Onward Technologies Limited
Earnings Conference Call
July 19, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of Onward Technologies Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask 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, Chief Executive Officer of Valorem Advisors. Thank you and over to you.

Anuj Sonpal: Thank you. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Onward Technologies Limited. On behalf of company I would like to thank you all for participating in the company's earnings call for the first quarter of financial year 2023. Before we begin, a quick cautionary statement. Some of the statements made in today's earnings conference call 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's beliefs as well assumptions made by 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 conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review

Now I would like to introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us firstly Mr. Jigar Mehta, Managing Director, and we also have 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 and good afternoon everybody. It's a pleasure to welcome you all on the earnings call for the first quarter of financial year 2023. I hope you're all keeping well and safe. I want to take this opportunity to congratulate my entire team for delivering robust Q1 performance, driving the highest quarterly revenue of Rs 93.7 crores with our highest ever year on year growth at 35%. We are seeing strong demand for our services in line with our medium term objectives of achieving $100 million of annual revenue. In parallel, Onward Tech continues to exit legacy business, which is the low margin high volume business in India. While focusing our entire investments and budget on the top 25 global customers. These customers now, generate, close to 73% of our consolidated revenue, and has increased by 12% from the same period in the previous financial year. I'm also proud to announce today that are over half of these customers come from our top 25 contribute more than $1 million revenue per year with visibility towards even higher share of wallet in the coming quarters. What that means is in terms of $100 million objective is we will have few customers which will be as high as generating $10 million revenue per year going towards that journey to $100 million. We are undertaking building investments in the two primary areas. One is as I shared in the earlier earning calls and in our notes, post Covid we have now 7 international offices three in US, one in Canada and one London and two in Europe in Frankfurt and Amsterdam which we are strengthening and building up the entire sales teams. And the second big investment is Onward Technologies academy under the terminology TAP, which is talent acceleration program. Under TAP, We are investing to build advanced digital capabilities in line with the goal of achieving 50% of our revenues in 2025.

Under the TAP initiative, Now we have 250 engineers, getting trained across multiple design centers we have in India which is Mumbai, Pune, Chennai, Bangalore and Hyderabad. And this training will be approximately 4 6 to 9 months post that where they will start working on the various projects in these top 25 clients. These business building investments of the 2 initiatives is approximately budgeted at Rs 25 crores per annum, which will propel future growth and an improved business mix while impacting reported EBITDA margins in the short term.

I'm also happy to share that we've WON a large multiyear deal from one of the global automotive companies in the digital space which will reflect in our results in the coming quarter.

Lastly, I'm also happy to announce that we have awarded engineering partner of the year by Intech Awards 2022 in Delhi. Overall, as a summary, I believe our Q1 was a great quarter as a follow up to our last financial year and on our journey to beat the record of the growth record of the previous financial year. Now I hand over the call to our CFO Mr. Dev to give you the financial insights. Over to you, Dev.

Devanand Ramandasani: Thank you Jigar and good afternoon everyone. Let me take you through the first quarter financial 23 performance of our company on the consolidated basis. The operating income of Q1 FY23 is 93.7 crore which is as Jigar has mentioned that we grew year on year basis by 35%, which is one of the highest growth ever. Growth in revenue, is mainly driven by increasing wallet share from the existing strategic client in the industrial and equipment heavy machinery the domain as well as in transportation mobility vertical. The EBITDA reported was 2.9 Crore and the net profit after tax reported is 1.2 Crore. In the landmark decision, one of the landmark decision income tax authorities awarded a refund of INR 51.7 million to the company which is recorded during the quarter, which is case belongs to the financial year 2007-08 and our company has received the amount along with the interest. Our reported EBITDA and PAT in Q1 was lower due to the heavy investment in the manpower and the capabilities as big as mentioned in above. The key initiatives were hiring, training and upskilling of the graduate training program, which is called the TAP from the available talent pool to cater the future demand. Direct costs belongs to the TAP program, which is 2.4 Crore, which is recorded in the quarter one the company has added net addition of 197 employees during the quarter and which is majorities are belong renewable resources. Taking to the total headcount is 2838. We are also setting up the infrastructure for the new digital Center of Excellence in Navi Mumbai, which will be operation in Q2 of FY23. With this we can now open for the floor for the questions and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Parthiv from NVS brokerage. Please go ahead.

