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Operator: Good day, and welcome to the Tejas Networks 3Q FY18 Earnings Conference Call. Today's conference is being recorded. And at this time, I would like to hand the call over to Mr. Gaurav Malhotra from Citi. Please go ahead, sir.

Gaurav Malhotra: Yeah, hi. Good afternoon, everyone. On behalf of Citi and everyone else, I would like to welcome the senior management of Tejas Networks for the third quarter fiscal year ending 2018 earnings call. As part of the senior management, we have Mr. Sanjay Nayak, who is the CEO and Managing Director; Mr Kumar Sivarajan, who is the CTO; Mr Venkatesh Gadiyar, the CFO; as well as Mr Arnob Roy, who is the President of Optical Products. Now over to the management, please.

Sanjay Nayak: Thank you, Gaurav. Welcome everybody to Q3 FY18 earnings call of Tejas Networks. This is Sanjay Nayak. I'm also joined by Tejas CFO Venkatesh, Kumar and Arnob. We have uploaded our investor presentation on our website and had made a press release earlier in the day. So, I hope you had a chance to look at that. I'm on Slide number three which says Q3 Financial Update.

Let me begin by giving you a quick update on Q3. In Q3, our revenue stood at Rs 226.15 crores, registering a 5.2% sequential Q-on-Q, and 13.5% year-on-year for nine months. That was really on back of the strong demand for optical products from Indian customers, especially in the government sector. The EBITDA margins in Q3 were Rs 50.74 crores, which grew 9.3% sequential and 22% year-on-year for the nine months. There was an expansion in net profit,



which grew to Rs 30.14 crores in Q3, FY18 and to Rs 77.45 crores for nine months FY18 with a growth percentage of 12.2% on sequential basis and 158.5% on a year-on-year basis when compared to Q3 FY17.

As we've been saying it's important to look at our company results on a nine-monthly basis since on a quarter-to-quarter basis our business tends to be lumpy. As we would discuss in subsequent slides, and Venkatesh will walk you through that, on a year-on-year basis for Q3 we did register a decline, but on a nine-month basis is what we would like to see the total numbers on a holistic basis.

I am now on the next slide on the corporate update. We have made significant investments in our R&D as well as grown our sales and marketing teams. Year-to-date our R&D headcount is up by 30% and sales and marketing headcount is up by 19%. On the sales and marketing front, in particular, we've hired sales folks in Southeast Asia, Africa and the USA. These are the geographies where we believe that by making direct investments in our sales we should be able to gain significant customer traction.

So far we have seen a lot of new customer wins in all these three geographies, although these are small wins, and we expect that these will expand as we move on into the next few quarters. We are also very happy to inform that we won three prestigious awards this quarter. In December, when the Government of India announced that they have successfully completed BharatNet Phase-1, we were honoured as the best performing equipment supplier partner by the Minister of Telecom as well as the Secretary, Department of Telecommunication, Government of India for our contribution to BharatNet Phase-1. It must be told that this puts us in a very good situation for BharatNet Phase-2, which is also being formally kicked off, and the RFP for BharatNet Phase-2 projects are now underway. In addition, we also won the Top Electronics Hardware Exporter Award from the Software Technology Park of India, Karnataka.



Coming to the next slide; some of you might have seen this slide before. This is basically a slide that gives a view of what basically drives our business. In our business, we have higher demand for equipment as and when the data traffic increases and we basically benefit from two different angles. One, when more fibre is laid, it gets deeper into the network, and when more fibre goes into the network, there are more opportunities for us to sell optical transmission equipment as new equipment that goes into the existing – new equipment that goes into the places of where the fibre is reached. The second is whenever the fibre is already there but the capacities are increasing due to higher data usage.

For example, if a user was using one gigabyte of data per month and he starts using one gigabyte of data per day, naturally the capacities in the network will have to be boosted and we again come into the picture. When these two factors come together they end up having a multiplier effect in terms of the demand for our equipment. Within the optical infrastructure, there are – and if you see India in particular - there is a reasonable amount of network which is available for the inter-city portion of the network. The demand for optical equipment in this area will only be on an incremental basis because you just have to upgrade the capacities which are already there.

However, when you go inside the cities or metros, many base stations and buildings are not yet connected on fibre and this is where a lot of optical access and aggregation portion of the network resides we will be having a big role to play. Incidentally, this is also the focus area for Tejas and we have established ourselves as the number one market share holder in the optical aggregation section which you know is going to be the growth area. In India to be number one in any segment is pretty challenging because India is the world's most competitive telecom market.



The next slide kind of pictorially depicts the entire telecom network that I just described. If you see, we have a full range of products for the Access part of the network, which could be going to the enterprises, to the homes or to the base stations; the Metro part of the network, which is fiberizing the cities where you are connecting the base stations and buildings inside the cities and finally the Core part of the network, which is interconnecting cities.

We also described the different capacities that are needed as well as the different technologies and the products that go into different parts of the network. And again, as I reiterated earlier, while we do have an end-to-end product portfolio starting from the Access to the Core, our focus area or our sweet spots are really the Access and the Metros. We are able to also sell our core equipment in many networks, especially in the emerging markets where the capacities are lower. So recently we had announced a win for a 100G DWDM network in Bangladesh, which was again built on our transmission equipment and was connecting the under-sea fibre cable terminating at Kuakata to Dhaka. That just gives an example that we are able generate demand for our products across different geographies and also register success in different parts of the networks.

Going further to the next slide, if you see, the business that we have, overall the optical network in market is showing healthy growth. As per Ovum, the total CapEx on optical equipment is on track to touch \$19 billion per year by 2021. The growth is primarily driven by emerging markets such as sub-Saharan Africa, Southeast Asia, and of course, India. In Africa, if you see, the number of internet exchange points nearly doubled in 2017, and the next five years Africa will touch a billion mobile broadband users.

Southeast Asia is also expected to double from 250 million broadband users to 500 million users in the next five years. Again, as I said earlier, within the optical segment, the metro segment is showing the fastest growth with increasing investments being made in higher capacity 100G and



100G+ DWM technologies. In fact, metro optical CapEx in 100G/100G+ is expected to surpass that in the core optical backbone by 2018.

Similarly, the demand for next-generation passive optical networking or NG-PON as we call it, or FTTH as it is loosely called, will also be increasing for high-speed wired internet connections and will emerge as the main broadband technology across the board. Both of these again continue to be focus areas for the company. Just to give an example, our FTTH or GPON products are the ones which we have deployed in the BharatNet Phase-1 project.

Coming to India in particular, you can see that India has now emerged as the world's fastest growing optical networking market and is expected to reach about \$1 billion in annual capex by 2022. With the wider proliferation of smartphones and 4G, data usage has continued to grow by leaps and bounds and it is estimated that we'll have one billion broadband users by 2021. In fact, it was recently reported that India consumes almost 150 crore gigabytes of mobile data per month, which is the highest in the world. This clearly is forcing both the private operators as well as the government networks to make large CapEx allocations to upgrade the capacities of their optical networks.

In addition, as I said earlier, large government projects such as BharatNet Phase-2 are now coming to the execution stage. Phase-1 was successfully completed in December when the Government basically activated fiber broadband in 100,000 gram panchayats and the networks are already working. Phase-2 is expected to be 1.5 times larger than Phase-1 and the addressable segment of the business for Tejas in Phase-2 can be close to 5000 crores. This is a fairly large opportunity that is available to us.

As the best performing equipment supplier for GPON for Phase-1, we hope to get a significant part of the Phase-2 business as well. In fact, it is also encouraging that government of India



continues to focus on Make in India and they have stated that BharatNet Phase-2 will be built using Made in India equipment. This is a clear sign that government is starting to have confidence that large projects can indeed be executed with domestic products and technologies in a timely manner.

At this point in time, I will now request my colleague and our CTO, Dr Kumar Sivarajan, to take us through the next set of slides. Kumar, please?

Kumar Sivarajan: Thank you, Sanjay. On this slide, I'll sort of recall what we have presented previously on the architecture of our software-defined hardware products. We consistently innovate and upgrade our product portfolio in order to give us a technology advantage. And this advantage helps us retain existing customers and acquire new customers as well.

We have a portfolio of reusable building blocks of hardware and software and this enables us to rapidly develop new customisable products with a time-to-market advantage. Our products utilise an architecture that we call a software-defined hardware architecture. This is implemented on field programmable chips, which are called FPGAs.

This software-defined hardware architecture significantly speeds up implementation of new FPGA features and technology standards that are constantly emerging in our area. Now we will discuss two such new application areas for our products, namely 5G transport and network modernisation. I'll start with 5G transport on the next slide.

We've all heard that mobile networks are evolving to 5G and these 5G networks will be deployed sometime starting in 2020. 5G will make better use of the radio technology, and of course it will use more spectrum. As a combination, 5G will achieve an order of magnitude higher data rate



than what we can get from 4G today. But in addition to transforming the users' wireless experience, 5G will also transform the optical transmission network.

First, the bandwidth needs of every base station will be much higher than in 4G. Secondly, there will be many more base stations in 5G than in 4G and they will all be fiberized. In fact, 5G is expected to deploy base stations every 500 meters or so. These two factors alone will lead to a much greater demand for optical transmission. In addition, there is a third development called fronthaul, which I will shortly explain, which will increase the need for optical transmission even more.

Cumulatively it is projected that the worldwide optical transmission market for mobile backhaul and fronthaul will increase from \$4 billion today to \$6 billion in the next five years. So, what is optical fronthaul? I'm on the next slide now. Today, a 4G base station consists of an indoor unit at the bottom of the tower, an outdoor radio unit that is at the top of the tower and these two are connected by a cable. But when 5G networks are deployed, these two will be split up and placed up to 20 kilometres apart. So, a single indoor unit will support tens of outdoor radio units. What we think of as a base station in 5G will simply be a radio probably mounted on a lamppost.

But this architecture will lead to a new market for optical transmission, which is fronthaul. This market is between the radios and the indoor unit deployed a few kilometres away. So while 5G will drive far greater capacities in the backhaul, simply because of the rates, it will also drive a need for optical transmission equipment in the fronthaul. The backhaul will move from about 10 Gbps in India, which was there a couple of years ago when 3G was dominant. Today, it's 100 Gbps. But with 5G, we can expect that in the core of the metro network, the backhaul capacity for 5G will increase to about 1 Tbps.



Thanks to our software-defined hardware architecture, our products can easily be reprogrammed to support these emerging 5G fronthaul standards. There are several standards. One of them is eCRPI and there are a few others. But regardless of what standard emerges, our products are flexible enough to address this new fronthaul market. So, as a result, we expect that we will benefit from the growth in optical transport due to both backhaul and fronthaul when 5G starts to get rolled out.

I'll now hand over to Arnob, who will discuss network modernisation.

Arnob Roy: Yeah. The transport network modernisation opportunity is as follows. The rapid growth of data traffic in telecom networks is driving network build-out, using modern-day packet transport networking equipment. These are built on Ethernet, IP and various packet technologies, which are highly scalable, leverage the statistical multiplexing benefits of packet transport and provide the most efficient solution for transmission of data.

However, there exists a large legacy circuit-based TDM network infrastructure built over many years carrying voice as well as data, such as 2G backhaul networks, broadband services infrastructure, leased lines, etc. These networks have pretty much been utilised to their maximum capacities and are inefficient for supporting the rapid growth of data happening today. These are built on old TDM equipment, which are inefficient in terms of space and power consumption, and, in many cases, are not manufactured and supported any more.

It is estimated that of the total install base of TDM equipment, more than 75% are at least 10 years old. Associated with these networks is a large deployed base of TDM-based customer access interfaces for voice and data services, which service providers do not want to change to packet interfaces, because it can lead to customer churn. In emerging markets, there is also the



unique problem of a still growing 2G subscriber base with voice service. This needs to be back-hauled on the newer packet-based transport infrastructure and interoperate with 4G networks.

The solution to all the above problems lies in replacing the TDM infrastructure with new generation packet-based transport network, leveraging the scalability and statistical multiplexing benefits of packet, while not changing the TDM endpoints in the networks. The enabling technology for this is TDM transport over packet networks using circuit emulation, wherein TDM traffic is converted into data packets, transported over a packet network and finally regenerated as TDM traffic at the other endpoint.

With this methodology, the entire legacy transport network infrastructure can be upgraded using new generation scalable and efficient packet network, while preserving all the endpoints, thereby avoiding any service disruption and customer churn. There are several technical challenges to be overcome to make this a viable solution. The solution needs to meet the timing and latency requirements of TDM traffic. The solution needs to achieve highly scalable circuit emulation to replace the high capacity TDM cross-connects or DXCs in the legacy networks, stringent protection switching time of sub – 50 milliseconds for TDM traffic needs to be met. Tejas is a leader in high capacity circuit emulation technology, which has been deployed extensively in converged transport networks for 2G, 3G, 4G backhaul meeting strict timing and latency requirements.

Throughout 1400 series of products, we provide a high-capacity, high-density circuit emulation solution over MPLS transport. This offers an ideal solution to meet transport network modernisation problems, meeting requirements of timing and protection switching. We also leverage our software-defined hardware technology by reprogramming our native TDM transport hardware to circuit emulation over packet, thereby protecting the customer's investment and doing the transition at a pace that the customer is comfortable with.



So, I'd like to now hand it over to Venkatesh Gadiyar, our CFO.

Venkatesh Gadiyar: Yeah, so we are on the slide, financials nine months '18 to nine months '17. Our revenues net of taxes component sales grew by 13.5 percentage to 641.2 crores, which is up from 564.8 crores. We have explained in last quarter our reported revenues are inclusive of excise duty for FY17, and till June this year, both which revenues are reported net of GST. In addition, during the last financial year, we had a sale of components to our contract manufacturers, which is not the case in this financial year due to the change in the model. As a result, for equivalent comparisons, we will use revenues net of taxes and sale of components.

We have been investing in R&D and international sales. As a result, our operating expenses increased from 30.1 percentage to 33.6 percentage of our net revenues on a year-on-year basis. Our employee strength has been increased to 697, up from 600 in March.

We expanded our EBITDA, which grew to 142.1 crores from 116.5 crores, grew by 22 percentage on a year-on-year basis. During nine months ended, that this last year, December '17, we had an exceptional item of one-time write-off of intangible assets under development. For like-to-like comparison, we disclosed the relevant ratios excluding exceptional items as well in our presentation.

Our PAT before exceptional items for nine months grew to 77.5 crores from 56.4 crores of the corresponding period, grew by 37.4 percentage. In terms of the revenue growth, India – particularly India government drove our growth. International OEM revenues have been weak as we have indicated earlier. Next slide.



Q3 '18 versus Q2 '18, that is sequential. Given the nature of our business, we see lumpiness across the quarters and the proportion of Q3 '17 revenues in the nine months was a bit higher than what it was for Q3 '18. Our Q3 revenues show a decline of 11 percentage on a year-on-year basis, however grew by 5.2 percentage on a sequential basis from Q2 2018. Similarly, EBITDA and PAT, before exceptional items, declined by 19.1 percentage and 28.5 percentage on a year-on-year basis. The same grew by 9.3 percentage and 12.2 percentage sequentially. Next slide.

Key financial indicators. Our basic EPS for nine months was 9.18 as against 4.36 in the corresponding nine months with a year-on-year growth of 111 percentage. For Q3 '18, our EPS was 3.35 compared to 1.88 for Q3 '17. Our cash flow from operations was 179 crores and free cash flow of 127 crores for the nine months ended. Our YTD working capital has been reduced from 172 days to 142 days. Even on absolute terms, it is reduced from 445 crores to 389 crores, improvement of 56 crores over a period of nine months.

DSO reduced to 154 days compared to 167 days as at September 2017. We expect to see a reduction in the DSO to reach a steady state of working capital of 120 to 130 days in the next two quarters. Inventory days have significantly come down from 71 days to 54 days from March to December 2017. We are practically a debt-free company and our cash and cash equivalents including the investment in the liquid mutual fund and bank deposits were 450 crores as of December 2017, up from 382 crores in September.

Our net worth as on December 2017 has been increased to 1,018 crores compared to 461 crores as of December 2016, and this is because of our increase in the share capital on account of the IPO and excise of the ESOPs during the current period and the corresponding profit generation in the interim period.



In summary, nine months' basis we grew by 13.5 percentage and sequentially we grew by 5.2 percentage. On revenue front, some of our large projects are getting shifted to the next financial year. As a result, we expect our revenue growth during the current financial year to be around 5 percentage. However, our overall business is robust and we see 20 percentage revenue growth on a medium to long-term basis.

Now I request Sanjay to take over.

Sanjay Nayak: Thank you, Venkatesh. Coming to the next slide, which talks about the strategic priorities and the growth drivers for the company. So, really there are two fronts on which we are making investments. Number one is on the sales side, and I indicated some of the progress we have made in terms of sales investments, which are primarily about putting the right teams and the sales leadership in place. From an India market perspective, there is a lot of pent-up demand as we talked about for data and government spending is definitely looking up. We believe that we are well positioned to take advantage of the growth in India itself, which is going to be a \$1 billion market in the next five years and we should be able to get a significantly good percentage revenue out of it.

On the international side, our investments are panning out very well. Although they have not yet showed into actual results in the form of business success of a large kind, we've had several wins in different geographies – new wins in terms of customer wins in US, Africa, as well as Southeast Asia. The wins have been around the benefits that we have highlighted today. For example in the US market, the opportunity that Arnob talked about, around our solutions for network modernisation and circuit emulation are being appreciated by our customers.

Similarly, in Africa and Southeast Asia, several new greenfield networks are being rolled out both on packet transport technology as well as using GPON technology that we have. We have seen



successes starting from Nigeria to South Africa to Kenya, as well as in the Southeast Asia in Vietnam and in many other countries. We have a good sales force on the ground. We believe that the investments will start showing results starting from next quarter onwards.

On the R&D side, we again have increased our R&D capacity. We added 20% additional headcount. We believe that we are now able to accelerate some of the projects that were on the anvil in terms of higher capacity products because as you saw earlier, even in the metros, we are going to start seeing terabits of capacities, and given that is a sweet spot for our products, we are working in that direction.

Similarly we are developing a lot of new packet and data capabilities in our products and we will continue to enhance our product portfolio on the transport side.

On the access side, the success of BharatNet, where we were successful in deploying close to half of the BharatNet on our GPON products and getting the network up and running has given us a lot of credibility among Indian operators also, who are now going to start rolling FTTH networks, as well as internationally.

In addition, we continue to look at new areas. Kumar talked about 5G. In fact, as I mentioned in previous calls, we have been actively participating in India's telecom standards body which now has voting rights in the 3GPP both on the fronthaul standards as well as other emerging wireless standards. We believe that by being ahead in the standards game, we do have an advantage in terms of implementing these new standards as and when they become available for general public and clearly benefit from our market leadership in that area. So I would say that on the investment side we are continually focused on these two strategic priorities and I'm happy with the progress that we achieved in the last nine months of this fiscal year.



We are now on the summary slide. So at the macro level, as long as there is a lot of data growth and higher speed 4G and 5G systems continue to be rolled out, it will result in a need for higher capacity networks. This in turn drives the demand for optical transmission equipment, and this is really where we come into the picture. And within that segment, as you saw earlier, the intercity part of the network seems to be going through an incremental upgrade but the intra-city which is the metro, the access networks, are seeing much faster growth. This is really where we are focusing - on the optical aggregation and access.

In terms of the state of the markets that we are going after, we see sustained growth momentum, although we may see a quarterly slip here and there in terms of orders moving from one quarter to the other. But India is the world's fastest growing optical market and we are very well entrenched both on the government side, where there is a push for Make in India and Digital India, as well as on the private side, where we have incumbency in all the major operators.

In addition to India, our focus is on Southeast Asia, Africa, which have India like needs and these are markets where we are seeing success and have reference accounts. With the investments that we have made in the sales, I'm happy to say that we are now starting to see reasonably large-sized deals in all of these markets, and some of them, as I said earlier, would start cooking in in the next fiscal year.

In the US, which is a new market that we started to go direct, we have found a lot of sweet spot in terms of opportunities where our products have an edge compared to anything else that exists in those markets. Network modernisation is one such example which Arnob talked about. And the traction we are seeing in the initial wins we have got with the few operators gives us a lot of confidence that is the right kind of sales investment, we can actually make that as a pretty interesting market for us.



In terms of our technology and market leadership, we have competed hard in India against all global multinational companies. In the optical aggregation segment, we were rated number one by Ovum. Similarly, on the broadband side, we were again rated the top-performing company by Government of India and Department of Telecom for executing a large-scale project. So, we believe that we have demonstrated successful execution capabilities in all kind of projects in the most tough conditions.

Finally, as the first technology product company from India with a global footprint and an asset-light business model, our operations are extremely scalable. We have an India R&D cost advantage. We are able to do four or five times more R&D compared to any other company in the US and Europe. As a result of that, we are able to realize profitable growth. Moreover, as we had mentioned earlier, over the next two to three years, we see possibilities to increase our bottom line by 200 to 300 basis points along with the sustained growth that we see on a 20% year-on-year basis for the next few years.

So, in summary, that's the way we see our business and that's the way I would like to give an overview commentary on the Q3 as well as the nine months of the year. Gaurav, at this point in time, probably we can open up for questions.

Operator: Thank you, sir. Yeah, Gaurav please go ahead.

Gaurav Malhotra: Yeah, you can start the Q&A please.

Operator: Perfect. So, ladies and gentlemen, if you wish to ask a question at this time, please press the star followed by the digit one on your telephone keypad. A voice prompt on your phone line will indicate when your line is open to ask a question. And please state your name and company before posing your question. So, again, ladies and gentlemen, it is star one to ask



a question on today's conference. We will now take our first question. Please go ahead, caller.

Your line is open.

Mukul: Hello. Can you hear me?

Operator: Yes, we can.

Mukul: Yeah, great. Thanks for taking my question. Sanjay, the first question was around the guidance change which you guys provided this quarter. So, while I can understand that the business is lumpy but just wanted to get your sense on the near-term visibility. Was this delay in order unexpected and something which happened over last month or two, or something where you guys were not able to anticipate?

Sanjay Nayak: Mukul, this is Sanjay again. First of all, it's not that the guidance really has changed or we have lost any business. It's just that the timing of some of the government orders are a little bit difficult to predict. As late as in November/December, there was clarity that some of the BharatNet Phase-2, for example, at least the rollouts will start before April because that was the aspiration as well as the mandate from the government. But clearly, as we see today just where the things are, we believe that most likely Phase 2 will start from April. So, that's just going to shift across the quarter boundaries. So, we thought it's prudent for us to highlight that.

Similarly, on the international side, we have been working on certain large deals in the Southeast Asian market and a few other markets. But it is difficult to completely predict the timing of those and we felt that it's important to highlight that at this point. If you see, we've had a similar situation in the past as well where I think in '14-'15 and '15-'16, where the orders just popped out to the following quarter of the next year.



I would say that nothing really changed significantly. There is no business loss. It's just a shift in timing and sometimes it's just hard to anticipate. We just felt that at this point in time it's more prudent to give this revised guidance. It does not change any medium-term or long-term guidance. We still stick with it except that the quarter boundaries would determine what ends up by Q4 of this year.

Mukul: Understood. So, Sanjay, two questions in relation to this. The first question was the lead time. So, as you were saying, some of the BharatNet orders were expected to come in March. What is the lead time you had in BharatNet? Is it a month or is it in weeks in terms of delivery? And the second question was now – sorry, go ahead.

Sanjay Nayak: Yeah, just to answer the first part. So, essentially part of the reason for the revised guidance was exactly that. We are also being very cautious on the inventory side. If you see, we have made significant progress on the inventory in terms of reduction of inventory days as well as the absolute size of the inventory. So, rather than being too optimistic that the orders will come and we can supply, we just took a conservative call that it's better to not unnecessarily invest into inventory, which could just be on our books at the end of the quarter. That was part of the reason that we took a consolidated view of the lead time of the inventory, the lead time of the orders and the state of things in total and felt that it was better to be more conservative and rather not try to execute too quickly.

Mukul: Okay. And the other part was – so should we expect – given that this is lumpy, should we expect this to come in FY19 and would this be on top of your long-term 20% guidance because this was something which was being baked in FY18 from your end? So, is this something similar to FY15-16, will just lead to a lopsided impact on the other end?



Sanjay Nayak: Yes, you're right. I mean, that is what is likely to happen that on top of the base 20% that we see as growth, the shortfall for this year basically should just get into the first half of the next year is what my expectation is. This is what we have seen before and this is likely to happen again.

Speaker: Great. I'll get back into the queue for later questions.

Sanjay Nayak: Okay, thanks.

Operator: Thank you, sir. I believe now we have a question from Gaurav. Gaurav, please go ahead.

Gaurav Malhotra: Hi, just wanted to have a follow-up question on the business per se. So, you mentioned that BharatNet Phase-2 is slightly delayed versus what the previous expectation was, and in Southeast Asia also couple of large deals sort of got a little bit pushed back. But your OEM business, how is – is that sort of – how that is moving along? There was some decline has been happening?

Sanjay Nayak: Yes. So, good question, Gaurav. In fact, this is what Venkatesh had alluded to as well when he was giving his commentary. The OEM business has declined in fact and the make-up of the OEM business with the international direct investment that we have made, for example, in the US, hasn't been adequate. So, we had always expected that as our product portfolios get larger, we will be in a competitive situation in more areas than in the past with our OEMs or at least with one OEM. And as a result of that, we did see a decline in the OEM business over the nine months. We have started to see increase in the international direct, but so far it has not yet fully compensated for the decline, and that is partly the reason why we said that the India revenues this year are going to be larger proportion than international.



Gaurav Malhotra: And just one more question on the India business. The defence optic network, is that also something which you are sort of open for ordering or is that a completely different kind of order

Sanjay Nayak: Yeah, that is again – the ordering of that is still delayed. So, I think only last week they approved couple of tenders which had been on the backburner for a while. So, the result of those again will potentially be next fiscal year rather than this year. So, for those tenders again had we had bid through one of the system integrators in one part of the defence tender, where they are L1, but those orders are finally going to materialise in this quarter and potentially revenues for next fiscal year again.

Gaurav Malhotra: And is there a Make in India component in that as well?

Sanjay Nayak: Yeah. So, in fact all the government spending – in fact, that's a good question. All the government spending, whether it is for defence, whether it is for BharatNet or whether it is for smart cities or whether it is for any other government procurement like e-governance, they all now have a Make in India component. So, earlier there was a policy called preferential market access, PMA policy. So, that policy is now being strengthened by the government of India, and two things are happening. One is we expect that the implementation of that policy, which was not as strict as it should be, is going to be made tighter, and second is that there is a government e-procurement portal called GEMS. So they are also going to have a mechanism in GEMS where for any government procurement, if there is an Indian product available and the preference clause exists, they should be buying Indian products.

So in summary, what I can say is in the last six months we have seen an increased push from the Government of India to ensure Make in India policy actually get implemented better on the



ground. As with any government policy we should start seeing the results of that in the coming quarters. But the intent as well as the direction of Make in India is clear. Hopefully in the budget, there could be some more measures of different kinds which might show up to bolster Make in India.

Gaurav Malhotra: Okay. Just last question on the working capital. Venkatesh, if you could just tell me what was the working capital days. Sorry, I missed that number. This quarter as well as the same time last quarter.

Venkatesh Gadiyar: Yeah, this quarter it was 142 days and last quarter this was around 172 days.

Gaurav Malhotra: So, have the days come down because the revenue has also slowed down or that would also happen sort of data part, right?

Venkatesh Gadiyar: That could be smaller part; otherwise the DSOs have come down drastically. And as I was mentioning earlier, inventory days have also come down significantly from 77 days to 54 days on an absolute basis.

Gaurav Malhotra: Okay. Thanks.

Operator: Thank you. We will now proceed to our next question. Please go ahead, caller. Your line is open.

Speaker: Hello?

Sanjay Nayak: Yeah.



Speaker: Hello?

Sanjay Nayak: Yeah.

Speaker: Hello?

Sanjay Nayak: Yeah, we can hear you.

Speaker: Yeah, congratulations on a good set of numbers and thanks for taking the call. So, just on the macro level basis – thanks for the excellent presentation you made. Just on the macro level basis, you say – we keep reading that the BharatNet Phase-2 will possibly get rolled out by March 2019. And possibly, as you just now said, the private players CapEx, it was low this year. Now, based on what visibility we have from the Indian market, what is the visibility for a robust revenue growth in terms of number of years both in India as well as maybe in the developing markets, like you said African market, the Southeast Asian markets? What's the visibility for a robust revenue growth in years, maybe three years, five years, four years, whatever you can elaborate?

Sanjay Nayak: Yeah. So, let me break the problem into two; India as a home market and the international market that you highlighted. So, India by the way, if you see the growth in India on an overall basis, and the BharatNet project is really kind of on top of what comes in play, is quite robust for the next five years. If you see the Ovum chart that we shared, we are really talking of Indian market by itself going to about \$1 billion. The way we see the visibility for our business is that we are designed in and a part of the ecosystem of the operators. So, as you know that all the major operators are our customers in India. We are, of course, in different applications in each operator. In some, we have a lot more applications. Some we have fewer applications, and



of course we are trying to get into more applications that they have. But the fact is that we are in all the operators. As they increase their CapEx, we should get the benefit of their CapEx into our books. So it's very clear that all the operators are saying that if there are two areas where in the next three to five years they will continue to make significant CapEx investments. Number one is on the optical fibre infrastructure, which is creating a very robust backbone for carrying all the data emanating from mobile phones or home broadband or all the other enterprise services. The second one they are talking of right now is converting a lot more of their sites into 4G, which again in turn will generate more data. So, I think in that level BharatNet is a very predictable thing as you rightly said because the project is already at an advanced phase execution and it's government intent to finish it before March '19. We have a pretty good inroad into that because of our success in Phase-1.

