

Tejas Networks reported a beat on our revenue and margin estimates, led by BSNL's 4G project execution. We see Tejas benefits chiefly from: 1) GoI emphasis on domestic manufacturing and the PLI scheme; 2) large spends on BSNL, BharatNet, and the Railways; 3) references from TCom and TCS, thus adding new clients; and 4) global move towards replacing Chinese telecom equipment. We expect FY25E revenue to be 4x FY24 revenue on BSNL and Bharatnet execution. We increase revenue by 6%/7% for FY25E/FY26E on account of the beat on our revenue estimate. We also raise our EBITDA margin by 150-10bps on the margin beat. We revise our TP to Rs1,100/share (21% upside) vs. Rs975 earlier, based on DCF methodology (WACC: 10.5%; Terminal growth rate: 6%). We retain our BUY rating.

Tejas Networks: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,506	9,196	23,143	96,513	69,442
EBITDA	(135)	140	1,093	20,262	13,413
Adj. PAT	43	(279)	630	10,919	10,854
Adj. EPS (Rs)	(6.0)	(2.5)	3.6	63.1	62.7
EBITDA margin (%)	(2.4)	1.5	4.7	21.0	19.3
EBITDA growth (%)	(125.2)	0.0	678.7	1,753.3	(33.8)
Adj. EPS growth (%)	(249.7)	0.0	0.0	1,633.7	(0.6)
RoE (%)	0.3	(1.1)	2.1	29.5	22.7
RoIC (%)	0.9	(5.5)	(1.5)	27.6	17.6
P/E (x)	2,220.6	(368.7)	249.2	14.4	14.5
EV/EBITDA (x)	(682.9)	694.7	159.7	7.8	11.3
P/B (x)	4.9	3.5	5.0	3.7	2.9
FCFF yield (%)	(1.5)	(11.5)	(15.0)	11.2	4.6

Source: Company, Emkay Research

Beat on revenue and margin, on BSNL project execution

Reported consolidated revenue at Rs11.7bn (excl. PLI incentive of Rs1.6bn) was up 109% QoQ/291% YoY (at a 46% beat on our est.). EBITDA grew sharply to Rs1,501mn from -Rs75mn in Q3FY24, well above our estimate of Rs606mn, on the back of operating leverage benefit. EBITDA margin expanded by 1,416bps QoQ to 12.8% (528bps above our estimate of 7.5%). Q3FY24 margin was impacted by product-mix change. Cash & Cash Equivalents stood at Rs6.4bn at end-Q4 vs. Rs5.6bn at end-Q3. Inventory increased to Rs37.4bn in Q4 from Rs26.8bn in Q3, due to securing components for expediting delivery.

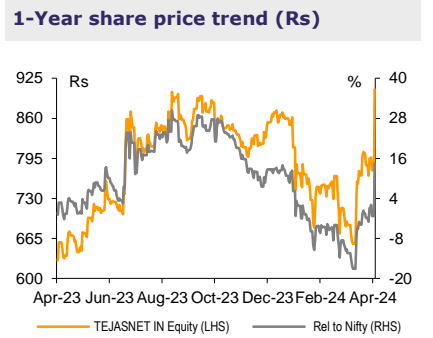
Multiple growth levers to aid in scale-up; maintain BUY

The company is looking at several high-scale opportunities in both, India as well as internationally. It anticipates an increase in investment in the 4G-saturated networks of Africa and Asia by private telcos for their backhaul expansion of 4G and 5G networks. The entire order backlog pertaining to BSNL (90% remaining, of the total 0.1mn sites) is expected to be executed in FY25, generating revenue of ~Rs77bn over the next 2-3 quarters. The tender for BharatNet Phase III is in process (initial estimate of over USD500mn capex) and is getting finalized. We see Tejas scaling up, based on: i) the GoI's spending plan for BSNL, BharatNet-3, Railways' Kavach upgradation, etc which is likely to furnish orders worth ~Rs300bn; ii) international revenue gaining pace, with the US Rip & Replace program granting new opportunities; iii) the PLI scheme benefits for 5 years. Tejas is set to benefit from: a) cost-competitive R&D vs. peers, b) asset-light model with EMS partners, and c) the acquisition of Saankhya Labs for wireless solutions. We think Tejas can generate ~Rs277bn/Rs55bn revenue/EBITDA during FY25-28E. We expect the company to clock ~20% margin, as it scales up operations. We increase our revenue 6%/7% and margin by 150bps/10bps for FY25E/FY26E, on revenue and margin beat. We revise our TP to Rs1,100/share (21% upside) vs. Rs975 earlier, based on DCF method (WACC: 10.5%; Terminal growth rate: 6%). We maintain BUY.

