



## HFCL Limited

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HFCL/SEC/21-22

July 22, 2021

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**Subject: Transcript of Conference Call on the Un-audited Financial Results/ Earnings for the  
1<sup>st</sup> Quarter ended 30<sup>th</sup> June, 2021, of the Financial Year 2021-22.**

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on July 13, 2021, on the Un-audited Financial Results of the Company for the 1<sup>st</sup> Quarter ended 30<sup>th</sup> June, 2021, of the Financial Year 2021-22, which were considered and approved by the Board of Directors of the Company, at its meeting held on July 12, 2021.

This aforesaid Transcript is also being made available on the Company's website at [www.hfcl.com](http://www.hfcl.com).

You are requested to take the above information on records and oblige.

Thanking you.

Yours faithfully,

For **HFCL Limited**

(Formerly Himachal Futuristic Communications Limited)

**(Manoj Baid)**

Senior Vice-President (Corporate) &  
Company Secretary



**Encl:** Copy of Transcript.



**“HFCL Limited  
Q1 FY22 Earnings Conference Call  
Hosted by Prabhudas Lilladher”**

**July 13, 2021**



**MANAGEMENT:**      **MR. MAHENDRA NAHATA – PROMOTER & MANAGING DIRECTOR**  
**MR. V. R. JAIN – GROUP CFO**  
**MR. MANOJ BAID – GROUP COMPANY SECRETARY**  
**MR. AMIT AGARWAL – HEAD, IR**

**MODERATOR:**      **MR. SAUMIL BHATIA – PRABHUDAS LILLADHER PRIVATE LIMITED**

**HFCL LIMITED**  
**Q1 FY22 EARNINGS CONFERENCE CALL**

- **Operator**
- Ladies and gentlemen, good day and welcome to HFCL Limited Q1 FY22 earnings conference call hosted by Prabhudas Lilladher Private 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 for an operator by pressing \* then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saumil Bhatia from Prabhudas Lilladher. Thank you and over to you sir.
- **Moderator: Mr. Saumil Bhatia – Prabhudas Lilladher Private Limited**
- Thank you Ayesha. Good afternoon everyone and a warm welcome to you all for the HFCL Limited’s first quarter FY22 results conference call. My name is Saumil Bhatia and I am from Prabhudas Lilladher. At the outset I would like to thank the management for giving us the opportunity to host this call. Before we begin I would like to mention a short cautionary statement. Some of the statements made in today’s conference call may be forward looking in nature. Such forward looking statements are subject to the risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on the management’s beliefs as well as assumptions made by information currently available to the management. Audiences are cautioned not to place undue reliance on these forward looking statements in making any investment decisions. The purpose of today’s earnings call is purely to educate and bring awareness about the Company’s fundamental business and the financial overview of the quarter under review.
- Now I would like to introduce you to the management participating in today’s earnings call. We have with us Mr. Mahendra Nahata – Promoter and Managing Director, Mr. VR Jain – Chief Financial Officer, Mr. Manoj Baid – Company Secretary, and Mr. Amit Agarwal – Head Investor Relations. I will now hand over the call to Mr. Mahendra Nahata for his opening remarks. Thank you.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thanks Saumil. Thanks a lot for your introduction and good afternoon, ladies and gentlemen. Thanks to all of you for joining HFCL’s earning call for the first quarter of financial year 2022. The quarter one of financial year 2022 results, press release and investor presentation are all available on the website of the Company and on the stock exchanges.

First of all, I hope you and your loved ones are healthy, and looking forward to better days ahead, since, vaccination drive has intensified, and also with the beginning of relaxation of lockdown restrictions in many parts of the world. The pandemic had brought the entire Country in severe difficulty and had forced governments and companies to relook at their traditional ways of doing business. I am humbled to inform you that HFCL has withstood the test of time with sustained business operations for which I am grateful to all our stakeholders, especially to our employees for braving the situation and managing to keep the operations going without any disruptions. Our actions have not only helped in ensuring smooth business operations but has also led to the steady performance reported this quarter despite COVID-19 restrictions.

- Friends, as you all know, India is the second largest telecom market globally. Telecom is also the backbone of a digital economy and digitally connected India. Initiatives taken by the Government of India such as performance linked incentive scheme augurs very well to boost the indigenous telecom business. This will help our Country in a long way in making the country a global hub for telecom innovation and telecom manufacturing. The scheme has been introduced at the most appropriate time when not only the domestic industry is geared up for starting manufacturing operations within India, but also large manufacturing giants from across the world are increasing their presence in India. At HFCL through its wholly owned subsidiary, HFCL Technologies Private Limited, has also submitted its application under PLI Scheme.
- Coming to our growth drivers, friends, the Department of Telecommunications has allotted additional spectrum for 4G wireless services to telecom operators in recently concluded auction. This will benefit HFCL as growth in optical fiber deployment would be critical to further improve the quality of telecom services and support the surging mobile internet demand as well as have potential to bring substantial social and economic benefits to consumers, businesses and state governments.
- Currently, India has a fiber based network spanning across 28 lakh kilometers as against the target setup by National Broadband Mission to deploy as much as 50 lakh kilometers of optical fiber by 2024. Union Cabinet has recently approved BharatNet to be implemented on public-private-partnership model. The tenders on the project are to be floated very soon. This network is projected to have demand of 12 lakh kilometers of fiber optic cable comprising of both overhead and underground cables. This massive demand of fiber optic cables coupled with the demand of associated transport and access equipment like Wi-Fi and optical access equipment presents tremendous business opportunities for the Company both in equipment and project segment.
- Secondly, Union Cabinet approving 5 megahertz 4G spectrum for Indian Railways is a great opportunity for us. With estimated investment of over Rs. 25,000 crores, the project entails to provide secure voice, video as well as data communication services for operational, safety and security applications of national transporters' network. The 4G long term evolution technology system specific to railways which is called 4G LTER, R means railways, will be used for modernizing signaling, and for ensuring train protection, safety, while also maintaining constant communication between loco pilots and guards. We sense tremendous opportunity openings for us from this modernization campaign of the Indian Railways.
- As you all know trial spectrum for 5G has already been allotted to telecom operators. Auction for commercial use of 5G spectrum is expected to happen in the beginning of 2022. Rollout of 5G networks will result in massive increase in demand of optical fiber cable, related radio access network, and other required equipment. This again presents an excellent market opportunities for the Company. Your Company will present large number of equipment and services segment required for 5G network. To name a few, as you all know, we are one of the largest capacities of manufacturing fiber optic cables in the Country, which will see upsurge in demand when 5G networks are implemented.
- Secondly, we have started development of 5G radio access networks both for macro cells and small cells which will be required in very large numbers in the 5G network. We are in the process of starting development of transport network equipment like routers, fronthaul gateways and switches, which are also required for 5G networks in large quantity. In short

5G-network implementation presents a very attractive and large opportunity for your Company both in domestic and international markets.

- As I have been maintaining over the previous earning calls, it is imperative for HFCL to keep pace with its capacity and capability buildup ahead of these opportunities. Having made significant strides in our advancement of technological and R&D capabilities, we have gone ahead with ramping up of our manufacturing capacities across our optical fiber and cable businesses. We are on course to increase our capacities across optical fiber, optical fiber cable and FTTH cable by 25%, 22% and 20% respectively. These capacities are coming at our Hyderabad, Goa and Chennai plants. Estimated commissioning dates range from Q2 to Q4 of financial year 2022 for various products. The Hyderabad facility expansion shall be manufacturing new types of cables including micro module, advanced ribbon cable, aerial cable, armored and un-armored cable amongst others.
- Furthering our quest of technological leadership, we did inaugurate our new R&D center at Bengaluru during this quarter. With a view to accelerate development of new technologies and next gen products and solutions, this is our dedicated R&D center for 5G and Wi-Fi products. Riding high on success of first PM-Wani Model village in Baslambi, Haryana, we are pleased to update you on our next project in Baidebettu in Karnataka. This demonstrates the strength of our indigenously developed Wi-Fi products which are PM-Wani compliant. The Project will connect the residents of this remote village with a slew of digital services in affordable and accessible manner. We plan to implement such network in many more villages.
- We continue to enhance the quality of our order book with the desired tilt of products and focus on bettering our margin and cash flows. As of 30<sup>th</sup> June, 2021, our consolidated order book stood at Rs.5,884 crores. New orders for fiber optic cables and equipment are being received regularly by your Company. Moreover, we have participated in tenders worth more than Rs.6,000 crores which are mostly for products and will get finalized in due course. You will be happy that 75% of pledged promoter shares have already been released till 5<sup>th</sup> July, 2021. We are fully focused to get the remaining 25% to release in the next couple of weeks.
- Let me now brief you on key performance metrics for the quarter.

Revenue for Q1 FY22 stood at Rs.1,206.87 crores as compared to Rs.699.76 crores in Q1FY21. Thus recording a year on year growth of 72.46%.

EBITDA for the quarter stood at Rs.191.54 crores as compared to Rs.83 crores in same period last year. In fact, EBITDA margin increased by 403 basis points and stands at 15.88% for Q1FY22.

For Q1 FY22 profit after tax rose to Rs.90.69 crores as compared to Rs.21.34 crores in Q1FY21 recording a growth of 325.82%.

PAT margins also improved by 448 basis points to 7.52% in Q1FY22 as compared to 3.04% in Q1FY21.

Segment revenue for telecom products during the quarter stood at Rs.375.40 crores as compared to Rs.205.41 crores in Q1FY21. We expect revenue from telecom products to continue their uptrend.

Our other performance reflects sustained growth and strengthening our value proposition that we have achieved over the last few years.

Looking ahead our constant focus on innovation, steady expansion of our product bouquet, margin focus shift of the revenue mix, alignment of our offerings with emerging and future market opportunities, deepening of our market engagement in export geographies, added contribution from our under-development capacities and pursuit of new products and opportunities by our recently constituted dedicated 5G division shall keep fueling our journey towards sustained growth and profitability. The order and enquiry flow from domestic and also overseas markets has remained healthy. I am confident that we have done our homework well and laid a strong foundation for an exciting future. We are focusing on achieving the targets we have set for the next few years and we are confident to keep that growth momentum continue in the years to come.

Thank you very much once again for your keen participation in our growth journey and I wish all of you good health. With this, I conclude my opening remarks. I open the floor for question and answer session. Thank you very much.

– **Moderator**

– Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may please press \* and 1 on their touch phone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Ashish Dhawan from Ashish Dhawan and Company. Please go ahead.

– **Mr. Ashish Dhawan – Ashish Dhawan and Company**

– Good evening Mr. Nahata. Thank you for this opportunity.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Yeah please go ahead Ashish.

– **Mr. Ashish Dhawan – Ashish Dhawan and Company**

– Yeah my first question would be as to your order book. Can you elaborate a little bit on your order book, how much you achieved this quarter?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Our current quarter order book you know Ashish orders keep on coming in bits and pieces.

– **Mr. Ashish Dhawan – Ashish Dhawan and Company**

– Why is your order book amount reducing? Like in every presentation, it is coming down every quarter.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– You have to understand one thing. I have been telling in every earnings call that we are going to increase our revenue from products rather than EPC projects. And products orders are not received in a huge quantum as such. As an EPC project, you will receive one order in a big quantum and then no order will come for 2 years. In Products orders you keep on

receiving which have to be delivered in next 2 or 3 months. Now if orders are to be delivered in 2 months or so, then they are received in smaller quantities. Not in a larger quantity. That is when you see the revenues shifting to products from EPC, you will find that order book at one point of time is not very large compared to what you would have got from EPC. But overall order flow in the year and overall revenue will keep up its momentum of growth as we have already projected that we are going to have a growth of 15 to 20% in the current financial year. That is what we expect that our growth will be 15 to 20% in our revenue in the current financial year. So EPC orders going down because of execution of the project does not mean that overall revenue will go down in any case. Because as I said earlier we expect in the current year 45% of our revenue will come from products and the product orders are not received as I said for a year or two. They are received for 2 months, 3 months, 1 month kind of a situation. So therefore you would find order book reducing but overall revenue growing.

- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- Yes sir. And you said that it is 15 to 20% growth of revenue that you are looking for the coming years let's say 3 to 4 years?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- That is what we expect, looking at the order book and looking at the market, we expect 15 to 20% growth.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- 15 to 20% growth every year?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- I am talking about the current year.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- And sir a little forward looking statement for 3 to 4 years if you can...
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- I cannot give forward-looking statement Ashish but looking at the market situation the way the market is growing, 5G, FTTH, BharatNet, I expect this growth momentum will continue and not only India. As we are developing our own products and technologies like 5G, Wi-Fi, optical access network, like for example transport network for 5G, these are our own IPRs, our own technologies. They have a huge market abroad also and not only these technologies and products, we are exporting fiber optic cable also and all these put together there is a huge market opportunity not only domestically but internationally also. Therefore, there is no reason for me not to believe that this current growth momentum will be kept up in future also.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- And sir my last question, would be please can you throw some light on BSNL's current position and are you again participating in BSNL tenders?

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- BSNL's current position has improved, our receivables from BSNL have come down considerably and as far as participating with BSNL's current 4G tenders are concerned, we have applied for doing proof of concept. Now first let the proof of concept be completed, let us qualify in that, then we will decide how to move ahead in that.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- Okay sir and in this quarter sir, investors always complained about mutual funds not buying shares of HFCL. This quarter do you think there is mutual fund buying that has come about?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- I cannot comment on that, who will buy or who will not buy. It is for the mutual funds...
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- Do you have any knowledge based on investors that have come in or mutual funds have picked up stake?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Pardon me, I couldn't get your question.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- Are you aware of any mutual fund buying?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Mutual funds have got but I am not remembering the names right now. But yes some mutual funds have bought shares.
- **Mr. Ashish Dhawan – Ashish Dhawan and Company**
- Thank you sir.
- **Moderator**
- Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- **Mr. Saket Kapoor – Kapoor Company**
- Yeah thank you sir. Thank you for the opportunity and sir steady state of numbers sir. As you have articulated to us investors that the mix is going to change and it will be more skewed towards the product side, so how is that going to change? Is the first quarter numbers reflecting the same? Correct me on that sir. Because when we see the turnkey contracts and services, there I think the revenue has declined on a Q on Q basis. But the margins have improved and on the purchase of stock in sales, there we see a figure on the vicinity of Rs.400-Rs.500 crores. So how should one look at this revenue from operations part when we have a large sum in this stock in trade portion. So if you could explain this mix and the way forward. When are we going to see that change of 45-55 happening?



- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- As far as products are concerned, this quarter we had a 31% revenue from the products. If you compare with the financial year 2021, it was 27%. This quarter it has increased to 31%. Overall, as I said our endeavor is to take it to 45% on a yearly basis. Now why would it increase?
- Number one, our capacity for fiber optic cable is getting expanded as I have informed you in my earlier presentation also and that revenue coming up will show increase in our product revenue number one.
- Number two, as the new products which are being designed are getting completed, they will start giving the revenue.
- Number three, Wi-Fi products which have already been designed, they will have increased revenue in the remaining part of the year. This last quarter also that could have had higher revenue but for I don't know whether you people are aware of semiconductor shortage worldwide. Worldwide there has been a huge shortage of semiconductors, which is the chips and because of that production of all kinds of telecom equipment has suffered all around the world. This is expected to ease down from mid of quarter 2 and then you will find the Wi-Fi and microwave radio products, point to point and point to multi-point which we have designed, they will also show increased revenue and you know all this put together as I said, there will be increased revenue from the products during the current financial year.
- **Moderator**
- Thank you. We would request the participant to please come back to the question queue for any follow up questions. The next question is from the line of Mr. Hardik Vyas from ET. Please go ahead.
- **Mr. Hardik Vyas – ET**
- Good afternoon sir.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Good afternoon Hardik.
- **Mr. Hardik Vyas – ET**
- My first question was pertaining to the PPP that we are seeing; BharatNet project is likely to take off on phase 2. Is it likely to take off any time soon in the second half of the year?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Look you know BharatNet phase 2 has already been approved by the cabinet under PPP model and we expect the tender to be floated very, very soon, maybe within a week and the target of the Government is to finalize this in next 2-3 months' time frame and once it is finalized, it has to take up very fast. Because there would be set timelines given to the PPP players who come and get business out of this tender to implement the network in a defined timeframe. Because as you would recall the Prime Minister has already announced that in 3 years' time frame every village of the Country would be connected with fiber optic cable. Therefore, I expect this tender to be announced soon, to be decided soon and to be

implemented in a faster speed because there would be set guidelines for the parties, which are working on the PPP model. So I expect not only early finalization, early implementation, but as I said during my presentation, huge demand opportunity is coming up for fiber optic cable, and all kinds of associated equipment and I am looking at BharatNet PPP tender as a huge business opportunity for the Company as the supply of not only fiber optic cable, but all kinds of equipment which we are going to manufacture or we are manufacturing, for example Wi-Fi equipment. Whole reason for this broadband optical connectivity to the village is to give broadband connectivity to the villages for which Wi-Fi would be required. Some cases fiber to home would be required, for which we are preparing our equipment. Transport network would be required, router and all these things would be required. 40 GB router, 100 GB router, we are designing that. So all put together BharatNet presents a huge market opportunity to the Company, and this opportunity would start fructifying from next calendar year may be quarter 2 of next calendar year or may be little earlier also.

– **Mr. Hardik Vyas – ET**

– Okay. So sir, follow up question on that is after the 4G options, are we also looking at private telcos giving the orders on the services front?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Services front you know we have already, been doing services for private operators in terms of optical fiber network being laid down by us. As I have told you many times, optical network for Jio in north India including for mobile services and also for FTTH services is being laid down by us. So not that we will be seeing revenue, we are already having revenue from 4G service providers currently in the form of getting the optical fiber network and the FTTH network all across north India.

– **Mr. Hardik Vyas – ET**

– Yeah okay. So we are currently in services we are not having any BharatNet contribution which will grow only from next year second quarter onwards.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– In the BharatNet phase 1 as you would recall, we have implemented Punjab network already. Jharkhand network is getting implemented and in the current quarter, which is going on, we see that there would be some reasonable revenue coming up from Jharkhand implementation surely which would be somewhere around Rs.100 crores plus.

– **Mr. Hardik Vyas – ET**

– Okay. Sir last question on the product front, as compared to the last quarter that is the fourth quarter of last year, what is the volume of products that we have sold and I am asking this because this being a COVID hit quarter. So the product revenues were at par, but in volume terms what is the difference that we have sold?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Last quarter our revenue had 28% mix of products. This quarter we have 31%. In terms of volume it is almost the same. This quarter we are at Rs.375 crores. Last quarter we had Rs.388 crores. This quarter as I said little while earlier could have been higher, but because of shortage of chip sets you, know, which were to be imported from Qualcomm but from their committed supply they expressed their inability to supply that quantity in the current

quarter because of shortages of chips worldwide. So which we are expecting this supply to increase in the current quarter and therefore the increase in the revenue.

– **Mr. Hardik Vyas – ET**

– Okay sir. So more or less price increase that we have seen in the first quarter because the volume we sold has been more or less the same.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Price increase? I couldn't follow you.

– **Mr. Hardik Vyas – ET**

– Optical fiber prices has strengthened and that is how....

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Yeah that is on the fiber side. Optical fiber prices have definitely strengthened and it continues to strengthen further. However, yes it has reached more or less a limit now.

– **Mr. Hardik Vyas – ET**

– Okay. Thank you so much sir. I will be back in the queue. All the best.

– **Moderator**

– Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

– **Mr. Abhishek Jain – Arihant Capital**

– Congratulations on a good set of numbers sir.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Thanks Abhishek, thanks a lot.

– **Mr. Abhishek Jain – Arihant Capital**

– Yeah thank you. Sir can you throw some light on the margins. We have seen like we are actually quite surprised positively by the margin performance. How do you see the margins are going to remain in what range? What is your outlook on the margins?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– So let me tell you the philosophy of the Company. Philosophy of the Company is to go for more of the products' revenue, less of the EPC revenue, the turnkey revenue. Reason being one, when you sell products it has involvement of less working capital. Number two, it has better margins also. Number three; you are able to sell worldwide because you are having IPRs, hence market segment increases. Now as we go for more of our product revenue, the overall philosophy that margin percentage should increase would be there, it would continue. So in the current quarter, you know current quarter what you see as a margin increase it is again because of product mix. EPC contracts also, some products had a high revenue, high profitability, some have a little bit less than that. So quarter to quarter you

will find some variation. Quarter to quarter some variation would always be there. Every quarter cannot be same or every quarter cannot have an increased trend or decreasing trend. But on an overall basis you will see margin percentage is improving year on year basis. And you know we cannot be categorical about quarter to quarter. Because quarter to quarter there may be slight changes. But on year to year basis there would be increase.

– **Mr. Abhishek Jain – Arihant Capital**

– Okay. Second question sir on the PLI side, are you applying for anything. Any update you want to do...?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Yeah we have already applied. As I said in my presentation we have applied through our 100% owned subsidiary HFCL Technologies Private Limited. We have already applied, and reason of framing this 100% owned our own subsidiary is that as you would know, under the Income Tax Act, the tax slab comes down from 25% to 18%, if the company is formed after a particular date, which was April, 2019. A new company is formed and if the profit comes into that company, then the tax level 18%, than the current slab of 25%, which we would have incurred. So because of tax rate coming down by 7%, we have formed a wholly owned subsidiary under which we have applied for the PLI Scheme.

– **Mr. Abhishek Jain – Arihant Capital**

– And sir last question, if you can throw some light on the new products which have been mentioned and what kind of opportunities are there like small cells for 5G, engine cool core, ground services radar, EO products, software defined radios. What kind of opportunity is there sir?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Look all these products have a huge opportunity. I will come one by one.

– First coming to this fiber optic cable, first of all, which is a new product in the sense a newer type of fiber optic cables we are now designing and going to produce which is new type of ribbon cables, bonded cables, all kinds of cables, high capacity cables. So these are various new market opportunities where we had not been there. Very high count cable, fiber count cable which we require in data center. Intermittently bonded ribbon cable which is required in European markets. Micro cable which is a lower diameter which is again required in European and US markets. So these are the new products we are coming up with and the new products will of course have a huge demand opportunities coming up in future. Now coming to other telecom products. One for example I would start with 5G. 5G macro cells and small cells. Now as the 5G networks come up, the demand of radio access network which is the macro cell or small cells will be huge market. Huge numbers. Whether it is a mid-band of 3.5 gigahertz, or whether it is a micro – whether it is a millimeter band of 28 gigahertz. It is going to have huge market opportunity because this would be required in lakhs and lakhs of numbers in India and abroad and we are designing macro cell as well as small cell for this mid-bend which is 3.5 gigahertz band and 28 gigahertz band which is a millimeter band. So demand is in lakhs and lakhs crores. It will reach in millions all over the world. So it is a huge market opportunity. Similarly, the transport network which is routers or front haul gateways. For 5G network and the routers for the BharatNet kind of networks would also be required in huge numbers. 10 giga-bit, 40 giga-bit, 100 giga-bit routers which are also partly already designed by us and are undergoing now some modification to suit

to BharatNet requirement, are also required in huge numbers in 5G network as well as BharatNet networks. Wi-Fi, you know we have gone into Wi-Fi 6 already which is the new generation of Wi-Fi which is compatible to 5G. Now that is again if you have 5G traffic incoming and it has to be distributed to subscribers, it needs that kind of a capacity as much as 5G. So Wi-Fi 6 would cater to that demand. Backhaul radios, again high capacity Backhaul radios would be required to do the Backhaul for Wi-Fi 6 that we have already designed. So likewise if you go on and on, these all products have a huge market opportunity domestically and internationally because of new kinds of technologies, new kinds of network, new expansion of fiber optic network and FTTH network happening in the world.

– **Mr. Abhishek Jain – Arihant Capital**

– Thank you sir. Thank you sir. I have few more questions I will come in the queue sir. Thank you.

– **Moderator**

– Thank you. The next question is from the line of Saral Seth from Indsec Securities. Please go ahead.

– **Mr. Saral Seth – Indsec Securities**

– Hi sir, congratulations on good set of numbers. Sir my first question pertains to what have been the second wave impact on the revenue as well as bottom line?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Look you know Mr. Seth, there has been some impact, not like the first wave. Impact has been about I would say Rs.150 crores to Rs.200 crores. Reason was simple. Most of this impact came from defense side of our business. Entry into cantonments were restricted because of COVID situation and rightfully so Army did not allow entry of outsiders in the cantonments for the fear of forces getting into the grip of COVID. As a result of that about couple of months when this pandemic was surging in a huge number as we have seen in the Country unfortunately, restriction was there in the entry of our people in cantonments and as a result of that some supply could not take place. Mostly services could not be rendered to get into the milestone of the projects which are required to be completed for us to bill for the services. So we could not do that for a couple of months. So that impacted, number one,

– Number two, the second impact and a smaller one was that our customers, our operators were not able to execute large portions of their networks, fiber optic networks in the cities because of COVID restrictions work was, construction was not allowed in the cities and as a result demand for fiber optic cable came down a bit because customers were not able to install the network so they were not able to lift our products. So those orders were there but revenue could not be achieved because customers were not able to lift the products for their requirement. Because in cities operators were not able to implement their network. So some impact happened because of that. I would say something like Rs.40-50 crore impact was there, Rs.150 crores impact was there because of services part of it. So there would be – I would say there was about Rs.200 crore impact and if I see the profits I would say, if you take the PBT margin of 10 percent or so, PBT margin could have been higher by about Rs.20 crores or so if that revenue had been achieved.

- **Mr. Saral Seth – Indsec Securities**
- Alright, thank you sir. My second question would pertain to sir with regards to PLI benefits. Would we be funding through internal accruals or would we be requiring debt for the PLI benefits?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- This would be partially through internal accruals and partially through debt.
- **Mr. Saral Seth – Indsec Securities**
- Right sir, thank you. I will fall back in queue.
- **Moderator**
- Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.
- **Mr. Chetan Shah – Jeet Capital**
- Sir just 2-3 questions from my side. While in your opening remarks, you were explaining about the ongoing capex and the timeline related to the capex, could you kindly share the capex for the next 2-3 years how much will you spend in current financial which is FY22 and how much in 2023 and 2024? And following question to that is once we are done with this capex which is the capacity expansion, after that how much do you think we will be able to take our revenue to? I am just trying to understand the gross block to revenue mix what is our asset possibility non-EPC side of the business. If you can give some sense that would be very helpful.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Chetan, the current year's capex is estimated to be about Rs.210 crores. Out of which, Rs.25 crores has already been incurred, rest Rs.185 crores is to be incurred. Out of this, Rs.185 crores, Rs.145 crores is expected on enhancement of cable manufacturing facility which I have described a little while ago which is taking place in Hyderabad, Chennai and Goa all three places, including some backward integration and including expansion of fiber facilities, fiber manufacturing facilities also. We have capacity of 8 million fiber kilometers is being expanded to 10 million fiber kilometers, and similar expansion in the capacities of cable expansion is going on. And some backward integration is also happening to reduce our costs and increase our competitiveness in fiber optic cables, number one.
- Number two, balance Rs.40 crores is going to be incurred on creation of manufacturing facilities for defense products for which separate facilities are required as per the regulations which we would be doing in Hyderabad. Land is almost allotted to us, maybe another next couple of weeks, or maybe earlier than that. So this manufacturing facility will come up in Hyderabad which would cost us about Rs.40 crores or so, around Rs.40 crores. So capex plan for manufacturing facility is Rs.210 crores out of which, Rs.25 crores have already been incurred.
- Now, revenue as I said we are looking for a growth of about 15 to 20% in the current financial year, wherein entire year would not be utilized for increased capacity to earn revenue. It is only a part of the year, because from quarter 2 onwards this capacity expansion is happening. In fact the first phase of capacity expansion in Hyderabad is getting

commercial in next couple of days. In next couple of days it is going to go commercial, first phase. Second, third phase will go commercial consequently. So the full impact of this capacity expansion of cable as well as fiber is going to be seen in the next year. Current year no, half or less even. So in spite of that we expect increase of revenue by 15 to 20%. Now in future you know if I keep the capacity constant what it is just now, still we see that revenue will see a growth of 15 to 20%. This trajectory would be maintained with the growth in the revenue of cable as also the defense products. This trajectory would be maintained to 15 to 20%.

- Now coming to what would be the capex for next year, year 2 & 3, Chetan, we have still not planned. We are under planning stage of that and we will come up back to you in the next earning presentation that what could be the capex for the year 2&3. We are still working in that, planning that, looking at the market size, looking at the future potential of different products we have. Certainly, we would need some more capacity expansion to cater to the demands we are experiencing from our customers. Some more would be required. But right now I would say yes we are looking at that and next earnings call we will come back to you on that. But current year Rs.210 crores of which Rs.25 crores is already incurred.

- **Mr. Chetan Shah – Jeet Capital**

- Sir one follow-up question on the same. Sir while answering the question to couple of previous investors/analysts, you talked about shifting your revenue mix to product side to about 45% in a year to come. Could you just help us understand how this mix does change in revenue will help to improve our working capital cycles? Because what I have understood looking at our past financials that due to more tilt towards EPC side of the business it not only reduces our margin but also strain on our working capital. So does this mix change once we have almost close to 50-50 EPC/product mix in revenue? And just one more question added to that. If I see our FY21 balance sheet, our receivable numbers are pretty high. It may be due to end of the year number. But if you can just tell us that how much does that intrude in the first quarter and what is the trajectory. Because you explained about BSNL receivable is improving. How about other receivables please?

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- Look you know first of all coming to your second question first. You know you are right, last financial year, last 100 days, we had 45% of revenue. And as a result of that you could see that the number of receivables are higher. That is number one.
- Number two, product and EPC. You know let me tell you the differentiation. Product you know when you supply a product, you start getting paid, depending upon the terms and conditions, 60 days, 30 days, 90 days. In EPC contracts, you get paid on the basis of milestones. Having achieved a particular milestone you get paid irrespective of the fact that you could have supplied earlier but milestone has not been completed you don't get paid. Now what has happened in the defense EPC contracts, though their profitability is reasonable, there is no problem with their profitability, but the problem is the payments.

What happened last year and this year, last year pandemic 3 months no work. Absolutely zero work in those EPC contracts as a result, you could see the revenue was just Rs.700 crores. Complete lockdown nobody was allowed to enter into cantonments. Particularly, you would recollect at that point of time there was a flashpoint with China in our northern borders and a majority of our work was in the northern borders. As a result of that we could not do any work. As a result, you could see the revenue was only Rs.700 crores. Now number of cases so milestones could not get completed. Now number of cases what has

also happened which issue I am taking up constantly with Indian Army as well as BSNL, network gets completed when all the aspects of the network or the issues involved in the network are completed. What happens, certain part of work is the responsibility of the customer – BSNL or Army. Now what happened, for example, construction of buildings where network equipment had to be installed, construction of fiber on which our equipment could be installed and connected. If buildings are not there, if fiber is not there, irrespective of the fact that I have done my work, installation commissioning of equipment, milestone would not be completed because the entire network has not been tested, now how can the network be tested in absence of fiber or in absence of a particular building where equipment has not been installed because the building is not there? So if there is a link of 1200 kms, let me just give an example, which has 20 service stations in between, and one substation has not been constructed by army in between where I have to install my equipment and I could not install and entire link is not complete. If one link is not there, your chain is broken. It was that kind of a situation. I have done 90% of my work but milestone is not getting completed without any fault of mine. So we have taken up this issue very vehemently with the Army and BSNL both and told them please complete this as soon as possible so that my billing is completed, my payment is received. And we had taken it up very strongly I had a meeting with BSNL combined meeting with BSNL, army, navy, air force, all of them where I have insisted on this point and I have had regular meetings with them so that the milestones are achieved and payments are received. So you are right. EPC contracts because of these issues we see a higher receivables because supply has been there but services have not been done and the billing is not complete for services. As a result, the supply payment which has been billed is also pending. So that is the problem in EPC contracts. And you know apart from that you know working capital investment, you have to really work in a completely different manner in terms of working all over the Country, to implement such contracts. So what we are trying to shift the revenue model of products but that does not mean that we will be stopping EPC contracts. We would still be going for EPC contracts but on a very selective basis where we believe that payments could be realized in a much easier manner. The payment cycle is better or where we see customers' ability to complete their side of the work quicker. So we will be going for EPC contracts but revenue mix we would like to shift towards products which have higher profitability because of your own technology, higher catch up area for customers because technology having been your own, you are able to send it worldwide. So this is the reason why we are shifting our revenue mix which you see lower working capital cycle and higher profitability.

– **Mr. Chetan Shah – Jeet Capital**

– Thank you for such a detailed explanation. Sir just one last question. In your opening remark you were explaining about the new R&D facility at Hyderabad.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– No Bangalore.

– **Mr. Chetan Shah – Jeet Capital**

– Sorry, my apologies sir. At Bangalore. And you also spoke about the focus on developing newer product opportunities. So just wanted to get a sense that what kind of annual budget or outlay are we looking at or is there any ballpark number you have in your mind that we will spend Rs.10-20 crores a year or maybe more or how the products...



- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Much more than that, much more than that. Current year our R&D expenditure is going to be about Rs.150 crores, out of which Rs.15 crores have already been spent in Q1, Q2, Q3, Q4 would see another Rs.135 crores which would be spent on R&D. Out of that would be some part you know like fixed assets buying test equipment and all that would be capitalized. Salary and all are being written off as normal expense.
- **Moderator**
- Thank you. We would request the current participant to please come back in the question queue for any follow up questions as we have several participants waiting for their turn. We would request all the participants to please limit your questions to two per participant. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.
- **Mr. Nirav Dalal**
- Thank you for the opportunity. Couple of questions. One, we disclosed that product revenue is about 31%. What would be the breakup in terms of optical and non-optical of this? And of the 45% that we are targeting what would be the split?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Okay in optical, non-optical in this last quarter, was Rs.375 crores, optical was about Rs.295 crores, and about Rs.80 crores have been from non-optical which is Wi-Fi and all that. I may be wrong by Rs.1 crore or Rs.2 crores, but this is more or less.
- **Mr. Nirav Dalal**
- That is fine.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- And non-optical could have been higher as I explained. But for the shortage of chip sets, which happened in the last quarter which is expected to improve from I would say August-September of the current quarter. This could have been higher but unfortunately could not happen because of the worldwide chip shortages. But yet the revenue mix has been Rs.295 crores and Rs.80 crores.
- **Mr. Nirav Dalal**
- And when we say the 45% would go up to 45%, would the mix be broadly the same for the year?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- No, the mix would change. I think you know numbers would go higher for non-optical figures. Optical will also go higher. Because you know new capacities are being added. But generally I would say it would be 70% for optical products and 30% for non-optical products in the current year.
- **Mr. Nirav Dalal**
- Got that, got that. And one last question on the PLI. I don't know whether you disclosed any capex plan for the PLI Scheme. I just wanted your comments on that.

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- No, we have filed the application for approval. We have not really disclosed the capex plans. But as the approvals come in, next earnings call as I said we will come up with the exact numbers and come up with the capex plans.
- **Mr. Nirav Dalal**
- Great sir, thanks. Thank you.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you. Thank you Nirav.
- **Moderator**
- Thank you. The next question is from the line of Ankit Bhave from Shubhkaam Ventures. Please go ahead.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- Good evening sir. Sir a couple of question. Sir you did mention that the revenue from product business would be around 45% in FY22. And your focus is also to continue to increase the share of products business and total revenue. So sir, just wanted to know where you see the share of product revenue to your total revenue in the next 2-3 years say by FY24?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- You know as I said this year it would be coming to about 45% and with the increase in defense products revenue like software defined radios, fuses and all that, this is expected to increase further. In my opinion this should reach to about 60% in next 2-3 years.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- So at that level of contribution from product business that is 60%, where do you see the operating margins of the Company?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- They would increase significantly. I wouldn't make a forward looking statement that how much percentage that would be, but generally as you see the margins in this product business is higher than the EPC margins. So profit before tax, I would say, PBT, percentage in product business would generally be 13 to 15%, generally. Depending on product to product, it would generally be 13 to 15%.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- Okay. And sir what is the current debt on the books and where do you see your debt balance at the end of this year and next year?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Our current debt in the books we have about working capital facilities and term loan and all put together is about Rs.900 crores. Little less than Rs.900 crores.

- **Mr. Ankit Bhave – Shubhkaam Ventures**
- And where do you see it at the end of this year and next year considering your capex plans and working capital improvement and everything and internal accruals?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- FY22 we expect it to become Rs.800 crores.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- Okay, and next year we can expect a reduction in that?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Next year there would be some repayments and there may be some as I said we have not framed up the plan for next year's requirement. But if we have capex it may go by little bit again. So it maybe around the same level or it would be a little bit down.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- Okay and my last question is sir you did mention about this Rs.200 crores of capex in this year. So this is only for the existing businesses. So if you get any approval in the PLI Scheme, so any capex there would be additional capex right?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Yeah that would be additional of course, but we do not know when the approval will come and when will we be required to spend and that spend is also to be done in 3 years. Not required to be done in 1 year. It is 20% and then 40% and then 40%, something like that, in 3 years' time frame. So once the approval comes then we will see how much of that 100% is going to be in the first year, whether 20% and then 40/40. So once we know that approval is coming then we will be able to frame up the plan. Right now large number of people have applied. So we have to wait for the approval to come.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- For your internal assessment I mean what kind of investments you are ready to make in that PLI scheme if you get the approval? I mean is it like a very big like Rs.500,000 crores of investment, or what is the quantum you people are looking at in 3 years?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- You know the minimum as per the Scheme, minimum investment required is Rs.100 crores. Minimum. So how much we will make we will come to know once the approval comes. The minimum required is Rs.100 crores. So whatever we do the approval comes it is going to be more than Rs.100 crores. But once the approval comes, which I expect in the current quarter, we will definitely come back to you in the next earnings call.
- **Mr. Ankit Bhave – Shubhkaam Ventures**
- Okay thank you so much sir.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you.

- **Moderator**
- Thank you. The next question is from the line of Rishabh Makhija, an individual investor. Please go ahead.
- **Mr. Rishabh Makhija – Individual Investor**
- Hi sir thank you for the opportunity. Most of my questions have been answered. Just one question sir. Can you give some color on how the optical fiber and optical fiber cable prices have been shaping up and like a sort of a comparison with respect to how they were last year this time in quarter 1 of FY21.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Look you know optical fiber prices if I take, they have firmed up worldwide because of increased demand of fiber optic cable and consequently fiber all over the world. I would say that earlier when we started this year or little before that, it was about Rs.250-Rs.255, you know going around Rs.250 or so, before that it was about Rs.280, starting of the year it was Rs.280. It came down to Rs.250 or so. It has again gone around Rs.300 at this point in time. Around Rs.300. Sometimes little bit more, little bit less. But around Rs.300 per fiber kilometer.
- **Mr. Rishabh Makhija – Individual Investor**
- Understood sir. And about optical fiber cable?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Optical fiber cable is a different price for different kinds of fiber cables. Depends upon what kind of fiber it is, 12 fiber, 48 fiber whatever. But generally I would say they have gone up by roughly I would say earlier what it was about Rs.850 per fiber kilometer of cable it has gone around Rs.900 or so. Again, this would be different in different count of cable. I cannot generalize that. But yes more or less.
- **Mr. Rishabh Makhija – Individual Investor**
- No that is very helpful. Thank you for that. That is it from my side. Good luck.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you.
- **Moderator**
- Thank you. The next question is from the line of Neha Jain from SKS Capital. Please go ahead.
- **Ms. Neha Jain – SKS Capital**
- Hello sir, thank you for the opportunity.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you Neha. Please go ahead.

- **Ms. Neha Jain – SKS Capital**
- Yes sir. I wanted to ask, I was a bit late to the call so I wanted to ask what is the order book currently? What is the pipeline you are expecting? And sir one more specific question would be there is a big order that Mazagaon got recently of Rs.45,000 crores in submarines. We have previously supplied. So do we see an opportunity there?

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- Look the Mazagaon Dock order is for submarines which is not part of our, anywhere near our product range. So, we don't see any opportunities in the submarine kind of products. But yes, we are in discussion with Mazagaon Dock and we have signed an MoU also let me tell you, since it was not a major issue we did not make any public announcement on that, but yes Mazagaon Dock and we have signed an MoU from our subsidiary Company, HTL Limited for development of wire harnesses for the ships and that MoU has already been executed and our people are in process of development of such wire harnesses. These wire harnesses are made out of either fiber optic cable, fiber or copper. So and we have setup a facility in Chennai for manufacture of wire harnesses, very low capex, but expected high revenues. This is going to happen for wire harnesses for telecom sector which we are already doing which we are producing wire harnesses for telecom sector for connecting radio head to the base band of base station and these are made of fiber. So these have already been produced by us. What we have also done kind of shifted from – not shifted increased our production range going for wire harnesses for automobiles, for ships, and submarines will also come later but for aerospace also. And Mazagaon Dock MoU has been signed for designing wire harnesses which will be required in very large quantities because ships are very large. And we expect this revenue to start flowing from wire harness business in the current year. It is very low capex. We have already executed this. And we expect about Rs.50 crores plus revenue in the current year which is just starting year, very starting year which is just few months of working, couple of 3-4 months of working. But we see this revenue would go up in the next few months. Reason, one, as you know the automobile industry is turning towards electrical. Or most of the automobiles are going to be electrical in the years to come. And huge amount of wire harnesses would be required because this is electrical working and you need wire harnesses in that.

Similarly, we are working with aerospace industry. We have already signed and had a discussion for development of wire harnesses but for confidentiality reasons, I cannot name the project right now because this is confidential, which is being developed for Indian forces and HTL is already doing that work designing wire harnesses for that application. So coming to that you know these wire harnesses this business is going to show a significant growth in future to come.

- **Ms. Neha Jain – SKS Capital**

- Thank you, that was very helpful.

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- But not Mazagaon Dock, Rs.45,000 crores that is a separate project. But yes with Mazagaon Dock we have an MoU.

- **Ms. Neha Jain – SKS Capital**

- Yeah, yeah that was helpful anyway. And so what is the pipeline that we are looking for?

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- For this kind of order?
- **Ms. Neha Jain – SKS Capital**
- For the entire Company, HFCL?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Entire right now we have an order book of about Rs.5,900 crores-Rs.5,800 some crores. About Rs.5,900 crores which will keep on increasing. What is happening as I said earlier since you joined late, we keep on receiving orders for products on a very regular basis. They don't come in big orders like Rs.1,000 crores. They come in Rs.50 crores, Rs.80, crores, Rs.70 crores, Rs.100 crores, such kind of orders are received regularly and supply is made regularly. That is number one. Then we have participated in tenders for more than Rs.6,000 crores already and which are to be decided one after another. So we will receive orders from that also. Large number of opportunities are coming up now, BharatNet opportunity there are opportunities in railways, there are opportunities coming up in various other segments where we are going to participate. So orders will keep on flowing and with those orders in this market what is there now, with increased market, I expect our revenues will also keep on growing with a steady state in the same pace in which it is growing now.
- **Ms. Neha Jain – SKS Capital**
- Yeah thank you sir that was very helpful.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you Neha.
- **Moderator**
- Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global. Please go ahead.
- **Mr. Mangesh Kulkarni – Almondz Global**
- Yeah sir thank you for taking my question.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you Mr. Kulkarni for coming up and asking questions. Please go ahead.
- **Mr. Mangesh Kulkarni – Almondz Global**
- Yeah. Just wanted to know the plans for releasing the remaining pledged shares.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Remaining pledged shares in fact you know this all 100% could have been released instead of 75%. But one bank said 75%. All banks said 100, one particular bank said 75%. And we have to go *pari passu* with every bank. So unfortunately, we didn't have the time to go back to the bank and stop every pledge to be released till the time entire 100% happens. So we said okay let's release 75%. 25% to that particular bank we have gone back again. And we

hope that within a month or so or less than that, we will get that release of 25% also. But I promised to all my investors that pledge of the shares should be released. So 75% which is a very, very large quantity has already been released. And mind you even this 25%, there is no loan taken by the promoters against shares. These are all collaterals against the working capital loan or term loan which had been taken by the Company.

– **Mr. Mangesh Kulkarni – Almondz Global**

– Right sir, thank you very much.

– **Moderator**

– Thank you. The next question is from the line of Sapna Kamath from Narottam Family Office. Please go ahead.

– **Ms. Sapna Kamath**

– Sir, good evening sir.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Yeah good evening Sapna, please go ahead.

– **Ms. Sapna Kamath**

– Yeah. Sir I just have one question. Your presentation was very insightful so most of the questions are answered. But this turnkey contracts during the quarter we have seen a very sharp margin. What is the milestone achievements that led to this EBITDA margin improvement for that particular segment?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Sapna, it is more of a revenue mix. As I said earlier, some products have a higher profitability, some have a lower profitability. If you have kind of delivered more of software products in a particular month or particular quarter, there were higher profitably than hardware products. So the revenue mix keeps on changing and consequently there is always some variation in the margins also. Every year, every quarter they cannot remain constant. But one thing is sure, with our stress on more products, high profitable business, margins will keep on growing at a steady rate. Quarter to quarter it can be different.

– **Ms. Sapna Kamath**

– Sure sir. And I understood about your product division. But I was a little curious about this turnkey contracts because there the jump is almost 400 bps from 10%, it was 14% or 14.5%. So that is why I was little curious as to what...

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– It is a product mix. Nothing else on that.

– **Ms. Sapna Kamath**

– Okay thanks, thanks a lot.

- **Moderator**
- Thank you. The next question is from the line of Ravi Mehta an individual investor. Please go ahead.
- **Mr. Ravi Mehta – Individual Investor**
- Sir I want to ask you about the defense order. When do you expect some sizeable order from your defense electronic fuses or software defined radios?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Look, software defined radios are in development right now. Any order from them will take time, it will take time. But in electronic fuses tender we have already participated. Samples have arrived for offering to the army. We expect army to come back and ask for samples any time soon. I think it is being decided at the highest level. So once the samples are asked for and tested then orders would come. So any sizeable big order is expected only after few months. But yes some other products like you know night vision devices, which we have already participated in the tenders we expect those to be rolled out sooner because the testing is currently going on. Tests are going on in different army facilities and we expect those orders to be received a little sooner than the fuses.
- **Mr. Ravi Mehta – Individual Investor**
- So in this year we can expect night device vision order?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Yes, this year we can expect. Yes. Some small orders have already come but larger orders we can expect this year. Absolutely.
- **Mr. Ravi Mehta – Individual Investor**
- Okay sir. Thank you sir.
- **Moderator**
- Thank you. The next question is from the line of Deepak Mehta, an individual investor. Please go ahead.
- **Mr. Deepak Mehta – Individual Investor**
- Yeah, thanks for the opportunity. Good evening sir.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Good evening Deepak.
- **Mr. Deepak Mehta – Individual Investor**
- Yeah. I want to congratulate first of all management and you for walking the talk, what we have been talking, I think we have been executing very well. And I think our Company is on the inflection point and we can say that we have already started HFCL 2.0 and this will go long, long, long way. So my question is around 5G sir. For 5G what kind of products, we will be offering. I think we have optical cable which we will be using in 5G and second we have



5G cell points. So if you can throw some light on the products and service offering, what will be the role of R&D offices, and how we are attracting the right talent for right execution sir from 5G point.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

– Thanks a lot for your phrase walking the talk. I really appreciate that, I said that product mix will change, it is changing. I said that margin increase will happen it is happening. I said the pledge of the shares would be released, it has happened. So walking the talk is really the right word and thanks for saying this phrase. Number one.

– Number two, for 5G as I said earlier fiber optic cable is one of them. You know what we have done in the Company, tried to create a range of products which would be required for 5G business, 5G network. Number one, fiber optic cable which will be required in large quantities. Number two, cell-side radios which is access, radio access network what we call it which is fitted in the towers which you see in different places. Which included macro cell which is a large cell. Then, there is small cell both indoors and outdoors. Those are required in huge numbers as I explained earlier. Then the routers and the cell side routers which are fronthaul gateway. These are some of the products which we are designing which are required in large number in 5G networks. So this is not the end of the list. There are many more products required. But these products will be required in huge quantities. And this is what we are working on. This is what we would be offering to our customers. That is number one in terms of products. Second we are also going to do which I did not talk earlier in my presentation but let me tell you now, we are also going to develop a system integration division totally devoted to 5G. Again why it is system integration division now? Because as you would have read in many newspapers or the magazines or internet, 5G network is going towards open RAN, open radio access network. Earlier it used to be same supplier supplying core and access network. Now it has been disaggregated. Networks are disaggregated. Radio access network can be from one supplier, core from another supplier, transmission could be from third supplier. Now if you have multiple suppliers in a network then you need a good system integrator to integrate the entire network and make work as a singular network. That capability we are developing now because we believe in an open RAN environment of 5G. Very large amount of services would be required for system integration, and let me tell you I am already in touch with number of multi-nationals also, who want that kind of system integration services from us in India and abroad, and we would be in touch with operator also in coming times to offer these System Integration services and these SI services right now I am not projecting any number, but I have very high expectation from this division which would start operations by Q3 or the beginning of Q4 of this year and though we have not projected any number in our AOP from this divisions not in this year, definitely we do not know what it would be in the next year but we have, I have good expectations from my SI division to get reasonable revenue and profitability from India and abroad both, particularly dedicated to system integration business of 5G network for the reason which I explained to you, open networks, where we have, multiple suppliers so you need a good system integrator.

