Tejas Networks Ltd.
Regd. Office: Plot No. 25, 5th Floor
J.P. Software Park, Electronic City Phase 1
Hosur Road, Bengaluru 560 100, India
Tel : +91- 80- 4179 4600/700/800
Fax: +91- 80- 2852 0201

May 03, 2019

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

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

Dear Sir/Madam,

Re: Transcripts

Please find enclosed the transcripts of the Earnings Conference Call held on April 23, 2019.

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

Kindly take the information on record and acknowledge receipt.

Thanking you,

Yours sincerely
For Tejas Networks Limited

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

“Tejas Networks Limited
Q4 FY2019 Earnings Conference Call”

April 23, 2019

ANALYST: **MR. MUKUL GARG – HAITONG SECURITIES LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2019 Earnings Conference call of Tejas Networks Limited hosted by Haitong Securities Limited. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mukul Garg from Haitong Securities. Thank you and over to you Sir!

Mukul Garg: Thank you Steven. Good afternoon everyone. On behalf of Haitong I would like to welcome the senior management of Tejas Networks for the fourth quarter fiscal 2019 earnings call. As part of the senior management, we have Mr. Sanjay Nayak, CEO and Managing Director, Mr. Kumar Sivarajan, Chief Technology Officer, Mr. Arnob Roy, Chief Operating Officer and Mr. Venkatesh Gadiyar, Chief Financial Officer. I will hand over the call to Mr. Sanjay Nayak to start the proceeding. Over to you Mr. Nayak!

Sanjay Nayak: Thank you Mukul and good afternoon everybody this is Sanjay Nayak. We have put our presentation on the website so I hope you all had a chance to download it or view it, so I will be walking through the presentation.

I am on slide #3, which is the highlights of FY2019, so at a high level I think we had a healthy financial performance. Our year-on-year net revenue which is net of taxes and component sales grew by 18.5% and profit before tax by 41.5%. The other aspect, which is important is that the non-government business, which is India private plus international grew by 33% year-on-year and in terms of the backlog we are starting FY2020 with a backlog of 418 Crores. In addition we also have tender wins in India of about Rs.300 Crores primarily in the government sector, which are expected to convert to orders in FY2020 and out of the 418 Crores of backlog about 45% is possibly what would be realized as revenues in FY2020. We are also happy to announce our maiden dividend of Re.1 per share, which is as per the dividend policy that we had set out at the beginning of the year.

The other thing I thought we have made a lot of progress this year is on the international side. So the international direct business, wherein we sell products under our own brand name grew 70% year-on-year whereas the total international business grew 39% year-on-year. What this means is that the OEM business, which used to be about 25% to 30% of our total business three years back has come down to about 2%, which is as per what we have been guiding all along and the direct business has already substituted that and started to take over so that is a very healthy sign.

And to go a little bit more in to that we won 27 new international customers out of which 6 are Tier-1 service providers in the international markets and we will go through more details about the international business in the later part of the presentation.

As a technology company we clearly believe that we have to maintain our technology leadership and we made significant investments in R&D in the last year. It was 13% of our revenues on a gross basis and a year-on-year increase of 33%. This basically has allowed us to make products, which are absolutely world class and also increase our addressable market, which we will see in a few slides.

The product that we built are now getting global recognition, so the Broadband World Forum, which is the number one event in the world in terms of fixed line broadband business, our TJ1400 OLT product, the GPON product was the finalist and similarly at the Leading Lights Awards in the USA the ultra-converged broadband product that we announced at the Mobile World Congress a few months back has been selected as the finalist. So this clearly indicates that the stuff that we are building is absolutely world class and as competitive as anybody in the world. We of course have been continuing to beef up our IPR portfolio and we have 349 patents filed.

During the last quarter we also had two new joinees in our board. C.B. Bhave who was the ex-chairman of SEBI and needs no introduction has joined us as an Independent Director and he will also be heading our Audit Committee. Arnob Roy, who was the Chief Operating Officer has now also joined the Board of the company.

Going to the next slide #4 on the financial update. As we had mentioned earlier we really do not look at the quarter-on-quarter analysis, so let me just walk you through the full year analysis. So the revenue net of components and excise grew 18.5% to 876 Crores, the EBIT grew by 42.3% to 130 Crores, profit before tax by 41.5% to 150 Crores and profit after tax to 147 Crores a year-on-year increase of 38%.

In terms of where the growth was we will go into more details later, but I would say it is broad based, which is both India as well as international. The other aspect of last financial year was that we not only grew our revenues but we also increased our operating profits by 240 basis points on the back of a higher gross margin. Typically international business is a better gross margin business and the blend of International to India increased by 320 basis points over last year.

Secondly the operating leverage we will see in the next couple of slides where as a product company we start to get benefits of higher sales into our bottomline. On the downside our DSO has increased by 101 days to 236 days primarily because of one single India PSU customer whose name I am sure you all know. We have collected some amount in Q4 and we expect the balance to come in the near future between Q1 and Q2 of this year. I must assure you that there is no risk of payment because this is really the Universal Services Obligations (USO) money, which is only earmarked for the specific purpose. There are just procedural delays because of the situation in Delhi, but we expect these to be sorted out soon. The net impact of that has been that our working capital has significantly gone up to 581 Crores from 323 Crores as of March endbecause of delayed collection and secondly we also had a heavy Q4 as a result of which many of the payables are not due but they do show up in terms of a higher working capital. So if you see the receivable amount for the company have gone up at the end of Q4, but my expectation is that between Q1, Q2 we should be back to our normal working capital cycle of 140 days and the current delta that we have should get normalized over the next couple of quarters. In terms of balance sheet we are a debt free company with cash and cash equivalent of around 369 Crores.

I am now on slide #6, which is revenue by segment. I think this will be giving you a good indication of where our business is coming out. So at a very high level as I said our 79% of our business was India and 21% was international and from a comparative angle last year it was 82% India and 18% international.

Now within India we have multiple segments, which we have broken out, which is India Government, which was 61% last year has now come down to 55% and within India Government we actually have two kind of business, one is the large project business, which is the BSNL and Bharat Net kind of business, the other one is what we call is a critical infrastructure business, which is oil, gas, power, railways, utilities, smart cities, defence.. So the critical infrastructure business, which is more or less like a run rate business where we get orders pretty much every couple of weeks has gone up from 14% of total to 19% of total on a larger base whereas the BSNL/BBNL, which is the lumpy business has come down from 47% to 36%. So overall India still grew but the India government only grew by 7% on a total, but the India critical infrastructure grew much faster.

The second thing, which has been good on the India side, is the growth in India private. So India private has grown 28% year-on-year and has now constituted around 24% of our total revenues compared to 22% last year. On the international side, if you can see the OEM's percentages was 4% last year has come down to 2%, but on the other side the international direct business has gone up from 13% to 19% as a result we really had a 70% growth on international direct. Going forward international direct is going to be a growth area of the company and I am very confident and comfortable that the foundation we have created over the last 18 to 24 months including the performance we have seen in the last 12 months for the international direct gives us a lot of comfort that we are heading in the right direction. So if you look at the overall blend of the business of the company the international direct plus India private and the critical infrastructure business is what I would say is a very steady state business, which is more like a run rate business. The India BSNL/BBNL business will be the lumpy business and we will see fluctuations in that part of the business, but the rest of the business is starting to get more and more stable.

