“Tejas Networks Limited Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Tejas Networks Limited Q3 FY2022 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupendra Tiwary from ICICI Securities. Thank you and over to you Mr. Tiwary!

Bhupendra Tiwary: Good evening everyone. On behalf of ICICI Securities, we thank the management of Tejas Networks for giving us this opportunity for Q3 FY2022 results conference call. From the management, we have Mr. Sanjay Nayak who is CEO and MD, Mr. Arnob Roy who is COO and Whole Time Director, Mr. Venkatesh Gadiyar who is CFO and Dr. Kumar N. Sivarajan who is CTO, so without much ado, I will give it to the management post which we will take the question and answers. Over to you Sanjay!

Sanjay Nayak: Thank you and welcome everybody to Tejas Network's call. I hope everybody is safe. We had furnished our results and also put the presentation on our website, so I hope you had a chance to download it or can take a look at it right now. We will be walking through the presentation.

I am on slide number one, which are the key updates. In terms of the Q3 financials our net revenues for the Q3 was Rs.107 Crores, which was a year on year decrease of 17% and because of the low revenues, we had a PAT loss of Rs.24.3 Crores versus a PAT of Rs.9.2 Crores in Q3 FY2021 for the corresponding period and our cash and cash equivalent are at Rs.1175 Crores and we have no debt. Just wanted to make sure that I clarify that our topline was lower and we will go into the reasons for that. We have not lost any revenues and we have not lost any customer or business and whatever revenue mix we had in Q3, we expect that it will be shipped out to our customers in the correspondingly upcoming quarters including Q4.

In terms of the sales updates, we have one of the best booking in terms of new business win and our momentum of wins is very, very strong so we won business worth Rs.311 Crores and as a result our order book has increased to Rs.986 Crores, which is an all time high. So in that sense the business momentum is very, very strong. We are also happy to announce that we have been approved as a trusted sourced for telecom products by the Government of India and on an overall basis, we do see that the government has a very strong intent to promote domestic manufacturing and we clearly would be looking at all the different polices and the mechanics that we are setting up to take advantage of this situation.

I am sure, you have been reading in the papers and we talked about it in our earlier call as well that for our 4G equipment, the radioactive networks base stations as we usually call it is undergoing proof of concept for BSNL's 4G network via our system integration partner. That trial has been going on for a few months and it is progressing well. We do expect over the next few weeks this trial should be closed subsequent to which the commercial conversation would start, but so far I think all the different requirements in terms of high watt radios and so many other things which are required in software, we have been able to deliver and demonstrate in the field to BSNL and the rest of the ecosystem.

On the supply chain side, Q3 revenue shortfall was primarily because we had customer orders. We had lots of customers intact and we could not shift the complete systems due to specific component shortages. There were few critical suppliers which were planning to pull in their inventory, but we could not pull in that inventory and we ended up in a very tricky situation where we built up the rest of the system, but because of the few cards, which had all these components, which were required did not come in. It was akin to like we built the whole card, but some of the tiles were missing so we could not shift the entire car, so I think this is a problem that we faced and we hope that going forward at least we will have more pull ins but on an overall basis from whatever we have heard in the industry sources till the end of this calendar year, there will be supply chain constraints, which could have some volatility into the revenues. Of course, we have been taking advance purchase orders, we have been taking inventory actions, but at the same time even the suppliers sometimes had decommits or they are not able to pull into the time, which is basically causing some of the shortages of revenues that we had.

In terms of one other event that we approved in our board meeting today we have confirmed the appointment of two nominee directors from Panatone Investments, which is a subsidiary of Tata Sons. Both of them are industry luminaries and we are very, very happy and delighted to have them on our board. The first person who will be joining the board is Mr. N Ganapathy Subramaniam who is the COO and Board Member of Tata Consultancy Services and the second one is Mr. Amur S. Lakshminarayanan who is the CEO and Managing Director of Tata Communications Limited. Both of these gentlemen really bring top quality operational and firsthand experience of taking smaller companies, which are of our size and to bring into multibillion dollar enterprises around the world. They not only have domain knowledge in telecom, but they have a lot of strategic as well as hands on operational experience and we are very confident that with them joining our board, we will also accelerate the synergies with other Tata Group Companies and realize the larger vision that we have set out as a part of the partnership that we have with Tata Sons now.

The next few slides, I will ask CFO, Venkatesh Gadiyar to go over it after which again I will come back on the sales and the overall business again.

Venkatesh Gadiyar: Thank you Sanjay. We are on Q3 and nine months financials slide. Net revenue for the Q3 was Rs.107.1 Crores saw a decline of around 17.1% and the EBIT loss of Rs.48.5 Crores for the quarter and the PBT loss of Rs.32.9 Crores and PAT loss of Rs.24.3 Crores for the quarter and also EPS loss of Rs.2.13 and similarly for the nine months revenues were Rs.424.1 Crores, we saw a year on year revenue growth by 35.4% and the EBIT loss of Rs.47.2 Crores and the PBT loss of Rs.21.2 Crores and PAT loss of Rs.13.1 Crores and EPS of negative Rs.1.29.

Let me talk about the revenue has declined because of some of the revenues have been deferred. As Sanjay explained about the component shortages and all and we have not lost any customers or any of the customers on that front and secondly on the gross margin front, the gross margins came down because of the blend of the India and international. International was lower percentage of the total revenue when compared to the Q2 and secondly the gross margin were under pressure because of the higher component cost also and these margins will be under pressure in the near term because we need to execute some of the existing contract and wherever we take the new orders, we are trying to adjust those prices wherever it is possible in the future contracts. Third, on the opex front more or less we have maintained our cost tight and we have been started increasing our investment in the R&D especially spending for new programmes and finally the profitability has been impacted because we had provided ECL of around Rs.13 Crores during this quarter provisioned higher due to some of the PSUs payments have got delayed in this quarter.

