



“Tejas Networks Limited
Q2 FY '23 Earnings Conference Call”

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MODERATOR: **MR. BHUPENDRA TIWARY – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Tejas Networks Q2 FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupendra Tiwary from ICICI Securities. Thank you, and over to you, sir.

Bhupendra Tiwary: Thank you, Andrew. Good evening, everyone. On behalf of ICICI Securities, we welcome you to Q2 FY '23 Results Conference Call of Tejas Networks Limited. The company is represented by Mr. Sanjay Nayak, who is CEO and Managing Director, Mr. Arnob Roy, who's COO and Whole-time Director, Mr. Venkatesh Gadiyar, who's CFO, and Dr. Kumar N. Sivarajan, who's CTO. We'll begin with the opening comments by the management, post which we'll take up the Q&A session. So over to you, Sanjay.

Sanjay Nayak: Thank you, Bhupendra. And first of all, I wish you all a very happy Diwali, and thank you for joining the earnings call of Tejas Networks. We have uploaded the presentation that I'm going to walk through on our website, and in other places. So I hope you have the chance to either download it or follow it as we discuss.

So I'm on the first slide, which is the key updates of the quarter. In terms of the financial update, our net revenues for the quarter were INR 220 crores. Profit after tax was marginally profitable at INR 1.1 crores. Our cash and cash equivalents are at INR 1,402 crores with no debt. And order book at the end of Q2 has increased to INR 1,455 crores, which is an all-time high for our company.

In terms of key highlights, there are very-very strong Q2 bookings and a lot of new wins. So we had INR 481 crores worth of new order wins across optical products, both in India and outside of India. We're also happy to say that we introduced our wireless products at the India Mobile Congress, our 4G and 5G products. The outlook is looking quite strong. We believe we have a very good opportunity to get large scale wins starting from India. And we also see that there's a lot of push by Government of India to create indigenous telecom ecosystems, and we believe that we have a very good opportunity to take advantage of the supportive policies of government, both in India as well as outside of India.

Supply chain performance and component shortages was something that has been impacting our revenues in the past. While I would say that the things have started to improve, but the global component situation, chip situation, especially for certain kind of components, is still not that good. However, as I mentioned in my last earnings call, we have taken some very proactive internal actions in terms of re-engineering our processes, IT systems, tools and so on and so forth. And as a result of that, we are starting to see good results coming out. So we've crossed INR 200 crores per quarter revenue after a gap of about 10 quarters or 11 quarters. We do expect that and as a result, not only have our revenues improved, we also saw improvement in our gross

margins. We do expect that as the year progresses, we should see continued improvement in the second half of the year in terms of revenue performance as well.

There's another important thing, which is the design-led PLI incentive scheme, which was launched during the quarter by the Government of India Telecom Department. We had earlier been approved for the PLI scheme for telecom products. This new design-led scheme is a very innovative scheme where all the investments that are made in R&D, which are capital in nature, including salaries and manpower cost are considered as eligible investments for the PLI policy.

Given that, and given our potential for much higher revenues in the future, we have reapplied under this new policy, which is available to us and increase the size of our PLI commitments, which has a fairly large potential for higher incentives. In addition, the design-led PLI gives 1% extra incentive if you're an R&D-led company like ourselves.

We have been increasing our R&D headcount in operations headcount quite substantially in line with the growth that we expect going forward. As a result for the first time in the history of the company, our total employee strength has crossed 1,000 employees. And as you are aware, we have acquired Saankhya Labs and within Saankhya Labs and ourselves, we now have a patent portfolio of 434 patents.

I'm on the next slide, which will continue with the profit highlights of Q2. So the integration of Saankhya Labs is on track. We had earlier acquired 64.4% of Saankhya Labs in July 2022 and for the balance 35.6%, we have filed for amalgamation of Saankhya Labs and Saankhya Strategic with Tejas through the NCLT process as on 30th of September.

What we have already done is that we have integrated the R&D teams of Saankhya and Tejas. And the focus of Saankhya R&D team now is to strengthen and accelerate the development programs for 5G, radio, cellular broadcasts, satellite communication and other areas like semiconductor chip design. And in addition, Saankhya Labs before the acquisition was also having R&D services for external clients.

We believe that the value of the team and the capabilities that exist in Saankhya are far more valuable and better utilized if we use them for our in-house product development and acceleration of the opportunities that we see in the market. So we would be reducing the focus of Saankhya Labs for an external contract R&D and increasing the focus more on in-house acceleration and in-house development of products for which we see a large market opportunity.

There was India Mobile Congress in New Delhi a few weeks back, which was inaugurated by the Prime Minister, and the 5G was launched in the country. During that congress, we showcased end-to-end portfolio of our indigenous products. Some of you might have had an opportunity to be in Delhi and see those, but I can tell you that the kind of product portfolio, the kind of live demo and the capabilities that we showed from hardware to software to chips and to technology domains across wireless, optical and satellite are possibly the best that was available in the

country. We, of course, were very heartened and honored that the Prime Minister himself visited us and spent significant time understanding all the products and technologies that are available with us.

