



## HFCL Limited

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September 23, 2020

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**Subject: Transcript of Conference Call on Financial Results/ Earnings for the 1<sup>st</sup> Quarter ended 30<sup>th</sup> June, 2020, of the Financial Year 2020-21.**

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on August 19, 2020, on the Un-Audited Financial Results of the Company for the 1<sup>st</sup> Quarter ended 30<sup>th</sup> June, 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 August 17, 2020.

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

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

Thanking you.

Yours faithfully,

For **HFCL Limited**

(Formerly Himachal Futuristic Communications Limited)

**(Manoj Baid)**

Senior Vice-President (Corporate) &

Company Secretary

**Encl:** Copy of Transcript.

**HFCL Limited**  
**Q1 FY21 Earnings Conference Call**  
**August 19, 2020**

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**Moderator:** Ladies and gentlemen good day and welcome to the HFCL Limited Q1 FY21 Earnings Conference Call. As a reminder, all participant lines will be in 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. I would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

**Anuj Sonpal:** Thank you Janice. Good morning everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors, we represent the Investor Relations of HFCL Limited. On behalf of the Company, I would like to thank you all for participating in the Company’s earnings conference call for the first quarter of the financial year 2021.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s earnings conference call may be 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 management’s beliefs as well as assumptions made by and information currently available to management. Audiences are caution not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today’s earnings conference call is purely to educate and bring awareness about the Company’s fundamental business and financial performance during the quarter under review.

I would now like to introduce you to the management participating with us in today’s earnings conference call. We have with us Mr.

Mahendra Nahata – Promoter & Managing Director, Mr. V. R. Jain – Chief Financial Officer. I would now like to request Mr. Nahata to give his opening remarks. Thank you and over to you, sir.

**Mahendra Nahata:** Thank you Anuj. Good morning to everyone and a warm welcome to the earnings call of HFCL for the first quarter of financial year 2021. I'm sure that all of you are countering these times with good health and resilience by staying safe with your families and dear ones.

Let me first briefly introduce the Company, the state of affairs and how it has been navigating through the current COVID-19 induced challenges. HFCL as you all know, is a leading technology enterprise, which contributes to a securely connected world through a range of integrated communication networks, products, solutions, and specialized services and offerings. It manufactures Optical Fiber, Optical Fiber Cables, cable accessories, high-end transmission and access equipment. It's technologically advanced offerings span the entire value chain from manufacturing high-tech communication network products to providing specialized network implementation services, which gets deployed across telecom, defense, railways, utilities, security and surveillance networks both in private and as well in the government sector.

HFCL's center of excellence at Gurgaon and Bengaluru spearhead its in-house research and development activity. The two centers are supported by a few other invested R&D houses and collaborators from different locations in India and overseas. Collectively, they work on developing a range of innovative technology products and solutions in a cost-competitive manner. HFCL's integrated manufacturing network of five world-class facilities produce the widest range of new generation communication products in India. The Company serves an enviable list of customers globally with exports to over 40 countries.

The Company continues to enjoy a strong order book of Rs.8135 crores, which is 2.1 times of FY20 revenue. It is aptly supported with a promising pipeline of tenders and RFPs. The healthy order book, which is expected to be executed over the next six to eight quarters shows revenue and earnings visibility. The order book is fairly representative of all our business verticals and comes from a multitude of prestigious customers. Order book also includes O&M orders worth Rs.1573 crores ensuring better margins and annuity revenue year-on-year. As a key enabler of the next round of growth, we are accelerating innovation in every sphere of our business with a sharper focus on IPR creation.

Next generation technology offerings for cost competitive mass deployment would steer our technology led transformation. With a clear vision of global deployment capabilities, our new products initiatives are backed with requisite global and Indian certifications. Indigenously delivered products and technologies with IPR ownerships are expected to drive our margins upward. As you are already aware, our innovation journey has yielded superior WiFi network products, High Capacity Radio Relay, Microwave Radios, and Cloud Based Management Platform. Our innovation pipeline includes Switches, Routers, Intelligent Antenna systems, Software Defined Radios, Ground Surveillance Radars, Electro Optic Devices, and Electronic Fuses at various stages of development being carried out through in-house as well as collaborative research and development. The Company is in process of further expanding its R&D resources and capabilities to bring in more products in its portfolio.

Let me now briefly take you through our resilient response to pandemic induced challenges. Having successfully embraced various ways of unlock our operations have steadily been progressing pre lockdown levels. In spite of having continued threat of COVID-19 even during the first quarter of financial year 2021 our order book remained intact with zero cancellation. We converted the adversity of operational restrictions

during lockdown to further digitize the organization and headed to enable a work from anywhere framework for our non-production non-project workforce. While disruptions due to COVID-19 and lockdown has led to revenue and profit erosion in the first quarter there is no significant impact on our capital and financial resources. Elongated operating cycle have put some short term liquidity stress. However, we continue to maintain adequate working capital with a range of measures and levers available with the Company. With debt equity ratio of 0.43x we remain comfortable to meet our financial obligations. We continue to monitor the unfolding situation and keep adapting to a fairly periodic basis.

