



Tulip Telecom



Data nourished

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Acronyms

BWA	:	Broadband Wireless Access
DLC	:	Domestic Leased Circuit
IPLC	:	International Private Leased Circuit
IP VPN	:	Internet Protocol Virtual Private Network
MPLS	:	Multi Protocol Label Switching
OEM	:	Original Equipment Manufacturer
SWAN	:	State Wide Area Network
TRAI	:	Telecom Regulatory Authority of India
VPN	:	Virtual Private Network
VSAT	:	Very Small Aperture Terminal

Tulip Telecom

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,461	TTSL IN
S&P CNX: 5,230	REUTERS CODE
	TULP.BO

20 April 2010

Buy

Initiating Coverage

Rs828

Y/E MARCH	2009	2010E	2011E	2012E
Net Sales (Rs m)	16,144	19,762	25,777	31,284
EBITDA (Rs m)	3,367	5,169	7,048	8,997
NP (Rs m)	2,505	2,659	3,081	4,296
EPS (Rs)	73.7	82.7	95.8	133.6
EPS Growth (%)	35.3	12.2	15.9	39.4
BV/Share	200.5	290.5	381.5	508.5
P/E (x)	11.2	10.0	8.6	6.2
P/BV (x)	4.1	2.9	2.2	1.6
EV/EBITDA (x)	9.4	6.5	4.8	2.7
EV/Sales (x)	2.0	1.7	1.3	0.8
RoE (%)	44.5	32.9	28.5	30.0
RoCE (%)	17.8	16.2	16.2	18.7

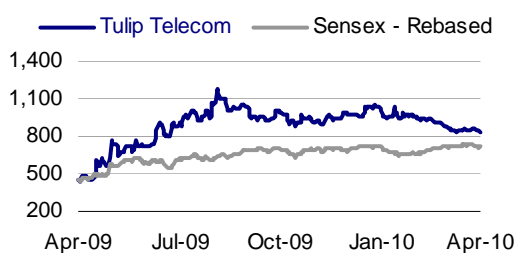
KEY FINANCIALS

Shares Outstanding (m)	29.0
Market Cap. (Rs b)	24.0
Market Cap. (US\$b)	0.5
Past 3 years Sales Growth (%)	33.0
Past 3 years NP Growth (%)	40.0
Dividend Payout (%)	5.1
Dividend Yield (%)	0.5

STOCK DATA

52-W High/Low Range (Rs)	1,250/433
Major Shareholders (as of December 2009)	(%)
Promoter	69.0
Domestic Inst	1.6
Foreign	24.8
Others	4.6
Average Daily Turnover	
Volume ('000 shares)	257.6
Value (Rs million)	186.2
1/6/12 Month Rel. Performance (%)	-5/-18/25
1/6/12 Month Abs. Performance (%)	-5/-17/84

STOCK PERFORMANCE (1 YEAR)



A play on the enterprise data opportunity: Tulip is a leading player in the Indian enterprise data segment focused on providing connectivity to corporates, SMEs and government verticals. Tulip has an outstanding track record, having scaled up to a dominant ~30% market share in the largest and fastest growing VPN segment within five years. Sector growth remains strong driven by increasing bandwidth demand and expansion of data networks. Tulip is well set to exploit the ~Rs75b enterprise data market, which is estimated to clock a 5-year CAGR of 20-25%. The government vertical, which contributes <5% of revenue, is likely to be an additional growth driver. **Key strengths:** dominant market presence, diversified customer base, focused service portfolio and the sticky nature of enterprise customers. **Key concerns:** potential technology disruption and scale differential v/s large telcos.

Broadbasing the business mix: Tulip's 'one-stop-shop' approach has warranted adding capabilities like managed services, which fortify its data connectivity business, and downsizing the legacy low-margin network integration business. Recent fiber rollout for last mile should enable Tulip to tap high-bandwidth connects, complementing its strong foothold in wireless. Fiber rollout allows capturing higher share of clients' requirement, increasing the addressable market by 5-6x. Initial traction has been strong with fiber contributing ~20% to data connectivity revenues v/s nil earlier.

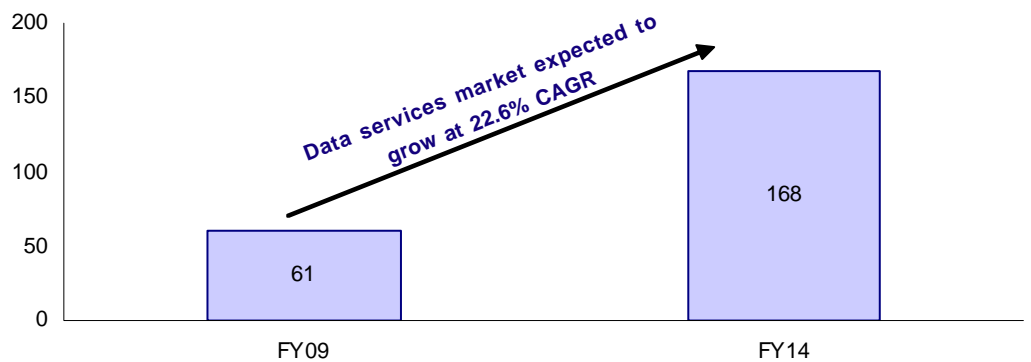
Strong EBITDA traction to accelerate earnings; peak capex over: Continued growth in wireless connectivity and increased traction from fiber rollout should support 26-32% CAGR in revenue, EBITDA and earnings. EBITDA margin has expanded to ~27% from 20-21% over FY07-09, led by increasing mix of data connectivity and should stabilize at 28-29%. While FY10 PAT growth will be only ~6% due to higher depreciation and finance expenses, we expect it to accelerate to 27% CAGR over FY10-12 despite an increase in tax rates (partial sunset of exemptions). Tulip's capex jumped 2.8x in FY09 to ~Rs7.4b as the company upgraded its VPN network and invested in fiber layout, SWAN projects and data centers. Capex intensity, which rose to 46% in FY09 from 16-20% over FY06-08, is expected to stay high at 28% in FY10 and then normalize at 12-17%.

Attractive valuations, initiate with Buy, target of Rs1,250: Tulip trades at a P/E of 8.6x FY11E and EV/EBITDA of 4.8x. We initiate with a **Buy** rating and a March 2011 DCF-based price target of Rs1,250 (4% terminal growth, 13.5% WACC). At our target, the stock would trade at a P/E of 9.4x FY12E and EV/EBITDA of 4.6x.

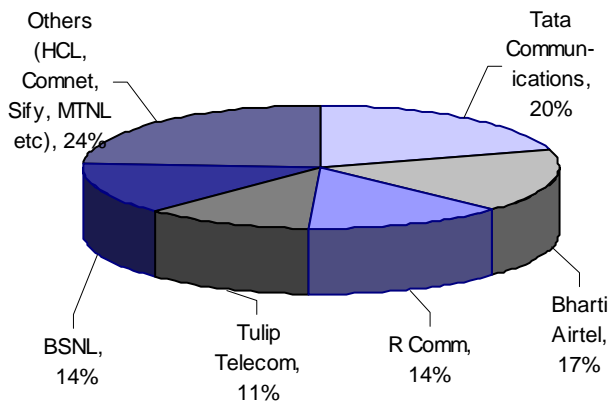
A play on the enterprise data opportunity

Indian enterprise market to grow at 20-25% CAGR: The Indian enterprise data market has been on a strong growth trajectory, led by increased need for enterprise connectivity from deeper IT penetration. Increasing adoption of enterprise solutions requires organization-wide connectivity to fully monetize investments in solutions like Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Customer Relationship Management (CRM) and other applications. Revenue in the enterprise data market in India grew ~28% CAGR over FY07-09 and the growth is expected to stay buoyant at 20-25% CAGR over the next few years, led by increasing connectivity requirements for enterprises.

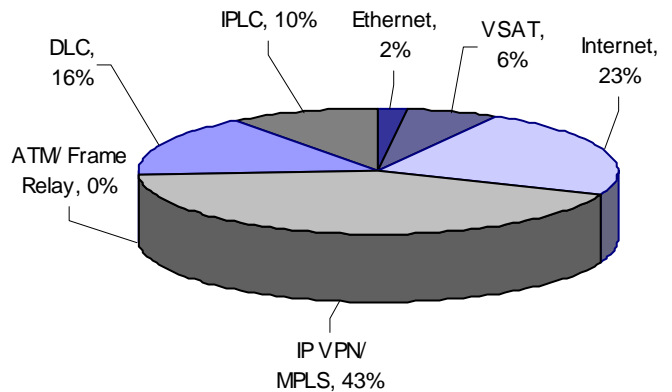
INDIAN DATA SERVICES MARKET (RS B)



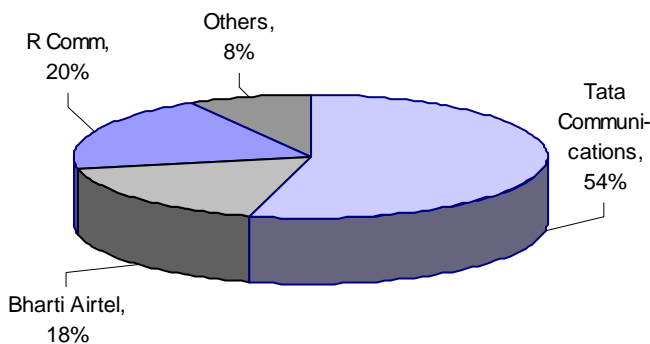
MARKET SHARE OF COMPANIES IN DATA SERVICES MARKET



