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

January 27, 2020

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 - Tejas Networks Limited Q3 FY 2020 Earnings Conference Call

Please find enclosed the transcripts of the Q3 FY20 Earnings Conference Call held on January 21, 2020.

The intimation is also available on the website of the Company at www.tejasnetworks.com.

We request you to please take the same on record.

Thanking you,

Yours sincerely
For Tejas Networks Limited

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

"Tejas Networks Limited
Q3 FY2020 Earnings Conference Call"

January 21, 2020

ANALYST: **MR. SANTOSH SINHA - AXIS CAPITAL 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 Tejas Networks Limited Q3 FY2020 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Santosh Sinha from Axis Capital Limited. Thank you and over to you Sir!

Santosh Sinha: Thank you Nirav. Good evening everyone. On behalf of Axis Capital, I welcome all participants to the conference call. Today, we have with us Mr. Sanjay Nayak, CEO and Managing Director, Mr. Arnob Roy, COO and Whole Time Director, Mr. Venkatesh Gadiyar, CFO and Dr. Kumar N. Sivarajan, CTO. They will start with the overview of the company's performance for Q3 FY2020 and then we can switch to Q&A. Thank you and over to you Sir!

Sanjay Nayak: Thank you. Good evening everybody. This is Sanjay Nayak along with my colleagues here in Bengaluru. So, thank you for joining this call. We had uploaded the presentation on the website and published the results in the press release earlier in the day, so I hope you had a chance to look at that. I will be going through the presentation that we had uploaded.

Starting from the first slide, Q3 FY2020 key updates, as you know Q3 was a challenging quarter again and in terms of the financial update, the net revenues, net of taxes and component sales was 85.4 Crores because of the revenue being small and our expenses in terms of RD and other fixed cost being high, our profit before tax was a loss of 14.8 Crores for the quarter, and we also had a deferred tax reversal in Q3 of 99 Crores which resulted in a PAT loss of 112.1 Crores.

On the cash side we have improved collections, and our cash position has improved to 296 Crores up 6 Crores from the previous quarter. Another interesting thing was that we had long overdue amount from BSNL for the BharatNet project. In Q3 we see 41 Crores from that amount and for the whole year, the first nine months, we have already received 86 Crores from that project. So as on date the balance which is receivable for Bharat Net project from BSNL, net of the retention amount is around 120 Crores and majority of which we expect to collect during Q4.

The order book that we closed as on Q3 is 449 Crores, out of this order book we believe around 25% of the revenues will be for Q4 of this year. In terms of the sales update, we do expect the overall year-on-year revenues to decline quite significantly by the time we finish the financial year. The reason for that is primarily because of this steep decline in the India government business, which for the first nine months had a decline of 86% year-on-year and primarily because of marginal business coming from BharatNet which showed a decline of 91% year-on-year.

The critical infrastructure business for which we actually have a fairly healthy order book, but from a revenue perspective have seen a decline of 73% for the first nine months, primarily because many of these projects that we have orders for are being slow in terms of execution by the government customers.

In terms of the run rate business which is where a lot of the focus is, which is the combination of India private plus international for the first nine months it grew by 10% year-on-year basis, out of which India private grew 32% year-on-year for the first nine months; however, we do expect that in Q4 given the overall sectoral situation the growth will be lower, but at the end we will still see a reasonable year-on-year growth for the India private segment in this financial year.

As far as the international is concerned this has been a big focus area for the company. So, we see a strong momentum, we added five new international customers in Q3. While the first nine months revenue actually showed a decline of 17% on a year-on-year basis, we expect a very strong Q4 and by the time we finish the year, we expect to see a healthy year-on-year growth for the international segment. This is based on the business that we have already won with our customers or some new big customers, from which the formal orders are yet to come in our hands, but we expect them to come in the next few weeks and based on the forecast from them we should be able to revenue some part of this business in this quarter.

In addition, we also have run rate international customers for whom this is the Q1, and based on their forecast again we have a fairly good visibility into our international business. So international overall will again show a pretty healthy growth like it showed last year although the percentage will be smaller than what we had last year.

In terms of what are we doing proactively, we continue to strengthen our international sales leadership. We are very happy to say that, we have added a new Vice President of Sales in Africa based in Johannesburg. He is a very senior industry veteran with 25 years of experience, and he is going to be running Southern, Western and Eastern Africa from Johannesburg.

In addition, we have also hired a CTO for the US business. This is in addition to the head of sales that we had hired in Q2. So, we are actually adding a lot more fire power to our international sales team, which we will continue to do even in Q4.

On the technology and investment side, we continue to believe that we have very competitive products and the TJ1400UCB the ultra-converged broadband access equipment which we launched last year has been recognized among the top three global wireline innovations by a reputed US telecom publication. So, technology wise we believe that things are heading in the right direction and we are well poised to win business, as customers start to spend.

Going to the next slide, which is the revenue by the segments. On the left hand you see the pie chart on the annualized basis for the entire revenues of last year and we believe the annualized comparison is the right comparison because we will see quarter-on-quarter fluctuations, and on the right-hand side we have given a consolidated view of the first nine months of revenue for the same segments.

As you can see the India government, which was 55% of our total revenues last year has actually shrunk quite significantly and on a nine month basis as I mentioned earlier, it has declined by 86%, but that has primarily been the reason for our nine month decline of revenues, which is around 46% on a year-on-year basis; however the nongovernment business which is the India private, and the international business which is the run rate business contributed 84% to the total in the first nine months and on an absolute basis also grew around 10% for the first nine months.

