Q3FY26 Result update
4th Feb 2026

HFCL Ltd

Defence and Data center will be a key opportunity.

CMP: INR 69

Rating: BUY

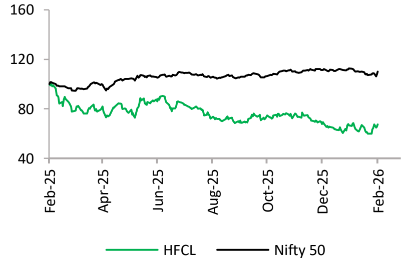
Target Price: INR 146

Stock Info	
BSE	500183
NSE	HFCL
Bloomberg	HFCD:LI
Reuters	HFCL.NS
Sector	Cables
Face Value (INR)	1
Equity Capital (INR cr)	144
Mkt Cap (INR cr)	10,557
52w H/L (INR)	105 / 59.8
Avg Yearly Volume (in 000')	16,088

Shareholding Pattern % (As on Dec, 2025)	
Promoters	28.29
DII	9.07
FII	7.48
Public & Others	55.16

Stock Performance (%)	3m	6m	12m
HFCL	-0.4	-9.7	-32.6
NIFTY	-1.0	3.3	10.1

HFCL vs Nifty



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HFCL Ltd Q3FY26 revenue grew 19.6% YoY (16% QoQ) to INR 1,211cr, below our estimates of INR 1,381cr, supported by OFC volumes and an increase in price realization (10% QoQ). EBITDA grew 51.5% YoY (+20.9% QoQ) to INR 230cr, above our estimates of INR 204cr, supported by gross margin benefits and cost optimization. PAT grew 40.7% YoY (+42% QoQ) to INR 102cr, above our estimates of INR 93cr.

Key Highlights

Witnessing a structural upswing in OF & OFC: The global explosion of hyperscale data centers and AI infrastructure, leading to demand for high-fiber-count cables (3,456F and beyond) that command premium pricing and are in limited supply. The inventory has cleared by global operator levels, and global telecom players resumed ordering, restoring demand for traditional OFC. The dual demand led to a price increase of 10% QoQ, and another 10% increase is expected in the near term. The company is expanding capacity from 30.5mn f.km to 42.36mn f.km by Jun-26, positioning it to capture demand. The company is targeting OFC business from INR 2,400cr (FY26E) to INR 3,400-3,500cr by FY27E.

Strategic transformation and margin expansion in Telecom Products: The company is undergoing strategic transformation, moving away from low-margin commoditized hardware toward higher value solutions. The router business remains strong, with orders for 1 lakh units (INR 700-800cr), driven by the government's BharatNet initiative. The recent reduction of US tariffs (officially yet to be implemented) on Indian telecom equipment from 50% to 18% increases export competitiveness and opens up opportunities for UBR and Wi-Fi systems. The company is investing in next-generation Wi-Fi 7 technology and avoiding costly point-to-multipoint development without clear global demand. We anticipate that the higher value solutions are expected to improve margins going forward.

High growth defence with Indigenous technology moats: The indigenously developed electronic fuzes, now in advanced testing phases, and the next trial is scheduled in Apr-26. The domestic demand is around 5 lakh fuzes, and is focused on 1 lakh fuzes (post approvals) going forward. The company has secured orders for thermal weapon sights and electro-optic systems, and is developing advanced radars (drone detection, foliage penetration), and has entered the UAV ecosystem with thermal cameras. The defence pipeline is robust, including participation in major programs like the BMP upgrade. The company is transitioning from R&D to commercialization, and Defence revenue is expected to be INR 500cr in FY27E.

Outlook & Valuation: **HFCL order book stood at INR 11,125cr (~2.7x of FY25 revenue) shows business visibility over the medium term. The hyperscale data center expansion and AI infrastructure deployment are leading demand for higher fiber count, higher realization, and lower latency cables. The company is well-positioned to capitalize on the global hyperscale data center build-out and AI-driven network upgrades. The electronic fuzes' advanced trials are slated for April 26. Post approval, the company is targeting 1 lakh fuzes (20% of the market demand) going forward. The company is shifting away from low-margin EPC toward higher-margin OFC, defence, and solution-based businesses, leading to 18%-20% EBITDA margins going forward. The company repaid debt through QIP (INR 550cr), which is expected to reduce interest costs going forward. We estimate Revenue/EBITDA/PAT CAGR of 19.9%/36.4%/58.9% CAGR over the period of FY25-28E. RoCE/RoE is expected to improve from 5.6%/4.3% (FY25) to 12.2%/12.5% in FY28E, respectively. At the CMP of INR 69 per share, we maintain our "BUY" rating at a TP of INR 146 per share based on SOTP; an upside of 110.9%.**

