



## HFCL Limited

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January 27, 2021

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**Subject: Transcript of Conference Call on Financial Results/ Earnings for the 3<sup>rd</sup> Quarter ended 31<sup>st</sup> December, 2020, of the Financial Year 2020-21.**

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on January 15, 2021, on the Un-Audited Financial Results of the Company for the 3<sup>rd</sup> Quarter ended 31<sup>st</sup> December, 2020, of the Financial Year 2020-21, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on January 14, 2021.

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)**

Senior Vice-President (Corporate) &  
Company Secretary

**Encl:** Copy of Transcript.



## **“HFCL Limited Q3 FY-21 Earnings Conference Call”**

**January 15, 2021**



**MANAGEMENT: MR. MAHENDRA NAHATA – PROMOTER &  
MANAGING DIRECTOR, HFCL LIMITED  
MR. V. R. JAIN – CFO, HFCL LIMITED  
MR. AMIT AGARWAL – HEAD (INVESTOR RELATIONS),  
HFCL LIMITED**

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



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**Moderator:** Ladies and gentlemen good day and welcome to the HFCL Limited Q3 FY21 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 an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neerav Dalal from Maybank Kim Eng Securities. Thank you and over to you Mr. Dalal.

**Neerav Dalal:** Good afternoon, everyone and a very happy new year. Welcome all for the HFCL Limited third quarter FY21 results conference call. My name is Neerav Dalal from Maybank Kim Eng Securities. At the outset I would like to thank the management for giving us the opportunity to host this call.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call, maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on the management's beliefs as well as assumption made by and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decision.

The purpose of today's earnings call is purely to educate and bring awareness about the Company's fundamental business and a financial overview of the quarter under review. Now I would like to introduce you to the management participating in today's Earnings Call. We have with us Mr. Mahendra Nahata - Promoter and Managing Director, Mr. V.R. Jain – Chief Financial Officer and Mr. Amit Agarwal – Head (Investor Relations). I will now hand over the call to Mr. Mahendra Nahata for his opening remarks. Thank you.

**Mahendra Nahata:** Thank you Neerav for your kind introduction. Good afternoon, everyone and a warm welcome to the earnings call of the Company for the third quarter and nine months ended 31<sup>st</sup> December, 2020. Please note that Q3FY21 Quarter Results, Press Release and Earnings Presentation have been mailed across to you and these are also available on the websites of the Company and stock exchanges. I hope you have had the opportunity to glance through the highlights of the performance for third quarter of financial year 21.

Our focus has always been on growth avenues and to invest in innovation, thereby creating value for our stakeholders. I would like to start by highlighting Q-o-Q milestones achieved by your Company in the last quarter. During the quarter we commenced production of optical fiber cables for fiber to home applications from our newly setup FTTH cable manufacturing Facility at Hyderabad. I take pride in stating that with the commencement of this production Facility your Company is now the largest manufacturer of FTTH cables in India with the capacity of 6 lakh cable kilometers per annum. We plan to further expand this capacity in Hyderabad in next few months. We have also achieved the supply of 1 lakh units of Wi-Fi systems during third quarter of financial year 21, within first year of manufacturing at a record speed. These systems are fully indigenously designed, developed, and manufactured by your Company. We continue to witness



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great order inflow for our products from domestic telecom companies, as well as other inquiries from outside India.

We are quite optimistic about the opportunities that lie ahead in the wireless technology space, as we believe that India is on the cusp of digital revolution led by transformational projects like the recently announced PM-WANI in conjunction with BharatNet. I would also like to share with you that we will soon have a host of other Wi-Fi family products that will cater to 5G requirements as well.

Another key highlight during the quarter was that we bagged an order worth Rs.678.50 crores from Larsen & Toubro Limited. The order we bagged was for supply of IT equipment, software solutions, Cloud, management solutions for setting up data centers, security operation centers, network operation centers, and various other equipment and systems. This is a testament of our capabilities to provide high quality products. Our order book has been robust and is maintained at almost two times of previous financial year sales even during these difficult times of pandemic. As of 31<sup>st</sup> of December 2020, our consolidated order book stood at Rs. 7,313 crores.

On the back of catering to the growing orders, the capacity utilization in third quarter of the current financial year has been inching higher which now stands at 95% for our cable manufacturing facilities. Our R&D teams in Goa and Chennai have also developed various new types of cables for local applications as well as export requirement.

I would like to add here some of our new telecom and defence products, are on advanced stage of field trial and are on the verge of being rolled out soon. To add to this, we have already designed Wi-Fi 6 systems and is under testing by a few large telecom operators.

I would like to applaud the efforts of our R&D team which has enabled us to launch superior products in a reasonably quick timeframe. R&D is one of our key pillars as it not only helps us launch high quality products but also gives the edge to stay ahead of competition by innovating new products. Our focus on innovation has yielded a growing pipeline of products like electronic fuses, electro optic devices, software defined radios, switches, routers, intelligent antenna systems, ground surveillance radars to cater to global market demands. Our R&D teams in Goa and Chennai have also developed various new types of cables for catering upcoming demand of such cables in India and abroad.

Owing to COVID-19, there has been a thrust on digital transformation all over the world which has advanced the need for high speed communication networks like 5G. We believe that 5G will lead to a fundamental shift in the way we live and work. It will have a far reaching impact on industries across verticals, more so when India as a nation is looking to become a \$5 trillion economy by 2025. Then we will need transformation in India's digital infrastructure on a massive scale. All this put together will give immense thrust to telecom business. Driven by this demand, we aim to project India as a next generation innovation and manufacturing hub for telecom



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products ahead of the 5G roll-out expected later this year. We as a Company intend to be an integral part of India's digital transformation and a one-stop shop for digital and telecom solution, for which we have laid down a clear part for ourselves, this includes providing world-class next generation products led by innovation. This will help us improve our margins and also stay ahead of the curve along with fulfilling Hon'ble Prime Minister's vision for Atmanirbhar Bharat.

