

Transcript

Conference Call of Tejas Networks Limited

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Presentation Session

Moderator: Good Evening ladies and gentlemen I am Bharathi moderator for the conference call. Welcome to the Q4 FY21 earnings call of Tejas Networks. We have with us today Mr. Santosh Sinha from Axis Capital Limited. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is being recorded. I would now like to hand over the floor to Mr. Santosh Sinha, thank you and over to you sir.

Santosh Sinha: Thank you Bharathi. Good evening everyone; on behalf of Axis Capital I welcome all the participants to the conference call. Today we have with us Mr. Sanjay Nayak, CEO and Managing Director of the Company; Mr. Arnob Roy, COO and Wholetime Director of the Company; Mr. Venkatesh Gadiyar, CFO and Dr. Kumar N. Sivarajan, CTO of the Company. We will start with the overview of the Company for commerce for Q4 FY21 and then we may switch over to Q&A, thank you and over to you sir.

Sanjay Nayak: Thank you Santosh. Good evening, everybody this is Sanjay Nayak along with my colleagues here in Bangalore. First of all I hope everybody is safe and we know that things around again have deteriorated a little bit but I am hoping that everybody is doing fine. So we had uploaded the presentation on the website and also we had all the press release etc. So I am going to be using the presentation that we had put up on the website. From slide number one which is the Q4 key updates, from the financial side our net revenues for the quarter was Rs 201.6 crores and for the whole year it was Rs 514.8 crores which on a whole year basis meant a year on year growth of 35.6%. On Q4 profit before tax was Rs 18.5 crores and for the whole year, our PBT was Rs 22.5 crores and of course last year was a loss so this year we turned the corner around and delivered profitability. In terms of operating cash flow for Q4 was Rs 47 crores, cash, and cash equivalents increased by Rs 29 crores to Rs 364 crores. So every quarter we have been able to improve on our position. On the booking side, which is orders that we receive during the year, we saw a year on year growth of 54% and at the end of the year, our order book which is purchase orders in our hand is Rs 679 crores.

In terms of key updates on the sales side of the three segments; on the India government side as you would have been tracking there is a lot of policy decisions which are for promoting Atmanirbhar Bharat in terms of domestic telecom equipment and that is providing us strong tailwinds whether it be in the form of Make in India policy, the new security guidelines which will restrict import of telecom equipment from certain countries after June 15th or the PLI policy for telecom equipment which we will be eligible for as well. So overall, I think those things have been positive factors for our business. On the

India private side as we have been giving the updates in every quarter, we have been continuing to get a lot of business momentum around these wins of new applications. Primarily related to home broadband connection which is the fiber to the home as well as the backbone capacity expansion using the DWDM technology that we have, where the larger operators have to expand the capacity once more data flows into the network.

On the international side for the last year or two, we have been saying that we have been focusing on growing our international business. We are happy to inform that during FY21, our international revenues grew 62% year on year and was 40% of total revenues compared to 33% of total revenues in FY20. In terms of bookings; we had 103% year on year growth on international bookings and we saw very healthy order inflows especially from Africa and South East Asia. In terms of new customer wins which are of material kind, we have five new customer wins in Q4. If you recall in the last quarter, we had also talked about a global impact that is happening on this semi conductor industry because of demand supply gap and capacity challenges. So we do continue to see a global shortage of semi-conductor component which is continuing. Actually, from the last quarter to now, the lead-time for components have gone beyond 50 weeks and continues to be a challenge and so we will need to carefully manage our inventory and make sure we place component orders in advance to secure our supplies. Since we had a heads-up on this situation in January itself, we have been taking corrective actions and trying to manage the situation that is at hand and this is a global situation which I am sure every industry player will be going through. That's on the key financials update side. I would now hand it over to Venkatesh to walk us through the next few financial slides after which I will come back again and give a little bit more color on the sales and the complexity of the business.

Venkatesh Gadiyar: Thank you Sanjay; good evening everyone. On the financial update, I would read the financial results of Q4 FY21 and FY 21, as I believe most of the people are not in front of the system, - the net revenues for the quarter Q4 was 201.6 crores and for the entire financial year was 514.8 crores. EBIT was 15.5 crores and for the year 1.4 crores and the PBT for the quarter was 18.5 crores and for the full year 22.5 crores. PAT for the quarter Q4 was 33.6 crores and for the full year was 37.5 crores. EPS for the quarter was Rs.3.61 and for the full year Rs.4.05 and the Q4 '20 was an exception and the year on year growth - mentioned; last quarter in FY21 was abnormally low with a low revenue base, hence the respective number on a year on year -are not comparable.

Next slide – The key financial indicator. In Q4, we had generated the cash flow of 47 crores compared to 55 crores in Q3. Networth has improved from 1094 crores to 1134 crores. Inventory has decreased by 15 crores to 214 crores. We have been able to decrease the inventory level since from the beginning of the year on a quarterly basis. However, while we target to continue to replace our inventory going forward; however, we may have to manage the long-lead time on certain components as Sanjay was mentioning in earlier call.

