

Price Waterhouse Chartered Accountants LLP

Independent Auditor's Review Report on the unaudited standalone results

The Board of Directors
Tejas Networks Limited,
5th Floor, J P Software Park,
Plot No 25, Sy. No 13, 14, 17, 18,
Konnapana Agrahara Village,
Begur Hobli, Bangalore - 560100

1. We have reviewed the unaudited standalone financial results of Tejas Networks Limited (the "Company") for the quarter ended December 31, 2019 which are included in the accompanying 'Statement of Unaudited Standalone Financial Results for the quarter and nine months ended December 31, 2019' and the notes thereon (together referred to as the "Statement"). The Statement has been prepared by the Company pursuant to Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (the "Listing Regulations, 2015"), which has been initialled by us for identification purposes. This Statement, which is the responsibility of the Company's Management and approved by the Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34"), prescribed under Section 133 of the Companies Act, 2013, and other accounting principles generally accepted in India. Our responsibility is to express a conclusion on the Statement based on our review.
2. We conducted our review of the Statement in accordance with the Standard on Review Engagement (SRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the Statement is free of material misstatement. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
3. Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying Statement has not been prepared in all material respects in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India and has not disclosed the information required to be disclosed in terms of Regulation 33 of the Listing Regulations, 2015 including the manner in which it is to be disclosed, or that it contains any material misstatement.

For Price Waterhouse Chartered Accountants LLP
Firm Registration Number: 012754N/N500016



Pradip Kanakia
Partner

Membership Number: 039985
UDIN: 20039985AAAAAE5331

Place: Bengaluru
Date: January 21, 2020

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Price Waterhouse (a Partnership Firm) converted into Price Waterhouse Chartered Accountants LLP (a Limited Liability Partnership with LLP identity no: LLPIN AAC-5001) with effect from July 25, 2014. Post its conversion to Price Waterhouse Chartered Accountants LLP, its ICAI registration number is 012754N/N500016 (ICAI registration number before conversion was 012754N)



Tejas Networks Limited

Registered and Corporate Office: J.P. Software Park, Plot No. 25, Sy. No. 13, 14, 17 and 18,
Konnappa Agrahara Village, Begur Hobli, Bengaluru 560 100, Karnataka, India.
Corporate Identity Number: L72900KA2000PLC026980
Tel: +91 80 4179 4600; Fax: +91 80 2852 0201
E-mail: corporate@tejasnetworks.com; Website: www.tejasnetworks.com

Statement of Unaudited Standalone Financial Results for the quarter and nine months ended December 31, 2019

(Rs. in crore except per share data)

Particulars	Quarter ended	Quarter ended	Quarter ended	Nine months ended	Nine months ended	Year ended
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	March 31, 2019
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Audited
I Revenue from operations	85.32	85.76	181.10	331.64	622.12	894.03
II Other Income	6.18	6.89	9.15	20.12	29.67	36.64
III Total income (I + II)	91.50	92.65	190.25	351.76	651.79	930.67
IV EXPENSES						
(a) Cost of materials consumed	42.98	35.22	95.36	172.02	318.20	463.70
(b) Employee benefit expense	23.79	21.38	26.13	70.07	85.52	117.60
(c) Finance costs	0.66	2.47	4.78	6.54	11.85	16.88
(d) Depreciation and amortization expense	20.33	18.24	16.19	56.16	48.43	65.88
(e) Other expenses	18.35	21.73	24.05	57.84	75.37	117.14
Total expenses (IV)	106.11	99.04	166.51	362.63	539.37	781.20
V Profit/(Loss) before tax (III - IV)	(14.61)	(6.39)	23.74	(10.87)	112.42	149.47
VI Income tax expense						
(1) Current tax	(0.66)	(1.54)	(2.93)	-	16.59	19.63
(2) Deferred tax expense/(benefit)	97.94	(1.55)	(5.00)	98.55	(15.00)	(16.85)
Total tax expense	97.28	(3.09)	(7.93)	98.55	1.59	2.78
VII Profit/(Loss) after tax (V - VI)	(111.89)	(3.30)	31.67	(109.42)	110.83	146.69
VIII Other comprehensive income/(loss)						
Items that will not be reclassified to profit or loss						
Remeasurements of the defined benefit obligation	0.03	0.24	(0.20)	0.22	(0.59)	(2.20)
Income tax relating to above	-	(0.01)	0.05	-	0.13	0.48
IX Total comprehensive income/(loss) for the period (VII + VIII)	(111.86)	(3.07)	31.52	(109.20)	110.37	144.97
X Earnings/(Loss) per equity share						
Equity shares of par value Rs. 10 each						
(1) Basic	(12.15)	(0.36)	3.46	(11.89)	12.15	16.07
(2) Diluted	(12.15)	(0.36)	3.29	(11.89)	11.52	15.33





