



“Tejas Networks Limited
Q1 FY2022 Earnings Conference Call”

July 21, 2021



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Moderator: Ladies and gentlemen, good day and welcome to Q1 FY2022 Earnings Conference Call of Tejas Network, hosted by ICICI Securities 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. Bhupendra Tiwary from ICICI Securities Limited. Thank you and over to you Sir!

Bhupendra Tiwary: Good evening everyone. On behalf of ICICI Securities, we welcome you to Q1 FY2022 results conference call of Tejas Networks Limited. From the management, we have Mr. Sanjay Nayak, who is CEO and Managing Director; Mr. Arnob Roy, who is COO and Wholetime Director; Mr. Venkatesh Gadiyar, CFO and Dr. Kumar N. Sivarajan, who is Chief Technology Officer. We will begin with the opening commentary by the management post which will have the question and answer session. Without much ado, I will hand over to the management. Over to you Sanjay! Thank you.

Sanjay Nayak: Thank you Bhupendra, and good evening everybody. This is Sanjay Nayak and thank you for joining the earnings call. We had uploaded our earnings presentation on our website, I hope, you had a chance to download it or look at it because we would be following the flow from that presentation.

I am on the first slide, which talks about the Q1 FY2022 updates. On the financial side, our net revenues were of 144.3 Crores, which was a year-on-year increase of 86% corresponding to last year. Our PBT was 8.3 Crores versus the loss of 9.8 Crores last year, we actually had fairly good bookings and our order book has increased to 701 Crores and the majority of the new orders actually came from India Private and international. Our cash and cash equivalents decreased to 312 Crores and Venkatesh would explain in a short while on that side.

In terms of the sales update, the India government business was slow as I mentioned earlier, and even in terms of new bookings. So while we have won a whole bunch of tenders those orders have not yet happened and because of the COVID restrictions in Q1 in large parts of India some of those projects have not been executed as yet. We are also participating with our new wireless product, which is the 4G base station, in the BSNL tender. We are currently at the proof of concept stage where our products are being fielded by multiple system integration partners who would be using our base stations and radio product for the entire solution, that trial has started and expected to continue for the next four months.

On the India Private side we have seen a fairly strong revenue growth, 101% year-on-year, and in addition the order book was also fairly healthy in terms of the new orders that we got from the India Private segment. A lot of this was really based on the new application wins that we won last fiscal year both on the GPON products which is fiber to the home, as well as the backbone capacity expansion based on the DWDM and OTN products, which are used in the metro networks for all the tier one operators.

On the international side, the growth momentum continues from last year and again we had 82% year-on-year growth and on our overall basis international was 52% of our total revenues which is a higher percentage compared to last year when on an annualized basis international was 40% of total. We also got six new customer wins, two in Asia, two in Africa and two in America.

On the supply chain side, I am sure a lot of you have been reading about the global shortage and constraints in the semiconductor industry. We got an early indication at the beginning of this calendar year and we have been managing the challenges of this current situation by placing advance component orders with all our critical suppliers for long lead-time items and making sure that we can secure our next quarter requirements.

Of course, this did require a little bit of committing additional cash which is part of the reason for our work-in-capital to be higher and the cash positions to be lower. Secondly there has also been a little bit of cost increase by certain suppliers, but luckily for us because the international business was more than half of our revenues we were able to absorb most of those cost increases because of higher realization internationally and as a result our growth margins have almost been at a steady state level, that is kind of the quick summary of the health of the business.

I would now request Venkatesh to go through the next few slides on finance and then I will come back and give a deeper commentary on the sales and the business on an overall basis.

Venkatesh Gadiyar:

Thank you Sanjay. Good evening everyone. You are on the financial update slide. Before I begin commenting on this, I would like to inform you that Q1 of FY2021 was an exception due to COVID-19 and a year-on-year comparison should be viewed accordingly.

The net revenues for the quarter Q1 FY2022, was the 144.3 Crores. We saw a year-on-year increase of 86.4%. In this quarter, we had just a breakeven in terms of our EBIT which was 1.2 Crores for the quarter. On a PBT level we had 8.3 Crores and on a PAT basis we have 7.6 Crores and the basic EPS was 0.81 paisa per share.

We are on our key financial indicators; we had a net cash outflow from our operating cash flow of 32 Crores and the net worth has been increased to 1146 Crores. Inventory was decreased to 201 Crores by means of decrease on a quarter-on-quarter basis by 13 Crores while our focus is to consume the inventory on a quarter-on-quarter basis; however, due to the global semiconductor shortage, we are stocking up long lead components to avoid any supply chain disruptions that is one of the reasons, we have to make the payment to some of the vendors in advance or on time to secure our inventory on time.

Second thing our trade receivable has increased to 447 Crores which saw an increase of 33 Crores on a last quarter and two things; one, is the delayed payments from our few customers due to the COVID lockdown and second one, the payments received from BSNL was coming in a slow pace. During the quarter we had collected about 15 Crores from the BSNL and we do expect to collect something more in the coming quarters.

The working capital was increased by 55 Crores in this quarter primarily due to higher payments to the component suppliers coupled with the delayed collections from the few customers which has resulted in the higher working capital and we do expect to normalize the working capital over the next few quarters. Of course, the combination of both the delayed payment and the higher payments to the vendor has resulted in the cash outflow, has resulted in 52 Crores of decrease in the cash and cash equivalent. As of June 30, 2021 our cash position was around 312 Crores and we have continued to be a debt-free company and we have a strong balance sheet which can support the growth of our future goals.

Now I will hand over to Sanjay.

Sanjay Nayak:

Thank you Venkatesh for giving the financial update. I am on the next slide in terms of revenues by segments. This chart on the left hand side is our annualized revenues by the three categories that we track which is India Government, India Private and International and on the chart on the right-hand side are the corresponding numbers for Q1 of this year.

