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Date: May 23, 2024

To,

Bombay Stock Exchange Limited **Phiroz Jeejeebhoy Towers,** **Dalal Street, Mumbai – 400023**	**National Stock Exchange of India Ltd.,** **Plot No. C/1 'G' Block** **Bandra – Kurla Complex** **Bandra East, Mumbai 400051**

Ref: Scrip Code - **BSE:** 517536 | **NSE:** ONWARDTEC

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Investor's Conference

Dear Sir,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose the transcript of Analyst and Investor Conference Call for the quarter and year ended March 31, 2024 held on Friday, May 17, 2024. The link to access the transcript of the earnings conference call is Q4 FY 2023-24 Earnings Call Transcript.pdf (onwardgroup.com).

Request you to take the same on record.

For **Onward Technologies Limited**

VINAV AGARWAL Digitally signed by VINAV AGARWAL
Date: 2024.05.23 17:26:41 +05'30'

Vinav Agarwal
Company Secretary & Compliance Officer
Membership No:- A40751

"Onward Technologies Limited
Q4 FY '24 Earnings Conference Call"
May 17, 2024

MANAGEMENT: **MR. JIGAR MEHTA – MANAGING DIRECTOR**

MODERATOR: **MS. JYOTI GUPTA – E&Y LLP, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Onward Technologies Limited Q4 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Jyoti Gupta from E&Y Investor Relations. Thank you, and over to you, Ms. Jyoti Gupta.

Jyoti Gupta: Thank you, Neerav. Good evening to all of you. Welcome to Q4 and Full Year FY '24 Earnings Call of Onward Technologies Limited. The results and presentation have already been mailed to you, and you can also view them on our website at www.onwardgroup.com.

To take us through the results today and to answer your questions, we have with us Mr. Jigar Mehta, Managing Director of Onward Technology 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.

As usual, I would like to remind you that anything that is said on this call that reflects any outlook for future or which can be construed as a forward-looking statement, must be viewed in conjunction with the 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 view 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, Jyoti. Good evening, everybody. I hope you can hear me clearly. I'm very happy to have all of you guys here today. We've had a fun day today at the Board Meeting, brainstorming with the entire Board and going through all the numbers. And of course, our entire team was present to review the performance of last year and plan for the subsequent few quarters and years ahead.

I would quickly like to summarize some of the key highlights from the last 12 months and then the last 3 months and then where we are going into the future. So, for us, last year has been a transformative year, I've shared that in the last three quarters. And I'm very happy to close it on a much, much stronger note. We simplified our entire organization structure. We are now just focused on three industry verticals, Industrial Equipment & Heavy Machinery, we have Transportation & Mobility, which includes both automotive and rail and then we have Healthcare and MedTech segment.

All three verticals are primary verticals for us, all have significant opportunities going forward, and we believe all three has unlimited potential to grow over the next 5 to 10 years. The last 12 months, we looked at the entire business in a very conscious manner and we said which are the areas we need to invest in the three verticals and three horizontals. And we started with North America as the primary market, then Europe and India. And in each of these locations, we have started hiring people, adding the right leaders, whether it's sales, account management and/or delivery. And we have started strengthening all the locations, geographic presence with some exceptional talent to compliment our strong regional teams.

In addition to this, we strengthened our offshore infrastructure, whether it is Pune, Chennai and then very soon coming in July, we have a new office in Bangalore in Whitefield opening up. The reason why we're constantly upgrading offices, one, we are growing, and second is our model is shifting from predominantly on-site driven to offshore driven, a very good balance, which means we need more seats and more infrastructure. And to do that, we need to be in A-grade building, A-grade tech parks, which has the necessary data security, people security, amenities, services required for us to be successful. So very privileged of our cash flow situation, a very strong management team and a very supportive Board, we're able to make quick decisions to get to that stage.

Now what we have done in the last 12 months, our key managers have taken up global roles in USA and UK. They are the same people who actually helped us build India business in the past and now have gone there to build up Europe and US, respectively. They have a strong understanding of our culture, process and have high level of integrity in our relations with customers. Now, under each of these leaders, we are hiring local people and in parallel, we are transferring many more employees from our various India offices. I expect this trend to continue for next 3 years as we build our global presence and account management capabilities.

Now coming back to the numbers.

