



## HFCL Limited

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June 26, 2020

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**Subject: Transcript of Conference Call on Financial Results/ Earnings for the 4<sup>th</sup> Quarter and Financial Year ended 31<sup>st</sup> March, 2020**

Dear Sir(s)/ Madam,

We hereby submit Transcript of the Conference Call held on June 08, 2020, on the audited Financial Results of the Company for the 4<sup>th</sup> Quarter and Financial Year ended 31<sup>st</sup> March, 2020, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on June 05, 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)**

Vice-President (Corporate) &

Company Secretary

**Encl:** Copy of Transcript.

**HFCL Limited**  
**(formerly Himachal Futuristic Communications Limited)**  
**Q4 and FY20 Earnings Conference Call**  
**8<sup>th</sup> June, 2020**

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Moderator: Ladies and gentlemen, good morning and welcome to HFCL Limited's Earnings Conference call for the fourth quarter and year ended 31<sup>st</sup> March, 2020.

As a reminder, all participants' 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 operator by pressing '0' then '\*' on your touchtone phone.

I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you Mr. Sonpal.

Anuj Sonpal: Good morning, 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 fourth quarter and financial year ended 31<sup>st</sup> March, 2020. 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 and information currently available with the management. Audiences are cautioned not to place 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 financials for the quarter/year under review.

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

Mahendra Nahata: Very good morning to all of you and thank you, Anuj, for the introduction. I hope all of you are keeping safe and healthy along with your families during this pandemic time. We welcome and thank you all for joining us today for this earnings conference call for the fourth quarter and financial year ended 31st March 2020. I believe all of you have gone through the financial results which we announced on 5th June 2020.

Friends, let me first give you a brief background of HFCL. HFCL is a leading Telecom, Technology Enterprise connecting the world with fully integrated communication network, products, solutions and specialized services. It manufactures Optical Fiber, Optical Fiber Cables, cable accessories, high-end telecom transmission and access equipment. Its technologically advanced solutions cover all aspects of value chain from the manufacturing of leading-edge communication network products to providing specialized services for telecom, defence, railway, utilities and security & surveillance network projects both in private and government sectors.

HFCL's in-house Centre for Excellence in R&D at Gurgaon and Bangalore along with invested R&D Houses and other collaborators at different locations in India and abroad, continuously work on developing cost competitive and innovative range of technology products and

solutions. HFCL Group has fully integrated world class manufacturing facilities at five locations to produce wide range of new generation products. HFCL has worldwide customers with exports to more than 40 countries.

The Company has a strong order book of Rs.8,409 crores which is 2.2x of FY20 revenue. These orders are largely to be executed over the next one or two years. Expected revenue and earnings are aptly supported in the existing orders and future opportunities. It comprises of prestigious orders spread across all business verticals and customers including telecom, defence, railways, border surveillance etc.

Our order book also includes O&M orders worth Rs.1,614 crores ensuring better margin revenue year-on-year basis. Our growth strategy is to produce technology products and solutions with competitive capabilities for diverse and expanded customer base which is guided towards creating shareholders' value with strong fundamental for sustained growth. Our product development capabilities are continuously taking us forward as a technology enterprise where we develop products with latest technologies with a futuristic approach which are cost effective and have our IPRs.

Our products have worldwide deployment capabilities with major global and Indian certifications. Our own products and technologies are expected to make our margins even better. Our Center for Excellence and Research along with invested R&D houses and collaborators at different locations in India and abroad are working on development of new aged technologies. We are consistently empowering innovation to introduce new technologies by promoting research and development.

Our vision is to develop cost effective next generation products with our IPR which can be sold globally and can be benchmarked with other leading global manufacturers. I am glad to share with you that we have

already developed Wi-Fi network products, high capacity radio relays, microwave radios and cloud-based management platform.

We are in process of developing switches and routers, intelligent antenna systems, software design radios, ground surveillance radar, electro optic devices, electronic fuses etc. either by ourselves or collaborative research and development. During Q4, we have commenced production of optical fiber at our new facility in Hyderabad. This will streamline our supply chain and also ensure better competitiveness.

I would now like to explain the impact of Corona pandemic on our business. The lockdown brought the operations at halt when the Group's manufacturing facilities at all locations remained shut from 25th March to end of April. Project implementation at various locations for defence services and private telcos as well also came to halt. This has affected production at our manufacturing facilities and execution of projects at various locations.

The Company has however resumed its manufacturing operations at all its facilities in gradual manner after taking all the necessary precautions for ensuring safety of our staff as per the Government directives from time-to-time. We are at present operating at lower utilization levels due to persistent disruptions in supply chain and also inability of customers to resume supplies because of stoppage of their own operations in field. We hope to increase the utilization as more relaxations are allowed by the Government and customers are able to start full scale operations.

The Company has resumed work at its offices gradually as allowed by the state governments of their respective states where the Company operates. We have also commenced our turnkey operations except at the project sites that fall in the containment zones or are still not permitted for work by outsiders such as some of the army

cantonments. COVID-19 has impacted the business in Q4 but still continues to some extent but at the same time this has opened new gates for accelerated data consumption patterns due to the complete digital form of working everywhere.

We expect that our factory operations and present execution to reach at a higher level with lockdown restrictions being further relaxed by Government from today. I would like to mention that there has been no impact on the assets of the Company. None of the assets have been impaired. Also there has been no cancellation of any of our orders and therefore the impact can be construed just as deferment of supplies of goods and execution of projects resulting into deferment of revenue and realization. This shall continue in Q1 of current fiscal year also to some extent, but we expect that there will be improved performance going forward as the deferred orders gets into execution.

In order to rationalize the operating cost, the Company has taken several initiatives including reduction in employee cost, restructuring our emoluments with increased performance linked component in employee compensation, reduction in administrative costs and resource optimization. While we are reducing our cost of operations, we are putting equal emphasis on improving the efficiency.