Before, I take up our quarterly performance, I would like to share that:

First, the Honorable Prime Minister's promise of providing OFC connectivity to the remaining 4.5 lakh villages over the next 1000 days is the indication of the kind of opportunity waiting for the Company. While this ambitious national goal is just one of the growth drivers that industry is being presented with, the goal of connecting on an average 450 villages every day signifies the priority and urgency that the government is focused for a truly digital India. This opportunity will truly boost up the demand of optical fiber cables in the Country.

Second, the government of India's Make in India program particularly for defense equipment, and recent announcement made to restrict imports in case of various products, open up larger opportunities for the Company. Beside development of Electronic Fuses and Electro Optic Devices, the Company is now identifying more products to be developed and manufactured indigenously. This is also going to boost up Company's revenue in the coming future. Further, as informed and committed during our last earnings call, we have been able to get 20% of our promoters holding released from the pledge, which had been pledged as a collateral to the loan availed by the Company.

Now coming to our Q1 performance. This has been highly unusual quarter marked with production and execution constraints and therefore the results are hardly comparable. On consolidated basis, our income was at Rs.704 crores sequentially a bit better than the previous quarter to Rs.668 crores and lower than corresponding quarter's Rs.1349 crores. Revenue from telecom product segments and turnkey contracts and services segment were Rs.189 crores and Rs.510 crores respectively. Both the segments recorded with sequential growth over the previous quarter, that is, quarter four of FY20. Due to decreased revenue, EBITDA for the quarter was Rs.83 crores as against Rs.194 crores in the corresponding quarter of the previous year. EBITDA margin stood at 11.84% as against 14.40% during the Q1 of FY20. PBT stood at Rs.29 crores as compared with Rs.157 crores in the corresponding quarter of FY 20. PAT at Rs.21 crores for the quarter as against Rs.117 crores in the corresponding quarter of FY20.

Friends, I would like to mention that we are moving towards improved performance that was impacted by COVID situation and hope to achieve the normal levels of operation as soon as possible. Amidst the present situation, we stand committed to increase the profitability, and return ratios with our own technology products coupled with high margin orders. Our efforts to manage the cost efficiently along with effective working capital management shall also continue. Thank you once again for your keen participation in our growth journey and wish you a good health. With this I conclude my opening remarks and open the floor for question-and-answer session. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, 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:** I would like to ask you sir, how do you see the benefit of what you mentioned about the Government's plan to reduce the import and

where we stand, which are the products we see that we have a road to ramp up our business on that side?

**Mahendra Nahata:** As a policy, Government of India is pursuing Make in India program from last two years, one of the major planks has been preferential market access in the government tenders, whereby indigenous manufacturers are given advantage in price quotation to a level of 20%. Of course, you have to supply at L1 prices but while evaluating the tenders in all areas where the PMA policy is applicable, 20% price advantage is given for that purpose evaluation and determining environment, that is one. Second, now defense products, as an example, lot of restrictions have been imposed on imports, recently announced. Now number of these products, we would be manufacturing which are either in process of development or almost completed or some more such new products would be taken up for development. Examples of products which are almost developed in the Company and will be ready in next couple of months includes Electronic Fuses for which we have already participated in a very large RFPs of Indian Army, Electro Optic Devices which are common terms you can call Night Vision Devices where we are participating in a couple of tenders and products. Couple of types of those products are already ready. We are going to be developing entire family of Electronic Fuses and Electro Optic Devices which then not only would be fulfilling large indigenous demand, but we will be exporting also.

Similarly, product like High Capacity Radio Relay has been partly indigenously developed and we have already participated in RFP by Indian Army. Then we are in process of developing Software Defined Radio for which there is going to be large demand. Entire radio network of the defense forces are going to be shifted to Software Defined Radio and we have already started development of that. Likewise, we are now working on Wi-Fi6 within our Company, which is the new area of such product development to fulfill the local demand which is large and

we can export also. So all this is going to result in, I would say, increased revenue and increased profitability because of indigenously designed products. Therefore, that's a good announcement for Indian industry and our Company will also benefit out of that.

**Sanjay Shah:** So sir last time you cited about Rs.200 crores revenue can come from that WiFi microwave. Are that on the radar, so are they on target or is there any change?

**Mahendra Nahata:** Yes, they are on target definitely. What I talked till now were the import restrictions which have been recently announced for defense military products. Now coming to communication related products, there are a number of products which we are working on. WiFi products, development of which is complete for that particular types of WiFi systems. And now, we have also started working on next generation WiFi which is called WiFi 6. And WiFi 6E, we have started working on that also which is a next generation WiFi and next generation WiFi products from our Company would be ready for mass production in the third quarter of the current year. They would be ready for mass production and nobody else in India has attempted that.

