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TEJAS® NETWORKS

April 28, 2022

The Secretary
National Stock Exchange of India Ltd
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (East)
Mumbai – 400 051
NSE Symbol: TEJASNET

The Secretary
BSE Limited
P J Towers, Dalal Street,
Fort, Mumbai – 400 001
BSE Scrip Code: 540595

Dear Sir/Madam,

Re: Transcripts - Tejas Networks Limited Q4 FY22 Earnings Conference Call

Please find enclosed the transcripts of the Q4 FY22 Earnings Conference Call held on April 22, 2022.

This is for your kind information and record.

Yours sincerely
For Tejas Networks Limited

TEJAS NETWORKS LIMITED BANGALORE

N R Ravikrishnan
General Counsel, Chief Compliance Officer
& Company Secretary

“Tejas Networks Limited Q4 FY2022 Earnings Conference Call”

April 22, 2022

ANALYST: **MR. BHUPENDRA TIWARY - ICCI SECURITIES LTD.**

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 Tejas Networks Q4 & FY2022 Results Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupendra Tiwary from ICICI Securities Limited. Thank you and over to you, Mr. Tiwary!

Bhupendra Tiwary: Good evening everyone. On behalf of ICICI Securities, we welcome you to Q4 & FY2022 results conference call of Tejas Networks. We also thank the management for giving us this opportunity. From the management we have Mr. Sanjay Nayak, who is CEO & MD; Mr. Arnob Roy, who is COO & Whole Time Director; Mr. Venkatesh Gadiyar, CFO; and Dr. Kumar Sivarajan, who is CTO. Without much ado I will give it to the management. Over to you, Sanjay.

Sanjay Nayak: Thank you Bhupendra, and welcome everybody to our earnings call. We had uploaded the presentation on our website the one which I am going to be walking through. Earlier in the evening we had also released our results for Q4, so I am assuming you have had a chance to at least have a preliminary look at the same. Over the next half an hour or so we will give you a little bit more color on the results and the state of the business.

I am on slide number one, which is the key updates for Q4. At the outset as I had mentioned in my press release we are disappointed with our Q4 performance because while we had a lot of orders, we have a lot of customer wins because of the global supply chain shortages, we could not deliver as much revenue that we had originally planned for despite the best effort that the company and the management team could do, but that is something which of course we are not very happy about, but it is what it is.

Having said that in terms of the Q4 numbers, our net revenue for Q4 of 127 Crores and for the entire financial year it was 551 Crores, which is a year-on-year increase of just around 6.9%. We had a loss in Q4 of 50 Crores including some onetime item which Venkatesh will talk about later, and for FY2022 we had a loss of 63 Crores. Cash and cash equivalents are at 1102 Crores, and of course we have no debt. Clearly we saw a margin pressure due to increase in component cost, semiconductor components have increased in a price at worldwide, and we could not pass on all of it to our customers, so as a result we did have a dip in our margins as well.

In terms of the way our business as many of you know is that our manpower cost are almost fixed, so if the revenue comes down, we are on the certain thresholds, we do not have the corresponding way to absorb the manpower cost, so that is why the financial performance does dip quite a bit with a decline in revenues.

In terms of the overall sales update this is where things are actually going quite well. Our Q4 booking which is new order wins for 316 Crores and our total order book has increased to 1175 Crores which is a year-on-year increase of 73%. So this is the new business that we have won during the year and these are the purchase orders that we have in hand. In addition to these purchase orders as we always do we will always have run rate business from existing customers and in this particular case, there is also a potentially large order from BSNL via our system integration partner that we have not counted as yet because it is not yet come into our books.

The second thing I would like to highlight is that our 4G RAN, which is the 4G base stations have successfully completed the BSNL's Proof-of-Concept testing of the indigenous front stack which is the front-ended by our system integration partner, and our products have also been cleared for commercial deployments for which we are now awaiting the orders. This I think is a matter of great pride for the company as well as for the country that in a record period of time we were able to create a completely indigenous base station and it has passed all the testing criteria in the field trial and Proof-of-Concept which was held over a period of nine months. So I think this is a very good start because it can potentially give us very large orders in the wireless 4G to begin with and then of course upgrades for future technology as well.

The other thing I would like to mention is that our entire product portfolio has been approved as a trusted product by Government of India, they have a rigorous process for doing that, and all our products have been approved.

International business was weak in Q4 primarily because of supply chain constraints, international orders, and run rate orders usually commit on the shorter lead time and of course we could not supply those orders and as a result lot of that has gone with the backlog.

In terms of the supply chain update which has really had a big hit on our quarterly performance, I can pretty much clearly say that the shortfall was on account of component shortages, which we could not fulfill our customer orders and ship complete systems. As I mentioned I think in the earlier call also we have more than 1000 unique components and even if a few components do not come our entire systems get choked out. During the year we had anticipated this supply chain shortage and the high value components where we call them the class A components we had already covered for, but during the year the class B and class C components which are smaller components which hardly cost anything those also became in short supply and our inability to get all of them in time basically resulted in us not being able to manufacture those system and ship it despite having a very strong order book and customer wins.

What are we doing now, we have already placed orders for our entire FY2023 requirements which is more than 12 month ahead of time and we have a fairly large funnel of business that we have won both in the form of order book in the form of run rate customer where we have visibility and also in the form of some of the larger orders we can potentially expect and to cover for that we have already taken inventory actions as of date already so we are confident that as the year progresses we should be able to recover the lost revenue that we have from last year and also to be able to grow our revenues quite significantly in this financial year. I would also like to say that we have not lost any business, we have been working closely with the customers and all the critical requirements of the customers were fulfilled. Whatever we could not fulfill over the next few quarters we will be able to supply to our customers we could have won more business if we could have supplied in time, but since we could not, some of the run rate customers held back some of the orders, but despite that I believe that we could get our order book going but clearly as I said earlier the financial results are something that from a revenue perspective we are not very happy about it.