Parthiv: My first primary question, is on the employee cost so as you also said, that your employee expense has actually shooted in the quarter, and I believe you receive some benefits from the US. Actually, at the time of Covid if I'm not mistaken, so will this be the new normal for when as far as the employee cost is concerned. Especially, when we start comparing other percentage of the topline. That is my first question. The second is, can you just give a brief break up on the revenue coming from different geographies and across the client segments, so that would be really helpful to me Sir.

Jigar Mehta: To answer your first question regarding employee expense, yes, that's correct. This will be the new normal in terms of the fully loaded cost. For our entire team today, which is the sales team, delivery team and of course the new TAP initiatives where we are on boarding a large number of freshers. They are also all on full salary in the company. Of your second question. So we are present in three industry verticals. So the 1st is industrial equipment and heavy machinery, second is transportation and mobility and 3rd is Healthcare. So the revenues from industrial equipment is 45% of the consolidated revenue. The transportation is 38% and Healthcare is now at approximately 6%, so we still have approximately 11% revenue, which comes from the other category which will continuously be coming down.

Parthiv: OK, and so just wanted to understand now with this 93-94 crores of your top line. Will this be growing at the same or accelerated pace for the rest part of the year like for FY23?

Jigar Mehta: Yes, we see a very good visibility and traction from all the top 25 clients and a very active prospect base. In terms of the opportunity in front of us, now it's all about execution and building up the delivery capacity across multiple cities and locations where our clients are based.

Parthiv: All right and the benefits for the employee from the US has been done right. We are not receiving any benefits from the USA apart for employee expenses.

Jigar Mehta: Correct.

Parthiv: OK, perfect

Moderator: Thank you, the next question is from the line of VP Rajesh from Bannon Capital Advisors LLP. Please go ahead.

VP Rajesh: Just on the EBITDA margin, do you think this is sort of the bottom in terms of EBITDA margin, or do you foresee it going down further during this year?

Jigar Mehta: We look at the Business today different, this financial year compared to last year. So what we are seeing last year was where we set the foundation, where we are coming back to work and rebuilding relationships with all of our clients. Post work from home and Covid times. Now what we are seeing is a much bigger opportunity from our clients as we have built much more level of trust and credibility with them. Now in these clients in engineering, as you already know, the order book position is not something which is a multiyear like IT services contract but on the digital side we are seeing much larger contracts and we have started winning those and to service them we are investing proactively behind these customer contracts or customer engagements. So from EBITDA perspective, from operating margin perspective, we continue to maintain the same as last year and get better because we are transitioning more & more from mechanical to digital. But our investments, especially in the seven international offices is the largest investment as we built fully functional and efficient offices. We see a massive opportunity in front of us in terms of to scale up our revenue from existing clients.

VP Rajesh: Ok and then this 250 engineers which are part of your TAP program. What would have been the cost of them in this quarter?

Devanand Ramandasani: Mr. Rajesh, this quarter there is a direct cost and indirect costs, so direct cost is 2.4 Crore which has been charged to the P&L of this part.

VP Rajesh: OK, and these folks will start becoming a deployable from let's say December quarter onwards. Is that right Jigar that's the way to understand this?

Jigar Mehta: yes, we would see this in terms of billing perspective it will start from this quarter for some of the batches that started in November because of nine month cycle. So we are already seeing that traction. Several of them are starting at various client projects already, but they will constantly get refilled with more and more batches as we keep making progress towards building much bigger capacity for our clients.

