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Subject: Transcript of Conference Call on Financial Results/ Earnings for the 4th Quarter & Financial Year ended 31st March, 2021, of the Financial Year 2020-21.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on May 12, 2021, on the Audited Financial Results of the Company for the 4th Quarter & Financial Year ended 31st March, 2021, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on May 10, 2021.

This aforesaid Transcript is also being made available on the Company's website at www.hfcl.com.

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

Thanking you.

Yours faithfully,

For **HFCL Limited**

(Formerly Himachal Futuristic Communications Limited)

(Manoj Baid)

Senior Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.



**“HFCL Limited
Q4 & FY'21 ended March 31, 2021
Earnings Conference Call”**

May 12, 2021



MANAGEMENT: MR. MAHENDRA NAHATA – MANAGING DIRECTOR & PROMOTER
MR. V R JAIN – GROUP CHIEF FINANCIAL OFFICER
MR. MANOJ BAID – GROUP COMPANY SECRETARY
MR. AMIT AGARWAL – HEAD (INVESTOR RELATIONS)

MODERATOR: MR. ABHISHEK JAIN – ARIHANT CAPITAL MARKETS LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to HFCL Limited's Q4 & FY'21 Earnings Conference Call hosted by Arihant Capital Markets Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Jain from Arihant Capital. Thank you and over to you, Mr. Jain.

Abhishek Jain: Good morning, friends. On behalf of Arihant Capital, I welcome you all for the HFCL's Q4 & FY'21 Earnings Call. And now I am handing over to the management for the outlook going forward. Please go ahead, Mr. Nahata.

Mahendra Nahata: Yes. Thank you, Abhishek. Good morning to everyone and thanks to all of you for joining this Q4 & FY'21 Earnings Call of HFCL Limited. I am sure that each one of you, your loved ones are safe in the midst of the second wave of COVID-19. The Country ushered into a new financial year with surging infestation once again. Parts of the Country are in the varied lockdown measures. Pressure on healthcare infrastructure and vaccination drive keeps mounting. At HFCL, we have been adhering to prescribed guidelines and safety measures to keep both our people and our business protected. It has helped us deliver good growth for the quarter and also for the full year.

I am sure that you have had a chance to go through our "Results" and "Earnings Presentation." Let me share key operational updates from the quarter. We have won orders for Kanpur and Agra Metro Rail projects for the telecommunication network worth Rs.221 crores. The order involves setting up of telecommunication system across 32.4 Kms length of Kanpur Metro and 14 Kms length of Agra Metro.

Shipment of our indigenously developed wireless solution products crossed 1.5 lakh units' mark during the quarter. This comprises Wi-Fi Access Points, Point-to-Point Unlicensed band radios. These products are being sold under the brand name "IO." With increasing and accelerated digital shift future demand for our IO range of products shall also accelerate.

We have strengthened our portfolio of wireless solutions with a rollout of new dual-band Wi-Fi 6 products in addition to the existing Wi-Fi 5 range of products. In a promising diversification move, HFCL's subsidiary company, HTL Limited has forayed into wiring interconnect solutions. Aimed at Aerospace & Defense and Automotive and Industrial markets, HTL has set up a dedicated production facility at its Chennai plant for this purpose. With this state-of-the-art wire harness facility, HTL stands equipped to deliver indigenously developed products to the defense PSUs and global and Indian OEM majors across the aerospace and Defence value chain.

Having sharpened our technological edge through a number of initiatives in the last five to six quarters, we have strengthened our prospect for aggressive 5G play. At a time when the 5G opportunity starts to unfold, we have established a new 5G business unit which will consolidate our existing and under development strength towards developing a rich portfolio of next generation



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5G compatible products and services. Implementation of 5G and associated technologies will help unlock the transformative power of digital communication networks and enable us to achieve the digital empowerment goal.

Another area of our interest has been to explore system integration opportunities in the international markets. We have steadily been strengthening our engineering and product portfolio towards international standards and specifications.

While our optical fiber cable has been exported to 30-plus countries, we are now confident of expanding our system integration footprints too beyond India in FY'22. I take immense pride in sharing that we are walking the talk in becoming an integral part of India's digital transformation and aligning with the Government's vision of *Atmanirbhar Bharat*.

As a first step, we have started up a modern PM-WANI village in Baslambi, Haryana. The model village is providing high speed Wi-Fi to all its residents. The Project is a testament of HFCL's capabilities to supply PM-WANI compliant Wi-Fi Access Points all over India.

On the policy and reform front, we believe that initiatives and schemes such as PLI for the procurement of telecom products and 'Make in India' will provide strong tailwinds to domestic telecom equipment manufacturing in India.

Coming now to the "Financial Performance", we have succeeded in keeping our order book robust quantitatively and qualitatively both. As of 31st March 2021, our consolidated order book stood at Rs.6,875 crores. On the back of strong order book and execution our capacity utilization has also remained at the almost optimum level during the fourth quarter.

Let me now summarize the "Performance Highlights of the Quarter and the Full Year."

Revenue for Q4 of the financial year '21 stood at Rs.1,391.40 crores as compared to Rs.1,277.48 crores in Q3 of FY'21, recording a growth of 8.92%.

EBITDA for the quarter stood at Rs.187.77 crores. EBITDA margin slightly decreased by 36 basis points and stands at 13.49% for Q4 of FY'21. The margin slightly varies because of revenue mix during the quarter.

For Q4 FY'21 profit after tax was Rs.86.47 crores as compared to Rs.85.11 crores for Q3, recording a growth of 1.6% , however, PAT margin has slightly declined by 45 basis points to 6.21% in Q4 as compared to 6.66% in Q3, again due to revenue mix and interest cost.

Segment revenue for telecom products during the quarter stood at Rs.387 crores as compared to Rs. 333 crores for Q3. We expect revenue from telecom products to continue this upward trend.



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Turnkey contract and services reported a revenue of Rs.1,003 crores as compared to Rs.944 crores for the Q3 of FY21.

