



**“HFCL Limited”**  
**Q1 FY2022-23 Earnings Conference Call”**

**July 25, 2022**



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HFCL LIMITED**



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**Moderator:** Ladies and Gentlemen, good day and welcome to HFCL Limited Q1 FY23 Earnings Conference Call. 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. Amit Agarwal from HFCL. Thank you and over to you Sir!

**Amit Agarwal:** Good morning Ladies and Gentlemen. We welcome everyone to the Q1 FY23 earnings call of HFCL Limited. I am handing over the call to Mr. Mahendra Nahata Managing Director.

**Mahendra Nahata:** Thank you Amit. Ladies and Gentlemen, good morning everyone and warm welcome to HFCL’s earnings call for Q1 FY23. I truly appreciate and express my gratitude for making it to HFCL’s earnings call today. 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 the stock exchanges.

Friends you must have observed that the performance during the quarter under review is somewhat below our expectations. Revenue this quarter got impacted due to supply chain disruptions including shortage of semiconductors and intermittent gap in supply of optical fibre, which is a critical raw material for manufacturing of optical fibre cables. The revenue was also impacted due to spillover of some of the milestones-based service billings on account of non-availability of certain prerequisite infrastructure from the customer end.

One of the major reasons for low margins during the quarter was fulfillment of existing orders from customers at pre-committed prices despite significant increase in price of raw materials such as semiconductors, fibre and HDPE etc. The increased logistics cost also impacted our margins. However, we see that revenue and margins to restore to targeted levels soon with gradual ease in supply chain and improvement in sales realization with easing input cost pressures. We are witnessing upward correction in optical fibre cable prices by 6% to 7%.

Similarly, the sales prices of telecom products are also showing upward movement in every new order being received by the Company. Further, with required infrastructures being made available, the unbilled revenue will also start getting converted into revenue in subsequent quarters of the current financial year. With these positive changes coupled with vast opportunity landscape, positioning of the Company, initiatives we have taken to enhance product portfolio, ongoing optical fibre cable and optical fibre capacity expansion and creation of new capacities for telecom and defense products, we expect improved and much robust performance on quarter-to-quarter basis.



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Our growth strategy is right on track with strongly built foundation that will ensure consistent performance in time to come. FY23 will be revolutionary year for the entire telecom industry in India. There is a boost in demand because of government initiatives like upcoming 5G spectrum auction, promoting design led manufacturing and suitable modifications in PLI scheme, thrust on capex in Union Budget, continued network expansion under BharatNet and National Highway Projects and approval of 5 megahertz 4G spectrum for Indian Railways. All these initiatives will lead to opportunities for us.

As per TRAI the economic impact generated by rapid adoption of 5G wave is estimated to reach to \$1 trillion by 2035. India's largest ever 5G spectrum auctions by the end of this month will be a big push for our business. The domestic optical fibre cable environment continues to be strong with the current market demand of optical fibre cables at 35 to 40 million fibre kilometers per annum is expected to grow significantly in next three years on account of higher deployment of optical fibre cable for 5G networks, increase in fibre to the home deployment and expected start of BharatNet projects which will lead to all the villages of the country being connected by optical fibre cable.

There is tremendous opportunity in Global markets as well. We have witnessed that the government of leading economies including US, UK, Germany and Europe are investing heavily on building robust fibre connectivity for deployment of 5G networks and fibre to home networks. The Global market demand of optical fibre cable is about 500 million fibre kilometer per annum and it is estimated to grow to 1000 million fibre kilometer per annum over the next five years. In India, BharatNet alone will lead to an opportunity of laying 16 lakh kilometers of optical fibre cable translating in almost 50 million fibre kilometers. We also see immense opportunities for telecom and networking products across the world, especially in markets like Europe and US.

We have identified Europe and US to be the key markets of focus for further deepening our global footprint. We already have our employees in Middle East, France, Germany, UK, and USA to reach out to the customers. We are also appointing distributors and agents in several other countries to further deepen our customer reach.

Friends, this year there will be a major increase in our exports with increase by 2.5 times than the last financial year. We export optical fibre cables and telecom products to 30 plus countries serving 80 plus clients Globally. We aim to build upon our Global customer relations and export footprints expeditiously over the next three years and emerge as a large global player in this space.

We already have our core leadership in place for global markets and we will further strengthen the global team with recruitment of sales and marketing talent. During Q1 of FY23 our exports increased by 167% compared to the corresponding quarter of the previous financial year.



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Innovation and R&D are backbone to build a futuristic product portfolio and we have heavily invested in the same to meet accelerated rate of fibreization, 5G products demand and also tap opportunities in defense and railways.

It has been Company's strategy to consistently increase revenue from products. You will be glad to know that in the first quarter of the current financial year our revenue from products has been 59% of our revenue which was only 43% in the FY2022. Increase in product revenue will need less working capital and of course quick realization of revenue.

Your Company is making robust progress in the path of becoming a strong technology driven product Company. Our own R&D centres near Bengaluru and Gurgaon together with our partnership in engineering companies like Wipro and Capgemini and our invested companies are designing latest generation telecom products for us. These products include radio access network products for 5G, routers, switches, backhaul radios, Wi-Fi access points and software defined radios. All these products are not only having large demand opportunities in India but worldwide also.

Our lower cost base and control on technology will help us in getting good market share in India and abroad. The demand of Company's telecom product is also expected to be robust. We expect to increase our revenue from our own design telecom products by 100% during the current financial year and this will keep on going upwards in the upcoming financial years. You will be glad to know that during the current financial year we have started exporting our own design telecom products also. We have already exported these to USA, UK, and Africa though in a smaller quantities right now but these quantities are expected to increase to much higher level in the coming quarters.

