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The Secretary
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The Secretary
BSE Limited
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Mumbai – 400 001
BSE Scrip Code: 540595

October 30, 2019

Dear Sir/Madam,

Re: Transcripts - Tejas Networks Limited Q2 FY 2020 Earnings Conference Call

Please find enclosed the transcripts of the Q2 FY20 Earnings Conference Call held on October 23, 2019.

The intimation is also available on the website of the Company at the website www.tejasnetworks.com.Kindly take the above on record.

Thanking you,

Yours sincerely
For Tejas Networks Limited

R Ravikrishnan
General Counsel and Chief Compliance Officer
and Company Secretary

Encl: as above

"Tejas Networks Limited Q2 FY2020 Earnings Conference Call"

October 23, 2019

ANALYST: **MR. SANTOSH SINHA – AXIS CAPITAL LIMITED**

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

Moderator: Ladies and gentlemen good day and welcome to the Tejas Networks Limited Q2 FY2020 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh Sinha from Axis Capital. Thank you and over to you.

Santosh Sinha: Thank you Steven. Good evening everyone. On behalf of Axis Capital, I welcome all the participants to the conference call. Today, we have with us Mr. Sanjay Nayak, CEO and Managing Director, Mr. Arnob Roy, COO and Whole Time Director, Mr. Venkatesh Gadiyar, CFO and Mr. Kumar N. Sivarajan, CTO of Tejas. They will start with the overview of the company's performance for Q2 FY2020 and then we can switch to Q&A. Thank you and over to you Sir!

Sanjay Nayak: Thank you. Good evening everybody. This is Sanjay Nayak and we had put our presentation on the website along with the press release, so I hope you had a chance to take a look at it. So what I will be doing is walking through the presentation and kind of giving our update on that side.

So I am on the first slide, which is Q2 FY2020 key updates. As you can see we had a weak quarter and the net revenues for the quarter was Rs.85 Crores net of component sales and pass through. For the first half it was Rs.241 Crores, which was again short of what it was last year. In terms of profit before tax, we had a loss of Rs.7.5 Crores for this quarter primarily because of the shortfall in revenues and as you know most of our operating costs are manpower linked and once there is a revenue shortfall we do have a corresponding loss coming out of it. On the positive side, the net cash position improved by Rs.59 Crores to Rs.290 Crores, primarily due to improved collections and we did collect some money from BSNL during the last quarter.

The order book at the end of Q2 stands at Rs.429 Crores and around 30% of that order book would be converting into revenues for the current financial year. In terms of the sales update, one thing as we have been mentioning in the past we do have quarter-on-quarter fluctuation among the segments of our business and we always look at the holistic picture from an annualized basis. However, I would kind of give a combined summary for the first half. So the government business during the first-half was very weak and for the corresponding period of six months for the last year we had a year-on-year decline of 88%, which is a very significant revenue decline as you can see and in terms of the outlook going forward for the rest of the year, we do not expect any new business from BSNL or BharatNet, at least the Central BharatNet for the rest of the year given where the government situation is. The critical infrastructure projects, which is the other part of the government business that is going fine and we will see strong bookings during the financial year. Our revenues, we may be either flat or some of the revenues may slip to next year on an overall basis when we compare to last year.

Coming to India Private, India Private grew 67% on a year-on-year basis for the first half of the year and for the full financial year we expect the year-on-year growth to be similar to what it was on a total basis for the last financial year. The international business is the one, where we have a lot of focus. We are seeing very strong momentum in this part of the business. During the quarter, we added five new international customers. In addition to the five new customers whom we actually shipped our equipment, we were very happy to have closed techno-commercial discussions on six new customer deals as well. Two in Asia, three in Middle East and Africa, one in America and each of these will result in multimillion dollar orders in the second half of the year and of course will also be good run rate customers in future years because these are fairly large operator deals that we are talking about. Overall we expect that the international business will have a very strong growth in the second half of the year like India Private had in the first half of the year and we should be seeing a year-on-year growth similar to what it was last year.

One thing, which we had mentioned in the earlier earnings call in terms of the transition of our business from having a very heavy dependence on government business, especially BSNL, which was around 35% of our total revenues last year. Our target in the company has really been to increase our run-rate business, which is a combination of India Private and international and for the first half of the year on a year-on-year basis, the run rate business grew 28% on a total basis compared to what it was last year. So directionally we are kind of heading in the right direction. Of course, in the near term, we do have a significant decline in the revenue because of the decline in government business that I talked about earlier.

In terms of investments and how we are managing our costs we are clearly making sure that our operating costs are tight, but at the same time we are making R&D investments as per plan because we do believe that we have to have highly differentiated and world-class products so that we can win business against our global competitors. So in that context, I would like to mention that last week at Indian Mobile Congress we launched TJ1600S/I, which is the world largest disaggregated packet-optical switch, which can scale up to 48 terabits of capacity. I must say that the customer response for this product has been extremely good. Arnob later in the presentation will talk about what are the benefits of that product and how do we see that playing out.

The second product which is doing extremely well is the ultra-converged broadband access/edge product. This is the product that we had launched at the Mobile World Congress in Barcelona earlier this year and is based on our flagship TJ1400 platform and we are again getting very good customer response for this product especially in international geographies. So we are continuing to invest in the R&D levels on an absolute basis similar to what it was in last year.

