



“Tejas Networks Limited  
Q3 FY2019 Earnings Conference Call”

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**ANALYST: MR. PRANAV KSHATRIYA – RESEARCH ANALYST -  
EDELWEISS SECURITIES LIMITED**

**MANAGEMENT: MR. SANJAY NAYAK – CHIEF EXECUTIVE OFFICER &  
MANAGING DIRECTOR – TEJAS NETWORKS LIMITED  
MR. VENKATESH GADIYAR – CHIEF FINANCIAL OFFICER –  
TEJAS NETWORKS LIMITED  
DR. KUMAR N. SIVARAJAN – CHIEF TECHNOLOGY  
OFFICER – TEJAS NETWORKS LIMITED  
MR. ARNOB ROY – PRESIDENT (OPTICAL PRODUCTS) –  
TEJAS NETWORKS LIMITED**

**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Tejas Networks Limited Q3 FY2019 Earnings Conference call hosted by Edelweiss Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pranav Kshatriya from Edelweiss Securities Limited. Thank you and over to you, Pranav!

**Pranav Kshatriya:** Thank you Ali. Good afternoon to everyone. On behalf of Edelweiss, let me welcome you to the Tejas Networks Q3 FY2019 earnings call. We have with us senior management of Tejas Networks headed by Mr. Sanjay Nayak along with senior members of the management team. Without further ado, I will hand over the call to Mr. Sanjay Nayak to start the proceedings. Thank you and over to you Sir!

**Sanjay Nayak:** Thank you Pranav. Good afternoon everybody. This is Sanjay Nayak. Along with me, I have Mr. Venkatesh Gadiyar our CFO, Dr. Kumar N. Sivarajan, our CTO, and Mr. Arnob Roy, President of our Optical Business.

First of all, I hope you all had a chance to download the presentation that we have put on the website, so I will just be referring to the slides as we go through that. I am on the slide Q3 financial updates, so to give you quick summary as you all know that the inherent nature of our business is lumpy, so we really do not value the quarter-on-quarter results in a serious way, but if I look at the nine months aggregate we have done Rs.610.9 Crores of revenues, which is a decline of around 4.7% compared to the previous nine months. EBITDA is at Rs.143.5 Crores, which is a marginal increase. The operate profit is Rs.95 Crores. Profit before tax is Rs.112.9 Crores, which is a 14.5% year-on-year increase and PAT is at Rs. 111.4 crore.

I just wanted to point out three facts, which might be of interest is that on a nine month revenue basis we have already done about 82% of the total revenues of last fiscal year, so which basically means that with a very strong Q4 that we have visibility into, we have a great degree of confidence in terms of our significant year-on-year growth so that is point number one. The second point I wanted to highlight is that our profit before tax of nine months is Rs.112.9 Crores, which is higher than the Rs.106 Crores of profit that we had for the entire fiscal year last year and that is basically at the back of the fact that at a PBT level we are about 300 basis points higher than the corresponding period of nine months. Basically I think on the profitability side the company is doing fine. On the revenue growth side because of the lumpy nature we have had a flattish nine months, but we expect to recover on a significant growth path in Q4 and I will of course walk through the details of where we are seeing the business.

I would now like to just go to the next slide, which is the global optical networking market. I just want to reiterate that the business that we are in the fundamental stuff that we are doing because

we are really a medium to a long term company in terms of the way we are making our investments and the way we are envisioning our own progress. First and the foremost thing is that we seem to be in the market, which is growing worldwide, so optical networking is about a \$20 billion market and the big growth is being driven from Asia including India, Middle East, CALA and Africa where we believe a lot of 4G investments are happening and will continue to happen for the next two to three years. After that of course the 5G investments will take over in this part of the world. In the US and Europe, 5G deployments will start in a small way this year, but in a larger way starting from the next year and the following year, so really there seems to be a significant momentum behind investments in optical. Technologies like 100 gig and more than 100 gig like 200 gigs, 400 gig, 600 gig on WDM and OTN will be the dominant technologies. The reason I am mentioning that because these are all focus areas for the company that you will see in the next few slides and then the last part is interesting because we see that trend in India whether for wireless backhaul, which is basically bringing the data and the voice signal back from the mobile base stations there was a mix of whether you can do it on wireless or radios or do it on opticals. The dominant trend is that optical backhaul will be more than 70% of the total backhaul in the world and radio will be limited to 30%. Of course in India we have a much bigger cue, which is going to change over the next few years.

One more thing I wanted to touch upon is that with 5G there is another \$1.5 billion worth of capex, which will be opening up in addition to the \$20 billion, which is on account of what is called optical fronthaul, which essentially means that the radios and the base stations could be located at some distance and the fronthaul would be the technology to carry that, which again I would like to say that we have been working closely and gunning for that. GPON and fiber to the home, which is additional to the \$20 billion is another \$7.5 billion market by the next five years and the interesting part is Asia and Africa is where the world's largest amount of GPON deployments are happening and coincidentally these also seem to be the focus area for company in terms of our international growth.

The last part I wanted to mention on the global comment is that you all would have been watching the latest geopolitical developments between US and China in terms of various companies from different parts of the world where there is a lot of concern, which is setting into the customers in terms of security of supply chain, assurance of components being available and all of that means that for a company like ours, which has an end to end portfolio of products and this can be considered as a "safe country" we are seeing a significant increase in customer engagements, which has not yet resulted into business as you would like, but clearly there is an intent from the customers, which are otherwise not looking at us seriously to work with the company like ours.

Coming back to the next slide about the Indian market I am sure a lot of it is known to you, but India continues to be one of the fastest growing optical markets in the world. The data consumption in India is still growing. We are the largest consumer of data with more than 500 million internet users. As you know the 4G penetration is still at the early stages and a lot more is

supposed to happen and as a result all the operators are spending significant amount of capex in optical transmission for transforming their network to be 4G ready today and maybe 5G in future. Fiber to the home, which is xPON or GPON technology coming in and of course the metro networks and the long haul networks, which are getting congested, so what we are expecting is that from the same total capex of an operator a significantly larger percentage will be going into the optical transmission portion that we address.

