August 08, 2018

To,

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

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

Dear Sir/Madam,

Ref: Transcripts

Please find enclosed the transcripts of the Earnings Conference Call held on July 24, 2018.

The above information is also being made available on the website of the Company at www.tejasnetworks.com.

We request you to please take the same on record.

Thanking you,

Yours sincerely,
For **TEJAS NETWORKS LIMITED**

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

Enclosure: a/a

Tejas Networks Limited.
Regd. Office: 5th Floor, Plot No. 25,
JP Software Park, Electronic City, Phase-1,
Hosur Main Road, Bangalore – 560 100, India.
CIN No: L72900KA2000PLC026980
Email: corporate@tejasnetworks.com
Tel: +91-80-4179 4600/700/800
Fax: +91-80-2852 0204

Tejas Networks Limited
Quarter One Earnings Conference Call

July 24th, 2018

SPEAKERS: Management, Tejas Networks Limited

Moderator: Ladies and gentlemen, a very good evening. I am Sourodip, your moderator of this session. Thank you for standing by and welcome to the Tejas Networks First Quarter FY2019 Conference Call. For the duration of presentation, all participants' lines will be in listen-only mode, and we will then have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Anirudh. Thank you and over to you, sir.

Anirudh: Thank you, and good day and good evening and good morning to you, wherever you are dialling in from. It's a pleasure for Nomura to host the management of Tejas Networks for the first quarter FY19 earnings call. I believe the usual process would be a presentation by the management followed by the Q&A session. Now I hand over the call to the management who is led by Mr. Sanjay Nayak, the CEO and MD of the company. Over to you, Mr. Nayak.

Sanjay Nayak: Thank you, Anirudh. Hello, everybody. Welcome to the Tejas Networks earnings call. We have put the slides that we are going to be using today on our website. So, I hope you had a chance to look at them, and we would essentially be walking through those slides. We are on slide number 3, which is Q1 financial update. So, at a macro level, you would have seen our earnings announcement. We had a good quarter where we grew our topline as well as our bottom-line in terms of profitability. But to provide you the details of the next few financial slides, I am going to request Venkatesh Gadiyar, our CFO to walk through the next few slides please.

Venkatesh Gadiyar: Thank you, Sanjay. Good evening, everyone. One slide number 4, we have a good start to the year with a strong revenue growth and increased profitability. Our statutory auditors have carried out the limited review of both standalone and consolidated statement of comprehensive income for Q1FY19. As we explained in our earlier quarter, our reported revenue are inclusive of excise duty till June 2017, post which the revenues are reported net of GST. Component sales are on a pass through basis to our contract manufacturers. As a result, for an equivalent comparison, we use revenues net of taxes and pass through sale of components.

Net revenues were 232 crores. It grew by 16% on a year-on-year basis and 135% on a sequential basis. Large part of the revenue came from India. EBITDA grew by 38.9% on a year-on-year basis. Operating profit grew by 61% and PBT by 100% and PAT grew by 120% on a year-on-year basis.

Operating expenses: On a year-on-year basis, our operating expenses increased from 32.6% to 34% of revenue. This was primarily as a result of the increase in the employee benefit cost. As a deep technology company, we stay committed to invest in the R&D, which has seen a year-on-year increase of around 37% on a gross basis. EBITDA grew by 38.9% on a year-on-year basis and as a percentage of the revenue increased from 22.5% to 26.9% on account of the increase in the gross margin. Gross profit margin increased due to better product mix on the revenues that we have done during the quarter. We have delivered exceptionally well on the EBITDA in this quarter, and we expect the EBITDA on an annualized basis to be around 22%.

Higher EBITDA along with increased other income and reduced finance charges doubled our profit before tax for the quarter on a year-on-year basis. Our profit after tax for the quarter grew by 120% on a year-on-year basis. PAT was 19.4% of our revenue for the quarter. However, on an annualized basis for FY19 our PAT is expected to be in the range of 14 to 15%.

Our EPS increased to 4.95 per share compared to 2.78 for the corresponding quarter. On working capital, while we brought down the DSO significantly over the few quarters, in this quarter our DSOs have gone up as we could not collect some of the payments from few of the customers. The same is expected to be collected in Q2. On the positive side, we have stretched our payables and better managed our inventory. As a result, overall our working capital days marginally increased by 4 days to 145 days as of June 2018. We continue to tightly manage our working capital and expect to see improvement during the year. We expect to reach a steady state of around 130 to 140 days of working capital in the next few quarters.

Overall, we have delivered a quarter with strong revenue and profitability growth. We are practically a debt-free company, and we have a strong balance sheet to support our growth and our cash and cash equivalents including the investment in mutual funds and deposits with financial institutions stood at 509 crore. With this, I request Sanjay to take it over.

Sanjay Nayak: Thank you, Venkatesh, for giving an overview of the financial performance. In summary, I can say we had a strong growth in revenue, profitability. In terms of working capital, we had slightly more than what you would like it to be. But over the next couple of quarters, we are pretty confident that we will achieve a steady state of 130 to 140 days.

Let me go back to the main presentation again. I am on the corporate update slide. In terms of head count, we now have 702 employees as on June 30 and 51% of them are in R&D which shows our continued commitment and investments in R&D. We have added a senior member to our executive team. Ranajit Hajra has joined us from Nokia to head our worldwide customer support. Ranajit has extensive experience in managing large accounts in India as well as being a part of global customer support teams for Nokia. And we are really counting on his experience to scale our international and to make sure that our support and services businesses continues to grow.

We won the award for the best exporter from Federation of Karnataka Chambers of Commerce and Industry (FKCCI). On the Patents and IPR front, as on date we have filed 342 patent applications, out of which 78 have been granted. And if you look at our portfolio of semiconductor IPs, these are the core intellectual properties that are programmed into our FPGAs, we now have more than 270 such IPs.

Thirdly, I would like to highlight (you can see on the slide as well) is that, as a member of India's Telecom Standard Development Society, we continue to play an active role and contribute to the emerging 5G standards. Our contributions span new radio interface proposals and our team members also participated in ITU's 5G voting proceedings at Cancun, Mexico a few weeks back.

