



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q1 FY19 Result Update@ Dalal&Broacha

BUY

Current Price	280
Target Price	509
52 Week Range	245/472

Key Share Data

Market Cap (Rs.bn)	25.75
Market Cap (US\$ mn)	374.25
No of o/s shares (mn)	910.28
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos	79022
BSE Code	504595
NSE Code	TEJASNET
Bloomberg	TEJASNET IN

Price performance



% Shareholding

	June-18	Mar-18
Promoters	-	-
Public	100	100
Others	-	-
Total	100.00	100.00

Performance back on track on the back of higher order conversion

- TJNL's Q1FY19 revenue came in at INR 2,358 Mn, which was up 18% yoy and 131% qoq. Revenue bounced back after a disappointing performance in Q4FY18 (-56% qoq and -63% yoy) due to conversion of certain BharatNet Phase II orders and higher International revenues.

- EBITDA stood at INR 625 Mn, up 26% yoy and translating into an EBITDA margin of 27% which was at an all-time high. Margins were higher mainly due to better mix of products sold during the quarter which led to higher Gross Margins.

- PAT was reported at INR 450 Mn, which was mainly due to increase of 114% in Other Income at INR 96.5 Mn and reduction of 50% yoy in interest cost at INR 33.2 Mn and as per management guidance of gradual debt reduction.

- EPS stood at INR 4.95 versus INR 2.98 in the comparable quarter of the previous year

Expect key Government and international orders to convert in FY19E: Expect growth in FY19e to compensate for a 15% de-growth in FY18 mainly due to (i) positive trends in orders by the Central Government under BharatNet Phase II (ii) higher order booking in new initiatives (namely BharatNet ++) started by 4 domestic state Governments (iii) higher portion of international revenues from rural North America, Africa and S E Asia. Therefore, we expect FY19e revenue to increase 74% yoy (as shown in table below)

- Furthermore, management expects strong order booking from Private players on the back of launch of 5G which requires higher frequency of Base Stations (every ½ kilometre) and higher fiberization of towers which currently stands at 20-21% of total towers.

- Company's focus remains in the Metropolitan Access Network area where it differentiates itself from global competitors

Key Con-call Takeaways

(i) Some of the delayed Govt. orders materialized during Q1; expect balance orders to be converted by Q2FY19 (ii) Higher traction in pipeline due to additional initiative of BharatNet++ started by 4 states (iii) Headcount stands at 702 with 51% in R&D (iv) Working Capital Days stood at 145, expect it to come down to 130-140 days in FY19e (v) Order book at the beginning of the financial year stood at INR 579 Cr (vi) Expect Domestic to International revenue mix to change from 82:18 in FY18 to 70:30 in FY19e; realizations in International revenues are much higher (vii) Business in Rural America has immense potential as there are 100+ regional operators (viii) Africa can outperform as there is lack connectivity and there is huge potential; company has increased sales offices from 1 to 4 (ix) Expect global addressable market to grow from USD 18 Bn currently to USD 23 Bn by FY2023

Valuation & Outlook:

Order conversion & execution has revived and been strong for TJNL in Q1FY19. Management has indicated that balance and new orders under BharatNet Phase II should materialize by Q2FY19 and international revenues should be much higher in the 2nd half of FY19E. We believe that management confidence of higher win rates in FY19e coupled with a robust optical networking product industry should bode well for TJNL's performance over FY19e and FY20e. We maintain our BUY rating on the stock as we apply a PE multiples of 22x FY20e EPS of 23.40 and arrive at a target price of INR 509.

Consolidated Financials (in INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	6275	62%	1130	18.0%	290	4.6%	3.2	125.1	8.0%	12.0%
FY17	8782	40%	1438	16.4%	632	7.2%	7.0	57.4	12.6%	11.3%
FY18E	9222	5%	1494	16.2%	1117	12.1%	12.4	32.5	10.7%	7.4%
FY19E	13025	41%	2217	17.0%	1566	12.0%	17.5	23.2	13.0%	10.9%
FY20E	15806	21%	2803	17.7%	2102	13.3%	23.4	17.3	14.9%	12.4%