For the last 12 months. I think all the numbers are all-time high for us. In terms of revenue, we have grown from INR 440 crores to INR 470 + crores, which is a 7%+ growth. I think we could have done much better if it wasn't for all the clients that we were exiting during our transition phase. We lost some momentum there from high growth previous financial year. We have delivered strong double digit EBDITA of 11%+ for the first time with phenomenal performance from entire team. Our PAT, again, very important parameter, saw a huge upside, where we grew more than 194% or 3 times from previous financial year. We went from INR 11+ crores to INR 34+ crores for last 12 months. And because of the high quality performance, our continuing improving quality of customers, quality of customer engagements and hence, quality of our margins; our cash have now gone from INR 48 crores to about INR 93 crores at the end of March 2024. This is another record for us.

Now in terms of the verticals, Industrial Equipment & Heavy Machinery continues to be our largest vertical and growing very well, and we see amazing potential is at 52%; Transportation & Mobility, which is where automotive is predominantly the largest vertical and now rail is where we are investing, contributed 37% of our revenues; and Healthcare, which is our new vertical, contributed about 8% of our revenue. In terms of DSO, which I already touch base upon, we had a huge improvement from 86 days to 72 days, and we still see a lot of opportunity for us to improve, keep getting better in terms of how we engage and invoice the clients and how we collect much faster.

Coming back to Q4, another important point I want to mention was the number of quality clients that we have and the engagement that we have, we continue to evaluate that very seriously on a regular basis, on every quarter. And while we added a lot of new customers, we also exited the bottom 10 - 15 customers. And now, our active client roster is down to a healthy 84. As I've shared earlier, we believe, 75 customers is a good benchmark to deliver INR 800 crores of revenue.

Now for Q4, our revenue went back up from the dip that we saw in Q3 because of the furloughs and the holidays, we closed at INR 118 crores. And our EBITDA margin was at 8.2%, it was a bit lower than we expected because of several onetime expenses that we had in the quarter. We do expect to bounce back to double-digit EBITDA and constantly improving as we move forward.

Based on the performance, our Board has recommended this morning a dividend of INR 5 per equity share, the highest ever in our history and marking the ninth consecutive year of dividend payout, subject to shareholder approval at the upcoming 33rd Annual General Meeting in July.

Now coming into the future. For 24-25 and going forward, we continue to remain very focused on growth. I think now, it's a very good opportunity for us with very focused accounts, a lot of high-quality people already onboarded, with further commitment in adding a lot of depth around them to build new competencies. And we do believe we have strong opportunity in all the 3 verticals, predominantly driven from USA.

To summarize, thank you for the amazing support, thank you for the support to all our investors and analysts. I want to acknowledge my entire team, which is now at 2,529 employees globally. So, if you see this compared from a year ago, we've gone down by about 200-odd people. That's predominantly because of the large domestic volume business that we exited. So, a big thank you to my entire team, a big welcome to so many amazing people that are joining us and continue to be interested in our journey. And of course, our customers for why we are here recording the highest revenue in our history.

And now, I will hand over the floor to the operator to start the Q&A session. Thank you, again.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Amrish Kacker, an individual investor.

Amrish Kacker: Congratulations on good transformation. My first question is just to make sure I'm understanding the evolution of the revenue appropriately. If I exclude the ITS revenue and only look at the ER&D and digital revenue, we have grown by about 21% year-on-year. Is that a reasonable way to look at the business going forward that that sort of level of growth will come, now that we reduced the ITS to about 2%?

Jigar Mehta: I'm not sure where you got the definite number from, but we have been growing at that level, especially after net if you look at from the last three to four-year perspective, absolutely, post the pandemic. I'm not commenting on the future, but this last three years, that's a reasonable number.

Amrish Kacker: Yes. Okay. Perfect. I just got the numbers by using it's an approximate number. Second question, again, I've just taken your percentages of top 5 clients' revenue, top 10 and top 25. If I just look at these categories, the top 5 client revenue contribution seems to be growing quite strongly year-over-year. I'm just looking year-over-year number, not exact but my rough calculation says about 25%.

The next top 5, so the top 6 to 10, is not growing as fast but still growing maybe at 14%. And the next top 15, which is top 11 to 25, has actually degrown. Is there some pattern here that we seem to be doing well in the top 5 and perhaps the top 6 to 10 is something we were going to try to focus on additionally?

Jigar Mehta: No, a great observation. So, I'll simplify it a bit. One, the list of our top 25 clients is not static, it's not the same client every quarter, right? Because every time we add a new quarter at company of our size today compared to, let's say, three years ago, the customer comes, and we are winning much larger orders. So, the numbers do change from that perspective. It's not the same list which was there.

