

**Capacity expansion will drive growth**

**CMP: INR 83**

**Rating: BUY**

**Target Price: INR 127**

**Stock Info**

BSE	500183
NSE	HFCL
Bloomberg	HFCD:LI
Reuters	HFCL.NS
Sector	Cables
Face Value (INR)	1
Equity Capital (INR cr)	137.5
Mkt Cap (INR cr)	11,439
52w H/L (INR)	101 / 52
Avg Yearly Volume (in 000')	323.3

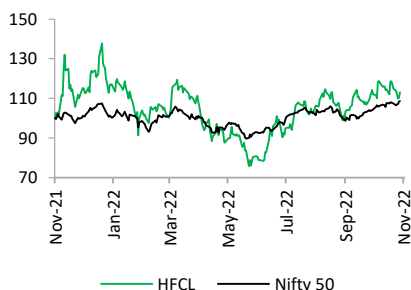
**Shareholding Pattern %**

(As on Sep, 2022)

Promoters	39.20
DII	2.58
FII	6.72
Public & Others	51.49

Stock Performance (%)	3m	6m	12m
HFCL	6.8	26.3	13.6
NIFTY	7.2	11.4	8.8

**HFCL vs Nifty**



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HFCL is engaged in telecom infrastructure development, system integration; manufacture, and supply of high-end telecom equipment, Optical Fibre, and Optic Fibre Cables (OFC). The company's product portfolio includes OFC, Optical Fibre, microwave radios, routers, Wi-fi systems, Ethernet switches, Electronic fuses, electro-optic devices, etc. The company has the largest market share in OFC supplies in India and is one of the largest producers of Wi-Fi/UBR systems in India. Telecom products revenue stood at 43% and 57% from Turnkey contracts and services as of FY22. The order book stood at ~INR 5,300cr as of Q2FY23. The company has 5 manufacturing facilities, and 2 R&D centers, and has a presence in more than 30 countries.

**Investment Rationale**

**Capacity expansion will drive business growth:** The optical fibre cable (OFC) capacity stood at 24.75 mn fkm and the company further focused on expanding to 34.7 mn fkm over the period of the next 2 to 3 years. As part of its backward integration, HFCL is expanding its optic fibre capacities from 8 mn fkm to 10 mn fkm in FY23 and further expanding to 22 mn fkm in upcoming years. The remaining optic fibre would be outsourced for the manufacturing of OFC cables. The Capex is expected around INR 900cr for OF & OFC capacity and setting up new facilities for telecom and networking products and continued R&D over the next 3 to 4 years. The phased capacity expansion will increase competitiveness and helps to reduce operating costs which is expected to result in an increase in margins and profitability. The capacity expansion is focused to fulfill the demand from 4G expansion in remote areas, 5G rollout in metros, Broadband penetrations, and BharatNet. Over the next 4 to 5 years, the telecom market share is expected to be around INR 3lakh cr and HFCL has the potential business opportunities.

**Focused to increase exports and emerge the largest global player:** HFCL is exporting optical fibre cables and telecom components to more than 30 countries and serving more than 80 clients globally. The export revenue stood at ~INR 363cr in FY22 and HFCL has focused to increase to more than 2x times its export revenue by FY23. HFCL has focused to build global customer relations, strengthen export footprints over the next 3 years, and emerging as the largest global payer.

**Focused on product portfolio expansion:** HFCL has focused on product expansion, especially margin accretive products lead to an increase in product revenue share from 43% (FY22) to 57% (Q2FY23). The continuous focus on margin-accretive products across segments and the development of new products in telecom and defense electronic products would lead to diversification and de-risk the overall business model. HFCL has also entered into defense electronics such as night vision devices, electronic fuses, radio communication equipment, etc.

**Innovative products backed by strong R&D:** HFCL has R&D centers in Bengaluru and Gurgaon and is heavily invested to develop the products to meet the accelerated rate of fibrerization, 5G product demand, and tap the opportunities in defense and railways. R&D expenditure is expected around INR 150cr in FY23. HFCL has partnerships with Wipro and Capgemini for designing the latest generation telecom products such as 5G, routers, switches, backhaul radios, Wi-Fi access points, etc.

**Outlook & Valuation:** HFCL is expected to benefit from 5G, INR 3lakh cr worth of opportunities in the telecom space, and INR 1 lakh cr worth of opportunities in the defense space. HFCL has strong R&D for innovative products, focused more than 2x of exports, capacity expansion, product portfolio expansion, and a strong client base such as Jio, Airtel, Tata, etc would drive the business going forward. We have used a DCF Model to value HFCL, it has healthy and consistent cash flow generation over the forecasted period. We have discounted the cash flows using WACC and valued the company at INR 127 per share. We initiate coverage with a "BUY" rating at a Target Price of INR 127 per share; an upside of 52.8%.

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## Investment Rationale

**Capacity expansion will drive business growth:** The optical fibre cable (OFC) capacity stood at 24.75 mn fkm and the company further focused on expanding to 34.7 mn fkm over the period of the next 2 to 3 years. As part of its backward integration, HFCL is expanding its optic fibre capacities from 8 mn fkm to 10 mn fkm in FY23 and further expanding to 22 mn fkm in upcoming years. The remaining optic fibre would be outsourced for the manufacturing of OFC cables. The Capex is expected around INR 900cr for OF & OFC capacity and setting up new facilities for telecom and networking products and continued R&D over the next 3 to 4 years. HFCL has acquired land for setting-up a defence manufacturing facility in Hyderabad. The construction activities are expected to start from Q2FY24/Q3FY24 onwards. The SMT types of machines and test instruments will be placed in a defence manufacturing facility. The defence tender will open in due course of time and the defence business is expected to commercialize from FY24 onwards. The phased capacity expansion will increase competitiveness and helps to reduce operating costs which is expected to result in an increase in margins and profitability. The capacity expansion is focused to fulfill the demand from 4G expansion in remote areas, 5G rollout in metros, Broadband penetrations, and BharatNet. Over the next 4 to 5 years, the telecom market share is expected to be around INR 3lakh cr and HFCL has the potential business opportunities.

Capacity	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OFC (mkm)	15.0	15.0	18.5	18.5	23.4	27.1	30.9	34.7
Optic Fibre (mfkm)	-	-	6.4	6.4	8.0	10.0	16.0	22.0
FTTH Cables (mckm)	-	-	-	0.60	0.63	0.63	0.63	0.63
FRP (mkm/annum)	0.77	0.77	0.77	0.77	0.50	0.50	0.50	0.50
ARP (mkm/annum)	0.18	0.18	0.18	0.18	0.66	0.66	0.66	0.66
IGFR - (MT)	23	23	23	23	2,700	2,700	2,700	2,700
PE compounding facility (MT)						24,000	24,000	24,000

Source: Company Reports, Arihant Capital Research

Capacity - Plantwise	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Hyderabad - Telangana</b>								
- Optic Fiber (mfkm)	-	-	6.4	6.4	8.0	8.0	8.0	8.0
- OFC (mfkm)	-	-	-	-	3.6	3.6	3.6	3.6
- FTTH Cable (mckm/annum)	-	-	-	0.36	0.36	0.36	0.36	0.36
<b>Chennai - Tamil Nadu</b>								
- OFC (mfkm)	7.0	7.0	10.5	10.5	11.8	15.5	19.3	23.1
- FTTH Cable (mckm/annum)	-	-	-	0.2	0.3	0.3	0.3	0.3
<b>Hosur, Tamil Nadu</b>								
- FRP Rods (mkm/annum)	0.767	0.767	0.767	0.767	0.504	0.504	0.504	0.504
- ARP Rods (mkm/annum)	0.180	0.180	0.180	0.180	0.660	0.660	0.660	0.660
- IGFR - (MT)	22.5	22.5	22.5	22.5	2,700	2,700	2,700	2,700
- PE compounding facility (MT)						24,000	24,000	24,000
<b>Verna, Goa</b>								
- OFC (mfkm)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0

Source: Company Reports, Arihant Capital Research

mfkm – Million fibre kilometer; mckm – Million cable kilometer; Mkm – million kilometer  
 FTTH – Fibre to the Home; FRP – Fibre Reinforced Plastic; ARP – Aramid Reinforced Plastic  
 IGFR – Impregnated Glass Fiber Reinforcement

**Incentives benefits are expected from FY24 onwards:** HFCL is in the progress of capacity expansion and a Capex of INR 900cr is expected over the next 3 to 4 years. HFCL is eligible for PLI incentives for telecom & networking products from the central government. HFCL is expected to receive INR 650cr as incentives from the central government over 5 years which starts from FY24 onwards. In order to receive the incentives, HFCL needs to make the sale of three times of investments. Out of 10 products, 8 products comes under the PLI scheme.

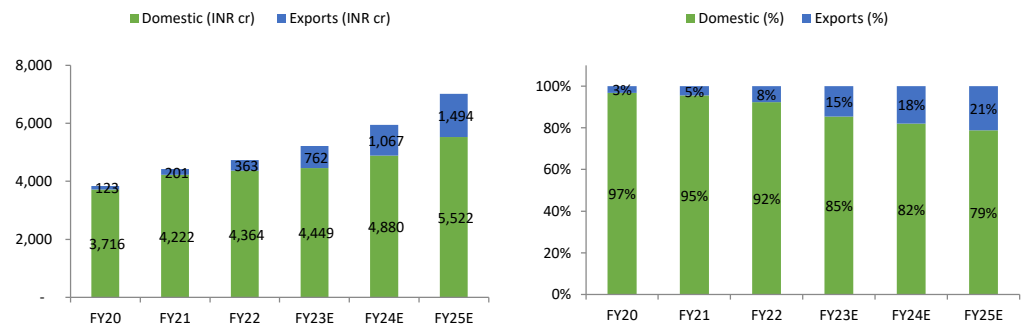
Year	FY24E	FY25E	FY26E	FY27E	FY28E
Incentives under PLI (INR cr)	130	130	130	130	130

Source: Company reports, Arihant Capital Research; The incentives may increase or decrease on yearly basis due to sales.

Investment Rationale

**Focused to increase exports and emerge the largest global player:** HFCL is exporting optical fibre cables and telecom components to more than 30 countries and serving more than 80 clients globally. The export revenue stood at INR 363cr in FY22 and HFCL has focused to increase the export revenue to more than INR 750cr in FY23. HFCL has focused to build global customer relations, strengthen export footprints over the next 3 years, and emerging as one of the largest global payers.

Exhibit 1: Exports revenue is expected to be ~2x in FY23.



Source: Company reports, Arihant Capital Research

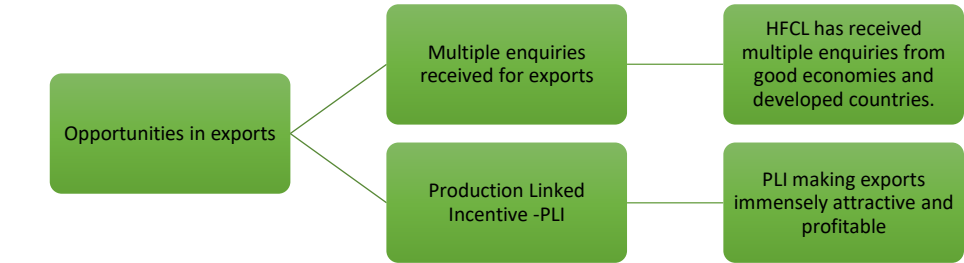
Exhibit 2: HFCL has exports more than 30 countries.



Source: Company reports, Arihant Capital Research

HFCL has started exporting its own design telecom products to USA, UK and Africa in smaller quantities and is expected to increase in coming quarters. HFCL has received orders from Sweden, South Africa and Russia. HFCL also opening a new technology development centre in the USA. HFCL has received approval from Telcordia in the USA for optical fibre and optical fibre cables which will help to export optical fibre cable to US markets.

Exhibit 3: PLI and multiple enquiries from international markets shows export opportunities.



Source: Company reports, Arihant Capital Research

## Investment Rationale

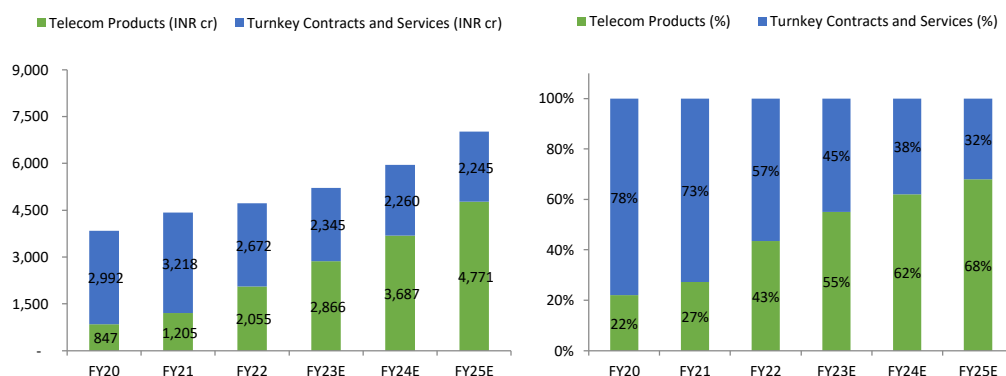
HFCL has started creating infrastructure for sales and marketing in Europe and putting up agents and distributors for certain products like Wi-Fi etc. HFCL has focused on direct as well as selling through distributors in exports. HFCL has focused to increase exports, because Chinese competition has declined due to lower trustworthiness. Chinese use their telecom products for spying, so the USA stopped buying Chinese telecom products. In India, Chinese telecom products are not allowed and Europe imposed a 22% dumping duty on Chinese products which helps HFCL to focus on export markets.

Country	Telecom Products
India	Not allowed
USA	Stopped buying, because Chinese telecom products spying. Chinese Huawei's telecom products were designed to interfere with the strategic nuclear arsenal communication of the US.
Europe	The Europe commission imposed to 19.7% to 44% on imports of optical fibre cables from china to avoid unfair competitive advantage.

Source: Company, Arihant Capital Research

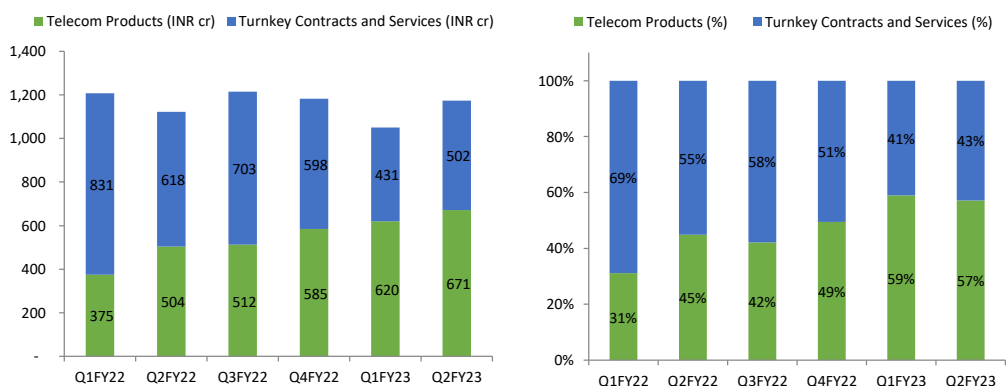
**Focused on product portfolio expansion:** HFCL has focused on product expansion, especially margin accretive products leading to an increase in product revenue share from 43% (FY22) to 57% (Q2FY23). The continuous focus on margin-accretive products across segments and the development of new products in telecom and defense electronic products would lead to diversification and de-risk the overall business model. HFCL has also entered into defense electronics such as night vision devices, electronic fuses, radio communication equipment, software defined radios etc.

**Exhibit 4: Telecom Products revenue share doubled over the period of FY20-FY22.**



Source: Company reports, Arihant Capital Research

**Exhibit 5: Telecom Products revenue share almost doubled over the period of Q1FY22-Q2FY23.**



Source: Company reports, Arihant Capital Research

## Investment Rationale

**Innovative products backed by strong R&D:** HFCL has R&D centers in Bengaluru and Gurgaon and is heavily invested to develop the products to meet the accelerated rate of fiberization, and 5G product demand, and tap the opportunities in defense and railways. HFCL has partnerships with Wipro and Capgemini and other companies for designing the latest generation telecom products such as 5G, routers, switches, backhaul radios, Wi-Fi access points, and software-defined radios.

Partnership Company	Purpose
Wipro	Partnership for 5G Transport Product Development.
O-RAN Alliance	To accelerate open innovation in 5G
CommAgility	Key technology partner who shall provide its 5G new radio (NR) software which will be used in 5G indoor small cells.
Aprecomm	Powering HFCL's network offerings with Artificial Intelligence (AI) based Analytics.
BigCat Wireless	Partner for Software Defined Radios
Nivetti Systems	R&D partner for Switches
VVDN Technologies	Design partner for Macro Radio, Wifi Access points, UBRs, Cloud management systems, Element management systems
Metanoia	
Capgemini Engineering	Partner for 5G Small Cells
NXP	
IP Infusion	Partner for 5G Transport products
Qualcomm	HFCL's design and development of 5G Outdoor Small Cell products.

Source: Company, Arianth Capital Research

In Q1FY22, HFCL has inaugurated a new R&D center in Bengaluru and HFCL has spent around INR 125cr on R&D in past few years and R&D expenditure is expected around INR 150cr in FY23. In FY22, R&D spent has been made into expanding the team, improving product lines and design development of products. The company has added 186 R&D experts in FY22.

## In-house R&amp;D Team

Specialisation	No of people
Communication	67
5G Technologies	52
Defence and Other Technologies	50
Optical Fibre Cable	17
<b>Total</b>	<b>186</b>

Source: Company, Arianth Capital Research

## Products Under Development

Telecom	Defence
5G RAN products	Ground Surveillance Radars
Wi-Fi 7 access points	Software Defined Radios
Cell Site Routers	Thermal weapon sights
DU/CU Aggregation Routers	Uncooled Engine Core
Home Mesh Router	
Passive optical network (PON) products	
Small Cell for 5G	
Point to Multipoint Unlicensed band radio	

Source: Company, Arianth Capital Research

## Investment Rationale

**Longstanding relationship with customers:** HFCL has become a preferred partner of marquee clients across India and abroad for its quality and service excellence. HFCL has exceeded customer expectations through innovation, new product development, and customized solutions.

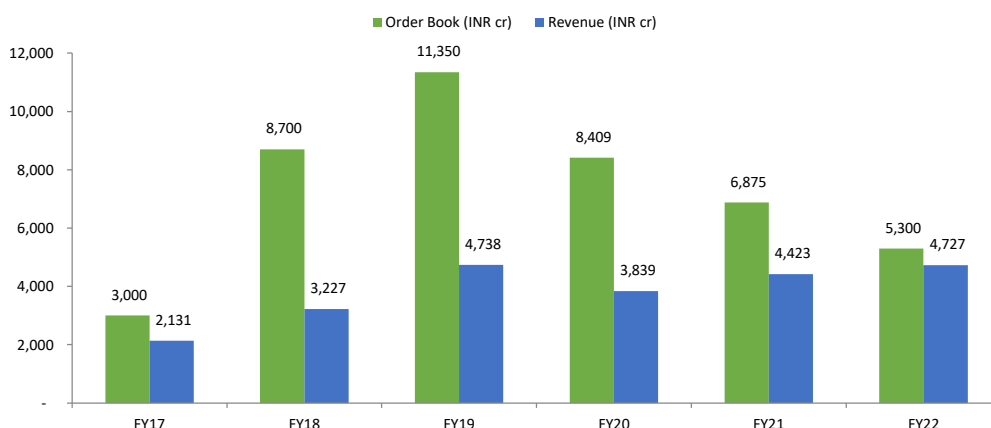
Exhibit 6: Marquee Clients



Source: Company reports, Arihant Capital Research

**Sufficient order book Indicates better revenue visibility:** HFCL's order book stood at INR 5,300cr as of Q1FY23. out of INR 5,300cr; Public Telecommunication (INR 1,296cr+), Defense Communication (INR 2,547cr+) and Railway Communication (INR 399cr+). Recently, HFCL has received orders from Jio and overseas firm for the supply of optical fibre cables (OFC). The reliance properties & property management services and reliance retails orders accounts for INR 167.6cr and remaining INR 35cr for supplying of various types of OFC and accessories to overseas firm.

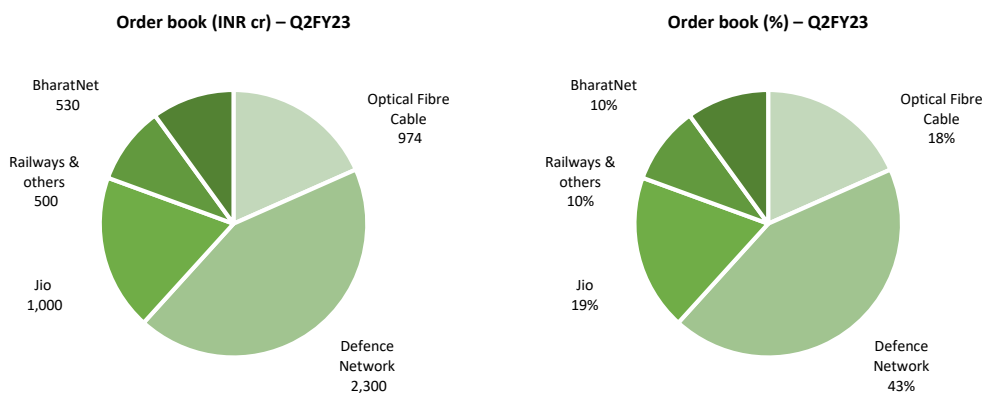
**Exhibit 7: HFCL order book stood at above INR 5,000cr and company regularly getting orders from clients. The telecom products share is expected around 70% going forward. The telecom products order cycle are 2 to 3 months. So, HFCL will execute the orders in short period of time.**



Source: Company reports, Arihant Capital Research

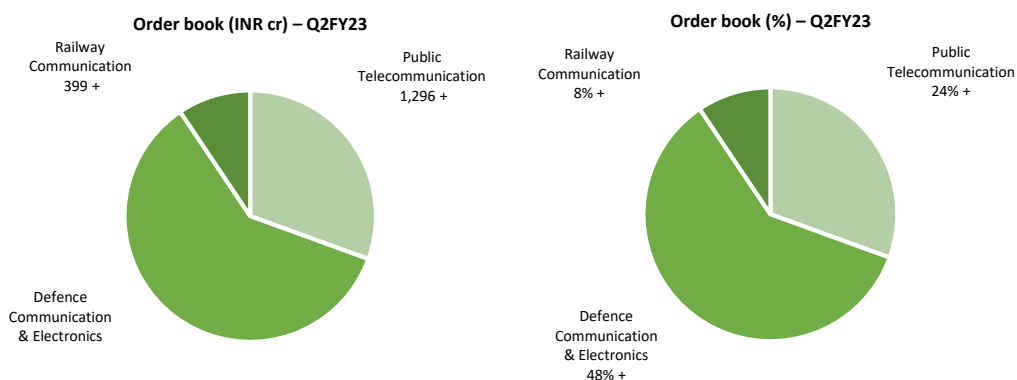
## Investment Rationale

Exhibit 8: Order book breakup - Clients wise (Approx.)



