HFCL Limited
8, Commercial Complex, Masjid Moth, Greater Kailash - II,
New Delhi - 110048, India
Tel : (+91 11) 3520 9400, 3520 9500 Fax : (+91 11) 3520 9525
Web : www.hfcl.com
Email : secretarial@hfcl.com

HFCL/SEC/23-24 August 02, 2023

The BSE Ltd. 1st Floor, New Trading Wing, Rotunda Building Phiroze Jeejeebhoy Towers, Dalal Street, Fort Mumbai – 400001 corp.relations@bseindia.com **Security Code No.: 500183**	**The National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, C – 1, Block G Bandra – Kurla Complex, Bandra (E) Mumbai – 400051 cmlist@nse.co.in **Security Code No.: HFCL**

RE: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "SEBI Listing Regulations").

Subject: Transcript of Conference Call on the Unaudited Financial Results of the Company for the 1st Quarter ended June 30, 2023, of the Financial Year 2023-24.

Dear Sir(s)/ Madam,

This is further to our earlier announcement dated July 20, 2023.

In terms of Regulation 30 read with Para A of Part A of Schedule III to the SEBI Listing Regulations, we hereby submit Transcript of the Conference Call held on July 27, 2023, on the Unaudited Financial Results of the Company for the 1st Quarter ended on June 30, 2023, of the Financial Year 2023-24, which were considered and approved by the Board of Directors of the Company, at its meeting held on July 26, 2023.

This aforesaid Transcript will also be available on the Company's website at https://www.hfcl.com/.

You are requested to take the above information on records and disseminate the same on your respective websites.

Thanking you.
Yours faithfully,
For **HFCL Limited**

MANOJ BAID Digitally signed by MANOJ BAID Date: 2023.08.02 17:02:52 +05'30'

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

Encl: Copy of Transcript.

"HFCL Limited"

Q1 FY'24 Earnings Conference Call"

July 27, 2023

MANAGEMENT: **MR. MAHENDRA NAHATA – PROMOTER & MANAGING DIRECTOR**
MR. VIJAY RAJ JAIN – CHIEF FINANCIAL OFFICER
MR. MANOJ BAID – COMPANY SECRETARY
MR. AMIT AGARWAL – HEAD INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to HFCL Limited Q1FY'24 Earnings Conference Call hosted by ICICI Securities. 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 star and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit from ICICI Securities. Thank you, and over to you, sir.

Mohit: Hi. Thanks, and good afternoon to all the participants. I am Mohit from ICICI Securities. I would like to thank management for providing this opportunity to host this Earnings Call. From the management side, we have Mr. Mahendra Nahata, Promoter and Managing Director; Mr. V R Jain, CFO; Mr. Manoj Baid, Company Secretary; and Mr. Amit Agarwal, Head, Investor Relations.

Without further delay, I now hand over call to Mr. Nahata, for the opening remarks. Thanks, and over to you, sir.

Mahendra Nahata: Good afternoon Ladies and Gentlemen and welcome to HFCL's earnings call for Q1'FY24.

I truly appreciate and express my gratitude for making it to HFCL's earnings call for the first quarter of FY24. I trust that you got a chance to go through our financial results, press release and investor presentation, which are available on the Company's website and the stock exchanges.

The recent study by International Monetary Fund predicts decline in global growth by approximately 2.5% in 2023 due to ongoing effects of the Russia-Ukraine war but India continues to stand out as a promising destination for businesses and investors looking for growth in the years ahead. This optimism is fueled by India's strong domestic market, government initiatives, and attractive investment opportunities.

Despite the challenging and dynamic global macroeconomic environment, the opportunity landscape for manufacturers in the telecom and technology industry has grown manifold and looks promising ahead. As per Deloitte-CII report, Indian telecom industry will grow by US$12.5 billion every three years with the advent of 5G. This growth will be further fueled with the implementation of FTTH and other upcoming technologies and initiatives like BharatNet. With the increased adoption of digital technologies, 5G rollouts, and the growing demand for high-speed connectivity driving innovation and investment in the sector, India will soon be among one of the top 5G ecosystems in the entire world. 5G rollout in key global economies including India, FTTH along with the national priorities like development of homegrown products under PLI scheme, fiberisation under BharatNet are fueling massive opportunities for players like us. The launch of Bharat 6G Alliance further solidifies India's position as one of the world's top leaders in 5G ecosystems and we aim to be at the front-line, contributing to 6G technology and fostering the growth of the Indian telecom sector.

HFCL has been able to sustain its growth momentum with its strategic initiatives focusing on margin accretive products, shift in revenue mix from projects to products, backward and horizontal integration, capacity expansion, research & development, tapping new geographies and widening customer base.

During Q1FY24, we have significantly increased revenues from international business to ₹ 176.23 crores witnessing a growth of 156% on a Y-o-Y basis. The share of Product revenue has gone up to 67% in Q1FY24 as compared to 59% in same quarter last year. Export and Product revenue CAGR for last 3 years has been 88.02% & 46.04% respectively. All these initiatives have lead impressive increase in EBIDTA margin to 16.04% in Q1 FY24 as compared to 12.35% in Q1 FY23. With Company's focus on development of indigenously designed products with own IPRs and emphasis on export sales, we expect EBIDTA margins to improve continuously.

We have begun this new financial year with the unveiling of an enhanced corporate strategy and establishing valuable brand partnerships. HFCL has entered into a significant partnership with India's largest defense PSU - Bharat Electronics Limited, wherein both the organisations will collaborate as partners and indigenously develop and deploy emerging technologies and technical solutions to address the requirements of Defence, Telecom and Railway sectors. As part of this strategic MoU, HFCL and BEL will actively seek out business opportunities by leveraging their specific domain expertise, technological strengths, and established market presence to bolster the nation's defense capabilities, as well as support the expansion of telecommunications infrastructure and other critical emerging sectors. BEL and HFCL will consider various options, such as Transfer of Technology and joint production of mutually identified products and solutions to address the requirements of Defence, Telecom and Railway sectors and thus further contribute to the government's 'Atmanirbhar Bharat' initiative.

We are currently serving our WiFi Access points and unlicensed band radios to over 35 direct customers in India along with many indirect ones through channel partners. These products also integrate new-age technologies like artificial intelligence and Internet of Things to address emerging opportunities in the industry. Our aim is to be among the top five Wi-Fi Access Point and Unlicensed Band Radio players in the world over the next three years. For outdoor Wi-Fi Access Points, HFCL has a market share of 20-25%, and for point-to-point unlicensed band radio, we have about 30% market share in India.

We believe that in terms of technological advancement, Wi-Fi 7, which has already been designed by us is going to be one of the revolutionary solution for indoor coverages, especially the enterprise, and for high-end applications like virtual reality, education, or at places with a lot of concurrent users which require enhanced capacities.

The Company is developing a number of products for 5G networks like, next generation 5G Fixed Wireless Access, Cloud-Based Network Management Systems, 5G Radio Access Network, 5G Transport, 5G Fixed Wireless Access Customer premise equipment, Management

& Orchestration solution for 5G Autonomous Network Operations, which are expected to start being commercially available in the current financial year.

Total addressable market from such products worldwide is expected to be ~ 600bn USD by FY30. The Company is in process of setting up of facility for the manufacture of these products and targeting revenue of Rs. 800 to Rs 1000 crores in FY24-25 compared to Rs.138 crores achieved in FY22-23 from existing product portfolio. These products are also eligible for PLI incentives upto Rs.652 crores over a period of 4-5 years as per approval received by the Company. Increase in revenue from these products which are own designed and manufactured will also lead to higher margin and profitability.

I also wish to update that expansion of Optic Fibre manufacturing capacities from 10 mn fkm to 33.90 mn fkm is progressing well and shall be operational as planned. With this expanded capacity of optic fibre, the Company is expected to generate additional profitability of ~Rs.150 crores on annualized basis computed at prevailing market price vis-à-vis current cost of in-house production of optic fibre. In addition the Company is also in process of expanding its optical fibre cable production capacity from 25mn fkm to 35mn fkm. This expansion will also lead to significant increase in revenue and profitability. The capacity will be added in a phased manner, with the completion targeted by FY 24-25.

This quarter was also marked with HFCL winning some key purchase orders. Some of our major wins in the quarter have been various contracts worth Rs.411.51 crores from one of the leading telecom operators and Rs.80.90 crores from Delhi Metro Rail Corporation Limited in addition to various other orders from domestic and overseas customers. The current order book now stands at Rs.6,585 crores.

I am pleased to share that during Q1FY'24, CARE has upgraded the credit rating of your Company to A1 from A2+ for short term bank facilities and has also reaffirmed the rating for long term facilities as A with stable outlook.

I am also happy to share that our strategy to increase our revenue from products is well on track and during the quarter under review the revenue split between product vs projects stands at 67% and 33% from 56% vs 44% in FY'23 which used to be only 22% from products in FY'20. The benefit from shift in revenue from projects to product is quite eminent in the margin improvements.

Secondly, with our focus to capitalise on wide global opportunities and boost revenue from international operations, we are actively developing new product portfolios as per international standards, appointing employees, engaging agents and distributors in key international markets. As a testament to our global leadership, we have secured various order wins from top European telcos for supply of different types of fibre optic cables. Catering to 80+ clients in 40+ countries, we have witnessed a sharp increase in our international business revenues to Rs. 176 crores in Q1FY24, achieving an impressive growth of 156% year on year. During the quarter, we also showcased and marked our presence at key global events including Mobile World Congress 2023 in Barcelona, Africa's largest tech sourcing event - GITEX AFRICA 2023 in Morocco, Asia's largest ICT stage CommunicAsia 2023 in Singapore, ANGA COM in Germany and FTTH council Europe 2023.

Last year, the Government of India had issued the guidelines for every telecom equipment to undergo mandatory testing and certification before being sold and used for network deployment. Our foresight and significant investment in our state-of-the-art NABL certified equipment testing lab for telecom products in Bangalore is well positioned to aid the government and telcos to fastrack Mandatory Testing and Certification of Telecommunication Equipment. HFCL's testing labs are equipped to meet rigorous global evaluation parameters to ensure secure and high-quality equipment deployment, thus enabling growth of domestic telecommunication industry.

In pursuit of staying at the forefront of innovation and next-generation technological capabilities, HFCL has secured approval for its 5 patents filed for 5G Radio Access Network products. In addition, we have also filed 12 more patent applications. Let me now brief you on key performance metrics of Q1FY24.

- Revenue for Q1FY24 stood at Rs. 995.19 Crores as compared Rs. 1,051.02 crores in Q1FY23

- EBITDA for the quarter stood at Rs. 159.62 Crores as compared to Rs. 129.76 Crores in Q1FY23; EBITDA margin stands at 16.04% for Q1FY24 as compared to 12.35% in Q1FY23;

- For Q1FY24, profit after tax stands at Rs. 75.56 Crores as compared to Rs. 53.10 Crores in Q1FY23; PAT margin stands at 7.59% in Q1FY24 as compared to 5.05 % in Q1FY23

- Segment revenue for telecom products during the quarter stood at Rs. 662 Crores (67 % of Q1FY24 revenue) as compared to ₹Rs.620 Crores (59% of Q1FY23 revenue)

To conclude, I would like to reiterate that with our strategic initiatives of expansion of capacities, geographical expansion, strong focus on R&D, continued backward and horizontal integration, developing margin accretive new products will further add to our revenues and profitability in the coming years. Our team is dedicated to delivering value to our shareholders, and we will continue to work tirelessly to achieve our goals.

