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Security Code No.: HFCL

Subject: Transcript of Conference Call on Financial Results/ Earnings for the 4th Quarter & Financial Year ended 31st March, 2022.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on April 29, 2022, on the Audited Financial Results of the Company for the 4th Quarter & Financial Year ended 31st March, 2022, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on April 29, 2022.

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

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

Thanking you.

Yours faithfully,

For **HFCL Limited**



(Manoj Baid)

Senior Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.



**“HFCL Limited
Q4 FY2022 Earnings Conference Call”**

April 29, 2022



ANALYST: MR. ABHIJIT MITRA — ICICI SECURITIES LIMITED

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



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Moderator: Ladies and gentlemen, good day and welcome to HFCL Q4 FY2022 earnings conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Mitra from ICICI Securities Limited. Thank you and over to you Sir!

Abhijit Mitra: Thanks operator and good evening to all the participants and thanks for joining in. We are here to discuss Q4 and FY 22 results for HFCL Limited. Management is presented by Mr. Mahendra Nahata, Promoter & Managing Director, Mr. V.R. Jain, CFO, Mr. Manoj Baid, Company Secretary and Mr. Amit Agarwal, Head IR. So without further ado, I hand it over to Mr. Nahata for his opening remarks. Over to you Sir!

Mahendra Nahata: Thank you Abhijit and good evening ladies and gentlemen and a warm welcome to HFCL’s earning call for Q4 FY2022. Thank you for your continued interest in HFCL and making to this call. The results presentation and press release are available on the website of the Company as well as on the stock exchanges. I am sure you had a chance to glance through them. Friends, as the threat of pandemic recedes, we still remain vigilant about new COVID variants that can pose challenge to the economy.

The recent Russian-Ukraine conflict poses new geopolitical challenges not just for India but also for the world. While quite a few sectors were, beginning to show signs of recovery, we could still be staring at an uneven path of recovery given the changing dynamics. All this coupled with the pace of technological transformation, call for the need to be vigilant and agile for leaders across nations and organizations.

Now zooming into the Indian context, our healthy growth rate and forex reserves coupled with steadily improving exchequer collections and forecast of a good monsoon shall help us deliver another year of world-leading growth in FY2023 for the Indian Economy. The Indian telecom sector shall witness another year of revenue growth in FY2022-23 on the back of rising data consumption and tariff hikes. Sectoral strengthening in the form of expanding networks, AGR relief and lowering of 5G spectrum prices shall help ignite the next level of growth for the industry.

For HFCL, FY2023 looks quite promising. However, the margins in Q1 may remain somewhat under pressure because of global increase in input costs. These are expected to get offset by the end of the quarter with increase in sales realization. Government’s thrust



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on indigenous procurement of telecom and defence equipment, healthy telecom revenues feeding into continued network expansion and upgrade by telcos, policy support for design laid manufacturing for telecom equipment under the PLI scheme, Prime Minister's vision to connect all the gram panchayat through optical fiber cable to provide affordable broadband connectivity are the key levers that would propel HFCL to greater height of performance and profitability.

HFCL's march forward on the path of sustainable and profitable growth is fueled by continued expansion of capacities, product offerings, backward and forward integration, increase in customer base and enlarged global footprint. We continue to transform HFCL as a technology driven enterprise that innovates and manufactures not just for India but also for the world.

The structural strengthening and sustained improvements in our performance in FY2022 has further strengthened our growth foundation. Being recognized as a trusted source by National Security Council Secretariat was a pivotal acknowledgement from the Government. Capital raise of INR 600 Cr through QIP and release of 100% of the pledged shares further demonstrated the trust and belief by our stakeholders. Setting up of a dedicated manufacturing facility for defence products and further expansion of optic fiber and cable facilities, strengthening of our global leadership teams and deepening of our new product and solution pipeline augurs well with sectoral growth. Sustained growth and fiscal consolidation led to our credit rating upgrade to A with stable outlook from CARE Ratings. We closed FY2022 with an order book of more than INR 5000 Cr.

From R&D standpoint, development of Wi-Fi -7 enabled access points and point to point and point to multi-point backhaul radios are in advanced stage. These products will be compatible to 5G networks in terms of their throughput capacity. Development of 5G radio and transport products are also progressing well and these products will result in Company's innovations to reach the global markets. A new initiative has also been undertaken to produce new types of optical fiber cables for the export markets. I would also like to mention the Company has been able to increase its product revenue to a level of 43% in FY2022 as against 27% in the last financial year. This trend is expected to be even better in the next financial year. The product revenue of FY2022 was INR 2055 Cr as against last year's product revenue of INR 1205 Cr.

The export revenue of the Company also increased significantly in the current year. As against INR 201 Cr of export in the financial year ended on March 31, 2021 the export in FY2022 was INR 363 Cr.



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We expect to double our export revenue in the current financial year again towards the end of Q4 FY2022, the Board has approved the expansion of our optical fiber as well as optical fiber cable manufacturing capacity to 22 million fiber kilometers and 34.75 million fiber kilometers per annum respectively. With an estimated capex of INR 425 Cr, this round of expansion would see our fiber and OFC capacities to go up by 120% and 40% respectively. The move is also aimed at narrowing the gap between fiber requirements and cable capacities in order to further strengthen supply chain and improve our margins.

