MACFOS
LIMITED
(Formerly known as Macfos Pvt Ltd ,CIN-U29309PN2017PTC172718)

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Dated: 18/05/2024

To,
The General Manager
DCS-CRD
(Corporate Relationship Department)
BSE Ltd.
Rotunda Building
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MUMBAI-400001

BSE SCRIP Code: ROBU | 543787

Subject: Transcript of post-results Conference Call held on 16.05.2024.

This is with reference to our intimation dated 10th May, 2024 intimating holding Conference Call of the Company scheduled on Thursday, 16th May 2024 at 4:00 PM (IST) for Audited Financial Results of the Company for the Half year and year ended 31st March 2024 and uploading audio recording post Conference Call respectively.

In terms of provisions of Regulations 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of above conference call as Annex-1.

Kindly take the same on record.

Thanking you.

Yours Faithfully,
For, Macfos Limited
SAGAR SUBHASH GULHANE
Digitally signed by SAGAR SUBHASH GULHANE
Date: 2024.05.18 16:41:48 +05'30'
CS DCG(ICSI) SAGAR GULHANE
COMPANY SECRETARY AND COMPLIANCE OFFICER
MEM. NO. 67610

Annexure I

"MacFos Limited

Q4 FY '24 Earnings Conference Call"

May 16, 2024

MANAGEMENT: **MR. ATUL DUMBRE – CHAIRMAN AND MANAGING DIRECTOR – MACFOS LIMITED**
MR. BINOD PRASAD – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – MACFOS LIMITED
MR. NILESHKUMAR CHAVHAN - WHOLE-TIME DIRECTOR – MACFOS LIMITED

MODERATOR: **MR. RAMADHIN RANE – HEM SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to MacFos FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramadhin Rane from HEM Securities Limited. Thank you and over to you.

Ramadhin Rane: Thank you, Yashashri. A very warm good evening, ladies and gentlemen. Thank you for joining the MacFos Limited. FY '24 Earnings Call. Joining us on the call today from the management team are Mr. Atul, Chairman and Managing Director, Mr. Binod Prasad, Whole-Time Director and CFO, Mr. Nilesh, Whole-Time Director of MacFos Limited. We will commence the call with the opening thoughts from the management, post which we will open the forum for Q&A session, wherein the management will be glad to respond to any queries that you might have.

Before we get on with the main call, I would like to read the standard disclaimer. There may be forward-looking statements about the company and the subsidiaries which are based on the beliefs, opinions and expectations of the company's management, as on the date of this call. The company does not assume any obligation to update their forward-looking statements if those beliefs, opinions, expectations or other circumstances could change.

These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict. Consequently, participants should not place any under-reliance on such forward-looking statements.

With this, I will hand over the call to Mr. Atul to take it forward. Over to you, Atulji. Thank you.

Atul: Thank you, Raneji. Hello everyone and thank you for taking out your time to join this call with us today. First of all, I would like to welcome everyone here. I always say that our shareholders are our core partners. I welcome all our partners here for this very important call of the year. We are very happy to present our FY '24 Financial Results, which showed a very robust performance.

During last year, we have achieved roughly a revenue of INR126 crores with EBITDA margin of roughly INR17 crores and PAT margin of roughly INR11 crores, which is a very good growth compared to a year earlier with a 56% year in revenue, a 47% increase in EBITDA and PAT. We believe that the fundamentals are very strong and we also believe that there will be growing demand for these electronic products in the coming future. The future overall looks really optimistic and we are optimistic that we will continue our current growth trends even in the future.

Last year's call, we spoke a little bit about semiconductor shortages and logistic delays, but I think those things are now things of the past. So right now there are no semiconductor delays, semiconductor shortages and logistic delays. We have also worked well in the last year to strengthen our relationships with our suppliers and optimize our business with them.

This gives us better control over procurement costs as well as lead time. We have also been spending a lot of time and effort to do our expense management well because we know that maintaining our operational efficiency is really crucial for our business. Furthermore, if you see our key business matrices, such as our visitors, both website and app, total orders that we have served, then average order value, number of repeat customers, all these key business matrices, they continue to show a very good positive growth.

We are also putting a lot of effort, continuous effort, in enhancing our inventory management capabilities. As we know that our inventory is a great asset to us as well as if not managed well, it becomes a threat to our business. As highlighted in our previous communications, our outlook for next year, that is FY '25, is really highly optimistic and we are pinning that on two key strategies, which hereafter we will be calling [Robu 1.0 and Robu 2.0 0:05:36]. I would like to spend some time understanding what these two strategies are. Basically, Robu 1.0 is our current electronic distribution business and we want to keep it going. It is really simple for us. We know how this business is done.

Basically, there is an ABCD to grow this business. A is adding a new product, B is having better in-house IT infrastructure, better software, C is having an efficient supply chain and D is having great customer support. New products, in-house IT infrastructure, efficient supply chain and great customer support.

When we maintain these things, Robu 1.0 will sustainably grow for long-term. Now, what is Robu 2.0? Robu 2.0 is centered around our own products. As all of you might be knowing already, we also developed some of the products in India and some of them are OEM products. These products will give them a separate focus so that in the coming 5 to10 years, these will grow rapidly. Our brands and our products give us a higher margin, higher competitive edge.

Robu 1.0 is for our current business and Robu 2.0 is looking into the future and strengthening our position with our own products and growing them. It is just like planting a seed. We are planting this seed today. Robu 2.0 is giving it a separate focus and dedication though that business is not very big for us today. And we are very sure that 5 years, 10 years down the line, when we look back, it will be up.

Robu 2.0 will be roughly centered around smart select brands of products, which are electronic sensors and modules. Easy make brands of products, which are mechanical products. We already have registered two trademarks, [SimpliFly and BioCraft 0:08:11] for our drone related products. Our OEM products will be under the brand name of [Flourish 0:8:20].

We already have this line set up since the last 2-3 years. We have been developing products a little bit, bit by bit. However, this year onwards, we will be putting in dedicated efforts and will be taking this all into one umbrella of Robu 2.0. This will also give our team clarity and focus, which is required for future growth of these products.

I think that is it from the management side this year. I will be very happy answering all and any of your questions. Thanks again for being here with us for this call. Looking forward to your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Rohit Potti, an Individual Investor. Please go ahead.

Rohit Potti: Thank you for the opportunity and a great set of numbers. Two or three questions from my end. The first question is on BIS in general. What is happening in other industries is that the government is creating a non-tariff barrier by mandating BIS certification for certain products imported from outside. They range from certain electronic items to even foodware, etc. Given we import a lot of our supplies, as you mentioned in the past, do you see this BIS hallmark as a risk to procurement for us?

Basically, if the BIS hallmark is not there, you are not allowed to procure them from the country. Is that a risk at all for procurement of our supplies?

Atul: Thank you, Rohit, for your question. BIS is basically Bureau of Indian Standards. As far as I am aware, it is required for some of our products like lithium batteries. However, it is just a certification. It says that if you have BIS certification, let's say, for example, for batteries, then the battery is safe for use for Indian customers. We have been doing BIS certification for some of our batteries since the last 4-5 years.

As long as I see, it is not a challenge. Yes, this government is expanding BIS certification to some other products as well. However, in our scenario, I don't see it as a roadblock. It increases the certification cost per se for a particular product. But other than that, it does not create any roadblock for import or anything.

Rohit Potti: In your conversation with suppliers from abroad, like China or anything, do you see them saying that the government is mandating BIS certification for the factories or the companies from where you source supplies from? Do you see some sort of noise like that happening?

Atul: There is no recent change as far as I know. It has been there since long, as I said, BIS certification requirement for some products. In our case, whenever we know that for a particular product, BIS certification is required and we talk to suppliers, we have some, because the supplier is going to put in some money or we are going to put in some money for the certification.

And then there are maybe some arrangements where we can ensure that we will recover our money if we are putting in. If the supplier is putting in, it's okay. So maybe we'll ask them to provide the material only to us, give us a sole distribution shipping for India or something like that. And then there will be some minimum volumes we need to try to cover the cost we incur in BIS. But yes, there is no, when we talk to suppliers, there is no hue and cry about BIS. It's just a matter of like, without BIS, you can even order smaller quantities.

But when the BIS comes into picture, you at least have to have a certain volume so that the certification cost makes sense. I think that's the only thing. So it affects more of a smaller player. And it also gives a good business opportunity because even some of the individual customers who want to buy that product cannot buy without BIS certification. They want to import internationally somehow. They cannot do it without BIS certification.

And if we have the certification, we have the leverage. So it's not a threat. That is what I make from your question. But it's a balance of a little bit challenge and a little bit opportunity.

Rohit Potti: Understood. My second question is on working capital. So over the last three, four years, since 2020, our corporate customer base has been increasing rapidly. And from my understanding to our retail customers, we pay cash in advance or on when the time the order is placed. So there is no receivable cycle. But when we sell to corporates, there is a certain amount of time before which we ask them to pay. In that context, do you see our working capital cycle on average increase over time? Because I believe your B2B business will grow faster than the retail business. So if you could comment on that.

Atul: Yes. So there are two things we need to understand when it comes to B2B customer compared to retail customers. So when we are doing the retail customer, we have the material stock and then we receive orders. And then we dispatch it to the retail customers. But there is the payment is always coming in advance. While in B2B customer, as you have rightly pointed out, that we have to provide some credit terms.

Of course, we are a little strict on those terms. That is one thing. But on the other side, many times to corporate customers, we have back-to-back orders. Like we take some advance. Against that advance, we have, we order some material from our suppliers. So we don't have to keep a lot of inventory.

So their inventory light B2B orders. But on the other side, we have to provide some credit terms for higher sales. So it balances out the total cash flow proposition. Like for general customers, we like for the B2C customers, we have to stock in the material. And then we wait for one, two, three months. We wait for the orders.

While in case of B2B customers, mostly we get the order and the material comes and we dispatch it right away. So it balances out in both things. And generally as a rule of thumb, as a policy in the company, we always want to keep our debtors divided by our creditors less than one. So we do not want to have total debtors more than what we can get credit terms from our suppliers. We are a bit restrictive on both sides to maintain the cash flow.

Rohit Potti: Perfect. That was helpful. And my last question because I couldn't attend the EGM. Could you detail the use for the INR25 crores preferential capital that you raised? I mean, how do you intend to use it? By when do you intend to use it? And generally around those, that will be helpful to hear.

Atul: Yes. So our view on that capital is very simple. That since now our business is growing and overall electronics market is expanding in India. So we will use those funds for two things primarily. One is to add new products aggressively to have newer SKUs in our portfolio. And second thing is to solidify our position in the market.

So maybe increasing the supply chain efficiency by maybe just by one or two percent, something like that, by putting in some extra stocks here and there. So overall, one is to have higher SKUs in our portfolio. And second is to solidify our position in the market.

By then, we do not have a very strict deadline for those, but we do not intend to do anything half-assed. So our only guideline to use of that fund is we don't change anything in our current ways and means, processes, until and unless we feel that it's with the same efficiency. So we want to maintain the same efficiency.

If we get money, we will not use it in a wrong way. It will work if it stays in the account for a few days. However, it has to be used with the same efficiency. That is the bottom line for us.

Rohit Potti: So when you say efficiency, you mean the inventory rotation, right?

Atul: Yes, it's primarily inventory rotation.

Rohit Potti: Understood. That's it for me. Thank you. As always, this call has been very helpful. Thank you.

Atul: Thank you Rohitji.

Moderator: Thank you. We'll take the next question from the line of Sumit Poddar from Tikona Capital. Please go ahead.

Sumit Poddar: Hi, sir. Great, great year. Congratulations for those numbers. First, if I can, while you alluded to the fact of Robo 2.0, if you could throw some more light, while we have mentioned a bit about the products, but maybe if you could throw some more light on the market size or the opportunity and within that, how you're planning to capture that, and what kind of investments that would be entailed in terms of capex as well as opex to really capture that Robu 2.0.

Atul: Thank you, Sumitji. Basically, when we are talking about Robu 2.0, we already talked about Electron, [Partilex], EasyMech, two brands for Drone and Pro Range. Now, you mentioned about market size. So, I'm not going to numbers, but we all know that overall electronic sensors and modules, drone related activities, or some tools and measuring instruments, these are the hot, because we have all the data.

We are seeing a lot of categories. We know these categories are hot categories in our segment. And what we believe is we have a certain edge in certain areas. Suppose we are talking about SmartElex, either there are sensors and modules made in China, which are cheap, but the quality is really bad, or you have something made in European or American market, which is a good quality, but they are really pricing.

So, we believe that we have an opportunity in between where we can make good quality products at a reasonable price. So, that is where we want to grow the SmartElex brand. Similarly, we have figured out opportunities in these four categories and because this call can be attended by anyone, I don't want to go very much into details of those, but that is the thought process behind that.

Like drone segment who doesn't know that drone segment is doing well in India from last 3 years, 4 years and having made in India products in drone segment will certainly give us some edge 5 years down the line. That is like a very obvious thing for us being in the same business for more than a decade.

As long as the investment goes we as a robo are very frugal people. So, for last 3 years, 4 years we have been doing these activities in bits and pieces. We have already seen some traction into these categories where we are building the products and we want to grow organically. We are not in any hurry to set up some drone assembly line in coming 2 years. We want to launch some products, see how much traction is there and organically grow.

So, the belief is these things have to be profitable. It does not mean we are aggressive that means that maybe instead of launching 5 products a year, we can think of doubling our team size and work on 10 products.

However, those products have to make financial sense. They have to be profitable. So, capex as far is not the requirement. We will get them maybe in some cases, we will have some manufacturing activities like some sub-assemblies or some getting them done from outside if it is financially more viable.

And in the due course of time we will do what is necessary. The scale of the manufacturing and the cost that we are recurring. So, right now, there is no plan on spending dues on capex.

Sumit Poddar: And these new products that we are talking about I mean any number that we have outlined in terms of capex or will it be like we will invest as it comes?

Atul: We will invest as it comes, but as far as we see there is no huge capex required. I mean, there will be some. We have already increased our team sizes to the development activities which were like 6 to 8 people last year which is currently 20 to 24 people.

However, more efforts will go into the R&D like design and development of these products. And the machine and the capex requirement comes when you already have certain volumes which is going into the market. Till that point, we can get the products assembly doing here and some partially manufacturing from multiple sources so that we can be light on these capex requirements.

Sumit Poddar: And these products, I mean, they are well tested in terms of, I mean, with the customers in terms of opportunity or is it that we are trying something new that will open up new markets for us?

Atul: I really don't get your question.

Sumit Poddar: So, see whenever any innovation really comes up in any of the areas, many a times as a manufacturer, as an innovator we think that okay this will really work well and it may not necessarily work the way we think.

So, in terms of market acceptability whether the new products or new areas of investment that we are thinking of is it that we are kind of having already some acceptability by the clients or is it that we are kind of trying our experiences?

Atul: I understood your question now. So, basically we are not doing any research and development which nobody has ever made in the world. So, these products as I explained about SmartElex models so where basically these models have been made by some Chinese suppliers, but the quality is not so good. Price is very cheap. Made by some European people, but there is a high price and then there is good quality. And we believe that we have an edge we can make it at a lower cost than European, but better quality than Chinese.

So, thankfully, Robu's business model is such that everything comes from the sales perspective that if it can be sold only then we go into making our own products. We are not making something new out of the box that is not what we are doing.

Sumit Poddar: I think you made a point clear. I mean, if it is already being manufactured and being sold, it's just that we have to match the price points which makes sense for the client. So, yes I got a point such.

Atul: Yes something like that and along with that we'll have certain things which will be changed in the product. We'll add our flavors like adding some features, removing some features because we know customer feedback. We know what customer wants, what they don't want.

Sumit Poddar: And, sir in FY '24, I mean, if you could throw some light as far as growth in corporate sector versus retail sector and within that if you could throw some light on what are the good or very large corporate clients that we might have added. If not the names, of course, I mean, sectoral or a broader brush would be helpful?

Atul: Yes. So, as a rule of thumb we have decided to keep the combined numbers thereafter. And the only reason for that is we keep the overall revenue or overall growth of the company as one, because of course we do B2C customers. Then they grow and then they convert to corporate customers so it's one chain for us, but if I just have to give the numbers compared to last year I think our corporate sales was around 53%, 54% during last financial year FY '23 which has grown to 57%, 58% FY '24. And about corporate customers I don't think it will be right to give a few names because as we said even our biggest corporate customer is not very big.

It's not like that we are just manufacturing one, two products for Tata, Mahindra like we have thousands of corporate customers. So, I think there is no one customer which is billing us tremendously. We have a lot of corporate customers, but yes, the sales have been [inaudible 27:13] within this percentage wise.

Sumit Poddar: Within broadly INR60 crores INR65 crores, what would be the size of the biggest customers? A broad number I am not wanting an exact number, but this is just to get a direction rather than any specific numbers.

Atul: The biggest customer will be somewhere around 1 crore.So biggest customer is somewhere around 1 crore to 1.5 crores annual business.

Sumit Poddar: So that again as you said implies at least 50 to 100 or maybe even more than 100 customers, 200 customers that we already have as such?

Atul: These are the biggest customer. It goes on reducing as a trend. So, there are thousands of customers. If I have to give you a number it is around [inaudible 28:00] and this is our spent as we said because eventually we believe that the order values and everything will grow and these distributed customers give us the support. Even if you go away you will always add up and as an industry electronics is growing. So, we believe that this is kind of safe for us. We are not dependent on one single customer.

Sumit Poddar: And chief in terms of margins, if I say, margins have declined compared to last year and even within that there is some seasonality in H1 versus H2. If you could throw some light on that and given that we are investing going forward, how should one look at the overall trajectory? Whether it would kind of because of the investments we would have a bit of a lower margin than then growing up or I mean what is the trajectory basically? So, first, of course, what really happened of margins in FY '24 versus FY '23 and within that seasonality of H2 and yes, the trajectory?

Atul: So, if you talk about the margins of FY '23 against FY '24 they have yes you're right they have gone slightly down, but I think that we always keep this margin bracket of 8% to 10% and I think we are even in this year it is around 8.57%. So, we are well within that bracket. And the rest things are we are now even in future we will be maintaining this 8% to 10% bracket.

Year-on-year I think we, rather than just looking at margin there are two, three factors. One is margin. Second is acquiring more of a market share. Third is maybe solidifying your positions into some categories where you want to go aggressive and then maybe sacrifice margin for one year or something like that. There are some strategic decisions to those, but yes, we are confident that this 8% to 10% bracket. that we have been saying from day one, we will maintain our margins into that bracket for longer runs and we'll take all the efforts. And if there is, like right now, at this point, there is no change in our strategy. We want to be acquiring more market share, solidifying our position, it's maintaining 8% to 10% margins.

Sumit Poddar: But sir, that is the net margin level, right? I mean, of course, given the size, there is -- of course, there is some gross margin benefit that investments that you are doing. Similarly, operating leverage that is there. And ultimately, if you're saying net margins are going to stay the same, how should we then look at it, given the fact that there are multiple margin levels for you. So would that all get invested going forward? And then if that is so, then for how long? That is the question.

Atul: I really didn't get your question.

Sumit Poddar: So given the fact that you are coming out with your own products and that would definitely have much higher gross margins, right? Because you would be able to get more pricing power as well as the IP that you would add, that would give you a higher gross margins, gross margins in terms of the sales minus the raw material itself, right? Because you have invested your IP.

And given the fact that we are just INR123 crores, possibly over a period of time, the scale itself would also give you an operating leverage, where the fixed cost over the variable cost is getting recovered over a larger part of revenue, right? So all these two benefits over a period of time should flow down to the net margins. And if the net margins are going to remain the same, how should we look at the benefits of the investments that you're doing, as well as the operating leverage that will kind of flow in?

Atul: Yes, so I understood your question now. So basically, what we are thinking at this point in time is, see, our margins will always have tendency to reduce for certain products where there will be increase in competition, or, as we said, that corporate clients will always want more discount or corporate sales will increase. However, we want to maintain our net margin in the bracket of 8% to 10%.

And having the long-term view, making our own products, establishing our own brands that gives us that leverage in coming five or 10 years slowly but gradually increasing those sales to maintain those margins in that bracket. So it's a very complex dynamics as we say about the margins, you just can't look at one thing and you just can't look at second thing. As on today, our services and our own products business stays somewhere around 8% to 10% of the total revenue. And as this grows, this will give us higher margin just to simplify the things.

On the other side, the competition as the size and the corporate client, they will have a tendency to reduce our margins slightly. Of course, it's all going to -- it will never be always reducing trend, it will come somewhere where it will do something. But our efforts for the next five to 10 years with this Robu 2.0 are focused on building our own brands and building our own products, keeping in mind these margin dynamics as well. So you have a higher control and you have higher margins. That's the best part about Robu 2.0.

But we do not want to put any numbers to it right now, it's just a baby, it just has started growing. So what we want to do is put in more focus, have bigger teams, let those products organically go into our store, go into our customer's hand, let them experience that we will also learn and eventually it will grow. It started with 2% like three four years ago. So we are there at 10% right now.

And without that, I'm pretty sure our margins would have even dropped below what they are today. But that is where we know certain things will come, we are not afraid of admitting it. And we are already thinking in future and taking actions today because it will not happen overnight. So that is how we are thinking about this margin thing and Robu 1.0 and 2.0.

Sumit Poddar: So that was quite helpful. I have a few more questions but I'll come back in queue because others may want to have questions. Great sir, wish you all the best and I'll come back in queue.

Atul: Thank you so much.

Moderator: Thank you. We'll take the next question from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Hello. Good evening, sir. Thank you so much for taking my question. Firstly, congratulations on a great set of results, sir. So my first question, sir, what kind of growth are we planning in terms of revenue guidance for FY '25-'26 currently? You've grown fantastically around 40%, 50%. So will that trajectory continue for the next two years, sir?

Atul: About growth forecast, I just don't want to put a number to it. But yes, we are pretty confident that we will continue our historical performance.

Darshil Jhaveri: Okay. Fair enough, sir. And I just wanted to understand in terms of inventory risk for our increase now segregated into Robu 1.0 and 2.0. So what kind of inventory risk do we carry if we are importing the product? So how much it comes on our balance sheet and then how much type of inventory risk for that, in case it's not moving that we have to keep it with ourselves? So what kind of that would be for Robu 1.0? And for Robu 2.0, we would be manufacturing some parts ourselves, some parts for our third party. So what kind of an inventory risk do you foresee in that, sir?

Atul: Yes, so first you have to understand, I'll take this Robu 1.0, 2.0 thing out of this question. So Robu 2.0 do not get any free goodies. We are not going to give any unnecessary advantage to Robu 2.0. Like we're not going to sacrifice any unnecessary things that we are maintaining, like inventory or just jump into it and have a big investment, something like that. They will grow organically and the inventory principles are same for Robu 1.0 and 2.0. So there will be no accumulation of excess inventory for Robu 2.0.

Yes, it might happen that making OEM or manufacturing the product, there will be some minimum requirement, but the same goes with even our regular electronic distribution that to make the imports of the product cost effective, we have certain volume requirements. So I don't see any change. It's not going to change anything in our inventory. And inventory -- as I always say, inventory is both a two-sided sword for us. So one side, it's a really great asset. It drives good business. On other side, if not managed well, it is a threat to our business or a risk to our business.

And what we have done well in last 10 years is we have developed our own inventory management system and we always keep our inventory in check. We are very, like our softwares take care of that right now. If you look at the numbers in our presentation, financial year '23-'24, we just have 52 lakhs worth of inventory, which is slow moving inventory, more than nine months. And last year it was somewhere around 22 lakhs.

So I think it is -- sorry, I just missed the number. So it is 3.68% of the inventory this year. Last year it was 2.33%. So it's just a small rise, which is expected with this kind of business and strategy change. Remember, this is not a dead inventory. We'll still sell these products, but we have a check on our inventory. So I don't think that's a point of concern right now.

Darshil Jhaveri: Okay, that makes sense. And just with regards to our own products, could you just maybe detail. So we'll be setting up our own factory type or we'll be getting it majorly from third party, how would that flow, sir?

Atul: So the products are designed and developed by us right now. I'll give you a small example. If I'm making, let's say, a small mechanical accessory, so mounting bracket for motor, what I need? I need some laser cutting for the bracket, then CNC welding, then some welding, and then maybe some anodizing or surface coating. But I do not -- because if I have to put in those setups, that's some crores of cost. And why would I do that if I can just pay a little premium on those activities and get it done from outside? Those are still designed and developed by us. However, these activities, I'll get it done from outside.

On the other hand, for some of the SmartElex products, the assembly setup, the assembly machine that required was very small, like INR6 lakh to INR10 lakh of investment. That we have already established in our office because we have more than 200 of SmartElex products now.

And it was a hassle to take the products, go to some assembly guy, get them assembled, again, come back, because every day there will be some product which we need to assemble. So now we have a small assembly, electronic assembly setup in our own office and we are doing it in-house. Two years ago, we were not doing it, because two years ago, maybe we were having just 30, 40 products and it was more economical to do it outside.

So these products that we are doing, our main focus is creating our own products and generating sales with higher margins and with our own brand protection. About manufacturing, it's just pure economics. Whenever it becomes more economical to do it in-house, we'll do that. Otherwise, we will never do it.

Darshil Jhaveri: Okay. Perfect, sir. That helps me a lot, sir. And just one final question, sir, with currently, we are in a lot of sunrise sectors, but do you see any kind of risk, maybe from competition or any regulatory or something along those lines, any kind of a broad-based risk that you see that can hamper our growth, sir?

Atul: Competition-wise, I do not see any huge competition to us. Of course, since we are a listed company now, and since the segment is growing fast, there will be people entering in the segment. There will be competition mushrooming in, mushrooming out. That will happen. That is happening even today. But I don't see any company or anything which is at, which we can call a threat right now.

And we have, the most important thing is we know this will happen. We know this since last year. That's why we are very adamant on our supply chain optimization, our ERP development to increase our efficiency.

We, as we have already publicly announced, we have already set up a company in Hong Kong. We have already a warehouse in China. So, we are trying to optimize these things so that whenever competition emerges, we have a personal advantage.

We'll move ahead and we'll establish the prices or we'll establish the efficiencies so that the competition will find it really difficult to compete with us. Again, Robu 2.0, our own product is a part of that as well. And second threat, of course, India-China geopolitical threat, China-

US, that is there, but we really don't think much about it. It's just out of our control and it is as it is. So, whatever it is, you already know what it is.

Darshil Jhaveri: Perfect. So, that helps me a lot. Congratulations on a good turn of numbers and all the best. Thank you. Yes.

Atul: Thank you, Darshilji.

Moderator: Thank you. The next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Yes. Thank you so much for the opportunity and congratulations on a good set of numbers. So, I want to understand what is the current work on capacity so that if you would require any expansion for the new atom?

Atul: Okay. So, currently, we are processing, we have three times the warehouse capacity. Like, that means if we are processing X order today, we already have the space and systems set up for 3x capacity. And over the period of time, we have learned that we have to keep it this way, that we keep on making sure that our warehouse systems and the space, both are good enough for what orders we are processing, as well as at least some future growth.

Moderator: I'm sorry, Mr. Karan, your voice is muffled. Can you use your handset mode, please?

Karan Sanwal: Hello.

Atul: Yes, Karanji. I got your question. I'll just answer your question to save time. So, you asked that what is the percentage of your marketing, percentage of total revenue or something like that. I do not have the number ready with me right now. But as we always say, our marketing expenses are capped at 5% not more than 5% of our online sales. And as far as I remember, they were somewhere around 4%, 4.5% of our online sales. And our online sales are less than 50% right now. So, overall, if I have to give you a number, it will be around 2% to 2.5%, somewhere between that. Is it good enough?

Karan Sanwal: Yes. Also, when we say the online offering business, I'm assuming it's the bifurcation between B2C and B2B.

Atul: The bifurcation is?

Karan Sanwal: Between the B2C and B2B business.

Atul: B2B and B2B business.

Karan Sanwal: Understood. And also, one last question. We have seen an increase in our short-term loans and advances. So, are these majorly the advances paid to the suppliers for the current year?

Abhinit Kulkarni: Could you repeat your question? Your voice is actually noisy.

Karan Sanwal: So, there has been an increase in short-term loans and advances for the current year. So, I wanted to understand what does constitute to those short-term loans and advances.

Atul: Yes, I'll just hand over to Binod for this question.

Binod Prasad: This is Binod online. So, short-term loans and advances, I mean, this is advance to supplier.

Karan Sanwal: Okay, that's entirely the amount to the supplier, right?

Binod Prasad: No, so the bifurcation is, just hold on. So, majorly it has two components. First is advance to supplier in terms of INR5 crores and second is advance tax in terms of, you can say, INR3.2 crores. So, these are two major components in short-term loans and advances.

Karan Sanwal: Okay, understood. Thank you so much and all the very best.

Atul: Thank you, Karanji.

Moderator: Thank you. We'll take our next question from the line of Agam Shah, an individual investor. Please go ahead.

Agam Shah: Yes, congrats on a good set of numbers. I have 2,3 questions. So, if you can, I'm joining in the call for the first time, so pardon me. So, if you can explain, where does a motor niche lie? So, in terms of, let's say, if I'm a customer for your drone part, if I order from your website, I can see the same thing and order it somewhere else and get it at a lower cost. So, where is our niche or business lies in getting in? So, if you can broadly explain me that, it's my first question.

Atul: Okay, I'll explain you this, but I'll just make it quick because we are on a call and I just want to save time for others. So, basically, Robu is, as we say, an electronic distribution company and the way electronic distribution works is we are an authorized channel partner for those suppliers. So, to give you an example, maybe you see an authorized dealer for Tata, something like that.

We are an authorized channel partner for more than 250 different vendors across the world. And, basically, the customers, when they want to buy these products, they buy through the authorized channel partners for 2, 3 things. One is the authenticity and second is when they buy from the authorized channel partner in a particular region, they get the support.

Like the Indian customers can get better support for those products from a local Indian company. Now, when you say that where the moat lies, I think Robu's moat lies, we always say that we have three pillars of Robu. So, one is our products.

So, Robu's moat lies in having all the products under one umbrella where we have around 20,000 products from different suppliers. So, if you want to build a drone, you require 20, 25 products. You are not looking to buy a motor.