As you can see that International contributed around 52% of the total revenues, India Private contributed around 35% and India Government was 13% of total. So if you really see on the whole the run-rate business was really 87% of total in Q1 and on an annualized basis if I were to look at the corresponding quarter last year it is around 89.3% growth.

The India Government business was slow as I mentioned earlier because the project execution although we have lots of orders the project execution on the ground was definitely impacted by the COVID situation. In terms of the new orders that we got in Q1, a majority of them, around 95% of the new orders that we got in Q1, were from Private and

International and only 5% came from the Government. Although we have won a whole bunch of government tenders where we are L1 those orders should come in terms of purchase orders to us during the current quarter.

Overall, I could say that we had targeted to make our run-rate business a lot more robust and lot more predictable and we are continuing to head in that direction and the Indian government business will of course be lumpy in nature and as and when the tenders come and we continue to get orders we should be able to execute that effectively as well.

Going down a little bit further in terms of the situation in India let me start off with the government again on an overall basis. One thing which is a new product that we have not spoken earlier is the 4G Wireless Radio Access Network which is commonly called the 4G base station. So we have been investing in that technology for last many years and that product is being positioned as a part of a fully Indian solution where all aspects of the solution hardware, software, etc., from access to the core are Indian. For the BSNL's 4G tender, the proof of concept testing is underway so two system integration partners have bid our products in that tender for more than the total value of the tenders is going to be fairly large.

Second item you would have read in the newspapers even today morning that government has approved additional budget of 19000 plus Crores for extending BharatNet to villages as a part of the BharatNet Phase 3 program under a public private partnership program. The global tender has been released today. Again, we believe we should have a significant play as and when these things come to the execution stage and these would be executed by telecom operators or other service providers who would potentially be executing this project and then buying the equipment of the kind that we do.

The third is that in addition to building the wireless portion of the 4G network, BSNL also has to upgrade its optical backbone and access networks which requires wireline products of the type that we have. There will be fairly large value tenders, which are likely to be issued by BSNL in the second half of this year, for building higher capacity networks to backhaul traffic from their wireless networks. So considering all of these opportunities together there is a fairly large volume of business available from BSNL this year. Of course all of that would be under the Make in India program.

Second bullet I want to talk about is all the initiatives with respect to Atmanirbhar Bharat and how they affect our company. So we have submitted the performance linked incentive application the PLI application for telecom and networking equipment category as was required by end of June. They would be shortlisting the companies and announcing them



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sometime in the month of August. We do believe that our application meets the required requirements and we would look forward to how that pans out in terms of approval.

The second regulation which has come into play from June 15, 2021 where Government of India has mandated that only secured telecom equipment can be deployed in any network whether public or private or cable or ISP or any kind and every company has to apply under the National Security Secretariat. We already applied for our products and we believe that our product should be approved as secured telecom product whereas products from certain countries probably will not be getting that green signal.

On the critical infrastructure segment, this is a part of our business which is seeing lots of tenders and it is almost a run-rate business. So there has been again like in previous quarters lots of tender wins in Q1 and we should be expecting orders from that. In addition, RailTel and PowerGrid do have a few large tenders that are on the anvil which should be tendered in Q2 or Q3. Again these are under the Make in India program and they are our longstanding customers. Thus we believe that if you take the entire India government as a funnel, there are significant business opportunities which are available to us and likely to fructify as the year progresses. Some of these will be executed this financial year and a lot of that given where we are could be for next financial year.

In terms of the India Private this has been a sector that we have been very happy about in terms of the progress that we have been making over the last few quarters. In the previous quarters we have been announcing different application wins that is fiber to the home, metro capacity expansion and all of these with tier one operators and as a part of their mainline network requirements. So we are very happy to say that some of that has started to flow in the form of business. The metro capacity expansion projects have started to give us good order inflow as well as the revenues and this is for both 4G expansion as well as in preparation for 5G in the future.

The fiber to the home rollouts which is another set of applications where we have been selected by all the major operators that has still been slow in terms of our own revenues and our own integration into their systems but we do expect that we are at the tail-end of that process now and starting from second half we should start seeing increased order flow from the FTTF and the GPON applications from the two major operators that we have.

There is another business that we have started in this quarter that which I think I mentioned in the earlier earnings call that a lot of the fiber to the home rollouts or home broadband has been given by smaller ISPs and there are more than 100 such ISPs in the country. We can call them tier 2 or tier 3 ISPs which are local operators, some of them are cable operators



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who are morphing into Internet service providers, but they also are now buying GPON equipment to offer broadband service to their customers. So we are attacking that market which is about as big as the other two telcos if you take the whole market in India it would be divided between the two large telcos taking around 65% and maybe around 30% of the market would be with the smaller guys. So we are targeting those as well using a channel approach so rather than going to each and every one of them directly we are appointing distribution channels, system integrators who are in a local state wise and region wise specialists in these kinds of things. The first set of distributors have been signed they have started to give us initial orders and we do expect that this part will also become almost a run-rate business going forward and it can be a fairly good business for us. Overall, I would say that India Private possibly could be one of the fastest growing segments among the three segments of our business during the year.

Coming back to the next slide on the International again we have four regions that we are focusing on. Africa and Middle East region is the one which did extremely well last year and it is continuing to do well this year, if indication of new order flows and the revenues for quarter one is any indicator. We continue to see a lot more repeat business from our existing tier one customers for our WDM products with 100G/200G support for their high capacity backbone networks so we are doing extremely well there. Basically what is happening in Africa is that all the major carriers are upgrading their network capacities to address the higher bandwidth demand from web scale companies who are setting up large data centers in Africa and also for their impending 5G rollouts.

Clearly because of the geopolitical concerns they are diversifying their customer base and there is a requirement for many of them, especially if the end customer is a US company, to give them bandwidth on trusted equipment. So overall I would say Africa is continuing to do very well and we expect this year will be a good year for Africa as well.