On the sales side of course, we are continuing to make more sales investments on the international front, which we think is required for long-term success of the company.

Going to the next slide, which is segmentation by revenues, so this is a chart that we have been now showing. So if you see the pie chart on the left hand side, this is the split of that entire FY2019 revenues. So for the whole year of last year, 55% of our total revenues were from India Government out of which 36% was BSNL and BharatNet and 19% was critical infrastructure. The international business was 21% and India Private was 24%. If you see the corresponding pie chart on the right hand side for the first half of the year, India Private is 67% of the total revenues and as I said international has not yet delivered much in the first half of the year, but we expect to have a fairly strong second half was around 19% and the India Government was 14% out of which critical infrastructure was 8% in the BharatNet and BSNL was 6%, so as I said we do not expect much to happen on the BSNL and BharatNet segment for the rest of the year, but all the other segments of the business seem to be on track in terms of growth.

So if I look at it on an overall basis the first half contribution for India Private plus international, which is what we call the run-rate business is 86% of the total whereas the India Government reduced by 88% and only contributed 14% of the total. The second half of the year based on the visible order pipeline as well as the techno-commercial wins that we already have in our customer base, we do believe that the international will be quite strong for the second half of the year. On an overall directional basis, our objective is to increase our run rate business on a long term basis.

I would now hand over to Venkatesh to walk us through the next couple of slides on the financial update. Venkatesh!

Venkatesh Gadiyar: On the financial update for the Q2 our revenue declined to Rs.85.1 Crores, which is a year-on-year decline of 58% and a PBT loss of Rs.7.5 Crores and a PAT loss of Rs.4.4 Crores. In

H1 our revenue was Rs.241.7 Crores, which is again a year-on-year decline of 45% and we had a PBT of Rs.2.7 Crores of a profit and a PAT of moderate profit of Rs.1.5 Crores with a EPS of 0.16. Though our quarter-on-quarter lumpiness is there in our revenues, primarily the decline we saw in government revenues and poor revenues resulted into the lower profitability. However, from a gross margin point of view, we have improved in Q2 while compared to Q1 and most of the operational operating costs are more or less flat compared to Q1 and Q2. The costs are more or less fixed about 70% of our operational costs are more or less the salary costs.

The key financial indicators, the cash flow from operations was about Rs.96 Crores. Q2 we have collected about Rs.24 Crores from BSNL and BBNL. Excluding BSNL and BBNL, the DSO reduced by 24 days compared to Q1. We have improved on the DSO front less of BSNL. The inventory of course has gone up from Rs.222 Crores to Rs.258 Crores primarily due to some of the international customer POs getting delayed which got pushed to the next quarter and India Government backlogs. Certain projects got delayed that is why the inventory has got into the higher levels and the borrowings were Rs.1 Crore as of Q2. Cash and cash equivalents we added about Rs.59 Crores during Q2 and as of September 30, 2019, our cash equivalents were about Rs.290 Crores.

Sanjay Nayak: Thanks Venkatesh. As you can see that one of the focus for the quarter was to improve our cash position so we have come up to Rs.290 Crores and we do believe that this is adequate cash for us to continue to invest in our growth for both R&D as well as for international sales.

Going to the next slide, on the medium term strategy this is something again we have talked, but I just wanted to quickly recap where the company focus is. So our focus is really that in the medium term we want 50% of our revenue or more should come from international geographies and I think we are on track to achieve this by the end of this financial year once we complete our second half. We will see directionally a significant percentage improvement in terms of international contribution to the total as compared to last year. Second, we also believe that while India market in the near term is going through some choppiness, we do see that the broader segment of the market because of the broadband penetration as well as the fiberization aspect of things will continue to be healthy and our objective is that we are in all the accounts in India Private today and we just need to focus on increasing our wallet share.

In terms of the government business clearly there is a Make in India policy and the government is serious about that. However, some of those projects are delayed as we talked about earlier and our objective now is that at least some of the government business especially on the critical infrastructure side we will be working primarily with SI as the front end so that we do not have a direct exposure to that business and we can work with such partners in the front who can manage the entire project end to end and we can supply our equipments. So that is the second thing, which we are going to be doing. So I would say that India in the near term could be choppy, but definitely we still see a very robust growth from a long term angle because still the fiberization and other aspects are in our favor.

Coming back to the third part, we do believe that over the last 24 months with all the R&D investments we have made, the product portfolio that we have created and the access and aggregation segment of the business as well as the core with the recent launch, we do have extremely competitive products. We get very, very strong and positive feedback from the customers and we will continue to enhance that. The last is very important, cash flow wise we want to make sure that the outstanding collections especially from some of the delayed accounts in government by the end of Q3 and Q4 we should get back to normal levels and really normalize our working capital and get back on the path of profitability again.

Coming next on the international side, so again our focus continues to be what we have said in the past, so there are three geographies that we are focusing on. The first one is South East Asia and South Asia and again in these geographies we continue to see very strong pipeline of business from Malaysia, Vietnam, Bangladesh, Sri Lanka and we are also very happy that very recently we have signed up with an operator in Hong Kong, which is a global operator based out of Hong Kong and clearly a tier 1 operator, so we have broken into that account, so I would say South East Asia and South Asia will possibly be the fastest growing segment of our international business.

