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HFCL/SEC/19-20

June 04, 2019

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Security Code No.: 500183	**Security Code No.: HFCL**

Subject: Transcript of Investors' / Analysts' Conference Call on Financial Results for FY 2018-19.

Dear Sir(s)/ Madam,

This is further to our earlier intimation dated May 16, 2019.

We hereby submit the Transcript of Earnings Conference Call organized by the Company on May 21, 2019, to discuss the audited Financial Results of the Company for the Fourth Quarter and Financial Year ended on March 31, 2019, on Standalone & Consolidated basis.

This aforesaid Transcript is also available on the Company's website.

You are requested to take the above information on records.

Thanking you,

Yours faithfully,

For **Himachal Futuristic Communications Ltd.**

Himachal Futuristic Communications Ltd.

(Manoj Baid)
Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.

Himachal Futuristic Communications Limited
Q4 and FY ended 19 Earnings Conference Call
May 21, 2019

Moderator: Ladies and gentlemen, good afternoon. And welcome to the Himachal Futuristic Communications Limited Q4 FY19 and FY 19 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

Anuj Sonpal: Thank you, Stephen. Good afternoon, everyone, and a warm welcome to you all. My name is Anuj Sonpal, we represent the investor relations of Himachal Futuristic Communications Limited. On behalf of the Company, I would like to thank you all for participating in the Company's earnings conference call for quarter four of financial year 2019 and the full financial year 2019.

Before we begin, I would like to mention a short cautionary statement, as always. Some of the statements made in today's earnings conference call may be forward-looking in nature. Such forward looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to 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 conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter and year under review.

I would now like to introduce you to the management participating with us in today's earnings concall. We have with us Mr. Nahata – Promoter & Managing Director, and Mr. V. R. Jain – CFO.

Without much delay, I request Mr. Nahata to give his opening remarks. Thank you. And over to you, sir.

Mahendra Nahata: Very good afternoon to all of you, gentlemen and ladies. And thank you, Anuj, for the introduction. I am Mahendra Nahata, Managing Director of the Company. I would like to welcome and thank you all for joining us in today's earnings conference call for the fourth quarter and financial year ended 31st March, 2019. I trust that all of you have had a chance to have gone through the results which were announced on 15th May, 2019.

Well, before I begin, I would like to give you some background about the Company and its activities. HFCL is an established leader in communication network solution for more than last three decades. The Company's activities cover the entire value chain from manufacturing optical fiber cables, high-end transmission and access equipment, services products to implementation of communication networks. The Company specializes in providing turnkey solutions to telecom service providers, railways, defense, smart city and surveillance projects. We have deployed more than 100,000 kilometers of, optical fiber cable network and 25,000 cell sites for different mobile operators. The Company has state-of-the-art technology driven manufacturing facilities, comprising of a telecom equipment manufacturing unit at Solan in the state of Himachal Pradesh, optical fiber cable manufacturing facility in Goa, with a capacity of 8 million fiber kilometers per year.

Company's subsidiary, HTL Limited, which is located in Chennai, has OFC capacity of 7 million fiber kilometers per annum which is being expanded to 10.5 million fiber kilometer per annum. HTL also has a manufacturing unit in Hosur in the state of Tamil Nadu for FRP rods, IGFR and ARP, which are the raw materials required in manufacturing of optical fiber cable. As part of backward integration plan, we are also setting up a greenfield optical fiber manufacturing facility with a capacity of 6.4 million fiber kilometers in Telangana, which will strengthen the supply chain of the Company and also enhance its operating margins.

The Company is consistently working for increasing its portfolio of products with new technologies and is developing new products like backhaul radios, high capacity radio relay, Wi-Fi network products, cloud-based management platform and security and surveillance products. The Company is also developing various defense equipment like electronics fuses, night vision, unmanned aerial vehicles, etc. All these products being developed by the Company have high demand potential.

Company has been making concerted efforts to continue on growth trajectory, as can be seen in the performance of the Company in last few years. A lot of focused initiatives are being taken to adhere to the best of business practices with corporate governance at the core. As a part of business transformation and to achieve sustained and even higher growth, we have divided our operations into various strategic business units, which are being managed by competent professionals as independent profit centers. We have the best of talent available in our Company. We have also introduced performance-based ESOP scheme to reward the talent. We are cautious of good governance, guarding reputation, respect our capital and critical analysis before decision making.

Now, let me also take you all through the financial highlights of the Company for the fourth quarter of the financial year 2018 2019.

Our income for the quarter stood at Rs.1,137 crores as compared to Rs.954 crores in the same quarter last year, which is an increase of 19.2% on year to year basis. EBITDA for the quarter has gone up from Rs.87 crores in Q4 FY18 to Rs.108 crores this quarter and EBITDA margin has also increased to 9.46% against 9.12% in Q4 of FY18. Profit before tax for the quarter has gone up from Rs.69 crores in FY18 to Rs.84 crores in the last quarter. And profit before tax margin has also increased to 7.41% as against 7.21% in Q4 FY18. Profit after tax was reported at Rs.52 crores in Q4 of FY19 as against Rs.59 crores in FY18. PAT margin stood at 4.53% as against 6.15% in Q4 FY18. It is to be understood that PAT margin is lower than compared to Q4 FY18 due to the Company moving away from tax shelter, resulting into increased tax payout of Rs.22.7 crores during Q4 and it is not decrease in operating margins but it is the increasing tax payment which has reduced the profit after tax.

Coming to the financial performance for FY19 on a yearly basis. Our consolidated income stood at Rs.4,785 crores as compared to Rs.3,273 crores in FY18, which is an increase, a decent increase rather, of 46% on year to year basis. As far as segmental revenues are concerned, there has been a significant growth in the telecom manufacturing products, clocking a revenue of Rs.1,351 crores in FY19, compared to Rs.865 crores last year. Turnkey contracts and services contributed a revenue of Rs.3,386 crores in FY19 compared to Rs.2,382 crores last year. Absolute EBITDA grew by 49% at Rs.458 crores in FY19 compared to Rs.308 crores last year. EBITDA margin for the year improved to 9.58% in FY19 from 9.4% in FY18. Profit after tax increased by 35% to Rs.232 crores as compared to Rs.172 crores in FY18 and the PAT margin stood at 4.85% as against 5.25% in FY18. And as I said earlier, PAT margin has slightly reduced due to our Company moving away from tax shelter, which has resulted in higher tax burden. Debt equity stands at a very comfortable level of 0.41 with a total debt of Rs.590 crores to the Company. EPS grew to Rs.1.75 from Rs.1.35 in FY18.