I am on next slide, some other corporate updates, which are important, which I would like to share with you. First today in our board meeting the board has appointed Mr. N. Ganapathy Subramaniam as Non-Executive Chairman of the Board effective May 18, 2022 and Mr. V. Balakrishnan, who was so far non-Executive Chairman of the Board, has decided to step-down with effect from Apr 23, 2022 which is tomorrow, and the Board unanimously expressed our deep appreciation and admiration for the skillful manner in which Bala steered and positioned the company in its journey from a startup to India's first, listed deep-technology telecom product company. So with NGS coming in as a Chairman of the Board we are also very excited because he has the experience of taking a company up in size like TCS and getting into global markets with him at the helm really gives us a very good positive way forward as well.

Some of you would have attended the call on March 31, 2022 when we had announced the acquisition of Saankhya Labs and that will enhance our wireless product offering, it will bring in a strong domain expertise and IPR in wireless communication in 5G, in Broadcast, as well as Satellite communication and as I said earlier Saankhya Labs will be complementary in terms of product technology areas and customer based.

The third thing I wanted to announce was, which again on April 8, 2022, Panatone Finvest Limited a subsidiary of Tata Sons exercised their Series-A warrants and their shareholding has now increased in the company to 52.45% and the requisite number of equity shares were allotted to them as per the agreement that we had. Now we are a 52.45% owned by Panatone Finvest.

The last I think our product TJ1600 family of product won the Innovation Excellence Award from Voice & Data Magazine. This is our flagship DWDM/OTN platform and it tells a lot about the competitiveness of our high-end products in the optical transport segment. Of course ET Telecom selected Tejas CEO and Tejas CTO in the same year for CEO and CTO of the Year awards. We were granted 3 patents in Q4 taking the total granted patents to 137 and have filed 350 global patents. We have also received the ISO 2700-1 certification which is the Information Security Management especially in today's time when cybersecurity issues are very critical so it was very important of our company to be able to get this certification.

So that is really a quick summary of all the things which are happening in the company from a business as well as sales angle.

I will dive a little bit more in to the sales and the other stuff in a few slides, but I would request Venkatesh our CFO to walk us through the next couple of slides on the finance side so that you get a complete picture of the results as well.

Venkatesh Gadiyar: Thank you Sanjay. I am in the slide of Q4 and FY2022 financials. Net revenues for Q4 2022 was 126.5 Crores, which we saw a decline of 37.2% on a year-on-year basis. EBIT loss of 110 Crores for the quarter and PBT loss of 95.9 Crores and a PAT loss of 49.6 Crores and an EPS of -4.34 per share. Similarly, for FY2022 the net revenues were 550.6 Crores which saw a year-on-year growth of 6.9%. EBIT loss of 157.2 Crores and PBT loss of 117.1 Crores and a PAT loss of 62.7 and an EPS loss for the entire year is -5.97. Basically the loss has happened for the multiple reasons, one is there was a gross margin pressure in the entire year. In Q4 particularly our international revenue was weak, basically international revenue comes with the higher material margin. Also, the gross margin were under pressure due to material cost have been increased on a year-on-year basis with the 700 basis points due to the increase in the component cost. Costs have significantly increased but however we were not able to pass the entire increase in the component cost to the customers that is how we may have to bare that some point of time the cost.

Secondly as Sanjay has mentioned the expense structure of our side of the company where the most of the costs are fixed in nature, such costs were not able to absorb in the revenue what we have done so far hence it has resulted into the loss as well and the third point during the quarter ended March 31, 2022 we have assessed recoverability of our overdue trade receivables from BSNL which is one of the public sector customer and in view of the delayed collections we have made a additional provision of around 67 Crores towards such receivables which were held about more than three years which is a onetime kind of a provision that we have made on the receivables, however, we are confident that we are able to collect the money in the coming quarter in this financial year.

Key Financial Indicators: The cash flow from operations, cash outflow of 49 Crores in Q4 and the networth has decreased to 1593 Crores from 1636 Crores. Inventory has slightly gone up from 271 Crores to 278 Crores basically due to the critical component shortage and there was a imbalance in the inventory what we are suppose to get in hence there is a increase in the inventory as at March 31, 2022 and after making a onetime provision of ECL 67 Crores in the ECL for the trade receivable, the receivable position as of March 31, 2022 net receivable has come down to 292 Crores as against Q3 balance of 358 Crores however we have collected around 695 Crores in the FY2022 towards the receivable collections and in Q4 we have collected about 165 Crores and the net working capital has slightly increased by 18 Crores which is primarily due to the increase in the inventory level. The cash and equivalents as of March 31, 2022 has been decreased to 1102 Crores and we continue to be a debt free company and I believe with this strong cash in our balance sheet, we can be able to invest in the business opportunities which are lying ahead of us. Sanjay over to you.

Sanjay Nayak: Thank you Venkatesh. I am on the next slide now, FY2022 sales updates. So, we have been sharing these pie charts in terms of how the business has been across the key segments that we track India Government, India Private, and International. If you see the chart on the right-hand side which is the FY2022 numbers and the chart on the left-hand side is the FY2021 corresponding numbers. So if you really see that on an absolute basis India Private has grown from 224 Crores to around 257 Crores, International has been almost flat at around 200 Crores versus 205 Crores and in the government business has slightly gone up from 86 to 94 Crores. If I look at the overall run rate business between India Private and International it contributed to 83% of FY2022 which is almost the same in FY2021 which basically means that our existing customers continue to give around 83% of the revenues each year which is a good sign. The government was for the entire year 17% of the revenues which grew as I said by 8.7%. In addition, I think there were lots of orders that we have won during the current financial year which have gone to our backlog especially in the critical infrastructure segment railways, oil, gas, power, smart city, safe cities and so on, and even going forward for next fiscal year in terms of tenders that we have already won or business that is already lined up for example the BSNL 4G business. We see a very healthy pipeline of new business in the India government sector. On the India private side, it was really 47% of the total revenues and year-on-year growth of 15%. In addition to the revenue growth we also saw very strong booking growth so this is a segment which has come up extremely well, we have now two segments within India private the Telco customers as well as the System Integration customers and both of them did quite well during the year. International as a total percentage of revenues came down to 36% compared to 40% in FY2021. In the next slide I will drill down in terms of which territories did well and which did not but as an overall percentage for the year it was down and as Venkatesh mentioned earlier for Q4 international was 16% of total and that is what partly also contributed to the margin pressure. One thing again the run rate business typically comes with a shorter lead time because customers expect the orders to be delivered within a short period of time and because of the inventory supply situation some of the run rate customer order that we got later in the year could not be serviced which will get serviced now in Q1 and Q2. In terms of closing backlog of 1175 Crores if I were to give the breakup India backlog is around 992 Crores and international backlog is around 183 Crores and out of the total backlog of around 1175 Crores we expect around 70% of that to be executed in the FY2023 which is the new fiscal year. Other than that I would now go to the next slide with which a little bit further commentary on each of the regions in terms of the sales update.

