

Onward Technologies Limited
Earnings Conference Call
May 17, 2021

Moderator: Good day and welcome to the Q4 FY21 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 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. Anuj Sonpal from 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. Before we start, I hope everybody joining us today is safe and well. Moving on behalf of the company, first of all let me thank you for participating in the company’s earnings conference call for the fourth quarter and financial year ended 2021.

Before we begin, let me just give a quick short cautionary statement. Some of the statements made in today’s concall may be 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 beliefs as well as assumptions made by them and 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 conference 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 conference call. We have with us Mr. Jigar Mehta – Managing Director, Mr. Vignesh Kumar – Executive Vice President and Head of Sales for USA and Europe and Mr. Devanand Ramandasani – Chief Financial Officer. Without any further delay, I request Mr. Jigar Mehta to start with his opening remarks. Thank you and over to you, sir.

Jigar Mehta: Thank you Anuj. Good afternoon. It is a pleasure to welcome you all to the Earnings Conference Call for the fourth quarter and financial year 2021. I hope everybody is keeping safe and is well and warm especially people in Bombay. Before we get into the earnings highlights this is the first ever earnings call. Let me start by giving some background about our company Onward Technologies, so we will be on the same page. Onward Technologies is a leading and niche player in the engineering research and development which is ER&D space

and digital engineering space often digital transformation, embedded system, mechanical engineering, data analytics, AI machine learning services. We have a strong team of 2000 plus employees today operating from multiple locations in USA, in UK, in Europe and in India. The headquarter is at Worli Mumbai and we have offices in Chicago, Detroit, Cleveland, Ohio, London Frankfurt and multiple locations like Pune, Chennai and Bangalore in India.

Our engineering and technology consultants work across four industry domains which is the transportation and mobility, industrial equipment and heavy machinery, healthcare and the hi-tech spaces. Majority of our top fast growing clients are direct OEMs where we have been serving them for large number of years. Our biggest strength lies in our background which is mechanical engineering in IT services and our biggest investment going forward is to urge embedded systems and digital services. We have a young and dynamic team with a hunger of excellence supported by experienced management and a strong board of directors.

Over the last few years we have been consciously transforming our services from our low margin traditional domestic IT services to high margin hi-tech services in ER&D and digital transformation space. Our old IT services clients are being transitioned to Digital services gradually, and clients spend is increasing on digital transformation, which will also lead to margin expansion. The company's clear future growth strategy is to enrich deeper into our existing customer by investing in people and enhancing with our capabilities and contributing more deeply towards the complex, hi-tech, digital transformation, mechanical engineering and embedded technology requirements. We have consistent track record of giving dividends for last five years and we are committed to improving our shareholder returns year-on-year. Through our transformation journey over the last few years, we have been able to generate robust cash flows and have also become net debt free.

Now I hand over the call to our CFO Mr. Devanand Ramandasani to give you the financial highlights. Over to you, Dev.

Devanand Ramandasani: Thank you Jigar. Good afternoon everyone and rest everybody is safe and healthy on this pandemic situation. So, let me take you through the fourth quarter financial performance of our company at consolidated level. Our operating income for the quarter 4 was 66 crores which was increased by approximately 1% on year-on-year basis and 15% quarter-on-quarter basis. The operating EBITDA reported is 3.8 crores with the EBITDA margin of 5.7% and the net profit after tax reported was Rs. 2.1 crore. Q4 FY21 revenue increase due to increase in the demand from the existing growth clients while primary due to exiting on low margin work in the international market. The decline in EBITDA margin was primarily due to increase in employee cost for strengthening the delivery and the sales team globally.

Now talking about performance of the FY21 on the consolidated basis the operating income was Rs. 240 crores for full year which was decreased approximately by 11% on year-on-year basis. Operating EBITDA reported 17.3 crores with the operating EBITDA margin at 7.2% and

the net profit after tax reported was Rs. 7.4 crores which was a growth of 19% on year-on-year basis. During the year company has received funds under Paycheck Protection Program called as PPP in USA for our subsidiary in the tune of about 2 million and INR conversation is 14.6 crores. After receipt of the approval for the forgiveness of loan from the regulatory authorities, this amount and the interest provided on the loan in the P&L will be classified as an income in the profit and loss in the corresponding quarter.

It is important to note that if the waiver had come through in the current financial year the actual consolidated EBITDA margin would have been reported at the rate 13.3% and not the 7.2% .And lastly the board of director has recommended final dividend of Rs. Rs. 3 per share for the financial year 2021 subject to shareholder approval. Now I request Vignesh Kumar to take you through some of the key operating highlights for the quarter and future growth outlook. Vignesh over to you.

