



MORNING FARSIGHT

Thursday, July 19, 2018

TEJAS NETWORKS

CMP:RS 262

TRGT:RS 300

TIME HORIZON: 1 YEAR

Tejas Networks, having underperformed the market by 33% YTD and not having participated in rally seen among peers, is largely due to concerns surrounding topline growth due to delay in ordering, softer Q4FY18 earnings, slower-than-expected uptake in direct overseas selling and unwinding of OEM business. However, apart from one off weak Q4FY18, earnings are set to bounce back again in the coming quarters as 1) order book is healthy at over Rs 580 cr 2) heavy investment in sales & marketing should start delivering with overseas order wins. Tejas remains well placed to benefit from sustained data growth driving network expansion across telcos, utilities and govt. entities. Further, India government remains the largest proportion of its revenue and the company expects the segment should continue to grow, led by Bharat Net Phase 2, where a large number of tendering has already occurred. Some state governments are also in the planning stage of building a wider network beyond Bharat Net (links gram panchayat). The company also stands to gain from the US governments ban on US companies from exporting to ZTE as operators are now looking to diversify their supply chains to include non-Chinese vendors. Despite strong earnings growth till 9MFY18, company's Q4FY18 revenue declined to Rs 102 cr from Rs 230 cr QoQ, as some of the large orders came late into the year and hence coming quarters will see higher execution, for which company had submitted an exchange announcement well ahead of Q4 results, indicating good corporate governance. Management remains confident of achieving recovering lost revenue in FY19. Having ended FY18 with an EPS of Rs 12.41, company is expected to report an EPS of Rs 15 for FY19, leading to PE of 17.5x, which is seen attractive as Tejas should be benchmarked to global peers in end-to-end solutions like Huawei, as well specialized optical transmission equipment players like Adva, Ceina, etc. Company is also having a debt free balance-sheet with Cash Eqv of Rs 310 cr or Rs 34 per share, leading to net of cash PE of 15.2x. Share ruling at Rs 262 can move to Rs 300 in 1 year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.