On liquidity front, I would say that disruption in supply chain and deferred / delayed execution of field projects have created impact on working capital cycle on short term basis. However, we are making all efforts to maintain sufficient working capital for the business. Company has always been servicing its debt on time without any default and has met its obligations as per schedule. We have a very comfortable debt equity ratio of 0.43%.

We are continuously monitoring the situation and any further material impact on the operations of the Company due to COVID-19 pandemic if any, will be communicated as and when circumstances so warrants.

Overall, I would say that yes, the business has been impacted during Q4 of FY20 which still continues to some extent but we would see improved performance going forward as more relaxations are given by the Government in the current lockdown situation which has been relaxed from today.

Let me assure you all my fellow shareholders that the Company have enough resilience to withstand this worldwide crisis situation effectively. The strong order book, equally strong funnel for new sales opportunities, continuous customer confidence, excellent production capabilities coupled with good field execution will ensure that the temporary setback being experienced on account of the current pandemic will be nullified soon. Our thrust on improving margins has given good results and it is expected that as we come out with more and more of our own products and technologies, margins will improve further.

Now coming to the performance of Q4 FY20 and full FY20. I would say that amidst the challenges faced during Q4 of FY20, the Company has been able to significantly improve the profitability and margins coupled with effective capital management and accelerated thrust on R&D initiatives for the development of new generation cost competitive products.

Now I would like to brief you about the consolidated financial highlights of the fourth quarter and FY20 in comparison with the corresponding quarter of FY19 and full FY19. Our income for the quarter stood at Rs.668 crores as compared to Rs.1,247 crores during the corresponding quarter of FY19. EBITDA for the quarter is Rs.76 crores as against Rs.135 crores in Q4 of last year. However, the EBITDA margin increased from 10.38% to 11.38% even at a lower revenue.

PBT for the quarter was Rs.28 crores as compared to Rs.99 crores during Q4 last year. PBT margin has increased from 4.19% to 7.95%.

Apart from operations being impacted from the beginning of March itself because of supply chain disruption on account of Corona pandemic, the other major reasons for reduced performance in Q4 have been

- (i) Deferment of revenue during the last days of Q4 amounting to approximately more than Rs.100 crores which otherwise would have resulted in additional operating profit.
- (ii) Provision of Forex variations amounting Rs.13 crores.
- (iii) Increased depreciation for our new Hyderabad Plant which started operations during Q4 only amounting to Rs.5 crores.
- (iv) PAT was also adversely impacted due to additional provision of Rs.5 crores on account of deferred tax liability as depreciation is claimed at higher rate as per the provision of Income Tax Act.

MAT credit amounting to Rs.5 crores approximately has also been expensed off in the current quarter as the Company is moving to the new tax regime where the tax liability will reduce to 25% from the current rate of 35%.

With regards to our annual consolidated performance during FY20, our income stood at Rs.3,861 crores as compared to Rs.4,780 crores in FY19. Absolute EBITDA grew by 12% at Rs.516 crores in FY20 compared to Rs.459 crores last year.

EBITDA margins for the year improved to 13.36% from 9.6%. Profit before tax was Rs.358 crores against Rs.340 crores in FY19 and PBT margin stood at 9.27% against 7.11% in FY19. Debt-Equity stands at comfortable level of 0.43% with debt of Rs.712 crores.

Friends, I would like to say that the disruptions due to COVID are temporary and we shall get back to the improved position as soon as the operations at normal level starts which is expected to happen soon. We shall continue to focus on the goal of increasing returns and create shareholders' value by : one, increased profits in absolute value



through our own technology products delivering good returns, choosing high margin orders, continued cost efficiency measures and backward integration in to optical fiber shall also bring in efficiency.

Number two, continue with low gearing and effective working capital management.

Three, improved return and ratios, accelerate free cash flow and enhance ROC and grow return ratios.

With that I would like to open the floor for any questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session.

First question comes from the line of Paras Bothra from Ashika Broking.

Paras Bothra: Sir, thank you so much for the opportunity. First question is with regard to your telecom. When you say that 5G is going to come up with bigger opportunity, what is the kind of opportunity one can see in it? And the second thing is when do you see that 5G rolls out here in India? And second question is with regard to your presentation where you have highlighted telecom, railways, defence and security and surveillance. If you can throw some light on your revenue profile maybe 2 year or 3 years down the line, how do you see the composition of revenues in each of these verticals which you have lighted?

Mahendra Nahata: First of all, coming to 5G. I expect that 5G auction should be held sometime 6 months to 9 months from now and rollout of 5G should start one year or 15 months from now. So worldwide 5G rollout has started in number of countries and our country cannot lag behind. Probably the 5G auctions have not been clubbed with the 4G auctions because of may be Government think that it will be too much for Telcos

to spend so much money at single point of time, so they are segregating 4G and 5G auction.

So 5G would definitely open up major opportunities for companies like us who are manufacturing telecom equipment and also providing network solution and services. 5G would require number of new products and also the demand for existing products will go up for example fiber optic cable. 5G would have at least three times of the number of existing towers we have in 4G. And as 4G had 3 -4 times more than 2G, 3G; 5G would have 3 times more than 4G.

And all these towers of the base stations would have very high data rate, which would really require communication largely through fiber optic cable or high bandwidth radios which are not used at this point of time. And I am happy to say that our Company is of course a major manufacturer of fiber optic cable and fiber in India, and we have now got technologies for high bandwidth radio also to be used in 5G application. Both coupled together there will be increased demand of these two products which the Company already have with it.

Number 2, there will be increased demand of new generation products. For example, routers which are required in such base stations and the Company is also at this moment designing and getting a design through collaborative R&D and own designed router for 5G application.

