



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal&Broacha

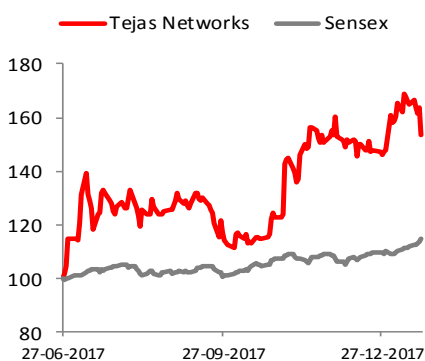
BUY

Current Price	404
Target Price	519
52 Week Range	472/257

Key Share Data

Market Cap (Rs.bn)	35.5
Market Cap (US\$ mn)	559
No of o/s shares (mn)	90
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos	323,000
BSE Code	504595
NSE Code	TEJASNET
Bloomberg	TEJASNET IN

Price performance



% Shareholding	Sept-17	Jun-17
Promoters	-	-
Public	100	100
Others	-	-
Total	100.00	100.00

Revenue off-target due to order delays whereas profitability in-line with estimates

- Tejas reported its Q3FY18 financials which were largely disappointing and preliminary guidance of 5% yoy growth in FY18E was much below earlier guidance of 20% yoy growth.
 - Revenue came in at INR 2,299 Mn, up 6.4% qoq but down 20.4% yoy. EBITDA was reported at INR 507 Mn, up 9.3% qoq and down 19.1% yoy.
 - PAT was on track and set to achieve our annual estimates as it was reported at INR 301 Mn, up 12.2% qoq and up 158.5% yoy. PAT outperformed as company has become debt free in H1FY18. EPS was reported at INR 3.4 in Q3FY18

Downgrade in FY18E growth guidance offset by improvement in operational parameters

- Management indicated that due to a delay in order rollout by the Govt. of India to the next financial year, revenues were suppressed in Q3 and hence FY18E growth will be ~5% from earlier guidance of 20%. Although this downgrade is completely tangential to our estimates, we believe that lumpiness in growth will be a huge risk for TJNL's revenue growth due to high concentration of Govt. related revenues. Additionally, compensating in FY19E for downgraded growth guidance in FY18 will be a steep task to achieve.
 - On the plus side, DSO reduced to 154 days from 167 days as September 2017
 - Company has increased its headcount from 600 to 697 on account of 30% increase in R&D and 19% increase in S&M efforts.

Key Concall Takeaways

(i) Some of the large projects are shifted to the next financial year (April 2018 to be precise) because of which FY18E growth guidance reduced to 5%. Having said that, management expects YoY growth guidance of 20% to continue in the long to medium term. There is no reduction in guidance, timing of certain BharatNet phase II project rollouts moved to March end. Expect growth in FY19 to compensate for downgraded growth guidance in FY18 (ii) Company has set up direct sales channels in S.E. Asia, Africa and the US (iii) BharatNet Phase II initiated in December and is now in execution phase, expect it to be 1.5x the size of Phase I and a INR 5,000 Cr opportunity (iv) Expect Africa and S.E. Asia to be huge markets as broadband subscribers are expected to double over the next 5 year period (v) Free Cash Flow for the 9MFY18 period was INR 127 Cr (vi) Have cost advantage in R&D (can do upto 4-5x more R&D) in India compared to any other company in the US (vii) Management stated that one can expect PAT margins to improve by another 200-300 bps ahead (viii) Although company has products across the range of Access, Metro and Longhaul, main focus area of product portfolio is the Access and the Metro part of the network (ix) 2 main parameters to track business: when data usage increases and when fibre laying increases

Valuation & Outlook:

We have noticed phenomenal growth in the Optic Fiber industry on the volume and realizations front which should reflect positively for the Optical Networking Products industry as well. We expect growth to remain lumpy and volatile but inevitable nonetheless. Stock is currently trading at 23.2x and 17.3x FY19E and FY20E EPS. We reiterate a BUY rating on the stock with a target price of INR 519.

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)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %
Total Revenue (INR Mn)	2,299	2,161	6.4%	2,888	(20.4%)
Less:					
Raw Material Consumed	1,143	1,168	(2.1%)	1,813	(36.9%)
Employee Expenses	256	234	9.1%	211	21.0%
Other Expenses	392	295		237	
Total Expenditure	1,791	1,697	5.5%	2,261	(20.8%)
EBIDTA	507	464	9.3%	627	(19.1%)
Less: Depreciation	153	173	(11.6%)	127	20.0%
Operating Income	355	291	21.7%	500	(29.0%)
Interest Paid	35	15	126.6%	66	(47.2%)
Other income (expense), net	68	65	5.1%	20	235.0%
Extraordinary Expense	0	0		305	
Profit Before Tax	388	341	13.8%	149	160.1%
Tax	86	72	20.1%	32	166.0%
PAT before Minority Interest	301	269	12.2%	117	158.5%
Profit After Tax	301	269	12.2%	117	158.5%
Basic & Diluted EPS (Rs.)	3.4	3.0	12.2%	1.3	158.5%
Basic & Diluted Outstanding (mn)	90	90		90	
Margin Analysis %			Change In bps		Change In bps
EBIDTA Margin	22.1%	21.5%	60	21.7%	37
Operating Margin	15.4%	13.5%	195	17.3%	-187
PBT Margin	16.9%	15.8%	111	5.2%	1,170
NPM	13.1%	12.4%	68	4.0%	907
Effective Tax Rate (%)	22.2%	21.1%	115	21.7%	49

