"Tonbo Imaging India Limited
Q2 & H1 FY27 Earnings Conference Call"
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E&OE: This transcript is edited for factual errors. In case of discrepancy, the audio recording uploaded on the stock exchange on November 6th 2026, will prevail.

Moderator: Ladies and gentlemen, good day and welcome to Tonbo Imaging India Limited Q2 and H1 FY27 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 touch-tone phone. Please note, this conference is being recorded.

We are pleased to have with us the senior management team led by Managing Director and Chief Executive Officer, Arvind Lakshmikumar sir, and Chief Financial Officer, Srivatsan Sivashankar sir, who will share their perspective on the company's performance for the quarter and the key business developments during the period.

Before we begin, I would like to remind everyone that certain statements made during this call may be forward-looking in nature. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied.

I now hand the conference over to Mr. Arvind Lakshmikumar sir. Thank you, and over to you, sir.

Arvind Lakshmikumar: Thank you. Good morning, everyone, and thank you for joining Tonbo's first analyst call since our listing. Since this is our first call, I'd like to take this opportunity to introduce the company and set the context. I'll cover why defense is changing, what Tonbo builds, the technology behind it, our products and our track record, and how our business model works.

Tonbo's CFO, Siva, and Chief Commercial Officer, Cecilia, will then take you through the financial results. Tonbo's Chief Business Officer, Ankit, will walk you through the scale of opportunities that we have for our business. Following this, we'll open for questions.

So let me just start with the problem we solve.Warfare is changing fast, and the economics has flipped.When you look at a cruise missile or a ballistic missile, it costs about USD1.5 million for a single mission. A loitering munition costs about USD500, but it can scout, target, and strike. A manned fighter is about USD100 million, and unmanned combat aircraft costs just USD5 million with no pilot at risk.

When you look at a main battle tank, it costs about USD7 million, carries four crew. Autonomous ground vehicles cost less than USD1 million to run it, and you can run like 6-1 0 of them simultaneously.. To intercept a drone, a kinetic missile will cost anywhere between USD30,000 to USD3 million a shot, and the magazine runs out.

A directed energy weapon costs less than USD0.50 for a shot.. The conclusion is very simple. The decisive edge for any battlefield today is better sensored, better edge artificial intelligence, and more autonomous platforms. But while the platforms have changed, the subsystems inside them have not.

The sensors inside these platforms are still very expensive and heavy. The processing system is power-hungry and draws anywhere between 30 watts- 80 watts. Radio links can be jammed in

seconds. Size, weight, power, and cost are the biggest technical bottleneck today, right? The second problem is access.

By our estimate, suppliers in the U.S., Israel, and Europe control over 90% of this frontier defense technology. Export rules such as ITAR and government-to-government approvals limit who can buy it, often with years of delay. Countries that are modernizing and rearming cannot get what they need. So, what does Tonbo do?

We are the intelligent stack for autonomous systems. We design and build the subsystems that autonomous warfare needs: sensing, processing, communication, guidance, and neutralization. That means high-performance infrared imaging systems for sensing, low-power computing for real-time AI at the edge, optical communication for jam-free high-bandwidth links, small, light, inertially stabilized platforms for guidance and control, and RF-based directed energy weapons for long-range neutralization.

Together, all of these technologies, they cover the battlefield, the dismounted soldier, land vehicles, surveillance platforms, aerial reconnaissance pods, naval vessels, missile systems, and the entire integrated C4ISR suite. And our promise is very simple. Our promise is to democratize autonomy at the performance level militaries need and at a cost that enables global scale. Now, everything we run, runs on technology we own.

We have 100% proprietary IP built over more than 15 years of R&D. We have over 130 engineers in R&D today. We are completely free of ITAR export restrictions, which matters to militaries that want modern capability without export control dependence. We are completely fabless. We manufacture through certified partners, so all our capital goes into design and intellectual property and not into building factories.

Now, our track record is proven and real. More than 28,000 of our systems are in service across more than 24 countries. Over 20,000 of our thermal sights are in Indian service, 15,000 thermal sights in European service. Israeli, French special forces use our night vision binoculars. And we have won programs across Armenia, Morocco, and Jordan in open global competitions.

Now, we report our business in two lines, our tactical systems, which is essentially the sights and the binoculars a soldier carries, and platform systems, which are gimbals, fire control systems, weapon stations, and seekers. Now, directed energy is a third, still in development, and our approach is really global first. Prove the product overseas and then drive the adoption in India.

So I'll talk a little bit about our strategy, technology, and R&D. Our strategy has four key parts to it. First is, we build, validate, and sell every layer of the stack. The science and the intellectual property, the imaging modules, the electronic boards, and the end systems.

Now, each of these layers is proven through customer sales before we fund the next, and that's how we de-risk our R&D completely. Second, we own the core intellectual property. Optics, sensor electronics, low-power embedded vision, precision stabilization, RF sources, and control systems are all technologies that we own and we have built in-house.

Third is we expand geographies. In some geographies, we bid directly, and in some other geographies, we offer OEM subsystems that are white-labelled by our domestic partners in that region. And the fourth is we scale through partners because our model is completely fabless. It is a fabless model with multiple certified manufacturing partners, and this lets us add capacity without building plants.

In terms of R&D itself, the next phase of our R&D is the directed energy system. Missiles that cost millions of dollars are being used against drones that cost hundreds of dollars. High-power microwave essentially allows us to break that cost asymmetry. We estimate that the directed energy market outside of India, currently is at about roughly USD0.5 billion, and it is going to grow to close to USD4 billion by 2030. It is a growth of nearly 50% per year.

India itself is expected to add close to USD300 million by 2030, with both Army and Navy roadmaps calling for about 90 and 40 microwave systems. Our base strike product is at technology readiness level four right now. We have signed letters of intent for 11 units, five for the Indian Navy as a minimum order quantity, and six for a European customer.

