

JUNE 22, 2023

IPO Note

IDEAFORGE TECHNOLOGY LIMITED (ITL)

NOT RATED

(Note: All the information in this note is taken from RHP)

(For private circulation only)

Offer Details

The offer consists of offer for sale of up to 48,69,712 equity shares by the Selling Shareholders and Fresh issue of Rs240 cr. The price band is in the range of Rs.638-672/share. The total size of the issue is ~Rs567 cr at upper level of price band.

Offer details

Particulars	Details
Price Band	Rs. 638/- to Rs. 672/- per equity share.
Face Value	Rs10/share
Opening Date [^]	26-Jun-23
Closing Date	29-Jun-23
No. of shares pre-issue (nos. crs)	3.8
Fresh Issue (nos. crs)*	0.4
Offer for sale (nos. crs)	0.5
No. of shares post-issue (nos. crs)	4.2
Fresh Issue size (Rs Cr)	240
Offer for sale size (Rs Cr)*	327
Issue size (Rs Cr)*	567
Bid Lot size	22 Equity share & in multiple of 22 equity share thereafter.

Book building

QIB: (including Anchor)	75%
Non-Institutional	15%
Retail	10%
Listing	BSE & NSE
BRLM	JM Financial Limited, IIFL Securities Limited
Registrar to the issue	Link Intime India Private Limited.

Source: Company's RHP; [^]The Anchor Investor Bidding Date shall be one Working Day prior to the Bid/Offer Opening Date 23rd June 2023, *At upper price band

Objects of the offer

The offer comprises of the Fresh Issue and the Offer for Sale. The company will not receive any proceeds from the Offer for Sale. The Net Proceeds are proposed to be utilised in accordance with the details provided in the following table.

Objects of the offer

Particulars	Amount [^]
Repayment/prepayment of certain indebtedness availed by the Company	50
Funding working capital gap	135
Investment in product development	40
General corporate purposes & Offer related expenses*	NA
Total	NA

Source: Company RHP; [^]Includes the proceeds, received pursuant to the Pre-IPO placement. *To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern

Category	Pre-offer	Post-offer*
Promoters & Promoter group	34.0%	30.7%
Public	66.0%	69.3%
Total	100.0%	100.0%

Source: Company RHP, *At upper level of price band

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Selling shareholders

Name	Type	Total shares offered (Nos)
Ashish Bhat	Promoter Selling Shareholder	158,200
Amarpreet Singh	Individual Selling Shareholder	8,362
Nambirajan Seshadri	Individual Selling Shareholder	22,600
Naresh Malhotra	Individual Selling Shareholder	22,600
Sujata Vemuri	Individual Selling Shareholder	203,400
Sundararajan K Pandalgudi	Individual Selling Shareholder	51,980
A&E Investment LLC	Corporate Selling Shareholder	135,600
Agarwal Trademart Private Limited	Corporate Selling Shareholder	53,200
Celesta Capital II Mauritius	Corporate Selling Shareholder	1,106,722
Celesta Capital II-B Mauritius	Corporate Selling Shareholder	131,758
Export Import Bank of India	Corporate Selling Shareholder	202,044
Indusage Technology Venture Fund I	Corporate Selling Shareholder	1,695,000
Qualcomm Asia Pacific Pte. Ltd.	Corporate Selling Shareholder	1,055,646
Society for Innovation and Entrepreneurship	Corporate Selling Shareholder	22,600
Total		4,869,712

Source: Company RHP.

Business Overview

Ideaforge Technology Ltd (ITL) is the pioneer and the pre-eminent market leader in the Indian unmanned aircraft systems ("UAS") market, with a market share of approximately 50% in Fiscal 2022 (Source: 1Lattice Report). The company had the largest operational deployment of indigenous UAVs across India, with an ideaForge manufactured drone taking off every five minutes on average for surveillance and mapping as of FY23 (Source: 1Lattice Report). Its customers have completed over 350,000 flights using the company's UAVs as of March 31, 2023 (Source: 1Lattice Report). ITL ranked 7th globally in the dual-use category (civil and defence) drone manufacturers as per the report published by Drone Industry Insights in December 2022 (Source: 1Lattice Report). The company has grown at a CAGR of 131.47% in terms of revenue from operations over the last three Fiscals, with a Return on Capital Employed of 12.51% in FY23.