Orders have also been received from Sweden, South Africa, and Russia also. In fibre optic cable business also we are designing new products constantly. We are opening new technology development centre in United States apart from our own R&D centre for cable and fibre in Hyderabad. We have already received approval from Telcordia in USA for our optical fibre and optical fibre cable which will help us in exporting of optical fibre cable to US markets.

We are also expanding our defense product portfolio. With the completion of design of software defined radio, during the current year, our defense product portfolio will also get enhanced from current portfolio of electronic fuses and opto electronics.

The PLI schemes announced by Government of India is also going to give boost to domestic manufacturing and attract large investment across announced sectors including telecom. The recent amendments related to extended timeline and additional incentive aims towards



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incentivizing design led manufacturing in the sector, will have a very positive impact on our competitiveness and profitability. FY23 will be a year of transformation for HFCL as we will focus on building our capabilities across all businesses and improving our organizational capacity. We will continue to build our organization for sustainable profitable growth and leverage on the upcoming opportunities in telecom, defense, and railways.

Our mission is to transform as a technology driven enterprise that innovates and manufactures for both domestic and global markets as we aim to become a multinational player in cable and telecom and networking products. Our strategic priorities are capacity expansion, product expansion with clear focus on margin accretive products and expanding our Global footprints.

This quarter was also marked with HFCL securing regular purchase orders from marquee customers.

Anticipating a huge demand in India and Globally, we are undergoing capacity expansion both for optical fibre and optical fibre cables. On completion of our ongoing capacity expansion program, our optical fibre cable capacity will increase to 34.7 million fibre kilometers from the current capacity of 24.75 million fibre kilometers per year and optical fibre capacity will increase from 10 million fibre kilometers to 22 million fibre kilometers on annualized basis. The phased capacity expansion will increase competitiveness and help reduce operating cost and increase margins and profitability.

Our priority of product expansion with clear focus on margin accretive products has lead to share of products rise from 43% during FY22 to 59% in Q1 of FY23. This shift will continue with margin accretive products followed by expanded capacity of optical fibre, optical fibre cable and FTTH segment and development of new products in telecom and defense electronics.

Friends, let me now brief you on key performance matrix of Q1 of FY23.

Revenue in Q1 of FY23 stood at Rs.1051 Crores as compared to Rs.1183 Crores in Q4 of FY22 and Rs.1207 Crores in Q1 FY22.

EBITDA for the quarter stood at Rs.130 Crores as compared to Rs.154 Crores in Q4 FY22 and Rs.191 Crores in Q1 of FY22. EBITDA margin stands at 12.37% for Q1 as compared to 13.02% of Q4 of FY22 and stood at 15.82% in Q1 of FY22.

For Q1 FY23, profit after tax stands at Rs.53 Crores as compared to Rs.68 Crores of Q4 FY22 and Rs.91 Crores of Q1 FY22. PAT margins stands at 5.04% in Q1 FY23 as compared to 5.75% in Q4 FY 22 and 7.5% in Q1 of FY22.



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Segment revenue from telecom products during the quarter stood at Rs.620 Crores that is 59% of our revenue as compared to Rs.585 Crores that is 49% of Q4 FY22 revenue.

Finally I would like to reiterate our business priorities for upcoming quarters. We aim to continue our strategy priorities related to business transformation with focus on capacity expansion, expansion of product portfolio, telecom, defense, and railways, focus on margin accretive products and expanding global markets. Backed by investment in innovation and R&D, FY22 and FY23 will be transformation year for HFCL ensuring sustainable growth in revenue and profitability.

We are already witnessing product enquiries from our customers. We will leverage our core strength in new product design and strong customer relation as we plan to capitalize on the vast business opportunities present both in India and Globally. Thank you once again for your keen participation.

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. Ladies and Gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hardik Vyas from ET Wealth. Please go ahead.

**Hardik Vyas:** Sir I would like to know how has been the optic fibre prices for the quarter and the delta between the fibre prices and OFC prices the quarter?

**Mahendra Nahata:** Hardik your voice is not clear. Can you repeat?

**Hardik Vyas:** Sir what are optic fibre prices for the quarter and how has been the delta between optic fibre and optic fibre cable prices for the quarter?

**Mahendra Nahata:** Hardik optical fibre prices currently holds around Rs.425 to Rs.450 per fibre kilometers. In fact they have risen sharply from the last financial year, but now seems to be stabilizing. I do not foresee any further increase in the prices. They seem to be stabilizing.

**Hardik Vyas:** Has the optic fibre cable prices also moved up in tandem with them?

**Mahendra Nahata:** I am coming to that. Optical fibre cable prices if you look at in our case it may vary from manufacturer-to-manufacturer and depending upon composition of cable what kind of cable people manufacture that is around Rs.1000 per fibre kilometers as against what used to be about Rs.880 per fibre kilometer in the Q1 of the last financial year.



