HFCL GROUP

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HFCL/SEC/22-23 October 28, 2022

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

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

Subject: Transcript of Conference Call on the Unaudited Financial Results of the Company for the 2nd Quarter and Half Year ended on September 30, 2022, of the Financial Year 2022-23.

Dear Sir(s)/ Madam,

This is further to our earlier announcement dated October 18, 2022.

In terms of Regulation 30 read with Para A of Part A of Schedule III to the SEBI Listing Regulations, we hereby submit Transcript of the Conference Call held on October 20, 2022, on the Unaudited Financial Results of the Company for the 2nd Quarter and Half Year ended on September 30, 2022, of the Financial Year 2022-23, which were considered and approved by the Board of Directors of the Company, at its meeting held on October 18, 2022.

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

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

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

MANOJ BAID

Digitally signed by MANOJ BAID
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(Manoj Baid)
Senior Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.

"HFCL Limited
Q2 FY 23 Earnings Conference Call"

October 20, 2022

MANAGEMENT: **MR. MAHENDRA NAHATA, MANAGING DIRECTOR AND 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 Limited Q2 FY23 Earnings Conference Call, hosted by ICICI Securities Limited.

We have with us on the call Mr. Mahendra Nahata, Managing Director and Promoter; Mr. V R Jain, Chief Financial Officer; Mr. Manoj Baid, Company Secretary; 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mahendra Nahata. Thank you. And, over to you, sir.

Mahendra Nahata: Good Evening Ladies and Gentlemen,

A warm welcome to HFCL's earnings call for Q2'FY23.

I truly appreciate and express my gratitude for making it to HFCL's earnings call for second quarter and first half of FY23. I am sure that you got a chance to go through our financial results, press release and investor presentation, which are available on the website of the Company and also on the website of stock exchanges.

For HFCL, Q2 FY23 has turned out to be quite promising. We were able to continue on our sustainable growth path, which was fueled by some key product launches including world's first Open source Wi-Fi 7 Access Points, 5G-8T8R Macro Radio Unit and 5G Lab-as-a-Service during India Mobile Congress 2022 - South Asia's largest digital forum. As a technology-driven enterprise, there is a significant thrust on innovating futuristic5G products for which we have collaborated with industry leaders like Qualcomm. This will create huge opportunities for our new products based on 5G technologies like 5G-8T8R Macro Radio Unit, 5G indoor and outdoor small cell development and 5G mm Wave Fixed Wireless Access Customer Premise Equipment products in the domestic and global markets. The other strategic priority during this quarter was on expansion in key global markets including United States & Europe to further support our strategic direction to become a Product led Global player in Optical Fiber Cables and Telecom Products and solutions space. By winning some key orders from Reliance Retail, BSNL & RailTel, we have been able to close Q2 FY23 with an order book of more than Rs.5,200 crore.

The global macro environment continues to be challenging and dynamic. However, with the advent of 5G, the opportunity landscape for manufacturers in the telecom and technology industry looks promising and has grown manifold. It has also given rise to a spike in demand for Optical Fiber Cables and Telecom & Networking Products. The deployment of a robust 5G infrastructure in the next couple of quarters will enable enterprises to embark on the digital transformation journey across the sectors.

The current global demand for Optical Fiber Cable is 600 million fiber km equivalent cable. Since over 95% demand is witnessed in global markets and given the competitiveness of our portfolio in Optical Fiber Cable, equipment and end-to-end network solutions, we aspire to cater to more markets and more customers. The development of revolutionary yet indigenous technology and products has positioned Indian companies like us in the forefront of global technology leadership. We have already established a successful and strong footprint in 30+ countries, serving 80+ clients globally in Optical Fiber Cables and telecom products. We have our employees in Dubai, France, Germany, England, US, Kenya to further widespread our presence and deepen our customer reach. Apart from this, we have also appointed dealers and distributors in many Countries to cater global demand. Over the next 3 years, we aim to build upon our global customer relations and export footprints expeditiously and emerge as a large global player in this space.

Our export revenue has grown by 88% in Q2 FY23 on a Year to Year basis. In this half year FY 23, export revenue stood at Rs.376 crores compared to Rs.171 crores in H1 FY22 showing an increase of 120%.We are well on our mission to double the export revenue during current financial year. This trend is expected to continue in coming years as well.

Zooming into the Indian context, in order to create a strong 5G network infrastructure in India, the telecom industry will witness an investment of Rs.3.5 to 4 lakh crores in the next 5 years to facilitate 5G services rollout. Indian telcos are estimated to spend between 1.5- 2.5 billion dollars on Optical Fiber Cable alone in the next three to four years.

The domestic Optical Fiber cable market environment continues to be strong with the current market demand of Optical Fiber cable products at 35-40 mn fiber km p.a., which is expected to grow significantly over the next few years on account of creation of 5G network across the Country, expansion of existing 4G network, deployment of Fiber To The Home network, implementation of Bharatnet projects which will lead to all the villages of the Country being connected by Optical Fiber Cable and creation of multiple data centers across the length and breadth of our Country. In India, BharatNet alone will lead to an opportunity of laying 16 lakh kilometre of Optical Fiber Cable translating in almost 50 million fiber Kms.

There is tremendous opportunity in global markets as well. We have witnessed that the governments of leading economies including United States, United Kingdom, Germany and in Europe are investing heavily on building robust fiber connectivity for the deployment of 5G network and FTTH Networks. The global market demand of Optical Fiber Cable is about 600mn fkm p.a. and it is estimated to grow to 1000mn fiber km p.a. over the next 5 years.

