Ideaforge Technology Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

- **The company has successfully transitioned from a hardware vendor to a combat-proven "Sovereign Tech" provider, leveraging a "Trust Moat" established via Operation Sindoor and a supply chain de-linked from China.**
- Revenue grew 40.26% YoY to □226 Cr, though top-line stability remains heavily tethered to the Government of India, which accounts for 69.23% of total contracts.
- ***Underlying profitability is fragile, with total KMP compensation of 11.87 Cr representing a disproportionate 237% of Operating Profit, indicating a mismatch between executive pay and cash generation.***
- ***The balance sheet has transitioned from a debt-free position to a leveraged model with 84 Cr in total debt, notably secured by personal promoter guarantees to fund long-term R&D assets.***
- ***Financial health is under significant pressure as evidenced by a deeply negative CFO of - 63 Cr and FCF of - 152 Cr, driven by a 125% surge in trade receivables that far outpaces revenue growth.***
- **Aggressive R&D investment is reflected in the □109 Cr Intangible Assets Under Development (IAUD), signaling a strategic pivot toward high-margin intelligence layers and loitering munitions.**
- ***Earnings quality is structurally weak due to the capitalization of 51.21% of employee costs (61.36 Cr), which artificially suppresses reported losses and masks the true operational burn.***
- ***The working capital cycle has deteriorated sharply, with debtor days spiking to 204 days, creating a liquidity mismatch that necessitates reliance on short-term debt.***
- ***Governance disclosures show gaps, specifically a board independence level of only 37.5% (below the 50% target) and related party transactions reaching 5.25% of revenue.***
- ***Primary investment risks involve high customer concentration and the potential for significant IAUD write-offs if the transition to cash-generative commercial contracts is delayed.***
- **The outlook is bolstered by a record □528.6 Cr order book and international validation through NATO training milestones and US orders, providing the highest revenue visibility in company history.**
- **Investment stance is ACCUMULATE based on the structural moat and order book strength; key monitorables include the conversion rate of the □528.6 Cr backlog and the reduction of debtor days.**

#	Analytical point	Sentiment
1	**The company has successfully transitioned from a hardware vendor to a combat-proven "Sovereign Tech" provider, leveraging a "Trust Moat" established via Operation Sindoor and a supply chain de-linked from China.**	—
2	Revenue grew 40.26% YoY to ₹226 Cr, though top-line stability remains heavily tethered to the Government of India, which accounts for 69.23% of total contracts.	—
3	***Underlying profitability is fragile, with total KMP compensation of ₹11.87 Cr representing a disproportionate 237% of Operating Profit, indicating a mismatch between executive pay and cash generation.***	—
4	***The balance sheet has transitioned from a debt-free position to a leveraged model with ₹84 Cr in total debt, notably secured by personal promoter guarantees to fund long-term R&D assets.***	—
5	***Financial health is under significant pressure as evidenced by a deeply negative CFO of -₹63 Cr and FCF of -₹152 Cr, driven by a 125% surge in trade receivables that far outpaces revenue growth.***	—
6	**Aggressive R&D investment is reflected in the ₹109 Cr Intangible Assets Under Development (IAUD), signaling a strategic pivot toward high-margin intelligence layers and loitering munitions.**	—
7	***Earnings quality is structurally weak due to the capitalization of 51.21% of employee costs (₹61.36 Cr), which artificially suppresses reported losses and masks the true operational burn.***	—
8	***The working capital cycle has deteriorated sharply, with debtor days spiking to 204 days, creating a liquidity mismatch that necessitates reliance on short-term debt.***	—
9	***Governance disclosures show gaps, specifically a board independence level of only 37.5% (below the 50% target) and related party transactions reaching 5.25% of revenue.***	—
10	***Primary investment risks involve high customer concentration and the potential for significant IAUD write-offs if the transition to cash-generative commercial contracts is delayed.***	—
11	**The outlook is bolstered by a record ₹528.6 Cr order book and international validation through NATO training milestones and US orders, providing the highest revenue visibility in company history.**	—
12	**Investment stance is ACCUMULATE based on the structural moat and order book strength; key monitorables include the conversion rate of the ₹528.6 Cr backlog and the reduction of debtor days.**	—

