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HFCL/SEC/21-22

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Subject: Transcript of Conference Call on the Unaudited Financial Results/ Earnings for the 2nd Quarter ended 30th September, 2021, of the Financial Year 2021-22.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on October 12, 2021, on the Unaudited Financial Results of the Company for the 2nd Quarter ended 30th September, 2021, of the Financial Year 2021-22, which were considered and approved by the Board of Directors of the Company, at its meeting held on October 11, 2021.

This aforesaid Transcript is also being made 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.

Thanking you.

Yours faithfully,
For **HFCL Limited**

(Manoj Baid)

Senior Vice-President (Corporate) &
Company Secretary



Encl: Copy of Transcript.



“HFCL Limited
Q2 FY2022 Earnings Conference Call”

October 12, 2021



MANAGEMENT:

MR. MAHENDRA NAHATA – PROMOTER & MANAGING DIRECTOR – HFCL LIMITED

MR. V. R. JAIN – CHIEF FINANCIAL OFFICER – HFCL LIMITED

MR. MANOJ BAID – COMPANY SECRETARY – HFCL LIMITED

MR. AMIT AGARWAL – HEAD INVESTOR RELATIONS -HFCL LIMITED



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Moderator

Ladies and gentlemen, good day and welcome to the Q2 FY2022 earnings conference call of HFCL Limited hosted by ICICI Securities. On the call, we have with us today Mr. Mahendra Nahata, Promoter & Managing Director, Mr. V.R. Jain, Chief Financial Officer, Mr. Manoj Baid, Company Secretary and Mr Amit Agarwal, Head Investor Relations. 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 now hand the conference over to the management for their opening remarks. Thank you and over to you!

Mahendra Nahata:

Ladies and gentlemen, good morning and greetings for the festive season. Thank you for making it to HFCL's earnings call for the second quarter and half year of FY'22. The Q2 of FY'22 results, press release and investor presentations are available on the website of the Company and the stock exchanges. Rapid vaccination and responsible social conducts are appearing to help reign in the pandemic. I wish and hope that the Country and the world is way past the worst. It is important still to keep the vigil up while we usher into more stable and prosperous future henceforth.

For HFCL, our resilience and uncompromised focus on profitable growth, capability ramp up, innovation and expansion of product portfolio as well as manufacturing capacities would serve well, going forward. Our drive to emerge as a technology led enterprise that innovates and manufactures for the world is deepening at the right time. Digital connectivity and data security will be the twin foundations of the post -COVID world. Dense fiberization, high speed data transmission and secured transmission network would feature amongst the fastest growing economic themes, right through this decade and right across the globe. HFCL find itself in the right place to actively participate in this abundant growth opportunities to maximize stakeholders' value.

Going by various global estimates, India is well on course to emerge as one of the fastest growing major economy - from the next fiscal year of 2022-2023. I hold a firm conviction on the ensuing decade turning out to be India's decade. The Opportunity landscape is brimming with better prospects and we are entering into the golden phase of sustained economic growth. HFCL's opportunity landscape appears even much brighter. BharatNet phase II, explosive FTTH demand growth, additional 4G spectrum allocations to telcos, 5MHz 4G spectrum approval to Indian Railways and subsequent rollout of 5G, PLI scheme for Telecom and Networking products, Government's initiatives in procuring indigenously developed defense products backed by Atmanirbhar Bharat and Make in India program, are all going to propel HFCL into its next orbit, in the coming quarters.

The Bharat Broadband Network Limited has invited bids for implementation in PPP mode to roll out high speed broadband services in the rural areas across 16 states. This network is projected to have a demand of approx. 12 lakhs kilometer of fiber optic cable, comprising of both overheads and underground cables. This massive demand of fiber optic cables coupled with the demand of associated Transport and Access equipment like Wi-Fi and Optical Access



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Equipment presents tremendous business opportunity for the Company both in equipment and project segment.

Currently, India has a fiber base network panning across 28 lakh fiber kilometers as against a target set up by the National Broadband Mission to deploy as much as 50 lakh kilometers of optic fibre by 2024. The recent allocation of additional spectrum for 4G wireless services to telcos will benefit HFCL with added demand for optic fiber cable and also turnkey projects. Union Cabinet approving 5 MHz 4G spectrum for Indian Railways in the month of June 2021, presents another huge opportunity for us. The project targeted to be completed in five years, is estimated to cost over Rs.25,000 Crores. The project entails to provide secure voice, video as well as data communication services for operational, safety, and security applications for the National Transporter's Network.

The 4G LTE (Long-Term Evolution) specific system to railways will be used for modernizing, signaling and upgrading train communication while also maintaining constant communication between loco pilots and guards. We see a huge opportunities from this modernization campaign of the Indian Railways.

As we all know, trial spectrum for 5G has already been allotted to the telecom operators. Auctions for commercial use of 5G spectrum is expected to happen in the beginning of 2022. Rollout of 5G network will result in massive increase in demand of fiber optic cables. In addition to the related radio access network and other required equipment, this again presents an excellent market opportunity for the Company. The Company will be present in a large number of equipment and services segment required for 5G network.

5G network implementation presents a very attractive opportunity for the Company both in domestic and international markets. We have one of the largest capacities of manufacturing fiber optic cables which will see huge upsurge in demand when 5G networks are implemented. We have started development of 5G Radio Access Networks both for Macro Cells and Small Cells, which will be required in very large numbers. We are in the process of developing transport network equipment like Routers and Front Hall Gateways, which are also required for 5G networks in a large capacity.

In order to capitalize these opportunities, it is imperative for HFCL to keep pace with capacity and capability buildup. We have made significant strides towards advancement of technological and R&D capabilities and ramped up our manufacturing capacities across our optical fiber and cable business. Upon completion of our ongoing capex, existing capacities of optical fibre, optical fiber cable and FTTH cables shall increase by 20% to 25% and new capacity would also add new types of cables like Microduct, Micromodule, and Advance Ribbon Cable amongst others.

