

**Onward Technologies Limited**  
**Earnings Conference Call**  
**October 21, 2022**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Q2 FY23 Earnings Conference Call of Onward Technologies Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you, Sir.

**Anuj Sonpal:** Thank you. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Onward Technologies Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings call for the second quarter and first half of financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s earnings call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by an information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions.

The purpose of today’s earnings call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. Now, let me introduce you to the management

participating with us in today's earnings call and hand it over to them for opening remarks. We first have with us Mr. Jigar Mehta – Managing Director and we also have Mr. Devanand Ramandasani – Chief Financial Officer. Without any further delay, I now hand over the call to Mr. Jigar Mehta. Over to you, Sir.

**Jigar Mehta:**

Thank you Anuj and Good afternoon everybody. It is a pleasure to welcome you all to this earnings conference call for the second quarter and first half financial year 2023. I hope you all keeping well and safe. I want to take this opportunity to congratulate my entire team delivering robust Q2 performance crossing INR 100 crore of quarterly revenue at INR 110 crores/ in Q2 and highest ever year-on-year growth at 51%. We are continuing to see strong demand for our services in line with our medium-term objectives in achieving \$100 million of annual revenue. Our focus is to grow the top global 25 customers which are now contributing to 78% of our consolidated revenue in the last quarter. Our quarter-on-quarter growth has been the highest at 18%. On the cost side this quarter we also completed our annual increments of the entire team and all the new investments that we had planned and shared with you earlier at the start of the year in upgrading the infrastructure. Now, we expect the EBITDA margin to be in line with the industry in FY24. I am also proud to share, that we have 15 clients that contribute a million dollar/ year and we are on track to be 18 clients by end of this financial year. I believe this revenue number/ client will keep going up as we get build deeper relations with our customers. We have also launched our new digital excellence center in Navi Mumbai which opened in the month of July. Lastly I am also happy that we were awarded the best ER&D services partner for Auto & industrial OEMs at a technology ceremony in Bangalore last month. Now, I hand over the call to our CFO Devanand to give you the financial insights. Over to you, Dev.

**Devanand Ramandasani:** Thank you Jigar and Good afternoon everyone and wish you Happy Diwali 2022 in advance. Let me take you through the Q2 financial

performance of our company at consolidate basis. The operating income was 110 crore which is grew by 18% on quarter-on-quarter basis and 51% on year-on-year basis. EBITDA is reported at 3.2 crores and net profit after tax reported is 58 lakh. Coming to the consolidate performance of H1 the operating income was 204 crores which is grew by around 43% on year-on-year basis. The EBITDA reported is 6 crores and the net profit after tax reported is 1.8 crores. Company experienced substantial growth in the revenue from focus vertical industrial equipment & heavy machinery contributing 54 percentage of the revenue and transportation & mobility contributing to 30% of consolidated revenue at H1. Digital service line of business reported double digit growth contribution of 12% of consolidated revenue of H1 we have a net addition of 199 employees in Q2 across its offices taking the global headcount to 3,037 employees. With that we can open the floor for question and answer session. Thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We have the first question from the line of Sugandhi Sood from InCred Asset Management. Please go ahead.

**Sugandhi Sood:** My first question would be on the absorption of your pressures under the TAP program and if you could give us some color of the net addition plus quarter of how much was from laterals and fresher and also if you could generally give commentary on how your traction has been on the billing side in terms of the incremental business that you are doing?

**Jigar Mehta:** Good afternoon. On your first question in terms of the TAP program for freshers. Out of the 250 engineers getting trained across our India offices, we have 150 engineers deployed on projects by end of Q2 and another 50 engineers which are deployed over the first few weeks of Oct. So, 200 engineers are deployed on projects now and we will see full utilization in Q3 and mostly importantly in Q4 when the balance 50 are on fulltime projects. The training courses for this final batch will be completed in Q3.

As we shared last month we are planning to start the next batch in Q4 or Q1 of next financial year.

**Sugandhi Sood:** I -an assuming the net adds mostly be laterals this quarter?

**Jigar Mehta:** Yes absolutely we have already made a lot of offers in the last 3 months in this market and are comfortable with a strong pipeline of technical talent joining in both at the managerial SME (subject matter experts) level and at the engineer level.

**Sugandhi Sood:** Incremental business let me actually rephrase this if I look at the gross margins of around 28% that you have been doing and I know that you have mentioned in the previous calls that you are expecting incremental business at a certain threshold gross margin levels, so when I look at the reported number and that is my calculation and if I compare it to the criteria that we use, is that your like-for-like numbers or are there some administrative sales cost that is included in the depository number so if you could give me a like-to-like number?

**Jigar Mehta:** Absolutely, in terms of gross margin at the company level will continue and move towards 35% as the upfront costs of each new project or client is factored in. We will not compromise on that. Our cost structure in Q2 includes the fully loaded cost of all the hiring that we have done in Europe and USA offices which includes the international transfers of two of our executive vice presidents, number of global offices in London, Germany and Toronto and teams to support local clients or win few prospects in each international market. It is not just fixed salaries as you know it is also travelling cost, customer workshops, participating in exhibitions and seminars, recruitment, immigration, legal, etc. So, all incremental revenue growth will go straight to the bottom line.

**Moderator:** Thank you. We have the next question from the line of Pratap Maliwal from Mount Intra Finance Private Limited. Please go ahead.

**Pratap Maliwal:** So, I just had the question around the demand side, so some of the peers on the ER&D side have been saying that there are some concerns around clients and may be some clients delaying spends, so are we seeing any of that sorts especially in the Europe geography I believe that given some of the matter of headwinds there is a energy crisis going on, there are some currency issues going on, so do you see any of that may be factoring in going forward?

**Jigar Mehta:** Great question. These are similar questions which lot of people have been asking since I got back from Europe last night. I was there for the last 8 days visiting customers & prospects across Germany, Netherlands and UK and we continue to see lot of traction in the market for outsourcing services. We met some of the biggest companies across Europe and all of them are looking at new service providers to meet their additional outsourcing demands. I continue to remain positive that our Europe business will grow 40% plus this financial year.

**Pratap Maliwal:** It will be in the transport segment as well the auto sales where we are doing work around ADAS and everything?

**Jigar Mehta:** Yes, both our primary verticals. Our largest fast-growing vertical is Industrial equipment & heavy machinery (IE+ HM) where we continue to invest in future capabilities and see clear visibility for growth & second is Transportation and Mobility vertical which includes embedded SW, etc . We are also getting action in our new Healthcare vertical for digital services. These are the three verticals that we are focused on.

**Moderator:** Thank you. We have the next question from the line of Sriram Rajan an Investor. Please go ahead.

**Sriram Rajan:** Just few question in the previous call as you mentioned that the EBITDA margin would take a hit in the short run and now the guidance is that it will trend towards the industry level in FY2024, so maybe I assume short

term to be a few quarters, but this is kind of more than few quarters so you have some comments on this?

**Jigar Mehta:** I think top line growth is what we have been sharing for the last few quarters in terms of the visibility that we are seeing from our customers. In terms of EBITDA as I said what we believe is we went through our investment cycle where we had committed approximately INR 25 crores of OPEX investment in sales and manpower in SME, delivery, etc. . We are at the end of that cycle and that is why we believe that now all additional new business that we win will be high quality business which will go straight to the bottom line starting FY24.

**Sriram Rajan:** I think if you look at press release at management comment stage we will see the returns directly impacting the margin maybe to be interpreted as positively impacting. Now you said that you would you kind of tap program, you will resort to lateral hire given that people are showing up with on the joining dates, but suppose you go back to a TAP program like you just referred to the earlier questions few quarters from now or when the numbers looks little bit robust at an EBITDA level, will that again be a swing downwards suppose Q1 of next year you start another TAP this subsequent quarter we are going to see another downward shift in the EBITDA or will this be a kind of a number that goes up and remains like that and continues to go up going forward?

**Jigar Mehta:** All our decisions are based on our visibility or our projections of getting to \$100 million dollars in revenue by 2025. Our investments are aligned on that. It is based on feedback & expectations from our customers. As of today our customers are quite bullish and we see an opportunity in terms of building specialized niche skills through various training programs for them and that is what we continue to do. So, I do not think it will be compromised of EBITDA when we started late last year in November. It was the first time Onward Technologies was doing it and hence it was important for us to share you with everyone.

**Sriram Rajan:** When you say you trend towards the industry levels of EBITDA you see at the top and there are companies which are at 20 plus 22, 23, are we talking about those margins?

**Jigar Mehta:** I am sorry can you repeat again.

**Sriram Rajan:** Company of our side is what we mean my question was your statement says we expect EBITDA margin to trend towards industry development for a company of your size, so do we consider this to be in the upwards of 15, 20 or above 20 what do we consider business as a guidance?

**Jigar Mehta:** I think low to mid-teens is what I would say.

**Moderator:** Thank you. We have the next question from the line of Sushant Kumar from Blue River Capital. Please go ahead.

**Sushant Kumar:** Just wanted to pick your brains on a couple of things so one is obviously this time you have grown 18% quarter-on-quarter, just wanted to double check if there is any sort of onetime some new project revenue sitting there in the quarter or can you consider this 110 crores as a new base?

**Jigar Mehta:** Yes, there is no onetime substantial revenue in Q2. Our engagement model focus is time and material (T&M) which last quarter was 88% of our revenues and 12% is fixed price. We continue to bid for more T&M assignments as we believe it is the right model of a company of our size to understand the client processes, getting trained on new technology, etc.

**Sushant Kumar:** So, of these projects that you are working on these are multiyear engagement site not let one time non recurring kind of engagements?

**Devanand Ramandasani:** I would like to bring to you notice that some majority our customer engagement with OEMs and once you enter with an engagement with the OEMs MSE is more than five years and more than five years and what we have seen witnessed in the past our top 5 customers or top 10 customer are associated with more than 5 years and one more color I would like to

share with you that our top 25 customers which are contributing 76% of my H1 revenue so which was 63% of the last year. So, what we are doing that the association with the customer are more sticky and we are mining with our customer wallet share that is giving more confidence relationship.

**Sushant Kumar:** And could you also please shed some light on the deal wins over the last three, four months and how is the deal pipeline look over the next few months, next few quarters?

**Jigar Mehta:** Hello. We use a different terminology in our team. We are focused on existing clients and new clients. Our visibility with our existing clients is positive which gives strong traction for a year-on-year growth. We have 3 internal LOBs (lines of businesses) that we sell across the industry verticals i.e. mechanical, embedded & electronics and digital services. Mechanical is where we are very strong at historically and we are seeing good traction there from OEM customers in USA and Europe. Digital & Embedded Services are the new focus areas for us and we are seeing positive traction in both the areas from our existing clients and new reference prospects. Most of these contracts are multi year contracts.

**Sushant Kumar:** And just lastly on the margins so if I look at your Q2 numbers right where our revenues have gone by 17 crores, but even our expenses above EBITDA our operating expenses have also gone up by 17 crores. So, effectively having seen operating leverage at least in Q2 I would say going forward I mean just a hypothetical question let us say your revenue has gone up by 10 Cr and you mentioned that fixed expenses would not go up from now on, so is it possible way to quantify a bit for us to help us understand the margin trajectory better?

**Devanand Ramandasani:** So, your observation is perfectly correct as revenue has grown and expenses has also grown in the lines with that therefore the EBITDA margin has not grown substantially. As you are aware or not aware that



company is an investment mode for example there are number of people has been deployed to the sales and marketing department and more from India to setup the overseas space for the customer exploration and wallet share increase of offshore revenue. So, that is called as a investment which return will come in the subsequent quarter. Similar way we have one TAP program where we train the graduate for 6 months to 9 months training program where cost is also embedded in this Quarter 2 result which might be not there because out of substantial chunk of people is already got in Q2 and of the Q2 and balance half of them is already build in starting from the October month. So, we can see that they are fully revenue cycle would come in Q3 and Q4 which directly fit into the improving my profitability in coming quarters.

**Sushant Kumar:** Would be possible for you to quantify a bit for us I mean some of these cost that are referring to sort of onetime cost that are sitting in our P&L?

**Devanand Ramandasani:** So, we generally do not give any guidance kind of things, but if you ask me the cost wise base wise it is about 2.5 to 3 crores which is one of the cost is incurred which maybe substantially preferred down in the coming quarter.

**Sushant Kumar:** Referring to that when we say 2.5 crores, 3 crores that is what 2% margin right effectively on your 107 crores of revenue?

**Devanand Ramandasani:** So, what I am saying this is the cost and second is the investment for example the sales person who move to the UK and other overseas territory they need time to set the ground and they will then thereafter the yields will come on the return on investment.