We expect this part of the business which is India private plus international, by the time we complete the full year to have grown by 15% to 20% on a year-on-year basis compared to last year.

International in particular is showing strong growth momentum and actually Q3 although the total revenue base was small, international was more than 50% of our total revenues, and in Q4 again we do believe that international will be more than 50% of our total revenues which will be much larger percentage on an annualized basis. So, our expectation is by the time we finished the year from 21% of total which was what international was last year, we expect international to be not less than 40% of our total revenues by the time we finish this fiscal year.

Coming to the next few slides on financial update, I would request Venkatesh Gadiyar, our CFO to walk us through the next slide. Venkatesh!

Venkatesh Gadiyar: Thank you Sanjay. Good evening everyone. It is again a challenging quarter this quarter too in terms of our revenue and profitability.

Our net revenues for the quarter were 85.4 Crores, year-on-year decline of 51.5% and for a nine months basis we saw a decline of 46.5%, and our nine months revenue was about 327.1 Crores.

Our gross margins were stable for the last two quarters, and our operating costs were under control, significant cost of our operating costs were manpower, which is majority of the costs are in R&D and which are costs wise fixed in nature, and our operating expenses were lesser compared to Q2 because we had a higher service revenue in Q2 similarly we had a higher service expenses in Q2 and our depreciation and the amortization were higher by 2 Crores during the quarter.

Since there was a sharp decline in the revenues that has impacted our profitability for the quarter hence resulted into a PBT loss of 15 Crores, and for the nine months ended 12 Crores and there was a reversal of deferred tax asset of 99 Crores on account of the reduced profitability outlook.

Let me just explain. At the beginning of the current fiscal, we had a deferred tax asset of 138 Crores in the books, this is towards the brought forward income tax depreciation losses and accumulated expenditure pertaining to 35(2AB), which translates to the tax benefit to the extent of 138 Crores that we will receive in future.

During the quarter as a part of the ongoing review of the deferred tax assets - that carrying amount of the deferred tax assets has been reduced to around 98 Crores for the quarter, since we expect the utilization of the carry forward may take longer than what we have anticipated in earlier period owing to the overall sluggishness in the telecom industry, in India in particular and the unabsorbed depreciation and the accumulated 35(2AB) expenditure can be carried forward as per the income tax law. We expect to recover this through the future anticipated taxable profits. This accounting is according to Ind AS income taxes and the company is expected to utilize the carry forward losses based upon our future profitability.

Key financial indicator, we had generated the cash flow from operation of 28 Crores. We had collected about 200 Crores from our trade receivables. Our DSOs marginally saw the improvement, which was a decline from 277 days to 268 days. Excluding BSNL, BBNL our DSOs have reduced to 170 days from 174 days as of September.

Our working capital decreased by 11 Crores on account of the higher collections during the quarter and we expect to reduce the working capital level by Q4.

Inventory also reduced from the level of 258 Crores to 245 Crores and trade receivable in absolute terms saw a decline of more than 100 Crores, i.e., 103 Crores.

Borrowings of 1 Crores will get paid in Q4 and we expect to see the company as fully debt free by March end. Cash and cash equivalents have improved by 6 Crores compared to Q2 levels and we expect to improve the cash position at the end of March.

Sanjay Nayak: Thank you Venkatesh. Going back to the next slide, which is the international business update.

Since international is a big focus area of the company and this is something which we have been working to diversify our India risk on a broader basis, I would just like to walk you through the three geographies where we have been putting a lot of focus.

So, let us start up with the first one which is the Africa and Middle East, this is the geography which this year is growing at the fastest rate and we are seeing the highest amount of traction.

Really what has worked for us is that while a couple of years back we had just one office in Africa we have now established regional offices in South, East, West and North Africa. We have put more sales leadership in place with very strong local leaders and all of that is really paying dividends. So essentially what we have done now is that South, West, and East Africa is under one senior sales leader and Middle East and North Africa is under another, and as a result both of these regions are now independently showing significant amount of growth.

The other benefit which we are seeing in the region is that, earlier on, we had a lot of small customers and now this year onwards, we are seeing many of these customers graduating to become $1+ million per year run rate customers. So, the benefit of that is as we continue to get deeper into these customers' accounts, we should see a stronger run rate business going forward, in addition to winning a lot of newer customers.

We have actually, in terms of being technically and commercially selected in at least three large deals in the region. We expect to get orders from them, some of them are multimillion-dollar, multiyear deals, some of them are of course going to get revenue in Q4 itself, and we think that once those deals come into picture, the entire revenue from this region will continue to show a strong growth.

Another aspect of this region is that, we are growing our market share in multi-country Tier 1 operators with pan-Africa presence. So we have won a few Tier 1 operators for last year and we started with one opco, but as we show good traction in that particular opco we are able to start selling to other opcos of that operator. So those are the opportunities which we see.

Fundamentally what is happening in Africa as a market is that, there is a significant increase in terms of broadband penetration which is driving the growth for optical and the second aspect is that lot of web scale companies are pumping in huge amount of bandwidth that they need from Africa. So, all the big guys are really doing maximum amount of build outs through our customers in Africa and that has really been a good long-term growth driver for our business. I think we are very confident and comfortable of the growth that we have seen in Africa and Middle East region.

Coming to the next region, which is South East Asia and South Asia. We are very happy to say that in the last quarter, we won and executed a PO of value more than $1 million for a large global operator from Hong Kong. We believe that it will now open up opportunities for more business in the same operator. So that is another thing which was a good win.

In Malaysia we have strong existing customers and this is their Q1. So, I think we see a very good forecast pipeline of repeat orders from them. In terms of new customer wins in Vietnam and Bangladesh, we have again been technically and commercially shortlisted and we believe that those orders will come in Q4 and that will again create a good momentum going forward.

So again, I would say that South East Asia and South Asia is another region where we have been there for a while and it has got to significant revenues and we continue to see a sustainable growth path in the upcoming times as well.

Coming to the last region where we are focusing which is North America where we are primarily targeting two countries, USA and Mexico. In the US we used to have OEM business, which has really come down to marginal levels right now, and is not expected to improve. So, we have been focusing on building a direct customer base which is primarily the Tier 2 and Tier 3 operators which there are plenty in the US.

In terms of the strategy for the US market, we believe that we needed to have basically stronger investment in terms of sales leadership, as well as technology leadership. So, we have basically hired a new CTO, a very experienced hand from one of our global competitors from the US and similarly we hired a strong sales person who was heading the metro business, once again from a global company. So this new team has been in place for over a quarter but unfortunately the deals in US are taking longer to convert, so the first nine month revenues are weak. I do not think there is going to be a dramatic improvement in Q4 either, but next year with the foundation that we have laid this year, we expect to see US starting to deliver revenues for us.

Mexico on the other hand is a country that we have been doing very good business in over the years. We continue to get larger market share in the operators where we have and we are in almost all the operators in Mexico. Although nine months revenues from Mexico were a little bit behind plan in terms of what we had originally anticipated, but again based on the forecast that we have, we think that Q4 will be a strong quarter and we should again be able to see good revenues out of Mexico. So overall US and Mexico or the total from North America will show a flattish to slightly improved growth compared to previous year whereas Africa will probably grow the fastest followed by South East Asia.

Coming to the India part of the business; again, let us talk about the two parts, the government business is the one which have been not very good for us this year, we hardly got any business from BSNL given the situation that they were in and BharatNet also the central projects did not really get any funding. So that part of the business really was nonexistent for the most of this year and we do not expect any business from that coming for the rest of the year.

The critical infrastructure business has been a little bit of a negative surprise for us, because we have a lot of orders and we have actually won a lot more business as well, but the execution of these orders from the government side, not from our side, has been very slow, possibly for the reasons that the enterprises that are supposed to execute these orders are in a bit of a go-slow mode.

So this business will have a very strong booking and backlog as of today and will continue, but the revenues from this sector will be slightly lower than what we originally expected and one hard approach which I had mentioned in the previous quarter’s call and we are continuing to take is that we do not want our money to be blocked into any of these projects by supplying the equipment early and then having to wait for a long period of time before the rest of the installation and commissioning happens thereby delaying payments.

We are taking a very careful approach that we only ship equipments once the sites are ready and the project is ready to go. So, the new business from this sector is good. In addition, for example we actually had won last financial year an Army NFS project which is quite a sizable amount of revenue potential for us, but while we have completed all the testing and proof of concept and everything else after winning the order with the partner, those orders are still to come to us and we expect them to come in Q4 but the revenue impacts where again will slip to next year. So, these were things which we thought originally would be a part of this sector. Net-net I would say the business in terms of new order wins and the inflow of potential business from this sector is good, but the revenues are getting pushed out this year and will continue to really get executed in the next financial year.

In terms of state led fiber projects, there are two projects where we are involved. Kerala we already got the order from Bharat Electronics, for Telangana project the T-Fiber our partners have bid and they have won and they have got the POs and we are working with them to get the POs for us, but again I do not think it will have a revenue impact for us in this financial year and that is another reason we feel that the overall government business this year will be very soft.

At a macro level, if I see what is the outlook for this part of the business for us, so at a high level the government is committed to Digital India and Make in India and I am sure you would have read the announcements on the National Broadband Mission which was launched about a month back by the minister where they said that they are going to connect 600000 villages and just to give you a sense only about 120000 to 130000 villages have been currently connected on high speed internet. So, they have a target to really triple or quadruple that number over the next three to four years and which will mean a lot newer optical fiber which will be laid out and in addition they have also said that they want to get the proportion of fiberized towers to go up from 30% to 70%.

So, I think there will be spend from the government side on all of these projects except that we do not see any near-term revenue from them as yet. The BSNL, MTNL revival plan we believe is on track and they have to invest into expansion for 4G which will also require a significant amount of optical transmission infrastructure of the kind that we do. So, there are many BSNL projects which are in the play, but I do not think they will again be into revenue for this year, they will probably be for next financial year in terms of the tenders coming and we executing. So that is on the government side.

So quick summary this year has been a significant decline, pretty much the main reason why our entire year's revenues and the nine months revenues are lower, but going forward at some stage this business is expected to come back and we will of course be there to leverage the benefits that we can accrue from our position and Make in India.

In terms of private accounts, the financial stress on the operators is well known to everybody and clearly it has impacted their capex in the near-term. The good news for us is that we are incumbents in all the operators and the two applications where we are focusing on in terms of winning is the fiber to the home application for which we are in advanced stages of discussions with two of the three main operators. Another application we have won with a large operator is metro capacity upgrades using OTN and DWDM technology which will allow us to increase our wallet share in that account.

So again, we do not believe that there is going to be any significant capex boost in the near-term, because the sectoral situation has to improve, which we expect will take at least some amount of time, but as and when that happens, at least the part of the network that they will be investing in we hopefully will have a business to gain from those operators.

So just come to the next slide and which is more of a recap of what are we trying to do as a company to really make progress going forward on a sustainable basis, because we have seen a little bit of up and down in revenues over the last couple of years. So, our stated objective really is that in the medium-term we want to focus and make sure that international is a major part of our revenues. We want international to be more than 50% of the revenues. We are very focused on specific geographies, Africa, South East Asia and North America that we talked about, so we will continue to really ensure that we do everything possible in our control, in term of sales investments, in terms of product fit and in terms of management focus to make sure that we meet this target of 50% revenues in the medium-term. And as I mentioned earlier in the call this year itself from 21% of total last year we will increase north of 40% this year and even on an absolute basis the international revenues should show a healthy growth.

Second is we do believe that India as a long-term still has a lot of telecom investments to be made especially in terms of broadband infrastructure, especially in terms of rural connectivity, especially in terms of quality of service aspects which are not being done, because of the low capex investments, so there will be a significant amount of capex which will be spent by the operators in India over a period of time. As and when that happens, we believe that we are well positioned to take advantage of that. In addition to government spending and the Make in India policy which government continues to be very serious about.

Third thing we are doing is while our revenues have seen a decline and we see choppiness in the market, as a technology driven company, as a company where we believe that customers select us because our products provide them significant value we do expect that we have to make the right amount of R&D investments to ensure that our products are differentiated and we have a very rich portfolio that we continue to expand so that our addressable market especially as we go international continues to expand. So, I think on the R&D side, yes, it does look like that, we are continuing to invest aggressively in R&D, but I do believe that from a long-term angle that is the right thing for the company.

The last but not the least especially this year our focus has been to make sure that our cash position is strong. So, from Q2, then every quarter during the year we have improved our cash position. So Q2 we improved, Q3 we improved and we are very confident that by the time we end Q4 our cash in the bank will be significantly more than what it is today and basically being a debt free company, we again believe that as we are transitioning the business from India to international as we are really trying to transition from a tender base business to a run rate business, we do need to have a strong financial position which we already have and will continue to improve.

So as such I feel that as a company we are well equipped to execute our medium-term strategy of growing our business and that is something where the management focus is.

Now I will ask Arnob, my colleague to walk us through the next couple of slides, in terms of the macro picture of our business and specifically about the products and how we are addressing those growth drivers. Arnob, please!

Arnob Roy: Thanks Sanjay. So, while we experience short-term challenges in our business, the macro drivers for our business still remain robust, the growth in data traffic and network they continue to grow exponentially and is driven by rapid adoption of broadband in homes and enterprises over fiber and over wireless. The rapid proliferation of 4G networks and the early adoption of 5G leaving to a lot of densification of towers, and fiberization of towers which are driving growth in metro networks, and the traffic to the clouds continues to increase, the data centers are scaling up rapidly, and the demand for data centre connectivity using high capacity connectivity, and massively scalable switching solutions is all driving the growth and demand for optical transmission technology. The anomaly in the Indian telecom market is short-term and driven by a lot of factors that we are all aware of.

On the products side, we continue to focus on R&D investments to ensure we are well positioned to leverage the growth and the demand in the optical transmission industry in the access, metro and core networks. Our focus is on the high growth segments of the market and in each of these areas. In the access we have clear differentiation in our converged access products, in the core our multi-terabit disaggregated core switching products and in the metro our compact and scalable metro WDM products which continue to lead our wins in international markets.

Just to reiterate our growth strategy, we continue to focus in this short-term, on the high growth markets of South East Asia, Middle East, Africa and North America. We continue to invest heavily to increase our investments in sales to acquire market share in those high growth geographies.

In India we want to focus on some of the areas which are relatively unaffected, the utilities, the critical infrastructure, defense and so on and wait out for the turnarounds in the Indian government and private sector and continue to invest aggressively in R&D, evolve our products with the new generation access technologies and scaling up our products with the higher speed line interfaces and higher switching. Over to Sanjay!

Sanjay Nayak: Thank you Arnob. Just to come to the last slide of the presentation after which we will open for Q&A. If I were to summarize the key takeaways for the quarter so it is very clear that due to the sharp decline in our India business, our overall revenues on a year-on-year basis will have a decline and we may not be profitable because majority of our costs are manpower denominated, such as the R&D, SG&A costs, and as a result if the revenues decline sharply we see impact on our profitability, and this is really evident from the fact that India government business which was 55% of our revenues last year has seen an 86% decline in nine months while for private we expect moderate growth in FY20.

As far as our international business is concerned, which is the main focus area for the company in terms of transitioning from the India concentration to a more diversified customer base, we do expect healthy year-on-year growth in FY20. Clearly we will see a very strong booking funnel based on the business wins we already have which will translate to purchase orders in this quarter, but we will also see a decent growth in terms of revenues for the current financial year as well.

We are on track to achieve our goal of 50% of our revenues from international business, in terms of our total in the medium-term, and as I said in Q3 and Q4 we will pretty much be more international than India in terms of our revenue for this fiscal year.

As Arnob mentioned earlier, the macro drivers of business continue to be robust, the data growth, the broadband, the cloud data center, and fiberization are all driving optical investments, and the competitive landscape in the world is still favorable. So, I do not think there is any new company in the optical transmission equipment, which is coming in, the entry barriers to our business are very high, we are having a very good success in emerging markets for example where we have a very good product fit and we believe that if we can execute well on our sales strategy internationally we should see significant business growth.

In terms of R&D we continue to invest in R&D to expand our market share and increase competitiveness. The new RFPs that we are winning in international markets are all against top global players. So that gives us confidence that we do have the right products and the right competitiveness to position to customers and the last but not the least is very important that our cash position is strong. We have 296 Crores of cash, no debt at all and we will see further improvement in our cash position in Q4 because a lot of the inventory which is currently with us can be used for generating Q4 revenues. As a result we should be able to see a much better cash position as well as working capital position by the end of Q4.

The good news is that BSNL/BharatNet payments which were stuck for a long time, government has started to release money to BSNL. They released one tranche last quarter, and expect to release more in this coming quarter and we believe that we should be able to collect a large proportion of those receivables during the current quarter. As a result I do not see any payment risk in terms of any particular customers per se.

Net-net yes, it is a challenging quarter, we continue to stay focused on our international strategy, we continue to stay focused on R&D, and we believe that with good execution we should be able to show significantly improved financial performance in the times to come.

This year of course as we said for Q4, Q4 will be a much stronger quarter compared to Q2, Q3, but given where we are in terms of the whole year, it will not be able to compensate for the 60% decline in the India government business this year. That is really where, I would pause for now, and we can now open the floor to the questions.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Pranav Kshatriya: Sir just a couple of questions. Firstly, if you look at the revenue growth, it has decelerated very sharply. So going forward should we assume this as a base or where should we see the revenue growths settling in, so that is my first question, and secondly if I look at the consolidated financial statement, which is filed on your website, it actually shows that the operating cash flow for nine month is Rs.2 Crores with capex of roughly Rs.77 Crores which gives a negative FCF of almost Rs.75 Crores and this is despite Rs.160 Crores which is collected from trade receivables. So, I just wanted to understand that is there a disconnect with these numbers with what we are seeing?

Sanjay Nayak: So, let me answer the first question and I will ask Venkatesh to answer the second one. So, in terms of revenue, we saw a deceleration of growth so what is the new base to assume? So, the way I think we would like to see our business given what we control and what we do not control is that we put the government business as one bucket and the non-government business as the second bucket and non-government business contains India private and the international.

So, I do believe that the base that we are creating for the non-government business this year, so if you see the first nine months the non-government business grew by 10%, if I look at the overall year, by the time we finish the year, we expect the total growth should be anywhere between 15% and 20% this year.

The good news of this part of the business is this will become the base for our revenue growth for next year. So, we should be able to grow the non-government business on top of this base, so that is one part.

As far as the government business is concerned, at least from the utility business, we will have a fairly large backlog which will get executed next year. Some of the other projects like what we should get is the NFS project and bunch of other BharatNet state projects and all that, those will again become predictable revenues for next year. But the big ticket revenues for next year from government will be subject to government tenders getting through and all those things. So, I would say that in the longer-term our objective is for the government tender business, which is lumpy in nature, to kind of become an add-on business and the baseline business should be that which sustains our basic growth with predictability of revenues.

It is not that we have lost any government business, because those tenders have not happened, but it is just that, that business is deferred. Will it all happen in next fiscal year? It is a bit early to call right now but it is expected based on all the public announcements by the government in terms of what they are going to do either for BharatNet or for BSNL. They should happen to a certain degree next year, because there were no tenders this year, but we would really kind of continue to give commentary on that as we go along. So, on the critical infrastructure, while we will be short on revenues this year, but the booking as well as the overall momentum will still be good. BSNL, BharatNet business is something which will continue to be lumpy which we will continue to watch, and Gadiyar can you talk about the other aspects that Pranav asked.

Venkatesh Gadiyar: Pranav, the cash flow from operations for the half-year ended we had a negative cash flow of 26 Crores and during the quarter we had a cash inflow of 28 Crores as you rightly mentioned on a nine monthly basis we have generated about 2 Crores and on a free cash flow YTD basis yes it was 76 Crores, yes.

Pranav Kshatriya: I just want to understand, so this is despite Rs.160 Crores which is collected by way of receivable. So currently this business continues to be in a significant FCF negative territory and that actually is depleting cash at a fairly rapid pace. So, I mean, should we set a timeline that how much cash burn can happen before we really start generating cash again. Because their trade receivable is like onetime thing it is kind of asset sitting on your book, but we cannot express that to majorly fund the cash flow which is there?

Venkatesh Gadiyar: Yes, it was an exceptional quarter for us. See the trade receivables have come down from 607 Crores to 504 Crores that means there is a trade receivable decrease of 103 Crores which is nothing but we have collected about 200 Crores; however, the creditors also decreased from a 213 Crores to 116 Crores, it is more of the reason making the payment to the creditors also we have built in the inventory in anticipation of the consumption; however, we could not consume the inventory in Q3 probably we should be able to consume the inventory in Q4 then we will get this improvement in there.

Sanjay Nayak: Pranav the short answer to your question is that if we had not built up the excess inventory that we have in anticipation of the Q2 and Q3 revenues, we would not have paid out as much to our suppliers which we have currently done. So in Q4 because we already have inventory and now we have the orders in hand to execute, we should be able to flush out that inventory, so which will basically free up a lot of cash and at a macro level there is about a 620, 600-ish Crores of revenues once we get that basically on a EBIT basis gets us to a breakeven level and anything above that starts to make sure that we do not have a cash flow problems.

