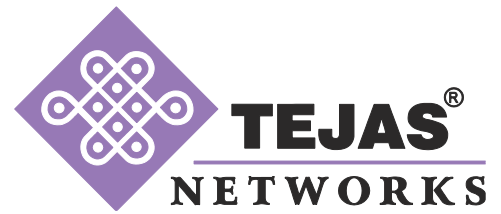


Tejas Networks Ltd.

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July 28, 2023

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,
Mumbai – 400 001
BSE Scrip Code: 540595

Dear Sir/Madam,

Re: Q1 FY24 Earnings Conference Call

Please find enclosed the transcripts of the Q1 FY24 Earnings Conference Call held on July 21, 2023.

Kindly take the above information on record.

Yours sincerely
For Tejas Networks Limited

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



“Tejas Networks Limited”

Q1 FY '24 Earnings Conference Call”

July 21, 2023



MANAGEMENT: **MR. ANAND ATHREYA – CHIEF EXECUTIVE OFFICER AND
MANAGING DIRECTOR – TEJAS NETWORKS LIMITED**

**MR. ARNOB ROY – CHIEF OPERATING OFFICER AND WHOLE-
TIME DIRECTOR – TEJAS NETWORKS LIMITED**

**MR. VENKATESH GADIYAR – CHIEF FINANCIAL OFFICER - TEJAS
NETWORKS LIMITED**

**DR. KUMAR SIVARAJAN – CHIEF TECHNOLOGY OFFICER - TEJAS
NETWORKS LIMITED**

MODERATOR: **MR. RUSHAD KAPADIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Tejas Networks Q1 FY '24 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities Limited. Thank you, and over to you.

Rushad Kapadia: Good evening, ladies and gentlemen, and welcome to the Q1 FY '24 results conference call for Tejas Networks. We have with us from the management, Mr. Anand Athreya, Chief Executive Officer and Managing Director; Mr. Arnob Roy, Chief Operating Officer and Whole-time Director; Mr. Venkatesh Gadiyar, Chief Financial Officer; and Dr. Kumar Sivarajan, Chief Technology Officer. So without further delay, I would now like to hand over the floor to the management for their opening comments. Thank you, and over to you, sir.

Arnob Roy: This is Arnob Roy, the Chief Operating Officer of the company, and welcome, everyone, to our quarterly earnings call. On the first slide, we start with a quick update for the quarter. So we had a net revenue of INR 188 crores for Q1, as opposed to INR 126 crores in Q1 of FY '23. We also had a loss of INR 26 crores as opposed to a loss of INR 7 crores in Q1 of FY '23. We are a zero-debt company with cash and cash equivalents of INR 943 crore. And we also had a healthy order book at the end of Q1 of INR 1,909 crore.

Some of the key highlights that happened during the quarter are that our business momentum for wireline continues to be strong. Some of the significant events were receiving initial orders for the deployment of our GPON OLT supply to a Tier 1 telco in India, and this is for their nationwide deployment.

We also commissioned a nationwide end-to-end Tejas product-based network across GPON access, packet aggregation, and OTN/DWDM core for a large customer in Italy. This is a very significant showcase network for us in Europe, and it is managed end-to-end by our network management software.

We have also turned up a very high-capacity DWDM long-haul link connecting data centers for an operator in Africa, using our state-of-the-art 400 gigabit per channel WDM technology. In the wireless business, the highlight was the successful commissioning of a pilot network of 200 sites for BSNL's 4G network in Punjab. And so, from this quarter on, we will be ramping up volume supplies.

And the BSNL has also announced a successful beta launch of the network on July 15 based on these 200 sites that we deployed. On the supply chain front, we've appointed Sembian Venkatesan as our Chief Supply Officer. Sembian is an industry veteran of 30 years in manufacturing and supply chain management.

We also significantly increased our capacity for executing the upcoming large shipment volumes for BSNL network. We have also received several awards during the quarter. We were awarded Dataquest's Pathbreaker of the Year Awards for our outstanding work and contributions to India's ICT industry. Saankhya Labs received a Mark Richer Industry

Leadership Award from ATSC for their contribution to the standards as well as their innovative products in this area. We also granted 50 patents during the year, taking our total patents to 267.

I'll now hand it over to our CFO, Venkatesh Gadiyar, to walk us through our dedicate numbers for the quarter.

Venkatesh Gadiyar: Yes. Thank you, Arnob. We'll have a financial update for Q1 FY '24. Our net revenues were of INR 188 crore. We saw a year-on-year growth of 49 percent. While we have ramped up our revenues during the 4 quarters of the last year, during this quarter, especially Q1, there was a disruption in the EMS planned transition, and there were also a few component delays that have resulted in the overdue delay.

This was a short-term issue, and we have faced it in this quarter. We have fixed it now and will improve on our supply chain deliveries from Q2 onwards. In addition to this, we had to pay some spot charges to secure our components, where costs could not be fully passed on to our customers, and the margins remain challenged in this quarter. And we have been reviewing closely and talking to our vendors, and we believe the situation is expected to improve at the close of this financial year.

