

IPO Flash

June 26, 2023

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ideaForge Technology Ltd

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IPO Details:	
Issue opens	Monday, June 26, 2023
Issue closes	Thursday, June 29, 2023
Issue size	Rs 551 - 567 Cr
Type of issue	Fresh Issue and Offer for Sale
Offer size	Up to 48,69,712 Equity Shares
Fresh Issue	Equity Shares aggregating up to Rs 240 Crores
No. of shares offered:	~ 8441141 – 8631467
Implied Market Cap (Rs Cr)	2671 – 2800
Face value	Rs. 10 per share
Price band	638-672
Bid lot	22 Shares
QIB portion	Not more than 75% of the Offer
Non Institution portion	Not less than 15% of the Offer
Retail portion	Not less than 10% of the Offer

Source: Company RHP

ideaForge Technology Limited (ideaForge) is coming out with an initial public offer (IPO), consisting of an OFS and a fresh issue with total issue size of Rs. 551-567 crore. The price band for the said issue is Rs. 638-672 per share. The OFS is of 4.87 crore shares and fresh equity shares aggregating up to Rs. 240 crore.

Offer For Sale Details

Seller	No. of Shares
Promoter	
Ashish Bhat	1,58,200
Investor & other	
Individual selling shareholders	3,08,942
Corporate selling shareholders	44,02,570
Total OFS	48,69,712

Source: Company RHP

Objects of the Offer

The net proceeds are proposed to be used in accordance with the details provided in the following table:

Objects	Rs. crore
Repayment/prepayment of certain indebtedness	50
Funding working capital requirements	135
Investment in product development	40
General corporate purposes	[•]

Source: Company RHP

Shareholding pattern

Shareholder	Pre-issue		Post-issue*		Post-issue^	
	No of shares	Holding (%)	No of shares	Holding (%)	No of shares	Holding (%)
Promoters	1,29,40,534	34.0	1,25,78,934	30.0	1,25,78,934	30.2
Public	2,51,58,025	66.0	2,92,81,380	70.0	2,90,91,054	69.8
Total	3,80,98,559	100.0	4,18,60,314	100.0	4,16,69,988	100.0

Source: Company RHP, Sharekhan Research *Lower Price band ^Upper price band

About the company






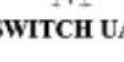

Founded in 2007, ideaForge is the fastest growing and most profitable player in the UAV industry. ideaForge is the pioneer and the market leader in the Indian unmanned aircraft systems (“UAS”) market, with a market share of 50+% in FY22. ideaForge has a diversified product portfolio of UAVs built for multiple use cases and has one of the industry’s leading product portfolios for civil and defence applications (dual use). ideaForge has the distinction of being the first company to indigenously develop and manufacture Vertical Take-off and Landing (VTOL) UAVs in India in 2009.

During the 2015 earthquake, ideaForge UAVs were used for site monitoring in Kathmandu, Nepal, and other locations to aid with the search and rescue activities.

ideaForges drones cater to various activities in defence and civil such as homeland security, agriculture, construction and real estate, mining, oil and gas, and power transmission, drone-as-a-service (DraaS), and geographic mapping.

ideaForge has filled more than 20 patents, deployed over 1,500 systems and trained over 3,200 pilots in governmental organizations and defence forces as of FY23. It has a wide range of products from light micro drones used for advanced mapping, to megaphone drones equipped with HD camera for surveillance and public announcement. The drones have advanced technical capabilities, covering distances up to 15 km with 120 minutes flying time and, 1,000 meters operating altitude. The company also has a custom in-house battery management system, ensuring higher life cycle of batteries, optimizing UAV operations.

The company is one of the few vendors globally to have a full stack UAV solution along with a Ground Control Software (‘BlueFire Touch’), firmware and solutions as well as robust after sales support. ideaForge also has one of the best support networks in India for UAVs. The airframe and autopilot sub-system software have been developed in-house along with full communication systems and a command centre.

