JAS ANZ

ISO 9001

ISO 14001

An Environment conscious company certified to ISO 14001 Standard

HFCL Limited

(formerly Himachal Futuristic Communications Ltd.)
8, Commercial Complex, Masjid Moth,
Greater Kailash - II, New Delhi - 110048, India
Tel. : (+91 11) 3088 2624, 3088 2626
Fax : (+91 11) 3068 9013
Web : www.hfcl.com
Email : secretarial@hfcl.com

November 14, 2019

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

Subject: Transcript of Conference Call on Financial Results/ Earnings for the quarter and half year ended 30th September, 2019

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on October 23, 2019, on the un-audited Financial Results of the Company for the Second Quarter and Half Year ended September 30, 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 October 21, 2019.

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

HFCL Limited

Encl: Copy of Transcript.

HFCL Limited Conference Call
H1 and Q2 FY20 Earnings Conference Call
October 23, 2019

Moderator: Ladies and gentlemen, Good Morning and welcome to the HFCL Limited H1 Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

Anuj Sonpal: Good morning everybody and a warm welcome to you all. First of all, before beginning, let me apologize for the delay. There are certain backend issues at the dial in operator levels that unfortunately a lot of people had to wait in queue and I think we are still trying to sort these issues out, but in interest of time we are beginning the call so sincere apologies for the same. We represent the investor relations of HFCL Limited and on behalf of the Company I would like to thank you all for participating in the call today for the Quarter 2 of Financial Year 2020.

Before I begin, I would like to mention a short cautionary statement as always very quickly. Some of the statements made in today's earning con-call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual result to differ from those anticipated. Such statement based on management beliefs as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decision. The purpose of today's earning con-call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Without much delay, I would now like to introduce to the management participating with us in the call. We have with us Mr. Mahendra Nahata -- Promoter and Managing Director and Mr. V R Jain – Chief Financial Officer. I request now Mr. Mahendra Nahata to give his opening remarks. Thank you and over to you, sir.

Mahendra Nahata: Thank you Anuj for your kind introduction and good morning to all of you. I also sincerely apologize for this delay which is result of some backend complications at operator level and we will make sure that in future, it does not happen again. Good morning to all of you. I welcome you all to HFCL Earnings Conference Call for Second Quarter and first half of the Financial Year 2020. I would like to first give a brief about the Company's operation. HFCL offers fully integrated communication network solutions and is a manufacturer of optical fiber cables and high end transmission and access equipment. We specialize in providing turnkey solutions for Telecom service providers, Railways, Defense and Smart City and Surveillance projects.

Having commenced our journey as a telecom equipment manufacturer and optical fiber cable manufacturer, a number of years ago, we have fast transformed into developer of highly secured, reliable and modern communication networks for telecom, defense, railway and surveillance systems. We are steadily deepening our telecom expertise and also widening our value propositions into new business domains such as defense, railway communication, smart cities and surveillance areas. We have recently developed new products by our own research and development team for telecom, defense, smart cities and surveillance applications. This includes Wi-Fi systems, Un-licensed band radio, cloud management systems and video management systems. Products which are still under development and are to be made available in the market in the near future includes electronic switches, electro optic devices such as Night vision devices for defense application, long range radar for surveillance applications and traffic management system as a part of extension of our video management system.

The Company has two segments of business. First segment being the business of solution for telecom, defense, railways and surveillance sector which accounts for about 80% of the Company's revenue. The second segment consists of manufacturing optical fiber cable which accounts for less than 20% of the Company's total revenue. The Company has state-of-the-art technology driven manufacturing facility comprising of two cable manufacturing facilities at Goa and one at Chennai of its subsidiary HTL Limited along with FRP rods manufacturing facility in Hosur which is a raw material for fiber optic cable. We also have a telecom equipment manufacturing facility at Solan in the state of Himachal Pradesh. As part of our backward integration plan, a Greenfield optical fiber manufacturing facility is being set up in Hyderabad which is likely to be commissioned very soon. As mentioned during our last call, I am happy to inform you that we have recently launched our higher range of Wi-Fi products and solutions which will take us forward as a technology enterprise. The launch of IO suite of Wi-Fi products and solutions marks a new beginning of our technology indigenization drive. These have been completely developed in-house and IPR rest with the Company. The response that IO range has received augers well for future revenue margins and growth besides boost in confidence and accelerating momentum of new products and technology development and IPR creation efforts.

Now coming to the performance of the Company during the second quarter of financial year 20. I would say that the Company has delivered yet another quarter of increased profit and margins despite some dip in the revenue. Results for Q2 FY20 and their comparison with the corresponding second quarter of FY19 is as follows. Our revenue stood at Rs.983 crores as against Rs.1,216 crores , a dip by 19% the reasons for which I will explain later. EBITDA grew from Rs.96 crores to Rs.141 crores a rise of 47% despite decrease in Revenue. EBITDA margin grew from 7.9% to 14.4%, a very significant increase in the margins. Profit before tax grew from Rs.71 crores to Rs.103 crores which is a 45% rise, as I said in spite of dip in revenue. Profit before tax margin grew from 5.8% to 10.5%. PAT grew from Rs.50 crores to Rs.66 crores which is a 32% rise. PAT margin grew from 4.1% to 6.7%. I would also like to highlight the numbers of the first half in the comparison to corresponding first half of the last financial year. Revenues stood at Rs.2,330 crores as against Rs.2,309 crores in comparison to the first half of the last year a rise of 1%. EBITDA grew from Rs.191 crores to Rs.335 crores a rise of 75% a significant rise. EBITDA margin grew from 8.3% to 14.4%. Profit before tax grew from Rs.144 crores to Rs.260 crores which is an 81% rise. Profit before tax margins grew from 6.3% to 11.2%. PAT grew from Rs.97 crores to Rs.183 crores which is 89% rise very significant rise. PAT margin grew from 4.2% to 7.8%. You would have observed that the Company has already achieved a PAT of Rs.183 crores during the first half of FY20 against the PAT of Rs.232 crores in full FY19. We expect to maintain the sustainability of this in the second half also. We have an outstanding order book of Rs.9,410 crores which translates into two times of our FY19 revenue. We continue to maintain a very comfortable gearing of 0.41. From the numbers you can make out that we have been able to focus on increasing profits in absolute terms along with margins. Our sustained all around efforts towards margins improvement yielded good results. We continue to improve our product and EPC contract mix with enhanced contribution and higher margin. Margin improvement was also aided by various operational measures aimed at improved efficiencies, cost control and speedy project execution.

We have been able to better our profits both in terms of absolute amount and margins in current year. New products and higher O&M business shall result into better sustainable margins for the Company. I would also like to mention that the dip in revenue this quarter is attributable to certain external factors like spillover of some turnkey contracts due to prolong monsoon and spillover of some defense contracts due to situation in Kashmir which would be executed in the coming quarters. There is also a temporary slackness in demand of optical fiber cable on account of slow progress of BharatNet projects. However, the Company is making efforts to increase its exports of optical fiber cable in near future. Here I would like to mention that our substantial revenue comes from turnkey business in telecom, defense and railways. Optical fiber cable forms a small part of our total revenue and order book.

I would like to reiterate that the Company remains focused on improved margins and R&D initiatives for development of new products and technologies to cater the upcoming market demand for different sectors which we addresses like telecom, railways, defense, smart city and safe city solutions.

We also continue to remain focused on organizational capabilities, governance, risk management, fiscal prudence, tenant buildup and sustainable development. I would also like to mention that we have changed the name of our Company from Himachal Futuristic Communication Limited to a simpler name HFCL Limited. Thank you very much and I would like to open the floor for any questions. Thank you very much.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Sir, I missed your order book comment can you please repeat that

Mahendra Nahata: We have an order book of approximately Rs.9,400 crores and which is twice the number of total revenue of FY19 Apart from this current order book, there are many other projects for which we have either made bid or which are under negotiation. that is happening with our private sector clients and export client and we expect to increase this order book again. The order book consist of 55% from defense projects, 9% optical fiber cable, 18% from private sector turnkey projects, 11% from BharatNet and 7% from miscellaneous this is the breakup of order book of 9,400 crores.

Keyur Shah: 11% from BharatNet and rest how do you mention?

Mahendra Nahata: Defense 55%.

Keyur Shah: After BharatNet?

Mahendra Nahata: Miscellaneous 7%.

Keyur Shah: Sir, if you can help us understand your improvement in margin like some sort of data you can show us like how much was due to cost cutting and how much is due to improvement in efficiency that would be helpful?

Mahendra Nahata: Improvement in margins is primarily on account of two factors, one, the turnkey contracts which we are executing have a good profitability, better profitability then what we had in last year. Two, in optical fiber cable business, margins have been bit higher because of the fact that orders have been from the previous times and the raw materials cost had decreased, which has increased our margins to some extent and then third is, cost control efficiency in buying of the raw material and equipment and various services for turnkey contracts. All these have resulted in better profitability. If you say the percentage wise, I would say about 70% or so has been on account of better margins on the turnkey contracts rest is because of better raw material sources, efficiency, cost control and those kind of things. Moreover, coming to order book, there is good visibility of our revenues and orders continues to be of the same kind of margins, so we have a good visibility of our revenue and profitability for next two years.

Moderator: Thank you. The next question is from the line of Parthav Johnson from NVS Brokerage. Please go ahead.

Parthav Johnson: Sir, I joined the call late I am not sure too sure if you have answered the questions, but I just wanted to know on one of your slide you have given a breakup on the pledge shares by the promoters and I am just on Slide #20th I just wanted to know for the working capital for 75 crores you have pledged more as the amount compared to the other loans, can you just sight the reason for the same?