Short answer to your question is I do not think we have any challenges in terms of depleting the cash. I mean it was an inventory buildup that happened which is evident from the 120, 130 Crores of creditors which has come down, which we expect to not have in a normal situation going forward. So, I do not think that we see any challenges in terms of having adequate cash for executing the business and the concrete evidence of that will be available once we close the Q4 in terms of the cash in hand as well as the rest of the working capital that we talked about.

Pranav Kshatriya: Okay, that is it from my side. Thank you.

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

Sangam Iyer: Sanjay Sir, I just wanted to reconfirm with you, you mentioned that the India private business at the end of the year should grow at around 15% to 20%, right?

Sanjay Nayak: Yes, the India private would be around 10% to 15% because we have grown around 32% for the first nine months, but given that the situation in the India private sector is a bit challenging we will pretty much execute the orders in hand or what we have as a run rate. So, we see a 10% to 15% growth for India private, and 15% to 20% if you look at India private plus international as an aggregate.

Sangam Iyer: So, when you look at international, international so far has grown is at say around 80-odd Crores of revenue for the international direct part of it. So, from a full year perspective how should one look at the international business because we see a growth or how should one look at it?

Sanjay Nayak: No, no, definitively we will see a growth, we expect international growth to be anywhere in the range of 30% to 40% on an annualized basis by the time we finish Q4 and the reason for doing that is because as I mentioned the visibility we already have from the existing customers. This is their Q1 and we already have their forecast and those orders are in the pipeline and in Q3 which is Q4 calendar, in the December quarter, we also won significant number of deals where techno and commercial everything have been closed except that we do not have the physical PO in our hand. But those customers do want a significant part of those equipment to be delivered in this quarter. So, based on those two factors we expect a 30% to 40% year-on-year increase on the international revenue for the total year.

Sangam Iyer: So that international direct business that we are talking right?

Sanjay Nayak: That is correct.

Sangam Iyer: Sir given that base analysis muted and as your commentary rightly said that this year we do not expect much, what about the critical business? The first nine months has seen close to maybe 30 Crores of revenue from the critical business, are we seeing any run rate there, given that there were few orders that came through in Q3 as well. So, do we see some uptick happening there, or do we see the run rate being similar to 70%, 80% decline like what we are saying in the BSNL business?

Sanjay Nayak: No, so critical infrastructure is typically a very Q4 dominated business, because what happens is the oil and gas, power, all of these guys have a budget that they want to spend.

So Q4 I mean lot of these projects' kind of pickup some speed which so far, they have not picked up speed and as we have said earlier we do not want to ship stuff and get stuck with 50%, 60% payment and for 40% payments we are waiting. So, we do expect that the Q4 based on the customer timelines in the critical infrastructure business we do not have to get any orders. All the orders are already in our hand and we have a pretty healthy backlog. I think we have more than I think something like 190 Crores of POs in hand today for that sector, but the POs only will get shipped out when the customer sites are ready, when the project is ready for takeover etc., so we do expect uptick in Q4 for the critical infrastructure. So, I do not think we will see a 70%, 80% decline probably the decline could be more like around 50% compared to last year because we did I think around 170 Crores in this segment last year so we will see some decline but it will be not as much as better than the first nine months.

Sangam Iyer: So basically, we have factoring in the 25% execution of the order book in the critical infra in Q4?

Sanjay Nayak: That is correct, and in fact, if some more order comes, we will see, but I mean, right now we are just planning very conservatively that we should just worry about orders in hand, things which will definitely get shipped out etc., etc.

Sangam Iyer: So, sir just to understand my last question on the tax part of it, given that this deferred tax assets which was adjusted this time around, was it more from a perspective I still do not understand in terms of the, was it because of the timeline that the deferred tax asset was adjusted or reduced, why exactly did this happen?

Sanjay Nayak: I think Venkatesh can give the finance answer, but I understood from the auditors the way it works is that every quarter one is supposed to review over what period of time you are going to be using your carry forward losses etc., etc., and given that the first nine months we are in a loss compared to say in the previous nine months whenever this deferred tax asset was capitalized and brought into the book we basically see a loss and overall the commentary for the Q4 as well as the near-term sectoral issues in India we just want to be cautious so it was prudent to say that it is a below the line item in terms of our P&L. So, it was our financial practice that we should as per the Ind AS whatever put that deferred tax reversal at this point in time.

Sangam Iyer: Why I ask this is because if I look at your Q4 commentary it does appear that we would be more than 200 Crores of 240 Crores of revenue?

Sanjay Nayak: We have to look at the full year and the next year in terms of a broader picture, I mean, it is just an assessment we just took a conservative assessment given the sectoral thing because predicting anything in Indian telecom sector is a bit challenging, so we just took a conservative call and said okay that I mean it is a asset we have but that is what we have done, yes.

Sangam Iyer: So, from a next year perspective can you provide an outlook for the segment?

Sanjay Nayak: Broadly I can just tell how we see things I kind of mentioned a little bit of each of in the different parts of the conversation earlier, but I can quickly summarize for next year. So, the international will continue to grow very robustly, if you see it despite, so booking as I said international last year if I recollect correctly we grew international 70% year-on-year on a revenue basis and probably the booking was maybe around similar. This year I think we are very confident that the booking rate will be similar to last year, the revenue depending on the timing of the PO we are predicting 30% to 40% year-on-year increase. So, our belief is that the investments we are making and by the way we have also made offers to few more international sales leaders who will be joining in this quarter so that when we start the next financial year, they will basically be fully geared up to go. So, our belief is that the international revenue growth momentum will still continue because we are still way under penetrated in terms of the available market, and available in the three geographies that I talked about, so that part of the business we are very confident. We have all the data on the table all the business wins all the momentum, we are seeing and this is the very solid run rate business it is not one country, it is not one customer, it is a very broad-based business. So, I do not see any hiccups coming in the way for sustaining this growth momentum, so that is one part.

