



“Tejas Networks Q2 FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks Q2 FY2018 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. I would now like to hand the conference over to Mr. Vishal Desai from Axis Capital Limited. Thank you and over to you Sir!

Vishal Desai: Thanks Stanford. A very good afternoon and good evening to all the participants on this call. I welcome you to the Q2 FY2018 Earnings Conference Call for Tejas Networks. We have with us Mr. Sanjay Nayak, CEO and Managing Director, Mr. Kumar Sivarajan, Chief Technology Officer, Mr. Venkatesh Gadiyar, Chief Financial Officer, and Mr. Arnob Roy - President (Optical Products). The call will be beginning with a brief management discussion and which would be followed by a Q&A session. I will hand over the call to Mr. Sanjay. Over to you Sir!

Sanjay Nayak: Thank You. First of all thanks to everybody who has joined the call. This is Sanjay Nayak, Managing Director and CEO of the Company. It is my pleasure to welcome you all to the Tejas Networks Earnings call for Q2 of FY2018. I am also joined by Venkatesh Gadiyar, who is our CFO, Dr. Kumar Sivarajan our CTO, and Arnob Roy who is the President of the Optical Division.

We have uploaded our investor presentation on the website and I hope you had an opportunity to read it because what I will do for the sake of efficiency is to walk through that presentation. We have also published our financial results for the quarter earlier today, which you may have had an opportunity to take a look at.

Let me get into the presentation and I am on the first slide, which talks about the key takeaways of Q2. In Q2 FY18, our revenues net of taxes and pass through component sales to our contract manufacturers was at Rs.214.9 Crores registering a 20.9% year-on-year growth for the same quarter.

India is now the world’s fastest growing optical networking market and our first half revenue growth was also naturally led by Indian customers especially in the government sector. We have significant network incumbency in India and we are taking advantage of that as the growth in India also accelerates.

In terms of our EBITDA it grew by 48.5% on a year-on-year basis to Rs.46.41 Crores. There was also significant expansion in the operating profits and net profits of the company, which grew by 61.2% and 68% respectively on a year-on-year basis.

In terms of some other updates, I am very proud to inform that Ovum, which is one of the most reputed market research firms in our industry, has ranked Tejas as the number one in India's optical aggregation market on a four-quarter rolling basis. As you know India is the world's most competitive telecom market where we have to compete against all the top MNC competitors in our industry, so this ranking of being number one in the optical aggregation segment is a great testimonial to the competitiveness of our products and the trust that the customers place in us. Again, as we will be describing in greater detail later into the presentation, the optical aggregation segment in India is where we believe a lot of future growth is likely to happen since the intercity networks, which is the long haul segment, the networks are already built to a certain extent in India.

In terms of other successes, we continue to gain a lot of traction globally with our new high-capacity converged packet optical products that support 100 Gigabit WDM technology and we have rolled out multiple networks in several countries in the emerging markets like Bangladesh and Africa, and many other countries like Mexico. Our high density circuit emulation solutions are also attracting a lot of attention from telecom operators in advanced markets such as USA that are looking to seamlessly modernize their legacy networks based on the TDM technology to the latest packet based network that can handle higher capacity bandwidths.

In terms of management addition, I am also happy to inform that NR Ravikrishnan has joined us recently as a General Counsel and Chief Compliance Officer. Prior to Tejas, he worked as the Company Secretary and Head of Compliance, Audit and Facilities in the Infosys Group and he comes with a very rich experience of 30 years having worked in many companies like TVS and Tata before.

Going to the next slide and this might be a repeat for some of you who were on our earnings call earlier, but I imagine that some of you are new to the company. I just wanted to give a quick recap on the entire telecom industry ecosystem and where we fit in. On the left hand side, we have the customers who could be either a telecom operator like a mobile operator, it could be government, or a PSU for example Bharat Broadband or BSNL or it could be an Internet service provider like Tata Communications or Spectranet.

We are actually in the space of what can be loosely called as the active equipment suppliers and there are companies like Nokia, Ericsson and Huawei who do the wireless access, which is 2G, 3G, and 4G based stations. Then we have companies like ourselves Tejas, Ciena, and Alcatel-Lucent, which now is Nokia, which are more on the optical transmission equipment side. Then there are companies that make Switches and Routers like Cisco, Juniper and Arista and of course needless to say we do not do passive infrastructure like towers, cables, and other stuff. Ours is more of active electronics and I kind of highlighted the peer group that we work with.

In terms of applications and where our business comes from, our products are primarily used to provide data connectivity services to various kinds of entities. This could be a cell tower in the case of mobile networks. It could be an office or an enterprise. It could be home broadband. It could be a data center. It could be a telecom exchange or the networks of utility companies like PowerGrid, Railtel, Oil and Gas companies. So that kind of gives the picture of where in the network we actually fit in.

Coming to the next slide on what are the key drivers of our business. From our perspective our business grows when data traffic increases. We basically benefit from two different angles of data traffic growth. One is when more fiber is laid and it gets deeper into the network. For example, in India at this point in time only 20% of the cell towers are connected on fiber and in any country, which has a reasonably large broadband subscriber base that number is close to 80% as in China or in other developed countries. When more fiber goes into the network, we essentially have more opportunities to sell our equipment, which is on the optical transmission side.

The second is wherever the fiber is already there but the capacities are increasing significantly. For example, if a user was using 1 Gigabyte of data per month and he starts to use 1 Gigabyte of data per day naturally the capacities in the network will have to be boosted, so we again come into the picture. These two factors when they come together end up having a multiplier effect in terms of our entire business.

Secondly if you see even within the optical network infrastructure and if you see India, in particular the intercity network, which is the network connecting Delhi to Mumbai and Bengaluru to Chennai and so on that network is already in place and the investment in that network is happening on an incremental basis. Whereas if you go into the cities or inside the metros that is really where the big growth is. This is where the base stations are not connected on fiber yet and once data is going to be given to people, they really would need a higher capacity backbone to carry that and this is really where the optical aggregation part, where we have established ourselves as a leader in India, comes into the picture. We have designed our products to be really sweet spotted for this application, and for use in the metro and access networks.

Now I'm coming to the next slide that summarizes where in the network our products fit in. On one side you have the access network, then you have the metro network, which are the intra-city networks, and the core networks are the intercity or the long haul networks. So we make products, which are sweet spotted for the access and metro networks in India, but in many other emerging markets our products are used to build access, metros as well as the long haul networks.

At this point in time, I'm on the next slide, which is about how the telecom networks are evolving. So we all hear that 4G is happening in India. Data is happening in India. There is also a lot of discussion

about 5G coming soon and what it would mean for the network. So I'm going to request Dr. Sivarajan, our CTO, to kind of give us a big picture on how 4G is evolving, how 5G is evolving, and what impact it has on our optical business. Kumar, over to you please!

