



“Tejas Networks Limited
Q2 FY2019 Earnings Conference Call”

October 24, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks Q2 FY2019 Earnings Conference call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh from Axis Capital. Thank you and over to you, Sir!

Santosh: Thanks Umang. A very good afternoon to all the participants on this call. I welcome you to the Q2 FY2019 Earnings call for Tejas Networks. We have with us Mr. Sanjay Nayak, CEO and Managing Director, Mr. Kumar N. Sivarajan, Chief Technology Officer, Mr. Venkatesh Gadiyar, Chief Financial Officer, Mr. Arnob Roy, President, Optical Products.

The call will begin with a brief management discussion on the performance for the quarter this will be followed by a Q&A session. I will now hand over the floor to Mr. Sanjay Nayak. Over to you Mr. Sanjay!

Sanjay Nayak: Thank you again. This is Sanjay, coming from Tejas side. Good afternoon to everybody, I believe we have posted the presentation on the website and hopefully you have had a chance to look at it.

I will start with the first slide, which is the Q2 financial update. On a net revenue basis which is net of components pass through and the excise duty Q2 was at 203 Crores and first half was at 435 Crores, EBITDA was 44.6 Crores for the quarter and the 107 Crores for the first half, operating profit was 29.6 Crores for the quarter and 74.9 Crores for the first half and PBT was 36.4 Crores for the quarter and 88 Crores for the first half and PAT was 33.5 Crores for the quarter and 78.5 Crores for the first half.

We can see that while on a quarter-on-quarter basis we had a small decline, but on a half year basis we had a marginal increase in terms of revenues and if you recall in the earlier calls I have mentioned that the nature of our business is a bit lumpy so we really do not put that much emphasis on a quarter-on-quarter revenues, but really focus more on the annualized revenues.

Historically, one thing I would just like to mention is that the ratio between our first half and second half is typically skewed towards the second half and second half revenues are normally 55% to 60% of the total and first half revenues are 40% to 45%. We did have an aberration last year but the trend prior to that was always along these lines. So we do expect the second half of this year to be significantly higher than first half in line with the earlier ratios.

One other headline I just would like to reiterate that in the past we had maintained that we have a medium-term growth target of 20% year-on-year based on the visibility that we have and I will of

course talk a little bit more about the detailed pipeline and how our business is progressing. We are again confident that we will be able to deliver more than 20% year-on-year growth for this year and that it will also include a significant amount of catch up on the revenue deficit from last year. So overall we feel that we should have a significantly strong growth on a year-on-year basis this year.

In terms of profitability we continue to maintain that we have been able to do well on that front. In fact the profit for this quarter is among the top two or three in the last 12 quarters so profitability wise we seem to be doing fine and we again believe that whatever guidance we have given in the past, which is 14% to 15% of our net revenues we should be able to maintain that this year as well.

So to summarize, I would say that when we look at the full year revenues we feel very confident and comfortable that we have a very strong backlog and revenue pipeline for the next half and we should be able to deliver the growth that we expect during the year. However before I get into more details I would request Venkatesh to first walk through the financial part and then Kumar will walk you through the technology slides. I will then end with and a region-by-region sales guidance and discuss how we are progressing.

Venkatesh can you please walk us through the next set of slides?

Venkatesh Gadiyar:

Thank you Sanjay. Thank you everyone. I am Venkatesh here. The services revenues increased in the first half to 6.1% of the net revenues compared to 4.5% in the corresponding previous period and we significantly improved our profitability primarily on account of the higher gross margin for our products and the operating expenses while we are investing in R&D other expenses are under control. For the first half our operating expenses grew by 7.1% and as a percentage of net revenues increased by 80 basis points. The gross employee cost increased by 30.4%, the headcount increased from 680 to 754 in the last 12 months.

EBITDA grew by 17.2% on a year-on-year basis and as a percentage of net revenue increased from 22% to 24.6% primarily on account of better gross margin. As we mentioned earlier, EBITDA on an annualized basis is expected to be in the range of 20 to 22%. Higher EBITDA along with the increased other income resulted in an increase of PBT by 47.1% on a year-on-year basis for H1.

We have recognized a deferred tax credit of 10 Crores for the first half of this period. Our PAT for the half-year grew by 66% on a year-on-year basis. PAT was 18.1% of the net revenue for the half-year compared to 11.4% for the half-year ended September 2017.

H1 EPS grew by 48%. On working capital, barring delayed collection from one customer we are under control in terms of our working capital. Our DSOs is up by 37 days from 167 days as of June 2018 primarily on account of one-off delayed collection from a large Indian PSU customer,

which was slipped out in September Q2 for about 150 Crores. This is only a procedural thing where we have submitted all our documents. There is no delay from our end and we expect this to be collected during Q3 FY2019.

As a result of this, on the cash flow front, we have utilized about 32 Crores for operations in the first half. On the positive side we have stretched our payables and better managed the inventory. Our DPO increased by 16 days and inventory days decreased by 15 days compared to March 2018. We expect to see an improvement in the working capital to a steady state of 130 to 140 days during the year.

We are practically a debt free company. We still have a healthy cash and equivalents of Rs.454 Crores including an investment in mutual fund about Rs.11 Crores and deposit with the financial institutions of about Rs. 285 Crores, we saw a decline of Rs. 64 Crores in the first half mainly due to the delayed collections from the one large customer and we have no exposure to any risky financial invests in our cash and equivalents or investments.

In summary for the full year we expect our revenues to grow faster than our medium-term growth target of 20% and we expect PAT to be in the range of 14% to 15% for the full year.