The next side, the key financial indicators, there is a cash used of Rs.4 Crores in Q3 and the net worth was down because of the loss that we had in the current quarter. Inventory has gone up from Rs.226 Crores to Rs.271 Crores and basically it has increased since we could not ship the complete, ship it on time or complete the balance system to fulfill the customer's orders due to the critical component shortages. The trade receivable in absolute terms has been reduced to Rs.358 Crores from Rs.414 Crores and we collected about Rs.182 Crores in Q3 and on the update on the BSNL the payment, collection from BSNL continue to come, but it is in slow pace.

On the networking capital, it reduced by Rs.7 Crores, somehow improved cash flow from operations, which have resulted in reduction in the working capital. From the cash position, which was down by Rs.20 Crores in this quarter, the cash position as of December 31, 2021 was reduced to Rs.1175 Crores. We continue to be a debt free company and of course we have a very strong balance sheet of having such a strong cash in our wallet, which will help us in terms of executing the plans to invest in the long term growth strategy.

With this Sanjay, I think I will hand it over to you.

Sanjay Nayak: Thank you/ I am on the next slide, which is the nine month FY2022 sales update. As we have been reporting in the past, we look at our integrated view rather than a quarter by quarter view. If I look on the left hand side the pie chart is the total revenues of last financial year, broken across the three categories, which is India Government, India Private and International and on the right hand side the chart is the corresponding numbers of revenues for the same three segments for the current financial year.

So out of the Rs.424 Crores of revenues for the nine months, Rs.181 Crores is coming from India Private, Rs.179 Crores is coming from International and Rs.64 Crores is coming from the India Government business out of which 9% is critical infrastructure and 6% is from the BSNL and BBNL and if you see the run rate business, which is India Private plus International contributed to around 85% of the total for the nine months of the current financial year, which for the nine months of last financial year represents around 33% year on year growth.

Within the three categories on the revenue side, India Government as I said was 22% of Q3 revenues and on year on year basis if you take a nine month aggregate it is around 52.8% growth. During this quarter, we won a lot of orders in the critical infrastructure segment and we have now built a very healthy backlog as well as there is a lot more orders which we expect to come during the current quarter as well in terms of new business that we will win from this segment.

On the India Private, this has been the fastest growing at least as far as we are concerned in terms of the backlog this year in terms of new order wins so India Private was 47% of our Q3 revenues representing a year on year growth of 18.2% for the nine months, but from a backlog perspective as I said we have a very strong order inflow from our telco customers in India and this again had one of the highest backlog order wins for this quarter.

On the International side, revenue is at 31% for Q3 and year on year growth of 51.5% for the nine months. We again won five new customers, although smaller customers in different geographies. If I look at it from a total angle, the backlog as I said is around Rs.986 Crores and from the backlog that we have when we started this quarter, we believe around 50% of that can potentially be revenued in the current as well as the next quarter provided we are able to secure the inventories for which of course we have taken inventory action in the past, but we still need to make sure that all the components do arrive in time and we are able to ship them out so in that sense I would say the business health is good. Of course, Q3 was not so good in terms of revenue, but we do expect that in the coming next quarter we should be able to make up for the backlog that we have and the loss of revenues that we have seen so far.

Going to the next slide, which is just a recap of the product slide. I just wanted to kind of again highlight that now we have a product portfolio, which is of significant size or can be of significant size. Majority of our current revenues of course come from wireline products, which is optical transmission, which is the backbone product whether it is high capacity Metro WDM or backhaul or long haul or even in the access network in the cities. And we also have a strong portfolio of broadband access product, which is fiber to the home or GPON as we call it. And, in addition, we have secure Ethernet switches, which go into the networks of video surveillance, safe city, smart cities as well as now some of the contracts we have recently won is for networking in the banking sector for example.

Banks when they build networks again require a lot of Ethernet switches and in the last quarter we have also won some large networks of this kind as well. On the wireless product side earlier on we had fixed wireless for which we had a few customers internationally and we have been working on full mobility, which is a full-fledged gate station like you have today for any 4G network and we have been doing trials of that as I mentioned earlier in the BSNL network. This required us to build our own radios of different wattages, different bands, and different kind of networking protocols, which we have successfully done. It also required us to interoperate with the core and interoperate with the existing equipment, which is a large quantity of equipment deployed as part of the entire end to end solution, which again is being proven as a part of the BSNL 4G POC, which has been going on. So we feel confident that with the investments that we have made both wireline and wireless portfolio can potentially result into a good business success in the times to come and we are really lining up our investments in line for that. So currently we have a 4G wireless, naturally with the next progression at some point in time soon we will also to accelerate our journey towards 5G in line with what the networks around the world are evolving to although 4G will still have a lot of deployments and lot of business for many years to come.

So overall, I would say in the technology side, the investments are on. We are continuing to stay invested and actually increase the investments as Venkatesh and in the coming times as you will see we will be further accelerating our investments so that we can complete our product portfolio and can get larger pieces of the customers networks spend.

