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November 18, 2020

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

Subject: Transcript of Conference Call on Financial Results/ Earnings for the 2nd Quarter and Half Year ended 30th September, 2020, of the Financial Year 2020-21.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on October 14, 2020, on the Un-Audited Financial Results of the Company for the 2nd Quarter and Half Year ended 30th September, 2020, of the Financial Year 2020-21, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on October 10, 2020.

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

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

HFCL LIMITED

Encl: Copy of Transcript.

HFCL Limited
Q2 / H1 FY21 Earnings Conference Call
October 14, 2020

Moderator: Ladies and gentlemen, good evening and welcome to the HFCL Limited Q2/H1 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good afternoon, everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of HFCL Limited. On behalf of the Company, I would like to thank you all for participating in the Company's earnings conference call for the second quarter and first half of financial year 2021.

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 belief and as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any 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 under review.

I would now like to introduce you to the management participating with us in today's earnings conference call and give it over to them for opening remarks. We have with us Mr. Mahendra Nahata -- Promoter and Managing Director, Mr. V R Jain – Chief Financial Officer and Mr. Manoj Baid – Company Secretary. I now request Mr. Mahendra Nahata to give his opening remarks. Thank you and over to you, sir.

Mahendra Nahata: Thank you Anuj. Good evening everyone and a very warm welcome to this earning call of HFCL for the second quarter and first half of financial year 2021. It is good to connect with you once again, at a time when COVID-19 appears to be making way for normalcy in the spheres of our lives as well as work. I'm sure that you got a chance to go through our Q2 results announced earlier on October 10, 2020.

Please allow me to briefly introduce the Company, its state of affairs and how it has been progressing on the path of normalcy, in this pandemic situation during the last quarter.

As a leading technology enterprise, HFCL makes immense contributions to a securely connected and communicating world. It does so through a range of solutions and products deployed in integrated communication networks. It operates four dedicated business verticals, namely, telecom, defense, railways and security & surveillance. HFCL manufactures a range of high end transmission and access equipment, optical fiber, optical fiber cable and cable accessories. Spanning across the value chain, it's technologically superior offerings include product manufacturing, as well as specialized services. These get deployed both in the private and government sectors towards varied applications in telecom, defense, railways, utilities and security & surveillance networks.

Our two centers of excellence at Gurgaon and Bangalore spearhead in-house research and development activities. Our innovation efforts are also supported by few other invested R&D houses and collaborators from India and abroad. Collectively, our R&D teams are developing a range of breakthrough technology products and solutions, which can be offered from mass deployment, thanks to their cost competitiveness. Our five world class manufacturing facilities produce wide range of new generation communication products. The Company serves an enviable list of customers globally, with export destination to over 40 countries.

The Company closed the second quarter with an order book of ~ Rs.7,447 crores, which is approximately two times of our FY20 revenue. The order book is backed by a promising pipeline of bids and RFPs. To be executed over next six to eight quarters, our order book is fairly representative of all our business verticals and come from multitude of prestigious customers. Adding significantly to revenue visibility, our order book has an O&M component worth Rs.1,555 crores.

Our innovation journey has yielded superior Wi-Fi network products, High Capacity Radio Relay, Microwave Radios and Cloud Based Management Platform. Going forward, our effort for innovation and IPR creation is going to accelerate. Driven by next generation technology offerings, we will focus on our own developed family of products, which are capable to cater the global market demands, we are undergoing a complete technology led transformation. Our innovation pipeline has Switches, Routers, Intelligent Antenna Systems, Electronic Fuses, Electro Optic Devices, Ground Surveillance Radars, Software Defined Radios etc. which are at various stage of development.

Our new products initiatives are backed with requisite global and Indian certification. These efforts are aimed at driving our margins upwards. We have been receiving good orders for our recently launched Wi-Fi and UBR products. These orders are from multiple customers including Tier I telecom operators in India. Towards exploring various overseas opportunities for these products, we are setting up domestic and international distribution network.

Fully designed, developed and manufactured in India, these high technology products epitomize Atmanirbhar Bharat. Getting extensively deployed for rural broadband connectivity, these products are furthering the "Digital India" vision of our Hon'ble Prime Minister.

We started supplying Wi-Fi and UBR products in the first quarter of current financial year. While we are still in early stage of their immense potential, we have already received orders for more than one lakh units of this product. The same are planned to be supplied by December, 2020, and more such orders will flow during the coming quarters.

Capacity utilizations at our OFC manufacturing units have progressively improved, in spite of restrictions witnessed at the Chennai Unit on account of COVID-19. Collectively, the utilization reached about 70% to 80% at the close of quarter two, from just about 30% to 35% during quarter one. The recovery was led by our Goa plant which operated at 93% capacity at the end of quarter two.

Some of our new generation products have entered pilot production, with advanced field trials going on with customers. We are gearing up for commercial launch of our next generation Wi-Fi systems compatible with 5G networks, Intelligent Antenna Systems, and L2/L3 Switch products are planned to be launched in quarter three. I'm glad to inform you that our upcoming optical fiber cable facility, newly created facility at Hyderabad is progressing well and we expect it to commence production by November, 2020, that is about a month from now.