We also talked about the fiberization in the country. We are still at about 25% towers connected on fiber. As per the TRAI report by 2023 this number should go up to around 60% and clearly as you would all have personally experienced without good amount of backhaul connectivity you would not get a decent 4G experience on your mobile phone.

The third part I want to emphasize and I am sure you heard the earnings call of other operators is that home and broadband connectivity, which is FTTX based on GPON technology is going to be accelerating. Initially there have been teething problems for the operators to get right to the last mile, which are being solved by mergers and acquisitions in some cases and while laying out Greenfield fiber in the others, but net, net what is going to happen is that a significant part of home broadband will actually happen on a wired connection because wireless connection will not give you the capacity, the speed and the quality of service that one expects and as a result this will be a significant growth area both from a capex perspective as well operators own revenue and it is expected that by 2023 30% of this as operators revenues would come from home broadband and more than 50% of the home should be wired up in India by 2022.

Last, but not the least for sure is that government funded projects to increase broadband connectivity are continuing. There has been a little bit of a slowdown on Bharat Net execution. I would not say from the intent, intent is very clear. For the last three or four months, there has been a little bit of slowdown and I am sure you would have read in the press in terms of certain transfers and administrative re-juggle, which have happened in Delhi, which basically slows down the project, but the net effect of that is the phase two, which is planning to connect 250000 villages is well underway. Some of the tenders have happened, but the orders have not been issued and those are things, which should happen shortly and state led Bharat Net plus, plus, which is building a full statewide network, many states have come out with tenders, some have opened, some more are at advanced stages. Second the intent of Gram Panchayat, which currently have between 100Mbps to 1gigabyte will be upgraded to 10 gigabytes by 2022. 100Mbps to every government office, every academic institution is another intent that the government is pursuing. Smart city and video surveillance projects in many cities also require a high-capacity optical backbone. So if you really see the global trend, if you see the Indian trend, I can pretty safely summarize that we seem to be in a market, which is fast growing, where there is significant demand for optical and as we will see later we have competitive products and our incumbency and our applications in the accounts are improving, which gives us a lot of confidence in the medium and long term prospects of the company.

I would straightway jump next into the sales update in terms of where is the business headed, why are we confident about Q4 and why we are so gung-ho about next fiscal year and so on. So let me really break out our business into three buckets, the government business in India, the private business in India and international. Let me discuss these one by one. The India Government revenues this year we expect to be flattish, the reason for it is not because we have not won business. We have won a lot of business, but essentially the Bharat Net orders, the phase two orders, which are significantly done by the center and many of the states have also opened their tenders. The tenders have been opened, the winners have been announced, a significant part of those winners are our partners in terms of EPC companies who have bid our equipment, we have approximately Rs.300 Crores worth of business that we potentially can get out of the tenders that have already been won. But since the orders have not come in our hand as of date we are not planning to revenue those orders in this financial year, so our guidance about this financial year excludes these. We expect that these will be revenue in FY2020 but these are expected to convert into firm orders over the next few weeks or a month. The second part of the India Government business, which seems to be doing extremely well for us is the utility business, which is power, rail, oil and gas. This sector actually has been spending significant amount of capex and we have a dominant market share in this phase and it will deliver a very strong year-on-year growth. The third aspect is that while Bharat Net has one set of tenders that are being done by BSNL for their own captive requirements for BSNL's transmission network, Railtel's transmission network, and PGCILs transmission network, there are significantly large numbers of tenders, which are getting bid during this quarter, which in a way will be available for revenues in FY2020, so what we have essentially done is we have taken only the government orders, which we have in hand today and which are for revenues in this year for our revenue guidance for this fiscal year and everything else, which we have one we are thinking that it is going to be done into revenue into next fiscal year.

Let me come to the next part of the business, which I am quite excited about in the last couple of calls if you remember we would have been talking about our efforts to be designed into a few new applications into our existing customers. This year we have had a very significant traction in terms of investments in those application so on that basis alone we are seeing significant growth in India private revenues this fiscal year including what we had in nine months. On top of that we are very happy to announce that we won with a large major private operator rate contract for OTN and DWDM applications so this is a new application with multi Rs.100 Crores opportunity over the next few years in terms of deployment. We just won this application, we are going to do a few initial deployments in this quarter, but the major deployments will start from next fiscal year, but the benefit of this is that this will allow us to increase our market share into that customer in quite significant way. And the third element, which is equally exciting is what you would have all heard about the FTTH deployment and based on the GPON technology that all the majors have announced and again we are very happy to say that we are at a very advanced stage of discussions with multiple operators at this point in time and we expect that we should be able to close rate contracts with them in this quarter, which will allow us to have a long runway of

revenues based on their FTTH deployment although will not be the sole supplier and second or third supplier depending on which operator you are talking, but we do believe that with the comparative portfolio product that we have, we should be able to get significant revenues out of this new application as well.

In summary, India private on current application itself is showing strong growth this year on top of the fact that we have already won a new application, which is meaningfully large and a few others, which are in the pipeline in this quarter. We are very confident and comfortable that we will see a sustained growth from India private going forward. I will also talk about how we see our revenue split between these three categories as time goes by.