The quarter's EBIT loss and PBT loss were INR81 crores and INR66 crores, respectively. In terms of the cost, we have been continuing to invest upfront primarily on account of the hiring on the R&D front, which is meant for future readiness. We incurred losses during Q1 as we could not absorb some fixed costs, and the product margins have been impacted due to the increased component prices.

The PAT includes the additional deferred tax credit on account of the tax loss and the MAT credit amounting to INR18.7 crores, which has been recognised during Q1. And the earnings loss was INR1.56 per share.

Next slide. Yes. The cash outflow from operations for the quarter was INR289 crores, primarily due to inventory growth. We continue to build on inventory, and we have secured a long lead component for expediting the delivery of several critical large orders. Inventory has increased by INR 225 crores during Q1, and the total inventory stands at INR 872 crores as of June 30, 2023.

The working capital has been increased in Q1 by INR 263 crore, primarily due to an increase in inventory, which has been built up for the expanding delivery of current critical large orders. Receivables have been marginally reduced, and the closing receivables as of June 30 were INR 501 crores. We have healthy cash and equivalents as of June 30, 2023, of INR 943 crore, and we don't have any debt. And finally, the net worth is strong at INR 2,984 crore as of June 30, 2023.

With this, I'll hand over to Arnob once again.

Arnob Roy: Thanks, Venkatesh. We move to the next slide. So, this gives a profile of the business that we executed in Q1. The right-hand side chart shows that run rate revenues were 79% of our overall business in Q1. There was growth in all segments of our business, including India government, India private and International. However, while the run rate business is 79%

right now, we expect the India segment to dominate for the next 12 to 18 months because of the large BSNL 4G orders.

We also have a healthy closing backlog of INR 1,909crore, and about 50% to 60% of this will be executed in this financial year. And we also have a situation where largely the backlog is in India, and a portion of that is for the international sector.

Next slide. Yes. This is just to refresh for those who have not been tracking our products and business. So we now have a comprehensive end-to-end portfolio across wireline and wireless.

In wireless, we have a comprehensive solution of 4G and 5G products where we continue to invest and grow our R&D investments in. In Wireline, we also have products that can build end-to-end networks for carriers and service providers across access with a wide variety of access solutions and metro aggregation solutions around packet technologies and OTN, and the metro core and long-haul technology built on high capacity, WDM transport, and OTN specifically.

So with this portfolio, we address a very large addressable market globally. And so with this portfolio, we have the ability to build a network across wireless and wireline and provide optimised solutions to customers that reduce their capex and opex costs.

Yes. So in summary, with a healthy order book of INR 1,909crores for wireline business and the outlook for significant wireless business this year, we expect to accelerate our quarterly revenue growth significantly. We have successfully commissioned the pilot network of 200 BSNL 4G lines. The product is working very well.

And with the state of the network, BSNL has launched a soft launch of the network, and we expect to ramp up our supplies or deployments from this quarter. We continue to make significant investments in R&D and manufacturing operations as we scale up our business and look forward to healthy business growth over the next few quarters and years.

So I come to the end of the presentation, and we'll open the floor for questions.

Moderator: The first question comes from the line of Vimal Gohil from Alchemy Capital.

Vimal Gohil: I formally welcome Mr. Anand Athreya on his first earnings call at Tejas. Sir, I just wanted to understand. I mean, the company has had or has faced numerous challenges in terms of raw material shortages with vendors because of which they could not execute their order book. How different are the challenges at this point in time? And given the outlook that you've offered, do you see us crossing our quarterly revenue run rate of INR 300 crores next quarter? That would be my question number one.

Arnob Roy: So we don't give quarterly revenue guidance. But yes, as you mentioned, there were challenges in the past. And they are there while it is coming down slowly they are still there. However, this quarter, we also had the one-time event of one of our EMS partners moving their plant from one location to another. So that caused the one-time disruption of our supply chain business, but we hope to catch up on our shipments for supplies and shipments in the subsequent quarters.

Vimal Gohil: And, sir, would you be able to quantify this impact?

Arnob Roy: Do you mean quantifying the impact of the EMS transition?

Vimal Gohil: Yes, yes, sir. And what was the impact of their vendor transitioning to

Arnob Roy: I would not like to quantify that, but we would have had a larger quarter for sure with this impact of 6 to 7 weeks that we had. And so, but this is behind us now, and we have caught up, and I think things are in full swing right now. So we'll be in much better shape than before.

Vimal Gohil: Right. No, because if I were to look at the quarterly decline, it's quite large, close to 40%. So the majority of it has come because of that discovery?

Arnob Roy: Yes. That's correct.

