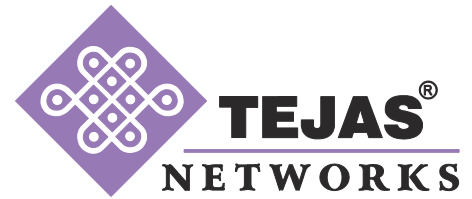


## Tejas Networks Ltd.

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**August 02, 2022**

The Secretary  
**National Stock Exchange of India Ltd**  
Exchange Plaza, C/1, Block G,  
Bandra Kurla Complex, Bandra (East)  
Mumbai – 400 051  
**NSE Symbol: TEJASNET**

The Secretary  
**BSE Limited**  
P J Towers, Dalal Street,  
Fort, Mumbai – 400 001  
**BSE Scrip Code: 540595**

Dear Sir/Madam,

**Re: Transcripts - Q1 FY23 Earnings Conference Call**

Please find enclosed the transcripts of the Q1 FY23 Earnings Conference Call held on July 25, 2022.

This is for your kind information.

Yours sincerely  
**For Tejas Networks Limited**



**N R Ravikrishnan**  
**General Counsel, Chief Compliance Officer**  
**& Company Secretary**



“Tejas Networks Limited  
Q1 FY2023 Earnings Conference Call”

July 25, 2022



**MANAGEMENT: MR. SANJAY NAYAK – MANAGING DIRECTOR & CHIEF  
EXECUTIVE OFFICER – TEJAS NETWORKS LIMITED**



*Tejas Networks Limited*  
*July 25, 2022*

**Moderator:** Ladies and gentlemen good day and welcome to the Tejas Networks Q1 FY2023 Results Conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Nayak, MD and CEO. Thank you and over to you Sir!

**Sanjay Nayak:** Thank you and good afternoon, everyone. Welcome to the Tejas Networks Q1 earnings call. We had uploaded our presentation on the website so I hope you had a chance to download it or at least are able to see it because we will be following the presentation slide by slide.

I am on the first slide which is the key updates for Q1 FY2023 so our net revenues for the quarter were Rs.126 Crores, we had a PAT loss of Rs.7 Crores, cash, and cash equivalent at the end of our quarter was Rs.1739 Crores and of course we do not have any debt at this stage and our order book at the end of Q1 stands at Rs.1158 Crores. In terms of major things that really determine the quarter we continue to have challenges in supply chain, so we want to talk a little bit about that. So basically, we could not ship adequate systems in complete form because of imbalanced inventory that was created due to shortage of certain components despite us having placed adequate purchase orders well in advance to our suppliers. There are challenges in the global industry, and we have been continuing to be impacted by that so specifically what we have done is we have really analyzed all the things which are happening in the supply chain and based on our assessment of what we need to do differently going forward we are making changes in our internal processes and IT tools to better understand the current challenges and ensure more predictable deliveries. Essentially our business model was a very light touch asset light manufacturing where we gave out all our orders to our contract manufacturers and they in turn used to place the orders for the components and so on and assemble everything and give it back to us. What we found out is that just for us to get much more predictability and control because we are getting too many last minute surprises. Now we have upgraded our system where we can have complete visibility into all the components which have been ordered by our EMS suppliers and what the status of arrival of those things are and really be able to make much better informed manufacturing decisions. So, this fundamental systems and processes upgrade that we have done in the quarter we expect should start getting better results as we go forward in the rest of the year. The other impact of supply chain for us has been that component costs have increased continually over the past two years. We are able to buffer some of it in terms of new contracts but many of the deals which were fixed price for example tender deals which were rupee denominated in fixed price in India we do not have any opportunity to increase the prices to our customers as a result our gross margins have definitely been adversely impacted. This is again in a situation which we feel that throughout the later part of this year should start improving, but as of now we do have these challenges on the supply chain side.

In terms of overall corporate update as you would have read in the press release a couple of weeks back, we have inducted two new independent directors in our Board Professor Bhaskar Ramamurthi who till recently was the Director of IIT Madras and also the person who is in charge of the 5G labs that were set up at IIT Madras has joined our Board and Mr. P R Ramesh the Former Chairman of Deloitte India has also joined our Board. The second thing which we have completed as of recently is 63.43% shares of Saankhya Labs have been acquired and as of July 1, 2022, Saankhya Labs has become a subsidiary of Tejas Networks. We already started the integration process between the R&D teams and different other programs and the impact of all of this would be seen in terms of accelerating our 5G radio program in line with the market expectations of when things will be required.