Looking back at our performance, the recovery continues to accelerate. There is more action across new inquiries, production, shipment, project execution, etc. Due to impact of COVID during first half of the current financial year from an analytical standpoint and for the purpose of comparison, financial numbers won't be comparable on YoY basis. However, sequential comparison over the previous quarter that is Q2 versus Q1 of FY21 gives correct picture of coming closer to normalcy. Let me share these comparisons on a sequential basis.

Quarterly revenues rose to Rs.1,054 crores in Q2, recording a jump of 50% over Rs.700 crores in quarter one. EBITDA recorded a 65% sequential growth to reach to Rs.138 crores in Q2 from Rs.83 crores in Q1 of FY21. EBITDA margin improved by 118 basis points sequentially to reach 13% for Q2. Profit after tax rose to Rs.54 crores in Q2 rising 149% over Rs.21 crores recorded in quarter one of current financial year. PAT margin improved by 200 basis points to 5.04% from 3.04% recorded in quarter one of FY21. Compared with the corresponding quarter of FY20, our Q2 FY21 revenue is higher by 8% while EBITDA is lower by 1.40%. Suffice to indicate that we are almost back to pre- COVID levels now. Capacity utilization, new product shipments, project execution and speed, all are poised to head northwards from here on. We hope that we may have much brighter numbers and more positive updates to share and discuss when we meet again post the Q3 result announcement.

With this, I will close my remarks. Thank you once again for your participation in HFCL earnings call. Now, I open the floor for question and answer session. Thank you very much to all of you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sajal Kapoor from Unseen Value Limited. Please go ahead.

Sajal Kapoor: My question to you would be, that new orders this quarter how much you've received?

Mahendra Nahata: This quarter we received orders worth about Rs.350 crores, which are majorly for fiber optic cables, or Wi-Fi or these kind of own produced products. And, of course we have participated in number of other tenders, RFPs inquiries. So we expect much higher number of orders. So, Rs.350 crores in the last quarter and with the kind of RFPs and tender inquiries and pricing information we have participated, we expect good quantity of orders to come in the current quarter also.

Sajal Kapoor: And sir you talk about your strengths and your opportunities, I want to know a little bit about your weaknesses, about your balance sheet sir. Your trade receivables is very high and cash flow from operations is also not good. Would you like to throw some light on that?

Mahendra Nahata: I would have my CFO to answer this question.

V R Jain: Sajal, the receivable level in absolute terms has definitely increased as compared to last financial year. The main reason is, due to this COVID impact, some of the projects execution have got delayed where the release of payment is milestone based. So that has impacted realization against our outstanding. And then secondly, the last two months alone our gross sales amounted to Rs.750 crore which is part of the receivable.

Overall operating cycle has improved from Q1 to 122 days as on 30th September, as compared to 132 days as on 30th June. Still we have to go a long way to bring it to the normal level as of March 2020. So, hopefully next two quarters we can see lot of improvements in the operating cycle and receivable levels.

Sajal Kapoor: And sir my last question would be the promoter group has been increasing equity stake in the Company so, is the seller a known seller or?

Mahendra Nahata: Look first of all it's a Company call, but I would still answer your question from promoter's perspective, I being a promoter. There is no known seller, I don't know anybody who might have sold to the promoters or not, we have just bought from stock market, open market. And of course, the promoters have increased their holdings to consolidate the same at this point of time.

Moderator: Thank you. The next question is from the line of Abhishek Shah from Valcore Capital Advisors. Please go ahead.

Abhishek Shah: I just had a few broad based question. First, I'm trying to understand the size of opportunity for us in our business. Second, would be that of the market size what would be the difference between, what could be the opportunity for fiber and the other products. I'll ask the next question once you answer this.

Mahendra Nahata: The size of opportunity in telecom is very, very large. 4G is still in expansion mode, 5G is to come may be another six to nine months' time, new auction for 4G spectrum is happening that will further lead to expansion of 4G networks. Couple of service providers who have not enhanced their network to 4G level, to the level others have done or who have not started with 4G are going to start 4G now, that will increase the demand. 5G will increase demand of everything immensely. Moreover, FTTH is being put by one large operator, Airtel has also announced a similar level of FTTH deployment, which will increase the overall demand. So market size and opportunities are immense. It's in thousands of crores and then the BharatNet is going to come up, which itself one project worth Rs.30, 000 crores. I would say this opportunity could be of five year time .Five year's timeframe this opportunity could be something like Rs.3 lakh crores.

Abhishek Shah: Okay. Sir, so say a Bharti or a Jio announces that they are 3 billion CAPEX, what would be our sort of target market in that 3 billion, would it be 30%?

Mahendra Nahata: Look, I can't put a number like percentage on their announcement, but we are definitely looking at increased revenue and year-on-year growth from our side and increase our market share from these operators, not only these operators but from export market as well and having our presence in different business like Defence

Products, Railway communication networks, Border surveillance etc. , we are going to increase our revenue from those areas also. So it's not only from operator, it is going to be from across sections, and also from, BharatNet kind of an opportunity where there would be large demand of fiber optic cable, as well as equipment which we are designing indigenously, going to produce indigenously and being owned designed equipment they are going to be very competitive, designed and manufactured as a requirement of this rural requirement.