South and Southeast Asia once again has been a territory that we have been operating in for a while and we had good success last year. Our fixed wireless access product, for which we had won a large network last year, and fiber to the home product for broadband rollouts are again the applications where we are doing well and continue to see good traction from this region and we expect decent growth this year in this segment as well.

Americas was a region that did not deliver us the expected results last year; however, we are continuing to focus and have been investing into the region with a direct sales force team. I am happy to say that we are starting to see that region turning the corner. So we started to get some good orders initially. We have also seen some initial success I would say, not large success yet. In terms of fiber to the home rollout in rural carriers who are using the



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very large amount of US government funding available for rural broadband rollouts it is tens of billions of dollars of funding which is available and we have started to get a little bit of success in that market.

Mexico did not perform up to the mark last year but this year we see the business momentum picking up and overall I expect that in terms of the revenue impact America should see a decent revenue contribution during the second half of the year.

Europe and CIS countries we started late last year in terms of hiring some local sales people both in Europe as well as in Russia so they have started to do a good amount of branding and positioning of the company's products among multiple operators. So I would still say that we are in a business development mode although we have responded to a lot of RFPs and there are pretty decent sales engagements primarily again for FTTH and DWDM products. So I would again expect that Europe and CIS meaningfully should start contributing in the second half of the year.

Overall, if I were to look at the International we had good growth in the last financial year and if the Q1 is an indication of things, we expect to continue on a similar growth momentum in the current year as well. Of course, with a larger revenue base the numbers will get moderated to some extent but at least from a growth and directional angle we do see positive signs on the international side as well.

The next slide is just a recap of the applications where we are winning just to make sure that everything that I said is seen in the right context. So on the access side now we have two sets of products; one, is the wireline product which is the GPON and the Carrier Ethernet and other products in that same category. With the launch of our LTE base station, which is a 4G product which will in future be upgraded to 5G as well, now we also have a wireless broadband play in that segment of the business and that basically opens up a relatively large market opportunity for us as well. The BSNL tender is one large such opportunity that we are working on and we are going to be closely monitoring how that proof of concept and everything else goes.

On the metro side, there is a strong demand for capacity expansion on 100G, 200G, 400G and 600G DWDM technologies. This is pretty much state-of-the-art in terms of the speeds compared to anybody else in the world we are again very happy to say that this has been the growth driver in Q1 both within India as well as outside of India in terms of private operators and large carriers who are now trusting our products in expanding their metro networks. Metro expansion is really a big area with a lot of growth potential. Also with 5G coming in and driving a lot more bandwidth, metro networks have to be upgraded to very

high capacities and we are well designed into that segment of the business especially with DWDM as well as OTN technologies.

OTN technology again just for simplifying it for many of you is a low latency technology and for 5G you need low latency networks. I would say we have a fairly strong portfolio of OTN products which is again helping us win in many tier one customers both in India and outside.

The last part is really the critical infrastructure which is the switches, routers as well as the transport and other elements that companies like rail, oil, power, gas, smart cities, surveillance and all of those things need and that again is another segment where we have been doing quite well. Of course, the last segment is more security sensitive so there are many Make in India and security sensitive tenders where we do get a significant benefit as an Indian company.

Overall, we continue to focus on R&D and if you see our investments on an absolute basis last year, year before or even this year we continue to believe that it is important for us to make sure that our products stay competitive and we are relevant to our customers on the basis of our technology strengths rather than just being there because of our incumbency. So we are generally continuing to get ahead in the game and many other technology areas not just for India but for any other market in the world.

I am coming now to the last slide just summarizing and then we will open it up for questions and answers. Really in summary I would say we are on track so last year was a good growth year but we must acknowledge that we are not yet there in terms of where our revenues were two-three years back and our first target is to head in that direction. I would say we are heading in the right direction with a solid financial performance in Q1. We had good revenue growth from run-rate customers which is important because the previous cycle of our growth was built on a lot of government business, which is good business which we will of course take when it comes, but our foundation of the run-rate customers now is rock solid and we feel that that is a direction which makes the company a little bit more predictable in terms of financial outcomes.

The new order inflow continues to be good, so while we had good growth in terms of revenues I think we have actually got a better growth in terms of order book as well as new customer wins so we actually are optimistic about continuing to win a lot more business, from existing customers and of course from new customers as well.

Our focus on International business is yielding positive results so if you see over the last four, five, six, quarters continually now we have built up a good base for international. In fact this quarter international was more than around 52% of total which gives us a sense of geographical diversification so that we do not again get into a situation where overdependence on India caused a little bit of a turbulence in our numbers. And of course in India, which is going to be one of the most hotly contested and a large growth market for all the reasons that we described earlier, we do see clear opportunities to increase our market share and sooner or later our increased market share will start showing up in different reports, etc. The global semiconductor shortage has been a challenge for everybody. The only thing we have been able to do is monitor the situation closely, make early enough investments to secure components even if it means paying a little bit more but make sure that our supply chain continues to run smoothly. We have done an okay job in Q1 I would say. It is not as good as we would have liked it to be but I am pretty sure that in Q2, Q3, Q4 we should be able to do better than that. As Venkatesh mentioned earlier although our cash position did decrease to some extent, but we still have a very healthy balance sheet and with the receivables and the other things that he said would be normalizing in a couple of quarters, we should again be in a fairly healthy cash generating situation. So overall I would say Q1 has been a good start, we seem to be on track and as the year progresses we will be happy to share more details about our progress with all of you. At this point, I will pause and maybe we can open it up for questions from all the listeners.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thanks. Sanjay, I would probably start with the last comment which you made about doing an okay job in Q1 and expecting better in the Q2 to Q4 so just a bit of a clarification around the Q1 can you quantify the impact of a lockdown and chip shortage on both revenues and margins and the impact of advanced payments on working capital?