1. Business overview (In Bullet Points)

- **Business Segments & Revenue Drivers:** ideaForge is transitioning from a hardware vendor to a "Combat-Proven System Provider," with revenue primarily driven by the **Sale of Products (96.66%)**, specifically UAVs and spares. The introduction of the ZOLT (Tactical UAV) marks a shift toward higher-value tactical platforms.
- **Industry Position & "Operation Sindoor":** The company established a "Sovereign Tech" moat following **Operation Sindoor (May-June 2025)**, which served as a real-world proof of concept for ISR and post-strike assessment, leading to compressed procurement cycles (EP6).
- **Cost Drivers & R&D Intensity:** The business is vertically integrated and R&D-heavy, maintaining a **300+ member R&D team**. A significant cost driver is the "Built Different" philosophy, which protects IP but creates high fixed-cost intensity.
- **Expansion Plans & New Platforms:** Management is targeting the "Low-Altitude Economy" (Civil/Enterprise) via the **YETI** (logistics) platform, currently in the Technology Demonstrator (TD0) phase. There is also an explicit move into loitering munitions and kamikaze systems.
- **Geographical Presence:** While Defense remains the anchor in India, the company is penetrating the North American market (e.g., Texas Law Enforcement) and achieved a **NATO training milestone**, training NATO pilots on Indian-made systems.

- **Segment Performance:** The company saw a return to profitability in Q4 FY26 with highest-ever quarterly revenue of ₹**141 Cr**, though it remains reliant on "hockey-stick" performance in the final quarter.
- **Supply Chain Strategy:** Successfully "de-linked" critical components from land-border-sharing countries (China), creating a procurement barrier against competitors using assembled kits.

2. Management commentary & outlook

- Management has shifted from a "Visionary Defensive" stance to "Aggressive Execution," focusing on **EW (Electronic Warfare) Resilience** and GNSS-denied navigation as baseline mandates.
- The company is explicitly moving its value proposition to the "Intelligence Layer" via **flyght cloud**, aiming to decouple revenue from one-off hardware sales through SaaS/DaaS models.
- Strategic intent has expanded from "Passive ISR" to "Active Combat" segments, including loitering munitions, significantly expanding the Total Addressable Market (TAM).
- Record annual order bookings of ₹**528.6 Cr** provide the strongest revenue visibility in the company's history, though execution risk remains due to procurement timing and product mix volatility.
- The **YETI** logistics platform is expected to contribute to revenue in 18–24 months as it transitions from demonstrator to contracted order.
- Management admits a structural weakness in the reliance on Q4 performance but highlights the successful navigation of the "chasm" faced in FY25.
- The resignation of Ganapathy Subramaniam (NED) from the Risk Management Committee is a point of monitoring for potential board friction.
- **Management Tone:** The leadership team remains highly aligned and "combat-validated," demonstrating resilience by navigating the FY25 downturn and delivering record bookings. While the narrative is aggressive and visionary, a slight gap exists between the "50% Board Independence" claim and the actual 37.5% statutory reality. Overall, the tone is one of **Validated Confidence**, backed by a massive order book and successful real-world deployment (Operation Sindoor).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	226	161
Sales Growth %	40.26	-48.66
Expenses	221	213
Material Cost %	42	68.31
Raw material cost	106	100
Change in inventory	-11	10
Manufacturing Cost %	0	7.73
Employee Cost %	25.86	67.58
Other Cost %	30.01	-11.47
Operating Profit	5	-52
OPM %	2	-32
Other Income	22	21
Exceptional items	0	2.91
Other income normal	22.29	18.19
Interest	4	2
Depreciation	43	29
Profit before tax	-20	-62
Tax %	-15	0
Net Profit	-17	-62
Exceptional items AT	0	3
Profit excl Excep	-17	-65
Profit for PE	-17	-65
Profit for EPS	-17	-62
Profit Growth %	74	-250
EPS (□)	-3.94	-14.46
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	43	43
Reserves	556	566
Borrowings	84	16
Long term Borrowings	0	0
Short term Borrowings	72	0
Lease Liabilities	12	16
Other Borrowings	0	0
Other Liabilities	116	47
Trade Payables	41	9
Advance from Customers	0	1
Other liability items	75	37
Total Liabilities	799	672
Fixed Assets	247	97
Building	0	42
Plant Machinery	0	12
Equipments	0	5
Computers	0	8
Furniture n fittings	0	8
Vehicles	0	1
Intangible Assets	204	2
Other fixed assets	0	94
Gross Block	0	173
Accumulated Depreciation	0	76
CWIP	0	100
Investments	105	120
Other Assets	446	355
Inventories	143	94
Trade receivables	126	56
Receivables over 6m	0	29.91
Receivables under 6m	0	27.50
Prov for Doubtful	0	-1.39
Cash Equivalents	39	97
Loans n Advances	15	12
Other asset items	122	96
Total Assets	799	672

