

Tejas Networks Ltd. Earnings Call Presentation (Q4FY18)

25th April, 2018





Safe Harbor Statement

Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy and our growth and expansion plans, technological changes, our exposure to market risks, general economic and political conditions in India which have an impact on our business activities or investments, changes in the laws and regulations that apply to the industry in which the Company operates. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.



Q4 Financial Update

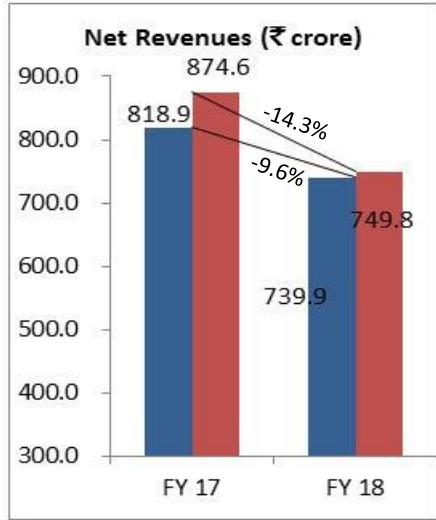
	Q4 2018	FY 2018
Revenues (Net) ¹	98.71 Cr (QoQ -56.4%; YoY -61.2%)	739.87 Cr (YoY -9.6%)
EBITDA	10.74 Cr (QoQ -78.8%; YoY -77.3%)	152.88 Cr (YoY -6.6%)
Operating Profit	-1.09 Cr (QoQ -103.1%; YoY -103.5%)	91.61 Cr (YoY -14.6%)
PBT (before exceptional item)	7.42 Cr (QoQ -80.9%; YoY -69.8%)	106.04 Cr (YoY 26.0%)
PAT ²	29.07 Cr (QoQ -3.6%; YoY -56.7%)	106.52 Cr (YoY 14.6%)

1. The reported revenue for Q4 18 are net of GST, however revenues of all periods earlier to Q2 18 are inclusive of excise duty and are not comparable

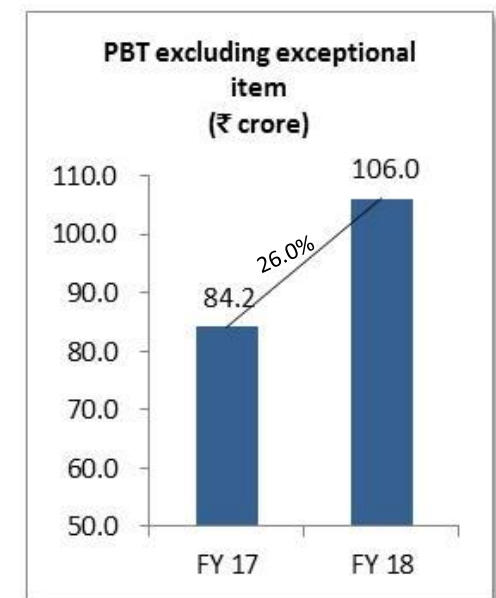
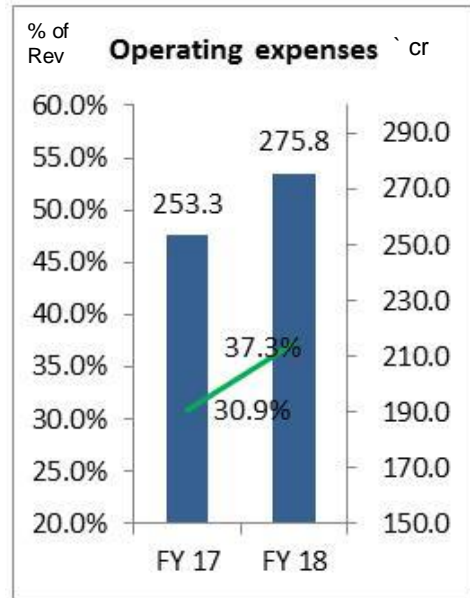
The Revenues (Net) are net of taxes (excise duty/GST) and pass through component sale to our contract manufacturers

2. Deferred tax asset for FY 17 and FY 18 was recognised in accordance with Ind AS 12, and the profit shown above is inclusive of such deferred taxes.

