



“TEJAS Networks Q4 FY2018 Earnings
Conference Call”

April 25, 2018



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Moderator: Ladies and gentlemen, good day and welcome to Tejas Networks Q4 FY2018 Earnings Conference Call, hosted by Edelweiss 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. Pranav Kshatriya from Edelweiss Securities Limited. Thank you and over to you Sir!

Pranav Kshatriya: Thanks Lizaan. Good evening to everyone. On behalf of Edelweiss, let me welcome you to the Tejas Networks Q4 FY2018 earnings call. We have with us Senior Management of Tejas Networks headed by Mr. Sanjay Nayak, along with senior members of the management team. Without further ado, I will handover the call to Mr. Sanjay Nayak to start the proceedings. Thank you and over to you Sir!

Sanjay Nayak: Thank you Pranav. Welcome everybody. Good afternoon. This is Sanjay Nayak from Tejas. I have with me my management team, which is Venkatesh Gadiyar, our Chief Financial Officer, Dr. Kumar Sivarajan, our Chief Technology Officer, and Arnob Roy, President Optical Division.

In fact, I hope you all had a chance to download or review the presentation that has been uploaded on our website because we plan to go through that presentation for the rest of the call today. We will try to finish the presentation in the next 30 minutes or so and then we will leave another 30 minutes for Q&A that you may have. To begin with, I would like to request Venkatesh to walk us through the financial updates starting with Slide No. 3. Venkatesh please.

Venkatesh Gadiyar: Our FY2018 standalone and consolidated financial statement were audited by our statutory auditors and they have expressed an unmodified opinion on the financial statements. As we explained in our earlier quarters, our reported revenues are exclusive of excise duty for FY2017 and till June this year. Post which the revenues are reported net of GST. In addition during the last financial year we had component sales on pass through basis to our contract manufacturers, which is not the same case in this financial year due to the change in our manufacturing model. As a result for equivalent comparison, we will use revenue net of taxes and pass through sale of components.

For Q4 FY2018, consolidated net revenues were Rs.98.7 Crores, a decline of 61.2% and our net profit after tax of Rs.29.1 Crores, a decline of 56.7% on a year-on-year basis. Our FY2018 revenues declined by 9.6% to 740 Crores compared to 819 Crores in FY2017. Our revenue breakup for the year was about 82:18 for India international and 90:10 for products and services whereas FY2017 65:35 for India international and 96:4 for products and services. There were two customers whose

contribution to revenues was in excess of 10%. They contributed 57% of the total revenues. In the previous year the same was two customers contributed to 46% of the net revenues.

Revenue decline during the year was primarily due to late receipt of a few large orders, which will get renewed in this current fiscal. Domestic revenue grew by 15.5% on a year-on-year basis largely from PSU customers; however, international revenue saw a decline of 54% on a year-on-year basis primarily due to decline on OEM revenues, which was higher than expected. Our continued investment in international direct sales is showing positive signs as we see strong business momentum building up across customers in South East Asia, Africa and USA.

Operating expenses, we continue to invest in R&D and international sales. Our R&D cost on a gross basis grew by 12%. Sales and marketing cost grew by 13.3%. We have added new employees in South East Asia, Africa and USA. Our overall operating expenses increased by 8.9% on a year-on-year basis. Our EBITDA declined by 6% on a year-on-year basis due to decline in the revenue; however, as a percentage of revenues it increased from 20% to 20.7% primarily on an account of better gross margin. The year-on-year increase of 26% in profit before tax and before exceptional item is due to increase in other income and reduction in finance charges.

Now coming to deferred tax assets, which we have recognized. Ind-AS requires deferred tax assets to be recognized for the carry forward of unused tax losses and tax credit hence we have recognized the deferred tax benefit of 56 Crores in the opening reserve of April 1, 2016 and in addition we have recognized Rs.40 Crores and 24 Crores of deferred tax benefit in the profit and loss accounts during FY2017 and FY2018 respectively. While the profits grew from 93 Crores to 107 Crores EPS for the year was 12.41 per share decline of 12% on a year-on-year basis on an account of the large capital base post IPO.

We continue to see good progress in our working capital management which saw a reduction of 133 Crores for the year. The working capital reduced by 37 days to 141 days. DSO reduced by 20 days to 135 days. Days payable increased by 28 days to 100 days. Inventory days increased by 12 days due to the fact that we had built some inventory in anticipation of certain orders, which came late and the same will be executed in Q1. In addition, goods in transit as on March 31, was about 17 Crores. We generated free cash flow of Rs.171 Crores for the year as compared to 98 Crores in the previous year. Our cash and cash equivalent including investment in liquid mutual funds and deposits with financial institution at the end of the year was 513 Crores.