VP Rajesh: OK, so I guess what I was trying to understand is will this increase further or this kind of load is something we will carry on our P&L because obviously there's no commensurate revenue against this cost.

Jigar Mehta: So currently because we're starting off from Ground Zero, yes, the cost will continue because we want to build up the entire base. It will be in batches of 250 engineers. Once they get fully productive, we will hire the next batch and so on.

VP Rajesh: But because see the way and correct me if I'm wrong. What I see is that by December this whole batch will be deployed and they will start generating revenue from the December quarter on a fully ramped up basis so the next batch which is coming in the cost will be there. But then there will be at least one revenue from the previous batch that will be coming in. So in that sense your EBITDA margin should expand and that's what I was trying to just make sure I'm thinking about it the right way.

Jigar Mehta: Yes, correct.

VP Rajesh: OK and the people that you so if you separate this 25 covers into your task program and the sales teams that you have hired in overseas offices, obviously those are more expensive folks, which is what we can decipher from the number they've just gave us, so how do we think about that is it I mean that cost will obviously remain there, but what we should see is continued revenue growth of let say 7% or even higher quarter on quarter is that what will be the result of that investment that we have made, and what is the guidance therefore, for the quarter on quarter revenue?

Jigar Mehta: So absolutely. So let me let me simplify it a bit more so we have 25 large clients today that serving with generates 73% of our revenues, and that's the number that we are growing . Let's say we would need 25 account managers, 25 delivery managers, and 25 from all the support functions that go with it, we have that very well covered from an India BU perspective. Now, we are hiring and investing in similar teams outside India. These companies are some of the largest manufacturing companies in transportation, mobility, industrial equipment in the world, and they are spread across the world. Which gives a much bigger visibility in terms of growth and opportunity. So we're putting the foundation and the building blocks towards the future there.

VP Rajesh: Right, so the question is then this kind of 7% quarter on quarter growth, do you think we can sustain it this year? That's what I was trying to access again.

Jigar Mehta: So we are seeing a very good visibility. For this at least for the next few quarters.

VP Rajesh: OK and then anything on the M&A side because I know to get to your $100 million target by section 25. There has to be an inorganic piece to that growth. So if you can comment on as to what you're seeing on the MMA side, have the valuations come down and are there some things which are closer to getting done etc. So please comment on that.

Jigar Mehta: So since our last earning call our focus on the M&A side has slowed down a bit since travel globally opened up and our opportunity size has just scaled up much, much in a very big way. We are open. We continue to have a lot of inbound enquiries, and we're always open in terms of the right acquisition for us, which will help us scale much faster in these 25 clients or in a similar industry vertical that we are present in today.

VP Rajesh: Understood and they've won a housekeeping question on the tax side. So after this refund, how much more refund are we expecting on the tax bill?

Devanand Ramandasani: We have about 14 crore yet to be receivable from the department and is the various years and various authorities. So in total is 14 crore yet to be received.

Moderator: The next question is from the line of Mr. Pratap Maliwal from Mount Infra Financial Private Limited, please go ahead.

Pratap Maliwal: As I was saying that we have a goal to reach about 20 customers with a 1,000,000 plus run rate and about I think a few quarters with a Q2 of FY22. We had 11, and now we've gained back to 13. So now with some of the challenging macros coming and do we see a slowdown yet? Can we actually send this to 20 and what could be the possible timeline of this scale up to 20 customers?

Jigar Mehta: So 11 for us has become 13. And we have a visibility to get to 18-20 by end of this financial year. And we continue to see that.

Pratap Maliwal: OK, so we're not seeing any signs of a slowdown, or maybe clients delaying certain projects or revenues. Maybe getting pushed out into further quarter with coming slowdown in the talk of recession and everything.

Jigar Mehta: We have not seen that so far.

Pratap Maliwal: Please correct me if I'm wrong, but I believe in our investor presentation we don't have the exact breakup of the client concentration and the geographic concentration. While we do have a basic idea, but if our exposure and our revenue inflows from North America, Europe and India. That's because the exact break up I believe is not available. So could you please provide that?

