# "Tejas Networks Limited

# Q3 FY '24 Earnings Conference Call"

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| **MANAGEMENT:** | **MR. ANAND ATHREYA – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – TEJAS NETWORKS LIMITED**<br>**MR. ARNOB ROY – CHIEF OPERATING OFFICER AND WHOLE-TIME DIRECTOR – TEJAS NETWORKS LIMITED**<br>**MR. SUMIT DHINGRA – CHIEF FINANCIAL OFFICER -- TEJAS NETWORKS LIMITED**<br>**DR. KUMAR SIVARAJAN – CHIEF TECHNOLOGY OFFICER -- TEJAS NETWORKS LIMITED** |
| **MODERATOR:** | **MR. ASHVIK JAIN – ICICI SECURITIES** |

**Moderator:** Ladies and gentlemen, good day, and welcome to the Tejas Networks Limited Q3 FY '24 Earnings Call hosted by ICICI Securities. 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 this conference, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashvik Jain from ICICI Securities Limited. Thank you, and over to you, sir.

**Ashvik Jain:** Thank you. Thank you. Good evening, everyone. Thank you for joining on Tejas Networks Limited Q3 FY '24 Results Conference Call. We have Tejas Networks' management on call represented by Mr. Anand Athreya, Chief Executive Officer and Managing Director; Mr. Arnob Roy, Chief Operating Officer and Whole-Time Director; Mr. Sumit Dhingra, Chief Financial Officer; and Dr. Kumar N. Sivarajan, Chief Technological Officer.

I would like to invite Mr. Anand to initiate with opening remarks, post to which we will have a Q&A session. Over to you, sir.

**Anand Athreya:** Thank you. Good evening. Welcome to the FY '24 Q3 earnings call. This is Anand Athreya, CEO and MD of Tejas Networks. And I have here Arnob Roy, COO; Sumit Dhingra, our CFO; and Dr. Kumar Sivarajan, our CTO, is on the call.

I'm just happy to inform you that we had a very strong revenue growth this quarter of INR560 crores. And the last 9-month revenue in FY '24 exceeded the entire FY '23 revenue. And we have a strong order book of INR9,028 crores. We had a loss of INR45 crores in this quarter. And we continue to focus on execution and also investment to set Tejas for good growth in the coming quarters.

Thank you. I'll now hand it over to my colleague Arnob to go over the details on this call.

**Arnob Roy:** Thanks, Anand. So in the next few minutes, I give you a color of the business that we had in Q3. And after that, our CFO, Sumit, will walk you through the details in the financials.

So first of all, we continue to see good business traction, both for our wireless as well as our wireline business. On the wireless segment, we continued to ramp up our BSNL 4G RAN shipments, and several thousand systems have been shipped which are a combination of single and dual-band radios in Band 1 and Band 28.

Also we received additional purchase order of INR107 crores for additional sites as part of the network build-out for BSNL 4G.

Another important highlight was that our subsidiary Saankhya Labs received INR96 crores provisional purchase order from National Space India Limited of Department of Space for the deployment of 2-way Satcom transponders for communication and support system on marine fishing vehicles.

This is a very niche application and is part of the vehicle tracking system solution that Saankhya has developed. And this particular application is for enhancing the safety and security of fishing vessels operating along our coastal waters, providing navigation assistance and weather alarms and boundary crossing alarms and so on for our fishermen.

So it's a very strategic project which will lead to many other applications, both land-based as well as marine. We look forward to seeing how we can replicate this success in other countries as well as in other applications.

We also continue to see strong traction for our wireline business after successfully deploying 150-plus DWDM channels of 100 gigabit rates on a pan-India network lighting up several thousand kilometers of fiber on an existing WDM infrastructure. This was add-on order to a pan-India deployment of a similar size that we had implemented earlier.

So this is a very unique application in that our WDM equipment will be served, where given an existing optical infrastructure that an operator has built, and he wants to add capacity onto that by adding additional data channels. We provide the technology which can do it on any foreign infrastructure in the sense that infrastructure built by third-party vendor equipment.

For the BSNL 4G network, we also started supplying the backhaul equipment of IP/MPLS routers which we had announced earlier. This is a project in several hundred of crores for deploying more than 15,000 routers. This will enable the backhaul network of the BSNL 4G nationwide network.

