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Subject: Transcript of Conference Call on the Unaudited Financial Results/ Earnings for the 3rd Quarter and Nine Months ended 31st December, 2021, of the Financial Year 2021-22.

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on January 18, 2022, on the Unaudited Financial Results of the Company for the 3rd Quarter and Nine Months ended 31st December, 2021, of the Financial Year 2021-22, which were considered and approved by the Board of Directors of the Company, at its meeting held on January 17, 2022.

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

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

Thanking you.

Yours faithfully,
For HFCL Limited



(Manoj Baid)

Senior Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.



**“HFCL Limited
Q3 and 9M FY2022 Earnings Conference Call”**

January 18, 2022



ANALYST: MR. ABHIJIT MITRA — ICICI SECURITIES LIMITED

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



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Moderator: Ladies and gentlemen, good day and welcome to HFCL Q3 and Nine Months FY2022 earnings conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Mitra from ICICI Securities Limited. Thank you and over to you Mr. Mitra!

Abhijit Mitra: Thanks Moderator, and good afternoon and welcome to all the participants for joining in. We are here to discuss Q3 and nine months FY2022 results of HFCL. From the Management, we have Mr. Mahendra Nahata, Promoter & Managing Director, Mr. V.R. Jain, Group CFO, Mr. Manoj Baid, Group Company Secretary and Mr. Amit Agarwal, Head IR. So without further delay, I hand it over to Mr. Nahata for his opening remarks. Over to you Mr. Nahata!

Mahendra Nahata: Good afternoon ladies and gentlemen, and greetings for the New Year and festivities. I truly appreciate and express my gratitude for making it to HFCL's earnings call for the third quarter and nine months of the financial year 2022.

I am sure that you got a chance to go through our financial results, press release, and investor presentation which are also available on the website of the Company and the Stock Exchanges. The spike in pandemic infection coupled with another mutation had tested our discipline, resolve and preparedness once again; however, I am happy to say that our resilience and containment measures are proving adequate to handle these hiccups without losing sight of our economic and social development goals any further.

The vaccination drive initiated by the Government of India inspired and personally supervised by our Honorable Prime Minister Shri Narendra Modi Ji has definitely resulted in lowering the impact of this pandemic.

With 15% year-on-year growth, 2021 proved to be a turnaround year for the Indian telecom sector. With three key emerging trends 2022 appears even more exciting and promising. First, sector revenues are slated to grow again, second on the back of mega release package, telcos have got opportunities to grow at a faster pace. Third, most importantly 5G transition is expected to commence in 2022. India being a mobile-first country, 5G will bring in new use cases which are set to revolutionize the telecom sector.

Implementation of 5G network will result in a boost of demand for all types of telecom equipment, fibreoptic cables, and related services. Your Company, as I have informed you earlier, is developing 5G radio and transport products. With the implementation of 5G network demand for the Company's products is expected to grow substantially. Ushering into 2022 with accelerated momentum and renewed vigor, HFCL continues to focus on sustainable profitable growth on the back of continued expansion of installed capacities, product portfolio, backward and forward integration, customer base, and global markets. Our mission to transform as a technology-driven enterprise that innovates and manufactures not just for India but also for the world is accelerating as we prepare to see the unfolding opportunity spectrum in the near, mid, and long-term.

During the quarter under review, we have successfully raised INR 600 Cr via QIP. We received overwhelming interest and response from institutional investors and saw participation from marquee investors. QIP proceeds will be predominantly deployed for capacity expansions and expenditures on R&D and product development besides repayment of some borrowings. We are once again thankful to our investors as strong support and faith have fueled our drive towards achieving the long-term vision of HFCL and creating value for all stakeholders.

In another major development, 100% of the total pledged shares out of the promoter shareholding has been fully released. The pledges were made in favor of various lenders as collateral security against the credit facilities availed by the Company. Our effort to further diversify and strengthen our board of



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directors resulted in Shri Ajai Kumar joining as an Additional Director (Independent). His rich experience of over four decades in public sector banks including leadership roles in India and overseas would surely strengthen the board of the Company.

During the quarter gone by, HFCL received the approval as a trusted source from the National Security Council Secretariat which is a significant achievement in itself. With this approval, HFCL has become the trusted source for all Indian telecom service providers for sourcing their telecom active network products and infrastructure. With the Government of India's new directive which mandated the Indian Telcos to connect their network only on those new devices designated as trusted products from trusted sources, are qualification as the trusted source shall become a major growth enabler for us.

The Company has successfully bagged an order amounting to INR 287.96 Cr for setting up of Artificial Intelligence-based secured network and creation of mini data centers for the Air Force. This network shall enhance the security of the application and provide the latest state of the art technology, which will drive the security requirement of the Air Force. We also secured purchase orders of more than INR 530 Cr along with our subsidiary HTL Limited for the supply of optical fiber cables during the quarter. Our order book as of December 31, 2021, stands at INR 5,463 Cr.

