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HFCL/SEC/19-20

August 06, 2019

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Security Code No.: 500183	**Security Code No.: HFCL**

Subject: Transcript of Investors' / Analysts' Conference Call on Q1 Financial Results.

Dear Sir(s)/ Madam,

We hereby submit the Transcript of Conference Call dated July 11, 2019, on un-audited Financial Results of the Company for the First Quarter ended June 30, 2019 of the Financial Year 2019-20, on Standalone and Consolidated basis, which were considered and approved by the Board of Directors of the Company, at its meeting held on July 10, 2019.

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

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

Thanking you,

Yours faithfully,

For **Himachal Futuristic Communications Ltd.**

Himachal Futuristic Communications Ltd. *

(Manoj Baid)
Vice-President (Corporate) &
Company Secretary

Encl: Copy of Transcript.

Himachal Futuristic Communications Limited
Q1 FY 2020 Earnings Conference Call
July 11, 2019

Moderator: Ladies and Gentlemen, Good Evening and welcome to the Himachal Futuristic Communications Limited Q1 FY 2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pranav Khandwala from Valorem Advisors. Thank you and over to you, Sir.

Pranav Khandwala: Thanks Stephen. Good Evening everybody and a warm welcome to you all. My name is Pranav Khandwala from Valorem Advisors. We represent the Investor Relations of Himachal Futuristic Communications Limited. On behalf of the Company and Valorem Advisors, I would like to thank you all for participating in the Company's Earnings Conference Call for Q1 FY 2020.

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

The purpose of today's earning conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

I would now like to introduce you to the management participating with us in today's earning concall. We have with us, Mr. Mahendra Nahata -- Promoter and Managing Director; Mr. Vijay Raj Jain -- CFO; Mr. Manoj Baid -- Vice President (Corporate) and Company Secretary; Mr. Hemant Sachetee -- Vice President (Corporate); Mr. R.Raghunathan -- Vice President (Investor Relations).

Without much delay, I request Mr. Nahata to give his opening remarks. Thank you and over to you, sir.

Mahendra Nahata: Thank you Pranav for your kind introduction. And Good Afternoon everyone. I am delighted to extend a warm welcome to HFCL's earnings conference call for the first quarter of financial year 2019 - 20.

I trust that all of you had a chance to go through the quarterly results that we announced yesterday, that is 10th July, 2019.

Let me now start with a brief introduction of the Company and its business activities. HFCL offers fully integrated communication networks solution, manufactures Optical Fiber Cables High-End Transmission and Access Equipment. It is specialized in providing turnkey solutions for Telecom Service Providers, Railways, Defence, Smart City and Surveillance projects.

We have state-of-the-art manufacturing facilities which include two Optical Fiber Cable manufacturing facilities, first at Verna in Goa and other one is of our subsidiary HTL Limited at Chennai. We have an equipment manufacturing facility at Solan in the state of Himachal Pradesh. Apart from that, our subsidiary HTL's manufacturing facility at Hosur in Tamil Nadu produces FRP rods and IGFR which are the raw materials of Fiber Optic Cable. Our fifth manufacturing facility, a Greenfield Optical Fiber Plant in Hyderabad has entered its last phase of construction and shall get commissioned by November 2019 which will further strengthen our manufacturing capabilities.

In our business journey of over three decades, we have actively partnered in India's communications evolution through its multiple phases. We have steadily built capabilities across manufacturing of a range of new age communications equipment and Optical Fiber Cables on one hand and design, development and management of advanced communication networks on the other hand. Over a period, we have leveraged our strengths in modernizing communication networks of Railways, Defence and Smart City Mission through our dual play of products and solutions.

Our diverse businesses can be categorized into two blocks. First being our business of products, equipment and network solutions for the telecom industry, which has been growing from strength to strength. The second block consists of new business divisions of Railway and Defence for both products as well as solutions, which have started making breakthroughs and the true unlocking of their potential may be visible from FY 2021 onwards.

Intensification of our R&D initiatives for development of new products and technologies to cater the upcoming market demand for Telecom, Railways, Defence, Smart and Safe Cities, coupled with focus on better margins are the key pivots of our strategy. From an operational standpoint we are strengthening our organization capabilities, towards governance, risk management, fiscal prudence, talent buildup and sustainable development. All these will help in driving and managing the next phase of our growth.

I would like to mention that while this can be termed as an excellent quarter for HFCL, what is more remarkable is the consistency with which we are able to deliver stellar performance.

Now I will request Mr. Vijay Raj Jain -- our CFO, to present the highlights of our performance for the quarter under review.

Vijay Raj Jain: Thank you Sir and a very good afternoon to all of you. As stated earlier, a clear strategic goal that we are pursuing is steady enhancement of profit margin along with revenue growth. You would be happy to note that the initiatives taken during the last couple of years have now begun to deliver the desired results, as evident in our Q1 FY 2020 performance. Our income for the quarter stood at Rs.1,349 crores as compared to Rs.1,094 crores in the first quarter of FY 2019, which is an increase of 23% on year-on-year basis.

EBITDA for the quarter has more than doubled to reach Rs.194 crores up from Rs.95 crores in Q1 of FY 2019. We enhanced our EBITDA margin by an impressive 5.69%. Consequently, EBITDA margin stood at 14.40% for the current quarter, up from 8.71% recorded in the corresponding quarter of the previous financial year.

PBT for the quarter has gone up from Rs.73 crores in Q1 of FY 2019 to Rs.157 crores this quarter. PBT margin improved to 11.67% as against 6.68% in Q1 of FY 2019.

Profit after tax stood at Rs. 117 crores for the current quarter as against Rs.47 crores recorded in Q1 of FY 2019. PAT margins had doubled to 8.68% as compared with 4.32% in Q1 of FY 2019.

I would also like to update on a few other aspects. During the quarter, CARE has reaffirmed credit rating of A- with a stable outlook for Company's long-term banking facilities. Gearing continues to be at comfortable level of 0.39.

We close the quarter with an outstanding order book of Rs. 10,275 crores, which translates into 2.4 times of our FY 2019 revenue. You will be happy to note that in addition to the above, HFCL and its subsidiary HTL Limited have won further orders aggregating to about Rs.400 crores in the current month. Our order book pipeline remains strong and ensure desired visibility. Thank you very much for your continued interest in HFCL.