We also see immense opportunities for Telecom & networking products and system integration across the globe as part of 5G rollouts, especially in markets like Europe and US. We have identified Europe and US to be the key markets to focus on for further deepening our global footprints.

During this quarter, we also entered into a crucial partnership with Qualcomm, for design and development of 5G millimeter wave Fixed Wireless Access Customer Premise Equipment products and 5G Outdoor Small Cell product development. All these initiatives and significant alliances will enable HFCL to expand its 5G product portfolio by launching various products gradually for India and global markets and these products shall enhance 5G user experience and contribute for efficient utilization of 5G spectrum.

Another significant highlight in our participation at the India Mobile Congress this year, the largest digital technologies forum in South Asia. With our honorable Prime Minister inaugurating the launch of 5G at the event, the world witnessed every key telecom and technology player showcasing their latest and most innovative solutions. HFCL took this opportunity to launch some significant new offerings including World's First Open source Wi-Fi 7 Access Points. With this launch, your Company is the world's first and first OEM in India to launch Open source Wi-Fi 7 Access Points, designed to deliver extremely high throughput, generating a speed of more than 10 giga bits per second. With a strong background of R&D, our line of Wi-Fi 7 products is bound to enable telecom operators to deliver better user experience than earlier, bringing us a step closer to Metaverse.

At the India Mobile Congress, we also launched the first product from our 5G product family - 5G 8T8R Macro Radio Unit which is modular in design and can be easily customized to support any Sub-6 GHz frequency band to address the global markets. 5G is bound to accelerate the adoption of virtualization and cloud native technologies. Our next generation Radio Unit combines the power of vRAN based on open standards to accelerate 5G deployment.

5G Lab-as-a-Service was another significant launch at the India Mobile Congress. HFCL is one of the few companies in the Country to launch 5G Lab-as-a-Service. Telecom operators are adopting multi-vendor networks based on cloud native technologies for faster and cost-effective rollout of 5G services and for improved user experience. Our Lab-as-a-Service, situated in Bangalore, will provide an automated test environment for the private sector, academia and government to work together on product innovations from concept to reality, thereby accelerating rollout of 5G solutions and services both in India and globally.

I would also like to mention that HTL Ltd, our material subsidiary has established a state-of-the-art Polymer Compounding facility as backward integration at its Hosur plant in Tamil Nadu for manufacturing of Polyolefin based compounds of various grades and colors which are required as raw material for manufacturing of Optical Fiber Cables. With our Optical Fiber Capacity expansion coupled with the vast opportunity landscape, this backward integration will enable us to improve our profitability and with availability of multiple grades of Polymer, it will further help us to tap more customers in domestic and global markets.

Let me now brief you on key performance metrics of Q2 of FY23.

- Revenue of Q2FY23 stood at ₹1173 Crores as compared to ₹1051 Crores in Q1 of FY23 and ₹1122 crores in Q2 of FY22
- EBITDA for the quarter stood at ₹175 Crores as compared to ₹130 Crores in Q1 and ₹173 crores in Q2 of FY22; EBITDA margin stands at 14.88 % for the Q2 of FY23 as compared to 12.35 % of Q1 and it stood at 15.44% in Q2 of FY22
- For Q2FY23, profit after tax stands at ₹84 Crores as compared to ₹53 Crores of Q1 of FY23 and ₹86 Crores in Q2 of FY22; PAT margin stands at 7.18% in Q2as compared to 5.05% in Q1 of FY23 and 7.66% in Q2 of FY22.
- Segment revenue for telecom products during the quarter stood at ₹671 Crores as compared to ₹620 Crores.

From the above financial performance, you would kindly appreciate that on the backdrop of easing supply chain disruptions and improvement in input costs, we have been able to demonstrate healthy growth in our revenue and margins over last quarter.

We believe that our revenue and margins will continue to grow with all the initiatives taken in last few quarters. We have also applied for the design-linked incentive scheme for telecom and networking products and are committed to invest a sum of Rs.425 crore over a period of four years.

We expect to receive the approval from the government any time now, and this investment will support various stages of development and deployment of a futuristic range of technology products and solutions.

With a major focus on the 5G revolution, HFCL is witnessing a transformation towards emerging as a high-tech global enterprise and integrated next-gen network solution provider. As a result a leader in telecom equipment and optical fiber cable manufacturing in the Country, we will continue to offer more robust and high tech solutions with open source technology. To conclude, I would like to say that as we are already witnessing a strong demand for our 5G products, optical fiber cables and integrated network solutions both in India and globally, we will continue to leverage our capabilities and continue with our strategy of tapping new customers, new geographies and new products.

Thank you once again for your keen participation. With this, I conclude my opening remarks and open the floor for the Question & Answer session. Thank you very much.

Moderator: Thank you, very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on your touchtone telephone. If you wish to remove yourself from question can please press '*' and '2'. Participants are request to use handsets while asking the question. Ladies and Gentlemen we will wait for the moment while the questions queue assemble. Reminder to the participants anyone who wishes to ask a question may press '*' and '1' at this time. The first question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good evening, sir. My questions are you have built a very good defense portfolio, so my questions are on that part of the business. If you can talk about a little bit on the electronic fuses and electro optical devices. What is the order book like, where we are in terms of scaling that business? That would be helpful.

Mahendra Nahata: Yeah Aman, thank you, very much. For your good question. In fact, as you would know, defense equipment developed and being put in operation takes a lot of time because of the very rigorous testing going on. In terms of our electronic fuses, we have already offered it to the Indian Army for testing, and their testing work is still in progress. It has not ended. There have been certain issues in testing which the Indian industry has gone back to government and told them to redo the testing because of certain issues.