The last thing I wanted to highlight was that in last quarter the Department of Telecom announced a variant of the PLI scheme which is called design led manufacturing and that provides an additional 1% incentive on top of what was available but most importantly from an investment perspective and especially capital investment perspective they have allowed R&D manpower costs to be counted. The net effect of all of that is that the amount of capital commitment we can make comfortably to get advantage of this new design led manufacturing scheme will be significantly higher than what we had got approval earlier and the second thing the Department of Telecom has also allowed is to shift the block of five years in which we will get this incentive. So while we were eligible to get incentive in this year because of our investment in the last financial year based on our revenue profile, which we think will be increasing over the next four or five years, we have decided not to avail the incentive of last year and we will start the block of five years from this year. So the effect of these two would be I would say significantly higher PLI incentive that we will get after we are able to get our current application upgraded to larger capital commitment because of R&D manpower resources being allowed and secondly higher revenues because of the next four or five years we expect that our revenue profile would significantly be on the upswing compared to what it was in the last financial year. That is a quick summary of the overall quarter and again as I mentioned even in the last quarter we are not comfortable and excited about the fact that we are continuing to struggle through the supply chain challenges but we now do believe that combination of advanced ordering, combination of upgrading internal tools and processes and just a little bit better support from these component suppliers should allow us to make sure that the rest of the year we do not see the hiccups that we have seen in Q1 as well.

I am now on the next slide in terms of the details about the financial update so as I mentioned the revenues for Q1 was Rs.125.8 Crores which was a year-on-year decline of 12.8% compared to last financial year, EBIT was minus Rs.30.7 Crores again that is a year-on-year decline, PBT was again negative at minus 12.9, PAT was minus 6.6 and EPS was minus 0.45. Basically, as you all know we do not view our business on a quarterly basis. We look at it on an annualized basis and while Q1 because of the revenue shortfall correspondingly resulted into a PAT loss. As I mentioned there are two other impacts which we have had is the gross margin pressure continued where we could not get improvements in the gross margin so we are almost at the same level as

Q4 of last year and I expect that only when the year progresses, we could potentially see improvement but at least that is the situation that we have today. The other thing I want to mention is on the expense side especially on the R&D investment side. We have not slowed despite the fact that Q1 was not a good quarter in terms of revenue. We have continued to make sure that all the R&D investments which are required to accelerate our wireless product development in particular both the 4G program that we are working with BSNL and the 5G program for the overall market does not get impacted so on that sense the expenses and the commitments to our investments on the R&D and manufacturing side continue and we expect that as the year progresses the revenues will also catch up with respect to our investment plans.

Continuing on the next slide on the financials because of the imbalanced inventory situation our inventory increased almost by around Rs.35 Crores to Rs.40 Crores to Rs.322 Crores. Because again we have imbalanced systems it means many of the cards have come but just because some could not come because of specific component shortages we could not complete the system, but we do again expect that as the inventory starts getting balanced out the inventory level should come down. Receivables are Rs.298 Crores we collected around Rs.141 Crores during the quarter. We also collected some money from BSNL which we had provided for in Q4 of last year during this quarter. Working capital because of the higher inventory level primarily increased by Rs.47 Crores and the cash position increased to Rs.1739 Crores because Panatone investments converted the Series A Warrants and invested Rs.712.5 Crores in the company so as a result on the cash side we are comfortable, and we are making investments in line with that our long term vision of what we want to achieve. Clearly in the Q1 because of revenue shortfall we have inventory increases as well as working capital increases.

Going to the next slide in terms of the sales summary so we have two pie charts these are all the same formats we have been sharing in the past so the pie chart on the left hand side shows the breakup between the three segments of the business that we had in last financial year and the pie chart on the right hand side shows the revenue breakup by the customer segments that we track so the run rate business which is India private plus international contributed to 80% of our Q1, India Government was 20% of Q1 which was a growth compared to last year. In addition, we have won a few large multi-hundred crore tenders which are expected to convert into purchase orders in Q2. India private was 49% of the total revenues and we did see a year-on-year growth of 21.5%. This is the segment of the business which continues to do well as you all know that the India government business is a little bit dependent on the tenders and when we actually execute but private continues to do well for us. International compared to last Q1 of last financial year was down around 48% although as a total it is almost in line a little bit shorter than the overall year average. In terms of closing backlog, the revenue and so the orders from India constitutes around Rs.986 Crores and the backlog of orders from international is around Rs.172 Crores.

Going to the next slide this is just again a pictorial view of all the different products and the different segments that we are having our focus on, so on the wireline products which are our steady state business which has been continuing to grow healthily, we have got the optical

transmission, the broadband access as well as we secured Ethernet IP switches which are used for safe cities, smart cities and those applications so that is part of the business in terms of run rate as well as new order wins continues to be doing quite well. The wireless products or the new products which constitute the 4G radio network or base stations as we loosely call them both for fixed as well as mobile. And we have successfully completed the 4G proof of concept trials in the BSNL network. The 5G radios and the satellite communication is something that we have acquired from Saankhya Labs and we are integrating all of those as a part of our integrated product portfolio so a lot of new investments in terms of R&D is going into the 4G and 5G program on the wireless side. While we will continue to invest on an incremental basis on the wireline business which already has a fairly competitive portfolio of products and we will continue to grow healthily as a business so in a sense wireline business continues to be on a growth and profitable mode and wireless business at this stage is really in the investment mode. But we do expect that the wireless revenues especially of the larger kind could start hitting our revenues sooner in which case both those businesses will be independently going.

