IPO Note

June 23, 2023

ideaForge-Technology Limited

Issue Snapshot:
Issue Open: Jun 26 – Jun 29, 2023

Price Band: Rs. 638 – 672

*Issue Size: 8,441,141 eq sh (Fresh Issue of Rs 240 cr + Offer for sale 4,869,712 eq sh)

Reservation for:

QIB	atleast	75% eq sh
Non-Institutional	upto	15% eq sh

((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))

Retail	upto	10% eq sh

Face Value: Rs 10

Book value: Rs 86.81 (March 31, 2023)

Bid size: - 22 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	38.10 cr
*Post issue Equity:	Rs.	41.67 cr

Listing: BSE & NSE

Book Running Lead Managers: JM Financial Limited, IIFL Securities Limited

Sponsor Bank: Axis Bank Ltd & HDFC Bank Ltd

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	33.97	30.19
Public & Employees	66.03	69.81
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

ideaForge-Technology Limited (ideaForge) 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. It 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 Fiscal 2023. Its customers have completed over 350,000 flights using its UAVs as of March 31, 2023 and 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. 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 Fiscal 2023.

ideaForge's UAVs are equipped with industry leading specifications and capabilities, comparable to those of other established global players in the UAV industry. Its growth over the years is attributable to its indigenous design and technological capabilities, its ability to invent, design and deliver customer centric offerings (i.e., hardware, software and solutions) and its vertically integrated operations. These capabilities allow it to design, develop, engineer and manufacture its UAVs in-house with a control on performance, reliability and autonomy. In addition to being among the first few players in India to enter the UAV market, it also has the distinction of being the first company to indigenously develop and manufacture vertical take-off and landing ("VTOL") UAVs in India in 2009. It is also the first company to participate in the demonstration of 5G enabled UAVs at the Indian Mobile Congress in 2018

ideaForge's has one of the industry's leading product portfolios targeted at civil and defence applications (dual use). 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 ranges (up to 6,000 meters), communication range (approximately 2-15 km), payload types, etc. Beyond the UAVs, it undertakes a full integration of its payloads, communication system and packaging. It also builds its own software stack required for flight safety, autopilot sub-system, battery, power and communication in its UAVs. The Company caters to domestic and international customers across defence and civil sectors, primarily for applications in surveillance, mapping and surveying. Its UAVs have been used in extreme conditions, from very low temperatures at high altitudes such as in Ladakh to very high temperatures such as in the Thar desert, meaning that its UAVs have experienced some of the harshest environments in the world. Given the critical nature of the application of its products (such as for defence operations), it aims to maintain a high standard for the performance and quality of its products. Some of its UAVs have flown more than 4,500 flights as against the minimum requirement specified in RFPs for 500 flights under warranty.

The Company'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 wide range of products gives it the necessary flexibility to meet the evolving demands of diverse customers across industries. It has one of the best support networks in India for UAVs. In addition to the warranty services that it provides with its UAVs, it also provides after sales maintenance services to its customers.

IdeaForge has an established track record of designing products that has led to repeat business. Its innovation process allows it to evolve product features based on the evolving needs of its customers delivering a superior customer experience with advanced technology. Its UAVs are capable of being autonomously operated without special skills or training. This combination of performance,

reliability and autonomy leads to a lower TCO for its customers. It primarily caters to customers with applications for surveillance, mapping and surveying. It participates in competitive bidding processes, wherein it competes for contracts based on, among other things, pricing, product trials, reputation for quality, financing capabilities and track record. Its growth in revenue and profitability can be credited to its robust product portfolio and technology differentiation, which through continuous product development, and streamlining of its operational activities.

Objects of Issue:

The Offer comprises a Fresh Issue aggregating up to Rs. 2,400 million by ideaForge (the "Fresh Issue") and an Offer for Sale aggregating up to 4,869,712 equity shares by the Selling Shareholders.

Offer for Sale

Each of the Selling Shareholders will be entitled to its respective portion of the proceeds of the Offer for Sale after deducting its proportion of the Offer expenses and relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale. The proceeds of the Offer for Sale will be received by the Selling Shareholders and will not form part of the Net Proceeds.

Objects of the Fresh Issue

The Company proposes to utilize the Net Proceeds towards funding the following objects (collectively, the "Objects"):

- Repayment/prepayment of certain indebtedness availed by the Company
- Funding working capital gap;
- Investment in product development; and
- General corporate purposes.

In addition, ideaForge expect to achieve the benefit of listing of the Equity Shares on the Stock Exchanges, enhancement of the Company's visibility and brand name amongst its existing and potential customers and creation of a public market for the Equity Shares in India.

Utilisation of Net Proceeds

The Net Proceeds are proposed to be utilised in the following manner:

Particulars (In Rs million)	Amount
Repayment/prepayment of certain indebtedness availed by the Company	500.0
Funding working capital gap	1350.0
Investment in product development	400.0
General corporate purposes	*
Total	*

Competitive Strengths

Pioneer and the pre-eminent market leader in the Indian UAS industry, with first-mover advantage: ideaForge is the pioneer and the pre-eminent market leader in the Indian UAS market, with a market share of approximately 50% in Fiscal 2022. It 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. In Fiscal 2012, it 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. 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. Its customers have completed over 350,000 flights using its UAVs as of March 31, 2023. It 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.

The Company's in-house capabilities to design, develop, engineer and manufacture has enabled it to develop better products basis evolving demands of its customers, thereby enhancing customer experience with its products. It is driven by a self-propagating flywheel (as described in the diagram below), whereby as a result of its leadership position and its first mover advantage, it has been able to create a better user experience based on customer's insights and with continuous technology improvements. This enables it to acquire new customers and add more use cases.

On account of first mover advantage and experience of operationalising UAVs in customer organisations, ideaForge has a sustainable competitive advantage over new entrants. It has been working with certain of its customers for over a decade and has the experience of over 350,000 flights as of March 31, 2023 as per the 1Lattice Report, that its UAVs have already undertaken, which has allowed it to continuously learn and improve its technological capabilities.

Diversified product portfolio with a robust technology stack and track record of successful outcomes in critical use cases: ideaForge has a diversified product portfolio of UAVs built for multiple use cases and has one of the industry's leading product portfolios targeted at civil and defence applications (dual use). 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. Each of its UAVs are designed with differentiations for addressing specific customer needs. Its 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. Its diversified product portfolio, and its ability to customise its products for specific usage as per its customers' specifications has helped it grow and establish a track record.

