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HFCL/SEC/23-24
May 15, 2023

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

Subject: Transcript of Conference Call on Financial Results/ Earnings for the 4th Quarter & Financial Year ended March 31, 2023.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on May 09, 2023, on the Audited Financial Results of the Company for the 4th Quarter & Financial Year ended March 31, 2023, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on May 08, 2023.

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

We request to take the above information on your records and disseminate the same on your respective websites.

You are requested to take the above information on records.

Thanking you,

Yours faithfully,
For HFCL Limited

MANOJ BAID Digitally signed by MANOJ BAID Date: 2023.05.15 17:30:46 +05'30'

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

Encl.: Copy of Transcript

“HFCL Limited

Q4 FY '23 Results Conference Call”

May 09, 2023

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

Moderator: Ladies and gentlemen, good day and welcome to the HFCL Q4FY23 Results Conference Call hosted by ICICI Securities. As a reminder, all participants 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 any assistance during the conference call, please signal an operator by pressing star then zero on your touch phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mahendra Nahata, MD HFCL. Thank you and over to you, sir.

Mahendra Nahata: Good afternoon, ladies and gentlemen. I'm sorry for a little delay, it happened because of some connectivity issues.

I am delighted to welcome you all to HFCL's earnings call for the fourth quarter and financial year ended 23. I trust that you got a chance to review our financial results, press release, and investor presentation, all of which are available on the website of the Company and also on the website of stock exchanges.

During FY23, the global economy faced challenges such as financial market volatility, high inflation, and slower growth. However, despite these headwinds, India remains a promising economy and is expected to emerge as the fastest-growing in the world.

The telecom industry during FY23 has witnessed significant growth and expansion both in India and globally, with increasing adoption of broadband technologies including broadband wireless technologies, 5G network rollouts, and the growing demand for high-speed connectivity driving continued innovation and investment in the sector.

Indian Government has maintained a focus on key priorities such as the nationwide implementation of 5G, fiberization as part of the Bharatnet and NHAI projects, and encouraging participation in the PLI schemes to promote indigenous design and manufacturing of Telecom & Networking Products. These priorities have been fueled by the rapid digital transformation and the amplified need for high-speed data together with integration of advanced technologies such as artificial intelligence, IoT and machine learning. PWC predicts that the implementation of 5G technology will add $1.3 trillion to the global GDP, and projects an economic impact of $42 billion to the Indian economy by 2030. This backdrop makes us confident to kick start the new financial year on a positive note. HFCL has been tirelessly working in these transformational areas by designing relevant new technology equipment and thereby also increasing scope of its network services portfolio. These efforts will result in expansion of its addressable market and will also boost its revenue and profitability.

FY23 was a year of transformation for HFCL as we continued with several key initiatives to design 5G and various other broadband wireless products. These products includes 8T8R Macro Radio Unit, Cell site Routers, 2&4 GBPS Point to point and Point to multi point UBR, Indoor and Outdoor small cells, Outdoor FWA CPE and DU/CU Aggregation Routers. All these products are scheduled to be launched during the current financial year and are expected to have huge demand opportunities globally. Launch of these products will bring in higher revenue and profitability to the Company in coming years. Recognizing Company's efforts and initiatives in designing of telecom equipment, Govt. of India has already sanctioned design linked incentive up to Rs.650 crores to the Company.

Furthermore, the Company has entered into some crucial technology partnerships with Qualcomm, Microsoft, Wipro, for developing cutting-edge 5G products and solutions. These partnerships are boosting up Company's R&D capabilities and are also helping to develop and productionise new products at a much faster pace.

During the year, we also strategically worked towards our expansion in key global markets like United States, Europe and Middle East, with an aim to become a global player in the Optical Fiber Cable, Telecom & Networking products and system integration space. Our continued focus on creating and expanding capacities and tapping new geographies has not only led to an increase in the share of product revenue to 56% in FY23 as compared to 43% in FY22 but has also resulted into increased share of revenue from private customers to 83% in FY23 from 68% in FY22.

We are currently operating in over 30 Countries with 80+ clients and building long-term relationships across large and fast-growing markets. For achieving higher export revenue, persistent efforts are being made by the Company by appointing employees and engaging agents and distributors in key markets like France, Germany, England, Poland, Australia, UAE, Turkey, Kenya, United States and several other Countries. All these endeavors have lead significant increase in our export revenue during FY23 to Rs.817 crores from Rs.363 crores in FY22 witnessing a growth of 125% on a Y-o-Y basis.

One of the significant developments in the quarter was our collaboration with Microsoft to launch Private 5G solutions for enterprises. Our partnership will help us offer highly scalable and rapidly deployable solutions for enterprises. We foresee that private 5G networks can offer numerous benefits to the manufacturing sector, including increased productivity, improved efficiency, and cost savings and enable enterprises in their Industry 4.0 journey. The Company is in process of developing use cases in some of these areas to offer integrated solutions to the enterprises, which will lead to competitive advantage with improved profit margins.

We are proud to share that HFCL has emerged as India's first enterprise to enable the deployment of World Broadband Alliance's Open Roaming across its entire Wi-Fi portfolio. Currently, we are working with multiple telecom operators in India and a few other Countries to deploy Open Roaming, and we have plans to scale its reach across the globe and make the most of this first mover advantage.