Vignesh Kumar:

Thank you very much Devanand ji. Good afternoon ladies and gentlemen. It is a pleasure to talk to you all today. Let me start by saying that in Q4 financial year 21 the company added 5 new customers. We also had a new offices in Amsterdam, Netherlands and also plan to setup another office in Toronto, Canada to increase our global geographical footprints and garner new potential customers from these geographies. Our newly inducted sales team for USA has been completely aligned with offshore delivery team which will result in increasing the offshore revenue and boost margins as well. We are very confident of our future growth outlook due to increasing demand from our top 20 customers. We are also witnessing an increasing number of orders from the healthcare industry during this quarter and we are positive that this segment will be a significant contributor to revenues in coming years.

We continue to see significant opportunity in embedded and digital line of services and we plan to increase focus to meet client demands. We have added various global marquee companies as customers during the year which are expected to become million-dollar accounts in the future. With that, we can now open the floor to question-and-answer session. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hardik Jain from ANS Wealth. Please go ahead.

Hardik Jain:

Sir, do we have some kind of order book that we can disclose?

Devanand Ramandasani:

Actually, I will tell you how our organization order book has been structured. There are customer who are giving the repeat revenue on that. So, our repeat revenue ratio are 60% to 70% year-on-year basis, whereas the project-based business where we cannot anticipate that the project will continue after getting over or the new project will come from the same client, on that there we have to start for the new business on that. So, our repeat revenue or you can say our existing customer revenues are 60% to 70% on this.

- Hardik Jain:** So, this existing customer revenue that we say 60% to 75% just for the clarification, is this kind of a project that we have delivered to our customers and we get some kind of annuity business from them, is it that kind of revenue we are talking about?
- Devanand Ramandasani:** Yes, repeat business means the services which we are rendering to them, they are happy customer, and they will continue with our business with them, and they allow us to issue their extended PO for that.
- Hardik Jain:** So, this kind of an annual service that we provide to them.
- Devanand Ramandasani:** Yes.
- Hardik Jain:** So, 60% to 70% of revenue that we recorded this year is from the repeat annuity kind of a business?
- Devanand Ramandasani:** Agree.
- Hardik Jain:** And regarding the project revenue that can become lumpy sometimes because it depends on the kind of order inflow, can we get some clarity at this point in time, how do we see going forward next three, four quarters?
- Devanand Ramandasani:** Project based business is going to increase reason because we are seeing a lot of traction especially the European and the US based customer. They would like to do the offshore based business in India, but offshore business has some positive sign as well as the negative sign. Positive sign it means you will get the confirm business, but negative sign is that if your cost has been inflated due to your some reasons then your margin will be affected on this. So, we will always be extra cautious on that project-based business on that.
- Hardik Jain:** And out of this 2,000 employees how many employees would be stationed in India and how many are like stationed abroad?
- Devanand Ramandasani:** The majorities are in India, abroad about 125 odd people are approximated outside India and rest are in India only.
- Hardik Jain:** And most of these employees are like permanent employees in our payroll?
- Jigar Mehta:** 100% full time employees. Just to give you a more clarity about our business. So, our vision, our goal is to be extended arm for client R&D departments. So, what happens is when you talk about order booking on annuity business most of our contracts or master services agreement is anywhere from 3 to 5 years and all these contracts are extendable and they usually go on for 3 to 5 years. Now what happens is that they have correctly mentioned some of the projects let us say they end after 12 months, 18 months, 24 months then those engineers have to be pre skilled on to the new technologies or for the phase two of the

projects and in our experience especially in the last 5 years when we have been servicing all these large companies most of projects gets extended for a multiyear engagements, because they are well trained and well-groomed on the end customer of OEMs products. So, there is a very deep domain knowledge which all these people have.

Moderator: Thank you. We will move to the next question which is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: My question was regarding this the 14.6 crores, so is it true that it was not recognized in the fiscal year 21, but you will recognize that 14.6 crores in fiscal year 22, is that correct?

Jigar Mehta: Yes, that is correct the PPP program approval which was scheduled to be received in Q4 of last year that got delayed, it has not come through for Onward or any company in the world and as per the feedback given to us and it is on the website of the PPP program as well we should receive that anytime over the next few days, weeks.

VP Rajesh: And auditor said it is best not to recognize it in the fiscal year 21?

Jigar Mehta: Absolutely, so both the auditors and our board took the conservative approach that we should wait for the final approval and then we can do that.