A major International highlight included the successful commissioning of a high-capacity metro network in the U.S. for video production and distribution. The network has been implemented using our state-of-the-art WDM processing equipment with 600 gigabits per channel capacity. This will be a showcase network for us as the application involves low-latency distribution of video.

We also executed a commercial contract for supply of optical networking backbone equipment for a leading government telco in Africa. This is the initial order. And with the success of this, we expect to see future build-outs in the network as well.

We also continue to see success in the utility sector. As you know, our utility business in India is very strong, especially for the modernization of utility networks. And we could replicate the same success for a leading power utility in Southeast Asia, where these older TDM based network is getting upgraded with PTN and IP/MPLS technology. So the same project that we've done in India, we've been able to replicate in other countries as well.

And on the same token, in a power utility company in India, we've commissioned a high-capacity national optical backbone, including the access portion of the network using a combination of our PTN as well as our high-capacity WDM network.

From a revenue perspective, in the 9 months of FY ’24, around 55% of our business has been for India Private. And let me also tell you at this point that our BSNL 4G radio order, we consider as part of India Private because our direct customer is TCS, and that's how we categorize our revenues.

The International has been 15% of our business until now, and India Government has been the rest. We have a strong closing backlog of INR9028 crores out of which international was INR221 crores. So in all aspects, it has been a very good quarter for us, especially compared with our revenues in FY '23.

I'll now hand over to Sumit to walk us through the financial update.

**Sumit Dhingra:** Thanks, Arnob. Good evening, everyone. Our consolidated revenue for Q3 of FY '24 was INR560 crores, which is more than double the revenue we reported in the same quarter previous year. As compared to the previous quarter, that is quarter 2, we've grown at a 41% growth rate.

EBIT for the quarter was negative INR56 crores, and PAT was negative INR45 crores. On a 9-month basis, we had aggregate revenue of INR1,144 crores, which is a growth of 84% over the previous year. We continue to make our investments to ramp up the R&D team and our operations, which are essential to deliver the growth potential that the company has going forward.

Moving to some other financial details. We have a net worth of INR2,980 crores as of December 23, inventory of INR2,683 crores. The inventory has grown as compared to the previous quarter. This is mainly to secure long-lead items that we require for meeting our delivery time lines for some of the larger projects that we are executing.

Trade receivables stand at INR855 crores. We had cash and cash equivalents of about INR559 crores at the end of the quarter with borrowings of INR274 crores. This is for funding the working capital requirements that the company has at this point in time.

With this, I'll hand it over to Arnob to take this forward.

**Arnob Roy:** So a few other updates from a corporate standpoint is that in this quarter, we received several awards and recognitions. Tejas and its subsidiaries were granted 31 patents during Q3 FY '24 and our total patents granted grew to 313.

An important update was being recognized as a representative vendor in the 2023 Gartner® Market Guide for Optical Transport Systems. So basically, leading global analysts will be tracking our business and help in attracting global customers for our optical transport products.

In one of the events that happened in Q3 which is Network X in Paris, which was the erstwhile Broadband World Forum, our FTTH solution won the award for the leading PON-based Smart City solution for an application that we have built in India. In the Indian Mobile Congress in New Delhi this year, our TJ1600 optical and packet transmission product was selected as the Best Indian IPR of the Year in Telecom.

From the corporate update perspective, from a Saankhya Labs merger, that's in progress. And we have made good progress over here. And the next upcoming event over here is the Equity Shareholders and Unsecured Creditors Meetings that's going to be held in early February as per the direction of the NCLT. So this is the next step in the merger process.

So before I hand it over for questions, just wanted to refresh all our investors regarding our products. And as you know, we have a very comprehensive wireline and wireless equipment portfolio comprising 4G/5G radio and baseband units, our multi-gigabit fiber broadband access, our converged access and edge solutions and also our high-capacity WDM backbone network.

And on top of that, we have added our switching and routing portfolio. So altogether these products can be used to build complete end-to-end network for telecom operators. And now the unique selling point is that also it is managed using a single network management system.

Next one. And using this technology, some of the key applications that we serve is 4G, 5G mobile network as well as the backhaul network -- fiber based backhaul network, services for wholesale and enterprise data between critical infrastructure for power, gas and utilities and for home and business broadband. All of these sectors are showing high growth globally. And we are in markets and products and applications where we expect good growth in the upcoming future.

So thank you. So with that background, I'd like to hand it over for the Q&A.