Coming to international, we have been continually saying that international will be the fastest growing part of our business and we are actually seeing results on the ground so few things, which I would like to call out is that first of all we have three major regions where we are focusing internationally on Southeast Asia and SAARC, Africa as well as North America. At a high level all of the three regions are independently growing very fast and we actually expect that each of them will actually cross or equal revenues around \$10 million individually. This is a very big jump up because as we have been making international investments and as we have talked earlier it takes a long time to get into some customers, it takes a long time to be known in a country, you will start with the orders of a few hundred thousand dollars in the first year may be get down to a million or two and then after you have performed well and you are known you start getting into larger deals. So I am very happy to say that individually each region will be growing and these will be growing to a significant size. The second thing we have already talked about the US China issues. In fact in the last few weeks itself some of the new events have happened, which is generating significant interest for us and as a result what we are seeing is that not only are we getting new customers, but the size of the deals, which we are playing into right now, are fairly large deals individual deals north of \$10 million and we are seeing this in multiple geographies across the board. We also added four new customers during the quarter, three in Africa and one in America. In Africa I am very proud to say that one of them as a Tier-1 customer. Please appreciate that we cannot announce some of these names as yet because we have to respect the confidentiality as well as competitive forces that would work against us in a scenario like this, but we have been winning Tier-1 customers in Africa and we are in play for a few more and again these are all customers, which are expected to become strong run rate customers going forward. Specifically Southeast Asia and SAARC we got a lot of repeat orders from existing customers and we have active engagements for large deals in Malaysia, Vietnam and Sri Lanka and Bangladesh. And what I mean by large deals is individual opportunities, which are between \$5 million to \$10 or \$20 million in size. Some of those decisions we expect to happen this quarter, which will again become a good driver for growth next year.

Coming to Africa, this has again been a growth market for us and we are getting a lot of repeat orders from existing customers. And again in Africa we have new wins in multiple Tier-1 customers, we have been technically shortlisted in some of them or are at a bidding stage in terms

of the price list, etc., and again we believe that at least a few of those big decisions should happen this quarter and we can get a couple more Tier-1 accounts in our kitty that will become run rate customers going forward.

Coming to North America, within North America, Mexico again we have had a very strong footprint and the order flow is very, very solid and in addition we are also placed for a few very large deals on new applications based on FTTH technology. US market while we have active engagements with over 20 customers it is taking longer to close and the order flow on a year to date basis has been slow, but we do believe that this is the great market for us to invest. In U.S Chinese equipment companies are banned and given our products we do see that it is a very big potential market for us and unfortunately it has been behind plan as of now. But we do expect to recover and we have continued to make more investments. The last part I wanted to mention, which we have been calling out in the earlier calls as well that the OEM business is continuing to shrink and it has now come to a very, very nominal level. But despite OEM business shrinking to pretty much marginal level the total North America market on year-on-year basis, we still expected to see reasonably decent growth so that gives you a sense that the direct business that we have been focusing on in North America is starting to play out. So to kind of summarize the good news is that while last year the breakout between India and international was 82% India and 18% international, based on the visibility that we have this year we should be in the range of 75%:25%. And if I were to see the trend in which we are building up private customers as well as international both of which are going to be the focus areas for the company going forward, it is going to reduce our dependence on government business. I am confident that in around three years time period we should be around 50:50 between India and international and even within India a significant part would be coming from the private so that is kind of the transition, which is happening in the company, which in the medium and long-term interest is extremely healthy. While we will continue to compete strongly for India government business by leveraging PMI and other favorable local procurement policies for domestic manufacturers, but at the same time we also want to make sure that we do not lose focus and continue to make investments to grow international and private business since these are expected to be a lot more solid and steady business in the long-term. So that was kind of a quick summary of where the business is. I will now hand it over to Venkatesh to talk a little bit more about the nine-month financial and also to explain one specific thing, which I am sure all of you may have a question around in terms of our increasing DSO and this payment delay from one particular government customer so over to Venkatesh!

**Venkatesh Gadiyar:** Thank you Sanjay. Good afternoon everyone. We are in financial side. As we explained in our earlier quarter for equivalent comparison we used revenues net of taxes and pass through sale of component for nine months ended December 31, 2018 our net revenues declined by 4.7% to Rs.611 Crores despite decline in the revenues for nine months we had better gross margin, which is the factor of both products and customer needs as a result our EBITDA grew marginally higher. Service revenue for nine months ended December 31, 2018 were at 6% of the net revenue compared to 8% of the comparative period in the previous year.

During the previous year, we had recognized installation and commissioning revenue of about Rs.20 Crores from the execution of BharatNet Phase I. Though we continued to invest in R&D and international sales our other expenses were under control. Overall operating expenses for nine months period marginally declined on a year-on-year basis majorly due to the reduction in the installation charges for BharatNet Phase I, which has happened in the previous year. The gross employee cost increased by 25% on a year-on-year basis, the headcount increased from 697 to 758 in the last 12 months. EBITDA grew by 0.9% on year-on-year basis and as a percentage of the net revenue increased by 130 basis points to 23.5% on account of the improved gross margins and reduction in the operating expenses. Our profit before tax grew by 14.5% up from Rs.99 Crores for nine months ended December 31, 2017 to Rs.113 Crores for nine months ended December 31, 2018 and currently we have exceeded the full year profit before tax as well as profit after tax, which shows the healthy profitability. On the tax front since Tejas Israel, which was a subsidiary officially got liquidated during the quarter and hence we have been able to get tax benefit during the current quarter. As a result you could see the negative of Rs.3 Crores in the current income tax. Our PAT for the nine months grew by 44% on a year-on-year basis with the help of the increase in the other income as well. PAT was 18.2% of the net revenue for the nine months compared to 12.1% for the nine months period ended December 2017.

Our EPS for the nine months grew by 33%. Our DSO has been increased to 257 days and our working capital has been increased to 239 days due to the delayed collection from one of the last India government customers related to BharatNet Phase I and we have made a significant progress on the collection from this customer; however, we are continuously in touch with the government and we are confident to collect the majority of the dues and expected to get this normalized in Q4. Basically we factor this cost of interest in our margins if you could see our margins were higher by 300 basis points compared to the previous year. On a PAT basis we do not seem to be having any impact on that towards the delay in the payment. As a result of the delay in the collection from the government customer our cash flow front we have utilized about Rs.104 Crores for operations in the nine months, we have shelved our payables and better managed our inventory. Our working capital was higher than the expected and we expect the collection cycle to normalize in Q4. We are practically a debt free company. As at the end of December 2018 we have a cash and cash equivalent of about Rs.376 Crores including investment in liquid mutual fund of Rs.154 Crores and deposit with banks and financial institutions of Rs.165 Crores and we have no exposure to the risky financial investments. In summary while our revenues saw a decline of 4.7% on nine months basis we had a healthy improved profitability, PBT grew by 14.5%, PAT grew by 44% and for the full year we expect our revenues to grow around 20%.

