

Sector *Automobile*

Recommendation *Buy*

CMP - *Rs 178.25*

Target Price- *Rs 242*

Face Value- *2*

Potential upside- *31%*

Tenure- *12 Months*

Bloomberg- *TTSL:IN*

Reuters - *TULP.NS*

BSE- *TULIP*

NSE- *TULIP*

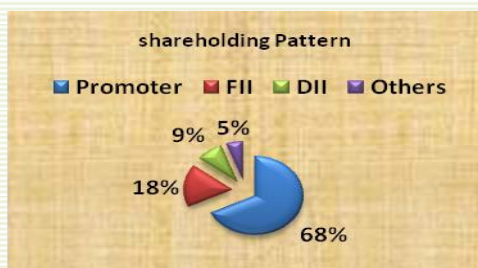
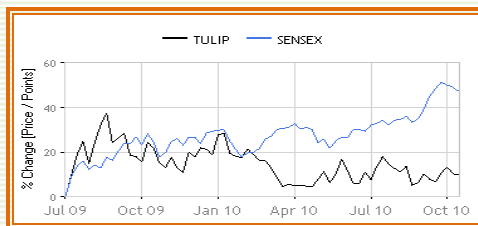
Date:- *23 Oct, 2010*

Stock Info:

Weekly H/L- *187.40/171.50*

Monthly H/L- *194.70/165.00*

52 Weeks H/L- *214.40/158.40*



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Tulip Telecom Ltd.

Company profile:

Tulip Telecom Limited is a data telecom service and IT solutions provider that offers innovative IP based infrastructural solutions to its customers. Tulip is India's largest MPLS VPN player and has been the front-runner in provisioning and managing multi location wide area networks for various industry verticals.

It has an 11% share of Rs75bn enterprise data services market (EDM) and a dominant 30% of MPLS VPN, the fastest growing segment of EDM.

Investment Rationale:

Aggressive business expansion:

The company plans to raise 10 billion rupees from private equity funds.

The company aims to generate 70 percent of its revenue from fibre optic connections by 2012 and is likely to benefit from new bigger clients, need for large companies for alternative back up systems and upgrading existing subscribers.

The fibre optic network would also increase the addressable market from 18% to 100%, thus providing the company with additional scope of growth.

BWA Investment:

Tulip has also recently entered into a strategic alliance with Qualcomm for broadband wireless access (BWA) and has invested Rs 140.0 crore for 13% in new entity formed by the Qualcomm. In the recently concluded Broadband Wireless Access

(BWA) auction, Qualcomm had won a slot of 20 MHz spectrum in key telecom circles of Delhi, Mumbai, Haryana and Kerala.

Enhancement of Value added service(VAS):

Tulip Telecom is enhancing value-added services (VAS) it provides to companies along with data connectivity services in order to strengthen its share in the enterprise data connectivity market. The company now plans to set up a data centre with 7 lakh sq ft of floor space at an investment of Rs 450 crore. The firm's data network currently reaches about 1,700 cities with fibre deployment covering about 300 cities.

Provision of virtual private network (VPN) to firms, which is a major component of Tulip's business, contributes about 88% to its revenues and rakes in margins of 34-38%. The firm has a 37.8% share in the overall data provision market and about 30% specifically in MPLS VPN space.

Company is planning to get money through Private Equity(PE) approx Rs 1000 cr. Tulip has debt of around \$250 million (Rs 1,112 crore). It could be raising the money to reduce that as well as fund acquisitions. The company is planning to invest Rs 400-50cr. The firm plans to fund the expansion through debt and internal accruals.

Business Segment:

Exhibit:1 Enterprise Data market:

Company	Market Share(%) 09-10
Tata Communications	20.49
Bharti Airtel	16.73
R Comm	13.75
Tulip	11.34
BSNL	13.69
Others (HCL Comnet, Sify, MTNL etc)	24

Source:Company

The data services market is estimated to be around Rs. 6,051 crore in FY 09 and is estimated to reach Rs. 16,779 crore by FY 14 with a CAGR of 22.6%.

Exhibit:2 MPLS VPN Market Share Analysis

Company	Share(%)	
	2008*	2009
Tulip Telecom	27.2	29.66
Sify	15	12.36
Reliance	17.5	14.89
Bharti	8.1	8.71
VSNL	7.1	8.65
BSNL	12.4	11.54
Others	12.7	14.19
Total	100	100

Source:Company

The growth of data market is driven by MPLS/VPN market which is expected to be about 58% of the overall enterprise data services market by FY 14.

Highlights of the quarter:

The revenue growth was driven by higher growth in the fibre network and the conventional wireless business segment. Major client additions and account renewals happened in Q4 of the fiscal that led to a QoQ decline in revenues. The subdued YoY PAT growth was due to an increase in the tax rate and lower other income. Other income for the quarter stood at Rs - 1.34 crore as compared to Rs 11.2 crore in Q1FY10.

Exhibit:3

Income Statement (in Cr.)	10-Jun	09-Jun	% Var
Revenue	525.18	442.92	18.6
Other Income	-1.34	27.13	-105
Total Income	523.84	470.05	11.4
Expenditure	-383.41	-334.3	14.7
Interest	-18.48	-15.82	16.8
PBDT	121.95	119.93	1.68
Depreciation	-37.5	-35.27	6.32
PBT	84.45	84.66	-0.25
Tax	-20.27	-9.59	111
Net Profit	64.18	75.07	-14.5
OPM %	26.74	30.65	-12.8
NPM %	12.22	16.95	-27.9

Source:Research-cell Flourish Fincap Pvt Ltd

The company has been awarded an order in the managed services segment for Gujarat SWAN valued at Rs 25.0 crore to manage their network for a period of three to five years.