Vimal Gohil: Understood. Now coming to the order book, sir, over the last year in FY '23, we consistently reported improvement in our cable order book. We started FY '23 with about INR 1,200 crore in order book and ended with almost INR 2,000 crore. This quarter, we have not seen that order accretion, which we would typically expect on a quarter-on-quarter basis. So why has that happened? That is part one. And the second part is just a clarification. This is just a wireline order book, right? This does not include wireless at this point in time.

Arnob Roy: That's correct. That's correct.

Vimal Gohil: Okay. So, this does not include the wireless business, right?

Arnob Roy: This does not include the wireless business.

Vimal Gohil: Okay. Okay. And sir, what would be the reason why we're seeing a slight decline in the order book on a Q-o-Q basis?

Arnob Roy: Yes. So there is—first of all, we do not give Q-o-Q numbers. We just gave you the outstanding order book. And one of the reasons is that, of course, we executed part of the order book. And secondly, because of our outstanding supplies to many customers, right, what is happening is that a lot of the customers are waiting for the shipments to happen for backfilling the order book as -- so that should come back, it should get filled up soon, as when we start executing and delivering on our supplies.

Vimal Gohil: So Q2 of FY '24 should also see some improvement in the outstanding order book. Fair assessment, sir?

Arnob Roy: Yes. Well, it's—I don't want to quantify that right now. But yes, our bookings and all as we progress along the year, yes. From the business outlook that we see, our order book will remain strong for the year.

Vimal Gohil: Understood, sir. And the last question for me is on margins. I understand. I mean, in terms of component prices, what we have been reading, if you can correct us, has been about the raw material prices pulling down for several components. Whereas our margins don't really reflect that. So what is the issue at hand? When can we see a significant improvement in margins purely because of the reduction in your raw material prices?

Arnob Roy: Yes. So yes, while we have been hearing and experiencing improvements in the chip supplies, this has not happened across the board enough for us to be able to control the process. This is because what happens on the cost of goods or margins is that when we don't get time to supply, we have to look around and source components at higher costs with expedite fees or spot buys and all, which are basically one-time events that don't reflect our product costs and margins. But basically, the lead time is what leads to this. As and when this component supply situation and lead time situation come under control, our product margins will return to normal.

Moderator: The next question comes from the line of Sugandhi Sud from InCred Asset Management.

Sugandhi Sud: I wanted to understand; we get a lot of information on the scope of the contract at BSNL, but you already...

Arnob Roy: We lost you, Sugandhi.

Moderator: We have lost Ms. Sugandhi. Next in line is Mr. Vimal Gohil.

Vimal Gohil: Yes, sir. So, sir, my follow-up would be in terms of the breakup at this point in time. Would it be fair to say that our entire revenue is coming from Saankhya, which is about INR 20 crores? That would be wireless business, and the rest of the INR 167 crores will be wireline. Would that be a fair breakup of our business for wireless and wireline?

Arnob Roy: Yes, that would be a fair breakup. I mean, wireless is a combination of the different products they have for broadcast, platforms, and all those combinations of those. And all of the Tejas' business is entirely wireline.

Vimal Gohil: Sir, just one clarification. In the India government piece. I think last year or last quarter, we saw about INR 87 crores worth of orders for the India government, which has fallen quite substantially despite servicing some of the government, or rather BSNL, contracts. So why has the revenue fallen? Is it that we have executed the order and did not build them? Or is it that the money has yet to come from that?

Arnob Roy: So, the question was, Why has the India government business fallen?

Vimal Gohil: Yes, yes. That's it.

Arnob Roy: As compared to last quarter, yes. So one of the reasons was that last quarter was the initial ramp of the major supplies for one particular customer, where the major shipments happened for this project. And so that time we saw a big jump—a bigger number over there—because the majority of supplies happened in the last quarter and the tail-end of that and other government supplies happened in this quarter. So that's why it's kind of a one-off event.

Vimal Gohil: Right. Sir, can I go ahead with one more if it's okay?

Arnob Roy: Sure.

Vimal Gohil: Yes. So sir, in terms of the EMS supplies that we are working with, I'm sure these are not exclusive suppliers; they will be working with some of the other players as well. So is

it that for temporary, maybe our size is a bit of a disadvantage with our scale and our competitors in this space will be much larger -- so they would probably be given more priority in some sense, in terms of components, in terms of tech component supplies? So is it an industry-wide problem? Or is it that our scale is a bit of a disadvantage for the moment?

Arnob Roy: Okay. No. First of all, I think the EMS partners manufacture. The sourcing or component suppliers are different from the EMS partners that we have, who basically put the product together, run it significantly, and stuff like that. So those people have a lot of capacity. One of these is with large EMS vendors who have a lot of capacity, and we have not seen any shortage of capacity from them to execute on our business. I think whatever shortfall we have is because the components did not arise in time, okay? And so that has been the root cause, not the capacity at the EMS.

However, having said that, in anticipation of much larger shipments happening over the next 3 quarters, we have proactively scaled up our EMS capacity also by signing up for three more EMS partners in addition to what we have right now, okay?