Abhishek Shah: Understood. Sir one last thing, sir over the last three, four years we've also tried to focus a lot more on new products, and sort of reduce our risk purely towards fiber. If you can just tell us more on how has that progressed, and what sort of orders are we getting on that side, that is one and second part of this question is that, how much time does it generally take, we are new to this sort of these products as such, if I may call it, so what is the comfort level for the customer to give you a sizable order for that?

Mahendra Nahata: Look number one, we have really started focusing from last one and a half year or maybe about two years on the development of new products. Now, all these products may be public communication products or even different products takes time to develop. And it's not that you start making effort today for development and becomes available in few months, it takes about a year or one and a half years timeframe. But a lot of such initiatives are taken and it started giving results. For example, Wi-Fi product has come into market and as I mentioned in my opening remarks, we have received orders for Wi-Fi and UBR, Unlicensed Band Radio which have been developed by us and are already in the market for one lakh units. Now, this confidence customer got by the testing for I would say three to six months' time, three months lab testing and then three months plus field testing, it took almost six months because customer has to put it in the public network and they cannot put it unless they're satisfied with the robustness and the quality of the equipment. So three to six months is the timeframe customer normally takes in the beginning to allow any product to be inducted in his network on a very large scale. Many a times, customers want some kind of customization to be done for them which being developed locally by us we can do such customization, many such customization we have done. . Similarly, other products which we have started as a collaborative R&D like switches. Switches would be available in next probably two months' time. This effort started about years back. The development of routers started few months back and would be available in six to eight months' time frames as per the specifications which are required. The development of Electronic fuses for defense as an example, was started about more than a year back, I'm happy to say that those fuses are now ready. We have conducted trial in a different country where this contract development was undertaken by our R&D partner, and now they're ready for trial in India. We are waiting for the date whenever they are ready, we will ship it to Army for trial in India and I must also say that now we are ready to market these fuses internationally also.

Now, to induct it in the army, it will take six to nine months of trial phase, for the defense it takes that much time. So, depends which kind of products you're talking sometimes three to six months, sometimes six to nine months and development cycle is at least a year. Some cases it may be a little bit more for example, software defined radio which is very, very complicated product and the demand is about Rs.25,000 crores in India alone. Development cycle is itself 18 months and the test and trial period would be above six months. So, the overall cycle period could be 24 months, but all are progressing very satisfactorily and products are coming and still one-by-one from this quarter itself they would start coming into stream and we would start selling and marketing them and this process will continue for next two years timeframe with number of more products coming in this one-by-one. In fact, as I said in my opening remarks, we are completely renovating the Company I must say, by including more-and-more products which are our own design products with a large R&D budget, so that we become more profitable and our market share also increases because these are the products Made in India but made for the world. Its entire family of products, which is quality wise and technology wise, at edge of technology, there is no way you can differentiate between a multinational Wi-Fi products with our product. Like now new standard Wi-Fi 6 has come which is 5G compatible. We are ready with that and we have already offered testing to the operator and I am sure in three to four months' time we'll start receiving orders for them also.

Abhishek Shah: So is the technology in-house or are we collaborating with someone for this?

Mahendra Nahata: No, the technology is in-house, collaborating, yes, R&D collaboration is there but IPR is our own, somebody else is doing development for us, our own IPR it's a joint development. So, it's our technology there's no collaboration in this case, when I talked of router, whether it is the switch, Wi-Fi 5, Wi-Fi 6, cloud based management system, electro optic systems, electronic fuses these are all our technology, own IPR which is very, very important.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Shares & Securities. Please go ahead.

Sanjay Shah: Now, coming back to your all exciting comments, it is really exciting journey ahead as you rightly pointed out reinventing HFCL or renovating. So sir can you tell us that what is opportunity, on this defense products and other product, how much what export opportunity we have. Because in India, we are not so confident about our government purchasing, capacity or intention. So better we diversify or we risk divided ourselves by taking some export orders and all, in that what is our, where we have reached and what potential we see in that export for this product?

