

# Tejas Networks Ltd. Earnings Call Presentation (Q2 FY19)

24th Oct, 2018





# Safe Harbor Statement

*Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy and our growth and expansion plans, technological changes, our exposure to market risks, general economic and political conditions in India which have an impact on our business activities or investments, changes in the laws and regulations that apply to the industry in which the Company operates. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.*

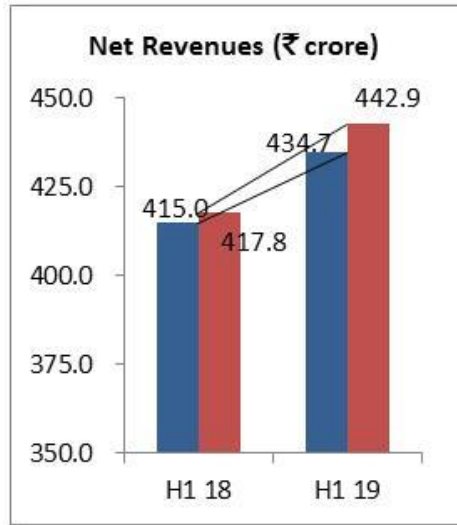


# Q2 Financial Update

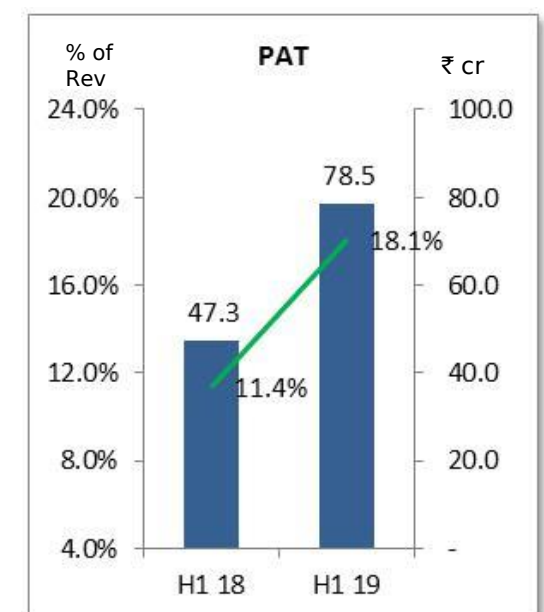
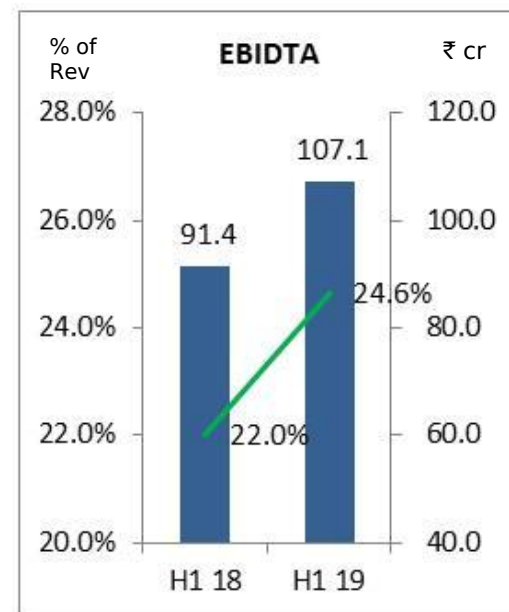
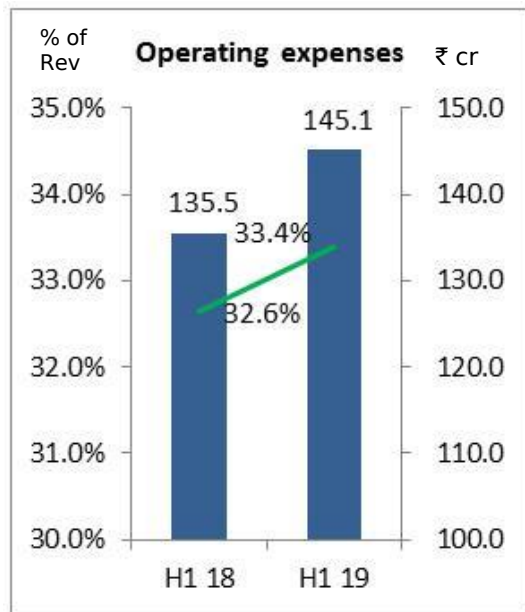
	Q2 2019	H1 2019
Revenues (Net) <sup>1</sup>	202.7 Cr (YoY -5.7%)	434.7 Cr (YoY 4.8%)
EBITDA	44.6 Cr (YoY -3.8%)	107.1 Cr (YoY 17.2%)
Operating Profit	29.6 Cr (YoY 1.6%)	74.9 Cr (YoY 30.8%)
PBT	36.4 Cr (YoY 6.9%)	88.0 Cr (YoY 47.1%)
PAT	33.5 Cr (YoY 24.6%)	78.5 Cr (YoY 65.9%)