Mahendra Nahata: No. This is historical. When the shares were pledged the loans were much higher. Now the loans have been repaid as the repayment obligations become due. These have been progressively repaid. So, this 75 crore would be repaid in about 2 years' time so when the repayment is complete as per the repayment schedule, we will be approaching our banks to release this pledge.

Parthav Johnson: So, the banks are not asking you to increase the pledge for the remaining 1,400 crores?

Mahendra Nahata: No, they have not asked like that till now.

Parthav Johnson: Sorry, I actually missed your breakup on the order book. I just got like 11% of BharatNet difference is 55% and what would be the others?

Mahendra Nahata: Optical fiber cable 9%, 18% from private sector operators for turnkey contracts and miscellaneous 7%.

Parthav Johnson: Last question is sir your top line has reduced QoQ and YoY for quarters, is this because the new contracts were not executed or you just exhibiting the old ones, so what was the reasons basically sorry I do not know because I just joined the call late I am not sure if you have answered the questions?

Mahendra Nahata: From year to year it has not gone down in fact it has gone slightly up.

Parthav Johnson: No, I am talking about Q2 to Q2 not half year. Of course half year to half year has improved a bit?

Mahendra Nahata: I have explained in my opening remarks there have been two, three reasons for that. One prolonged monsoon has resulted in delay of execution of some of the turnkey contracts number one. Number two, the defense contracts which we were executing and form a major portion of our order book, as I mentioned 55%, those are also delayed in two areas which is one Kashmir, where major large portion of the contracts has been executed, it got delayed because of the situation in Kashmir. We were not able to execute the work. And again a very significant portion of defense contracts in the Northeast also got delayed because of prolong rains and floods like situation existing in number of areas because of that transportation, installation and commissioning could not take place. Those all would be executed in the current quarter. Whatever this spillovers have been, would be executed in the current quarter. This has been one of the primary reason of dip in the revenue number one. Number two optical fiber cable business there is some slackness in the demand of optical fiber cable, one reason being BharatNet has not taken off as we had expected so that has also resulted in some decrease in revenue, but the fiber optic cable business as I mentioned in our last concall I would say it is expected to improve from the first quarter of next year not before that and by which time, we believe that PP model for BharatNet would be there which government has already announced that they would come with a PP model. Simultaneously we have taken steps to increase our exports and that should bring results and our revenues from export should also increase, but as I said, fiber optic cable business increase will take place from the Q1 of the next financial year. However, slackness in the demand of fiber optic cable does not impact us as much, as that forms only 20% of our business. Rest 80% is equipment, telecom, turnkey solution as I have explained earlier.

Parthav Johnson: And so cost cutting, I would put it like, cost savings what the company has done is really a commendable job. So this run rate would go would be carried on in coming quarters as well?

Mahendra Nahata: Yeah we are constantly working on cost cutting.

Parthav Johnson: And what are your views on the recent corporate tax

Mahendra Nahata: Yeah well corporate tax our CFO will explain you.

VR Jain: See we have the MAT credit entitlement of Rs.55 crore. So, as of now we have decided to go with the current rate. Next year we will review it and probably shift to the new tax rate. Benefit is by 10% or so from next year onwards.

Moderator: Thank you. The next question is from the line of Riya Mehta from Anand Rathi. Please go ahead.

Riya Mehta: Right now, I would like to ask regarding, you said that there is sluggishness in demand of fiber optic I would like to know what is on the realization side because during last quarter the realization was dropping so how was the scenario right now in that industry?

Mahendra Nahata: When you say realization what do you mean by realization, realization of fiber optic cable price?

Riya Mehta: Yeah price.

Mahendra Nahata: The realization has gone down as the raw material prices have also gone down. if I tell you in terms of per fiber kilometer, that is the right way you calculate the price because per cable kilometer is very misleading because cable can be of a different capacity. So, per fiber kilometer the realization in our case was about Rs. 1400 per fiber kilometer which is now around little I would say about Rs. 1,000 per fiber kilometer so there has been a decrease of Rs. 400 in terms of realization, but there has been corresponding decrease in raw material cost also, so this is what the equation is.

Riya Mehta: Rs. 400 per fiber kilometer corresponding or that would be lower than that?

Mahendra Nahata: Yeah it is almost corresponds the same.

Riya Mehta: Yeah it is just the pass through of the lower raw material?

Mahendra Nahata: It is just the pass through.

Riya Mehta: And as far as in the current quarter because of the execution of a turnkey projects we have good margins so do we see the same in the current order book or same level of orders

Mahendra Nahata: Yeah, the same orders are going to continue. These are the partial execution of orders that happens, so the margins are going to be same in the current quarter also.

Riya Mehta: So, out of the total order book how much will be the total turnkey operations solution which would fetch us good margins, so if you could give percentage term that would be fair enough?