We also showed a live demonstration of our 5G radios, which are required in the bands, which have been auctioned in India. So we have the 5G radio products as well as some very new innovative technology like direct-to-mobile broadcasting, which is one of the latest technologies that is getting standardized in the world, and we are having a lot of IPR from the Saankhya Labs portfolio as well.

And the icing on the cake was that we won the best designed and made in India Telecom Innovation for our TJ1400, which is a very unique product, which we have been talking about for some time, which can be both, and it can become a base station, it can be then a GPON block, and it can, of course, become a transport product, all from the same hardware and configurable software in the integration.

And recently, we were again the same product has given the best product by Indian Electronics and Semiconductor Association (IESA) for contribution to India's ESDM sector. So all I can say is that from a technology angle, from a business angle, we are investing, and we are confident that what we have created in the direction which we are going sets us up quite well for executing and scaling up the company to a much larger level going forward.

The next set of slides, which are a little bit more detailed about the financials, I'll request Venkatesh Gadiyar to walk us through those, and then I'll come back again to the presentation.

Venkatesh Gadiyar:

Thank you, Sanjay. Good evening, everyone. This is on the financial update. Q2 revenues were INR 219.9 crores, where we saw a year-on-year increase of about 27.3% and on a half yearly basis, around 9% growth, and while we had a loss on EBIT of INR 4.3 crores for the quarter, we had seen the profitability in terms of PBT and PAT. We had a PBT profit of INR 10.9 crores and a PAT of INR 1.1 crores and EPS of INR 0.07.

And above Q '23 figure includes Saankhya's numbers as well. Saankhya's revenue of INR 13.9 crores for Q2 '23 has been included in revenue above. Similarly, the above EBIT includes Saankhya's EBIT loss of INR 5.7 crores and both the PBT and PAT above includes Saankhya's loss of INR 5.3 crores in Q2 '23.

Key financial indicators. During the quarter, we had a cash outflow from operations of INR 71 crores and net worth has improved to INR 2,548 crores, and there was an increase in the inventory and the closing inventory of INR 399 crores as on 30th September. Inventory has been increased since we could not ship out the complete or unbalanced systems to fulfill the customer's orders due to the critical component shortages. Hopefully, we expect to consume these inventories in the second half of the fiscal year.

And trade receivables were at INR 380 crores. And we have collected INR 201 crores during Q2. And the working capital has been increased by INR 100 crores, primarily due to the increase in the inventory level. Our cash position as on September 30th is INR 1,402 crores after making a cash investment of INR 284 crores for acquiring a 64.4% stake in Saankhya Labs. And with our healthy cash position of INR 1,402 crores, we are in a good position to execute larger opportunities to scale up our business. And also, I would like to inform you that this quarter, we had turned profitable.

With this, I will hand over to Sanjay Nayak.

Sanjay Nayak:

Thanks, Venkatesh. I'm on the next slide, which gives you the breakup of where our sales is coming from. So as we have been doing in the past, we look at the trend line in terms of the total of last year, and year-to-date, which is the first half of the current year in terms of how the different segments of our business are performing.

So if you really see the run rate business, which is a combination of India private plus international, contributed to 80% of the revenues for the first half of the year. India private was 51% with a year-on-year growth of 35.5%. India Government contributed to 20% of the first half, which represented a year-on-year growth of 66.7%. Out. We do expect that going forward, given all the things that are happening in India in terms of investment as well as favorable environment for domestic companies, we expect that the growth in India will continue to be at quite a significant pace for our business as well.

International was 29% of the total for first half, which on an absolute basis, was a decline of around 30%. So we did around INR 101 crores of international for first half versus INR 200 crores for the whole year last year. So we do expect that as the second half happens and given the backlog situation of more than INR 187 crores that we have for international, we should see improvement on the international revenues for the second half of the year as well. In terms of the breakup of the backlog that we have of INR 1,455 crores, India backlog is INR 1,268 crores and international backlog is INR 187 crores of total.

I'll go to the next slide. It is just again a recap of all the different segments of the business or the technology that we are playing into. If you see the chart on the right-hand side, is all the wireline and optical products that we've been having for a while. The DWDM category of our products continues to do extremely well. We are winning a lot of business in India and outside of India as well. The broadband access, which is the GPON portfolio, again has been doing very well for us. And the product that you see on the left-hand side, just over the star is our flagship product, the ultra-converged broadband access, this is the same product that we had earlier used for other applications and now is also being used as a 4G and 5G base station, going forward. And this is the product that we have been trialing in various networks.

So, and on the left-hand side, we now see that we have a 4G radio product. We have a 5G product, which is both ORAN as well as the normal 3GPP compliant, as well as we have products

from the satellite IoT and direct-to-mobile broadcasting, which come from the Saankhya Labs portfolio, along with the software-defined radio chipsets that they have. As a result, if you see the richness of our product portfolio from radio to wireless to optical is very rich. The challenge for us is to continue to make sure that we invest and make sure that these products are technically as good as we get in the world. But more importantly, we start generating large business opportunities for the technology and products that we have created, and this is where we are seeing benefits.