I am happy to share that HFCL Technologies Private Limited, a wholly owned subsidiary of the Company has been granted approval under the PLI scheme for manufacturing telecom and networking products in India. The PLI scheme and the incentives given by the Government will add to our competitiveness and profitability. As I have shared earlier being the Company located and manufacturing in India, our overheads are low and this coupled with our innovative design capabilities will help us roll out the cost competitive products for the world market.

In order to build upon our export footprints expeditiously, HFCL has incorporated two new wholly owned subsidiary companies abroad mainly HFCL Inc., a company registered in United State in the state of Texas, and HFCL B.V., a company registered in Amsterdam in the Netherlands. We also strengthened our team with the addition of Dr. Peter Weimann and Mr. Jochen Arms. Dr. Weimann has joined as a CTO of the optical fiber and cable business for the Group and Mr. Arms as the Vice President of Sales for the European Region. Both the industry veterans possess vast experience. We expect them to lead HFCL's global foray into new generation optical fiber cable products across different industry applications. We have also onboarded Mr. Andrew Westerman as the Vice President of our International Sales Communication Products to lead the sales and business development for the communication products in the global market.

The R&D initiatives and projects undertaken by the Company are progressing as per schedule. We are in the advanced stages of development of Wi-Fi 6 enabled access points and point to point and point to multipoint radios, these products are compatible with 5G networks in terms of their throughput capacity.

Similarly, the development of 5G radio and transport products is also progressing well. These products will result in the Company selling its innovative and competitive products in global markets. User trials for electronic fuses developed by the Company is also expected to start soon. I am happy to share that HFCL is the first company in India to have developed these hi-tech fuses by itself.

New initiatives have also been taken to develop new types of optical fiber cable for export markets. The quarter gone by has set the tone for us as we begin the new calendar year with more confidence and optimism. Successful completion of QIP, coveted enrollment as the trusted source from the National Security Council Secretariat, approval of the PLI application, 100% release of the promoter pledged shares, and continued strong order book and pipeline are five structural successes on the third quarter. On the back of these enablers, we see the financial year 2023 with decent growth in revenue and profitability with a continued shift in the revenue mix. We continue to grow our catalog of products with innovation to emerge as a name to reckon with for its innovative offerings across various markets.



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Let me now brief you on key performance metrics of the quarter and the nine months ending for FY2022.

Revenue for Q3 FY2022 stood at INR 1,215.21 Cr as compared to INR 1,122.05 Cr in Q2 of FY2022 and INR 1,277.48 Cr in Q3 FY2021. EBITDA for the quarter stood at Rs.174.56 Cr as compared to INR 173.20 Cr in Q2 of FY2022; and INR 176.53 Cr in Q3 of FY2021. EBITDA margin increased by 54 basis points and stands at 14.32% for Q3 of FY2022 as compared to 13.78% for Q3 of FY2021.

For Q3 FY2022, profit after tax stands to INR 81.10 Cr as compared to INR 85.11 Cr of Q3 of FY2021. PAT margin also improved by 1 basis point to 6.67% in Q3 of FY2022 as compared to 6.66% in Q3 of FY2021. Segmented revenue for telecom products during the quarter stood at INR 512.36 Cr as compared to INR 333.37 Cr in Q3 of FY2021. For the nine months ended December 31, 2021, the Company has reported consolidated revenue of INR 3544.13 Cr as against INR 3031.56 Cr in December 2020.

EBITDA of INR 539.30 Cr as against INR 396.92 Cr in nine months ended December 2020. Profit before tax at INR 348.76 Cr as against INR 218.62 Cr in December 2020 nine months and profit after tax of INR 257.73 Cr as against INR 159.77 Cr in nine months ended December 2020.

As you would note from the nine-month numbers you will appreciate that there has been significant improvement in the performance of the Company compared to last year.

The nine months profit after tax of INR 257 Cr in the current year is higher than last full year's profit after tax of INR 246 Cr. There is no doubt a significant improvement in the working of the Company with a change in product mix, a strategy of improving our products with R&D, new products. This is a major shift which has taken place in the working of the Company the first three quarters itself we have more than the profit of entire year of the last year.

I am also happy to inform you that considering the increase in demand for optical fiber and optical fiber cable in India as well as global markets the management of the Company had decided to expand its manufacturing capacity of optical fiber, a vital raw material for the manufacture of optical fiber cable to 22 Mn fiber kilometers per annum from present 10 Mn fiber kilometers per annum. So it is an increase of 12 Mn fiber kilometers per annum capacity for optical fiber.

Similarly, the capacity for manufacturing optical fiber cable is being increased to 34.75 Mn fiber kilometer per annum from the present capacity of 24.75 Mn fiber kilometer per annum which is an increase of 10 Mn fiber kilometer capacity on a per annum basis.

This expansion is to be completed by the end of June 2023. This expansion will entail a capex of INR 425 Cr. At the same point of time, the implementation of a new manufacturing setup to manufacture of defense products is also progressing very well.

All these initiatives have been taken by the Company with more intensified efforts during the year and also plan for coming fiscal for capacity expansion, widening the product and service portfolios coupled with increased market penetration and shift in revenue mix shall lead the Company to newer heights from fiscal 2023-2024 onwards by ensuring sustainable growth in revenue and profitability.