Mahendra Nahata: In terms of different contracts for example which consist of 55% of our order book the margins are reasonably good and similarly BharatNet also has got reasonably good margin which consist of 11% of our order book.

Riya Mehta: Sir, could you elaborate what is the situation right now in BharatNet and what is topping into the blockbuster or something like that?

Mahendra Nahata: I don't know right now. Some 11 states or so, which were to be executed by BSNL have not been taken out from BSNL . These have been put for PPP model. Government is expected to come out with a EOI or tender for PPP I believe in about three month time that is my best estimate the way I see the things moving in department of telecom. Over three months or so, they would come out with a PPP tendering and once that PPP tendering is done and there are winners they would implement in the PPP basis and that is why I said this all would result in some order building up and the product off take by Quarter 1 of 2020 financial year.

Riya Mehta: Right now orders are current situation like it was supposed to get implemented by the year end, so what went wrong like just to read across scenario?

Mahendra Nahata: It has been implemented. three ways. One USO which is being implemented directly through their own company BSNL, those are happening in Maharashtra, Gujarat, Andhra now coming up with BBNL is implementing this Punjab and Bihar and there was state led models where state are authorized to implement which includes Maharashtra, Gujarat, Kerala Andhra implementation Telangana starting Tamil Nadu starting, Andhra Pradesh is in progress state-led models. Rest of the states which are to be done by Bharat Sanchar Nigam Limited they have been taken out of BSNL for their own situation and it is now to be implemented on a public private partnership model. So, this is what really happened that instead of BSNL is shifted into PP in between so which has delayed the whole implementation it will take still 6 months' time for any orders to be placed in that regard.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: My question is on the telecom product segment. Top line has significantly dropped to 183 crores in this quarter, from an average of 350 crore run rate we maintain. So is it more to do with the realization decline that you shared from 1,400 fiber kilometer going down to 1,000 per fiber kilometer?

Mahendra Nahata: There are two reasons. Realization price coming down from Rs. 1,400 per kilometer to Rs. 1,000 per fiber kilometer and capacity utilization decreasing by about 20% because of the slackness of the demand.

Ravi Mehta: When you say capacity utilization declining it means the overall offtake from the customers who have already committed here?

Mahendra Nahata: It is not only in committed orders but in the new orders to be received also declined so new orders would have also added into capacity utilization. So, new orders to be received have also declined.

Ravi Mehta: But if we are sitting on a good order book even there you are seeing the offtake, they are trying to extend the timeline?

Mahendra Nahata: I could not understand your question Ravi.

Ravi Mehta: See 9% of the order book is OFC so there are orders already in hand, so are you seeing those customers also asking you to delay the deliveries or things like that

Mahendra Nahata: These are not delays these are the orders which are from customers who have gained up execution of turnkey projects for their own customers. It is like for example Larsen and Toubro is in Andhra Pradesh they are taking cable from us. In Maharashtra the ITI which is the execution company is doing execution for the state government buying cable from us mainly Kerala for example Bharat electronics is doing execution and they have placed 198 crore order on us. Now their project execution takes time. As the project execution happens, they buy cable from us. So, it is not order book we can supply by full utilizing our capacity. It has to be supplied to them as they keep on executing their projects and they keep on buying cable from us. So, orders are definitely there of about Rs. 800 crores but that would be lifted in a process in a sense that if they execute, they would buy that cable from us. Now if you go back in my initial statement so this was monsoon time. Monsoon time it was Kerala, Maharashtra every place where the rains are, so now the execution has got delayed significantly and as a result delivery has also delayed significantly because customers could not execute the project so they would not buy cable from us to keep in their stock. So, as this weather has come up now, I believe deliveries would increase and we are expecting some larger orders from couple of other customers who are executing turnkey contracts for different states in near future which would further improve our delivery and capacity utilization.

Ravi Mehta: So, basically looking at the overall scenario it seems Q2 was a one of the quarters where the revenues were little suppressed because of the environment?

Mahendra Nahata: I would agree with you.

Ravi Mehta: And you expect the quarterly run rate to come back to the normalize level what we have been seeing in last few quarters?

Mahendra Nahata: Yes, it is likely to happen in this quarter itself.

Ravi Mehta: The other question was on the product segment margins. It has seen a significant improvement probably driven from the gross margin improvement from low fiber prices, but as you start delivering to the new orders you will have to pass on the fiber benefit on the new orders, so will this margin again revert back to the lower levels of 13%, 14% or there is some strategy to sustain at this level?

Mahendra Nahata: Q3, Q4 the orders which we have and which we are expecting to receive from some of our clients for the large quantities, prices of these have been agreed in past and once LOI and all that are in place and once they receive confirm orders from their customers for which they received LOI they would be placing orders on us. So, those are also again at the same kind of profit margin which were there in the Q1 and Q2, so I do not expect any dip in the profit margins in Q3.