Last part of this technology, I wanted to also talk about is the secured Ethernet switches, which are used in smart cities, safe city and other applications, and which again is a part of the business, which is a fragmented business in terms of distribution, but it is starting to aggregate and become a reasonably meaningful business mostly from the Indian customers, which are non-telco customers within the country.

Coming to the next slide, which is the summary slide for me, and then we will, of course, open up for questions because I would like to give more time for that. If I look at it from where we stand, our Q2 performance improved on the revenues and margins. We crossed INR 200 crore revenue threshold after a while. And we expect that we have now finally got a very good handle on supply chain, and we believe that with our own internal processes and systems as well as overall global outlook for supply chain starting to look better, we expect that second half revenue starting from Q3 onwards would continue to see improvement and we should continue to see better revenue performance going forward.

Order book is excellent at INR 1,455 crores. And in addition, which is primarily on our wireline products. Our wireless products, which we launched recently for the 4G and 5G will start generating reasonably meaningful revenues and bookings going forward. We have fairly good visibility to some of the larger orders, and we hope that with those backlogs also coming in, in the near term, we should have a very strong order book to be able to have predictable execution going forward from future quarters as well.

On the product side, we are, again, very proud and confident that our products are world-class. They are award-winning and the successful demonstration of our truly indigenous 5G technology with all kinds of features and capabilities during the IMC and the customer response that we got from the stakeholders who visited us there has been very encouraging, and we believe that now we are well set to become both wireline as well as a wireless company.

We continue to make significant investments in R&D as well as in manufacturing operations because while we can get the orders, we also need to make sure that we can execute them effectively. And we have been investing a lot into upgrading all our systems, processes, capabilities, and we are confident that as the business comes, we should be able to scale up our revenues and manufacturing operations as well.

The integration of Saankhya Labs is progressing well. They have a very capable team of people and products, and our objective is to take the best advantage of synergizing what they have and what we have together and really build a very-very robust product business going forward. And as Venkatesh said earlier, our cash position is solid. We are confident that we have the capabilities and now the balance sheet to execute large orders and to scale up our business, which is what we've been lining up to do over the last 12 to 18 months.

That's really where I'll pause, and thank you for understanding the details of our business. And now, we will open up for questions for the rest of the hour.

Moderator: Thank you. We will now begin for the question-and-answer-session. Anyone who wishes to ask a question, may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.

Pratap Maliwal: I just had a question on the BSNL 4G deal update. So there was a post that the TCS was under the final stage of closing the deal with BSNL for the 4G network, the reported figure to be around the \$2 billion range. So, could we just get an update on the timeline of order, what progress you're making here?

Sanjay Nayak: I think as you have been mentioning, we have been a part of that consortium. We have made very good progress in terms of all aspects of the deal in terms of technology provenness as well as making sure that it's a commercially viable deal. And the process is on, and we do expect that sometime during the current quarter, all of those things should go in the right direction.

Pratap Maliwal: Can we say that maybe in this quarter, and quarter Q3, we should start getting some orders for that particular deal?

Sanjay Nayak: It's very difficult to predict anything from the government. But all I can say is that anything that has to be done from our side in terms of enabling this business with us from a product readiness or commercial viability has been done. And the process is on, and we do hope that we would get an opportunity to close that business at the earliest.

Pratap Maliwal: Okay. Sure, sir. And regarding the order book, so how much of the order book do you have an execution in the remainder for the FY '23? As I believe the seasonality kicks in the later part of the year is feasibly better for us. So how much of the order book would we be executing in the remainder of FY '23?

Sanjay Nayak: Yes. So typically, as you know, we have a fairly heavy second half compared to the first half. In different years, it's been 35-65, 40-60, between first half and second half. So I think similar this year, we have the strong second half. What I talked about earlier in terms of getting much better

handle in terms of supply chain, in terms of planning, processing, internal tools, we do expect that the second half will be strong.

So from the order book that we have, anywhere around 40% or so, we would like to execute subject to, of course, supply chain issues not coming in the way. And if we see actually are able to manage it well, the kind of number should be possible. From a customer angle, there's a lot of demand for our products and the soonest we can produce and deliver is something that they would like.

We have taken advance actions quite a while back. The challenge in the supply chain, just since we see here on the topic, is that while certain parts of the component industry are expected to come back to normal starting from next year, but other parts still may have a slightly longer lead time. And unfortunately, in our industry, for example, in our company even if one part, one component, or one chip gets delayed it has an impact. So we have taken all the actions. We do expect a fairly strong second half in line with what typically happens where we have a bigger second half compared to first half.

But we still would be carefully watching the supply chain situation so it doesn't go out of what we think it should be in terms of improvement and so on.