Dividend policy: The board has reviewed and approved the dividend policy of the Company after taking into consideration the strategic and operational cash requirement of the Company in the medium term. The Board has decided to distribute dividend up to 25% of the free cash flow of the

corresponding financial year subject to applicable laws and requisite approvals, if any. Overall, while revenue declined during the year, we improved our gross margin, reduced our working capital and DSO and improved free cash flow generation. Now I will ask Sanjay to takeover.

Sanjay Nayak:

Thanks Venkatesh for giving an update on the financial side of things. Let me walk you through the next few slides. I am on slide 6, which says Q4 Corporate Update. In terms of the team size we actually added headcount in Q4 and the total employee strength increased from 697 for 707. On an annualized basis, we increased our R&D headcount by 21% and sales and marketing headcount by 35%, so we have made very significant investments in R&D and sales. Our attrition was in single digits at 9%. We won a few awards in terms of our products as well as in terms of the other business growth. 20 patents were granted to us during the year and that makes the total cumulative grants we have today at 76 patents and we have applied as on date for 341 patents overall.

Moving to the next slide on the FY Sales Update, as Venkatesh mentioned at a high level, India contributed to 82% of the revenues which is up from 65% a year back. In India, particularly the government business has been very, very strong as you know that there has been a lot of build outs for BharatNet, which happened during the last fiscal year and it continued to happen during this year and we got significant portions of that. We had a strong showing in BharatNet Phase I and we have a healthy funnel building up for phase II.

Some of these orders, in fact a part of the order that we got last year, were for Phase II and in addition to what orders we have in hand, our system integrator partners are L1 in a few Phase II tenders. We expect some of these orders to also start flowing in as we go forward. In addition to the BharatNet, we had a very significant percentage of wins and sizable large orders from the utility segment which is railways, power, oil and gas. These networks are being built both for their captive requirements as well as for selling surplus bandwidth to other operators.

I would say the India Government overall has seen very strong growth last year and will continue to grow well this year. On the India private side, we continue to get good business from our existing customers. A few large orders slipped into this year, which we should be getting this year. These are from a few large private customers who are our run rate customers. Another positive development which we have seen during the year is that we have been working with our existing customers to see if we can fit into some new applications. We are actually at fairly advanced stages in many of those discussions and we expect to see additional business coming out beyond what used to come out in the past from our existing customers because of these new applications.

On the international side, the OEM business declined. In fact this has been a bit of a surprise for us because the decline in OEM business was at a rate much steeper than what we had anticipated. The

primary reason is that we have an overlap with our OEM partner in terms of the macro segment and we did see that they were positioning our products at much fewer locations than they should. We had expected that our direct sales would make up for the number in terms of the shortfall for OEMs but this did not happen. However we did make a lot of progress, in fact we added 30 new customers on the international side. From a sales team perspective, we added a strong leader for South East Asia, Africa and we have also hired a few mid-level sales personnel in the US, but the actual traction in terms of bookings and revenues for last year is still a work-in-progress. Here, we have seen a lot success, but the results of that should be seen in the current financial year.

Specifically in America, we have registered many wins for network modernization. This is one application where our products seem to have a sweet spot and we should see a lot more traction and business growth in the current financial year based on the wins we have and the trials that have been successfully completed. Africa actually grew year-on-year quite healthily and we not only see a growth in Africa, but we are also seeing a very strong pipeline. As I have mentioned earlier we have expanded our African operations, we have setup a new office in Nigeria, which is West Africa, which has an economy that is recovering very well. In addition, we have an office in Kenya covering East Africa, one in Johannesburg covering South Africa and our Dubai office is covering deals in North Africa and the Middle East. Here again we have made a lot of progress in terms of successful trials and large opportunities that we are targeting.

South East Asia again has been something that was reasonably a large piece of our international business. A couple of large customer orders, which we were expecting last quarter, are now going to come this quarter and we see a very strong pipeline of business from existing customers in Malaysia as well as in Vietnam. In addition, we are also working on a few large deals on a government to government basis in these regions based on the line of credit that the Indian government has made available for Asean countries. So overall I would say that the focus on international sales this year has helped create a very strong foundation and we are confident that we will reap the fruits of these efforts in the coming year.

The next slide talks about Global Data Explosion Driving Optical Capex. The world is consuming a lot of data and mobile data usage is expected to grow at 78% CAGR in the next few years. In India we are still rolling out 4G and clearly after that the 5G opportunity will require deeper fiberization, greater capacity build outs, lot more upgrade of equipment to meet latency and other emerging requirements. So there is going to be whole new set of expenditure around 4G and 5G in the years to come, which is reflected in the fact that the global optical network revenues are expected to go from around \$16.7 billion in 2018 to around \$19 billion by 2021 and I think the effect of IoTs is yet to be felt in our networks. They are still struggling to have 87% of the humans on the mobile or telephone

network as of date and we can probably expect 10 times more devices in the form of IoTs to be network connected in the coming years.

