April 07, 2022

Tejas Networks Limited: Ratings upgraded; removed from rating watch with positive implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term-Fund Based	90.0	68.0	[ICRA]A+(Stable)/[ICRA]A1+ upgraded from [ICRA]A-%/[ICRA]A2+% and removed from Rating Watch
Long Term / Short Term-Non Fund	193.50	140.0	
Long Term / Short Term-Unallocated	276.36	351.86	
Total	**559.86**	**559.86**	

**Instrument details are provided in Annexure-1; % - Rating on watch with positive implications*

Rationale

The rating upgrade factors in the strategic investment by Panatone Finvest Limited (PFL) under a definitive agreement with Tejas Networks Limited (TNL) in July 2021 for a controlling stake in TNL. PFL, as of Q4 FY2022, had acquired a 37.7% stake in TNL, leading to an inflow of Rs. 837.5 crore (including Rs. 337.5 crore received against share warrants) and PFL will increase its shareholding in TNL as per the definitive agreement. The rating upgrade also takes into account the financial flexibility emanating from the strong parentage of PFL, which is a subsidiary of Tata Sons Private Limited (TSPL) and an investment holding company of the Tata Group's investment in telecommunication.

Further, the ratings, draw comfort from TNL's healthy order book, strong track record in the industry and its long-term relationship with some large clients, which has helped it to maintain a healthy market share in the optical networking space in India. TNL's financial risk profile is marked by strong capital structure and debt protection metrics and strong liquidity position with nil debt and cash and liquid investments of ~ Rs. 1164.5 crore as on December 31, 2021. The Atmanirbhar Bharat Abhiyan of the Government of India (GoI), which is aimed at limiting import dependence and increasing demand for indigenous products, also provides better growth opportunities for the company. Further, TNL Production Linked Incentive (PLI) scheme application for telecom manufacturing has been approved by Department of Telecom, Government of India.

The ratings, however, are constrained by decline in revenue and profitability in past two years on account of a significant reduction in revenue, primarily from the government sector. The revenue continues to be significantly lower than the FY2019 levels, though it increased in FY2021 and 9M FY2022 compared to FY2020. Further, in 9M FY2022 the revenue was impacted due to challenging supply issues with respect to global semiconductor component shortage. Consequently, TNL was not able to absorb the fixed cost base, as a result profit margin continue to be under pressure.

Further, TNL continues to face delays in realisation of receivables primarily from one PSU customer, which has put pressure on its cash flows. Additionally, the increased inventory holding due to deferment of certain shipments on account of critical component shortage has elongated the working capital cycle. However, going forward, the cash flow position is expected to improve supported by improved collections and liquidation of inventory. The ratings continue to be constrained by stiff competition from global players such as Nokia, Ciena, and Huawei, among others, who have a more diversified product offering and the advantage of economies of scale. TNL needs to continuously invest in research and development (R&D) to stay competitive in a technologically intensive industry. TNL's long-term revenue prospects will be linked to the capital expenditure cycles of its customer base.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that TNL will continue to benefit from its extensive track record in the industry, financial flexibility as part of Tata Group along with its strong capital structure and liquidity profile. The company's ability to generate improved revenue and profitability through sustained growth in business from India Private and International segments while improving its overall collection cycle period, will remain key rating sensitivities.

Key rating drivers and their description

Credit strengths

Financial flexibility arising from the strong parentage of Tata Group; strategic importance in telecommunication business – TNL enjoys considerable financial flexibility for being a part of the Tata group. It has a strong promoter profile as PFL is a subsidiary of Tata Sons Private Limited (TSPL) and the investment holding company of the Tata Group's investment in telecommunication. PFL, as of Q4 FY2022, acquired 37.7% stake in TNL, leading to an inflow of Rs. 837.5 crore (including Rs. 337.5 crore received against share warrants) and PFL will increase its shareholding in TNL as per the definitive agreement

Technically qualified management and established relationship with customers – TNL has a technically qualified management team and a diversified product offering, as evident from its strong intellectual property portfolio and healthy market share in the optical networking space in India. Also, its long-term relationship with some large clients enables it to generate repeat business, thus supporting the revenue profile.

Robust liquidity profile – Notwithstanding the weakening revenue and profitability in FY2021 and 9M FY2022 compared to FY2019, the company's has liquidity profile remained strong, reflected in Rs. 1,164 crore of cash and liquid investments as on December 31, 2021 which increased from Rs. 347 crore as on March 31, 2021 following the Rs. 837.5 crore investment from PFL. Further, going forward, TNL will use the proceeds for organic and inorganic growth. However, the liquidity profile is likely to continue to be strong supported by recovery of the overdue receivables, liquidation of its current inventory and likely investment from PFL to acquire a controlling stake in TNL. The strong liquidity provides TNL the ability to compete with global peers who are much larger, besides providing flexibility to expand its market presence.

Strong capital structure- Despite its high working capital intensity, TNL continues to have nil bank debt as on December 31, 2021 against a networth of around Rs 1973.8 crore (including Rs. 337.5 crore received against share warrants). The current debt-free status imparts a high degree of financial flexibility to the company.