Pratap Maliwal:

Okay. Understood. And just one final question, if I may? The India order book, as I understand, it's 1268 cr. So can we break that up into India Private and India government, the order book, India?

Sanjay Nayak:

Usually, we do not break up the order book by customer segment. So we break it up by international. But I can tell you that within the India order book, just to give you the sense of the kind of delivery timeline or pressure that we have on the two aspects of the order book.

The international order book, we typically will have to execute much faster because customers would require those equipment sooner. A significant part of the India order book is more in the form of for example, projects in the critical infrastructure segments like we had announced a deal for Power Grid.

So now Power Grid when the power lines are set up or when the networks are set up, they are more like infrastructure execution projects, which have a slightly normal duration. So the India order book, I would say, will get executed over a slightly larger duration of time. The India private gets executed quite quickly. The India government takes a little bit more time to execute. And that international order book is ideally speaking, if you have the material, they would want it from us immediately. So I think this is how the blend of the delivery of the order book would come into play.

India private, as we said, continues to be a strong segment for us as a tone earlier. India government is, of course, we have a good backlog and a lot of funnel for new business as well.

And this switch is what I was saying that going forward, even with a larger base, India government would continue to accelerate.

And international on an absolute basis will continue to use increase. But as a percentage, because if India is going to grow at a much faster pace, we will still have a mix where India business will dominate the overall.

Moderator: Thank you. Next question comes from the line of NGN Puranik from Enam. Please go ahead.

NGN Puranik: And very nice to know that you have showcased a 5G radio. It's good to hear an Indian company doing all this. Can you give a sense of how you are going to productionize this, monetize this? What's the path to glory in this? How will you -- what are the steps forward?

Sanjay Nayak: Certainly, Puranik, First of all, thanks for your words. I really appreciate it. So in fact, just to give you a little bit of thought process and the strategy for building the 5G business, one good thing which Tejas has, which is a very, very big headstart is that a lot of the technology that we have developed, whether it is for wireline, which is optical or 4G or 5G is all integrated. We actually have a product where in the same box or the same shelf, which you saw the picture earlier, you could make it as a base station, it could be 4G, 5G or you could use in optical. So the good part for us is that with the incumbency that we have, we have shipped more than 750,000 of our systems worldwide. So the incumbency that we have allows us to upgrade some of these networks with newer technologies that we have introduced. So the game plan for wireless is...

NGN Puranik: Perhaps, marginal effort?

Sanjay Nayak: With marginal effort. And that is why if you see the product portfolio that I displayed on my chart, to create a product portfolio of wireline, wireless and radio, and I would encourage you to look at even the biggest names in the world in the telecom OEM industry, probably only one or two companies, maybe one from China and one from Europe, might have the same range of products that we have.

So that gives you the confidence that the efficiency of our R&D processes and systems and maturity is very good. But then coming back to how do you commercialize this and how do you make a good business out of it. So one is that we can upgrade a lot of our products for newer technology.

Our game plan in wireless is to make sure that we initially get a very large beachhead account for 4G and 4G still has long legs and a lot of businesses is out there. And 5G will be a seamless upgrade on the existing product architecture that we have. So we will now take the incumbency of our wireline and optical business to get our feet wet into the wireless business.

And the incumbency of wireless starting from 4G will be leveraged to seamlessly upgrade to 5G. So from a customer experience, this migration becomes very easy. The maturity of technology, the products, which have been field-hardened for 15 years, running the same software core base. So those are the benefits which we get. In fact, the use case for 5G around the world is using 4G as an anchor. So the networks which have done that is to use 4G as anchor, put 5G on top, look at the markets where 5G has the highest potential, look at the bands where the 5G is going to give the maximum bang for the buck, and go and upgrade those networks seamlessly on a pay-and-grow basis since our product architecture allows it.

So our game plan is in the next 15 months, which is now till end of next calendar year, we will be focusing more on building this 4G anchor base in India upgrading it to 5G in India, it may be in multiple accounts and they'll start engaging during the middle of the year with international customers, and we have a lot of inbound inquiries from customers in Europe, in particular, who are looking to find an alternate to some of the incumbent suppliers from certain countries, whom they would like to replace with new suppliers not just with the guys that they are used to from Europe.

So actually, we have got a "vacuum" to fill in certain markets. And it's our ability to scale up and engage with them and be able to supply them equipment in their labs and in their field, which is coming the way. So we're taking a step-by-step approach, mature the products in India, get your supply chain up, get the products into right shape, size and competitiveness then go outside of India, the opportunities are large. And we believe that this way, we may leverage all the stuff that we have done and really made a good business out of it rather than just building products and then not being able to sell them commercially.

NGN Puranik: So you are now ready with both 4G and 5G?

Sanjay Nayak: Absolutely.

NGN Puranik: And the 5G has happened with the incremental effort?

