

## Slowdown impacts business growth

Tulip Telecom's Q3FY12 revenue was below our estimates. Revenue was up 13.9% YoY at Rs6.8bn vs our estimate of Rs7.4bn due to slowdown in business activity. However, EBITDA margin was in line with our estimate at 29% during Q3. We revise our revenue assumption downward to factor in the uncertain economic environment in the country which has decelerated the growth momentum of the company. However, visibility in data centre is improving and the company has orders worth Rs6bn for 5 years which bodes well considering that it is a business in the investment phase. We believe that negatives in terms of FCCB payout due in Aug 2012 is factored in the current valuation. We re-iterate Buy rating with a revised target price of Rs205, implying EV/EBITDA of 6.1x and 5.5x FY12E and FY13E respectively.

- **Results below expectation:** Q3 result came below expectation. Tulip clocked 13.9% YoY revenue growth to Rs6.8bn as against our expectation of Rs7.4bn. However, the business mix in favour of fibre based services helped the company maintain operating margin at 29% (in line with our estimates). Higher interest expenses and tax rate led to a decline in net profit by 5.3% YoY to Rs773mn during Q3.
- **Return ratios slipping q-o-q:** While the EBITDA margin remains intact, return ratios slipped quarter by quarter due to continuous capex for its data center as well as the existing fibre based segment. Also, working capital pressure has increased with the company beginning to implement R-APDRP projects. We believe that lower asset utilization would temporary put pressure on return ratios. The reduction in capex from FY13, lower interest rate and monetization of investment in Qualcomm/stake sale in subsidiary would reduce interest burden going forward and improve return ratios.

Y/E Mar (Rsmn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)	Q3FY12E	Var (%)
<b>Net Sales</b>	<b>6,866</b>	<b>6,026</b>	<b>13.9</b>	<b>7,029</b>	<b>(2.3)</b>	<b>7,356</b>	<b>(6.7)</b>
EBITDA	1,991	1,715	16.1	2,031	(2.0)	2,129	(6.5)
EBITDA margin (%)	29.0	28.5	54 bp	28.9	10 bp	28.9	6 bp
Reported PAT	773	816	(5.3)	870	(11.2)	929	(16.8)
Rep PAT margin (%)	11.3	13.5	(229 bp)	12.4	(113 bp)	12.6	(138 bp)

Source: Company, Centrum Research

- **Traction seen in data center subsidiary:** Tulip booked orders worth Rs6bn for 5 years for 30,000 sq ft. Also, the estimated loss in subsidiary reduced to US\$3bn from earlier estimation of US\$10mn for FY12. While the stake sale is still away, the company has achieved financial closure for its funding requirement of Rs5bn over a 3-year period. It has already got visibility of ~40% of usable capacity.
- **Re-iterate Buy; despite reduction in estimates:** We have reduced our revenue estimates lower to take in the impact of Q3FY12 result and factor in - 1) the slower growth rate in Tulip's business in Q3 due to weak economic environment which reduces customer spending; 2) a shift in losses to FY13 for data center business as the full year impact would be visible and higher interest cost for FY13E. At the CMP, the stock trades at modest valuations of 4.4x FY12E EV/EBITDA and 5.2x FY12E earnings. We estimate 16% revenue growth to Rs37bn over FY12-14E with EBITDA margin of 29% despite the data centre's business losses. We expect lower return ratios on higher capex on data centre which would continue for next 3-4 years. We re-iterate Buy rating on the stock and revise target price to Rs205 to factor in earnings revision. Key triggers for the stock would be: (1) monetization of investment in Qualcomm business; (2) stake sale in data center subsidiary; and (3) higher-than-expected growth in business.

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	19,664	21.8	5,255	26.7	2,746	9.6	18.9	34.1	16.7	6.1	4.8
FY11	23,511	19.6	6,631	28.2	3,064	11.6	21.1	30.4	14.4	5.4	4.8
FY12E	27,513	17.0	7,878	28.6	3,172	3.5	21.9	25.9	13.1	5.3	4.4
FY13E	32,378	17.7	8,971	27.7	3,141	(1.0)	21.7	21.0	11.8	5.3	4.0
FY14E	37,139	14.7	10,853	29.2	3,830	22.0	26.4	21.1	12.4	4.4	3.1

Source: Company, Centrum Research Estimates

### Key Data

Recco (Prev)	Buy (Buy)	Bloomberg Code	TTSL IN
Target (Prev)	Rs205 (Rs265)	Reuters Code	TULP.BO
CMP	Rs115*	Current Shares O/S (mn)	145.0
Upside (%)	79.9%	Diluted Shares O/S(mn)	145.0
<b>Price Performance (%)</b>		Mkt Cap (Rsbm/USDmn)	16.7/336
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
TTSL	0.3	(22.6)	(28.9)
NIFTY	11.6	4.9	3.6
		Daily Vol. (3M NSE Avg.)	249,780
		Face Value (Rs)	2
		<b>1 USD = Rs49.6</b>	