India private we were selected a multiple Telco's from metro DWDM suppliers for capacity upgrade for impending 5G backhaul as well as business to business services. We were also selected for FTTX deployments which is the OLT's or the headend equipment what we supply and also for ONTs by one of the large customers. Lot of wins also in the ISP segments especially for FTTX and one large ISP was also building a large backbone network in the cities also has got a 400G DWDM system from us and we have got an order from that customer during this current year. And many system integrator led wins for our switches in Smart Cities, Safe Cities, campus and some of the banking applications where the automation or connectorization of networking of the banks was the application that we also won. On the India government side we won a tender in BSNL for WDM and MTNL for GPON both large size tenders. And we also successfully completed the proof of concept for the 4G BSNL tender which as you would have been reading in the press has a very large potential over the next 24 months. We also got lots of new orders from power, rail, oil and gas segments where we won almost all the business that was to be won out there. On an overall basis if I were to look at there were lots of positive tailwinds from the Atma Nirbhar policies of Government of India especially in the telecom sector. India is trying to make sure that telecom being a security-sensitive area we want to be self-sufficient andthe push to create a completely indigenous wireless stack for 4G and which will be upgraded to 5G in future is one of such schemes. And we are very proud and happy that we are a part of that stack and our radio access network of the base station has actually passed all the testing and now we are all lined up for getting commercial orders both for this year as well as next year. We are also approved for the PLI schemes and we have been meeting our criteria for the PLI investments so we do believe that we should start gaining from that scheme as time goes by, and already talked about the other things on the India side. Africa and Middle East actually continue to do very well and we have a large run rate customers who is now actually one customer has already crossed a $10 million run rate per year which is a very good thing and it has been a successful year in which the customer had crossed that our WDM, OTN products are being used to build high capacity backbone network for all the web scale companies who are pumping in a lot of bandwidth into Africa. And again we have got multiple new order wins for West Africa for large Tier I customers and overall I would say Africa is doing well and we expect that with our referral customer base and all that we should continue to well in the next fiscal year, a lot of the business from Africa is on a run rate basis so as the year progresses we should see a good order flow as well from Africa. South East Asia was the one which underperformed this year we had one large customer from whom we typically get year-on-year orders which we did not get in this financial year but we do expect that going forward we should be able to recover that as well. But on an overall basis South East Asia did not do very well. We already strengthened some of the sales in the South East Asia and hopefully we should see better results in the coming year. In the Americas, in the US we signed a Tier I global OEM customer for our MSPP product these are our older generation products but still very relevant in many, many segments and we got large orders for that. Mexico was a little bit weak, the US direct which we have been trying to work last one, one and a half years has not given us as much success as we would have liked. So I would still say that it has been underperforming but we will, especially with the Tata Group involvement, hope to come out with a little bit better strategy for attacking the American market and particularly Tier I markets in both US and Europe and ANZ going forward. Europe we had started investing last year very happy to announce that we won a multimillion dollar FTTX private to the home deal with a new operator in Italy. It is a FTTX and WDM win and we believe that once we start executing on the product there will be opportunity for multiple such engagements from the same group across Europe as well. Again Europe is one area where there is a lot of Chinese replacement happening in terms of equipment that has been deployed and if we have the right channels and the right sales team in place which we hope to build up during the year. I am not so sure how much it will be in the current financial year but definitely between this and next year we should start seeing ramp up in Europe as well. Overall I would say international last year was not as good as we would have liked it to be but lots of things are in play and we hope that with all the work that will put together we should see a better performance both in terms of bookings and revenues across India and international. I mean again just to reiterate we won a lot of orders in all these regions. We just could not execute them in the previous financial year and we hope to do that as we start this new financial year.

I would go to the next slide which is the slide I have used in the last time that I spoke to you at the after the Saankhya deal but just to quickly summarize for some of you who may not have been there so clearly the strategy for us now is to create a global scale telecom product company from India and our ambition is very large. We are now fully part of the Tata Group this is something that is very, very important and I am very happy to say that there are four pillars of the strategy. First is really to create world-class products for building into telecom networks. On the optical and wireline side most of our products are almost there and if for certain markets additional investments are needed to really make them world-class and really expand in that market those are the things we will be doing. Wireless products we have again made a huge amount of progress especially with the BSNL POC and we are confident that with all the momentum that we have and the kind of the results we have been able to bring in a short period of 18 months very soon we will again have an extremely competitive portfolio of wireless products as well. And to do that as you all know the job market and our focus is to really boost our talent base. And really also look at inorganic growth and Saankhya Labs acquisition was one such strategy and we will of course continue to look at other options as and when they present because we do have the capacity to look at inorganic growth as well. Second we have to use India's large home markets to get anchor deals for economies of scale. It could be a pan India roll out of a particular kind of network and we do believe that, that has been the recipe for success for any other global telecom OEM in the world no matter which country they came from they always have a large home market a large anchor deal along which they could scale up a new product or a new business line and we expect to do the same as well. India is going through a five year Capex spend cycle especially because of 5G which will come in and also the fiber broadband roll out I think there is still a lot to be done. And even for 5G unless we have a strong fiber connectivity through the base station you will not get a good 5G experience. So any which way we look at it either from a wireline business or a wireless business now which we have both we do believe that India will be an important market for us and especially with the Atma Nirbhar mission we clearly believe that we are the frontrunners to play a key role in this. And the combination of wireline and now wireless technology and the large home market should be a good way for us to scale up and get to economies of scale. Expanding international business is very, very crucial for us we have had good success so far last year but a little bit of an aberration where we could not do as well in international as we would like to but going forward I think with the Tata brand strength and synergies with other group companies and the relationship that exist we believe in the markets where we currently are which is emerging markets as well as the new markets that we can be US, EU, and ANZ Australia, New Zealand we do believe that there are lots of opportunities to expand. And the last but not the least we will be focusing in building a global scale supply chain operations we have had a lot of learnings and lessons because of the challenges that we have in the supply chain worldwide. All I can say is as a team we have come out stronger understanding the nuances of what it takes to really navigate to this how long ahead do we need to look at in terms of ordering components and they really planning and I think as I said earlier we have taken all the actions that are required for achieving our FY2023 revenues which as you can pretty much imagine will be a significant growth compared to what we did in FY2022. And in addition we also have to build a strong backend for technical support, field deployments, both for wireline as well as wireless and these are the four areas that we will be investing going forward. The next slide is the same product slide that I have been using for the last few calls but just to give a perspective we have the transport product from the wirelines which have been there we have added 4G now with the BSNL POC that we talked about 5G will be upgrade on the same system as well as with the Saankhya Labs we get both the O-RAN architecture as well as the traditional architecture for 5G so we have our hands quite full in terms of having our product portfolio that needs a very large addressable market. If you see the things on the right hand side I mean there is a lot of business to be won, the numbers are very large, wire line equipment in India for what we do is around $1 billion right now going to close to $1.7 billion in the next four, five years, globally it is around $15 billion going to $32 billion on the wireless side for the product that we are doing which is the radio access network the base stations today there is again a very large market in India going to around $4.5 billion in the next few years and globally of course it is a $30 billion market. So I think it is a large market that we are playing the time is increasing because of our product portfolio is going to be expanding so we have aligned with all the products that we are going to be investing in this year and those will start giving that opportunity to us. So I think for us the challenge is not that we do not have enough products and the markets that we can sell to is large the challenge for us is really to make sure that our products are world-class and secondly building up a very strong sales channel to be able to sell these products not just in India but around the world.

I am on the last slide after which I will take questions. So what we see in FY2023 going forward clearly there are opportunities for very significant revenue growth the fact that our order book is 1175 Crores out of which 70% is ready for revenues in FY2023 and on top of that we have a visible pipeline of new orders from run rate customers as well as for the 4G for BSNL and others which we have not yet factored in. I think we will have a fairly strong funnel of potential revenues that we can do in the next financial year India revenues are likely to be very strong because of the momentum that we have been having and it is likely that India will be a higher percentage of our total revenues compared to even this year. So this year India was 64% and 36% was international. I expect that at least because of larger deals happening in India while international we expect still to grow on an absolute basis but because India will be growing faster we expect India revenues to be a higher percentage contribution. And beyond emerging markets on the international side we do have plans to expand our international sales in US, Europe, Australia and New Zealand leveraging synergies across Tata Group as well. And as I mentioned since it is very important we have already taken advance inventory action to secure inventory for our planned FY2023 revenues. In terms of the investment side as you saw the last picture we are really now thinking that we should be creating a very large company over the next three years for that this is the year where you want to really ramp up in a lot of areas where we think a significant heavy lifting which we done so minimum investment will be in manpower cost, in R&D, in manufacturing as well as in sales and in R&D a lot of investments will be in wireless products which will further be augmented by the addition of the Saankhya team which we think should be on-boarded by the time we start Q2 because by the time the closure of the 65% of the share that Saankhya should be done. As I said we will also be scaling up our manufacturing operations to deliver global scale volumes the amount of business potentially which can come into the company over the next 12 to 24 months can be large and just need to make sure that we are well setup to do that and last but definitely not the least to do all of that our balance sheet is strong we have a very strong cash position as on date after the conversion of warrants we are close to 1800 Crores of cash in the bank and we really have the balance sheet to deliver sustainable high growth for years to come. So again just to summarize FY2022 very good in terms of order wins and progress in the business but very disappointing in terms of the revenues and if the revenues fell short naturally because of the cost structure we had a loss but we understand what things did not go right as you would have liked it to be and those lessons have been carried forward for FY2023 and we are confident that looking forward should be exciting times for the company. I would pause here and then we will open up the queue for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Tushar from Ratnabali Securities Pvt. Ltd. Please go ahead.

Tushar: Hi! Good evening Sir. Sir, could you please shed some light on the operations of Saankhya like what are the main products and customers because I believe Saankhya seems to have some existing use case and deployment in defence and infrastructure product. So are they prospective focus at this for us and going forward and my second question is on your manufacturing operation side. Could you please elaborate a bit on what is our situation with our EMS vendor do we have vendor concentration and what are our plans in scaling up our manufacturing operations per se.

Sanjay Nayak: Good question, let me start the second one first because that is a live problem that we are dealing with. So we do have a two EMS vendors at this point in time and given the volume of business that we are anticipating in the times to come we will be expanding our EMS base and finding out what is the best way to scale up our manufacturing. Our strategy will still be asset light which is that all the heavy lifting and the large Capex would be done by our EMS partner and the final assembly and test would be done in-house. So we are in already in conversations advanced stage of conversation with multiple EMS vendors of good scale who have the capacity, quality as well as cost competitiveness to meet our things. So I am very confident that before the end of this quarter our expansion of manufacturing capacity would be in place. Coming back to your first question in terms of what the Saankhya Labs brings to us we had discussed the synergies of Saankhya Labs in the detailed call which we had on March 31, 2022 and actually there is a presentation on our website that gives you more details, but to summarize as you rightly said what Saankhya brings to us is complementary so a) they are doing 5G O-RAN which is the Open RAN which is the open architecture based 5G and they are in advanced stage of product development etc., etc. Second we are also doing broadcast, 5G broadcast, so 5G one of the use cases is broadcast and one of their partners and large investor was Sinclair Broadcasting Corporation which is one of the largest TV broadcaster in the US and in the world. So there is a lot of development that they have around 5G broadcast and in addition they had satellite communication products which were used by defence and even for some of the critical infrastructure. So net, net once Saankhya comes onboard after, I will say by the end of Q1 we expect to close the deal as of now we just are in the process of completing all the formalities, but once that happens we would potentially look at some of the segments that they have and if we can accelerate there. But my thinking is from Saankhya perspective is that lots of the synergies may not be happening continuously as we worked in the year we will be able to figure out what things can be done together and how we can scale up more application areas together.