So those work is in progress, results are not yet out. And, I expect good business to emerge from electronic fuses, not only in India but abroad also, because we have IPR of this. But yes, there are no orders available at this point of time because this testing and all that takes long amount of time . And same stands for electro-optic devices where we have got a small order from Northern Command which is under execution, but for larger orders, we have participated in tenders which are, results are not yet out. So it will take certain amount of time still.

As I have been telling earlier also, we expect revenues to start from defense products in the next financial year, that is FY23-24 only. This is the time for development and testing. Revenues will start flowing in from FY23-24

Aman Vij: **Sure** Sir, a little bit clarification, so yes, I just wanted more clarification, sir. We had mentioned that we had bid for 5 million fuses. So that order is canceled or what has happened to that order?

Mahendra Nahata: No, testing is in progress. There have been certain issues for all the Indian private companies who had participated, and we have gone back to government and asked them to redo the testing part of it and that is under consideration in government. It has still not been finalized. Neither the order has been finalized from anybody, nor the financial bids have been opened .

Aman Vij: Okay, sir. And you have mentioned in the presentation that this, say for example, electronic fuses, can be $0.39 billion in FY25. Sir, in this year, what is the current size of the market, in FY22-23?

Mahendra Nahata: In the current financial year, no orders have been placed on the private industry. Government is buying from the PSUs only. So we don't know the real size of the market. But yes, from two years, FY25 and all that, whatever we have mentioned in the presentation, holds good.

Aman Vij: And, how much market share do you think we can gather out of that $0.39 billion market size, and how many private players have bid for the same tender, if you can talk about that.

Mahendra Nahata: Three private players have bid for that, three private players and it's very difficult, I mean, at the moment to say market size because you know, the tender would be awarded to one company or maybe government later on decides to multiple companies, we do not know. it's very difficult to predict that how much market share we will have. But yes, numerically, I think we should expect some 20% - 25% market share at least.

Aman Vij: And if you can mention the names of the other players who have bid?

Mahendra Nahata: Other players have been, apart from us, I think HBL from Hyderabad and there is one more company near Delhi which I don't remember the name, but yes, there is one more company. There are three private companies.

Aman Vij: Is it, sir, A.N. Enterprises?

Mahendra Nahata: I don't remember the name, Aman.

Aman Vij: Sure, sir. That helps. So, on the fuses side, there are different kind of fuses. On your website, you have maintained proximity fuses and all those things. So we have developed all these products in house?

Mahendra Nahata: These are all developed by our own company with help from some foreign partners who are R&D contractors. The IPR completely rests with the Company. So you can call it is an in house development.

Aman Vij: Okay. But you had mentioned in the presentation we are the only Indian company to do it. So the other two players?

Mahendra Nahata: One company, yes, one company, at least, I know. They've got a foreign collaboration. The company near Delhi. The HBL, I do not know, very sure that whether it's their own development or whether they have got any partnership. I'm not too sure. But at the time when we said this in the presentation that this, all these fuses have been developed by us, it was true. But HBL, I do not know at the moment that whether is there any partnership or local development.

Aman Vij: Sure, sir. And you mentioned next year you expect some revenue. So if you can quantify how the scaling can happens, say, FY24, what kind of revenue

Mahendra Nahata: This all depends upon when the tender is opened, Aman.

Aman Vij: Okay, but do we expect a, say, INR100 crore, INR200 crore kind of

Mahendra Nahata: If there are more questions, you can come back in the queue, Once I think, there are too many questions. You can come back in the queue.

Aman Vij: Sure, sir.

Mahendra Nahata: But what is your last question? You can ask.

Aman Vij: Yes, sir, my last question was on the electro-optics part. So the market is quite big, you have mentioned $3 billion, but we are only developing, say for example, one product. I don't know how many products we are developing. Say, night vision goggles, you are developing, as per your presentation.

Mahendra Nahata: Not goggles. It is not a goggle, it is a night vision sight mounted on a rifle or a machine gun. It's a night vision sight, not a goggle.

Aman Vij: Yes, sorry, my mistake, sir. So, you've mentioned electronic fuses, maybe you can, may be get 20% or 25% market share, but electro-optics are much bigger market

Mahendra Nahata: I am again, expecting, I'm not sure whether it will be 20%, 15% or 50%, but that is what are expectation is. In terms of electro-optic devices, there are multiple players in the Country; there are six, seven different players in my opinion. So again, one should expect some 10%, 15% market share on a numerical basis. But then, it will depend upon tender to tender, how much you will.

Moderator: Thank you. The next question is from the line of Hardik Vyas from Economic Times, please go ahead.

Hardik Vyas: Good evening, sir. Sir, we have been talking a lot about the 5G opportunity and things seem very good Yes, so do we, when do we see the execution for the 5G products happening, and the 5G services that we are laying down of the network for various network operators and of course the BharatNet happening? How soon do we see the execution happening for 5G?

Mahendra Nahata: Look you know, Bharat Net and 5G are two separate issues. BharatNet is not envisaging any 5G. BharatNet, you know, government is very keenly working on this at present, as I understand and they are looking at model of EPC kind of a model, where they will select companies out of a tender to build this BharatNet Network which is connecting every village of the country through fiber optic cable. Now, the cable will reach to some center point of the village, but from there on, I think government would ask operators to give connectivity to different households on a commercial basis. So what this project enters is laying down fiber optic cable and related equipment to all these villages. So this does not contain 5G. 5G may come later on in this area.

Now, coming to the 5G products, as I said, we will be putting it in the operators' networks on a trial basis starting two to three months from now. And when the trials are over and operators require any changes, we will have to do that. But that is the normal issues because different operators have different software and graphics user interface issues which will be changed may require a change as per their requirement and we expect revenue to start coming up in the beginning of Q1 of the next financial year.