VP Rajesh: So, then in terms of your margin guidance for fiscal year 22 with this going forward should significantly move up right?

Jigar Mehta: Correct yes.

VP Rajesh: And in terms of these 5 new customers list that you had if you want to call out two things, one which you won against the competitors and what is the size of this opportunity?

Vignesh Kumar: Generally, when we work on such opportunities firstly we have to sign confidentiality agreement so we cannot name these customers, but if the deal sizes vary from \$50,000 US to \$100,000 US initially because customers first would like to experience the partnership with any organization like Onward. We have a set of existing customers strategic accounts from where we get lot of repeat business, but we constantly keep adding this strategic accounts and try to improve our top 20 customer list. So, in that we added 5 good customers and these are all international customers, MNC customers through we hope to build strong long term partnerships.

VP Rajesh: And Vignesh will this be offshore business or onshore business?

Vignesh Kumar: Majority of our business is offshore business.

VP Rajesh: It is on these new 5 customers?

Vignesh Kumar: Yes.

Moderator: Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Sir, just wanted to ask about you are saying your revenue, 2% of revenue is coming from digital and so the next few years how will this pie change where will you see this pie coming to in next two years?

Jigar Mehta: We believe our goal what we are structured around, that our investments are going are towards the 2%. We are wishing to take this entire revenue in the digital transformation revenue to close to 50% of our revenues and so that is why we see a clear path which we are working with our existing customers and fundamentally the biggest drive of this is our customers R&D budget. So, our customers budget also traditionally which was very heavy on IT and engineering is also moving towards digital. So, we are carrying along with them towards that journey and we are seeing huge opportunities towards that space.

Apurva Mehta: So, there are two things the new customers are on the digital ground coming on the digital platform and the existing customers you were there in earlier segment, are they also moving towards the digital platform?

Jigar Mehta: Correct absolutely. So, all our new customers that Vignesh spoke about that we have won in the last quarter and the large fund that we have today is all of the digital side on the embedded side, on the electronic side and our existing customers on the mechanical and IT business also all the big opportunities are on the digital side. Hence at digital revenue percentage we will grow up much faster than our traditional IT business.

Apurva Mehta: Normally which sector are you in digital side, is it transportation, or hi-tech or medical which are the segment which we see huge potential coming from these business?

Jigar Mehta: So, for us our two fastest growing sectors is transportation and mobility where we have a lot of expertise and strong customer base, on the automotive side and second for us is on the industrial equipment and heavy machinery where we work with some of the largest construction equipment of 5 vehicles, agricultural equipment, mining equipment companies. So, this will be two fastest growing areas for us from our existing customers. From our new customers it will be on the healthcare side where we are seeing maximum demand today because obviously they have been showing that they are the ones recession proof and depression proof.

Apurva Mehta: So, all the new employees which you are planning to get into all these companies are all towards the digital platform most of them?

Jigar Mehta: Correct, yes.

Apurva Mehta: And the kind of quality of employee are we satisfied during the pandemic times, are we getting right types of employees and right of people, you are able to garner them?

Jigar Mehta: Absolutely, we have a huge pipeline of candidates, we have an amazing talent acquisition team, a very strong delivery team and extremely strong process in terms of interviewing and we do majority of our new hires through lateral hires. We are hiring directly from the market and we have been fortunate enough that we have been able to get a large number. So, for our company of our size we are able to on board and induct both through references and through social media and job portals. A significant portion of the opportunities, the position that we have we are able to close, but our requirement from our customers is growing at a much faster pace I have to be very honest, and we are working very hard to fulfill those demands.

Apurva Mehta: Going forward what will be currently how much we are hiring per month kind of a thing or per week kind of a thing and what is your goal by the year end if we look at this employee count?

Jigar Mehta: So, Apurva on average we are right now hiring anywhere from 50 to 100 people per month starting April.

Apurva Mehta: So, this count should be roughly around 2,000 count which is currently there which we aimed at 3,000 kind of a number?

Jigar Mehta: Yes, correct and minus some of the other businesses that we have exited over the contract will end.

Apurva Mehta: So, we believe we should be at close to, what is the number 2,500, or 2,600?

Jigar Mehta: 2,300 to 2,400 yes.

Apurva Mehta: The pie of IPs have been going down from this year onwards?

Jigar Mehta; Correct.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G.Hawa & Company. Please go ahead.

Faisal Hawa: So, my question is that we have been around for quite a long time, but our EBITDA margins has really not caught up even mid-tier companies and also revenue growth has not been very robust, so is there any changes we are making from here on to really position the company in a different manner?