Secondly, in the private accounts, we believe again that the CapEx, especially the consolidation is in a sense helping us, because fewer operators are now left, they are now all focusing on building high-quality networks. In fact, today morning there was a report that the focus of the the operator as per the government should be to increase the quality of their networks and not just their revenues. So, I think that's coming into play.

To answer the second part of your question regarding visibility into the markets, what we have done on a sustained basis over the last two to three years is to diversify our customer base beyond India to other markets. So in Southeast Asia, for example, we have a fairly good footprint in Malaysia and that's growing. We are looking at Vietnam as a very large growth market. And for good reasons, India as a country – and I was in Vietnam last week – is being highly touted for business in Vietnam for all the reasons that I'm sure many of you are aware of.

In Vietnam, we have had some initial success and we are thinking of how we can magnify that success. Same thing is happening in Bangladesh and Myanmar in Southeast Asia and Indonesia



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as well. Now, if you come to Africa, we got a lot of success in East Africa; in Kenya and Tanzania and in many other places. We have now setup a beachhead in South Africa as well in Johannesburg and again we have been into some very large projects in the sub-Saharan Africa, where South Africa is a base. We expect that some of these will resulting in wins this quarter and of course revenues over the next few quarters.

Similarly, on the West African side, we have had a lot of success in Morocco where we are a supplier to the largest operator in West Africa. And again, we setup our office in Nigeria in around October-November last year. Again, we are starting to see some initial wins and a lot of business. And as the Nigerian economy comes back into play, that again is going to be a big growth market. So, I would say that Africa, as a broad-based telecom market, is looking good. Southeast Asia is looking good.

Now, coming back to the US, this is a brand-new market that we just entered six months back. I'm again very happy to say that the application that Arnob highlighted, transport network modernisation, is a large opportunity in US. US is a phenomenal market as there is so much of equipment deployed and the product that we have for network modernisation seems to be a perfect fit. We were challenged on the sales side earlier. We have hired about three sales people in the last few months, and again we have seen some initial success. We feel that is a market we can grow in.

So overall, I would say we have pretty good visibility, and that is the reason for our confidence and comfort that a 20% year-on-year growth from the current base for the next few years is something that we feel is very possible. As I mentioned to Mukul earlier, whatever was the shortfall in revenues this year should pretty much get added into next year's revenues. So we don't really think that there is any change in terms of the short-term or the long-term outlook from our business perspective.



Speaker: That's great. As a follow-up to what the CFO said, which was very heartening He mentioned about free cash flow of something like 140, 150 crores, which is actually not mentioned in this slide. I think he verbally mentioned it. That's terrific compared to the PAT for nine months of something like 80 crores. So, essentially at this time in this year we are two times of free cash flow over net profit. Now, what drives this? Is it because we are asset-light? And as a corollary, what kind of CapEx and free cash flow we can expect in the coming years?

Sanjay Nayak: So, maybe I'll let Venkatesh answer that question. But the broader question is yes, clearly, we are asset-light; and I mentioned that for us to, for example, significantly increase our revenues, we really have hardly got any investment in manufacturing capacity increases. So, maybe Venkatesh, you can answer the question about the free cash flows, the position in nine months compared to previous year. Maybe you could also talk about the EBITDA to cash conversion as to how it's progressing.

Venkatesh Gadiyar: Yeah. So, the nine months' cash flow from operations was 179 crores. Free cash flow from operations was 127 crores. As against nine months' previous year was 112 crores, the cash flow from operations and free cash flow of 75 crores. The EBITDA cash conversion ratio for the current nine months is around 125 percentage.

Speaker: That's great. Thank you very much. All the very best.

Venkatesh Gadiyar: Yeah, thank you.

Operator: Thank you. We will now proceed to our next question. Please go ahead, caller.
Your line is open.



Anirudh Gangadhar: Yeah, good afternoon. This is Anirudh from Nomura to all of you. Few questions from my side. Firstly, just to confirm your guidance for the full-year for this year now is 5% growth in revenues. Did I hear that correct?

Venkatesh Gadiyar: That is correct.

Anirudh Gangadhar: Okay. And just in terms of the quarter, this quarter the gross margin was very healthy 50%, which is much more than what we have seen historically. Is there something which is bit of a one-off here, a bit of lumpiness here? And similarly with some OpEx also seems to be a little bit higher than what it typically has been before. Are there any one-offs or lumpiness in either of these two items?

