"Tejas Networks Limited Q2 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tejas Networks' Q2 FY21 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. Thank you and over to you, sir.

Santosh Sinha: Good evening everyone. On behalf of Axis Capital, I welcome all the participants to the conference call. Today we have with us Mr. Sanjay Nayak – CEO & Managing Director of the company; Mr. Arnob Roy – COO & Wholetime Director; Mr. Venkatesh Gadiyar – CFO of the company and Dr. Kumar N. Sivarajan – Chief Technology Officer of the company.

We will start with overview of the company's performance for Q2 FY21 and then we can switch over to Q&A. Thank you and over to you, sir.

Sanjay Nayak: Thank you, Santosh. This is Sanjay Nayak – CEO & Managing Director of the company along with my colleagues here. Good evening everybody. We had put together the earnings call presentation on our website as along with the press release. So I hope you had a chance to look at it or download because I would actually be following that presentation.

So let me start off with the first slide which is the Q2 FY21 key updates. So in terms of the financial update, our net revenue which is net of component sales and other stuff is Rs. 106.8 crores which on a Quarter-on-Quarter basis is 25.5% above last year. Our profit after tax of Rs. 4.5 crores compared to a loss of Rs. 4.4 crores in the corresponding quarter of the previous year.

Our collections have improved and our operating cash flow was Rs. 45 crores positive for second quarter. And accordingly our cash and cash equivalent increased by Rs. 28 crores to Rs. 299 crores. We continue to have good business wins and our order book has increased from Rs. 593 crores to Rs. 599 crores. These are the orders in hand. In addition we have also won we are L1 in a few tenders which are not yet in the order book.

In addition to the total business our international revenues were 34% of the total in second quarter and if you look at it on an integrated basis for the first half which is how we look at it, it was 42% of the total for the first half and that meant a Year-on-Year growth of around 64% for the first half. In terms of how the quarter went, there were some amounts of push outs in terms of revenues because some of the customers were not ready because of their logistics and roll out issues to take their inventory from us. But by and large things will start getting normal from Q3 onwards is what we believe.

In terms of a quick headline summary from the sale side among the three segments. So the India government segment we split it into two. So the critical infrastructure which is oil, gas, power, railways, metros, defence that is going strong. We not only had good order inflow but we have had a lot of tender wins as well.

In BSNL and the BharatNet projects which are announced are still delayed. So that part of the business is still very slow. On the India private side we have been winning new applications in the form of fiber to the home deployments on our XPON product family; XPON is GPON and NG-PON which is next generation PON. So we have been selected and now received purchase orders from the top 2 Tier-1 operators in the country who have a pan India roll out.

And in addition we are also starting to see traction with regional internet service providers who are also offering now fiber to the home services to their customers. So I think that part of the business seems to be picking up nicely. As I said in the India private sector in particular Q1 was very, very slow. Q2 started to pick up in terms of the roll outs and correspondingly we do believe that in the second half of the year the revenue flow from these customers should accelerate.

On the international side which have been a focus area for the company, Africa and Southeast Asia is showing pretty good growth. North America was very slow. It was very slow in Q1. Q2 had marginal improvement but not much. And again I will talk about how we see the outlook in the second half which seems to be showing positive signs.

We had four new international customer wins. Two in Africa, Middle East and two in North America. The North American customers are of course small. What we found out in the international segment is that from the existing customers we are starting to get a lot more orders and the growth that you are seeing is primarily from existing customers. The new customer acquisition because of delays in proof of concept, field trial, lab trials and the general decision making because of COVID is taking a little bit more time.

But we have made very significant progress across geographies on new customer acquisition side as well. And we expect that as the year progresses we should be able to announce and see more new customer wins which will give us a stronger revenue base on the international side going forward.

So overall I would say Q1 was a slow quarter. Q2 we have seen some pick up although it could have been better if we were able to execute a lot more business that we have in hand. And Q3 and Q4 we expect to pick up pace and get closer to the normal rhythm. Also turning profitable from an overall angle and increasing our operating cash flow as well as improving the cash position gives us good confidence that as the year progresses we should be showing a better financial performance in all dimensions.

At this point I will now request Venkatesh Gadiyar our CFO to take us through the next few slides on the financials. After which again I will come back on the more detailed sales and business updates. Venkatesh?

Venkatesh Gadiyar: Thank you, Sanjay. The financial update. Q2 net revenues were Rs. 106.8 crores. We saw a Year-on-Year increase of 25.5% increase and on an EBITDA level we have almost breakeven in this quarter. And PBT includes Rs. 5 crores of interest on IT refund and as a result the total PBT as well as PAT for the quarter was Rs. 4.5 crores. And on a half yearly basis our revenues were Rs. 184.2 crores with a PAT loss of Rs. 5.2 crores.

Operating costs were under control and almost after four quarters we returned to the profitability in this quarter. And our EPS is Rs. 0.49 for Q2.