We will keep investing in directed energy over the next three to four years. You need to treat this as an option that we are building, not a short-term revenue. I will talk a little bit about our H1 FY27 results. Siva, of course, covered this in detail, but let me give you a quick high-level summary.

H1 FY27 performance has met our expectations, with revenue reaching about INR219 crores, supported by a very strong second quarter and encouraging order flows of about INR188 crores. Our current order book of about INR250 crores, together with contracts under negotiation of about INR408 crores, and a qualified pipeline of opportunities support a positive outlook for FY27 and the medium term.

Products-based defense businesses like ours need to be looked at from the lens of a three-to-five-year perspective, and our business performance tracked on an annual basis. Revenue volatility quarter-on-quarter has been seen historically, and that should be considered par for the course. Over the last 15 years, sustained investment in R&D has helped us to build a broad portfolio across tactical systems and platforms.

While tactical systems contribute about 70%-80% of our business, we expect platform systems to account for a larger share over time. We will continue to invest in proprietary technology, including the development of directed energy weapon systems over the next three to four years, while pursuing both domestic and export opportunities.

Last month, we secured a strategic export order from a European state-owned company for first order of production units. This is for our multi-sensor stabilized seeker, essentially marking its entry into an export loitering munition program. On acceptance of the FOPM units, the customer has an option to order up to EUR 13 million worth of systems.

This reflects how our investment in imaging, stabilization, and tracking is carrying Tonbo from sensors into precision guidance. We expect increased adoption of our platform subsystems and

the DEW platforms, both domestically and globally, to smooth out inter-year volatility and also provide sustained growth for the business.

Thank you. I will now hand it over to Siva and Cecilia to go over financials.

Srivatsan Sivashankar: Good morning, friends. This is Sivashankar here. I am the Chief Financial Officer of the company, and joining me is Cecilia, who is the Chief Commercial Officer of Tonbo. Thank you all of you for joining us. We have met some of you during the IPO roadshows, and perhaps we are meeting some of you on this call for the first time.

Let me take you through the financial highlights for the first half of financial year 2027. Revenue from operations for the first half of this year stood at INR219 crores, which is significantly higher than the INR77 crores registered in H1 of the previous financial year. While the year-to-date revenues this year have been higher, it may be noted that the first quarter had revenues of only INR36 crores, while Q2 was much higher at INR183 crores.

The quarter-on-quarter volatility is not specific to this financial year. It has been observed in the past as well. For example, in FY26, a significant portion of the revenues was booked in the second half. The revenue recognition in H1 was 22%, while the revenue contribution of H2 was 78%. While we are not giving a revenue guidance at this stage, we believe that H2 revenues for this financial year are likely to be materially better than H1.

This is based on the INR250 crores order book that we have, the contracts under negotiation, and the pipeline opportunities which could convert into orders in the next two to three months. In terms of the composition of our exports, of our revenue, exports was about 35% in H1, while domestic revenues comprised 65%. Moving to gross margins.

The gross margin was INR75 crores in the first half, and roughly 87% higher compared to the INR40 crores that we saw in H1 FY26. The gross margin percentage was 34.62% in H1. It was lower than the 51% seen in FY26 due to the product mix. Moving on to EBITDA. EBITDA for H1 stood at INR31.15 crores with an EBITDA margin of 14.2%.

This compares well with the EBITDA of INR11.75 crores in H1 last year. If I just look at the quarter alone, EBITDA for Q2 stood at INR44 crores with an EBITDA margin of 24.11%. The largest cost below the gross margin line is the employee cost. Since employee costs are largely fixed from quarter to quarter, EBITDA margins were low for H1, but are expected to improve for the full year since revenues in H2 are expected to be higher than H1.

Profit after tax was INR5.8 crores for H2, with a PAT margin of 2.61%. Profit after tax for this quarter alone was INR23.5 crores, with a PAT margin of 12.71%. Given the variation in quarter-on-quarter revenue recognition, we think that the financial metrics of the business, as well as its prospects, are best measured on an annual basis, and neither quarterly or semi-annual would do justice to evaluating the merits of the business.

Coming to the balance sheet. The company continues to maintain a strong balance sheet. The net worth of the company was INR564 crores as on 30th September 2026. Bank borrowings was about INR169 crores, essentially for funding working capital, which is self-liquidating in nature.

In a post-September 30th update, one of our banks has increased the cash credit from INR30 crores, INR50 crores after the quarter end, and we are working to increase our cash credit limits with the other two banks as well. Our order book today stands at about INR250 crores as of September.

Our contracts under negotiation are about INR408 crores, and we have a set of pipeline opportunities, both in tactical and in platform, that we hope to convert in the next two to three months. As Arvind mentioned, the business momentum appears strong for the medium term. We have an IP-led products business.

Revenue recognition varies significantly depending on timing of order receipt and order execution. Our approach towards building the business is that if we continue to innovate and invest in R&D, we have the ability to have non-linear growth at some point. While the market direction is clear that there will be increased acceptance and demand for products that enable battlefield autonomy, it is very difficult to predict timelines.

You would see that in the investor presentation that we have shared, we are giving numbers to the extent that we can, but for a lot of our platform opportunities, for example, we will only know over a period of time as opportunities convert. But the opportunity space itself is a large space.

With that, I would hand over the mic to Ankit, who will talk about some of the opportunities that we are working on.

Ankit Kumar: Thank you, Siva. Good morning, everyone. I am Ankit Kumar. I am the Chief Business Officer for Tonbo, and I look after domestic and global sales and business development for Tonbo. I thank you all for joining us. Let me spend a few minutes on where we see the opportunity for Tonbo.

Tonbo has built a large portfolio of electro-optical products under one roof, covering tactical, land, naval, airborne, and missile applications. The first opportunity is in tactical systems. This is the most established part of our business. The stated requirement, just in India, includes around 80,000 thermal weapon sights, hand-held thermal imagers combined, alongside approximately about 27,000 image intensifier sights to be procured in India.