Sanjay Nayak:

Thank you Venkatesh. Just go to the next slide on the corporate updates. Just a quick summary again as on date we have 754 employees and more than 50% of our team is in R&D. We have been able to continue investing in building up our team. In terms of new management team additions we have recently hired Abhijat Mitra as our Head of HR who till recently was with McKinsey & Company and is a great addition to the team.

Here I would like to mention about one international award because it is a highly prestigious one. We are one of the three global telecom equipment companies to be selected as a finalist for the 2018 Broadband World Forum award for our FTTH product in the Achievement in Network Convergence Category. The final winners are actually going to be announced tonight in Berlin later today. . So this demonstrates that our products are absolutely world class and this has now been independently validated by the most relevant forum for our business.

We continue to focus on IPR and patents. We have more than 349 patents filed out of which 94 have been granted, 16 patents were actually granted in Q2 of FY2019. On the 5G standard we have been talking about how we from India have been contributing to it. Once again we are very happy to inform that the transport, which is the optical transport standard related to our business, which is a standard called CPRI has been published by the Telecom Standards Development Society of India and the Chairman of the technical working group was from Tejas.

In terms of international customer wins and I will of course go into a lot more detail later in the presentation, we are again very happy to share that we have registered eight new international customer wins across America, Africa and Southeast Asia. These wins are very important

because every win essentially establishes a larger run rate for us and a stronger footprint in these regions and I will go into more details of the customer wins a little bit later as well.

Couple of other things, which have happened in the recent past, which I thought could be interesting for everybody to see on one screen, which is the policy developments in India. There are four broad things, which have happened since the last time I spoke to all of you. The first is that the preferential market access policy which was originally notified in 2012 has been updated and the new version of the policy has been gazetted towards the end of August. The good part of this updated policy is that they have now mandated that any central government funded project even if it is only partially funded by the center, such as a state government or local government project, has to comply to the PMA policy on a product-by-product basis. This essentially means that for every product identified in the PMA policy, the tendering agency has to satisfy the PMA criteria. Secondly certain government agencies used to incorporate restrictive conditions to eliminate or to discourage participation of Indian equipment manufacturers. The new policy adds a specific clause that penalizes any officer that engages in such activity, so I think it is a very strong endorsement from the government.

The second major policy development is the TRAI recommendations on promoting local telecom equipment manufacturing. The final recommendations have been released and again they have emphasized Design and Made in India products, which is basically what we are focusing on. The recommendations also talk about strengthening the PMA policy and incentivizing private operators to buy Indian products. TRAI has also suggested certain mechanisms for generation of domestic IPR and export promotion through Telecom Export Promotion Council (TEPC) of which I'm the Co-Chairman..

The National Digital Communications Policy has been approved. It is again broadly painting the picture for our industry. The fiberization of towers is targeted to go up to 60% in the next four to five years. On broadband penetration they have a very ambitious target to pretty much cover everybody in India and in this regard the focus is once again on design-led manufacturing. and try and which is basically access to patents from abroad on a friendly terms and again push on the 5G side where again we have product that we are focusing on.

The last one, which came most recently is the customs duty increase on essentially eight telecom products six out of which we actually manufacture. Any company that imports these products will have to pay 20% plus 2% cess, which is 22% effective duty if they are imported as finished goods. Even if the products are imported as semi-finished goods they still have to pay 12% duty. So this duty differential actually motivates our customers to buy products from us, especially those who purchase in rupees, rather than importing those products. I believe that these four policies together are fairly positive for our business especially from a government angle.



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The next couple of slides I will request Kumar to walk us through in terms of the big picture of the industry and how our products are really focusing and solving those problems. Kumar, over to you please!

Kumar N. Sivarajan: Thank you Sanjay. The biggest driver of our business growth is data usage and growth in data usage continuous to be robust. The number of connected devices is doubling every year and will reach about 16 billion by 2022 so that is like way more than the population of the world.

Smartphones were becoming affordable everyday and we can see this impact in India. This is enabling video consumption by the mass market. App based calling has become the norm now not regular phone calls and so voice over IP traffic is also doubling every year. So the amount of data that is video traffic is like a zettabyte, which is a huge number, which you can look.

This immense growth in mobile data is driving spend on optical networks for 4G and 5G backhaul and as we have said previously the majority of spending on mobile backhaul has now moved from microwave to optical.

Optical is used not only for mobile backhaul but also for residential broadband with GPON Technology. Most of us have a fiber broadband connection at home and this is growing to be a \$7 billion market, because GPON is cost effective, operators will consider using GPON not only for home connectivity but also for businesses and in some cases even for mobile backhaul. This increase in data traffic has a cascading effect on the core WDM networks, which now carry 200 gigabits per wavelength and will soon in 2019 carry 400 and 600 gigabits per wavelength.

Interestingly over three quarters of the optical spend is in metro markets and as you know metro market is the focus of Tejas Networks.

We have talked about all the technologies in the past. We continue to invest in new technologies for all our target applications. We are investing in transport of CPRI and eCPRI front-haul traffic for 4G and 5G networks.. We are investing in alien wavelength solutions for 100 Gig, 200 Gig DWDM networks. We are upgrading our GPON technology to the next generation or NG-PON and we continue to invest in circuit emulation, SDN and NFV technologies for network modernization.

Our investments in all these new technologies have enabled us to win several multimillion-dollar deals in the recent quarter. We won an alien wavelength WDM contract in Mexico. We have had a number of wins in Africa, which we talked about previously now we have added other countries around the world, and most recently in Mexico.

In Nigeria we have won a deal of combined packet transport and GPON, which is to deliver broadband services with a leading wholesale bandwidth provider. Again in Africa we got 200 Gig DWDM contracts from one of the top wholesale bandwidth providers and a fourth one is

also from Africa where we combined our packet transport and high capacity circuit emulation for a converged mobile backhaul network that backhauls 2G, 3G, 4G traffic and even 5G in future and this is one of the leading telecom service providers in Nigeria.

