



“Tejas Networks
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks Q3 FY2021 earnings conference call hosted by Axis Capital 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh Sinha of Axis Capital Limited. Thank you and over to you Sir!

Santosh Sinha: Thank you Ayeesha. Good evening everyone. On behalf of Axis Capital, I welcome all the participants to the conference call. Today, we have with us Mr. Sanjay Nayak, Chief Executive Officer & Managing Director, Mr. Arnob Roy – Chief Operating Officer and Whole-Time Director, Mr. Venkatesh Gadiyar, CFO of the company and Dr. Kumar N. Sivarajan, CTO of the company. We will start with the overview of the company’s performance for Q3 and then we can switch over to Q&A. Thank you and over to you Sir!

Sanjay Nayak: Thank you, Santosh. Welcome everybody to the earnings call. This is Sanjay Nayak along with my colleagues. We had uploaded the earnings call presentation on our website, so I hope you had a chance to download that. I will be following sequence from that presentation. So amongst slide #1, which is the Q3 financial update. In terms of key updates, the net revenue for the quarter was 129.1 Crores, which was at a year-on-year growth of 51.2%, we had a PAT of 9.2 Crores versus a loss of 112 Crores in the corresponding period last year. Our operating cash flows have improved and we generated 55 Crores for this quarter and our cash and cash equivalents also increased 36 Crores from September 30, 2020, to December 31, 2020, and has reached 335 Crores.

In terms of new bookings and orders in hand, it increased by 73 Crores to 672 Crores, which is the all time high order book that we have had. In terms of the sales update, that we go through 3 segments, so for India government at a macro level a lot of things have happened from the Indian government side and there are many sectoral policy decisions, which have been made. Notably the one talking about the mandatory use of secure telecom equipment by all operators including by private operators, the production linked incentive scheme or the PLI scheme for telecom manufacturing equipment where our equipments are covered and of course the overall preference to Make in India and all of these are expected to favorably help our business.

On the critical infrastructure segment of the Indian government part, we again have good order inflow and we continue to have a lot of tenders in and as I mentioned in the earlier call this is almost becoming a run rate business for us. The payments from BSNL have



Tejas Networks Limited
January 20, 2021

restarted. They were stuck for a long time. We received a small amount in the December quarter and then subsequently in the last couple of weeks we again received some more payments and we believe that going forward, it may not come in one shot, but on a continuous basis we should be able to see improvements on that front as well. On the India private side, we have won a new metro WDM rate contract from a tier 1 operator, this is a multi year situation where we will now become a major part of their metro expansion where a lot of bandwidth is exploding.

Secondly, we continue to win a lot more of the fiber to the home applications based on our GPON technology. Again, there are 2 equipments the OLT, which is the head-end and ONT, which is the customer prime equipment and that success we have been seeing across telcos as well as ISPs. On the international side, we are seeing strong order inflows from Africa and South East Asia. North America unfortunately has been disappointing and slow this financial year. We had also announced in the last week of December, a \$13 million order for our award winning converged access product, which also had the wireless 4G element integrated within it for a customer in South East Asia. And if I look at a 9-month aggregate because we look at really on a aggregate basis for our revenue profiling our international revenues grew 26.9% year-on-year on the revenue side and of course bookings have grown much faster. We also had 5 new international customer wins during the quarter and we are also now starting to increase sales investments except that we are hiring local people because of all the travel restrictions so that we can have more coverage in the regions. We have made offers and many of them are expected to join in this quarter. One other significant development I just wanted to call out on the supply chain side, so you would have been reading the newspaper there is a global shortage of semiconductor components namely the wafers. Wafers are used for making the final chips that go into our product, so there has been a shortage as a result some of our suppliers have indicated that lead times have increased. Some of them are also planning to do a little bit of a price increase, so while for Q4 we seem to be almost okay, but for first half of next year we are closely watching the supply situation from the semiconductor side. But that is something that is an evolving development that the thought should be brought to everybody's attention.

So, if you look at it from a summary perspective when we started the financial year, we had 3 key objectives for our business, number one was really regain the business momentum, particularly for the run rate customers and the international and I think we have made good progress over the 9 months. Number two was return to profitability and at the end of this quarter both on a 9-month basis as well as individual quarterly basis, now we have a two consecutive quarters of profitability and an annual basis we are profitable and the third was to improve our cash position, which we again continue to improve every single quarter

during the financial year and we hope that in all of these three dimensions will continue to make more progress as the year progresses, which is Q4, which historically always has been a large quarter and we expect the Q4 to be a large quarter this year as well. I would now hand it over to Mr. Venkatesh, our CFO to talk about the financial a little more detail and then I will come back on the sale side as well.