Mahendra Nahata: Mr. Shah, thanks a lot for your question. Let me answer it in this way. There are two kinds of products we have, one is communication, second is defense electronics. What we have done for communication products, we have started appointing either advisors, consultants or even our own employees. In some of the countries, we have got now our people in Middle East, people in Europe, in France, we have people in England. We are appointing people in Southeast Asia. So we will use these resources for building relationships for each of our product. So that, they are the relationship people who build relationships for each of our product and the product specialist then go from India and start talking to the customers. So, and right now this is being done for fiber optic cable, which we are already exporting to more than 40 countries as I already explained to you. Now, you rightly say that we are not sure about how much Government would purchase, that's true for communication sectors, because BSNL is the only operator from Government. This partially true, but partially there is a good sign also BharatNet, from the Government perspective I'm talking about, because that money is there given by the operators it's not Government money, and there is probably Rs.40-50,000 crore lying there, which is now going to be used for BharatNet phase two, that money cannot be used for any other purpose by law. So, there is a huge requirement for BharatNet and the demand is still there, suddenly going to come in a different mode it is going to come in a PPP mode and where the viability gap funding will be done by the Government of India from this USO fund. So that demand is there, in terms of other communication products. It's not really Government we are selling, it's to private operators also like Jio, like Airtel, like Vodafone or any such operator or many of the ISPs in the sense of their purchasing capacities, and they have nothing to do with Government. However, products like defense products for example, like I mentioned electronic fuse which is ready and expecting that we will have a marketing kind of effort started for that internationally in next two to three months' timeframe, maybe three months' timeframe. Of course, getting orders is six months to a year because this kind of military products undergo testing in every army, then only you get orders. Electro optics, again I would say, by end of Q1 or beginning of Q2 of the next financial year we would start marketing of electro optics, which is night vision devices in the world market. And in India, we have already started, we have already participated in tenders for electro optics in India, some of these are going to be open very, very soon in my opinion, we are going to participate in another very large tender next week itself for electro optics. So, that effort has already started. So, in terms of defense sector, I would say India still has reason to spend more as you all know the kind of situation which exist on Northern, Western border. India is spending more and there is a large scale purchase going on for these kind of equipment's for which, there are deficiencies. We are going to participate in another major program of certain kind of equipment, which I can't go in detail, because restricted RFPs have been given, but with a very large company, global company and that's also very, very large tender. So opportunities are there in defense sector in India, but since these are our own design products, own IPR we are going to sell it globally absolutely, because that's the reason why we have gone for our own design and huge R&D investment. So that we can create products and sell it globally.

Sanjay Shah: So, sir what is your internal guidelines about the export how much we can do for next one year, two year, three year?

Mahendra Nahata: Look the current financial year optical fiber cable is the only one which we are exporting , maybe we will do some of Wi-Fi also and then from the services, turnkey contracts we are doing railway contracts in Dhaka and Mauritius those are coming up. So current year all put together, optical fiber cable and that contracts, our export could be about +Rs.150 crore. My wish is to reach to at least in three years' timeframe, North of Rs.500 to Rs.600 crores with so many products coming up, it could be even higher. I'm not projecting those numbers, but that is minimum internal target that we should cross those kinds of numbers in three years' timeframe. It can be much more because defense products and all that would come into picture. It can be much more but I'm not making any such projections right now.

Sanjay Shah: That's great. Sir, my second question is how do you see the optic fiber and fiber cable market right now across the globe?

Mahendra Nahata: Look market is improving, from what I probably would have talked in the last earning call. Market is improving globally because one there was a huge impact of COVID and because of COVID impact, market was subdued. China has also started buying, Chinese demand has improved a bit with China Telecom, and China Mobile coming over with the tenders for fiber, internationally there is going to be deployment of FTTH in large scale including Europe. So, cable demand is going to be there, in India and worldwide. Then 5G networks are going to come up and with the 5G again, fiber demand is going to increase because networks have to be made ready for 5G by linking all the towers with fiber, the throughput of every tower is so high, it cannot be carried forward in a large scale on microwave radios. So, there is going to be large scale deployment of fiber all over the world. So, fiber optic cable business will see improvement, FTTH by all the major operators then 5G deployment, then BharatNet, due to all these three things put together, demand is again going to go up, but I would not be saying that there is going to be any dramatic increase in the fiber prices because there is enough capacity existing in the world. But those people in India who have large scale capacity and maybe backward integration like us they would see that for the factories, enough orders shall come to fill the capacity like for example, today our factories at Goa and

Chennai are operating at 100% capacity, last quarter there were problems because of COVID, not because of orders. Now, we are putting up a third factory for cable which I mentioned in my opening remarks, third factory for cable which is being under construction or under installations rather construction is done, under installation of machines and all that from next week. Machines are going to arrive probably in next five to seven days and this is the third factory for cable so you can imagine the kind of demand we have in the existing factories that we had to put up a third factory for manufacturing cable, but that may not be the case for every manufacturer, particularly smaller ones but the large ones are definitely going to be looking at operating at reasonably very good capacity.

Sanjay Shah: Sir, BharatNet program of Government was stopped for more than one and a half a year correct me if I'm wrong, so how confident you are, they are starting it again with that PPP model and do you think that will work out properly for the business?

Mahendra Nahata: It will, I'll tell you, even the Prime Minister has announced that 4 lakh villages, 4.5 lacs rather are going to be connected in 1000 days by fiber, and it's the Prime Minister announcement from the Red Fort. So Government has to act upon it. Now money is available, that's the major point, other places you find budget constraints and because of various constraints many things do not happen. In this case money is available even if Government were to implement it all without PPP, enough money is available. There's about (+Rs.40,000) crore money is available in USO fund and it will increase every year, so they will spend that money. Now, instead of doing it by Government, they decided that it should be done by PPP model for better quality and better utilization. In phase one, whatever they did 1.25 lakh or 1.5 maybe, proper utilization was not there, the Government is not a sales or marketing organization, they cannot sell it properly and quality of network was also not that great, it is poor. So they decided that it should be done by private sector on a PPP model. So the private people will do a better quality and sales and marketing responsibility will all be there because it's a PPP model, which would be 25 to 30 years kind of operating contract after that 30 years or maybe something like that expandable to another 10 years, they have to hand over the network to Government. So it's a perpetual kind of a thing, so with that model, I'm sure things will definitely pick up and it would be successful. If PPP does not succeed for whatever reason, I am just hypothetically thinking I am saying, Government will do at its own because it's a committed announcement by the Prime Minister, they cannot go back, money is there and this BharatNet is going to be beneficial to our Company from different angles. One, if it is a good PPP contractor who has got money and capacity to build, we will get turnkey work from them, two, fiber optic cable supply, which is going to be a huge demand for fiber optic cable connecting 4.5 lakh villages is no means a joke, it needs, I don't have the numbers how much they have calculated and it's all going to be over the ring network, it may need