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Quarterly Result Analysis

YE March (Rs. mn)	Q1 FY19	Q4 FY18	Q-o-Q change %	Q1 FY18	Y-o-Y change %
Total Revenue (INR Mn)	2,358	1,021	130.9%	2,017	16.9%
Less:					
Raw Material Consumed	1,116	430	159.6%	1,083	3.1%
Employee Expenses	326	205	59.0%	228	42.9%
Other Expenses	291	279		256	
Total Expenditure	1,733	914	89.6%	1,567	10.6%
EBIDTA	625	107	482.0%	450	38.9%
Less: Depreciation	172	118	45.4%	169	2.0%
Operating Income	453	-11		281	61.1%
Interest Paid	33	16	114.2%	68	(51.3%)
Other income (expense), net	97	101	(4.1%)	45	114.4%
Extraordinary Expense	0	0		0	
Profit Before Tax	516	74	596.0%	258	100.1%
Tax	66	-217		54	23.1%
PAT before Minority Interest	450	291	54.9%	204	120.3%
Profit After Tax	450	291	54.9%	204	120.3%
Basic & Diluted EPS (Rs.)	5.0	3.2	54.9%	2.3	120.3%
Basic & Diluted Outstanding (mn)	91	91		91	
Margin Analysis %			Change In bps		Change In bps
EBIDTA Margin	26.5%	10.5%	1,599	22.3%	420
Operating Margin	19.2%	-1.1%	2,028	13.9%	526
PBT Margin	21.9%	7.3%	1,463	12.8%	910
NPM	19.1%	28.5%	-937	10.1%	896
Effective Tax Rate (%)	12.8%	-291.8%		20.8%	-801
Cost Analysis %			Change In bps		Change In bps
Cost of Revenues/ Sales	47.3%	42.1%	524	53.7%	-636
Other income/ PBT	18.7%	135.6%		17.4%	125

Source: Company, Dalal & Broacha Research

- Cash & Cash Equivalents stood at INR 5,090 Mn
- Expect EBITDA margins to stabilize around 22% in FY19 from current levels of 26.5%
- PAT is expected to stabilize at 14-15% in FY19 from current levels of 19%
- Other Income increased by 114.4% in Q1FY19 mainly due to interest income from higher Cash Deposits



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Profit & Loss Statement (INR Mn)					
YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6,275	8,782	7,498	13,025	15,806
Operating Expenses					
Raw Materials	3,557	5,141	3,824	7,489	9,010
Employee Cost	1,003	1,155	923	1,586	1,892
Miscellaneous Expenses	363	610	1,222	899	1,091
Total Operating Expenses	5,144	7,344	5,969	10,808	13,003
EBITDA	1,130	1,438	1,529	2,217	2,803
Depreciation	382	564	613	261	303
EBIT	748	873	916	1,956	2,500
Other Income	35	87	278	309	442
Finance Expense	493	315	134	2	0
PBT	290	645	1,060	2,263	2,942
Adj. PBT	290	645	1,060	2,263	2,942
Current	0	13	-5	475	618
Profit After Tax	290	632	1,065	1,788	2,324
Adj. PAT	290	632	1,065	1,788	2,324

FY19e Revenue shows a growth of 74% yoy as we expect delayed orders of FY18 to be converted and executed in FY19e.

FCFF Statement					
YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA	1,130	1,438	1,529	2,217	2,803
Add: Depreciation Tax Shield	0	11	-3	55	64
Working Capital Changes	144	-2,344	901	-63	-21
Less: Inc in FC Investment	-817	2,076	-439	-250	-350
Taxes Paid	0	-13	5	-475	-618
Total Free Cash Flows	458	1168	1993	1483	1878

Balance Sheet (INR Mn)					
YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	665	740	941	908	908
Reserves & Surplus	2,940	5,189	14,778	16,269	18,050
Equity	3,605	5,929	15,719	17,177	18,958
Total Loans	2,590	2,815	23	13	3
Net Deferred Tax	20	21	11	11	11
Capital Employed	6,215	8,765	15,753	17,201	18,972
Assets					
Gross Block	3,561	1,485	1,924	2,174	2,524
Less: Depreciation	2,618	564	1,176	1,437	1,740
Net Block	943	921	747	736	784
Capital WIP	518	186	469	469	469
Current Assets					
Inventories	2,317	1,817	1,909	2,387	2,588
Sundry Debtors	2,542	3,829	2,757	3,925	4,764
Cash and Balance	694	710	7,323	8,748	9,879
Loans and Advances	492	491	2,353	2,028	2,895
Total Current Assets	6,045	7,816	15,553	18,300	21,337
Current Liabilities					
Sundry Creditors	2,139	1,533	1,674	2,961	4,275
Provisions	29	46	69	69	69
Total Current Liabilities	2,168	1,579	1,743	3,030	4,344
Misc Assets	877	1,422	727	727	727
Capital Applied	6,215	8,765	15,753	17,201	18,972

Valuation Ratios					
	FY16	FY17	FY18	FY19E	FY20E
P/E (x)	84.5	38.7	23.3	13.9	10.7
PEG Ratio		0.3	0.4	0.2	0.4
P/S (x)	0.04	0.03	0.04	0.02	0.02
Market Cap/Sales (x)	3.9	2.8	3.3	1.9	1.6
EV/EBITDA (x)	35.3	30.5	19.1	8.1	6.0
EV/Sales (x)	4.2	3.0	2.3	1.2	0.9



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