In summary I am on the last slide now. Q1 was a weak quarter because of revenue shortfall specifically because of the component shortages where we could not balance the inventory and ship. We have taken corrective actions which were not originally planned for because the supply chain model in the normal situation was working well with our EMS doing everything but we just have to do a little bit more planning and forecasting on our side and those processes and systems internally have been changed and we expect to have a better management and less of surprises from our supply chain going forward. Order book is healthy. We also have a very strong visibility of new order inflows and hence we expect to accelerate our quarterly revenue growth during the rest of the financial year. On an overall year basis, we still feel confident of significant growth compared to last year. With the success of proof of concept for our 4G RAN we are also well positioned to scale our wireless business and achieve a potentially large size orders for which commercial discussions are on. We are also making R&D investments as well as scaling up our manufacturing operations. Again, we will continue to be in the asset light mode but whether it is processes, people, systems, tools, test equipment, and capabilities, all of that is being done to ensure that as our business scales up significantly in a short period of time, we are ready to actually do manufacturing for those products. We are also continuing to watch the lead times in the industry and taking proactive inventory actions and have coverage for almost next 12 months of revenues in terms of confirmed orders to our suppliers. We already talked about the constitution of the Board which will again continue to make sure that we have a very good set of people to direct us and from a cash perspective again we have a good position so that we can take long term view of our business and continue to focus on things that over the next few years we will ensure that our company grows at a much higher pace than we have done in the past. I would pause right now and actually make it more interactive and open up the floor for questions so we can just start the question and answer session now. Thank you.

- Moderator:** Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hirenkumar Thakorlal Desai an Individual Investor. Please go ahead.
- Hirenkumar T Desai:** Good evening. Thanks for giving me the opportunity. I have two questions one short term and one slightly longer term. The first one is our order backlog was Rs.1186 Crores I think at the end of Q4 it has declined and the revenue this quarter is Rs.125 Crores so have we either seen some order cancellation or the order creation in this quarter has been low that is the first question?
- Sanjay Nayak:** Hiren you want me to answer one by one or you are going to put the second question as well as first?
- Hirenkumar T Desai:** Yes the second question is related to the longer term that it has been about a year since Tata invested in Tejas and I assume that the idea is to grow nonlinearly right significantly grow so what is the concrete plan of utilizing the cash that is there because I assume that at around Rs.600 Crores to Rs.700 Crores of revenue kind of we are break even and self sustaining so this money what is our plan to sort of increase investment or how to nonlinearly increase our revenue?
- Sanjay Nayak:** Sure, so let me start with the first question. No, we did not have any order cancellations in Q1 except that some of the large orders that we are supposed to get in the form of purchase orders just crossed the quarter boundary so they could not come in. So as such could have had a much higher Q1. I would say that the order inflow business win continues to be strong. Yes, Q1 specifically the new order inflow is slightly lower than revenues that we did and hence the backlog decreased but that is one point so as far as the year is concerned, we still continue to believe that the new order inflows and the win ratio is very strong, and we do not have any concern on the cancellation side. The second question that you said which is correct that Tata is now almost invested for a year, we do have plans to grow nonlinearly, in fact we have AGM tomorrow where we will of course also be sharing some of those thought processes along with the new Chairman. But the point is very simple we believe that our industry in telecom equipment is an industry of scale. Unless we get into top tier category among the global players, we will not have the economies of scale to really be able to play very large so in that side we are basically doing three things in terms of the broad strategy which I articulated I think in one of the earlier earnings calls. Number one is to expand the product portfolio. Our optical and wireline portfolio is very strong, we believe that with the wireless 4G and 5G thing that we are doing it expands the market for us because in India which is a market we do see large opportunities of this kind which are coming together. And part of the Saankhya Labs acquisition was to make sure that product completeness we have the breadth of portfolio that is required. Part of that strategy was that all OEMs in the world we have seen a lot of the analysis is something that they start getting a lot of success of large kind in their home markets. Hence we are thinking that with the Government of India's Atmanirbhar focus and the opportunities that we are seeing for the new capex cycle in India between 5G and 4G for BSNL. There is a large home market opportunity which we want to maximize and use that opportunity to get to global scale so that is

the second part of the strategy to really make sure that in the near terms in the next 24 months or so we really start to start getting into large deals in the home market. And then third part of strategy was related to use the Tata ecosystem to get into international markets starting from expanding in the geographies where we are but more importantly getting into accounts where we earlier did not have access to working either as a solution partner or using the relationship that exists to get to that. So I would say the strategy is quite clear except that the execution and the outcome of that strategy we expect will be visible to the investors as this and next year progresses but a lot of those signs of that we hope should be visible in this year itself.

**Hirenkumar T Desai:** Okay but Sanjay that still does not clearly answer the large amount of cash that we have about how you are going to use?

**Sanjay Nayak:** Yes so, the large amount of cash will be used for three purposes. Number one it gives us the cushion to increase investments into R&D. Number two it gives us an opportunity to scale up our business in much larger play and be able to take longer-term bets whether it is in supply chain, whether it is in securing business of large kinds or making international sales investments and number three it also gives us the ability that as and when we see opportunities to acquire candidates and companies we should be able to do that. Without having the cash position that we have today our ability to take any of these three long term calls gets dramatically diminished. And we have now N. G. Subramaniam as our Chairman, so we are working closely with him and trying to implement our long-term vision into actions as we go along.