With that, I would like to open up the floor for any questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from Malay Shah from Indsec Securities. Please go ahead.

Malay Shah: I have a couple of questions. So, first of all, I just wanted to understand that with the shift to 5G, the current line of equipment that we manufacture, will those become obsolete? Will we need to shift them? Will we need to come up with new equipment? How will it work?

Mahendra Nahata: Look, you know, with the coming of 5G, none of the equipment which we are manufacturing is going to obsolete. In fact, Fiber Optic Cable, which is one of our main products will continue. There will be more demand of Optical Fiber Cable whenever 5G comes. We are also developing certain equipment which will be specifically required for 5G, which are not required at this moment of time. We are designing those equipment, like for example, V-Band radio which will be required for backhauling of the 5G traffic, high capacity Wi-Fi system, which will be required for offloading the voice on the Wi-Fi system. Those are specific equipment. There will be additional requirement, which we are designing. So, to answer your question, no, nothing of our present product becomes obsolete with coming of 5G. Rather more products will be required which we are either designing ourselves or we will bring in through technology partnerships.

Malay Shah: Okay, understood. And the next question Sir, is the recent surge in our order book with the digitalization of the economy. In the long-term Sir, how sustainable is this? So talking about more than next one year or two years, how sustainable is this?

Mahendra Nahata: It is very sustainable because all our customer segments are expanding their network and with FTTH network being created in the country and 5G coming in, there will be further increase in demand. And that creates more business for us in the public communication side of services. Defence is also modernizing its network at a rapid pace and new requirements are coming. So there will be additional demand from that end. Then demand from Smart Cities for communication network and their modernization approach will be there. So likewise, if I go through our various customer segments, each of them are expanding their network or modernizing their networks. So I believe that, there is no reason to think that there would not be any sustainability rather we think that market size is going to increase with 5G coming in, FTTH and Security and Surveillance areas. Again the market size is going to increase, which will give us enhanced order book.

Moderator: Thank you. The next question is from the line of Bhupendra Tiwary from ICICI Securities. Please go ahead.

Bhupendra Tiwary: I had specifically two questions. One on the industry, other is largely on the industry but specific to your case. First is, if you can throw some light on the overall demand scenario, global fiber demand scenario and the pricing per se I mean, how does it stand right now? And does the pricing kind of change for customized kind of Fiber which the big players make or is it same level for all types of Fiber? Second is, basically, we were going through news reports wherein we saw that a lot of companies are having dues from BSNL, I mean to the tune of up to Rs. 2,500 crores and some of them were also related to BharatNet. Just wanted to understand our exposure to BSNL and have we taken further orders and what is the visibility on those, sir? Thank you, sir.

Mahendra Nahata: Bhupendra, good question. First let me come to the global demand of Fiber. In fact, for the calendar year 2018, the total demand was roughly about 600 million fiber kilometer. And what happened, China suddenly slowed down, where China was consuming 300 million out of this 600 million. China's demand went down to about 200 million to 210 million which resulted in demand in 2019 coming down to 500 million to 510 million instead of 600 million. There is a capacity that has already been created for about 600 million of fiber, as a result of that it has happened. Coming to your next question on the price, Price of fiber has gone down drastically. Today, what we are buying fiber on a long-term basis not on a short-term basis at the price in terms of Indian rupees delivered to our factory at about average of Rs. 310 per fiber kilometer. If you translate it into an FOB price, it comes to around $3.75 to $3.8 per fiber kilometer at the moment and this is from reputed manufacturers of global eminence. So, what used to be the Fiber price internationally at $8 per fiber kilometer, today has globally come down to less than $4. Today it is $3.75 to $3.8 dollars FOB at which we are buying currently from leading manufacturers. So, that was the answer on your global demand of fiber and the price of fiber. Second, in terms of BSNL, BSNL, of course, has been going through some financial problems as we have all been reading in newspapers and we have been experiencing that. But I believe this situation would be corrected soon as you would be also reading in newspapers that Government is now coming up with revival package for BSNL and MNTL, which I have read in the newspaper is about Rs. 74,000 crores. That would ease up the position of BSNL, MTNL not only in short-term but long-term also because they are talking of VRS and all that will reduce their operational costs in terms of salaries and wages. Now, coming to the dues, in fact, we do not have any dues on the BharatNet specifically with BSNL but our dues with BSNL are for BSNL project which are about Rs. 250 crores. Now, this Rs. 250 crores, we expect to receive once this bailout package or the revival package is given to BSNL. This should happen in my personal opinion in next couple of months. And then we expect this money will be received from BSNL. In terms of dues of BSNL, we have another kind of dues which is for NFS, Network for Spectrum projects which is a Defence project. However, that is not dependent upon BSNL. That money is reimbursed by DOT, so BSNL is just a pass through. There is no issue in that receivable and it comes in time as you submit the bills. Money keeps on coming. Number two, your question on taking more orders from BSNL? Answer is No. From BSNL, we are not taking any order. In fact, we had received, APO, advance purchase order of Rs. 150 crores for micro radios, which we have not accepted precisely for this reason.

Bhupendra Tiwary: Fair enough. So, we have taken other orders of NFS wherein, it is not dependent on BSNL, but pure BSNL orders we are not taking right now is what I understand, right?

Mahendra Nahata: You are absolutely right.

Bhupendra Tiwary: How long has it been? If you can tell us the timeline?

Mahendra Nahata: It has been anywhere between 60 days to probably 180 days.

Bhupendra Tiwary: Fair enough and the cycle is three months I believe.

Mahendra Nahata: Normally that but you know this is high.

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

Saket Kapoor: Sir, firstly I would like to congratulate the team for the improvement in margins and just wanted to understand sir, that what factors did really play out? Was it the product mix or how was this possible and what is the sustainability going forward, sir?

Mahendra Nahata: There have been multiple factors, one is of course the product mix and revenue mix. You know , certain projects which we are executing and certain products we are supplying have a better profit margin. It has played a role in increase of margin. Number two, lower fiber prices have also contributed. If you look at our margin in terms of our products, it has gone upto little more than 15% from 10.85% on year-on-year basis last quarter. This has been possible because fiber prices have gone down whereas on certain orders which we had, we were supplying at the earlier prices where we had taken the order. Further, our efforts towards bringing in efficiency and reduce costs have also contributed and have resulted in better profit margins in terms of product business. Now, about sustainability of this margin, considering current order book mix, future bidding strategies , focus on cost optimization and efficiency improvement, margins are sustainable Further, the new products which we are developing and O&M revenues shall return better margins.

Saket Kapoor: Sir, then what portion of your order book still has that old orders where you will be getting the benefit of the lower fiber prices?

Mahendra Nahata: That would not be much. It would be something like less than say Rs.600 crores or Rs.700 crores.

Saket Kapoor: And that will entirely get executed over the next quarter, full benefit will be done by September half or will it percolate to the third quarter also?

Mahendra Nahata: It will percolate to the entire year.

Saket Kapoor: To the entire year but the majority of that has gone booked in the first quarter, this much we can assume?

Mahendra Nahata: Not majority of them. Some of them.

Saket Kapoor: Sir, if you could throw more light on the order acquisition that we have got for the first quarter, total order acquisition, sir?

Mahendra Nahata: Order acquisition in terms of first quarter is we have been receiving APO's of course. Advanced Purchase Orders but which are yet to be converted in PO. That was roughly about Rs. 2,000 crores.

Saket Kapoor: Rs.2,000 crores. So in 10,250 it includes that Rs.2,000 crores?

Mahendra Nahata: Yes.

Saket Kapoor: Correct, sir. So you were speaking about the fiber prices being halved over what the average used to be. So, sir, how viable will be this vertical integration about the Hyderabad plant coming up with the fibers and then the manufacturing OFCs. What is the price at which the viability is sustained sir, for the plant?

Mahendra Nahata: Right now, if you look at the purchase price and the price at which we will be producing more or less matches, it will not generate any additional profit for sometime as this is a cyclic market. You know, it is not only the pricing, it also improves our supply chain management in terms of fiber availability at the time when there is a short supply. But to answer your question specifically right now, we are at par but may be in a couple of years when the fiber prices improve it may be better. But we remind you one thing, out of our total requirement of roughly about 19 million fiber kilometer our plant is going to produce only 6.4 million fiber kilometers.

Saket Kapoor: Okay. So, we will be dependent on the market even after that?

Mahendra Nahata: Of course, we will be buying two-third of our fiber still from the market and which as I said has become quite competitive. We have seen that the prices have come down drastically. Today we are able to source fiber at $3.75 to $3.8 dollar on FOB basis and Rs. 310 delivered to our factory including all duties.

Saket Kapoor: And what was the average sir for last year sir, today it is 310 will be compared to what figure?

Mahendra Nahata: I would say in dollar terms, this $3.75 would be compared to roughly about $8.

Saket Kapoor: $8 for the last year.

Mahendra Nahata: Average could have been a little lower but it was around $8.

Saket Kapoor: Okay. And sir, for the O&M part, what was the revenue for this quarter, the operation and the maintenance, how much revenue we have booked for the first quarter?

Mahendra Nahata: In this quarter it was Rs. 14 crores.

Saket Kapoor: Only Rs.14 crores. So our presentation did speak about Rs.1,650 crores, the size of the O&M. So proportionately sir, what would be the revenue?

Mahendra Nahata: Those are the projects under execution. There is going to be one year to three years warranty period in those projects and then the O&M work will start. So O&M will start kicking up after a year from now.

Saket Kapoor: Okay. So, this year sir, O&M will not contribute to the higher side, I think that is what your understanding?

Mahendra Nahata: It will start improving from Q3 onwards because some of the projects which we executed last year, they will start kicking in and that would improve O&M revenue. But total O&M in the current year is expected to be around Rs. 80 crores.

Saket Kapoor: Rs. 80 crores, out of which we booked Rs. 14 crores only for this quarter.

Mahendra Nahata: Absolutely.

Saket Kapoor: No, just one brief point, I will come in the queue. Sir, taking into account the business sentiment, the state of economic and the appetite and the state of economy for the corporate, how do you think that the appetite for 5G will be relevant in today's realm of things? And this is my last question. And I will join the queue for another three questions. Thank you.

Mahendra Nahata: 5G is absolutely relevant. If you see in telecom, technology changes and the new technologies have to be brought in. If any operator does not bring in the change, then he has a problem in survival. So, when the technology goes to 5G worldwide, India will also go into 5G technology and you know number of operators are going to bring in 5G. 5G is going to come and if one operator brings in then everybody has to bring in.

Saket Kapoor: But sir, health of operator is also important.

Mahendra Nahata: Health of operator is important but number of operators have good health you know.

Saket Kapoor: Anyways sir, my opinion was barring Jio, Bharti, and Vodafone all are struggling.

Mahendra Nahata: Well, I would not comment on anybody in individual because they are our customers but if Jio when you are saying that they are healthy and if Jio brings in 5G others have to bring in. Similarly, Jio brought 4G, everybody had to bring 4G.

Moderator: Thank you. The next question is from the line of Harshit Patel. Please go ahead.

Harshit Patel: Sir, my question was that you have just indicated that the prices of Optic Fiber have fallen below $4. So, sir, right now, what would be the prices of Optic Fiber Cable that we sell as an end product?

Mahendra Nahata: Look you know Harshit, Cable price also depends upon size of the Cable. If it is 48 Fiber Cable the price is something. If it is 288 Fiber Cable, price is different. So, we cannot say what is the price of Fiber Optic Cable. But if I translate that into terms of Fiber on an average basis, it would be around Rs.900 to Rs.1,100 per fiber kilometers, it is a very rough translation, very crude translation, but that would be so.

Harshit Patel: Okay. So sir, this Rs.900 to Rs.1,100, what was it last year?

Mahendra Nahata: Last year it would have been about Rs.1,100 to Rs.1,300 maybe.

Harshit Patel: Okay. So, sir I understand that the fall in fiber prices is more than the fall in fiber cable prices. So why would it had been the case when fiber is a more technically intensive product than the cable?