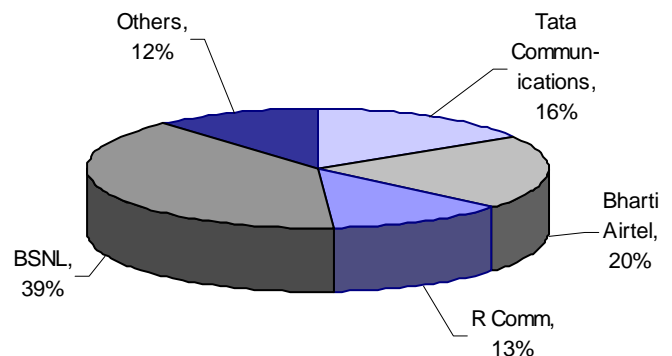
DATA SERVICES MARKET BY SEGMENT



MARKET SHARE OF COMPANIES IN IPLC



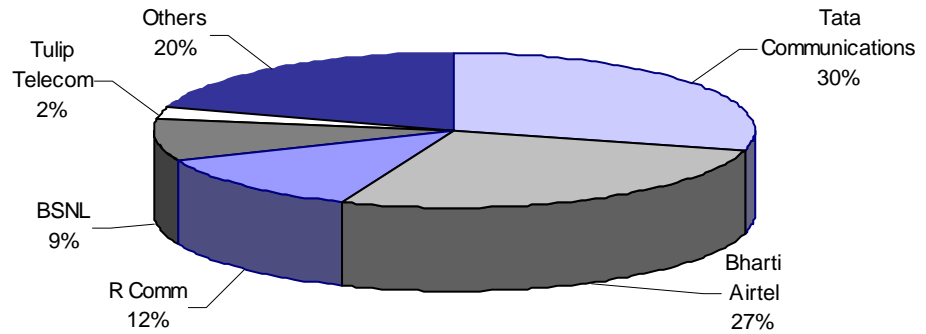
MARKET SHARE OF COMPANIES IN DLC



Source: Company/MOSL

MARKET SHARE OF COMPANIES IN INTERNET

Tulip does not have any meaningful market share in the Internet space

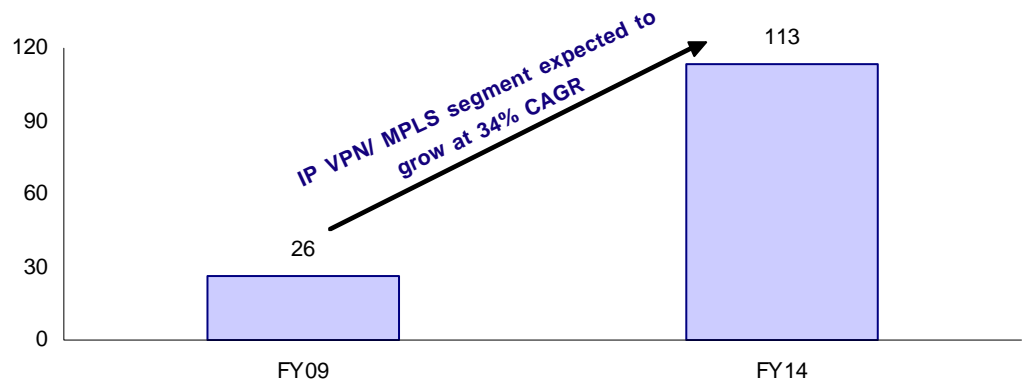


Source: Company/MOSL

IP/MPLS VPN is the fastest growing segment: The enterprise connectivity market has been shifting towards IP/MPLS VPN-based solutions from the legacy leased circuits based connectivity due to cost advantages and other benefits. The share of VPN revenue in the enterprise data segment increased from ~26% in FY07 to ~43% in FY09 and is expected to reach ~58% by FY14.

GROWTH IN IP VPN/ MPLS

IP VPN/ MPLS segment expected to grow at 34% CAGR



Source: Company/MOSL

A brief description on various technologies used for data connectivity

ATM (Asynchronous Transfer Mode) is a dedicated connection switching technology that organizes digital data and transmits them over a physical medium using digital signal technology.

DLC (Domestic Leased Circuit) is a point-to-point private line used by an organization to communicate between offices that are geographically dispersed throughout the country. A DLC can be used for Internet access, business data exchange, video conferencing, and any other form of telecommunication.

Ethernet is the most widely-installed local area network (LAN) technology. An Ethernet LAN typically uses coaxial cable or special grades of twisted pair wires. Ethernet is also used in wireless LANs.

Frame relay is a telecommunication service designed for cost-efficient data transmission for intermittent traffic between local area networks (LANs) and between end-points in a wide area network (WAN).

IPLC (International Private Leased Circuit) is a point-to-point private line used by an organization to communicate between offices that are geographically dispersed throughout the world. An IPLC can be used for Internet access, business data exchange, video conferencing, and any other form of telecommunication.

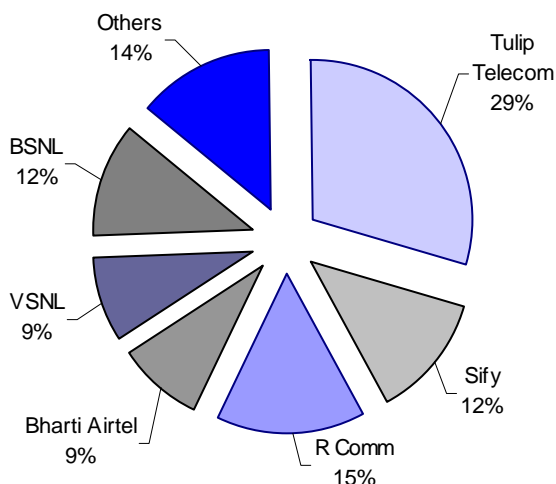
Virtual Private Network (VPN) is a network that uses public telecommunications infrastructure, such as the Internet, to provide remote offices or individual users with secure access to their organization’s network. A virtual private network can be contrasted with an expensive system of owned or leased lines that can only be used by one organization. The goal of a VPN is to provide the organization with the same capabilities, at a much lower cost.

A VPN works by using shared public infrastructure while maintaining privacy through security procedures and tunneling protocols such as the Layer Two Tunneling Protocol (L2TP). In effect, the protocols, by encrypting data at the sending end and decrypting data at the receiving end, send the data through a “tunnel” that cannot be “entered” by data that is not properly encrypted. Additional security involves encrypting not only the data, but also the originating and receiving network addresses.

VSAT (Very Small Aperture Terminal) is a satellite communications system that serves home and business users.

Tulip is the market leader in IP/MPLS VPN by a significant margin: Tulip is the leader in the VPN segment with ~30% market share and has been consistently gaining market share in the enterprise segment due to its strong presence in the VPN segment. The current market share estimates do not include installation revenues of Tulip but factor-in only 10% revenues as installation revenues for other operators who do not provide details of installation revenues separately. Adjusting for this, Tulip believes that its market share in the segment is more than 40%. Tulip’s leadership is backed by its extensive pan-India network presence, based on wireless last mile and its sole focus on the data segment. Our growth forecasts are conservative and build-in a slight reduction in market share for Tulip. The company is confident of enhancing its leadership through its fiber rollout.

MARKET SHARE OF COMPANIES IN IP VPN/ MPLS



Source: Company/MOSL

BWA spectrum auctions could increase competitive intensity

Tulip is the only major enterprise vendor with an extensive wireless data network currently. The Government is undertaking an auction to allocate two spectrum blocks/circles for the provision of Broadband Wireless Access services in the country while one block has been allocated to BSNL/MTNL. The aggregate reserve price for a pan-India spectrum block of 20MHz has been set at Rs17.5b. The bidding is likely to be aggressive given significant interest from operators. The 11 pre-qualified bidders for BWA auctions are: Aircel, Augere (Mauritius), Bharti Airtel, Idea Cellular, Infotel Broadband, Qualcomm, Reliance WiMax, Spice Internet, Tata Communications, Tikona Digital and Vodafone Essar.

While competitive intensity in the enterprise market could increase post rollouts by companies winning spectrum blocks in the auction, we believe that this is unlikely to have a significant impact on Tulip's financials based on (1) Tulip's increasing focus on fiber which already constitutes ~20% of its data connectivity revenues and is expected to reach ~70% of revenues in 2-3 years, (2) Aggressive bidding is likely to result in high price per spectrum block thus increasing the cost overhead of the winning bidder, (3) BWA rollout is likely to focus more on the retail market rather than the enterprise market, (4) Tulip's deep network coverage (1,700 cities and towns), and (5) the sticky nature of enterprise customers.