These quantities represent only a part of the Indian Army's overall requirement. Procurement is already underway, and we expect activity of procurement to continue over the next 6- 18 months. Some categories of procurement move faster than the others. Some of them are through capital procurement.

The capital procurement programs generally involve more rigorous testing and take longer time. Internationally, we are pursuing near-term opportunities for approximately 10,000 thermal sights

and monoculars combined. These figures indicate the scale of potential procurement. Final quantities will depend on tenders and contract awards.

For Tonbo, the opportunity is to compete for this demand with products we already know how to build and supply in volume. The second opportunity is in platform systems. These are products integrated into land, naval, airborne, and missile platforms. They include see-through armor for BMPs, light tanks, wheeled armored platforms, and similar vehicles, as well as electro-optical and fire control systems for them.

We have already begun several of these integrations. Platform programs do take time to mature, and much of the work had begun a few years ago, and some of it has already started to show results. Most are still small seed programs as of now. They have room to expand as the platforms themselves enter wider service.

For example, we have upgraded thermal imagers in gunner sights on legacy platforms for an overseas army in past, and now we are working on similar opportunities in India. We are upgrading the thermal imagers for Konkurs anti-tank missile launchers, both on BMPs and ground-based launchers.

We are also supplying electro-optical fire control systems for remote-controlled weapon stations on Arjun platform and exporting these systems to partners in several countries. In counter-drone applications, we are developing electro-optical fire control systems that can detect a threat and maintain precise video track.

That precision is particularly very important when system is used to intercept the drone. Electro-optics can compete and complement radar and radio frequency detection systems. We are developing panoramic thermal imaging systems, wide field of view systems, as well as long-range cameras for air defense applications.

Stealth aircrafts are designed to reduce the radar signature to evade radar detection, but it still produces a thermal signature, and that's the opportunity for us. Recent conflicts have also shown, highlighted the role of thermal imagers in air defense applications. Our traditional gimbals were very large, high-precision systems.

Today, a lot of drone manufacturers are asking for smaller, lightweight, and more affordable stabilized systems. We are developing these for loitering ammunition and for rotary wing and fixed-wing reconnaissance aircrafts. We are seeing demand from drone and loitering ammunition manufacturers both in India and overseas.

On the naval side, we've successfully replaced imported stabilized gimbals on naval vessels with systems of our own. These are well-suited for OPVs, FIC, and many other marine platforms. Developing this equipment has taken time, and we've learned a lot through the engineering work itself.

In precision guidance, our work includes low-cost, lightweight electro-optical and infrared seekers for anti-tank guided missiles and loitering munitions. These AI-enabled seekers in fire-

and-forget mode follow the target and maneuver the missile or the loitering munition towards the target.

A seeker places much tighter demands on stabilized systems than our regular ISR gimbals. It must keep tracking the target as the platform moves and passes information to the guidance system with very little delay. We've developed that capability, and we continue to improve it. We are pursuing both domestic and international programs on precision guidance using EOIR.

Initial supply may just initially cover a few units, but we are under testing phase, and there are much larger opportunities around the corner once these are successfully integrated with these platforms. The third opportunity is in directed energy, particularly high-power microwave systems for counter-drone applications.

Our focus has been on high-power microwave systems designed to disrupt or kill the drone's onboard electronics. Under the Indian Navy's iDEX ADITI contract, we are developing a very long-range system for naval use. We're also developing systems for Indian Army's stated requirements, as well as shorter-range variants for airborne requirements.

We're building three different kinds of platforms there. For investors following Tonbo, this is an opportunity which spans manned and unmanned platforms. Tactical systems generate revenue today, and platform optronics has started to grow, with many key programs already underway.

We serve a broad range of applications and continue to improve our technology so that we can bring it to more platforms. We have had to be patient all this while, and our investors so far have also been patient. Building these products has taken us time and perseverance and acceptance of failures as well as success.

We have learned from the programs that went well, and we have learned from that have taken longer than we expected as well. In platform optronics, our timetable also depends on readiness of vehicles, vessels, aircraft our partners are developing. Procurement and delivery schedules can move revenue between quarters, which is why we assess generally our performance annually.

Our immediate priorities as of today are to deliver the orders we have, compete for the next round of tactical and platform requirements, and keep investing in products that our customers constantly require.

Thank you. I will pause here, and I think we welcome your questions from our side.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashish Ajit Golechha from Bee Ventures LLP Fund. Please go ahead.

Ashish Ajit Golechha: Hi, sir. Thanks for the opportunity. Wonderful numbers and congratulations to the whole team. Sir, question is for Arvind Lakshmikumar sir, the main person. Like in the November 2026 deck, it is clearly said that your directed energy TAM is at roughly USD290 million by calendar 2030

across 100 plus systems. In CEO's own words, it was mentioned about USD3.4 billion and roughly INR28,000 crores across 140 systems at INR200 crores each.

So how is this roughly 11x-12x gap between the two figures and wanted to ask, the system prices move, what took it from INR200 crores to this roughly INR17 crores to INR25 crores? This is my first question..

Arvind Lakshmikumar: Okay. To understand the difference in terms of the directed energy systems market size, versus what is there in 2030. We are building the directed energy system. So the first directed energy system that we are going to have in production, which we will deliver to customers, will start in 2029, 2030.

The price that we have for the Indian directed energy system, the one we are selling to Indian Navy, the quoted price is about INR200 crores a system. And what we have for our international customers is at about USD25 million a piece. The Indian requirement, so the size of the market in India, overall size of the market And this is not the 2030 size.

Overall size is about roughly 140 systems, and if you think about it, each at INR200 crores, that adds up to INR28,000 crores. Out of this INR28,000 crores in India, what we expect is that by FY 2030, the number will be much smaller, and what you see in about USD290 million roughly corresponds to the FY 2030 number, not the overall size of the market. The overall size of directed energy weapon market in India is INR200 crores roughly into the 140 systems, that is INR28,000 crores.