**Sanjay Nayak:**

Thank you Venkatesh. For the next part I just wanted to kind of request Kumar to talk through in terms of what are the target markets and why the products that we are doing are very competitive on a global basis so Kumar please can you walk us through.





*Tejas Networks Limited*  
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**Kumar N. Sivarajan:** Thank you Sanjay. We have been expanding our product portfolio and now our product portfolio targets several high growth telecom equipment market segments. We are the only company to have integrated high speed broadband access both wired, which is GPON and wireless, which is LTE into our optical metro transport equipment. Globally, this is \$40 billion market over the next five years. We have also evolved our optical transport products to address the new and fast growing 5G fronthaul market about which I will say a little bit more on the next slide. In addition we have also invested significantly to develop a leading edge, DWDM transport and OTN cross-connect portfolio to address the core optical market. This market is expected to exceed \$100 billion over the next five years. So on the converged access products, we have a converged optical broadband access product, which incorporates GPON, which is wired access, broadband wireless access through LTE and also includes optical aggregation and all this is in a single family of platforms, which is the TJ1400 series. The same family also addresses all packet transport needs of our customers, this includes Carrier Ethernet services for enterprises, circuit emulation for network modernization and these platforms are also 5G-ready for mobile fronthaul and backhaul. We have a range of backhaul and fronthaul solutions that mobile operator customers can deploy today ahead of their 5G rollout. We have 100GE support for high speed backhaul, which is expected to be needed with large scale deployment of 5G. We support small cell backhaul for GPON and NG-PON products. We offer multiple fronthaul options to our customers that are eCPRI, time sensitive networking and OTN. In addition, our SDN solutions from our management systems enable our customers to address the network slicing needs of 5G.

In our WDM portfolio we have enhanced per wavelength transmission speeds, which used to be 100 gigabits per second to 200, 400 and 600 gigabits per second to effectively address the high capacity data center interconnect market. Our alien wavelength solution, which is innovation we brought to this market two years ago, has now been deployed at 200 gigabits per second at bit rates. This enables our customers to cost effectively enhance and deploy DWDM network. We are also developing a novel highly scalable platform, which combines packet switching and OTN cross-connect and this will enable our customers to address their core optical switching needs.

In terms of an overall update we have 758 employees over half of them are in R&D. We are delighted that we have been chosen as the company of the year for telecom products by Zee Business. We continue to enhance our patent portfolio and obtained our 100th granted patent last quarter. We continued to be active in **TSDSI** which is leading India's efforts to reshape the 5G standard to be relevant for India. I now hand over to Sanjay.

**Sanjay Nayak:** Thank you Kumar. I am on the last slide, the summary slide after which we will open up for questions. We really think about where the company is today, and what are its medium-term and long-term prospects. First I am very happy to say that we are in the right market, the optical network is a large and growing market, the continued investments around the world as well as in India will be there for a long period of time. Number two, as Kumar mentioned our technology focused investments in R&D have been fantastic, we absolutely have a very, very competitive end-to-end product portfolio. We have a rich end-to-end optical product portfolio which basically

tells us that once we are able to increase our sales investments around the world we should be able to dramatically increase our market share in the world. We have products from the access side on the GPON or FTTX all the way to the core, which is multi-terabyte switching on the latest technology including 600 gigabit wavelength as Kumar talked about. We are ready for 5G, so basically I would say from a technology side we seemed to be ready to take on the best in the class in the world.

On the sales side as a company as I highlighted earlier, our focus is to get more of India private international and reduce the dependence on government tenders, I am not saying that we will not focus on government tender that is the business that is available, but the fact that India private is growing well, the fact that we have one new application and we are well positioned to win a few more applications gives us comfort that on a sustainable basis this could lead to a market share improvement. International business investments have been working out well and we will see the results of all those investments coming now. Sales cycles are long in our industry, but we are kind of getting starting to see the benefits of all the investments we made in the past. The geopolitical issues globally are clearly working in our favour where we are actually getting a lot more interest from customers. And above all we are making sure that we have the financial discipline, so we are seeing profitability, we do have a slight glitch in terms of collections from one customer and working capital in the near term, which we plan to address during this quarter so that by the time we end this quarter, we should be closer to our normalized working capital cycle. That is kind of a quick summary of where the company is today and we will now open up for questions that you all have.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Thank you for taking my question. Sanjay just to start with a clarification is your Q4 numbers building in Rs.111 Crores order from Sterlite Technologies, which you got a few months ago or is that supposed to come in FY2020?

**Sanjay Nayak:** A significant part of that will be done in Q4.

**Mukul Garg:** Understood Sir. If I look at your starting order book, which you provided at the start of the fiscal year, second half was supposed to have Rs.130 Crores odd, which you were supposed to deliver and then if you add about Rs.100 Crores more from that of the Sterlite in the fourth quarter it seems like the non-tender, non-order book business has fallen off materially in Q4 and especially given that we are already expecting a good growth on international business market, so I am nearly talking about the domestic private sector space, is that the correct way to look at it?

**Sanjay Nayak:** Not really because the domestic in fact the momentum on India private and international is picking up in Q4 onwards as well. If I look at BSNL, BBNL, BharatNet BSNL as one group of entity on annualized basis I am saying that Q4 revenues will be flat or slightly lower but business

in the government utility will be increasing, so on an overall basis India government would be flattish. India private would actually see a very significant year-on-year jump on the top of what we have really got from existing as well as what is coming in Q4. International again as I said will be seeing a very significant jump on a total basis. So I would say if I were to kind of look at the three businesses together, India government on aggregate basis will be flat, the government part, which is BSNL, BBNL part will be down, but the other segments would all be on an upswing.

**Mukul Garg:**

Okay, understood. The second question was basically on the weak growth in Q3, if you look at last four quarters this is basically about third time when you have been negatively impacted by the issues at BharatNet and market has been surprised because of that, so can you help us understand the disconnect, which has been a recurring despite a very bullish demand environment and commentary from that, can you help us understand why this disconnect is happening repeatedly?

