"Tejas Networks Limited Q2 FY2022 Earnings Conference Call"

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ANALYST: **MR. PRANAV KSHATRIYA - EDELWEISS SECURITIES LIMITED**

MANAGEMENT: **MR. SANJAY NAYAK – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR - TEJAS NETWORKS LIMITED**
MR. ARNOB ROY – CHIEF OPERATING OFFICER WHOLE-TIME DIRECTOR - TEJAS NETWORKS LIMITED
MR. VENKATESH GADIYAR – CHIEF FINANCIAL OFFICER - TEJAS NETWORKS LIMITED
DR. KUMAR N. SIVARAJAN – CHIEF TECHNOLOGY OFFICER - TEJAS NETWORKS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks Q2 FY2022 Earnings Conference Call hosted by Edelweiss 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. I now hand the conference over to Mr. Pranav Kshatriya from Edelweiss Securities. Thank you and over to you Sir!

Pranav Kshatriya: Thank you Faizan. Good evening everyone. On behalf of Edelweiss, let me welcome you to the Tejas Networks Q2 FY2022 earnings call. We have with us senior management of Tejas Networks headed by Mr. Sanjay Nayak - Chief Executive Officer & Managing Director; Mr. Arnob Roy – Chief Operating Officer & Wholetime Director, Mr. Venkatesh Gadiyar – Chief Financial Officer, and Dr. Kumar N. Sivarajan – Chief Technology Officer. Without further ado, I will hand over the call to Mr. Sanjay Nayak to start the proceeding. Thank you and over to you Sir!

Sanjay Nayak: Thank you Pranav. Good evening everybody. This is Sanjay Nayak. We had uploaded the earnings call presentation on our website, so I hope you had a chance to download that because I would be actually running through those slides. So, I am on the first slide which is Q2 FY2022 key updates.

On the financial side our Q2 net revenues were Rs 172.8 crore which is a year-on-year increase of 62%. Our PBT was Rs 3.3 crore versus PBT of Rs 4.54 crores for the corresponding period last year. Our Q2 bookings were Rs 258 crore and our order book has increased to Rs 783 crores which is around Rs 82 crore higher than the last quarter's order book.

We also during the quarter received strategic investment of Rs.837.5 crores from Panatone Finvest Limited towards preferential allotment of shares and warrants and consequently our cash and cash equivalent has increased to Rs 1195 crore, and just to remind you that this investment from Panatone which is subsidiary of Tata Sons and Rs 837.5 crore is out of the Rs 1850 crore, which is the combination of primary plus warrants that they would be eventually investing.

I am also happy to inform that we have made a PLI application for telecom manufacturing which has been approved by the Department of Telecom, Government of India and the benefit of that scheme would start accruing from the current financial year.

On the sales side, let me go through the three segments that we track. On the India government side, as some of you might have been tracking, we are participating in BSNL's proof of concept for the 4G tender, which is for a national rollout of a 4G network via system integration partner who will be using our radio products or what is loosely called the base station product. I will talk in detail about that product later in the presentation. So the POC is on and subsequent to the POC or the success of the POC we will be qualified to get different portions of the network rollout of BSNL.

We also won multiple tenders in the critical infrastructure segment, which is including safe city, video surveillance and of course projects in the utilities like power and rail and so on. In terms of revenues our contribution from India government was 13% of total revenues for Q2. In the India private sector, which has been doing quite well for us, it was 46% of our Q2 revenue and on a year-on-year basis, if I look at half yearly as an aggregate because that is a better way to track, we grew around 47% on a half-to-half compared to the corresponding period last year. I believe that by the time we finish this year, India Private possibly will be the fastest growing segment of our business.

We have been getting good business from the Telcos, which are the operators for both DWDM (which is the backbone products) as well as the GPON product, which is fiber to the home product. Also we started to work with a lot of system integrators who have been securing business for us both in the GPON segment as well as for the switches, which is the Ethernet switches that we produce which are used for example in video surveillance in city, safe city kind of projects as well.

The International segment was 41% of our Q2 revenues. And the half-year, we had an 89% year-on-year growth. Again we believe that international we will continue to grow as it has been doing in the first half for the rest of the year as well. I am also happy to say that we signed a new global OEM customer who would be taking our products and selling it in different parts of the world and in addition we also had five new customer wins across multiple geographies. Within international again like last year Africa has been doing extremely well and the order inflow as well as the revenue pipeline that we see looks very healthy for international as well.

In terms of supply chain which is of course a topic that impacts lots of industries there clearly is a global shortage of semiconductor components and many of the suppliers have increased the lead times from 40 weeks to 60 weeks and so on and many of them have also increased prices in terms of the component prices and there is a whole chain reaction happening in the industry which started from semiconductor foundries to chip supplies, etc.

From what we hear from our component suppliers, earlier estimate was that by end of this calendar year the semiconductor shortage would come under control. But the way things look, this shortage and this supply demand imbalance is likely to continue in the second half of next calendar year as well. We will have to take more advance inventory actions for securing components to ensure that our supply chain continues to be operating healthily. , But on a broad basis, there is also a little bit of volatility in the sense that the supplier commitments in terms of what they are supposed to deliver are also not being honored at time, and hence a little bit of volatility comes in the way of revenues as well as margins for us and which has reflected in our Q2 performance as well.

