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Subject: Transcript of Conference Call on Financial Results/ Earnings for the 3rd quarter and nine months ended 31st December, 2019

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on January 21, 2020, on the un-audited Financial Results of the Company for the Third Quarter and Nine Months ended 31st December, 2019 of the Financial Year 2019-20, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on January 20, 2020.

This aforesaid Transcript is also being made available on the Company's website.

You are requested to take the above information on records and oblige.

Thanking you,

Yours faithfully,

For **HFCL Limited**

(Formerly Himachal Futuristic Communications Limited)

(Manoj Baid)

Vice-President (Corporate) &
Company Secretary



Encl: Copy of Transcript.



“HFCL Q3 FY20 Earnings Conference Call Hosted by
Maybank Kim Eng Securities”

January 21, 2020



**MANAGEMENT: MR. MAHENDRA NAHATA – PROMOTER &
MANAGING DIRECTOR, HFCL**

MR. V. R. JAIN – CFO, HFCL

**MODERATOR: MR. NEERAV DALAL – MAYBANK KIM ENG
SECURITIES**



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY20 Earnings Conference Call of HFCL Limited hosted by Maybank Kim Eng 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng Securities. Thank you and over to you sir.

Neerav Dalal: Thank you, Margreth. Hello everyone and thanks for standing by. We at Maybank Kim Eng Securities are pleased to host the conference –call of HFCL today. To take us through the Q3 FY20 results and to answer your questions, we have Mr. Mahendra Nahata – Promoter & Managing Director and Mr. V. R. Jain – CFO, HFCL. For the opening remarks, I hand over the call to Mr. Nahata. Over to you, sir.

Mahendra Nahata: Thank you Neerav for your kind introduction and good evening to all of you. I welcome you all to HFCL’s earnings conference call for the third quarter ended on 31st December 2019.

Friends, let me start with a small brief about Company’s operations. We are a fully integrated solution provider specialized in telecom infrastructure development, system integration and manufacture of high end telecom equipment and optical fiber cables. As an integrated infrastructure provider, we deliver innovative, customized and competitively priced end-to-end solution to our customers. Our technologically advanced solutions cover all aspects of value chain for manufacturing of leading-edge products to provide specialized services to our customers. HFCL provides single window solutions which include design of telecom networks, equipment supply, installation and commissioning, system integration and operation and maintenance.

As a solution expert in telecommunication and related infrastructure domain, the Company is now leveraging its inherent strength in addressing complex needs of emerging sectors such as railway communication, railway signaling, defense and smart city projects. HFCL has state-of-the-art manufacturing facilities which include optical fiber cable manufacturing facility of Verna, Goa and its subsidiary’s optical fiber cable manufacturing facility at Chennai in Tamil Nadu. We have telecom equipment manufacturing facility in Solan in the state of Himachal Pradesh. Through our subsidiary, HTL, we have FRP rod manufacturing facility at Hosur in Tamil Nadu. This is a raw material for fiber optic cables. Further, I am happy to inform you that our Greenfield optical fiber manufacturing facility at Hyderabad will also be starting operation within a week’s time from now.

Now coming to the performance of the Company during the third quarter of FY20. During the third quarter of FY20, when compared from the corresponding third quarter of FY19, Revenue stood at Rs.862 crores as against Rs.1224 crores. EBITDA stood at Rs.104 crores as against



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Rs.131 crores. EBITDA margin, however, grew from 10.7% to 12.1%. Profit before tax stood at Rs.70 crores as against Rs.95 crores. Profit before tax margin however grew from 7.8% to 8.1%. Profit after tax stood at Rs.46 crores as against Rs.68 crores in the last year in the same quarter. Profit after tax margin, however, was 5.3% as against 5.6%.

I would also like to highlight the performance during nine months ended 31st December 2019 in comparison to the corresponding nine months of the previous financial year. Revenue stood at Rs.3,193 crores as against Rs.3,533 crores of the last year, a dip of 10%. EBITDA, however, grew from Rs.322 crores to Rs.440 crores, a rise of 37%. EBITDA margin grew from 9.1% to 13.8% in the nine months. Profit before tax grew from Rs.240 crores to Rs.330 crores with a rise of 38%. Profit before tax margin grew from 6.8% to 10.3%. Profit after tax grew from Rs.166 crores to Rs.228 crores. Profit after tax margin grew from 4.7% to 7.1%. So you would see that performance significantly improved in the overall nine months period as compared to the last year's nine months period.

