

Recommendation	Subscribe
Price Band	Rs. 638-672
Bidding Date	26 <sup>th</sup> June – 29 <sup>th</sup> June
Book Running Lead Manager	JM Financial Limited, IIFL Securities Limited
Registrar	Link Intime India Pvt Ltd
Sector	Defence

#### Minimum Retail Application- Detail At Cut off Price

Number of Shares	22
Minimum Application Money	Rs 14784
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	159	186
EBITDA	73	68
Adj PAT	44	53

Valuations (FY23 Ann.)	Upper Band
Market Cap (Rs Cr)	2800
Adj EPS	12.8
PE	52.6
EV/ EBITDA	42.4
Enterprise Value (Rs Cr)	2896

Post Issue Shareholding Pattern	
Promoters	30.7%
Public	69.3%

Offer structure for different categories	
QIB (Including Mutual Fund)	75%
Non-Institutional	15%
Retail	10%
Post Issue Equity (Rs Cr)	41.67
Issue Size (Rs Cr)	567
Face Value (Rs)	10

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#### BACKGROUND

Idea Forge is a Mumbai-based, vertically integrated firm, which designs and manufactures drones for mapping, security and surveillance applications. It is the market leader in the Indian unmanned aircraft systems (“UAS”) market, with a market share of 50% in FY22. It has been ranked seventh globally in the dual-use category (civil and defense) drone manufacturers.

#### Objects and Details of the Issue:

The public issue consists of Offer for sale aggregating upto Rs 327 Cr and fresh issue of equity shares aggregating upto Rs 240 Cr. The company proposes to utilise the Net Proceeds from the fresh issue towards repayment/prepayment of indebtedness, funding working capital requirements, investment in product development and general corporate purposes.

#### Investment Rationale:

- Indian drone market is expected to grow at a CAGR of 80% by FY27
- Significant barriers to entry
- Investment in product innovation, engineering and design
- Strong relationship with customers
- Strong and consistent financial performance

#### Valuation and Recommendation:-

ITL being the pioneer and market leader with 50% market share is ideally positioned to benefit from this huge growth in the drone industry. ITL’s growth and margin are superior to listed defence companies. ITL’s valuation appears reasonably attractive considering its leadership position and future growth opportunities in the niche industry of drones. Thus we recommend to Subscribe to the IPO.

Financials (Rs Cr)	FY21	FY22	FY23
Net Revenues	34.7	159.4	186.0
<b>Growth</b>	NA	359.2%	16.7%
Adj. EBIDTA	-10.9	73.1	68.3
<b>Adj. EBITDA Margins</b>	-31.3%	45.9%	36.7%
Adj. PBT	-14.5	50.2	62.0
Adj. PAT	-14.6	44.0	53.2
Adj. EPS	-3.5	10.6	12.7
ROCE	-11.6%	37.8%	15.7%
EV/Sales	83.4x	18.2x	15.6x
EV/EBITDA	-266.6x	39.6x	42.4x
P/E	-191.5x	63.7x	52.6x

Source: NBRR

**Company Background**

Incorporated in 2007, idea Forge Technology Limited is the pioneer and the pre-eminent leader in the Indian Unmanned Aerial Vehicle (UAV) market. It is a leader in the Indian unmanned aircraft segment with a 50% market share (FY22). It is the 7th largest in the world in the dual-use category (Civil & Defence) of drone manufacturing. They have the largest operational deployment of indigenous UAVs across India.

It manufactures drones used for surveillance and mapping. In addition, the company also offers software solutions, including a drone data management system that can help clients manage their data more effectively. The company's UAV platforms are designed on a 'mission first' basis, meaning they meet customer requirements, can reliably complete many flights, and operate autonomously without specialised knowledge or training. The company is not only one of the first players in the Indian UAV market, but also the first company to design and manufacture UAVs with vertical take-off and landing (VTOL) capability in India.

The 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 of 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 UAVs.

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.