Going to the next slide, which is just a pictorial view of the revenue by segments compared to FY2021 on the left-hand side as you see 40% of the revenues came from international, around 17% of the revenues came from India Government and 43% of the revenues came from India Private. Correspondingly for the first half, as an aggregate, 46% of the revenues came from International, 41% of the revenues from India Private and around 13% of the revenues from the Government business and within government, critical infrastructure is slightly higher than the revenues from BSNL and BBNL.

If I were to kind of see the run rate business which is the combination of India Private plus International contributed to around 87% of our total during the first half which is a 67% year-on-year growth for the two segments combined for the rest of the year. For the India government business, for the rest of the year while we have won a lot of tenders and orders, the revenue outlook is not that great whereas there is still a whole bunch of large tenders which are in the offing - of course from BSNL as well as from railways, power and others. So we believe that those tenders will be something that we could potentially put into bookings this year and will immediately go into revenues during the next year.

Going to the next slide which is the financial update slide since I have already gone through the Q2 numbers, I just wanted to kind of quickly summarize the first half numbers. So for the first half our net revenues were Rs 317 crore which is a 72% year-on-year increase, EBIT is Rs 1.3 crore, PBT is Rs 11.7 crore, PAT is Rs 11.2 crore and EPS is Rs 1.17 and if you look at the trailing 12 months, the corresponding numbers are Rs 647 crore of revenues and Rs 5.72 EPS. So, basically the way I see things is that we always have a seasonality between the first half and the second half. The second half being significantly stronger than the first half and we expect to see a similar trend in the current financial year as well and especially given that we have a pretty strong, probably the highest ever order book, we are comfortable that the second half should be a strong half for us as well.

Going to the next slide which is key financial indicators, if you see cash flow from operations in Q2 was Rs 67 crore, inventories are at Rs 226 crore, trade receivables are Rs 414 crore, net working capital came down to Rs 481 core and cash and cash equivalent are Rs 1195 crore. On the inventory side, we had a slight increase of around Rs 25 crore primarily because we have been taking a longer actions for inventories and there would be again, as I said, volatility in the inventory levels during the next few quarters.

Trade receivables actually came down on an absolute basis to Rs 414 crores and we collected Rs 221 crore during Q2. Although the payments from BSNL continue to come in they are coming in at a slow pace. But we do believe in the next two quarters we should see a slightly better collection from BSNL as well.

Working capital correspondingly has reduced by Rs 24 crore primarily because of cash flow from operations, which have also improved and again I feel that over the next few quarters we will continue to see more normalization on the working capital side. Cash position of course improved to Rs 1195 crore primarily because of Rs 837.5 crore from Panatone Limited as well as from the cash flow from operations that have added in. Net-net as in the past, we continue to be a debt free company and from a balance sheet perspective we are quite healthy.

I will now go into the next two slides. First, I would like to just to give you a sense of all the products that we have today and then I also wanted to kind of highlight what the new product that we are doing and what is the stuff that we are doing for the 4G and potentially for 5G in future so that we all have a good sense of the way our product portfolio is expanding.

If you see the picture that is there in the next slide which is titled “expanding product portfolio, wireline plus wireless”, so, far in the first many years of our company our primary focus was on products which are on optical fiber, so we had products in the access side which is the Fiber to the Home or GPON or NG-PON technology. After that we come to the transmission part where we had technology like packet transport and so on and then when you come to this core you had that technology like DWDM which is in a very high-capacity backbone network.

What you have also seen now on the access side so our wireline portfolio was optical transmission, broadband access as well as secured Ethernet switches. What we are adding now in terms of major revenue potential in future is the wireless product and on 4G technology which is the LTE technology which is also used for 5G. We have built a radio access network which was loosely called the base stations which will give both fixed as well as mobile broadband services.

Our initial version of the product was for fixed broadband which was something which we have been getting revenues internationally and over the last couple of years we have enhanced that product to also support a full-fledged mobile broadband. So our 4G product today is similar to any other 4G product in the market or 4G base station or radios as they call it so that we can offer all kind of services whether it is mobile, fixed, voice, video as well as data. And the good part as you can see from the picture, we have a platform of those product so the smaller chassis - the box that you see is the product in which all kind of access technologies have been built in. So earlier it was GPON and Ethernet and in the same product we have been able to upgrade and our base station is essentially nothing but one additional card into the chassis that you see on the left hand side and the core products are based which have the larger capacity based on the 1600 platform and which is currently being used for DWDM, metro as well as for long-haul applications.

Going to the next slide is a little bit more detailed on the product because since this is the first time we are discussing about our mobile broadband product as well I just thought it might be illustrative to kind of exactly give a sense of what we do. So, the thing that we do in the mobile infrastructure - there are two parts, one is called the base station, which you can see as which is a part of the tower from the top of the tower you have a remote radio head and at the basement of the tower here something which is called the baseband unit. So these two together are loosely called base stations. So the data from the base station or the voice and the video or whatever kind of data from the base stations goes and goes over a transport network, which is a cloud of 4G backhaul which is what we have been doing in the past and goes and connects to what is called the evolved packet core, which is usually a data center on which a certain kind of software is running.