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. Its support care plan, ideaForge Care, is one of the first-of-its-kind subscription based support package in the Indian UAV industry. Its recently launched product ideaForge Care provides the customers with various support options that they can subscribe to for the maintenance of UAVs based on their requirement. Its UAVs are equipped with AI based image intelligence, which helps in 'people detection' and 'target tracking'. Beyond the UAVs and GCS software, it has 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*:* The growth ideaForge has achieved with its current products stems from its ability to invent and deliver advanced customer centric solutions (i.e., hardware, software and solutions), to help them operate more effectively and efficiently. As of May 31, 2023, it 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 it does not enter into long-term contracts with its customers, it has developed long-standing relationships with them. Its continuous focus on product quality and reliability over the years has led to customer stickiness. 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.

The growth in customer base is led primarily by stringent quality checks, technical specifications and its ability to supply in a timely manner and resultant reputation. Its sales and business development team works closely with its customers and provides its customers with a wide range of support plans suited to their needs, which includes 24x7 support and replacement UAV options. It constantly strives to innovate and offer value-added and technologically advanced products and solutions to its customers. By doing so, IdeaForge is able to deepen its customer relationships to become their preferred suppliers.

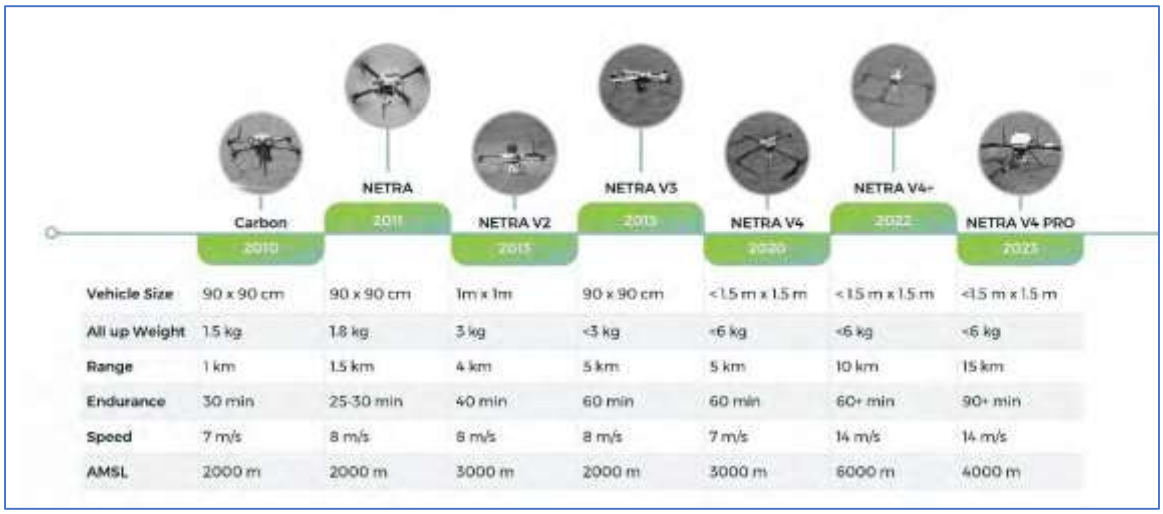
Significant product development capabilities powering software and solutions and product differentiators: IdeaForge is a vertically integrated company equipped with in-house product development centre, which allows it to design, develop, engineer and manufacture UAVs. Its focus on product development has been instrumental in the growth of business and in improving its ability to customize solutions for customers as well as in reducing its cost of products while maintaining margins. Its product development team focuses on the development of new products, solutions, and understanding the expectations of customers on to-be manufactured

products, whilst simultaneously focusing on cost competitiveness and supply chain availability. The Company is one of the few OEMs globally to have its own proprietary autopilot sub-system and ground control software. Additionally, it has also developed the BlueFire Touch, ground control station software, which enables safe and autonomous surveillance/ mapping operations, and the 'BlueFire Live!' platform, which enables encrypted live streaming of the UAV video feed and allows for payload control over internet.

The Company's ability to drive technology and product innovation also led it to develop a custom in-house battery management system which ensures high cycle life of its batteries and are optimised to give customers high endurance for each flight. As on June 17, 2023, it has 25 granted patents, out of which 10 patents are registered in India and 15 patents are registered in other jurisdictions. Some of the capabilities such as take-off area suitability check, coverage area check and target location coverage check for off-site mission planning prior to deployment are unique in the industry and it has filed patent applications for these capabilities.

In-house design to delivery capabilities: ideaForge 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 it to design, develop and engineer its UAVs in line with the needs of its customers, which includes the software stack required for its UAVs. It undertakes its manufacturing operations at its manufacturing facility, situated in Navi Mumbai, Maharashtra which has an area of approximately 21,000 sq. ft., and is equipped with advanced equipment, modern technology and automation systems to manufacture a wide range of products.

With integrated operations i.e., from design and development to manufacturing, assembly and testing and to providing software solutions, the Company strive to be able to meet all its customer needs under a single roof as well as control and maintain the quality of its UAVs thereby maintaining the overall reliability and durability of its UAVs. Its in-house design to delivery capabilities led it to develop various NETRA series UAVs, basis the evolving needs of its customers and technological advancements. Set forth below is a diagram illustrating evolution of NETRA series of UAVs, which demonstrates ideaForge's ability to continuously improve its UAVs:



Vehicle Size	90 x 90 cm	90 x 90 cm	1m x 1m	90 x 90 cm	<1.5 m x 1.5 m	<1.5 m x 1.5 m	<1.5 m x 1.5 m
All up Weight	1.5 kg	1.8 kg	3 kg	<3 kg	<6 kg	<6 kg	<6 kg
Range	1 km	1.5 km	4 km	5 km	5 km	10 km	15 km
Endurance	30 min	25-30 min	40 min	60 min	60 min	60+ min	90+ min
Speed	7 m/s	8 m/s	8 m/s	8 m/s	7 m/s	14 m/s	14 m/s
AMSL	2000 m	2000 m	3000 m	2000 m	3000 m	6000 m	4000 m

Strong management capabilities with a demonstrated ability to deliver robust financial performance: ideaForge is led by a qualified and experienced management team, who are supported by a capable and motivated team of managers and other employees. Its Promoters have knowledge and understanding of the drone industry in India. The experience and leadership of its core team has played a key factor in its growth and development.

Business Strategy:

Continue to invest in product innovation, engineering and design: Investment in product innovation, engineering and design is essential to its business, growth opportunities for onboarding new customers and retention of existing customers by aligning its product and service offerings with their requirements. The drone industry is at a nascent stage and therefore the requirements are continuously evolving. As product and technology innovation is at the core of its growth, ideaForge emphasize on constant innovation and enhancing its product and technology stack. Continuous product development by way of product and market research is integral for growth in the UAV industry and consequentially, many drone manufacturers are laying emphasis on product development and testing. It constantly endeavours to innovate new products and enterprise specific solutions for its customers.