Number two, even in that top strategic client, some clients were not growing very quickly or didn't have the opportunity or did not have the outsourcing budget over the clients that we moved away from. So, if you see, that number also has come down from 15 to about, I think, 13 or something right now. But that many more are getting added as well.

So, for me, all 75 clients are strategic. I don't call it anybody more or less, so just about what mature state of engagement that we have with the customer. So, in some places, let me define my mature and how do I call mature there. We already have a local dedicated project office for the customer. We have subject matter experts and delivery leaders for all the three horizontals, which is digital, embedded and mechanical. Now in that, we have specialization. So, we have that many more SMEs and architects supporting that customer in addition to the whole execution engine, right, which is account managers, delivery managers, engagement managers, HR, finance, recruitment. For me, I call that a strategic client. So, if you look at it from a 75-client perspective, it's not necessary that we have invested so much behind all 75 customers. So, it's a different level of where we are at.

So, to summarize, the customers that are growing very quickly or which might be in the top 5 today are where we have a very mature engagement model. Offices are set, teams are in place, investments have been made, licenses have been procured, huge investments have gone in training, in infrastructure. And now, it's more about execution and delivering for where the customers want us to build. Am I simplifying it? I hope I'm not complicating it for you.

Amrish Kacker: I think that's very helpful.

Jigar Mehta: That's what our model is. If Onward can do that for all 75 clients, then that's the dream. So that's where we are at. And that's why I said at the start of my conversation that consciously, last year, we strengthened a lot of those things instead of just focusing on growth, growth, growth, which is what we did in the previous few years.

Amrish Kacker: So just as a follow up if you could help understand this a little better. Do you think that's a useful metric for us to just keep tracking like an average revenue per client? Is that a good metric for us to see how it's growing within each of these groups?

Jigar Mehta: So that's a great metric for us, definitely because we have a bit of an anomaly there. Our revenues are going up for the last three years and our headcount is coming down for the last three years. So definitely that's a good metric for us to track, and that's what we track internally as well.

Second, definitely, is gross margin and the customers, whether it's improving every year. And third for me is being a young company in my industry that we are in, ER&D, it's the quality of DSO as well because that's one way when you're working with the largest customers, where you're doing projects successfully, you are getting paid ahead better and always on time. I think those are small, small, very critical parameters which helps us define where we are today.

At some point in time, once we reach our respective let's say, double the size of where we are, I think we can then start sharing more about our sales funnels and the pipelines and the deal wins as well. Today, it's a bit sensitive because our customers don't want us to share that.

Moderator: Next question is from the line of Dhruv Shah from Ambika Fincap Consultants.

Dhruv Shah: Jigar, let me ask you this bluntly that and I'm going to state some data points here. Your medical segment has not gone anywhere for seven quarters now. Your heavy engineering has not gone anywhere for seven quarters now. Transport vertical has not grown for four quarters now. Your headcount is down, if I see, to level of Q3 of FY'22. So, when are we going to see growth? Because if I go back in Q2, in your transcript, you had said that we are a small company, macro doesn't impact us. How are we going to achieve USD100 million in FY'26? For that you have to do 31% CAGR for next two years, and how are you going to achieve that?

Jigar Mehta: Sure. Thank you for the questions. I think a lot of the facts are wrong. Let me clarify some of the facts. So, the first fact is we have last, I think you said seven quarters, so let's say two years. I think we have grown from INR 270 crores or INR 300 crores to INR 470 crores. So, we've seen a huge growth in the last so many quarters. I don't have the exact specifics, but maybe I'm sure my team can put it up in the next few minutes for me. So, you see massive growth.

Number two, I think you also clarified about some of the three verticals. Our entire revenue growth has come from the three verticals. We have grown substantially. What you are not seeing from the outside is the quality of clients that we have grown. So, in the last three years, we have moved from 250 clients to 84 client engagements today. We are moving up the value chain with all our clients, and this is probably the best quarter we've had in Onward history, because we have no other verticals today. 98% of our revenues comes from these three verticals. Just 2% is ITS or others which will also go away.

The third, you mentioned about headcount and that's a very good point and I clarified earlier as well. Our revenue growth is not linked to headcount, please keep in mind. If you just look at Onward today 2,500 employees, 2,000 are invoicing in India where we are invoicing in INR.

And the balance about 350, 400 are invoicing in dollars. Both have seen substantial growth in the last 7 or let's say, 2 years.