The next few slides are on financial trends I am on slide #7. So if you see the thing to look in that and this is what I was talking about as a product company while our revenue CAGR over the last three years from FY2016 has been around 12.5%, our profit before tax has really improved quite significantly because of the operating leverage that we have in the company. I will go to the next slide, which is in terms of a little bit more detail down on to the expense trend. So our operating expenses have been growing at a CAGR of around 13% and as I mentioned earlier we have been aggressively investing in R&D because we really believe that, that is the first thing we need to do before we can go global. So we have been investing at a 21% CAGR on R&D and on the sales and marketing we have been investing at around 11% CAGR, but going forward this will be one area that we will be investing a lot more and I will specifically talk about which regions and how much. The benefit of doing that is that we now have the right products, which are world class and competitive, this is the time for us to actually invest internationally in sales and really grow that part because our investments would be more effective at this stage of the company. The cash and cash equivalent reduced and working capital increased for this financial year, pretty much is outcome of that one customer delayed payment and as I said earlier we should be able to addresss it in the next one to two quarters.

Going to the next slide which is slide #9, so let us talk about the basics of our business what drives our business, so the data growth is continuing to drive our business in a positive direction. There are three different segments which we address. The first one is the fixed broadband and fixed broadband is both for home, which is residential as well as the enterprises. So there are going to be fiber access to these things as a long-term solution for all the operator and the technology that has been used is FTTH or fiber to the home based on technology like GPON and over the last few years we have really had a lot of success in that part of the business.

One new thing, which we have started to look at is that there will be lot of places in the world especially when 5G comes into play, where you will not be able to take a fiber, so there is a broadband wireless technology, which is called WTTx based on LTE technology so we have really invested into that as well over the last few years. We have now figured out that we can have an integrated product, which is what we launched at the Mobile World Congress, which can give both FTTx as well as WTTx to the customer for fixed broadband applications.

The 4G, 5G and the IOT is the next big driver what it basically is doing is the network densification and increase the amount of fiberization because that is the only way you can carry the higher amount of traffic and larger number of devices, which will come onto the network. All of this is primarily going to be driving the metro network both in terms of capacity as well as density and metro again is a signciciant focus area of the company and over the last 24 months we have now got a complete set of products starting from access to metro core, which is multi terabit capacity metro network as well.

And the last part which is driving our business is the cloud and the data center. So really once e-commerce and residential broadband as well as all the mobile internet and other activities are taking off there is a significant amount of data traffic, which is going into the data centers and that requires scalable multi terabit DWDM networks in switching and again that is an area, which we are focusing on in terms of our technology.

Coming to the next slide, which is slide #10. Just to give you a pictorial view of what have all our R&D investments over the last few years meant and how are we addressing those three macro trends that I just talked about. So in FY2016 we pretty much had only the optical aggregation and the metro WDM product, which was addressable market of about $9 billion for us out of the $21 or $22 billion of optical. Then we added the GPON product, which is the fiber to the home after that we added the switches, which are the industrial grade switches for critical infrastructure, which basically we target primarily the government defence in the critical infrastructure segment. We subsequently added multi terabit OTN as well as PTN switches, and then the last bit, which is coming into revenue this year is the fixed wireless access on the LTE technology, which will be for 4G initially and 5G later. All of this together really has meant that our TAM has gone from $9 billion a few years back to $18 billion at the end of financial year 2020.

Now in terms of what is the strategy of the company? Number one we clearly believe that India is a home market and we have very strong incumbency and there is a lot of pent up demand for broadband in data, which will lead to a demand for optical transmission equipment both in India private as well as in Government and we really want to make sure that we deepen our applications into the India private account so that the dependency on the lumpy part of the India Government business comes down. Of course there will continue to be several orders in India Government from Bharat Net and BSNL tenders, which we will be benefiting from due to the Make in India program, but we do not want to have too much of dependency on that.

The second one is international sales, which is direct sales now in Africa, South East Asia and Americas and our objective is to reach 50% of our total revenues over the next two to three years from international sales. Third one I talked about is to continue to invest in R&D. We are in the business where we have to continually make sure that our products are differentiated compared to our competitors and we continue to add more features and capabilities in our products so that we can increase our addressable market and all of this we want to do while still maintaining solid financial performance in terms of profitable growth like we did in last year as well as improved working capital efficiency, which we have not done as well last year, but hope to do in the couple of quarters from now.

Let me now go down into each of the three markets. So in India as I mentioned there is still a lot of steam left in terms of data led growth for our business. I would not like go into the details because all of you are very familiar with this, but basically the data demand is doubling every couple of years and as a result the optical market, which is a billion dollar market should become a $1.2 billion market in the next few years and we think we have a good chance of getting some market share in this market.

Coming to the next one, in terms of India government, there is a lot of discussion around what happens after Bharat Net is done. So let me kind of give you a sense that the investments from the government side for broadband networks are going to continue for many years whether it is rural connectivity, smart city, Bharat Net Phase II, Bharat Net Phase III, that part of the business is still going to be on, there is a lot of money in the USO funds of different kinds, which will continue to happen. So I do not think that part of the business is going to go away. The critical infrastructure business, power, rail, oil & gas, defence, fundamentally what they are doing is they are upgrading their telecom network for higher capacity. For example video surveillance is an application, which this entire critical infrastructure has and that generates a very high amount of data, which required them to completely upgrade and overall the network and we again have built up very good run rate business out of it.

I must also tell you that the government business in India is profitable, the order sizes are large, the return of investment on sales is very high, and at times the collection cycles can be longer although there is no risk of payment. But these are both pluses and minuses of the business. We have incumbency, preference to Make in India policy continues to be strengthened especially if you see the latest digital communication policy, in which Government of India has announced that by 2022 they want to have net zero imports of telecom equipment and clearly we are the largest domestic player in the segment. So we think we can step up and do a lot more. So as a result in the last year the India government grew by 7%, but on an overall basis came down from 61% as we already talked about. In terms of the funnel for FY2020 we have the backlog, which I talked about, which is primarily the India government tender that we won last year of 418 Crores and around 45% of those will get executed this year. On top of that we have about 300 plus Crores of business that we have won for Bharat Net Phase II both at the center as well as in multiple states not directly, but through SI partners and also a few defence projects, all of these are yet to be converted to orders. We believe they should happen probably after the elections and they could be up for revenue in FY2020. In addition we see a healthy flow of new tenders, which we are well poised to bid and hopefully have some good success, but the actual revenue from this segment of the business could fluctuate depending on the timing of the orders when they get converted so I just want to kind of highlight that.

On the India private side the vendor consolidation out of that, the operator consolidation is over, the players who are left are healthy or will become healthy I will say over the next few years. Clearly one part that they have to do is invest in the infrastructure upgrade. So far the focus was on mobile, as you all know the next battleground for all the operators is going to be the broadband especially at home and enterprises. There are just 20 million broadband subscribers in India and whereas there are 450 million mobile subscribers so I think that is really a big growth opportunity and fiber based broadband or wireless based broadband is what will happen and as I mentioned earlier we are very well positioned for those products.

Our strength in terms of why we have been and why we are getting some market share gain is because of two or three different technologies that we do very well. One is of course the GPON technology on FTTX we are field proven especially with the Bharat Net we are actively engaged with two leading telco's in India for the FTTX deployments. We are extremely strong in enterprise data connectivity market so the market will be there in India and enterprise data connectivity is basically one of our largest customers and as other operators are trying to get into the enterprise business, which is the profitable business we think we should be able to take advantage of our credibility in that business and gain.

So on an overall basis India Private grew 28% year-on-year. We registered new wins, especially one with a large Tier-I operator for its metro capacity expansion. We believe that this application can generate more than Rs.300 Crores worth of opportunities for us over the next few years and we already started shipping against that application late last quarter and starting from this year we should see a good amount of traction from that application alone.

One other thing, which we have done, which is very interesting is that we have established strong system integration and channel partnerships especially for securing business from enterprises and captive networks. So there are lots of smaller networks whether they are from a cable operator or form a small enterprise that requires both optical and switching products. We have actually got some system integration relationships who will start selling our products as distributors and we do not have to go to those really small deals, which could be 50 lakhs or 1 Crore kind of deals, and having to steer these opportunities from our end.

Coming to international among slide #15, so as you can pictorially see there are really four regions in the world we are covering I have already talked about India. The other region, which we are covering, is South East Asia, which is addressable market for us for our products of about $1.9 billion, Africa and Middle East is another $1.1 billion and North America is around $4.7 billion.

Let me go to each of the three regions quickly. So in South East Asia this was the region that grew the fastest for us in FY2019, the target countries are Bangladesh, Sri Lanka, Bhutan, Malaysia, Vietnam, Cambodia, Indonesia, Philippines, Myanmar and Mongolia and this again is a region where we already have a lot of traction of success. We have been operating in this region for the last three to four years and that can be seen that we have increased investment 16% year-on-year including hiring senior leadership based out of Singapore. And if you see the customer profile and we have talked about this in the earlier calls as well as as a good metric to track our progress. We typically start by winning business in any region by getting smaller customers or customers with small revenues initially, so we have 24 customers in the region, which are giving us revenues up to 1 Crores, four of them have now migrated to up to 15 Crores and one customer has given us more than 15 Crores of revenues last year. This kind of gives you a sense that we continue to add more customers at the smaller volume and then over time at different points in the year they start graduating to higher revenue numbers.

Another thing is that Indian Government has a line of credit for Government to Government projects in the region and actually in a couple of countries we made seriously good progress and we hope to at least close one largish Government to Government deal where Indian government will be giving line of credit to the country and we would be able to sell our equipment through that line of credit. So overall I would say this was a very strong region in FY2019 and it should continue to deliver strong performance in FY2020 as well.

Coming to Africa and Middle East, so we have again talked about the countries that we are operating, we have four different offices in Africa, in fact we witnessed a 23% year-on-year increase in sales investments in Africa so we have our own office now and our own teams in South Africa based in Johannesburg, we have one in East Africa based in Nairobi, we have one in West Africa based in Lagos and we have Middle East operation based out of Dubai and we have just opened up our office in Algeria as well. So we are really covering Africa from all the angles. Africa is another place where we are seeing very, very strong customer endorsements. We have got 32 customers who are having up to 1 Crore, 8 of them have gone from up to 15 Crores and one has gone above 15 Crores as well. The good part in Africa is that, which is by the way true for South East Asia as well, pretty much all the major operators are looking at us as an alternate vendor base in terms of what they have, which is primarily Chinese vendors and I think we are really fitting very well in to that profile. We are very happy to say that we have been selected by four Tier-I operators in Africa these are all Pan African operators I am sure you probably heard the names of all of them, we cannot yet announce their names for confidentiality reasons, but at the right time we will. We have got 15 new customers in Africa, so really I would say while the revenues on a year-on-year basis has not grown much in Africa last year, but from a progress point of view both investment as well as the traction from customers we feel we have made significant progress in Africa, the results of which will actually start appearing in numbers as we go into FY2020.

Coming to the last part, which is America. So in America really Mexico is one country where we have been operating for about four years now and US we were primarily doing OEM business earlier and now we are focusing on direct sales. So US is a very large market and it is very difficult for us to go after all the customers so we are specifically focusing on the Tier-II and Tier-III operators including cable companies and in Mexico we focus on all telecom operators. Realistically speaking the kind of traction, which we have got in Mexico where we now have our own office for the last few years has been phenomenal. Mexico actually as a country was the fastest growing for us in the last year and also gave very significant revenues. The OEM business has declined to now 2% of our total compared to 25% to 30% a few years back and we have been kind of guiding on that, but despite that we have been able to backfill all of that and grow the business in the region.

The US direct again we have had a lot of small customer wins we have 11 new customers in the US plus Mexico last year including one Tier-I and the customer profile again is we have 15 customers of up to 1 Crore, five customers who are up to 15 Crores and one customer above 15 Crore. So in terms of product fit we have seriously good product fit in terms of what the US market needs in terms of optical network modernization as well as the ultra-converged broadband products, which will give both wire line as well as wireless on the fixed side. There are lots of spectrum auctions, which are happening in the US, which would benefit us, but net-net I would say that just from the existing customers in Mexico we already see a very strong growth funnel for next year. US we have not got much business in terms of the total value last year, but we do expect that with the engagements that we have and the kind of traction, which we have gotten from the customers we will see US starting to finally pay up in terms of revenue growth in FY2020, so that is kind of the quick summary on the US as well.

I am on slide #19, which is just a quick recap of what is our sustainable competitive advantage as a company. So at a high level we have been talking about our software designed hardware, which basically is build on programmable silicon, which allows us to put new standards, new protocols and really the same hardware can be upgraded to do new things in terms of features and functionality.

The second aspect is what we call is a future ready product, which basically not only good for the 2G, 3G or 4G in many regions, but the same product can be upgraded to do 4G and 5G in future just because of the programmable architecture that we have. The third benefit, which we have, is the ultra-converged broadband access. What this basically means is from the same box same system you can give GPON services on fiber, you can do optical transmission and aggregation, which needs to do traditionally and as we announced most recently at the Mobile World Congress we can also give LTE and 4G services on fixed wireless from the same platform. This becomes extremely powerful especially in the emerging markets where the broadband operators are not necessarily mobile operators. So if you are a broadband operator who has wireline broadband and you want to reach a lot more customers with wireless broadband they can use a box like ours which is extremely useful. The last but not the least is our innovative business model. We have asset light manufacturing, we have very cost efficient R&D and while we are investing quite a bit in R&D from a overall P&L angle we are still better than most of our global peers. The net effect of all of that is we are able to deliver quite significantly superior financial performance compared to any of our global peers because of the unique business model that we have.

Now on the last slide #20 and after that we will open it up for questions. So if you really kind of summarize where we are in the business. So the fundamental drivers of our business, which is data growth both in India and international it is continue to be there, it will be there for the next foreseeable future definitely for the next five years and we think we are well positioned now with a better product portfolio and expanded footprint in several markets to take advantage of that growth. FY2019 was important year for us. We had a healthy growth in terms of topline and profitability, but more importantly I would say the good part has been that the blend of the business the customer profile has started to go into the direction, which we think will give more stability to the business, which is larger portion in the international, larger portion in the India private, larger portion in the part of the government, which is not lumpy, which is the critical infrastructure and of course we are ready to take advantage of Make in India projects as and when they start giving us large business as well. The India business continues to see a lot of growth as it continues to be the world's fastest growing optical market. India private is starting to do well for us because of new applications and we already talked about the critical infrastructure and Government business, which is good business for us. I think that is a high ROI business for us as we are able to take the benefits and profits from that business and we are able to invest in the international, which basically had been under invested in the past. And last not the least is the sustained R&D investments. We stay committed to making sure that we invest aggressively in R&D and IPR creation that allows us to create products, which are very competitive. We have been able to hold our own against much bigger companies than ours by demonstrating that we have a superior product portfolio which is more competitive in many applications. As a result of that we really have a complete portfolio starting from access, which is wire line or wireless and then going to the metro core, which is all the transmission products scaling up to multi terabit capacity. So I think we can do end-to-end for these kind of networks and as a result we are seeing that not only are we are getting good success in India, but at the international stage too our products are now being recognized as the best in class and consistently rated in the list of the top products in each of the segments we participate in. So that is where I would pause and Mukul you can probably open up the line for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vijit Jain from Citigroup. Please go ahead.

Vijit Jain: Thanks for providing lot more data and information in this quarter we really appreciate it. I have two questions, my first question is are you giving a guidance for FY2020 and within that what kind of growth do you think you can sustain for the run rate part of the business, which is as I understand from your commentary about 60% of your total revenues and my second question is about margins so I know you do not look at Q-o-Q numbers that hardly, but there is a bit of a Q-o-Q decline in margins despite the higher international, so how should we think about that and within that is India private slightly lower margins for you especially that new order you got?

Sanjay Nayak: Yes, there are three questions you had. The first one was in terms of what is our guidance for 2020 and or are we giving guidance, so since that we discussed this issue and we believe that we will better serve the needs of all the stakeholders by kind of giving a lot more detail about the business like what we have done today and we will continue to do that rather than just throw out the guidance number. So we will not be giving any guidance per se. If you see fundamentally the growth drivers of our business are absolutely intact like they were last year nothing has changed. Secondly our product portfolio has enhanced our addressable market as I showed in the slide. So as a result I would say we have a lot of headroom to grow, but it would not be prudent for us to give a very specific number that in terms of the guidance, so that is one part. The second part of your question was that in terms of the margin profile, you rightly said we really do not watch quarter-on-quarter margins because what we end up shipping to the same customer in one quarter versus another could change and depending on what particular product we shift. So we really do not kind of look at Q-on-Q margins and in a sense actually Q-on-Q revenues because we will really look at and annualize them, for example typically Q1 is always a soft quarter in our business so that is usually the case. Coming back to this margin thing again the way we are thinking of it is that if you can sustain the margins at the current level on a blended basis that is our first target for next year and we believe we should be able to do that. Your third question was that within the three buckets of business that we have, which is India government, India private, international. Does India private have lower margin on higher pricing what we really do is depending on the time of entering into any account for example if you enter account at the initial stage you may have slightly lower margins, but as you build up the volumes and as you build up a larger set of things that you shift to the account the margin really neutralized. So the way to think of our margins would be I would put it at a more or less a more simplistic say that we look at it on a blended basis on the total, at a directional level international margins are clearly better than Indian margins so as our international business goes up the percentage naturally the margin profile at the gross level will go up, but correspondingly there would be increased cost of sales so on a net basis we feel that our target is really to keep our EBIT margin, or operating margin, which is the right metric to track at around 15% level, but it is around 14.9% last year that is what we can grow to, so 14% to 15% is what our range per EBIT will be as we continue to sustain our business from the international level as well.

Vijit Jain: Thank you.

Moderator: Thank you. The next question is from the line of Ajay Sharma from Cycas Investment Advisors. Please go ahead.

Ajay Sharma: You guys have done a good job of teaching us about the company and the industry in the last one, two years, but I am not too sure the market really appreciates the launch and nature of the company business. So I just had a few questions about the balance sheet of the company. Could you help me understand how the growth in sales has been 133 Crores, but the growth in receivables this last year has been 347 Crores as you have been extending more credit to your existing customers or how should we think about that?

Sanjay Nayak: I kind of touched upon it a little bit briefly earlier and maybe I can go into let with more details here. So essentially there are two things, which are coming into picture that the DSO at a higher level has gone up primarily because of one particular PSU customer, where our payments are delayed so that is basically contributed about 101 days of DSO, so that is one reason why the receivables are showing higher. The second aspect, which I kind of briefly mention is that our Q4 revenues were higher in fact a significant part of our shipments actually happened in the month of March so they are not really due at this stage so I believe that by the end of Q1 or latest by Q2 we should be back to our normal working capital cycle. Coming back to your specific question of are we extending longer payment terms I do not think so. In fact on the contrary what we have not done as much compared to what our global peers do is lot of the much longer-term financing that people offer in our industry is actually factored off balance sheet. So we have not used that tool as yet, but as we increasingly go international or we get much larger size deals it probably might make sense for us to use that facility as well. But clearly we are not offering any better payment terms than any of our competitors. On the other hand it is actually reverse because we really try to get much better payment terms given the size of our company.

Ajay Sharma: And in the note #13 from the financials release last night I understand that the company has filed a legal case against an international customer to an amount that was not material that is a few year ago, now if the company being prudent to do this then why not go after this one PSU customer who is now overdue almost one year?

Sanjay Nayak: The one customer in India is actually a Government customer and I think we understand the financial situation they are in, so I do not think there is any risk of payment of any kind. We are actually working with the right people at the customer management level as well and I think lot of things are in progress and are in the process. So as I said that we already collected some amount of money in Q4 and we do believe that with all the work that is happening and the cooperation we are getting from the customer as well as the Government we should be able to collect the balance amount and come back to our normal working capital cycle in the next one to two quarters. And by the way the lawsuit that you mentioned about is not an international customer it was one of our suppliers in India who basically owe some money and we just felt that as a part of good prudence we should disclose it though it is not a material amount but we do want to make sure that someone who owes us something we do find a way to collect it.

Ajay Sharma: Thank you for the clarification and my final question is as an investor could you help me understand are we made dividend this year because I assume your cash flow this year will be negative so you are essentially returning cash towards that we gave you in the IPO and lesser cuts of the government?

Sanjay Nayak: No, I would not look at it from that angle when we discuss this issue we at least at the beginning of the year we actually had created a dividend policy where we felt that as the company starts making profit yes there is a small time impact one off impact, which is currently there because of this one receivable, otherwise we should have been pretty comfortable in terms of even the free cash flow reserves, etc. We really felt that the way our business is growing the way profitability is increasing and the way we see the outlook it was time to kind of have a message to the shareholders that we do want to reward you as the company's profits continue to increase. The current cash flow issue is as I said it is a one off thing, which we do not think will have a material impact on the long-term plans of the company in terms of growth, profitability or even rewarding shareholders in terms of dividends going forward.

Ajay Sharma: That is it from my side. Thank you very much.

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

Mukul Garg: Sanjay first I just wanted to quickly check with you, you mentioned on the presentation that you guys have now six Tier-I service provider, which you have won. Can you please provide some detail on if you cannot provide the names of the providers, which regions they are in, what sort of countries you guys have winning and what sort of product line is being selected by these guys?

Sanjay Nayak: Yes, actually this information is captured in the slides. So four of these Tier-Is are in Africa, there was one Tier-I we won in North America, which is Mexico to be honest not North America US, and there was one Tier-I win in South East Asia. In Africa if you go to the Africa slide the application was one pan African operator, which is in probably largest number of countries, and we have won an alien wavelength application which to put it simply someone sold them their 10G DWDM equipment in the early days and we are upgrading that equipment with add on cards or add on systems for 100G from our side at an incremental cost to them. So there was an open RFP where they invited all the top six vendors in the world for this and we have been selected out of that. GPON is another area where we are winning a lot of business in Africa because Africa is another country where the broadband penetration is very low so that is the second application. In the US market the network modernization is the application, which seems to be picking up quite well and we believe that as we go forward our new ultra-converged broadband access product will also provide some interesting opportunities in the US rural and Tier-III markets. So these are the applications we also highlighted in our slides for each region.

Mukul Garg: Just a follow up on this you mentioned the Tier also winning on GPON so can you update us on the PON business what is the revenue run rate you guys have in that business now outside the Bharat net project and what are the different areas or regions where you are seeing traction there?

Sanjay Nayak: So the BharatNet network a good way for us to jumpstart into the GPON business because we got one anchor customer who gave us the economies of scale and we could perfect the product etc., but after that in India as I mentioned there are two large customers, Tier I customers whom we are in discussions for their GPON one of them we have actually kind of won a part of their RFP for supplying some portion, the other one we are still at an active stage of discussion. So India two of the three private operators we are in detailed discussions on the GPON, internationally pretty much every territory that we talked about which is Africa, South East Asia, as well as US, we are seeing large deployment. In fact I must also mention that we are already looking at very large projects which are potentially multi $10 million deals over a year or two years on GPON in at least two out of the three regions and actually three out of three regions where we think that we should be able to get much larger. So essentially think of if there is a carrier who says I want to have 3 or 4 million home passes over the next two to three years and we are trying to become their supplier of GPON equipment for that kind of an application. So our GPON products have been seeing significant traction. And part of the reason by the way is that we created this GPON product in the last three years so in a sense we are among the last guys in the world who created possibly the most competitive GPON product portfolio based on the latest chips, the latest technology and the highest level of integration with transport and access. So I think in a sense our GPON product, relative to anybody else who had a GPON product five years back is possibly the best in class in the world and that is why at the Broadband World Forum in Munich late last year we were in the final list of the best product. By the way do not breakout the numbers by product family because it is the same 1400 product which has GPON or LTE or OTN. So we do not really track the revenues by a particular technology.

Mukul Garg: Understood and if I may ask the last two questions. First your R&D as a percentage of sales is as a multiyear high. What should we think about going forward the trend in last few years was closer to 8% to 10% do you expect to maintain the 13% type of the range on R&D?

Sanjay Nayak: So far just to clarify again for everybody else so when you look at R&D on our P&L, a part of the R&D gets expensed and the part of the R&D is capitalized. So what we thought from a simplicity and transparency angle we will give the full R&D expense that we spend every year. So last year we did around 13% which was slightly higher than the previous year which was around 11% so last year we did increase R&D by 2 points compared to what we would steadily do. I would say the way to think of it is around 10% to 11% is what we will get into steady state but if you think from the way we are building the business the first and the foremost thing was to invest enough in our products to make sure that technology wise we should be right at the top and we should able be compete with anybody in the world if we get a fair chance. I think we are almost there with respect to the investment. Now is the time for us to invest into sales and actually go and create those opportunities where our products can be selected but if we had done it in the reverse sequence it would not have made any sense because we cannot sell if you want to really technologically advance. So coming back to your answer we are at 13% last year we should get back to 11%, 12% in a steady state on a full year expense basis and maybe with a larger revenue size that same thing can come down to 10%.

Mukul Garg: And the final question was on the large Tier I metro capacity expansion is this the same deal when you mentioned last quarter or is it Rs.300 Crore upgrade opportunity a new one from your end?

Sanjay Nayak: No it is the same one and last quarter when we talked about we had won the deal but not received any purchase orders and not even put any equipment on the ground. Now we have actually done some initial rollouts in some cities and now the question is once that solutions get integrated in their operating system etc. they can start going for a larger scale rollout. So there is a pan India rollout where basically think of whichever metros of theirs start running into capacity problem, they would use this application to basically enhance the capacity at a relatively incremental cost and that gives us that good nice application opportunity over the next few years.

Mukul Garg: So what duration are you assuming for this Rs.300 Crores of upgrade opportunity?

Sanjay Nayak: I would say maximum three years.

Mukul Garg: Understood, I will get back into the queue. Thank you for answering my questions.

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

Rahul Agarwal: Two questions on the business side and then two smaller ones on the financials. Firstly to start with very encouraging seeing Indian private and international direct growth as well as absolute revenue numbers very, very strong performance. So one question is related to Indian private business essentially the earlier question also alluded to that, that essentially is there an operating margin risk or a working capital risk as you start growing up your business into the Indian private side. If you could answer that more in terms of numbers or qualitatively in terms of how you basically gear up this business over next three years this segment particularly?

Sanjay Nayak: You are right that as we have been building up the India private business. I would say that clearly India private is a tough business it is not a high margin business. There is a lot of competition. So once we enter the business at the initial stages for their application there will be challenge in terms of making sure that you have reasonable margins left. So I think that is a correct observation but as I mentioned earlier we look at the whole thing on a blended basis because a given customer in year one may not yield business with good margins but the same customer in subsequent periods of time may end up delivering a good margin business. So I think margin wise I am not concerned. The second part of the question you had was on the working capital side in terms of longer payment cycle expectation so that is the part actually what we have started to do is do some structural changes in terms of what we do. So (a) we have factored the cost of interest when we price the deal in terms of the pricing etc. and then we have now got support from multiple financial institutions who are willing to buy off the receivables from those customers because they are named accounts in a country that they are comfortable with and we can get any long-term payment out of our balance sheet in terms of the receivables. So the benefit of that is I would again come back to say that we have a target working capital of 140 days which is what we almost had reached in March of last year we believe that in next one to two quarters as a combination of all of the initiatives which we are taking, we should be able to keep our business in a bounded working capital cycle of around 140 days. This will basically make sure that if you have factored the cost of interest, your working capital cycle is bounded and we should be able to manage the growth in India private despite the challenges that you highlighted in your comment.

Rahul Agarwal: Okay perfect, so that basically means that on a blended basis in terms of cash flow for any Indian private order broadly that should be similar to other segments as well right if we compared it with international business.

Sanjay Nayak: Exactly, across all the three we will try to come back and maintain a blend of margins as well as the working capital so that we keep margin at a reasonable level and which allows us to support or investments and still generate some profit and also to make sure that we do not go out of control on the working capital. There will be one off situation like we have today which is not something which we like but we just have to deal with it. You are all reading everything in the papers in terms of what is happening. So we will just have to deal with that, but once we get done with that I feel we should be back to our normal sense.

Rahul Agarwal: Second on the business side was as you shared data on the revenue segment, would there be any international Government segment; would there be anything like that?

Sanjay NayaK: It is not exactly in the sense of Government like you talk of India Government where you have these BSNL kind of tenders where it is a 1/0 thing so you either win the business or you don't. There is a slightly different variant that I kind of alluded to in one of the conversations I think in the context of South East Asia. What is happening is that like what China had done many years back the Indian Government is very excited about the possibility of increasing telecom equipment exports to other developing countries. So for example India has a $10 billion line of credit for Africa and $1 billion line of credit for South East Asia. What Government of India is trying to do is can I export telecom projects from India. So for example can India build a Bharat Net equivalent in country A and India is willing to extend long-term financing or development financing to that country. So for that part of the business we are working very closely with Ministry of External Affairs as part of Telecom Export Promotion Council, of which I was the Chairman earlier. We actually have a few projects lined up which are at a fairly advanced stage which as I said should give us some business in this financial year and if they happen then that is a good recipe for using the Indian Government's line of credit to secure larger projects in the international market using the G2G funding.

Rahul Agarwal: So existing revenue fiscal 2019 is zero but it could happen which is more G2G kind of projects?

Sanjay Nayak: Yes in FY2020 also I am saying we will win such projects, we will be happy if some of them become revenue but it is not a part of our base plan.

Rahul Agarwal: And the billing will happen to Indian Government right?

Sanjay Nayak: No. So the way it works is an Indian Government agency whether it is an Exim bank or a TCIL kind of an agency would be put as a front end but the content would be all Indian and if it is a project that we have been working with the end customer the equipment would typically be from us. So we would secure our money from the equipment and other agencies would be completing the remaining projects.

Rahul Agarwal: Got it, fair enough and there are two smaller questions for Venkatesh. Venkatesh slide #6 where you have given the revenue wise segment, what would be the absolute revenue number we should take to calculate these percentages. Is it net revenues, is it gross revenues, what number have you guys used?

Venkatesh Gadiyar: Yes it is net revenue, net of taxes and component sales

Rahul Agarwal: 877 is the number I should refer to?

Venkatesh Gadiyar: 877 is the number yes.

Rahul Agarwal: And just last thing from this customer where our money is pending to be received, what would be the outstanding balance for March 2019.

Venkatesh Gadiyar: So we are not giving customer wise revenue or a receivable per se but I can tell you that except for the revenues that we did in March which of course show up as receivable. The delayed receivable is only from one single customer which is more than Rs.200 Crores per se but I cannot tell you the exact number but somewhere around that is what it is, but that is the receivable amount which is the larger one.

Rahul Agarwal: I thought last quarter it was about Rs.150 Crores was the number right?

Sanjay Nayak: No different things start becoming due at different points in time so at any point in time you always have to add what was not due then is becoming due now..

Rahul Agarwal: Okay got it perfect. Thank you so much. Best wishes.

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

Sangam Iyer: Sir, congratulations on a good execution in Q4. So I just wanted to get a better sense on if you were to continue to deliver the 18% to 20% growth that we have been envisaging over the past two years, what would be the key drivers from here on to help us achieve that target., I understand that you are not going to give a guidance per se in terms of what the absolute number would be, but in terms of enablers to achieve that kind of a number. Could you just run us through that in terms of where we are and what could be the few gaps that we need to fill over the period of this financial year to achieve that kind of a growth?

Sanjay Nayak: Yes so number one I would say the principal driver for growth if were to see over a next three year period would be international. There are two things to read out for our international business. First though three years back international business say was around 25% of our total but pretty much almost all of it was the OEM and today that blend has completely changed where the direct part of the business is much higher, so international growth would be number one driver for getting to continuous growth. The second thing which you would have seen which we have kind of now put it into numbers is that we actually have a larger portfolio of products to sell. So the way to think of it is that winning customers in our industry takes a lot of time but once you got a customer you really want to make sure that you continue to get a lot more wallet share from the same customer. So earlier on for example we were only addressing a small portion of this optical transport alone, now we are pretty much addressing everything that is in the optical transport and access. On top of that we also are now addressing something for its fixed wireless need. So I think the enhancement of the product portfolio allows us to make sure that once we win a customer we sell him a lot more. Number three I would say that the India as a market which is a home market for us is still going to growing quite well. Yes there will be lumpiness because of the large government orders but the funnel of such orders is quite good and it will continue to happen. The private operators for us I think once we start getting selected for more and more applications, we got into some application last year we expect to get into more hopefully in the first or second quarter itself. Once we get into those then that gives us a very good steady state business over the next few years. So I think these would really be the driver that start getting more into international, within India make sure that we get deeper into the accounts and number three the larger portfolio allows us to make sure that we can sell a lot more to any customer that we win and the fourth point by the way which is a good thing to also think off is that the way our customer base works is that the year one that we make a entry into a customer typically we get small amounts of business, so like a $100000, $200000 and that is what we kind of articulated say hey we have entered an account we have made a mark but we have not yet generated significant revenues. Year two or sooner some of those customers start giving us larger orders and we become well established in the account. It then becomes a market share within that account. So for example if there is a large Tier I which is pan-Africa and we get into some application, we do a good job, we clearly have an opportunity to expand into adjacent applications. So that is how I would think of in terms of how we will get a sustainable growth of revenues hopefully with lesser amount of lumpiness going forward.

Sangam Iyer: So then Sir given that if I were to just summarize the four points that you mentioned, we have already achieved a lot of these in terms of milestones and are improving on those so why not provide a quantitative guidance in terms of growth and you may just provide a qualitative thing I am just trying to understand is there something…?

Sanjay Nayak: First of all very good questions as we debated this ourselves. The only answer I can give you is that the international base which we had was relatively small last year so while we kind of created a good foundation so let us say we went from step one to step two. This is the year we believe that we will test our base and make sure that it actually started and will scale up. So I think that is really one of the reasons that we thought that we have done a lot of the work but not enough to have all the bases covered. And the second part which we also have been very transparent this year because of fluctuation in revenues last year or even in the quarters before on the India Government business. So what we really said let us kind of lay it out saying this is what we have in the bag with us, this is what we have won, these are not yet converted to orders the timing of the conversion in government business is always a little bit tricky to predict so when those things start panning out one can also be comfortable about that part of the business. At the end of the day you still see a 55% of our business was government business. So if that segment of the business has some amount of uncertainty of time and really primarily not of whether but when, it was prudent to kind of lay it out rather than just throw a number. We said let us give a lot more details to people so that people can of course add up and make their own judgment calls.

Sangam Iyer: Got it. Because you actually mentioned two important points, if I look at last year's starting order book and the final executable the revenue that we had generated and what we have as an order book today with Rs.300 Crores in the funnel which is won but not yet converted into order. Even if that not converted, we are still pretty much in the similar line to deliver a growth over last year's numbers right. So that is what I was trying to understand here with this the revenues coming in there will be a substantial growth that we are talking here?

Sanjay Nayak: Yes but, by the way as I said that in the order book of 418 Crore only 45% will be for this year's revenue. Then you are right we have a Rs.300 Crore order which has been hanging on the plate for now close to six months and till the election results are out they will continue to be that. I mean not that the government has any impact but just things do get slowed down in Delhi once you have all of these things going on. So I think it is really more of we felt that we want to really kind of get a little bit more transparent about the state and the progress of the business and we are sure that by doing that by being lot more detailed about our business segments and where things are, we would kind of give a lot more comfort to people rather than just giving a high-level number and say that is what it is so we just felt that this is a better way to manage the expectations of our business which by the way is a tricky business. It is not very easy to predict given the nuances. For example even India private operators we have been hearing about lot of operators saying I am going to do fiber to the home rollout lots of cities, 1000 cities plus but on the ground it takes time to do all of those things right. So it is very hard for us to predict the timing of some of those things. So we just kind of being a little bit cautious making sure that we layout all the details all the progress as you rightly pointed out we have actually covered a lot of basis but let the results come out and let people continue to get more comfort and again I said the other aspect which we wanted to kind of highlight is the quarterly lumpiness and we will continue to have quarterly lumpiness for example as I mentioned earlier Q1 is always a quarter everybody is planning their stuff and things happen so it is a slow start but that is why we do not want to get into a quarter-by-quarter comparison because it is just not the way we look at the business and it is very hard for us to manage that expectation correctly either.

Moderator: Thank you. The next question is from the line of Rajendra Mishra from IDFC Mutual Fund. Please go ahead.

Rajendra Mishra: I just missed the initial numbers on working capital; can you just share what were the Q3 number and Q4 number in terms of days?

Sanjay Nayak: On an annualized basis I know that our working capital days went up from 141 to 206. So March ending 2018 was 141 days, March ending 2019 is 206 days and the primary reason for that as I said is the receivable from one particular customer which has really caused distortion.

Rajendra Mishra: And how much is that amount?

Sanjay Nayak: As I said we do not disclose specific number by the customer but it is north of Rs.200 Crores from a single customer which is the delayed amount.

Rajendra Mishra: Another thing is that so we you have spoken a lot on how we have prepared for and how we have done R&D scaled up products are now scaling up sales and all in international operations. Can you also share something on the sourcing side on the raw material that we sold so how are we place in that the vendors are have sufficient capacities as we scale up so is there any risk or there are sufficient capacities so we are well placed. So can you just share some thoughts on the vendor side?

Sanjay Nayak: No that is a good question I am glad you ask. So I think now we have two vendors who are prime suppliers so one of them is Sanmina who has been with us for many years. They have a 300-acre factory in Chennai. They can probably produce at least 10 times more than what we need without any problem from our side. So I do not think we have a challenge on that we have also developed a second source in Bangalore it is a company called Sun Fiber Optics. They again have plants in Bangalore as well as in Cochin and it is a very top tier domestic supplier. So we basically said one multinational supplier Sanmina with plants in many countries as well as in Chennai and one domestic so I think between these two we have absolutely adequate capacity. Also investments within Tejas are already in place for whatever manufacturing we need. So if we really see while we increase our net revenues by 18.5%, we hardly had any increase in our manufacturing cost internally in terms of the team size or the facilities and so on. So that part of the question is very well covered and we do not see any issues whatsoever in scaling up of the revenues over the next few years between the existing suppliers itself.

Rajendra Mishra: And on the silicon side, so the cost of the commodity is part of the material that we get from Sanmina or Sun Fiber right?

Sanjay Nayak: Yes, so what we are doing at the component level at the silicon side, we again have a global relationship with all the top silicon suppliers. These are companies like Xilinx and Intel for the programmable devices, Broadcom for switching devices and then optical component suppliers. So basically we have global level relationships where we are directly talking to their CEO's and the CTO's and their heads of business units because everybody is looking at India as the next frontier to conquer. They view Tejas as a company where if they get their product designed in they have the best chance to grow India market. So I think that gives us an opportunity to interact with all of them and we really kind of get disproportionate support from them in terms of pricing, supplies, lead-times comparable to many of our larger peers.

Rajendra Mishra: What was the other name that you shared apart from Intel on programmable devices?

Sanjay Nayak: Xilinx.

Rajendra Mishra: Thanks. One last question, this is little more global question on 4G versus 5G, two things so we have one we are heading now whether the cost of auction which they have thought of seems to be high and the operators have represented that cost should be brought down, that is one and secondly we are hearing that China is ahead of you as and that the whole episode unfolding. So can you just share some thoughts on to in terms of industry preparedness both at the operator level, technologies, vendors, where are we how many years are we from actual rollout of 5G because we are hearing a lot on faction we do not know that it is a six-month future or it is a six years' future?

Sanjay Nayak: I will ask Dr. Kumar our CTO to answer that question because he really has been championing the 5G cause in India and actually represents India in all the standards body so Kumar can probably talk about that.

Kumar N. Sivarajan: Globally I would say 5G will get introduced in a few countries a few pockets advanced pockets in next year 2020. So maybe Japan, South Korea and some portions of the US. Major 5G trials are happening in Rakuten in Japan and most operators are waiting for the results of those trials to decide what their 5G technology strategy is going to be because there are many options within 5G and how do you roll out the radio network. That is the global scenario. Coming to India I would say that 5G rollouts will require new spectrum to be auctioned and so depending on the operator keenness to spend money on spectrum, it may or may not happen in 2020. So the government has to auction this spectrum and the operators have to buy since 4G has not been fully monetized in India. Since the industry is not making a lot of money out of 4G yet, 5G may be delayed from 2020 to 2021. Having said that any of the networks that the operators are building especially for optical transport, back haul, front haul and so on, they will build to be 5G ready I do not think the rollout of 5G whether it happens in 2020 or 2021 will have an impact on the optical business which is the primary business of Tejas because whatever they deploy will require it to transport 5G. So the radio network will get delayed but I do not think that all fiber optic network build outs will continue to be 5G ready.

Sanjay Nayak: And then the last part you had was about the competitiveness of US or actually China Huawei. So I think that global trend is kind of there are two elements to it so there is a security and a commercial angle where certain countries in the world want to make sure that the Chinese are not operating in those networks. Clearly one can debate the merit of all of those discussions but the borderlines are clearly in place. So in many places, we actually believe that many of our customers want to really play safe and we present a very compelling combination of innovation plus competitiveness for them.. Also our optical products are 5G ready as Kumar said so whatever we are shipping today with the appropriate amount of upgrades either in terms of software or in terms of a new card that the customers may want to use for different applications they can upgrade their networks for 5G as well.

Kumar N. Sivarajan: Just to add to this on the global scenario the trade war China and the US I would say have overall weakened the Chinese in terms of being the major force globally for telecom infrastructure as much of the US and Europe will now go with non-Chinese infrastructure.

Rajendra Mishra: I think that was pretty insightful information and thanks for answering all the questions. Thank you so much all the best.

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

Pranav Kshatriya: Thanks for the opportunity. Sanjay you partly have answered my question. I just want to understand that how do you see or that I mean given there is a receivable outstanding are you seeing there is some sort of slowdown in terms of Bharat Net ordering at this point of time?

Sanjay Nayak: First of all let me clarify that there are two Bharat Nets going on in parallel one at the center and one at the state level. So the state level Bharat Nets are actually progressing quite well and there are a few states where we have actually supplied some equipment already. Gujarat started building out its network and we have supplied our equipment. In Telangana the tenders have been completed but probably right after election they will start building out, and Kerala and Odisha are in a similar situation. So I think there are many state-led Bharat Nets which I do not think are going to slow down at all. On the contrary, the states are asking for a little bit more money so that they can make this Bharat Net plus, plus as we called earlier. So I do not think that part of the equation is changing. The center part of the Bharat Net since BSNL was the tendering agency, there was a little bit of slowdown because of the other reasons that you are aware of but my belief is that in the next few months all those things should get sorted out. So I do not think there is going to be any slowdown in Bharat Net. One other thing by the way which might be of interest to all of you is that in addition to Bharat Net Phase I and Phase II, there is likely to be a Bharat Net Phase III also which is basically connecting the 6 lakh villages which is the pockets of villages which are not covered by the fiber. Phase III will use wireless technology including the kind of technologies which we are developing or a technology like Wi-Fi which would be used to fill up the pockets between the villages where fiber is reaching. That itself is going to be a reasonably large business and part of the product that we are doing are what we already have can also be use for addressing that part. So there are other elements of Bharat Net which are also coming into play.

Pranav Kshatriya: That is really helpful. Thank you very much.

Moderator: Thank you. The next question is from the line of Bhaskar Chaudhry from Entrust Family Office. Please go ahead.

Bhaskar Chaudhry: You mentioned twice Sanjay on the call that now it is the time to be making investments in sales especially on the international business side, so how should one look at that from a margin perspective?