During the year Company undertook decisions on growth and capacity expansions in optical fiber cable business, and is happy to announce that the capacity of OFC plant in Chennai has increased from 4 million fiber kilometer to 7 million fiber kilometers p.a., and is further being increased to 10.5 million fiber kilometers p.a., taking the consolidated optical fiber cable manufacturing capacity to 18.5 million fiber kilometers per year. However, in view of the temporary softening of OFC demand, the Board of Directors of the Company has decided to put on temporary hold the Company's plan of optical fiber cable manufacturing facility in Telangana. However, the backward integration plan for manufacturing of optical fiber with capacity of 6.4 million fiber kilometers is on track and will commence its commercial operations as per schedule, which is expected to improve our operating margin. The Company has been exporting fiber optic cable to a large number of countries including those in Europe and Middle East. With increase in product portfolio, we are putting higher emphasis on development of export markets.

On order book side, I am happy to say the Company has had sustained strengthening of Order book year-on-year basis. The Company's Order book stands at Rs.11,350 crores, almost 2.5x of

FY19 revenues of the Company. The Company has secured high-value order from the reputed customers like Reliance Jio, Tata Projects, Larsen and Toubro, Bharat Broadband, defense through BSNL, to name a few, and expects strong pipeline of orders ahead. It gives me immense pleasure to also announce that the Company has received its first two overseas railway projects as part of its turnkey solutions from Larson and Toubro for implementation of telecom network for the Mauritius metro train and Dhaka metro mass rapid transit system.

Towards adding new products in its portfolio, the Company has also acquired controlling stake in Raddef Private Limited, innovation based focused company specializing in radio frequency and microwave system, with a wide bouquet of components and subsystems for the application in defense, aerospace and communication sector.

With respect to corporate actions, the Board of Directors at its meeting held on 15th May 2019, has recommended a dividend of 10% on equity shares of the face value of Rs.1 each, which shall result into total payout of Rs.15.03 crores including taxes.

Looking ahead in the future, friends, the opportunity landscape continues to become bigger and brighter for an integrated telecom solution provider like us. Policy initiatives towards robust digital communication infrastructure will see huge telecom infrastructure development and extensive fiberization., With aggressive 4G and FTTH rollout, along with 5G on the anvil, networks shall become denser and deeper, thereby creating more demand of the Company's products and services. Further modernization of Railway Communication and Signaling Systems, Make in India thrust for Defense Procurement and continued investment in Smart Cities and Surveillance Projects shall amplify HFCL's growth prospects.

To conclude, we are expecting a favorable kickoff to FY 2020 with strong Order book in hand. With that, I would like to open the floor for any question. Thank you gentlemen and ladies. Thanks a lot.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Rohit Uri from Progressive Shares. Please go ahead.

Rohit Uri: Sir, I have two broad questions, which are slightly futuristic in nature. The first one is related to this recent acquisition that we had, that is related to Raddef Private Limited. So, if you can just give a little bit of a broader aspect to this. What is the cost of acquisition and what sort of value addition do you see from this acquisition that has happened recently?

Mahendra Nahata: You know, Raddef is an innovation based company which has got R&D Lab in Bangalore. We have acquired this company very recently and we have announced this just last week only. The amount of transaction towards payment for equity buyout and loan is about Rs.2.5 crores. We are going to make this company focused on R&D for our surveillance products in which, this company has a specialization. The people working in this company are specialized in radars, owing to their background in DRDO and different kind of units. So, we are going to focus them on development of surveillance production, which is a typical kind of radar, for parametric security surveillance. So we are focusing the Raddef to develop that product and some of the sensors, optical sensors. What we propose, apart from this acquisition cost, is to invest another Rs.20 crores in the Raddef in the near future to enhance its R&D capabilities in terms of CAPEX and also investment in people.

Rohit Uri: So, what sort of revenues do you anticipate coming from this Raddef, as and when it grows, what sort of scribbling that you have done on the paper?

Mahendra Nahata: Raddef by itself will not have revenues. Raddef is going to develop products for HFCL. So the products which it develops for HFCL will get revenues to HFCL. Now, how much revenue would come out from these products is very difficult to say at this moment of time, because new products have to be developed and then they have to be sold and marketed. It's too early to project revenues, but definitely as our Company's focus is on in increasing its own product range, this will definitely add into revenue and also increase the profitability of the company in future.

Rohit Uri: So you mentioned that Raddef is already in association with DRDO so they must be having some sort of a background…

Mahendra Nahata: No, I didn't say that they were in association with DRDO.I said people working in Raddef were associated with DRDO or some other kind of a R&D organization. Raddef by itself was not in association with DRDO.

Rohit Uri: Okay. So these additional investments would be for R&D, which will help Raddef grow along with you?

Mahendra Nahata: Yes, absolutely. Raddef will grow. As Raddef would develop more products, it will grow. Same time it will develop products for HFCL and it will add into the kitty of HFCL's product range, which would have potential of increasing HFCL's revenue and profitability, both.

Rohit Uri: Okay. So the second question. In your opening remarks you mentioned that you have got the first overseas order which is from L&T, and that is for Mauritius Metro Express as well as Dhaka Metro Mass Rapid Transport, so what sort of revenues do you think,you will be able to get from these two projects?

Mahendra Nahata: Well, these two projects are expected to give us a revenue of somewhere around Rs.150 crores.

Rohit Uri: Okay. And do you see that the margins would be in the range of around 8% or so, 7% to 8%, is it fine, if we can work with that?

Mahendra Nahata: Though I am not free to speak on the customer specific margin, but margin would be in reasonable range, not less than what we have said.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financials. Please go ahead.

Ravi Mehta: Sir, my question is more on the OFC greenfield capacity that we are putting on hold because of the demand environment. So, I just wanted your thoughts on the current demand environment and the pricing situations in fiber and fiber cable. Is it so bad that it is making you go slow on your CAPEX plans? Just some thoughts on this.

Mahendra Nahata: Look, first come to demand. You have to equate with the global demand. Globally the demand, particularly demand from China has gone down, as a result, the capacity on an overall basis has gone up. So, since capacity on overall basis has gone up, there is a pressure on Indian markets too, in terms of supply position improving from various other vendors. Number one. Number two, in India there is a temporary hold in BharatNet phase 2. Some of the projects that were being announced and were expected to be awarded could not happen because of the election code of conduct coming into effect. And now it will take some time for those projects to come back and decisions be taken on them. So there is an increase in overall supply position because of Chinese demand going down. And also at the same point of time, Indian demand is reducing because of BharatNet not progressing as it was expected. There is a temporary hold on demand, I would say, temporary reduction in demand which will last for some time.

So what we thought that our present expanded capacity, mind you, we have already expanded our capacity and we are in process of expanding it further in Chennai in our subsidiary from 7 million kilometers p.a. to 10.5 million kilometers p.a. at this point of time. So not that we are not expanding our capacity, but at the same point of time, understanding the shrinked demand level for the time being, we have put this on a temporary hold. And once we find the demand is getting better, we will reactivate it. So, civil construction would be complete and it would only be the installation of machinery and plant which will reactivate this capacity. So, we thought, why to invest in CAPEX ahead of time, let us wait till the time the things stabilize and we will make the investment decision at that point of time. That's number one.

