

## Better execution leads to strong revenue growth...

**About the stock:** Data Patterns (India) (DPIL) is a vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry.

- The company delivered revenue, PAT CAGR of 18.9%, 40.7%, respectively, in FY19-22. FY22 revenues increased 39% YoY with EBITDA margin at 45.4%. FY22 PAT increased 69% YoY to ₹ 94 crore

**Q1FY23 Results:** Revenues were better than estimates while margins came lower.

- Revenue at ₹ 68.4 crore; up 83.7% YoY, led by better execution in development contracts
- EBITDA margin contracted 1394 bps YoY to 31.1% on change in contract mix; EBITDA came at ₹ 21.3 crore, up 26.8% YoY
- PAT increased 39.1% YoY to ₹ 14.2 crore
- YTD FY23 order inflow was at ~₹ 250 crore; order backlog at ₹ 664 crore

**What should investors do?** DPIL is well placed to deliver revenue and PAT CAGR of 28.2% and 24.3%, respectively, over FY22-24E. Increase in profitability with strong asset turnover will result in healthy return ratios over FY23-24E.

- We remain long term positive and retain our **BUY** rating on the stock

**Target Price & Valuation:** We value Data Patterns at ₹ 900 i.e. 32x on FY24E EPS.

**Key triggers for future price performance:**

- Strong order inflows with healthy pipeline of orders worth ₹ 2,000-3,000 crore in the next two to three years provides strong visibility
- Defence electronics provides huge opportunity of ~₹ 1.5 lakh crore in next four to five years led by armed forces' requirement of advanced systems
- Fire control system for Brahmos missile, Avionics for LCA, RWR for Fighter Aircraft, ELINT for Airborne and Ground Platform and radar subsystems are key orders in pipeline in FY23 for DPIL
- Large part of electronic components (used in Indian defence platforms) are supplied by foreign OEMs. As indigenisation efforts continue, future procurement will see a large portion of defence electronics sourced locally

**Alternate Stock Idea:** Besides DPIL, we like Bharat Electronics in the defence electronics space.

- Strong growth in profitability aided by sustained margins. Strong balance sheet, double digit returns ratios
- BUY with a target price of ₹ 315/share



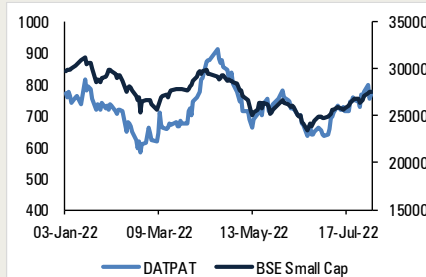
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	3,995.3
Total Debt (FY22) (₹ crore)	6.8
Cash and Inv (FY22) (₹ crore)	177.1
EV (FY22) (₹ crore)	3,825.0
52 week H/L (₹) (BSE)	935/575
Equity capital (₹ crore)	10.4
Face value (₹)	2.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22
Promoter	45.6	45.6	45.6
FII	1.3	1.5	1.4
DII	9.2	8.0	8.3
Others	43.9	44.9	44.7

### Price Performance



### Recent Events & Key Risks

- (i) Dependence on government contracts
- (ii) Significant working capital requirements

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	131	156	224	311	18.9	392	511	28.2
EBITDA	26	43	92	141	40.7	159	205	20.6
EBITDA margin (%)	19.5	27.7	41.1	45.4		40.5	40.2	
Net Profit	8	21	56	94	64.9	113	145	24.3
EPS (₹)	1.6	4.5	10.7	18.1		21.7	28.0	
P/E (x)	467.3	170.7	71.9	42.5		35.5	27.5	
EV/EBITDA (x)	158.7	93.9	43.7	27.1		23.7	18.3	
RoCE (%)	11.1	19.5	37.0	23.8		24.4	26.4	
RoE (%)	5.8	13.7	26.7	16.4		18.1	19.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results

