



“TEJAS Networks Q1 FY2018 Earnings
Conference Call”

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Moderator: Good day, ladies and gentlemen, good day and welcome to Tejas Networks Q1 FY2018 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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. Pranav Kshatriya from Edelweiss Securities Limited. Thank you and over to you Sir!

Pranav Kshatriya: Thanks Janis. Good evening to everyone. On behalf of Edelweiss, let me welcome you to the Tejas Networks Q1 FY2018 earnings call. We have with us senior management of Tejas Networks headed by Mr. Sanjay Nayak, along with senior members of the management team. Without further ado, I will hand over the call to Mr. Sanjay Nayak to start the proceedings. Thank you.

Sanjay Nayak: Good afternoon. This is Sanjay. It is my pleasure to welcome you all to Tejas Networks Earnings call for the Q1 of Fiscal Year 2018. Here I am joined by Venkatesh Gadiyar, who is our CFO, Dr. Kumar Sivarajan, who is our Chief Technology Officer and Arnob Roy who is the President of the Optical Division.

We have put our investor presentation on our website. I hope you had an opportunity to read it because we can walk through that presentation. We had also published the quarterly results earlier today and since this is our first earnings call after listing, I thought it will be useful to get everybody on the same page and I will give an overview of our business, the market drivers, the company capabilities and strategy. I would be covering that along with Arnob and Kumar and then I will hand over to Venkatesh to share the details of our financial performance for the last quarter.

I am on to slide No. 3, which is about the telecom industry ecosystem and where we fit in. From a Tejas perspective, we are a technology company and we are focusing on building optical and data networking products. Our customers are telecom operators who could be fixed line, cellular or Internet service providers and there are names, which I am sure you are all familiar with.

In terms of what we do not do- we do not manufacture optical fiber cable, which is a separate kind of business and of course and we are not a system integration company, which puts together the end-to-end solution. We are a product and technology company which actually designs, manufactures and sells the core equipment for optical and data networking. In that sense, we are an active equipment supplier, and we also provide services which go along with our equipment. The core strength of the company is in R&D, innovation, sales & marketing and we outsource the non-core functions of manufacturing to third party contract manufacturers and installation and services to other service contractors.

Moving on to the next slide, I am sure we are familiar that the world is witnessing a massive growth in data consumption and this trend is driven by a combination of factors that includes high-speed internet technology, proliferation of powerful network devices, smart phones, growth in enterprise services and so on. Clearly, there is a lot of traffic which is getting generated on the networks and as per Ovum, it is going to grow at a 25% compounded annual growth rate from 2015-2020. In order to carry this large volume of data, there is a need for operators to build high capacity networks and optical transmission is the only viable technology for building such high capacity, scalable networks today and optical is unlikely to be replaced in the near future.

If you come to the next slide, India is no different. High-speed data and broadband penetration have been growing very quickly in India for the last few years. In fact, in India the data revolution has just about started and we can see that there is a huge latent demand for optical communication because operators in India, especially the mobile operators, have historically under-invested in optical fiber assets and relied more on the older technology of microwave, which was good enough for carrying 2G or 3G traffic but is not sufficient to carry 4G or high speed data traffic. Also, the challenge that the Indian operators face today is the need to build a high capacity data network, but with a situation that only 20% of the cell sites in India currently have optical fiber connectivity, compared to 70% to 80% in other similar markets, as per Deloitte.

What that basically means is that there is a massive need for fiberisation and optical networks, to be able to provide the data services that the customers are currently demanding. If you see the most recent quarterly announcements of Idea or Airtel, both of them have specifically mentioned that investments in optical fiber infrastructure is going to be a priority area and that will be one of their differentiations going forward. What we saw historically was a distortion that the amount of investment which happened in optical transmission infrastructure in India was significantly lower compared to similar markets. Just to put a few numbers in place, China in 2013 for a correspondingly similar size of smartphone or mobile data users as we have today, was spending around five times as much more capex on optical transmission as the Indian telecom operators do today! What that really means is that over the next three to five years we will possibly witness a huge amount of catch-up on optical capex from the Indian telcos in order to prepare their networks to carry the large volumes of data traffic.

So from our perspective the equation is actually quite simple - the more the data traffic increases the better it is for our growth. Our business is benefitting from two different angles- one is from the fact that the network itself is going to be getting more and more fiber which will get deeper into the network. For instance, the fiberisation of cell towers will lead to a greater demand for optical equipment at the newly fiberised locations. The second is that whichever places the fiber is already there, the bandwidth requirement will be much higher than it has been in the past. Together these two

factors create a multiplier effect on our business growth. Moreover, even within the optical networking infrastructure, if you see in India in particular, the inter-city network is something which most of the operators have, as the fiber is already in place and there is adequate capacity available in this part of the network.. Going forward, the investment in inter-city network is only going to be on an incremental basis as bandwidth requirements increases. On the other hand, the intra-city networks, whether in smaller towns or in larger cities, is where the problem lies. As per Ovum, 63% of the incremental investment going forward will be in the intra-city or the metro and access portions of the network. The good news is that this is really where our products have a sweet-spot since our focus is more on converged packet optical transmission equipment which is going to be used for the metro and access networks.

Coming to the next slide on products, I am now going to request my colleague Arnob to walk us through.

Arnob Roy:

Thanks Sanjay. The picture on the slide explains where our products are used in an optical transmission network. The telecommunication networks can be generally divided into three parts, access, metro and core. An access network is a wireless or a wireline network that connects a home or a business premise to the service provider network using a variety of technologies such as GPON over fiber, DSL over copper and LTE over wireless. While traditionally copper cables were used in wire line access networks, with increasing data speed, the current trend is to use optical fiber. A metro network aggregates and distributes traffic collected from numerous access networks. A network of a city or state, where distances are less than 1000 km, are typically regarded as a metro network. A core or long haul network interconnects metro networks using optical fiber and is typically used for transmission over cross-country distances panning several thousand kilometers. Our product portfolio focuses primarily on the access and metro networks as Sanjay mentioned.