Tushar: Just a follow up question, could you just delve a bit deeper into what are the main products and customers of Saankhya just like the presentation was self explanatory but just a deep dive.

Sanjay Nayak: Yes, so I think one was as I said there have been a co-development partner for O-RAN, large O-RAN opportunity in India which one of the system integration partners of ours has also announced with a leading operator. So they will be developing the 5G radios if we were to think of 5G base stations are equivalent. They also have a 5G broadcast product what that basically means just think about it that in the earlier days when you will say as a TV which used to be being from a terrestrial base tower that spectrum can be potentially reused for some of the 5G application for instance and that is called the 5G broadcast. And then they have some product based on their chip set that they are designed for satellite communication. So you could receive the signal from the satellite on a station and then distribute that to those devices so those are the three product lines that they have in addition to their own chip which was designed by them. A fabulous semiconductor chip which was used in some of those their own products and that chip is called software defined radio chip so it is basically a chip it can be reprogrammed by software to operate in different kind of frequency bands and so on.

Tushar: Thank you for the explanation.

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

Sangam Iyer: Couple of questions, first when we talk about 70% of our order book getting executed could you also touch upon the inventory that we are carrying that gives us the visibility of execution of that 70% by the end of this year.

Sanjay Nayak: Yes, first of all, all the inventory that we are carrying is think of it is all inventory available but not in a perfectly balanced form. So what would happen is we will continue to deplete the existing inventory while we continue to buy new inventory to balance the things. So the way to think of is that assuming that 12 months was the lead time for the longest components that we have. So we make sure that by early this calendar year we placed orders for all the revenues that we expected to do during FY2022 and when we have placed orders except that we just could not get those components in time so as a result of the inventory that we have in hand and firm orders that we have placed on our component suppliers as well as the EMS partners covered for all the 70% of the backlog that we have and not only that there is significant more revenues that we can potentially get from our run rate customers from whom we have forecast so even again that forecast we have placed confirmed orders on our supplier. And in addition for the large 4G opportunity at least for some initial quantities also we have placed confirmed orders so when we look at all the three together we believe that since we took advance inventory action more than 12 months ahead of when we needed. For a large part as the year progresses we should be able to get that inventory besides delays from our supplier. So I hope that answers your question.

Sangam Iyer: So then to look at the cost side given the fact that they get the escalation and the order backlog that we have built up is over the past six months so how should one look at the gross margin profile now I mean given the fact that the costs have all moved up 30%, 40%, 50% while the order wins were based on a certain pricing. So can you touch up on that in terms of how should one look at the gross margin profile here?

Sanjay Nayak: As we said on the first slide itself clearly there will be some margin pressure with the supply chain constraint because in one sense because of the component shortages it actually becomes a little bit of a seller's market that we want the component, they increase the price, there are spot purchases going on. So I think at this stage I would say that margin pressure will be there for the next couple of quarters. Secondly I would say is that to the extent where we could have increased prices with our customers we have done it so when the rate contracts were renewed which we typically do now in the beginning of the year or end of last fiscal year we have been able to pass on the cost increases to our customers whenever we bid new in a tender for example we pass on the increase cost but the tender that for example we would have bid at the beginning of last fiscal year naturally we would have bid based on the earlier price and that price is locked. So net, net I would say it is fair to say that for the next two quarters there will be margin pressure and our focus will be to actually secure the components, do the supplies and yes it is a transitory thing that is going on in the industry, but this is something we just have a way to deal with it and wherever we can increase price we are doing it, but headline level I would say there will be some margin pressure for sure.

Sangam Iyer: And a follow up finally in terms of the guidance that we are doing kind of indicate clearly that the run rate of 200 Crores that has been something that illusive for us for quite some time I mean we have been not consistent into run rate because of various reasons, how should one look at this I mean do we see that this year definitely there will be multiple quarters where if components are available based on the booking that we have done that 200 Crores run rate is something yet have to stay for from Tejas perspective and incrementally that is where we build beyond.

Sanjay Nayak: Certainly I think if I look at the fact that as I said the backlog alone if you do the math would come to a run rate that we have mentioned so we do believe that run rate we should be able to achieve at the soonest and then actually to be able to build up on that and accelerate as the year progresses. So that is exactly the purpose and in fact we are investing with that in mind that there is a lot of business that we have won there is a lot of business we will win and it is important that we fulfill the run rate of the revenues as well. Because there is no point if we are winning orders but cannot complete and fulfill it to the customers. So yes we expect them to happen sooner than later is all I can say.

Sangam Iyer: Great thanks a lot and all the best.

Moderator: Thank you very much. The next question is from the line of Moorthy Ram, an individual investor. Please go ahead.

Moorthy Ram: Good evening Sir, thank you for providing me the opportunity to ask some questions. I have two questions. Just now you mentioned that the company has won a multimillion dollar deal in Europe with regarding through FTTX and WDM. Can you please provide some detail regarding this?

Sanjay Nayak: Yes, so it is a customer in EU and they are building a network to service high-end enterprise customers with FTTX technologies such as factories or lots of offices or businesses which are not connected. It is not a residential broadband play and that is why they need a DWDM backbone to backhaul those high capacity customers. So I think it is a very nice win which we have had and that also proves a good beachhead for hopefully getting more of such wins. So again I mean we cannot name the customer for confidentiality reasons. We have not yet delivered the revenues we just got the booking which is we got the order and we expect to deliver that customer order in this quarter itself because it was a forecasted win that we were planning for.

