HFCL GROUP

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

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

Subject: Transcript of Conference Call on the Un-audited Financial Results of the Company for the 3rd Quarter and Nine Months ended December 31, 2023, of the Financial Year 2023-24.

Dear Sir(s)/ Madam,

This is further to our earlier announcement dated January 22, 2024.

In terms of Regulation 30 read with Para A of Part A of Schedule III to the SEBI Listing Regulations, we hereby submit Transcript of the Conference Call held on February 02, 2024, on the Un-audited Financial Results of the Company for the 3rd Quarter and Nine Months ended on December 31, 2023, of the Financial Year 2023-24, which were considered and approved by the Board of Directors of the Company, at its meeting held on February 01, 2024.

This aforesaid Transcript will also be available on the Company's website at https://www.hfcl.com/.

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

Thanking you.

Yours faithfully,
For **HFCL Limited**

MANOJ BAID
Digitally signed by MANOJ BAID
Date: 2024.02.09 16:07:16 +05'30'

(Manoj Baid)
President & Company Secretary

Encl: Copy of Transcript.

"HFCL Limited
Q3 FY'24 Earnings Call"
February 02, 2024

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

MODERATOR: **MR. MOHIT KUMAR – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '24 results conference call of HFCL Limited hosted by ICICI Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit. Please, over to you, sir.

Mohit Kumar: Yes. Hi. Good afternoon, and thank you, everyone, for joining us for this call. In this call, we have Mr. Nahata, Promoter and Managing Director of the Company; Mr. V.R Jain, CFO; Mr. Manoj Baid, Company Secretary; and Mr. Amit Agarwal, Head, Investor Relations. So without further delay, I would now hand over the call to Mr. Nahata for the opening remarks and then we will open the floor for Q&A. Thanks, and over to you, sir.

Mahendra Nahata: Technical glitch at the end of the conference agency has caused this delay. I'm really sorry for that.

Good afternoon Ladies and Gentlemen and welcome to HFCL's earnings call for the third quarter and nine months ended December 31, 2023 of FY24.

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

To begin with, I would like to express immense satisfaction in witnessing the resilience of the Indian economy. The India growth story remains intact despite a subdued global growth outlook. Global economy is set for weakest half-decade performance in 30 years, said the World Bank in a recent report and warned that global growth in 2024 is set to slow for a third year in a row. Amidst this, India growth story is promising and the World Bank sees India retaining the fastest-growing major economy title. It forecasts a growth rate of 6.4% in FY25 accelerating to 6.5% in FY26.

India has witnessed an extraordinary decade making significant progress on innovation lead by technological advancement. India's telecom market is now the second largest in the world. Our telecom industry is currently valued at USD 48.61 billion and is expected to reach USD 76.16 billion by 2029, growing at a CAGR of 9.40% during the forecast period of 2024-2029.

India's Digital Public Infrastructure is testimony to its technological progress and we are well poised to become a global leader in Information and Communication technology (ICT) and becoming a global digital powerhouse.

The ongoing digital revolution and investments in building a robust 5G network make us optimistic about the significant upswing in the demand for fiberization, both in India and globally. This heightened demand is further fueled by an increased governmental focus on fiberization including BharatNet project, the expansion of Fiber to the Home networks, the proliferation of data centers, widespread adoption of cloud computing, the rise of Internet of Things, investments in 5G capex and the continuous improvement of telecom infrastructure in key global markets, i.e., India, the United States, the United Kingdom, France, Germany, Middle East and other nations.

From being an 'importer of telecom technology', India has taken a significant leap in developing technologies indigenously. KPMG estimates that three technologies, 5G/6G, Satellite

Communication and Semiconductors, collectively will add $240 billion to the Indian economy in the next five years and add 1.6% to India's GDP by FY28

Government initiatives like BharatNet, implementation of FTTH, PLI scheme and growing demand for high-speed 5G connectivity will further foster indigenous manufacturing as a result of which India is fast becoming an attractive global investment and manufacturing destination.

As our Company aggressively moves towards a product-centric approach, we embark on a transformative journey aimed at amplifying our global footprint and solidifying our position as an industry leader. With a strategic shift away from project-centric endeavors, we are proud to unveil an array of innovative telecom products tailored to meet the diverse needs of both domestic and international markets. This strategic evolution underscores our unwavering commitment to product excellence and customer satisfaction, indicating a new era of sustainable growth and expansion. By harnessing cutting-edge technology and leveraging our deep-rooted industry expertise, we are poised to captivate global audiences with solutions that transcend geographical boundaries and redefine the benchmarks of excellence. Embracing an export-focused strategy, we are primed to unlock untapped opportunities, forge strategic partnerships and establish a formidable presence in key markets worldwide.

Fuelled by sharp focus on Innovation, HFCL unveiled a comprehensive suite of next-gen connectivity and 5G backhauling products like Fixed Wireless Access Equipment, MPLS Routers, Point to Point Unlicensed Band Radio and Unified Cloud Network Management System during the India Mobile Congress 2023 for both, India and international markets. We also launched 1728 high Fiber Intermittently Bonded Ribbon Cable, promising high-speed data transmission, expansion of FTTH connectivity and addressing the demands of hyper-scale data centers at India Mobile Congress. As per ANAROCK-Binswanger, 45 new data centres covering 13 million sq. ft are expected to come up in India by the end of 2025. HFCL is well positioned to capture the growing impetus from data centres with the launch of its 1728 high-fiber IBR Cable.