After a challenging first half owing to COVID-19 wherein we still managed to achieve the decent growth against all odds, we have now managed to keep our growth momentum.

Now I would like to run past the consolidated financial highlights of third quarter of financial year 21 and 9-months ended 31<sup>st</sup> December 2020.

Revenue for third quarter of financial year '21 stood at Rs.1,277 crores as compared to Rs.1,054 crores in the Quarter 2 of financial year 21 thus recording growth of 21%.

EBITDA for quarter stood at Rs.177 crores as compared to Rs.138 crores in the second quarter. EBITDA margin increased by 78 basis points and stands at 13.8% for third quarter financial year 21.

For third quarter financial year 21, profit after tax rose to Rs.85 crores as compared to Rs.53 crores in the second quarter of financial year 21 recording the growth of 59.7%. PAT margins also improved by 160 basis points to 6.64% in third quarter FY21 compared to 5.04% in the second quarter of FY21.

Segment revenue for telecom products during the quarter stood at Rs.333 crores as compared to Rs.279 crores for the second quarter of FY 21. We expect revenue from telecom products to keep moving North from here onwards.

Turnkey contracts and services reported a revenue of Rs.944 cores as compared to Rs.776 crores in the second quarter of FY21.

For 9-months ended 31<sup>st</sup> December, 2020, our revenue stood at Rs.3,032 crores and EBITDA stood at Rs.398 crores and PAT stood at Rs.160 crores.

On the financial performance, I would like to add that our focus is to strive towards improving shareholders value by maintaining our strong return ratio and keeping a check on our gearing ratio.

Like I mentioned focus on R&D and innovation coupled with robust manufacturing and seamless distribution, with dual focus on domestic as well as international business will take your Company forward to a sustainable growth path. With this, I close my remarks and leave the floor open for questions. Thank you very much and wish all of you a very happy new year.



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**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Hardik Vyas from ET. Please go ahead.

**Hardik Vyas:** Good afternoon sir. I have a few questions. To begin with, the order inflow of pipeline tenders, how is that looking? Because we have not been seeing any fresh orders apart from the L&T order that has come in the last quarter. We have not seen any orders come in, so what is the tender pipeline?

**Mahendra Nahata:** Look, our orders are not only from tenders but lot of orders for OFC, WiFi and some other projects keep coming from private sectors regularly. The reason they are not announced because they are not of very high values hence we do not announce it publicly. Don't just go for large orders. Large orders of course, last quarter we have received for Rs.678.50 crores from L&T. A number of smaller orders have come and they will keep on coming. Fibre optic cable like yesterday, we received an order for Rs.70 crores from one customer, another customer we are negotiating for another Rs.70-80 crores. They keep on coming all the time and that's why our order book is ~Rs.7,300 crores. And we do expect certain tenders, we have participated and we are positioned well. I don't want to make a statement for future, but we expect reasonably good amount of orders to come in the current quarter.

**Hardik Vyas:** We have been seeing a lot of large orders coming in FY18-19, hence we thought that the orders have not been coming in. We were wondering that?

**Mahendra Nahata:** Look that specific year large orders came from a particular project for Network For Spectrum Project by Defence services. So that always does not happen at that level. We cannot always compare year to year. We really need to look at the overall order book. Overall order book if we look is twice the revenue of the last year, that's reasonably encouraging. And let me assure you the way the market is right now, telecom market in my opinion is good at this moment of time because of various factors and the reasons which shall lead continuous flow of orders. As you all know, 4G spectrum auction is happening that would lead to further expansion of networks, number one. Number two, after that 5G would come by the end of the year and that would propel the demand to a different level which includes fibre optic cables because the number of cell towers wherever the 5G is there would increase by three times to what it is there in 4G. And there being high throughput, we shall need lot of fibre optic cable or high bandwidth radios to be used for the connectivity, a huge demand for that would come up. Then there would be demand for number of other products like Wi-Fi 6, which your Company has already designed and developed, which is 5G compatible. So fibre optic cable, microwave radios, Wi-Fi systems, there would be huge demand for those things when it comes to 5G. Third FTTH, which is already being rolled out by various private operators and I've told you that we are the largest manufacturers of FTTH cables in India. So further increase in FTTH rollouts would propel demands for fibre optic cables. Fourth, Bharat Net, Wi-Fi and FTTH put together as a single unit because Bharat Net is being rolled out in the next 1,000 days all over the Country and with a mandatory requirement of giving FTTH connections and Wi-Fi connections. So which means the demand of infrastructure, fibre optic



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cable, Wi-Fi and FTTH cable as well as electronic equipment which we are also designing, so the whole thing would generate a huge demand opportunity for telecom companies like us. So, if you ask me, I look at the demand very optimistically and order book will continue to grow as much as supply and revenue.

**Hardik Vyas:**

So have we reached an execution level of pre-COVID times? And in third quarter have we executed any backlog of orders, that is why the service orders are up quite significantly?

**Mahendra Nahata:**

It's already almost up to the pre-COVID levels. Yes, it is up, that's why you see this kind of revenue that we have clocked in Rs.1,277 crores of revenue. Some places which is still slow, it's not as much as for COVID, it was there for the second quarter. Third quarter those areas have been slow because the execution could not take place in COVID time, now there are snow bound, you cannot do execution, they are Leh, Ladakh, North East Tawang and all those areas where the defence projects are getting executed, they have slowed down because of the weather conditions, not for COVID. But it is an impact of COVID in a sense that it could not be executed when COVID was there in the second quarter.