Laying of optical fiber cable in the state of Jharkhand under BharatNet Project got completed during the last quarter. Providing connectivity to 1789 gram panchayats through the GPON network, our team laid out 7765 kilometers of cable network. With this, Jharkhand has become the first state in the country to provide connectivity to all the gram panchayats under the state-led model of BharatNet program. We are proud that HFCL implemented this network.

FY 2022 was also marked with HFCL forming several strategic alliances and associations. We joined O-RAN alliance, a worldwide community of mobile network operators, vendors, and research and academic institutions operating in the radio access network industry. The aim of this alliance to build much more intelligent, open, virtualized and fully interoperable mobile networks. We will focus on integrating and validating our 5G products and solutions with other O-RAN alliance members and contributors.

We formed a partnership with Aprecomm, the leading artificial intelligence powered and Wi-Fi analytics technology provider. The aim is to integrate Aprecomm's artificial intelligence power solutions to our platform. Our entire Wi-Fi and UBR product portfolio will now have seamlessly integrated AI powered network analytics, enhancing the experience for network service providers, as well as the end users.

We chose CommAgility's 5G new radio software for our 5G indoor small cell. CommAgility is a key technology partner in our efforts of building a complete portfolio of products for 5G radio access and transport network.

We engaged Ingram Micro as distributor for our Wi-Fi and UBR line of products, with an aim to leverage their stronghold in channel distribution in India and SAARC countries.

Let me now brief you on key performance metrics of the quarter and the twelve months ended FY2022.



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Revenue for Q4 FY22 stood at INR 1183 Cr as compared to INR 1215 Cr in Q3 of FY22 and INR 1391 Cr in Q4 of FY21.

EBITDA for the current quarter stood at INR 154 Cr as compared to INR 174 Cr in Q3 FY22 and INR 187 Cr of Q4 FY21.

EBITDA margin stands at 13.02% for Q4 FY22 as compared to 14.32% for Q3 FY22 and it stood at 13.44% in Q4 FY21.

For Q4 FY22, Profit after Tax stands at INR 68 Cr as compared to INR 81 Cr of Q3 FY22 and which stood at INR 86 Cr in Q4 FY21. PAT margin stands at 5.75% in Q4 FY22 as compared to 6.67% in Q3 FY22 and 6.18% in Q4 FY21.

Segment revenue for telecom products during the quarter stood at INR 585 Cr which is 49% of Q4 FY22 revenue as compared to INR 388 Cr which was 28% of Q4 FY21 revenue.

The increase in input costs including optical fiber, plastics and semiconductors and logistics during last quarter has put pressure on operating margins. This will possibly get offset with increase in realization in the coming quarters.

For the twelve months ended 31 March, 2022, the Company reported consolidated revenue of INR 4727 Cr as against INR 4423 Cr in March 2021. EBITDA of INR 693 Cr as against INR 585 Cr in March 2021, Profit before tax of INR 442 Cr as against INR 337 Cr in March 2021 and Profit after tax of INR 326 Cr as against INR 246 Cr in March, 2021. From these numbers for the financial year, we can note the progress made by the Company, and stronger performance shown by the company compared to last year.

The receivable cycle has also come down to 160 days in FY22 from 214 days as compared to FY21. Debt in absolute terms has reduced to INR 730 Cr as on 31 March 2022 from INR 922 Cr as on 31 March 2021 resulting into debt equity ratio of 0.26 only.

Looking ahead, our drive continues to innovating and widening our product offerings and expanding our global footprint shall further strengthen our growth foundation. With continued shift in revenue mix, growth in our catalog of products and innovation, we are confident to emerge as a name to reckon with across various markets.

Thank you once again ladies and gentlemen for your keen participation. With this, I conclude my opening remarks and open the floor for question and answer session. Thank you very much.



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Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good evening gentlemen. Sir, thanks for presenting the result. Sir my question was regarding FY2023 and if we extrapolate it and go to even FY2024 what opportunity we see for our company and where we are ready and you be as a company and as a leader, where you see the opportunity for our company.

Mahendra Nahata: Thank you Mr. Shah and good question. FY2023 comes up with multiple opportunities, India and worldwide, why I am saying Worldwide also because we are focusing to a large extent in the export market also. In terms of opportunities, in the current financial year as you all are reading in newspapers today that 5G auction is going to be held very soon, possibly in June. Now with the 5G auction being held and networks to be expanded by operators who take 5G spectrum, there is a large growth in demand of fiber optic cable and also very wideband radios both are which would be required to connect the different cell sites which would be many more in numbers because the 5G has the coverage limitations because of higher frequency range.