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- Hardik Vyas:** The upward movement has been more or less the same in percentage terms for both optic fibre and fibre cable?
- Mahendra Nahata:** No. Fibre has been much higher.
- Hardik Vyas:** That has been hampering our margin?
- Mahendra Nahata:** Because last year we used to purchase even at Rs.260 to Rs.270 fibre kilometer, which has gone up to Rs.425 to Rs.450 so that increase has been much higher and not only that, prices of plastics also increased significantly which is the second highest raw material required for manufacturing cable SDP, LDP, PBT all these also increased significantly with increase in the crude prices but again these are also started coming down now. They are seeing a downward trend so that is also a positive factor. Fibre prices have stabilized. Cable prices have now gone up because increase or decrease in the price of the finished product follows two or three months later then by increase or decrease in the price of the raw material so now the cable prices from the last quarter to this current quarter is am talking about ongoing quarter they have increased by 6% to 7% so what I am saying this Rs.1000 would be 6% or 7% better in the current quarter. They have already started showing an increase so they are following now and SDP and all these prices have started coming down so this quarter is expected to be better.
- Hardik Vyas:** This quarter and going forward it is expected to be better? The second question is we are staring at a huge opportunity in terms of 5G the spectrum auctions are slated to happen very soon?
- Mahendra Nahata:** Tomorrow.
- Hardik Vyas:** Tomorrow yes so what my question was X the spectrum fees for the Telcos what kind of size are we looking at for the order going in from the Telcos and other things for 5G that I can see?
- Mahendra Nahata:** Auctions are happening tomorrow and I think the government has given good payment plan to the operators. Prices may seem to have been higher but the payments will be made in 16 years so if somebody buys 1 gigahertz of millimeter band and 100 megahertz of mid band, which is almost I think the maximum allowed may be a little bit more people will pay about Rs.40,000 Crores. Now Rs.40000 Crores it will be paid in 16 years so there would not be stress on the cash flow of the Telcos as much however network expansion is going to happen and they will have to invest on capex and with the investment in capex, I expect the products which we are having and which we are having under design and which are expected to be in the market in the current financial year,, we will see a very good demand opportunity. I will tell you which segment. One, fibre optic cable with 5G network more and more base base stations the towers which you see are to be connected over fibre optic cable because the higher throughput use the microwave radios will be less, use of



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fibre optic cable will be much more and therefore the capacity of the fibre optic network has to be increased manifold so that would see a huge demand opportunity in fibre optic cable and advantage that we have an almost 50% market share in the Country. So Increase in demand large portion of this I believe will be available to HFCL and that will be a major boost to our fibre optic cable business wherein we have been increasing our revenues consistently over the years and this current year also we foresee increase in our revenue in fibre optic cable segment significantly. I think last year it was if I am not wrong it was about Rs.1700 Crores in the last financial year which we expect to increase to roughly about Rs.2300 Crores so last year from Rs.1780 Crores we will increase to Rs.2300 Crores in the current financial year; however, large portion of this increase will come from the export market also because we see significant increase in export in our fibre optic cable business again because of 5G which is happening not only in India but is happening worldwide so one is the fibre optic cable. Second is the 5G products which we are designing which includes the radio access network, which includes routers, which includes switches, which are required not only for 5G but other areas also. There again as we have seen in our Wi-Fi and backhaul radio business where we got significant demand from domestic operators we foresee significant demand from domestic operators for 5G products also so this is going to be a great year in terms of demand opportunities for product which we are manufacturing and which we are designing.

**Hardik Vyas:**

If would translate to an opportunity in terms of revenues for us immediately as and when the auctions happen and from the second half of the current financial year or for the next financial year?

**Mahendra Nahata:**

I would not like to give any forecast or any guidance in terms of that but I think orders to be received would be reasonable in large in number.

**Hardik Vyas:**

But that would be more or less in a year or two, right or it would be very much in the future as in three years or four years later?

**Mahendra Nahata:**

It would start from now and it will continue over the years because network expansion does not happen in a year. It continues like 4G network started in 2011-12 and it is getting expanded even now in 10 years so this network expansion will keep on happening so I do not see any dearth of demand for the next five years to come either 5G or FTTH some or other form of major expansion will keep on happening.

**Hardik Vyas:**

Sir my last question is on our defense product portfolio how is that coming along and when we do feel that will translate to revenue and for other telecom products other than Wi-Fi and routers?





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**Mahendra Nahata:** One in terms of defense as you know, defense takes a longer time because the testing processes and all they are so long as I have been constantly telling I do not see any larger revenue coming from defense in the current financial year. We think they will start flowing from the next financial year and not in the current financial year because defense processes and procedures are very, very long. In terms of other products which I described just now 5G and all that that I believe that from the last quarter of the current financial year and starting in a big way in the next financial year it will start flowing in.

**Hardik Vyas:** Sir could I get the breakup of our order book in terms of optic fibre, exports, and services?

**Mahendra Nahata:** Since you have asked the details, I will give you. Our total order book is about Rs.5,058 Crores out of which optical fibre cable is around Rs.974 Crores and we keep on receiving orders of fibre optic cable. We keep on receiving orders so it is not going to be that it is Rs.974 Crores for the whole year. We will keep on receiving. While we supply, we will keep on receiving orders. Defense network which we are laying down is about Rs.2,300 Crores. Then the projects which we have undertaken for execution majorly Jio about Rs.1,000 Crores and then some project orders from railways, which includes products and installation, commissioning of that and certain other telecom products which we are manufacturing all put together will be roughly about Rs.500 Crores and BharatNet which we are doing and certain miscellaneous is about Rs.500 Crores so this all put together is Rs.5,304 Crores.

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

**Mahendra Nahata:** Thank you

**Moderator:** Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

**Pranav Kshatriya:** I would just want to know how the margins behaving for product business, you did talk about some of the cost pressure easing and the prices for the product increasing so can you tell us that how do you see the margins going forward for products?