So would be the switches. Switches for 5G applications are also being designed by the Company and they would be required for 4G networks also and these switches would be available in couple of months' time from now. So switches, routers then increased demand of fiber optic cables, radios these all would see that the demand of the Company's products increase quite significantly and therefore, the Company will also expect to get a reasonable market share out of it.

Simultaneously we are now going to design Next Generation WiFi6 what we call it and Wave 6 because with the 5G coming up, requirements of downstream equipment to have a better capability of data transmission would be required and Wi-Fi 6 would be 4 to 5 times more effective than the current generation Wi-Fi 5. That is also under design and that would also be available in October-November timeframe. So we are proceeding quite effectively simultaneous to the 5G development in India. Some of the products would be ready sooner, some would be ready by the time the 5G roll out starts in India. Some of the products are ready. So we will be getting good traction in our sales funnel whenever the 5G is implemented in India. That is number one. Number two, other major opportunities which I would like to mention is FTTH, Fiber-to-Home. That is also being rolled out in a very major way by Telcos led particularly by Jio. As I said earlier, HFCL is rolling out FTTH for Jio in the entire North India. Now we have taken up with Jio and they are happily allowed us to implement their FTTH network in number of other states which include Madhya Pradesh, Jharkhand, Tamil Nadu and some more states are going to be added, where we will be implementing part of their FTTH network as well as part of their wireless network. So that will also lead to increased revenue to the Company. But this FTTH deployment has seen increased demand of fiber optic cable requirement, of certain types which are required in FTTH implementation and that has resulted in increased demand of that kind of cable. This has resulted in increased order book and possibly revenue will also increase for this kind of cables in future. So FTTH is also an important area where the Company expect to see larger orders for the product which is cable, number 2, the accessories, Number 3, the implementation of FTTH in more number of states.

So that is the answer to your first question. Number 2, the verticals as you mentioned telecom, defense, railways surveillance and fifth one I would say is the turnkey the EPC kind of a revenue. If you look in terms of percentages of our revenue three years down the line, Telecom

should comprise in my opinion, something like 30% to 40% of revenue, defense would comprise around 20% of the revenue, railways I would say 10% to 15%, security surveillance another 5% to 10% and EPC would be around 15% to 20%. That would be the rough breakup of the revenues as I see it three years down the line.

Telecom revenues you will see would have increased significantly because we have put a lot of emphasis in development of new telecom products in house and that would result in much better competitiveness, ability to sell those products at a better margin with increased revenue and increased profitability. Good example of that is Wi-Fi which we have started deploying into Telco Networks. We have already got orders for these. Now we will be going in the export markets, enterprise markets for that. Those are in planning, so those equipment which are designed by us have a better profitability, than we do implementation and those kinds of businesses. So we are designing new products as I said, Wi-Fi is complete, switches, routers, Wi-Fi 6, a new generation which would be 4 to 5 times more effective than the current generation Wi-Fi 5, routers, high capacity radio relay for army application, military application is already ready. We have already participated in tenders for that.

In terms of defense products, we are designing electro optics. The products would be out in my opinion, in July August timeframe, the products will be out in the market. Major tenders have already come out from army and we would be participating in those tenders, so those are there. Electronic fuses which are again designed by us as a first Company to design in India and very few in the world. So we would not only be selling it in India, we would be working for exports of these products also subject to export permission being available from the Government of India. Permission is required because it is a defense related equipment. So it would be the issue for electro optic devices. With our programs and technologies not only we will be able to sell in

India but we will be able to sell it worldwide and these products have a huge market opportunity in India and abroad.

Similarly, railway communication when I say 10% to 15%, we have got a very good name in implementation of the railway communication network. Your Company is implementing railway communication networks in various parts of India as subcontractor to major turnkey contractors of railways like Larsen & Toubro, China Rail, Alstom etc.

Outside India also, we are implementing telecom network of Mauritius Metro, Dhaka Metro and for couple of other places, we will be bidding soon. So this we believe that telecom network of railways which is a little different than the civil communication network where it is coupled with a signaling network, we will be having a prime spot in that area also. As we supply fiber optic cable and other equipment we get EPC contracts also for installation, commissioning and operating of those systems. So that would still keep on constituting an important part of our business.

So this is how I would see the revenue in the different sectors and why it would be so, I have tried to explain you. Thank you, Paras.

Moderator: Thank you, Mr. Bothra. Next question comes from the line of Vikas Mukherjee from India ABC Capital.

Vikas Mukherjee: My question was regarding the investor presentation that your Company rolls out and in one of the presentations a few months back I read that you are going to reduce your promoter pledge by March, by about 20% or something that you had committed. But there is no news regarding that front. And my question as a shareholder also is there are a couple of concerns going on is that your pledge is not coming down but you are still going on for new acquisitions. You are not paying back your debt to take out your pledge and because your earnings are not supporting now and you have been giving interviews on TV shows and

you sound very bullish on your Company but the performance this time was very poor. And there is also a need to correct some rumor that is going on with Reliance Jio that your Company is going to merge with Reliance Jio and it is going to take place at a very low rate and absurd rumors are going on in the market and your stock price is down from Rs.36 to Rs.8. Can you clarify if there is any pledge that is being sold in open market or any such activity?