So, what we have been developing in the past we used to do the cloud which is the transport cloud as you saw but now we have enhanced our product and we are also doing the base station part which includes the radio which goes on the top of the tower as well as the baseband unit. The good part for us is our baseband and radios are 4G today and upgradeable to 5G in future, just by insertion of new hardware and software. It is a high capacity product. So there are two categories of base stations: one is for small cells or Femtocells, which is a very low capacity, low number of users and the other is called Macrocell, which is what we typically use in the all the mobile networks in India today. So, we have actually built the Macrocell and whatever I am just describing is actually going in trials with BSNL network in Chandigarh as well as in Ambala.

There are multiple bands, which are 900, 1800, 2100, 2500, frequency bands and we support all those bands, both in the CDD as well as the FDD spectrum. And similarly the RRH that you are seeing on top have different power capacities; so you can have 10 watt, 20 watt and 40 watt and we support all of that as well. So, in that sense our base stations that we have developed are very competitive and globally state-of-the-art and also upgradable to 5G from a future perspective. And the good part is all of this is a part of our Ultra Converged Broadband product family that we have been shipping for more than five or six years in terms of our basic product platform. So, this just gives you a sense of what we do.

Typically now once these kind of networks get deployed we could basically connect any mobile phone or anything that you connect today onto a network that is built on our product. So now with this you can see that we are doing pretty much end-to-end products from access, which is fiber-based access like FTTX, wireless access which could be 4G or 5G; then we do the transportation function and then we go to the core. So, I think this is where we are coming in just to clarify the EPC, the core for the BSNL network is not of Tejas; it is of another company which the front end system integrator is offering as a part of the entire end-to-end solution.

I will go to the next slide which is again summarizing the strategic partnership that we have with Tata Group. So really the coming together of Tata and Tejas in that sense brings in all the capabilities that we have built in terms of our R&D, in terms of our product ownership, IPR as well as the track record of building globally competitive products, which have been deployed in more than 75 countries and in very, very large volumes; and with Tata coming in as a part of a strategic investment, they bring in the global branding, the trust, the deep relationships in terms of sales, the tier one customers, the balance sheets that help invest aggressively in R&D in terms of building their state-of-the-art technologies and their ability to execute large deals and their focus on the entire value chain of electronics from end-to-end. And these two together provides us certain opportunities to build a global top tier telecom equipment OEM from India.

At this point in time, the open offer from the Tata Group and Panatone Investment is active. It is going to get over in a short period of time and once that open offer process is over, we would then be able to discuss more clearly and find out all the synergies. I expect over the next few weeks that we will come out and share our strategy in terms of how all of us are together going to work and how we can take advantage of the great opportunity that lies ahead of us. I will be sharing the details of that aspect of our engagement in a future engagement with you all. Today I just wanted to focus more on our Q2 results and the business in general.

On the last slide, just to quickly summarize before we take questions as you can see we are continuing to see a very strong inflow of new orders and as I said, the order book has increased and it is at an all-time high of Rs 783 crores and has continued to build up over the last few quarters. Revenue growth from run rate customers, which is India Private and International has been very healthy. We do see challenges in the global semiconductor supply chain, which will impact our revenues and margins. It has impacted to certain levels in Q2, and I do see volatility continuing over the next few quarters as well. We are taking advanced inventory actions and procurement actions but at the same time there is no answer if the supply chain has some turbulence and we will definitely be impacted by it as well.

We see promising outlook for our wireless radio access network, the RAN products, the 4G LTE that I talked about which will be upgraded in future to 5G. And it definitely increases our addressable market quite a bit. In India alone, there are large opportunities which are ahead of us and we believe that these anchor customers will potentially provide us a good foundation based on which we can start selling them in International markets with a stronger sales partnerships that we have available to us today and of course, with the strategic investment from Panatone Finvest which is a Tata Sons' subsidiary we believe we are very well positioned to invest and accelerate into different programs and make sure that we can grow and become a much larger company in a short period of time.

That is where I would stop. Thank you for bearing with me and we can now open the flow for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pranav Kshatriya from Edelweiss Securities. Please go ahead.

Pranav Kshatriya: Thank you very much for taking my question. First question is a little more broader picture on how one should see the evolution of Tejas given it is under now new promoters and this is especially from the context of if you look at the telecom equipment industry this is a notoriously long sales cycle industry and one really needs to put in a lot of effort in terms of the investment, IP, etc. to really scale up in this industry. So how should we see the investment going forward into this space in terms of the number of people acquiring IP organic, inorganic, etc? So that is my first question. Secondly, you talked about in fair bit of detail on this wireless RAN solution what has been rolled out by Tejas just wanted to understand one part if you look at the new ecosystem which is emerging which talks of virtualization of the RAN in which most of the people are considering virtualization of the BBU now how should one see if we are going to move to more virtualized RAN is that what is the player for the new system which you have ruled out. So these are my two questions? Thank you.