For the financial year ended 31st March 2021, our revenue stood at Rs.4,422.96 crores; EBITDA stood at Rs.585.71 crores and PAT stood at Rs.246.24 crores as against revenue of Rs.3,838 crores of last financial year, that is the financial year 2020, EBITDA in the same year was Rs.516.17 crores and PAT in the same year was Rs.237 crores for the year ending March 2020.

Looking ahead, we intend to further accelerate and amplify our innovation streak with R&D breakthroughs, technological advances through in-house and collaborative efforts. We remain enthused and optimistic with promising order inflows from domestic markets and increasing enquiries from overseas. The pandemic has intensified the digital shift, and we are ready with an ever updating and expanding suite of products and solutions. Clubbed with our business expansion, initiatives such as 5G and system integration exports, we shall continue to mine the opportunity landscape better and sustain our value creation drive for all stakeholders.

I would like to conclude with the fact that the Board of Directors has recommended a dividend of 15% that is, 15 paise per equity share for a face value of Re.1 each, for the financial year 2021.

With this, I close my remarks and leave the floor open for questions. Thank you very much 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 Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah:

I've gone through the presentation and it's really very informative. Sir, can you elaborate on the opportunity landscape in different segment, what is the progress on that side? Are we going for any benefit given by the PLI scheme to indigenize products, one, if yes then what are our plans on that side?

Mahendra Nahata:

If I divide opportunity landscape in the current scenario, there are four, five areas I can talk about; one, as you all know, additional spectrum has been given to operators for 4G. This will entail some expansion of 4G networks also. This is an opportunity for equipment and service providers like us.

Then, large-scale Fiber-To-The-Home (FTTH) rollout is happening. As you know, we are the largest producers of FTTH cable in India. So that is another big opportunity for us. As the FTTH rollout happens there will be a huge demand for FTTH related cables also.

The third opportunity is the upcoming BharatNet. As you all know, the Government has cleared BharatNet implementation of PPP model. And once fully implemented in three years' timeframe, the total demand for fiber optic cable is projected to be 10 lakh cable Kms, humongous demand. Added to that, with the demand for Wi-Fi systems, fiber-to-home equipment, routers, switches, all of these products are or going to be the portfolio of HFCL. So not only the demand for fiber optic



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cable, but the demand for all these equipment will result in a very good market opportunity for HFCL in the next three years to come. I expect only BharatNet-related market opportunity is going to be more than Rs.60,000 – Rs.70,000 crores. FTTH market opportunity, 4G-related market opportunity are again not less than Rs.30,000- Rs.40,000 crores.

Then comes the upcoming 5G. As you know, 5G has taken the world by storm. It is completely going to change the way communication happens. So, 5G options are expected to happen in India in December-January timeframe and in this December-January timeframe when the auction happens, network rollout will start immediately thereafter. In fact, operators are already preparing. Now 5G would mean more number of cell sites because it's a very dense network, it means a large number of cell sites which results in more cell sites, more equipment required and more interconnectivity which is mostly going to be on fiber. So the demand for fiber optic cable, transport equipment, microwave radios, all are going to increase immensely and it would result in demand of more of 5G macro cells, small cells. So what we are doing in 5G space is one, fiber optic cable we already have, microwave radios, high-capacity radio relays required for connecting cell sites of fiber optic, e-band v-band radios etc. we already have in our product portfolio.

Then, most importantly, now we have embarked upon, there is a new development in our Company. We started developing 5G radio equipment, 5G macro cell design has already been kicked off from yesterday only, small cell is going to be started in the next couple of weeks. So by the time 5G happens in India, we would be ready with our own radios, macro cells as well as small cells for 5G in our bouquet of products. Those equipment are going to be required in huge numbers, thousands, and thousands of lakhs in case of small cells all over the world. And this we are doing all frequency ranges; frequency range of 3GHz as well as mid-band and millimetric band which is 26 GHz plus. This is our own technology, this is not only for India, but we will also be exporting it worldwide. So these are major opportunities. Coming on telecom space in public communication and demand because of 5G is going to be three, four lakh crores kind of investment is projected in 5G network and with these equipment which we have fiber optic cable, macro cell, small cell, router, switches, I believe this is going to be another huge market opportunity for HFCL. In public communication systems, next seven, eight years you can comfortably see the huge market opportunities there for the products which we are manufacturing.

Now coming to “Railways Communication.” As you know, we have a very good position in railways communication. Railways communication networks are also going to be expanded together with the signal link system. So with the expansion of new railway lines, modernization or signaling and communication system, that also is a reasonably good market opportunity for us.

Then third comes “Defense Products.” As you know, the Government's push is more and more indigenization and in time to come 70% of the defense equipment they want to source from Indian manufacturers. The important point is either telecommunication products, most of which we are now going to bring in the market are our own design, whether routers, switches, small cells, macro cells, Wi-Fi, and I can go on counting. These are all our own designed products which are effectively going to do two things; one, increase the share of revenue from telecom products rather



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than projects in our overall top line; number two, make profit margins better because our own product gives us better profit margin and then expand the market horizon because your products you are able to export globally. So coming back to defense, we have electronic fuses already designed, samples are ready, I believe the army should be asking for this sample soon, we are ready to supply. We are the only Indian company to have designed that extra modern product with our own IPR.

“Electro Optics.” We have started which is night vision devices. First order also we have received, though small order but the order we have received is of Rs.11 crores. In many more tenders, we have participated which should be opened up in the next couple of months’ timeframe and the number of more tenders we are going to participate. As I told you in my past earning calls, demand for night vision devices is expected to be something like Rs.40,000 crores in the next six to seven years. So there is a huge market opportunity in public communication, there is a huge market opportunity in railway communication, there is a huge market opportunity in defense communication as well as defense electronics products. And we are active all across the segments which I expect from the market perspective, India and abroad, there are enough markets, we all need the right products and right strategy to sell to take the share of that market, in a small percentage it would be thousands of crores. And we are well geared up with the product design, we are well geared up with the expansion, our sales team has the ability to market all over the world. So that was the first.

Second, the PLI Scheme. We will of course be applying for the PLI scheme and whenever Government gives approval, yes, that is going to result in an advantage to indigenous manufacturers like us for the 6% or so whatever PLI they have announced, that is going to be a major advantage to manufacturers like us and we are definitely going to apply for that.