Sanjay Nayak: 5G, a significant part of the 5G comes from the Saankhya Labs acquisition. They have been working on 5G for quite some time. So we took their technology and their engineers, and we're all working as one team. If you look at the radio architectures, we have really converged so that a lot of the hardening and a lot of the productization which has happened for the 4G radios that were already in place, along with the 5G technology and all the different frequencies and different modes of working of Saankhya, we are able to accelerate the two together which individually would have taken a lot more time. So really taking advantage of the best that we have from both sides and accelerating the 5G.

NGN Puranik: So the TCS BSNL deal is extremely critical to both 4G and 5G today for you?

Sanjay Nayak: Yes. Any anchor customer of this size is very, very important for a company like ours because it just gets us into a step function increase in terms of capabilities as well as deployment opportunities and, of course, revenues.

NGN Puranik: And your own share of economics in this deal will be how much?

Sanjay Nayak: Typically, RAN is a fairly large portion of a network. So as you can see because that's a very large amount of field deployments every site or sell site could potentially have radios of one or two bands or three bands at times. So it's a fairly large opportunity and very significant opportunity to scale up our company in terms of supply chain capabilities, finances and everything else.

NGN Puranik: So in a INR 2,000 crore deal, you will get a share of what? 20%, 50%, 60%, or more?

Sanjay Nayak: I think let the deal happen and then we, of course, will have the share.

NGN Puranik: Let the deal happen, yes. If the deal happens, that's very critical to -- for India and for you and both on the 4G and 5G. That's very important. I have another question. You mentioned a very interesting number that you have 400 IPs combined, you and Saankhya combined, 400 IPs. I think you are an IP company, very few IP companies have your stature. But what I want to understand is, see what happens is, generally, most of the IP companies work on product innovation, new ideas and all that but they get lost on the monetization on the economics.

So I want to understand these 400 IPs, the character of this 400 IPs, potential of these 400 IPs. In fact, last time also I asked you about how many of them are production IP, sales IP, process IP, defense IP and this will -- for example, if you can explain through for the 4G and 5G creation, what -- how many of these IPs are deployed. If you can give some sense of power of these IPs, so it will get an understanding when they're going to get monetized?

Sanjay Nayak: Yes. So first of all, the good part about our company is that we just don't create IPs for the sake of creating IPs or filing patents. The best part is we actually productize them. So if I look at the total IP portfolio, it is spread across optical products, Ethernet products, 4G, 5G even and 5G Advanced, which is going to be a part of 6G. Some of the IPRs also pertain to that because some of the new things which are coming in those standards are being contributed by our teams here in India from India, right? And at even there's a lot of talk that finally for the first time, India has actually contributed to global standards and correspondingly filing the IP.

So I think we have a whole spectrum of IP which is across these four domains that are reached, Optical, Ethernet and 4G and 5G and onwards. Now what we do is all the products that we create, so everything that we build, for example, a transmission box or a 4G radio or a 5G radio or a direct-to-mobile broadcast radio and so on, so there's a lot of happening here of course, embedded into it.

So as such, we are not in the business of selling the IPR or licensing the IPs to anybody else. They are more for use in our own products, so that we get a differentiation to begin with. And secondly, as you also mentioned, part of this patent pool is also defensive in nature, because we also need to make sure that we have a reasonable portfolio of IPRs with us, so that at any point in time, we always have a situation that we can have a fair negotiation with anybody.

So I would say it's a combination of all of that. Our interest in the IPs is to really make products which are world-class, make products, which are really meaningful and differentiated as the customer and at the same time, also protect some of the unique business things that we have done.

NGN Puranik:

And you're saying there is a method in the creation of these IP, they have a direction, they have their own proprietary stature in the portfolio, they can add the value? There is -- none of these IPs are did any time done fix when you do an IP audit, perhaps you will know -- if you give some sense of that, that will be awesome?

Sanjay Nayak:

Yes. We have not done a formal IP audit. But as said, just to maybe highlight that some of the IP that Saankhya has been creating is actually going into a 6G standard, let's say it, right? So that gives you the sense of the importance of their IP, right, in terms of how would you do a broadcast 5G application in a certain way, let's say, right?

So those are all things are extremely valuable. They will be productized in the form that will be meaningfully useful for a customer to do something new, do something in a different or a clever way, give a differentiation to our product. So that's what our focus is. And really, as I said, I mean, the productization of the R&D or the intellectual talent that we have in the company is something that really is what we focus on, versus just creating a patent portfolio and actions we need to someone.

In that sense, we are -- it's a bit of a similar actually, just to give you the same point, like Saankhya earlier, who used to do a lot of very, very complex R&D services work for certain kind of customers who would love to get stuff done by Saankhya. We believe that the talent and the capabilities are better utilized or accelerating our own products and getting that kind of service revenues is not that meaningful for us.

If you were a services company absolutely, when you are a product company, we see a lot of business opportunities. You see a lot of things that if we have this product today, we could sell it. So we would rather put all our engineers and all our talents in that direction rather than in the short term, maximizing our revenues and providing services to someone else.