Ravi Mehta: And probably next year when you have to reprice the orders you may pass on the benefit by that time are there some kickers like your own in house products increasing into the basket and you can sustain the margin?

Mahendra Nahata: Next year, some of the orders which we have shall still be delivered which are the turnkey contractors who are buying from us. They will continue to the whole next year also. There we do not see any reason for decrease in prices, but yes new orders which are to be received in the next year or some of such orders which are being received even now , margins would be somewhat lower because new orders would not be giving us the benefit of the reduction of the cable prices but at the same point of time , as we start our fiber manufacturing facilities which is to happen soon our profit margins would be better because our own fiber manufacturing and some of the decrease in margin because of new orders were compensated by this fiber manufacturing facility.

Ravi Mehta: So, broadly we can be on that trajectory of that better margin even in the coming years?

Mahendra Nahata: You know you have to see not only fiber optic cable business but the full bouquet of our business because fiber is only 20% of our revenue on the full bouquet of our business. We have no reason to believe that the margins are going to go down at all. Another thing which is going to happen. O&M revenue is going to increase which has got better margins so that would also kick in some better margins in the near future.

Ravi Mehta: And when you just spoke about the order book breakup like 9% is optic fiber just wanted to get a sense that 55% defense when you talk or 11% BharatNet when you talk is there an element of optic fiber in that as well or it is only purely turnover?

Mahendra Nahata: Defense is having no optical fiber cable. BharatNet has got some portion of optical fiber cable I would say one third of that would be optical fiber cable.

Ravi Mehta: So, overall optic fiber in the overall order book would be little higher than 9%?

Mahendra Nahata: Yes, absolutely little higher than 9% and couple of percentage more.

Ravi Mehta: And when you just eluded to the fact that the BSNL BharatNet 11 states have been moved out on a PPP model, so the order book what we are sitting on in BharatNet does that get impacted anyway?

Mahendra Nahata: No, these are from the state led models or the BBNL which is being executed so it does not get impacted at all.

Ravi Mehta: So, our 11% order book will go on?

Mahendra Nahata: It will include anything which has been moved out of BSNL.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir, last quarter you had indicated that you are buying fiber at $3.8 per MKM, so similarly for this quarter can you share what was the price at which you bought?

Mahendra Nahata: It is at the same level Jehan.

Jehan Bhadha: And as per you we see I mean in what direction is the price expected to move or maybe going into next year?

Mahendra Nahata: Fiber price in my opinion has bottomed out. it is not going to decrease anything further from 3.8 to 4 if you see last three, four months, it has not gone down further from this $3.8 to $4 it has remained the same. So, I do not expect that there would be any further reduction than this level going to the next year.

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

Kavita Thomas: This is regarding the outstanding that we had from BSNL during the last conference call we had mentioned that we had dues worth around 300 crores from BSNL so has some amount been received or what is the status there?

Mahendra Nahata: The current dues is about Rs.250 crores out of which Rs.64 crores is one due, which is for fiber optic cables which we expect to receive I would say by first week of next month or in around 15 days. Next dues is about 60 crores which is O&M contract for the GSM network which were installed for them couple of years ago and that is also expected to be received in other two to three weeks' time. So, broadly I can say that next two to three weeks' time about Rs.128 crores of dues out of this Rs.250 crores would be realized by us. So, that would be significant reduction in the BSNL dues. Even for the rest of the dues which is about Rs.125 crores there is no reason to worry on the possibility of recovery because as you would be reading in lot of newspaper that government is now going to give a relief package to BSNL for huge amount like Rs.75,000 crore which would result in payment of this Rs.125 crores. Out of this package, all vendors have to be paid, but the important point which I would like to say that, out of Rs.250 crores of current dues, Rs.125 crores would be realized in two to three weeks'.

Kavita Thomas: Next on the EBITDA margins. If I broadly go through the product mix like telecom product revenues were around Rs.180 crores this quarter as against Rs.360 crores last year in the first quarter while the turnkey contracts were around Rs.800 crores this quarter as against Rs.980 crores first quarter. In spite of this fall in revenues in both the segments it has been a commendable achievement that we have still maintained margins at 14% plus I mean which contracts would have you know given us high margins and do we see this and how do we see it going forward?

Mahendra Nahata: As I mentioned earlier these are all the turnkey contracts which have been giving a good margin so that is one and then fiber optic cable business also got a reasonable margins. These contracts are going to continue throughout this year and even lot part of the next year also. For this year and next year I have no reasons to believe that margins are going to be lower at all.

Kavita Thomas: So, we expect it to be maintained at least at the 14% level?

Mahendra Nahata: Yeah, I agree more or less we will be maintaining this.