**Hirenkumar T Desai:** Okay just to follow up is there anything on the radar in terms of acquisition if you want to?

**Sanjay Nayak:** We do not have anything that we can talk about, but the purpose is that the cash is available for both organic as well as inorganic methods.

**Hirenkumar T Desai:** Okay thanks. All the best.

**Moderator:** Thank you. The next question is from line of Sanket from Kedia Securities. Please go ahead.

**Sanket:** Good evening, Sir. Just wanted to understand like what gives us confidence that the supply chain pressure will ease out in the coming year or in next couple of years also because the same has been prolonging since last one year and that has been impacting our results quarter after quarter so how do we make sure we are self sustainable to profitability?

**Sanjay Nayak:** First of all you are absolutely right that we had expected the supply chain issues to have been behind us by now for sure and unfortunately they are not so we basically have been diving deeper into the core issues and really fixing one by one. So at a macro level if you talk to anybody in the semiconductor industries at least related to the telecom products or the kind of chips that we buy the general concern such as that till the end of this year things are not going to be changing too much. So for example if you place an order on any component supplier you may get a 52-week



lead time as a committed lead time so that is the situation that is available from a discussion that we had with the suppliers, but even for that to be honest we had actually taken inventory action with more than 52 weeks of lead time. But why are we still not able to do the revenues that we planned for is when we figured out that the EMS companies that we have been working with the way they have been operating and certain kind of things that they have been trying to optimize around did not suit the current situation where the lead times are longer. It was very important and crucial for us to get to the second and third level of details of their systems and processes, integrate them into our IT systems and be able to predictively say where exactly, which component, which is short and which EMS have they placed the order on time, what is the accepted arrival date, and why we cannot pull that in, etc.,

So I think the internal processes and systems is something which took us a little bit longer to realize and implement but I think we have done that as well so the combination of the two I feel that which I mentioned earlier that we place order for the next 12 months of our requirements gives us comfort that if we are able to better manage our suppliers essentially we should be in a fine shape going forward is our understanding.

**Sanket:** But do we have the pricing power like you mentioned we are not able to right now pass on the pricing as these are domestically built so going forward also would we have the pricing power, or our margins would be reduced?

**Sanjay Nayak:** I think in the normal situation there are two kinds of businesses that we participate in. One is the tender business where if we had bid in a tender say two years back and it was awarded to us let us say a year back the pricing power in those deals does not exist with us because it is a fixed price deal it was a rupee based thing and there is very little we could do to change that. Any new customer that we are bidding or a new tender we are bidding or any rate contracts with existing customers including large customers of ours when we are renewing, they understand the situation because all other suppliers are also using the price escalation to pass it on to them so in these cases we have been able to pass on the price escalation. Now the question is how much of a blend of the business will happen between new orders where we have increased the price versus older old orders where we have price pressure. The answer is that since we do have a large backlog of last year, lot of it is also fixed rupee price at least for a quarter or two we will see a little bit of a margin pressure till the situation on the supply chain eases off and answer to that is that we should have larger revenues to be able to absorb a slightly lower gross margins so that on an overall basis we can still be achieving profitability.

**Sanket:** With respect to the DLI incentive which you have mentioned about can you quantify this like what would be the additional benefit to us in the longer term?

**Sanjay Nayak:** So yes, so in the earlier scheme we had applied for around Rs.105 Crores of investment which would have given us up to 3.8 or 3.88 times of incentives. We are in the process of upgrading our earlier PLI application to a much larger investment commitment which would potentially mean

we could get up to 3.8 times our capital investment back in the form of incentive plus we get an extra percentage so we will have two benefits from the new designing and manufacturing scheme. One is we will have a much larger capital commitment because R&D manpower is now allowed without actually having to invest significantly differently than what we would have normally done and secondly that larger commitment will give us an opportunity that as a revenue scale much more than what we had originally planned for when we had applied last year we should be able to get the incentive on a larger revenue amount and then the third part is that we will get an extra 1% incentive because we will meet the value addition criteria that has been prescribed in the new DLI scheme for our products so this is how I think the new scheme will or rather the new application will benefit us going forward.

**Sanket:** Thanks for answering all the questions.

**Moderator:** Thank you. The next question is from line of Tejas Sheth from Nippon India AMC. Please go ahead.

**Tejas Sheth:** What is the status on the BSNL order now?

**Sanjay Nayak:** Tejas I think as you would have been reading in the newspaper so the technical aspects of concluding the proof of concept trials is going well so our equipment has been in the field for now quite some time and things have progressed quite well and the customer seems to be satisfied with the technical capabilities of our products. In terms of the commercials those discussions are on between the front end system integrator and BSNL and the size of the deal and the price is something that is being worked out. And as soon as those commercials close which we expect should close in this quarter we would get better visibility in terms of the timelines of the orders and the delivery timelines that we will have to give for those orders but all of that is a work in progress and so far things are going in the right direction.

**Tejas Sheth:** Okay and now with world travel opening up considering that we have been suffering from getting international order because we will not be able to travel is there, we have hired any talent to boost up our international orders?