Vimal Gohil: Understood. And sir, what would be our order book in the wireless segment right now?

Arnob Roy: Yes. So we don't state that. And as you know, as we mentioned, our current order book is entirely wireline, and our wireless order book will be driven largely by BSNL 4G, among others, but that would be the dominant part. And we are yet to disclose that right now.

Vimal Gohil: Okay. So in the future, are we looking to disclose that?

Arnob Roy: We will disclose that as and when we can. As I said, we are ramping up for supplies this quarter. The process of the PO and execution is happening as and when the POs come in, we will certainly disclose.

Moderator: The next question comes from Aashka Trivedi from Kedia Securities Private Limited. Ms. Trivedi, please go ahead with your questions.

Aashka Trivedi: So my question is that we've seen the initial orders on GPON OLT supplies from a Tier-1 telco in India. So can you quantify the order size for this order?

Arnob Roy: No, because this is also a run-rate customer, and with run-rate customers, we have a multiyear agreement for sourcing quarter-by-quarter. So while we have an idea of the business that we're going to execute over the next 3 years of the 3-year cycle, There is no one-time order or one-time number that we can talk about, and we also don't disclose the customer-specific business. We just wanted to indicate that the Tier 1 customer has a long procurement cycle and a long-term price contract as well.

Aashka Trivedi: So as far as I understand, it is an incremental order, like this is not a one-time order, right?

Arnob Roy: So this is like the Tier I process, which happens like that. Once you get qualified and once we finish our field trials and early deployments because we have an agreement in terms of the number of years or quarters of supply and they keep buying every quarter and deploy, okay? There's no one-time buy, which happens for 1 or 2 years, kind of thing. It's not

a tender. It's like a running forecast and run rate order, which happens. So there is no—so that's how it happens. I mean, it's not really what we termed as incremental. It is a run-rate order, which will happen quarter-over-quarter over the next 3 years.

Aashka Trivedi: Okay. And sir, we have successfully launched the Beta launch of the BSNL network in Amritsar. So, sir, what is the plan going forward? Like, which city are we targeting next? If you can just highlight that,

Arnob Roy: Yes. So the supply deployments will happen as per the BSNL plan. So they are doing a nationwide rollout. So they are kind of telling us circle-wise where they will be deploying, what quantities, what brands, and all those kinds of things. So as and when we manufacture, we will be shipping as per that requirement. So it is not a target for us to say that this city or that city It will—the next few supplies requirements will happen across multiple cities at the same time based on their deployment plan.

Aashka Trivedi: Okay. And sir, apart from supplying the wireless, we are also maintaining contracts for BSNL?

Arnob Roy: So maintenance contracts, yes. For any product supply, always follow with service orders, AMCs, and stuff like that. For supporting the products and the networks that we have supplied, that's typical and always happens with any product supply. So yes, that should also be part of our business.

Moderator: Thank you. The next question comes from Sugandhi Sud from InCred Asset Management.

Sugandhi Sud: Okay. Thank you. So I wanted to understand the wireless contract for BSNL. Is there any? Can you give us an indication of the pace of rollout of the broad scope of the contract over the next 1 to 2.5 years? How do you want to spread it out in terms of 30% or 20% per year?

Arnob Roy: Yes. So I'll give you an overall idea. The entire supply chain and rollout are expected to take 12 to 18 months. And this range will depend on how fast we supply and how fast BSNL is able to deploy, but there is a very aggressive rollout plan as of now because BSNL wants to roll out that network very quickly and get into the 4G business. So 12 to 18 months is our understanding and agreement with them is the time line for supplying and deploying the network.

Sugandhi Sud: Sir. And I understand. So how can we expect -- what kind of impact should we expect on the -- in terms of your inventory situation or the receivable situation given that this would be a compressed order -- in terms of -- we've seen some pressure on receivables in the past with government-related contracts? So if you can give us some indication of what kind of broad terms, in terms of the number of DSO days, etc., can be expected or compared to where we are currently, how would that trend?

Arnob Roy: Yes. You asked several questions over here for both with respect to the inventory situation. As you have seen and as Venkatesh mentioned, we have already started pulling in components and started manufacturing for executing the volume supplies. So definitely, what happens is that manufacturing happens in a particular quarter, and shipment happens towards

the end of the quarter or early next quarter. So you will see a lot of inventory build-up as well as shipments happening over the next few quarters along with this network, right?

And so as regards payments and all our concerns that we have, we fully understand the milestone-based payment of supplies in this project for supplies, deployment, etcetera. And we have worked out our processes with TCS, our SI partner, to ensure timely project execution and collections.

Sugandhi Sud: Got it. So another bookkeeping question is that, in terms of last year, you capitalised R&D to the tune of around INR 180 crore. And I noticed that your R&D headcount has also doubled—nearly doubled. So could you give us an outlook on how much more capacity creation you would be doing over the next 2 years on the employee front?