The next part of the business, which is again doing extremely well is Africa and Middle East. What we have done over the last 12 to 18 months is Africa used to be one region for us. Now we have split that into four regions with Africa offices in South Africa, East Africa, North Africa as well as West Africa and Middle East is headquartered out of Dubai, so we have really five regions working in that thing and as a result of that, each of these individual regions is seeing very strong growth and again we have closed a multimillion dollar deal in South Africa, West Africa as well as MENA, which have not resulted in orders in any significant kind till date, but basically as we go forward, for the rest of this year and as well as many years to come, we are building a very, very strong pipeline, so again I would say this would grow much faster than what we have grown in the past.

Coming to US and Mexico, first half was slow. If you remember we have gone through a leadership change in the US so we have put together a new head of sales and new head of technology over there who have been onboard with us for around two and a half to three months now and so while the H1 was slow, we do expect a strong performance in the second half. Mexico again is a territory, which has been doing very well and we again have a tier 1 operator that we are working with and we think that we can get a much larger wallet share in that territory. So I would say that relatively South East Asia and Africa would grow fastest followed by US and Mexico together as a region, but all those three regions individually will continue to grow and give us very robust business.

So the strategy in each of these regions is very simple. We already have a pretty strong foot print of customers and from the same customers if we are working with them in one country now we want to magnify that and work in all the countries that they operate in and similarly if we have introduced one product for example, we want to win and get into more applications around the same product. For example, if you are into the 1400 series product rather than just giving packet transport we also deliver GPON and fixed LTE services from the same product. Those are the kind of things, which we are exploring and especially in the African market, the converged broadband product is doing extremely well. Second, we are also using local references and success stories and what is happening is that the word is now really spreading because of all the things that we are doing in the region where many new customer wins are now becoming easier for us because those customers are either buying bandwidth from someone whom we are supplying equipment to or have people who know those accounts very well, so the local references are again working very much in our favor.

The third thing, which we are doing is now that we have got many tier 1 and tier 2 customers in most of these geographies except for US, we will continue to start moving up the value chain and starting signing up more tier 1 customers. For example, I mentioned about a tier 1 in Hong Kong. We already have tier 1 accounts in Malaysia and Vietnam and are talking to a few in Bangladesh and Sri Lanka. In fact, in all the major geographies now we have got into tier 1 accounts and the benefit of getting into tier 1s is they typically have multi-country presence and can present a very large run rate opportunity by themselves.

The last part is really to invest more in sales and marketing. So we have been participating in various trade shows and we are also hiring a lot more local people in both sales and presales. The net impact on the international business is we are getting better margins compared to India. Our payment terms are better, so DSOs are going to go down. We are getting much more run rate customers so the higher stickiness comes into picture and clearly country as well as the customer concentration risk is going down, so I would say stepping up on international business is a key initiative and I must say that so far we have made fairly good progress in the year and the second half of the year will actually show tangible output in terms of the results.

Coming back to the India part, so again on the government side a few minutes back we got an update that the cabinet has approved the revival plan for BSNL and MTNL, but our estimate is that by the time all that gets rolled out, the overall impact on our revenues for this financial year will be minimal. The centrally controlled BharatNet projects, some of which we had won through our system integrated partners, got cancelled last quarter, so as a result those projects are not going to happen so we again expect that the BharatNet spend while it has been announced by the government that they do want to go from 120,000 villages to 250,000 gram panchayats over the next one year or so are unlikely to materialize in the current fiscal.

There are three state led fiber broadband projects, which have been approved. One is for Kerala, which we have won along with our system integration partner, which is Bharat Electronics. The second one is Telangana where the project has been approved by the central government and all the system integration partners that have won have bid our equipment that we will be supplying to them. Those orders hopefully should come in this quarter. Tamil Nadu, which has so far not implemented anything under BharatNet have also got their budget spend approved by the central government and those tenders will happen this financial year, but we expect revenue impact in the next financial year.

The critical infrastructure business is healthy. We continue to get really run rate kind of orders pretty much every week and every few days from Indian Railways, RailTel, Metro Rail, Smart Cities across India. Most of it is again from system integration partners and one of our SI partners has also won the Army MPLS and NFS project, which will again have a sizable revenue for us. The proof of concept with the equipment is ongoing and we expect the order this quarter. Some of this will translate to revenues in the next quarter and some of it will be of course for next year. So overall the way we see the critical infrastructure business is that this year’s bookings will be similar to or may be better than last year, but the revenues may be slightly smaller than last year depending on how the projects are being executed. One fundamental decision, which we have taken starting from Q2 is that any project, which is a turnkey project if the sites are not ready or if the project seems to be slipping, we are extremely cautious in terms of shipping equipment because we can collect the 60% amount early on. The remaining 40% amount gets stuck for a long time and we really believe that is a kind of cash flow risk we do not want to take at this stage.

Coming to the other intent from government side, you would have been reading a lot about how Government of India wants to build an indigenous 5G ecosystem and clearly the Make in India policy is there, so we do expect that as a leading Indian domestic product company and especially now that we have a play into the wireless with our LTE product, we think that if that turns into a government initiative to build an indigenous 5G network, we should be able to get some benefit out of it in a significant way.

On an overall basis, we think that the 5G roll outs are about two years away in India and there is adequate time for India ecosystem to come up.