Sanjay Nayak: I would say that internally we always have a baseline and an upside number that we would like to do so of course we hit the baseline number. If you see the order book that we started the year was around 679 Crores so we had enough orders to execute both in Q1, Q2 and so on. So it was really a function of three things actually. One was a component supply chain disruption and by the way despite the best planning any company in the world would always have some last minute surprises so did we. So we could have done more revenues but that was one issue. The second related issue by the way was fact that for some of the inventory that we had built customers could not come to Bengaluru for doing the final acceptance and testing because till around the June 20, 2021, there was a lockdown in

Bengaluru and because of all the travel restrictions there were certain amount of things that could not happen. So we cannot exactly quantify how much more we could have done because we really do not look at things on a quarterly basis. So, on an annualized basis we believe that any turbulence from Q1 will get normalized as the year progresses. So in that sense, yes we could have done a lot more but it is really irrelevant at this stage because we are looking at the order book which is starting with Q2. And I must mention that might also clarify some of the things that out of the 701 Crores of order book that we have around 50% of that we expect to revenue in the remaining three quarters of the year which gives you a decent sense of things that we can ship if we have all the things in our hand today. So that is one point. Coming back to what is the impact on margins and working capital, I think yes there have been cost increases on certain components not just for us but for everybody in the world. There was a price to secure this component by paying a certain amount of fees which we paid like anybody else in the world. But despite that the fact that we have been able to hold on to our gross margins almost around at a plus-minus 100 basis points of what we usually do gives us comfort. There will always be a little bit of a quarterly turbulence in terms of any particular customer, India versus international blend or some tactical increase in component pricing but on an overall blended basis we feel comfortable that in Q1 and for the rest of the year we should be able to hold our margins at the normal level that we have been able to do in the past.

Mukul Garg:

In terms of again coming to margins, this quarter the depreciation was the highest percent of revenue after FY2020 when we took an impairment how should we see this going forward will it remain in this current quarter's run-rate or that much would it get back to what we saw in FY2021 and finally if you can just kind of clarify on the PLI side, so what capital commitment would you be making given that they have this requirement of at least 100 Crores investment?

Sanjay Nayak:

Let me start with the last question first because there is a whole stack of questions I remember the last in first. The PLI requirement for the category that we are eligible for was a minimum investment of INR 100 Crores so all I can tell you is that of course our application is for more than INR 100 Crores over a five year period. Since it is a confidential piece of document with the government, it is not appropriate for me to give the exact number but we are meeting the required investment threshold. Coming back to the second question that we had on the gross profit, I think we are as I said almost at a steady state level. If you see our results these last two to three years or on a quarterly basis we are at about plus, minus 100 basis points of where we are, if you take it net of manpower and of all the material costs, at around 40% gross profit. And I think we are around the same number this year. I do not think materially anything has changed so as we said in the past with the combination of International to India business blend, a particular kind of early

customer versus late customer and of course a little bit of a near-term turbulence in terms of component pricing we have been able to integrate all of these together without any material impact on our gross margins.

Mukul Garg: It was talking about the depreciation now maybe Venkatesh can highlight why it jumped up to it?

Sanjay Nayak: Depreciation, I do not think, we had anything his point is, is there any unusual depreciation?

Venkatesh Gadiyar: No, this time the depreciation was on account of the normal capitalization what we do in terms of our tangible assets and intangible assets with respect to the product development. There was no impairment has been done this time.

Sanjay Nayak: Yes, there is no impairment at all.

Venkatesh Gadiyar: Nothing, it is basically compared to last quarter it went up by 2 Crores with respect to depreciation and amortization cost.

Mukul Garg: Thank you. I will come back into the queue.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investments Management. Please go ahead.

Ashwini Agarwal: Sanjay, congratulations. I think the numbers look quite respectable given all the challenges you faced on the lockdown and on execution of orders in India as well as overseas. So my question is that one is the receivables profile of government orders. So from your opening remarks obviously you have a very, very big play coming up in engaging with the government both on the 4G side as well as various other programs relating to RailTel and PowerGrid and so on. So I just want to understand that does it worry you that if your revenue skew again goes back from current 17% government to whatever 30%, 40%, government one and a half years from now your receivables will again go out of whack or is there any protection that you are seeing in the tenders are you participating in which protects you against delayed payments, I mean, how do you think about receivables challenge?

Sanjay Nayak: Certainly, thanks Ashwini. First of all let me also clarify one thing that actually speaking other than the BSNL one particular project which is BharatNet phase one for which payments got stuck otherpayments we have not had any challenges in terms of receivables being out of whack from a government point of view. Coming back to your answer RailTel,

PowerGrid, all these guys are actually our longstanding customers and we have never had any payment issues with any of them. So in that sense I do not see any cause of worry that our working capital or receivables will go up. Even on BSNL by the way except for this particular tranche of payments we have done business with them for 15 years before probably 3000 Crores, 4000 Crores of cumulative revenues and probably less than 1% or 2% of receivables we have not received from BSNL during the period of time. We almost collected everything and almost everything on time. So I would say that BSNL in particular is the only one which we have to worry about because if they have a fairly large capital outlay there has to be a backup available to them, for them to be able to pay. The only thing I can mention which I said in my commentary as well is that for the very large projects we have a few system integrators ahead of us who will be bidding our products in that sense technically our customers will not be BSNL, our customers will be those system integrators. As far as PowerGrid and RailTel and those accounts are concerned we absolutely have no issues in terms of collections. My sense is that if, and which is what Venkatesh mentioned that in about two quarters from now including BSNL where we hope we should be able to make more progress with some of the new developments there we think that our working capital should come to more of a normalized basis and the receivables will also come down so in that sense I am not too concerned. Because even if you see the BharatNet phase 3 will be under the PPP program so our customer again will not be government it could be a telco, it could be a large passive infrastructure company who is building that network or a system integrator of repute whom we have been doing business with so technically speaking we would be insulated from a lot of that. I would not worry about it. The other thing which I would want to mention is that the way we are building the business this time around is to make sure that the government business should only serve as an upside. It can be on top of what our baseline business is which is the run-rate business and we would of course welcome it but that should not become the basis for all our expenses and investments so that is definitely something we will continue to monitor very closely.