Our newly commissioned R&D center in Bengaluru is shaping up well. This is our dedicated R&D center for 5G products and Wi-Fi products, we remain committed to steadily invest in R&D capabilities, innovate and remain nimble to capture the opportunities ahead. The PLI scheme has been introduced at the most appropriate time. The scheme will go a long way to



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make our Country a global hub for telecom innovation. HFCL through its wholly owned subsidiary HFCL Technologies Private Limited, has also submitted its application under (PLI) scheme.

We continue to consciously evolve our revenue mix toward enhanced share of margin accretive products and capital efficient projects. As of September 30, 2021 our consolidated order book stood at ~Rs.5,822 Crores. New orders for fiber optic cable and equipment are being received regularly by the Company. Last week we have received order worth Rs.287.96 Crores from RailTel Corporation of India to set up a secured network for Indian Air Force. The Board of Directors of your Company has approved fund raising of up to Rs.750 Crores on September 3, 2021, which was also approved by the shareholders at the Annual General Meeting held on September 30, 2021.

We are happy to share that, Infomeries Valuation And Rating Private Limited, a RBI and SEBI registered credit rating agency, has assigned A rating and with stable outlook for long term and A1 for short term bank facilities to the Company. Existing credit rating by CARE Ratings stands at A-; negative for a long term bank facilities and as A2 for short term bank facilities. The Board has approved allotment of 49,34,300 equity shares having face value of Re.1 each to HFCL Employees' Trust on July 15, 2021 for implementing the benefits of HFCL Employees' Long Term Incentive Plan 2017, in lieu of exercise of the vested ESOPs granted to the eligible employees of the Company.

Let me now brief you on key performance metrics of the quarter and the half-year. Revenue for Q2 FY22 stood at Rs.1,122.05 Crores as compared to Rs.1,054.32 Crores in Q2 FY21 just recording a year on year growth of 6.42%. EBITDA for the quarter stood at Rs.173.20 Crores as compared to Rs.137.47 Crores in Q2 of FY2021; EBITDA margin increased by 240 basis points and stands at 15.44% for Q2 of FY2022.

For Q2 FY2022, profit after tax rose to Rs.85.94 Crores as compared to Rs.53.32 Crores of Q2 of FY2021 recording a growth of 61.18%. PAT margin also improved by 260 basis points to 7.66% in Q2 of FY2022 as compared to 5.06% in Q2 of FY2021. For the half year ended on September 30, 2021, the Company reported consolidated revenue of Rs.2,328.92 Crores as against Rs.1,754.10 Crores in September, 2020.

EBITDA of Rs.364.74 Crores as against Rs.220.04 Crores in September, 2020. Profit before tax of Rs.239.29 Crores as against Rs.104.60 Crores in September, 2020 and profit after tax stood of Rs.176.63 Crores as against Rs.74.60 Crores in September, 2020.

Segmented revenue for telecom products during the quarter stood at Rs.503.92 Crores as compared to Rs.278.86 Crores in the Q2FY21. We expect revenue from products business to continue this uptrend. Our performance reflects sustained growth and strengthening our value proposition that we have achieved over the last few years.



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Looking ahead, our constant focus on innovation, steady expansion of our product bouquet, shift to margin- accretive product mix, alignment of our offerings with emerging and future market opportunities, deepening of our market and engagement in export geographies, added contributions from our under-development capacities and pursuit of new products and opportunities by our recently constituted dedicated 5G division shall keep fueling our journey towards sustained growth and profitability. Hence we remain focused to achieve the target we have set for next few years and remain confident on our growth momentum ahead.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hardik from ET Now. Please go ahead.

Hardik: Good morning Sir. My questions were pertaining to the services as a whole. We have seen the contribution from services absolutely had gone down in this quarter from roughly Rs.750 Crores in the last quarter and the last year of the same quarter to about Rs.600 Crores this time so of course the product contribution in the total revenue also has gone up as we had guided in the previous quarters concall, but when do we see absolute growth also in services going forward and is it directly linked to the 5G roll out and so how do we go ahead from here on the services cut?

Mahendra Nahata: Thank you for the question Hardik. Basically, as I have stated in my previous calls, our focus has been growth of revenue by products not as much by services. The reason being services payments are a little elongated and that puts stress on working capital. Our strategy is to increase revenue of products and which you have seen constantly. If you look at whole year ended on March 31, 2021, the product revenue was 27% and services revenue was 73%. Now it is 45% for products and 55% of services, which has been my sort of assurance to all of you that we will reach to 45:55 in the current year and we are on course to maintaining that. Now services revenue of course I am not saying no to services revenue if the payments are in time, so if, for example, BharatNet comes in PPP mode and it is implemented by reputed operators or companies where the payments are good or 5G implementation starts where services are required and high end value added services required, we are not averse to that. We would definitely go for that, but my key consideration in that would be that it should not be linked to some performance by the customer and then it is linked to a milestone, which is dependent on customer performance and if the customer performance is delayed then my revenue and my payment is delayed. I do not want to go into that kind of a situation. If it is simple services revenue not linked to any customer related milestone, we would be very happy to do that and we are not averse to increasing revenue from services if that happens.

Hardik: So this quarter, we did about Rs.600 Crores in services so are we likely to go back to Rs.750 Crores to Rs.800 Crores per quarter kind of service revenue?



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Mahendra Nahata: I would not predict that Hardik at this point of time, but yes we would like to maintain the balance at 45 for products and 55 for services at this point of time, but yes if good services contracts are available we are not averse to that

Hardik: On the product front, I had couple of questions pertaining to our facility coming up for optic fiber and fiber to the home. When are we likely to see production coming on stream and realizing revenue out of that?

