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TEJAS® NETWORKS

February 13, 2023

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: Q3 FY23 Earnings Conference Call

Please find enclosed the transcripts of the Q3 FY23 Earnings Conference Call held on February 06, 2023.

Kindly take the above information on record.

Yours sincerely
For Tejas Networks Limited

RANGACHARI RAVIKRISHNAN
Digitally signed by RANGACHARI RAVIKRISHNAN
Date: 2023.02.13 20:52:11 +05'30'

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

“Tejas Networks Limited
Q3 FY2023 Earnings Conference Call”

February 06, 2023

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

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

Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks Q3 FY2023 Earnings Conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupendra Tiwary from ICICI Securities Limited. Thank you and over to you Sir!

Bhupendra Tiwary: Thank you Faizan. Good evening everyone. Thanks for joining in for the call. From the management we have Mr. Sanjay Nayak, who is Chief Executing Officer & Managing Director of Tejas Networks; Mr. Arnob Roy, who is Chief Operating Officer & Whole Time Director; Mr. Venkatesh Gadiyar, who is CFO; and Dr. Kumar N Sivarajan, who is CTO. So without much ado I will hand over to Sanjay. Over to you, Sanjay!

Sanjay Nayak: Thank you Bhupendra. Welcome to the Tejas Networks Q3 earnings call. We had uploaded the presentation on our website. I hope you had a chance to review it or download it because I would be going over that presentation during the next course of the call. So I am on slide 1 which says the key updates for Q3 FY2023. On the financial side our net revenues were 275 Crores, which you would see that on consistent basis between Q2 and Q1 we have improving. Loss after tax is around 11 Crores on a consolidated basis. The accounts for Q3 includes the consolidated accounts of Saankhya Labs that we acquired. On a standalone basis we were profitable at around 5 Crores. Cash and cash equivalents are at 1221 Crores and we again continue to be a no debt company and order book at the end of Q3 stands at 1431 Crores, which is quite healthy. In terms of highlights of our business, the optical business which has been the one which has lot of products that we have been working on for many years. The strong momentum continues. In addition to the routine business that we win, we are also L1 in a very large pan India tender for building a backbone for our 4G and 5G wining against global MNCs and we believe this will have a significant revenue potential during next year. The order we expect to close sometime in this quarter and this will possibly be the largest single order for optical networking business for the company till date. On the wireless business side, we have been working on a 4G project again a PAN India project with a large customer in India. All the technical, commercial and all other related issues have been closed with the customer and it is just the process that is going through and we again expect the order to come to us in the next few weeks. On the R&D side, in line with our significant increase in product portfolio and our aspirations to become a much larger business, we do need to continue to invest a lot more in our R&D both in wireline as well as wireless products. So we have lot more focus on 4G and 5G and as such we have increased our employee strength to 1250 out of which around 800 are in R&D and which compared to one year back is a 60% increase in head count on R&D compared to 31st December of the previous year. So this just gives you a sense of the significant investment focus we have. Arnob will talk about what are all the key initiatives that are in R&D that we are working on. The supply chain and manufacturing side which is a very important aspect of our business because we have a lot of orders, but we are supply constrained for fulfilling customer orders due to shortage of certain chips. While overall the semiconductor shortage situation is improving, there still are many category of chips and there are certain specific components that do have long lead times. We discussed in the previous earnings call that we reengineered a supply chain process and instead of just relying on contract manufactures, we have now got far more better visibility so we upgraded our internal system, processes and tools and of course added more manpower as well, but net effect of all of that is we believe that we have far better control on the situation and given that the lead times for certain components will continue to be more than 52 weeks even during the current calendar year, we do believe that with the inventory action we have taken, with the changes that we have made in our systems and processes, we are confident that we will continue to see revenue improvement. And most importantly we have lined up a lot more production capacity because on the large orders that we are talking of not just in wireless, but also in wireline we do believe that there are significant revenue scale up opportunity in the next financial year and we have signed three new EMS vendors as our contract manufacturing partners. In addition, we have made investments in our internal facility in terms of warehousing, production floor or people so that we can execute these large orders that we are expecting on time and within the criteria that had been set out. In Q3, we have seen some gross margin pressure. Lot of the deals that we have signed were in rupees and were signed six months, 9 months, 12 months or even earlier so a combination of chip prices for certain kinds having increased and hit us, second is the exchange rate which from the time that we have signed the deal to what we have been supplying right now and third as you see in our total numbers the percentage of revenues in India has been higher. Our international revenues in this quarter have been lower. So the combination of these three things have resulted in growth margins being lower compared to previous quarters. We do believe that going forward we will have much large revenue so that the percentage level of gross margins may be lower, but the volume advantage that we will get because of economies of scale should mitigate that and give us the right amount of profitability that we are looking at despite India business going to be a higher percentage of revenues in the next year. So on an overall basis between R&D and supply chain, our philosophy is that we are investing in our business both from technology angle and processes, systems and manufacturing angles so that we rather than focusing on very short term profitability for the quarter or so we would really be focusing on long term profitability which should start resulting and be visible starting from next fiscal year itself. So that is the kind of view point we have been taking on our business.

In addition, we also received investment of additional 300 Crores from Panatone Finvest which is a subsidiary of Tata Sons against the final subscription of serial B warrant for which in today’s board meeting shares have been allotted to them. Post this Panatone would be owning 56.38% of the total share holding in the company. Of course, the additional investment will ensure that our balance sheet gets stronger and we are able to take the right business calls to grow the business for the opportunities that are ahead of us.

Now I am going into the next slide which is titled corporate update so we talked about last time that we had applied for the PLI scheme for design-led PLI where we had upgraded our application from 100 Crores to 750 Crores of investment commitment. This can result into maximum eligible PLI incentives of close to 2800 Crores over the next five years of the PLI scheme, subject to of course we getting the higher revenues and so on. So far, we will be meeting the year one requirements for investment as well as the incremental sales and do expect to get the pay outs based on the first year performance itself.

Next is on the product side, the converged optical products, wireless and optical products that we have, won the broadband innovation of the year award at the Mobile Breakthrough Award conference in USA last year. We of course are expanding R&D both in Bangalore and other locations, but we do believe that IIT Madras has fairly good amount of talent. Chennai has a lot of talent and we have set up an R&D facility in IIT Madras Research Park where we can actually now hire local talent and augment the team that we have in Bangalore as well as in Gurgaon and Mumbai. On the patent side we have increased our portfolio to 443 patents between Tejas and Saankhya and later this month we will be showcasing lot of our products at the Mobile World Congress in Barcelona both in terms of the new 4G and 5G products as well the optical and xPON products that we have.

Saankhya labs integration is on track. We had acquired 64.4% in July of last calendar year and for the balance we filed for the amalgamation through the NCLT process, which is underway. In line with synchronizing things much better we have transferred 169 people from Saankhya and now they are part of Tejas and are reported in the Tejas financials and this will of course strengthen the 5G radio programs in time to market some of the new products in the wireless side and the Saankhya team which is the subsidiary at this stage continues to focus on the 5G broadcast and satellite communication and fabless chip which we are designing for use in 5G and 6G products.

On the Q3 financial update in terms of details, I would ask Gadiyar to walk us through the next couple of sides.

Venkatesh Gadiyar: Thank you Sanjay. Good evening everyone. You are in slide Q3 FY2023 financial update. As Sanjay just mentioned despite of our supply chain challenges we had our quarterly revenue consistently grew over the three quarters. The consolidated revenues for Q3 was 274.6 Crores a year on year growth of 156.4% and for Q3 the EBIT loss was 21.3 Crores and the PBT loss of 5.1 Crores and a PAT loss of 10.9 Crores. And similarly for the nine months, the revenues were 620.3 Crores, on a year on year basis the growth was 46.3%. EBIT loss of 56.3 Crores. PBT loss of 7.1 Crores and a PAT loss of 16.4 Crores. It is important to note that on a standalone basis Tejas had a revenue of Rs.253 Crores and PAT profit of 5 Crores in Q3 2023 and standalone basis for 9 months we have crossed last year's FY revenue. And typically Q4 revenues will be large in nature. In the above revenues, the Saankhya revenue for Q3 was 20.9 Crores and for the previous 9 months it was 34.9 Crores and Saankhya EBIT loss of 14.5 Crores and for 9 month EBIT loss of 20.1 Crores and the Saankhya PBT loss of 13.5 Crores in Q3 and 18.8 Crores for the 9 months.

Next slide, we are in Q3 FY2023 key financial indicators. The cash outflow from operations for the quarter was 114 Crores. The net worth was 2567. Inventory has increased from 399 Crores to 494 Crores and that is an increase of 95 Crores during the quarter. It has primarily increased because we could not ship the complete or balanced system due to the critical components shortages we had and also, we have secured some long lead inventory in anticipation of the expected order requiring faster delivery of the products. The trade receivables have moved up from 380 Crores to 500 Crores and despite we have collected about 215 Crores during Q3. The net working capital has gone up from 639 Crores to 766 Crores, primarily due to the increase in inventory and receivables. Finally, the cash equivalent as of 31 December 2022 stood at 1221 Crores. Post the quarter end, on February 3, 2023, we received an investment of 300 Crores from Panatone towards final subscription of series B warrant for which the allotment of shares have been taken place today. The strong cash in hand and strong balance sheet will enable us to execute large opportunities and scale up our business going forward. With this I will hand over to Sanjay now.

Sanjay Nayak: I am on the next slide which is the sales breakup on a cumulative basis for the first 9 months. So, if you see the chart on the left hand side, it is the total FY2022 revenue breakup between India government, India private and international and the chart on the right hand side gives the corresponding number for the 9 months period. So, if you see we have done 620 Crores year to date. If I look at the run rate business which is India private plus international during the 9 months contributed to 76% of the total. India government was 24% of 9 months cumulative revenues, which constitutes a year on year growth of 139%. India private was 54% of the 9 month total which is year on year growth of 83% and international was 22% of 9 months which is a decline of 24.1%, which is what I had mentioned earlier that we did have a decline on the international side. On the backlog that we have, of the total backlog India is 1189 Crores and international is 242 Crores. So one of the things we expect that Q4 we should have significantly higher international revenues part of it is because to the international customers we are expected to ship complete systems in most cases and we cannot ship part inventory so if something was missing we had to held back those shipments so we do expect international to improve in Q4. If I were to look at the sales outlook going forward, our focus if I would to say over the medium term would be to really expand the business volumes and achieve economies of scale at the earliest possible. What this really means is that we have to grow the top line much more aggressively and the opportunities are clearly visible to us not just for wireless business, but also for wireline business and as a result, we do see that given all the growth opportunities in India, the capex push in India, the Atmanirbhar agenda and our own positioning in all of that we do see that there is a very large revenue opportunity in India in the next four to eight quarters. And we are well leveraged to take advantage of that. So once again the market share in India we should get the economies of scale. For example on the large order that we have been working on using that as a volume we have now been able to derive cost advantages for the rest of the business as well. So what is likely to happen going forward is that on a percentage basis while our gross margins may look challenged, but at a profitability level, at the EBITDA level or PAT level we expect things to continue to expand and achieve closer to the long term business model that we would like to see. So I just want to kind of call that out that while on an absolute basis international will continue to grow, the growth of India on a relative basis will be much faster hence the percentage of international contribution in our business will be reduced both this fiscal year as you have seen as well in the next financial year. One other thing was that in terms of this financial year that while we have a backlog of international which will again as I said make sure that the international revenues come up in Q4. The challenge for growing many new customers in the near term was that we did not have enough inventory coverage to give them deliveries in a short term period of time. And if required a very long delivery period, they had less motivation to shift from their existing suppliers. So we really kind of focused more on retaining the international customers that we have rather than going after too many new customer wins. However, with the supply chain situation coming under control both because of internal action as well as macro improvements in the overall semiconductor situation, we will be changing that and the growth on the wireline business for international exports during the next fiscal year will continue. Wireless of course we will continue to focus more on India to begin with and then go international in the next calendar year so I am kind of wanted to give a broader view of the sales strategy that we are thinking from a business perspective. At this point I will ask Arnob to go over the next two slides both in terms of just a recap of the portfolio of the different segments and from an R&D investment perspective what are we doing to kind of make our portfolio more competitive and catch up on things where we may not already be there.