**Sushant Kumar:** So, that is over and above this 2.5 crores, 3 crores?

**Devanand Ramandasani:** Correct.

**Moderator:** Thank you. We have the next question is from the line of Sugandhi Sood from InCred Asset Management. Please go ahead.

**Sugandhi Sood:** I wanted to understand it is any change in the receivable cycles because last year we have seen an uptrend in the receivable days and it has come down in the first half and what is the outlook there why are this number going up because if I look at your OCF and compare to the profit that was generated there is a significant drag because of the working capital, so how should we thinking about receivable days going ahead?

**Devanand Ramandasani:** Good witness is that we are improving our DSO cycle and there is no change in methodology of that. So, our DSO is improved by approximately 5 days from last year to first half this month and what we have done that we have improve our existing set of process where we sent invoices on the time or we promptly sent to the customer and we process on the basis on the value invoices on priority basis and the digitization which we have done in the last year where the ERP and the other time sheet system which now they are giving inputs on time which will helping us to sending, raising the invoices on time. So, that is the reason behind the improving of our DSO cycle and we see that it is another one or two days improvement visibility where Q3 and Q4 work on our to improve further on that.

**Sugandhi Sood:** But we do not expect to go back to FY21 levels and is there any receivables on account of from statutory authority do you think you mentioned there are tax and authorities receivables on account of those, are there any part of this number or they are accounting elsewhere?

**Devanand Ramandasani:** No, DSO never count any receivables from the department first of all I would like to clarify to you and our ambition to reach out to the 21 level, what is the progression it is not that they were on job, we work with the large OEM in the world and do you know that any contractual terms needs to be changed at the headquarter levels and there are lot of

processes involved in that. So, we are working on that, but visibility wise next two quarters high chances that still one or two days rooms are there where we can improve and subsequently we see that how the things are planning out and when we work towards to the reach out to the FY21.

**Sugandhi Sood:** So, also in terms of your ambition to get to that \$100 million you know that you are focusing on 25 accounts and you do have a long relationship with top 5 customers, of these 25 target accounts how many of them would be five-year-old or longer relationship.

**Devanand Ramandasani:** If you ask me the top 5 customers out of 4 customer are associated with more than 5 years and 1 customer is about 3 years on that is relationship.

**Sugandhi Sood:** Again coming back to what comprises digital because the way you have classified it in the past a bulk of your revenues comes from the end and around 12% from digital when we say ER&D does that include things like embedded and autonomous also or is that just mechanics and what is digital it is more than analytics and cloud related work or is it digital engineering and electronic set also?

**Jigar Mehta:** ER&D as we have clarified before includes mechanical engineering services & embedded electronics services. So, it does include some of the works that we are doing on HMI developments, some of the work we are doing on ADAS, some of the work we are doing on telematics. Now, on the second question what comes in the digital if you see the earnings presentation if you have a copy of that we have classified that in on slide number 4 exactly what comes under digital for us which is fundamentally it is digital engineering, automation, cloud and DevOps, big data analytics. So, these are the areas and skills where we are building competencies.

**Moderator:** Thank you. We have the next question from the line of Nishit Shah from Ambika Fincap. Please go ahead.

**Nishit Shah:** So, margins you have mentioned that we will see the returns directly impacting margins in the company coming quarters. We expect EBITDA margin to went towards the industry level during FY24, so what I am trying to understand is when I see the large players leaving aside Tata Elxsi because that set the industry leading margins, but if I look at L&T Technologies or if I look at KPIT or the other companies they are all in the range of 60 into 18%, so are you indicating that FY24 we should be inching towards that is my first question?

**Jigar Mehta:** We believe, we now have a global team in place, we have a running engine. I believe we have good visibility to deliver industry level numbers. Few of the companies you mentioned are about 10 to 20 times a size and we do not compete or compare with them, but I will talk about companies in about INR 400- 500 crore revenues. We believe post full loaded costs, we can deliver from low teens to mid teens in terms of EBITDA margins.

**Nishit Shah:** On the top line you have delivered 18% quarter-on-quarter and you said that you have a pretty robust pipeline, so would it fair to extrapolate and say that you will be able to sustain the momentum over the next 4 to 6 quarters?

**Jigar Mehta:** Our goal this financial year what we have said was we will beat previous financial year numbers. Last year we grew 28% on an annual basis and we believe this year we will cross 30% revenue growth. Today's run rate looks much better, but I would like to continue with that as guideline. For the next financial year and the following year if we can grow 35% year-on-year I think we get to a goal of \$100 million in revenues.

**Nishit Shah:** But on the margins do you think we seem to have bottomed out on the margins or are we still to continue investing for the sales and the after sales etcetera?

**Jigar Mehta:** We believe we have completed the first phase of investment of the INR 25 crores that we had planned for this financial year and I think that will see us through for most of next year as well.

**Moderator:** Thank you. We have the next question is from the line of Ishan Daga from RIO Group. Please go ahead.

**Ishan Daga:** Just wanted to understand the revenues from geographical side how it is breakup across the geographies and in the revenue growth of 18% what is the contribution from international part and currency part which is coming toward this revenue growth?

**Devanand Ramandasani:** So, I would like to clarify to you that our revenue proportion is that 51% comes from the international business and 49% from the India business the last year last quarter we have the 50-50 and this is the proportionate on that. So, technically in percentage term you see that both are the group on the same proportionate.

**Ishan Daga:** So, in internal part is it US predominant or Europe?

**Devanand Ramandasani:** Yes out of 51% US contribute about 43% and balance is Europe.

**Ishan Daga:** So, in this 18% we can say 4% to 5% is added by the currency kind of?

**Devanand Ramandasani:** Yes currency part is also there.

**Ishan Daga:** Can you quantify it because it will be quite helpful that we can have the core growth and the currency growth it would be quite helpful?

**Devanand Ramandasani:** Honestly this data I do not have, but I understand what your question is that you wanted the constant currency growth. We will supply information through our IR agency and [Inaudible 40:57].

**Ishan Daga:** And on the outlook part we want to almost double our revenues by 2025 and we want to grow our margins between in mid teens kind of, so the margin outlook which we have is if we achieve that margin outlook, so can you throw some light how we are going to improve that margin, what will be the operating levers to attain that margin?

**Jigar Mehta:** The biggest operating lever is offshore revenues. Currently, we are a new supplier for many of our fast growing customers and due to remote times, majority of our revenues is Onsite revenues where our engineers work at the client site in India or across USA/Europe R&D centers. Over the next few quarters, once are relationships mature, our customers will like to move the work offshore to take advantage of lower costs.

**Moderator:** Thank you. We have the next question from the line of Sriram Rajan an Investor. Please go ahead.

**Sriram Rajan:** Just a clarification to Dev when you say 51-49 international and domestic I presume these are all the top fortune customers, but 51 being serviced onsite and 49 being serviced offshore, is that understanding correct?

**Devanand Ramandasani:** This is not the right interpretation so 51 contribution from the India business as you know that we have the two-business vertical. One is the India business vertical and is the international business vertical; international business verticals means where we bill in the foreign currency and India business vertical means as we bill in INR currency. So, that is the proportion: 51 for I business and 49% for the India business. Offshore and onsite business are different model where we see that the if the people our resources are working from the Onward premises then it is quite offshore and if the Onward employees works for the client premises or the dedicated location which is the client as defined it is called the onsite that ratio is different, that ratio we have also published in our IR Deck I just refer to you for your reference purpose. On the slide number 13 of this if you see 72% is onsite and 28% is offshore.

**Sriram Rajan:** When you say 50% approx was India business so we have clients in India whom we are servicing locally is that what it is?

**Devanand Ramandasani:** You want to understand what is the onsite ratio of India business is it?

**Sriram Rajan:** No, I am just looking at high level so when we say 50% of our business is domestic does it mean 50% of the revenue coming from customers who are based in India and they are billing in India?

**Devanand Ramandasani:** Correct.

**Moderator:** Thank you. As there are no further questions I would like to hand the floor back to the management for closing comments. Please go ahead.

**Jigar Mehta:** Again thank you everybody for joining us today. It has been an absolute pleasure. We are very excited with the progress we have done last quarter with record revenue growth both on a quarter-on-quarter basis and year-on-year basis and crossing the 100 crore a quarter milestone which is the first time in our history. We are positive of maintaining the momentum and are excited with closing out a year and looking forward to 2023 and 2024. Happy Diwali to everybody and speak to you all soon. Thank you.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Onward Technologies Limited that concludes this conference. Thank you for joining us and you may disconnect your lines.

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