**Sanjay Nayak:**

Actually it is correct that the disconnect is only over the last quarter because if you see the previous quarter in the Q2 time period around August, September, the first set of BharatNet tenders in the central government, the centrally funded tenders were opened, so the bids are opened, the winners L1 were known and a large majority of those were people who had bid our equipment as a part of the overall EPC solution. So our expectation was that typically from advanced purchase order, which the EPC players got to the final order is usually a two week process. Unfortunately, and I am sure you guys can google as well and I do not want to specify here, but there was a challenge in terms of the administrative infrastructure and there has been a couple of transfers in the last week which pretty much brought a lot of the execution to a standstill. So while the orders were won and we were expecting that there would have been a requirement to supply some of it in Q3 and some more in Q4. The reality is that the final orders have not been issued to the EPC contractor in which case of course we have not got the order that was kind of the surprise part, but it was really a process, which culminated in a sense that there has been administrative reshuffle to get these projects on a fast track, so that is one part, but what are we doing now we are actually discounting those Rs.300 Crores worth of orders, which we probably will get this quarter and we are not planning to revenue in this quarter, we are assuming that even without those orders we should be able to hit the revenue target that what we have set out. So that kind of gives you the sense of what is happening and by the way the larger issue, which you have touched upon is essentially what I mentioned in my commentary earlier is that no matter what one can do the government tender business will always have its inherent fluctuations. As much as you would like to believe that it is all under control and everything is all done till you actually get it down to the execution, they can always be last minute slip ups as we ourselves have seen, so the company's focus really is to really build up very strong and robust non-government business. If I were to say and I think the kind of progress we have made in this financial year in the nine months we feel extremely confident that the direction we are setting that probably in a year from now we should have a significantly lesser dependence on government and the remaining business should be more steady and more predictable as well.

**Mukul Garg:** As a follow on also what gives you the confidence that the Q4 number you can achieve about Rs.270 Crores to Rs.280 Crores, which is the ballpark number comes at 20% growth?

**Sanjay Nayak:** The confidence really comes from two things. All the government orders that we are going to execute in this quarter are already in our hands, so there is no uncertainty about anything related to government for this quarter. The remaining orders from private customers either already are in hand or are from our run rate customers where we have confirmed forecast as we call it. It basically means we get the order and we ship it out in three, four weeks because that we have committed to them. So for the government part the orders are already in hand and clear to ship, for the non-government part it is from existing customers on existing applications which are either already in hand or it is a confirmed forecast in which case we should get the PO any day.

**Mukul Garg:** Understood. The second question was on international business side, if you look at the commentary and compare with how you have played out the peak was in FY2017, revenue in FY2019 will still be below FY2017 revenues despite expansion across many regions positive feedback from Telcos and multiple deals, which in US are suggesting probably help started flowing through, so how should we see that because if we look at from a global total market size perspective you are still very, very negligible and that should have been relatively easier space to pick up once you get a foothold there and if you can also help us understand how should we see that market growing from a three to five year perspective?

**Sanjay Nayak:** Perfect question, so actually as you rightly pointed out in FY2017 if you remember one-third of our revenues were from international, but everything of that was OEM, one-third was India government and one-third was about India private I mean that was approximately the breakup. So the difference in FY2019 is that one-third of OEM revenues is almost marginalized right now and we have replaced that with direct international revenues, which is where we have direct customer contact in all that. Now that is what is really playing out and it takes that much amount of time because you have to go to new countries, you have to build confidence with the customers, you have to be in the right RFP cycles and we have done all the hard work if I were to say in an investment of course, so I think the way to think of it is that despite the fact that the overall revenues from international OEM pretty much vanished away we have been able to replace that with direct revenues across multiple geographies, so that is the good part. Coming back to your question about how should we see in the three to five years as I mentioned earlier even on a three year horizon we expect that the international revenue should be in a close to half or more than half in fact this year itself we are going to around 75:25 breakout between India and international, next year probably somewhere between 65:35 or 60:40 depending on how fast we are able to scale up international and how fast India grows and probably the following year we should be closer to 50:50, that is kind of a direction, which we are going. The fact of the matter is that the sales cycle in our industry is long, but that is what we have been doing for the last two to three years, but once we have incumbency into a country, once you are known in a certain country after a year we start to see bigger deals so we actually see the magnification impact much faster, but second element is winning into the larger tier ones, so in fact when I gave the

commentary we also mentioned that in Africa we won a couple of Tier-1 operators and those tier ones are pan African operators and once you are in there of course you will start small, but once you pickup momentum it becomes a market share game with indoors, so that is the way to look at international in terms of how the business is going in that similar in India once you are into a new application because in India we do not have new customer wins with the same customers, but you have new wins that itself will give us a pretty solid comfort in terms of the year-on-year growth on a long-term basis.

**Mukul Garg:** Got it, so is there a market share number, which you are targeting from medium to long term perspective on the global market?

**Sanjay Nayak:** I would say we would probably have a conversation around that after our annual call around the April time period because we would have a good segment-wise view and will be able to walk through the roadmap for market shares across countries and regions.

**Mukul Garg:** I understood. I will get back into the queue. Thanks for answering my questions.

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

**Vikrant Kashyap:** Good Afternoon. Sir since you are guiding for our 50:50 kind of revenue mix from international and domestic market so what will be the impact on your DSO and working capital days?