Back home in India we announced on Monday that we won a contract to build the network for the Indian Navy, which covers DWDM, as well as layer 3-gigabit Ethernet switches.

In the US our network modernization continues to gain traction. We recently won business with an operator to use circuit emulation to modernize his network. And with the existing customers network expansion is underway with one of our largest telecom customers in Malaysia where we have expanded their packet transport network in a significant way.

With that update I now hand over to Sanjay for a sales update on each of our business segments.

Sanjay Nayak:

Thank you Kumar. Kumar gave you a flavor of all the new technologies that we are working on and more importantly how all these technologies together are actually enabling us register significant wins. Moreover many of the wins that we spoke about in the previous slides are actually Tier 1 operators so I will talk about that further in the context of international sales.

So I'm on the slide which talks about the India sales update. As you would have seen earlier this week we received an order for Rs 111 crores from Indian Navy, for Navy's pan-India communication network, through Sterlite Technologies. Another thing I would like to share is that many of the BharatNet Phase II tenders, which were tendered by BSNL have been decided. The L1 bidders have been announced and our system integration partners who have won these bids the orders should be received by the system integration partners now they are already starting to receive those orders some of them we have got and a lot more we are going to get.

I am very pleased to inform that a large majority, around 80% of the tenders that were bid at the BSNL central, have been won by partners who are going to buy Tejas equipment and we expect those orders to come in the current quarter. In addition we have also talked in the past that some of the states are also starting to build their own Bharat Net networks. Again, in a few of these states, which have already issued the tenders and bidding completed, a few of our SI partners have been declared the winners. In some of the larger state tenders such as T-Fiber in Telangana where bidding has already been completed all the four bidders have bid our GPON equipment..

I strongly believe that between the central and the state tenders, the revenue funnel is going to come out from this part of the business is going to be quite healthy and all of those orders should come to fruition in this quarter itself, at least the central Bharat Net orders and maybe a few states where our partners have won.

In addition our utility business, which is power, rail, and oil continues to be extremely healthy and we continue to have a dominant market share in the segments we address. The good part

about all the government business that we talked about here is that all the deliveries from us are going to be done in terms of revenues and equipments in the current fiscal year itself, because while there may be multiyear contracts but as far as our contracts are concerned this is primarily for equipment supply, which we should be completed over the next few months and definitely before the end of this fiscal year.

In that sense I would say that the government business for what revenue growth rate we are looking at is already under control and we again see a fairly healthy year-on-year business growth in spite of the larger base that we had last year.

Coming to India Private, this is another interesting area where earlier on a big part of the spending was happening on fiberization of cell towers, and as Kumar mentioned a few minutes back, fiberization of homes and enterprises has also started to pick up. I'm sure all of you have heard about the ambitious FTTH plans announced by all the major operators in the country. All the Indian operators are opting for GPON technology for FTTH and the fact that we are one of the leading suppliers of GPON equipment for Bharat Net and that our product has been shortlisted among the top three in the world at the 2018 Broadband World Forum positions us really well for these opportunities.. I am very happy to say that we are currently at an advanced stage of engagement with all the major players who are building GPON networks in the country and we expect that as the outcome of those RFPs start getting announced we should be seeing significant success.

In addition as you know there is some consolidation happening in the industry where a couple of large telecom operators have merged and they have shortlisted their new suppliers for the combined entity. Again we are in the supplier shortlist for their optical transmission requirements and the final decision for those is still awaited. We believe that we have a fair shot at winning those as well. So the net effect I would say in the India Private space is that for the first half of the year itself we saw significant revenue growth from our private customers on a year-on-year basis.. In addition, based on the pipeline of revenue forecast, the orders that we see from our existing customers as well as the new wins for the new applications especially like FTTH give us a lot of confidence that on an annualized basis we are likely to register significant growth for the private business this year. So while last year our India revenues were dominated by government business, this year we expect to see healthy growth in private business as well.

I'm now coming to the next slide on international sales. I will give you a view on both the emerging markets and the Americas. In Southeast Asia we have got anchor customers in Malaysia and we are starting to see a lot more business coming out of them. Vietnam is a new country I have been talking about since last quarter. I am very happy to say that we have started to get the initial orders from Vietnam and some of the engagements in Vietnam are with Tier 1 operators. In addition we are also seeing countries like Sri Lanka and Bangladesh coming up quite well and most of these are for applications that Kumar had mentioned previously. On an overall basis, I am happy to say that we have graduated from USD 100K orders to million dollar

and multimillion dollar orders in Southeast Asia and as a region Southeast Asia should deliver more than USD 10 million this year.

Coming to Africa, Africa has been the fastest growing region for us. As we mentioned in previous earnings calls, we have split Africa into four sales territories which is South, East, West and North Africa and we have started making additional sales investments, in each of these four regions. In the last few months, we have registered Tier 1 wins in Africa. In fact, a few of these Tier 1 operators have pan Africa presence or even inter-continental reach.

Nigeria was a market we started to invest last year and Kumar give a few examples which demonstrate that we are doing quite well in Nigeria and similarly in Kenya. Once again we now have Tier 1 successes in these countries and the size of the deals too are getting larger. We are very confident that Africa will be a significantly high growth market for us and definitely cross \$10 million in revenues this year.