I would like to mention, however, that the decline of revenue has been mainly due to industry slowdown in optical fiber cable business and tough weather conditions in Northeast, Jammu & Kashmir and restrictive movements in Jammu & Kashmir which impacted our revenue from defense business because in these areas we are executing lot of turnkey defense projects. And as a result of these situations, revenue from defense business in these areas has been low during the quarter under review. Although the revenue has been low, our continued efforts in bringing in operational efficiency have reflected into better margin and profits during the current financial year as you would have noted from nine months number which I just now mentioned.

You must have also observed that the Company has already achieved a PAT of Rs.228 crores during the nine months of FY20 which is almost equal to the PAT of Rs.232 crores of the entire FY19. Our EBITDA margins during the nine months of current financial year have improved from 9.11% to 13.7%. Quarter 3, however, saw slight reduction in margins as compared to quarter 2, mainly on account of reduced revenue, reasons of which I have already outlined to you. We have a very good outstanding order book of Rs.8621 crores, which translates into 1.8 times of our FY2019 revenue. We continue to maintain very comfortable gearing of 0.41.

I would also like to inform that our Company has recently signed a subscription agreement for acquiring 15% stake in Nivetti Systems Private Limited, keeping in line with thrust on addition of next generation products and solutions in our portfolio for telecom network and cyber security system space. The acquisition would result in increasing our offering of best-in-class networking and cyber security products and solutions resulting into growth of our business. Also, regarding our recently launched WiFi products and solutions which we have designed by ourselves, I am happy to inform you that the products have started getting orders gradually. The response has been very encouraging from the prospective customers and we expect decent amount of margins on this product in FY21. We are hopeful that uptake of OFC will improve



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from quarter 4 onwards and Company will continue to maintain good profit margins and revenues.

Thank you very much to all of you and I would like to open up the floor for any questions any of you might have. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Firstly sir, if you could give us in the total revenue portion, how much is the O&M contract part? We have mentioned that we are having O&M contracts of Rs.1614 crores, so have they started flowing into the numbers or it will happen later?

Mahendra Nahata: O&M contracts will start flowing in a larger number from the next year because though we have about Rs.1600 crores of O&M contracts, right now, those projects are under warranty period. So O&M would start flowing largely from next year, but this quarter it is only Rs.15 crores to Rs.16 crores.

Saket Kapoor: For Q3, it is Rs.15 crores?

Mahendra Nahata: Yeah.

Saket Kapoor: What should be the likely number for the fourth quarter? Will it be also in this vicinity only, Rs.15 crores to Rs.16 crores?

Mahendra Nahata: Fourth quarter would also be in the same vicinity. They would start increasing from the mid of next year.

Saket Kapoor: And what should be the figure for next year we should be considering in, as a whole for the next year?

Mahendra Nahata: About Rs.80 crores to Rs.100 crores.

Saket Kapoor: And as on nine months, how much we have booked, I was just looking for a comparison?

Mahendra Nahata: Nine months total should have been about Rs.50 crores.

Saket Kapoor: So Rs.50 crores will go up to Rs.80 crores that is what you are saying?

Mahendra Nahata: Next whole year I said it will go about Rs.80 crores to Rs.100 crores.

Saket Kapoor: Sir, how will you explain the drop in the margins for telecom products from both sides, from revenue front also it has gone down and definitely the margins....



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Mahendra Nahata: Both are interrelated. Simply because the revenue has gone down, the margins have gone down because the fixed cost remained the same, they do not change and you do not try to remove people and do such kind of things for a shorter period when you experience such kind of a decrease in revenues for certain reasons. So fall in margin has been due to decreased revenue, but now it started picking up again. The revenue which was about Rs.120 crores on a consolidated basis for the 3 months in the quarter 3, we expect it to go up to about Rs.275 crores to Rs.300 crores. So margin will improve proportionately.

Saket Kapoor: Rs.120 crores will go to Rs.275 crores to Rs.300 crores for the next quarter?

Mahendra Nahata: That is what we expect out of the current order book we have and the current delivery schedule which we have received from our customers.

Saket Kapoor: This is about telecom products and how should turnkey execution will look like sir?

Mahendra Nahata: Turnkey execution will also be doing better of course. As I mentioned, last 3 months, weather conditions have impacted us a lot apart from situation in Jammu & Kashmir which has eased out now and weather conditions have also improved. So from end of this month onwards, those areas where because of extreme cold, work was not being carried on, that will start. So turnkey revenue would also show significant improvement in the current quarter.