**Moderator:** Thank you very much. The first question is from the line of Santosh Sinha from Emkay Global. Please go ahead.

**Santosh Sinha:** My first question is regarding this margin. You have seen a low margin for this company. So what kind of margins we can expect for the BSNL project and other government projects that the company is executing?

And the second is regarding trade receivables, increase in trade receivables. What has caused this? And what kind of trade receivable -- a working capital increase we can see from the execution of this BSNL project?

**Sumit Dhingra:** So on the margin front, while we don't give any guidance on project-specific margins, what we've also stated in the past is that wireless segment, to begin with may have slightly lower margins compared to the wireline segment. But given the order of magnitude of the project and the opportunity, it would, on an aggregate basis, compensate for the lower margin percentage. And on the working capital, could you please repeat the question? I didn't get the first part.

**Santosh Sinha:** So there has been a marked increase in trade receivables. So what actually has caused this?

**Sumit Dhingra:** Trade receivables?

**Santosh Sinha:** Yes.

**Sumit Dhingra:** So as you would see, our revenue for the quarter was INR560 crores. That's a reasonable accretion in revenue compared to the previous quarter. And a part of this is what has contributed to growth in receivables, and we are expecting these to be realized over the next few months.

**Santosh Sinha:** Okay. My next question is regarding the BharatNet project. So any idea, any color in terms of bringing this project execution? When will BharatNet III start and what kind of opportunity that can create for Tejas?

**Arnob Roy:** Yes. So I will take this one. The BharatNet project is currently under definition. DoT and other stakeholders are working towards finalizing various aspects in terms of its scope, technologies and specifications of the equipment that will be procured for this project.

And the technologies and the products are pretty much accessible and addressable by Tejas. And we look forward to significant success on this project. It is going to be a very exciting opportunity for us going forward.

In terms of timeline, right now, from what we know, the specs are still getting finalized. The government is in conversations with all parties regarding finalizing the specs and the tenders should get rolled out in the next few months and targeting potentially the latter half of FY'25.

**Santosh Sinha:** My last question -- last two questions. One is whether there are other POs that are expected with respect to BSNL project, like maintenance projects or other projects that are expected with respect to BSNL project from TCS or ITI?

**Arnob Roy:** As you know, the BSNL order we received for the 4G RAN project is for the first 100,000 sites. So there will be additional sites for expanding coverage across the country. So that is expected to come. That's one part.

And second part is that the tender also calls for a 5G upgrade of 40,000 sites. So that part of the business has not yet come to us. I think that will happen after the initial network gets deployed. So this tender also has a scope for additional business for us as part of this project. After the network is deployed and after the warranty period, of course, the services are involved for many years. We will receive that order at a later stage.

**Santosh Sinha:** Thanks for taking my question.

**Moderator:** Thank you. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management. Please go ahead.

**Vimal Jamnadas Gohil:** Sir, my first question is again on the cost front. If I were to look at the raw material cost, the sequential growth in raw material cost has been higher as compared to the revenue. Is it mainly because of the increase in the wireless business? Or are we still sort of -- the problem of increased component prices for us is still not completely behind? That's question number one.

The second question is on working capital. So if I were to see, starting this year FY '24, till date, we have had incremental inventory of roughly INR2,000 crores. And just to take forward Santosh's question here, if I were to look at our working capital days, right now, we are operating at around 213 days versus our working capital was down considerably last quarter at about 150 days.

I mean when I -- sorry, our inventory days were down by almost 150 days. Now it is at 213. So if you can highlight for this incremental inventory of INR2,000 crores, the timeline of realization of revenues, which you can help us a bit? Thanks.

**Sumit Dhingra:** Okay. So maybe I can take the margin question first and request Arnob to supplement that. The increase in raw material costs this quarter is on account of multiple factors I would say.

One is essentially the product mix within the wireline segment, which tended towards slightly lower margin products during this quarter as compared to previous quarters. That essentially is one of the key factors where you would see why the material costs as a percentage of revenues have gone up.

Also from a contribution standpoint, if you see this quarter, export revenues were slightly lower than the previous quarter, which had an incremental impact on the material cost as a percentage of revenue. These are the key aspects as to why our material cost looks a bit higher.

As we go along, I think we would expect the project profitability for wireline business also to kick-in and some of these things to normalize over the next quarter. Arnob, you want to add anything here?