Mahendra Nahata: Vikas, I think some of the questions you have answered yourself and some of the questions are out of your ignorance. Let me be frank enough. First of all, Jio rumors have no basis as there is no discussion ever of any buyout or merger or anything. So these are baseless rumors and I have said it again and again and I am saying it again, these are baseless rumors. Number 2, regarding pledge, it is out of your ignorance that you are talking of selling. I think you have not heard my presentation and my talk on the different earnings call. These pledges are not for any loan taken by the promoters of the Company. These were given on a collateral basis to the banks against a loan taken by the Company and there has been no default on any loan, number one. Number 2, about 13% of the pledge which was given to Yes Bank for an urgent bank guarantee required by the Company will be released probably within this week itself. It got delayed because of various issues involved with Yes Bank as you all know, but this week itself we have given alternative guarantee to the customer. We have got original guarantees back and have been submitted back to Yes Bank and Yes Bank is just doing its process and 13% would be released within this week maybe another couple of days I do not know but in the next few days, it is going to be released. Number 2, 7% of the shares are pledged to Union Bank of India, the release of which has also been approved and you should know why this pledge was given because the Hyderabad facility which was funded by Union Bank of India there could not have been a mortgage of the land in favour of the Company's lenders because of certain stipulations in the allotment letter with

respect to execution of sale deed which could have taken place only after commencement of commercial production on the allotted land , as per Telangana State Policy. So that is why as an alternative, this pledge of 7% shares is given. Now we have started commercial production. Union Bank has approved release of that 7% also and that would also be released very soon on completion of bank procedures. So this is what I had committed in my different conference calls and presentation. I have not given many TV interviews; I do not know which TV interview you are referring. But I have not given in the recent last three months I do not remember or four months I do not remember any TV interview. But anyway, having said so, as I had promised Vikas, this 13% plus 7%, of shares, what I had talked about, will be released soon. So there is no question of even a single share being sold which were pledged and has come to the market. As there is no default there is no question of selling those shares because these are not primary securities against any loan taken by the promoters. So not even one share has been sold and as I had promised 17% or 18% of the pledge is going to be released very soon. That is the answer to your second question about the pledge. Number 3, the poor performance, yes, Q4 has been a poor performance as has been with many companies worldwide, HFCL is no exception. And as I said, in my presentation, little while ago, reasons also I have explained which are not only like the pandemic and the resultant supply chain issues from the beginning of March itself because lot of components and materials come from China which got disrupted and it was not allowed to be imported because of fear of spreading of virus in the material which comes.

And then of course, deferment of revenue in the last few days about Rs.100 crores plus which I have also mentioned which would have resulted in additional profit, which is about 20%. In addition, Rs.13 crores of foreign exchange provisioning which was not incurred but has to be provided for because of Indian Rupees fell down in the current situation and about Rs.5 crores of additional depreciation was provided

during Q4 only as we started fiber optic plant and further deferred tax because we claimed 35% of depreciation as per the income tax rule for which deferred tax liability had to be provided of Rs.5 crores.

An additional Rs.5 crores for MAT expense written off because next year onwards, we are moving to lower tax regime of 25% instead of 35%. If you all add up all that, you will find about Rs.50 crores or so which has been one time kind of a situation which has happened. That reduced margins / profitability and also the lower turnover because of the current situation which had happened. But as I said, things have started picking up again and as we move on now, things would become better and better which have already started becoming better in fact.

So this is the reason why the revenue has fallen in the current quarter and also the profitability has fallen.

Vikas Mukherjee: My last thought is that there in past 3 quarters sometimes the weather, sometimes Kashmir and now this pandemic. We all hope for the bright performance in HFCL in the future.

Moderator: Thank you Mr. Mukherjee.

Mahendra Nahata: Just one more second. I would like to answer one more of Vikas' question. One more of his observation rather. Basically Vikas, if you see, revenue has fallen down because of many issues. But profit has increased, do not forget that. It is not the topline which always matters, it is the bottom line which matters. Profit has increased. Even in the falling revenue, profit has gone high. That you should not forget and you should have noticed that.

Moderator: Next question comes from the line of Hardik Vyas from Economic Times.

Hardik Vyas: Sir, I had a couple of questions. The global canvas of optic fiber looking now with China tenders are they likely to flow anytime soon? And the



prices of optic fiber have corrected to maybe \$4, \$4.5 or maybe below \$4. But do we see any improvements on those fronts going forward because of the demand coming back?

Mahendra Nahata: Hardik, you know China may have floated some tenders but enough capacity exists because world had gone up to 600 million per year demand of fiber and that capacity still exist. So even if China's tender had come up, I do not think there is any shortage of capacity. Capacity has only been added, not reduced and I do not foresee any reason for any major shift in the prices. Currently the prices have come down significantly and they are about \$3.5 not \$4 and at \$3.5 you can buy as much as fiber from the good quality producers.

I do not see any further downward trend but of course I do not see any increase in fiber prices also in near future.

Hardik Vyas: Okay. So the Telangana factory that we have begun working, the utilization would not be at desired levels at this point because you have just started in the last quarter. But the cost at which we produce is equivalent to what we can buy from outside.

Mahendra Nahata: Look, the factory has started production, it is now being reached to optimum production with CACT clearance which is mandatory for selling to many of the operators. It is expected to happen very, very soon now in a few days, that we would come up in the full production by ourselves and cost of production at this point of time would almost match or maybe a little higher than the fiber you can buy from market.

But we are in negotiation for suppliers for long term contracts and we have no doubt that they would come to a level where it becomes cheaper to produce fiber than procuring and that is the whole reason why factory has been set up. Since we go into the full production this prices of the preform would also come down to that particular level.

Hardik Vyas: Okay. So whatever we produce at the Telangana factory would be gradually consumed by our Chennai HTL and Goa plant, right?

Mahendra Nahata: Of course.

Hardik Vyas: We would of course need more fiber as well to produce more OFCs?

Mahendra Nahata: Absolutely. Our fiber capacity is only 6.4 million fiber kilometers and the required fiber would be about 18 million fiber kilometers so there is a huge gap and this 10 million we would be sourcing from outside, from our major suppliers like Corning and all that.

Hardik Vyas: Okay, sir as regard to Wi-Fi systems that we are likely to produce?

Mahendra Nahata: Hardik, we are already producing.