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

Hardik Vyas: Sir, I have a few questions. I will start off with you indicated that the product revenues would go up to Rs.275 crores to Rs.300 crores that is mainly because of the rise in prices of optic fiber from the bottom or due to more orders and its execution?

Mahendra Nahata: Look, it is not the rise of prices. Prices are same. They have not increased either for fiber or for cable. And when I was answering to Mr. Kapoor, one thing I missed out that the reduced turnover if you compare from the last year to this year, one of the major reasons is also reduced prices of cable compared to last year. It has reduced by almost 30%. So in any case, in the same quantity you manufacture, revenue would be lower by 30%. That is one of the reasons in comparison to the last year, but anyways coming back to you, this increase in revenue for the expected revenues for Q4 for the optical fiber cable is not because of rise of the prices but because of the higher order book, order book is already there, but the higher delivery schedule which we have received from the customers in the current quarter. The customers have now started picking up the cable which they have ordered and that increased delivery and some more new orders which we have received. All put together, now we believe that current quarter product revenue of Rs.120 crores should go up to Rs.275 crores to Rs.300 crores.

Hardik Vyas: So that will keep on continuing for FY21 as well?



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- Mahendra Nahata:** My expectation. With the kind of orders we have, we expect it.
- Hardik Vyas:** And the service businesses also picking up?
- Mahendra Nahata:** Service business has remained good throughout the year. Last quarter was little bad, not bad, little slowed down because of this weather conditions. As I said, we are executing lot of defence projects and large part of that is in Jammu & Kashmir and also in Northeast. Certain areas in Northeast and entire Jammu & Kashmir have a lot of issues in terms of execution because of very intense cold weather and also situation in Jammu & Kashmir that resulted in slowdown. Otherwise, as an inherent business point of view, there has been no slowdown. There is no decrease in business or anything. So with the weather improving, this will go up again.
- Hardik Vyas:** Will you be able to quantify how much, I am just asking for a ballpark those numbers, how much will be able to execute from the current order book of Rs.8,600 crores?
- Mahendra Nahata:** In terms of the current year or current quarter?
- Hardik Vyas:** Current year, FY21 that I am asking?
- Mahendra Nahata:** FY21, we would be executing roughly about more than Rs.2000 crores of that order book of turnkey business. I am not talking on the overall order book. Overall order book includes more than turnkey business also, but the turnkey business we are talking about, Rs.2000 crores plus we will be executing in the next year, but there are more businesses. Orders also include optical fiber cables and turnkey contracts for laying of fiber optic cables. Defence turnkey, we will be executing about Rs.2000 crores or little bit more maybe.
- Hardik Vyas:** So defence, the products also we have been supplying or we have not started the supplies for defence products as yet?
- Mahendra Nahata:** Our own manufactured products, we have still not started supplying. These are more of a turnkey business which we are executing right now.
- Hardik Vyas:** Night-vision devices and other products like.
- Mahendra Nahata:** They are under development. Night vision devices as well as the electronic fuses which are under development would be ready probably by May-June timeframe. After that, we will start supplying them.
- Hardik Vyas:** The second half of next year, we should start supplying?
- Mahendra Nahata:** Well, it all depends upon when the tenders are finalized by government. For example, this electronic fuses tender has come out. It is yet to be finalized. I cannot predict when they would



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finalize that. We can start supplying only when they finalize the tender. Electro-optics, large number of tenders are expected. We would participate, but depends upon when they finalize the tender, then we would start supplying.

Hardik Vyas:

Sir, one more question. What is the status of BSNL, are we getting our dues back or how are we looking at it?

Mahendra Nahata:

Look, there are two kind of dues in BSNL. One is the defence project which we are executing when orders have come via BSNL. Second is the BSNL's own requirement. Now as far as the defence are concerned, those are very regular. There is absolutely no problem. We receive payment regularly, of course procedures are there. Government have procedures for payment which takes little bit of a time, but that is not a major issue. Defence supplies, turnkey projects for defence, we receive our payment regularly without any issue. There are enough funds available for that particular purpose. Now coming to BSNL, which we have supplied as a CAPEX of BSNL for BSNL's network. There has been a problem. We had dues of about Rs.300 crores when I spoke to you last quarter. After that, we have received about Rs.61 crores, out of that Rs.300 crores. What we expect now from my talks with BSNL officials that they would now be receiving sovereign comfort or sovereign guarantee against which banks would be lending the money and with that money coming in, part of which came and from which the payments were made earlier, they would be able to clear the payments of all the suppliers of past dues by March-April timeframe. So I am quite hopeful that because BSNL's revival is now taking place as we all know and with that revival happening, money coming in from the banks against the sovereign comfort or guarantee. I feel quite comfortable by March-April timeframe, the remaining Rs.240 crores or so we should be able to receive.