In terms of customer wins, this is another area that I want to highlight. As you are aware, we have been making strong investments in building our international direct sales. We are in a B2B business where we have relatively fewer customers but once they are signed up, there is a high level of stickiness and an opportunity to significantly increase our revenues from them. I'm happy to report that all our international investments that we have been making are starting to show results. So, we have had seven new wins spanning across Mexico, America, Southeast Asia as well as Africa. A few of these wins have been announced publicly in the form of press releases once we received customer approval. Others we have not officially announced yet but we do expect that these accounts should start contributing a larger percentage of our revenues in the second half of the year.

In terms of the macro picture of the business, we continue to be extremely bullish because smartphone and data usage continue to increase. Internet is getting deeper into everybody's lives and wider adoption of mobile video is driving up data traffic on service provider networks. And that fundamentally seems to be a very strong growth driver for our business.

In terms of the optical business in particular, there are already four things which are independently happening, each of which contributes quite a lot to the health of our business. The first which we are all familiar with, especially in India, is the increased consumer broadband. The quantum of data that every Indian individual is consuming today versus what he/she was consuming 18 months back has significantly increased and this trend will continue for the next few years. 5G densification is another key development. We talked about it in detail in one of the earlier earnings calls but to recap what 5G is expected to do is that while today we might need a cell tower every 3 or 4 kilometres, with 5G this could reduce to every half a kilometre. So, essentially, 5G will call for a significantly larger number of base stations and most of these will be fiberized. In addition, 5G will carry data not only from smartphones but new data sources such as IoTs and other applications will come into the picture. So, this really means that

5G is not just about high-speed access but also requires larger network capacity.

Fiberization is another trend which we have often mentioned in earlier earnings calls. In India, it is estimated that less than 20% cell towers are fiberized at this point in time. As per Government of India's draft New Telecom Policy report the aspirational target is to reach 60% fiberization by 2022, which is basically a 3x increase in the current fiberization level in terms of connectivity to cell towers alone. In addition, more businesses are going to get connected on fibre because that's the next avenue for growth for telecom operators in India.

And then another area on which you may have seen a few major announcements from large Indian telcos in the recent past is home broadband. India has so far been a laggard in terms of wired broadband to homes but now the telco game plan seems to be taking fibre to homes. So, the FTTx investments in India are going to really take off over the next 3 to 4 years. While it is true that fiber broadband will take time to roll out because of right-of-away issues but directionally it seems to be that there will be a lot more fibre penetration and once fibre penetration happens we definitely see a lot more opportunity for our business.

There are two dimensions to the Cloud opportunity for us from a business standpoint. We are seeing an increasing migration of enterprise and user applications to data centers which calls for higher capacity optical pipes to interconnect them. Another aspect is the virtualization of several traditional network functions in the cloud which calls for more intelligent access and edge devices and plays to our company's core strengths in designing programmable software-defined hardware. All of these things together essentially mean that our business from a macro point of view is very healthy. Optical spends are forecasted to grow steadily, from around 8 billion dollars this year, to become a 23 billion dollar global industry in the next few years.

Next, I think is strategic priority for our growth. So, what are we doing about these trends? There are two dimensions. This is something which we have been consistently talking about. One is on the R&D side. And as Venkatesh mentioned, on a year-on-year basis we had an increase of 37% in terms of R&D investments. And we continue to believe that there are opportunities for us to make innovative and differentiated products, and really get a lot of customer traction based on that. And that again comes in terms of higher capacity, more data features and so on. And the second aspect of it is investment in different areas. For example, a couple of years back, we diversified into the GPON area which is fiber to the home. It has paid back very rich dividends for us and we feel that similar opportunities exist in other adjacent areas which we will continue to evaluate.

On the sales side, India has now become the world's fastest growing optical market. And we have incumbency in India. We have lots of favourable things going for us. And we do believe that we should benefit significantly from both the data demand increase by private operators and consumers as well as the government spending on projects, not on Bharat Net alone but even utility projects like Power Grid and Railtel are spending a significant amount of money in terms of modernizing their networks with modern telecom infrastructure. Globally, our sales strategy again is very clear that emerging markets of Southeast Asia and Africa are closer to home. They are very similar to India in terms of their internal dynamics, competitiveness and the types of products they need. We have a sweet spot for those markets and we will continue to focus on them and I will again give you a little bit more progress down the slides in a couple of slides.

Americas is another market where we felt that network modernization is a great opportunity for us. The initial traction we are getting in terms of customer wins, the engagements which are going on across a large number of prospects reinforces our belief that US is a strong market where we can build on. It's of course a question of having the right amount of sales and investments in that market. So, that's the kind of strategy from our point of view.

Focus area from technology. Again I will keep it short because many of you have seen this before. Within the entire gamut of optical transmission, our focus is more on the metro as well as the aggregation space across technologies which could be enterprise access, residential access, using GPON, SDH, Ethernet/IP which includes packet transport as well as fixed LTE in terms of wireless. And, of course, technologies like SDH, PTN and IP/MPLS in the Aggregation and WDM and OTN in the Metro Core. And the good part is if you really see going forward, this is going to be where a significantly large proportion of optical investments will happen. Within India, if you see for example, the long haul and ultra-long haul networks will be incrementally upgraded whereas the metro networks are going to be Greenfield and a lot more deep penetration of fibre will essentially result in a lot more build-outs in the Metro and Access where our sweet spots lie.

Target application again, we have products which are competitive and we have similar products compared to other people in the world. However, for this application which is next generation mobile backhaul including legacy as well as 4G, 5G, we think we have a sweet spot. Bandwidth services in terms of the wholesale bandwidth services on 100 Gig and 200 Gig and WDM and so on we have a sweet spot. Broadband access infrastructure in terms of FTTx technology like PON as well as Next-Generation PON, we have a lot of traction. In the network modernization opportunity with technologies like Circuit Emulation and SDN/NFV, all these are areas where our products complete well with our competitors, and we are getting a favourable response from our customers. So, that's something which we will continue to focus on.

Addressable market, we already talked about. Again, if I just look at the segment of the market where we are currently focused on within India, Southeast Asia, Africa and America, this alone contributes about 7 billion dollars of addressable space for us going to around 9 billion dollars by 2022. And we believe that the applications that we have picked are the right applications for these markets.

Coming home to India, the data demand is continuing to really accelerate. We believe that the ongoing consolidation in the operator segment is actually a good thing for us because fewer healthy operators remaining are increasing their network infrastructure investments especially in optical which I am sure you have also been hearing over their earnings calls these days. Optical is a focus area for all the operators since the growth of data traffic in India essentially means that all operators have no choice but to really strengthen their optical infrastructure. Secondly, the smartphone penetration as a statistic is again continuing to grow steadily and that will continue to have tertiary effects especially in tier 2 and tier 3 cities where the data is not yet being used to the same extent that is being used in tier 1 cities.

In parallel, the New Telecom Policy 2018 is also in the process of getting approved. The policy talks about increasing fiberization and strengthening the preferential market access policy. And in fact, one change which is coming in which is good for us is that they have realized that manufacturing of telecom equipment is not good enough. We have to manufacture with a lot of value addition which essentially leads to an emphasis on design-led manufacturing which is our sweet spot. And we again believe that that's going to be good. I have talked about the five things that we are doing, and the government has again made its intent very clear that in the 5G ecosystem, they would like India to play a much bigger role. And we being a leading R&D and IPR-driven company in this sector definitely have a good opportunity to benefit from those.

Bharat Net Phase-2 implementation has started. The Centre-led projects are already being tendered and some of them should get into execution mode, I would say, from Q2 onwards. For the state-led projects, some of the tenders have happened. Some of the larger projects are at a tendering stage in this quarter. And I believe that in the later part of this year and next year, the state-led projects should start seeing revenue impact. Essentially, what's happening is that initially Bharat Net was to give 100 Mbps or 1 Gbps of access speed to every Gram Panchayat. This being upgraded to 10 Gbps in the future. So, hopefully this will continue to generate revenues as an upgrade project in the future as well. There are parts of Bharat Net which are not being covered by fibre, but would be covered by wireless technologies. And we are also looking at that closely to see if the wireless product that we have could be used in those applications.

I will come to the next slide on the sales update. I am sure this is something which we discussed in the past that it's a point for us to kind of walk you down through the four different aspects of our business, which is India government, India private, the emerging markets and Americas. So, let me go one by one into each of the four. On the government side, we have a healthy backlog that we started the year with primarily on the Bharat Net win which we had as well as lots of tenders which we had from utility companies. In addition, we have won multiple tenders for Bharat Net Phase-2 at the Centre and few at the state level as well as some Defence contracts via system integrators, which we expect will come out to orders in this quarter and a significant part of that could also be executed in Q3 and Q4 of this year. We see a strong pipeline of new tenders from utility as well as Bharat Net Phase-2 for a few of the large states which are building Bharat Net plus-plus network as well as from BSNL.

If I want to look at the government sector as a total, this is something which we feel very comfortable that either we already have orders in hand or we won tender and the net effect of that is we expect a healthy growth on a year-on-year basis on the government business on the large base that we had from last year. So, we have very little uncertainty in terms of major new tender wins because whatever we already won or even the back should give us a comfortable growth over last year.

Coming to India private, clearly as I mentioned that the operators are focusing on fiberization and increasing the network capacity and a larger percentage of capex is being allocated to optical. While we are in a few applications in each of the major operators, we are right now in discussion to win a few more applications. So, we have been already shortlisted in terms of technical and we are in the final stages of closing the other things with them. And once that happens, we believe we will be increasing our wallet share in those accounts. And on an overall basis for India private, again we expect to have a solid year-on-year growth based on wins from the new applications and depending on how much we win and how soon we win, the extent of growth can get moderated up or down.

In terms of the international business, this was one thing which we did not do very well last year because international last year was in a transition mode where we had a heavy dependence on OEM and business which went down and we had started to invest in international direct post our IPO. So, let me again walk you through the main geographies where we are making good progress. Southeast Asia is looking very solid. We have a very good business pipeline coming from customers in Malaysia, Vietnam, Sri Lanka and Bangladesh. The applications where we seem to be winning is wholesale bandwidth, enterprise connectivity, packet transport and of course the broadband infrastructure. And in Southeast Asia, we expect a very strong year-on-year growth compared to last year in terms of revenues.

Africa, we again have made more investment in Africa on the sales side. So, last year around this time, if I were to talk to you, we just had one sales office in Africa which is based in Nairobi. At this point in time, we cover Africa from four different regions. East Africa is covered through Nairobi. We have sales and support office in Johannesburg. We have a similar office in Lagos. And we have Dubai office covering the Northern African region.

The net effect of all these four things is that we have got a lot more focus on customers. We have a significant number of engagements and we are actually seeing that in applications like wholesale bandwidth, alien wavelength and WDM, enterprise connectivity, broadband infrastructure. We are seeing a lot more deals in the funnel. And again Africa as a territory, we expect a very strong year-on-year growth compared to last year.

Coming to America, we have increased sales investments. Now we have got 3 to 4 sales teams working in parallel across different customer bases to increase the coverage. And the focus application for North America is really network modernization. We talked about it in detail in one of our earlier calls, namely the SONET replacement as well as the utility modernization opportunity. At this point in time, we have multiple customer engagements across tier 2 and tier 3 operators, and we are seeing an increasing funnel of engagements.

In terms of order flow, we expect that the second half of the year is when a lot more of business from US will start to flow in. It will be a slow ramp up. It's just the nature of the market where customers would initially give smaller orders. We have made a few press release announcements in terms of the smaller orders we have got. But what that does for us is that it really establishes a very good reference creates a foundation where once you have been selected by the customer, you definitely start to get a larger piece of wallet share as he implements your solution and grows further. So, I would say US should witness good order should pick up in the second half of the year. Mexico is another territory where we are making more local sales investments and the pipeline looks very strong. We have had a very good set of turn key customers in Mexico, and again the applications where we are winning are packet transport, enterprise connectivity as well as WDM. And Mexico again we expect a strong year-on-year growth.

