HFCL GROUP

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The 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**	**The 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 Unaudited Financial Results of the Company for the 3rd Quarter and Nine Months ended on December 31, 2022, of the Financial Year 2022-23.

Dear Sir(s)/ Madam,

This is further to our earlier announcement dated January 19, 2023.

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 January 24, 2023, on the Unaudited Financial Results of the Company for the 3rd Quarter and nine months ended on December 31, 2022, of the Financial Year 2022-23, which were considered and approved by the Board of Directors of the Company, at its meeting held on January 23, 2023.

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
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(Manoj Baid)
Senior Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.

"HFCL Limited"

Q3 FY '23 Earnings Conference Call"

January 24, 2023

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

Moderator: Ladies and gentlemen, good day, and welcome to the HFCL Q3 FY '23 Earnings Conference Call 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 and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mahendra Nahata, MD, HFCL. Thank you, and over to you, sir.

Mahendra Nahata: Thanks a lot, and Good afternoon Ladies and Gentlemen and greetings for the New Year 2023. A warm welcome to HFCL's earnings call for Q3'FY23.

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

Friends, our Country has recovered to a large extent from the aftermath of the macro economic challenges posed due to the pandemic and Geopolitical situation. I applaud our Government, the RBI and policymakers for handling the situation so well and setting India on a path of economic growth. As a result, World Bank has upgraded India's economic forecast for FY23 citing the Country is showing higher resilience to Global shocks and robust domestic demand. The telecommunication sector has been at the forefront of India's technological growth, ushering into new advancements and enabling innovations. The impact of supply chain disruptions due to the ongoing Russia-Ukraine conflict also seems to ease a bit further during this quarter.

For us, Q3FY23 was earmarked with some significant developments including the launch of our 5G products and services during India Mobile Congress 2022, coupled with a prestigious partnership with Qualcomm for the development of innovative and futuristic 5G products. Further, we received approval to avail incentive up to Rs. 652.79 crore under the PLI scheme from the Government of India which will give us a boost to the production of indigenous telecom equipment from India. With the favourable industry tailwinds, we bagged key orders from prominent domestic and Global players. The demand for our new range of Optical Fiber cables in key markets remained high leading to stellar performance on export front, which grew by 140.38% on a Y-o-Y basis. We have been able to close Q3FY23 with an outstanding order book of more than Rs. 7,000 crore.

As India undertakes one of the fastest and largest 5G infrastructure rollouts, there has been significant progress on home-grown 4G and 5G stack. The next couple of years will be exciting for the telecom equipment industry, as the leading telcos are placing massive orders for 5G rollout. During the fiscal period 2023-28, the total addressable market size for various 5G products and services globally (which includes 5G Transport Products, 5G RAN Products and

System Integration Services) is estimated around USD 400 billion to meet this impending demand emerging from the 5G network rollout in India and also global market, we launched some key innovative products at the India Mobile Congress 2022- Asia's largest telecom, media and technology forum, held during October 2022. We launched World's first Open source Wi-Fi 7 Access Points, 5G-8T8R Macro Radio Unit which combined the power of vRAN and open standards to accelerate 5G deployment. HFCL also launched 5G Lab-as-a-Service facility to accelerate rollout of 5G solutions and services. To sustain innovation and technological breakthroughs, we collaborated with industry leaders like Qualcomm Technologies, for designing and developing various 5G products.

The telecom industry has continued to witness a strong investment momentum on the backdrop of advent of 5G, deepening of FTTH penetration in the country, ongoing BharatNet, proposal for modernisation of railway and defence telecom networks and NHAI telecom initiative launched by the Government of India. Also, with the hyperscaling of data centres and 5G networks, we are seeing a manifold rise in the demand for fiberization and TelecomNetworking Products in India. In order to create a strong 5G network infrastructure in India, the telecom industry will witness an investment of at least INR 3.5 to 4 lakh crore in the next 5 years to facilitate 5G services rollout in India.

The domestic Optical Fiber cable market environment continues to be strong with the current market demand for Optical Fiber cable products at 25-30 mn fiber km p.a., is expected to grow significantly over the next few years on account of creation of 5G network across the Country, expansion of existing 4G network, deployment of Fiber To The Home network, implementation of Bharatnet project and creation of multiple data centers across the length and breadth of our Country. In India, BharatNet alone will lead to an opportunity of laying 16 lakh kilometer of Optical Fiber Cable translating in almost 50 million Kms of fiber.

Until June 2022, the level of fiberization in India was at 35% against the ideal requirement of 75% for the launch of 5G services. Indian telcos are estimated to spend $1.5- 2.5 billion on Optical Fiber Cable in the next three to four years.

The current global demand for Optical Fiber Cable is 650 million fiber km equivalent cable which is expected to grow significantly on account of 5G rollouts, FTTH expansions, creation of multiple hyper-scale data centres. As the largest supplier of OFC in India, HFCL has been focused on developing the new-age low diameter cables like Micro duct cables, FTTH cable range, micro modules cables, aerial cables and underground cables for meeting the growing global demand.