Credit challenges

Decline in revenue and profitability - The company's operating income and operating profitability continues to be significantly lower in FY2021 and 9M FY2022 vis-à-vis the highs of FY2019 due to a steep fall in revenue, primarily from the government sector. Further, in 9M FY2022, the revenue was impacted by challenging supply issues with respect to the global semiconductor component shortage. Consequently, TNL was not able to absorb the fixed cost base, as a result profit margin continue to be stressed. The order book of Rs. 986 crore as on December 31, 2021 provides near term revenue visibility.

High working capital intensity – TNL's financial profile has historically been characterised by high inventory holding and high collection days. In FY2020, the company's working capital cycle was impacted on account of delays in the realisation of receivables from BSNL for the orders executed in FY2019 for the Bharatnet project. TNL continues to face delays in the realisation of receivables primarily from one PSU customer, which has put pressure on its cash flows and the high provision for expected credit loss in 9M FY2022. However, on an absolute level the receivables have reduced to Rs. 358 crore as on December 31, 2021 from to Rs 414 crore as on March 31, 2021 and Rs. 456 crore as on March 31, 2020. Additionally, the increased inventory holding in Q3FY2022 due to deferment of certain shipments on account of critical component shortage, has further elongated the working capital cycle.

Stiff competition from globally reputed players – The company is exposed to stiff competition from other global players such as Nokia, Huawei, and Ciena, among others, who have a long-standing presence and a more diversified product portfolio. TNL needs to continuously invest in R&D to stay competitive in a technologically intensive industry.

Liquidity position: Strong

The company's liquidity profile continues to be strong, aided by unencumbered cash and liquid investments of around Rs 1,164 crore as on March 31, 2021 and availability of sanctioned undrawn fund-based working capital limits from banks. As on December 31, 2021, the company had nil debt on its books. Going forward, TNL will utilise the proceeds from PFL investment towards organic and inorganic growth. However, the liquidity profile is likely to continue to be strong supported by recovery of the overdue receivables, liquidation of its current inventory and likely investment from PFL to acquire a controlling stake in TNL.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a demonstration of stronger linkages with the parent group than currently envisaged. Further, ICRA could upgrade TNL's ratings if it demonstrates a strong and sustained growth in revenue and profitability along with better working capital management, resulting in an improvement in the financial risk profile.

Negative factors – Negative pressure on TNL's rating could arise if volatility in revenue and profitability adversely impacts the financial risk profile, or a stretch in the working capital cycle, weakens the liquidity profile. Also, negative pressure on TNL's ratings could arise in case of sizeable debt-funded acquisitions, which could significantly impact the financial profile and the liquidity position. Further, any weakening of support or linkages with the parent can also result in a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group Support	Parent Company: Panatone Finvest Limited (PFL; 99.99% stake in PFL held by TSPL). ICRA expects PFL to be willing to extend financial support to TNL, should there be a need, given its strategic importance to the Tata Group, and out of its need to protect its reputation.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the rated entity.

About the company

Incorporated in 2000, TNL is a broadband, optical and wireless networking company, with a focus on technology, innovation and R&D. TNL carrier-class products are used by telecom service providers, utilities, government, and defence networks in 75+ countries. TNL has an extensive portfolio of telecom products for building end-to-end telecom networks. The company successfully completed its IPO in 2017 and is currently a part of Panatone Finvest Limited (a subsidiary of Tata Sons Private Limited).

Key financial indicators

TNL Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	396.5	528.0	427.7
PAT (Rs. crore)	-237.1	37.5	-13.1
OPBDIT/OI (%)	-2.9%	10.7%	2.6%
PAT/OI (%)	-59.8%	7.1%	-3.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1	0.1
Total Debt/OPBDIT (times)	-2.4	0.4	1.4
Interest Coverage (times)	-1.5	15.2	3.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional*

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Apr 7, 2022	Aug 9, 2021	June 22, 2020	Nov 22, 2019	May 24, 2019
1	Fund based	Long-term and short term	68.0	--	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A- %/ [ICRA]A2+%	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1
2	Non-Fund Based	Long-term and short term	140.0	113.3	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A- %/ [ICRA]A2+%	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1
3	Unallocated	Long-term and short term	351.86	--	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A- %/ [ICRA]A2+%	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1

% - Rating on watch with positive implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Non Fund-Based Facilities	Very Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	68.0	[ICRA]A+ (Stable)/ [ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	140.0	
NA	Unallocated Limits	NA	NA	NA	351.86	

Source: *Company; Note : All fund based limits are one way fungible to non-fund based limit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tejas Communication Pte. Limited	100.00%	Full Consolidation
Tejas Communications (Nigeria) Limited	100.00%	Full Consolidation

Source: *TNL annual report 2021; Tejas Communications (Nigeria) Limited (wholly owned subsidiary of Tejas Communication Pte. Limited and stepdown subsidiary of Tejas Networks Limited)*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
Ankit.jain@icraindia.com

Sankalpa Mohapatra
+91 40 4067 6525
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches