HFCL GROUP

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

RE: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "SEBI Listing Regulations").

Subject: Transcript of Conference Call on the Un-audited Financial Results of the Company for the 1st Quarter ended June 30, 2024, of the Financial Year 2024-25.

Dear Sir(s)/ Madam,

This is further to our earlier announcement dated July 19, 2024.

In terms of Regulation 30 read with Para A of Part A of Schedule III to the SEBI Listing Regulations, we hereby submit Transcript of the Conference Call held on July 25, 2024, on the Un-audited Financial Results of the Company for the 1st Quarter ended June 30, 2024 of the Financial Year 2024-25, which were considered and approved by the Board of Directors of the Company, at its meeting held on July 24, 2024.

The aforesaid Transcript will also be available on the Company's website at https://www.hfcl.com/.

You are requested to take the above information on records and disseminate the same on your respective websites.

Thanking you.

Yours faithfully,
For **HFCL Limited**

Manoj Baid
Digitally signed by Manoj Baid
Date: 2024.08.01 13:44:47 +05'30'

(Manoj Baid)
President & Company Secretary

Encl: Copy of Transcript.

"HFCL Limited
Q1 FY'25 Earnings Conference Call"
July 25, 2024

MANAGEMENT: **MR. MAHENDRA NAHATA – PROMOTER AND MANAGING DIRECTOR**
MR. VIJAY RAJ JAIN – CHIEF FINANCIAL OFFICER
MR. MANOJ BAID – COMPANY SECRETARY
MR. AMIT AGARWAL – HEAD, INVESTOR RELATIONS

ANALYST: **MR. MOHIT LOHIA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY '25 Results Conference Call of HFCL Limited hosted by ICICI Securities. Before we begin, I will also like to read the disclaimer statement. Statements made during this call may be forward-looking in nature based on management's current beliefs and expectations. They must be viewed in relation to the risk that HFCL's business faces that could cause its future results, performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements. Investors are therefore requested to check the information independently before making any investment or other decisions.

As a reminder, all the participant's lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit Lohia. Thank you, and over to you, sir.

Mohit Lohia: Yes. Hi, good afternoon, everyone. Thank you, Sumit, and thank you for joining us today for Q1 FY '25 Earnings Call of HFCL Limited. First of all, I would like to thank management for giving us opportunity to host this call. From the management side, we have Mr. Mahendra Nahata, Promoter and Managing Director; Mr. Vijay Raj Jain, Chief Financial Officer; Mr. Manoj Baid, Company Secretary; and Mr. Amit Agarwal, Head of Investor Relations.

So without further delay, I would now hand over the call to Mr. Mahendra Nahata for opening remarks. Thank you, and over to you, sir.

Mahendra Nahata: Thanks, Mohit, and Good evening Ladies and Gentlemen.

I am delighted to welcome you all to HFCL’s earnings call for the first quarter of FY25. I trust that you got a chance to go through our financial results, press release and earnings presentation, which are available on the website of the Company and also on the website of stock exchanges.

For achieving the vision of Viksit Bharat by 2047, Technology and the telecom sector are poised to play a vital role. The growing demand for reliable high speed internet connectivity, increasing smartphone adoption, 5G network expansion, hyper-scaling of data centers, advancements in Artificial Intelligence, Machine Learning, promises large opportunities both in domestic and global markets.. Implementation of FTTH globally, BharatNet phase-III, and the PLI scheme, alongside initiatives of promoting semiconductor manufacturing in India will fuel long term growth and encourage indigenous manufacturing.

In last few years, HFCL has relentlessly focused on R&D and innovation. The Company has entered into strategic partnerships with global tech giants and also invested in enhancing capacities & capabilities, thereby, making your company future ready.

Our comprehensive, new cutting-edge products such as the first Indian IPR owned and Made-in-India 5G Fixed Wireless Access Customer Premises Equipment, Unlicensed Band Backhaul Radios, Switches, IP/MPLS Routers, open-source Wi-Fi 7 Access Points, new generation defence products such as Electronics Fuzes, Thermal Weapon Sights for Assault Rifles, Light Machine Guns and Rocket Launchers, Ground and coastal Surveillance Radars for various range and applications, Ti Cores for Thermal Sights, next generation optical fiber and optical fiber cables among others, will drive sustainable and profitable growth. We strongly believe that our investment in R&D leading to innovative telecom and defence products coupled with global expansion will reap dividends in near future.

Having ended FY24 at a pivotal note, we have commenced the current fiscal with a significant positive decision from European Commission. In a landmark verdict on 14th June, 2024, the European Commission has decided not to impose anti-dumping duty on optical fiber cables manufactured by HFCL and its subsidiary HTL, whereas provisional anti-dumping duty has already been imposed on all other Indian Optical Fiber Cable Manufacturers. This significant verdict by European Commission places HFCL in a formidable position to tap growth opportunities in European market and this also speaks of the fair business practices by HFCL.
The demand for our designed communication equipment has also shown strong growth. We are witnessing strong demand for 5G Fixed Wireless Access Customer Premises Equipment which presents an important use case for enhanced revenue from 5G networks. HFCL has developed various Made-in-India Fixed Wireless Access Customer Premises Equipment variants to meet diverse country-specific needs, positioning it to supply both to domestic and international markets. HFCL has already received an order worth Rs.623 crores of this equipment.

HFCL has made remarkable advancements in wireless technology by designing new generation Point to Point Unlicensed Band Backhaul Radios. HFCL has developed radios that can transmit data much faster than traditional methods in unlicensed frequencies, reaching speeds of up to 2 Gbps already, with plans to hit 4 Gbps soon. These systems can maintain speed over distances ranging from 10 kilometers to 20 kilometers.