Kumar Sivarajan:

Thank you Sanjay. When we had 2G and 3G mobile networks the backhaul was mostly microwave and microwave capacities were adequate for 3G base stations and then we had 1 Gig and 10 Gig optical range that carried the traffic further into the network. When we started to deploy 4G microwave data rates are simply not enough, so fiber has now to replace microwave to almost every base station. In addition, the data rates throughout the network have to scale up by an order of magnitude and today we reach about 100 Gigabytes in the core of the mobile networks. There is also another subtle change in addition to data rates. 4G is pure data. We all know that voice is voice over LTE, so the backhaul networks, which used to be TDM or circuit based when we had 3G is now purely packet based in the case of 4G.

I will move to the next slide. Mobile networks are evolving to 5G, and these 5G networks will be deployed starting in 2020. 5G is expected to achieve data rates that is an order of magnitude higher than 4G. There is active standardization work on 5G being pursued today both in 3GPP and ITU-R which are the world's leading standards bodies. New radio technologies are being standardized and these technologies will make much more efficient use of the valuable radio spectrum. Spectrum allocation is being finalized by all countries. Since there is a scarcity of spectrum in the conventional frequency bands, ranging from 700 to 2500 MHz, many 5G systems will operate in spectrum above 6 GHz. 28 GHz is one of the popular bands being considered for 5G. By a combination of better radio technology and more spectrum, 5G will achieve an order of magnitude higher data rate than 4G is today. What applications will 5G address? I will outline that on the next slide.

First of all, 5G will be a better 4G providing high-speed broadband access everywhere. There will be far more base-stations which will thankfully be smaller. Data rates will be much higher and the goal is to make 5G a strong alternative to fiber to the home for broadband access. Driven by an Indian initiative from TSDSI, India's standards development organization, 5G will also efficiently support rural broadband deployment. This is an important application, in all developing and developed countries, to achieve universal broadband access.

We all watch our mobile screens more than we watch the TV screen today. When 5G is deployed, there will be a proliferation of broadcast services over the 5G network, and we will have even less need for the TV! But 5G will not stop with being a better 4G. 5G is also designed to provide connect large numbers of devices, thus enabling the Internet of Things. While 4G networks have low delay or latency to make real-time voice or video calls seamless, an order of magnitude reduction in latency is

needed to enable extreme real-time applications such as the tactile Internet where you will be able to touch something or someone over the Internet. 5G is being designed to provide such low latencies.

The last aspect of 5G is reliability. Today, we are accustomed to thinking of the mobile network as a best-effort network. We accept lack of coverage and call drops. Hopefully, this will be a thing of the past with 5G which is being designed to provide extremely reliable communication—as reliable as wireline but wireless.

So we talked about user experience, but what will 5G do to the optical transmission network?. In addition to transforming the user's wireless experience, 5G will also transform the optical transmission network. First, the bandwidth needs of each base station will be much higher than in 4G. Secondly, there will be many more base stations than in 4G and all will be fiberized. These two factors alone will lead to much greater demand for optical transmission. But there is a third development which is termed front-haul which I explain on the next slide. Today, a 4G base station consists of an indoor unit at the bottom of the tower, and an outdoor radio unit at the top of the tower. When 5G networks are deployed, these two will be split up and placed up to 20 km apart. A single indoor unit will support tens of outdoor radio units. This will lead to a new market for optical transmission which is called front-haul. 5G will also drive far greater capacities in the back-haul. The backhaul was only 10 Gbps a couple of years in India, when 3G was dominant, and is now moving to 100 Gbps with 4G. In large metros, we can expect that 5G networks will drive the need for terabit backhaul in the core of the metro network.

I will go to the next slide. Led mostly by 4G deployments and partly by readiness for 5G, mobile backhaul expenditure is increasing significantly in all regions of the world from under 4 billion USD today, to 6 billion USD in the next five years. The front-haul market is very small today but fronthaul will be a billion dollar market by 2020. A lot of this growth in optical backhaul is coming at the expense of microwave backhaul which decreased 18% year over year, led by the decline in microwave purchases in India. This is further proof of the increasing deployment of optical backhaul by all leading operators in India.

The fact that 4G investments go hand in hand with fiberisation has been emphasized by most of the operators. Most recently both Airtel and Vodafone over the last month have emphasised that they are deploying largely 4G and fiber. This deployment of 4G is causing an explosion in the Indian broadband market and today we have more than 250 million broadband subscribers in India. This explosion has made India the fastest growing telecom market in the world in the last quarter. The government is also investing heavily in BharatNet to provide universal broadband access. They not only want to provide access, they want to provide very good access, at a minimum broadband speed

of 2 megabits a second or even more. So these initiatives will drive even stronger broadband penetration and growth in the overall optical equipment market.

I spoke about India, but on the next slide what I said about India is also true about the rest of the world especially all the emerging markets. In Africa the number of Internet exchange points nearly doubled in 2017 and in the next five years Africa will have a billion mobile broadband users. Other markets are not far behind. South East Asia is also expected to double from 250 million broadband users to 500 million in five years. So led by the coming of 5G, the future is indeed looking bright for our optical transmission business in India and all our target markets.

On this note, I now hand over the microphone to our CFO, Venkatesh Gadiyar for his commentary on our financial results.

Venkatesh Gadiyar:

Good afternoon everyone. I am on slide Q2 FY2018 to Q2 FY2017. Our statutory auditors have carried out a limited review of both the standalone and consolidate statement of comprehensive income for Q2 18 and H1 18 statement of assets and liabilities as at Sep 30, 2017. Our Q2 revenue net of taxes and pass through sale to contract manufacturers grew by 20.9%, to 214.9 cr which is up from 177.7 cr. I would like to bring to your attention, that our reported revenue for Q2 was net of GST, however the revenue for all the earlier period were inclusive of excise duty. In addition, during Q2 last FY we had sale of component sales on pass through basis to our contract manufacturers, which is not the case for this FY due to change in model. As a result for equivalent comparison, we will use revenues net of taxes and pass through sale of components. Our operating expenses marginally increased from 32.2% to 32.7% of net revenues on a YoY basis. We expanded our EBIDTA, which grew to Rs. 46.4 cr from Rs. 31.2 cr i.e., 48.5% on YoY basis. Similarly our PAT for Q2 grew to Rs. 26.9 cr from Rs. 16 cr of the corresponding period, grew by 68.0%.

I am on slide H1 2017. Now our H1 net revenues grew by 33.5%, to 417.8 cr which is up from 352 cr. Operating expenses were increase on absolute terms, however as a % of revenues it reduced to 32.6% from 36.2% on YoY basis. EBIDTA grew by 69.9% on YoY basis. PAT for H1 grew to Rs. 47.3 cr from Rs. 14.2 cr of the corresponding period, which is 232.5% on YoY basis.

