

RESULTS FIRST LOOK

Tulip reported reasonable 4Q results, with revenue/EBITDA growth of 20% y-y and margins improving by 70bps q-q to 29.2%, realising some benefits of fibre rollout. Fibre is now 80% of the connectivity order mix, and data centers are also seeing traction and were 21% of the order book in 4Q. No doubt business transformation takes time and can be challenging. Tulip also has big ambitions (fibre rollout/data centre buy) and execution is critical, in our view. The current inexpensive valuation of 8x FY12F P/E and 5x EV/EBITDA is not building in potential medium-term upside, we believe. BUY.

Price target: 230.0 INR

Price (12 May 2011): 162.45 INR

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4QFY11 - broadly in line, margin continues to rise

- Earnings vs. our Forecast: **IN LINE**

Likely Impact:

- Earnings Estimates: **NO CHANGE**

- Dividend Estimates: **NO CHANGE**

- Price Target: **NO CHANGE**

- Long-term View: **CONFIRMED**

ABOVE OR BELOW EXPECTATIONS? 4Q11 revenues were in-line, while EBITDA was 2% higher. However, NPAT was slightly below our expectations, but on account of D&A and taxes.

WHAT DOES THE RESULT MEAN?

- Revenue momentum picked up in 2H with growth of slightly over 20% y-y (vs 19% in 1H). Tulip believes growth should exceed 20% as fibre becomes a larger portion of the connectivity business. Fiber now accounts for 80% of the incoming order mix in the last mile connectivity business. The cost benefit from transition to fibre is becoming more visible with margins improving by 70bps q-q to 29.2%. Y-Y, margins improved 150bps for FY2011 as cost of sales fell further to 64.7% of sales. EBITDA also included INR9mn in losses from the new DC investment.
- In 4Q11, managed services (ie, the data center business) accounted for 21% of the order book, indicating traction in this segment. Tulip is targeting 75k sq ft occupancy in the first year for the DC (or roughly 17% assuming 50% of space is usable).
- Capex for the full year has come in slightly above management's guidance of INR4-5bn at INR5.3bn. This could likely include some investment in the DC as well. D&A also rose q-q to 7.5% of sales.

ANY CHANGE TO GUIDANCE? No. Conf call is at 2.30pm India time tomorrow.

LIKELY STOCK REACTION: Flat to up.

KEY NUMBERS:

- For 4Q11, consolidated revenue grew 20% y-y to INR6.4bn. EBITDA grew 21% y-y to INR1.9bn. Margins improved sequentially once again by 70bps to 29.2%. In the last 3 quarters, margins have risen by 150bps.
- Normalising for the positive D&A adjustment in 4Q10 (of INR250mn), we estimate earnings rose 33% y-y. Tulip declared a dividend of INR1.6 per share.
- For the full year, revenue rose 20% to INR23.5bn, while EBITDA went up by 26% to INR6.6bn.
- Net debt to EBITDA at the end of 4Q was at 1.9x.
- Data connectivity led the order book with 68% contribution, followed by managed services with 21%, which includes data centres. The rest was contributed by network integration.

Valuation Methodology and Investment Risks: Our PT of INR230 is driven off a WACC of 12.3% and growth of 3%. We also factor in 50% of the value of the data center business. Downside risks include an increase in competition and slower-than-expected progress in fibre.

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://www.nomura.com/research>) rather than the date of this email.

Results First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

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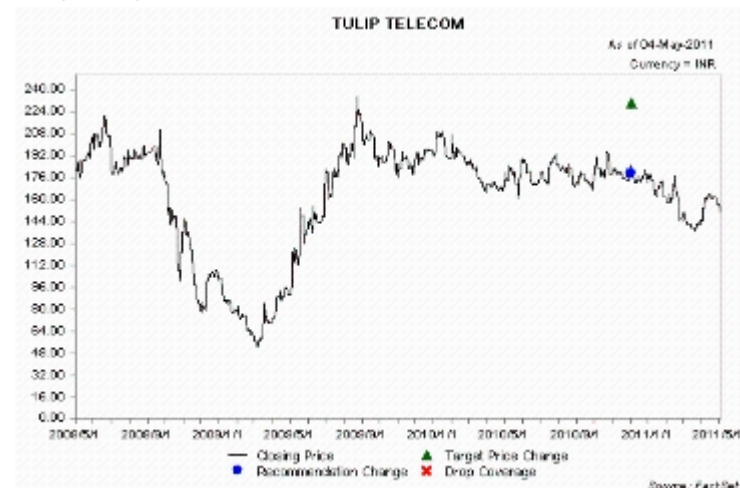
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Tulip Telecom	TTSL IN	162.45 INR	12 May 2011	Buy	

Previous Rating

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

Tulip Telecom (TTSL IN) 162.45 INR (12 May 2011) Buy

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)

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As at 31 March 2011.

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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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