



“Onward Technologies Limited
Q4 FY2023 Earnings Conference Call”

May 12, 2023



MANAGEMENT: MR. JIGAR MEHTA - MANAGING DIRECTOR

MODERATOR: MS. ASHA GUPTA – E&Y LLP, INVESTOR RELATION



Onward Technologies Limited
May 12, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Onward Technologies Limited's Q4 FY2023 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 Ms. Asha Gupta from E&Y LLP Investor Relations. Thank you and over to you Madam!

Asha Gupta: Thank you. Good evening to all of you. Welcome to the Q4 FY2023 earnings call of Onward Technologies Limited. The results and presentation have already been mailed to you and you can also view them on the website at www.onwardgroup.com.

To take us through the results today and answer your questions we have with us Mr. Jigar Mehta, Managing Director of Onward Technologies Limited. He will start the call with the business update and financial performance for the quarter which will be then followed by Q&A session.

I would like to remind you that anything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report that you can find it on our website.

Having said that I will now hand over the call to Mr. Jigar Mehta. Over to you Jigar!

Jigar Mehta: Thank you Asha. Good evening, everyone and thank you for joining our Q4 and full year FY2023 earnings call. It is a pleasure to speak with all of you this evening.

Let me start with the financial year performance and then we can speak about the quarterly and the business update.

FY2023 was a remarkable year for us, and we are very happy that we could meet several of our own internal corporate milestones. Despite uncertain macroeconomics, our team was able to deliver strong revenue growth of 43.5% to Rs.440.9 Crores in revenue. This was the highest ever growth on an annual basis. EBITDA stood at Rs.27.3 Crores reflecting a growth of 27.4% and EBITDA margin was at 6.2% on annual basis. We witnessed broad-based growth driven by our three focus verticals which is Industrial Equipment & Heavy Machinery which is now 55% of our total revenues, Transportation & Mobility vertical which includes automotive and rails which contribute 30% of our revenue and the fast-

growing Healthcare & MedTech vertical which contributed 8% of our topline. We continue to see robust demand in all three of our focus verticals and I will talk a bit more about that later on. The Digital services line of business continues to grow well and now contribute to 17% our revenues on a consolidated basis. In terms of geography, US and North America which includes US, Canada and Mexico grew at 70% compared to the previous financial year while Europe and India closed this year with 33% and 30% growth respectively. Additionally, we are focused on verticals and strategic lines, all supported by a network of offshore capability centers have contributed meaningfully to both our topline and the bottomline.

Now taking you through the Q4 performance and the financials at the consolidated level. It was another quarter of consistent performance and our operating revenue stood at Rs.121.4 Crores reflecting remarkable growth of 38.8% on year-on-year basis and 4.8% on quarter-on-quarter basis. Our EBITDA stood at Rs.14.1 Crores with the EBITDA margin now at 11.6% rounded off the highest level in Onward Technology history in terms of quarterly performance. We reported double digit EBITDA margin and aspire to see continuous improvement every quarter from here-on. Net profit after tax was at Rs.7.2 Crores.

We now have a little less than 100 clients, 98 active clients out of which 15 contributed more than a million dollar per year in terms of revenues and very happy to share that our top 25 clients continue to grow very well and contribute 81% of the total revenues in the company. Our global headcount is at 2,798 at full-time employees and this is post the exit of several large domestic projects in the ITS LOB which we have been doing in India for the last several years. We have diverse global team now across US, Canada, UK, Germany and India and again happy to share that more than 20% are women engineers and employees and we are committed to growing this number every year going forward.

I am also happy to share and announce with all of you guys that Mr. Pawan Nathani has joined us as our new CFO. He will be an integral part of the company's management team, helping Onward Technologies to achieve both long-term financial and operational goals. A quick background about Pawan, he is 42 years old qualified chartered accountant and lives in Pune. He has 20 plus years of industry experience and in the last 11 years he was part of a very fast-growing listed software services company, headquartered in Pune where his role was, as a financial controller for APAC and also responsible for consolidated record to report function of the company.