8 to 10 lakhs kilometers of fiber optic cable which is huge quantity. Then equipment, connectivity does not mean connectivity alone they are going to put conditions that so many houses are to be connected over fiber optic cable FTTH, that's why this OFC network is there. So, that would bring us a lot of demand for FTTH kind of cable and also equipment which also we are undertaking for design FTTH kind of equipment which are required for FTTH network. As, I said, it is going to be a ring configuration of network which would require routers, which would require switches and all are there in our product line now, which are going to be available in next two to three months gradually and those will also be required and with the PMA condition where you need a higher amount of indigenous content which can only happen if the project design and manufacture locally. We are going to get advantage out there also, so I'm looking at BharatNet with a lot of excitement.

Moderator: Thank you. The next question is from the line of Parth Mehta, Individual Investor. Please go ahead.

Parth Mehta: A lot of my questions have already been answered. But just one question that you had already said about Software Defined Radios is the opportunities about Rs.25,000 crores in India alone and it might take about two years' time for it to be available in the market, so where actually are we in that two year timeframe, have we just started or we are half way or almost through, so could you please throw some light on that?

Mahendra Nahata: Look, SDR we have just started and army has also come out with a RFP now, where they have to do the shortlisting, we are still not done. So, it is on a nascent stage from the customer requirement point of view, also we are not late at all. So, we are absolutely on the customer requirement, they are going to give 18 months' time for development and then they are going to start a trial, there will be little more than 18 months, 18 plus three months or something like that and we have already started. So we are on, exactly as per customer requirements. So, our product would be ready maybe I would say 15 months or so timeframe from now. Now, that's a complete range of products, so the first product is going to be available in 12 months timeframe. Because it has got various consideration, it has got Handheld, it has got Manpack, it has got Vehicle mounted. The first version, in my opinion should be available in about 12 month timeframe.

Parth Mehta: Okay. So everything we can expect it in 2022-23 that we can see it in revenues or before that right?

Mahendra Nahata: Yes, you are right absolutely. Not before that, and that too end of 22-23.

Parth Mehta: Okay. And sir I had another question on GPON. So as the BharatNet starts fruiting, how do we see that, how soon do we see that in execution?

Mahendra Nahata: BharatNet execution, first of all the PPP, RFP, tender all that has to come, which is likely to happen in a few months, then, a tender finalization and all that, I would suspect that this execution would be about a year, next financial year.

Parth Mehta: Next financial year, okay. Sir, apart from that we have not been seeing any service revenues, service orders coming in, in the last three to four quarters. So, are they majorly from BharatNet or the Government or they are from the private party as well?

Mahendra Nahata: Orders have been coming, if you look at, you would not have seen a very major order coming in after our IP-MPLS order which came few months ago. Some more large orders are expected, may be very soon. But what I'm trying to say is, orders do come but they come in smaller numbers, one single big order is not there, but fiber optic cable for example, Rs.20 crore, Rs.30 crore, Rs.40 crore, like last quarter, we have received orders of Rs.350 crores in tranches . Now, larger RFPs also we have participated, larger order also might come soon. So sometimes, the larger comes, sometimes the smaller orders come. Now, this quarter my hope is much higher from order booking perspective,

Parth Mehta: Okay. Sir my last question is, we are going to start shipping our Wi-Fi in the month of December?

Mahendra Nahata: No, we have already started shipping I'm saying Wi-Fi we would be supplying one lakh units by December.

Parth Mehta: Okay. Sir that will be Wi-Fi and Wi-Fi sixth generation will be probably a little down the line maybe?

Mahendra Nahata: We have already developed, it has already been given for testing to the operators. And the testing should take about three months' timeframe because then there may be requirement of some customization and all that, I would say Wi-Fi -6 shipment in all probability should start towards end of this financial year, current financial year.

Parth Mehta: Okay. So, whatever we are doing in Wi-Fi currently that will be substituted six or that will be an additional thing?

Mahendra Nahata: So, some people would still continue with Wi-Fi -5, some people will go to Wi-Fi -6. Particularly, the 5G operators would definitely like to go for Wi-Fi -6 because their throughput is going to be higher. So they would like equipment which can take that throughput and give it to the customers.

Parth Mehta: Okay. Sir what would be the difference in pricing per unit of Wi-Fi 5 and 6?

Mahendra Nahata: Too early to say right now, but difference may not be much.