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	-63	-77
Profit from operations	10	-47
Receivables	-72	-12
Inventory	-49	4
Payables	33	-7
Loans Advances	0	0
Other WC items	15	-13
Working capital changes	-74	-27
Direct taxes	0	-2
Cash from Investing Activity	15	-68
Fixed assets purchased	-88	-88
Fixed assets sold	0	0
Investments purchased	0	-25
Investments sold	30	0
Interest received	4	13
Dividends received	0	0
Other investing items	69	31
Cash from Financing Activity	61	-8
Proceeds from shares	0	0
Proceeds from debentures	0	0
Proceeds from borrowings	72	0
Repayment of borrowings	0	0
Interest paid fin	-3	-1
Financial liabilities	-8	-7
Other financing items	0	0
Net Cash Flow	13	-152
Free Cash Flow	-152	-164
CFO/OP	-1,322	144

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	204	127
Inventory Days	550	312
Days Payable	157	29
Cash Conversion Cycle	597	410
Working Capital Days	419	403
ROCE %	-2	-10

3.2 Financial analysis summary

- **Revenue** from operations grew 40.26% to □226.00 Cr, but this is accompanied by a massive concentration risk as the Government of India (GoI) now accounts for 69.23% (□156.54 Cr) of total sales.
- While **Operating Profit** turned positive at □5.00 Cr with an OPM of 2.00%, the quality of earnings is impacted by the capitalization of 51.21% of total employee costs (□61.36 Cr) and □13.28 Cr of Other Expenses into Intangible Assets Under Development (IAUD).
- **Trade Receivables** surged by 125.31% to □126.00 Cr, far outstripping Revenue growth and causing Debtor Days to deteriorate to 204 days, contributing to a negative CFO of -□63.00 Cr.
- **Inventory** levels increased 51.87% to □143.00 Cr, with raw materials surging to □95.46 Cr for the "Infantry Project," leading to a bloated Cash Conversion Cycle of 597 days and a cash drain of -□49.00 Cr.
- The company transitioned from zero debt to a **Total Debt** of □84.00 Cr, primarily □72.13 Cr in short-term borrowings secured by personal guarantees of promoters to fund a negative FCF of -□152.00 Cr.
- **Depreciation** and amortization rose to □43.00 Cr following the expansion of Fixed Assets to □247.00 Cr, while Finance Cost increased to □4.00 Cr, resulting in a Net Loss of □17.00 Cr.
- **Other Assets** include □74.65 Cr in "Balances with Government Authorities" (GST/tax credits), representing 33% of annual Revenue trapped in statutory dues, further constraining liquidity.
- **ROCE** remains negative at -2.00%, reflecting inefficient use of the expanded Total Assets base of □799.00 Cr, while unrecognised Deferred Tax assets of □15.45 Cr signal management caution regarding immediate future profits.
- **Other Income** of □22.00 Cr, largely from interest and investment sales, acted as a critical buffer for the Net Profit line, though the underlying business remains cash-consumptive.
- **Other Expenses** analysis reveals that Legal and Professional fees (□19.56 Cr) and Manpower Recruitment (□5.28 Cr) are major drivers, with high legal spend likely linked to IP protection and US operations.
- The dominant financial theme of the year is **"Leveraged Growth via Aggressive Capitalization,"** where the company is using debt and R&D deferrals to bridge the gap between massive defense orders and a deeply negative cash flow cycle.