- Revenue from operations for the quarter increased 83.7% YoY to ₹ 68.4 crore; better than our estimate of ₹ 47.3 crore. This was primarily on account of better-than-expected execution in development contracts. Revenue from development contracts witnessed strong growth YoY (contribution increased to 45% of revenue in Q1FY23 vs negligible in Q1FY22)
- Gross margin contracted to 64.7% in Q1FY23 against 90.2% in Q1FY22 on account of change in contracts and revenue mix
- EBITDA margin contracted sharply by 1265 bps YoY to 31.3%; lower than our estimate of 40.9%. However, EBITDA was higher by 26.8% to ₹ 21.3 crore (vs. I-direct estimate of ₹ 19.4 crore) led by sharp increase in revenues on YoY basis
- PAT increased 39.1% YoY to ₹ 14.2 crore (vs. our estimate of ₹ 12.2 crore)

### Q1FY23 Earnings Conference Call highlights

- The company maintains its FY23E revenue guidance at 25-30% growth with ~40% EBITDA margin
- The order book of the company was at ₹ 453.4 crore as of June 2022 end and is currently at ₹ 663.55 crore as on date. Order inflow during Q1FY23 was at ₹ 45.6 crore
- Production orders constitute 61% of the total order book while 26% is from development contracts and 13% from service contracts
- The company has received letter of intent (Lol) for contracts worth ₹ 174 crore (in Radar segment) where negotiations are also completed. Apart from this, company has also completed negotiations for contracts worth ₹ 169 crore where Lol is yet to be received. The company expects order backlog of about ₹ 1,000 crore (if these under negotiation project gets converted into orders)
- Of the total order inflows during Q1FY23, 98% were from production segment. The major orders received in Q1FY23 were avionics production order from Hindustan Aeronautics (HAL) worth ₹ 18.3 crore, Avionics production order from DRDO worth ₹ 10.4 crore, electronic warfare (EW) order from DRDO worth ₹ 1.75 crore
- During the quarter, 46% of revenues was from production, 45% from development and 9% from services
- Products wise revenue mix: Radars contributed ~40%, avionics contributed ~25%, Automated Test Equipments (ATE) contributed ~16%
- Customer-wise revenue mix: 40% of revenues was from MoD, ~25% from HAL, 7% from Brahmos and 16% from exports
- The management expects ₹ 2000-3000 crore worth orders in the pipeline for the next three to four years. Fire control system for BrahMos Missile, Avionics for LCA, RWR for Fighter Aircraft, ELINT for Airborne and ground platform and Radar Subsystems are key orders in pipeline for FY23
- Radars, electronic warfare, avionics will continue to be major drivers for order book and revenues in the next couple of years
- Exports contribution to total revenues is expected at ~10% for FY23E. The company is exploring opportunities in exports market
- The company is in process of doubling the existing manufacturing facility at Chennai, which is expected to be fully operational from Q3FY23 onwards

**Exhibit 1: Variance Analysis**

₹ Crore	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Operating Income	68.4	47.3	37.2	83.7	170.5	-59.9	Better execution in development contracts led to sharp increase in revenues
Other income	1.7	2.5	0.1	1,207.7	2.5	-32.8	
Total Revenue	70.1	49.8	37.4	87.6	173.1	-59.5	
Raw materials costs	24.2	5.7	3.6	565.6	59.7	-59.5	
Employees Expenses	17.5	17.2	13.7	28.2	17.2	1.9	
Other Expenses	5.5	5.0	3.2	71.5	6.2	-11.8	
Total Expenditure	47.1	27.9	20.5	130.2	83.1	-43.3	
EBITDA	21.3	19.4	16.8	26.8	87.5	-75.7	
EBITDA margins (%)	31.1	40.9	45.0	-1394 bps	51.3	-2021 bps	Margins declined on change in contracts and revenue mix
Interest	1.6	3.5	1.9		3.5		
Depreciation	2.0	1.9	1.4	38.5	1.9	4.8	
Tax	5.2	4.3	3.3	57.9	23.0	-77.4	
PAT	14.2	12.2	10.2	39.1	61.6	-76.9	