The demand of fiber optic cables and wideband backhaul radios which grow up significantly. Significant growth would be there in these two product demand. Similarly demand of our kind of telecom infrastructure will increase significantly because network rollout would happen by operators and it will be completely large extended new rollout for 5G networks. Now when the 5G network grows accessory equipment like Wi-Fi, like Wi-Fi 7 for example which we are also developing, Wi-Fi 6 which is already under our product range, backhaul radios for Wi-Fi backhaul, broadband connectivity, all this will grow significantly, then the transport products for 5G routers, switches, demand is going to grow significantly. Good thing is that we have a huge capacity for manufacturing fiber, fiber optic cables, and that capacity is being expanded keeping in view the large scale network expansion in fiber optic cable to take place.

We are inducting wideband radios, e-band radios in our product range. We are having Wi-Fi 6, and 7 is under design of course and also unlicensed backhaul radios for the same usage. We are designing router, switches, so all this put together you will find we are getting ready for the new kind of products which will be required for 5G networks which is to be laid out by the operators who take 5G spectrum. Second big demand is coming from BharatNet as you would have read in newspaper again. Government has now decided to construct this network from EPC mode where contracts would be given to companies to implement the entire network. What we hear is you know from different sources, the total



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requirement of the fiber optic cable is going to be more than 15 lakh kilometers in the next three years, 15 lakh kilometers which is a huge, huge demand opportunity.

Now 15 lakh kilometers of fiber optic cable will be required for linking all the villages which are to be linked in BharatNet earlier it was gram panchayat now it is villages over fiber optic cable to give broadband connectivity. Now it would not only be fiber optic cable, it would be a lot of different kind of equipment, you know transport equipment, access equipment which would be required for this purpose and total capex estimation in our estimation is going to be more than INR 70-75,000 Cr including installation and commissioning expenses.

Now fortunately HFCL is present in all this market segments so this is again going to be a massive demand opportunity and your Company has experience in all these areas with cable, equipment, installation commissioning, EPC capabilities. So this is a second large level of new demand coming up apart from normal expansion of networks which is going on anywhere. There is a third opportunity, since we are looking at export market and as I mentioned in my initial presentation that we have been able to increase our exports from INR 125 Cr or so to INR 361 Cr in the current financial year. We are looking to make it about 2.5 times of the last year in the current financial year.

This INR 361 Cr is probably going to be somewhere around INR 800-900 Cr that is the target we have fixed up for ourselves, so worldwide the demand of fiber optic cable and associated equipment is increasing significantly. The reason is the large expansion of fiber to home network worldwide whether it is North America whether it is Europe large scale expansion of fiber optic cable network and FTTH network is taking place. We are also discussing with different operators in some countries to take contracts or take business for establishing such networks for them and supplying fiber optic cable in any case too many such operators and that is where our increase in export potential comes up.

So indigenous demand for 4G network expansion, 5G network, BharatNet network, expansion of FTTH network worldwide including that in India and we are the largest implementer of FTTH network in the country, all this put together there is going to be huge demand opportunity and we are fully geared up for that because we have fiber optic cable capacity which we are increasing. We have equipment. We are designing new equipment which is available for sales and we are going international also by increasing our sales capacities, so we are in a very good position to take advantage of this expansion in the market FY2023 and beyond.



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Sanjay Shah: That is really helpful Sir really helpful. Sir my next question was can you highlight something about our progress on our defence equipment side?

Mahendra Nahata: Defence equipment there are two kinds of defence equipment. It is defence communication equipment and defence electronics. Now as you know defence business takes time to get qualified and long drawn trials and then eventual supply so we are designing software defined radio for defence which we will submit for validation sometime by the end of this year. We have designed electronic fuzes which are undergoing trial as we speak now which are undergoing trial in different places right now as we speak. Night vision devices again they are undergoing trial as we speak so defence equipment whatever design has been finished they are undergoing trial. Software defined radio is under design and at the same point of time we are working on couple of other defence equipment which would be required by the Indian Defence Forces in near future to design them and to manufacture them. Again you would have again seen in the media government has decided that a large portion of defence equipment is to be procured indigenously by indigenous manufacturing so this again gives a great relief to our business model because in our business in defence equipment what we have done primarily to manufacture indigenously with a huge amount of local content, which makes us far more competitive so our whole policy for all strategy is to design locally and manufacture locally has proven to be very correct with the need of the time so government is insisting local manufacturer the large percentage of Indian components which can only happen if you design in India and which is going to be helping us to generate more revenues from defence products in the next few coming years. In the current year, in our annual operating plan we have not taken into account any significant revenue from defence electronics though defence communication revenue is going to convert. Defence electronics we have not taken any revenue. We expect this revenue to start coming up from the FY2024 which will further increase the revenues of the Company.

Sanjay Shah: Great Sir. Thank you very much for answering questions. I will come back in queue for further questions.

Mahendra Nahata: Thank you.

Moderator: Thank you. The next question is from the line of Saral Seth from Indsec Securities & Finance Limited. Please go ahead.

Saral Seth: Sir thanks for the opportunity so my first question was what is the R&D development in the 5G area as we were developing some hardware, which is supposed to cater to the 5G technology so where are we on that side Sir?