Hardik Vyas:

Sir, the final question. Are we looking at any drying up of orders from either telcos or government or service orders we have not been receiving any orders in the last quarter after the Rs.3000 odd crores of order that we received on NFS, we have not been seeing any new order booking. So is that...

Mahendra Nahata:

New orders have come in Optical fiber cable business, large number of new orders have come. Turnkey business, yes, what you are saying, we did not receive much of the new orders, but they started flowing now. I do not see any slowdown because 1) now spectrum is being auctioned, so more spectrum means more network rollout by operators, so that is one part of it. Second is going to be 5G rollout. 5G auction is also taking place. 5G rollout will also happen and that would see large number of orders coming in from telcos. BSNL's revival is taking place. So BSNL will float tenders and they would give orders. The BharatNet PPP model is being pursued. There again, large number of orders of fiber optical cable or turnkey business would be available. So may be next 2-3 months, this all build up is going to happen, auction is going to happen. BharatNet, I think is going to happen. Maybe, in the Q1 of next financial year, I expect good amount of orders to flow.



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- Hardik Vyas:** We expect 21-22 onwards, our hands would be full to execute all these orders which will...
- Mahendra Nahata:** Not even 21-22, even 20-21, I am very comfortable in terms of orders.
- Hardik Vyas:** So we will not be able to quantify how much growth will be looking at or something like that?
- Mahendra Nahata:** Very difficult to quantify. I do not want to give a forward-looking statement like that, but I expect good amount of orders to be there and that would result in good revenue, but more important point is not the revenue, but the point is increase in profit margins. We have made sustained efforts to increase profit margin. So that has resulted in what is important is bottom-line, not as much as topline. Topline is also important because that results in bottom-line, but if we increase in bottom-line with a reduced topline, it is much more important and much better for the Company. So if you look at this year, though the topline in 9 months have reduced by few hundred crores, but we have already crossed almost equal the bottom-line of the last year of the whole year. I think if you see the bottom-line of the 9 months to 9 months comparison, there is a very good increase. If you see profit after tax, 9 months last year, we had made Rs.166 crores. This year, we have already done Rs.228 crores. So Rs.166 crores to Rs.228 crores.
- Hardik Vyas:** So WiFi systems and Raddef would take a little time before getting in the numbers right?
- Mahendra Nahata:** WiFi system revenue would start flowing in from the current year itself and next year is going to be much increased revenue. Raddef also from the mid of the next year, revenues start flowing in. From the certain products like WiFi, antennas and few more antennas they have designed, that would also start flowing in from the next year.
- Hardik Vyas:** You had told about Rs.100-200 crores of business for the entire year from WiFi systems, so that holds or you are revising it upwards?
- Mahendra Nahata:** I am not revising it upwards, that holds.
- Hardik Vyas:** And the prices of optic fiber remain the same at about \$5.
- Mahendra Nahata:** No, it is not \$5, it is \$4. I have always been saying \$4. It is \$4.
- Moderator:** Thank you. The next question is from the line of Nishit Shah from Equitas Investments. Please go ahead.
- Nishit Shah:** Sir my question is that the government is planning to impose a safeguard duty on import of single mode optical fiber. So how will that impact us and any timeline expected when will this come in?



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- Mahendra Nahata:** Well, when will this come in, I do not know because I have been hearing that they are going to impose duty, but it is not going to impact us. It is only going to impact us positively because we are going to start manufacturing fiber, as you know, as I said in the beginning of the call in a week's time. So if the import price goes up, then of course indigenous production becomes so much so better. So we are going to start producing fiber in next 7 days. So as far as that is concerned, it is better. And major part of our fiber, we buy from Corning which is local supplier from Pune. So that also is not impacted. So we would not be impacted by any increase in the safeguard duty.
- Nishit Shah:** And sir you said like you are receiving orders in Q3. So are we receiving these orders from private telecom players or is it from government, how is it?
- Mahendra Nahata:** Private.
- Nishit Shah:** Private player. And sir what are the optical fiber cable prices going on currently?
- Mahendra Nahata:** We can quantify in terms of fiber kilometer. It would be different in different class, but generally you can say about Rs. 800 to Rs. 900 per fiber kilometer.
- Nishit Shah:** So in the last call you said around Rs.1000, right?
- Mahendra Nahata:** Yeah, so it is about Rs.800-900. As I said with different class, different cable prices. So generally you can say like Rs. 800- Rs. 900.
- Nishit Shah:** And sir what would be our optical fiber cable order book look like?
- Mahendra Nahata:** It would be about Rs.800 crores, but more orders are flowing in. It is currently about Rs.800 crores.
- Moderator:** Thank you. The next question is from the line of Naman Dugar from BNP Paribas. Please go ahead.
- Naman Dugar:** I had picked up two statements from your last earnings transcript where you had mentioned that due to the Kashmir issue, the revenues had gone down in quarter 2 and you had clearly mentioned that quarter 3 was looking better, but exactly it has not and the other thing was that you mentioned that over about Rs.100 crores or something you are going to receive from the BSNL in this quarter, you clearly mentioned about 15 to 20 days in your last earning concall but that also doesn't seem to have come in yet, so I would really like you to clarify again on those two statements?
- Mahendra Nahata:** Rs.100 crores did not happen but Rs.65 crores has come in and we expect by March-April, this is my expectation Naman you know, because of this funding issues of BSNL, they are saying that they would be receiving bank funding and all that, I expect this balance of the money