Arnob Roy: Thanks Sanjay. As you are all aware our conventional business and our product line has been in wirelines. We have a very strong end to end portfolio of products from access, aggregation to the core which are used for building optical networks for many different applications. However, the past few years, through our investment in wireless technologies and our recent acquisition we have also acquired fairly comprehensive wireless portfolio 4G, 5G base stations, broadcast radio heads and satellite communication products all of which put together give us a fairly large additional addressable market to grow our business. Together with all of this I think one of our few big differentiators is our end to end network management system which is very unique in terms of being able to manage an end to end network across multiple technologies and multiple layers. We are in a technology business where technology is consistently evolving and with significant R&D investments to make sure that we are upgrading technology products and staying competitive. So in the next slide I will kind of give you a flavor of where our R&D investments are going in right now. So in the area of wireline products, for the long haul equipments the WDM, OTN we are investing a lot in higher capacity long-haul transmission and OTN switching where the data traffic capacity over transmission and switching is going up significantly year over year. For the fiber to the home for the PON technologies we already have a very comprehensive portfolio of 2.5 gig and 10 gig PON. Now we are evolving our portfolio to grow to 25 gig and 50 gig PON so that will enhance significant capacities in the access network which will enable many more applications than what FTTx serves today. For packet switching and transport again we are investing in higher capacities within fabrics. We are addressing metro capacity growth and also investing a lot in software protocols for the next generation mobile back haul application. For the wireless products we are expanding our range of TDD, FDD radios supporting 4G and 5G in low and mid bands including massive MIMO configurations. We are also investing in evolving our broadcast radio head solutions for direct to mobile and data distribution as a service applications. And finally we are also upgrading our RAN solutions to support the latest 3GPP releases and also achieve ORAN compliance. We are investing in both the standards in terms of our RAN product development. I talked about our management software as a strength as this being multi layer, multi technology solution and we are investing a lot in building intelligence in our management software solutions to be able to manage this network more efficiently. One of the areas of investment is our AI based network failure prediction engine given the visibility of our network management software across the network, across multiple layers we have a unique opportunity of correlating all the events and data which can be extracted from the network at all levels and to be able to predict network failures that can happen based on the events and alarms that we see today. So we expect this to be a huge benefit to operators going forward in terms of maintaining their network proactively. We are also evolving our management software to make it more affordable for smaller vendor using cloud based, NMS as a service product. We are also investing in management software for making radio networks more efficient by developing intelligent radio mapping and control technologies for interference reduction and across power savings. With the acquisition of Saankhya, we also acquired a lot of semiconductor design capabilities and IPR and the investments going on over there is one of the important ones with developing the next generation television broadcast standard. ATSC 3.0 based receivers, modulation-demodulation chips and also the development of next generation software defined radio processors for 5G, 6G radio devices. So with all this investment we are taking over portfolio and our products and technology to the next generation and we hope to see significant customer traction in using all the upgrades in our products.

Sanjay Nayak: Thank you Arnob. On the last slide just to summarize and we will open for questions. So again if you see that we have seen consistent improvement in revenues with better supply chain management in terms of internal processes and of course while the external environment will stay challenging for some more time, at least on a few chips, we have figured out how we can manage the situation better. Our order book is good and the pipeline of new orders both for optical as well as 4G is quite significant and substantial so we expect that we will accelerate our quarterly revenue growth to quite good levels and next financial year, we expect to achieve serious economies of scale in terms of growth of the business. We continue to invest in R&D to improve our time to market for our 4G and 5G products. We have scaled up all our manufacturing capacity between what we needed to do internally in Tejas and externally with other EMS partners and the local vendor ecosystem and we are confident that we can execute any large order that we are expecting on time. And the Saankhya integration is progressing well. Cash flow position is good and with the additional 300 Crores from Panatone, from a balance sheet angle we are in a very good shape. In summary, our focus and our efforts in business is to scale up to global levels very quickly and all the proactive investments are in place and I can mention that with everything we have accomplished in terms of progress during the quarter, I can confidently say that we are on track on achieving our objectives of scaling up the business in a short period of time. So, thank you and maybe this is a good time to open up to questions and we will be happy to answer specific questions that you may have.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thank you. Hi Sanjay good evening. So couple of questions from my end first was one the philosophy in terms of operating expenditure. Clearly as you highlighted there were lead time impacts on the inventory cost what really is kind of keeping the semiconductor cost still elevated or wait time like almost a year given that we are hearing from multiple semi conductor companies that they are now running into a oversupply kind of scenario and also in terms of the R&D investments which you again indicated, how should we see the impact of that on the profitability side. I think it is fair to invest and kind of come up with a good portfolio, but can you give a good indication of like how we should kind of look at that from a profitability perspective is it something which we kind of weigh on margins for the next one to years or that can be absorbed far earlier than that.