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Mahendra Nahata:

Well in 5G you know we have two different kinds of equipment. One is 5G radios and transport equipment. In the radio equipment, we are designing small cells and macro cells of different kinds system. Small cells is for indoor or some outdoor application also, but macro cells is for large scale application for what we call the base stations of the towers you see for massive communication capacity. Now these designs are already happening. We have tied up with the world leaders in this arena to give us software stacks and designing capabilities and these are going to be our own design where our R&D team is engaged together with the other engineering companies to design these products and these designs are progressing very well for small cells and macro cells all is progressing very well and sometimes within this current financial year later part of this financial year these products will start coming on stream for showcasing it with the customers in the current financial year itself. The second leg of this product is front haul gateway, which are the kind of routers on the cell site and access routers and distribution routers they are also going to be in our production line sometime during this current financial year so this is progressing well and there is going to be a very large demand opportunity for these products because as the 5G networks come everybody would be requiring these products because these are the large volume products, which would be required by all the operators not only in India but export also so we are gearing for India and export so I would like to reemphasize here the demand opportunity is massive whether it is for 5G network equipment or whether it is for fiber optic cable and associate optical transport equipment and your Company is totally geared up to take advantage of these opportunities by becoming more competitive than its peers because of its own design, its own manufacturing capabilities and also a very competitive design because it has been designed in India and software also being designed in India and owned in India so these are the massive competitive advantage we have for these equipment and also fiber optic cables because the massive quantities you produce we have a competitive advantage and also because of the backward integration of the optical fiber that gives us a further competitive advantage. Moreover in terms of capability to put fiber in the ground we have done the highest amount of work in the country so we are again in a good position to take advantage of emerging opportunities like BharatNet that so there is a massive expansion taking place now. I find HFCL in a never before good position to take advantage of the opportunities which are there in front of us because of these expansion which I talked about.

Saral Seth:

For the optical fiber cable industry what is the growth outlook and how are we positioned to benefit from this growth? What steps are we are taking to extract maximum opportunity in optical fiber cable?

Mahendra Nahata:

As I explained a little earlier to answer a question on Mr. Shah, demand of optical fiber cable increase is coming once next new networking laid out. 4G network expansion,



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expansion of the fiber to home network. I am talking about India right now and more importantly BharatNet where there is more than 15 lakh kilometers of fiber optic additionally will be required so all these present issues demand opportunity and then coupled with increased exports from our side to different countries for backhaul as well as backbone as well as FTTH application of fiber optic cable. Now, definitely we would be needing higher capacities to fulfill this demand and that is why we are expanding our capacities to manufacture fiber optic cable by about another 10 million fiber kilometers equivalent cable. We are expanding our capacity for manufacture optical fiber from 8 million currently, which is undergoing expansion to 10 million to expansion of 22 million which is an expansion from current capacity of 8 million to 22 million to fill up the gap between our manufacturing of cable and fiber so massive expansion is taking place with the cost of more than INR 400 Cr to take care of this demand opportunity, which is there in front of us so demand is increasing so as we are increasing our capacity and mind is we have the highest market share within India for fiber optic cable. We have the highest market share and we expect to continue to maintain that with increase in our capacity and competitiveness.

Saral Seth: Understood Sir. I will fall back in queue. Thank you Sir.

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

Guru: Thank you for giving me an opportunity. Nahata ji thanks for giving the clear idea about HFCL products and the kind of demand it will have going forward. I have got a couple of questions like my first question is regarding this NDU that is the non-disposal undertaking of equity shares? So, after releasing the pledged shares so just wanted to have some clear idea about the purpose.

Mahendra Nahata: Let me first explain and answer you this question. A pledge has been released non-disposal undertaking is there from the promoter's part of promoter share that while the bank loans are existing promoter should not sell its share and run away. That is a non-disposal undertaking bank takes that till the time bank loans are existing you know the promoter should not sell significant part of his shares and run away and leave the banks high and dry. That is the kind of protection bank takes from everybody so out of the total number of shares 54 Cr of the promoter shares 24 Cr equivalent shares non-disposable undertaking has been taken by banks. It is not pledged. It is only non-disposable undertaking that promoters will not sell 24 Cr of the share out of 54 Cr of the total holding till the time bank loan are existing. That is a very standard thing.



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- Guru:** Fine and my second question is as for the last con-call it was given to understand that out of the funds raised through QIP about INR 150 Cr will be utilized for the repayment of loan if I am not wrong so any plans to go ahead with that?
- Mahendra Nahata:** So we have already paid. We have already done that. We have already repaid those loans.
- Guru:** Okay fine and my last question is regarding this Sterlite patent infringement, we have seen some notification on BSE but later on now there is no update on that?
- Mahendra Nahata:** Look I would not talk much about a case which is already in court but we have already informed the court. We have already informed the honorable court that it is not correct. Infringement is not there. That stay was given an ex-parte basis without even hearing us. This, whatever they have claimed of the infringement of their patent of 2016 we have been producing that kind of a cable from 2013 or even before that and we have been supplying to our customers. Our customers has given affidavit in the court that they have been buying this cable from us from 2013 and even customers have submitted their specifications also and our bills and their orders and everything has been submitted to honorable court this is sub judice, but I can tell you there is no infringement in this case. It is just I do not know why they have launched this and this stay was taken ex-parte but in any case the court has given us permission to keep on exporting the orders we get. We give a list to the court and the export has been approved for us.
- Guru:** Thank you. All the best. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Namskar Sir and thank you for this opportunity. Sir firstly out of the total order book how much is skewed towards the export part Sir?
- Mahendra Nahata:** Export orders are always coming in bits and pieces. They are not out of INR 5000 Cr you will not find that there are some thousands of crores, but I think the total export order available in hand is about INR 225 Cr against a total export target we have about as I mentioned we wish to increase this by 2.5 times of the INR 360 of all the exports we had in the current year so INR 225 Cr of order which is to be supplied next couple of months is a good number if you look at our current export target. We will be able to fulfill without any problem.