As already informed, significant development during this quarter was our export growth of 140.38% on a Y-o-Y basis and we are optimistic to continue with the same trend in coming quarters by accessing more geographies. Our powerful and robust innovations have helped us in establishing a global footprint in 30+ countries, and serving up to 80+ clients on the global front.

With our own employees in places like Dubai, France, Germany, England, Netherland, Kenya, and the US, we are further deepening our customer relations and widening our global presence. Leading global economies including the US, UK, Europe, are some of the key focus markets for us.

During the quarter, one of the key milestones was to receive approval under the production-linked incentive (PLI) scheme from the Government of India to avail incentives up to Rs.652.79 crore over a period of 5 years during FY22-23 to FY26-27. As part of the development, we have earmarked an investment of ~Rs. 425 crore over a period of 4 years starting from FY22-23 for manufacturing of various telecom products including 5G equipment. In order to avail the benefits under PLI scheme the Board in its meeting held on 23rd January 2023 has given its approval for setting up the manufacturing facility for telecom and networking products in Gurugram in the State of Haryana. The participation in the PLI scheme will enable us to support the Government's initiative of 'Make in India' and make us more competitive in Global markets.

The Board in the said meeting also decided to further expand the existing optical fiber manufacturing capacity by ~15mn fkm p.a in Hyderabad where Company's optical fiber manufacturing facility is already operational, instead of earlier plan of setting-up through its wholly owned subsidiary i.e. HFCL Technologies Private Limited. The estimated capex for this proposed capacity expansion would be ~Rs.357 crore and the total consolidated capacity of optical fiber manufacturing post expansion will reach from existing capacity of 10mn fkm p.a to 25mn fkm p.a.

Further, HTL Ltd, our material subsidiary was recognized as the 'Emerging Company of the Year' during the 8th International Aerospace & Defence Awards conducted during the recent Defence Expo 2022 in Gandhinagar, Gujarat, making it a stepping stone towards expanding our presence in the defence arena.

During the quarter under review, the Company has bagged prestigious orders from various Indian and Global customers amounting to appx Rs.3,000 crore. We have a stable order book of more than Rs.7000 crores as of 31st December, 2022.

Let me now brief you on key performance metrics for Q3FY23.

- Revenue for Q3FY23 stood at Rs. 1086 crores as compared to Rs. 1173 Crores in Q2FY23 and Rs. 1215 crores in Q3FY22

- EBITDA for the quarter stood at Rs. 193 crores as compared to Rs. 175 Crores in Q2FY23 and Rs.174 crores in Q3FY22; EBITDA margin stood at 17.80% for Q3FY23 as compared to 14.88% for Q2FY23 and it stood at 14.36% in Q3FY22

- For Q3FY23, profit after tax stood at Rs. 102 crores as compared to Rs. 84 Crores of Q2FY23 and Rs. 81 Crores in Q3FY22; PAT margin stood at 9.36% in quarter under consideration as compared to 7.18% in Q2FY23 and 6.67% in Q3FY22

- Segment revenue for telecom products during the quarter stood at Rs. 693 crores as compared to Rs. 671 Crores in Q2FY23

From the above financial metrics, you would kindly appreciate that on the backdrop of easing supply chain disruptions and reduced pressure on input costs, we have been able to demonstrate healthy growth in our order book, profitability and margins over last quarter. We are optimistic about tapping into future opportunities and believe that our order book, revenue and margins will continue to grow with the initiatives taken in the last few quarters.

With 5G driving telecom operators and their innovation to a new high, HFCL is also witnessing a transformation towards emerging as a high-tech global enterprise and integrated next-gen network solution provider. Having established a strong footing in the industry as a leader in optic fiber cable manufacturing in the country, we will continue to offer more robust and high-tech solutions with open source technology. In FY2023-24, we will further continue to invest in R&D and focus on our strategy of tapping new customers, new geographies and new products. We aim to grow with strong contribution coming from exports, Product segments and Private customers. We are also looking at strengthening our order book further, which is over Rs. 7000 crore as of Q3FY23.

To conclude, I would like to say that given the opportunity landscape in India owing to the 5G rollout, deepening of FTTH penetration, ongoing BharatNet, railway, defence and NHAI telecom projects, and hyper-scaling of data centres, we will continue to leverage our capabilities and make the best out of the available opportunities to innovate further.

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 very much.

Moderator: The first question is from the line of Aman Vij from Astute Investment Management.

Aman Vij: Good afternoon sir**,** first of all, congratulations of a very good performance on the optical fiber segment. Sir, I wanted an update on the other segment as well, which is the defense segments. So if you can talk about what is the update on the electronic fuse tender as well as electro optic tenders?

Mahendra Nahata: Aman, the performance is overall being robust, not only on optical fiber cable business but other areas also, including the project and the services. As far as projects for fuse is concern, that is yet to be decided. There are a lot of issues going on and which are under discussion. Since it's a defense-related projects, I would not like to go in more details at this point of time, but it is yet not decided. And I believe that the tender is under consideration and let us see what decision finally the military authorities take giving the best interest of the country in view in the next few weeks time.