Source: Company reports, Arihant Capital Research

Exhibit 9: Order book breakup – Sector wise (Approx.)



Source: Company reports, Arihant Capital Research

Sector	Order Book - Projects
Public Telecommunication	Public Telecommunication order book comprises of OFC & FTTH network for Reliance Jio across Northern India.
	Hybrid projects for BharatNet Phase-II OFC network, setting up rural mobile network, WiFi, IP and MW Network.
	Rollout of exclusive and dedicated nationwide DWDM based optical transmission backbone network.
Defence Communication & Electronics	Integrating fibre network overlay with GIS maps, satellite images and commercial land base data.
	Planning, design and implementation of a nationwide IP backbone and access network.
	End-to-end solution for multiple hybrid microwave broadband radio links in remote areas Security & Surveillance implementation with CCTV.
Railway Communication	surveillance access system and fire detection system at 300+ army locations.
	Implementing telecom networks for seven greenfield dedicated freight corridor projects for Indian railways.
	Integrating communication network for metros & mainline railways.
	Implementing video management systems at ~600 railway Stations.
	Integrating communication network for Kanpur-Agra, Mauritius and Dhaka Metro rail projects.

Source: Company reports, Arihant Capital Research



## Forensic Accounting

**Exhibit 10: HFCL reported lower CFO/EBITDA over FY19 –FY22 due to increase in receivables on EPC projects. HFCL is changing the products mix and telecom products and EPC mix is expected around 70:30. The higher telecom products share will lead to faster cash collections.**

CFO/EBITDA (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>71%</b>	<b>76%</b>	<b>8%</b>	<b>37%</b>	<b>26%</b>	<b>32%</b>
Sterlite Technologies	101%	103%	58%	69%	79%	107%
Finolex Cables	54%	54%	34%	81%	31%	111%
Aksh Optifibre	170%	36%	105%	1757%	256%	112%
Birla Cable	218%	-20%	21%	189%	-5%	6%
Vindhya Telelinks	65%	-69%	-86%	12%	118%	115%

**Exhibit 12: There was no volatility on depreciation of HFCL**

Depreciation as % of Gross Block	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>	<b>8%</b>
Sterlite Technologies	5%	6%	4%	5%	6%	6%
Finolex Cables	9%	8%	7%	6%	6%	6%
Aksh Optifibre	7%	5%	6%	5%	5%	5%
Birla Cable	12%	10%	11%	10%	9%	8%
Vindhya Telelinks	15%	12%	12%	12%	10%	10%

**Exhibit 14: HFCL maintained miscellaneous expenses at 1%-2% levels over FY17-FY22.**

Miscellaneous Expenses/Revenue (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>
Sterlite Technologies	7%	8%	5%	6%	4%	7%
Finolex Cables	2%	1%	1%	3%	2%	2%
Aksh Optifibre	0%	0%	0%	0%	0%	0%
Birla Cable	2%	1%	1%	2%	2%	1%
Vindhya Telelinks	2%	1%	1%	1%	1%	2%

**Exhibit 16: HFCL's revenue growth is more than auditors remuneration growth over the period of FY17-22.**

Revenue growth vs Auditors remuneration growth (%)	Auditor Remuneration growth (FY17-22)	Revenue growth (FY17-22)
<b>HFCL</b>	<b>5.6%</b>	<b>17.3%</b>
Sterlite Technologies	0.5%	18.6%
Finolex Cables	6.9%	9.0%
Aksh Optifibre	-2.0%	-8.3%
Birla Cable	8.4%	20.5%
Vindhya Telelinks	2.2%	5.8%

Source: Ace Equity, Arihant Capital Research

**Exhibit 11: HFCL generated 35% CFO/EBITDA on cumulative basis over the period of FY17-FY22. The lower CFO/EBITDA due to EPC contracts. HFCL is changing the products mix and telecom products and EPC mix is expected around 70:30. The higher telecom products share will lead to faster cash collections.**

Particular	Cum. CFO/Cum. EBITDA (FY17-FY22)
<b>HFCL</b>	<b>35%</b>
Sterlite Technologies	81%
Finolex Cables	61%
Aksh Optifibre	152%
Birla Cable	34%
Vindhya Telelinks	10%

**Exhibit 13: HFCL generated lower yields in FY21 to FY22 due to increase in investments (~2x) and Cash (~3x) in FY22 and generated lower investment incomes. The company kept cash for bid projects. The minimum cash balance required to bid most of the projects.**

Cash Yield (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>4%</b>	<b>3%</b>
Sterlite Technologies	7%	7%	6%	3%	5%	8%
Finolex Cables	5%	6%	7%	5%	7%	4%
Aksh Optifibre	3%	1%	1%	1%	2%	17%
Birla Cable	11%	6%	10%	7%	8%	13%
Vindhya Telelinks	16%	13%	13%	9%	24%	1%

**Exhibit 15: HFCL and Sterlite Technologies slightly delayed commissioning the capex over the period of FY17-FY22.**

CWIP/Gross Block (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>0%</b>	<b>2%</b>	<b>21%</b>	<b>5%</b>	<b>4%</b>	<b>11%</b>
Sterlite Technologies	1%	10%	13%	3%	4%	3%
Finolex Cables	2%	1%	2%	5%	4%	13%
Aksh Optifibre	59%	41%	40%	1%	0%	18%
Birla Cable	2%	0%	7%	0%	0%	2%
Vindhya Telelinks	19%	4%	0%	11%	0%	0%

**Exhibit 17: HFCL has generating ~99% of revenue from core business.**

Other income/Revenue (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>1.0%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>0.8%</b>	<b>0.9%</b>
Sterlite Technologies	1.0%	1.2%	0.7%	0.7%	0.9%	1.0%
Finolex Cables	2.4%	3.1%	3.4%	3.2%	2.8%	2.0%
Aksh Optifibre	1.1%	0.4%	0.5%	0.8%	1.6%	1.4%
Birla Cable	1.5%	0.3%	0.5%	1.0%	0.6%	0.5%
Vindhya Telelinks	3.5%	2.3%	1.8%	1.2%	3.7%	2.3%

## Forensic Accounting

**Exhibit 18: HFCL generated more than 14% of RoE over FY17-FY22.**

RoE (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>14%</b>	<b>16%</b>	<b>18%</b>	<b>15%</b>	<b>14%</b>	<b>14%</b>
Sterlite Technologies	28%	36%	41%	24%	13%	1%
Finolex Cables	15%	11%	12%	11%	14%	16%
Aksh Optifibre	2%	4%	2%	-116%	-22%	0%
Birla Cable	4%	15%	32%	1%	5%	12%
Vindhya Telelinks	7%	6%	9%	2%	11%	7%

**Exhibit 19: HFCL generated above 18% RoCE over the period of FY18-FY22. RoCE improved 13% to 19% from FY17 to FY22.**

RoCE (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>13%</b>	<b>18%</b>	<b>23%</b>	<b>21%</b>	<b>20%</b>	<b>19%</b>
Sterlite Technologies	20%	28%	31%	19%	12%	6%
Finolex Cables	21%	21%	20%	15%	20%	21%
Aksh Optifibre	6%	8%	8%	-56%	1%	10%
Birla Cable	6%	18%	36%	3%	7%	14%
Vindhya Telelinks	11%	9%	13%	9%	13%	9%

**Exhibit 20: HFCL maintained ~6% ROA over the period of FY17-FY22.**

RoA (%)	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>	<b>7%</b>	<b>5%</b>	<b>6%</b>
Sterlite Technologies	8%	11%	11%	6%	3%	0%
Finolex Cables	13%	10%	10%	10%	13%	14%
Aksh Optifibre	1%	2%	1%	-45%	-5%	0%
Birla Cable	2%	7%	16%	0%	3%	7%
Vindhya Telelinks	5%	4%	5%	1%	6%	4%

**Exhibit 21: HFCL revenue growth higher than receivables growth over the period of FY17-FY22.**

Particular	Revenue growth - CAGR (FY17-22)	Receivables growth - CAGR (FY17-22)
<b>HFCL</b>	<b>17%</b>	<b>11%</b>
Sterlite Technologies	19%	20%
Finolex Cables	9%	7%
Aksh Optifibre	-8%	-13%
Birla Cable	20%	18%
Vindhya Telelinks	6%	9%

**Exhibit 22: HFCL invested the cash flows for capex over the period of FY17-FY22.**

Particular	Cumulative CFO+CFI/Median Revenue (FY17-FY22)
<b>HFCL</b>	<b>-2%</b>
Sterlite Technologies	1%
Finolex Cables	17%
Aksh Optifibre	30%
Birla Cable	7%
Vindhya Telelinks	11%

**Exhibit 23: HFCL inventory days reduced over the period of FY17-FY22.**

Inventory Days	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>58</b>	<b>32</b>	<b>22</b>	<b>38</b>	<b>42</b>	<b>53</b>
Sterlite Technologies	97	94	67	76	81	97
Finolex Cables	83	86	87	103	120	86
Aksh Optifibre	42	49	109	189	142	100
Birla Cable	108	86	69	168	105	67
Vindhya Telelinks	67	101	138	228	280	277

**Exhibit 24: HFCL receivables days reduced over the period of FY17-FY22.**

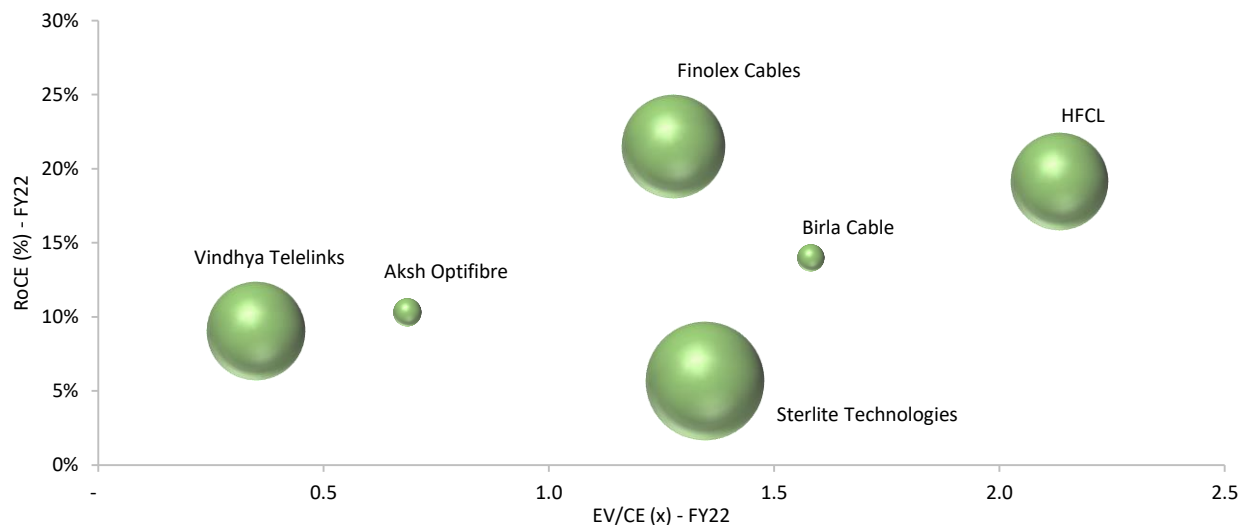
Receivable Days	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>196</b>	<b>134</b>	<b>102</b>	<b>148</b>	<b>176</b>	<b>180</b>
Sterlite Technologies	115	105	125	169	192	182
Finolex Cables	19	19	23	25	24	17
Aksh Optifibre	132	128	151	178	118	90
Birla Cable	125	97	97	200	119	98
Vindhya Telelinks	183	189	188	240	293	292

**Exhibit 25: HFCL payable days increased over the period of FY17-FY22.**

Payable Days	FY17	FY18	FY19	FY20	FY21	FY22
<b>HFCL</b>	<b>109</b>	<b>71</b>	<b>65</b>	<b>102</b>	<b>134</b>	<b>140</b>
Sterlite Technologies	130	155	169	259	236	249
Finolex Cables	25	28	27	29	24	20
Aksh Optifibre	93	97	116	305	261	202
Birla Cable	130	97	83	149	73	55
Vindhya Telelinks	105	117	104	144	228	161

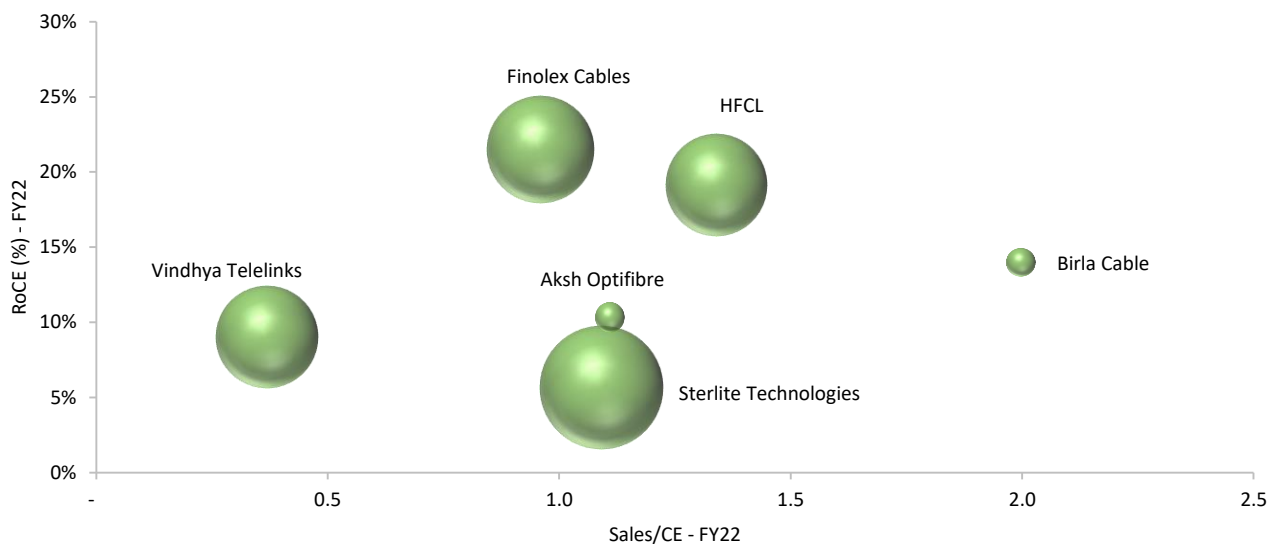
Source: Ace Equity, Capital IQ, Arianth Capital Research

Exhibit 26: HFCL deployed lower capital in terms of Enterprise value and delivered 19% RoCE in FY22.



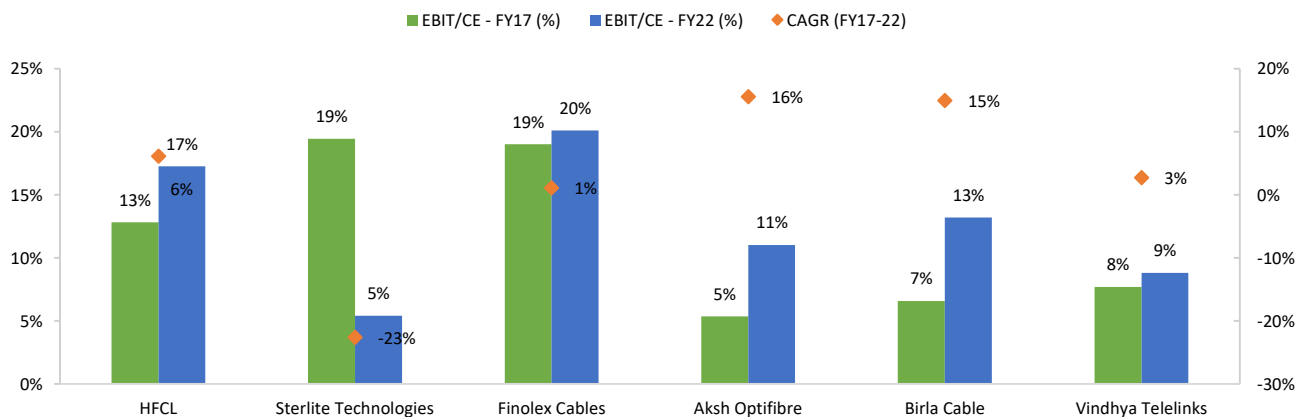
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 27: HFCL earned INR 1.3 per Capital Employed of INR 1, While Sterlite Technologies earned INR 1.1 per Capital Employed of INR 1 in FY22.



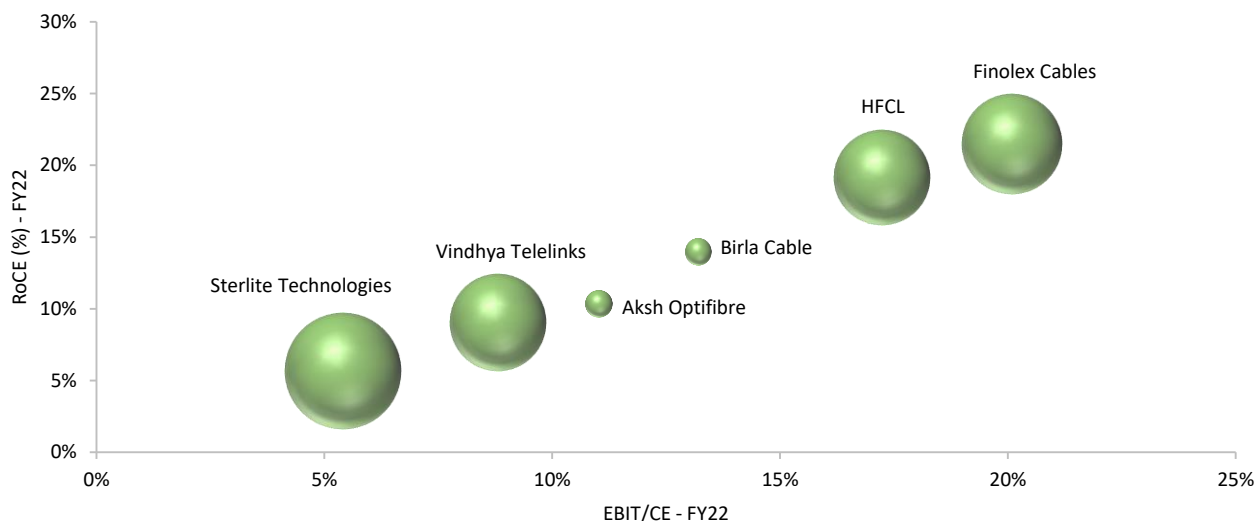
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 28: HFCL witnessed strong growth in EBIT/CE compared to peers over the period of FY17-FY22.



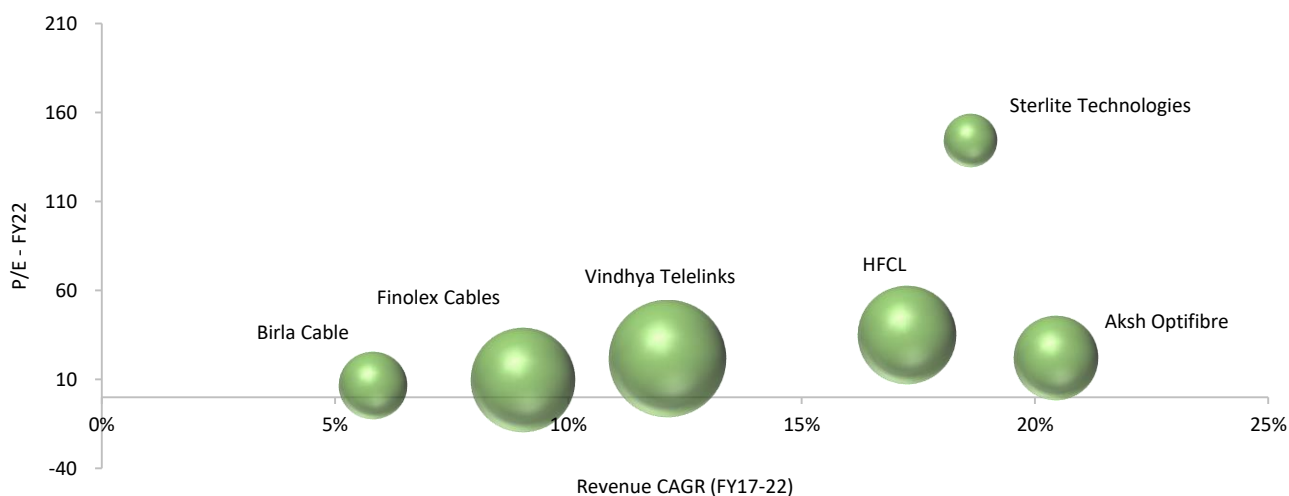
Source: Ace Equity, Arihant Capital Research

Exhibit 29: HFCL generated 17% of EBIT/CE which is healthy operating profit in the industry.



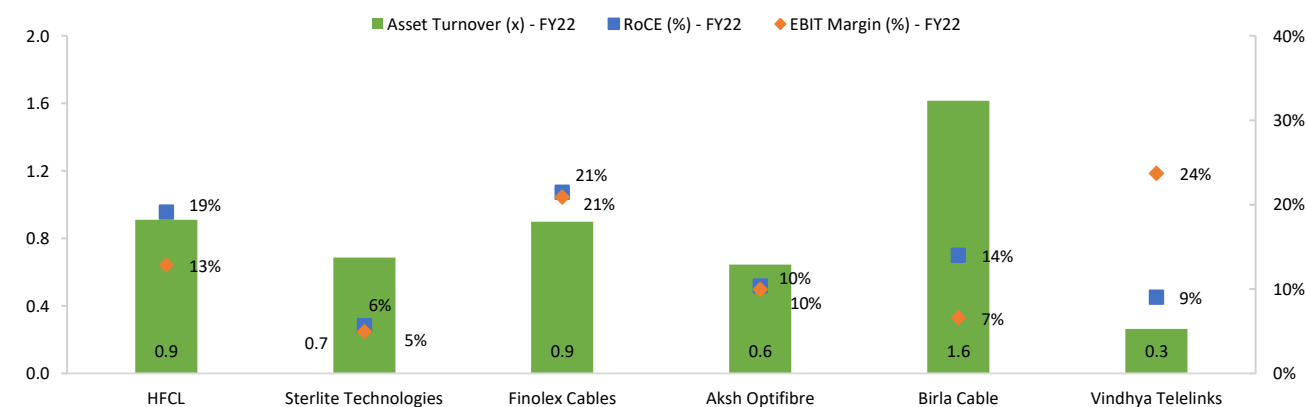
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 30: HFCL delivered 17% CAGR revenue growth over the period of FY17-22 and valued PE of 35x, while Sterlite technologies delivered 19% CAGR revenue growth over the same period and valued at PE of 144x.



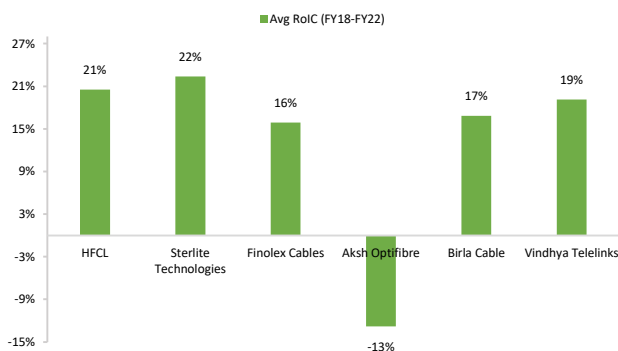
Source: Ace Equity, Arihant Capital Research; Bubble size represents RoCE

Exhibit 31: HFCL efficiently used its assets to generate sales compared to peers.

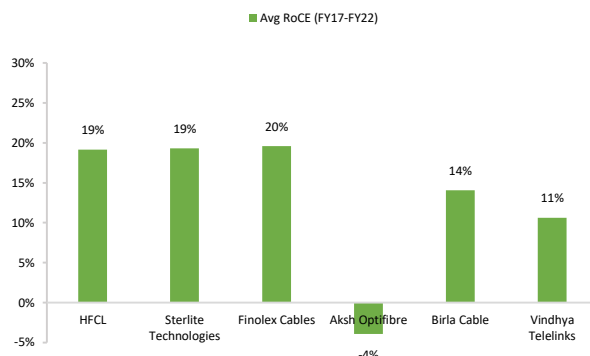


Source: Ace Equity, Arihant Capital Research

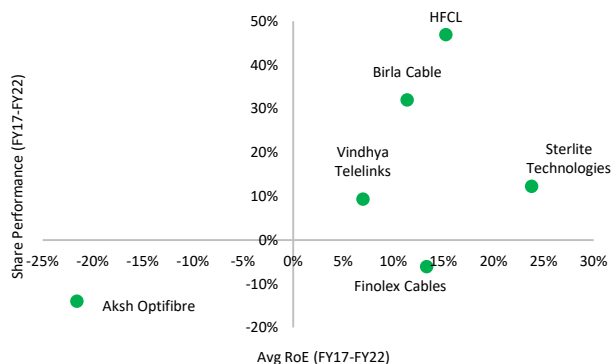
**Exhibit 32: HFCL generated 21% RoIC over the period of FY18-FY22 which is healthy in the industry.**



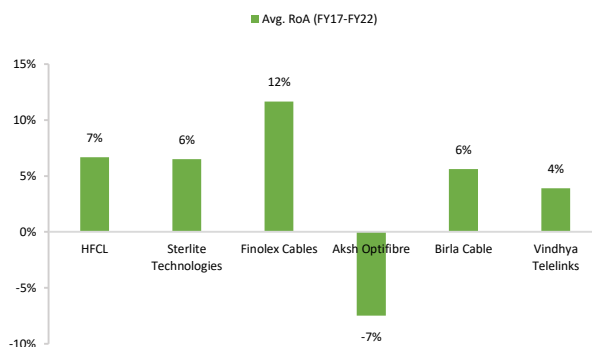
**Exhibit 33: HFCL generated 19% RoCE over the period of FY17-FY22 which is healthy in the industry.**



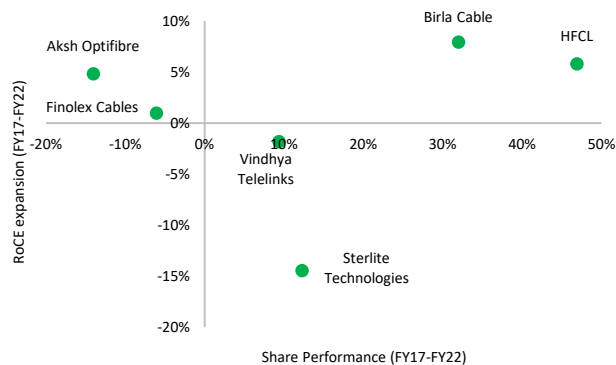
**Exhibit 34: HFCL generated 47% CAGR return over 15% of ROE during the period of FY17-FY22.**



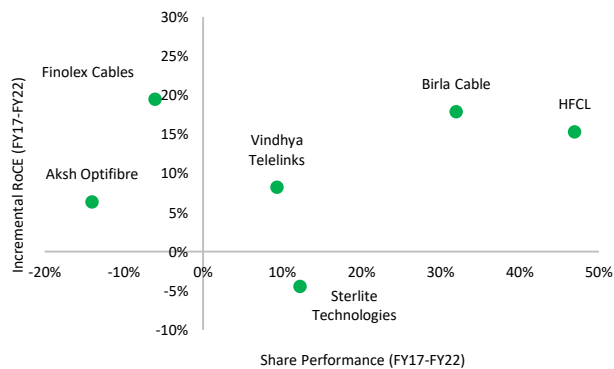
**Exhibit 35: HFCL generated 7% Return on assets over the period of FY17-FY22 which is healthy in the industry.**



**Exhibit 36: HFCL generated 47% CAGR return over 6% of RoCE expansion during the period of FY17-FY22.**



**Exhibit 37: HFCL generated superior RoCE over FY17-FY22, which led to superior share price performance.**

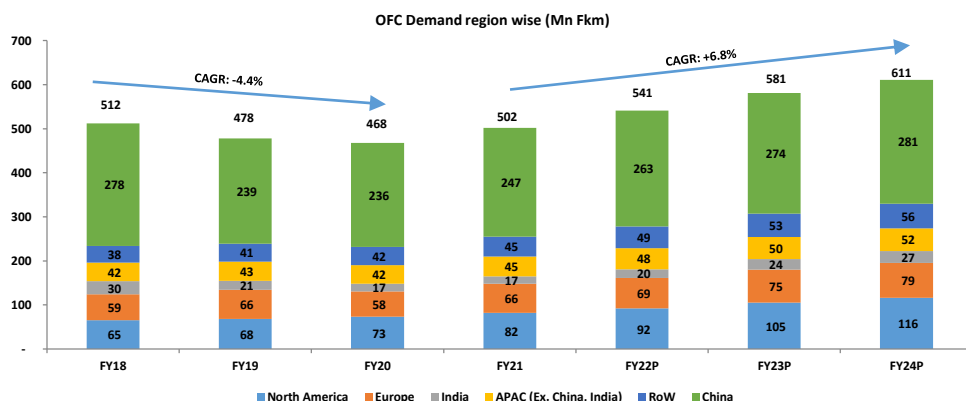


Source: Ace Equity, Arihant Capital Research

## Industry Overview

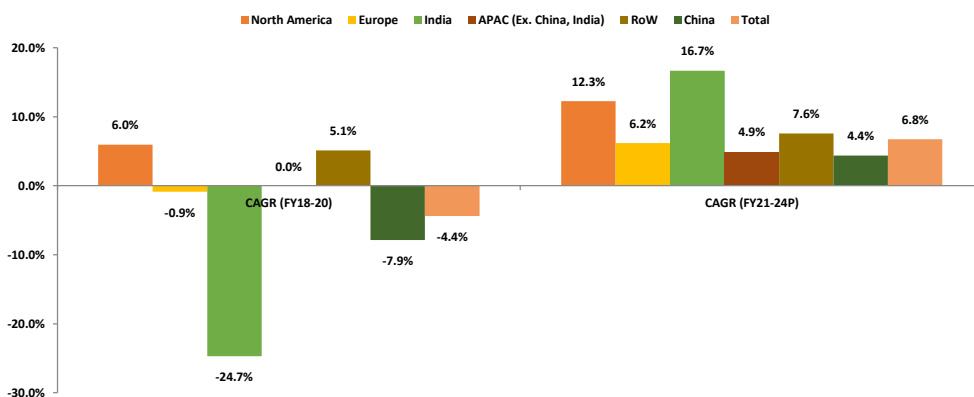
**Global OFC Demand:** The Global OFC demand stood at 502 Mn Fkm and is expected to grow at a CAGR of 6.8% to 610 Mn Fkm over the period of FY21-FY24P. India and North America are expected to grow at a faster rate due to deep penetration of 4G and transformation to 5G technologies.

**Exhibit 38: Global OFC demand is expected to grow at a CAGR of 6.8% over the period of FY21-FY24P**



Source: Sterlite Technologies reports, Arihant Capital Research  
P - projections

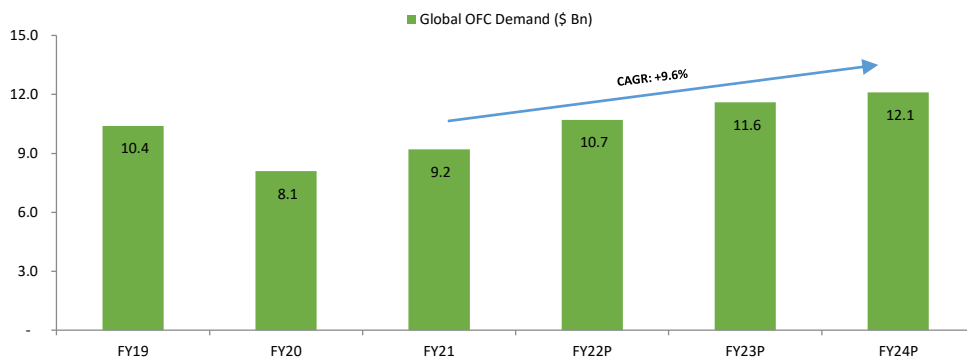
**Exhibit 39: India and North America's OFC demand is expected to grow at a double digit growth rate over the period of FY21-FY24P.**



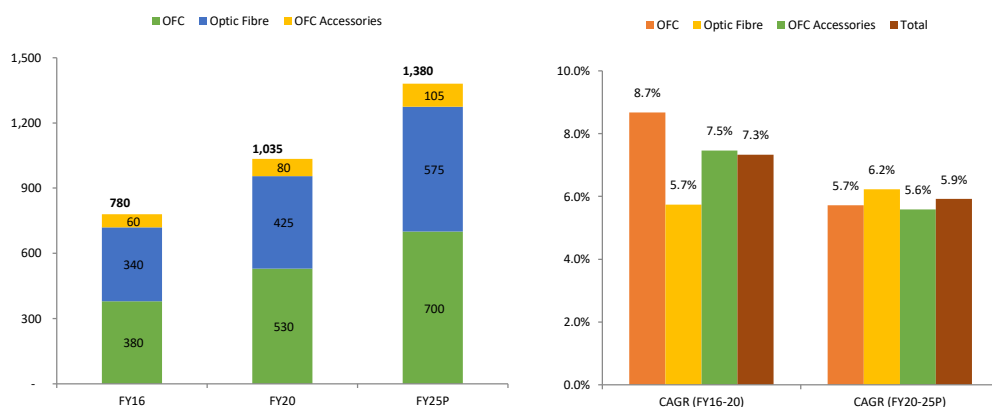
Source: Sterlite Technologies reports, Arihant Capital Research  
P - projections

The Global OFC market is estimated at 10.7 bn dollars in FY21 and is expected to grow at a CAGR of 9.6% to 12.1 bn dollars over the period of FY21-FY24P. The growth is expected to drive by 5G, FTTx, and Hyperscalers. The increase in demand for fibre due to cell densification, Increase in FTTx penetration & Network modernization by governments, and Capex increase in edge data centres. The Indian OFC market is estimated 530 mn dollars in FY20 and is expected to grow at a CAGR of 7.2% to 700 mn dollars over the period of FY20-FY25P. The growth is expected to drive by government initiatives to improve connectivity in rural and remote areas across the country.

## Industry Overview

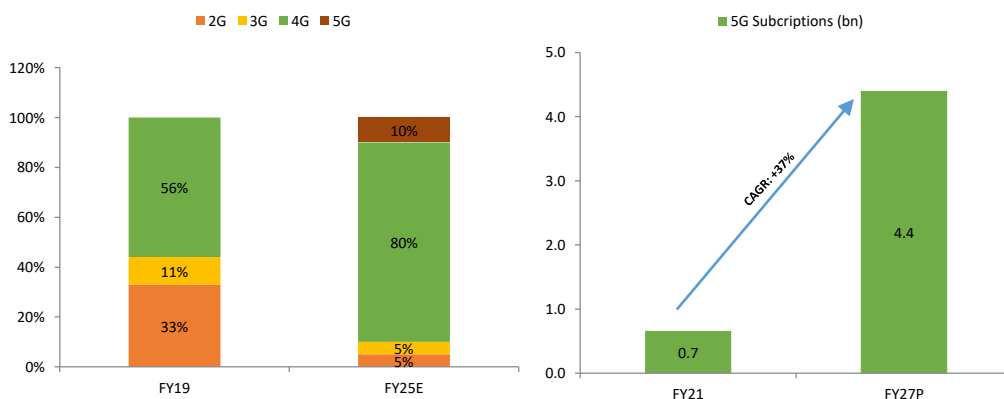
**Exhibit 40: Global OFC demand is expected to grow at a CAGR of 9.6% over the period of FY21-FY24P**

Source: Sterlite Technologies reports, Arianth Capital Research  
P - projections

**Exhibit 41: India OFC market is expected to grow at a CAGR of 5.7% over the period of FY20-FY25P**

Source: Company reports, Arianth Capital Research  
P - projections

The increase in demand for data usage and industry efforts to expand the subscribers base would lead to increase in penetration of 4G usage and stronger growth in 5G. 5G market share is expected to reach to 10% by FY25 due to increase in subscribers base.

**Exhibit 42: 5G market share is expected to reach 10% by FY25.**

Source: Company reports, Arianth Capital Research  
P - projections

## Industry Overview

**Indian Defence Sector:** India is the 3<sup>rd</sup> largest military spender in the world, accounting for 3.7% of global military spending. The Indian government focused to achieve INR 1.75 lakh cr including exports of INR 35,000cr in aerospace & defence goods and services. In FY22, defence exports stood at INR 12,815cr which is the highest record in the last 4 to 5 years. The export target is aimed through the Defence and Export Promotion Policy (DPEPP 2020) which focused, structured and significantly thrust to defence production capabilities of the country for self-reliance and exports.

The defence ministry has set a target of 70% self-reliance in weaponry, creating huge potential for industry players. The budgetary defence outlay increased from 58% to 68% for the domestic industry over the period of FY21-FY23.

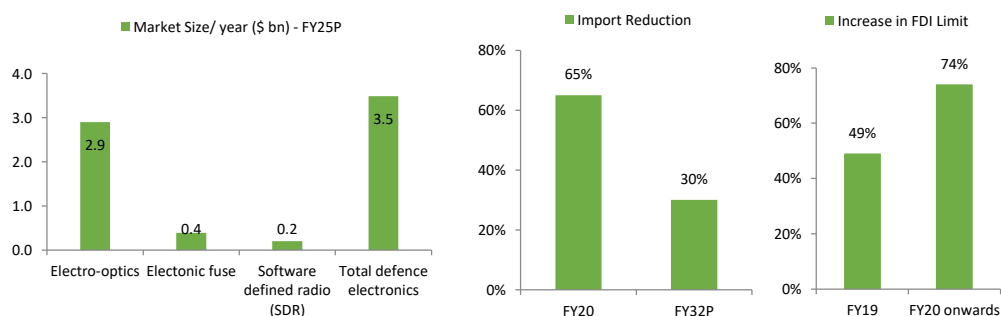
**Exhibit 43: DPEEP has aimed to increase the exports and defence outlay significantly increased.**



Source: Company reports, Arianth Capital Research  
P - projections

The electronic warfare equipment is used to boost the communication grid at high altitudes and end-to-end data encryption. The electro-optics products such as Night Vision Devices (NVDs) demand increased due to national security and surveillance. The electro-optics products has constitutes 15% of the total defence strategic electronics market in India.

**Exhibit 44: Defence electronics in India expected to be \$3.5 bn by FY25**



Source: Company reports, Arianth Capital Research  
P - projections

The government has increased the FDI limit from 49% to 74% and drafted DPEPP-2020, enabling market expansion and exchange of product know-how. The initiatives like Aatma Nirbhar Bharat, Make in India, Defence Acquisition Procedure (DAP) 2020 and Negative Import List has focused on import reduction from 65% to 30% by FY32.



## Industry Overview

**Indian Railways:** Indian railways have focused on developing and upgrading technology in areas such as signaling and telecommunication with around 15,000 km being converted into automatic signaling and 37,000 km being fitted with “KAVACH”. KAVACH commissioned 850 Route kilometers in FY22 and expected another 2,000 km of railway network under the Kavach and Traffic Collision Avoidance System (TCAS).

## Union Budget Highlights - FY23

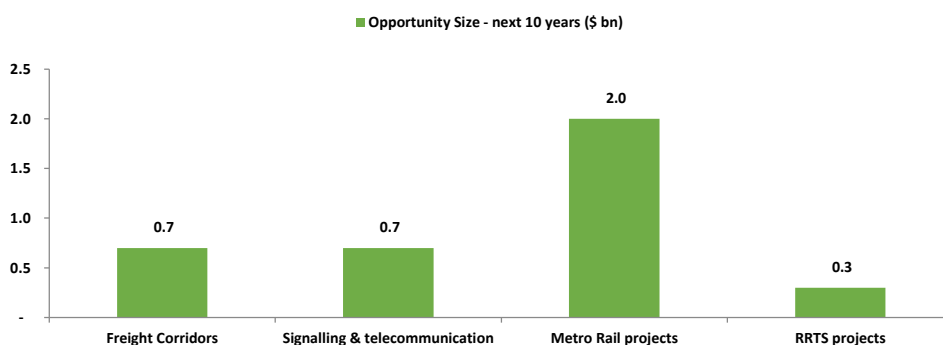
Initiatives	Details
One Station One Product Concept	One Station One Product concept to help local businesses & supply chains.
KAVACH	2000 Km of railway network to be brought under Kavach, the indigenous world class technology and capacity augmentation in FY23.
Vande Bharat Trains	400 new generation Vande Bharat Trains to be manufactured over the next three years.
GatiShakti Cargo Terminals	100 PM GatiShakti Cargo terminals for multimodal logistics to be developed over the next three years.

Source: Company reports, Arianth Capital Research

Projects	Project details	Costs (\$ bn)	Timeline
Freight Corridors	The greenfield projects of dedicated corridors in Indian railways. The three projects in DPR stage	24.4	-
Signalling & telecommunication	Modernisation of signaling & telecommunication in indian railways.	7.5	5 to 7 years
Metro Rail projects	35 global metro projects in planning/ proposed stage.	31	2 to 10 years
RRTS projects	8 RRTS projects proposed and 3 being considered for immediate implementation.		

Source: Company reports, Arianth Capital Research

## Exhibit 45: Indian Railway communications has opportunity of \$3.7 bn over next 10 years.

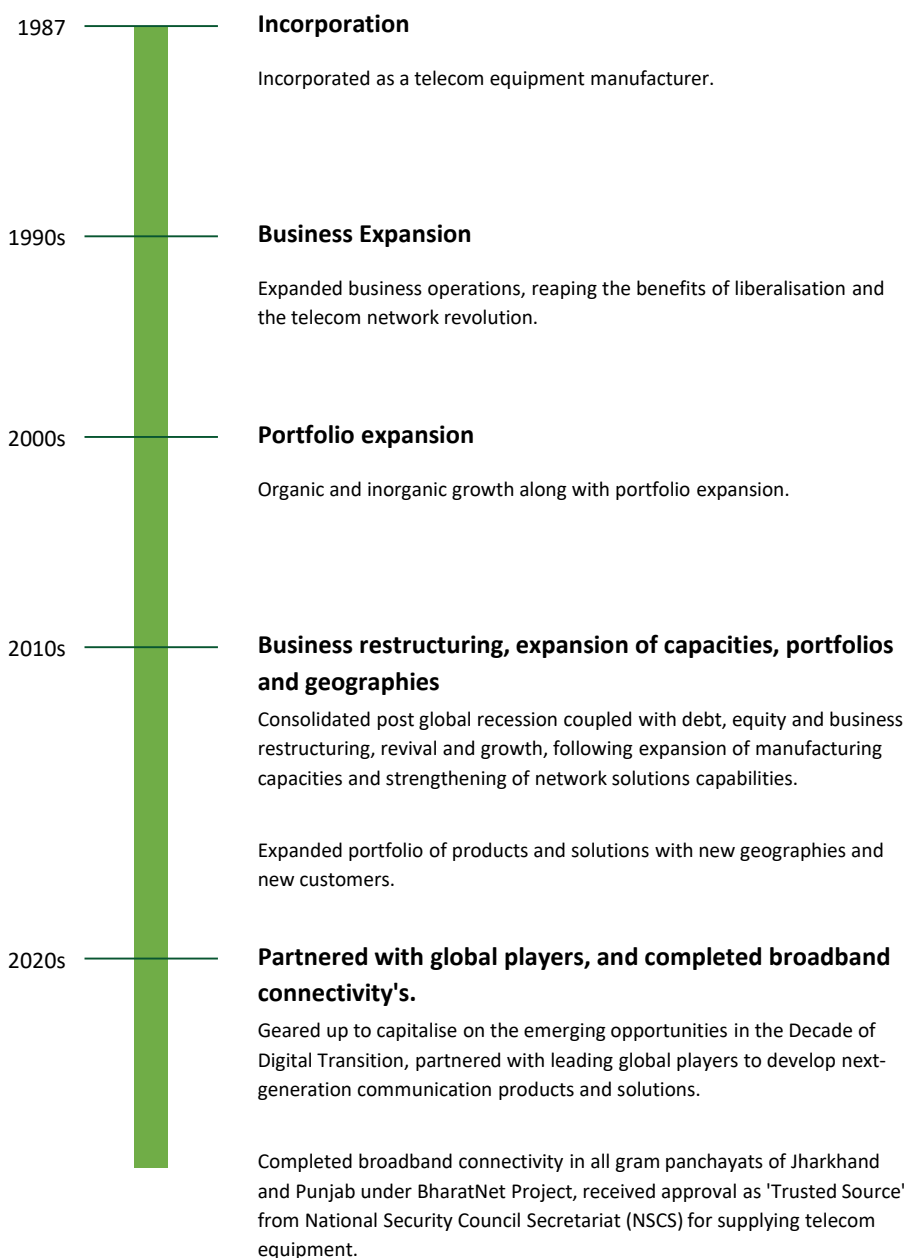


Source: Company reports, Arianth Capital Research

## Business Overview

**HFCL** is engaged in telecom infrastructure development, system integration; manufacture, and supply of high-end telecom equipment, Optical Fibre, and Optic Fibre Cables (OFC). The company's product portfolio includes OFC, Optical Fibre, microwave radios, routers, Wi-fi systems, Ethernet switches, Electronic fuses, electro-optic devices, etc. The company has the largest market share in OFC supplies in India and is one of the largest producers of Wi-Fi/UBR systems in India. Telecom products revenue stood at 43% and 57% from Turnkey contracts and services as of FY22. The order book stood at ~INR 5,300cr as of Q2FY23. The company has 5 manufacturing facilities, and 2 R&D centers, and has a presence in more than 30 countries.

## HFCL's Journey



Manufacturing Facilities

Exhibit 46: HFCL’s Manufacturing facilities

State-of-the-art facilities buoyed by capacity expansion



Source: Company reports, Arihant Capital Research

Exhibit 47: Cable production factory floor at Goa



Exhibit 48: Fiber Cable manufacturing at Goa plant



Exhibit 49: Resins used in production of multicolored cables



Exhibit 50: Next generation of engineers being trained on quality control processes



Source: Company reports, Arihant Capital Research



## Manufacturing Facilities

Exhibit 51: Fiber Splicing in progress



Source: Company reports, Arihant Capital Research

Exhibit 52: Installing Fiber Termination Box

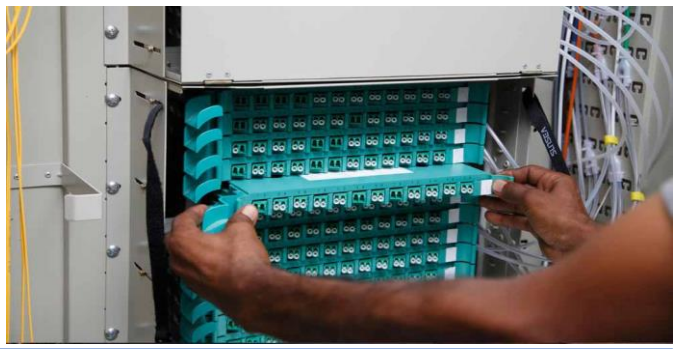


Exhibit 53: Stack of Fibre Spools



Source: Company reports, Arihant Capital Research

Exhibit 54: Finished OFC drums



Exhibit 55: Proof Testing



Source: Company reports, Arihant Capital Research

Exhibit 56: Stranding line



Exhibit 57: Engineers reviewing test reports to ensure strict quality parameters



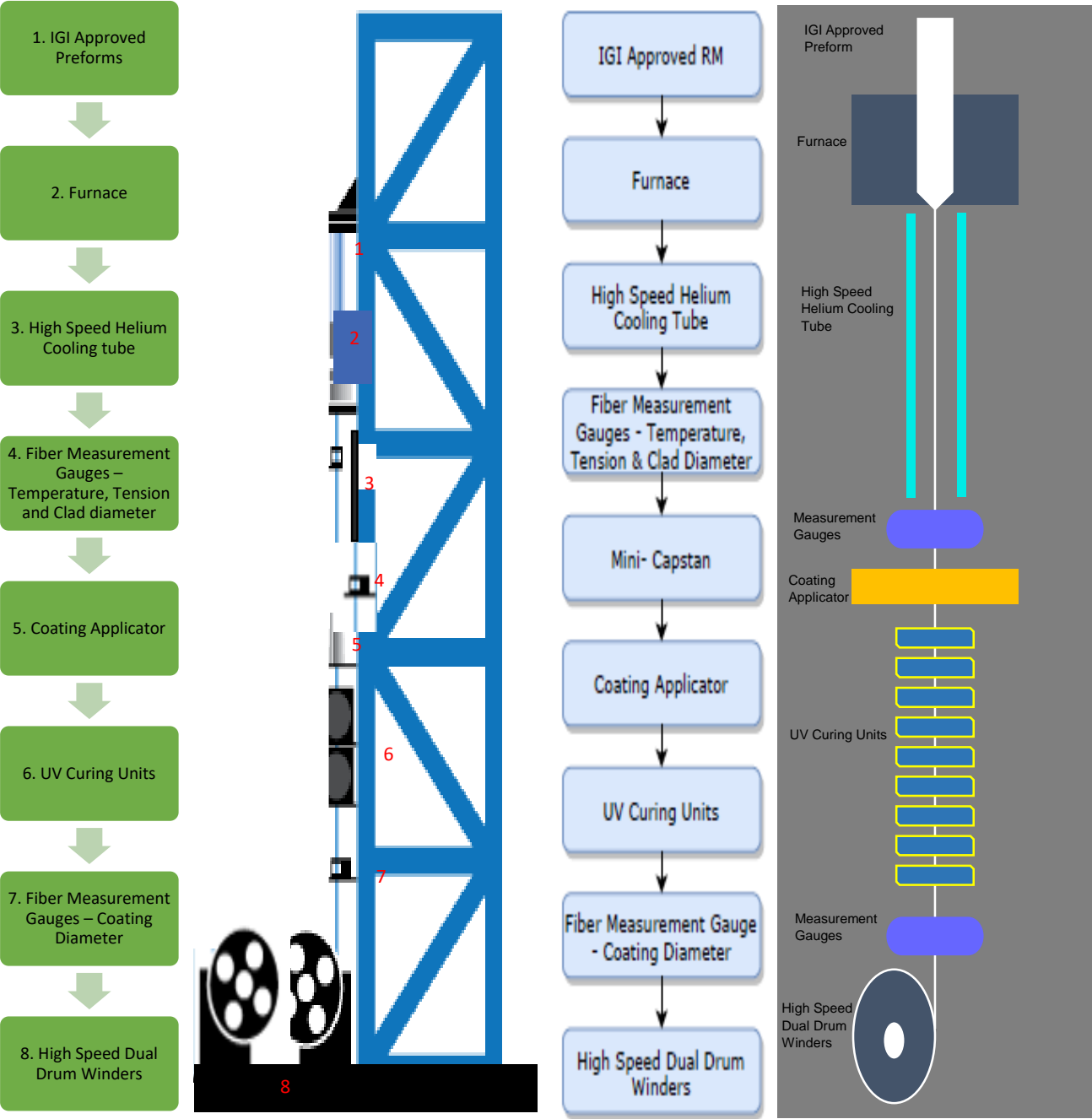
Source: Company reports, Arihant Capital Research

Exhibit 58: SMT Lines at Solan



Process Flow

Exhibit 59: Process Flow – Fibre plant at Hyderabad

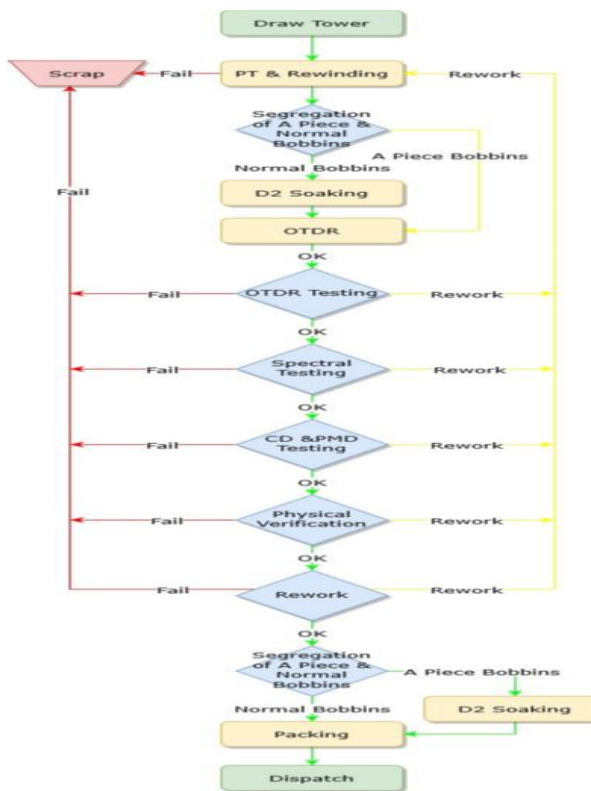


Source: Company reports, Arihant Capital Research



Process Flow

Exhibit 60: PT and QC Process flow – Fibre plant at Hyderabad



Source: Company reports, Arihant Capital Research

Optical Fibre Cables (OFC) with design

Exhibit 61: 8/12/24/48/96/144F Multi tube Armoured OFC

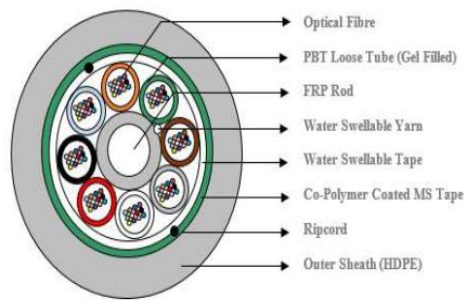


Exhibit 62: Exhibit 56: 12/24/48/96/144/288F Aerial OFC

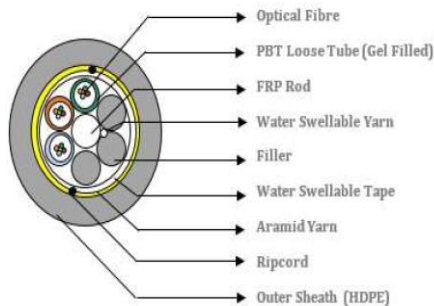
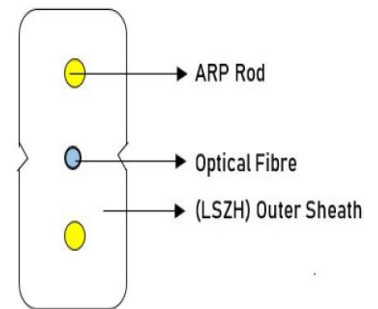


Exhibit 63: 1F Indoor FTTH Drop OFC



Source: Company reports, Arihant Capital Research

Exhibit 64: 4/6/8/12/24 Multi tube design – Indoor outdoor cables

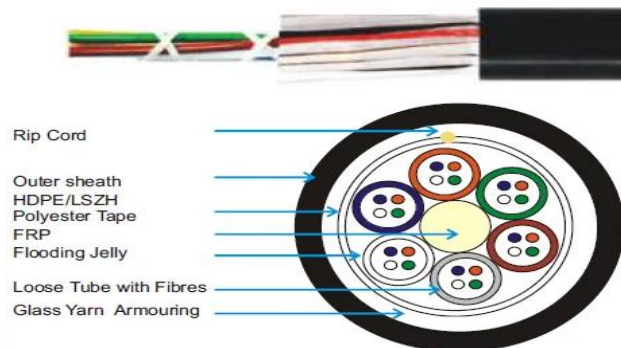
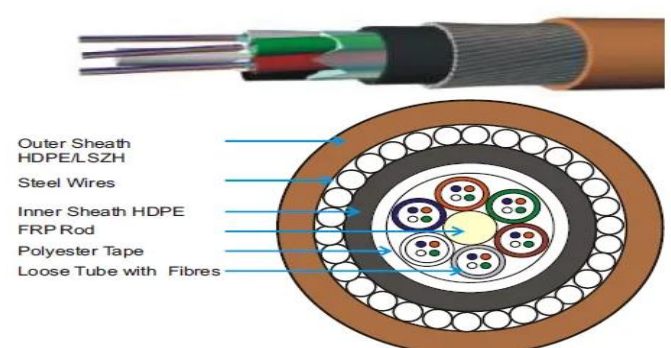


Exhibit 65: 4/6/8/12/24 Multi tube design – Wire armoured cables



Source: Company reports, Arihant Capital Research

## Optical Fibre Cables (OFC) with design

Exhibit 66: 4/6/8/12/24 Breakout cables – Indoor cables

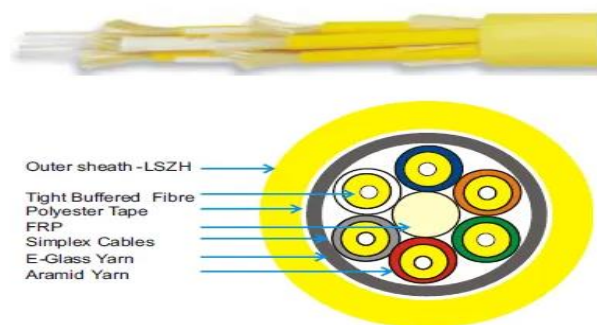
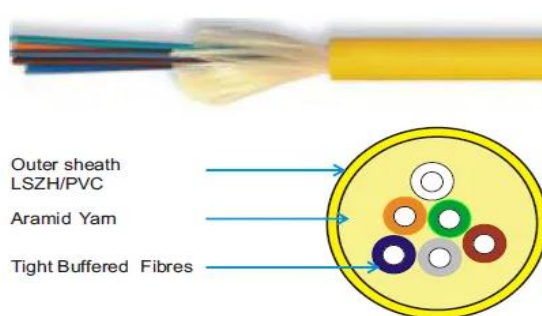


Exhibit 67: 4/6/8/12/24 Distribution cables – Indoor cables



Source: Company reports, Arihant Capital Research

Exhibit 68: 4/6/8/12/24 Flat type drop cable – FTTH cables

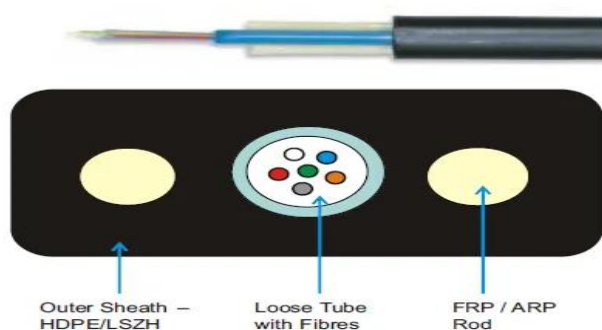
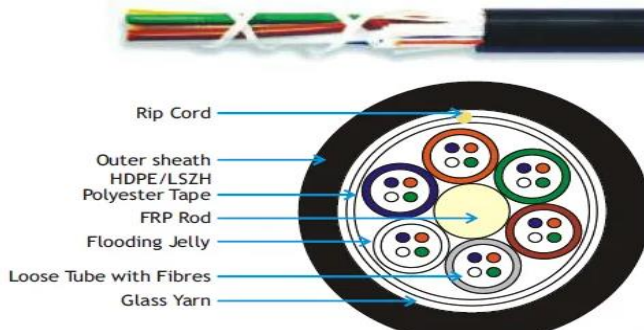


Exhibit 69: 4/6/8/12/24 Multi tube design – duct cables



Source: Company reports, Arihant Capital Research

Exhibit 70: 4/6/8/12/24 Multi tube design – micro duct cables

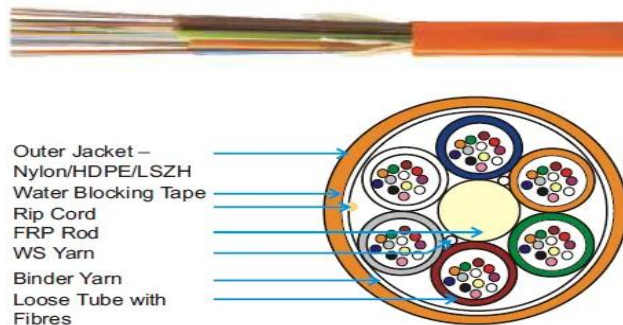
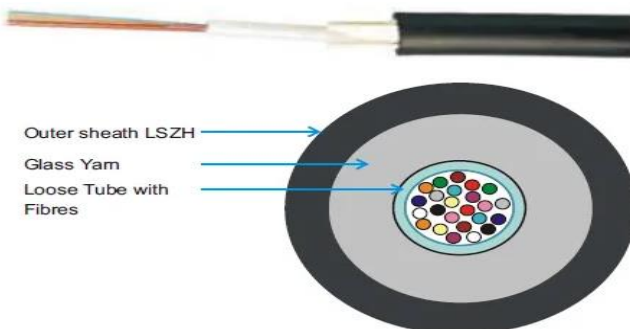


Exhibit 71: 4/6/8/12/24 Uni-tube design – Indoor outdoor cables



Source: Company reports, Arihant Capital Research

Exhibit 72: 4/6/8/12/24 Uni tube design – micro duct cables

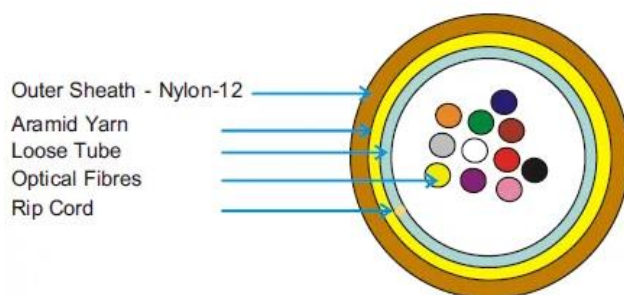
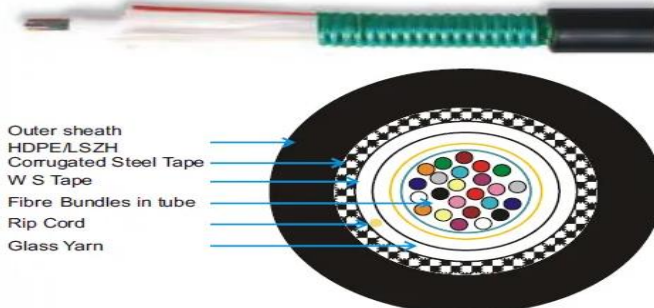


Exhibit 73: 4/6/8/12/24 Uni tube design – CST armoured cables



Source: Company reports, Arihant Capital Research

## Key Management

Personnel	Designation	Description
Mr. Mahendra Nahata	Managing Director	Mr. Nahata is the Founder and Managing Director of HFCL. He majored in Commerce stream from St. Xavier's College, Kolkata. He is responsible for overall strategy, planning, and new business development of the company. He has served on the Board of Governors of Indian IIT - Bombay, IIT - Madras, IIT - Allahabad, Co-Chairman of the Telecom Committee of Federation of Indian Chamber of Commerce and Industry, and Chairman – Telecom Committee of PHD Chamber of Commerce & Industry.
Mr. SK Garg	Executive Director	Mr. Garg majored in M.Tech from IIT Delhi and B.Tech from IIT Roorkee. Previously, he was associated with organizations such as Bharat Electronics Limited and Alcatel India. He is responsible for developing HFCL's growth strategies and managing technology and bid management functions
Mr. V R Jain	Chief Financial Officer	Mr. V R Jain is a qualified Chartered Accountant, a Company Secretary, and a commerce graduate from the University of Jodhpur. He is responsible for financial strategy & planning, fund management, internal controls systems & compliance, and performance reporting of existing and emerging businesses of the company. Prior to HFCL, he worked with organizations such as Gujarat Heavy Chemicals Ltd and TransAsia Carpets Ltd.
Mr. Harsh Pagay	Executive President – Optical Fiber & Optical Fiber Cable	Mr. Harsh Pagay majored MBA from ICFAI Hyderabad and a B.Tech from MITS Gwalior. He is responsible for the Optical Fiber (OF) and Optical Fiber Cables (OFC) business of the company and manages efficient operations of manufacturing units in Goa and Hyderabad. Prior to HFCL, he worked with Teracom Ltd as its CEO. He was associated with brands like Finolex Cables, Sterlite Technologies, Hotline Tele Tube & Components, and J.K. Tyres.
Mr. Jitendra Singh Chaudhary	Executive President - Communications	Mr. Jitendra Singh Chaudhary is a PGDM holder from IIM, Calcutta and B.Tech from MMM Engineering College, Gorakhpur. He is responsible for the Communications Business Unit spanning multiple verticals of the company - Public, Defence, and Railway Communications. Prior to HFCL, he was working with DragonWave HFCL India Private Ltd as CEO. In the past, he was associated with organizations such as SIAE Microelectronics, Aviat Networks, Harris Stratex Networks and Siemens.
Mr. Jayanta Dey	Executive President – 5G	Mr. Jayanta Dey majored in MBA from North Eastern University, Boston, and a B.E. from BITS Pilani. He is responsible for the HFCL's foray into 5G Product Development and System Integration globally. Prior to HFCL, he worked with Wipro as Vice President and Global Business Head for Network and Edge & Consumer Electronics Vertical. He also worked as a CTO for the Manufacturing and Technology Business Unit at Wipro Ltd, where he led the initiative on autonomous vehicles as part of Wipro's innovation charter.
Mr. Manoj Baid	Sr. Vice President (Corporate) & Company Secretary	Mr. Manoj Baid is a commerce graduate from the University of Rajasthan and a fellow member of the Institute of Company Secretaries of India. He is responsible for the Secretarial function of the company. He is also responsible for ensuring compliance with corporate and securities laws and corporate governance stipulations across HFCL. Prior to HFCL, he was associated with Modi Xerox Ltd
Mr. Rajesh Jain	Executive President - EPC Projects	Mr. Rajesh Jain majored in MBA from Dr. BhimRao Ambedkar University, Agra, and a B.Sc from RBS College, Agra. He has rich experience in varied business verticals such as Telecom & Power products, EPC Projects, and O&M Projects for domestic and international markets. He heads the EPC Turnkey Projects division of the company. Prior to HFCL, he worked as a CEO & Whole Time Director of A2Z Infra Engineering Ltd, and was associated with organizations like Teracom and Vindhya Telelinks.
Mr. NL Garg	President: Supply Chain Management	Mr. NL Garg majored in B.Tech from Punjab Engineering College, Chandigarh. He is responsible for Supply Chain Management of Key Business Units of the company. Prior to HFCL, he worked with Indus Towers as Head of Contract Management. In the past, he was associated with organizations like Airtel, Aircel, Escotel, and Xerox.

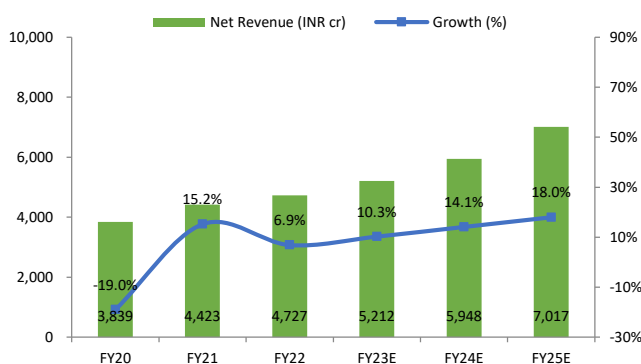
Source: Company, Arianth Capital Research



## Financial Analysis

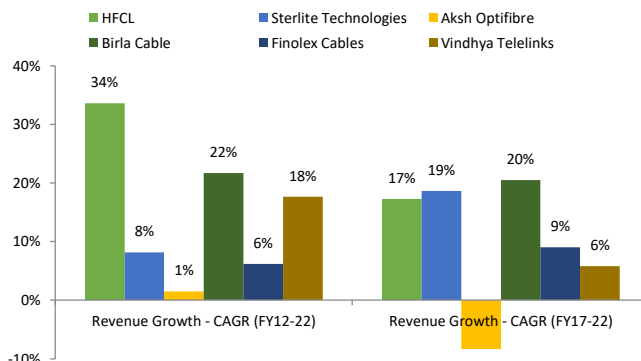
**Net revenue is expected to grow at a CAGR of 14.1% till FY25E:** Post 2010, the company revenue strongly grew due to the Penetration of 3G and the introduction of 4G. Reliance Jio is the 1<sup>st</sup> player to introduce 4G in India and Jio is one of the major clients of HFCL. HFCL has supplied optical fibre cable and FTTH network for reliance Jio across Northern India. Net revenue grew from INR 2,202cr (FY17) to INR 4,727cr in FY22. Net revenue witnessed a growth of 17.3% CAGR during the period of FY17 to FY22 and is expected to revenue grow at a CAGR of 14.1% over the period of FY22 to FY25E. The growth is majorly expected to be driven by 4G penetration & the introduction of 5G and demand from defence and railways.

**Exhibit 74: Net revenue is expected to grow at a CAGR of 14.1% till FY25E.**



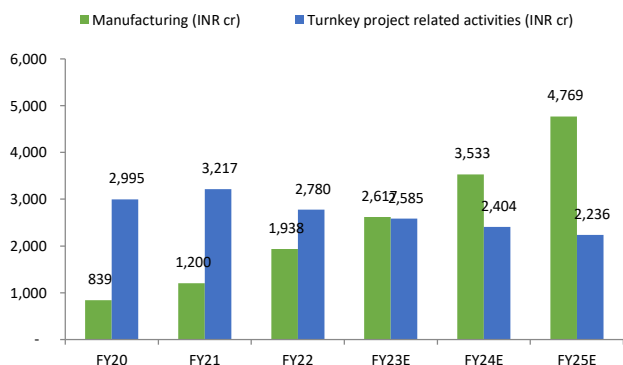
Source: Company reports, Arianth Capital Research

**Exhibit 75: HFCL delivered 34% & 17% CAGR revenue growth over the period of FY12-22 & FY17-22 respectively.**

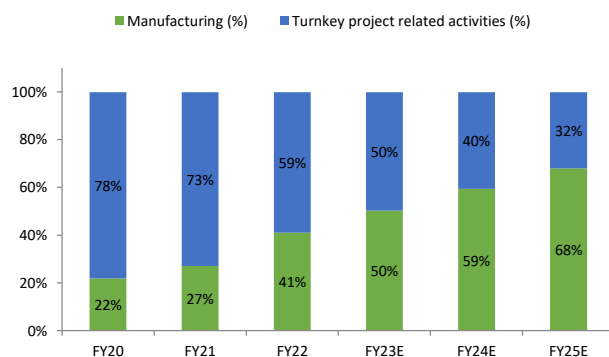


Source: Company reports, Arianth Capital Research

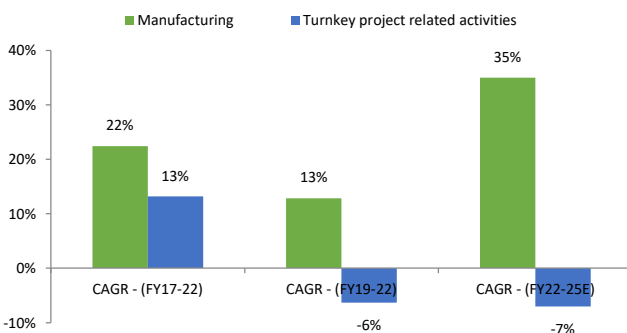
**Exhibit 76: Manufacturing revenue is expected to increase going forward.**



Source: Company reports, Arianth Capital Research

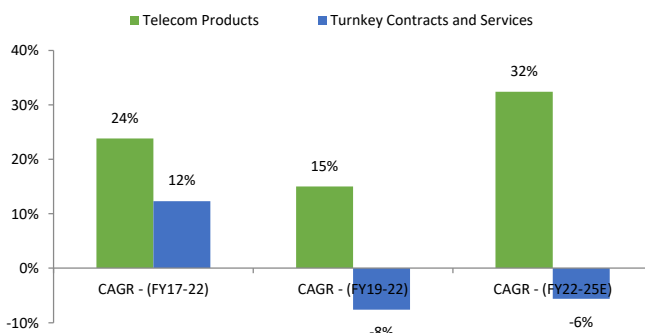


**Exhibit 77: Manufacturing and trading activities revenue is expected to grow at a CAGR of 35% over the period of FY22-25E.**



Source: Company reports, Arianth Capital Research

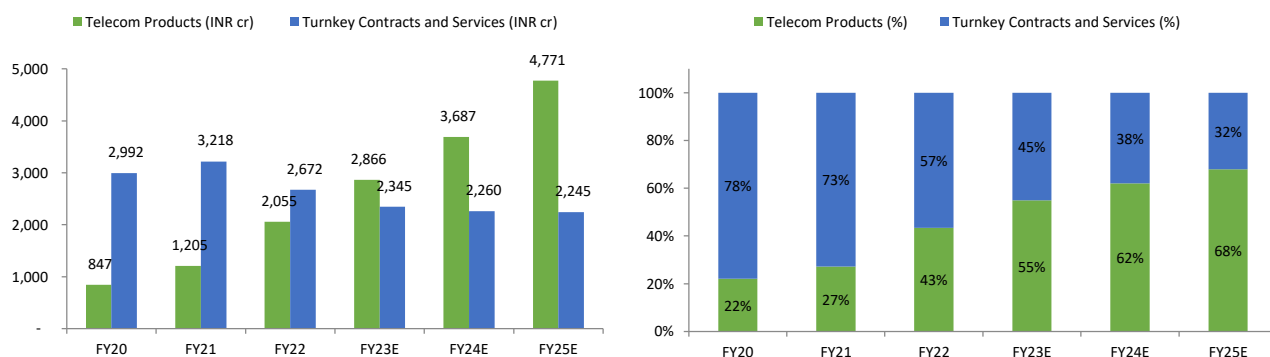
**Exhibit 78: Telecom products revenue is expected to grow at a CAGR 32% over the period of FY22-25E.**



Source: Company reports, Arianth Capital Research

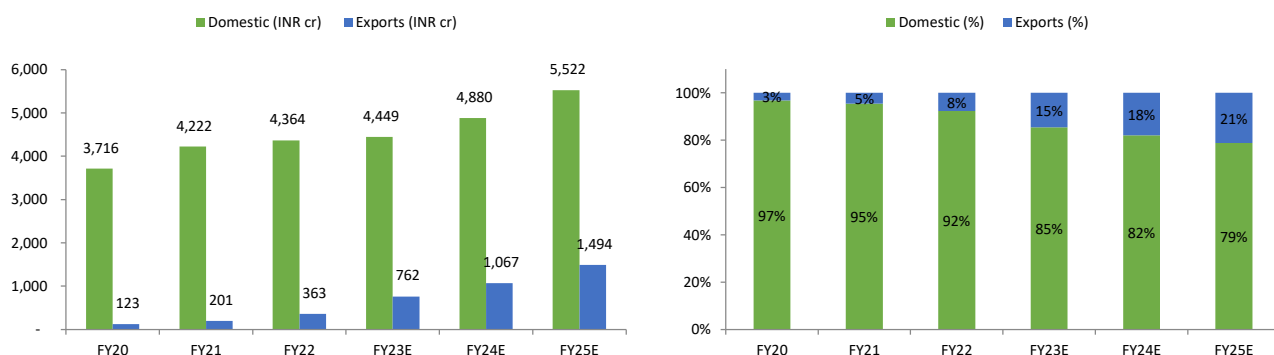
## Financial Analysis

**Exhibit 79: Telecom products revenue share is expected to increase due to introduction of 5G. 5G is expected to capture 10% market share by FY25E.**



Source: Company reports, Arianth Capital Research

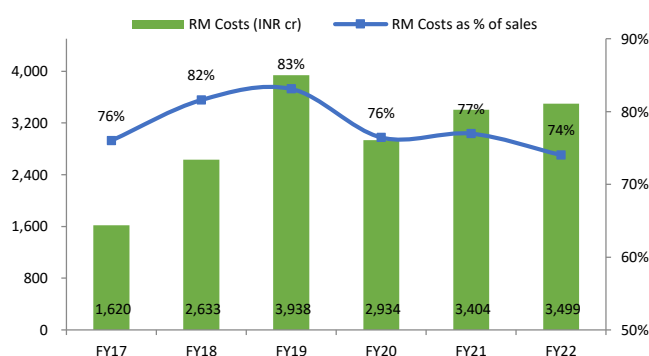
**Exhibit 80: Exports revenue share is expected to double by FY23 and expected to reach more than INR 750cr by FY23.**



Source: Company reports, Arianth Capital Research

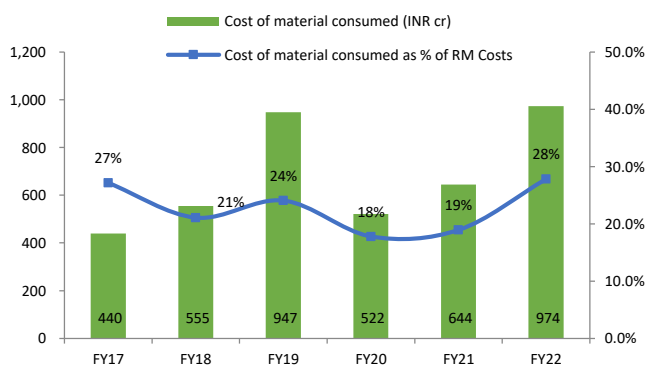
**Raw material cost is expected to reduce in terms of sales due to operating leverage:** HFCL's Raw material costs peaked in FY19 and slowly softened to 74% of sales which is less over the period of FY17-FY22. HFCL has increased its stock-in-trade for EPC contracts. Because HFCL has manufacturing OFC & OFC cables and other products, however, HFCL has to buy other accessories to complete the EPC projects. The purchase stock-in-trade has increased from INR 162cr (FY17) to INR 1,244cr in FY22. HFCL is changing the products mix and telecom products and EPC mix is expected around 70:30. The lower EPC share will reduce the stock-in-trade going forward. Overall, HFCL has managed to reduce the raw material costs in terms of sales on incremental sales. The operating leverage is expected to play which is expected to result in reducing the raw material costs in terms of sales going forward.

**Exhibit 81: Increase in volume and operating leverage led to lower RM cost in terms of sales.**



Source: Company reports, Arianth Capital Research

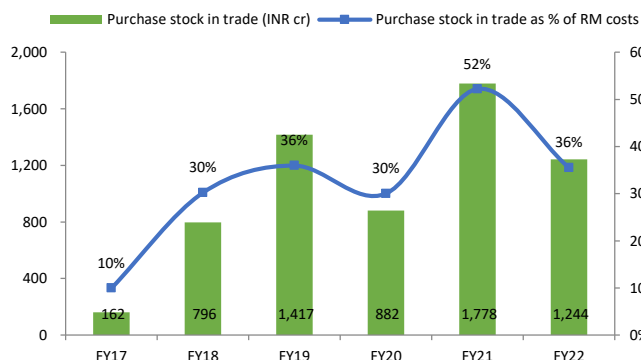
**Exhibit 82: RM consumed increased in FY22, due to lower purchase stock in trade for EPC contracts and consumption for telecom products.**



Source: Company reports, Arianth Capital Research

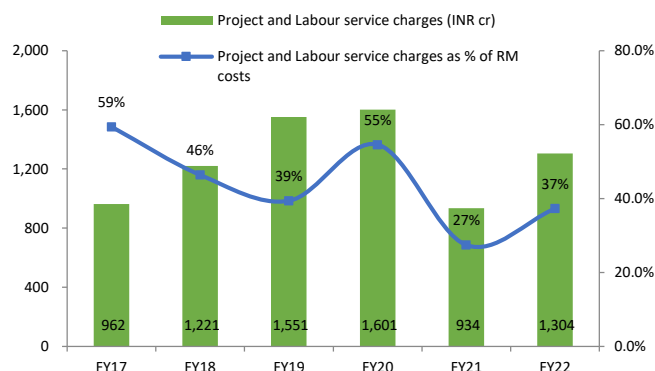
## Financial Analysis

**Exhibit 83: Purchase stock-in trade increased to 10% of RM costs (FY17) to 36% of RM costs in FY22 due to EPC contracts. HFCL is changing the products mix and telecom products and EPC mix is expected around 70:30. The lower EPC share will reduce the stock-in-trade going forward.**



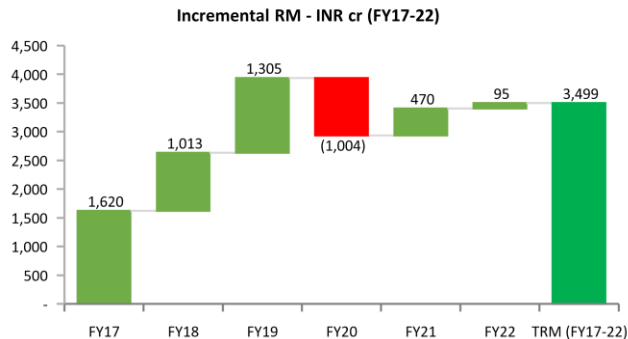
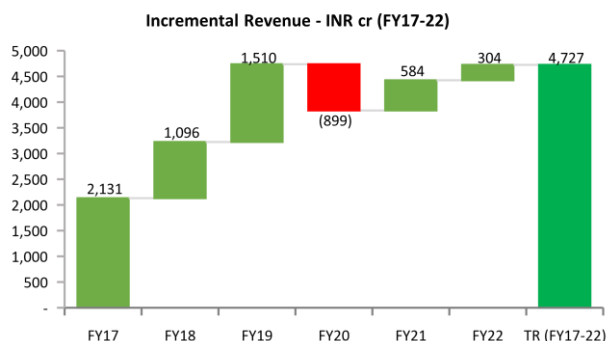
Source: Company reports, Arihant Capital Research

**Exhibit 84: Project and service labour costs reduced in terms of RM costs.**



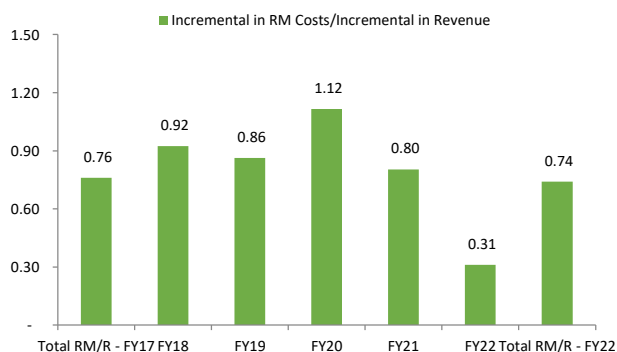
Source: Company reports, Arihant Capital Research

**Exhibit 85: Operating leverage positively impacted in good times and downturn on bad times.**



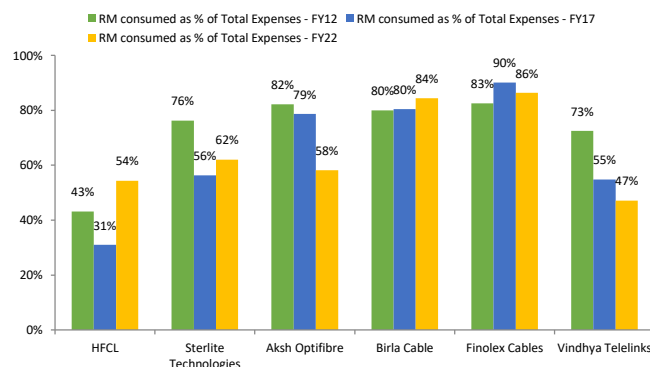
Source: Company reports, Arihant Capital Research

**Exhibit 86: During covid (FY20), HFCL has spend INR 1.1 to earn incremental revenue of INR 1 and substantially reduced spending INR 0.3 to earn incremental revenue of INR 1 in FY22. The introduction of 5G and increase in capex in telecom industry along with operating leverage of HFCL would impact positively going forward.**



Source: Company reports, Arihant Capital Research

**Exhibit 87: HFCL's raw material consumption is lower to peers due to increase in stock-in trade for EPC contracts.**



## Financial Analysis

**Total expenditure in terms of sales are expected to reduce going forward:** HFCL has reduced its overall expenditure from 91% of sales (FY17) to 86.2% of sales in FY22. The cost reduction majorly from raw material cost followed by other expenses. HFCL has implemented cost reduction initiatives at the same time increased product & research development expenses. Overall, HFCL has reduced total expenditure to 470 bps and 498 bps over the period of FY17-FY22 and FY19-FY22 respectively. We expect HFCL continue to reduce the total expenditure in terms of sales going forward.

**Exhibit 88: HFCL reduced total expenditure in terms of sales to 470 bps & 498 bps over the period of FY17-22 & FY19-22.**

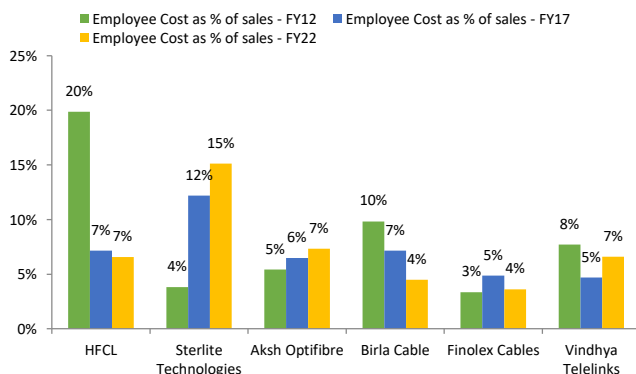
Expenses as % of sales	FY17	FY18	FY19	FY20	FY21	FY22	High	Mean	Median	Low
Raw Material Cost	76.0%	81.6%	83.1%	76.4%	77.0%	74.0%	83.1%	78.0%	76.7%	74.0%
Employee Cost	7.2%	5.2%	4.2%	5.8%	5.7%	6.6%	7.2%	5.8%	5.8%	4.2%
Legal and Professional Charges	1.7%	1.2%	0.8%	1.0%	1.0%	1.2%	1.7%	1.2%	1.1%	0.8%
Travelling and Conveyance Expenses	1.4%	0.8%	0.7%	0.9%	0.7%	0.8%	1.4%	0.9%	0.8%	0.7%
Power & Fuel and Water charges	0.5%	0.4%	0.3%	0.4%	0.6%	0.7%	0.7%	0.5%	0.4%	0.3%
Selling and Distribution expenses	0.7%	0.6%	0.4%	0.5%	0.8%	0.8%	0.8%	0.6%	0.6%	0.4%
Research & Product Development expense	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%	0.4%	0.1%	0.1%	0.0%
Insurance expenses	0.2%	0.1%	0.1%	0.3%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%
Auditors Remuneration	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
CSR	0.2%	0.1%	0.1%	0.0%	0.2%	0.1%	0.2%	0.1%	0.1%	0.0%
Repairs and maintenance	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%
Liquidated damage on sales	1.3%	0.3%	0.0%	0.1%	0.2%	0.1%	1.3%	0.3%	0.2%	0.0%
Miscellaneous Expenses	0.8%	0.4%	0.3%	0.4%	0.4%	0.5%	0.8%	0.5%	0.4%	0.3%
Other Expenses	0.8%	0.2%	0.9%	0.8%	0.3%	0.5%	0.9%	0.6%	0.6%	0.2%
<b>Total Expenditure</b>	<b>91.0%</b>	<b>91.2%</b>	<b>91.2%</b>	<b>87.1%</b>	<b>87.6%</b>	<b>86.2%</b>	<b>91.2%</b>	<b>89.1%</b>	<b>89.3%</b>	<b>86.2%</b>

Source: Company reports, Arianth Capital Research

Expenses as % of sales	FY17	FY19	FY22	Change - (FY17-22)	Change - (FY19-22)
Raw Material Cost	76.0%	83.1%	74.0%	-199 bps	-910 bps
Employee Cost	7.2%	4.2%	6.6%	-58 bps	+235 bps
Legal and Professional Charges	1.7%	0.8%	1.2%	-55 bps	+35 bps
Travelling and Conveyance Expenses	1.4%	0.7%	0.8%	-59 bps	+16 bps
Power & Fuel and Water charges	0.5%	0.3%	0.7%	-28 bps	+43 bps
Selling and Distribution expenses	0.7%	0.4%	0.8%	+10 bps	+35 bps
Research & Product Development Expenses	0.0%	0.1%	0.4%	+44 bps	+37 bps
Insurance expenses	0.2%	0.1%	0.2%	-1 bps	+8 bps
Auditors Remuneration	0.1%	0.0%	0.0%	-1 bps	+1 bps
CSR	0.2%	0.1%	0.1%	-3 bps	+7 bps
Repairs and maintenance	0.2%	0.1%	0.1%	-5 bps	0 bps
Liquidated damage on sales	1.3%	0.0%	0.1%	-119 bps	+15 bps
Miscellaneous Expenses	0.8%	0.3%	0.5%	-22 bps	+20 bps
Other Expenses	0.8%	0.9%	0.5%	-29 bps	-40 bps
<b>Total Expenditure</b>	<b>91.0%</b>	<b>91.2%</b>	<b>86.2%</b>	<b>-470 bps</b>	<b>-498 bps</b>

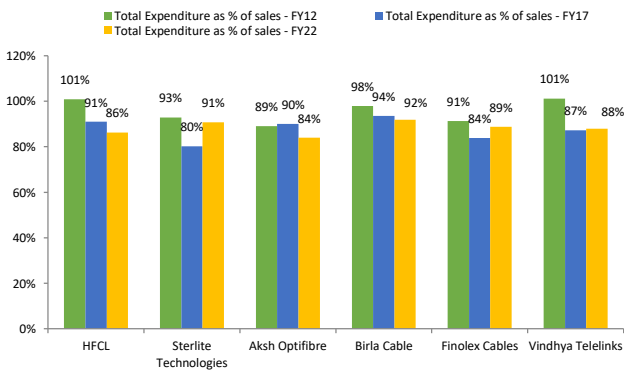
Source: Company reports, Arianth Capital Research

**Exhibit 89: HFCL reduced employee cost in terms of sales. Sales was grown 34% CAGR over the period of FY12-22.**



Source: Company reports, Arianth Capital Research

**Exhibit 90: HFCL reduced total expenditure 91% to 86% in terms of sales over the period of FY17-22.**



Source: Company reports, Arianth Capital Research

## Financial Analysis

## Exhibit 91: HFCL other expenses vs peers

## Legal and Professional Charges as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	1.7%	1.2%	0.8%	1.0%	1.0%	1.2%	-55 bps	+43 bps
Sterlite Technologies	1.8%	1.6%	1.3%	1.4%	1.5%	2.0%	+23 bps	+73 bps
Aksh Optifibre	0.4%	0.6%	0.6%	1.1%	1.2%	1.7%	+127 bps	+112 bps
Birla Cable	0.1%	0.0%	0.0%	0.1%	0.3%	0.0%	-5 bps	0 bps
Finolex Cables	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%	0 bps	-3 bps
Vindhya Telelinks	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	-20 bps	-7 bps
<b>Median (exclu. HFCL)</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>-5 bps</b>	<b>-3 bps</b>

Source: Company reports, Arianth Capital Research

## Travelling and Conveyance Expenses as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	1.4%	0.8%	0.6%	0.9%	0.7%	0.8%	-59 bps	+19 bps
Sterlite Technologies	1.7%	1.5%	1.2%	0.9%	0.5%	1.0%	-150 bps	-94 bps
Aksh Optifibre	0.6%	0.7%	0.8%	0.7%	0.2%	0.3%	-71 bps	-68 bps
Birla Cable	0.7%	0.5%	0.3%	0.5%	0.1%	0.1%	-46 bps	-55 bps
Finolex Cables	0.4%	0.3%	0.3%	0.4%	0.2%	0.3%	-33 bps	-35 bps
Vindhya Telelinks	0.8%	0.9%	0.7%	0.8%	0.6%	0.7%	-86 bps	-83 bps
<b>Median (exclu. HFCL)</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>-45 bps</b>	<b>-47 bps</b>

Source: Company reports, Arianth Capital Research

## Power and Fuel as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	0.5%	0.4%	0.2%	0.2%	0.6%	0.7%	+28 bps	+58 bps
Sterlite Technologies	3.6%	2.8%	2.0%	2.4%	3.0%	2.5%	-109 bps	+48 bps
Aksh Optifibre	1.8%	2.1%	2.6%	3.0%	3.0%	2.5%	+71 bps	-7 bps
Birla Cable	2.2%	1.7%	1.3%	2.5%	1.7%	1.3%	-83 bps	-1 bps
Finolex Cables	1.8%	1.7%	1.6%	1.6%	1.6%	1.2%	-54 bps	-33 bps
Vindhya Telelinks	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	-20 bps	-7 bps
<b>Median (exclu. HFCL)</b>	<b>1.8%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>2.4%</b>	<b>1.7%</b>	<b>1.3%</b>	<b>-49 bps</b>	<b>-24 bps</b>

Source: Company reports, Arianth Capital Research

## Repairs and Maintenance as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%	-5 bps	+2 bps
Sterlite Technologies	1.3%	1.0%	0.8%	0.4%	0.9%	0.8%	-46 bps	+2 bps
Aksh Optifibre	0.2%	0.3%	0.4%	0.5%	0.8%	0.6%	+39 bps	+25 bps
Birla Cable	0.9%	1.0%	1.1%	1.7%	0.7%	0.5%	-46 bps	-64 bps
Finolex Cables	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%	+1 bps	+3 bps
Vindhya Telelinks	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	-7 bps	-15 bps
<b>Median (exclu. HFCL)</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.7%</b>	<b>0.5%</b>	<b>+20 bps</b>	<b>+10 bps</b>

Source: Company reports, Arianth Capital Research

## Selling &amp; Distribution Expenses as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	0.7%	0.6%	0.4%	0.4%	0.8%	0.8%	10 bps	+40 bps
Sterlite Technologies	1.5%	1.4%	1.0%	1.5%	1.2%	0.9%	-60 bps	-11 bps
Aksh Optifibre	0.9%	1.2%	1.8%	1.2%	0.1%	0.4%	-52 bps	-141 bps
Birla Cable	0.7%	0.5%	0.5%	2.2%	2.4%	2.7%	+194 bps	+215 bps
Finolex Cables	0.7%	0.9%	0.9%	0.9%	0.5%	0.3%	-46 bps	-66 bps
Vindhya Telelinks	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	-6 bps	0 bps
<b>Median (exclu. HFCL)</b>	<b>0.7%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.2%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>-30 bps</b>	<b>-50 bps</b>

Source: Company reports, Arianth Capital Research

## CSR as % of sales

	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	-3 bps	7 bps
Sterlite Technologies	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	8 bps	10 bps
Aksh Optifibre	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	-9 bps	-5 bps
Birla Cable	0.2%	0.1%	0.1%	0.3%	0.2%	0.1%	-5 bps	-1 bps
Finolex Cables	0.1%	0.2%	0.3%	0.4%	0.4%	0.2%	16 bps	-8 bps
Vindhya Telelinks	0.2%	0.1%	0.1%	0.2%	0.2%	0.3%	9 bps	12 bps
<b>Median (exclu. HFCL)</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>5 bps</b>	<b>8 bps</b>

Source: Company reports, Arianth Capital Research

## Auditor Remuneration (INR cr)

	FY17	FY18	FY19	FY20	FY21	FY22	Auditor Remuneration growth (FY17-22)	Revenue growth (FY17-22)
HFCL	1.1	1.3	0.9	1.3	1.8	1.4	5.6%	17.3%
Sterlite Technologies	1.2	0.6	1.0	1.4	1.1	1.3	0.5%	18.6%
Aksh Optifibre	0.5	0.4	0.4	0.4	0.6	0.5	-2.0%	-8.3%
Birla Cable	0.1	0.1	0.1	0.1	0.1	0.1	8.4%	20.5%
Finolex Cables	0.6	0.8	0.8	0.9	0.8	0.8	6.9%	9.0%
Vindhya Telelinks	0.3	0.3	0.3	0.4	0.3	0.3	2.2%	5.8%
<b>Median (exclu. HFCL)</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.6</b>	<b>0.5</b>	<b>-2.0%</b>	<b>-</b>

Source: Company reports, Arianth Capital Research

## Auditor Remuneration as % of sales

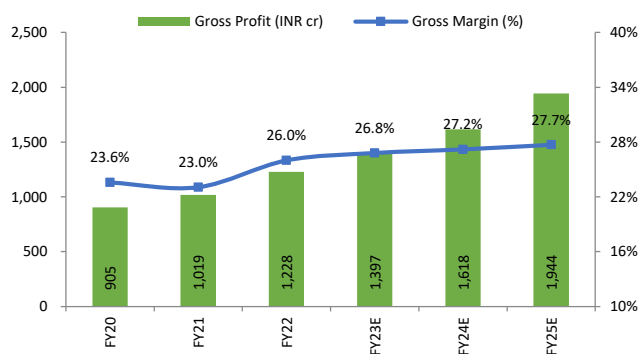
	FY17	FY18	FY19	FY20	FY21	FY22	Change (FY17-22)	Change (FY19-22)
HFCL	0.05%	0.04%	0.02%	0.03%	0.04%	0.03%	-2 bps	1 bps
Sterlite Technologies	0.05%	0.02%	0.02%	0.03%	0.02%	0.02%	-3 bps	0 bps
Aksh Optifibre	0.10%	0.06%	0.08%	0.14%	0.21%	0.15%	4 bps	6 bps
Birla Cable	0.04%	0.02%	0.01%	0.03%	0.03%	0.02%	-2 bps	1 bps
Finolex Cables	0.02%	0.03%	0.02%	0.03%	0.03%	0.02%	0 bps	0 bps
Vindhya Telelinks	0.03%	0.02%	0.01%	0.02%	0.02%	0.02%	0 bps	1 bps
<b>Median (exclu. HFCL)</b>	<b>0.04%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.02%</b>	<b>-2 bps</b>	<b>0 bps</b>

Source: Company reports, Arianth Capital Research

## Financial Analysis

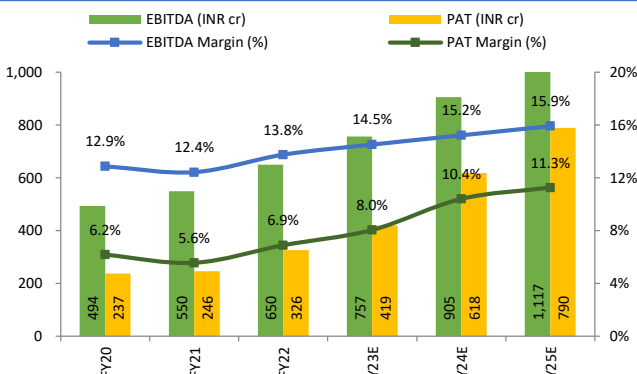
**Improvement expected in margin levels:** The raw material cost reduction led to increasing in gross margin and EBITDA margin levels. HFCL has reduced total expenditure in terms of sales to 470 bps & 498 bps over the period of FY17-22 & FY19-22. The strategic cost control measures led to improvement in EBITDA margin levels. HFCL is expected to continue to optimize the costs and improve the margin levels going forward.

Exhibit 92: Gross margin is expected to improve going forward.



Source: Company reports, Arianth Capital Research

Exhibit 93: EBITDA and PAT margin continue to be improve.



Source: Company reports, Arianth Capital Research

Exhibit 94: EBITDA Margins expanded 14.6% over the period of FY12-22, which is higher than peers.

Year	EBITDA Margin (%)				EBITDA Margin expansion (%)		
	FY12	FY17	FY19	FY22	FY12-FY22	FY17-FY22	FY19-FY22
HFCL	-1%	9%	9%	14%	14.6%	4.7%	5.1%
Sterlite Technologies	7%	20%	21%	9%	2.1%	-10.5%	-11.9%
Aksh Optifibre	11%	10%	16%	16%	5.0%	6.0%	0.3%
Birla Cable	2%	6%	16%	8%	6.0%	1.7%	-7.6%
Finolex Cables	9%	16%	15%	11%	2.6%	-4.9%	-3.2%
Vindhya Telelinks	-1%	13%	16%	12%	13.2%	-0.8%	-4.1%

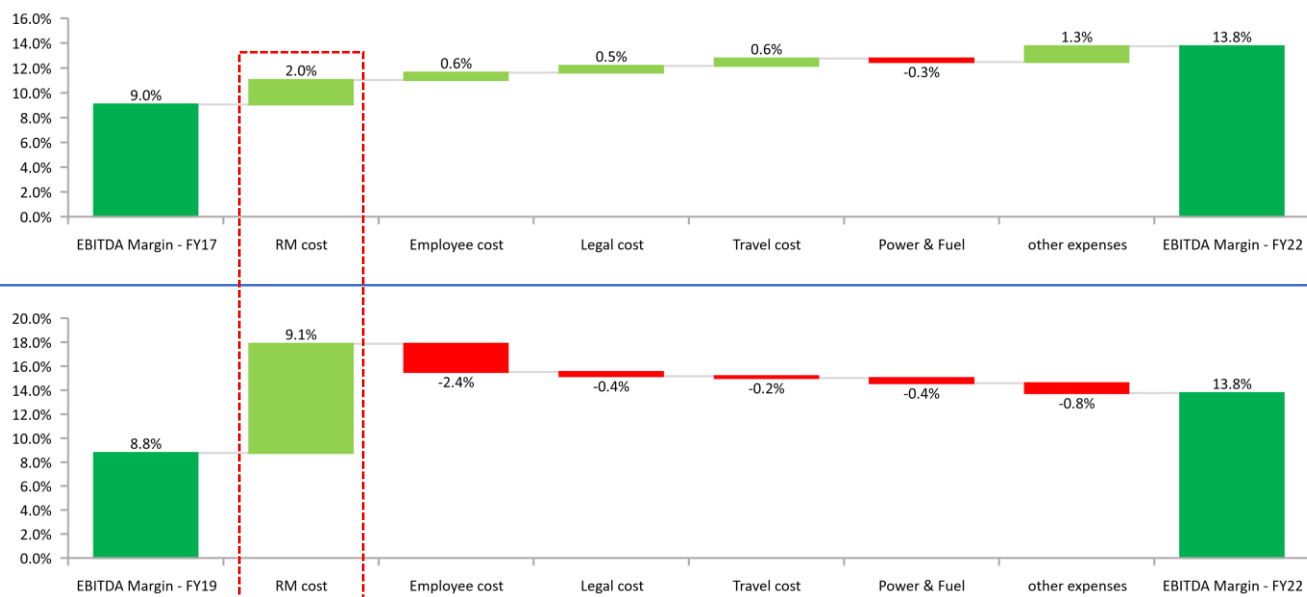
Source: Ace Equity, Arianth Capital Research

Exhibit 95: EBIT Margins expanded 18.8% over the period of FY12-22, which is higher than peers.

Year	EBIT Margin (%)				EBIT Margin expansion (%)		
	FY12	FY17	FY19	FY22	FY12-FY22	FY17-FY22	FY19-FY22
HFCL	-7%	8.0%	8.1%	12.1%	18.8%	4.1%	4.0%
Sterlite Technologies	4%	14.7%	18.2%	3.6%	-0.8%	-11.1%	-14.5%
Aksh Optifibre	6%	5.6%	10.1%	8.5%	2.4%	2.9%	-1.6%
Birla Cable	-3%	2.8%	13.6%	6.1%	9.1%	3.4%	-7.5%
Finolex Cables	7%	14.2%	13.2%	10.2%	3.5%	-4.0%	-3.0%
Vindhya Telelinks	-3%	11.6%	15.2%	10.4%	13.6%	-1.2%	-4.8%

Source: Ace Equity, Arianth Capital Research

Exhibit 96: Raw material cost reduction led to improvement in EBITDA Margins.

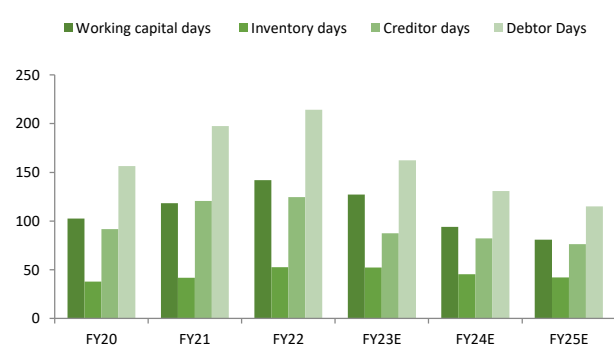


Source: Company reports, Arianth Capital Research

## Financial Analysis

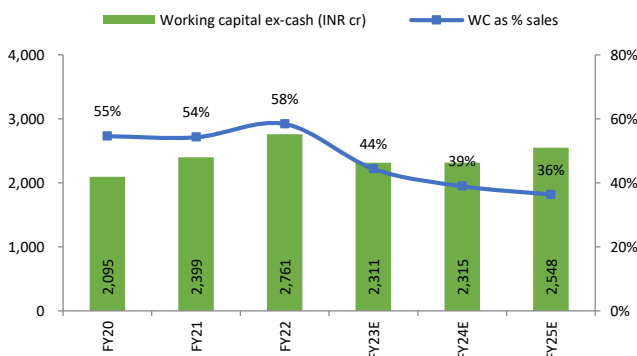
**Working Capital Cycle to Improve:** The lockdown imposed due to covid-19, resulted in an economic slowdown and shutdown of factories/operations which led to less demand for products from customers. The company exports are impacted due to Russia – Ukraine invasion which caused supply chain disruptions and global geopolitical tensions. The movement of goods restricted between States/countries impacted sales which resulted in the accumulation of inventories. The company has paid money in less than 150 days for purchasing raw materials/goods from suppliers, while the company has received the money in more than 150 days from customers due to EPC contracts. The telecom products and EPC revenue mix is expected around 70:30. The change in revenue mix will lead to faster cash collections. The working capital days increased due to an increase in inventories and an increase in receivables. The quick cash collections and inventory utilizations will improve the working capital cycles. We are expecting HFCL will bring down the working capital cycle gradually going forward.

Exhibit 97: Working Capital cycle to be improve going forward.



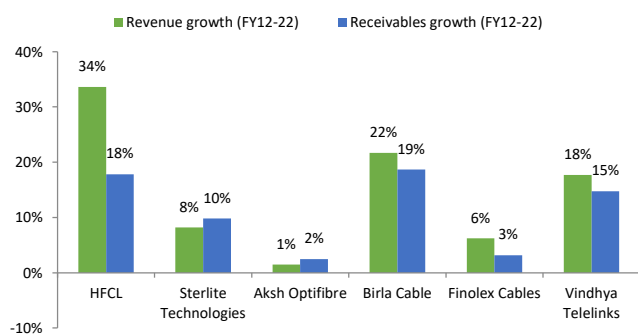
Source: Company reports, Arianth Capital Research

Exhibit 98: HFCL is expected to bring down the working capital in terms sales going forward.



Source: Company reports, Arianth Capital Research

Exhibit 99: HFCL's revenue growth is higher than receivables growth over the period of FY12-22 &amp; FY17-22.