On the trade receivables, we had improved on the collection on every quarter. The trade receivables on absolute numbers have reduced from 456 crores from the beginning of the financial year to 414 crores now and on the BSNL front, I just want to give you the update....while the collections from the BSNL projects were continuing to come, but it was in a slow pace. However, for the entire year, we have collected about 62 crores in the last financial year and after that since 1st of April till now, we have collected about 12

to 13 crores. With that collection, as of date the overall BSNL outstanding is about 122 crores. If I take out the retention money out of that of around 70 crores, the total old overdue receivable from BSNL was about 52 crores. With that approximately we would have collected 85% on the project value.

On the networking capital on absolute terms on a year on year basis, we have reduced around 90 crores which moved down from 540 crores to 450 crores with a combination of reduction in the existing inventory and we have improved on the collections on every quarter and that's how we could lower the working capital. Of course with a combination of all the things, inventory reduction and the collection of trade receivables which had seen the improvement in the working capital that has resulted in the cash and equivalents has moved - to 364 crores which means we have added around 84 crores in the last one financial year and we have added 29 crores of cash in the Q4. Net-net particularly this year with a net revenue of 515 crores and with costs under control, we have turned breakeven at EBIT level and we become profitable at PBT and PAT level. With this Sanjay, you can take over.

Sanjay Nayak: Thank you Venkatesh. Let me get back on to the next slide which is on the breakup of our revenues by segments. This is a chart we share in terms of how the business has been broken up by three major segments which is India government, India private and international. So, if you look at the chart on the right hand side, India private moved up from Rs 195 crores last year to Rs 224 crores this year. International moved up from Rs 126 crores last year to Rs 205 crores this year and of course the government moved from Rs 58 crores to Rs 86 crores this year and within the government segment, the critical infrastructure portion is the larger majority. If you see from an overall angle international business has been growing both in terms of the revenue cycle as well as the bookings we talked about earlier and that is something which is quite heartening for us. In terms of the run rate business which is a combination of international plus India private, it contributed 83% of our total and on a year on year basis, it showed 33.6% growth. One other thing I would mention is that between Q3 and Q4 we actually had two consecutive quarters where the new order inflows were more than Rs 200 crores each which is a good sign because our business seems to be picking up steam as well and of course as you saw in Q4 we also did revenues of more than Rs 200 crores.

Coming to the next slide, which is the sales update, I will give a deeper color on all the four segments which is India and the three major international segments in terms of what happened last year and what is the outlook that we see in the current financial year. So India business last year grew 22% year on year and as I mentioned earlier, we see positive tailwinds from all the various government policies. Some of them like the PLI policy for example will come into force this year; we are still awaiting the final guidelines and if the guidelines do turn out in the way we are expecting them to be, this should be a good way for us to take advantage of that policy and get additional margins into that system for us. The other thing which is important is the need for trusted telecom equipment. So there has been a significant revelation where all private / public or ISPs or any kind of telecom operator can only buy equipment which is classified as trusted source and this would be effective on 15th of June. What this means is unlike many countries who have blacklisted telecom equipment from certain countries, India has taken an approach that they are going to whitelist specific equipment from specific countries and hence it is actually a more stringent measure that the government of India has taken. What that means is that there is a need for a lot of operators to diversify their

supply chain and that is something that can benefit us as well. India private as I mentioned the broadband and FTTH demand is a key growth driver. We have been selected by two major tier 1 operators for that application in FY21, results that we announced earlier. We haven't seen much revenues contributing from these segments from these operators because it does take a lot of time for our equipment to get installed, commissioned, tested and integrated in their management and other systems, so we do expect that a little bit of growth from that segment should come in the current financial year going forward. For WDM and OTN which is the capacity expansion for metros and other applications, again we have been selected by two telcos again where we will now become a part of their backbone expansion projects and this again we have not seen much revenues in the last year but going forward in the current financial year we should start seeing ramp up on these two applications as well. So I feel that India Private this year should see a healthy growth going forward based on the applications that we already won.

India Government, the critical infra structure segment has now almost become like a run rate business because it is across many, many utilities, many other smart cities, many safe cities which have video surveillance projects and defense and other kind of projects. So I think that segment continues to do well. We have a good backlog from that segment; a lot of tenders which we have bid which should get into execution mode this year. And on top of that there is the next phase of BharatNet project which hasn't really got off the ground. If you recall, the Prime Minister had mentioned that in the next phase of BharatNet in the next 1000 days they were going to connect 650,000 villages from the current 200,000. So that project still has not started taking off. As and when it starts happening we should get some business out of it. Similarly BSNL is planning to build a 4G network, there will be a wireless element to it which is the 4G base station and of course there will be an optical backhaul and those are all segments we are closely watching and seeing how that goes. So overall I would say in the India government business the funnel looks good. However, the conversion of that depends on when government spends, how much they spend etc., etc. So we will kind of keep a moderate view on that.