**Hardik Vyas:**

Okay. The next question is for the gram panchayats, what is the size of opportunity that we see over the next 1,000 days split between both the products and services.

**Mahendra Nahata:**

I cannot tell you specifically a split between products and services, but if you ask me the overall opportunity for, it's not only gram panchayats, it's all the villages. Hon'ble Prime Minister announced all the villages, not gram panchayats, all 650,000 villages, out of which only 125,000 gram panchayats are connected, so rest 5 lakhs villages are yet to be connected. I would say if you take fibre optic cable, Wi-Fi, equipment for optical FTTH network and infrastructure including services, putting the cable on ground or all those kinds of things, it should be somewhere near Rs.40,000 crore opportunity in the next 3 to 5 years.

**Hardik Vyas:**

And that would include the Passive Optical Network (PON) products as well?

**Mahendra Nahata:**

Yeah, absolutely. That's why I said FTTH related equipment, that's what is PON.

**Hardik Vyas:**

And the execution has already begun be it in a smaller way, but the execution has begun?

**Mahendra Nahata:**

You have to separate it out. One is what PM announced as a PPP project that is yet to happen. Because I think government is now planning to issue the PPP UIs and all that in the next couple of months. But BharatNet as such is getting executed in different states. Right now execution is going on in various states like Maharashtra where we are supplying fibre optic cables. Telangana, where again we are supplying fibre optic cables, Chhattisgarh where we are supplying, Jharkhand where we are supplying. Then Kerala also some execution is going on by Bharat Electronics. There also we are supplying fibre optic cable. Recently there has been a tender in Tamil Nadu that is expected



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to be awarded in sometime from now; there also we are in a good position to get order for fibre optic cable. So, execution in earlier part of BharatNet is going on.

**Hardik Vyas:** Last two questions from me. The first is, can we get a split of the product revenue from Wi-Fi and six-Wi-Fi.

**Mahendra Nahata:** I can send you the number which I don't have right now, product revenue I would say; product revenue has been Rs.333 crores, turnkey revenue Rs.944 crores.

**Hardik Vyas:** No, that we have. I just wanted the product segment revenue split between different types of products produced and developed by HFCL?

**Mahendra Nahata:** Yeah, there are two kinds of products. One is OFC and another is Wi-Fi and accessories. So that would be, out of Rs.333 crores in the current quarter, Rs.80 crores is in Wi-Fi and accessories and OFC is Rs.253 crores.

**Hardik Vyas:** And second quarter Wi-Fi would be lower than Rs.80 crores, right? How would that be?

**Mahendra Nahata:** Second quarter was lower. Wi-Fi products and accessories were around Rs.54 crores.

**Hardik Vyas:** Okay, so we have seen about 40% growth in Wi-Fi.

**Mahendra Nahata:** Yes, in Wi-Fi and accessories.

**Hardik Vyas:** And could tell us what was the number of Wi-Fi that we sold? We sold I think 1 lakh over the second and the third quarter.

**Mahendra Nahata:** Yeah.

**Hardik Vyas:** But the split between second and the third quarter?

**Mahendra Nahata:** Well, that number I don't have right now. But yes, we sold second and third quarter and it is increasing, every quarter it will increase only.

**Hardik Vyas:** Last one question, our Defence Minister had some 48,000-crore procurement for Made in India defence products, for drones and all the other products. How are we placed to take advantage of that? I mean, we had drones and other different equipment lined up for trials, how are they likely to be taken up?

**Mahendra Nahata:** Two kinds of equipment lined up for trial, one is electronic fuses which is already developed and we are the only Indian company to have our own design of electronic fuses, all others are doing some kind of a ToT and all that. We are the only Indian company which has got fuses of our own IPR. So they are ready and whenever Army asks for samples against the tender which we have



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already participated, we are ready to supply the samples for field testing, so they are already there. Night vision devices, couple of types which are already ready, we have participated in tenders and a couple of TECs, technical evaluation on paper and field trial, we have already passed. So now the tenders would be open and we would see the orders how they come up and who wins it. But couple of few tenders we have participated. Some trials have already happened and we have passed those trials, and some are yet to happen. So night vision devices and electronic fuses, these are the two products we have started with and they are ready. Fuses are completely ready and night vision devices few models are ready, few are in R&D stage and would be ready in next few months' time. Then we have participated in another program for upgradation of armored fighting vehicles which are being used by Indian Army. And that UI stage we have participated, now short listing is to be done and then we would participate in RFP. Similarly, we have taken a project for developing software defined radios. There also we participated in UI. I am happy to report that we have been shortlisted there also and that development is going on in Chennai, in company where we will take 50% equity that company is developing it for us and IPR would be owned by HFCL. So these are some of the programs which we have done for defence, and we are not deviating from our area of operation, which is communication and electronics. We are very precisely focused on that, the communication and electronics. Even upgradation program for the armored fighting vehicles. Our scope of work for HFCL is going to be these electro optic devices, night vision devices and telescopic devices and all those kinds of things. The rest, of the work which is really not electronic or communication will be done by our foreign partners.

**Hardik Vyas:** Okay. So we could see execution, I mean, order booking and translating to revenues after two or three quarters from these things?

**Mahendra Nahata:** I would say looks like, yes, two quarters at least looks like.

**Hardik Vyas:** Okay. Last question, what is the status of BSNL?

**Mahendra Nahata:** Look, BSNL status, though we haven't done much of the business with BSNL. What business we have with BSNL is for NFS, where, BSNL is only pass way agency. If you ask me the status of BSNL, I think we see that it should improve in future.