Venkatesh Gadiyar:

Thank you, Mr. Sanjay. Good evening everyone. This is the financial update. Net revenues for Q3 was 129.1 Crores year-on-year growth of 51.2% and EBITDA of 1.6 Crores year-on-year growth of 107.7%, PBT and PAT of 9.2 Crores for Q3 and EPS of 99 paisa for Q3. Similarly for a 9-month ended, our net revenue was 313.3 Crores, we saw a year-on-year decline of 4.2%, EBITDA was 14.2 Crores and PBT and PAT of 4 Crores for the 9-month ended and resulted into the EPS of 43 paisa for a 9 monthly basis.

Key financial indicators, our cash flow from operations for Q2 improved in Q3 from 45 Crores to 55 Crores and our net worth moved from 1082 Crores to 1094 Crores in Q3. Inventory had decreased from 233 Crores to 229 Crores, a decline of 4 Crores in this quarter; however, on a 9 monthly basis, we saw a decline of 24 Crores in the inventory and we continue to see this, consume lot of inventories in Q4 as well as in the future quarter as well.

Coming to the trade receivable, on absolute terms, decreased from 425 Crores to 402 Crores and compared to 9 months, it decreased by 54 Crores. On the BSNL front, we have collected 29.5 Crores for 9 months and particularly in Q3 we have collected 11.1 Crores, post our Q3 results we have collected additional 11 Crores. As of December 31, 2020, BSNL outstanding was 165 Crores take away around 70 Crores of retention, net to be collected is 95 Crores. As a result of improvements in the reduction in the inventory and the improvements in the trade receivable collections, our working capital has been decreased by 43 Crores in Q3; however, for the entire 9 months our working capital has been reduced 80 Crores. As a result of all these things our cash has been improved by 36 Crores in this quarter and for 9 months we have increased our cash and cash equivalents by 55 Crores, now the cash as of December 31, 2020, was 335 Crores. We are continuing to be a debt free company and we expect further improvement of the cash position in the coming quarters as well.

Sanjay Nayak:

Thanks Venkatesh. I am now on the next slide, which is the revenue distribution segment. On the left hand you see the pie chart, which is for the full year FY2020. The distribution of 380 Crores of revenues and on the right hand side you see the pie chart, which is the 9 months distribution of the same revenue under the 3 buckets. If you see from an overall perspective, we have done 126 Crores of revenues for the full year last year in international

and whereas in 9 months we have already done 118 Crores, on top of that we have a fairly large backlog of international orders, so we expect a strong Q4 for international going forward for this year. On the India government side, we have done 58 Crores last year, this year we have already done 42 Crores and here again we have a lot of backlog of critical infrastructure business for Q4, which again should result into a healthy growth of revenues for Q4. As far as India private is concerned, we did 195 Crores last year, we have done 153 Crores as of Q3 and again we expect that may not be this year, but this year we have already got a lot of new customer wins, but the actual result of those wins into run rate business from India private will be really seen more in the next financial year. This kind of gives you a break up of how our revenues are improving and really the international as well as the India private plus critical infrastructure these are almost I would say a strong run rate business. On a year-on-year basis not only have a good growth, but we see a good visibility going forward as well. In terms of one more comment I just wanted to make on that slide was that out of the order book that we have of 672 Crores around 20% to 25% of that will get executed in Q4 and the rest will be for next and the subsequent years as well.

Little bit more deep dive into the two segments, the India and the international, as I mentioned on the India business, the macro side of things are very favorable, the larger umbrella of Atmanirbhar Bharat and telecom being a critical infrastructure where the active electronics, which is the equipment that we make are becoming very, very important for the country. The whole new policies, which are coming together and the fact that everybody has to buy equipment from trusted sources is really creating a tailwind for our business where we being a leading Indian company and with a lot of relationships with the operators for so many years, we believe there is a good opportunity for us to get larger market share and win new applications from their side. I also talked about the fiber to the home broadband application where around 3 million GPON customers, which is what India has today is expected to go to 100 million over the next 2 to 3 years, which will be around close to 50% of the households in the country having affordability to get broadband connection. So there is a large market opportunity and we have a good role to play. The announcement of BharatNet to go to 650,000 villages, which is expansion of different phases of Bharat Net is something, which has started to happen and PM had announced that in the next 1000 days he would like to get this done. And of course the PM-WANI program where 100 million Wi-Fi access points will be done. Lot of the infrastructure of utility companies is also getting modernized, so there is good amount of capex growth even from the government sector in the next few years. The BSNL 4G expansion tender I am sure lot of news has been around that, that is happening, so that will not only have an impact on wireless equipment, which is the 4G equipment, but also for the transmission equipment because you will need to backhaul the data, so there is a whole bunch of business around that and of course we do not expect 5G rollout to start in any meaningful way in the near term, but definitely