DETAILS OF BWA SPECTRUM TO BE AUCTIONED

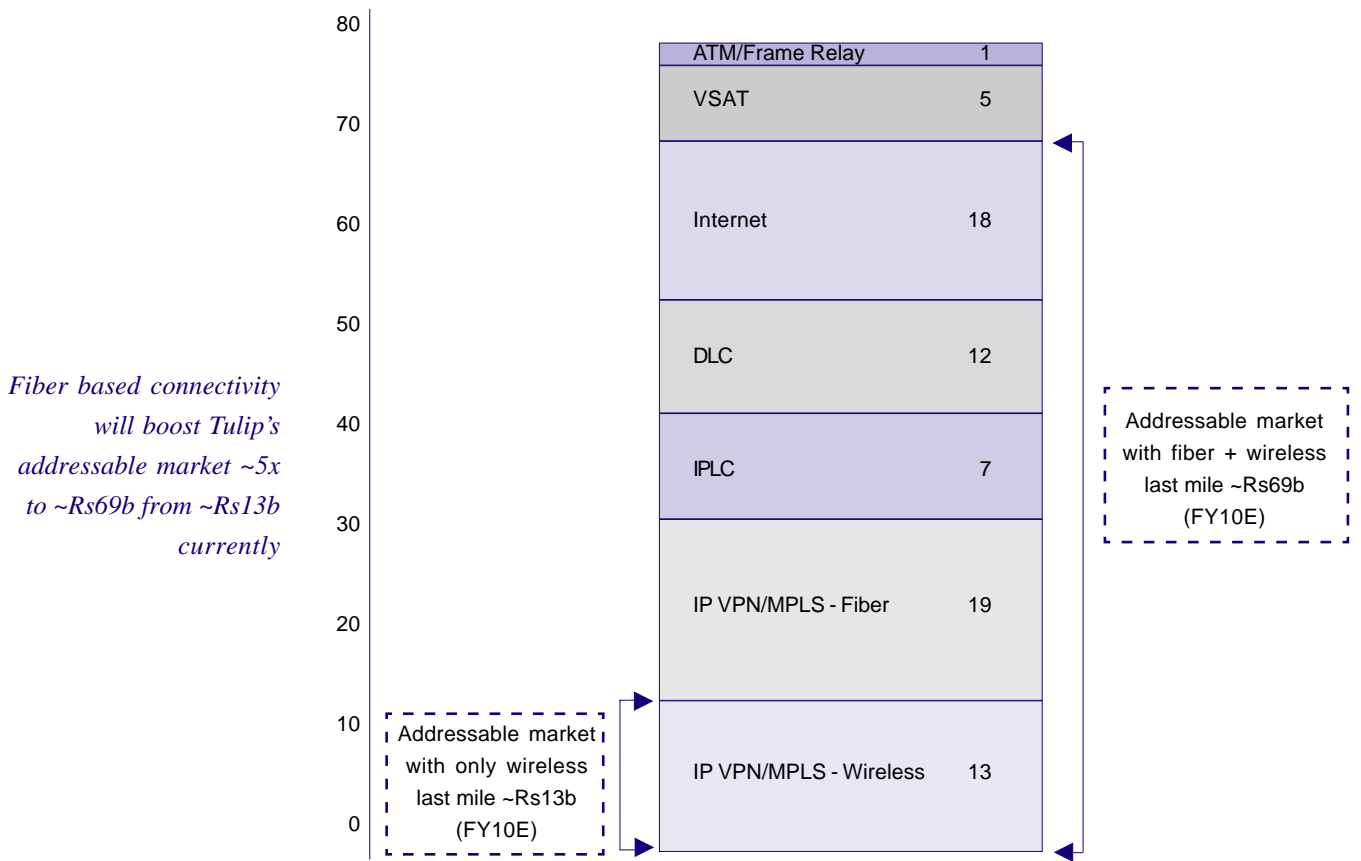
SERVICE AREA	RESERVE PRICE (RS. B)	NO. OF BLOCKS OF 20 MHZ FOR AUCTION	SPECTRUM TO BE AUCTIONED	
			I	II
Delhi	1.6	2	2305.0 - 2325.0	2327.5 - 2347.5
Mumbai	1.6	2	2305.0 - 2325.0	2327.5 - 2347.5
Kolkata	0.6	2	2305.0 - 2325.0	2332.5 - 2352.5
Maharashtra	1.6	2	2305.0 - 2325.0	2327.5 - 2347.5
Gujarat	1.6	2	2305.0 - 2325.0	2327.5 - 2347.5
Andhra Pradesh	1.6	2	2302.5 - 2322.5	2347.5 - 2367.5
Karnataka	1.6	2	2302.5 - 2322.5	2325.0 - 2345.0
Tamil Nadu	1.6	2	2312.5 - 2332.5	2335.0 - 2355.0
Kerela	0.6	2	2302.5 - 2322.5	2325.0 - 2345.0
Punjab	0.6	2	2320.0 - 2340.0	2357.5 - 2377.5
Haryana	0.6	2	2322.5 - 2342.5	2362.5 - 2382.5
Uttar Pradesh (E)	0.6	2	2320.0 - 2340.0	2357.5 - 2377.5
Uttar Pradesh (W)	0.6	2	2320.0 - 2340.0	2357.5 - 2377.5
Rajasthan	0.6	2	2320.0 - 2340.0	2357.5 - 2377.5
Madhya Pradesh	0.6	2	2302.5 - 2322.5	2332.5 - 2352.5
West Bengal	0.6	2	2305.0 - 2325.0	2332.5 - 2352.5
Himachal Pradesh	0.15	2	2322.5 - 2342.5	2345.0 - 2365.0
Bihar	0.15	2	2302.5 - 2322.5	2335.0 - 2355.0
Orissa	0.15	2	2302.5 - 2322.5	2335.0 - 2355.0
Assam	0.15	2	2302.5 - 2322.5	2325.0 - 2345.0
North East	0.15	2	2302.5 - 2322.5	2325.0 - 2345.0
Jammu & Kashmir	0.15	2	2340.0 - 2360.0	2380.0 - 2400.0

Source: DoT

Broad-basing the business mix

Tulip is expanding its service portfolio from largely wireless based connectivity to the entire suite of enterprise connectivity solutions. While Tulip’s primary offering, based on wireless last mile is an effective solution for low bandwidth requirements, it restricts the provisioning of higher bandwidth services. To address this issue and to increase its addressable market, Tulip has rolled out fiber in central business districts of 20 cities and the rollout for an additional 16 cities is underway. The fiber rollout will drive increased bandwidth sales related to VPN services (~60% of the VPN market is on fiber and the rest is on wireless) and enable Tulip to offer other services like IPLC/DLC/Internet, which require a dedicated fiber last mile. The ability to provide fiber-based connectivity will increase Tulip’s addressable market by ~5x from ~Rs13b to ~Rs69b. Initial traction has been strong with fiber already contributing ~20% to connectivity revenues. Several clients like DLF, Tata AIG, Greaves Cotton, ICICI Bank and Zee group have signed up.

TULIP'S ADDRESSABLE MARKET TO JUMP ~5X TO ~RS69B FROM ~RS13B LED BY FIBER ROLLOUT



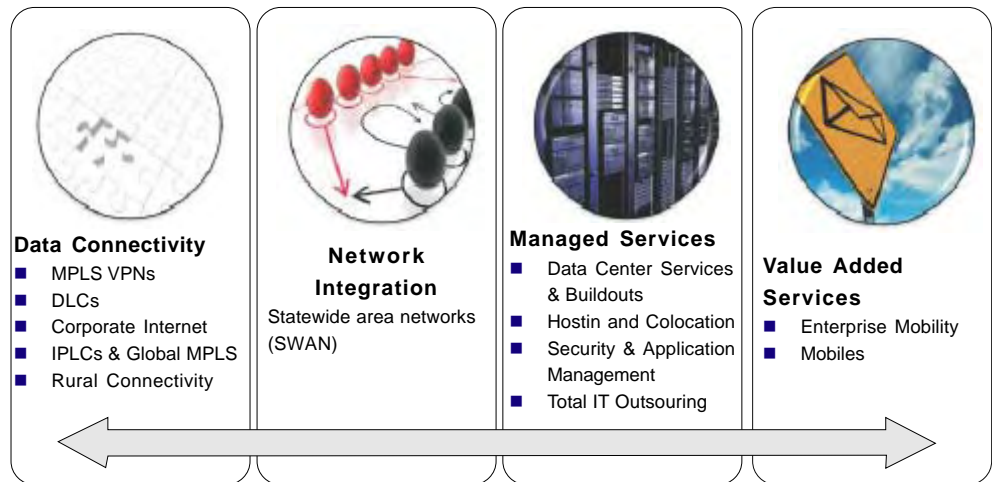
Source: Company/MOSL

"One stop shop" approach to enterprise connectivity

Tulip's portfolio comprises three major service lines: data connectivity, network integration and managed services. While network integration is a legacy business for Tulip, the share of data connectivity business has steadily increased and accounts for ~90% (v/s ~15% in FY06) of revenue. Tulip offers managed services like data centers, security and management, and total IT outsourcing to its clients to complement its data connectivity offering and improve client stickiness.

TULIP TELECOM: SERVICE PORTFOLIO

Tulip has a strong service portfolio in tune with its "one stop shop" approach



Source: Company/MOSL

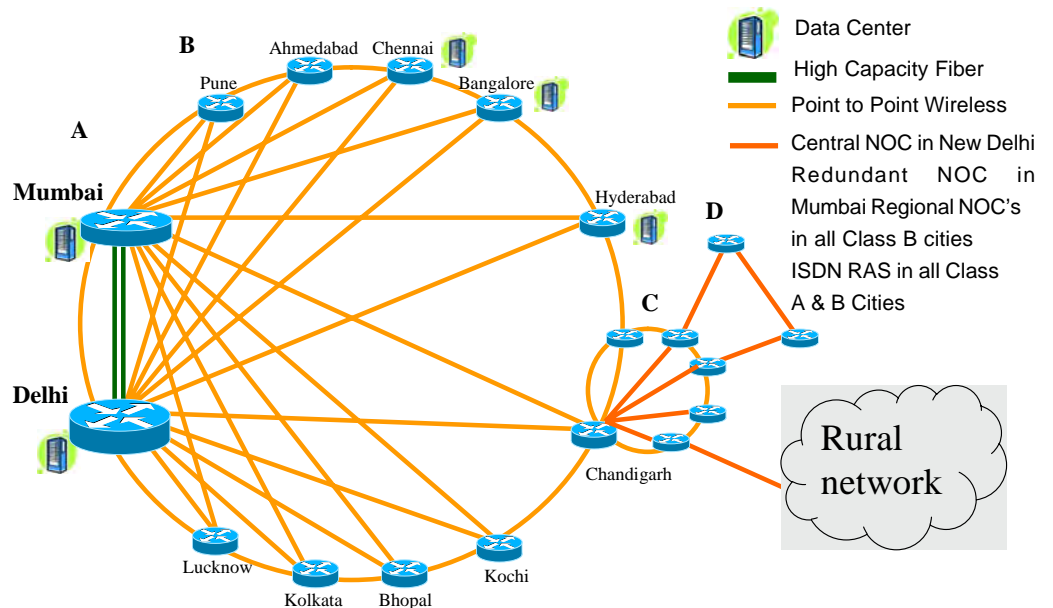
Data connectivity - the growth engine

Data connectivity is the growth engine for Tulip. Other service offerings increasingly play a complementary role in Tulip's ability to sustain and grow the data connectivity business. Data connectivity solutions include Tulip's primary IP/MPLS VPN services, corporate Internet access, IPLC/Global MPLS, and rural connectivity.

MPLS/VPN connectivity: Tulip offers MPLS VPN services in ~1,700 Indian cities and claims to have the most extensive network in India. The network is connected over a high-speed fiber backbone and offers multiple access technology options including wireless. While most of the intercity fiber bandwidth is leased, Tulip uses a mix of owned and leased fiber for intra-city connectivity. Tulip largely uses wireless as the last mile access with increasing focus on fiber based last mile for connects with higher bandwidth requirements.

TULIP TELECOM: NETWORK SCHEMATIC

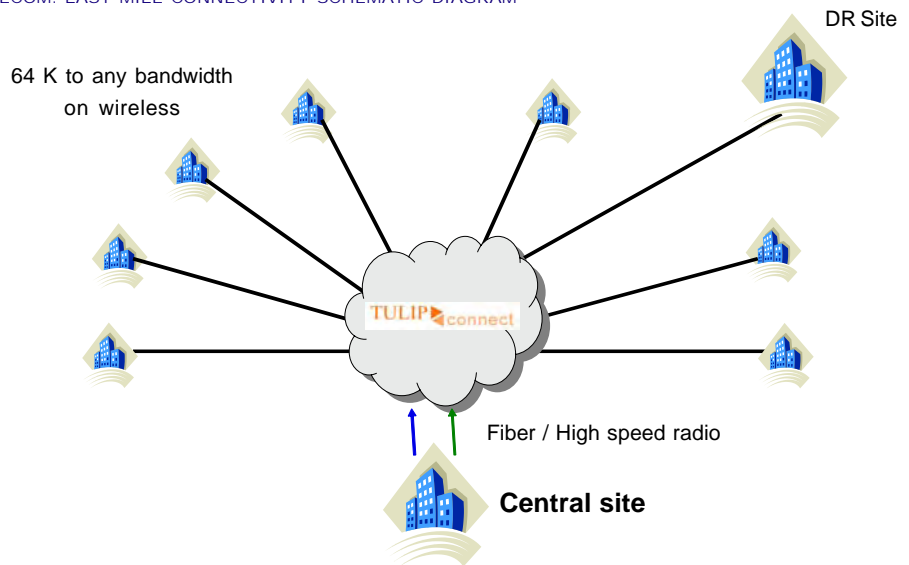
Tulip has an extensive pan-India network covering ~1,700 cities and towns



Source: Company/MOSL

TULIP TELECOM: LAST MILE CONNECTIVITY SCHEMATIC DIAGRAM

Tulip offers last mile on wireless as well as fiber



Source: Company/MOSL

Corporate Internet access: Tulip is a Class 'A' Internet service provider, offering Internet access to enterprises. Tulip offers 1:1 Internet access on wireless and on fiber optic last mile in large cities. It has a vast fiber network in major cities to provide last mile fiber connectivity. Customers in key business districts will be able to enjoy very high bandwidth using dedicated fiber connectivity.