Number two, coming to the price. There has been a dramatic fall in price of fiber that again comes from what I explained you about Chinese demand. Since China was consuming 50%, mind you, 50% of the world production of fiber. Out of 600 million kilometers they were consuming 300 million kilometer of fiber. Now that has gone down to roughly about 220 million kilometers to 230 million kilometers. So there is an excess supply of 60 million kilometers to 70 million kilometers in China. As a result of that, overall fiber prices in the world market has gone down. In fact, earlier increase in the prices was also because of the dramatic increase in Chinese demand. With a temporary reduction in the demand in China, prices have gone down, to the extent that fiber which reached on spot to more than $10 a fiber kilometer and on a contract basis \$7 to \$8 a fiber kilometer has now come down to approximately \$4.5 per kilometers which is a reduction of almost 50% and that is available freely at those kind of prices. But it does not impact us, rather it impacts us on a positive sense on a temporary basis not on a long-term basis because we have some orders and we have fiber at a lower price, which is our raw material and it is available at a cheaper price to us. But that is a short-term gain, because cable price also go down in consonance with the decreases in the fiber prices and it happens vice-versa also. Whenever fiber prices go up, cable prices also go up. So this up and down of the price of fiber does not impact much to us as a Company.

But as a whole, if you ask my opinion on the fiber price, I think we are almost at the bottom. We are at the bottom I would say. And once this 5G deployment starts worldwide, which will happen in China also, fiber demand will go up again. I was looking at some estimates yesterday by an international company and which is the largest fiber optic cable and fiber manufacturer in the world, their current projection is that current demand of 600 million Fiber kilometers would go to 900 million fiber kilometer by 2022. So there is a temporary lull leading to reduction in price. But eventually it is going to get better. Does that answer your question?

Ravi Mehta: Sir, this fiber price you said we are at the bottom at \$4.5 or \$5, but if we are sourcing on a contract basis it won't be so low. So can you share some light, if we are contracting it must be higher price?

Mahendra Nahata: No, no, no. What happens, contracts are done on the basis of a yearly quantity requirement. But prices are always on a three month basis. We look back at the price and renegotiate prices on the market situation because the market is so volatile in last two, three years. Earlier it was volatile on the increase side, so suppliers will not do a long-term pricing contract, though they will commit a volume subject to price agreement. Now on the reverse side, when the prices are going down, we will not commit more than a quarter. So it doesn't really impact us.

Ravi Mehta: And if \$10 price on fiber going down to \$5, what could it be on the cable side, if you can share some color on that?

Mahendra Nahata: In fact, I didn’t say \$5, I said \$4.5. Okay. So it's a \$4.5 or so. In the cable price also, there is a consistent reduction, you know, Fiber is not the only raw material on the cable, there are other materials also. But cable price, I would say, have gone down by roughly about 30%. And again, it differs in the different kinds of cables. But roughly on an average you can say roughly about 30%.

Ravi Mehta: Okay. So even the annual contracts happen at these current at depressed prices, for the cable also?

Mahendra Nahata: Again, cables are not annual contracts, they are also almost on a quarterly basis.

Moderator: Thank you. The next question is from the line of Jimit Shah from IndSec Securities. Please go ahead.

Jimin Shah: Sir, just one question, basically, on the margins going ahead. We have seen good growth in the top-line in the last couple of years and on the quarterly basis as well. Are the margins going ahead in the same region as current or do we see any expansion or contraction as new orders come in or as we track new areas?

Mahendra Nahata: Mr. Shah, of course, I am not going to give you any forward looking statement. But of course our Company's focus has been to improve margins. We have increased the revenue quite significantly, 46% last year, before last year also there was a significant increase in revenue. Our focus is now to drive increase in the margins. And with that focus we will be working and the kind of orders we have, that could determine our margins. But yes, we expect increase.

Jimin Shah: Actually your last sentence was downed out, I couldn't hear your last sentence.

Mahendra Nahata: I was saying that with the marginal costing, increased revenue resulting in saving of expenses, our own products contributing bit more to our revenues, we expect margins to be better.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Alpha Life Wealth Advisors. Please go ahead.

Sanjay Shah: I have few questions, one was regarding, what is our contribution from Reliance Jio in our current turnover? And how it will pan out in years ahead?

Moderator: Ladies and gentlemen, the line for the management is disconnected. Please hold while we reconnect them. Ladies and gentlemen, thank you for being on hold. The line for the management is reconnected. Thank you and over to you, sir.

Sanjay Shah: Sir my question was regarding what is our contribution from Reliance Jio in the current year turnover and how it will pan out in next few years to come?

Mahendra Nahata: In the current year, the year under discussion, it was 50%. Going forward, we believe that it will be about 20%. So 80% revenue will be non-Jio, 20% would be Jio.

Sanjay Shah: Okay, that is in next two years' time?

Mahendra Nahata: We believe it would be in the current financial FY2019-20.

Sanjay Shah: And sir, what is our O&M business? How do you see it from current year. We will have a good revenue from O&M vertical?

Mahendra Nahata: Yes, Mr. Shah. Good thing is that all major contracts we have are for the Defense or BharatNet. They are turnkey contracts with an O&M period of five years to seven years, different in different cases. All of them come with a reasonable O&M percentage for the future, which gives a comfort to the Company and builds a sustained revenue stream as an annuity for next few years. O&M is a service oriented contract, so that profitability in O&M would generally be better than the profitability in the contract which you execute on a sales basis. We have currently O&M order book of about Rs.1,650 crores and O&M revenue has started kicking in. The current year O&M revenue was Rs.51 crores which is going to increase only going forward.

Sanjay Shah: Okay, that's great. And sir, our focus in our new vertical, that is defense related, we have been trying in many different products like surveillance and all. So what is the progress in that? And how do you see technology coming in, because we being a different player we have tied up with anybody for technology?

Mahendra Nahata: Well, good question. Let me first tell you, whatever defense products we are trying, they are in electronics field only. We don't want to digress from what we are doing. We are not going to manufacture guns and bullets and whatever. So, what we are doing is in electronics field. One is defense communication, which is a part of communication product portfolio. And we have a huge order book for defense communication which is about almost Rs.5,000 crores to Rs.6,000 crores

Second part of it is electronic works in defense. So, defense communication is already going and projects are getting executed. At present there are three projects for defense which are under execution. Now, other defense products which are under development include products like night vision devices, optoelectronic, where electronics will be done by ourselves and optical part will be sourced from outside. We have a tie-up for that with Safran Technologies of France, which is a very large company, about $18 billion Company. We have some tie-up with them for some products. Some products we are trying to develop ourselves in partnership with some other partners in India. These are still under development and those have not still come up. As and when they come up, we will start working on sales and marketing of those products of night vision devices, which is opto-electronics.

Then at the same time, we are working on electronic fuses. Again, it has two major components, electronics and metal. Same way, electronics will be manufactured by us, metal parts we will be sourced from outside. This is under development by our own R&D and partnership R&D with an international company, which has an experience on these kind of fuse development. So it's going to be our product. When we complete the development, it is going to be our own product with our own IP, which we would be selling in India or internationally also. Currently there is a huge RFP that has come, running in thousands of crores where we have also participated. Of course, trials would happen and orders would be placed only after successful trial completion. But we are already underway to develop those products.

So like these, there are a couple of more products which are under development. Once they mature, we will be able to sell and market that. We have not taken any revenue in our internal projections in the current year for these products because they are under development. But once they get developed we expect a good market out of them, because there is a projected demand of Rs.45,000 crores for optoelectronics only in army's five year plan, optoelectronics, the night vision devices and all that. This is just to give you one number, for one particular product we are developing. Similarly there is a huge demand for fuses also. there is a demand for other products also which we are developing. So, there is a reasonable demand and since these are development projects, we have not taken any revenue from them in the current year. But going forward, we believe there would be significant revenues for the Company.

Sanjay Shah: Sir, development stage means do we still have to require approval or we have received approval from defense or companies?

Mahendra Nahata: No, these are development, these are not approval stage. Development means they are being developed. Once we complete the development, they will go for trials or approvals, as the case may be. If it is a RFP we have participated or a tender we have participated, then it will go for trials. If it is a development without an RFP, then we have to give it to the army authorities for trial and testing and approve, so we can participate in the future tenders.

Moderator: Thank you. Our next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Sir, the first question is, you gave O&M revenues of Rs.1,650 crores, what is the weighted average duration of these contracts?

Mahendra Nahata: This is typically five years. After completion of warranty period it is five to seven years. Sometimes warranty period is one year, sometimes two years but after warranty, it is five to seven years.

Giriraj Daga: Okay. And secondly, can you give the breakup of the order book in terms of product EPC also? O&M you have given, what is the product order book and EPC order book?

Mahendra Nahata: Order book right now is standing at about Rs.11,358 crores. I can give you the order breakup. Defense is about 55%; OFC is about 10%, but mind you, this 10% as I replied to one of the earlier question, these are all the short-term orders. In fact, they keep on being received, these are running orders. So with 10%, you should not confuse that it is only going to be turnover for future. These are some orders for some particular quantity supply, as you complete that quantity, more orders come in. So these are running orders. The current value of those orders is about 10% of Rs.11,358 crores. So fiber optic cable would be about Rs.1,135 crores. From Jio it is about 20%, BharatNet would be about 10% and then miscellaneous order book would be about 5%. This is the current order book breakup.

Giriraj Daga: Just to understand it better, when you say Jio, BharatNet or defense, these are only pure play EPC, right, there is not inbuilt cable revenue also?

Mahendra Nahata: Yes, these are EPC contracts, you are absolutely right.

Giriraj Daga: So there is no inbuilt product?

Mahendra Nahata: No. There will be inbuilt product in BharatNet for example. For example in Jio, there would be inbuilt product, if I am doing fiber optic cable for Jio. In such Turnkey contracts if we supply our own products then such products supply is considered into Product Segment. If we use outsourced products in such contracts, then that is considered into Turnkey segment.

Giriraj Daga: Okay. And from next year onwards we will start getting the O&M segment revenue separately?

Mahendra Nahata: We have still not thought of that, but yes we can look at that.

Giriraj Daga: And this is part of what, turnkey or product?

Mahendra Nahata: It is part of turnkey.

Giriraj Daga: And normally cable in turnkey ratio is 1:3, 1:4? Like out of Rs.10, Rs.3 or Rs.4…

Mahendra Nahata: Yes, I would say something like that, 20:80, yes.

Giriraj Daga: Okay. So my next question is on the capacity. What was the total volume last year FY19 in terms of OFC?

Mahendra Nahata: In terms of amount, we had standalone about Rs.900 crores of sales in fiber optic cable and it was little more than Rs.1,300 crores on consolidated basis.

Giriraj Daga: No, I know, that number is available in the segment number. I am looking at the volume number, million kilometers.

Mahendra Nahata: Million kilometers, currently I don't have with me right now. I can definitely let you know. Just send me an email, I will let you know.

Giriraj Daga: The idea is that, out of 18.5 million kilometers what was the utilization last year?

Mahendra Nahata: 18.5 million is the current capacity which is going to happen now. Just last year Goa capacity was about 8 million kilometers p.a., and then the Chennai was about partial year 4 million kilometers and then it got expanded by 3.5 million kilometers, so about 7.5 million kilometers. So all put together, if you want to ask me about the utilization of capacity, it was 100% utilized.

Giriraj Daga: Utilization was 100% last year?

Mahendra Nahata: 100%, absolutely. But again, you should not get confused. When you have capacity of fiber optic cable manufacturing, you can give in cable kilometer or fiber kilometers, but cable kilometer would be a misnomer because you have a 48 fiber cable, 96 fiber cable, 288 fiber cable. Different things take different time to manufacture. But at the same point of time if I have given fiber kilometer, then it also could be a misnomer, because production of lower count fiber kilometer takes more time in the machine in terms of revenue than the higher count of fiber. So, it's not very easy to calculate kind of a capacity in fiber optic cable manufacturing. You can only say average, thinking of a particular kind of a product you reasonably think that should be the product mix. And on that basis, my capacity utilization was absolutely 100%.

Giriraj Daga: Last question from my side, when you look at order inflow, like influence number normally we get the end of the year order book number. So, if I calculate the order inflow based on the increase in order book in the revenue, last year FY18 it was about Rs.7,800 crores, last year it was about Rs.7,000 crores. Can we expect this type of number, like the order pipeline to be that good, Rs.7,000 crores, Rs.8,000 crores of inflow can continue for next one to two years?

Mahendra Nahata: Order pipeline is good. I cannot predict what number of orders we will receive but order pipeline is good. If you look at the overall market situation in the country, let me dwell little bit on that. BharatNet phase 2, large portion of that is yet to come; FTTH rollout, fiber-to-home rollout has just started in the country and those are expected to happen in a big way. expansion of 4G network is going to keep on happening and every service provider is expanding its 4G network. More and more towers are to be fiberized, optical fiber cable is going to become denser and deeper, defense products are going to be bought. Then, most importantly, railways is also going to expand its, or improve rather and significantly modernize its signaling system which would be a combination of signaling and telecomm, because modern telecom railway signaling system are based on wireless; wireless, which is a part of LTE kind of a technology and railway has already announced a Rs.85,000 crores plan for that.

So all put together, if you take a five year segment, I believe there is a demand of not less than US$100 billion dollars or Rs.7 lakh crores to Rs.10 lakh crores , the total demand of the industry. Out of that, 30% if you can say, is an addressable market by us. So that gives you total market size. And on the top of that market size, what percentage I can get, that of course depends upon the competitiveness and on the Company. But going by our past track record, the way we have been winning our contracts, I am pretty hopeful for a very positive outcome of the order book in the next couple of years.

Giriraj Daga: So, just a follow-up there. Your right now market share is about 15%, 16%, on overall India basis?

Mahendra Nahata: No, that depends on different products. It's not 15% or 16% on an overall basis. If you look at fiber optic cable it could be different, in case of defence communication it could be completely different. You cannot generalize that because different product segments usually have different share.

Moderator: Thank you. The next question is from the line of Rishubh Vasa from Almondz Global Securities. Please go ahead.

Rishubh Vasa: You just mentioned about the pricing scenario, the prices of the fiber went down to $4 and currently at around $4.5. So, what was our contracted price currently?

Mahendra Nahata: No, as I said. There are no long-term contracts in terms of pricing. Prices do vary time to time. People contract on the basis of quantity you need on the yearly basis. The prices are already, always negotiable, they are negotiated on a quarterly basis. If this quarter has a steep fall, we will renegotiate the prices, if its steep increase, prices will be discussed again. So, there is no fixed price on long-term basis. In fact, we had a discussion with one of our key suppliers yesterday itself, we had discussion three months back also. Three months back, they reduced price, now again, they are going to reduce their price because the market has gone down. Similarly, when the market was increasing last couple of years, it was happening in reverse manner. So there are no long-term contracts at which you are buying the fiber on a higher price or a lower price.

Rishubh Vasa: So sir, what will be the average contracted price for this quarter itself?

Mahendra Nahata: Average contracted price for this quarter would be, again, it would be misnomer to say that, but it would be something like maybe $5 - $5.5. That's a misnomer because that is contacted price but when you get at a cheaper price, you source on spot and your quarterly price goes down significantly. So, it depends on how much you have sourced from the long-term supplier on fixed price and how much we are sourcing from spot, so all depends upon that situation. But yes, it is within the range of the current prices what we are having now.

Rishubh Vasa: Okay. And my next question is on this expansion which we have put on hold. There I think we have already said that majority of the CAPEX was already over there, so this year our CAPEX plan was around Rs.20 crores only. So means that CAPEX will be wastage ?

Mahendra Nahata: No, let me explain now. There are two things happening in Hyderabad, one is fiber and other is cable. Fiber is going ahead as I said, which is expected to increase our supply chain position. And also at the same point of time, it is going to improve our operating margins also, because it's our own backward integration. So optical fiber expansion is not on hold, that is happening. CAPEX on the same has been done and about Rs.110 crores has been incurred in the previous year. And about Rs.150 crores is going to be incurred in the current year. That is happening, no issue. What we have put on hold is the fiber optic cable. Now, not much of CAPEX has been incurred on that, about Rs.6 crores has been incurred on that. Now we will incur another Rs.14 crores on that. Hold doesn't mean that we are not going to complete the civil construction which was already in progress, we will complete that. So that whenever there is a renewed demand of cable, we shall be able to install plant and machinery quickly and start manufacturing. If you say in the worst sense, the most pessimistic way, there shall be Rs.20 crores of CAPEX which would be lying on hold.

Rishubh Vasa: And sir this CAPEX for fiber, will it be ready by June?

Mahendra Nahata: No, it would be by November.

Moderator: Thank you. The next question is from the line of Hardik Vyas from Economic Times. Please go ahead.

Hardik Vyas: I have a couple of questions. The first one is, do we have a breakup of the advanced purchase orders in the POs that we have got?

Mahendra Nahata: Say that again please.

Hardik Vyas: Do we have a breakup of the orders, the Rs.11,000-odd crores we have, do we have a breakup of APOs and the POs?

Mahendra Nahata: Roughly it would be 70:30, roughly. I don't have the exact number right now but roughly it would be 70:30.

Hardik Vyas: And all the 30% of the POs would be in execution mode currently?

Mahendra Nahata: PO is70, you are wrong, 70 is PO and not APO.

Hardik Vyas: So all those 70% of the POs would be in execution in the company year?

Mahendra Nahata: Yes, absolutely.

Hardik Vyas: Okay. And do we have a product and services breakup as well? As in, I might have missed that if you have explained already, out of the Rs.11,000 crores worth of orders, product orders and services orders?

Mahendra Nahata: Again the issue is a little bit complicated out here because the turnkey orders which we typically have taken as services order have a component of products also in that. We have to kind of segregate them and then come up for product and services ratio. When you take turnkey, not only services, but it also includes some of the bought out products. So, when we talk about products, we need to be clear about are we talking about own manufactured products or are we talking about products and services. So, if you are talking products and services on an overall basis, it could be somewhere around I think 70:30 or 80:20, something like that, depends on contract to contract. But somewhere between 70:30 to 80:20.

Hardik Vyas: Okay. Sir, the other question was on the pricing front. The fiber prices have corrected but with that the pre-form prices have also corrected or they are where they were earlier?

Mahendra Nahata: They were also going down you know. When we started discussing about the pre-form for the current fiber manufacturing facility which we are doing, it was about $145 and it was not available. Today we have an offer for less than $100.

Hardik Vyas: Okay. So, pre-form prices also have corrected, so the viability of our CAPEX is going to be intact, that is not going to be compromised?

Mahendra Nahata: No, it is intact. It is all three segments if you look at it, cable intact because the fiber prices have gone down as cable prices have also gone down. Similarly, fiber prices have gone down but pre-form prices have also gone down. Because when you talk about the capacity, capacity increase was there in all three segments, cable, fiber and pre-form. So each of them go down with another one going down.

Hardik Vyas: Sir, one more follow-up question I had in the POs that we have currently, what is our execution timeline, is it about the next 12 months, 18 months?

Mahendra Nahata: Different POs have different timelines, but this is typically six months to 18 months.

Hardik Vyas: Okay. And the Company that we have taken over recently in Bangalore, the production whenever it starts, will it start from Solan? How is the Solan manufacturing facility going to pan out the plan?

Mahendra Nahata: It will mostly start in Solan only. And I think before new products are developed and manufacturing starts, it would be about a year. Solan facility is not in 100% capacity utilization mode at this point of time. So, we don't have to invest in new capacity. But let me give you one more input here. One of the product which we have developed right now and which we are probably going to announce in June, which is entire Wi-Fi system with not only access point but the entire backend. So, entire Wi-Fi system we have kind of developed ourselves. First of any company which has done that in India, we have done that, and we will announce that in June. Wi-Fi access points are required in thousands & thousands or maybe lakhs. Our Solan manufacturing facility is for batch manufacturing, the micro radios, and optical transport equipment. But access points, which are a serial production kind of a thing and which are required in thousands and thousands, Solan facility is not meant for that. So we are going to get it manufactured on a contract basis. We are the first company to develop an entire range of Wi-Fi system in India.

