Tejas Networks Limited

May 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based limits	339.75	251.75	Ratings reaffirmed at [ICRA]A / [ICRA]A1; outlook revised from Stable to Positive
Non-fund based	156.20	155.50	
Unallocated	63.91	152.61	
Total	**559.86**	**559.86**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long -term rating for Rs 251.75 crore fund-based limits, Rs 155.50 crore non-fund-based limits and Rs 152.61 crore unallocated limits of Tejas Networks Limited ('TNL' / 'Tejas' / 'the company') at [ICRA]A (pronounced ICRA A). ICRA has also reaffirmed the short-term rating for Rs 251.75 crore fund-based limits, Rs 155.50 crore non-fund-based limits and Rs 152.61 crore unallocated limits of the company at [ICRA]A1 (pronounced ICRA A one). The outlook on the long-term rating has been revised from Stable to Positive.

Rationale

The change in outlook of the long-term rating reflects the favourable demand prospects in the near term, which is supported by strong order book, expected growth in optical fibre network deployment by domestic telecom operators and increased sales presence in various overseas markets. TNL's financial risk profile is marked by strong capital structure and debt protection metrics, following prepayment of its entire working capital borrowings through the proceeds from the initial public offering (IPO) of the company's shares in June 2017. Furthermore, improvement in gross margins and reduction in working capital cycle has generated healthy free cash flows in FY2018, resulting in robust liquidity profile, with cash and liquid investments of Rs 512.7 crore as on March 2018. The rating continues to draw comfort from the technically competent management, strong product profile and reasonably diversified geographic reach of the company.

The ratings, however, are constrained by the vulnerability of TNL's revenue and margin profile to fluctuations owing to lumpiness in order inflows; any reduction in turnover can impact profitability metrics due to fixed cost structure as seen in Q4 FY2018. The rating is also constrained by high customer concentration in the company's revenue profile, with top two customers accounting for 57% and high dependence on government sector orders. The ratings also take into account the stiff competition faced by TNL from global players like Nokia, Ciena, Huawei, etc, who have more diversified product offerings. TNL needs to continuously invest in research and development (R&D) to stay competitive in a technologically intensive industry. Notwithstanding the current order book and near-term revenue visibility, TNL's long-term revenue prospects will be linked to the capital expenditure cycles of its customer base. The ratings also take into account the high working capital intensity in the business, which can increase funding requirements going forward.

Going forward, TNL's ability to demonstrate healthy revenue growth while maintaining strong profitability metrics and extent of investing cash outflows would be the key rating sensitivities.

Outlook: Positive

ICRA believes Tejas will favourably benefit from the extensive experience and technical competence of its management and its strong capital structure and liquidity profile, which can support the growth plans of the company. The rating may be upgraded if TNL demonstrates substantial growth in revenue and profitability, and better working capital management, while diversifying its customer base. The outlook may be revised to Stable if there is any volatility in order inflows adversely impacting the revenue profile, or stretch in the working capital cycle, weakens the liquidity profile.

Key rating drivers

Credit strengths

Significant improvement in capital structure and debt coverage metrics post the IPO – The company has successfully completed its IPO in June 2017 and raised equity of Rs 450.0 crore. The IPO proceeds were primarily utilized to prepay the working capital borrowings, and hence the total debt on the books of the company has reduced significantly, with the company being practically debt free as on date.

Strong liquidity profile – As on March 2018, the company's liquidity profile is very robust with TNL having Rs 512.7 crore of cash and liquid investments, which can be deployed for future growth of the company. The liquidity profile has been aided by healthy free cash flow generation in FY2018, on the back of improvement in gross margins and reduction in working capital cycle.

Favourable demand prospects in near term – TNL's demand prospects in near term are aided by expected growth in optical fibre network deployment by domestic telecom and broadband service providers, government sector investments in fibre optic backbone and export opportunities in markets like South East Asia, Africa and North America.

Technically qualified management and established relationship with customers – TNL has a technically qualified management team, and a fairly diversified product offering in the optical networking space. Also, its long-term relationship with some large clients enables it to generate repeat business from those clients, thus supporting the revenue profile.

Credit challenges

Volatility in revenues due to lumpy nature of order inflows – Due to the lumpy nature of the business and volatility in order inflows, TNL' revenues in a particular quarter or a particular year can witness some volatility, as witnessed during Q4 FY2018. TNL's long-term revenue prospects will be linked to the capital expenditure cycles of its customer base.

Stiff competition faced from globally reputed players – The company is exposed to stiff competition from other global players like Nokia, Huawei, Ciena, etc, who have diversified product portfolios. TNL needs to continuously invest in R&D to stay competitive in a technologically intensive industry.

High customer concentration in revenue profile - There is high customer concentration in the company's revenue profile, with top two customers accounting for 57% and top five customers accounting for 70% of the FY2018 revenues. During FY2018, TNL's revenues from one of its key original equipment manufacturer (OEM) clients reduced significantly, which had contributed to the revenue decline in FY2018.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Tejas Networks Limited was incorporated in the year 2000. It is primarily into the design and manufacturing of optical transmission products which find application in cellular backhaul, high-speed broadband and backbone network. TNL is primarily engaged in providing Optical Transmission products. These products primarily find their application in telecom networks for cellular backhaul (of 2G/3G/4G), broadband networks, and core networks for the transportation of data and voice over optical fiber. The company successfully completed its IPO in June 2017 and is now a listed company.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	874.6	749.8
PAT (Rs. crore)	93.0	106.5
OPBDIT/OI (%)	18.7%	20.4%
RoCE (%)	11.1%	12.2%
Total Debt/TNW (times)	0.47	0.00
Total Debt/OPBDIT (times)	1.72	0.01
Interest coverage (times)	5.15	11.41

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2018	Date & Rating in FY2017 Feb 2017	Date & Rating in FY2017 Jul 2016	Date & Rating in FY2015 Mar 2015
1	Fund based limits	LT/ST	251.75	-	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1	[ICRA]BBB+ (Positive)/A2+	[ICRA]BBB+ (Stable)/A2+
2	Non-fund based	LT/ST	155.50	-	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1	[ICRA]BBB+ (Positive)/A2+	[ICRA]BBB+ (Stable)/A2+
3	Unallocated	LT/ST	152.61	-	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1	[ICRA]BBB+ (Positive)/A2+	[ICRA]BBB+ (Stable)/A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	NA	251.75	[ICRA]A (Positive)/A1
NA	Non-fund based	NA	NA	NA	155.50	[ICRA]A (Positive)/A1
NA	Unallocated	NA	NA	NA	152.61	[ICRA]A (Positive)/A1

ANALYST CONTACTS

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Mathew Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Shaswata Maitra
+91 80 4332 6419
shaswata.maitra@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:

+91-124-2866928 (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.

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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