Overall, I would say that there is a lot of business opportunity at a macro level. Coming to India, which is one of our focus markets, we are clearly seeing a lot of growth in data and broadband. The subscriber base on broadband is showing healthy growth. As you may have read in various reports, India has already become the number one market in the world in terms of mobile data usage, number of Facebook users and many other criteria. It appears that India will continue to see sustained growth in terms of data consumption for the next 4-5 years which correspondingly will result in higher capacity optical networks that we serve.

From a regulatory and operator perspective, we have seen announcements by telcos for significant capacity expansion in terms of fiber and 4G for now and in a couple of years they are expected to start on the 5G capex cycle. As per estimates 60000 to 70000 Crores of capex is planned and we expect that significant part of this going to come into the optical infrastructure, which is falling behind. As you know TRAI report for 2022 recommendations is out and they have suggested that the least that India will do is go from 20% cell side fiber connectivity to 60% cell side fiber connectivity over the next four or five years, which essentially would mean a corresponding increase in terms of investments in optical transmission equipment.

We have discussed BharatNet Phase II implementation in the earlier calls. The implementation has started. As is said we have started to get initial orders. Lot of tenders are in the pipeline as we talk at the state levels in particular and some of the states are augmenting the funding that they are getting from the central government to build even larger networks and we do see around Rs 3000-5000 Crores opportunity for the kind of equipment that we do in terms of the BharatNet Phase II. We expect these rollouts to be spread between this and the next calendar year and we should see significant uptick in the business from this side as well.

The PMA policy continues and we expect that it would be rejuvenated with more force in the coming days. I'm sure you have all been reading about the government push to nurture a 5G ecosystem within India. I must tell you that we have been working closely with the government as well as the standard bodies for 5G and many of the standards related to optical as well as for the rural broadband are being contributed from India and in particular from Tejas' team as well. We believe that 5G will be a disruptive force since software will start playing a larger role in the network architecture and as the network architecture is expected to undergo a significant change we believe this will present opportunities for new companies to really dislodge incumbents.

Last but not the least, I would say we have seen a reasonable push from the Government of India and myself, as the Co-Chairman of the Telecom Equipment and Services Export Promotion Council, to get digital connectivity projects in ASEAN regions or African regions funded by India government line of credit and we have made some decent progress in a few countries to actually get to project proposals, which can potentially result in success in the next few years.

Next slide is about the Strategic Priorities For Growth. As we have mentioned earlier we are focusing our efforts on two different directions, one is on the sales side. We clearly want to make sure that in India which is going rapidly we are well entrenched and continue to expand our market presence. In India we think that this fiscal we will actually start seeing those numbers moving up for us. Government spending continues to grow unabated and we feel that BharatNet Phase II as well as some of other spending that the government is planning will actually fructify. On the global side we have a very focused strategy. We are focusing on South East Asia, Africa and USA as the three major markets. We have been putting significant efforts in terms of building a foundation in the last few years and we believe that this is the year where we should start to scale those revenues upwards.

On the R&D side, and Kumar will of course walk into this a little bit more, our product pipeline is geared around the need for higher capacity systems with greater network packetization. We are really having one dimension of technology focusing on that and secondly we do believe that there are going to be four or five very important applications, which are going to be driving the growth in the telecom industry and Kumar will be talking about those. We are focusing and making sure that for all applications we have the best of products in terms of the fundamental architecture, which is really software differentiated.

We now come to the slide on our sales strategy for the next year. In India as I said earlier we will build on the success of BharatNet Phase I and Phase II on the government side. We see a lot more deals happening for the OTN and DWDM product lines and we believe that we have a very competitive portfolio over there. The utility segment has been performing very well for us and we expect that like last year it will be a pretty good segment for this year too based on the visibility we already have.

On the private side we are targeting new applications with existing customers to increase our wallet share. We should start seeing the results of that in terms of new wins and new application hopefully starting from this quarter itself. We have a highly integrated and converged access product that combines GPON, Ethernet, LTE and Optical Transport and we have started to see that as operators are working to streamline their network architecture the product portfolio that we have is a good fit. On the emerging markets side, we will continue to be focused on South East Asia, Middle East and



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Africa and we will continue to add more resources in terms of manpower in each of the regions and in America. This is one area where as a company we will pay a lot more attention to.