So, for us, the beautiful part, Dhruv and why our margins are improving so beautifully, and our cash flows are improving so beautifully, and our structure is improving is because when we are growing globally, our employees, our amazing engineers who were doing amazing work for customers in India, are getting global career paths.

So, when we are not going in the market to hire people, we are taking people in India. Let us say we are invoicing at USD 5, USD 6, USD 7, USD 8, USD 10 an hour. And they are moving to my international business where we are invoicing from USD 18 an hour to USD 75 an hour if they are on site. So, ours is not relative to headcount. I believe another one year we will still see headcount go down. Like we just exited one large, actually I'll get to that point later.

I am just clarifying the fourth point on the healthcare side. So, healthcare side, our actually revenues are going up, margins are going up, our quality of engagement is growing up. And as we speak, we have just signed a Fortune 50 company as a new customer. I'll get to that later.

But we also have other large Indian customers traditionally which I've clarified in my earlier calls as well that we are exiting. So, for example, we exited a large Indian customer end of April where about 120 engineers moved away, and we transitioned them to some other payroll the customer chose. So that significant number of headcounts will come down.

Now in this client Dhruv, we were invoicing at USD 4.5 to USD 5 an hour just to clarify and I think we've shared these numbers before. So, healthcare, in this the domestic revenue will become zero which is the plan. Europe revenue will become zero. And in the healthcare segment our revenues in US and Canada will start going up. And that's where the entire team is based out of Chicago. So, I think they're doing a great job. They're building amazing momentum.

We've just set up a new delivery center for them in Pune where we've got amazing new leadership, the inauguration was last quarter. So again, healthcare has that much of potential. So just to summarize, headcount-wise or overall scheme-wise, all the three verticals will grow we believe I think, and they will all grow towards very healthy margins. I think today, if you look at our numbers, we have approximately 29% gross margin. I think where we need to be is that 35% gross margin.

So that's because of utilization and some projects take off slowly and that's the stage we are in. So just putting the facts out there and the exact number from INR 307 crores in the last 8 quarters we have gone to INR 472 crores in quarters. So huge growth for a company of our size and I'm very excited and very happy where we are.

Dhruv Shah: Jigar, from where I was coming is, because you did almost INR 67-odd crores in your heavy engineering vertical in Q2 FY '23 which today is INR 62.75 crores. In your automobile you did INR 41 crores in Q1 of FY '24 and we are still there and in medical if I have to see, in Q2 of FY '23 you did INR 10 crores and today we are at INR 8 crores. So, when I'm saying seven quarters I can't see any growth in your data points.

Jigar Mehta: I can have our IR manager from Ernst & Young come back to you with all the specifics, but again just to summarize what I just said was it's the quality of engagements. Just take an example of automotive. We had a transaction business which was doing about INR 20 crores a year revenue. We exited the entire thing. The business for us was called BIW Manufacturing Engineering Group. So, we exited that entire revenue for the same services which is robotics and virtual simulation and everything else. We are now supporting directly to our OEM customers. So, from supporting large number of Tier 3, Tier 2, Tier 1 automotive component suppliers or automotive Tier 1 companies we are now supporting directly to the OEM. And that's what is creating a stickiness and amazing visibility for the future. But I'm sure E&Y can come back to you with all the specifics.

Dhruv Shah: Jigar, if I have to put it across like that out of INR 118 crores, how much of the revenue you still think you need to exit and it's a low-margin business way, the one you did in this quarter?

Jigar Mehta: So as of today, the only business that is why I clarified at the start of the conversation the only business that we had to exit, we exited at the end of April which is 150-odd people, 100 people contract with the healthcare company and actually 130 people with the healthcare company and about 20-odd people with some other customers. So that 150 is over end of April. And now going forward we don't have any such business that we want to exit or transition out of. And that's why we actually sent out an e-mail internally as well last month that the entire transition is over in terms of people coming, people going. Now we can build from where we are. So, it's a very exciting stage for us.

Dhruv Shah: Jigar, next question is on your digital space. Why is there so much fluctuation? In one quarter, how can you go from INR 46 crores of revenue to INR 23-odd crores of revenue which is 50% on quarter-on-quarter basis?

Jigar Mehta: Because the entire business that we exited was on the digital side. That was one reason. And second is some projects must have ended and some projects would be kick starting probably in Q1 or Q2.