Competitive advantage is transient and hence the Company continue to innovate in technology, business models and new offerings. In this regard, its endeavour is to, among others, leverage processes and best practices that may be prevalent in other sectors and industries as well. It is one of the few players to adopt VARs and distributor channels to reach customers across India and globally. As on

May 31, 2023, it had 116 employees in the product development team, which is approximately 40.27% of its overall employee strength, and it intends to add more experienced employees in the product development team. ideaForge will continue to invest substantially in product innovation, engineering, and design to expand its offerings and increase its market presence.

Expanding into international markets: ideaForge currently primarily caters to the requirements of the Indian market. India's large market with diverse and challenging geographical terrains gives it an opportunity to solve complex problems at scale. The global drone industry is estimated to be US$ 21.1 billion market in 2022. 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$ 51.4 billion in 2027 and further leap to approximately US$ 91.3 billion by 2030. Through its extensive experience, established product portfolio and proven track record, the Company is strongly positioned for providing products and solutions to international customers. It is currently present in Oman and USA and it is evaluating its expansion in Bangladesh, Vietnam, and Nepal. As on May 31, 2023, it has onboarded around 100 channel partners and three national distributors. Some of these channel partners help the Company to expand its presence in the international market. It plans to leverage its knowledge of the industry, and technology innovation capabilities, in the international markets as well. In order to increase its brand value, it participate in various international conferences and exhibitions. The current geo-political environment, with economies decoupling with China, especially for anything related with data capture and analysis, coupled with its Indian technological capabilities in the rugged environment of India, is a major contributing factor for Indian companies to expand globally in both civil and defence drone opportunities.

Expand product portfolio and cater to new end-use applications and industries: ideaForge 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. It intends to leverage its in-house technology and its design and development capabilities to innovate and introduce new UAVs to capture a higher wallet share from new and existing customers. It seeks to leverage its extensive experience to strengthen its industry position, by developing new products to capitalize on emerging trends. ideaForge is continuously in the process of identifying new end-use cases which has a significant growth potential and the economic viability to introduce new products. Currently, it primarily caters to surveillance and mapping applications, and it plans to expand to inspection and delivery applications in the future.

The Company intends to further develop its UAVs with a focus to cater to asset inspection missions, such as inspection of towers and other vertical assets. Further, its UAVs has the ability to carry small payloads which can be extended to support last mile delivery applications. It also intends to develop UAVs with sufficient payload capacity to cater to the middle mile logistics industry. The logistics drone market is expected to have the largest share of the overall drone market in 2030, followed by enterprise and defence. Its initial target segments may include delivery of the frozen foods, perishables and medicines, which require faster and on-time delivery in places where the ground infrastructure is not fully developed or challenging. It also intends to benefit from the ban imposed by the DGFT on import of CBU, SKD and CKD form drones, except in certain cases. It also plans to expand and offer tactical UAVs and middle mile logistics drones with vertical take-off and landing capabilities. It has the technological capabilities to successfully enter into this market and add middle mile delivery as a revenue segment.

Focus on indigenization: ideaForge 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. It partially imports certain of its components such as carbon fibre tubes, landing gear, propellors, motors and antennas, required for manufacturing UAVs. In line with the market growth potential of UAVs, with increased manufacturing of its UAVs, its expenditure on components required for manufacturing of UAVs will also increase. With the production linked incentive scheme ("PLI Scheme") launched in 2021, the Government of India will offer incentives for drone makers, to encourage and boost manufacturers to develop their products in India and export them to the world and achieve the Government's aim to make India 'The global drone hub of the world'. ideaForge was also shortlisted as one of the beneficiaries of the PLI Scheme and received an incentive of Rs. 174.20 million from the Ministry of Civil Aviation, under the PLI Scheme. With the recent initiatives of the Government of India i.e., "Atmanirbhar Bharat Abhiyan", wherein focus has been on indigenisation, it is poised to take full benefit of such schemes and reduce its dependency on imports thereby reducing its import spend. The Company also has an arrangement with a start-up company for development of indigenous UAV propulsion systems.

Expand business services and software revenue through 'as a Service' offerings: ideaForge 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. The customers can avail DraaS service on 'pay per use', which will help reduce its initial investment and increase adoption rate. It is in the process of developing a DraaS model which will allow its drones to be deployed in several locations and will be ready to fly and execute missions at the click of a button. The Company is presently experimenting DraaS model with one of its customers to create viable technology and business outcomes. Its BlueFire MapAssist and BlueFire Live! solutions are offered as a SaaS model where

customers can subscribe to the package as per their requirements. Similarly, it will continue to look for opportunities to offer its software and solutions as SaaS offerings in the future.

ideaForge also provide maintenance services to its customers, by entering into annual maintenance contracts with them. Its product ideaForge Care provides the customers with various support options that they can subscribe to for the UAVs. With the maintenance packages that it provides to its customers, such as ideaForge Care packages, it has the capabilities to enhance its sale of maintenance services by offering services to its existing and future customers.

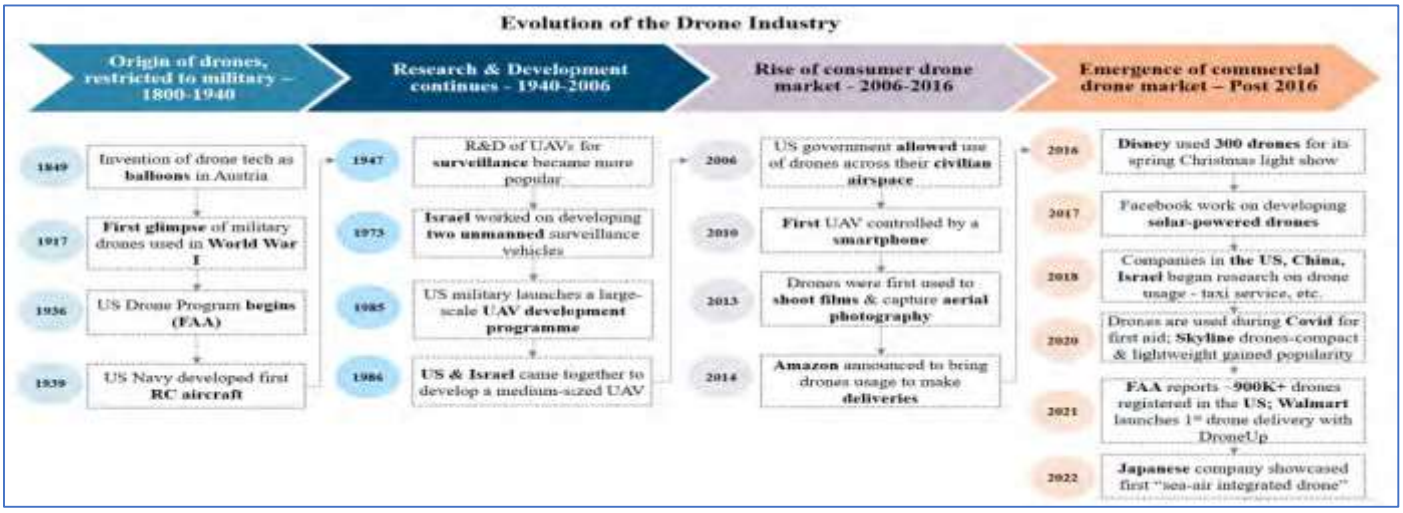
Pursue strategic investment and acquisition opportunities: ideaForge intends to selectively pursue strategic investment and acquisition opportunities that complement its growth strategy or strengthen or establish its presence in its targeted domestic and overseas markets. India has the remarkable opportunity to target approximately 1.8 lakh crore of total domestic manufacturing potential through implementation of drone indigenization initiatives in use cases such as defence, commercial, homeland security and counter UAV sectors. As the UAV industry presents significant growth opportunities, ideaForge intends to utilize its capabilities and expand its business and operations by pursuing investment opportunities in future. It may also form strategic alliances with global and domestic players in various segments of the drone industry that bring synergies to its business.