Going to the last slide and I will summarize so that we can leave more time for question and answers. So if you really see the Q3 revenues was weak because we could not fulfill customer orders because of component shortages and I said we didn’t lose customers and will be making up in the subsequent quarters starting from Q4. And the way our business is setup is that we really need a minimum threshold of revenues to stay profitable because our expenses are mostly manpower, which is almost fixed so as our revenues will pickup, which we expect them to, our profitability should return as well and from a business momentum, new customer wins both in India and internationally we have been doing quite well and as a result as I mentioned our order book has increased quite significantly.

We continue to take action to address the semiconductor shortages, but despite our best efforts, we did have some not so positive surprises last quarter when some of the components which we were planning to pull in did not come in time so we do see that volatility may stay for some time, but from our side we are taking everything that we can to secure more component in time to be able to have more consistent revenue predictability.

In terms of our board after the investment of Tata Sons appointment of N G Subramaniam from TCS and Amur Lakshminarayanan from TCL has been a fantastic thing for us and we really look forward to their guidance as well as their coordination and synergies across the Tata Group company as we take the company from where we are to where we would like it to be and from a cash position perspective we have a fairly strong balance sheet and we are working on plans to invest for long-term growth both organically and inorganically and as we make more progress on those initiatives we would be sharing those ideas with you, but overall we are definitely not so excited about what has happened in Q3, but it was a thing that was not so much in our control, but at the same time the business momentum is good and from a team and the board and everybody in the company we are very confident that the way things are panning out we should be able to regain our revenue and the business momentum not just for the near term, but also for the long term. This is really where I would pause and I would then open it up for questions between myself, Venkatesh, Arnob and Kumar, we will be happy to answer any questions that people have. So open the floor for questions please.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services Limited. Please go ahead.

Mukul Garg: Just wanted to understand the discussions, which we had last quarter in Q2 the commentary was that you have taken inventory actions, which should help kind of tide over the shortage for Q3 and Q4? What is disrupting the flow for you despite the orders already in play and what was the revenue impact, which you had because of this inventory shortage and finally now that you are part of Tata Group do you think there can be some support, which you can kind of lean on to kind of move yourself up from a supplier self context suite?

Sanjay Nayak: Thanks Mukal. First of all good question that we had orders in hand and to be honest we ourselves expecting a lot more revenues for the quarter, but the way it worked out for us and just to put things in perspective in any of our products we are more than 1000 components of different kinds that go in and even if I were to take classic components, it will be around 150 or so. What happens is even if we are able to secure 95% or 98% of those components if there is even two or three suppliers who decommit or are not able to provide the quantity that they are committed to provide earlier, it can have a cascading affect in almost all the shipments or significantly large amounts of shipments that we had so really when we gave the Q2 commentary we had placed orders. We had assurances I will not say it is commitment because right now the way the global supply chain works is everybody is saying okay, I will try my best to make it happen, but in that sense we had assurances and since we had placed orders well in time, we were confident that we should be able to pull in. But a few critical supplies, I will not say that we were able to pull in a lot of material and that is why actually our inventory went up, but unfortunately since the balancing inventory could not be completed, we basically had a shortfall in revenues and that is why when I said that it could not happen at the quarter boundary, but as we progressed in this quarter we should be able to see better pull in of the material. That is what really happened. The second part which you mentioned is actually right. As a Tata Group, there are a lot more of semiconductor buying that happens across Tata Motors and many other group companies and in fact one of the things, which is mentioned about synergies is that the buying power that we have now available to us collectively is much more than what Tejas was able to do on its own. And one of things we realized in Q3 is that when push comes to shove some of the suppliers possibly did not prioritize us as high as they prioritized some of their larger customers so as a result of that we came at the wrong end of the stick, but we do believe that with the synergies of the group, which we absolutely have started to explore and we will continue to do much more aggressively in the next few weeks. We should hopefully get a better outcome, but that is something that as I said we will be working on and even having the two directors from the

Tata side on our board also allows us to work much more closely and be able to achieve exactly the kind of things that you mentioned.

Mukul Garg: Sure and another probably a correlated question to this is you mentioned that there is definite right now lack of visibility for the rest of 2022 do you think we have any options to do some work around or some other equipments, which exclude these critical equipment to tide in over the near term shortage given that right the rest of the supply and inventory is there, which you can utilize while this thing gets sorted? Anything right now, which you can kind of do for the near term?

Sanjay Nayak: First of all let me also clarify that when I said that the supply chain constraints will continue during the rest of 2022, it does not mean that we are not able to get suppliers or there will be a lot of decommit. I just felt that given the demand supply gap there could be sometimes negative surprises if I were to put it more specifically so what we are doing is, I must say in a way overcompensating in terms of the planning so because that is the only way we can be assured. As far as the second point which you mentioned is if there are some critical suppliers where we have a very high degree of risk for instance as you said is there a way to work around that. The way to think of and it goes on with the conversation that I just had a few minutes back, which is the class A components, which are let us say higher cost and higher complexity components, which are very difficult to design out and replace in a board or in a card over a short period of time. However class B and C components definitely there is an opportunity to have like to like replacements instead of components from vendor A to vendor B, which is exactly what we already do, but we can do that much more aggressively in terms of planning and one of the things by the way I did not specifically mention that even class B and C components some of these things which are generic components have also started to have a lead time increase as we saw in Q3 and may even continue in this year. So I would just say that the whole situation on the component side is volatile it just means that 100% predictability if you just plan for that is not going to be there. So either we over plan or we have alternative plan in terms of class B and C components or if there is a class A component, which we really see a serious risk or the supplier does not give us a very good amount of confidence we may have to take aggressive actions to do some R&D in a short period of time and find some alternate. But those are all things, which we are looking at. The last part I also want to mention is that we also have inventory, which is in our hands so in that sense as long as we can balance the remaining inventory the problem in that sense is limited to the level that we have shortages for those things. So all in all I would say that this is a situation that we just have to carefully navigate and probably one specific thing, which could help is using a larger muscle to work with the component suppliers.