Key Financial Indicators - Our basic EPS for half year was Rs. 5.8, YoY growth of 137% and for Q2 18 it was Rs. 3.0 compared to Rs. 2.67 for Q2 17. Our Cash and cash equivalents were at Rs. 381.5 crore as of Sep 2017. H1 18 cash flow from operations was Rs. 95 cr reduced compared to H1 17 majorly on account of increased DSOs during the period which will be under control within next 3 qtrs. Our YTD networking working capital though increased in absolute terms by 66cr compared to that of H1 17, it has come down to 45% of LTM revenues as compared to 46% for H1 17. During the quarter, we factored certain receivables on a non-recourse basis amounting to Rs 49.91crore and the

same was affected in the statement of Assets and Liabilities as of September 30, 2017 in accordance with Ind AS 109 - Financial Instruments. Our Net worth as on Sep 30, 2018 increased to Rs. 985 cr compared to Rs. 418 crore as on 30th Sep 2016, primarily due to issue of share capital on IPO and exercise of options during the period and the corresponding Profit generation for the interim period. We are now practically a debt free company with a outstanding debt of just Rs. 3.37 crore as of Sep 30, 2017

In summary we had another good quarter in terms of revenue growth, as a result of which we saw significant expansion in operating and net profits of the company. With this, I will request Sanjay to take over.

Sanjay Nayak:

Thank you Venkatesh. Just the last one or two slides after which we will take the questions. This is again a repeat slide from what we shared with some of you last time around. Now with the company having the financial resources and the ability to take larger calls, our strategic priorities and key growth drivers still remain the same. So one hand we are going to be making sale investments and again within sales there are two aspects.

In India, we are going to use our incumbency to benefit from the pent-up-demand, which is being created because of the growth in data as well as government spending and in our business customer stickiness is a very big factor. Once you are selected by a customer, you are there for long and we are very happy to say that we are present in the networks of all major operators in India and are a significant part of their optical capex going forward.

Secondly as you would have tracked recently the Government of India has accelerated or plans to accelerate the investments in the BharatNet phase II and in addition many of the states are building further networks beyond BharatNet phase II, so I think there is going to be acceleration in investments from the Government of India.

The Make in India policy continues to be an important focus for the government. We have been benefitting from it and we understand that the government is now more inclined to make even more favorable policies for Make in India going forward, which we plan to take advantage of.

On the global side, we are continuing to focus on increasing sales in the emerging markets. We have beefed up and hired more resources in Africa especially in Nigeria in the recent times, in South East Asia in countries like Vietnam, and in North America both in Mexico as well as US. In fact in the board meeting earlier in the day today, we have taken approval to actually open a subsidiary company in Mexico because we have already got a lot of customer traction and we think that going forward it will be good place for us to access the larger Latin American market.

In terms of R&D investments, again, because of 4G and 5G that Kumar had described earlier, there is a need for higher capacity products and more data features with more aspects of 5G also being covered. So the objective for the supplier is to make the products, which are not only good for 4G, but can also gracefully evolve to handle 5G traffic

In terms of new product areas, last year, we introduced the Fibre to the Home product, which is GPON, which has seen significant success in BharatNet and now in many other accounts around the world. The second area we have been investing is on the wireless side and the target application is wireless to the home, which is the WTTX, which is wireless to the home or building, which is basically fixed broadband wireless access. We are also in a very focused way developing ruggedized Ethernet switches, which will be used for applications like video surveillance in smart cities and many other similar security sensitive applications. Those are the areas in terms of R&D investments that we will be making going forward.

Now on the last slide, just to quickly summarise whatever has been said so far. We have demonstrated strong technology and market leadership. We have been ranked number one in India by Ovum in the optical aggregation market and as we have said IPR and technologies are our core DNA and we will continue to focus on that. At a broad level data in 4G is driving the demand for optical equipment and 5G is only going to accelerate this, which basically means higher capacities, more base stations, and with optical fronthaul in addition to the backhaul that was earlier described to you, we believe that the intracity, metro, and the access network, will display faster capex growth compared to the long haul segment where already a reasonable amount of build outs have already happened.

India by itself, which is our home market, is one of the fastest growing in the world and we are just at the beginning of a long data cycle, so we really have a lot of broadband, which has to happen in the country. 4G is just at the early stages of rollout and in the next few years' time these are going to further accelerate and clearly the government push for Digital India and Make in India is helping Tejas as we continue to expand into India like markets and we are seeing very good success.

In the last six months, I am again happy to say that we have made the requisite sales investments and some of them are starting to pay back and on the financial front too as a product company, we continue to have a very asset-light business model where we use India's high quality, but low-cost R&D to really have a financial performance, which is going to help us grow the business.

Secondly we now have the balance sheet, which will allow us to invest into several strategic initiatives on R&D and sales that I talked about earlier. With that I just wanted to say that as an overall when I look at the first quarter, second quarter, and the half together, we have had a very solid financial performance and we believe that going forward the company is well poised for further

success both in India and in the world. With that I would pause and then probably we can start taking questions from the attendees.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thanks for taking my question and good quarter. I have one question each from Sanjay, Venkatesh, and Kumar. Sanjay on the growth guidance part, if you remember last quarter you mentioned that for the full year you are targeting 20%, so is that number still the same or is there any change in it and how should we look at the seasonality of the business, is it more of a Q4 dominated business where while Q1 and Q2 has seen good growth to achieve a 20% growth, I think it would require some acceleration, so if you can give us some sense of how the business works in terms of client orders? Venkatesh in terms of the account receivables, they continue to remain a bit elevated, so how do you see it coming down going forward? Is that because of some large order, which is the BharatNet where the government has not paid off or is it something we should expect going forward? Lastly Kumar in terms of product development if you can give us an idea of how do you see Tejas developing at its 400G product how complex is it or how large a developmental cycle is it to develop the capability to start selling 400G, if you can give us some thoughts on that?

Sanjay Nayak: Thanks Mukul. This is Sanjay. I will start off with your first question. As you are already aware, we do have a seasonality between the first half of the year and the second half of the year, so at a high level we are still staying with the same guidance that we had in the earlier call, which is a 20% year-on-year growth on the topline and expansion in the bottomline. We think we should be able to expand our profit after tax as a percentage of revenues by around 200-basis points on an overall annualized basis. If you see last year, we had around 10.2% or so, so I think we feel that, that expansion in bottomline should also happen. Coming back to the acceleration part of your question, if you see historically, typically 35%-45% of our annual revenues happen in the first half of the year and the balance happen in the second half of the year, so I do not expect anything significantly different this year. We do believe that in the second half of the year things will pickup. In terms of providing a little bit of colour on the different segments of our business, in the first half of the year, I would say the Indian Government was a pretty strong contributor because there is a lot of momentum from the government to actually close out projects and accelerate development. The India Private was a little bit slower in the first half primarily because of consolidation happening in the industry and some of the capex decisions got postponed to the second half of the year. We therefore believe that India Private business is going to accelerate in the second half. International Direct is continuing to do well and International OEM, which is the other aspect of the business, which we track has been relatively

the slowest growth segment, which is the indication we had given in the Q1 as well. I will now request Venkatesh to give you his views on the receivables and what is happening in that area.