Thank you once again for your keen participation. With this, I conclude my opening remarks and open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We'll take the first question from the line of Balasubramanian from Arihant Capital.

Balasubramanian: Sir, my first question is regarding the turnkey segment. The overall revenue has declined because of turnkey segment whether that trend will continue in upcoming quarters also. And I just want to understand any seasonality for these turnkey contracts and the margins also is lower than 2%. Any specific reasons for that?

Mahendra Nahata: Look, first of all, and on an overall year basis, it will continue. Quarter-to-quarter, there will be some variation because of various reasons, depending on which contract is getting executed and all that, but on an overall basis, the trend will continue. As you may recollect Mr. Balasubramanian, that I have been saying from the beginning that we want to increase our revenue from products, decrease our revenue from projects. And that trend, you can see. And that has also increased our margins and profitability.

So I expect this trend to continue on an overall yearly basis. But yes, there may be some variations in quarter-to-quarter depending upon season and depending upon which contract is getting executed at that particular point of time. So our strategy of increasing our revenue from products have really well paid off, and that is very evident from the increase in margins, as you can see in the results.

Balasubramanian: Okay, sir. Sir, my second question is on the telecom product side, our shares stood at around 67%, which is highest in the last couple of quarters. Like whether it is sustainable above 70% in upcoming years and the margin side also, it's been quite sustainable above 19% in the last 3 quarters. Could you please guide for the margin side also, that would be really helpful.

Mahendra Nahata: Look, what I expect, again, as I said, there may be quarter-to-quarter variations. So on overall basis, something like 65% or so we would always have share of products, some percentages may vary. But more or less, 2/3, 1/3 kind of distribution will continue. But again, one more point I would like to make clear that we are only taking those projects where cash flow is good. If the cash flow is not good, we will not take any such project, even if it has got higher margin because cash flow has to be given due importance.

Because if higher margin is there, but the cash flow is bad, no point in taking such projects. That is why you see a decline in the revenue from projects. We intentionally did not take many of the projects, where either the profitability was low and cash flow was also bad or both were not good. So we are very conscious of taking projects now and we take only those projects with good cash flows.

Balasubramanian: Sir, on the margin side for telecom products like...

Mahendra Nahata: Margin side of telecom products, I believe the margin would continue more or less on the same range. Again, as I said, quarter-to-quarter, some variation could be there because of sometimes the raw material costs going up or down in many such cases. But more or less on a year-to-year basis, this will continue like it.

Balasubramanian: Got it, sir. Sir, in last AGM, like we made a resolution for fundraising. Any update on that?

Mahendra Nahata: We are still in consideration of that. As soon as there is any final decision taken, we'll update you.

Balasubramanian: Okay. Sir, okay. Got it. Sir, on the capex side, like you are doing capex for OF and OFC side. Could you please share more details about the progress in executions, capex spending and the funding mix that would be really helpful.

Mahendra Nahata: Look, capex, major capex is happening on optical fiber expansion. And that expansion is in progress. Second capex is for the optical fiber cable, where also capacity is being enhanced and it is at various stages. Now in optical fiber from the current capacity of about 11 million to 12 million fiber kilometre per year, we are expanding into 33 million in 2 stages. First stage will be completed earlier and the second stage would be about 6 or 8 months later.

Now this would lead to 33 million fiber kilometre of fiber production within the Company, which will take care of its own requirement. And most of it is be used for our own consumption and would definitely increase the profitability because of the cost difference between what you produce and what you buy. Second is, of course, optical fiber cable, where the capacity is getting enhanced at various stages in all the three factories.

And mostly, it is directed towards products which we really need for exports because there are specific requirements for different kind of cables for exports. And we are enhancing our capacity in those area because our whole overall policy and strategy, if you look at the company is to one, increase revenue from products, decrease from projects.

And second, of course, is to increase exports. So 95% of the market is outside India. India is only 5% of the market. So it is important to look at the 95% of the market. And as we have demonstrated, our export has improved multifold, something like 86% CAGR of last 3 years, which is a very important number and a very appreciable number that team has done.

So continuing on that strategy, we are increasing our production capacity of optical fiber cable with the kind of cables, which will be mostly used in the export market. So those both are in progress. And moreover, another kind of capex we incur on the R&D in terms of creation of new products, mostly on the equipment side and some in the cable side also. But on the equipment side, as we said, we are continuously working on new 5G products, lateststate of the art 5G product, which would start coming into production and commercial offerings during the current financial year, one by one, they would start coming in.

And also, of course, our Wi-Fi access points and unlicensed and backhaul radios, which are already being sold commercially and continuously new orders are being received and being shipped to different customers, more than 35 direct customers in India, and there will be so many through channel partners.

We would certainly start export of these products in large quantities and already the Company is making efforts for that. So when we talk of increase in exports, a large portion would come from a telecom equipment also. And another capex, which is happening is, of course, we will be creating a new facility for manufacturing telecom equipments by ourselves.

It would not be a large expenditure. But yes, there would be some because we need to take advantage of the INR652 crores of PLI which has been sanctioned to us. So this all capacity expansions will add into increase of the profitability and revenue of the Company both.