Devanand Ramandasani: So in consolidated basis, revenue contribution by Indian entity is 51% and 49% is contributed from the outside India where the US is the one of the major contributor which contributes 36%.

Pratap Maliwal: OK, now coming to our hiring trends. We have again hired a good number of employees with quarters so would be hiring trends. Continue there, any guidance on this? Just trying to get an understanding of how the cost structure could maybe change going forward.

Jigar Mehta: Yes, absolutely. In terms of hiring, we are trying to accelerate the hiring and please keep in mind this is net hiring that we are onboarding. So we continue to hire a lot of people as we speak across all 14 locations where we have offices today.

Pratap Maliwal: Thank you. That's helpful and just have one last question from my side while you have the number on the 1 million plus clients, are we disclosing the number on the 3 million plus or the 5 million plus terms that we may have right now 3 million?

Jigar Mehta: Not yet. We will as soon as we have more strength in that direction.

Moderator: Thank you. The next question is from the line of Krish Kothari from Shinobi Capital. Please go ahead.

Krish Kothari: So a lot of your growth seems to be coming from your transportation vertical. I was just wondering if you could talk about what exactly is working for you in that vertical. What maybe some specific investments that you've made that are paying off and any sort of lessons that you've learned from this Covid.

Jigar Mehta: So if you look at the numbers for the last quarter and the visibility that we have, it is across the board, across all the three verticals. On the transportation vertical is where we signed several OEMs during Covid times over last 2 years, we are seeing a huge ramp up across our clients right now. And all of these contracts are predominantly on the digital services side of the business and some are on the embedded side. The challenge for us has been the capacity where if we had a capacity of 500 more people, engineers readily trained on various cloud, data science, data analytics skills. We would have seen much bigger growth as well and that's what we have been investing in right now. In terms of our industrial clients this is the legacy business. We did lot of mechanical engineering business where we are seeing a steady growth too.

Krish Kothari: OK, got it. I think you sort of discuss this, but in Q1. How many of your engineer employees actually generated revenue? Do you have any specific number on that?

Devanand Ramandasani: So our billable headcounts put together out of 2,838 is a 2,478 and balances the G&A and non-billable staff which includes the talent acceleration graduates which are undergoing training.

Krish Kothari: And also just on this employee aspect, obviously there's a lot of sort of new employees coming. When you sign up these employees are you taking any steps to sort of ensure longer term retention? For instance, do you have non-compete clauses or anything like that?

Jigar Mehta: So for the three types of contracts that we have in the organization, so one which is employment at will, which I believe, cut across all our offices and that's the culture that we like to follow for employees irrespective whether they are fresher's or lateral hires where we are investing substantial time for training & certifications. Second, We have a two way service agreement with employees which is anywhere from 18 months to three years. And 3rd is for senior hire contract which is performance based.

Krish Kothari: So one question on the legacy business. Do you have a complete specific timeline in terms of when you exit that completely? Or is it the sort of moving target and you're just trying to do it as fast as you can.

Jigar Mehta: So exactly opposite like I shared earlier in the earnings calls we are not trying to exit any contract. What we are doing is the contracts which we wanted to exit, have all closed nine months ago. so now there are other contracts in the legacy business in India when they come for a natural end is when we are opting out from renewal and we're taking those engineers and adding them in our TAP initiative.

Krish Kothari: OK, understood and so once to the extent possible, sort of existed their legacy business. How many active clients do you anticipate you will have with anything that I mean, of course a ballpark number, but will it be dramatically lower than it is right now?

Jigar Mehta: Yes, that's a great point, so if you see our number of active clients about, I think 2 or 2 1/2 years ago we were at 200 plus now we've come below 100 and continuously you will see the number come down in the next few quarters. It's not necessary just because of the legacy business. It's also because the focus that of working with the largest OEM in the world. There doesn't give us the bandwidth to actually go after new there's so much to be done with these companies. At least then it will be for the next few years.