1. The reported revenue for H1 19 are net of GST, however revenues of H1 18 are inclusive of excise duty and are not comparable  
*The Revenues (Net) are net of taxes (excise duty/GST) and pass through component sale to our contract manufacturers*

# Financials: H1'19 vs H1'18

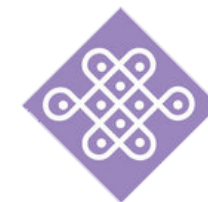


■ Revenue (net of taxes and component sales)  
■ Revenue (net of taxes)



- Net revenues grew by 4.8% on YoY basis
  - *The reported revenue for H1 19 are net of GST, and revenues for H1 18 are inclusive of excise duty and are not comparable.*
- Operating expenses (including depreciation) for H1 grew by 7.1% on YoY basis
  - Increased investment in R&D (30.4% YoY)
- EBIDTA grew by 17.2% on YoY basis and as a % of net revenue increased from 22.0 % to 24.6% on account of increased gross margin
  - Gross profit margins increased due to better product mix during the period
- Profit before tax increased by 47.1% and Profit after tax increased by 65.9% on YoY basis
  - Primarily due to increase in EBIDTA, other income and deferred tax considered for H1 19

# Key Financial Indicators



Amount in ₹ crore

Particulars	H1 18	H1 19	Variance
Revenue from operations <sup>1</sup>	435	443	2%
Revenue from operations (Net) <sup>2</sup>	415	435	5%
EBIDTA (before exceptional item)	91	107	17%
Operating Profit	57	75	31%
Profit after Tax	47	79	66%
EPS (Basic) ₹	5.80	8.62	48%
EPS (Diluted) ₹	5.46	8.17	50%
Cash flow from Operations	95	-32	
Net Worth	1,081	1,244	
Borrowings	3	2	
Net working capital <sup>3</sup>	435	437	
Net working capital as % of LTM Revenue <sup>3</sup>	42.23%	49.19%	

- Increase in Operating profit and PAT was primarily on account of increase in Gross margin
- The working capital as at Sep 18 has increased to Rs. 437 crore from Rs. 323 crore as on Mar 18
  - Working capital days increased by 39 days to 180 days
- DSO increased to 204 days from 135 days as on Mar 18, due to delayed collections from one large customer in India
- DPO increased to 115 days from 99 days as on Mar 18
- Inventory days decreased to 68 days from 83 days as on Mar 18

1. The reported revenue for H1 19 are net of GST, and revenues for H1 18 are inclusive of excise duty and are not comparable

2. Revenues net of taxes (excise duty/GST) and pass through component sale to our contract manufacturers

3. Cash and cash equivalents, investment in liquid mutual funds, Other Bank balances in current assets, and Borrowings in current liabilities are not considered in computation of Net working capital



- **Team**

- 754 employees, 52% in R&D (52 net additions in Q2)
- Hired Chief Human Resource Officer – Abhijat Mitra (most recently with McKinsey & Co.)

- **Awards**

- Shortlisted for Broadband World Forum award for “Achievement in Network Convergence” category

- **Patents and Standards**

- 349 patents filed, 94 granted (16 in Q2FY19)
- Contributed to 5G standard on CPRI front-haul transport published by TSDSI

- **International customer wins**

- Added 8 new international customers across Americas, Africa and South East Asia



# Positive Policy Developments in India

## Public Procurement (Preference to Make-in-India) Order 2017

- **Gazetted on August 29, 2018**
- Local procurement mandated for procurement by all central and central sector (incl. PSU) projects
- PMA expanded to cover procurement by state and local bodies, even if partially funded by central Govt.
- Removal of any restrictive conditions in Government tenders that may exclude local manufacturers