Innovation in products	
 RYNO	<ul style="list-style-type: none"> RYNO, the micro-category drone has advanced mapping payload and state-of-the-art PPK module Owing to its high accuracy in mapping applications, RYNO is the only drone approved by SOI for Swamitva Yojana, one of the biggest drone mapping projects in the world
 Q6 UAV	<ul style="list-style-type: none"> Q6 Mapping UAV, the small category drone optimizes survey grade outputs while minimizing piloting workload. PPK antenna delivers continuous survey grade performance even over difficult terrain
 NINJA UAV	<ul style="list-style-type: none"> NPNT compliant autopilot, flight area breach prevention, independent GPS-tracking, built-in RFID Tag, fire resistant UIN plate
 Q4i	<ul style="list-style-type: none"> With its high zoom payloads, Q4i offers the situational awareness and clarity Unique snap fit mechanism Q4i is small category VTOL UAV build and tested military operations
 NETRA V4+	<ul style="list-style-type: none"> IP54 ingress certified, NETRA V4+ is fully autonomous with target tracking capability and versatile features to delivery outcomes in defense and civil applications
 SWITCH UAV	<ul style="list-style-type: none"> SWITCH UAV is a new age VTOL and fixed wing hybrid UAV Return home on low battery, high winds options available Multiple GPS for redundancy
 BlueFire Live	<ul style="list-style-type: none"> Bluefire is a state-of-the-art real time video streaming solution to integrate drones’ real time speed with the control center Remote users can have secured access to encrypted live-stream of drone’s feed video and work on open-protocols which are easily integrated into Video Management Systems

Source: Company RHP

Software and Manufacturing Facility

The company has a 21,000 square foot, 600-person capacity facility to cater to the growing demand. The manufacturing facility and product development centre is situated in Navi Mumbai, Maharashtra. This helps company to design, develop and improve their UAVs, with a continuous customer feedback. The ideaForge is one of the few OEMs globally to have its own proprietary autopilot sub-system and ground control software.

Brief profile of directors & top management

Srikanth Velamakanni 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 is the Chief Executive Officer and Whole-Time Director. He is a Promoter. He has been associated with the company since its incorporation and has experience in the drone industry. He holds a degree in master of technology in mechanical engineering from the Indian Institute of Technology, Bombay.

Rahul Singh is the Vice President-Engineering and Whole-Time Director. He is a Promoter. He has been associated with the company since its incorporation and has experience in the drone industry. He holds a degree in Bachelors of Technology in mechanical engineering from Indian Institute of Technology, Bombay.

Ashish Bhat is the Vice President-Research & Development and Whole-Time Director. He is a Promoter. 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.

Ganapathy Subramaniam is a Non-Executive Nominee Director and has been associated with the Company since November 28, 2017. He holds a degree in bachelor of engineering in electrical and electronics engineering from Bharathidasan University. He was previously associated with Texas Instruments (India) Private Limited.

Mathew Cyriac is a Non-Executive Nominee Director and has been associated with the Company since June 24, 2022. He holds a degree in bachelor of engineering in mechanical engineering from Anna University, Madras, and a Post-Graduate Diploma in management from the Indian Institute of Management, Bangalore. He was previously associated with Blackstone Advisors India Private Limited, DLJ Merchant Banking Partners, Bank of America and Credit Suisse First Boston Corporation.

Sutapa Banerjee is an Independent Director and has been an Independent Director on the Board since December 14, 2022. She holds a degree in post-graduate honours diploma in personnel management and industrial relations from XLRI Jamshedpur. She was an advanced leadership fellow at Harvard University in 2015. She was previously associated with Royal Bank of Scotland N.V., ABN AMRO Bank and Ambit Capital Private Limited.

Vikas Balia is an Independent Director and has been an Independent Director on the Board since December 14, 2022. He holds degree in doctor of philosophy from Jai Narain Vyas University, Jodhpur. He is a designated senior advocate in the Rajasthan High Court, Jodhpur and is an associate member of the Institute of Chartered Accountants of India.

Vipul Joshi is the Chief Financial Officer. He has been associated with the company since October 21, 2008. He holds a bachelor of commerce (honours) accounting degree from Jai Narain Vyas University, Jodhpur and he attended an MBA course at the University of Business & Finance, Switzerland. He has been the Chief Financial Officer since October 15, 2022 and has experience in finance and marketing. He was previously associated with Kebee Network Systems Private Limited and Arvin Meritor Commercial Vehicle Aftermarket AG.