Mahendra Nahata: I think you are talking about the expansion of capacities, it is already there and fiber, for example, we are producing 8 million fiber kilometer per annum which is slated to go up to 10 million and this will happen within this financial year before March it would start. It is already under implementation, machine orders have been placed. Now the delivery work and all that are going to start pretty soon and before end of this financial year may be for the month or so here and there, we will be starting production from the enhanced two million additional capacity. In terms of the cable, part of that facility has already been commenced. It is under production and the completion would happen may be in another two months' time frame. It would be completely under production and we have targeted our revenues also from that facility and which we will be able to achieve, so it is partially complete. Production is already on. Completion would be another couple of months' time.

Hardik: My last question on the product front. Can you throw some light on the software defined radio and ground surveillance radar for us, the opportunity is huge but how soon shall we realize revenues from that operation or a timeline for that?

Mahendra Nahata: In our revenue target of the next financial year we have not included any revenue from SDR or Ground Surveillance radars because SDR development is going to be finished sometime mid of the next financial year, I would say something like August, September timeframe and then it would go through the qualification process of army which as you know takes a pretty long time, so we are not looking at any revenue from software defined radio or radar in the next financial year. We will be looking for revenue from them in the year next which is 2023-2024, not in 2022-2023.

Hardik: Will you be able to quantify the kind of revenue you might generate in 2023-2024 from these two?

Mahendra Nahata: It is very difficult to predict that kind of revenue but because the demand is very significant, I think we should be able to do reasonably good revenue and should be somewhere in three figures, exact, number I am not able to say at this point of time. It would depend upon what kind of tenders come from army, timeframe they take in finalizing those tenders. I would not predict, but one thing I can say. SDR where software define radio is a huge opportunity, majority part of the Indian Armed Forces network is going to be shifted to SDR because of its high technology, high encryption and less vulnerability to intrusion, due to these qualities, the demand is going to be massive in next 5-6 years so we expect to get a reasonable market share out of that and it is our own development. It is Indian designed, Indian developed, it is Indian manufacture it is going to be based on the requirement of the Army and we are one of the short



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listed companies, so I have very high expectations from this product which is underdevelopment.

Hardik: Sir, the same thing with optoelectronics as well for the Army?

Mahendra Nahata: For Army, we are not doing any optoelectronics. You are talking about night vision devices. I got confused sorry. Electro optics we have already started. Some small orders are under process to be received by us, it is not very big but still it is a good beginning. More tenders we have participated and those tenders are under evaluation. In fact, one of the tender reasonable large one we are submitting samples by I think another week or 10 days, we are submitting samples for the final evaluation by Army. Couple of more tenders we have participated where samples will be submitted soon. Number of more tenders are in process where we would be participating, so optoelectronics night vision devices, yes that process has already started and from manufacturing this, we are going to build up a facility in Hyderabad, which I have already informed to all my shareholders in the past and land for that facility has already been allotted and possibly construction activities will start in another two weeks' time. Construction activities will start and it is expected that facility will cost us Rs.40 Crores to Rs.50 Crores and it is going for two things. One is for optoelectronics and the second for electronic fuses. In the future, we might add more products out there.

Hardik: Thank you so much. All the best for the future.

Moderator: Thank you. The next question is from the line of Shivam Saxena from ICICI Bank Limited. Please go ahead.

Shivam Saxena: Good morning Sir. My question is on what is your view on optical fiber prices what are they currently and what is your view it is going because it is a global commodity so what is your view on global optical fiber prices and what are the prices right now?

Mahendra Nahata: In our Q2, I can I give you a number. It was average procurement, price was about Rs.267 per kilometer okay. Now it has improved considerably.

Shivam Saxena: In case you have given dollar per STM if you can give?

Mahendra Nahata: Dollars, you can divide by 75. I take the price, which is reaching to my factory, this is factory reaching price so we have to divide by that duty and all that.

Shivam Saxena: Roughly I think it will be \$2.5 I think? I think it will be \$3.5 per STM?

Mahendra Nahata: It is Rs.267 okay. Now it is increasing. This is an increasing trend. I would say now this will go up more than Rs.300. Right now it is \$3.5 if you take it I think you have to do the multiplication, but this Rs.267, which is the cost right, I expect it to go up to Rs.300 very, very soon because large tender has come up in China, which is going to be opened up on 14th of this month, 140 million fiber kilometers, so I think there would be absolutely trend of the fiber prices and it may settle around something like Rs.330 to Rs.350. This is inclusive of all duties and everything delivered in my factory.



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- Shivam Saxena:** What has been the all-time high of this fiber prices?
- Mahendra Nahata:** This is not all time high.
- Shivam Saxena:** What do you mean by all-time high?
- Mahendra Nahata:** \$8 or \$9. All time high has been much higher.
- Shivam Saxena:** So you do not see going to that level right?
- Mahendra Nahata:** No not at all. I think Rs.350 is the maximum it would settle.
- Shivam Saxena:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Neerav Dalal from Maybank Kim Eng Securities Private Limited. Please go ahead.
- Neerav Dalal:** Thank you for the opportunity. A few questions from my end; one is now that we are seeing the telecom product business pick up what would be our exports say in the first half of this year. I think last year they were at about Rs.200 Crores, so what would be the exports that is my first question and of the order book is it possible to split it between telecom products and turnkey project and if we could also share what has been the YOY increase in the two numbers?
- Mahendra Nahata:** In terms of export Neerav, this first half of this current year, our export is Rs.171 Crores. First half of the last year it was at only Rs.63 Crores, Rs.63 Crores has become Rs.171 Crores. Now the full year last year it was Rs.201 Crores. Now this year in half yearly itself Rs.171 Crores, so we expect to reach to at least Rs.300 Crores during the current year, at least Rs.300 Crores we should be able to do it and the targets, I have defined two targets for the Company, very important. One increase revenue from products and home grown products which are designed by us, developed by us, manufactured by us which will give higher margin; second exports, so new products, new geographies. This is the mantra as in my Company now. To increase export we are taking several steps and these have shown results. For example, Rs.200 Crores would become Rs.300 Crores this year. For the team, I have set much higher targets for the next year. I have set a target of Rs.500 Crores for the team for the next year the introduction of new products and maybe much higher targets in the years to come. Now targets are set but you have to take appropriate steps to make sure that those targets are achieved, what are we doing in that aspect? One as I have told previously we have appointed people in different countries to sell our products, France, Germany, England, Middle East. These are the fiber optic cable. Now we are employing people to sell telecom products because technologies are completely different so you need different kind of people. So we have already short listed two people for selling our products in Europe and couple of other countries in Middle East and Africa, so we are strengthening our sales force for selling products. Most of the products are yet to come in the product line. They would come gradually from now to another one year, but we are already strengthening our sales force, creating our sales team, all over the world by people or by agents or by distributors who would be selling our products and these people who have been recruited