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which is about Rs.235 crores should be received in next 3-4 months' time, but this is my best expectation. In terms of Kashmir, what I said was right that this situation impacted but intense cold weather which nobody could have predicted, the kind of cold weather which has happened in Kashmir as well as Northeast which I could not have predicted. This has also again resulted in slowdown of revenue in the last quarter, Q3 which is now starting to improve because those kinds of severe cold weather conditions in many of the areas have come down. Only in the extreme snow bound areas of Leh, Ladakh, we are not able to start work, rest of the places now we are able to start the work.

Naman Dugar: So do we expect that HFCL will have poor quarter 3, quarter 4 every year due to weather conditions in Kashmir because most of our orders are coming from there?

Mahendra Nahata: No, you are wrong, because this is particular to the defence project, not necessarily that I would be executing the same kind of a defence project next year also. As I mentioned very clearly, this is the defence projects which we have been executing in Northeast as well as Jammu & Kashmir. Now once this defence project finishes and we are executing other projects, Jammu & Kashmir or Ladakh or Northeast weather will not affect us. I never said that quarter 4 is also going to be like this, I never said that. Quarter 4 is going to be certainly an improvement over this quarter.

Naman Dugar: And regarding promoter holding pledge, my question was regarding the acquisitions that we are going for. We did a couple of acquisitions in these two quarters, but the promoter pledge is not coming down, a lot of money is going to be invested in new acquisitions?

Mahendra Nahata: Look, promoter pledge and acquisitions are two completely different issues.

Naman Dugar: Yes, lot of money is going there.

Mahendra Nahata: One was our Raddef acquisition and now is the 15% of this Nivetti Systems, so this is a completely separate issue. Now what we expect in terms of promoters pledging to go down, as I mentioned last time also, pledge is absolutely not for any personal loan promoters have taken. All the pledges are because of the loans which Company has taken and promoters have given their own shares as collateral which is commitment of promoters to our Company. There is no personal loan of promoters against which any pledge is there. That is very important point to note. Number two, we expect that by March or so, some 20% or so, this pledge will come down, reason being one that some of the holding of ours have been pledged against the term loan which we have taken for starting this fiber factory in Hyderabad. Once this fiber factory goes in operation, that is the condition, that 7% of the promoters' pledge would be returned back to us and again 13% of the promoter's shares have been pledged for a specific PBG which we have taken for a particular project. This will also be over in the March 2020. So about 20% of the pledge of the promoters' shares will come down by March or so.



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Moderator: Thank you. The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Sir, it is appreciable that in spite of this challenging scenario, we have been doing good on our margin count. Now sir, how do you see, can you elaborate your view on this fiber cable demand and pricing going ahead along with the optic fiber prices and how are we going to maintain or improve our margin as you said in your last comment?

Mahendra Nahata: The fiber optic cable demand as I said has been low in the last 4 or so months, but it has started improving because of mainly due to start of BharatNet projects in number of areas where contracts had been awarded earlier but projects were not being rolled out for one or other reason. I will give you some example. Andhra Pradesh which had stopped in between, now it has started rolling out. Telangana, we have received advance purchase orders very recently of about Rs.200 crores and some Rs.40 crores or so from Larsen and Toubro, they have already received the LOI and they have already started giving us delivery schedules of this rollout which would again happen in the current quarter. Likewise, number of such projects have started being rolled out and with this, I believe that good demand of fiber optic cable coupled with more rollout of BharatNet projects under the PPP model as you already discussed will start flowing in from the current year. Then you have rollout happening against 5G spectrum is getting allotted in the next financial year beginning because that has already been announced by government. With the 5G rollout, what would happen is that more number of base stations will be constructed. As a result of that, more amount of fiber optic cables have to be rolled out because 5G is something which requires a lot of fiber optic cable. BharatNet, 5G, increased rollout on FTTH, all this would result in increased demand of fiber optic cable. From a midterm and long term basis, I foresee fiber optic cable demand will remain very good.