Tulip Telecom Inc (wholly owned subsidiary of Tulip Telecom Ltd) received Federal Communications Commission license (FCC) 214 enabling the company to sell data connectivity services in the US.

Annual financial performance:

The company reported of revenue of Rs. 201193.40 Lacs, a growth of 22.47% over the corresponding period of the previous year.

Exhibit:4

Income Statement					
(in Cr.)	2009 - 10	2008 - 09	2007 - 08	2006 - 07	2005 - 06
Revenue	1,965.11	1,608.28	1,216.44	840.79	508.17
Other Income	46.82	34.45	23.04	2.35	1.18
Total Income	2,011.93	1,642.73	1,239.49	843.15	509.35
Expenditure	-1,439.58	-1,272.77	-970.81	-708.41	-441.91
Interest	-71.59	-46.21	-25.83	-13.07	-6.35
PBDT	500.77	323.75	242.85	121.66	61.08
Depreciation	-135.3	-41.44	-41.81	-15.85	-4.31
PBT	365.47	282.31	201.04	105.81	56.78
Tax	-89.94	-32.73	-13.95	-4.87	-7.97
Net Profit	275.53	249.58	187.12	99.7	48.45
OPM %	29.13	23	22.09	16.02	13.27
NPM %	14.02	15.52	15.38	11.86	9.54

Source: Research-cell Flourish Fincap Pvt Ltd

Exhibit:5 Peer Group Comparison:

Company	D/E	NPM(%)	EPS	P/E(XP/BV(X)	EV/EBIDTA	EV/NET		
						SALES	ROE	
Bharti Telecom	0.14	26.47	24.8	13.4	3.4	8.8	3.7	25.7
Reliance Communication	0.48	3.89	2.32	75.3	0.7	13.4	4.9	0.9
Idea Cellular	0.57	8.89	3.19	22.7	2.1	9.2	2.5	9.2
Tata Communications	0.36	15.01	17	19.3	1.3	10.5	3.7	6.6
GTL Infrastructure ltd	2.5	-0.74	-0.03	-1636	2.4	21.5	23.7	-0.1
GTL LTD.	2.07	10.2	16.4	25.6	3.6	13.0	3.3	13.9
MTNL	0	4.75	3.36	19.9	0.3	-1.3	-0.1	1.8
HCL Infosystems	0.20	2.1	11.9	9.98	2.3	4.6	0.2	23.0
Himachal Futuristic	8.96	-227.6	-6.84	-1.6	3.7	-8.8	12.3	-229.9
Tulip Telecom		13.96	94.6	1.88	0.6	2.4	0.7	29.6
TTML	-5.4	-14.4	-1.57	-15.8	-7.0	15.3	4.0	44.7

Source: Research-cell Flourish Fincap Pvt Ltd

Valuation Outlook:

- *On the basis of relative valuation, the enterprise value of the company is Rs 1359.9 million and stock is currently trading at Rs 178.25 at PE 1.88(x) with EPS 94.6.*
- *Stock is trading at 0.55 times of book value (BV) Rs 178.25 per share and ROE is 29.57% giving attractive return than peer group companies.*
- *We recommend a **Buy** on the stock with target Rs 242 medium to long-term investment.*

Bharti Airtel Limited is a telecommunication service provider in India. The Company is engaged in mobile services, telemedia services, enterprise services and infrastructure services. The mobile business offers services in India, Sri Lanka and Bangladesh. The Telemedia business provides broadband, Internet protocol television (IPTV).

Recent Developments:

- *Competitive intensity has reduced and incumbent large players like bharti are in advantageous position given their scale.*
- *Bharti Airtel made a largest telecom deal to buy out Kuwait-based Zain telecom's African business for 10.7 billion. Bharti Africa contributes 20% of mobile subscriber base.*
- *Bharti is in talk with other domestic players for the National 3G Auction.*
- *The company has made a 10 year agreement with IBM for providing technology and services.*
- *The company is planning to invest \$600 million in Nigeria rural mobile phone market.*

Financial Highlights:

Quarterly:

Total revenues increased from Rs 104,143 jun,2009 million to Rs 122,108 jun,2010(Y-on-Y)Growth 17% .

Net Profit of the company has been -32% less than previous year. Company reported the profit Rs 24,816. and jun ,2010 Rs 16816 respectively.

Annual performance:

The company reported the profit of Rs 21.7% from previous year. Profit from Rs 7743.84 to Rs 9426.16(Y-on -Y)31st march 2010.

Revenue stood Rs 34,014.29 to Rs 35,609.54(Y-on-Y) 31st march 2010.

Valuation Outlook:

- *On the basis of relative valuation, the enterprise value of the company is Rs 130566.006 million and stock is currently trading at Rs 332.7 of PE 13.4(x) with EPS 24.82%.*
- *Stock is trading at 3.43 times of book value (BV) Rs 96.73 per share and ROE is 25.65% giving attractive return than peer group companies.*
- *From peer group comparison, Bharti Airtel has 26.47% net profit margin. Which is showing robust profit growth.*
- *We recommend a **Buy** on the stock with target Rs 394 medium to long-term investment.*

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