Now I am on the next slide, which talks about our product differentiation. Our products are differentiated by a flexible architecture based on a proprietary software code base and a common hardware platform. We have a portfolio of reusable building blocks of hardware as well as software, which enables us to rapidly develop cost-effective and highly customized products thus helping us gain a time-to-market advantage. Our product utilizes a unique software defined hardware architecture implemented with programmable chips called FPGAs that can be re-programmed to handle different forms of traffic and transmission standards in an optimal manner.

This helps our customers lower their network life-cycle cost by deploying these multi-generation products that can be seamlessly transitioned across technology changes in their networks without having to invest in new hardware purchases every time. Our architecture also significantly speeds up implementation of new product features and technology standards as they evolve giving us a time-to-

market advantage and enables us to sell the some products globally by making incremental country-specific adaptations.

Our architecture also enables higher levels of software and hardware integration leading to higher performance and lower costs. Our scalable and reprogrammable products allow reduction in total cost of ownership for customers and improved overall efficiency from the networks and operations..

Sanjay Nayak:

Thanks Arnob. I am on to the next slide, which talks about the business model. I wanted to take a few minutes and explain how our business model works. While I am sure all of you understand how the IT services business model works, wherein as the revenue increases, the operating costs which are linked to manpower also increase in a similar proportion.

Ours is a slightly different business model, even when compared to our global peers, who are similar telecom equipment and product companies. We have a few different elements, which have come together to give us a sustainable competitive advantage. What our India-based business model allows us to do is the fact that on the R&D side, which comprises a large part of our operating expenses, we are able to get up to four times cost advantage. This basically means that if a company in USA can do a certain quantum of R&D for say \$100, in India we are able to generate the same level of R&D effort for just \$25. Our R&D cost advantage comes from two factors. In India we have a manpower cost advantage, whereby we can hire high quality talent at a lower cost. However in addition to this, as Arnob explained, we also reap the benefits of our software-defined hardware architecture, where we build our products on a programmable hardware with reusable silicon building blocks and a common software codebase. Together these factors enable us to realize higher R&D efficiency and our ROI in R&D is significantly better on a percentage basis, as compared to our global peers who have to spend a lot more to deliver the same R&D output.

A second aspect of our competitive advantage is that our SG&A costs are all India denominated because a large part of our sales team is located in India. Internationally, we have adopted a blended sales model, wherein we sell directly in developing countries and through OEM partnerships in advanced markets. The total effect of that is that our SG&A costs, typically again as a percentage of our revenues are approximately half of our global peers. As a result, at the same gross margin level as our global optical industry peers, we are able deliver significantly superior financial performance. I would also like to highlight here that unlike in the case of IT services companies where the operating costs tend to scale up proportionally with the topline revenues, in our case our operating costs are kind of quasi-fixed and not directly related to the revenues of that year. From a business model perspective, if our topline grows at a certain pace at least for the next few years we should be able to get efficiencies in terms of operating leverage and we should see our bottomline grow at a faster pace.

In the next slide we are outlining the strategic priorities and growth drivers for the company. We have decided on a four pronged strategy to grow our business that includes increase in both Sales and R&D investments. First, we will continue to strengthen our leadership position in India where we have a strong incumbency advantage and increase our market share in the expanding Indian market. One of the good parts of our business is that since we are in a B2B business with a very high degree of stickiness, once we are selected by a customer, we continue to be in their network for a long period of time as long as we continue to innovate and invest in new technologies and remain cost competitive.

Secondly, we will be expanding our global sales network in high-growth emerging markets such as Southeast Asia, Africa and a few other developing countries where we believe we have significant advantage compared to competitors. These are really “India-like” markets and success in India gives us a lot of credibility and a fantastic launching pad to grow in those markets. In fact, in the last couple of years we have seen significant success in emerging markets.

Third, on the R&D front, we will continue to invest in new technologies and products with a strong focus on high-growth segments of the optical business. We will focus on developing optical networking products with higher capacities and enhanced data features. Capacity upgrades are required because average data usage per user is increasing and a user who was downloading one gigabyte of data per month a couple of years ago is now downloading 1 gigabyte of data per day. As a result, the network capacities have to significantly improve in the access, metro as well as the core. Similarly as the proportion of data traffic in the networks is increasing, telecom operators are looking to deploy new data-centric protocols in their networks and that calls for a lot of new data features to be introduced in our products.

Lastly, since we have a strong incumbency in many customer networks we would like to leverage our network presence and gain a higher wallet share of our existing customers. One way to accomplish this is to utilize our core strengths in R&D to develop add-on products on our existing platforms, which can allow us to increase our addressable market into that customer. Last year, for example, we introduced a new GPON product which is used in fiber-to-the-home applications. We are already seeing a clear benefit from this new product introduction as we have seen a significant ramp-up in GPON revenues in a very short period of time. So we will continue to explore such product opportunities, both in wireless as well as in wireline areas to penetrate the broadband access market.

I would now go to the next slide, which is Technology Vision and Strategy and I would request Dr Kumar Sivarajan, our CTO to take us through the next couple of slides.

Kumar N. Sivarajan

Thank you Sanjay. I am on slide number 11 on Technology Vision and Strategy. Our strategy is to evolve our portfolio to address four main market segments, which are shown on the slide. We will

continue to focus our R&D efforts on enhancing our access portfolio and this will help us to serve the growing demand for high speed broadband connectivity to homes and SMEs over optical fiber using GPON and also fixed wireless using 4G or LTE.

We currently have both GPON and LTE products but we will evolve them to incorporate new standards such as XGS-PON and WDM-PON, which work at 10 gigabits and higher for fiber broadband, and 5G and IoT for wireless broadband. Coming to packet transport, we have a comprehensive range of products which are based on MPLS-TP or PTN technology. These are widely deployed in many large operator networks in India and international markets for applications such as mobile backhaul and enterprise lease lines.