Financials: FY'18 vs FY'17



■ Revenue (net of taxes and component sales)
■ Revenue (net of taxes)



- Revenue breakup: India (82%), International (18%); Products (90%), Services (10%)
- Net revenues declined by 9.6% on YoY basis
 - The reported revenue from Q2 18 onwards are net of GST, however revenues of the periods up to Q1 18 are inclusive of excise duty and are not comparable.
 - Revenues for FY 18 declined as some of the large orders came late into the year
- Operating expenses (including depreciation) for FY18 grew by 8.9% on YoY basis
 - We continued to invest in R&D and international Sales expenses
- EBIDTA declined by 6.6% on YoY basis. However, as a % of net revenue increased from 20.0% to 20.7% on account of increased gross margin
- Profit before tax (before exceptional item) increased by 26.0% on YoY basis and Profit after tax increased by 14.6% majorly due to increase in other income and reduction in finance charges

Key Financial Indicators



Amount in ` crore

Particulars	FY 17	FY 18	Variance
Revenue from operations ¹	933	767	-17.7%
Revenue from operations (Net) ²	819	740	-9.6%
EBIDTA (before exceptional item)	164	153	-6.6%
Operating Profit	107	92	-14.6%
Profit after Tax	93	107	14.6%
Profit after Tax (before exceptional item)	123	107	-13.7%
EPS (Basic) `	14.09	12.41	-12.0%
EPS (Basic) ` (before exceptional item)	18.71	12.41	-33.7%
EPS (Diluted) `	14.09	11.73	-16.8%
Cash flow from Operations	150	239	90cr
Net Worth	593	1,152	559cr
Borrowings	281	2	(279cr)
Debt / Equity	0.47	0.00	(0.47x)
Net working capital ³	456	323	(133cr)
Net working capital as % of LTM Revenue ³	48.87%	38.51%	(1036bps)

- The working capital as at Mar 18 has reduced to Rs. 323 crore from Rs. 456 crore as on Mar 17.
- Working capital days reduced to 141 days from 178 days as on Mar 17
- DSO reduced to 135 days from 155 days as on Mar 17
- DPO increased to 100 days from 72 days as on Mar 17
- Inventory days increased to 83 days from 71 days as on Mar 17

1. The reported revenue for Q3 18 are net of GST, however revenues of all periods earlier to Q2 18 are inclusive of excise duty and are not comparable

2. Revenues net of taxes (excise duty/GST) and pass through component sale to our contract manufacturers

3. Cash and cash equivalents, investment in liquid mutual funds, Other Bank balances in current assets, and Borrowings in current liabilities are not considered in computation of Net working capital



Q4: Corporate Update

● Team update

- Employee headcount grew from 697 to 707
 - R&D (21% increase in headcount over FY17)
 - Sales & Marketing (35% headcount increase over FY17)
- 9% attrition rate in FY18

● Awards Won

- Aegis Graham Bell award in "Digital India Initiative" category for TJ1400-OLT in Q4FY18
- FT1000 high-growth list for Asia-Pacific

● Patents

- 20 patents granted in FY18
- Cumulative 341 patents filed, 76 granted





FY18 Sales Update

India

● India Government

- Strong showing in BharatNet Phase-1 and a healthy funnel for Phase-2
- Significant wins in utilities segment-railways, power, oil and gas

● India Private

- Continued to get business from existing customers. Some orders slipped to FY19
- Significant opportunities in new applications

International

- **OEM:** Business declined due to portfolio overlap in metro segment.

● Increased Focus on Direct Sales

- Added 30+ new international customers in FY18
- Added senior sales leaders to drive business in S.E Asia, Africa and USA
- **America:** Registered wins for network modernization. Many active deals.
- **Africa:** Strong growth; healthy pipeline
- **SE Asia:** Few orders slipped to FY19. Strong pipeline in Malaysia, Vietnam