Ashwini Agarwal:

Thank you so much. That was very helpful. The other question I had was that when you look at your order book you mentioned that 50% of this order book you expect to execute over the next three quarters and you roughly received INR 200 Crores worth of new orders give or take in Q1 in many other businesses and pardon my ignorance on this. Many other businesses, we see that people like yourself they are able to build order books which provide visibility over six or eight quarters or even twelve quarters, I mean, are there something that is reasonable to aspire for or in your business that does not really happen and it is pretty much cook and eat all the time?

Sanjay Nayak:

Actually speaking it is a good point you raised and maybe this is a good time to kind of give you clarity on that. The way our business is, the most repeatable business that we get which

is the recurring business from existing customers or which we also call run-rate customers, typically the order book only stays for at most one quarter or the quarter boundary really. So let's say the order came late in the quarter so we would not ship it that quarter. For example, international customers we revenue whatever is the backlog in hand maybe 90% of that in the next few quarters, India Private probably we do 80% of that in the next one or two quarters. It is only the government business which is the project kind of business which gives you all the backlog. So in a sense the only part of the order book which could last six or eight quarters is the government business for us. Because these projects typically involve some system integration, digging, laying a fiber and then putting electronics and running the end-to-end network. So these are the kinds of orders which give you a large backlog but in a sense I would say I would be happier to have a backlog that gets consumed on a recurring basis because the stickiness of those customers, the longevity of those customers is much higher. So in that sense not having a large order backlog does not bother us at all. By the way, we work on forecasts from many of our India Private and International customers where they could potentially give us the order in the first week of the quarter and the order is actually executed by the end of the quarter so there will be no backlog to begin with no backlog to end with and those are actually the best customers that we have. So the nature of our business is that just having a very large backlog does not necessarily mean much whereas rate contracts with run-rate customers where they are giving us recurring business means a lot more. And that is the reason when I was highlighting in my commentary earlier that 87% or 88% of our revenues basically come from run-rate or existing customers that is actually a sign of a healthier business for us.

Ashwini Agarwal: Thank you so much for that clarification it is very helpful, and last for Venkatesh probably how much is the amount which is still outstanding with BSNL?

Venkatesh Gadiyar: Currently, during this quarter we had collected about 15 Crores from BSNL after that the outstanding amount was 120 Crores of which about the 70 Crores is the retention.

Ashwini Agarwal: So what you need to receive over and above is just about 50 Crores.

Venkatesh Gadiyar: About 50 Crores yes, which is already due we should have collected. Yes, and we are also trying to collect the outstanding in one or two quarters also.

Ashwini Agarwal: This is great. Thank you so much, all the best guys.

Moderator: Thank you. The next question is from the line of Pratik Kedia from Kedia Securities Private Limited. Please go ahead.

Pratik Kedia: Thank you for taking my question. Just in regards to our association with TCS it looks like a path breaking opportunity for the company of our size but just want to know what is the opportunity size? How big is this opportunity and how would this convert into revenues and also as we are also seeing more associations and alliances with other companies like Tech Mahindra all these kind of companies?

Sanjay Nayak: Good question. As I mentioned the BSNL 4G tender for which we have filled out an expression of interest and as you have said it is publicly disclosed by BSNL that a couple of system integrator partners who have bid our technology, one of them is TCS and the other is ITI. So these are the two organizations that have proposed Tejas wireless technology for the expression of interest for which the proof of concept process has started. So yes our objective again was that for very large projects, we would prefer to work with large system integrators like we did in the case of some of the army projects or even some of the state BharatNet projects. Coming back to the size of the opportunity a pan India network for BSNL for which they plan to do this tender is going to be a very large opportunity. I believe this expression of interest is for 57000 base station sites, which could mean INR 8000 Crores to INR 10000 Crores worth of orders to the system integrators. Of course L1 would have some fraction of that because it will be split between multiple parties. So it is a fairly large opportunity but we prefer to take this opportunity one step at a time. We had to first have a product which is world-class and which meets the tender specifications then we have to participate in the trial process which has started. The only thing we feel proud about is that ours is a 100% indigenous Indian solution with all the technology available within the country on a longer-term basis that gives more comfort to the government. And of course as the process progresses we would get a better visibility of how the whole thing will pan out but at this stage we are really taking it one step at a time and yes it is a largish opportunity but we have to play it as it comes.

Pratik Kedia: Just one thing more in regards like we have already working with Jio as well. Are we also exploring business with some cable and broadband companies like GTPL, Hathway or DEN or other companies do we see an opportunity here as well?

Sanjay Nayak: Absolutely, so in fact one of the things which I had mentioned earlier is for the fiber to the home like the larger telcos definitely have their own plans but then there are all the smaller ISPs not just the ones that you mentioned. But a small city in Madhya Pradesh will have a local ISP or a local cable operator who serves 10000, 20000 customers and there are many, many such people so we are and by the way when you add all of those together they actually end up becoming a fairly large consumer of FTTX products and some of the switches that we have. So that is one area which we never looked at seriously in the past and as I mentioned in my commentary in the last quarter we have started to appoint some

distributors and getting some initial orders so that is an interesting business which is opening up. Of course it is a slightly different method of selling than we have been used to because we are used to selling to a few customers with a very high degree of technology. Here we are going through a sales channel but it is looking like an interesting opportunity and we will continue to invest in it. We have had a focus team to do that and in the Q1 they have made pretty decent progress for us to have a view that this looks like an interesting business to pursue. So yes we are going after not just the names that you mentioned but many of the smaller ISPs as well that are spread across the country but in an indirect way through the channel program that we talked about.