operators are preparing to fiberize their towers and the broadband network to backhaul the 5G traffic as the roll out starts to happen next year onwards. Specifically, on the government side in BSNL we won a tender for BharatNet expansion in 2 states where there was not enough coverage as part of the 650,000 village program, so we should be getting the order in this current quarter. This is not counted in the backlog that I had mentioned earlier and of course for the 4G tender, there is a strong push from the government to create an Indian ecosystem. We have built our own 4G radio equipment, which is called RAN and of course historically in optical transport we have been very strong. So we will be partnering with other system integrators to find a way to get into those tenders as well. Clearly still there is a long way to go in terms of that actualizing into business because of different steps, which had been defined by our operator, but at least this is directionally something that is looking interesting. On the critical infrastructure side, across utility, defence, video surveillance, smart cities and a lot of networking projects of PSUs and in government, we have been working with system integrators and we see a lot of business coming from that segment as well. On the private side, when it comes to the FTTH network, actually while there is a lot of demand, the actual roll out of the networks on the ground has been slow despite the operators wanting to roll out a lot more. The actual progress on the ground has been slow partly because of COVID, and partly because of just the logistical challenges to roll out last mile network. But it is starting to gather pace. Similarly lot of the ISPs who have last mile access in the form of cable or others are also starting to accelerate, so I would say next financial year we should see more positive impact of these FTTH roll outs in our business because we have been selected, but the actualization to business is taking longer than we expected.

We have a new WDM application win for metro capacity expansion with a large tier one operator. This is a very significant business opportunity for us because all the bandwidth, which comes from either home broadband or mobile backhaul or 4G or 5G will all get into the metro network, so there is a significant traffic explosion there. Because of the trusted source and many other things that are becoming important, lot of the operators are really diversifying their supplier base and we are getting a very good opportunity to become a main line supplier for them and I think in this quarter we would start to see some traction on that and again for the next few years we should see good business opportunity out of that. So net-net we think that in India private segment we should increase our market share in the next financial year because of the wins that we have had so far in this financial year and the time it takes to be integrated in the roll out plans.

Now on the international side, so again the macro trend this year has been very interesting. As you would have realized that because of COVID, the travel from India or travel outside any particular country for anybody in the world has been extremely challenging, so the sales

investment, which we made in different countries over last year have actually started to pan out well for us. So our incumbency in existing accounts and new customers in the countries where we are there or new applications wins with the existing customers in Africa, Malaysia, Mexico and Middle East is actually panning out and that is the reason for us to get much stronger business, larger order sizes from existing customers going forward. Second trend, which we are seeing is that there is an opportunity for replacement or expansion in the wake of all the geopolitical developments and many operators in the world are specifically coming out with RFPs to build up what they call clean networks and diversifying their supplier base away from a particular county. Coming back to the third bullet is that in many continents like Africa, and even in some parts of Asia and others, the wholesale bandwidth consumption has dramatically increased because of webscale companies like Google, Facebook, Microsoft setting up huge data centers in those markets which are seriously underserved. We are seeing a bandwidth explosion in those markets and we have been suppliers to the large wholesale bandwidth carriers in Africa for example and this is giving us good traction and if I were to look at FTTX, the home broadband segment across regions, ex-China because we do not do China, but if we look at India, Asia, Europe, US, on an average depending on which geography you are referring to, you could be having anywhere from 3% to 5% penetration like in India to may be a maximum of 20% or 25% in some parts of Europe. But there is still a huge amount of opportunity for expansion and in this segment of the business because of the competitiveness of our product portfolio and the wins in India, we see good traction for our products.

So coming back to the specific geographies, Africa and Middle East have been performing extremely well this year not only are we getting larger orders, but we are also adding deals, which have not yet closed, but should expect to close in Q4 with large customer, larger deals. And clearly WDM, which is used for the wholesale bandwidth provider as well as the ultra-converged access solution for the FTTX and other deployments, our products are seeing a lot of traction. South and South East Asia again has been a region where we have been there for a while and we have good traction, we won this larger order that we announced in December and again this is an initial order and depending on how things go and their expansion plan, there could be opportunity for repeat business from the same customer. And of course many of the customers where we have been winning business in the past in different countries even though we could not travel, but we could actually get a lot more business based on existing relationships plus existing local field force that we have. North America has been slow and I do not think Q4 will be anything great either. The real reason seems to be there is a lot of incumbency and inertia in North America and the COVID when we thought we have picked up the phase, the customers really did not want to change and get a new vendor in and as a result lot of our plans have really got into a backburner and then slowed down. We see a lot more openness from people going forward,



Tejas Networks Limited
January 20, 2021

so we expect that in the next financial year, North America should pick up, but clearly this has been something, which has not been a happy situation for us. But that is something, which we are looking at. Europe, we started in around November, we had a head of sales for Europe, we are looking at countries like UK and Italy, which are again very severely under-penetrated in terms of FTTX deployment. We have started our engagement with customers, lot of the customers find us quite interesting, of course there is a process, which has to be followed before in terms of trial testing and all that before you can win business, but at least we have seen to be having opportunity to address those customers based on the last 2 to 3 months of experience. So overall I would say international has made satisfactory progress this year. We wish we could have more travel and we could have developed more new countries, but we really worked within the limitations and tried to make sure that we do the best that we can from the existing geographies where we have coverage and that has been a very solid progress during the year.