Sanjay Nayak: First of all the good news is the way we look at all our business is that I do not think either increased R&D investment to increased sales investments are going to dilute things in any material way at the bottom line level which is either at the EBIT level or PBT level. So the way we think off it is that relatively we keep, if we keep continue to grow the way we are doing now we should be able to afford investing into sales. The good part is that a large part of cost of everything either in R&D and sales are really actually manpower. So we just have to kind of for example hire a few more people in a particular geography and suddenly you have significantly higher amount of coverage. So the short answer to your question is that even though when we talk of increasing investments in R&D and sales it is not going to be having any material impact in terms of margins at any level.

Bhaskar Chaudhry: And another question is on the ROE. So ROE levels are extremely depressed part of that is because of your working capital challenges part of that also because of cash on the balance sheet. So any thoughts any discussion at the board level on what can be done to kind of increase that number?

Sanjay Nayak: Good question we have not really focused as much on ROE at this stage in the company because we really feel that you are right that we have cash and we really want to use the cash to grow the business which we think is a fairly large opportunity. By the way compared to our peer group we are a very small company so technically speaking if we execute very well there should be a lot of growth potential. So in that sense we are really looking at the cash as we need to kind of make sure that we use it for growth. Coming back to your working capital answer, yes it has been a bit of a bother than we directionally had come very close to our 140-day target about a year back and we have slipped back into 200 days. So it is not something that we like but it is something which is unfortunately out of our control at this stage. We are fixing it as much as we can and as I said in the next one to two quarters we should be able to bring down the working capital to 140 day level. So the combination of I would say higher revenues coming back to working capital on a steady state should give us a relatively better ROE and really the benefit of all the investment should be the one which actually eventually shows up in terms of higher return. At this stage you are right we have not really been focusing too much on that aspect of the financial metrics.

Bhaskar Chaudhry: Sure thanks.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir there was some news report in Economic Times that Tejas was blamed for Bharat Net 1 delay what is the issue about and is that one of the reasons for a higher receivable?

Sanjay Nayak: First of all that report was absolutely wrong in the sense that if you read that report and you read my comment on record, we have said that there was no delay in Bharat Net Phase I on account of Tejas. On the contrary, the Ministry of Communication as well as Secretary Government of India have actually said that in Bharat Net Phase I Tejas was the best performing equipment supplier. So I think that was probably a mischievous report. We have nothing to do with that report. You would have seen that there was a lot of turbulence between the administrative officers who are running that project at that stage and some of them who are not there anymore. So I think someone reported something which we on record denied so there is no substance in that report. The fact that Tejas was the best performing supplier in BharatNet Phase I has been widely acknowledged by everybody in the industry as well as in the government. So that is one part. Coming back to the payment delays, are the delays related to that, again that is not correct. In fact the payments are related to (a) the payments which are already cleared but the paying organization does not have funds which we all read in the papers and we are working with the Department of Telecom and Government to actually make sure that at least the funding that is due to us is secured and provided for. We are working as well as we can to make sure that issue is tackled at the earliest but knowing how Government payments work, it is always a little bit tricky but we believe there is no risk and we have started collecting but I think the big chunk of stuff should hopefully happen pretty soon.

Ritesh Poladia: Just to ask on the same only. So there is no negative remark or report on Tejas Network for any of the delay even for the future projects?

Sanjay Nayak: Absolutely not. In fact we have said this is why the project is working to the extent it is in a successful way. Whichever sites our equipment have been deployed those are the sites with the highest amount of uptime and usage and etc., etc.

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

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

Sangam Iyer: Sir I just wanted to check with you, given that you expect the R&D spends to come down by almost 200 basis points next year along with the an improving product mix in terms of more international businesses coming through the percentage moving from 30 to towards 50 over the next two years. Still why do we expect the margin profile to remain flattish on a Y-o-Y basis and not improve from here on?

Sanjay Nayak: So two things you are right that first of all by the way R&D investments on an absolute basis will still continue to increase because…

Sangam Iyer: Right but as a percentage I am saying…

Sanjay Nayak: As a percentage it may come down, so what happens is there is also going to be correspondingly higher sales and marketing costs internationally. So in India for example I mentioned in the context of India Government, it delivers the highest return on investment. We have three or four sales people and they are pretty much generate 50% of the company's revenues for example versus when you go internationally you will have to hire a lot more people and so on and so forth. So the corresponding increased cost of sales and marketing is what we think will partially offset the higher margins that we achieve, that is part one. Part two also we have to understand that proactively to be successful at a longer term level on an international basis we also need to build our brand because we are now starting to sell direct. So for example we are participating in global events like Mobile World Congress, World Broadband Congress, Optical Fiber Conference in the US, Africacom or so many events so I think part of all of those marketing and brand building expenses that you incur will also come in a sense offset some of the higher margins. So I think the focus of the company in the next two to three years or in the medium-term is if we can maintain our margins and grow quite a bit that is probably a better strategy rather than optimizing the margins. And yes, by the way they actually end up improving that is fine but I think as a plan we would rather say that let us maintain the margins but really invest and build the brand, build up traction, build up the support team because those are investments which will pay off in terms of futuregrowth.

Sangam Iyer: Sir and then if I am allowed. In terms of levers for your working capital to come down, this time around I understand that we have just outstanding receivable from one customer but your payables have also moved up. So with normalization of your overall payable how do you see and what could be the key drivers to bring it down to 140 over the next few quarters?

Sanjay Nayak: I think if you really see we have three kinds of customers. We have at least, even if you split the India Government into two so we have the India Government then India utilities or the critical infrastructure, India private and international.In many of the international accounts the payment terms are quite good. We receive money in 45 to 60 days, we get LCs, and we get advances.. For certain customers we have a longer payment cycle, especially certain project kind of business similar to BharatNet, and a significant part of the money comes early on but the remaining money could take time. So I think our objective is that between the four kinds of business if you can blend it properly, we basically can bound it to as I said the working capital cycle of 140 days and sometimes in fact on the other hand as you rightly picked out, we also work with the suppliers to give us the better payment terms. So I think the combination of stretching your supplies a little bit, getting the right blend of the business plus the combination of being able to sell off your receivables when they are very, very long-term, I think we have enough levers to control working capital to 140 days. Again I must tell you that about a year back we were almost there except that we have kind of gone back into a little bit of regressive mode on that one which we hope to recover soon again.

Moderator: Sorry to interrupt sir but the line for Mr. Sangam is disconnected.

Sanjay Nayak: So I think we are also about maybe ready for the last question maybe.

Moderator: Sir right now we do not have any participants in the queue.

Sanjay Nayak: Okay perfect then alright.

Moderator: So I would like to hand over the conference to Mr. Mukul Garg for closing comments.

Mukul Garg: Thank you. I would like to thanks Sanjay for taking out the time to discuss the quarter results. Sanjay I will hand over to you for any closing comments.

Sanjay Nayak: First of all thank you again and it was good talking to all of you and based on the feedback from many of you we tried to make sure that we are able to give you a lot more color on our business the numbers are of course one part but we wanted to make sure that you understand what is happening behind the company and how we are making progress on our medium-term objectives which I hope I was able to make it clear and again I would like to say that we still look at our business on an annualized basis and would urge you not to look at quarter-on-quarter because we do not look at it in that sense as well and hopefully with all the good work we have done in the previous year, we should continue to see good performance in the coming year as well. So, thank you.

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