**Mahendra Nahata:** Pranav you know your line was very, very bad so whatever I can understand and whatever I have understood from you I would try my best to reply. Our EBITDA margin in the current quarter has been 12.37%. Now with increase in the prices of our sales realization and some decrease in the cost, I think our EBITDA margins should go up by about anywhere between 3% and 4% in the coming quarter. 3% to 4% will be going up and this will be happening with increase in the product prices and also decrease in the cost of that so in the product segment our business I expect 3% to 4% increase in our EBITDA margins going forward.



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**Pranav Kshatriya:**

I also wanted to understand how the export contribution has increased quite dramatically which countries which orders or what exactly is contributing and how sustainable is this? Where do you see export contribution eventually set?

**Mahendra Nahata:**

Export majorly you will be glad to know that we are exporting quite a bit to all good economies and developed countries. This speaks of the product quality we do. In fibre optic cable which is the major export revenue because the product revenue has just started flowing in the current quarter we export to Middle East which includes Dubai, Oman such kind of countries. We export to France, Germany, United Kingdom, and several other countries but these are some of the countries. Portugal these are some of the countries I am trying to mention and we have now received approval from United States also so we will be starting our export there also. Last year we had Rs.300 Crores export. This year we are looking at making it at least Rs.750 Crores, which is going to increase further in the coming years. We are putting a huge importance on the export of our products so this year it will not only be fibre optic cable but it would be our products also. Product also we have started creating infrastructure for sales and marketing in Europe right now and recruiting couple of people and putting up agents and distributors for certain products like Wi-Fi and all that. They are sold by agents and distributors also in some other countries so we see a good opportunity for fibre optic cable and our products also. In terms of products as I mentioned in a small way we have started we have started exporting to several countries which I mentioned in my opening remarks and this will further get strengthened in the next coming quarters in the increase in the revenue. Export the places we have undertaken USA, UK, and some in Africa. Orders are also there from Sweden, South Africa, and Russia for the products and cable as I mentioned mainly to Europe and Middle East.

**Pranav Kshatriya:**

Thank you so much. That is it from my side.

**Moderator:**

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

**Sanjay Shah:**

Good morning Gentlemen. Thanks for the opportunity. Sir it was very nice to hear your promising words and understanding about the telecom industry so coming back to our fortune of our Company and growth trajectory you have explained about all the upcoming opportunities to us as a Company and to the industry as a whole. We would like to understand what are the challenges, which you foresee ahead are and how our Company is going to outright that challenges and grow further from here?

**Mahendra Nahata:**

Thanks Sanjay. Number one, as I said in my opening remarks, this quarter was an exceptional quarter in terms of increase in cost which was contributed by increase in raw material cost, logistical cost, depreciating value of rupee which included further increase in raw material prices



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and also at the same point of time non billing of revenue because certain areas the customer wants to create some infrastructure and then the milestone would have got completed could not happen because it was the customer's fault that he could not create infrastructure which is starting to happen in this quarter so these all contributed for a lower performance in the last quarter, but this quarter onwards as I mentioned sales prices have started increasing, costs have now stabilized so they have started declining and as a result of that next quarters are going to be better and better. So that is as far as the performance of the current quarter and the expected performance of the next few quarters. Now the challenge when we increase our capacity for fibre, fibre optic cable and also we have new products under design which are getting completed which would lead to require new markets major challenges ofcourse to get new customers. Challenge does not mean that it is difficult. Challenge means that we have to work and create new customers in different markets, but I am pretty sure like fibre optic cable we have seen, we almost increased our export by 2.5 times last year and this year again that increased base we are going to increase by another 2.5 times. Why it is happening. Because good product quality and timely delivery and good cost base. Now same thing is going to happen in our telecom product portfolio also, which again we have shown in Wi-Fi and backhaul radios, in India we have got highest market share as an Indian Company. We have got the highest market share as an Indian Company as a local manufacturer so with this lower cost base we will be able to find and our control over technology we will be able to find good customers abroad also, but it always remains a challenge to find customers, to deliver quality as per their expectation and keep on fighting with the competition in terms of features, that we are able to do with our own R&D because with own R&D we can keep on upgrading our technology. If it was not our R&D then upgradation would not be possible. I will give an example Wi-Fi. When we started Wi-Fi it was based on Wi-Fi 5 standard then came 6 so we are already producing 6. Now 7 is coming. We are already designing Wi-Fi 7 so challenge is mitigated by own R&D, better cost base and good marketing and sales infrastructure.

**Sanjay Shah:**

Yes it was really very great and helpful to understand. Sir as far as your export is concerned the growth trajectory which you have shown is very exciting so can you explain that how inroads we are doing and facing the competition from other Chinese and other more players and how are our team lined up and are we selling through distributor or we are selling directly to the customer which will help us to understand the inroads into export more?

**Mahendra Nahata:**

Mr. Sanjay first of all Chinese competition has declined consistently and considerably. In India, for example Chinese products are not allowed. USA stopped buying Chinese products. Many European countries have stopped buying Chinese products. This is for the strategic reason because all the countries expect Chinese use their telecom products for spying so I was reading one new article in CNN website, which was saying that Chinese Huawei's telecom products were designed to interfere with the strategic nuclear arsenal communication of the United States. You can imagine how serious it is so worldwide in the equipment side Chinese penetration has gone down



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which has helped European companies, American companies, and Indian companies because they were lowering prices not because of competitiveness but because of government support for other reasons the defense and strategic reasons so that competition has reduced considerably. Number two fibre optic cable business there has been dumping duty imposed on Chinese vendors in Europe, which has also helped us because there is I think 22% dumping duty has been imposed on the Chinese products, which has also helped us because the Chinese dumping of products for strategic reasons has been stopped by governments all over the world so we do not have a problem with the Chinese at all. We are very well able to successfully compete with the Chinese all over the world and this restriction on Chinese equipment has helped considerably not only Indian companies but companies abroad also so that was your question Sir or any other question.