**Sanjay Nayak:** I would like to just clarify the 50:50 split we are thinking in about three years period, there are two things, which we should draw out of that split, number one is that the gross margins internationally are better than gross margins in India because India is the world's most competitive market so as the blend of international continues to improve we should see a possibility of gross margin improvement but on the downside of course your sales expenses will be higher. I just want to qualify that one part. Secondly in international what we have been able to do is to actually have much tighter DSOs so either we get payments in a short period of time or we get payments in a form of an instrument, which can be discounted and the interest cost of which we break in into the price of the deal so at a directional level as our international business increases we should see a reduction in DSO. However one other side comment I would like to make in the context of DSOs between India Government and India Private. In India Government in the past if you see we never had much of a challenge in terms of DSOs because most of our contracts were supply only so all we have to do a supply the equipment and once you supplied money used to come pretty fast and that was the case so two things have happened in the last six months, which has basically caused a little bit of a disturbance on the DSO. Number one is that in the Bharat Net Project 60% of our payment was related to supplies, but 40% of the payment was related to installation and commissioning and other associated field activities which have been completed but procedurally take time and is one reason for the delay. So if the nature of our business remains more supply oriented because that is what you would like to do as a product

company, the DSOs will stay short. Now coming back to the DSOs on the India private accounts because the balance sheets of some of the Indian operators are currently stretched there is a pressure to give longer payment terms. Once again the way we are handling the situation is that we are baking in the cost of interest when we price such deals and then again try to get the instrument in a form where we can discount it and as a result our India private DSOs have been in a quite less than 60 days or so.

On a blended basis we do not see significant improvement in days. I would say our guidance has been around 135 days of DSOs, 135 to 140 days on a steady state basis and I think at least for the next couple of years that is what it will be because we also do not at this stage of our company have the luxury of having very tight payment terms because the payment terms are usually dictated by incumbent suppliers who have given them those payment terms so we have asked to usually match those payment terms so I would say in the near term that is kind of what it would be from our DSO angles.

- Vikrant Kashyap:** And on the working capital side since you are saying it will normalize in Q4?
- Sanjay Nayak:** Yes in fact Venkatesh can comment, but I think our working capital steady state is again 130 to 140 days.
- Venkatesh Gadiyar:** We said 130 to 140 days, but we expect the majority of the collections should happen in Q4, and we expect the working capital days in Q4 could be around 150 to 160 days.
- Sanjay Nayak:** Yes we may have a small amount left when we finish up Q4 this year, around this year it will be 150 to 160 days, but again directionally going forward we should be back to that 130 to 140 days of working capital.
- Vikrant Kashyap:** Ok sir, good. Since you sound very confident of international business so what would be your guidance from topline for say 2020 or 2021?
- Sanjay Nayak:** Medium time guidelines what we have given in the past is because of the visibility of the kind of business, which is available is around 20% year-on-year so there is no reason for us to deviate from that guideline. On the contrary what is happening is that we are having a stronger product portfolio, we are having a more deeper footprint into the international market so overall company basis that is the kind of growth we see. We do have some catch up to do in terms of slippages from previous years which has as time goes by we will continue to do, but the good part is we are not losing any business, it is not that some business has gone out of something, which we plan to get has not happened so I still feel that the inherent nature of our business, if we look at competitive landscape that is another very important element in terms of the industry is a large industry as we all saw the numbers \$20-\$30 billion dollars per year, the competitive landscape is thinning out, the Chinese of course have grown to certain size, but they are having their own challenges around the world as we are all aware. Western European companies and the US

companies are not in many geographies in a deep way because lot of the African and Asian markets were pretty much dominated by the Chinese and there is a clear mandate from significant number of our customers internationally to find an alternate to a Chinese supplier because they are seriously concerned about whether I will have continuity of supplies. They will not overnight give us a PO, but we are clearly down the path where we get an entry into the account, they will test us out for some time and as we start performing we start to gain market share. So that is the reason I am saying that the competitive landscape for our own portfolio products as well as the inherent growth in the market gives us good confidence and comfort that international will continue to grow quite healthily for us. And by the way there are probably less than 10 companies in the world who have an end-to-end product portfolio like we have so it is for us to really ramp up our sales execution internationally.

**Vikrant Kashyap:** Got your point. One last question if you can name the company from which we have to take back 250 Crores that you said?

**Sanjay Nayak:** It is a government customer based out of Delhi no points for guessing that.

**Vikrant Kashyap:** Thank you very much and wish you best of luck.

**Sanjay Nayak:** Healthy customer and we have had zero percentage right now in terms of nonpayment from that customer, so we do not expect that there will be any payment default or anything of that kind. It is just a delay and we all are aware of that we can only push so much. You can probably do a little bit of Google and see the administrative reshuffle, which has happened in the concerned departments over the past two weeks to get a good picture of the environment in which we were and as much as we would like to we have very little control on certain things and which is what has happened in our case.

**Vikrant Kashyap:** Right that is what also surprise to us. Thank you very much and wish you best of luck.

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

**Rahul Agarwal:** Firstly to start with on the sales and marketing side as we understand your international business into three regions, which is South East Asia, SAARC, America and Africa, the team obviously has been developed since the time of IPO of Tejas Networks and I think there is significant amount of ramp up, so we want to get first update on how much more across these three regions we need to set up in terms of office, employees and do that so where are we right now and where should we see ourselves in the next 12 months in terms of ramp up of sales and marketing teams?

**Vikrant Kashyap:** Good question, so let me go region by region. So South East Asia and SAARC we have actually ramped up the team during the last fiscal year we got a leader for the region, in addition we have more feet on the ground some of whom are direct employees of ours and some of whom are

working as consultants with our local partners. outside we are pretty good in Sri Lanka and Bangladesh in terms of investments, we are pretty good in Malaysia, we do not need to do anything different. We will be opening up a couple of more in Philippines and Indonesia, so these are a few countries where we were not focusing earlier, but we have seen some good traction coming in. So we may add a couple of local people in these two regions, but it is not going to materially make any difference in cost because these are not very high cost sales region in that sense. So outside South East Asia, SAARC gives marginal improvement it would not show up in any significant way. Africa we will continue to have a little bit more feet on the ground especially North Africa we started to win some large deals and once you start executing those projects the customers expectation is that you will have a local person whom they can see every single day. Some of the North African deals currently are being managed by people who are either going from our Dubai office or from India. So in Africa I would say we would make a few more sales investments. We might open up offices or at least a Rep office in a few countries where we are getting large deals. Nigeria we opened one last year and it is panning out very well, As I mentioned we are starting to win Tier-I deals in those countries and getting to significant size so Africa I would say would be slightly more investment in terms of sales and marketing compared to Asia. North America Mexico we ramped up the teams, we may add a couple more sales people there because that is market is really, really going extremely well for us. We have seen very large deals on the table, large deployments may come up so we may add a few more support people because those could be ours, but the rest will be outsourcing. US is an interesting case where to be honest we have not got as much progress as we would have liked, but we are going ahead and hiring more sales people and this is actually the relatively most expensive geography from a sales investment angle. So every sales, presales person that you end up hiring will cost you half a million dollars for example so if you are going to add another three or four sales team members in the next 12 months that is what we think will be one area where we would be investing significantly. While the results have not yet come the engagement levels are high, it looks like that the market since we are going direct for the first time, it is taking much longer unlike other markets. So I would say that would be the market in North America where the maximum sales dollars will go, South East Asia will be marginal, Africa will be a little bit more, However I take the improved growth margin net of additional sales cost I do not see any adverse impact on a profitability on the other hand we will hopefully have some cushion to make more proactive investments as we see more progress.

