

IPO Report

Choice

“Subscribe with Caution” to ideaForge Technology Ltd.

Pricey valuation not providing comfort given sluggish order-book



Salient features of the IPO:

- Qualcomm & Infosys backed **ideaForge Technology Ltd.** (ideaForge), the India’s largest drone manufacturer, is coming up with an IPO to raise around Rs. 570cr, which opens on 26th Jun. and closes on 29th Jun. 2023. The price band is Rs. 638 - 672 per share.
- The IPO consists of fresh issue (Rs. 240cr) and an OFS offering (Rs. 310.7 - 327.2cr). The company will not receive any proceeds from the OFS portion. From the fresh issue net proceeds, it will be utilizing Rs. 135cr for funding the working capital requirement; Rs. 50cr will be used for the repayment/prepayment of the certain borrowings and another Rs. 40cr will be invested in the product development. Residual funds will be used for general corporate purposes.
- On 7th Jun. 2023, ideaForge in consultation with the BRLM’s has undertaken a pre-IPO placement of 8.9lakh shares at Rs. 672 per share. Total amount raised was Rs. 60cr, consequently, the fresh issue portion was reduced from Rs. 300cr (as per DRHP) to Rs. 240cr.
- Few of the promoter & promoter group entities are participating in the OFS and offloading 3.6lakh equity shares. Pre-IPO, the promoter & promoter group had 33.97% stake in the company, which will get reduced to 30.19% post the conclusion of the IPO.
- Few of the investor selling shareholders like Celesta Capital, Indusage Technology Venture Fund, Qualcomm Asia Pacific Pte. Ltd., Export Import Bank of India etc. are also participating in the OFS and partially offloading their stake in ideaForge. Post-issue, public shareholding in the company will increase to 69.81% from pre-IPO stake of 66.03%.

Key competitive strengths:

- Pioneer and the pre-eminent market leader in the Indian UAS industry, with first-mover advantage
- Diversified product portfolio with a robust technology stack and track record of successful outcomes in critical use cases
- Strong relationships with a diverse customer base
- Significant product development capabilities powering the software, solutions and product differentiators
- In-house design-to-delivery capabilities
- Strong management capabilities with a demonstrated ability to deliver robust financial performance

Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Revenue concentration risk
- Difficulty in expanding the export business
- Lengthy working capital cycle
- Continued change in technological advancements and consumer preferences
- Unfavorable forex rates
- Difficulty in maintaining the profitability
- Competition

Below are the key highlights of the company:

- Drone technology is a sunrise sector, poised for exponential growth worldwide. Today, drones are used in a wide variety of defence and civil applications. In 2022, the global drone market is estimated at USD 21.1bn (a growth of 19% CAGR over 2018-22), further it is expected to grow even faster at a CAGR of 20% to reach a size of USD 51.4bn by 2027. (Source: RHP)

Issue details

Price band	Rs. 638 - 672 per share
Face value	Rs. 10
Shares for fresh issue	0.357 - 0.376cr shares
Shares for OFS	0.487cr shares
Fresh issue size	Rs. 240cr
OFS issue size	Rs. 310.7 - 327.2cr
Total issue size	0.844 - 0.863cr shares (Rs. 550.7 - 567.2cr)
Reserved for employees	0.001cr shares (Rs. 0.8 - 0.9cr)
Net issue size	0.843 - 0.862cr shares (Rs. 549.9 - 566.4cr)
Bidding date	26 th Jun. - 29 th Jun. 2023
Implied MCAP at higher price band	Rs. 2,800cr
Implied enterprise value at higher price band	Rs. 2,686cr
Book running lead manager	JM Financial Ltd. and IIFL Securities Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Aerospace & Defense
Promoters	Mr. Ankit Mehta, Mr. Rahul Singh and Mr. Ashish Bhat

Issue break-up

Category	Percent of issue (%)	Number of shares
QIB portion	75%	0.632 - 0.646cr shares
Non institutional portion (Big)	10%	0.084 - 0.086cr shares
Non institutional portion (Small)	5%	0.042 - 0.043cr shares
Retail portion	10%	0.084 - 0.086cr shares

Indicative IPO process time line

Finalization of basis of allotment	4 th Jul. 2023
Unblocking of ASBA account	5 th Jul. 2023
Credit to demat accounts	6 th Jul. 2023
Commencement of trading	7 th Jul. 2023