Just to recap from a product angle where we are winning and what do we do. So there are really 3 segments. One is as I said the home and the office broadband segment, where we have our TJ1400 family of ultra-converged broadband equipment with GPON, Ethernet as well LTE on the same product platform is a very good success story. That is from the access side. The second segment is in the metro side, which is a metro capacity expansion and the wholesale bandwidth, this is at the TJ 1600 family is really doing extremely well. Many places we are now in tier 1 accounts which basically means from a competitiveness of technology from 100G, 200G, 400G and 600G, we are pretty much state of the art and we have no reasons that we get a fair shot at the table with any operator whether in India or outside, we are able to get success. Then the third aspect is a network modernization and the critical infrastructure, this is where a lot elements of our TJ 1400 ultra-converged as well as the new TJ 1400P family, which is the Ethernet switching family, which is a derivative of the same comes into the picture. So lot of our critical infrastructure, video surveillance, smart cities, utilities use that, so these are again different technologies that go in. Just to recap again, we continue to invest in R&D. We believe that our strategy of not blinking and continuing our sustained investments have paid off because our products have become far more competitive. Our addressable market like the network modernization and critical infrastructure which are adjacent markets, where we started about a year, year-and-a-half back has become a good run-rate business. And we continue to be among the top 3 R&D spenders in the country among listed companies with more than half of our work force in R&D as well and a lot of that is being rewarded in the form of global awards and recognition that we have talked about before. Just to give you a size of it, I would not dwell too much on it, but just to put a scale of what is the opportunity available both world-wide as well as India among the three segments that I talked about earlier. Surely the global GPON market and by the way all the three data we have removed the China market sizing

out because we do not address China and do not have any plans to address that market. So really the GPON market is going from \$4.4 billion per year to about \$5.8 billion in 2024, really macro factor being that lot more people are working from home, there is a new normal in terms of how businesses and people will work and that clearly needs a GPON. By the way NG-PON, which means next generation, which is 10 gigabits of capacity, which is state of the art and again, we have the products for that as well, although in India still GPON is being deployed. This is coming as one of the most cost effective option both for home, small businesses as well as backhaul from 4G or 5G network, so I think this is an area where we invested heavily and we believe we are extremely competitive and I have already talked about the India opportunity on that segment. On the metro and long haul, WDM segment, telcos are basically augmenting the capacities because more bandwidth, more data is flowing into the network whether from home, whether from base stations of 4G or 5G or from Webscale data centers and that is why they have to go from 100G to 200G to 400G and really go to terabytes of capacity so those are the areas again we have invested very significantly. There is another technology called OTN, which is the low latency technology, which is also one of the elements of 5G where we have a very competitive portfolio product and the last part is in India for example, once that fiberization increases both for 5G as well as for the home broadband all of that extra data is going to go to the metro, so we will have to have capacity increase in the metro, the fact that as I announced earlier that we have won with the tier 1 operator in India their metro portion is a good sign for us. Utilities is a segment, which does not move very fast to new technology, so there are still lots of legacy technology that have to be modernized and our software defined hardware product architecture allows them to do so very easily. So traditional utilities like oil, gas, railways in our surveillance all of those stuff uses lot of this equipment of network in communication and again, we are doing quite well there. Because not only just for the utility segments, but there is a lot high definition video surveillance, public safety and all that comes into picture where you need some kind of Ethernet switch, etc., and again, our product portfolio is doing quite well in that. So in India, the utility segment is going from about USD 110 million to about USD 360 million over the next 5 years, the WDM network spend is going to go from USD 480 million to about USD 630 million and GPON spend is going to go from about USD 400 million to around USD 900 million over the next few years, so I think there is a largest market opportunity available for us. We have to take step by step and if you win the accounts this year we get success and get an entry, hopefully we will be able to increase our market share as the time goes back.

There is a last slide and then we will go to questions. Just to quickly summarize, in Q3 we have continued to improve our quarterly revenue as well as profitability. Our new business win momentum is very good and as I said the order book has increased from 599 Crores to 672 Crores, international is going strong, we saw good growth in the 9-months and we

expect by the time we finish 12 months year-on-year growth number will be significantly higher. In India private, which is a run rate business we do believe that based on new application wins both in the Metro network as well as FTTX we should be able to get a larger market share of the operators and these are all long-term contracts so once we are into those accounts as long as they keep spending we should be able to get good business traction. The Government of India's sectoral policies for telecom equipment and all the decisions, which have come in the last few months are very positive, good tailwinds for us. And importantly enough we want to make sure that we are diligent on cash, we are doing everything we can to improve our collections and improve our cash position and as a result we have again in this quarter improved our cash position by around 36 Crores to 335 Crores and we have no debt in the company. So from an execution ability we have the resources available with us, we have good products, clearly a good global market opportunity as well as in India and our objective as we started the financial year was to take a step by step approach and continue to head in the right direction. And I would say at the end of 9 months we feel that we have made satisfactory progress and we expect that we will continue on the same trajectory in Q4 as well. So this is really where I would pause and we can now take questions please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thanks for taking my question. Sanjay, first question was on the semi shortage, which you highlighted, what type of an impact can we see in FY2022 on business, we have seen a much more aggressive impact on other industries because of the shortage and how much do we have in our inventory right now given that it continues to remain at limited levels?