Friends thank you once again for your keen participation. I wish you good health. With this, I conclude my opening remarks and open the floor for a question and answer session. Thank you very much.

Moderator:

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

Sanjay Shah:

Good afternoon. Thank you for the opportunity. Congratulations on five successful changes that we have done as promised by you earlier. Sir my question was regarding we have taken an accelerated growth strategy in our portfolios and where we have taken many products under development and for



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that we have done partnering with many renowned players. Sir like CommAgility we have tied up for 5G software and then Aprecomm what we have tied up for AI, can you highlight upon that what is the opportunity we see on that side and how that will pan out commercially and when the business will start rolling on that side?

Mahendra Nahata:

Thank you Mr. Sanjay Shah. It is a good question. Basically, we have undertaken development of new products by our own R&D also by partnering with various world leading companies, not only CommAgility or Aprecomm there are a number of other companies partnership we have done for the development of new products. Basically, these companies are either supplying software or developing new products for us while IPR will belong to us. Why we have partnered because we cannot expand our R&D capability all of a sudden to hundreds of people so we have then apart from setting up our own R&D facility we partner with these kinds of companies to develop products for us. With the development of these products which as I have described earlier Wi-Fi related latest generation products, microwave, various point to point, point to multipoint and then of course 5G radio products, transport products, switches, routers, which have been developed by us with our own designed IPR belongs to us, number one we can sell it anywhere in the world because we are not dependent upon any license or something like that. Number two since these are designed in India manufactured in India with our overheads being lower these will be more price competitive. Number three since it is our own design it is our own software we can definitely alter different software as required by different customers because different customers have their own different requirements in terms of operations and in terms of features and all that so if the large customer wants some changes we can do that so all these put together it would be really very easy for us to go not only in the Indian market but in the international market also and this will set to improve our profitability as well as revenue both would improve and there will be a large number of products for us to sell in the global market and that is why we are already enhancing our capability, sales capability in the international market by appointing people in different countries who would then be selling our products, not only fiber optic cable but these telecom products also.

Sanjay Shah:

So a subsidiary in the Netherlands we have formed and on-boarded many vertical chiefs and engineers this is what is our aim?

Mahendra Nahata:

Yes, Netherlands and US both we have formed subsidiaries wherein we have on-boarded these people.

Sanjay Shah:

My second question was regarding the opportunity from defense space where you have mentioned and very excited about understanding more on that side can you elaborate on that Sir please?

Mahendra Nahata:

Yes, very sure. You would have read in the newspaper recently also the Government of India had said we are going to restrict the import of many equipment and we would be looking at procuring them indigenously. So there is a huge opportunity in the defense sector for the Indian companies but the opportunities will be available only when if you are able to design in India and manufacture in India simply by getting technology transfers and all that would not get you profitability. It may get revenue but it will not certainly get profitability. So what we are doing we have decided to design certain products ourselves which is electronic fuses whereas I said user trials for our developed fuses are said to start very soon wherein we have already participated in large tenders. I am sure our user trials will be successful and we will be very, very competitive in the tender also because it is our own design own development so we are not dependent upon any of the foreign companies for cost or components. Similarly electro optic devices again we are developing ourselves, we have participated in a number of tenders so we are sure that we should be very competitive there also so these are the few products on the non-telecom side of defense we are developing, fuses, electro optic devices and both have got a very large market opportunity with thousands of Crores for the next ten years to come then in the communication side also we are working for the development of products for defense services. One of the product is software-defined radio which would have its application to civilians also but the major application is the military because of the more enhanced security and ability to withstand any intrusion by enemy forces this radio is again being designed by us in partnership with an associate company wherein we had acquired 50% stake that is under development and this radio again has got huge demand opportunities and this radio is expected to be finally developed within this calendar year and we are going to offer to the army for testing. So we have a huge expectation from the development of this radio which should be three types one is the handheld, another would be man pack which the



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soldier mounts on the back and back, third is the vehicle mounted, so three versions of this radio are being developed for the army. So we are taking a few products but developing it ourselves and the selection of product is based on the demand opportunity and all these three products by itself have a huge demand opportunity for years and years to come. We are looking into few more products which can be developed by us but it is a very complex and they entail some system integration where some of the products, indoor manufacture, some of the manufacture outside where we are integrating foreign partners also with us to do that kind of a system level integration in the tanks or armored vehicles of those kinds of things there also we are having a partnership with a couple of companies to do those products but yes with that drive of Government of India to have more and more defense equipment procured in India it represents a huge opportunity for Indian companies.

Moderator: Thank you. The next participant is Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you Sir for this opportunity. Sir firstly as we have been hearing you and you are always walking the talk over a period of time and that has been reflected in the confidence by the issue also. Sir just if you could give us some understanding of how the margins trajectory is going to look like and also on the product and the business revenue mix, as you were saying that it will be skewed more towards the product segment going ahead so when will that translate into the actual delivery of numbers going ahead and also about the cash conversion cycle and the amount of receivables which were not being released due to milestone of the projects. What is the status of those projects?