Sanjay Nayak: So let me answer your first question so in general yes semiconductor supply situation is improving. But there are two categories of semiconductors where there are still problems there. One is the analog and power system kind of things. There are few specific companies I would not tell the names, but whose parts still have a lead time of more than 52 weeks. So that is one area where you could have done and they may not cost a lot more but they do influence whether your systems gets complete or it remains incomplete till those particular parts come. We do believe that as this calendar year progresses those things will also improve. The second category of semi conductor chips which are digital chips where there is still a challenge in shortage or is that lot of semiconductor capacity of the older nodes which is more than 28 nanometers or 28 nanometers and above was shifted for newer semiconductor node technology. However, the demand for those things are still there and hence there is backlog of those parts which sometime again block the rest of the supply chain as well. So given these two categories of semiconductors we do believe that we have to continue to be more proactive and more advanced in terms of planning action. As regarding the cost is concerned, yes for semiconductor components like memory chips and others there is cooling off both in terms of lead time you can literally buy them in spot as well as in terms of costs I think there is a lot more competition and capacity available but for the specialized chipset which go into our kind of products, I do not think that tipping point has come as yet. As the year progresses, we are seeing improvement signs but given that we have to do planning for next fiscal year almost right now, it is prudent for us to take actions on those which is what we have taken. So I would say that the supply situation will continue to improve. We made progress and we will continue to do far better in Q4 and Q1 and so on and so forth but I would still be a little bit cautious in terms of saying that everything is all under control. The second question you had in terms of yes we are increasing R&D investments. If we have to compete with the best in the world we have to have the best products and this requires investments. So when will that investment come into play and when do we see benefits of that to the company and to the investors. I think we will start seeing the benefit of that as early as next fiscal year itself. So while if you see one of the good parts of our business and the product business in general is that our costs which are R&D costs in primary terms if you saw we have 800 out of 1250 people are in R&D. They are almost quasi-fixed in nature so as long as we continue to increase the revenue significantly that percentage of R&D cost or all our operating costs why just R&D, SG&A and everything else will start diminishing quite significantly. On an absolute basis it may increase but it will significantly increase the revenues on a relative basis the percentage will quite dramatically reduce. So we do expect that next fiscal year itself again on the consolidated basis because our revenue base is small, I think the contribution of Saankhya once we consolidated the accounts had a negative financial impact, but once the revenue numbers scale up, I do believe that the profitability will start showing up. So I would say that next year itself we should see a significant improvement in profitability because of the scale of business and despite the fact that we are anticipating and planning that the percentage GM will be lower than what we have been historically operating at but the absolute number of gross profit will more than compensate and give us the economies of scale which I talked about earlier. So short answer is whether the R&D investments, the manufacturing investments and all the investments which we made during this fiscal year are in-line with the business that we expect to scale up starting from Q4 itself in some way and then continuing over the next fiscal and the fiscal after and so on. So I think we are prudent about making sure that we are investing in stuff that should give us decent returns in the medium term itself.

Mukul Garg: Got it and just one more question the L1 which we are on the optical side it is interesting to see us come back very aggressively on optics but is it the same customer like now which given that it is an L1 is it fair to assume that let us say public customer and 4G and 5G indicate that right it will be the same customer where we are looking at radios?

Sanjay Nayak: For confidentiality reason of course, we cannot name the customer as yet. But all I can say is that it was an open bid for all the global competitors to bid into and on the strength of our product and everything else I think we are L1. And as I said it is a very, very large deal the largest that we ever have ever had in opticals so that again gives us a good cushion in terms of revenues as well as profitability going forward.

Mukul Garg: So that basically means that next year the public sector will be a fairly large portion of our revenues if you know both the orders kind of go through?

Sanjay Nayak: Potentially yes.

Mukul Garg: Got it. Thanks. I will get back into the queue. Thank you.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Thank you for the opportunity sir and very heartening to see the improvement in the news despite challenging circumstances. Sir my question on your L1 disclosure has been answered? On the second question is on our operations and supply chain? I wanted to sort of have your view? It has been almost two years since we have been crackling with this issue? In your opinion has this issue sort of panned out in line with your estimate let us say whatever you thought let us say at the end of last year to where we are currently? How has the situation been? Could it have been a bit better than what where we are or we are probably worse off?