Key financial indicators. The net worth has been improved to Rs. 1,082 crores. Inventory was down from Rs. 238 crores to Rs. 233 crores and we expect to consume large part of this inventory over the next two quarters or so in this financial year.

Similarly trade receivables on an absolute term it was reduced to Rs. 425 crores in Q2 and we collected about Rs. 135 crores in this quarter despite lots of challenges of COVID and all. In terms of BharatNet collections on the BSNL front, continued delay happened and in Q2 we have collected Rs. 5.75 crores. On H1 basis we have collected around Rs. 18.5 crores from BSNL BharatNet front.

The working capital was decreased by Rs. 28 crores in Q2 with a combination of the inventory and the trade receivables continued one is the usage of the inventory and two we continue to get our collections on time which has improved our working capital and the cash flows from the operations for the quarter was Rs. 45 crores and the free cash flows for the quarter was Rs. 24 crores.

And as a result of all these things we have improved our cash positions by Rs. 27 crores in Q2 and we are a debt free company continued to be a debt free and our cash and cash equivalent as of September 30th was Rs. 299 crores and we expect this cash position to improve on a quarterly basis in this financial year.

Sanjay Nayak: Thank you, Venkatesh. I am on the next slide which is the revenue by segments. So if you see the chart on the left hand side for the full year FY20 we had Rs. 380 crores of revenues which was split between 33% being international, 52% India private and 15% India Government, Out of which most of it was a critical infrastructure which was 13%.

For the first half of the year because it is good to combine Q1 plus Q2 and then we go to 9 months we will again do the 9 months versus the last year comparison. The split up is around 42% is international at Rs. 77 crores on an absolute basis. India private is at 42% at Rs. 78 crores and the India government is at 16% which is Rs. 29 crores, Out of which majority again is the critical infrastructure.

So we really see the run rate business, as we call it between the International and India Private, was around 84% of the total in our first half. While international revenues have improved on a first half basis we also expect to see on a full year basis also the international revenues will continue to grow at a good pace and should contribute healthy revenues on an overall basis for the full year.

Coming to the next slide in terms of the three segments. Let us start up with the government segment so what is happening in that. So on the BSNL and BBNL the Prime Minister announced that they plan to have in every Indian village which is 650,000 villages in the country will be connected on BharatNet over the next 1,000 days so that is a very positive sign. However, on the ground in terms of actual execution of the project will take some time and it will not have any revenue impact for us in this financial year in any material way.

There was a BharatNet GPON expansion tender of the earlier kind. We are L1 in that tender against all the competitors. That is again an order which we will close in this quarter and of course the execution will dependon how our previous collections from BSNL materialize. The 4G project of BSNL which has also been talked about a lot because they are planning to have a nationwide 4G network. So there will be two tenders, two kinds of equipment that they will need to procure.

One is the wireless base station, the LTE base station as we call it for which lot of system integrators, large global system integrators from India are participating or planning to participate. We have an LTE product which we have been developing over the last few years and we do plan to partner with some of those system integrators who are bidding for that project. So the larger system integrators will be front-ending on the wireless side and this is a new product for us.

On the optical side which is our existing product where we have a very significant track record of success which will also be required because the network has to be expanded and for which you need to increase the capacity and take fiber to all the base stations. Those tenders will come and of course we are very well positioned especially with all the geopolitical issues and vendors from certain countries not being allowed to bid in government contracts and all the new PMA, the Preference to Make in INDIA Policies which are in play.

So net-net these are good positive signs and we expect that BSNL's fundraising plan and all the other things will head them in the right direction and once they come out with those projects we should be looking at some business from those projects as well. But we do not think any of that will have any revenue impact in this financial year. The critical infrastructure segment which is not one big project but there are lots of little projects where the communication equipment is a small part of the entire thing whether it is a Smart City or a defence project or a power, rail, oil and all that.

So we have been doing extremely well in that segment and as those networks are getting modernized the electricity network, the railway network, the power network, the other communication networks the amount of telecom equipment which are required haves continued to increase. So for this part of the business we are working with system integrators on the front so that we do not have to worry about the payment and other challenges of these kinds of SI projects. And we have had a very good success rate and we continue to win a lot of business in this segment. .

It is almost becoming a run rate business for us in the current year like last year and we hope to increase our revenues in this segment quite healthily in the second half of the year. On the private accounts, the macro level post COVID with all the work from home and the need for wireline broadband services has significantly increased. If you read any report whether from TRAI, from NASSCOM or from even the operators own calls, fiber broadband services to people's homes is one of the fastest growing and profitable segments. .

Those things are very good for us because we are almost in all the networks in the country and we should be seeing good business from this application in the coming years. But the actual roll out unfortunately has not picked up pace in Q2. Q1 was of course non-existent, no new networks have been rolled out. The pace did not pick up in Q2. But the operators that we have been selected by and from whom we have got the initial purchase orders, we are currently completing the field and lab trials and getting integrated in their systems.

So we do expect that Q3 will also be kind of soft in terms of getting orders from this application but Q4 onwards we should start seeing a good healthy run rate business. They had shared their plans in terms of what business will come to us and that looks very encouraging. In addition, a lot of regional ISPs too are actually rolling out fiber today to tens of thousands of homes per month to deliver FTTP services which is again a very profitable service. Most of these are traditional cable operators who have now morphed into broadband providers and we again are working with them and I think this is another nice market which is opening up for us.

In addition our DWDM and OTN equipment have been selected for metro capacity expansion as well as point of interconnect in some of the Tier-1 networks and we are starting to see our business pick up on that segment. So overall I would say India private, a lot of good wins, lot of new selections. The actual orders which we could revenue in the first half has not been as good.

Q3 will be better but Q4 is when we will start to see a good ramp up in terms of run rate. The last bullet which I wanted to highlight is the government's focus on Atmanirbhar Bharat especially because of all the geopolitical uncertainties is resulting in a very favorable environment for us. Especially what is happening is even the operators in India have actually stated their intent of creating an Indian ecosystem of products, the equipments which will be used in their 4G and 5G networks in future. As a leading equipment company having atrack record of working with all the major operators in the country for the last 20 years we have a lot of credibility and a lot of existing products.

So for example for the wireline products we almost have everything that is needed for a 5G network so I am sure we will be part of all the ecosystems that will get created in the country but in addition in the wireless segment also some of the technology that we are developing and some of the progress we are making we believe that as Indian ecosystems evolve no matter in which ecosystem, whether under system integrators or under the operators we will have an important and a large role to play which we are of course excited about as well.

Business from that part of the business which is the Indian ecosystem of 4G, 5G led by system integrators or operators will possibly result in revenues from next year onwards but our objective this year is to be a part of such ecosystems going forward. On the international business side Africa and Middle East have been going very well. So we are getting a lot of repeat orders from existing customers who are seeing a significant increase in their bandwidth. Our largest customer in Africa for example is providing bandwidth to the datacenters of Microsoft, Amazon, Googles and the others and we are seeing very significant uptake of equipment from them.

In the first half we already have a very strong forecast for the second half as well. WDM which is the technology to create high capacity networks is what is giving us a lot of traction and in addition our ultra-converged access solution which is fiber to the home plus wireless on the same product is also seeing strong traction from many customers and countries in the region. We are at the final stages of commercial negotiation with some other larger operators in deals in Africa which we hope will result into revenues or at least orders in Q3.

South and Southeast Asia again we have already seen a good growth compared to last year and again lot of repeat business in existing customers who are expanding their networks with us and we will continue to see that good trend in the second half as well. In addition there are multiple engagements with new customers that we again expect to convert into new business. North America is something which has been very, very slow. The business in Q2 continues to be slow because new customer wins are getting delayed.

So while we are in the labs we are doing lot of trials etcetera. Those things are taking time to convert. In Mexico we believe that in the second half of the year we should start getting some larger wins in new applications from some larger operators and similarly in US our focus has been smaller customers which is Tier-2 and Tier-3 operators. Earlier we have been working with a few channel partners we have signed up more channel partners so that our reach is faster and some of these channel partners are having access as well as incumbency in many of these customers.

So riding on their existing relationships and coverage we expect that in the second half of the year we should start seeing some good wins. Some of it will be in revenues for the current year and some of which will be for building a revenue base for the future year. The fourth thing I wanted to mention which is new which we have not talked about in the previous conversations is that we had consciously decided not to address Europe. And the reason for that Europe was a very fragmented market and in addition Chinese equipment companieshad a very strong market share in that region. .

But because of the new geopolitical issues many operators are motivated to diversify their supplier base. In fact we feel that there is a clear opportunity which has been established because some space has been vacated and we have plans to start coverage in Europe starting from UK and then expand to rest of Europe. We have already found a senior sales leader who would be onboard very soon and then we should be able to kickstart into a few beachhead customers in UK to begin with and then expand into Europe.

The third thing which is very interesting for us in Europe is that we have a very good product market fit. So for instance surprisingly in Europe while wireline connectivity is very high, every home in Europe has a connection but that is mostly copper. The residential fiber penetration in Europe is still very low in most of the countries ranging anywhere between 10% to 15%. So our XPON product, the GPON products which we have deployed in India for BharatNet and then subsequently for all the Tier-1 operators in the countryhas a very good fit in terms of customer demand in Europe.

So a combination of market opportunity created by the geopolitical issues and a very good product market fit we think that Europe is a good opportunity opening up for us and we have started to make some sales investments and we will continue to report the progress on this territory as the year progresses. Going to the next slide. Where are we winning. So really there are four segments of customer applications where we see success because our product portfolio while it is very rich and broad we cannot be the best in everything.

But whenever there is a need for a home or office broadband on fiber I think this is something which we do very well. Similarly metro capacity expansion. So if there is a need to cost effectively upgrade the bandwidth in metro networks again we do very well. Critical infrastructure we absolutely think we are among the best in the world and we are again expanding our relationships outside of India for the critical infrastructure with some of the global players. And for 5G radio mobile backhaul as and when the network starts evolving in India and the markets where we have presence.

We feel that our current transport products can be upgraded for that as well. Of course we have been winning lot of awards for our products. The next three slides actually I wanted to kind of cover a broader theme that the R&D investments that we are making so what is it doing for our business in terms of either creating new market opportunities or new revenue streams or increasing the competitiveness of our products.

So if you really see there are three segments of a network in which our products are used. We started off within the metro aggregation which is the central piece which used to be the main thing for us 5 years back. Over the last three, four years we have added the broadband access portfolio which is the GPON, which is fiber to the home and BharatNet was the anchor customer. Then the enterprise data services which leads in to the Smart Cities and the other stuff. And then of course the investments we have been making on wireless for fixed wireless access which was on LTE.

So that was the second thing which we added. The logical progression from the aggregation was in the metro core which was WDM technology which we had before. Earlier we were doing 100 gigs. Now we are doing 400 gigs and 600 gigs which is absolute state of the art. So what I can say with a good amount of conviction that today we have products which are pretty much state of the art in each of the three segments we are competing in and that is the reason now we are able to make headway into Tier-1 customers and Tier-1 applications in India as well as outside.

In terms of our R&D spending we continue to believe that for a company like ours which is a technology company R&D is our strength and we need to make sure that we make the right kind of investments. We are ranked among the top 3 R&D spenders as a percentage of revenues among all the listed companies in India and almost half of our team is in the R&D group and clearly the Software defined Hardware™ approach which we have been talking about is becoming more and more prominent.

So if you read all the news about 5G ecosystem, there is a lot of discussion about how networks are getting virtualized, how software is playing a more dominant role compared to hardware and this is something which has been in our DNA from day one.

Going to the next slide, I just wanted to give two examples of how our product portfolio has evolved and how it has opened up new opportunities. So TJ1400 series of products, if you see in FY18 we were only focusing on the packet transport technology which was the mobile backhaul and optical aggregation withan addressable market of around $3 billion. Then we added on top of it the GPON which is the fiber to the home capabilities on the same product and that got us into BharatNet which was really as well as the public Wi-Fi railway projects which we won.

Which was a good way because that product could be now be enhanced for the rural application for fiber broadband as well as some other things and the market size is to around $5 billion. Subsequently in the same product we have now added more capabilities on the fiber to the home including the next generation passive optical network which allows you up to 10 gigabits of capacity which is the state of the art.

And this allows triple play voice, video data and all kind of things. Now this product is ready for all Tier-1 customers and anybody who wants to do a world class fiber roll out and provide any services we are able to do that. So this is how the product has evolved. And that increased our addressable market by another $1 billion.

Now coming to the last part. In this year we have now added wireless capabilities as well as the IP/MPLS capabilities. Now what that means is the wireless capabilities are now leveraging us for any wireless networks, wireless access networks for 4G and the same can be upgraded to 5G in future. In the IP/MPLS technology which has come in, earlier we used to have a technology called MPLS-TP that allows us to build a really a pure play packet network for 5G transport or for critical infrastructure where lot of the IP/MPLS features were needed. So that is why some of the wins in the utility sector are coming from that.

So this gives you a good sense of how each of the investments we have been adding stacks up to additional revenue streams as well as makes our products more competitive and almost state of the art in the segments that we compete with. And we can say with strong amount of conviction that any FTTH deals in the world if we get a fair opportunity we should be able to get selected on technology grounds and of course after that we still have to win it based on the customer relationships.

But from the technology point of view we feel very comfortable saying that fiber to the home deployments we have are as good as the state of the art products that anybody else in the world has today. The next slide is the similar view. For the core product which is our backbone product.. Again we started off with 10 gigabits per channel capacity which was the product which we had in FY18.

Then we upgraded the technology to 100 gigs and one of the applications which we found out was alien channel which basically meant that on an existing 10G network so suppose there is a Bombay to Delhi network of Company A and it is a 100 nodes of a competitor's 10G DWDM equipment is deployed. We have the technology that just by deploying one 100G DWDM node in Delhi and one in Mumbai we could actually upgrade that network and without touching or wasting the infrastructure of a competitor that should have been invested.

And especially in the context of worldwide drive for many of the customers to diversify their supply chains beyond that of a vendor from a particular country to others this technology is giving us a lot of dividends. What we have done in addition is now upgraded the same technology from 100 gigs to 200 gigs and now in this year we have already gone to 600 gigs. So we are again state of the art over there and we do believe that when we are competing with many Tier-1 customers now we are getting new opportunities to become an alternate vendor to what they have in their existing portfolio.