Hardik Vyas: Okay. So as I understand it right, in the current revenues and up to now there has not been any 5G component. It's been a regular business apart from 5G.

Mahendra Nahata: Yes, you're absolutely right. There's no 5G component at the moment. We have launched the product just recently. It has to go through the field trials and the operators' networks, and then the production and revenue. It's a bit of a few months' cycle. But we are very well on target.

Hardik Vyas: Okay. And, sir, my second question is on the software-defined radios. How big is the opportunity, and when are we likely to tap it in terms of revenues, and so when do we see it in numbers?

Mahendra Nahata: The software-defined radio is for the army. And that development is in progress, and we had to submit samples in sometime in December to Indian Army after development. So and then the sample would still tried and tenders would be there. So, I think reasonably, if you say, that major market opportunity for the software-defined radio is in FY 24/FY 25 . But the market size is very large, in a sense that majority of the radios of

Indian army, maybe all of them will be switched down to the software-defined radio in few years' time. The total market opportunity, if I remember well, it's not less than INR40,000 crore.

Hardik Vyas: Okay. Okay. So we can see the next year going to be 5G-heavy in terms of execution and revenues and margins, and everything will be driven on the back of exports and 5G, more or less, if I'm understanding it right.

Mahendra Nahata: Look, in the next year, we expect good amount of revenue to come from not only 5G but other products also, telecom products which we have.

Hardik Vyas: Yeah Yeah Yes, so, the current business plus 5G.

Mahendra Nahata: Yes, current business and the new products which we are also doing right now including the routers, switches, those are also the products which are required in 5G and non-5G applications also, in all kind of networks. So those products coupled with 5G, and then of course, our current range of products will bring in revenue for the next year.

Hardik Vyas: And Bharat Net would be BharatNet as well would contribute to the revenues and profitability in the next year, right?

Mahendra Nahata: Look, you know, while doing our internal projections for next year, we have not taken into account BharatNet as yet. Once BharatNet comes, it may be, we may be able to improve our internal projection. But as yet, we have not taken that into accounting.

Hardik Vyas: Okay, thank you so much, that is all from my side.

Mahendra Nahata: Thank you

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

Sanjay Shah: Yeah Good evening, Gentlemen. Sir, congratulations, again, on the exciting presentation and explanation. Sir, my question was more regarding towards the opportunity on rail networking, which we have not highlighted in your comment. That was number 1 and second was, I wanted to

Mahendra Nahata: Repeat Mr. Shah repeat, which networking?

Sanjay Shah: Rail

Mahendra Nahata: Rail networking, okay.

Sanjay Shah: Yes, and connecting to that

Mahendra Nahata: Yes, important

Sanjay Shah: Yes, my question was regarding that you throw out some doing a capex of INR425 crore with some government. Can elaborate on that? We need to understand on that, sir?

Mahendra Nahata: Okay. So on the railway network, good question, Mr. Shah. In a few minutes' presentation, I could not highlight every opportunity

Sanjay Shah: I understand.

Mahendra Nahata: But that's one area we are doing good business. In fact, as I've been saying, we are implementing couple of networks abroad. In India also, we are working on six or seven different railway projects, which are sub contracted to us by the key turnkey players. But now, directly we are implementing the telecom network of the metros Kanpur and Agra n. This is directly awarded to HFCL for INR200-230 crores or so of that particular railway network. We have also participated directly for Surat and Ahmedabad metro telecom networks. So we are going to participate in a couple of more such opportunities. I'm sure this revenue from railways, telecom networking, should result in giving us a reasonable revenue every year, something like INR500 crore or so. I reasonably expect with so many tenders in which we have participated, many more opportunities are there, we should be able to get a reasonably good amount of revenue and government is going to modernize telecom and signaling network of entire railways in any case. Therefore, there will be more such opportunities coming up and we are developing this business, and we have emerged as one of the leading company in the country which is doing such kind of a networking for railways. I've said, multiple times, we are doing in India and couple of places we are doing abroad.

Now, coming to your second question, INR425 crore, this, of course, includes expenditure on R&D also. This is, as per the DLI scheme, Design-Led Equipment Manufacturing Incentive scheme which government has announced, and we have projected the investment of INR425 crore, which includes R&D investment because the DLI scheme allows R&D as an investment, as a part of the overall incentive scheme. So some INR425 crore in R&D and the new infrastructure which we'll create for manufacturing telecom projects, it's worth, put together it's INR425 crore. This DLI scheme is under consideration of government and I understand, whatever discussion I had with the government officials during India Mobile Congress, they are expected to announce finalization of this scheme, I think within next month, they should announce it, that is what I expect, and I expect that HFCL will be definitely be a part of it.

Sanjay Shah: That's great. So, sir, we are entering into an exciting period, as you cited, was the 5G, defense, rail, this DLI scheme, then what incremental capex we need for next two, three years? And how we line-up that?

Mahendra Nahata: Look you know, Some of the capex which we are implementing in projects right now, this fiber optic cable manufacturing capacity expansion and the fiber manufacturing expansion, part of the money, we already raised in the last QIP, and the balance is being funded through the debt from the banks. And the next phase of expansion, when we do, of course, we have not decided the numbers as yet, but it is under consideration. But whenever we do, it would be a mix of debt and equity.

Sanjay Shah: So will that be a major capex needed for that to participate in the growth story?

Mahendra Nahata: Well I don't know at the moment, the current, what amount of capex will be required. But it will not be so big that it outnumbers the size of the Company. It would be the reasonable numbers.