Moderator: Thank you. The next question is from the line of Dipak Rout from Arihant. Please go ahead.

Dipak Rout: What is the kind of revenue hit you may incur because of this pandemic and the lockdowns? The second one is, can we have some highlight on the pledged shares, please. There are some 20% release or something has been given.

Mahendra Nahata: As far as the first question of impact on revenue is concerned, till now we have not seen any major impact on our revenue. But some impact if at all it comes, it can come from because our people / partners are not allowed to move into cantonments and install and commission system which we're putting, because of the pandemic, that will see some small impact but otherwise, I don't see at this moment any major impact. The good thing about this time of lockdown and all that, they have not closed down the factories, so all our factories are operational, so factories being operational, I don't see that there would be any major impact on revenue for Q1, we would maintain the revenues in this quarter also what we have been doing in the past couple of quarters, I do expect that.



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Now coming to the pledged shares, some quantum of pledged shares have already been released, as you know. The last leg of the release of the shares, where eight banks are involved, six banks have already approved the release of shares, in two banks the proposal has gone to their higher authorities for consideration. I believe that having the lead bank has approved that and having six out of eight banks have approved that these two banks would also approve it. And this should be taking another three, four weeks or so depending upon the lockdown situation how the banks are able to move. I think in four to six weeks these pledged shares should also be released. But again, let me tell you the pledge of these shares is not against any loan taken against shares neither by promoter nor by the promoter companies, these are specifically as collaterals to the loan HFCL had taken and as per the loan conditions they have all been fulfilled, as such these shares are to be released now.

Moderator: Thank you. The next question is from the line of Hemang from Anvil Research. Please go ahead.

Hemang: How the Company is going to spend on R&D, because in this kind of industry, we need to develop the very new technologies and the new equipment, is there any benchmark percentage to sales or percentage of profit?

Mahendra Nahata: Our R&D spend in this year is going to be about Rs.150 crores. As I answered to the last question, R&D is the key to our growth and a lot of equipment we have designed, a lot of them are under designing, like, for example, first equipment we designed was Wi-Fi, then Point-to-Point Radio and now Point to Multi Point Radio is also going to come in. That resulted in good success. In the first year of production which is less than a year we were able to sell 150,000 of those units. More orders are in our hands. Already, we have orders for about 40,000-50,000 units on our hand from various operators. So own product design has improved and will also improve further as we go in and designing more products and sales increase from that, our profitability, working capital cycle and also revenues. So current year's R&D expense is going to be Rs.150 crores. We are opening up a new R&D center in Bangalore, this would have opened by now but with the pandemic and lockdown and all these, it will be delayed. So, in maybe two or three weeks, the new R&D center in Bangalore will be open. We have already started hiring people. So R&D is being done by our people in Gurgaon and Bangalore. Moreover, we have a tie-up with various R&D organizations, engineering companies which design e products for us and the design is passed on to us and the further development for version 2, 3 is done by our own Company. So there are two, three such R&D tie-ups where people are designing equipment for us nationally and internationally both.

Then third, we have taken equity in a couple of companies which are R&D companies which are designing products for us, one example is the software-defined radios being designed for us. Then there is R&D happening in the cable business., you must also understand that the cable business is not so technology intensive as communication products but still, there is a new kind of cables you have to design, less weight, less diameter, less raw material, consuming less space, micro modules cables, IFR cables and mostly those cables are required for the export market. So that also is being done by us and that R&D is being done at Chennai and Goa plant. So put together R&D expenses will be about Rs.150 to 160 crores in this current financial year which is a reasonable number, it



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would be something a reasonable percentage, I don't want to say percentage, otherwise I would be talking about the expected numbers of the current financial year, which I don't want to, like it's making a forward-looking statement.

Heming:

One more question on the defense side. How is the payment cycles and working capital and gestational period and order execution period, it is the same like on telecom equipment side or like it is a different ball game altogether?

Mahendra Nahata:

For the product side, the first order has been received and we will supply, and we will know the payment cycle, but as a product, it is a reasonably good payment cycle but on the project side there have been some hiccups, it's not because people don't want to pay or there are any problems in payments but because of pandemic last year. As I mentioned a little while ago, what happened throughout the last year was there have been a lot of pandemic issues, because of that, restrictions were put on the movement of people inside cantonments particularly in northern and eastern command. The reason was not only the pandemic, there was China border situation. So entry was completely restricted. So pandemic and China border situation both contributed to very little access to the cantonments where 80% of the equipment are going to be put. So that entry was completely restricted. And rightfully so, you can't blame defense forces for that because they cannot afford pandemic spreading in cantonments particularly in the border situation which we had last year which all of us know in northern and eastern areas both. So that resulted in not being able to achieve the milestones, but the payments are based on milestones. If you do this particular percentage of completion of work, then you get so much of payment. So milestones could not be completed not because of our fault, not because of customers fault, it was the situation at that point in time. So as a result of that our working capital cycle increased, debtors increased, because billing we did but we could not receive payments, some billing was done because the equipment was supplied, part of services were rendered, billing was done, but the entire milestone like regional completion was not being able to achieve, in certain places you could not go inside the cantonment. So that resulted in a longer elongated working capital cycle. But now that situation has improved barring some small issue right now because of the pandemic but we believe we will be able to overcome that in the next couple of weeks' times. It's not as bad as what happened last year in terms of going inside cantonments and all that. There may be some restrictions coming up in the next couple of months also but by September this cycle will get corrected and whatever elongated working capital cycle or debtor cycle has become because of this kind of a situation where milestones could not be completed, it will get corrected by the month of September this year where most of the services part of that installation, commissioning would also be finished, and a lot of milestones will also be achieved. So there has been some turbulence in between, but we will overcome it by September.

Hemang:

Do we see a fall in margin because of the rise in commodity prices and raw material mainly copper and all or we will be able to pass-through in the coming quarters in a lag effect?