In terms of the private accounts, I think the industry consolidation is almost complete and we are happy to say that we are now equipment suppliers to all the three leading telcos, and of course to Tata Communications, which is a large enterprise service provider. So we do expect that while the overall Capex, India Private Telcos will be soft especially on the wireless roll out aspects, but the fixed broadband roll outs will continue at a healthy pace because that is still a part of the business, which has not yet reached anywhere close to the growth potential that is possible. The fiberization of cell sites especially for many of the operators who do not have much fibre going to the cell towers is continuing at a healthy pace. So our focus is really on winning new applications like fiber to the home, the metro capacity upgrades on OTN and WDM technologies and we expect to increase our wallet share from the private accounts going forward this year as well as in the future.

So I would say overall India business two out of the three portions are doing fine, which is private as well as critical infrastructure, but BSNL, MTNL and BharatNet, which was 35% of our total revenues last year is lagging. For this fiscal year, this part of the business is definitely going to be significantly down, which is what is actually seen in our first half financials so far.

I would now ask Arnob to quickly give an overview on the products that we have. The products that we launched recently and how they enhance our competitiveness in the specific applications that we are looking at. Over to you, Arnob.

Arnob Roy: Thanks Sanjay. So as we have informed earlier, our products have been up till now mainly in the access and in the metro aggregation space. There have been two developments that have happened during the year. First we announced earlier during the year, the launch of our ultra-converged access hedge product and very recently we launched our core switching products the large OTN switch. So I am going to talk a little bit about both of them.

The converged access/edge product was based on our 1400 platform and we upgraded it to add multiple access technologies. It was earlier through Ethernet and then we added GPON and then we added fixed wireless access for 4G/LTE and with the combination of all this, this has become a very versatile converged access platform, which gives a lot of benefit to the service provider in terms of once they get a footprint within a metro this gives him the opportunity to reach out to all customers and all the maximum potential customers they can reach out to using any medium whether it is fiber, copper or wireless and then with the integration of transport protocols into the same product, it gives him lot of cost savings and not having to deploy any other transport product along with this. So this convergence gives operators a huge benefit not only in terms of reducing the cost of deployment, but also being able to reach out to the maximum number of customers possible.

This was a product we announced earlier in the year and the second product that we launched recently is the 1600S/I, which is the core switching product for the metro and the backbone. The innovation over here is that it is a very scalable product, but this also employs a disaggregated architecture. Conventional products in this space have a monolithic single chassis with a common backplane that has always brought in the limitations of switching scalability in addition to thermal and power considerations. What we have developed over here is a very unique disaggregated architecture where it is broken down into multiple pieces and so you could actually deploy pieces of the product in a pay-as-you-grow architecture and the benefit that it gives you is basically a lot of opex savings in terms of shelf space and power. You can upgrade individual components independently and achieve a very high amount of scalability, so introduction of this product also increases our addressable market. This has a global market of almost $6 billion and our addressable market of almost $2.3 billion that is what it adds to our addressable market for our products. So this is the second product that we announced during the year and with a combination of these two, it gives us a very versatile and complete optical product portfolio right from the access and going up to the core network.

Sanjay Nayak: Thank you Arnob. So coming back to the last slide, which is the key takeaways so if you really think about where our business is today, we definitely had a challenging first half of the year, but at the same time when we look at the broader picture, the fundamental growth drivers for our business are still very strong. Clearly bandwidth demand around the world is increasing. Optical spending is very robust around the world, but from our point of view, we made a conscious decision to really transition our business to a more run rate mode so our business is kind of in a transition phase where we are reducing the dependence on the lumpy government business, which as you saw in the first half declined by 88% year-on-year and focusing more on increasing the run rate business, which is the private as well as the international, which increased 28% in the first half and the India Private is expected to continue to deliver good year-on-year growth like what it did last year. International is where the company is focusing in a big way and we see strong momentum going forward for the rest of this financial year and our objective is really to achieve our medium to long term goal of 50% revenue contribution from international. Just to remind you, last year it was around 21% of total, but we expect this year to be much higher than that number.

On the cost side as Venkatesh mentioned earlier, most of our costs are really manpower related, but in that sense we have been still managing our cost tightly and we had to make sure that all the investments that are required in R&D particularly in international sales, we are not shying away from making those investments because those are all things that we believe are required to make sure that we are successful on a sustainable basis and that is where I think the growth opportunities will apply.

From a cash position perspective, we improved by Rs.59 Crores and we are up to Rs.290 Crores of cash. We are very well funded in terms of all the aspects of the business that we have and we do not see any challenges in terms of being able to invest and be able to take care of the opportunities for growth that are available to us in the medium term. That is a kind of quick summary of the business where we have tried to capture what has happened during the first half. What is the direction of the business is going forward and where do we stand in terms of achieving our medium term objective? So at this point of time, I would take a pause and maybe we can open up for questions from here on.

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

Mukul Garg: Thanks. Sanjay I am sure you would agree that this quarter was quite disappointing. We can understand the weakness and the decline, which is happening on the PSU space and the India Private space where there was a very large order, which came in Q1, but what is happening on the interest of customer side about Rs.20 Crores of revenue in Q2 down almost 60% YoY? If you look at the commentary over the last few quarters, commentary has been consistently positive on the international side so can you just help us understand exactly why it was so weak this quarter and what exactly is the thought process? Is there something, which we are missing here?