But no decision has yet been made. In electro optics, a tender, we have participated, which is under evaluation. Technical testing is going on. We have submitted samples for totally indigenously designed electro optic products. Now, not only indigenously designed product, but the core, which is heart of the system, has also been designed by us. I think we are one of the probably only Indian company, which has designed a 12-micron core by ourselves. Only the sensor has been purchased from outside. The rest of design is done by ourselves, which increases our competitiveness and quality performance also.

So it is under evaluation, technical evaluation at this point of time. And but other couple of areas also, we are making good progress in defense. So as you know, defense revenue takes time, and I've been saying repeatedly on every call, that we don't expect any revenue in the current financial year from defense because our evaluation and this performance checks and all this are going on. But you should start picking on from the next financial year and then increase further in the coming financial years.

We are already working on a couple of more projects for defense, including as I had informed earlier also modernization of BMP armored personnel carrier that is going on, bench test has already happened. We are now keeping the BMP with our opto electronic products and control systems. That evaluation will take place in the month of March. And similarly, we are working on software-defined radios, high-capacity radio relay. These are four, five different projects we are working, but revenue would start coming from the next financial year, but the major growth would be from year next to that.

Aman Vij: Sure Sir, just a clarification on this, and then I'll move to my next question. So on the few sites, you had explained that the tender last time, there was some issues and the army has given the tender to the public sector companies rather than the private.

Mahendra Nahata: There was no tender has been awarded to anybody, no such tender award has happened.

Aman Vij: So they were supposed to come with new tenders...

Mahendra Nahata: New tenders allowed to participate. Award not happened.

Aman Vij: Okay, but what I understood from the last call, you had mentioned that only the public sector companies product was allowed to go through the second level of trial and private companies, products were not allowed to go, and that is why private sector had complained to the Ministry of Defense. So I just wanted that.

Mahendra Nahata: That still remains the same. So after all this representation by all private sector companies, no decision has yet been made to award tender to anybody. And let us see what decision government finally takes in terms of giving a chance to private sector companies again to price the products because private sector companies to the best of my knowledge out of the fleet, have indigenous technologies own IPR, at least HFCL has got owned technology with IPR and which serves the real purpose of the Self-Reliance, Atma Nirbhar particularly defense sector and is under consideration of defense authorities, that is much I can say.

Aman Vij: Sir, the trials which were going on, has it stopped for everybody or only the private players and public sector trials are still going on?

Mahendra Nahata: It's not stopped in a sense that decision has yet to be taken that whether as the second chance has been allowed to public sector companies, our representation is that once you have given a second chance to those companies, you have to give the same parity to the private companies also.

Aman Vij: Sure Sir that helps, on the electrooptic side, you said, what is the tender that we have already bid for?

Mahendra Nahata: This is the tender for, I think, light machine guns or assault rifles, one of them. Because their equipment is same. About 5,000 sites for this night vision devices, and that is under evaluation.

Aman Vij: And, what is the rough order size or such project?

Mahendra Nahata: I cannot say that price has not been opened up. Aman, so I cannot say the price, the size, but its 5,000 units or more fresh tenders are coming.

Aman Vij: Sure, sir. And you said we are the only players who have the indigenized product in this compared to others?

Mahendra Nahata: No. I said, indigenized core, product other people have also indigenized. But within that, within the whole product with a major cost is the core. The core we have indigenized. So it's not only the indigenous product, the core has also been indigenized. It's something like equipment, where chipset, for example, you indigenized. So here, the core is the basic heart of the system, heart and mind of the system. We have indigenized that.

Aman Vij: And how many players were there in private sector who have bid for this?

Mahendra Nahata: I think must be six, seven players. I don't remember exactly it, but there must be six, seven players.

Aman Vij: Sure Sir, last question on the defense side. You had mentioned that FY '23, there won't be any revenue. FY '24, maybe some in FY '25, the scaling will happen. So according to your rough estimate, what can be the numbers in FY '24 and '25 in defense for us and from which we have four, five products, so which do you think will commercialize first?

Mahendra Nahata: Right now, I can't project a number because it's too early to say that. But yes, next year, I expect some couple of 100 crores of revenue come from this. But to project to the year next to that, that would be too much of a forward-looking statement. I would not like to make at this point of time. But yes, there will be significant growth, that's much I can say.

Aman Vij: And out of these four, five categories in defense, which do you think we will be able to commercialize first?

Mahendra Nahata: I think electro optics should be the first one to be commercialized.

Aman Vij: okay, and followed by, sir?

Mahendra Nahata: Followed by, it may be the upgradation of BMP. It may be the fuzes also. Yes.

Aman Vij: Sure Sir**,** and this time, you have updated the presentation and you have talked a lot about the addressable market. And in the defense itself, you have talked about...

Mahendra Nahata: Aman, can you come back with the question, there are too many questions in the queue, other people are also there.

Moderator: We'll take the next question from the line of Balasubramanian A from Arihant Capital.

Balasubramanian A: Good evening Sir, congratulations for good set numbers. Recently, we have secured one of the EPC contracts in UP like which is laying fiber optic cables to implement rural water supply network. And we don't have expertise in rural water supply network, like how we are going to manage this project and like what kind of profitability we can expect in this project, what kind of margins we can expect because right now, we are facing pressure on EPC contracts margin levels. And what are the minimum criteria we are looking to select the projects?