Sanjay Shah: World over, there is an excess supply of optic fiber cable, that is what we have heard in prices are falling or it is remaining subdued, even of optic fiber, so how demand side we have got good demand in India as you rightly pointed out, so how do you see the pricing and how that margin will able to withhold the margin on that optic fiber cable?

Mahendra Nahata: We have to look at India first. World over you are right, some places, particularly in China, demand has gone down, not gone down but it has not really gone up and people had increased capacity because of expectation of demand going up. That has not happened. Other parts of the world, demand has not gone down, it has remained static, so that overflow of capacity from China has resulted in this situation what you see worldwide in terms of excess capacity but I expect and in fact major Chinese players very recently, they also expect the Chinese demand will start increasing from the next financial year. So in that situation, China may become little bit better than what it is today but again coming to Indian point of view, there is an import duty of 10% on fiber optic cable, so that as much as we are insulated and at the same point of time, you must also appreciate our cost of fiber optic cable is not higher than any of the Chinese manufacture. We are able to compete very effectively. So on an overall basis, with the increase



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in demand of fiber optic cable which is being sourced locally by the private operators. Number two, BharatNet cable has to be locally sourced, I don't find that there is any reason to believe that this price pressure of because of lack of China demand would impact us all. In fact, we are receiving reasonable traction in export, if you remember in the last earning call I had said that we are putting more and more emphasis on exports of our fiber optic cable which has put good results. We have a few successes in the export market which would result in reasonably good size of orders which would give us better traction from the export market in the next financial year.

Sanjay Shah: Sir, it will be prudent for us to understand that we as HFCL will do an EBITDA margin of upward of what we are doing right now, current year again for next few years blended margin I am talking?

Mahendra Nahata: Blended margin, I expect at least we would not be falling below in the current margin which we have and EBITDA margin in my opinion should be around 12 to 14% in the next financial year also.

Moderator: Thank you. The next question is from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: My question is pertaining to the performance of HTL. So sir actually if we subtract the consolidated numbers from the standalone numbers, we arrive at how HTL has performed in this particular quarter, so if I actually look at the number sir, revenues of HTL in this quarter was around Rs.41 crores, is that right?

Mahendra Nahata: Yes, you are absolutely right Kavita and that has been because HTL does only fiber optic cable and related accessories business.

Kavita Thomas: Correct.

Mahendra Nahata: And because of that, as I said the demand of fiber optic cable has been low, some of the customers, particularly those who are buying for the South Indian states, had lower demand which has resulted in HTL having a lower revenue, so but again as I said, this quarter it has improved quite a lot and we expect that HTL would also have improved performance of fiber optic cable business which is the only business in the current quarter.

Kavita Thomas: And sir, one more thing is, what I observed is even on the EBITDA margin front, what we are seeing is, over the last two quarters, even though the revenues have been a little lower, the margins were maintained at around 20%, but in this particular quarter, the EBITDA margins have fallen?

Mahendra Nahata: From where did you get this 20% number?



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- Kavita Thomas:** Sir, if I again do the same math of subtracting the consolidated from the standalone, the EBITDA margin is around 20% third quarter, last year?
- Mahendra Nahata:** You are talking of HTL alone?
- Kavita Thomas:** Yes, HTL alone.
- Mahendra Nahata:** Okay.
- Kavita Thomas:** So as against that in this quarter, it is around 11.5-12%?
- Mahendra Nahata:** Because as the turnover goes down so much, EBITDA margins also have to come down because the fixed costs do not decrease.
- Kavita Thomas:** Is there any other reason other than that sir?
- Mahendra Nahata:** No, not at all. It is basically the less turnover has resulted in this.
- Moderator:** Thank you. The next question is from the line of Payal Lad from Progressive Shares. Please go ahead.
- Payal Lad:** Sir, I wanted to ask you a couple of questions, like if you just compare the interest cost in the current quarter as compared to your last year things, so there has been a decrease, so is it like fair enough to assume, has there been any repayment in terms of borrowings as well?
- Mahendra Nahata:** You are talking the interest cost has decreased?
- Payal Lad:** Yes, the finance cost.
- Mahendra Nahata:** You are talking Payal, current quarter?
- Payal Lad:** Yes sir.
- Mahendra Nahata:** Our CFO will answer this question.
- V. R. Jain:** Last quarter, there were some enhancements of working capital limits, so bank charges one-time processing fee and all that. So quarter-on-quarter there might be certain up and down in interest cost and there may be a situation where we give lot of bank guarantees or we open LCs, so some additional bank charges, etc., are levied, so that is how it has decreased and on the top of it, in September we also repaid some of term loans which was a bullet payment of around Rs.33 crores, so that has also impacted our interest cost being low relatively.
- Payal Lad:** If you could just help us with the numbers of the cash and the debt levels currently?