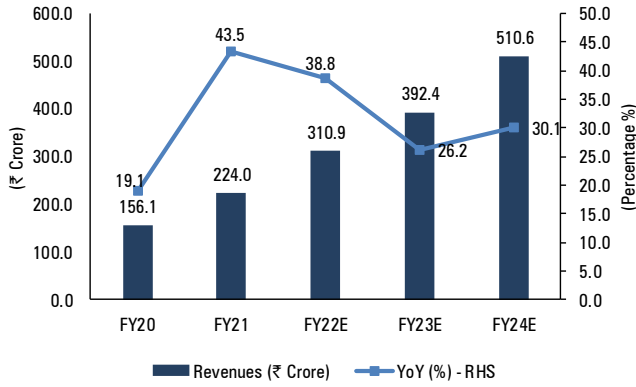
Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old*	New	% Change	Old*	New	% Change	
Revenue	392.4	392.4	0.0	495.6	510.6	3.0	Factoring in increase in order inflows
EBITDA	158.9	158.9	0.0	199.2	205.3	3.0	
EBITDA Margin (%)	40.5	40.5	0 bps	40.2	40.2	0 bps	Margin estimates maintained
PAT	112.6	112.6	0.0	141.0	145.2	3.0	
EPS (₹)	21.7	21.7	0.0	27.2	28.0	3.0	

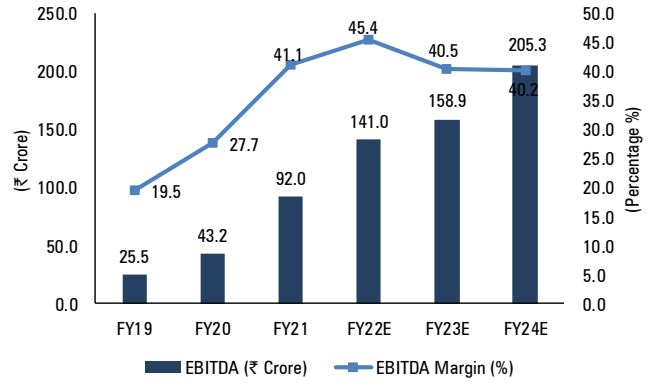
Source: Company, ICICI Direct Research

Exhibit 3: Trend in revenues



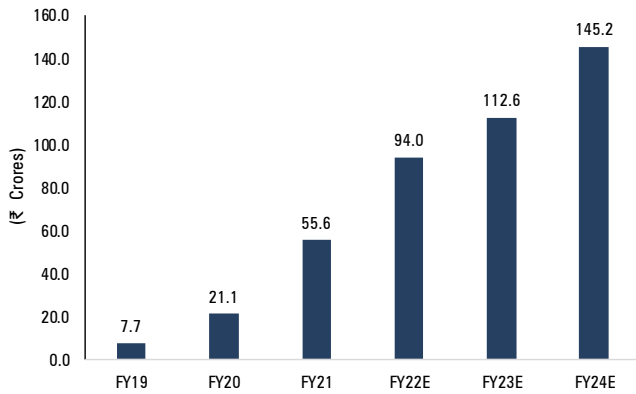
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margins trend



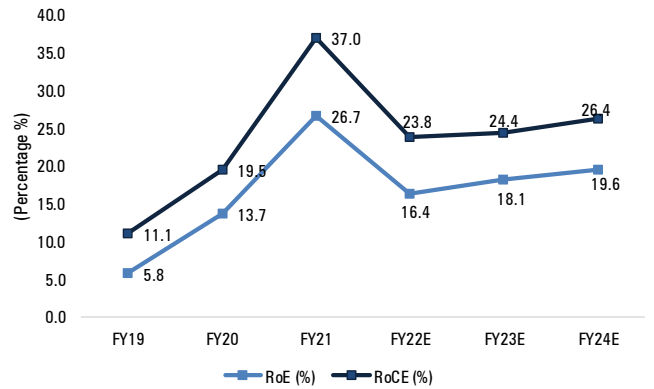
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios to recover after fall in FY22