So this is just an example of how the R&D investments are making us more competitive and now we are in a situation where once we can have more sales channels especially on the international side, we can actually start seeing growth in revenues as the next few quarters will hopefully show going forward.

Just to summarize on the last slide after which we will open up for Q&A. So Q2 was in a way a turning point where we saw a growth in revenues and return to profitability. Our order book which is a good sign of continuous wins and has increased to Rs. 599 crores in terms of orders in hand and in addition we also have new application wins which are expected to increase our market share in existing customers both in India as well as international.

They have not yet shown up in terms of new revenues or businesses but as the year progresses we should start seeing the benefit of those. New customers in international especially have taken time. The last six months were a challenge for a variety of reasons which I am sure you are all aware of. But we do expect that all the work we have done in the past six months and before should start giving us more new wins in the second half of the year and clearly there is a positive tailwind in the form of geopolitical issues which is forcing customers to rethink their supply chain strategy and introduce new suppliers like ourselves.

We are well positioned for Atmanirbhar Bharat and leveraging our Make in India strengths and as more Indian ecosystems start evolving and not just for India but for the world we should hopefully be a part of those and gain from that. And clearly we do have the right balance sheet. Cash wise we are continuing to show better position in terms of cash. Some of the older receivables are starting to come back.

Of course the BSNL receivables continue to be a challenge. We are doing everything in our control to get that going and we are assured that hopefully before March things should come back to normal and as we said independent of BSNL we expect our financial performance to continue to improve during the subsequent quarters.

So that is really where I will pause and maybe we will now open up the floor for questions and we would like to make this as an interactive session and address your questions and concerns.

Moderator: Thank you very much. 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: I just wanted to start with the operating loss which we reported this quarter. Now if I look at the inventory it remains flat compared to previous quarter and there is a very meaningful impact on gross margin also because of the higher inventory or the higher cost of sales.

So I am just trying to understand you know because if we go back to the previous commentary you guys have a fair bit of inventory into the system and that should have probably you know covered some of these increased revenues. So what is basically the stumbling block because of which inventory remains constant and because of high inventories, high cost of sales the margins evaporates?

Sanjay Nayak: So Mukul, first question. In terms of the inventory we did consume a lot of inventory during the quarter from the existing stocks, but what also happens is depending on the actual for example it went down from Rs. 252 crores which was end of March. We are down to Rs. 233 crores as of today. So if we really see we have consumed around Rs. 20 crores. But because the revenue base in Q1, Q2 has been low, we have not been able to consume adequate inventory from the existing stock.

However, going forward we have mapped out our customer demand for Q3 as well as for Q4. We have a high degree of confidence and comfort that the inventory levels on an absolute basis while our revenues will continue to increase quarter-on-quarter, our inventory level will continue to come down. On a quarterly basis what happens is we will always have a little bit of a balancing of inventory, number one. Plus what also happens is that inventory which we may have ordered in the previous quarter would have been delivered to us which we have not been able to use.

And then the last part which I mentioned that there was a little bit of a push out of some of the customers, so inventory could have gone down which did not go down in Q2, but as Q3 progresses, we should be able to see that. So net answer is inventory will reduce quarter-on-quarter as we see in the next two, three quarters and particularly as the revenue increases. And second question you had was about the margins.

So margins is actually a little bit of a function of the particular customer profile in that quarter so in Q1 for example international was a much higher percentage of the total revenue so as a result the margin was slightly higher. In Q2 international relatively was lower and as a result for the first half if you take as a total aggregate basis, our gross margins is as ball park in line with what our normal trend has been.

Mukul Garg: Understood. The second question was on you mentioned the push out this quarter as well. You had similar push out in Q1 also. So if you can quantify the relative impact how much of Q1 push out came into Q2 revenues and how much of business in Q2 has been pushed out to Q3?

Sanjay Nayak: So first of all, some of the things just so that you know some of the especially in some international customers where some countries had more severe lockdowns and other restrictions in terms of foreign currency etcetera. We saw that what was pushed out in Q1 also got pushed out in Q2 not the full amount, but some amount and some new stuff comes in which we were, I mean these are just last week kind of things where you know someone was supposed to travel and he could not so he could not do the acceptance testing. So I think from Q1 to Q2 we had around Rs. 30 crores push out.

I would say Q2 again we would have a number similar to that which would have got pushed out. It may not be the exact same orders, but relatively you know some amount of stuff would have come in and gone out. As I said, between Q3 and Q4 we should be able to stabilize a lot of that because most of the customers are now at a point where they are opening up their doors, they are able to set people and we also started a new concept of remote factory acceptance tests so that physically people do not have to visit us.