Mahendra Nahata: I will tell all three one by one. First of all revenue mix if you look at nine months I will still go to nine months of December 2021 or I was just going back to 2020, our revenue mix was 26% was coming from the product, 74% from projects. Now, this mix has changed 42% is coming from products, 58% for projects. So 26% has become 42%, 74% has gone down to 58% so while we are shifting our revenue mix towards products. Now this will automatically increase in the margins also so if you look at the numbers the profitability has grown, this has grown because revenue mix has changed and it is getting skewed more to our products which will mean there will be increased profitability in the Company because it is our own manufacture own designed product profitability is better than the projects. In terms of profitability, the Company will definitely have increased profitability and that is our long-term strategy also as I have been talking about in various investor calls our strategy is to increase the profitability of course revenue should also increase but more importantly profitability should increase. There should be profitable growth and that would happen with our own products coming up and being manufactured in India and is sold in the global market. So that is a strategy we have adopted. Question number three is in receivables. These, of course, would start showing a downtrend once we go ahead in the completion of our projects which are milestone based and certain milestones have got delayed not because of any problem from our side but it is more from the problem of the customer where certain infrastructure has not been completed by them, as a result, the receivable still lies there now there is no risk, there is no bad debt, there is no sticky receivable but they would be received once the milestones are completed. We are trying to work out with the government that since the milestones have not been completed without any fault of ours they may please release the money which is due to us and those are under consideration. We are having active discussions with the government but yes when they will come to a normal level, I would say by the second quarter of the next financial year.

Moderator: Thank you. The next question is from the line of Neerav Dalal from MIB Securities. Please go ahead.

Neerav Dalal: Thank you for the opportunity. A couple of questions first is the INR 600 Cr that we have raised through QIP if you could just broadly let us know where the funds will be used because we have also now undertaken the INR 425 Cr new Capex and second just related to that in terms of PLI how are we looking at it and lastly what would be our debt as of end December?

Mahendra Nahata: Look first of all INR 600 Cr is raised through QIP we are majorly going to use one for Capex of which INR 425 Cr capex we have already announced which will be partly funded by debt, partly funded by equity. More or less I would say that INR 200 Cr would be used for capex, rest of the capex would be funded by debt about INR 150 Cr or so would be used for R&D, different R&D projects which we have undertaken already, about INR 150 Cr would be repayment of loans, some of the loans are going to be repaid to the banks and working capital and those kind of purposes about INR 100 Cr.



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This is going to be more or less use of this money. So I would repeat capex, R&D, working capital and repayment of some loans. These are the usage of INR 600 Cr and as you know this new capex of INR 425 Cr we have already announced as backward integration and enhancement of current production capacity. Now coming to PLI, we are one of the companies, our subsidiary company HFCL Technologies Private Limited has already been approved for PLI by the Government of India and we are now working on setting up the facilities of manufacturing of telecom equipment. Now the total production we achieved in five years on an average 5% of that production will be given to us as the production linked incentive now that is, of course, will improve our competitiveness and profitability both so this is as far as the QIP is concerned. In terms of debt, the total debt in the Company is INR 700 Cr out of which INR 200 Cr only is the term loan plus INR 500 Cr is working capital loan so INR 200 Cr is term loan and INR 500 Cr is working capital loan, the debt-equity ratio is very, very good it is a 0.26.

Moderator:

Thank you. The next question is from the line of Vipul from CRISIL. Please go ahead.

Vipul:

I had a question regarding the realization for OFC and OF if you can just let us know how the trend has been and the second question is regarding the price hikes if you have carried out in your portfolio due to an increase in raw material cost or logistics cost? Thank you.

Mahendra Nahata:

The pricing trend of the fiber and fiber optic cable has been an increasing trend in the past I will give you a few numbers. If you look at Q2 of the current financial year the fiber price was INR 265 around per kilometer, Q1 it was around INR 250 per kilometer, Q3 it has become INR 320 per kilometer so 265 has become 320, it is a very sharp increase and that has resulted in some decrease in profitability of the current quarter as I mentioned in the beginning. Now certainly of course the cable prices also increased. If I make it in terms of fiber kilometer in case of cable also in Q1 of the current year it was INR 872 which increased to INR 906 in Q2 and which has further increased to INR 981 in the current quarter. Now I expect depending on the customer, the market and the competition that these stable prices should go up slightly more because the impact of an increase in the raw material cost has not been completely absorbed so there should be some betterment in the prices of the cable in the current quarter and the first quarter of the next financial year. In terms of logistic cost all that we had increased in logistic cost is mostly on account of increase in freight and the container sizes and all that in the international market which has resulted in input cost increases because of higher freight, number two outward freight for the goods which you sell CIF basis there also there has been an increase in the freight so this logistical cost has also cost some 3 Cr, 4 Cr of extra apart from another exceptional item of VRS these cost is about 6.7 Cr of extra so this increased our cost then apart from that, of course, the semiconductor prices have also gone up because the supplies were not been possible by the various suppliers so we had to purchase a number of semiconductors on the open market at a higher price to build the demand of our customers so these all resulted in the increase of cost but these are stabilizing now. This quarter as I said we believe that we will be able to get better prices of fiber optic cable. We have started getting better prices for our equipment which cost has gone up because of semiconductor prices. We have already started getting better prices with those equipment so the trend, of course, there will be a build-in increase in price but it will stabilize in the current quarter.