Hardik Vyas: Yes, so that we are producing, so contracts for them have we received anything? Could you quantify that in terms of revenue that how much can we look at it or in terms of volume?

Mahendra Nahata: Rs.100 – Rs.150 crores in terms of revenue I can say, volume depends on different kind of products. Therefore, it is very difficult to say volume but current year we are looking at a figure of roughly about Rs.200 crores from the two products which have already been put in to the market which are Wi-Fi and UBR, which is a kind of a similar range of products. These are the unlicensed band microwave radio. So we look around Rs.200 crores somewhere from these range of products in the current year.

Hardik Vyas: Are we looking at any export potential or domestic consumption only to suffice our products?

Mahendra Nahata: Definitely we are looking for export potential. I had a talk with my people this morning only. This is domestic number only, this I am talking of operators where we have already got orders from Jio & Airtel. At both places, we have got orders. And now the product has been

stabilized in domestic operations because before exporting we would like to stabilize that product in terms of operational performance locally. So if there are any bugs, you can definitely clear off. So that has completely stabilized. We would now be going for export and enterprise market because large enterprises themselves buy lot of Wi-Fi systems which has a better profitability. So enterprise markets we have not gone, we have still gone to the operator's market only. Now we will go to the enterprise market, gradually to the consumer market and also the export market at the same point of time. And we have already got channels in export in terms of our export of fiber optic cables and all that. So we shall use the same channels for doing exports of Wi-Fi with several other products which I mentioned in my presentation.

Hardik Vyas: Yes, which are expected to get released in the next quarter or so?

Mahendra Nahata: Yes, some of them gradually. Some of them this quarter and some of them quarter next to that, some of them 12 months, some of them 18 months. So we have the whole plan. Like software design Radio would come in something like 15 months, switches would come in another 2 to 3 months. Routers will come in let us say 8 to 9 months. So this is the gradual plan from now to 18 months we have a full roadmap of the products which shall be coming in as our own products. Definitely which are our own products and technology, we would like not only to sell domestically we would export also. Because it is our own product.

Hardik Vyas: Okay, so sir one more question on the services orders front. We have not been seeing any inflow of orders for the last maybe 9 to 12 months, any meaningful inflows. So is this likely to change going forward maybe 3, 4 months later when we emerge out of this pandemic?

Mahendra Nahata: Definitely, look fiber optic cable orders are coming all the time, gradually they are coming. We recently announced an order of Rs.175 crores. More such orders keep on coming but they do not come in a

big batches that I announce them all the time. They come in Rs.30 crores, Rs.40 crores, Rs.50 crores and recently we won an export order where the contract is in process of getting signed which is almost near Rs.200 crores.

The fiber optic cable orders keep on coming all the time. Before that we got another order Rs.125 crores. So these orders are flowing all the time throughout the year. That is one part of it. When you talk of major orders if you are talking of Rs.1,000 crores or plus, those kind of orders, yes, there have not been such large orders because they do not come all the time, and the Company already has an order book of Rs.8,500 crores. The Company did not accept some of the orders intentionally which could have been worth Rs.500 crores to Rs.1000 crores in the EPC sector because we did not see enough profitability and whatever profitability was there that was getting countered by negative cash flow. So we did not take those orders intentionally because they were negative cash flow and the profit margins was less. So there was no point in going through those kind of orders and which did not gel properly with our overall strategy of increasing profitability rather than just blindly going after revenue and which result in negative cash flow and put stress on your cash flows. And I think that decision shall prove to be right, of course, there were no pandemic situation projected at that point of time. But if I had gone for too many negative cash flow orders, it would have played a real havoc at this point of time so I think the decision was right. Going forward also, I am not running blindly behind orders. I am running behind profitable orders, which are giving high profitability and you would see in the last year's result, EBITDA margins have shown considerable increase on account of this strategy and I wish to continue this strategy and continue to keep on increasing our profit margins. Revenue may increase, may have a small increase but profitability will grow up because of this strategy. I am certain about that.

Hardik Vyas: Okay so we are looking at increase in revenues as well, but the profitability should be increasing better than the revenue growth?

Mahendra Nahata: I do not want to give any forward looking statement. But the strategy of the Company is to increase profitability rather than just blindly going after revenue and particularly those revenues which have got higher negative cash flow. I do not want to go for such revenues which have high negative cash flow.

Hardik Vyas: Sir, BharatNet phase two and NFS they are likely to receive some service contracts, service orders or they will take some time?

Mahendra Nahata: No, NFS we already have service orders. O&M contracts are there for next 7 years. So they are already there. There are couple of other military opportunities coming up. We are working on them. For BharatNet, you know BharatNet Phase 2 is under discussion in Government right now. And they have gone for PPP model Public, Private Partnership. That model is not for us, Hardik. That is for the larger companies, Telecoms or much larger companies who will take those contracts and implement on PPP model.

Our role in that will be supplying fiber optic cable to such PPP operators and executing the work for them. So it is a large opportunity for us, whoever gets into this PPP mode whenever it is done. I expect some 3 to 6 months from now, some auctions of that sort would be announced because Digital Communications Commission has already announced that they will be going for PPP model. So whenever it comes, I expect a huge demand of fiber optic cable of few lakh kilometers and of course we have been one of the major manufacturers of cable and more cost competitive than many others. We should be able to get a reasonable market share out of sale of cable as well as opportunities for providing transit services.

Hardik Vyas: Okay so the demand is going to be there so whoever demands the cable and the services we would be there to supply?

Mahendra Nahata: Absolutely. But there will be some PPP operators, I do not know who, they would need cable, they would need services and we will be there to offer it to them.

Hardik Vyas: Okay and sir, last question. Any dues remaining from BSNL?