And important point out here is, all the purchases being made by government or by government-funded projects (one of the projects was announced by USOF which has still not taken shape for Wi-Fi system in the villages) are all on PMA basis i.e. preferential market access, where the local indigenous leaders who have got more than a particular percentage of value addition in that production, and which can only happen if it is designed in India, we get a 20% price preference. So that would be a strong market for us and a strong point for us.

Hardik Vyas: Okay. So that will be published on the exchanges as well, as and when you happen to develop that product?

Mahendra Nahata: We have already developed. It is going under final test and trial phase. So, as and when we come out, it will definitely be announced.

Moderator: Thank you. The next question is from the line of Alok Deora from YES Securities. Please go ahead.

Alok Deora: Just one question I had. How much would be our exposure to China market, if any? And the price which we see has corrected, is primarily because this China tender which had come up where we saw prices coming down significantly. But have we seen the spillover to other markets where prices are connected to those levels at nearly $4 to $5 in the European markets and other geographies?

Mahendra Nahata: Alok, we don't have any exposure to China market, we don't export anything there. Sometimes we buy fiber from China market, which is to our advantage, if the price go down. It is to our advantage; number one. Number two, yes, there is a ripple effect of what happens in China in the fiber optic cable. To one of the question I said that 50% of fiber demand was in China.600 million kilometers was total demand of the world and 300 million kilometers was in China. So once Chinese demand goes down by let's say 25% to 30%, the capacity installed in China is going to be less utilized. So those guys are going to sell in the world market or even in the Chinese market at a lower price. So the price of $7.5-$8, within China, has gone down to $4.5 dollars or so. Now, once you have gone down in country like China where there was such a massive requirement and demand is less, it has gone down in other parts of the world also. It has gone down in India also, as I said, fiber prices have gone down, cable prices have gone down and on the top side, pre-form prices have also gone down. But it doesn't impact our margins because there is a consequent reduction or increase in the other segment.

Alok Deora: Right. And sir one more thing, I mean, we are looking at a significant demand coming in from the European markets. So, in India, the India market would be close to 25 million kilometers.

Mahendra Nahata: No, more than that. Indian market was last year 50 million kilometers.

Alok Deora: Slightly more than that. So I just wanted to understand, are we also looking to sort of export to Europe or other markets just to gain certain more addressable market?

Mahendra Nahata: Alok, good question. In fact, we have been exporting to a number of countries, total number of countries we have exported fiber optic cable is more than 40. Last year or before last year we could not export much, because of our own Indian requirement. We didn't have the capacity to supply, though we had orders. So as a result, export was low. Right now once the Indian demand has little bit become stagnant for the time being, we have already started putting focus on export market. We have in fact started recruiting more people in different countries, representative offices, and there is a huge focus on export of our products, not only fiber optic cable but also new products like Wi-Fi and all that which are going to come up. Wi-Fi, high capacity radio relay, that is another product which is under development in our Company. Those are all having export potential and we are definitely going to export that. Not only fiber optic cable but also the other products, Wi-Fi and all that, we would be exporting. So there is a huge focus now by us on the export side of it.

Alok Deora: Okay. Just one last question, if I may. So, just wanted to get your sense, according to you what lead to the significant change in the demand supply dynamics in China? Because we were looking at this 5G rollout, because the data consumption increasing multifold so there was always a scenario of around 12% to 14% sort of a volume growth at a global level. So what has actually led to the significant change in dynamics? And how do we see the demand environment panning out from here?

Mahendra Nahata: I think one of the operators in China, China Mobile reduced its own demand, 200 million kilometers to 110 million kilometers or 120 million kilometers of fiber. Now, possibly that demand decrease is one and the 5G rollout has not yet started. So this is expected to go up again once FTTH rollout picks and the 5G rollout starts. So in fact, worldwide demand would pick up as and when more 5G rollout takes place, and in number of countries FTTH rollouts start happening. As I said earlier, that prediction by a number of large leading manufacturers of cable and fiber, current demand of 600 million fiber kilometer is to go up by 2022 to 900 million fiber kilometer, it is certainly going to pick up. As you know, 5G would have number of base stations, huge throughput, more data, all of them would need to be connected through fiber in most of the cases. So fiber demand is going to go up, it's only a question of time.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: Just one question was on the reporting structure. When we report turnkey and telecom, so that turnkey will include the cable or the product going into the project or it goes into the product segment, how you report it?

Mahendra Nahata: No. Reporting of product is always separate, once we have manufactured a product and sold it as a product , that has to be reported separately, does not go into Turkey.

Ravi Mehta: And if your own OFC is going into Turnkey, like you mentioned Jio or BharatNet.

Mahendra Nahata: When I mentioned order I was right, but when I say reporting in revenue, product is separate and turnkey is separate. If it is a bought out product which you bought from somebody else, then it is reported a part of turnkey.

Ravi Mehta: Okay. So telecom product segment is largely the OFC what we manufacturer and sell?

Mahendra Nahata: Absolutely, you are right. Absolutely right.

Ravi Mehta: Okay. So there I see the margin this year has actually moved up significantly .Is it because of the low fiber price benefit that you got or is this a sustainable margin?

Mahendra Nahata: Did you say that margin has gone up?

Ravi Mehta: Margin has gone up in the telecom product segment, like it was close to 10% which has gone up to 12.5% in this year. So is it because of some low fiber price benefit you got or these are the sustainable margins?

Mahendra Nahata: Well, if you look at our margin in this segment, it has gone up from 9.62% to 12.47%. That's what you are talking about, right?

Ravi Mehta: Yes

Mahendra Nahata: So look, this all depends on year-to-year basis, the kind of contracts you have, kind of pricing you have, some small variations will always continue. But as I said, in the product segment we are now focusing on development of our own products. As a result of that, we believe that the margins would be getting better only. But fiber optic cable little bit up and down would always continue.

Ravi Mehta: Okay. But it will be in that range of what we saw in 2018 and 2019?

Mahendra Nahata: More or less, yes, I agree with you.

Ravi Mehta: And on the turnkey service segment when I look, the margins have improved on last few quarters and it is touching 9% now. Is it because of more products coming into your turnkey orders?

Mahendra Nahata: So, look, if you look at the margin of turnkey it has gone down from 8.33% to 7.45%, it has not really gone up on a year-to-year basis. Now year-to-year basis has small variations, which will continue. Sometimes it is couple of percentage up, sometimes is 1% down, but it is expected that it will continue in this range. Sometimes it may get better because once you have O&M revenue kicking in, that would be better only. So with O&M kicking in it may possibility be getting better only.