Parth Mehta: Wi-Fi five goes for what I'm just trying to calculate what can be clock in this year from Wi-Fi?

Mahendra Nahata: Pardon.

Parth Mehta: What can be generated revenues from this year in Wi-Fi?

Mahendra Nahata: So, we are looking at generation of about Rs.125 to Rs.150 crores from these our own designed products on the current financial year.

Parth Mehta: From 100,000 units, we will be generating that amount that will be indicating?

Mahendra Nahata: 100,000 units of that and then there are antennas, accessories, UBR, all those put together.

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

Giriraj Daga: My question is related to, what is the order pipeline you are saying which can be awarded over the next six months till let's say, FY March 21 any number to that?

Mahendra Nahata: Mr. Daga it would be not good for me to put any number because it's a forward-looking projection I am not supposed to give in a comment.

Giriraj Daga: How much industry ordering will be done, you will get or not is a next question.

Mahendra Nahata: You are talking of industry order?

Giriraj Daga: Yes, I am saying how much total bidding will happen over the total will be awarded over the next six months?

Mahendra Nahata: It could be several thousand crores, and if I put PPP or BharatNet and all put together it will be several thousand crores defense products these communication products, this could be a 5G coming in, I don't know 5G would happen in this current financial or not. But even then in the communications, civil communication itself it could be something like Rs.6000, Rs.7000 crores, Rs.10,000 crores maybe.

Giriraj Daga: Okay. My second question, I missed the number what is the capacity of the third factory which you are putting for cable and how much CAPEX we are doing?

Mahendra Nahata: It is going to be cable kilometer perspective and again, let me caution you, this all depends on what kind of cable you manufacture, this particular factory is being put for FTTH cable. Fiber to home is a low fiber count cable and capacity is going to be 30,000 cable kilometers per month for FTTH only, it's not going to be high count fiber it's only FTTH right now, we would expand more in future, right now it is for FTTH and 30,000 cable kilometers per month.

Giriraj Daga: What is the CAPEX you are incurring there?

Mahendra Nahata: CAPEX would be in the order of roughly about Rs.25 crores or so, plus civil already undertaken which has been done Rs.20 crores, so total would be to the tune of Rs.45 crores app.

Giriraj Daga: And just assuming, let say, we reach a 90% raise, I'm not putting a time there. How much revenue we can generate from this or let say how much EBITDA we can generate from this?

Mahendra Nahata: Revenue should be around about Rs.200 crores.

Giriraj Daga: And profit margin of 12%, 13%?

Mahendra Nahata: Well, I can't say that at this point of time, I would say lower profit margin I would say a little below 10% or 10% maybe.

Giriraj Daga: Okay. My next question is bit more on the technology side, there are some reports which are mentioning that the 5G CAPEX may not enter large number of tower what mining people are expecting.

Mahendra Nahata: Can you say that again?

Giriraj Daga: I am reading some reports which mentioned that, what technologies Jio is going to adopt on 5G that may not result in a more number of densification of more towers. So, are you seeing something on that line, are you in the industry interaction on that?

Mahendra Nahata: I can't comment about any particular operator Jio or anybody else, but generally 5G would need densification, because with that kind of throughput 5G has and kind of a spectrum it has, it has to be densified it's a law of physics, higher you go in spectrum, smaller is the coverage, higher you go in the data speed, smaller is the coverage. For every 4G tower you will need, depending on area to area, two to three 5G towers, may be three.

Giriraj Daga: Okay. Because what I was reading is that the people will be using 3500 megahertz for the download and about 1800 megahertz for the up-linking and that's why might not require in a number of service people are expecting, it might be higher.

Mahendra Nahata: But our assumption, at least two times if not three. And existing towers will have to be upgraded with the more power supplies, higher power supplies and fiber optic cables.

Moderator: Thank you. The next question is from the line of Abhishek Jain from VC Corporate Advisors Private Limited. Please go ahead.

Abhishek Jain: I've got two questions. One is that if you can provide me with the bifurcation of the revenues in terms of fiber cables, equipment, defense and 5G projects if possible and another thing is little about the opportunities in the next five years, if we see the Company revenue has increased during 2016 to FY20 to Rs.3800 crore during the 4G investment both by Jio and Airtel. So, sir looking at the opportunity in the next five years and in terms of future opportunity. So where do you see Company in terms of revenue, how much of the Company will be able to capitalize on this opportunity because in the last five years it has not grown much?

Mahendra Nahata: Time to come, we see revenue from products growing and project revenue going down and which is a conscious decision we have taken in the Company when I say conscious decision, this is a complete reinvention of the Company taking place now, year-after-year it will happen, quarter-after-quarter it will happen that more revenues will come from products, which are our own design products, our developed products, higher profitability margin and less from projects, because consciously we have taken addition that let us design products ourselves where there is huge effort by the Government of India also to get the products manufactured locally for local market and for there is the preferential market access those kind of policies have been created. And once you fulfill a local demand in such a huge market, you become competitive to export it also internationally. So, you would find product revenue would grow, project revenue may remain static, but in the terms of percentage, it will come down, product revenue will grow. I'm not saying that actual numbers will come down but the percentage might come down. So, that's the strategy we have adopted but that is certainly going to give better profitable to the Company. In terms of what kind of revenue I have seen in three to five years, it is a very forward looking statement Mr. Jain. I would not like to talk on the forward looking number. But there is going to be growth that much I can tell you.