Moderator: Thank you. The next question is from the line of Sanjay Sao from RIPL. Please go ahead.

Sanjay Sao: Yeah, all of my questions were answered so I'm nothing up with.

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

VP Rajesh: One question is regarding the customers where we are getting 1 million plus of revenues come so in how many of such clients have we become strategic partner where we have exposure to all the RFP's coming out of them?

Jigar Mehta: That number is approximately 25 a bit higher than 25.

VP Rajesh: So you're saying among top 25 you are strategic partner in all of them. It's just that in half of them the revenue has ended to a million plus.

Jigar Mehta: Yes, so I don't use the word strategic partner I'm just saying we are a registered supplier to some of the largest companies in the world. Where now we have access to all the RFP's in the areas where Onward Technologies has in-house capabilities, so some could be for digital some could be for cloud, some could be for embedded electronics and some could be for product engineering.. And then once you're servicing this client and you do a good job then you get an opportunity to service other areas where the customer is looking for a new supplier. So it's all about mining, and that's where we are hiring the account managers and sales leaders outside India today across our seven international offices.

Moderator: Thank you. The next question is from the line of Chirag Pachadia from Ashika Institutional Equities, please go ahead.

Chirag Pachadia: I have a basic questions like what are the levels in place to increase our EBITDA margin going forward. And also your focus on the workforce and attrition control going forward.

Devanand Ramandasani: This EBITDA movement is because of the keep investing in the manpower because we are the service industries we have to invest in the people for the future ready demand on that. So as you know that in our initial beginning of the call we have initiated that there is a program of the 250 engineers we which are the non-billable and we are training them up killing them for the ready for future demand so that cost is direct cost is associated in this quarter 1 under this 2.4 here. Therefore the EBITDA has been down, but once the people will get trained and billable, then the EBITDA will be upside.

Chirag Pachadia: So we started the inflationary rise in the cost to passing on to the client by increasing the contract rate and all or as we still continuing with the older rates which we quoted earlier to the clients.

Jigar Mehta: Sorry I didn't understand the question. Can you please repeat?

Chirag Pachadia: So like what I have seen across this sector in last one quarter that due to increasing the traveling costs and all companies have started passing on the increase rate of cost to the customer in form of charging the higher rate for the cost or which they earlier used to do at older rate a year back or so, so do we have started negotiating with the clients, to attract with them before at a new higher rate or to maintain our margin profile other than employee cost per month.

Jigar Mehta: We don't have a similar challenge like some of the larger companies that you are mentioning about. Onward technologies is very new in the global market, especially post Covid we have refreshed entire strategy as we have communicated earlier. So for us all our travel cost, especially international travel cost is always borne by the customer, so somebody's flying to Germany or Europe or Canada. That's usually borne on actuals by the client. We don't charge the client anything on top of it.

Chirag Pachadia: OK, and about attrition here. Your comment on attrition like how we managing this.

Jigar Mehta: So attrition is again not a very big concern area for me, At Onward Tech our attrition for last 12 months was 33%. That's been the attrition for us, probably for the last 4-5-6 years. I'm assuming that's for most companies of our size. Our attrition is at LO L1 level.

Moderator: Thank you. The next question is from the line of Nishit Shah from Ambika Fincap, please go ahead.

Nishit Shah: I just have two questions. One is on the delusions during the quarter. If you can just elaborate it on the same.

Jigar Mehta: Sorry. Can you elaborate the question?

Nishit Shah: I was asking on the deal events during the quarter. If you can, just elaborate on the few key deal events during the quarter.