**Moderator:** Next participant is Deepak Poddar from Sapphire Capital.

**Deepak Poddar:** We are talking about the telecom sector, the buoyancy in the sector and next 2-3 years should be quite good with the 4G, 5G and about other offerings as well as the 5G FTTH. So the kind of revenue that we are seeing, do you see some sustainability in the kind of revenue or margins that we are doing or in the margins there are some things that the cost is lower that will come back in the coming quarter. So if you can throw some light on it would be quite helpful.

**Mahendra Nahata:** Good question Deepak, thanks a lot. Look one thing is clear that there is demand and demand is going to increase because of the various projects which I talked about. Now about sustainability,



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as I talked about in my opening remarks, our effort is to increase our revenue by our own designed products and that's why we are investing so much on R&D. In fact, we have a R&D center in Delhi, Gurgaon. We are doing partnership R&Ds, contract R&Ds with number of other companies. We have taken equity in companies which do R&D and getting them design products for us. We are to open a new R&D center in Bangalore and hopefully this would be operational from the month of April. The whole thing is designed to have more of our own products which has a higher profitability. In fact, as we go in for our own products and selling those products in India and then possibly abroad also, I feel, that is my judgment, that our profit margins are going to increase only. If you look at the last few quarters, for example, compare the last quarter to this quarter, our EBIDTA margin has grown from 12% to 13.8% so almost 1.8% jump. PBT has gone from 8.11% to 8.9% and this margin growth is there because of this particular focus as I talked about. An important point is that the products which we design are absolutely international class, for example Wi-Fi systems, unlicensed band microwave radios, they are being used by large operators in India and without any glitch, without any problems, quality is as good as any world-class company. We have already designed the next version of this equipment which is Wi-Fi 6 which is 5G compatible and nobody has attempted that design in India till now to my knowledge. So with the increase in our own product range, which I talked about, like Wi-Fi, like unlicensed band radios or routers we designed, we are getting designed for switches, the software defined radios, high-capacity radio relay, ground surveillance radar for border surveillance, so on and so forth. As the revenues increase from these areas the profitability will certainly be better than what it is today and that is the whole focus of ours at this point of time, to increase our profitability from our own designed products. So would be fiber optic cable. Now fiber optic cable we have a competitive advantage. I would say we are amongst the two largest cable manufacturers of the country. I may be the largest also, but I don't know the fact how much other guy produces, so I wouldn't say that, but yes, we are definitely amongst the two largest. And that kind of a large volume manufacturing gives us better handle on procuring the raw material, whether it is fiber, partly we produce, large quantity we buy from outside also and other raw materials. It gives us a better competitive edge. And as we go on producing more amount of fiber optic cable by increasing enhancing our capacity, we will have even higher handle on the volume of raw material procured, which will give us a price advantage. So, all these our own products, large volume of fiber optic cable production, leading to economies of scale, new designs of fiber optic cables, which are for export market, so those all would result in better revenues as well as better profitability and sustainability and revenue profitability, both.

**Moderator:**

We move on to the next participant. Next question is from the line of Jimit Shah for ICICI Bank. Please go ahead.

**Jimmit Shah:**

Hi, Sir, thank you for the opportunity. Just have a couple of questions. First is on the working capital cycle, if I could get your comment on the debtor days currently and how have you seen the situation improving in the nine months?



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- Mahendra Nahata:** The working capital cycle continues to be same what it was in the second quarter and I'll give you the number, it's about 114 days. Net working capital cycle is 114 days, almost equivalent to what we had last quarter. But if you compare with the last financial year, it has gone up by 20 days because of the fact that COVID and all that have resulted in a lot of payment delays and those kinds of situations, it has gone up. But I think we would be able to correct this situation in next three to four months' time and this will again improve.
- Jimmit Shah:** The debtor days, currently what are the debtor days if you can tell?
- Mahendra Nahata:** Debtor days would be I would say roughly about 4 to 5 months.
- Jimmit Shah:** Second question is more from a sectoral point of view. All of us are aware that the Government has come up with the production linked incentive and they have earmarked around Rs.12,000 odd crores for telecom products and considering our product portfolio and what the Government is planning to do, do we see any scope in that from an HFCL standpoint ?
- Mahendra Nahata:** We should definitely have that scope. I have not seen that scheme in detail but any manufacturer which produces indigenously like what we do and has a very strong focus on that, I think we should have a reasonably good advantage coming out of that though I have not seen the scheme in detail right now.
- Moderator:** Next question is from the line of Karan Deol from UVI Investments.
- Karan Deol:** Can you throw some light on the fiber prices that are prevailing right now?
- Mahendra Nahata:** Fiber prices could be different for different people, not same for everybody. Currently, the fiber prices, current fiber prices in the market what we buy it is around Rs.250 per fiber kilometers.
- Karan Deol:** How much, I didn't get you?
- Mahendra Nahata:** Rs.250 per kilometer.
- Karan Deol:** That has reduced from the previous quarter?
- Mahendra Nahata:** Yeah, previous quarter was bit high. It has reduced a bit but I think now they have stabilized. I don't expect it to go down any further but now it may be Rs.250 for me, it may be Rs.270 for somebody else and Rs.280 or Rs.300 for somebody else. It all depends on your quantity you buy and the volume discount you get from the suppliers but for us it is around that at this point of time.
- Karan Deol:** Is there any specific reason this quarter the margins have increased, anything that you can point out?



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**Mahendra Nahata:** Margins have increased one, as I said; one is that higher volume of revenue because that also contributes, then our own products Wi-Fi and all that accessories that concludes to higher margin. Fiber-optic cable also, certain orders are getting executed which are at a better prices and the decrease in fiber price and all that helped us to increase the margins.