Sanjay Shah: Understand, right sir, thank you, thanks for the explanation, it would really helpful, thank you sir.

Mahendra Nahata: Thank you

Moderator: Thank you. The next question is from the line of Balasubramanian from Arihant Capital Markets. Please go ahead.

Balasubramanian A: Sir, I have few questions regarding the R&D. Past few years, we have spent around INR123 crore, right now we are focusing around INR150 crore target. So, apart from INR150 crore, we have to spend the remaining amount for capex, right, sir, for this year? So what kind of quantum we make for next six months?

Mahendra Nahata: Look you know, This year expenditure on R&D is INR150 crore, we have estimated, and that is what this the burn rate is at this point of time because we are doing R&D in multiple areas, as I've explained. WiFi, UBR, 5G, routers, switches, software-defined radios. Some of the R&D is being done by totally by our team, some of the place where R&D is being done by the contract R&D players you know, which are working for us and designing equipment for us with our own IPR. So all this put together is the amount of expenditures we have talked about.

Now when you say that If you're asking a question of INR425 crore, how it is going to be spent, as I said, part of that would be R&D, part of that would be capital infrastructure.

Balasubramanian A.: Okay, sir. Sir, I'm looking into capex plan. Right now, they are into 10 million fiber kilometer for optic fiber capacity, so it is mentioned around 22, the target, million fiber kilometers. So, so, what is the timeline for that?

Mahendra Nahata: I think that expansion is going to happen in Hyderabad, in our current facility, and the timeline or the work is already starting. I think it should take about 12 months to complete, about 12 months. Give or take a couple of months here and there, but about 12-months.

Balasubramanian A.: Okay, sir.

Mahendra Nahata: Because you know the construction time and delivery time of fiber manufacturing equipment is very-very high at this moment because of the worldwide demand which has happened. The delivery time of machines, it takes almost nine months to a year and then the installation commissioning and the construction of building will itself take a long because 45-meter-high towers and all that, it takes a lot of time, but within 12 months, we should be able to commission it.

Balasubramanian A.: Okay, sir. Okay, got it. Sir, in terms of Defense exports, the market size is around INR12,500 crore to INR13,000 crore, and it is expected around INR42,000 crore by FY25. It's almost more than 3x. But we are focusing on growing double x. So we can expect more or it is sufficient?

Mahendra Nahata: No, I think I think we're talking of two different things. We are not talking of growing exports in defense. We are talking about growing exports in fiber optic cable and telecom equipment. If you really look at how our exports have gone up, it's a good question but in a slight different way I can answer. Export, we have been putting a lot of emphasis. Our export, if you look at, in year ending March '21, financial year '21 was just INR193 crore. It increased to INR353 crore in 2022 financial year '21-'22. Now, in this year itself, in the first six month itself, we have crossed that we have reached to INR376 crore.

So as I've been saying, we nearly doubled our exports this year from the last year's INR353 crore. We are on the track but first six month itself we have gone to INR376 crore. So we have absolutely no reason to say that we will not be able to grow to over 100% from the last financial year. So we are working on a target of INR750 crore. Our run rate is very very much within that target, and we should be able to double our exports. We have a high thrust on exports, which is cable and equipment. Right now it is more of cable. From the next year onwards, we will start exporting our equipment also. Some export started this year, but major export will happen in the next year. So with increase in export of fiber optic cable and then the export of the telecom equipment, we expect to continue this trend of increased exports every year from our company.

Balasubramanian A.: Okay, sir. Sir, got it, Sir, you were talking about that Polymer polythene based manufacturing plant for backward integration. Could you please throw more light on that?

Mahendra Nahata: Yeah, sure. We use this plastic compounds for manufacture of fiber optic cable, like HDPE. We in all our factories put together, we have about consumption of 2.5 crore kgs of this HDP polymer for manufacturing of cable. Now, you get natural colour, this HDP compounds from the refineries. Now earlier, what we used to do, there are people who do the compounding making it in a different colours, because in fiber optic cable different people want different colours and different tubes have got different colour. So, you need different colours.

We used to buy it from different people who would do the compounding and then sell it to us. So there were intermediaries We did the economics and we said decided to do this compounding ourselves which will save a lot of money, roughly about INR 6/ kg, we would be saving by doing the compounding ourselves. This means on 2.5 crore kg, we would be saving something like, INR18- 19 crores, 15 to 18 crores, 6 to 7 rupees a kg per year by doing compounding ourselves15 -16 crore. Whereas the whole project cost are INR17-INR 18 crore.

So, by investing about INR17, INR18 crore, we would be saving INR15 crore, INR16 crore every year. The ROI is just one year So this save us money and gives us better profitability and better competitiveness. This production has already started in Hosur, in our plant, which is owned by HTL, our subsidiary and this manufacturing has already started.

Balasubramanian A.: Okay sir, got it, thank you sir that's it from my side.

Mahendra Nahata: Thank you

Moderator: Thank you. The next question is from the line of Pranav Khandwala from Khandwala Securities. Please go ahead.

Pranav Khandwala: Good evening, sir. Congratulations for the fantastic results, Sir, two questions prima facie, would like to understand the latest news, which came on HFCL and Qualcomm. Like, what is the opportunity for HFCL, and if you could give us some fair bit of idea in terms of this 5G Outdoor Small Cell development, and how that will benefit HFCL and Qualcomm, this entire 5G network opportunity?

Sir and the second question is if you could give me some fair bit of idea on the order book and in the presentation you mentioned that there is some USD breakup given, and the export market. So if you could give me a clarity on that, please.