HFCL's UBRs are also more affordable compared to competing technologies like E-band radios and traditional microwave radios, making them a product of choice for telecom operators for backhauling their traffic of 4G and 5G networks. These radios are also being used extensively for highly reliable enterprise connectivity. Our UBRs have tackled the challenge of interference in unlicensed bands with smart algorithms that cancel out noise, ensuring that mobile calls and data stay clear even in noisy wireless environments. Apart from being of lower cost, our UBRs also save significant spectrum cost for telecom operators by operating over long distances at significantly high data rates in unlicensed bands.

HFCL has become the largest supplier of UBRs in India and one of the prominent global supplier, having delivered over 500,000 units globally. HFCL now dominates over 70% of the UBR market in India. Major private telecom companies have already installed over 100,000 radios in just last one year itself to handle their 5G network traffic. BSNL has also placed order for 30,000 of these radios on HFCL to backhaul their 4G network traffic. The BSNL radios are currently under installation.

With HFCL's innovations in UBRs, the telecom operators, are able to provide high-speed, reliable wireless connectivity at lower capex and opex. HFCL expects large opportunities from this product in near future. HFCL is now also developing Point to Multipoint UBRs which will have even higher market opportunity globally.

With the introduction of new products and markets, our revenue from Telecom Equipment Segment is expected to rise substantially. We expect the revenue from this segment during FY25 to reach approximately Rs.2000 crores from just Rs.143 crores in FY24. I am happy to share that during first quarter itself the Company has already achieved a revenue of INR 401 crores from the sale of telecom and networking products.

As the transition to 5G continues and newer technological standards gain traction, global telcos are projected to invest USD 342 billion in their networks in 2027 alone, according to a PWC report. This kind of large capex will support HFCLs effort to get high revenue.

In addition to the continued focus on its traditional telcos market, HFCL has also put strong focus on enterprise market. A dedicated sales organisation has been created to serve enterprise customers which includes banks, hospitality industry, educational institutions and other bulk consumer of such equipments. As part of our strategy to deeply engage with both these segments i.e, telcos and enterprises, we are constantly working to add new products and cutting edge technologies to our existing portfolio of products with rigorous R&D initiatives.

On the defence side, India’s defence exports has reached an all-time high at Rs.21, 083 crores in FY24. Our Honourable Prime Minister, declared his intent of making India a net-exporter of defence products over next five years. The increasing defence budget and focus on indigenisation is creating significant opportunities for Indian companies like HFCL

HFCL is intensively working on development of defence products for domestic and global markets. We have introduced a comprehensive range of defence products both for domestic and global markets. The domestic market size alone for HFCL’s current products is expected to be in excess of USD 35 billion in next six to seven years.

Our comprehensive defence portfolio of products includes different types of Electronic Fuzes, Thermal Weapon Sights, Ti Cores for Thermal Sights, Ground and coastal Surveillance Radars for various range and applications, High capacity radio relay, among others.

Our Electronic fuzes, for artillery ammunition have already undergone extensive trails and testing. HFCL has already started receiving enquiries from several countries and discussions are underway for export of these fuzes. We are confident to build sizeable order book of export for electronic fuzes during the current fiscal year.

HFCL has also participated in tenders for thermal weapon sights for Assault Rifles with its indigenously developed products. These products are currently in various stages of trials. Enquiries have also been received from international market for these products.

We are also pleased to share that enquiries have also been received for development of technologically highly advanced components of defence equipment related sub-systems from globally renowned companies. This shows confidence of such companies in our capability to develop advanced technologies. Quotations have already been submitted against these enquiries.

HFCL, through its subsidiary, Raddef Private Limited, has been at the forefront of designing and developing a range of cutting-edge surveillance radars to meet diverse operational needs. Raddef specializes in development of advanced radars and RF solutions. It has developed ground and coastal surveillance radars using Frequency Modulated Continuous Wave technology. This technology offers numerous advantages, including high accuracy, low power consumption, less weight and resistance interference, making our radars highly reliable and efficient.

Our surveillance radars have undergone extensive trials. We have participated in the RFP issued by ISRO for their coastal surveillance radar requirements. Recently, senior officials from Indian Navy visited our R&D facility in Bangalore and expressed their appreciation for the progress we have made in development of coastal surveillance radars. This acknowledgement itself is a testament to the quality and reliability of our technology. Our Ground Surveillance Radars are also under trial by the Army, Paramilitary forces and Border Security Force.

Our Drone detection Radar is also in advanced stage of development. Its field trial is expected to start by the end of Q2 of FY25.

As already informed, HFCL has Successfully cleared the User Trial Readiness Review for the Armament Upgradation Project of the Indian Army's BMP-2 Infantry Combat Vehicles. The RFP of this project is expected soon.

The wire harness business unit of HTL, a subsidiary company, has been consistently performing well by supplying Power Distribution Units, Auxiliary Power Supply Units and Wire Harness Assemblies for various defence programs like Fighter Aircrafts, Battle Tanks, Armoured Personnel Carriers, Missile Launchers, Towed Gun Systems, Military Radar Systems and Military Communication Systems.

Friends, Optical fiber and Optical fiber cable business remains substantial and important part of Company's business. Presently, Global optical fiber cable market is going through a relatively slowdown phase. Geopolitical situation throughout the world and its impact on important aspects of business i.e. cost of raising capital, cost of logistics, large inventory built with operators and delay in major government funded programs have resulted in this temporary slowdown. Global operators have delayed their plans of expansion waiting for the situation to get better. It is expected that globally Optical Fiber Cable market will start witnessing growth again from the last quarter of financial year 2024-25.