**Rahul Agarwal:** You are accounting for the ESOP issuances when you are looking at profitability on incremental additions?

**Vikrant Kashyap:** Yes Venkatesh can mention that how much.

**Rahul Agarwal:** While asking this question is because as I am seeing ramp up internationally there has been about 2 to 2.2% equity dilution because of ESOP issuances so incrementally like is there a number factor like how much more can it happen?



**Sanjay Nayak:** Not really. If you see the ESOP issuance has not been that much it is the conversion of ESOP shares that vested, which we gave in the last four or five years, which people are exercising and converting into shares. So I think the changes that you are seeing in the capital is past ESOP that we would have given over the last five to ten years, which are coming into basis. As far as new issuances are concerned as of last year we stopped giving ESOPs and we started to give RSUs. And I think we have an approved budget for the RSU, which was 3% over three or four years and we probably given about 1% of that. RSUs are of course much more selective, so going forward except for the tail end of the old ESOP still converting to shares we would not see significant new issuance of shares on that account. Our share capital did increase by about what 5 or 6 Crores during the nine months which is the past ESOP.

**Rahul Agarwal:** Got it and just secondly on the international side as the business ramps up we move onto 50:50 three year timeframe how do we handle forex year because I have not seen any forex number being reported for third quarter as well when the internet market has actually done well on overall business side how do we handle forex year, any strategy, any policy already formed?

**Sanjay Nayak:** So may be Venkatesh can walk us through that.

**Venkatesh Gadiyar:** As of today we had not taken any exposure on the forex; however, the mix may change as Sanjay was mentioning till today the ratio of our India, international remains same as of last year, but however the mix may change in the Q4 onwards we have been discussing this the forex strategy in the board meeting and we will see how to tackle that going forward.

**Sanjay Nayak:** But at a macro level 50:50 level also if you think of we will be net forex earners because even in India we definitely do not seem to be adversely impacted because on a cost basis, the manpower cost basis and the operating cost basis, rupee denominated. Our cost is dollar denominated except for the Indian Government customer the India private customers are rupee customers, but dollar denominated in terms of the exchange rate so as a result if dollar strengthens for example hopefully it will benefit us. We have not taken any as we have kept things open at the stage because we are naturally hedged at a 65:35, 75:25 in terms of the inflow versus outflow, but with a ratio changing we will think of a different strategy. But at this point in time we have not taken any specific decision.

**Rahul Agarwal:** Sure just to conclude so essentially fourth quarter as we explained you are extremely sure in terms of execution of that 300 crore number I hope I do not see any surprises anymore. Thank you so much and all the best.

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

**Pranav Kshatriya:** Thanks for the opportunity. My first question is Sanjay if you look at in terms of the revenue growth we were looking from 17% to 20% CAGR, now if we have to do that we are looking at

something like 60% of growth in FY2020 and also at the start of this financial year you had said that there is a slippage of the revenue, which will spill from FY2018 to FY2019, so FY2019 will be a lot stronger growth, these things have not really materialized can you just tell us that what is going wrong, is it the macro issue, is it the sales issue or is it product issue or what exactly is that?

**Sanjay Nayak:**

It is neither of the three. So there is no macro factor which has gone wrong because everything seems to be fine. Actually there is only one very specific thing, which you can just pinpoint and you can actually do the math yourself. We bid into BharatNet Phase 2 tenders in fiscal 2018, the results of those central tenders came out in August-September. The state BharatNet tender results, some of them have already come out in the month of October, November, December. So the plan when we started the year was and I mentioned a number around 300 Crores worth of business that we potentially can get from our EPC partners of equipment only if we were to execute that. So if you just add some portion of that number to the baseline number that will probably end up the year with. You can actually do your math and see whether we were on track or not. Now the fact that from August and again I would encourage some of you to see why the BharatNet projects were delayed. I think it is just that there are things, which are not in our control, so if you just add that we should have been in a pretty good shape. But if you take that away, I do not think anything has happened adversely or as the macro is still good, optical is being built in India and around the world. We are gaining market share in India Private. We are gaining new application wins in India Private. We will gain a lot more by the end of this quarter. Internationally, we are growing despite OEMs completely coming to a standstill, they are growing including direct America which is back filling the gap of OEMs, so I cannot be unhappy about it. So overall if you take that one incident or one event out that could you have done some amount of BharatNet tenders from the phase II in this year we would be okay. We are not budgeting for it right now because we just feel that – given that we are in January, this is not a prudent time to expect that the tenders will all get closed – I mean the orders will all come – mean they may but we do not really want to bet on it. I do not think there is anything else in the company and everything else outside. As far as internally we measure how well we are winning new applications into private accounts. We measure how each of the international territories is expanding in terms of the next stage of growth. We measure how many tier 1 deals we are signing and I would say in all of those we are making very good progress. Product wise, Kumar talked about how we really are getting pretty much among the best – in fact at the Mobile World Congress at Barcelona this year in February we would be launching one of the world's first integrated broadband access product that combines wireless and wired access. So I think technology wise we are doing extremely well. It is just the nature of our business that we are not a Q-o-Q business and not as predictable as we would like to be because of government dependence and that is what it is.