Mahendra Nahata: Look there has been decrease in the fiber prices but fiber is not the only raw materials, there are other materials also in cable. Fiber would be let us say 40%-50% of the raw material costs and there are other 50%-60% raw materials. So, percentage wise, it cannot be the same because fiber in some case is 40%, in some cases 50% of the raw material costs, that has gone down. Other costs have not gone down. In one or two cases they have gone up like aramid yarn, they have little bit gone up. So, there cannot be a direct comparison. But yes, there has been a reduction of roughly about I would say 15% in the cable prices also.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: My question pertains to your gross margin. And based on the answers that you have given previously, it appears that it seems to be a short-term benefit due to fall in fiber prices. So, would this continue because the jump in margin has been quite substantial compared to the past?

Mahendra Nahata: Tushar that is only one of the factors and if you look at our product mix on the segmented basis, Cable is only roughly about 25% of our total revenue. So, the contribution of reduction in the fiber price is only to that extent. Roughly about 75% of revenue is from the turnkey project execution. So, margin increase is coming from that direction in terms of higher turnkey execution rather than the fiber alone.

Tushar Sarda: So what is the reasons sir therefore increase in the turnkey product margin because you know, in one quarter the jump is quite substantial. So, what is the different that you have done or what are the changes that have happened that you know the margins have gone up so much?

Mahendra Nahata: One is that you know product mix. The product mix has been such that the contracts which we are executing at present are contributing good margins and these are the contracts which are going to continue for two years. Second, the whole efficiency factor has also kicked-in because we have been trying from last number of quarters to increase our efficiency and reduce our costs. So, if you look at the costs, they have not gone up in the same proportion as the revenue has gone up. So that has also resulted in better margin. So, revenue mix, efficiency, better utilization of resources as well as a good product mix as I said, have all contributed to better margins and these are sustainable because these orders are going to continue for next couple of years. We have also decided to be margin efficient for future biddings. Development of our own new products and O&M revenues will also get us better margins.

Tushar Sarda: So we can assume 13% - 14% EBITDA margins will continue for the current year and the next year at least?

Mahendra Nahata: So, I would not give any forward-looking guidance, but yes, I can say that same orders are going to continue and it should be sustainable.

Tushar Sarda: Okay. And your order book is around Rs.10,000 crores. So, what is the timeframe for execution that gets executed in next three years?

Mahendra Nahata: Well, different orders have to be executed in different time frames. Fiber Optic Cable orders are two months - three months basis. Some of the contracts are going to be executed in 9 months to 12 months. Some are going to continue for 12 months to 18 months.

Tushar Sarda: Okay. And would you give any guidance for turnover this year and next year?

Mahendra Nahata: I would not give any guidance but the order book is there and the first quarter results are in front of you please. So you can draw your own inference.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, can you highlight on the duty structure changes which has come in this budget? how they will impact us and what was the import content till now in India for that OFC?

Mahendra Nahata: Look, Sanjay, there has been increase in duty of Fiber Optic Cable by 5% and there has been increase in duty of 5% on fiber also. Now, in terms of increase in duty on Fiber Optic Cable, it is going to help us all local manufacturers because import particularly from China will become costly because there is now additional 5% duty, which was 10% earlier now it has become 15%. So, it helps local manufacturers. In terms of increase in duty of Optical Fiber by another 5% that is from 10% to 15%, it does not matter much to us because one, fiber is only one part of our raw material cost. But second, most importantly, our buying of fiber mostly it is from local sources. We buy from producers which are in India locally and as I said, our average purchase price right now is Rs.310 per kilometer delivered to our factory and that is not going to change.

So, one, the fiber though it is a main raw material but percentage wise, it is much less. Therefore, the impact is not that much visible. But moreover, our buying is all local, so import duty does not impact us. In terms of increase in cable duty, it helps us in terms of competition.

Sanjay Shah: So sir, in fiber, we procure from Corning, correct me if I am wrong.

Mahendra Nahata: They are one of the major suppliers.

Sanjay Shah: From Pune?

Mahendra Nahata: Yes.

Sanjay Shah: Sir, now, we have IPR ownership. So can you help us to understand what is this ownership and how it helps us and what will be benefits to us in future?

Mahendra Nahata: Now, we are constantly endeavoring to design more and more products in our Company. And that increases our IPR. And once you have IPR, you have ownership of the product. It is your own product, and raw material cost is in your hands. You are not buying any specific customized chipset or anything from anybody that helps you securing your components and better prices. So, it helps reducing our costs. So, with the cost reduction, our competitiveness becomes better and profit margin increases.

Sanjay Shah: So, can you name few of the products which we have this IPR?

Mahendra Nahata: Yes, sure. should One example is that of the software which we have for Security and Surveillance. It is our own product and where the software ownership is with us. Then the Wi-Fi product which we have created just now and that is under our ownership. Then UBR, Unlicensed Band Radio, which is a micro radio backhaul, that is our own ownership. Then cloud-based management system is a software product, which is again our own product, which is completely our ownership. So these are few examples. And right now, we are working on few more products, which include Defence products like Electronic Fuses which I had mentioned in my last conference call also, which is under design with an R&D partner. We are also now taking up design of surveillance radars in our R&D facility of our subsidiary Company Raddef which we had acquired last quarter in Bangalore. So we just designed some of them and some we are now undertaking to design.

Sanjay Shah: Sir, continuing to that your reply, can you guide us, when this all products will be revenue accretive?

Mahendra Nahata: Like Wi-Fi and UBR and this cloud-based network management system, they would all start giving revenue in probably I would say third quarter of the current year starting from somewhat from second quarter but mainly starting from third quarter. Major revenues will start accruing from the next financial year from products which are UBR, Wi-Fi and cloud-based network management system. The other products, which I am talking about like Electronic Fuses and the Surveillance radar etc., I would say revenue from those products will start coming from the financial year which is 2021 - 2022.

Sanjay Shah: Okay. So, these all three products which we take into account, what size you see that opportunity in India market?

Mahendra Nahata: Opportunity is very big. Wi-Fi for example will be required in millions. UBR is completed, V band is under design which will be completed in quarter three to quarter four. There is huge potential. I would say you know couple of thousand crores. The whole idea Mr. Sanjay, what we have is one we have strong order book ensuring sustainable revenue going forward and with our own designed products will see higher profitability.

Sanjay Shah: Great, sir. Sir, good luck to you. And my last question to Mr. Jain, what will be a tax obligation this year percentage wise?

Vijay Raj Jain: Tax obligation will be 34% but the payout will be 22% only.

Sanjay Shah: Because of MAT or?

Vijay Raj Jain: Because of MAT.

Moderator: Thank you. The next question is from the line of Dalpat Mehta from Suncity Advisors. Please go ahead.

Dalpat Mehta: So, my question is regarding, first this OFC, what I assumed it with the capacity expansion at Hyderabad, the total capacity will be 22 million fiber kilometer cable, okay? So, will you tell please, what is the market share of the HFCL and how much is the capacity utilization versus the full capacity installed and how much revenue it will be part of the total revenue as you told that at present it is 25%. Second thing is regarding you have given figures for the international global demand and capacity of around 600 million and 500 million. So can you tell what is the capacity and utilization in India? And the third one is your interest part has gone from Rs.15 crores to Rs.22 crores in this quarter. So what is the debt situation, the total debt and the interest part for the year and how you plan to reduce it?

Mahendra Nahata: Answer to your first question is that I informed over the last conference call that we have put on hold our Hyderabad capacity expansion for Cable. We are completing the civil works of that plant but not installing machinery because of the lowering of the cable demand at this point of time. Whenever our cable demand increases, we will be able to put up the machines and start the facility very quickly. And we have spent about Rs.11 -12 crores for creation of civil facility and around Rs.8- 9 crores more spend in next few months' time. So, Hyderabad capacity is put on hold without there being any machinery bought. So, that is the first point I would like to highlight. Current capacity including our factory in Goa and Chennai right now is about 15 million fiber kilometers, which is now getting extended to 18.5 million fiber kilometer with the current expansion which is going on in Chennai. And we expect that on overall year basis, we will be able to use 100% of this capacity, capacity utilization will be almost 100% for this 15 million plus 3.5 million which is being added now 18.5 million. In terms of our revenue, we expect to be roughly about Rs.1,600 crores from the Fiber Optic Cable business. Because capacity of 18.5 million from 15 million shall come into effect during the mid of this year.

Dalpat Mehta: So it will be around 33% of total revenue?

Mahendra Nahata: I do not know how much is the total revenue. But I think, it will be less than that.

Dalpat Mehta: Yes, just an estimate. And the Indian demand and capacity and interest part?

Mahendra Nahata: Look, Indian demand is roughly about 40 million to 50 million fiber kilometer at this point of time. In the future, we have FTTH coming in, 5G coming in and the slowness which is happening now going away, this demand may increase to 60 million to 70 million. Right now capacity utilization on overall basis in terms of entire industry, I would suspect it is not more than 50%, on overall industry basis. But we are not impacted by that because we have some of the customers which are our long-term customers and they buy cable from us. Further, we are exporting to large number of countries and we also supply to turnkey implementation partners of the BharatNet project, like Larsen & Toubro, Tata, ITI, Bharat Electronics. These are the kind of companies we supply, who are implementing the Fiber Optic Cable projects on a turnkey basis for BharatNet. So we are not much impacted by this slowness, except the fact that we have put the Hyderabad facility on hold because we saw that if we put up that kind of additional capacity of 10 million, we will not be able to utilize it fully. So we have put that on hold. And also, the question of interest Mr. Jain will answer.

Vijay Raj Jain: So our gearing is very-very comfortable at 0.39. The total borrowing as on 30th June was Rs. 634 crores, which is not much. But the increase in finance cost is because there is a change in revenue mix and the customer profile. So, we are executing lot of projects for this BharatNet and Defence and other customers where we are required to submit bank guarantees and then for procurement, we are required to open some LC's also. So a lot of non-fund based limits are required. So that has increased our finance costs. And secondly, there has been change in one Accounting Standard -116 on Leases this year. So part of the rent is booked as finance costs as per the Accounting Standards. So that has increased the finance cost.

Dalpat Mehta: Sir, we are also exporting to this Trans Adriatic and can you tell me what is the export percentage versus domestic for OFC?

Mahendra Nahata: This Trans Adriatic is finished long ago, it is no longer there. This was a project which finished couple of years ago. So, that is not the current project. But last year FY 2019, exports were close to Rs.100 crores. This year we expect it to grow because we are increasing our presence in the export market. The target of export is about Rs.400 crores to Rs.500 crores in three years' timeframe.

Dalpat Mehta: So this 4x to 5x.

Mahendra Nahata: Yes, roughly about 4x to 5x.

Dalpat Mehta: Okay. Sir, last question, about the Smart Cities. How many orders we have for the Smart Cities or is completed or going on?

Mahendra Nahata: Look, I would not call it Smart Cities. It is more of the Surveillance related projects. We call it Smart& Safe City and Surveillance projects. These are not only city based but for example, Air Force comes out with tenders of Surveillance systems for their bases or Army comes out for cantonment, Railway has come out with large tender for some 700 Railway Station Surveillance. So, these are Surveillance projects. We have not taken into account any revenue projection in the current year. We expect that revenue will start in form the next year from some of the tenders which we are participating in this year. This is another area which we have taken for our business in the next year to ensure sustainability of the revenue. Apart from this, another area as I informed last time in my conference call also is that, we are taking up Railway signaling. So Railway Signaling, Surveillance products, Defence products, these are going to bring in more sustainability to our business and more profitability also. So that is how it is.

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

Saket Kapoor: Firstly, sir, I was just missing the link, which project will be commissioned and which is put on hold?

Mahendra Nahata: Optical Fiber Project would be commissioned around November and Fiber Optic Cable's new project which we were doing in Hyderabad has been put on hold.

Saket Kapoor: Okay. Secondly, sir, how have been the pre-form prices from which the Optic Fibres are prepared and what is the availability scenario in the market?