In terms of the regions, let me start-off with the star performer for us last year which is Africa-Middle East region and Europe I just added because we just started to look at Europe late last year. So Africa business on a revenue basis grew 68% year on year. Of course the booking was much larger. The good part of Africa why we did so well if you recall, for the last three, four years we have been investing in Africa, we have got local sales team in Johannesburg, Nigeria, Kenya, North Africa, Dubai and many other places. So during the pandemic year since we had customer incumbency and local teams, we were actually able to get a significant business uptick from our customers and we continue to see the momentum this year as well and we are quite confident that the business will continue to grow quite well.

In terms of the CIS and Europe countries we started looking at it late last year as I mentioned. We got a couple of small wins which are more important from the point of view of our products getting acceptance in those markets, they may not have much material impact on the revenues but we do see that with some new sales investments that we made last year we should start gaining some traction in this financial year. But this is a large addressable market of three billion dollars, so the market size is not our problem. Our challenge is really that now that we have incumbency and good success,

how do we continue to grow. So I would be quite confident of a robust growth in this segment of our business next year.

Coming to the next one the Americas; Americas clearly underperformed for us. In fact it was not at all close to our expectations as well and the real reason was that at least in a good part of North America the customers really did not want to change their vendor decisions; whatever they were buying, they just continued to buy. All the labs, trials and testing was almost closed for a good part of the year and hence we really could not make much success. As we said earlier that in US and Canada we are targeting the tier 2 and tier 3 operators and rural internet service providers and that is a segment which is going to be growing quite a lot for the next few years. I am sure some of you read, American President's big USD 100 billion dollar announcement for rural broadband and other connectivity from federal funds. So I think there is going to be a new capex cycle around fiber to the home connection for the next three, four, five years. We are not yet there but in terms of business structure, but with all the efforts that we have been putting last year and now, we hope that we should start seeing success in the near term.

Mexico of course was very badly hit because of COVID situation and the customers really have a lot of challenges. We did win some good customers some of which we announced and we expect quite robust growth this year as well. So this again is a very large market. So Mexico again we are having a good strong local team. US also we rebuilt our team last year and I hope that both these regions will give us good success in the next financial year.

Coming to the South East Asia, Asia business grew quite fast to 66% because the base was not that big and we won a very large multi-million dollar project in South East Asia which included both wireline and wireless products. This is one of our first large scale deployment of wireless product which is the LTE base station and of course we are also increasing sales investment in the region. We are hiring some more local people because travel and all that will be difficult and with more of those investment, again this is around USD 2 billion market, we expect that South East Asia will continue to also grow of course not at a pace that we grew this year but will again show robust growth. Net-net if I look at all the four regions we see positive signs; we have been getting good success. One other thing which I just wanted to mention is that out of the Rs 679 crores of order book that we have when we started the year, around 50% of that will be for revenue in the current financial year. So that's around Rs 350 crores of business with which we will have to execute as soon as we possibly can. So that's the quick summary on the sales side.

The next slide is about the applications where we are winning, this is actually the same slide that we have used in Q3. So I am not going to go much into it, but just to summarize, places where we are competitive and we are as good as anybody in the world, is home and office broadband which is fiber to the home connection. Of course when we go to US market or Europe market, they do have some very specific requirements for those markets for these applications for which a certain amount of R&D enhancements and upgrades needs to be done which we are aware of and in the process of doing. But the base product is the same and that should be good. The technology which we use is fiber to the home; GPON, XGSPON which is the next generation PON and of course for the wireless side the LTE product we can also use for other application for example in India as well.

Coming to the next one is the....in which we are there from the TJ1400 family, then the next thing is how do you increase....when you have a lot of data traffic flowing into the network from homes or mobile broadband etc or maybe 5G as we go forward, there is a need for all operators to strengthen their backbone capacity. They are always running out of 40% to 50% growth in broadband traffic and data traffic in the network so they have to enhance these capacities so that's where the DWDM technology comes into picture, 100Gigs, 200Gigs, 400 Gigs, 600 Gigs. 600 Gigs is pretty much the state of the art and we have very, very competitive products and this has been extremely successful in Africa. For example one of our largest customers there is building web scale networks for the likes of Google, Facebook, Microsoft who are pumping a huge amount of bandwidth and setting up large data centers across the entire African continent. So that's one example where we are doing and of course network modernization of critical infrastructure. So all of these utility companies are modernizing their networks, Safe Cities, Smart Cities, Oil & Gas, Railways, Electricity Companies; so that's another area where we do quite well and there is a whole bunch of technology. So net-net what I am saying is, our focus in R&D continues even if you saw last year, we continue to invest in R&D, we kept our overall cost under control but we did not shy away from making sure that our R&D investments don't suffer because that's the only way our products stay ahead of the game and we have been making very good progress on that side as well.