**Sanjay Nayak:** That is a good point because travel is opening up and we are seeing things scale up internationally. We will definitely be making more investments in our international sales from two different angles, in certain geographies where we have been directly addressing the market those geographies are where we are having more investments and we should start seeing the result of that with a time gap of couple of quarters. In the US market we believe that partnership approach with either other group companies or with other OEM that we have done in the past might be a faster way for us to accelerate so we will be revamping the US markets with that kind of a strategy again based on the internal strategy discussion we have been having so I would say that international should start ramping up; however, I must also say that I mentioned earlier that we do see very large opportunity in the home market in India across customers and we also want

to make sure that we do not miss out on those opportunities to scale our business and at least get to high economies of scale in the shortest possible time.

**Tejas Sheth:** Okay but has the ball started rolling on working with the group companies or it is something which is just on paper as of now?

**Sanjay Nayak:** The ball has started rolling. We have been interacting in terms of different applications, different geographies, and some sales models that will work but I think it will just take a little bit of time to get the first success internationally but that is something that I would say multiple engagements across multiple geographies are on.

**Tejas Sheth:** Okay on the product offering side is there anything which we are looking to achieve over next let us say 12 to 24 months?

**Sanjay Nayak:** Yes in fact we have planned to achieve a lot by the way so number one we want to make sure that a very robust 4G system can be delivered for large scale deployments not just in India but in many parts of the world especially in emerging markets still do not have a 4G like India does not have 4G in many pockets I think we see that is a good opportunity or robust field proven 4G system is something that will happen in the next 12 months in terms of large scale deployments. 5G radios that we have been producing in the 5G RAN solutions that we have been producing again we believe should be qualified by customers by the end of this calendar year and should be ready for commercial deployment in the next calendar year as well so these two products alone would open up a very large new addressable market in terms of the wireless side of things which we really have been just kind of playing on the fringes so far. And that is the reason I mentioned that in terms of the R&D investments we are significantly upgrading that. The third element in terms of new product deployment would be through the Saankhya acquisition they have an application for 5G for broadcast application innovative for people who have a TV spectrum who could use that for broadcast on 5G so they are again working with one of the anchor customers and we believe that in the next 12 to 18 months some more application of broadcast 5G across a larger set of operators around the world can open up. So I would say there is a lot of a huge amount of product development and product capabilities are coming out in the company. Just to put all of this in perspective we are trying to do in let us say two years what typically takes five times or ten times as much more time compared to the global competitors against whom we are now competing. So in that sense these are all very, very complex technologies require a huge amount of field hardening because they have a direct to the user experience. So for example if you have a mobile network or your user experience on the network should be no different than you would build the networks using any other multinational companies' products who have been in this business for 20 years or maybe longer. The same thing for our fiber to the home products for example which continue to be doing quite well in many of the operators in India and abroad so net-net I would say significant focus on R&D. A lot of resources are needed; a lot of investments are needed. The supply chain situation even for rapid prototyping is making it difficult to launch products faster than what you would have otherwise done but all I can say is

that a lot of investments is happening in the right direction and things are all coming together in a very satisfactory manner.

**Tejas Sheth:** Okay yes. Thank you very much.

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

**Sangameswar Iyer:** I just wanted to check with you the slowdown that we are talking about in the semiconductor industry is that having an impact on the overall fresh order intake that we are seeing because like one of the earlier participants asked the order inflow during the quarter was actually much slower than what we had been seeing in the past few quarters so does this have anything to do with a conscious decision to slowly take orders because of the rising input prices or could you elaborate a bit more as in what has led to this slowdown?

**Sanjay Nayak:** First of all, as I mentioned in answer to that question was that I would not read too much into the order inflow for Q1 as I said subsequent to the quarter close alone, we have got significantly large orders. In that sense in my mind there is no real slowdown in the business momentum and it is quite healthy. By the way on the contrary the situation is slightly different. If we had been able to ship out all the stuff that we have backlog of we can definitely have secured a lot more orders so I would say that we could have accelerated our growth but we are limited a little bit by the current situation in supply chain so that is the way I would put it.

**Sangameswar Iyer:** Secondly in the past few concalls we did always mention that we have been trying to get or garner critical components that would be required and to make sure that shortfalls do not occur but even Q4 and Q1 we have seen that few critical components still elude us and resulting in us not meeting our internal targets as well in terms of fulfilling customer orders, etc., so this new initiative that you spoke about where in you are trying to integrate the supply chain of the vendors along with yours to make sure that the orders are received on time or fulfilled on time how long do you think that this will take in terms of a gestation period before these things formalizes and you are able to take complete control of the whole chain?