Mahendra Nahata: Good question, Mr. Balasubramanian. First of all, let me tell you. First I'm coming to expertise and then I will come to the rationale. As for expertise of laying water pipeline is concerned, it is the same SDPE Duct, which lay for telecom network. There's absolutely no difference, except the diameter.

Only difference is that you have to keep the gradient in view, which you don't keep in view while when you do telecom cable because no water has to flow in telecom.

So absolutely, there's no difference in laying. It is a combination like what we do in a backhaul network for fiber optic cable and fiber-to-home network, there's absolutely no difference than that. So technology is same. Way you do it is same. Only the gradient is the thing which you have to keep in mind, which is not a difficult thing to do at all. Number one.

Our rationale of taking, worldwide many places I've seen that, and even in India, Telangana it has been done by the government in a Bhagirati project. That you laid down fiber optic cable while laying down water pipelines because the cost of laying fiber optic cable, if you look at more cost is in digging than the fiber itself. Here you're digging anywhere for laying the water pipeline. So you might as well put the fiber also.

So what I said, like HFCL, do this experimentation in Uttar Pradesh and many other parts of the country, if this is successful, that we lay fiber optic cable together with this because here, this project is making pipeline reach to every home. So we will give fiber optic cable reach to every home, which is anyway the objective of government of India under BharatNet program. And also at the same point of time, operators are also looking at taking fiber to home at a lower cost because ARPUs in the village may be lower.

Lower cash cost can only happen if the capex is low. So here since that the cost of digging is not there, cost of RoW is not there. The cost is expected to be much lower than what you would have incurred if you had laid down fiber optic cable alone for the telecom use. So the cost will be lower, expectation of ARPU would also be lower from the rural subscribers. So it is expected to be beneficial to operator also to government also and we get additional revenue.

So this is a new experiment we are doing in the country. So as that if this is successful, we would like to do this in the more number of areas. So this is the first such project where anyway, only water pipeline, we have decent profit. But we are doing a survey for the telecom purpose also, and we are going to lay fiber optic cable also in selected areas. Coming to profit, we are targeting at least about 10% profit before tax margin, 10% PBT in the project, which we have no reason to believe that why it would not be there yes, certainly, it would be there. 10% PBT is expected out of this.

Balasubramanian A: Okay Sir, my second question, our telecom product share increased to 64% versus 42%. And like our margins also substantially improved, EBIT margin improved 19%. Like if the telecom product shares crosses above 70%, what kind of EBIT margins we may expect and what kind of working capital cycle improvement be expect in over medium term?

Mahendra Nahata: Look, this is one of the strong performance area of the Company, which you have really pointed very well Mr. Balasubramanian. If you look at in the current quarter, our product revenue is 64% as against it was 57% in the last quarter and 42% in the same quarter of the financial year 2021.

So 42% in one year has been up 64% during the quarter under review. If you really take it 9 months of the year, then this is 60% in the 9 months. And compared to the same 9 months in the last year, it was 41%. If you compare 1 one year back, go back by one year, financial year '21, it was only 27%. Financial year '22, it became 43%. This year, this quarter, it is 64%. So we have been rapidly growing our revenue from products, which has been my key initiatives, I've been talking every earnings call that we have been rapidly growing our revenue for products rather than projects.

Project which was 73% in March '21, it has gone down to 36% in the current quarter under review. So we expect to continue this, our strategy is not to stop taking project. We will keep on taking projects, but we are not draining our cash flow, number one, and at the same point of time, which are profitable.

So if you look at, we have not taken any major telecom turnkey projects in the current quarter. We have taken this water supply together with telecom, where the payment conditions are good and the profitability is there, but we have not undertaken any large telecom turnkey projects, there were many under offer. We could have taken a couple of 1,000 crores, I can tell you, a couple of 1,000 crores, but we did not take it because payment conditions are not good.

So strategy is to take more revenue from products, but not to forget the projects, if the cash flow negativeness is not there and profitability is decent for example, we are doing this, Reliance's telecom turnkey projects. We're implementing their fiber optic cable network in North India, and FTTH network in North India, but payment condition is good. So we have no problem in keeping on implementing that project because there is no negative cash flow. There's no cash flow problem in that project. So we'll continue to do that. But yes, now we will not take a highly negative cash flow projects, which creates the cash flow problems for us.

Balasubramanian A: Sir, what is the average working capital cycle for telecom products and EPC contracts, like if you could share some color?

Mahendra Nahata: On overall basis, I would tell you, it is about 125 days working capital cycle products and this mix of, if you do, it's a on an average. But if you say only products, products would be roughly 90 days and that could be roughly 150 days or so 170 days or so.

Balasubramanian A: Sir, on that optical fiber capex around INR 357 crores. What is the capex for optical fiber cables?

Mahendra Nahata: No, this is INR 356 crores only for optical fiber. Optical fiber capacity enhancement of 15 million fiber kilometers.

Moderator: Mr. Balasubramanian, may we request you to please return to the queue. There are several participants waiting for their turn.

Balasubramanian A: Thank you so much sir, I'll come back.