Our emphasis will be to upgrade these products to support converged packet and OTN switching. This is in line with the growing adoption of OTN in metro networks. We are also scaling our metro core or long haul products to deliver multiple terabytes of packet and OTN switching and also interfaces which can operate at much higher speeds, which is 200 gigabytes and 400 gigabytes.

The last aspect of our strategy is network management. We have management software that enables unified management of all our products whether it is access or optical transport or core WDM from a graphical and web based user interface. We will continue to enhance our management software offering to cater to new trends in the standards such as software defined networks or SDN and network function virtualization or NFV. We will incorporate these new standards into our management software.

On the next slide, which describes our technology and R&D strengths, we have a great R&D team with deep technology expertise and our R&D team enables us to design and develop highly differentiated leading edge products. Our employee headcount today is 611 and over 50% of our employees work in R&D and over 40% of our R&D team possess advanced degrees, Masters or PhD, and diverse skill sets in semi-conductor design, high-speed board design, hardware design, embedded software, network management software and product life cycle management.

Thanks to our strong R&D team and their innovations, we have to date filed 337 patents. We also own more than 250 semi-conductor design IPs, and have more than 3 million lines of software code in our codebase. We actively participate in various industry bodies, standards organizations, and national committees that formulate and influence telecom and electronic policies for the Indian government. Notably, Tejas is a founding member of the Telecommunications Standards Development Society, which is TSDSI, and I was its founding Chairman.

I currently serve on TSDSI governing council and senior members of my technology office lead working groups in TSDSI and they are leading the development of new optical backhaul and 5G radio standards.

Sanjay is currently a Co-Chairman of the Telecom Export Promotion Council of India. Over to Sanjay!

Sanjay Nayak:

In this slide, I am going to cover the case study of a project that we are currently executing. Tejas has historically been known for its products in the optical transmission, which are used for mobile backhaul, enterprise data services and related applications. However we recently expanded our portfolio to include GPON technology as an add-on blade on our existing platform, which is used for fiber-to-the-home applications. In this call, I wanted to talk about this new GPON product, while mentioning that our main products for optical transmission continue to do well.

I know that everybody has heard about BharatNet project, which is a large Government of India project to deliver broadband services to rural India. In BharatNet Phase-1, about 100,000 villages are currently being connected and it is expected that by the end of this year Phase-1 will be completed. I am very happy to add that Tejas is one of the largest suppliers of GPON equipment for this project. In the last few quarters we have supplied some GPON equipment and will continue to do so over the next few quarters, and we expect to complete the execution of the project before the end of this year.

I am sure you would have recently read that Government of India has now announced Phase-2 of the BharatNet project which we believe is probably going to be about two times the size of the current phase. Although the implementation of that Phase-2 will be distributed to different agencies which could be individual states or could be other telcos or BBNL or BSNL, but the technology and architecture used will be on the same lines as in Phase 1. Therefore we believe that between the GPON product that we have supplied for Phase I and the wireless product that we are developing, we will see opportunities in Phase-2 of BharatNet as well.

Coming to the last part before I hand over to Venkatesh, I wanted to give a quick summary of Q1. Before I talk about Q1, let me mention that while we do track quarterly revenues, it will be more appropriate to be tracking us on an annualized basis because the nature of our business is such that we will have lumpy quarters. While certain quarters could be larger than normal, some quarters may turn out to be slightly smaller. This quarter seems to be one which is slightly on the higher side from a revenue standpoint. The revenues for this quarter Q1 was 219.31 Crores which represents a YoY growth of 49%. Our EBITDA was Rs. 44.98 Crores which is 98.9% YoY growth. Operating profit was Rs. 28 Crores which is 251% up YoY and the PAT was Rs. 20 Crores whereas in the previous year we had a loss of Rs. 1.75 Crores. We are happy to have won two very prestigious awards which

are related to intellectual property and patents. The first one was the National IP award for 2017 for the top Indian private MSME for patent and commercialization, given by the patent office of Ministry of Commerce and Industry and we were also declared the winner of Clarivate Analytics India Innovation award top-50 for 2016. Clarivate was formerly the IP and Science business division of Thomson Reuters. The award recognizes the most innovative companies in India on the basis of the Derwent World Patents Index which is the world's most trusted authoritative value-added patent database. I want to mention that we continue to focus on innovation, we are known for investing in R&D and build world-class products and the results have started to show in our financial performance. I would now like to hand over to Venkatesh Gadiyar, our CFO, to take us through the next few slides of finance, post which we will open the floor for a Q&A session.

Venkatesh Gadiyar:

Thanks Sanjay for a quick summary on the financials. I am on slide 15. The financials result for Q1 2018 with corresponding quarter have been drawn for the first time in accordance with Ind-AS. Since the result for the company as at June 30, 2016 were not presented under Indian GAAP, no reconciliation have been made available. As per the Ind-AS applicability the revenue now include excise duty and hence all the relevant ratios are now based on the gross revenues versus based on the net revenues as per Indian GAAP, that we used to report earlier.

Our statutory auditors have carried out limited review of the statement of comprehensive income for Q1 2018 and corresponding quarter Q1 2017. The gross revenue as per Ind-AS for the quarter ended was Rs.219 Crores a 49% growth year on year basis. Operating expenses including depreciation for Q1 2018 were at Rs.65.2 Crores as against Rs.55.4 Crores in Q12017, growth of 18% YoY basis. However, due to our operating leverage, the operating expenses have reduced from 38% to 30% of the revenue on YoY basis. Hence EBITDA for Q1 2018 has almost doubled on YoY basis from Rs 22.6 Crores to Rs 45.0 Crores. The tax expenses were at Rs.5.37 Crores for Q1 2018 as per MAT applicability. The overall profit after tax for Q1 2018 was Rs.20.1 Crores compared to a loss of Rs.1.7 Crores in Q1 2017, which translates to 9.2% of the revenue as against -1.2% of revenues for Q1 2017.