Mahendra Nahata:

There have been a small dip in the margin percentage if you could see in the Q4 which was basically because of product mix and some increase in the commodity prices, not as much copper because copper does not impact much, more impact is because of rise in the plastic raw material



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like HDP, LDP, jelly and all which is our product requirements for fiber optic cable, that did happen. But again that has started easing out. Gradually it is getting passed on to the customers because some of the contracts we work on cost plus margins. So, the cable price has also been increased wherever it is a cost-plus model, the price has increased. So, for the time-being, it impacted but now that has been eased out.

Moderator:

Thank you. The next question is from the line of Rahul Porwal from Marathon Capital. Please go ahead.

Rahul Porwal:

I have three questions. What is the revenue or EBITDA target for FY'22 and FY'23? Are you looking for any technical collaboration? How much revenue can you achieve through our existing capacity you have for telecom equipment manufacturing?

Mahendra Nahata:

First of all, as you very well know, I cannot make the forward projection for the revenue of current year or the next year but I can only say that we will maintain the same growth trajectory which you have seen in the last financial year on account of a strong order book and also the number of more orders expected. For the products, small, small orders keep on coming. For the products, you don't receive an order of Rs.2,000 crores at one go. Some orders of Rs.100 crores, another order of Rs.50 crores, another order of Rs.80 crores, keep on receiving by us. So, with the strong order book, a good pipeline of orders, we will maintain the growth trajectory that we have seen in the past, same growth trajectory would be maintained. In terms of margins, we are hopeful that with our own designed products coming in and it has been becoming an increased part of our sales revenue, I believe that margins could also become better than what we have seen in the last few years. I can tell you what we expect to be the share of products and turnkey services in our revenue mix. In the last year's financial '21, we had 73% revenue from turnkey projects and 27% from products. A year before that it was 78% from projects and 22% from products. In the current financial year what we are in, I expect this 27% to become 45%. So out of total revenue, 45% will come from products as against 27% of last year and projects will go down to 55% from 73%. So this is a major shift happening and I have been talking of this in all my earning calls that the focus of the Company is to increase revenue from products and you will see a clear shift in the current financial year that 27% is going to become 45%, almost double, not exactly double, but about 80% increase in the revenue of the product. So this is going to be a major shift.

Coming to your third question, one of the shifts is going to come from fiber optic cable. What we expect is the revenue from the fiber optic cable business and accessories put together has been about Rs.1,050 crores in the last financial year. Our hope is to get it doubled in the current financial year to Rs.2,000 crores. Some parts would come from wireless business also, but the major part is going to be from fiber optic cable application, accessories related to fiber optic cable. So this Rs.1,050 crores we are hopeful to make it Rs.2,000 crores. And, of course, some capex would be required for that purpose and we have already budgeted for that and some of those projects are already under implementation. Total capex expected on fiber optic cable and in an enhancement of capacity for optical fiber also, we produce 8 million fiber Kms right now which we are going to enhance this year. So total capex is expected to be about Rs.170 crores in the fiber optic cable



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business. Then, there is some capacity going to be started in manufacturing of defense equipment. As I said, now we have started receiving orders for the defense segment. So, we would have to create new capacity for manufacturing defense equipment. So that would also have some capex. In terms of achieving the current year's numbers, I would say fiber optic cable and fiber business would see a capex of roughly about Rs.170 crores.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: I have a few questions which are all into the exports. First question is, which are the geographies that we export too largely?

Mahendra Nahata: In terms of geographies, if you see our presentation which is put on our website, we are exporting to about more than 30 countries which includes Middle East, UAE, Saudi Arabia, Oman, Egypt, then you have countries in Europe which includes UK, which includes Spain, Czechoslovakia, Lithuania, Ukraine etc.

Jigar Valia: If you can give some broader breakup in terms of how much is Middle East, Africa?

Mahendra Nahata: Africa is very little, Middle East is there, which are very quality conscious, Europe is there and even North America we have exported and some part in South America. I do not have a breakup of each country wise.

Jigar Valia: Other is with regards to exports and is it mostly government or is it telecom companies?

Mahendra Nahata: These are telecom companies, not government.

Jigar Valia: Exports are all largely OFC or you export products?

Mahendra Nahata: Largely, it has been OFC, some exports has been there in railways communication area also.

Jigar Valia: These would only pure product exports, right, no services with regards to exports?

Mahendra Nahata: There are some services when we implement, the Mauritius metro project and Dhaka Metro Rail communication, for example, there are some parts of services also, but major would-be equipment only.

Jigar Valia: So broadly the margins and working capital cycle both would be better as compared to the domestic piece?

Mahendra Nahata: When I say fiber optic cable, yes, margins are better. Working capital cycle in exports in some cases it is better, some cases may not be because in some cases in fiber optic cable in India we receive very, very quick payments, a 30-days payment which may not happen in export, some companies, yes, but otherwise mostly the cycle of payment is about 60 to 90 days.



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- Jigar Valia:** But it would be much better than the project business generally?
- Mahendra Nahata:** Yes, absolutely.
- Jigar Valia:** Sir, can we have the export numbers for FY'21 and may be some color on margins for export versus the domestic?
- Mahendra Nahata:** Again, in FY'21 we exported over Rs.200 crores as against Rs.123 crores of FY'20. Of course, I don't have the percentage of margin on exports but typically I would say this will constitute a net profit margin of 8% to 10%. In FY'22, our exports for cable as well as our products, our target is at least Rs.350 crores from Rs.200 crores what we had last year. Every year we want to increase our exports. As I said in fiber optic cable also, we have bought some very expensive machines to cater to the demand of European and American market, and those machines would be exclusively for the production of cable, which is required in these countries. So we are putting a lot of efforts on the development of the export market in the current year as well as the next year.
- Jigar Valia:** Given that you are putting all these new machines, so can you give some idea on the longer term as to what is the level that we would be looking at over three to four years period in terms of revenue number or as a percentage how much could export be for us or something?
- Mahendra Nahata:** Revenue numbers, I can't do the forward-looking projection, but yes, looking at the market opportunity what we have which I described a little while ago, I have no doubt that growth trajectory would be maintained with increased profitability because more of our own products coming in play, more of our own products having a share in the revenue and the product revenue going up to about 45% percent in the current year from that 27% last year. So it would definitely result in an increase in revenue profitability, but in terms of exports as I said currently we hope to reach to a level of Rs.350 crores and the same kind of numbers trajectory of growth I wish to maintain in the next financial year also. So next two years we know what we have to do. Once we reach to the targets that we have planned for these two years, then we will be looking forward. But this year we want to make it to Rs.350 crores and the same growth trajectory in terms of numbers we want to maintain in the financial year '23 also.
- Moderator:** Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.
- Nalin Shah:** Now since you have said sir, the product component is likely to be around 45% from 27% and services projects will be around 55%, can you give us some idea about what is the margin difference between these two groups?
- Mahendra Nahata:** Mr. Shah, there are two issues; one is margin, another is the working capital cycle and the third is the overall working capital involvement. In the project business, working capital involvement is higher than the product business because what happens you get paid on the basis of the milestone achieved, if you do this part of completion, then you get so much and so much and so much. If you