Venkatesh Gadiyar: Hi Mukul. This is Venkatesh. On the receivables front, the DSOs for the quarter as of September 30, 2017 reduced to 167 days compared to 175 days as of June 30, 2017. We expect this trend to continue further in the coming quarters as we had mentioned earlier and to reach a steady state of working capital of 90 to 120 days in the next three quarters. As you rightly mentioned since it was a large order on account of BharatNet and since it was a new account for us, it took a little bit of our time, however we are confident of getting all the collections done in this quarter as well.

Sanjay Nayak: May be Kumar can answer the technology part of your question?

Kumar N. Sivarajan: Regarding your question on 400G, when we designed our DWDM products and introduced the 100G technology on them, we had already designed the basic product to support 200G and 400G cards. We will be making releases supporting 200G interfaces by the end of this year in December and we will have traffic cards that support 400G interfaces by the middle of next year. Hence the product was already designed to support 400G on day one and we are just making releases of the necessary line cards to support 200G and 400G interfaces as per our feature roadmap.

Mukul Garg: Got it. That is very helpful. I will get back into the queue.

Moderator: Thank you. We take the next question from the line of Raj Mohan an Individual Investor. Please go ahead.

Raj Mohan: Thanks for taking my call and congratulations on a good set of numbers. Sanjay you did indicate about the rapid consolidation happening in the Indian Telecom Sector, just wanted to probe a bit on this? Do you see accelerated investments by the large surviving telcos though our business falls high in criticality for spends by these telcos do you foresee a more aggressive spend on the ground post this consolidation and growing at 20% optical infrastructure at a more rapid pace and contrarily with the consolidation do you foresee any challenges to our bargaining power?

Sanjay Nayak: So let me answer your first question first. So you rightly said that the ongoing consolidation is likely to accelerate investments. Actually what had happened in the first half was that there was a little bit of uncertainty around how the consolidation was panning out and of course the operators were facing a lot of challenges in terms of customer acquisition. However most of these issues have now been sorted out and there seems to be a clear focus among those operators who are remaining to play for the data trophy. I think Kumar also highlighted this in the slides that basically all the operators are saying that they are investing their capex in two areas. Number one is putting more 4G base stations and number two is strengthening the optical infrastructure. The only challenges they had in the past

were of rights-of-way and other issues, but that is getting resolved in many different ways. So I would say there should be an acceleration of optical infrastructure by the surviving telcos as you call it going forward. The second part as you said is that because of the consolidation will our bargaining power be affected in any manner. I do not think so because first of all we are anyway in India competing against all the top global companies, so we are used to seeing a high level of competitive intensity since the day we started the company. So it cannot get any worse than what we are already facing today. Second, even on the equipment side there is a lot of consolidation happening, so there are not too many really credible and financially healthy players left and probably if you look at our financial performance, it is probably among the best in class in the entire optical industry in the world. So I do not think that our bargaining power is likely to be impacted. Also, if you see our performance in Q2, despite having a higher proportion of revenues from India, our gross profits actually improved slightly. So there really is no evidence of any margin pressure and on top of that as our business expands internationally we will only see margin expansion because India has the highest competitive pressure.

Raj Mohan:

That was quite helpful. Sort of extend on the consolidation a bit by when do you see the optical infrastructure approaching say a 60% to 80% proliferation similar to China. In the annual report, I happened to see there was a mention of an Ovum prediction of all 75% mobile broadband penetration by 2021 from the current 27% can that be taken as an indicator on the optical infrastructure roll out roadmap also?

Sanjay Nayak:

I would say ballpark three to four years is what it will take to go from the current 20% level to even 60% or 65% and we will be pleasantly surprised if it accelerates beyond that because there are infrastructure challenges. By the way this means that we are going to triple the fiber infrastructure in the next three years over what we had rolled out in the past 15 years. Secondly, 2021 is actually a very interesting year as 5G will start becoming real and 5G deployments can only happen if there is sufficient and deeper penetration of fiber. In that sense, I think 2021 looks to be a tipping point by which there has to be a significantly deeper fiber infrastructure on the ground. Whether the actual penetration level will be 65% or 75% is uncertain because in India the base station densities are very skewed. In the cities, you might get 80% to 90% fiber penetration, but when you go to the rural side it may not be as much, so I would say yes three to four years is what will take to go from the current level. However, since this requires a lot of optical infrastructure, India should probably continue to be the fastest growing market in the world in the next years as well.

Raj Mohan:

One final question on BharatNet. You did allude to the government's renewed focus on BharatNet especially with India in a state of flux oppose some temporary setbacks and the government is also showing some accelerated interest in other announcements, I was also assuming that BharatNet will also get a renewed kind of thrust and you also indicated to that? Do you see acceleration and

deployment of enhanced capabilities and superior technologies over the BharatNet phase one and two in the next phase?

Sanjay Nayak:

So the way it is happening, in the current phase, which is phase one, BharatNet is connecting 100000 gram panchayats to the nearest blocks. Out of these, close to 90000 gram panchayats are now already connected, so I think by the end of November or December they should have met their target for phase one. The cabinet has already approved phase two, which will extend fiber-based broadband connectivity to the remaining 150000 village panchayats. This time they have decentralized the execution to states and what the states are doing, which kind of answers the question and I think I partly alluded to this earlier, is that while BharatNet scope is only to connect the gram panchayats to the blocks, many states are intending to invest their own money to connect the blocks to the district headquarters and the district headquarters to the state capitals. What that essentially means is that states are now going to become pretty large customers for our company's products since they would be building more or less complete, high capacity statewide networks for themselves. Many states have already sent proposals on these lines to the center for partial funding through BharatNet and we really do believe that this does present an even larger opportunity for us in terms of selling our equipment in building this state-wide optical infrastructure. While the newer technology, GPON, is being used from gram panchayats to the blocks, from block onwards it will be the classical technology that we use for optical transmission such as MPLS-TP or WDM and so on, which we are already selling to other private operators. Thus we expect to see a larger play in the BharatNet phase two or phase two+ whatever we end up calling it.

Raj Mohan:

Thanks for the encouraging and enlightening responses and the best wishes.

Sanjay Nayak:

Thank you.

Moderator:

Thank you. We will take the next question from the line of Gaurav Malhotra from Citigroup. Please go ahead.