So again, for us, digital and then in mechanical all three are growing, all three are important. It's the quality of the projects that we are trying to win. And that's why predominantly I think the number must have come down probably at this quarter. But you will see it bounce back again this year, if you average it out for 12 months.

Dhruv Shah: Okay. And just on your guidance of FY '26, are you still maintaining $100 million?

Jigar Mehta: We believe we have an amazing opportunity. We've always said $100 million was the dream, was aspirational target. And we still believe that these opportunities exist. We have to execute. We have to make sure we get the right people onboard, and a few things go our way, I think we can get there closer, if not ahead to where it will be.

Dhruv Shah: Okay. Fair enough. Thank you.

Moderator: Thank you. The next question is from the line of Lokesh from Tribe Capital. Please go ahead.

Lokesh: So, in simple words our performance has been quite disappointing on all parameters. Like we have been at the INR 120 crores revenue run rate for 8 quarters. And our EBITDA margin has also come down from 11%, 12% range to 8% which is after you sold your stake in December. As investors, how do we think about this company? And what comfort can you give us on growth and margins going forward?

Jigar Mehta: Yes, personally I think it was a very good quarter better than what we expected after what we saw end of Q3 and early Q4. I saw the team did a phenomenal job and we bounced back. EBITDA margin came down because of one-off expenses that I clarified earlier.

I think we have a beautiful run rate. I think we have a superb team. I think we have an outstanding Board, dream customers. And we are learning every day how to build better relationships, how to execute better and how to win better. And what I don't think Onward is made for daily, weekly quarterly numbers. I think what we have achieved in the last 3 years has been phenomenal. And I think the next 3 years, we can outperform the last 3 years. And that's the kind of opportunity that I see in front of us what excites me when I come to office every day.

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

V.P. Rajesh: So just a quick question. Given that you mentioned that most of your low-end revenues are pretty much behind you, what kind of growth are you expecting in this year in fiscal 25?

Jigar Mehta: VP I think you ask this question every quarter whenever I speak to you. We don't give projections. But as I said, my simple goal that I work with since the day I got this job and I think as long as I will be here is to beat the previous quarter and that's what we aspire to do and now as I said we had a board meeting this morning, this year looks amazing from where we are. And we hope that no one-off expense is also this year that also will give you a much better perspective for all of you guys from outside to see what we are doing inside and how hard the team is working. But I do believe the next 3 years should be much better than the last 3 years. Last 3 year we had the transformation journey started. We've gone from where we were to where we are today. And I think we should be able to accelerate much better going forward because we have the people, we have the customers. Now it's all about execution. Execution again I mean in US, Canada and Europe.

V.P. Rajesh: I was not asking for the guidance. I'm just trying to get a sense given what the number had been in the last few quarters. And as you know every business goes through ups and downs, so we all understand that. I am just trying to get a sense that now that you have shed the business you don't want you seem to have now a base of this let's say INR 470 crores revenue. Now as you are penetrating the accounts more should we expect 30% growth or should we expect even higher. So, if you can just give I'm not asking for a number per se, but directionally, what is the kind of growth aspirations you have so that all of us who are on the outside, as you said, can get a little comfort from the way the business is likely to grow over the next year. So that's really where the question is coming from?

Jigar Mehta: No, absolutely. Great question. As I said, I have two focus areas. One is double-digit EBITDA and I want to improve the EBITDA margin next year from where Onward is today and I think we should be much ahead next time. if I just take one-off expenses, we'll be better off already. And that's what I would love to maintain. Never happened in Onward history, but I think I have built a team which has the capability to execute. So that's one.

And from a revenue perspective, as I said, for me the potential is enormous. I am not a daily, weekly guy, but I do believe this year should be phenomenal, much, much better than last year. And I think it's all about executing and things falling into place at the right time. It's fun winning all the big deals in Q1 instead of Q3 because then you get the advantage of the whole year. And that's what we are seeing as we go about today.

V.P. Rajesh: Got it. That’s helpful. And then just very quickly the second one talking about the deal wins. What is the deal pipeline looks like to you, given the deal wins you just mentioned? How much stronger is it, let's say, compared to last year same time?

Jigar Mehta: So, V.P, our whole world has changed from April 1 because we all are fresh. There's nothing for us to move away from anymore. It's better and bigger than we've ever seen, I continue to maintain that. Let me just clarify I don't mean deal wins. I mean the opportunity from our existing clients, and they are counting on us every day we are on calls, meetings, planning how to do something better.