Moorthy Ram: Sir even what is the value of the order if possible.

Sanjay Nayak: Again I mean at this stage we have not disclosed the customer or the order value but all I can say it is a good initial order and it is a run rate customer so as he builds up more and more network and expands into more and more cities and more and more countries (because it is a multi-country potential opportunity) we hope to benefit from it. But as I said we just got the initial order in Q4 we expect to get revenues out of it in this quarter and hopefully build on top of it from here on.

Moorthy Ram: Another question with the huge reserve in our hand is there any acquisition I the process the company is on.

Sanjay Nayak: Any acquisition in the process, so yes just a few weeks back we acquired Saankhya Labs for a reasonably sizable amount. And as I mentioned as a part of the overall strategy we will continue to of course invest organically because we feel that the foundation of the company should be very strong in terms of manpower in terms of team in terms of technology strength but at the same time if there are opportunities for inorganic growth either in India or outside which are complementary to us we can definitely look at them positively as well.

Moorthy Ram: One final question regarding Saankhya Labs when we can expect the revenue addition from Saankhya Labs Q3, can we expect FY2023.

Sanjay Nayak: I would say that if the acquisition closes as per plan Q2 onwards will be the effective date for consolidation of accounts from what I gather so that I think we will again come back as soon as we are closer to that but tentatively I think Q2 onwards some of the revenues from Saankhya Labs will start accruing to us.

Moorthy Ram: Thanks a lot for a detailed answer. I am a pretty confident that the company will have a rock star FY2023. Thanks a lot.

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

Pranav Kshatriya: Thank you so much for the opportunity. My first question is regarding this impressive order booking what we have got so can you just give some more color on that how much is from the optical product is there is any contribution from the 4G product and how much is from the government side and how much is from the private sector side.

Sanjay Nayak: First of all almost all the order is still wire lines so it is all optical and wire line product we have not yet counted anything from wireless in a material way. Expect or we might have done a small amount probably 2-3% would be wireless and everything else is really optical product at this stage. Which also answers your second question which is that the 4G product that we have built and lot of there is a news around it we have not yet counted that order into the order book because formally the order has not yet come in our hands which we expect to happen for the initial deployments and then of course the eventual deployment which will be a nationwide deployment. So that is what it is in hand today. In terms of the breakup between India Government I would say the highest order book actually more than 50% of the order book this year was from India private which is a very good thing. India Government was around 20% of the order book and then the international was around another 25% or something like that. So really the star performance I would say in terms of order book as well as revenue this year was India private followed by the international where some of the territories and not all the territories but with some territories did well. South East Asia did not do very well and kind of dragged down the international on an overall basis but really the revenue profile for the year was short and all the numbers are distorted because of our inability to complete the orders.

Pranav Kshatriya: That is really good to know the higher contribution from the private business. My second question is on the margins, you did talk about that first few quarters will have a issue on the gross margin side but I guess given you will be investing on the 4G product development and creating for basically addressing other markets as well should we expect meaningful jump in the wage bill and hence the significantly lower EBITDA margin than what we have historically had.

Sanjay Nayak: Let me step back because that will give you a better perspective so clearly if I look at this year and it is important for us to make the right investment because we raise the money from the investment from Tata Group primarily to ensure that we have enough capacity to invest aggressively early on. So that over a three year period if I were to look at we should literally be able to drive the business at a much faster pace than we have ever done before and really try to become a global player in the next three to five years period itself. To do that there is no other way out except to invest in to manpower and investing in R&D and making all the products work that I mean to the best of what they need to be so that is one area where the expenses will go up. On the other hand I also said that the margins a) because of the global supply chain situation, b) because of the blend of customer, products, will be under pressure so there will be slightly lower margins compared to our historical margin profile but then again I think if I look at it from a big picture angle that is not something that we would worry about this year. What we would like to do is to be able win anchor customers which are global scale and if we can do that it sets up very well for significantly increasing margins, profitability over a few year period. Because think about it this way our costs are going to be the same whether we do revenue of 5x or 10x they will only increase linearly in the proportion of our manpower but all the gross profits that accrue regardless of the percentage margins would straight away go to the bottom line. So if we can scale up the revenues in a big way make sure that we are investing to do the right things in terms of product development market development and manufacturing as well then I think we should be able to see all the results in the form of bottom line over a period of time and that is really what we are lining up to do rather than optimizing it on a quarter-by-quarter basis.

Pranav Kshatriya: That is very interesting, my last question is on the trade receivable side if I look at last two years there is almost 100 Crores plus amount has been written off on the ECL and there is still a fairly healthy almost Rs.300-odd Crores trade receivable so can you quantify I mean if this ECL was not there I mean how much is the BSNL actual outstanding which is recoverable from Tejas and what is the level of confidence you have for getting that money back from them.

Sanjay Nayak: Yes, so over 90 Crores of BSNL receivables which has been provided as a ECL/provision that we have done we believe the recoverability is extremely high. In fact starting from this quarter itself we should, I mean we have been by the way, continue to receive money from BSNL so expect that once it crosses a three year boundary and we have a very high amount of hygiene in terms of any receivables that has crossed this process of three year overdue boundary. Either we provide for ECL or if it crosses the three year boundary we do this the 93 Crores of receivable from BSNL we expect that over this year itself and we should be able to recover almost all of it if not all of it. But that is something which we are confident because this is really no powers many of the sites were not there, there were payment issue with BSNL as we all know and all supplies are facing that slack. Except that our board and audit committee took a very prudent view that if the receivables has been delayed for some time it is better to provide and if we actually recover the money during the year nobody is going to complaint so yes, that is the situation there. We do not think the possibility in terms of whether we will receive it or not is in doubt in our mind it will come except that the timing has been a bit of a challenge for us to predict despite the best effort that we have been making, our teams have really been doing everything they could to get the money out but till it comes from that government customers you cannot be 100% sure.