Jigar Mehta: Some of the most exciting deals that we have signed is one of the largest transportation mobility companies in the world is setting up a few 1000 center digital center in South of India and as part of their due diligence, they've selected Onward Technologies to help them ramp up the entire capacity and capability across cloud analytics, data science, etc. We have recently started building a very focused team around this win. At its peak, I think sometime mid of next year they will then become one of the fastest growing clients for us. We signed an extension of a contract with another large mobility company. There we have to build a large center for them that's for the same skills on the digital side. The billing for that project starts in August which is next month. We have signed a healthcare client in California. It's again a digital transformation deal. It was initially only onsite & now we have won our first offshore project with them. And the last is a we have signed a large contract for the industrial equipment customer in US which is one of the worlds largest mining equipment company where we are supporting them on mechanical engineering across North America, Canada and offshore in India. So when I said deal size group, these are all contracts which are anywhere from 50 to 250 engineers and long term, multiyear contracts.

Nishit Shah: I have another question on your Navi Mumbai digital COE. So how many seats will that be coming for and can you elaborate on your digital capabilities how are you building it against some of your peers because all your peers are also getting into digital. So how do you plan to compete with them?

Jigar Mehta: So the Navi Mumbai center is actually to support two of our existing client. One is a healthcare major headquartered on the East Coast of the US, where we have already won the contract two quarters ago. And the 2nd is for an automotive client, for exactly very similar skill sets, which is on DevOps and cloud where we are going build capabilities.

Just want to clarify again. We don't hire people, train them and then we look for projects for them right. Onward Technology is too young a company to focus on the bench business model. Our business model is one supported by a client contract or clear client requirement. What we are very good in and what we enjoy doing is hiring a large number of people at the top end of the spectrum. So a lot of SME / solution architects, delivery leaders, program managers. Once the client gets the confidence that we can attract & retain the best talent, they collaborate with us to put the architecture and entire team together. Once we win the project, we set-up the Centers for execution. Whether it's offshore or onsite.

Nishit Shah: So are you trying to say that in terms of capability, you would be at par with your peers in digital part.

Jigar Mehta: For a company of 300 crore size, yes, absolutely. A company which is a 10,000 crore , we are not at par.

Nishit Shah: I understand and lastly, on your margins incrementally X of TAP. Do you think this is our base and incremental? It should not grow at a much faster pace. X of TAP I'm saying.

Jigar Mehta: Sorry, can you elaborate the question on the margin?

Nishit Shah: OPEX and removing that TAP cost incrementally. Do you see the cost going up the way it has gone up in this quarter? Or do you see this as a base and it should not go up as much as it has gone in this quarter or something? In percentage terms.

Jigar Mehta: In terms of costs, these are just the start for us again. This year we will spend close to 25 crores in terms of building up the entire team as upfront investment for these 25 clients. That's one of the reasons if you remember why we raised equity last year from private equity firm Convergent. So the objective is to scale now with travel opening up and all our global offices in place. So let me give you an example. Next month on September 1st we have our largest office in London right next to Heathrow, So two of our executive vice presidents from India, are relocating to London. We are on boarding 7 salespeople or account managers there as we speak. These are techno commercial leads so these are on digital, embedded and mechanical and they will play the role of account management and majority of their time would go going to supporting these 25 clients with UK and Europe presence. So this would be a massive investment from our side upfront starting September 1st and this will be the largest office of Onward Tech outside India from a client relationship perspective. Similar like this, we set-up a subsidiary in Netherlands last year. We have a very senior person joining us in couple of weeks in Amsterdam to lead our entire foray into the Netherlands and the Nordic markets. So he again comes from the tier one company and around him our goal is to build the entire execution and shared services team. Which can service clients in the respective Nordic country market. Our Frankfurt office, which was supported from Pune traditionally, for the last several years. Now we have front end team, their which is again focusing on building much deeper relationships. So where we have small mechanical engineering contracts is to transform them into digital services contracts. And the same applies in a Cleveland and Chicago and Toronto. So I'm just giving you a perspective. So I think it's only a starting point the opportunity again, as I say, is so high for us. And so it's about just once we build up the base and that becomes the norm in terms of the flat cost that you're talking about.

