

May 16, 2011

Recommendation	BUY
CMP	164
Target	190
Stock Return	16%

Nifty	5,545
Sensex	18,531

Key Stock Data

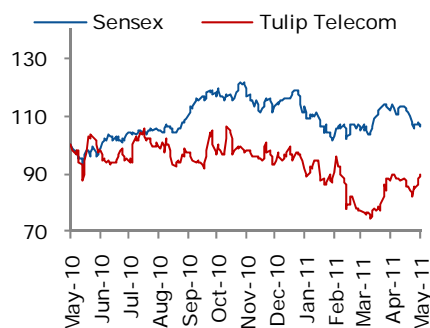
Sector	Telecom
Reuters Code	TULP.BO
BLOOMBERG Code	TTSL IN
No. of Shares (mn)	145
Market Cap (Rs bn)	24
Market Cap (\$ mn)	531
6 mth avg traded value (Rs. mn)	50

Stock Performance (%)

52 - Week high / low	Rs 201/132		
	3M	6M	12M
Absolute (%)	(2.3)	(7.8)	(8.2)
Relative (%)	(3.6)	(1.0)	(17.2)

Shareholding Pattern (%)

Promoters	69.0
FIs & Local MFs	1.9
FIIIs	17.8
Public & Others	11.4

Source: Company
Sensex and Stock Movement

Himanshu Shah
Himanshu.shah@hdfcsec.com
91-22-6171 7325

Tulip's Q4FY11 results were in line with our expectations with strong growth YoY in revenue, EBITDA and adjusted PAT of 20%, 21% and 25% respectively. Business outlook remains healthy with robust demand for connectivity services from customer. However concerns on visibility of free cash flow due to high capex intensity and working capital requirements, increasing debt for data center business coupled with interest outgo in hardening interest rate regime and concerns over FCCB conversion, would keep stock price under check. We downgrade our FY12/13 estimate by 10-11% to factor the initial operating losses in data center business and higher interest outgo. Our revised TP of Rs190 is based on 9x (past average) one year forward earnings from 10x earlier.

FY11 ends on decent note, earnings growth in FY12 to be a challenge

Tulip closed FY11 with healthy YoY growth of 20%/26%/33% in revenue, EBITDA and PAT respectively. Management guides for 20% YoY revenue growth with 100-150bps margin expansion. However concerns emanate from higher depreciation and interest outgo on stable capex on core connectivity business, working capital requirement and investment in data centre. Add to above is hardening interest rate and initial operating losses in data center business and lack of visibility on free cash flows. Similar to FY11, management guides for at or below Rs4.5bn capex on core business and Rs2.5 on data center in FY12.

FCCB conversion – far yet an overhang

FCCBs worth \$97mn (Rs4.4bn) convertible @Rs221/share becomes due in Aug'12. In absence of conversion, Tulip would be required to redeem the same along-with cumulative premium of 40% (YTM of 7.38%). Management remains cautious on the same and would take necessary action well ahead of conversion either through re-pricing / reissue of FCCBs (which may result into higher equity dilution) or alternative debt which too would be expensive.

Cash infusion – key rerating trigger

Tulip's management estimate to maintain the debt at FY11 level which in our opinion is difficult. Cash profit of Rs5-5.5bn would primarily be utilized for capex of Rs7bn, additional Rs1bn for working capital resulting into additional funding requirement of Rs2-2.5. Management bets on cash infusion from strategic stake sale in data center and / or exit from Qualcomm JV. We do have estimated fund infusion of Rs2.5bn in FY12 from stake sale in datacenter and Rs1.5bn from exit in Qualcomm investment.

Table 1: Financial summary

Rs mn	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,511	27,812	32,920
Growth (%)	44.7	32.4	21.8	19.6	18.3	18.4
EBITDA	2,456	3,367	5,255	6,631	7,873	9,642
Growth (%)	84.9	37.1	56.1	26.2	18.7	84.9
EBITDA Margin (%)	20.2	20.9	26.7	28.2	28.3	29.3
Adj. Net Profit	1,871	2,498	2,304	3,064	3,339	4,291
EPS (Rs)	10.9	15.4	14.2	18.9	21.1	26.5
Growth (%)	62.8	41.6	(7.7)	33.1	9.2	29.9
P/E (x)	15.0	10.6	11.5	8.6	7.9	6.2
EV/EBITDA (x)	10.9	9.3	5.4	5.6	4.9	4.0
ROE (%)	51.6	44.3	28.6	28.6	22.8	20.7
ROCE (%)	21.5	16.6	14.2	14.4	13.3	14.5