Sanjay Nayak: So with the wisdom of hindsight since you asked that compared to what we expected it to last year versus this year. So I think there are two parts of the supply chain improvement that we are finally seeing. One part is as I said the external environment is certainly improving. Certain category of semiconductor components the lead times have reduced but there still are certain category of components where the lead times have not reduced as much as they should have and unfortunately in our business the weakest link dominates so even if there are few parts which are not available, it chokes the entire supply chain. So I think in that sense we had anticipated that things could be better by now but they are in most cases but there are still some cases where they are not there. The second part of the question is, if we knew this one year back we would have taken more aggressive procurement action for those parts and said let us secure not for 52 weeks but for 80 weeks because that is what it takes. So it was always a balance between how much of inventory risk you take in terms of ordering 12 months in advance, 15 months in advance when you do not have a direct visibility into the business. So I think that balance of judgment of course if I were to say with the wisdom of hindsight I would say that yes some parts did not come back in time as much as we expect. But there is a second aspect which I think I had articulated in a little bit more detail in the last earnings call that we were working in a turnkey model with the EMS companies. And we figured out that if the EMS company saw that the lead time for certain components is 52 weeks ahead many other components they would not order because that is how their tools and systems work. Hence many other parts which would have say 30 weeks or 20 weeks lead time they would not order till the component with the 52 week lead time has visibility. Whereas with our efforts we were able to pull the component from 52 weeks down to say 40 weeks but then the other material was not available so what we have done and which is what I mentioned that we have reengineered supply chain. Now we have entire visibility through our MRP system and our planning system into the EMS systems so that we can see the end-to-end problem and actually solve it up front which is why we have been able to see some improvement in last quarter in Q2 and a little bit better improvement in Q3 and hopefully a lot more improvement in Q4. So essentially as a company, we were told to completely rely on EMS companies to do all the supply chain management which we felt that in the turbulent times that we have been living in the past two years they have not been able to respond as effectively. And it is not just a problem for us but anybody who did not look at the end-to-end supply chain ran into this problem. So again with the wisdom of hindsight if we would have figured this out a year and a half back we would have been in far better shape. We figured out that we needed to do things differently about six months back and in the last six months I am happy to say that we have a good handle on the problem so going forward we do believe that we have far better visibility into every single component, where the problems are, where the weak areas are and we are finding a way to manage it. So net, net I would say we could have anticipated better but where we are today I think we now know what needs to get done and again, one last part I did not precisely say that is for executing the large orders going forward, we would be using a model where we will use a lot more EMS but the component procurement will be done by us. And we would be giving them a conversion on a job work basis versus on a turnkey basis that we have been doing historically. And of course to do that we have sewed up with the suppliers adequate payment terms so that it does not at all come back and challenge us in terms of a working capital flow. So those are all the changes in supply chain which I think has been done. We are kind of also were in a unique situation because in the electronics industry if you are a very large company, you got the right kind of attention from the suppliers and you were able to manage things a little bit better. If you are a very small company, your needs were too little so it could have been managed from pocket change but for midsize companies like us, we are kind of not getting the right amount of attention. The EMS guys did not do the right things in terms of processes and systems and we came back with a revenue shortfall, because revenue shortfall also had an impact. Because we could have won a lot more business if we had cleared backlog of orders. So when I say with confidence that our wireline business is quite healthy, I mean actually I can see that a lot of run rate customers could have given us a lot more orders. We could have won international deals and said okay if you supply in time, I will win that deal but we were handicapped on those and I feel that having solved the supply chain issues in a reasonably holistic way by now, we feel confident that going forward we should see less surprises on this account.

Vimal Gohil: Thank you Sir. That was very detailed. I have a two part questions on your financials? Firstly on your gross margins, we have historically comfortably operated at 40% to 45%? We are way below that at this point in time so your comment about your gross margins remaining in pressure and I hope that is not very structural in nature that is point number one. And the second point is on our balance sheet, so if I were to look at our cash and cash equivalents in Q4 we were at about Rs.1100 Crores. Since then we have received roughly Rs.1000 Crores of capital from our parent and despite that our cash accretion if you look at our net cash where we are since March, it is just about higher by about Rs.100 Crores and our working capital has gone up by roughly Rs.300 Crores so if you can just help us understand the math over there?

Sanjay Nayak: Okay so let me answer the gross margins question first. So for the wireline business I do expect our gross margins to come back to normal levels starting from next fiscal year because just the way things are happening I feel that the dip that we had in this quarter or in the near term would be offset by all the other actions that we have in place. So the wireline gross margins or the optical gross margins should be close to our historical numbers during the next fiscal year. The wireless which is the new business that we are entering and especially if you are going to start off with one large order naturally we will not be in the same gross margin level that we will achieve in the wireline business so as a percentage the gross margin will be lower but that would be more than offset by the volume of the business. So on a volume basis at a gross profit level on an absolute basis we feel comfortable that we will have enough gross profit to sustain all the investments and also deliver profits at the end of the picture. So that is kind of the view I would see that our wireline business will be back to normal levels, wireless business will be new. Now coming back to the working capital thing and Venkatesh can add to that as well. Basically in the near term what has happened is our focus because of the imbalance in inventory situation, our inventory levels if you really see over the last nine months have gone up. Part of it is what I already described in the context of supply chain. So once the inventory starts becoming smooth and we are able to get that going, we should be able to get at least the working capital on a normalized basis come to normal levels. Again, then what is going to happen is if our business volumes increase quite significantly which is what we are expecting, we have to make sure that the payable and receivable gap assuming their inventory happens on a smooth flow the payable and receivable is managed. We have done all the advanced working of all of that and we feel confident and comfortable that there will be no working capital stress on the system and the balance sheet that we have as-is should be quite adequate to increase our revenues to quite significant levels as we are anticipating. Venkatesh you want to add anything or is any part of your question did not get answered Venkatesh can.

Vimal Gohil: Yes sir I just wanted to understand what has happened in the last LTM? On a LTM basis if you can just help me understand the cash accretion because if I were to look at your cash as on Q4 it was about Rs.1100 Crores? Right now it is Rs.1200 Crores after your capital infusion of roughly Rs.1000 Crores in the middle of these four quarters, so your working capital has increased by roughly Rs.300 Crores? There is hardly any capex?