I am now coming to the last side and then we will open it up for questions and answers. If I were to kind of see when we started around the same time actually almost to the same day last year, there was a lot of uncertainty around the business environment at a macro level and we had come off a very dismal Q4 and that's why when Venkatesh said earlier that when we are doing the Q4 of FY20 to Q4 of FY21 of this year, the percentage shouldn't be looked in absolute terms because the base was very low. But there were three or four challenges which we had in front of us. Can we return to growth, number one; can we actually hit profitability from where we were number two, number three, did we have enough cash to ride through the tough times because it was very uncertain last year and number four we had a lot of inventory, lot of receivables, all kind of things not looking good. I am very happy to say that on all the four fronts we have made significant progress. In fact what has been happening is that we have made progress every single quarter, so now four quarters in a row, we have had growth in every single parameter that I outlined. If you see from an overall year's perspective, the revenues are growing very well at 36%, bookings at 54%. We returned to profitability with PAT of 38 crores. So overall I think the health of the business in that sense is back. The business momentum is very strong which is evident from the fact that our order book is continuing to increase and has gone to 679 crores which is the highest that we have had. Our focus is international specially in a tough year where travel was almost non-existent but because of the local sales team investments the incumbencies we had in the regions we were doing well; we were able to amplify that and we could deliver very strong international growth both in revenues and bookings. In India which is our home market, I think finally with wins in terms of new applications around home broadband which is going to be a very profitable and a very fast growing segment of the telecommunication business in India even for all the tier 1 telcos because they make six times R2 from a home broadband connection than they make from a mobile broadband connection. So there is a need for everybody to really expand when people are working from home, or streaming videos etc., etc. That means that you have to have more fiber to the home, you have to have more capacity in the metro networks and the city networks and both of those applications there, we have now been selected by the two major telcos, we feel very confident that while we may not have got much revenues in

the last financial year, we expect that the business momentum from last year will carry this year and it should turn into good revenues for us. And of course with all the geopolitical situation happening in the country, the government of India has recognized and acknowledged that telecommunication is an absolute critical infrastructure which has to be secured, which has to be trusted and there is a need for India to have its own global tier 1 telecom equipment company and that's where the Atmanirbhar spirit comes in. I think with the best of our product portfolio with the capability that we have shown over the last 20 years, the resilience we have shown across tough times, we think we have a good shot at taking advantage of all of those policies and scaling to the next level. Last but definitely the most important thing as well from a business growth angle; our balance sheet is strong; we improved our cash by around Rs 80 crores as Venkatesh said to Rs 364 crores; we have no debt on our books. So we feel confident and comfortable that when we have to make long investment calls whether it is for R&D, whether it is for sales, we have the capability and we will be able to take it things at a time and continue to grow. So that's really where I would like to pause....but of course the last point I would like to reiterate again that while all of this seems nice, I think the global semi-conductor industry shortage is an issue that every company in the world is tackling and grappling with and we are trying our best. We had taken early calls in December in fact when we understood about this thing in January and we spoke to some of the largest customers in India, they were surprised saying why are you guys only coming and telling us this stuff, nobody else has told. But after a few months they actually acknowledge we did have early warning indicators and as much corrective action we could take then we are taking and of course we are in touch with our suppliers and because we are in India, we get a reasonably preferred treatment from some of them to be able to make sure we are able to continue to look at this. But this again I would say would be a situation that we have to continually watch and which we as management team are tracking very closely. So that's really where I would pause and I would now open up the floor for questions. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and Gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your question, you may do so by pressing * and 1 again. Ladies and Gentlemen if you have a question, please press * and 1 on your telephone keypad. The first question comes from Mr. Mukul Garg from Motilal Oswal, please go ahead sir.

Mukul Garg: Thanks. Sanjay good to see you guys return to 200 crores plus revenue numbers having said that it is quite a commendable performance. Just a couple of questions on the international business. You mentioned that international business bookings are up 100% plus on a YOY basis. What number should we look at this especially of overall booking....what was it last year and is there a difference by duration of this versus the India order book?

Sanjay Nayak: So okay, thanks Mukul. So in terms of the international order book will get executed quite quickly. So out of the 679 crores of order book around 20% of the order book is for international and 80% is for India. Out of 20% of international almost all of it around 90%-95% will get executed in the current financial year itself because these are all live orders from run rate customers. India order book I would say around 40% of that would get executed, so that's 80% of the total so you can

take around 32% of the total order book is India and around 18% of the total order book which is contributing to around 50 will be executed this year. Coming back to what kind of expectation we have, clearly international will continue to grow because we have a lot of good momentum in terms of customers that we have engaged with in different deals and different stages. Clearly if I were to see the growth for next year, there is a fairly good chance that international will grow faster than India again the next year and this year for example, we came from a 70% India and 30% international to around 60% India and 40% international. My sense is that probably international could be a larger proportion of total next year as well. Of course, if India starts flying and customers start demanding a lot more equipment it could change but my expectation is that international should be more than 40% of total next year as well.

Mukul Garg: Sure. And the second question was on...we expected credit loss which you have been reporting in the receivables. You have written off almost 35 crores in the last two years from this 4% of your revenues between FY20-21. How should we see this going forward and where is this coming from given that you have not taken any incremental (not clear) BSNL receivables?