3.3 Contingent liabilities & commitments

- **Provision for Warranty:** □5.64 Cr (decreased from □6.07 Cr), maintained at ~0.90% of revenue.
- **Provision for Liquidated Damages (LD):** Static at □3.93 Cr; no new provisions made in FY26.
- **Capital Commitments:** Not explicitly disclosed in the Annual Report.
- **Litigation/Tax Disputes:** Significant liquidity (□74.65 Cr) is trapped in "Balances with Government Authorities" (GST/VAT credits).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	CFO/OP ratio is -1,322% indicating severe cash burn despite operational improvements.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk	—	Note 9: Receivables grew 125% YoY; ₹94.91 Cr is "Not Due," suggesting heavy Q4 billing.
3	Revenue timing (unbilled/advances)	Revenue ↑ — strong order book	—	Note 24(ii): Sharp spike in contract liabilities indicates aggressive collection for upcoming projects.
4	Revenue from related parties %	Neutral — low leakage risk	—	Note 35: Remuneration to promoters is uniform; Note 12(ii) confirms no loans to KMPs.
5	Inventory vs revenue growth	Profit ↓ — margin risk	—	Note 8: Raw material inventory surged 63.8% to ₹95.46 Cr for the "Infantry Project."
6	Inventory valuation method change	Neutral — consistent policy	—	Note 2.2(g): Valuation at lower of cost or NRV; FIFO method applied consistently.
7	Exceptional items in operating profit	Neutral — clean operating profit	—	P&L: FY25 had ₹2.91 Cr in exceptional items, but FY26 is clear of such adjustments.
8	Depreciation rate vs useful life policy	Profit ↑ — aggressive capitalization	—	Note 2.2(b): Policy allows capitalizing employee costs and overheads, inflating the asset base.
9	Provision reversals boosting PAT	Profit ↑ — lower warranty costs	—	Note 22: Static LD provision at ₹3.93 Cr and lower warranty provision boost reported PAT.
10	Tax rate consistency	Profit ↑ — non-cash tax credit	—	Note 14: Unrecognized deferred tax assets of ₹15.45 Cr suggest caution on future profits.
11	CWIP age and stalling projects	Profit ↓ — impairment risk	—	Auditor KAM: High judgment in R&D capitalization; project failures would trigger massive write-offs.
12	Deferred tax asset recognition	Neutral — conservative approach	—	Note 14: Management is cautious regarding immediate availability of future taxable profits.
13	RPT quantum and trend	Neutral — stable management costs	—	Note 35: Remuneration is split equally among three promoters; no unusual RPT outflows.
14	Dividend paid vs FCF adequacy	Neutral — no dividend	—	P&L: Dividend Payout 0%; FCF remains deeply negative due to heavy R&D and WC build.
15	Capitalization of Overheads	Profit ↑ — expense deferral	—	Note 31: Legal, professional, and electricity costs shifted to IAUD instead of P&L.
16	Statutory Liquidity Trap	Neutral — cash flow constraint	—	Note 12: 33% of revenue trapped in tax credits, acting as an interest-free loan to the government.
17	Promoter Guarantee Reliance	Neutral — credit risk	—	Note 17: Company's credit access is heavily tied to individual promoter standing rather than corporate collateral.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM 1: Intangible Assets Impairment:** Auditor flagged high judgment in R&D capitalization and future cash flow estimates. IAUD stands at ₹109.51 Cr; any project failure would lead to massive write-offs. * **KAM 2: Revenue Recognition:** Focused on the timing of transfer of control for complex UAV systems, noting a risk of cut-off errors. * **KAM 3: Inventory Obsolescence:**

Flagged due to rapidly changing technology in the drone sector. Valuation is at lower of cost or NRV, but slow-moving stock remains a risk.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | KMPs | Management | Remuneration | 11.87 Cr | **Neutral** | | Promoters | Promoters | Personal Guarantees | 72.13 Cr | ***High Reliance*** |

- **RPT Analysis:** Remuneration to the three core promoters (Ankit Mehta, Ashish Bhat, Rahul Singh) is uniform at □1.88 Cr each. Total KMP remuneration represents 5.25% of revenue. While no loans were granted to promoters, all bank facilities (□72.13 Cr) are secured by personal guarantees of promoters.

