March 31, 2025

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	3771.0	5276.0	[ICRA]A+(Stable)/ [ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-fund based facilities	265.0	240.0	[ICRA]A+(Stable)/ [ICRA]A1+; reaffirmed
Unallocated limits	164.0	84.0	[ICRA]A+(Stable)/ [ICRA]A1+; reaffirmed
Long term – Term loan	-	400.0	[ICRA]A+(Stable); assigned
Total	**4,200.0**	**6,000.0**	

**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. Further, the ratings draw comfort from TNL's strong track record in the industry and its long-term relationships with some large clients, which have helped it maintain a healthy market share in the optical networking space in India. Further, TNL reported significant revenue growth in 9M FY2025 with an operating income of Rs. 7,016.3 crore, supported by the execution of BSNL's 4G network project, demonstrating project execution capabilities in the wireless segment. The increase in the scale of operations along with the production-linked investment (PLI) scheme helped improve the operating margins in 9M FY2025 and FY2024 with better absorption of fixed cost.

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, after the Department of Telecom's approval, TNL received Rs. 32.7 crore in FY2024 as incentives for FY2023 under the design-led PLI scheme for manufacturing telecom and networking products, and Rs. 123.5 crore in March 2025 for FY2024. Also, TNL is eligible to receive Rs. 367.7-crore PLI for 9M FY2025.

The ratings factor in the company's moderate order book position and high working capital intensity. ICRA notes that moderation in the operating income is likely to put pressure on the profit margins. Thus, the addition of the order book remains a key monitorable. Further, TNL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks.

The large size of the BSNL 4G order and the short period of execution have kept the working capital intensity elevated and consequently increased the working capital debt in 9M FY2025. Further, the company intends to undertake investments in R&D, product development, sales and supply chain over the 12-18 months, partly funded by external debt. The debt is likely to keep the coverage indicators subdued in the near term. However, with the execution and completion of the BSNL 4G order in the near term, 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 a 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. PFL acquired a 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 December 2024, PFL held a 54.0% 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 Saankhya Labs (P) Ltd. to enhance its wireless products offering. TNL has also entered into technology collaboration agreements with NEC Corporation, Japan (NEC), for the development of advanced wireless technologies for the global telecom industry. As part of the technology collaboration agreement, it will have to pay ~USD 60 million to NEC over the next one year, as per the milestones.

Improving operating profitability amid increased scale of operations – TNL reported significant revenue growth in 9M FY2025 with an operating income of Rs. 7,016.3 crore, supported by the execution of BSNL's 4G network project. The increase in the scale of operations along with PLI helped improve the operating margins in 9M FY2025 to 16.2% and to 11.1% in FY2024 with better absorption of the fixed cost. However, TNL's ability to maintain a healthy scale of operations by ensuring a steady inflow of orders and execute them in a timely manner while sustaining healthy profitability levels would remain a key rating monitorable.

Credit challenges

Moderate order book position provides limited revenue visibility – The outstanding order book as on December 31, 2024, was Rs. 2,681 crore which provides limited revenue visibility. TNL has moderate gross margin and high fixed expenses. A significant dip in the operating income will put the profit margin under pressure as TNL will not be able to absorb the high fixed cost base. TNL is expecting a healthy inflow of orders in wireless as well as wireline products from both domestic and international clients. Thus, the addition of the order book remains a key monitorable.

Exposed to movement in input 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.

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 the export receivables and the 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. The large size of the BSNL 4G order and the short period of execution have kept the working capital intensity elevated and consequently increased the working capital debt in 9M FY2025. The debt is likely to keep the coverage indicators subdued in the near term.

However, with the execution and completion of the BSNL 4G order in the near term, the cash flow position is expected to improve, supported by healthy collections and liquidation of the inventory. The improvement in the working capital intensity, thus, remains a 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 a 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 the 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 ~Rs. 643 crore as on December 31, 2024, and availability of sanctioned undrawn fund-based working capital limits from banks. ICRA expects the liquidity to remain strong in FY2026 with expected healthy cash flows from the execution of outstanding orders. The company intends to undertake investments in R&D, product development, sales and supply chain over the 12-18 months, partly funded by external debt.

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 the revenue and profitability or inability to improve the 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 its financial profile and 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; Tata Sons Private Limited holds 99.99% stake in PFL). 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 more than 75 countries. TNL has an extensive portfolio of telecom products for building end-to-end telecom network. 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	9MFY2025*
Operating income	921.5	2470.9	7,016.3
PAT	-36.4	63.0	518.3
OPBDIT/OI	2.1%	11.1%	16.2%
PAT/OI	-4.0%	2.5%	7.4%
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	6.3

*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; *Unaudited*

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
				March 31, 2025	July 23, 2024	Apr 10, 2023	Apr 7, 2022	Aug 9, 2021
1	**Fund-based limits**	Long term and short term	5276.0	**[ICRA]A+(Stable) /[ICRA]A1+**	**[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	240.0	**[ICRA]A+(Stable) /[ICRA]A1+**	**[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	84.0	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A-%/ [ICRA]A2+%**
4	**Term loan**	Long term	400.0	**[ICRA]A+(Stable)**	-	-	-	-

% -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 limits	Not applicable
Term loan	Simple

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	5276.0	[ICRA]A+(Stable)/[ICRA]A1+
NA	**Non fund-based facilities**	NA	NA	NA	240.0	[ICRA]A+(Stable)/[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	84.0	[ICRA]A+(Stable)/[ICRA]A1+
NA	**Term loan**	NA	NA	NA	400.0	[ICRA]A+(Stable)

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 Inc.	100.0%	Full Consolidation

Source: Company data; Tejas Communications (Nigeria) Limited (wholly-owned subsidiary of Tejas Communication Pte. Limited and step-down subsidiary of TNL)

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