Gaurav Malhotra:

Good afternoon everyone. Thank you for the opportunity. Sanjay just following up on the guidance versus what you have achieved for the first half given that you will did almost 50% year-on-year for first quarter, 20% in the second quarter, and the fact that you have guided for say 20% for the full year, should not we increasing expectation the topline forward for the remaining part of the year?

Sanjay Nayak:

Thanks Gaurav. Technically yes we had a pretty solid first half. The only thing why we are not changing any guidance at this stage is what we have been saying from the beginning that our business is usually very lumpy. There could be one order, which either slips across the quarter boundary or a year boundary in which case one can go wrong with the estimates. So what we feel is that the 20% guidance that we gave stays. Secondly, I do want to highlight is that if we actually see the second half

has always been the heavier half for us in the past. Last year Q3, Q4 was pretty strong for us, so in terms of an overall guidance increase, at this stage we feel it is prudent to stay with what we have. As the year progresses, we still have six months left, we would relook at it. I would say that at the end of Q3 we will probably get a better picture if there is a need to change any guidance, but so far we are just sticking to what we said earlier in the year.

Gaurav Malhotra: Secondly on the working capital, Venkatesh had alluded to the fact that I think it is 153 days if I am not mistaken?

Sanjay Nayak: 167 days.

Gaurav Malhotra: 167 days, a long-term aspiration is to take it on 120 to 130, but when do we expect that to happen given the fact that BharatNet would continue to remain pretty big contributor to your overall revenues as well as order book?

Sanjay Nayak: Yes, I would say that as we mentioned in last quarter we said it is going to take four quarters, now we said it is going to take three quarters. We have made some progress already. In fact since we mentioned about BharatNet I mentioned earlier that up to 90000 villages are already connected, and as far as we are concerned, since we have installed more than 35000-gram panchayats we are through with the initial teething troubles regarding the payment cycles. Last quarter if you remember we said that the payment had slipped over to the next quarter. We have already collected a decent sum of money from BharatNet and as Venkatesh mentioned a significant portion of that money should come into the system. Now coming back to how do we get to the 120 days number that we talked about it is a question of the blend of the business. So the international business, for example, has much shorter payment cycles. India Private it is pretty decent as well. I would say in government projects, some projects, which have an element of project execution where you take some time for the equipment to go out into the field and install those would have a little bit longer payment cycle, but on a blended basis we feel that over the next three quarters we should be able to bring it down to 120 days as we said earlier.

Gaurav Malhotra: Thank you.

Moderator: Thank you. We will take the next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thank you Sir. Sir, want to know your revenue contribution from India and outside India this quarter?

Sanjay Nayak: What is the percentage between India and outside of India? As we mentioned earlier also that we will disclose the segmental revenues in terms of all four segments namely India, India Private,

Government and International on an annualized basis because on a quarter-wise basis there is fluctuation. Subjectively, I can tell you that in the first half India was much heavier than the international, but in the second half of the year based on the visibility that we already have we expect the international to pickup. So last year our total international to India, India was 65%, international was 35%. My sense is that end of this fiscal year we will probably move closer to 70:30 where 70 would be India revenues and 30 would be international. The reason would be that India is growing very fast and there is a lot of business flowing in from India that is probably the reason I would say that on a revenue basis we will probably be 70:30 on India and International at the end of the year.

Ritesh Poladia: In the salary cost you have capitalized this 12 Crores so is there any increase in the headcount in the R&D?

Sanjay Nayak: Yes, in fact on a the whole we have increased about 50 people in the company in the first half, out of which about 40 would be in R&D. An important part of the growth strategy was to beef up the R&D further. Since we are on the employee issue, I must say that we have been very successful in attracting a lot of new talent in the company both in India as well as internationally and our attrition rate has been again below the industry average. We are at about 9% to 10% annualized attrition in the first half. So in that sense yes we have added headcount and we are continuing to really build up the teams.

Ritesh Poladia: So these 10 employees in the marketing that is essentially for the Africa and USA?

Sanjay Nayak: Across the board. So I think we have a few guys in Africa, few in Southeast Asia, few in India. In US we have not yet got any additional people on-boarded in the first half. So that would be the approximate breakup, but there are a lot of people we are trying to close in the next quarter or so. By the end of this quarter we should have a larger sales team in place in fact that is exactly the plan that by end of this calendar year, we should have ramped up our international sales team so that when the next fiscal starts they will pretty much have a running start in terms of delivering the numbers for those regions.

Ritesh Poladia: Next year again in the India and outside India revenue mix can change because you are increasing more marketing staff in this year, will this assumption be correct?

Sanjay Nayak: In two years from today we would like India and international revenues to be 50:50, so directionally we would like to increase the international sales much more because there is a larger opportunity. We seem to have a very good product fit for the emerging markets as well as the network modernization projects in the US particularly. It is really a question for us to get the sales team and talent in place and increase the investments there. So I would say directionally international should again increase next year, but the only thing I may be wrong is that India continues to build out aggressively. However, someone asked this question earlier, if the intensity of the surviving telcos increases in

optical and the government decides that before 2019 they really want to complete BharatNet phase two, then we could have yet another year where international grows, but India grows faster.

Ritesh Poladia: So according to you India continues to surprise you?

Sanjay Nayak: India may continue to surprise, that is probably the right way to put it.

Ritesh Poladia: Sir lastly in your growth side you have mentioned in implementing new products in adjacent areas, so this would be a new area rather than your optical overhaul or it would be within this area and is your current R&D headcount enough to invest in this adjacent area?

Sanjay Nayak: First of all when we say adjacent areas, let me first clarify that anything that we are going to do in optical would be counted within optical itself. So when someone asked about moving from 100G to 400G that will be treated as an optical investment. We would not count it as a new area. Among the three new areas we have been making R&D investments in, GPON has now become a main stream product, which is fibre to the home product on optical fiber. So in effect we have two adjacent areas we are focusing on which we are looking at. One is what is called is the fixed wireless access, which is using LTE technology to give the same quality of bandwidth in a very focused way to customers who would otherwise not get a fiber to their home or to their building. So that is called wireless to the access, WTTX for example if you want to use a simple term. So that would be one area that we are looking at because we do believe that as much as we would want that fiber penetration should be 100% yesterday it is actually going to take time. In the interim wireless will be an option and of course 5G will give more opportunities in wireless since we have higher bandwidth available. We want to get our feet wet in 4G wireless for that application. The second adjacent area which we are looking at is the hardened switch or what is called the outdoor or ruggedized switches, which would be typically used for projects like video surveillance. So we are seeing that video surveillance is becoming a very big application area and you do need ruggedized switches which could carry all the real-time data across from those cameras to the command centers. So those are the two adjacent areas to our current technology that we are investing in. By the way there is a lot of design reuse from our optical or core Ethernet technology into both of these areas so these are not really brand new starts for us. They are more like additional cards into our existing systems. Please note that for both of these we already have R&D investments in place and the R&D costs that we are reporting today has already baked in all of this.