Sanjay Nayak: So, first of all it is a little bit difficult to call it because unlike the other industries, telecom chips have been the higher value chips. And in fact that were lot of the production had shifted, so we do see some increase in lead times. We have been working with our suppliers because we work very closely with them in terms of giving them a forecast and looking and making sure that the inventory is booked. So the fact that we actually have a decent stock inventory in some of it, we have also got stock of components, which we had proactively taken steps even in Q3. We believe that so far I would not expect for highlighting the fact that there is a possible impact, we do not have any data at this point in time to specifically say that we will not be able to execute on our FY2022 plans. So right now it is just an alert we have received from some of our suppliers and we have been in the planning and we have placed orders, so as of now there is no quantifiable number that I can throw, but we are managing the situation okay so far is what I would say.



Tejas Networks Limited
January 20, 2021

Mukul Garg: And have you build in some buffer on gross margin side from the increased cost or will be able to pass from this cost to customer?

Sanjay Nayak: It is a bit difficult to say because lot of this information is just flowing in. Till December end we did not have any alerts from any of our suppliers, but in the last two weeks at least, we have seen from 2 suppliers at this stage. One of these suppliers had alerted us long time back with whom we are already covered. Only one chip supplier at this point in time has basically raised an alert in terms of longer lead times, so I would say it is difficult to again say whether we will be able to pass the price increase to the customer or not. Clearly getting cost reductions will be more difficult from the suppliers this time. Usually we get decent amount of cost reduction because of our volumes, but at this stage again, I would say a bit too early to call. We are clearly monitoring the situation closely, but again, the way I see things is that our costing and our margins are more determined by the percentage of international business versus India business, so if our international business continues to improve next year on an absolute basis, we believe that we will have a little bit more margin flexibility to hopefully navigate some of the specific challenges if at all they appear from the chip side.

Mukul Garg: Understood, the second question was on the Q4 revenue calculation, now you highlighted that 20% to 25% of your order book will get executed in Q4, which indicates 150 Crores plus revenue is coming in from order book, now what share of business should we take in, what is usually order book portion versus intra quarter business or we should assume that this is a quarter, which is dominated more from public sector space and hence will not follow normal seasonality?

Sanjay Nayak: As you rightly picked up that there is a pretty decent order book thing, which will get executed in Q4 to begin with. But then we have a lot of run rate customers whom we do not count in order book because those orders will be just the physical purchase orders in our hand on the last day of the quarter.. But we do have their forecast, so I would expect that on top of the order book customers, we should have a reasonable amount of run rate customers also plug in. Exactly how much comes in is again a function of how the quarter progresses, we do not specifically give a guidance on a specific number. But I did want to directionally give a sense that from the order book there will be a reasonable amount of conversion for Q4 and secondly Q4 historically except last year has been a significantly larger quarter compared to the previous quarters and on the basis of what we are seeing today there is a good chance that this could be a large Q4 as well.

Mukul Garg: Fair enough. One clarification, which I wanted, there was an article today where ITI has highlighted that they are partnering with you on the BSNL 4G trials and you will be kind of

working with them on technology in this side, so what type of partnership will this be, will they be manufacturing the equipment or will you be manufacturing the equipment and more from the technology side you do also have vRAN or open RAN capability?

Sanjay Nayak: So, first of all I would not want to comment on any news articles because we did not say anything, someone else has said it. What I did say earlier in my presentation is that we have developed our own 4G RAN solution and we will be partnering with other system integrators. ITI of course has a reserve quota so that is an interesting situation. Our product is in compliance with what BSNL is wanting, which is a traditional architecture, but if you know of our company's fundamental approach of a software defined hardware architecture we do believe that we have the capability to upgrade to newer architectures like ORAN as time goes by. To also clarify we have not developed the core or the EPC for the large mobile networks that are being talked about where there would be a partnership with other ecosystem players.

Mukul Garg: Understood, I think that is from my side. Just a suggestion given that you are talking about the addressable market in GPON and Optech it would be useful if you can start digging out the revenues for comparison. Thank you for taking my question.

Moderator: Thank you. The next question is from the line of Divya Jain from ICICI Prudential Mutual Fund. Please go ahead.