Vishal Saxena is the Vice President - Sales and Business Development. He holds degree in bachelor of science and bachelor of technology from Jawaharlal Nehru University, New Delhi and has also done the post graduate programme in management from the Indian School of Business, Hyderabad. He was previously associated with CISCO Systems (India) Private Limited and the Indian Army.

Sonam Gupta is the Company Secretary and Compliance Officer and has been associated with the company since December 15, 2022. She was previously associated with Oriental Rail Infrastructure Limited and Bharat Wire Ropes Limited.

Pre-IPO Promoter holding

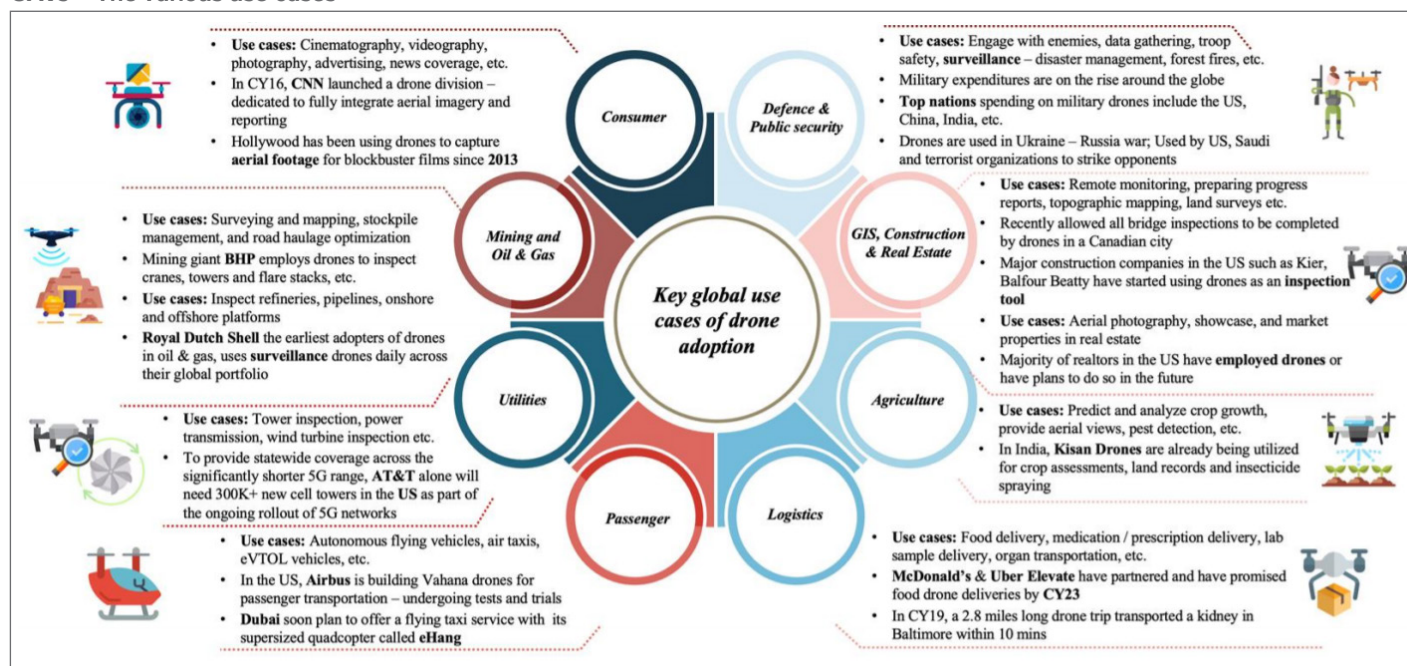
Promoters & promoter group	% of Pre-IPO of share capital	Total no. of Shares
Promoter		
Ankit Mehta	9.7	36,86,964
Ashish Bhat	9.3	35,47,070
Rahul Singh	9.4	35,83,230
Promoter group		
Sujata Vemuri	2.8	10,61,748.0
Ravi Bhagavatula	2.8	10,61,522.0
Total	34.0	1,29,40,534.0

Source: Company RHP

About the UAV industry

India is experimenting, exploring, and using drones for various use cases in both defence and civil sectors. On the civil front, agriculture, media and entertainment, energy and utilities, disaster management, geospatial mapping, forest and wildlife, and law enforcement are among the most prominent areas.