Mukul Garg: Sure, but one clarification? Your order book continues to increase quite healthily do you think there are any clauses in any of these either in a public sector or private orders, which can lead to some liability in case of non delivery due to component shortage?

Sanjay Nayak: So far nothing and I would not take the risk to say that we will not have that for the next six months to one year. As of now nothing has happened. No orders have been cancelled, but again from our point of view the good news is that most customers understand the current situation so it is not just us but that it is probably across the industry. But there is a much larger appreciation of the problem; however, as you rightly said if there is a PSU customer or a customer where there is a hard constraint in terms of timeline and deliveries, we definitely look at that as a priority and make sure that liquidated damages or cancellation risk does not come up on us. So far we have been able to manage it fine. We track all of such situations very closely and as I said it is something that we did not have a very good situation in Q3, but a lot of stuff should come back as we go forward and we should be able to manage the situation effectively. So I would say at the macro level I do not see that as any significant risk at the current point in time based on what orders we have. One other thing is the larger order book was also a function because customers are also now realizing that placing last minute order does not serve them any benefits so we have been motivating them to give us more visibility, which has to be better planning, gets them better visibility so all in all I think there is a deeper working relationship as we saw in the case of India Private where we saw significant uptick in orders because the customers are appreciating the fact that we have to work in a partnership mode to really secure the inventory and it is not just a Tejas only problem but a larger industry problem.

Mukul Garg: Understood. Thanks for taking my question.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss Financial Services Limited. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity. My first question is regarding the investments what we talked about in R&D. If I look at the gross employee cost of the company, it is around Rs.60 Crores to Rs.63 Crores will be per quarter, which is around Rs.210 odd Crores for the year, which is not very different what we saw last year which was around Rs.183 odd Crores so can you quantify how much higher investment is actually going in this and if you can give some color on number of employees added to the R&D or something like that that will be useful and in that context unit if you can also highlight what are the areas in which would you be investing more optical products? Of course Tejas is very strong but any specific products with respect to the wireless where you see more opportunities? That is my question. Thank you.

Sanjay Nayak: Sure. I would say the numbers part, I will ask Venkatesh to exactly highlight how much more we are doing, but we have to think about that we really just had one quarter, which is October, November, and December in terms of uptick and in terms of increasing the PAT on the R&D investments. So on an annualized basis and when we look further that will increase and many of our R&D expenses also some of it goes into capital work-in-progress. Some of it gets capitalized so in that sense the kitty for R&D, which we look and the R&D expenses in this case is just not the manpower, but a lot of prototypes. Just to give you an example if you look at the POC that we are doing for BSNL right now, it is actually a full-fledged network of 4G in two cities in Punjab, which is a lot of base stations. We have actually invested into a lot of prototypes and inventories as well which again I would say counts into the R&D investments so in that sense I would say the R&D investments are definitely increasing. We have had had net advances I do not have the exact number offhand, but the second thing I wanted to mentioned, so that is one part that the rate of investment has picked up in Q3 and it will continue to happen in Q4 and the whole game plan is that part of the relationship that we have with Tata's was that we have to take a step back to run 10 steps forward so one of the first things we have to do is we have to create really a very strong portfolio of products, which is expanding from just wireline to wireless and even within both wireline to wireless we really have to come to what I would call state-of-the-art in terms of everything that we do because that is what we have to compete against so that is step one. The step two was also to build a global channel because once we are able to build this product of course we got to find a way to sell not just in India but also internationally. And as you can see in India some of the very large projects are now becoming accessible to us because of larger partnerships, which otherwise were not. That is the second part. Now the third part is which area we will be investing. So first in optical and wireline I would say the investments will be incremental because we have invested in these areas over so many years. On the wireless side is where I would say we would see a significantly larger jump in investments for two reasons. One is for the 4G solution itself. We are really I would say trying to step up and and build a 4G system, which is as good as anybody else in the world has produced and to be able to do that it requires a lot of resources both in hardware and software, which we have started to step up. And the proof of concept that we are doing with BSNL is a good example in that in a very short period of time we have been able to step up to the plate and deliver. Coming back to the areas where we will be investing so clearly in terms of larger scale investments, wireless will be one area both in 4G as well as in 5G because if you are going to be in wireless you just have to not do what is current or start-of-the-art, which is 4G, but a lot of networks inside are getting built out. And this not a one year billing cycle but a five year billing cycle. It will probably go for on the next five years. So in the next 12 to 18 months if we are able to catch all the actions in terms of the big markets and big opportunities that we have and there are many different application used cases of 5G so we do believe that in the wireless side both for 4G and 5G we would be stepping up the investments in the times to come and part of what I mentioned as a last bullet in my summary slide was that we are working on some very active plans, lot of things are in works and as soon as we start putting them into concrete shape we will definitely be sharing with all the investors as well.

Pranav Kshatriya: Sanjay a small followup on that if I look at the employee cost which is R&D all said and done a lot of investment at least the combination will happen and hence the employee cost will increase? How should we see this for let us say FY2023 or FY2024 considering that that will go up significantly and I guess because we see as telecom tend to be a long cycle sales and that is why it is typical what we have seen historically is the revenue coming up it takes time so would it be fair to say that revenue for this would be like two years out compared to the investment what you are going to make?