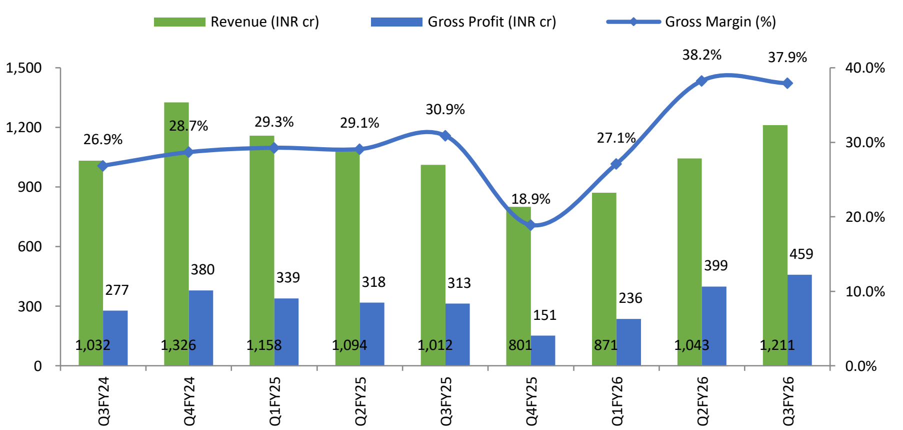
Q3FY26 Results

Income statement summary

Particular (INR cr)	Q3FY25	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Revenue	1,012	1,043	1,211	19.6%	16.0%
Net Raw Materials	699	644	752	7.5%	16.7%
Gross profit	**313**	**399**	**459**	**46.9%**	**15.0%**
Gross margin (%)	**30.9%**	**38.2%**	**37.9%**	**+703 bps**	**-33 bps**
Employee Cost	94	94	108	14.5%	14.8%
Other Expenses	66	115	121	82.5%	5.5%
EBITDA	**152**	**190**	**230**	**51.5%**	**20.9%**
EBITDA Margin (%)	**15.0%**	**18.2%**	**19.0%**	**+400 bps**	**+76 bps**
Depreciation	26	36	44		
Interest expense	47	61	63		
Other income	20.0	13.0	15.4		
Profit before tax	**100**	**106**	**138**		
Taxes	28	34	36		
PAT	**73**	**72**	**102**	**40.7%**	**42.0%**
PAT Margin (%)	**7.2%**	**6.9%**	**8.4%**	**+126 bps**	**+154 bps**
EPS (INR)	**0.5**	**0.5**	**0.7**		

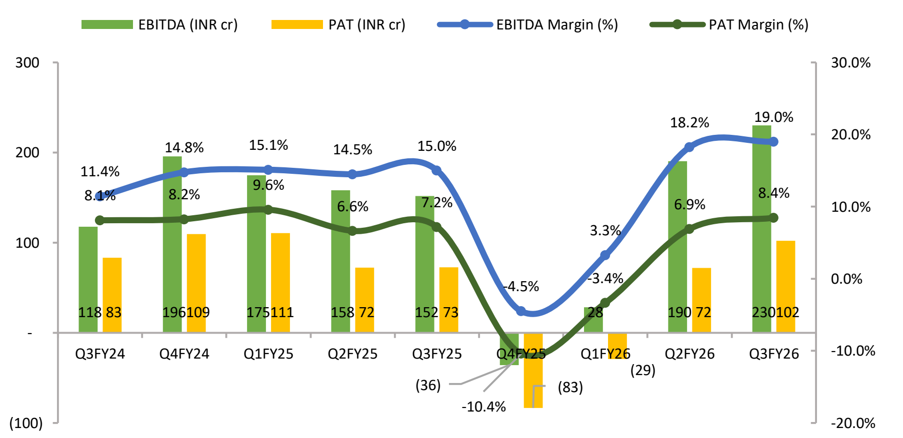
Source: Company Reports, Arihant Capital Research

Exhibit 1: Gross margins improved by 703 bps YoY (down by 33 bps QoQ) to 37.9% Q3FY26 due to lower RM costs.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA margin stood at 19% (+400 bps YoY/+76 bps) in Q3FY26, supported by higher gross margin and cost optimization.



Source: Company Reports, Arihant Capital Research

Quarterly Segments

Exhibit 3: Revenue growth supported by volume growth along with increase in prices of OFC. The high count cables has higher realizations and margins. The cost optimization also helped to improve margin levels.

Particular (INR cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Revenue	1,032	1,326	1,158	1,094	1,012	801	871	1,043	1,211	19.6%	16.0%
Net Raw Materials	755	946	819	776	699	649	635	644	752	7.5%	16.7%
Gross profit	**277**	**380**	**339**	**318**	**313**	**151**	**236**	**399**	**459**	**46.9%**	**15.0%**
Gross margin (%)	**26.9%**	**28.7%**	**29.3%**	**29.1%**	**30.9%**	**18.9%**	**27.1%**	**38.2%**	**37.9%**	**+703 bps**	**-33 bps**
Employee Cost	90	88	89	89	94	91	105	94	108	14.5%	14.8%
Other Expenses	69	97	75	70	66	96	102	115	121	82.5%	5.5%
EBITDA	**118**	**196**	**175**	**158**	**152**	**(36)**	**28**	**190**	**230**	**51.5%**	**20.9%**
EBITDA Margin (%)	**11.4%**	**14.8%**	**15.1%**	**14.5%**	**15.0%**	**-4.5%**	**3.3%**	**18.2%**	**19.0%**	**+400 bps**	**+76 bps**
Depreciation	19	20	24	25	26	30	32	36	44		
Interest expense	37	40	42	45	47	51	56	61	63		
Other income	46.7	13.6	10.5	13.6	20.0	13.6	14.5	13.0	15.4		
Share of profits associate & JV	0	(0)	(0)	(0)	1	(1)	0	(0)	(1)		
Profit before tax	**109**	**149**	**119**	**101**	**100**	**(105)**	**(45)**	**106**	**138**		
Taxes	25	40	8	29	28	(22)	(15)	34	36		
PAT	**83**	**109**	**111**	**72**	**73**	**(83)**	**(29)**	**72**	**102**	**40.7%**	**42.0%**
PAT Margin (%)	**8.1%**	**8.2%**	**9.6%**	**6.6%**	**7.2%**	**-10.4%**	**-3.4%**	**6.9%**	**8.4%**	**+126 bps**	**+154 bps**
Other Comprehensive income	(0.2)	130.3	130.3	(125.9)	(50.2)	(54.8)	38.9	(7.8)	(21.0)	**0**	**0**
Net profit	**83**	**240**	**241**	**(54)**	**22**	**(138)**	**10**	**64**	**81**	**-15.2%**	**-5.3%**
Net profit Margin (%)	**8.1%**	**18.1%**	**20.8%**	**-4.9%**	**2.2%**	**-17.2%**	**1.1%**	**6.1%**	**6.7%**	**-0.74%**	**-1.14%**
EPS (INR)	**0.6**	**0.8**	**0.8**	**0.5**	**0.5**	**(0.6)**	**(0.2)**	**0.5**	**0.7**		

Source: Company Reports, Arihant Capital Research

Exhibit 4: Revenue growth supported by Telecom products (+24% YoY/34.6%). We anticipate, the execution to be strong in Q4FY26E and expected to maintain 28% margin levels. EPC revenue recognition slowed down in Q3FY26 and gradual recovery is expected in Q4FY26E.

Segmental Revenue (INR cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Telecom Products	364	362	711	508	582	611	578	537	722	24.0%	34.6%
Turnkey Contracts and Services	668	964	446	586	430	190	293	507	488	13.6%	-3.7%
Others	-	-	1	-	-	-	-	-	1		
Revenue from operations	**1,032**	**1,326**	**1,158**	**1,094**	**1,012**	**801**	**871**	**1,043**	**1,211**	**19.6%**	**16.0%**

Segmental Revenue mix (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Telecom Products	35.2%	27.3%	61.4%	46.5%	57.6%	76.3%	66.3%	51.4%	59.6%		
Turnkey Contracts and Services	64.8%	72.7%	38.5%	53.5%	42.4%	23.7%	33.7%	48.6%	40.3%		
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%		
Revenue from operations	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**		

Segmental EBIT (INR cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Telecom Products	35	18	48	42	38	5	57	127	202	434.9%	59.2%
Turnkey Contracts and Services	103	173	107	98	104	(56)	(54)	36	(11)		
Others	-	0	2	1	(1)	(1)	(0)	(1)	3		
Total EBIT	**138**	**191**	**157**	**142**	**141**	**(52)**	**3**	**162**	**194**	**37.6%**	**20.2%**

Segmental EBIT Margin (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Telecom Products	9.7%	4.9%	6.7%	8.3%	6.5%	0.9%	9.9%	23.7%	28.0%	+2454 bps	+433 bps
Turnkey Contracts and Services	15.4%	18.0%	23.9%	16.8%	24.3%	-29.8%	-18.3%	7.1%	-2.3%	-2662 bps	-938 bps
Blended EBIT Margin	**13.4%**	**14.4%**	**13.5%**	**13.0%**	**14.0%**	**-6.5%**	**0.4%**	**15.5%**	**16.1%**	**+210 bps**	**+56 bps**

Source: Company Reports, Arihant Capital Research

Order book

Exhibit 5: The order book grew 6.9% YoY (+11.5% QoQ) to INR 11,125cr as of Q3FY26. Products and private witnessed strong order inflows and expected to drive revenue growth over medium term. Around ~70% of business from government and spread over the next 3-4 years.

Order book (INR cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Network Services	5,180	4,758	3,092	2,884	4,196	4,064	3,964	3,441	3,035	-27.7%	-11.8%
O&M	2,051	2,037	2,011	2,010	3,689	3,675	3,625	3,565	3,522	-4.5%	-1.2%
Products	447	890	1,673	1,257	2,525	2,227	2,891	2,975	4,568	80.9%	53.5%
Total order book	**7,678**	**7,685**	**6,776**	**6,151**	**10,410**	**9,966**	**10,480**	**9,981**	**11,125**	**6.9%**	**11.5%**

Order book (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Network Services	67.5%	61.9%	45.6%	46.9%	40.3%	40.8%	37.8%	34.5%	27.3%		
O&M	26.7%	26.5%	29.7%	32.7%	35.4%	36.9%	34.6%	35.7%	31.7%		
Products	5.8%	11.6%	24.7%	20.4%	24.3%	22.3%	27.6%	29.8%	41.1%		
Total order book	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**		

Order book (INR cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Government	5,733	5,630	4,706	4,183	8,527	8,414	8,546	8,179	7,743	-9.2%	-5.3%
Private	1,945	2,055	2,070	1,968	1,883	1,552	1,934	1,802	3,382	79.6%	87.7%
Total order book	**7,678**	**7,685**	**6,776**	**6,151**	**10,410**	**9,966**	**10,480**	**9,981**	**11,125**	**6.9%**	**11.5%**

Order book (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Government	74.7%	73.3%	69.5%	68.0%	81.9%	84.4%	81.5%	81.9%	69.6%		
Private	25.3%	26.7%	30.5%	32.0%	18.1%	15.6%	18.5%	18.1%	30.4%		
Total order book	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**		

Source: Company Reports, Arihant Capital Research

Exhibit 6: Telecom products status, outlook & guidance and growth catalysts.

Product Segment	Current Status	Outlook & Guidance	Growth Catalysts
Telecom Products	1) Routers driving growth with INR 700-800cr orders (~1 lakh units) 2) UBR demand stable; Wi-Fi 7 in development.	1) ~Annual revenue of INR 500cr. 2) Focus on router execution and international expansion. 3) Selective R&D in high-demand areas (Wi-Fi 7).	BharatNet Phase-III, private 5G networks, US tariff reduction (50% to 18%), global network upgrades.
Optical Fiber	1) Prices up ~20% (INR 250 in Dec-26 to 300+/km in Feb-26). 2) Preform supply secured from Japan. 3) capacity expansion to 42.36mn f.km by Jun-2026.	1) Preform prices expected to rise 20-25%. 2) Potential backward integration into preform manufacturing for supply security.	Global fiber demand surge, supply chain localization, data center & 5G deployment acceleration.
Optical Fiber Cables	1) High-count cables (3,456F) in production and 6,912F is under development. 2) OFC prices up ~10% QoQ. 3) Among few global makers of 3,456F+ cables.	1) Revenue of INR 3,400-3,500cr in FY27E (vs INR 2,400cr FY26E). 2) Capacity expansion completes May-Jun 2026. Continued export momentum.	Hyperscale data center expansion, AI infrastructure upgrades, limited global supply of high-density cables.
Integrated Data Solutions	1) MPO/pre-connected solutions launched; early customer traction. 2) Combined with OFC for complete data center connectivity.	1) Revenue of INR 400-500cr in FY27E. 2) Strategic expansion into passive connectivity and structured cabling.	Hyperscaler preference for deployment-ready solutions, cross-selling with OFC, faster data center rollout needs.

Source: Company reports, Arihant Capital Research

Exhibit 7: Defence Products update in Q3FY26

Defence Product Category	Commentary
Electronic Fuzes	**Key Highlight:** Indigenous development of complex proximity and electronic fuses; critical import substitution. **Current Status:** Underwent firing trials in Balasore (Jan 2026). Some successes noted; improvements required per DRDO feedback. Next testing scheduled for April 2026. **Market Position:** Potentially first Indian private company with indigenous fuse design and manufacturing capability. Only 2 existing manufacturers (BEL & ECI) operate under foreign technology transfer. **Capacity Plan:** Target of 1 lakh fuses per annum post-approval. **Pricing:** Proximity fuse for 155mm gun priced at INR 25,000–30,000 per unit. **Demand Outlook:** India requires ~5 lakh fuses annually. Global demand significantly higher (multiples of India) due to geopolitical conflicts and stockpile replenishment.
Thermal Weapon Sights & Electro-Optic Systems	**Key Highlight:** Part of secured defence orders across multiple systems. **Current Status:** In production and delivery phase; growing acceptance of indigenous capabilities. **Applications:** Infantry weapons, surveillance, and targeting systems. **Strategic Importance:** Enhances soldier effectiveness in low-visibility conditions and night operations.
UAV-Mounted Thermal Cameras	**Key Highlight:** Entry into UAV segment with indigenously developed surveillance cameras. **Current Status:** Contract secured from a leading Indian UAV manufacturer. **Applications:** Surveillance, reconnaissance, and border security. **Differentiator:** Indigenous R&D and manufacturing, reducing import dependence.
Drone Detection Radar Systems	**Key Highlight:** Addressing emerging asymmetric threats from drones and UAVs. **Current Status:** In advanced stages of development and validation. **Applications:** Critical infrastructure protection, border surveillance, and military base security. **Market Need:** Growing global demand for counter-drone systems.
Foliage Penetration Radar	**Key Highlight:** Specialized radar for detection in forested/vegetated terrain. **Current Status:** Advanced validation stage. **Applications:** Border surveillance in dense terrain, counter-insurgency operations. **Technology Edge:** Complex R&D with limited domestic capability.
Multi-mode Hand Grenades	**Key Highlight:** Technology transferred from DRDO; first ammunition product. **Current Status:** Successfully manufactured and tested. Under QA approval process with DGQA/Army. **Demand:** Significant annual requirement for training (lakhs of units). **Manufacturing:** To be produced at new Andhra Pradesh facility.
Precision-Guided Munitions	**Key Highlight:** Exploring next-generation smart ammunition. **Current Status:** Early-stage discussions with technology partners. **Differentiation:** Moving from "dumb" ammunition to GPS/guided systems for higher accuracy. **Future Potential:** Aligns with modern warfare trends and Indian Army's modernization.
Radar Systems (BMP Program)	**Key Highlight:** Shortlisted as one of five parties nationwide for BMP upgradation program. **Current Status:** Awaiting RFP and trial process. **Opportunity Size:** Potential multi-year, multi-thousand crore program. **Strategic Win:** Would establish HFCL as a system integrator for armored vehicle modernization.
Specialized Drone Platforms	**Key Highlight:** Exploring complete UAV systems through technology transfer. **Current Status:** Advanced discussions underway. **Applications:** Surveillance, logistics, and potentially combat roles. **Vertical Integration:** Complements thermal camera and radar offerings.
Shell Manufacturing (155mm)	**Key Highlight:** Potential backward integration from fuses to complete ammunition. **Current Status:** Under consideration for Andhra Pradesh facility. **Synergy:** Would complement fuse manufacturing for complete artillery round capability. **Scale Requirement:** Large land area needed for safety regulations.

Source: Company Reports, Arihant Capital Research

Q3FY26 Concall Highlights

Revenue

- Revenue growth is expected 10%-15% QoQ in Q4FY26E. The revenue is expected to be driven by private orders, including OFC, telecom products, and defence.
- Products and Projects mix stood at 60:40 in Q3FY26.
- Exports revenue share stood at 27% in Q3FY26.

Margins

- Margin improvement supported by cost optimization, innovation, and a shift toward high-value products like high-fiber-count cables.
- EBITDA margins are expected to be 18%-20%, and PBT margins are expected to be 10% going forward.

Order book

- The order book stood at INR 11,125cr (+6.9% YoY/+11.5% QoQ) as of Q3FY26. Government projects (~70%) share and execution spread over 3-4 years.

Capacity expansion

- OFC capacity is expected to expand from 30.5mn f.km to 42.36mn f.km by Jun-26. Additional 6mn f.km is expected to be added by Dec-26.
- The company has secured 329 acres (with plans to expand to 1,000 acres) in Andhra Pradesh for ammunition manufacturing. The products planned include multi-mode hand grenades (already developed with DRDO), shells for 155mm guns, and precision guided munitions.

OFC

- OFC revenue is expected to grow from INR 2,400cr (FY26E) to INR 3,400-3,500cr in FY27E.
- The company is focusing on high-fiber-count cables (3,456, 6,912) for hyperscale data centers.
- IBR cables (3,456 and 6,912 fiber variants) are on track for completion by Jun-26.

OF & OFC prices.

- OF prices increased from INR 250/f.km (Dec-25) to INR 300+/f.km in Feb-26.
- In OFC, moderate price increase for 288F & below, while Higher fiber cables (3,456 F) have premium pricing with better realizations. The overall price increase is around 10% QoQ.

Q3FY26 Concall Highlights

Telecom products

- Telecom products (including routers, UBR, and Wi-Fi systems) share around 20% of product revenue in Q3FY26.
- Routers remand remains strong, and the company secured INR 700-800cr orders, majorly for Bharat Net.
- The company is developing Wi-Fi 7 systems and exploring international markets for CPE.
- UBR equipment is used across 4G, 5G, and future networks, but point-to-multipoint development is on hold due to pending clearer global demand.

Defence

- Electronic fuzes underwent firing trials in Jan-26, with retesting expected in Apr-26. Post approval, the company is focusing on 1 lakh fuses (current market: 5 lakh fuzes).
- The price realization varies based on the type of fuzes; fuzes for 155mm guns are INR 25,000-30,000/unit.
- The defence pipeline includes radars, thermal weapon sights, drone detection systems, and UAV thermal cameras.
- Defence revenue is expected to be INR 400-500cr in FY27E.

Passive connectivity solutions

- The company is supplying high-density cables and passive connectivity solutions to global hyperscalers. The MPO and passive connectivity solutions are expected to generate INR 400-500cr revenue on an annual basis.

QIP

- The company raised INR 550cr via QIP to fund capacity expansion, R&D, debt reduction, and working capital requirements.

Exports & Tariffs

- The demand is strong in the US and Europe, with limited suppliers capable of manufacturing high-fiber-count cables.
- Tariff-related issues in early Q3FY26, delayed shipment, but operations normalized in mid-December 26. Lower US tariffs (50% to 18%) are expected to boost competitiveness for Indian telecom equipment makers.

Raw materials

- Preforms are imported from Japan. Prices are expected to rise by 20%-25%, which is expected to push cable prices higher. The company is exploring backward integration into preform manufacturing to secure supply.

Other highlights

- Army O&M projects of INR 170cr is expected to start from Apr-26.
- In R&D, the company is investing in hollow-core fiber, high-capacity routers, next-gen Wi-Fi, UAV systems, and defence electronics.
- Net debt stood at INR 1,500cr.

Products and New Launches

Exhibit 8: Product Offerings

Source: Company reports, Arihant Capital Research

Exhibit 9: Advanced trails are slated for Electronic fuzes by Apr-26. Multiple products are under development in Telecom and Defence.

Source: Company reports, Arihant Capital Research

Outlook & Valuation: HFCL order book stood at INR 11,125cr (~2.7x of FY25 revenue) shows business visibility over the medium term. The hyperscale data center expansion and AI infrastructure deployment are leading demand for higher fiber count, higher realization, and lower latency cables. The company is well-positioned to capitalize on the global hyperscale data center build-out and AI-driven network upgrades. The electronic fuzes' advanced trials are slated for April 26. Post approval, the company is targeting 1 lakh fuzes (20% of the market demand) going forward. The company is shifting away from low-margin EPC toward higher-margin OFC, defence, and solution-based businesses, leading to 18%-20% EBITDA margins going forward. The company repaid debt through QIP (INR 550cr), which is expected to reduce interest costs going forward. We estimate Revenue/EBITDA/PAT CAGR of 19.9%/36.4%/58.9% CAGR over the period of FY25-28E. RoCE/RoE is expected to improve from 5.6%/4.3% (FY25) to 12.2%/12.5% in FY28E, respectively. At the CMP of INR 69 per share, we maintain our "BUY" rating at a TP of INR 146 per share based on SOTP; an upside of 110.9%.

HFCL FY28E based implied valuation

Particular	Telecom Products	Turnkey Contracts and Services	Defence	Overall
FY28E EBITDA (INR cr)	1,072	184	170	
EV/EBITDA (x)	**15.0x**	**10.0x**	**30.0x**	
EV (INR cr)	16,084	1,835	5,106	23,025
Net Debt/(cash) (INR cr) - FY28 end				760
Market Cap (INR cr)				22,265
Share outstanding (cr)				153
Target Price (INR)				**146**
CMP (INR)				**69**
Upside (%)				**110.9%**
Rating				**BUY**

Source: Company reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	4,727	4,743	4,465	4,065	4,496	5,503	7,002
Net Raw Materials	3,499	3,479	3,220	2,944	2,892	3,526	4,480
Employee Cost	311	348	351	364	431	521	657
Other Expenses	268	298	313	308	475	576	726
EBITDA	**650**	**619**	**582**	**449**	**698**	**879**	**1,140**
EBITDA Margin (%)	**13.8%**	**13.0%**	**13.0%**	**11.0%**	**15.5%**	**16.0%**	**16.3%**
Depreciation	(78)	(83)	(82)	(106)	(157)	(165)	(177)
Interest expense	(166)	(152)	(147)	(185)	(218)	(163)	(150)
Other income	43	47	101	58	57	126	130
Profit before tax	**442**	**431**	**454**	**217**	**380**	**677**	**943**
Taxes	(116)	(113)	(117)	(43)	(103)	(178)	(248)
PAT	**326**	**318**	**338**	**173**	**277**	**499**	**695**
PAT Margin (%)	**6.9%**	**6.7%**	**7.6%**	**4.3%**	**6.2%**	**9.1%**	**9.9%**
Other Comprehensive income	2	2	130	(36)	-	-	-
Total comprehensive income	**328**	**319**	**467**	**137**	**277**	**499**	**695**
EPS (INR)	2.4	2.3	3.2	1.0	1.8	3.3	4.5