NGN Puranik:

So if you had to pitch yourself for international opportunity, Europe and the US, how do you -- for a large deal, how do you pitch it different from how do you do it for an Indian company?

Sanjay Nayak:

So clearly, I think it depends on the market and depends on the dynamics of the customers. So I think one other thing I would like to highlight here is that over the past two years, there's a lot of geopolitical situation, which has changed in the world. So earlier on, if you were a new equipment provider, one of the questions someone would ask is, how are you better than company A, from country A or company B from countries -- wherever else, right? And the onus of proving that you are far better than other cost, feature of performance, or technology was a new, right?

Now there's a slightly different conversation, which is, I have to replace equipment from vendor A or B. And I do not want to go to the same set of people who were there before. And I want to get competition in and if they look around in the world, probably we appear to be one of the best set of people or set of products that can give them the confidence and comfort that not only is this product good enough that it has worked against global competition in India.

It has been bought at Indian price points, and this company continues to do well and the fact that now we are a part of the Tata group and have all the other benefits of the group companies, the confidence and the trust is much higher. So I really feel that in that sense, when now the narrative when we start attacking international deals of the larger kind, is really that we are a very credible alternative to the whole ecosystem, which is 4G, 5G, transmission or whatever than what was earlier.

And if you see some of the commentary that even at a national level from India, which has been said by leaders in our country that for the first time, India now actually has 4G and 5G products, which are world class, and we want to not just become an importer of telecom products but become an export hub. So I think that just kind of gives you a sense that the opportunity is coming from different corners and for different reasons. And the fact that we have had success in India is a very good benchmark of confidence because every global player and everybody watching what's happening in India and our success in India is always considered highly valuable, and we do get instant credibility. Where you're handicapped earlier was lack of brand on international markets, lack of local support, lack of a comfort that you guys will be around 5 or 10 years from today.

But with the partnership of the Tata group, I don't think those questions are any more relevant. Of course, we want to mature our products, especially the newer ones like I mentioned on 4G and 5G in India before we go for an all-out things internationally, which is a prudent thing to do given the complexity of the technology.

NGN Puranik:

Excellent. One last question on business economics, the bread and butter, livelihood -- this question. When do you think you will get back to 15%, 20% operating margin, which typically a power of IP company. How soon your...

Sanjay Nayak:

Yes. So what we would like to compare ourselves, I would say, in the medium term would be try to become the best-in-class among the telecom equipment companies worldwide. Because

our comparison with the IT services companies may not be the right comparison because the market and the profit dynamics are slightly different.

NGN Puranik: But comparing an IP company -- no. No.

Sanjay Nayak: Okay. IP company, yes. If I look at a product, global telecom OEM, our target is that in medium term, we should become among the most profitable. And in the long term, not only should we have very large revenue in terms of global market share, we should possibly be the best in class because with an Indian R&D cost advantage with the large home market that we have, which, of course, in the local market here sales costs are lower.

The fact that in India, if you win and you fine-tune your processes to sell products, you can make a lot of margins when you go outside of India, are all positive. So I would say we are thinking right now is rather than optimizing and getting to this profit target in the next one or two quarters, let's invest for the next short period of time, I would say, get the scale, get the size, get the credibility, and after that, it's a very, very straightforward thing because if you can make x percentage of profit in India, you sell outside of India, you can add 10 to 20 points.

And I think that's something that we have done before. And our goal today is to really make sure that we build the company for long term. We build processes, systems, people, talent, manufacturing, cost optimization, so that everything that we do in India is a plus. And that success will really leapfrog us in a very short period of time when we go internationally rather than trying to diffuse our resources in optimizing in the near term.

NGN Puranik: Absolutely. No, that's what I was I'm asking, 2 years down the line, will you be a 25%, 30% margin company?

Sanjay Nayak: I can't give the numbers, but 2 years down the line, we should be definitely among the better run telecom equipment companies in the world.

NGN Puranik: Correct. Because with the power of your IP, you should be a lot more profitable than the rest.

Sanjay Nayak: And then the fact that a lot of it is done from India, which is -- we never took advantage as a country to do a lot more R&D for a lot less. And this is all evident in what we've already done and what we will be doing. So all those basic elements which you articulated are all right, but the reality of that comes with scale. Scale is what we need to get sooner than later, and we're focusing to make that happen. So I think we just play the thing in the right sequence, we are very confident that we will deliver what the potential of the company and country in a larger sense. Since you mentioned that it's important for India to now be a big player in this new ecosystem. I think we feel that we have the best shot to do that.

Moderator: Thank you. Next question comes from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil:

Firstly, it's good to see quarterly improvement in your revenues, congratulations on that, including. So just -- I joined the call a bit late, so please pardon me if I'm making you repeat something. Sir, just on your profitability, I mean, you had guided that some of your fixed cost agreements which you have signed, which are already present in your order book, are already at higher raw material levels -- at higher cost levels so that could have an impact on the margins going forward is what you had indicated last quarter.