Abhishek Jain: Okay. Because what I wanted to understand was, that the Greenfield project of Jio and Airtel in our Country about on the 4G network, the revenue has gone not so much actually, in the last six years it has grown like from Rs.2500 crore to Rs.3800 crore that is like about 8% CAGR growth, because I wanted to understand that the opportunity is so huge, but what is it about the Company in terms of?

Mahendra Nahata: You have to look at it from the products you have, and as we are increasing our products range, revenue will also grow, but again in three years Rs.2500 crore to Rs.3800 crore is not a bad growth and quite reasonable .

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni, from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: I just wanted to understand the opportunity, which we are going to get from the recent Jio announcement that they are ready with the 5G solutions, which they are ready to offer to the world. So what kind of participation do we see for HFCL in this opportunity?

Mahendra Nahata: We have not discussed any such thing with Jio and I cannot talk about any particular operator any customer, but we have not discussed any such thing with Jio.

Mangesh Kulkarni: But are we supplying some of the products to them for the 5G implementation or whatever the R&D they're doing.

Mahendra Nahata: They have not started 5G implementation, but whenever they start we would definitely discuss with them, we continuously supply the fiber optic cables, so we will hopefully keep on supplying fiber optic cables to them. And if any other opportunity comes we'll definitely look at that, but Wi-Fi for example, Wi-Fi we are supplying to Jio also to a large extent, when we do Wi-Fi -6 which would be very comfortable with 5G we would certainly discuss with them for supplying Wi-Fi -6 also, Wi-Fi -5 we are supplying them in large number, UBR we are supplying to them in a large number and whenever they start 5G and they need equipment for 5G whether it is routers, switches, all the new products trying to bring in, the Wi-Fi, fiber optic cable we will certainly discuss with them. Now it is up to them to give the order or not it will depend on our competitiveness and all that but we are hopeful that we will definitely try to get more and more orders by supplying competitive and quality products.

Mangesh Kulkarni: Okay. And sir, I just wanted to know about our EPC business, now how is the situation after the unlock process starting, the EPC contracts are they coming back to the schedule or still delays are there?

Mahendra Nahata: It is improving, if you look at EPC execution in the last two quarters, Q1 was about Rs.510 crores and Q2 is Rs.775 crores. So, it has shown improvement but still it needs to improve more and Q3 would show further improvement because COVID situation is easing down and it's a new normal now, people have understood that they have to live with it, in this situation. So, only impediment which is right now is there for the army projects which are in the Northern border of India, Northeast or may be mostly in the Northern areas where we have large number of projects and out of the total projects, concentration is in North India. Because of the border situation as we all read in newspapers and media, access is restricted, they don't allow people to go in and out as easily as it used to happen earlier because of the current situation. So the restrictions are there, but I suppose they would remain there for some more time, till the time border situation eases.

Moderator: Thank you. The next question is from the line of Sonali from Wood Group. Please go ahead.

Sonali: I've got a couple of questions, first is regarding the release of shares which are pledged and earlier I have seen a video where you have mentioned that some percentage of pledge shares have been released and the management is in talk with the banks, but the banks have their own procedures. So, can you just please update on that?

Mahendra Nahata: 20% of shares have been released from two pledges. One was 7% pledged as a collateral to one of the banks for urgent guarantee requirements that has been released and the second was pledged for the fiber plant which we have l put., There were some issue with the land being registered and, condition was that, the same can be registered only after we start commercial production and that has also happened so 13% has also been released. So 7% plus 13%, 20% has been released and balance shares we have already applied to the banks that the conditions under which they have been pledged they have all been fulfilled. So they should better release it. So, I'm hopeful that bank should see it with a positive sense because the conditions no longer exist under which we put them in pledge but as I said all the time, no loan has been taken against shares, no loan, it is all collateral for the business of the Company, there is no promoter borrowing, no loan taken by the promoters against shares, and is all collateral to the banks against the loan taken by the Company. So, I'm hopeful that some more release should take place we have already sent application to the banks.

Sonali: Okay, thank you. And my second question is regarding the debt reduction plan?

Mahendra Nahata: Debt reduction is, we don't have much of debt, it's a ratio of 0.43 only, gearing is only 0.43, we do not have much of debt in the Company.

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

Saket Kapoor: Sir correct me sir, you told that going forward the mix between the telecom products and the turnkey part will be skewed more towards the telecom product, the growth which will happen going forward would be higher on the telecom product side, correct sir?

Mahendra Nahata: Yes, I said products side telecom and defense, fiber cable all put together.