Mahendra Nahata: Look, as far as availability is concerned, it is abundant right now because as the fiber capacity had increased, the pre-form capacity had also increased. Right now, there is an excess capacity of about 30% for pre-form than the fiber manufacturing facility. The prices have come down which were roughly about $160 per kilogram in the last year as a peak of the demand, now it is less than $90.

Saket Kapoor: Okay, and this is going to be sustainable, since you are telling it is excess by a margin of 30%.

Mahendra Nahata: Yes, this is going to be sustainable. Till the time the cable demand does not go up, it is sustainable. If the cable demand goes up, fiber demand also goes up and if the fiber demand goes up pre-form demand goes up. Otherwise it is sustainable.

Saket Kapoor: Okay. Sir, in the EPC who are our nearest competitor? And sir, if we can take the entire size of the EPC segments in which we are operating what could be some percentage of our market share if you could give some idea on that?

Mahendra Nahata: Major competitors would be Larsen & Toubro, ITI, Bharat Electronics, Sterlite, Vindhya Telelinkin different segments we operate in. There are number of such competitors. There is no peer operating in all segments that we do. The total market size I have not estimated because it brings into Defence, it brings into Railways, it brings in Surveillance products, it also brings in BharatNet. do not have any number right now but it is going to be very-very large running into billions of dollars.

Saket Kapoor: Okay. Bharat Electronic is also a peer competitor.

Mahendra Nahata: Yes, it has come up as a competitor very recently.

Saket Kapoor: Okay. You have received order for Optic Fiber Cables I think so, this has been updated on the exchanges today itself, it is from Bharat Electronic only.

Mahendra Nahata: That particular tender we did not participate because we had given a quotation to Bharat Electronics, so we did not want to compete with our own possible customer. As Bharat Electronics won, they floated the tender, and we were L1, other manufacturers were L2, we got 70% of the contract, the other one got 30% at our price.

Saket Kapoor: Okay, sir. And sir, the previous order also 9th July which you got from the BSNL what was the total size of the order, sir, we got I think so Rs.187 crores.

Mahendra Nahata: Rs.186 crores and this was expansion of order for the NFS project of DWDM which we were already implementing.

Saket Kapoor: Okay. So, no other players were there, the entire size was our only or some other players were also there?

Mahendra Nahata: The entire order came to us.

Saket Kapoor: The entire order was to us only, sir.

Mahendra Nahata: The current contract which were executing, it cannot be to anybody else.

Saket Kapoor: Okay, sir. Sir, if I come to your Presentation part, there you have given capital market information also sir.We are very long-term investors and remain invested in your company for last more than 10 years now. So, what could be the factors wherein our stock prices have always languish and have remained below par then the peers also and what steps other than these the way you are educating us what else is needed to be done so that we can at least stand at par with the other listed player and in continuation to this sir, I would suggest that sir, you are meeting investors in conferences and holding con-calls also, you should also try to meet your existing shareholders in the metros. I am talking about the four metros of the country at least getting views from them with people who are still invested in your Company for over now I think so more than a decade. And one point about this preferential allotment, has this entire part being exercised by the promoter and the non-promoter category? The entire money has been received, 100%?

Mahendra Nahata: I will answer all your question one by one. Yes, number one, entire warrants have already been exercised, the money has been received. Number two, I welcome your suggestion that we should be meeting investors in four metros and we will definitely try to do that. Number three, when it comes to share prices, look we have no comments to offer in that. We can only say that we can educate investors about the Company, what it is doing, what is business and all that but on share prices we are not able to comment anything.

Saket Kapoor: Sir, in the non-promoter list in case of the preferential allotment, we found the name of Mr. Shankar Sharma also. So, what were the criteria on the basis of which the allotment was made to him?

Mahendra Nahata: It is preferential allotment.

Saket Kapoor: No, but how did we select Mr. Sharma only in the non-promoter category. How was he privilege to get the allotment, what was the process I would like to understand?

Mahendra Nahata: There were other investors also, besides Mr. Shankar Sharma, who belonged to non-promoter category. The preferential issue was made after complying with all the requirements of the Companies Act and SEBI Regulations.

Saket Kapoor: Yes. He is a prominent name, sir so I named him that was the point. And we should also sir come up with AGM dates also post our Q4 numbers to give clarity when the AGMs and the dividend would be distributed**.**

Mahendra Nahata: Board has not yet fixed the date of next AGM. It may be tentatively in the last week of August. We will inform as soon as it is decided by the Board.

Moderator: The next question is from the line of Abhishek Joshi from CGS-CIMB. Please go ahead.

Abhishek Joshi: Sir, any plans of the promoter in the future to reduce the pledged shares or release the pledged shares?

Mahendra Nahata: Yes, I can tell you, it is a good question and I must give you some details on that. In terms of pledged shares, if you look at of the total pledge, 49% of the shares are pledged to group of lenders of the Company. 75% of the said 49% is towards working capital loans of just Rs.75 crores that is Rs.38 crores fund based and Rs.37 crores non-fund based. So as and when the loans are repaid, we will be talking to the banks to release this pledge. So, this would mean that almost I would say 37% of the said 49% shares would be returned back to the Company once this loan is repaid which is about Rs. 75 crores not much.So, with this Rs. 75 crores liquidation, we should be able to release the said pledge.Then balance 25% of 49% is toward working capital loans of Rs. 1,424 crores out of which fund based is Rs.261 crores and Rs.1163 crores is non-fund based which we expect to continue for a longer-term as the working capital loans are there. Now 13% of the holding which is apart from the 49%, stands pledged against a project specific performance Bank guarantee (PBG) which we have given, so this I believe would be liquidated soon. Further, 7% of the holding is pledged on account of interim security for upcoming Fiber manufacturing facility in Hyderabad. This will also be released by March 2020. So in summary, 13% promoter holding on account of PBG, 7% on account of the term loan to Fiber factory would be released back in the current financial year, the 75% of 49% when the loans become due and we repay this will be released as well. So, one thing I would like to emphasize none of the promoters holding has been pledged against promoter's personal liabilities or any third party obligation. It is all for the purpose of the Company's loan, not for any personal or third-party loan. You can see the promoters have extended support to the Company by our pledge.

Abhishek Joshi: Sir, what kind of outlook is there on our working capital requirement because it has I think, increased quite significantly in the last one year or two years?

Mahendra Nahata: Yes, because the revenue has increased significantly and therefore, the working capital requirement has increased but most of it is non-fund based. And non-fund based is required for giving performance guarantee, EMD deposit, opening of LCs - letter of credit from the supplier. Fund based has gone up only marginally.

Abhishek Joshi: So what would be our working capital, it is right now? And what guidance can you give on that like in the coming quarters?

Mahendra Nahata: So right now we have sanctioned facilities of Rs.1,560 crores including project specific limit out of which Rs.300 crores are fund based and remaining are non-fund based. And current year, we are expecting further increase of around Rs.230 crores or so entirely in non-based. No fund based limit enhancement is being planned during current year.

Abhishek Joshi: No, no, I am asking all to working capital days.

Mahendra Nahata: Working capital days.

Abhishek Joshi: Yes.

Mahendra Nahata: Working capital days, we have significantly improved last year and we hope to continue with that cycle. So our debtors, I think it was 140 days it came down to 114 days.

V. R Jain: 114 days. So we expect to continue in the same range. And I would also like to add that at any point in time see, we always analyze the data at the end of the year or at the end of the quarter where it will always look to be on higher side because the most of the turnover or the dispatches take place or the billing happens in the last days of the month. And secondly, the turnover reflected is the net of GST, whereas the receivables are inclusive of GST. So those factors should be considered while analyzing these details. On gross sales basis, Debtors should be around 100 days or so.

Moderator: Thank you. The next question is from the line of Rajashree Dey from Vivriti Capital. Please go ahead.

Rajashree Dey: Sir, my question is you are having Rs.10,000 crores order book. How much of this is executable in the current year? And sir, what is the Jio's contribution in this entire order book?

Mahendra Nahata: Look, Jio's contribution is roughly about 20% and out of the current order, the executable portion would be roughly about Rs.2,500 crores to Rs.3000 crores .

Rajashree Dey: Okay, sir. And my last question is, there is any possibility of further equity dilution?

Mahendra Nahata: No, we do not foresee any such proposal at this moment of time.

Moderator: Thank you. Ladies and Gentlemen, as per the time constraint, I would now like to hand the conference over to Mr. Mahendra Nahata of Himachal Futuristic Communications Limited.

Mahendra Nahata: But you know, if there were questions, I am ready to answer, not a problem.

Moderator: Sure, sir. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: Yes, mine is more request rather than a question. I am not currently shareholder, but I like your results, in last two years - three years the growth has been good. But when I go through the presentation, there is really not much information to understand the business of company. So if you could include more information in terms of what products, what projects and what type of customers? That would really be helpful?

Mahendra Nahata: Sure. I think we have more detailed Presentation circulated in March and it is on the website. In that, you can find more details which includes the products and the kind of products we have, kind of clients we have etc.

Tushar Sarda: I will start to work through that. Thank you, sir.

Moderator: Thank you. The next question is from the line of Mehak Sethi from Almondz Global Securities. Please go ahead.

Mangesh kulkarni: Yes, this is Mangesh kulkarni here. Sir, I just wanted to know about we procure some of our fiber from the Corning. So what is their capacity in India? You have mentioned about overall capacity of around 60 million in the India

Mahendra Nahata: Mangesh, I have no idea what is the capacity of Corning our supplier.They do not divulge their capacities at all.

Mangesh kulkarni: Okay. And what percentage you take from them of our total this thing?

Mahendra Nahata: I think, we would be taking roughly about 70% from them.

Mangesh kulkarni: Okay. And do they have preform capacity also?

Mahendra Nahata: Right now, I do not think they produce preform in India.

Mangesh kulkarni: Oka. Sir, my question is about these Railways. We are very bullish on Railways and mentioning around Rs.70,000 crores kind of this business opportunity over the next few years. So, when do you expect to get these orders from the Railways?

Mahendra Nahata: The first for that kind of a business, opportunity has come up. There are four tenders expected. I do not know for how much but Rs.2,500 crores or something like that, okay. There would be probably one and we would be participating in them sometime in August and September. One can expect orders maybe around fourth quarter of the current financial year. Now, whether we get the order or not I do not know at this point of time but the orders would be placed in my opinion by Q4 of this current financial year.

Moderator: Thank you. The next question is from the line of Hardik Vyas from Economic Times. Please go ahead.

Hardik Vyas: Sir, I have a couple of questions. Sir, in the first-half of the calendar year 2019, what has been the order inflow for us and what is likely to be the pipeline going ahead?

Mahendra Nahata: I can talk about the current quarter. You know, in the current quarter as I said, we have received APO of roughly about Rs.2,000 crores for one of the Army projects which is part of this Rs.

10,275 crores which we have put up here. So, that is the one we received and the pipeline in future is good. There are a lot many tenders which have come up in our product areas, which we are going to participate and then for the regular customers, we keep on receiving orders of Fiber Optic Cable and those kind of things which keep coming on a regular basis. So, order pipeline is good, I do not have a problem with order pipeline. Rs. 400 crores orders have been received in last two three days. So order pipeline is not an issue.

Hardik Vyas: Okay. Sir, last quarter we discussed that BharatNet Phase-II is still languishing and it is slow. So, has the pace picked up and execution speeding up going forward?

Mahendra Nahata: No, I do not see much of action in that area because BharatNet Phase-II some of which have been awarded to State Government are either being executed or you know at a slower pace which I believe that pace will pick up in next quarter because the current quarter when rains are there, any way the execution is slow. So next quarter onwards this should pick-up. Couple of more projects to whom the state lead model has been given, they may start implementing the project like Tamil Nadu, like Telangana, Kerala they may start execution. So that part will pick up in a quarter from now. 11 states or 12 states where the tenders have been cancelled almost which were being done through BSNL, did not get awarded. There is a slow pace there, I do not see any pace there at this moment. Government is now talking of executing them under PPP mode. PPP tender has to still come and then players will be selected and then they would be awarded. So I do not see any action on that, at least for the current financial year.