The whole idea is to have a complete range of WiFi products in our production. We should be able to cater to more than 80% of overall WiFi market. So, that process has also started. Similarly, the kind of microwave radio development of which is also complete and we are going for development of next generation of UBR that is also being developed right now and that would also be ready in the third quarter of current year. And we are of course on the target of achieving Rs.200 crore revenue through WiFi and UBR microwave radio products. There may be some few percentage here or there because of this COVID situation and implementation difficulties we have with customers. But, we are more or less on target for that.



Apart from this, now we're working on identifying through more products which we should take for indigenous development. Another good thing has happened, that Indian industry, other telecom operators in particular now are wary of importing equipment from China. That puts up another opportunity for indigenous manufacturers to design more improved products, hitherto which were being imported from China and when it comes to 5G related products, definitely what we see in the worldwide scenario unfolding, import from China would be getting quite restricted and as a result of that, there is a good opportunity for indigenous manufacturers to design products locally and unless you design, nothing much is left for profitability for you. This points another opportunity to design new products and manufacture them indigenously, to have high revenue, higher profitability.

Third area optical fiber cables, though there have been not been much import of optical fiber cables in India from China, the Indian industry has been competitive. But even though there was any threat, that is also not going to happen now, because hardly any import is being done for optical fiber cables from China. Now, as you know we have started manufacturing optical fiber also. So there were some threats from that side, that Chinese imports would be there and if there is a lack of demand in China, maybe they'll try to sell in India, but duty on imports and again lack of desire within industry to import from China would also generate good growth in demand of optical fiber in India.

So, all put together, there is a huge opportunity for the local industry in different sectors where your Company started working some time ago, looking forward into what is happening in the demand scenario. We started working in that and then new security environment around our Country is further going to fill in more demand for such products. Second, communication products, where new opportunities are opening up. As I said, announcement by honorable Prime Minister for

connecting entire 600,000 villages, opens up a great opportunity for the business of fiber optic cable, fiber and turnkey and maintenance services where your Company is in the forefront in the Country, the largest company with largest implementation and share of fiber optic cable and the services your Company has an highest amount of work. So new business opportunities have opened up. This will certainly contribute to better growth and broader profitability in future.

**Sanjay Shah:** Sir this Government's announcement on this new opportunity what you talked about connecting village will that come in the Bharat Net program which already is on hold right now because of liquidity issue?

**Mahendra Nahata:** Let me tell you, it is definitely under Bharat Net program, but there's no liquidity issue in Bharat Net, because this money comes out from USO fund. And if I'm not wrong, there is a balance of Rs.40,000 to Rs.50,000 crores already existing in that fund, so money is available. So, there is no dearth of money in that fund and that fund cannot be used for any other purposes, than connecting rural India and unconnected villages. So, money is absolutely no constraint. The program has not been on hold, Yes, but a little bit on hold because Government is now instead of implementing the project by itself, looking at PPP model for implementation. That was a story when it was 250,000 villages to be connected. Now Prime Minister has announced 600,000 villages and Government has not yet cleared which methodology they are going to use. It is going to be PPP or some government led model or state government led model. We are yet to see that announcement. But whatever way they do it, fiber optic cable is going to be required, implementation services are going to be required. So your Company is definitely going to benefit from that, because it is one of the largest manufacturers of the fiber optic cable definitely among the first two and it is also the largest implementer of fiber optic networks in the Country. We are definitely going to have some better profits for ourselves.

**Sanjay Shah:** That's great sir, great opportunity. Sir my next question is regarding O&M, we are citing around the order of Rs.1,573 crores, how would that be executed current year and next year?

**Mahendra Nahata:** No, it is going to be executed over next five to seven years.

**Moderator:** Thank you. The next question is from the line of Parthiv Jhonsa from NVS Brokerage. Please go ahead.

**Parthiv Jhonsa:** So, I've got a couple of questions. The first one is, I'm really sorry, if you have already answered. But, I had actually missed a couple of things. The first question is related to your order book sir. The O&M order book is about Rs.1600 odd crores and the rest is for the other lines of business, what would be the margins on those order book sir?

**Mahendra Nahata:** Different Orders have different kind of margins. Generally, you would say it ranges from 8% to 20%, it's a general statement I'm making. Some may be less, some may be more but generally it is like that.

**Parthiv Jhonsa:** Okay. So, there's like quite a broad range actually?

**Mahendra Nahata:** Yes absolutely and then it's because of orders. Some are strategic orders you take at a competitive price, some are better profitability and customer to customer, order to order it varies.

**Parthiv Jhonsa:** Okay. And so now the things have started opening up, things have started getting back to normal basically, across India. So you feel that this year you would at least do something which is equivalent to FY20 in terms of top line or it will be a bit less, more, what is your guidance on the same?