Target Price – 12M	Mar-25
Change in TP (%)	12.8
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.3
CMP (22-Apr-24) (Rs)	906.9

Stock Data	Ticker
52-week High (Rs)	940
52-week Low (Rs)	618
Shares outstanding (mn)	170.7
Market-cap (Rs bn)	155
Market-cap (USD mn)	1,857
Net-debt, FY25E (Rs mn)	1,457
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	394.1
ADTV-3M (USD mn)	4.7
Free float (%)	-
Nifty-50	22,336
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	55.6
FPIs/MFs (%)	11.3/4.8

Price Performance				
(%)	1M	3M	12M	
Absolute	32.0	11.6	43.2	
Rel. to Nifty	30.6	7.8	13.0	



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Tejas Networks – Q4FY24 Earnings call KTAs

- **Multiple opportunities for growth in India/International:** The company is looking at several high-scale opportunities in both, India as well as internationally. It anticipates an increase in investment in the 4G saturated networks of Africa and Asia by private telcos for their backhaul expansion of 4G and 5G networks. The broadband rollouts in India are gaining traction (over USD600mn capex planned for the next few quarters) which is another key driver for the company's Indian business. Similarly, USD100bn capex is planned in USA and Europe for broadband rollout, providing opportunity for its international business. Additionally, over USD8bn investments are planned for utility modernization transforming traditional utility networks to IT-based networks.
- **BSNL order execution:** The entire order backlog pertaining to BSNL (90% remaining of the total 0.1mn sites) is expected to be executed in FY25, generating revenue of ~Rs77bn over the next 2-3 quarters. RAN equipment is getting deployed in all zones across the country; however, the core has been deployed in only few zones. Hence, for zones not having core, RAN equipment is deployed by integrating it to the existing core. This is leading to some delay in order execution.
- **BharatNet Phase III:** The project authorities and DoT have come out with the initial specification and tender documents (initial estimate of over USD500mn capex) and is in the process of getting finalized. The tender is expected to be paid out in the next couple of months after completion of ongoing discussions. Tejas has the requisite technology and products to execute the tender allocations in a timely manner.
- **Margin expansion from mix change:** Change in product mix towards higher-margin products in the wireline business resulted in higher margins in Q4. Going ahead, the margin trajectory will be dependent on the product mix achieved by the company.
- **Increase in working capital:** Inventory further shot up in Q4 owing to advance procurements of key long-lead components for expediting the delivery of the BSNL order. Increase in revenue also led to higher trade receivables in Q4. Working capital, though, is expected to ease off by FY25-end, as BSNL orders are executed.
- **Technologically differentiated products:** Management claims its products are technological differentiated, the company being the only one integrating optical transport into wireless. This integration helps bring down the total cost of ownership of wireless operators by doing multiple technology integration into its RAN equipment. This aids in the operators saving money in building backhaul equipment as well as giving them the platform for launching other services apart from mobile services. At the same time, its products are cost competitive.
- **Others:**
 - Company is engaged with several customers for its RAN products and has multiple on-going proofs of concept with potential customers in a private and utility vertical.
 - Company is being globally recognized as a key vendor by industry analysts, for its wireline and wireless products.
 - The semiconductor chips developed by Saankhya Labs are being used internally for Company's satellite transponder products.

Q4 Results: Beat on revenue and margin

- **Reported consolidated revenues at Rs11.7bn (excl. PLI incentive of Rs1.6bn) was up 109% QoQ/291% YoY (46% beat on our estimate).**
 - International business grew 61% QoQ to Rs0.6bn. Despite the growth, its overall share in revenue dipped to 5% from 7% QoQ.
 - India Govt. business surged 2.8x QoQ, led by its strong order book. Hence, its revenue share increased to 42% from 31% QoQ.
 - India Pvt also registered a healthy growth, of 78% QoQ.
- **EBITDA grew sharply to Rs1,501mn from -Rs75mn in Q3FY24, well above our estimate of Rs606mn, on the back of operating leverage benefit.**

- **EBITDA margin expanded by 1,416bps QoQ** to 12.8% (528bps above our estimate of 7.5%). Q3FY24 margin was impacted by product mix change.
- Profit including PLI benefit came in at Rs1,468mn vs. loss of Rs449mn (Emkay estimate: loss of Rs25mn).
- **Cash and Cash Equivalents stood at Rs6.4bn** at the end of Q4 vs. Rs5.6bn at end-Q3.
- **Inventory increased to Rs37.4bn in Q4** from Rs26.8bn as at Q3-end. This is attributed to securing key long-lead components for expediting delivery of several critical large orders, primarily BSNL 4G RAN and backhaul network. Hence, working capital increased to Rs31.4bn from Rs13.4bn in Q3FY24.