Sanjay Nayak: First of all, thanks Mukul and yes your observation is correct. It is a disappointing quarter. We are definitely not happy about it. The specific answer to your question on international because you have already kind of summarized the other two parts of the business. So if you see international the way our business was so far is that we have a few large customers in each geography who really kind of give large orders and then we had a lot of small customers who are now becoming large. So we had basically I think in one of the earlier calls we had kind of given a breakup of the customers below Rs.1 Crore or Rs.2 Crores, customers above Rs.10 Crores and customers above Rs.20 Crores. So what happened in the Q1 and Q2 together is that some of these large deals from a few of these existing customers have kind of slipped out in the sense that they did not happen in the time period that we were expecting and some of the other new customers deals that we have signed have not yet resulted in significant revenues. For example, we had given a commentary I think about a quarter or a quarter and a half back where we had won a pan African customer for a new application across all their OpCos and we of course were expecting that those revenues will start coming in. The trials and all those things are happening because they are in a process of inducting new products which is longer than what we were aware of before and as a result, those revenues have got delayed. So I would say in summary that on the international side, we had a few large customers who used to give us quite a big chunk of orders, but that run rate customers did not happen in Q1 or Q2. The new customers while we got them on, they have not yet started yielding significant business and that is the same reason that you mentioned that since we did not have it in the first half of the year, we are also confident that they have budgets, they have roll out plans, and we are the selected vendors so as the rest of the year progresses, we should be able to make up for the fall back on the internationals so far and that is something, which we feel quite confident of based on the visibility that we have in all these deals.

Mukul Garg: Sanjay what number should we look at for fully year on the industrial side? Is it 40% including?

Sanjay Nayak: No I think whatever guidance we gave earlier, which is that last year we grew international 70% on a year-on-year basis. Based on the visibility that we have and I know that it means that it will be a very strong second half of the year for the international, but we do believe that, that is a number that still looks possible for us.

Mukul Garg: Sanjay it would be really great if you can just kind of break that into numbers you mentioned in the presentation that you have a few million dollar deals, which are there, but given our visibility issues, which you have had in the last one year what is the confidence that these deals will come in, in the second half where you have your discussions, which is techno commercial discussions, which have happened with your customers given I assume the South Africa and then a few others, but exactly what is giving you the confidence that you especially after this kind of a performance in H1, you are hoping H2 will be a meaningfully larger number?

Sanjay Nayak: So three real reasons. Number one that the projects for which we have been selected or we have closed all the stuff with either existing customers or new customers are already budgeted for. So it is not that something that they have to create a budget. So they have to happen so it is something that they are going to do. We are the selected vendor into that. We already have the configurations. We already have the in fact inventory for some of that stuff because we knew that the time lines to deliver will be short after they physically place the PO, but for whatever reasons and the reasons are different in different geographies. We will not get those orders in our books to be able to ship it in time for the Q2, so I think our confidence really just comes from the visibility across the customer base. The second thing now with these six new deals that we are talking about plus the base that we have established, the bids we have already put in for some of the new wins that we are targeting are in regions and customers that we have decent understanding of so we hope those things will actually convert in Q3 in a meaningful way in terms of orders and in Q3 plus Q4 in terms of actual revenues.

Mukul Garg: Any number, which you can share where you have a complete confidence that is something, which is already budgeted for and something, which will come your way where you are not waiting for any deal determination to take place?

Sanjay Nayak: For example, an existing customer in South East Asia that we have been working for many, many years has a fairly large budget and application for which we have been selected and so that should happen. The Hong Kong customer order has already come. It is a reasonably meaningful order to begin with and as soon as we make the first shipment in November, we should see continual flow of orders going forward. South African customer again the trials are ongoing and this quarter sometime hopefully early in this quarter we complete trials and then they start putting up in OpCos. Mexico for example again it is an existing region where we have been doing a large field trial testing for a large GPON application, which could be multimillion dollars over the next few quarters actually. That is completed so it is question of getting there. So US clearly we did not have much in the first half of the year. If I look at the funnel of the pipeline from US especially when the new team has come into place and has a more aggressive approach to closing deals. I would say it across geographies where we are seeing North Africa again we have a similar situation where we are L1 in the tender. We have been selected. Now it is now just a question of order process. So in each geography when we look at stuff, we seem to have a good enough visibility to say that we will have a strong second half of the year. Relatively again, which was in last year as well, we will see a heavy Q4 because that is the way that things look like to be standing out at this stage.

Mukul Garg: Alright and coming to India, your India Private guidance kind of indicate H2 growth YoY will be literally zero, so are you not seeing any large orders coming in the private space compared to what you have done last year? It looks like a heavy burden of the full year numbers was carried by Q1, almost half of it and then the rest is basically almost flat lined on a YoY basis and on the critical infra side, there was a massive decline given that last year Q3 was a very large number in critical infra? How confident you are that you will be able to deliver a flat growth because that would almost imply almost eight times H2 revenue versus H1, which seems a bit high?