## National Digital Communications Policy

- **Approved on September 26, 2018**
- Fiberization of towers to go to 60% by 2022
- Increase in broadband penetration to 100%
- Emphasis on design-led manufacturing and facilitating access to background IPR on FRAND terms
- Continued Push by Government to nurture a domestic 5G eco-system

## TRAI Report on Promoting Local Telecom Equipment Manufacturing

- **Released on August 3, 2018**
- Highest focus for Designed-and-Made-in-India products versus Assembled-in-India products
- Strengthen PMA policy; Incentivize private telecom operators to buy domestic products
- Creation of a fund INR 10 bn to promote domestic R&D
- Export promotion of Indian products

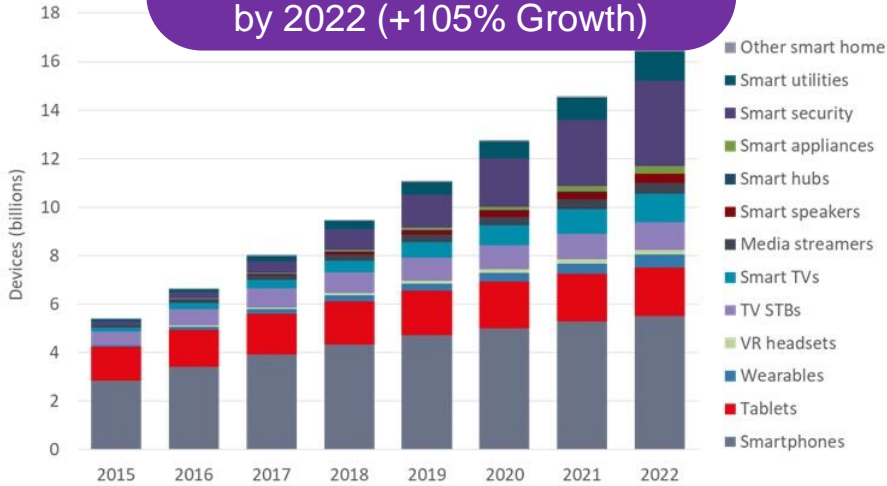
## Increased Customs Duties on Telecom Equip.

- **Applicable from October 12, 2018**
- 20% basic customs duty imposed on all non-ITA1 finished products including Base Stations, Packet Transport (PTN), Carrier Ethernet, Optical Transport (OTN), Switches and Routers
- 10% basic customs duty on all imported populated PCBs
- Aim to reduce current account deficit and also promote procurement of domestic products



# Massive Growth in Data Usage, Mobile and IoT..

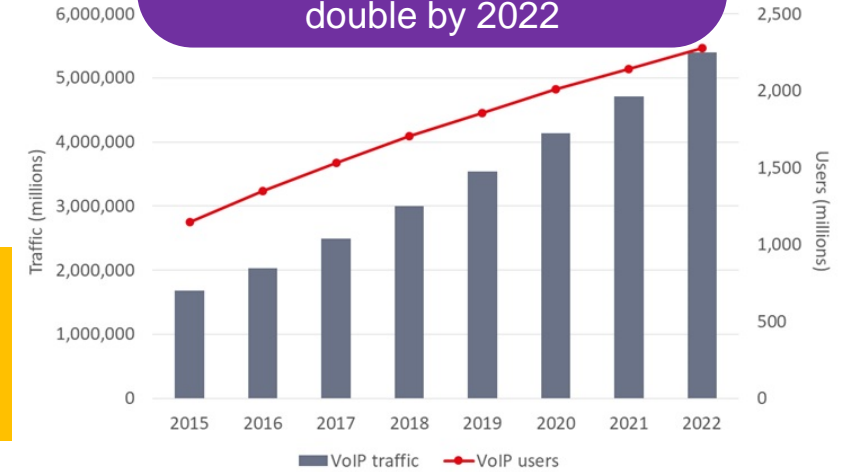
16 Billion Connected Devices by 2022 (+105% Growth)



