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

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Dated: 06/11/2023

To,
The General Manager
DCS-CRD
(Corporate Relationship Department)
BSE Ltd.
Rotunda Building
P.J. Tower, Dalal Street, Fort
MUMBAI-400001

BSE SCRIP Code: ROBU | 543787

Subject: Transcript of post-results Conference Call held on 03.11.2023

Dear Sirs/Madam,

This is with reference to our intimation dated 27th October, 2023 intimating holding Conference Call of the Company scheduled on Friday, 03rd November 2023 at 4:00 PM (IST) for Unaudited Financial Results of the Company for the Quarter and Half year ended 30th September 2023 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.

This is for your kind information and record please.

Please take a note on the above said information for your reference.

Thanking you.

Yours Faithfully,
For, Macfos Limited

SAGAR SUBHASH GULHANE
Digitally signed by SAGAR SUBHASH GULHANE
Date: 2023.11.06 19:53:39 +05'30'

Name: Sagar Gulhane
(Company Secretary and Compliance Officer)
Membership No. 67610

Encl: as above

Annexure-1

"Macfos Limited's H1 FY'24 Earnings Conference Call"

November 03, 2023

MANAGEMENT: **MR. ATUL DUMBRE – CHAIRMAN & MANAGING DIRECTOR, MACFOS LIMITED**
MR. BINOD PRASAD – WHOLE-TIME DIRECTOR &CHIEF FINANCIAL OFFICER
MR. NILESH, B2B DIRECTOR, MACFOS LIMITED

MODERATOR: MR. RAMADHIN RANE – HEM SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Macfos Limited H1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramadhin Rane from Hem Securities. Thank you and over to you, sir.

Ramadhin Rane: Thank you, Jacob. Good afternoon, ladies and gentlemen. Thank you for joining Macfos Limited First Half FY24 Earnings Conference Call.

Joining us on the call today are the senior members of the management team; Mr. Atul Dumbre, Chairman and Managing Director; Mr. Binod Prasad, Whole-Time Director and Chief Financial Officer.

We will commence the call with the opening thoughts from the management team, post which we will open the forum for Q&A session where the management will be glad to respond to any queries that you may have.

At this point, I would like to add that some of the statements made in today's earnings call will be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainty that may cause actual results to differ from anticipated outcome.

Now, I hand over the call to Mr. Atul Dumbre, Chairman and Managing Director of the Company for his Opening Remarks. Thanks, and over to you Atul, sir.

Atul Dumbre: Yes, thank you. Rane ji. Hello, everyone. Thank you for taking out your precious time for this call.

Dear shareholders, We are delighted to present the Financial Results for the First Half of FY24 which showcased robust performance. In this period, we achieved a revenue of Rs.53.55 crores, EBITDA margin of 6.09 crores, and PAT margin of Rs.3.87 crores. This signifies remarkable growth with a 50% increase in revenue, a 30% increase in EBITDA, and a 33% increase in PAT compared to H1 of FY23.

Our aim for FY24 is to maintain this momentum and targeting a 40% to 50% growth in the revenue, while keeping our PAT margins in a range of 8% to 10%. In H1 of financial year '24, our PAT margins stand at 7.23% which is slightly below H1 of FY23, which was 8.09%, and our internal projection of 8%. This minor variance of PAT can be contributed to easing of semiconductor shortages worldwide. So, basically, due to semiconductor shortages in the years

2021 and 2022 prices of semiconductor have gone significantly up. But, from the start of 2023, the prices are coming down to their normal values. So, the items that we sell were procured at slightly higher prices. But, we have adopted to changing my market conditions and selling these items at slightly lower gross profit margins at reduced prices as prices have declined subsequently. However, we are confident that we will maintain 8% to 10% PAT margins for financial year '24 as a whole.

I would like to draw your attention on some last year performance data. In financial year '23 for the first half of the year, we did 36 crores in revenue with PAT margins of 8.1%, while for the whole year FY23, we did 80.8 crores revenue with PAT margin of 9.2%. That means for FY23, our PAT margins of H1 has grown to 1.1% for the whole year. We expect similar trends to continue because generally, our 40% of top line is achieved during H1 and odd 60% of the top line is achieved during H2. But, our main expenses like salaries, rents and fixed cost remain the same.

Furthermore, other various key business matrices like number of orders served, average order value and count of repeat customers have consistently shown positive growth during H1 of FY23.

We have also enhanced our inventory management systems and capabilities which have resulted in decrease of slow-moving inventory. So, at the end of financial year '23, we have 2.33% of our inventory as slow-moving inventory which has come down in the last six months to 1.6%. So, at the end of H1 of financial year '24, our slow-moving inventory stands at 1.6%.

We have also demonstrated strong expense management and continuous optimization efforts. In July, we have implemented salary increases for all our employees as a part of our annual appraisal cycle.

As we have highlighted during our previous annual general meeting, the outlook for 2024 remains optimistic with our success driven by three key factors: One is addition of new products; second is optimization of our supply chain, and third is development of proprietary products.

Let's take a look at them one-by-one. We have added a lot of new products during H1 of financial year '24. We have expanded into new categories and acquired new brands. At the end of H1 of financial year '24, we have 16,220 products on our website, which are roughly 4,000 more than that of end of financial year '23. Increasing this product count is a step ahead in becoming comprehensive solution provider for electronics hardware in India.