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	33.97%	30.19%
Public	66.03%	69.81%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	22
Employee discount	Rs. 32 per equity share
Application money	Rs. 14,784 per lot

Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return				Total operating revenue (Rs. cr)	EBITDA (Rs. cr)	PAT (Rs. cr)	Gross margin	EBITDA margin	PAT margin
					1 M	3 M	6 M	1 Y						
ideaForge Technology Ltd.	10	672	2,800	2,686					186	47	32	68.4%	25.3%	17.2%
Apollo Micro Systems Ltd.	1	43	999	1,122	31.2%	58.2%	59.4%	282.9%	298	64	19	29.8%	21.6%	6.3%
Astra Microwave Products Ltd.	2	358	3,096	3,171	7.1%	51.4%	24.4%	93.7%	816	148	70	36.4%	18.1%	8.6%
Bharat Electronics Ltd.	1	125	91,518	91,518	17.0%	35.2%	23.5%	65.5%	17,734	4,086	2,984	44.6%	23.0%	16.8%
Centum Electronics Ltd.	10	1,326	1,709	1,930	58.5%	137.4%	97.0%	229.9%	923	75	7	55.0%	8.1%	0.7%
Dynomatic Technologies Ltd.	10	3,780	2,567	3,025	10.5%	44.5%	45.4%	123.0%	1,316	181	43	52.0%	13.8%	3.3%
MTAR Technologies Ltd.	10	1,956	6,015	6,100	3.7%	17.8%	18.2%	50.7%	574	154	103	53.0%	26.8%	18.0%
Paras Defence and Space Technologies Ltd.	10	631	2,461	2,435	21.2%	31.8%	2.5%	17.5%	222	57	36	52.6%	25.5%	16.2%
Average												46.2%	19.6%	10.0%

Company name	4Y revenue growth (CAGR)	4Y EBITDA growth (CAGR)	4Y PAT growth (CAGR)	4Y average EBITDA margin	4Y average PAT margin	4Y capital employed growth (CAGR)	4Y CFO growth (CAGR)	4Y average working capital cycle (Days)	4Y average fixed asset turnover (x)	34 average total asset turnover (x)	4Y average RoE	4Y average RoIC
ideaForge Technology Ltd.	136.9%			-12.4%	-23.3%	56.7%	47.9%	294.9	2.0	0.4	-2.5%	1.7%
Apollo Micro Systems Ltd.	6.6%	9.8%	10.3%	19.8%	5.8%	10.0%		466.2	2.3	0.4	4.4%	7.3%
Astra Microwave Products Ltd.	20.4%	18.5%	16.6%	15.4%	6.9%	7.7%	51.7%	286.6	4.1	0.7	7.7%	9.9%
Bharat Electronics Ltd.	11.0%	17.4%	17.8%	21.7%	15.3%	15.7%	-21.0%	190.2	4.1	0.5	19.5%	18.8%
Centum Electronics Ltd.	-0.2%	1.2%	-30.4%	9.1%	0.3%	-5.6%	-13.8%	139.6	3.5	0.9	1.4%	9.0%
Dynomatic Technologies Ltd.	-1.1%	4.4%	3.1%	13.2%	1.4%	-0.8%	-16.6%	70.5	1.8	0.8	4.1%	12.6%
MTAR Technologies Ltd.	39.0%	38.5%	48.9%	29.3%	17.6%	46.8%	-49.1%	193.2	1.4	0.5	13.0%	12.4%
Paras Defence and Space Technologies Ltd.	14.8%	12.7%	22.4%	28.0%	13.8%	20.0%		323.3	1.1	0.4	8.7%	9.5%
Average	12.9%	14.6%	12.7%	19.5%	8.7%	13.4%	-9.8%	238.5	2.6	0.6	8.4%	11.3%