Sanjay Nayak: Maybe Venkatesh can walk you through this but the way we do the accounting policy is that if there is any receivable beyond a grace period of payment, we take it as an ECL and when the payment actually comes, we do reverse it. So I think our expectations....a lot of ECL would have come from BSNL delayed payments, so when we are able to get the payments from BSNL, the ECL starts reversing is my understanding.

Venkatesh Gadiyar: Yes Sanjay, you are right. A larger part of the ECL has come from the BSNL thing.

Mukul Garg: So this is predominantly dominated by BSNL?

Venkatesh Gadiyar: Yes, in fact the net of BSNL, the receivables on an absolute basis, everything has - significantly came down this year.

Mukul Garg: Understood. If I may ask one last question on the composition of inventory. Is there any change in the inventory of Q4 versus Q3 given the revenue growth in Q4 coupled with the shortages in semi-conductor....? I am just trying to understand whether you are carrying more semi components inventory on your books or is it similar in nature?

Sanjay Nayak: No, I think we have starting to stock up on components as Venkatesh mentioned because if we leave the components buying to our EMS companies, they will place only when everything else gets finished. But right now the question is for securing the inventory for the next nine months to 12 months. So we did take calls on component securing, component inventory, so there will be some component inventory increase for sure between Q3 to Q4 but the way it will happen is, we will consign it or sell it to our EMS company as and when he needs it for the other purposes and related to that also is that, which I think Venkatesh may not have pointed out but we also have a little bit more higher levels of inventory in Q4 than it would have otherwise been because our objective first to secure the component rather than worrying about reducing inventory buys much more larger things. So I would say this thing we will continue to track inventory which will continue to get used, actually today having the

inventory is an asset. Today, there are many countries around the world, if say I can ship you material tomorrow, they may cancel their orders from their existing suppliers and give the order to us. In that sense this is how we are managing the inventory at this stage.

Mukhul Gargh: Understood. Thanks for answering my questions ssir, I will get back into the queue.

Sanjay Nayak: Thank you.

Moderator: Thank you sir. The next question comes from Sanket Bihani from Kedia Securities. Please go ahead sir. Mr. Sanket please go ahead with your question. Seems like there is no response. Can I move ahead with the next question?

Sanjay Nayak: Yes please.

Moderator: The next question comes from Shantanu Mantri from MK Ventures. Please go ahead.

Shantanu Mantri: Hello sir, first very big congrats on an exceptional performance. I am sure this has surprised everyone including us. Sir I just want to quickly get a sense of broad numbers. So if I am seeing your quarter four revenue split, so international has almost doubled compared to last quarter, it is around 82 crores and India Private is around 66 crores and India government around 44. So I just wanted a broad sense that, you had been talking how the international prospects looks next year and you have been talking about growth for most regions and there might be an addition from Canada and CIS Europe, that might add in. So can we....is it safe to assume this Rs 82 crore run rate of quarter four, this now becomes the base now for our international operations?

Sanjay Nayak: First of all thank you for your kind words. Specifically I think your split of revenues ballpark is correct in terms of what we did in Q4. I would say historically Q4 is always the largest quarter so if you see between every....last three, four financial year except for the last year, of course where Q4 had actually tanked. I would say that since we do not give a forecast or sales in terms of the numbers, I can say that the international momentum is quite good. As I mentioned as my answer to the question to Mukul that 20% of our current order book is international and almost all of that order book will be executed in the next couple of quarters, I think you can see that the traction that we are achieving in international is something that we would like to sustain. Whether we are able to sustain or not is of course the function of how the business pans out. India Private again I would say is something that is building up. As I mentioned in my commentary that Q4 by the way historically in India is always very big. So I would not read that just because we had a 200 plus crore Q4, that's a baseline and everything goes up from here except that there is seasonality in our revenues. So I would say India Private we see very good traction because of the application that we have won and once our customers start deploying our product which took a little bit more time because of the COVID situation....the labs were closed, the teams were not working full capacity etc. We feel that's a traction that can continue. India government tree as I mentioned in my commentary is always the most hard to predict. So the only thing we can predict is the order that we have in hand which we have won which has to be executed. The new tenders, the new supplies, some baseline amount keeps

happening without any issues specially in the critical infra but as the India government part is really out of our control. If the government decides for example this year that they are going to spend more money on COVID related stuff, or whatever else they want to focus on, the telecom projects suffer, it will of course impact our business but we have a decent amount of backlog from the India government segment to feel that at least it can....it will not be great but at least it is a modest growth from where we are. Clearly international will continue to grow the fastest followed by India Private followed by India government which at this stage is mostly because we don't know how the government spending will be in the coming financial year.