Moderator: The next question is from the line of Sriram Rajan, an individual investor. Please go ahead.

Sriram Rajan: I think most of the questions have been answered just a few of them from my side, so maybe this is the CFO. See the EBITDA is about 3 crores for this quarter, and if you layer it with the 2.4 of the expenses that come in through the TAP program so it comes to about 5.4 of EBITDA which is still less than the 6.3 of last quarter when you look at sequentially, is there something further to the cost. Despite of a top line increase of seven crores.

Devanand Ramandasani: This is one of the significant costs which we highlighted. Apart from that there are certain costs which has been increasing for example. A non-direct costs indirect costs related to the train people. Plus last quarter we open up the two large center in the Chennai which we acquired 26,000 square feet office and in Bangalore office which we expanded from small office to the bigger office. The cost of operation in this quarter is the full cost has been loaded where it said in previous immediate previous quarter was the only one month cost. So therefore the impact of that the balance amount is there.

Sriram Rajan: Fine, fine, that's very clear. Of course we are investing ahead and the revenue will follow suit. That's how it works in this industry. But this three percent ever to can we take that as the floor and on the other expenses and it may even go down? Short term not a long time. Long time should be far better.

Jigar Mehta: So I'll try to answer your question a bit differently again, so for us we have focused on these 25 clients and how to grow the business when I commit. To what we do as an organization is we have very strong financial discipline, so we maintain the operating margin and then all the surplus is what we're investing back in the business every quarter. So instead of hiring 100 sales people outside India and quarter, we are balancing number hiring 5 to 10 a quarter right now and building up the base. so our operating margin is not getting compromised. At some point in time, the first goal is to get to 100 million terms of revenue. We need to earn the trust of our clients that we have the execution skills to build up capability and capacity in India and overseas. Where they are headquartered so Onward tech today is just putting the foundation for that in terms of investments. We are seeing an amazing opportunity to scale, we are seeing the requirements and it is more about how do we execute in the best way possible.

Sriram Rajan: So just two questions are associated with the same topic, so the TAP program, so there's a batch that's come in, so we expect to have another tab subsequently, or maybe towards the end of the year as somebody was referring to earlier, another 250 coming in some subsequently or it's there's about it.

Jigar Mehta: So 250 number just to clarify again, it's just a pilot project and the pilot project the way we have done it is we've spread them across five locations or five centers in India on various domains, technologies and for against various client requirements. So it's we look at it. Pilot project what we see with these kind of customers that we are serving I mean the opportunity is as good as Infinity. Because we're talking about a global perspective and a multibillion dollar company, which today is only serviced by MNC's or by tier one companies. So the opportunity is very huge. Our personal vision in Onward technologies at some point in time we have a 2000 people Academy with many talented people who are trained on the latest technologies so we can support the client requirements. So today, for example, when the client comes to us for. XYZ skills, uh or for a project on big RFP. Most RFPs, we are not able to support. So if you learn about conversation last quarter, we had an RFP where a customer or looking at adding 5000 embedded engineers. Right, so we had no choice but withdraw from bidding. Because if we want the deal which we are quite optimistic about, we would not have 5000 engineers inhouse to deploy in one year. So that's about a scale which we're talking about in terms of the opportunity out there in the market. Our Management team has to decide where we should focus our energies on where we should invest where most importantly, we can actually deliver as well. Because one bad example of failed delivery and the whole engine stops working.

Sriram Rajan: So the 250 results. Quickly get into the top 15 clients anyway, so as we start placing the training they get ingested. This kind of Noto pipeline just keep going into one of those projects. I think that's the problem we're trying to solve for creating the capacity for those of 25 customers.

Jigar Mehta: Correct, in addition to the lateral hires that we already doing, yes.