Jigar Mehta: Absolutely, the whole business has changed in the last few years and last 12 months in particular, while the situation has been very bad and tensed around the world due to the pandemic. Last 12 months have been good from the business perspective, from the client acquisition perspective and transforming the organization from the high-volume low margin IT business to the high margin engineering business, and digital business has been the best for us. Last 12 months were good and that was one of the reasons for the first earnings call today, we are excited to share data with you guys. We believe the potential is very high for us today with all the customers and the big investments behind us. So, you will see substantial margin expansion when we talk about. Dev, I will let you jump on the margin side, but yes, the whole business model has changed in the last few years for us where we serve some of the biggest companies and brands in the world on the manufacturing side.

Devanand Ramandasani: To talk about the margin if you see there is one of the note we have mentioned in the result publication. We have made the expenditure in US to protect our employee and continuation of our payroll expenditure is about 2 million dollar where government has to wave fund if you added this into our EBITDA margin our EBITDA margin has already reached to the 13.2%, but because of some accounting conservative views and approval is yet to be process, we could not book in the previous financial year and if we compare with our size of the mid-tier companies they are ranging between 13% to 15%. So, we are on track goal track and we are making the investment for future and we are very confident that in coming quarters the result will be better than the previous quarters.

Faisal Hawa: And how long will the old legacy business pull back our margins or will we really continue with that business as well?

Devanand Ramandasani: So, majority chunk we have already exited out during the financial year because the contract has got over, on that so we took a hard call and we discontinued the engagement on that, but whatever IT business is left will eventually either be converted into the digital, which means high end business what we will do which will improve our EBITDA margin on that.

Moderator: Thank you. The next question is from the line of Arti Sharma an Individual Investor. Please go ahead.

Arti Sharma: Sir, I have a couple of questions so to begin with I read in your presentation on the operational highlights something about the Paycheck Protection Program in the US to the tune of \$2 million, so can you just elaborate a little bit on this I mean what exactly is this and how will it impact us?

Jigar Mehta: Arti, so last year when COVID hit the world in the last March 2020 at that point in time entire US was most affected initially if you remember. So, at that point in time the US government came up with a policy of, one, is work from home that is where all the offices and country was in complete lockdown and number two, was a policy of PPP which is the Paycheck

Protection Program, which said that all the employees where most of the companies, if you remember the history lot of companies were doing large number of layoffs in North America in US and that is why the US government came up with a policy for everybody who had not done layoffs, till now that they will protect and pay that much money for them who are the people to be on bench and not billing. So, if you see our numbers that is what Onward applied for in Q1 of last year and we became eligible 100% and hence we got the entire cash also in our books and that is what it is showing today in our books today. So, as our CFO mentioned earlier, Arti since we have already incurred the expense and paid everybody, the expense has been booked, but while the entire cash flow is showing as debt in our books and this we are hoping otherwise company is actually debt free on that debt zero, and which will get reconciled as soon as we get the final paper work approval and this is true for any Indian company or global company operating in North America.

Arti Sharma:

So, also my next question, from what I understand we are trying to exit our traditional IT business and expanding and venturing further into the digital transformation space. So, currently what are our capabilities in the digital transformation space, and do we have any timeline because in the concall you just mentioned from 2% we are taking it to about 50%, so is there any specific timeline that you can guide us on, as to when this is happening and like I said what are our strengths in the digital transformation space that will enable us to do this transformation?

Jigar Mehta:

So, I believe timeline is what I am not supposed to share right now, but yes we do believe everything is going to happen within the next 3 to 5 years. Again, please keep in mind as we touch base upon majority of this is going to happen from our existing customers and some from the new prospects that we are closing. If you look at the customer spend of large manufacturing companies all of them are going into more and more for industry 4.0, industry IOT whether it is going on the cloud, whether it is going on moving on the various SaaS models. So, Onward is investing in all of them, but behind that existing customers in the transportation and mobility space which is in the automotive space, in the rail transportation space in the space off-highway vehicles, construction equipment and also digitizing large number of records for these customers.

Arti Sharma:

And talking about customers so who would be our main clients and also how is the competitive environment because I do believe that you all compete with the larger guys in the IT industry, so just wanted to understand who would be our primary clients plus why would a client choose Onward over any of the other larger players operating in the industry who probably are much more experienced in the space?