Venkatesh Gadiyar: Okay so I think two things. We invested in Saankhya so there was a cash out flow that is around Rs.284 Crores. That was in Q2 of this fiscal year and as Sanjay was mentioning the net working capital increase was primarily due to the inventory which we had piled up in the last several quarters just to secure the long lead of inventory in anticipation of expected orders and the imbalance inventory in the system. Also, the cash position of 1,221 Crores is as on Dec 31, 2022 and does not include the latest infusion of 300 Crores from Panatone in Feb 2023.

Vimal Gohil: Understood Sir. Thank you so much and all the very best.

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

Sangameswar Iyer: Good to see two consecutive quarters at 200 plus in revenue. My question here is to understand the Saankhya bit here in terms of operations? Is this Rs.40 odd Crores is that the fixed cost out there? When I look at the standalone business and the consol business there is about Rs.20 Crores revenue? We are doing Rs.15 Crores EBIT loss so is this something that is fixed and which on scalability will be covered up or is there any one time that is involved a onetime cost that is also involved here which we need to take into consideration?

Sanjay Nayak: Yes actually good you asked that question Sangameswar so in October actually there is a onetime I would not say onetime but once we as a part of the Saankhya acquisition we had to issue RSU to Saankhya's employees right as part of the transaction deal so the noncash charge of RSU between Saankhya and Tejas, what is the Q3 RSU charge.

Venkatesh Gadiyar: For the Saankhya it was around Rs.15 Crores.

Sanjay Nayak: So Rs.15 Crores of the expense that is shown on Saankhya's expense for this quarter is on account of noncash charge of RSU that has been issued to them. From a cost structuring perspective the significant costs of the Saankhya team which is 169 people we have already transferred them to Tejas so if you see the corresponding cost of Tejas on absolute basis when you look at our R&D cost and others have increased. So we expect the Saankhya from an overall angle in another three or four quarters it should be over but the way to think of the Saankhya business is as follows. They have an existing business which is on broadcast and some of the other selling of their chips which is currently the main revenue source, we need to find ways to increase that. The prospective investment that they were making on 5G is what is now a part of the Tejas ecosystem and one thing I did not mention sorry but I should mention now is that part of the 4G deal that we are working on in the same order there will also be an additional portion for upgrade to 5G so in a sense it will be a deal that would be for 4G and 5G and hence it is important for us to accelerate those programs and also release 5G and then we talk of the closure of technical and commercial that is on account of both 4G and 5G. So I think we are investing on the 5G side using the Saankhya team in Tejas along with what we are doing so that the total product focus in the time to market is improved. So coming back standalone Saankhya which you are seeing the finance will continue to increase revenues from the broadcast and the chip side and everything else has come into Tejas for now.

Sangameswar Iyer: So excluding the RSU which is like one time, it will not be there every quarter right so when you look at that Saankhya at Rs.20 Crores revenue run rate is breaking even at the EBIT level?

Sanjay Nayak: Yes ball park Saankhya was breaking even that is what the objective is because the standalone Saankhya entity we wanted to be at least at a breakeven level so that they can continue that business. And all the larger investments which are getting made will be there. So RSU in that sense is I would not say exactly one time but of course when you assign it, in year 1 the numbers are higher and going forward of course it would reduce as per the charge because it is a non-cash transaction.

Sangameswar Iyer: Correct so at the end of Q2 during September quarter we did mention that 40% of the then order backlog which was around Rs.1400 Crores would get executed by this yearend right which wherein we are halfway through with Rs.275 Crores in Q3 revenue on the standalone so how is the traction going ahead and in terms of the availability of your key components, etc., do we see that what we saw or what we guided for at the end of Q2 should stand good set in terms of overall execution or is there any hiccup or any headwinds there A and B because of the inventory of close to Rs.100 Crores that has got added in this quarter because of finished products not shipped in time, etc., was it finished products or was there waiting for some components to be received before it will be finished I mean just trying to understand the cost component or gross margin dynamics in Q4 and going forward?

Sanjay Nayak: So first question yes we are on track. Q4 typically has been a good quarter for us and we expect to see the same. Especially now with the supply chain situation under more control than it was in the past so we should be seeing a continual improvement in Q4 revenues compared to Q3. So compared to what we had guided at the end of Q2 that from the backlog we will be able to ship, I think that looks fine. And in terms of the inventory buildup that you talked about Rs.100 Crores there are two elements so when we say imbalanced inventory it is in two forms so think of some of products in real life so suppose a system has 10 different kinds of cards. We may have built nine cards and everything else is ready. On the tenth card there is one chip which has not come or we had demand for thousand and we only got 500. But we cannot wait for all the others to be not manufactured because then you would be waiting so when we talk of imbalance inventory it is of how the quasi finished goods which is at the PCB assembled level which is there so that is part one. The second part is for the anticipated order we do expect that we will get some pressure potentially to supply in this quarter itself some of the wireless stuff at least for a minimum number of sites so we have also procured the chips and the others and of course trying to avoid procuring all the material but at least the long lead one has been procured so that in case we are required to supply at least some in initial quantities or test quantities in this quarter we should be ready to do that. And should have to start from zero because the success of the project and success of our execution is on being able to do things very fast. So those are the two combinations why the inventory went up in this quarter.

Sangameswar Iyer: Got it and finally if I may in terms of your international business we used to have a very strong international business earlier when domestic private was not doing that well but now with order book swelling predominantly on the domestic side be it private or the government we are seeing that there is a stagnation on the international front? Is there any strategy that you are looking at any way to kick start or take it to the next level so that the growth is uniform or at least there is a good backup growth coming from the international also because the order book is not swelling that much there as compared to the domestic front?