Second factor is optimization of supply chain. To achieve this, we have registered a new, fully-owned subsidiary, Nuo Zhan Technologies Limited, which has been established with one thing in mind to streamline our import supply chain. We also have undertaken substantial back end work to further strengthen our gross profit. Hopefully, the result of which we will see in the coming six months.

The third factor is focusing on our proprietary development products, particularly with special emphasis on drone and drone components. We have several products in pipeline and we plan to launch them in the coming quarters. In fact, in Q2, we have already introduced two new products; one is F450 Corrupter Groomed Frame and second one is F550 Hexa-Copter Frame. Both of which are designed, developed and manufactured in India. So, the three factors of adding new products optimizing supply chain and development of our proprietary product lines, especially in drones, we believe that in the coming years will help us to become a pioneer in Indian electronics and hardware industry.

That's it from the management side of presentation. Thank you all for being patient and listening to this. Now, I'll hand it over to Rane ji to take any further questions from you guys and we'll be more than happy to answer your queries.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Abhishek Sharda from HEM Securities. Please go ahead.

Abhishek Sharda: So, what kind of operating margins are sustainable in your business?

Atul Dumbre: I think it will be better if we talk about PAT margins because as a strategy, we consistently have focus to maintain our PAT margins. So, we believe that 8% to 10% PAT margins are sustainable even in long run and we have shown it consistently. So, as I have said already, even in H1, we are maintaining 7.23% or 7.25%, and generally we do more business; 60% of the business in second-half of the year. So, our fixed costs are the same like salaries are the same, warehousing expense are the same, our rents are the same. So, if we do more business even the 10% more business in second-half, our expenses are very less, and that extra 10% gross margin adds to the net margin. So, last year, it was an increase of 1.1%. So, we are confident that we will be in that bracket of 8% to 10%.

Abhishek Sharda: Sir, just now you said that second-half contributes almost 60% of the revenue, right?

Atul Dumbre: Yes, if you talk about the last three to four years, I'll say the bracket could be 40% to 45% for the first half and 55% to 60% for the second half.

Abhishek Sharda: Sir, in the first half only we have like achieved around 48% growth, right?

Atul Dumbre: Yes.

Abhishek Sharda: And if second-half contributes around 55% to 60%, then we will easily cross more than 50% growth for the complete year, right? I mean, your growth guidance is around 40% to 50%.

Atul Dumbre: Yes. What you're saying is right, but I'll just. add a little bit different view on this because last year also if you see our 40% revenue was from first half and 60% was from second half. So, this first half we have achieved 48% growth. So, if we do 60% this year also in second half we will have a similar 48%, 50% growth in second-half. It will not be more than that if you do the similar. It can be more if you do more business, that will be the case. But yes, 40% to 50% we have maintained even in this half and right now we don't see any challenge in maintaining the same rate in second half of the year.

Abhishek Sharda: And we believe this like material and semiconductor shortages, the prices that have increased in the first half will be gradually like solving in the second-half, right?

Atul Dumbre: Yes, actually, prices have gone down, they have not gone up. So, what happens is, we procure a material and the material gets delivered to us in 30 to 60 days. So, let's say we purchase a product at Rs.100, but by the time we receive it in warehouse, because the prices are going down, the cost price has reduced, let's say by Rs.2, Rs.98. So, now we do our profit margin calculation by Rs.98. So that 1%, 2% difference we try to absorb, not to pass on to the customers because we want to be competitive in the market. And that effect, we believe that if it has worn off to most of its extent, but yes, it will continue maybe three months, four months max, so, the prices will normalize. Again, you are never sure, there are wars going on, oil prices might go up and the prices might go up again. But right now, we see that the worst has already passed off, so nothing to worry.

Abhishek Sharda: This like 40% to 50% growth we are looking in long term also for like next three to four years, right?

Atul Dumbre: Yes, as I always say, my short-term view is of five years and we believe that for five years we can maintain this growth.

Abhishek Sharda: One more thing like what is the contribution from government orders in this first half if you can quantify?

Atul Dumbre: I do not have that data handy with me, but if I have to give it at it, it will be around 5% to 7%. It has increased compared to last H1, there is like at least 2%, 3% increase because we are putting extra effort and focusing on government orders, but, yes, this number has gone up.

Abhishek Sharda: If I remember, sir, I think in the last con call you told around 7% to 8% of the revenue comes from government orders.

Atul Dumbre: I really don't have those numbers handy. If you want, you can just mail us and we will just reply to the mail and give you the exact figures. One thing is sure, our government orders have increased like the percentage in the revenues.

Abhishek Sharda: And sir, any comments about debt reduction like are we looking to reduce debt?

Abhishek Sharda: I'll pass on to Binod for this.

Binod Prasad: So, long-term borrowing has gone down by almost Rs.1 crore if you see our balance sheet. And secondly, we have used more working capital. So, overall long-term borrowings are reducing. It's just that we are using our working capital.

Abhishek Sharda: Sir like, do we have some internal targets about debt-to-EBITDA like maybe we want to maintain at these levels or something like that?

Binod Prasad: No, we don't have such parameters to measure. We make sure that this ratio needs to be healthy, but we don't have such parameters.

Atul Dumbre: Basically, there are so many parameters to look at. So, as a management, our views are very simple that we look at a certain top line. We need to maintain growth that is #1, 40% to 50%. Second is with some gross margin, like let's say 25%, 28%. And then we have all our expenses, we make sure that they must be in a percentage of our total revenue. So, the salary should be less than 5% of total revenue, digital marketing should be less than 1.5% of total revenue. So that from the top line, we can come down to that 8% to 10%. So generally, these are the. key matrices that we follow, growth, second is maintaining a certain percent of gross margins and coming down to a certain percent of net margin. And we believe that everything has been taken care of itself.

Moderator: The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: I wanted to know about your B2B business. So, who are the clients and what kind of products are they buying and how do you sell to them?

Atul Dumbre: I'll hand you to Nilesh who is our B2B Director.

Nilesh: Currently our B2B contributes to 56% the H1 that we have reported. So, 56% contribution comes from B2B business. B2B business, our main clients are in the field of drones like General Aeronautics, then Asteria Aerospace then in the field of one more Carmen for BYOME is there. So, these are the drone segment which is one of the key drivers of this B2B business. Then there are automation companies like. Shale Technologies is one of the customers, then contribution from the government orders is also increasing in B2B. We classify our government revenue as a B2B revenue only. So, these are our main customers. And once you say government, then there are various, you know PSUs, and R&D labs, like CDAP, DRDO and there are various IITs and NIITs. So, their contribution has been increasing in B2B.

Saurabh Sadhwani: They buy through your website or is there any other sales channel for B2B?

Nilesh: So, the sales channel of B2B, how it works, I will just extend briefly. Whenever such potential B2B customers when they are doing prototyping, they first order it through B2C segment, they prefer that route, because that is faster. In prototyping, you always want to save time. So, once we receive the orders in which the customer has already given us their GST number, then we pass on that data to our B2B team which is highly filtered and very qualified data. Then we have a B2B team of 30 people roughly, so then they contact those customers, some of them visit, we try to understand their requirement in a better way and potentially that team helps in increasing the ticket size of those B2B customers who have already placed B2C orders. So, we cannot look at B2B and B2C business as a separate unit, it's a single entity in which B2C platform is used to generate leads and those leads gets converted to sales order by our corporate team which is B2B team.

Saurabh Sadhwani: The second thing I wanted to understand like what is your strategy with your proprietary products, means, how are you deciding that what products you need to build and whom do you target for these products?

Atul Dumbre: For our proprietary products, we have three different brand identities. One is Orange-branded products. So, those are basically OEM products so we have the brand ownership. SmartElex are the kind of products, electronic products I'll say and we have a design development team in-house to develop these products and Easymech are mechanical products, so different types of wheels, couplings, brackets, etc., so that is for mechanical. So, for electronic development, we have one brand for mechanical development different brand and OEM products we have certain brands. So, all combined is our own products. And we have targeted some products like for electronic development, we have targeted drone products. Because since we are selling so many products, we know what technologies are coming up, what kind of demands are there for those technologies and we can kind of have a peek into the future that this technology will do well, let's say, five years down the line. So, that is the main agenda of deciding which technology we want to focus to build our own product. That is one way of looking at it. Second way is, since we are selling so many products, we know that for what kind of product there is demand in the market, but there is no product available, like for our smart lists products, we realize that the DC motor drivers are not available easily in the market. So, we develop those line of products. So generally, we want to have a go at technologies that we believe will do good over five years and the areas where there are some lacunas or empty spaces in the market.

Moderator: The next question is from the line of Gunit Singh from CCIPL. Please go ahead.

Gunit Singh: So, looking at the guidance that you provided, can we say that we can, conservatively achieve 120 crores in the top line in FY24 and 10 crores plus PAT?

Atul Dumbre: I would not like to provide any fixed number for future forecast. However, what we have said we will stick to that that we want to maintain the growth rate of 40% to 50% and we want to maintain the PAT of 8% to 10%. Now I'm sure you guys can do the calculations, but I do not want to present the exact numbers as it will be wrong.

Gunit Singh: So, what percentage of products sold on our website or manufactured in-house by us only our own brand.

Atul Dumbre: Three brands that I just explained, SmartElex, Easymech and Orange, those three brands contribute to 10% of our revenue as of today.

Gunit Singh: All the other products sold are from third-party brands?

Atul Dumbre: So, we are authorized channel partner or authorized distributor for more than 140 brands worldwide and generally, the other products sold are from those brands, but we always ensure that more often than not we are an authorized channel partner because that is the way we can secure a long-term relationship and a long-term business.

Gunit Singh: Sir, what gives us the confidence to grow 40% to 50% annually for the next four to five years, I mean, what are the main drivers of growth. And what are the main challenges that you see for us going forward -- do we have any other competitors in this space?

Atul Dumbre: So, we do not have any apple-to-apple comparison which have such a big, huge product line and which have more solution-based business and product-based. So, we consider ourselves a solution provider. Because if a customer does not want to buy a drone motor, he's trying to build a drone. So, you need to have a comprehensive portfolio of products and technical understanding of which product will go with which. So, there is no apple-to-apple competitor, #1. Second, our confidence of growth comes from two, three things; one is if you look electronics is entering in every part of our life, let it be automobile, let it be Wi-Fi related things, internet connectivity. So, everywhere electronics is getting embedded into our everyday life, it is increasing rapidly. Second thing is there are government policies which are intended to support manufacturing in India. And the more manufacturing in India goes increasing, the more requirement for these parts will go and the more companies who are trying to develop their own products in India will grow. Thirdly, we see some of the international players which are Arrow Electronics, Mouser Electronics, so their business model is basically, they have a warehouse in some country, something like Singapore, where is their income tax zone and they have almost three 3,00,000 to 10,00,000 products in their portfolio and they ship those products worldwide into multiple countries. So, we believe if those guys can have 3,00,000 to 10,00,000 products today where we are standing at around 16,000, 17,000 products, why can't we multiply that product number to let's say 1,00,000 in five years, six years down the line and why can't we increase our business in five, six-fold when government policies are aligned with it, overall market for electronics is aligned with it. So, that is a very simple I'll say believe from our side that yes, this will happen.

Gunit Singh: What are the main challenges that you see yourself facing, I mean potentially?

Atul Dumbre: So, currently we do not see any threatening challenge such as that this will happen. So, we are confident that we will grow. In our business, I think the biggest challenge is management of your inventory wealth and management of your cash flow wealth. So that we have done already that we have set up systems and we have our own ERP software. So, this is perhaps the most hidden and very important part of our business. Even today, we have capability of managing 1,00,000 parts through our ERP systems and the decisions to which part to purchase, when to purchase, what quantity to purchase is automated even today for us. So, that software part we have developed from since 2017, it helps us to maintain that inventory rotation period of two and half to three months. So, we rotate our inventory every two and half to three months effectively. That is, I think the biggest challenge in our business and we have solved it already through our robust IT. We have in-house team and we have developed our own software to solve that problem.

Gunit Singh: And sir, I'm new to the company, not very familiar with it. So, I mean, just to get a brief sense, what kind of customers profile are our target? I mean, are those the people who are looking for some intermediate products to build something on their own or are they like end consumers of the product? And I mean briefly, how would you describe what you do?

Atul Dumbre: So briefly, we describe ourselves as a solution providing company for electronics hardware. So, what we do is whenever there are people, so there might be individual, there might be a startup, there might be some people from education segment or there might be some corporate who are trying to develop their own product into electronics domain. So, those are our customers. When they're looking at a product, I always give this example, when a customer is looking at a product, he's not looking for a drone motor. So, if you want to buy a t-shirt, you are just looking for a t-shirt and end of discussion, if you like the color, size or fit of it, you keep it, you return it. Our business is different; we are into the business of providing solution of electronics hardware. So, my customer is always looking to build the drone. He's trying to build an end product and he's looking for a solution that he wants, let's say propeller, a motor, a controller, a battery, a charger, frame, 20 different products for that particular development. And we being technical people, we have acquired those brands who sell those products worldwide, maybe 10, 20 different brands and we have already listed those products on our website in a way that customer can get solution to build those. So, that is our core strength.

Gunit Singh: How many employees do we have currently?

Atul Dumbre: So currently we have 170 employees, out of which 120 employees are on our payroll and 50 are contractual employees.

Moderator: The next question is from the line of Sanika Khemani from Sapphire Capital. Please go ahead.

Sanika Khemani: Actually, my question is in which of the verticals are we seeing the highest growth potential in? And can you also please help me with the product launches which we did in the quarter and H1 FY24?

Atul Dumbre: In the vertical, we see the biggest growth are #1 is growth in last two years, we have seen tremendous growth in the drone segment and the second vertical is microcontroller boards. So, that also we have incremental. So, these are top two. Third one might be the e-vehicle related things like lithium batteries and chargers and controllers. Fourth will be sensors category where we have some good growth. So, these are maybe top three, four and they just keep on shifting up and down. But yes, generally, these are three, four. I think we have marked percentage of sales in the presentation that we have uploaded. So, you can just have a look at this for detail. And your second question was which products we have launched. So those are basically frames for building the drones and there are two sizes; one is 450 size, one is 550 - 450 size is for Corrupter Groomed Frame, 550 size is for Hexa-Copter Drone.

Sanika Khemani: Who are the competitors for us?

Atul Dumbre: So, as I said, there are no apple-to-apple competitors which are doing same business. The example that I gave those are international player like Arrow Electronics, Mouser Electronics, Digite Electronics. So, basically, the difference is those guys have one warehouse in Singapore and they are trying to serve the world with it. And we are doing the similar thing by having our base in India. So, we are trying to serve Indian customers. So, of course they are way, way bigger, but the advantage that we have over them is time. So, we can provide a good local support and timely delivery to our customers in India. And in R&D nowadays time is of great distance because when you are developing a new product, now you have to launch four, five, six cars a year rather than just launching one car in two years. So, technology has become fast and hence people have to develop new products very fast.

Moderator: The next question is from the line of Tejas Mehta, an individual investor. Please go ahead.

Tejas Mehta: I had a couple of questions which might be just a repeat of what you must have already mentioned in your pitch. One is when I look at Mouser Electronics, they already have a presence in India somewhere from Bangalore. So, these guys already are selling Texas Instruments and Microchip and all these manufactured products in India. So, these are your direct competitors, right, these global guys, they are establishing their foothold in India and then they're directly selling it, and obviously they come with much more reputation and credibility. So, isn't it that you have these competition which can create problems for you?