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Notes

- 1 These financial results have been prepared in accordance with Companies (Indian Accounting Standard) Rules, 2015 (as amended) ['Ind AS'] prescribed under section 133 of the Companies Act, 2013 read with relevant rules, issued thereunder, and other recognised accounting practices and policies and in terms of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) ['Listing Regulations'].
- 2 The Company's operations comprise of only one segment viz. Networking equipment.
- 3 In July, 2017, the Income Tax Department (Department) initiated proceedings under Section 132 of the Income tax Act, 1961 (IT Act) and in March 2018, also sent a show cause notice to the company under Section 276(C) of the IT Act. The Company and its officials fully co-operated with the Department. During the previous years, the Company and certain officers of the Company had received Summons under various sections of the IT Act from the Special Court for Economic Offences. The Company has responded appropriately in this matter. Post the ongoing proceedings initiated by the Department, certain other agencies sent notices as part of their preliminary inquiries, which was duly responded by the Company and its officials. The Company is of the view that the outcome of these summons/notices will not have any material impact on the Company's financial results.
During the previous quarter, the Company received notices from the Department u/s 142(1) of the IT Act to furnish accounts and documents in respect of assessment years 2012-13 to 2017-18. During the current quarter, the Department has issued notices of demand for additional tax payable amounting to Rs. 25.62 crore (after adjusting the brought forward losses) under Section 156 of the IT Act after making additions of various items to income as per assessment orders issued under Section 143(3) read with Section 153A of the IT Act. The Department has also issued show cause notices for initiating penalty proceedings under Section 274 read with Section 270A/ 271(1)(c)/ 271AAB(1A) of the IT Act and the Company is in the process of responding to the same. The Company has also received a demand order for assessment year 2018-19 for additional tax payable amounting to Rs. 0.48 crore. The Company believes that there are several computational errors in the aforesaid demand orders and is in the process of filing the application for rectification of errors in the aforesaid notices, including non-consideration of brought forward losses in AY 2012-13 assessment, u/s 154 of the IT Act. The Company is also in the process of challenging the orders passed by the Assessing Officer (AO) and is in the process of filing the appeal with the Commissioner of Income Tax (Appeals) for the aforesaid assessment years. Based on Company's assessment of the Orders, supported by views obtained from an external tax consultant, Management is of the view that the Company has a strong case to defend its position in respect of the various items added by the AO to income computed in income tax returns filed earlier and further taking into account the availability of brought forward losses, no provision is considered necessary in these financial results.
- 4 In July, 2018, the Company received an order from Customs, Excise and Service Tax Appellate Tribunal ('CESTAT') with respect to applicability of excise duty on the software used as part of the Multiplexer products sold during the financial years 2002-03 to 2009-10. The aforesaid CESTAT order dealt with an earlier order received during the year 2010-11 with associated demand of Rs. 11.87 crore and various show cause notices on the similar matter received in different earlier financial years with associated demands aggregating to Rs. 24.88 crore. The CESTAT order was a culmination of the various appeals filed by both the Company and the Department of Central Excise in respect of both the earlier order and show cause notices mentioned above that were heard by the Commissioner of Central Excise and CESTAT. According to the CESTAT order, the value of software is to be included for the purpose of arriving at the assessable value for calculating the excise duty liability on the product. Accordingly, CESTAT had remanded the matter back to the adjudicating authority for quantifying the differential duty liability, interest and penalties. The adjudicating authority vide its order dated October 31, 2019 passed an order quantifying the differential duty liability and penalty amounting to Rs. 42.92 crore and ordering recovery of appropriate interest. Additionally, the adjudicating authority has also imposed penalty on certain officers of the Company amounting to Rs. 0.90 crore. The Company had filed a Miscellaneous Application with CESTAT on August 19, 2018 challenging the CESTAT Order passed in July, 2018. Pursuant to the recent quantification order of the adjudicating authority in October 2019, the Miscellaneous Application has been withdrawn during the current quarter as the Company is in the process of filing an appeal before the CESTAT against the order of the adjudicating authority dated October 31, 2019. The