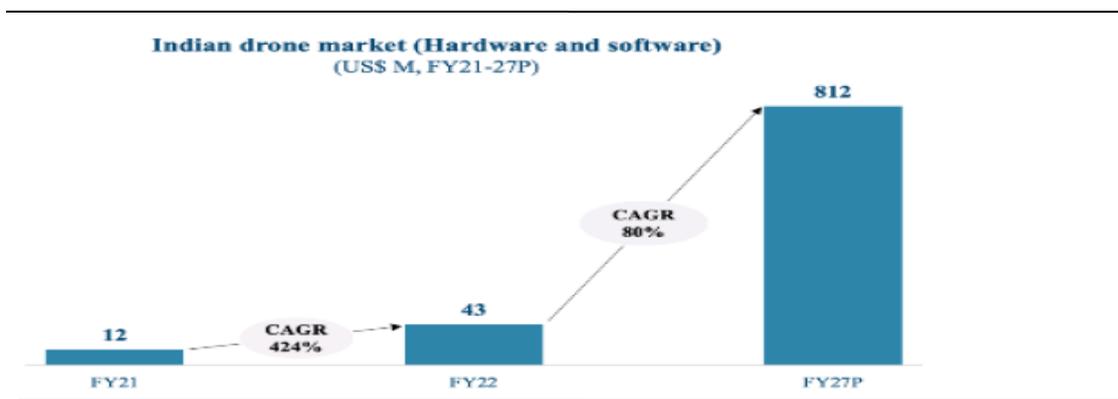
	Civil		Dual Use			Defence	
	NINJA	RYNO	Q4i	Q6	NETRA V4+	SWITCH	NETRA V4 PRO
<b>Product</b>							
<b>Features</b>	Lightest UAV - Operable during day & night	Micro category survey-grade UAV	Small category VTOL & most economical with military grade standards	Small category UAV. Quadcopter design enables large scale mapping	Intelligent & portable VTOL UAV. Suitable for mission-critical application	Fixed wing & VTOL hybrid, switch UAV. Advanced flight time, higher safety	Wide range & quick snap fit mechanism without the dependency on tools
<b>End Use</b>	Security and surveillance	Mapping, land survey, mining area planning, construction & real estate	Security & Surveillance, traffic & crowd management and disaster relief	Large scale mapping projects	Coastal patrol, anti smuggling, search & rescue	Long range, high altitude, high endurance last mile surveillance & security	Defence, public safety, emergency response, mapping
<b>Range</b>	Up to 2 kms	Up to 4 kms	Up to 4 kms	Up to 10 kms	Up to 10 kms	Up to 15 kms	15 kms
<b>Flight Time</b>	20-25 minutes at MSL	>40 mins at MSL	>= 40mins at MSL	>= 60 mins at MSL	> 60 mins at MSL	>= 120 mins at MSL >= 90 mins at 4,500m altitude above MSL	>= 90 minutes at MSL
<b>Payload</b>	HD daylight payload with 5x optical zoom/ thermal/ mapping payload	Mapping payload	HD daylight payload with 10x optical zoom/ thermal/mapping payload	HD daylight payload with 10x optical zoom/ thermal/Photogrammetry payload	HD daylight payload with 10x optical zoom/ thermal/mapping payload	Daylight surveillance payload with 25x optical zoom/ thermal payload	HD daylight payload with 20x optical zoom/ thermal payload/ mapping payload