Source: Company reports, Arianth Capital Research

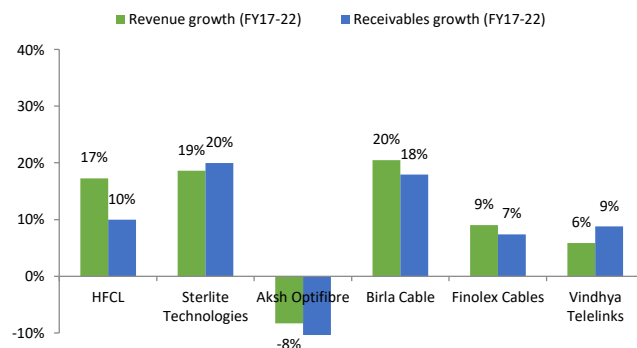
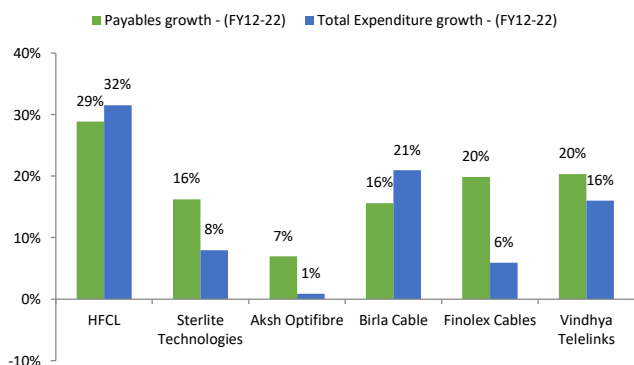
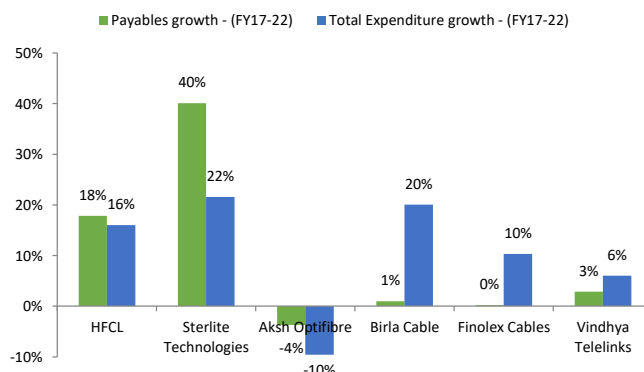


Exhibit 100: HFCL payables growth is lower than expenditure growth, while Sterlite Technologies payable growth is higher than expenditure growth. Sterlite Technologies has advantage with vendors in payment terms compared to HFCL.

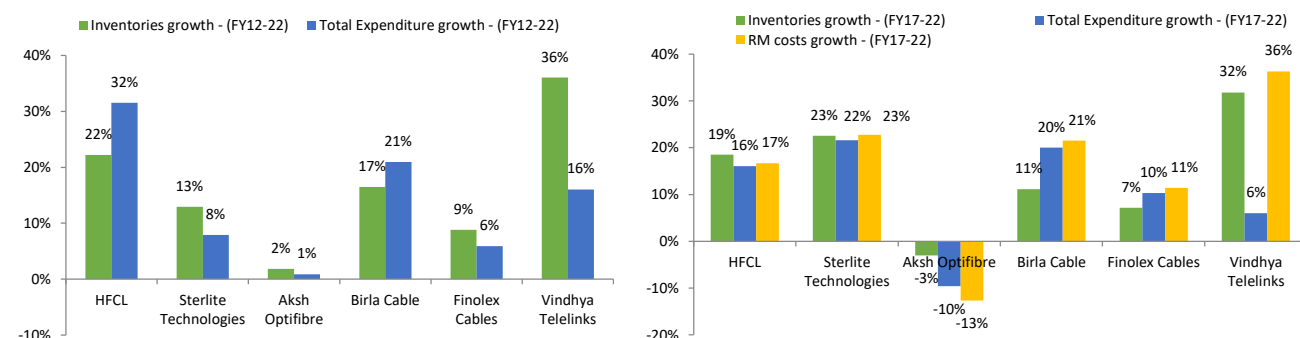


Source: Company reports, Arianth Capital Research



## Financial Analysis

Exhibit 101: HFCL inventories growth was lower than total expenditures growth over the period of FY12-22.



Source: Company reports, Arihant Capital Research

**Improvement of Cash flow generation:** HFCL witnessed revenue growth in spite of covid and positive cash flows from operations. In FY19, the cash flow from operations (CFO) went lower due to higher working capital. The increase in sales with improvement in collections and inventory utilizations would lead to cash flows. With the strong visibility of earnings growth, demand from 5G, defence and railways, margin expansion, and improvement in the working cycle, we expect free cash flow to improve going forward.

Exhibit 102: HFCL's CFO was grown over 9% over the period of FY17-22.

CFO (INR cr)	FY17	FY18	FY19	FY20	FY21	FY22	CFO growth (FY17-22)
HFCL	136	207	34	172	145	206	9%
Sterlite Technologies	489	729	631	696	638	574	3%
Aksh Optifibre	83	27	88	119	65	57	-7%
Birla Cable	30	-7	17	32	-1	3	-39%
Finolex Cables	213	236	154	309	114	473	17%
Vindhya Telelinks	83	-122	-292	30	247	183	17%

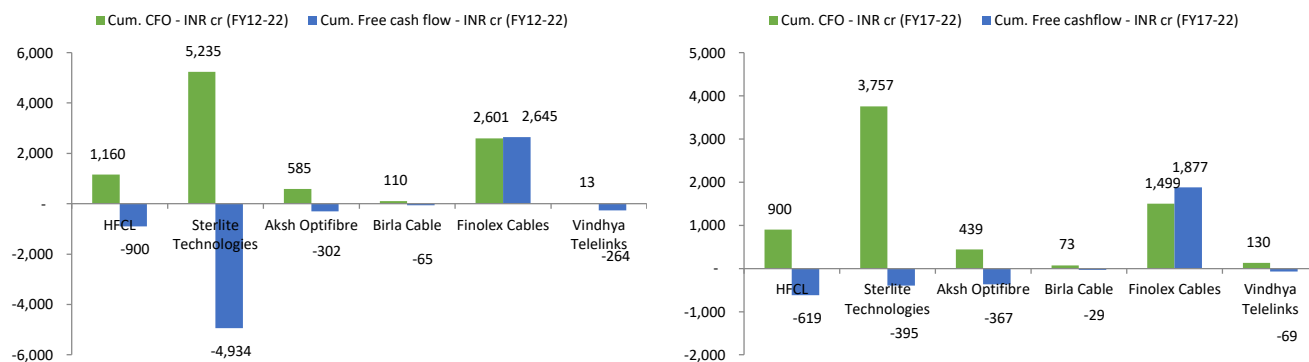
Source: Ace Equity, Arihant Capital Research

Exhibit 103: Post FY18, HFCL has converted less than 50% of cash to its profitability over the period of FY19-22 due to long term EPC contracts. The cash conversion is expected to improve due to increase in share of telecom products going forward.

CFO/EBIT (%)	FY17	FY18	FY19	FY20	FY21	FY22
HFCL	80%	83%	9%	41%	30%	36%
Sterlite Technologies	136%	130%	68%	90%	122%	274%
Aksh Optifibre	304%	53%	164%	-649%	6664%	212%
Birla Cable	508%	-26%	25%	615%	-8%	8%
Finolex Cables	61%	60%	38%	90%	35%	123%
Vindhya Telelinks	72%	-75%	-92%	13%	133%	133%

Source: Ace Equity, Arihant Capital Research

Exhibit 104: HFCL and Sterlite Technologies used CFO for investing activities over the period of FY12-22.



Source: Company reports, Arihant Capital Research

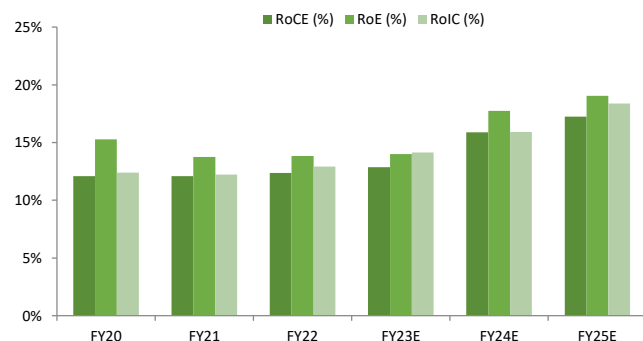


## Financial Analysis

**Return ratios to Improve:** In comparison to revenue growth of 14.1%, and EBIT growth of 20.9%, capital employed is expected to grow by 11% over FY22-FY25E.

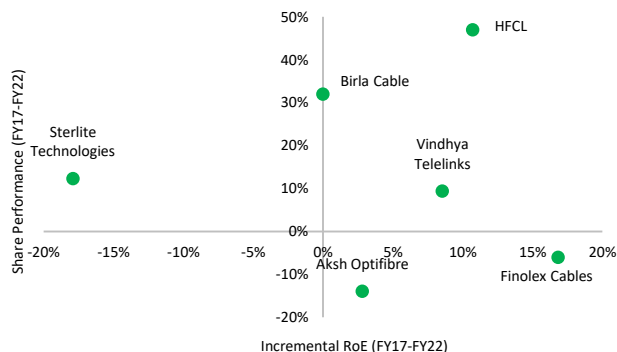
Due to the healthy EBITDA margin expansion and PAT growth, we expect return ratios to improve significantly going forward. We estimate RoCE to expand from 12.4% in FY22 to 17.3% in FY25E. RoIC to improve from 12.9% in FY22 to 18.4% in FY25E and RoE to improve from 13.8% in FY22 to 19% in FY25E.

**Exhibit 105: HFCL return ratios are expected to improve.**



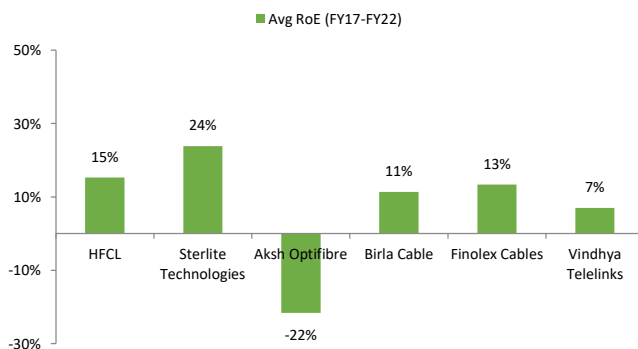
Source: Company reports, Arianth Capital Research

**Exhibit 106: HFCL generated 47% CAGR return over 10.7% of incremental ROE during the period of FY17-FY22.**



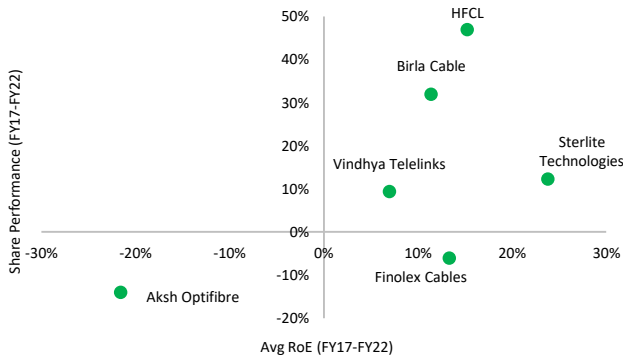
Source: Company reports, Arianth Capital Research

**Exhibit 107: HFCL delivered 15% RoE over the period of FY17-FY22.**



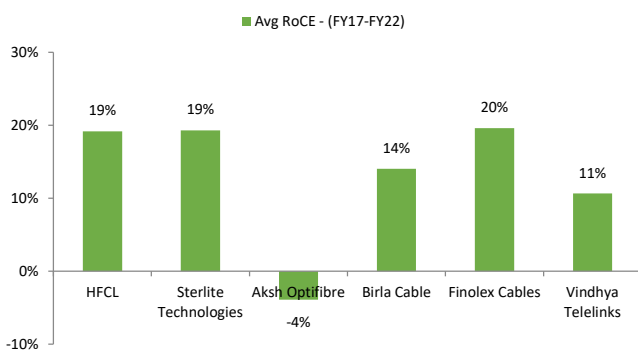
Source: Company reports, Arianth Capital Research

**Exhibit 108: HFCL generated 47% CAGR return over 15% of ROE during the period of FY17-FY22.**



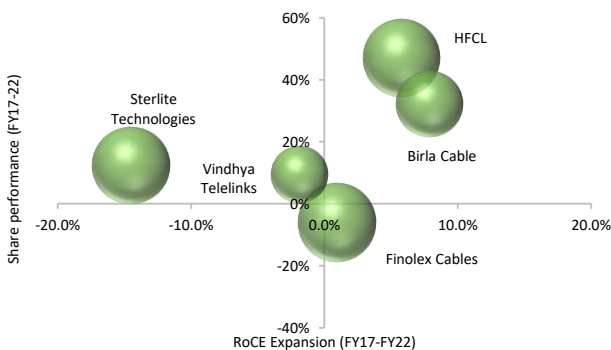
Source: Company reports, Arianth Capital Research

**Exhibit 109: HFCL delivered 19% RoCE over the period of FY17-22.**



Source: Company reports, Arianth Capital Research

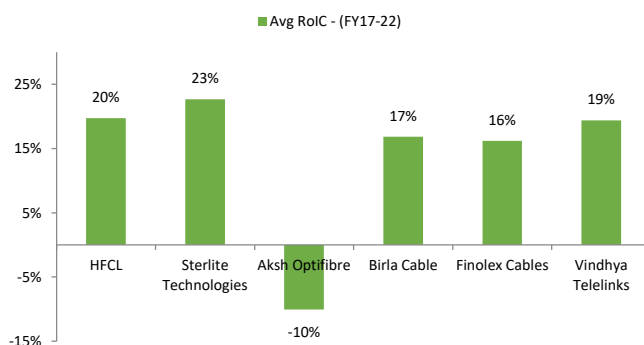
**Exhibit 110: RoCE expansion led to share performance of HFCL over the period of FY17-22.**



Source: Company reports, Arianth Capital Research, Bubble size represents Avg RoCE (FY17-22)

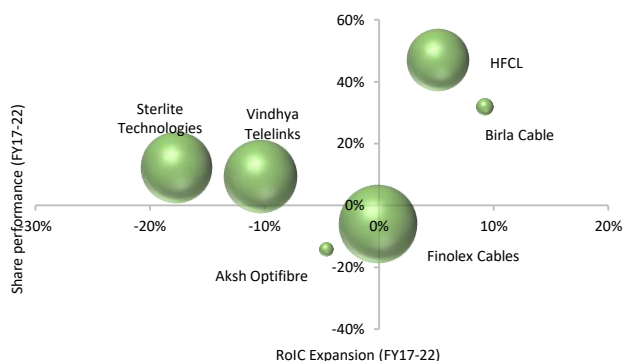
## Financial Analysis

Exhibit 111: HFCL delivered 15% RoIC over the period of FY17-22.



Source: Company reports, Arihant Capital Research

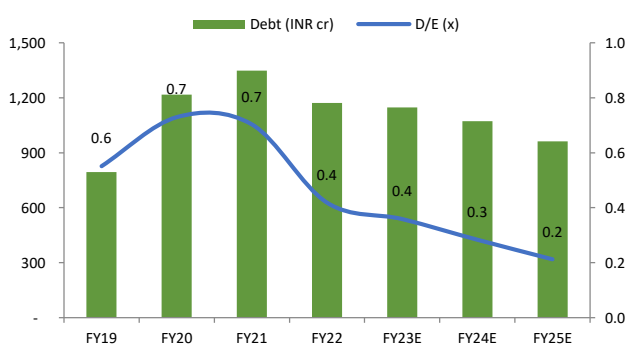
Exhibit 112: HFCL witnessed 513 bps RoIC expansion over the period of FY17-22.



Source: Company reports, Arihant Capital Research; Bubble size represents Invested Capital – FY22

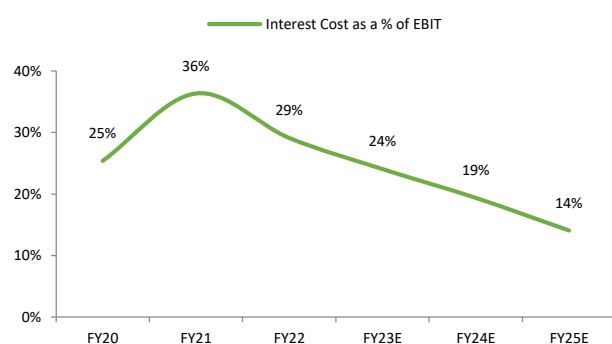
**Maintaining debt levels while execution of Capex:** The company is expected to maintain the debt and Capex funding is expected through internal accruals going forward. Post Capex, the company is expected to have sufficient cash to repay the debt along with interest. The company will continue to reduce its debt going forward. The maintenance of debt and increase in profitability will lead to reducing the interest cost in terms of EBIT.

Exhibit 113: HFCL's Debt to Equity is expected to reduce going forward.



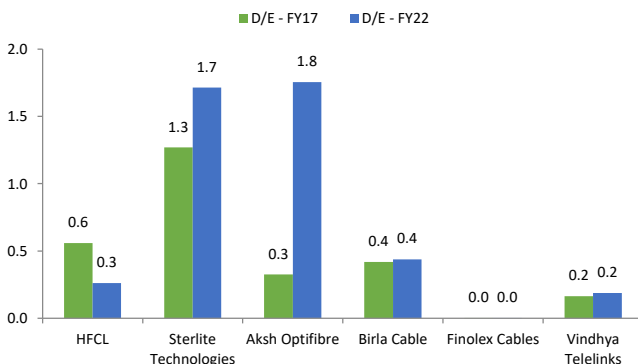
Source: Company reports, Arihant Capital Research

Exhibit 114: HFCL's Interest Cost as % of EBIT are expected to reduce further going forward.



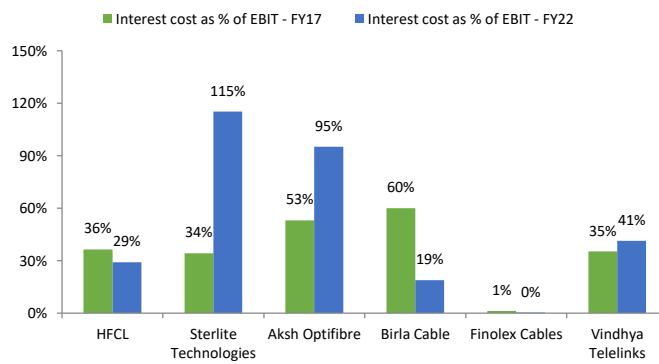
Source: Company reports, Arihant Capital Research

Exhibit 115: HFCL has reduced D/E over the period of FY17-22.



Source: Company reports, Arihant Capital Research

Exhibit 116: HFCL has reduced Interest cost in terms of EBIT over the period of FY17-22.



Source: Company reports, Arihant Capital Research

## Key Risks

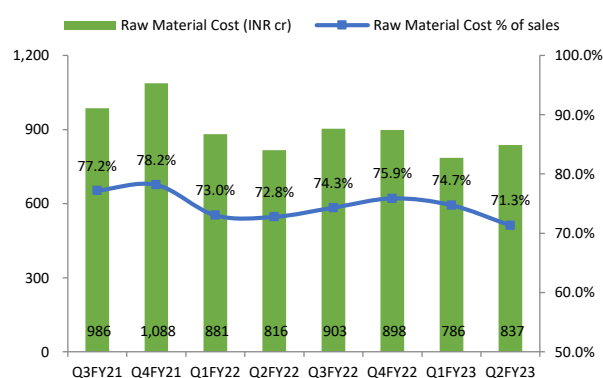
**Competition risk:** HFCL has many competitors in domestic and international markets. The competitors are competing potential business opportunities and this might decrease the changes of winning orders.

**Foreign exchange risk:** HFCL deals in imports and exports of raw materials and goods. The currency fluctuations might lead to forex losses.

**Government policy risk:** HFCL deals with several government projects and telecom market is regulated. If any changes in policies might impact the business.

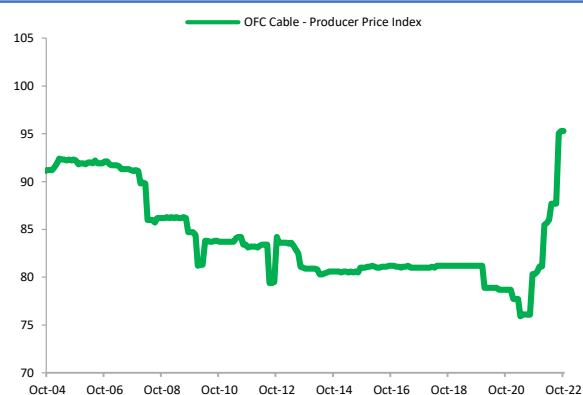
**Raw material price risk:** The raw materials are steel, natural rubber, carbon black, styrene-butadiene, aluminum etc. The change in raw material prices could adversely impact the margin levels.

**Exhibit 117: Raw material prices softening in last 2 quarters, however the global uncertainty and supply chain disruptions may lead to higher Raw material prices.**



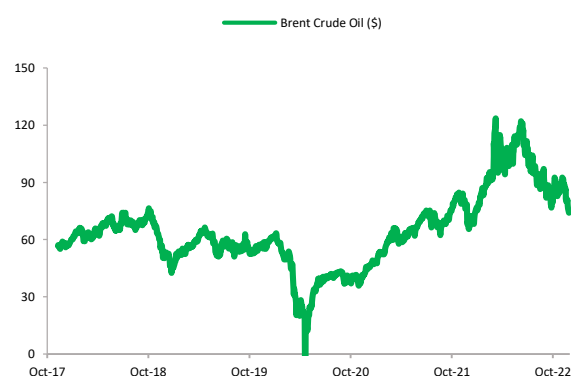
Source: Company reports, Arianth Capital Research

**Exhibit 118: OFC cable manufacturing index witnessed sharp increase over past 2 years. The volatility in optical fibre prices will impact the margin levels.**



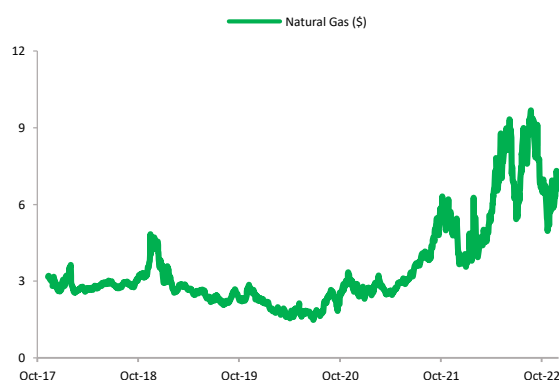
Source: Bloomberg, Arianth Capital Research

**Exhibit 119: HFCL using crude oil derivatives for manufacturing process. The volatility in crude oil prices will impact the margin levels.**



Source: Bloomberg, Arianth Capital Research

**Exhibit 120: HFCL using Helium gas and Natural gas for manufacturing process. The volatility in Natural & Helium gas prices will impact the margin levels.**



Source: Bloomberg, Arianth Capital Research

## Outlook &amp; Valuation

HFCL is expected to benefit from 5G, INR 3lakh cr opportunities in the telecom space, and INR 1 lakh cr opportunities in the defense space. Earlier, the growth is based on telecom capex and currently is based on telecom, defence and railways due to structural change. HFCL has strong R&D for innovative products, focused on more than 2x of exports, capacity expansion, product portfolio expansion, and a strong client base such as Jio, Airtel, Tata, etc would drive the business going forward. We have used a DCF Model to value HFCL, it has healthy and consistent cash flow generation over the forecasted period. We have discounted the cash flows using WACC and valued the company at INR 127 per share. We initiate coverage with a “BUY” rating at a Target Price of INR 127 per share; an upside of 52.8%.

## DCF Valuation

## Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	12%
Beta	1.1
CMP	83

## Valuation Data

Total Debt (long term borrowings) (2022)	141
Cash & Cash Equivalents (2022)	528
Number of Diluted Shares (2023)	137
Tax Rate (2023)	27%
Interest Expense Rate (2023)	14%
MV of Equity	11,439
Total Debt	141
<b>Total Capital</b>	<b>11,580</b>

## WACC

We	98.8%
Wd	1.2%
Ke	12.3%
Kd	10.2%
<b>WACC</b>	<b>12.3%</b>

## FCFF &amp; Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase				Terminal Yr	
Particular (INR cr)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
EBIT * (1-Tax Rate)	493	585	738	948	1,232	1,657	2,142	2,657	3,159	3,591	3,896	4,025
Dep	82	104	106	110	112	117	152	188	224	254	276	285
Purchase of Assets	(485)	(498)	(98)	(119)	(116)	(102)	(132)	(164)	(195)	(222)	(240)	(248)
Changes in Working Capital	498	59	(142)	(93)	(343)	(353)	(457)	(566)	(673)	(766)	(831)	(858)
FCFF	587	249	604	846	885	1,319	1,705	2,115	2,514	2,858	3,101	
Terminal Value											35,722	

<b>Total Cash Flow</b>	<b>587</b>	<b>249</b>	<b>604</b>	<b>846</b>	<b>885</b>	<b>1,319</b>	<b>1,705</b>	<b>2,115</b>	<b>2,514</b>	<b>2,858</b>	<b>38,823</b>
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Enterprise Value (INR cr)	17,088
Less: Debt (INR cr)	141
Add: Cash (INR cr)	528
Equity Value (INR cr)	17,476
<b>Equity Value per share (INR)</b>	<b>127</b>

<b>% Returns</b>	<b>52.8%</b>
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<b>Rating</b>	<b>BUY</b>
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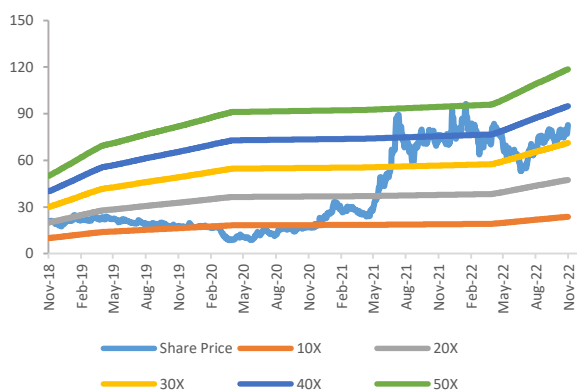
## Sensitivity Analysis

		Terminal Growth (%)								
		2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.3%
WACC (%)	12.7	135	138	141	144	148	151	155	160	164
	11.3%	135	138	141	144	148	151	155	160	164
	11.5%	130	133	136	139	142	145	149	153	157
	11.8%	126	128	131	134	137	140	143	147	151
	12.0%	121	124	126	129	132	135	138	141	145
	12.3%	117	120	122	124	127	130	133	136	139
	12.5%	114	116	118	120	122	125	128	131	134
	12.8%	110	112	114	116	118	121	123	126	129
	13.0%	106	108	110	112	114	116	119	121	124
	13.3%	103	105	107	109	111	113	115	117	119

Source: Company reports, Arianth Capital Research

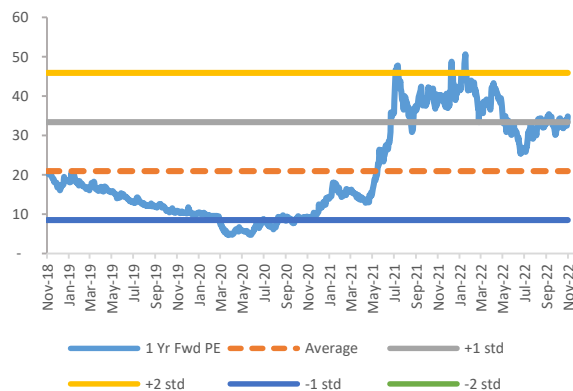
## Valuation Plot

Exhibit 121: P/E Valuation Plot.



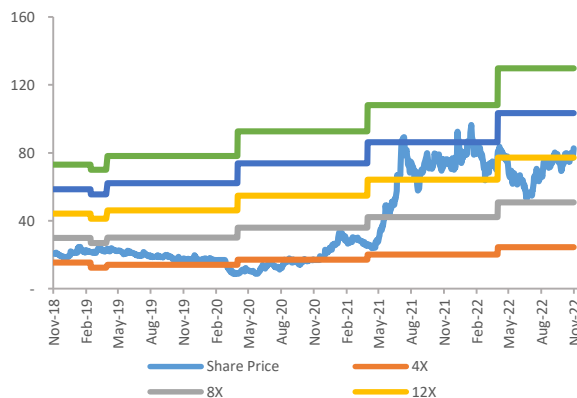
Source: Company reports, Arianth Capital Research

Exhibit 122: P/E Valuation Plot.



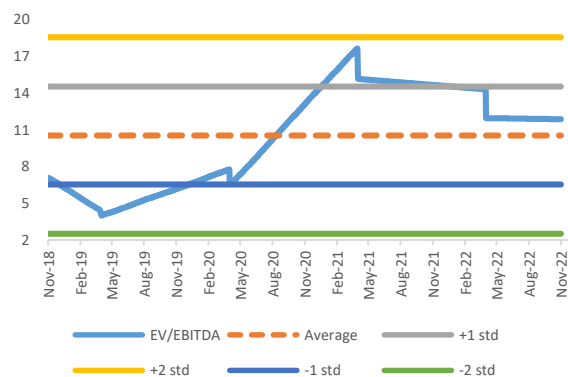
Source: Company reports, Arianth Capital Research

Exhibit 123: EV/EBITDA Valuation Plot.



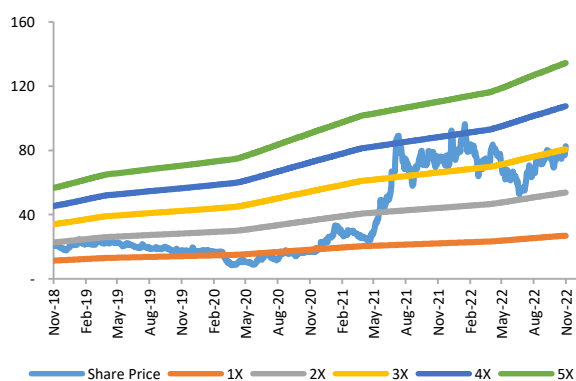
Source: Company reports, Arianth Capital Research

Exhibit 124: EV/EBITDA Valuation Plot.



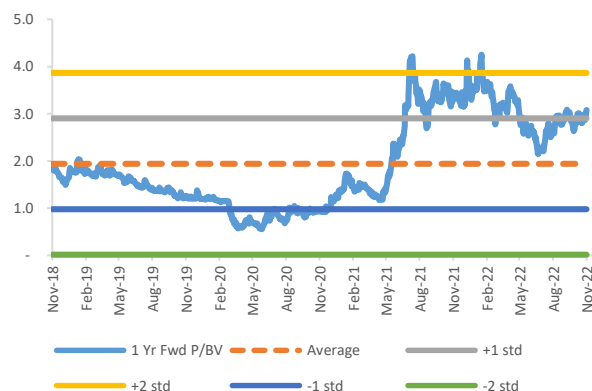
Source: Company reports, Arianth Capital Research

Exhibit 125: P/BV Valuation Plot.



Source: Company reports, Arianth Capital Research

Exhibit 126: P/BV Valuation Plot.



Source: Company reports, Arianth Capital Research

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,839	4,423	4,727	5,212	5,948	7,017
Net Raw Materials	2,934	3,404	3,499	3,815	4,330	5,073
Employee Cost	224	253	311	339	387	456
Other Expenses	186	217	268	301	326	371
<b>EBITDA</b>	<b>494</b>	<b>550</b>	<b>650</b>	<b>757</b>	<b>905</b>	<b>1,117</b>
<b>EBITDA Margin (%)</b>	<b>12.9%</b>	<b>12.4%</b>	<b>13.8%</b>	<b>14.5%</b>	<b>15.2%</b>	<b>15.9%</b>
Depreciation	(42)	(69)	(78)	(82)	(104)	(106)
Interest expense	(115)	(175)	(166)	(162)	(155)	(142)
Other income	22	35	43	62	201	213
<b>Profit before tax</b>	<b>358</b>	<b>337</b>	<b>442</b>	<b>575</b>	<b>847</b>	<b>1,082</b>
Taxes	(121)	(91)	(116)	(155)	(229)	(292)
<b>PAT</b>	<b>237</b>	<b>246</b>	<b>326</b>	<b>419</b>	<b>618</b>	<b>790</b>
<b>PAT Margin (%)</b>	<b>6.2%</b>	<b>5.6%</b>	<b>6.9%</b>	<b>8.0%</b>	<b>10.4%</b>	<b>11.3%</b>
Other Comprehensive income	1	5	2	-	-	-
<b>Net profit</b>	<b>238</b>	<b>251</b>	<b>328</b>	<b>419</b>	<b>618</b>	<b>790</b>
EPS (INR)	1.9	2.0	2.4	3.1	4.5	5.7

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	128	128	137	137	137	137
Reserves	1,540	1,788	2,661	3,056	3,638	4,382
<b>Net worth</b>	<b>1,668</b>	<b>1,916</b>	<b>2,798</b>	<b>3,193</b>	<b>3,775</b>	<b>4,519</b>
Minority Interest	(0)	7	20	20	20	20
Provisions	43	49	45	13	15	17
Debt	1,218	1,348	1,172	1,147	1,072	962
<b>Total Liabilities</b>	<b>2,929</b>	<b>3,320</b>	<b>4,035</b>	<b>4,373</b>	<b>4,882</b>	<b>5,518</b>
Fixed assets	437	443	465	880	1,262	1,274
Capital Work In Progress	15	12	47	35	48	28
Other Intangible assets	40	42	74	74	74	74
Goodwill	26	26	26	26	26	26
Investments	87	46	87	89	101	119
Other non current assets	37	45	47	52	59	70
<b>Net working capital</b>	<b>1,535</b>	<b>1,931</b>	<b>2,366</b>	<b>1,868</b>	<b>1,809</b>	<b>1,952</b>
Inventories	344	435	573	523	558	612
Sundry debtors	1,730	3,056	2,492	2,142	2,118	2,307
Loans & Advances	21	18	37	21	24	28
Other current assets	341	318	401	386	391	404
Sundry creditors	(815)	(1,748)	(1,037)	(1,099)	(1,174)	(1,293)
Other current liabilities & Prov	(85)	(148)	(99)	(104)	(107)	(105)
Cash	192	306	528	905	996	1,379
Other Financial Assets	560	468	395	443	506	596
<b>Total Assets</b>	<b>2,929</b>	<b>3,320</b>	<b>4,035</b>	<b>4,373</b>	<b>4,882</b>	<b>5,518</b>

Source: Company Reports, Arihant Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	358	337	442	575	847	1,082
Depreciation	42	69	78	82	104	106
Tax paid	(121)	(91)	(116)	(155)	(229)	(292)
Working capital Δ	(504)	(396)	(434)	498	59	(142)
Change in Goodwill	(0)	-	-	-	-	-
<b>Operating cashflow</b>	<b>(225)</b>	<b>(81)</b>	<b>(30)</b>	<b>999</b>	<b>781</b>	<b>754</b>
Capital expenditure	(228)	(72)	(135)	(485)	(498)	(98)
<b>Free cash flow</b>	<b>(452)</b>	<b>(153)</b>	<b>(166)</b>	<b>514</b>	<b>282</b>	<b>656</b>
Equity raised	15	9	588	-	-	-
Investments	6	41	(41)	(1)	(13)	(18)
Others	47	81	39	(53)	(70)	(102)
Debt financing/disposal	422	130	(176)	(25)	(75)	(110)
Dividends paid	(15)	-	(19)	(25)	(36)	(46)
Other items	10	6	(4)	(32)	2	3
<b>Net Δ in cash</b>	<b>32</b>	<b>115</b>	<b>222</b>	<b>377</b>	<b>91</b>	<b>383</b>
<b>Opening Cash Flow</b>	<b>159</b>	<b>192</b>	<b>306</b>	<b>528</b>	<b>905</b>	<b>996</b>
<b>Closing Cash Flow</b>	<b>192</b>	<b>306</b>	<b>528</b>	<b>905</b>	<b>996</b>	<b>1,379</b>

Source: Company Reports, Arianth Capital Research

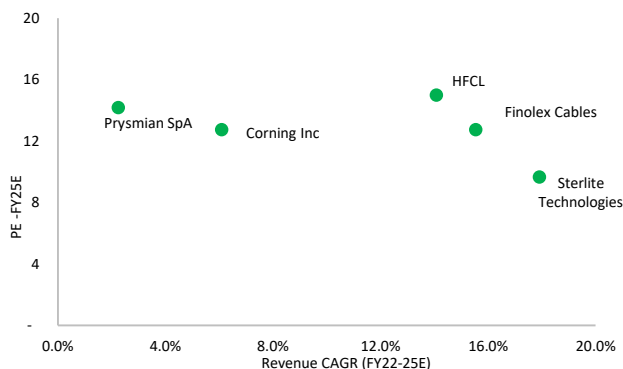
## Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>						
Revenue growth	-19.0%	15.2%	6.9%	10.3%	14.1%	18.0%
Op profit growth	18.9%	11.2%	18.3%	16.4%	19.6%	23.4%
<b>Profitability ratios (%)</b>						
OPM	12.9%	12.4%	13.8%	14.5%	15.2%	15.9%
Net profit margin	6.2%	5.6%	6.9%	8.0%	10.4%	11.3%
RoCE	12.1%	12.1%	12.4%	12.9%	15.9%	17.3%
RoNW	15.3%	13.7%	13.8%	14.0%	17.7%	19.0%
RoA	8.1%	7.4%	8.1%	9.6%	12.7%	14.3%
<b>Per share ratios (INR)</b>						
EPS	1.9	2.0	2.4	3.1	4.5	5.7
Dividend per share	0.1	-	0.1	0.2	0.3	0.3
Cash EPS	2.2	2.5	2.9	3.6	5.3	6.5
Book value per share	13.0	14.9	20.4	23.2	27.5	32.9
<b>Valuation ratios (x)</b>						
P/E	44.8	42.5	34.9	27.3	18.5	14.5
P/CEPS	38.3	33.9	28.3	22.8	15.8	12.8
P/B	6.4	5.6	4.1	3.6	3.0	2.5
EV/EBITDA	23.5	21.3	18.5	15.3	12.6	9.8
<b>Payout (%)</b>						
Dividend payout	6.5%	0.0%	5.8%	5.8%	5.8%	5.8%
Tax payout	33.8%	26.9%	26.3%	27.0%	27.0%	27.0%
<b>Liquidity ratios</b>						
Debtor days	157	197	214	162	131	115
Inventory days	38	42	53	52	46	42
Creditor days	92	121	125	87	82	76
WC Days	103	118	142	127	94	81
<b>Leverage ratios (x)</b>						
Interest coverage	3.9	2.8	3.4	4.2	5.2	7.1
Net debt / equity	0.6	0.5	0.2	0.1	0.0	-0.1
Net debt / op. profit	2.1	1.9	1.0	0.3	0.1	-0.4

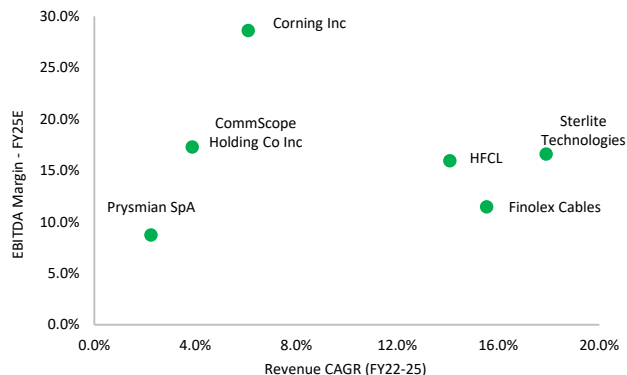
Source: Company Reports, Arianth Capital Research

## Peer Comparison

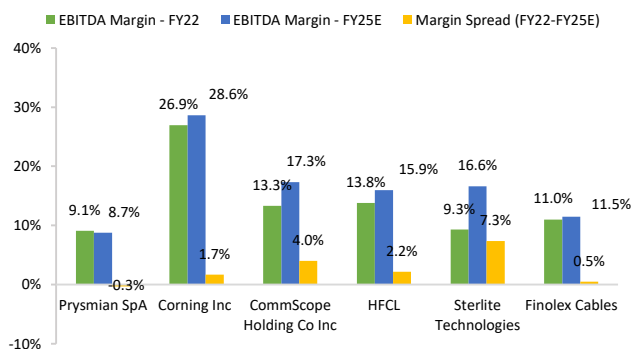
**Exhibit 127: HFCL is expected to grow 14.1% CAGR over the period of FY22-25E.**



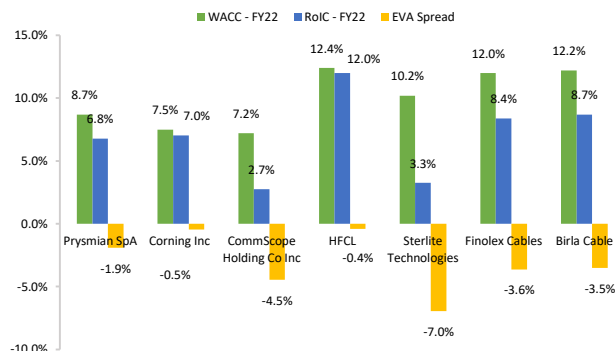
**Exhibit 128: HFCL EBITDA margin is expected around 16% by FY25E. Sterlite tech margins are slightly higher than HFCL, because HFCL is importing glass foam for manufacturing while Sterlite technologies have backward integration for glass foam.**



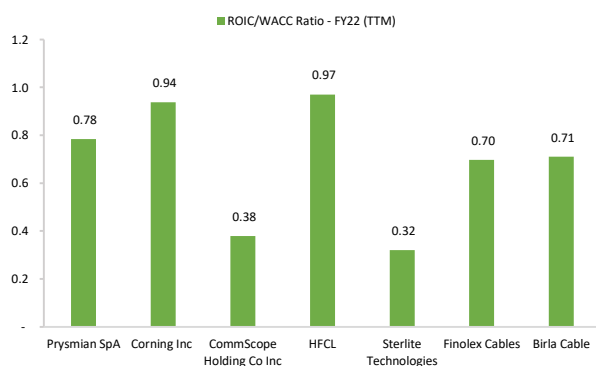
**Exhibit 129: HFCL Margin is expected to improve going forward.**



**Exhibit 130: HFCL EVA spread is better the peers.**

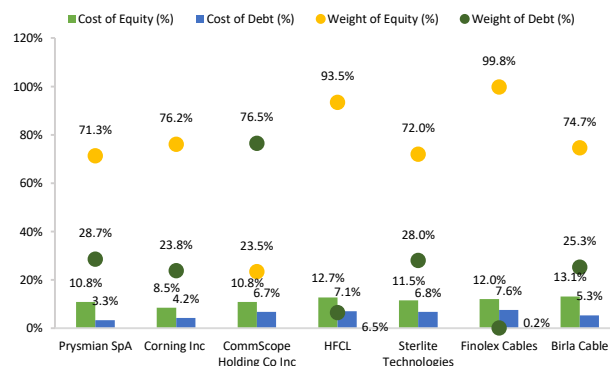


**Exhibit 131: HFCL RoIC was enough to cover its WACC compared to peers.**



Source: Bloomberg, Arihant Capital Research

**Exhibit 132: HFCL has lower weight of debt which indicates healthier balance sheet.**





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 -5% to -12%  
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