Arnob Roy: I think we're in a significant investment mode right now because what we're seeing—the opportunities right now—is basically the start of what we see—what our plans are for the people. We want to definitely see it in our current business. We want to go international and scale our international business significantly. And as part of this, we will also expand our product portfolio.

So, with that kind of vision, we're continuing to invest in order to grow. So the growth of R&D headcount and supply chain capacity will certainly happen over the next few quarters. That's certainly going to continue over the next few quarters.

Sugandhi Sud: So we can expect similar terms of growth this year?

Arnob Roy: Yes, yes.

Sugandhi Sud: And could you give us some idea about how the government, which is becoming a very large portion this year, would impact your gross margins? I mean, changes in the component supply side—if that were to remain as it is today, what kind of margin change can we expect?

Arnob Roy: Given the size of the business, given the size of the volume of the government orders, and given that we knew what was coming and what was generally manufactured, we are working closely with our component suppliers to be able to manage optimise costs based on this large volume. Yes, it is a challenging deal, but we are managing it with our design optimisation and our negotiations with our partner. So overall, I think the margins will be well within our expectations, and we are fully prepared to manage this.

Sugandhi Sud: Sir, my question was more along those lines. Traditionally, you've done 40% sort of gross margins, and wireless is becoming an international business for us, and this is our first quarter. So as an investor, what kind of impact can we expect the changing product mix to have on gross margins?

Arnob Roy: So see, the product drops slightly in terms of mix, and because of this government, you understand the business size is also very large, right? So given the size of the business, we can also work with slightly lower product margins because of the overall size of the business, right?

But as I said, the impact of this is in terms of being able to negotiate with component vendors and having a slight impact on our other businesses with common components. Overall, the blended margin for our business will not be impacted. I think there will be—it will be as we see it right now.

Moderator: Next question comes from the line of Ritesh Poladia from Girik Capital.

Ritesh Poladia: Sir, in wireline business, is the GPON OLT for broadband, or is the application different?

Arnob Roy: Yes. The application is residential and enterprise broadband.

Ritesh Poladia: Okay. Yes. Sir, on BSNL 4G, one of your other consortium partners has already declared an INR 3,900 crore purchase order. So why is there a delay in signing up for a purchase order with Tejas?

Arnob Roy: No, no, no, there is no—okay, we are not aware of that, but the consortium has received the purchase order from BSNL, as you are aware, right? And you know the full scope of their order as well. So what is happening is that our purchase order is based on circles and deliveries to each and every circle, right? So we are expecting our purchase orders to come in circle-wise.

So that's the reason why it's not a one-time order. And as and when these orders come in, we'll be sharing with you the business that we're getting for BSNL 4G. So there is no delay. It's basically breaking up the plan into smaller units based on states, circles, and all these kinds of things. And that's what we will receive. We'll keep receiving as we execute our projects.

Ritesh Poladia: So apart from that consortium partner, all the sites would be done by you? Or will there also be another partner sharing it?

Arnob Roy: So all of the RAN (radio access network) equipment, the radio and the baseband units, and all the sites will be supplied by Tejas. There's another consortium partner i.e C-DoT that will be supplying the core software; that's what they will be supplying. And we'll be supplying the RAN; the radio equipment is what we'll be supplying, but for the entire network.

Ritesh Poladia: Okay. I'll be a little clearer. See, there is extreme filing by ITI Limited. And they have said that they will manufacture the RAN for the 23,633 sites. So if you can give us some clarity on this.

Arnob Roy: They are basically going to manufacture Tejas equipment, okay? Our equipment is what they're going to manufacture, and we have a manufacturing agreement with them to manufacture and supply for their purchase order, but it's going to be on all of Tejas equipment.

Ritesh Poladia: Okay. So ITI is going to manufacture Tejas equipment only?

Arnob Roy: Yes, yes. That's correct.

Ritesh Poladia: Okay. So this INR 3,900 crore order book for 23,000 sites would be the ITI portion, or some of that will come to Tejas also?

Arnob Roy: So the ITI portion is going to be executed with Tejas equipment for the equipment portion of that; a large portion of that is going to come to Tejas.

Ritesh Poladia: Okay, will this also come to Tejas only?

Arnob Roy: Yes, yes.

Ritesh Poladia: Okay. So all the sites—about 1 lakh sites—that's what the newspaper is talking about. Everything is made by Tejas. Some portion will go to ITI, and they will supply the BSNL base?

Arnob Roy: Yes. So the supply, all of it, will be Tejas equipment, some of it supplied by ITI, some of it supplied by TCS.

Moderator: The next question comes from Mukul Garg from Motilal Oswal Financial Services.

Mukul Garg: First on this whole ITI versus TCS issue of -- so just to understand this better than ITI's kind of sharing that they will have a specific amount of production capacity for this order, Does that not give us visibility in terms of how much revenue is generated?

