

November 15, 2023

<p>To, <b>BSE Limited</b> Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001. <b>BSE Scrip Code: 543932</b></p>	<p>To, <b>The National Stock Exchange of India Limited</b> “Exchange Plaza”, Bandra – Kurla Complex, Bandra (EAST), Mumbai – 400 051 <b>NSE SYMBOL: IDEAFORGE</b></p>
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**Sub: Transcript of Earnings Call for the quarter and half year ended September 30, 2023.**

Dear Sir/Ma’am,

This is further to our letter dated November 09, 2023, whereby the Company had submitted the link to the audio recording of the Earnings Call hosted by the Company on Wednesday, November 08, 2023 at 11.00 a.m. (IST) post announcement of Unaudited Financial Results (Standalone & Consolidated) for the quarter and half year ended September 30, 2023.

Pursuant to the Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the transcript of the Earnings call held on Wednesday, November 08, 2023. The Transcript is also available on Company’s website at below link:

<https://ideaforgetech.com/investor-relations/transcript-of-earnings-calls>

Kindly take the same on your records.

Thanking you,

Yours faithfully

**For ideaForge Technology Limited**

**Sonam Gupta**  
**Company Secretary**  
**Membership No. A53881**

ideaForge Technology Limited.

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# “ideaForge Technology Limited Q2 FY '24 Earnings Conference Call”

**November 08, 2023**



**MANAGEMENT: MR. ANKIT MEHTA – CHIEF EXECUTIVE OFFICER –  
IDEAFORGE TECHNOLOGY LIMITED  
MR. VIPUL JOSHI – CHIEF FINANCIAL OFFICER –  
IDEAFORGE TECHNOLOGY LIMITED**

**MODERATOR: MR. AMAY YARDI – ORIENT CAPITAL**



*ideaForge Technology Limited*  
*November 08, 2023*

**Moderator:** Ladies and gentlemen, good day and welcome to ideaForge Technology Limited Q2 FY '24 Earnings Conference Call hosted by Orient Capital.

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 the 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 Mr. Amay Yardi from Orient Capital. Thank you and over to you, sir.

**Amay Yardi:** Thank you, Yousef, and good morning, everyone.

On behalf of ideaForge Limited, I extend a very warm welcome to all the participants on Q2 and H1 FY '24 Earnings Conference Call.

To discuss this quarter's business performance, we have from the management Mr. Ankit Mehta, Chief Executive Officer, and Mr. Vipul Joshi, Chief Financial Officer.

I hope everyone had an opportunity to go through our investor deck and press release that we have uploaded on the exchanges and on the Company's website.

I would like to mention that this call will contain some of the forward-looking statements, which are completely based upon our beliefs, opinions, and expectations as of today. These statements are not a guarantee of future performance and involve unforeseen risks and uncertainties.

With that, I would like to hand over the call to Mr. Ankit Mehta for his opening remarks. Over to you, sir.

**Ankit Mehta:** Thanks a lot. Good morning, everyone, and a warm welcome to all the participants. Thank you for joining us today to discuss the Q2 FY '24 results of ideaForge Technology Limited.

Let me first take this opportunity to wish everyone season's greetings and in advance a very Happy and Safe Diwali.

On this call, like it was mentioned, I have my colleague Vipul Joshi, who is our CFO, and Orient Capital, our Investor Relationship partner. And as mentioned, I hope everyone has had an opportunity to go through the investor deck and the press release that we have uploaded on the exchanges and Company's website.

We wanted to start today from where we left during our last earnings call, wherein our efforts on technology products and diversification with respect to business models and geographies



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holistically combined with our financial results can help build an appropriate view of our performance progressively.

Therefore, we would like to start by sharing updates on how we are tracking on our strategy. One of the areas of identified growth opportunities was to increase our addressable market by leveraging our drones for more applications they can be utilized for.

In order to enable the same, we have started to work with third-party payload integrators who are keen on building products for our drones so as to leverage the promise of greater performance, reliability, and autonomy of ideaForge's drone stack.

We are working with established large players and young startups alike to collectively unlock billions of dollars of long-term market opportunity, while solving some of our customers' long-standing demands from our systems such as foliage penetration. It is something that I remember being one of the first asks that we received from our homeland security and defense customers long back.

Successful proof of concept deployments that we have done on drone as a service opportunities are now progressing towards early commercial contracts validating our hypothesis and unlocking a new dimension to our business. Our efforts in exploring North American geography have started to receive the necessary shot in the arm, both from having done successful demonstrations of our products there, as well as receiving these COMET approvals to stock and sell products from our U.S. subsidiary.

At ideaForge, we are always looking to help drive greater utilization of our drones by our customers, and therefore, we introduced industry's first service center on wheels to reduce downtime, if any, in the hands of our customers. Our efforts to serve our customers better, faster, and safer are also reflected in our efforts to optimize our shop floor for smoother operations and increasing fructification of our efforts on indigenization of our subsystems.

On the product development front, continuous improvements on our existing product categories are helping us progress towards making our solutions more effective in varied user geographies and terrains. We are particularly excited about our upcoming quadcopter drone that will feature an intelligence module that we have developed in collaboration with Qualcomm. This module will unlock our ability to deliver features such as GPS-denied navigation, AI and image processing capabilities on board.

Further, as we are building towards setting up the necessary team and facilities for our middle-mile logistics and tactical drone solutions programs, we are also able to validate the market requirements and the segments we need to focus on in these categories, which is very important to build a differentiated outlook for these opportunities and the market presence that we will have here.



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We are all rapidly moving towards a regime where drones are increasingly going to be part of a larger connected ecosystem at the customer end. At ideaForge, we are building the elements necessary to unlock the service and integration layers in our drone stack, welcoming an era of even greater collaboration and mutual success.

As we had indicated earlier, the nature and nascent stage of the sunrise drone sector needs to be accounted for when evaluating performance. As we delve into the financial results for this period, it is important to emphasize that our revenue stream is intricately tied to order execution and depends on the details of our order book pipeline.

Our business model often involves tender processes with government entities. The execution timelines have inherent characteristics, which are different from other industries and extend beyond our direct control. Also, our revenue and profitability in a particular period depends on the product mix that we have delivered during that period.

This distinctive structure inherently lends itself to occasional lumpiness in our financial performance. We plan to grow meaningfully in the present financial year. However, the traditional way of quarter-on-quarter or year-on-year comparison is inadequate to provide a holistic view of our performance.

Our business distinguishes itself in being an intellectual property-led, vertically integrated business in our industry vis-à-vis many businesses operating under transfer of technology or built to print models. Our focus remains steadfast on our long-term objectives and sustainable growth, which is underpinned by the strategic execution of our plans.

The previous quarter marked a building phase for our business, both in terms of the highlighted progress on our strategies earlier, and also in terms of revenue recognition. As is evidenced by all our efforts, our focus remains on building an edge in a rapidly moving industry and ever evolving technological landscape through continuous innovation and going a mile further to exceed customer expectations.

I will now discuss our financial performance. The consolidated revenue from operations for the current quarter stood at INR 23.7 crores, a decrease of 41% on a year-on-year basis. This variability is in line with our experience in the past given the lumpy nature of the business.

The gross margin for the quarter was 10 crores at 42.1% of the revenue. This change in gross margin is due to the change in the product mix that was delivered during this period. EBITDA for the quarter was INR 7 crores at 29.7% versus INR 9.8 crores from last year. PAT stood at 0.9 crores with a PAT margin of 3.8%.

For H1 '24, the revenue from operations were at INR 120.8 crores, decreasing 13.4% on a year-on-year basis. EBITDA was 39.1 crores at 32.4%, and PAT was INR 19.8 crores at 16.4% margin.

We received fresh orders worth 169 crores in the quarter which resulted in a net increase of 150 crores in the order book, which now stands at 253 crores as on 30th September '23.

We also witnessed an increase in revenue contribution from the civil business in this quarter. For the quarter, the civil to defense ratio was 31% is to 69%, and for H1 it was 9% is to 91% for defense.

While our ongoing efforts in R&D operations and sales don't get reflected immediately in the quarterly financial performance, we are confident about fructification of these efforts in the coming quarters, and we are well on track for our annual revenue target.

With this, I conclude my remarks, and request the moderator to open the floor for questions and answers.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. First question is from the line of Renu Baid from IIFL Securities. Please proceed.

**Renu Baid:** My first question is, you did mention of getting approvals from the North American market. By when can we expect this to convert into orders and revenue opportunity? And if revenues are expected, what kind of revenues can we expect from this region in FY '25-'26?

**Ankit Mehta:** So, Renu, thanks for the question. I think it is just the end of last quarter that we received these approvals and because of that we are currently in the process of shipping the systems there. However, in terms of our ability to demonstrate, I am quite excited to report that we have had a few successful demonstrations over there. We are continuously tracking and looking at opportunities to do demonstrations in front of our end customers there.

My expectation in FY '25 and '26 is to have the international business overall contribute meaningfully to the overall revenue. While I can't project a specific percentage right now, we do expect it to show up on the books and be meaningful in that time frame. However, in this financial year, we should expect marginal movement there given that we have just started to enable the process of building the opportunities over there.

**Renu Baid:** Right. Not looking out in terms of specific percentage mix, but in absolute numbers or value terms, could this be a 50 crore or a 100-crore market over two-year, four-year time frame, given that the size of the U.S. UAV market is much larger than what we have for the Indian domestic market?

**Ankit Mehta:** Absolutely. So the market opportunity, if you look at the North American geography, particularly, given that the fact that they have a lot of resistance presently towards the traditional markets from which a lot of the products that are deployed there are being phased out actually, progressively, we do expect a meaningful contribution from those geographies definitely in the two-to-four-year time frame in the direction that you have indicated.

**Renu Baid:** Secondly, if you look at your revenue numbers for the first half have been about 120 crores. What are we guiding in terms of fiscal '24 revenues overall? Which implied in second half, given that orders are very lumpy in terms of execution, so in your view, what could be the expected revenues that can be expected in second half? And what percentage of the order book, current order book of 250 crores will be burning out in the next second half of the year?

**Ankit Mehta:** Renu, while I am not able to give very specific guidance in terms of what's happening in second half, but like I mentioned, we were in the build phase for delivering on many of our contracts at this phase in the previous quarter. And in terms of growth, we do expect to meaningfully grow this year from our previous performance. However, the exact numbers I am unable to share at this point in time.

**Renu Baid:** And can you share with us, I know there would be some last-minute changes in terms of customer delays etc. But can you share what is a broad order inflow pipeline that we have today in terms of bidding stage over the next two to three quarters which will go towards building up the backlog that we have?

**Ankit Mehta:** So, Renu, we always track a very large pipeline in terms of opportunities at ideaForge's end. However, to particularly predict what will convert into opportunities is something that we find to be a very early stage for the business to do that. We will perhaps be able to guide on that sometime in the future, but presently you can rest assured that we have a fairly sizable opportunity pipeline that we track internally and very active as well.

**Renu Baid:** Lastly, can you share some updates on the MAKE two program and the kind of spend that we are doing on R&D? What was the spend in the first half? And overall, what is the spend expected in second half?

**Vipul Joshi:** So, Renu, Vipul here. Thank you for the question. 20 crores, 22 crores worth of total expenditures on R&D got added in H1, and as we speak our continuous deployment from the fundraise that we are doing from the development piece is going to continue in the second half as well. We, as Ankit highlighted in his call as well that our overall efforts on the middle mile as well as our tactical continue to effort. We are trying to build our teams there. And in the H2 also, the same would continue, and we are expecting that the similar growth on the development would be there.

**Ankit Mehta:** Also, I wanted to indicate, Renu, that we have added about 20% additional R&D staff over the last quarter. So, that's again something which has started to show up in terms of increasing our impetus in building these platforms.

**Renu Baid:** So, broadly we expecting the prototype for the base designs to be ready by somewhere mid of next year?



- Ankit Mehta:** Yes, absolutely, and we already have built a few early concepts etc. So, that progress is very much on track and quite aggressive as well.
- Moderator:** Thank you. Next question is from the line of Bala Murali Krishna Jonnalagad from Oman Investment Advisors. Please go ahead.
- Bala Murali Krishna J.:** Regarding the margins, what could be the sustainable margins we can look at because the margins are varying from anywhere between 30 to 50 over the quarters of the last four quarters? So, what kind of margins we can expect on consol yearly basis?
- Ankit Mehta:** So, from the perspective of margins, we will have to specifically track the fact that many of these opportunities were concluded much earlier and depending on the competitive environment, the bidding in order to make sure that we win is always competitive when we look at these opportunities. We do expect the margins to be more in line and better than what we had in Q1 over the years period. However the exact numbers is something which we will be able to determine once the deliveries are built and done.
- Bala Murali Krishna J.:** At least you could help us to have some approximate number, because you already tendered. At that time, you would have calculated everything.
- Ankit Mehta:** Right. So, based on deliveries, right, so depending on what gets delivered finally, lot of this is determined, and that's the reason why I am suggesting and indicating that we will more be in line with our Q1 numbers around the margins, gross margin particularly, but in terms of exact percentage or range it will mostly hover around that.
- Bala Murali Krishna J.:** And regarding the order book, so what would the timeline to execute this entire order book?
- Ankit Mehta:** Typically, the orders we receive in particular the current set of opportunities that we have bagged, the overall execution period is about a year's time from the date we received the order, and there are many milestones in between as well. Depending on the particular order, the milestones can be divided into very large number of small deliveries or in some cases, it is sizable and chunky deliveries in one go. So, that's the reason why we see the lumpiness in the actual revenue recognition at our end.
- Bala Murali Krishna J.:** And regarding this production of drones, so we are producing everything in house, or we are outsourcing some production to vendors? And in future if there is a pent-up demand, then what would be our strategy? We can do in house, or we will go with the outsourcing the production?
- Vipul Joshi:** From our current order book perspective, we are largely covered to produce in-house. In any case, there are job works and all that we do utilize vendors for, but all the assemblies happen in-house. Our current single shift capacity is fairly comfortably covering our current order book and the hindsight demands and all that we have been receiving, but if in case the future demands



scale, we have in the similar facility to scale to different sort of timelines that we can add with increase in number of shifts.