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have supplied the projects, you get paid 50%, rest 50% comes in stages. So what happens, the working capital cycle becomes higher and involvement of money in working capital becomes higher. In a product business, it doesn't happen that way, you have an order, you supply the product, there is nothing called milestones, you get paid once you supply. So your payment cycle is quicker, overall working capital normally is also much less because what you do let us say payment is 60 to 90 days, you are also able to take back-to-back credit for the suppliers also. So your working capital involvement goes down which is with less working capital, less stress on your funds, less stress on working capital and quicker payment, you are able to do more revenue with the same working capital, you can put it like that also, either you are able to do the same revenue, less working capital or with the same working capital, you are able to do more revenue. Profit margins in the projects and the products all depends, Different products can have a different profit margin, but more or less if it is our own designed products, definitely profit margin would be higher than projects, if the project is 8%, own products could reach to 12%, 13%, 15% also depending upon case-to-case. So, that is the kind of situation you have. When you have increased revenue from products you have higher profitability particularly when these are your own designed products, number one.

Number two, your working capital involvement becomes less and the working capital cycle also becomes better if it is the product than the project. And that is why I have been stressing if you would have attended our other earning calls that we want to increase our revenue from products and that is showing results; 22% to 27%, we are hopeful that this year it should become 45%.

Nalin Shah:

You have defined so many opportunities which are running into thousands of crores in your presentation around five different segments which are all very large opportunities ranging from Rs.30,000, Rs.40,000 crores up to may be Rs.3 lakhs, 4 lakhs as you said in 5G sector. Because these are spread over a long-term situation, can we have some idea about when do you feel the maximum kind of a momentum you may gather when this different cycle stages you reach in 5G and other areas also, where is the maximum in the next three to four years?

Mahendra Nahata:

Very high momentum would be there, right now also it is going on very well, absolutely no issue. But if you ask me when the storm is going to come? I'm talking in the sense that huge opportunity is going to come, this could happen I would suspect the end of the current calendar year and going into the entire '22-23, one, because 5G rollout would have started, going to change the landscape completely, number two, BharatNet would have started, that is going to be a huge demand opportunity. When these two major things happening which is expected to start from the end of this year to continue in the next two years, those two years which I say '22-23, going to be a major shift in terms of demand requirement and all and that shift has already started, in terms of cable, for example, prices started firming up. What you had the fiber prices earlier and what you have now changed. If I could give you some data points on the fiber price, you will be surprised, for example, if I start from the financial year '19-20 in Q1 fiber price was Rs.351 per fiber kilometer, I am talking about our purchase price, market prices could be different, I do not know. In Q2, came down to 329, Q3 and Q4 which came down from 351 to 315. In Q1 of the current financial year and the Q2 of the current financial year it came around Rs.280. Q3 and Q4 it came down to Rs.250.



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So that's why you see low realization per fiber kilometer of cable which used to I would say Rs.1,200, came down to Rs.800 or Rs.900 per fiber kilometer. With the same quantum of production, I was making less revenue. So we increased the quantum of production and our revenue increased, that's the separate issue but per fiber kilometer revenue came down, but now the price is Rs.250 per fiber kilometer, it has already shot up to Rs.275, Rs.280 range which means I am talking about what was in the beginning of the year that it started coming back, Rs.280 become 250, now 250 has again become 280 and I expect this would go up by another Rs.20 or so because there is a good demand in China, there is a good demand in India and many other countries because of FTTH, 5G and all kind of things. So this would result in again the realization per cable kilometer which is about 900, going up to about I would say 1,100 or so once again. So that would contribute to an increase in revenue which we have not factored in. When I say Rs.2,000 crores, I have not factored in this 900 to become 1100 crores, I have factored what it was in the end of the last financial year, that actually has the possibility of increasing but that has not been factored in and our margins would remain unaffected. So what we are doing because of this increase in demand for cable, we are increasing our cable manufacturing capacity in the current year as I have explained there is going to be a considerable amount of capex roughly about Rs.170 crores for the cable and fiber we are increasing our capacity. So this is in my opinion that in two years '22, '23 calendar year I am talking about, there are going to be huge demand opportunities. Current demand opportunities coming from the expansion of 4G networks, FTTH networks which are ongoing things which are happening all the time, these are the current demand opportunity.

Nalin Shah: This is the kind of situation for you going up to maybe some different kind of heights of this thing, top line, bottom line, etc., Will there be any plans in the near future to raise any equity funds to have a good ratio of debt-equity, which you already have a very comfortable debt-equity?

Mahendra Nahata: We have 0.48 which is very comfortable and right now we have no plans Mr. Shah to raise any equity.

Moderator: Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Two quick questions. While explaining the OFC business, railways business and defense business, you gave some flavor of expected capex, you said that OFC required some Rs.170-odd crores of capex. So can you give us some highlights that how much capex we did in FY'21 in the Company as a whole in total and what is the target for '22 and '23 just to get some sense of cash flow?