India private I would say while we have shown good growth this year, it is predicated around two things, number one is that some of the new applications that we have been working with in terms of our customers because there are really very few operators left in terms of companies with large capex spend. We are well positioned but they have to give the formal nod to us with regard to being selected for these new applications. If those things happen subject to this being the area that we are focusing on such as fiber to the home or fiber to the enterprise as well as the metro bandwidth expansion, where we are well placed. But it is also an issue of the sectoral crisis that we are seeing, but the operators where we have the bigger bets we do not see that much of a challenge, one particular operator in a least strong is possibly seeing the largest challenge in terms of the financial situation.

Coming to the government part next year I believe the critical infrastructure will get back to the trajectory based on the backlog we have plus based on the tenders that are happening this quarter which will again further add up to the backlog for the next year, so that is part of the business again I would say we should see good growth coming in from the current levels.

The BSNL BharatNet business is the one I would still be cautious. It is early days I would say to predict exactly how BSNL will pan out. This is really the first quarter when all their restructuring plan is going to play out. As far as BharatNet is concerned if I were just to go simply on the commentary that the minister and the government have made saying how much they want to really triple their connectivity in BharatNet, they want to do a lot more investments and all the money is available in a year or so I would say that as of now we have visibility into at least one very large state project of BharatNet which has been approved by the commission and there we have an opportunity of around 500 Crores based on the final architecture which has been published. So that part of the business we seem to have some visibility, but the BSNL as the operator visibility is still not clear and BharatNet expansion visibility is not as clear as we would like it to be. I am hoping that during the quarter we will get that and by the time when we come back again in April we should be able to have a decent amount of conviction as to what part of the India government business will actually come back in next financial year.

Sangam Iyer: So, would it be hazardous to say that critical infra which degrew by 50% can kind of give a growth of around 20% for the next year or based on the current order book?

Sanjay Nayak: Definitely, I think because this year the revenue has declined from last year, the base has become smaller. So and given that we already have a pretty healthy order book, we should be comfortable that and plus by the way we have not counted a 50 Crores, 60 Crores order which is already won for the defense project that we talked about, so that is already in the bucket so I would say critical infrastructure will grow quite healthily next year, I mean, because all the orders will be with us by the time we finish the financial year.

Sangam Iyer: Great Sir. I will come back to the queue. Thank you.

Moderator: Thank you. Next question is from the line of Rakshit Shethi from Share Value Capital. Please go ahead.

Punit: My question is regarding interest cost, so basically, we are a debt free company, but in FY2019 we had 17 Crores of interest expense, so I wanted to know that what is that pertaining to? Also, in your FY2019 annual report basically you have mentioned that aggregate of fund and non-fund-based facilities outstanding as of March 2019 is roughly about 180 Crores, so can you please provide some more comment on that?

Sanjay Nayak: Firstly, upon the finance charges that we incur, one is on the LC or BG etc on that we incur costs, second one we discount the customer bills and all based on that we have to incur the finance charges. About 180 Crores of, as you rightly mentioned 180 Crores of the non-fund-based utilization is more towards the utilization of getting these bank guarantees especially for the government sector customers and we do not have any utilization of the fund-based facilities.

Punit: And what would be the current turnout outstanding?

Venkatesh Gadiyar: Outstanding would be around in the same lines maybe 170, 180 Crores.

Punit: Thank you.

Moderator: Thank you. Next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Just one question. On the multi terabit switching product, where are we in terms of getting our first sales?

Arnob: Actually the multi terabit product since it is a disaggregated architecture, we sell both the components of the product, interface component as well as the switching component independently. So we have significant interest in early adoption of the interface chassis and we are currently in the state of doing POCs, the proof of concepts with some of the customers and we expect to have sales in the first quarter of next financial year and for the entire switching solution we have lined up for doing some POCs towards the end of this quarter and so maybe sometime towards the middle of the next financial year we will have sales of the overall switch.

Miten Lathia: Sure great, wish you all the best. Thank you.

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

Mukul Garg: Thanks for taking my question. I have four, five questions so please bear with me. Sir just first on the, you mentioned this year you might see a net loss is that number will you see a reported loss even excluding the DTA write-off or will you be able to kind of breakeven?

Sanjay Nayak: We believe that at a PBT level we should be around breakeven, but after the 99 Crores of whatever deferred tax loss we have taken we will be in the net loss but at a PBT level we should be breakeven is our expectation.

Mukul Garg: Within part of this what is the sustainable gross margin for you, it has been all over the board and I did understand partially it is because of the inventory clear of, so is it something we should look at FY2017-2018 levels or has that changed?

Sanjay Nayak: Just let me breakout the growth margin conversation to two portions, so our gross margins is one is the material cost, which is the bill of material which is really the core gross margin in terms of what price we are selling our equipments vis-à-vis what price we are buying the components and building the materials. So actually, speaking even in the nine months we are very happy to say that our gross margin that the component level is stable, so they have not declined, but what happens is we also add the cost of services as well as the cost of manufacturing which is basically the manpower cost associated in a manufacturing operation as well as services operation which is again quasi fixed cost because these are teams in place. So that basically shows the gross margin as a percentage as a slightly lower number, but the good news is that the product gross margins are stable. We have not seen a decline we are able to hold our price we do not have to do any sale at a margin that we do not like, so margin at a gross margin level I think we are pretty comfortable and I do not see any challenges in sustaining that. Our challenge has been that when the topline reduces the percentage of services cost and the manufacturing manpower cost as a percentage of total dramatically increases and that basically distorts the gross margin at aggregate level.