USA has been a market where we said that we will go after Tier 2 and Tier 3 operators. With Tier 3 operators the decision-making is typically faster and that is why we have started to see initial success in network modernization projects. The Tier 2 engagements are going quite well except that they do take a lot more time in terms of fructifying and translating to serious revenues for us. We are hopeful that before the end of fiscal year we should be able to win at least one d Tier 2 operator before the end of the year. But on an overall basis I should add that it has been a slow start for the US market for first half of the year, which is what we had expected and we are hopeful that the second half of the year and the calendar year 2019 should eventually turn out to be a pretty strong year for the US market.

Mexico has been doing extremely well for us again. In addition to Tier 1 wins which we had mentioned in the past we have added a few more Tier 1 customers and again the deal sizes are growing larger with single customers giving us more than a million dollar POs. This gives us the confidence that we are now graduating to be a mainstream supplier for our part of their networks. So in summary, Mexico again is a market where we are seeing very significant growth and the overall Americas market comprising USA and Mexico should be able to generate \$10 million in revenues this year.

The OEM business as we mentioned earlier has been flattish or might marginally decline and it is not something that we are expecting to grow in a bigger way now that we have a greater focus on growing direct sales.

Net-net if I add up all the international sales and I think this question was asked in the last earnings call so I just would reiterate that, we do expect 80% to 100% year-on-year growth on our international direct business by the time we finish the year. So I would again say that the international investments have started to payoff and we are again very confident that we are heading in the right direction because we are graduating from smaller customers to larger

customers and then within larger customers from small deals to larger deals and that sets us up very well for the future as well.

Next slide is just summarizing what the company is trying to do in terms of R&D and sales. On the R&D side, our focus is essentially on making higher capacity products. We are really getting deeper into networks such as with the GPON investments which was a new product we launched a couple of years back and has now become mainstream, the packet switching products that we have been building and have been targeting for defense kind of applications. We have recently got a large deal for the packet switching products in the form of a large Navy order and we have a lot more in the pipeline. So I strongly believe that we have extremely competitive products because we are able to win against Tier 1 competition in different parts of the world not just in India.

On the sales side India again has a lot of tailwind in terms of the capex pent-up demand, which has not been happening in the past, but it is starting to happen with more fiberization. The FTTH has been a positive surprise because we did not expect FTTH market to come up in such a big way in India so soon, but competitive pressures among operators are driving it and we seem to have a very, very good position in that market. India Government spending is continuing so at least for the projects that we have been involved with all of those decisions these have been tenders which have been in the works for the past few quarters. The decisions around who are the winners of those tenders happened last quarter, the PO should get released hopefully in the next few weeks and we should be able to get the benefit of revenues to a large extent in this fiscal year itself.

On the global side, as I summarized international direct business has been absolutely on a fast track growth and we are very, very happy with the progress we have made in every single region that we have chosen to invest in and the fact that we are engaged in larger deals indicate that we are becoming a core part of Tier 1 operators. This also gives us a lot of confidence that on a sustainable basis for the whole year the percentage of international revenue contribution to our overall revenues will increase and we will have a lesser dependence on India even in this fiscal year. So that is a quick summary of the strategic priorities of the company.

Coming to the last slide after which I will really open it up for questions so that we can directly address things that you would like to talk about. So overall I would say the macro outlook of our business is good, data consumption continues to grow in India and many other parts of the world where we are focusing which is great for our optical business. The growth momentum in India continues and will continue for a while with contributions from both government as well as private. The policy support is an added bonus we have got and it is I think great for us to have a tailwind of that as well.

International has been showing fantastic growth. the increase in direct business across all geographies with the products we have is giving us very good comfort that we have the right

technology and that we have extremely competitive products.. So in summary I would say we have a pretty strong visibility for second half business and overall business for the year should be again on the track. The last part, which is also important is that all this is happening with healthy profitability. While we have challenges and price pressures, thanks to the competitiveness of our products and = technologies we have been able to maintain growth with profitability and we see a good path for that to continue for some more time. So that is where I would like to pause and open up the line for questions..

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for the opportunity. Sir you gave a good overview for the future sales. Just again to reiterate you have been saying 20% growth from FY2017 to FY2020 we had about 875 Crores turnover in FY2017, so this should be all fresh taking 20% CAGR, we did about 440 do we think about 800 Crores revenue can be done in the next half?

Sanjay Nayak: No. In fact I think what we had said is that the CAGR of 20% is starting with the 820 Crores of revenue base in FY17, and we gave a three year outlook. So as I mentioned in my comments earlier we will not catch up with everything that we lost last year in terms of the growth but a significant part of that will be captured this year. The strong momentum that we are generating with the sales as you can see will enable us to get the remaining growth next year. Given that our base is still low we believe that these two growth segments that we are looking between this fiscal year and the next fiscal year does give us sufficient confidence that we should be able to meet the target that we had set earlier.

Ritesh Poladia: Okay so the entire catch up would not happen in the second half, but the direction would be such that it would happen in the next four quarters is my understanding right.

Sanjay Nayak: That is absolutely correct.

Ritesh Poladia: Large part of this growth would come from the international orders or would it be again India government order?

Sanjay Nayak: No so the good news is that as the international business and our India private business starts to grow further the dependence on the India government will start reducing. Having said that the base that we have for India government as well as total India is high because last year around 82% of our revenues was India and 18% was international so while international will on an absolute basis flow quite healthily but on an aggregate basis it will still be a smaller portion of revenues for the whole company. India being the world's fastest growing optical market we have a three to five year growth cycle left in India and for all the reasons I mentioned earlier will continue to display very healthy growth. But international is likely to show much higher rate of growth. because the base was smaller and we are expanding into new countries and gaining a

larger share of our customers wallet. So I would say India will continue to grow at a healthy pace even this year India but the overall business from international will grow much faster.

Ritesh Poladia: On the second thing on your TV interview you said that one customer has about 200 Crores dues what is the status as on date?

Sanjay Nayak: What is the status as on date?