Its UAVs are equipped with industry leading specifications and capabilities, comparable to those of other established global players in the UAV industry (Source: 1Lattice Report). As a result of its continuous product development and innovation efforts, the company has filed 41 patent applications, which comprise of 20 applications filed internationally and 21 patent applications filed in India, as on June 17, 2023. A validation of its product competency and an example of global acceptance of its product was when its product SWITCH UAV, according to the 1Lattice Report, won the largest mini-VTOL UAV contract in March 2022, against global competitors from Russia, Israel, France, Ukraine and other countries.

ITL has one of the industry's leading product portfolios targeted at civil and defence applications (dual use) (Source: 1Lattice Report). It has a broad range of products with feature-based differentiation such as weight class (approximately 2-7 kg), endurance class (25-120 minutes flying time), take-off altitude range (up to 6,000 meters), communication range (approximately 2-15 km), payload types, etc. Beyond the UAVs, the company undertakes a full integration of its payloads, communication system and packaging. ITL also build its own software stack required for flight safety, autopilot sub-system, battery, power and communication in its UAVs. ITL believes, this integration of complex technologies while optimizing for performance, reliability and autonomy, not only

creates entry barriers for new entrants but also helps them to differentiate from other players in the market.

ITL's product portfolio consists of (a) hardware, which primarily includes UAVs, payloads, batteries, chargers and communication system (which enables communication between the ground control station and the UAVs), (b) software and embedded sub-systems, which includes the GCS software, which enables the controlling and management for its UAVs and autopilot sub-system, which enables remote control and autonomous completion of flights, and (c) solutions, which enables industry/ application specific software that enhances the value of its UAVs to the end customer.

Its customers include Indian defence customers and civil customers comprising certain of the central armed police forces, state police departments, disaster management forces, forest departments, private contractors in connection with smart cities, Pioneer Foundation Engineers Private Limited, and C.E. Info Systems Limited.

As of May 31, 2023, ITL had about 100 channel partners and three national distributors. ITL is one of the top vendors globally for dual use drones (Source: 1Lattice Report). Set forth below is its revenue break up from civil and defence sectors.

Revenue breakup

Particulars	FY21		FY22		FY23	
	Rs cr	(%)	Rs cr	(%)	Rs cr	(%)
Civil	29.89	86.09%	31.77	19.93%	39.97	21.49%
Defence	4.83	13.91%	127.67	80.07%	128.62	69.15%

Source: Company RHP.

ITL's manufacturing facility, situated in Navi Mumbai, Maharashtra, has an area of approximately 21,000 sq. ft., and is equipped with advanced equipment, modern technology with automation systems and has the ability to manufacture a wide range of products.

Key financial performance metrics

Rs cr	FY21	FY22	FY23
Revenue from operations	34.7	159.4	186.0
EBITDA	-9.3	75.1	57.5
EBITDA Margin	-26.7%	47.1%	30.9%
Profit/ (loss) for the year	-14.6	44.0	32.0
Profit after Tax Margin	-42.1%	27.6%	17.2%

Source: Company RHP

Order book

Rs cr	FY21	FY22	FY23
Order book	136.4	310.9	192.3
% of order from government entities	94.2	98.3	96.3

Source: Company RHP

Strengths

Pioneer and the pre-eminent market leader in the Indian UAS industry, with first-mover advantage

ITL is the pioneer and the pre-eminent market leader in the Indian UAS market, with a market share of approximately 50% in Fiscal 2022 (Source: 1Lattice Report). Its Promoters built their first quadrotor drone in 2004. The company started its operations in 2007 and with a first-mover advantage, it is among the first few companies in India to enter the UAV market and the first organisation to indigenously develop and manufacture VTOL UAVs in India in 2009 (Source: 1Lattice Report). In FY12, ITL developed the NETRA UAVs in partnership with a Government of India entity. It is also the first company to participate in the demonstration of 5G enabled UAVs at Indian Mobile Congress in 2018 (Source: 1Lattice Report). The company had the largest operational deployment of indigenous UAVs across India, with an ideaForge manufactured drone taking off every five minutes on average for surveillance and mapping as of March 31, 2023 (Source: 1Lattice Report). Its customers have completed over 350,000 flights using its UAVs as of March 31, 2023 (Source: 1Lattice Report). ITL ranked 7th globally in the dual-use category (civil and defence) drone manufacturers, as per the report published by Drone Industry Insights in December 2022 (Source: 1Lattice Report).