Ritesh Poladia: And you had written off certain investment that was related to this facility only?

Sanjay Nayak: Yes, it was related to the same wireless project that we have been invested for the last three or four years. Since last year we did not get the right amount of customer traction for the application that we are targeting. We wrote that investment off, but that R&D activity and the IPR that we have created

continues to belong to us and we are developing that further and fine tuning it for the right kind of applications where the technology that we have will be very, very relevant. So in that sense it is a continuation of what we have done in the past except that it is going to be useful in a different form than we had originally anticipated.

Ritesh Poladia: On accounting wise, these write offs that had happened in the second half or in the first?

Sanjay Nayak: December last year.

Ritesh Poladia: So it was in second half?

Sanjay Nayak: Q3 of last year.

Ritesh Poladia: That is all from my side. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity and congrats for a good quarter. My first question is that alluded to India Optical Network in market growing fastest in the world can you share what are the growth rates are like in this market? Secondly related question is in optical aggregation Tejas place number one, but in overall market, how the market share looks like for Tejas for the preceding quarter, so that is my first question? Second question is you talked about fronthaul network and my understanding is that you will need a different set of equipments to get to that market whenever that emerges. So have you already started investing in that and how is that market looking in India or especially in your target markets? Thank you.

Sanjay Nayak: Let me answer the first part on India being the fastest growing market and what is the growth rate. As we had said earlier, India's optical equipment market was growing at around 14% and that has started to accelerate in the most recent quarter. So I would say that India should be growing north of 20% over the next few years. The second part of your question was that within the overall optical market what is the optical aggregation portion and what is the residual portion. Optical aggregation in India has historically not been very big because a lot of the operator investments first went into the Long Haul part of the network. However, going forward the incremental investment in optical aggregation is going to be possibly much larger because once we connect the base stations and then take them to the nearest switches, it is all covered under optical aggregation. So we believe that the optical aggregation portion of the business that we address with our products would probably be the relatively faster growing part of the overall chain. May be Kumar can answer the third question.

Kumar Sivarajan: In terms of Optical Fronthaul the technology that is used between the indoor unit and the outdoor unit is something called CPRI or common public radio interface. In Tejas we have already made R&D investments in developing this technology internally, we have internal test beds, proof of concept and we are exploring with customers. When customers will need the technology, which is when they will actually start putting up this indoor unit and the outdoor unit, we will be ready, but it is currently under internal development.

Sanjay Nayak: As we have mentioned we are also participating in driving standards for 5G.

Kumar Sivarajan: So we are also participating in standards bodies on two grounds, one is the radio part of 5G, which has been driven both in ITUR and in 3GPP, and we are participating through TSDSI which is the Indian Telecom Standards Development Organization. So in ITUR we are part of the Indian group to make rural broadband and intrinsic hard requirement from 5G that it should be able to serve the rural broadband market in terms of what we call a limited mobility, but high capacity mode of operation for 5G. Through TSDSI, Tejas is also playing a role in standardizing CPRI, which would be the technology fronthaul, so we are taking a lead in both the optical and the wireless aspects of 5G.

Pranav Kshatriya: Great, if I can just ask followup on the optical aggregation market, which you alluded to, what are the growth rate for Indian market in that space and how is the optical networking market growing the markets, which you have basically done the Latin America or the Southeast Asia, etc.?

Sanjay Nayak: If I want to understand your question correctly you are saying what is the growth rate for the optical aggregation in India as well as the Latin America market?

Pranav Kshatriya: Yes, India market is what I want to understand and overall optical networking market?

Sanjay Nayak: Yes, so let me answer the second question first. The overall optical market in the world is still growing on an average pace of about 6% to 7% per annum and the emerging markets which include Southeast Asia, Africa, Latin America are growing much faster because that is really where a lot of the infrastructure is not yet in place. Within India I think Ovum has not given a very precise growth figure for optical aggregation alone because they typically track the overall market and then post-facto analyze the optical aggregation versus the optical long haul in terms of the market share. They have actually given a number for growth in the overall optical market. Going forward, it is evident to us that the optical aggregation and metro segment of the business should grow faster because that is really where the fiberization will have the highest impact in the near term.

Pranav Kshatriya: Thank you so much, very helpful. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Thanks for taking my questions and congratulations on a good set of numbers. My question is basically what is the kind of big book we have in coming six to 12 months for India as well as the overall Rest of India throughout the globe and what you think is the opportunity size for our company over the next two, three years because we keep seeing the presentation has some very impressive numbers in terms of investments and so on, but if you get 4-5 for our kind of equipment what is the kind of opportunity size in the medium terms say two to three years?

Sanjay Nayak: The first question was in terms of the order book for India and the Rest of the India. As we have explained this in the last call in our business we have two kinds of customers. The government tenders, which are the ones which actually create the order book are one type, but another indicator of our business is the run rate business that we get from our private customers whether in India or around the world and with whom we really do not have an order book. As a supplier to say Bharti or other operators, as long as they are spending money on optical capex we get orders on the spot and many orders come at the beginning of the quarter and get executed say in the third month of the quarter. So we really in that sense do not disclose the order book from that perspective because it is not that meaningful from a business standpoint. But coming back to your question there are a lot of bids in play for India government. We are the incumbent suppliers to all the major telcos in India and as long as they are spending money we should be getting our piece of the business except that in the second half of the year we will see acceleration. The second part of the question was regarding how big an opportunity there is for us, so I wanted to give like two numbers, which will help us put a finger on the actual opportunity size. The global optical network market is about \$16 billion, out of which the product that we have today addresses about \$10 billion. If out of the \$10 billion, if I exclude the markets which we are currently not going after such as China, Europe and Japan, I would say we have an addressable opportunity of about \$5 to \$6 billion in Southeast Asia, India, Africa, Latin America. So that is one data point. The second data point I thought, which will be of interest to you is that whenever a telecom operator or Government of India makes an announcement that they going to spend say Rs 10,000 Crores on building a broadband network. How much of that Rs 10000 Crores is likely to be spent on equipment of the type that we sell. So the rule of thumb, is that it could be anywhere between 15% and 25% of that number depending on how much fiber is already present on the ground. For example, in a BharatNet kind of project if it is a 20000 Crores investment it could be 4000 Crores worth of equipment, which could be potentially addressable by us. Similarly if an operator announces a total spend of 5000 Crores on fiberization, probably about 20% to 25% of that would come into optical transmission equipment. So that gives some sense, because the rest of it would go into EPC which is digging, laying the fiber, buying all those packaged stuff and all that stuff.

Vetri Raju: Right, thank you that was very precise answer I am looking at and this \$5 to \$6 billion you mentioned is it over the medium term or is it annual demand?