Ritesh Poladia: One of the customer said about 200 Crores receivables pending so what is the status as on date?

Venkatesh Gadiyar: Yes, we have not yet got the payment as on date but it should come any moment It is merely a processing delay and there is nothing pending from our side or any technical issues.

Ritesh Poladia: That is all from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Congratulations first of all on the results. I have a macro question to Sanjay. Of the last six months one year we keep hearing that the lot of big private equity investments in the order of trillion of dollars on the sharp trained satellites and many people say that or some people say that they may actually replace the need for optical fiber cables and equipments can you please give some colour on that is it a threat or it is just another complementary product?

Sanjay Nayak: Let me hand this question to Kumar who is probably the ultimate guru in technology of all of these kinds. So Kumar maybe you can explain what is happening.

Kumar N. Sivarajan: There are two aspects to any of these mobile networks.. One is coverage and another is capacity. Cellular networks are very good in terms of capacity. We can all make millions of video calls on our smartphones and so on, but it is still an issue of coverage there are pockets of the country, which are not covered. You can see that from heat maps and so on and are not covered with data maybe that cover only the GSN. Satellites can be use to extend coverage and some of the newer satellite technologies such as low orbit satellites, not the geo-stationary satellites, can be very cost effective in providing coverage. However they are not very good at providing the kind of capacity that you get from cellular networks. So they are complementary - satellites for coverage, cellular for capacity.

Sanjay Nayak: Just to add one more point here. Till 2G, microwave radios were adequate to do backhaul of cellular traffic. And as we showed in one of the charts, with 4G coming in and upcoming 5G, microwave backhaul will be fast replaced with optical transmission. So for anything to do with capacity the demand for optical fiber is just going to keep accelerating and we do not see any

other technology in the world which can really emerge as a replacement for optical fiber transport.

Vetri Raju: My next question is on this FTTH. We just heard one big Indian mobile operator spending billions of dollars on equivalent rupees to connect some 50 million homes and things like that and I am seeing in the current presentation that, that is a kind of a tailwind for us. Now my questions is in fact that one operator himself as I said no they said they will spend trillion of dollars, my question is out of every Rs.100 how much actually gets into optical equipment in the FTTH area.

Sanjay Nayak: I would say that as a rule of thumb if a service provider spends about \$100 on the entire FTTH infrastructure from fiber to right of way and everything else, about 10% to 15% of the investment will go into optical equipment depending on the density of the rollout. If you remember in the context of Bharat Net we had mentioned earlier that if Bharat Net is going to spend 1000 Crores, over 150 Crores of that is likely to be spent on optical equipment of the type that we make. .

Vetri Raju: This FTTH a global opportunity Sanjay?

Sanjay Nayak: Absolutely. In fact what happened this quarter, and this is to our pleasant surprise, our FTTH product was shortlisted for the Broadband World Forum award which clearly proves that we have a world-class product today. Originally it was thought that FTTH would be more of a US or a European opportunity but surprisingly it did not really happen as much in the US as in India. India has now become the largest market for FTTH because there is no wired connectivity in the majority of Indian homes. So India is now becoming one of the largest markets for FTTH products in the world. What is now happening in India, we are seeing significantly similar signs in Africa, Mexico, as well in Southeast Asia. In fact we are seeing significant traction for our FTTH product in Nigeria, Algeria, Kenya and Vietnam. So I think we are seeing FTTH as the fiber based broadband connectivity that goes into people's home and they are really skipping the copper and the cable which was there in the US and European markets. So it is a global phenomenon but maybe not so much of a US, European phenomena.

Vetri Raju: That is exciting and all the best congratulations. Thanks.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Good evening. First question essentially I had on the revenue visibility side. Obviously Sanjay has explained a lot on in terms of how will the second half pan out and how are the order flow lined up but Sanjay if you could add some more color or give some more confidence in terms of fiscal 2020 revenues, because it still seems like India is going to be bulk of the business this year as well, though the international direct side is picking up but I still need, if you can help around what would like fiscal 2020 be?

Sanjay Nayak:

For fiscal 2020 we will get a view on the government businesses based on the tenders that we are bidding in the second half of the year, which will essentially cook during the next fiscal year. So we do have a pretty healthy pipeline of very large tenders, not just Bharat Net states but across utilities, across BSNL and many others. So we feel that the government tender business what we will be bidding in the second half of the year should result into revenues for the next fiscal year and this is where the PMA policy and the customs duty would come into play because both of them directly give us a little bit of more air cover than otherwise. As far as the private part in India is concerned for the FY2020 we are in a very, very interesting situation where all the three major operators in India we are in active discussion with significantly large new applications and for which we could be one of the selected vendors.. In that sense those wins, which would have even materialized as early as this quarter should give us a very long multiyear visibility that as long as those operators keep spending money on these applications we should be getting a significant part of it so I would say the visibility on India on both these accounts look pretty strong.

The international is just quite exciting because the fact that in every country where we were getting \$500, \$1000 worth of orders we have started to get million dollar orders the fact that every territory is already crossing the \$10 million threshold which in my mind is a very major milestone. We are actually now starting to see that countries by itself will start to get into double-digits at some stage so I feel that the traction we have and the fact that we are now into Tier 1 operators of those countries, which are run rate customers who will buy from us for many years once we are selected. The fact that we are in some operators who have a pan Africa presence not just in one country and if you are selected as a part of their vendor, all of those wins are giving us a confidence that the international revenue traction will continue to grow. By the way we are also increasing our sales investments in all of these regions and this is why we believe that we now have enough success in many of these countries. For example in Mexico except for the head of the country, the entire team is local speaking and that again has made such a big difference in terms of the success.