Sanjay Nayak: A good observation Sangam. So there are two things we are doing for the wireline business which is let us call where we have mature products which are proven and all that we were supply constrained even for the orders in hand. So winning new international customers and giving them a very long lead delivery commitment would not have served our cause well at all. In fact we are even for the existing customers run rate customers internationally as I mentioned earlier if we fulfill the order we get a lot more orders. So I think what we believe is that by fixing the challenges around supply chain we think we are in a much better position to go back and get more orders from existing customers internationally for our wireline products and also target new customers. So that effort in terms of business development effort is on, but I think pushing it to a business closure. So we do expect that on an absolute basis international orders and revenues next fiscal year will be better than this year, but that would primarily be on account of the wireline products. Now the wireless products as I said even in the earlier call that our first priority is that a couple of large anchor deals in India, which is where we will supply the products, get all our processes, systems, product maturity, scale everything established and in the second half of this calendar year we will start testing our wireless products in the labs of various operators around the world with whom we are in constant touch. So we believe that later part of this calendar year we would get qualified. We would be I will not say selected or secure orders but at least be in the fray to secure orders so that as things settle with respect to our execution capabilities and all the product capabilities that are supposed to be in place, we can actually start closing international deals and actually start supplying. Because once we win then you have to supply and execute. So I would say wireline business will grow next year and all the action is in place for example revamping different territories, adding things there and so on. Wireless will be still domestic focus at least for this calendar year in terms of business revenues. Business development yes but revenues will still be so if I blend the two together international as a percentage of total will be lower next year compared to before. If you remember at some stage we were at 40% international and 60% India but that number will be less. And plus I would say that among other economies at least India is still in a very strong capex mode and it is a home market for us and all the experiences of anybody who has scaled up a telecom OEM company to global levels one of the recipes for success has been dominance in the home market. So given that our home market is scaling up quite well with 4G, 5G and FTTX investments we are right there. We are getting stuff done. We believe that we want to continue to not miss out on the India opportunity to begin with while keeping our eyes internationally which may have other challenges in terms of which economies are spending or not spending and so on. So that is the way I would calibrate ourselves but if I were to say calendar 2024 onward we should start ramping up international business quite significantly again.

Sangameswar Iyer: Got it and what percentage of your order backlog would get executed over the next 12 months?

Sanjay Nayak: I think around 70% is what I think should get executed. 70% to 75% depending on what it is. And if I were to take Q4 of this year and next fiscal year around 70% would be the number.

Sangameswar Iyer: Got it great. Thanks a lot Sanjay and all the best.

Moderator: Thank you. The next question is from the line of Sugandhi Sud from Incred Asset Management. Please go ahead.

Sugandhi Sud: So thanks for taking my question. I wanted to understand your outlook on profitability? You have mentioned and in absolute terms the volume of business would make up for the additional investments? Just to get clarity how much of that profit contribution, are we making in some benefit from the PLI incentives and from other income or are we completely talking on core operational level this breakeven of incremental investments whether it is in R&D business development and the delta that we are going to get at the gross margin level from the business mix changing so if I were to set aside the nonoperational income would there still be a delta the additional investments be made up by the additional gross profit that we make?

Sanjay Nayak: Absolutely in fact the way we are running our business is to make sure that the core business is independent of the PLI incentives or anything else should be healthy. It should generate our steady state business model profits which we have achieved in the past and PLI and other incentives should be on top of it, although they can be quite substantial and meaningful but the investment philosophy is that our core business should be healthy, it should grow, it should show the right kind of PAT percentage and EBITDA percentage and the PLI incentive will only be adding on top of it so yes I would say that is the way we view our business.

Sugandhi Sud: So is it possible to give a kind of range of EBIT margin that you are targeting you would be calibrating your investments to and I know that it has to be front loaded at least on the commercial side you would have some criteria of how far you are willing to negotiate with a certain margin percentage and like you kind of given us some kind of indication on historical basis? Is that sort of the range that you are hoping to fall within?

Sanjay Nayak: Yes I think historically I think a couple of years back I think we were at a EBITDA level of around 15% if I am not mistaken Venkatesh can correct me and I am not saying that we will achieve it next year itself but with the investments that we are making I think in the medium term, which is between next year and the following, I think we should be able to reach our EBITDA levels at that level. By the way this is on the core business and if the PLI incentives get added in hopefully we should reach it sooner than otherwise so that is the way to think about it.

Sugandhi Sud: Sure and also you mentioned that with your wireless customers there is an element of 5G also involved there so is it something that is in discussion phase with the customer and is it going to be a non-standalone network?

Sanjay Nayak: No so it is more in the discussion stage so as a part of the bid we had also added or they had requested us to add for certain percentage of the sites where their equipment can be upgraded to give 5G services on the same bands for which they have currently got the spectrum so that is where we have closed the conversations with them. So I think it will be a part of the potential roll out order that they will give at different points in time during the year sure.

Sugandhi Sud: Then could you give us an idea of the pace of investment? You have mentioned that as early as next quarter you will have to make the inventory available for the wireless shipment so could you give us an idea of the pace of this contract whether it is…

Sanjay Nayak: The customer wants a deployment ASAP but if I look at what is required in the tender within 21 months from the date of the order, we should have completed these supplies. They want us to do it faster hopefully. We are also I mean technically geared up to do at a faster pace but it is a function of how the rollouts happen and all that so I would say primarily between next fiscal year and the year after those two fiscal years we should be able to execute all the orders including the 5G upgrade which will start at a later part of this calendar year or early next year.