Mahendra Nahata: In FY'21 our capex was roughly about Rs.100 crores on a consolidated basis. Then in terms of the capex for the current financial year, as I explained, Rs.170-odd crores are going to be for OFC and optical cable business, then there is going to be defense equipment manufacturing, capex will be about Rs.40 crores and of course, R&D expense is going to be there which I already mentioned but this entire R&D expense is not capitalized, all manpower expenses and all that kind of things are put in revenue but only the equipment we buy for R&D or infrastructure we create for R&D or any technology fee which we pay to R&D partners or investment we make in their company they are capitalized, so that would be another Rs.120-130 crores.



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- Chetan Shah:** So sir this Rs.120, 130 crores of R&D capitalization is over and above Rs.150 crores.
- Mahendra Nahata:** No-no, it is not capitalization is included in that, total Rs.150 crores I talked about, part capitalized, part is going to be opex.
- Chetan Shah:** In terms of the working capital cycle and the mix when our revenue is likely to change in FY'22 onwards which will be more tilted towards products and less towards the projects, so do we expect this to improve than what we had in last couple of years, how do you see our balance sheet getting changed and return ratios getting changed in next couple of years?
- Mahendra Nahata:** Projects milestone getting achieved by September as I said in some of the major projects under execution, this payment which got delayed because of milestones not being able to achieve because of the pandemic and border situation, so that money would be available, so cash flows become better and products becoming more part of our revenue, this will also increase our cash flows and the better working capital cycle. So I expect this would definitely improve in the current financial year. So this cycle would start improving I would say from the month of July, August timeframe.
- Chetan Shah:** In terms of our existing capacity and the capex which we have already done till '21 and by end of '22 what kind of the optimum utilization and revenue one can generate without major capex? I am not talking about the normal capex which we are doing say Rs.200, 300 crores a year. If you can give some sense on a big picture? I am not asking for any future guidance but just to get a sense that how nicely we can sweat the existing assets which we have in our portfolio.
- Mahendra Nahata:** In terms of manufacturing fiber optic cable business, as I said including the capex which we are doing in the current financial year, I'm talking about the prices which were prevailing when we did our annual operating plan exercise in February end beginning March when it was completed and the prices were lower and which are going to increase now. But even at the lower prices, we estimated that we would be able to have a capacity utilization of 90%-plus with a revenue of roughly 2,000 crores in the fiber optic and fiber business. So that tells us you can see vis-à-vis revenue in cable manufacturing. Other manufacturing of telecom products which we do, which we are now getting on a contract basis, Wi-Fi, and all, we don't manufacture ourselves, there's no capex required there because we get it manufactured, contract basis is much easier for us because you don't have to bother about sourcing hundreds of components and the issues and that's the worldwide trend. So we don't require capex for manufacturing additional telecom products. What is capex required in the defense communication because defense authorities want you to do your own manufacturing rather than doing it on a contract basis and we will be starting that. It will be too premature to say that with the current capex of about Rs.40 crores or so we will do, how much production it would achieve. That will depend upon orders to receive, all that. But it would be reasonable enough to reach to a four-figure number.
- Chetan Shah:** Sir, normally you give a breakup between government and non-government revenue. What is the status in the last financial year?



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Mahendra Nahata: In the last financial year if you see the revenue mix the product mix I have already explained. In terms of order book I can say right now the government, non-government I think it could be 60:40 kind of a thing but going forward it is going to become better in favor of non-government with the increased products and all that and less projects. In terms of order book right now I can talk about, the government and non-government is roughly about 50 50.

Moderator: Thank you. The next question is from the line of Chetan Vadia from Pidilite Family Office. Please go ahead.

Chetan Vadia: My question is on the capex on the 5G by the telecom company. So what kind of trend are you seeing in that, is that accelerated in the last let's say one year or so and how does it look for the next two to three years? And secondly, in terms of your own production run rate, because of this lockdown, everything we hear and restriction elsewhere, are you seeing any blocks in your production efficiency delivery at this point in time?

Mahendra Nahata: To your first question, no question of picking up, 5G is to start now, 5G major capex is going to start when the spectrum is auctioned in early part of next calendar year as I said so. Right now preparation of 5G is happening. Some small expenditure in fiber optic cable, enhancement and those are being done. Major Capex from 5G is going to start from the time when the auction takes place that is number one. In terms of our production and all that because of this pandemic, there is hardly any impact. A small impact which has happened is because of some of the people, your workmen falling sick because of COVID and they have to be kept out and their primary contacts had to be kept out, there have been small deviations in our Goa plant in the last couple of weeks, but there is no such major deficiency or major stoppage of production in either of the places.

Moderator: Thank you. The next question is from the line of Nilesh from Envision Capital. Please go ahead.

Nilesh: I had one broader question basically as far as the optic fiber cable is concerned, in India what will be the share domestically sourced and imported? Second question on the same itself is what will be our market share in the domestic market and who are the other players in the optic fiber cable?

Mahendra Nahata: First of all, in terms of import of cable and domestic, I think more than 90% is domestic production, hardly there is any import of cable and even 10% I am saying with a pinch of salt, it may not be even 10%. Now on our market share, first of all, I have a lot of pride in saying that we have the highest market share in the domestic market in the fiber optic cable business. Exact percentage, I don't know because these data are not made available but primarily I can say and this is again these are the estimated numbers which we have, but our market share should be 50% or more in the domestic market, it can be reaching to 60% also but in absence of numbers being available authoritatively, I cannot say that but what I know of the market who is buying, what and all that, I think our market share would not be less than 50% in the domestic market which is a very credible thing, there have been 18, 20 manufacturers in the fiber optic cable business and if I am able to maintain a 50% market share in the domestic market, I think that's a reasonably good thing to do.