Ashish Ajit Golechha: Okay, got it. Sir, my second question is, in the deck, there is a separate slide which says that we have a USD3.82 billion global DAW TAM by calendar year 2030 at 50% CAGR. Wanted to understand how is Tonbo's addressable share compared with Epirus, who is valued at USD5 billion and sub-2 kilometer range, given that Tonbo always claims that into 3 to 5 kilometer multi-beam klystron beams. Thank you, sir.

Arvind Lakshmikumar: Our only credible competitor that we have where there is credible data, first is, let's just look at the countries which have capabilities for directed energy weapons. In the U.S., you have Epirus, of course, and you also have Lockheed and Raytheon, which are building smaller variants. Russia has got a system which is in the sub-1 kilometer range.

China, we don't know what it has, and Turkey also has something in the 1 kilometer range. India currently does not have anything in the 3 to 5 kilometer range. So our real credible competitor is Epirus. Epirus's technology, so when we look at the global market, once we are ready with our multi-beam klystron, which can address 3 to 5 kilometer, Epirus is restricted largely to US DoD and in some variants to the Five Eyes countries.

The same Five Eyes countries whom Epirus takes its systems to, Tonbo will take our systems to those countries. We are already in discussions with, for instance, we have spoken to Japan about it. Our order we have currently in terms of the LOI that we have is from Europe. All the countries Epirus goes to, we will go there, and we won't have any restrictions. Epirus is restricted in terms of what it can offer to those countries. We will compete with Epirus on those markets.

Ashish Ajit Golechha: Okay. Sir, you would be knowing that, through your own words, directed energy systems are at TRL 4 and the market opportunity. Wanted to understand total cumulative investments to date and expected capex and R&D system with respect to directed energy systems, if you could throw some light. Thank you. This is my final question.

Arvind Lakshmikumar: Directed energy weapon, as I mentioned, the first delivery of these systems will not happen before '29, '30. There are three, what essentially determines the success of the program. First is, the fundamental is technology, What is the technology that we are building?

We've been working on this technology for the last two to three years, where technology on the multi-beam klystron, technology on the pulse compressor, technology on antenna designs, all of that are technologies that we are working on. From a technology point of view, we are reasonably far ahead. The second thing is that the capital to be able to build it.

What we expect that the first system that we are going to build, the rough cost of capital to build it is about INR160 crores. Now, the INR160 crores is being funded partly by a loan which is coming in from EXIM. EXIM has sanctioned about INR120 crores. We have an iDEX ADITI grant, which accounts for another INR25 crores, and the balance INR15 crores comes from our own balance sheet.

So the capital to build the first system, that we already have this. The third is customer intent and a firm sense of commitment, assuming that we can build it to the spec. We have customers who are willing to buy it at an appropriate price point. That is why we signed on customers up in advance. Think of directed energy weapon to be very similar to your electric car.

The first time an electric car came out, you had to ensure that your electric car battery works, you have to ensure that it can actually give that range, and then you sign on customers who say, "I am willing to buy it, provided it can meet these requirements." So we found customers who are willing to put and sign on and say, "Look, here are signed LOIs, and if you build it and you are ready with this spec, we will buy it at this price."

So that is the third part which is sorted out. And so now what we are going to do right now is the fourth part that we are actually working on is the product engineering part of it. And so it is TRL 4 because there is a product engineering risk and testing risk, and what we expect to do between now till FY 2029 is essentially mitigate that risk and cross that hurdle.

Moderator: The next question is from the line of Purva Jhaveri from Ionic. Please go ahead.

Purva Jhaveri: Yes. Hello. Hi, sir. Good morning, sir. Hello.

Arvind Lakshmikumar: Good morning.

Purva Jhaveri: Yes, Yes, sir. So sir, I had a couple of questions, sir. Sir, I wanted to get a sense of the difference in the gross and EBITDA margins for tactical business versus a platform business. And in the exports business as well, what is the gross margins for tactical versus domestic business for

tactical? And similarly for platform as well, gross margin difference for platforms when you export versus domestic.

Srivatsan Sivashankar: Do I take that question, Arvind?

Arvind Lakshmikumar: Yes, sure. Sure, yes.

Srivatsan Sivashankar: Okay. Starting with the tactical systems, the gross margins in the domestic business are, they of course can vary from year to year, but they are broadly in the 40%-45% area. For platform systems, it is higher. It will be in the 45%-50% area for domestic. In the case of exports, the gross margins, I won't differentiate between tactical and platform at this stage, will be anywhere in the 60%-65% area on the export side.

Purva Jhaveri: All right, sir. I also wanted to ask you, sir, regarding the, if we have the optionality of, I think, EUR13 million order, which can come from the European contract, which we have recently signed for EUR65,000. Does that include in the contract and the negotiations of INR400 crores order book, which we have currently?

Srivatsan Sivashankar: Yes, it is included as part of the INR408 crores contracts under negotiation. It is not included in the order book of INR250 crores.

Purva Jhaveri: All right, sir. You mean to say EUR 13 million order, which is an optionality, that is included in your INR400 crores order book, if I'm not wrong?

Srivatsan Sivashankar: That is correct, because we expect that, we believe that, so long as we deliver the product to the specifications that the customer has stipulated, there is more than a fair chance that he will go ahead with the order.

Purva Jhaveri: All right, sir. Sir, just last two questions, sir. Sir, what is the average time it takes us to convert the order book into the revenue? The whole order book, including the tactical and platform?

Srivatsan Sivashankar: So in the case of tactical systems, the delivery can take place within three months if we have all the long lead items as part of our inventory. Generally speaking, I would say it is three to six months from the time we receive an order. In the case of platform systems, it can take anywhere between 6-18 months to deliver on a platform system.