**Sanjay Nayak:** It is a good question Sangam so there are two effects which had hurt us to be honest the first effect as you rightly said that certain specific components are under what is called allocation basis. These are very large companies by the way I am talking of so they are only able to get X amount of components of that kind available from their foundry or semiconductor foundry who is manufacturing that and the same X amount of components are being "allocated" to different system companies like ourselves right. So A the problem was to get the maximum share of the allocation for those components and if some of those components go across many products that is really where the efficiency that I talked about comes so assume we are able to get say thousand components allocated and those thousand components are used across 20 different cards that we produce in the company. If you do not do a good job of balancing the use of those thousand

components we may and we may have by the way a requirement of thousand components on all of those cards so we can consume it on 10 cards or we can consume it on 50 different cards or whatever, so I think what was happening is the optimization. I am just simplifying the problem for you. The optimization of the scarcely available component onto different cards and balancing the inventory was not done being appropriately so the second part of the problem is what is the new thing that we have solved at least in terms of the tools, processes, and systems now so we believe that whatever components are available we will be able to do a much better job of allocating them internally and getting more systems out of the door. The first part of it in terms of getting higher portion of components from our suppliers that is an ongoing discussion. Even as late as last week when we met some of these suppliers who are visiting India we have highlighted the importance of them supporting Tejas and we hope that going forward we should get a better allocation of such components but that is the summary of what has changed and our assessment is that the results of whatever we have done should start being visible from this quarter onwards in terms of better performance on the revenue side.

**Sangameswar Iyer:**

As a followup if you were to back test these tools and systems that we are putting in place with your vendors currently what kind of efficiencies would you have achieved in the last couple of quarters, do you think that instead of Rs.125 Crores run rate you could have clocked Rs.175 Crores to Rs.200 Crores run rate given better efficient utilization of the tools of the components that were available I am just trying to analyze the situation in terms of how much was the shortfall on the internal basis and how much was it because of the external factors which affected everybody?

**Sanjay Nayak:**

It is hard to quantify that because one is connected to the other so as time goes by of course the aging of the orders of those components on our supplies is higher so the chances of them getting fulfilled now is better. Clearly as I articulated that the allocation of those components within the system for us could be done better so it is a little bit hard to quantify what happened in the past. But what we do know that as I mentioned at the end of the Q4 call that we actually had coverage for all the orders that we have for the whole year in advance so we should get those components during the year. So the only thing which we are focusing on right now is that going forward as much of efficiency as we can draw into the system should be put in and we should start seeing tangible output because we do want to make sure that customer orders do not get so late that customers start getting concerned about our ability to deliver and that is something which we are keeping at a high priority.

**Sangameswar Iyer:**

Got it and last question from my end given that a lot of your orders are international orders, currency depreciation does kind of offset a little bit in terms of the input cost increase, etc., but how much of an escalation and input cost can we pass through and how much do we have to absorb?

**Sanjay Nayak:**

I think it is a dynamic situation because depending on which customers do you ship that quarter and what was the profile of that customer was it at the new price or at the old price, I think our

margins keep changing. As you rightly picked also that in Q1 our percentage of international was lower and our backlog of international actually is still very high, so I think in general our international margins are better than the Indian margin so as we decongest those orders, we expect to see improvement at least in the blend of the margin as well.

**Sangameswar Iyer:** Is there a pass through available in terms of cost escalation beyond a certain level in all those international orders?

**Sanjay Nayak:** Yes so the way it works it is not a direct pass-through it is more like a competitive situation with that customer so at any point in time suppose you increase the price by X percentage or Y percentage or whatever it is for the customer, discussion with the customer what is the thing which you can pass on to him while still being competitive. And it is always a push and pull but even with large customers in India we had been able to do the price escalation for certain kind of products for sure and certain others it was a little bit more difficult. But I think there is no one fixed rule that we can pass X percentage to all the things. I know where you are coming from like for example in auto industry people are able to say okay, I am going to pass X percentage price increase on all models of this kind right. Unfortunately, our industry is a little bit more fragmented, and it is a mix of products and mix of customers on the radar screen with respect to competitive situation which comes into play before. Of course the intent is to pass as much as we can and to push back as much as we are getting from our suppliers. But on the supplier side I think to be honest we have not that much leverage at this stage because if we have to prioritize between securing components at slightly higher cost versus just trying to stick to our margins we are prioritizing getting the components. So we have to pay a little bit of spot premium or whatever we are doing that but to the customers to the maximum we can pass we are doing it while being competitive.

**Sangameswar Iyer:** All the best Sanjay.

**Moderator:** Thank you. The next question is from line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

**Mukul Garg:** Thank you. Good evening. Sanjay sorry if this was asked earlier because I missed some part of the call but can you just help with a view on the component shortage easing we have seen some companies especially in the LAN space come out and talk about normalization happen at a faster rate which part of your component supply chain is still seeing stretch delivery timelines and what is your view that by when will things go back to a normalized run rate what it was pre-COVID for you in terms of the supply?