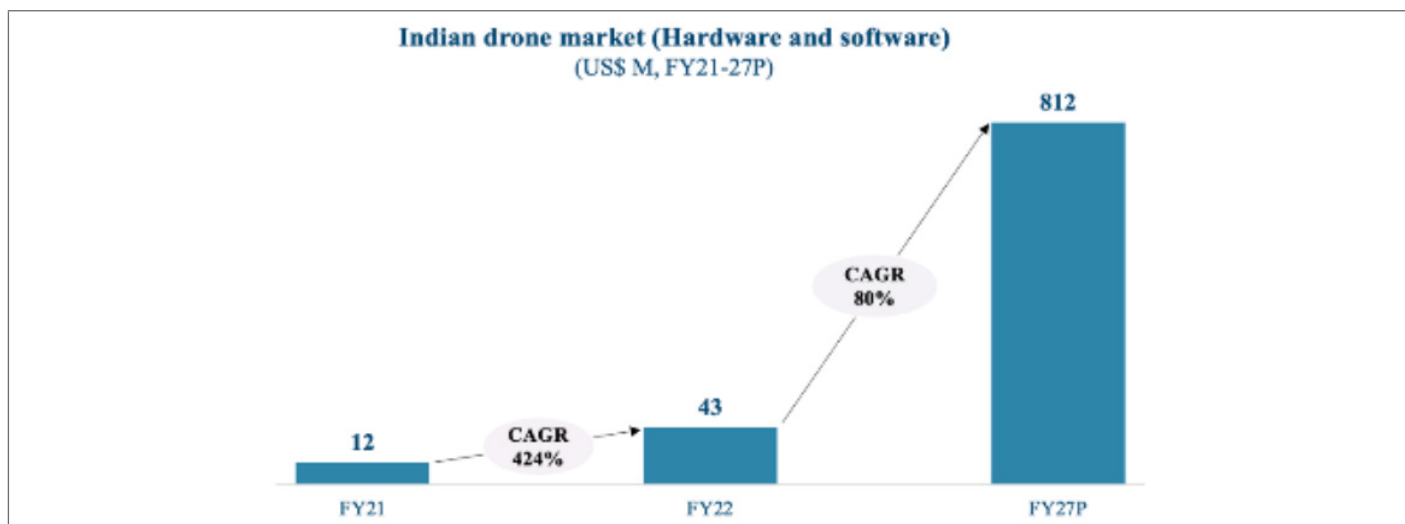
UAVs – The various use cases



Source: Company RHP

Currently, both globally and also in India, defence continues to be the largest segment. The Indian army has as part of its Make II program has significant requirements for the purchase of drones and also has published requirements for the purchase of integrated surveillance and loitering munition systems.

Regulatory bodies in India have taken a step towards a more liberalized approach after considering the potential of drones in boosting the economy. With the new 'The Drone Rules 2021', the government has taken several measures such as reducing extensive paperwork involved, increasing the number of "free to fly" green zones, and simplifying granting of permission for every drone flight, among others. As a result this transformed outlook and upcoming regulations will help boost the manufacturing potential in India to make India the drone hub of the world by 2030.



Source: Company RHP

Favourable policies, incentives and indigenous demand will be the key drivers to make India a global drone hub. The government's goal is to establish India as a global powerhouse for drone research and development, testing, production, operation, and export.