In the OEM business, we had a setback. I think it was a negative surprise last year in terms of the decline that we had. But from the level where we are currently, we expect to stay flat or increase on a marginal basis. So, if you really see on an overall basis, India both the sectors – government and private – seems to be doing well. Emerging markets – Southeast Asia, Africa, Mexico – are doing well. USA will pick up later part of this year which is more or less in line with what we expected because the sales cycle there is slightly longer. OEM will be flat or marginal but if I add up all the things together, we see a healthy funnel building up for the rest of the year as well.

I will come to the last slide just to summarize. We had a solid Q1 where we had a healthy revenue and profitability growth. The pipeline for the rest of the year is robust across all the geographies where we are focusing on. The macro picture of our business in terms of data and 4G is very solid. And the advent of 5G in the next couple of years will only accelerate it. All our geographies seem to be the right geographies that we have picked. The recent US-China trade issue has only benefited us in the sense that the customers are looking to diversify their supply chain and have more partners outside of China and we seem to fit the bill very well.

And our business model – We continue to be in a very interesting situation where in terms of gross margins while most of the industry is going through tough times our unique business model allows us to deliver decent EBITDA as well as profitability on a sustainable basis. And as we continue to grow our topline, for which adequate opportunities exist, we are very confident that we should start seeing the benefits of all that in our financials.

So, that's pretty much where I will pause for now. Anirudh, maybe this is a good time to start opening the floor for questions. And between me, Venkatesh, Arnob and Kumar, we will be happy to answer any question that anybody may have.

Anirudh: Sure, sir. Sourodip, we can start with the Q&A please.

Moderator: Thank you very much. So, ladies and gentlemen, with this we will start the Q&A interactive session. Should you wish to ask any question, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. Thank you.

We also request all the participants and investors to kindly restrict to two questions at a time and you can come back to the queue for further questions. Thank you.

We have the first question from Mr. Hardik Jain from Whitestone. The line is unmuted. You may please go ahead and ask your question.

Hardik Jain: Good evening, sir. Sir, if you can help me with the order book that we have around 30th June.

Management: So, your question is, what is the order book as on 30th June?

Hardik Jain: Yes.

Management: In general, by the way, as has been our past practice, we disclose the order book at the beginning of the year. During the year, we basically kind of give a subjective analysis or a commentary on that. So, I would say that our order book at the start of the year was 579 crores. And the reason for that by the way is because many of the private customer orders basically just fructify during the quarters and order book is not necessarily a good representation of the overall health of our business. So, we actually make more commentary on the funnel of each of the customers and the deal. So, we started the year with 579 crores of order book. We have had good traction, I would say, from orders flowing both from India and internationally. As I mentioned, the government order should start filling in in terms of the order book in Q2. The private customers, once we get the new application wins, will essentially result in larger revenue impact that you would directly see at the end of the quarter.

Hardik Jain: Okay. And if you can help us with the breakup of the revenues in terms of products and services and also international and India?

Management: I think in this quarter, the product revenue was about 96.5% and services percentage was relatively lower. Part of the reason for that was that some of the AMC orders that we are working with the customers on have not closed and it should get closed in this quarter. And the installation commissioning revenues which goes along with turnkey projects like Bharat Net last year, in the Q1 it was just for the supply portion. So, the services revenue will correspondingly start flowing in this year.

In terms of international to India, I would say India was a significantly large percentage of the quarterly revenue. International was relatively smaller. Last year, India to international was 82% India and 18% international. This year once we finish the four quarters we expect the international to be higher as a percentage. My estimate is that around 25% to 30% of the total will be international and 70% or 75% would be India. So, we do expect international to grow at a faster pace and as I said Q2 onwards the international momentum should pick up because in Q1 a lot of the orders that we executed were from the India funnel.

Hardik Jain: Okay. Just last question from my side. When we bid for the Bharat Net project, for other utility projects or even for the international for that matter, typically how many competitors, how many bidders bid for these projects?

Management: Depending on the situation, it's a different answer. So, let's say for BharatNet project what is happening in Phase 2 is different from Phase 1. In Phase 1 of BharatNet the equipment separately and the fibre and the services were tendered separately. So, for the equipment portion, we just had two other Indian companies who were competing with us. In Phase 2 of Bharat Net, they have turned it into a complete system integration project where the bidder has to provide the fibre, they have to provide the EPC services and they also have to provide the equipment from companies like ours. So, the front ending is being done by system integrators and we are working with almost all the system integrators. So, I would say there are *probably* 8 or 10 large system integrators who have been bidding on these deals.

On the equipment side, for the portion of the equipment which is funded by the central government, the PMA policy is applicable. And there again, we have competition from two or three people but on the portion of the equipment which is not covered by the PMA policy, such as what states are building using their own money, we compete with five or six vendors. But at the macro level, globally, we are seeing that competitive intensity in the optical transmission industry has reduced because of mergers and consolidation of several industry players and the poor financial health of the existing ones. So, at any point in time, if I were to look at any account that we compete in, I would say we typically have to compete against three to five vendors. And private operators would typically select three of those five vendors to be their suppliers to ensure adequate diversification and lower supply chain risk.

Hardik Jain: Okay. If I have any more question, I will get back to the queue. Thanks.

Moderator: Thank you very much. We have the next question from Mr. Pranav from Edelweiss. The line is unmuted. You may please go ahead and ask your question.

Pranav: Hi, thanks for the opportunity. My first question is, you did allude to India being the largest contributor to the growth in this quarter. Can you just give qualitative analysis of how was it largely because of the government or it is because of the private part? That's my first question.

Management: Government business was definitely larger. But we had a reasonable mix on the private as well. So, I would not say that it was totally driven by our Government business. Of course, we had an order backlog from Government in the beginning of the quarter and since you have a time within which you have to supply, we did focus on supplying those early on in the quarter.