**Arnob Roy:** Yes. So just to add to this, in terms of margin profile, you can see when we ship equipment for our network, there are different components of the network which come at different margins, right, where the blended margin is, of course, what it is that we have for the company.

But for example, in the network, the access part of the network, wherein has customer-premise equipment, lower capacity, lower cost devices usually have lower margin, but as we move deeper into the network and go to the higher capacity elements. That's where the cost and the margins are also much higher.

So what happens there, in the network typically it's a blend of all of these things that go on. What happens is that quarter-by-quarter based on the blend of shipment that happens, there is a small amount of margin movement.

So I think in this particular quarter, perhaps based on what we have shipped out during the quarter, it has gone more towards lower-margin components, which will basically compensated in the next quarters by the other part of the network that we want to ship. So it's like a temporary phenomenon in terms of why you see the higher cost to our revenue.

**Vimal Jamnadas Gohil:** And sir, on the working capital, incremental inventory?

**Sumit Dhingra:** Yes. So on the working capital front, I think, see, we are in the middle of executing the large projects both on the wireline and the wireless side. Now as we've mentioned in the past as well, in order to manage the lead time for some of the key components and to be ready for execution, we've been taking inventory actions for specific situations, specific components. And that is getting reflected in the inventory number that you see.

The point to note also is that while -- if you look at it from the base of current revenue, I think it may throw up a picture where you were referring to, let's say, 200 days, etcetera. But given the phase that the company is in and where it is evolving from the current revenue levels to executing INR9,000 crores worth of order book over the next few quarters, I think the increase in inventory has to be looked at in context of that number.

And as we go forward, this INR2,600 crores worth of inventory is essentially to be predominantly used for some of these large projects, which will get executed over the next few months. And hence, this increase in inventory has, let's say, days of order book maybe a better metric to look at instead of days of revenue or the historical data in the context of where the company is right now.

**Vimal Jamnadas Gohil:** Understood. And sir, just one follow-up on the margin part, as you explained. So if I understand it correctly, there are some components in the wireline side, which happens to be, by the way, are better margin business. But there are certain components within that also which are probably like maybe a pass-through or have lower margins, which are higher in terms of mix this quarter, which is causing a lower gross margin. Is that understanding correct, sir?

**Arnob Roy:** That's correct. That's correct. The network always has a blend of equipment as it shows the entire equipment, where I talked about lower-cost access equipment customer premises as the margins are lower and the aggregation and the core has higher cost and higher margins.

And another example is in a WDM network, the traffic carrying equipment at the end points, they actually pump in hundreds of gigabits and terabits of traffic. They have higher costs and higher margins, whereas the transmission chain with the optical components, they have a lower margin.

So, when we ship a network, the blend of this is what gives us the overall margin, and in this quarter, the blend has been for one part of it with lower margins. When we ship the other components of the network, the blended margin for that particular network or that particular shipment will come back to us.

**Vimal Jamnadas Gohil:** So this -- that shipment is expected -- so the higher capacity shipment where our margins are higher is expected to kick in from Q4?

**Arnob Roy:** Yes, yes. That's part of the same project. So part of it gets executed in Q3. Part of it will get executed in Q4. So that's how it's going to happen.

**Vimal Jamnadas Gohil:** Understood. All right, sir. Thank you so much. There are certain other questions, but I think I'll join back in the queue. Thank you.

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

**Sangam Iyer:** Sorry to harp on the working capital again. The receivables that we saw shooting up significantly in this quarter, was it primarily due to shipments more happening towards the latter half of the quarter? Or is this the new norm in terms of the receivables for the -- for this execution of this project? Just want to understand that first.

**Sumit Dhingra:** It's related to the revenue that got shipped during the quarter. And we will collect this as per the payment terms and as per the collection cycle as we go along over the next few months, not specifically limited only towards the shipments that happened towards the end of the quarter.

**Sangam Iyer:** Okay. Because for an incremental INR560-odd crores of revenue generated, our receivables went up INR370 crores. So that's why I was just trying to understand what's the kind of payment term for this particular project.

Because the project is large, and this could actually stretch the balance sheet incrementally, given that our cash -- net cash balance has also come down to INR200-odd crores. So that's why I was just trying to understand how to look at the incremental cash flow that would come in based on the execution of the project?