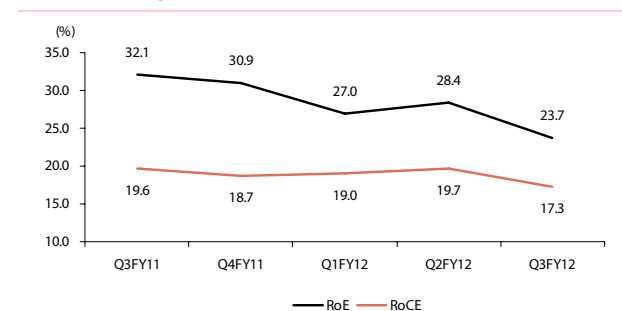
Source: Bloomberg, Centrum Research  
\*as on 09 February 2012

### Break-up of order input

(Rs/tonne)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Data Connectivity	68	60	62	64
Managed Services (incl. DC*)	21	33	32	27
Network Integration	11	7	6	9

Source: Company, Centrum Research, \*Data Center

### Return ratios slips on lower asset utilisation



Source: Company, Centrum Research

### Earning Revision

Particulars	FY12E			FY13E		
	Current	Earlier	Chg (%)	Current	Earlier	Chg (%)
<b>Revenue</b>	<b>27,513</b>	<b>28,849</b>	<b>(4.6)</b>	<b>32,378</b>	<b>34,234</b>	<b>(5.4)</b>
EBITDA	7,878	8,180	(3.7)	8,971	9,775	(8.2)
EBITDA margin (%)	28.6	28.4	28 bp	27.7	28.6	(85 bp)
PAT	3,172	3,230	(1.8)	3,141	3,761	(16.5)
PAT margin (%)	11.5	11.2	33 bp	9.7	11.0	(129 bp)

Source: Company, Centrum Research Estimates

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## Financials (Consolidated)

### Exhibit 1: Income Statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
<b>Revenue</b>	<b>19,664</b>	<b>23,511</b>	<b>27,513</b>	<b>32,378</b>	<b>37,139</b>
YoY growth (%)	21.8	19.6	17.0	17.7	14.7
Cost of goods sold	12,953	15,188	17,464	20,539	22,838
% of Sales	65.9	64.6	63.5	63.4	61.5
Personnel expenses	825	946	1,320	1,916	2,383
% of Sales	4.2	4.0	4.8	5.9	6.4
SG&A Expenses	585	745	793	888	995
% of Sales	3.0	3.2	2.9	2.7	2.7
<b>EBITDA</b>	<b>5,255</b>	<b>6,631</b>	<b>7,878</b>	<b>8,971</b>	<b>10,853</b>
EBITDA Margin	26.7	28.2	28.6	27.7	29.2
Depreciation	1,353	1,714	2,081	2,843	3,411
<b>PBIT</b>	<b>3,902</b>	<b>4,917</b>	<b>5,797</b>	<b>6,128</b>	<b>7,441</b>
Interest expenses	716	853	1,551	1,806	1,764
<b>PBT from operations</b>	<b>3,186</b>	<b>4,064</b>	<b>4,246</b>	<b>4,322</b>	<b>5,677</b>
Other non operating income	468	1	40	40	40
PBT before extra-ordinary items	3,654	4,065	4,286	4,362	5,717
Extra-ord. income/ (expenses)	(12)	-	-	-	-
<b>PBT</b>	<b>3,642</b>	<b>4,065</b>	<b>4,286</b>	<b>4,362</b>	<b>5,717</b>
Provision for tax	899	1,001	1,114	1,221	1,887
Effective tax rate	24.7	24.6	26.0	28.0	33.0
<b>PAT (adjusted)</b>	<b>2,746</b>	<b>3,064</b>	<b>3,172</b>	<b>3,141</b>	<b>3,830</b>
YoY growth (%)	9.6	11.6	3.5	(1.0)	22.0
PAT margin (%)	14.0	13.0	11.5	9.7	10.3