Moderator:

Thank you. The next question is from the line of Naman from Phymax Traders Private Limited. Please go ahead.

Naman:

Thank you for the opportunity. Good afternoon Mr. Nahata. I would like to know about your working capital cycle and debtor days if you can elaborate a bit?

Mahendra Nahata:

Working capital cycle the net working capital is right now about 95 days, net working capital which is receivable and creditors and all put together it is at 95 days. This would improve as I said a little while ago with the projects which are being implemented by us where revenues have not been received because of milestone completion issue and which is the result of the customers problem, not our problem so once those receivables start coming down, receivable also come down and this working capital cycle will also improve so the working capital cycle is currently about 95 days has increased a bit from the last quarter which was 81 days it has gone up to 95 days but it is expected to improve soon with the payments being received from the projects which we are executing.



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Naman: Sir my last question is I have been tracking your Company for the past 16 to 20 quarters there is so much talk about fiber to the home and other R&D that you have been doing investing in companies like Raddef, etc., but there is no significant rise in revenue and profitability so what do you have to say about that?

Mahendra Nahata: No, I think you are not right. Profitability has increased significantly. If you see that last year's total profit we have been able to achieve in the three quarters itself, INR 247 Cr of last year's total profits we have already received INR 256 Cr in the three quarters itself so this is a significant rise in the profitability. Now as far as the revenue is concerned there was some dip in revenue because of the pandemic and those kind of situations and certain other reasons but now if you see revenue has started increasing. If you see the nine months the revenue of about INR 3,000 Cr in the last year has become INR 3,500 Cr in the first nine months this year and this trajectory we are going to maintain it. So there is the rise in revenue, there is the rise in profitability definitely and even the profitability would get better and better in the future with our strategy of going to our product development. Now your question that this has not happened is not correct so Wi-Fi and radios which we have designed now already sold in the market in large numbers they have about 200,000 such equipment working in the field, fiber optic cables new designs have come up and they are being sold in the market. Last year's INR 1,100 Cr revenue of fiber optic cables this year it is going to be about INR 1,800 Cr or INR 1,900 Cr so this certainly results of the new products which have been brought in. Now, the 5G products which are under development it is a very complex product. It takes some time to develop these products and those products would be available one by one starting from Q1 to Q3 of the next financial year these products will also start becoming available one by one so this product which we started development Wi-Fi, point to point radios, point to multipoint radios these have already given results. Other products which we have taken as development in telecom side are in the development cycle, well on the schedule and once they start becoming available we will be able to sell in the market and increase our revenue. Fiber optic cable, several new products have been developed they have been sold in the market, optical fiber itself new products have been developed with a better design and better size and all that those are also given us the results in terms of development at the new type of cables so to say that the new products have not developed and not paid results is absolutely not fair, but the point we have to also realize that when we do R&D in terms of new products, it does not happen in days or months it takes time and certain products have been developed certain products are under development many would be developed in the timeframe we have decided but again I must also say R&D that maybe overshoot couple of months that is not unusual anywhere in the world but yes it is on the schedule right now and it has giving results.

Moderator: Thank you very much. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: My question is more on the order book the current order book as we can see from the quarterly release is around INR 4,400 Cr, INR 4,450 Cr to be precise now there is a gradual drawdown in the order book that we can see over the past three, four years where do you see this order book headed over the course of next couple of years and what are the key contracts or orders that you are expecting to new sort of play out the part for us? Thanks.

Mahendra Nahata: Look here Abhijit's point is that this higher order book in the previous year was because of orders we received from defense communications for the one particular project. So there is sudden spike in the order book because of those projects because of the NFS project which is under implementation. Now current order book is INR 5,500 Cr approximately which is almost equivalent to one year's revenue which is a decent order book. Now as we migrate of more product-driven revenue, products orders do not come in big spike like one project which would be a three-year project and order has come at once like what happened in NFS this keeps on coming on a monthly quarterly basis from the customer and I think order book we will be able to maintain almost equivalent to the current order book we have but if some large projects come they can increase also but I am happy with this order book ,an order book for equivalent to one year's revenue is certainly not dried it has been a good order book and I think we will improve it further only.

Abhijit Mitra: Just to understand on the export side you have maintained 8% of the revenue share as exports how do you see this 8% moving up or changing over the course of time, couple of quarters?



