

HFCL

Operator: Good afternoon, everyone. I am Bala from Arihant Capital. Today is the third day of the Bharat Connect Conference. I would like to welcome everyone to the HFCL Ltd. session. From management, we have Mr. PR Jain, CFO of the company, and Mr. Amit Agarwal, Investor Relations. The session has two parts: an introduction and recent business updates by management, followed by a Q&A session. Participants can raise their hands or enter their questions in the Q&A chat box. I now hand over the session to management. Yes, sir, you may take over.

PR Jain – CFO: Thank you, Mr. Bala. Amit will briefly give an overall perspective of the company, and then we will move into the question-and-answer session.

Amit Agarwal – Investor Relations: First of all, thank you, everyone, for taking the time to participate in Arihant Capital's conference and join us. I will quickly give a 10-minute overview of the company and the recent updates, and then we can start the Q&A.

If you look at HFCL today, the company has transformed from a predominantly project-led company into a technology-driven manufacturer of telecom and networking products, with a fast-growing defense business.

Today, the company has two major business segments: products and projects. Under products, we have optical fiber, optical fiber cable, passive connectivity solutions, data center interconnects, telecom and networking products, and defense electronics. On the projects side, we undertake public communications projects. We created Reliance Jio's 4G network across the northern part of the country. We are also executing a couple of BharatNet projects. Right now, we are executing BharatNet Phase 3 in East Uttar Pradesh and Punjab.

In defense communications, we created a large project for the Indian Army called NFS, or Network for Spectrum. We created a dedicated communications network for the armed forces. It was a \$1 billion project, and we handed it over to the government last year.

Coming to our manufacturing and capacity expansion plan, our manufacturing facilities are currently located in Hyderabad, Goa, Chennai, and Hosur. In Hyderabad, we manufacture optical fiber and optical fiber cables. In Goa, we manufacture optical fiber cables. In Chennai, we manufacture optical fiber cables and passive connectivity solutions, which also include assembly lines for data center interconnects. In Hosur, we mainly manufacture defense electronic products, data center interconnect products, and wire harnesses for the automotive and defense sectors.

Coming to our capacities on the optical fiber side, we currently have a capacity of 28 million fiber kilometers, which is expanding to 34 million by December 2026 and 43 million by July 2028. On the optical fiber cable side, the current capacity is 39 million fiber kilometers, which is further expanding to 43 million by December 2026 and 62 million by July 2028.

Across the entire value chain, we are currently not manufacturing preform. We are procuring our requirements from Japanese suppliers, mainly two large Japanese companies, Sumitomo and Shin-Etsu. Very recently, considering the current worldwide demand-supply situation and the growing capacity for fiber, it became prudent for us to also set up preform capacity. The Board has recently approved setting up 600 metric tons of preform capacity. This will entail capex of around

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1,250 crores for setting up 600 metric tons of preform capacity, and this will come up by October 2028. We will then be present across the entire value chain.

Speaking about the demand-supply scenario today, the global annual demand for optical fiber cable currently stands at 750 million fiber kilometers, against a supply of 600–625 million fiber kilometers. This shortage in supply is mainly attributable to the availability of preform worldwide. That has been a constraint. Because of that, there is a demand-supply mismatch. Historically, we have seen that OFC has always been cyclical in nature. With every new application, such as 2G, 3G, and 4G, we have seen a sharp increase in demand, and after 2–3 years, the industry has gone through a lean period.

However, this time, we are witnessing structural changes in the industry, mainly driven by demand from hyperscalers and data centers. We believe that this time the demand is more structural, and we see a long runway ahead of us.

If we break up the current annual demand of 750 million fiber kilometers, we can divide it into three parts. Of this 750 million fiber kilometers, approximately 400–450 million fiber kilometers of demand is coming from hyperscaler data centers. Around 200 million fiber kilometers is coming from telecom companies. There is also a new demand use case coming from the defense segment. These days, drones are using approximately 40–45 kilometers of fiber in a single drone, and this is used only once. Once the drone is down, the entire fiber is wasted. This new demand driver has generated approximately 100 million fiber kilometers of demand.

Against the current supply of 600 million fiber kilometers, everyone in the industry is adding capacity. In parallel, we expect the 750 million fiber kilometers of demand to reach 900 million fiber kilometers by FY29. Therefore, we still anticipate that there will be some shortage in the demand-supply equilibrium.