Sanjay Nayak: So in the critical infra as I said, so the booking for the year we will be pretty strong and as I mentioned also on the revenue side depending on the status of the project readiness we will basically decide how much we can ship or not, so there is a whole bunch of our backlog actually is in the form of critical infra projects, which are not one particular project, but split across many others and some of the other things, which you had as well is coming into the picture. So coming to the critical infrastructure again we do believe that yes there is a lot of climb in the second half of the year and compared to last year as I said it could be flat or decline in terms of depending on how much we ship out in the second half of the year. So that part of the business again because it has spread across many customers, many deals like for example the defense deal itself is a reasonable size deal although we do not expect a large chunk to be shipped this year, but our partner has already got the order. They are doing the trials and testing and we should get the order this quarter and then we will have some revenue this quarter and the larger portion next quarter. So I would say that is really where our confidence comes based on either the tenders, which you already won or our partners have won and the challenge for us in the critical infrastructure project is really the timeline of execution of some of those projects and if they slowdown then clearly we will have some slippages of revenues in the next year, which we have also called out in our commentary.

Mukul Garg: Understood.

Moderator: Mr. Garg for any followup I request you to rejoin the queue please.

Mukul Garg: Yes, I will probably get back into the queue. Thank you.

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

Pranav Kshatriya: Thanks for the opportunity. My question is on India Private you said that you will achieve whatever was the growth rate last year just wanted to confirm that was around 30% is that correct?

Sanjay Nayak: It was around 26% to 27%. That is around the number that we had last year.

Pranav Kshatriya: If I assume that the 19% critical infrastructure business had remained where it is and we practically theoretically there is a zero revenue from BSNL and MTNL? We are looking at around 15% odd revenue decline in FY2020? Is that calculation broadly correct?

Sanjay Nayak: Yes, ballpark I think that is kind of the range. Things could happen. Of course there could be things here and there depending on. The only thing I would worry about would be the critical infrastructure portion because depending on how much we ship or do not ship and or may be by choice we do not ship things could move a little bit here and there, but ballpark I mean that is the kind of the region where things could end up.

Pranav Kshatriya: And in that case how should we see the EBITDA margin? Will it come down to more like a 15% to 16% margin or should we able to do more like 22% margin, which we had done in the previous years?

Sanjay Nayak: Some EBITDA shrinkage will clearly be there because our cost structures are going to be what they are because on a base of last year the cost structure would increase. It is a little bit difficult to call out the exact EBITDA percentage expect that it will lower than as a percentage base for sure is the fact that typically the international business also results in higher gross margins, so if the international business ends up at the level that we expect it to be by the end of the year, we have a little bit of a positive upside on the EBITDA because of the gross margin improvement for international. On a negative side, the short fall in revenues will clearly have a higher impact of operating cost, which are fixed in nature so how those two things play out exactly is very hard to model at this stage, but it is definitely going to be on a percentage basis lower EBITDA than what it was last year.

Pranav Kshatriya: I just wanted to have a sense that how do you see this government business on a long term basis? The government business has caused us a significant volatility in the earnings as well as cash flow and it seems that at least if not FY2020, but FY2021 the government business can again meaningfully come back, so how is your thought? Do you have certain level in mind to which you want to let this government business grow? How are you looking at the risk versus the benefit in this?

Sanjay Nayak: An excellent question first of all and this is something, which we are very, very clear on internally in the company. So if you are talking of FY2021, our first and foremost target is really to make sure that international almost reaches the 50% revenue threshold that we have set for ourselves so that is going to be priority number one. Priority number two is that within India of course the private accounts are good business for us and we will continue to want to get more. The government business we really would like to what I call selectively work on high quality government business so there has to be two things into play for us. We would prefer in project kind of business to play behind system integration partners, which we have already started to do so that as far as we are concerned, we are dealing with a private party from whom we have fixed payment terms, bounded payment terms and bounded cash flow liability from that angle and if we are going to do any business directly with government in terms of bidding directly in tender, we would clearly do the risk assessment of payment and recovery. So for example in the past, I would just go back say two to three years back when we did direct business of equipment supply to BSNL, actually that was very good business because BSNL at that time had money and if you supply the equipment and the equipment was accepted at our factory within 45 to 60 days we used to get the money in our account 100%, so I think we never had a problem with that kind of government business in the past. So coming back to FY2021 we would selectively look at if all those features are satisfied where the end customer it will BSNL, it could be Power Grid, it could be railways or whatever. If they have money, we do not see any risk of that side, the process of collection is very simple, which is we have equipment, which clears all the technical specification. They do a factory inspection and within a bounded period of time, we get the money back. We would be okay to do that business, but it is more projects business related to their execution cycles, we would potentially be very circumspect in taking a large exposure into that kind of business, so short answer to your question maximum focus in FY2021 if I would say that where the direction of the company is to really go international and then India Private is fine, but government be very, very selective about what we do or do not do.

Pranav Kshatriya: Sir one last question can you just tell us that where we are with regards to the payment from BSNL, how much is currently outstanding and when do we expect it to be received?

Sanjay Nayak: We did collect around Rs.24 Crores to be precise in the last quarter, so the money has started to come in at least so that is a positive news. Just again I would like to tell you how the money flow is happening so that the clarity on the answer is better. There are two kinds of payments BSNL is making today. One is basically for projects that they executing on behalf of either defense or BharatNet, which is Department of Telecom so that is one kind of money and that money flow has started in the late September after whatever announcements were publically made. So the project related money is coming from DoT or defense to BSNL and they are specifically year marking it to be used for clearing the payments of the supplier and we fall into that bucket. The other bucket of money that is owed to supplier for BSNLs own operational things is subjected to when BSNL gets the revival packets and we are not to exposed to that so the good part is this Rs.24 Crores that we got last quarter is out of that. We still have about Rs.233 Crores of money between BSNL and BBNL, which is outstanding out of which about Rs.70 Crores is retention money, which is basically due after the last 10%, but the balance we expect that some should come into this quarter. I again do believe that some more money will be released from the Department of Telecom to BSNL for these projects and the balance we expect to collect by March. So I would say between this and next quarter at least the due portion of the BSNL money should come back into our system.