In Q4FY23, we signed a distribution agreement with EPS Global to expand our footprint in global markets such as North & Central America, Europe, Middle East and Africa. Through this partnership , we are tapping new markets for our products and solutions ranging from advanced indoor and outdoor Wi-Fi 6 access points to commercial and industrial switches, high-powered Gigabit PoE+ injectors, and the world's first open-source enterprise-grade Wi-Fi 7 Access Points amongst others. Further, HFCL has also signed an exclusive distribution agreement with UK's leading distributor, Purdicom Ltd to further strengthen its footprint in UK and Ireland markets.

We have also entered into a strategic partnership with 6WIND, a leading green-tech networking software Company for optimised, sustainable and cost effective 5G solutions based on its innovative and market leading Virtual Service Router software products.

The Government of India is doing a commendable job to fast track the deployment of 5G networks and rollout of OFC network in the Country. HFCL is working to capture a larger share in the expanding OFC market, which is projected to reach a cumulative value of ~ US$250 billion worldwide and US$10 billion in domestic markets during FY 2023-2028.

In order to further strengthen the supply chain and improve the profit margins, the Company is expanding its optic fiber capacity from existing 10mn fkm to 25mn fkm by Q2 of FY25. With this expanded capacity of optic fiber, the Company is expected to generate additional profitability of ~Rs.150 crores on annualised basis computed at prevailing market price vis-à-vis current cost of in-house production of optic fiber. In addition the Company is also in process of expanding its optical fiber cable production capacity from 25mn fkm to 35mn fkm. This expansion will also lead to significant increase in revenue and profitability.

The Company has also created centre for excellence for development of newer types of optical fiber cables in its manufacturing facility at Hyderabad. These new types of cables are expected to further increase Company's revenue from export market. The Company's subsidiary HTL Limited has also developed Tactical optic fiber cables required by defence forces.

I also wish to update you all that the development of various 5G Radio Access Network & Transport products is progressing well and we will be launching 5G Fixed Wireless Access CPE, 5G small cells, 2&4 GBPS point to point and point to multipoint backhaul UBR, routers of various capacities and 8T8R Macro Radio Unit during current financial year. Total addressable market (TAM) from such products worldwide is expected to be ~ 550bn USD by FY28. 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 up to Rs.50 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.

This quarter was also marked with HFCL winning some key purchase orders. As a result, our order book has grown to more than Rs.7000 Crore as compared to Rs.5300 in the same quarter last year. Some of our major wins in the quarter have been contract of Rs.283 crores from Gujarat Metro Rail Corporation Limited and Rs.575 crores from Reliance for its telecommunication business.

Let me now brief you on key performance metrics for twelve months ended March 31, 2023 and Q4FY23:

For the twelve months ended 31st March 2023, the Company reported consolidated revenue of ₹4743 Crores as against ₹ 4727 Crores in March, 2022, EBIDTA of ₹ 665 Crores as against ₹ 692 Crores in March, 2022, Profit before Tax of ₹ 430 Crores as against ₹ 442 Crores in March, 2022 and Profit after tax of ₹ 317 Crores as against ₹ 326 Crores in March, 2022.

● Revenue for Q4FY23 stood at Rs.1433 crores as compared to Rs.1086 crores in Q3FY23 and Rs.1183 crores in Q4FY22 with an increase of 21.13% on YOY basis.

● EBITDA for the quarter stood at Rs.168 crores as compared to Rs.194 crores in Q3FY23 and Rs.154 crores in Q4FY22; EBITDA margin stood at 11.74% for Q4FY23 as compared to 17.80% for Q3FY23 and it stood at 12.99% in Q4FY22.

● For Q4FY23, profit after tax stood at Rs.79 crores as compared to Rs.102 crores of Q3FY23 and Rs.68 crores in Q4FY22; PAT margin stood at 5.49% in the quarter under consideration as compared to 9.36% in Q3FY23 and 5.76% in Q4FY22

● Segment revenue for telecom products during the quarter stood at Rs.654 crores as compared to Rs.693 crores in Q3FY23 and Rs.585 crores in Q4 of FY22

While margins during quarter under review are low compared to previous and corresponding quarters due to execution of some of the low margin contracts, the overall margins for FY23 are intact despite increased input costs and supply chain disruptions followed by Russia Ukraine war and other global economic challenges. The margin at times may vary in a quarter due to the nature of contracts executed, bidding propositions etc. However, the overall EBITDA margins ranges between 14-15%. With various strategic initiatives such as expansion of capacities, launch of indigenously designed products, continued backward and horizontal integration, investment in R&D and geographical expansion, overall margins are aimed to be increased by 4-5% in 2-3 years' time.

The current growth being witnessed in Telecom markets world-wide brings in optimism and new opportunities. We look forward to FY 24 and beyond with great optimism as our strategic initiatives are expected to bring significant growth in revenue and profitability.

At the end, I would like to reiterate that we remain focused on our vision to become a leader in our industry, and with all the initiatives being undertaken such as, huge impetus on R&D, backward integration, capacity expansion, geographical expansion, developing margin accretive new products, we are confident that these strategic initiatives will position us for long-term success. 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, sir. We take the first question from the line of Mr. Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: My first question, like we are launching around 7 to 8 5G products from Q2 FY '24 to Q1 FY '25. What would be the telecom revenue share as expected to reach in FY '25? And in the last 2 quarters, Telecom Products margins are around 19%. We may expect about 20% kind of margins to do these new launches. These are my first questions.

Mahendra Nahata: As I said, the telecom and networking products revenue is targeted to reach INR800 crores to INR1,000 crores in FY '25. And this significant growth is going to come from new products which we are launching. As I've said in my opening remarks, a number of new products are going to be launched in the current financial year and they are in advanced stage of development. So once these products are launched, they are definitely going to increase revenue multiple times and it is targeted at INR800 crores to INR1,000 crores in FY '25.

And number two, as far as margin is concerned, the products are our own designed and manufactured. It's will certainly have much better margins than 19%.

Balasubramanian: Okay. Got it, sir. Sir, in Q4 FY '23, turnkey contracts witnessed margins less than 5%. Any specific reasons for that?

Mahendra Nahata: Many times Margins on EPC contracts varies quarter-on-quarter, depending on the type and part of contract executed in a particular quarter. So, what happened in this particular quarter, the EPC contracts which have been executed, the part of that was at a lower margin. So, you see lower margin in this particular quarter. It is a bit of an aberration also, but it has happened like that.

However, overall EBITDA margins in turnkey project ranges between 8% to 12%. Now with increasing share of revenue from product business, EBITDA margin on over-all basis are also increasing year-on-year and currently ranging between 14% to 15%. The margins are now planned to increase further through high level backward integration and introduction and launch of indigenously developed products on an overall basis. But turnkey margins this particular quarter it was low because of execution and sale of particular part of contract. However, the overall margins are intact and it will increase in future.

Balasubramanian: Okay got it sir. Sir on the railway side recently we got the Surat metro rail projects Phase 1. Like any further tender or projects are lined up like how we are compatible to execute on railway projects. Because nowadays railway projects are more competitive and margins are slightly lower. What is your thought process on that sir?

Mahendra Nahata: You know we have got a very prominent position in railway communication business in the Country. In a sense that not only we have executed contracts in India, but we have executed contracts in other Countries also like Mauritius, Bangladesh. So, we will continue to be in this business and also the margins vary from contract to contract. Yes, it is competitive but it is niche s area and we should do both good revenue and profitability.

As far as Surat metro contracts, this will be executed as has been planned. And we have bid into many other contracts also, different metro you know where metro extensions are coming up or new metro lines are coming up. We have bid into the contracts and we are confident that we should be able to get more orders. As you know Kanpur and Agra metro, we have got direct orders and they are already getting executed by us. And similarly, we are working on various other metro contracts where we expect reasonably good order position.

Balasubramanian: Sir on the margin side on railway projects like how the margins are?

Mahendra Nahata: It is something like turnkey contracts only. Only problem in the railway projects is that revenue comes late as you know in a sense that telecom is the last thing to be done. And the contracts are awarded when the metro is planned, then you know civil work is done, electrical work is done and all kind of things are done. Then you know this telecom business comes up. So, you know it is not that you got the order and it will be getting executed in one year. It will take 3, 4, 5 years to get it executed because the civil work and all that in the metro takes time. So, margins are like the turnkey contracts average margin.

Balasubramanian: Okay, got it sir. Sir on the capex side….

Moderator: Sir, may we request to join the question queue sir as we have multiple participants.

Balasubramanian: Yes, thank you so much sir. I will come back to you. Thank you.

Mahendra Nahata: So, thank you Mr. Balasubramanian.

Moderator: Thank you sir. We take the next question from the line of Mr. Jay from KSA Securities. Please go-ahead sir.

Jay: Thanks for the opportunity, sir. I wanted to understand how do you see the global OFC market and what will be the likely impact on the Company's performance going forward.

Mahendra Nahata: Can you repeat the question, I missed few words.

Jay: Right sir. So actually, I wanted to understand how do you see the global OFC market and what is the likely impact on the Company's performance going forward. We have increased that exposure from 7% to around 17% the revenue mix. So, any color you give on the OFC segment of the global market?

Mahendra Nahata: Yes, I can tell you. Look the one thing which has happened in the global OFC market, particularly after pandemic, this demand of high speed data has grown and work from home culture even after the end of pandemic has so widely spread that there is a huge need of data in every home. Subsidies are being given by many Countries to have high speed data availability at every office, every home where it is not there or either the less speed data is available. For example, In U.S. They have announced subsidy of U.S. $61 billion to connect homes over fiber optic cables. $61 billion just to connect homes on the fiber optic cables.

Now these kind of numbers for fiber optic cable connectivity to homes and offices has increased the demand of fiber optic cable worldwide coupled with the implementation of high-speed wireless networks like 5G for example. Some other networks like 6G will come in future. So, demand of optical fiber cable has increased quite a bit and it is expected that it will keep on increasing every year. The current consumption is about 600 million fiber kilometers. It is expected to reach 750 million fiber kilometers in three years' time frame globally.

Similarly, demand in India has also picked up because of large-scale implementation of 5G as well as FTTH network, majorly being done by Reliance Jio, so the demand has picked up. So globally there is an increase in demand in fiber optic cables. So, what HFCL is doing is this case. One, we are increasing our capacity from 25 million fiber kilometers to 35 million fiber kilometers per annum for fiber optic cable and for the fiber itself from 10 million fiber kilometers to 25 million fiber kilometers.