Industry:

GLOBAL UAV/ DRONE INDUSTRY

Evolution of the Drone Industry

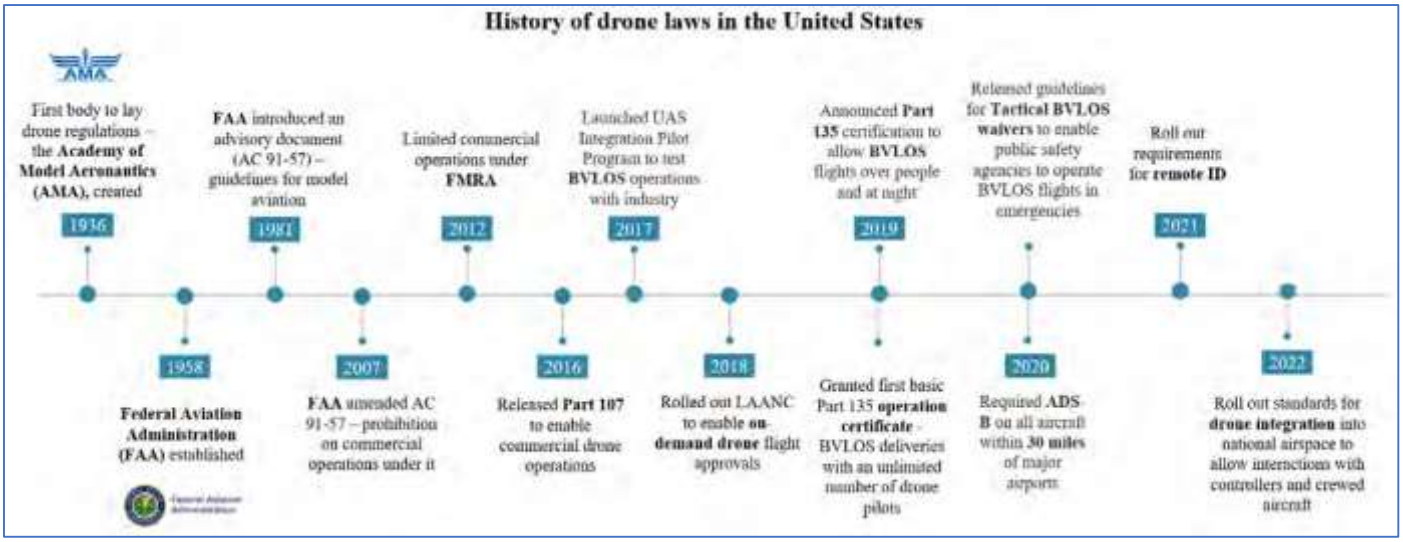
The first usage of drones dates back to the 1850s. Drones have been used by armies all around the world for training, defence, surveillance operations and strikes on targets since the 1800s. Commercial drone permits weren't issued for almost 150 years after the first military usage of drones, despite the advancement of drone technologies. Today, drones are used in a wide variety of defence and civil applications that are growing across industries. Drone technology is a sunrise sector, poised for exponential growth worldwide. Its recent exponential expansion has been fueled by the rise of multiple use cases across varied industries.



Drones are proven to be quite helpful in places where humans cannot access or are unable to undertake tasks in a fast and effective manner, from battling in combat missions to express shipping and delivery. UAVs are a subset of unmanned aerial systems (UASs). A UAS includes not only the unmanned aerial vehicles or drones, but also the Ground Control Station on the ground controlling the flight and the system in place that connects both of them. A UAV is a component of the UAS, since it refers to only the vehicle/aircraft itself. UAS also comprises of elements such as camera, GPS, system software and tools required for maintenance. While components such as cameras and GPS have developed in their own respective timelines, drone system software and ground control systems have evolved along with drones. As drone usage grows globally, the global regulatory landscape has also evolved in sync with the industry needs to guarantee innovation and widespread acceptance of drones.

Drone regulations

The global use of drones, as well as their technology, range and use cases are growing at an exponential rate and this calls for the continued evolution of the regulatory framework, accompanying security measures and related economic arrangements. The use of drones is regulated by extensive laws that have been developed by nations around the world after careful deliberation of the relevant concerns. The United States has been working on creating a regulatory framework for drones for almost a century and is a global leader in drones. The Federal Aviation Administration's (F.A.A.) move to streamline approvals for drone flight, makes the future of drones promising as more sectors adopt drones and find new use cases that offer better value.



Drone regulations vary from country to country, with no universally applicable international drone legislation yet. However, regulatory frameworks are being developed by national and international aviation authorities to ensure that drones be used in safe and beneficial ways for business.

Global drone regulations currently have varying levels of maturity across countries and will continue to evolve with the growth of the drone industry

The increasing usage of drones has prompted a variety of responses from legislators around the world. Nations like Australia, U.K. and China have made it possible for businesses to use drones with minimal regulations, while some nations such as Cuba, Iraq, Iran, and Kuwait have officially outlawed the use of unmanned aircraft, others have established legislation allowing for more experimental use of the technology. Drones are increasingly being used in defence and civil segments. In civil, there are a variety of industries, including infrastructure, retail, agriculture, logistics, and many more. As a result, these markets have seen significant capital invested in their drone ecosystems and are driving innovation within the market.

The regulatory environment as it stands today in 10 nations across five continents is shown in the table below. Many nations have moved towards the liberalized approach of regulatory framework to ensure a legal climate that is business friendly.

Globally, most governments have restrictions on Beyond Visual Line of Sight (BVLOS) operations, which refers to flying a drone beyond the remote pilot or operator's visible range. This limits the number of applications that drones can be used for. Increasingly most countries are moving towards removing restrictions and have started allowing BVLOS operations. As a result, the applications that

drones can serve will increase and the operational cost of operation will go down as this enables autonomous operations and the ability of one drone pilot to operate multiple drones. Allowing BVLOS operation will significantly increase the demand for drones.

The major countries in drone operations are Australia, China and U.K. These countries possess advanced regulatory frameworks which have evolved over time. Although U.S. leads the drone industry innovation but still have stringent regulations which have been getting more liberal over time. BVLOS operations are prohibited in certain countries like USA, France, New Zealand unless a waiver is requested. In the US, the Federal Aviation Administrator (FAA) has recently come out with the draft guidelines for BVLOS operation. The degree of ease of getting a waiver approved is drastically low in such countries. While countries like Australia, UK, New Zealand have already started with drone delivery operations, other nations are still in their trial and testing phase of drone delivery operations.

While ease of drone operation varies significantly worldwide, the general national drone usage guidelines typically include the following components – pilot's license, LOS operations, flight over people, registration rules etc. This process of registration includes UIN (Unique Identification Number), pilot certificate and license for drones that are required to undertake flight operations within green areas. Pilot licensing mandates which include pilot's age, training requirements, etc. are more favorable in countries such as Australia, China followed by nations like UK, New Zealand, India. This is due to the simplification of regulations and approval-seeking process by the government in such nations.

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The 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. The Indian legislatures believe that drones have significant advantages to different sectors of the economy and are creators of employment and economic growth. 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 CY30.

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 tech 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 specialized software into the embedded system, such as construction, mining, agriculture, utilities etc.

• *Positive attitude towards BVLOS:* Drones can travel great distances while operating in BVLOS, 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.

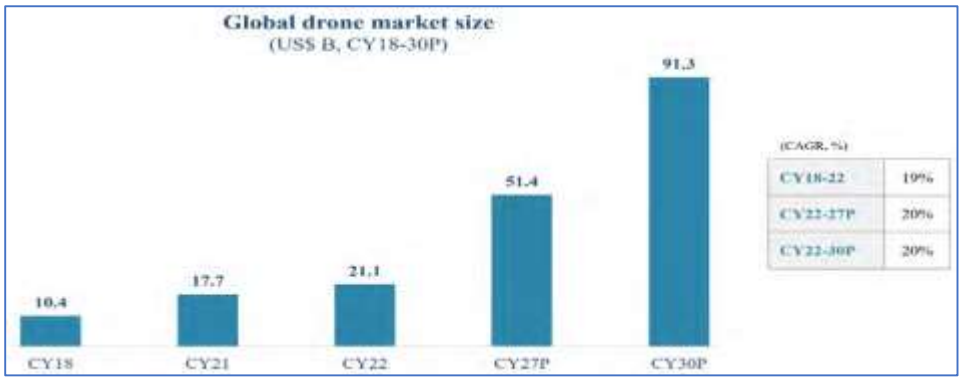
• *Drone swarms is an emerging trend:* In China, drones collectively navigated a dense forest with their trajectories controlled by central computers monitoring their positions and issuing commands. AI-enabled swarm drones can also boost operations readiness at the borders of neighboring countries.

• *Drone in a Box (DiB):* It allows drones to navigate and return to self-contained landing "boxes." The three necessary components required to successfully implement DiB include a drone with automatic charging, a box for drone launch and land and a control software used to control flight routes.

The global drone industry is expected to increase in a fast pace at a CAGR of ~20% from CY22-30, reaching US$ ~91.3B by CY30

The global drone industry is estimated to be US$ 21.1B in CY22. The industry has witnessed a significant growth at a CAGR of 19% over CY18-22 and is expected to grow even faster at a CAGR of 20% to be ~US$ 51.4B in CY27 and further leap to ~US$ 91.3B by CY30.

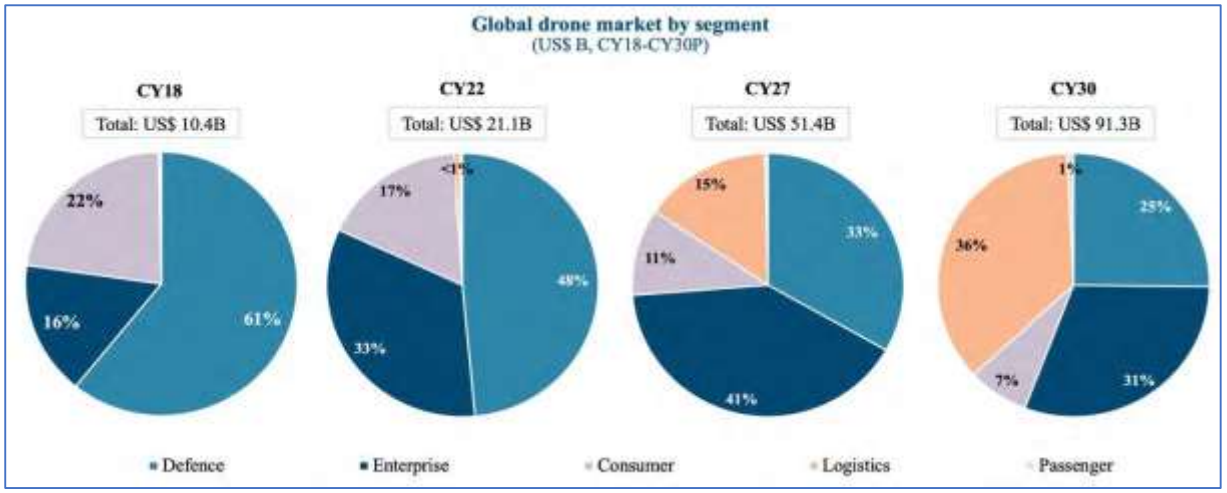
With global drone market poised to become US$ 51.4B market in CY27, drones are expected to be the disrupters of the future. They are revolutionizing a number of spaces - notably military, and on the civil front emergency services, aerospace, and potentially even the taxi industry.



The Global drone industry is rapidly expanding into various business segments

Similar to microwaves, computers, GPS and the Internet, drones were initially created for military purposes but have now also evolved for enterprise and civil usage. While traditional uses for drones, such as security, surveillance, and monitoring, continue to expand, especially in areas where labor costs and human risks are high, almost every industry has room for this technology, from real estate, construction, and mining to public safety, insurance, journalism, agriculture, transportation, energy, and telecommunication costs.

Within the global drone market, defence has had the largest share in CY18 and is expected to have the largest share (48%) in CY22 as well. As defence technology is adapted for commercial use and relaxed regulations, usage of drones in enterprise sector is expected to grow and contribute ~41% of the total market in CY27. The regulations are stringent for drone use in the logistics sector currently, although the situation is expected to change with relaxed norms for drone deliveries and other logistical use cases. The logistics drone market is expected to have the largest share of the overall drone market in CY30, followed by enterprise and defence.



Global examples of drone adoption in logistics

The first drone-based delivery was performed by Domino's Pizza, Inc., in November 2016 to deliver a pizza to a customer's doorstep. Since then, several large and small businesses have been testing autonomous delivery using drones. In CY19, Amazon.com Inc. announced 'PrimeAir', a drone delivery service to deliver packages within 30 minutes of ordering. The Wing, owned by Alphabet Inc., develops drone-based freight technology, and works with organizations like Walgreens and FedEx to deliver two and three-pound drone packages. United Parcel Service, Inc. Flight Forward was the first drone delivery service to be launched by a commercial logistics

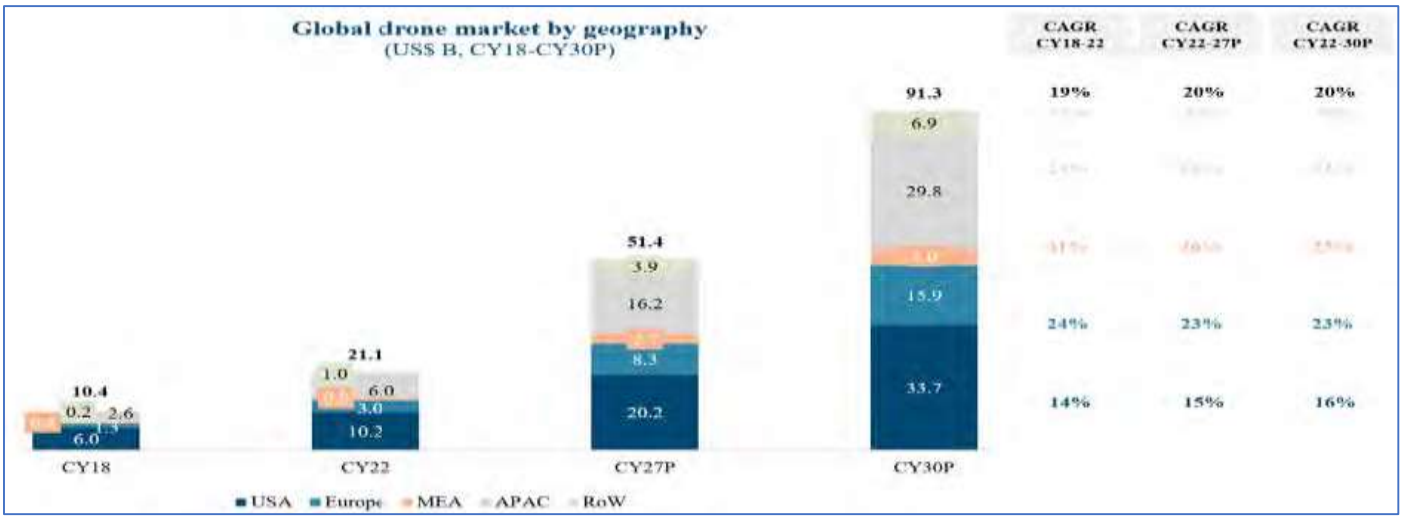
company. To advance their effort to provide medications, they have teamed with CVS Health Corporation. Walmart Inc. in association with DroneUp LLC will potentially serve four million households across six states in the US by expanding DroneUp delivery network across 34 sites. Drone Delivery Canada Corp., Airbus SE, Matternet Inc, DHL International GmbH., Shenzhen SF City Logistics Co., Ltd, and Rakuten Group Inc. are some other major drone delivery companies.

The US is the leading player in the drone delivery industry due to the enormous number of e-commerce giants and technological start-ups with headquarters in various states around the nation. Additionally, Canada is accelerating the delivery process by implementing drone delivery technologies. In Asia, China and Japan are dominating this industry. Drones are being used more frequently in Europe by Switzerland, Iceland, and Finland to deliver prescription drugs and other retail items to remote locations. Drones are used in African nations like Ghana and Rwanda to transport test samples and medical supplies

Drone industry by geography

The growth in the overall drone market across regions is anticipated to be driven by relaxations in regulations and testing of drone applications. Several governments are working out ways to form regulations for the adoption of drones in commercial applications. In CY22, USA is expected to be the biggest market for drones standing at US$ 10.2B with ~49% market share and predicted to grow to US$ 20.2B in CY27.

The agriculture drone market is expected to witness a steady growth in the APAC region with China at the forefront of the market. With the Government of China providing various subsidy schemes and favorable domestic policies for drone usage in industries, energy, agriculture and consumer markets are expected to drive growth in the coming years. The Indian government is also encouraging the adoption of drone technology in agriculture and has released standard operating procedures (SOPs) for drone-assisted pesticide and nutrient application. There is a growing number of Unmanned Aircraft Operator Permits in India currently. With the new 'The Drone Rules 2021', PLI scheme, UTM policy and liberalized drone policy, India is also positioned to become a global manufacturing hub for drone technology.

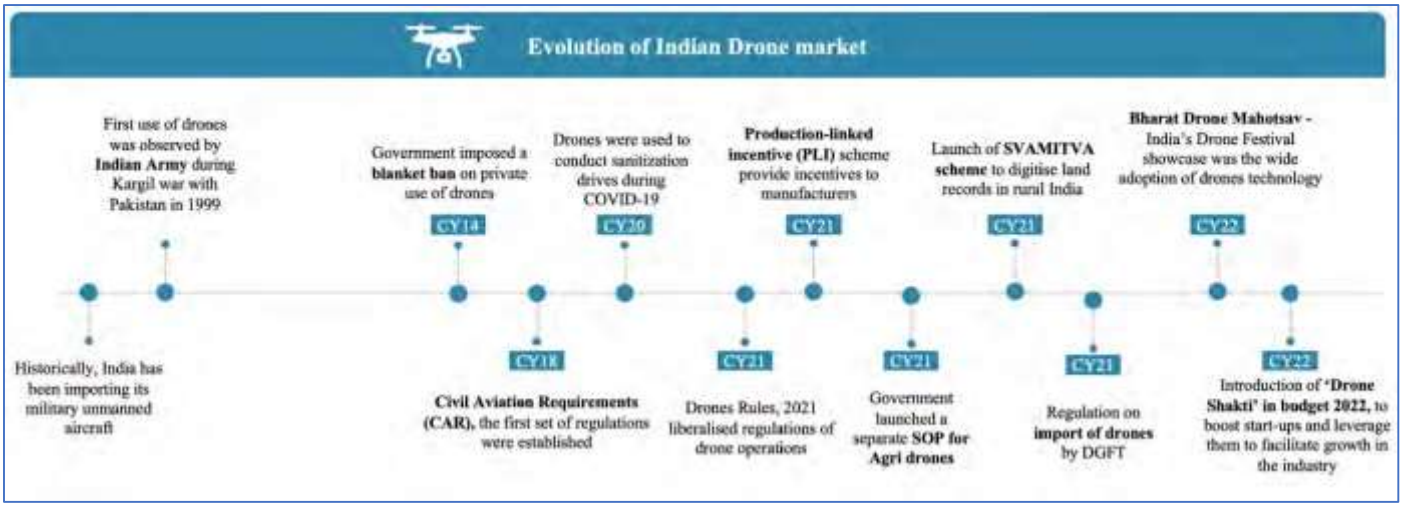


While the adoption of drones is growing at a rapid pace, each country has been developing their own ways to tackle certain headwinds that the drone industry faces. The way each country decides to combat these concerns would decide the level of sustainable growth the drone industry would witnesses within that country.

INDIAN UAV/ DRONE INDUSTRY

Evolution of the drone industry in India and how it could evolve given how it has in other markets

Back in the 1990s, the Indian Army acquired UAVs from Israel. First application was use as military drones during the 1999 Kargil war against Pakistan for photo surveillance along the Line of Control (LOC).



In CY14, the Directorate General of Civil Aviation (DGCA) under the MoCA (Ministry of Civil Aviation) banned the use of commercial drones in India until it formulated proper rules and regulations to govern their usage. In CY18, the DGCA released the CAR (Civil Aviation Requirements), which established a paperless procedure for filing permits for drone activities and registering licenses for drones, owners, and pilots. Apart from defence, drones came into commercial action after CY18.

In CY20, drones played a crucial role in maintaining social distance and performing sanitization operations during the peak of COVID-19. Indigenously developed drones were used to deliver COVID-19 vaccines to access compromised areas and strengthen the vaccine delivery system. With the new 'The Drone Rules 2021', individuals and organizations in India are set to find it easier to own and operate drones, setting the stage for the broader use of drones in the country. As a part of reforms to make India a global drone hub by CY30, the government also launched Production-Linked Incentive (PLI) scheme for drones and drone components companies in September 2021 to enable drone manufacturing in India.

In the FY22 budget, the Finance Minister of India introduced the 'Drone Shakti'. Startups are encouraged to provide Drone-as-a-Service. In F23 budget, the Finance Minister of India mentioned MoCA will take up with 15 identified Union Ministries to use Drone-as-a-service for which MoCA will hand-hold these Ministries by way of faster clearances and by brining industry, academia and startups together. Customers may hire drones and utilize them for various purposes, including shooting pictures and films. India's biggest drone festival, Bharat Drone Mahotsav, was inaugurated in May 2022. With "Atmanirbhar Bharat" initiative, the Government of India has been pushing Indian drone companies for innovation in the sector through its policies. The purpose was to showcase the broad adoption of drones and the substantial employment opportunities the industry can create. 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 CY30. The rise of the drone manufacturing industry in India will result in significant trickle-down effects across the sub-component value chain, right across motors/ propulsion systems, payloads, communication modules, batteries/ power systems, propellers, assembly, navigation systems, airframes and software solutions.

In order to boost indigenous drone production, India has introduced laws and policies that address both the supply side (through PLI and import bans) and demand sides (through drone policy). By implementing drone indigenization initiatives in use cases such as defence, commercial, homeland security, and counter UAV sectors, India has the remarkable opportunity to target approximately 1.8 lakh crore of total domestic manufacturing potential.

By CY27, drone software and services are expected to hold a larger share of the drone market than drone hardware

By business model, the drone market is made up of drone hardware, software, and services. Drone hardware can be procured or leased, the software can be bought or used on a subscription basis, and services can be availed. In CY22, drone hardware procurement constitutes a large chunk of the drone market due to defence contracts. Even in the enterprise segment, end users and service providers are first expected to build their fleets. Consumers also purchase drones for recreational and entertainment purposes. In CY21, the Indian government launched financial incentives, such as the PLI scheme, for businesses to make drone hardware, highlighting its desire to increase domestic manufacturing and transform the nation into a hub for global manufacturing by CY30. This move will significantly contribute to global hardware market as it has gained momentum since past year as a result of supply chain dynamics that have been affected by the epidemic as well as geopolitical unrest.

By CY27, drone software and services are expected to be a larger market than drone hardware, as software and service solutions are expected to pick up once drone fleets are maintained in the enterprise segment. Software and services are being tailor-made to use cases. Drone videography/ photography services in the consumer segment are also expected to contribute to the growth of drone software and services. In India, logistics and passenger use cases are still in a nascent stage with companies testing their capabilities. If drones are deemed safe and reliable for logistics and travel, they are expected to behave like the enterprise segment, wherein service providers would build their fleets first and then end users would avail services.

Drone software allows for the precise collection, processing, and analysis of data in real-time. This is enabled by a combination of technology, including the global positioning system (GPS), geographic information system (GIS), and advanced AI software.

The drone service market enables customers to maintain a lean operating model by providing end-to-end services of drone-based operations without the purchase of any hardware / software. The drone service provider would focus on the drone program, while the company would focus on its core business. As a result, they no longer need to use their own funds to pay for drone hardware, software, pilots, and pilot training programs. The drone services market is segmented into three categories:

• Drone platform services / Drone-as-a-Service (DraaS)
• Drone training and education services
• Drone maintenance, repair, and overhaul (MRO)

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. Customers can avail the DraaS service as per 'pay per use' model which helps reduce their initial investment and increases adoption rate. DraaS is used in urban environments for police and paramilitary services, fire brigade services, public asset inspection, public survey application, urban waste volumetric analysis, urban disaster assessment, pick-up or delivery of goods, rail infrastructure security. DraaS may also be utilized for pesticide and fertilizer spraying, as well as crop evaluation, to assist the farming community.

Key Concerns

- Revenue has increased in Fiscals 2022 and 2021 and the number of orders the Company have received in the past, its current order book and its growth rate may not be indicative of the number of orders it will receive in future.
- ideaForge 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 Fiscals 2024 and 2025 is based on management estimates, and is higher than its investments in product development for the last three Fiscals.
- The Company has sustained negative cash flows from operating activities in the past and may experience earnings declines or operating losses or negative cash flows from operating activities in the future.
- ideaForge 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.
- Highly dependent on global vendors for the supply of components and may not be able to reduce dependency on such imports.
- ideaForge designs, develops, engineers and manufactures Unmanned Aerial Vehicles that engages advanced technologies. Its operations are dependent on continuous product development and its inability to identify and understand evolving industry trends, technological advancements, customer preferences and develop new products to meet its customers' demands could render its existing products obsolete and may adversely affect the business.
- Products are complex and technologically advanced and could have unknown defects or errors.
- Most of the customer agreements generally contains a liquidated damage clause for delay or nondelivery of the Unmanned Aerial Vehicle.
- Business is dependent on single manufacturing facility, and it is subject to certain risks in its manufacturing process. Any slowdown or shutdown in manufacturing operations could have an adverse effect on the business, financial condition and results of operations.

- Operates in an industry which is highly regulated and is subject to change. If ideaForge fail to comply with the applicable regulations and rules prescribed by the Government of India and the relevant statutory or regulatory bodies, its business, financial condition, cash flows and results of operations will be adversely affected.

- The Company is a licensed manufacturer of Unmanned Aerial Vehicles under the Industries (Development and Regulation) Act, 1951 and any non-compliance of, or a failure to satisfy the terms and conditions under such license could lead to the cancellation of its license thereby creating a material adverse impact on its business, financial condition and results of operations.

- Business is benefitted by schemes launched by Government of India to boost the drone Industry. Any variation in such schemes would have an adverse impact on the results of operations and financial condition and cash flows.

- Heavily reliant on sales to the Indian government including 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 its sector would have a material adverse impact on the business, financial condition, and results of operations.

- Majority of the sale of products are dependent on winning bids.

- If the drone industry does not experience significant growth, or if ideaForge products lack multiple use applications, then it will not be able to achieve its anticipated level of growth.

- Hacking of software and solution or any other kind of cyber-attack could have a material adverse effect on the business, results of operation or financial condition.

- If ideaForge fails to effectively implement its production schedules, or its manufacturing operations suffer unanticipated or prolonged interruption, its business and results of operations may be materially and adversely affected.

- Entry into 'drone as a service' market may not be successful, and it might adversely impact the financial condition.

- Expansion into international market may not be successful.

- Industry is competitive and inability to compete effectively may adversely affect the business, results of operations, financial condition and cash flows.

- Any defect or inability to comply with quality parameters may lead to the cancellation of existing and future orders and could negatively impact the reputation, business, cashflow and results of operations and future prospects.

- The Company may be unable to obtain and maintain its patent rights thereby creating an adverse impact on its business and results of operations.

- The continuing impact of the COVID-19 pandemic on business and operations is uncertain and it may be significant and continue to have an adverse effect on the business, operations and future financial performance.

- ideaForge does not enter into any long-term contracts with its suppliers.

- Insurance policies may not be adequate to cover all losses incurred in the business.

- ideaForge faces foreign exchange risks that could adversely affect its results of operations. Any restrictions under the Foreign Direct Policy or delay in receiving approvals would adversely affect its business, operations and financial conditions.

- Inability to meet obligations, including financial and other covenants under debt financing arrangements could adversely affect the business and results of operations.

- ideaForge has availed working capital facilities which are repayable on demand. Any demand from lenders for repayment of such working capital facilities may adversely affect its cash flows.

- Failures in internal control systems could cause operational errors which may have an adverse impact on its profitability.
- If there is any change in laws or regulations, including taxation laws, or their interpretation, such changes may significantly affect its financial statements.
- If inflation were to rise in India, ideaForge might not be able to increase the prices of its products at a proportionate rate in order to pass costs on to its customers thereby reducing its margins.
- Financial instability in other countries may cause increased volatility in Indian financial markets.

Profit & Loss

Particulars (Rs in million)	FY23	FY22	FY21
Revenue from operations	1860.1	1594.4	347.2
Other Income	104.0	20.1	16.2
Total Income	**1964.0**	**1614.5**	**363.4**
Total Expenditure	**1389.1**	**863.2**	**455.9**
Cost of Materials Consumed	957.4	513.9	221.0
Change In Inventories of Finished Goods & Work-In-Progress	-368.8	-101.7	-38.0
Employee Benefits Expenses	509.1	268.5	192.5
Other Expenses	291.4	182.4	80.3
PBIDT	**574.9**	**751.3**	**-92.5**
Interest	48.4	176.7	16.7
PBDT	**526.5**	**574.6**	**-109.2**
Depreciation and amortization	118.6	72.8	35.8
PBT	**408.0**	**501.8**	**-145.0**
Tax (incl. DT & FBT)	**88.1**	**61.7**	**1.2**
Current tax	121.3	79.7	0.0
Deferred tax (credit)/charge	-33.2	-18.0	1.2
PAT	**319.9**	**440.1**	**-146.3**
EPS (Rs.)	8.6	13.8	-5.0
Face Value	10	10	10
OPM (%)	25.3	45.9	-31.3
PATM (%)	17.2	27.6	-42.1

Balance Sheet

Particulars (Rs in million) As at	FY23	FY22	FY21
Non-current assets			
Property, plant and equipment	81.8	22.2	8.8
Capital work-in-progress	34.1	0.0	0.0
Right of use assets	155.6	108.0	5.1
Other Intangible assets	249.6	131.9	115.8
Intangible assets under development	215.1	190.9	142.2
Financial assets			
Investments	10.0	0.0	0.0
Other financial assets	231.73	301.34	139.46
Deferred tax assets (net)	52.2	18.9	1.0
Non-Current Tax asset (Net)	11.3	11.3	10.6
Other non-current assets	1.0	2.7	0.3
Total non-current assets	**1,042.4**	**787.2**	**423.4**
Current assets			
Inventories	1,046.8	489.1	234.2
Financial assets			
Investments	*1,240.8*	*106.5*	*0.0*
Trade receivables	*578.2*	*203.1*	*237.5*
Cash and cash equivalents	*45.0*	*304.2*	*52.6*
Bank balances other than cash and cash equivalents	*19.9*	*46.6*	*88.7*
Loans & Advances	*0.9*	*0.6*	*0.4*
Other financial assets	*393.5*	*46.6*	*74.8*
Other current assets	511.9	239.5	125.8

Total current assets	**3,836.9**	**1,436.1**	**814.1**
Total assets	**4,879.3**	**2,223.3**	**1,237.4**
EQUITY & LIABILITIES			
Equity			
Equity share capital	213.4	0.9	0.9
Instruments entirely equity in nature	0.7	0.4	0.4
Other equity	3,033.2	1,631.8	596.2
Total equity	**3,247.2**	**1,633.0**	**597.5**
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Borrowings	0.0	0.0	377.8
Lease liabilities	112.7	94.5	0.0
Provisions	25.1	24.0	19.0
Total non-current liabilities	**137.8**	**118.5**	**396.8**
Current liabilities			
Financial liabilities			
Borrowings	865.0	56.8	127.9
Lease liabilities	27.8	12.5	4.6
Trade payables			
Total outstanding dues of micro and small enterprises	46.1	23.7	18.7
total outstanding dues of creditors other than micro and small enterprises	93.8	51.3	28.8
Other financial liabilities	51.0	54.8	49.5
Other current liabilities	280.9	208.5	6.4
Provisions	63.4	55.5	7.2
Current tax liabilities (net)	66.3	8.9	0.0
Total current liabilities	**1,494.3**	**471.8**	**243.1**
Total liabilities	**1,632.1**	**590.3**	**639.9**
Total equity and liabilities	**4,879.3**	**2,223.3**	**1,237.4**

Source: RHP

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