We wanted to make sure that last year was used for actually getting the initial structure done, setting up our ecosystem in terms of support, etc., but this is the year we believe that we should be able to scale up our revenues. We will of course continue to nurture our OEM relationships but we do believe that in the longer term this may or may not contribute a significant part of our revenues. Mexico is another area in the American continent that we had some good success and we expect to build on top of what we already have and create a good funnel and pipeline of potentially larger deals than we have seen in the past.

Now I am going to request Dr. Kumar Sivarajan to walk us through the technology strategy and the product strategy for the company. Kumar please!

Kumar N. Sivarajan: Thank you Sanjay. Sanjay focused on the overall market as well as the sales strategy. I will now walk you through what are the main application areas for our products that we are targeting this year and in coming years.

We have four major application areas for our products: Mobile backhaul for 4G networks today and 5G networks tomorrow, bandwidth services for telcos, enterprises, and data centres, broadband access which included GPON and fixed wireless, and finally, network modernization. I will now take you through each of these applications. I now turn to the next slide on mobile backhaul.

Backhaul is an important aspect of the mobile operator's network second only to the radio network. Mobile operators are facing immense cost pressures today, much more than at anytime before. But they still need to invest in fiberizing their base-stations in order to be able to carry the volume of data traffic generated by 4G network due to video traffic. The advent of 5G will create the need for more fiberization and consequently, accelerating growth in the backhaul market. The primary goal of the back haul network is to reliably carry the huge volume of data form the base-stations to the Internet, while meeting latency requirements of the mobile users, but at low cost. Our packet transport products combine the low cost of packet switching with the quality of service needed for mobile backhaul and are therefore best suited for this application. They are also future-ready and able to carry 5G traffic with no more than a software upgrade. Our products also support the next generation of network management based on software-defined networks. I will now discuss bandwidth services on the next slide.

Another application for our customers is providing bandwidth to enterprises, data centres and even other telcos. The bit-rate can range from a few megabits to 100 gigabits and the interface today is

invariably Ethernet. The market for Ethernet bandwidth services is rapidly growing and will reach 70 billion dollars by 2020. While the same packet transport products based on MPLS-TP and CE2.0 can be used for bandwidth services smaller than 1 Gbps, high capacity bandwidth services need our OTN and DWDM platforms. Our 100G alien wavelength solution where we can launch new 100G waves on the existing DWDM networks built by competing vendors is particularly interesting to telcos, and we had numerous deployments of our 100G alien wavelength solution last year. I will now discuss our broadband services application.

Another large market segment we started to address a couple of years ago was residential access. There are two technology solutions we have here, one for fiber-based networks based on GPON, and the second based on LTE for wireless access where no fiber is available. GPON has a large global market exceeding 7 billion dollars. Our differentiation today in the GPON market is the development of rugged CPEs at the customer end that can be deployed in harsh environment conditions and remotely managed. Over 50,000 of these CPEs are deployed today in BharatNet and our GPON network there forms the backbone of digital India. We have deployed our LTE-based wireless access solutions in Malaysia for rural broadband and are actively engaged for numerous such deployments around the world. Where fiber is hard to lay, wireless is a great complementary solution. Both our GPON and LTE solutions will be upgraded to higher speeds and capabilities with 10G PON and 5G, respectively. Particularly in the case of GPON we are pursuing open source software frameworks for virtual OLTs. Our GPON and LTE solutions can also serve the Internet connectivity needs of small and medium enterprises. In addition, we have an Ethernet switching and IP routing portfolio to address the needs of large enterprise networks such as state governments and industrial campuses.

I now turn to the last application which is network modernization. Telecom operators around the world, and especially in the United States, have a large legacy infrastructure based on SONET and largely carrying TDM traffic such as fixed-line voice and 2G mobile voice. Even considering only equipment installed more than 7 years ago the modernization equipment market is several billion dollars annually though, at this time, estimates for this specific market segment are not available from analysts. Such operators need to modernize their network infrastructure to packet-based solutions without changing the end-points. At the same time, they also want to retain the simplicity of their network operations in terms of provisioning services and recovering from network faults within 50 milliseconds. Our circuit-emulation solutions meet all these stringent requirements and, like most of our products, are based on our software-defined, or reprogrammable, hardware platforms.

We also understand the scale of the solutions, which are needed because some of the telco networks are extremely large and so our network modernization solutions are built to be scalable today to meet the needs of the largest telecom operators in the world. So with these solutions, we can modernize any



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operator's telecom network today. So these are the four applications we are targeting with our products today and in the next one or two years. At this point, I will now hand over to Sanjay to summarize our presentation.