Mahendra Nahata: Yeah, thank you, Pranav. First of all, let me come to the 5G product development. We have done two agreements with Qualcomm, not one, two. One is, of course, this 5G Outdoor Small Cell, and secondly, 5G Fixed Wireless Access Terminal. Now, let me explain both the products. Outdoor Small Cell is required to fill in the gaps in the network. When the telecom operators do their networking and install large cells, there are gaps in between where the signals are not able to reach. Particularly in 5G, the spectrum use is of a higher level. In 2G, 3G, we were using up to 2.3 gigahertz in 3G and 4G, for example. But here, it has become 3.5 gigahertz.

So there are holes in the network at various places, or wherever the capacity requirement is high, operator will start putting small cells instead of large cells. It has happened at quite a large scale in 4G networks also, a huge amount of small cells have been put by the operators. Requirement of outdoor small cells in 4G would be even higher. So, we are going to design and manufacture this 5G small cells for outdoor applications using this Qualcomm platform., We will be designing and manufacturing the small cell and market is expected to be very-very high in, India and abroad both, because 5G networks are being implemented all over.

The second product, which we have done, is the fixed wireless access CPE, again using the Qualcomm platform. Now, FWA CPE is required in the places where you need fiber like speeds at home or at office, without fiber, where what would happen, this FWA CPE would be acting on the 5G network, would installed at home, taking throughput from 5G network, it will give a fiber-like connectivity at home. So operators are doing FTTH as well as, they would do FWA also. Now, FTTH, they would do at a place where the dense requirement of fiber optic connection is required, there they would lay down fiber. Wherever the requirement is not so big, few people would want fiber-like connectivity in homes or offices, where it is not economical to lay down fiber network, there they would be using up FWA where without laying the fiber-like, fiber optic network and 5G network itself, you will be getting high speed connectivity at home or enterprise.

And the market of FWA CPE is expected to be very-very high all over the world, billions of dollars of market is expected of FWA CPE. This is our second partnership, we have done with Qualcomm. We expect to launch this product from the beginning of the we expect to put in the field trials with the operators in the beginning of next calendar year, revenue expected from the first quarter of the next financial year.

Pranav Khandwala: So, what would be the revenue opportunity on a quarter-on-quarter basis or year-on year basis for HFCL?

Mahendra Nahata: For these two products?

Pranav Khandwala: Yes.

Mahendra Nahata: It is very difficult to target to give you a number at this point of time, but I can say that it would be hundreds of crores. It would hundreds of crores

Pranav Khandwala: Okay, okay.

Mahendra Nahata: And your second question was on exports. Now, as I said in the answer to my previous question of the gentleman, that we have been putting a lot of emphasis on exports because if you look at the world market and the Indian market, Indian market is probably though it's a big market but probably 5% of the fiber world market whether it is fiber optic cable or telecom equipment. 95% of the market sits outside our country.

So, while putting lot of effort and emphasis on the Indian market, we need to go out of the country to access this 95% of the market also. So if we are able to explore or get into this see, a small percentage of this 95% market, we are able to increase our sales. Now, particularly when you have your own products, your own technology, your own IPR, you are free to go in market anywhere, if your technology is at par with other manufacturers.

So what we have seen, we started with fiber optic cable for example, and as mentioned in the figure, we are doubling almost doubling every year. In 21 financial year INR193 crore, in 22, it became INR353 crore, this half-year itself, it has become INR376 crore. So we are on path to reach to INR750 crore like I talked about in my last presentations also. And we expect to continue this trend in future also because there will be increase in export of fiber optic cable as well as then there would be export of equipment also. So export is something which we are putting a lot of emphasis because that's the 95% of the world market.

Pranav Khandwala: Okay. And if you could give me a slight break-up in terms of your order book currently?

Mahendra Nahata: Yeah, current order book is about INR 5,000 about INR5, 300 crore and this comprises of government and non-government both. Almost 55% is government, 45% is non-government and we are getting regularly repeat orders from our customers. We keep on getting INR100 crore, INR200 crore, INR50 crore, INR40 crore, INR60 crore, we keep on getting orders. Orders are in regular flow. But the current order book, as I said, INR5,280 crore.

Pranav Khandwala: Okay sir, Thank You so much sir

Moderator: Thank you. The next question is from the line of Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: Yes, congratulations, sir, on a very fine set of financial, and the opportunity ahead looks very encouraging. I just wanted to understand two things. One, on the order book that you have announced, how much is that coming from exports like, current order book from export?

Mahendra Nahata: In exports, you don't get larger orders in one shot. Orders keep on flowing in. The exports orders out of current order book of INR5,300 crore should be about some 300 crore or so. But they keep on flowing, orders you keep on supplying, orders keep on coming, and we are well within our target to reach to INR750 crore as I was explaining just recently. So orders keep on flowing. So, it should be well over INR300 crore at this point of time.

Sahil Sanghvi: And this will be largely OFC orders?

Mahendra Nahata: Yes, this is largely OFC at this point of time.

Sahil Sanghvi: Okay, got it, sir and secondly, sir, I mean, we have some pledged shares right now and I just wanted to understand two things on that front, sir. One

Mahendra Nahata: No, there are no pledged shares at this moment, Mr. Sanghvi, there are no pledged shares, zero. This is only a non-disposable undertaking given to the institutions. When you take loan from the financial institutions, they take a non-disposable undertaking from the promoters that promoter should not sell the shares and walk out without informing the institution and taking their approval. That is a normal procedure. So, it's a non-disposable undertaking. There is no pledge at all, zero pledge.

Sahil Sanghvi: Okay, because on the exchange how it shows up is it shows up as a pledged share. So, we are not liable, right, in any ways,

Mahendra Nahata: No, there is no pledge. It is a non-disposable undertaking. There is no pledge.