But it certainly seems that you have sort of turned the tables around in this quarter despite Saankhya having a loss of about INR 5 crores on the operating level. So just wanted to get a sense on what has led to this positive surprise ease at all if you feel so? And second question was on your international revenues. We have seen a bit of softness. What would you attribute that to? Yes, these are my two questions.

Sanjay Nayak:

No. No, fair enough, but I did not answer these questions, so you didn't miss anything. On the first question, yes, you're absolutely right that some of the rupee-denominated contracts in India were fixed price. And given the component cost increases and all that, we did have a challenge. The product mix in the last quarter was a little bit more favorable to us in terms of things where we could get certain costs down or get cost reduction or maybe the margin on those specific deals that we have signed or the things I wouldn't have the exact details in terms of what were these one or two deals that actually made it happen.

But broader base, I think we did do better in terms of improving the margins. One other thing the relation here on the topic of margins. One thing which we also are trying to do is that as we line up for executing at a much larger scale. And I'm again very happy to say that a lot of the global chip suppliers are treating us far more seriously than they would have treated us a year back, let's say, right? Because they do see that what I mentioned earlier that if in a few years' time, there could be a new global OEM was to be emerging, which would potentially be a large-scale company we have a very good shot at being that company. And if that is the case, those chip suppliers are also giving us strategic pricing, strategic delivery timelines, not as good as we would like today because they still are handicapped by their supply chain shortages in terms of fab capacity and so on.

But the way things are unraveling, especially in the last two weeks, how some of the geopolitical developments have happened, we have reasons to believe that the supply chain situation in terms of chip supplies can potentially only improve from the level that things are, including some of the pressure on pricing can relieve.

But of course, all of that will take time to unravel. So that's one part on the margin side. Second question you had was on the international side. So as you saw, we have a backlog of more than INR 180-odd crores on the international side. It's again, a situation where we specifically for international customers because in Indian customers suppose we have to ship a x number of systems, you could ship some percentage of x in lot one, and you can do some percentage in lot

two. But in international customers of different times, we would prefer all of that equipment to be delivered in a certain way.

In this case, if they have any kind of imbalanced inventory, I would not be able to ship it to them. So I would say that quarter it was just a function of what were the customers that we had to give priority, what are the chips we could manufacture and complete our systems. But as I mentioned earlier, going forward, on an absolute basis, at least international performance in the second half will be better. But as a percentage, if India continues to grow at a very fast pace, either this year as well as next year as a percentage, of course, international will be lower.

And our target is that we are taking one step at a time and get to scale using the volumes of the home market in India. While all the engagements in terms of lab trials and other stuff, the critical customers internationally, we will continue to do. But I must also highlight that our existing customer base continues to do well.

That is the reason the run rate accounts from various international geographies like Africa, Southeast Asia and so on and so forth continue to give us good revenues, but developing Europe and US, which can give us significantly larger revenues, will be something that will take a little bit more of time. And given that the priority is given the amount of opportunities available in front of us starting from India and larger deals, we just have to make sure that we do a good balance and don't ignore the home market just because it's our home market. I think it's a very valuable home market, and we want to take the best advantage of it.

Vimal Gohil:

Understood, sir. That's great news here. So basically, what I would -- the short takeaway would be that going forward, there would be no sequential -- there's sequential improvement that you are showing will sort of continue? Would my assumption be right in terms of top line and profitability?

Sanjay Nayak:

Our top line, definitely, we believe that with all the actions that we have taken internally and the external situation seeming to improve, we definitely do believe that the top line situation will continue to improve over the next few quarters. And as scale catches up with us, we also believe that we should start getting better control on our margin and pricing.

And I mean, I would say it will not happen overnight, but the trend definitely looks very positive and upwards for us. And of course, our objective is to make sure that larger deals, of course, come with their own set of challenges and we want to make sure that we are ready to execute because scaling up and getting to the right size and getting to the right capabilities and provenness that is very, very crucial because that really propels us into the larger leads if you can execute these near-term opportunities very well.

Vimal Gohil:

Understood. Sir, another one Saankhya. Again, I'm not sure if you addressed it, but just on profitability, what is the outlook there? I mean, while you have indicated in the presentation that

the integration is on, but are you as confident in Saankhya that Saankhya will be able to be as profitable as Tejas is, going forward?

Sanjay Nayak:

So I think, I had mentioned this in the context of Saankhya integration. Saankhya had two businesses before we acquired them. One was services business, very high-end R&D services that they were doing in addition to including their own IP in those services, for clients abroad or in India, or wherever. And that was a reasonably profitable business for Saankhya.

And the second thing Saankhya was doing was developing their own products. Of course, once you have your own products, we have a lot more potential. So we have taken a conscious decision that we want to focus on the second activity a lot more. We would rather take the outstanding talent and the capabilities and use them for not just Saankhya products, but all the 5G stuff that, for example, we talked about.