Key Trends in the Global Drone Industry

- ◆ **Relaxation in drone regulations:** Several aviation authorities have relaxed their guidelines to allow commercial and recreational use of drones. Previously, without a waiver, unmanned aircraft were generally not permitted to fly over people or out of the operator's line of sight. But as laws soften and drone usage increases for business purposes, widespread use of drones is sure to follow.
- ◆ **Growth in enterprise usage:** Technological advances from defence-funded R&D are anticipated to produce more enterprise-ready drone technology, accelerating adoption in the enterprise sector. Enterprise usage will continue to be driven by applications in GIS, agriculture, utilities, construction, oil and gas etc. due to low cost of service, improved operational efficiency, accuracy of data and safety. A few industries like mining, construction and agriculture have used drones for the past few years due to a healthy return-on-investment evaluation in such use cases.
- ◆ **Drone-as-a-service:** The "As a Service" concept has gained much traction in the technology sector. Similarly, corporations are using drones-as-a-service models, which is gaining significant traction due to higher operational efficiency and reduced cost. Drones can help various industries by incorporating specialised software into the embedded system, such as construction, mining, agriculture, utilities etc.
- ◆ **Positive attitude towards Beyond Visual Line of Sight (BVLOS):** Drones can travel great distances while operating in BVLOS mode, which increases data collection and boosts operational effectiveness. This is important for many industries, including security, data gathering and logistics. Nations such as the UK, Canada, Singapore, and Kenya have allowed BVLOS operations for different purposes and use cases. Considering the improving regulatory attitudes, it seems that BVLOS would be enabled on a larger scale.
- ◆ **A shift in the demand away from Chinese drones:** Countries have been disassociating from Made in China drones due to rise in anti-China sentiment and data-related security concerns.

Key Strengths:

- Pioneer and the pre-eminent market leader in the Indian UAS industry, with first-mover advantage:** The company is the pioneer and the market leader in the Indian UAS market, with a market share of approximately 50% in FY22 (1Lattice Report). The Promoters of the company built their first quadrotor drone in 2004. The company continued to focus on innovation and developed advanced UAVs to cater to the growing market which led to the sale of their first UAV in 2010 to one of the state police departments. ideaForge's customers have completed over 300,000 flights using their UAVs as of December 31, 2022, which has allowed them to continuously improve their technological capabilities. ideaForge is ranked the seventh globally as the dual-use category (civil and defence) drone manufacturers, as per the report published by Drone Industry Insights in December 2022.
- Diversified product portfolio:** The company has a diversified product portfolio of UAVs built for multiple use cases and have one of the industry's leading product portfolios targeted at civil and defence applications (dual use). They have 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 the company's UAVs are designed with differentiation for addressing specific customer needs. Further, the company can modify its UAVs to address construction, infrastructure, retail, agriculture and delivery applications.
- Long track record of successful outcomes in critical use cases:** The quality, durability and reliability of UAVs become important factor to customer who uses company's product for use cases which are critical. As part of manufacturing process, company's UAVs undergo a rigorous flying test, including a pre-flight check, hover check and range test, and also undergo extreme environmental lab testing before entering production. The company also tested its UAVs in extreme conditions, prevalent across India like high altitudes areas, deserts and glaciers. Company's SWITCH UAVs have been designed to be able to handle all terrains and extreme temperature conditions and have been purchased by one of their customers for surveillance in high altitude regions. The management believes that quality, durability and ability to service tough and different terrains have made their UAVs as the preferred choice for many of their customers in defence and security sectors.
- Robust technology stack:** The company is one of the few vendors globally to have a full stack UAV solution, along with a ground control software, firmware and solutions as well as robust after sales support. ideaForge support care plan, ideaForge Care, is one of the first-of-its-kind subscription-based support package, in the Indian UAV industry. Company's UAVs are equipped with AI-based image intelligence, which helps in 'people detection' and 'target-tracking'. Beyond the UAVs and GCS software, company have proprietary solutions such as BlueFire Live!, which enables encrypted live streaming of the UAV video feed and also allows payload control from a remote command location.
- Strong relationships with a diverse customer base:** As on December 31, 2022, the company served a diverse base of 265 customers. They cater to domestic and international customers across defence and civil sectors, primarily for surveillance, mapping and surveying. While ideaForge do not enter into long-term contracts with their customers, they have developed long-standing relationships with them. Company's continuous focus on product quality and reliability over the years has led to customer stickiness. About 35% of total customers are repeat customers who have placed at least two orders with the Company. Some of the company's customers have steadily increased the volume of business they undertake with the company over time.

