While the Indian telecom sector has been witnessing rapid growth, the domestic equipment manufacturing space is still at a nascent stage. {K2Splitter}

While the Indian telecom sector has been witnessing rapid growth, the domestic equipment manufacturing space is still at a nascent stage. To provide a fillip to this segment, the National Telecom Policy, 2012 has included several provisions, mainly targeted at promoting research and development (R&D), design and manufacturing; incentivising telecom operators to use indigenous products; and providing fiscal incentives through a modified special incentive package scheme for telecom equipment manufacturing.

This focus on indigenous equipment production offers significant opportunities for companies like Tejas Networks Private Limited. Over the past year, the Bengaluru-based telecom equipment manufacturer has been involved in forming alliances as well as expanding its product portfolio and footprint in the international market.

Background

Tejas Networks is an R&D-driven telecom product company. It supplies optical transmission equipment to telecom operators in India and overseas. Currently, it has over 250,000 systems deployed across the networks of several Indian telecom players. As per the company, more than 70 per cent of the country's cell sites that have fibre connectivity use its transmission systems.

The company has manufacturing facilities in Puducherry and Bengaluru. Its Indian clients include Bharti Airtel and Tata Teleservices Limited in the private sector; and Bharat Sanchar Nigam Limited, RailTel and Power Grid Corporation of India Limited in the public sector.

Tejas Networks also has an extensive footprint overseas. According to company officials, its products are deployed by telecom operators in over 60 countries. Exports account for 35-40 per cent of its revenues.

Recent initiatives

Like its peers in the equipment manufacturing space, the past year has been difficult for Tejas Networks. According to Sanjay Nayak, co-founder and chief executive officer, “The Indian telecom industry has been facing major challenges and uncertainty. This resulted in operators reducing their investments and capex, and like other equipment vendors, we too were adversely impacted by this.”

Nevertheless, the company managed to win several contracts from telecom operators looking to upgrade their backhaul networks for 3G deployments and from companies providing bandwidth and data services. It also made significant investments in the R&D space over the past year.

In the short term, the company will focus on increasing its market share in the optical transmission space. “With a wider product portfolio and the introduction of newer packet transport technologies, which will help operators scale up their bandwidth needs in a cost-effective way, we are well placed to achieve this,” says Nayak.

In the global market, the company expanded its footprint in Southeast Asia, Africa and Latin America. Tejas Networks was the original equipment manufacturer for several large global equipment companies, which, in turn, sell its products to operators in several regions, including North America, Europe and Japan. Therefore, it is expected that the company’s global business will account for over 40 per cent of its total business this year.

Issues and concerns

According to Nayak, the company faces issues on two fronts – regulatory and technology. “From the business point of view, the uncertainty in the Indian telecom sector, and delays in network roll-outs and expansion present a huge challenge. Also, from the technology point of view, the majority of our customers’ revenues still come from voice. However, going forward, there will be an exponential growth in data traffic. Our challenge is to develop innovative products that incorporate these needs, and seamlessly and cost effectively scale today’s networks from being voice-dominated to future data-dominated networks.”

According to a Confederation of Indian Industry report, Tejas Networks, like other product companies, faces a finance disability of up to 22 per cent, as compared to its global counterparts. “One of the major hurdles is the high cost of finance, whereby we cannot avail of nor offer low-interest financing unlike our foreign competitors. Also, we do not receive any R&D grants or major export incentives from the government. India, moreover, still does not command brand power in high-tech products in global markets (unlike services), which impacts our business,” Nayak explains.

Industry analysts are concerned about the company’s ability to stand up to competition from seasoned players like Ericsson and Nokia Siemens Networks, given their global footprint and technological expertise. Nevertheless, Nayak remains confident that Tejas Networks will hold its ground owing to its focus on R&D and innovation. “Over 70 per cent of our workforce is in the R&D space and our customers trust us with their critical networking needs,” he says.

The way forward

In the long term, the company will be focused on expanding its product portfolio beyond optical transmission in order to gain a larger share of its customers’ capex budget. “With considerable investments in R&D and a loyal customer base, we are confident of achieving this in the next few years,” Nayak says.

Broadband is also an important focus area for the company. “The next phase of growth in the telecom space will be driven by new data-dominated services on broadband. In addition, there are some large government-funded broadband projects on optical fibre, which will require indigenous telecom products on a large scale. With our continued investment in R&D and product innovation, we expect to gain from broadband growth in India,” Nayak says.