A lot of the 5G heavy lifting from the capabilities came from the Saankhya team. So rather than focusing on the profitability of Saankhya, we are now looking at Tejas plus Saankhya as one team, one entity, and really creating a portfolio of products and prioritizing the R&D in areas where we see maximum possibilities of revenue scale up and profitability scale up going forward. So we are kind of doing a Tejas-plus Saankhya optimization rather than focusing on Tejas optimization alone and on Saankhya optimization alone. I hope that answers your question.

Vimal Gohil:

Right. And sir, lastly, some media reports indicate that we are sort of frontrunners for the large BSNL deal along with, of course, along with TCS. So just to understand this a bit better, the receivables with BSNL that will happen while you are executing this project, how will this get classified? I mean, will TCS, will be provide our services to TCS and then TCS take the receivables on our behalf or will it work the way it used to? Because it is our historical experience has been that typically execution of these contracts as sort of stretched our balance sheet a bit in -- which I'm sure indeed which has happened in the past. So what are we doing so that does not repeat going forwards, when we retain the BSNL contract?

Sanjay Nayak:

So first of all, let me tell you that at least whatever we can do from our side as Tejas to be successful in winning large deals, we are doing, as I mentioned earlier, whether it's technical or I think we are playing our part well, and I am confident that at least everything that should be done from our side is being done. In terms of the media reports, we also read the same media that you do. So I guess, when the things actually fructify, we'll all know it.

So that's the second part. Coming to the third party in terms of the financials and the receivables from BSNL, all of us tell you is that the good news is that BSNL is a very well capitalized company right now. They have been given, I believe, from the media report that has been, close to INR 160,000 crores worth of support from the Government of India, which is including a significant amount of cash infusion. So I think as an operator BSNL is a fairly healthy and solid customer. So I don't think we need to worry about that part of it in terms of the receivables.

Second thing, I must tell you that over the years, we've had a fairly good and detailed working experience of how to work with not just BSNL, but any other PSU operator or even private operator or anybody else in terms of making sure that we follow their processes and systems to the key, because the better you become at that, the lesser the chance of any financial receivables or anything adding up.

The problem comes when the company is financially not solid, which was a case of BSNL in the past. But going forward, with the kind of government support they've got, we being much more experienced in terms of process and systems, we're working with other consortium partners who are quite mature and experienced in handling large projects, and the government's intent overall to make sure that we create a vibrant and healthy ecosystem from India, which not just does well in India, but does well around the world for India, I think all of those things make us far more confident that we will be disciplined about execution, and we will make sure that whatever profits and whatever financial gains that are got are all done and actually realized.

And so we will be using all our experience and all the knowledge to make sure that we execute well on these larger opportunities as and when they cook for us.

- Vimal Gohil:** Thank you so much for your detailed answers and all the very best.
- Sanjay Nayak:** We are almost out of time, but if there's one last question since we didn't announce, I'll be happy to take that.
- Moderator:** The last question comes from the line of Subrata Sarkar from Mount Intra Finance Private Limited.
- Subrata Sarkar:** This is just a follow-up question, sir. As per whatever product we have, like we have 5G NSA product right now, not SA product or as we are all like a largest Indian operators, telcos have announced for SA kind of 5G setup. So in this context, like how would we fit in or like comment on that, sir?
- Sanjay Nayak:** I have the pleasure of Dr. Kumar Sivarajan, our CTO. So I think between SA and NSA, as you mentioned, I'll request Kumar give his views on that.
- Kumar N. Sivarajan:** Yes. Sure. So our 5G products will support both SA and NSA, and our 4G, which is deployed, will be able to work with our 5G in NSA mode. So we are supporting both modes of operations depending on type of the operation.
- Sanjay Nayak:** And in addition, by the way, the 5G product that we have architected is also going to be compliant to the kind of thing that Kumar spoke. But in addition, even if it's an ORAN architecture, we'll be compliant to that as well. So it is really agnostic to the deployment scenario and standard scenario that an operator may choose, and that gives us the flexibility to be in larger number of opportunities than you would have otherwise done, if you were bottled into a

particular architecture or a particular way of implementation alone. I hope that answers your question.

So thank you. Again, we appreciate you all taking the time just before Diwali. And as I said, this quarter has been a good quarter in terms of getting the momentum in the right direction. The order inflow is good. The order book is very healthy. That is for the wireline part, which gives us confidence that all the work we have done over the years is very, very impactful and getting good.

On top of that, the wireless business is coming as a nice add-on business. And we see good signs of larger opportunities closing. The supply chain and the operation that we have taken a lot of active role in terms of fine-tuning and fixing the systems and processes are all coming together, which showed in terms of the Q2 performance.

And as we mentioned earlier, going forward, we expect to continue to see improvement in those directions. So overall, I think as a company, we are all committed to making sure that we look at the medium and long-term picture, do all the right things and in the short term, make sure that the exertion continues to improve so that the company starts realizing the full potential that we've been working for so many years. So thank you. I wish you all and your families a very, very happy Diwali. And enjoy the upcoming holidays. Thanks again.

Moderator:

Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.