Global Data Explosion Driving Optical Capex

78% CAGR in mobile data consumption till 2020

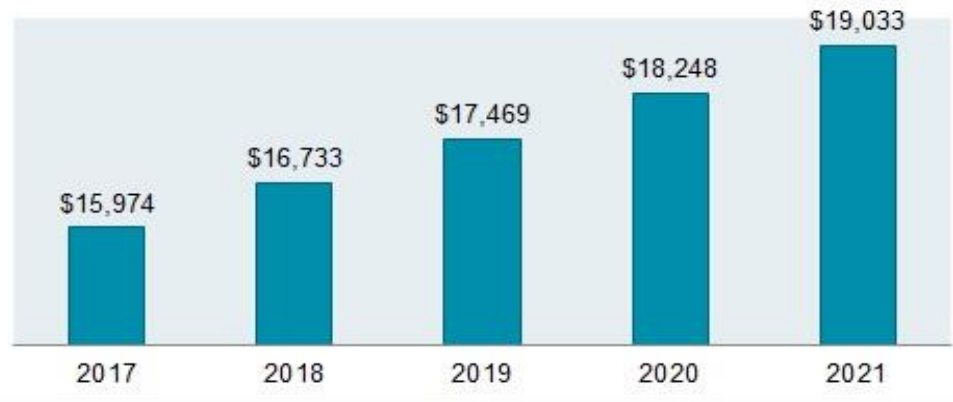


50X increase in data created by 2020

87% of human population uses mobile devices

Global ON Forecast

■ ON Spend (\$ millions)



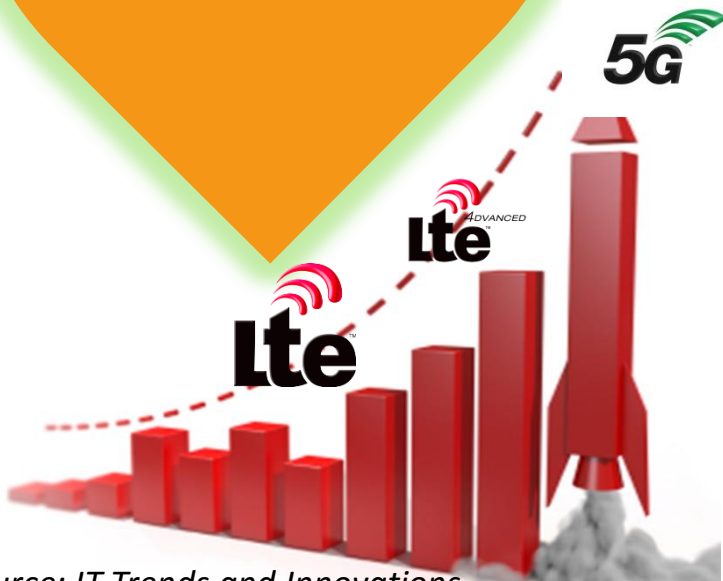
2012

9 billion

2020

50 billion

IoT Devices



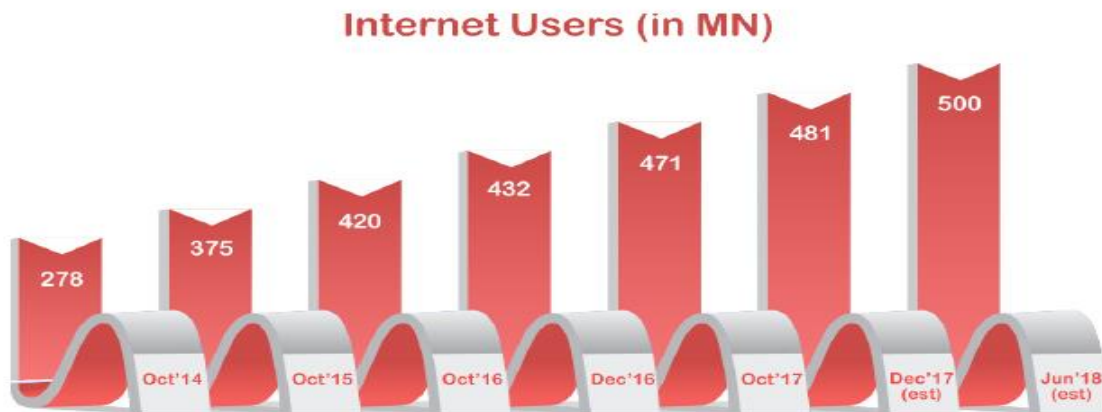
Source: IT Trends and Innovations

India: Broadband and Data Growth Continues Unabated



Massive Growth in Data and Broadband

SUBSCRIBER BASE OF BROADBAND TO GROW 44%, ANALYSYS MASON STUDY



Source: IAMAI & Kantar IMRB I-CUBE 207, All India Users Estimates, October 2017

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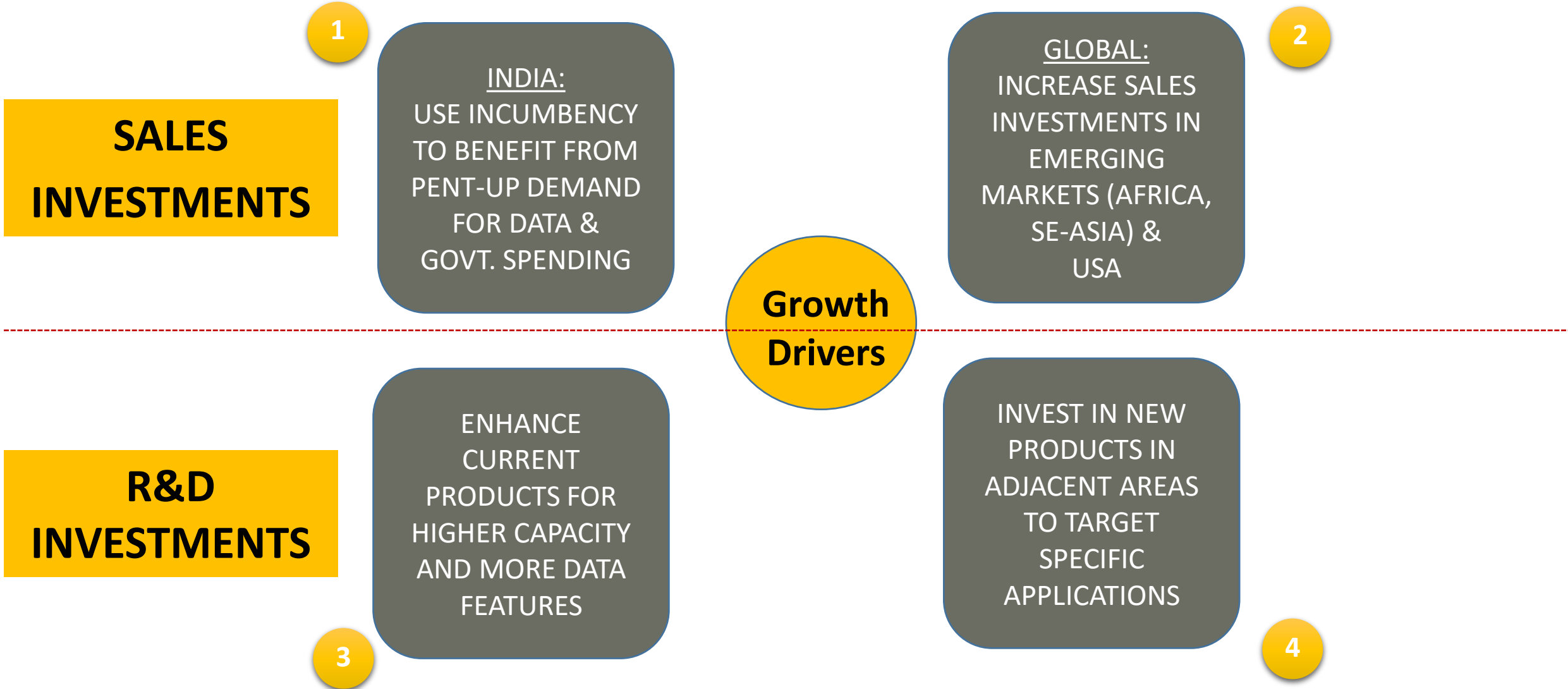
- ❖ India is #1 in Mobile Data usage ; 100+ crores GB of data being consumed per month
 - 5x growth in usage expected by 2023
- ❖ India has overtaken USA as the #1 Facebook country
- ❖ 70% smartphone penetration in India by 2022
- ❖ Strong growth in wireline broadband next few years