Just to clarify again, let's say we have an amazing customer in US. They want us to expand into UK. or we have a customer in UK, they want to expand in Canada. It's a very new way for us to work. We are not used to that. Some of the larger companies have done that 10 years, 15 years, 20 years ago. So, we are learning that whole thing, adding the right people everywhere and the potential is enormous.

We recently re-signed three of our customers that we had lost pre-pandemic or much before that, 7 years, 8 years, 10 years ago. They came back to us, and we are hearing from all customers in the US. We're hearing great things about you guys from so many places, and we would love to reengage with you guys. And these are huge companies on the industrial side. So again, very, very privileged for that as well.

So– it’s like just a vote of confidence when old customers come back. We lost them several years ago with the assumption that you guys are not aspirational, you guys are not able to invest on the embedded side or the digital side or whatever it was at that point of time and now they're coming back to us. So, it's all about scaling with them. So, to summarize, it's better than ever before.

V.P Rajesh: Okay great. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Sriram Rajan an individual investor. Please go ahead.

Sriram Rajan: So, this is just adding on top of the question another investor asked maybe prior to V.P. or maybe too prior to that where you responded saying your business is perhaps not people-based or the number of people based but given that it's a T&M contracts that you're signing, I think there will be some level of linearity involved. So, question is, given these are all T&M and you signed long-term MSA with the customers, I presume, do you have a sense of the demand for this year? Is it going to be more than 2,000 or the billable resources, perhaps is 2,300, is it going to be more than that? If yes, then how much? Could you just share those details?

Jigar Mehta: Sriram, good evening. I don't have the details, but I'm sure E&Y can come back to you with all the specifics that you need. That's not a parameter that really, we look at internally. So, I can tell you where we are today in terms of headcount and you guys can calculate your way. We are about 2,450 as we speak today. This is after the exits and the new hires. So, I think where we should be at, 2,700 - 2,800 is a good, sweet spot for us and I would like majority of that to be outside India, not necessarily in India.

Sriram Rajan: Okay. And just for clarity, Jigar, we were told a few times earlier as well, but if we had to hit $100 million which is a dream number maybe FY '26, currently, let's assume 2,300 - 2,400 are contributing to INR 470 crores; would you consider will the same 2,300 billable resources deliver the INR 800 crores as well or the $100 million or you need to add at least 500 -1,000 more resources?

Jigar Mehta: In an ideal-world scenario, I think majority and I said, Onward has maybe about 150 - 180 people outside India today, full time. If I can take that up to 300, we are there plus minus.

Sriram Rajan: That helps, Jigar, actually. We're looking at it differently.

Jigar Mehta: We're not an offshore company I've always said that. We are not a company focused on India market only plus we are in a market where there are very large established players who have large established relationships. We are not entering those customers. We are going after customers where they don't have an India presence or they have an India presence, looking for a new young company who can provide the flexibility and the agility and the speed and of course, competitive rates. So, we are playing in a very different sweet spot. For us, if a customer wants us to ramp up 100 people in California, that's my dream project. I will move all my best people there.

Sriram Rajan: Sorry. I think then there is no need for another 1,000 to come onboard maybe that was the kind of understanding I had earlier.

Jigar Mehta: Yes, absolutely.

Sriram Rajan: Yes. Jigar, I think this is like you said just before, this is not a daily, weekly business, you're not doing product sales, or it is not a distribution business. So, I get it. So, I'm sure you already have exact more or less to the 5% variance view of 1H. Do you see green shoots that where you say yes there's a far bit of growth for the first half compared to what it was last year?

Jigar Mehta: So Q2, I was told by sales team or my senior team that Q2 usually is a very good quarter. Again, for me, that's more IT cyclical business. I think in ER&D, I have not seen that, at least in my customer discussions. Every quarter is important for them from an innovation perspective, from an R&D perspective or if we're just moving work from Europe, US. to India. I think it's all about execution. End of Q2 to early Q3 is usually the holiday period in Europe. So, we do get affected by some of these cyclical things. But for me, again, when I look at the pipeline, I think it's all about executing and where to prioritize. We have 75 customers. We just need 10 customers to win, 10 customers which can get to USD10 million a year, right? So, for us, it's that.

It sounds very simple today because I've been saying it for 3 years. 3 years back, nobody believed we will be at INR 470 crores. I think then we were some INR 150 crores or INR 200 crores of revenue. But we are on that journey, and I think a lot of our customers are growing. I think we have 3, 4, 5 customers of about USD 3 million or USD 4 million already, if not much more. So, we're getting to that stage. But just to summarize, my sweet spot, Onward's sweet spot is, can we get to 10 customers which can get to USD 10 million a year, right? So, it can happen any quarter, any day, any week. It's all about just being at the right place and committing and delivering to our commitments to our customers.