Manoj Baid: It is otherwise encumbered, sir, because exchange's format of shareholding pattern does not permit us to show separately whether it is pledged or otherwise encumbered, there is only one column in the shareholding pattern. So, it is basically not pledged, it is otherwise encumbered, by way of non-disposal undertaking given in favour of banks.

Mahendra Nahata: It is non-disposal undertaking. There is no pledge at all.

Sahil Sanghvi: Got it, Thank you sir and all the best

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

Dipesh Sancheti: Yeah, Sir, a question regarding the fund raising which we had, on 2nd September we had mentioned about raising of about INR650 crore, but after that, there has been no update. We gave warrants to promoters and non-promoters in the context of fund raising, so when is that expected?

Mahendra Nahata: Yeah, Mr. Sancheti, warrants have been issued to promoters and the key management personnel also subscribe to the warrants, which speaks of confidence promoters and the key leadership team of the Company has in the performance of the Company. So that has happened.

The next question of yours, whether the fund raise is going to happen and when, we are all in the planning stage at this point of time, what are the kind of capex required, which are kind of expansions or backward integration we have to do. Once it is finalized, of course, we will come back to you.

Dipesh Sancheti: Is it expected to happen in this financial year?

Mahendra Nahata: It is under consideration, Mr. Sancheti I will not be able to say more than that. It is under consideration. The final decision has to be taken by Board, but it is under consideration at this point of time.

Dipesh Sancheti: Okay, Thank you so much if there is any other question I'll get back in line.

Moderator: Thank you. The next question is from the line of Swapnath Amath from NSFO. Please go ahead.

Swapna Kamath: Yeah, Good evening, sir. Sir, my question is on, so as I understand, we want our company to be more a products-driven company and less of these turnkey contracts, and as we have seen that this part of the revenue has been coming down consistently, and that is what is our objective as per your previous calls. I just wanted to get a sense on where do you see these numbers stabilizing on the turnkey contracts that then we will see that this amount of the revenues will continue steady state and because we are doing some products works, so this much of turnkey will be part of this overall business, or how should we look at the business as such?

And also on the capital employed that is deployed in a turnkey contract, so that is substantial. So, do we see some amount of cash getting released from there which can be used for capex etc. which might be blocked, because of few debtors?

Mahendra Nahata: Yeah, Swapna very good two questions, and I'll answer each of them. I have been saying from the beginning that and during my last two calls also you would have heard that we want to be more of a product company, less of a project Company and that what we decided to go in a manner it is really happened in that way. If we look at numbers in financial year 31st March ended on 31st March 21, our revenue from products was 27%, and from the projects was 73%. Now it become 43% from products s and 57% from projects in financial year ended on 31st March 22. So products become 27% to 43%. Now, if you look at this year, in the year to date first six months, if you look at, our revenue from the product has been 58% and project is 42%. Now, just go back and compare. What was 27% in FY2021 year ended 31st March is 58% now and the project revenues is a at 73% is 42% now. These are remarkable changes and we expect to continue on this trend and further increase our revenue percentage from products in the next financial year because of these different products of 5G, WiFi, UVR, Router, switches, coming in production. This trend is going to continue and our revenue from products will further increase.

But I'm not saying that we will not do projects. We will do projects but which are not highly cash negative. We wouldn't do such projects which are highly cash negative, because doing such projects make us heavy –the burden on the cash flows of the Company. So that's all, we have gone for more revenue from the products which has fructified that approach and less on the projects.

Now, coming to the second question. Yes, we have a very reasonable good amount of money. I will expect that delayed in project, but it is only the projects, particularly our projects defence projects which we are implementing. We still have a receivable of more than INR1,000 crore. Now, we have started switching on of various part of this network and the money has started flowing in. This used to be this INR1,000-plus crore today, used to be more than INR1,500 crore about a year ago. Now it has come to INR1,000 crore or INR1,100 crore. And we expect that by March end of March this financial year, full network will be switched on. Two more parts of the network, we are switching on within next 15 days, two have been switched on, two more would be switched on in this maybe been less than a month. So by March, we expect to complete, and then reach major part of this money within next four to six months' time. So this is major release of this money, which is about INR1,000 crore or so, lot of money would flow-back into the company which will decrease the pressure on working capital and release more money for capex also.

We are right on track, you have a good question, but yes, there is a delay in payment for this particular project, not because of any fault of the Company but because of customer did not do it's own part of work, which is construction of infrastructure on which we were to install equipment and various other reasons related to customer, nothing to do with the Company. This delayed the payment, but now, we are on track and I think by March, major, major portion of this money would be realized, which will increase the cash flow of the Company, which will make the money available for more working capital as well as for capex.

Swapna Kamath: Sure, sir. Thanks a lot for the detailed answer. And sir, I really appreciate that point, and it's pretty commendable that our telecom products revenue run rate is now almost INR671 crore quarterly run rate. That's pretty significant from where we were. So, but sir, if you can just give me an idea as to this turnkey. You said you will continue doing these contracts, but I mean where I mean, if you have if we say that this is the number, if we are projecting this particular segment, then how do we look at it? Like, number we should look at in the overall pie? Like a 25% or like 15% of the overall revenues?

Mahendra Nahata: Look when I say we will continue, we will continue to do which are not cash negative.

Swapna Kamath: Okay.

Mahendra Nahata: For example, I will tell you, the private operators naturally are implementing like, for Jio what we are doing? It's not major cash negative, payments within 30 days and there is absolutely no issue of cash use. We will there is no reason why we cannot continue to do that. Maybe profitability could be low, but since working capital investment is not there, there is no reason why we should not do that.