Mahendra Nahata: Yes, BSNL dues are two types. One which is for NFS where they come on regularly because money is funded by DOT, it is not BSNL money. So that dues I would not count as over dues. Over dues on account of BSNL will be about Rs.150 crores and it used to be around Rs.250 crores sometime back, it has come down by about Rs.100 crores. There is still Rs.150 crores which is overdue for more than a year or year and a half. And we are now hearing about some sovereign guarantee being given by the Government for some bonds and all that. From that guarantee, BSNL will be raising some few hundred crores. Then they would like to pay to their existing vendors because BSNL is also worried that if they do not pay, then people participating in that new requirement would be very few. In fiber optic cable, tender has come out but there are people who have written that they will not be able to participate unless an LC is opened. Same situation comes in 4G that unless vendors are confident for payment, large telecom companies like Nokia, Samsung and all that will not participate. I do not think they will be taking up this opportunity unless their previous dues are paid. So BSNL has to correct this situation, otherwise how would they be able to survive. I am not raising any expectation on BSNL survival or non-survival. I pray that they become a healthy Company, but they have to do something quickly to come out of this situation. Otherwise if they do not move to 4G, now people would move to 5G by the time they move to 4G. They will be again a step behind. So it is time for them to really work and see

that how the situation could be made better and now that they are making efforts working with the Government to improve the situation.

I am confident. I think next 3 months or so BSNL situation will get corrected and that would open up new demand for products and services for telecom equipment suppliers. Then another thing which has happened, the Government's push for local products, Make in India products. You would have seen in last few weeks repeatedly, Prime Minister, Finance Minister all have stressed that telecom products to be brought locally and also the defense products which madam Finance Minister explained very eloquently in a speech when she announced the reliefs. Now there again you see companies like us have a good advantage because of our ability to create products locally. In Defense, particularly you would note that what we have done high capacity radio relays that is a local product. Electro optics for which there is a projected demand of some Rs.40,000 crores in next 7 years, that is designed locally by us. Locally means, our own IPR. Designed with a foreign partner but with our own IPR. It is an electronic thing which has huge demand. This is a major advantage that it is a local demand, local procurement is going to be enhanced which would support local R&D oriented companies like us.

So that is another new thing which is happening and I read in the newspaper today. I do not know the exact notification but this is new PMI policy which is for procurement of Make in INDIA products which has been announced where some gradation has been given. The more local component you have, you will be given some preference in procurement from the Government tenders. So it is all helping. The local procurement policy will help a Company like us.

Moderator: Thank you, Mr. Vyas. Next question comes from the line of Sanjay Shah from KSA Securities.

Sanjay Shah: First of all, thanks for running us through a wonderful understanding about the sector of Telecom and our space at HFCL. You being a prominent face of Telecom we really respect your views. Sir, in this order book of Rs.8,400 crores, how much are the Government orders and how much are private company orders and how does our book comprises of? It contains any of the new generation product?

Mahendra Nahata: It will be a mix. I will explain you. In terms of order book, if you say private and government, it would be roughly about 70:30 ratios roughly. Government is about 70%, private is about 30%. But you should understand one thing. Private orders keep on coming and they keep on getting executed. Government orders come in a bunch. For example, one operator gave us an order of 35,000 systems. Then he gave another order of 25,000 systems. Then radios another 10,000 systems. Whereas the Government would have given all it together. So that is the difference there.

Sanjay Shah: In that can we differentiate between defense and non-defense in Government?

Mahendra Nahata: Yes, we can differentiate surely. Defence and non- Defence I think I have some number. Out of the current order book of Rs.8,400 crores, roughly about Rs.4,000 crores will be from Defense. But going forward this ratio will reduce.

Sanjay Shah: So where we see the space coming from, if this reduce do we see a potential from private or even from government?

Mahendra Nahata: Potential would come up from fiber optic cable's increased demand. We project this year that, the fiber optic cable in the current year will be 50% higher than the last year. Telecom equipment will be considerably higher, much, much higher than the last year. So telecom, fiber optic cable, defense equipment that would also start increasing not from the project but equipment. So each of these sectors would



contribute and increase order book, telecom, fiber optic cable, EPC those kind of things will increase.

Sanjay Shah: So in these Rs.8,400 crores, does that contain any new generation products which you named like Wi-Fi and high frequency radio and all?

Mahendra Nahata: Yes, it contains Wi-Fi, it contains fiber optic cables, it contains microwave radios yes it contains. It is not a big amount at the moment because these products are coming into play in Q4 of the last year only. So as we go by, it will increase, it will keep on increasing.

Sanjay Shah: So that is opportunity lying on us?

Mahendra Nahata: Yes, absolutely.

Sanjay Shah: And sir, in export we do not have much export in our percentage to revenue. How do you see in future, what should be the percentage?

Mahendra Nahata: The reason it is not there, first of all we have been exporting fiber optic cable only. We did a slight increase within FY'19 and '20, Rs.105 crores to Rs.123 crores. This year we expect to take it to at least 100% higher than what it has been in the last year. It should be in the range of about Rs.200 crores I would say, in the current year for the fiber optic cable and Project exports. But at the same point of time, as I said, this year we would also start exporting this Wi-Fi and other products which we start manufacturing, our own products. I cannot put a number on them right now. But some number would be there. So there will definitely be increase in exports. So this Rs.123 crores should increase to Rs.200 crores with some more exports coming from telecom products. But a year from now there will be a significant increase because by that time, we would have penetrated export market with number of more products and these products would have stabilized by that time.

Moderator: Thank you, Mr. Shah. Next question comes from the line of Jagannath Sahu from IDBI.

Jagannath Sahu: I have some questions regarding your order book, you said Rs.8,400 crores. How much is going to be executed in a year's time? If you can give something of that.

Mahendra Nahata: Look I think out of Rs.8,400 crores something like 50% should get executed in the current year. Now of course this is all relative kind of a situation if this pandemic situation worsens, things might change. I hope it does not worsen. It is good for everybody it should not. But generally speaking as per the order, 50% of it should get executed in the current year.