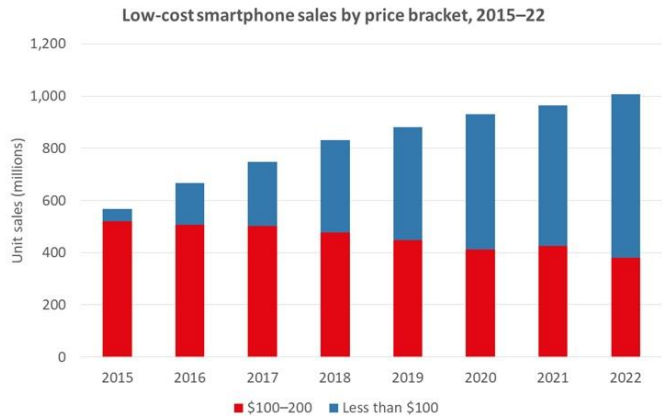
Exponential Device Growth

Data Usage to touch New Highs

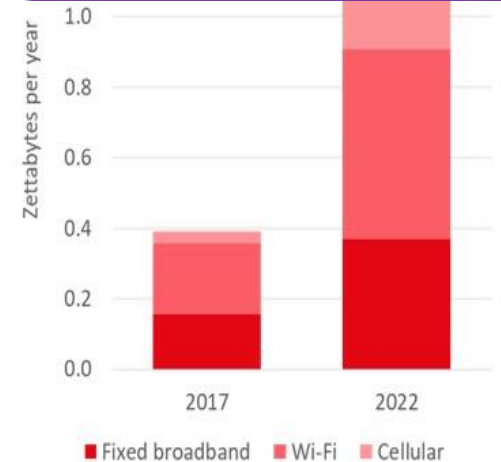
App-based VoIP traffic to double by 2022



Sub-\$100 Smartphones ~30% of phone market in 2022



App-based Video traffic to cross one Zettabyte by 2022



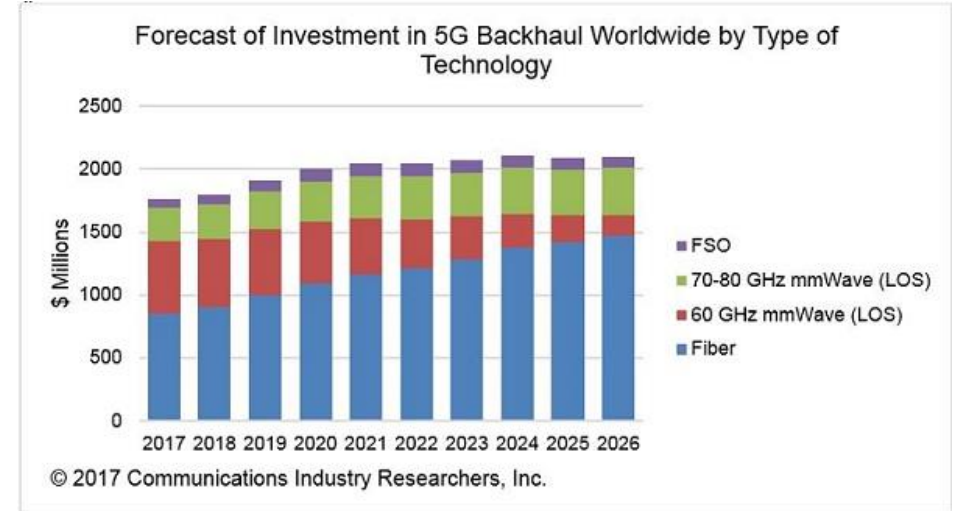
Source: Ovum





# ...Driving Optical Access, Backhaul and Metro Capex

- Globally, a larger portion of backhaul spending will be on optical fiber links for 4G/5G
  - ~60% backhaul spend will be on optical equipment (rather than on microwave) by 2022
- Optical fiber is edging closer to the end-users with FTTx/xPON
  - Cumulative spend on xPON to be \$7Bn
  - Beyond Home Broadband; xPON for Business and Mobile Backhaul
- High-capacity 100G/100G+ DWDM build-outs in Metro and Edge to handle traffic explosion
- Metro expected to be 78% of total optical spend by 2022 (source: Ovum)

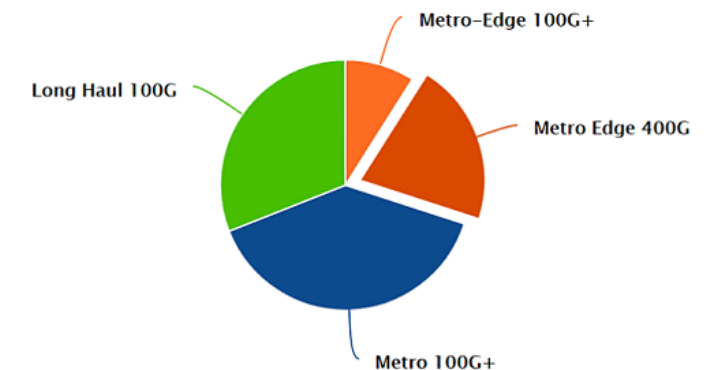


PON MARKET WILL GROW TO OVER \$7 BILLION BY 2022, ACCORDING TO DELL'ORO GROUP

Next-Generation PON Technologies Will Grow Almost 40 Percent on Average Each Year