Sanjay Nayak:

Thank you Kumar for giving an overview of our R&D efforts and the technology direction we are going and the applications that we are actually delivering to our customers. I now want to quickly recapitulate everything that we have talked today. At a very high level as a first high-tech product company from India, we are very clearly established on technology and market leadership.

We have competed hard in India, which is the world's most competitive telecom market and we have continued to do well here. As Kumar mentioned, as a company we have retained a strong R&D focus and developed a strong product line when compared to our peers. As a result, whichever part of the world we go to we are seeing significant acceptance and success.

Our programmable software defined hardware architecture allows us to do a lot more development and technology releases much faster than our counterparts. Also, from a macro point of view the data growth unleashed by 4G and in the future 5G is only going to be benefiting our industry in terms of the optical equipment space that we operate in. We believe that 5G will cause a disruption in our industry and we believe that with our software and edge device focus, we are in a very good position to step into that role.

The geographies that we are targeting are really the telecom hot spots in the world whether it is India, South East Asia, Africa or US. We have a very focused approach in terms of making sure that we win in these markets. We have done a lot of hard work last year in terms of building the sales force. We will continue to do it this year, but we expect to see a lot more results in the form of actual tangible outputs. Last but not the least, I think there were two aspects where in an industry, which is otherwise very, very tough to operate and I am sure you will be tracking the global peer group for our business we have been able to demonstrate that it is possible to deliver a significantly good financial performance.

The cash flow management and working capital management that Venkatesh talked about earlier also gives us confidence and comfort. We had given a guidance that in four quarters, we will reach around 130 days of working capital. I think we are almost there and we still have a quarter to go. So overall I would say that the company seems to be in good shape. We have had a lot of traction in terms of the business. The backlog that we started this year is the highest ever in our company's history. The number of wins we already have, we should be able to convert into POs soon. The kind of pipeline we are seeing across different geographies gives us a lot of confidence that we are quite well groomed for success in the next few years and as our revenues grow, you would see that our profitability will

automatically grow and expand. That is kind of what I would give as a summary of where things are in the company today and may be this will be a good time to take a pause and take questions from the audience.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thanks for taking my question. I have one question each for Sanjay, Venkatesh and Kumar. Sanjay I have a long-term query on revenue how to forecast the revenue? We saw a decline in topline in FY2018, the issue was primarily because of both domestic as well as international consideration while we understand that you have limited visibility in these timeline of order inflow is it normal to see such push outs by multiple clients by three to six months in added time and given what we have gone through this year what steps can we take to reduce the impact of revenue from specific client order push outs in a specific year going forward?

Sanjay Nayak: Let me answer that and then you can ask the next one to Venkatesh. In terms of improving our revenue visibility, there are two things we are currently doing. As we had mentioned earlier we are in a B2B business with a fairly high degree of concentration of customers.

First is really broadening our customer base. We talked about three or four geographies where we are focusing and the new wins we have. Every time we register a new win business usually starts expanding for us in that region. The second thing, which we are doing is that once we are already present in a customer network, we are focusing on increasing our wallet share in that account. The diverse product portfolio that we have today, we truly believe that it is comparable to the best in the industry from an optical portfolio perspective. So we feel that there should be ways for us to get a higher market share within our existing customer base. In the context of India Private, I did mention that there are a couple of new applications where we are at an advanced stage of discussions with customers, and if we succeed in these we should be able to get a larger share of revenues in these customer accounts.

The second part was is it normal in the industry? Yes. I think the nature of our business is a bit lumpy. Our revenue base is still small - so for example since our international revenue base which is relatively small compared to domestic, one deal of say \$5 million shifting by a quarter can potentially cause a growth or a de-growth in a particular geography. So that is somewhat of a size issue for us and as we continue to scale up our business hopefully these issues should get smoothed out to a large degree.