Sanjay Nayak: Let me start with the first question. The way to think of how our future will scale up - we really have two different dimensions in which things will happen. Number one that for optical as well as the broadband access products we already have the products which are globally competitive which we are selling quite well in India, quite well in few other markets and we just need to find ways to reach out and access a much larger customer base with those. So that would be, let me call it the sales expansion and leveraging that we would do in the next 12 to 18 months in terms of stepping up to the plate with what you already have from the technology anchor. So that is one part of it. The second part of it is on the R&D side. R&D side we have a pretty rich portfolio of products on the wireline side. We have started to step up the investments on the wireless side and we have the 4G product which is today based on the same technology as the 5G which is LTE and we are investing into that to make sure that the anchor customer that we are working with today in India can be increasedand because there is still a lot of 4G deployments happening in the world. So that is one part. The second part so we will be investing into more R&D in terms of 4G as well as for 5G, some of it will be organic, some of it will be inorganic and we will be basically putting together all the resources that we think we need to have to accelerate all of those programs which is what I kind of alluded to earlier in my conversation. Coming back to your second question which is kind of related to the last part of my answer earlier is that in the 5G ecosystem, there are two kinds of architecture if I were to say or two kind of use cases which are emerging one is called 5G NSA which is non-standalone which basically means exactly the product that we have - that I showed in the pictures today which is basically a 4G anchor and then you add a 5G upgrade card and you add the 5G radial which means the radial is working in the 5G band and all of that still works out of the same baseband units. So the 5G NSA architecture is what we already have in the current product. So that is one part of it. A significant part of the investments in the world today are actually happening in the 5G NSA portion. The second architecture which is evolving is exactly what you said which is the open RAN and virtualized architecture where the radios would be still there but then you would virtualize a significant part of the baseband and then you of course will virtualize the code 100%. So we are looking at ways in which either as a combination of in-house R&D that we are doing and combination of interesting inorganic options that may be available. We would be looking at what is a good way for us to compete in a 5G or an architecture as well. So I would say that is a part of the stuff that we would be strategizing and coming out with the plan, which I would be sharing in the next few weeks. But clearly we would be expanding our focus in addition from wireline to wireless as well because we do see large opportunities in the home markets, large anchor customers in our home market using which we can leverage with the new sales and the strategic relationship that we have on a global basis as well.

Pranav Kshatriya: Thank you very much for the detailed answer really helpful. Wish you all the very best.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Thanks Sanjay. Two questions from my side. First on the usual semiconductor shortage what was the impact on revenue and cost for you it looked like there was a very meaningful cost impact this quarter and also you were talking about you have been talking about securing component supply but clearly there was some supplier backing off this quarter as been highlighted how should we see it from the inventory buildup which you are doing and what is your confidence on the ability to deliver the orders which you already have in hand for the second half?

Sanjay Nayak: It is a good question. Let me start off with the first one, so what has been the cost impact? So, as you can see around 240 to 250 basis points a cost impact was there in this last Q2 which has adversely impacted us because with many of the suppliers either we had to buy the missing components on spot or we had to pay expedite fees and stuff like that. So I think that was a concrete impact that we had in this quarter. To quantify exactly how much we of course wanted to do we have a lot of orders in hand. The good news is that orders have been postponed, se have not lost any orders. Actually on the contrary we could have won a lot more business than we actually did if we actually had a good control on inventory in terms of availability of components so that we could have committed to a delivery time that the customer wanted so we could have won more business which we could not because we did not have the assurance of inventory availability. So that is the second part. The third part of your question is that how is our coverage for the rest of the financial year to be able to meet our revenue target. We had actually been even earlier in this year, we had been taking inventory action, we have been putting in all the orders, if I look at the integrated view of Q3 plus Q4 and see that for what our target revenues are, do we have enough inventory coverage and do we have enough components coming in within the time period that we need? I feel reasonably comfortable. Of course as I said there could always be a little bit of volatility because of certain push outs or decommits or things of that nature but barring that I would say for the rest of the financial year since we had taken early inventory calls and inventory actions we feel comfortable that we should be able to meet our revenue plan for this year. In fact as we talk, we are already taking inventory actions for next financial year Q2, Q3, Q4. So I think that just gives you a sense of advanced planning that we have to do now.

Mukul Garg: Just a clarification on the earlier part of this question is the new inventory which is coming in going to be even more impactful on your margins given that things progressively has been getting working and the visibility on normalization is going down so should we expect a meaningful impact on profitability at least in the near-term, next one or two quarters and a separate question was you earlier mentioned that on the 5G at the RAN side you will be looking at inorganic opportunities or will there be a partnership opportunity?

Sanjay Nayak: Let me answer the first question first. Coming back to margin impact we already had a 250 basis points margin impact in Q2 so with larger volumes in Q3 and Q4 I think the margin would be hovering around the current levels. There is you are right, progressively costs have been increasing in the supply chain. So for us it is a question of balancing two or three things; one is if our blend of our customers for example some of the international customers we get better margins so combination of what is the business blend between international and India, combination between products they have different margins and products which are running in high volumes, we have better margins so I think combination of all of that will eventually determine the impact on the margins. There will definitely, as we saw in Q2, be some impact on the margins and we are continuing to evaluate that in terms of what we can absorb, what we need to even discuss with our customers. So for example some of the new bids or new contracts that we are signing, we are able to negotiate the right kind of price structures. Now the existing ones it may be relatively difficult but some of the customers are open to securing supplies even if it means paying a small amount of additional cost. So, I think all of those combinations are kind of playing their role together and it is very hard to exactly pinpoint how much the margin will be impacted except that it will be impacted and Q2 is some indication that we saw. Q3, Q4 we will have to kind of wait and watch things happen but some suppliers have increased, some are still holding on some have said they might increase from January. So there is a little bit of, I would say uncertainty on that aspect as of now. Coming to your second question about the 5G NSA option, will it be organic or will it be inorganic or will it be partnership, it will be a combination. So a lot of the technology that we are developing for 4G by the way first of all the base LTE technology is same, a lot of the software would be reusable, a lot of the radio technology that we have built over the last few years, we just have to build radios in different bands but there will be FDD radios or things of that kind of the same in different capacities. So, I think there will be a lot of reuse of what we have, we would definitely be looking at partnerships, at inorganic options because they can give us a way to accelerate our programs. So, I think all of that would be something that we are actively working on and as I said over the next few weeks we will be sharing a lot of clarity around all those issues.

