

Retail Research	IPO Note
Sector: Drone Manufacturing	Price Band (Rs): 638 - 672
26th June 2023	Recommendation: Subscribe for long term horizon

ideaForge Technology Limited

Company Overview:

Established in 2007, ideaForge Technology Limited specializes in manufacturing Unmanned Aircraft Systems (UAS). As a prominent player in the Indian UAS market, the company attained a notable market share of around 50% during FY22. Moreover, ideaForge holds the distinction of deploying the largest fleet of indigenous UAVs throughout India, with a drone manufactured by ideaForge taking off every 5 minutes on average for surveillance and mapping purposes. In recognition of its achievements, the company achieved the 7th position worldwide among dual-use drone manufacturers (civil and defence) (Source: Drone Industry Insights in December 2022)

Key Highlights:

Pioneer market leader and operational metrics glance: ideaforge has emerged as a dominant force in the Indian market, capturing an impressive 50% market share in FY22. Globally, the company holds an esteemed 7th rank in the dual use case category. Notably, ideaforge takes pride in being the first organization to successfully develop indigenous VTOL UAVs. The company's commitment to excellence is evident in the significant number of completed customer flights, surpassing a notable milestone of approximately 3,50,000 to date. With an ideaforge drone taking off every 5 minutes, their presence in the skies remains unmatched. In FY23 alone, the company has achieved a remarkable feat of launching over 1,20,000 flights, reflecting its substantial operational scale. **Furthermore, ideaforge's dedication to innovation is exemplified by its 62+ patent applications pending, and order book size of Rs 192.3 cr as of March'23.**

Robust product portfolio: The company offers a diverse product range distinguished by various features, including weight class (2-7 kg), endurance class (25-120 minutes flying time), take-off altitude range (up to 6,000 meters), communication range (2-15 km), and payload types. Their product portfolio encompasses hardware, software, embedded sub-systems, and solutions. Their remarkable growth can be attributed to their expertise in indigenous design and technology, their ability to innovate and provide customer-centric offerings, and their vertically integrated operations.

Key operational areas: The enterprise engages in the manufacturing of Unmanned Aircraft Vehicles (UAVs) tailored for the purposes of Mapping, Security, and Surveillance. These UAVs possess a comprehensive suite of functionalities, enabling them to aptly address the multifaceted needs encompassing mining area planning and mapping applications. Moreover, ideaForge UAVs serve as a catalyst for amplifying the operational prowess of the construction and real estate sectors. Furthermore, they play a vital role in facilitating the conduct of Intelligence, Surveillance, and Reconnaissance (ISR) operations along borders, thereby providing indispensable support to defence forces.

Valuation: At upper band, the business is trading at P/E multiple of 87.5x FY23 EPS. Looking at the unique growth story in Drone industry, the company is likely to attract the scarcity premium and will continue to trade at expensive valuations. Investors can SUBSCRIBE to the IPO with long term investment horizon. Listing gains are likely due to smaller issue size and likely scarcity premium.

Issue Details	
Date of Opening	26 th June 23
Date of Closing	29 th June 23
Price Band (Rs)	638 – 672
Issue Size (Rs cr)	551 - 567
No. of shares	86,31,125 – 84,41,763
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,670 – 2,800
BRLMs	JM Financial, IIFL Securities
Registrar	Link Intime India Private Limited
Bid Lot	22 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB (HNI) shares	15%
Employee Reservation	13,112 Equity shares
Employee Discount	Rs 32

Objects of Issue	
	(Rs Cr.)
Repayment/prepayment of certain indebtedness availed by our Company	50
Funding working capital gap	135
Investment in product development	40
Net Proceeds*	-

*The net proceed to be used General corporate purpose.