Sugandhi Sud: Sure and I just noticed that your order information that you provide there, there is a slight dip in the domestic order book? Is that a drop from the Q2 number that you had reported and you had mentioned some government orders that you have received which are wireline in nature so has there been many change there?

Sanjay Nayak: So I think if I look at, I am assuming you are alluding to the backlog that we have at the end of Q3 India part. That just could be that we have shipped more of the India customers and less of the international customers during Q3. And by the way in terms of the order book when I mentioned that we are L1 in another wireline tender we do not yet count that into our order book because till we get the purchase order in our hand it is still a prospect and not a firm order in that sense.

Sugandhi Sud: Thank you. That is very helpful and finally on international order book is it largely driven by Tejas's legacy business or it is Saankhya material portion of that?

Sanjay Nayak: No it is mostly Tejas's historical business. There is some element of Saankhya order book which I think which we also mentioned but significant part of this is the Tejas business.

Sugandhi Sud: Sure thank you. That is very helpful.

Sanjay Nayak: I think we are almost out of time or have actually overrun on time so we may take one last question maybe.

Moderator: Yes Sir. The next question is from the line of Naveen Bothra from Subh Labh Research. Please go ahead.

Naveen Bothra: Congratulations for continuous improvements in our operating performance and the investments we are making in the 5G side to increase 5G as well as EMS side to increase our capacity for the upcoming orders? My question is to Mr. Arnob, he talked about the management software solutions and as well as the DaaS and MaaS on cloud-based platforms so my question will be if you can throw more light on these service expected service revenue how do you see it panning out in the coming quarters this service side of business software?

Arnob Roy: Well we cannot quantify in terms of absolute numbers for the service. We have a lot of interest from a lot of operators. The smaller ICPs are looking at a solution like this and are ready to engage so we are working out a commercial model with them in terms of how the subscription would be paid for. So I do not have any absolute numbers right now so we are working with the business model. For the DaaS the data distribution as a service that is again in early stages of customer engagement into how to take this forward because this will be targeted towards some specific application segments where data distribution over wireless using broadcast technology will be very relevant. There are a few sectors that we are engaging in with these partners who have the infrastructure, who have the spectrum etc., so that too is still at an early stage but the market opportunity looks quite big over there, especially in terms of international business, but we are not yet in a position to quantify those numbers.

Sanjay Nayak: Yes I mean the flavor of the kind of technology that we are working on which Arnob had articulated was also to give a sense because from an investor perspective two questions get asked to us many times. One is are we investing enough and second thing is what are you actually investing into so we just wanted to give a feeling of both of those areas that these are the technology areas we are investing. We are continuing to increase our investments. I think we will have to do a lot more investments as we go forward but I think with the scale business that we are thinking of right now of achieving we should be able to absorb those R&D investments in a meaningful way like one of the persons who had asked the earlier question so that is really the way we are seeing things.

Naveen Bothra: So apart from the hardware revenue we do see a service revenue scaling up in the future that is quite nice Sir and a question to Mr. Sanjay regarding the PLI incentive and the size of opportunity we are seeing in this space for the coming four to five years as we have got the approval for Rs.750 Crores the highest approval almost 25% of the scheme incentive we have got the approval for so if you can throw some more light the calculations will be as per the earlier concalls or some difference will also be there?

Sanjay Nayak: With the design-led PLI as I had mentioned in the earlier concall we get 1% extra incentive compared to the other PLI so this is the only PLI scheme of the Government of India where there is a design-led incentive and they give 1% extra for design in India products which we qualify so your observations are absolutely right Mr. Naveen, that the Rs.750 Crores we have that is subject to. So on the investment part, now that our R&D investments or the manpower investment is also counted as a capital investment, we are confident that the investment commitment of Rs.750 Crores will be met without breaking the discipline or the financial model of the company. The second aspect in terms of the incentives that can accrue I think the calculation we had done could come to something like Rs.2800 Crores of incentives over the five year scheme period for us so if we are able to scale up our revenues we do see that as an opportunity to secure those incentives. And as I mentioned in one of the earlier questions we are still designing our base business such that the investments and the returns should be good on their own merit and the PLI incentives will top up those and help us have a bigger envelope of profitability as well as for making more investments to accelerate the growth so yes all the calculations and all the assumptions about the design-led PLI we had articulated earlier are still intact and we do expect that the year one we will meet the thresholds and at least be eligible to claim some incentives based on incremental revenues and investment made.

Naveen Bothra: So first year will be this financial year only?

Sanjay Nayak: The first year will be this financial year, yes right.

Naveen Bothra: Okay thank you very much. Thank you and all the very best and we look forward to seeing the BSNL order very soon in the coming two or three weeks because it is getting quite late. Thank you Sir. Thank you very much.

Sanjay Nayak: Thank you again and I guess I will hand it over to the moderator.

Moderator: Thank you. That was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sanjay Nayak: Thank you everybody. I guess we had a very insightful set of questions. We tried our best to give you as much insight as we could. All I can say is that from a business angle we feel quite positive that all the efforts that we have been making over the last several years and more recently in the last few quarters to upgrade our technology, to upgrade our processes, systems, manpower and lining up to build a good fast-growing profitable business, I think we have made a good amount of progress. The supply chain situation which was constraining us is also coming under control. I would not say it is 100% under control but it is progressing in the right direction so I would say we are quite positive and confident about the potential of the company and look forward to a solid execution going forward so that we can realize all the opportunities for which we have been lining up things. So thank you once again and thanks for your patience and commitment to Tejas.

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