Ravi Mehta: And when can that happen, because O&M kicks in after one or two years of execution I believe.

Mahendra Nahata: It has started already, last year there was a Rs.51 crores of O&M. It is going to improve, every year. The O&M is going to increase.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: The first question is, what kind of revenue are we looking for this year in terms of the execution, having a very strong order book?

Mahendra Nahata: I cannot give a forward-looking statement in terms of amount of revenue, but you can look at the order book of Rs.11,000 crores plus and you can look at contracts which are to be executed within a tenure of six to 18 months. You can yourself think that in what range the revenues are going to be.

Saket Kapoor: And sir, what do PO and APO stand for, I missed that terminology.

Mahendra Nahata: Purchase order, APO is advanced purchase order which is converted into PO once you submit bank guarantee.

Saket Kapoor: Okay. Sir, what were the average fiber cable prices say for last year for FY19?

Mahendra Nahata: No, you cannot say that, because fiber cables are of different kind. There are tens of types of fiber cables, so there is no average price of fiber cable as such. 288 fiber cable would be a different price and 12 fiber cable would be a different price. It may range from Rs.12,000 to Rs.250,000 per kilometer. So you cannot have a fiber optic cable price as such.

Saket Kapoor: And for the fiber if you could give what were the average prices for the last year in the international market just to gauge an idea how the price changes have taken place?

Mahendra Nahata: From $7 a kilometer to $4.5 a kilometer now.

Saket Kapoor: Sir, if I come to your P&L part, we find that the finance cost has gone up, is it because of the revenue mix or…?

Mahendra Nahata: No., finance cost has gone up !!!

Saket Kapoor: Gone down sir, sorry. Why has the finance cost gone down from Rs.27 crores to Rs.18 crores, and the employee cost have gone up?

V. R. Jain: During the December quarter, there were certain facility charges for some of the facilities we have a availed from banking system. Project specific facility in December 2018.So they are the one-time facility charges.

Mahendra Nahata: So that's why they were higher in Q3-FY18 and this was one-time charges which was not there in the current quarter.

Saket Kapoor: Now, for an annualized basis, what kind of finance costs are we looking for in terms of the percentage, in terms of revenue?

Mahendra Nahata: If you look at the P&L of the last financial year 2019, it was Rs.77.94 crores and it is expected to remain in this range only.

Saket Kapoor: You mean to say the absolute number or the percentage number?

Mahendra Nahata: I am talking about this in absolute number.

Saket Kapoor: If you have more orders coming in which we do not know right now, if there are more orders coming in and more working capital required to be arranged it may go up, but it will be in terms of revenue it can go up in percentage.

V. R. Jain: See, our debt equity is only 0.41.

Mahendra Nahata: So there is a lot of leveraging potential in the Company. But, again, as I said, with the more orders coming which are to executed in a quicker timeframe, more working capital is required. Yes, it may go up. But otherwise, current level it is going to remain the same.

Saket Kapoor: Sir, for the order book break up you told that out of the Rs.11,000 crores 50% is towards the defense part?

Mahendra Nahata: 55%

Saket Kapoor: And that includes both the turnkey contracts and the telecom products mix altogether?

Mahendra Nahata: Yes, its mix.

Saket Kapoor: And if we have granular details of that 55%, how much will be distributed towards…

Mahendra Nahata: I cannot, these are defense contracts. I cannot go in that much detail Mr. Kapoor. You would appreciate.

Saket Kapoor: Okay. But it will be totally on the cable part only I think?

Mahendra Nahata: No. But I cannot go in more detail on the defense contracts.

Saket Kapoor: Okay. Because it is a new avenue for us also, I think, how much have been the turnover for the Company sir?

Mahendra Nahata: It is a communication project and we have been in communication. Only that instead of civil communication , it is defense communication.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Sir, a few follow-ups. First of all, what is the global fiber capacity? You said demand is 600 million kilometers?

Mahendra Nahata: Demand was 600 million kilometers year, and that was kind of a capacity also. More or less the capacity and the demand was equal. Normally capacity should be 20% additional so that always you don't see 100% usage of capacity in the machines, normally you would take 85%, 90%. So it was kind of a 10%, 20% lower than the demand that's why you could see the hike in the prices. And capacity was getting increased. So that was the question?

Giriraj Daga: Yes, the question was that this 900 million kilometers also, what is the capacity increase planned by already existing players?

Mahendra Nahata: Right now, if you ask me, capacity was getting increased to 600 million kilometers to 700 million kilometers or so. But right now people have stopped expanding because there is a temporary slowdown, demand has gone down. But once this demand picks up, this capacity expansion will again happen, it does not take much time. To expand fiber capacity is a one year's job.

Giriraj Daga: Okay. Understood. Next sir, when I look at margin and cable, particular product level, the margins have actually gone down in 4Q and that is the time only when we first started seeing the pricing correction.

Mahendra Nahata: There is a reason of having that. Being on the conservative side, we had made certain provisions which was amounting to about Rs.26 crores approx. during FY19. You are talking about OFC alone, right?

Giriraj Daga: Sir, the product margin basically. Segment margin of telecom products - Rs.270 current revenue and Rs.23 crores.

Mahendra Nahata: In fact, we had made some provisions which amounted to about Rs.10 crores in OFC segment, which could be on account of some liquidated damages or sometime on account of different things and all that. There has been a Rs.10 crores of provision on the conservative side, that's why you can see a bit decrease in the profit margin,

Giriraj Daga: In 4Q only?

Mahendra Nahata: Yes, 4Q only. This is not going to be kind of repeated in next quarter. This is a year-end provision.

Giriraj Daga: Okay. Next, you mentioned CAPEX of like Rs.110 crores you spent this year FY19, right?

Mahendra Nahata: Yes, you are right.

Giriraj Daga: And Rs.150 crores would be spent in FY20?

Mahendra Nahata: Yes, on the fiber, and which will be funded through Rs.110 crores of term loan and Rs.40 crores of internal accruals. And out of Rs.110 crores we did last year, Rs.30 crores was funded through term loan and Rs.80 crores was through internal accruals.

Giriraj Daga: Okay. What is the other CAPEX?

Mahendra Nahata: Apart from this, there would be additional other CAPEX of Rs.40 crores.

Giriraj Daga: Okay, last question sir. In terms of interest cost if I look at, total we mentioned Rs.590 crores of loan, last year it was lower. But still we had a Rs.90 crores of interest out go on a consol basis.

V. R. Jain: No, it includes lot of things, it is not only the interest.

Giriraj Daga: So if you can give the breakup, like out of that Rs.92 crores what was interest cost and what was the other charges?