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some of them are specialized in distribution network, through distributors and agents, so that is what we are doing right now to increase our export sales, so one is innovation of new products, number two not only sales in India but sales worldwide and both the things, I had committed to shareholders number of times, one, my revenue from products would increase which you have seen it has increased, second, my revenue from export would increase which is increasing, so this is our strategy we are working on. We are in the right path to implement that strategy. In terms of order book from product and services, the product order would be, let me tell you one thing. Product orders are never received in bulk. They are received more frequently, but the orders are not in bulk. For Fiber optic cable sometimes it is Rs.50 Crores order, Rs.30 Crores order, Rs.60 Crores order, those are the kind of orders we receive. In turnkey contracts, a single large order so you would find there would always be a contradiction in terms of revenue and order book in terms of product and services because service orders are received in large quantities in one go, product orders are received more frequently but in small pieces one after another. Currently, the order book from products would be about 15% to 17% and rest would be the services but that does not mean the revenue would be in that percentage. Revenue we are expecting to maintain at 45:55 ratio, which we have done in this quarter.

Neerav Dalal: Sir thank you for that, just on the exports now so if I were to look at your Rs.800 Crores, Rs.900 Crores of revenue. Now already Rs.171 Crores is exports. Is there a broad regional mix that you can share and the other part is all of this exports would be optical and what would be our ASP on the cable side in these orders, broad number would be fine?

Mahendra Nahata: You said what would be our USP?

Neerav Dalal: No the average selling price.

Mahendra Nahata: The average selling price. Okay. In terms of breakup of revenue, it is about Rs.147 Crores of optical fiber cable and it is mostly centered around Europe and Middle East. Europe and Middle East used to be the larger contributors to our export of optical fiber cable and rest is about Rs.24 Crores to Rs.25 Crores would be from railways, railway projects which we are implementing in Mauritius and Bangladesh, so these would be the two revenue breakup of product and services; telecom products as well as this optical fiber cable. Now realization in terms of per fiber kilometer, it would be Rs.1,100 per fiber kilometer approximately. So I do not have right number at this moment but it would be somewhere around Rs.1,100 per fiber kilometer would be the average realization from export revenue for cable.

Neerav Dalal: Okay so that is about \$14.5, \$15, so that is good. Okay and it would be correct to assume that obviously exports would have a better margin than domestic products?

Mahendra Nahata: I cannot generalize that. Some of the domestic market products have also good margins some of the domestic sales, but here generally you can say export would be a bit better, generally on an average.

Neerav Dalal: What is the status in terms of the PLI scheme and in terms of fundraise what is the time period you are looking at for the fundraise?



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- Mahendra Nahata:** As PLI scheme is concerned we are informed by DoT officially that on 14th October, Ministry is going to inaugurate that scheme by announcing the names and all that. Since we have been informed officially to be present there, I am sure we must be one of them to be a recipient of the PLI guidance, officially us to be present there. So I am sure there must be some good reason for us to be present there. So that is one. As far as the fund raising is concerned, the Board has approved, shareholders have approved but we are looking at various options and timing, whenever we finalized that we will be coming back to you.
- Neerav Dalal** Got that. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sudesh Kumar. Please go ahead.
- Sudesh Kumar:** In the last concall you had said that semiconductor and chip shortages related to the product will be solved in this quarter?
- Mahendra Nahata:** The semiconductor shortage worldwide still continues. It has not been sorted out. Worldwide everybody is suffering from that problem as much as us. The current quarter which is under review the products revenue could have been higher had it not been the global shortage of chipsets which is hampering increasing revenue from products like Wi-Fi and radios as well as the switches, so unfortunately that shortage continues and I do not think it would be resolved at least for another three to six months.
- Sudesh Kumar:** The balance pledged quantity by when can we see that to be released?
- Mahendra Nahata:** All other banks have approved except one. One bank was to have a meeting on this last week which could not happen. I hope they would be having this meeting next 8 to 10 days so let us wait for that.
- Sudesh Kumar:** Even though the product revenue has increased but margin Q1 and Q2 is less, any reason?
- Mahendra Nahata:** There may be a small variation, very small variation because of different turnkey projects may have a different kind of revenue mix and different profitability so it is a very slight variation which can always happen from quarter to quarter.
- Sudesh Kumar:** Okay thanks. All the best.
- Moderator:** Thank you. The next question is from the line of Yash Sharda from Daiwa Capital Solutions LLP. Please go ahead.
- Yash Sharda:** So my question is regarding the new facility, earlier you mentioned that the construction is yet to begin in two weeks. So what is the timeline we are looking at for the completion of the facility? What is the peak revenue which you are expecting from the new facility at 90% to 95% utilization?



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Mahendra Nahata: Look this facility construction is going to start in about couple of weeks. I think it would be about eight to nine months, it will take to complete this facility and since this is a different product facility, I would not really say that how much revenue we can get. That would be a little bit of forward-looking statement but defence products electro optics, software defined radio, we believe that looking at the demand of those equipment, which is very reasonably good demand. We would be able to get a reasonable market share and return on equity and return on capital would be significantly good.