– **Mr. Deepak Mehta – Individual Investor**

– Thank you so much sir. And my last question is around the product side. So you have said that it is around 30% of our total revenue. So I am not sure if you can tell me what is the total addressable market for our products?

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Addressable market is Rs.1,000s of crores. I can tell you it is Rs.1,000s of crores. Addressable market worldwide would be billions of dollars. So that is not relevant for us that we are not looking for that kind of a market worldwide or that but India also it is Rs.1,000s of crores.
- **Mr. Deepak Mehta – Individual Investor**
- Okay and I believe that we will be competitive in terms of globally in terms of price and product quality.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Yes absolutely. I will give you two examples. While this cable business we are competitive, we are exporting, we are selling in India most competitively. Wi-Fi, for example, we have designed, we are selling in good quantity in India. Good quantity in competition with multinationals, No problem.
- **Mr. Deepak Mehta – Individual Investor**
- Sir what will be the role of Qualcomm partnership in the 5G?
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Qualcomm partnership in technology in shape of chips and all that, all means the basic chip set, the basic semi-conductors comes from Qualcomm. And the entire product is designed around that. Qualcomm or you know some cases it could be some other suppliers also. Not necessarily Qualcomm. But yes Qualcomm being the main developer in the wireless technology, chip sets and the semiconductors come from Qualcomm around which you build up the entire box or the equipment where Qualcomm gives you active help and support.
- **Mr. Deepak Mehta – Individual Investor**
- Okay thank you so much sir. I wish you best of luck and best of health.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you. And I wish all of you best of health.
- **Moderator**
- Thank you. The next question is from the line of Ankit Pandey from Quant Money Managers. Please go ahead.
- **Mr. Ankit Pandey – Quant Money Managers**
- Hi thank you for taking my questions. Many congratulations on a good quarter. But sir just taking a step back if you could just tell me what is the underlying growth rate that we are experiencing right now during the last...
- **Mr. Ankit Pandey – Quant Money Managers**
- Yeah, I was just saying that if you could just talk about the underlying growth rate that we are experiencing in the business right now. Of course comparable production is different

but hard to decide, but let us say in the month of June and this month of July, what is the underlying growth rate? Are we experiencing like 10-15% or higher growth rates? What are the growth rates in the business right now?

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- Look you know on an overall year to year basis as I said, 15-20% growth rate would be there. Quarter to quarter it could vary, reason being, for example, you know, this is the rainy season. Some parts of the Country with monsoon winds, our network laying may suffer. So those may not be as much as you would be able to see in quarter 3 or 4. Quarter 4 has always seen higher revenue because at that point of time the working conditions are much better and work happens all around the place. So quarter to quarter there may be somewhat less or more, but on overall basis you would find this year we expect to get a growth of 15 to 20% in revenue.

– **Mr. Ankit Pandey – Quant Money Managers**

Thanks for that. Also sir what is the receivables position right now? And do we expect to significantly improve upon the situation by the end of the financial year.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- See I will tell you receivables right now remains at about Rs.3,053 crores as against what we had Rs.3,056 crores at the end of March. Which means practically you can say whatever was the revenue of this current quarter has been realized. Not the same revenue but last quarter or before that quarter it has been realized. So current working capital cycle what we have right now is about 90 days. But as I said the milestones need to be complete for realizing revenue. Now we are in that phase trying to complete the milestones as soon as possible in the defense contracts. I cannot name the commands and course for security reasons but I can tell you we have setup our targets 15<sup>th</sup> August, 30<sup>th</sup> August, 30<sup>th</sup> September, 30<sup>th</sup> October, like up to December to complete various parts of the network for the defense forces and realize our revenue out of that. I think from quarter 3 onwards you would see significant amount of receivables coming down because of these milestones getting completed and money being received significant amount of receivables will start coming down from Q3.

– **Mr. Ankit Pandey – Quant Money Managers**

- That is much appreciated, thank you. Could you just repeat the receivables number exactly? Now versus March.

– **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**

- It is almost the same. Rs.3,053 crores now, which was Rs.3,056 crores in March. Whatever is the revenue, the current year has been realized. Not the same deliveries but last quarter or before that quarter but you know realization is about Rs.1,200 crores in the current quarter you can say that.

– **Mr. Ankit Pandey – Quant Money Managers**

- And if you could just talk a little bit about the receivable situation in BSNL accounts standalone BSNL account. And also the traction that we are receiving in exports and whether we can meet that target that we have stated before in exports.

- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Current receivables from BSNL is around Rs.50 crores. To be precise it is Rs.53 crores which was earlier about Rs.160 crores which has come down to Rs.53 crores. That is one and this Rs.53 crores I think this quarter we should be able to realize most of it. Coming to export target, current year we have setup an export target of Rs.300 crores for us out of which I believe we have already done export of about Rs.66 crores. Rs.66 crores has already been exported. And we are well on way of achieving our target of this Rs.300 crores in the current financial year because there is a good demand of fiber optic cable as well as other products which we are producing like this Wi-Fi radios and accessories including railway communication network which we are executing in Dhaka and Mauritius. So current year's target of Rs.300 crores we are well set to achieve that target. I don't find any problem in that, next year you know financial year 2023, we have setup a target of Rs.500 crores which also I believe we should be able to achieve without much of a problem because the expansion for a fiber optic cable which we are doing in Hyderabad large part of it is directed or dedicated towards export products. So we should be able to increase our exports out of that and number two our new products coming in shape which we are designing, that should also be able to export. So Rs.500 crores, I also believe we should be in a good position to achieve in FY23. But the current year's Rs.300 crores as against our Rs.125 crores or so, which we did last year, no I think we did Rs.200 crores last year, we should be able to achieve Rs.300 crores without much of a problem in the current year.
- **Mr. Ankit Pandey – Quant Money Managers**
- Thank you so much and all the best sir.
- **Moderator**
- Thank you. That was the last question. I will now hand the conference over to Mr. Saumil Bhatia for closing comments.
- **Mr. Saumil Bhatia – Prabhudas Lilladher Private Limited**
- Thank you sir, thank you for giving us this opportunity to host you. Thank you.
- **Mr. Mahendra Nahata – Promoter and Managing Director, HFCL Limited**
- Thank you very much Saumil and thank you to all participants for spending your time and being with us in this earning call. And let us all meet again in the next earning call for Q2. And wish you all the very best of health and wellbeing and please take care. Get vaccinated that is most important, so that even if there is third wave, none of us are impacted. Thank you very much. Thank you.
- **Mr. Saumil Bhatia – Prabhudas Lilladher Private Limited**
- Thank you.
- **Moderator**
- Thank you very much. On behalf of Prabhudas Lilladher, that concludes this conference. Thank you everyone for joining us. You may now disconnect your lines.

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