Jagannath Sahu: Okay and out of this how much is from Reliance Jio order is there?

Mahendra Nahata: Jio order from Rs.8,400 crores should be roughly about Rs.1,100–Rs.1200 crores.

Jagannath Sahu: And presently turnover make up if I see how much is Jio is contributing?

Mahendra Nahata: Jio would contributes about 25-30%.

Jagannath Sahu: Then second question is regarding the margin what you said that in a year-on-year comparison definitely your margins are improving. But if you see the last two quarters of course this quarter is an exception but in the last two quarters there are downside in the margin space also?

Mahendra Nahata: It is not downside. I think if you look at Q2 it was not downside when compared to Q1. Q3 was slightly down from Q2 but not too significantly.

Jagannath Sahu: My question is when you see it gets stabilized means if you see the current year's full year profitability whether that is a level we are expecting to continue or we are expecting to improve further?

Mahendra Nahata: Well, I am not making any forward looking statement. But I think it would improve because as I said, this Q4 kind of a situation I do not expect to reoccur. Number two, again as I said, our reliance is more on

own products and technologies. That should also add into our profit margins. So I think percentage of margin should improve.

Jagannath Sahu: And what is the present capacity utilization you are having, sir, for full year if you look at?

Mahendra Nahata: The capacity utilization of fiber optic cable factories, right now should be about 50%, 60%. But right now it is the different situation as the customers are also not able to lift their products because they have not been able to execute their projects in field. So unless they can execute, they will not take the deliveries. Orders are not cancelled but they are delaying deliveries. That is why capacity utilization is low but I think from July onwards it will start getting normal to 90% plus.

Moderator: Thank you. Next question comes from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Firstly sir, whatever is the phase that you have been very sharp in answering all the questions and very candid also. Thank you for the same. Investor gets a sense of confidence when the promoters speaks in this tone. So this was my observation. So I thought that sharing with you. Sir firstly, if you could give us what has been the price trends for the year basis and also for the quarter in the preform fiber and fiber cable the entire value chain?

Mahendra Nahata: Look these move concurrently. If the cable prices come down, everything else comes down. If the fiber prices come down, everything else comes down. Fiber prices is the main determining factor. So fiber prices have gone down almost to half similarly preform prices have gone down almost to half. Fiber price for example what used to be \$7, \$8 have come down to \$3.5 to \$4 depending upon who buys and who sells.

And preform have gone down from \$140 to \$70 or even less. So they are moved in parity. Cable price would have gone down what used to be there is a particular kind of cables Rs.54,000 that has come down to something like Rs.35,000, Rs.36,000 because it will not go down the same proportion because there are other kind of raw material also involved there like plastics and the jellies and all kind of different materials are there. So their prices have not come down so significantly and some of them are imported also and Indian rupee has gone down so they started costing more than what it used to cost earlier. So what was something like Rs.52,000, Rs.54,000 that has come down to Rs.35,000, Rs.36,000. There has been a one-third reduction in that.

Saket Kapoor: And how are we insulated or hedged against these fluctuation, sir?

Mahendra Nahata: We are completely hedged. If the fiber price comes down, cable prices also comes down. If it goes up, cable price also goes up. Only in the stocks you lose or earn money which is marginal. So we are in between, we are completely hedged out of this. It is not that if fiber price goes down we will start making more money because the cable prices have also come down. The customers are all educated customers. So they will reduce their cable prices for the contracts to be done in future. Existing contracts nobody will reduce. Similarly, if the fiber price increases, we go back to them and increase our prices for the orders to be taken in future. And as I said, these orders are not yearly orders and all that. May be quantity binding for a year but the prices are every two to three months' basis. So there is no unnatural income or unnatural loss. We operate on normal level of 8% to 10% of PBT margins.

Saket Kapoor: That means there are no fixed price contracts then, they are all variable?

Mahendra Nahata: No, the fixed price contracts are not there. Yes, people will promise to buy on a long term basis but pricing keep on changing.

Saket Kapoor: There is a promise for off take or there is no?

Mahendra Nahata: Prices keep on getting fixed every two to three months.

Saket Kapoor: Okay now if we take the benchmark of the industry, we as an investor where should we look at the fears for market capitalization for our Company because there has been erosion in market cap at least with the likes of Sterlite and Vindhya Tele also and Birla Cables. I think so they are falling in the same category but what should be the benchmark we investor should use as a percentage of how to determine what is the fair market capitalization for companies like us?

Mahendra Nahata: Well, you know it is very difficult for me to answer, Mr. Kapoor, about what should be the fair market capitalization. This is something I cannot answer. The only thing I would say that please do not judge our Company HFCL as a fiber optic cable company alone because our revenue share of fiber optic cable is 20%-25%. 80% revenue comes out of different Telcos, telecom products, EPC and all that. So let us not judge HFCL as a fiber optic cable company. We are doing a lot of other products as well which are our own IPR.

It is much more than fiber optic cables. Fiber optic cable is just less than 20% of our business. May be 25% in the current year not more than that. So please do not judge our Company as a fiber optic cable company and which Company to invest and which not, I cannot say and what is the proper market capitalization, I cannot say.

Saket Kapoor: Yes, you are also an equity investor and kudos for you for taking the salary cut also. But the short point I was trying to make is that sir, then we should try to rename and rebrand the Company also. HFCL is that old legacy that is continuing for I think for two decades. So if we could try to just rebrand the same and if a thought process can be given?

Mahendra Nahata: Sure. We are definitely working on that, Mr. Kapoor. If you look at one, well, we are working on increasing our profitability, we are increasing our efficiency levels, professionalism in the Company. We are making it more and more professional people oriented Company where the operations are done by professional people, not by promoter or anybody.