Yash Sharda: Thank you. That is all I have. Thank you once again.

Moderator: Thank you. The next question is from the line of Shivam Saxena from ICICI bank. Please go ahead.

Shivam Saxena: Thank you for taking my question again. Two questions, my first question is whether the margins are better in services or in products, one is this and my second question is, are you competing in exports with Chinese competitors like Huawei and ZTE for achieving the product. Are you competing with them and Tejas in Indian company?

Mahendra Nahata: First of all, margin in terms of revenue in product and services. Generally, product revenue margin would be better generally, but then there were some service contracts where margins could be good also in some cases, but generally yes product margin would be better particularly when you have design and own manufacturing products. That is generally, I would say, that statement I would make number one. Number two, in terms of exports, as I said. Our export predominantly has been optical fiber cable in the last quarter or the first year and in optic fiber cable Huawei or ZTE do not sell it. They do not do optic fiber cable they are mostly in the equipment business. Equipment business we are right now supplying in India. Export as I said, we are creating export infrastructure and we would start exporting of those products in next few months' time frame, so at that time you would compete with them, but I do not have a problem. The products which we are going to manufacture or we are manufacturing like Wi-Fi or unlicensed brand radio and the product which we are going to manufacture, routers, switches, 5G, small cells, large cells, they have a huge market billions of dollars, billions of dollars even if there is Huawei or ZTE or any other company the required market share which we are expecting for ourselves it should be pretty easy to get and we would be cost competitive for example in fiber optic cable though there may not be Huawei or ZTE, there are other large companies YOFC, Hengtong, ZTT, Fiber Home, those companies are there and we are effectively competing against them. Sometimes we lose sometimes we win, but we are able to compete and we are able to get our business as you are seeing they have increased our business so we would be able to compete effectively.

Shivam Saxena: So within products how much proportion of the revenue you expect from OFC and how much from other equipment going forward one to two years down the line? What is your target?

Mahendra Nahata: Three years down the line. Three years down the line I would say because one has to give a market development timeframe also. It could be probably I would say 60:40 from cable and products something like 60:40, this may change to 50:50 also but may be 60:40.



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Shivam Saxena: Thank you.

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

Deepak Mehta: Good morning Sir. How are you?

Mahendra Nahata: I am fine. Thank you, Deepak.

Deepak Mehta: Sir my question is around the 5G strategy. If you can throw some light what is the recent development in this quarter?

Mahendra Nahata: Look in 5G our strategy is simple. We want to develop equipment which are required for 5G network which includes as I said 5G small cells which are under development, indoor and outdoor both applications then 5G macro cell which is also under development for different capacity 8x8, 16x16 which we would follow 32x32. When I say all this, this refers to RF chains. How many RF chain one radio has, so one is the radio access network for 5G, second one small routers, then large router, switches, they are all 5G related products, which would be required in large quantity in the 5G network. So, we are designing those equipment by ourselves and we would be selling not only in India but worldwide export market also for which we have already started our market development activities. Now our development would coincide with the launch of 5G networks in India. So first you have to sell in your country then you sell worldwide because you have to prove yourself in your country first, so which is what we are doing in India and then we will be selling worldwide also, so that is our strategy for our 5G business, develop products in time to be able to catch up with the market in India and then sell worldwide.

Deepak Mehta: Sir I wanted to ask about the R&D. How you are hiring the right talent and how is the direction of R&D employing, delivery from the R&D investment. That is the main reason for asking the question.

Mahendra Nahata: If you have to succeed you have to innovate. Unless you innovate you do not succeed. This is what the mantra of success in technology business is. We are innovating constantly in two areas cable and telecom products both. For cable also R&D is important so what we are doing recruiting some talent internationally also we have got excellent expertise in development in new kind of cables which are more for export market. We are recruiting people for that. We have already short listed person for that very highly experienced person, so we will be bringing on board very soon. Then of course same point of time whatever new products we develop in cable we have to have a match in machinery here to produce those products which we will also be doing. On the other hand, R&D would be equipment. Equipment as I have told many number of times. We have three pronged approach, one our own R&D facilities which is Bangalore and also Gurgaon near Delhi. Then we have contract R&D by companies which are specializing in contract R&D. We have given contracts to them where we have had joint teams, our team their team working for development of product for us. Where in IPR will belong to us, it is a contract development. IPR will belong to us then my team will take it over



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and keep on developing that products, making it better and better from cost perspective, feature perspective it will continue. Then the third way is we have taken equity in companies who are designing products for us, like software defined radio. That is the equity we have taken 50% in a company called BigCat Wireless in Chennai. They have been developing software defined radio for us. So three pronged approach, own R&D facilities, contract R&D with others, joint teams working. Third, we have equity in companies who are designing products for us. This is a three-pronged approach we have taken. Recruitment of people yes we are finding talent. Bit difficult to find talent in R&D than the normal production lines and normal functional areas, but yes we are still able to find good people which is a mixture of very experienced people, experienced people, and freshers. We are taking lot of freshers also. Recently we have added almost 30 freshers in our Bengaluru R&D center and they are being trained appropriately by experienced people and they would come up good. They are coming out good. So this is how we are looking at R&D and increasing our R&D facility and people.

Deepak Mehta:

Thank you so much for the updates.

Moderator:

Thank you. The next question is from the line of AN Sharma an individual investor. Please go ahead.

AN Sharma:

Sir thank you for the opportunity. I wanted to know when we are shifting our focus from service to product what is the market size we are targeting and what would be the margin in that area?

Mahendra Nahata:

Market size for products once you are marketing not only in India but worldwide is billions and billions of dollars because 4G networks are getting expanded, fiber to home networks are getting created huge numbers of networks are coming up in 5G. So market opportunity and overall stable and equipment area which you are looking is worth of billions of dollars. There is no dearth of market so only question is how many countries you go in, select those countries, go in and build up depth in your marketing infrastructure there. Same infrastructure there and sell it because you cannot be selling in 180 countries, you will be selling probably 10 or 15 countries with depth marketing infrastructure, sales infrastructure, after sales and service infrastructure and get your revenue and which you should be able to do comfortably.