Exhibit 1: Tejas Networks – Results overview

(Rs mn)	4QFY23	3QFY24	4QFY24	YoY	QoQ
Revenue from operations (net) (A)	2,993	5,600	11,705	291.1%	109.0%
Cost of materials consumed	1,972	4,151	8,010	306.1%	93.0%
Employee benefits expense	775	839	1,112	43.4%	32.5%
Other expenses	328	685	1,082	230.4%	58.0%
Total expenses (B)	3,075	5,675	10,204	231.8%	79.8%
Adj. EBITDA (A - B)	(82)	(75)	1,501	N/A	N/A
Finance Cost	47	83	280	502.2%	239.4%
Depreciation and amortization expense	355	482	582	64.0%	20.8%
Other Income	213	152	123	-42.2%	-18.9%
Restated Profit / (Loss) before exceptional items and tax	(270)	(488)	2,326	N/A	N/A
Restated Profit / (Loss) before tax	(270)	(488)	2,326	N/A	N/A
Tax expense	(156)	(39)	858	N/A	N/A
Profit / (Loss) for the year	(115)	(449)	1,468	N/A	N/A
Adj. Profit	(115)	(449)	1,468	N/A	N/A
(a) Reported EPS – Basic (Rs)	(0.71)	(2.59)	8.44	N/A	N/A
(b) Reported EPS – Diluted (Rs)	(0.71)	(2.64)	8.48	N/A	N/A
(c) Adjusted EPS – Diluted (Rs)	(0.71)	(2.64)	8.48	N/A	N/A
Costs as a % of sales					
Gross Profit	34.1	25.9	31.6	-254 bps	569 bps
EBITDA margin	-2.7	-1.3	12.8	1556 bps	1416 bps
Cost of materials consumed	65.9	74.1	68.4	253 bps	-570 bps
Employee benefits expense	25.9	15.0	9.5	-1640 bps	-549 bps
Other expenses	10.9	12.2	9.2	-170 bps	-299 bps
Total expenses	102.7	101.3	87.2	-1557 bps	-1417 bps

Source: Company, Emkay Research

Order book**Order book at the end of Q4 at Rs82.21bn vs. Rs90.28bn at the end of Q3**

- 4G/5G RAN installations for BSNL's pan-India network are progressing well; cumulatively shipped equipment for over 10,000 sites.
- Completed supplies of TJ1400 Access and Aggregation Routers for BSNL's MAAN network – the largest network of indigenous IP/MPLS routers in India.
- Strategic wins for DWDM and Switching/Routing products in the Critical Infrastructure sector.
- Ongoing wireless POCs with potential customers in private and utility verticals.

Changes in estimate

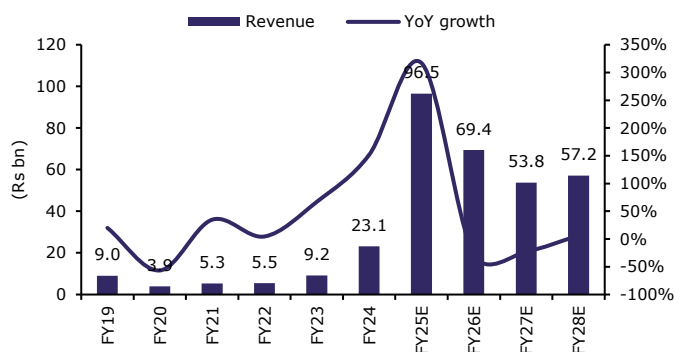
We have increased our revenue 6-7% on account of the beat on our revenue estimate. We have also increased our EBITDA margin, by 150-10bps on the margin beat. **We have revised our TP to Rs1,100/share (21% upside) vs. Rs975 earlier, based on DCF methodology (WACC: 10.5%; Terminal growth rate: 6%). We retain our BUY rating.**

Exhibit 2: Changes in estimate

Particulars (Rs mn)	FY25E			FY26E		
	Old	Revised	Change	Old	Revised	Change
Revenue	90,872	96,513	6.2%	65,017	69,442	6.8%
EBITDA	17,734	20,262	14.3%	12,486	13,413	7.4%
EBITDA Margin (%)	19.5	21.0	148 bps	19.2	19.3	11 bps
APAT	9,244	10,919	18.1%	10,700	10,854	1.4%