**Mahendra Nahata:** Look, I wouldn't give any guidance. It would be improper for me to give a guidance in this kind of a situation. We are doing well and we will be reaching near the pre lockdown situation very soon. Because, still some of the impediments do exist because of the fact that number one,

pandemic related migration of workers problems is still not normal. Number two, implementation work is going on in cantonments, defence forces areas which still don't allow outsiders to enter, particularly North-east and Northern areas where there are high number of forces deployed. Those cantonments just don't allow outsider to enter. Because of that what happens, our implementation work has also suffered. In some cases of factories, there are still COVID related cases coming up and there are intermittent, partial closures of the operation as per government guidelines and also from the safety of our own workers point of view. Like there's a disruption going on in our Chennai plant right now because some COVID related cases have come up. We try to make sure that our employees take as much care as possible but you cannot control it 100%. Such kind of things do happen and this would be the last quarter when these things will be happening in a significant number and it would improve. But yes, we would be soon coming to pre lockdown levels, pre COVID levels in our operations.

**Parthiv Jhonsa:** Okay. And sir as on FY20, you had reported total debt of almost close to about 650 odd, 670 odd crores, any plans of that going down in this year and because even you have a promoters holding us pledged. So, I appreciate that you have already reduced a pledge this quarter but any plans on pledge going down and the debt reducing?

**Mahendra Nahata:** First of all let me cover the pledge and then first question of debt.

**Parthiv Jhonsa:** Yes, the total debt.

**Mahendra Nahata:** Let me just explain as far as the pledge is concerned. Let me tell you, there is no such pledge where any loan has been taken by the promoter against shares. 20% released pledge was also pledged as a collateral to the loans which Company had taken, those loans have been paid back. One of the loans which was with the Yes Bank, for a bank guarantee

which has been released. So, the 13% shares have been released. 7% was pledged in Union Bank of India related to Hyderabad facility and that 7% has also been released. In total 20% of the promoter shareholding has been released from pledge very recently. Rest of the 48% of promoters holding is also pledged to the bank as collateral against the loan taken by the Company. So, there's again no loan taken by the promoters against the shares. We have now written to all the banks to release this pledge also, but how much time they would take I do not know because once banks get some pledges as security against any loan, it becomes very difficult for the banks to give it away. We are still working on that and some percentage of that we hope we should be able to get released in few months from now. Let me again emphasize no loan has been taken by the promoters against pledged shares.

**V. R. Jain:** So far as debt is concerned it will be lower by Rs.50 crore or so during this current financial year.

**Parthiv Jhonsa:** Rs.50 crores right?

**V. R. Jain:** Yes, it will be down by Rs.50 crores.

**Parthiv Jhonsa:** Okay, perfect. And sir, I've got one last question if I may, with now people started to doing work from home and the entire 5G saga coming in with all the buzz of 5G around. How do you feel, we'll perform not for the sake its FY21, but next three, four, five years going forward, because the whole technology area is totally changing every single day. So how do you feel we will perform and where will we will stand in terms of competition and everything?

**Mahendra Nahata:** It's really good that these technologies are changing and when the technology's change only those companies which have been able to change themselves with the changing technologies would only perform better, not everybody. So, there is a slight rise in entry barriers or

continuation barrier I would say, because then people who do not invest in R&D, they are not going to be successful in this kind of a very rapidly changing technology environment. So, what we feel as far as we are concerned, we are already preparing for 5G and I will give you some of the examples, like I mentioned in my opening remarks, WiFi 6 which is going to be used as a home or a common area network access points with 5G because there's a large throughput is required. So, WiFi has to be able to take larger throughput and give a larger output, so, the speed which customer gets improves. So we are already working on that. E-band radio which will be required for backhaul from tower-to-tower in number of cases for connecting different towers in 5G applications and we are already working on that. Fiber optic cables would be required in huge quantity in case of 5G networks because the throughput is so high and most of the cases they would be needing fiber optic cables. So, we are in fiber optic cables and have sufficient capacity and fiber we have already started. Likewise, we are now in pursuit of identifying a couple of more products which would be required in conjunction with the 5G network and once those products are also there, we will be taking advantage of 5G coming in the country or worldwide even. So, our strategy now is to not to go for stray products for here and one there. But identify and design a family of products like WiFi for example, it will go into a family of products, unlicensed band radio it would be a family of products.

So, in electro optic devices, family of products. Our hope, our goal is to be among the world's top five in the areas where we design our own product and equipment. So it would not be a large number of different kinds of equipment. It would be a finite number of equipment or products, but the entire range, entire family of products which would mean that we would try to be in the top five of the world in those product area. That's our goal and that's the way we are preparing ourselves.

**Parthiv Jhonsa:** Okay, and sir out of the total order book how much is for the defense?

**Mahendra Nahata:** Defense order book is roughly about Rs.4000 crores.

**Moderator:** Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** Sir my question is related to telecom again, since you are saying you are preparing for 5G. We also know that Government of India is banning Huawei and ZTE to participate in 5G trials. Since they have a broad range of 5G, 4G, next gen products like GPON, DWDM and many other products. So, how do we stand to benefit from this move, and do we compete with Nokia, ZTE, in the global market?