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

Pranav K: My questions has been partly answered I just want to understand what is the reason for increase in receivable year-on-year despite of flattish revenue. If you can provide some granularity in terms of receivables with regards to defense as well as BharatNet that would be helpful?

Mahendra Nahata: If you see last quarter and this quarter, there has been an increase in the receivable of about Rs.400 crores from Rs. 1500 to Rs. 1900 approximately. The reason is very simple about Rs.800 to Rs. 900 crores of dispatch or rather I would say exact number Rs. 961 crores of dispatches happened in the month of June in last week of June in last 10 days of June for defense related turnkey contracts typically it takes about 100 days or so to receive that money. So, in this particular quarter which is under review, Rs.961 crores is still due from the defense authorities which money has now started coming in. So, this quarter, we would see the impact that the receivables have gone down. but in the last quarter if you see, the dispatches happened in the last 10 days of the quarter which is June. The money is still now realized and we are receiving. That is the reason for the receivables' increase in the last quarter. But similarly at the same point of time our net current assets if you see, still remain at the same level because many of our suppliers give us back to back credit so we have not been paying to them because we have not received the payment from our customer which have been terms of contracts with those people. So, net current asset remains the same.

Pranav K: Sir you talked about this Rs.961 crore suffice to say it pertains largely to the defense projects and because of BharatNet delays are there receivable stuck with the government?

Mahendra Nahata: IEntire Rs.961 crore is mostly defense supplies. The BharatNet delay for the PPP which has not happened we have not supplied anything so there is no question of having delays. So, it is Rs.961 crore was entirely to defense mostly to defense some could be BharatNet supplies also but mostly it is defense.

Participant: Largely all the receivables pertains to defense and the receivables with regard to other things will be much smaller?

Mahendra Nahata: I would not say that all of them pertain to defense. In Rs.1900 crores receivables, there are different customer, defense would be there, BharatNet could be there, optical fiber cable customer would be there, the turnkey contracts would be there, so it comprises of everybody. So, this Rs.961 crore majorly was defense.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financials. Please go ahead.

Ravi Mehta: Just wanted to take that forward that you said defense related turnkey you get payments after 100 days, so what would it be for the other segment like would it be 90 days or below?

Mahendra Nahata: Some customers it is 30 days, some customers it is 90 says, somewhere it is 60 you know depends from contract to contract.

Ravi Mehta: And for turnkey it would be largely what?

Mahendra Nahata: Turnkey I would say BharatNet related it is again about 100 days and private customers 30 to 60 days.

Ravi Mehta: Sir, I was just looking at the balance sheet and there has been some debt increase of 60, 65 crores in the first 6 months I understand we are also spending on CAPEX, so if you can give some color on where would you see the peak debt given the CAPEX that you are doing and the working capital cycle?

Mahendra Nahata: Ravi really it will continue to remain in the same range. On the one hand we have raised the debt for Hyderabad facility, but the similar debt has also been repaid during the first half. So, the level of debt remains at the same level.

Ravi Mehta: I was just looking at the total long term, short term put together?

Mahendra Nahata: This will not increase significantly.

Ravi Mehta: Year-end number could still be around the H1 number what we are seeing?

Mahendra Nahata: Hardly there might be increase of Rs.25 crore, Rs.30 crore at the end of the year.

Ravi Mehta: And what about the CAPEX timeline if you can share like how is it progressing?

Mahendra Nahata: CAPEX timeline you mean to say Hyderabad facility?

Ravi Mehta: Yeah, the fiber the backward integration?

Mahendra Nahata: Yeah it is progressing well. The month of I would say mid-November to end November commissioning shall take place than trial production followed by commercial production we could have started from mid-December, but that inauguration we are not doing in mid-December to mid-January because of this in-auspicious period as we all know. So, the real inauguration will be in mid-January.

Ravi Mehta: So, we can expect the plan to be fully utilized from the fourth quarter end?

Mahendra Nahata: Fourth quarter beginning.

Ravi Mehta: From mid Jan we will start the production in full fledge?

Mahendra Nahata: Absolutely and you know just to mention that we are looking at organizing a plant visit sometime in November and our IR people would be in touch with all of you. So, any of you who are willing to visit our Goa facility to the most welcome to look at the facility in the mid

November and I would also like to invite all of you to visit our Hyderabad facility sometime in February when it is fully operational.

Moderator: Thank you. The next question is from the line of Mr. Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, personally if you could give us some idea about the China mobile contract has been what is this update on that because it was the withdrawal from the China mobile only that created that glut in the optic fiber cable market so what if any update you have you could share with us.

Mahendra Nahata: Well, I do not have much of data on China mobile because they are not our customer, but I believe they will come out with a tender. Deliveries are delayed and not happening at this point of time. This is the information I have and that is the reason why Chinese have become quite aggressive in terms of fiber prices because their fiber prices have been low and that is the reason why the fiber prices have come down to near about 3.8 to 4. But as I said earlier, I expect that they would not go down any further.