Moderator: We take the next question from the line of Mr. Ritik Chopra from Buoyant Capital.

Ritik Chopra: I have 2 questions. One on the raw material prices, how the raw material prices in this quarter and going forward?

Mahendra Nahata: To answer to your first question, Mr. Chopra, what I heard, raw material prices for fiber optic cable has come down considerably, whether it is plastic raw materials or fiber. The fiber, which is a major raw material, the prices which used to be something like INR450 per fiber kilometre, if you convert dollars into rupee, have now come to about INR360, INR370 per kilometre.

So what used to be INR440, INR450 has come down to INR360, INR370. And there has been some 10%, 15% decline of the raw material prices of other products also like HDPE and all that. So that have been taken. In fiber, it has come down a little bit more than 10%, 15%, maybe you can say 20%. Other raw material 10% to 15% reduction has been there. So generally, prices have gone down.

Ritik Chopra: All right. And what are the end product realisation in the domestic market and the export market?

Mahendra Nahata: If you talk of fiber optic cable, cable roughly, we are looking at depending upon which kind of cable, which kind of a customer, it's all varied. But on an average, the realization per fiber kilometre is around INR1,300. I'm not talking of cable because cable has different types.

So I'm just talking on an average per fiber kilometre of cable is around INR1,300, which used to be about INR1230 in the previous quarter. If you compare with the first quarter of last year, it used to be about INR1,100. From the last year, INR1,100, it has gone up to about INR1,300. But again, don't see a general trend because it again depends on the mix of products who are the customers. So it all depends upon that. But generally, yes, there has been some increase.

Ritik Chopra: Okay. So the prices are same in the domestic market and the export market? Or are there a marginal difference between that?

Mahendra Nahata: So trend is same in the domestic and international market. Trend is same.

Ritik Chopra: All right. So one last question. What are the utilization level?

Mahendra Nahata: Utilization level in terms of factory percentage last quarter, generally, we had about 86% utilization. But again, please, this is again a bit of a technical issue. When I say total capacity 100%, let us say, it is calculated on the basis of a particular type of cable being manufactured throughout the year. That is the way you calculate. But it never happens because customers place different orders for different kind of cables, different counts and all that.

So capacity utilization varies between what kind of cable you are manufacturing for the year, which kind of what percentage, what lengths all that kind of things. So if you look at that perspective, that a percentage of installed capacity, which is calculated under there's a one particular kind of cable for the year, which never happens practically, But if you look at it from another angle, it is running , yes, it is 100%. Factory has been running 24/7 throughout the year for the quarter.

Moderator: We'll take the next question from the line of Mr. Saral Dilip Seth from Indsec Securities.

Saral Seth: Congratulations for decent margins amid these global challenges. And I believe we've been maintaining our margin expansion guidance over last so many quarters, which has now been bearing fruits led by product mix. So sir, I want to understand what is really triggering this margin expansion? Is it a mix of better product and reduced project revenue? **Mahendra Nahata:** Look, major reason is, of course, that we have reduced our revenue from projects and constantly trying to improve our revenue from product. And if you look into the current quarter only, the margin from the projects is quite low, which is abnormal in this particular quarter, this is an aberration. And I will explain reason also. The product margin has improved, may be small part is due to raw material costs also, but it is more for the margin-accretive products which we are selling.

Now the point is when I say that it is an aberration that this particular quarter, the margin from projects has been even lower than normally what it should be. The reason is being that our NFS network for spectrum projects, which we are implementing for the army, those expenses are always there because these are manpower expenses.

But a lot of about INR100 crores- INR150 crores billing could not take place due to acceptance testing still remain incomplete, not because of us, but because of integration of the network, which has to be done with the equipment to be supplied by some other vendors. That vendor could not complete its supply, that's why our final integration did not get completed with the network of that other vendor.

As a result of that, acceptance testing could not happen and we could not bill. So that entire expense for that is manpower has been booked into expense. So that has resulted in a bit of an aberration. Otherwise, there would have been this margin could have been even better, even better. But this small aberration is there. Otherwise, there could have been additional revenue and profitability both coming into this quarter's P&L. But this aberration happened, unfortunately. Nothing to do with us, but some other vendor.

Saral Seth: Sir, what would be our margin guidance for the full year?

Mahendra Nahata: Well, I won't give you any guidance as such. But yes, I expect that as I said, quarter-to-quarter, there may be some change. Otherwise, we expect to continue the margin at a same level or may be sometimes better also.

Saral Seth: All right, sir. Sir, my second question is our order book is very strong of INR6,600 crores, which translates to 1.5 years of revenue visibility. Can you give some guidance on the order book? Will we maintain similar levels? Or do we see a very strong increase in order book led by exports?

Mahendra Nahata: If you look at the equipment business, orders keep on coming. In a project business, large orders come in 1 by 1, and go. Product business doesn't happen like that. Some INR100 crores order will come, that will be supplied; some other INR80 crores order will come, that would be supplied. So orders keep on coming, and they keep on being supplied. Projects orders come in a large number, large quantity in a single order.

So what I expect, the current order book what you have will at least continue, there is scope for some improvement also because we are expecting some larger orders. We are expecting, I'm not sure when would it come, but we are definitely expecting next couple of months from larger orders to come, and that will see increase in order book also. But I'm not worried about order book because further orders keep on coming at regular intervals.

Saral Seth: That was helpful. Sir, my final question is, how do we see defence as in the overall mix, it has been increasing gradually, sir?