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- Mahendra Nahata:** Cash and debt levels?
- Payal Lad:** Yes.
- V. R. Jain:** Debt at Consolidated level is around Rs.450 crores of working capital loans including private borrowings and term loan is around Rs.230 crores.
- Mahendra Nahata:** Rs.230 crores term loan also has loan of the fiber plant which we are putting up in Hyderabad.
- Payal Lad:** And the cash balance?
- V. R. Jain:** Cash balance, there is no such cash balance except for our day to day requirements. We have lot of bank margin in the form of FDs.
- Mahendra Nahata:** We have working capital loans, how can we have cash balance?
- V. R. Jain:** Cash balance is maintained as per the day to day requirements and we have fixed deposit in the form of margins which is around Rs.200 crores or so.
- Mahendra Nahata:** If you count fixed deposit as cash balance, then Payal, it would be about Rs.200 crores.
- Payal Lad:** And sir, one last question, if you could just help us with the order breakup of Rs.8600 odd crores in terms of your different line segments?
- Mahendra Nahata:** Order breakup I will give you. In terms of percentage, 50% would be from defence business, optical fiber manufacturing and turnkey all included, optical fiber would be about 10% or so, then turnkey businesses would be about 30% or so, rest would be miscellaneous.
- Moderator:** Thank you. The next question is from the line of S. Kapoor, a Shareholder. Please go ahead.
- S. Kapoor:** Sir, I was looking at the employee cost that has gone up for the 9 months from around Rs.126 crores to Rs.144 crores. So as a percentage of sales, what should we be looking at the employee cost rate sir?
- Mahendra Nahata:** Because every year some increments also take place and also because of this optic fiber plant we are putting up, new people coming, ESOPs have been given, that has also resulted in this increase in the employee cost. So all put together, there is marginal increase in employee cost itself.
- S. Kapoor:** And sir, what is the update on the warrant conversion sir, how much has been taken by the Company and how much is due and what is the timeline?
- Mahendra Nahata:** All converted, all fully converted.



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- S. Kapoor:** And now they are only in the lock-in both for the promoter and the non-promoter?
- Mahendra Nahata:** Yes, it is in lock-in of course.
- S. Kapoor:** It is in the lock-in period but we have received the full money?
- Mahendra Nahata:** Yes, of course.
- S. Kapoor:** From bigger deal. Sir, today, you and your peer comparison, we have Sterlite Technology and due to the market forces both are trading at the same PE ratios, but the contrasting part which we investors find is that no mutual fund has invested even a single share in HFCL whereas in your peers there is a large chunk being hold by the mutual fund, so where is the lacking that mutual funds are not buying this story of the same business, both the companies doing the same business, so where are we lacking that mutual funds are not participating in the growth stories and what efforts are you taking? You are taking up, definitely there is lot of work for us by holding conference call and participating also, but where is this gap sir and what should be done that mutual fund should also participate in your growth story?
- Mahendra Nahata:** Why they are buying or not buying, can't say. Our job is to tell what we are doing and we are absolutely able to say that we are doing , what we tell that we would do and we are absolutely stuck by our forecast and all that I have given. Now why they are not buying, well, for me it is difficult to say.
- S. Kapoor:** Sir, one point is there. Sir, we don't have a dividend distribution policy. Sir, now you have spoken high about we posting the PBT of last year even in 9 months, but can the Company come up with quantified dividend distribution policy in the coming quarters such that we can get an idea of what would be the payout in terms of the dividend distribution?
- Mahendra Nahata:** Look at the last two years, we have been paying dividends, in fact we have increased from year to year. What it would be in the next year is the board to decide. Right now, it would not be possible for me to comment on that.
- S. Kapoor:** And sir, coming to the current capacity in the OFC business, what is our current expanded capacity and the utilization levels?
- Mahendra Nahata:** Current year, we have been able to have utilization of about 50% or so of the capacity but the capacity throughout the year has not remained same. There have been two increments in the capacity. Currently, now, at present, today, the capacity for HFCL and HTL put together, it is 18.5 million fiber kilometers.
- S. Kapoor:** And our utilization levels are currently?