Saket Kapoor: And currently can you give the idea of what is our utilization levels for the optic fiber cable for the first half?

Mahendra Nahata: First half I would say quarter-to-quarter, first quarter as compared to second quarter our capacity utilization has gone down by 20%.

Saket Kapoor: By 20% and since you told that defense is the main pillar for growth for us 55% of the order book is there, so what component of optic fiber cables goes into the defense contract of 45%?

Mahendra Nahata: This is 0.

Saket Kapoor: So, the defense verticals is clubbed under the turnkey project part or the telecom products?

Mahendra Nahata: Turnkey.

Saket Kapoor: So, totally turnkey contracts?

Mahendra Nahata: Absolutely.

Saket Kapoor: That includes the equipment and the AMC part?

Mahendra Nahata: Yes absolutely.

Saket Kapoor: And it is totally isolated from the optic fiber cable?

Mahendra Nahata: Absolutely you are right.

Saket Kapoor: Sir, coming to this capital work in progress part that has gone up. If we take the console number for September versus March, it was Rs.64 crore that has gone up to Rs.203 crore, so if you could elaborate?

Mahendra Nahata: Because the project is getting implemented, capex has gone into capital work in progress.

Saket Kapoor: This is all about the Hyderabad facility only sir primarily on account of that only?

Mahendra Nahata: Absolutely.

Saket Kapoor: What will be the total CAPEX sir I think Rs.139 crore is the capital work in progress that has gone through for this 6 months additional ones?

Mahendra Nahata: Capex is expected to be Rs.260 crores on Hyderabad facility

Saket Kapoor: And that will get capitalised by March or it is a phase manner?

Mahendra Nahata: No, it will get capitalized in February.

Saket Kapoor: Rs.260 crores?

Mahendra Nahata: Yeah.

Saket Kapoor: That is the Rs.203 crore figure will go up to Rs.260 and will get capitalize by March that is what you are saying?

Mahendra Nahata: Yeah within the financial year you are right.

Saket Kapoor: And sir if you could give some more color on what was the order intake for the second quarter itself and the mix of that?

Saket Kapoor: Lastly sir about this what should be the sustainable margin sir and what are you working in terms of the net profit on a sustainable basis going forward?

Mahendra Nahata: The margins what you have in the current quarter, we believe these should be the sustainable margins for the future also. And in terms of Purchase Orders what we received, it was about Rs.2,300 crores in the last quarter for IPMPLS Project.

Saket Kapoor: And sir do you have the figures what was at the end of the quarter for Quarter 1?

Mahendra Nahata: I do not have that number right here available, but the current quarter was Rs.2,300 crore.

Saket Kapoor: And sir one more clarification you said most of the billings for the first quarter in the defense segment of around Rs.900 crore happened in the last 10 days of June?

Mahendra Nahata: Yeah.

Saket Kapoor: Sir, the total turnover for the first half is around Rs.2,130 crore so out of that Rs.900 crore dispatch happen for the few days of June month only?

Mahendra Nahata: That is what I said Mr. Kapoor.

Saket Kapoor: Because then April and May are the slag month and it is the preparation part only?

Mahendra Nahata: Yes, implementation is a continuous activity. You get material, you produce that, you manufacture that, you sell that and then whatever material has been dispatched the implementation keeps on progressing there is no question of slackness, particular dispatches happened in June.

Saket Kapoor: And sir we have made an investment also DragonWave Canada Inc. and one more investment last quarter, so if you could throw some more light?

Mahendra Nahata: In DragonWave Investments, we are buying back stake from overseas partner for about Rs.2.80 crores so that will become wholly-owned subsidiary. Other investment made is RADDEF, which is the R&D company and that continues to be operational and developing some very good products for the Company.

Saket Kapoor: And how would DragonWave help us I mean what is the USP in this company why are we going for this acquisition?

Mahendra Nahata: It was a joint venture and that company which was the original partner in Canada got sold out to some other company being bankrupt and we are buying the entire stake.

Saket Kapoor: Because in the turnover part we have found that it has been depleting you have given three years turnover and that has been decreasing?

Mahendra Nahata: We have decided to purchase the entire equity and make it as a wholly owned subsidiary of the Company.

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

Hardik Vyas: I have a couple of questions the first being our launch this quarter for Wi-Fi systems and radio I think last month, so when are we likely to get I mean it is an orders or the execution of those orders how are we likely to go ahead with that/

Mahendra Nahata: Right now, two things are happening. The product is being launched on 14th October, 2019 and we are negotiating with various customers for the orders. Customers will do the field testing trials in their own networks. But we have already received two orders from two different customers and supply would begin in about I would say one month to one-and-half months' time.

Hardik Vyas: So, sizable orders are just trial kind of orders?

Mahendra Nahata: These are I would say not sizable orders, but still it would be about Rs.15 crores or so.