- Mukul Garg:** Understood and just a clarification have you stopped giving out yearly guidance?
- Sanjay Nayak:** Yes. In fact what have decided to do is that we will continue to give a medium-term guideline, so we stand by what we gave earlier, which is 20% CAGR on a year-on-year basis. Which specific year and which specific quarter will happen in the near-term is a bit difficult for us to predict, but definitely from a medium term outlook, we do stand by and confirm that the 20% CAGR that we saw is something that is achievable given the traction we have and given the deal flow that we see in the near term as well.
- Mukul Garg:** Got it and the second question is for Venkatesh. Venkatesh when we look at the order book number, which you have shared the Rs.579 Crore order book usually how should we read that is that something which is executable in FY2019 usually for a particular year how much of your order book, how much of your revenue is from order book kind of a scenario, which is six to 12 months in nature or how much is the intra quarter as a percentage of overall revenue for a specific year?
- Venkatesh Gadiyar:** We had a healthy backlog of around Rs.579 Crores of which about more than 80% can be revenue in this financial year itself.
- Mukul Garg:** How should we look at it from a normal year perspective since you have not given out the corresponding number for FY2018 or FY2017, so generally what portion of revenues in a year come from projects, which would usually make it to your order book?
- Sanjay Nayak:** The way it works for us is that the order book at any point in time is a deeper reflection of the tender wins because order book really reflects the tender pipeline. The run rate business, which comes from our private customers in India or to a larger degree from the international are more in the form of a guidance, which we have from our customers, and so we do not reflect these in the order book. In the order book, we are only recognizing business for which we have physical purchase orders, so I think in that sense we do have a very strong sense of visibility both from our existing customers as well as the new business that we are working on. The run rate business is really a function of the customers that we have and the applications that we are serving and that is how we are essentially expanding our business.
- Mukul Garg:** Understood and one final quick question if I am not taking too much time. Kumar, any views on the impact, which is happening from either 400G-implementation or compact modular equipment adoption in the world?
- Kumar N. Sivarajan:** First on 400G we already have 200G solutions today. We have several deployments of 100G last year. We will soon deploy 200G in the same or similar networks. We will adopt 400G as soon as it

becomes more readily available from our component partners. So 200G is already there and we are well on track to ride the 200G to 400G solutions. In terms of compact platforms, we already have a portfolio, which includes compact platforms for almost all applications. For example, we have a compact platform for mobile backhaul and enterprise services, which is 1400P. We have a more compact version of GPON portfolio, the OLT. I am not talking about the modem at the customer end at the exchange end which is the ONT. We had an OLT platform which was 2U high, which is about 3.5 inches. We now have one, which is half that size. So I think we see no challenges on that front.

Mukul Garg: Including our WDM and OTN in TJ1600?

Arnob Roy: To add to what Kumar mentioned, we also have products for new applications such as data centre interconnect or metro core networks including compact platforms with 100G line interfaces. So for all the portfolios of DWDM, conventional TDM transport and OTN, we have platforms that are compact and modular.

Mukul Garg: Got it. Thanks for taking my questions. I will get back into the queue.

Moderator: Thank you. The next question is from the line of Gaurav Malhotra from Citigroup. Please go ahead.

Gaurav Malhotra: Thank you for the opportunity. Just had a couple of questions. One is in terms of just the operating matrix how much was the India and overseas revenue split this year and compared to last year, I did not get that number please?

Venkatesh Gadiyar: Percentage wise this time domestic was 82% and last year 65% whereas international was this time 18% compared to last year 35%.

Gaurav Malhotra: Sanjay just one question on the revenue lumpiness. Now you have mentioned it is a B2B business, so there are times wherein it could be lumpy, but in the Q3 we were told that it is going to be like a 5% growth versus say may be 50% growth and we end the year or in this quarter obviously we saw a quarter-on-quarter decline, a meaningful decline that too, so any sense on which segment is where you are facing the biggest challenge? If you look at the Bharat phase two has the tendering has been delayed or what seems to be key reason why the revenue trajectory is not happening, it should it be given what we are seeing globally and in India in terms of the data and data flows?

Sanjay Nayak: Good question Gaurav. In late March we kind of got a sense that some of the large orders that we are thinking and I am not just talking of the large BSNL order that we got for Rs.300 odd crores, but even a couple of deals in South East Asia, which were set to come in before the end of the year got slipped out. Even in India Private a couple of orders which we were expecting to come in did not happen. So

between the January time period that we thought that we will actually do a 5% year-on-year and March end when we announced that it is not going to happen two to three things happened. It was just a little bit awkward for us this year although I think about three years back we had a similar situation where we had a flattish year and then in the subsequent year we basically caught up with whatever we lost in the previous year. I'm expecting a similar situation to happen this year, but as I had answered in the context of what Mukul had asked, the answer to that is we have to broad base our customers and get a larger wallet share from our existing customers. The tender business as you rightly pointed out is always lumpy, but the good news is the backlog that we have on our books is a significant part of that is tenders, so actually for the current financial year a lot of the lumpiness is hopefully out of the way and it is now really a question of building up more backlog and continuing to accelerate the run rate. So I would say in the medium term we think things are going to be steady, but there will always be a quarter or two here and there where things could just get a little bit disturbed.

Gaurav Malhotra: Based on the order book you mentioned around 500 and odd Venkatesh 80% is likely to get consummated during this FY2019 itself any sense last year what would be the run rate business and the tender business just so that we have a sense of where we are?

Sanjay Nayak: For last year, if I were to take the India business alone because that is easier to capture between the government and private. So I think out of the 82% that we had from India around 60% to 65% was the government and the balance was private. So our India business was largely dominated by the government, which basically had a larger share.