Source: PPT

**Investment Rationale**

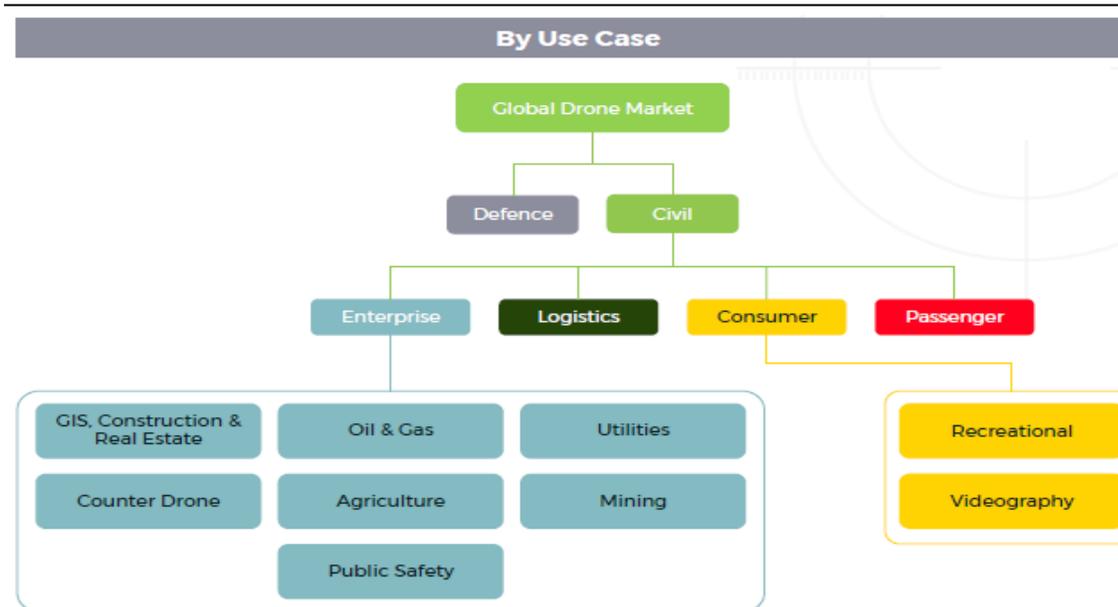
**Indian drone market is expected to grow at a CAGR of 80% by FY27E**

Today, drones are used in a wide variety of defense and civil applications that are growing across industries. 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 Global 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\$ 51.4 bn in 2027 and further leap to approximately US\$ 91.3 bn by 2030. The Indian drone market is projected to grow from US\$ 43mn by FY22 to US\$ 812mn by FY27, exhibiting a growth CAGR of 80% FY22-27. Major drivers behind drone industry growth are industry favourable policies, increased demand for monitoring and surveying, cost-effective data collection, and introduction of new use cases such as utilities and search and rescue operations.



Source: Company

**Categories of drones by use case**

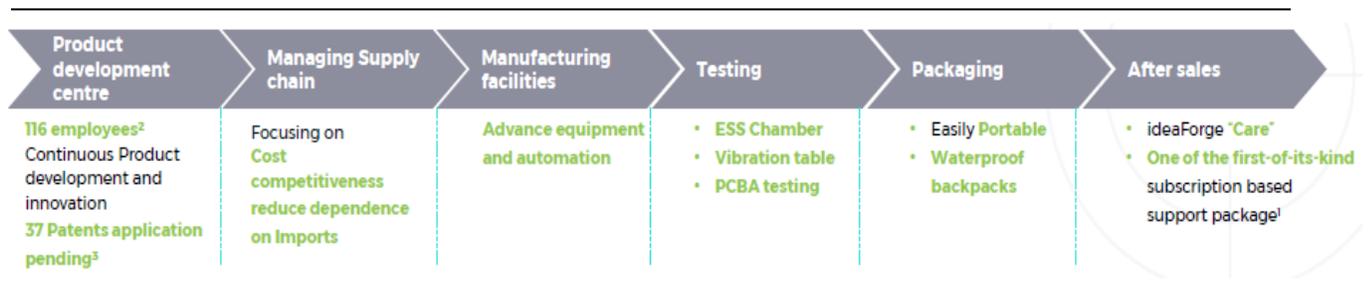


Source: Company

**Significant barriers to entry**

There are significant barriers to entry to the UAV manufacturing industry such as complex software architecture, stringent regulatory regime, and expectation from customers for product innovation and high-quality standards and stringent specifications. The company undertakes a full integration of payloads, communication system and packaging. It also builds own software stack required for flight safety, autopilot sub-system, battery, power and communication in UAVs. The integration of complex technologies while optimizing for performance, reliability and autonomy, not only creates entry barriers for new entrants but also helps ITL to differentiate itself from other players in the market.