Having said that, I think that the way we try to do things is, a lot of the subsystems that go into these tactical systems are common across categories, and therefore, not only do we have the raw material, we have some of the subsystems assembled and kept in place. So even orders that we get, let us say, by December this year for tactical systems, we would be in a position to convert it into revenues in three to four months.

Purva Jhaveri: All right, sir. Just a follow-up on this, sir. Currently, we have INR400 crores of order book under negotiation. Sir, out of that, how much would be for platform and how much would be for tactical, sir? If you can just bifurcate that, it would be really helpful.

Srivatsan Sivashankar: About INR250 crores of that would be tactical, and the balance would be platform.

Moderator: Next question is from the line of Vivek Ganguly from TCG AMC. Please go ahead.

Vivek Ganguly: Thank you for the opportunity. A couple of questions. So usually, in India, a lot of the products, the specs are designed and maybe the initial is also done by DRDO, and then it is given out to the private sector for them to take it to the market, develop. The impression that I get is in the case of the directed energy weapons, you all are doing it everything on your own. All the parts are on your It is not a DRDO subset that you all are working on. Is that impression right?

Arvind Lakshmikumar: Couple of corrections. One is that is how it was traditionally in India, where DRDO was supposed to build the frontier technology, and then public sector companies or private companies, as in current case, would take it from DRDO and build it. Our model is completely different.

We are a product company, and our emphasis is that the technology specs that we can create based on our experience selling these products to international customers is far superior to what comes out today as part of localized specs. Our model, we do not build a product based on DRDO specs.

We create the specs based on our discussions with our customers, make sure the customer understands the performance, price comparisons of the specs. We build a product, and we sell the product to the end customer. This is true of our tactical systems, this is true of our platform systems, and it is true of our directed energy weapon.

As an example with tactical systems, for instance, before we started building our weapon sights, the typical size of a thermal weapon sight, which was based on DRDO technology or Israeli technology transferred to Indian public sector, used to weigh about 1.2 kg - 1.5 kg. Now, 1.2 kg, 1.5 kg makes sense if you are putting this on a tank, not on a

n AK-47 or a Negev or a Dragunov, what that requires is a 400 gram or a 500 gram sight. What we said is, what makes sense is a lightweight sight. It needs to last eight hours. It needs to engage a target at 1 kilometer. That is the spec we create. We showed it to the customer. We showed prototypes to the customer. We proved it by selling it internationally, and then the Indian customer put it in their RFP. That is the model that we follow, and that is what we do for all our products.

Vivek Ganguly: Right. No, that is very helpful. The second one is on the HPM. It is something that you are taking the risk on and developing entirely on your own and with the debt funding, iDEX funding, and some part coming from your own balance sheet. Is that the way we are looking at it?

Arvind Lakshmikumar: Every product follows the same philosophy. Not just HPM. For instance, when we build the gimbals, the gimbal which exists in the market today, we said, "Look, this is what exists. What we think the market needs is completely different." We will take the risk because, as an R&D company who wants to create sovereign capabilities, you need to create that. You need to take that risk to be able to build it. So historically, we have taken that risk. We have been successful in some, we have failed in some, but that is the model we will take.

Vivek Ganguly: Right.

Srivatsan Sivashankar: Let me just want to add something. This is Siva here. So while we are investing in R&D, there are a couple of things that you should bear in mind. A, we design, we choose which product to design and develop based on extensive conversations that we have with customers.

So it's not completely blue-sky research, we do have a good idea of what the product, what the customer is looking for in terms of product specification. Second is in terms of the business model, we are not operating on a binary zero or one. Either the HPM works at the end of two, three years or it doesn't. That's not the model we do.

For example, Arvind mentioned a few components of what goes into a high-power microwave, but one of the things that is required is a detection system for detecting whether something which is coming in is a swarm of drones or a swarm of birds. This product, which is called as T-Rex in the product portfolio that you may have seen, has been developed by us more than two years back.

We have sold 20 systems in an international market. We have sold a couple of systems in India as well, which can detect objects at a 40 kilometer distance in the dark. The drone detection system is already in place.

Vivek Ganguly: Right.

Srivatsan Sivashankar: When you have a high-power microwave, you also need a positioning system which can direct the energy towards the sky and at an exact location. We are already in the process of developing the positioning system for a Middle East customer. There are two components that we are in, that one that already works, one we are already in the process of developing and at a TRL level higher than TRL 4.

So, all of these subsystems which go into a high-power microwave, we'll keep developing it, and we will have an opportunity to sell each of these subsystems as well, in addition to the final product, which will come two and a half years down the line.

Moderator: Next question is from the line of Pranay Roop Chatterjee from Burman Capital Management. Please go ahead.

Pranay Chatterjee Hi, sir. Thank you for the opportunity, and congratulations on a great set of numbers. Sir, my first question was on the Q2 revenues. We saw that about INR51.5 crores of revenues came from the U.S. I just wanted to understand whether this is more on the tactical side or more on the platform system side, and are we supplying directly to the U.S. government or, let's say, subsystem aggregators there?

Arvind Lakshmikumar: These are platforms. We are not at liberty to talk about the customer, so I'll avoid that. But these are platform subsystems.

Pranay Chatterjee: Platform subsystems. Understood. Sir, on the new product categories in the platform systems, you mentioned quite a few interesting products, more specifically smaller gimbals for UAVs and loitering munitions.

I just wanted to understand what are the stated, let's say, procurement plans of the Indian government for these categories of systems, and do you see a large inflow of orders coming in the next one to two years for this particular category? Or is it going to take a longer period of time, similar to, let's say, HPMs, to convert and get actual purchase orders here?

Arvind Lakshmikumar: Ankit, do you want to take it?

Ankit Kumar: Yes, I'll take that one. So traditionally, we've been building heavier systems, more with better precision, better accuracy. These are lightweight gimbals for the current demand, and we are already doing pilot integrations with some of our partners in the country and as well as outside.