Yes, so I was just trying to understand the ITI part of the equation. I understand that for the other part, shareholder approval has happened, and I think the final purchase order is still not in place. But for the ITI, what they have announced is the order portion, their portion of the order; does that mean that you have received the order from them? Or is it mostly indicative of their end?

Arnob Roy: Yes, it is -- like, as you know, the consortium has also received the purchase order, right, of a very large amount of -- INR15,000 crores or so were published at the consortium. So they need a whole deal size before they are published. And similarly, ITI has published the size of the order. But when it comes to supplies, that will be broken down into circle-wise purchase orders as well for ITI, okay? So it will be the same mechanism, except that here, ITI will be the supplier, and there TCS will be the supplier, and we will be the equipment supplier to both of them.

Mukul Garg: Right. And is it fair to assume that the inventory build-up that has happened over the last few quarters is mainly to kind of prepare for this large order given that the time lines will be quite compressed?

Arnob Roy: You got it right. That's exactly correct. Distribution of compressed delivery time lines. We have ordered, and we have started building up inventory of components and finished goods so that we can deliver quickly.

Mukul Garg: Understood. The second question was on this DWDM order in Africa. Is it fair to assume that this is a long-haul order?

Arnob Roy: Yes. So basically, it is for one of our regular customers. It is not—I mean, this is not just one order. As you know, we build pan-African networks for this customer. It is more of where -- the point was more of a -- some of our new technologies have gone into turning up

some of the links or some of the very high capacity links connecting data centres of some of their web-scale customers.

As a result, this was a new high-end technology. And so this was a significant milestone from our side. So that was highlighted. But it's not a single order. The same technology is going to be rolled out across their network across Africa.

Mukul Garg: Right. But does this imply that you guys have expected it to be a long-fall set of optical networks as well with this kind of client confirmation, and that would kind of expand your addressable market there? Or is it more of a client-specific thing? And you really are not putting too much on the long-haul side of the equation?

Arnob Roy: So we are in long-haul WDM, okay? This was more of a capacity expansion with high-speed data carrying waves, let me put it that way, right? So like people build the long-haul network, they can build it with 100 gigabit lambdas or waves, 200 gigabits, 400 gigabits, so we have all the technology. So this was more of a show-case network for demonstrating a very high-capacity long-haul WDM technology. But we have been building long-haul networks with our WDM technology for a while.

Mukul Garg: Okay. Coming to this, the GPON OLT order each order, which you have received, in what sense was this in the pipeline for a long time? Are you kind of getting signs from this customer that they are finally starting to accelerate meaningfully? Or is this still the case that the visibility on this client's spending acceleration is quite low?

Arnob Roy: No. I think they have started their rollout significantly. We are getting rolling run rate orders, kind of quarter-over-quarter. So now the rollout is accelerating right now, and our business with them is growing. So we have passed the initial phase of the supplies and piloted them for government and trials and then software integration and all those kinds of things. I think, Basically, this means that we have passed all that phase. And now it's just ramping up supplies and deployments for the customer. We are in that phase right now.

Moderator: Thank you. The next question comes from Sohan Joshi from ASC Consultants.

Sohan Joshi: I just want to ask, when are the benefits from our partnership with Renesas going to come? I mean, what was the partnership with Renesas? Was it into manufacturing, designing, or end-to-end solutions, or was it going to help sort out our profitable supply chain because the government has intended to spend more on BharatNet, and with massive strength like private telcos and capex for 5G, the opportunity is massive.

I just wanted to understand -- I mean, the Renesas, the management of Renesas recently on a visit to India, and also the top official of the government. So did we progress more on that partnership? I just wanted to get the colour of it.

Arnob Roy: Yes. I think Renesas partnership was two-dimensional. One was as a supplier for our new products, especially in wireless. So they are one of our suppliers. So that's one part of the partnership. The other part of the partnership is also the joint development of some new technologies, which we cannot disclose right now. But we are also working with them to specify the next integration—integration of semiconductor components—that we are going to use. So we are not getting into specifics. So these are the two dimensions of our partnership agreement with Renesas.

Sohan Joshi: Okay. Okay. That's it from my side. Thanks. I wish you good luck.

Moderator: The next question comes from the line of Vimal Gohil from Alchemy Capital.

Vimal Gohil: Yes, Sir, I have a slightly long-term question, given the fact that we are seeing a lot of growth ahead. Of course, that comes with the opportunity that is present at this point in time. How is the top management, who seem to balance revenue growth and profitability, taking that approach that we want to capture as much growth as possible? And probably after that, we will be looking to stabilise our profitability goals, or will it be a balance of both? How should we look at this over a longer period of time?

Arnob Roy: I think this is a good question. And, the short answer is yes; we are driving towards profitability over the year, and we have taken all steps, as we understand. So we have some short-term challenges right now. The products are very well optimised and designed, and we expect the standard margins that we have had over the years.