C. Shareholding | Holder | Mar 2026 (%) | Mar 2025 (%) | | :--- | ---: | ---: | | Promoters | 30.36 | 30.36 | | FII | 4.48 | 4.48 | | DII | 5.85 | 5.85 | | Public | 59.31 | 59.31 |

- **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation * **Total Directors:** 8 | **Independent %:** 37.50% | **Women Directors:** 1. * **KMP Compensation vs. Performance:** Total KMP compensation (□11.87 Cr) represents **237.4% of Operating Profit (□5.00 Cr)**. * **YoY Growth:** Executive pay grew by ~25-30% for the founding team despite the company reporting a net loss. CFO Vipul Joshi saw the highest growth (29.45%) following his board elevation.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :--- | :--- | :--- | :--- | :--- | | Capex (Fixed Assets) | 88.00 Cr | 88.00 Cr | -139.68% | ***Aggressive*** | | IAUD Increase (Net) | 13.89 Cr | 48.31 Cr | -22.05% | ***Aggressive*** | | Net Debt Change | 72.13 Cr | 0.00 Cr | -114.49% | ***Risk*** |

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** CFO (-□63.00 Cr) is unable to fund Capex (□88.00 Cr); gap bridged by **□72.13 Cr new short-term debt**.
  - **Nature of Capex:** Primarily growth-oriented with **□109.51 Cr locked in IAUD**.
  - **Deployment Efficiency:** Revenue grew 40.26% while Fixed Assets grew 154.6%, indicating a **significant lag in asset turnover**.
  - **Key Takeaways:** Shift to a **leveraged growth model** using short-term debt to fund long-term R&D.

H. Risks * ***Customer Concentration***: 69.23% revenue from GoI. **Impact:** High volatility; delays in defense budgets can collapse revenue. (High) * ***Receivables Divergence***: Receivables grew 125% vs 40% revenue. **Impact:** Cash flow strain; □126.22 Cr trapped in debtors. (High) * ***Inventory Obsolescence***: Raw material inventory surged 63.81%. **Impact:** Future write-downs if tech evolves or contracts delay. (Medium) * ***Statutory Liquidity Trap***: □74.65 Cr locked in GST credits. **Impact:** 33% of revenue trapped as interest-free loan to Govt. (Medium) * ***Leverage Shift***: Shift to □72.13 Cr debt. **Impact:** Increased interest costs and reliance on promoter guarantees. (Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	↑	Order book ₹528.6 Cr; Operation Sindoor validation	Transitioned from hardware vendor to combat-proven system provider with strong moat.
Financial health	2	↓	D/E shift; CFO -₹63 Cr; FCF -₹152 Cr	Negative cash flows and reliance on short-term debt to fund long-term R&D assets.
Earnings quality	3	↑	51% employee cost capitalized; 204 debtor days	Profitability is returning but heavily masked by aggressive R&D capitalization and slow collections.
Management & governance	3	→	37.5% Independent Directors; KMP pay > Operating Profit	Strong execution and alignment, but governance disclosures and pay-vs-profit ratios are weak.
Capital allocation & visibility	4	↑	₹528.6 Cr order book; ₹109 Cr IAUD	High visibility through record orders, though capex is yet to translate into positive cash flow.

Business positives (for this company this year) * **Order Book Growth:** Record annual order bookings of **₹528.6 Cr** provide the highest revenue visibility in company history. * **Operational Validation: Operation Sindoor** provided real-world combat validation, compressing procurement cycles for high-value tactical platforms. * **Strategic De-risking:** Successfully de-linked supply chain from China, creating a **security-based competitive barrier**. * **Market Expansion:** Achieved **NATO training milestone** and secured US law enforcement orders, validating global standards. * **Operating Leverage:** Returned to profitability in Q4 FY26 with **₹141 Cr** quarterly revenue, proving the model's scalability.

Business negatives / concerns (for this company this year) * **Cash Flow Stress:** Reported a deeply negative **CFO of -₹63.00 Cr** and FCF of -₹152.00 Cr, requiring debt to fund operations. * **Aggressive Accounting:** Capitalized **51.21% of employee costs (₹61.36 Cr)**, which artificially suppressed reported losses. * **Working Capital Deterioration: Debtor Days** spiked to 204 days with receivables growing 125%, far outstripping revenue growth. * **Customer Concentration:** Reliance on the **Government of India** increased to 69.23%, making the company vulnerable to budget delays. * **Governance Red Flag:** Total KMP compensation of **₹11.87 Cr** is 237% of Operating Profit, indicating a mismatch between executive pay and cash generation.