**Arnob Roy:** So I think while as Sumit explained, it's nothing to do with the shipment profile. But usually, during the quarter, the shipments all build up so that as the quarter progresses and towards the end like any other business, the following shipment increases over the weeks as it goes towards the end of the quarter. So from that point of view, yes a larger volume happened in the subsequent months and towards the subsequent weeks and so on, but I don't think most of this is connected to the time that the shipment happened.

**Sangam Iyer:** Got it. And secondly, on the margin front, I understand that we have product mixes that can alter margin on a quarter-on-quarter basis. So on an annualized basis, when you look at the mix of order backlog that we have and the mixing towards more wireless, should one be assume -- should one be looking at closer to 30% as a base case -- stable state gross margin? Or is that something too early to predict for now?

**Arnob Roy:** What was the number you mentioned, the margin?

**Sangameswar Iyer:** Around 30% gross margin. Is that something which would be more stabilized, given the kind of mix that we have between wireline and wireless in the order backlog?

**Arnob Roy:** See we don't give any guidance on margins. But as you've seen our blended margins in the past, and directionally, that's where we'll be at as our business continues.

**Sangameswar Iyer:** Got it. Perfect. Thank you.

**Moderator:** Thank you. The next question is from the line of Saloni Jain from Nirmal Bang.

**Manish Ostwal:** Yes, this is Manish Ostwal from Nirmal Bang. I have a question on our export opportunities. So how we are seeing the traction over there. And secondly, the investment which we are making on R&D side. So how long this will continue because in the presentation, you said that loss because of the R&D investment. So the investments in R&D, how long it will continue at this pace? Thanks a lot.

**Arnob Roy:** So as far as exports are concerned, I think we have a focus on growing our export business, because of which we will continue to invest in international territories, in our direct sales force as well as signing up with partners in different territories. Our goal is to increase our international business substantially. But as you know, we started the process a couple quarters. And it will take some time since there's a gestation period to winning initial deals and getting a footprint in different countries and building on top of that.

So it is going to take some time before we see large projects internationally, replicating what we have in India. But I think the investment and the focus is certainly there. As far as R&D investments are concerned, R&D investments are going to happen for some time because there's a lot of products and a lot of areas, technology as well as project commitments that we have upcoming.

So we will continue to invest. But at the same time, I would say that as our business grows, as we keep delivering on the large backlog that we have that business will certainly start offsetting the investments that we are seeing up till now. But yes, investments will continue to happen for some more time. We see a large opportunity going forward and we are seeking to build a global company with world-class products. So we still have some time in terms of investments like this.

**Manish Ostwal:** Thank you, sir. All the best.

**Arnob Roy:** Thank you.

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

**Mukul Garg:** Yes, hi. Thank for taking my question. Couple of questions from my end. First, to Anand. Anand, I was just trying to understand the revenue you guys have recognized for international business this quarter, it seems a bit low compared to -- and especially when during the prepared remarks, you guys have mentioned that you guys implemented a couple of kind of solutions in the US and in Africa.

So can you just help understand, is this more about having mismatch between the kind of revenue recognition and implementation? Or is there something else which is going on for the international revenues to kind of show such a large dip in this quarter?

**Anand Athreya:** Hi, Mukul. So yes, it is actually a timing mismatch. We are making the necessary investments to build the team out. I'm sure you know this -- so it takes time for that to materialize. There's a lot of activity and proof of concepts and customer interest that's happening in Americas, in particular. So we hope those will start bearing fruit in the coming quarters.

**Mukul Garg:** Understood. So do you expect the international revenues to kind of see a meaningful ramp-up from here because this growth – Am I getting the number right, it's only INR9 crores of international revenue?

**Arnob Roy:** No, I don't think that's correct. We don't give the split obviously, but that's not correct. And as Anand mentioned, yes, there's a timing gap because we ship in one quarter, project implementation happens in another quarter. So whatever we're reporting in terms of product implementation is something that got shipped earlier. Whatever we're shipping right now will get implemented next quarter and so on.

So to your point, as Anand also mentioned, that proportionately, it was long but not what you are indicating. And we have a strong focus on export growth. There's already a backlog of international, that you see, all of us want to really grow that business.

**Mukul Garg:** Understood. The second question was, I mean, a follow-up to one -- what earlier participants have kind of also alluded to, and this is like for both Anand and Sumit. You guys currently are sitting on about INR500-odd crores of net cash. Your working capital is something around INR1,300 crores. You still have INR8,000-plus crores of domestic, predominantly public sector, execution to do.