Sanjay Nayak: Not really, I will say that because some of the wireless investments that we are making or have been making proactively could potentially result into significant revenues as early as next financial year and of course going forward as well. So the way we are balancing the investments and I would say in terms of the larger investments for the next financial year and the year after I would say that we would come out with that plan in terms of sharing the larger investment plan and the payback plan I would say sometime later this quarter or sometime this quarter I would say. As far as the current outlook is concerned, we are mindful of the fact that there are large revenue opportunities which could occur in the next financial year itself, that's number one. Number two the backlog that we have built in for optical and we expect that even in Q4 we see a reasonably healthy order inflow so we would be starting next financial year with a pretty good order book if I would to say so the combination of what time it will take for us to ramp up the R&D investments along with how much revenue potential could be available next fiscal year itself because some of the larger projects we are working on could be ready for revenue for a material part next financial year itself and then of course you are right that some of the investments on 5G that we will make for instance over the next 12 to 18 months they will result in our revenues may be next financial year or two years after. So we are kind of timing all our investments accordingly. Naturally there is a little bit of visibility that will get more clear as this quarter progresses, but hopefully by the end of this quarter when we look at the order book as well as the investment profile we should have a much better clarity and we are trying to make sure that both short and long term objectives are reasonably balanced based on the situation that we have today.

Pranav Kshatriya: Sure Sanjay. Thank you so much for the detailed answers and wish you all the very best for your future Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kaushik Dhanuka from Development Consultants Private Limited. Please go ahead.

Kaushik Dhanuka: Last concall Mr Sanjay you had talked about sharing some long term plans after open offer got over so that never materialized? Can you throw some light as to when that will happen?

Sanjay Nayak: Good question. I was hoping someone would ask because that was something we had planned to do. I would say that lot of work-in-progress. A lot of progress we have made. We are not yet at a point where everything is put together that we can share, but as I said some time during this quarter we do expect to do that. A part of two directors from Tata joining us both today was also to make sure that all of those plans should kind of get crystallized at the board level so between the board, the management and the entire company we are all aligned so as we have taken the first steps today in terms of inducting our two board members from the Tata side we have been working and we will continue to accelerate all the work we have been doing so that the long term strategic plan could be shared with the larger group as and when we are able to complete it. So I would say yes it was something that we had planned to do last quarter for a variety of reasons it could not be completed and we do hope that in this quarter we should be able to complete that and share with you.

Kaushik Dhanuka: Can you throw some light on the PLI scheme as to how you are intending to go about it?

Sanjay Nayak: Our PLI scheme application was approved. We had a specific commitment which we had made for capital investments for the current financial year. We believe we are on track that we will cross that threshold and once we cross that threshold the incremental revenues that we will get for this financial year based on the base year revenues of FY2019–FY2020. I think we should be able to get 6% of that as the PLI incentives so we do believe that we should be able to avail the PLI incentive in this year because we will meet the criteria of the minimum capital investment and the incremental revenues as well so yes based on how strong the Q4 is, the quantum of PLI potentially would be determined, but that is around 6% for the first year and covers all our products by the way.

Kaushik Dhanuka: Sanjay if I remember correctly last concall you had mentioned that your business model is such that with very minimal investments you can have a turnover of thousands of Crores of rupees as far as this PLI is concerned so is my understanding correct?

Sanjay Nayak: That is correct because what PLI requires is capital investments and our business model is asset light model so to our capital investments will always be not in proportion to the revenues because as a product company we outsource all our manufacturing to say EMS companies. We of course have our own factory for what we do the portion of the manufacturing that we do in house. The PLI also covers capital investment in the form of prototypes or some of the other capital items that we incur on our books. So why I mentioned that is asset light model as long as we meet the capital investment threshold that we have committed on the PLI scheme even if our revenues were significantly higher we should be able to get the PLI incentives out of it so that was exactly the reason. If we are able to get for example a largish revenue next financial year based on some of the things that we are working on, there is a good degree of possibility that we should be able to claim the incentive on all the incremental sales there because of the low base that we had in FY2019 – FY2020.

Kaushik Dhanuka: I believe the addressable market for your product is somewhere around $150 billion is that correct?

Sanjay Nayak: Let me clarify it so that I do not want to paint a very big number but the way to think of the entire telecom equipment industry, which is the carrier equipment industry, it is close to about $100 billion, but if you take that about 30% of that will be China which we do not address at all then there would be a lot of markets where incumbents which are not really open to us because A) we will not be in those markets and B) in those markets there could be customers who have long term contracts with some of the suppliers to the RFP cycle in which we can potentially participate would be different. So as a result although the addressable market with wireline, wireless and on some of the other stuff is doing very, very large. From our point of view the real addressable market is probably lower may be around 15% to 20% of the total. That I am assuming with the Tata's coming on board and we getting access to larger customers in different geographies and with our product expansion that I mentioned in the form of wireless products both for 4G and going forward in 5G. We will have a much larger addressable portfolio so to me it is a question for us is that the market opportunity is very large. Other than China there is a need for an "independent stake of trusted telecom products," which we believe we should be able to step up and sell like we are doing in India and potentially in other markets. It will take a little bit of time may be a year or two for us to get our acts together in terms of getting the products right, getting the market access right and that is where we are going to be investing and if we are able to get that done then really would start to see the benefits of the large addressable market that is available for our kind of companies and that is really the direction in which we would like the company to take. Of course, we will have near term challenges. We will always have a short term quarterly issue sometimes, which will not to be to our liking, but we are definitely not weaning away from our long term vision and this is why what we did with Tata's and their own interest in this whole business extends from.