- Pratik Kedia:** That is right. Thanks again. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sanket Bihani from Kedia Securities Private Limited. Please go ahead.
- Sanket Bihani:** Sir I just wanted to ask with regards to the Satcom gear do we see any opportunity for our products like one web is investing in a big way in India so do our products fit in those category?
- Sanjay Nayak:** No. We do not address that space. So traditionally our space has been on wire line which is wherever optical fiber goes, our products go in terms of the high speed backbones or now home broadband in addition now we have launched the wireless product which is more like the base stations that you receive your cell phone signals from. We have not yet gone into the satellite segment as it is a slightly different technology and market so our focus has been mostly on the wire line in wireless and satellite is not a segment that we address.
- Sanket Bihani:** So are we looking forward to do any R&D on these kinds of products and try to address this market or it is completely out of a focus area?
- Sanjay Nayak:** I think if you see our hands are already quite full in terms of technology with the products that we have in the focus areas we have. I of course did not put it into these slides because we have discussed this in the previous earnings calls. I mean just the wireline products that we do today which we have product today which you can address are almost like \$9 to \$10 billion worth of opportunity. On top of that now you start opening up the wireless opportunity that adds up a significantly large number so I think the addressable market with the product that we have is already huge, not just in India but outside of India so our first challenge is with the products where we have where we already have done huge amount of R&D over the last 5, 10, 15 years we want to maximize our sales impact and really become a much bigger player in terms of market share in those segments. Once we have come to a

situation where we feel that we have more growth opportunities then we would think of investing into new areas because anytime you start investing in new areas it will be two or three years of R&D lead time before you can get your products in a competitive enough form to compete with the best in the world. So I would say that with the current product portfolio we are in a position to address a very large market. Our objective is to play in those spaces make ourselves more competitive and also sell a lot more of them not just in India but outside.

Sanket Bihani: Sure, got it. Thanks, that is it from my side.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Consilium Investment Management. Please go ahead.

Sangam Iyer: Sanjayji, Congratulations on a good set of numbers. Sir, I just wanted to understand given that you made two comments initially one was the fact that the incremental quarter should be better than what we have executed in Q1 now given the challenges that we have seen in Q1 with regards to lockdown what is the situation with regards to the inventory going forward that gives us the comfort for the coming quarters. My background being when we look at the countries in Southeast Asia from where the components do come in there is lockdown that is imposed in certain areas so is there an issue that is there that you can foresee in the near-term or do you think that given the inventory that we would have currently it is sufficient for the next couple of quarters or so without much of a problem how would you address this situation there?

Sanjay Nayak: Yes, good question Sangam. So the reason for our optimism in terms of the subsequent quarters being better stems from two fundamental assumptions, number one the order book and executable POs for which customers are actually demanding a lot more equipment from us sooner is pretty decent I mean if you look at the order book at hand and the run-rate orders which are coming in so that seems like we have our bases covered which means we have enough business that we will get. Then the second part comes back to what you said which is that do we have enough components and what is happening in Southeast Asia and there have been some lockdowns. So the shortage of components in the world is for semiconductors and that is supplied primarily by TSMC in Taiwan, Samsung in Korea and a couple of others. From the way we see things is that our component suppliers, almost all of them are US source companies who have long-term contracts with all of these companies. What happened and the reason for a little bit of a hiccup was that in January, February suddenly because of the component problem got amplified in the world component supplies immediately shifted from a lead time of say 12 to 16 weeks to 40 to 52 weeks. So even though we took corrective actions immediately then with that in mind of

course all the pulling or all the distortion in supply chain are not easy to cover within a four month period as you can understand but as the year progresses we have been able to now secure those components and we have delivery plans from those suppliers. We have actually reached out to the global top management of most of our key chip suppliers and we seem to get a disproportionate attention compared to our size because we are the leading company in India so if any chip vendor wants a long-term play in India we are their best vehicles. So as a result we have been able to secure what is being commonly called as allocation from their existing stock based on our stature in the Indian industry and the kind of customer profile and the growth profile that the company has. So combination of all of those things based on the plans that we are seeing from our suppliers, we have a reasonable amount of comfort that upcoming quarters will be good. The only downside is that there can always be a situation where last 15 days of any particular quarter suddenly there is a lockdown or the airlines are not lifting material and that is something which is hard to of course anticipate. We will of course not leave anything till the last but I would say barring those kinds of situations we are trying our best to manage the supply chain fluctuations but this is a continual and ongoing process. If you talk to my supply chain head he will always say that every day is a new challenge but so far we have been able to manage and place enough orders in time and the lead times and the dates we are getting from our suppliers seem to be reasonable in terms of what we want to achieve.

Sangam Iyer:

Secondly, on the order book how much of an impact has this lockdown or the delays been in terms of the conversion of the funnel into order book because after two, three quarters of strong 190 Crores, 200 Crores of orders that we had at least two quarters or 200 plus and even Q1 last year was 190 odd Crores we are at 166 Crores but it is good per se but when I when I look at the run-rate that we had achieved of 200 as a benchmark?

Sanjay Nayak:

May be I can just answer Sangam's question for others purposes. So actually if I count the orders which came in the first week of this month we have already again crossed 200 Crores order book. So in that sense I do not see any slowdown in terms of the new order inflow except that sometimes things do not happen exactly at the end of the quarter so I would at a macro level feel that the order inflow continues to be in line with what we had seen in the past. The only impact of the lockdown on the tender wins, which I mentioned earlier, is that the government order conversions were affected because for almost two and a half months of last quarter most of the government offices in India were either closed or were working with very low capacity. So but for a slip out by a week or so, we are maintaining the same order run-rate that we had during the previous few quarters. So I do not see any cause of concern there.

Moderator: Thank you. The next question is from the line of Abhishek Basumallick from Intelsense Capital. Please go ahead.

