



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Sales Note @ Dalal & Broacha

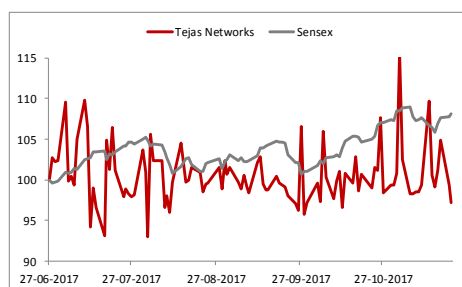
BUY

Current Price	400
Target Price	520
Upside/Downside	30%
52 Week Range	429/257

Key Share Data

Market Cap (Rs.bn)	36
Market Cap (US\$ mn)	549
No of o/s shares (mn)	90
Face Value	10
Monthly Avg. vol(BSE+NSE) Nos'000	395779
BSE Code	540595
NSE Code	TEJASNET
Bloomberg	TEJASNET IN

Price performance



% Shareholding	Sep-17	Jun-17
Promoters	-	-
Institutions	30.5	29.6
Others	69.5	70.3
Total	100	100

Tejas Networks (TJNL) is an Optical and Data Networking products company which designs, develops and sells high performance products to Telecom Service Providers. TJNL's revenue mix consists of Optical Networking Products which contribute ~90% to its topline whereas Services contribute ~10% to topline as of Q2FY18. The above mentioned products are applicable across the **Longhaul, Access and Metro** segments of the network.

Expect TJNL to deliver >20% revenue CAGR between FY17-20E on the back of robust growth in Telecom Ecosystem products industry

We believe that Telecom Ecosystem Products and Services industry is currently in a high-growth phase and will thrive for the next decade. Factors such as domestic Digital revolution and Government initiatives such as Digital India, BharatNet have driven demand for data usage exponentially in the last decade (no. of 3G subscribers have grown at 144% CAGR between 2009-14). However, the Infrastructure required for this data boom has lagged tremendously as telecos and Government undertakings have taken a 'short-cut' sort of an approach to enable 3G and 4G services by deploying more microwave antennas instead of laying more optic fiber. We expect that the Telecom Network Infrastructure will play a catch-up game with private telecos and Govt. undertakings investing in 'fiberizing' more towers apart from more independent 4G towers. Domestic Optical Networking Market stood at \$653 Mn in FY17 and the Global Optical Networking stood at \$15.7 Bn, which is estimated to grow at 10% and 5% CAGR to \$869 Mn and \$17.9 Bn by FY20E respectively.

Impeccable R&D discipline to ensure continuous portfolio enrichment through innovations and high domestic market share

TJNL is an R&D focused player with over 50% of its workforce allocated towards research activities and 40% of the pool having Masters/PHDs. We believe that this research focused approach and discipline is what differentiates TJNL as it ensures constant innovation and continuity of richness in the product portfolio. TJNL R&D expense stood at 13%, 10% and 8% of overall revenues in FY15, FY16 and FY17, respectively. An average R&D expense to Revenue percentage of 10.3% over the last 3 years gives TJNL the ability to keep pace with technology cycles and anticipate changing technologies. R&D discipline has enabled the company to garner 15% market share domestically and own over 300 IPs. Lastly, TJNL is a debt free company as of Q2FY18 with cash on books of INR 3800 Mn.

TJNL to be a key beneficiary of Preferential Market Access Policy

TJNL is one of the key beneficiaries of the Preferential Market Access Policy (PMA) issued by DOT in October 2012. The policy provides preference to domestically manufactured products that can have security implications for India. Furthermore, TJNL is a beneficiary of Modified Special Incentive Package Scheme (M-SIPS) and Defense Procurement Policy (DPP).

Outlook and Valuations:

TJNL is currently trading at PE multiple of 23.8x and 17.7x FY19E and FY20E EPS. We believe that the company will deliver high growth given that it holds ~15% market share domestically and is present in a high growth industry, we apply a P/E of 23x to its est. FY20E EPS of INR 22.6 have a BUY rating on the stock with a TP of INR 520.