Kaushik Dhanuka: Thanks a lot. Thank you.

Moderator: Thank you. The next question is from the line of Samir Rachh from Nippon India Asset Management Company Limited. Please go ahead.

Samir Rachh: Good evening Sir. Two questions. One would you book any PLI revenue in the next quarter and if yes what could be the quantum?

Sanjay Nayak: Can you please repeat?

Samir Rachh: I just wanted to understand what kind of PLI incentives you would be booking in the current financial year that is in the next two quarters that is question number one? Secondly just wanted to understand what is the order pipeline and like this quarter you got orders of around Rs.258 Crores? Is the future order pipeline significantly large enough and can this order booking be scaled meaningfully in the next quarter?

Sanjay Nayak: The first question how much PLI incentive we expect to get in Q4. We do a little bit of a conservative accounting in our company that any government incentive we only record it in our books after we physically receive the cash so depending on after we close Q4 we will of course get to apply to the government for the payout of PLI. They have a mechanism that they can pay 85% of the PLI incentive on unaudited financial basis subject to approvals so by the April board meeting or April results announcement we are able to physically get the cash then we will account it into our Q4 results. But as I said it will be for the first year it is 6% of the incremental revenue and I think our base year revenue was Rs.380 Crores so for any revenue on north of Rs.380 Crores that we do in this financial year would qualify for around 6% on the PLI incentive so that is part one. Your second question was the order book. As I said the order book for Q3 was Rs.311 Crores and the best performing in terms of new order inflow for this quarter was India Private followed by International and then India Government. For Q4, we do feel that there are a lot of tenders, which we have either won or are in the process of winning, which tenders from the critical infrastructure segment like power and rail and others and they will contribute reasonably healthy assuming those orders come into execution state. So they will become a good pipeline for next financial year and as I mentioned earlier that out of the order book that we have Rs.986 Crores today if we are able to secure inventory around 50% which is orders in hand we should be able to revenue between Q4 and Q1 so in that sense we have good visibility of execution. We have a reasonably decent visibility of new order inflow. Clearly the only challenge we are facing, we have placed the orders on component supplies and we just need to make sure that we are able to pull in the inventory in time and send it out for revenues because in fact I must tell you that we are also in a situation that if we can complete some of these orders quickly there is potential repeat business, which is waiting from the customers that we have run rate contract with. So in that sense we have as much a motivation to pull in more inventory and do the revenues faster, but I mean we are where we are because of some of the challenges in the overall supply situation of components.

Samir Rachh: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Naveen Bothra from Subh Labh Research. Please go ahead.

Naveen Bothra: Good evening Sir. Thank you very much for the opportunity and congratulations for the new boarding practice, new managers as you said from the Tata Group and also congratulations for the all time high order book, which we think should bode well in the coming periods. Sir my first question is regarding the PLI scheme taken from the last question? In Tejas Network we have committed for Rs.111 Crores investment under PLI scheme in the next four years and in Akashastha, which is 100% subsidiary of Panatone Finvest in US has committed for Rs.593 Crores investment in the PLI scheme and they have also been approved so I would like you to kindly throw more light on the synergies and all these things? How do you see the relationship with Akashastha being a new company created just before the Tata's association with Tejas so if you can throw more light on this, it will be quite useful for all the investors Sir? Thank you.

Sanjay Nayak: Of course, I cannot speak for Akashastha because it is a separate company and you should really talk to the Akashastha and Tata people about it. As far as Tejas is concerned you are absolutely right Rs.111 Crores is the commitment we had made over four years so the first year commitment comes to around Rs.23 Crores or something that we said and that is why I had mentioned that is the threshold we expect to cross this year. In line with the question that I had answered earlier for I think two questions back the good news for us is that as long as we meet the threshold commitment this year even if our revenues are much higher we can take full advantage of the PLI so to me the way to look at PLI from our side even purely from a Tejas side so as long as we are able to make the annual capital commitment it really boils down to how much more revenues can we generate. If we are able to generate a good business and good revenues, which is what I think partly for example our current order book is showing and we hope that by the end of this quarter if some of the larger projects that we are working on do fructify to the next stage, we should be having a much better revenue visibility for the next year, but nonetheless even without that we do see that if we are able to get our handle on the supply chain situation, we do see a good business pipeline scaling up. I also talked about the synergies with the Tata Group companies. One particular example is in India where TCS is front ending the large BSNL project, but our endeavour and efforts are on to leverage other geographies internationally where our wireline as well with products which are ready today and our shipping could be potentially sold as a part of larger solutions so some of those things are work in progress. We do not have anything concrete to report at this stage, but definitely that is a direction in which we are moving so that we find a way to sell a lot more of the current products in different geographies and at the same time continue to invest into new products, which expands the market available to us. India is a large market to begin with and then kind of expand the same thing into other international territories as we would have done for the optical so I would say just the broad strategy. And from a PLI angle we seemed to be good on our own in terms of our self sufficiency. One other thing I would like to highlight also that the PLI scheme for telecom that the government had announced a Rs.11000 Crores outlay out of which the approvals have been done only for Rs.7000 Crores so there is still about Rs.4000 Crores of PLI incentives, which is "yet unclaimed" as of now based on the investment proposals that people have given so we do believe that if we are able to over the next two to three years get the business momentum and acceleration that we expect to get we should be able to benefit from that scheme in a more substantial way than currently in the size.