Now just talking a bit more about the future and the demand environment. FY2023-2024, we continue to be very positive about where we are heading as an organization, we have made huge transformational changes over the last 12 months and this financial year, our

focus is to improve our operational parameters, which indirectly and directly will affect our bottom-line, which is the EBITDA percentages. We will see balance growth from all our top clients and across all three Digital, Embedded and Mechanical lines of businesses. We will continue to maintain US and Europe as the biggest geographical focus for the company, so no plans to get into new markets and in India we have five centers. We are continuously investing in all the five centers which is Mumbai, Pune, Chennai, Bengaluru and Hyderabad in terms of infrastructure and in terms of hiring a lot of our talent and expanding continuously our TAP program where we hire GETs and PGETs to strengthen all the new age digital technologies and embedded technologies where we continue to see huge demand. Talent acquisition team is working in full gear and even today we are hiring for hundreds of open positions both internal and to support our clients.

Thank you everyone and I will now hand over the floor to the operator to start the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Nikhil Chandak from JM Family Office. Please go ahead.

Nikhil Chandak: Hi Jigar. Congrats on a good result. I had couple of questions, one was on the margin trajectory from quarter say for fiscal 2024 and beyond you already are at 11.5%, 12% EBITDA margin, so where does this margin goes for example if one were to look at it exit margins for fiscal 2024, March 2024 quarter where should this margin number be headed towards that is one. Second is, I see that India business is still 40% of our total income, so does that trend continue where India remains 40% or do you see that India business going down over a period of time and that could further help the margins to improve from where it is right now?

Jigar Mehta: Good evening. I will answer both your questions. I think the second question first, because that is related to the first one. So our focus is, if you see this in the first year, in the first quarter in terms of where our international business grew, obviously much faster based on the investments that we have done than the India business. We continue to remain bullish on both the markets, our India business which is focused on the GCC customers and our global business which is expanding, are present both on the offshore side and onsite with the customers and now coming back to your question on global revenue. We believe in the next two years our global revenue will be close to 70% of our consolidated revenues and that is where all our investments are focused today as we speak. While India revenues will continue to grow, our international revenues will grow at a much faster pace and that is where majority of our investment that we spoke about in the last three years have gone, where we had very diluted earnings or EBITDA in the business. Now coming back to the

margin, the first question that you had from 11.5% we see a very positive trend in terms of where we are today and in terms of the investments that we have already done. We have exited a lot of the large projects in the domestic markets which are the legacy business that are continuing for the last eight-ten years and that consolidated our focus, so we do believe we can get very close to mid teens in 2023 and that is where we are striving hard and working towards.

Nikhil Chandak: Understood. Thanks and one question I had is we have ended fiscal 2023 at something like Rs.440 Crores of revenue and you earlier have spoken about \$100 million aspirational revenue target by fiscal 2026, so does that business plan still hold on track how should one think about \$100 million by 2026?

Jigar Mehta: We are very focused on the milestone that we shared, what we are aiming towards and that is how the whole company and the leadership team is focused on and we continue to believe that is a realistic target. The market exists for a young company like us and we have our own differentiators and with the 98 live clients we will get to \$100 million, we do not need new clients which is the toughest part in our business model. It is more about investing in the latest technologies, building capabilities and capacity for our customers. From our perspective we continue to see a very robust demand from our existing customers. There is definitely a slowdown, there is definitely consolidation happening at various levels at our customer sites, but the demand environment continues to be very robust and we are optimistic that we can actually hit those numbers in the next few quarters by 2026.

Nikhil Chandak: So this \$100 million is all organic there is no acquisition built into this \$100 million target?

Jigar Mehta: When we shared the targets about a couple of years ago it was a consolidated target which was organic and inorganic and post that is when Infinity Finance came on board as a Private equity investor and we were looking at inorganic opportunities as well. As we have discussed in the last several earnings calls, we have seen such a huge exciting environment where we could grow 40% plus this year than 28% plus last year. We believe inorganic is the right way forward for us at this stage of our business model, so there are good opportunities available to us which actually helps us accelerate towards \$100 million much faster, we are very open to it, so the entire Board is very supportive of that and every quarter we are always engaging with and talking to multiple companies which potentially could fit our strategy.

Nikhil Chandak: Understood, perfect, great. Thank you so much.