One thing by the way since you talked about the cash flows our objective is that independent of the BSNL, the rest of the stuff we have started to see lot more collection intensity increase and by the end of Q3, we expect to again see our cash in the bank situation much better than what it is, but from Q1 to Q2 we improved by about Rs.60 Crores. We expect to see a similar or better performance in this quarter as well.

Pranav Kshatriya: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Rahul Agrawal from VEC Investment. Please go ahead.

Rahul Agrawal: A very good evening. A few questions and clarifications; firstly, you mentioned on the India business you won certain state contracts? You basically talked about some order from BEL in Kerala and something on Telangana if you could add some detail like what duration are we looking at for execution as well as the value approximately will still help?

Sanjay Nayak: For example, Kerala order is to the tune of around Rs.50 Crores. Telangana could be equal or larger. Similarly, the army and NFS project is also around the same Rs.50 Crores or may be again a little bit higher because all these deals are still not completely in the thing. Kerala some revenues will happen in this financial year and some of them will shift to next financial year. Telangana I would say would be the same situation and NFS the same. So I would say let us expect 30% to 40% of those revenues might happen this fiscal year. The remaining will probably go to the next fiscal year.

Rahul Agrawal: So broadly 12 months' execution from now?

Sanjay Nayak: That is correct. Yes, within 12 months all of that will get executed.

Rahul Agrawal: Perfect.

Sanjay Nayak: Faster, but 12 months is a fair thing to look at.

Rahul Agrawal: Got it. Secondly on the working capital, so assuming non BSNL and non government, which is essentially improving in the 2Q number as well? It improved by 24 days, Sanjay I want to know let us say three to five years what is the target on that? Where does that number settle down 170 could like 90 or 100? Is that possible or we are not going down that lane?

Sanjay Nayak: No I think as we mentioned in one of the earlier calls our steady state depending just on the nature of our business in terms of what we have seen between India, international and even international sometimes we get into a large deal. You may have to extend a slighter longer payment terms, so I would say around 130 to 140 day working capital cycle is what we think is a steady state working capital cycle in the company and what we normally do is we budget for 130 to 140 days in a working capital cycle. We had almost hit that number if you see in the end of fiscal 2018 I think and we of course slipped out of it again, so we do believe that this steady state is 130 to 140. If the international proportion becomes at 75% of our business since you asked three to five years or 80%, of course then it will come down because international business especially in the US markets whatever we are seeing we do not need to do any long term financing. Payment terms are even less than 60 days. So I think if the international proportion starts dominating our business then there will be an opportunity to reduce it below these current levels of 130 to 140, but at least I would say medium term we think modeling around this number is probably okay.

Rahul Agrawal: So 130 to 140 is assuming 50% international share of revenue?

Sanjay Nayak: Assuming 50% international and then some of the projects in India will always keep tailing around and stuff like that and plus also some of the operators in India also private operators are also wanting to extend and have longer payment terms, which I am sure you have read in the papers so we will see some pressure from there and that is the reason we thought that this blended number looks like a number that we should be able to achieve.

Rahul Agrawal: And international you said is about 60 days is it?

Sanjay Nayak: No it is not 60. I am just saying for example some customers in the US could work with that, but on an average international will be lower than what it is in India. Different geographies have different segments of customers and again I would say it is very hard to call at this stage just because our depths of international business across geographies is not that much to be able to very precisely pinpoint, but on a blended basis when we look back in the past as well as when you look going forward 130 to 140 cycle kind of looks achievable.

Rahul Agrawal: Got it. Thirdly on the international side you explained some delays from the customer hence inventory is up and there was something you were explaining on the African side of course order has not come through? The way I understand this is more run rate business side, so this comes….

Sanjay Nayak: Yes, absolutely.

Rahul Agrawal: This is all run rate business right?

Sanjay Nayak: Absolutely so one thing I must reiterate. I might not have come out very clear is that the inventory that we built up, the inventory levels, which have gone up are all of our products, which are run rate products they can be shipped to an international customer A. The same product can be shipped to an Indian customer B and the same product can be shipped to an Indian government customer C. So we have no difference in terms of the basic products. Of course the configurations across customers may change, but the inventory in that sense is pretty fungible if I were to say across all our customer bases. Of course the proportion of things can be slightly different, but the fungibility of the inventory is clear and that is the reason when Venkatesh mentioned earlier that we do believe that with the second half revenues growing up to a much higher level, we will be able to consume a significant part of our current inventory so the incremental cash investment in the inventory will be lower and hopefully that will result into more operating cash flows for the second half of the year and which is what gives us confidence that our cash levels will improve from the current levels to higher levels by the end of Q3 and Q4.

Rahul Agrawal: Just a clarification on this, so essentially the way international run rate works is we first make it and then we service the PO or the PO comes first and then we make the product? How does it work?