They can actually we have set up a video room with all the cameras and all the remote control, so that they can actually do that. Some customers have agreed to do that, some still believe that they need to physically be here. So that is what I would put it.

Mukul Garg: Got it. I just would squeeze in one last question. Is there a margin impact which you guys might have to face when you are working with system integrators or partners in US because that is obviously a top line which you are creating on top of your business. So is it possible that that might lead to a bit of a bleeding on some profitability?

Sanjay Nayak: Not really and I will tell you why. In fact if you recall in the past we used to do in fact we have done a lot of business in the US in the past but that was through the OEM route where we used to supply at our standard margins to the OEM but because the selling price in US and even Europe to some extent is significantly higher than what it is in India for the exact same equipment.

The two combined margins did not have an adverse impact on our business. So in that sense I do not see that just because we are going to have a channel led sales to some extent, not that we still have to have the end customer engagements. We will see a margin dilution on our overall basis. So I still expect that our margin trend will be in line with the past and we do not see this as a long term trend. I mean one off of course in any particular quarter for a customer it may be up or down. But on a normalized basis we do not see that.

Moderator: Thank you. The next question is from the line of Hardik Jain from ISJ Securities Private Limited. Please go ahead.

Hardik Jain: Sir, your order book is around Rs. 600 crores. Can you break it up for us in between government, private and exports?

Sanjay Nayak: So yes, so I think if I were to say the total order book around Rs. 60 crores is around international, around Rs. 415 crores is government and around Rs. 125 crores is our order book from the private customers. As I said so the way our order book would work is that the international and the private customers a large portion of that does not stay in the order book for long except for certain kind of service contracts which have a long duration.

However the government contracts which are you know multiyear you know projects which will take time to get executed and some of the longer term service contracts have a larger order book. So around on an average basis, around 33% of the order book which we have would be potentially for revenue in the second half of this year.

Hardik Jain: Okay. And sir, now you once mentioned that there were minor gaps in the product which is especially for North American markets and we are trying to fill up those gaps. So where are we in from that perspective, any update?

Sanjay Nayak: So the way you saw in my R&D commentary there will never be a situation when we have a product which has all the features that every specific customer will need. So the way it is working out is that we always have a few lead customers with whom we are in a larger scale deal in the discussions and for that lead customer those whatever are the missing features we would complete first and once that is done for that customer it automatically becomes applicable for many others.

So I think as far as North America is concerned, for a few products or a few sets of customerswe are already there. We are as I said in an advanced stage of lab trials with one large customer and with that, this is again for one application which is something that we expect to make some good progress in the current quarter. So ballpark I would say at a macro level in the product we are almost there for all the features that are required not only in North America but for Europe because that is another market that we are looking at and of course India, because one thing I must tell you is that once you are working with the top operators in India their product requirements are as good as anybody else in the world and they are no different in terms of feature sets etcetera.

The use cases sometimes differ in a country and that is what requires us to do a little bit more of what should I say, customization for that particular customer's needs. But I would say from a technology angle, or a state-of-the-art or a maturity of the product we have a good set to go ahead and start selling. And so the features are not coming in a significant way at this point in time.

Hardik Jain: Right, so you mentioned in your commentary that you have got some initial purchase orders from a large private player and you also said that Q3 would be subdued but going forward because they have shared their roll out plans with you going forward the opportunity looks big. So can you quantify how big the opportunity can be?

Sanjay Nayak: It is very difficult to put it into business numbers, but I would give you another way to quantify that. So if you see the latest TRAI report also in India, I think give and take a million customers for example you are still talking of 5 million to 6 million customers who have a FTTH connection in their homes I mean even if you round it up to maximum 10 million customers. The stated target of different operators is anywhere to go from 10 million India base to 100 million bases for India over the next three years. So the rollout plan is assuming we are clearly not the only supplier in those networks.

We will be having either one or maybe in some cases probably two competitors with whom we will be splitting or whose market share will potentially be taking away. So it is a function of how much market share we are able to take away from them and how much business we are able to get out of them and then per customer cost of the equipment that we sell, could come anywhere between $20 to $30 per customer. So if you say that if they had to add 10 million customers that much amount of money is what will go into the CAPEX and then some portion of that will come to us.

So I would say a good way to look at from the way we are thinking is that in this quarter if we can get into their operational systems, their rollout systems etcetera with the initial supplies and make sure that we become a credible vendor, then they have a significant motivation as well as desire to give us a good chunk of their business. So probably a good time to rethink this would be after we have got the first set of rollouts going on our products in a big way and then we will get a good idea of the run rate thing which we will of course share with you as well.

Moderator: Thank you. The next question is from the line of Vijay Bhayani from Samyak Financial Consultants. Please go ahead.

Vijay Bhayani: Now I have two sets of questions. First set of questions is regarding your trade receivables. On your annual report, it says that you have a receivable of about Rs. 409 crores as against a sale of Rs. 380 crores for FY20. Again this is mostly about BSNL, but I still like to hear from you regarding this?