Saket Kapoor: When we are putting the revenues of telecom products both defense and telecom are clubbed under one head only**.** So, sir if we see the margins there sir, last year we did revenue of Rs.127 crore last September and this year, it is around Rs.209 crore but the PBT numbers have fallen from there, at a turnover of Rs.127 crore, we posted PBT of Rs.23 crore and here out of Rs.209 crore, the probability is only Rs.12 crore and when we take the consol part sir, we find that with an improvement of, if I'm not wrong, with the improvement of Rs.70 crore in the revenue, the profitability goes up by Rs.20 crore. So, I just wanted to understand what mix is doing in telecom product by which the consolidation profitability is improving and on a standalone it is lower?

V R Jain: Saket, the variation in margin is not because of this product mix or anything else. It is because as you know that we have commenced fiber production from this Q4 of the previous financial year. So initially, it is getting stabilized and the capacity utilization is comparatively low. It has been low, one because of the COVID situation and secondly the initial stages, the plant is getting ramped up. So, the interest and depreciation is being charged to those facilities, once it has started the commercial production. So, that is how it looked on the lower side the situation is going to correct from Q3 onwards, with increased production of fiber.

Mahendra Nahata: It is because of the interest and depreciation on the new plant which is, what you see is like this is not really the margin on the products, it is interest and depreciation, which as my CFO said, it will be improved from the Q3 because now this plant is running on 100% capacity now.

Saket Kapoor: Okay. Sir, but since we are developing the products, this fiber and fiber cables goes into the product development, the fiber cable is mainly catering towards the EPC part. So, just wanted to understand we have built up the capacity to cater to the EPC.

Mahendra Nahata: No, fiber optic cable is most of the time, more than 90% is being sold independently.

Saket Kapoor: But it will be clubbed in the product category only sir?

Mahendra Nahata: Yes, sure.

Saket Kapoor: Okay sir. One more point about this, sir we have seen in a shareholding pattern, Reliance Strategic Business Venture Limited being a shareholder. So, are these any strategic investor or what are the categories?

Mahendra Nahata: They are not strategic investor, it's just a normal investor.

Saket Kapoor: Okay. It is a treasury operation only because this company belongs to Reliance?

Mahendra Nahata: No idea what is their operation, only they would know that, I know that they are a shareholder.

Saket Kapoor: Right sir. And one more point was sir, we have organized one conference call that didn't happen in the month of July so have we taken any more step to reschedule them for any further concall, it was scheduled in the month of July?

Mahendra Nahata: I couldn't follow your question.

Saket Kapoor: Sir in the month of July, there was one conference call that was scheduled for one of the biggest wealth advisors, Julius Baer Wealth Advisors, that was scheduled but it could not happen. So, I just wanted to understand whether any further call?

Mahendra Nahata: As and when any call happens we would keep on informing the stock exchanges.

Saket Kapoor: Yes, sir because the timeline it was 2nd July and now it is 14th October. So the investor did not took interest going forward, that's my question?

Mahendra Nahata: I don't know about investor interest but if any call happens we will immediately let you know.

Saket Kapoor: Absolutely sir. And last point was about that you spoke that, the synergies which we are going to, the cost saving which we are going to have because of this backward integration, if you could explain how are these going to benefit and improve the bottom line and what should be our endeavor for the sustainable EBITDA margins going forward because there is a fluctuation although there is consolidation we are seeing overall from the last two, three quarters, so if you could throw some light about the synergies and the consolidate and the sustainable EBITDA number going forward?

Mahendra Nahata: Synergies are always there in backward integration, when you do backward integration there are two reasons one, we have stabilized supply chain and take advantage of backward integration in the cost. So, both are going to be there in this case, there's no doubt about that and to maintain our profitability and all that as I said to enhance it, we are doing more and more new products even in cable business also we are designing new products which are not used in India, but they are used in different other countries. So, those products will increase our market share and enhance our profitability and stabilize that also. Mr. Saket I have couple of more questions, I can take then I have to leave for some other appointment.

Saket Kapoor: I will come in the queue sir. BSNL repayable if you could give sir, how much is due from BSNL?

Mahendra Nahata: BSNL dues, there is not much dues from BSNL as such there is about Rs.130, Rs.140 crores but rest of the dues is for army projects which is via BSNL but which keep on coming regular intervals, there is no overdue for that.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we'll take that as a last question. I would now like to hand the conference over to Mr. Mahendra Nahata of HFCL Limited for closing comments.

Mahendra Nahata: Thank you gentlemen. As, I said that quarter two has been an improved quarter over quarter one we believe that it would improve quarter-on-quarter. Quarter three should be an improved quarter because the impacts of COVID and these kind of impediments have gone down considerably. And we are sure that we would do much better in the current quarter. Our emphasis on our own product development and marketing them worldwide is going to reinvent the Company in the next couple of years. And will position the Company as a leading technology enterprise in the world market in communication as well as defense related products and I'm happy to share that we are very enthused about that, we are very optimistic about these products which we are developing with international class and which will certainly increase our revenue from products and this project revenue will go down in percentage but may in terms of overall number it may not even go down, but product revenue in terms of percentage revenue will go up and I am sure that in future with the COVID, situation becoming more normal economy as a whole will progress, we will come down to the normal Country and the economy as such and HFCL being a part of that will also show improved performance. Thank you very much ladies and gentlemen. Thanks a lot for your time and attending this earning call. See you again in the next earning call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of HFCL Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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