In summary, we had a good quarter in terms of the revenue growth as a result of which we saw a significant expansion in operating and net profits of the company. However, as Sanjay has mentioned it is more meaningful to track our business growth on an annualized basis, given the lumpy nature of our quarters.

I am going to the next slide-16. Let us have a look at our key financial indicators. EPS for the quarter Q1 was Rs.2.78 compared to negative 0.31 for the quarter Q1 2017. Cash flow from operations was Rs.-15.7 Crores majorly due to delay in some of the collections during the quarter. As mentioned earlier, we have taken concrete measure to reduce the DSO. Although in this quarter we did not see improvement since some of the collections slipped out of Q1, but which have subsequently come-in

as on date. We expect to see the reduction in the DSO over the next four quarters. We expect to reach the steady state of working capital over a period of less than 120 days within the next four quarters. As at June 2017 the net working capital was down to 51% of the LTM revenue as against 57% as at the corresponding previous period. Cash and cash equivalent as at June 30 2017, was Rs.305 Crores as against Rs.55 Crores in June 2016.

During the current quarter Q1 2018, we completed our IPO and we have raised Rs.450 Crores on account of the primary issuance of shares. We have repaid Rs.272 Crores of borrowing during Q1 2018. As of June 30, our borrowing balance stood at Rs.15 Crores, as a result our debt/equity ratio has come down to 0.02 as against 0.96 as at June-2016. Our net worth increased to Rs.955 Crores primarily related to the allotment of the shares at IPO.

Sanjay Nayak: Thank you Venkatesh. With that we have covered the overview of our business, how to look at our financials and of course the update from Q1. This may be an appropriate time for us to pause and we would be happy to address any questions you may have.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thank you. First of all thanks a lot to the management for hosting this call. This is very useful. Sanjay to start with you mentioned that quarterly revenues will remain volatile and I believe the first benefited from the Bharat Net order. But, can you provide any viewpoint in terms of how the whole year looks to you and what kind of growth target you are working with?

Sanjay Nayak: Certainly. On an annualized basis, we believe that our topline should grow at least by 20% this financial year. In terms of the other operating measures such as operating profits and profit after tax we should see expansion as compared to last year because of the operating leverage that we have. I would say 20% YoY is something that looks quite possible at this stage.

Mukul Garg: Secondly, what was the spend as a percentage of revenues which happened on R&D during the quarter and can you provide us any viewpoint in terms of what would be long-term stable R&D spend which we will be able to do as it has come down in recent years earlier and it has been steadily coming down?

Sanjay Nayak: The way to look at our R&D expenses would be to do it on an annualized basis, where we will always see a year-on-year increase on an absolute basis. So for example, we have 310 people in our R&D team right now and let's say we do a net addition of another 50 to 60 people this year, our R&D expenses will go up accordingly, since a majority of it is linked directly to the salary cost. R&D cost as a percentage of revenue is likely to come down to a steady state target of around 9 to 10 % of our

revenues. As I said earlier, due to our India-based business model, it will equivalently mean close to 30% as compared to a US-based company, due to our lower manpower costs and R&D efficiency. So on a YoY basis, there will be an increase in our absolute R&D expenditure but as a percentage of revenues they should come to a steady state between 9% and 10%.

Mukul Garg: Third question was in terms of the break up between different areas, you mentioned your focus is on metro and access so can you provide the breakup between access, metro and long haul and if you have similar details about the product segment in terms of revenue break up?

Sanjay Nayak: The good thing about our product architecture is that we have a “platform” approach to our product. What I mean by a platform is that our flagship products, TJ1600 and TJ1400 are architected such that they can morph into an access product, a metro product or a long-haul product depending on the end application or the customer use case. As a result, although we mentioned that we have products ranging from access to metro core, based on variations in speed and other features and capabilities that are required in these network areas, our products are completely fungible and flexible and hence we do not track or break-out our revenues between access, metro core and long haul. For example, while we refer to our 1600 platform as a metro core product, because it can scale to multi-terabit capacity, the 1600 product is adequate to build national long-distance networks in many countries of the world.

Mukul Garg: The second point is on the product segments how much is aggregation versus DWDM versus SDN ?

Sanjay Nayak: As I mentioned earlier, our product are like a Swiss Army Knife. The same 1600 or 1400 product can become a POTP or DWDM, terabit OTN cross-connect, or a PTN, or a MSPP product. Again, depending on the specific configurations that the users want, each of these products can essentially perform multiple functions. Therefore we do not specifically break out the DWDM revenues out from the aggregation revenues. The last part, which you mentioned is about SDN. We do not have any SDN revenue today and the management layer, which is the NMS or the Network Management System, is usually bundled-in as a part of the network solution that we sell to our customers.

Mukul Garg: Got it, and the last question what is on the technology cycle from investment point of view last year you did GPON product, till when do you think that will remain in the ramp up stage and when should you see the next stage of investment in to a new product development ramp up meaningfully and will that be more like a lumpy investment or is that something which will be a continuous process?

Sanjay Nayak: At a high level, R&D investments will be a continuous process and not lumpy. In fact the question that you have asked is what I was trying to mention in our strategy, that R&D for us is an ongoing investment . One is for the capacity upgrades of existing products, because the same product has to scale up to cater to higher bandwidths. For example, since you mentioned GPON, there is already a

new technology called XGPON. While GPON can go up to 2.5 Gbps XGPON can support 10 Gbps or even higher speeds. So the same product continues to scale up to higher capacities and there will not be a lumpiness in terms of R&D investments. It will be more or less within the same 9% to 10% range. We should be able to stay within that investment range unless we go in to a significantly different technology area. Incremental investments in R&D can still give us significantly larger chunks of addressable market from a customer acquisition perspective, due to our design reuse efficiency that Arnob had mentioned earlier.