Company name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio (x)	Fixed asset turnover ratio (x)	Total asset turnover ratio (x)	RoE	RoCE	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning yield
ideaForge Technology Ltd.	7.7	103.2	0.0	0.2	2.5	0.3	7.4%	15.7%	87.5	6.5	14.4	57.0	15.1	1.1%
Apollo Micro Systems Ltd.	0.8	16.6	0.0	0.4	2.2	0.4	4.9%		53.1	2.6	3.8	17.4	3.4	1.9%
Astra Microwave Products Ltd.	8.1	74.2	1.4	0.3	4.8	0.8	10.9%	20.6%	44.4	4.8	3.9	21.5	3.8	2.3%
Bharat Electronics Ltd.	4.1	19.0	1.7	0.0	4.6	0.5	21.5%	25.4%	30.7	6.6	5.2	22.4	5.2	3.3%
Centum Electronics Ltd.	5.2	163.5	2.5	1.2	4.6	0.9	3.2%	11.2%	255.1	8.1	2.1	25.7	1.9	0.4%
Dynomatic Technologies Ltd.	63.0	798.1	2.8	1.1	2.0	0.8	7.9%	14.7%	60.0	4.7	2.3	16.7	2.0	1.7%
MTAR Technologies Ltd.	33.6	201.6	0.0	0.2	1.6	0.5	16.7%		58.2	9.7	10.6	39.6	10.5	1.7%
Paras Defence and Space Technologies Ltd.	9.3	106.0	0.0	0.0	1.4	0.4	8.7%	11.5%	68.2	6.0	11.0	42.9	11.1	1.5%
Average				1.2	0.5	3.0	10.5%	16.7%	81.4	6.1	5.5	26.6	5.4	1.8%

Note: Financials as of FY23 (with IPO adjustments); Source: Choice Broking Research

- The potential Indian drone market in 2022 was estimated at USD 2.71bn, of which potential from defence sector is projected to be 47.4% of the total market, followed by logistics and enterprise, each with 28.1% and 17.8%, respectively. India finds itself to be at a critical juncture in the evolutionary timeline of drone technology and aims to position itself as a global drone hub by 2030. The domestic drone market is projected to grow from USD 43mn in FY22 to USD 812mn by FY27, i.e. a growth of 80% CAGR. Major growth drivers behind domestic drone market are favorable government policies (such as New Drone Policy, PLI scheme etc.), increased demand for monitoring & surveying, cost-effective data collection and introduction of new use cases such as utilities inspection and search & rescue operations. (Source: RHP)
- Founded in 2007, ideaForge is India's fastest growing and most profitable player (among PLI eligible players) in the unmanned aerial vehicle (UAV) market in FY22. It is the pioneer and the pre-eminent market leader in the domestic market, with a market share of over 50%. Being among the first few players to enter the UAV market, ideaForge has a first-mover advantage and also has the distinction of being the first company to indigenously develop and manufacture Vertical Take-off and Landing UAVs in India in 2009. It is one of the beneficiaries of the government's production linked incentive scheme, which was launched in 2021. The company received an incentive of Rs. 17.4cr under this scheme in FY23.
- As of Sept. 2022, it was the largest drone manufacturer in India and had the largest operational deployment of UAVs across the country. In FY23, ideaForge manufactured drone were taking off every five minutes on average for surveillance and mapping. Moreover, its customers have completed over 350,000 flights using its UAVs. As per the RHP, the company is ranked 7th globally in the dual-use category (civil and defence) drone manufacturers.
- Over the years of operations, it has raised funding from various investors including Infosys Ltd., Qualcomm Asia Pacific Pte. Ltd., Celesta Capital II Mauritius, Celesta Capital II-B Mauritius, Florintree Enterprise LLP, Export Import Bank of India and Infina Finance Pvt. Ltd. Of these, few of the investors are participating in the OFS portion of the IPO and partially offloading their stakes. Cumulatively, these investors held around 37% stake in the company, which will decline to around 28% post-IPO.
- ideaForge has one of the market leading product portfolios targeted at civil and defence applications. Its UAV operates under extreme conditions like low temperatures at high altitude and very high temperatures in the desert areas. The company 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.

Key highlights of the company (Contd...):