Strong Push for Fiberization & Make in India

- ❖ Large Capex Investments planned by Telcos on capacity expansion on Optical Fiber & 4G
 - Over 60,000 Cr of capex planned- good amount will be in optical infrastructure
- ❖ TRAI recommends 60% cell tower fiberization by 2022
 - Up from 20% now
- ❖ BharatNet Phase 2 implementation started
 - Rs 3000-5000 crores of equipment demand
- ❖ Preferential Market Access (PMA) to Domestic Manufacturers continues
- ❖ Push by Government to nurture a domestic 5G ecosystem
- ❖ Export promotion for digital connectivity projects in ASEAN and Africa; Government Lines-of-credit



Strategic Priorities for Growth





Tejas Sales Strategy: India and International

● Government

- Build on success of Phase-1 and be a partner of choice for Phase-2 tenders
- Continue to lead with next-generation OTN and DWDM products
- Continue success in utility segment

● Private

- Target new applications with existing customers to increase wallet-share
- Offer a differentiated converged access solution- Combining GPON, Ethernet, 4G/LTE with transport
- Multiservice product for 4G/5G backhaul, enterprise Ethernet and home broadband

● Emerging Markets

- SE Asia: Focus on expanding our success in Malaysia, Vietnam and Bangladesh
- Africa and Middle-East:
 - Increase sales investment across different regions of Africa (South, East, West and North)
 - Increase focus on specific countries in Mid-east
- Leverage Govt of India's credit line for ASEAN and Africa for building broadband infrastructure

● Americas

- USA:
 - Focus on network modernization, SONET replacement and utility opportunities
 - Continue to nurture OEM relationships
- Mexico
 - Build on our success and expand marketshare

Tejas Focus- Application Areas



Next-gen Mobile Backhaul- 4G/5G

Transport of cellular traffic from base stations to switching centers

Technologies: PTN, CPRI

Bandwidth Services

Bandwidth wholesaling to telcos or enterprises; Data centers

Technologies: 100G/200G DWDM, DCI

Broadband Access & Infrastructure

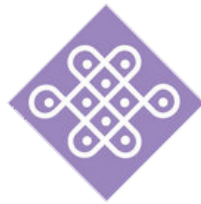
Delivering high-speed Internet services over wireless or wired media

Technologies: NG-PON, 4G/5G FWA

Network Modernization

Migration to next-gen SONET or PTN

Technologies: Circuit Emulation, SDN/NFV



Application Overview: Next-gen Mobile Backhaul

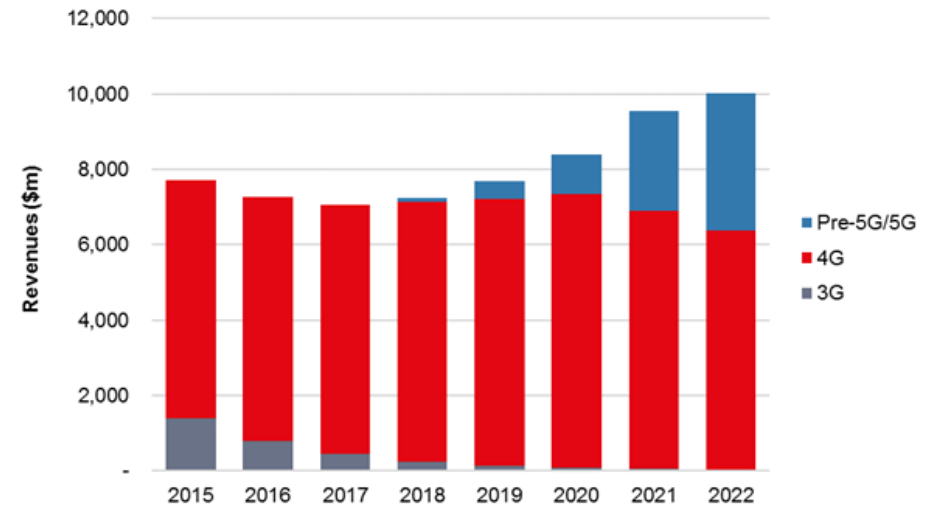
Business Requirements

- ❖ Future-proof solution with low total cost of ownership
- ❖ Compatible with traditional transport-style operations
- ❖ Flexible architecture for incorporating 5G technologies and standards
- ❖ Ease of evolution to a software-defined network architecture with centralized control plane

Technology Requirements

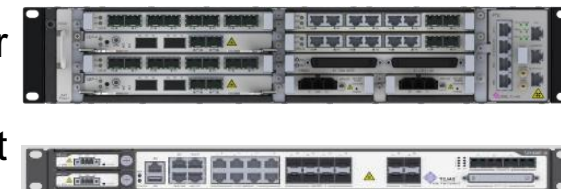
- ❖ 5G is driving a next-gen cloud-RAN architecture with an optical fronthaul network
- ❖ New players with innovative products and software differentiator can challenge incumbents
- ❖ 5G accelerates demand for Optical Transmission
 - More fiberization, base stations and higher-capacities

\$10 Bn Mobile xHaul Market by 2022



Tejas Products

- ❖ Universal platform for 2G/3G/4G and 5G backhaul
- ❖ Economical packet transport architecture (MPLS-TP, CE2.0)
- ❖ CPRI, OTN and xPON support for C-RAN/MFH applications
- ❖ SDN-ready Network Management





Application Overview: Bandwidth Services

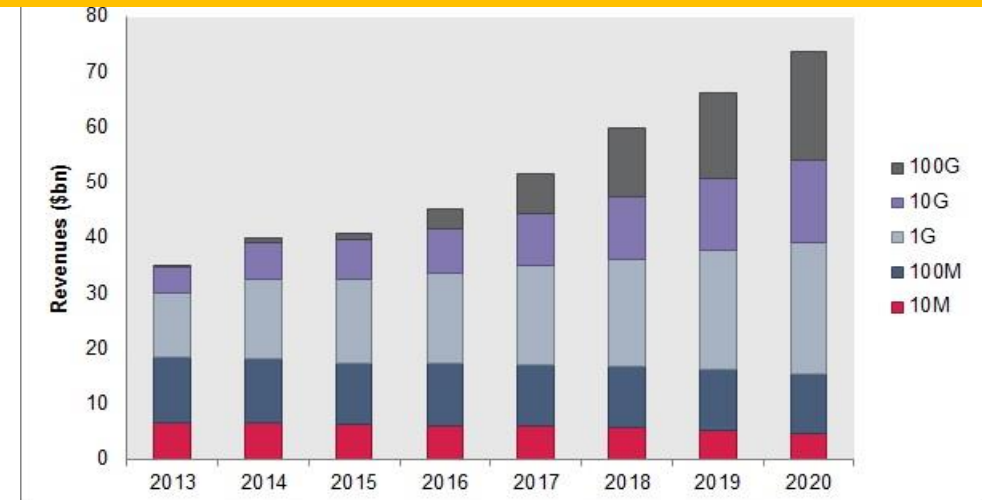
Business Requirements

- ❖ Scalable from Megabits to Gigabits
- ❖ “Pay as you Grow” architecture
- ❖ Wide choice of client interfaces, transmission media, bandwidth
- ❖ Ability to offer premium SLA-backed value-added services with secure infrastructure sharing

Technology Requirements

- ❖ Strong portfolio of SDH, OTN and DWDM products to create an end-to-end wholesale infrastructure
- ❖ Support for 100G/200G wavelengths with terabit OTN cross-connect for efficient traffic packing
- ❖ 10G/100G alien wavelength capability

\$70Bn Ethernet Services Market by 2020



Tejas Products

- ❖ Converged, multilayer platform for L0/L1/L2 services
- ❖ Support for 100G/200G Metro and LH DWDM technologies
- ❖ Multi-terabit OTN/PTN switching
- ❖ Disaggregated Architecture for Unlimited Scalability
- ❖ Alien Wavelength capability



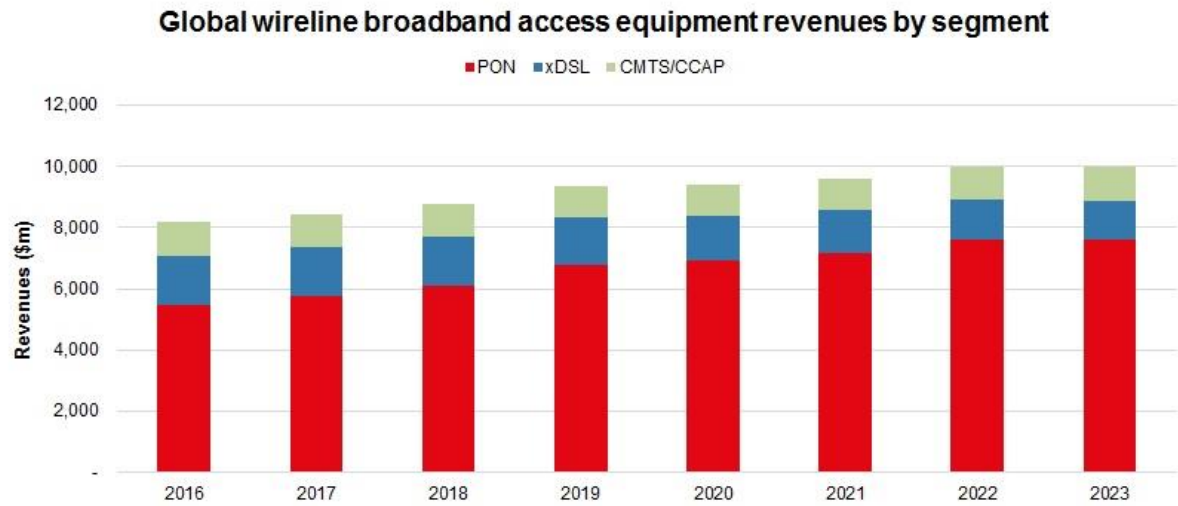


Application Overview: Broadband Services

Business Requirements

- ❖ Bandwidth explosion putting intense cost pressure on access networks
- ❖ Same access infrastructure for non-residential applications viz., backhaul and enterprise services
- ❖ Field hardened products for rural deployments as part of broadband infrastructure projects in emerging markets

\$7.5Bn xPON Market by 2020



Technology Requirements

- ❖ Evolving to higher-speed technology standards (e.g., 10G PON, 4G/5G FWA)
- ❖ Manageability of CPEs and enhanced service protection are critical for non-residential deployments
- ❖ Adoption of open-source software frameworks and virtualization of CPEs and OLTs

Tejas Products

- ❖ Converged Broadband Access and Transport platform
- ❖ Support for both xPON OLT and 4G/LTE eNodeB as blades
- ❖ Upgradable to support NG-PON and 5G gNB fixed wireless access





Application Overview: Network Modernization

Business Requirements

- ❖ Modernize existing optical infrastructure without changing end-points, to avoid customer churn
- ❖ Compatibility with traditional transport-style operations to avoid retraining costs
- ❖ Ability to plan network transformation at a comfortable pace viz., next-gen SONET to hybrid SONET/PTN to pure PTN

Market Size

- ❖ Opportunities in multiple application segments
 - ❖ Fixed-line Voice and 2G Mobile Voice
 - ❖ Enterprise Leased Lines
 - ❖ Utility Control Networks, Emergency services
- ❖ Several Billion dollars worth of installed base of TDM equipment which is 7+ years old

Technology Requirements

- ❖ Replacing legacy SONET with next-gen SONET or PTN
- ❖ “Emulated” circuit has to meet tight timing, latency characteristics and stringent protection switching time requirements (<50ms) for TDM traffic.
- ❖ Scalability to support 1000s of such circuits as is done in legacy TDM networks

Tejas Products

- ❖ Dense Circuit Emulation up to 10 Gbps
- ❖ Field-proven Packet Synchronization implementation
- ❖ Support for SONET modes
- ❖ Reprogrammable hardware to ease transition





Summary

- Well established as a pioneering technology “product” company from India
 - Demonstrated strong technology and market leadership
 - Unique, programmable, Software-defined hardware product architecture
 - Strong R&D focus and product pipeline
- Data/4G is driving demand for optical equipment; 5G will accelerate it
 - Potential to be strong global player in the new 5G eco-system
- Sustained growth momentum seen in our target geographies
 - India is world’s fastest growing optical networking market, where we are well entrenched
 - Focus on expanding in Africa and SE Asia that have India-like needs, and where we have succeeded
 - Strong product fit, to leverage the opportunity of network-modernization in USA
- Unique business model- can deliver strong financial performance
 - Asset-light business model, India’s R&D cost advantage, focused sales strategy



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Thank you