Mukul Garg: Thanks. If I may ask one question from Venkatesh, Venkatesh if you look at the tax rate during the filings because we carry forward losses due had no tax in fact on this quarter but the tax rate is about 21% so if you can elaborate on that exactly how we should think about it and also if you can help us understand the 0.5 in the release notes which income tax issue which has happened what exactly is that?

Venkatesh Gadiyar: We are under MAT, hence the tax applicability is around 21.3% and as per the normal computation, since we have the carry forward loss of around Rs 580 Crores. Since we are registered under the DSIR for our R&D, we are currently eligible to get 150% weighted deduction as per the normal computation.

Mukul Garg: Okay and the income tax issue?

Venkatesh Gadiyar: About the income tax issue subsequent to the quarter ended June 30, 2017 Income Tax Department has initiated certain proceedings under Section 132 of the Income Tax Act 1961 and issued restraint order on certain bank accounts and deposits of the company. The company and its officials have fully cooperated with the income tax department. As on date there is no demand raised and the company is of the view that the outcome of the proceedings will not have any material impact on the tax liability.

Mukul Garg: Thanks a lot for taking my questions.

Moderator: Thank you so much. We take the next question from the line of Anirudh Gangadhar from Nomura. Please go ahead.

Anirudh Gangadhar: Good afternoon and many congratulations on your first ever quarterly results after getting listed and thank you for the opportunity. A few questions, first if you can help us give a breakdown of the revenue by geography, very good growth what has been given by that can be shared that will be very helpful and on the topline itself just looking at the growth margin of about 45%-46% is directly comparable to the 38% that we did for the full year FY 2017 that will be my second question?

- Sanjay Nayak:** I will answer one part and then Venkatesh can answer the other part on the gross margin. In terms of the breakup between international and India, as I mentioned earlier we will have lumpiness within quarters and therefore we are not breaking it down by the quarter but we will look at it on an annualized basis. We feel that the trend line of the past will materially continue the same way. In this quarter, clearly India was a larger part of our revenues when compared to international. On an annualized basis, last year we had around 65% of the revenues from India and 35% was international. Based on the view that we have today, by the end of the year, probably it might go up by about 5% higher for India, so India could be around 70% and international could be around 30%. Venkatesh can answer your question about the gross margin.
- Venkatesh Gadiyar:** Anirudh, as I was mentioning earlier, since from this quarter onwards we have been giving numbers under Ind-AS, that means it is on a gross revenue basis, whereas last year we did on a net revenue basis. On a comparable basis, for last year Q1 we had gross margin of 43% and for the current Q1 it is on the same lines at 43% and for the full last year it was around 39%.
- Anirudh Gangadhar:** Right so it is comparable to the 39% for the full year largely speaking?
- Venkatesh Gadiyar:** Yes.
- Anirudh Gangadhar:** Sanjay going back at your answer that you do not want to go into the state of the revenue but can you help us as to how did the India revenue grow out of all this and if you can probably tell us what is the broad contribution of Bharat Net because that would be the delta that would have come in this quarter versus same quarter last year?
- Sanjay Nayak:** Yes, Bharat Net was one of the reason for larger India revenues. Another thing is that we had a large backlog of orders which we had got last year, which we executed in this quarter and Bharat Net was one of those. So, in India the government business was larger than the private business and of course India itself was much larger than the international, in terms of the total revenue pie. The interesting part as you would have observed, is that independent of the product mix or the customer mix across the segments, whether India or government or private, we did not see any significant difference in our gross margin since we have been able to blend it between the different kind of customers.
- Anirudh Gangadhar:** That is pretty good point to highlight thanks for that and just a final thing on Bharat Net going at your slide you have supplied solutions to about 40000 locations just trying to understand what is the for Bharat Net-1 itself how much more locations do you need to roll out and what is kind if you can put a number to it in terms of finances what is the kind of revenue option are you looking at?
- Sanjay Nayak:** Around 40000 is what we have won the orders for, some of which we have supplied in the previous quarters, including Q4 of last year. I would imagine that between Q2 and Q3 of this year, we should

be able to complete all the supplies. In addition we also have an installation and commissioning element which we get paid for, so I would say that by the end of this year we should be able to mostly complete the Bharat Net Phase-1 project. Coming back to the point about how much that business is, again since we do not disclose customer wise order numbers, I would say that it would be a good part of the business but not the dominant part. The reason we highlighted GPON was because we have historically been known as an optical transmission company and this was a new product that we introduced which seems to be getting a good amount of traction. BharatNet Phase-2 as you would have heard, has been announced by the government and my sense is that from Q4 of this year we should start seeing some tender action with execution starting in the next fiscal year.

Anirudh Gangadhar: Thank you for all the answers Sanjay. All the best to the management. Thank you.

Moderator: Thank you. We take the next question from the line of Suveer Chainani from Citigroup. Please go ahead.

Suveer Chainani: Sanjay and Team congratulations again on a great quarter especially right after your IPO. I have a couple of questions one is that could you talk about the colour of your DSO's on a sequential basis quarter-on-quarter and if I am not wrong this has expanded a bit so what led to this expansion and how do you speak earlier than that receivable has come through now. Can you confirm this and what is your comfort zone on the DSO and especially given that Bharat Net-2 will be state driven there could be more risk coming down from state driven receivables?