HFCL has taken steps to offset this slowdown by increasing its business and market share from Passive Connectivity Solutions for optical fiber cable networks. This is a global market opportunity worth USD 6-8 billion. Explosion of data centers around the world will further contribute to expansion of this market. HFCL is concentrating its resources to increase its penetration in Passive Connectivity Solutions market both for telcos and data centre segments. HFCL expects revenue of Rs.250 crores in Passive Connectivity Solution business in the current financial year showing substantial increase from last financial year's revenue of only Rs.66 crores from this segment. Looking at its growth potential, HFCL expects to grow this business to Rs.750 crores in next 2-3 years. HFCL has also channelized its R&D resources to develop several type of new optical fiber cables including tactical cable for defence requirements. These initiatives coupled with upcoming BharatNet Phase III Project will lead to substantial market opportunity for HFCL.

BharatNet is one of the most anticipated opportunity under which Government has already floated approximately Rs.60,000 crores tender for capex to be incurred in next 3 years followed by additional O&M opportunity worth approximately Rs.40,000 crores over a period of 10 years. The entire funding of this project is being provided by the Government of India from Universal Service Obligation Fund. The Bharat Net Phase III Project tender presents a huge opportunity to HFCL as it will strengthen the demand for optical fiber cables, telecom and networking products, system integration services, and annuity revenue through O&M all of which are in alignment with HFCL's core strengths. HFCL is uniquely positioned to offer end-to-end solutions that meet Bharat Net's stringent requirements. We foresee good prospects for us given our vertically and horizontally integrated manufacturing capabilities in optical fiber cables, its accessories, telecom equipment, and SMPS through one of the group company coupled with vast experience of laying more than 2 lakh Kilometers Optical Fiber Cable for various telecom operators. We are optimistically looking forward to securing a substantial pie of this opportunity.

In order to optimize operational efficiencies, better utilize resources, and to focus more on passive connectivity solutions, HTL Limited, a subsidiary company, has decided to discontinue the manufacturing of Polymer compounds which are now available from large Indian and international manufacturers at relatively lower prices

We also plan to integrate Artificial Intelligence to our Telecom and Networking products which will enhance the experience for network service providers as well as end users. The AI powered equipment will help build resilient network for people worldwide in all kinds of deployments. We believe that AI based networking will provide more reliability and security to the end users.

Our total order book now stands at ~ INR 6776 crores as on Q1 of FY25. While our order book has been stable, revenue mix has favourably changed towards products business. The revenue from Private customers and International Business stands at 51% and 9.82% respectively.

HFCL is eligible to avail production linked incentive (PLI) for telecom and networking products. We expect to start receiving PLI benefits from the current fiscal year on production of these products.

Our Company is focused on ESG initiatives, and is deeply committed to fostering workplace diversity and inclusion through various initiatives, fostering an equitable and inclusive environment.

Let me now brief you on the key performance metrics of Q1 FY25:

- Revenue for Q1FY25 stood at INR 1158 crores as compared to INR 1326 crores in Q4FY24 and INR 995 crores in Q1FY24

- EBITDA for the quarter stood at INR 185 crores as compared to INR 209 crores in Q4FY24 and INR 160 crores in Q1FY24; EBITDA margin stands at 16.00% for Q1FY25 as compared to 15.78% for Q4FY24 and it stood at 16.04% in Q1FY24;

- For Q1FY25, profit after tax stands at INR 111 crores as compared to INR 109 crores of Q4FY24 and INR 76 crores in Q1FY24; PAT margin stands at 9.55% in Q1FY25 as compared to 8.25% in Q4FY24 and 7.59% in Q1FY24

- Segment revenue for telecom products during the quarter stood at 61.42 % as compared to 27.33% in Q4 FY24 and 66.56% in Q1 FY24.

As I have mentioned, the demand of Optical Fiber Cables is in temporary slowdown phase which has impacted our revenues from Optical Fiber Cable business in FY24 and also in Q1 of FY25. We anticipate that Optical Fiber Cables demand will be restored from Q3/Q4 FY25 onwards, both in India and key global markets. However, I am happy to share that with our diversified product portfolio in telecom, Optical Fiber Cable, and passive connectivity solutions, the Company has been able to sustain and grow its performance. We are confident that our focussed efforts in increasing our product portfolio in telecom, Optical Fiber Cable, passive connectivity solutions & defence products, along with capacity expansion, backward integration, expansion of customer base, and entering new geographies, are set to drive revenue growth, margin expansion and optimum usage of working capital resources. We are upbeat about tapping opportunities ahead and look forward to a strong year with great optimism.

Thank you once again for your keen participation. With this, I conclude my opening remarks and open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Good evening, sir. Thank you for taking my question. First question, HFCL has decided to discontinue the manufacturing of polymer compounds. So what is the revenue and margin in that business? And what kind of impact we can see for these discontinuations?

Mahendra Nahata: Yes. First of all, there was no revenue from polymer compound. It was being used internally as a backward integration for manufacture of optical fiber cable. So it was remaining within the Company. So there was no revenue. The reason we have discontinued manufacturing, so worldwide, the major refineries like Borouge or Reliance and all such refineries, they have increased their production of this component and they are manufacturing huge quantities. So their cost of production is much lower. And what we are now seeing that these compounds are available at a lower price from these refineries rather than we manufacturing ourselves.

The price difference has gone roughly about INR6 per kg. If you buy from market, they are cheaper by about INR6 per kg. So there was no point in continuing to manufacture this compound once we have ourselves being able to buy it from outside the market. That's why we have closed it. So there is no loss of revenue in this case.

Balasubramanian: Sir, like you have mentioned about electronic fuses, like which are the regions you are witnessing order inquiries for electronic fuses?

Mahendra Nahata: Yes. We have received inquiries and we are in advanced stage of discussion, mainly from European region, and we expect good results very soon.

Balasubramanian: Sir, in this army project side, like we have cleared User Trial Readiness Review. So what is the next step for this project as business opportunity?