IPLC/Global MPLS: Tulip offers international MPLS VPN connectivity through its strategic tie-ups with international service providers. Tulip can provide customers with high availability of WAN links from India to most international locations.

Rural connectivity: Tulip's extended network reach, supported by its wireless last mile, makes it a preferred vendor for rural connectivity requirements. Tulip is likely to be a major beneficiary of the increasing government focus on using IT infrastructure to enhance efficiency, which calls for connectivity in rural and semi-urban centers.

Network integration - legacy business

Network integration is legacy business for Tulip and accounts for ~12% of its revenue. Tulip is a leading provider of integrated solutions for the design, upgrade and expansion of business networks. The company has strategic partnerships with most leading OEMs and offers network integration services such as network design and consultancy, implementation and end-to-end management. Tulip's market share is down to ~6% in the network integration business because it has been selective in picking orders due to low margins.

INDIAN NETWORK INTEGRATION MARKET (RS B)

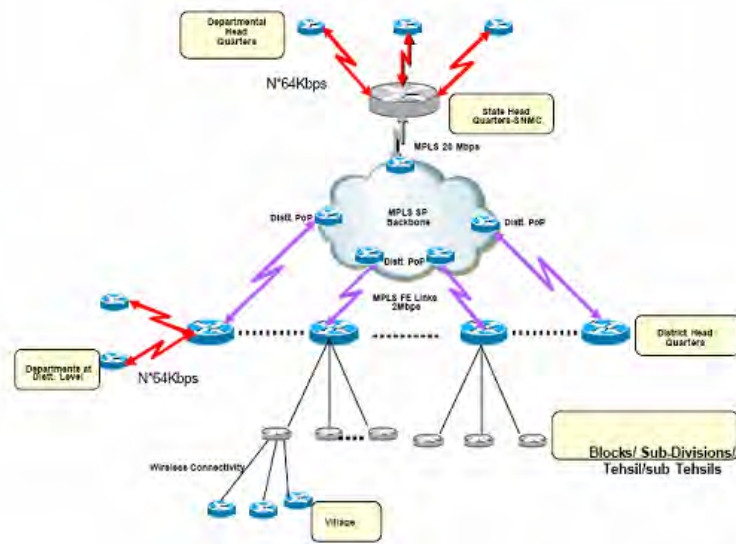
	FY08	FY09	YOY GROWTH (%)	MARKET SHARE (%)
Wipro Infotech	11	12	12	13
HCL Comnet	10	11	10	12
Datacraft	10	10	6	12
HCL Infosystems	7	9	27	9
Tulip Telecom	5	4	-21	6
Others	38	44	15	47
Total	81	90	11	100

Source: Company/MOSL

Tulip's market share in network integration business has declined to ~6% given limited focus on this segment

State-wide area networks (SWANs): SWAN projects require a vendor to design, deploy, operate, manage and maintain the network, connecting state headquarters, district headquarters, block/tehsil headquarters and respective horizontal offices. Tulip has undertaken SWAN projects for the states of Haryana, West Bengal, Assam and Madhya Pradesh. The network is operated on a build-own-operate-transfer (BOOT) model and payments are made by the government in 20 quarterly installments, after which the network will be handed over to the government. Profitability of the SWAN projects undertaken has been under pressure due to bureaucratic delays in audit and the handing-over process. While the company had initially bid for the projects expecting ~10% net margins, it now expects only to break even. However, Tulip believes the successful implementation of SWAN projects increases its prospects of getting the profitable data connectivity business from the government vertical. With a cumulative investment (as of 1HFY10) of Rs1.6b-1.7b, investment in SWAN projects has largely been completed.

TULIP TELECOM: NETWORK DIAGRAM OF HARYANA SWAN



Source: Company/MOSL

DETAILS OF TULIP'S SWAN PROJECTS

STATE	DATE AWARDED	SIZE (RS M)	PROGRESS
Haryana	2007	750	Billing started
West Bengal	September 2007	530	Completed, revenue booking from FY10 end
Assam	January 2008	577	Near completion
Madhya Pradesh	September 2008	950	Under implementation
Total		2,807	

Source: Company/MOSL

Managed services - complementing the connectivity business

Tulip's managed services complement its data connectivity business, in line with its strategy of pursuing a "one-stop-shop" model for enterprises. The company provides IT infrastructure services like monitoring and managing the network, desktops, servers and applications. Managed services cover the management of a client's network, servers, database and messaging services.

Tulip provides services involving server hosting, security, network device hosting, back up and storage requirements. Tulip has a data center in Delhi and two in Mumbai. More data centers are coming up in Bangalore, Hyderabad, Chennai, Pune and Kolkata.

SWAN projects undertaken have not been profitable for Tulip but are likely to be stepping stones to the big opportunity in the government vertical

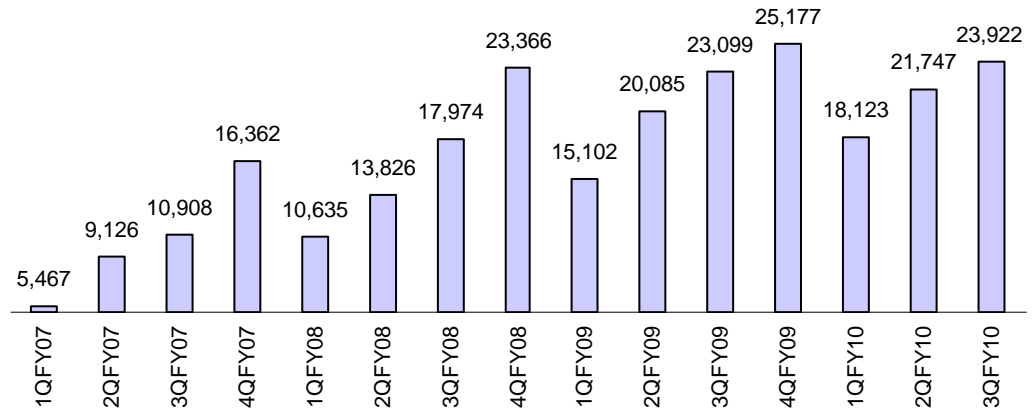
Two of the four SWAN projects have been completed, one is near completion and one is under implementation

Data connectivity: continued strong momentum

Connect base to grow at 19% CAGR over FY10-12: Tulip has been adding 20,000-25,000 connects per quarter driven by higher requirements from existing customers and the addition of new customers. Since FY06, Tulip's customer base has increased from 239 to ~1,600 and connects per customer have risen from ~40 to ~150.

TULIP TELECOM: NET CONNECT ADDITIONS SUSTAINED AT 20,000-25,000/QUARTER

Tulip has discontinued disclosing the connect base from 3QFY10

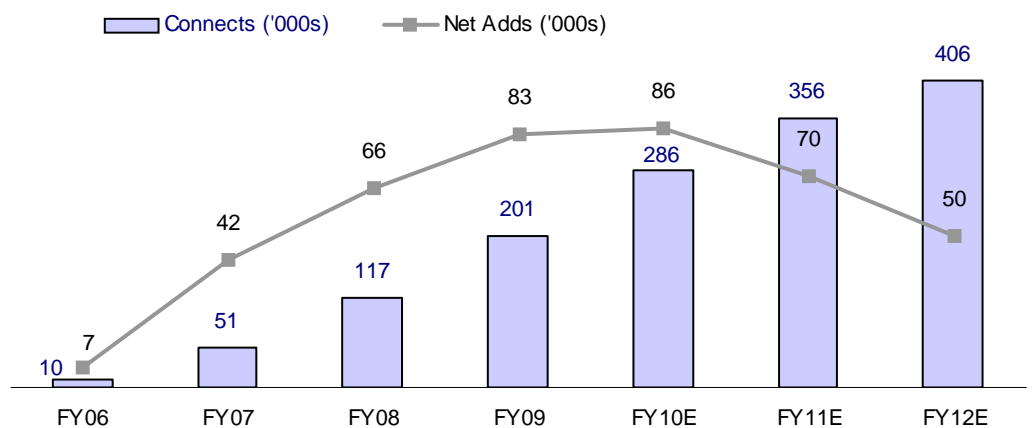


Source: Company/MOSL

While historical connect additions have been driven by wireless connectivity, Tulip's increasing focus on the high ARPU fiber based connects and already high wireless coverage is likely to result in lower net additions going forward. We factor-in the connect base to post 19% CAGR over FY10-12. In 2QFY10, Tulip had a connect base of ~240,500. The company stopped disclosing the connect base from 3QFY10 mainly for competitive reasons.