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- Mahendra Nahata:** It will move up one because we have taken a lot of initiatives to have more exports of fiber optic cable and in fact, last year's revenue from export is INR 125 Cr, this year it is going to be about INR 300 Cr. My internal target is to double up again in the next financial year. This is the target I have given to my team that we should double again in the next financial year and we have taken effective steps to be able to do that in appointing people, dealers, distributors, establishing contact with different operators worldwide this is what we are doing in selective countries, we cannot do in every country, then you have selective countries by doing these and those countries are very quality conscious countries Europe, US, Southeast, Middle East those are the kind of countries we are operating right now for our fiber optic cable export that is one. Number two now the telecom products as they mature in India, as they come in our production and manufacturing which are being designed by us this revenue will also start growing which is slated to happen from I would say a second quarter of the next financial year where you will start selling out Wi-Fi systems, UBRs and then followed by in the last quarter or so with the certain 5G related products like routers and switches followed by radio products based on open RAN they would also start selling also, so export revenue would definitely increase so current 8% what we are looking at now my expectation in the next financial year we should do almost double 15% to 16% of our revenue in the next financial year.
- Abhijit Mitra:** Great. Thanks. That is all from my side I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Shivam Saxena from ICICI Bank Limited. Please go ahead.
- Shivam Saxena:** Thanks for the opportunity. I would like to ask a question the working capital cycle has been increased because of the project execution but when we are saying that we are shifting towards products then the working capital cycle would also remain higher on the higher side or on the lower side?
- Mahendra Nahata:** It will become lower because the project it has gone up because as I explained the milestone basis billing and revenue and the payment, which has not happened because the customer related issue has nothing to do with us. So once that particular project, the NFS finishes you will find that receivables have gone down significantly and moreover when we shift our products revenue would be much faster because product revenue mostly received the customers are 30, 60, 90 days kind of a thing which is much lower than what we have been doing in projects so it will certainly improve much significantly in when we go into the next financial year.
- Shivam Saxena:** Regarding this quarter-on-quarter revenue growth has not been witnessed in this quarter so any specific reasons for though we are saying 9 months it has been improvement but quarter on quarter if we see if the revenue has not grown to that extent any reason?
- Mahendra Nahata:** For quarter-on-quarter, we will find this particular year quarter-on-quarter revenue if you look at it is a quite sustainable growth we have achieved, really we cannot see a quarter on quarter basis every time we have to see on the more or less yearly basis. If we look at quarter one revenue was INR 1,200 Cr and quarter two is INR 1,100 Cr, quarter three would be INR 1,200 Cr we expect this to become better in quarter four also because traditionally quarter four is higher than other few quarters so if you look at last year's INR 4,400 Cr revenue would be even if you maintain what we have done in the current quarter even if we maintain that we will still be reaching to about INR 4,800 Cr so there is a 10% of growth in the revenue but yes this new products coming in it will be even better in the next financial year.
- Moderator:** Thank you. The next question is from the line of Ankit Pande from Quant Money Managers. Please go ahead.
- Ankit Pande:** Thanks for taking my question very good afternoon and very hearty congratulations Mr. Nahata very decent set of results. I just had a couple of questions. We have announcements regarding the product developments side there was an announcement related to AI powered algorithms driving our Wi-Fi products I wonder if that is a new range of products that you have launched number one and have we seen some success there? Number two it will be obviously bolstered our leadership there so I wonder how that is progressing. We have had a gentleman, I think Dr. Weimann join us the Head of Product Development also so now what are the plans under him if you could just give some idea around that?



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Mahendra Nahata: On this AI partnership which we have done that has been implemented in our current range of Wi-Fi products so if the Wi-Fi product was there but Artificial Intelligence is being implemented in those products now so that is going to be a new feature in the product and I must tell you in Wi-Fi, even Facebook it is alliance by Facebook it is promoting our products worldwide. That is very, very important. Facebook's alliance is promoting our products worldwide that is also a very important issue. Now with this Artificial Intelligence being put into the Wi-Fi systems and the radios which are producing operators would be able to get all kind of diagnostics and different performance parameters and all that is readily available to them intelligently which they were not able to get directly but they have to calculate and all these things are being done, now AI would give them those results instantly and with all analytics being done. So that is the advantage of this AI which is being implemented into Wi-Fi and microwave radios and which will enhance the user experience as well as their operation, maintenance and all those kind of things very, very significantly number one. Number two Dr. Weimann we have inducted as the CTO of the development of fiber optic cable, new types of fiber optic cables. Now he has I think some 57 or 60 patents under his name for a different kind of fiber optic cable development and we have hired him to guide HFCL's fiber optic cable new development so he is based in the USA. He is going to have a few more people recruited in the US also and there is a complementary team of people in India so Weimann and his team would do the architectural work, implementation would be done by the Indian team. So it is a combination of architectural team and implementation team. In India also we have a significantly good team, where good people are available as an architect as well as the implementation team so these two teams combined would be developing new kind of fiber optic cables predominantly for the export market. There will be a different kind of cables because of different requirements in different countries and the whole idea would be to develop those products and they should also not only develop the new technology but lower cost also but the design should be such that this lower cost also which would make us more competitive so new products and becoming more competitive this is what we are looking at fiber optic cable so with the development of new products export also would become better in this year.