**Moderator:** Thank you. Next question is from the line of Ashish Shah from JM Financial. Please go ahead.

**Ashish Shah:** Just a preliminary sort of a question on how we go about booking the revenue. So, it would be linked to the dispatches, right? It would be linked to the product offtake by the client and till that time, the products would sit in the inventory.

**Vipul Joshi:** Yes, Ashish.

**Ashish Shah:** So, in that sense to that extent, the third quarter revenue booking may also be contingent in terms of how much pickup we expect from the client. So, any idea we have of how they want to pick up the incremental orders which we have got? In what kind of a schedule that pickup is likely to happen?

**Ankit Mehta:** So, Ashish, there is one, a contractual obligation. And second is many times the customer, we have largely seen a desire to induct them early rather than later. So, we are definitely trying to be aggressive on those timelines, at least with respect to the contractual obligations.

**Vipul Joshi:** So, Ashish, just to add here on Ankit's point, here, it's not the dependency of the when the customer wants to pick. it is our readiness and when the inspection phase starts. Conclusion of that is when the deliveries happen. So, it isn't really dependent on whether the customer would like to pick it up or not. It is about us finishing the completion of the order and getting it into inspection for final deliveries.

**Ankit Mehta:** So, the size of the batch matters a lot, Ashish. So, you have to deliver in lots. So, we have to build the lots first, and then invite the customer for inspection and then deliver. So, basically, we have to invest a lot of time in building the inventory initially before we can invite them for inspections. Usually, we do not find a challenge in picking up of the stock once it is built and once it's ready for delivery.

**Ashish Shah:** So, I mean, I wouldn't hold on to what you say as a guidance, but generally you expect that in the deliveries that you expect for the rest of the year, are they going to be evenly placed between the third and fourth or it could get quite lumpy towards the fourth, just like an indicative number or indicative figure?

**Ankit Mehta:** It's likely to be lumpy in the process because particularly one opportunity that we have, it's a fairly sizable billing that has to go in a very sizable lot as well.

**Ashish Shah:** The second thing is on the pipeline prospects. You said that we are obviously tracking a large prospect, but any color you could give, what are these prospects like? I mean, they are more on

the switch side. They are more on the quadcopter side. Anything that you are seeing in terms of the enterprise demand picking up materially and anything on that?

**Ankit Mehta:** Encouragingly, it is split towards both the product lines, Ashish. So, that ways it is quite exciting to drive both the categories to their full potential. So, that ways, we are quite excited to see both of them drive reasonable opportunity sizes. In terms of enterprise demand, yes, it is picking up, and particularly I would sort of not bundle it as enterprise demand but more as the civil demand for these systems.

That is definitely something which is seeing increased impetus towards induction. You can see that last quarter was better and we have improved on the year number. However, what the number will be at the end of the year will depend on closure of many of those opportunities.

**Vipul Joshi:** So, also, Ashish, because the certain clarities received on the regulations piece as well, now there is an increased impetus on the civil side of things to get into procurement and conclusion on that side is also expected in the next few, the couple of quarters.

**Ashish Shah:** Has the tendering begun for the procurement plan for this financial year from the government side or they are still probably in the stage of qualification?

**Ankit Mehta:** No, tendering processes begun for many opportunities.

**Ashish Shah:** And you expect these to be closed? Because I am just a little sort of a little concerned because towards the end of this financial year, we have the general elections coming up, and we be run up in the last quarter. So we need to probably complete that procurement process maybe by January or February. So, do you think that they are on track to do that?

**Ankit Mehta:** Presently, the indications are in that direction, Ashish. However, we have to like we had mentioned earlier that we are dependent on a lot of government tenders. So, we will have to sort of track it based on the typical vagaries of those opportunities.

**Moderator:** Thank you. Next question is from the line of Dipen Vakil from InCred Equities. Please go ahead.

**Dipen Vakil:** Coming back to our book execution, sir, this quarter you mentioned that we were more in the developmental phase of certain orders. So, do you think for our existing order book, are there still any products which are still in the development phase or execution will be back on track third quarter onwards?