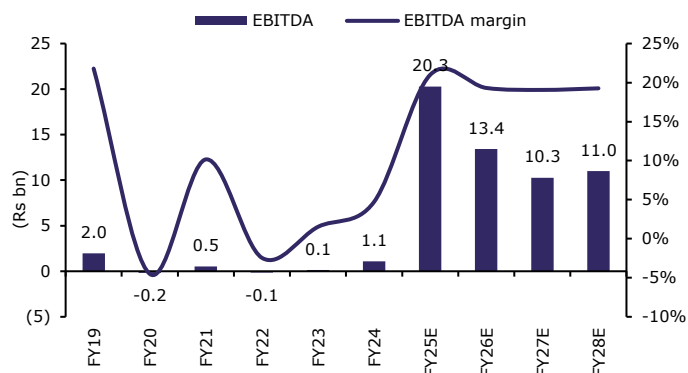
Source: Company, Emkay Research

Exhibit 3: Tejas' revenue to increase in FY25E



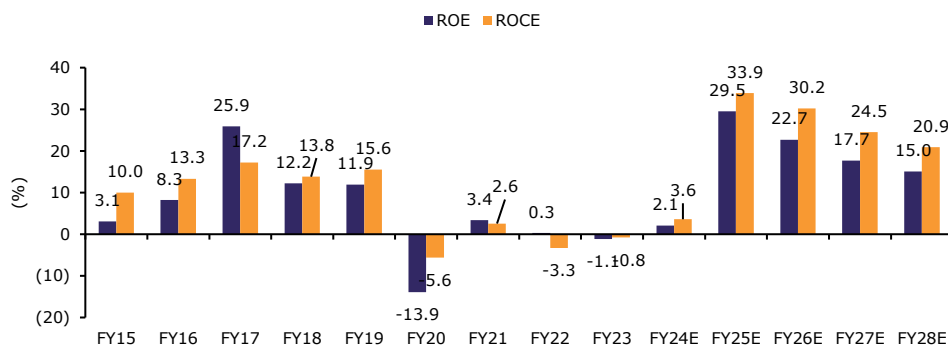
Source: Company, Emkay Research

Exhibit 4: EBITDA also set to improve



Source: Company, Emkay Research

Exhibit 5: Returns to be over 15%



Source: Company, Emkay Research

Tejas Networks: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,506	9,196	23,143	96,513	69,442
Revenue growth (%)	4.6	67.0	151.7	317.0	(28.0)
EBITDA	(135)	140	1,093	20,262	13,413
EBITDA growth (%)	(125.2)	0.0	678.7	1,753.3	(33.8)
Depreciation & Amortization	768	1,140	1,825	2,664	2,441
EBIT	(902)	(1,000)	(731)	17,598	10,972
EBIT growth (%)	(6,639.1)	0.0	0.0	0.0	(37.6)
Other operating income	0	0	0	0	0
Other income	433	810	2,213	1,877	7,250
Financial expense	32	152	479	2,171	1,021
PBT	(501)	(342)	1,002	17,304	17,202
Extraordinary items	(670)	0	0	0	0
Taxes	(544)	(62)	372	6,385	6,347
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(627)	(279)	630	10,919	10,854
PAT growth (%)	(267.0)	0.0	0.0	1,633.7	(0.6)
Adjusted PAT	43	(279)	630	10,919	10,854
Diluted EPS (Rs)	(6.0)	(2.5)	3.6	63.1	62.7
Diluted EPS growth (%)	(249.7)	0.0	0.0	1,633.7	(0.6)
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	(2.4)	1.5	4.7	21.0	19.3
EBIT margin (%)	(16.4)	(10.9)	(3.2)	18.2	15.8
Effective tax rate (%)	108.6	18.3	37.2	36.9	36.9
NOPLAT (pre-IndAS)	77	(817)	(459)	11,104	6,924
Shares outstanding (mn)	105.0	113.5	173.1	173.1	173.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	(501)	(342)	1,002	17,304	17,202
Others (non-cash items)	0	0	0	0	0
Taxes paid	544	62	(372)	(6,385)	(6,347)
Change in NWC	(2,547)	(3,550)	(20,072)	6,289	(2,553)
Operating cash flow	(173)	(3,803)	(20,365)	21,512	10,813
Capital expenditure	(1,187)	(7,370)	(5,780)	(3,743)	(3,828)
Acquisition of business	0	0	0	0	0
Interest & dividend income	242	522	441	530	950
Investing cash flow	(8,278)	(5,813)	4,305	(3,213)	(2,878)
Equity raised/(repaid)	213	538	23	0	0
Debt raised/(repaid)	(53)	1,903	18,578	1,000	(17,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(32)	(152)	(479)	(2,171)	(1,021)
Dividend paid (incl tax)	0	0	0	0	0
Others	8,266	7,700	(988)	0	0
Financing cash flow	8,394	9,989	17,134	(1,171)	(18,021)
Net chg in Cash	(57)	373	1,075	17,129	(10,086)
OCF	(173)	(3,803)	(20,365)	21,512	10,813
Adj. OCF (w/o NWC chg.)	(2,720)	(7,353)	(40,437)	27,801	8,260
FCFF	(1,361)	(11,173)	(26,145)	17,769	6,985
FCFE	(1,151)	(10,802)	(26,183)	16,129	6,914