Moderator: We'll take next question from the line of Abhishek from Arihant Capital, please go ahead.

Abhishek: Congratulations on good set of numbers. Sir, I want to understand on the railway communication side, we have an order book of INR 309 crores. Now Railway is talking about the increment in capex, the higher budgetary allocation by at least by 25% going forward. Sir, what kind of work we are doing? And can you throw some light on how you see the railway business going forward?

Mahendra Nahata: Abhishek, again, a very good question. I must appreciate. We have been a good expertise in railway telecommunication. If you had seen yesterday's Times of India, there was a full page ad by Larsen & Toubro that they have switched on the metro rail network of Mauritius and there was a full page advertisement. You must have seen that. Point, I'm trying to make here is the telecom network of that was done by HFCL. Mauritius metro, which was started overall construction was by L&T and which was flagged off two days back, and there was a full page ad by L&T yesterday on that. Telecom network of that project was done by HFCL.

Few days back, I think a couple of weeks back, if you would have seen another news item where Dhaka Metro Phase 1 is also switched on, flagged off by Shaikh Haseena, the Prime Minister of Bangladesh. There also, the telecom network was done by HFCL. Similarly, number of projects in dedicated freight corridor here has been done by HFCL for telecom. Kanpur and Agra Metro are also telecom network is being done by HFCL. We have participated in a couple of more projects Ahmedabad, Surat. The tenders are yet to be opened. There also we expect reasonable size of order to come to us.

So point I'm trying to say, not only in India but abroad also, we are doing a lot of telecom projects like Mauritius, Dhaka I just mentioned. In India also, some of the projects are subcontracted to us by the large contractors, turnkey contractors, some like Kanpur-Agra, we are doing directly. We have participated directly in Surat and Ahmedabad. So we developed a good amount of expertise.

Now there are more than 50 new metro cities are being planned on metro network. So we will be participating in all these projects also. So I see reasonable growth in revenue coming up on these areas. But yes, between order and execution orders, it takes a lot of time because order comes when they start building the infrastructure, the pillars, the lines and all that. The completion of that takes a long time. But I think our revenue from railway next year onwards something like INR 500 crores per annum should be able to reach growing steadily by some percentages every year.

Abhishek: What will be the margin on those projects? And just a follow-up.

Mahendra Nahata: The margin, Abhishek, depends, different in different projects. But generally, you can see something like 10%, 12% margin can be there generally. But around 10%, you can say. But it differs for different projects-to-project.

Abhishek: Sir, my second question will be what is the follow-up, So how the PLI benefit will be coming in the picture right now. So what level we'll be getting the PLI benefit? Is there any time line or anything is there right now?

Mahendra Nahata: No, PLI benefit, it's the next five financial year and starting on the current financial year. So what we produce after a new investment, which would be done by us INR 425 crores in the next four years, and there is a percentage they have provided this year, how much percent next year, how much percent.

And since we have got approval within the PLI, DLI scheme, design linked incentive scheme. So R&D expenditure is also taken as a part of capex for the purpose of calculation of this total investment of INR 425 crores. So total investment, INR 425 crores and the PLI incentive given to us is INR 653 crores. This will be available to us in the next five financial years, including the current year.

Current year is not expected to be much because we are yet to start making investment which would be start doing now except R&D, infrastructure investment, we are still not done. We are going to start it now in Gurugram near Delhi. But from next year onwards, when we start producing this equipment, four years' time frame, we expect to receive about INR 600-plus crores as incentive out of the production telecom equipment we will do in India.

Abhishek: Thank you Sir, I have few more questions I''ll come back

Moderator: We will take our next question from the line of Sanjay Shah from KSA Securities Private Limited.

Sanjay Shah: Good Evening Sir, commendable and congrats on the front of shifting of private customer business, which is a very huge achievement company has done. And also on the product side, shift is really a remarkable achievement company has done. Sir, my question was regarding our Slide 18, I suppose. In Slide 18, we mentioned about key partnerships. There are 12 partners with us, and so will it be possible to highlight briefly on the opportunities with these partners and what business they throw to us and as an asset to our Company?

Mahendra Nahata: Yes. I will definitely do that. But before I do that, one of the point I would like to highlight. You rightly said that there is a good performance in the area of products and all that. There have been three key areas I would like to highlight. The Company has done a robust growth in terms of strategic decision we took, where we have been very successful in implementing those decisions, and they have been a long-term benefit to the Company, there would be long-term benefit to the Company, one.

If you look at our revenue from products and projects, which I mentioned a little while back, that it has grown to 64% in this quarter, but it was 27% in the financial year '21, 27% to 64%.

And naturally, this turnkey has gone down from 73% to 36%. Last few earning calls I have been repeating this, that this is our policy, this is our strategy to reduce our revenue from projects and increase from products. And gentlemen, this has been pretty successful, 27% of products revenue going to 64%, it's a good performance. Number one. So one first strategic vision and the performance is the revenue mix.