So, it is already along the lines where the programs have been seeded. Now, it will depend upon when our partners, when those programs, their timelines and their procurement cycle, it'll plainly depend on that. But otherwise, from a product perspective, they're already seeding and already. So, in terms of, if you compare it to HPM, we are far ahead in terms of TRL level, and it is already being seeded.

Pranay Chatterjee: Understood. And here, since you mentioned that you are working with your partners in terms of pilots, I'm assuming here you are working with the larger system aggregators who's supplying the full end product, like a loitering munition or a UAV, and you are probably supplying the EO/IR guidance system. Is that the right way to understand this?

Arvind Lakshmikumar: That is correct.

Pranay Chatterjee: That is correct. Understood. Sir, one more question if I can squeeze in. Specifically on the, let's say, EO/IR missile seeker side for ATGMs, what I understand is that on a couple of programs, we are the sole provider, especially with some of the state-owned entities like BDL.

I just wanted to understand whether you have actually supplied these products as part of your confirmed POs, and you expect to get a large order inflow here in the next one to two years? Or is it more in the prototype and the pilot stage, similar to, let's say, UAVs and loitering munitions?

Srivatsan Sivashankar: Both the MPATGM seeker, the command launcher unit, and the seekers that we put on loitering munitions are far beyond prototype. They have been field-tested. Some of them have gone into larger quantities as various subsystems. Essentially, if you look at an MPATGM, that is a system which has been validated.

It has been validated for shock, validated for accuracy, validated across stationary and moving targets, both for loitering munitions in their terminal guidance and MPATGMs all through the phase of their flight. The systems that we have supplied to both domestic customers and some

of our international customers have essentially been field-tested and validated. Only when we are doing production orders, the production orders will come in right now. There is no technology risk, so to speak, on either of them.

Pranay Chatterjee: Understood. Sir, then I was sort of getting a bit confused since a large part of the current order book, call it about INR200 crores out of INR250 crores, that sits in the platform systems. Is that more oriented towards, let us say, the older technologies, the larger gimbals for larger manned vehicles? Is that the right way to understand this? Or does that also include purchase orders for our newer systems, like these UOR seekers and, let us say, UAVs, counter-drone systems, that sort of categories?

Srivatsan Sivashankar: It includes both.

Moderator: Next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Hello. Good morning. Thank you so much for taking my question. Firstly, congratulations on a really great second quarter result, sir, and for the listing, sir. Just wanted to understand, our order book is for platform and this both, right? Tactical systems, right? So, for beating our H1 revenue, we will nearly have to convert a full order book into revenue, right? So, are we sure we will be able to complete it in these six months?

Srivatsan Sivashankar: Yes. There are three boxes that you need to look at. The first box is the order book, where we have INR250 crores. You are right, that has got some platform systems, and the execution of some of the platform systems will likely go into next year. There is a portion of the INR250 crores which will get executed this year.

The second is the contracts under negotiation, which is about INR400 crores. If you remember the earlier part of the call, I said about 150 will be platform systems out of the 408, and about 250 odd will be the tactical systems. The contracts under negotiation, assuming that they come through by December, we should be able to convert it into revenues in this financial year.

The third is the opportunities, and you would see three, four slides in the investor deck. There are various programs which are currently going on, where RFPs have already been circulated, where field trials are going on, where there is a set of orders which are expected both this month and next month.

So, we could have order execution from our current order book, from the contracts under negotiation, as well as orders from the opportunity set that we are able to convert into firm orders before December or January. I will ask Ankit to give you some color on the opportunities that can convert at the shorter timeframe.

Ankit Kumar: Thanks, Siva. Yes, like Siva mentioned, there are many programs which are in very advanced stage. When initially I mentioned that the opportunity is about 80,000 thermal weapon sights, a large part of it is through a procurement cycle, which is pretty quick in terms of procurement cycle.

Some of those cycles are already in motion, and that is how traditionally also it has been with Tonbo, that we have been on programs, and a lot of programs that start to get seeded in the first quarter of the year, the second quarter of the year, generally, these start to convert into purchase orders, and third and fourth is when a lot of execution happens. So, it is along the same lines, but there are a lot of them right now which are very close to the finish line.

Darshil Jhaveri: Okay. Fair enough, sir. Just wanted to know, in terms of our margins, sir, I think H1, we are around 14% margins. I understand there is cyclicality, and we should look at it annually only. Annually, could we do margins that we did last year, if for the last two, three years, like that is the average margins we can take for our annual revenue?

Srivatsan Sivashankar: Yes. I think there are two or three components to this, right? One is the gross margin. That depends upon the product mix that we have and the contracts that we have negotiated at a certain point in time. In the second half of the year, we do expect a higher export component, which would help in terms of the gross margins.

As I mentioned earlier in the call, we do expect the H2 revenues to be materially higher than H1. If you look at it in terms of the EBITDA line, below the gross margin, the largest component of the expense is the employee expense. So, when you have employee expense as a percentage of revenue, that would be high in H1.

It would be relatively lower in H2 when we deliver higher revenues. Therefore, the EBITDA margins will kind of go up simply because we will deliver higher revenues. So, a combination of higher gross margins because of a change in product portfolio and change in the domestic export mix, as well as the fact that operating at a higher revenue level, should take the EBITDA levels to be higher than the 14% that you saw in H1.

Darshil Jhaveri: Can we quantify that? Range will also be fine.

Srivatsan Sivashankar: No, I don't think we're going to be giving any guidance either on revenue or margins at this stage. You just need to bear in mind that we have IPO-ed quite recently, just a couple of weeks back, so there are certain restrictions in terms of what kind of guidance we can give at this stage.

Darshil Jhaveri: Okay, fair. Just last question from my end, sir. What would be our targeted order book, closing order book for the year? What's our target? Because I think we'll be nearly consuming our current order book. I understand there are INR400 crores of orders also, but any notionally target, like you want to have for FY 2028 in terms of order books or orders? What is the pipeline like other than these orders that you're looking for, sir?

