July 23, 2024

Tejas Networks Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	68.00	3771.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed/ assigned for enhanced amount
Non-fund based facilities	140.00	265.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed/ assigned for enhanced amount
Unallocated limits	351.86	164.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**559.86**	**4200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of Tejas Networks Limited's (TNL) ratings factors in the strong parentage of Panatone Finvest Limited (PFL), which is a subsidiary of Tata Sons Private Limited (TSPL) (rated [ICRA]AAA(Stable)/[ICRA]A1+) and an investment holding company of the Tata Group for investments in telecommunication. Further, the ratings draw comfort from TNL's healthy order book, strong track record in the industry and its long-term relationships with some large clients, which have helped it to maintain a healthy market share in the optical networking space in India. Going forward, TNL's revenue growth will be supported by execution of healthy outstanding order book of over Rs. 8,221 crore (as of March 2024) and likely healthy inflow of orders in wireless as well as wireline products from both domestic and international clients. In FY2024, TNL received order from Tata Consultancy Services Limited (TCS) to supply 4G/5G baseband and radio access network (RAN) equipment for BSNL's 4G network project to be installed at 1,00,000 sites.

The Atmanirbhar Bharat Abhiyan of the Government of India (GoI), which is aimed at limiting import dependence and increasing the demand for indigenous products, provides better growth opportunities for the company. Further, following TNL's approval under design-led production linked incentive (PLI) scheme for manufacturing telecom and networking products by the Department of Telecom, Government of India, it received Rs. 32.7 crore in FY2024 as incentives for FY2023. Also, TNL is eligible to receive Rs. 123.7-crore PLI for FY2024.

The ratings factor in moderate profitability and high working capital intensity of the company. In FY2023 and FY2022, TNL's profit margin was under pressure on account of a subdued gross margin and high fixed expenses. However, in FY2024 the profitability improved with increase in scale, PLI incentive and better absorption of fixed cost. Going forward, the profitability is likely to improve with economies of scale. Further, TNL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks. In FY2024, the working capital intensity increased compared to FY2023 with high inventory and debtor levels. TNL secured the long-lead components for expedited delivery for the BSNL 4G project leading to high inventory levels. Further, high billing in Q4 FY2024 resulted in high debtor levels as of FY2024 end.

The large size of the BSNL 4G order and short period of execution, are likely to keep the working capital intensity elevated and consequently increase the working capital debt in the near term. However, with execution of this order, the cash flow position is expected to improve, supported by healthy collections and liquidation of inventory. The improvement in the working capital intensity, thus, remains a key monitorable.

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 the Tata Group along with its healthy capital structure. Further, the outlook underlines ICRA's expectations that the entity's incremental capex, aimed at expanding the product portfolio and staying competitive in a technologically-intensive industry, will be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Strong parentage of Tata Group; strategic importance in telecommunication business –TNL 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 acquired majority stake in TNL leading to an inflow of ~ Rs. 1,850 crore in FY2022 and FY2023. 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 to expand its presence in networking products. As of March 2024, PFL held a 55.6% stake in TNL. It enjoys considerable financial flexibility for being a part of the Tata Group.

Technically qualified management and established relationships with customers – TNL has a technically qualified management team and diversified product offerings, evident from its strong intellectual property portfolio and a healthy market share in the optical networking market in India. Also, its long-term relationships with some large clients enable it to generate repeat business, thus supporting the revenue profile. Further, TNL acquired majority stake in Saankhya Labs (P) Ltd. to enhance its wireless products offering.

Healthy order book position – TNL had healthy order book of Rs. 8,221 crore as of March 2024. In FY2024, TNL received Rs. 7,492-crore order from TCS to supply 4G/5G baseband and radio access network (RAN) equipment for BSNL's 4G network project to be installed at 1,00,000 sites. Going forward, TNL's revenue growth will be supported by execution of existing healthy order book and likely healthy inflow of orders in wireless as well as wireline products from both domestic and international clients.

Healthy capital structure- The capital structure is healthy as reflected in a gearing of 0.6 times as on March 31, 2024, though the same moderated from FY2023 level as the company was debt free. The outstanding large order book and short period of execution are likely to keep the working capital intensity elevated, consequently increasing the working capital debt and moderating the capital structure in the near term. However, with execution of the large order, the cash flow position is expected to improve, supported by healthy collections and liquidation of inventory. This will lower the working capital requirement and consequently improve the capital structure.