Mahendra Nahata: No. Defence revenue, particularly defence communication projects we are implementing, as I said, has gone down in this quarter. And it has gone down particularly because I explained a little while ago, the integration could not be completed by the other vendors. The other vendor has not completed its network. That's why the revenue has gone down. So this quarter, it has been considerably lower. But next quarter, we expect it to improve.

Saral Seth: Understood. But as an overall strategic mix, how do you see defence shaping up over the next 2 years?

Mahendra Nahata: Yes, it will improve. It will improve, particularly from different products, it will improve.

Moderator: The next question is from the line of Mr. Neeraj Kumar Jain from N Kumar and Company.

Neeraj Jain: Two questions here. First of all, our capital employed for Turkey projects is around INR2,900 crores. So what is the rationale for this much of capital for Turkey projects?

Mahendra Nahata: I missed you, Neeraj. Can you repeat your question once again?

Neeraj Jain: Sir, we have the capital employed around INR2,900 crores in Turkey projects. So what is the rationale for this? When the revenue is very low compared to the product side?

Mahendra Nahata: Yes, I tell you. This is basically is one receivables; Second, retention money, which I said would be receivable on completion of the project, which is at least 10% of the overall revenue, which is the retention money, which is to be paid only when the project is completed. Project completion depends upon in this particular case where the large amount of money is due on the other vendors. The other vendors are still not able to complete this project. So we are not able to integrate.

Third is the WIP, which is still there because the project is under implementation.and unbilled revenues also there, we have completed our work, but again, not billed it because of the acceptance testing not happening and all that. That has put together INR2,900 crores or so that amount of money which is there in stuck in the projects, which is receivables, WIP advances to other vendors etc. Those are the issues, unbilled revenue and retention money of 10%, which is quite a hefty amount, quite a hefty amount because some INR5,000 crores of work of NFS itself has been executed with the retention money still amounts to hundreds of crores. So those are the reasons. But once we expect this project to be completed in this financial year itself, I think. A lot of you will find receivable will go down as well as this total investment in this project business, which is because of reduction in WIP, advances, receivable and retention money coming in, this investment, what is there in the projects will completely go down.

Neeraj Jain: Okay. Okay. Sir, second sir, my second question is regarding the product side. If you compare quarter-to-quarter, there is not very far betterment in sale of product side. It is INR620 crores in the June quarter '22 and around INR660 crores in Q'23.

Mahendra Nahata: Look, it is going to improve. Once these 5G products, which I've been talking about starts coming in production and the newer version of this UBR and Wi-Fi comes into production, which has started coming in production. In fact, the newer version of unlicensed radio has already started coming in production.

And also this Wi-Fi, 5G equipment getting completed in design may be another 3 months or so, we will start seeing revenue of products getting improved. And also with the increased capacity of fiber optic cable, this will further add into this increase in revenue. So you will find quarter-on-quarter, there may be some variation quarter-on-quarter. But overall, year-to-year basis, you'll find product revenue getting increased.

Moderator: The next question is from the line of Divya Daga from Vijit Global Securities.

Divya Daga: I have one question that is, can you provide me the order book for exports?

Mahendra Nahata: Export order book could be something like INR 250 crores or so. But as I said, export orders keep on coming, they keep on coming and keep on getting supplied. But I don't have exact number. It should be around between INR 200 crores, INR 250 crores at this point of time. But orders keep on coming, keep on getting supplied.

Divya Daga: Okay. Okay. Then I have a second question. So my question is after product execution or capital expansion we are planning for FY'24, FY'25, there will be any new expansion for sure. So we will be focusing on the margin expansion as well or the margin will be consistent around 19% to 20%?

Mahendra Nahata: Look, margin, as I said, I expect to continue around this percentage. There may be quarter-to-quarter variation and there could be a slight improvement also with more and more products coming in. But yes, more or less, it should continue around the same percentage, but the revenue will keep on improving. So overall number, overall margin, you'll see an improvement. Percentage would be around or maybe some slight improvement could be there with more products.

Moderator: We'll take the next question from the line of Mr. Aman Vij from Astute Investment Management.

Aman Vij: My first question is on the telecom 5G products. If you can talk about what are the revenue you are expecting for this year and as well as next year? And the margins would be similar to the other products of 18%, 20% or where the margins can be higher?

Mahendra Nahata: Look, what I am expecting that in the current financial year, this should be about INR400 crores, between INR350 crores to INR400 crores, something around that. Next financial year with the 5G products coming in, I expect it to be between INR800 crores to INR1,000 crores. And margin would be around the same 20% or so as we have got in the current quarter, it should be around the same. But revenue would increase sharply in the next financial year, it should be around INR800 crores to INR1,000 crores.

Aman Vij: My question was on the 5G product only, not the overall products number you have already shared, INR800 crores to INR1,000 crores for next year. I was talking about 5G, 5G products for this year.

Mahendra Nahata: When I say INR800 crores to INR1,000 crores, out of which, I would say, if it is INR1,000 crores, 70% would be 5G products.

Aman Vij: Okay. And for this year, FY'24?

Mahendra Nahata: FY'24, INR350 crores to INR400 crores, most of it would be non-5G products which are Wi-Fi, UBR etc . But this is again a misnomer. I will again tell you why. Because a lot of these products, UBR Wi-Fi I'm talking, are used as a part of 5G network also. They may not be called a 5G product. But like, for example, our UBR, Unlicensed Band Backhaul Radio, is being used for the backhauling of 5G traffic. So you can call it a 5G product because it's being used for backhauling 5G traffic.