**Sanjay Shah:**

It was very well explained. Only the thing was our distribution done through distributor we are directly selling the product to the customer?

**Mahendra Nahata:**

It is both. We are selling directly to the operators. One of the very large operators I cannot name like because of customer confidentiality based in Europe which has got worldwide operations we got an order very recently and we are working with several other customers directly and some of the products are sold through distributors also because distributors have wider reach so there are a number of countries. Telcos buy it from distributors also. Smaller Telcos buy it from distributors also so we sell through distributors also. That increases our customer reach and as I said for telcom products Wi-Fi and all this which are sold in the common market we are appointing distributors in all the places and our employees which we have recruited in England for example who will be taking care of Europe and MENA market the focus is on appointment distributors so some products they have wider reach distributors rather than one sales people so it is a mix of both.

**Sanjay Shah:**

That is great Sir. Wish you good luck and hopefully looking for very exciting years ahead for HFCL Sir. Thank you very much.

**Moderator:**

Thank you. The next question is from the line of Neerav Dalal from MIB Maybank Securities India. Please go ahead.

**Neerav Dalal:**

Thank you for the opportunity. I had a couple of questions. First is, is there a difference between qualification for cables and telecom products so what I was trying to understand is that it is faster to sell telecom products in exports market or is it similar to what the optical fibre cable is done so because what I understand is that the qualification process is slightly longer for the fibre and cables? Is it similar for other telecom products or how should we look at that?



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**Mahendra Nahata:** I think you should look at conversely. Cable would be little easier than the equipment because cable is tested for large parameters but equipment because one equipment has hundreds of components so they are to be tested little differently in an environmental test and optical test or the radio related test. I would say equipment side would be little longer than cable, but more or less there is not much of a difference but equipment side it will be longer.

**Neerav Dalal:** Because what I was understanding we are targeting the export markets through distributor also so that is the reason I was so is it same we push cables and fibre also through distributors or how one should then look at it?

**Mahendra Nahata:** Some of our products are pushed through distributors also in fibre and cable but they are already prequalified from the testing agencies. Not that every customer needs to own approval. There are testing agencies like I mentioned Telcordia. Now Telcordia approval is there. Now you can go to US market and say this is the Telcordia approval and not every customer would like to test its own. Some of them may be not all of them.

**Neerav Dalal:** Got that and with regards to BharatNet phase II any update on that, anything in terms of tendering?

**Mahendra Nahata:** Yes. What I understand the government has now decided to implement it in EPC model where contract would be given to larger parties to implement the network including the supply of equipment. Now whenever that happens and I believe the Prime Minister announced program very recently last month in Bengaluru also, DoT should come out with the tendering process soon and this is again a major, major opportunity for HFCL. The capex targeted in three years timeframe is Rs.80,000 Crores and in this segment of optical fibre cable, HFCL is the largest vendor in the country so I see a major demand opportunity for HFCL in BharatNet whenever it happens and it should happen soon because it is the Prime Minister announced program and with the Rs.80,000 Crores capex I would not guess about the share which we will get but it is going to be very significant and significantly adding to Company's revenue and profitability.

**Neerav Dalal:** Got it and third question is in terms of margins do you see phase two margins to be lower than phase one or vice versa and the second question is between private and public what would be the margin differential in terms of private and public because where I am going to is that as our exports our increasing as the private share of revenues are increasing we have seen a decline in margins? Obviously, there is some inflation issue but then could comment on how do you see it?

**Mahendra Nahata:** Phase I and phase II you mean to say BharatNet or something else?

**Neerav Dalal:** Sorry BharatNet?



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**Mahendra Nahata:** We cannot compare phase one or phase two as such that how the margins would show. That would completely depend upon a number of factors; what kind of tender, what kind of participants, and what kind of products so I would not compare phase one or phase two margins but I am sure with the government's insistence on saying that they would only allow large players to participate in tenders so as to implement the network properly and good quality margins, I think should be in a reasonable terms but in government tenders you can never expect margins to be very, very high because they are competitive tenders but it would be in a reasonable level without any doubt number one. Number two latest trends what I have seen in private and public, private sector margins are tending to be better. I will tell you why, in telecom in public sector the buyer is BSNL alone and in fibre optic cable business you will find there are 20 manufactures and BSNL opens the doors for everybody so prices go down significantly. We did not even take any order from BSNL in the current financial year. We have not taken any order in the last quarter when there was tender we did not take any order because the prices were going down significantly but that does not happen in the private sector because private sector does not open the doors for everybody. They believe in quality because they want quality and they want timely delivery and quantity is to be supplied in timeframe which they require and some kind of specialized kind of cable which everybody does not manufacturer so of late one has seen private sector margins are better than the public sector margins and export also same trend is there. As I said in my opening remarks the prices between orders received in Q1 and what are being received in Q2 there is an increase in prices by 6% to 7%. They are all from private sector.

**Neerav Dalal:** Got that. Thank you.

**Moderator:** Thank you. The next question is from the line of Ankit Pande from Quant Money Managers Limited. Please go ahead.

**Ankit Pande:** Thanks for taking my question. A very good morning: Sir if you could talk a little bit about the Reliance Jio order book kind of declining or is there not too much to read into it given it has been higher in the past for us?