This is more or less the situation on the optical fiber cable demand-supply side. Now, if we discuss pricing, there are two types of fiber required by the industry. One goes to telecom companies, and the other goes to hyperscalers. Typically, the fiber supplied to telecom companies is D2 fiber, which is approximately 250 microns in size. The price of this fiber used to be around \$4–5 per fiber kilometer, and it has now reached \$13–14 per fiber kilometer. The fiber supplied to hyperscalers is called A2 fiber. It used to trade at around \$7–8 per fiber kilometer, and it has now reached \$25 per fiber kilometer. We have seen a sharp increase in prices, and consequently, realizations have improved sharply.

We anticipate that this pricing trend will continue because there has been a structural shift in demand. We do not expect demand to slow down quickly. By FY29, we also believe that the 6G rollout will begin, after which we will see demand from telecom companies also coming in.

Over the last 1–1.5 years, since prices have moved up so sharply, telecom companies did not undertake capex because they were under the impression that prices would soften and that this trend would not sustain. However, that has not been the case. We have also started receiving inquiries from large telecom companies across the world, and we strongly believe that the next phase of demand will also be driven by telecom companies because they will have to densify their networks and will soon have to start their capex programs.

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With demand from hyperscalers, demand from telecom companies, the 6G rollout, and demand from defense applications, there is significant potential for this demand cycle to continue for a minimum of 7–8 years. Currently, all the demand is coming from the US market, particularly from US hyperscalers. This will now shift to Europe, Southeast Asia, the Middle East, and Asia, including India. India has also announced significant data center capex, and we believe the requirement for cables will begin approximately 1–1.5 years from now.

Typically, in the entire data center capex, fiber, cables, and data center interconnects constitute around 5% of the total capex. This 5% is also split equally between cables and data center interconnect products.

These were the major updates on the optical fiber cable, optical fiber, and preform businesses at HFCL. We also have a strong second pillar of growth within the company, which is the defense segment. Over the last couple of years, we have developed several land-based products on the defense side, including electronic fuses, thermal weapon sights, and a couple of radars. Very recently, we also entered into a technology tie-up with DRDO to manufacture multi-mode hand grenades. These are some of the land-based products we have developed over the years, and the products have reached the commercialization stage. We have significant inquiries for all these products, and we are progressing well.

The company has also entered the aerospace segment by acquiring a company. That company had been operating in this segment for approximately 4 decades and supplies to one of the largest global conglomerates. It manufactures fuel tanks and pylons for fighter jets. We acquired this company with a confirmed export order book of around 1,600 crores. Following the acquisition, we also received approximately 350–400 crores of additional orders. As we speak, the current export order book of this company stands at around 2,050 crores. We are also in discussions with customers regarding many more opportunities.

Last year, we generated revenue of around 77 crores from the defense segment. This year, we aspire to generate 500 crores from the defense segment and approximately 1,500 crores next year. By FY30, we believe we can easily generate 4,000–5,000 crores from the defense segment alone. We have clear visibility on how we will reach those numbers.

Overall, if we look at HFCL today, in FY26 the company generated a turnover of 4,949 crores. In Q4, we stated that we would grow by 20% over the FY26 numbers in FY27 on a full-year basis. However, in Q1 itself, we generated a top line of 1,915 crores, after which we revised our aspiration to 40%. Now, considering the current strong demand and the strong tailwinds in the industry, we believe that we will also—

Management: —exceed 40%, and we will grow by a minimum of 60% over the FY26 numbers. On the margin front, we achieved an EBITDA margin of 16.7% in FY26, and we had mentioned that we would achieve an improvement of around 4–5% in the margin. However, in Q1 itself, we achieved an EBITDA margin of 23.25%, which is very sustainable. We are quite certain that we will do better than what we achieved in Q1, and every quarter will see an improvement in both the top line and the bottom line.

This is more or less the current business and outlook from our side. We are happy to take questions.

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One more thing: the current order book of the company stands at around 28,000 crores. Of this, 19,000 crores is from optical fiber cable and data center interconnects alone. The remaining order book is divided among various segments: around 700–800 crores is from telecom and networking products, and around 300 crores is from defense electronic products. This 300 crores is only from the land-based products we have developed over the years.

The 2,000 crores of export order book is not part of this 28,000 crore order book because the acquisition is still underway, and some documentation will be completed by Q4 of this financial year. Only after that will the numbers be consolidated. Therefore, this 28,000 crores excludes the 2,000 crores of aerospace order book.

The order book consists of 19,000 crores from optical fiber cable, around 700–800 crores from telecom and networking products, 300 crores from defense electronics, and the remaining amount from EPC, which includes O&M of around 3,500 crores. We will be happy to take any questions.