So if you take that as a 5G product because it's a part of 5G network. So then out of INR350 crores, probably INR200 crores plus would be coming from 5G. So there is no sharp distinction as such, black and white what is 5G and what is non-5G. Like telephone handset would be a different. And there are many handset which are 4G or 5G also. But UBR kind of a product, it can be 4G, It can be the same product and be 5G also where it will be used for backhauling the 5G traffic also. So there is no black-and-white distinction.

But some sense if you said INR400 crores would have if I say UBR is a 5G product because it is being used for 5G backhauling, then 200 crores comes in the current financial year. Next year, 70%, 75% would be from 5G related products. But again, that black and white distinction would never be there, but router as an example, which we are developing. Can we use for 5G? It can be used for non-5G also. So whether you call it a 5G product or not, it depends upon what application is being used, but the product is same.

Aman Vij: Sure sir, thanks for the detail explanation. My next set of questions is on the defence portfolio. So I wanted an update on the 3 segments individually. So I believe we are into optical segments and you have talked about optical products like BMP upgrade and night vision. What is the status as of now? Then you can talk about ammunition fuses? And finally, on the software-defined radio. If you can give the current update and when can we see some revenues or the tenders coming in?

Mahendra Nahata: Look, as I said, revenue from defence product is not expected this year. You may start getting revenue from the next year. I'm not taking into account any revenue from this. Coming to the different products, software-defined radios under development, it will still take at least 6 months' time before the radio is completely developed at least 6 months' time, it is going to take, but the requirement is very, very large, thousands and thousands of radio would be required. So 6 months or 1 month, 2 months here or there would not matter because the requirement is going to last for 15 years. Apart from local requirement, there will be large requirement from outside India also.

Number two, the BMP upgrade. I'm very happy to tell you, user trials happened that got finished last week only, and we completely succeeded in our user trial. We have deployed our equipment at the BMP, which we fitted with our modernized version. It has gone through the trial, different night day, all kind of trials it has gone through, and it has successfully passed. And now of course, we wait for the tender to come up once the trial for other manufacturers are also done, then the RFP will come maybe another 2 to 3 months RFPs will come, a major RFP for upgradation of hundreds and hundreds of BMPs.

So since we have gone through the trial and we have passed in that, I'm very sure that we should be competitive. But anyway, the tender is a tender and one would know when it comes up.

In terms of night vision devices, there was one tender, which we had participated where trials took place, but there have been some, what we call it, variation in the trial process in terms of how Army did the trial as a result of which all the suppliers have given I will not say protest, but they've given their viewpoint that they should not have been done in this particular manner. Now Army is considering retrial for everybody. And I'm expecting some sort of a communication to the receipt in the next 15 days or so, where the retrial of that happens where the core itself has been developed by us. So I am expecting that about 15 days or so it is expected to happen. In terms of fuse, in the first trials, there has been some issue with all the Indian manufacturers with the fuse, all the Indian manufacturers. So now the new tenders are going to come up, we will participate in that. And those smaller issues we have resolved and the new tender we will be participating.

Aman Vij: Sorry, sir, I believe something on the fuse side was supposed to happen in this quarter. So that there's no update on that part.

Mahendra Nahata: As I said, trial happened with all Indian manufacturers, there were 1 or 2 issues where they could not comply with 1 or 2 issues, not major issues. So we have improved that. Now new tenders are coming, we will be participating in that.

Aman Vij: So this will be this year, sir, new tenders?

Mahendra Nahata: Yes, tenders are expected to be in this year. Tenders are expected, but revenue will not happen this year.

Aman Vij: Okay. So tender for all the 3, BMP upgrade, night vision and fuses are all expected this year?

Mahendra Nahata: Night vision is already there. It's only the retrial has to happen. But fuse and BMP, both are expected this year.

Aman Vij: Okay. Okay. And this will be in a few INR100 crores, sir, tender size?

Mahendra Nahata: I can't say... Yes, it should be a few hundred crores, of course, of course.

Moderator: We take the next question from the line of Ms. Payal Lad from Progressive Shares.

Payal Lad: Just one question, like if you could just give some sort of detailed explanation in terms of the MOU that is being signed with BEL, how is it going to pan out for HFCL over a span of 2 years in terms of scaling on your defence, telecom or the railway sector?

Mahendra Nahata: Look, Payal, this is a kind of a strategic MOU we have signed with them. And the real implementation of this MOU is to start now. And basically, what we are looking at, BEL is very strong in defence. So some of the products which we are developing, which BEL may not be doing by itself, we will offer to them. Some of the products they have, and they want us to manufacture that and may be for export market or may be for indigenous also if they do agree, we will do.

And similar kind of situation would happen for telecom, where we are stronger than BEL in telecom. We will help and support them. So I can't say what kind of a number it would lead to. It's too early to say that what kind of a number it would lead to. But we believe that this should be beneficial for both organizations. But what kind of numbers and all that, since we recently signed MOU, we are still working on the modalities that how to go ahead in the different product areas and all that. So may be a couple of months later, we will be able to give you a much clearer idea that what it can lead to.

Payal Lad: Okay. And one last question. It's mentioned in your press release that even you are anticipating a Wi-Fi 7 via the Qualcomm collaboration to be commercially available this financial year. So what sort of revenue or margin improvement do you see from this particular domain?

Mahendra Nahata: Look, Wi-Fi 7 is improvement in the technology. We had Wi-Fi 5, then Wi-Fi 6, now Wi-Fi 7. It is higher speed, higher throughput. So margin level would continue to be same. So what would happen? Wi-Fi 5 goes out, Wi-Fi 6 comes in. Wi-Fi 6 and Wi-Fi 7 continue for some time together, Wi-Fi 6 goes out, Wi-Fi 7 comes in. So it would have some increase in the revenue, but margins will continue to be same.

