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{K2Splitter} Tulip Telecom is one of the country's leading enterprise communication service providers. Established in 1992 as a software reseller, the company has ventured into various IT verticals over the years. It has also garnered significant market share in the areas of enterprise data connectivity, managed services, data centres and system integration. Currently, Tulip is one of the country's largest MPLS virtual private network providers using wireless for last mile connectivity.

The company's milestone projects include district- and state-wide area networks (SWAN) for e-enabling education and health care centres, and facilitating internet telephony, rural online banking and e-governance. Tulip has partnered with the Kerala government for the Akshaya project to deploy a district-wide network in Malappuram and has assisted the governments of Haryana, Assam and West Bengal in their SWAN initiatives.

In 2007, Tulip entered the data centre space. It has established these facilities in Delhi, Mumbai, Navi Mumbai and Bengaluru. In early 2012, the company launched the Tulip Data City (TDC) in Bengaluru. TDC, which has a built-up area of 900,000 square feet, is Asia's largest and the world's third largest data centre.

The company has been able to achieve its target of providing a common platform for storage capabilities, cloud computing and managed applications, but has been struggling on the financial front.

Faced with huge debt repayments, the company failed to meet the outstanding obligation of \$140 million on its existing foreign currency convertible bonds (FCCBs), following which Fitch Ratings downgraded its long-term debt ratings to default. These bonds were issued by Tulip in 2007 and were due for redemption in August 2012. The company failed to repay the bondholders even by the extended deadline of September 2012.

Selling its stake in Qualcomm's Indian venture has had little impact on reducing Tulip's overall debt. In May 2012, the company divested its 13 per cent stake in the venture to Bharti Airtel for about \$40 million. While the proceeds from the stake sale were expected to strengthen the

company's balance sheet, the cash-strapped company has used these funds for managing the working capital. Also, the weak macroeconomic scenario has resulted in late payments by customers, which has stretched the company's working capital cycles.

Further, Tulip's poor financial performance during the quarter ended September 2012 and the recent market speculation about its inability to pay its employees on time have dented its image. The company registered an alarming 98.4 per cent decline in its net profit from Rs 870.65 million during the quarter ended September 2011 to Rs 13.65 million for the corresponding quarter in 2012. The net sales declined from Rs 7.03 billion to Rs 6.39 billion during the same period. Earnings per share also registered a sharp decline from Rs 5.36 to just Re 0.08 during this period. As on September 30, 2012, the company's total consolidated debt stood at Rs 30.32 billion. With regard to FCCB repayment, Tulip is facing a funding shortfall of about \$20 million. The remaining amount will be raised through internal accruals and issuance of new FCCBs.

Taking cognisance of its strained finances, Tulip is making efforts to put its house in order. It has received in-principle approval for arranging these finances and is expected to repay its bondholders by end-December 2012. Further, the company has prepared a turnaround plan involving organisational restructuring, business realignment and financial consolidation. It expects significant business inflow from TDC operations. The company has already sold/leased out 17 per cent of the space at the TDC and is planning to sell/lease out 40 per cent of the space in the next three years. Tulip expects to earn revenues of Rs 10 billion from the TDC by then. The TDC's current order book is worth Rs 6 billion with contracts from IBM, NTT and HP.

Orders for government projects are also contributing to the company's business. Tulip has secured a Rs 872.3 million, three-year project from the Unique Identification Authority of India (UIDAI), under which it will host the UIDAI servers for the Adhaar project. It has received a two-year contract from Electronics Corporation of Tamil Nadu Limited for providing end-to-end connectivity for horizontal offices across the state. Under the Rs 740 million project, the company will provide network infrastructure and seamless data, voice, internet, videoconferencing and video streaming services to 2,000 government offices. The firm has also received a managed services order from the Uttar Pradesh government under the National Informatics Centre rate contract.

It has partnered with TaraSpan and Mitel Networks to launch cloud-based managed unified communication services covering over 2,000 cities in India. Under the partnership, Tulip will leverage Mitel's cloud-based unified communication platform and TaraSpan's operational expertise to develop future-ready products for the Indian enterprise market. Tulip has also won contracts in the cloud space across the health care and telecom verticals.

Going forward, improving its financial position will be the company's top priority to regain investor confidence and strengthen its focus across business verticals.

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