Operator: Thank you, sir. We will begin the Q&A session. Participants can raise their hands or enter their questions in the Q&A chat box. Sir, we will take the first question from Sumit. Sir, your line is unmuted.

Sumit – Parmee Financial Services: Hello. Am I audible?

Management: Yes, Sumit. It would be helpful if the participant could also mention their organization.

Sumit – Parmee Financial Services: Yes, sir. I am Sumit from Parmee Financial Services. We are based in Navi Mumbai. Thank you for the opportunity. My first question is that, as we are increasing our capacity, what are Corning, Prysmian, and Fujikura doing in parallel? Are they also expanding?

Management: Considering the demand opportunity and the overall landscape, all the major players are expanding their capacities. Overall capacity may increase by 40–50% over the next 2–3 years.

Sumit – Parmee Financial Services: My second question is regarding the Q2 FY26 call. You said the tariff impact was minimal. In Q1 FY27, you said that we received a tariff refund and paid it back. When I looked at the P&L, I could not see anything. Where does this appear?

Management: It will not appear in the P&L because the decision to provide the refund was taken in February 20 itself, followed by a Supreme Court verdict in the US. The accounting was done accordingly. It was a receivable on the balance sheet, which we received in Q1. The refund was a cash entry, not a P&L entry.

Sumit – Parmee Financial Services: My last question is regarding the A2 fiber price, which you mentioned is currently \$25. For these high-count fibers, if the number of fibers keeps increasing, do prices increase linearly, or do we see an exponential increase?

Management: No, that depends on the cable construct and the number of fibers in the cable. Currently, we have 1,728-fiber, 6,912-fiber, and 3,856-fiber cables. Prices are set accordingly. The increase is not exponential; it is in tandem and depends on the fiber count in a cable.

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Sumit – Parmee Financial Services: So, should we understand that the \$25 price is for a 1,728-fiber cable or a 6,912-fiber cable?

Management: That is per fiber kilometer, or per fiber. If, for example, the cable has 864 fibers, 1,728 fibers, or 3,856 fibers, the price will change accordingly.

Sumit – Parmee Financial Services: Can we simply multiply by 25?

Management: No. Yes, that is correct.

Sumit – Parmee Financial Services: Understood. Thank you, sir.

Management: Thank you.

Operator: Thank you, sir. We will take the next question from Dhruv.

Dhruv – Everflow Partners: Hello, sir. This is Dhruv from Everflow Partners. We are a PMS and an AIF-registered firm based out of Bangalore and Ahmedabad. This is a very interesting space and company. I have a couple of questions.

My first question is: how large could the opportunity be for connectivity revenue? For example, if we generate 100 rupees of revenue from fiber, how much can we generate from connectivity? That is my first question.

Management: Currently, in this financial year, revenue from this segment will be 8–10% of the revenue from the OFC segment. Next year, it may be around 18–20%. The capacities for interconnect solutions are also being expanded.

Initially, we had 8 lines, which were expanded to 14. Under the current expansion, this will become 28 assembly lines by the end of this financial year. We will then add another 28 lines. Overall, this will become 56 assembly lines. Next year, as a percentage, revenue from this segment may be 18–20%.

Dhruv – Everflow Partners: That is helpful. My second question is whether we have a backend tie-up for preform to manufacture optical fiber for the {? 60 m-fkm ?} capacity we are planning. By when do we expect to utilize the full {? 60 m-fkm ?} capacity that we mentioned?

Management: The current fiber capacity is 28 million fiber kilometers, for which the preform supply is fully tied up. We are receiving supplies regularly as per the contractual arrangement.

That capacity is being expanded to 34 million, then 39 million, and eventually 43 million fiber kilometers in stages. All steps are being taken to ensure that as and when the facilities become operational, we have the required backward arrangement for preform. It is a process; the facilities will become operational gradually. Therefore, the requirement for preform will also arise gradually, and that requirement is being tied up.

Dhruv – Everflow Partners: My last question is about the share of revenue from AI or data center fiber as of Q1. How do margins in AIDC cables compare with other categories?

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Management: Currently, approximately 85–90% of our revenue is coming from AI and data center hyperscalers. Most of this is export revenue, and margins are relatively better because of the cable construct, the shortage of fiber, and the significant increase in demand. Taken together, realizations are better, and prices have improved significantly.

As you can see, prices that used to be \$8 have now reached \$25, which is almost 3 times higher. Input costs have also increased correspondingly.

Dhruv – Everflow Partners: Can you give me a ballpark figure for the margin difference between this category and the others?

Management: These categories cannot be compared because these types of cables are not being supplied here in India. The cables supplied here were conventional cables with a completely different construct. Therefore, they are not comparable on an apples-to-apples basis.

Dhruv – Everflow Partners: Thank you very much. That was all from my side.

Operator: Thank you. Sir, please come back and queue for further questions. Participants, please limit themselves to 2 questions per participant. We will take the next question from Mukesh. Sir, your line is unmuted.

Mukesh: Good evening, sir. First, congratulations on a robust Q1.

Management: Thank you.

Mukesh: It is very heartening to hear that we have revised the guidance from 40% to 60% growth. It is quite astonishing. My question is: last time, you said that because of the Strait of Hormuz situation and tariffs, exports could be affected and that there was some uncertainty regarding exports. Is the situation still the same? Are exports being affected in any way because of the Strait of Hormuz situation and tariffs?

Management: No, we are not affected at all. Tariffs have also had no impact on the company on the export front.

Mukesh: What about the products? How do we compete with Chinese manufacturers, or are we well protected?

Management: We are very well protected because of the scale of our capacities and production. We have bulk-buying capability, purchasing power, and economies of scale. We are very competitive and comparable with suppliers globally.

Mr. Mukesh, in addition, the buyers of AIDC products, namely the hyperscalers, do not purchase Chinese products for this segment.

Mukesh: Okay.

Management: Therefore, in this particular segment, there is effectively no competition from China. Generally, there may be informal guidance to avoid purchasing from China.

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Mukesh: You mentioned in the opening remarks that optical fiber capacity would be 36 million and optical cable capacity would be 43 million by December 2026. Is it 36 million or 38.5 million?

Management: Fiber capacity will reach 34 million by December, and cable capacity will reach 43 million by December.

Mukesh: Understood, 34 million and 43 million.

Management: Yes.

Mukesh: Lastly, regarding the ammunition plant we are planning, what kind of capex are we envisaging, and what is the execution timeline?

Management: The currently approved plan is for 275 crores to set up certain facilities and create infrastructure in Andhra Pradesh on the new parcel of land. Going forward, no firm decision has yet been taken. It will depend on how we progress in that segment.

Mukesh: One last question, if I may. Will the 600 metric tons of preform that we are planning be sufficient to cover our entire capacity?

Management: By that time, our fiber capacity will also have increased. The 600 metric tons will largely meet 50% of our captive requirement. We will continue to outsource the remaining 50%.

Mukesh: Thank you very much, and all the best.

Management: Thank you. Thank you.

Operator: Thank you, sir. We will take the next question from Vivek. Sir, your line is unmuted. Vivek, your line is unmuted. Since there is no response, we will move to the next participant, Saket Malhotra—sorry, Mekhrotra. Saket, your line is unmuted.

Saket – Task Investments: Thank you. I am Saket from Task Investments. We are a family office based out of Calcutta, with interests in multiple sectors, and we are looking at this theme very closely. I have a couple of questions on the supply side.

On the demand side, I think by now we all know that everyone wants cables and everyone wants to hyperscale. I want to understand how we are positioned on the cost side. We do not have backward integration into preform; we are buying it from external suppliers. How does a company like ours derive benefits or advantages in this situation? If costs suddenly increase, what should we look out for? That was my first question.

Management: Saket, until our fiber manufacturing capacity was 14 million fiber kilometers, which was the case until Q1 of FY25–26, there was no point in having this high level of backward integration because preform is a capital-intensive project.

Now, our current capacity is 28 million fiber kilometers, and it is under further expansion to 43 million fiber kilometers in stages. At this point, we believe that having this high level of backward integration is logical and rational, both to ensure the supply chain and to improve margins going forward.

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Therefore, we have decided to set up a 600 metric ton facility. Initially, we had decided on 300 metric tons, but considering the current—

Management: —metric ton capacity, which was recently revised to 600 metric tons, we have also brought forward the operationalization of the plant. It is now likely to become operational from October 2028 onwards.

Currently, we have long-term contracts with suppliers, ensuring that we meet our preform requirements. Under these long-term contracts, prices are reviewed annually, but quantities are fixed for a longer term. Therefore, preform has not been a bottleneck so far.

Saket – Task Investments: In a scenario where prices go down or go up, do we have that cushion with our customers? Can we pass it on, or can we keep the price the same? Can the customer come back and ask us to reduce the price because prices have fallen?

Management: Historically, in this segment, we used to receive orders for 3–6 months, and every new order was received at current prices. Currently, as customers are booking capacity for the long term, the quantities are booked, but prices are reviewed every financial year for long-term contracts.

By long-term contracts, I mean that we have a couple of contracts ranging from 2 years to 5 years. Under those contracts, prices will be reviewed annually. The prices of preform, fiber, and cable move in tandem. If prices go up, they move up, and if they go down, they move down.

Therefore, as a percentage of margin, the movement will not have much impact. However, in absolute terms, if prices move upward, the quantity and everything else will increase in absolute terms; conversely, if prices move downward, they will decrease.

Saket – Task Investments: Understood. My final question is on the customer side, and it has two parts. First, regarding the interconnect space that we are building, do we earn higher margins on this than on optical fiber cable? Second, in HFCL's overall product mix of supplying optical fiber to hyperscalers, why would a hyperscaler choose us instead of a company such as Corning, Coherent, or Lumentum? I want to understand what differentiates us. Why would someone come all the way here and buy from us? You mentioned that some customers are airlifting the products. I would like to understand what sets us apart.

Management: Margins in interconnect solutions are relatively better than in optical fiber cables because these products are more labor-intensive and require a high level of precision. Therefore, margins are relatively better for interconnect solutions.

Overall, if you observe the operating margin for this segment, it has been 30%. This includes optical fiber cable, interconnect solutions, and telecom and networking products in our case. It was 30% in Q4 and in Q1 as well, and it has increased significantly.

This resulted in an overall blended EBITDA margin of 23.25% in Q1, compared with a blended EBITDA margin of 16.7% in the last financial year. These margins are improving with every change in the revenue mix. As we move ahead through Q2, Q3, and Q4, and as revenue from interconnect solutions or overall OFC increases, the margin profile will continue to improve gradually.

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Now, why are these customers placing orders? It is not that we have only recently developed relationships with them. We have had relationships with these customers for a couple of years. We have representative offices everywhere. Before placing orders, customers visit our facilities and verify the quality of the product.

Every meter of fiber manufactured at our facilities goes through many quality checks before it is dispatched to customers. The products are certified or validated by the customers. On the pricing front, we also have to remain competitive to win those orders.

For example, we received the \$1.1 billion order sometime in March. This is entirely because of the competence and capabilities of the company. It is not that customers will casually buy from us simply because there is a shortage of fiber. That is not the case. We have to ensure quality, price competitiveness, and delivery commitments.

We also have relationships with these customers. These relationships are not new; they have existed for a couple of years.

Operator: Thank you, sir. Participants, please limit themselves to 1 question per participant. We will take the next question from Raj Nahar.

Raj Nahar: Thank you for the opportunity. I have two questions regarding the preform plant. Is the 600-ton plant that you are planning a full plant, including both the core and the clad, or will you be setting up only one part of the plant? That is my first question. The second question is—

Management: You are not audible, Mr. Nahar.

Operator: Sir, please repeat your question.

Raj Nahar: Is my question audible now?

Management: It is slightly better.

Raj Nahar: Is the 600-ton preform plant a full-fledged plant, including both the core and the clad, or are you setting up only one part of the plant?

Management: No, this is a full-fledged greenfield manufacturing plant. The entire manufacturing process for the 600 metric ton capacity, including the core and clad, will take place at this facility.

Raj Nahar: My next question is regarding germanium, which is currently in tight supply. Have we been able to source it?

Management: Currently, we do not need germanium because we are sourcing preform directly from Japanese manufacturers and receiving regular supplies from them. Bala, I think Mr. Nahar has dropped off.

Operator: No, sir, he is still there.

Management: Is he there? Mr. Nahar, are you there?

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Raj Nahar: Yes.

Management: No, he is not there. Currently, we do not need germanium. Secondly, the requirement will arise sometime in October, so we are already in discussions with a couple of suppliers globally. We will ensure that the required quantities are available when needed, from October 2028 onwards.

Raj Nahar: My last question is regarding the difference between your fiber capacity and cable capacity. Ultimately, by 2028, you will have 43 million of fiber capacity and cable capacity will be 63 million. Will you be able to source the balance quantity of fiber from the international market?

Management: Yes, we are currently sourcing some fiber externally as well. The type of fiber now being produced is completely different. While the installed or rated capacity may be 28 million fiber kilometers, the actual output is slightly lower, at only 21–22 million fiber kilometers, because we need to draw ultra-thin fiber, which is the customer's requirement.

The actual capacity declines because the machine speed has to be reduced and for other such reasons. Therefore, there is still a gap, and we continue to purchase and outsource some fiber. Going forward also, we will continue to outsource part of the requirement.

Operator: Thank you, sir. We will take the next question from Akshat Mehta.

Akshat Mehta: Hello? Hello?

Management: Yes, Akshat.

Akshat Mehta: My question is: with the expanded capacity of 62 million SKM, what quantity of preform would be required to fulfill that capacity?

Management: This is not the cable capacity; it relates to the fiber capacity. With an overall fiber capacity of 43 million fiber kilometers, the total requirement would be approximately 1,200 metric tons or more.

Akshat Mehta: I want to understand the margins for the OFC business if we are 50% backward integrated, given the 600 metric ton capacity we are establishing, and if we become 100% backward integrated.

Management: The margin for the captive-consumption portion will expand by 3–5% when this facility becomes operational. Overall, if we are able to meet 50% of our requirement captively, the margin can increase by 2–2.5% over the current margin profile.

Akshat Mehta: From 23% to approximately 25–26%?

Management: No. The operating margin for this segment is 30%, which can improve by another 2%, reaching 32–33%. I am referring to this segment. The current blended margin is 23.25%, which also includes other segments, such as EPC. Incidentally, we have been incurring losses in EPC for a couple of quarters, in the range of 80–90 crores, and these losses are likely to continue for another 1–2 quarters.

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Therefore, the blended margin is relatively lower at 23.25%, while the operating margin of this segment is 30%.

Akshat Mehta: Just to clarify, can 30% increase to 32–33% with 50% backward integration, and then increase to 35% with full integration?

Management: Yes.

Akshat Mehta: Thank you.

Operator: Thank you, sir. We will take the next question from Gopala Krishna.

Gopala Krishna – Motilal: Good evening, sir. This is Gopal from Motilal. Most of my questions have already been covered. I have one question on tariffs. What would be the impact of upcoming tariffs on the business?

Management: Impact on the business from what?

Gopala Krishna – Motilal: Upcoming tariffs.

Management: We do not think upcoming tariffs will have any impact. First, there is very little chance that any duty will now be levied. Even if it is levied, we currently do not have any problem. It will not affect us in any manner.

Gopala Krishna – Motilal: I would like to understand how you managed the situation when the US government imposed a 50–52% tariff last time.

Management: Initially, we discussed it with customers who were willing to reimburse us, and that amount was ultimately refunded. This is somewhat of a trade secret and cannot be discussed in this forum.

Gopala Krishna – Motilal: Thank you.

Management: It will not affect us in any manner.

Operator: Thank you, sir. We will take the next question from Mohammad. Sir, your line is unmuted.

Mohammad Nabir – Echo Quantum Solutions: Thank you for the opportunity. I am Mohammad Nabir from Echo Quantum Solutions. I want to understand: once your capacity reaches 63 million fiber kilometers, what could be the peak revenue from that capacity?

Management: Peak revenue from this capacity depends on market dynamics, pricing, and various other factors. Broadly, it could be around 11,000–14,000 crores, or it could range within that level with this amount of capacity.

It also depends on the product mix, including whether the product is for telecom applications, data center applications, or data center interconnect solutions. There are many factors, so it is very difficult to evaluate it in terms of absolute numbers.

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Mohammad Nabir – Echo Quantum Solutions: How quickly can you ramp up this capacity? Also, what percentage of your OFC order book is currently secured under long-term fixed-price contracts, versus short-term spot orders?

Management: Capacity is being added every quarter. Whatever plans we have will continue to add to our current capacities gradually. By July 2028, we will reach 43 million fiber kilometers of fiber capacity and 62 million of OFC cable capacity. It is a gradual process, with some capacity being added every quarter.

Mohammad Nabir – Echo Quantum Solutions: The second part of my question was about the OFC order book. How much is long term and how much is short term?

Management: The current OFC order book is 19,000 crores. Of this, 2 large orders are long-term in nature. The remaining orders are generally for shorter periods, perhaps 2–6 months. In the case of long-term contracts, prices are reviewed annually.

Mohammad Nabir – Echo Quantum Solutions: That is all from my side. Thank you.

Operator: Thank you, sir. We will take the next question from Akshat Mehta.

Operator: Thank you, sir. We will take our next question from Raj. Raj, your line is unmuted.

Raj – Individual Investor: This is Raj. I am an individual investor. I wanted to know whether there is any further update on the defense tender that was discussed in the Q1 conference call.

Management: We were technically the best qualified bidder. The financial bid is likely to open sometime in February 2027. Once it is opened, we will know who the winners are.

Raj – Individual Investor: Are any further orders expected or lined up on the OFC front?

Management: The OFC pipeline and the opportunities are significant. Many discussions are taking place. As and when these opportunities mature, they will be announced. It is a process; we will not receive orders every day.

Last quarter itself, we received orders worth 4,000 crores. Many more opportunities are under discussion and are in the pipeline.

Operator: Thank you, sir. We will take our next question from Rahul. Sir, your line is unmuted.

Management: Yes, Rahul?

Operator: There is no response. Sir, we will take the next question from Manav Shah. Sir, your line is unmuted.

Management: Yes, Manav.

Manav Shah: In the Q4 conference call, you said we would grow by 20%. In the Q1 conference call, you revised it to 40%, and now you are saying 60%. That is remarkable. I want to know how sustainable this is. Of course, 60–70% growth may be somewhat difficult, but can we continue a

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growth rate of around 35–40% CAGR, based on the demand, order book, and pipeline that you are seeing?

Management: The decisions regarding capacity expansion and the aspiration for 60% growth are based on order flow, orders in hand, capacity utilization, availability of the required raw materials, and all other factors taken together.

We aspire to achieve 60% growth in this financial year. Considering the run rate in Q1, as well as in Q2, Q3, and Q4, we believe that growth will continue to ramp up and revenue will increase. We are confident that we will achieve the 60% target and aspiration.

Considering the engagements we have with customers, the pipeline, and the visibility in front of us, we strongly believe that this growth is sustainable going forward as well.

Manav Shah: Is growth of more than 50% sustainable going forward?

Also, regarding margins, once the preform facility becomes operational in October 2028, that will help margins improve further, correct? From around 22–23%, can margins increase to around 25–26% going forward?

Management: Margins can be somewhat better because of the changing revenue mix. EPC revenue is declining quarter-on-quarter as a percentage of overall revenue, while more revenue is coming from interconnect solutions, the defense segment, and other areas. Taken together, margins are expected to be better.

Manav Shah: Regarding debt, I believe short-term borrowings are around 1,500 crores and long-term borrowings are around 400 crores. Do you have any repayment plans that could reduce the finance cost and interest cost?

Management: The current figure is around 1,700 crores, comprising 1,300 crores plus 400 crores. It is likely to remain in a similar range during this half of the year. It may decline somewhat in the second half, and by the end of the next financial year, it could decline substantially.

Currently, whatever capacity expansion announcements we have made are progressing very well. We need to continuously support all these expansion programs, which have been decided to be funded through a mix of internal accruals and debt.

Therefore, we will currently require some additional debt to support these expansions. However, by the end of the next financial year, with significant cash being generated from improved margins, revenue, profitability, and overall performance, debt will decline substantially.

Operator: Thank you, sir. We will take the next question from Ravi Mehta.

Ravi Mehta: I wanted some clarification on capex. In the Q1 call, it was mentioned that we would have annual capex of 640 crores for the next 2 years, FY27 and FY28, which is approximately 1,280 crores. This month, I believe the Board approved another capex announcement of 820 crores. If I add everything together, are we undertaking capex of around 2,000–2,100 crores over the coming years?

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Management: Total capex is likely to be around 2,500 crores, including the 275 crores announced for the defense side. Taken together, the capex is 2,500 crores to take fiber capacity to 43 million fiber kilometers, cable capacity to 62 million fiber kilometers, and establish 600 metric tons of preform capacity. It also includes the assembly lines, which will gradually reach 56 lines, as well as the defense initiatives for ammunition, multi-mode hand grenades, and other products.

Taken together, the total capex is 2,500 crores. The spending is likely to take place over a period of 2-2.5 years. Broadly, it will be 1,000 crores this year, 1,000 crores next year, and 500 crores in the following year. That is the broad classification.

Operator: Thank you, sir. We will take the next question from Saket Kapoor.

Saket Kapoor: Greetings, Mr. Jain. Greetings, Amit.

Management: Greetings, Saket.

Saket Kapoor: I want to make sense of something. We have always seen that whenever there is hype around anything, it results in significant capacity being built, followed by a reversal in the cycle.