Margins will not be different. But one thing you must understand, we are the only company in India now as far as my understanding goes, who has been able to develop Wi-Fi 7 access points. It is already developed. Why it is not commercially available? Because the component costs are still high. So if I compare between Wi-Fi 6 and Wi-Fi 7, the Wi-Fi 7 is much costlier.

So customer may not accept that kind of a price at this point of time, even though throughput is higher. So we are waiting for the component cost to come down, then only we'll be able to offer it to the customers. The development is complete. We are just waiting for the component costs to come down. As more people go for Wi-Fi 7 worldwide, component costs will automatically come down. So we are waiting for that to happen.

Payal Lad: And what that number could be possibly? Like, if you said that it's higher as compared to Wi-Fi 6, if you could quantify that?

Mahendra Nahata: I can't quantify that number that how much it will sell. The product is yet to be offered in the market. Let it be offered, then we'll tell you.

Moderator: We take the next question from the line of Deepesh Sancheti from Maanya Finance.

Deepesh Sancheti: What is the guidance looking forward in FY '24 and '25, what is the vision of the company? As I heard that the company did not participate in a few projects because the cashflow wasn't great. So what are we looking at going ahead. I mean what should we see that the management is looking at?

Mahendra Nahata: Look, as I said, I cannot give you a number guidance. Only thing I can tell you that management strategy is to increase revenue from products, reduce from the project, does not mean that we do, not do projects. We will do projects which are good in margin and good in cash flow. That is a basic strategy, number one. Number two is the increase in exports. That is a second thing.

Now project which we did not participate are the ones which we didn't see our profitability or -- which are the EPC kind of projects which we thought that the cash flow may not be good. We did not participate in that. So there is a general guidance I can give you. But yes, I definitely see growth in revenue or but at least the growth in profitability. Revenue growth or not, that's not my major issue. My major issue is profitability of the Company should grow. Even if the same revenue, profitability is much higher, I'm happy with that.

Deepesh Sancheti: Sir, going ahead, as I mean, as long-term investors, we should look at the profits of the company going ahead, that the cash positions and the margins and the profits will go I mean, will be higher. We should not look at the revenue growth to that kind of an extent. Is that what you want to mention?

Mahendra Nahata: No, no, no. I never said that. I'm saying growth in profit is more important. For example whether you need a 20% growth in revenue or 20% growth in profit or higher growth in revenue and lower growth in profit. My take is that profit growth is more important than revenue growth. But both are interlinked. Beyond a point, profit percentage cannot grow. If I'm making a say 20% margin, it cannot become 30% because there is not a monopoly market. That's a competitive market.

So revenue also has to grow. But you should take only those orders where profits are there. One should not be blind after revenue and take any and any order which may not have good cash flow or good profitability. So what I am saying is profitability is more important, but revenue is also important because you cannot grow profit more than a certain percentage in the competitive market and worldwide is a competitive market. But you should take only those orders where profitability is as per your requirement, as per your projection on what you deem to have reasonable profitability in the company.

Where the orders are there, where the profitability is very low, there are some orders I have left, I've not even touched, where the profitability was not there why should I do that? So therefore, what I'm saying is, both are important. But only those orders you should take where the profitability is there.

Deepesh Sancheti: Right. Just one last question, sir, what is the product mix will be in this year for telecom, for defence and for railways? And going ahead for the next 2 years, because I'm only talking about the long-term vision of the company. But what is the ideal order mix which we want going ahead so we can have a better margin, better profit and whether -- an ideal situation which you say.

Mahendra Nahata: Ideal situation would be 70% or so, now it's a few percentage here and there would always be there, revenue coming from product. Rest of the revenue coming from projects which are cash flow good and reasonably profitable projects. That will be the most ideal situation. In terms of percentage of product revenue in telecom, defence, railways, I would say if I take product revenue as 100, probably 70% should come from telecom and rest 30% come from mix of defence and railways.

Deepesh Sancheti: And right now, what is the --

Moderator: Sorry to interrupt you, Mr. Deepesh. May we request you to join the question queue, Sir. We have several participants waiting for their turn. The next question from the line of Mr. Saket Kapoor from Kapoor & Company.

Saket Kapoor: Sir, firstly, if you could sir, if you could explain, give the number for this other than this INR150 crores Indian Army project, what are the other contracts in which the milestones are awaited? And you spoke about some receivables, which we'll be receiving in the third quarter.

Mahendra Nahata: I'm not able to hear you clearly.

Saket Kapoor: Okay, sir. I just come again. Now you can hear me?

Mahendra Nahata: Yes, go ahead.

Saket Kapoor: Yes, sir. Sir, you spoke about this INR150 crores revenue from the Indian Army contract, which we were unable to book because of some milestone pending from their end. Other than this INR150 crores, I think some BSNL milestones are also pending. So what is the receivable from the BSNL end as of now?

Mahendra Nahata: Look, this about INR150 crores. I'm not very precise on the number, about INR150 crores revenue could not be booked because of those milestones not getting completed, which has nothing to do with us because it is because of BSNL or other vendors of Army and BSNL and all that. So that is the one which is incomplete. Money due on this particular contract, which is still receivable is about INR800 crores.

Saket Kapoor: From BSNL?

Mahendra Nahata: Order is through BSNL, but money comes from the Consolidated Fund of India.

Saket Kapoor: Okay. So INR800 crores is due from this contract?

Mahendra Nahata: Yes.