Divya Jain: Thank you for taking my question. Sir, I just wanted to understand, you have stated market size opportunity for each of the segment, if you could just elaborate what is your aspirational market share, which you would want to gain out of these opportunities that would be like helpful?

Sanjay Nayak: Aspirations are of course very high, but we are still quite a bit away from the aspiration in the sense where we are today. I think what happens is while we have called out the total market size worldwide and we also called out the India market size. So I think it is more possible for us to have a better handle on the India market share and which I said is based on the wins we have a seat on the table to increase our market share. At this point in time, it may be a bit premature to specifically say what market share we are going to gain. On the global basis, it is a bit trickier. For example, let us take the case of GPON market being \$5.8 billion per annum in say 2024 and let even \$4.4 billion today, but that is assuming that we are present in every country in the world where they are doing this deployment. So as a result what happens is we are only present in a few geographies, so as an outcome of that our market share is kind of determined by those geographies. The only point of highlighting those numbers from my angle was that over the next 4 or 5 years, which is the horizon we

have painted, as we increase our international presence and achieve greater sales coverage in different geographies, there is a large opportunity available to us. The second point, which I wanted to make, which was on the technology side, is that from a product competitiveness, we feel very confident that winning in India for example, on GPON against the best global competition on technology and price and being selected by all the major operators or winning in India in Metro WDM on 100G , 200G , 400G , which again is the best in the world gives us confidence that we have competitive products, and if we are able to get to the right markets and have the right credibility then those opportunities will start converting. So I would say that it is a little bit difficult for us to put a percentage figure to the market share, but as we start seeing more traction in geographies we will have a better sense of it.

Divya Jain:

Thank you, that was helpful and Sir, in case of more related orders, which we had is a bigger one, how many such orders or what would be in continuing of further orders like this we could, what was the nature of that order I would want to understand and how many of such can be possible in future?

Sanjay Nayak:

Basically in these kind of orders, let us say they would initially cover X number of cities or regions in phase I and after phase I gets successfully deployed they would expand it to another phase covering Y cities or regions for example, so that is what we expect to happen. I think phase I will get executed during the current calendar year and if all the things go well and they get the budget in place, there could be an opportunity opening up in future as well because there is a lot more coverage that they need to do for the product that they bought from us.

Divya Jain:

And just the last question from my side, the cash on the balance sheet I mean inventory do you see that you have a disproportionate gain in the near term because the other players might be struggling on the liquidity side?

Sanjay Nayak:

I would not say disproportionate gain, but I actually look at it this way that we do not have any handicap. To be honest when we started the year in April and our cash position was what it was, there was a lot concern including amongst ourselves that I do not know how COVID is going to pan out and do we have enough cash to ride through a rough storm in case one came through. Luckily no rough storm came through for our business because telecom is one of the sectors which has actually done well during COVID times. But more importantly it gives us the strength to be able to execute larger orders, and signals to our suppliers to say that they are doing business with a healthy company. And also from our customers perspective by the way when they look at our balance sheet and see that this is a profitable company that is executing well, they have competitive products, they have a

comfort that 5 years from today we will still be around. This may not be the case for some of the relatively larger companies whose balance sheets may be stretched. I would say it is more of a comfort factor for being able to take more proactive investment calls whether in R&D or for international sales investments due to the strength of our cash position rather than any particular thing. We definitely do not want to use our cash to finance our customer networks so we are still hesitating to give any long-term credit or anything of that kind because I do not think that is something which we would ever encourage. In fact our focus has been to reduce our DSOs and improve our collections, get into a shorter cash to conversion cycle, although there is a lot of temptation from customers wanting to give us more business if they give them longer lead times, but that comes with interest, which we think is not a good thing to do in these times.

Divya Jain: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: Thank you for taking my question and congratulations on a good set of numbers in challenging times. Sir, I have a couple of questions, first one is I would like to understand that if I look at your gross margins over the last couple of quarters, apparently Q3 is one of the lowest gross margin quarter, what would be the reason for that and is it because of the product mix or the customer mix and how should we look at gross margins going forward?

Sanjay Nayak: So, Venkatesh can answer this question. He is looking at the data. Really on a quarter-on-quarter basis you are right because of the customer mix for example, in Q3 the percentage of India customer was slightly higher compared to India customer percentage in Q2 let's say or Q1, Q1 international was 53%, Q1 margin was highest. As I mentioned in the context of a reply to the earlier questions that as our international business goes on our margins go higher, so in a particular quarter if the percentage of India business is higher the margin may slightly go up and down. We model our business and we look at the margins on an annualized basis, in fact we look at it on an annualized basis that is why I give you all a 9 months comparison. So I do not see any reason that we should have any significant dip in the margins or increase in the margins so long as we maintain our revenue profile. So typically I mean last year I think we did 60% India, 40% international something like that and I think by the time we finish this year, we should be in a similar ratio. And if that happens then our margin should be similar compared to last year, it could be a few points up and down, but I would not say anything significant there.