Moderator: Thank you. The next question is from the line of Simranjeet, an Independent Research Analyst. Please go ahead.

Simranjeet: Thank you for taking my questions. Sir, there are two questions, first of all I want to understand that we all are talking about the 5G implementation in India very soon. Are you seeing a scarcity of the 5G optical fibers in the Country once the demand rises first and second, are there any companies thrust on the EV space in terms of software if you can elaborate?

Mahendra Nahata: What was your third question?

Simranjeet: Sir my second question was that is there is a company thrust on the EV space like in terms of software your electric vehicle space in terms of software development HFCL any plans for that?

Mahendra Nahata: HFCL has got nothing to do in EV space. We have not done anything in electrical vehicles. We are more into telecom. So coming to 5G implementation in India, of course, it is on track rather we are behind many countries and now, therefore, the Government is pushing it very hard and the auction is going to be held in April, May timeframe, implementation would start happening by July. So, of course, 5G is happening in India and will happen in India. There is no reason why it should be delayed any further and 5G would bring in many more use cases relating to direct to consumer, industry, agriculture, education, all kind of use cases will come up which will result in the enhancement of the use of the telecom network and also growth in the revenue of the telecom network because of new use cases coming up. Now all these use cases are going to be requiring more throughput, higher speed, and low latency, which is a 5G, low latency, and higher speed and uses in the development of many more use cases. So once you have higher throughput lot more data flowing in IoT devices or different other use cases you need connectivity that should not block those kinds of throughput so if you do not have fiber optic cable and you have only low capacity radios you would find that the kind of throughput coming from this devices would be bottlenecked in the transport network. So that is why fiber optic cable is coming in-between to connect the 5G towers and intercity intracity connectivity so that those kinds of bottlenecks do not happen and data can flow seamlessly giving a real 5G experience to the customer. That is why you would find more and more towers are being used on 5G and a higher number of fiber optic links are being placed by operators which would definitely result in increasing



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demand for fiber optic cable and this is happening not only in India but worldwide and that is why we find an increase in the demand of fiber and fiber optic cable which has led us to decide to increase the capacity of our fiber manufacturing by 12 Mn and fiber optic cable by another 10 Mn.

Moderator: Thank you. The next question is from the line of Ankit Pande from Quant Money Managers. Please go ahead.

Ankit Pande: Thank you for taking my question again. Just to finish off on a question what is our receivables number I think I have missed that again?

Mahendra Nahata: I can tell you. The total receivable as of today is INR 2,620 Cr for HFCL, INR 149 Cr HTL total combined is INR 2,697 Cr.

Ankit Pande: By and large unchanged quarter-on-quarter?

Mahendra Nahata: Yes no major change but what happened this quarter out of the INR 1,200 Cr sales somehow above INR 700 Cr of the sale happened in December only so bit spike in the receivables on the end of Q3 is because the INR 700 Cr sale of the quarter happened in the December month only because of various, various reasons so as a result of that they have gone up a bit but it will start coming down but the major reduction would be once this NFS revenues start being received with completion of the milestone.

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

Saket Kapoor: Thank you for the opportunity. Sir as you are charting out the trajectory going forward on increased turnover how should the export and the domestic mix look like also you spoke about this data center part so what kind of role are we going to play for the data center and thirdly Sir some subsidy and tax refunds were due for this financial year where are we in midst of that?

Mahendra Nahata: Your first question I have already answered that revenue mix is going to be better from this year Export, I believe with the initiatives we have taken should be doubled up in the next financial year should reach to that 15%, 16% that is number one. Your number two question was regarding subsidy and this subsidy there are two kinds of subsidies we are expecting which is one is Government of India subsidy of about INR 48 Cr for installation of plant in Hyderabad and second is state subsidy of about INR 28 Cr, INR 30 Cr which we have to receive from the state government for the state plant so this has yet to be received we have filed all the papers, all surveys and those kinds of whatever the formalities are have been completed. We expect to receive the subsidy totaling about INR 78 Cr or so in the Q1 of the next financial year.

Moderator: Thank you. The next question is from the line of Arun an Individual Investor. Please go ahead.

Arun: Thanks team for the opportunity. Nahata Sir congratulations on the outcome of the results and I am new to this investments company and I was starting to analyze the interest from the last six months and I appreciate that whatever the things you guys have done for the last six months getting the number one, getting the best in the industry but my question is how competitive we are getting into this optic fiber industry and we have our competitors in the line, I just wanted to understand what could be the best we can make it in the next coming one or two years so out beat all the competitors in this industry?