**Ankit Mehta:** So, when I say building or development, we actually just mean building up of the inventories of the finished goods so that we can deliver the necessary lots that we have to deliver. It is not that the product is in the development stage. It is that the inventory buildup has to happen for the lots to get delivered, and these are sizable lots. So, therefore, it takes some time to build those inventories.

- Dipen Vakil:** And second would be, sir, you mentioned that FY '24, we will have a better growth than FY '23. Is my understanding correct?
- Ankit Mehta:** Yes, absolutely. That is definitely our target.
- Dipen Vakil:** So, you also mentioned that civil demand is picking up. So, any guidance as pertaining to till now we were having over 90% revenue from defense. So, do you think that bifurcation will change in near term?
- Ankit Mehta:** So, if you see the annual revenues, annual split over the last couple of financial years that we had reported, last year it was about 30% civil and 70% defense. And the year prior to that, it was 20% civil and 80% defense. So, we do expect a similar outcome towards the end of the year, but a lot of variability is expected due to when the actual closures happen for the opportunities.
- Vipul Joshi:** And plus, also our efforts to increase our presence in different markets as well as the new product development that is happening, it will help us enhance our overall expansion in the civil side of things as well.
- Dipen Vakil:** So, what would be the current split in the order book between the defense UAVs and civil?
- Vipul Joshi:** So, on the order book side, we do not differentiate or disclose our percentages on defense as well as civil.
- Dipen Vakil:** Sir, my last question on our installed capacity. So, even so you mentioned that we produce in lumps and store up for inventory. So, has our capacity utilization been in that above 85% range even in 2Q?
- Ankit Mehta:** Yes, capacity utilization has been quite high as we are building the inventories for certain deliveries.
- Moderator:** Thank you. Next question is from the line of Sagar Kirtikumar Gandhi from Future Generali Life Insurance. Please proceed.
- Sagar Kirtikumar Gandhi:** My question is related to product development. Now that we are spending in R&D almost double digit of our top line, where is our product profile moving? For example, if the current product profile is 1, will it become 1.5 with this R&D expense? And what new markets will it open because of this new better product that we are developing? That is my first question.
- Ankit Mehta:** So, Sagar, in terms of the product profile and the type of products that we are building, we were currently focused on two core categories of products. One was our small around 6 Kg quadcopter drone category, and the other was our Hybrid VTOL switch drone category, which was around 7 Kgs in weight. So, these two categories were the traditional categories that we have been

pitching for a while, and we are improving the performance and its usability in varied terrains and conditions, and therefore continuous improvements in their capabilities happening.

Apart from that there are two new categories that we are building. Those two new categories are essentially directed towards building one platform for what is typically known as a tactical drone category, wherein the performance ranges from a few hours to a few hours as well as capability of carrying some load onto the platform. And this category we are particularly building in order to service some of the MAKE two opportunities that have come up from our Defense forces along with the fact that these class of performance is relevant for many civil applications as well that we will be tracking once the platform is fully developed.

Along with that, we are also building a middle-mile logistics platform, which is the fourth category of drones that we will be building, and this particular drone is intended to build the capability 100 plus kilometers on that ballpark specification number. It will be a significantly heavier larger platform but will service a very important need for both our Defense forces and for the civil customers, wherein we want to enable. It can be more effective and efficient filling up a lot of infrastructure dependencies on ground.

**Sagar Kirtikumar Gandhi:** Thank you so much for the elaborate answer. And second is the U.S. opportunity that we are trying to capitalize. Will it change the margin profile of the Company whichever year it starts to contribute? For example, the profile that you have clocked in Q1. Will the U.S. opportunity dilute the profile or improve the profile, margin profile?

**Ankit Mehta:** As of now, Sagar, our focus in the North American geography is to pitch our flagship products over there because, one, they offer a significantly differentiated experience to the end customer in terms of performance, reliability, and the autonomy capabilities that we have on those platforms. And therefore, the margin profile is always for flagship products expected to move in the right direction.

**Sagar Kirtikumar Gandhi:** And third question is you highlighted new platforms that you are building. So, that will open or that will also add, or do you foresee that over the next two, three years, let's say '25, '26, '27, you will add what you are currently clocking in terms of top line, that much more addressable market can come in?

**Ankit Mehta:** Addressable market wise arguably some of these opportunities are tracking very large opportunities. If you see the market report that we had published during our DRHP, you will realize that globally the expectation from logistics (Inaudible) 34:02 up to about a third of the global drone market by 2030. And for the global market is to be at about \$90 billion by 2030 as part of that report.