Source : Company, HDFC Securities Institutional Research

Institutional Research

Result in line with estimates

Table 2: Actual vs. Estimated Performance

Rs mn	Actual	Estimate	% Var
Revenue	6,380	6,308	1.1
EBITDA	1,866	1,798	3.8
EBITDA margin %	29.3	28.5	75 bps
Adj. PAT	820	839	(2.3)
PAT margin %	12.9	13.3	-45 bps

Source : Company, HDFC Securities Institutional Research

Economies of scale from higher proportion of incremental orders on fiber

Q4FY10 depreciation lower by Rs250mn due to change in useful life and tax expense higher by Rs180mn due to depreciation and other adjustments

Table 3: Consolidated Financial Performance - Quaterly

Rs mn	Q4FY11	Q3FY11	% chg QoQ	Q4FY10	% chg YoY
Revenue	6,380	6,022	5.9	5,307	20.2
COGS	3,992	3,888	2.7	3,301	20.9
% of revenue	62.6	64.6	-198 bps	62.2	37 bps
Staff cost	275	235	16.9	223	23.3
% of revenue	4.3	3.9	40 bps	4.2	11 bps
Other exps	247	184	34.2	238	3.7
% of revenue	3.9	3.1	81 bps	4.5	-61 bps
Operating Cost	4,513	4,306	4.8	3,762	20.0
% of revenue	70.7	71.5	-76 bps	70.9	-14 bps
EBITDA	1,866	1,716	8.8	1,545	20.8
% of revenue	29.3	28.5	76 bps	29.1	14 bps
D&A	479	441	8.5	155	208.1
% of revenue	7.5	7.3	18 bps	2.9	457 bps
EBIT	1,388	1,275	8.8	1,390	(0.1)
% of revenue	21.8	21.2	58 bps	26.2	-443 bps
Fin chg/(inc)	267	212	26.0	185	44.6
% of revenue	4.2	3.5	67 bps	3.5	71 bps
Other income	(11)	11	(194.8)	(80)	(86.7)
PBT	1,110	1,075	3.3	1,125	(1.3)
% of revenue	17.4	17.8	-44 bps	21.2	-379 bps
Tax	290	257	12.8	467	(37.9)
% of PBT	26.1	23.9	220 bps	41.5	-1539 bps
% of revenue	4.5	4.3	28 bps	8.8	-425 bps
Rep./Adj. PAT	820	817	0.3	658	24.7
% of revenue	12.9	13.6	-72 bps	12.4	46 bps

Source : Company, HDFC Securities Institutional Research

Revision in estimate to factor data center operation, higher interest and depreciation

Table 4: Revision in estimates

Rs mn	FY12E			FY13E		
	Revised	Earlier	% Chg	Revised	Earlier	% Chg
Revenue	27,812	27,411	1.5	32,920	31,157	5.7
EBITDA	7,873	8,086	(2.6)	9,642	9,503	1.5
EBITDA margin %	28.3	29.5	-119 bps	29.3	30.5	-121 bps
PAT	3,339	3,709	(10.0)	4,291	4,862	(11.7)
PAT margin %	12.0	13.5	-152 bps	13.0	15.6	-257 bps
EPS	20.6	22.9	(10.0)	26.5	30.1	(11.7)