Besides launching the above telecom and communication products in Q3, HFCL is poised to transform its impact in the defence sector as well, HFCL through its 90% owned subsidiary, Raddef Private Limited, a R&D enterprise specialising in cutting edge radars and RF solutions, has designed a range of Surveillance Radars catered to meet diverse operational needs. These radars employ Frequency Modulated Continuous Wave technology offering numerous advantages over other radar technologies, including high accuracy, low power consumption, light weight and resistance to interference. HFCL is also actively engaged in the development of a state-of-the-art Drone Detection Radar, poised to be an important component of modern drone detection systems. HFCL's ongoing cutting-edge research and development initiatives extend to a diverse range of radar technologies. These include Doppler Weather Radars, Threat Emulators, LTE-based Passive Radars, Fog and Foliage Penetration Radars, Coastal Surveillance Radars, Avalanche Detection Radars, Altimeters, and more.

HFCL received an Advance Purchase Order aggregating to INR 1,127 Crores to transform the Optical Transport Network infrastructure across BSNL's Pan India network. Within the dynamic landscape of India's technological evolution, HFCL stands unequivocally at the forefront of innovation and progress. The order aimed at revolutionizing BSNL's Optical Transport Network is a testament to our unwavering commitment to advancing the nation's technological prowess. Our comprehensive network upgrade will not only address the heightened demands of Enterprise and FTTH/Broadband services but strategically positions BSNL for the seamless launch of 4G services and the anticipation of 5G services.

Another significant achievement is the receipt of INR 623 Crore order during the current quarter from a leading Telecom Service Provider for 5G Telecom Networking Equipment. This is first such large order for 5G networking equipment placed on any Indian company by any telecom service provider. This strategic win is a testament to HFCL's vision of designing and manufacturing high technology telecom equipment in India. The newly secured purchase order underscores HFCL's commitment to providing cutting-edge solutions tailored to the unique needs of the telecom landscape. Moreover, with enormous export market potential, these indigenously developed products are in line with the country's "Make in India for a Global Stage" vision. HFCL with its strategy is rightly positioned to not only bolster revenue but also enhance profitability leading to increased returns for the shareholders.

In recognition of our superior quality products, HFCL secured product orders exceeding INR 1700 crores from its customers in the last few months. With these new orders, the current order book of the Company as on 31st December, 2023 stands at INR 7678 crore.

HTL Limited, a subsidiary of the Company has secured an order from a Defense PSU for the supply of Fiber Optic Expanded Beam Plug Cable Assembly. This assembly is utilized in the 3D Central Acquisition Radar, a medium-range, high-resolution surveillance radar designed to detect and simultaneously track multiple targets in hostile environments.

HTL has already established itself as a Go-To wiring harness supplier for a leading OEM, which is the largest supplier of logistics vehicles to the Indian Army. HTL's Wire Harnesses is all set to be deployed in the popular high mobility and specialized truck vehicles of the OEM that cater to the diverse needs of personnel and logistics across the armed forces.

HTL also secured an order from one of India's leading vehicle manufacturers for wire harnesses. This order encompasses 1282 BS VI diesel buses intended for a significant state transport corporation.

Our Hyderabad Optical Fiber Plant clinched the "Silver Certificate of Merit" for manufacturing excellence in Frost & Sullivan's India Manufacturing Excellence Awards 2023, alongside the "Certificate of Appreciation for Good Practices in Digital Systems" at the 2nd FICCI Industry 4.0 Award Ceremony.

The Automotive team at HTL won the 'Gold Award' at Quality Circle Forum of India in the 9th Convention on Quality Concepts held recently.

Our recent order wins are clearly a testament that our strategy of moving from projects to margin accretive products, launching new products, reaching out to new customers and new geographies is paying off well and will bolster our position even further in 2024.

The expansion of Optic Fiber manufacturing capacities is progressing well and shall be operational as planned. In addition, the Company is also in process of expanding its optical fiber cable production capacity from 25mn fkm to 35mn fkm. This expansion will also lead to significant increase in revenue and profitability. The capacity will be added in a phased manner, with the completion targeted by FY 24-25.

Let me now brief you on the key performance metrics of Q3FY24.

- Revenue for Q3FY24 stood at INR 1032.31 Crores as compared to INR 1111.49 Crores in Q2FY24 and INR 1085.84 crores in Q3FY23
- EBITDA for the quarter stood at INR 163.45 Crores as compared to INR 149.77 Crores in Q2FY24 and INR 193.33 Crores in Q3FY23; EBITDA margin stands at 15.83% for Q3FY24 as compared to 13.47% for Q2FY24 and it stood at 17.80% in Q3FY23
- Profit after tax for Q3FY24 stands at INR 82.43 Crores as compared to INR 70.17 Crores of Q2FY24 and INR 101.62 Crores in Q3FY23; PAT margin stands at 7.99% in Q3FY24 as compared to 6.31% in Q2FY24 and 9.36% in Q3FY23
- Segment revenue for telecom products during the quarter stood at INR 363.83 Crores (35.24% of Q3FY24 revenue) as compared to INR 473.81 Crores (42.63% of Q2FY24 revenue)

During this quarter, our product revenue declined QoQ and YoY, due to the continued softening in demand of Optical Fiber Cable. This temporary decline is in line with the worldwide trend seen in the last quarter and it can be attributed to inventory build-up with major operators, resulting in an overall reduction in revenue in absolute terms as well as lower sales realisation per kilometre of fiber. The revenue of all major manufacturer of Optical Fiber Cable has declined worldwide.

We are optimistic that demand will be restored from next quarter onwards in both India and key global markets. Furthermore, we are confident that our continued efforts in designing and developing innovative and robust optical fibre cables for international markets, along with the introduction of new 5G telecom networking equipment, will further yield results in coming quarters. These efforts are expected to provide impetus to both revenue growth and profitability along with the potential to increase our margins.

To conclude, 2024 is poised to be transformative year for HFCL. We can confidently affirm that our strategic focus on new products, global expansion, focus on building both capacities and capabilities, backward and horizontal integration has begun to yield positive results. Our commitment to strengthening market share and technology leadership position remains steadfast as we continue to invest in innovation for both cost and performance benefits.

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

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

Moderator: The first question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: My first question regarding 5G capex side. One of the Indian telco talked about the 5G capex is peaked out in this year. On the global level also, 5G capex are coming down. Like what's your view on overall demand environment on 5G? This is my first question.

Mahendra Nahata: So let me answer the first question. Yes. Thanks, Mr. Balasubramanian. 5G, when you said capex has peaked out, it has to be seen with respect to the application. 5G networks will again start growing. Its the initial stage, the 5G networks have been put on. Now the 5G network will grow as new applications coming in.

But we find that one of the new applications that has come is a fixed wireless access is to the mobility. So we started increasing in the capex in that area. So as the applications for 5G grow related to IoT and other areas, medical, education, industry 4.0, you will find that 5G networks will again get expanded.

Expansion will again take place. So mobility is not the only thing, which will drive 5G growth, it will be the applications, which will drive the 5G growth. So you find the new applications coming, the growth pattern is restarting in the 5G. It's a temporary decrease, not kind of a decrease on a permanent basis. Once the application is coming, it will start increasing again.

Balasubramanian: Okay, sir. Sir, as per our channel checks indicated, like still the majority of the inventories are with global telcos and distributor levels. Like are we getting repetitive orders and new orders from the telcos levels? And what's your view on this inventory issue like when the things are expected to shut out?

Mahendra Nahata: I think you are talking about fiber optic cable, but you did not mention, we understand that possibly, you are talking about fiber optic cable.

Balasubramanian: Yes, sir.

Mahendra Nahata: It is true. But there has been an inventory built up with the telcos as well as distributors. As a result of which you will find sale of fiber optic cable has slowed down, which I said in my opening remarks also, not only us but worldwide. What had happened a year ago in U.S. market, for example, delivery of fiber optic cable becomes 7 to 10 months.

As a result of which, telcos around the world and there was a situation in many other places, telcos around the world had bought lot of cable anticipating that demand would be so high that cable availability would be low.

So they have lot of stock so is the situation with distributors. But as it happened, Chinese demand was less than what was expected. And as a result of which, there was inventory build up in China, which was going into the market worldwide.

So that, including then inventory accumulated with the operators, let to the –temporary lull in the demand. So we expect U.S. market is started looking up again. European market, we believe will start looking up again in the next 1 or 2 quarters. U.S. market, particularly with the government funding, which has been done to access the inaccessible areas of fiber is going to pick up very significantly in the next couple of quarters.

So you're right, this inventory build up, there is lull in the demand and that you will find in our results also that fiber optic cable sales has gone down drastically in the current quarter and in the last quarter also. But this is all expected to again come back to the normal levels in the next couple of quarters.

Balasubramanian: Got it, sir. Sir, right now, we are in the progress of new products on 5G. Like right now, you mentioned about the new applications are coming up. Like when the benefits are expected to realize on this new product side?

Mahendra Nahata: Look, we have already started realizing those benefits. As I said, again, in my opening remarks that an order of INR623 crores has been received for 5G networking product by HFCL. Now Let me tell you, which I said in my opening remarks also that we are the first Indian Company to receive such a large order for 5G equipment for indigenously designed product, first Indian Company to receive such a large order for indigenously designed 5G products.

Nobody else has done so. So this speaks itself of our initiative, which we took to design equipment in India keeping in view of our Make in India initiative of the Government. And today, we are able to receive 5G orders in large quantity. And not only this, we will be exporting these products to different countries also as we are doing in fiber optic cable.

So we have done 5G fixed wireless access equipment, other networking equipment, routers for example, which are used in 4G and 5G both. But specifically, the routers which we have designed are going to be used in large quantity in Bharat Net, which government has already announced and draft RFP has been frozen for industry consolidation, and we expect the final tender would come out in next 2 to 3 weeks' time, which would also see a large demand of fiber optic cables as well as routers.

There is a demand of about 6 lakhs kilometers of cable, fiber optic cable, equivalent to about 20 million fiber kilometer equivalent cable and about 160,000 of routers. All these are very large opportunities for HFCL because if these are indigenously designed products and more cost competitive.

So not only in India, but we are able to export these products also in the coming financial year. So benefit of these products which we have designed has started accruing and number of large orders are further expected for these indigenously designed products. And I'm sure that export also would be a good market opportunity for HFCL.

Balasubramanian: Got it, sir. Sir, my last question is regarding on the telecom product side. So in the last 2 quarters, we have reported single-digit margins. I just want to understand like the lower performance because of volume driven or price realization driven. And I just want to understand about the OF and OFC side realization in this quarter.

Mahendra Nahata: Basically a decrease in margin has been the lower sales for optical fiber cable because lower sale of optical fiber cable has resulted in higher cost because the fixed costs are still remaining same. So it has been driven down by the lower sale of optical fiber cable. And these sales pick up, the margin will pick up once again. And, moreover, for the new products which we're building, 5G products and all that, their margin is reasonably good and it is expected to remain reasonably good.

Balasubramanian: Okay, sir. So on the realization side, sir, OF and OFC side, like what are the current realization in Q3? How much it changed compared to last quarter?

Mahendra Nahata: Realization in fiber optic cable, if you look at fiber, the realization are, roughly, I would say, has come down by some percentages, it has come down. Practically, if you see that per fiber kilometer realization has come down roughly almost about 20%. What used to be in Q2 about INR1,200 per fiber kilometers has come down to about INR1,000-some per kilometer. So about 15% to 20% decrease in the realization per kilometer is there. But that kind of some decline is there in the raw material cost also, particularly in case of fiber.

Balasubramanian: Got it, sir. On the OF side, sir, optical fiber side?

Mahendra Nahata: Optical fiber, again, as I said, the prices have come down. What used to be the prices of something like INR350 to INR380 per kilometer has come down to something like INR250 to INR260 per kilometer.

Balasubramanian: Got it sir. Should I ask one more question sir or

Mahendra Nahata: I think you should give chance to others

Balasubramanian: Ya fine sir.

Moderator: The next question is from the line of Santosh Sinha from Emkay Global. Please go ahead.

Santosh Sinha: My question is regarding the Bharat Net -III. Now government has actually, the cabinet has approved around INR1.3 -- 1.5 trillion for Bharat Ne-IIIt project. So are there opportunities for HFCL in areas other than optical fiber and optical fiber cable? Is -- are there other products that HFCL can supply? And what can be the overall opportunity size for this -- and what are the margins that we can expect from BharatNet IIIprojects? And yes, I will ask later the other question.

Mahendra Nahata: Mr. Sinha, thanks a lot for your good question. BharatNet is a large opportunity for everybody, all telecom companies involved. It's about INR1.4 lakh crores, out of which, but let me be clear, out of which roughly about INR40,000 crores to INR50,000 crores would be capex rest would be opex, which would incur over 10 years. So it is going to a turnkey contract whoever wins. There are 16 different tenders they have carved out. It will be 16 different tenders. And maximum 4 would be given to 1 company, not more than that. And it is divided into capex as well as opex as I just mentioned.

Companies like HFCL, where are the opportunities? One, I first said we limited ourselves to capex. One, if we do EPC projects as we've been doing, still now, the payment conditions are not 100% clear because the current payment conditions are a little bit onerous on the vendors in a sense that part of the payment will be received much later with overall project execution.

So all the vendors have represented that the payment condition need to be improved. So whatever draft tender has come that is undergoing some changes, and we would see the final tender coming up in the next 2 to 3 weeks' time. There's no other payment situation then.

Imagining that payment situation will improve, which I'm pretty confident of, I think the opportunity may be we don't want to go for a very large scale opportunity for EPC projects. But yes, there are EPC opportunities because we are trying to transform our company into product company from an EPC company, from an EPC more of EPC driven projects , we are making our company not only trying in real sense, we've done so, to a product-led company.

So one opportunity is there in the EPC business, Second opportunity is there if we win in the EPC business, and there is a continuous revenue on every year basis for O&M, operational and maintenance, there will be an annuity revenue coming up for 10 years.

Now but the good opportunity in the equipment side also and the fiber optic cable side. As I said, there is a demand of 6 lakh kilometer of fiber optic cable in this tender for 3 years. This implementation period is 3 years. So every year, there is requirement of about 2 lakh kilometer of fiber optic cable. So that's a good opportunity for us.

Number two, then there is opportunity for selling fiber also because, let us say, somebody else wins a fiber optic cable from some other EPC players, and if he need fiber because there are not many people who manufacture fiber in India, we'll supply the fiber.

The routers. Routers is a significant part of the equipment, a significant part of equipment. One of the, I feel, most significant part of the equipment required and routers are required about 160,000 plus in the quantity. Let me tell you we have designed our own router. We are now one of the 2 companies who have got indigenously designed routers required by Bharat Net, indigenously designed routers, only one of the 2 companies, we and Tejas which is Tata-owned company, they have routers and we have routers.

So I think we enjoy a significant cost advantage over our multinational friends on account of our local production as a result of which we should be able to have a good opportunity for selling routers also.

So fiber, fiber optic cable, routers, some of the other optical equipment, we have a good opportunity coming up in front of us. And I think Bharat Net should be a very significant opportunity, not only for HFCL, but all indigenous vendors who manufacture in India.

HFCL has a very significant footprint with its fiber, fiber optic cable, routers, other optical equipment. And then if you go to the next phase of Bharat Net, which is going to be implemented not by government, but which is going to be implemented by private enterprises for giving connectivity to the houses. The government is taking the network to the panchayat building or whatever.

From there on, it would be the private enterprises, which will be giving connectivity. They may be using WiFi, they may be using optical ONTs. Again, those are the areas where HFCL is present. And those will also present significant market opportunity to HFCL.

Santosh Sinha: Thank you Sir for detailed answer. My last question is regarding the PLI benefit. So how much of the product of HFCL is actually eligible for PLI benefit? Is it only the optical fiber and cable or the other products also? And when is the first year from which this actually a PLI benefit will start coming from?

Mahendra Nahata: PLI benefit is not available on fiber optic cable. It is available on telecom equipment, and we will start receiving this from this coming financial year '24.

Moderator: The next question is from the line of Pranay Gandhi from Green Portfolio. Please go ahead.

Pranay Gandhi: Sir can you hear me? So firstly, I would like to express my gratitude to the management, including you, Mr. Jain and Mr. Agarwal, for accommodating our request to connect with the management on a one-on-one basis in the last con call. The proactive outreach from Mr. Amit after the last conference call reflects positively on the management, and it has really helped us understand the company prospects in a better way. So thank you so much. Now turning to my questions, I would appreciate if you could provide more details on the recent order from 5G telecom equipment secured from domestic telecom operator.

Could you elaborate on the nature of the products that the company will be supplying? And considering the fact that the INR600 crore order is already on hand, are there any upward revision to the projected revenue of INR1,000 crores from this segment in FY '25?

Mahendra Nahata: Look you know equipment is 5G networking equipment for subscriber access. So wireless equipment for subscriber access. So that's the equipment because there are certain nondisclosure agreements, so I cannot go in more detail, but it is a subscriber access equipment on wireless for broadband on 5G. And this is INR623 crores order, which has to be supplied within the next financial year or as soon as possible, if you can do it early. If we do it early, we can certainly expect more orders from our customers.

And then this is the demand from one customer. But we would be going ahead to sell this to other customers also in India and abroad booth because this equipment has a very significant demand opportunities worldwide because fixed wireless access and a broadband access has come up by a significant use case for 5G networks. So we can definitely look forward for more revenue from this equipment in the next financial year.

Now coming to INR1,000 crores or so, whatever numbers you're using, I think indigenously developed equipment, we should be able to do quite more than INR1,000 crores, which we might have projected earlier, it should be quite more than that because we are expecting more orders of reasonable size in coming weeks. We are expecting more orders including from BSNL, including from private operators. So I expect, I have no doubt that it would be significantly more than INR1,000 crores.

Pranay Gandhi: Okay. And so these orders would be for telecom equipment itself and not for the projects, right?

Mahendra Nahata: Well, this will be telecom equipment itself. I'm not talking about projects. Project is different. This is a telecom equipment itself because why I'm saying so. One, order with INR623 crores is already there. Some large orders are in pipeline, which I should be able to receive very, very soon, very, very soon. Then, as I said a little while ago, BharatNet is coming up. BharatNet has got huge demand for routers, which are, again, we have and we have indigenously designed them, which is a very major thing. We are only 1 of the 2 companies who have designed routers in India. We and the other is the Tata TCS Company Tejas, there is nobody else. All others are international multinational companies. So there is significant demand opportunity there.

Then we have a significant demand opportunity for unlicensed band radio which are being used for enterprise connectivity, but not only that, but backhaul of the traffic of the 4G network. So that is also a good demand opportunity. In fact, BSNL came out with a large tender for that about INR200 crores for 5G, this backhaul for the unlicensed band radio.

And we have been L1 in that. So we expect that we should receive order for that also. So these are all equipment orders, which I'm talking about, and which am saying that we should definitely cross INR1,000 crores without iota of doubt.

Pranay Gandhi: Perfect, sir. Sir, just an add on to this, I believe, previously, you had mentioned that regarding the UBR equipment, you had received a very strong feedback from one of the international companies. So is there any progress? I mean in terms of it getting converted to orders?

Mahendra Nahata: No, we are talking to quite a few companies.. I would not name them, but we are talking to quite a few companies internationally and locally also. Locally, we have deployed a huge quantity of this UBR we have been lowest in a large tender of BSNL also. And likewise, we are talking to a number of international companies also where I believe we will be receiving reasonably sized orders sometime in near future.

Pranay Gandhi: Perfect, sir. Sir, my second question pertains to the defense side of the business. Previously, you had mentioned electro optics that we had participated in one tender, and there was an upcoming tender. So if you could give a brief on that, and same goes by ammunition fuses, I believe the company had approached Indian Army for trials. Any update on that? And lastly, the SDR, which was still under development and was scheduled to be completed by mid of this year. So if you could just shed some light on all these 3 aspects.

Mahendra Nahata: I will go through all the defense products, which we are doing. Some are under development, some are being tried in army. Coming to one of the projects, which is recently we have participated is upgradation of BMP-2 armored fighting vehicle where fire control system and optical sites are to be upgraded. We have successfully gone through UTRR, which User Trial Readiness Review which is usual trial readiness, something like that, they call it. And now we wait for the RFP to come where we will be participating.

On SDR, which is already under development, as I told you. On the other hand, the radars, which is a recent development where we have already gone through development cycle of some of the radars and others are under development. So we expect this year to receive reasonably good quantum of orders for the radars also. On the fuse side , we have not been lucky so far. We have been asked for a retrial by Indian Army, which, I think, expected to happen in next 2 to 3 months' time.

After we go through those trials, then would be the question of orders will come. So until now, we have no orders received for fuses, but yes, this is a consumable item, this is a consumable item and there is continuous demand for fuses. So I'm sure that once we pass through these trials in next 2 months' time, there should be demand coming up for fuses also.

So again, since all the defense orders take a lot of time, we have not included in our projections even for FY 24-25 any orders from the defense. When we do AOP, they have not been included but we expect still products like radars, products like electro optic sites should give us some revenue during FY 24-25 as well.

On the optical side, yes, we have some products under development. One of the tenders we participated there has been a little bit unlucky, unreasonably unlucky. We could not get that order. But yes, nevertheless, our site has proven very successful. So we should be able to get more orders in future. So as I said, this year, we have not included in our projections any orders from defense but we are very bullish about it, particularly this BMP-2 upgradation, then for this electro optics products then radars, we are quite bullish about that, that they should fetch us good results in the next financial year. But yes, results will start coming in FY24-25 also.

Pranay Gandhi: Ok Perfect sir. Thank you so much for the opportunity and all the best for future.

Moderator: Thank you. The next question is from the line of Path Mehta from M Capital. Pl go ahead.

Path Mehta: Good afternoon, Sir, my first question was, what is the new products on the 5G plant that we are developing at Raddef? The R&D expenses, are they deducted on the P&L? Or how do we capitalize them?