Shriram Rajan: Sure. you run the business, so you are far closer to details which we don't see from outside. So, if you had to form an assessment saying, okay, this is on the right trajectory, like you said, the next 2 years will be better than the previous 2 years. So, the last 2 years, we've grown from INR 300 crores to INR 470 crores, which is a reasonably good growth, 50% plus. So, you're seeing it will be better than that 2 years from now. But just for the next 6 months, can we consider there's going to be a far better EBITDA and top line performance compared to the first half of last year?

Jigar Mehta: That's the goal that we work out every day.

Moderator: Next question is from the line of Pratik Poddar an individual investor.

Pratik Poddar: Just one question. In terms of moving your India billing to global billing, are you suggesting FY '25 is the pivotal year where we'll see substantial movement from India to global and the share of India business or the revenue from India will go down? Is that a fair understanding?

Jigar Mehta: Pratik, every year has been fundamental for us, right? There's no year or quarter which is better. We've been transitioning this for a long time because our customers are US and Europe headquartered. And they would like at least 10% or 20% of the key team members next to them in their premises or in project offices right next to where they are based. So, we are aiming to do that every year.

The opportunity is much bigger today than yesterday, absolutely because the global mobility or immigration, as I call it, has opened up, right? US was shut for us till about last year. And now, US is open. So, we have people going to US. Canada, which was taking 6, 9 months, 12 months is now taking 3 to 4 months only. Germany is still 3 to 6 months, and we hope it goes down to 1 month.

So, it's all about that whole opportunity. Opportunities are there. It's all about we're just not getting the work permit or the speed that we would like it.

Pratik Poddar: So can I say 2 years? Is 2 years a fair understanding? Maybe not FY '25, but H2 of FY '25 and starting of FY '26 where we start seeing this mix because...

Jigar Mehta: Absolutely.

Pratik Poddar: Your gross margin improvement and growth, right? That's what you're hinting towards?

Jigar Mehta: No. I would say a little bit more. It's key to improving our customer engagement because I cannot take up a big project unless I have my key people at the client side or next to the client. Right? So, what happens is, Pratik, once we win the project, once we get selected for a large project, our program managers or project managers or subject matter experts move next to a customer or in that country on a local work permit.

We cannot just hire people from the market for these critical positions. And traditionally, Onward has never done that, because we have an amazing team of 2,500 people. So, it's about picking our people, who are part of the proposal stage, of the big defence stage, who move abroad and move to the client side to deliver that.

Then the offshore starts, right? So, let's say, we'll have 3 people on site and maybe 30 people offshore. That's why your margins improve. That's not the real game. Real game is, can we transition this client, small project or a project that we have into a USD10 million engagement year-on-year for life, for as long as we can do that and become an important R&D partner or extension of a client's R&D department. That's the real key because then you're really adding value to the customer. Everybody can go in today do a project based on India opportunity or India supply chain or low cost. But can we actually build it to a sustaining revenue model is what we are working towards.

Moderator: Next question is from the line of Ashish from JM Financial.

Ashish: So, this is more from a general industry perspective. So, we are reading these GCC data and the kind of people that those guys are hiring. One of the reports recently stated that 74% of the total demand is getting absorbed by the GCCs. Would you be worried on this kind of data which is shown away?

Because there's this kind of an understanding which goes that GCC is trying to do some of the work in-house. And eventually, the growth for the outsourced vendors will be lower than what people might be projecting for. Your comments on this would be very helpful?

Jigar Mehta: I think it's very, very positive actually for a young company like Onward or actually just general for the industry, right? Large global companies coming into India when they set up their own shop, they will hire their own people, I think that's the basic assumption. We do the same, and we go to Europe and US, we don't outsource all the work, we only outsource the low-end work.

So, when they come in and they ramp up teams of 5,000, 10,000, 15,000 or even now companies are going towards 20,000 people as well, I think it's superb opportunities for India. Just as a general thing, Onward Technologies, traditionally, has never played in that space, right? We never held GCCs. At least, I'm talking about post last 3 years. We have never been the company which is helping GCCs set up shop in India.

