June 22, 2020

Tejas Networks Limited: Ratings downgraded to [ICRA]A-(Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based	242.00	172.00	Long term rating downgraded to [ICRA]A-(Stable) from [ICRA]A (Stable); Short term rating downgraded to [ICRA]A2+ from [ICRA]A1
Non-fund based	199.50	249.50	
Unallocated	118.36	138.36	
Total	**559.86**	**559.86**	

**Instrument details are provided in Annexure-1*

Rationale

The downward revision in the ratings takes into account the decline in Tejas Networks Limited (TNL)'s revenue and profitability during FY2020 on account of significant reduction in revenue booking primarily from the government sector and international segment. The revenue outlook remains muted for the first half of FY2021 as well, on account of Covid-19 pandemic related disruptions and is also reflected by its current modest orderbook position. Consequently, due to the high fixed cost base of TNL, the profit margins continue to be stressed. Further, TNL continues to face delays in realisation of receivables from certain government sector customers, which has put pressure on its cash flows. Additionally, the increased inventory holding in Q4FY2020 has further elongated the working capital cycle. However, going forward, TNL expects the cash flow position to improve supported by improved collections and liquidation of inventory while also exercising tighter control over expenses.

The ratings continue to be constrained by 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. TNL's long-term revenue prospects will be linked to the capital expenditure cycles of its customer base.

The ratings, however, draw comfort from TNL's strong track record in the industry, coupled with 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 robust liquidity position with nil debt and cash and liquid investments of around Rs 280 crore as on March 31, 2020, notwithstanding the decline during the year. The recent trend of work-from-home and increased video usage on telecom networks is creating huge demand for bandwidth in India, as well as globally. TNL's current product profile addresses this business segment and hence it is likely to benefit from such developments, in the post-COVID scenario. Going forward, TNL is also expected to benefit from a favorable competitive landscape, due to the emerging geo-political situation against China.

The Stable outlook reflects ICRA's opinion that TNL will continue to benefit from its extensive track record in the industry, established market share in the domestic optical transmission products market and the reasonably diversified product profile, which has received global recognition in the recent past. TNL's ability to generate improved revenue and profitability through sustained growth in business while improving its overall collection cycle period, will continue to remain key rating sensitivities.

Key rating drivers and their description

Credit strengths

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.

Robust liquidity profile – Notwithstanding the weakening revenue and profitability in FY2020 as compared to FY2019, the company's liquidity profile remained robust, as reflected by around Rs. 280 crore of cash and liquid investments, as on March 31, 2020. Further, going forward, the liquidity profile of the company is expected to be supported by recovery of the overdue receivables and liquidation of its current inventory. 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 had nil bank debt as on March 31, 2020 as against a networth of around Rs 1081 crore.

Credit challenges

Decline in revenue and profitability - The company's operating income and operating profitability declined by 56% and 96%, respectively, in FY2020 vis-à-vis the previous year due to steep fall in revenue booking, primarily from its government sector and delayed orders from its international customers in Q4FY2020. During FY2020, the revenue booking from government sector (which constituted around 55% of total revenues in FY2019) declined by 88% and that from international segment customers declined by 30%. The revenue outlook remains muted for the first half of FY2021 as well, on account of Covid-19 pandemic related disruptions and is also reflected by its current modest orderbook position. Due to the high fixed cost base of TNL, the profit margins continue to be stressed.

High working capital intensity – TNL's financial profile has historically been characterised by high inventory holding as well as high collection days. In FY2020, the company's working capital cycle has been further impacted on account of delay in realisation of receivables from BSNL for orders executed in FY2019 for the Bharatnet project. Additionally, the increased inventory holding in Q4FY2020, due to deferment of certain shipments on account of Covid-19, has further elongated the working capital cycle.

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.

Liquidity position: Strong

Although there has been a high build-up of receivables over FY2019 and FY2020, the company's liquidity profile continues to remain strong, aided by unencumbered cash and liquid investments of around Rs 280 crore as on March 31, 2020 and availability of sanctioned undrawn fund-based working capital limits from banks. As on March 31, 2020, the company had nil debt on its books. Going forward, the recovery of the large overdue receivables and utilization of the existing inventories can further strengthen the liquidity position. The company has ongoing R&D expenditure towards new product development which is expected to be funded out of the cash flow from operations.

Rating sensitivities

Positive triggers – ICRA could upgrade TNL's rating if it demonstrates better working capital management with timely recovery of overdue receivables coupled with sustained improvement in revenue and profitability.

Negative triggers – Negative pressure on TNL's rating could arise if continued volatility in order inflows adversely impacts the revenue profile and profitability, or if there is a further stretch in the working capital cycle. Any adverse development on the contingent liabilities would be also be a key rating monitorable.

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 rated 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 of telecom service providers 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)

	FY2019	FY2020
Operating Income (Rs. crore)	903.9	396.5
PAT (Rs. crore)	147.2	-237.2
OPBDIT/OI (%)	22.7%	2.1%
RoCE (%)	13.7%	-11.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	12.1	1.1
DSCR	11.7	3.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					22-June-2020	22-Nov-2019	24-May-2019	31-May-2018	6-Sep-2017
1	Fund based	LT/ST	172.00	-	[ICRA]A- (Stable)/A2+	[ICRA]A (Stable)/A1	[ICRA]A (Positive)/A1	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1
2	Non-fund based	LT/ST	249.50	-	[ICRA]A- (Stable)/A2+	[ICRA]A (Stable)/A1	[ICRA]A (Positive)/A1	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1
3	Unallocated	LT/ST	138.36	-	[ICRA]A- (Stable)/A2+	[ICRA]A (Stable)/A1	[[ICRA]A (Positive)/A1	[ICRA]A (Positive)/A1	[ICRA]A (Stable)/A1

Amount in Rs. crore

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 click here

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	-	-	-	172.00	[ICRA]A- (Stable)/A2+
NA	Non-fund based	-	-	-	249.50	[ICRA]A- (Stable)/A2+
NA	Unallocated	-	-	-	138.36	[ICRA]A- (Stable)/A2+

Source: Tejas Networks Limited

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
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

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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.

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