Sanjay Nayak: Suveer thanks first of all. Clearly, as Venkatesh had mentioned, the DSO on a sequential basis has expanded by about 20 days. But subsequently some of the collections that were supposed to come in by end of last month (i.e., end of June) just came in (i.e., in July). As we had said earlier we have taken enough actions to sustainably reduce DSO over the next four quarters. Last quarter we were quite involved in many other activities including the IPO and going forward, I would say starting from this quarter and the following two quarters, we do believe that we should see a downward trend for the DSO. We have been taking various measures to reduce DSO beyond the normal tightening of internal systems. We are also trying to see whether contractually we can ensure that we do not get affected significantly by the vagaries of project delays on the customer side. You mentioned that in Bharat Net Phase-2 the implementation agencies could be even more decentralized, as it could be a state or a telco or a system integrator- which at this stage is a little bit unclear, in terms of who will eventually end up managing these projects. Hence to say what would be the impact of Bharat Net Phase-II on DSO's is still a bit difficult and unclear. It is not necessary that the DSO's may increase because of a decentralized implementation. It is something we will have to see as it comes along.

Suveer Chainani: Was this level that is the comfort zone that you are in for DSO?

- Sanjay Nayak:** Yes we are at about 150 days at the end of last fiscal year and we are at about 170 days right now, we should bring it down to about 100 to 120 days over the next four quarters, based on the kind of the plan we are working on.
- Suveer Chainani:** Secondly, your R&D is clearly your edge and we all know that for software defined or firmware defined routing you need R&D and that is the big edge you talked about. Can you talk about your ability to attract talent and the cost dynamics going on especially given that now the aspirations or the ability for Indian talent to go outside is also getting limited, but what are the dynamics you are seeing in terms of attracting high quality and high end talents?
- Sanjay Nayak:** First of all you have rightly pointed out that R&D talent is at the core of our business. I must say that in the last six months in particular, there are two concrete trends we have seen. First is that attrition rate has come down quite significantly in the company. We are already into single digit attrition on an annualized basis over the last 12 to 18 months which is a very good sign in Bengaluru, which is often referred to as the attrition capital of the world. Second, I think we have been able to do very well in terms of attracting good talent. In fact as we speak, this week we have our annual batch of about 50 pretty much top-end EE and Computer Science fresh graduates from the IIT's, NIIT's and BITS Pilani joining us. We have made many offers over the last quarter to employees in the middle and junior-plus levels in the company. The foundation of our company in terms of the quality of our engineers and product architects is very solid. In our company, most of the technical architects have 20+ years of experience and most of them have been with the company for more than 10 years. The mid-level and junior-level talent is also very solid and we do not think that attracting talent is going to be a challenge for us. Similarly on the retention side, given the overall industry dynamics plus the fact that the company is performing well, there is a lot of excitement around building a product company out of India. Overall on the HR front, we are in a pretty good position.
- Suveer Chainani:** That is it and you know I have two more, one is on your private size can you talk about Indian private sector what is the traction building and the last one is on the competitive environment especially on the Chinese side in the government, these two points and that is it and congratulations again!
- Sanjay Nayak:** Thanks Suveer. On the private side I must say that Q1 was a little bit slower because two of the operators are engaged in a merger process so that has slowed things down a little bit and typically in India, Q1 is when people do their capex planning. So, I would say that India private was relatively slower compared to India government business in Q1 but based on everything that I have heard from our customers, there is going to be an increase in capex intensity of private operators on optical. In fact in all the analyst calls that the private operators in India have done this quarter, they have confirmed that optical capex is something which is going to be a priority area for them going forward. In that sense we are comfortable. Coming back to the second question about our competitiveness

against Chinese companies, I think this is something that we have been doing all along over last 10 years on a sustained basis. I must say that we have our own strengths and we have found a way to compete. At the macro level the only comment I can make is that as things become more and more software oriented, and as the differentiation starts moving to software compared to hardware, that is really where we start gaining a significant edge. In addition, not just in India, but also in Africa and Southeast Asia, we are actually seeing a lot of our customers looking for an alternative to Chinese. In the last 10 years they have made progressively larger bets and a lot of their network is dependent on Chinese equipment. Clearly after everything which is happening in the world, they seem to have an internal mandate to find an alternate vendor who has the same DNA as the Chinese in terms of price competitiveness but at the same time is innovative like a western-world company. We seem to fit this bill quite well. So, I would say that definitely while Chinese firms are very credible and significant competitors for us but we have found a way to manage that competition and grow as well.

Suveer Chainani: Thanks and all the best.

Moderator: Thank you. We take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Could you give your market share in the Bharat Net who are the other vendors who are in this deal and what is the market share out there?

Sanjay Nayak: Since this is a public information, I can share that there are two other vendors who are primarily in Bharat Net. One is ITI and the other one was L&T who apart from us are the three major vendors. We believe that between us and ITI we would probably be having most of the market share evenly distributed. If you say 100000 villages, we are at around 40,000 and I guess it would be around 40,000 or so for ITI as well. Then the other company probably could be at around 20,000. So that is my approximate understanding of the distribution right now.

Madhu Babu: I understand Chinese players usually are not allowed to bid in this contract if I am right?

Sanjay Nayak: The way it works is that for BharatNet or for that matter any Indian government-funded telecom project, there is a policy called preferential market access (PMA) which is applicable. Under this PMA policy, the definition of Indian product is one in which there is a minimum amount of domestic value addition (typically 30% to 40%) which can only be done if your R&D, Technology, IPR and manufacturing is done in India. In the government-funded projects that are covered under PMA policy, not just Chinese but no foreign company would get market share beyond what is stipulated. Depending on the specific product, this marketshare could be 100% for domestic companies or 70% or less, and this gives a market access benefit to a domestic company under PMA policy. One other initiative, which is recent and we have not yet seen any significant impact on our business is an

initiative under “Make in India” called GeM which is essentially a mechanism where companies have to register online and the ministries or government offices even at state levels should give preference to the domestic products if they are available. So these are all policy initiatives, which should help our government business.

Madhu Babu: Margins have been very strong this quarter, so would you say that 20% margin is quite doable as a company for us and just on the debtor days, I mean the way Bharat Net is growing, how would be the payment terms be with Bharat Net kind of a programme?