Is there a kind of a risk of requirement of additional fund raise maybe in the coming years to fulfil the requirements? Or do you think the payment timelines will be comfortable enough for you to convert this into cash and not require incremental money for working capital? And I would also want to throw in, if this would not leave any flexibility for potential inorganic scaling up for Tejas.

So if you can just help us understand, is this something which might require incremental funding?

**Sumit Dhingra:** Currently, we don't envisage any equity funding requirement. Like you rightly mentioned, the increase in working capital requirements are there, and they're expected to be there for the next few months as we execute these large contracts. But these are generally going to be short-term funding arrangements, short-term facilities that we would intend to look at as compared to longer sources of capital like equity or anything else.

Also, we expect to continue our focus on collections, and that should help us in managing this working capital requirements as we go along. From the point of view of investments in particular, I think the way we see it, currently, the business should be able to meet its future growth aspirations based on the current expectations out of the business. We don't expect any incremental equity right now in the immediate future.

**Mukul Garg:** Understood. And then final one for Arnob. Arnob, you mentioned about, again, the impact of the products, which kind of got expensed out this quarter. But if I look back at the history of the business, we have never had this high kind of equipment or raw material cost in our business even though we have previously had cases or instances where we shift towards the product profiles, which were relatively lower profits.

Is this something which is partially also on account of these deliveries which you are making on BSNL ergo in our gross margins should remain below where we have historically seen going forward as well? Or am I reading too much into this?

**Arnob Roy:** Yes, I think you're reading a little bit too much into this. The reason you're seeing it now and didn't see it, first of all, because our overall business for wireline has also gone up, right? So if you see if the overall business has increased, then the proportion of the low-margin components of the network and the high margin components of the network will have also gone up, right?

And it just happened that it's more of a timing issue that in this quarter, a lot more of the low-margin components got shipped, and the other components will get shipped subsequently. So it is -- and I hope that answered that question that while yes, on a smaller revenue base, you saw the effect of the blended margin of the network. On a larger base, we are predominantly seeing the effects of the lower-margin part. I think it's nothing more than that.

**Mukul Garg:** Understood. Now that’s clear. Thanks for taking my question. I'll get back into the queue.

**Moderator:** Thank you. The next question is from the line of Hirenkumar Thakorlal Desai, an Individual Investor. Please go ahead.

**Hirenkumar Desai:** Thank you for giving the opportunity. I have two questions, one of them is again related to the margin. So our gross margin has been declining as pretty much everybody has mentioned. I mean do we see the sort of bottom around this place? Or now see the significant chunk of the business will be dominated by BSNL 4G supplies? So I mean does this have anything to do with this margin profile? Are we around the bottom? I'm not asking for any guidance or number.

**Arnob Roy:** Yes, as Sumit explained, there are two parts of the business. One is the wireline and the wireless part. For the wireline business, you basically know what our overall company gross margins are, and that is done in the past. So there is no change to that, except that as far as you talked about the blend of margin that have to happen for existing products.

The wireless project has slightly lower margins. That was something we have talked about in the past but the costs get offset by the higher volume of the business, right? So that's about it. And there is nothing in terms of overall -- I mean that's the overall story about the margin.

There are two components, one where there is a margin protection, and we continue with -- or we don't see any impact overall to that on the wireline side. And wireless, at least for this project, with the large volumes, will have slightly lower margins but will get offset by the higher-volume business.

**Hirenkumar Desai:** The second part is about the currency movement. So now especially the wireless part, wireless sales I assume, contracts or sales or whatever is in rupees versus most of the components in dollars. Is the company doing something?

**Arnob Roy:** Hiren, we lost you, could you repeat that question, please? We lost the first part.

**Hirenkumar Desai:** Yes, yes. The question is, again, the next few quarters, the revenue profile will be dominated by BSNL 4G business. And I'm assuming that you can correct me if I'm wrong, I'm assuming that our revenue will be in rupees contractual value, but the raw material is in dollars, right, for the components. So are we doing something to protect margins in that aspect?

**Arnob Roy:** Yes, yes. So basically on our forex management and I'll let Sumit answer that question.

**Sumit Dhingra:** So I could only partly hear. I think what you're saying is, while our revenues are going to be in rupees, our procurement is in dollars. So from a forex management point of view, we actively hedge our exposure through various instruments. We continue to monitor the currency risk or the currency exposure that we have. And we will suitably hedge our short- to medium-term exposures in particular as we go along.