Dive Diversified product portfolio with a robust technology stack and track record of successful outcomes in critical use cases

ITL's product portfolios targeted at civil and defence applications (dual use) (Source: 1Lattice Report). ITL has a broad range of products with feature-based differentiation such as weight class (approximately 2-7 kg), endurance class (25-120 minutes flying time), take-off altitude range (up to 6,000 meters), communication range (approximately 2-15 km), payload types, etc. Each of its UAVs are designed with differentiations for addressing specific customer needs. ITL's UAVs are deployed in multiple use cases across defence and civil sectors. Further, its UAVs can be modified to address construction, infrastructure, retail, agriculture and delivery applications. ITL believes that its diversified product portfolio, and its ability to customise its products for specific usage as per its customers' specifications have helped them grow and establish a track record.

Strong relationships with a diverse customer base

As of May 31, 2023, the company served a diverse base of 265 customers. It caters to domestic and international customers across defence and civil sectors, primarily for surveillance, mapping and surveying. While ITL does not enter into long-term contracts with its customers, the company has developed long-standing relationships with them. Its continuous focus on product quality and reliability over the years has led to customer stickiness. For example, ITL has sold its first UAV to one of the state police departments in 2010 and since then it has received repeat orders from them. About 35% of its total customers are repeat customers who have placed at least two orders with the Company. Certain of its customers have steadily increased the volume of business they undertake with them over time. Its customers include Indian defence forces and civil customers comprising certain of the central armed police forces, state police departments, disaster management forces, forest departments, private contractors in connection with smart cities, Pioneer Foundation Engineers Private Limited and C.E. Info Systems Limited.

Customer relationship

Particulars	For the period from April 1, 2020 until March 31, 2023	For the period from April 1, 2018 until March 31, 2023
Number of repeat customers	71	92
% of total revenue from operations generated from these customers	94.25%	97.66%

Source: Company RHP

Significant product development capabilities powering its software and solutions and product differentiators

ITL is a vertically integrated company equipped with in-house product development centre, which allows them to design, develop, engineer and manufacture its UAVs. The company's focus on product development has been instrumental in the growth of its business and in improving its ability to customize solutions for its customers as well as in reducing its cost of products while maintaining its margins. ITL's product development centre is located in Navi Mumbai, Maharashtra and consists of 116 employees as on May 31, 2023,

Product development expenses

Particulars	FY23	FY22	FY21
Expenses incurred on its product under development (Rs cr)	20.674	11.397	8.921
As % of its total revenue from operations	11.11	7.15	25.7

Source Company RHP

In-house design to delivery capabilities

ITL design, develop, engineer and manufacture its UAVs in-house with a focus on performance, reliability and autonomy. Its own in-house product development centre allows them to design, develop and engineer its UAVs in line with the needs of its customers, which includes the software stack required for its UAVs. ITL's in-house design to delivery capabilities led them to develop various NETRA series UAVs, basis the evolving needs of its customers and technological advancements

Strong management capabilities with a demonstrated ability to deliver robust financial performance

ITL is led by a qualified and experienced management team, who are supported by a capable and motivated team of managers and other employees. The company's Promoters have knowledge and understanding of the drone industry in India.

Promoter/Key directors

Director	Profile
Srikanth Velamakanni	He is the Chairman and Independent Director of the Company and has been an Independent Director on the Board of the Company since December 14, 2022. He holds degree in bachelor of technology in electrical engineering from Indian Institute of Technology, Delhi and a post-graduate diploma in management from Indian Institute of Management, Ahmedabad. He is associated with Fractal Analytics Private Limited as the co-founder, group chief executive and executive vice chairman.
Ankit Mehta	He is the Chief Executive Officer and Whole-Time Director of the Company. He is a Promoter of the Company. He has been associated with the Company since its incorporation and has experience in the drone industry. In the Company, he is responsible for driving business growth, strategy, global expansion and investor relations. He holds a degree in bachelor of technology in mechanical engineering under the dual degree programme and a degree in master of technology in mechanical engineering with specialization in computer aided design and automation under the dual degree programme from Indian Institute of Technology, Bombay
Rahul Singh	He is the Vice President-Engineering and Whole-Time Director of the Company. He is a Promoter of the Company. In the Company, he is responsible for driving innovation and for product and technology roadmap. He has been associated with the Company since its incorporation and has experience in the drone industry. He holds a degree in bachelor of technology in mechanical engineering from Indian Institute of Technology, Bombay.
Ashish Bhat	He is the Vice President-Research & Development and Whole-Time Director of the Company. He is a Promoter of the Company. In the Company, he is responsible for driving innovation and for product and technology roadmap. He has been associated with the Company since its incorporation and has experience in the drone industry. He holds a degree in bachelor of technology in electrical engineering from Indian Institute of Technology, Bombay.