Second, increase in exports. There is another area I've been talking that we want to increase our exports, not marginally, but geometrically, we want to increase our exports. Now if you look at in the current financial year till now, our exports have already crossed more than INR 600 crores up to December. Now my target for export in the current financial year was INR 750 crores, which is more than double of INR 360 crores of last year to INR 180 crores a year before that. So INR 180 crores become INR 360 crores, then the target of the current year was INR 750 crores.

But let me tell you, this year, we will be crossing INR 850 crores. So INR 180 crores come INR 360 crores and INR 360 crores would be coming INR 850 crores in the current financial year. And I can tell you, we will maintain the same kind of growth trajectory. As a company, we have taken the target of reaching to our export revenue of INR 1,500 crores in the next financial year. So INR 180 crores, INR 360 crores, INR 850 crores and the target of INR 1,500 crores.

This is the kind of another success has been in the Company, increase in export revenue, which is the strategy we have taken up as a second cornerstone apart from revenue increase of products and which automatically is to revenue increase from exports.

Now, what is the second thing which is happening in export, which is also very critical. Though we have taken only a pilot project at this point of time, but the inquiries we are receiving, we are not sure that whether we can take that quantum of orders, which is implementation of projects in Europe.

Now European project payments are very good. You get paid every 15 days, every 15 days on the base of work completed. We are getting firm inquiries where they are saying come and do. After looking at the work we have done in Germany, kind of pilot work what we have done. We are getting inquiries for 100s of crores for implementation of projects in Europe. Only point is that I am not able to ramp-up my implementation team to such a quick extend to get to undertake those number of projects. So we are really looking at how much order we should be taking wherein we don't dissatisfy the customer. We'll do less work, but we keep customers satisfied.

So in the export front, when I say INR 1,500 crores, that does not include revenue, we would be getting from project side, whenever we start taking this project, which we believe that we should start taking in the next one or two months' time frame after ramping up our team which we have decided to recruit some people and do that, but that would be an addition.

So second initiative of growth of export has also been very successful. Third initiative we have taken increase of revenue from private sector, decreased revenue from government. When I say this, our policy is to take only those government projects, which are not negative in cash flow. Cash flow is better, payments are better. Only those government projects we'll take or even the private. But the policy of decreasing revenue from government has also been very successful.

In the quarter under review, the government revenue has only been 20% and private has been 80%. Now if you go back financial year March '21, government revenue was 49% and private was 51%, see it more or less it was 50-50. 50-50 has now become 20-80 in terms of private sector. So these three key initiatives, Mr. Sanjay Shah, one, increase in product revenue, increase in exports and the increase in revenue from non-government. You have been in the calls earlier also, I remember.

So last four, five, six calls, I've been repeating this, we have demonstrated that how successful we have been implementing each of the strategy. Now let me again come back that we will continue on the strategy to keep on increasing our exports. Our strategy of new products by our R&D efforts is on, new customers, new geographies is on, and we will constantly improve our exports and revenue on the basis of strong demand, not only in India but abroad also.

Let me put it like this. In the world market is 100, Indian market is 6% to 7%. 93% to 94% market, sit outside India. Now take out Chinese, where we can't go. Let us say, take out Chinese which might be 25% to 30%, but still 65% of the market is beyond India which is accessible to us. So while we concentrate on our domestic 60% to 70% of the market, we should go out and grab some share of the 65% market also, which we have successfully demonstrated in optical fiber cable.

We are now getting good success in implementation of projects also, but we will get good success in the product segment also, which I've been saying we would start working on this from the next financial year. Working has already started, but we will start getting a full revenue from the next financial year on the product side also.

So that is as far as you talked about projects and turnkey and so I thought not only that, but there are three very strong strategic points, which the Company has undertaken and has been very successful, I thought I should mention to the benefit of all participants on the call.

Now coming to the key partnerships, which we have said. One we discussed about Qualcomm. Qualcomm is a world leader in wireless technologies. So we had a partnership with Qualcomm for development of WiFi, backhaul radios, and now 5G products. 5G products is very critical, very critical. I, myself visited the top leadership of Qualcomm a month back. And it's a very successful partnership going on in terms of they're helping us in development products, their technical know-how, systems and all that. And we believe that will start coming out with the 5G products with Qualcomm technology in the starting from the field trial, I would say, from the first quarter of the next financial year.

The non-5G products, which is WiFi and backhaul radio are already there. They are growing production. New versions of that, including WiFi 7, first WiFi 7 based on open RAN standard already demonstrated. So there are already in the production WiFi 5, 6 are already under production. They are being sold.

So it's a very profitable partnership. WiFi and radio are already there, but this 5G radio networking products, which includes macro cells, small cells, indoor, outdoor and fixed wireless access, which is going to be a very-very successful product are going to come up gradually starting in field trials on the first quarter of the next financial year.

Now this is one partnership. Now coming to two particular partnerships here, BigCat and Nivetti Systems. Here, we have invested money in their company. BigCat, we have invested about 50% of their equity and as against that investment, they're designing, software defined radio for us for army application. Similarly, I think that is expected to a huge market opportunity to INR 40,000 crores, INR 50,000 crores in the next six, seven years.

Nivetti Systems, again, we have invested in their company 15%. The design of switches is being taken by us and switch again has a huge market, $10 billion to $12 billion worldwide L2, L3 switches and these switches are being manufactured and sold by us as these have been designed by Nivetti systems.