**Mahendra Nahata:** Some of the products which you mentioned DWDM and all that, those are not for 4G or still 5G , those are back up products from fiber optic. GPON is again not 5G, 4G, that is again access on a fiber optic network. So, as far as this 4G expansion or 5G is concerned, definitely as I said in my answer to the previous question, that definitely we are going to benefit because it is going to throw demand of new products, new technologies and some of those areas where we are working and we are designing our equipment like WiFi, UBR may be GPON also in near future and different other products, variants of fiber optic cable and E-band radio and these kind of products. So, now, once we have those products which are individually designed and manufactured, we would effectively be able to compete with anybody in the world. Like fiber optic cable or fiber is an example, which are locally manufactured and produced, we are effectively able to compete with anybody in the world market. Our access to the international market is limited right now because we are very new entry in export markets since last couple of years. But this year we are participating into much higher number of RFPs globally for the amount of orders coming up for fiber optic cables.

So similarly, there would not be any problem in competing with these companies which you have mentioned in India or the world market.

Now, if somewhere some countries government is funding some of the supplier company of their own to get a communication networks set up to spike the project then, none of us can do anything about that, but those examples are not going to be very high. So, we are effectively able to compete against anybody when the products are designed and manufactured in India.

**Vikrant Kashyap:** Got your point. So, sir my next question is related to this again, we are seeing a huge surge in fiber to home kind of opportunity that came out due to COVID-19 that has actually lead it. So do we tend to benefit from it in India at least if not global?

**Mahendra nahata:** FTTH has been definitely a great opportunity. We are right now implementing about 300 cities fiber to home network for Reliance Jio, in India. And entire range of fiber optic cable for FTTH we are supplying in a large volume to Reliance, not only that, we are now expanding our capacity for fiber to home by putting up new Facility in Hyderabad and this new production facility is to start production by first November, 2020, maybe few days here or there, but in the month of November, it would be in production. We are already expanding our capacity for FTTH fiber kind of a cable. Moreover, apart from that, accessories for FTTH cables are also being produced in our Chennai Facility and those are also being supplied in large quantity to Jio, which is the biggest, the largest implementation of FTTH network happening by Jio.

**Vikrant Kashyap:** My last question in BSNL 4G rollout. Since we are seeing some delay in this program, so do we see more deferment or how you see this program to be roll out and how are we going to benefit from it?

**Mahendra Nahata:** This is one question which I don't think anybody can answer. Right now there is a committee setup for the methodology that how the 4G



network on BSNL will be implemented and the way that things are going on, different discussion, different experimentations are happening. So that committee is yet to submit report. They have to implement it very quickly and not to let them become a ground for experiments. That's going to be a big problem for them. So as far as we are concerned, we are not still looking this as an opportunity, because one we do not know what kind of equipment they want and what kind of implementation they do. Number two, payment issue unless there is a surety that how payments would you make and there is a commitment from government not BSNL that this is how the payment will be made or secured. I don't think large number of companies would be going to participate in that. I have been telling in all my conference calls, we have about almost Rs.150 crores stuck up. Earlier it was Rs.250 crores now it has come down to Rs.150 crores for more than one and half year and there is no dispute in that money but it's not being paid because of they not having money. If you take 10% interest also, everywhere you're getting 15 crores interest on. So, not only interest, it's a cash flow issue. So unless we are sure about payment, it will be very difficult for us to take a look at that.

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

**Ravi Mehta:** Sir few questions I had, one was the order book what you shared Rs.8100 crores if I take out O&M then probably the executable part is close to 6,500 crores. So what would be the execution period for that?

**Mahendra Nahata:** Execution period is six to eight quarters, about six to eight quarters. More or less during that course of time.

**Ravi Mehta:** And what could be the bidding pipeline if you can share any number, just to get a sense of how quickly this order book can again build up?

**Mahendra Nahata:** The pipeline is very large. We must have bid in to more than 10,000 crores, approximate number I'm giving but it is something like that.

**Ravi Mehta:** This would be predominantly defense or it would be even telecom?

**Mahendra Nahata:** Mix of that defense, telecom, private, government all.

**Ravi Mehta:** Also on the Hyderabad facility you mentioned, so is the CAPEX that we had stopped few quarters back because of the demand scenario and we are restarting that CAPEX?

**Mahendra Nahata:** Yes, it is the same CAPEX we talked about a couple of quarters back and we are doing that CAPEX but, it is not going to be very large CAPEX because civil work had already been almost done. Now the internal work is going on and the machine import is happening. So total expected CAPEX still not done should be in the range of something like Rs.15 crores or so.

**Ravi Mehta:** Okay Rs.15 crores you are spending that's it Rs.15?

**Mahendra Nahata:** Yes around.

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

**Parth Mehta:** I had a couple of questions. First looking at the segmental breakup of revenues and EBIT. I would like know why have we made less profits in terms of the product because, if I see in services we have made good margins. On increased revenues, but in spite of increase in revenues on the product side the profit has been quite less. So, any explanation you can offer on that?

**Mahendra Nahata:** Look, first of one thing is that when you have a less capacity utilization, there's always a decrease in profitability and Hyderabad plant has come up new. So, it will see the profit coming down in that segment.

The new plant reaching into optimum operational level also takes some time. So the depreciation and interest portion is higher in the beginning and that's why the profit in those products have reduced.

**Parth Mehta:** So do we see that coming back to normal in a quarter's time?

**Mahendra Nahata:** Yes, sure 100%.

**Parth Mehta:** Okay. Sir could I get a breakup of product revenue coming from optic fiber cables and WiFi systems if we have had anything and so breakup of product revenues, if I could get?

**Mahendra Nahata:** Product revenue in terms of fiber optic cable with the about 1062 crore and WiFi, sorry this is order book, I am sorry. Q1 revenue from fiber optic cable and accessories on a consolidated basis is 190 crore. WiFi order book in the Q1 would be something like in my opinion, some 30, 40 crore or so.

**Parth Mehta:** Okay. So, about around there and, so that is going to be 200 crores for the year?

**Mahendra Nahata:** It's during the whole year.

**Parth Mehta:** Yes. And sir where are our products in terms of development as you said that quarter three would be for WiFi and it will be ready for mass production, so where do we see the fuses and the electro optic devices being ready for March production or the defense production or?

**Mahendra Nahata:** Look, current generation WiFi is already under production as I mentioned. WiFi 6 I said that would be available in Q3. For electronic fuses, all our trials are completed, army wants it to be tried in the field before opening up the tender and they have given a date of mid-October which may be extended by a few couple of one month or two months, then the firing, trial and all that would take place. We would be ready for production, but the order from army, once the trial, army

own trial has happened and the order is placed, the production from Indian army would still take about in my opinion minimum nine months before the order is given and production is started. So, one has to wait for army's own trial and all that has to be completed. Electro optic devices, it may be about something like six to nine months.

**Parth Mehta:** Okay. So we expect it in 22 second half and then going forward?

**Mahendra Nahata:** Yes, you are right. Because army trial process and all that will take longer than the normal civil products.

**Parth Mehta:** Okay. And sir what the PM has announced that 450,000 villages are to be connected, what would be the size of opportunity in terms of rupees of the entire cake and our share out of that in terms of products and services?

**Mahendra Nahata:** No, I can give a very rough estimate, it's a very, very rough estimate and don't take it as a projection from me. Roughly It is about 4 kilometers per village optical fiber cable is required. So, 450,000 villages multiplied by 4, which is about 18 lakh kilometers of fiber optic cable would be require. 18 lakh kilometers multiplied by roughly about Rs.40,000. So, whatever the number comes.

**Parth Mehta:** And our share is what?

**Mahendra Nahata:** That is cable only. Or I would rather put it in a different manner, 18 lakh kilometers multiplied by Rs.4 lakh per kilometer, that is overall turnkey services, cable, accessories, ducts all kinds of things Rs.4 lakh per kilometer is a more or less general number which comes from providing such a network, but this is going to be about Rs.72,000 crores.

**Parth Mehta:** Okay, this will also include the WiFi products that we have been developing?

**Mahendra Nahata:** No, it does not include this is only fiber optic network.

**Parth Mehta:** Okay only fiber optic network product and services put together?

**Mahendra Nahata:** Yes, absolutely. WiFi and all that does not come in that.

**Parth Mehta:** Okay that is additional. Sir, the last question from me is when do we see 5G network to be put by either Jio or Bharti or Vodafone if he is present around, how do we see the deployment of fiber happening and services from Telco's orders flowing in around timeline, what are we expecting?

**Mahendra Nahata:** For 5G, first of all , government has to auction a spectrum and spectrum auction in my opinion would be at least six months away, at least if not a couple of months more. So, I would say six to nine months, if the auction happens in six to nine months, deployment of 5G would see one half year from now, one to one and a half year.

**Parth Mehta:** Okay. Sir, last question how are the fiber prices behaving, we have been seeing a lot?

**Mahendra Nahata:** Fiber prices in the last one quarter more or less are holding same around Rs.280 per fiber kilometer, best prices I would say prevailing in India right now, Rs.280 per fiber kilometer it is more or less stable now.

**Moderator:** Thank you. The next question is from the line of Naman Saraogi from Saraogi and Saraogi. Please go ahead.

**Naman Saraogi:** Sir my question would be, have you not received any new orders this quarter?

**Mahendra Nahata:** We keep on receiving orders in a fiber optic cable orders keep on coming at 30 crores, 50 crores, 60 crores, 40 crores.