Tejas Networks Limited
January 20, 2021

Sunny Gosar: That is helpful, just to conclude on this, is it fair to assume that our gross margin should be in that range of 48% to 52% broadly if I look at the last few years that has been broadly the range and should that be sustainable going forward?

Sanjay Nayak: Yes, I think our margin should be in the similar range, yes.

Sunny Gosar: Right. Next question is that I want to understand is basically, how much is the receivable cycle because if I look at your receivable as on December, it is about 402 Crores, if I take out that 170 Crores from BSNL, so the receivable is about 227 Crores and if I add up the last 2 quarters of revenue is about 244 Crores, so basically it turns out to be that we have not received money for the last 6 months sales or apart from BSNL also are there some other receivables, which have not yet come through from the past?

Sanjay Nayak: So, I think we have mentioned in one of the earlier calls that there are slight delays because of the COVID pandemic in certain geographies. These are old customers, but there were slight delays on those. On a steady state I think our receivable cycle over a period of time once we get to the right amount of revenues was around 145 days or so, if you look at our financials couple of years back I think we had a steady state cycle for receivable was 145 days. I think we should be able to reach that, of course not in the near quarter, but in a few quarters from now we should be able to hit that figure. Hence with the BSNL collections, which have again started to move, getting cleaned out we should be able to restore back to our 145 day kind of a receivable cycle.

Sunny Gosar: Was that 145 days would be blended between your government plus right, if you could help me understand basically your credit terms with the private sector, international or the India private sector because as I understand you mix may shift higher towards those segments so should not the receivable days be lower, if I take the overall BSNL out on a steady state basis if BSNL is completely out at some point in time, then how much should our receivable cycle be?

Sanjay Nayak: Here what happens is each geography and each customer is different. Unfortunately there is no standard thing. Typically we have the best payment terms from international customers followed by certain India private customers., Within government we have also started to do one other thing, which I had mentioned earlier that in the critical infrastructure business we are minimizing our direct interface with government, so we are doing it through system integrators from whom we are able to collect faster. Irrespective of when they collect from their customers, which are the government customers, so we are also going through that change. So the way to think of it is that the blend will change and from our point of view, we just want to make sure that steady state no matter, which way the blend goes we try to

keep a bounded working capital cycle in terms of the receivables, payables as well as the inventory in hand. Our working capital starts to increase as the revenues keep increasing so that is the way we are managing and in case we give a slightly higher payment to a customer for example, in international or even a specific customer in India, we typically would then prorate or bake in some cost of interest assuming that the receivable is secured. So I would say receivables will go through a lot of churn in the next 2 quarters or so. Once the older BSNL and all older other stuff start getting cleared and coming to a normal state, but our target is to get back to our 145 days receivable cycle on a completely blended basis across government, India private, international customers in a few quarters from now.

Sunny Gosar:

Right, thanks for the answer, I have one last question, if you could help us understand basically how much would be the bid pipelines in terms of your pending bid or some visibility in terms of how should we look at, so you guided for Q4 probably which is above 20% to 25% of the order book getting executed in Q4, but I have to look at from a slightly more medium term perspective, so if you could give some visibility or some colour in terms of how should we look at your revenue build up over the next 1 or 2 years?

Sanjay Nayak:

So, the challenge we have in our business is that the order book in one sense is a function of what is un-executed at the end of the quarter and we just report that as a number. The good part is that a lot of our run rate business when I mention for example, win with a tier 1 operator in India for a metro expansion, the order book for those things could be zero because they place the order and in 8 or 10 weeks they take the deliveries within the quarter so these do not get reflected in the order book unless it is on a quarter boundary. So actually a lot of our orders actually come from customers where we do not actually have an order book, but we have a forecast from them in terms of their build out plans, their capex plans, etc., and that continues to evolve as we model. Let us say for example, we get to the next financial year, so at this stage, it is very difficult for us to give future guidance in terms of what the numbers will be next year, but what we definitely report is the order book. And when we report the customer wins, we also report what is the nature of the customer whether is it a one-off win, is it a run rate win and with that I think as we get better visibility in the best possible way we try to share all our figures without giving a specific number because that is something, which is a little bit challenging in our business.

Sunny Gosar:

Right, I understand that. Just a small followup on this, if we look at your future business mix what would that be or what would it be between the India government versus India private versus international and how do you see this evolving over the next couple of years?