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- Nilesh:** This 50% would be likely because we have a higher wallet share in Reliance Jio?
- Mahendra Nahata:** That is one of the reasons, but not the entirety of it. Jio, yes of course, and there're very good customers, quantitatively good requirement, good payment cycle, we are proud to have Jio as our customer but then we supply to a lot of others, we supply to Larsen & Toubro as they are turnkey player, we supply to Tata Projects, we supply to Bharat Electronics, we supply to BharatNet in Punjab, Jharkhand, Chhattisgarh, we have supplied in Maharashtra for their BharatNet project, we supply to Airtel also, so we are supplying to all operators.
- Nilesh:** Last question would be on the 5G deployment side. So we say there's a huge opportunity as far as 5G deployment is concerned, but we are also saying at the same time our share of products will increase going ahead. So are we talking about that we won't take a lot of EPC projects going ahead in the 5G deployment and we will only supply products to this 5G requirements?
- Mahendra Nahata:** There are two opportunities we are going to pursue in 5G. One is the product of course which is our ongoing business and new products are going to be added in the 5G radio equipment which is macro cells and small cells, both, which are under designing right now. Second, we have opened up a new division in the Company this time, system integration for 5G, which includes not really turnkey projects, equipment may be supplied by us, equipment may be supplied by Ericsson, Nokia, Samsung, whoever. Right now, as you would have heard, the time has come from open RAN but we call open RAN means different equipment would come from different suppliers. Earlier, if you are putting up a network, most of the equipment's on Nokia because they won't interpolate with others. Nowadays open RAN. You can buy core from somebody, radio network from somebody else, the second part of the radio from somebody else. So what is resulting in with multiple suppliers you need somebody to do all that system integration. So what we have done is the system integration unit in our Company just pretty recently and we are going to expand that and make it a full-fledged unit for value-added system integration business more geared towards 5G where we have to start with different components of 5G. So it would not be turnkey projects as such but it would be high value system integration, then equipment could be supplied by us or somebody else. And, of course, the product business as I mentioned, would include switches, it will include front all gateways, routers, it will include small cells, macro cells, and all those kinds of things.
- Moderator:** Thank you. The next question is from the line of Malay Shah from Indsec Securities & Finance. Please go ahead.
- Malay Shah:** Just a couple of questions; one, if you can throw some light on the demand and supply scenario in China and help me understand what is the major deterrent for them to import products in the optical fiber cable products in a larger quantity to India?
- Mahendra Nahata:** As much as I understand China, now new tenders are coming on China Mobile, China Telecom and demand is picking up in China and particularly in fiber optic cable side I have seen demand picking up in China. And if fiber optic cable is going to pick up, everything else is going to pick



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up because fiber optic cable is one part of the network. In FTTH lot of that has happened in China. 5G has also started in China and 5G demand is going to be very good in China. In fiber optic cable, first of all, they are 15% higher in custom duty in any case. But even in terms of cost of production, we are as good as Chinese, we are able to compete with them in the export market most of the case unless they do dumping one is able to compete. So, with the final 15% custom duty and our cost being similar to that of China because we also produce fiber. So, there's no reason that we cannot compete with Chinese companies in the world market, we are doing that. And very much so we would be able to do in the local market also. And if you look at in last five years even, Chinese companies have not been able to put any hold in the Indian cable market at all.

Malay Shah: Thank you. So the next question was around macro cells and small cells. Can you help me understand what would be the market size say two or three years down the line and what are we looking at?

Mahendra Nahata: Market size if you look at India, I have not estimated particularly for those cells but it is going to be thousands of crores. Let me put some numbers in terms of number of cells. If somebody has got 200,000 cell sites for 4G network assuming it would be easily 600,000 for 5G network that is only macro cell. And for the small cells it would be many more because that would be required for inside coverage and all that. If it is just say macro cell, again I am talking just estimated numbers, if one cell site cost \$5,000 assuming and 600,000 you can multiply and see what numbers comes in dollars multiplied by three or four operators you can get the number, \$5,000 into 600,000 including three or four in India and then multiplied by that six times or 10 times for the world over quantity, you'll get the humongous number.

Malay Shah: Where are we in the development stage currently for these particular products?

Mahendra Nahata: Last week only we did start of the macro cell and small cell we will be starting in a couple of weeks from now. We are just finalizing on which chipset to use and all that, A company or B company, we're evaluating that and that evaluation should be done in the next couple of weeks.

Malay Shah: What would be the timeline for us to finally come up with the ready product?

Mahendra Nahata: We have estimated roughly about I would say 10 to 11 months.

Moderator: Thank you. The next question is from the line of Hardik Vyas, an individual investor. Please go ahead.

Hardik Vyas: I had a couple of queries. To begin with we have crossed our 150,000 shipments of Wi-Fi in number. So in the fourth quarter how much could we do?

Mahendra Nahata: It should have been about 50,000 in my opinion I think so, again, the exact quarter number I don't have.



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- Hardik Vyas:** So can we look at about 200,000 or more for the current financial year?
- Mahendra Nahata:** That is what our plan is.
- Hardik Vyas:** Second question is on the capacity utilization of our Hyderabad plant. So has it come on stream more than 90% or 80%?
- Mahendra Nahata:** We are increasing capacity, it is 100% capacity utilization, we are doing more than the rated capacity, you have a rated capacity and you have actual production.
- Hardik Vyas:** So you guided for capex of about Rs.170 crores for optic fiber and fiber cables. So from eight million fiber Kms we are likely to go up to how much for the optic fiber?
- Mahendra Nahata:** This is for optical fiber. We are going to 10 million fiber Kms from 8 million fiber Kms.
- Hardik Vyas:** Optic fiber cables would also go up?
- Mahendra Nahata:** Optic fiber cables would go up by about 4 million fiber Kms.
- Hardik Vyas:** What is the status of our BharatNet apart from Punjab and Jharkhand where we have done a lot of work? If you could put some light on GPON as well?
- Mahendra Nahata:** On BharatNet, Jharkhand is almost getting finished, Punjab is already done. BharatNet's next phase is going to come on a PPP basis as I have already explained and whoever becomes the winner, we would surely like to supply cable and equipment and all those kinds of things to them. And this is going to happen in my personal opinion as I said the Government should come up with tenders in the next two, three months if the pandemic things slow down a bit and real implementation should start from the end of the year or the beginning of the next calendar year. On your next question, GPON, is not the right word, I would say PON and PON has got many variations which includes GPON, XG-PON, NG-PON, NG-PON-2, so there are various versions of PON equipment. We have already tied up with C-DOT for transfer of technology and then partnership to improve upon that technology which then improvement would be specifically ours for development of this PON equipment which includes GPON, XG-PON, NG-PON, all the variations of that.
- Hardik Vyas:** We will be supplying those equipment's to the players?
- Mahendra Nahata:** Yes, absolutely.
- Hardik Vyas:** That would also be a huge opportunity for us?
- Mahendra Nahata:** Absolutely, BharatNet and all FTTH, yes, a good number.