I would say international based on every win that we are seeing, based on the coverage we are getting, based on the Tier 1 quality of accounts we are winning gives us a lot of confidence that we are in very good shape. The only place where I would say we have not seen as much success as you would like to and that is the kind of expected in USA, but again as I mentioned in my commentary earlier the Tier 3 wins will happen, if we can get at least 1 Tier 2 wins during this fiscal year that to me is a strong, strong continuation for the momentum in that market as well.

Rahul Agarwal:

Got that, but in terms of pipeline for the India government or the private business could you quantify something like what kind of orders we have bid for like the value there.

Sanjay Nayak:

I would say based on the lot of the tenders that we have already won many of them will actually get into revenue this year. The tenders which we are bidding right now or some of the tenders are open but not yet bid, some of these tenders are a few 100 Crores each, so I think I am just giving

you a sense but so it is kind of difficult to exactly pinpoint the pipeline for FY2022 and the tender, but I would say probably by the time it will be the January call we should have more visibility in terms of which tenders have been bid and how well are we placed in those tenders. As far as the private accounts is concerned, unfortunately at this point in time to give an exact view on the pipeline for next year is difficult because as once we get into these new applications and new wins, it will become again increasingly possible to give how much they are going to spend at a macro level and in that fiscal, so at this stage, I think our focus really is on winning the business, winning the applications and the corollary of that in terms of actual numbers and the visibility will happen for FY2020 during the Q4 of this year.

Rahul Agarwal: You are not really worried with these since these are centrally funded budgets. The central elections are due are you worried on any delays there?

Sanjay Nayak: No, first of all, let us split the project into two buckets. The projects, which we are counting for revenue this year, are already tendered one year back, decided last quarter and just a few are in the final stages of getting released. For example, the navy order which we announced earlier this week, tender was done few years back results and then the order physically came probably last week for Sterlite and for us it came this week. So the stuff for this year is already kind of stuff, which has happened. The centrally funded projects as far as the states are concerned some of them have tendered and some of them are continuing to tender and this is from the USO money so there is no change in that. The second bucket of tenders that we are talking about are from the operators which are PSU operators for example BSNL has to build their own network, they are way behind in terms of 4G and 5G capacities but they would like to upgrade that, PowerGrid, Airtel. These guys build network for captive use as well as for the services that they provide. These are independent of central government elections or anything like that, either operators will just need to put capex on the ground in fact some of the operators out of this have not put much capex in last year so they are actually having much more aggressive plans for tendering in the second half of this year. I do not really see any of that affecting our part of the government business at least for this fiscal as well as next as far as the tenders are concerned.

Rahul Agarwal: Just secondly on the receivable thing just wanted to ask if you could have managed this better since you are saying that it is just a procedural issue but is it possible that these things do not happen at all or it will still continue because it is a government customer end of the day?

Sanjay Nayak: Let us talk about this. In the earlier calls someone used to ask whether collection from government or BSNL is a problem. When we say at least we do not have problem, so far we have never had a problem that we have to write-off or we did not get money or we have had delays, this is just sometimes different companies have their own cash flow issues or procedural issues. It really got stuck into that it was a largish amount because this was based on the stuff that we had shipped earlier in the year and that is the reason it kind of showed up at the end of the quarter, But as Venkatesh mentioned by the time we finish this quarter all of that should happen and as far as we are concerned there was no delay from our side. Your question about could we have

managed the process better? Well we do as well as we could and as well as we have done in the past, but I think generally we have been pretty good at collection from government that is why we said this is a one-off incident and hopefully we have enough time for other bills so that we do not get stuck into a situation like this. But with government collections no organization can give a 100% guarantee that it will always get paid on time. We usually get paid on time and this was one of those rare events.

- Rahul Agarwal:** One short thing for Venkatesh this excise order you received in July 4 anything on that?
- Venkatesh Gadiyar:** After that, we have filed the miscellaneous application in the CESTAT Tribunal as well as we have filed the civil application in the Supreme Court, which we think we have an opinion from the senior advocate from the Supreme Court which is more favorable on our front.
- Rahul Agarwal:** What amount are we talking about here?
- Venkatesh Gadiyar:** The amount we are talking about is about 31 Crores of tax demand. The department has not raised any demand as such but in the various letters that have been served to us in the past about 31 Crores of a tax component has been mentioned.
- Rahul Agarwal:** Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.
- Mayank Babla:** Good evening. Thank you for taking my question. My first question pertains to this receivable 100, 150 Crores receivable so when was the revenue booked for this receivable, in which quarter?
- Venkatesh Gadiyar:** It was in Q1 and Q4 of last year.
- Sanjay Nayak:** It was basically pertaining to late shipments of Q4 of last year and Q1 of this year to some extent I would say.
- Mayank Babla:** Q4 FY2018 right.
- Sanjay Nayak:** It could be for the residual amount from the shipments we made in the Q3 of last year.
- Mayank Babla:** Q3, Q4 of FY2018 right Sir.
- Sanjay Nayak:** Yes, Q3, Q4 of FY2018 and small amount for Q1 of FY2019. The projects had standard payment - where 60% you get on delivery, the 30% comes on the installation and commissioning. So the tail of the 30% from previous one and the 60% from this one is what added up to all these

numbers and that is why we said that from our side there is no delay everything is win order except that just if you see only that it looks like it got delayed.

Mayank Babla: Sir my second question was that the statement you made that 80% of the tenders were won by partners who buy Tejas Equipment, so do they only buy Tejas equipment or is it an exclusivity or they are part vendors for other companies as well or the products?