Key Parameters (INR Mn)

	Net Sales	% Growth	EBITDA	% Growth	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	6275	62%	1130	65.0%	290	N.A.	3.2	124.0	8.0%	12.0%
FY17	8782	40%	1438	27.2%	632	118.1%	7.0	56.8	12.6%	11.3%
FY18E	10697	22%	1742	21.2%	1136	79.7%	12.7	31.6	10.8%	9.2%
FY19E	13025	22%	2217	27.3%	1566	37.9%	17.5	22.9	13.0%	10.9%
FY20E	15806	21%	2803	26.4%	2117	35.1%	23.6	17.0	14.9%	12.4%



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Profit & Loss Statement (INR Mn)

YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	6,275	8,782	10,697	13,025	15,806
Sales Growth (Y-o-Y)	62%	40%	22%	22%	21%
EBIDTA	1,130	1,438	1,742	2,217	2,803
EBIDTA Growth (Y-o-Y)	65%	27%	21%	27%	26%
Net Profit	290	632	1,136	1,566	2,117
Net Profit Growth (Y-o-Y)	N.A.	118%	80%	38%	35%
EPS	3.2	7.0	12.7	17.5	23.6
EPS Growth (Y-o-Y)		118%	80%	38%	35%
No of Shares (mn)	90	90	90	90	90
Profitability Margins					
EBIDTA Margin (%)	18.0%	16.4%	16.3%	17.0%	17.7%
NPM (%)	4.6%	7.2%	10.6%	12.0%	13.4%

Cash Flow Statement

YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	290	632	1,136	1,566	2,117
Less: Non Operating Income	-35	-87	-218	-309	-442
Add: Depreciation	382	564	516	540	564
Add: Interest Paid	493	315	5	3	2
Operating Profit before WC Changes	1,130	1,425	1,440	1,801	2,240
(Inc)/Dec in Current Assets	-726	-1,617	-385	-930	-1,054
Inc/(Dec) in Current Liabilities	718	-598	431	998	1,314
Changes in Inventory	-108	500	-339	-330	-365
Changes in Working Capital	-116	-1,715	-293	-262	-104
Cash Flow From Operations	1,015	-290	1,147	1,539	2,136
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-817	-542	-200	-200	-200
Add: Non Operating Income	35	87	218	309	442
Cash Flows from Investing Activities	-422	-124	18	109	242
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	85	-41	-2,520	-10	-10
Inc/(Dec) in Reserves & Surplus			4198	0	0
Less: Interest Paid	-493	-315	-5	-3	-2
Net Cash Flow from Financing Activities	-399	429	1,830	-13	-12
Net Inc/(Dec) in cash equivalents	194	16	2,995	1,635	2,367
Opening Balance	500	694	709	3,704	5,339
Closing Cash and Cash Equivalents	694	709	3,704	5,339	7,706

FCFF Statement

YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	1,130	1,438	1,742	2,217	2,803
Add: Depreciation Tax Shield	0	11	108	113	119
Working Capital Changes	-116	-1,715	-293	-262	-104
Less: Inc in FC Investment	-817	-542	-200	-200	-200
Taxes Paid	0	-13	-302	-416	-563
Total Free Cash Flows	198	-821	1055	1452	2054

Balance Sheet (INR Mn)

YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	665	740	897	897	897
Reserves & Surplus	2,940	4,267	9,601	11,167	13,283
Equity	3,605	5,007	10,498	12,064	14,181
Total Loans	2,590	2,549	29	19	9
Net Deferred Tax	20	36	36	36	36
Capital Employed	6,215	7,592	10,563	12,119	14,226
Assets					
Gross Block	3,561	4,103	4,303	4,503	4,703
Less: Depreciation	2,618	3,183	3,699	4,239	4,804
Net Block	943	921	604	264	-100
Capital WIP	518	186	186	186	186
Investments	0	0	0	0	0
Current Assets					
Inventories	2,317	1,817	2,156	2,486	2,851
Sundry Debtors	2,542	3,580	4,103	4,817	5,630
Cash and Balance	694	709	3,704	5,339	7,706
Loans and Advances	492	487	349	565	806
Other Current Assets	877	1,461	1,461	1,461	1,461
Total Current Assets	6,922	8,055	11,773	14,668	18,453
Current Liabilities					
Sundry Creditors	2,139	1,532	1,963	2,961	4,275
Provisions	29	38	38	38	38
Total Current Liabilities	2,168	1,570	2,001	2,999	4,313
Capital Applied	6,215	7,592	10,563	12,119	14,226
Valuation Ratios					
P/E (x)	124.0	56.8	31.6	22.9	17.0
PEG Ratio		0.5	0.4	0.6	0.5
P/S (x)	0.06	0.05	0.04	0.03	0.03
Market Cap/Sales (x)	5.7	4.1	3.4	2.8	2.3
EV/EBITDA (x)	50.6	43.3	26.3	18.3	12.6
EV/Sales (x)	6.0	4.3	3.0	2.4	1.8



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