Moderator: Thank you. Our next question is from the line of Sugandhi Sud from Incred Asset Management. Please go ahead.

Sugandhi Sud: Congratulations on the great results and thanks for taking my questions. I wanted to understand you mentioned that the headcount was impacted by sending certain contracts in IT, so have you been hiring outside that space and you said that hiring outlook and expansion continues to be strong, so that was the first question and whatever pipeline you have we have seen a lot of strong growth from your top client and within the vertical, key vertical, going forward do you see demand from uniformly from across verticals or is it going to be similar in terms of what you saw this year?

Jigar Mehta: Let me address the first question in terms of the headcount so what we have done and what we had shared earlier as well. is currently our revenue is structured by three lines of businesses which is ER&D which includes mechanical and embedded, the second is digital and third is ITS. ITS portion which was 21% of our revenue and probably close to 25% to 30% of our headcount, last financial year FY2022 is 100% in the domestic business, domestic industry which is in the India market. Now that is the business that we had shared few years ago, that we will slowly start exiting whenever the contracts come up for renew and/or whenever the right opportunity where the customer can transition into some other supplier and we had committed that we did not lose jobs towards that and that is what we have now reduced that in Q4 of this year, 21% is down to 8%, it is about 400 people net in the last 12 months have been transitioned out from the business model. Was that your question?

Sugandhi Sud: Yes that is exactly. Sir, some of the organization in the ER&D and digital businesses and there might have been some natural attrition?

Jigar Mehta: Absolutely. Two things, so one is, these are large managed services contracts so attrition was not very, very high in these contracts and it was well budgeted being a long-term contract, so we had to give it an opportunity to all our employees whoever wanted to move from ITS to digital to cloud to data science, we invested behind them in terms of training and the certifications and a lot of them moved gradually towards the digital part which actually was our fastest growing for the last few years. A lot of people prefer to stay in the old, prefer to continue in ITS and they were doing very well. They are the ones who transitioned out to the new suppliers to support the same large system integration, integrators, the clients that we have.

Sugandhi Sud: Your realization per employer I have noticed that it is one off naturally as the business mix has improved but within ER&D are you experiencing some ability to be able to charge higher?

Jigar Mehta: Absolutely right, so ITS become a commodity when we look at the domestic markets and that is the reason over about five years ago we start transitioning out of the ITS business.

First we started moving away from the India market 100% and going global, that is when the global offices came up in US, Canada and Europe and a lot of our key people, my entire management team all moved abroad, so if you look at even today majority of my management teams sit outside India. That is the first part. The second part is the rate is obviously much higher based on just pure economics, for digital, for data analytics and for embedded and electronics whether it is various other areas that we are competing with today on the software and hardware side and only supporting large MNC OEMs so the rate structure and the rate per employee also goes up substantially.

Sugandhi Sud: Within ER&D how much digital is?

Jigar Mehta: In Q4, so all these details are captured in the earnings deck this time, the team has done a fabulous job and put in a lot of data together and shared it with you guys. That is just released few hours ago, mechanical and embedded is 72% of our revenue in Q4, 20% is digital and 8% is ITS. So the way I would look at it is, 8% ITS is client contracts which a lot of our key people are moving slowly towards the digital and the customers are also moving the contracts on the digital side. We do not see the need to exit those contracts and vice versa, so it is more about expanding that and investing in the training that the whole business moves towards digital. We shared again and reinforce, what we are working towards and where we believe and we hit \$100 million in the next few years is 70% of our revenues will come from the global market which is US and Europe and we are targeting that 50% of our revenues which come from digital services, so 50% will be digital services, 50% will be mechanical and electronics engineering and there will be no ITS left in Onward Technologies.

Sugandhi Sud: I am just to repeat the earlier question on the pipeline between industry and transportation and healthcare do you expect similar mix or do you expect that to also evolve based on the pipeline that you have?