Sanjay Nayak: First of all the margin profile that we have seen last year on a full basis as well as Q1, we clearly believe that we will sustain. We actually see opportunities to increase the margins a little bit because we are still having some operating leverage because of our fixed costs in R&D and sales and marketing, which are related to manpower costs. These can give us some benefit of scale as our topline grows. On your question about the payments terms of Bharat Net, a large part of the payments become due after supplies and once we complete the initial product testing, which we have already done. Our supplies are pretty much on time and the supply-linked payments typically come quite fast. The balance payments come after the installation and commissioning is done, which happens after the sites are ready. Here we actually have good news, since Bharat Net is one project which is being monitored closely on a day-to-day basis by the senior most people in the Department of Telecom and this is a project which is on a fast track and we are not seeing the usual project delays. So I am very confident on the execution of Bharat Net. As I told earlier, we expect that next few quarters will be smooth in terms of turning up of the sites and the clearing of the balance payments. If it was another project where the focus of the government was not there, I would have been concerned. This project has gathered steam in the last 60 to 90 days and there is a strong mandate to finish the project in the next couple of quarters, maximum before the end of this year.

Madhu Babu: Lastly I know this is a new listing and new sector altogether, but can we have some metrics like order book or unit shipments or client concentration, which I think client concentration we mentioned in the prospectus, but on a regular quarterly basis if you can start disclosing those order book?

Sanjay Nayak: It is a good question and we are also debating internally as to what would be a meaningful metric to measure and share. As we mentioned earlier, the order book in our business is only an indicator of what I would say government/tender kind of business. For example if we have won a government tender or a project which will get executed over six to nine months, the order book would capture that. However, a significantly large part of our business is what we call a “run-rate” business, where we have a rate contract with our customer and we get orders every week or month. Many times the order comes at the beginning of the quarter or month and by the end of the next month, the order is executed and hence doesn’t show up in our order book at the end of the quarter. Hence we felt that the

order book may not be a good metric to track. The second metric which you talked about is unit shipments. Unfortunately that too does not fully reflect our business, because our 1400 and 1600 platforms depending on the configuration we ship, could cost between X or 5X in terms of the unit price that we offer to the customers. We will of course share the quarterly update and number in terms of the health of the business. More importantly we felt that on an annualized basis, 20% year-on-year growth on the topline is something that is visible to us based on the overall business view. On the bottomline side I think the modeling is relatively simpler, as I had answered in the context of an earlier question. The cost side is relatively easy to monitor in terms of the operating costs, where R&D and sales and marketing costs make up the majority. These are trend-line based, in the sense that if our cost was X in Q1, it can only marginally go up in Q2 because it will only be a function of how many more people we added, unless we undertake any major initiative in these areas. The gross margin is another metric which is a good one to track. Independent of whether it is a government business or private business or international if we are able to hold the blend of our gross margins, which we have so far been able to do, it gives a good visibility and predictability in terms of the profitability of our business.

Madhu Babu: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thank you for the opportunity. Sir, is the Bharat Net Project the order you got in August 2016 is that the one or this is the subsequent one?

Sanjay Nayak: We have got multiple orders from the Bharat Net Project, some from the BBNL, which is the Bharat Broadband Nigam Limited and some from BSNL as well, because BSNL is one of the executing agencies. Some of these orders came last fiscal year. We have also got new orders in this fiscal year so I think it has been a continuous flow of orders for this tender.

Ritesh Poladia: Sir, one last question if you can take us through your sales cycles in government and non-government how different it is and do you have an order led revenue model or it would like you will keep the products ready on the shelf as and when order comes, you will supply that?

Sanjay Nayak: This is a good question and will help clarify our business for the larger audience. We actually have two different sales cycles- one for the government tender business and one for private business. Most of the government business is kind of one shot where you have tenders which get floated and there is a technical specification that you have to meet. Once you qualify technically, there is a commercial evaluation and depending on whether you are L1 or L2 on price, you win a certain order size and have to execute over three to nine months depending on the size of the order. These are the ones which come into our order book and backlog. Many times there is an add-on clause in such tenders, as I was

discussing in the context of Bharat Net, where you can get additional orders against the same tenders. The other sales cycle which we call as run-rate business, is our business with say operators like Airtel or Idea. They would essentially select a set of vendors based on technology, commercials, current products, roadmap, quality of team, support and other parameters and of course cost, and then they will sign a rate contract. Typically they will have two to three vendors in each segment and they would divide their capex between them. Depending on our performance, we would either get a higher market share within that customer or lower. In these kind of rate contracts, in the case of Tejas, once we get selected into a customer account, we are more or less there with them for a long period of time. So in most of our private customer accounts, we have been there for more than ten years or so. Once we are selected the only time we have to be reselected is when a new technology replacement cycle happens, and for us we have been reselected in the last round of technology cycle, which happened to cater to a voice to data migration in telecom networks. In the rest of the world, we are the company which typically displaces one of the incumbent supplier when a new technology replacement cycle happens, because of our product and technology leadership.

Coming back to your question about the fulfillment cycle, all our products are common across customers and so the same 1400 and 1600 platform that I talked about gets shipped to BSNL, goes to BBNL, goes to Jio, Reliance, Bharti, Airtel etc. The way we run our supply chain is that we have a forecast of run-rate orders, based on which we in turn share forecast with our contract manufacturers who take inventory actions. Since there is a bit of uncertainty around the tender business, we take concrete inventory action only after we win those tenders and place such orders on our contract manufacturer. As I said, the technology and product are technically off-the-shelf and we do not have to do any significant customization, except that the configurations could be different for different customer orders, depending on the end application.

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

Moderator: Thank you. We take the next question from the line of Rahul Agarwal from V.E.C Advisors Private Limited. Please go ahead.