**Mahendra Nahata:** Your question was what. Can you repeat the question?

**Ankit Pande:** The Jio order book Rs.1,000 odd Crores that you indicated is that kind of is it low number?

**Mahendra Nahata:** It is not declining. It is almost constant and we expect orders from all operators why only Jio. All operators when the 5G starts we execute orders from all operators and Jio orders are not declining. We are constantly supplying to them. We are constantly supplying fibre optic cables. We are supplying backhaul radio. We are doing installation-commissioning services for them, EPC services for them in the entire North India for fibre optic cable and FTTH and I believe whenever



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the 5G happens and whenever they buy, we being a reliable and quality supplier, we expect them to keep on bestowing with better orders. Of course, we have to be qualified. We have to be qualified with good quality and we have to have a reasonably good and competitive prices which we have been maintaining with them since the last 10 years good quality, timely supply and competitive prices and we should be able to do that in the future also.

**Ankit Pande:** Great nice to hear that. Also on continuing the team the 5G ordering cycle is such have companies made enquires of you? I would imagine there would have been some enquiries leading into the auction.

**Mahendra Nahata:** As I said our product offering for 5G would be coming around I would say October to December and we will be approaching them. Now we will be starting approaching them that these are the products and these are the specification and from then onwards we will start having a serious discussion with them.

**Ankit Pande:** Thanks a lot and also if you could just a couple of numbers the capex for this year would be what the expectations would be if you could clarify that and if you could also give me the receivables and the inventory number working capital number this quarter?

**Mahendra Nahata:** Your first question is the capex which is going to be about Rs.450 Crores this year and next year put together for optical fibre and optical fibre cable expansion. This is not only this year, this year and next year. Expenditure on R&D is going to be about Rs.150 Crores in the current year.

**Ankit Pande:** Okay and what would be the working capital numbers this quarter? That would be all from my side.

**Mahendra Nahata:** Working capital numbers can you clarify what do you mean by that?

**Ankit Pande:** Inventory, receivables, and any components?

**Mahendra Nahata:** Receivables is 170 days and inventory is about 50 days inventory.

**Ankit Pande:** No significant movement from the March numbers as such?

**Mahendra Nahata:** If you look at the number of receivable days it has gone down. If you look at the numbers of the same quarter last year it was 195 days. It has gone down to 174 days now and inventory again hovers around the same sometimes 55, and sometimes 57. It all depends upon the situation to situation.



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- Ankit Pande:** Very nice and just a clarification you mentioned about the European telecom operator with global footprint did that order come in Q1 or has it come in the last few days in Q2?
- Mahendra Nahata:** It has come in Q1 and Q2 both.
- Ankit Pande:** Q2 both okay? Do we expect significant growth or it is still early days?
- Mahendra Nahata:** We expect significant growth not only from this player but from a number of other players also. This growth only I am talking of increasing the export from 2.5 times what was Rs.300 Crores and I am saying that we will grow by 2.5 times and that time has started from the Q1 itself. Of course, the profitability was less because of the reasons I have mentioned to you but now the profitability growth is going to be better and the order book is there. The order book for export order book for fibre optic cable is already building up. Our problem right now is the capacity constraint not the order book. That is why we are increasing our capacity. That will increase our revenue and profitability both.
- Ankit Pande:** Great many thanks and all the very best. Thank you so much.
- Mahendra Nahata:** Thank You
- Moderator:** Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.
- Chetan Shah:** Congratulations on a lovely set of numbers. Just one specific clarification you mentioned that our margin can grow up by 3% to 4%. Do you mean by Company as a whole or you are talking export in specific, if you can?
- Mahendra Nahata:** I spoke that 3% or 4% will go up in the product segment.
- Chetan Shah:** In the product segment okay got it, and Sir my next question is broadly, I know you eluded very detailed in my previous earnings question but I am just trying to understand Sir, if you look at it our segmental revenue and a breakup our EPC business side capital employed is increasing sequentially over the last four to five quarters but our revenue is more or less flat and actually declining so could you just kindly help us know where are we building the capacity in terms of some future opportunity one part is that? The second is by end of August also we will have a clarity on our entire 5G auction and then all the three private and one public player will start rolling this out in the next 12 to 15 months in major geography across India? In terms of the size of an opportunity, I am not asking HFCL in specific but as outsourcing opportunity from this telecom operator what can this quantum or a number may be and when do you think our pie will be? That will be very helpful just to get a sense of opportunity in the next two years time.





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**Mahendra Nahata:**

What I estimate is that expenditure for by telcos in 5G networks and also extension of 4G networks also so BSNL for example is now to going to put 4G network and then they will go to 5G also. Expansion of current 4G network that is also going to happen and then the 5G network by three private telcos and the fourth BSNL eventually. This is all going to lead into the market opportunity or demand increase in various segments of telecom, fibre optic cable to start with then passive infrastructure, tower this and that, all they would be requested for everything else, small cells because of the higher coverage required and the lower coverage of 5G because of higher frequency band, equipments for 5G. Common equipment for 4G, 5G like switches, routers all these are required to have massive quantity, minimum expenditure which I expect this is my expectation in the 5G network in four to five years by Indian telcos is going to be 3 lakh Crores and our market share, I cannot have a guess on that but I think with the product we have fibre optic cable where we have dominant market share, we have good market share in execution of services for the good clients. We received order very recently and Reliance Jio we are executing, all point of time we have been executing network for them since last 7 to 8 years we keep on doing that. Our positioning in cable, execution and the products like Wi-Fi, license band radio I think will continue in the same manner for 5G products also. There is no reason why we should not be happy so I believe with this good positioning and capex by telcos, HFCL will gain immensely no doubt about that.