**Arnob Roy:** I'd also like to add that especially for our BSNL radio products, we've done a significant amount of localization of the components that go into the product. Lot of the costly portions which are there. I did not mean the electronic components, but there are many other components that go into the radio design. And we have significantly localized that.

And a lot of our partners are manufacturing in India or we have original Indian manufacturers who we have used a lot of the time. So I think while there is a significant dollar component, it is not as dominating as we would expect because of the amount of localization that we have done in the product.

**Hirenkumar Desai:** Thank you.

**Moderator:** Thank you. The next question is from the line of Moid Ansari from Hyderabad Investment Forum. Please go ahead.

**Moid Ansari:** Yes. My question is with regard to 4G technology for the BSNL that we have developed. There are a lot of questions in the market with regards to how effective or how developed the technology is. Recently, the BSNL employee union has written to the telecom minister that our technology is not up to the mark, and that is causing delay in rollout of 4G by BSNL. Similar questions were raised by the opposition in the parliament also that indigenous technology which the government is promoting is subpar and not up to the mark.

So there are lots of questions regarding the efficacy of our technology that we have developed. Can you explain in detail? Means are you up to the mark? How is it compared? How are we performing vis-a-vis our competitors? Some explanation is needed on this issue because as investors, we are having a lot of concerns on this particular point. Everybody seems to be blaming Tejas only.

**Arnob Roy:** Yes. So I'd also request Kumar to add to this. The 4G technology we have developed has gone through extensive trials for over a year on a large testbed in North India (Punjab). Our products have been selected after pretty heavy testing through a proof of concept with a large amount of traffic flowing on the network.

So from a technology point of view, I don't think there is any concern since it's been extensively tried and tested. The only concerns I've recently heard about are in terms of the pace of the network build-outs, and not the actual technology itself. Further, the performance and robustness of our products have been compared with those of the leading world-class foreign vendors and only after that have the contracts been awarded. So there is no issue with respect to that.

I think the project rollout is where they're concerned in terms of getting the network built out in time so that they can grow their business around it. So based on whatever I've seen that seems to be the issue.

**Moid Ansari:** Yes, I have a follow-up question also. We are supposed to get an order from supply of equipment from ITI. Only TCS, has received the purchase order? Why has the ITI order not come? Means we are supposed to be the ones who are supplying equipment for both ITI and TCS. Can you give some clarification on that?

**Arnob Roy:** So we had discussed earlier also that the ITI order is coming through TCS. So whatever is 100,000-plus site orders that we are working on that includes the ITI component also.

**Moid Ansari:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Sachin Jain, an individual investor. Please go ahead.

**Sachin Jain:** Thank you for the opportunity. My question is more on your international side. Can you offer me some qualitative comments on business development effort on international side? Basically, what kind of traction you are getting over there? Or can you also highlight in terms of how our product, particularly wireless, getting perceived in international market? Where are we in a business development journey? Or when can you expect some significant event in those markets?

And why I'm asking because once, in next 18 or 24 months, you are done with BSNL or some part of BharatNet probably it's a traction in international markets which will keep our revenue momentum on. And so that's the context.

**Arnob Roy:** I think very, very valid questions. And we are also cognizant of that. And a lot of investment is happening not only as a direct investment from our side in terms of investing in our sales teams and support teams but we're also using our partnership with the TATA Group companies such as TCS, Tata Communication and TCTS and using those channels and partnerships as well to get access to customers across the globe.

So we have seen initial traction. There have been ways that we have worked together with them, and there are many other customers that have got connected to interactions and all, where we have been able to access.

So we are also, apart from our direct business development, I mean, leveraging the brand and the relationships of the group as well. However in this business, any business development, any significant results take time.

So while we are focusing on the smaller network opportunities where we can get in quickly and do our business. We're also working with good companies as well as directly for the larger opportunities in Tier 1 operators across the globe. So the focus is there, and we hope to see results sometime down the line.

I mean we are just conscious of the fact that these things take time and effort. And once we have significant breakthrough, in certainly some market. The replicating them in the areas becomes that much easier and that's what our focus is on.

**Sachin Jain:** So in your initial discussion with customers, can you give some qualitative input in terms of how we're getting perceived in those markets post we are doing this BSNL order bid? And I understand this business development takes time. But internally, when you guys are thinking, how far we must be from a good win, a sizable win? Just need your qualitative inputs.