Rahul Agarwal: Good evening. Congratulations on the good set of numbers. Sir, one just question essentially earlier Q&A also addressed kind of questions on order book and inflow and pipeline across your topline mix so in terms of discussions you already pointed out in terms of India PSU and private business as in what is going on and how the pipeline is looking like but it is there any specific order or any specific region or a new product you have won on the international side would you highlight as in which could help in terms of growth going forward like on international side on the direct side may be?

Sanjay Nayak: That is a good question. So let me just give one country, which we are working on and let us talk about that. We did not highlight it particularly in our press release because we still do not have all the approvals in place from the customer but I am very happy to say that we have recently signed up a new Tier 1 telecom operator in North America. We have won an initial order, which is going to get fulfilled this quarter. We have also won a few Tier 2 and Tier 3 customers in North America where we have recently started a direct sales presence. We had indicated earlier that we will be potentially expanding into North America and I am happy to say that we have started to win in that territory as well and especially the fact that we could win an initial order from a Tier 1 customer in North America is very heartening. So I would say that this win gives us confidence in the product set that we have. One of the things that Arnob talked about was the ability our products to enable network transformation, which is transitioning from voice towards data. I think this is a sweet spot of our products and this capability has enabled many of our customer wins. In North America, operators still have a lot of legacy TDM traffic in their networks which needs to be migrated to packet and we seem to be having one of the best portfolios in the market today to enable that network transformation in a seamless manner.

Rahul Agarwal: Okay and in terms of nature of the contracts would these be recurring or these are one time how is that?

Sanjay Nayak: These would be recurring. Essentially these would be like the rate contracts with the private players that I had described earlier. They typically start by giving us a small order to make sure that we can scale up and fit well into their system, and once you cross that hurdle there is always a strong potential to expand that business further.

Moderator: Thank you. We take the next question from the line of Raj Mohan from Individual Investor. Please go ahead.

Raj Mohan: Thank you for taking my call and congratulations on a stellar quarter. You have indicated to the public issue of the improving of you balance sheet and thereby improving your eligibility to win the overseas orders. In this light could because of background of order sizes that typically used to come from the international market in the past and the order sizes you envisage post the public issue you also indicated to the North American order in the previous question, I am just wondering this order fell under category which is of a bigger size and which you could participate in the public issue after improving your balance sheet?

Sanjay Nayak: That is a good question. So let me tell you about the typical order sizes we see in international markets and actually how that works. Usually what happens is that initially whenever you enter a new territory or a new country, while customers would love to believe that everything that you have is

perfect, they want to start by trialing your products in their own networks. So typically they give us an order worth a few hundred thousand dollars or up to a million dollars and then once you are able to deliver and assure them that your products are good, it can potentially expand to a few million dollars in the next year or can even grow to tens of millions of dollars. The strengthening of the balance sheet will potentially reduce the time it took for us to get from 100K or 200K to a multi million dollar order from the same customer. Moreover, once we start making additional investments in sales & marketing in certain regions, we do expect that we should be looking at more multi-million dollar deals going forward. Post IPO, we now have the balance sheet strength and of course the customer also starts viewing us differently in terms of our ability to execute larger orders, sooner than later.

Raj Mohan:

That was really helpful and quite precise in terms of response. Coming finally on the BharatNet again you have indicated in the past it is a 9000 to 10000 Crores opportunity for Tejas and other similar products vendors till now how is the opportunity has been executed probably at the Phase I by December how could executed and with Phase II being more open to competition do you feel the order book would be less than Phase I or due to your execution capabilities in phase I you will stand a better chance?

Sanjay Nayak:

Firstly Rs 9000-10000 Crores number that you mentioned is for the overall Bharat Net Phase I and not just for the electronics, because in Phase I the total budget for electronics, which is the GPON and other stuff, would likely amount to around Rs 2000 plus Crores. Phase I of BharatNet is for about 100000 villages, Phase II will be 150000 villages. Coming back to the competition, in Phase 1, the BharatNet project was given to either BSNL or BBNL but going forward there will be competition among system integrators, telcos and of course government agencies or states. Going forward, assuming that Make in India and PMA clauses would still be applicable for BharatNet Phase 2, since it is a government funded project, no matter who actually executes, we will have the opportunity to provide the GPON and other equipment needed in the network. There could of course be newer kind of equipment such as wireless that could be introduced in certain areas. I would say that I do not see a significant difference in terms of our competitive ability to win a good part of that business because we now have the additional experience of executing Phase 1 very well. I must tell you that this has been a huge learning experience both for the government as well as for us. So having that experience under our belt hopefully should put us in a good position when Phase 2 execution starts. Again I do not see Phase 2 revenues coming in this fiscal year.

Raj Mohan:

Thank you very much and all the very best.

Moderator:

Thank you. That was the last question. I now hand the floor over the Mr. Pranav Kshatriya for his closing comments.

Pranav Kshatriya: Thank you everyone for participating in the call. I will hand over call to Mr. Sanjay Nayak for final remarks. Thank you again.

Sanjay Nayak: First of all it has been a pleasure talking to all of you and thank you for taking the time. I hope that my management team and I were able to convey an overview of the company because this is the first time that we have been talking to you and our objective was to help you understand our core business strengths, our challenges and the way we think about our business. I hope we were able to articulate that. Again as I said, while Q1 has been good I would still urge that you should look at our results on an annualized basis because that is a more meaningful metric for us, given the natural lumpiness in the quarters. Overall, I would say the business is on track. R&D and innovation are still our strengths. The data market is still exploding and we have a good role to play enabling this. Indian Government is aggressively investing in broadband projects. Internationally, we have seen good success and progress. Overall I can say that things are panning out very well and we look forward to again talking to all of you and continue to update on our progress. I would also like to take this opportunity to thank the Edelweiss team for hosting this call and arranging all the logistics. Thank you very much and look forward to interacting with all of you again.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Edelweiss Securities, we conclude today's conference. Thank you for joining. You may now disconnect the lines.