Mahendra Nahata: Look, UTRR has been cleared up. Next step is flotation of RFP that is the tender, which is expected soon now, maybe one or two months, which is expected soon. Only five companies have been shortlisted, as I might have informed you earlier, Tata, L&T, HFCL, government's own factory, and I think one more company, I don't remember the name, but only five companies have been shortlisted. And HFCL has cleared all kind of User Trial Readiness, night firing, missile firing, gun firing. I think we have been the most successful in UTRR.

Balasubramanian: Got it, sir. Sir, the final question regarding you have mentioned that slowdown has continued on optical fiber and optical fiber cable side. So what is the realization point of view in this quarter? And any changes in the capex, what is the progress? And is there any changes in the funding mix? And you have mentioned about this Noida plant eligible for PLI. What kind of PLIs we can expect?

Mahendra Nahata: Balasubramanian, if you ask me 10 questions in one row, then I would not be able to answer.

Balasubramanian: Okay. Got it. Sir, I'll come back in queue.

Mahendra Nahata: No, you can ask me question on optical fiber cable, but you asked 10 questions in that same question, so it is very difficult to be precise. So ask one by one.

Balasubramanian: Okay Sir

Mahendra Nahata: So first of all, we are seeing the slowdown in the optical fiber cable market. Yes, there is a slowdown globally, which I've been very transparent about and reasons also I've shared in my opening remarks. But one thing needs to be appreciated that we have taken steps to see that this slowdown does not impact our business on overall basis. One, it includes that, as I said, passive connectivity solutions where we are increasing our revenue to INR250 crores from something like INR60 crores, INR70 crores from last year, and we expect in two to three years' time to grow to INR750 crores.

And in any case, by that time, optical fiber cable market in next two to three quarters would have picked up in any case. So this will add up to our revenue. Moreover, overall Company, as I mentioned, huge increase is there in the revenue of telecom products. From last year it's about INR140 crores. This year we will be going to INR2,000 crores. So within the various diversified product range of the Company, these ups and downs happen in different segments.

But the important point is that the management has foreseen this, taken adequate steps to have such a product range that the Company's revenue is sustained and also grow. This year, for example, you will see a reasonable increase in the revenue of the Company from 25% to 30%, which has been possible despite of this slowdown in optical fiber cable business because revenue from other segments is increasing substantially.

Balasubramanian: Got it, sir. Sir, on the price realization side

Moderator: Sorry to interrupt, Balasubramanian, sir, but we request you to return to the question queue for the follow-up questions.

Balasubramanian: Sure, sir. Thank you.

Moderator: Thank you. The next question is from the line of Siddhant Singh from Green Portfolio. Please. Go ahead.

Siddhant Singh: Sir, so my first question is regarding ammunition fuzes. Like in last quarter you told us you are into the trial zone, like within a few months Indian Army will start trialing the ammunition fuzes. So what is an update regarding that?

Mahendra Nahata: Look, fuze, as I said, we are concentrating right now on the export market. And while Indian Army is expected to float some more tenders and which we will definitely participate, but export market has given us a good traction. And soon we expect to receive reasonable size orders from the export market. So our concentration right now is more on the export market because Indian Army's tenders will come, they will be decided, it will take time, some amount of time, but export market order booking may start much sooner.

Siddhant Singh: Okay, sir. So we can expect in this financial year itself we will start generating revenue from the ammunition fuzes from export market?

Mahendra Nahata: We will definitely start having good orders soon. Revenue, I would say that they would they may start from the first quarter of the next year because building of infrastructure and all that, we may take a little bit of time. We may be able to start at the end of this current financial year or may be in the first quarter of the next financial year. But there will be substantial revenues coming from the defense segment.

Siddhant Singh: Okay, sir. And sir, my second question is regarding like in the recent Budget allocation, BSNL has got around INR83,000 crores of allocation from Budget. So sir, as we are getting many orders from BSNL, so what you are expecting? This huge amount of Budget will get benefited to our company? And how much order we can expect from the BSNL side for this financial year?

Mahendra Nahata: Look, I can't quantify what kind of orders we will receive, but we have good hope from BSNL. Reason being, one, government is making full effort to revive them and a good amount of budgetary support is being given to BSNL apart from their own revenues.

Moreover, with this improved financial position, BSNL's payment situation for their own tenders have improved substantially. What we earlier had a situation where payments were not coming from BSNL, now BSNL is releasing payment twice a month, which is a very much improved situation what we had experienced last year or even in the beginning of the current year.

So we have good expectations from BSNL, not only from their own requirement but from the BharatNet Phase III also, which is the tender which has been floated through BSNL where it's approximately INR60,000 crores of capex. The entire funding is coming from Government of India through USO fund, which has got a substantial amount of money already with them. So payment would not be a problem in BharatNet Phase III.

So BSNL, yes, it presents a good market opportunity and it is really beneficial to companies like us because BSNL always buy indigenously manufactured products through indigenous manufacturers. And that is a great advantage to us because with the preferential market regime where indigenous manufacturing is preferred.

And also at the same point of time, improved payment position of BSNL, I'm sure HFCL will be able to get good order book from BSNL in the current financial year and following years also. It's just not possible to quantify exactly the amount, but I am sure that market opportunity with BSNL would be reasonable for telecom equipment as well as fiber optic cable.

Siddhant Singh: Okay, sir. Sir, I have one last question regarding optical fiber. Sir, as we are expanding our manufacturing capacity in optical fiber, do we have any future plan to install our in-house preform plant? Like if we will have our own in-house preform plant, then our operational efficiency will increase. So do we have any plan for installing that?

Mahendra Nahata: We are under discussions for this because it involves a reasonably large capex. So we are discussing at this point of time the capacity which we should install and the capex per ton or per kg, whatever you call it, of plant which should be there to make it economically viable against the purchases. So it's a make versus buy decision, which is under evaluation at this point of a time. And whenever this evolution is completed, which we expect should be near future, one or two months, we will definitely be working on this. And if we find it economically more viable to manufacture, substantially viable to manufacture, we will definitely do that.