Mukul Garg: Great. Thanks for answering my question and best of luck for rest of the year.

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

Sangam Iyer: Just wanted to check with you regarding the bad debt provisioning that you did, is the last final assessment in terms of the budget requirement or provision requirement there or what is it exactly catering to can you explain because I could not understand the notes there.

Sanjay Nayak: I did not get the question. Can you please repeat?

Sangam Iyer: There was this bad provisioning the Rs 5 crores odd that was there in the P&L, if I am not wrong.

Sanjay Nayak: There is an estimated credit loss provisioning of Rs 5 crore. This is more like Venkatesh can explain.

Venkatesh Gadiyar: So this is more of a provisioning what we have done for the uncollected portion as and when we collect the money right it will get reversed.

Sangam Iyer: Is this for the international business or how is it?

Venkatesh Gadiyar: It is across you know. It is a ECL model. If you see in this quarter something would have moved to one of the bucket, next period bucket if that collection does not come then as per the ECL model we have to make a provisioning, accordingly provisioning of Rs 5 crore hit which we have taken it in this current quarter and as and when we collect the money then we will get the reversal out of that. It is only a provisioning part.

Sanjay Nayak: Just to simplify across we have a model that from any customer if there is a payment delay beyond a certain threshold, we put a provision for that in that particular quarter when the payment was supposed to come and has not come and as and when in future it does come the same is eventually reversed. So it is the ECL model that we have been following. By the way this has been in place for the last several quarters..

Sangam Iyer: Correct but last couple of quarters I saw Rs 1 crore has become Rs 5 crore so that is why I was just wondering.

Sanjay Nayak: Maybe some customers might have fallen into the bucket so we just put it there but if it comes into Q3 or Q4 it gets reversed essentially.

Sangam Iyer: Got it. Secondly, in terms of the revenue growth trajectory that you spoke about - the second half will be much stronger than first half. Could you throw some more light in terms of the backlog that that is expected to get executed in the second half, now given that the durations are also increasing a little bit on the on the order book that we receive. So how should one look at the whole execution?

Sanjay Nayak: Out of the order book of around Rs 783 crore that we had at the beginning of this quarter as on October 1, and again I should clarify that the order book is physical purchase orders in hand. It does not count the run rate business for which orders keep coming with any amount of frequency which is a big chunk of our revenues as well. So around 45% of the order book would be executed in the current financial year and on top of that we of course have hundred customers whose orders will come for whom we have planned the inventory because they have already forecasted the same and basis which I mentioned that first half to second half ratio is around 40:60. sSo I think we feel that way things are going there is a lot of business there it is just a question of executing with the supply chain support over the next two quarters.

Sangam Iyer: Got it. So as a follow-up on Mukul's question on the inventory types that we have currently you indicated that you have visibility for the inventory to supply and meet the demand. So would it be fair to assume that it is sufficient enough to meet the 60 of 40:60 ratio that you are eluding here?

Sanjay Nayak: Let me put it this way we have we have placed all the orders well in time for securing that amount of inventory. Having said that, that alone is not sufficient in these days because inventory still should come on time and there should be no decrements and there should be no delays and so on and so forth so I think barring those kind of things with our supply chain team is of course tracking, we believe that we have the right coverage for inventory for securing those kind of revenues during the year.

Sangam Iyer: Got it. Lastly, when given that ours is a pure product company here as we grow and as we expand on the execution part when should one look at the operating leverage kicking in?I understand now because of the supply shortage constraints the operating leverage is not visible immediately because a lot of this goes into your cost escalation part but having said that ideally speaking by when if it raises a normalized situation what kind of operating leverage can one visualize from?

Sanjay Nayak: If you see based on the current cost structure we need to be around Rs 200 crore per quarter and around Rs 800 crore per year kind of a revenue to get to the baseline that we were a few years back in terms of operating performance. Of course, our cost structures have gone up and it is likely that as we increase our investment in R&D as well as in some aspect of sales, the cost structure may further go up. So realistically. what is going to happen is all of that has to kind of get compensated with higher revenue going forward and we would of course be judicious in making sure that as we are investing into additional cost there should be a pipeline that we are building for increasing additional revenues. So I think we are as a product company we are not that far away in terms of hitting that cost point at the operating leverage points. It is a question of - especially with some of the stuff that we are doing in wireless - the deal sizes becoming large and even if you are able to secure a part of one of those deals we could get a significant revenue kick up because some of these things could be required as early as next financial year in terms of revenues and supplies and hence the as I said the operating leaves could start kicking in. Of course, this financial year is just going to be continually incrementally scaling up but going forward I think we should be able to start seeing higher numbers which will give us the operating leverage.