TULIP TELECOM: CONNECT ADDITIONS LIKELY TO DECLINE AS FOCUS SHIFTS TO FIBER

Connect additions likely to taper down going forward given increasing focus on fiber



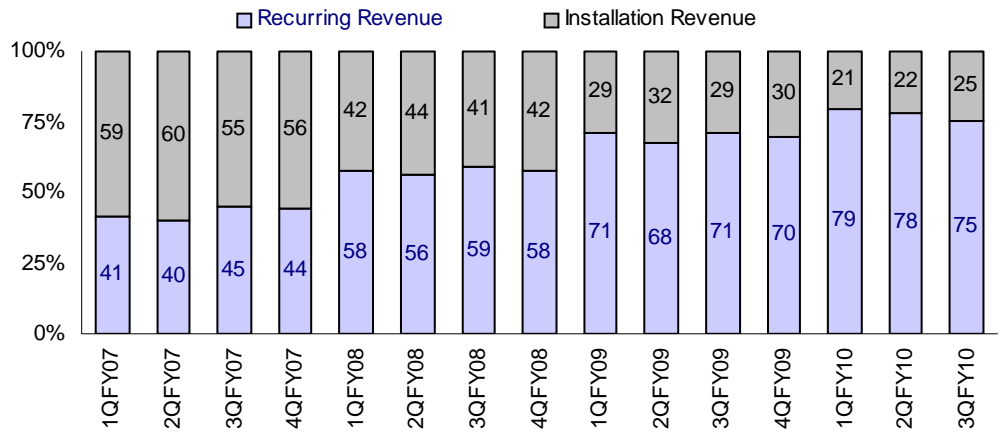
Source: Company/MOSL

Usage charges account for 75-80% of data connectivity revenue

Tulip's data connectivity revenue consists of two streams: installation charges from new additions and recurring usage charges from the overall connect base. Tulip books ~Rs42,000/connect as charges for installation of equipment. Recurring charges are billed according to clients' bandwidth requirements. The share of recurring charges has been steadily growing and accounts for 75-80% of Tulip's data connectivity revenue.

TULIP TELECOM: SHARE OF INSTALLATION REVENUE STEADILY DECLINING

The share of revenues is tilting towards recurring revenue



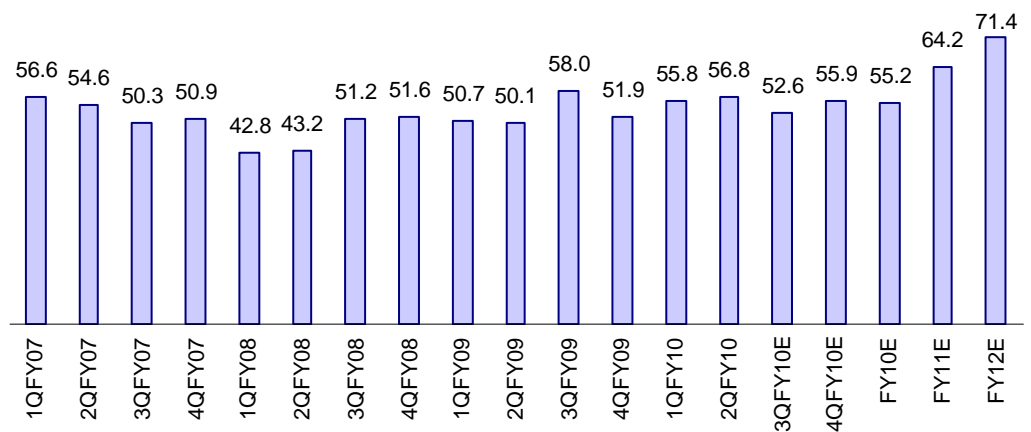
Source: Company/MOSL

Recurring ARPU largely stable

Tulip's recurring ARPU has been largely stable at 50,000-55,000 per connect over the past 14-15 quarters. The ARPU tends to go down in the seasonally weak first quarter due to lower usage and typically picks up during the second half of a fiscal year. Increasing migration of existing wireless ports and acquisition of new connects on fiber should increase the overall ARPU. The charges for a fiber link can be 5-10x that for the wireless connect due to higher bandwidth offered. We expect ARPU to increase by ~14% CAGR over FY10-12, driven by increasing fiber contributions. While 20% of Tulip's revenue now comes from fiber (which has higher ARPU), Tulip does not disclose connect base, preventing a meaningful analysis of the impact of increased fiber revenue on ARPU.

TULIP TELECOM: RECURRING ARPU AT RS50,000-55,000 A YEAR

Recurring ARPU to clock ~14% CAGR over FY10-12 driven by increasing contribution from fiber



Source: Company/MOSL

VPN charges are based on bandwidth requirements. Low bandwidth connects can be provided on Tulip's wireless network but higher bandwidth connectivity requires fiber access. The bandwidth is provisioned in multiples of 64Kbps (lowest denomination). Charges on a per-unit basis fall as the quantum of bandwidth required per port rises.

TULIP TELECOM: MPLS TARIFF PER VPN PORT (RS'000)

BANDWIDTH	RECURRING (ANNUAL)	INSTALLATION (ONE-TIME)
64Kbps	63	63
128Kbps	105	63
256Kbps	178	63
512Kbps	301	63
1Mbps	423	75
2Mbps	610	100
4Mbps	1,098	150
6Mbps	1,586	150
8Mbps	2,134	200
34Mbps	3,902	400
45Mbps	4,389	500
155Mbps	11,850	500

Source: Company/MOSL

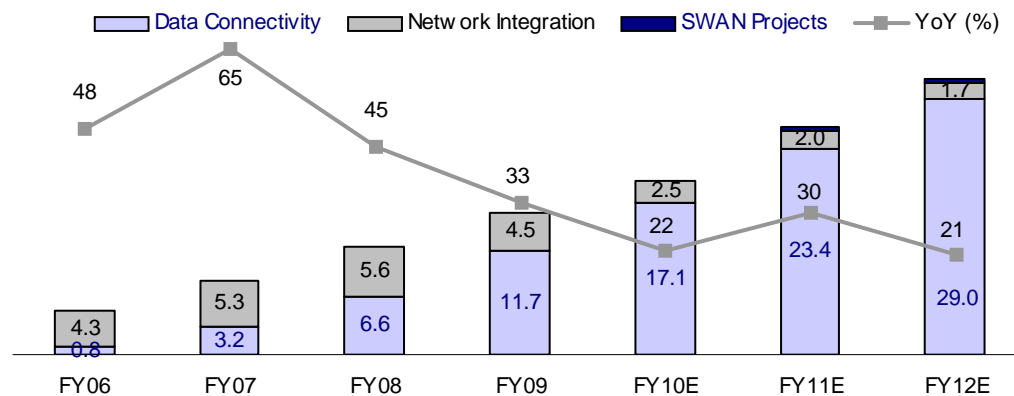
*Ceiling tariffs for MPLS have
been fixed by TRAI*

EBITDA traction to accelerate earnings; peak capex over

26% revenue CAGR over FY10-12 driven by the connectivity business: We expect revenue CAGR to be strong at ~26% over FY10-12 driven mainly by a 30% CAGR in the data connectivity business, offset by a decline in network integration revenue. Tulip's cautious and selective approach in the network integration business and focus on the NI business aligned to its connectivity segment has resulted in revenue declines. Going forward, we expect increasing contribution from SWAN (included in the NI segment by Tulip) as the revenue booking for SWAN projects kicks in (revenue from Haryana SWAN is flowing in at Rs35m/qtr). SWAN project revenues will increase to ~Rs150m/qtr once the four projects are up and running. We expect NI revenues to decline by ~43% in FY10, by ~20% in FY11, and by ~15% in FY12.

TULIP TELECOM: FY11 REVENUE GROWTH TO ACCELERATE AS NI'S NEGATIVE CONTRIBUTION FALLS

Significant shift in revenue mix towards the data connectivity segment

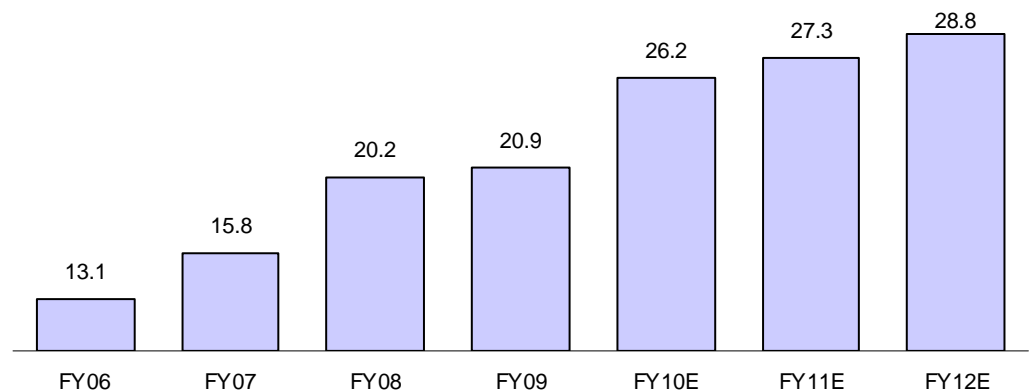


Source: Company/MOSL

EBITDA margins to improve to 28-29%: Tulip's EBITDA margins expanded from ~13% in FY06 to ~27% in 3QFY10, led mainly by an increasing share of data connectivity revenue, which is now up at ~90%. Increased fiber revenue and lower bandwidth costs are likely to support EBITDA margins, which are likely to settle at 28-29%.

TULIP TELECOM: MARGIN EXPANSION LIKELY TO CONTINUE (%)

Margin expansion has been primarily driven by the ramp-down of NI business

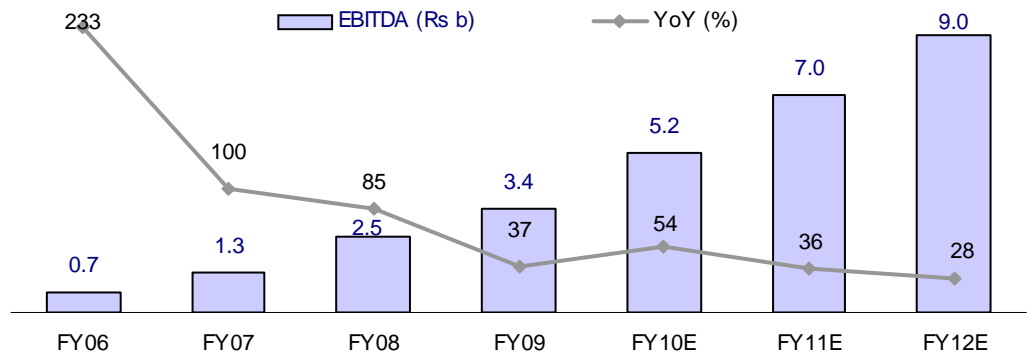


Source: Company/MOSL

We expect Tulip to post 32% EBITDA CAGR over FY10-12, supported by 26% revenue CAGR and margin expansion.

TULIP TELECOM: 32% EBITDA CAGR OVER FY10-12

We see significant EBITDA traction driven by market growth, potential market share gains, and margin expansion

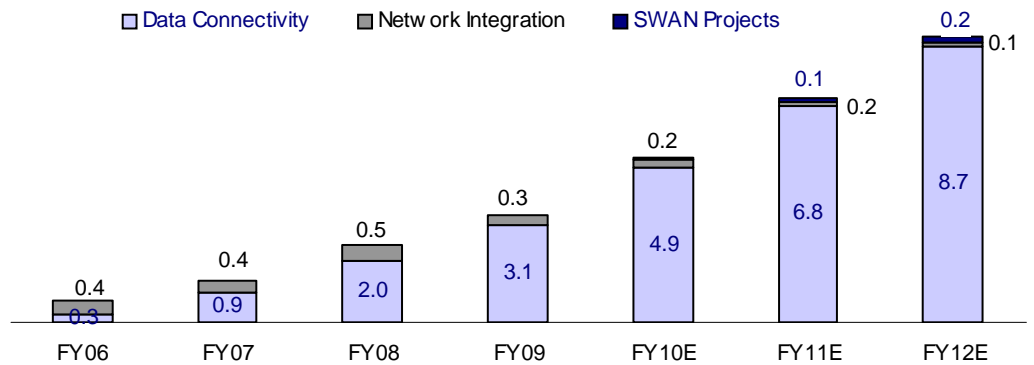


Source: Company/MOSL

Tulip does not report the profitability break-down of its different business segments. But we estimate the higher margin data connectivity segment contributes ~95% of Tulip's consolidated EBITDA.

TULIP TELECOM: ESTIMATED EBITDA BREAK-DOWN

We estimate contribution of the data connectivity segment at ~95% of reported EBITDA

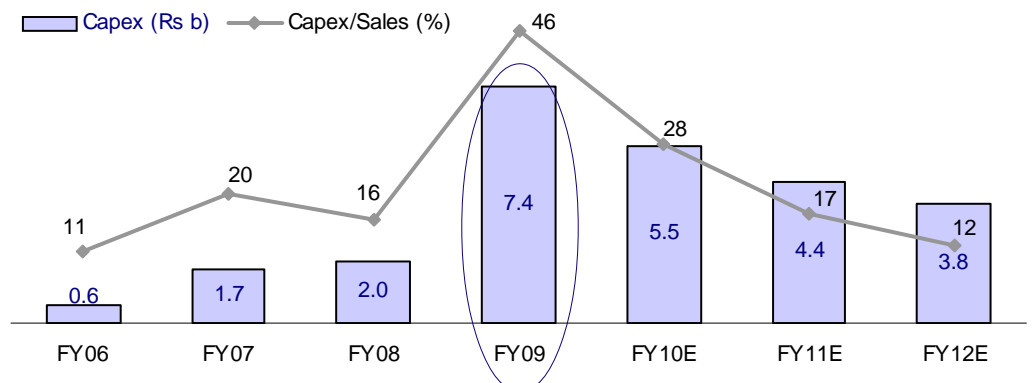


Source: Company/MOSL

Peak capex over; capex intensity to decline significantly: Tulip's capex rose 2.8x in FY09 to ~Rs7.4b as it upgraded its VPN network and invested in fiber layout, SWAN projects and data centers. FY09 was a year of peak capex with capex intensity of 46% (v/s 16-20% in FY07 and FY08), which is likely to fall to 28% in FY10 and 17% in FY11. However, higher traction in the fiber-based connectivity business might require increased investment.

TULIP TELECOM: CAPEX PAST ITS PEAK

Tulip's capex peaked in FY09

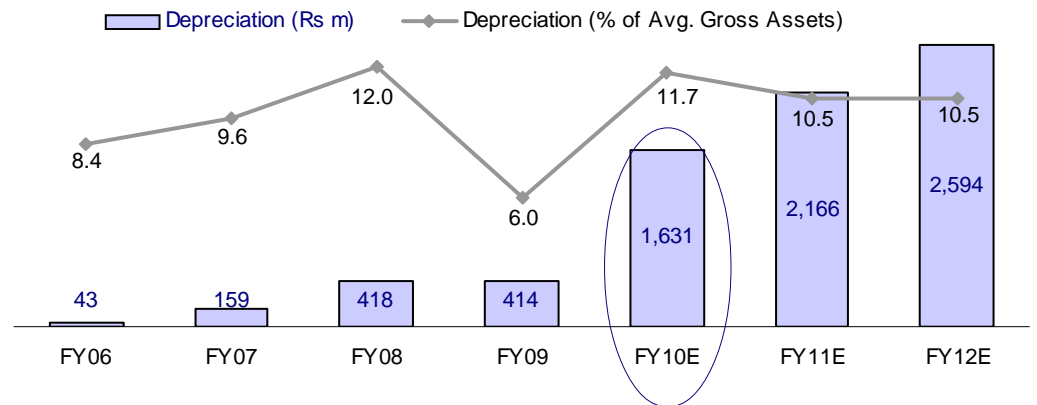


Source: Company/MOSL

Depreciation to jump >4x in FY10: Tulip's depreciation expenses will increase more than three-fold in FY10, driven by capitalization of significant capex incurred in FY09, which was commissioned at the end of FY09. Gross block increased to ~Rs17.2b in 3QFY10 v/s ~Rs9.4b at the end of FY09. Depreciation as a percentage of gross block (average) fell to ~6% in FY09 v/s ~12% in FY08 largely due to year-end commissioning of significant CWIP but would normalize at 10-10.5% going forward.

TULIP TELECOM: DEPRECIATION SET TO INCREASE

FY10 depreciation has jumped >4x due to capitalization of significant capex incurred in FY09

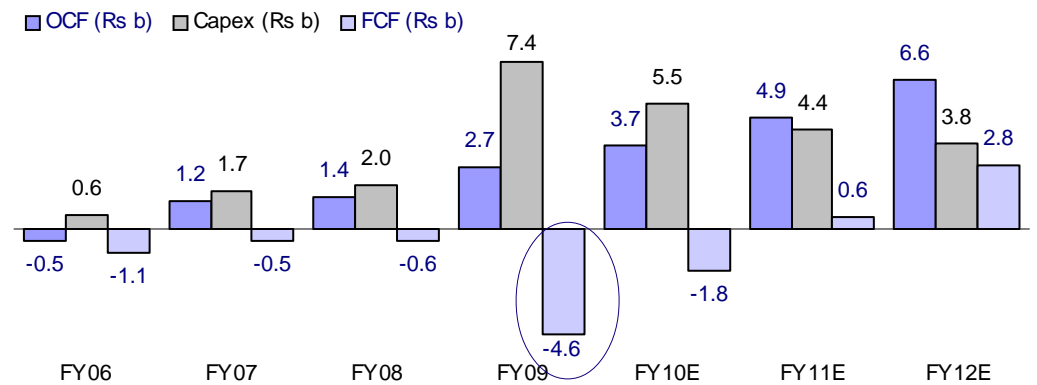


Source: Company/MOSL

FCF break-even expected in FY11: Increased capex resulted in a negative FCF of Rs4.6b in FY09 and is expected to result in a negative FCF of Rs1.8b in FY10. Tulip's internal accruals should broadly match capex requirements in FY11. With strong growth in operating profit and relatively lower capex, we estimate FCF of Rs2.8b in FY12.

TULIP TELECOM: FCF OF RS2.8B IN FY12 EXPECTED

We expect FCF break-even in FY11 and ~Rs2.8b FCF in FY12

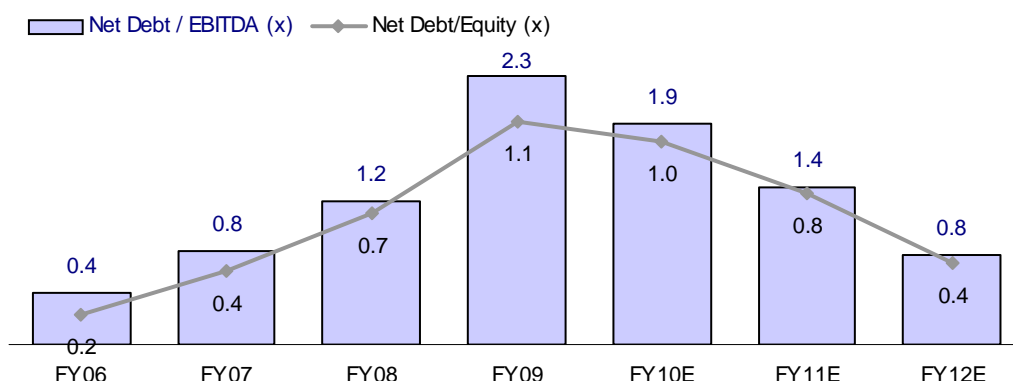


Source: Company/MOSL

Leverage to climb down: Tulip's leverage ratios are likely to have peaked in FY09 at 2.3x net debt/EBITDA and 1.1x net debt/equity. During August 2007, Tulip issued FCCB worth US\$150m to finance its capex in network, SWAN projects, data centers and to scout for acquisitions. The company repurchased FCCB of face value US\$52m in 1HFY10 to benefit from the low prevailing market prices of the instruments. Our net debt calculations include FCCB, though diluted EPS is based on potential shares after the possible FCCB conversion. We expect Tulip's leverage ratios to steadily climb down over FY09-12.

TULIP TELECOM: LEVERAGE RATIOS EXPECTED TO DECLINE

Tulip's leverage levels remain comfortable



Source: Company/MOSL

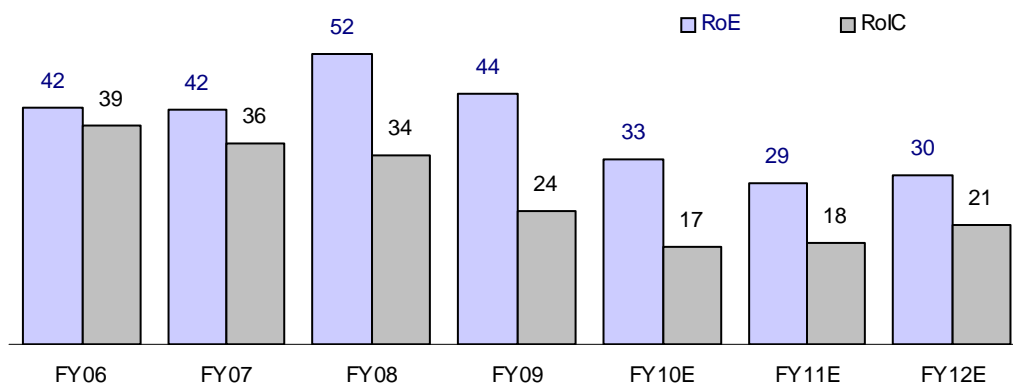
FCCB ISSUE DETAILS		FCCB BUYBACK (US\$ M)		PROPOSED UTILIZATION (US\$ M)	
Amount	US\$150m	Raised	150	SWAN	25
Raised in	Aug '07	Bought Back in 1QFY10	40	Acquisitions	60
Tenure	5 years	Bought Back in 2QFY10	12	N/W Expansion	40
Coupon (%)	0	FCCB Outstanding	98	Data Centers	25
YTM (%)	7.4			Total	150
Conversion Price (Rs)	1,137				
Redemption option	Post Aug'10				

Source: Company/MOSL

Return ratios to dilute, but stay healthy: Tulip's return ratios are likely to be diluted due to (1) reduced asset turns (a significant step-up in capex), and (2) increased tax rates as 80IA tax benefits would be partially withdrawn. However, we expect RoIC will stay healthy at 17-18%+ and expand to 20%+ in FY12.