Mukul Garg: Now coming onto the growth expectation from Q4, your numbers indicate that the international business will kind of grow upwards of 100% for Q4 on a Y-o-Y basis. Now if we look at the kind of the commentary versus what you have captured in growth over last two years, I think it has been a reasonably high struggle from your side so how confident are you that, you will be able to kind of almost double on a Y-o-Y basis the international business in Q4?

Sanjay Nayak: As I mentioned earlier generally there are really only two elements to give us a sense of where the Q4 for international business will be. Number one is that order visibility from the existing customers so I think that is one part of it, and since we have few large customers who typically place decent sized orders so that is one part. Second is in Q3 financial for us this year in fact we had also mentioned that even a little bit earlier in Q2 that we are working on some deals which will result into multimillion-dollar orders over the years. So, I think those orders we expect to close in the next three to four weeks I would say and get it in our hands, like our contracts are being negotiated and all the stuff has been done, so when those two things happen the number that we have planned for Q4 for international should happen. The good part is that the inventory is already available with us for those orders based on the fact that we had already built it up for Q2 and Q3. So typical situation is that in a normal year we would not take inventory action till we get the order in hand and that is why the order execution becomes a bit of a challenge in terms of managing the lead times, but in the current year since we already have inventory in hand or almost all the inventory and not everything for sure, even if the order comes a little bit late in the quarter and if the customer does want deliveries, we would be in a position to supply those. So those are the reasons where both from an order inflow as well as order execution, we seem to be in okay situation.

Mukul Garg: Sir sorry to kind of test around this, but given that these discussions which we are expecting to close were there for last, I think one, one and a half quarters, in case they kind of get delayed beyond Q4 what would-be worst-case scenario where like would you still grow the international business on a full year basis or will it decline also well?

Sanjay Nayak: No. The international business even if we do not close I am just saying hypothetically speaking even if we do not close any order in terms of the one which we are talking about and we just execute the orders from our current run rate customers based on their forecast okay, we will still see a growth in the international business, so that part is clear to us again as I said the situation that we are talking of in terms of order closures are more like I would say we are in the final legs of the whole thing, but of course till you actually get the physical order in hand you are not done, but independent of those orders which are in the process of closure, we do expect the international business to grow this year and it will not decline.

Mukul Garg: Any risk which you are seeing on the Malaysia customer front given that there are media reports which kind of talk about of between the governments in both countries?

Sanjay Nayak: No, as late as last Thursday or Friday few of our senior management people from Bengaluru had visited the Malaysian customer and we did not see any such concern whatsoever.

Mukul Garg: Sanjay just on the India private side, it is very clearly visible that Q4 will also be a meaningful decline, if the things persist on the AGR issue 21 also kind of get worst of because not the common but the private business is lagged off. Any strategy internally on, if the India private is weak, how to compensate for that?

Sanjay Nayak: I think the bet we are really taking is that, India itself, I mean, all said and done, the AGR issue is haunting the private sector, the government's whole spending plans and the revenues is the critical infrastructure part aside because that is more like a shipping of run rate business and just a slowness versus speed of execution I do not think that is an order inflow issue. Those two things are a bit of a concern factor from a macro level in India scenario for next Quarter to in next fiscal year as you rightly pointed out. Our strategy really is as hard as we possibly can invest internationally and get things moving. That is really what we have in our control and we are trying to do so that is why for example the South African head is already onboard as on January 1, pretty top-notch talent outstanding relationship at the senior most levels across all top operators and the fact that we have momentum we think he can accelerate. US we feel that we need to have more fire power we have added a CTO. For Middle East we have again closed the position and by mid-February he should be onboard. For Asia we are again splitting the territory and getting some more talent onboard. So, I think we are doing everything that we can in terms of wherever more sales leadership can be absorbed because that is really what is sustainable. Second thing which Arnob talked about is the product fitment with respect to these markets. I think our products really if I were to pick out the geographies that we are focusing on, I mean, including the Tier 2, Tier 3 US I think we have a very good product fit. So good product fit, sales investments in play, incumbency in terms of known brand and those are all the things which we do so really that is why to me Q3 and Q4 where international starts getting more than 50% gives us comfort that the base is getting established and then it is a question of how well we can execute.

Mukul Garg: Understood, thanks for answering my question, I will get back into the queue.

Sanjay Nayak: The guy from Axis, I think you need to control the time how much time we have, and we are of course happy to be there but if you want to have last couple of questions in case people want to sign off.

Moderator: That will be the last question. I will now hand the conference to the management for closing comments.

Sanjay Nayak: Thank you. Just to quickly summarize, Q3 was a challenging quarter, but from a company strategy perspective we understand the choppiness in the Indian market and our strategy at the beginning of the year was to really focus on international, which we are continuing to do and are making good progress. We should see better outcomes by the end of Q4 and going forward that will become a strong base for the company and really with the diversification of our risk, we feel that we should be able to get more predictable and better-quality results in the times to come. That is really where I would stop and thank you again for being on the call today.

Moderator: Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.