Pranav: Earlier, your business used to have almost 35% of the revenue coming in H1 and almost 60-65% of the revenue used to come in H2. Do you think given your current visibility that still holds true or that may not be the case like it was in the last year, this year as well?

Management: Our aspiration is to not have such a big skew. We would like to see reasonable revenues in the first half, and usually just because of the financial year ending, second half is always stronger. So, I do believe that the second half of the year will be stronger for us compared to first half. But we do have enough momentum that we actually seem to believe that we should have a decent first half as well and of course a stronger second half relatively speaking.

Pranav: If I can just squeeze in one last question. This quarter, if you can give some qualitative analysis of how much was due to the revenue from Q4 getting into Q1 and how much was actually the revenue growth which you can attribute organically for the Q1 per se. Any colour on that will be helpful.

Management: If you see the private and the internationally, typically we don't really have much backlog because most of it comes in the quarter and goes. So, I think, that part of the business was all business which we won during the quarter. The government business, as you rightly pointed out, was really a result of the backlog that we had opened the quarter with. So, the government part of the business was really backlog business. The private and the international portion was won during the quarter itself.

Pranav: Thank you. That's it from my side.

Moderator: Thank you very much. Ladies and gentlemen, I would like to repeat. Should you wish to ask any question, please press "0" and "1" on your telephone keypad. We have the next question from Mr. Mukul Garg from Hightong Securities. The line is unmuted. You may please go ahead and ask your question.

Mukul Garg: Thanks for the opportunity. To start with, given that you guys don't provide any order book on quarterly basis, can you just give us a sense of how is the order book from quality point of view standing? Do you think it is improving on a quarter to quarter or from late last year basis or do you think given that your private customer spend is more monthly in nature? That is something which would decline and which would have kind of a corrected bid in Q1 [unclear 0:36:12] Q2 onwards as Bharat Net orders come into the play. Also if you can offer some perspective and what is the order pipeline looking right now especially on the government business?

Management: Good questions. Qualitatively speaking, our order position at the end of the quarter compared to the end of the last financial year is slightly lower. And the reason is that typically in India Q1 is the slowest quarter from all the private operators because Q1 is when they basically do their annual re-planning and budgeting and vendor selection which is going on in terms of new applications. So, typically you will always see Q1 to be a soft quarter from an India private standpoint. International, I think, we had reasonable bookings and so on. But again I would say that on an overall basis the order book is slightly lower than what it was at the beginning of the quarter.

Again, Q2 and Q3, we have a healthy pipeline. And your question about when would these orders convert, I think we expect to convert a lot of the orders already won in Q2. So, again, going out of Q2, I would again feel that we will have a pretty healthy order book in terms of size. But we will see how that goes because sometimes things may just slip a few days here and there. My expectation is that we should have a healthy order book in Q2 as well because some of these tender wins again will just come on the order book and they will take some time to get executed over Q3 and Q4.

The private accounts and the international business will typically come at a different pace. And as I said earlier, the second half of the year we expect the international momentum to really build up so that we can have a higher percentage of international revenue this year. So, of course we will see a lot more order inflows from international in the later part of the year.

Mukul Garg: Understood. The pipeline visibility in terms of... how big is the pipeline right now, what is the potential opportunity in the phase 2 which is still open, if you can just offer some perspective?

Management: One aspect of phase 2 is almost closed in the sense that the Centre-led projects where the tendering has already happened, the SIs who are L1 have already been declared. They are going through the process within the department to get their orders released, and once they get released we should get our share out of those as well. So, my expectation is that will happen in Q2. Then in Q3, there are three or four states which are building a model which is what I call Bharat Net Plus-Plus which is Telangana, Andhra Pradesh, Tamil Nadu and Kerala. One of them is at the RFP stage. Couple of others are at the tendering stage. So, my expectation is that between Q2 and Q3, the tenders for these four projects would get decided and then our role into these projects is much larger than in the central portion because they are building much bigger networks compared to what is being funded by the Central Government.

So, my expectation is that those orders will flow in Q2 and Q3 and the size will be significantly larger than the central orders. From a qualitative perspective, we believe that the tenders that we have already won and are in the process of winning gives us enough comfort that the India government business on an overall year-on-year basis should show a healthy revenue growth this year itself.

Mukul Garg: Understood. The second question is for Venkatesh. Venkatesh, if I heard correctly, your estimate suggested that international business will be 25% to 30% in FY19. And if I do a rough calculation that seems to suggest that it might deliver 100% plus type of a growth rate. So, does that sound right to you and what is driving this pick-up in the international business? Is it America?

Management: Yes, Mukul, you are right. If we have to get 25% to 30% of our total revenue in international, the international has to grow significantly. And as I said in my commentary, I think growth will come from Southeast Asia, Africa primarily. US will mostly fructify in the second half of the year. So, I don't know how much it will drive the growth of business this year. But Southeast Asia, Africa and Mexico, together should deliver significant growth compared to last year. And the fact that we will hopefully see some marginal improvement on the OEM business itself should ensure that the decline that we saw last year on an overall basis will turn into a healthy growth this year. The funnel is already there for the growth projections that we are expecting.

Mukul Garg: Understood. And the third question, if I may... Can you offer some perspective on the margins in Q1? The margin performance was significantly better than what it was delivered last year. And I think your full-year guidance continues to be around 22%. So, what led to the high margin in the first quarter? Does this mean that there is a risk of margin upside for the remaining part of the year?

Management: It was really a product mix issue in the sense that what products we shipped out were fairly high margin. By the way, if we compound it with the fact that larger portions of our revenue for Q1 were India, it is clear that India is not a place where we can make massive margins. But we just had a good product mix for Q1. So, on an annualized basis, we think we will come back to the 22% or so EBITDA because as we win more projects and the margins get blended across the products, I feel that it can get normalized to the usual margins. That's the kind of what is the baseline right now. And of course, we will continue to fight hard. But it's a good situation where we believe that we have products which can compete and still deliver reasonably decent margins but sustaining very high margins for the whole year is not going to be that easy, and that's why we have guided to around 22% EBITDA and 14% to 15% PAT which is in line with our past years' performance.