TULIP TELECOM: RETURN RATIOS REMAIN HEALTHY

Return ratios have declined due to significant investments in the past two years but remain healthy



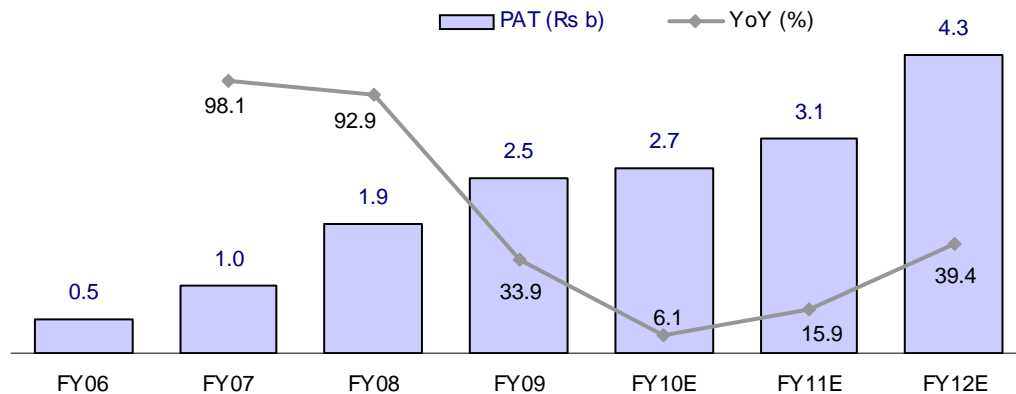
Source: Company/MOSL

Earnings growth to accelerate from 6% in FY10 to 27% CAGR over FY10-12: Despite an expected 54% jump in EBITDA, earnings growth in FY10 is likely to stay muted at ~6% due to 1) a significant jump in depreciation and finance expenses (impact of capitalization of significant capex in FY09), and 2) a higher tax rate. Tulip's effective tax rate will rise from ~12% in FY09 to 18.5% in FY10 and 25% thereafter. Increase in tax rate in FY10 is due to a higher MAT rate while the increase in FY11 would be driven by

a partial sunset of 80IA tax benefits for Tulip's data connectivity business. Under 80IA benefits for telecom companies, Tulip is 100% tax exempt for profits from the data connectivity segment for five years and 30% exempt for the next five years. Full tax exemption for Tulip will expire in FY10, after which the tax rate will increase to ~25% v/s ~19% in FY10. We expect 27% earnings CAGR over FY10-12.

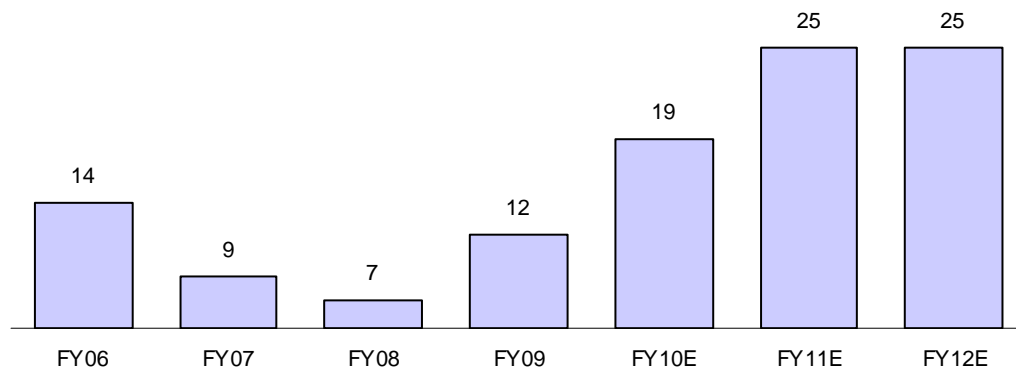
TULIP TELECOM: EARNINGS GROWTH TO ACCELERATE

PAT growth to accelerate from 6% in FY10 to 27% CAGR during FY10-12



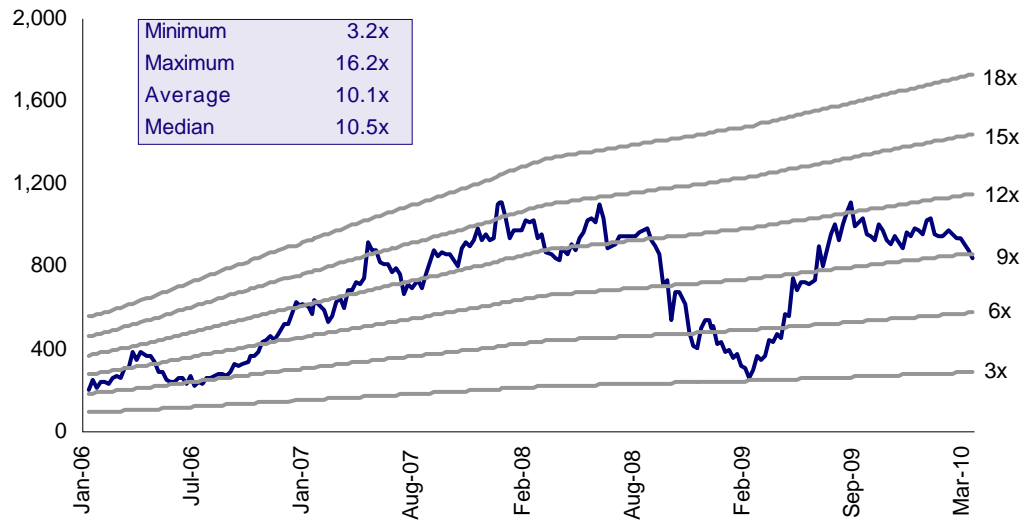
TULIP TELECOM: TAX RATE TO JUMP TO ~25% GOING FORWARD

Tax rate will continue to increase for Tulip



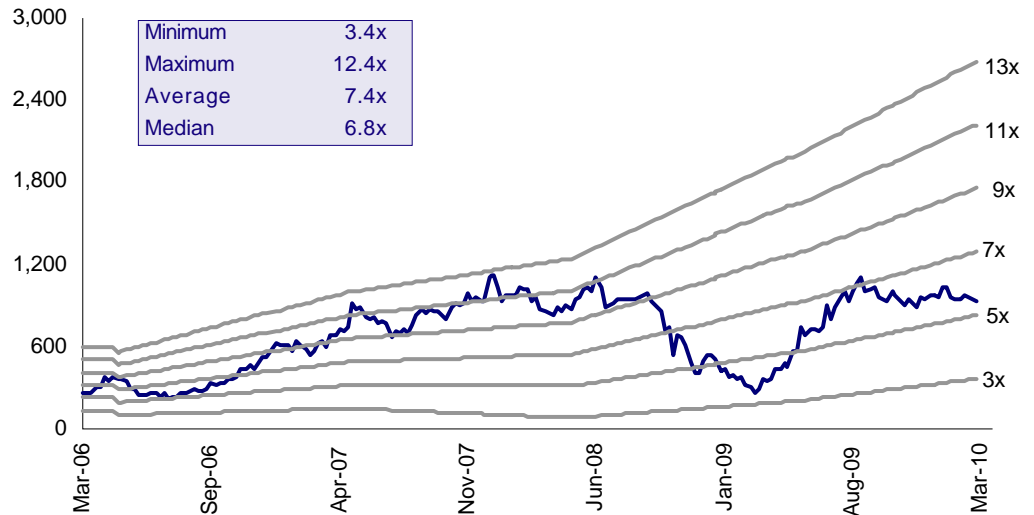
Source: Company/MOSL

TULIP TELECOM: P/E BAND



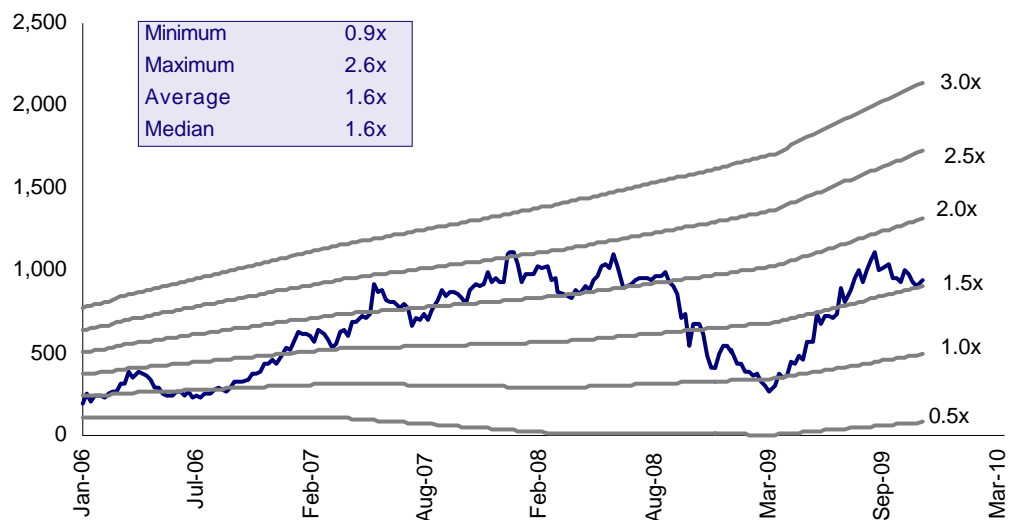
Tulip is trading at ~15% discount v/s its historical average P/E of ~10x