Sangam Iyer: Got it. Final question before I join back the queue in terms of the order book order backlog that we have can you give us a breakup between India government, international and private?

Sanjay Nayak: So I do not have the exact breakup in front of me but typically I would say between India private and international which is what I would call it the runway business that would be around close to 45% or so and 55% would be India government somewhere in that ballpark.

Sangam Iyer: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: On the steady state how should we see the working capital cycle, inventory debtor and in payable days in the business and within the subsegments how do you see that expanding out?

Sanjay Nayak: By the way so in terms of as we have seen in the past I think DSOs at a steady state should be around 135 to 145 days. Our payables in the steady state we have been able to manage around 90 days and if I look at inventory usually it has been around 80 to 90 days. So, I think on a steady state we believe that in the past we were able to get to around 130 to 140 days of working capital and we should be able to get to that normalization in the next few quarters. Current quarter is definitely not there although we have made a lot more progress in the current quarter, but I would suggest that it will take a couple of quarters before things start normalizing.

Madhu Babu: Going forward on the Indian government especially how do you see scenario there, especially where you are bidding on the BSNL and the future contracts?

Sanjay Nayak: So for India government we basically see three big business segments emerging, in terms of the revenue possibilities. One let us call it the critical infrastructure, which is railways, power, oil and gas, defense, smart cities all of that stuff; so that is a lots of tenders anywhere between a few crores to Rs 50 crore to Rs 100 crore and there are lots of those happening and they are all covered under 'Make in India', they are good margin business for us.We have been doing extremely well in that segment. So that is one part of it. The second part of it is that if you look at BSNL and BBNL, the BharatNet - let us call it the Department of Telecom related projects, which could be either BharatNet or it could be BSNL that is the other bucket there and BharatNet for example there is a large outlay for the next phase of BharatNet from Rs 19000 crore has been put aside. The execution model of that is getting fine-tuned but the technology products that we have will significantly be used in that so that is another large bucket of revenues which can potentially happen over the next few years and then the third one is the BSNL themselves, BSNL the operator. So, BSNL the operator will require two kinds of equipment. If I were to talk to you one year back we would only be addressing one kind of their equipment which is the backbone equipment based on optical technology which is DWDM for which tenders are on. And they have to enhance their backbone capacity for 4G and 5G from access to core to long haul to everything so that is one part of the business that we execute that itself will be quite significant because they have not upgraded their backbone capacities for the last many years for a variety of reasons. And if they were going to build a 4G or 5G network without upgraded backbone they cannot really have a viable network there. So that is one set of business, which is coming which is what we have been historically working on. With more recently, we have also said okay they are going to need 4G base stations which are potentially upgradable to 5G in future and that is another very large project, the total outlay for around 57000 to 60000 base stations is anywhere around Rs 10000 crore or so. So, I think that would be another project a part of their business that we are currently working on. We have a proof of concept going on as a truly Indian ecosystem, which is being trialled in Chandigarh and Ambala. We believe we are going through the process as required and once that is successful we will have a good shot at that entire base station rollout that they would require and that is something which would be a very large business but the execution timelines could be quite short. It could be over the next 12 to 24 months, if I were to put a timeline range so within that period of time we have to deploy a fairly large network and that is where a large system integrators be in front of us and leading the deal would come to help us because we would be the equipment suppliers for the radio access or the base station portion, core is being supplied by someone else. So, I think these are three different distinct government opportunities. As I mentioned earlier in terms of the backlog there is a lot of backlog of business we have won from government, which will be executed in the timelines that the projects are continuing. On top of that there will be more tenders happening in the rest of this calendar year or fiscal year which will again become orders to be executed in the next year and then all these large opportunities that I talked about so I would say there is a pretty large pipeline of government business, some of it has no cash flow challenges, no payment issues, no nothing, some of it is of course a little bit more trickier than the others.

But if I look at the whole basket of government business, it is very large. All government business is mandated by the two important clauses or rather regulatory clauses; one of them is 'Make in India' for all government procurement and all the products that we make are covered under that so any buyer has to buy Indian products if they are available and second is that there is a regulatory mandate that all telecom products deployed in the country, which is applicable to both private and government networks, have to come from trusted telecom sources. And there is a whole process for according the trusted source approval which I am sure we will be getting at some point in time. So within those two clauses all the government procurement has to happen which potentially as a part of the larger Atmanirbhar story gives a benefit to companies like us who design and manufacture their entire products within the country and have entire control of the IPR within the country.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Aman Dineshkumar Madrecha from Augmenta Research Private Limited. Please go ahead.

Aman D Madrecha: Good evening Sir. Actually I had two to three questions; so the first one - can you me please give more color on the allowance for credit loss? What could we expect the yearly runrate like? What would be the portion of the receivables which would go into the doubtful area according to you and also out of this what is the outstanding amount from BSNL and from other players as well?

Sanjay Nayak: Okay I will let Venkatesh answer that question.