Abhishek Basumallick: Thank you. I have a couple of questions, first one is can you please talk a little bit on the Huawei opportunity I mean we understand that Huawei had about 36% market share compared to around 15% that you had and how would that change now if it is going to change and what are you expecting in the near future?

Sanjay Nayak: Let me just understand either who has 56% market share.

Abhishek Basumallick: 36% Huawei used to have the 36% market share.

Sanjay Nayak: Your question is that Huawei the Chinese company had a certain market share in India and going forward given their new government regulations what would be the impact of their market share going away on potentially our market share is that your question.

Abhishek Basumallick: How would it help us?

Sanjay Nayak: Absolutely, good question. So in fact as you as you would have heard I mentioned in the context of Atmanirbhar Bharat one of the new rules which has come into play with effect from June 15, 2021, which is just a few weeks back is that any equipment that any operator deploys in India has to be from a trusted source and from a country that India has given a green signal to. So many of those vendors from certain countries may not get their products certified and all future augmentation of capacities in operator networks will be on other products. That is partly the reason when we mentioned earlier when I gave the commentary that we expect our market share in India to improve was partly because someone is going to fill up the hole that will be created some of it could be us, some of it could be incumbent vendors from US or Europe but that is something which is likely to happen. We definitely feel that we do have a good shot at improving our market share. How much we improve, how fast we improve is all going to be something that we will have to see as the quarters progress. Because even though market shares are determined on a broad basis but it really gets determined on every customer, every application and unless you want that application under the customers tested your product there is a lead time, there is a delay between how long you get selected and when the orders start flowing in. So we have gone through the process for certain things last year and that is starting to show up in results this year. I mentioned some other things we will start to see more impacts in second half but it looks like a good opportunity for us and we will closely monitor it.



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Abhishek Basumallick: My second question is maybe slightly long but you have won orders for FTTX and backbone capacity expansion what is the revenue, roughly revenue potential for this and will any of these revenues come in, in this quarter?

Sanjay Nayak: Yes, so the revenues are already coming in so for the metro capacity expansion the part of the uptick on India Private is partly because of those orders of network capacity expansion that we won last year and it will not be a one-time thing. It is expected to be on a sustained basis quarter-on-quarter for next several years we hope. So that is the way the metro capacity expansion would work. As far as the FTTX opportunity is concerned the home broadband opportunity or enterprise broadband opportunity while we have been selected by two operators, the actual orders in terms of it is a long process of getting integrated in their networks and testing etc.. We are almost in the tail-end of the process so we expect that the revenue impact of those things would only happen in the second half of the year. So in that sense we have got some benefit of the wins of last year in the numbers and the booking and this thing so far and we hope to get more of it in the second half of the year. Coming back to your question about how large opportunity, opportunity is very large. If you see the FTTX penetration in India and if you look at the numbers that every operator has been projecting I think their aspiration is to capture anywhere from 5 to 10 million subscribers per year and that translates to a multi-100 Crores opportunity for our products every year. But in order to get to that rate and all that as I said we will start from second half and it will be a ramp up and we will see how the ramp up actually happens but it is a fairly large opportunity. And similarly metro capacity expansion is again a fairly large opportunity. India buys a \$500 million worth of optical equipment for that application and of course now we are entering into a market share game in that and as time goes by we should see some uptick there as well. So both of these are large opportunities but since we are currently in the nascent stages, gaining market share in these will take some time. But we are seeing good traction our products and are getting good acceptance with the customers. The products are working well and hence the order inflow is accelerating.

Abhishek Basumallick: So do you see this business doubling over say the next two to three years for the broadband site.

Sanjay Nayak: I think the opportunity exists. Definitely the opportunity exists.

Abhishek Basumallick: Just if I may squeeze in one more question in December 2020 I think you had announced a \$13 million order from Southeast Asia for UCB TJ 1400 product that was supposed to be executed in 12 months so just wanted to understand where we are with that booked any revenues from it and how things are going on that front?

Sanjay Nayak: Very good question and we did the revenue part of that in Q4 we have revenue part of that in Q1 a significant part of the material has already been dispatched there is a whole bunch of services around to turn up the network. It was a combination of the UCB product is a combination of wireline and wireless so whatever we are going through, for example the trial and testing that we are going to be doing in BSNL same equipment was shipped there as well. I think a significant number of sites have already been turned up and I think over the next one or two quarters the remaining network will be turned up as well so I think that network is progressing well. We actually expect to get repeat orders from that customer in the second half of the year and that is something which I can say about that project.

Abhishek Basumallick: Thanks. I will join back in the queue I have a few more questions. Thank you.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investments Management. Please go ahead.

Ashwini Agarwal: Thank you again for the opportunity. I just want to focus a little bit on the long-term aspirations in the European and US markets for yourself. The sense I have and I could be wrong is that in asset at least dealing with all the large network operators and in India you are dealing with the two big ones for very well-known entities globally so is that helping you kind of start conversations with the big telecom carriers in the US and Europe and in your opinion how long is this sales cycle or is this business is something which is too esoteric and very difficult to break into?