Both of these are under progress at this point of time. For optical fiber, once you produce such high capacity of fiber, Company will be making additional profit because I am going by the current data, the current rate difference between own manufactured fiber and the fiber which is bought from outside, the difference is of INR100. So once they produce additional 15 million, they will benefit INR150 crores to the Company on every year basis. So, demand of optical fiber cable worldwide has picked up significantly and the Company is increasing the capacity to meet demands of its customers. Now coming to exports, what you asked, we have grown our exports consistently every year.

Jay: Right. So, my second question would be, are you taking any…

Mahendra Nahata: Yes, sorry, I am in the US at the moment and somehow the lines are malfunctioning. So anyway, so what I am saying is that with the increase in demand of optical fiber cable worldwide, we have taken effective steps to meet the demand of our customers.

Our exports have increased by 125% in the last financial year, which was INR817 crores of export. We are targeting the fiber optic cable export itself between INR1,200 crores to INR1,500 crores in the current financial year, which is the FY '23-'24. And these exports are going to increase further in the next financial year with the export of networking and telecom products we propose to start, which we are bringing in the market and manufacturing in the current financial year progressively. So optical fiber cable, good proposition, good opportunity and the Company is making out, good profits from this opportunity and increasing its revenue also.

Moderator: Thank you, sir. We take the next question from the line of Mr. Jigar Valia from Ohm Group. Please go ahead, sir.

Jigar Valia: Yes, thanks for this opportunity. Just a follow up to the discussion that you're doing. So, it basically you're not seeing any recessions, etc., across markets like Europe, U.K., may be U.S. to some extent. I mean, you're looking at exports to be a little robust only for current year as well as next year.

Mahendra Nahata: Look, I don't foresee any recession as such. There may be demand stagnation for some time, stagnation in a sense that if you are selling, worldwide demand is 50 million fiber kilometer per month, it may remain 50 million, it may not be 60 million in a particular month. You know, the demand of 600 million which is there will continue. However, capacities have increased worldwide. No doubt about that. Capacity have increased because the demand has increased, every manufacturer has increased capacity.

But now issue in export is who is able to get the market share. So, what HFCL is targeting to get the market share, you know, we are minuscule to the whole worldwide market. So, we don't see any problem in reaching to our targets of, INR1,200 to INR1,500 crores in the current financial year because we have gone into the additional markets. In those Countries, we are operating through our salespeople, our own employees or agents. We have increased the numbers. Most significantly, we are working on United States at this moment. U.S. had a different kind of cable requirement which we have developed.

And this year, we expect some significant revenue to come from the United States. So, in our case, we are increasing the geographical expansion and within Countries going to more customers. And major markets like U.S. which we had not entered into till last financial year, we are now entering into those markets. So, I don't foresee any reason to see that we will not be able to meet our target. Like last year, we were able to do more than our target, I think this year also, we will definitely be able to meet our target.

Jigar Valia: So fair to assume that exports can be more than 20% or 25% of the overall revenue going ahead.

Mahendra Nahata: You know, when I say that about INR1,200 crores to INR1,500 crores, yes, it can be around that number. I would not commit on exact 25% or 27% or 22%. But yes, it would be around that number.

Jigar Valia: If you can give some perspective with regards to margins in export markets or basic or overall, with the increasing the optic fiber capacity. So how should one look at incremental EBITDA or overall margins playing out in next year?

Mahendra Nahata: In terms of net margins, net margins on optical fiber cable export on overall basis, it may vary from contract to contract, but overall basis 10% should be the number you should take into account for calculation of margins on exports on overall basis. Net margins about 10% you can assume.

Jigar Valia: Okay. And at an EBITDA level, it would, or it depends on contract or would it be kind of any different from the domestic business?

Mahendra Nahata: Look, again, as I said, depends from contract to contract, sometimes the contract is giving you less margin, sometimes more, but inherently export margins are a bit higher than the domestic margins…

Jigar Valia: Working capital cycle for exports would be...

Mahendra Nahata: You know, generally the payments from the customers are 90 days.

Jigar Valia: Got it. So last question from my side. Would we be free cash flow positive this year or when can

Mahendra Nahata: I definitely expect that this year we should be free cash flow positive. Only, issue I would like to raise is that we have been incurring capex also. Expansion in fiber, fiber optic cable, R&D investments. So these are targeted for long term growth. So even if we are not cash flow positive in a particular year, the point is, we are making substantial investment for future growth. And what we have seen, whatever investments are being done now are bringing in results.

You know, a lot of R&D investment has been done, which is bringing in new products in the current year. And this will bring in additional revenue and profitability. Fiber, for example, as I told you, that we are increasing capacity by 15 million, which would cost us around INR300 crores. So that is expected to bring in INR150 crores of profit every year because of price difference between prevailing market price and cost of own produced fiber. So, I would not be that much concerned about this year's cash flow positivity because these investments are going to be made, but they are going to bring in long-term profitability in the Company in a very near future.

Moderator: Thank you. We take the next question from the line of Mr. Saral Seth from Indsec Securities & Finance Limited. Please go ahead, sir.

Saral Seth: Yes, sir. Thanks for the opportunity and congratulations for a good set of results. So, my first question is how Company is likely to achieve higher revenue with initiatives taken through its R&D procedures. So, I want to understand how R&D is going to play an important role for increasing our revenue?