Sriram Rajan: That you clarified all these. Solution architects and all those. Yeah, so this is so this year for my last question I'll I think I'll keep quiet after this. I haven't seen the financials. I just read through the investor presentation before coming into the call. I'm actually traveling somewhere on business, even after this 5.17 crores of income tax refund that we've got if the PAT still, that 1.2 crores, if it this 5.1 crores did not come would have be negative or something like that.

Jigar Mehta: Yeah, this interest income of which is part of the other income which has been done. In the part of the 2.1.

Sriram Rajan: I think last question so there's so much talk about recession everywhere. I didn't see any of the earlier questions coming on that it looks like we are bullish. We're seeing far more demand, perhaps because the big guys will see that as a recession we kind of nimble entering into this space now, but is there any impact, especially the auto industry and all those heavy equipment's are facing severe recession. From their end customer side. So that's a question I have do you see a challenge there?

Jigar Mehta: We are not seeing that as of today as we speak. You're actually seeing demand for our services has gone up in the last 90 days as compared to in entire previous financial year.

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

VP Rajesh: Two quick questions. You mentioned a couple of times that you have an internal operating margin figure and the rest is getting redeployed. So could you share that what that Margin is?

Jigar Mehta: Sorry, elaborate the question. You were breaking in between.

VP Rajesh: OK, what I was asking is that a couple of times he said there is an internal operating margin member that you are tracking. And then anything exists in excess of that you are reinvesting in the business. So what I was the question is and what is that internal operating margin number is it more double digits or if you can just share that number with us.

Devanand Ramandasani: We are tracking the different level of margin decreases. For example, the gross margin level, it depends upon the ideal client size and the territory engagement model on site, offshore or the hybrid model on that each are the Different part average margin which we are tracking in this is ranging between 30% to 35% on the gross margin level. However, S&M costs and the G&A cost needs to be loaded over on that to declare EBITDA and PBT as well.

VP Rajesh: OK, that's helpful and the second question is that our T&M revenue was significantly higher in this quarter. So is that one off or do you see more projects of that nature? And what is the associated margin with that is it higher or lower than the fixed price?

Jigar Mehta: Sorry you were breaking up. Did you say T&M?

VP Rajesh: Yes, T&M revenues were higher. They were actually 82% of your total revenue this quarter, which was generally around 74%-75% in the previous years.

Jigar Mehta: So as I communicated earlier, T&M is our preferred business model and we see that number increasing the on the annual basis.

VP Rajesh: OK, and how is the margin in compared to fixed price. So that's for that type of business.

Jigar Mehta: So let me let me simplify again so we have our T&M business, which is about 82% and we have a fixed price projects which is about 18% majority of our revenue from our top 25 clients comes from T&M. so and as we get more and more maturity in these relationships over $1 million with somebody, with a very large industrial equipment companies are very insignificant outsourcing budget from a customer's perspective. As you're aware so for us, it's all about moving up the value chain, perhaps putting few years, then building the credibility and the trust, and that should be get Opportunity to start building for large fixed price projects. And those projects have high margin.

Moderator: Thank you, the next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah: I just want a clarification. What is the interest amount did we get on the income tax refund?

Jigar Mehta: Are you talking about the interest income in other income which is clubbed together?

Nishit Shah: Yeah, I'll just be. On the tax refund I'm talking about.

Jigar Mehta: Yes, if you're referring to the other income, the interest income part of the other income has been belongs to the interest on IT refund and so small amount on the bank deposit.

Nishit Shah: But can you quantify it?

Jigar Mehta: Yeah, fine 1.7 Crore is belongs to IT interest and well.

Moderator: Thank you. As there are no further questions, I now have the conference over to Mr. Jigar Mehta, Managing Director of Onward Technologies Limited for closing comments.

Jigar Mehta: Thank you all for participating in this earnings call. Q1 was an exciting quarter for us and we are quite positive about rest of the year, I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations manager at Valorem Advisors. Thank you. Stay safe and look forward to being in touch. Thank you.

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