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- Mahendra Nahata:** As I said, the current year has been about 50 to 60% depending upon the demand but the next year onwards, I believe it would be significantly improved because of the improved order situation and demand from the customers.
- S. Kapoor:** And sir, last point about the commission part sir, what percentage of profit are paid to the KMPs as commission sir, that is I think so quantified?
- Mahendra Nahata:** Which KMPs?
- S. Kapoor:** Including you, Mr. Jain and other KMPs, the percentage of net profit being paid as in the remuneration part, what percentage do you receive?
- V. R. Jain:** Mr. Kapoor, no commission has been paid to the CFO and the Company Secretary.
- S. Kapoor:** No, not Company Secretary, I am talking about the MD, Mr. Nahata?
- V. R. Jain:** MD, we have paid Rs.2 crores of remuneration based on net profits of the Company. That is only Rs.2 crores.
- S. Kapoor:** That is ad hoc or any percentage is there sir?
- V. R. Jain:** It is based on the FY19 performance.
- S. Kapoor:** That is what I am asking. Is it ad hoc one or any percentage is given, 0.25, 0.3, something like that. How do you arrive to the figure of 2 crores?
- Mahendra Nahata:** It is on ad hoc basis.
- S. Kapoor:** And this will continue on an ad hoc basis only?
- V. R. Jain:** Board has decided Mr. Saket to give Rs. 2 crores considering the performance in the last FY 18-19 and the total remuneration including remuneration based on net profits cannot exceed the overall ceiling of the remuneration i.e. 5% of net profits of the Company, permissible under the Companies Act, 2013.
- Moderator:** Thank you. The next question is from the line of Naman Dugar from BNP Paribas. Please go ahead.
- Naman Dugar:** Sorry, I have just missed a question. After my first question, I went and googled weather conditions in Kashmir and Northern part of India and it seems to come across that January the first 20 days was as bad or even worse than the December period, so has the work been affected really bad this January as well?



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- Mahendra Nahata:** Yes, as I said in little while ago that now the weather has started improving and work would start in a much better speed except in the snow bound areas which I don't expect to start before May. At the lower regions of Jammu and Kashmir and the Northeast also, work would now start happening by the end of the current month.
- Naman Dugar:** So, one month of the quarter, one third of the time will be affected, so that may result in dismal revenues this quarter as well?
- Mahendra Nahata:** I don't think you are right in saying that. Out of three months, some 20 days have gone bad doesn't mean that this quarter's revenue would be bad.
- Moderator:** Thank you. The next question is a follow-up from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, on the promoters' holding also, what should be the ballparks that you are looking, say for 5 years from now? Our promoters' holding is at around, I think 38-39% today, so?
- Mahendra Nahata:** I can't answer Mr. Kapoor that how much would we increase in promoters' holding. Right now, it is 38%.
- Saket Kapoor:** You are comfortable with 38% that is what my understanding was?
- Mahendra Nahata:** I am comfortable, absolutely.
- Saket Kapoor:** You are comfortable with 38% promoters' holding?
- Mahendra Nahata:** Yes.
- Saket Kapoor:** I think things are answered and we are hoping for a better quarter 4 both on the topline and bottom-line. Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would like to hand the conference over to Mr. Mahendra Nahata for closing comments.
- Mahendra Nahata:** Thank you gentlemen to all of you for paying attention and being in this conference call and we certainly as I said, first 9 months of this year had been better than the last year's 9 months and we expect to keep on delivering the same performance for the whole year. Quarter 3 was little below the mark because of various reasons I explained to you. Quarter 4, we expect is going to be coming to the normalcy because things have started turning on a positive side whether you talk of weather conditions, whether we talk of situation in Jammu & Kashmir, where we talk of orders in terms of deliverable orders in the current quarter, so we expect to be out from this little bit subdued performance in the quarter 3 and the quarter 4 and order book remains good. R&D efforts are on which would give a better improved margin to the Company. In near future,



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the R&D products which were designed, Wi-Fi is an example, are showing good traction from customers, UBR radios which have been our own designed are showing good traction from customers. So we hope for a good quarter 4 and thank you very much once again for participating in this call. Thank you very much.

Moderator:

Thank you. On behalf of Maybank Kim Eng Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