**Chetan Shah:**

Got it, Sir my question about that increasing in capital employed in EPC business the revenue is not reflecting that if you can give us some idea on that please?

**Mahendra Nahata:**

Capital employed has not increased but revenue has gone down in the last quarter because of the reason I explained to you. The given amount of services could not be filled that was the problem.

**Chetan Shah:**

Got it, Sir one last question from my side this is more of technical understanding and pardon my ignorance on that. I am just trying to understand Sir once this 5G roll out happens and I am just fast forwarding 2 years from today do you think that this Wi-Fi and Wi-Fi related equipment network which you are already working in terms of R&D side can have a major upgrade required because in India most of the routers and equipment for the Wi-Fi which most of the people be it in office or home and all are using for last 5, 6, 7 years does the need of replacement of this equipment also create a very different set of opportunity or that is too much to think as of now for me? Sorry I am not a technical guy, so please pardon my ignorance.

**Mahendra Nahata:**

You are asking technical question. You may not be technical but you are asking technical question, which is good. You know look 5G and Wi-Fi they are different standards which Wi-Fi has to upgrade and to be compatible with 5G. I have been telling in my previous interactions with shareholders also and now again. Compatible standard with 5G is Wi-Fi 7. Till now we are working on Wi-Fi 5 and Wi-Fi 6 now but now 5G compatibility will be Wi-Fi 7 and we are



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already working on Wi-Fi 7 and very soon, Wi-Fi 7 product will be out, compatibility means the Wi-Fi has to match the throughput of 5G. Mostly throughput are lower you need Wi-Fi 6, 5G throughput is higher you need Wi-Fi 7 so we are already on Wi-Fi 7 particularly when you see that from outside 5G signal is coming inside how it is to be distributed. It can be distributed by 5G small cell. It can also be distributed by Wi-Fi 7 so depending upon what kind of requirement. In a home kind of requirement one would use Wi-Fi 7, in enterprise kind of requirement you need higher throughput and you would use small cell for 5G. At HFCL we are designing Wi-Fi 7. We are designing indoor small cell for 5G. We are also designing outdoor small cell for 5G so all the products we are covering whatever customer needs we will be able to supply.

**Chetan Shah:**

Sir my last question on export business. You said that we will be 2.5x our number eventually and Sir just to get a sense because China is no more reliable customer for lot of people in terms of the equipment and also in terms of the rollout and if we look at the two large players Tata and Reliance both are saying that we will be likely competitor to rollout telecom equipment itself for over a period of time on a Global side do you think that we will also be one of the beneficiary of that thing if it all it happens on a larger and a bigger scale that Huawei did in last decade or so?

**Mahendra Nahata:**

Chinese as I said are getting restricted world over, very restricted because of the strategic reasons for their spying through telecom networks as I said earlier to an answer of one of esteemed participant. Chinese are declining because of the reason I explained. Now Tata and Reliance of course it is good that more indigenous vendors come up but the global demand is so big so few other more number of players would not really matter at all and kind of numbers we are looking for ourselves 1000 Crores, even if you say 1000 Crores what it is in front of billions of dollars of global demand it is neither here nor there that is why I am saying our export we will be able to increase significantly in the coming years because of the huge global demand of cable and other equipments. Our strong push on export is precisely for this reason. It is a huge demand opportunity and till now we have not been present in the global market to that scale still we were having good revenues. Now to further increase in revenues we are not depending upon the Indian market we are increasing our presence in the global market and as you see last year we had a two half times increase now on that two and half time increase we are on further two and half time increase in the current year.

**Chetan Shah:**

Right thank you so much. It is always a very helpful and informative interaction with you every quarter. Wish you all the best Sir. Thank you so much.

**Mahendra Nahata:**

Thank You



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- Moderator:** Thank you. The next question is from the line of Pratik Singhania from SageOne Investment Manager. Please go ahead. Sir, we have lost the line of Mr. Pratik. We will take the next participant whose name is Ashit Kothi an individual investor. Please proceed.
- Ashit Kothi:** Good Morning Sir. With reference to our presentation in slide number 4 where we are talking about public telecommunication, we are talking at 79% of revenue, defense communication at 19% and then railway communication is 2% vis-à-vis page number 8 now over there we are talking about current order book as public telecommunication 1,519 Crores, 2,354, and 381 so if try to correlate both of them bit of a confusion?
- Mahendra Nahata:** The difference is in revenue and this order. Orders keep on coming so ratio between orders and revenue would always remain different. Order is what is happening now. Revenue which has happened in the past so they would always be different. They can never match.
- Ashit Kothi:** Does that mean that defense is now heading ahead of public telecommunication, defense communication and electronics. Does that mean that defense is heading ahead of public telecommunication spends or the order book why is it so?
- Mahendra Nahata:** Our order book would be more from the private operators. Moving forward new orders coming would be mostly from private operators from India and globally, not only India.
- Ashit Kothi:** Sir with regards to overall our revenue mix what we have shown as 59% as product and projects as 41%. Within that if I want to break it up into product exports, project exports and local is that possible?
- Mahendra Nahata:** Our export revenue has been 184 Crores in the first quarter, which is completely product out of 1,051 of the total revenue.
- Ashit Kothi:** Okay and our margins are much better off in exports vis-à-vis local or we are better off in local?
- Mahendra Nahata:** It is not like that. It all becomes order to order and the first quarter as I said what impacted us more in exports in some cases because logistical cost went much higher in the exports on the CIF orders because the container prices became high, the freight become higher so there was higher impact on the exports than the local sales. The containers and all this were not the issues but now of course we feel 6% to 7% in the export prices in the current quarter.
- Ashit Kothi:** Okay and how much we are going to take the benefit of PLI?