Pranav Kshatriya: Just a small clarification so this Rs.292 Crores trade receivable which is on the books now the Rs.93 Crores what you talked about is part of this or 93 Crores is the ECL portion which you are talking about.

Sanjay Nayak: No, this is above 292 we will have 93 which will come in which is not showing in the receivables.

Pranav Kshatriya: Yes, so basically for next year if this money comes in this will be the write back portion and hence to that extent EBITDA margin can be higher is that how it will work or…

Sanjay Nayak: That is a reasonable comment. Yes.

Pranav Kshatriya: Thank you so much that is it from my side really helpful.

Sanjay Nayak: Thank you and that in addition to BSNL we really do not have any other sticky receivable of any kind in that sense.

Moderator: Thank you. We will move onto the next participant. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Just a couple of clarification question. First the Q4 bookings of about 316 Crores which we have done do they carry the updated pricing in terms of the chip cost which we are facing or will there be some element of that which is based on older pricing.

Sanjay Nayak: No, so this is booking this is just the orders in hand that the pure value of the customers so it has nothing to do with the chip pricing I think when we execute those orders…

Mukul Garg: Sorry, but is it fair to assume that majority of these bookings including the run rate contract will be more recent discussions with customers and hence the price revisions would have happened.

Sanjay Nayak: I would say it would be a mixed bag because some of it could be tenders or projects that we would have bid in, in say Q1, Q2, and then they fructify into orders in Q4 and some of it is you are right new customer wins that we have had we would have priced them at the increased price. And by the way going forward even for the run rate customer that we have to the extent possible we will be increasing the price across the customer board wherever there is an opportunity to have a fair conversation. And at least I can tell you all global customers who have the view of the world including ours are fair and because all vendors of theirs including our competitors have been considering to pass on the challenges to our suppliers and to customers and they have been able to do that. So I think going forward run rate customer will revise, some of the orders could be older price newer price is not exactly clear. But as I mentioned in my answer to Pranav I think there will be some margin pressure because the uncertainty in supply chain is still there I would not say we are out of the woods. We have taken enough action to make sure that over the next few quarters we should definitely get out of the wood but at any particular point in time there is always a little bit amount of variability in this. For example, a supplier could have accepted their order in January at a price x and then the supply time he says prices have increased I am going to increase by x percentage I think those are all things were happening in the market which I am sure all of us are and all our competitors are also exposed to.

Mukul Garg: And secondly if you look at the constraints which you guys have because of this chip supply shortage it has been kind of stalling your business for four quarters now a) in terms of normalization how should we look at the run rate getting back to that 200 Crores is that something which you think is already at a stage and can happen from next quarter itself or do you think this will be little bit more heavily tilted towards the second half given that there have been multiple push out from chip vendors in terms of supply and situation continues to remain a little bit adverse so are we giving ahead of the worst of this scenario or do you think it might continue for one or two more quarters before we take the full benefit of all the orders which we have in hand.

Sanjay Nayak: If I take 200 Crores as a baseline marker like someone else had said I think the worst is behind us. So in that sense starting from this quarter onwards we can only see positively going forward because think of it this Q3, Q4 both have not been very good for us and things cannot be bad forever so I think we placed the orders, we placed class A, then class B, C but at net, net I think that I would say those constraints are at least from our perspective are now coming to close. So clearly I believe that the positivity in the order inflow should start happening from the current quarter itself and naturally of course it will accelerate in Q3, Q4. Because by that time lot of decongestion would happen and there is also possibility worldwide around September onwards there could be a little bit of relaxation of the constraint in the supply chain. The over ordering and over booking that multiple companies have been doing could potentially get decongested once the clarity comes so I would say that for the first half of the year based on the action that we have taken in the last six months or nine months we should start seeing positive results. But the second half of the year we have again have taken enough inventory actions and combination of our action and combination of overall supply chain easing to some extent should help us at least execute this year in a reasonable way from a revenue perspective.

Mukul Garg: And just one related question in this is given that almost 200 Crores of a year orders in hand are from the public sector space just in the taking abundance of caution given the uncertainty on the supply side these tenders usually have a committed timeframe so is there a requirement upon you to prioritize them when execution starts happening and supply starts coming in because they are time bound which will require you to kind of delay your focus on the international side or how should we think about that overall mix of India versus international.

Sanjay Nayak: First of all very good question in fact nobody asked that question but even though we did only 550 Crores of revenue last year one of the challenge was to ensure that we prioritize the inventory in such a way that customers where we have the 100% market share in international markets who are dependent on us do not suffer and we continue to enjoy that full market share and really their success. Customers in India where there were timeline and liquidated damages we prioritized them so I think it was a careful balance of all of that and it will continue. All I can say is that when we are picking up the new government orders or whatever there are ways and means in which you can give your acceptance in a time period so that you buy as much time you can but at the same time avoid any situation of liquidated damages. So I would say so far despite the shortage of revenue that we dramatically had, we could have done a lot more revenue last year if we had our components but we somehow were able to prioritize different customers at different points in time as I mentioned earlier. Also some of the run rate customers who have a shorter delivery time it is not a healthy situation but you can always switch them out by a few weeks here and there so that is why if you saw international are only 16% or 17% of Q4 which would have meant that we prioritized some of Indian customers of the kind that we just mentioned higher to avoid the critical situation. While we will go back and manage those international customers in this quarter or vice versa it has been an extremely challenging situation but we have somehow found a way to manage it so far and I am confident that with a little better supply situation as we start the year we would ease into a better rhythm of execution as the year progresses.

Mukul Garg: Great, thanks for answering the question and looking forward to FY2022.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: I have two, three questions, first is quick follow up question that within the Tata Group now like Tejas has applied for PLI where Akashastha Technologies have applied for PLI and Akashastha PLI is actually bigger in size so can you just differentiate what is the difference between Akashastha and us like is the product difference area of difference like what exactly is the difference.