Source: Company RHP

Strategies

Continue to invest in product innovation, engineering and design

ITL will continue to invest substantially in product innovation, engineering, and design to expand its offerings and increase its market presence.

Expanding into international markets

ITL currently primarily cater to the requirements of the Indian market. India's large market with diverse and challenging geographical terrains gives an opportunity to solve complex problems at scale. The global drone industry is estimated to be US\$ 2,110 cr market in 2022 (Source: 1Lattice Report). The industry has witnessed a significant growth at a CAGR of 19% over 2018-2022 and is expected to grow even faster at a CAGR of 20% to be approximately US\$ 5140 cr in 2027 and further leap to approximately US\$ 9130 cr by 2030 (Source: 1Lattice Report). Through its extensive experience, established product portfolio and proven track record, ITL believes it is strongly positioned for providing products and solutions to international customers. ITL is currently present in Oman and USA and is evaluating its expansion in Bangladesh, Vietnam, and Nepal. The company also believes that it will be able to further expand its presence in the United States.

Expand its product portfolio and cater to new end-use applications and industries

The company will continue to expand its product portfolio and plan to provide differentiated offerings to its customers. UAVs are increasingly finding potential to be employed in multiple applications across infrastructure, retail, agriculture, logistics, and many other sectors.

Focus on indigenization

The company is continuously evaluating the potential of domestic vendors for the supply of components in order to reduce its dependency on import of components from global vendors and suppliers. ITL partially imports certain of its components such as carbon fibre tubes, landing gear, propellers, motors and antennas, required for manufacturing UAVs. The company was also shortlisted as one of the beneficiaries of the PLI Scheme and received an incentive of Rs17.42 cr from the Ministry of Civil Aviation, under the PLI Scheme.

Expand business services and software revenue through 'as a Service' offerings

ITL believes that it has the hardware and software capabilities to expand its business services revenue by providing 'drone as a service' ("DraaS") offerings. DraaS is a ready-to-fly network of drones which allows users to schedule or request on-demand flights, without the hassle of owning hardware, software or trained manpower (Source: 1Lattice Report). The customers can avail DraaS service on 'pay per use', which will help reduce their initial investment and increase adoption rate (Source: 1Lattice Report). The company also provides maintenance services to its customers, by entering into annual maintenance contracts with them.

Pursue strategic investment and acquisition opportunities

The company intends to selectively pursue strategic investment and acquisition opportunities that complement its growth strategy or strengthen or establish its presence in its targeted domestic and overseas market. ITL may also form strategic alliances with global and domestic players in various segments of the drone industry that bring synergies to its business.

Key risk factors

- ITL's revenue has increased in FY22 and FY21 and the number of orders it has received in the past, its current order book and its growth rate may not be indicative of the number of orders the company will receive in future.
- ITL has significant working capital gap. If it is unable to borrow or raise additional financing or furnish bank guarantees in future, it would adversely impact its business, cash flows and results of operations.
- The amount proposed to be utilised for investment in product development in FY24 and FY25 is based on management estimates, and is higher than its investments in product development for the last three Fiscals.
- The company has incurred losses in Fiscal 2021. In the event the company incurs net loss in the future, its business and financial condition may be adversely affected.
- ITL had a lengthy working capital cycle in the past. If it continues to experience lengthy working capital cycle in the future, it could have an adverse effect on its financial condition.
- The company is highly dependent on global vendors for the supply of components and may not be able to reduce its dependency on such imports.
- Its products are complex and technologically advanced and could have unknown defects or errors.