Now other opportunities like Wipro, CommAgility, VVDN, these are the companies where we have done partnership for designing of products for us because when you design so many products, you can't ramp up your own R&D by yourself into such a manner. So we have given them contract for designing products for us. Contracts, they are doing work for us for designing our products, the IPR belongs to us.

For example, Wipro is designing a router for us, but design parameters, testing architecture is being done by us, development is being done by Wipro. So Wipro is probably doing three kind of routers, 120 Gbps, 300 Gbps and 700 Gbps. After that, we'll go above 1 terabit also. So Wipro is designing routers for us. VVDN is also helping us in designing of some of the wireless products. Similarly, CommAgility is also helping us in designing of the 2/2 small cell for indoor application. So we have more than about 250 R&D engineers within our Company, but we need many more.

So these are the R&D contracts, all the partnerships where we have invested money, they are helping us in designing this different technology equipment where IPR belongs to us. So I would say, not less than 400 to 500 people put together much is working in these companies for designing products for us. So that's an R&D spend, which belongs to us because they are working on contract for us.

So other companies like Metanoia or IP Infusion, they are software stack partnerships, unique software stacks for different products, which they are supplying software stacks to us. So there are different kind of partnerships starting from contract R&D to technology partnerships like Qualcomm or partnerships like equity partnerships, we have done, Nivetti systems or BigCat. But all lead to new products for us, all lead to new products for us where IPR belongs to us. That is the advantage we have got. So this is all this partnerships strengthening our R&D by getting more-and-more manpower, better manpower, design products for us. And once these products come in the Company, manufacturer has sold, which will increase our revenue and profitability both.

Sanjay Shah: I think it is ready stage for us for growth for HFCL for next 3 years, thank you very much Sir for detailing.

Moderator: We'll take a next question from the line of Hardik Vyas from Economic Times.

Hardik Vyas: Sir, I just had one question. You have enlightened us enough on all my questions. Just one question that we have been taking all these initiatives, but where do we see our next phase of growth for the next four quarters coming in from as in I'm not asking you the numbers, but the way you have said that you probably would exceed INR 1,500 crores on the product export revenue side. So will that be the same contribution as in roughly 15% to 20% of the overall revenue? Or could you please guide us on that?

Mahendra Nahata: Hardik, growth would continue on the back of strong demand in India and globally because now, we are not only talking to Indian market but to global markets, because that is one area where we are now concentrating and the performance has shown that.

Until now, we have been working on exporting fiber optic cable. Now I started working on export of projects also. Third, we would now be working very seriously on export of products also. So overall growth is coming on indigenous demand, local demand on the back of 5G, NHAI, defence, railways, BharatNet and all that and a strong global market.

Now growth will come from which areas. And let me tell you that. One, fiber optic cable. Fiber optic cable revenue has been increasing consistently. This year, it would be around INR 2,300 crores to INR 2,400 crores in the current year, which you are talking about.

Last year, it was about INR 1,700 crores. Year before that, it was INR 1,200 crores. Year before it was INR 700 crores, INR 700 crores, INR 1,200 crores, INR 1,700 crores, INR 2,300 crores, INR 2,400 crores. This has been the kind of growth. So we will maintain this kind of a growth trajectory. In the next financial year also. This growth trajectory will be maintained and major growth would be coming from export market.

As I mentioned, INR 750 crores, INR 850 crores this year, but we expect to reach to INR 1,500 crores. This is in fiber optic cable alone, but there would be projects on the top of that. There would be products on the top of that. This INR 1,500 crores again, I tell you for only for fiber optic cable. But projects and products would be on the top of that. So how much that would be, it's too early for me to start talking about because we have to still jump into the water and swim there. That is one.

Second growth opportunity or whether the growth, of course, would happen in the product business. As I said, products are going to be launched, all 5G-related product, routers and all that are going to be launched starting from the first quarter of the next year . So first quarter, we are starting field trials of the equipment, and it will continue field trials and launching for throughout the year.

So second growth is going to come from your -- this product revenue, wherein we believe that next year, a reasonably good number of products will be launched and revenue would come from national and internationally both.

Third growth would come from those projects which are financially profitable and also cash flow positive. That is the other area where we look forward, the growth would come, not that we are stopping project business. No. where the profitability is there and the cash flow is not so much negative, we would keep on getting projects. So that is another area of growth, which is going to come. So all this put together, growth would be there locally, internationally, cable, projects and products, all three areas.

Moderator: Our next question is from the line of Abhishek from Arihant Capital.

Abhishek: Sir, my question is largely on the export side, you have given the numbers right now. So what will be the mix of the export side, if you can throw some light, which are the segment, and how you see defense as an opportunity for an export?

Mahendra Nahata: Look, we have not at all looked at defense as an opportunity export till now. Because once we start supplying in India, then only we will be starting looking at opportunity of export in defense. Fuze, for example, we are registered in NATO as a possible supplier, NATO's some cage number, which has allotted to us. But we are not working on any of such proportion at this point of time because let us first establish ourselves in a good way in India, then we look forward for export in defense equipment. So that revenue is not in my projection at this point, not that we would not do that. But I don't visualize doing that in next one or two years. That's the number one.