Sanjay Nayak:

See, what is in our control if I were to say is the run rate business, which is India private and international, which is in approximate around 85% if I am not mistaken this year, 87%

this year, so that is the part, which we control because we can win private accounts, we can win more international business. The government business is more like that when a lot of tenders come in a particular year we will have a lot of business, but if the tenders do not come we do not have a business in that year. In fact one of the big reasons for our disappointing performance last year was that the India government business did not happen much because of no tenders and the India private had other issues. So we are really trying to make our baseline run rate business solid and secured and it is growing on a healthy basis on a year-on-year basis. On top of that the government business will happen when it happens, we are very careful about making sure that we do the right things to secure that business, so that number will change. But directionally we had mentioned earlier that we want international business to grow right healthily year-on-year and by the time we finish Q4 we will see good progress on that on an absolute basis. Secondly I also believe that we want India and international to be 50:50 in the medium term, we are at about 60:40, 60 India, 40 international. But that is also a function of some of larger government business that can come and mix, so the way to think of it is independently international should increase on an absolute basis year-on-year and independently India private should also increase year-on-year. Within the government segment critical infrastructure hopefully should increase year-on-year because that has become almost run rate and the other business from BSNL and Bharat Net and all that will be more opportunistic as and when it happens.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, good evening. Sir, if you can provide us with the breakup of the order book between private government and international?

Sanjay Nayak: I think we proved the breakup of the order book between international and India, so I think around 77% is India and around 23% is international.

Dixit Doshi: Sir, it is BSNL dues that we get, are we going to get any interest on it or it will be just the receivable that we will get?

Sanjay Nayak: Good question, so technically from BSNL, we will get the principal, but then there are other government appointed agencies who are supposed to ensure that a delayed interest is paid to you as well. So needless to say, our first objective is to collect the principal from BSNL and then whatever other remedial measures that government of India has provided companies like us, since we are an MSME this year, we would be using those remedial measures as well.



Tejas Networks Limited
January 20, 2021

Dixit Doshi: Sir, in previous call, you had mentioned that we are expecting some orders from top two private telecom companies and you said to some extent the orders will come in Q3 and more orders can come in Q4, so how is the visibility now?

Sanjay Nayak: So the FTTH deployment as I mentioned earlier has been slow, so some orders have come, but not the expected volumes, which I think will be run rate. So I would imagine that the FTTH deployment orders would really be in the next financial year. So orders have started to come, but I would not say at the level at which we expect them to be, so that would be next financial year. But the newer applications that we are winning we continue to get initial orders, we got some initial orders last quarter for some new applications and hopefully, we get more orders this quarter. So I would say that at this stage, the focus was really to secure the new application wins and we understand that the actual order is a function of our equipment getting integrated in their operations and all the other service related software ecosystem, which usually takes sometime and has taken more time because of all the other issues in the last 6 months. But we are designed in and the forecasts we are getting from them in terms of what they would like to deploy and what they would like to get from us looks quite interesting to us, but those numbers I would say would start showing up in next financial year. That is what I had mentioned earlier that India private this quarter and this year has been more on winning and getting to a reasonable base, next year would be the year to increase the market share.

Dixit Doshi: Sir, one of the previous speaker pointed out that out of the receivables 165 Crores is the receivable due from the public sector company and balance sales that we have done in the last 2 quarters, so out of the receivable 220 Crores are the type of receivables, which we have not received since last 6 months, but in the note we have mentioned that more than 180 days trade receivables are 166 Crores out of which 125 Crores is from BSNL, so that leads only 40 Crores, which is due for more than 180 days?

Sanjay Nayak: Typically what happens is, that is the math you have already done, that it is not that the same receivable continues to not get collected. So we have payment terms and money keeps coming according to those payment terms. Something, which has not been collected within the 180 days gets reported, so it is not that the same thing is not coming from the same customers. We continue to get the collections going and only there could be specific customers like BSNL that you mentioned, which was due earlier and due now, but many of them keep coming in and at the end of the quarter. But there is also a question of how many of the receivables are not due. It is not that everything is due because there are the payment terms say of X number of days and the payment may not even be due, but it does show as a total receivable on our book. So I just want to make sure that the total receivable consist of



Tejas Networks Limited
January 20, 2021

amounts, which are due and amounts which are not due and only the amounts, which are more than 180 days is what is reported separately.

Moderator: Thank you. We take the last question from Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thanks for taking my followup question. Just wanted to dig a little bit into the gross margin profile this quarter and you this quarter run rate on topline was close to 55 Crores, but still you sort out big dip in on the gross margin and you have a profitable on the EBITDA side, so is this something, which is happening because of some cost pressure coming in, in equipment purchase or what was the reason for dip in gross margin?

Sanjay Nayak: I did not see anything particular during the quarter, just that gross margins are down by 80 basis points some thing like that Venkatesh said compared to last quarter. So I would say it is just about the product/customer mix, and I would not read anything significant into the dip in the gross margins for the current quarter.

Moderator: Thank you. Due to time constraints that was the last question. I would now like to hand the conference over to the management for closing comments.

Sanjay Nayak: Thank you everybody. I think the questions are very good and I hope in addition to what we had presented you would have got a better insight through the Q&A session, so thank you for your time and we appreciate your interest in Tejas and we look forward to continuing to meet our performance, goals and show improved performance on the next quarter as well, so thank you and have good night.

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