TULIP TELECOM: EV/EBITDA BAND



Tulip is trading at ~35% discount v/s its historical average EV/EBITDA of ~7.5x

TULIP TELECOM: EV/SALES BAND



Tulip is trading at ~20% discount v/s its historical average EV/Sales of ~1.6x

Source: MOSL

Appendix: Key milestones

- 1992 Tulip was formed on 19 May 1992 by the name of Tulip Software Private Limited.
- 1994 Becomes a leading software products company in the country.
- 1995 Becomes a leading hardware equipment company in the country.
- 1997 Becomes a deemed public company by virtue of Section 43A of the Companies Act, 1956.
- 1999 Bags major Wide Area Networking Orders.
- 2002 Changes its name to Tulip IT Services Limited.
- 2003 Changes its line of business and starts specializing in Wide Area Networking.
- 2004 Launches Rural Connect under “Akshaya Project” at Mallapuram, Kerala.
- 2005
 - Bags major orders for VPN connectivity for TulipConnect .
 - Tulip goes public through IPO raising Rs108crore in December 2005.
- 2006
 - Gets listed at BSE & NSE with its share price touching all time high of Rs405 in April 2006.
 - Rolls out MPLS network in over 500 cities.
- 2007
 - Bags first order for State Wide Area Network (SWAN) project of Haryana.
 - Extended its MPLS/VPN network in over 800 cities.
- 2008
 - Wins the State Wide Area Network (SWAN) projects of West Bengal and Assam.
 - Successfully places maiden FCCB issue of the company for US\$150m.
 - Extended its MPLS/VPN network in over 1,200 cities.
 - First Tier III Data Center of the company started operations in New Delhi.
- 2009
 - Data network reaches over 1,415 locations in India.
 - National presence with over 2,400 employees and over 1,350 customers across India.
 - State Wide Area Network (SWAN) project in West Bengal close to completion. SWANs in Assam and Madhya Pradesh under implementation.
 - In the process of completing its fourth Data Center in Bangalore. The other three data centers are in New Delhi, Mumbai and Navi Mumbai.
 - Awarded ISO 27001 and ISO 20000:1 certifications for its Data Centers and Network Operations Centers.
 - The company is in the final stages of completion of its Fiber Network rollout in Mumbai, Delhi, and 10 other major cities and is currently in the process of stabilizing fiber network operations by having complete ring networks in place.

Financials and valuation

INCOME STATEMENT

(RS MILLION)

Y/E MARCH	2007	2008	2009	2010E	2011E	2012E	
<i>26% revenue CAGR over FY10-12</i>	Revenues	8,408	12,164	16,144	19,762	25,777	31,284
	Change (%)	65.4	44.7	32.7	22.4	30.4	21.4
	Total Expenses	7,080	9,708	12,777	14,594	18,729	22,287
<i>EBITDA margins to improve to 28-29%</i>	EBITDA	1,328	2,456	3,367	5,169	7,048	8,997
	% of Gross Sales	15.8	20.2	20.9	26.2	27.3	28.8
	Change (%)	99.9	85.0	37.1	53.5	36.4	27.7
	Deprn. & Amortization	159	418	414	1,631	2,166	2,594
	EBIT	1,169	2,038	2,953	3,538	4,881	6,403
	Net Interest	131	258	462	726	919	903
	PBT	1,062	2,011	2,835	3,262	4,108	5,728
	Tax	93	139	330	604	1,027	1,432
	Rate (%)	8.7	6.9	11.6	18.5	25.0	25.0
<i>PAT growth to accelerate from 6% in FY10 to 27% CAGR during FY10-12</i>	Adjusted PAT	969	1,871	2,505	2,659	3,081	4,296
	Change (%)	97.9	93.0	33.9	6.1	15.9	39.4
	PAT after EO	969	1,871	2,505	2,659	3,081	4,296

BALANCE SHEET

(RS MILLION)

Y/E MARCH	2007	2008	2009	2010E	2011E	2012E	
	Share Capital	290	290	290	290	290	
	Additional Paid up Capital	978	831	831	831	831	
	Reserves	1,527	3,333	5,694	8,217	11,144	15,225
	Net Worth	2,795	4,454	6,815	9,338	12,266	16,347
	Loans	1,416	8,938	11,224	11,229	12,525	10,913
	Other Liabilities	8	9	9	9	9	9
	Capital Employed	4,219	13,401	18,049	20,577	24,800	27,269
	Gross Block	2,727	5,844	13,209	18,742	23,325	27,079
<i>Depreciation to jump >4x in FY10</i>	Less : Depreciation	229	647	1,061	2,692	4,858	7,452
	Net Block	2,498	5,197	12,148	16,051	18,466	19,627
	Curr. Assets	2,333	8,933	8,722	7,985	11,034	13,453
	Inventories	205	702	916	1,122	1,463	1,776
	Debtors	1,398	2,006	3,242	3,969	5,177	6,283
	Cash & Bank Balance	365	5,938	3,470	1,500	3,000	4,000
	Other Current Assets	365	287	1,094	1,394	1,394	1,394
	Curr. Liab. & Prov.	612	729	2,822	3,458	4,700	5,810
	Net Curr. Assets	1,721	8,204	5,901	4,526	6,334	7,642
	Appl. of Funds	4,219	13,401	18,049	20,577	24,800	27,269

E: MOSL Estimates

Financials and valuation

RATIOS

Y/E MARCH	2007	2008	2009	2010E	2011E	2012E
Basic (Rs)						
EPS	33.4	54.5	73.7	82.7	95.8	133.6
Cash EPS	38.9	66.6	85.9	133.4	163.2	214.3
Book Value	96.4	129.6	200.5	290.5	381.5	508.5
DPS	2.3	2.0	4.0	4.2	4.8	6.7
Payout %(Incl.Div.Taxes)	7.0	3.6	5.4	5.1	5.0	5.0

Valuation (x)

*Valuations attractive
at 2.7x FY12E EV/EBITDA
and 6.2x P/E*

P/E	24.8	15.2	11.2	10.0	8.6	6.2
Cash P/E	21.3	12.4	9.6	6.2	5.1	3.9
EV/EBITDA	18.9	11.0	9.4	6.5	4.8	2.7
EV/Sales	3.0	2.2	2.0	1.7	1.3	0.8
Price/Book Value	8.6	6.4	4.1	2.9	2.2	1.6
Dividend Yield (%)	0.3	0.2	0.5	0.5	0.6	0.8

*Return ratios to dilute,
but stay healthy*

Profitability Ratios (%)

RoE	41.6	51.6	44.5	32.9	28.5	30.0
RoCE	30.8	23.1	17.8	16.2	16.2	18.7

Turnover Ratios

Debtors (Days)	61	60	73	73	73	73
Asset Turnover (x)	2.81	2.15	1.46	1.17	1.26	1.39

Leverage to climb down

Leverage Ratio

Debt/Equity Ratio (x)	0.5	2.0	1.6	1.2	1.0	0.7
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CASH FLOW STATEMENT

(RS MILLION)

Y/E MARCH	2007	2008	2009	2010E	2011E	2012E
Op.Profit/(Loss) bef Tax	1,328	2,456	3,367	5,169	7,048	8,997
Other Income	24	231	344	451	146	228
Interest Paid	-131	-258	-462	-726	-919	-903
Direct Taxes Paid	-87	-138	-330	-604	-1,027	-1,432
(Inc)/Dec in Wkg. Cap.	80	-907	-172	-596	-308	-308
CF from Op. Activity	1,214	1,383	2,747	3,694	4,940	6,581

*Peak capex over; capex
intensity to decline
significantly*

(inc)/Dec in FA + CWIP	-1,929	-3,117	-7,365	-5,533	-4,582	-3,754
(Pur)/Sale of Investments	20	0	0	0	0	0
CF from Inv. Activity	-1,909	-3,118	-7,365	-5,533	-4,582	-3,754

Issue of Shares	0	-147	0	0	0	0
Inc/(Dec) in Debt	660	7,522	2,286	5	1,296	-1,612
Other Financing Activities	-68	-68	-137	-138	-156	-217
CF from Fin. Activity	592	7,308	2,151	-131	1,142	-1,827

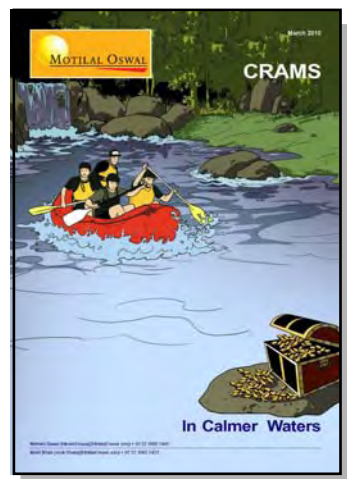
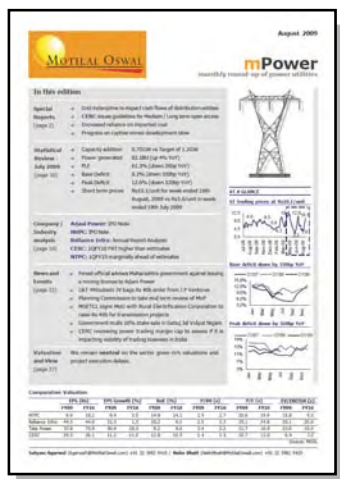
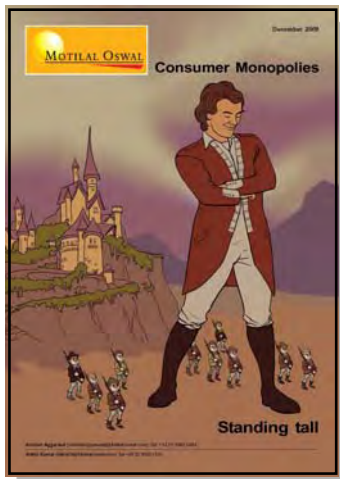
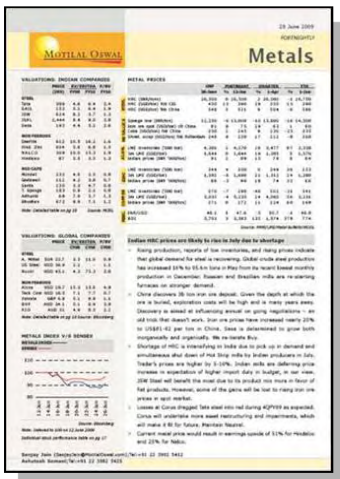
Inc/(Dec) in Cash	-103	5,573	-2,468	-1,970	1,500	1,000
Add: Opening Balance	467	365	5,938	3,470	1,500	3,000
Closing Balance	365	5,938	3,470	1,500	3,000	4,000

E: MOSL Estimates

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4. Investment Banking relationship with company covered

Tulip Telecom

- No
 No
 No
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