Hardik Vyas: Okay. So NFS and other telcos would start with order inflows, but BSNL and other state is still going to be more or less frozen for the next year?

Mahendra Nahata: The state led models have been given projects and where they have awarded the tenders, the pace will pick-up from the next quarter after the monsoon. But wherever the projects were to be executed by BSNL that have been put on hold and would not see the light of the day for the current financial year in my opinion.

Hardik Vyas: Okay. And the other thing, last quarter, we had already spoken about the contribution of Jio going from 50-50 in the revenue mix to about 20 Jio and 80 rest of them. So we are on that path already.

Mahendra Nahata: We are already on that path. We are already there in the current quarter, we are already there almost.

Hardik Vyas: Okay. So out of the Rs.1,300 - Rs.1,400 crores about 20% is Jio that is how you view.

Mahendra Nahata: It is in between 20% and 25%.

Hardik Vyas: Okay. And someone asked you a question and you guided that Rs.2,500 crores to Rs.3,000 of the current order book would be executed in the remaining three quarters. So, that would be executed.

Mahendra Nahata: Roughly, yes.

Hardik Vyas: So that would amount to more or less the same kind of revenue that we had in the last financial year.

Mahendra Nahata: So we keep on receiving more orders and that will also be executed. This is the current order but there would be more order coming in, more order will be executed.

Hardik Vyas: So out of 10,000 crores we are expecting about Rs.3,000 crores.

Mahendra Nahata: No, this is a very top of the head number, we are comfortable for that but roughly about Rs. 2,500 crores to Rs.3,000 crores.

Hardik Vyas: Okay. And that would add to the Wi-Fi systems?

Mahendra Nahata: That would be in addition.

Hardik Vyas: Okay. So this is only purely services and Optic Fiber numbers that you are saying the Rs. 3,000 crores.

Mahendra Nahata: Absolutely, out of the current order book.

Hardik Vyas: Sir, last question from my side, we had some orders from Punjab, Himachal Pradesh, Madhya Pradesh for Gram Panchayat and BharatNet Phase-II so that is still happening, right? That is not…

Mahendra Nahata: Punjab is happening, Himachal Pradesh, Madhya Pradesh orders have not come up, those are in all the tender process. Madhya Pradesh, we had an APO from BSNL which as I said that BSNL orders all have been cancelled, we have also taken it out of our order book, it is no longer there.

Hardik Vyas: Okay. So that is adjusted order book is now looking at about 10.5 thousand crores, okay.

Mahendra Nahata: Yes, absolutely. The current orders.

Moderator: Thank you. The next question is from the line of Himanshu Damani from Emkay Global. Please go ahead.

Himanshu Damani: Sir, I joined the call late. So, I just wanted to know, what are the OFC prices and what has been the trend in last one year and sequentially from 4Q FY 2019 to 1Q FY 2020.

Mahendra Nahata: Himanshu, sequentially it is very difficult for me to give, but I can give you the overall picture. You know, in terms of Optical Fiber prices, as I said in the beginning itself, that prices which had gone up to $8 per kilometer of Optical Fiber have now come down to roughly about $3.75 to $3.8 dollars per kilometer or you translate into delivered into Indian rupees basis, it is on an average about Rs.310 per fiber kilometer, which was more than double of this last year. So, there has been almost 50% fall in the prices, $8 to less than $4 in terms of fiber. In terms of Cables prices because fiber is only one of the raw material in the cable, the prices have come down by roughly about, I would say, somewhere around 15% to 20%.

Himanshu Damani: Okay, sir. And any guesses how much more it could correct further.

Mahendra Nahata: I do not expect any further correction in the fiber prices because last one month or so, it has been holding almost not exactly but almost it has been holding. I think we have reached to the bottom, when I talked to $3.75 to $3.8 or Rs. 310 delivered to the factory from all reputed manufacturers. I am not talking of any B class manufacturers I am talking A class manufacturers. So I think now, it has come to a situation where it is going to mostly hold on barring some percentage of adjustment here or there.

Moderator: The next question is from the line of Swapna Kamat from Siddhesh Capital. Please go ahead.

Swapna Kamat: My question is under project segments, our margins have expanded quite considerably over the year. So you mentioned that the telecom products margins were higher on account of this fall in the Optic Fiber prices, but in case of this business what has drawn this margins and is it sustainable?

Mahendra Nahata: Swapna, can you repeat your question, I missed you in between.

Swapna Kamat: Okay. Sir, my question was on this projects business. Now our margins for the quarter have improving substantially. So for the telecom products, you said that the margins expanded on account of this lower Optic Fiber prices. So for projects business, what was the reason? Was there some component of the O&M that led to this margin expansion? And is this sustainable?

Mahendra Nahata: Swapna, it is not the O&M component, O&M has only been Rs.14 crores in the last quarter and year around it is going to be around Rs.80 crores so of course, it is going to contribute more in the coming quarters, but it was only Rs.14 crores, it did not have any major impact. In the project segment, the major reason of improvement was product mix, revenue mix which has changed and then our effort of bringing in more efficiency in the Company. And apart from more efficiencies, scale of operation and reduction of expenses have all resulted in improved margin. And since, these orders are going to be continuing in future also, the same orders are going to continue for two years, I do not have any problem in saying that these are sustainable margins. And in future as I said, that we e bring in more products with our own design and our own IPR, they will have better margins. So that would add to the sustainability of the profit margins and the revenue also. We are focused on margin also.

Swapna Kamat: Okay. And these projects were relating to which segment I mean, Railways, Defence, what were these projects?

Mahendra Nahata: These are on all areas.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Mahendra Nahata of Himachal Futuristic Communications Limited for closing comments.

Mahendra Nahata: Thank you very much to all of you for participating in today's conference call. And as I said, we will strive on building the Company in terms of profitability, in terms of revenue, in terms of margin, in terms of our own products. Market remains good and we believe that we will be able to utilize 100% of our capacity in Fiber Optic Cables business. More orders, we are expecting to come in the near future. So gentlemen, our effort will be to keep the continuity in the growth of the Company and sustainability on the Company's revenue and profits both. Thank you very much, gentlemen, and thanks a lot to all of you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Himachal Futuristic Communications Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.