Sanjay Nayak: No, we heard your question to the point you said that on the receivable side, that is where we lost you. So do you want the breakup of whatever current receivable is and from which customers?

Vijay Bhayani: Yes, basically just trying to understand that as against the total sales of Rs. 380 crores in FY '20, our receivables as of 31st March was Rs. 409 crores. So is it regarding the BSNL accumulated over the couple of years or is it something else also included in that?

Sanjay Nayak: Okay so Venkatesh will dig out the receivable data but let me tell you one thing. Of course all our receivables the one which has been causing us a little bit of a grief. So first of all receivables are under two categories. One is due which is you know customer should pay us and they have not yet paid us for variety of reasons which could be their own financial situation like you mentioned in the case of BSNL and the other could be we may have given payment terms of a longer duration in which case it is not yet due.

So I think if we were to look at the receivable situation since last two quarters or may be ending this quarter, Venkatesh can you say how the receivable has been moving number 1 and out of that, how much of it is more than 180 days due which we have reported in the numbers which is consisting primarily of the PSU accounts and primarily of BSNL as well. So maybe Venkatesh can just say how the receivable has been moving?

Venkatesh Gadiyar: So as of March 31st 2020 our receivable was 456. Then it came down in Q1 to about 436. Now we are at 425. Out of 425 the BSNL receivable total outstanding was 175. That means remaining is 251, right. So we have been collecting a lot from other customers as well despite COVID challenges and that is how the debtors were coming down.

And on a steady state basis, which is in the next two or three quarters, I think our steady state receivable is around 140 to 145 days of our revenues, which is what we were about year-and-a-half back or two years back and I think we expect to get to that level in the next two to three quarters.

Vijay Bhayani: I would like to understand do you expect to recover the full amount or is there any amount which you think you will have to write off finally? Actually how much amount do we expect to recover and within what period of time, because that will straightaway add to your cash flows, right?

Venkatesh Gadiyar: Yes, so first of all by the way we do have a provisioning policy where if a receivable does not come for a fixed period of time we start either taking a credit loss or start provisioning in case we see a doubtful debt. The receivable which is on the books as of today is actually fully recoverable and except for BSNL, which I said we expect to see some progress in this quarter because late last quarter they also were able to raise a sovereign backed bond from the market of Rs. 8,500 crores which they have now used to pay off all their earlier high interest debt.

So from all the conversations we have had with them we believe that starting from this quarter, we should start to see meaningful recovery as of BSNL. We have been seeing Rs. 5 crores, Rs. 15 crores kind of thing coming down. So I do not think any of the receivables that we have is of any doubtful in nature. Secondly, as I said in the next two to three quarters we should be able to get all the sticky receivables into our system adding to our cash so that we come back to our 145 days of receivable cycle on the steady state.

Secondly, as you rightly pointed out, and which is what is the commentary I think Venkatesh had given earlier, is that as every quarter goes by as we saw in Q2 our collections will improve and the receivables will start showing a downward trend. The inventory consumption which is where our cash is also now currently blocked will also get decongested.

So the incremental money going into inventory will also not be there. So the combination of lesser investment in inventory and more revenues and collecting of the older dues should increase our cash position. Say for example you already had Rs. 300 crores right now compared to Rs. 270 crores last quarter and we expect that the cash position will continue to improve every single quarter going forward to the point that in another two to three quarters, pretty much we should be online in terms of what our steady state business was.

Moderator: Thank you. The next question is from the line of Shantanu Mantri from Emkay Ventures. Please go ahead.

Shantanu Mantri: Sir, finally very good to hear that your confidence now that the private Indian opportunity we are getting to see some traction. So earlier somebody already asked you about if you could quantify it and you said that this say 90 million customers in three years and $20 to $30 per customer. So suppose if we cash $20 per customer so how much part of that would be where we will be participating?

Sanjay Nayak: So the $20 is what I mentioned is what we will get. So customer acquisition cost will be of course larger. What we said, so there are three pieces of so let us say if you spend $1 let us say or Rs. 100 in getting a fiber connection to someone's home let us say if an operator spends Rs 100 to get to someone's home, there are four places actually he spends money. Number one is laying the dark fiber from the switch location to the building and then inside the house which is cost one. Second cost is the customer device that he puts inside your room the modem as we used to call it in the layman's terms, right?

And then the third part is the head-end which is going to be at the switch nearby which will be serving the bandwidth or connected to the modem. And then the fourth part is the operating cost of sending the labor and doing all the stuff. So where we come into the picture which is what I mentioned on an amortized basis around $20 per customer, is the head end cost where we are there and in some cases we are also supplying the customer premise equipment which is ours.