Jigar Mehta: Great question. In terms of the demand environment from all three verticals, from our existing clients continues to be robust, so we see a huge opportunity in all the three areas, but healthcare being a very small percentage or in terms of rupee value of our overall revenue that will grow the fastest and that is where we are new, we have recently signed up customers over the last two years, the demand in market is 100% digital and some embedded, there is obviously no IT there and the volume of the deals obviously are much higher and the entire healthcare business of Onward Technologies is 100% export, so it only comes from US and Europe there is no India market that we are part of so that revenue will continue to grow very fast. Our new investments in Michigan, UK and Germany will grow our automotive business much faster as well which comes under transportation and

mobility and on the industrial equipment and heavy machinery side we today work with the best and the biggest brands in the world where the demand is and we are moving away from pure play mechanical more and more towards embedded and now digital. We see opportunity across the spectrum in terms of buying the existing clients and I just want to add one more point to clarify what is happening for us right now is as a young company our revenues are growing with our existing clients which is now at 81% out of 25 clients but the other 70 odd clients that we have are also growing exponentially. All the new clients that our sales teams have won in the last few years and a lot of them are also coming through the good work that we do through references. So there is a huge opportunity that they will grow as well. Just to add to that, for example we signed multiple healthcare companies where we signed the agreement and became a supplier just in the last one quarter. Similarly on the automotive side, we work with six companies today out of the top 10 automotives and one we already signed last quarter and one more we expect are hoping to sign in Q1 or Q2 of this year, all the work has been completed. The first pilot has been successful, now it is just completing the paperwork. We are moving slowly in the right direction and to summarize all three industry verticals will grow. Healthcare will be a huge growth driver for us not only in 2023-2024, but also 2024-2025 and that also goes well with our strategy of digital services.

Sugandhi Sud:

Thank you. That is very helpful.

Moderator:

Thank you. Our next question is from the line of Amit Mittal from Blue River Capital. Please go ahead.

Amit Mittal:

Congratulations on the excellent set of numbers and actually when I look at your reported numbers the growth looks like 40% year-on-year when it comes to revenue for FY2023, but it is likely from the non-focus area in the IT business growth is close to 60%, so again congratulations. Just a couple of questions I had one is on our topline concentration which is close to 17%, 18% just your thoughts on are we trying to reduce this or are we okay with this kind of concentration?

Jigar Mehta:

We are a very young company and Rs.440 Crores in the software export market is a very significant small number, we have just started working with all of these companies and if you look at our top client or top five clients or top 10 clients 81% sounds very exciting because that is where we believe we want to move towards. We are not concerned about having too much there because the same clients are expanding at a much faster pace, but if you look at the other 24 clients as well they are all also growing at a very fast pace and we do believe that more we shift from a commodity business to our digital services business

there will be a huge opportunity to grow with all the top 25 clients and at the same time the new clients that we have won in the last two years post COVID.

Amit Mittal: Sure.

Jigar Mehta: Just to summarize this that the new clients that we are signing today have the potential if we do execute the strategy right, our 98th client today which is what we just signed last quarter has the potential to enter top 25 very quickly as well, so please look from that perspective because the numbers are very small when you look at the R&D budgets of the large global corporations.

Amit Mittal: Just to carry forward from the last participant's question you mentioned that you have signed some automotive clients last quarter and you expect something this quarter also, could you just share some light on the kind of work that we do for these auto clients the kind of work that we are getting for this client, could you just elaborate on the nature of work?

Jigar Mehta: Sure, so Amit what I shared was for us in at least on the ER&D space I believe in that space well so we have recently after two, three, four years of pilot projects, references, site visits we have now become official supplier to these OEMs in US and Europe and this is in the electronic and embedded space where we have become a supplier and the other client is on the digital and the data science space where we have become a supplier and one of the first large projects that we have been selected for is on process automation and that is what we are building the team for them today because again the project has just started I am allowed to only share very little information, but very happy to share I guess over the next few quarters as we ramp up the team for these customers.

Amit Mittal: Sure and just lastly your bookkeeping question on the tax rate do we get to 25% in FY2024 remains at 34%?

Jigar Mehta: I am not an expert on this but I will get back to you.

Amit Mittal: Perfect. Thanks a lot Jigar Sir and all the best.

Moderator: Thank you. Our next question is from the line of Yash Rajendra Shah from Fidelity Management. Please go ahead.