- Beyond the UAVs, it also undertakes a full integration of its payloads, communication system and packaging. ideaForge also has its own software stack required for flight safety, autopilot sub-system, battery, power and communication. Its capabilities of integrating complex technologies, performance, reliability and autonomy, not only creates entry barriers for new entrants but also helps the company in differentiating itself from the other players in the market.
- ideaForge is one of the few original equipment manufacturers globally to have its own proprietary autopilot sub-system and ground control software. BlueFire Touch, its ground control software, is built for planned and command missions. BlueFire Live!, another innovative software-as-a-service offering, enables encrypted live streaming of the UAV video feed and payload control. Continuous efforts towards product development and innovation, resulted in the company filing 41 patent applications, comprise of 20 international applications and 21 domestic patents. Currently, ideaForge has 25 patents, of which 10 are registered in India and rest in other jurisdictions.
- Its product portfolio consists of Hardware, which primarily includes UAVs, payloads, batteries, chargers and communication system (which enables communication between the ground control station and the UAVs); Software & embedded sub-systems, which enables the remote controlling & management of UAVs and autopilot sub-system; and Solutions, which includes industry/ application specific software that enhances the value of its UAVs to the end customer.
- As of May 2023, ideaForge has served a diverse base of 265 customers. It catered to domestic and international customers across defence and civil sectors, primarily for surveillance, mapping and surveying. The company's 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 etc.
- ideaForge derived almost all of its revenue from the domestic market in FY23. Considering its capabilities and diverse products & solutions, it is planning to further expand in the international market. The company is looking to further expand in the US, which is the biggest market for drones. Moreover, to increase the drone adoption rate across the use cases in the domestic market, it is looking to provide "drone-as-a-service" offerings, which is a ready-to-fly network of drones available on "pay per use" business model.
- The company had an order book of Rs. 2.3cr in FY20, however, mainly with government policy support its order book zoomed to Rs. 192.3cr by the end of FY23. Orders from the defence sector contributed around 96% of the total order book, while the rest were from the civil applications. Since 2022, the Indian government has totally banned the import of drones. Despite policy support, there is a concern on the adoption rate of the drones in the domestic market, which resulted in almost nil order during H2 FY23, compared to H1 FY23. The current order book doesn't provide revenue and cash flow continuity beyond a year.
- ideaForge's operating and financial performance over FY20-23 looks less encouraging. It reported operating loss in initial two years, of which FY21 was the pandemic year. In the later part, profitability improved, but business growth was muted. Order book increased by 336.4% CAGR to Rs. 192.3cr in FY23. On low base and government policy support, the company reported a 136.9% CAGR rise in the consolidated revenue to Rs. 186cr in FY23. Net cost of goods sold increased by 108.1% CAGR (a rate lower than top-line growth), resulting to a material/gross profit margin expansion by almost 15ppts. With spike in the revenue generation and better absorption of other variable expenses, consolidated EBITDA was in green during FY22 and FY23, compared to an operating loss in FY20 and FY21. Compared to FY22, EBITDA margin contracted by around 21ppts during FY23, mainly on account of higher ESOP expenses. Excluding ESOP expenses, FY23 EBITDA margin would be flat at around 44% in FY23. Reported PAT was in red in FY20 and FY21, but stood at Rs. 44cr and Rs. 66.7cr in FY22 and FY23, respectively. PAT margin during FY22 and FY23 stood at 27.6% and 35.9%, respectively. Except for FY20, ideaForge reported a negative operating cash flow over rest of the period. Financial liabilities increased by 132.4% CAGR, however with better profitability debt-to-equity ratio stood at 0.3x in FY23. Pre-issue RoIC and RoE stood at 40.7% & 20.1% and 26.9% & 20.5%, respectively, in FY22 and FY23.
- Based on our quick conservative estimate, over FY23-25 we are forecasting a top-line growth of 12.7% CAGR to Rs. 236.1cr in FY25E. EBITDA margin to expand by around 16ppts, mainly on account of lower ESOP expenses. PAT margin is likely to be at 27.8% in FY25E, compared to 17.2% in FY23. RoIC and RoE is forecasted to be at 10.8% and 12.1%, respectively, compared to 7% and 7.4% in FY23 (adjusted for the fresh issue).

Peer comparison and valuation: ideaForge is operating in a sunshine sector, which has a bright long-term outlook. Apart from the current application in defence and civil sectors, the adoption of drone applications in other sectors are not encouraging, which is getting reflected in the order book of the company. Also the competition is huge in this market with the presence of many well financed competitors.

There are no peers having product profile similar to ideaForge. The above peers are selected based on the sector/end-usage. At higher price band, ideaForge is demanding a P/E multiple of 87.5x (to its FY23 earning), which is at significant premium to the prevailing valuations of the peers. We feel all the positives like dominant market position, medium-term growth outlook are getting factored-in the demanded valuation. Sluggish order book is also not providing comfort, thus we assign a "**Subscribe with Caution**" rating for the issue.