Gaurav Malhotra: Essentially 60% of 82% was sort of tendered and around 22%?

Sanjay Nayak: Approximately 70% of 82% was tendered.

Gaurav Malhotra: You expect that this percentage should sort in terms the run rate should be more than 30%?

Sanjay Nayak: I will say it may improve or may not improve because we already start with a very large backlog of this tender business this year. So when you look at the revenue angle a good part of the backlog from the government would get executed anyway, but in terms of new wins I definitely expect that India private will have a pretty healthy growth. But I must also say that there are a large number of tenders that we have already bid and in many of them our partners are L1. Therefore we believe that India Government just because of the growth and the investment in BharatNet Phase II will continue to be pretty large this year as well, but the good part is since we have visibility into that, the lumpiness aspect would be hopefully less.

Gaurav Malhotra: Just last question the third quarter also you had mentioned that it is not as if we had lost orders, they are getting pushed out and obviously this quarter was subdued from last quarter, so while without getting into guidance then your thoughts, give a medium term rather than like a one year kind of a guidance but that statement should expect FY2019 to be high growth kind?

Moderator: Sorry to interrupt Mr. Malhotra. Excuse me Sir your voice is breaking up. Can you repeat your question? We are not able to hear you.

Gaurav Malhotra: I was saying that Sir you had mentioned in the third quarter that you have not lost orders, these orders got pushed back and we saw the same thing in the fourth quarter, so while not getting into quantifiable guidance, but should now we expect FY2019 to be like meaningfully strong topline growth kind of a year?

Sanjay Nayak: The short answer is yes. We should see a significantly good revenue boost this year, yes.

Gaurav Malhotra: In terms since we have already out of a month of the quarter so will this be some sort of improvement over fourth quarter or it is going to be not much improvement?

Sanjay Nayak: The fourth quarter is so low that the coming first quarter will show significant improvement over the fourth quarter. Also because the orders are already there it is just a question of pushing things out of the system, so we do believe, we will basically now again as I said we had a couple of aberrations, but hopefully we get the run rate and rhythm back, so yes this year should be starting off fine.

Gaurav Malhotra: Good thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Good evening. Thank you for taking my question. Sir I had two questions; first is let us say for assumption sake all the orders come in FY2019 what kind of downside risk to order book do we have being an election year? I wanted your views on that?

Sanjay Nayak: Really nothing. I do not think business from private operators is really getting impacted by elections in any significant way in India. Secondly even the government orders that we are talking about are already in hand for a very large portion for what we will need to do revenues this year and if I were to look at the tenders that we already bid last year, which will fructify into orders very soon, there is no election dependence. So I would say with respect to India business I do not see much any correlation with elections for us. International of course is unrelated. By the way elections were recently

announced in Malaysia and may also happen in a few other countries, but at the macro level I do not think there is anything, which should impact us.

Mayank Babla: Sir second question was end of last year there were few reports, which says that BSNL and FiberHome, yes I believe FiberHome there was going to be a tie up to manufacture optical networking products? Sir is there any update and what kind of threat can we face from that?

Sanjay Nayak: It was an announcement. We have not seen anything before or after that announcement and we believe that like many others it was just something which was announced. We have not seen a single instance of anything, which makes us believe that there is any kind of threat at this stage. I am sure you have also been tracking what is happening internationally. With regard to the Chinese issue, I was actually travelling abroad last week and there seems to be a significantly large interest from international customers, and actually I talked to a few in India as well, who seem to be now seriously concerned about supply chain continuity because of what is happening around the world. We seem to be having a very good play where people believe that as an Indian company we will not be caught in the crossfire and hopefully that trust and reliability factor would help us. So I would say that we should see some benefit of it during the year, but we need to see how it plays out.

Mayank Babla: Thanks a lot for taking my question. I will get back in the queue for additional questions.

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

Anirudh Gangahar: Thank you and good evening. Two questions from my side; the first one is that if I look at the commentary of one of your competitors Sienna and also your OEM so-called customers they have been very, very bullish on India. They have had a fantastic year and they continue to believe India has done well and my query is that is there something that we have lost it on an OEM revenues and Sienna was a big customer for us, so is there something that they are doing something on their own now and we are no longer supplying to them? Or is that they are focusing a lot on the private side and we were focusing on the government side and what has really enabled them to lead progress in terms of market shares and what would be our strategy to counter that in India? That is my first question. The second question would be on the deferred tax reversal that we have seen in the fourth quarter? Does it have any implications on the validity of our tax holidays going forward? Does that period get truncated because of this or there is no impact on that part? Thank you.