Source : HDFC Securities Institutional Research

Table 5: Income statement

FYE March, Rs mn	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,511	27,812	32,920
<i>Growth (%)</i>	44.7	32.4	21.8	19.6	18.3	18.4
EBITDA	2,456	3,367	5,255	6,631	7,873	9,642
<i>EBITDA margin %</i>	20.2	20.9	26.7	28.2	28.3	29.3
<i>Growth (%)</i>	84.9	37.1	56.1	26.2	18.7	22.5
Depn & Amortz	418	414	1,353	1,714	2,216	2,871
<i>% of revenue</i>	3.4	2.6	6.9	7.3	8.0	8.7
EBIT	2,038	2,953	3,902	4,917	5,657	6,771
<i>EBIT margin %</i>	16.7	18.3	19.8	20.9	20.3	20.6
<i>Growth (%)</i>	74.2	44.9	32.1	26.0	15.0	19.7
Finance chg/(inc)	258	462	716	853	1,248	1,050
<i>% of revenue</i>	2.1	2.9	3.6	3.6	4.5	3.2
Other income	230	344	30	1	43	1
EBT	2,010	2,835	3,216	4,065	4,452	5,722
Income taxes	138	330	899	1,001	1,113	1,430
<i>Effective tax rate (%)</i>	6.8	11.6	28.0	24.6	25.0	25.0
+ /(-) Prior period (exp) / inc.	(2)	(8)	(12)	-	-	-
Reported net income	1,871	2,498	2,304	3,064	3,339	4,291
<i>Net income (%)</i>	15.4	15.5	11.7	13.0	12.0	13.0
<i>Growth (%)</i>	87.6	33.5	(7.7)	33.0	9.0	28.5
O/s shares Basic (mn)	145	145	121	144	144	162
O/s shares Diluted (mn)	172	162	162	162	162	162
Adj. Basic EPS (Rs)	13	17	19	21	23	27
Adj. Diluted EPS (Rs)	10.9	15.4	14.2	18.9	20.6	26.5
<i>Growth (%)</i>	62.8	41.6	(7.7)	33.1	9.0	28.5
DPS (Rs)	0.4	0.8	1.9	1.6	1.6	1.6

Decline in EBITDA margin in FY09 due to rupee depreciation against USD thus impacting the connectivity installation margin's

Increase in tax rate in FY10 is due to expiry of Sec 80IA benefits of 100% tax exemption in profits for first five years of operations

Source : Company, HDFC Securities Institutional Research

Table 6: Balance Sheet

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Cash	64	946	2,405	1,864	1,086	1,494
Other Current Assets	2,994	5,252	7,567	7,967	9,220	10,480
<i>Current Assets</i>	3,058	6,198	9,972	9,832	10,306	11,974
<i>Current Liabilities & Provisions</i>	729	2,821	2,838	2,920	3,755	4,268
<i>Net Current Assets</i>	2,329	3,376	7,133	6,911	6,551	7,706
<i>Investments</i>	5,874	2,524	1,065	1,400	1,400	1,400
Net Fixed Assets	5,197	12,148	13,296	15,819	17,492	18,347
Goodwill	0	0	0	-	-	-
Other Non-Current Assets	1	4	4	4	4	4
TOTAL ASSETS	13,401	18,053	21,499	24,134	25,447	27,457
Loan funds	8,938	11,224	12,191	12,191	10,362	4,443
Other liabilities	9	9	29	-	-	-
Shareholder's Equity	4,454	6,819	9,279	11,943	15,085	23,014
TOTAL LIABILITIES	13,401	18,053	21,499	24,134	25,447	27,457
BVPS	31	47	64	83	104	142
Adj. Net debt	3,000	7,754	8,720	8,927	7,876	1,549
Adj. Net debt ex FCCB	(2,995)	1,671	4,355	4,561	3,511	(2,816)

Increase in BVPS in FY13 due to assumed conversion of FCCBs in Aug'12

Tulip has \$97mn FCCBs convertible into 17.5mn equity shares @Rs221/share

Source : Company, HDFC Securities Institutional Research

Change in investments in FY11 represents Rs1.4bn investments made in Qualcomm JV

Table 7: Cash flow statement

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,290	2,919	4,128	4,847	6,086	7,553
Non-cash adjustments	0	1,014	(970)	-	-	-
Changes in working capital	(908)	(173)	(2,312)	(348)	(418)	(747)
Cash flow from operations	1,382	3,760	845	4,499	5,668	6,807
Capital expenditure	(3,118)	(7,365)	(2,501)	(4,198)	(3,773)	(3,330)
Change in investments	(5,534)	3,350	1,459	(335)	-	-
Other investing cash flow	-	(0)	(12)	-	-	-
Cash flow from investing	(8,652)	(4,016)	(1,054)	(4,533)	(3,773)	(3,330)
Issue of equity	-	-	-	0	-	4,365
FCCB issue/exch fluc.	5,849	(925)	(745)	-	(1,829)	(5,919)
Issue/repay debt	1,527	2,199	2,684	-	-	-
Dividends paid	(68)	(136)	(271)	(507)	(845)	(1,514)
Cash flow from financing	7,308	1,138	1,668	(507)	(2,673)	(3,068)
Change in cash & cash eq	38	882	1,460	(541)	(779)	408
Closing cash & cash eq	64	945	2,405	1,864	1,086	1,494