**Pranav Kshatriya:**

I get that but the problem has been that we have – you answered partly that why that FY2019 was not as strong as it should have been given that pushback but then what should we be looking at for FY2020 because - I mean so you basically – I mean we were looking at something like

Rs.1400 Crores odd kind of a revenue had you have to do 20% revenue, now that looks extremely challenging beyond where we are today.

**Sanjay Nayak:** Yes, FY2020 to be fair, I would say that we would give a commentary in the April call because it is a bit early to call because of these big fluctuations in the terms of the government stuff. So that is what I would say that - while we will have a – what I can see clearly today, we will start FY2020 with the largest possible backlog that we have ever had based on the order wins that we expect to have this quarter. So we will actually make a realistic assessment of what FY2020 will be and what growth trajectory we will continue to see from that point onwards. So I think we would like to wait for that, but just the point I wanted to make again is that see the question that you asked is actually the question, we are asking ourselves. That we really do need to get out of this lumpiness of government business so while it is a good big business and we will want to have it, we really need to make sure that we get a lot more strength in our business out of the India Private and International, which by the way will not have the inherent lumpy nature that we are all seeing. So that is a directional thing which you are doing company-wise, right.

**Pranav Kshatriya:** Sure. Thank you. I will get back in the queue.

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

**Sangam Iyer:** Sir. Thank you for your comments. Just wanted to understand then going forward in FY2020, when the spillover of this Rs.300 Crores odd gets fructified, and the fact that your international business you are pretty gung-ho in terms of picking up especially in South East Asia and also in Africa the investments to make way in terms of newer orders. Whether we will see the growth actually north of 30%, because this Rs.300 Crores is actually spillover from FY2019. Is that the right way to look at the business or how should we look at it?

**Sanjay Nayak:** I would say we should definitely see more than 20% growth which was the baseline because as we are all in a familiar with a cricket terminology the run rate has to be caught up exactly how much is again given the especially since the lumpiness is around the government stuff. So I think once we get clarity around that, then we will again talk in April. I think we will have a far precise idea of what kind of range it will be. I mean independent of that we already see that the medium term outlook of 20% we will continue to maintain. The question is about the catch up of some of the spillovers when we will do and how much we will do, so I would say we would probably be in a better position to answer that in April. But interpedently as I say I mean the good part is we are not losing the business that we had anticipated. It is just that time shift is something that is not in our control as we would like it to be.

**Sangam Iyer:** Okay. But Sir on the margin profile, there are two things – one is international business has a much better margin profile as compared to domestic business, if I am not wrong. So when we look at the mix over the next say two to three years moving towards the 50:50, maybe next year

might be a stepping stone where because of election, some of the domestic business might get a little delayed maybe in the Q1, so to that extent international business might be as a percentage increase optically, so would it be fair to assume that the margin profile next year will actually see a bump up before normalizing to the 24-25%?

**Sanjay Nayak:**

Unlikely and I will tell you why. So what happens is in our industry the average – if you go to the gross profit level, 40-41% is the average gross profit for the optical networking industry. And the good news is that despite having a higher blend of India business at this point in time we are hovering around that level. So while we might do better at gross profit level when we will go internationally, correspondingly there will be a higher sales cost also, like sales and support cost. So what I think will be safe to assume is that at least in the near term since we will still be in the investment mode, I do not think we should have expectation of a margin bump up. I think we will be actually happy if we can maintain our profitability at this current level, although these nine months have been pleasantly better for us in our plan and I am not going to complain about it. But I would say we would not budget for a bump up, we would rather plan that you are going to get more international, but you will spend more so that will probably wash out.

**Sangam Iyer:**

So it is a very fair point because coming to that only that US is something that we very, very hopeful on and as you mentioned in the commentary regarding the sales force investment that one needs to incur especially in the US and the African market, so from entry barrier perspective or expanding the geography perspective, is the investment in the sales force is only factor required and are there any other approval at the client level, etc., that would also be required for the uptick in the order flow to come?

**Sanjay Nayak:**

So it is a good question. There are basically two or three things, which have to kind of align before we start getting meaningful revenues from any region. Number one is that the products and compliance and local certifications have to be in place so that is all done. So we now have an absolutely world-class product which we can go and sell in any country. However there are two other things which have to happen. The sales cycle from the time we talk to customers the familiarity with your product, how comfortable he is to give business to you against incumbents all those issues have to be addressed and those take time. It could take three months, it could take six months, it could even take one year. The last part is especially true for Tier 1s and even some of the Tier 2s which are large operators. They actually have a well-defined RFP cycle, so you also need to be hitting that RFP cycle because if they have just made a vendor selection after a six-month evaluation and you go and knock on their door, you are not going to be entertained because they are not looking for a new vendor. So I think all of these three things have to be aligned and that is why we always mention that it could take time to ramp up and only after you get – even for example sign a rate contract with the major operator in any country for a year one outside of India let us say, he may give me small or a few million dollars worth of business and year two once I performed well in his network, he could increase that to 5 or 10 million dollars or even more revenue. So I think that is the inherent nature of our business. I may just also want to say that I do have to run into another meeting so if you can probably come to the last question I



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know we have tried to answer as much and rather we will be happy to take offline if anybody has you can co-ordinate through Venkatesh or Santosh. But we can take may be one last question.

**Moderator:** Sir actually due to time constrains that was the last question. Pranav over to you for any closing comments.

**Pranav Kshatriya:** Thank you every one for participating in the call. I will handover call to Mr Sanjay Nayak for final remarks.

**Sanjay Nayak:** Thank you again. I think we tried our best to give you a deep dive into our business which I understand is a little bit more complicated than normal. But if I were to look at the nine months, we have created a solid foundation and we are all set to have a good year. And more importantly I think the investments we have made in developing our products as well as India private and the international accounts hopefully should play out for the next few years and as I said again we feel good about our business and thanks for all the questions and very engaging discussion.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call for today. Thank you for joining us and you may disconnect your lines.