Venkatesh Gadiyar: I mentioned in the call earlier, it is an ECL model - expected credit loss model wherein some of the collections get slipped out to the next quarter or next half year then according to that model, we have to provide certain percentage of the provision for the expected credit loss. In this quarter some collections have got slipped out that is the reason we had provided that Rs 5 crore which cut across lots of customers. It is not as specific to one customer. So that is how the allowances for credit loss we have been providing. As far as BSNL is concerned the old BSNL outstanding as of September 30 is around Rs 102 crore of which we have already collected around Rs 32 crore in the first half, which is Rs 15 crore and Rs 17 crore in Q1 and Q2 respectively.

Aman D Madrecha: Do we expect that the remaining would be collected in timely like there would be no write off from that thing?

Venkatesh Gadiyar: The collections were a bit slow but hopefully we should be able to collect the balance in maybe in the next two quarters or so.

Sanjay Nayak: Just in terms of the provisioning versus write-off if you look at historically for the last several years the total write-off which is bad debts which we have not collected and written off is very, very small, it is less than a percentage of our revenues. We do provide for provisions which get reversed as and when they collect it so typically what we have seen is that we see delays sometimes in our collections, which is why we provide the estimated credit loss. But the possibility of receivables going bad has been so far very, very small. During the lifetime of our company it has been around 1.2% or something like that which is what we have actually written off.

Aman D Madrecha: I have a couple of questions more like given that recently Tata acquired a stake in the company, I just wanted to understand like Tata Sons company like TCS and TataCom would they work as an integrator for the company like TCS would provide the software and Tejas for hardware like how would the things be going forward?

Sanjay Nayak: First of all, all the companies are independent companies. I am sure they would be working within the regulatory framework of in whatever is the related party transactions or arms length pricing and all that stuff. Having said that those are all things which we are working out. Clearly, we are working with TCS in the BSNL project as is publicly known. Tata Communication is a longstanding customer of Tejas for more than 15 years and a lot of their networks are running the equipment provided by us. There are many other group companies within the Tata Groups who have a requirement to procure telecommunication equipment of the kind that we produce and we definitely believe that we have very competitive products and we are already doing business with most of them and we will potentially be looking at ways to enhance our reach through them. So I would say that the objective of the strategic partnership is that there is a lot of customer connect, there is a lot of relationships, there is a lot of global solutioning, which needs to get done and if we have a competitive product and a good solution that we can put together definitely those are the things which we would like to leverage with the strengths of the group.

Moderator: Thank you. Mr. Aman may we request that you return to the question queue for follow-up questions. Thank you. Ladies and gentlemen please limit your questions to one per participant. Should you have a follow-up question we would request you to rejoin the question queue. The next question is from the line of Harshil Cholera from Pragya Equities Private Limited. Please go ahead.

Harshil Cholera: I just wanted to know what would be the plan for the next a couple of years where do you see the company going forward? It must be asked earlier but I just joined that is why?

Sanjay Nayak: One thing I mentioned on this one is that the strategic plan for the company post the investment from Tata Sons since the open offer is still on and it will be over in the next few weeks we would be coming out and sharing some of those ideas after that. So in that sense since the long term strategic plan is something that I would like to have a focused discussion on that is something we will be sharing over the next few weeks and just because of where the current open offer situation and the regulatory things are so we would be sharing that over the next few weeks but not today.

Harshil Cholera: So there would be another conference call for that again?

Sanjay Nayak: Yes we will find the right way to communicate our strategy going forward. We will not be doing incremental stuff from where we are today. We would be looking at how to take advantage of all the synergies that we envisage and how to accelerate all things, what are the kind of investments, what are the kind of opportunities, what are the kind of synergies we expect to see so all of those questions as I said in the next few weeks we will be answering, yes.

Harshil Cholera: Thank you.

Moderator: Thank you. The next question is from the line of Udit from Catamaran. Please go ahead.

Udit: Can you please give us idea on the products that you are planning to manufacture through the PLI scheme and secondly since previously we were outsourcing all our manufacturing activities so how will this work now?

Sanjay Nayak: That is a good question first of all. So let me answer the first part so all the products that we today design and manufacture are covered by the PLI scheme which is FTTX products, which is GPON family both the head-end equipment and the customer premise equipment, the transmission products as well as the 4G and 5G products that we are working on so everything that we do is covered in the PLI. So that is the good news. Second thing is that how will we benefit from the PLI scheme because a large part of manufacturing is outsourced. So the way the PLI scheme is designed and the way we have put in our application investment, it does not warrant us to change our business model. So we will continue to outsource a part of a manufacturing to contract manufacturers and the final assembly and test would be done within our premises and for the part of the investment that are required from the PLI threshold we believe we should be able to meet those investments in the normal course of our business because of the way we do our manufacturing. So we will continue with the correct current model itself, but we should be able to take advantage of the PLI scheme as has been designed today because of the investments that we would make.. For example, test equipment, prototypes, these are all allowed under the PLI scheme and some of those things which are expansion of the factory premises which you will anyway need to do for larger volumes but those are all as I said incremental investments in the normal course of business for us and we should be able to take advantage of those through the PLI scheme.

Udit: Given that like most of the as you rightly mentioned like most of the core manufacturing will be outsourced so roughly Rs 100 crore of investment could generate how much of yearly revenue annual revenue?