Now, we are also looking at some contracts of this nature in export market, in European market. And maybe, we would be some small contract in very, very soon in one of the major European countries, and we intend to increase our presence in international market in implementation, because that is highly profitable and they're very quality-conscious people, so they don't give projects to small companies and the profitability is much better. So we intend to increase our presence in the international market in project implementation and international, when I say, I am talking of developed countries like West European countries or America, such kind of countries.

And also government, wherever the projects are funding is poor, we will not participate into that, but wherever the funding is ensured in a manner that while implementation is going on, large percentage of capex is made available to us within that implementation period, we would look at such projects only. So, I would say in terms of percentages, you can say that 25% or so revenue would keep on coming from the project sides which are less involvement of working capital and more profitable.

Swapna Kamath: Understood and sir, lastly, one last question on the defense side. You mentioned about the opportunity, competition, etc. could you give a ballpark idea as to what kind of margins would they be similar to what we earn in the telecom products or are they different in the electronic fuse and electro-optics, etc.?

Mahendra Nahata: Swapna, I think, if you say the market is whichever place you go, defense or otherwise, the market is always competitive. There is no cakewalk kind of a market. So, I would say the margins would be similar to what you get in normal telecom business, maybe couple of percentage, 2%, 3% extra because not anybody and everybody can enter into this market because of very strict entry conditions and the quality and performance conditions. So it could be 2%, 3% extra, some 20%, 30% higher than what you get into the normal telecom business. But yes, market is competitive, but yes, a bit of a 20%, 30% extra percentage, you can get as a profit.

Moderator: Thank you, Ms. Kamath may we request that you return to the question queue for follow up questions.

Swapna Kamth: Yeah Thank You, I'm done

Moderator: The next question is from the line of Anand Jain, an Individual Investor. Please go ahead.

Anand Jain: Thanks for the opportunity, sir, and congratulations on very good set of numbers. My questions are also on the defense opportunity that you have listed because that's a very exciting part and the kind of entry barriers that it has, I'm certain that it must have taken us a very long time. I just want to understand what kind of capex have we done in order to be where we are right now. That's my first question.

The second question is on the fuses price side, what I have come to understand is that it requires approval by ARDB, Which is like a, this is like a part of DRDO. So do we have the ARDB approval for all the three types of fuses that we are looking to make? That's my first question. I will ask further questions.

Mahendra Nahata: Look you know, we have spent about INR50 crore or so in development of these fuses and electro-optic devices. This is R&D expenditure, you can call it the capex, and we have spent about INR50 crore on that. Now, coming to this fuses, of course it requires the approval ARDB, and also, not only that, DGQA also. This is Directorate General of Quality Assurance in the Indian Army and as I said, the testing has been going on and there are certain issues which are happening in which whole Indian industry has protested that testing has to be redone, and that is under consideration of the government. It has still not been totally decided, so it is under consideration. The tender is yet to be opened, and let us see when they decide and when they open.

Anand Jain: No, so the questions here because I have been tracking this has a very long time because 10 years back also these tenders that come and then you had all ECIL kind of colluding with MOD and then there is a South African company which used to come in and supply this fuses to ECIL. So are the issues political in nature or technical in nature, that is my another question. And the last question because last time it was clearly I don't want to call it on a con call

Mahendra Nahata: No, no, I would not use the word colluding or political or all that. That's not in my domain to comment. But yes, there are technical issues. I would definitely say there are technical issues. Earlier, the supply was being made by ECIL, of course with the participation of the South African company and then of late, BEL has also coming into picture in participation with an Israeli company but ours is a total owned development. But yes, the issues are being faced are technical, not I wouldn't call it political or colluding. These are not the words I would use, but yes, technical issues are there which are being sorted out with the Army, whether and DGQA or ARD or multiple agencies are there, it's not DGQA or ARD alone. The user trials are there, users themselves try. So there are multiple levels of testing which is really taking time and the entry barrier we are experiencing ourselves you know.

Anand Jain: Last one question on the same thing is that other issues only limited so our company or like other competitors that we have, are they having different set of issues or are the issues common for all of us? And finally, what I've come to understand from HBL is that there is a tender for grenade fuses, in which they say that they are clear to go. What is our positioning there?

Mahendra Nahata: Look you know, he issues are technical issues are common to all the companies, all the private sector companies, they're more or less common. If there are 100 deficient technical parameters, somebody will have two, somebody will have three, but almost common with all in private sector. The grenade fuses, we are not part of that i have not taken part into any grenade fuse kind of a situation. We are not there at all.

Anand Jain: Okay great sir and wish you all the best.

Mahendra Nahata: Thank you

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Mahendra Nahata for closing comments.

Mahendra Nahata: All right, thank very much ladies and gentlemen, for attending this earnings call of HFCL and as I've said, company is on the right part of growth, right quarter progress. It has become a technology-led telecom equipment products and fiber optic cable manufacturing company. There is a lot of backward integration to increase the profitability. Again, with an emphasis to go into the export market, we our increasing our revenue from that side of the business. With the increase in exports of fiber optic cable and equipment in the next year, we further expect to increase our market share in export market. We are on the right track to become a product-led company, which I have shown by the data that how we have increased our revenue from products. We are on the part of the expansion of our product range and also on the size of our fiber optic cable and fiber manufacturing facility.

All that would lead to continue to lead the Company in the growth phase, which is happening today in the country with the 5G rollout, FTTH rollout not only India, all over the world these kind of things are happening. So, opportunities are exciting, market is big, opportunities are exciting, and the Company has taken all the right steps to take part in this opportunity and grow with the market growth. The Company also expects to grow in the coming financial years. Thank you very much, gentlemen. Thank you very much.

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