Sanjay Nayak: First of all there is no exclusivity per se, but because these central Bharat Net projects all have to be from one or two or maybe three technology suppliers, which is mainly us or ITI given our field performance, given our quality record, and our overall track record in Phase-1. In terms of suppliers most of them really prefer that they work with us because even though our portion of the project is only 15% if this part of the project misfires it can hurt the remaining 85%. So every company wants to work with the best in class, which we have consistently proven to be. As a result, all of these partners potentially had a chance to go with others but they went with us and we started to receive orders against these things. Also the relationships we have with them is long-term in nature and they really believe that it is just not a one-off deal for them because these networks will be run and maintained by them over the next many years and unless they have some strong technology partners it would be jeopardizing their own success.

Mayank Babla: Sir is there any chance you could put a number or a quantum on these potential orders?

Sanjay Nayak: In terms of the Bharat Net central ones?

Mayank Babla: Yes Sir.

Sanjay Nayak: It will be north of 100 Crores at least in the immediate term from the orders which people are getting. I am just saying the immediate term because we are also tracking who all have got the orders and how soon we will get the orders so it will be north of 100 Crores for what we will be getting in the near-term.

Mayank Babla: Sir and last if I could squeeze in, could you give the split between the domestic and international revenues for the quarter.

Sanjay Nayak: We do not do a quarter wise split because again as I said there is too much of fluctuation within a quarter because of the sizes. As I mentioned earlier in the call last year the split was 82 domestic and 18 international. This year we believe we will be closer to something like 75 domestic and 25 international on a larger base so you can just see why the international should be growing significantly higher and you also expect the percentage of revenues from the government as a percentage of total to also reduce on an annualized basis. By the time we finish March that will also give you sense that the private and the other businesses is growing faster.

Mayank Babla: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.

Anirudh Gangahar: Thank you. Good evening everybody. Few questions, first is on the year beginning order book of about 575 Crores how much of that is come up in the first half already. I think our full year estimate was at 70% to 80% would be realized this year so just wanted to understand how much we have done in the first half that is the first question?

Sanjay Nayak: I do not have the exact number but I do know that lot of the utility contracts that we had in the backlog they would be executed in the second half the Bharat Net contract of the portion that we have to do I think a largish portion would have been done in the first half, not the full amount. So I would say the utilities would be still spilled over to the second half of the year. I do not have the exact number in terms of how much percentage we have done but the Bharat Net portion was significantly done in the first half of the year. Because the Bharat Net and all of these even the Navy orders that we have they all have a between 90 and 120 days of delivery period within which we have to complete the supplies.

Anirudh Gangahar: And in terms of Bharat Net itself you mentioned that the immediate orders are north of 100 Crores and this would relate to the BSNL part that has been ordered out the state side is something, which will come in addition over all of this just to clarify?

Sanjay Nayak: Absolutely and in fact even BSNL not all the tenders have been put through. If you remember last time when we spoke there were all these tenders that were under evaluation. Some of them were over budget so the commission did not clear so we are only counting the ones, which have been cleared and where our partner has won. So even within the BSNL list it is a qualified list that has been cleared where our partners are L1. The state is separate and of course the bigger states are not yet at a winning stage because the tenders have been bid but not opened like Telangana as I mentioned. Some others like Kerala are coming up for bidding in the next couple of weeks. Tamil Nadu will probably come up for bids maybe in the next quarter so I think what we are seeing from Karnataka will probably come next quarter but we are seeing all those problems so I am only talking those which have been decided and orders to us are imminent.

Anirudh Gangahar: In some of the states win the head within IP/MPLS system share the bit of a departure from the GPON now given this change in the policy on August 29 would that actually force the states to actually revisit these tenders?

Sanjay Nayak: Yes, actually in fact couple of the states where we missed out, they did put these restrictive tender conditions where even if we had a product of switch or a router they had something like you have to be in some company's magic quadrant or you have to have three networks in the world where you could have bid and all that kind of stuff which did not allow us to bid or rather our SI partners to bid us, but all of that would be flagged off as a serious noncompliance. I do not know it will be in tracking but DIPP announced that they have cancelled close to 15000 Crores

worth of tenders who did not follow Make in India guidelines of preferential market guideline not in our sector but across sectors so I think in that sense the government seems to be quite intent on ensuring that the Make in India and PMA is met especially with the current account deficit we just seem a renewed vigor to go after non compliances and really promote whatever policy they have set out.

Anirudh Gangahar: But Sanjay specifically let us say that in Maharashtra where we are not anyway in that part because the technology used is different would you think they would need to go back now?

Sanjay Nayak: It depends on whether the industry or a company like ours decides to file a complaint and want to fight the customer or we just want to give up on it. So I think that is the call we have to take. Technically speaking yes it should be going down a different part but we are not the one to make a call on that and literally again comes back to how much do you want to reopen things which have been otherwise set aside, So at this point I would focus on looking forward. Some things did not happen the way we would have wanted but we do not want to probably go down that negative energy path in those kind of things.

Anirudh Gangahar: Sir your earlier slides always had mentioned there was market for Bharat Net for us, so this time it is absent. Is there any change in the addressable market that we are looking at and any new estimate that you would have given that there has been progress on ordering and you have more visibility on the timelines as well?

Sanjay Nayak: I do not really remember if we put a slide on that, but what I recall is that we basically kind of reiterated in one of the questions that 10% to 15% of our project cost of Bharat Net either at the center or the state would accrue to us if it is a GPON based architecture, it keeps adding up a little bit more if WDM elements come into picture and we have seen for example in many states the WDM is also coming into picture. If the routers and switches come, that increases the budget further but that is not what we have addressed in a big way in terms of totaling up the numbers. If you see the deals on the tables are still the central Bharat Net, which has been decided and the state Bharat Net for the four major states such as Telangana, Karnataka, Kerala and Tamil Nadu who are building Bharat Net ++ networks. The budget that they announced are pretty much the same, so I would not say we would have changed on that substantially but again I am not sure in terms of what tenders will get done from center and what have happened in states and what is balance so I can take it offline maybe at some stage and figure that out.