Mahendra Nahata: Look what I'm just saying, that this R&D is going to play a most important role in increasing the revenue as well as profitability. You have to understand that there are two ways you can bring in new products. Either you can have a collaboration with somebody or you design your own products. So, if you design your own product, inherently they have higher profitability and you are not restricted to a particular market, you can sell it anywhere.

So, what we have done in our R&D is designing a good number of telecom and networking products, which as I said, one is led by Wi-Fi and UBR kind of equipment second is 5G related equipment. And some of the equipment which can be used in both the cases. Now with this kind of R&D infrastructure where we have got our own R&D for telecom equipment and networking products in Bangalore and Delhi. Also, we have partnerships for R&D, we have given contracts to companies like Wipro, VVDN, Capgemini, those kind of companies. New products are coming at a faster pace. Now what is happening with this, these products once they come in, not only we will be able to meet the demand of operators in India, but we will also be able to meet the demand of operators abroad. We have already started quoting for these products to different operators. So, as I said, what we are expecting, these R&D related products will bring in additional revenue of roughly over INR800 to INR1,000 crores in the financial year 25 itself. And if you see, compared with the current revenue from these products, it is only INR138 crores.

So, with the launch of new products, I am talking about, revenue is going to increase significantly and because these are our own designed products, inherently they have a higher margin. Our profitability will also increase significantly. So, this is a very transformational step which the Company has taken in designing these telecom products locally because this will give us higher margins and on the top of it, there is a PLI incentive given by government of India, sanctioned to us for INR650 crores.

All these are going to be added into the margin of the Company. Moreover, second thing what we are doing is that R&D is not limited to telecom and networking products only. It is the cables also, in fiber optic cables also we are doing a lot of R&D. We have got our R&D center for this in Hyderabad and also at the same point of time, R&D people in US, who are helping us to design various new kind of cables which are required in the export market. So, with these design of new kind of cables with new construction, we are able to get higher market share in the fiber optic cable market. So, R&D is playing a significant role in increasing revenue and profitability both.

Saral Seth: Sir, when we say that we are procuring products from our partners like Wipro, Capgemini, are we paying any royalty to do them or how is this accounted for sir?

Mahendra Nahata: These are contracts R&D, where one or two cases we may be paying small royalties, but this is our own IPR, they are designing for us. We have given them contracts to design the products for us and transfer the design and IPR completely to us. Our own team is totally involved in designing those products with those R&D products.

Saral Seth: Understood sir. Sir, you have given a good color on the margin, but I want to understand what could be the blended FY '24 margin outlook and what steps are we taking to sustain the current profitability level which has seen a huge increase over the last couple of years.

Mahendra Nahata: Look you know, steps we have taken, as I said in my presentation, very important steps to increase our revenue and profitability both. And I will describe these four and five steps which are really transformational steps and we need to understand clearly that these steps which we have taken are positively going to impact the working of the Company. Now what are these steps? One, what we thought of the strategy of the Company? One, high impetus on R&D, design own products, increase revenue from them and they will bring in more profitability and higher addressable market. So bigger market opportunity, higher profitability, increased revenue from the products we have explained in detail in earlier question. Second step we have taken, increase our revenue from private operators.

As you have seen we have gone to 83% now in our revenue from private operators which used to be less than 30% few years back and is 83% now. Government revenue is only 17%. Third what we have done, increased our revenue from products than the EPC contracts. What we have seen this year, revenue from products is almost about 56%-57% which used to be much lower than that couple of years ago. Fourth what we have said is that, we need to increase our exports. So exports this year has increased from INR360 crores to INR817 crores which has increased 125% year-on-year basis. And then capacity expansion including higher backward integration. Now fiber capacity is being increased by 15 million that will bring in additional profitability of INR150 crores as expected from the difference in the current market prices Vis a Vis own manufactured fiber cost and the increase in cable capacity.

So, these steps, export increase, market size increase, our own products, higher value creation products, going to more to the private operators and going more to the products than the EPC contracts. All these are bringing in higher revenue and profitability and will make it sustainable for long term for the Company in terms of increasing revenue and profitability both.

Saral Seth: Sir, can you share your capacity utilization on a blended basis for the quarter and the full year?

Mahendra Nahata: Capacity utilization in fiber optic cable is almost 100%, all our factories are working 24x7.

Saral Seth: Okay sir, I will fall back in queue. Thank you.

Moderator: Thank you sir. We'll take the next question from the line of Mr. Sahil Sanghvi from Monarch Networth Capital. Please go ahead, sir.

Sahil Sanghvi: Thank you for the opportunity. And good ambitions for a very good business plan ahead. Sir, I have mainly two questions. First, you have an order book of INR7,000 crores. Can you split it in how much is product-based orders and EPC orders? And also, geography, export and…

Mahendra Nahata: One thing I would like to make clear. The product orders are received on a regular basis. They are not like EPC contracts where you receive an EPC contract of INR2,000 crores and that is executed over five years' time frame. Those EPC contracts and those orders are of different kinds. But when you come to a product order, they are received on a regular basis. Like for example, fiber optic cable. You keep on receiving orders, INR60 crores, INR80 crores, INR40 crores, INR30 crores, INR100 crores. You keep on receiving orders like that. Whereas the orders for EPC contracts come in bulk. So, orders would not reflect the correct position. But in terms of order book right now, I would say, about 90% orders are of EPC contracts, 10% would go into product contracts.