Mukul Garg: Understood. Can you offer some perspective on yesterday night's news of Coriant and Infinera merger? Is that industry consolidation opportunity or a risk for Tejas? How do you see this? Do you think this might lead to a consolidation across the industry to a few very large vendors?

Management: This consolidation was in the offing for a while because, as you know, certain private equity players had acquired Coriant and from the very nature of that acquisition the consolidation seemed to be coming. We don't see this as a risk to Tejas. In fact, as we mentioned in one of the earlier conversations, whenever there is a lot of product overlap between companies, while you may gain some customer advantage but there is a fairly high degree of R&D overlap in terms of hardware, software teams and the necessity to continue to support your older customers which continued for a long time. So, in that sense, any merger and acquisition of this kind is always tricky to manage.

Secondly, if you really see the geographical concentration of revenues of the two companies that merged it is heavily skewed towards the US. And the US again, there are other competitors who have a fairly strong geographical skew. So, I would say they would be relatively more impacted because if I look at from our product share, we are really focusing on the metro and the aggregation space which is there in a lot of network modernization problem will get solved, whereas the merger actually creates a very strong WDM company which has competition in a slightly adjacent space to what we are targeting.

So, I would say industry consolidation in general is good. As far as we are concerned, we don't see that as a risk even in the international market. In the US market, our focus is on a slightly different application where this merged entity doesn't really have a big play. Certain other players who are focussing on WDM space in the US probably will get impacted in a larger way compared to us.

Mukul Garg: Understood.

Management: Okay. Thanks.

Moderator: Thank you very much. Moving to the next question from Mr. Vijit Jain from Citi Bank. The line is unmuted.

Vijit Jain: Yeah. Hi. So, if I remember right, you had mentioned earlier that the PSU segment was about 60% of FY18 revenues, could you give us the number of what that stands right for 1Q?

Management: Again, we don't split our business segment-wise by quarter because there's so much of variability across quarters due to the inherent nature of the business. But on an annualized basis, I expect that our PSU business should reduce from last year's level as a percentage because the rest of the business is picking up well which is both on the private sector in India as well as international. So my estimate is that by the time we finish the year, we should have a lesser dependence on the PSU business as compared to last year. And for this year's business most of the PSU orders are either already in the bag or in the process as well.

Vijit Jain: Okay. Thank you.

Moderator: Thank you very much. We have the next question from Mr. Anirudh. Your line is unmuted.

Anirudh: Yeah. Thank you. I have two questions, firstly just the clarification that Bharat Net2 are we still seeing the revenue opportunity on our addressable market as 3000 to 5000 crores, as we had indicated in our previous two presentations, Sanjay?

Sanjay Nayak: So if I were to look at the Central Bharat Net tenders, it's probably lesser for our kind of equipment. The State BharatNet projects, the three or four which are still in the offing, I would say that if we win all of it, it would be at the lower end of the 3000 crores that you mentioned if we take the budgets for active electronics from just Telangana, Andhra, Kerala and Tamil Nadu. It will probably be in that range, except that because of competition from non-PMA participants for certain portions such as IP routers our directly addressable market will be smaller than the 3000, whereas the active electronics will be still 3000 crores on a total basis.

Anirudh: Right. So then we would be looking at somewhere between 2000 to 3000 rupees a fair number instead of 3000 to 5000 now?

Sanjay Nayak: That is fair. I mean, subject to us winning everything that is the total market available to us. Of course, we are going to get some percentage of it.

Anirudh: Right. I mean, that's the addressable market is what we are looking at now?

Sanjay Nayak: That's right.

Anirudh: Right. And my second question is the employee headcount is marginally down quarter-on-quarter by 5 employees not much, but employee cost per se is up substantially year-on-year as well as q-o-q and I also noticed that the capitalization rate is a little bit lower than what we've seen historically. So is it something to read into this or this is, you know, something which will probably get normalized over the rest of the year?

Sanjay Nayak: Employee headcount, of course, we always do the annual salary raise and performance reviews in Q1, so you will always see a spike in terms of costs in Q1. Secondly, Q1, historically at least in Bangalore, happens to be when maximum amount of people look for a change. So while you hire more people, I am sure we've had some attrition as well, although our attrition overall last year was 9.8% and even Q1 is around 10 per cent on an annualized basis. So I think that's really just a seasonal thing. In terms of capitalization, maybe, Venkatesh you can comment on that.

Venkatesh Gadiyar: Yeah. In terms of the capitalization we have taken about 15 crores into the capital work-in-progress and the similar amount has been capitalized in the intangible assets.

Sanjay Nayak: So directionally it's about flat in terms of [multiple speakers].

Venkatesh Gadiyar: Yeah. Flat. Flat in terms of, you know, movement in the intangible assets. See, both intangible assets and under development are about, you know, 46 crores each.

Anirudh: Right. My query was actually that as a proportion of the gross employee cost the percentage that has been capitalized is a bit lower than what it has been in the last, let's say, 4 to 5 quarters or so in terms of percentage, so is it that we had more of research or more of development expenses could that be the reason or is there something else?

Venkatesh Gadiyar: If it is for a future product, we would capitalize, otherwise normally, you know, if it is a sustenance project we expense it.

Anirudh: Right. Okay. I will get back into the queue. Thank you.

Moderator: Thank you very much. We have the next question from Mr. Mayank Babla from Dalal and Prosa. The line is unmuted.

Mayank Babla: Thank you for taking my question. Good evening, sir. Just two questions. One of them was that in the last quarter there was a huge drop in the revenues, I mean, the primary reason was delay and Bharat Net phase 2 orders, so has most of it converted in this quarter or is it the same money you are talking about in the presentation which will be converted in quarter 2?

Sanjay Nayak: No. In fact, the quarter 2, quarter 3 onwards we are talking of our new orders. What you are talking about is that the order that we got late in Q4 of last year some of it we have revenued in this quarter in Q1, some of it will get revenued in Q2 and then there is a services element which, you know, has a longer tail. The one which you are talking of new orders to come in this quarter are additional Bharat Net orders at the central level and some smaller states that again are SI's partners that we've won.