Srivatsan Sivashankar: Okay. I'll just give you the opening remark on that, and then I will ask Ankit to add. As I said, you do need to look into the fact that there are three boxes. Do not look at it in terms of just saying that the existing order book will get exhausted, because some of the contracted, because the contracts under negotiation of INR400 crores, as I mentioned, a portion of that is anyway going to be for next year.

The third set, which is what you need to focus on, the opportunities, there are certain procurements being done by both commands under the OCPP program, as well as the Ministry of Defence, where there is a lot of procurement being done both in the immediate short term, which means in the next two to three months, as well as in a more medium term of nine to 12 months.

Let's just focus on the immediate short term. If you see the slide on tactical systems in the investor deck, we are indicating 75,000 thermal weapon sights, 5,000 thermal imagers, and 27,000 image intensifiers, et cetera, et cetera. So, that's a large number. Just to give you some perspective on this number.

Arvind, in the beginning of the call, mentioned that in terms of the total weapon sights which are installed in India, it's some number between 20 and 30,000. The quantity that the government, between the Ministry of Defence and commands, is looking to procure this year is several times that number over the next 12 months.

Some of this, as I said, we expect a lot of these to convert into orders in the next two to three months. We will be able to execute some in this financial year, and there will be a large part which will be an overflow, which will go into the next financial year. The answer to your question, what will be the order book that we will have in March 2027?

Whatever orders that we get under the OCPP program or some of the other programs that Ankit referred to, we will probably execute INR100 crores, INR200 crores this year, and whatever we get in excess of that will be the opening balance for next year.

Moderator: Next question is from the line of Kranthi Bathini from WealthMills Securities Private Limited. Please go ahead.

Kranthi Bathini: Hi. I just want to take a macro-level outlook given the kind of the rising geopolitical issues at this point of time, and also the defense spending that is going up. How far in the next couple of years or coming quarters, your company is going to take the advantage of these? What are the factors that influence your revenues? That is what I want to know for you at a macro level.

Arvind Lakshmikumar: I will address it, and of course, I will have Siva and Ankit follow up with this. At a macro level, unfortunately, the world that we live in, wars are not going away. there are problems. Someone might look at it as a short-term view, and there is always this whipsaw effect happening right now, where the U.S. midterm elections did not go in favor of Republicans, so people assume that defense budget is going to get cut.

Therefore, U.S. defense stocks come down. Over a long term, of course, when you look at it for us- Two, three core area countries of interest to us. One, of course, is India, I mean, we are not dependent on this geopolitics. We need to arm ourselves. We put together a plan, the TPCR lays out what we need to do for the next 10 years.

I think barring any crazy changes in India, I would imagine that India would continue the same way. From a macro perspective, India's technology procurement in line with the TPCR will

continue unabated. The second place where a lot of business which we look at is Europe right now, Europe has realized that it won't take too long for the scenario to go back to how it was before, where their dependence on U.S. will cause a constraint to their own sovereignty and national security.

U.S., Europe, from all our knowledge and what we understand, is going to continue to re-arm, and they have a EUR 800 billion budget put out for rearming right now over the course of the next five to 10 years. There's nothing which says anything contrary to that. I presume that that's going to go on as well.

When you look at these two markets, India and Europe, where we are supplying today, from a current short-term changes in geopolitics, I don't think that's changed the long-term outlook, which is, let's say, the next three to five-year outlook on how these countries are going to procure.

Kranthi Bathini: This is a specific question. Are you exporting anything to the U.S. at this point of time? Just want to know.

Arvind Lakshmikumar: No, can't comment on that.

Moderator: Next question is on the line of Manish Goyal from Thinqwise Wealth Managers LLP. Please go ahead.

Manish Goyal: Yes. Thank you so much and congratulations on very good set of numbers, sir. One question on competition from BEL Optronic Devices Limited. I believe it is a subsidiary of BEL. Just would like to know what kind of competition we see from them. Do they really compete with us? Because last year they had 100-odd crores revenue, which actually had come down from 180 crores from the previous year.

They probably had got funding or grant from the Indian government for the product development before a few years and also to set up facility. Maybe if you can give us perspective on the competition from BEL and maybe any other Indian company. That was first question.

Arvind Lakshmikumar: Okay. I think to address competition, I address competition in two ways. One is competition within India and the competition internationally from any Indian competitor.The competition internationally from an Indian competitor doesn't exist because no other Indian competitor sells in these countries or sells these kind of systems right now to these countries that we sell to.

Competition within India, yes, we do have, and we have competition across different lines of business and different competitors. In the area of business which constitutes most to our revenue, which is our tactical systems, our competition typically is Bharat Electronics, Tata, Alpha Design Technologies, that type of companies.

The fundamental difference between Bharat Electronics, I mean, any of them and us is that, when you look at the complete value chain of thermal weapon sights. We are one of the few people who own the intellectual property across the maximal part of that value chain. In a sense

that, whether it is the optical designs, whether it is sensor electronics, whether it is video processing electronics, whether it is fire control electronics, we own the intellectual property.

As opposed to some of the others who partner with other people and because of their partnerships and what they buy from others, either their price points are higher or their ability to configure to a very dense spec is very low. In that sense, we think we are better placed. Having said that, the competition will exist. It is not that we are going to win 100% of the programs that we have here.

Historically, when you look at tactical systems, there are about 30,000 tactical thermal weapon sights which have been deployed in the country today, out of which 20,000 have come from us. So almost more than 65% market share in terms of thermal weapon sights. The programs which are coming in, India needs to grow from whatever 30,000 thermal weapon sights to maybe 300,000 weapon sights.

So what we have to expect is that there will be competition. Maybe we will not be 65%, maybe we will be 50%, maybe we might be 50%, but we will have a fairly large percentage compared to And historically, that is what we have done. When it comes to platform systems, the kind of platforms that we make right now, which is the gimbals, the remote control weapon station sights, other people in the country don't make.