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity capital	137	138	144	144	153	153	153
Reserves	2,661	2,970	3,812	3,935	4,707	5,123	5,702
Net worth	**2,798**	**3,108**	**3,956**	**4,079**	**4,860**	**5,276**	**5,855**
Minority Interest	20	37	44	40	40	40	40
Provisions	45	53	60	69	26	18	19
Debt	1,172	1,137	1,432	1,802	1,202	1,047	1,027
Other non-current liabilities	-	29	77	86	27	33	35
Total Liabilities	**4,035**	**4,363**	**5,569**	**6,077**	**6,155**	**6,415**	**6,977**
Fixed assets	465	487	496	630	973	1,071	1,043
Capital Work In Progress	47	71	154	200	63	29	31
Other Intangible assets	74	215	433	580	580	580	580
Goodwill	26	26	26	26	26	26	26
Investments	87	102	255	229	247	220	245
Other non current assets	47	57	60	88	58	72	91
Net working capital	**2,366**	**2,537**	**3,265**	**3,220**	**3,311**	**3,501**	**3,983**
Inventories	573	758	774	899	951	918	859
Sundry debtors	2,492	2,309	2,736	2,302	2,648	3,015	3,741
Loans & Advances	37	31	29	27	18	22	28
Other current assets	401	548	644	1,461	616	633	729
Sundry creditors	(1,037)	(878)	(808)	(1,079)	(832)	(988)	(1,269)
Other current liabilities & Prov	(99)	(232)	(110)	(391)	(90)	(99)	(105)
Cash	528	323	336	491	379	310	242
Other Financial Assets	395	546	544	612	517	605	735
Total Assets	**4,035**	**4,363**	**5,569**	**6,077**	**6,155**	**6,415**	**6,977**

Source: Company Reports, Arihant Capital Research

Du-Pont Analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Tax burden (x)	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Interest burden (x)	0.8	0.8	0.9	0.6	0.7	0.9	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.0	1.0	0.9	0.7	0.8	0.9	1.1
Financial leverage (x)	1.9	1.5	1.4	1.4	1.3	1.2	1.1
RoE (%)	**13.8%**	**10.8%**	**9.6%**	**4.3%**	**6.2%**	**9.8%**	**12.5%**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	442	431	454	217	380	677	943
Depreciation	78	83	82	106	157	165	177
Tax paid	(116)	(113)	(117)	(43)	(103)	(178)	(248)
Working capital Δ	(434)	(171)	(728)	45	(91)	(190)	(482)
Operating cashflow	**(30)**	**230**	**(309)**	**324**	**343**	**474**	**390**
Capital expenditure	(135)	(128)	(174)	(286)	(363)	(229)	(151)
Free cash flow	**(166)**	**101**	**(483)**	**38**	**(20)**	**245**	**239**
Equity raised	588	33	547	(25)	550	(0)	-
Investments	(41)	(15)	(153)	26	(18)	27	(25)
Others	39	(302)	(219)	(244)	125	(101)	(149)
Debt financing/disposal	(176)	(35)	295	370	(600)	(155)	(20)
Dividends paid	(19)	(24)	(29)	(29)	(46)	(83)	(116)
Other items	(4)	37	55	18	(102)	(2)	3
Net Δ in cash	**222**	**(206)**	**14**	**155**	**(112)**	**(69)**	**(68)**
Opening Cash Flow	**306**	**528**	**323**	**336**	**491**	**379**	**310**
Closing Cash Flow	**528**	**323**	**336**	**491**	**379**	**310**	**242**

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth matrix (%)							
Revenue growth	6.9%	0.3%	-5.9%	-9.0%	10.6%	22.4%	27.2%
Op profit growth	18.3%	-4.8%	-6.0%	-22.8%	55.5%	25.9%	29.6%
Profitability ratios (%)							
OPM	13.8%	13.0%	13.0%	11.0%	15.5%	16.0%	16.3%
Net profit margin	6.9%	6.7%	7.6%	4.3%	6.2%	9.1%	9.9%
RoCE	12.4%	10.3%	9.2%	5.6%	7.3%	10.0%	12.2%
RoNW	13.8%	10.8%	9.6%	4.3%	6.2%	9.8%	12.5%
RoA	8.1%	7.3%	6.1%	2.9%	4.5%	7.8%	10.0%
Per share ratios (INR)							
EPS	2.4	2.3	3.2	1.0	1.8	3.3	4.5
Dividend per share	0.1	0.2	0.2	0.2	0.3	0.5	0.8
Cash EPS	2.9	2.9	2.9	1.9	2.8	4.3	5.7
Book value per share	20.4	22.6	27.5	28.3	31.8	34.5	38.3
Valuation ratios (x)							
P/E	29.0	29.7	21.3	72.4	38.1	21.2	15.2
P/CEPS	23.5	23.7	23.7	35.7	24.3	15.9	12.1
P/B	3.4	3.1	2.5	2.4	2.2	2.0	1.8
EV/EBITDA	15.4	16.5	18.5	24.6	15.9	12.6	9.7
Payout (%)							
Dividend payout	5.8%	7.7%	8.5%	16.6%	16.6%	16.6%	16.6%
Tax payout	26.3%	26.2%	25.7%	20.0%	27.0%	26.3%	26.3%
Liquidity ratios							
Debtor days	214	185	206	226	201	188	176
Inventory days	53	70	87	104	117	97	72
Creditor days	125	85	79	95	92	72	70
WC Days	142	170	214	235	226	213	178
Leverage ratios (x)							
Interest coverage	3.4	3.5	3.4	1.9	2.5	4.4	6.4
Net debt / equity	0.2	0.3	0.3	0.3	0.2	0.1	0.1
Net debt / op. profit	1.0	1.3	1.9	2.9	1.2	0.8	0.7

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 10: Revenue is expected to grow at 19.9% CAGR over the period of FY25-FY28E.

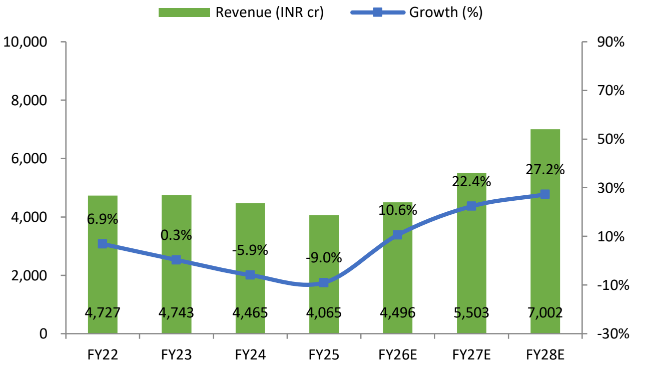


Exhibit 11: Softening of RM costs will lead to improvement in gross margins.

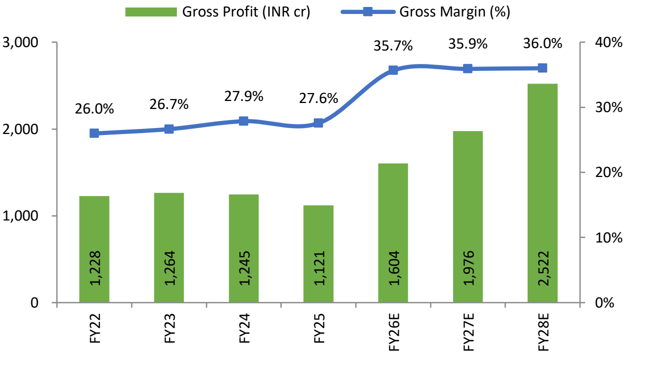


Exhibit 12: Growth in EBITDA & PAT levels

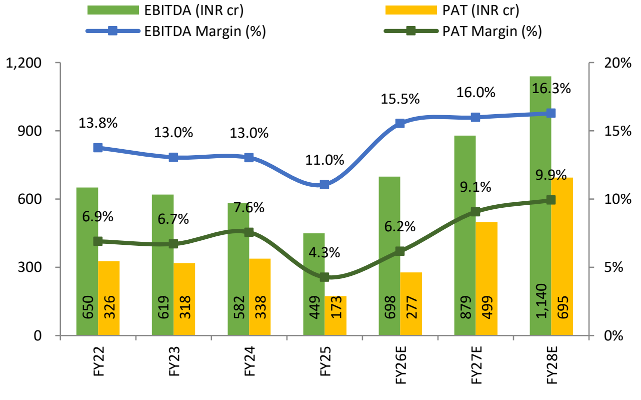


Exhibit 13: Return ratios to be improve

Exhibit 14: Telecom products WC cycle is lower and increase in products share would improved working capital days.

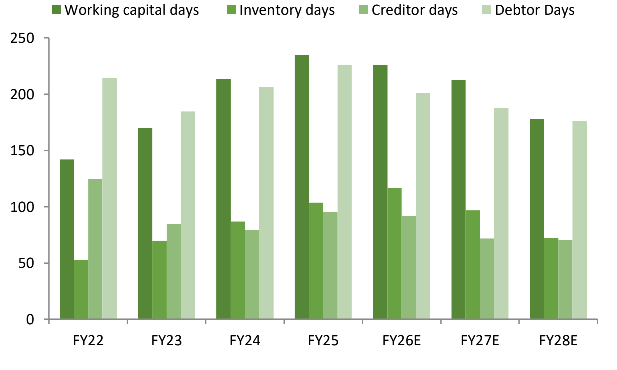
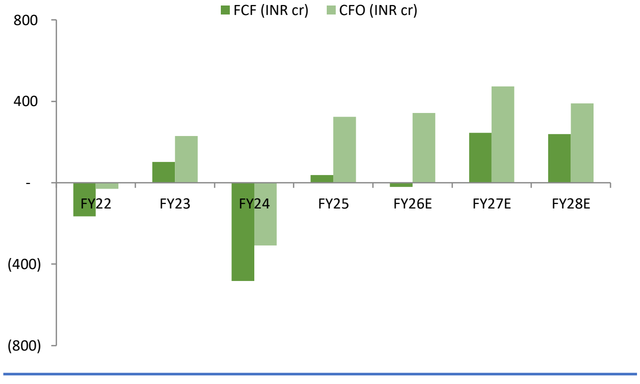


Exhibit 15: Cash flows to be improve



Source: Company reports, Arihant Capital Research

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Stock Rating Scale	**Absolute Return**
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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