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	290	290	290	290	290
Reserves	8,985	11,831	14,533	17,334	20,825
Net worth	9,275	12,121	14,823	17,624	21,115
Debt	12,191	17,769	21,000	22,000	20,000
Deferred Tax Liability	29	32	32	32	32
<b>Total Capital Employed</b>	<b>21,495</b>	<b>29,921</b>	<b>35,854</b>	<b>39,656</b>	<b>41,147</b>
Gross Block	14,502	18,636	25,636	32,386	37,236
Accumulated depreciation	2,414	4,132	6,208	9,052	12,463
Net Block	12,088	14,504	19,427	23,334	24,773
Capital WIP	1,209	3,228	3,000	1,500	300
Total Fixed Assets	13,296	17,732	22,427	24,834	25,073
Goodwill	0	1,244	1,244	1,244	1,244
Investments (strategic)	0	1,549	1,549	1,549	1,549
Inventories	688	992	764	899	1,032
Debtors	5,320	6,344	7,643	8,994	10,316
Cash and cash equivalent	3,470	2,504	3,063	2,858	2,623
Loans & Advances and others	1,559	2,546	2,293	2,698	3,095
Total current assets	11,037	12,385	13,762	15,450	17,066
Current liabilities & provisions	2,838	2,990	3,129	3,422	3,786
Net current assets	8,198	9,395	10,633	12,028	13,280
<b>Total Assets</b>	<b>21,495</b>	<b>29,921</b>	<b>35,854</b>	<b>39,656</b>	<b>41,147</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
<b>Cash flow from operating</b>					
Profit before tax	3,654	4,065	3,172	3,141	3,830
Depreciation	1,353	1,714	2,081	2,843	3,411
Other	(685)	37	(175)	(40)	(40)
Interest expenses	716	853	1,551	1,806	1,764
<b>Cash before WC change</b>	<b>5,038</b>	<b>6,668</b>	<b>6,628</b>	<b>7,750</b>	<b>8,966</b>
Working capital adjustment	(2,324)	(2,199)	(679)	(1,599)	(1,488)
<b>Cash from operations</b>	<b>2,714</b>	<b>4,469</b>	<b>5,949</b>	<b>6,151</b>	<b>7,478</b>
<b>Cash flow from investing</b>					
Capex	(2,501)	(6,154)	(6,772)	(5,250)	(3,650)
Invest and income for invest	1,160	(815)	40	40	40
<b>Cash flow from investing</b>	<b>(1,342)</b>	<b>(6,969)</b>	<b>(6,732)</b>	<b>(5,210)</b>	<b>(3,610)</b>
<b>Cash flow from financing</b>					
Proceeds from sh cap & premium	-	-	-	-	-
Borrowings/ (Repayments)	3,853	5,578	3,231	1,000	(2,000)
Interest paid	(2,911)	(853)	(1,551)	(1,806)	(1,764)
Dividend paid	-	(271)	(339)	(339)	(339)
<b>Cash flow from financing</b>	<b>942</b>	<b>4,453</b>	<b>1,341</b>	<b>(1,145)</b>	<b>(4,103)</b>
<b>Net cash increase/ (decrease)</b>	<b>2,314</b>	<b>1,953</b>	<b>559</b>	<b>(205)</b>	<b>(235)</b>

Source: Company, Centrum Research Estimates

### Exhibit 4: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
<b>Margin Ratios (%)</b>					
EBITDA Margin	26.7	28.2	28.6	27.7	29.2
PBIT Margin	19.8	20.9	21.1	18.9	20.0
PBT Margin	18.6	17.3	15.6	13.5	15.4
PAT Margin	14.0	13.0	11.5	9.7	10.3
<b>Return Ratios (%)</b>					
ROCE	16.7	14.4	13.1	11.8	12.4
ROIC	32.2	29.2	26.2	25.8	28.8
ROE	34.1	30.4	25.9	21.0	21.1
<b>Turnover Ratios</b>					
Assets Turover Ratio (x)	0.9	0.8	0.8	0.8	0.9
Average collection period (days)	98.8	98.5	101.4	101.4	101.4
Average payment period (days)	76.3	68.5	62.4	58.1	57.8
Inventory holding (days)	12.8	15.4	10.1	10.1	10.1
<b>Per share (Rs)</b>					
Basic EPS	18.9	21.1	21.9	21.7	26.4
Fully diluted EPS	18.9	21.1	21.9	21.7	26.4
CEPS	28.3	33.0	36.2	41.3	49.9
Book Value	64.0	83.6	102.2	121.5	145.6
<b>Solvency ratios</b>					
Debt/ Equity	1.3	1.6	1.5	1.3	1.0
Interest Coverage	5.5	5.8	3.7	3.4	4.2
<b>Valuation parameters (x)</b>					
P/E	6.1	5.4	5.3	5.3	4.4
P/BV	1.8	1.4	1.1	0.9	0.8
EV/ EBITDA	4.8	4.8	4.4	4.0	3.1
EV/ Sales	1.3	1.4	1.3	1.1	0.9
M-Cap/ Sales	0.8	0.7	0.6	0.5	0.4

Source: Company, Centrum Research Estimates

## Appendix A

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