And moreover, it's not only economic viability, there's also the sustainability of raw material supply in the situation where the market demand goes very high, and we have seen in the past that the price of preform also goes very high, reducing the margin for the manufacturers of fiber and cable, this plant kind of a backward integration offers more sustainability also. So all these things are being under discussion very actively. And maybe in next one or two months' time we will take a final decision.

Once we reach to our expected capex per ton and also the sustainability aspect is also well understood and then we will take the final decision. But I can tell you, this is under active consideration at this point of time.

Siddhant Singh: Okay, sir. Sir, can you like give any ballpark number on likely how much of capex we will need per ton, like, any ballpark number?

Mahendra Nahata: I would not really go ahead on that at this point of time. Let us wait for next call where I would be able to be in a better situation to tell that. Right now if I tell you any capex number, it's not good to divulge our position to our suppliers.

Moderator: Thank you, sir. The next question is from the line of Aryan Oswal from Finterest Capital. Please go ahead.

Aryan Oswal: Sir, what is the scope of margin uptake as we are anticipating the revenue to grow from INR143 crores to INR2,000 crores?

Mahendra Nahata: What was your first part of question?

Aryan Oswal: Sir, what is the scope of margin uptake as we are anticipating the revenue to grow from INR143 crores to INR2,000 crores?

Mahendra Nahata: Look, this revenue growth is from INR143 crores to INR2,000 crores in the current financial year which is majorly coming from telecom products, which we are selling to private operators and BSNL both. And generally, the margin, net margin is around 8% to 10%, as you know. Added to that would be some benefit from PLI also. So this will definitely result in increase in the margin with the increase of revenue. Percentage and revenue you can calculate. These are my best estimate at this point of time. So it will be increasing profitability as the net profit before tax remains around 8% to 10% and some benefit from PLI would result in this.

Aryan Oswal: Okay. Thank you sir. And sir, are there any plans or timelines in place to reduce the percentage of pledged shares in the near future?

Mahendra Nahata: Please say that again?

Aryan Oswal: Sir, are there any plans or timelines in place to reduce the percentage of pledged shares in the near future?

Mahendra Nahata: There is no pledge and there is no plan to pledge.

Aryan Oswal: Sir it is showing a 44.5%.

Mahendra Nahata: There is a misnomer at that end we have brought in the notice of the stock exchanges and the depository also, we have given a non disposable undertaking to financial institutions as against loans taken by the Company. They are shown under pledge column. So there's no separate column for non disposable undertaking. So it is a non disposable undertaking by promoters rather than any pledge. This is a completely wrong format by the stock exchanges and depositories.

This format needs to improve and we have made several representations that this gives a completely misleading information to the shareholders that there is a pledge of shares. There is not a single share of the HFCL which is pledged anywhere let me be very clear. This is only non disposable undertaking. There is no pledge.

Aryan Oswal: Okay. Thank you for the clarification sir. One last question from my side, sir. Sir as we have a strong order book of INR6,700 crores what is the order execution time line?

Mahendra Nahata: This is different in different orders. They range from immediate one month kind of a supply and they range for a 1-year supply also. In most cases it is something like one month to six months for products and in the case of turnkey projects about one year to three years . And for O&M operation and maintenance that may be five to six years or maybe seven years also. So it's different. For the product and the turnkey ranges from one month to three years. For the O&M, of course, it's a continuous stream of revenue which goes from six to seven years.

Aryan Oswal: And sir, can you throw some light on the status of capacity expansion?

Mahendra Nahata: Yes, capacity expansion is continuing for fiber. In Hyderabad the plant is under construction. Civil construction has already happened. Equipment installation is under progress and for fiber optic cable also it continues in each of the plants, of course, but we are also now working on as you have seen our announcement to produce internationally also. In Poland, for example, where roughly about 3.5 million kilometers of fiber optic cable capacity we are looking to create. So that is a separate decision, but yes it is under progress.

Aryan Oswal: Okay sir. Thank you so much. That is all from my side.

Mahendra Nahata: Thank you.

Moderator: Thank you. The next question is from the line of Ketan Athavale from Robo Capital. Please go ahead.

Ketan Athavale: Hello sir. Thank you for the opportunity. Sir out of our total BharatNet tender of INR60,000 crores, INR65,000 crores, how much will be the OFC component, how much will be EPC component?

Mahendra Nahata: OFC component we are expecting a total it is being under some bit of a revision by government itself, but assuming certain numbers we expect about something like 10 lakh kilometers of optical fiber cable. So if you take a price of roughly about INR50,000 per kilometer so it's roughly about INR5,000 crores to INR6,000 crores of fiber optic cable opportunity. Double that amount would be EPC part of that, double or maybe a little more than that. And then there will be equipment like routers and optical equipment and all those kind of things. They would also be there.

So for cable itself I would say roughly about INR5,000 crores to INR6,000 crores. Similarly about the routers, routers and those kind of equipment would be similar numbers and then the EPC portion. And also certain equipment or products to be outsourced from other suppliers like ducts which we don't manufacture really sourcing from others, they will also have INR5,000 cores to INR6,000 crores. So INR60,000 crores is roughly divided in these kind of numbers roughly.

Ketan Athavale: And I just wanted to confirm you expect 25% to 30% revenue growth this year. Is that correct?

Mahendra Nahata: Yes. We very much expect that. That is our best estimate at this point of time looking at the products we have and the market opportunities we have, tenders we have participated and orders we expect.

Ketan Athavale: And sir can you have revenue guidance for the next two years as well so FY'26, 27?

Mahendra Nahata: So I will not give any guidance, but I can say the way we are planning our products and the way we are planning diversification into defense and those areas, our products have now shown a lot of maturity. We expect that every year we should be able to grow by some 20% to 30%.