**Karan Deol:** Is this margin sustainable in the short term?

**Mahendra Nahata:** It is sustainable and our whole effort is to take it northwards not only sustainable our effort is to increase it.

**Karan Deol:** Promoter pledge issue?

**Mahendra Nahata:** Promoter pledge issue as I have been saying all the time that this balance pledge of shares what we have is against the loan taken by the Company. It's not against any loan taken by promoters, not even a penny and those conditions for which we had given the pledge long back those have already been fulfilled. We have already applied to the banks to release that pledge and as I understand the lead bank has already cleared that. Now it is going in the committees of other banks to follow what lead bank has already cleared. It is a process as you know banks to give away security takes little time. So it is in process, lead bank has already cleared it. I hope by the time we meet next time we should be through.

**Karan Deol:** You have decided to expand your FTTH production by 33%? Was the response very overwhelming that you have to take this decision and what sort of revenue do you get from Bharti Airtel regarding FTTH?

**Mahendra Nahata:** I wouldn't go into which customer gives how much revenue but yes, we had overwhelming response that's why we increased our capacity first by establishing a factory in Hyderabad, 30,000 km per month and then expanding it another one-third by another 10,000 km per month in the next few months' time, 2-3 months' time and we have large queries from export also, for export requirement also. I am pretty hopeful that we should be able to export also in a large quantity so sensing that kind of a demand we have increased our capacity because if we don't increase and order comes and then you tell the customer that I will supply 6 months later that doesn't work. So it is better to increase the capacity in advance and make sure that these orders when they come we are able to supply for which we are in reasonably good stage of negotiation.

**Karan Deol:** Is Bharti Airtel also one of your key clients or you mainly cater to Jio?

**Mahendra Nahata:** We supply lot of fiber-optic cable to them, yes we are supplying.

**Moderator:** Next question is from the line of Deepak Srinivasan from Aryan Share & Stock Brokers.

**Deepak Srinivasan:** Regarding the receivables, has it been reduced or is it maintained the same level because we had an increase in the receivables last time?



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- Mahendra Nahata:** It is still maintained at that level. Maybe if there were, there could be some increase only because of lot of supplies has been made in the last 15 days of the last month. It has increased a bit but reason of increase is nothing but the payments are milestone based. As the milestones get completed, we keep on receiving our money. It is a very temporary phenomena and I expect by the end of the first quarter of the next year this receivable would be starting to decrease.
- Deepak Srinivasan:** Is there any bad debts, new bad debts?
- Mahendra Nahata:** No, we don't have any bad debts. May be very small / negligible amounts, which should not impact anything.
- Moderator:** Next question is from the line of Saket Kapoor from Kapoor & Company.
- Saket Kapoor:** Can you give the idea, when you say that, you are preparing the roadmap for margins moving northwards. On a blended basis what is our next stoppage for the margins to stabilize like from these levels where is our first increase in margins?
- Mahendra Nahata:** Mr. Kapoor it would not be wise for me to give a forward-looking statement that where the percentage going. I can only tell you that we are taking steps to definitely increase our margins and I have also outlined that how they would increase from the product revenue like for example innovation, R&D, our own products, our own IPR which can be sold in India and abroad. Fiber-optic cables because of economies of scale, and better expense control. These are the reasons why the margins would increase but to put a number would not be right thing for me to do right now.
- Saket Kapoor:** It will be mainly the product part that is going to contribute to the accelerated margins that we are anticipating?
- Mahendra Nahata:** Product including fiber-optic cables, yes, you are right.
- Saket Kapoor:** Including optic fiber cable. That means the value-added cables you are talking to or the plain because the OFC prices I think so are still hovering in a narrow lower band only and they have not moved on.
- Mahendra Nahata:** We are talking all kinds of cables, value-added cables, fiber to home cables, normal cables; we are talking of all kind of cables.
- Saket Kapoor:** Your investor presentation articulated about this O&M of operations and maintenance of I think Rs.1,600 or Rs1,580 crores. What has been the contribution for quarterly this 9-months? How will this plan out further?



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- Mahendra Nahata:** Current nine-months it was Rs.60 crores but these would increase in future because the O&M kicks in after some period of execution and the major projects which are under execution O&M would kick in as the projects are finished. I would say major revenue from O&M would start coming from 2 years from now.
- Saket Kapoor:** Currently that Rs.7,300 crore order book, Rs.1,580 crore is inclusive of that or that is a separate?
- Mahendra Nahata:** You are right.
- Saket Kapoor:** Where I am right, it is inclusive of Rs.1580 crore or exclusive of that?
- Mahendra Nahata:** Yes, inclusive.
- Saket Kapoor:** As has been the case you are speaking to investors and guiding us in the business verticals of the Company; as a prudent management we would also request you that the board should also try to come up with dividend distribution policy. That means how are you going to utilize the cash going forward? If you could give the investors a ballpark.
- Mahendra Nahata:** It is for the board to decide. I can't speak for the same at the moment.
- Saket Kapoor:** But the proposal should move from the promoter, you have walk-the-talk.
- Mahendra Nahata:** It can move from the promoter or it can move from any other board member also not necessary from the promoter. Every board member is free to give his views. Right now we haven't had any discussion about that. Whenever we have any discussion, I would definitely let all the shareholders to know and that would be mandatory for me to inform stock exchange and all that. Whenever any such thing is happening, everybody would be able to know. Right now, there has not been any discussion either this side or that side.
- Moderator:** Next question is from the line of Chetan Cholera from Pragya Equities.
- Chetan Cholera:** Whether it's right or wrong, there is a wrong perception created about the Company because of the last boom of tech. What steps we are taking to change the perception of the Company?
- Mahendra Nahata:** I don't know you're talking to which period tech boom which was 20 years back. I cannot say anything what happened 20 years back, but last 20 years, I don't think you have heard the name of the Company for any wrong reason or any wrong perception, number one. Number two, I think perception clearing is by the work you do. If I start advertising about myself, I don't think that's the right thing to do. It's the work you do, which clears the perception and if you look the work of the Company, the result is in front of you. The kind of revenues we are making, kind of profitability we are making, kind of order book we have, kind of reputed customers we have that speaks for itself. I don't think it's good for me to start going around and say, I am good-I am good. The work will tell you whether I am good or bad. Work is in front of you, it's for you to judge whether the