**Naman Saraogi:** So, this quarter can you quantify how much order has come?

**Mahendra Nahata:** I don't have the number right now I can send you, if you can send me a mail I can send you the number, right now I don't' have the bifurcation

small, small pieces orders we received. WiFi for example we keep on receiving orders. These are not very large orders in 100 of crores but they keep on flowing in and eventually they become large.

**Naman Saraogi:** Sure sir. And my second question is regarding China sir, right now everybody is having a tough time with China and there's a lot of import and export talk about with China trade. So how is HFCL standing with that, what import do we get from China or what export do we do, how is our relation with China in our products?

**Mahendra Nahata:** Look, as far as our Company is concerned, there is not much of dependence on China. The things which we import from China are some components for WiFi, some components for the defense force from Taiwan and Japan and those kinds of places but dependency is not too much for those components. It's just an electronic components. Fiber we don't import from China, preform we don't import from China, this is all non-China sources. Some machinery we are importing from China, which we are going to install in our upcoming FTTH facility in Hyderabad. And the reason is simple, the price difference of those kind of machinery in European countries and China is huge. Huge means, when I talk about 15 to 17 crores of CAPEX if I would do from European machines, they would probably cost me more than 30 to 35 crores. And then we have been using those machines without any flaw in our Chennai plant already with last four to five years. So those machines we are importing from China and that's fine that's a onetime import there is no dependence upon spares or anything. Spares all we have developed locally. So that is the only dependence nothing more than that.

**Naman Saraogi:** And sir any plans to increase promoter shareholding sir, if I am very bullish on your company?

**Mahendra Nahata:** Well we increased it a bit earlier. We will keep on looking at it.

**Moderator:** Thank you. The next question is from the line of Giriraj Daga from K M Visaria. Please go ahead.

**Giriraj Daga:** My first question is related to the China demand supply. Sorry, if I missed that number since I missed the two, three minutes of earlier call. For have you given the, what is the demand supply scenario we are looking in FY21, in China. And secondly, if you can give me the net debt and gross debt number?

**Mahendra Nahata:** I couldn't understand Mr. Giriraj first part of the question, demand and supply in China. We don't have that number?

**Giriraj Daga:** Sir earlier we used to share that there was this 500 million kilometers of demand and supply used to be out of 600 million?

**Mahendra Nahata:** No, fiber, you are talking about fiber.

**Giriraj Daga:** Yes.

**Mahendra Nahata:** I think Chinese demand would remain under something like 300 million fiber kilometers, something like that. There is no sign of any increase in that size of demand out of the total 600 million demand, which people were thinking China would be going above 350. I think they would remain within 300 million fiber kilometers not going over that.

**Giriraj Daga:** Okay. And sir capacity as of now would be closer to how much?

**Mahendra Nahata:** Chinese capacity?

**Giriraj Daga:** Yes.

**Mahendra Nahata:** Chinese capacity would be something like in my opinion something like 400 million fiber kilometers.

**Giriraj Daga:** Okay. So we can expect that prices of optic fiber will remain broadly similar for the next, at least one or two years?

**Mahendra Nahata:** Say that again?

**Giriraj Daga:** Kind of optic fiber prices are likely to remain here only for next one to two year there's no expected to increase?

**Mahendra Nahata:** Right now they have gone steady, they are not showing any sign of decrease. Indian demand is going to pick up very soon with the Prime Minister's announcement. If we need 18 lakh kilometers of fiber and multiply it by 50 more or less, the Indian demand is going to pick up significantly, 90 million fiber kilometers something like that, which is for this one project and total demand is going to be double of the demand of the total demand currently. So, fiber prices if not increased, it will not be going to go down. There may be some firm up of the fiber prices in near future because FTTH deployment is increasing worldwide now. So, there may be some firm up of the fiber prices, but I don't think there will be any major movement.

**Giriraj Daga:** Okay. On the new capacity which you have set up in 500 kilometer optic fiber. In that let say on the life of the project, do you expect a similar kind of price or what are earlier positions were higher, for the viability of the project?

**Mahendra Nahata:** This is optical fiber cable you are talking about, new facility which I talked about just now?

**Giriraj Daga:** No, you have set up one optic fiber also right?

**Mahendra Nahata:** Optical fiber facility has started, production started in March. So prices again we must stay like that we buy preform and manufacture fiber. So, if the fiber prices increase, then preform price also go up, fiber prices decrease preform prices also go down. For example, preform prices were \$140 per kg have now come down to less than about \$60 per kg. So our in between margin stays almost constant, that does not change. So, if fiber prices have gone down more, gone down from what we



expected when we started our project, the preform prices also gone down significantly so the margin remains almost same.