Sanjay Nayak: I can take a few seconds to explain both. Any kind of run rate business, so once we sign up a run rate customer, typically his expectation is that you are going to be delivering a product between six to eight weeks from the date of purchase order. Whereas our lead time if I start the zero cycle lead time could be anywhere between 12 to 16 weeks right versus they would expect us to deliver in six to eight weeks. What they do is they do share their forecast with us, so we cannot wait. By the way, the challenge for us is that we cannot wait for the order to come and starting building the inventory because then you will run to liquidated damages, etc., and the basic nature of the run rate business is that they do not release you a new PO till you complete the previous supply. So that is the reason you have to kind of anticipate those orders, build up the inventory and part of the reason, which I think even Mukul asked earlier is if some of those international orders did not physically come on the date that they expected them to, the inventory would still be with us and now when the orders come we would not wait for six to eight weeks. Of course we will be able to service at a much shorter notice.

Rahul Agrawal: Got it and just lastly to conclude so given what you are saying on the guidance and the numbers and customer stuff like that it seems like second half of the year is going to be flat on top line, which is Rs.450 Crores similar YoY assuming there is a 20% decline for fiscal 2020 over fiscal 2019 on a consol basis? Is that correct?

Sanjay Nayak: Well I have not done the math exactly the way you have, but.

Rahul Agrawal: 730 last year right?

Sanjay Nayak: Yes, clearly and you are slicing the data a different way. The way we see it is the India Private will grow kind of a rate that it grew last year. International will grow. The BSNL will decline and depending on how much the critical infrastructure slips, I think you can add to the number yes.

Rahul Agrawal: May be a simpler version is will we see top line growth in the second half fiscal 2020 YoY?

Sanjay Nayak: I have not looked at it from a precise angle, so I would not want to comment on that.

Rahul Agrawal: Alright. I will take it off line. Thank you so much for answering my question. Thank you.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Good evening. I would like to understand since the government has not taken any stand on Huawei business so what is your call on that if the government signs up any agreement with them, so what is the impact? If they do not what is the positives for us?

Sanjay Nayak: So first of all the status quo, which is the environment in which we have been competing in India both for government and private is that everybody has been welcomed and there are no restrictions whatsoever in terms of any country selling in India whether it is Huawei or China or anybody else. So the worst case scenario of the competitive landscape is what it is today and what it has been for the last five years. Now what can happen is only better from here. In case the government takes a stand saying that okay Chinese are not welcomed in government projects or whatever kind of networks that be, it can possibly only be a positive for us, but of course it is a function of if it happens and when it happens and all that stuff.

Vikrant Kashyap: And since today government has come up with BSNL MTNL deal so going forward they come up with more orders so would you go directly with them or through system integrated partners?

Sanjay Nayak: So actually your question is two parts. May be I did not specifically comment on one segment so I must do that. One of the things that the government has announced and which is necessary for BSNL and MTNL to stay healthy and grow is for them to be able to build a 4G network. Clearly there will be a Capex intensity coming from their side to upgrade into a 4G network and we are of course aware of the projects and all that and this means a reasonably large opportunity potentially for us, so that is one part. The second part of the question, I briefly answered earlier, which is that we will look at the risk reward profile of any government business going forward. For instance, if it is a supply only contract and BSNL has Capex and money year marked for it, it is good business. We have done it in the past. We have had no problems whatsoever. If it is a rollout kind of a thing with fuzzy acceptance criteria, we probably would be preferring to work with a system integrator. So I would say it would depend on the nature of the business, but clearly with the announcements late in the evening actually after our presentation got prepared is that BSNL and MTNL will have a Capex intensity to upgrade their network to 4G. The same kind that Bharti had when they went from 3G to 4G or Jio had so they will have that. It will mean a lot of business next year, but we will continue to be careful on that.

Vikrant Kashyap: Last question you have order book of Rs.429 Crores how much do we expect to bill in this financial year?

Sanjay Nayak: I mentioned around 30% of that we expect to build this year and that order book is as I said it is a combination of government and private as well as international, so let us say ballpark around 30% is what we will do. It could vary a little bit especially on the government side depending if the projects are going smoothly. It may increase a little bit, but ballpark that is the number we could think off.

Vikrant Kashyap: Thank you Sanjay and wish you best of luck.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Sanjay Nayak: Thank you again. Again as I have said earlier on, it was a weak quarter and as a company on the positive direction side, we are really kind of transitioning the business to really kind of get away from this lumpiness, which has basically been a challenge for the company over the past few years. The long term solution really is to build more depth in our international business, diversify our customer base across geographies across things and on that side I think we are confident and we are making good progress. The India Private business again is another element, which is important from a run rate customer base and that segment is doing fine as well. So overall I would say directionally the company is heading in the right direction number one. We have adequate cash to invest into those directions. We are taking a medium term view of the business. There will be a quarter-on-quarter fluctuations and of course some of the results are not happy results for us, but we really are kind of saying that as a management team we need to focus on doing the right thing and I am confident that with the progress we have made and the traction we are seeing, we should be able to see the benefits of all of this going forward. The fundamentals of our business, the optical business and the broadband business are still good. Competitive intensity around the world is still favorable. Wherever in the world we compete we are able have a good amount of success and that gives us the confidence that the company is turning the ship in terms of the profile of business, which is for the good and hopefully in the medium term should starting putting out the positive results that we are all expected to do. So thanks for that.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.