Shantanu Mantri: Sure, sure. Sir one last question, what really excites us is India private what numbers you are doing, you are saying that in FY21 this was primarily nothing major came from the home broadband FTTH right where we are selected from the two telecom players. So that in itself is a huge opportunity where we reading that 10 to 15 thousand crores in the coming years. That is yet to play out. I remember talking to you in December last year and you said in a couple of months more clarity will come. So just want a broad view that when does this opportunity start playing out? What can we expect in FY22 in terms of how you are talking to them and how soon are they looking to start executing it on the ground. Same with the Metro expansion, the DWDM OTN. So for these two lines because the opportunity is huge, I just wanted your thoughts on this.

Sanjay Nayak: That's a good point. So there where we are exactly is that as I said in this quarter the current quarter that we are in, we believe that we are at the tail end of testing and integration because if our equipment gets into the customer facing situation, they have to integrate into the billing management, operations all kind of systems right and that has taken more time for both of them because one of them OSS is run by a competitor company was not motivated to integrate our stuff quickly so almost all that is over. So I would say this quarter would be the quarter when all of those systems would be put in place. So next quarter onwards we should start seeing order inflows for these two applications, so that is one part. The second part is their own ability to roll out, not just for us, even for themselves if you look at their numbers both the operators that we are all talking about, the number of home broadband connections that they would like to achieve as against what broadband connections that they have actually been able to activate is significantly low. So if they are not able to solve the last mile problem as fast as they would like to, clearly the roll out would get spaced out. Not that it is not going to happen, it will just get spaced out. The pace of roll out is something that they control, what we control was to some extent how quickly we can get integrated in their systems so that we become a part of their ordering flow and then it becomes a pure market share for us that if there are two suppliers or three suppliers how much market share do they distribute between their current incumbent and us. I think that I would say Q2 onwards it will start playing out because Q1 looks like will be the tail end of all of this integration etc.

Shantanu Mantri: So we can expect say from the second half of this financial year....?

Sanjay Nayak: That's a fair point. Q2's when order comes, the second half is always when the action starts happening, yes.

Shantanu Mantri: Alright sir, that's it from my side thank you so much.

Sanjay Nayak: Thank you.

Moderator: Thank you sir. Ladies and Gentlemen, If you have a question, please press * and 1 on your telephone keypad and we request the participants to restrict to two questions in the initial round. The next question comes from Ashwini Agarwal from Ashmore Investment Management India, please go ahead.

Ashwini Agarwal: Good evening Sanjay, congratulations. Very interesting and positive numbers and great commentary. As your international increases, let's say it grows from 40% to 50% and as your private sector kicks in later this year, wouldn't it be natural for us to expect the seasonality to go down significantly? I mean obviously the fourth quarter has been a significant portion of your annual revenues but let's say one and a half years out, shouldn't your four quarters start to reasonably similar or more even? Would that be a fair expectation?

Sanjay Nayak: You are absolutely right. In fact that is a very fair expectation. Our endeavor is even starting from FY 22 because of the healthy backlog that we have and the need for lot more run rate customers to execute., If you see between Q4 of last year to Q1 of last year we have something like close to 3X difference which is around 78 crores in Q1 and 200 crores in Q4. So you are absolutely right, seasonality will definitely will start shrinking because Q4 is a very Indian phenomenon because for the government guys and the Indian private guys....a lot of stuff happen in Q4. So we hope that starting from the current financial year that seasonality will start reducing and as our customer base broadens specially outside of India; as well we should see lesser seasonality coming in but I would still say our business is small, we are vulnerable to big ups and downs from a few customers. We still have a little bit of way to go to be fully insensitive to this stuff but currently directionality wise I am pretty sure that seasonality will start coming down.

Ashwini Agarwal: Okay, so the second question is, you spoke about the chips shortage but my colleagues tell me that TSMC has been talking about significant expansion of capex and at least on the automobile side TSMC has promised that auto side of the semi shortage will start to ease say July – August. Does that have any impact on your semi supply or is that a completely different value chain and what are your equipment suppliers....? The connected question is how much have you been able to secure the next 12 months' revenue? Is there a potential where you might know because of shortages of components?

Sanjay Nayak: Let me answer the second one first. Definitely, there is a potential that shortage of components may cause some revenue blip for us, the reason being that things are changing by the day. Every day we get a new surprise, oh by the way this chip supplier has also increased from a 4, 16 weeks to 26 weeks and so on and so forth. Coming back to the first part....by the way the common point is TSMC actually. TSMC does order chips, TSMC does communication chips, TSMC does all kinds of chips. TSMC has limited capacity. I am sure you have followed the semi conductor industry. The combination of shifting of the geometry from an older technology to a newer technology the China guys basically have stocked up a lot of chips at least in our industry. Huawei and ZTE .US has put all kinds of sanctions, they basically overdrew the chips. As a result the communication industry has a significant shortage. There are a couple of suppliers which are key to everybody and they are not seeing any improvement in terms of decongestion in July-August time period for sure. So I think the