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- Saket Kapoor:** Sir what have been our capex for FY2022 including what have been the maintenance capex and what is our capex target for FY2023?
- Mahendra Nahata:** Yes I will just get these numbers and come back to you, if you have any other questions.
- Saket Kapoor:** Yes Sir. I have a couple of them so what is our net debt level Jain saheb and what is our cost of funds? Also Sir then coming on to this turnkey services part segment Sir.
- Mahendra Nahata:** Sorry Mr. Kapoor I missed your question.
- Saket Kapoor:** No issues.
- Mahendra Nahata:** R&D or capex.
- Saket Kapoor:** Sir the maintenance capex and R&D both if you could give the breakup for FY2022 and FY2023?
- Mahendra Nahata:** Our target for capex as I mentioned, Sir I missed your question. I thought you are asking on R&D and you were asking about capex. In the current year because we are going for extension of fiber and fiber optic cable the current year's capex target is about INR500 Cr including that of R&D about INR500 Cr.
- Saket Kapoor:** For FY2023?
- Mahendra Nahata:** Yes.
- Saket Kapoor:** How much we have spent for FY2022?
- Mahendra Nahata:** FY2022 because there was some bit of capex and some bit of R&D total would have been around about INR125 Cr or so.
- Saket Kapoor:** So from INR125 Cr we are going up to INR500 Cr?
- Mahendra Nahata:** Absolutely because we have raised capital also if you recollect for the purpose of expansion only.
- Saket Kapoor:** Sir last year in some of the calls you have also mentioned that kuch subsidy milni thee government se and there was also one big income tax refund Have those things materialized for the last year?



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- Mahendra Nahata:** Yes the income tax refund has already come and part of the state subsidy already has been approved and the rest of the subsidy for the central government that has also been approved but the disbursement is yet to take place. We expect after a couple of months disbursement will happen.
- Saket Kapoor:** And how much is the receivable Sir on that front?
- Mahendra Nahata:** I think that should be about INR 45 Cr or INR 47 Cr I think.
- Saket Kapoor:** Sir about the net debt numbers Sir the net debt level after the capital raising exercising what is our net debt?
- Mahendra Nahata:** This is INR 730 Cr net debt level as against INR 920 Cr for last year.
- Saket Kapoor:** This is after raising INR 600 Cr?
- Mahendra Nahata:** Yes.
- Saket Kapoor:** Sir in the other expenses part Sir we have found that the other expenses have disproportionately gone up so if you could explain the reason in commensurate to the turnover the other expenses are slightly higher so any one of item there?
- VR Jain:** Yes so this has increased one because of the logistic cost, I mean this freight on logistic export have increased and some R&D expenses has been expensed off may be around INR5 Cr or so and then we have written off some of the debt which is INR 2.5 Cr and INR 2 Cr of the provision has been made during this quarter against the ECL provision against receivables.
- Saket Kapoor:** This has gone up from Sir if I take the number from March 2021 from INR 47 Cr to INR 78 Cr that is a significant INR 30 Cr change?
- Mahendra Nahata:** This the total all that what has been explained. Some expenses on the export side because we have to increase our exports by a large volume so we have increased export related market development expenses and the other expenses which Mr. V. R. Jain mentioned just now as you all total up it will be this kind of number.
- Saket Kapoor:** This will continue going forward also because of the higher freight cost still there?
- Mahendra Nahata:** This is freight cost the significant portion of it is the higher freight cost. It happened in the recent past because of these logistical issues which the world is facing. Now whether this



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will continue or will go down that all depends so it is a geopolitical situation. I cannot give any forecast on that because as you know this is a completely different geopolitical situation which will determine this kind increase or not. It may further go up who knows or it may go down also if the situation improves.

Saket Kapoor: Sir on the turnkey contract and services segment we have seen de-growth in revenue whether quarter-on-quarter or year-on-year Sir how will you explain the reason?

Mahendra Nahata: No need of explaining this is our strategy. I have been telling you from the very beginning that our revenue from products will go up and from EPC will go down. That has been the thought out strategy of the Company and as you would see product revenues is at 27% has gone up to 43% so which is a significant shift and a well thought of strategy and it will keep on happening in future.

