



IPO Note
ideaForge Technology
Ltd.

23th June 2023

Company Overview

ideaForge Technology Ltd., a manufacturing company offering Unmanned Aircraft Systems (UAS), is engaged in drone manufacturing and deployment with applications across mapping, security and surveillance. The company has categorised its product portfolio into hardware, software and embedded sub-systems. The company offers a broad range of products with feature-based differentiation targeted to serve civil services and defence (dual use). The company's growth in revenue and profitability can be accredited to the robust product portfolio and technology differentiation with a market share of 50% in FY22. Along with this, their drones assist defence forces in conducting intelligence, surveillance and reconnaissance (ISR) operations along borders, help navigate a wide range of mining area planning and help boost construction and real estate. The reach and acceptance of the company's products can be gauged from the fact that an ideaForge-manufactured drone takes off every five minutes for surveillance and mapping on average. Presently, the company has its manufacturing facility in Navi Mumbai, Maharashtra, with in house automation systems, modern technology and advance equipment catering to 100 channel partners and three national distributors as of 31 May 2023.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ▷ Repayment/ prepayment, of certain indebtedness availed by the company.
- ▷ Funding working capital requirements.
- ▷ Investment in product development.
- ▷ General corporate purposes.

Investment Rationale

Market leading position in the Indian UAS market provides headroom for growth

ideaForge is the pioneer and market leader in the Indian 'UAS' market, with a market share of approximately 50% in FY22. Incorporated in 2007, the firm enjoys the first-mover advantage in the market, as it is among the first few Indian firms to enter the UAV industry as well as the first company to design and produce VTOL UAVs domestically in India in 2009. Additionally, they were the first business to take part in the 2018 Indian Mobile Congress demonstration of 5G-enabled UAVs. Their internal design, development, engineering, and manufacturing skills have allowed them to create better products based on changing client expectations, ultimately improving the customer experience. Their capacity to create fully integrated systems and command over the entire stack set them apart from other market participants. Due to their leadership and first mover advantage, they have been able to improve users' experiences by incorporating consumer data and ongoing technological advancements.

Diversified product portfolio catering to a wider customer base provides cushion to business

With a wide variety of products, ideaForge differentiates them based on features like weight class (about 2-7 kg), endurance class (25-120 minutes of flight time), take-off altitude range (up to 6,000 metres), communication range (around 2-15 km), payload kinds, etc. Their UAVs are used in a variety of civil and military applications. Additionally, their UAVs may be altered to handle applications in infrastructure, retail, agricultural, and delivery. As of 31 May 2023, the company catered to 265 clients spanning across Indian defence customers and civil customers comprising certain of the central armed police forces, state police departments, disaster management forces, forest departments and private contractors. Over the years, their consistent emphasis on product quality and dependability has resulted in client loyalty.

Valuation and Outlook

The business model aids companies like ideaForge to maintain long-term business relations with customers along with attaining healthy margins due to inherently high customer retention (approximately 90% of its revenue attained from repeat customers). The company has all the right ingredients such as the first mover advantage in the drone industry, diversified product portfolio, wide range of customers to sustain business performance in the long run. Moreover, sector tailwinds such as a ban of imports from drone manufacturers opens up a large opportunity for the company going forward. Additionally, as of 2022, the potential market size for the Indian drone industry was approximately USD 2.7 billion, with the Indian drone industry estimated to grow at an 80% CAGR in the FY22-27 period to USD 812 million. On the upper end of the price band, the issue is valued at 82.8x of the floor price. Also, the company's order book value contracted to Rs 192.3 crores in FY23 from Rs 310.9 crores a year earlier, with about 70% of revenues coming from Indian defence forces in FY23. Therefore, we recommend a "SUBSCRIBE" rating for the benefit of listing gains.

Source: StoxBox

Issue Details	
Offer Period	26 th June, 2023 - 29 th June, 2023
Price Band	Rs. 638 - Rs. 672
Bid Lot	22
Listing	BSE & NSE
Issue Size (no. of shares in mn)	8.6
Issue Size (Rs. in bn)	5.7
Face Value (Rs.)	10
Issue Structure	
QIB	75%
NIB	15%
Retail	10%
	JM Financial Limited
BRLM	IIFL Securities Limited
Registrar	Link Intime India Private Limited

Particulars	Pre Issue %	Post Issue %
Promoter	28.39	25.58
Promoter Group	5.57	4.61
Public	66.04	69.81
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Revenue			
Revenue from Operations	347	1,594	1,860
Total Revenue	347	1,594	1,860
Expenses			
Cost of material consumed	221	514	957
Changes in inventory	(38)	(102)	(369)
Employee benefit expenses	192	269	509
Other expenses	80	182	291
Total Operating Expenses	456	863	1,389
EBITDA	(109)	731	471
Depreciation and Amortization expenses	36	73	119
Other income	16	20	104
EBIT	(128)	678	456
Finance costs	17	177	48
PBT	(145)	502	408
Current tax	-	80	121
Deferred Tax charge/ (credit)	1	(18)	(33)
Total tax	1	62	88
PAT	(146)	440	320
Diluted EPS	(5)	13	8

Cash Flow Statement (Rs. in millions)

Particulars	FY20	FY21	FY22
Cash Flow from operating activities	(308)	665	(532)
Cash flow from investing activities	(68)	(308)	(1,489)
Cash flow from financing activities	428	(106)	1,762
Net increase/(decrease) in cash and cash equivalents	52	252	(259)
Cash and cash equivalents at the beginning of the period	1	53	304
Cash and cash equivalents at the end of the period	53	304	45

Source: StoxBox

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	1	1	213
Instruments entirely equity in nature	0	0	1
Other Equity	596	1,632	3,033
Total Equity	597	1,633	3,247
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	378	-	-
(ii) Lease liabilities	-	95	113
Provisions	19	24	25
Total Non-Current Liabilities	397	118	138
Current Liabilities			
Financial Liabilities			
(i) Borrowings	128	57	865
(ii) Lease liabilities	5	12	28
(iii) Trade Payables	47	75	140
(iv) Other Financial Liabilities	50	55	51
Provisions	7	55	63
Current tax liabilities (net)	-	9	66
Other current liabilities	6	209	281
Total Current Liabilities	243	472	1,494
Total liabilities	640	590	1,632
Total Equity and Liabilities	1,237	2,223	4,879
Assets			
Non-Current Assets			
Property, plant and equipment	9	22	82
Right of use of assets	5	108	156
Capital work in Progress	-	-	34
Other Intangible Assets	116	132	250
Intangible assets under development	142	191	215
Financial Assets	139	301	242
Deferred tax assets (net)	1	19	52
Non Current tax asset (net)	11	11	11
Other non current assets	0	3	1
Total Non current assets	423	787	1,042
Current Assets			
Inventories	234	489	1,047
Financial Assets			
(i) Trade Receivables	238	203	578
(ii) Cash and cash equivalents	53	304	45
(iii) Investments	-	107	1,241
(iv) Bank balances other than cash and cash equivalents	89	47	20
(v) Loans	0	1	1
(vi) Other financial assets	75	47	393
Other current assets	126	239	512
Total Current Assets	814	1,436	3,837
Total Assets	1,237	2,223	4,879

Key Risks

ideaForge is highly dependent on a single manufacturing facility. Hence, it is subject to risks in their manufacturing business in case of any shutdown or slowdown in the manufacturing operations and could negatively impact the business and its financials.

The company faces foreign exchange rate risks that could affect the results of operations due to its high dependence on imported raw material.

The company has a significant working capital which can affect its cash flows in the future.

Source: StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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