In the AI space, particularly regarding optical fiber capacity and OFC, we have been seeing a trend over the last 9-10 months where this has become a talking point globally. At this stage, what phase are we exactly in, particularly with respect to the OFC demand-supply gap? Going forward, how are we, as a company, positioned to take advantage of the entire ecosystem?

When we look at the largest player announcing capex, another player announcing a preform facility, and many other activities taking place, how should we summarize the current situation? We have entered OFC during this hyper-growth phase. Where are we currently? What does your experience suggest, and what can we expect and anticipate?

Management: Yes, sir, it is mainly about demand and supply—

Saket Kapoor: Yes, sir, it is mainly about demand and supply.

Management: Mr. Kapoor, your thinking is absolutely correct. This industry has been cyclical. With every new application, such as 2G, 3G, 4G, or 5G, demand for cables increases, then stabilizes, and subsequently declines. When demand declines and the industry enters a lean period, some capacities are shut down or closed. Then new demand emerges, and the cycle begins again.

However, this cycle is very different. It is structural demand. It has only just begun. Currently, the demand is coming mainly from one source, which is the US. A large part of the order book you see is coming from the United States.

A lot still has to happen in all the other countries, including India, Europe, the Middle East, and other Asian countries. India has also announced significant capex for building data centers. A great deal of activity is yet to take place.

When a company announces that it is setting up a data center, demand for cables and accessories generally arises 5-6 quarters later, once the civil infrastructure or other infrastructure is ready. Only

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then does the requirement for cables and accessories arise.

Therefore, this cycle appears to be quite long. In addition, customers are willing to book capacity for a longer period, possibly 5–7 years. In some cases, you may have seen capacity being booked for 10 years.

The demand is significant and is entirely new demand, unlike the telecom sector. The cable requirement is also completely different. Cables for data centers start at 864 fibers, and currently go as high as 6,912-fiber cables. This compares with the cables previously supplied to telecom operators, where the maximum was 288 fibers.

Therefore, the requirement is completely different, and it has only just begun. This cycle appears likely to continue for a long period, and significant demand will also come from other parts of the globe.

HFCL is fully aligned with this opportunity. We set up these IBR machines 3–4 years ago, considering that this demand might come from data center hyperscalers. Every subsequent capacity increase is being undertaken with those requirements in mind.

Part of our existing infrastructure has already been converted to enable us to produce the types of cables required by these customers. There is also new demand coming from the defense side, which was not present earlier.

Current defense-related demand is 75–100 million fiber kilometers, and this is also likely to increase significantly. At present, it is coming from 2–3 countries. Since the fiber is a consumable for them, there will also be repeat demand if a war continues for a longer period.

Even if a war does not continue, all other countries will have to upgrade their equipment, build inventory, and modernize their equipment. Therefore, demand is likely to remain for a longer period this time.

Saket Kapoor: I have a small point. When we book multi-year orders, what is at stake in terms of cancellation or a reversal in the cycle? If a company like ours books deliveries for 5 years, and in the third year the buyer makes some changes, demand changes, or cyclicity plays out, what protection do we have? Does the buyer have the power to cancel the order? Please provide some clarity on that.

Management: Generally, these companies are world-class companies and are firm in their commitments. They are spending trillions of dollars. Fiber cables and cable accessories account for only 5% of their capex. Therefore, there is very little chance that they will cancel an order. In fact, there is practically no chance of cancellation.

On the supply side also, commitments are firm. Everyone is meeting their commitments, and so is HFCL. We are also meeting our commitments to customers. Whatever we commit, we deliver. It is all about commitment, and we have not seen any order cancellations in the past.

Saket Kapoor: I am concluding that there is no clause. Thank you, Mr. Bala. Is there any clause for the—

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Management: I will have to check that. I am not certain about it. We will have to check and get back to you.

Saket Kapoor: Thank you once again. Thank you, Mr. Bala.

Operator: Thank you, sir. Due to time limitations, this will be the last question. Several participants are still present, and they can send their questions. We will share them with management. I would like to thank HFCL management and all participants for participating in the Bharat Connect Conference. Sir, do you have any final closing remarks?

Management: Thank you, Mr. Bala. Thank you to all the participants for taking part in this conference and for placing your trust and confidence in the company.

We are fully geared up to take advantage of the opportunity in front of us. Rest assured, all efforts are being made in that direction. Thank you, everyone. If you have any unanswered queries, please reach out to us or Arihant Capital. We will be happy to answer them.

Operator: Thank you, sir. Thank you, everyone. We are closing the session.

Management: Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.