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- Mahendra Nahata:** PLI we will be taking significant benefit. We have applied but we are applying again in the newly announced scheme and we will be taking the full benefit of PLI. The numbers I cannot tell you at the moment because the next four or five years but it will be significant amount of benefit, significant amount.
- Ashit Kothi:** Till now how much we have bid for tendering system in government tendering projects what is our participation in terms of value?
- Mahendra Nahata:** We have bid in the defense sector. Defense sector we have bid. Majorly in defense sector. There is no bid in the public government telcos. There is no bid pending. I think maybe one bid in the BSNL. One bid for router or something is there but not much.
- Ashit Kothi:** In value terms?
- Mahendra Nahata:** Value how can I tell you value from the bid we have put.
- Ashit Kothi:** We have bid for 5,000 Crores, 10,000 Crores 2,000 Crores.
- Mahendra Nahata:** Defense tenders could be in the vicinity of something like 5,000 Crores or more. Yes something like that you can say total.
- Ashit Kothi:** Sir with regards to fibre optic cables, Sterlite Technologies and some other players where do they stand in terms of competition with our Company?
- Mahendra Nahata:** Well, how can I talk about competitors? I respect all the competitors. I respect all of them and they are also good people, good Company, good quality, good competitors, and we respect them.
- Ashit Kothi:** But we are way ahead in terms of our share of the market.
- Mahendra Nahata:** Domestically, yes.
- Ashit Kothi:** Okay thank you Sir. Thanks a lot.
- Moderator:** The next question is from the line of Pratik Singhania from Sage One Investment Manager. Please go ahead.
- Pratik Singhania:** Sir my question was with respect to near term pricing based on the global demand and supply of fibre capacities because what I hear is like China is not adding capacity and Prysmian and Corning capacity has been fully booked for next two to three years and because your capacity would also take some time so, what is your sense on the pricing in the near term say around 6 to 8 months?



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- Mahendra Nahata:** I think prices are going to remain same, not going to increase and people are adding capacity in China also why they are not. They are adding capacity. I think everyone is adding capacity in fibre, not that they are not adding. Everyone is adding, and Corning and Prysmian, I do not know, because Corning actually do not talk about their capacities but China people are adding capacities. We are adding capacities. Other Indian Companies, i do not know Sterlite, BTL they must also be adding capacity because capacity in fibre is being added because of the demand of fibre is expected to increase in next five years in our estimation this 500 million will go to almost 1000 million in next five years. Prices I think are going to hover around currently global market price is roughly about \$5 which is going to remain around the same. It had gone up to \$5.2. It is depending upon manufacturer to manufacturer between \$5 and \$5.2 this is what is right now.
- Pratik Singhania:** Sir in PLI scheme of course like you would be able to share the exact details but most of the companies that we have seen that whatever is the capex amount at least that they are able to recoup over next five years after the investment is made so would that be a ballpark case for us as well?
- Mahendra Nahata:** That should be a ballpark case, yes.
- Pratik Singhania:** Okay thank you so much. All the best.
- Moderator:** Thank you. The next question is from Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Namaskar Sir, just to sum up of what you have spoken and just to make good sense and correct me. This is one of quarter in which the impact of higher input cost in terms of logistic has played its part in lower margin and also with some disturbance at our client end; some deliverables which was scheduled for this quarter were spilled over to the next quarter?
- Mahendra Nahata:** You are right, Mr. Kapoor you have summarized what I said in my presentation, question, and answer, you are right.
- Saket Kapoor:** Yes Sir I was just trying to make good sense of that. Sir when you spoke about the turnover for OFC cables looking at around Rs.2,300 crores for this year what has been the OFC contribution for the first quarter?
- Mahendra Nahata:** I think it was over 500 Crores if I am not wrong. It is around 500 Crores. 530 Crores to be precise.
- Saket Kapoor:** 530 so it should be in this vicinity of 500 to 600 for the remaining quarter to reach 2300 that should be realistic number.



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**Mahendra Nahata:** You can say that, yes.

**Saket Kapoor:** Sir when we look at the purchase of stock and trade component. Just a purchase of stock and trade part component has gone up considerably for this quarter in commensurate to the turnover if you could explain the same and I am coming in the queue. Thank you for all the detailed answer. It is pleasure to hear in this call than to ask questions. Thank you.

**V R Jain:** Saket purchase of stock and trade is nothing but the outsourced materials which are procured for execution of various contracts in hand. See fibre cable we are manufacturing so wherever cable is required that is in-house supply but other than cable lot of materials are being outsourced.

**Saket Kapoor:** I will come up with a followup.

**Moderator:** Thank you. As that was the last question for today. I would now like to hand the conference to Mr. Mahendra Nahata for closing comments.

**Mahendra Nahata:** Thank you, gentlemen. Thanks a lot for your keen interest in HFCL and making yourself time available for this conference. I express my gratitude and I can assure you, Company is in good trajectory of progress with its increase in capacities, increase in product range and increase in customers, new customers, new products, new geographies, all three are happening at the same point of time and I am sure coming quarters' performance of the Company would be in the expected trajectory which we had planned for ourselves and the pressures which came in quarter one are no longer visible so there should be improved performance in the coming quarter by the Company. Thank you very much. Thanks a lot for being with us. Thanks a lot for your time.

**Moderator:** Thank you. On behalf of HFCL Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.