Source: Company, Dalal & Broacha Research



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Profit & Loss Statement (INR Mn)					
YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	6,275	8,782	9,222	13,025	15,806
Operating Expenses					
Raw Materials	3,557	5,141	5,349	7,489	9,010
Power & Fuel Cost	34	36	37	52	63
Employee Cost	1,003	1,155	1,328	1,586	1,892
Other Manufacturing Expenses	170	61	138	326	395
Selling and Administration Expenses	500	743	784	1,107	1,344
Miscellaneous Expenses	363	610	553	899	1,091
Less: Pre-operative Expenses Capitalis	483	401	461	651	790
Total Operating Expenses	5,144	7,344	7,728	10,808	13,003
EBITDA	1,130	1,438	1,494	2,217	2,803
Depreciation	382	564	510	540	582
EBIT	748	873	983	1,677	2,220
Other Income	35	87	435	309	442
Finance Expense	493	315	5	3	2
PBT	290	645	1,414	1,983	2,661
Adj. PBT	290	645	1,414	1,983	2,661
Current	0	13	297	416	559
Profit After Tax	290	632	1,117	1,566	2,102
Adj. PAT	290	632	1,117	1,566	2,102

Cash Flow Statement					
YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	290	632	1,117	1,566	2,102
Less: Non Operating Income	-35	-87	-435	-309	-442
Add: Depreciation	382	564	510	540	582
Add: Interest Paid	493	315	5	3	2
Operating Profit before WC Changes	1,130	1,425	1,197	1,801	2,244
(Inc)/Dec in Current Assets	-426	-1,032	181	-603	-1,080
Inc/(Dec) in Current Liabilities	718	-598	162	1,267	1,314
Changes in Inventory	-108	500	11	-581	-201
Changes in Working Capital	185	-1,131	354	83	34
Cash Flow From Operations	1,315	294	1,550	1,883	2,278
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-817	-542	-150	-250	-350
Add: Non Operating Income	35	87	435	309	442
Cash Flows from Investing Activities	-722	-708	285	59	92
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	3,666	1,929	2,358
Opening Balance	500	694	709	4,375	6,305
Closing Cash and Cash Equivalents	694	709	4,375	6,305	8,663

FCFF Statement					
YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	1,130	1,438	1,494	2,217	2,803
Add: Depreciation Tax Shield	0	11	107	113	122
Working Capital Changes	185	-1,131	354	83	34
Less: Inc in FC Investment	-817	-542	-150	-250	-350
Taxes Paid	0	-13	-297	-416	-559
Total Free Cash Flows	498	-237	1508	1747	2050

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	9,581	11,148	13,250
Equity	3,605	5,007	10,478	12,045	14,147
Total Loans	2,590	2,549	29	19	9
Net Deferred Tax	20	36	36	36	36
Capital Employed	6,215	7,592	10,543	12,100	14,192
Assets					
Gross Block	3,561	4,103	4,253	4,503	4,853
Less: Depreciation	2,618	3,183	3,693	4,233	4,816
Net Block	943	921	560	270	38
Capital WIP	518	186	186	186	186
Current Assets					
Inventories	2,317	1,817	1,806	2,387	2,588
Sundry Debtors	2,542	3,580	3,537	3,925	4,764
Cash and Balance	694	709	4,375	6,305	8,663
Loans and Advances	492	487	349	565	806
Total Current Assets	6,045	6,594	10,068	13,182	16,821
Current Liabilities					
Sundry Creditors	2,139	1,532	1,694	2,961	4,275
Provisions	29	38	38	38	38
Total Current Liabilities	2,168	1,570	1,732	2,999	4,313
Misc Assets	877	1,461	1,461	1,461	1,461
Capital Applied	6,215	7,592	10,543	12,100	14,192

Valuation Ratios	FY16	FY17	FY18E	FY19E	FY20E
P/E (x)	125.1	57.4	32.5	23.2	17.3
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)	5.8	4.1	3.9	2.8	2.3
EV/EBITDA (x)	51.0	43.6	32.5	17.9	12.4
EV/Sales (x)	6.1	4.3	3.5	2.3	1.7



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