So, therefore when you look at market opportunity and the business segments we are targeting, addressing these categories is definitely a very, very sizable opportunity. The operationalization of the global market that we are tackling is something that we will have to aggressively work

and plan towards, and we do expect that we will see early inroads into doing actual operations with some of these platforms. However, whether it will specifically add as much revenue to our top line as we have clocked today is something that will be hard to guide at this stage.

**Moderator:** Thank you. Next question is from the line of Abhishek who is self-employed. Please proceed.

**Abhishek:** The question that I have is regarding this year, this quarter, your R&D spent has been approximately 20 Cr, which is almost equal to your...

**Vipul Joshi:** H1 number. Not the quarter number.

**Abhishek:** Okay, for the first time now. That's a very high R&D spend. So, it seems like the next growth is very highly hinged on R&D rather than the production capabilities or the production capacities. So, with this R&D, what other civil sectors will open up?

**Ankit Mehta:** So, first of all, I wanted to clarify that growth is definitely not hinged on purely all to the R&D efforts that we do. If you look at any modern business, the business has to continuously innovate to stay ahead of the curve vis-a-vis where its competitions are. And the current categories of products that we are building are definitely very exciting categories. Each category of products that we are building is a multi-billion-dollar opportunity in the long term. Therefore, we will continue to see demand for these categories of systems.

Thankfully, in the drone industry, there isn't one specific category that will take all the opportunity. And the evolving nature of conflict and evolving nature of the ground realizations as these systems are deployed is further accentuating the fact that there is no single, you can say, platform that will solve all the problems. Therefore, we continue to believe in our existing categories, and they will deliver onto their promise in terms of market opportunity and market realization.

However, some of the other products that we are building is going to unlock the roof over our potential for growth in the long term. So, if we were addressing a maybe a \$100 billion opportunity earlier, it would increase that opportunity space for us multi-folds.

**Abhishek:** Second is that a lot of the IP is geared towards building intelligence capabilities within the drone system. How do the open-source AI or generative AI capabilities, which is accelerating the overall AI development across all the industries, how do you see that will impact your competition in terms of the intelligence capabilities?

**Ankit Mehta:** No, we believe that we will have to leverage these capabilities ourselves to ensure that our end customers get the necessary outcomes that they desire from the image that we capture on our drones. And therefore, we see it not as competition but something to embrace and to deliver greater value to our end customers.

In our case, we are trying to infer the world more accurately with greater precision, and that's what our customers want that the environment that they are observing can be interpreted by the system on its own. And therefore, we will be leveraging these capabilities wherever we can help aid the inference from the imagery that our systems capture more effectively.

**Abhishek:** Definitely. So, one additional point on this, a follow-up question is that earlier it was an absolute competitive advantage because the capabilities that you had were very difficult for others to emulate. With the open-source AI platforms, it becomes easier for others to emulate, which makes the competition tougher for you. Is that the right understanding?

**Ankit Mehta:** No, it's a great point, Mr. Abhishek. What happens is that when we build capabilities, we are building those capabilities not just on software but also on the hardware platform that we have, right? So, the hardware platform and its ability to perform better in the real world, if we imagine our customer from 10 years from now, the areas that ideaForge focuses on, which is performance, reliability, and autonomy, we do expect that our customers would always want products that are doing more for the same weight that we put in the air or the same weight that they carry or they want a lighter product that can do the same job. So, therefore, that is one aspect of where our comparative advantages stem from, which is how we build our hardware.

And the second part is that that hardware has to become more and more intelligent to be able to do more things autonomously for the end customer, which again is an area of focus for us. Therefore, a combination of these two is going to continue to be our advantage in the long term. We do not expect that the advantages that we get from our hardware will get nullified purely because of the advent of generative AI.

**Moderator:** Thank you. Next question is from the line of Shyam Maheshwari from AB Capital. Please go ahead.

**Shyam Maheshwari:** Just a couple of questions from my side, mostly bookkeeping. So, this quarter, you have seen a spike in the other income. Just wanted to understand the nature of this.

**Vipul Joshi:** Thank you for the question. So, basically, as we had disclosed in the exchange as well that we recovered our claim for insurance on the loss that we had booked against fire in the previous year, and that is where the large part of the other income is right now contributing, and rest is all interest incomes.

**Shyam Maheshwari:** And on your employee expense side as well, on a year-to-year basis, I see a significant kind of decline. About 12 crores employee cost has become 8 crores. So, has there been any layoffs as such?

**Vipul Joshi:** No, so basically what was earlier in our employee benefit expenses, the impact of ESOP was hitting in, and there were certain bonus impacts as well for the H1, which is now in quarter two, the ESOP impact is only about roughly 68 lakhs.