Mahendra Nahata: No, Raddef, we are not doing any 5G product. Through Raddef, we are developing radars. There is no 5G products in Raddef. So nothing has been developed as a 5G product in Raddef.

Path Mehta: Okay. So whatever R&D expenditure we incur at Raddef for radar...

Mahendra Nahata: Please repeat it, I could not follow you.

Path Mehta: Any of the 5G R&D that we do an indigenous products that we develop, is that being capitalized on the P&L?

Mahendra Nahata: Yes. Yes. It is being capitalized and they are being amortized over a period of time.

Path Mehta: Okay. Sir, my second question is whatever products that we have developed, do we need approvals for these 5G products even if we are exporting globally, will we need a blanket approval or we will need an approval from each country for making it to the P&L?

Mahendra Nahata: Well, look, any operator, which buys any telecom products goes through its own approval cycle. There are some countries where there are agencies, which approve the products omnibus basis for all the operators.

But most of the places, operators have their own testing facilities and they go through their own approval cycle, whether the product suites to their requirement or not. So there is no such global approval that is you get it approved from one source then it is approved for everybody, it doesn't happen that way.

It is more of a individual operator, like India for example. BSNL has got its own approval TEC. Jio has got its own approval, their own lab is there where they put the product, so is Airtel, so is Voda, so is Idea, So every operator goes through its approval cycle where it includes lab testing as well as field trials, which is very normal.

Path Mehta: Okay. So do we think that will happen in this financial year, and we'll see some contribution from those 5G products in the financial year 24-25?

Mahendra Nahata: So yes, this INR623 crores order has been received after approval...

Path Mehta: More on that, we are looking to see in the next...

Mahendra Nahata: We are looking for more such orders. There are, I think, 2, 3 places where trials are already going now.

Path Mehta: So they are domestic or they are export orders?

Mahendra Nahata: No. No, this INR623 crores is the domestic, others I'm talking about are domestic as well as international.

Path Mehta: Sir, my last question is on the front of contribution from projects and contribution from products, the line has been we have been going more on the product, 70-30 was the contribution that we were looking at. But if you look at contribution for this quarter, it has been tweaked on the other way. So more from the project side and less on the product side, apart from the fall in prices of OFC, what has gone wrong for the product side?

Mahendra Nahata: No, there's nothing gone wrong. It is because of the lower sales of OFC. As I said, optical fiber cable sale has gone down significantly in the last quarter and the current quarter as a result of which, product-led revenue has gone down. If you look at same quarter last year, it was INR693 crores; in the current quarter, it is INR364 crores. So with this kind of a numbers. What -- just let me correct this number. So it may be wrong, just hold on a second.

Yes, this is more or less the same question, there would be some small difference will be there. But more or less, OFC sales, yes, I've given on the right numbers. Last quarter, it was -- December quarter of the last financial year, it was INR625 crores. This year, it has been INR295 crores. It is less than half. So this is what is getting reflected in this ratio, which was changed.

And as I said, the ratio will further improve again as the demand of optical fiber cable improves and also with this large orders we have received for products this current quarter, which is about INR1,800 crores. This will also improve the ratio of products into the overall revenue because INR1,800 crores orders for products is a very significant number.

And also the fiber optic cable demand is expected to improve. So our overall strategy for becoming a product-led company is very, very successful, very, very successful. There is -- we can't compare it, take it on a quarter-to-quarter basis because quarter-to-quarter ups and downs may happen.

On a overall basis, we are going very smoothly on that strategy. If you just exclude the optical fiber cable for temporary lull in the demand, you've seen that this quarter we've received orders worth INR1,800 crores for the products alone, INR1,800 crores for the products, which is a very, very significant thing, which includes INR623 crores and a little bit more other products we have received orders in the quarter for indigenously designed products. So our strategy is very successful, and I'm pretty sure that with this strategy, Company's return ratios will improve significantly in coming future.

Path Mehta: Sir, are we doing any capex for these products, new products to be developed last time, I think we have said that we are doing a little out of INR100 crores, we are doing capex for developing these products.

Mahendra Nahata: Yes. There are 2 kind of capex. One is R&D. One is setting up of the facility for manufacture of products. So we are doing both. R&D is happening, which would be a continuous process in the company. And also there would be expense of about INR80 crores to INR100 crores on setting up the facility for manufacturing of the products. So asto we can start taking benefit of PLI from the next financial year.

Parth Mehta: And this will be for all the products put together and we don't need to go for another Capex.

Mahendra Nahata: You are right absolutely

Path Mehta: Okay. So it is across products.

Mahendra Nahata: Yes, yes.

Path Mehta: Okay. And I expect OFC cycle to improve a couple of quarters from now.

Mahendra Nahata: Absolutely.

Moderator: Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all participants in the conference please limit your questions to one or two per participant. Should you have follow up questions, we would request you to re-join the que.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Thank you Nahataji and thank you for this opportunity. Sir, out of this order book of INR7,678 crore for Q3 ending FY '24, INR2,051 crore is towards the operation and maintenance. So when this INR2051 will come in system and out of this balanced amount, how much is towards the OFC, especially about are we exporting optic fiber cables also, sir, if you could give that number?

Mahendra Nahata: Order of what you mentioned about this O&M, this is the next 7 years. Optical fiber cable, we are exporting, no doubt, last year, we had a good year of export about INR800 crores. This year, worldwide demand has slowed down. The export will also go down. But yes, we keep on receiving continuous order for exports. These are not major orders at one point of time.

Orders keep on coming, and we keep on supplying. We are expected to cross INR1,000 crores in this current financial year. But with this downturn in demand all over the world, of course, we are going to be falling short of our estimation through a large number. But as I said, from next year onward, it is expected to become better in the next 2 quarters, and it will further improve.