AN Sharma:

What about when we are coming with 5G products and we are targeting local market, international market for the 5G product what kind of pricing power do we enjoy in that and what will be the market price for this product?

Mahendra Nahata:

What sort of marketing power that was your question? What did you say?

AN Sharma:

I said what kind of pricing power we would be having for the 5G products in the local market as well as the international market?

Mahendra Nahata:

Pricing power, the question is we are doing our own design and doing the latest design based on the latest components so believe in terms of pricing we should be competitive with others. We should be competitive with other people. There is no doubt about that and then of course



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our PLI scheme and those incentives which have been given by government adds to our competitiveness, no doubt about that. So innovative design, low overheads, being a company located in India and manufacturing in India our overheads are low. PLI scheme would benefit us to 5%-6% of revenue, which is what the PLI we are going to receive. These all would make us competitive and we would be as competitive as anybody else because it is our design, own manufacturing, based on latest technology, latest components, there is no doubt that we will be very competitive. In terms of size, again I say size of the market is billions of dollars there is no dearth of the market. It is only how many countries you can sell with what kind of depth in your sales infrastructure and aftersales service infrastructure. So market opportunity is huge, the kind of sales we are targeting in numbers would be reasonable of the overall market size.

AN Sharma: Thank you so much.

Moderator: The next question is from the line of Ankit Pandey from Quant Money Managers. Please go ahead.

Ankit Pandey: Thanks for taking my question. Sir could you talk a little bit about your trade receivables, good Rs.400 Crores improvement since March so could you talk about BSNL, and other projects we had a recent commencement in metros in Uttar Pradesh for a couple of cities, so could you just talk about that?

Mahendra Nahata: If you look at our trade receivables it has gone down. In the Q1 of financial year 2022, this receivable was Rs.3,053 Crores now it has become Rs.2664 Crores. There is a reduction of about Rs.350 Crores or so in the current month and the next month these two months, we are expecting to receive about Rs.400 Crores more from different customers in terms of receivables. I would say Rs.400 Crores plus. Next quarter you will see the further decrease in the receivable from our various customers. Major portion of receivables is from the defence contracts which I have been mentioning that though the turnkey contracts and the milestone based payments are there and milestone completion got delayed because of problems by of non-completion of infrastructure by customers not because of us, as a result of that revenue got delayed many times we supplied goods but client infrastructure not being complete is the reason for delay in our payment But their situation is improved now, we have started gone into the situation where their infrastructure also getting completed because now they are also realizing that they need these kinds of a network very fast. Though it has gone down by Rs.300 Crores. I think it we will be receiving payments of another Rs.400 Crores from these projects in next month and current month and it will further go down. So the situation is improving and it will get on improving further by March year end you will find it has improved further considerably. Cash flows of the companies have also eased out free cash flows are becoming better it will keep on becoming better quarter-to-quarter.

Ankit Pandey: Amongst, so this extra Rs.400 Crores decrease it was to receive is that all coming from projects or some of that also from products?



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Mahendra Nahata: The Rs.400 Crores I talked from the projects only but that is not speaking about the entire revenue from cable business and all that revenue completely separate this particular Rs.400 Crores, I talked it is from the projects.

Ankit Pandey: I notice that with this Rs.400 Crores reduction our payables have also reduced by about Rs.350 Crores, so that kind of proportion will continue or do we expect to net a lot more this time?

Mahendra Nahata: Yes, It will go in tandem. There would be increased cash flow but yes money will be received and would be paid to the creditors also but free cash flows would also be there.

Ankit Pandey: Probably in that proportion where we have to pay down about Rs.350 Crores?

Mahendra Nahata: Absolutely so this would ease out our balance sheet quite a bit in terms of higher receivable from the customer higher money realized and pay to the creditors also.

Ankit Pandey: That is really good to hear and in our order book you mentioned that the 20% would be from projects so far amongst the remaining how much is it from government order book and how much is export order book if you could give a breakup?

Mahendra Nahata: Of the order book 20% is from product I said about 15% is from product and 85% is from project. Product one should not get misled because the 15% and 85% because product orders keep coming we see there are small bits and pieces all that and we had growth on an almost daily basis. So product revenue would be around 45% whereas order book is only 15% because they kept on being received small pieces every day now coming to the breakup of order book in terms of I would say domestic order would be about Rs.5,750 Crores, export order would be around Rs.100 Crores right now again export order as I said it is only for product, they kept on being received in small pieces and total exports currently would be around Rs.300 Crores as against Rs.200 Crores last year. In terms of different projects which we have order book about Rs.2,500 Crores is from defence, Rs.1,000 Crores is from Jio then we have various orders from railways and telecom projects and all that so total order book is at Rs.5,822 Crores in terms of further breakup government and non-government, out of Rs.5,822 Crores 55 % is from government, Rs.3,242 crores and the rest in non-government.

Ankit Pandey: Thanks for that. That was very helpful and just on that do you think the Jio sort of on the book or the pace of their orders and would you like to put a little bit of color on it do you think it is as expectations or do you think it is faster than expected given the recent change in that?

Mahendra Nahata: It is as expectation if I tell you the current order book about 21% of my order book is from Jio and 79% is non-Jio and is expected to continue in the same manner.

Ankit Pandey: Great. Thank you so much for all the details and all the very best to you sir.

Moderator: Thank you very much. The next question is from the line of Vishnu K G from JM Financial Service. Please go ahead.