In three years' timeframe our telecom equipment business should be around INR3,000 crores. Similar number would be the fiber optic cables. Similar number would be the EPC business. So this is the kind of best estimation we have looking at the market and our product portfolio and the market opportunities we see in front of us.

Ketan Athavale: And how much margin are we targeting?

Mahendra Nahata: As generally as I said profit before tax is 8% to 10%. But now if you ask me any guidance, there is no guidance. This is our best expectation.

Ketan Athavale: And just one last thing. So what is our current capacity and how much are we expanding?

Mahendra Nahata: Current capacity for fiber is about 14 million fiber kilometers which is getting into 33.9 million. Cable was 25 million which is getting into 35 million.

Ketan Athavale: Okay sure. Thank you so much for answering my questions.

Mahendra Nahata: Thank you.

Moderator: Thank you, sir. The next question is from the line of Hardik Vyas from ET. Please go ahead.

Hardik Vyas: Good evening, sir. I had a couple of questions. The first one being sir what is the status of the two orders that we had of INR623 crores on the FWA and the second one of INR1,100 odd crores? What is the execution in this quarter?

Mahendra Nahata: What was the second question? One is the FWA. What was the second one?

Hardik Vyas: The other order that we had received of INR1,100 odd crores, what is the status of execution on that?

Mahendra Nahata: Okay. I can tell you. The FWA order I expect the supply to start either end of this month or may not be end of this month then August itself. The product is under final stage of some software changes as desired by the customer, some small application related changes which is being done right now. Production line has already been set up which has been approved by the customers and we expect the bulk production to start maybe another one or two weeks maybe two weeks that is our best expectation, in two weeks bulk production will be starting and we will be commencing our supplies from month of August itself.

Hardik Vyas: So some part of this quarter will see some revenue coming in from that FWA order?

Mahendra Nahata: Absolutely, we will see.

Hardik Vyas: Okay. And we have not had any execution on the FWA order in the June quarter that we have seen?

Mahendra Nahata: Say that again?

Hardik Vyas: In the June quarter we have not seen anything from the FWA coming?

Mahendra Nahata: No, nothing in June quarter. That's why I very clearly told you that we will start mass production from July end or August beginning and next two weeks' time I expect the bulk production to start.

Hardik Vyas: Okay. And do we expect that to get over in this financial year or will it be stretched?

Mahendra Nahata: Our best effort is to supply the entire quantity before the end of the financial year so we can get more orders.

Hardik Vyas: Okay sir. And out of the INR400 crores of telecom equipment orders that we have had, could you split it up in Wi-Fi and other telecom equipment products?

Mahendra Nahata: I don't have exact split available now. If you send your query in writing I will give you the exact bifurcation of this number. But yes there are orders I can tell you which are the items we have order. Orders are for Wi-Fi access points. A lot of orders for UBR. As I said UBR has got a lot of traction. We have developed such unique applications, use cases for this UBR that all the operators are preferring it.

BSNL earlier had no plan to install UBR for backhauling their 4G traffic. But once they saw commercial benefit and reduced capex and opex, they are now demanding more UBRs and much earlier than what they had asked us to supply. Our supply program was let us say by November, they have taken those supply by June, July itself and they want more. So we can even see that there is requirement for UBR, there is requirement for optical equipment, there is requirement for Wi-Fi access points. Those all orders are there.

Hardik Vyas: Okay. Sir, my second question is on the services. We have seen healthy margins of roughly 20% range for our services orders. So is this a sustainable kind of margin or because we have booked our cost in the previous quarter?

Mahendra Nahata: No. Look, there's no booking of anything. This happens as they accrue. So this may vary depending upon contract to contract. Some cases where there is a contract with highly manpower intensive or product intensive, in some cases margin is much higher. In some cases margin is just 8% to 10%. Some cases it is 20%, 25%. Depending upon contract to contract it varies.

But on a longer term if you ask me that what's going to be the overall margin on turnkey contract I will keep it around 10%. And it may change. Sometimes it will be more, sometimes it will be less, but generally you should take it at PBT of 10%.

Hardik Vyas: Okay. And sir I think we had stopped taking any lower margin orders on the services side.

Mahendra Nahata: You are absolutely right. We don't take any lower margin orders of EPC. We have left away a number of such contracts because we are not interested in wasting our resources, manpower, trained manpower as well as working capital on contracts which are of a lower margin.

Hardik Vyas: Okay. Sir, my last question. Why are our product margins so less? I think they are in mid-single digits, and what happened to our consolidated numbers? I think that is because of the optic fiber cable business being a little slow, because I think on the consol basis, we are a little less EBIT than the standalone?

Mahendra Nahata: Look, basically, I tell you, the lower margin in the product business, in some cases it is mostly because it happens product to product and time to time depending upon competition. Sometimes strategically you like to take orders in the beginning of a particular product at a lower margin also because of strategic reasons.

So it differs from product to product and time to time. There is no long-term particular margin you can predict that this would be the margin. As I said, generally, you can say the 8% to 10%, and margin has been lower in OFC business definitively because of the reduced revenue and also decrease in the prices of the products globally. Because of less demand, the prices will go down. So there has been lower margin on OFC business also, which I said is a temporary phase. We expect it to improve in next two quarters.

Hardik Vyas: Okay. And are export...

Moderator: Sorry to interrupt, Mr. Hardik...

Hardik Vyas: Last one. Export thing is INR1, 500 crores revenue target this year?

Mahendra Nahata: No, it would not happen this year because, as I said, the global demand has gone down. So it will be considerably lower. And overall revenue from fiber optic cable business is expected in India and abroad both about INR2,000 crores, what we had about INR2,800 crores 2 years back because of the lower revenue from the global market.

But as I said, we have compensated it by increasing the passive connectivity solution market, which is part of optical fiber cable business only and we have also compensated it by increasing our revenue from the equipment market substantially, so INR140 crores to INR2,000 crores.