Sanjay Nayak: This is per annum. This is addressable market per annum. So this is if I add up the all the customers in Africa, Latin America, Southeast Asia. Some of the service providers that we are targeting in the US they buy \$5 to \$6 billion worth of products that we sell every year, so for us it is a question of can we put enough feet in the ground to go after these prospects and inch up from 1% market share to 5% to 10% as we go along.

Vetri Raju: My second question is in the India based tenders particularly with the government and may be you can even answer with respect to the private players is there any preference given to the Indian suppliers like it is being done in several sectors nowadays by the Government of India, is there any preference or is there any for example we keep reading that in the telecom sector Chinese players are banned and things like that so is there any favorable status for us?

Sanjay Nayak: Absolutely, so there is a policy called preferential market access which is PMA, which is under the Make in India program so under that program for any central government funded project at this stage if there is an India product available, they have to buy from the Indian vendor. For example, Bharat Net was only open for Indian companies and Chinese or for that matter even the US companies were not allowed, but that is only for the government funded projects. As far as the private sector is concerned it is an absolute meritocracy based decision, so when a private operator in India wants to buy, the first and foremost thing he calls the top-10 vendors in the world for a technology selection. Once he selects two or three out of them on certain technical criteria and by the way we seem to be one of them always, then he will look for the lowest price. Once you have crossed these two gates you become a run rate or a contract supplier to these private operators and we have successfully done that. Now having said all of that Government of India of late and there are certain events which happened around certain borders, which I do not need to highlight further, has certainly become a lot more sensitive to equipment coming from certain countries specifically in security sensitive sectors. So you may have come across this news article, I think a couple of days back or yesterday, that in the power sector for example they do want to make sure that they put trusted equipment. So there is a move by the government and for good reasons because all citizen data, all essential services could now be on the network once Aadhar becomes linked to everything and the country would not be able to function if the network is compromised. So I think there is a move by the Government of India to really have products which are designed and Made in India and I think if I have to put it simply we are probably the farthest along in terms of any company in private or public sector, which has developed indigenous technology for telecom products. Especially with 5G coming in, we are really playing in scenario where pretty much anything we need to build such as a secured 5G network whether it is wireless like what Kumar was describing or optical or switches we can potentially provide that. So I

think things are moving in the right direction. However, like with any government policy, there may always be a need for tweaks in implementation and we are working closely with the government and supporting them in their mission to make this happen.

Vetri Raju: From our experience in the Indian market what is the share of the demand is from government and from private players or players over the last three years on an average?

Sanjay Nayak: I would say it was dominated by private player till the BharatNet came into picture. But the way we have to think of it is that the Government of India, either through centre or states, is taking the initiative of connecting rural India and making them digital. The private sector is doing a phenomenal job of connecting urban India and at some point in time both of them will meet, so as a county we are very happy that whether government buys on the rural side or operators buy on the urban side we are supplying to both of them.

Vetri Raju: On the smart city side do we bid as a passer or do we bid at all as a partnership or on a standalone base?

Sanjay Nayak: I think what you have asked is a very good question and I wanted to clarify this in a larger context. We are really a technology and a product company, so at times if 80% of the value of the project is our equipment for example we would bid for the project directly and the 20% which are related services or anything else we would do as well. But if it so happens that 60%, 70% or even 80% of the project spend is on third-party items or products such as dark fiber or EPC services or towers, we would actually not front-end such projects. In such cases, we would supply our equipment to system integrators who bid directly for the project. So in fact this also correlates with another question that someone, I think Gaurav, had some asked in the context of receivables. It is the when you participate in the system integration kind of projects when receivables are likely to get stressed. When you are more into a supply kind of a project I think the receivables are under control, so our aspiration is not to become a system integrator. We believe that requires a different set of skills and a different DNA. We would focus on continuing to excel as a product company, develop technologies and ideally be a supplier to all system integrators who need a domestic product.

Vetri Raju: Thanks. That is it from me. Thank you and all the best.

Moderator: Thank you. We will take the next question from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Good evening Sir. Thank you for taking my question. I just wanted to ask you what would be our primary competitors in the domestic and international space comparable peers?

Sanjay Nayak: First of all there is no other Indian company like Tejas which develops the type of technologies and products that we make, so our competition in India and around the world are only the global multinationals. So if I were to name the top three in the world in this business, it is Huawei, it is Nokia now which used to Alcatel-Lucent before and Ciena, so these are the number one, number two and number three in the world. So whether it is the private accounts or government accounts in India or in Africa or in America we only compete against these companies in terms of technology and business. I guess you can now appreciate when I mentioned earlier that for an Indian company with a Made in India product which is wholly designed in India to hold number one market share position in the world's most competitive market is something which we should feel really proud of.

Mayank Babla: Sir, just one more question was that what is the mix between the products in solutions and services in the revenue?

Sanjay Nayak: In our case around 95% of our revenues come from product sales and remaining 5% from services. As I said our revenues are highly product-oriented although we expect that over a period of time, the services portion should also grow and come close to 15%. But these will primarily be in the nature of annual maintenance services which are highly profitable and will not have any negative cash flow impact.

Mayank Babla: Sir, we should primarily see you as ecosystem kind of business around something like a Sterlite Tech or an HFCL am I right about looking at the business?

Sanjay Nayak: In fact if you saw my first slide I mentioned that as an ecosystem player, we are more like a Cisco or Nokia. That is probably the right comparison and so HFCL and Sterlite they produce the fiber cable, which is the dark fibre, which is more manufacturing oriented for example whereas ours is more hardware and software oriented in terms of our R&D investments.

Mayank Babla: Thank you so much, that is all from my side.

Moderator: Thank you. Ladies and gentleman we will take the last question. We will take the question from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Good afternoon Sanjay. Sanjay thanks for taking my question. I had two questions, firstly on the order book and order flow, essentially order book is more to do with Indian government as well as international direct businesses, but let us say phase 1 gets completed for BharatNet by December and there was media report saying that phase two get start bidding, the order should come through in October or November this year right, so in terms of your revenue visibility for Indian government business how do you foresee that, that question is obviously tied up with the inflow part to it that

phase two how is it flow through in your book versus except BharatNet on BharatNet kind of orders coming from BSNL and RailTel. How is that flowing in?