Sanjay Nayak: No, there is no lumpiness but directionally what is happening is the blend of the products and customers is healthy. So, we did see on a gross profit level about 200 basis points of improvement. There is also a larger portion of services revenues in Q3, which again directionally, as we had said earlier, our services revenues will continue to improve. So, I would say that's a combination of product mix, a little bit of volume advantage, some amount of services revenues starting to blend in, which is inching the margins up. We believe that the margins going forward will continue to stay in this range or could improve slightly as our volumes and size increases.

Anirudh Gangadhar: Right, Sanjay. So, this 50% gross margin that we've seen this quarter, this is something which you think is not really something which is a bit of a one-off; it actually can be sustained as the product mix and I assume the geography mix of revenues also changes?

Sanjay Nayak: Yeah, by and large I would say that. By the way, the way we look at our gross profit from our calculation it comes to 39.2 because we include the manufacturing and the



material cost on an industry comparable basis. But I understand from your point of view just to take the material cost as the cost of goods; so, I understand from that point of view. Yeah. So, the current level that you saw in nine months is what we think we can sustain. As time goes by, we should potentially improve because of higher volumes, better product mix, more software stuff and of course more international business and more service business.

Anirudh Gangadhar: Right. My next question would be on the OEM side. Revenue declining, now this was something which was – is it on expected lines that as you enter US directly you are expecting OEM procurement to reduce, or is this a little bit of a disappointment than it should be coming back? Are we comfortable with as planned or is this a bit of a dampener?

Sanjay Nayak: So, decline was expected but the dampener was what the rate of decline. So, let me put it this way. We knew that over a period of time we will have a larger product overlap which will put us into competitive situations more often than we have been in the past. So, there was some decline expected but not really to the extent that actually happened. And then currently we are in the catch-up mode because the direct investment – not just in the US, by the way, in other geographies as well, are starting to give results but they haven't given as much result as we would have liked it to be. So, the short answer to your question is some decline was expected. The amount of decline a little bit big surprised us but that's how things happen I guess.

Anirudh Gangadhar: Understood. Just a final question would again be that as the telcos here are consolidating, we keep hearing that only 20% ballpark of the [inaudible] were fiberised. That was a data point which is back in 2015. Would you have a better assessment on what really is the potential over here, because that's one of the things which I suppose people will say that they can't be sitting on still 20%, that must be a bit higher at this point of time?



Sanjay Nayak: Yeah, absolutely right. So first of all, there are two parts to your question. There was a little bit of a slowdown across one operator because of the consolidation this year in terms of spending, but the 20% part of the fiberisation has moved up. I don't think it has moved up by too much because what the consolidation has also done is that the fibre right of way, which was anyway not separate in the sense that probably someone had a right of way, then three operators on the same tower were getting fibre, and if there was no fibre on a tower, then nobody has it.

So, what is really happening is that the 20% number is clearly going up. I don't think it has inched up significantly yet. I mean I don't have any industry statistics from the last six months; probably by the end of the year TRAI or someone will publish, but my sense is that it's definitely not crossed 25% for sure as an industry average yet. So there is still, I would say, a lot of cell tower fiberization to be done.

The second part, if you really see the commentary from a lot of the operators themselves, and what Kumar also mentioned a little bit earlier, is that with 4G going to 5G or rather in anticipation of 5G, the amount of fibre has to grow. With 5G, the number of base stations that have to be put in some shape or form, will be even more denser. So, in that sense, the directional situation about lot more fiberisation is something which is absolute necessary. There could be an impact that some of the rural cell sites will get fiberised far quickly than urban cell sites. There was a news item you might have seen in November-December when the government of India announced that the BharatNet fibre, which is going to the villages, it will be possible for operators to lease bandwidth from that, if their tower is nearby. So, I do see that the rural penetration of fibre might actually see a spike in the next two to three quarters as the operators start to connect their base stations to the fibre near the gram panchayat. But the overall fibre situation still is pretty low and I don't see any reason why the 20%, 25% number doesn't go up to 40%, 45% number in the next two years or so. So, we would see a rapid phase of fiberisation in the next few years by the operators.



Anirudh Gangadhar: Right. Thank you, Sanjay. Thanks for all the answers. Thank you.

Sanjay Nayak: Thanks, Anirudh.

Operator: Gentlemen, that was our last question. So, at this point I would like to hand the call back to the management for your final remarks. Thank you very much.

Sanjay Nayak: Thank you, everybody. First of all, it was good talking to all of you. We tried to convey our situation in terms of the business outlook, the cash flow situation, the efficiency with which we are running the business, the potential that we see; and we have highlighted all the things. At a macro level with the data increase, with all the investments that we are making, we feel very comfortable and confident that the business is on the upswing.

We have a lot of opportunities which are for us to take advantage of and turn into positive business. And clearly for Q4 of this year, we felt it was prudent to quickly highlight the situation as we see on the ground and whatever shortfall we have from revenues this year, because of the lumpiness, is expected to get into the next fiscal year. That's something which we feel is good for the company.

So, overall, things are on track and the investments we've made seem to be working out well and we hope to report more progress in our next earnings call. Thank you, again.

Operator: Thank you. And again, ladies and gentlemen, that will now conclude today's conference call. Thank you very much for your participation today. You may now disconnect.



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