I think the Company's working management, my product heads and business heads deserve a great appreciation for diversifying the product range, which in spite of lower revenue in OFC , because of global circumstances, one of the major product areas, still the Company will grow its revenue and profitability both in the current year.

Hardik Vyas: Okay, that's all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Hitesh K. Patil from Krish Associates. Please go ahead.

Hitesh K. Patil: Thank you, sir for giving me opportunity to ask the question. Sir, my question is regarding that in the last month the European Union has exempted HFCL from any kind of anti-dumping duties. And HFCL is the only company from the India that has been given this exemption. So how can you capitalize on these things?

Mahendra Nahata: This is a very good question. HFCL and HTL, both companies, both are our companies only, they have been exempted from anti-dumping duty by European Commission. There was a very extensive inquiry from European Commission. I think hundreds of pages of documentation we had to send them.

Then their teams came down to India from European Commission sat in our factories in Hyderabad for maybe 10 days, around 7 to 10 days in HTL in Chennai, examined every piece of paper we had sent them by going into our SAP system to see that every information we have given is authentic and correct. Documents were verified, including suppliers, their invoices, and our invoices to the customers.

Finally, they came to the conclusion that HFCL has followed absolutely fair trade practices, HFCL and HTL both, and they have not dumped any material into European market, which means we have not sold at a lower price than what we are selling in our local market. And also, we have not sold below cost. And therefore, there cannot be any anti-dumping duty on us.

Whereas on every other Indian manufacturer, anti-dumping duty has been imposed from 8% to 11%. So this opens possibility for us for a better competitive price to that percentages, as has been imposed on others, in the European market, in competing with our Indian competitors and also Chinese competitors who already faced a much higher anti-dumping duty in the European market.

Hitesh K. Patil: Sir, my question is still that in the monetary term, how much of the benefits can we expect from the revenue from that European Union because of this anti-dumping exemption benefit?

Mahendra Nahata: This question has two aspects. Benefit, one, comes from competition. Second, it is the market position which is also very important, that what is the kind of consumption is there in fiber optic cable. Right now, there is a slowdown in the market on an overall basis. So it will be very difficult to tell you in a quantitative term that how much would be the benefit in the current fiscal year or the next fiscal year.

But yes, at least I can expect increase in profitability to the extent the anti-dumping duty has been imposed on others. Maybe some competitiveness, half of the percentage of that 10% or 11% goes in increased competitiveness, and half of it comes as a profitability. So it will all depend how much is the demand in a particular year, but it will result in increase in profitability and competitiveness both.

Hitesh K. Patil: Okay. And my last question is about that service PLI scheme announced by the government. Sir, how much of the money will we be getting from that PLI and from when it will be started, tentative dates or amount.

Mahendra Nahata: The total is about INR650 crores we are eligible for. We will start getting it from the current financial year itself because our is not PLI, but DLI. It is design-linked incentive, which is 1% higher than the PLI. Ours is 6% whereas others is 5% on average. So we will start getting it from this year itself.

Hitesh K. Patil: Okay. Thanks a lot, sir, for your reply, sir.

Mahendra Nahata: Thank you.

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

Saket Kapoor: Yes. Namashka Nahataji and thank you for the opportunity. Sir, firstly, out of the total revenue from the telecom product of INR615 crores, what would be the contribution from OFC, sir?

Mahendra Nahata: Yes, VR, can you answer this? Where this INR615 crores number is coming up or.

Vijay Jain: Around 44% is coming from optic fiber cable and related businesses and 56% from telecom and networking products.

Saket Kapoor: So Jain sir, the lower margins are attributed because of this higher percentage or even a competitively higher percentage of OFC, that is the reason why we have

Vijay Jain: No, margins on overall basis, it looks low because there has been extremely low revenue out of this optic fiber cable business. So that has a lot of pressure on the margin. So capacity utilization is just 45%, 50% this quarter. So that is impacting the overall margin of this product segment.

Saket Kapoor: In the OFC segment, we have 45% to 50% total capacity utilization levels for the first quarter?

Vijay Jain: Yes, roughly 45%.

Mahendra Nahata: Yes, 45%, and as I said, it is because of globally the market has slowed down. And it is not only HFCL. It will be for every Indian company or every global company, this is the kind of slowdown is there. And looking at this slowdown, what we have done, as I said, one, increased our business on passive connectivity solutions, which will have multifold increase this year and multifold increase in years to come, at the same point of time, developing products for data centers and concentrating on data center market.

So what we are losing in optical fiber cable revenue can be compensated by these two areas. Optical fiber cable revenue from telcos to be compensated from passive connectivity solutions, and data centers. But in any case, the demand for optical fiber cable from telcos is also expected to come back to its original situation within by next 2 quarters, because spending, which has gone down because of various reasons as I explained, possibly would pick up by the beginning of the calendar year '25. It is very well expected.

All over the world, it will pick up because of higher FTTH deployment, higher disbursement of Government subsidies. US alone, the Government subsidies for fiber optic cable to home is $61 billion, which has slowed down because of the current political situation, elections and all that, which is expected to again pick up from the first quarter of the new calendar year.

So demand will pick up for fiber optic cable at this time and our revenue from that will also increase. Capacity utilization will increase, but also at the same point of time, our data center product revenue and passive connectivity solution revenue will also go up. So in long-term, this diversification and increase in product range is going to be highly beneficial to the Company.

Saket Kapoor: Sir, as you are harpening on the point for passive connectivity solution and data center addressable market, what are our products which will be catering to these two segments sir, if you could elaborate?

Mahendra Nahata: For passive connectivity solutions, all products which are required to install fiber optic cable, either underground or over ground, all products, except the duct. Duct we don't manufacture. Distribution boxes, couplers, splitters, joint in boxes, all these kind of products which are required for installation of fiber optic cable, number one.