Mahendra Nahata: We are very competitive and competition is not only by prices many at times. Competition is also by the reliability of the supplier. How well it stands with the customer in times of issues, problems where supplies the demand-supply gap equation in favor of supplier how well he stands with the supplier customer, how good his quality is, how good his supply schedule is, quality, supply schedule, long-term sustenance of the supply schedule and all that, these are the issues which are also waving in the mind of the customer. So in India there may be 20 fiber optic cable manufacturers but whereas we use our full capacity and number of them may not be using their 20%, 30% capacities, and then some of



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them may be able to ready to sell at a lower price just to run the factories but why are they not able to do because these three things which I told you, timely supply, long-term sustainability, quality these are certain attributes which customers give a lot of value, if you take the cost of fiber optic cable is an insignificant cost in the overall network cost it may not be 1% or 2% even but it is a backbone, it has the potential to create problems with the entire network, on an overall basis, it might be in the fiber optic ring-faced within Delhi and Bombay you can imagine what happened the quality, timely supply and all these are also important attributes when we talk of competitiveness. Competitiveness is just not the price only and I gave you an example that some of the manufacturers may not be running at 20% capacity, whereas we are running at 100% capacity. So these are the important issues. Now in terms of competitiveness, we are fairly competitive. We are doing backward integration with fiber as we are seeing, we have already done and we are increasing that capacity by another 12 Mn. Now this will further increase our competitiveness because price fixes between what we buy fiber and what we manufacture, is definitely different. It is much cheaper it is cheaper when you manufacture by yourself and then advantage we are already getting in our current capacity and we will get more once we increase our capacity very, very soon. So then the second thing what we have done horizontal integration. What we have done. Not only we do the manufacture of cables we are doing the accessories also in our HTL plant in Chennai where we manufacture accessories also like joints and distribution boxes and all of the exports and quick sales and all kind of things which we manufacture that also gives us the increased profitability with the same customer so that is another feel factor. Third we have done forward integration. Forward integration not only supplying cable but putting it in the ground also in terms of executing the fiber optic network for the customer so there is a backward integration, there is horizontal integration, there is a forward integration, all put together if you see we are able to get higher revenue and higher competitiveness because for example about INR 600 Cr or 700 Cr of revenue this year would come from fiber optic cable project execution itself. Now project only I may not to do but if it is coupled with the supply of cables, it is much more interesting to me because it is in a higher revenue higher profitability so this is how we are maintaining our competitiveness.

Moderator: Thank you. The next question is from the line of Tushar, Individual Investor. Please go ahead.

Tushar: Thank you for the opportunity, Sir. I have a few questions one question is on the product segment of our business. Would you be able to give a revenue mix between the optical fiber cable and optical fiber and any comparison to other telco products that you supply? My second question is on the margin front in the existing quarter could we see some improvements in the margins, have we taken any price hikes to offset the RM cost and the freight cost? Thank you.

Mahendra Nahata: As I said earlier, our revenue from products as a percentage has increased significantly which is as I said 26% has gone up to 42% of revenue. Within that right now fiber optic cable is predominant out of about INR 500 Cr plus revenue about INR 400 Cr or so is by optical fiber cable, rest is coming from telecom products different kind of telecom products and accessories. Now in future going forward, revenue from other telecom products will increase significantly because new products are under design and they are going to be sold to the customers in the next financial year, the defense products will also start giving revenue to the Company so this is going to improve significantly but fiber optic cable revenue will also go up. As I said last year's about INR 1,100 Cr or so is going to be about INR 1,800 Cr in the current financial year and this will further increase in the next financial year and the next financial year with the new capacities coming in. So fiber optic cable revenue will keep growing and as well as the other products revenue will also grow with more products coming in. Now in the current year, our expectation is that from telecom products, the products alone I am not pointing only fiber optic cable, our revenue should be more than INR 400 Cr which is right now is about I would say all put together telecom products and accessories and all that is about INR 200 Cr it will go to almost INR 500 Cr in the next financial year.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Mahendra Nahata: Thank you very much gentlemen for being with us for this today's earning call. As I said in the current year with our strategy of designing our own products, increasing the capacity has shown good results in terms of revenue and profitability both. The nine month results we have seen we have surpassed last year's, full year's profit in the nine months itself. We are now further increasing our capacity to



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manufacture fiber and cable both of which are set to increase our revenue profitability. Our design of new telecom products, communication products which is now in process, some products have already come in the market, more are going to come in, those will also increase our revenue profitability, not only for the Indian market but in the global markets and once we go for global markets and more number of customers naturally revenue is going to be higher. So I see the next few years in the Company as a major growth opportunity because of increase in capacities and also increase in product range and increase in the customer base so right now our mantra in the Company is new products, new customers, new geographies, and of course sustainable profitable growth and we are working well for within that strategy. The Company is increasing its management depth in terms of hiring very experienced people internationally, for sales, marketing as well as product development. We are working with a number of internationally renowned companies for product development which is increasing the depth of our capability to design more and more products quickly, so certain names you have already heard, few more names you will be hearing in near future wherein we will be working with these companies for product development and with all these things put together and most importantly the expansion of the OF and OFC, with new technologies coming in which is 5G in FTTH market size is also getting increased globally so new products with increased market size and our thrust to go to new customers and new geographies would see reasonable and sustainable growth in the Company in the coming years. Thank you gentlemen. Thank you all of you for being part of this call today and meet you again in the next earning call. Thank you very much.

Moderator:

Thank you very much. On behalf of ICICI Securities Limited concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.