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Hardik Vyas: We have been having Agra and Kanpur order inflow of Rs.220 crores. Apart from that have we had any other order inflows as well?

Mahendra Nahata: No, these are major orders I talked about but small orders like Rs.50, 70, 80 crores, we keep on receiving for fiber optic cable or Wi-Fi and all that all the time.

Hardik Vyas: You guided for 45% product contribution to the revenues growing gradually from there as well. So we are also going to grow our services business as well, right, so that the product is not eating away into the services business?

Mahendra Nahata: Not eating, project business would also continue, I am not saying that it will not. What I am saying is the share of product business will go higher, overall revenue will also increase but the share of product business from 27% will become 45%.

Moderator: Thank you. The next question is from the line of Dipesh from Mania Finance. Please go ahead.

Dipesh: I had just a couple of questions; one was regarding the trade receivables. Our trade receivables have gone up almost about Rs.1,000 crores. So wanted to know exactly what is the reason for that and how much of this trade receivables are good, I mean, has any of them turned bad or above 360 days or something?

Mahendra Nahata: They all are good. Absolutely, there is no receivable which is bad. There are a couple of them which are small ones which are more than 360 days particularly from BSNL and TCIL, it's both the Government companies, BSNL is paying back slowly, it is taking time, earlier it was Rs.150 crores, now I think it should have come down to some Rs.60-70 crores. TCIL again has receivables from BSNL and they will pay on some back-to-back basis. So as they receive from BSNL, they will also pay us. So those are the ones which are more than 360-days. There may be some small two, four, five crores here which may be more than that but there is no bad debt at all, these are all good receivables. If you recall what I explained in the beginning, why it has gone up. We were not able to achieve the milestones against which you will receive a large portion of payments, because of this pandemic situation in the last year, the first six months are very grossly impacted and also the border situation where you could not go into the cantonments and execute projects particularly northeastern border. That situation would start easing out from July, by September it would completely ease out. So when you see September, the situation would have changed completely.

Dipesh: Now our finance cost every quarter has been consistently increasing. Going ahead what is the outlook?

Mahendra Nahata: Good question. I will tell you why. Two reasons; one, in the current year we have taken a loan of Rs.140 crores for the establishment of fiber facility in Hyderabad, you find increased cost there. The most important reason is because of pandemic six months in the beginning of the year and later on also the payment cycle got really disturbed from our customers as I have explained a little while ago. So as a result of that what we had to do and which was allowed by RBI, we had to



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increase the duration of LCs. So if the supply was 30 days we took it to 90, 120, 180 days. Of course, we had to bear interest for that. Then non-fund limits were converted into funded limits as allowed by RBI to the banks. That interest cost also increased. So as a result of these two incidents what happened interest cost has gone up; one is Rs.140 crores of loan for the factory in Hyderabad and then also at the same point of time increase in the LC duration because of this pandemic situation and also the non-funded limits for the time being converted into funded limits. This resulted in higher interest costs. But you would find this year as the working capital cycle eases up, as I explained, this cost would reduce in the current financial year.

- Dipesh:** In the next few quarters we would see it constant or are we looking at some debt reduction?
- Mahendra Nahata:** From Q3 onwards, it will start coming down.
- Dipesh:** Are we looking at any debt reduction also in the coming future?
- Mahendra Nahata:** We keep on paying our term loan debt and all that as and when it becomes due. Debt reduction would also happen in terms of working capital loans. We have taken specific to the projects which are the defense projects. As project is completed, project debt loan will also come down.
- Moderator:** Thank you. The next question is from the line of Naman Dongar from IMAX Trading Company. Please go ahead.
- Naman Dongar:** I would like to know the funding process of the Company... is it going to be internal funding or all the acquisitions in R&D how they're going to be funded?
- Mahendra Nahata:** Good question. There are two, three ways; there could be some term loan for the capex and term loan would be taken to some extent, then internal funding coming on two sources; one, internal cash accruals which you recover from profit and all that, second, we have extraordinary cash flows coming in, which is income tax refund of about Rs.75 crores in the current financial year and in Hyderabad plant when we started you had a subsidy from central government and state government, that would also be disbursed in the current financial year, that would be another about Rs.75 crores. So, Rs.150 crores are going to be available from the income tax refund, for which assessments are all complete and Rs.150 crores of that additional money would be available for capex. So if there is a Rs.300 crore capex, we would say Rs.150 crores loan, Rs.150 crores, these two amounts which we would be receiving if we take Rs.150 crores loan, but we may not take Rs.150 crores loan, we may do part from internal accrual also. So these are the three ways we will be doing; one, some term loan which is available at a very reasonable rate of interest; two, income tax subsidy of Rs.150 crores and internal accrual.
- Naman Dongar:** My second question is I've been following your results for the past eight to twelve quarters. There has been some kind of inconsistency be it whether due to the pandemic or there was some Kashmir temperature issue in between. Can we take this quarter's results as a base moving forward and can we expect some consistency going forward?



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Mahendra Nahata: A little uncharitable in saying that inconsistency because if you see Q1 of this year and Q4 of last year it happened with every company, because of the pandemic you could not handle, otherwise we have been pretty consistent. As far as the current situation is concerned, I have no reason to believe that there will be any inconsistency in my results in this quarter. But if the whole country is locked down and any such event happens neither you can help nor I can help, no other company will be able, but I don't see any such thing happening.

Moderator: Thank you very much. Abhishek Jain, would like to make any closing comments?

Abhishek Jain: Thank you participants for being there on HFCL Call. We'll be happy to help you on any other queries also. Thank you for being there on the call and with this, I'm concluding the call.

Mahendra Nahata: Thank you very much to all participants being on the call and taking such a lot of interest. Any question you have kindly let us know, let Abhishek know or our investor team know, we'll be very glad to answer all those queries. Thanks a lot.

Moderator: Thank you very much. On behalf of Arihant Capital Markets Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.