In some larger operators, they buy the customer premise equipment directly or they manufacture their own because like someone is going to manufacture their own Smartphone, they do not want to manufacture their own home devices, which are going to be very high volume and very high value so when I mention that $20 is a blended base because many smaller operators they buy both the sites from us. So that is how high volume. So this is the market that we could get.

Shantanu Mantri: Got it. So sir, if I am just doing the math this is like it comes out to be a huge number and say in the next three years and you mentioned that you would be having around another two competitors. So I am sure you must be having some idea say what percentage you feel that if everything goes as per plan and we get a say there are 3 people totally working for this entire project for the next 3 years and we get our fair share. So say FY'22 we leave out this year say from FY'22, what number would you conservatively say that we can get in the private segment?

Sanjay Nayak: I think it is a large number as you have done a back of the envelope calculation. At this stage I would say rather than putting any number on the table today because at this stage we are kind of at an early stage of engagement/deployment with the customer. So again, as I said before, by the time we get to Q4 we would have a better picture in terms of X or Y percentages but I would like to comment on that once we see it.

So hopefully as I said by the time as you rightly said that this year will be to make sure that all the processes and systems are done, Q4 actually starts seeing orders of that kind and that would give us a good confidence in terms of a recurring business that could come from just that application alone for FY '22 and even FY '23 because I believe the large scale rollouts that are being talked about will take some time.

Moderator: Thank you. Due to time constraints we take the last question from the line of Riddhima Chandak from Roha Asset Managers. Please go ahead.

Riddhima Chandak: Sir, basically my first question is regarding that do we have presence in China and if yes like is there any imports substitution on the telecom products there?

Sanjay Nayak: It is a good question we have no sales presence in China. We do not sell in China, we do not want to sell to China, that has not been a focus area because of a variety of reasons. The second part of your question is that on our sourcing side, do we have a dependency on the Chinese ecosystem. Like any other electronics company in the world we do buy certain items what I call are low cost components from Chinese suppliers but over the last six months, our supply chain team has found alternates to all of those or almost all of those which are needed, and we have non Chinese sources available.

So for example if there is a requirement to have a equipment which has no element from Chinese supply chain we are already on that path and there and all the class A components which are the major chips are all procured from the US or Taiwan or Korea or Japan and of course the logic is created by ourselves so we really own the intellectual property for a lot of the stuff that goes into the chip.

So really we have no significant dependency on China anymore. By the way Arnob just corrected me, for certain customers in India today we already supply them 100% non Chinese equipment, just for your information.

Riddhima Chandak: Okay. And you said that there will be a plan by the different telecom operators by 3 major telecom operators that is Airtel, Vodafone and Jio then the market size for the FTTH will increase to the $5 billion, right? So in this I just want to know how much CAPEX in the next 3 years is there any public information, how much CAPEX incurred by these 3 operators and how much we?

Sanjay Nayak: As I mentioned the answer to the earlier question, I think we have some back of the envelope calculations around what it takes to invest per subscriber basis. Depending on the rollout plans they will actually set aside certain amount of CAPEX for the FTTx services as well. So I do not think anybody has publicly announced what they are going to spend on the FTTx networks in the next 3 years while subscription wise operators have said that they want to grow from 10 million customers to say 50 million or 100 million customers over the next 3 years as a country or as an operator. So I think that is really where one would want to estimate that.

Riddhima Chandak: Okay and can you as 42% of our revenue coming from the international player as of now, so can you name some international customers?

Sanjay Nayak: So we have large customers in every region so among our existing customers for example in Africa we have a customer called WIOCC, which is West Indian Ocean Carrier of Carriers which is one of the largest wholesale bandwidth providers in Africa. In South East Asia we have SACOFA which is a Carrier of Carriers in Malaysia.

In Mexico we have a customer called Total Play which is one of the largest triple play service providers in the country. These are just a few examples. There are many others which we have not announced and we will continue to announce as we get permissions from these customers..

Moderator: Thank you. I would now like to hand the conference over to the management for any closing comments.

Sanjay Nayak: Thank you. I think it has been a good interactive session and as I mentioned in my summary earlier, that the way we see the business is we had a good opportunity to start building quarter-by-quarter in terms of new customer wins, getting a lot more market share from existing customers, ensuring that our products really become as competitive as they need to be to win business both in India and internationally and of course the fourth objective was to make sure that cash wise we are good.

So I would say in all those four dimensions, we have made good progress in Q2. We could have done better for sure, but I truly believe that in Q3 and Q4 as the year progresses we should start seeing more outcomes of all the efforts we have been putting in. The opportunity is clearly there as we all know based on all the favorable macro factors and growing bandwidth demand.

I can tell you that the R&D team and the products that we have are really getting very competitive and it is now up to us to really execute and win from a sales angle since there are several opportunities both in India and international markets. And as those things happen we should see better company performance in the following quarters and the coming years as well. So thank you again and really I would continue to communicate with all of you as time goes by.

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