Mayank Babla: Okay. So the four states that you mentioned in the Bharat Net plus-plus are over and above these central government orders?

Sanjay Nayak: That is right. That's correct.

Mayank Babla: Okay. And, sir, last question was, sir, with this impending merger between Idea and Vodafone or most now it will get through in the next few quarters, can it be one of the main impetus for our order book?

Sanjay Nayak: Potentially, yes. We are a partner to Idea and we were not in Vodafone. Now, the common entity is in the process of consolidating their vendors and we are in the fray, so we have also been, you know, shortlisted along with a few others. So it's a question of, you know, going through the rest of their process and, you know, of course, it's always a tricky situation when such mergers happen. But so far we are making good progress. So that would be one potential thing, but even with the other private accounts in India, as I had mentioned in my presentation and we have talked earlier, we are working on winning a few new applications which basically means, for example, you would have heard about fiber broadband. It's going to be a very big area for telco investment and long-term growth in India. We have the right products for this application which have been widely deployed in BharatNet and which we believe are extremely competitive and market-proven. So I think we have a good shot at winning some of those new applications as well for which we are in engagement with all the leading players in India.

Mayank Babla: Okay. Thanks. That's about it. Thank you so much.

Moderator: Thank you very much. We have the next question from Mr. Rahul Agarwal from VC investments. The line is unmuted. You may please go ahead and ask your questions.

Rahul Agarwal: Yeah. Hi. Good evening. Sir, essentially it feels good that we are moving on the international side more and since all the money is invested there. If you could throw some light on the seven new international wins in terms of, you know, what kind of customers and the potential there, you know, when do you expect POs to translate really in the books and stuff like that co-relatively if you could help, Sanjay, understand, you know, these seven customers will be helpful?

Sanjay Nayak: I may not be able to walk through all the seven for you but let me give you examples. One account win which we had announced last week was MCM Telecom. MCM is a fairly large operator in Mexico and Mexico is a fairly large country with a pretty decent amount of CapEx. So it's a very prestigious win because it's more in the nature of a premier account in Mexico where they have a significant network presence. So the good part of all of these wins is that, you know, they don't select it for one project; they really make you as a long-term partner. So the fact that we could win that account and we got some initial orders is a good sign that during the year and next year we should see larger and larger revenues from them. So that's one example.

The other one which we publicly recently is a rural operator in mid-west of America in Kansas which is called Wheat State Telecom and that's again a small win, but it is indicative of the fact that the tier-3 market in the US is something where our products have a very good fit and the operators do believe that we offer a compelling value proposition compared to the other options that they have available to them. So I think that's another example. Also, by the way, in the US there are hundreds of such such operators. So, while the deal sizes are initially small, but once you aggregate lot of that, it ends up being a reasonable number and there's a lot of informal referencing that happens amongst those operator groups because they don't have massive technical teams. So, once you are selected by one or two such operators, there is a good chance to replicate that success across other operators.

Other one we had not announced that is, for example, a large ISP in North Africa which is building a fairly large network, you know, based on some of the technologies that we have which we hope to announce some time. West Africa is another region where we have recently won a prestigious operator which has a large build-out in Nigeria which is an economy which is doing extremely well. Southeast Asia is another area where we already have a strong incumbent base which we are expanding. We are rejuvenating some of the accounts where we were not getting significant revenues and trying to ramp those up and those efforts are also going very well. So I'd say that the spread of these customers is across, you know, different geographies which gives us good comfort that the international investments we made over the last 12 months will translate into larger direct sales. The engine is kind of, you know, starting to warm up. The results in the form of initial success are already on the table. We hope to magnify those successes and replicate them across and that is why I said that the second half of the year in terms of contribution to revenue from international should be healthy and that is what give us comfort to say that the proportion of international revenues from, you know, 18% last year on a larger base of the growth that we are thinking going to 25% plus percent give us good confidence that our international business is scaling up.

Rahul Agarwal: Right. But typically how would be the range of yours, you know, to start within or how do they stake up like over a [multiple speakers].

Sanjay Nayak: So it could range from 50K to 100K USD purchase orders which is, you know, a few boxes just to test it out to a few 100K USD to build the network in a small sub-locality or a suburb in one city to one small city in the state. Usually getting a million dollar plus deal on the first go or first PO is usually difficult. That happens only when you have a tender kind of a business because for run rate accounts they would normally want to build up slowly, but the good part is the 50 to 100 K accounts for the next quarter becomes, you know, a few 100 K and the few 100 K accounts start contributing much larger. So when you have of all those numbers, it starts adding up quite well. In fact, that's also a very sticky business because you don't have to wait for one large tender or rather it's a question of how well one can work with these customers in rolling out the same application across more cities or more countries in some cases if the operator has a pan-country presence. So that's the way it works – you start with a few small deals and then magnify it to much larger.

Rahul Agarwal: Right. So all these customer wins would be similar and, you know, over time, let's say, five years out these might be like 5 to 10 million our size or should it be bigger?

Sanjay Nayak: So for some of the customers the total CapEx per year itself is 10 million dollars, so it will be difficult to, you know, get the full share of that. But a few others, you know, are large operators with pan-Africa presence, for example, in many, many countries. So you may start with one application in one country, once you get registered or empanelled as their supplier in their global account and then it's a question of magnifying. So they could actually be, you know, even larger deals because, you know, they are multi-country, with wide geographical presence. So it's actually over the range, but speaking like the tier-2, tier-3 operators would be, you know, 1 to 5 million dollars or kind of a range. Tier-1 operators as we call them could be 5 to, you know, 25 million dollar kind of per annum expenditure for our kind of products in a steady state mode once we get to larger engagements with them.

Rahul Agarwal: Okay. Got it. And secondly one of the small part, you know, in a slide you mentioned that you've won some tender in the defence area in India, could you help us understand exactly?