Financials

Restated consolidated statement of assets and liabilities

Particulars (Rscr)	FY21	FY22	FY23
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	0.9	2.2	8.2
Right -of- use Assets	0.5	10.8	15.6
Capital Work-in-Progress	-	-	3.4
Other Intangible Assets	11.6	13.2	25.0
Intangible Assets Under Development	14.2	19.1	21.5
Financial Assets			
(i) Investments	-	-	1.0
(ii) Other Financial Assets	13.9	30.1	23.2
Deferred Tax Assets (Net)	0.1	1.9	5.2
Non-Current Tax Assets (Net)	1.1	1.1	1.1
Other Non-Current Assets	0.0	0.3	0.1
Total Non-Current Assets	42.3	78.7	104.2
Current assets			
Inventories	23.4	48.9	104.7
Financial Assets			
(i) Investments	-	10.7	124.1
(ii) Trade Receivables	23.8	20.3	57.8
(iii) Cash and cash equivalents	5.3	30.4	4.5
(iv) Bank Balances other than cash and cash equivalents	8.9	4.7	2.0
(v) Loans	0.0	0.1	0.1
(vi) Other Financial Assets	7.5	4.7	39.3
Other Current Assets	12.6	23.9	51.2
Total Current Assets	81.4	143.6	383.7
TOTAL ASSETS	123.7	222.3	487.9
EQUITY AND LIABILITIES			
Equity			
Equity Share capital	0.1	0.1	21.3
Instruments entirely equity in nature	0.0	0.0	0.1
Other Equity	59.6	163.2	303.3
Total Equity	59.7	163.3	324.7
Liabilities			
Non Current Liabilities			
Financial Liabilities			
(i) Borrowings	37.8	-	-
(ii) Lease Liabilities	-	9.5	11.3
Provisions	1.9	2.4	2.5
Total Non-Current Liabilities	39.7	11.8	13.8
Current Liabilities			
Financial Liabilities			
(i) Borrowings	12.8	5.7	86.5
(ii) Lease Liabilities	0.5	1.2	2.8
(iii) Trade Payables			
(A) total outstanding dues of micro enterprises and small enterprises; and	1.9	2.4	4.6
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.	2.9	5.1	9.4
(iv) Other Financial Liabilities	5.0	5.5	5.1
Other Current Liabilities	0.6	20.9	28.1
Provisions	0.7	5.5	6.3
Current Tax Liabilities (Net)	-	0.9	6.6
Total Current Liabilities	24.3	47.2	149.4
TOTAL EQUITY AND LIABILITIES	123.7	222.3	487.9

Source: Company RHP

Restated consolidated statement of profit and loss

Particulars (Rscr)	FY21	FY22	FY23
Revenue from operations	34.7	159.4	186.0
Other income	1.6	2.0	10.4
Total Income	36.3	161.4	196.4
EXPENSES			
Cost of materials consumed	22.1	51.4	95.7
Changes in inventories of finished goods and work-in progress	-3.8	-10.2	-36.9
Employee benefits expense	19.2	26.9	50.9
Finance costs	1.7	17.7	4.8
Depreciation and amortisation expense	3.6	7.3	11.9
Other expenses	8.0	18.2	29.1
Total Expenses	50.8	111.3	155.6
Profit before exceptional items and tax	-14.5	50.2	40.8
Exceptional Items			
Profit/(Loss) before tax	-14.5	50.2	40.8
Tax expense/(credit) :			
Current tax	-	8.0	12.1
Deferred tax (credit) / expense	0.1	-1.8	-3.3
Total tax expense	0.1	6.2	8.8
Profit/(Loss) for the year (A)	-14.6	44.0	32.0
Other Comprehensive income for the year, net of tax (B)	0.1	0.0	0.0
Total Comprehensive Income for the year	-14.6	44.0	32.0

Source: Company RHP

Restated consolidated statement of cashflows

Particulars (Rscr)	FY21	FY22	FY23
Net cash generated from/(used in) from Operating Activities	-30.8	66.5	-53.2
Net cash (used in)/generated from investing activities	-6.8	-30.8	-148.9
Net cash generated from/ (used in) financing activities	42.8	-10.6	176.2
Net Increase in Cash & Cash Equivalents	5.2	25.2	-25.9
Cash &Cash Equivalent At The Beginning Of The Year	0.1	5.3	30.4
Cash & Cash Equivalent At The End Of The Year	5.3	30.4	4.5

Source: Company RHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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Disclosure/Disclaimer

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