OCF/EBITDA (%)	128.8	(2,708.8)	(1,862.7)	106.2	80.6
FCFE/PAT (%)	183.5	3,869.1	(4,157.4)	147.7	63.7
FCFF/NOPLAT (%)	(1,762.0)	1,367.4	5,689.9	160.0	100.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,178	1,716	1,740	1,740	1,740
Reserves & Surplus	18,124	28,013	29,755	40,674	51,528
Net worth	19,303	29,730	31,495	42,414	53,268
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,470)	(738)	(613)	(613)	(613)
Total debt	124	2,027	20,605	21,605	4,605
Total liabilities & equity	17,957	31,019	51,487	63,406	57,260
Net tangible fixed assets	0	0	0	0	0
Net intangible assets	0	0	0	0	0
Net ROU assets	0	0	0	0	0
Capital WIP	396	1,536	2,204	2,407	2,754
Goodwill	0	2,118	2,118	2,118	2,118
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	7,490	10,041	6,356	23,485	13,399
Current assets (ex-cash)	10,367	17,238	63,097	75,890	65,113
Current Liab. & Prov.	1,674	4,264	29,926	49,007	35,677
NWC (ex-cash)	8,693	12,974	33,171	26,883	29,436
Total assets	17,957	31,019	51,487	63,406	57,260
Net debt	(3,348)	(5,391)	17,586	1,457	(5,457)
Capital employed	17,957	31,019	51,487	63,406	57,260
Invested capital	10,071	19,442	42,927	37,514	41,107
BVPS (Rs)	183.8	261.9	182.0	245.0	307.8
Net Debt/Equity (x)	(0.2)	(0.2)	0.6	0.0	(0.1)
Net Debt/EBITDA (x)	24.9	(38.4)	16.1	0.1	(0.4)
Interest coverage (x)	(0.1)	(0.8)	0.3	0.1	0.1
RoCE (%)	(3.3)	(0.8)	3.6	33.9	30.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	2,220.6	(368.7)	249.2	14.4	14.5
P/CE(x)	117.5	119.6	64.0	11.6	11.8
P/B (x)	4.9	3.5	5.0	3.7	2.9
EV/Sales (x)	16.7	10.6	7.5	1.6	2.2
EV/EBITDA (x)	(682.9)	694.7	159.7	7.8	11.3
EV/EBIT(x)	(101.9)	(97.6)	(238.7)	9.0	13.8
EV/IC (x)	9.1	5.0	4.1	4.2	3.7
FCFF yield (%)	(1.5)	(11.5)	(15.0)	11.2	4.6
FCFE yield (%)	(1.2)	(10.5)	(16.7)	10.3	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	0.8	(3.0)	2.7	11.3	15.6
Total asset turnover (x)	0.4	0.4	0.6	1.7	1.2
Assets/Equity (x)	0.9	1.0	1.3	1.6	1.3
RoE (%)	0.3	(1.1)	2.1	29.5	22.7
DuPont-RoIC					
NOPLAT margin (%)	1.4	(8.9)	(2.0)	11.5	10.0
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	0.9	(5.5)	(1.5)	27.6	17.6
Operating metrics					
Core NWC days	576.2	515.0	523.2	101.7	154.7
Total NWC days	576.2	515.0	523.2	101.7	154.7
Fixed asset turnover	0.7	0.8	1.4	4.6	2.8
Opex-to-revenue (%)	46.0	37.5	26.7	13.0	17.5

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-24	806	975	Buy	Santosh Sinha
20-Jan-24	813	1,025	Buy	Santosh Sinha
07-Jan-24	866	1,050	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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