Saket Kapoor: Sir, as you just explained in the earlier reply that both OF and the OFC prices are corrected by 20%, correct me there. And then also the demand is down. So where have the things gone wrong? I think one of the key players did mention about the demand fall from the U.S market has resulted in this percolating to the domestic Indian market.

So do you think only when the demand from U.S. and Europe improve, then only our domestic OF and the OFC market will improve or when the Bharat Net comes into foray that is the time when things will start looking up. If you look at our operational numbers, sir, if we -- barring this other income component, we have done the numbers are not up to the mark. If you exclude the other income part.

Mahendra Nahata: Mr. Kapoor, let me explain you. Demand of fiber optic cable for Indian companies, when I say improvement will come from 2, 3 different areas. If you look at domestic, Bharat Net is going to play a major role because that's 6 lakhs kilometers of fiber optic cable, it's a large quantum. And which would be translated into more than 20 million kilometers of fiber. So which is a large quantum that is one. Second, U.S. demand is going to go up significantly in the next financial year.

I tell you why. The U.S. government has announced a large subsidy for serving unserved or low-served areas by fiber optic cable to ensure people are able to have a seamless broadband connectivity from their homes and offices. Total subsidy for the last mile, only for the last mile announced about $61 billion and state wide division has also been announced. Disbursement of this subsidy is expected to start from middle of the current calendar year.

So once that subsidy disbursement picks up, the demand of fiber optic cable would increase significantly because this is for the broadband connectivity over fiber. So U.S. demand will start happening in the next couple of quarters itself, which is [bead and baba] and all those names are there, broadband subsidies, U.S. Government has announced.

Similarly, when -- as I said a little while ago, the stocks with the distributors and operators go down as was there in a case in the beginning of the year demand for Europe will also pick up. Demand will pick up not only because of Bharat Net, it is demand from U.S., demand from Europe, all these places, either we will pick up from the another couple of quarters or may be quarter more, depending upon country to country, place to place. But demand is certainly going to pick up in fiber optic cable in the next financial year itself.

Saket Kapoor: Right, sir. So just to conclude on this point, then it is only the OF prices that has corrected led to be lowering of realization. The fresh capacity in OF has been added or the lower utilization levels for OFC worldwide has led to this decline?

Mahendra Nahata: This is both factors. One, the prices have come down; second the utilization has also gone down. That is why this revenue reduction of roughly about 50% is there. To some extent, prices have gone down 15% or so rest is the less demand at this point of time, which, as I said, again, next couple of quarters, we are pretty sure will start improving.

Saket Kapoor: Okay. So one more question I would like to add, as you about. Sir, second question...

Moderator: I am sorry to interrupt sir, may I request that you return to the question queue for follow up question as there are other participants.

Saket Kapoor: Please give the opportunity.

Moderator: The next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: Sir, going forward, what will be our product component, the mix, how the percentage mix will change and from when? And second, the margins in telecom products are more than the optic cables is higher?

Mahendra Nahata: No. Look, market for telecom products is not only optical fiber cable, but it is for telecom equipment also. We have large orders for telecom equipment, which are indigenously designed telecom equipment also. But as I said, INR1,800 crores orders we have already received in the last quarter for equipment.

But again, I would like to re-emphasize that we are becoming a product-led company. See this quarter was a particular aberration quarter because of a lower demand of fiber optic cable, but which is factored very quickly. From the equipment side also, we are doing significant amount of work.

And I think, I can say with a lot of pride that your Company has received the largest 5G orders, which any Indian company has received till now, INR623crores. Nobody else has received till now, which itself speaks of the kind of development we are doing, and I am expecting I don't know the size of the new orders, which will be there.

But yes, I'm expecting more orders to come for the equipment in near future to HFCL. So if my target is to become at least 70-30, 70% product, 30% EPC or if possible, even reduce that also, may be 75%, 25%, something like that. But with 70-30, we should definitely be able to reach at least 2/3, 1/3 we should be able to reach in the next financial year itself.

Rajesh Agarwal: And when you will start delivering this order, sir?

Mahendra Nahata: We should be this particular order, I'm talking about 5G related order, our target is to start delivering from April end.

Rajesh Agarwal: In a year's time.

Mahendra Nahata: I would try to do it quicker than that. I would try my best to do earlier than that.

Rajesh Agarwal: And what would be EBITDA margins on that?

Mahendra Nahata: Well, EBITDA margins, I don't want my customers to know my EBITDA margins and that would be a problem for me.

Rajesh Agarwal: But overall, the company's EBITDA margin will go up from here?

Mahendra Nahata: EBITDA margin will go up -- definitely go up because what has pulled down the EBITDA margin is fiber optic cable reduced sales. Once that increases, EBITDA margin will definitely go up.

Rajesh Agarwal: Okay. And what your view on the optic fiber, from when it will improve, sir?

Mahendra Nahata: I think, start improving from the first quarter of the next financial year, but a significant improvement in the second quarter.

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

Dipesh Sancheti: Just wanted to know what is the capacity utilization in optical fibers out of the 25 million kilometers. And what gives us the confidence for the capacity expansion that we're going to do plus-35-kilometers?

Mahendra Nahata: So it is about 50%, even a little less than that.

Dipesh Sancheti: In this quarter?

Mahendra Nahata: Yes, this quarter, I'm talking about. Now capacity expansion is the right thing to do. If you see when we started capacity expansion, the market was really booming we didn't have any free capacity. Our factories were running 24/7 and we were not able to fulfill the demand of customers. As a result of which we expanded our capacity. But this is a cyclical thing, every 3, 4 years for some time, demand goes down and then comes up again.

