May 24, 2019

Tejas Networks Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based	251.75	244.50	[ICRA]A (Positive) / [ICRA]A1; reaffirmed
Non-fund based	155.50	149.50	
Unallocated	152.61	165.86	
Total	**559.86**	**559.86**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation reflects the healthy growth in the operating income and the improvement in the profitability in FY2019, along with the change in revenue mix towards customer segments providing more stable business. The ratings consider the favourable demand prospects of optical transmission products in the near to medium term and the strong order book position which provides revenue visibility. Expected growth in optical fibre network deployment by domestic telecom operators and increased sales in various overseas markets also support the business prospect. Tejas Networks Limited's (TNL) financial risk profile is marked by strong capital structure and debt protection metrics and robust liquidity position with cash and liquid investments of Rs 370 crore as on March 31, 2019, notwithstanding the deterioration in free cash flows in the last fiscal because on account of a sharp increase in the receivables position. The ratings continue to draw comfort from the established market share of TNL in the domestic optical transmission products market and the reasonably diversified and strong product profile, which has received global recognition in the recent past.

The ratings, however, are constrained by the high working capital intensity, which saw further deterioration in FY2019, and the vulnerability of TNL's revenue and profitability to fluctuations owing to lumpiness in order inflows. The ratings are also constrained by the high customer concentration in the company's revenue profile and the high dependence on government sector orders. The ratings take into account the stiff competition faced by TNL 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. Notwithstanding the current order book and the near-term revenue visibility, TNL's long-term revenue prospects will be linked to the capital expenditure cycles of its customer base.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that Tejas will favourably benefit from the extensive experience and the technical competence of its management, its strong capital structure and liquidity profile, along with the increasing revenue contribution from segments which provide stability to the business. The rating may be upgraded if TNL demonstrates sustained revenue growth and better working capital management with timely recovery of overdue receivables (primarily from an Indian public sector undertaking). The outlook may be revised to Stable if no meaningful reduction in the receivables position or any further stretch in the working capital cycle weakens the liquidity profile, or any volatility in order inflows adversely impacts the revenue profile of the company.

Key rating drivers

Credit strengths

Healthy growth in revenue and improvement in profitability in FY2019 – The company's operating income grew by 20% in FY2019 YoY, supported by increased revenue contribution from Indian private telecom companies, international direct customers and Indian utilities segment. The operating profit margin also improved, supported by better absorption of fixed overheads, decline in contract-related expenses and installation and commissioning expenses.

Strong capital structure and liquidity profile – As on March 2019, the company's liquidity profile remained robust, notwithstanding the deterioration in FY2019, as reflected by Rs. 370 crore of cash and liquid investments. The strong liquidity provides the company the ability to compete with global peers who are much larger, besides, providing flexibility to expand its market presence. TNL had limited debt of Rs. 1.2 crore as on March 31, 2019 as against a net worth of Rs. 1320.2 crore.

Favourable demand prospects in near term – TNL's demand prospects in the 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 such as Mexico, the US, South East Asia, Africa and Middle East.

Technically qualified management and established relationship with customers – TNL has a technically qualified management team and a fairly diversified product offering, as evidenced by 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.

Credit challenges

Volatility in revenues due to lumpy nature of order inflows – Due to the lumpy nature of the business and the volatility in order inflows, TNL' revenues in a particular quarter or a particular year can witness fluctuations and any reduction in the turnover can impact profitability metrics due to fixed cost structure, as seen in Q4FY2018. Also, TNL's long-term revenue prospect is 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 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.

High customer concentration in revenue profile - There is high customer concentration in the company's revenue profile, primarily in public sector orders, rendering the entity vulnerable to demand associated with select few customers, or any disruption in the business of a single customer. However, the risk is mitigated to some extent by the resilient business ties with the established incumbents in the telecom industry.

Liquidity position

Although the company reported a sharp decline in its cash flow from operations because of significant working capital outgo with high build-up of receivables, the company's liquidity profile continued to remain strong, aided by unencumbered cash and liquid investments of Rs 370 crore and availability of sanctioned undrawn fund-based working capital limits from banks. As on March 31, 2019, the company had no long-term debt on its books from banks, except an unsecured financial loan of Rs. 1.2 crore. Going forward, the recovery of the large overdue receivables remains key to improve the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the entity

About the company:

Tejas Networks Limited was incorporated in the 2000. It designs and manufactures optical transmission products, which find application in cellular backhaul, high-speed broadband and backbone network for the transportation of data and voice over optical fiber. The company's products are also used in defense communication networks and by utility companies. The company successfully completed its IPO in June 2017 and is now a listed company.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	749.8	900.3
PAT (Rs. crore)	106.5	147.2
OPBDIT/OI (%)	20.4%	21.8%
RoCE (%)	11.8%	13.5%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	11.4	11.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 May 2018	Date & Rating in FY2018 Sep 2017	Aug 2017	Date & Rating in FY2017 Feb 2017
1	Fund based	LT/ST	244.50	-	[ICRA]A (Positive)/ A1	[ICRA]A (Positive)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A 1
2	Non-fund based	LT/ST	149.50	-	[ICRA]A (Positive)/ A1	[ICRA]A (Positive)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A1
3	Unallocated	LT/ST	165.86	-	[ICRA]A (Positive)/ A1	[ICRA]A (Positive)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A1	[ICRA]A (Stable)/ A1

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	-	-	-	244.50	[ICRA]A (Positive)/A1
NA	Non-fund based	-	-	-	149.50	[ICRA]A (Positive)/A1
NA	Unallocated	-	-	-	165.86	[ICRA]A (Positive)/A1

Source: Tejas Networks Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tejas Communications Pte Limited	100.00%	Full Consolidation
Tejas Communications (Nigeria) Limited	100.00%	Full Consolidation
Tejas Israel Limited	NA*	Full Consolidation
vSave Energy Pvt Limited	NA**	Full Consolidation

*wholly owned subsidiary since acquisition on August 17, 2010 and liquidated with effect from November 25, 2018

**wholly owned subsidiary since incorporation on November 06, 2013 which has been dissolved and struck off with effect from July 28, 2018

ANALYST CONTACTS

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

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

Ritika Periwal
+91 80 4332 6412
ritika.mundhra@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

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,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999