Saket Kapoor: But that is not commensurate to the profit Sir if we take the profitability part, the profitability has gone down on an absolute number?

Mr. V. R Jain: In this Q4 because of the increase in input cost.

Mahendra Nahata: As I mentioned to you Mr. Kapoor in the very beginning itself that in Q4 all input costs have gone up, which is you would have seen everywhere plastics which is major raw materials for fiber optic cable it has gone up tremendously. Fiber we used to purchase last year at INR 248 per kilometer. Right now we are packing up INR 430 per kilometer to INR 440 per kilometer so input cost has increased significantly, if you look at EBITDA margins you will find that there has been a significant shift in Q4 because of this increased input cost which is a worldwide trend.

Saket Kapoor: What are the current OFC prices Sir?

Mahendra Nahata: Wait a second, let me complete. If you see on a year-to-year basis this was the story of Q4. If you see year-to-year basis in the March 2021 the EBITDA margin was 13.23%. March 2022 it is 14.66% had the things not be different in the Q4 this would had been even better, but these are nothing to do with the Company. These are geopolitical situations. Freights have gone up. Input cost has gone up, fiber price gone up, plastic price gone up, semiconductors are not available. There is worldwide shortage of semiconductor so to get a ready stock we have to pay higher prices which we have done because we have to supply to our customers so this is a temporary phase which has happened which may very well continue in the Q1 also of the current year but of course two things will happen. We expect these things to ease out in Q2 but at the same time now our new contracts or sale prices are



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also increasing. Our sale prices are also showing increase because as we have input cost so new orders we are taking at increased prices also so all put together this would balance out in the Q2 but Q1 there might be some impact of this situation.

Moderator: Thank you. The next question is from the line of Hardik Vyas from ET. Please go ahead.

Hardik Vyas: Good evening Sir. Most of my questions have been addressed but one of my questions is in 5G telecom equipment how is the competitive intensity? Who else is likely to supply those products?

Mahendra Nahata: I would differentiate in two parts. One is local manufacturers and another is international. Now international all the large companies which you hear the names Ericsson, Nokia, and Samsung would be there. Chinese would also of course not be there because in India Chinese are no longer being allowed. In Indian companies in 5G radio equipment, Tejas would be there which is now a TATA company. We would be there and I do not know if any other company is working on 5G radio network development. I do not know any company which is being to a large extent maybe I heard of a Sterlite earlier but I do not know the latest status, but we are of course doing so local companies I heard the name of Tejas, they are doing it of course. We are doing it and we will of course do it for small cell and large cell both we would continue to do it but you know I tell you one thing where we look at our competitive advantage. One, for all contracts which are BharatNet kind of contracts well of course radio equipment are not there but all other equipment are there including some of the equipment which are commonly used in 5G or optical network. We are all Make in India so we always get a preference to supply such equipment if it is Make in India and ours is Make in India. Number two our software cost and everything is local development so cost of development is much lower than others. Manufacturing in India so it is more competitive so overall we find ourselves more competitive in terms of competition with international players and I would give you an example Wi-Fi and UBR radio which we have produced we are very well able to compete with all international players and we have got a good market share in the beginning itself. We have got a very good market share, which are also radio products so I am sure going by taking advantage of our existing success and good products we shall be able to sell our products very well in the local market and on the international market also.

Hardik Vyas: Sir would you be able to quantify how competitive we would be as compared to Tejas because I believe that as compared to the overseas players we definitely would be more competitive but as far as Tejas goes, how?



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Mahendra Nahata: Look I will not say that that I will be more competitive or less competitive than Tejas. Prices have to come out but your market is so big so big that two or three or four players can coexist without any problem. You need not be cutting throat of each other in such a huge market opportunity.

Hardik Vyas: Does it make sense to compare our pricing with overseas players like Ericsson or Nokia?

Mahendra Nahata: Yes well we are still not seeing the prices of 5G products and all that the sales are yet to start in India but in my personal opinion we should be competitive to them by 10% to 20% margin.

Hardik Vyas: Okay I get it. Sir my next question was on our margins you said that all the input costs have gone up in the Q4 are we looking at those things stabilizing in this quarter end of this quarter and going forward coming back to the earlier margins?

Mahendra Nahata: I will tell you two, three things. For fiber optic cable for example, there are two major raw materials, one is fiber and another is that is based on crude, which is plastics between the jelly and all those kind of things. Fiber prices looks like they are stabilized now, it increased significantly but last one month I am seeing that prices are more or less stabilized, the supply position has become little bit worse because of different reasons, because of lockdown in China. As you see about 27 cities under lockdown and so factories have suffered and also the ports are closed so the dispatches are not happening so there has become a supply constraint. We have been able to still fill on our factories to fill capacities because one half of our requirement of fiber we produce ourselves, half we import so that half earlier, we were in a very comfortable position but now we have to really do a lot of things organized and then only we are able to get fiber which is required by us, but fiber prices have started stabilizing, it should no longer increase. Now coming to plastics and all that kind of things, now this is a very wide geopolitical situation with what is happening in Ukraine-Russia war and all those kind of things. I cannot predict what would happen there because if the war continues with the same level of things which is continuing then I think crude prices will remain around the same it will not increase. God forbid two, three more countries get involved in the war which we do not know none of us can predict, none of us can have any influence in that, if such kind of things happen then who knows crude prices may go up and then the plastic prices will go up, so this is completely a situation which none of us can predict but I do not think it is likely to happen. If the Ukraine-Russia war continues the same level may be crude prices will also be maintained around the same level and there may not be any increase in the plastic prices any longer because they already increased quite a bit. So I think giving any very abnormal situation, the prices which have gone up should remain around the same kind of prices, some possible increase in the