V. R. Jain: That breakup we can provide you separately offline.

Mahendra Nahata: We will provide it offline because it is finance charges, which includes LC opening charges, bank guarantee charges. You know, in all business you have to provide a huge amount of bank guarantee, there is earnest money deposits or performance guarantees which are for three years. Since we have a three year guarantee, there is a huge amount of bank guarantee commission we have to give. That is mandatory from the customer. So it includes finance charges, which is the interest as well as the LC opening charges, and all those things.

Giriraj Daga: Just wanted to know what is the cost of debt?

Mahendra Nahata: Roughly it is 10.75% to 11% average interest cost.

Moderator: Thank you. The next question is from the line Rishubh Vasa from Almondz Global Securities. Please go ahead.

Rishubh Vasa: Sir, we have mentioned that these fiber prices have almost bottomed to around $4. What gives us the confidence that it may not go down further to say $3, $2.5?

Mahendra Nahata: From that perspective, theoretically, it can go down. But if you look at the world market and see what is happening, and what is the kind of demand coming at our level of $4.5 dollars or so, we don't expect it to go down further. But 10 cents or 20 cents correction may still be there, but it's not going to be in dollar terms right now because that would be too much to expect.

Rishubh Vasa: Okay. And for this acquisition, what was the amount we have spent, Rs.2.5 crores?

Mahendra Nahata: Yes.

Rishubh Vasa: Including debt?

Mahendra Nahata: Including repayment of loans taken by the company, and also the capital.

Rishubh Vasa: And we are investing another Rs.20 crores for the R&D facilities?

Mahendra Nahata: In the capital of that company.

Moderator: Thank you. The next question is from the line of Hardik Vyas from Economic Times. Please go ahead.

Hardik Vyas: Sir. My follow-up question is, how are we facing the debtors staying up? Are we having any issues with the government, BSNL orders that we have, payment issues, are we facing anything like that?

Mahendra Nahata: Yes, debtors have increased in terms of increase in revenue only. As a percentage, you would see that they have not increased beyond the increase in revenue. Now coming to - are we facing any problems? My answer is, no. In general, no. Our major customer was Reliance Jio last year as you saw 50:50 revenue, you don't have any problem in Jio. Payments come in time. And then in terms of BSNL there are two kinds of orders we have, one is defense which comes through but payment is not from BSNL, payment comes from DoT, because these are the contracts which have been awarded against network spectrum project where funding is done by DoT out of. the spectrum money they receive out of the spectrum vacated by defense services. So there is no dearth of money there. Money comes from DoT and it is available in time without any delay than what has been projected in our cash flows. It is coming on time.

There are some delays in terms of orders by BSNL for itself. But in recent past, we have not participated in any such order. We have not taken any such order in recent past and we are not planning to take any such orders in future also, unless the cash flow position of BSNL itself improves. So currently there is a backlog of about Rs.70 crores in that segment.

Hardik Vyas: Okay. So Rs.70 crores, that's all?

Mahendra Nahata: That's all, that is the only backlog we have.

Hardik Vyas: Okay. Sir, second question and the last one from my side is, what is the size of tenders that we have bid for the next year?

Mahendra Nahata: There are different tenders. Total if I put together, they may be, I don't have a number right now, but they may be a few thousand crores. Some Rs.8,000 – 10,000 crores I don't have the correct number right now. If you wish I can provide, but they may be in that range.

Hardik Vyas: Okay. So considering it is Rs.8,000 crores, Rs.9,000 crores, our hit rate would be in addition to 50% or…?

Mahendra Nahata: Hardik, I cannot say that. That is too much to say.

Moderator: Thank you. The next question is from the line of Dipak Gupta from Aryan Shares and Stockbrokers. Please go ahead.

Dipak Gupta: Sir, I am seeing some trade receivables have increased around 30% from last year to this year. And as in continuation to previous question, is there any default on the BSNL projects?

Mahendra Nahata: No, there are no defaults. There are some delays but there are no defaults. 30% increases against 46% increase in revenue. So it has to increase. But there are not default as such. And you don't expect any bad debts also, Out of question. There are delays, of course. You can expect some delays in some cases of the customers but they are long -term customer. You have to bear with that for some point of time when the situation is not that important, not that good for them. But if you look on overall basis, our debtors have come down from 142 days to 125 days in the last year, it is better than FY18, it is not worse, its better.

Dipak Gupta: So, mainly, so there is no provisioning done for the BSNL so it is…?

Mahendra Nahata: There is no question of any provisioning. If we have to do provisioning of BSNL then there is problem with Government of India.

Moderator: Thank you. We take the last question, which is from the line of Sanjay Shah from Alpha Line Wealth Advisors. Please go ahead.

Sanjay Shah: Sir, when we are going to start our first commercial production of these new fiber lines, 6.4 million?

Mahendra Nahata: Expected in November.

Sanjay Shah: November this year?

Mahendra Nahata: Yes.

Sanjay Shah: Sir, now my last question is regarding we have really grown very well on revenue side, order book side, balance sheet side, even our rating has been improved, but we see our margins are being slightly lower or stable since last many years. So, can you explain what you see that further, as you said that it is going to be better, but can we see that sizable good margins coming forward?

Mahendra Nahata: Sanjay, it would be too much for me to say that they are going to increase and when they would increase. But I can only tell you that revenue is increasing and as a result of that, some advantage of quantities and size and capacities will come in. So that should help. Our new product development, which would have a better margins than normal turnkey contracts and all those kind of things, is expected to increase our profit margins in terms of percentages. And certain contracts sometime are more profitable than the other, that can also contribute to increase in profit margin. But I am not making any forward looking statement on that. I am just saying that company is continuously striving to increase its profit margins, is focused on product development, new products, focused on increasing the revenue, not that much increasing expenses. They should all contribute to better profit margins. It can only be expected for anybody and everybody.

Sanjay Shah: No, why I am stressing on this is because when we were a Rs.1,000 crores turnover company, we were doing around 12% plus EBITDA margin. The moment we will start growing, our EBITDA margins starts falling. So I was of the view that, was it possible for us to come to that level what we have been doing previously?

Mahendra Nahata: Look we are definitely striving to reach to that level. We have more than doubled our EBIDTA from Rs.214 crores in FY2017 to Rs.458 Crores in FY19.

Moderator: Thank you. I now hand the conference over to Mr. Mahendra Nahata of Himachal Futuristic Communications Limited for closing comments.

Mahendra Nahata: Well, I am really thankful to all the participants that they took active interest in our call. There were a lot of questions which encourages me. More questions, I get happier and I feel to answer them. So I thank all of you to have participated in the conference. And if you have further queries, kindly send it to Valorem or my team. We shall be very glad to answer any query you have in future. Thank you very much for participating.

Moderator: Thank you Ladies and gentlemen on behalf of Himachal Futuristic Communications Limited. That concludes this conference call. Thank you for joining us and you may now disconnect your lines.