Naveen Bothra: We look for more clarity about Akashastha all these things because that is five times more than our investment commitment so as you said that during this quarter it might be possible to have a special concall for the vision and all the future plans so we look forward to Akashastha issue and all these things in that call and thank you and the second question is regarding the semiconductor PLI scheme. Are we planning or are we thinking about those areas along with the Tata or we will be if any discussion is there with the Tata's that we will be going for rewarding this carrier as the Tejas Network?

Sanjay Nayak: I would say it is a bit early to specifically comment on that because a lot of the details of that scheme in terms of operationalizing are yet to be out, but one thing is there that the broader and which is related to the comment I mentioned earlier that we do believe that the Government of India's intent and support for domestic manufacturing is continuing to grow. So if you really see the PLI scheme for the semiconductor components, it has two elements. The semiconductor component and there is a design element as well for tablet or system design so we basically do a lot of design. So the broader intent of the government is that not only do they want manufacturing within the country for electronics and telecom, but they also want high value addition domestically, which is lot more design content and we do address that part of the equation quite well because really we have high value engineering for all the designs are done in the country and all the IPR is created by us, so that is the direction in which we are going. Again as I said over a period of time, there will be more synergies that would be derived with other group companies and the clarity on which we do not have at this stage, but it is something that we would definitely would like to explore going forward so in that sense once the details of the semiconductors and the design related scheme come in, we would definitely be trying to see if there is a merit for us to look into those as well.

Naveen Bothra: Thank you Sir. I look forward to the special concall, which you plan to hold during this quarter or may be next quarter. Thank you very much. All the very best.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India Mutual Fund. Please go ahead.

Tejas Sheth: On this execution of the order side is there also any loss of the orders, which would have come because of the slow execution, which you are doing?

Sanjay Nayak: No. We have not lost any orders in that sense and in fact even if you see our financials there are no liquidated damages or anything of that kind either. In one sense yes as I mentioned right at the upfront that whatever business we could not execute in Q3, we expect to execute in this quarter and going forward. The other point is on the positive side. If we are able to execute the orders in hand at a much faster rate because we have runrate contracts with many of our customers and they need a lot of equipment of the kind that we have, we can potentially get more business. It is more like a positive incentive we have if we are able to close out different orders quickly, which is what we would love to do, but our constraint from the supply side.

Tejas Sheth: No. What I mean would our order book be more than let us say Rs.1500 Crores, it would have been more than Rs.1500 Crores if we had executed it in the past two quarters?

Sanjay Nayak: I would say that is a difficult one to predict because it is a hypothetical situation, but all I can say is that the order book continues to be good and we need to execute well because if we do not execute well of course customers are going to be unhappy with us. First port of call is to make sure that the orders that we have in hand gets executed quickly. We will keep a close communication with our customers to make sure that if we are missing something they understand why and what we are doing. We try to by the way manage the situation so that typical requirement in each of the customers are satisfied, but this is exactly what is happening across the chain. Our suppliers are also having a limited number of components and they try to round robin in between us and others and many more and sometimes we get what we need and sometimes we are not getting what we need. I hope again as I said that as the year progresses the supply situation should ease because there has been an announcement that up to 30% increase in semiconductor capacity is being planned in the current fiscal and the custom investments were committed last year by chip manufactures. They will take some time. There was a lot of double booking and double ordering that people had done for components because of the shortage, which should again hopefully play out, but all said and done, I would say we are taking a very cautious approach because our Q3 was a bit of a surprise for us. We had expected much better, but the things did not happen, it is negative. I would say we are keeping a close watch on the customers making sure that the order book continues to stay healthy and we do not lose customers because of lack of supplies.

Tejas Sheth: Thank you.

Moderator: Thank you. The next question is from the line of Anup Lal from Dalmia Securities Private Limited. Please go ahead.

Anup Lal: Thanks for giving me the opportunity. My first question relates to the stress in gross margins so could we spot and do you think that the stress will continue and the second question is there is a sudden steep price in providence for credit loss so could you explain on it?

Sanjay Nayak: Let me explain the first one and then the second one the ECL thing Venkatesh can explain. On the first one by the way while we had a drop in gross margin in this quarter part of it is because usually we have a much healthier blend of international shipments compared to domestic where the margins are better so that would have naturally popped the margins up. Secondly in this particular quarter, we did have to take spot action for buying and some of the suppliers also increased the prices and these were contracts of the past so we cannot go and dishonor the price that we had committed so it was like a double whammy that hit us. There will be margin pressure. Some of it as Venkatesh mentioned earlier we are passing it to our customers in the form of whenever we are bidding into new contracts or renewing a new rate contract and many of the cases we have successfully been able to increase the prices, but that will take effect in future so when I say margins pressure will be there because it is an interplay between India and international revenue mix. It is interplay between older contracts, which we have to honor at the old price and the newer contracts that we are signing and the fact that suppliers have increased costs. That is an industry wise phenomenon if you see any company they are unfortunately being forced to pass those price increases to the customers, so how all of these three interplays over the next one or two quarters is a little bit dynamic. Of course things will always be better than what we saw in Q3 but precisely to say that we will return to the profitable gross margin levels of what is a steady state of around 39% to 40% I think will take a couple of quarters so it's a wait and watch. The second question about provision higher for the estimated credit loss ECL may be Venkatesh can just throw a little bit of light on that.