Credit challenges

Moderate operating profitability, exposed to movement in raw material prices and foreign exchange fluctuation risk - In FY2023 and FY2022, TNL's profit margin was under pressure on account of a subdued gross margin and high fixed expenses. Further, despite a healthy order book, the revenue in FY2022 and FY2023 was impacted by the global semiconductor component shortage. Consequently, TNL was not able to absorb the fixed cost base because of which the operating profit margin remained stressed. However, in FY2024 the profitability improved with increase in scale, PLI incentive and better absorption of fixed cost. Going forward, the profitability is likely to improve with economies of scale.

The company is exposed to foreign exchange risk through its sales and services in foreign countries, and purchases from overseas suppliers in foreign currencies. However, the risk is mitigated to an extent through a natural hedge between export receivables and import payables. TNL also enters into forward exchange contracts to mitigate the risk of fluctuations in foreign currency rates.

High working capital intensity – TNL's financial profile has historically been characterised by high inventory holding and collection days. In FY2024, the working capital intensity increased compared to FY2023 with high inventory and debtor levels. TNL secured the long-lead components for expedited delivery for the BSNL 4G project resulting in high inventory levels. Further, high billing in Q4 FY2024 increased debtor levels as of FY2024 end. The large size of BSNL 4G order and short period of execution, are likely to keep the working capital intensity elevated and increase the working capital debt in the near term. However, with execution of this order, the cash flow position is expected to improve, supported by improved collections and liquidation of inventory. The improvement in the working capital intensity, thus, remains the key monitorable.

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 long presence and a more diversified product portfolio. TNL needs to continuously invest in R&D to remain competitive in a technologically-intensive industry.

Environmental and social risks

Environmental considerations: TNL is exposed to the risks of tightening regulations on environment and safety. TNL has been able to mitigate the regulatory risks with a sound operational track record and ensuring regulatory compliance.

Social considerations: TNL designs and manufactures wireline and wireless networking products, with focus on technology, innovation and R&D. The business is characterised by rapid technological changes, customer requirements, evolving industry standards and launch of new products and services. Further, intellectual property (IP) is a critical element of the business. The patent rights may be overturned by its competitors which may adversely affect business and reputation. Therefore, while TNL remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Liquidity position: Strong

The company's liquidity profile is strong, aided by unencumbered cash and liquid investments of around Rs. 629 crore as on March 31, 2024, and availability of sanctioned undrawn fund-based working capital limits from banks. ICRA notes the likely moderation of the liquidity in FY2025 owing to the ongoing execution of the large order. However, ICRA expects the liquidity to remain strong FY2026 onwards with expected healthy cash flows from the execution of outstanding orders.

Rating sensitivities

Positive factors – The ratings 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 sustained growth in revenue and profitability along with reduction in working capital intensity, resulting in an improvement in the financial risk profile.

Negative factors – Any sustained pressure on revenues and profitability or inability to improve working capital cycle which could adversely impact the credit metrics/liquidity profile could result in a downgrade. Also, pressure on TNL's ratings could arise in case of larger-than-expected debt-funded capex/acquisitions, which could significantly impact the financial profile and the liquidity position. Further, any weakening of support or linkages with the parent can result in a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Panatone Finvest Limited (PFL; 99.99% stake in PFL held by Tata Sons Private Limited). 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.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TNL.

About the company

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

Key financial indicators (audited)

TNL Consolidated	FY2023	FY2024
Operating income	921.5	2470.9
PAT	-36.4	63.0
OPBDIT/OI	2.1%	11.1%
PAT/OI	-4.0%	2.5%
Total outside liabilities/Tangible net worth (times)	0.2	1.6
Total debt/OPBDIT (times)	2.6	6.8
Interest coverage (times)	1.2	5.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 23, 2024	Apr 10, 2023	Apr 7, 2022	Aug 9, 2021
1	**Fund-based limits**	Long-term and short term	3771.0	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A- %/ [ICRA]A2+%**
2	**Non fund-based facilities**	Long-term and short term	265.0	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A+(Stable) /[ICRA]A1+**	**[ICRA]A- %/ [ICRA]A2+%**
3	**Unallocated limits**	Long-term and short term	164.0	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A- (Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple

Non fund-based facilities	Very Simple
Unallocated limits	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based limits**	NA	NA	NA	3771.0	[ICRA]A+(Stable)/[ICRA]A1+
NA	**Non fund-based facilities**	NA	NA	NA	265.0	[ICRA]A+(Stable)/[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	164.0	[ICRA]A+(Stable)/[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	TNL Ownership	Consolidation Approach
Tejas Communication Pte. Limited	100.0%	Full Consolidation
Tejas Communications (Nigeria) Limited	100.0%	Full Consolidation
Saankhya Labs Private Limited	64.4%	Full Consolidation
Saankhya Strategic Electronics Private Limited	64.4%	Full Consolidation
Saankhya Labs Inc.	64.4%	Full Consolidation

Source: TNL annual report FY2024; Tejas Communications (Nigeria) Limited (wholly owned subsidiary of Tejas Communication Pte. Limited and step-down subsidiary of TNL); Saankhya Labs Inc. and Saankhya Strategic Electronics Private Limited are wholly owned subsidiary of Saankhya Labs Private Limited and step-down subsidiary of TNL.

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About ICRA Limited:

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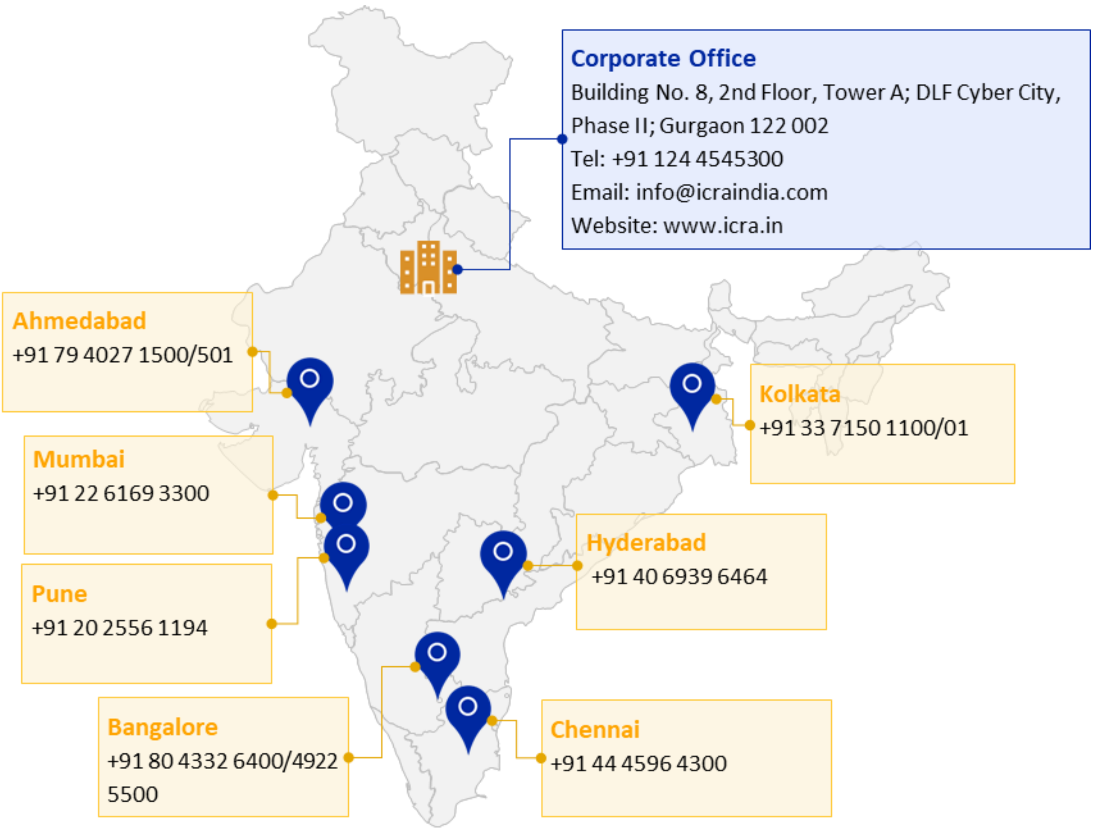

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