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	1,29,40,534	34.0
Public & Others	2,51,58,025	66.0
Total	3,80,98,559	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	1,27,82,334	30.5
Public & Others	2,90,78,638	69.5
Total	4,18,60,972	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	1,27,82,334	30.7
Public & Others	2,88,88,277	69.3
Total	4,16,70,611	100.0

Source: RHP, SSL Research

Risk factors

- Uncertainty pertaining to order inflows.
- Highly dependent on global vendors for supply of components.
- Dependent on single manufacturing facility. Any slowdown or shutdown could have an adverse impact on its business activities.
- Failure in compliance with the applicable regulations and rules prescribed by the Government of India will hamper the business operations.
- Heavily reliant on sales to the Indian Government including to the central and state government agencies.
- No long-term contracts with their suppliers

Growth strategy

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

Revenue from operation

Particulars	FY21		FY22		FY23	
	Revenue (Rs cr)	% of Total	Revenue (Rs cr)	% of Total	Revenue (Rs cr)	% of Total
Sale of products	34.7	100.0%	159.4	100.0%	168.6	90.6%
UAVs	28.7		151.6		161.3	
Spare items	2.3		2.4		2.3	
Sale of service	3.7		5.5		5.0	
Maintenance services	3.7		3.3		4.9	
Training services	-		2.2		-	
Others	-		0.1		-	
Other Operating Revenues	-	0.0%	-	0.0%	17.4	9.4%
Performance Linked Incentives	-		-		17.4	
Duty drawback	-		-		-	
Total	34.7	100.0%	159.4	100.0%	186.0	100.0%

Source: RHP, SSL Research

Revenue break-up from civil and defence sectors

Sector	FY21		FY22		FY23	
	Revenue (Rs cr)	%	Revenue (Rs cr)	%	Revenue (Rs cr)	%
Civil	29.9	86.1	31.8	19.9	40.0	21.5
Defence	4.8	13.9	127.7	80.1	128.6	69.2

Source: RHP, SSL Research

Installed production capacity and the rate of capacity utilization

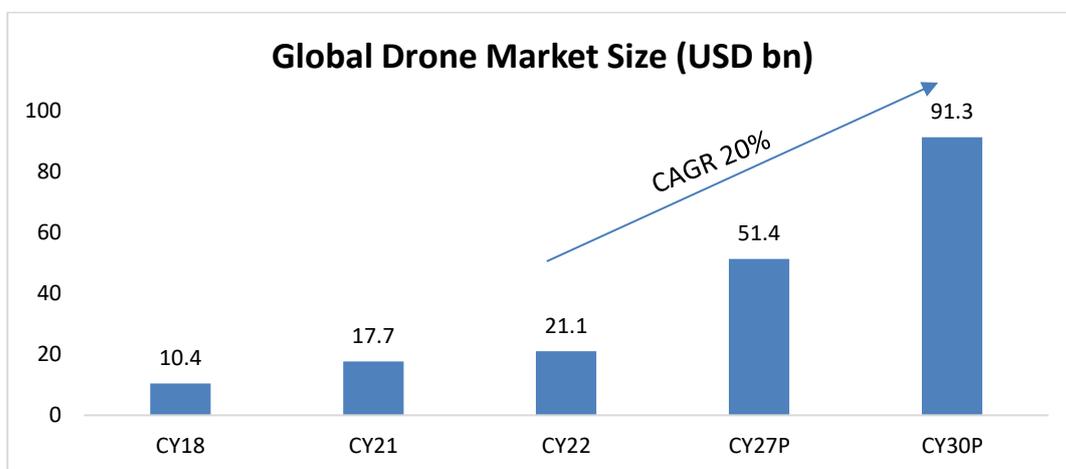
Products	Installed capacity per day as of March'23	Capacity utilisation as on March'21	Capacity utilisation as on March'22	Capacity utilisation as on March'23
Quadcopter UAV	5	88%	93%	95%
Switch UAV	4	0%	75%	82%
Payload	15	79%	96%	95%
Battery	20	83%	84%	87%
Communication Box	15	88%	90%	90%

Source: RHP, SSL Research

Industry Overview

Global drone market size

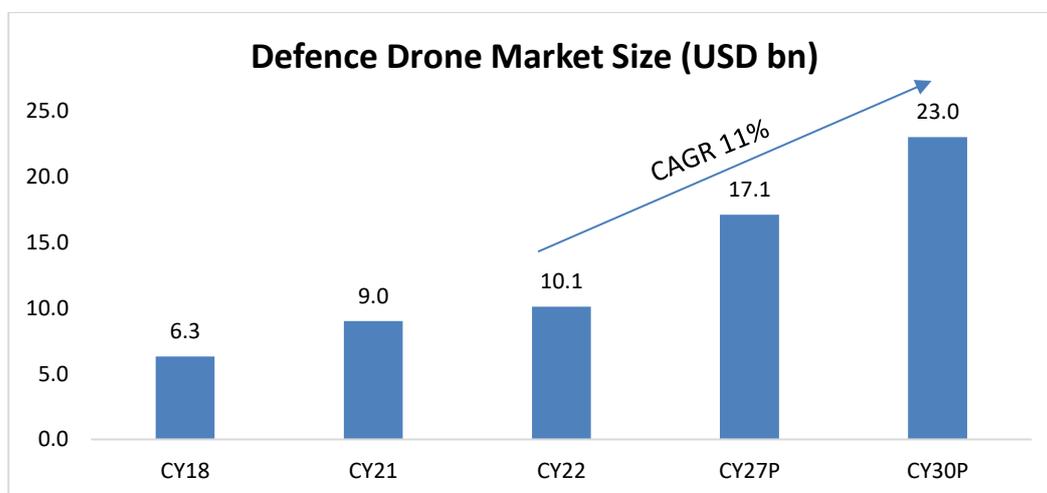
The global drone industry is expected to increase in a fast pace at a CAGR of 20% from CY22 to CY30, reaching USD 91.3 bn by CY30. The global drone industry is estimated to be USD 21.1 bn in CY22. The industry has witnessed a significant growth at a CAGR of 19% over CY18 to CY22 and is expected to grow even faster at a CAGR of 20% to be USD 51.4 bn in CY27 and further leap to USD 91.3 bn by CY30. With global drone market poised to become USD 51.4 bn market in CY27, drones are expected to be the disrupters of the future. They are revolutionizing a number of spaces - notably military, and on the civil front emergency services, aerospace, and potentially even the taxi industry.



Source: RHP, SSL Research

Defence drone market size

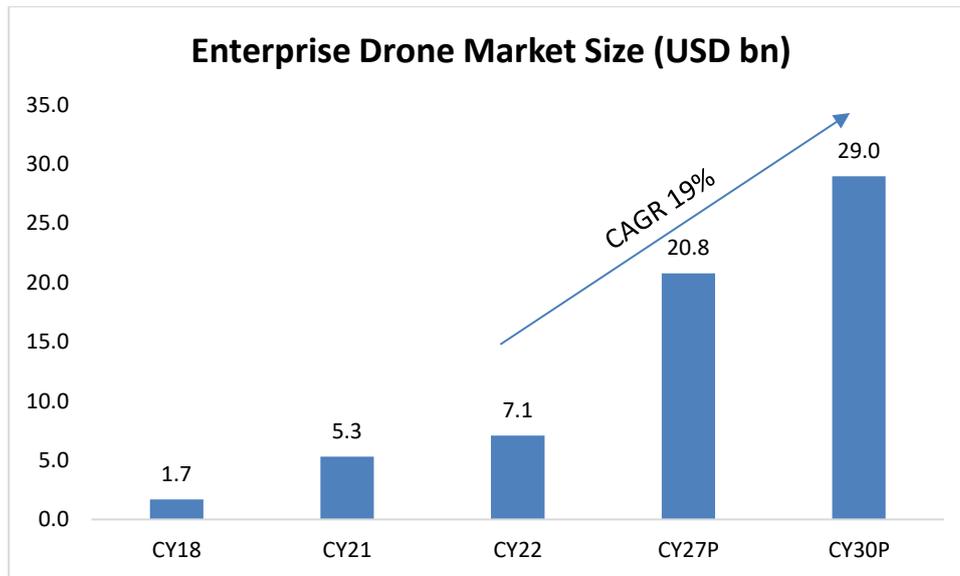
Modern defence has been reshaped to engage enemies without endangering soldiers' lives. The global defence drone market size was estimated to be around 60% of the entire drone market at USD 6.3 bn in CY18. The growth of artificial intelligence and robotics-based applications in drones has led to their increased adoption in the defence sector.



Source: RHP, SSL Research

Enterprise drone market size

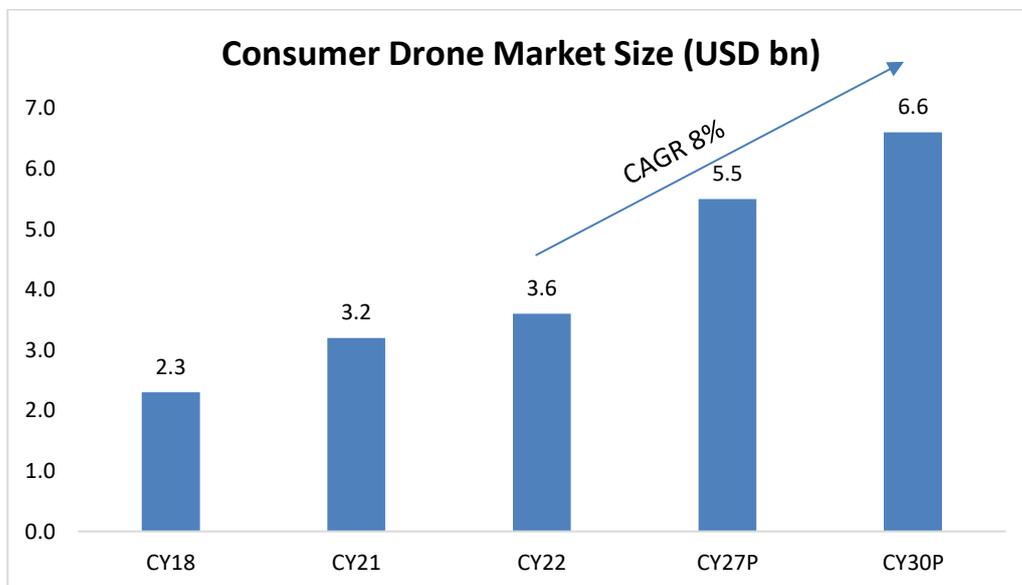
Civil comprises of enterprise, consumer, logistics and passenger segments. Enterprise drone market has been the fastest-growing drone market segment, having grown at a CAGR of 43% from CY18 to CY22. It is the second largest market after the defence sector, pegged at USD 7.1 bn in CY22.



Source: RHP, SSL Research

Consumer drone market size

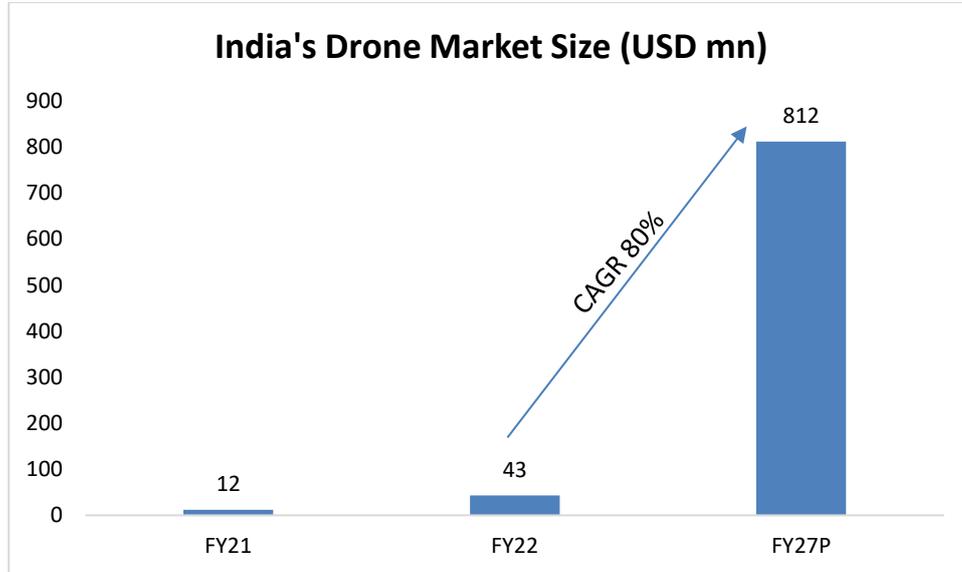
Consumer drones have been operating as the face of the drone market for the last decade; however, it currently had a smaller market compared to defence and enterprise. The current market size of the consumer market is USD 3.6 bn and is expected to grow at a CAGR of 9% to stand at USD 5.5 bn in CY27. While commercial drones are in the early adopters' phase, drone usage by consumers is expected to reached maturity by CY27.



Source: RHP, SSL Research

India’s drone market size

The Indian drone market is projected to grow from USD 43 mn by FY22 to USD 812 mn by FY27, exhibiting a growth CAGR of 80% FY22-27. Major drivers behind drone industry growth are industry favorable 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: RHP, SSL Research

Financial Snapshot

IdeaForge Technology Limited		
(Rs. Cr.)	Post Issue	
	FY23	
Particulars	Price Band	
	638.0	672.0
Net Sales	186.0	186.0
Total Income	196.4	196.4
EBIDTA	47.1	47.1
PAT	32.0	32.0
Equity Share Capital	41.9	41.7
No of Equity Shares	4.2	4.2
Face Value	10.0	10.0
EPS	7.6	7.7
CMP	638.0	672.0
Cash and Bank	6.5	6.5
Debt	86.5	86.5
Market Cap	2,670.7	2,800.3
BV per share (Rs)	134.9	135.5
PE(x)	83.5	87.5
P/BV (x)	4.7	5.0
Enterprise Value	2,750.7	2,880.3
Mcap/Sales (x)	14.4	15.1
EV/Sales (x)	14.8	15.5
EV/EBIDTA (x)	58.4	61.2
EBITDA Margins (%)	25.3	25.3
Net Margins (%)	17.2	17.2
ROE (%)	8.8	8.8
ROCE (%)	11.1	11.1
Debt/Equity	0.2	0.2
Net worth	564.7	564.7

Source: RHP, SSL Research (Post Issue)

Year	FY21	FY22	FY23
Net Sales	34.7	159.4	186.0
EBITDA	-10.9	73.1	47.1
Net Profit	14.6	44.0	32.0
EBITDA Margin (%)	-31.3	45.9	25.3
Net Profit Margin (%)	42.1	27.6	17.2

Source: RHP, SSL Research (Post Issue)

Peer Comparison

Particulars	ideaForge Technology Ltd	MTAR Technologies Ltd	Data Patterns India Ltd	Astra Microwave Products
CMP	672.0	1922.0	1815.0	369.0
Sales (Rs cr)	186.0	573.0	453.0	816.0
EBITDA (Rs cr)	47.1	154.0	172.0	145.0
Net Profit (Rs cr)	32.0	104.0	124.0	70.0
M.Cap (Rs Cr)	2800.0	5911.0	10161.0	3501.0
EBITDA Margin (%)	25.3	26.9	38.0	17.8
PE(x)	87.5	56.8	81.9	11.4
RoE (%)	8.8	18.2	14.2	11.4
RoCE (%)	11.1	22.4	19.7	17.0

(Source: RHP, SSL Research)

For ideaForge Technology Limited: The data is based on FY23 post-issue market cap.

For all others, the data is based on FY23.

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