Customer Profile

Particulars	For the period from April 1, 2020 until December 31, 2022	For the period from April 1, 2018 until December 31, 2022
Number of repeat customers	47	60
Percentage of total revenue generated from these customers	69.69%	68.02%

Source: Company RHP

- ◆ **In-house design to delivery capabilities:** The company's own in-house product development centre allows them to design, develop and engineer the UAVs in line with the needs of their customers, which includes the software stack required for UAVs. The company's manufacturing facility in Navi Mumbai, Maharashtra is equipped with advanced equipment, modern technology and automation systems to manufacture a wide range of products.

Key Concerns:

- ◆ **Industry is highly regulated and is subject to change:** The company operate in an industry which is highly regulated and are subject to stringent laws and regulations. If company fail to comply with the applicable regulations, they may be subject to penalties, incur increased costs, have their approvals and permits revoked or suffer a disruption in their operations.
- ◆ **Heavily reliant on sales to the central and state government agencies:** A decline in government budget, reduction in orders, termination of existing contracts, delay of existing contracts or any kind of adverse change in the government of India policies for UAVs sector would have a material adverse impact on the company's business, financial condition, and results of operations.
- ◆ **Dependence on global vendor:** The company is highly dependent on global vendors for the supply of components and may not be able to reduce their dependency on such imports. If critical components or raw materials become scarce or unavailable, then they may incur delays in manufacturing and delivery of their products which could damage their business. Moreover, the supply & cost of components can be subject to significant variation due to factors beyond their control.
- ◆ **Single manufacturing facility:** The company's business is dependent on the single manufacturing facility. Any slowdown or shutdown in their manufacturing operations could have an adverse effect on their business, financial condition and results of operations.
- ◆ **Forex risks:** The company partially import certain components such as carbon fibre tubes, landing gear, propellers, motors and antennas, required for manufacturing UAVs. They face foreign exchange risks that could adversely affect their results of operations.

Key financial highlights:

- ◆ Revenues grew by 16.7% y-o-y to Rs. 186 crore in FY23.
- ◆ Gross margins declined to 68.4% in FY23 from 74.1% in FY22.
- ◆ Consolidated OPM of the business declined to 25.3% in FY23 from 45.9% in FY22. Reported PAT stood at Rs. 32 crore in FY23, down from Rs. 44 crore in FY22.
- ◆ Cash conversion cycle days of the company has increased to 676 days in FY23 from 413 days in FY22.
- ◆ Debt:Equity ratio at comfortable position less than one times .
- ◆ It has a decent return profile with RoE and RoCE standing at 9.9% and 10.4% in FY23.

Valuation and view

At the issue price band of Rs. 638-672, the issue priced at a premium to its large peers, with a valuation of 78.6x/82.8x (based on dilutive equity shares) its FY2023 earnings. The premium reflects the immense potential of the drone technology sector, which is experiencing exponential growth worldwide. The Indian drone market is projected to reach \$812 million by FY27E, exhibiting an impressive CAGR of 80% from FY22-27. Several factors are driving this growth, including industry-friendly policies, increased demand for monitoring and surveying, cost-effective data collection, and the introduction of new use cases like utilities and search and rescue operations. As it is among the pioneers in unmanned aircraft systems in India, ideaForge is ideally positioned to capitalise on the abundant growth opportunities available in India and globally in the coming years.

Peer Comparison

Company	Revenues (Rs crore)	OPM (%)	Net Profit (Rs crore)	RoNW (%)	P/E* (x)	EV/ EBITDA (x)	Price to Sales (x)
MTAR Technologies Limited	574	26.8	103	16.7	57.0	38.8	10.3
Data Patterns India Limited	453	37.9	124	10.6	75.7	120.4	20.7
Astra Microwave Products	816	18.1	70	10.9	45.7	22.5	3.9
IdeaForge Technology Limited (upper band)	186	25.3	32	9.9	82.8	58.8	15.1
IdeaForge Technology Limited (lower band)					78.6	55.8	14.3