Saket Kapoor: And INR150 crores of revenue is due. So we will be booking INR150 crores of revenue on account of this contract during the second quarter?

Mahendra Nahata: I don't know. This all depends upon other vendor is able to do his part of the work.

Saket Kapoor: Okay, sir. And sir, on the order book part, sir, what is the O&M component of the order book of INR6,000 crores?

Mahendra Nahata: I think it should be around INR1500 crores around INR1500 crores.

Saket Kapoor: So INR4,500 crores is the current order book in terms of the EPC as well as --

Mahendra Nahata: INR5000 crores, **Saket Kapoor:** Okay, INR5,000 crores. Sir, last point on a not a hypothetical, but elaborate answer. Sir, all the key players, whether you -- whether HFCL or Sterlite, everybody is moving away from this EPC part of the story, wherein the --

Mahendra Nahata: Say that again, moving away from?

Saket Kapoor: The EPC part of the story, this project part of the story, everybody is focusing on the optical part and also on the product part. So when the major players are not taking up contracts, how do you think they will be laying off the networks going ahead, especially from the government front, when the major players are hesitant in taking up the key taking the projects going ahead?

Mahendra Nahata: Look, it's for the government to decide. I think they have to improve their terms of payments for the contract and start distinguishing between larger players and smaller players. What happens is that once you allow small, big all players to participate in one particular tender, smaller players tend to quote very very low prices. And larger would definitely not be interested in such kind of contracts where because of such kind of I would not use that word, but non-economically gainful quotation, larger players will not quote.

So the government has to start differentiating between larger and smaller players and have the eligibility condition set up accordingly so that larger players do come in and stay, unless they earn a reasonable margin, they would not come in. So certain areas it has happened. But in BSNL case, in telecom, I have not seen it happening. That's why they don't find participation of the larger players. So if they want to improve their performance in terms of quality of the network and all that, they have to start distinguishing.

And a good example is Bharat Net. In the Phase 1 and 2, they did not distinguish. And as a result, contracts went to very small players and the network quality is very, very bad, very bad quality of network. So government has to start working on this and really look at what kind of players they want and what kind of network quality they want.

Moderator: Sorry to interrupt you Mr. Kapoor, may we request you to join the question.

Saket Kapoor: Yes, ma'am, I will join the queue and sir, I hope for your good health. I heard you were not doing well.

Mahendra Nahata: I am very well. Don't worry, I am very well.

Moderator: The next question is from the line of Mr. Hardik Vyas from Economic Times.

Hardik Vyas: Sir, I had a couple of questions. The first one is how much money have we invested in Wi-Fi 5 sorry, not Wi-Fi 5, 5G products from where we are going to get about INR800 crores, INR1,000 crores the next year?

Mahendra Nahata: Look, right now, the money is being spent in R&D. And we would have spent anywhere between INR125 crores to INR150 crores of R&D and the products will start coming up now. So R&D is very, very expensive. The license fee has to be paid. Qualcomm itself licenses is USD4 million. And you need a Qualcomm license in 5G, is just one example. Similar such kind of license fees, royalties and manpower costs, equipment costs, test equipment costs, infrastructure costs, all are there. So about INR150 crores also has already been invested. And one will see products start coming out from the current year.

Hardik Vyas: Okay. So I'm asking about R&D expenses for the facility that is going to come up for the products of 5G, that money, how much of that money are we investing is what am I asking.

Mahendra Nahata: That would not be much. That would not as much. Reason I tell you, part we want to do ourselves, part we want to get manufactured on contract basis. So assembly of PCBs and all that component assemblies that we will get on a contract basis. But we would be doing the testing, final testing and integration. So that investment could be something like INR70 crores, INR80 crores, not much. It will be that range only.

Hardik Vyas: Okay. And the same thing would also apply to other products like Wi-Fi 5, Wi-Fi 6 and then --

Mahendra Nahata: It would apply to other products, other telecom products also, absolutely.

Hardik Vyas: Okay. So it will not be much of the investment on our side.

Mahendra Nahata: So it will be 70-80 crore capex, a large portion would be done by contract manufacturing. And that's the trend worldwide. Worldwide, it is being that way. If you look at Apple, for example, famous, phones are manufactured by Flextronics and different kind of companies, they do it rather than Apple manufacturing by itself because the contract manufacturers have their own strengths, own sourcing capabilities, manufacturing capabilities. So one would use that and that turns out to be cheaper than doing it yourself.

Hardik Vyas: Okay. So capacity will not be a constraint ever. We'll be having more contract manufacturers if we have more demand for such products?

Mahendra Nahata: Yes, definitely, there are so many contract manufacturers now, Flextronics and whatever, so many names I can keep on taking.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Mahendra Nahata: Thank you, ladies and gentlemen, for being part of this investor call, the earning call of HFCL for Q1. As I said, we would continue to work on our well-defined and well thought of and well being implemented strategy of increasing our revenue from products, increasing our revenue from exports and taking on those EPC contracts where cash flow profitability is good.

So you would see in future also the Company in making good margins and growth in revenue from products as well as from export segment, where we are taking definitive steps to have our own IPR, our own products and increase our presence in the international market, going to more countries, either by our own people or by agents and distributors.

So this strategy is going to continue. And I believe the strategy has paid dividends. It has increased the profitability of the Company. With new products coming in, revenue going up, you will see the revenue and profitability both going up. And worldwide telecom market is in good shape. With the market being in good shape and our strategy of increasing products and product revenue and export will play us well to see good growth coming up in the Company in the future. So creating better and higher value for the stakeholders. Thank you very much. Thank you very much.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.