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- Vishnu K G:** Thank you for the opportunity. Sir just a small clarification when you say that you have engaged people in Europe and Middle East for sale of products are there more like sales that the organizations who would act as resellers to our products?
- Mahendra Nahata:** No, we have our own people also we have our own people and there are resellers also. So our own people will talk to the operators directly and also manage the resellers also. There are distributors of course then there are our own people also.
- Vishnu K G:** So should it be fair to assume that we would have like a 50% kind of mix between resellers and products at least in the near to medium-term?
- Mahendra Nahata:** Not necessarily. We cannot put a figure like that because it keeps on changing if you receive a large order from an operator, this percentage will change, if you receive more order, the distributor percentage will change, right now we cannot put a percentage to that.
- Vishnu K G:** Thanks. Just a small follow-up so is it fair to assume that the margin profile in our direct selling would be slightly higher than the reseller part?
- Mahendra Nahata:** No, I do not say that it can again vary from customer-to-customer, order-to-order and situation-to-situation what kind of a competition and what kind of cable, it can always change we cannot generalize that.
- Vishnu K G:** Thanks for the opportunity.
- Moderator:** Thank you very much. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Thank you for giving me a second chance. Sir firstly, it is really very heartening that the receivables have come down if you could give us the breakup between the receivables which are older than 60 days and lower than 60 days of the total mix or in any proportion which you have?
- Mahendra Nahata:** Right now, I do not have breakup but if you send me your email address I can send you that reply, right now I do not have that breakup of course.
- Saket Kapoor:** I was just looking at the ageing part and now sir secondly towards the order book part sir how much is towards the operation and maintenance proportion and when is that going to kick in to the number?
- Mahendra Nahata:** It is already kicking in small bits and pieces. Of the total order book of Rs.5,822 crs I think this would be about Rs.1,500 Crores to be O&M and rest would be order for supply of products and services.
- Saket Kapoor:** Sir for this quarter and for the six months what should be the breakup from the O&M out of the total revenue which we have booked and it is clubbed under which segment?



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Mahendra Nahata: In the current year, I can say it will be about Rs.100 Crores in O&M revenue would get in the current year.

Saket Kapoor: For the entire year Sir?

Mahendra Nahata: For the entire year.

Saket Kapoor: And sir when will that be a bulky figure, meaning, if I take Rs.1,500 Crores, total position so when will that warranty period get over and the O&M will start?

Mahendra Nahata: Year 2024-2025 that will be the year there we are expecting an O&M revenue of Rs.300 Crores plus Rs.350 Crores about.

Saket Kapoor: Currently Sir what are the industry challenges and what are the challenges for HFCL which you are adhering to and what steps are you taking to mitigate the same?

Mahendra Nahata: Industry challenges of course any industry always face some challenges which is industry when I talk of industry I am talking from the operators perspective they have ROW issues, they have spectrum issues, they have various government litigation issues which are the part of the business and which continue all the while. From the manufacturers like us issues would be semiconductor issue right now, there will be short supply of semiconductor, if there are issues with the operators in terms of their rollout, ROW, those challenges we have to also face, but those challenges will keep on mitigating those are day to day issues. Now semi-conductor which has happened all of a sudden, all over the world we can hardly do anything much to mitigate that that the worldwide supply has to improve then only that would be mitigated but all the time what we do who are all our suppliers, we keep on pushing them, we keep on pushing them, every now and then to supply more to us, supply more to us but they get that kind of push from everybody so this semiconductor supply that worldwide that has to improve then only that would get mitigated otherwise normal challenges, issues of maintenance of quality, timely supply, logistics we keep on facing and we keep on mitigating those challenges now in terms of innovation, of course that always remains a major challenge that we have to be at par with technology, so as I said fibre optic cable we are innovating, we have recruited even international people, we are in process of recruitment of them to have a higher ability to innovate new kind of cable designs, similarly we are tying up with R&D houses, international R&D houses to design our products telecom products so simultaneously we are creating our own R&D team, highly qualified people and of course the new comers also to design the kind of products, so we have to keep on facing that challenge of innovation but you mitigate that challenge by having your own R&D resources as well as partnership with internationally acclaimed R&D houses to design your products.

Saket Kapoor: On the raw material availability and the integration part how much is the in-house capability now and what would be the proportion going forward and one more part is on the finance cost part that has increased so what should be the absolute number we should look forward and thirdly to it is the lower revenue quarter-on-quarter what would attribute to the lower revenue



when our plants are running at the optimum levels is it take the June quarter and the September?

Mahendra Nahata: In fact our revenue is not lower quarter-to-quarter the revenue in this quarter and the last quarter is almost the same there is no reduction in revenue strategy.

Saket Kapoor: Sir it was Rs.1,100 Crores for the June 2021 and it is Rs.1,000 Crores for September 2021 so there is a reduction?

Mahendra Nahata: There is a small reduction that happens because the seasonal impacts, this is heavy rainy season. The turnkey work execution could not happen in many other places because of heavy rains particularly North India and the semiconductor shortage that also contributed a small amount to this decrease in revenue but there is no significant decrease in revenue and which is all seasonal, minor impact. In terms of interest cost it will keep on going down, it has already started coming down substantially. This quarter it is Rs.10 Crores lower than the last quarter, it will further come down because with the decrease in receivables, our borrowing will go down and in fact one of the thing that I forgot to mention in my opening remarks, our borrowing has gone down considerably. In the June quarter, in the last quarter, previous quarter, quarter one of the total borrowings was Rs.895 Crores, year ending March 31, 2021 it was Rs.920 Crores, today now in the current quarter ended our borrowing is only Rs.683 Crores, so there is a considerable reduction in borrowing of Rs.300 Crores reduction in borrowing that trend may continue also because of the increase in receivables so interest cost is supposed to go down with a decrease in borrowing and also more efficient fund management and better negotiation with the banks in future borrowing will go down. So borrowing has gone down as well as interest cost has gone down which is very, very important this Rs.300 Crores reduction in borrowing in the current quarter.