Sanjay Nayak: Good question first of all. Let me break the problem into two. Do we have the right products for addressing the tier one operators in those countries and the second part is do we have the right sales market access or their way of doing things to be able to crack those accounts and how long does it take. The real problem is that those operators have very strong incumbent suppliers. Just to give you a sense if you take a tier one operator in the US any of our competitors who do business with them and they do about \$0.5 billion of revenues from one of them alone for example for our kind of products they would have like 300, 400 sales people, support people just supporting that account, they would have probably a couple of hundred people in R&D just doing those little bits and pieces and every last level of detail that those guys need. So I think rather than and given where we are in the size of our company and growth aspirations etc., we felt that it is not a good time for us to go and approach these larger operators because from the day zero of engagement that you start with any of those large tier ones it could be anywhere between 12 to 18 months or 24 months before you get the first dollar and you would be required to probably spend \$5, \$10 million just to even get into the lab, do the trials and all that. So we have started to engage with some of them in a smaller way but what we feel is a more practical strategy for

us is that like in India I was telling that there is this small ISP market and which is large market in the US if you even take the top three, four guys the remaining tier twos and tier threes in the US is a very large market opportunity and that does not require 12 to 18 months of time, that does not require us to have 400 people R&D and sales team to manage that so we are going after that market. We have fairly sweet spotted products for that market. We are starting to see initial success but the reality is that US is a very large country with maybe 500 such tier two, tier three operators so even if you put a sales team of five, sales five presales and five support people you can only cover so many of those so one has to pick and choose the battles. So we are taking a more conservative approach in these two countries to say let us go and pick the low hanging fruits first, establish a brand name, get feet on the ground and then as we get more size in that market we will have more resources, we will pick and choose the right opportunities to engage with these larger tier ones. But of course once you get into these accounts things will look good. We are heading in that direction and as I said it is a conscious strategy to play into the sweet spots of what we have and not get into a trap of very long and heavy investment cycles for many years.

Ashwini Agarwal:

Is this similar to what you do in Africa in the sense will not be with the tier one suppliers but with smaller networks but I am not aware if there is?

Sanjay Nayak:

In other countries like Africa we are in the tier ones. Africa we are in tier ones, Asia we are in tier ones, so other markets we are the ones who are displacing the incumbents. We are playing a market share game in those markets where they know us. In fact it is becoming a reference game getting into some of the most prestigious customers who are pumping bandwidth into Africa. Many of the best known brands that you know of in the world many times lots and lots of our equipment is going into their data centers or their sites and they are asking who is this company and because of the credibility that we are earning and the kind of network performance we are getting, we are winning reference deals. Competitive operators of those guys come to us and say, “hey looks like these guys are doing a good job and why don’t you use their equipment” so I think Africa and all those places we already crossed that hurdle, US and Europe just because where we started the investment and where we are in the maturity cycle, it will be some time before we get into very large deals. Having said that there is enough other business to be picked up which we are essentially targeting to make some meaningful contributions starting from the second half of this year.

Ashwini Agarwal:

Just a question on pricing and margins when you talk about the small ISP providers in tier two, tier three cities in India all you speak about the small last mile broadband service providers in rural America on a profitability basis because these would be harder to access and probably costlier to access next to you are you able to protect your margins for this business?

Sanjay Nayak: Absolutely, in fact exactly for the reason that you said because these are larger smaller operators and the bigger vendors do not give them enough attention the gross margins are much higher than what you would get from a tier one operator. So the gross margin is not much even the sales cost is, but these are two very different problems the one which you mentioned in India is very different than the one you mentioned in America. In the American market we go through distributors and we go to some other larger rural and larger state carriers there we do not have any margin issues, net of sales costs I think we are fine. In India since you mentioned the tier 2, tier 3 small operators are small operators. Again we do not see the price they get for the same equipment is much higher than what a tier one operator would do because tier one operator is buying large volumes of equipment and they have a lot more bargaining power whereas a small ISP in a small city in India does not really have that and in fact for the smaller ISPs in India we actually collect money in advance. It is more like a cash and carry business we set it to the distributor he pays us cash, DD and then we give him an “x” amount of equipment, in America it is 30 days net. I think cash flows are better, margins are better, since there are lots of those smaller operators and you can actually establish a pretty decent run-rate so that is basically what we are targeting.

Ashwini Agarwal: Wonderful. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Consilium Investment Management. Please go ahead.

Sangam Iyer: Just to understand given the kind of bullish sentiment in terms of both order bookings and the prequalification events etc, how soon do you think that we can go back to the 200 Crores of quarter run-rate?

Sanjay Nayak: Well we want it soonest so now we are heading in the right direction and I feel that we really do not focus quarter-on-quarter. We are making sure that the health of the business the fundamentals are strong and that is why we are explaining the second level of details behind the numbers.

Sangam Iyer: I completely understand. Why I ask this question is primarily because when we look at the order bookings that we have been getting over the last four quarters barring Q2 last year and even if we adjust that for the anomaly because of lockdowns or some delays in this quarter we are almost closer to that 190 Crores, 200 Crores run rate that we are talking. So ideally that should actually provide the base for the run rate on a quarterly basis to move up steadily towards that benchmark of 200 Crores per quarter. So that is what I just trying to understand. There are some anomalies of some timeline like the duration increase of order but still how should one look at this so that is what I was saying?



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Sanjay Nayak: I guess you have triangulated all the things correctly so our order inflow is clocking at the level that you mentioned barring a small hiccup here and there in terms of quarterly stuff. Our target is we need to get to that kind of a run rate sooner than later we want it soonest but of course we will have to continue to make sure that we keep executing and keep our heads down and we also believe that we need to get to that number because our expense structure, our basic size of the company at least requires a certain minimum amount of revenue. We are getting there almost I would say and the more important part is the quality of revenue is more than just the numbers which is why the run-rate business and the diversification between Indian and International makes sense so overall all I can say is yes exactly what you are saying is what we want to do and we want to do it sooner than later and hopefully we will come again in a few quarters and then share what we have achieved.

Sangam Iyer: Yes all the best and we also as shareholders look forward to that.

Moderator: Thank you. Ladies and gentlemen due the time constraints that was the last question for today. I now hand the conference over to the management for closing comments.

Sanjay Nayak: Thank you everybody. I think we had a fairly engaging set of questions and we hope we answered all the questions to the best that we could and as I summarized just a minute back I think we believe that we are on track and things are moving in the right direction and we continue to look forward to the remaining quarters of the year and build a very good foundation for business for solid growth over the years. So thank you very much and appreciate your patience and confidence in all of us. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited that includes this conference. Thank you for joining us. You may now disconnect your lines.