- Shyam Maheshwari:** And this was how much for the last year?
- Ankit Mehta:** Last quarter.
- Vipul Joshi:** Last quarter was roughly about 4 crores.
- Moderator:** Thank you. Next question is from the line of Dipen Vakil from InCred Equities. Please go ahead.
- Dipen Vakil:** So, I wanted to understand which components are there right now that we still have to import? And what will be the geographies around it and quantum in terms of percentage to our total?
- Ankit Mehta:** So, there is a fairly a very large list of components that we have to import, not the least of which is likely to be the electronics subsystems like the microprocessors and other electronic subsystems. So, those typically emanate from the Taiwanese geography and some of the other parts where these are actually built globally. So, that is one part of where a lot of our imports come from.
- There are many subsystems like we had mentioned which we were importing earlier, but in the next phase of our growth, we will not be importing them from. Particularly, the focus always has been that we should reduce our dependencies on any land border connected subsystems that we may be building.
- So, that is again an area where we have worked very closely with the Indian vendors that we have, some of the players that we have. In fact, one of our investments, as you would be aware of we had disclosed, is also a partner for us to indigenize a bunch of our subsystems.
- So, therefore, we are seeing a lot of good traction in our ability to indigenize as well as at least make sure that they are not emanating from any land border connected nation. So, that is one part of what is happening. Of course, imports still happen, and for the H1, they would be about 29% of our revenue number.
- Moderator:** Thank you. Next question is from the line of Harsh Jain, an individual investor. Please go ahead.
- Harsh Jain:** So, how is the export market evolving? And what are the opportunities lying there? And is it more on the defense side or civil side?
- Ankit Mehta:** So, on the export side, the opportunities are, I would say, to begin with, we will see greater traction, particularly in the North American market on the civil side, because defense again is an area where a lot more, you can say qualifications and a lot more investigations need to happen from our end. So, definitely our focus is on the civil side. However, we continue to look for any opportunity and inroads on the defense side as well, but it will obviously take its own time given that it's a new geography, and defense usually is a very sensitive domain for all countries from where they are buying their inventory.

**Harsh Jain:** So, my second question is in the domestic market, how do we see the revenue break up in the next two years?

**Ankit Mehta:** We will see a definite increase in the civil spend on drones. However, what is happening as you would be cognizant, Harshji, that there is a lot of impetus presently in making sure that we are fully armed on our Defense forces as well. Therefore, whether the percentage numbers will evolve significantly in the next two years particularly, I am not certain, but definitely in terms of overall size of the business itself and the amount of momentum we will see on the civil side is going to be quite high.

**Moderator:** Thank you. Next question is from the line of Rajiv Jha from RJ PMS. Please proceed.

**Rajiv Jha:** So, I have a question, sir. You mentioned the middle-mile logistics project, sir. Sir, could you throw some light on that, what is that about? And would we be tying up with an external party for this project?

**Ankit Mehta:** So, at this point in time, so what it is about is essentially building a logistics drone that can actually carry 100 plus Kgs potentially to 100 plus kilometers, right. So, not targeting a very small payload capacity but targeting a large payload capacity so that we can enable middle-mile leg of typical logistics business wherein people are connecting goods from a large warehouse to a regional or an individual distribution center that then delivers to the end customer. So, that's a load that we are targeting in that broad sense.

The good part about that capability is that it finds a lot of equivalent use on the defense side for our customers as well. So, we continue to build technologies that are dual use and relevant for both our potential customers. So, that is one part of what we are building there.

In terms of tying up, from a technology standpoint, we will definitely partner with a lot of people who will build robust, high reliability subsystems for this opportunity for us to build. However, in terms of technology for building the platform, we do not necessarily see that as an essential component of what our partnerships will look like. We will definitely look at partnerships from a go-to market perspective as far as this area is concerned.

**Rajiv Jha:** Sir, another question related to balance sheet. So, how can we improve our working capital cycle?

**Vipul Joshi:** So there are efforts that are continuously as Ankit was highlighting that from a supply chain perspective, when we are trying to now focus on energies to bring the supply chain to Indian market, our overall payment terms improvisation with the local vendors as well as also the size of business with existing vendors to improve the payment terms et cetera will contribute our efficiency in reducing the overall lead times on the current products as well will help not sitting with large inventories to supply in time, but some of these steps are also important for us to realize on our overall order book in time and in full with our customers looking at the overall



cycle of production process as well as the inspection that is required to conclude the revenue realization as well.

Also, efforts will be made to have, as we have been sharing, that our strategy to have not having direct order supplies but having strong partner base and distribution base to have controls on the payment realizations as well will also be continued effort that will be put in.