For instance, Bharat Electronics is also a customer of ours. Bharat Electronics has bought BEL Optronic Devices Limited, which makes optronics, but the electro-optic system which goes onto the remote control weapon station for the Arjun Mark 1A tank, it is Tonbo's and not a BEL Optronic Devices Limited system.

So even though they do have some subsystems, they don't have the kind of portfolio that we have across tactical and platform. So it puts us in a better position compared to our existing Indian competitors. In the directed energy weapon, we don't have any competitors in India.

Manish Goyal: Sure. Thank you so much. On these thermal sights, like what Ankit mentioned, there is an 80,000 units opportunity. Just want to know, like ideally, it is like, are these products under serial production, like approval, and then it also goes through the revenue procurement of the defense, or it is under capital procurement? Just want to know, like, how is it planned over a period of time that so much needs to be produced in a particular year and delivered? Just want to get a perspective.

Ankit Kumar: So, two parts of the question, right? That whether we are geared up to supply such volumes. I think that's fairly straightforward. We've been supplying very large volumes over many years now. And we are one of the largest manufacturers of thermal imaging sights in the country. So, we're not very concerned. Also, how our model of production is, manufacturing is very much like.

Manish Goyal: Sorry, Ankit. What I was trying to understand is that usually defence forces have a three-year plan, forward plan, and maybe a lot of this procurement would be qualified under serial production or say this year, next year. Is it already under that category, or how should we understand?

Ankit Kumar: Yes. So, see, what's happening right now is that a lot of thermal weapon sight procurements are happening under OCPP. I'm not sure if you're aware of the OCPP head, which is other than capital procurement procedures, where commands have powers to upgrade existing platforms. There are a lot of weapon upgrade programs which are going on.

There is, in fact, a very large list of programs that was released by SIDM a few months back, capturing most of the approved SIDM, approved OCPP procurements. OCPP is not multi-year. The timeline is not more than 12 months from the time they envisage the procurement to delivery. There is a large number of, large volume of sites which are going to get procured under this head.

Then there is capital. Capital will take time. Capital is still to kick in. We are still dealing with some RFIs right now with infantry, and we are expecting RFPs to come out soon, but that can take a year and a half for the trial, the testing procedure itself to complete. That is where your second point is valid, that it may take time and it may be delivered also over a few years, but OCPP ones are very fast.

Manish Goyal: BCT 1000 is under OCPP, or how is it?

Ankit Kumar: It is both. It is a mix of both.

Manish Goyal: Last question on the R&D. We have a strategy of debiting to the P&L as well as capitalizing some amount. I believe what you had explained earlier in the IPO time was that directed energy system, till you probably see revenues flowing in, you would not capitalize. Just want to know what is the number for current year and how much it is going to be both on P&L and on the capitalization.

Arvind Lakshmikumar: Okay. Siva will talk about the numbers. I will give you a context in terms of how to think about capitalization. Capitalization is not when revenue starts to flow in, when there is visibility of revenue, which means that the blue-sky research part of the technology development is complete, and you know that there is a customer intent put in either in terms of LOIs, or you know that, yes, the uncertainty, technology risk has been de-risked.

Engineering risk or product development risk is the one which is there. That is the time when you start capitalizing. Historically, what we have done, like for instance, in directed energy weapons, development of technology which goes into, let us say, the multi-beam klystron, which is the RF source, that gets expensed because that is still blue-sky research which we are experimenting.

But product development, taking the multi-beam klystron and making it into a product, which is the HPM source, that will get capitalized because you know that there is a customer intent, the 11 units which are there, both from India and from Europe. So, the capitalization, and it goes back to Indian accounting policies, where if it is blue-sky research, we cannot capitalize it. We need to expense it. So Siva, maybe you can just give color on the numbers that we intend to do for this year and next year.

Srivatsan Sivashankar: Yes. Let us break up into two, right? One is the research that we do for tactical platform, and the other is the research that goes into the high-power microwave system. I think in the first half of the year, there is a spend that we had on R&D with order of magnitude about INR16 crores, of which about INR3 crores or so went into P&L, and the rest of it was capitalized.

I would expect the same kind of trend to be there for H2 as well. So, the total R&D spend that we would have, order of magnitude will be about INR30 crores, of which the capitalized amount would be about INR25 crores or so. This is on the R&D, excluding HPM. As far as HPM is concerned, the total project cost is about INR160 crores or so, where the hard cost, which is the cost of materials that would need to be procured, is about INR120 crores.

The rest of it is soft cost, which will include the interest during construction. It will include the pre-operating costs like testing and so forth. It will also include the salaries of the people that we will have on our rolls. That order of magnitude over the next two and a half years will be about INR20 crores. The employee expenses capitalized for the HPM project will be about INR20 crores, and that is a subset of the INR160 crores.

Manish Goyal: Okay. And this product, what you develop would be eventually sold, right? What you will pay. When you say R&D, you incur of INR160 crores. It is basically you will be building that particular product, and it will get sold. How should it reflect that?

Srivatsan Sivashankar: Yes. So the product that we build itself can be sold, but what can likely happen is that once we have a product, we may be using it for demonstrations and stuff like that. The first unit that we produce may not get sold. It may just get accepted by the customer, and we will produce a few more units of that kind.

Answering your question, the entire INR160 crores is not a debit to the P&L in the sense it is not a cash burn. Some portion of the INR160 crores is represented by a hard asset, like a multi-beam klystron or a pulse concentrator or an antenna or whatever else.

Manish Goyal: Okay. Fair point, sir. Thank you so much, and all the best, sir.

Moderator: Thank you. That was the last question for today. I now hand the conference over to Mr. Arvind Lakshmikumar, sir, for closing comments.

Arvind Lakshmikumar: Thank you. Thank you, everyone. Those were insightful questions. Appreciate you taking the time, understanding our business. This is the first call post our listing, so hopefully we answered all your questions and you have a good grasp of what we have set out to build. Thank you, everyone.

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