**Giriraj Daga:** Understood. Last thing, can you give me the net debt and gross debt number by June end?

**Mahendra Nahata:** There was one question, which was about the orders. So just let me give that number, in the quarter one roughly we have received 400 crores of order in the Q1. And that was despite of COVID and every lockdown and every situation still we received 400 crores of orders in Q1. Yes, gross debt and net debt, our CFO will give you this numbers just now so we can go to the next question, while we give this number.

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

**Mahendra Nahata:** I just answer the last question, the debt is roughly about Rs.600 crores.

**Saket Kapoor:** Sir we are also IP-1 service provider, we have that license.

**Mahendra Nahata:** I don't know whether we have a license, but we are certainly not a service provider.

**Saket Kapoor:** We don't have any IP-1 infrastructure?

**Mahendra Nahata:** No. We don't intent to do either, because IP-1 is something which operators do and that is why CAPEX oriented project while you run on revenue on the CAPEX and that is not our business. Our business is cable and equipment manufacturing, supply, execute projects. Not to be an operating Company.

**Saket Kapoor:** Because sir currently as the government is tightening the loose over having the servers also in the country. So, more data centers and things of that, those stuffs are going to be there in India itself. So, that would

be providing a big opportunity to these players. So, that was my question.

**Mahendra Nahata:** No, we would then supply to data centers. We would supply, we are trying to develop cables for data center, supplies and cables and any other accessories required for them. We would not be creating and making data centers and operating them, that is not our business.

**Saket Kapoor:** Okay. And we have taken the moratorium for our loans has been offered by us?

**V. R. Jain:** Hardly any moratorium.

**Saket Kapoor:** We had not taken any moratorium?

**V. R. Jain:** No, hardly any moratorium as yet.

**Saket Kapoor:** Okay. Because your rating update on 7th July was stating that we did took so that was the reason why I asked.

**Saket Kapoor:** Yes, sir that is confirmed, they mentioned that they gave you two moratorium so that was my reason.

**V. R. Jain:** It is not significant.

**Saket Kapoor:** Okay. Last two points, firstly sir this 5G domain that Reliance spoke in their AGM that they would be doing something big thing indigenous in the country and Mr. Nahata you being on the board also for Jio Infocomm if I'm not mistaken, sir what is the opportunity the, players like you and others can garner and what is Reliance trying to explain when they say that they will be doing 5G indigenous. So, if you could?

**Mahendra Nahata:** No, I can't speak on behalf of Reliance.

**Saket Kapoor:** No, sir that is not my point here.

**Mahendra Nahata:** As far as our Company is concerned anything happening in indigenously opens up business opportunities for all local manufacturers. If Reliance will do indigenously, all accessories related products, everything will happen indigenously and moreover, when they do indigenously, I believe that should be better in prices and requirement of India. So, it would be good for the overall networks, and every company will benefit, so, would we be.

**Saket Kapoor:** Sir, capacity wise, how are we ranked in the country and who are our nearest peer sir?

**Mahendra Nahata:** In terms of fiber optic cable, as much as I know, again, people hardly disclose their capacities. In fiber optic cable our and Sterlite capacity would be almost similar. And next would be, I think may be Vindhya Telelinks and I don't know who would be even after that but first two would be ourselves and Sterlite.

**Saket Kapoor:** And in the business model part I just wanted a likewise apple-to-apple comparison between you and the other listed organization, if we compare HFCL with another player in the same segment having more or less the same business domain, which it will be sir?

**Mahendra Nahata:** I don't know because Sterlite would be in fiber, optic fiber cable and some other project execution, maybe, Vindhya Telelinks in fiber optic cable and execution space, but they are not in defense products which we are in. So, every company has got some different product areas. Sterlite may be having some other product areas, which we may not be there. So, I don't have any apple-to-apple comparison.

**Moderator:** Thank you. Well, ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Mahendra Nahata of HFCL Limited for closing comments.

**Mahendra Nahata:** Thank you very much and I appreciate that all of you being present in today's call. As I said that, we are overcoming this COVID crisis and we are soon to return to our normal level of operations and we should see improved revenues and profitability in the future. And at the same point of time as I said, our concentration is on designing our own production, indigenous production and manufacturing, which would again give us a higher market capability not only in India but globally and with improved performance parameters. The recent announcement by honourable Prime Minister to put entire 600,000 villages in the country on the fiber optic cable network, again opens us a large demand surge in the fiber optic cable market, its accessories and implementation capabilities requirement, which is going to benefit the Company and will benefit further from the announcement by our honorable Defense Minister regarding negative list for imports where those items would be procured locally only. That is also going to benefit the Company in midterm and long term future.

So we are there to take advantage of all this capability, all these opportunities which have come and spending more money on R&D and more money on creation of additional capacities for fiber optic cable particularly for FTTH market, which is also going to improve our revenues in future. So thank you, gentlemen and I wish that all of you stay well, stay safe in the current crisis and God willing we all come unscratched out of this. Thank you very much.

**Moderator:** Thank you. On behalf of HFCL Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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