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Company is on the right track or not. And that's the way I would put it. Yes, definitely we have started having regular earning calls. We are releasing information about the Company, whatever happens in the Company, any investment, any increase in any capacity order books, larger order books. We are all releasing to the general public, shareholders, stock market so people should be aware about the Company. We are improving our website, those kinds of things we are doing but not that we are going to advertise that we are good, and everybody should listen to that we are good, and nobody would agree if I say. People then believe it. So that's what my effort is to do good work, do better management, better results, better revenue, better profitability that would tell people that yes, the Company is good or bad.

**Chetan Cholera:** It will be a '*chota muh aur badi baat*' but I just have a simple suggestion. I think if you give some 10% to some good strategic investors, that whole thing will change the perception of that. This is suggestion from my side; you can take whatever way you take it.

**Mahendra Nahata:** Mr. Cholera I have noted your suggestion and if any good opportunity comes, any good investor proposal comes, we'll definitely work on that.

**Moderator:** Next question is from the line of Virendra Verma from IVIE Capital Advisors.

**Virendra Verma:** From a preceding question like last 2 decades, telecom sector has gone through a lot of changes from 2G to 3G to 4G, and now you are talking of 5G. Now what kind of assurance you give to shareholders that the Company is on a right growth path?

**Mahendra Nahata:** Only way I can answer this question that whenever the technology is changing, we are improving our product range also to keep pace with the technology, 2G-3G-4G-5G. Maybe 5 years from now, you hear 6G. Companies have to continuously upgrade their product range and I'll give few examples. Wi-Fi is the current example Wi-Fi 5, which is also the current product in the market which everybody using, you're using, I'm using that is there, but 5G is coming and Wi-Fi 6 is going to be compatible to 5G. We have already finished design of Wi-Fi 6 and it's already under testing with operators. This is one example, how you keep pace with technology. Then fiber optic cable, you used to have 12 fiber-24 fiber-48 fiber cables. Now we are designing fiber optic cables more than 2000 fibers. Again this is required for different new upcoming application so we are designing those kinds of cables. FTTH earlier there was no FTTH. As the FTTH came we have a separate production line for FTTH cables. Microwave radios, 5G would require high bandwidth microwave radios. We have high bandwidth microwave radios in our product range coming up very soon. Military radios, technology is shifting to software defined radios for better sustainability, better secrecy, better encryption. We are designing software defined radios, routers for 5G there would be application of routers and switches, we are designing them. You have to keep ahead or you have to keep yourself at par with the upcoming technologies then only you will be having sustainability and profit and revenues both and that's what we are doing. In another good advantage that it creates a barrier also for entry. For anybody and everybody come into this market and make revenue and profitability would not be so easy because you have to have good R&D,



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you have to have good technology capability and customer connect, customer believes that you would be able to improve your product range, keeping pace with technology so that he can rely on you as a long-term partner. These are definite attributes and we are constantly following them. That's why you see that there is sustainability in our revenue and improvement in profitability.

**Virendra Verma:** We have a stake in a media company, AB Corp, that investment is lying for almost 2 decades but neither this investment is our strategic fit nor its adding value to our business. What are your plans for disinvestment?

**Mahendra Nahata:** We have already written it down to a very low level, some Rs.30-35 crores is the remaining amount we have kept in the Company. We will wait for disinvestment whenever the opportunity arises. We'll try to disinvest it but we have already written it down.

**Moderator:** Next question is from the line of Vivek Gupta from GCL Capital Partners.

**Vivek Gupta:** Just wanted to understand this new plant of FTTH, by when will it reach 95% capacity and how is the business looking like for this segment for you?

**Mahendra Nahata:** Plant is already working on that kind of a capacity from this month itself. Of course initially stabilization takes some time so when you talk to 95% capacity, I would say it will achieve in the month of , February . Not too long, February month itself. As your second question was what do we look at the prospect of fiber optic cable, FTTH business isn't it?

**Vivek Gupta:** Yes.

**Mahendra Nahata:** This is a very good opportunity. There are two-three reasons. One, Telcos are rolling out FTTH network in the larger cities where there's a good demand. Jio is rolling out, Airtel is supposed to be rolling out and I'm sure looking at that and if investment permits, Vodafone Idea would also do at some point of time. Now, apart from that as I said in my answer to previous question that BharatNet would also have a large scale FTTH connectivity in all the 650,000 villages. That would also lead to a good demand of FTTH cables and equipment associated with that, equipment also would be required, electronic equipment. Third, there is a huge expansion of fiber to home network going on all over the world, Europe, US, Middle East, South-East and Africa would of course follow. There would be increased demand for FTTH cables from all over the world. I see good prospect of FTTH cable market for next some years and that's why apart from our Chennai facility which were falling short of requirement, we added capacity in Hyderabad and we are increasing it further by about 30% because we see a good demand forthcoming and with this kind of demand forthcoming; we believe that we have to increase the capacity in advance because when the supplier wants it, you have to be ready to supply him so that's why we are increasing this capacity. There's a good demand prospect for this now and few years it is.