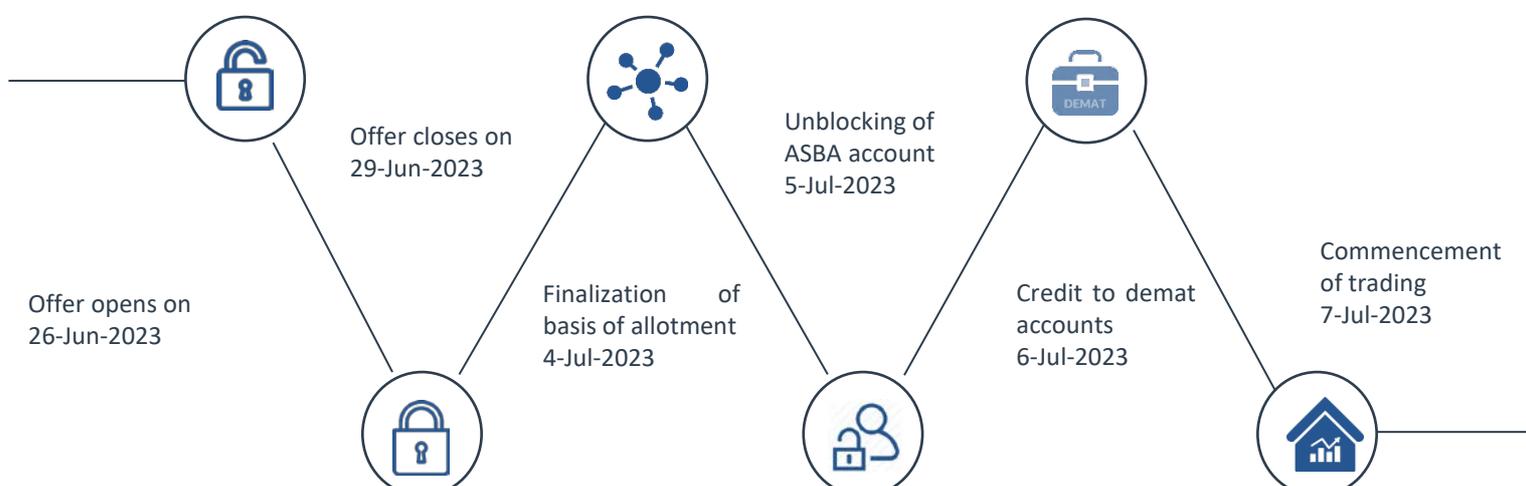
About the issue:

- IdeaForge is coming up with an IPO with 0.844 - 0.863cr shares (fresh issue: 0.357 - 0.376cr shares; OFS shares: 0.487cr shares) in offering. This offer represents 20.26 - 20.62% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 550.7 - 567.2cr.
- The issue is through book building process with a price band of Rs. 638 - 672 per share.
- Lot size comprises of 22 equity shares and in multiple of 22 shares thereafter.
- The issue will open on 26th Jun. 2023 and close on 29th Jun. 2023.
- 0.13lakh shares are reserved for eligible employees. The company has offered a discount of Rs. 32 per equity share for the employees.
- The IPO consists of fresh issue (Rs. 240cr) and an OFS offering (Rs. 310.7 - 327.2cr). The company will not receive any proceeds from the OFS portion. From the fresh issue net proceeds, it will be utilizing Rs. 135cr for funding the working capital requirement; Rs. 50cr will be used for the repayment/prepayment of the certain borrowings and another Rs. 40cr will be invested in the product development. Residual funds will be used for general corporate purposes.
- On 7th Jun. 2023, ideaForge in consultation with the BRLM's has undertaken a pre-IPO placement of 8.9lakh shares at Rs. 672 per share. Total amount raised was Rs. 60cr, consequently, the fresh issue portion was reduced from Rs. 300cr (as per DRHP) to Rs. 240cr.
- Few of the promoter & promoter group entities are participating in the OFS and offloading 3.6lakh equity shares. Pre-IPO, the promoter & promoter group had 33.97% stake in the company, which will get reduced to 30.19% post the conclusion of the IPO.
- Few of the investor selling shareholders like Celesta Capital, Indusage Technology Venture Fund, Qualcomm Asia Pacific Pte. Ltd., Export Import Bank of India etc. are also participating in the OFS and partially offloading their stake in ideaForge. Post-issue, public shareholding in the company will increase to 69.81% from pre-IPO stake of 66.03%
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	33.97%	30.19%
Public	66.03%	69.81%

Source: Choice Equity Broking

Indicative IPO process time line:



Pre-issue financial performance:

Performance over FY20-23: ideaForge's operating and financial performance over FY20-23 looks less encouraging. It reported operating loss in initial two years, of which FY21 was the pandemic year. In the later part, profitability improved, but business growth was muted. Order book increased by 336.4% CAGR to Rs. 192.3cr in FY23.

On low base and government policy support, the company reported a 136.9% CAGR rise in the consolidated revenue to Rs. 186cr in FY23. Sales of products and services contributed 88% and 2.7%, respectively, in FY23, while the rest was mainly from the PLI incentives received. On product application front, defence and civil sector contributed 76.3% and 23.7% to the total business from the sales of products and services.

Net cost of goods sold increased by 108.1% CAGR (a rate lower than top-line growth), resulting to a material/gross profit margin expansion by almost 15ppts. With spike in the revenue generation and better absorption of other variable expenses, consolidated EBITDA was in green during FY22 and FY23, compared to an operating loss in FY20 and FY21. Compared to FY22, EBITDA margin contracted by around 21ppts during FY23, mainly on account of higher ESOP expenses. Excluding ESOP expenses, FY23 EBITDA margin would be flat at around 44% in FY23.

Depreciation charge and finance expenses increased by 62.2% and 117.8% CAGR, respectively. Reported PAT was in red in FY20 and FY21, but stood at Rs. 44cr and Rs. 66.7cr in FY22 and FY23, respectively. PAT margin during FY22 and FY23 stood at 27.6% and 35.9%, respectively.

Except for FY20, ideaForge reported a negative operating cash flow over rest of the period. Financial liabilities increased by 132.4% CAGR, however with better profitability, debt-to-equity ratio stood at 0.3x in FY23. Pre-issue RoIC and RoE stood at 40.7% & 20.1% and 26.9% & 20.5%, respectively, in FY22 and FY23.

Pre-issue consolidated financial snapshot (Rs. cr)	FY20	FY21	FY22	FY23	CAGR over FY20-23	Y-o-Y (FY23 annual)
Sales of products	11.8	31.0	153.9	163.6	139.9%	6.3%
Sale of services	2.2	3.7	5.5	5.0	32.2%	-9.5%
Other operating revenues	0.0	0.0	0.0	17.4		
Revenue from operations	14.0	34.7	159.4	186.0	136.9%	16.7%
Gross profit	7.5	16.4	118.2	127.1	157.2%	7.6%
EBITDA	(12.5)	(10.9)	73.1	47.1		-35.6%
Reported PAT	(13.4)	(14.6)	44.0	32.0		-27.3%
Restated reported EPS	(3.2)	(3.5)	10.6	7.7		-27.3%
Cash flow from operating activities	(16.5)	(30.8)	66.5	(53.2)	47.9%	
NOPLAT	(15.3)	(14.6)	57.7	27.6		-52.2%
FCF		(44.8)	19.7	(131.4)		
RoIC (%)	-25.0%	-15.9%	40.7%	9.0%	3,397 bps	(3,177) bps
Revenue growth rate		148.0%	359.2%	16.7%		
Gross profit growth rate		119.7%	620.2%	7.6%		
Gross profit margin	53.4%	47.3%	74.1%	68.4%	1,498 bps	(579) bps
EBITDA growth rate		-13.2%	-772.8%	-35.6%		
EBITDA margin	-89.4%	-31.3%	45.9%	25.3%		(2,054) bps
Restated reported PAT growth rate		8.8%	-400.9%	-27.3%		
Restated reported PAT margin	-96.0%	-42.1%	27.6%	17.2%		(1,040) bps
Inventory days	283.0	180.2	82.8	150.7	-18.9%	82.0%
Debtor days	263.7	178.0	50.4	76.7	-33.8%	52.0%
Payable days	(21.5)	(29.3)	(14.0)	(21.1)	-0.6%	50.4%
Cash conversion cycle	525.3	328.9	119.2	206.3	-26.8%	73.0%
Fixed asset turnover ratio	0.7	1.3	3.5	2.5	57.0%	-28.2%
Total asset turnover ratio	0.2	0.3	0.7	0.4	29.5%	-46.8%
Current ratio	5.1	4.9	3.0	2.6	-20.5%	-15.6%
Quick ratio	4.0	3.5	2.0	1.9	-22.4%	-7.0%
Total debt	8.4	56.0	21.9	105.7	132.4%	383.6%
Net debt	(3.6)	41.9	(23.9)	(24.9)	90.7%	4.3%
Debt to equity	0.1	0.9	0.1	0.3	38.1%	143.2%
Net debt to EBITDA	0.3	(3.9)	(0.3)	(0.5)		62.0%
RoE (%)	-19.7%	-24.5%	26.9%	9.9%	2,959 bps	(1,710) bps
RoA (%)	-16.9%	-11.8%	19.8%	6.6%	2,341 bps	(1,324) bps
RoCE (%)	-26.3%	-15.6%	50.9%	16.9%	4,326 bps	(3,393) bps

Note: Pre-IPO financial and ratios; Source: Choice Equity Broking

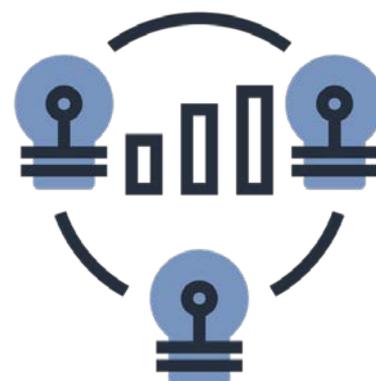


Competitive strengths:

- Pioneer and the pre-eminent market leader in the Indian UAS industry, with first-mover advantage
- Diversified product portfolio with a robust technology stack and track record of successful outcomes in critical use cases
- Strong relationships with a diverse customer base
- Significant product development capabilities powering the software, solutions and product differentiators
- In-house design-to-delivery capabilities
- Strong management capabilities with a demonstrated ability to deliver robust financial performance

Business strategy:

- Continue to invest in product innovation, engineering and design
- Expanding into international markets
- Expand product portfolio and cater to new end-use applications and industries
- Focus on indigenization
- Expand business services and software revenue through 'as a Service' offerings
- Pursue strategic investment and acquisition opportunities



Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Revenue concentration risk
- Difficulty in expanding the export business
- Lengthy working capital cycle
- Continued change in technological advancements and consumer preferences
- Unfavorable forex rates
- Difficulty in maintaining the profitability
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)						
	FY20	FY21	FY22	FY23	CAGR over FY20 - 23	Annual growth over FY22
Revenue from operations	14.0	34.7	159.4	186.0	136.9%	16.7%
Cost of materials consumed	(7.7)	(22.1)	(51.4)	(95.7)	131.8%	86.3%
Change in inventories of finished goods and work-in-progress	1.2	3.8	10.2	36.9	217.1%	262.7%
Gross profit	7.5	16.4	118.2	127.1	157.2%	7.6%
Employee benefits expenses	(12.8)	(19.2)	(26.9)	(50.9)	58.3%	89.6%
Other expenses	(7.1)	(8.0)	(18.2)	(29.1)	59.8%	59.7%
EBITDA	(12.5)	(10.9)	73.1	47.1		-35.6%
Depreciation & amortization expenses	(2.8)	(3.6)	(7.3)	(11.9)	62.2%	62.8%
EBIT	(15.3)	(14.4)	65.8	35.2		-46.5%
Finance costs	(0.5)	(1.7)	(17.7)	(4.8)	117.8%	-72.6%
Other income	2.3	1.6	2.0	10.4	64.8%	417.4%
PBT	(13.4)	(14.5)	50.2	40.8		-18.7%
Tax expenses	(0.0)	(0.1)	(6.2)	(8.8)	979.6%	42.7%
Reported PAT	(13.4)	(14.6)	44.0	32.0		-27.3%

Consolidated balance sheet statement (Rs. cr)						
	FY20	FY21	FY22	FY23	CAGR over FY20 - 23	Annual growth over FY22
Equity share capital	0.1	0.1	0.1	21.3	521.2%	
Other equity	68.0	59.7	163.2	303.4	64.6%	85.9%
Non-current borrowings	0.1	45.3				
Non-current lease liabilities	0.5		9.5	11.3	190.0%	19.3%
Non-current provisions	1.5	1.9	2.4	2.5	19.7%	4.6%
Trade payables	0.8	4.7	7.5	14.0	157.1%	86.7%
Current borrowings	5.2	5.3	5.7	86.5	155.0%	1424.0%
Current lease liabilities	0.8	0.5	1.2	2.8	48.7%	123.1%
Other current financial liabilities	1.8	5.0	5.5	5.1	41.4%	-6.8%
Current provisions	0.5	0.7	5.5	6.3	136.3%	14.2%
Current net tax liabilities			0.9	6.6		645.2%
Other current liabilities	0.5	0.6	20.9	28.1	284.3%	34.7%
Total liabilities	79.8	123.7	222.3	487.9	82.9%	119.5%
Property, plant and equipment	0.9	0.9	2.2	8.2	109.5%	268.0%
Intangible assets	2.2	11.6	13.2	25.0	123.2%	89.3%
Right-of-use assets	1.5	0.5	10.8	15.6	119.0%	44.1%
Capital work-in-progress				3.4		
Intangible assets under development	16.8	14.2	19.1	21.5	8.5%	12.7%
Non-current investments				1.0		
Other non-current financial assets	7.3	13.9	30.1	23.2	46.9%	-23.1%
Non-current net tax assets	1.1	1.1	1.1	1.1	0.5%	0.0%
Net deferred tax assets	0.2	0.1	1.9	5.2	176.4%	176.3%
Other non-current assets	0.3	0.0	0.3	0.1	-26.9%	-63.9%
Inventories	10.9	23.4	48.9	104.7	112.9%	114.0%
Trade receivables	10.1	23.8	20.3	57.8	78.8%	184.7%
Current investments	11.9		10.7	124.1	118.4%	1065.0%
Cash & cash equivalents	0.1	14.1	35.1	6.5	299.4%	-81.5%
Current loans	0.0	0.0	0.1	0.1	26.5%	39.3%
Other current financial assets	12.0	7.5	4.7	39.3	48.7%	745.1%
Other current assets	4.4	12.6	23.9	51.2	126.1%	113.8%
Total assets	79.8	123.7	222.3	487.9	82.9%	119.5%

Note: Pre-IPO financials; Source: Choice Equity Broking

Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)						
	FY20	FY21	FY22	FY23	CAGR over FY20 - 23	Annual growth over FY22
Cash flow before working capital changes	(11.9)	(4.9)	80.1	78.0		-2.7%
Working capital changes	(4.2)	(26.0)	(6.5)	(124.8)	210.0%	1830.1%
Cash flow from operating activities	(16.5)	(30.8)	66.5	(53.2)	47.9%	
Purchase of fixed assets and CWIP	(9.2)	(9.0)	(13.5)	(33.1)	53.3%	145.6%
Cash flow from investing activities	4.8	(6.8)	(30.8)	(148.9)		384.1%
Cash flow from financing activities	1.2	42.8	(10.6)	176.2		
Net cash flow	(10.5)	5.2	25.2	(25.9)	35.0%	
Opening balance of cash	10.6	0.1	5.3	30.4	42.0%	478.4%
Closing balance of cash	0.1	5.3	30.4	4.5	268.5%	-85.2%

Consolidated financial ratios				
Particulars	FY20	FY21	FY22	FY23
Profitability ratios				
Revenue growth rate		148.0%	359.2%	16.7%
Gross profit growth rate		119.7%	620.2%	7.6%
Gross profit margin	53.4%	47.3%	74.1%	68.4%
EBITDA growth rate		-13.2%	-772.8%	-35.6%
EBITDA margin	-89.4%	-31.3%	45.9%	25.3%
EBIT growth rate		-5.5%	-555.7%	-46.5%
EBIT margin	-109.3%	-41.6%	41.3%	18.9%
Restated adjusted PAT growth rate		8.8%	-400.9%	-27.3%
Restated adjusted PAT margin	-96.0%	-42.1%	27.6%	17.2%
Turnover ratios				
Inventory receivable turnover ratio	1.3	2.0	4.4	2.4
Trade receivable turnover ratio	1.4	2.1	7.2	4.8
Accounts payable turnover ratio	17.0	12.5	26.1	17.3
Fixed asset turnover ratio	0.7	1.3	3.5	2.5
Total asset turnover ratio	0.2	0.3	0.7	0.4
Return ratios				
RoIC (%)	-25.0%	-15.9%	40.7%	9.0%
RoE (%)	-19.7%	-24.5%	26.9%	9.9%
RoA (%)	-16.9%	-11.8%	19.8%	6.6%
RoCE (%)	-26.3%	-15.6%	50.9%	16.9%
Per share data				
Restated adjusted EPS (Rs.)	(3.2)	(3.5)	10.6	7.7
DPS (Rs.)	0.0	0.0	0.0	0.0
BVPS (Rs.)	16.3	14.3	39.2	77.9
Operating cash flow per share (Rs.)	(4.0)	(7.4)	16.0	(12.8)
Free cash flow per share (Rs.)		(10.8)	4.7	(31.5)
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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