**Sanjay Nayak:** Mukul if I look at the categories of components where we are having the highest lead time today surprisingly is not the class A large cost chips. It is basically power components for example clocks, powers, and things like that the analog kind of components which basically on an average may cost a few cents to a couple of dollars single digit dollars right. These are the components

which are currently giving the maximum grief in terms of a category of components. Second one after that is that certain programmable devices of a certain what should I say in nanometer geometry is in a serious short supply because there are only two programmable device guys in the world both of them outsource their manufacturing to there was one in Taiwan and one in Korea. The Korea company basically used that capacity for their internal needs so basically that capacity got dried up. There was only one foundry which was manufacturing these programmable devices. If you talk to anybody in the industry today from the largest OEM whom we work with certain of those devices are under a serious shot supply and actually because of our programmable architecture, we do have a significant dependency on those kind of chips so that is the second category. The third category of chips I think which is easing off, the memories are easing off as we see some of the guys who have captive foundries in-house manufacturing for some of the higher value parts it is easing off because what people by the way are also doing is that the same amount of wafers of a certain technology which were available were repurposed to produce chips with higher average selling prices versus chips with lower selling prices so those are the categories where we have had the maximum grief. Unfortunately in our situation even if you secure 999 components and one is missing you could potentially have an imbalance inventory and not able to ship out. The overall outlook that we have heard from all the semiconductor suppliers is that towards the later part of this calendar year things will start to ease out so what that means is that if you place an order on a chip supplier today they may come back to you with a 52 weeks or 70 weeks lead time but if you are going to place but the chances of that order getting executed in less than 52 weeks or 70 weeks will only be known as the year progresses. It could happen in Q1, it could happen in Q2 but if you are going to place orders in the month of November and December you possibly will have a lead time coming down to 20 weeks or 26 weeks or 16 weeks which is the normal situation so that is how we see the situation where today it is still everybody knows this is the likely scenario but nobody is committing. The later part of the year we will start seeing commitments of lower lead times from suppliers and this is across the Board again as I can see that it is not that Tejas alone problem but supply chain planning guys from different companies that we have been talking to are facing the same situation. If I were to kind of summarize something that Tejas could have done better which we did not in the past was really not just relying on the EMS suppliers to do all the detailed supply chain management. We took care of the A class items but the B class and C class are ones which I just mentioned are the ones which got us into a slower revenue rate and that is basically probably our global competitors early on and essentially went into NS level of details and tried to do a better job of executing than we did.

**Mukul Garg:**

Understood and so just to take this a step forward for example tomorrow all the power chips scenario or TSMC and Samsung supply constraints are lifted like things are back to normal out of Rs.1100 Crores to Rs.1200 Crores of order book which you have right now plus the flow business which is there what is the current capacity in terms of your own delivery which you can do on a quarterly basis, is there something which is constrained by revenue run rate of maybe

Rs.300 Crores or Rs.400 Crores is there a constraint from Tejas side which can put a cap there and I am talking about right now?

**Sanjay Nayak:** Absolutely not. For the next four quarters if you can get half the components that we need and all the orders which we have placed come in we can do all the numbers that we mentioned without any problems at all. What we are also doing which I alluded to in my commentary and I can maybe elaborate a little bit more is that we are expanding our EMS base also in terms of production capacity in anticipation for scaling up our revenue base from significantly larger numbers than what we are today so we have all of those things also lined up so I would say that today in terms of scaling up our revenues from where we are too much, much, much larger numbers I do not think there is any bottleneck. The only bottleneck is the availability of components. The EMS capacity is there, and the production box build capacity is available. We do not see any internal hindrance from a Tejas perspective. We do not have any cash flow issues in terms of not being able to place large orders so in that sense the only thing which is holding us back is balanced list of components that we need to complete the orders.

**Mukul Garg:** Sure, and then one final question. This quarter was there any Tier-1 vendor in US or Europe where you started either trailing out or kind of working your way in given that the supply scenario is limited so maybe the time can be utilized to forge new relationships?

**Sanjay Nayak:** Nothing major internationally. We did ship for one of the business that we had won last quarter so we shipped to that customer to feed that stuff in Europe to hopefully get that network rolled out but to be honest no we did not have any specific opportunity into a Tier-1 internationally where we could divert some of our available material and get a win there. But the existing accounts which we have we are continuing to at least make sure that their critical deliveries are done and we do not get into a situation where our lack of deliveries hurts our reputation or our growth in the account. Clearly, we can get more business, but we are not losing business because we did not supply per se.

**Mukul Garg:** Understood. Thanks a lot for taking my questions.

**Sanjay Nayak:** Since we are at the end of the hour, we can take one last question please.

**Moderator:** Thank you. The last question will be from the line of Vimal Gohil from Alchemy Capital. Please go ahead.

**Vimal Gohil:** Thank you for the opportunity. Sir I have two questions. Just firstly a clarification on Saankhya are the other numbers getting reflected in this particular quarter and what is the contribution is here that is question number one and Sir the second question is you spoke about a lot of changes in the process and the systems in order to better track our supply chain systems where will this sort of reflect, will this get reflected more in terms of asset investments or rather balance sheets



or will this get reflected in our P&L in terms of your investments which will pass through into the P&L so these are my two questions?