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- Vivek Gupta:** You had mentioned areas of Defence like electronic fuses and night-vision devices. What is the opportunity size like in either of them?
- Mahendra Nahata:** For the night-vision devices, opportunity is projected, now how much they would buy I don't know because budget and those constraints would always be there for the Government. It's about Rs.40,000 crores in next 7 years, that's the projection. Now actual buyout would be how much that would depend upon how much money they are able to spare for Defence and within Defence, emergency procurements which have happened couple of times this year because of Chinese issues and so many other issues. That is very difficult to comment but size of demand requirement is about this much. Now this may happen in 5 years, this may happen in 8 years but total opportunity size roughly of Rs.40,000 crores. Fuses are also required in huge quantity and opportunity in that segment would be, in my opinion, we'll do a roughly about Rs.1,000 crores every year, roughly about (Rs.1,000+ crores) every year and this is a continuous opportunity because the border situation as such which is there and lot of trials and firings take place. These are all the time required and then we are looking at export market also.
- Moderator:** Next participant is Srinivas Deepak from Aryan Share & Stock Brokers.
- Deepak Srinivasan:** We have been seeing that some promoter entities have been picking up some shares from Rs. 8-9 crores to up to Rs.18 crores, MN Ventures and insider trading.
- Mahendra Nahata:** Not insider trading.
- Deepak Srinivasan:** Yeah, that picking up in the market,
- Mahendra Nahata:** Yeah, picking up in the markets is not insider trading.
- Deepak Srinivasan:** Yeah, that's what, it comes in the SAST in BSE.
- Mahendra Nahata:** It's an open market purchase
- Deepak Srinivasan:** It's an open market only but it comes in insider SAST that's how they put it in the BSE website.
- Mahendra Nahata:** It's not insider trading, not at all. Promoter as well as the Company have made the necessary disclosures which are disseminated by the stock exchanges at their website at appropriate section.
- Deepak Srinivasan:** This promoter thing will further pick up will take place?
- Mahendra Nahata:** I don't know at this moment of time, I can't comment on that.
- Deepak Srinivasan:** This will instill confidence in the Company, that's the reason we are asking this question.



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- Mahendra Nahata:** Of course, confidence in the Company would be there as you see the results and the performance of the Company and promoter picked up substantial amount of shares, last few months, substantial amount of shares have been picked up
- Deepak Srinivasan:** More than 2 crores of shares have been picked up, that's the reason.
- Mahendra Nahata:** We are already reaching some level of limit, which is prescribed by SEBI regarding acquisition.
- Deepak Srinivasan:** How will the pledge shares be released? Can we take it as all the pledge shares have been released?
- Mahendra Nahata:** As I informed last time also the pledge, which was there for certain facilities which Company had taken, which was about 15%-18% of the promoters holding, has already been released. 45% of the equity of the promoter which is pledged with banks or facilities which Company has taken and this is an additional security which Company had given long back and those conditions have already been fulfilled and we have already requested banks to release that pledge. The lead bank has already agreed. Other banks are taking up to their committees for release. As I said earlier, I hope by the time we meet next time, we should have got the release of that pledge.
- Deepak Srinivasan:** So that means by next time we should have no pledge for the Company?
- Mahendra Nahata:** I hope so.
- Deepak Srinivasan:** Because we have been picking up stakes so I saw that the pledges have been released also. That's the reason.
- Mahendra Nahata:** 18% is already released and, I hope that the balance 45% would also release but there is no risk of this pledge getting invoked because this is an additional security for the loan taken by the Company, we just got primary security, additional securities and all that. There is nothing which should worry any investor that this pledge could be rebound at any point of time, there's no question.
- Deepak Srinivasan:** It will not flood the market that's what we were worried about?
- Mahendra Nahata:** How can it be? It's the loan which Company has taken, not promoter has taken any loan and that too our gearing is into only 0.43%. How can there will be any flooding the market where this pledge because this is not a primary security against any loan.
- Moderator:** Next participant is Devang Visaria from Atharva Wealth.
- Devang Visaria:** One gentleman said how would you change the perception? Are you looking at having a consolidation from Rs. 1/- face value to Rs. 10/-, could there be any situation like that?
- Mahendra Nahata:** We don't have any such proposal on the table right now Devang.



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- Moderator:** Next question is from the line of Saket Kapoor from Kapoor & Company.
- Saket Kapoor:** Just coming to the P&L part about our employee cost and the finance cost. If you could give an idea how are these going to shape up? There have been escalation in the employee cost with the improved turnover and for finance cost also what is our blended cost of funds?
- Mahendra Nahata:** Employee cost has increased with an improved revenue and fresh recruitment for the R&D resources. It has increased and it can increase little bit further because we are recruiting more resources for R&D. There may be some little bit increased further also because of no other activity but R&D. In terms of blended cost of finance, it's about 9.5%.
- Moderator:** Next participant is Raju, an Individual Investor.
- Raju:** Will you be able to advise revenue estimate for next quarter or next couple of quarters?
- Mahendra Nahata:** I can't make a forward looking statement. Only thing I can say is that we would have sustainability in our revenues.
- Raju:** What is the future expansion plans and impact to revenue?
- Mahendra Nahata:** Future expansion plans, I already said there looking at increasing revenue from fiber optic cables, as we talked about by increasing our product range. Then we are designing more products of ourselves which would increase sales in India and abroad and profitability too. We have plans to introduce more products and acquire more customers to increase our revenue and profitability both.
- Moderator:** Next question is from Deepak Mehta an Individual Investor.
- Deepak Mehta:** I hope everyone is doing well in your family and the Company.
- Mahendra Nahata:** Absolutely. Right now everybody is well. We had some COVID cases couple of months back but it's all under control now and God willing this pandemic will get away from us in next couple of months.
- Deepak Mehta:** Yes, sure. I wish everyone stay healthy and safe at your end.
- Mahendra Nahata:** Thank you and wish you the same to you also.
- Deepak Mehta:** You talked about the total market opportunity of Rs.40,000 crores, so is this for FTTH business?
- Mahendra Nahata:** No, I talked about Rs.40,000 crores for the BharatNet. BharatNet, which includes long distance fiber, its infrastructure, link of cable's, electronics, Wi-Fi as well as optic networks. All put together for BharatNet alone I talked about Rs.40,000 crores market opportunity.