communication industry as a sector is having an overall challenge. For example home broadband connection....it's an allocation going on...whosoever is going to be able to secure the ONT devices will give services because in three months' six months' time there will be no ONTs left in the market or chips left to make those ONTs if you haven't secured it already. So I think communication industry has more challenges, auto might get decongested in July – August from everything we are hearing from our suppliers it could go on for another 12 months as much as we are doing just now to give a sense and Mukul had asked this question earlier. We are securing chip suppliers, some of it comes in our inventory. Some of it goes in the form of advance purchase orders that we place with our suppliers. By the way we are placing orders for the next 9 to 12 months today because if we don't do that there is no chance. The only positive side for us in this thing is that because all the suppliers, the global suppliers, they understand that lot of their chips have gone to China and a lot of what the Chinese companies have may not be able to come into many markets. It may not come to India, it may not go to US. So it is in their interest to develop suppliers like us from India and support them in a different way than they would do to their other suppliers so that at least they are creating OEMs which are going to be global for a few years. They sold a lot of chips in one year but then what happens next year? So those are all those things which are interplaying but I must tell you that that's something which we definitely are seized with as a problem and we as a management team are doing everything that we can to secure as much as we can as far as we can for the year.

Ashwini Agarwal: Sir a connected question is that is there a price implication or a margin implication arising from this shortage?

Sanjay Nayak: Absolutely. So there are two things which are inter-playing for us. If you see our Q4 numbers, our growth margins went up and that was very simple because our international percentage went up if you see from the Q4 angle. So our comfort comes that if our international business keeps going, we have more margin cushion but on the other side, one of the ways to secure some of these components is by paying expedite fees. At least a few suppliers....I wouldn't name them unfortunately have target demand, okay if you want this there is X% expedite fees. Now, how much of the expedite fees can you pass to our customers? How much we have to absorb? I would say, currently because the customers haven't started feeling the full brunt yet, they are reluctant to pass on any of our increases to us. But what we have done is stop giving them any discounts which we normally give year on year. But my guess is another three or four months from now when the supplies even dry up further, we may have no choice but to pass some of the pain to them as well. That's something we have to see as we go along but definitely there is a potential for some margin pressure because if we have to secure supplies, we may have to pay expedite fees, we may have to rush equipments, we may have to pay more freight....I mean all those things are going to be definitely in play in the next 12 months. If you listen to the commentary of any communication of any chip supplier or equipment company, they are all going through the same situation like us.

Ashwini Agarwal: Thank you Sanjay. All the best. Look forward to keeping in touch.

Sanjay Nayak: Thank you .

Moderator: Thank you sir. The next question comes from Chetan Gupta from Samena Capital, please go ahead.

Chetan Gupta: Hi Sanjay. Just near term impact from COVID wave 2 on exports and domestic, you didn't touch on that. You only kind of.....near term red flag you didn't speak about, so maybe it will be helpful if you could talk about it, thanks.

Sanjay Nayak: Good question. This situation evolving everyday. We are only a couple of us in the Board Meeting in the office today because Bangalore is.....and I need to leave at 8 because there is a curfew from 9 o'clock onwards. So I think so far because we have taken all the inventory actions for Q1, much earlier, orders are already in hand. I would say at least for Q1 we seem to be good unless there is a complete lockdown. Whatever has happened in India in telecom as an industry has been left out as a critical infrastructure and we did manage during the first couple of quarters of last year's lock down. So I would say that barring any tactical kind of delay if we integrate over the quarter and if we spread out our revenues during the quarter, I feel that at least for Q1 which is where we have a lot of visibility we should be okay. But yes, the situation is something which we are carefully watching because it does not take much time to get into a little bit of a mess but luckily for us we seem to be okay for the near term in terms of the COVID impact but our guess is as good as anybody else's in terms of what is going to happen from a month from now or whatever.

Chetan Gupta: Thank you. I am done thank you.

Moderator: Thankyou sir. The next question comes from Tejas Sheth from Nippon India, please go ahead.

Tejas Sheth: Good evening Sanjay. Great set of numbers. I just have two questions both on the international front. We have added 20 new clients in the financial year 2021, if you can give some color of is there any of the clients which can lead to a good scalability in the next two, three years, maybe 2023; maybe 20, 30 million dollars kind of annual run rate they can do with us maybe three years down the line? Any of those clients if you can throw some color?

Sanjay Nayak: Yeah, I think there are a couple of those which can do that. In fact the good news is, for example in Q4 one of the new clients that we signed up, we just got an initial PO from them a very small one, but if that works out, that partnership alone can be quite a large partnership maybe at least in the second half of this year and going forward for multiple years. I think there are definitely customer contracts on the international side which are not just tactical one-off kind of businesses; we think that a lot of these will continually increase. Not everybody is big for sure but for example similarly in the Americas....in the Mexico part of America actually, we won a tier 1 operator there which again is a run rate customer will continue to do well. Asia same situation. I think there is definitely among the international customers we have won there are a few which have a large potential over multiple years and we just have to make sure that we continue to service them well. By the way one of our African customers last year did phenomenally well. This is an existing customer for a few years but they absolutely did fantastic for us and we have been growing with them....even this year their forecast and funnel looks very exciting. So I think even the South East Asian customer that we got a repeat order for wireless again has been an existing customer so the story for our international business was, wherever we had incumbency and a track record we did

well; wherever we had to break in and create a brand we struggled. So I think hopefully....we can't struggle forever; so hopefully we start showing better results from all the different geographies.

