Tejas Networks (Tejas) has informed stock exchanges that its FY18 revenue is likely to dip YoY versus earlier 5% growth guidance. The company attributed the guidance change to delays in receiving certain large orders. However, it highlighted that order pipeline remains healthy and the company is set for strong revenue and profitability spurt in FY19. Tejas has also bagged BSNL’s INR3.4bn BharatNet project order, which will be a key contributor to FY19 revenue growth. We are confident that the company will recover lost revenue in FY19. Maintain ‘BUY’ with INR530 target price.

Revenue spill to impact FY18 revenue growth

Tejas has issued a revenue growth warning—FY18 revenue is likely to decline versus earlier guidance of 5% growth. We envisage the company’s revenue to be lumpy due to large size of orders and customer concentration. In Q3FY18 results, the company had reduced its FY18 revenue growth guidance from 20% to 5%. Although management has clarified that the lost revenue will be recouped in FY19, the stock corrected ~9% since then. There have been earlier instances of revenue lumpiness—in FY15 revenue growth plunged to 0.6% only to bounce back to 59% in FY16. The revenue slip warning notwithstanding, management has maintained strong business outlook anchored by healthy order pipeline, which it envisages to drive strong FY19 revenue and profitability spurt. Tejas has also bagged BSNL’s INR3.36bn order for expansion of BharatNet. This is expected to be executed in FY19 and will be a key growth driver.

Outlook and valuations: Robust prospects; maintain ‘BUY’

We expect Tejas to sustain its growth momentum riding expanding product portfolio and expansion in emerging geographies. Moreover, the stock trades at attractive 23x FY20E EPS, considering strong revenue & earnings growth and high return ratios. We maintain ‘BUY/Sector Outperformer’ recommendation/rating with target price of INR530 (23x FY20E EPS).

<table>
<thead>
<tr>
<th>Financials</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to March</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenue</td>
<td>8,225</td>
<td>8,687</td>
<td>12,848</td>
<td>14,374</td>
</tr>
<tr>
<td>Rev. growth (%)</td>
<td>33.7</td>
<td>5.6</td>
<td>47.9</td>
<td>11.9</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,742</td>
<td>1,923</td>
<td>3,011</td>
<td>3,424</td>
</tr>
<tr>
<td>Adjusted Profit</td>
<td>937</td>
<td>925</td>
<td>1,839</td>
<td>2,153</td>
</tr>
<tr>
<td>Basic shares outstanding (mn)</td>
<td>67</td>
<td>90</td>
<td>90</td>
<td>91</td>
</tr>
<tr>
<td>Adjusted diluted EPS (INR)</td>
<td>13.9</td>
<td>10.0</td>
<td>19.8</td>
<td>23.0</td>
</tr>
<tr>
<td>EPS Growth (%)</td>
<td>225.0</td>
<td>(28.3)</td>
<td>97.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Diluted P/E (x)</td>
<td>26.4</td>
<td>36.8</td>
<td>18.6</td>
<td>16.0</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>15.1</td>
<td>15.2</td>
<td>9.6</td>
<td>7.9</td>
</tr>
<tr>
<td>ROAE (%)</td>
<td>21.8</td>
<td>12.1</td>
<td>16.4</td>
<td>16.3</td>
</tr>
</tbody>
</table>

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