Hardik Vyas: The size of the opportunity for these orders would be quite big right going forward?

Mahendra Nahata: Next full year we expect to sell at least Rs.100 crores worth of this.

Hardik Vyas: Okay next year?

Mahendra Nahata: Yeah next financial year and this year we are looking at about 25 crores.

Hardik Vyas: So, that is all the opportunities, or we have more opportunities coming in, but this is a slow process of building up product?

Mahendra Nahata: There are a lot of opportunities. This is the minimum we believe we will be able to do because there is a global market and everybody buys Wi-Fi all over the world. This is I am looking at India only. Export market we have not yet started so I would not take that into account. Export market we will start maybe quarter from now when the Indian installation commissioning starts and we have some examples of orders given by Indian operators, installation commissioning and operation having happened so then we will go to the export market it is not good to go to the export market without having any operation in the home base.

Hardik Vyas: And the other products like electronic fuses and radar which are long range so those products are also in development phase and we will be launching it next year?

Mahendra Nahata: Yeah, we expect that they would be available for sale in the next year starting from first quarter to second quarter. I would say mostly the second quarter of the next year.

Hardik Vyas: Okay and the size of those orders also would range in about 100, 300 crores?

Mahendra Nahata: There are very large opportunities. For example, electro optics opportunity is Rs. 5,000 crores every year. Now how much market we will get I cannot tell you at this point of time. The market opportunities is Rs.5,000 crores per year for the defense forces, for 7 years, they are planning for 4000 crores. Fuse again is a very big market opportunity. I would say at least 1,500 crore per year or so, that is the local market, but then if you think , we will be going for export market also in this product. So, these two only have got huge market opportunity. Further, coming long range radar will be the part of the surveillance product portfolio which is for parametric security as well as border surveillance. So, this also has got a very good market opportunity. So, these all are the products which are being designed by us.

Hardik Vyas: With RADDEF?

Mahendra Nahata: No, long range radar is RADDEF and other two are completely separate teams.

Hardik Vyas: And one more question on the Wi-Fi systems and the radios that we have launched. The production of that thing is happening in house at Solan or we are outsourcing the production?

Mahendra Nahata: We will be outsourcing the production.

Hardik Vyas: One more question, the BSNL receivable that you told about Rs.125- 130 crore you will be getting out of the Rs.250 crores which are pending so borrowing those things how is the liquidity position of HFCL I mean are we having any problems working capital requirements so something like that?

Mahendra Nahata: No, we do not have such problems and we are always careful about the liquidity and manage it cautiously . There is no crunch or problem as such.

Hardik Vyas: The 5 G launch in India in this financial year?

Mahendra Nahata: No, it is not going to happen in this financial year nor even the next financial year. For 5G, you have to wait for one and half years to come I think it will be FY21.

Hardik Vyas: FY21 that will be next year?

Mahendra Nahata: No sorry I am saying it is 21-22 not 20-21.

Hardik Vyas: So, that is the optic fiber in the products would take time for 5G?

Mahendra Nahata: For 5G it will take time because 5G auction has not yet happened and as every operator has said that at this prices, they are not going to buy a 5G spectrum. So, there is the failure of auction. Used cases for India are still not decided. We have still not finalized the used cases because used cases of western world and Indian world is completely different so all those things are going to happen and networks are going to rolled out. So one and half year is the minimum I would give for the 5G to happen, but as I said fiber optic cable business is a very small portion of our overall business that is not going to impact us very much.

Hardik Vyas: Okay so we are expecting otherwise tender pipeline to the strong for the turnkey contracts?

Mahendra Nahata: Absolutely we have already participated in number of such tenders and which are yet to be decided, but we have good hopes from those which includes new business areas like surveillance system and the railways signaling and telecom system which I had said in earlier conference call. This is a new area of business which we are developing. We have already participated in significant tenders for that with a major multinational corporate from Western World. Also in surveillance products again in the railways for 1,000 stations we have already participated a couple of weeks back. These tenders are all expected to be finalized.

Hardik Vyas: Okay revenues it will reflect in the next year?

Mahendra Nahata: Revenues in the surveillance can reflect in the current year also and railways signaling, and telecom would reflect in the next year.

Moderator: Thank you. Ladies and Gentlemen this was the last question for today. I now hand the conference over to Mahendra Nahata of HFCL Limited for closing comments. Over to you, sir.

Mahendra Nahata: Thank you very much to all of you for participating in the conference call and all nice questions. I hope I was able to answer all of them. We are confident we will move on and maintain the same growth path which we have already and with an increased focus on margins because our focus is on building up the percentage of margins as is evident from the results of last quarters and the current quarter and we will keep on focusing on that to build up the margin percentage. I hope our strategy of development of new products with renewed business areas would be resulting in improvement in the margins as we have shown in the last two quarters. I thank you very much for participating. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of HFCL Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.