Sanjay Nayak: Luckily for us we should be able to generate very, very high amount. Thousands of crores of yearly revenues even with the investment that we are doing because significant part of the capital intensive manufacturing is outsourced and with whatever asset light model of investment that we have for manufacturing, which we will be making the investments over the Rs 100 crore so to the threshold which was there I think our application is around Rs 115 crore or Rs 120 crore or something like that over a four year period. So I think we should be able to meet our annual thresholds and once we can do that whatever revenues we do the incremental revenues from the baseline would qualify us for the PLI incentive subject to us having met the minimum threshold of investment which we will need. So luckily for us the revenues can be very large and the investments do not need to be.

Udit: Thanks a lot. That is it from my side.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Nakshita Mehta from Credent Asset. Please go ahead.

Nakshita Mehta: Thank you for taking my question. My question is one on the product additions that you are doing, can you throw some light on what is that going to do for 5G and how is that going to play out the entire 5G scheme?

Sanjay Nayak: As I put into the pictorial slide in my presentation so there are two elements of 5G that we will be potentially addressing. One element we already do today which is the backhaul or when we carry the signals from 5G network or onto the fiber and everywhere else those products we already have today as a part of our optical as well as the fiber access products; so that is one thing which is how we are addressing the 5G. The second aspect of 5G is the radio access network, which is the base station part of 5G. So currently we have 4G, and the same platform is upgradable to 5G with incremental software and hardware and that is what would allow us to also build a 5G radio network. So within between those two elements we would be addressing both the large capital investment opportunities that will be opening up in 5G.

Nakshita Mehta: By when can we expect these things as you said that you just need some sort of a part to activate the 5G to upgrade it to 5G so by when can we expect this to come into play? Is there any timeline?

Sanjay Nayak: I think the product roadmaps are in place, at least for Indian market. First the spectrum auctions have to happen for 5G and then the rollouts will start. So my sense is that only sometime in the second half of next year or later part of second half of next year, there would be some rollout activity on 5G and our intent is that at least the transport part for 5G would be used for that. So in fact if you have read one of the press releases we had done with a customer in India, part of the equipment we are supplying for them is for 5G actually for the 5G capacity augmentation in metros and part of the access and the edge network so that would come into play. The radio access part of 5G would be a slightly longer term thing because it is on the roadmap. So those things I would only be able to share once we have more concrete rollout plans from our side on the product development but the fiber side of things we are already there.

Nakshita Mehta: My last question is regarding the Tata liaison. So you said that you will be using Tata synergy and have more access to customers. So what kind of customers are you looking at? Are you looking at any global customers? Are you only looking at the local?

Sanjay Nayak: Definitely all customers, global as well as local, the global part is going to be quite exciting for us because one of the challenges which Tejas had in the past was that while we did well in India and had decent success internationally, we were never able to get into very large networks in the tier 1 markets like U.S., Europe, Australia, New Zealand, Japan and so on and so forth because to get to those customers we needed to have a strong presence, strong brand, we needed to be having deep relationships. So we do expect that the synergies from the group companies in terms of having access to those customers, having working relationships because telecom is a segment which has been a quite prominent vertical for all the companies in India who are working with global customers in the IT services or system integration space. So I am pretty sure we will be able to leverage those synergies internationally. Even in India, if you look at some of the very large projects like the BSNL one that we are talking about we may not have wanted to do it on our own because of the size. If it is a Rs 10000 crore project we may not want to go on our own because there are a lot of elements, which are coming into play for that. So even in India for very large deals we can potentially work with system integration front-ending us and that is where a lot of the synergies will come. So, yes customer acquisition globally in the large scale market as well as in India would be something that we definitely look forward to.

Nakshita Mehta: Just a follow up on this is there any investment being made by Tata or is it just a just an equal strategic partnership?

Sanjay Nayak: In fact as I mentioned in the things we have already received so there is a there is a commitment of Rs 1850 crore of investment in the company out of which Rs 837.5 crore has already been paid. The balance will be in the form of warrants which will get converted. The first one comes in eleven months, the second one is 18 months.So, there is very sizable amount of cash which has been infused in the company already and is available in the form of convertible warrants. So there will be cash investment and of course the strategic alignment is clearly something that we leave it so it is both absolutely.

Nakshita Mehta: All right. Perfect. Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Pranav Kshatriya for closing comments.

Pranav Kshatriya: Thank you everyone for participating in the call. I will hand over the call to Mr. Sanjay Nayak for the final remarks. Thank you.

Sanjay Nayak: Thank you Pranav. It has been good, entertaining ideas and addressing your questions. As I said the good part is the business inflow is very good, order book is continuing to increase, so the demand for the equipment is good. We do have some challenges on the supply side because of the semiconductor situation. We are taking adequate action so that is going well. The last part is of course the strategic alignment with the Tata Group. We will start to play out all the synergies and all the plans that we have and we will be sharing those with you in the future calls and then the last part is that the advancement in our technology in terms of introduction of the new wireless products is quite exciting for us because we do see a lot more opportunities and markets opening for us both in India and outside and all of those mean that as management team and the company we are quite excited about the opportunities and other possibilities to scale the company to much, much larger size over the next few years. So that is really where I would stop. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.