Sahil Sanghvi: Right sir. And this product-based order proportion will keep on increasing, right? I mean, once we next year we launch…

Mahendra Nahata: Yes, this will increase. This will definitely increase because of increased number of products which are being inducted. And also at the same time, increase in capacity. But let me tell you one more thing. In terms of revenue, as you see, the position is reversed. Product based revenue is 56%. So that is the difference I want to talk about. That, orders does not represent real revenue. The orders of EPC contracts have bulk orders coming at one point of time. Product orders are coming in large number with small quantities. So that's how you see that difference.

Sahil Sanghvi: Right sir. And what would be the export domestic mix over here?

Mahendra Nahata: Export and domestic mix, our export has been about 17% of the revenue. 83% has been domestic. Last year it was 7% and 93%. It is now 17% and 83%. But we are targeting to reach to 25% in the current financial year, around 25%.

Sahil Sanghvi: Right sir. And my second question would be, it's at the margin sort of trajectory that you make in these telecom products. What could that be? I mean, I understand it differs product-to-product, but what range can we expect for these telecom products?

Mahendra Nahata: You know, it differs from product-to-product, you're right. Because some products which are highly competitive and number of manufacturers are more, but demand is high, so the margin is less. So generally, it will vary. Generally, the net margins will vary between 15% to 20%, generally.

Sahil Sanghvi: 15% to 20% is the net margin number?

Mahendra Nahata: Net margin.

Sahil Sanghvi: And EBITDA would be, sir, any idea?

Mahendra Nahata: EBITDA could be around, I think, 25% - 30%

Sahil Sanghvi: Okay. That's all from my side, sir. All the best. Thank you, sir.

Mahendra Nahata: Thank you.

Moderator: Thank you, sir. We take the next question from the line of Mr. Hemang Kotadia from Anvil. Please go ahead, sir.

Hemang Kotadia: Yes, sir. Congratulations for the good set of numbers. Sir, I just wanted to ask, when will the defence product revenue contribution will rise significantly in which year, actually, where we will see many...

Mahendra Nahata: You know, defence, as I've said in the last conference call also, it's a market where a lot of perseverance is required. What we are doing, working on various products, which includes electronic fuses, which includes upgradation of BMP2, which includes night vision sights, which includes software defined radio, these kinds of products. But I don't expect any significant revenue coming from those in FY'23-'24. I expect revenue to start showing up from FY'24-'25. But when it shows up, it is going to be highly sustainable because as it is difficult for us to enter into the market, it is going to be difficult for others to enter into the market.

Now, what are the products which we have gone ahead with, Night vision sights which is for rifles and light machine guns which we have designed ourselves. And with 12-micron technology, the core has also been designed by us. First time any Company in India would have designed 12-micron core. And worldwide also not many Companies have designed 12-micron core. So, we are now going into the next version, we are going to be working on 8-micron core also. But that is a part. So, this 12-micron core based night vision device, it is already quoted in tenders. We have already participated in tenders.

And I expect to get some orders in the current year, which you would start fulfilling in the current year. So, some small revenue may come up on these contracts. But the higher revenue, I expect starting from the next financial year only. You know, it is long term. It takes long time for testing trials, all kind of things. So, night vision devices, upgradation of BMP2, fuses, all takes time. So, we have to invest money, but finally the return would come and it would be sustainable on long term.

Hemang Kotadia: Right. So, what is the annual demand from the like Indian defence industries for this kind of product in numbers actually?

Mahendra Nahata: I do not have current numbers right now, but although the defence budget is of INR2,50,000 crores, they are spending about 40% on capital acquisition. So, you can easily say INR1 lakh crores-plus is being spent by government of India in acquisition of arms every year. Now, the government wants, increased production of this arms and ammunition indigenously.

And there is a huge, huge impetus on that and which is resulting in increased domestic production and domestic acquisition of these arms. So, though we are a late entry, but whoever are there in the market, they are having increases in revenue and that would be in our case also in the future because we have entered late, because the products are coming up. So, demand opportunity is huge and government is now saying, produce indigenously. So indigenous demand would go very high, which is good for us.

Hemang Kotadia: So, is it possible that we can achieve like a INR1,500 crores of turnover from defence product in like next, let's say next five years annually?

Mahendra Nahata: It is very difficult to commit like that. But yes, I can say that opportunity is good. And we can definitely target, target INR800 crores to INR1,000 crores of revenue in next four years to five years. It all depends upon how the contracts are finalized. But yes, four years to five years, we can definitely target because we have done huge amount of work in defence electronics. So, we can definitely target that.

One of the products we have already started bringing in the market, the radars. We have already designed and brought into the market where customer presentations are being done for the surveillance radars for border and critical infrastructure protection for short range, medium range, long range radars. All three have been developed and designed by us, which are high end technology radars, than radars which are already in the market.

Hemang Kotadia: Yes. That's great. If we achieve INR1,000 crores numbers over four years.

Mahendra Nahata: So, we definitely can target.

Hemang Kotadia: Right. So, my next question, because coming year is the election year for India. So how, gung-ho, you're about your EPC and basically order book side of the business where we can have a large contracts getting…

Mahendra Nahata: I don't see election having much impact on these numbers. These EPC contracts are customer demand base. Private operators are not impacted at all. They would give contract as they require. Yes, government contracts sometimes are at an increased pace one year before elections because government would like to show the completion of more projects when the election comes, it is natural for any government, state or central government. So yes, that may lead to some increased award of contracts. But yes, I don't see any major upheaval like that.