Company had also filed a Civil Application on September 24, 2018 under section 35L of the Central Excise Act, 1944 along with a stay application before the Hon'ble Supreme Court of India against the CESTAT Order passed in July 2018. The same is pending for final hearing. The Company had also received show cause notices from the Department of Central Excise in respect of financial years 2010-11 to 2013-14 on similar matters amounting to Rs. 3.01 crore which are not part of the orders discussed above and for which the company had provided its response. Based on Management's assessment, supported by an external legal opinion, Management has concluded that the Company has a strong case to defend its position in this matter and accordingly, no provision has been made in these financial results.
- 5 a) The Company has, at various grant dates issued Restricted Stock Units (RSUs) to its employees at face value of the Company's share, which were approved by the Nomination and Remuneration Committee and the Board of Directors. For the quarter ended December 31, 2019, an amount of Rs. 3.29 crore (December 31, 2018: Rs. 3.62 crore) has been recorded as employee share expenses based on accounting as per Ind AS 102, 'Share-based payments'. The RSUs granted and outstanding as at December 31, 2019, aggregates to 16,89,947 (December 31, 2018: 10,08,790).
b) The Company has, at various grant dates in the earlier years issued stock options under different Employee Stock Option Plans to its employees at different exercise prices. For the quarter ended December 31, 2019, an amount of Rs. 0.10 crore (December 31, 2018: Rs. 0.39 crore) has been recorded as employee share expenses based on accounting as per Ind AS 102, 'Share-based payments'.
- 6 The Company has from time to time in the normal course of business entered into factoring agreements on a non-recourse basis with bankers for some of the trade receivables. As at December 31, 2019 the trade receivables do not include receivables amounting to Rs. 23.87 crore (December 31, 2018: Rs. NIL) which have been derecognised in accordance with Ind AS 109 - Financial Instruments, pursuant to such factoring arrangements entered in the current quarter.
- 7 The Company and its overseas subsidiary has filed a claim against a vendor for recovery of outstanding amount (net), which comprises amount payable by the Company and amount receivable by the Company's overseas subsidiary. The Company has also received a counter claim from the said vendor. Based on management assessment, the counter claim is not tenable as it is not backed by reliable supporting documentation. There has been no business with this vendor for more than 3 years. The matter is sub-judice and is under mediation. The Company believes that the outcome of this litigation will have no material impact on this statement of financial results.
- 8 Effective April 1, 2019, the Company has adopted Ind AS 116, 'Leases'. Ind AS 116 introduces a single lessee accounting model and requires a lessee to recognise Right-of-use assets and lease liabilities for all leases with a term of more than twelve months, unless the underlying asset is of a low value. The Company has used the 'modified retrospective approach' for transition from Ind AS 17, 'Leases'. Therefore, the comparative information for the prior periods have not been restated. On transition, the Company has recorded the lease liabilities at the present value of future lease payments discounted using the incremental borrowing rate. The adoption of Ind AS 116 has resulted in recognition of Right-of-use assets of Rs. 22.65 crore and lease liabilities of Rs. 29.09 crore on the transition date and from such date the nature of expense for leasing arrangements has changed from lease rent in previous periods to depreciation on the Right-of-use assets and finance cost on the corresponding lease liabilities. Cumulative effect of adoption of Ind AS 116 has been recognised by debiting retained earnings by Rs. 4.69 crore (net of deferred tax impact) as at the transition date. The adoption of Ind AS 116 did not have a material impact on the results for the quarter ended December 31, 2019.
- 9 The Company had recognised deferred tax assets on losses comprising unabsorbed depreciation and unutilised expenditure on scientific research carried forward from previous years. As part of the ongoing review of the deferred tax assets, during the quarter, the carrying amount of the deferred tax assets has been reduced by Rs. 97.94 crore i.e. to the extent that it is not probable that sufficient future taxable profits will be available to absorb the tax losses.
- 10 Previous period's figures have been regrouped/reclassified where necessary, to conform with the current period's presentation for the purpose of comparability.
- 11 The above statement of standalone financial results was reviewed and recommended by the Audit Committee of the Board and subsequently approved by the Board of Directors at their respective meetings held on January 21, 2020.



Place: Bengaluru
Date: January 21, 2020

For and on behalf of the Board of Directors

Sanjay Nayak
CEO and Managing Director
(DIN: 01049871)