Now coming to exports right now, the entire exports mostly has been fiber optic cable till now. As I've been saying that until now we have been consulting at fiber optic cable project very small work we have started as a pilot. But next year, we will be doing more of that. Product, yes. That's one area that there would be another growth opportunity apart from fiber optic cable. When I say INR 1,500 crores, as I said, that is fiber optic cable and products and projects will be added on the top of that. So these are the export opportunities we are working on.

Abhishek: Thank you Sir.

Moderator: Our next question is from the line of Hitesh K. Patel from KK Patel & Company.

Hitesh Patel: Good evening Sir and congratulations for the good quarterly numbers. I would like to clarify one thing. Sir, in the month of October'21 INR 600 crores expansion plan of optical fiber cable was announced. So right now, sir, what is the on-stream of where the expansion. Are we 100% spending on the capacity announced in the October month?

Mahendra Nahata: No, Mr. Hitesh. Fiber optic, as I mentioned, INR 356 crores expansion has already started. Construction has already started in Hyderabad. That work is going on. Fiber optic cable, we are yet to start construction, but machine orders and all has started. Construction activities yet to start because of land acquisition work and that is going on, which is expected to be completed in next one month's time frame, then immediately that work also would start. A lot of land has been acquired. Payment has been made, but construction, we have to start once the land acquisition is completed, we will start construction of that. But fiber, work has already started.

Hitesh Patel: And one more question, sir, how would you see the future margins of the company on the product side? About six months back because of the COVID, margin was shrunk by huge margin. In this quarter, we have seen some spike in the operating margin. How would you see the future?

Mahendra Nahata: Look, as you would have seen, the profit margins have grown in the current quarter. There has been a reasonably good growth in the profit margins. And I believe that going forward, margins will keep on becoming a bit better. Reason being as we bring in more telecom products in our product portfolio, I believe that margins would keep on growing further because once we have products with our own IPR, our own control on the technologies, the margins are expected to grow. So the margins have grown into the in current financial year, current quarter. And we're expecting that the margin will grow further.

But to put up a number would be very difficult right now that how much growth would be there. But yes, I expect the margins to grow.

Moderator: We will take our next question from the line of Dipesh from Manya Finance.

Deepesh: Sir, you mentioned about setting up the new manufacturing facilityforthe PLI scheme. Now the project cost, you said that it will be funded by a fresh fundraise. Will the fresh fund raise will come through as a preferential allotment as you had planned before? And will it come in this quarter or maybe in the next quarter?

Mahendra Nahata: I didn't say that we did by fresh funds. I never said that. I said.

Deepesh: In the press release, sir. In the press release, it has been mentioned that the project cost will be funded by term loans, internal accruals; preferential issue of warrants which have already been given and the fresh fund raise.

Mahendra Nahata: Yes. So that's what you are referring. I thought you are referring to, what I stated just now. No. So fresh fundraise, though there has been enabling resolution passed by shareholders and the Board also. But the warrants have been already issued, as you know, but we have not really decided when are we going to do the fundraising and all that. So we are waiting because this investment is to be made in next few years, not immediately. So we are waiting for the right moment and when the funds to be raised.

So no such decision has yet been taken to raise the funds at this point of time. Whenever we think we will definitely come back to you only enabling resolution, which have been passed.

Dipesh: Okay, And just one more question, sir. I mean what is the reason the sales declining? And going ahead, do we see, I mean, how strong do we see 20%, 25% growth in volumes?

Mahendra Nahata: I would like to say one thing here, decline in sales is not important. Improvement in profitability and overall profit is more important. If you get the same profit or more profit or less sales is, I think, is a good performance parameter for any company. So in the current quarter, if you see the sale as a small decline, and I will explain the reason also, but profitability has increased. So that is a key parameter one should look at.

And that's what we are looking at the Company that profitability should increase. Revenue should also increase. No doubt, it has to increase. But more effort should be on increase of profitability. Now a small decline in the sales in the current quarter has been because that some incomplete work in the projects could not be billed in because the customer testing has not happened, particularly in the army related project.

The customer testing could not happen because of various issues related to the customers. That is why this billing of that particular work could not be made. Otherwise, you would have surpassed what last quarter's revenue was, but it was the reason was this that we could not bill that, so it could not be part of our revenue.

Moderator: Thank you. Ladies and gentlemen, we take that as a last question. I would now like to hand the floor back to Mr. Nahata for closing comments. Over to you, sir.

Mahendra Nahata: Thanks to all of you, gentlemen, for being part of this call. I'm sure you would have got a good view of what kind of strong performance Company has given, what kind of a strong strategical path we have created for our Company for future growth and our strategy of new products, new customers, new geography is on track, by increasing our product range, by innovation, which is improving our profitability, increase our exports, we have increased our revenue from private sector, we have increased our revenue on products. And we are sure to continue on that course and continue to improve the revenue and profitability of the Company. Thank you very much, gentlemen. And again, wish you a very-very Happy and Prosperous New Year. Thank you very much.

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