Hemang Kotadia: Okay. So, my last question for FY '25, what kind of console revenue vision what we are aiming for actually as a Company level?

Mahendra Nahata: You know, the INR4,743 crores revenue which we have achieved in the current financial year. We are definitely aiming for an increase of about 15% to 20%. Definitely, I mean, this increase is because of the increased capacity and bringing in new products. So, 15% to 20% aim is there, of course.

Hemang Kotadia: Okay, sir. Fair enough. Thank you very much and all the best.

Moderator: Thank you, sir. We take the next question from the line of Mr. Rakesh Roy from Omkara Capital. Please go ahead, sir.

Rakesh Roy: Hi, sir. My first question regarding the defence business, sir. Sir, how much margin we are making in defence business?

Mahendra Nahata: So, look, you know, Rakesh, as I said, we have not started making revenue in the defence business. So, there is no question of margin right now. So once the defence business starts and revenue starts incurring, yes, I expect something like, 15% net margin to come from this business because this is so difficult to enter in, entry barriers are so high. So at least you would make 15% margin in the defence business when the revenue starts coming up.

Rakesh Roy: Okay, sir. Sir, are we looking any joint venture with any foreign player to bring in new technology in India?

Mahendra Nahata: No, right now, we are not looking at any of such joint venture. You know, discussions keep going on with number of companies and these are going on at this point of time. But these are not at a serious level where I can say that we are bringing in this or that. Our emphasis is to develop products indigenously. So that even if you have a small number of products, maybe revenue is less but your profitability is high. So that's the way we are working.

Rakesh Roy: Okay. So, in defence business and defence product, we would directly bid to government or we get order from the other like a BEL or like this one?

Mahendra Nahata: So, mostly we have directly bid to army for this kind of contract, not BEL and all that. Yes, couple of orders have come on a turnkey, which some other PSU has gotten, we got orders from them on a pre-agreed terms and conditions. Like this RailTel, we have got a contract for one of the Air Force networks for about INR300 crores, which is under execution. But yes, other equipment, like thermal weapon sights and all that, we have bid directly.

Rakesh Roy: Okay, sir, thank you so much.

Moderator: Thank you. We'll take the next question from the line of Mr. Balasubramanian from Arihant Capital. Please go ahead, sir.

Balasubramanian: Thank you so much for taking my question again, sir. Sir, on the balance sheet side, operational buyers, credit and supplier credit, credit has increased to INR14 crores to INR168 crores in FY '23. Could you please share more details in that balance sheet item?

V R Jain: So, Balasubramanian, V.R Jain this side. This is a normal business transaction and facilities being offered by these commercial banks. So, what happens in some cases, wherever we open sight LCs, bank on their own have a scheme to give us a credit of 60 days or 90 days. That is covered under the supplier credit, and that is being shown separately in the balance sheet. These dues are against LCs only but being shown separately.

Balasubramanian: Okay, got it, sir. Thank you. That is all from my side.

Moderator: Thank you, sir. We'll take the next question from the line of Mr. Deepesh Sancheti from Maanya Finance. Please go ahead, sir.

Deepesh Sancheti: My first question was actually regarding the anti-dumping duty. Have we applied to the government for any anti-dumping duty for optical fibers? Because today on a few of the business channels, there was a flash that there might be an anti-dumping duty and the companies have applied for anti-dumping duty on optical fibers.

Mahendra Nahata: We are neutral to this. We have not applied. We are neutral to this because our own fiber optic capacity for production of fiber is going up. So, if the duty is more, we are protected. We have no problem. So, what has been recommended by the Commerce Ministry to Finance Ministry is yet to be accepted and finalized, but yes, it has been recommended by the Commerce Ministry. So, we are quite neutral to this because we produce so much of fiber by ourselves. And even if the duty is there, it is not impacting us. Moreover, the important point is that there is no anti-dumping duty on the fiber which is used for export of cable. If I manufacture some cable for exports, there is no anti-dumping duty there. So, when we are importing fiber, a lot of it is for exports only.

So, we would not be impacted by that either. Domestic market, we produce enough fiber to address our domestic customers. So, we would be rather protected than being harmed in any way. And with our increasing capacity, we have a further protection. But the problem would be to smaller players. Smaller players who are not producing their own fiber, they would have a lot of a problem because they will have to pay higher price and their competitiveness will be a little lower. So, I really do not support this anti-dumping duty because people should be competitive enough to face competition. I really do not support, but as a Company, we are not impacted.

Deepesh Sancheti: Okay. So -- but if there is any anti-dumping duty, it will be beneficial for our Company since we are integrated in all terms?

Mahendra Nahata: I'm neutral to that. And ultimately, it will be beneficial.

Deepesh Sancheti: Ultimately it will be beneficial. Can you tell me, can you share the number of how much has been recommended by the Commerce Ministry?

Mahendra Nahata: You know, notification came just yesterday only. It is different from Company-to-Company and Country-to-Country. But China, for an example, most of the fiber is coming. Some of the countries are $0.50 per kilometre, which should amount to about INR40-45. Some of them are little higher, some of them are little lower.

Deepesh Sancheti: Okay. As a percentagewise, how much is it?