Jigar Mehta:

This is the biggest strength and biggest opportunity why we are so excited and try every day to make it successful and to scale up the business. So, we work with some of the biggest but because of confidential reasons I have already shared earlier we cannot share the client names, lot of data already in our presentations and our earnings presentation as well. So, we

work with lot of Fortune 50 companies, lot of Fortune 500 companies including global 2,000 companies and the biggest strength of Onward being a 30-year organization is the ability to acquire new customers. Now coming back on the other side why do these customers choose to work with us? We have an extremely strong mechanical engineering practice for the last thirty years so it is not a new practice for us, if we look at the history and the balance sheet of our annual reports also from last so many years. Now we are investing more and more especially over the last two years on the embedded and digital side. So, becoming more and more relevant to our customers and our customer spread is also growing at such a fast pace that they are getting a very good opportunity there. Unlike most businesses, large global company, my understanding and my teams understanding is that they love young companies because the agility that we bring in, the cost competitiveness that we bring in, and the flexibility that we bring to our customers. So, the kind of deal sizes that we are bringing today and the opportunity that we are seeing in the market from our existing customers is massive compared to let us say year ago and we are probably the youngest supplier out there competing against some of the biggest clients and that gives us a very unique positioning and advantage for us in the market right now.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: One question on the clients so can you talk a little bit more about our top 20 clients in fiscal year 21 they were at 45%, so you know if you can just give a little more color on the let us say if we got more business in some of those top 10 customers or somebody moved out in a new customer came in the top 10 client list if you can just give some color on that, that will be helpful?

Jigar Mehta: Our top 10 customers if you look at the last 12 months actually all of them have grown at a very fast pace. The overall numbers are a bit down because as Devanand, our CFO spoke about earlier, we exited one of our large contracts, that we exited last year which was about more than 600 engineers and that customer went away from the top 10. So, it shows a bit lower, but that was the strategic exit that we had already planned before. Now in these customers we traditionally provide mechanical engineering services that is where our history has been that is what our background has been and all the growth as I was talking about is coming on the embedded side on the digital side and that is where we are ramping up our capacity and capabilities. Now these customers have a captive center and GIC center or the MNCs in India and they have obviously they have presence in North America and Europe. So, we are trying to build capabilities and investment capacities for them locally in all these markets.

VP Rajesh: The other question is if you look at your fiscal 20 and 21 revenues and they went down from 271 to 240 crores, if you take out these large customers which we ramped in the fiscal year 21 apples to apples what would be the growth in fiscal year 21?

Devanand Ramandasani: I just highlighted to you that we are tracking the top 10 customer and 11 to 20 customer and what happened particular this year, 11 to 20 number customer share has been increasing, on that and top 10 customer if you ask me, top one customer share increased from 8% to 12%. So, wallet share is increasing even though apple-to-apple you are comparing to that.

VP Rajesh: I was asking a slightly different question, but I appreciate that information, I was saying that in fiscal 20 our console revenue was 271 crores which came down to 240 crores in this fiscal year 21, so if we take out the billing to this customer that we started to invest in business ways and subtract the revenues from that customer in both the years, what would these respective numbers be if you can just give an idea on that?

Devanand Ramandasani: I have to do the Math, but typically if you ask me the previous year when the 271 crore was the revenue my top 10 customer were contributing 46% and after this exit and new customer wallet share increased, the wallet share of top 10 my percentage is coming again the 45% it was slightly down by 1%, that nearly affected on that. Otherwise, we recoup the gap between the percentages of business we lost versus the wallet share increases.

VP Rajesh: That is true for top 10 customers as a category I was just interested in understanding if you take out this customer revenue in both the years then what was a resultant revenue in both the years I will take it offline with you.

Moderator: Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Is there any guidance for coming years? Where can we see ourselves on revenue or on the margin front?

Jigar Mehta: Based on the visibility that we have as of today, we believe we should be growing at a double digit rate both in terms of top line and in bottom line.

Apurva Mehta: So, on the EBITDA last quarter we did somewhat like 13%, can we take into the consideration that 13% will be our new base for these EBITDA?

Devanand Ramandasani: Apurva bhai actually we are not allowed to give any guidelines, but as Jigar has already mentioned that we are improving our EBITDA from quarter-to-quarter and year-on-year. In the coming quarters you will see that the improve version of our EBITDA that we can say as on date.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to the management for closing comments.

Jigar Mehta: Again thank you all so much for participating in our first earnings concall. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would

like to know more details about Onward Technologies, about our leadership team, about our clients please reach out to our investor relations manager, Valorem Advisors, Anuj is on the call and his team is also available. Thank you again, stay safe and healthy and I look forward to speaking to you all soon. Thank you.

Moderator:

Thank you. On behalf of Onward Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.