When I talk of data centers, again, this kind of installation materials which are of a different level of quality because of high-quality requirements of data centers and high capacity fiber optic cables. In telcos, you mostly require fiber optic cables starting from two fiber going up to 288 fiber mostly. Nowadays, some demand is there for higher count of fibers also for FTTH solutions by large telcos internationally. For India, mostly it is limited up to 288 fibers.

But in data centers, the demand is for more than 1,700 fiber per cable in each cable going up to 3,400, 3,800 fibers in the same cable. So these are very high technology and high count of fibers in the same cable, which we are developing. From 1,764 fiber cable we have already developed. Some 3,400 fiber cable is under development and under trial also. So these would be the equipment for data centers.

But again, as I said, this would be used by some telcos also. So telcos as well as data centers would use this. PCS connectivity solutions there will be a different grade of quality for data centers than the telcos which use for underground and over ground project.

Moderator: Sorry to interrupt, Mr. Kapoor. We request that you return to the question queue for follow-up question as there are several participants waiting for their turn. The next question is from the line of Purva Shah from Perfect Research. Please go ahead.

Purva Shah: Congratulation for the good set of numbers, sir. I just had two questions. One, looking at the numbers for the quarter, we see that the tax rates have fallen. What is the reason behind that, sir?

Mahendra Nahata: Our CFO would like to explain that. May be Mr. Vijay Jain, you can explain.

Vijay Jain: Please repeat the question

Purva Shah: Tax rate has fallen quarter-over-quarter, sir. What could be the reason behind that?

Vijay Jain: So we had some long-term carried forward losses in past. And because of this, some notional income on some of the investments which got listed recently, so we had to create that deferred tax asset. So that is why it is bit low relatively.

Purva Shah: Okay. And my second question was about the Poland capex that we are doing. What could be the completion guideline for that?

Mahendra Nahata: Look, we are right now working on acquisition of land and all that which is in advanced stage. The total capex anticipated from that facility for about 3.5 million fiber kilometers equivalent cable is about INR145 crores.

Purva Shah: Okay. Sir, I wanted a time line about when could that capex be actually commercialized?

Mahendra Nahata: Project, we would expect this to be commercialized in within the calendar year '25.

Purva Shah: So in about six, seven months it could be commercialized and...?

Mahendra Nahata: No, a little more than that. I would say a little more than that, nine months, something like that.

Purva Shah: Thank you, sir. All the best for the future.

Mahendra Nahata: Thank you.

Moderator: Thank you, sir. The next question is from the line of Dipesh Sancheti from Manya Finance. Please go ahead.

Dipesh Sancheti: Yes. Most of my questions have been answered but I just had a query regarding this recently what happened with Cloudstrike all over the world. Do we see an opportunity here with our networking products?

Mahendra Nahata: No. This is a different thing which happened. Unfortunately, there is no opportunity lost or opportunity gained by us because of this, because this is a failure of a cloud system, which was Microsoft, as we all know. Either there is no loss of opportunity or no gain of opportunity because of this for us. Unfortunate, which happened.

I was in U.S. I had to go to some place. Flight just didn't go. There are thousands and thousands of people in the airport. No place even to put your foot. So you had all to come back. This is one thing which tells you how good technologies are but how bad technologies can be. One person acting in one company got down whole world on the knees. Can you imagine that? But no impact on us either way.

Dipesh Sancheti: Okay. So I had just this question. All the very best for the future. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question. I would like to hand the conference over to management for closing comments.

Mahendra Nahata: Should I give my closing comments if there are no questions?

Moderator: Yes, sir.

Mahendra Nahata: Good. So friends, I have outlined our performance of quarter one, our expectation for future. Most important point I would again try to reemphasize to all of you that the Company is very optimistic about its growth in near term and longer term. And the basic reason of that is we have concentrated on developing products ourselves with our own IPRs, which results in lower cost.

Though it needs a lot of effort, a lot of hard work, but with our own IPR it's not only the lower cost, we can modify the products as required by the customer. As I just now said before a few minutes, fixed wireless access customer wanted some modifications to be done to suit their installation practices and applications, we have been able to do that. If I was taking technology from somebody else it would not have been possible to make sure of that.

Now, most important point is that we have created a diversified product portfolio within our product area not that we have gone into products which are not related to us. All are either telecom or like different electronic products. Now, in fiber optic cable business, interval slowdown, we have taken steps to go into passive connectivity solution and data centers. We have created good product range of defence products, good product range of telecom products.

So with this kind of a diversified product range, we are insulated from any downtrend in any particular segment. Downtrends can happen on any of the segments at any point of time. That's a phenomenon in every business. But the good part is that management should be able to foresee all that and take steps to broaden the product range so that any downtrend in any particular segment does not impact the overall performance of the Company and the growth keeps on happening. So those are the steps we have taken in the last couple of years and now they are showing results.

As an example, INR143 crores of revenue last year in telecom products is going to be INR2,000 crores this year. So in spite of slowdown in cable market, our revenue performance would not be impacted. So these are the steps we have taken to make sure that our growth is sustainable as well as it's rather profitability and revenue both increasing. Now another important point is the defense products. We spent a lot of efforts and money also to create a defense product portfolio, which is now showing results. I may be able to give some good news very soon in terms of acquisition of orders for defense products.

So what I'm trying to say, we look towards future of very good optimistical manner because of diversified product portfolio, because of increased product range, our R&D and increase in customer base indigenously and geographically worldwide. Moreover, projects like BharatNet Phase III is also expected to give us much increased revenue in the next few years. Though that tender is yet to be bid and finalized but we expect good opportunity from that also. So good future lies for the Company as the management best expects in near future and longer term. And we will keep on our focus on R&D, development of a diversified product portfolio within our range of products so that revenue and profitability growth both are sustained. Thank you very much, friends and see you all again next quarter. Thank you very much.

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

Mahendra Nahata: Thank you.