We've run into component supply issues since COVID. And very recently, some of our EMS partner challenges have been logistics challenges. But we expect these are all one-off events; there are short-term events, and very soon, things will stabilise, and we'll be back to normal business with the normal margins that we've been enjoying all along. So this is not a question of buying out the business with zero margins and then looking at how to improve our margins. It's not like that. I think we are working with healthy margins.

So some of the deals may have lower initial margins than our standard, but we have a clear cut margin recovery plan in place so that over time we can get back to normal and recover our margins. And so we are not distracted by short-term events happening that have been addressing our supplies, business, and margins. But long term, we don't see any issues going away and coming back to a steady state with our normal operations and normal costs.

Vimal Gohil: So it's going to be growth along with profitability—it's not either or?

Arnob Roy: Absolutely, absolutely.

Vimal Gohil: It's great to hear that. Thank you so much, and all the best.

Moderator: The next question comes from Mubasher Hussain Ansari from the Hyderabad Investment Forum.

Mubasher H. Ansari: Yes. My concern is also about the margins. Recently, the CEO of TCS gave an interview, saying that this 4G project of BSNL is for nation-building and not for margins. So in this context, are we also going to get some margins? Or is it going to be like a communist enterprise? Just focus on the top line and don't make any profit. So I need some clarity on this.

Arnob Roy: Yes. I think that was a comment from his side, which basically indicated the commitment of TCS towards this business and building this network. And so just to qualify that, he kind of said that, which is more important than anything else and profits and all this kind of thing. And this is more about the vision of the business, but no one is in this business to lose money or not make any money. And certainly not us, I can assure you that.

And our products are designed to be profitable even in our highly competitive industry. And the good thing is that the large volumes also allow us to drive down product costs to ensure that we are healthy and profitable in this field.

Moderator: The next question comes from Aditya Mehta from G. K. Capital.

Aditya Mehta: So my question is with regards to the BSNL 4G order that the consortium has seen. So what will be Tejas share in the overall order? And how much do we plan to execute in this financial year?

Arnob Roy: As far as execution is concerned, as I said, the goal is to start this quarter and finish within 12 to 18 months. Regarding a specific share of the orders that the consortium has received, I mean, I cannot share any numbers right now. But as we told you, we are going to receive the circle-wise POs and start shipping. And as soon as we receive this deal, we're going to disclose the size of the business. Upfront, we don't want to disclose the absolute numbers or the size of the overall deal, and you can work out whatever the equipment portion is and all those kinds of things.

Aditya Mehta: Okay. So this INR 15,000 crore advance purchase order that we have received would cover 1 lakh sites because there were some articles that said the deal value would be around INR 24,000 crore.

Arnob Roy: This covers 1 lakh sites of 4G equipment.

Aditya Mehta: So that INR24,000 crore order has been revised to INR15,000 crore?

Arnob Roy: Yes, because it's 100,000 sites and it's 4G. And as and when the number of sites increases, those will go up. But I think once we start executing on the orders, all those things will come.

Aditya Mehta: And last question on our receivables: So will we be getting payments from BSNL or via consortium?

Arnob Roy: We'll be getting payments from TCS.

Moderator: The next question comes from Venkata Suresh Kumar from Burrans Financials.

Venkata Suresh Kumar: My two questions My question is whether Tejas is planning to take over Saankhya Labs. You are going to semiconductor? This is my first question. The second question is:

Arnob Roy: I couldn't hear your first question. Your voice clipped in between. Something related to semiconductors, you are saying? Could you please repeat?

Venkata Suresh Kumar: Sir, your takeover of the Saankhya Lab in Bangalore You are planning on going for business transient in semiconductor business?

Arnob Roy: Yes. So I think, as you know, we are very big consumers of semiconductors in designing our products. And so with Saankhya's capability, that also gives us the opportunity

to design, optimise, and begin to serve other markets, where semiconductors are required, right?

So we are kind of crafting our strategy in this space. But yes, we do intend to use Saankhya's capabilities in semiconductor design and manufacturing to both grow and impact our business, as well as other opportunities in other sectors.

Venkata Suresh Kumar: Okay. And one other question. Actually, you got the BSNL long-back tower. You are making total equipment; your Tejas is making any other partners like ITI and Valiant; CT somewhat is giving another order? We will be a bit stimulated. You can understand my question.

Arnob Roy: Yes, I can understand. So basically, for this BSNL 4G order, all of the radio access network equipment will go from the base station to the tower, which includes the radio equipment at the top of the tower and the baseband equipment at the bottom of the tower. All of that equipment is completely designed and manufactured by us for all 100,000 sites.

As I previously stated, ITI is another partner, like TCS, who will source equipment from us and supply it. But all of the requirements are going to be pure Tejas equipment.

Venkata Suresh Kumar: Okay. Okay. Any other CT consultants and Valiant also at the partner -- if any equipment, any other orders, sir, CT...