We are not the company doing BOT models. We have not been, so far. And we're definitely not being affected by that so far. But more and more American and European companies come to India, set up huge shops, are successful, can innovate, can create IP. That means other companies again, please keep in mind, I don't know the exact statistics today, but less than 20% of the global companies in my 3 verticals that Onward is playing today, has a GCC in India. My focus is other 80%.

Ashish: Fair enough. And for your business in particular, like what are the key growth areas that you would also, obviously, auto is one vertical wherein you guys are building your force. But apart from that, off-highway vehicles or to that extent, aerospace, what is the industry reading? And where's most of your energy, your focus is currently?

Jigar Mehta: We have three verticals, Ashish. We have Industrial Equipment, which includes off-highway vehicles, off-road vehicles, Heavy Machinery, mining, construction equipment. That's one vertical, it's a very large vertical, with a lot of sub verticals. that's a big focus area for us. Automotive, of course; rail, of course, and Healthcare MedTech.

But that's one side of the story. The other side of the story, which is a real game changer for us for the last three years, has been when we pivoted from just a pure-play mechanical and engineering services company to software, both on the embedded side and digital side. And embedded software and digital side is where the biggest opportunity for us is. We are still, as the company, scratching the surface.

Our teams have done a phenomenal job so far to where we are at. But I think we can do much more. And that's where the large RFPs are, and that's where the large deals are, and that's where the large demand is in today and will be for the next three years to five years. Software includes AI, ML, cybersecurity, data analytics, everything on the software side. Even in Onward, pre-pandemic, it was only a mechanical engineering company.

Ashish: Yes. And lastly, like, at some point in time, most of the OEMs will come to India. Like we are aware that VinFast is already setting up a facility in India. So, all those EV players, be it German origin or possibly some of the Japanese guys who might potentially want to enter India, as far as our business development efforts are concerned, are the teams, is there a kind of segregation between domestic and international business development guys? Or how is it working currently?

Jigar Mehta: Great question. Thanks for asking. So, where we are today from April 1, 2024, we have no sales team in India. We have a very strong execution team, and we are continuously building on that. We have an account management team, which every account has one, two, three named account managers, based on the scale or the opportunities or the technical competencies required.

Our entire sales team led by Vignesh, who's Executive Vice President and part of my global management team, he has moved to Michigan. He's building a team around there. Pramod Patil, who's again Executive Vice President, part of the management team; has moved to London. He's building a whole team in Europe. And similarly, our whole sales organization is going to be only in US and Europe.

Of course, we have the Lead Gen and the presales and has offshore in India and in our various offices, where the key guys, key client engagement guys and they are building amazing team. They hire some superb people, and I think they will hire tons and tons more in the next two years, three years, starting today.

Ashish: Yes, very helpful. Thank you so much and all the best.

Moderator: Thank you. Next follow-up question is from the line of Sriram Rajan, from individual investor. Please go ahead.

Sriram Rajan: Jigar, any plans for acquiring companies in the high-end space that you were talking about in the digital or embedded?

Jigar Mehta: Shriram, on the M&A side, nothing concrete as of today. We haven't, there is nothing that we are actively discussing. But as I always said, we are very open. We have the cash. We have very strong PE partner in Convergent. So that’s never been the challenge, its more about finding the appropriate company, which is supporting our clients instead of only adding 20, 30 new clients. So that's just a prioritization for us, we are always open for it.

Moderator: Next follow-up question is from the line of Amrish Kacker, from individual investor. Please go ahead.

Amrish Kacker: This is more of a bookkeeping question. you Mentioned at the beginning of the call something along the lines that there are a few one-offs in this quarter. Is there something more you could share on that?

Jigar Mehta: So, the one-offs are all employee related. And I think it's just employee-related expenses, which came up because we had a strong year, and the management team and the Board approved it. Nothing really, we only have 2 expenses I said payroll and traveling. We don't really have much after that. So, it's just about those things.

Amrish Kacker: Another the magnitude of the one-off?

Jigar Mehta: No, it's one-off into these things, yes. We can share the breakup, of course. E&Y can give you all the breakups, line item-wise.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Jigar Mehta for closing comments.

Jigar Mehta: Thank you. Again, thank you, everybody, for joining on a Friday evening. Really appreciate your time and support. As I said, we are committed. We think we had a good year, and we can always do better. But I would just like to assure we've built an amazing team, very excited about the future. I think this year, it looks very exciting as well. We are going back to execution, and I think that's the key for our success for the next two years, three years. So, thank you again, and have a lovely weekend.

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

Note: *This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.*