Overall scorecard summary ideaForge is in a high-growth, "combat-validated" phase with exceptional revenue visibility driven by a ₹528.6 Cr order book. However, its financial health is currently fragile, characterized by a shift to a leveraged model and deeply negative free cash flows. While management execution is strong, the quality of earnings is diluted by aggressive R&D capitalization and a deteriorating working capital cycle. The business is on a **stable but high-risk trajectory**, where the transition from "demonstrator" to "cash-generative" contracts is the critical next step.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 7/10 — Governance Rating: 3

Part c: investor verdict

Thesis: A high-moat sovereign tech play transitioning from hardware to intelligence-led combat systems, backed by a record order book but constrained by aggressive accounting and cash burn. **Overall stance:** ACCUMULATE **Rationale:** The "Trust Moat" from Operation Sindoor and the □528.6 Cr order book provide a structural floor, despite temporary working capital stress. **Re-evaluate when:** Debtor days exceed 250 days or IAUD write-offs occur due to project failure. **BULL CASE:** Successful commercialization of YETI and loitering munitions leading to FCF positivity in FY28. **BEAR CASE:** Prolonged GoI payment delays and failure to convert the order book, leading to a liquidity crunch. **Key monitorable:** Order Book Conversion Rate: □528.6 Cr → FY27 Revenue Target.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Revenue & Visibility	48.7% collapse with near-zero customer advances (□0.69 Cr).	40.3% recovery backed by record order bookings of □528.6 Cr.	The company has successfully pivoted from a demand vacuum to a massive backlog that now shifts the primary risk from sales to execution.
Capital Structure	Debt-free balance sheet sustained by remaining IPO proceeds.	Transitioned to a leveraged model with □84 Cr in total debt.	The exhaustion of equity cushions has forced a reliance on short-term borrowings secured by personal promoter guarantees to fund operations.
Working Capital Efficiency	CCC at 410 days; Debtor days at 127.	CCC exploded to 597 days; Debtor days at 204.	Liquidity is being severely throttled as receivables growth (125%) drastically outpaces revenue growth (40%), signaling potential collection bottlenecks.
Management Compensation	Voluntary pay cuts of >50% for top KMPs.	Executive pay restored with 25-30% growth.	Management has decoupled compensation from bottom-line performance, as pay increased significantly despite a continued net loss.
Margin Trajectory	Deeply negative OPM (-32%) due to revenue deleveraging.	Marginally positive OPM (2%) on higher volumes.	While operational break-even has been reached, the margin quality remains low and highly sensitive to the timing of government contract milestones.
Customer Concentration	High dependence on GoI at 56.9% of revenue.	Concentration intensified to 69.2% of revenue.	The business is becoming structurally more tethered to the lumpy and unpredictable Indian defense procurement cycle.
Expense Treatment	Capitalized □76.5 Cr of R&D (Salaries/Finance).	Capitalized 51% of total employee costs (□61.4 Cr) plus overheads.	The company is increasingly using aggressive capitalization of revenue-nature expenses to mask the true scale of its operational cash burn.

7.2 Persistent patterns

- **Aggressive R&D Capitalization:** The company consistently capitalizes a massive portion of employee and operating costs into Intangible Assets Under Development, which **artificially inflates the asset base and understates reported losses**.
- **Negative Free Cash Flow:** Despite fluctuating revenues, the business remains a **structural cash burner**, with FCF remaining deeply negative (<-□150 Cr) across both periods.
- **Statutory Liquidity Trap:** A significant and growing portion of capital (reaching □74.6 Cr) remains **permanently locked in government GST/tax credits**, acting as an interest-free loan to the state that strains working capital.
- **Pristine Pledge Status:** Promoters have maintained **zero encumbrance on their shareholding** across both years, providing a stable equity signal despite financial stress.
- **Technological Moat Focus:** There is a sustained commitment to 60%+ indigenization and IP-led development, reinforcing the **"Sovereign Tech" narrative that serves as the primary anchor for government procurement**.
- **Clean Audit History:** The company continues to receive **unqualified audit opinions** with consistent Key Audit Matters (KAMs) regarding revenue recognition and asset impairment.

- **Inventory Bloat:** Inventory levels remain consistently high relative to sales, reflecting the **necessity of holding large raw material stocks for long-gestation defense projects**.