**Sanjay Nayak:**

Certainly, Saankhya Labs there is no contribution of Saankhya because as of July 1, 2022, is when we acquired the 63% stake so starting from this quarter onwards, we will be consolidating the numbers from Saankhya into our books so that is part one of your question. Part two of your question what is the impact and what is the place where you will see the benefit of the changes in the processing systems are coming that should be in the topline. We should be able to do a lot more revenues than we have been able to do in the past couple of quarters. Secondly, we will continue with an asset light model so there is no intention for us to put a big factory and produce everything ourselves. What we are doing is because we have to scale up our manufacturing and capacity, we have signed up new EMS partners who could be producing on behalf of us compared to the current ones that we have so in that sense the measure of our internal processing system is really the revenue impact that we should be able to see better as we go forward but definitely there will be no additional asset buildup. Also, I just wanted to clarify just in case it was not clear that even though we will be applying for a much higher incentive amount and the investment commitment under the design linked PLI scheme we will not be making any artificial investments in terms of hard capex again so the strategy of manufacturing will still be same. It should be asset light model except that whatever we are investing in manpower and R&D cost will now be counted towards capital investment which will give us a bigger envelope in terms of the incremental sales revenues on which we will get the PLI incentive so in that sense no fundamental change in the business model except just a better management of the model and in fact it was also a little bit kind of a surprise to us because when the lead time in the industry for components was 12 to 16 weeks our EMS model just worked fine. The process systems were just okay but as those lead times change we really did not react to getting into the second and third level details of our EMS in terms of what were they doing with our orders and how were they ordering because if they were waiting for the longest lead time to order because everybody were just in time and trying to optimize their inventory naturally if we were able to pull in the components we were not getting the benefit of that and we were still seeing a lot of slip ups from their side or decommits from their side so I just feel that some stuff which we did not execute well we have figured out where we are weak and we are trying to strengthen those areas. The results of that should start seeing in the coming quarters onwards.

**Vimal Gohil:**

Thank you Sir. Sir I just have one more question if I may.

**Sanjay Nayak:**

Sure, just another minute so why not.

**Vimal Gohil:**

Just in terms of risk what we understand is that the telecom equipment is a pretty sticky business when we are actually supplying to our customers then that customer probably stays with us for a fairly long period of time because we have the best knowledge of products the service aspect is also taken care of by us given the fact that we have been facing this supply component shortage and these delivery challenges are we risking losing market share to peers who have direct control

of manufacturing in their hands and if that is the case then how are we going to sort of recoup the lost market share because the customers once they select a vendor it tends to be sticky in our industry correct me if I am wrong Sir? Thank you.

**Sanjay Nayak:**

No, the first part is right that ours is a very sticky business so in that sense as I mentioned earlier that we have not lost any account and we have not lost any order in that sense. Coming back to your second part that compared to competitors who are doing this in house manufacturing I do not think we have any competitors globally now except if I take the Chinese out who do in house manufacturing so even all our global competitors follow almost the same model as us which is outsourced to EMS companies for doing manufacturing, etc., etc. What they could have done which is a possibility is that they manage the supply chain through their EMS much better than what we did A because of their volume buying power, B maybe they have got this learning experience in some previous cycles of component shortages which we are getting it for the first time here so in that sense they may have done a better job of executing however when we look at new wins and new supplies from even our global competitors their lead time commitment for unforecasted orders is no different than ours so in that sense I would not say that we are losing any ground to someone and he has occupied the land and we do not have an opportunity to get the land back. The more likely scenario is that we had a certain market share in an account which we would have in the normal course increased because we always increase market share in an account because of the supply chain shortages maybe we are stuck at the same market share that we were before so what we are trying to do in this scenario is that we are winning new application in the same customer so for example let us say operator A in India was deploying us in X and Y part of the network we are saying hey why not in the Z part of the network and that process of qualification getting selected could be a six month cycle and we are completing all of those cycles to win new applications into existing accounts so by the time the supply chain situation eases off we can have another portion of their market share which we are otherwise not getting so I would say we have not lost anything. We have been holding tight probably we have not gained market share which we could have but this is something which we just have to deal with given where we are.

**Vimal Gohil:**

Fair enough Sir. Thank you so much and all the very best. Thank you.

**Moderator:**

Thank you. Due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to Mr. Sanjay Nayak for closing comments.

**Sanjay Nayak:**

Thank you everybody. First of all, we had a good set of questions, and I am hoping that we were able to give you a better view of our business. Clearly we have been going through the supply chain challenges for quite some time and it is not very good that we again had a quarter which was not to the level that we had internally planned for but having said that we understand what the challenges are, what issues are and we are working to the best of our abilities to fix those and we hope to see a good result at least on the supply chain side in the coming quarters. The second thing I want to highlight is the R&D investments especially on the wireless side that we have



*Tejas Networks Limited*  
*July 25, 2022*

been making. We are very confident of the output of those investments turning in the form of potentially large orders and we believe that those things will also start showing in the results as the year progresses and then the last part I want to kind of mention which is in the context of the questions someone asked right at the beginning that as a part of the Tata Group Company we have a fairly good idea of what the strategy of the company and what are the actions we need to take we have started to execute on that and we should see results coming out but the vision and ambition is very large and part of the whole partnership with Tata to essentially accelerate that and we are confident that we are making the progress in the right direction so that is how I would summarize where we are today and thank you again for being patient in terms of hearing our challenges and look forward to better outcomes from whatever we are doing in the times to come. Thank you.

**Moderator:** Thank you. On behalf of Tejas Networks that concludes this conference. Thank you for joining us. You may now disconnect your lines.