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plastics but what we are doing to hedge against that now we are asking our customers to give new orders at increased prices which customers are also responding because they also know that prices of the input has gone up so output price will also go up without any doubt, so we are now balancing it out in the current quarter.

Hardik Vyas: Okay and with 5G auction happening we would see turnkey services orders also flowing in with the products as well or we are not likely to take up any turnkey orders?

Mahendra Nahata: We are not going to refuse any order. With the 5G happening BharatNet happening, more orders going to come up, more orders will come up, our products and some orders for EPC the turnkey also both will happen and if there are good orders with the good profitability margins in turnkey also, there is no need to refuse you know for example Reliance for example or any other customer, if they are a good paymasters and if Jio, Airtel anybody if they expand their network and they have good paymaster and they give us orders for turnkey also why not to take that but on the overall basis our product revenue will have a higher growth than the turnkey services, that is the strategy we have decided that product revenue should grow more rapidly than the EPC revenue.

Hardik Vyas: Okay that would also drive our margins better?

Mahendra Nahata: Yes sure.

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 Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question. I have few data questions. So Firstly on your product revenue for the quarter and for the full year, how much of it is contributed by fiber optic cable for the quarter and how much is it access products if you can break it up?

Mahendra Nahata: I can explain you, just give me a moment, of the financial year ended 2022, the total revenue has been INR 2055 Cr for products out of which INR 1800 Cr is by optical fiber cable and balance is by different products.

Abhijit Mitra: Balances by different products which include which engineering products?



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- Mahendra Nahata:** Access products, Accessories and all those kinds.
- Abhijit Mitra:** This does not include any defence products as of yet?
- Mahendra Nahata:** Not at all. As I explained in the beginning itself I have not taken any sales of different products even in the current year also in our AOP. We are all targeting for the next year because the testing and all that is going on for example I tell you one example electronic fuzes right now the testing is going on in Balasore and Itarsi, now this is not full fledged live testing, live firing it is live firing with a low charge, after this is done, next year, the testing will open in Pokhran and Sikkim in high altitude, in cold and very hot condition then only tender will be opened up and evaluating order will be placed so defence Abhijit takes long long time so we expect defence product revenue to come from next year only neither there was any revenue in the current year. I am talking defence electronics, defence communication definitely we are rolling out the large defence network, but defence electronics any revenue would come from next year only.
- Abhijit Mitra:** Just to highlight here the telecom products revenue for the full year was around INR 2100 Cr out of which fiber optic is INR 1800 Cr and the rest is access products and this INR 1700 Cr should involve how much million kilometer of fiber as in fiber optic cable?
- Mahendra Nahata:** Well enough fiber number of kilometers, I do not have that data at the moment how many fiber kilometers while we are in the call I will try to get you the data because I can let you know.
- Abhijit Mitra:** No worries. In terms of access product revenue the INR 300 Cr of revenue that we have seen in FY2022 how is that expected to grow as for you?
- Mahendra Nahata:** Look you know, this product revenue has fiber optic cable and other things which include accessories and access products and all that. Current year we are looking at starting export of these products also. Till now we have not exported so I think revenue from these non-fiber optic cable products should be around INR 250 to 450 Cr in current year including exports.
- Abhijit Mitra:** INR450 Cr including exports in FY2023 that is the expected numbers what I could get?
- Mahendra Nahata:** Yes.
- Abhijit Mitra:** Okay, got it. My next question is regarding the state subsidy that we can see sitting in the other income almost to the extent of INR 15 to INR 16 Cr the subsidy under state incentive



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scheme if you can sort of break it up anywhere exactly is it coming from and how much can it increase over the course of next couple of years or what is it linked to so if you can sort of just lay it out for us?

V.R. Jain: This INR 15 Cr included in other income is towards interest subsidy. The interest from the day this plant commenced the production in January 2020 till March 2022 so per quarter it is coming around INR 2.4 Cr something like that so as it were related to earlier period and this approval came in March only so it has been shown and clubbed as the other income. Now henceforth, the interest will be lower by INR 2 Cr each quarter henceforth and then there is a capital subsidy also INR 30 Cr, so our block of the fiber unit will be reduced to that extent and there will be lower depreciation going forward.

Abhijit Mitra: Okay, so this benefits are there for the new capex also?

Mahendra Nahata: Yes this will be there for, you are asking about the current year's capex?

Abhijit Mitra: Yes I think 425 or whatever you are spending?

V.R. Jain: There have been some other set of incentives which we will come to know as we progress.