Mahendra Nahata: And if you take the price of fiber as $4 on average, it would be about 11-12%.

Deepesh Sancheti: 11%, 12%, Okay. And sir, my second question, the last one is actually, if you can give us a revenue mix product wise for this quarter or for this year?

Mahendra Nahata: You know, revenue mix, if you look at revenue mix for the products, or you are talking about overall basis?

Deepesh Sancheti: No. Overall basis, as in how much revenues optical cables has done, how much has the product?

Mahendra Nahata: I can tell you, on a consolidated basis, 56% of revenue has come from products, 44% from turnkey. Now, if you go to the products itself, 87% has come from optical fiber cable, rest is coming from other areas.

Deepesh Sancheti: Okay. And this is set to increase in the coming years?

Mahendra Nahata: Yes, you know, two things are going to happen. One, the revenue from other products, telecom and networking product is going to increase significantly. So overall revenue from fiber optic cable will increase, but percentage may go down. Like for example, our optical fiber cable revenue has been INR2,300 crores in this last financial year, which was INR1,787 crores in the year before that, and maybe INR1,200 crores year before that. So INR1,200 crores, INR1,723 crores, INR2,300 crores. These kinds of numbers, it is increasing.

Current year, we are targeting INR2,800 crores. Number will increase, but the INR138 crores of revenue from products, which I mentioned, in two years' time it will go to INR800 crores to INR1,000 crores. So, percentage in cable may decline, but overall revenue from cable will keep on increasing and networking products will increase.

Deepesh Sancheti: And from the current order book, what is the, how much is the percentage of order book in optical fibers? As INR7,500 crores order book, how much is the optical fibers percentage?

V R Jain: It is 10% of the total order book currently. So, in case of optical fiber cables, we have running order book, so we keep receiving orders regularly and those are executed.

Mahendra Nahata: Yes, that's what I said in the beginning, in products, orders keep on coming in small quantities and they keep on being executed. So that is not going to reflect you, the percentage of revenue on overall basis, but yes, orders are there and they keep on coming on regular basis.

Deepesh Sancheti: Right, thank you so much sir, thank you.

Moderator: Thank you sir. We take the next question from the line of Mr. Hardik Vyas from Economic Times. Please go ahead, sir.

Hardik Vyas: Hi Sir, I had a couple of questions. The first one is, you guided that roughly INR5,000 crores of EPC order book we have. So, I hope that they are not low margin orders as we saw in the current quarter, less than 5% margin and they would be of the normal margin kind, 8% to 12% margin.

Mahendra Nahata: Yes, definitely Hardik, we have maintained on overall basis this margin as it is and this was an aberration that particular contract we executed was low margin in the current last quarter. I can assure you, on overall basis the margins are going to be totally intact and in future they are going to grow only because we are not taking contracts which are low margin now.

Hardik Vyas: Okay, so the other question is sir, what is the idea on OFC pricing, have the prices again gone up because of the demand increasing in the US and world over or the pricing remains more or less the same?

Mahendra Nahata: So, the prices have gone up a bit. I will tell you, the fiber realization per fiber kilometre has been higher. Quarter 1 of the last financial year, it was about INR1,100 per fiber kilometre for the cable. Now in the quarter 4, we have achieved a number of INR1,234 per fiber kilometre. Now, it does not mean that everybody would have achieved that. It all depends on the mix of the products and how much you have exported, how much you have given to the private operators, how much you have sold in the export market, but generally, yes, it has gone up by let us say 10% or so. Which is significant number, 10% is very significant.

Hardik Vyas: Yes, sir my last question is, what is our status on 5G products, the contribution is limited as we speak right now, but how execution is likely to pan out over the next six to eight quarters because a lot of products we are going to introduce in the market in the coming year and the next?

Mahendra Nahata: As I said, 5G products are being brought up by the Company. So, in another two months, it will start coming one-by-one in the market. So, I would say that you will see the products being in market in next two to three months. Field trial and all that are being done by the operators and orders are being placed. Orders will start getting executed probably in quarter 3 of the current financial year. So, after they start getting executed in quarter 3, it will continue on overall basis for many quarters to come. Absolutely. Then they are going to be upgraded, there is going to be new demand from different other Countries, different operators. It is going to be increased every quarter.

Hardik Vyas: So, this is for the products are 5G, EPC as well, because operators would also be wanting us to do some EPC contracts with them.

Mahendra Nahata: So, the products are products, many operators give you contracts-installation commission included. That is not really EPC. That is contract-selling products including installation commission.

Hardik Vyas: Okay. So, from third quarter of this year onwards…

Mahendra Nahata: Yes, we expect the revenues start coming up.

Hardik Vyas: Okay. Thank you so much and all the best.

Mahendra Nahata: I think operator now we will take one or two questions more because it is already quite a lot of time.

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

Mahendra Nahata: Thank you very much to all of you for having patience and listening to the results of the Company for financial year ended 2023 and Q4 of 2023. And giving me the time and opportunity to explain you, what steps Company has taken to sustain revenue or not only sustain but increase revenue and profitability significantly in coming years and what step Company has taken. I really enjoyed the questions and I'm sure answers I have given must have satisfied your queries, which you had. And thank you very much once again for your time for being on the call. Thank you very much.

Moderator: Thank you, sir. Ladies and gentlemen, you may directly connect to the Company for any further questions. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.