Generally, you are trying to build a drone. And then we have all the different products from multiple suppliers, which helps you to complete your project, which is building a drone. So, this is our first pillar, which is products.

Second is our IT infrastructure, which helps us to manage the inventory, efficient inventory of those 20,000 products. It's not just any inventory. It is what product at what price and what quantity we keep in stock.

And that is really complicated once it goes anywhere beyond 500,000 products. So, maintaining these high number of SKUs, we have IT infrastructure, which is ready to even maintain 100,000 or 150,000 products. And third is our service. So, whenever we, you can check our Google reviews, which is 4.7 out of 5 and almost 5,000 reviews now on Google, which was around 4,000 last year. So, what we do is providing return, refund, replacement, or solving technical queries of the product. These are not shoes, shirts, where you buy, you like it, keep it, you don't like it, return it.

So, people need long-term warranty, like one-year warranty, six-month warranty on these products. And also, if the product is not fit for their, they want to know whether the product fits rightly in their project or something. So, these are the modes for Robo.

Agam Shah: Also, one more question. So, in a presentation, you have said that out of total inventory, 3.68% inventory is very slow-moving. So, what do we do with this 3.68% of inventory, which is slow-moving or maybe is not moved or whatever? So, is there any resale value for that or how is it?

Atul: Yes. So, just for the presentation sake of it, we have mentioned one part of our inventory management. Generally, what we do is whenever we receive an inventory, we segregate it by fresh inventory, which is less than three months. After three months, it is tagged differently. We have to sell 40% of our inventory within three months. If not, then it is tagged as not-moving inventory.

We have to sell at least 60% of our inventory within six months. Then, if it is not, then it is slow-moving. We have to sell 50% of our inventory within nine months. Otherwise, we'll tag it as very slow-moving inventory. We have to sell all our inventory within one year, whatever we have bought one year ago. If not, then we'll call it a dead inventory.

Dead does not mean we will not sell it because if you see in every step, we are selling some of the products. And in every step, we do some action. So, in three months, if we are not selling anything, we'll check if our listings are correct or by mistake, the product is not visible to customers on the site or something like that.

Agam Shah: If the inventory is more than one year old, then you incur a loss on it or how is it?

Atul: No, it does not incur a loss. It depends. If the product is only a little quantity remaining with us and it's a legacy product, we'll increase the cost. We'll get higher margins because we know that we have sold 10,000 of those. We can easily sell 50, 100 of those because customers are using in the systems and for maintenance purposes, they'll require it. So, we'll just keep it as it is and increase the price.

Some of the inventory, we will sell on lower price. Maybe for some of the inventory, they have to incur a little bit loss like maybe 5% down price from our regular price, from our cost prices. So, this is how we do it. However, you have to remember this is something that we have been doing from last 7-8 years. So, whatever revenue and margins and everything you see, this is including everything including this system of slow-moving products and removing them stage wise. So, that we have been doing already for last 7-8 years.

So, whatever margins and revenue we are maintaining, it is including this process. It's not that something that has popped up right now and will affect our future business.

Agam Shah: And in terms of category, so will these categories keep on changing or how is it the broad mix remains the same? So, I believe drones and development boards are the leading ones. So, will this continue to be leaders for next couple of years or this keeps on changing, the categories?

Atul: It does not change over a period of a year or two. In longer run, it will change because let's say 3-4 years ago, drone was a very small business. Now, drone has grown rapidly. Even the development board was a very small business, let's say 7-8 years ago, but it has grown rapidly. Not rapidly, I'll say at a moderate stage. Now, if you ask me, maybe IoT and wireless is a small business for us right now, but it is growing rapidly.

3D printer is growing rapidly. So, the technology, because this is electronic segment, the technologies, new technologies will come and some of them will grow rapidly, which gain some percentage in our chart. Some of them will grow at a moderate stage, then become stagnant, then slow down. So, this will keep on happening, but not every year you'll see a change. Maybe today and 5 years down the line, you'll see some categories going up and down and some going out of the chart and coming in charts.

Agam Shah: How many people are there typically in R&D?

Atul: Right now, we have 20-24 people.

Agam Shah: What is your net working capital?

Atul: Net working capital, can we answer this question?

Agam Shah: In terms of days?

Binod Prasad: Approximately 90 days.

Agam Shah: 90 days?

Binod Prasad: Yes. It's slightly late, but we can say 90 days.

Agam Shah: 90 days, okay. And what will be the capex for the next couple of years, 2 years? How much capex will we be doing?

Atul: We don't know. Because we do not have any plan which is capex incentive. Whether we want to build some manufacturing line and then to grow the business this much, we need these many machines, something like that. We have inventory projections because our business is mainly dependent on that. But such as capex like machines or setting up own factory or something like that, we do not have the projections.

Moderator: Thank you. We'll take our next question from the line of Pawan from Shade Capital. Please go ahead. Mr. Pawan, please use your handset mode.

Pawan: Sir my question is like, I think as I understood, like 10% of your revenue is coming from in-house or partially in-house manufacturing. So can you give some sense, what sort of margin difference, like between a manufactured product or maybe you're procuring from outside? Roughly it is 8% to 10%. Okay. Any other example that you see like manufacturing in-house instead of procuring from outside, some other color, can you give on that?

Atul: Sorry, what? Could you repeat the question?

Pawan: Yes, my question is like when you are manufacturing in-house, there might be certain other soft advantages also, maybe for a customer, maybe supplying faster or maybe a quality. Can you give some color on that?

Atul: Okay. So the two key advantages for our own product, like Robo 2.0 is having our own brand, like better control over competition because since the product and the IP belongs to us, nobody can sell those products. Like someone else cannot sell the product with the same brand. And second is having this higher margins. Now, if you want to understand in terms of timelines, we have a slight disadvantage because if you want to make manufactured product on your own, you'll require higher lead times.

On the advantage side, we can customize those products. So tomorrow when industrial customers will come for higher volumes and they will want certain modifications or customizations to be done, that we can do easily. Or if they come up with some custom requirement that, okay, instead of ABC product, I want ABCD product. So we can make that product converted to that particular thing. So I think that is the advantage part and disadvantage part.

Pawan: Okay. And can you give some roadmap, like how you want to grow this? Like right now it is like around 10% of revenue, like by next year or maybe next two, three years. What sort of percent of revenue can envision, like manufacturing in-house? Something on that.

Atul: So as I said, it's just a child. So as I was saying, these products, we believe these are babies. We are just getting started with this. And you don't want to tell your babies that you want to become an engineer or a doctor. They will get bogged down with that. So our plan is bottom-up, where we identify the products or we identify the segments that where we feel that we will have a good leverage five or ten years from right now. Then we try to manufacture those products or make those products in our own brand with some difference.

Launch them in a market and see how market is reacting to this. To the product where we get some traction, we'll double down on them. And for some products, we might not get good traction. So we'll just keep them going or maybe decide not to discontinue them. So we are aggressive on finding new products, putting more efforts in R&D and people and our process as a robust DNA such that we will not do anything which is not generating profit for us. So we want to generate some profit at bottom level for different, different products. When you go at the top, some of them will, who is having higher demands or the technology is growing, they'll grow in the market and then collectively summing them up will generate us some revenue.

So we are not right now thinking in terms of just increasing that 10% to some 20%, 30%. We know that will happen if we focus on the bottom line, making new products, selecting the segments right and putting efforts and energy to grow those segments individually. Having said that, it's not the targetless kind of activity.

We have our target set up for each and every product brand. For example, in SmartElex, we have a target of launching 200 products in coming two years, which is right now somewhere around 70, 80. I believe that target will fulfil only in 2024. But those are small products like INR500 to INR2000 selling price per product. So we assign these targets to each product categories or products and we will know what next target to assign when we reach there.

Pawan: Okay, so right now you don't have any like dedicated capex plan for that, which I understood?

Atul: It don't require any dedicated capex for this products I well seen that day. The only thing that these products require right now is a good team which can design and develop those products to let them in the market, get customer feedback and to develop more and more of those products. Some of the products will require some moulds, manufacturing, something like that, but that's in few lakhs. It's not a big capital, nothing which I can say, INR2 crores for this assembly line or INR3 crores for this factory setup, nothing like that as of now.

Pawan: Okay. Thank you for detailed answer.

Moderator: We'll take our next question from the line of Abhinit Kulkarni from Tequity Ventures. Please go ahead.

Abhinit Kulkarni: Hello, congratulations for a great set of numbers and I hope I'm audible.Okay, so my question is for all the products that we are having, are there any particular products for regions where the suppliers have given us an exclusivity right?

Atul: Yes, there are few suppliers which have given us exclusivity right for Indian region. So, there are a few but I'll not say like in 250 there will be some 20, 30 suppliers.

Abhinit Kulkarni: Okay. And if you could tell me what percentage of the revenues would these products be?

Atul: I do not have that number handy right now and it's a big like there are 20, 30 suppliers so it will be really hard even to make a ballpark guess for that. However, I'll put an emphasis on that that these are not the only arrangement that we do. So, for some suppliers we reach to a business level because I don't want exclusivity like sometimes I don't want exclusivity.

Otherwise, the supplier will think that this particular products have a very big business in India but maybe Robu is not doing the business. So, as a purchase person what I want generally is I want 2, 3 distributors but I want to drive 80% or more of the business so that I get the prices that nobody can beat in the market. I can have good margins and secondly the supplier is also comfortable. He knows that I have 2, 3 people so even if sales goes down some year or so he's not panicking. He knows that it's going down for everyone and still Robu is driving 80% of my business. He's the main key player for us.

So, there are multiple dynamics to that. We cannot just look at this number and maybe come to a certain conclusion. My personal preference is always to have leverage over suppliers by driving the revenue numbers high and being their top supplier in the region.

Abhinit Kulkarni: Understood sir. Fair enough. Great answer. Thank you and all the best for the future.

Atul: Thank you Abhinitji.

Moderator: That was the last question for today. I now hand the conference over to Mr. Ramadhan Rane for closing comments. Over to you.

Ramadhin Rane: Thank you Yashashri. On behalf of HEM Securities Limited. I thank all the participants and the MacFos team for giving the time for this call. I would also like to now I would like to hand over the call back to Yashashri for the closing remarks.

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