Venkatesh Gadiyar: On the ECL front as I mentioned on the collection front I said we did very well in terms of the collection. We collected about Rs.182 Crores and I mentioned about some of the collections had continue to come, but it was coming at a very low pace and what happens is every quarter the receivables get pushed out to the next bucket of aging based upon that we had to make the provision. That is the reason we had to take this hit of about Rs.13 Crores of higher ECL right in this quarter. That is particularly due to some of the PSU payments, which has got pretty delayed, which particularly significant portion of the thing is on account of the BSNL receivable.

Anup Lal: Thanks Sir.

Moderator: Thank you. We will take the last question from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: Thanks for taking my question. Basically I would like to understand what is scope of the BSNL solely tenders basically in terms of if this order is to materialize what is the revenue opportunity for us and what is the timeline we should look for this order?

Sanjay Nayak: First of all, let me outline the steps on that. Number one is that the proof of concept, which is going on has to complete. At this point in time, there is only one indigenous stack, which is completing the proof of concept. None of the other stacks came up to the level that we have today. That activity should get completed over the next few weeks. It has been going on for about four months plus, but lot of testing and lot of things have happened, but formally it has to close and that is part one. After that commercial process will start. The intent of BSNL is to rollout this network in the next financial year and may be it may spill over materially to the following financial year as well. In terms of the price of the thing, I would not want to point out a number, but anywhere between 57000 sites to 100,000 sites is what they want to cover. And that if we are able to find, there is a lot of ifs before that of course, but if all of that happens it could mean a few thousand Crores of revenue for us.

Sunny Gosar: Right and basically there was some new articles about November it is mentioned that TCS had violated some of the services so has that issues all been sorted out or basically what is the stage on that?

Sanjay Nayak: I would say that as far as we are concerned that the whole thing because there is a lot of stuff that comes out in the newspapers and it is not fair for us to comment on that. We have been working with the customer. We have been following the process to the T, whatever hardware, whatever capacity of equipment, radios, watts, different bands, different kinds of software features, capacity capabilities, whatever has been asked by the customer we have been patiently demonstrating and delivering and completing the test checklist. So that process is on. It would not be fair for me to comment on the exact status of it because it is really a prerogative of the customer, but all I can say is that we believe that we have the technological strength and capabilities to deliver. We have done it in the past and never let any customer down so we feel that as the process goes on further things should fall in place but again there are a lot of things which have to be concluded by the customer and as the customer is very prerogative to finally take the call but from our side, we have been able to step up to the plate and deliver on many other things which sometimes get what should I say of forward it for whatever reasons let me put it this way.

Sunny Gosar: If I could just squeeze in one last question basically we saw almost 10% points drop in gross margins in Q3 versus Q2 so one of the reason highlighted is obviously the lower mix of export business but if you can basically give some color in terms assuming the business mix formulizes over the next few quarters do we get back to this 45% to 50% gross margins raise or there is a pressure of input cost still continue to weigh on our gross margins for the few coming quarters?

Sanjay Nayak: As I said there are two reasons. One is the International India mix and of course there is also a subset within that product mix and then the third thing there is a cost increase by the suppliers as I mentioned earlier, which also has put some pressure. The question is how much of that we are able to pass to our customers. In the new contract, we are able to pass it. In the older contract we have to honor what we have so I would still say that next couple of quarters if were to be cautious there will be certain amount of margin pressure. If we do better than that we will see, but it is just the situation because our leverage with the suppliers at this stage in terms of cost reduction and all that, which we normally get is a little bit less because right now the focus is more on deliveries. They have options to supply to people who are willing to pay premium and who are willing to pay expedite fees, and who are willing to pay whatever other charges beyond the normal pricing so for us it is first to secure the order, keep the customers happy, if we have to sacrifice a small amount of margin in the interim so be it. But this as I said all of these things are likely to settle down in a couple of quarters and then if we are able to hold the prices with the customers then we should be okay to stabilize on the margins. I do not see any fundamental reason that over the medium term we will not get back to the margins that we had in the past, but in the next couple of quarters it is a little bit difficult to predict. So it will be safer to say that there will be margin pressure but how much we are able to manage is something that we will actually see.

Sunny Gosar: Great. Thanks for the detailed answers and good luck for the coming quarters. Look forward to hearing from you on the long term strategy.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Sanjay Nayak: Thanks everybody. I really appreciate the questions, which pretty much touched on all the aspects of our business. In summary, I would say that the business momentum is good, order inflow is good, Q3 definitely was not something that we expected in terms of revenues and margins, but as things go by we should be able to recover and build up the momentum. That is more on the current business side. The strategic investments from Tata's and the board of directors that we have now got from Tata side will help us synergize better and help us think much bigger, help us execute much bigger because these are guys who have built really global scale businesses and working closely with them would be very exciting for us and we are really doing all of this to make sure that in the medium to long term we create a sustainable engine for a very high growth and that is something that we are really working on closely and we are confident that with the cash in hand and with the business momentum we should be able to tide the short term challenges of supply chain and so on. But at the same time be able to expand our product portfolio, build a better sales engine and build partnerships in a strategic way work within the group and outside to be able to really realize the vision of accelerating and creating a top tier global telecom equipment company on an end to end basis from India. That is something we are excited about and we will all be working as best as we can to manage the situation, some of it is not in our control, but as time goes by hopefully things will start getting more predictable from the point of view of revenues and profitability. So thank you again and stay safe and we will again talk to you during the quarter.

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