Sanjay Nayak: Let me answer a first part of the question and I will ask Arnob to answer the second part. At a macro level yes Ciena has been doing very well in India. The application they have done extremely well in is the intercity application that requires backbone WDM and larger platforms. On the metro aggregation, we do have an overlap now with Ciena. Part of the revenues that did not come to us potentially leads

to the same question that you are thinking, which is that they may have a reason to push their own products versus ours. However, we are getting into new applications with our existing customers and we believe that we should be able to recover a lot of momentum in the India private as well. Maybe Arnob you can answer the product overlap question with Ciena at a macro level both in India as well as in global markets and then Venkatesh can answer the question regarding different tax ratios.

Arnob Roy:

A quick summary of what you said, which is that Ciena is more focused on the core and long haul and our strength is in the access and aggregation. But to be specific, if you look at our flagship products, which are 1400 and 1600, there is no overlap with any Ciena product per se. TJ1400 is an access and edge product. Ciena does not have any redundant 10G access or edge product like TJ1400, which supports all the different configurations of PTN, OTN, MSPP, hybrid and so on and they have adopted this product and they sell it widely. They sell our product widely as part of their network solutions along with their 6500 and 5200. TJ1600, the other product that we have, which is a converged package optical product with a terabit fabric, is a smaller capacity version of their 6500, so while they have the same functionality, they usually do not compete because 6500 has a much higher capacity and it sells in the core network and we sell TJ1600 in the metro aggregation and metro core networks. However in the PTN space there is direct competition because both of us sell both the 1G and 10G CPEs and the 10G, 100G aggregation switches, so we have more direct competition over there such as our TJ1400P versus their 3900 products and our 1400-18 slot versus their 8700 and so on. However, in the broadband access space we have the GPON products and we believe they do not have any equivalent product or business in the broadband access space. So while we have seen a lot of business in this space we have not witnessed any significant competition from Ciena whether in India or across the world. So this is roughly how the product overlap and the competition space plays out with Ciena.

Venkatesh Gadiyar:

As per Ind-AS, deferred tax as such has to be recognized for the carry forward of unused tax losses and tax credits to the extent of that future taxable profits will be available against which unused tax losses and unused tax credits can be utilized and since it has a catch up, which has happened since it is a Ind-AS we have adopted in this year and we had to give the financials for last year as well as April 1, 2016 Rs.56 Crores of deferred tax has been recognized in the opening balance of the reserve and Rs.40 Crores and Rs.24 Crores the deferred tax benefit has been recognized in the profit and loss account for FY2017 and FY2018. Going forward, any deferred tax credit will be recognized on a quarterly basis and after recognizing this deferred tax credit for FY2018 the balance unused tax credit was Rs.157 Crores as of March 2018.

Anirudh Gangahar:

Just to clarify Mr. Gadiyar we have the benefits up to Rs.157 Crores of profit tax that is the benefit that we have where after that we start paying corporate tax rate is my understanding correct?

Venkatesh Gadiyar: Currently we are under MAT and till we exhaust our carry forward losses we will continue to be in MAT. Yes, post that will be in corporate tax regime.

Anirudh Gangahar: Right and just one final clarification, Sanjay just on your medium-term guidance could you define medium-term? Are we referring to two years or three year CAGR of 20%?

Sanjay Nayak: I would say starting from last year, if I were to add two more years after that so we are really if I were to say next 24 months that is something which is visible based on the deals that we see and based on the pipeline that is what I would define for now.

Anirudh Gangahar: That will be from FY2018 to FY2020 the coming two years or FY2017 to FY2020?

Sanjay Nayak: FY2018 to FY2020. After FY2017 we basically started to give a guidance that we see a 20% CAGR over a three-year period. We stand by that because within the same period of time and one year has gone by but we still have two more years. Clearly I think that this year and the next year, we will see a lot of that coming to fruition and as the year progresses, we should have visibility into the year after as well. So I am saying we are kind of having a fairly good view of things in the next 24 months.

Anirudh Gangahar: Thank you for the clarification. I will get back in the queue.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Pranav Kshatriya for his closing comments.

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

Sanjay Nayak: Thank you everybody. First of all we have had a good interaction and good exchange of information, so I hope we were able to kind of give you a good view of the business. We have tried our best to be transparent in as many things as we could, so when we discovered in March for example what the things look like we gave an early warning indication. Right now we have given a view of things as it looks now and we feel very confident and comfortable that we should be able to see the growth momentum that we could not see last year, but should build up this year. So with a combination of some of the spillover of last year plus what we are going to do this year, we feel we should have a very strong year and should set a good stage for the next few years to come as well. Thanks again and look forward to interacting with you again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.