Source: Company RHP; Sharekhan Research *EPS is bases on Net profit after tax attributable to equity shareholders, as restated / Weighted average number of dilutive Equity Shares during FY23

FINANCIALS
Restated Consolidated Statement of Profit and Loss

Particulars	Rs cr			
	FY2020	FY2021	FY2022	FY2023
Gross revenue	14.0	34.7	159.4	186.0
Excise duty				
Revenue from operations (net)	14.0	34.7	159.4	186.0
y-o-y growth (%)		148.0	359.2	16.7
Cost of material	6.5	18.3	41.2	58.9
Gross Profit	7.5	16.4	118.2	127.1
Gross margins (%)	53.4	47.3	74.1	68.4
Employee expenses	12.8	19.2	26.9	50.9
Selling, distribution and marketing expense				
Other expenses	7.1	8.0	18.2	29.1
Total Expenditure	26.5	45.6	86.3	138.9
Operating profit/(loss)	-12.5	-10.9	73.1	47.1
OPM (%)	-89.4	-31.3	45.9	25.3
Other income	2.3	1.6	2.0	10.4
Finance cost	0.5	1.7	17.7	4.8
Depreciation	2.8	3.6	7.3	11.9
PBT	-13.4	-14.5	50.2	40.8
Tax expense	0.0	0.1	6.2	8.8
Adjusted PAT/Loss	-13.4	-14.6	44.0	32.0
NPM (%)	-96.0	-42.1	27.6	17.2
Exceptional items				
Adjusted PAT/Loss	-13.4	-14.6	44.0	32.0

Source: Company RHP

Restated Consolidated Statement of Assets and Liabilities

	Rs cr			
Particulars	FY2020	FY2021	FY2022	FY2023
Assets				
<u>Non-current assets</u>	-	-	-	-
Property, Plant & Equipment (incl right of use)	2.4	1.4	13.0	23.7
Capital WIP	0.0	0.0	0.0	3.4
Goodwill & Other Intangible assets	19.1	25.8	32.3	46.5
Other financial assets	7.3	13.9	30.1	24.2
Deferred tax assets (net)	1.4	1.2	3.0	6.3
Other non-current assets	0.3	0.0	0.3	0.1
<u>Current assets</u>	-	-	-	-
Inventories	10.9	23.4	48.9	104.7
Trade receivables	10.1	23.8	20.3	57.8
Cash & cash equivalent	0.1	5.3	30.4	4.5
Bank balance	0.0	8.9	4.7	2.0
Other financial assets	23.9	7.5	15.4	163.5
Other current assets	4.4	12.6	23.9	51.2
Total Assets	79.8	123.7	222.3	487.9
Equity Capital	0.1	0.1	0.1	21.4
Other equity	68.0	59.6	163.2	303.3
	68.1	59.7	163.3	324.7
Non-controlling interest				
<u>Non current liabilities</u>	-	-	-	-
Borrowings	0.1	37.8	0.0	0.0
Provisions	1.5	1.9	2.4	2.5
Other non-current liabilities	0.5	0.0	9.5	11.3
<u>Current liabilities</u>	-	-	-	-
Borrowings	5.2	12.8	5.7	86.5
Trade payables	0.8	4.7	7.5	14.0
Other liabilities	3.1	6.1	28.5	42.6
Provisions	0.5	0.7	5.5	6.3
Total Equity & Liabilities	79.8	123.7	222.3	487.9

Source: Company; Sharekhan Research

Restated Consolidated Statement of Cash Flows

	Rs cr			
Particulars	FY2020	FY2021	FY2022	FY2023
Net cash generated from operating activities	-16.5	-30.8	66.5	-53.2
Net cash generated from investing activities	4.8	-6.8	-30.8	-148.9
Net cash generated from financing activities	1.2	42.8	-10.6	176.2
Net increase/(decrease) in cash and cash equivalent	-10.5	5.2	25.2	-25.9
Cash at the beginning of the year	10.612	0.1	5.3	30.4
Cash and cash equivalent at end of the year	0.1	5.3	30.4	4.5

Source: Company RHP

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