Sanjay Nayak:

First of all, I am glad that you asked this question because since we have a lot of discussion on BharatNet, it should not appear that BharatNet is our only government business. RailTel, PowerGrid, BSNL these are more like operators and are also our customers. RailTel for example supplies bandwidth to Google by the way and to many other carriers. So we continue to do business with RailTel, PowerGrid and BSNL like with other operators. We just loosely categorize them as government. By the way there are some very large tenders which are unconnected to BharatNet or anything else that are coming up in RailTel, PowerGrid as well as in BSNL, so we are of course going to be bidding for those and some of them we have already bid, the results of which keep coming every few days. So I think in that sense there is a healthy flow of tenders happening from Government of India or other government customers. The second part you mentioned is the order inflow of BharatNet phase two. I should mention that BharatNet phase two activity in terms of order inflow, again this is our assessment, is probably Q4 i.e., between January to March at the earliest and it not likely to be sooner. In that sense Bharat Net phase two is more like a revenue for next year rather than for this year. There is really no action visible in terms of tendering for Bharat Net phase two at this stage, and it is still about three months or four months away.

Rahul Agarwal:

Essentially does that mean fiscal 18 obviously is going to be more India, which is 70% what is indicated and then within that obviously it is going to be more BharatNet, so then going into fiscal 2019 would that be a risk for you essentially in terms of?

Sanjay Nayak:

Not really. In fact the way we are building our business in the company is we consider tender business to be just an add-on. Our baseline business, which is without tender where the timeliness of tenders or who wins the tender, what price to win the tender, so our objective is to build a healthy enough run rate business between India Private and International, which is insulated from the vagaries of these large tenders, so our objective between now till end of March is to be able to do enough things in India and internationally from sales as well as product perspective so that our dependence on any of these kind of activity becomes marginal, so all of these should become more like positive surprises on top of a good baseline business rather than being the reason for the business. So I think that is the direction, which we are working towards. Already as I said the investments which we are making in sales this year will start giving us results next year, so if the international starts firing quite successfully and the Indian private accounts start spending a lot more, the operators who are going to be staying into the game, the tender business should just have a marginal impact. So it could skew a quarter, it could skew some element of our business, but our overall objective is to not have a heavy dependence on tender business.

Rahul Agarwal: Just to conclude this question, essentially fiscal 2019 very, very worried on essentially to grow from there on because 20% guidance for this year over that you want to grow another 20% would that be a realistic thing?

Sanjay Nayak: Yes, that is exactly the plan that we should do enough things in the company now and this year such that on a sustained basis we are able to grow 20% for the next few years since there is a sufficiently large market for our products internationally and in India. We have a good product fit, so it is just a question for us to focus on the available opportunities. The only factor which kind of impacts our business is timing of some of the large projects because it is difficult to perfectly time when each project will actually happen, when or which customer will suddenly increase capex intensity. So I think barring those kinds of fluctuations, on an annualized basis, we think that we should be able to do enough things to build a 20% growth in the next few years.

Rahul Agarwal: Secondly, another aspect related to this, so let us say on the pricing side on competition I wanted to check one thing, so when you bid for phase two obviously last time you mentioned there is L&T and ITI who is getting into booking versus you said you had 40000 villages 100000 that is about 40% market share, but going ahead are you seeing pricing being the same phase one, phase two if you have any rough workings here and I you think that the gross margin, operating margin which we were earlier talking about like 40%, 45% on gross basis and about 20 and add something on the operating leverage would that stay on the phase two thing as well, are you worried on that?

Sanjay Nayak: It is too early to say because Bharatnet phase two has not yet entered the tender stage. I would not be too worried about it because all said and done over the last few years, we have gone through the maximum competitive intensity in every business that we did whether it was a winning a deal in a private account, winning a government tender, etc. So I do not see any greater pricing pressure than that. Of course, I am not saying there will be no pricing pressure, but the combination of what pricing pressure comes versus how we are able to reduce our own cost to manage it should not be a big challenge. I do not see any significant margin pressure coming because of BharatNet phase two because that is more like a decentralized model where unlike phase one with only two or three tenders, in phase two there will be several state-wise tenders and potentially every state would be doing a separate tender. In that sense I do not see as much worry on that front for sure and as far as the operating leverage part, which I think you mentioned, is just the nature of our business. We are still in a situation where the more we sell we still have a lot of room for margin expansion. I mentioned 200 basis points which we should be able to improve on our PAT this year compared to last year and as we go forward it will only go further up in terms of getting closer to 14% to 15% PAT target, which is our long-term steady state margin target.

- Rahul Agarwal:** But in terms of product, in terms of technology, will L&T, ITI be 100% comparable to what basket what you offer to the government? Do you have any kind edge in terms apart from pricing there?
- Sanjay Nayak:** No. As I mentioned earlier, GPON is only one element of BharatNet phase two, which is connecting the blocks to the gram panchayat. GPON technology is, I would not say commoditized, but it is reasonably standardized, but since there is limited competition because of the preferential market access it keeps us in good shape. But beyond the block to district, district to state capital we will have our regular optical transmission technologies, which is packet transport, WDM and all that where there are no Indian players so there we will be competition with the multinationals in that sense. If the PMA comes into that part of the business of course it makes life much easier for us, but those are all a bit too early to call at this stage because the architecture of phase two, the tendering mechanism and processes are more or less getting finalized as we talk, but they are not yet out.
- Rahul Agarwal:** Lastly to Venkatesh, what was the need to factor this receivable of 50 Crores? Again this purely a commercial kind economic decision as in to get liquidity back into balance sheet or you have enough cash right?
- Venkatesh Gadiyar:** Yes, we had enough cash. Basically now factoring receivable is to address the spillover of the receivable of the few days to the next quarter that was the only intention and also it shows the high quality of our receivables, banks does not take any receivable of some customer and of course this was done on a non-recourse basis.
- Rahul Agarwal:** Right, essentially the collection responsibility still stays with you, but when you go to the bank directly and you have already got discount might be there and you got the balance money in the balance sheet is that the way to us?
- Venkatesh Gadiyar:** No. With non-recourse, the collection risk will be on the bank and not on us. That is why it is called non-recourse. With recourse the collection risk will be with us as we have to repay the banks later.
- Rahul Agarwal:** Got it, that is all. Thank you so much. All the best.
- Sanjay Nayak:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vishal Desai for Axis Capital Limited for closing comments.



TEJAS Networks
October 25, 2017

Vishal Desai: Thanks Stanford and we thank the management of the Tejas Networks for giving us the opportunity to host the call and providing insights on the quarter gone by and the outlook. I will now handover to the management for their final remarks.

Sanjay Nayak: Thank you everybody. I think it was a good interactive session. I hope we were able to communicate the stuff that has happened in the previous quarter and in the first half of the year and we also wanted to take this opportunity to reinforce our company strategy both on the R&D side as well as on the sales side. And as we continue to build the company we feel very confident that with the strength of the balance sheet in place, with positive cash flows coming into the system and the district test shows that wherever in the world we are going internationally we do seem to have very competitive products. Now it is really up to us to execute and take advantage of the opportunity, which is available to us. We will look forward to continuing to do what we are supposed to do, which is to perform and talk to you again in sometime again. Thank you again.

Moderator: Thank you very much Sir! Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for jointing us. You may now disconnect your lines.