Arnob Roy: Not in this network. We do work with Valiant for other applications in our wireline sales, but in this particular application, again, there is no partnership with Valiant for this...

Venkata Suresh Kumar: Only for wired networks.

Arnob Roy: For our wireline business, we have some partnerships for some complementary equipment, but not into the wireless space inside the safety piece?

Venkata Suresh Kumar: And Cybersecurity.

Arnob Roy: Cybersecurity?

Venkata Suresh Kumar: Cybersecurity products in some Tejas market stalls in conducting U.S.A. exhibitions with Valiant

Arnob Roy: No, we are not into making cybersecurity products. We use cybersecurity products, but we do not make cybersecurity software or hardware. We don't do that.

Venkata Suresh Kumar: Actually, you are conducting a stall in the U.S.A., Tejas, and joint Valiant. You're conducting the stall. That company is only for your joint products.

Arnob Roy: You were talking about the trade show in the U.S. So I think one of the trade shows is for the utility sector, and we participated in that. And as I said, some of our solutions in the wireline space, especially for the utility sector, are in partnership with Valiant, where we make complementary products that work together for the smart grid. And that is the solution we demonstrated at one of the U.S. trade fairs.

Venkata Suresh Kumar: Okay. You are a utility partner, a utility sector joint venture of...

Arnob Roy: No, no, there is no joint venture. There's a joint solution with our product solution, yes.

Moderator: Our next question comes from Hirenkumar Thakorlal Desai, an individual investor.

Hirenkumar T. Desai: Yes. My questions have been more or less answered. I have just one question. So to be able to build this huge BSNL order inventory, will you be required to take on some debt on our book?

Arnob Roy: Take on what?

Hirenkumar T. Desai: Some debt loans.

Arnob Roy: So as of now, I think we have planned our cash flows, balancing our supplier payments, our receivables, and our collections. So as of now, we have worked out the cycles that ensure that we will be able to manage our working capital properly to execute these orders. So maybe one last question, please.

Moderator: Thank you. Should I take the last question?

Arnob Roy: Yes.

Moderator: All right. The next question comes from Bhavya Doshi, an individual investor.

Bhavya Doshi: Yes, I have two questions. One was on the geopolitical side. We are seeing the U.S. ban some chips and China ban some new materials that are going to affect some semiconductor supplies. Are you seeing any component disruptions happening within our supply chain? Is there any kind of early stress? That was one. And second, if you can shed some light on the TATA Tele deal that we have won recently and also what kind of order book we are going to get during this financial year of INR 1900 crores.

Arnob Roy: Yes. So first of all, it's the U.S.-China geopolitical tensions. I think that has been going on for a while, right? So I don't think this issue has particularly impacted our supply chain or our semiconductor supplies. A lot of the high-end semi-conductor components anyway don't come from China, or the use of Chinese components is very low in our products. So this particular issue has not created any problems. In fact, our good diplomatic relations with the U.S. have only helped us in this regard. So this has not been a problem. That's first of all.

Second, relating to Tata Tele. So Tata Tele uses several technologies and several kinds of products in its network. They have been using WDM equipment. And very recently, they also bought our GPON equipment, so it's like a combination of equipment that they have bought. Very recently, they have also bought switches and all those kinds of things for building their network. So Tata Tele also has customers that use multiple products as a solution for building their network. So it's not one product, and they are also a pretty good run-rate customer for us.

Bhavya Doshi: Okay, and how much of the order book has been executed in this financial year out of the INR 1900 crores?

Arnob Roy: Yes. As I mentioned, around 50% to 60% of that will be executed in this financial year.

Bhavya Doshi: Okay. And just one last question, if I can squeeze it in. So on the profitability side, you've explained that you're trying to strike a balance between growth and margin. But do we have any internal targets? And at what time are we expecting to become cash flow positive, at least on the operating level? Do you have any further internal targets?

Arnob Roy: Yes. As I mentioned, we are driving for profitability for this financial year.

Bhavya Doshi: Okay. This financial year, you're expecting to be cash flow positive on an operating level, at least?

Arnob Roy: We are working towards that, yes. Thanks, everyone, hand over to Anand, our CEO & MD, for any last closing comments.

Anand Athreya: Yes. So the closing comments are that, actually, I'm pretty excited to be here. We have a good, healthy order book for this year and beyond to execute and I'm also excited about the significant wireless business. This actually puts us on the global map. I'm also very excited about the successful pilot of 200 sites for BSNL 4G, and we are planning to pull out all the stops to ensure that the supply for deployment happens in Q2.

And, as we consider profitability, we will invest to expand. At the same time, we want to very closely operate, manage our manufacturing operations to scale up our business, and also control costs. So I think we are going to be on a trajectory, and I'm pretty excited to be part of that trajectory. Arnob?

Arnob Roy: Yes. So thanks, Anand, and thanks everyone, for attending the call, and we look forward to interacting with you over the quarters in the future as well. Thank you very much.

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