Abhijit Mitra: Okay and it could be spread across locations where you are expanding right it is not linked to one location?

Mahendra Nahata: There will be a lot of incentives and spread all across locations absolutely.

Abhijit Mitra: Okay but the formula and all, is not yet known that we will come to know...

Mahendra Nahata: It will probably in next couple of months.

Abhijit Mitra: Next couple of months. Got it and my last question is on defence you have shown a market opportunity of almost \$3.5 billion that is the total addressable market. Now out of this \$3.5 billion how much do you expect to capture and what is the timeframe and which are the products where you are most optimistic about?

Mahendra Nahata: Current year we are not looking at any revenue from this defence product. Future of course we are quite bullish. Market opportunities future electro-optics which is night vision, massive market opportunities we are looking at that, one. Two, we have also participated in a couple of other market opportunities which are defence related and I would not like to talk too much about all those things because they are sometimes defence is not very happy about



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talking in public, but for example I can give you which is open upgradation of our armoured personal carrier BMP2 there also we have participated in that opportunity that is also very large opportunity upgradation of more than 600 vehicles of their night vision devices and control systems and all that is electronic, we have participated so such kind of opportunities are there. We are working on which is related to our area of work, night vision devices or fuses and all those kind of things, so from next year onwards we believe that we would be able to start getting revenue from defence equipment also and I expect next year something like INR 500 Cr to INR 700 Cr range revenue we should be able to get from defence electronic products, communication apart defence electronics INR 500 Cr to INR 700 Cr next year and then it will increase very substantially once we are in then we will start supplying.

Abhijit Mitra:

FY2024 you mean right? Got it this is very helpful.

Mahendra Nahata:

Yes. I will tell you one thing. Opportunities in defence now are becoming as good as communication equipment opportunities. It always takes time, sometime is taken in defence so the testing itself is huge; it involves a huge timeframe because defence has to go through those kind of tests and all that. I will give you another thing what we are doing, fiber optic cable, a defence requires tactical cable which is they need to lay on the ground in case of a war and all that they keep on laying on the ground and keep on rolling it up and then taking it somewhere else and it is so strong that even a tank rolls over that it still does not break so we are now starting to manufacture that cable also, so those would be of course not defence equipment as such but yes it is defence, it will be required by defence only.

Abhijit Mitra:

I forgot to ask regarding the fiber optic cable revenue which was INR 1800 Cr this year how do you expect it to grow over the next couple of years sorry that was my last question?

Mahendra Nahata:

I expect in the current year we should be able to reach to about near about INR 2200 Cr and next to that our estimation is somewhere between INR 2600 Cr and INR 2800 Cr.

Abhijit Mitra:

That is all from my side. I will come back in the queue. Thanks.

Mahendra Nahata:

Thank you.

Moderator:

Thank you. The next question is from the line of Shivam Vashi from Inga Ventures. Please go ahead.



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- Shivam Vashi:** Thank you for taking my up my question. Sir, just one question on the debt side, I heard during the call we are doing a capex of around INR 500 Cr during the year correct Sir, so how are we going to fund that?
- Mahendra Nahata:** Look two things one, we have raised equity, so out of the funding will be through equity and part would be debt, and also internal accruals.
- Shivam Vashi:** Any debt equity ratio that we have planned out?
- V.R. Jain:** It will remain below 0.5.
- Shivam Vashi:** Okay and this capex will be largely towards our 5G hardware related products or is there any?
- Mahendra Nahata:** Capex largely is one expansion of optical fiber capacity, two optical fiber cable capacity, three R&D expenses on design development of products, the capex related to that so these are the three major heads of capex.
- Shivam Vashi:** Okay, thank you Sir. That helps. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.
- Mahendra Nahata:** Thank you very much to all of you for attending this conference call of HFCL and as I said we continue on our path of growth three mantras we had given, new products, new customers, new geographies and we are very well working towards that. Second thing we have told that we will continue to increase our revenue from products in terms of percentage we have improved significantly 27% last year to 43% we will keep on growing on that path. Third we have said that we are going to increase our exports, so which as we have seen that we have increased our exports from INR 125 Cr to INR 361 Cr and we expect to do it more than double in the current financial year. So we also said that we will be designing new products aggressively, we are continuing on that path, we are designing new radio products like 5G radio products, Wi-Fi, unlicensed band radios we are designing new transport products, routers, switches we are designing new kind of fiber optic cables which is predominantly required in the export market. So all put together we are proceeding on the path which we had charted out for ourselves as a strategy and we are very well progressing as a Company on that strategy. So gentlemen I expect exciting future for us with the growth in the market which is happening with 5G, BharatNet, exports and the opportunities which we are creating for ourselves keeping in view what is happening in the market, going



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parallel to that and then the defence products which is our diversification we have taken, growth opportunities in that arena because of Government of India's insistence on Make In India we see great opportunities there also. All put together I am sure we are there for an exciting future. Thank you gentlemen, ladies for being on the call. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen that concludes this conference call. Thank you for joining us and you may now disconnect your lines.