You have to see the overall need of the fiber optic cable and then we have to plan capacity, not on the basis of 1 year up or 6 months down. Because if you see, as our need for broadband goes up, as the need of a data goes up, as the need for as video and kind of applications go up, today Netflix and Amazon Prime, all these OTT applications, you know how fast they have gone up

Without fiber optic cable, would you have been able to access Netflix at your home, would you have been able to watch live television at your home without having access to fiber optic cable? Nothing of this would have been possible. This is all becoming possible because of fiber optic cable. So as these applications grow, demand of fiber optic cable is going to keep on going immensely.

So this few month downturn because of certain factors does not mean that it is a downturn forever. It is only a temporary and which happens every 3, 4 years, it happens once. It has happened now, it will come up again. So increase in capacity was commensurate with this expected demand of increase in the fiber optic cable, and you would find the next couple of quarters, the demand will go up again, and this capacity utilization would again reach to the previous levels.

Dipesh Sancheti: Since you mentioned that it is cyclical. Generally, there's downturn remains, I mean in your experience that this downturn remains for how many quarters?

Mahendra Nahata: There is no fixed rule for that. There's a fixed rule for that. So it will remain for how many quarters. Now this has gone down, but the U.S. demand is going to be there in the next couple of quarters. It is going to come up again. Indian demand is going to increase again, maybe next 3 quarters 2 to 3 quarters with Bharat Net happening. So normally 2 to 3 quarters is our number, I would say the demand slows down and then comes up again. There's no fixed rule for that.

Dipesh Sancheti: Right. So what is the risk in the U.S. market as well as the Indian market, if something like for Tesla is developing a direct satellite Internet, what will be the risk to our optical fiber business?

Mahendra Nahata: No, satellite is a...

Dipesh Sancheti: Have we assessed that?

Mahendra Nahata: Yes, we have discussed that. We have understood that. Satellite is a completely different segment of market. It can never compete with fiber. What bandwidth fiber can provide, satellite can never provide, at least not in a foreseeable future that satellite would provide that kind of bandwidth.

And number two, handsets are very costly, service pricing is costly, satellite would be more used for remote areas where fiber accessibility is not there, broadband accessibility is not there, telephone accessibility is not there. So those would be the places where satellite would be used. For in terms of bandwidth, satellite will never be able to compete with the fiber optic cable. So it's not a competition, more of a complementary approach.

Dipesh Sancheti: Okay. And just last question, is Bharat Net will give more opportunities on product base, is it the product-based opportunity or a project-based opportunity?

Mahendra Nahata: It's both. It's both. It's a mixed opportunity.

Dipesh Sancheti: In what ratio?

Mahendra Nahata: At least, there are 3. One is product, one is project and third is operations and maintenance, which is going to be annuity revenue for the next 10 years. There are 3 opportunities in this.

Dipesh Sancheti: And when we are bidding for Bharat Net opportunities, we are going to look at more product based or we're going to explore in all the opportunities?

Mahendra Nahata: So we are currently working on analysing all the aspects of the tender. Let the final draft of the tenders come out, then only we will decide how are we going to do about that because final tender has not come out. It is the first draft come out for industry consultation. Many suggestions have been given. But once the final number comes out, final shape of the tender comes, we will decide at that point of time. We're evaluating, but yes, no doubt it's a good opportunity for us.

Dipesh Sancheti: Okay. And I was just going through the presentation, and it shows that domestic railway opportunities. How many orders have been received as Kavach and because that has been a buzz word for...

Mahendra Nahata: We are not in Kavach.

Dipesh Sancheti: We are not in Kavach?

Mahendra Nahata: Part of product. We are in telecom systems for railways. So we are working on telecom. Kavach is signalling product.

Dipesh Sancheti: And how much of the orders we've received is from the railway sectors?

Mahendra Nahata: Railway order should be around INR600-some crores, Yes, it is about INR620 crores or something like that.

Dipesh Sancheti: Okay. I would really appreciate if you can divide the order book into how much is railways, how much is telecom, how much defense in telecom, how much it is for optical fibers? Because that will help us to understand how we're going to go...

Mahendra Nahata: I noted your suggestion, and we'll publish it in our website, definitely.

Moderator: That was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Mahendra Nahata: Thanks a lot, ladies and gentlemen, for attending this earning call for third quarter FY '24. As I have been saying that we have got 3 strategies, more number of products, more customers, and more geographies. And we are very successful at that. This quarter, though, you would see the results are a bit subdued because of fiber optic cable demand going down, and we see a worldwide factor and nothing to us, nothing in particular to us.

But if you look at the product side of it, we have received orders for INR1,700 crores, INR1,800 crores just for the products alone. And this effort of making company a product-led company is becoming successful, and we will remain successful and we will keep on increasing our revenue from products and more so from indigenously designed products, not only for Indian market, but for the world market. And that strategy through our R&D is proving to be very successful.

And I can assure you that this will improve not only the revenues but on the return ratios of the company also. And with the demand becoming better for fiber optic cable in near future, I expect this ratio of product to the total revenue will definitely go up, return ratios will improve.

So with the growth of Indian economy, which is really growing at a faster pace than even the world market had estimated and we are growing despite of world economy going down, thanks to the leadership of and the policies of our honorable Prime Minister Shri Narendra Modi's government, I'm sure that the telecom sector, which is already doing well will further do better and companies which are more focused on indigenized development, indigenized manufacturing, like your company, HFCL will do even better in the future. Thank you very much, gentlemen. Thanks a lot.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.