Tejas Sheth: What would be the cumulative stand on these 20 customers in the products which we can service them on?

Sanjay Nayak: Good question I don't have that data in front of me but....in most of our industry a few customers drive a lot of revenues and this is the nature of the beast. What we do is, we keep growing a lot more customers at the base. Some of them start with a 100 to a few hundred thousand dollars in the first year, become half a million to a few million dollars the next year, become 5 to 10 in the third year, become 10 plus. We had customers who were 10 plus, we had customers who were 5-10; we had of course customers a few hundred thousand....so I think the pyramid is continuing to build up for us,. I think in one of the earlier calls we had described this. We are making progress in this. As I said we had two customers who did 10 million each last year.

Tejas Sheth: Okay, on the America part of the international, is.....obviously now the lockdown is continuing at the global level itself, does this year also look like not breaking into the American market or you see something coming up there?

Sanjay Nayak: We are always optimistic. I think it will be a slow start clearly because of everything that you just said, but I hope as the later part of the year progresses, we should be able to build up the momentum in America. It definitely may not be to the size of Africa which has already reached a very large number. It will take some time to get to that place because we have been investing in Africa and Asia for a while. So America will take some time but at least I would like to believe that this is the year when America can start delivering decent numbers as well. Of course you will have to see how the year progresses.

Tejas Sheth: Okay just last one, this Make in India push by the government even the private telcos in India are enticed to source internally? Are there norms set for them as well by the government or is it something which is very open ended?

Sanjay Nayak: First of all a very good question because directly they are not mandated to buy under the preference of Make in India scheme. Like every government department, center, state, digital whatever they have to buy under the PMI the preference to Make in India scheme , but private is not under that scheme. Having said that private is under another law which is again motivating them to look at diversifying their supply chain which is...from June 15th onwards and you would have been reading about the trusted sources norms....they can only buy equipment from trusted sources which basically means equipment from a certain country will not be allowed to be bought by them beyond June 15th. So many of them who have a large exposure to equipment vendors from such countries are saying hey if there is an Indian company why shouldn't I look at them because it gives me a long-term credibility and long-term assurance of supply. So I think we are seeing that benefit come to us conditional on of course these products being competitive by themselves which I think should start showing up in a positive way. But, that's more like an indirect effect if I were to put it. But they are definitely looking to see hey why not from Indian sources.

Tejas Sheth: Okay. Bharti Airtel has tied up with Dixon for one of the telecom equipment on the PLI scheme and that kind of assured them the business from Bharti. Does it make sense for us to tie up with any of the large two telcos or the equipment which we can cater to them for their local deployment?

Sanjay Nayak: The way it happens is...from what I understand, I have been reading that news item as well so whatever I understand is that that is for very low end equipment which is more like your dongles or CP or things which are in very high volumes and very low design content which are more manufacturing oriented. So for those things it makes sense for... By the way Dixon being a contract manufacturer makes sense for them to manufacture for OEM because it is a pure manufacturing thing. But if there is a lot of intellectual property, lot of software content, a lot of design content, it is a slightly different value proposition because the volumes are not very high. It is a high value but low volume. Whereas contract manufacturing tie-ups makes sense when there is high volume and low costs. So I would say we are working closely with all the operators. Of course we have had conversations around that if I am going to get PLI benefit, how am I going to get PLI benefit how can we benefit from it? So those conversations continue because since we ourselves outsource our manufacturing to contract manufacturers like Dixon for example, I don't know if our adding a layer in between makes sense there but that's something we continue to evaluate. I don't see anything on the table as yet.

Tejas Sheth: Thank you very much.

Sanjay Nayak: Maybe we have time for one last question because if we don't leave now, then we will be under curfew.

Moderator: Thank you sir, that would be the last question for the day. Now I hand over the floor to Mr. Sanjay Nayak for closing comments.

Sanjay Nayak: Thank you, I guess we already had very good questions which covered almost all the topics that I would have wanted beyond what I said in the presentation. Again I would like to say that it has been a good year for the company; we as the management team have been very focused. We are basically doing what we said we were going to be doing which is focus on international, focus on developing the run rate business, continue to invest in R&D, continue to focus on collections and cash flows.... I think all those things have panned out well. We hope that with all our efforts we will continue to keep the momentum for the next financial year and look forward to showing good results in the future as well. As I think, you all know that Q4 is always the biggest quarter for the year. There is a seasonality as we talk. So we have to deal with it as we go ahead. We are making our best efforts to look at the challenges and find a good way to build the business. So again I feel that thanks to all the teams of the company and everybody else, we have been able to turn the company around and get it back on the right path. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.