Sanjay Nayak: Yes. It is through a system integrator, you know, we should get that into converted into an order this quarter. It's for, you know, one of the defence projects and once we get through all of the logistics, we will, of course, announce it.

Rahul Agarwal: But will it be like a tender wherein your predued order over a specific period or it would be a shorter timeframe order.

Sanjay Nayak: Yeah. So I think for this particular tender we expect significant part of the order to be executed in Q3, Q4 if we get the order in this quarter.

Rahul Agarwal: Okay. Got it. Thank you so much.

Sanjay Nayak: Thanks.

Moderator: Thank you very much. Before we move on to further questions, I would like to check with the management should you want to take any more questions, sir?

Sanjay Nayak: We are almost there. We can take, maybe, one last question.

Moderator: Certainly. Thank you very much. We have the next question. We will take the one last question for the session and that will be from Mr. Alpesh Thakkar from Motilal Oswal. The line is unmuted.

Alpesh Thakkar: Yeah. Thank you, sir, for the opportunity. Just wanted to understand where do our products really fit in to the utility company and what are the percentage as a percent of sales quarter how much, I mean, into the system, so how much of the percentage of sales do they cover up for us?

Sanjay Nayak: Okay. Good question, by the way, because we talked about utility but nobody really asked about where is the utility. So really if you think of utilities in India, we have power grid, we have railways and we have the oil and gas companies. So what happens is all of these companies build a significant amount of communication infrastructure for two purposes one for their captive requirements. So if you build an oil pipeline you build an optical network to monitor your pipeline, control networks to detect gas leakages etc and there's a lot of technology around it, right? Second thing is if you look at railways and the power grid, so both of them have a captive requirement need, so railway needs it for signalling, railway needs it for, for example, the entire railway reservation of India the IRCTC actually uses Tejas boxes. So they build a network just to run all of that, but in addition RailTel is also a carrier of carriers where they are offering bandwidth to other carriers and now RailTel is also offering, say, wi-fi or connecting so many thousand stations. So they build a communications network for signalling for a captive application like railway reservation and then as a telecom service provider they offer bandwidth to other operators or lease lambdas to web companies like Google and Facebook, so that's the other part for utility.

Power is actually more interesting because with Power Grid again there is a company called PowerTel which is basically a carrier of carriers that supplies bandwidth to other service providers, but then in the power sector you would have been hearing that there's a lot of automation of grid which is happening.

Moderator: Yes. For your back you may go live.

Sanjay Nayak: I think we lost you. So I don't know where I got lost. But basically I was describing how railways, power grid and oil and gas user our products to meet their captive requirements and service provider business.

Alpesh Thakkar: Okay. And, sir, so what is the contribution for [multiple speakers].

Sanjay Nayak: The contribution of the utility sector into our overall revenues, right? So I would say last year, if I take the utility sector, revenue contribution would be about 10%-12% or so. It's been a pretty sizeable business for us, although individual tenders are small, but 10 to 12% of our revenues come from utility sector. And the good news is that even internationally, you know, the products we have for utility, you know, are also relevant in those geographies, so that becomes a nice sweet spot sector where we have a good leg up.

Alpesh Thakkar: That's correct. And so just one last question, so what is the optical key text as a percentage total telecom CapEx, so what would that be, so I am going for because, as we see that IMC would be the new normal going forward and I guess that optical would be a bigger CapEx for this telecom guys? So as a percentage of that total CapEx what could that be going forward?

Sanjay Nayak: Yeah. So historically I can tell you what it has been. So if you look at the percentage of active CapEx and if you take away all the passive part, active CapEx for optical is around 16% of the total CapEx. So this is pre 5G, okay? The jury is still out on how much 5G accelerate the amount of optical CapEx because you have to get deeper into the network with 5G and you will have a lot more base stations connecting. So my sense is that this number, you know, should go up –but by how much is still TBD because no real 5G rollouts have happened.

The second thing is, if you think about what 5G is also going to do is going to make a lot of equipment redundant. In the 5G world, the network will become a lot simpler where you have very intelligent edge devices which are, you know, what we focus on. The edge devices will aggregate different forms of signals and data and then transport them to the data centre or the cloud where a lot of the classical functionality which used to happen inside traditional base station equipment will happen. So really the element of software in 5G will increase, element of edge devices and access devices in 5G will increase. And, as I said, globally the optical transport has historically been 16% of total active capex but India has been investing at 7 to 8% in optical. So when we mention that India has a lot of pent-up demand for optical, it is for the fact that historically we have been, you know, investing far less in optical compared to the rest of the world because the focus was on wireless connectivity and that's why you have such an under-penetration of optical fiber and networks.

Alpesh Thakkar: Okay. Thanks a lot, sir.

Sanjay Nayak: Okay.

Moderator: Thank you very much.

Sanjay Nayak: Okay. Great. I guess, if there are no more questions, we can then, you know, wind up the call, Anirudh?

Moderator: Yes, sir. I think pretty much fine. It's also more than an hour, so thank you very much for giving us the opportunity and if you have any closing remarks, sir, maybe now it's now just time to say anything that you'd want to tell to the investors?

Sanjay Nayak: Certainly, I think first of all I believe that, you know, we believe that the business is back on track. We did have a small blip in Q4 which was just the nature of our business. But we do see that Q1 is a good indicator that things are back on track. Secondly, we believe that the momentum of business in terms of the funnel and the visibility we have for the rest of the year's business is high and we expect this year to be pretty solid in terms of growth. And the long-term outlook of our business is very good and we expect to register good and consistent performance over the next few years. Of course, as I said, quarter-by-quarter fluctuation or variability may happen a little bit here and there, but we believe that all the investments we are making, especially on the international side, should start yielding results and continue to improve overall health of the business. We are excited about our growth prospects for the rest of the year.

Moderator: Right. Thank you, sir. I think, sir, we can close the call now. Thank you very much. I would like to thank the entire management from Tejas Networks and Anirudh and all the investors who joined us today. Hope you all have spent a useful time. That does conclude the session. Wish you all a great day ahead. You may all disconnect your lines now. Thank you very much.