Anirudh Gangahar: Just two other small clarifications please on slide #6 and on slide #11 when we talk about international customer wins and recent successes for target applications are these all in the last quarter that is 2Q?

Sanjay Nayak: I would say so, I would say in the last quarter, let us say the Indian Navy is something that we bid long time back. Actually the announcement of success came this quarter so technically it is not exactly last quarter, But if I were to look at the the other tender wins - alien wavelength

WDM is last quarter, Nigeria last quarter, Mexico is last quarter , Algeria last quarter,. Yes, primarily I would say all these deals happened last quarter barring the Indian Navy.

Anirudh Gangahar: Where I am getting towards is, will these successes result in revenues probably starting in another couple of quarters or from this quarter onwards?

Sanjay Nayak: No. These successes will result in revenues starting this quarter because all of these are successes along with POs, initial POs and some initial POs. As I said I was happy to see that in a few instances we received a million dollar plus POs as the first PO from the customer, so in that sense since these are runrate customers almost all of them except for the Navy, the benefit is that once you get the first order you basically ship it soon and then you are ready for the next one. So we do plan to revenue these as early as we can and then essentially be ready to get the next set of orders from these operators.

Anirudh Gangahar: The last question was on your FTTH rollout plans, as of now your GPON is being deployed only for Bharat Net and nothing for any of the private Telco's?

Sanjay Nayak: Except really small service providers, but not the three major operators that you all hear about. Of course we are in discussions with them as they are either expanding their current set of vendors or the current vendor in one case and we are going through all the RFP and other evaluation processes. So far we are I would say in a pretty good position of reckoning.

Anirudh Gangahar: Is it just I think just on the time do you expect any clarity on whether you are in or not with these three leading the remaining major operators by the end of this year itself?

Sanjay Nayak: Yes.

Anirudh Gangahar: Thank you very much for all the answers.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity. My question is in Q4 results we had talked about some of the revenue slipping into the Q1 and hence I was expecting revenue distribution for this year to be more equally distributed in Q1 and Q2 but you suggest that it is not the case, can you just elaborate what is the reason for that? My second question is you talked about 20% plus growth and recouping of the lost revenue so are we talking about 20% growth on FY2017 base or it is on FY2018 base?

Sanjay Nayak: First of all it was only 20% in FY2017 and there is nothing to recoup so it is really on the FY2018 base we do 20% plus we recoup the stuff from the 2017 base that we could not do last year so just to clarify that one. Coming back to your second part about rather the first question

about the even distribution of the half between first half and second half so really there are two different elements, which we need to control. One is the order inflow when the order comes and when we take the inventory actions because for example if we take a lot of inventory actions earlier because our lead-times for products in terms of manufacturing you could be as early as ten weeks and as late as 15, 16 weeks. So if we take a lot of early inventory calls we could risk having an inventory build-up. If we take action too late then we will risk losing the quarter so the challenge is about what is the right time to take the inventory calls and that really determines essentially the quarterly revenue profile. So for the first half of the year for whatever we have assured we of course would have taken inventory calls at the right time but as we look at the second half of the year we are getting a better visibility in to Q3 as well as Q4 because we have to start taking inventory calls for Q4 and that is where I feel that based on the funnel we have, based on the inflow of forecast we have from various customers and the POs that are imminent from the tenders we have won we believe that what revenues will end up being will be as per normal course, which is much heavier in the second half compared to the first half. It is really a question of first half we did what we did, because it was a combination of how aggressive inventory calls we took and what was the order flow and when the customers wanted those things right from the utility customers, from which we have a decent backlog, which we had last year as well. They just want equipment in Q4 and we will produce it in time for them rather than producing and keeping it too early. So I would say second half of the year our confidence comes from actual visibility into the specific demands of each customer that we are going to serve.

Pranav Kshatriya:

I have a follow up question you talked about the FY2019 around 25% revenue should come from international customers how do you see this going in FY2020. Should we see it coming back to one third of the revenue from international customers by then?

Sanjay Nayak:

Definitely that is the aspirational target except it is a bit too early for me to say whether it is only 33 or 35. What I sense is that the fact that we have a diversification of customers. The problem we had earlier even when we had 35% international revenues was that it was all concentrated under the OEM bucket. We think we have done very well since despite the OEM revenues reducing to a very small number, the overall international revenues have increased and the fact that this international business is spread across multiple countries in Southeast Asia, Africa, Americas while expanding the number of countries. We are actually having additional foot in the ground which gives us confidence that this is a more solid base compared to the previous 33%, which we had, so I do not know whether the 33% or 35% or more or less but definitely the momentum on the international side seems very, very strong and encouraging and it is just a question for us to continue to invest more because it was limited in the past by our investments and we are continuing to now add to that.

Pranav Kshatriya:

Thank you. That is it from my side.

Sanjay Nayak:

Maybe in this period of time, we have probably time for maybe one or two questions.



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Moderator: That was the last question. So would you like to add any closing comments Sir?

Sanjay Nayak: I would say I have answered all the questions and given the update. I really would like to say that the quarter as far as we are concerned and the first half of the year has been very solid. We have been working on the fundamentals of the business which is of creating a lot more customer pull internationally, diversifying our customer base in India and securing our government business, which is a solid growth engine for us. Overall macro environment both from policy as well as the industry outlook is good and given our visibility for second half we believe that we should have a very strong year both at growth as well as profitability and by and large as far as internally we are concerned in the company we see things are pretty much on track. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.