Source : Company, HDFC Securities Institutional Research

Table 8: Ratio analysis

FYE March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios						
EBITDA margin (%)	20.2	20.9	26.7	28.0	29.5	30.5
EBIT margin (%)	16.7	18.3	19.8	20.9	21.8	22.6
Net profit margin (%)	15.4	15.5	13.9	13.4	14.5	16.3
ROE (%)	51.6	44.3	34.1	29.9	29.5	26.7
ROCE (%)	21.5	16.6	14.9	16.3	18.1	19.9
Working capital & Liquidity ratios						
Receivables (days)	60	73	99	85	85	85
Inventory (days)	21	21	13	13	13	13
Other Curr Assets (days)	9	25	29	25	25	25
Payables (days)	22	64	53	45	50	50
Current ratio (x)	4.2	2.2	3.5	3.4	2.7	2.8
Quick ratio (x)	0.1	0.3	0.8	0.6	0.3	0.4
Turnover & Leverage ratios						
Gross asset turnover (x)	2.1	1.7	1.4	1.2	1.2	1.2
Total asset turnover (x)	0.9	0.9	0.9	1.0	1.1	1.1
Interest coverage ratio (x)	7.9	6.4	5.5	5.8	7.9	21.0
Adjusted debt/equity (x)	0.7	1.1	0.9	0.7	0.5	0.1
Adjusted debt/EBITDA (x)	1.2	2.3	1.7	1.3	1.0	0.2
Adj. debt/equity (x) ex FCCB	(0.7)	0.2	0.5	0.4	0.2	(0.1)
Adj. debt/EBITDA (x) ex FCCB	(1.2)	0.5	0.8	0.7	0.4	(0.3)
Valuation ratios						
EV/Sales (x)	2.3	2.0	1.7	1.4	1.2	1.0
EV/EBITDA (x)	11.5	9.8	6.5	5.2	4.1	3.1
P/E (x)	16.1	11.3	10.3	8.9	7.1	5.6
P/BV (x)	5.7	3.7	2.7	2.1	1.7	1.2

Source : Company, HDFC Securities Institutional Research

Decline in ROE in FY13 is due to conversion of FCCBs into equity

Institutional Research

Table 9: Quarterly financial trend

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenues	3,846	4,418	4,677	4,429	4,910	5,009	5,307	5,252	5,853	6,022
YoY growth (%)	-	-	-	33.2	27.7	13.4	13.5	18.6	19.2	20.2
QoQ growth (%)	15.7	14.9	5.9	(5.3)	10.9	2.0	5.9	(1.0)	11.4	2.9
EBITDA	811	924	1,002	1,086	1,269	1,350	1,545	1,417	1,633	1,716
EBITDA margin (%)	21.1	20.9	21.4	24.5	25.8	27.0	29.1	27.0	27.9	28.5
YoY growth (%)	-	-	-	66.0	56.5	46.1	54.1	30.5	28.7	26.8
QoQ growth (%)	23.9	14.0	8.5	8.3	16.8	6.4	14.4	(8.3)	15.2	5.1
Adj. NP	502	496	1,067	591	518	686	795	642	780	817
Adj. NP margin (%)	13.0	11.2	22.8	13.3	10.5	13.7	15.0	12.2	13.3	13.6
YoY growth (%)	-	-	-	28.5	3.3	38.2	(25.5)	8.6	50.6	41.7
QoQ growth (%)	9.1	(1.0)	114.9	(44.6)	(12.4)	32.5	15.9	(19.3)	21.6	4.8

Source: Company, HDFC Securities Institutional Research

Table 10: Shareholding Pattern

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Promoters	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
FIIIs	24.5	24.9	24.0	24.2	22.8	24.7	24.7	25.0	21.0	19.4	17.8
Banks & Fis	2.2	2.1	2.1	2.7	2.0	1.6	1.6	1.3	2.0	1.9	1.9
Public	4.3	4.0	4.9	4.2	6.3	4.7	4.7	4.7	8.1	9.8	11.4

Source: Company, HDFC Securities Institutional Research

Disclaimer: This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HDFC Securities Ltd or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HDFC Securities Ltd .

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HDFC Securities Ltd may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HDFC Securities Ltd, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HDFC Securities Ltd and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organisations described in this report.