Sanjay Nayak: So we know about our PLI and I think we have adequate coverage and with all the changes which are potentially expected in the design led PLI which also was announced in the budget. I think we should be able to maximize the benefit from the PLI schemes as and when we become eligible. About the other name that you have mentioned I am not aware of the details of what they do, but clearly from a product perspective we have been developing all the products which are eligible for PLI so I would not want to comment on the other entity, but as far as we are concerned we have adequate headroom for maximizing the benefit of PLI in our revenue growth as well as the investment profile.

Subrata Sarkar: The second question is in terms of these BSNL deal basically so now this POC is approved now what is the process like can you just explain us state forward and like how much which state generally takes and ultimately it is like what is the total addressable market be for us and similarly in this context now again Akashastha has also got like O-RAN so we need help from our perspective since our O-RAN get accepted we need help from that perspective that to getting any synergy or anything on that.

Sanjay Nayak: First question about what is the progress so BSNL had floated a expression of interest as a open tender to anybody who could demonstrate a successful end to end stack of base stations, core, etc., etc. and out of four or five initial parties who had expressed that interest only one consortium which is the TCS that consortium of which we are a part of was successful in completing the POC. Others possibly did not even start the POC so once that process has been completed as per the tender guidelines there is only one eligible potential bidder who can execute their entire order. They would of course have to finalize the process to give initial order, follow on order close the price etc., etc. and all of those processes are being done as a part of standard government processes for large sellers. The opportunity for us again the original expression of interest that was floated by BSNL was for the pan India roll out of more than 100000 sites and the initial order which I read in the news papers was 6000 sites to begin with. And because all the other commercial discussions are going on between BSNL and the front end system integrator so that said I would say the opportunity is very large, time period of executing that opportunity will be between this and next calendar year because from 4G then India is going to go to 5G so there will be opportunity to get into that space as well. So I would say lot of that is work in progress and as we all know with any government deal situation till we get the order in hand and till everything happens we of course are well prepared to step up so we will still have to wait for all of those things to actually work out in our favor.

Subrata Sarkar: One last question it is more of a like just to understand our marketing side so now out of our total order book could you explain our last year figure of how much we get from SI number one and number two since we are now into Tata stable so now like do we generally I suppose we execute various SI's so but now since TCS is there have we decided anything on that level that we will only go with the TCS or till now we will continue to do with other SI also.

Sanjay Nayak: First of all, lot of what we sell is directly to the customer (large private operators for example) since they typically directly buy from the OEMs i.e., companies like ours. So I would say a vast majority of our business is direct to the customer. In certain turnkey projects for example if a project is of a value of 100 if our equipment is only 50 let us say we would be partnering with someone else who could do 100 and he can buy our 50 it could be a Tata group company it could be anybody else for example. Of course naturally there is a synergy within the group which we would like to explore first but we definitely are open to everybody and I am sure from their side it will be the same. But then there are projects in which things are very tightly tied up for example the indigenous 4G solution where everything had to be Indian and there was a lot more close cooperation between all the stakeholders in this case it was TCS, Tejas and CDOT since this is all public information. So we all work closely together and really created a completely indigenous 4G system which can potentially be upgraded to 5G going forward that is the part of the requirement as well. So in that sense we will be working with everybody but naturally on large anchor deals we will be partnering with different SI's and in this particular case in the BSNL we already know whom we are partnering with so that is the way to think of.

Subrata Sarkar: Sir any large figure like what percentage of our order book or revenue comes from SI.

Sanjay Nayak: We do not disclose granularity of information at that level for the order book…

Subrata Sarkar: Sir this will only help us to understand like the synergy in terms of like that we can get because of Tata group basically so I am asking from that perspective.

Sanjay Nayak: Yes, I understand your question again as I said we always have been very disciplined about what we disclose and we continue to make sure that we increase the disclosures in a meaningful way that can be used by everybody so since we do not disclose customer wise revenues or a SI versus non SI but I would answer your question in a different way. If I look at India some of the large anchor deals which are system integration deals like the one which we talked about for the 4G would require system integrator to be there to be able to take care of a nationwide roll out for example with the government operator or private operator whatever in which case it will make sense to work with the system integrator because we are already a small part of the solution. But the second place where synergies could potentially come is an international market let us say where we do not have access to a certain customer or another group company whosoever it could be has relationship in that customer it would definitely make a lot of sense for us to use that for synergy that connection that credibility to win business in that account or position ourselves with the Tata group company and say you know that we are a part of the same group that we have been dealing with and we are confident and we have all these products and we can give them a larger solution. So I think some of those things will evolve as the year progresses and we have to find customers where we can add value but I am sure the way world is going where customers are not just buying point products, they are buying solutions. For example in 5G a lot of sales will be solution sales and not equipment sales I am sure that we should be able to leverage synergies and relationships and the brand name especially in international market to be able to build a bigger business growth. It will take a little bit of time because all these things do not happen overnight but I am very confident that as time progresses and as our engagements within the group and with the customer outside increases we will start seeing benefits of us being a part of the Tata fold in terms of meaningful impact to revenue especially on the international side as well.

Subrata Sarkar: Okay thank you a lot.

Sanjay Nayak: Thank you. I think since we are well over time moderator could you say this is okay to conclude or you have any last…

Moderator: Yes Sir would you like to give any closing comments.

Sanjay Nayak: I think first of all it has been a very good interaction. I am very happy that questions were asked from a different perspective from a backlog that we have, the breakup, the inventory actions we have taken, the margin thing, the investment thing and of course about the BSNL order results so I hope we were able to answer lot of questions. In summary as I said FY2022 was a challenging year for us we are not happy about the way the revenues shaped up eventually we thought we could have done much better but it is what it is. We have to figure out a way to move forward manage our customers not lost any business and as we start FY2023 a) we start with a strong order book b) we have enough inventory coverage and c) I think more importantly we are also investing and we are seeing good clarity that if we can make the right investment we can scale up the deals and the products in the right area over a next three year period we can actually bring a significant amount of growth and profitability over a period of time in the company which we are very excited about. So that is where I would close thank you very much and have a great evening and night.

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