**Vertically integrated manufacturing operations- Design to delivery**

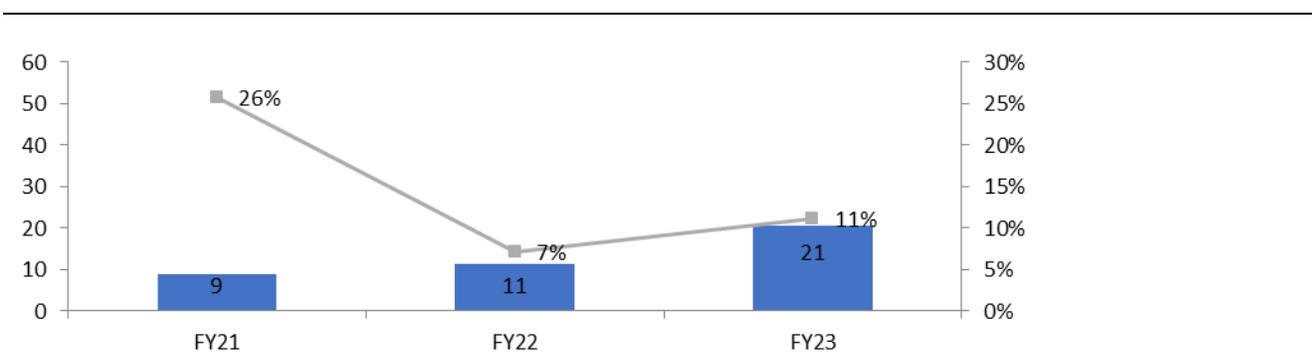


Source: Company

**Investment in product innovation, engineering and design**

The company believes in constant innovation and improvement to stay relevant in the industry. It has introduced UAVs such as RYNO and Q6 to provide mapping and surveying solutions, and Q4i, NETRA V4+, NETRA V4 PRO and SWITCH, to provide surveillance and disaster relief solutions to customers for different operating environments and applications. It has also designed a portable packaging for the products so that all the components can be carried as a backpack. The key enabler of being software, solution and product differentiator is the product development capabilities of the company. Expenses incurred on products under development was at 11.1% of revenue in FY23.

**Expenses incurred on product development as a % of total revenue**



Source: RHP

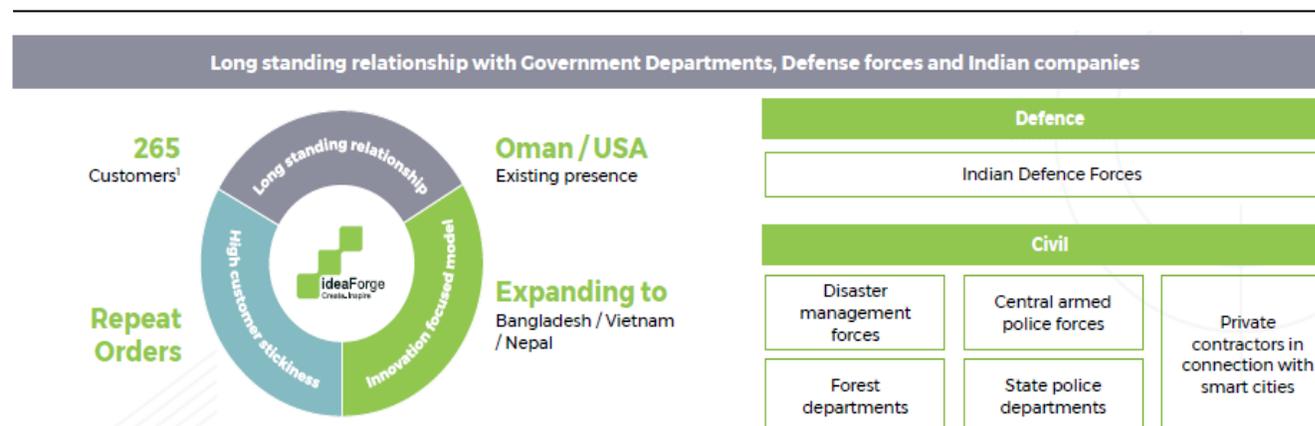
## Strong relationship with customers

The company serves domestic and international customers across defence and civil sectors, primarily for surveillance, mapping and surveying. It does not enter into long-term contracts with the customers, but has developed long-standing relationships with them. The growth in customer base is led primarily by stringent quality checks, technical specifications and the ability to supply in a timely manner and resultant reputation.

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: RHP

The company's customers include Indian defence and civilian customers, including some of the central armed police forces, state police agencies, disaster management forces, forestry agencies and private contractors related to smart cities, Pioneer Foundation Engineers Private Limited and C.E. Info Systems Limited.

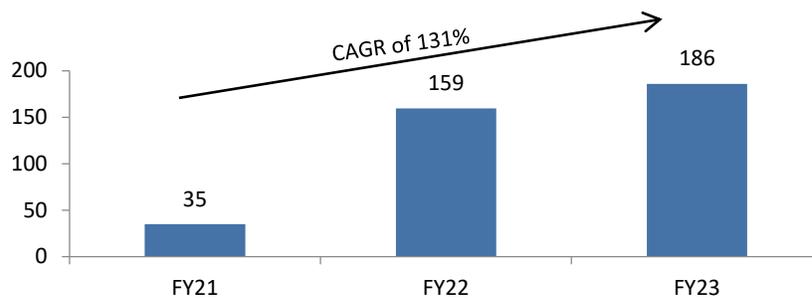


Source: Company

## Strong and consistent financial performance

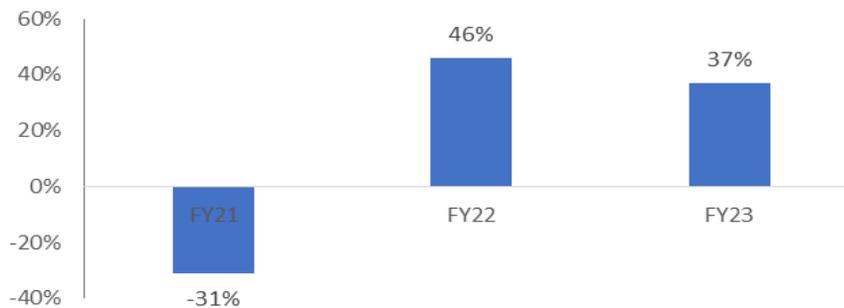
Robust product portfolio and continuous product development by streamlining operational activities has enabled the company to grow exponentially.

### Revenue Growth



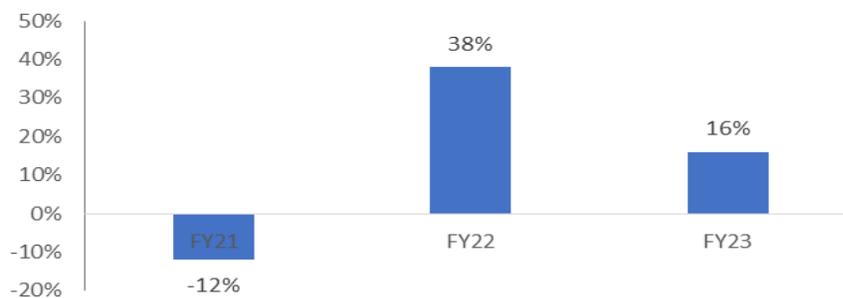
Source: Company

### EBITDA Margin



Source: Company

### ROCE

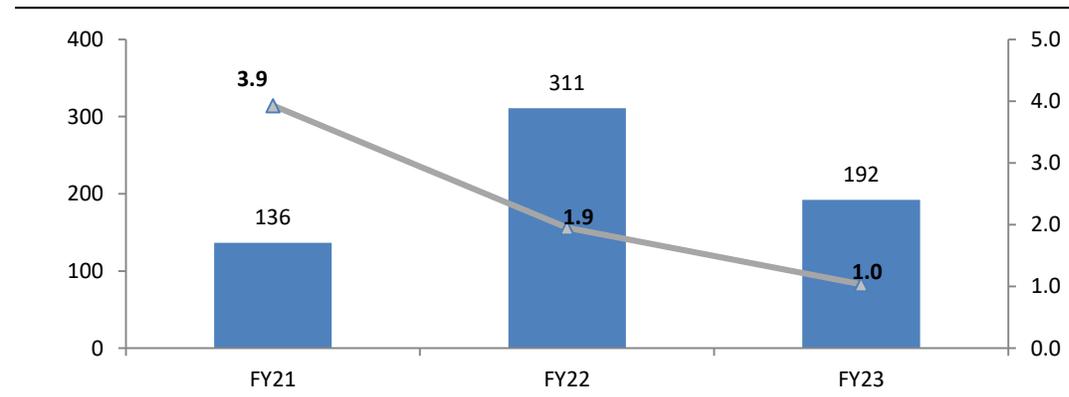


Source: Company

**Concerns**

**Decline in order book in FY23 reduces near term growth visibility:** Company’s order book has declined considerably as on FY23 compared to FY22. This does not augur well for the near term growth outlook. Although from a longer term standpoint, we remain positive on the company.

**Trend in Order book & Order book to Sales**



Source: RHP, NBRR

**Dependence on imports for components:** Company imports components such as carbon fibre tubes, landing gear, propellers, motors and antennas, which are required for manufacturing UAVs. These formed 81% of the total raw material requirement in FY23. Any restriction on import of these components could have an adverse effect on the company.

**Elongated working capital cycle resulting in negative cash flow from operations:** We observe that the company’s working capital cycle is elongated on all parameters as on FY23 with debtors at 113 days, inventory at 205 days and creditors at 27 days resulting in overall working capital cycle of 291 days. Resultantly, the cash flow from operations stood at negative Rs. -53 Cr in FY23. Two out of the last three years have witnessed negative cash flow from operations.

**Dependence on Government entities at 70% of revenue:** Company’s largest customers are from the Government including agencies from defence, police departments, forest departments and disaster management. Around 70% of the company’s revenue accrued from such Government agencies. Any changes in government programs and delays in payments could have an impact on the company.

## Valuation and Recommendation

ITL is a proxy play on India's fast growing drone industry which is projected to grow from US\$ 43 million in FY22 to US\$ 812 million by FY27, exhibiting a growth CAGR of 80%. ITL being the pioneer and market leader with 50% market share is ideally positioned to benefit from this huge growth in the drone industry. The below peers were chosen as peers basis defence being a key application, as well as being involved in the manufacture of electronics, both of which are applicable to drones. ITL has witnessed one of the fastest growth rates over FY20-23 among listed defence companies. Further, the regulatory tailwinds in the Indian drone market is visible with the DGFT issuing an order to ban the import except for R&D, defence and security, launch of production linked incentive scheme and anti-China sentiments. Due to intense focus on R&D and strong vertically integrated manufacturing operations- design to delivery, ITL is able to generate substantially higher EBITDA margins compared to peers. ITL's valuation appears reasonably attractive considering its leadership position and future growth opportunities in the niche industry of drones. Thus we recommend to Subscribe to the IPO.

### Listed Comparable Peers

FY23 Figures	MTAR	Data Patterns	Astra Microwave	Paras Defence	Avg	Idea Forge
Revenue	573	453	816	1,075	729	186
CAGR (FY21-23)	53%	42%	13%	17%	31%	131%
Gross Margin	53%	62%	36%	26%	44%	68%
EBITDA Margin	27%	38%	18%	6%	22%	36.7%
Asset Turns	0.8x	0.4x	1.0x	2.2x	1.1x	0.4x
ROCE	20%	15%	15%	10%	15%	16%
Working Cap Cycle	248	456	262	54	255	291
EV/EBITDA	35.7x	56.3x	23.6x	9.6x	31.3x	42.4x
P/E	58.4x	86.6x	49.6x	25.3x	55.0x	52.6x

Source: NBRR

## Financials

P&L (Rs. Cr)	FY21	FY22	FY23	Balance Sheet (Rs. Cr)	FY21	FY22	FY23
Net Revenue	35	159	186	Share Capital	0	0	21
<b>% Growth</b>	-	<b>359%</b>	<b>17%</b>	Reserve & Surplus	60	163	303
Raw Materials	18	41	59	<b>Networth</b>	<b>60</b>	<b>163</b>	<b>325</b>
<b>% of Revenues</b>	<b>52.7%</b>	<b>25.9%</b>	<b>31.6%</b>	<b>Total Loans</b>	<b>51</b>	<b>16</b>	<b>101</b>
Employee Cost	19	27	30	Other non-curr liab.	2	2	3
<b>% of Revenues</b>	<b>55.4%</b>	<b>16.8%</b>	<b>16.0%</b>	Trade payable	5	7	14
Other expenses	8	18	29	Other Current Liab	6	33	46
<b>% of Revenues</b>	<b>23.1%</b>	<b>11.4%</b>	<b>15.7%</b>	<b>Total Equity &amp; Liab.</b>	<b>124</b>	<b>222</b>	<b>488</b>
<b>Adj EBITDA</b>	<b>(11)</b>	<b>73</b>	<b>68</b>	Fixed Assets & CWIP	1	13	27
<b>EBITDA Margin</b>	<b>-31.3%</b>	<b>45.9%</b>	<b>36.7%</b>	Intangible Assets	26	32	46
Depreciation	3.6	7.3	11.9	Financial Assets	14	30	24
Other Income	2	2	10	Other non Curr. assets	1	3	6
Interest	2	18	5	Inventories	23	49	105
Exceptional item	0	0	(21)	Cash & Bank	5	30	5
<b>Adj PBT (excl. excep.)</b>	<b>(15)</b>	<b>50</b>	<b>62</b>	Bank	9	5	2
Tax	0	6	9	Debtors	24	20	58
<b>Tax rate</b>	<b>-1%</b>	<b>12%</b>	<b>14%</b>	Investments			124
Non controlling Interest	0	0	0	Other Current assets	20	39	91
<b>Adj. PAT (norm. Tax)</b>	<b>(15)</b>	<b>44</b>	<b>53</b>	<b>Total Assets</b>	<b>124</b>	<b>222</b>	<b>488</b>
<b>% Growth</b>	-	<b>-401%</b>	<b>21%</b>				
<b>EPS (Post Issue)</b>	<b>(3.5)</b>	<b>10.6</b>	<b>12.8</b>				
				<b>Cash Flow (Rs. Cr)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
				EBITDA	(11)	73	68
				Provisions & Others	6	7	10
				<b>Op. profit before WC</b>	<b>(5)</b>	<b>80</b>	<b>78</b>
				Change in WC	(26)	(6)	(125)
				Less: Tax	(0)	(7)	(6)
				<b>CF from operations</b>	<b>(31)</b>	<b>67</b>	<b>(53)</b>
				Addition to assets	(9)	(13)	(33)
				(Purchase)/Sale of invst.	1	(20)	(119)
				Int & Div Received	2	2	3
				<b>CF from Investing</b>	<b>(7)</b>	<b>(31)</b>	<b>(149)</b>
				Proceeds from borrowing	45	65	188
				Repayment of borrowing	(0)	(67)	(6)
				Repayment of lease liab.	(1)	(1)	(2)
				Dividend & Income paid	(1)	(7)	(4)
				<b>CF from Financing</b>	<b>43</b>	<b>(11)</b>	<b>176</b>
				<b>Net Change in cash</b>	<b>5</b>	<b>25</b>	<b>(26)</b>
				Cash at beginning	0	5	30
				Cash at end	5	30	5

Source: Company Data, NBRR

\*NOTE: Exceptional item is one off higher ESOP cost

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