Optical Transport Capacity Deployed in 2020

Percentage of WDM Bandwidth Deployed



# Target Applications



## Next-gen Mobile Backhaul- 4G/5G

Transport of cellular traffic from base stations to switching centers

**Technologies: PTN, OTN, CPRI/eCPRI**

## Bandwidth Services

Bandwidth wholesaling to telcos or enterprises; Data centers

**Technologies: 100G/200G DWDM, Alien Wavelength, DCI**

## Broadband Access & Infrastructure

Delivering high-speed Internet services over wireless or wired media

**Technologies: NG-PON, 4G/5G FWA, IP (Layer-3)**

## Optical Network Modernization

Migration to next-generation SONET or PTN

**Technologies: Circuit Emulation, SDN/NFV**



# Recent Successes for Target Applications

- Alien wave DWDM for mobile backhaul
  - Large mobile operator in Mexico
- PTN aggregation + GPON for broadband services infrastructure
  - Leading wholesale bandwidth provider in Nigeria
- 200G DWDM for terrestrial long-haul network
  - Top-5 wholesale bandwidth provider in Africa
- PTN + high capacity circuit emulation for converged mobile backhaul
  - Leading integrated telecom service provider in Algeria
- Captive wide area network infrastructure (DWDM, Multigigabit IP Switches)
  - Indian Navy
- Transport network modernization using circuit emulation
  - Tier-3 operator in USA
- PTN Network expansion
  - Large telecom infrastructure company in Malaysia



# India Sales Update

## ● Government

- Received order for Navy NFS network
- Started receiving orders from SI partners for central Bharatnet Phase-2 tenders floated by BSNL; more expected in Q3
- Participated in multiple state Bharatnet tenders, through SI partners. More tenders getting to bidding stage
- Funnel from utility customers (Power/Rail/Oil & Gas) continues to be healthy

## ● Private

- Increased fiberization and higher network capacities resulting in larger % of telco capex being allotted for optical transport
- FTTX rollout plans for home broadband, creating a strong traction for GPON
- Well positioned to win new applications with our existing customers; expect to increase our wallet-share



# International Sales Update

## ● Emerging markets

### ○ SE Asia

- Good business visibility from Malaysia, Vietnam, Sri Lanka and Bangladesh- multiple new customer wins
- Applications: Wholesale Bandwidth, Enterprise connectivity, Packet Transport, Broadband Infrastructure

### ○ Africa

- Strong pipeline from South Africa, Nigeria, Kenya and Algeria- multiple new wins
- Applications: Wholesale Bandwidth, Alien Wave DWDM, Enterprise connectivity, Packet Transport, Broadband Infrastructure

## ● Americas

### ○ USA

- Increasing customer engagements across Tier-2 and Tier-3 accounts
- Applications: Focus on network modernization, SONET replacement and utility opportunities
- Slow start; Orders expected to pick up in 2H of FY

### ○ Mexico

- Strong business pipeline. Multiple wins across Tier-1 operators; strong growth potential
- Applications: Wholesale bandwidth, Packet transport, Enterprise connectivity, Broadband infra.

### ○ OEM

- Expected to be flat or may marginally decline

# Strategic Priorities for Growth



**R&D  
Investments**

**Enhance current products for higher capacity and more data features**

**Invest in new products in adjacent areas to target specific applications**

**Competitive Applications**

**Sales  
Investments**

**India  
Use incumbency to benefit from pent-up demand for data & Government spending**

**Global  
Increase sales investments in emerging markets (Africa & SE Asia) & America**

**Favorable Market Access**



# Summary

- Macro outlook of increased data consumption continues to be favorable for our optical business
- Revenue growth momentum in India continues. In addition, positive government policy support for domestic telecom manufacturing
- Strong revenue growth expected in International (direct) across geographies. Seeing increasing success for our technology solutions in the target application areas
- Good business visibility for H2-FY19. Expecting strong revenue growth for the FY, with healthy profitability