Yash Rajendra Shah: You have a very large runway Jigar in front of you and very broad runway, but what are the risks and worries that you have in terms of this blistering growth that you foresee?

Jigar Mehta: In terms of worry I think it is more significant on the execution side. I think where our team has done a phenomenal job I believe is on winning new clients, showcasing our capabilities, moving up from a pure play mechanical field to embedded now digital, we attracted some amazing talent close to almost 3000 people who are all working very hard. Now the challenge for us is, or the only thing which I believe for the next few years is on the execution side. As far as we keep focusing on execution and delivering for our existing clients and not get distracted and I think that is fundamentally the biggest internal conversations that we have week in, week out.

Yash Rajendra Shah: So that is in your control?

Jigar Mehta: It is not just attracting talent because it is in our control that is what we believe, yes. The hard work is done, that is what we believe.

Yash Rajendra Shah: The potential for all your business is huge it seems like next 5, 10 years; it has also helped the country, lot of foreign exchange.

Jigar Mehta: We will try to build the foundation and we believe we have a decent foundation now. It is all about adding a lot more depth and that is what we said in the last earnings call as well, that our investment cycle has not completed, we have just started. We are continuously adding a lot of SMEs on the digital, on the embedded space.

Yash Rajendra Shah: Are you looking at any new vertical also?

Jigar Mehta: Not currently, I think these three verticals for this year with so many external macro environment factors, I think, we have three verticals that we will continue to focus on this year, but next year, our goal is to get into high tech and we hope we can start investing in that in a very big way very soon.

Yash Rajendra Shah: What do you mean by high tech please explain?

Jigar Mehta: Semiconductors and a bit of the large product companies, the dream companies in the world like Apple, Facebook, and Google.

Yash Rajendra Shah: Okay.

Jigar Mehta: They are also doing a lot of work on product development.

Yash Rajendra Shah: Thank you very much.

Moderator: Thank you. Our next question is from the line of Shubham Ajmera from Arora Family Office. Please go ahead.

Shubham Ajmera: Congrats on good set of numbers. I am also asking about the targeting margins by FY2026 as you mentioned that we will target the mid teen margins in the next FY2024, so what would be the revenue guidance from the margins front for 2026?

Jigar Mehta: What we are saying is we are not a large company we are a young company and we have to invest. I personally believe and I think our Board believes that mid teens is a good place for us to be at and then invest everything back in the business, so our business is more than 90% is opex so in terms of hiring SMEs, hiring training, hiring GETs and PGETs, a lot of lateral hiring and of course the firepower in terms of sales and the rainmakers that we need outside India. Mid teens is what we will be very happy to be with, but the real focus is to continue to make sure that we serve our customers and we are investing in technology, especially on the digital and embedded space that Onward Technologies is very new for the next few years. So I am not restricting only for the next one, two years, I am saying for the next five years I think it is a lot of opportunity for Onward to invest and build capabilities.

Shubham Ajmera: Got it and on the revenue guidance for 2026 as well?

Jigar Mehta: We do not provide revenue guidance, but we continue to see robust demand and our focus is to keep growing and investing in US and Europe and we believe we are on the right path. We are adding great people, customers are growing and the demand environment seems to be positive in terms of what we are doing, especially on the offshore side. The whole focus is, you have to keep expanding offshore for the next few years and we have five capability centers now, earlier if you remember, we just had only in Pune now we have five amazing locations which are ready we are invested with strong leadership teams, so the opportunity for us to is to meet the client demands is very high today than what it was, few years ago.

Shubham Ajmera: Got it. Thank you.

Moderator: Thank you. That was the last question of a question and answer session. I would now like to hand the conference over to the management for closing comments.

Jigar Mehta: Thank you everybody for joining us this evening on a very short notice. Appreciate the support that all of you guys have given us. We continue to be positive in terms of what we are doing, we are in the start of a beautiful journey and we continue to believe that the hard work and the huge investments that we poured in terms of winning these clients. Now we channelize our energies for the next few quarters and years towards execution as we scale up the business in all the three regions which is US, Europe and India. Thank you again. If



Onward Technologies Limited
May 12, 2023

there are any more questions I am very happy to address them through our new IR Managers Ernst & Young through the quarter. Thank you again.

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