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- Deepak Mehta:** Okay, so what can be the market opportunity for 5G plus FTTH?
- Mahendra Nahata:** This would be market opportunity would depend upon when the spectrum takes place or auction takes place and how many operators coming. It's very difficult to say how big would this market opportunity for this 5G, yes but it is going to be substantial in same order of what I talked about BharatNet opportunity. It could be much larger but I am talking about domestic suppliers it could be something around Rs.30,000-Rs.40,000 crores. It's a very rough guess from my side; final numbers are yet to come in. But, yes it could be as large as that.
- Deepak Mehta:** And talking about the how competitive our Company in terms of price and quality.
- Mahendra Nahata:** Quality, we are as good as anybody in the world; there is absolutely no issue in quality of our product, our telecom products, fiber optic cables or anything. In the terms competitiveness, yes we maintain our competitiveness otherwise we would not be receiving the orders.
- Moderator:** Next participant is Utkarsh Somaiya, an Individual Investor.
- Utkarsh Somaiya:** I just wanted to know, what are the current prices of fiber and optic fiber cable per kilometer?
- Mahendra Nahata:** Fiber, I already mentioned for us it is around Rs. 250, now how much are the prices of others I do not know. But it could be Rs. 270-280-300, I do not know. Fiber optic cable depends upon what kind of fiber optic you are talking about but for common denominator of per fiber kilometer of cable it is about Rs. 900 right now.
- Utkarsh Somaiya:** Rs. 900 per?
- Mahendra Nahata:** Rs. 900 per fiber kilometer of cable.
- Utkarsh Somaiya:** I'm a little confused if I remember correctly last quarter, it was around Rs. 4 to 5. So am I getting the metric wrong?
- Mahendra Nahata:** No, you're mixing up fiber and fiber optic cable. So fiber optic cable, I am saying when you put all the fibers in the cable, 48 fiber or 96 fiber, all so cable price would not be a common denominator because cable size is different. If you divide it by fiber count and do an averaging, it comes to one Rs. 900 right now, which used to be Rs. 1,000 plus earlier.
- Utkarsh Somaiya:** So we have grown our revenue despite fallen realization per unit.
- Mahendra Nahata:** Absolutely because of high quantity.
- Utkarsh Somaiya:** Basically our growth is volume based.
- Mahendra Nahata:** Yes.



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- Utkarsh Somaiya:** Nothing is value based, is that the correct interpretation.
- Mahendra Nahata:** Volume based, value based, yes, you're right. It has to be volume based, the market prices go up and down but still if we are there despite market prices have gone down, so we have a higher volume. That's why this growth is here. You're right.
- Utkarsh Somaiya:** Just to get one more thing clear regarding the promotional pledge by the end of the quarter, will it come down to zero from around 38%
- Mahendra Nahata:** Sorry, say that again.
- Utkarsh Somaiya:** The promoter pledge currently it is around 47%. So will that come down to zero by the end of the quarter? Did I get that correct?
- Mahendra Nahata:** Yeah. Look, banks, whatever pledge we have done as I've been saying again and again, it is against the loan of the Company and the pledge conditions are already been fulfilled. We have already requested banks to release the pledge because the conditions are already fulfilled. Lead bank has already agreed. Other banks have taken the measure to their own committees for internal approvals and if they all agree that it would come down to zero. I have no reason to believe it will not. All the conditions are fulfilled but I cannot make a promise to you right now that it will definitely come down to zero by the next quarter or so because the banks have to approve it. But knowing that lead bank has approved it, we are quite positive that it would be approved because there is no condition which is unfulfilled and banks should release the pledge now.
- Moderator:** Next question is from the line of Ketan Shah an Individual Investor.
- Ketan Shah:** Whatever you have said is, all about the revenue mix of Indian growth story is my only doubt. How much is the export opportunity in it?
- Mahendra Nahata:** We did Rs.100 crores export in Q3 which was only Rs.39 crores in Q2. In total 9 months of this year we did Rs.163 crores export against the last year for the same period which was of Rs. 75 crores. We are focusing more on export from next year onwards, for that we have appointed sales representative in Germany, France, England, and Dubai and in so many countries we are working on to export the cable and on some of the places will make direct recruitment of sales people. So with the whole idea behind that to export more in near future and our internal plan is to go up by 300%.
- Moderator:** Thank you very much, ladies and gentlemen. That will be the last question for today. I will now hand the conference over to Mr. Nahata for closing remarks.
- Mahendra Nahata:** Thanks to all of you. I believe, you would've got a good summary of the way we are working, we are trying to maintain a sustainability and improvement in revenue and profitability. The focus we are put on research and development, innovation resulting in more and more products coming from



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our side and from our Company and which would be sold not only in India but other countries also. So thanks everybody. Thank you very much. And we'll be in touch. Thank you very much.

**Moderator:**

Thank you on behalf of HFCL Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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