We are making it a technology Company not a simple product Company but a technology Company. We are trying to slowly rebrand and I think this obviously is going to take time but you see lot of things have changed. Lot of things are going to change in the coming year, this year also.

Saket Kapoor: Yes, even name change should happen. But for the dividend part, what was the call by the Board this time for?

Mahendra Nahata: Dividend we have not taken any call. We have not recommended any dividend because this is the time to conserve the cash flows because the current pandemic situation you do not know how it would become and what kind of things will happen in future. So it is a time to conserve cash flows. However, if the situation improves next half year or so we would have to relook at it.

Saket Kapoor: We can look at it. And now only two small observations. Just an observation sir, and I do not have any questions. Sir firstly, on the presentation part, we as an investor analyst request for the presentation to be uploaded at the earliest and not with a lag of a day or two, that makes our job a bit different. And we should look for putting up of the videos of our new facility. Due to this pandemic we wouldn't be able to visit now.

Mahendra Nahata: Sure, that is a good idea. We shall put videos etc. and shall upload soon.

Saket Kapoor: For each and every facility with the description what we have at present, with a PPT presentation so that the investor will get a fair idea of exactly what we are doing.

Mahendra Nahata: Most welcome, any of you want to visit, please visit also.

Saket Kapoor: Sir, this problem will continue for next two to three months.

Mahendra Nahata: After two, three months also you can visit, what is the problem.

Moderator: Thank you, Mr. Kapoor. We will take the last question for the day and the question comes from the line of Abhishek Shah, he is an individual investor.

Abhishek Shah: First obviously sir, it is really impressive to see our focus on constant innovation and the promoter's buying from the open market also adds a lot of confidence to us as investors. Sir, my first question is I am just trying to dissect between say the global demand and domestic demand. You mentioned from China, China being well fiberized you do not expect significant demand coming from there. So on the export front sir, which geography are you seeing demand coming from? That is the first part.

Mahendra Nahata: I think you are talking of fiber optic cables. I did not say that significant demand will not come from China. What I said that whatever demand was there it will not go beyond that. It will remain little bit down, but it will not go beyond that. There will be some demand in China because fiberization is still happening, 5G is still happening so there could see increased demand. From what earlier people were projecting that it will increase further which is not going to happen. It will not increase but it may go down a bit but demand is still going to be there. Number one. Number two, the countries where that demand is going to increase. You will be surprised even Europe is going large scale in to fiber to home. So we are seeing an increased demand coming from Europe, from Middle East, from even South America, even North

America. Every place where 5G and FTTH is getting implemented, fiber optic cable is seeing a large demand.

Similarly, 5G implementation will see large demand for other kind of telecom equipment also which I described to you a little while ago. So fiber cable demand is coming all around the world, in India, Middle East, Europe, Americas. Everywhere the increased demand is there, no doubt about that.

Abhishek Shah: Sir, with the excess capacity that across the globe companies have built, do you expect these optical fiber prices to come back to normalcy levels where I understand it does not affect us, but just to understand it, do you expect it to come back to normalcy levels which have been prevailing at around \$6.5 to \$7 anytime soon?

Mahendra Nahata: Abhishek, I think it will revolve around \$3.5 to \$4.

Abhishek Shah: Sir, second on the domestic demand. I understand you have been very bullish about this coming year and I think I heard fiber demand could go up by as high as 50%. Just correct me on that. I wanted to check.

Mahendra Nahata: I did not say demand to go up. I said our revenue from fiber cable would go up by around 50%. That is what we expect. I said that.

Abhishek Shah: Okay sorry. Sir, what I wanted to understand was that, last 5 years, Jio and Bharti Airtel both have gone through massive CAPEX front and both of them have actually said that their spends will sort of normalize and rationalize in the coming year. I mean how do you see that affecting us or do you not see it as a big issue coming ahead?

Mahendra Nahata: Just one example Jio, 4G expansion have stabilized. There would be only extension in certain areas but FTTH they have started. While the FTTH is stabilizing or increasing, going forward 5G would start. So CAPEX from one type of a technology may go down but another kind of a technology will go up.



So 4G has gone down and FTTH has gone up. When FTTH would be at some down level and then 5G would start. So CAPEX in the telecoms would never stop, I can tell you. You will see Bharti's balance sheet for 20 years, every year there has been some CAPEX and that it would continue to be there.

Abhishek Shah: Okay so you do not see a major rationalization in their CAPEX in the coming years also? And for us it should not be a big issue in terms of getting that?

Mahendra Nahata: It is not a big issue because once the technology demand will go down for one technology, then demand for other technology will go up.

Abhishek Shah: And sir, again one last thing on the domestic front again is there any anti-dumping duty may be to protect domestic players like us?

Mahendra Nahata: We are hearing they are talking on the fiber. There are particular kind of fiber they are talking about and there have been some public hearings also. But nothing final has come up till now.

Moderator: Thank you, Mr. Shah. That was the last question for the day. I now hand the conference over to Mr. Mahendra Nahata of HFCL Limited for closing comments. Over to you, sir.

Mahendra Nahata: Thank you gentlemen, all of you, for paying attention and being the part of this earnings call. And as I said though there have been issues with almost every company in the world and we are no exception to that due to this current pandemic situation. But as I said, things have started improving, things have started moving forward as more and more relaxation happens. Our operations will go ahead with the full stream and situation will only improve now barring any unforeseen things happening in the current pandemic. Things are going to improve only.

And the Company as I said, has got enough resilience to withstand the current crisis and we have been able to contain any damage which might have caused. We have not allowed that. The Company has been able to withstand perfectly and it is on the path of growth in terms of its operation and we expect that the future of the Company is of course assured with the current order book and the current sales tunnel we have. And if there is any more development, I will definitely come across to you again. Thank you very much.

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

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