**Moderator:** Thank you. Next question is from the line of Ashish Chopra from Goldman Sachs Asset Management. Please go ahead.

**Ashish Chopra:** Ankit, Vipul, I had a question just to try and understand the degree of predictability in business slightly better. So, you mentioned that maybe the revenue accrual of these given orders does not necessarily depend on when really the customer wants to pick. It is on your readiness and you have to build the lots and invite customers for inspections before delivery. So, with that being a given, you would have a good sense of the amount of finished goods in your inventory, and hence the probable timelines by when this will be ready, right? So, then, what kind of holds you back from having a line of sight on when the order while it's 12 months, so by when can the revenue accrual from these orders come through? What are the uncertainties which may be kind of color any view on whether it can be F '24 or spill over into the next fiscal?

**Ankit Mehta:** So, Ashish, what happens is that first of all, we have to build inventory only after we receive the order so that we are not overstocking, and we do not end up getting a large inventory that is potentially can remain unutilized. So, that is one factor. Then after buffering in all the supply chain variabilities, we have to build in time for building the finished good inventory.

And on top of that, we have to also account for any delays that may happen from the customer side from a scheduling perspective. You know, these may be tactical delays, but those tactical delays also need to be buffered and accounted for. So, therefore precisely suggesting that this will happen in this specific date is where we tend to be a little bit more conservative in the short term. I think, as the business builds up and larger volume and trade is being executed on these sites, we will see a lot more predictability in terms of overall having enough coverage between opportunities to be able to give those details.

**Vipul Joshi:** And Ashish, just to add more color to it, I mean just to give an example, at times in contract, you have like at least a 45-day minimum intimation timeline for the customers to decide when they would choose to come for inspection. That's the minimum time that we have to give them, and with their own vagaries of either transfers happening with people etc., etc., also contributes into some of the delays or not giving a predictable timeline as to when things will conclude.

**Ashish Chopra:** So, just as a follow-up to this, when we look at the two fairly large sized orders that you shared in the public domain, the 88 crore one in the month of August and then followed that up with the 58 crore engagement in the month of September, so would you then have a sort of a range in terms of a floor and a ceiling given those kinds of 45 days intimations as to what's the earliest,

and then also what's the latest? Because you mentioned it's 12 months, but then does what you explained also mean that it can very well go beyond the 12 month, and can it also be 24 or 12 months means it...

**Ankit Mehta:** No, no, typically our record history has been that we have delivered within the timeline. It's just that within that timeline, there may be some variability. We will have to start, we definitely plan to be as aggressive as we should be, but it's just and it's a small window that may shift the overall recognition by a quarter or so. That's probably more than what typically happens.

**Vipul Joshi:** So, 12-month timeline is the last or max that you can supply to for. You cannot delay beyond 12 months. And for the large order that we had, that 24 month was the last timeline by which we have to finish the complete order.

**Ankit Mehta:** And there are intermediate timelines as well for lots. In some cases those lots are very chunky. In some cases, they are more distributed. So, that also slightly sort of creates that variability that we see over there.

**Ashish Chopra:** And just one last question from my side. In terms of your evaluation on the tactical drones' segment, so just wanted to know what's really changed in the thought process in terms of being in that segment which, I guess, still some time back was not really an area which you wanted to focus on, right?

**Ankit Mehta:** So tactical drone segment became a good opportunity for us, particularly when we saw, see, there are multiple reasons, One is that there is a lot of customer expectation for us to diversify the categories we cater to, and the second, because we are able to deliver as well. That's been our record so far. So, we continue to work very hard towards being able to deliver.

Secondly, we are also always looking at opportunities where a technology can be a dual use technology. Till the time we see opportunities being very, very single customer focused, we tend to avoid getting into those categories, because they don't lend to our traditional strengths, and they don't sort of reflect well on the things that we are known for and we build for.

So, whenever it becomes dual use, our strengths of building high performance, reliable and autonomous systems come to the fore in the best possible manner, and the moment we find that there is a dual use category that we can cater to, which has also certain immediate needs that we can service, we want to definitely be able to address those categories proactively.

**Moderator:** In interest of time, we are concluding the conference. I now hand the conference over to the management for the closing comments.

**Ankit Mehta:** Thank you everyone for the questions. I think we really enjoyed answering and listening to the queries that everyone had, and we hope for continuing to track onto our overall target for the year and come back next time with more details on how the progress has been. Thank you very



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much, and once again wishing everyone a very Happy Diwali and season's greetings for all the festivities around the corner.

**Moderator:** Thank you. On behalf of Orient Capital, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.