**Anand Athreya:** So maybe I can take this. So as Arnob said, this is going to take time, that's number one. The second thing is, I think we have to get to a point where there is a reasonable sized rollout in BSNL because everybody is watching. We are doing it for the first time here. So I think when that happens, then I think people will be more interested in doing proof-of-concept trials and all other good stuff.

So again, our focus is going to be twofold. One is developing countries, and there has been a lots of them in Africa, in Southeast Asia and other places. But also in developed countries, where there are rip-and-replace programs where we will definitely have an opportunity to participate. But I think net net takeaway is everybody is going to be watching this. And when we pull this off, then I think the doors will open up.

**Sachin Jain:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sohan Joshi, an individual investor. Please go ahead.

**Sohan Joshi:** Just one question. When we'll be able to monetize our Renesas strategic partnership? I mean are we going to -- are we looking at the revenue after the BSNL project is executed? And what will be approximately R&D spend? Is the R&D spend currently which is getting reflected -- is of the Renesas partnership? Or it will get recognized in the P&L from the subsequent quarters?

**Arnob Roy:** Which partnership what you're referring to?

**Sohan Joshi:** Renesas, Renesas.

**Arnob Roy:** No, I don't think anything over here is reflective of any partnership with Renesas. The technology partnership we have with them is for innovating technology and co-development. But the R&D spend shown is not connected to our partnership with Renesas.

**Anand Athreya:** Yes. So, we have time for one last question.

**Sohan Joshi:** That's it from my end.

**Moderator:** Thank you. The next question is from the line of Ranjit, an individual investor. Please go ahead.

**Ranjit:** Hi, good evening. Thanks for the opportunity. I have a question about this margin blend and product mix. So the question is, do we have any strategic business product plan for enhancing the margin mix? And the second part of the question is, are the low-margin products are necessity for winning higher-margin business? And if so, is there any plan to partner with a third party so that the company focuses on -- more on the higher margin? That's my question. Thank you.

**Anand Athreya:** So let me take a stab at this. So a couple of things. As an OEM company, we will always constantly look at our products to see how we can make it faster, better, cheaper. And there are many ways to do it with alternate design, working with our suppliers. So that is a constant work in progress. So that's number one.

Then in order to win deals like this, it is always good to have a complete portfolio where it makes sense. And also, we are definitely open. And where if it does not make cost sense for us to build it on our own, we can partner and outsource it from someone. We definitely look at it all the time. So it's actually a combination of all of these three. And finally, once you have a complete portfolio, then it increases the chances of winning a deal. And it also helps in how we can structure the deal.

**Ranjit:** So in terms of the business wins, or the plan for the business wins, is there any conscious effort in controlling this mix of low and high margin?

**Arnob Roy:** Any deal, any network that we supply for, we have a mix of low margin and high margin products. So we have all aspects of the portfolio. So when we ship all of the products in a network, the blended margin is what you see usually.

It's not that we are currently shipping low-margin products, and we are looking to ship high-margin products. I mean we have the entire portfolio, which is a combination of low margin, lower-cost products and higher margin, higher-cost products.

**Ranjit:** Thank you so much.

**Moderator:** Thank you. We have no further questions, sir. I would now like to hand the conference over to Mr. Anand Athreya for closing comments. Over to you, sir.

**Anand Athreya:** Thank you. So as I said in my opening statement, we had a strong revenue growth this quarter, and Tejas will continue to focus on investment and execution because we have a job to deliver. We have large opportunities and commitments to our customers, and we will continue to focus on execution.

And I'm really happy with the progress that's been made on wireless as Arnob said in the beginning. Our Band 1, Band 28 and dual-band radios are looking good and operating well. So that gives us a lot more confidence and optimism that we are ready to take off. And the optical products too are getting delivered. Over the last couple of quarters, we've been focusing on building all of this and delivering with volume and scale. So I think the stage is being set and you will start to see the results of these efforts in the coming quarters.

And last but not the least, supply chain used to be a problem. Now I believe it's in a reasonably good shape. There are some long lead items, but I think it's more predictable and more in control than it has ever been since I'm here. With that, I would like to close this call. Thank you very much.

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

**Anand Athreya:** Thank you very much. Bye, bye.

*Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings*