MANAGEMENT DISCUSSION AND ANALYSIS

Dear Valued Stakeholders,

On behalf of the Board of Directors (“**the Board**”) of Wellcall Holdings Berhad (“**the Company**”), we are pleased to present the Management Discussion and Analysis of the Company and its subsidiary company (“**Wellcall**” **or** “**the Group**”) for the financial year ended 30 September 2023 (“**FYE 2023**”) where we registered another record with revenue and profit after tax at RM217 million and RM55 million respectively.

The following management discussion and analysis of the operating performance and financial condition of the Group for the twelve (12) months ended 30 September 2023 should be read in conjunction with the Audited Financial Statements (“**AFS**”) for the FYE 2023 and related notes thereto.

OVERVIEW

FYE 2023 was a year filled with challenges as the economic recovery was hindered by various factors, including rising inflation, foreign currency fluctuations, market-related issues and supply chain disruptions.

Despite these challenges, the Group preserved by, finding innovative ways to manage its businesses. This included improving operational efficiencies through product development, technology enhancements, automation, and investing in our employees.

FINANCIAL PERFORMANCE REVIEW

Review on Statements of Comprehensive Income

(a) Revenue

For the financial year under review, the Group recognised revenue of RM217 million for FYE 2023 compared to revenue of RM177 million recorded for the financial year ended 30 September 2022 (“**FYE 2022**”), representing a RM40 million increase or a rise of 23%. The export and local market contributed approximately 92% and 8% respectively to the Group’s annual revenue. The export market experienced at 25% increase, while the local market maintained consistent revenue compared to the preceding financial year. This revenue growth was primarily driven by continuous orders from the industrial rubber hoses market.

(b) Profit Before Taxation (“PBT”)

The Group achieved a higher profit before taxation (“**PBT**”) of RM74 million for FYE 2023 compared to PBT of RM45 million recorded in FYE 2022, representing a RM29 million increase or approximately 64%. This improvement in PBT was mainly due to the increase in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL PERFORMANCE REVIEW (CONT'D)

Review on Statements of Comprehensive Income (Cont'd)

(c) Non-Financial Performance

The Group recognises the significance of non-financial performance measurement in establishing a connection between strategies and daily tasks. The following are non-financial performance measurements for the Group:-

(i) Customer Retention

We are pleased to announce that we maintained over 95% customer retention. Our marketing team performed data analytics to predict customers' purchasing behaviour, and we regularly communicated with existing and inactive customers to address any concerns in a timely manner.

(ii) Customer Satisfaction

Our products are customised based on customers' required specifications, such as diameter, colour, working pressure, length and temperature resistance level. Additionally, we offer flexibility in quantity and product type, accepting low quantity-high mix orders. This sets us apart from larger players who are unwilling to accept small orders.

(iii) On Time Delivery

With a short delivery lead time of thirty (30) to forty-five (45) days, the Group ensures that we can handle urgent orders with a two (2) weeks' notice. This essential service reduces our customers' stock holding and cashflow requirements. Additionally, we are less affected by logistical disruptions, allowing us to deliver most customer orders promptly and maintain long-lasting relationship.

Review on Statements of Financial Position

(i) Total Assets

The Group's total assets stood at RM175 million for FYE 2023 compared to RM159 million for FYE 2022. Although cash and cash equivalents increased slightly from RM63 million for FYE 2022 to RM74 million for FYE 2023, inventories decreased due to improved stock control.

(ii) Total Liabilities

Total liabilities remained at RM35 million for both FYE 2022 and FYE 2023, primarily due to higher tax liability which arise from the higher profit before tax for FYE 2023 compared to FYE 2022.

(iii) Loan & Borrowing

The Group did not have any short-term and long-term borrowings during the financial year under review.

(iv) Net Assets Per Share & Basic Earnings Per Share

The Group maintains a strong financial position, with net assets per share of 28.12 sen for FYE 2023 (FYE 2022: 25.02 sen per share). Basic earnings per share for FYE 2023 was 11.10 sen per share as compared to 6.69 sen per share in FYE 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL PERFORMANCE REVIEW (CONT'D)

Review on Statements of Cash Flow

(i) Operating Activities

The Group recorded a net cash flow from operating activities of RM56 million for FYE 2023, representing a 63% increase. This increase was primarily due to the higher profit before taxation achieved during the financial year under review.

(ii) Investing Activities

Net cash flow used in investing activities amounted to RM4 million for FYE 2023 compare to RM0.4 million for FYE 2022. Investing activities mainly included the purchase of property, plant and equipment, investment property, capital work-in-progress and intangible assets.

(iii) Financing Activities

The Group's net cash used in financing activities amounted to RM40 million for FYE 2023 compared to RM36 million for FYE 2022. The different was primarily due to higher dividends paid out.

Capital Expenditure

During the financial year, the Group spent RM4.0 million on property, plant and equipment, mainly for the maintenance and upgrading of production lines to improve productivity efficiency. Additionally, the Group also spent RM0.8 million on investment property and RM 0.4 million on intangible assets.

RISK RELATING TO OUR BUSINESS

Business Risk

The Group is not immune to general business risks, as well as risks inherent in the manufacturing industry. For example, the Group may be affected by a general downturn in the global, regional and/or national economy, constraints in labour supply, shortage and the rising cost of raw materials, changes in the law and tax legislation affecting the industry, increased operational costs, fluctuations in foreign exchange rates and changes in business and credit condition.

Although the Group seeks to limit these risks through maintaining good business relationships with customers and suppliers, enhancing efficiency and implementing cost control measures, no assurance can be given that a change in any of the abovementioned factors will not have an adverse effect on the Group's business.

Credit Risk

The Group's credit risk exposure mainly arises from the trade receivables. However, the Group does not make any material allowance pertaining to the impairment of trade receivables as long as sound and effective credit control is in place. Our valued customers pay in accordance with the respective credit term granted, which forms greater support and cooperative from our valued customers. However, the Group continues to evaluate the creditability and credit procedures periodically in order to mitigate the credit risk.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

RISK RELATING TO OUR BUSINESS (CONT'D)

Cost Fluctuation of Raw Materials

The cost fluctuation of raw materials is crucial to the Group's performance as it affects the cost of sales and gross profit margin. The volatility of raw material costs arising from the global demand and supply mechanism, as well as currency fluctuations, has affected our pricing strategy and operating cost. However, the Group is still able to minimize and manage the impact of raw material sentiment by maintaining a gross profit margin range above 30% margin.

In order to secure the supply of key raw materials, our procurement team continues to maintain close communication with the key raw materials suppliers and regularly monitors the cost fluctuation of raw materials. Meanwhile, we also maintain a buffer inventory of raw materials which can serve our production for up to three (3) months to avoid interruption in production.

INDUSTRY TREND, DEVELOPMENT AND PROSPECT

In order to improve production efficiency, the Group actively invests in automation. Currently, the Group is in the process of expanding one of its plants to increase production capacity and improve production efficiency. The Group expects the expansion to be completed by March 2024, with a capital expenditure of approximately RM10 million.

The Group recognises the importance of operational efficiency and will continue to effectively manage operating costs. Furthermore, the Group remains competitive in the industrial rubber hoses industry by maintaining its market positioning and price competitiveness, while focusing on volume growth.

Barring unforeseen circumstances and market condition uncertainty, the Group will continue its efforts in delivering high quality products to existing customers, actively securing orders from new customers and monitoring prevailing market conditions to adopt appropriate strategies to mitigate risks and achieve sustainable growth for the Group.

DIVIDEND POLICY

The Group has consistently paid out dividends over the previous financial years and has exceeded its dividend pay-out ratio over the past six (6) financial years. The Company's policy is to maintain a dividend pay-out ratio of at least fifty percent (50%) of its net profit per year. The Group ensures that it meets the provisions of the Companies Act, 2016 and satisfies the solvency test as well as the profit availability test prior to recommending a dividend declaration for approval.

APPRECIATION

On behalf of the Management, I would like to take this opportunity to convey my warmest appreciation to all our valued stakeholders for their precious contributions, dedication and support during the financial year. Our appreciation is also extended to our management and employees for their commitment, dedication, contribution and professionalism towards the performance of the Group. Finally, I would also like to thank our Board of Directors for their valuable advice, guidance and support rendered the Group.

HUANG SHA, P.M.P.
Group Managing Director