Saket Kapoor: Sir what I was referring to the number of September 2020 at Rs.80 Crores and September 2021 first half at Rs.90 Crores so there is a Rs.10 Crores increase over the year when the receivables have also gone down our cash flows have improved but still the absolute numbers are up by Rs.10 Crores I stand corrected so for a year as a whole sir last year it was Rs.175 Crores the finance cost and we have already done paid Rs.90 Crores for the first half so the second half with this improvement in cash flows that we can look forward for the number lower than Rs.175 Crores?

V. R. Jain: Yes definitely Saket Ji, it will be lower by Rs.15-20 Crores as compared to previous financial year in the current year as a whole.

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

Guru: Congratulations for posting the wonderful figures. I have a couple of questions first is regarding the satellite broadband, the internet which is entrenched base and some of the Indian telcos also have shown interest in that so will it pose any risk to the OFC business or how about that and second question is BharatNet PPP model so when can we expect revenue from that?



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Mahendra Nahata: Look satellite broadband is being talked about and it is a good proposition to have but it is not going to impact fibre optic cable because satellite broadband would be available only to limited number of people for example a Starlink has announced that in India they will take only 2,00,000 subscribers because satellite have only finite amount of bandwidth which they can give and it is mostly targeted to grow our inaccessible areas where there is no terrestrial connectivity available and it is going to be costlier also so satellite broadband does not pose any threat to terrestrial communication which includes fibre optic cable also. It will not have any threat on that because the number of subscribers all put together would not even cross a million or so. So it does not pose any threat any significant or insignificant threat also. So that was your question. What was your second question?

Guru: Regarding this BharatNet PPP.

Mahendra Nahata: The BharatNet PPP they have extended the date twice because there has been some discussion on viability gap funding what is this is the right number or the number or the number looks to increased or whatever so that is under discussion so I think it will take at least six months because BharatNet PPP model is finalized and awarded to people. I think it is still six months and then only and the revenue we can look at it in next financial year only.

Guru: The last question is regarding the BSNL 4G, I heard that HFCL along with some partner could not continue with that so some I mean do you want that place?

Mahendra Nahata: No, it is not a question and we could not continue. We thought that we would be going in for 4G for BharatNet and we had applied for that validation, it is still not that we have said that we will not be doing we have sought this core from C-DOT, C-DOT has said that we will be able to give you the indigenous core only after December so we are waiting for that to happen and whenever that happens we will go back to BSNL and ask for a trial and that has been case with us L&T and Tech Mahindra all three of us only TCS is continuing but that also with a limited functionality. They are also not able to meet the entire specification which you saw yesterday in one of the newspaper report, radios are not to the specification so we instead of going ahead with the less specification or limited specification we decided that we should wait and go back to them and our products and the full specification complete.

Guru: Thank you.

Moderator: Thank you. The next question is from the line of Dharmesh Kant from ARD Ventures. Please go ahead.

Dharmesh Kant: Congratulations on a very good set of numbers. Sir can you throw some light on the amount of money which you are raising around Rs.750 Crores what are the areas in which it will be apply to?

Mahendra Nahata: Look as I said, the board and shareholders have given approval for raising up to Rs.750 Crores but right now we have not finalized how much is to be raised, when it is to be raised whenever we finalize how much and when we will come back to you with the applications also.



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- Dharmesh Kant:** Sir last time in the concall you have given a guidance of around 15-20% on the revenue growth so are we sticking to that for this financial year FY2022?
- Mahendra Nahata:** Yes we are sticking to that. It should be around 15% of the revenue growth in the Company in the current financial year. We are sticking to that, absolutely. If you look at our six months results the Rs.1,700 Crores we have been able to get Rs.2,200 Crores.
- Dharmesh Kant:** Margins are likely to stick around any operating margins of 15.5%?
- Mahendra Nahata:** Margins what we have done in first two quarters it will continue and there should not be any problem in continuing that kind of a margins and the profitability in the next two quarters also.
- Dharmesh Kant:** That is all from my end. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my question. My question is on capex from the first half I could see that including intangibles we would spend around Rs.70 Crores what is your full year capex guidance and which are the key projects that it will be spending on this year? Thank you.
- Mahendra Nahata:** Till now we have announced that we would be doing our Rs.210 Crores of capex in the current financial year and of course as I have told you our shareholders have approved further fund raising but if we decide the fund raising and depending upon amount and when there maybe change in this plan, depending upon the fund raising whenever it happens and whenever we decide to do depending upon various options we are getting this would definitely as the possibility of change but right now it is Rs.210 Crores in the whole year.
- Abhijit Mitra:** Got it. So the existing Rs.210 Crores could be mainly to increase optical fibre, FTTH cable and the fiber capacity?
- Mahendra Nahata:** Yes, it is optical fibre, optical fiber cable and the defence manufacturing.
- Abhijit Mitra:** Then R&D capex is included in that, R&D capex whatever you have priced in for?
- Mahendra Nahata:** R&D capex is not included in that. That is separate to this.
- Abhijit Mitra:** Thank you. That is all from my side.
- Moderator:** Thank you very much. Ladies and gentlemen we will take that as the last question. I will now hand the conference over to the management for closing comments.
- Mahendra Nahata:** Thank you very much to all of you for being on this call. As I have been saying that we decided two strategies of the Company which is new products, new geographies we are continuing pretty fast on that, we decided that we would be going to margin accretive products and services, we are on course to do that, we thought of increasing our export, we are on



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course to do that, we thought of going for new products innovation, we are on course of doing that so whatever strategies we have decided for the Company, we are on course and absolutely very fast going in that course and which would continue for next few years which would see your Company having better revenues and better profitability with the product which you will be able to sell worldwide and our projections in terms of financials which I have been giving in terms of possibilities of revenues and profitability on account of this strategy, we have adopted we are on course of maintaining that and I am sure that with the growth in market opportunity which is very, very important with the market opportunity which are there in front of the Company, we expect the future operations of the Company and also the profitability to maintain this trajectory of growth which we are having at this point of time.

Thank you very much to all of you. Thanks a lot.

Moderator:

Thank you very much. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.