Atul Dumbre: So, Mouser just has a sales team sitting in India. They do not have a physical product in India. So, their model, as I said earlier is they have a warehouse somewhere in Singapore or somewhere and they have just some sales people sitting here in India, trying to sell their product, #1. #2 is when you buy their product, these guys will not support you. The order will be placed to their Singapore warehouse and you have to take care of custom clearance, and if there is any faulty product or any support that you need, that has to be again passed on to the Singapore warehouse. So, there is a lag in time. So, these are just their sales offices present in India. #2 is Mouser, Arrow, those people are more focused to a conventional technology. If you look at their website even today, they are not selling any product related to drone. They are selling a very few products related to development goods, not many products related to IoT sensors, not many products related to batteries, chargers, not many product related to 3D printing. So, our strength is we have built on the new technologies in past 10 years. And if you look up for these technologies, Mousers and Arrows, they have not built their presence in those. So basically, they are more of a conventional seller who are focusing on the semiconductors, resistors, capacitors and ICs which goes into the more of production and to the bigger clients like that. So, that is the basic difference, and that is why we have we have been able to differentiate ourselves in this segment and create these 16,000, 17,000 products worth of SKUs and let's say Rs.53, 54 crores worth of business in H1 itself.

Tejas Mehta: So other than them, they have sales rep office in India, there is no one else in India or an Indian company which does business with you.

Atul Dumbre: Pardon, I couldn't get the follow up question.

Tejas Mehta: I'm asking that there is no other Indian company who does the same model of business like you, right?

Atul Dumbre: Yes, so there are multiple Indian companies, but as I said, they are not having the complete product portfolio as we have. So, there are few online stores, if you search drone parts in India, you will find three online stores who is hiring maybe selling only drone parts or only partial or drone parts. Again, they will not be an authorized channel partner for those brands. So, these people, we do not consider them are apple-to-apple competitors, someone will be selling some microcontroller goods, maybe an authorized channel partner for one or two of the brands that we are selling.

Tejas Mehta: See, it's basically a trading business, right, for you guys, essentially you are importing the parts and you are distributing them in India, you have created a marketplace. So, all kudos to you guys. But do you think these kind of margins that you make about 13-15% EBITDA margin, 8% to 10% PAT margin, They seem to be very high margin for the trading business. So, maybe you are making better margins today because you have the depth and the width of the product catalog. But how Easy is it for someone to come and replicate? the question mark is on how sustainable are these Models?

Atul Dumbre: So, I understand what you say and I agree on that part that it is really surprising to have such good margins for a trading and that is because we are not a trading business. As I said, we are into providing solutions for electronics hardware. And you will need to look at the things from customer perspective. So, a marketplace model and all that, so many of our parts what we are selling today, you look up for them on Amazon and they're available. So, Amazon is into trading business because they are selling shoe, they're selling shampoo, they're selling TV, and they're selling drone motor. So that is the trading business. However, in our case, we are focusing on new technologies and their solutions. So, for example, when I say I want to be there in drone technology, I'll figure out that there are three types of tools. One is, let's say, racing drone, one is photography drones, one is, let's say, the agricultural drones. I'll figure out what are the components that are required for agricultural drones, so there are 20, 25 components. Then I'll talk to all the multiple manufacturers who are making those components and then I'll get the authorized channel relationship with them and then I have to create a portfolio where a customer… the customer is never trying to buy a motor or goods, he's always trying to make his own drone. And in that process, he requires all the parts for that drone. Also, he needs to understand which part goes with what. And we need to have that support. So, he is looking at a drone as a complete solution for his drone. That is why we are able to maintain those margins and I firmly believe even today, as I said, there are many people selling on Amazon and suppose, if you buy a motor from one Amazon seller and controller from second one, they are not willing to provide you any support after that. So, what you are going to do if your motor is not working. He will say that maybe within seven days you can get the refund, after seven days, there is no support. We provide six months to one-year warranty. So, you cannot go away because one of your motors has gone bad and there is no support. So, this is the solution part of our business and that is why we believe we are able to maintain margins and if that would have been the case, that margin could have low down, I don't think people would have like we are able to make this this much ATCR business last year, it would have gone down way earlier.

Tejas Mehta: But shouldn't be easy to replicate for someone else, I mean, you are currently doing 120 crores revenue this year, could it be someone with who can pump in a 20, 25 crores capital -?

Atul Dumbre: Yes, they can do that. They can go to 20 drone suppliers and ask them for their distributorship in Indian markets. But let's forget about our business. Let's say tomorrow you have good capital 20:20 share and if you go to Tata and say them that I want distributorship in every capital of every states of India. Will they give it to you?

Tejas Mehta: Depends on my background –

Atul Dumbre: They are not going to give because they have set up distributor channel since last 10-15 years. They have established a good relationship with them. And as a company, you don't want to suddenly break all your relationships, because in future nobody will trust you if you do that. So, if you go with a lot of capital to 20 different drone suppliers, they will say that we have currently have good distributing channel in India, maybe one or two will give you the authorized channel distributorship. We have built this over last 10 years. So, people have heard about drones in the last three years. We have had our first drone supplier onboarded in 2015 for batteries. So, if the process you built over the period of time, you contact suppliers, you get one and two and you contact them when the technology is at its nascent stage. Currently, we are focusing on technologies like risk size controllers, but I'm pretty sure nobody from this audience at least, maybe one or two have heard only about this technology, from four or five years down the line it will be big. So, we contact those suppliers at nascent stage, get the distributorship over the period of time, build the relationship and nobody can just come when the technology now everyone is talking about growth. But nobody is going to give you distributorship… not everyone at least, one or two may, but it is really hard to build that comprehensive product portfolio and customers cannot do without it…you cannot get drone motor in a distributorship, but it's of no use to customer, he wants to build the whole drone. And that is what differentiates us.

Tejas Mehta: #1 is you're mentioning a lot about drones, right? But drone is only 20%, 22% of the business, there's a lot more other business that you have. At the same point of time, you also mentioned that you are a total solutions provider within it again, you have given the examples of drones, right? Are you also a solutions provider for any other -?

Atul Dumbre: I can talk about technology like 3D printing, but my problem is a very few people know about the technology of 3D printing, in general, I'll say, non-technical domain.

Tejas Mehta: Like drone, right, how many say full solution provider for, how many -?

Atul Dumbre: If you come to our website there are 12 categories, all are 16,000 products are distributed into 12 different categories. So, one is drone, one is 3D printing, one is IoT and wireless. So, there are 12 different categories and if you have two categories. So, you can just visit our website and on the home page there are 12 categories which we have categorized our product team. So, those are the technologies that we generally use.

Tejas Mehta: So, you give the entire solutions for all of these categories, right?

Atul Dumbre: So, that is the intent to give the whole solution for these categories. All the parts that you need as an end product developer or end product manufacturer.

Tejas Mehta: The other thing is that your ticket size per client is very low like Rs.3,600. So, if someone is looking to build a drone, a drone I think will cost somewhere in the range of maybe at least Rs.40,000, 50,000 probably?

Atul Dumbre: Because we are operating online, so the customers who are corporate customers for them our average ticket is around Rs.35,000 to Rs.45,000, I'm not sure, let's take a ballpark of Rs.40,000. So that is for our corporate customers and because we receive a lot of small orders, so if a person is trying to build a drone, maybe he'll start small with ordering some motor and a basic controller which will be around Rs.15,000, Rs.20,000 to try something and then go on building one over the other. So, actual drone will cost somewhere around Rs.40,000, Rs.50,000, but those might be four, five different orders from our website. But when that gets converted into a customer whose products is developed which are our B2B client, then the average order value is around Rs.40,000 and we have shown growth consistently in our average order value as well. So, when a client is sourcing parts from you, do you help him in understanding that okay, if you are buying this motor, then only this controller will work with this, like a package solution that is one. #2 is that so the client taking part from multiple brands and assembling a drone and then this is the prototypes, when the prototypes succeed, you might want to scale up the production, right. Has any of your clients scaled up production and have you been able to supply the parts for scaling up the production?

Atul Dumbre: Yes, we have been able to do that. This six months only I think we have shipped around 1,40,000 orders. But some of those customers will go through the development into the production phase and we have recently supported a customer for 250 drones order and we have been consistently supporting customers in multiple quantity orders for the matter. That is why our B2B sales are increasing; in 2019 our corporate sales were only 5% of the total revenue, today it is 56%, that is the testament of what you just asked.

Tejas Mehta: There is one client who is now looking to –

Atul Dumbre: There are many clients. I am just giving what I remember right now that one client we recently saw 1,50,000. So, it was like a big moment for us. But yes, from 5% to 56% growth in total revenue contribution by our corporate clients that itself says that many of our clients are growing big and buying from us in higher quantities. Otherwise, how can we grow our percentage number to that.

Tejas Mehta: There's many much more to learn from you guys but I'll let someone else also ask questions.

Atul Dumbre: You can get in touch with us anytime and we'll be more than happy to show you around or answer all your questions because we believe that we firmly believe that investors are a big part of Robo now since we are public, and we'll be more than happy to, get your query solved.

Moderator: The next question is from the line of Vishal Mehta, an individual investor. Please go ahead.

Vishal Mehta: Just it was heartening to know that you guys are projecting to grow 50% year-on-year for the next 4-5 years. Just want to understand as you increase your SKUs, how will you be able to protect your gross margins because these kind of gross margins are definitely very lucrative and which is showing in your business model, but in terms of size once we reach higher risk SKUs and higher growth projections over the next 2-3 years, how is that going to play out, can you just help understand better?

Atul Dumbre: I don't get your question. I understand that our size is going to grow, but I believe that we are already at a 16,000, 17,000 SKUs and last year only a TCR odd revenue. I will not say, very big, but this is a sizable business and it's simple, we get the new technology, we get the distributorship authorized signal…okay, I'll go ahead with my answer. So, basically if there is a very high competition in any segment, then what you said might be right that we will lose some business margins over the period of time. In our case, we are protected by the nature of business itself. We generally are an authorized distributor or authorized channel partner for all those principles manufacturing their product. They do not provide distributorship to anyone who is going to them with big amount of money because they understand that person has to have understanding of technology, he needs to support customers technically if something goes wrong and he needs to have a background of dealing in the similar type of products, similar kind of technologies that we have. So, generally they choose their partner carefully. It is not a t-shirt where you buy and don't like then return. These are technical products and you need to understand which product you want to stock with which product how you want to represent those products on your website so that client can understand with what goes with and then provide them a complete solution for a particular technology. So, I think nature of our business helps us to maintain that. And one thing that we keep on doing is we keep on tracking, let's say 10 new technologies each year, get distributors of those principles manufacturing in those and then get the products onboard. So, out of those 10, two… I don't know which two exactly, but two will grow because electronics is growing and coming into daily life, two will grow and be very successful technologies for us, like drone has become. Five, six will be moderate like 3D printing today is a moderately successful technology for us, but it is still doing good for us and one or two will start over the period of time. But the key is to get to those technologies way ahead of people and we have support of our online store to do free marketing kind of activity for us because we have almost 5,00,000 people visiting our website a month. So, I think these key factors that having a great online store, capability to serve corporate clients. So, you'll hardly find anyone in India, even this Arrow, Mouser, Digite they don't have a great website as ours. And they don't have capability to serve the clients locally. So, to build, we have already built that competitive edge of getting the technologies right in time, growing along with the technologies, having the great online store to market those technologies, having the corporate sales team to get the milk out the clients to get the maximum sales. And I think these factors will protect our margin even in long. Because anybody can buy a T-shirt and sell it tomorrow be it your competitor. But you cannot become authorized channel partner of particular drone motors and become our competitor. They will not entertain you. You can buy from other sources but then you will already have very bad pricing in terms of your cost price. So, you cannot compete with us.

Moderator: The next question is from the line of Nidhesh Jain from Riverland Capital. Please go ahead.

Nidhesh Jain: I have two questions in the interest of time. I'm referring to one of the slides from the deck and that is very, very heartening. The slide wherein you showed the total number of customers and also the number of customers who have placed two or more orders. So, what it says is the growth in number of customers who have actually placed two or more orders is much higher than the overall customer growth. Basically, my question is, as a management team, what are the actions you are taking even though your business is in sweet spot because of the both private sector and government policy supporting it and huge $40 billion electronics market and all that. But my question is what actual steps you guys are taking to increase number of customer count or the penetration because what it says in the slide that the overall experience with the website or with the app is super, therefore the growth repeat orders is much higher than the overall growth. So, I want to ask you about the step one, you may call it as a question on business development. So, you may bifurcate between B2C and B2B in whatever way you want, this is question #1.

Atul Dumbre: For our businesses, as Nilesh earlier said, you cannot segregate our online and offline business. So, basically the way we look at it is our online presence or strong online presence, 5,00,000 visitors visiting us each month, that is there to generate leads for our corporate systems. To give you a 40% of the people who place order online are placing it with GST number. So, those guys are our future corporate customers. And our online platform acts as a great marketing tool for us itself. So, we always focus on marketing our online platform because we know our corporate marketing or corporate sales team will get higher leads. once we market our online sales platform, that's it and that we do through multiple activities; we do a lot of social media activities, we have a great YouTube channel, we have a great blogging on our site where we post about these technologies because our customers, like nobody will wake up today and say, oh, I need to buy a drone motor. So, these technical people, they come through a funnel where initially they are interested into technologies, then they'll learn about the technologies and later on in some stage, they'll buy. So, we create a lot of content on blog articles, on videos which will attract our customers and they'll know there is a store called as "Robu," these people are having drone parts, having microcontroller parts, having 3D printer parts and later in the stage when they want to buy then they'll remember us and then they'll buy from us. So, marketing effort one goes into making this customer learn about a brand name "Robu" and what we are doing and then there are marketing through Google ads and Facebook. ads where we market our products for direct sales. So, we market in our website because corporate sales team is taken care of and we have seen this, I keep on telling this that in 2019 our corporate sale was only 5%, then it increased to 10%, 15%, 20% and today we are spending at 55% because we have been able to convert successfully our retail customers or online customers into our corporate customers and as they grow, they have stuck with us. They order from us because we also provide them technical support and assistance. We have a team of engineers at the back end of our website which provide them the technical support, something like a medical store, you just don't go and ask them that I need let's say x tablet. You just tell them that I am not feeling well have this issue and the guy will understand and give you the tablet. So, story is like that you want to build drone for agriculture, something like that, come on our website, you read our blog, see the videos, come on our products and then you'll understand what you need to buy.

Nidhesh Jain: I mean, it is commendable that without any great ad spend or digital marketing, you're doing it on your own with the word of mouth, publicity and the brand name of Robu. Also, I get you even for the B2B you are saying that the website remains the fulcrum of the activity. It is the mother, I mean, this focal point where even the B2B business gets generated leads gets generated from the same thing, right.

Atul Dumbre: Yes, our website is really focused on marketing efforts on marketing of website and that is something which you cannot build overnight. We have built that website 18,000 product unique pages, we write all our content, we click all our images, we upload all our images because that new data has a great value in eyes of Google. So, when you're searching anything on Google, more often than not, Google's website will come up. I'll request the investors to go and search multiple like drone parts in India, buy drone motor in India, buy lithium batteries in India, 3D printing parts, sure. Roots will pop up. And that's a testament to the effort that we are putting in for last 10-years developing our website, developing SEO, developing those pages, creating content and then we are able to convert some of those clients into corporate and get the more revenue through them.

Nidhesh Jain: Atul, I have a second question. I mean this electronic parts market is huge, okay, in India, there could be, as you said globally it's a very big business, there could be a million SKUs and a million thing which products which can be there. But, at the same time, from the discussion and also the past performance of Macfos Limited, it seems that you guys are rather focused on the margins also, right? So, my question here is when you add more SKUs, is it an internal criteria that you want to add new technologies, new SKUs, new products, but at the same time you don't want to sacrifice that whatever 25% gross margin or 8% to 10% net profit margin? I mean you just don't want to add product for the heck of it just to increase the number. So, is it a major, major criteria internally to add technologies on your platform?

Atul Dumbre: Yes, we want to keep on adding products like this, in H1 itself we add 4,000 products on our website portfolio. However, whenever we add new products, we sell them with the margins that we are comfortable with, which are you know 25%, 28% gross margins and expecting to maintain 8% to 10% net margin. So, if the product is not selling at that margin, then it's of no use for growing the business for us. So, our criteria are simple, we'll add the product, we'll keep the margins that we believe that we want to maintain and then we try to sell the product. Yes, there are some cases where we'll sell the product at a lower margin initially because my buying volumes are less and I know I am buying 10 quantity today, but soon as I hit the mark of 100 quantities, my margins will be taken care of. And I want to test the market for those 10 products. There is no point selling only 10 quantity at a higher cost. I'm not going to run anything out of those 10. So, for testing small batch, we can do at a lower margin. But yes, ensuring that we grow to a certain quantity, I'll hit the margins.

Moderator: The next question is from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti: You incorporated a manufacturing subsidiary, right? So, my understanding was that we will always outsource manufacturing and our focus will be our website and our inventory management on our back-end software. So, is there a change in thought process in the top management on manufacturing by yourself?

Atul Dumbre: Thank you, Rohit ji for asking the question. So, we have registered that new subsidiary, Macfos Electronics Private Limited. As I told you earlier, the Orange brand, SmartElex brand and Easymech brand, those three are together doing 10% of our business. And we that there are benefit for the manufacturers in income tax. So, anyway, we are doing I'll say manufacturing for these three brands. So, even if you get the parts manufactured and doing assembly in-house or part manufacturing outside and part in-house, it is considered as manufacturing activities. So, especially for SmartElex and Easymech products, we can have tax benefit through this company in long run. And when the quantities or the volumes for these products will go, it's, obviously will be a financial decision, for example, tomorrow I have to assemble PCBs in-house, my PCB assembly activity has to grow to. such a volume that it makes financial sense to do that in-house rather than doing it outside. And this is the last year to register manufacturing companies to get that income tax benefit. So, currently, the business on that particular company is nil as on H1 2024. But, sure, in future, why not, I mean there are tax benefits, so we have registered a company and activities we will like 3D printing service business we are currently doing, it's manufacturing, we have 3D printing machines in-house already. So, those kind of manufacturing will take where first it has to make financial sense that it is more cost efficient to do in-house than outside and then we can take tax benefit through this Macfos Electronics. Private Limited.

Moderator: The next question is from the line of Sanika Khemani from Sapphire Capital. Please go ahead.

Sanika Khemani: I wanted to ask if we have any new product launches in our pipeline and which vertical are they going to be in?

Atul Dumbre: Yes, as I said in my presentation, there are product launches in our pipeline which will be launched in the next one or two quarters. and I already said that we are focusing currently products related to drone. So, those will be focused on drone peripherals, accessories like that.

Sanika Khemani: Do we have the number like how many products are we looking there?

Atul Dumbre: I would rather not say anything about that because since the products are in development stage, so it will be wrong to comment on that right now. But yes, what I can comment is, we have clear focus on those four, five categories and for electronics product development, we have clear focus on drone and we are building in this direction. You'll see some products from some other categories as well like sensors and microcontroller boards, so four, five categories that we already mentioned. But yes, you'll see in one, two quarters more product launches from us.

Moderator: The next question is from the line of Gunit Singh from CCIPL. Please go ahead.

Gunit Singh: So, for our three brands mean manufactured the products in-house or are they contract manufactured?

Atul Dumbre: So, for our three brands are Orange, other two brands are SmartElex and Easymech. So, the difference is Orange brand products are manufactured in some factory as per our specification and we just get them under our brand. So, Orange brand is our own registered trademark brand. So, we have brand protection for Orange branded products. We do not do any design development activities for those, other than let's say specifying our capacities that we need or maybe connector size, connector length, connector types or other similar things. For SmartElex and Easymech, we have designed a developed team of mechanical engineers and electronics engineers. I think 15 to 16 people now in-house, and those people design the product. So, let's say the drone frame that we have launched, that was designed in-house and we have third-party supplier to develop the mold because I don't want to put a mold manufacturing setup for just one product. We got the mold developed, then second supplier will do the production of using that mold for us. So, there are vendors and the assembly of the drone print will happen in-house. We have people doing assembly for us in-house. So, this will be the structure for SmartElex and Easymech. Because there are so many technologies, one side we are making PCB, one side making the mechanical parts. So, we want to have the IC as in design of the parts. It will be too much CAPEX incentive to have a mold making machine and a CNC machine and TCP making machine in-house. So, it's a financial decision. Maybe we can have assembly machine when it makes more sense financially for assembling PCB. But, IP like the design our team do, they look for what customers are looking at in the market where they will figure out that, design the product, then we get manufactured, assembled in-house and then launch the product for SmartElex and Easymech that is the process.

Gunit Singh: So basically, designing an assembly would be in-house and manufacturing would be outsourced?

Atul Dumbre: The parts would be manufactured outsourced.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Ramadhin Rane for closing comments.

Ramadhin Rane: Thank you, participants. On behalf of Hem Securities Limited, I thank the management team of Macfos Limited and our investors for listening patiently. I would also like to thank all the participants for joining this call.

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