<b>Total revenues</b>	<b>13</b>	<b>19</b>	<b>19</b>	<b>20</b>	<b>20</b>							
<b>EBITDA</b>	<b>54</b>	<b>31</b>	<b>29</b>	<b>27</b>	<b>21</b>							
EBIT	60	42	46	35	(0)							
<b>PAT</b>	<b>(9)</b>	<b>38</b>	<b>80</b>	<b>42</b>	<b>41</b>							
<b>Cost-to-sales ratio (%)</b>												
Cost of goods/services	62.2	66.2	65.5	64.5	62.6							
Employee costs	4.2	4.1	3.7	3.9	4.3							
G&A costs	4.5	2.8	2.9	3.1	3.9							
<b>Balance Sheet data (standalone)</b>					<b>Consol.</b>							
<b>Gross debt</b>	<b>11,886</b>	<b>12,391</b>	<b>13,472</b>	<b>14,420</b>	<b>17,769</b>							
Cash and cash equivalents	3,456	2,834	1,862	1,998	347							
<b>Net debt</b>	<b>8,430</b>	<b>9,557</b>	<b>11,610</b>	<b>12,422</b>	<b>17,422</b>							
Net worth	9,276	9,984	10,763	11,580	12,125							
<b>Net debt-to-EBITDA (x)</b>	<b>1.4</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>2.3</b>							
Net debt-to-equity (x)	0.91	0.96	1.08	1.07	1.44							

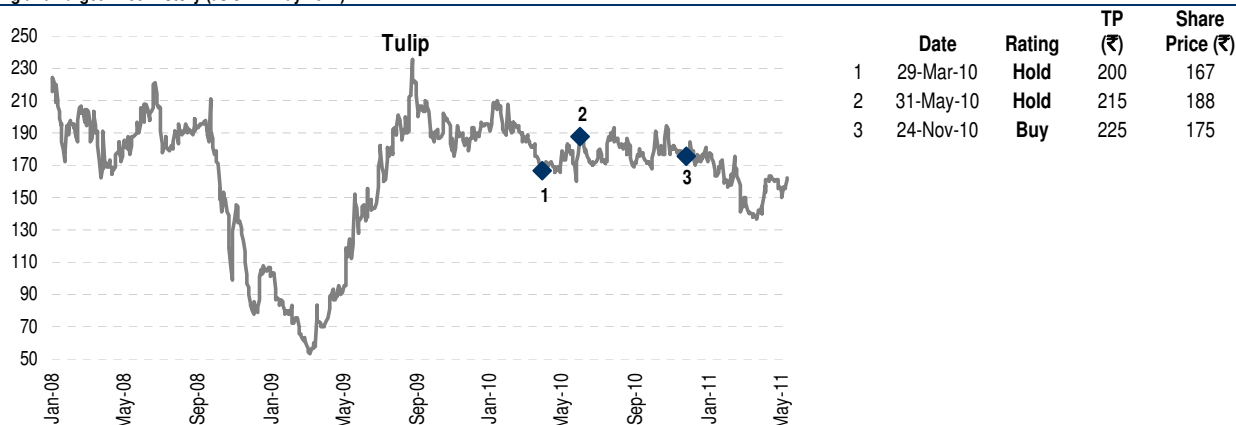
Source: Company [a] Includes acquisition of Sada IT parks in 4QFY11.

## Appendix 1

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Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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