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	224	311	392	511
Revenue	224	311	392	511
% Growth	43.5	38.8	26.2	30.1
Other income	2.6	4.0	2.8	3.2
<b>Total Revenue</b>	<b>270.0</b>	<b>310.9</b>	<b>392.4</b>	<b>510.6</b>
% Growth	68.5	15.1	26.2	30.1
Total Raw Material Costs	70	86	147	195
Employee Expenses	48	62	59	76
other expenses	13	21	27	35
<b>Total Operating Expenditure</b>	<b>132.0</b>	<b>169.8</b>	<b>233.5</b>	<b>305.3</b>
<b>Operating Profit (EBITDA)</b>	<b>92.0</b>	<b>141.0</b>	<b>158.9</b>	<b>205.3</b>
% Growth	113.1	53.3	12.7	29.2
Interest	15	11	1	1
PBDT	80	134	161	208
Depreciation	6	7	10	13
PBT before Exceptional Items	75	127	151	195
Total Tax	19	33	39	50
PAT before MI	56	94	113	145
Minority Interest	-	-	-	-
<b>PAT</b>	<b>55.6</b>	<b>94.0</b>	<b>112.6</b>	<b>145.2</b>
% Growth	163.6	69.1	19.8	29.0
EPS	11.9	18.1	21.7	28.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	1.7	10.4	10.4	10.4
Reserve and Surplus	206	564	611	732
Total Shareholders funds	208	575	622	742
Other Non Current Liabilities	27.4	15.7	15.7	15.7
Total Debt	32	7	-	-
<b>Total Liabilities</b>	<b>279</b>	<b>609</b>	<b>649</b>	<b>769</b>
Gross Block	63	68	122	162
Acc: Depreciation	39	45	55	68
Net Block	29	44	67	94
Capital WIP	-	17.3	20.0	15.0
Total Fixed Assets	33.2	64.8	91.6	113.9
Non Current Assets	34	122	63	81
Inventory	74	120	116	130
Debtors	156	198	235	306
Loans and Advances	-	-	-	-
Other Current Assets	18	16	35	46
Cash	9	177	225	237
Total Current Assets	261	520	621	728
Current Liabilities	12	38	43	56
Provisions	9	11	10	10
Total Current Liabilities	49	97	127	154
Net Current Assets	212	422	494	574
<b>Total Assets</b>	<b>279</b>	<b>609</b>	<b>649</b>	<b>769</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	56	94	113	145
Depreciation	6	7	10	13
Interest	15	11	1	1
Cash Flow before WC changes	76	112	123	159
Changes in inventory	6	(46)	4	(14)
Changes in debtors	(40)	(42)	(37)	(71)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	(2)	2	(19)	(11)
Net Increase in Current Assets	(38)	(90)	(53)	(96)
Changes in creditors	(5)	26	5	13
Changes in provisions	(1)	(0)	0	0
Net Inc in Current Liabilities	(8)	48	29	27
<b>Net CF from Op activities</b>	<b>29</b>	<b>70</b>	<b>100</b>	<b>91</b>
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(5)	(38)	(35)	(35)
<b>Net CF from Inv activities</b>	<b>22</b>	<b>(137)</b>	<b>23</b>	<b>(53)</b>
Dividend and Dividend Tax	(0)	(22)	(20)	(25)
<b>Net CF from Fin Activities</b>	<b>(44)</b>	<b>236</b>	<b>(75)</b>	<b>(26)</b>
Net Cash flow	7	168	48	12
Opening Cash/Cash Equivalent	2	9	177	225
Closing Cash/ Cash Equivalent	9	177	225	237

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per Share Data</b>				
EPS	10.7	18.1	21.7	28.0
Cash per Share	1.7	34.1	43.3	45.7
BV	40.1	110.7	119.8	143.0
Dividend per share	0.1	3.5	3.2	4.0
Dividend payout ratio	0.0	0.2	0.1	0.1
<b>Operating Ratios(%)</b>				
EBITDA Margin	41.1	45.4	40.5	40.2
PAT Margin	24.8	30.2	28.7	28.4
Asset turnover	0.9	0.5	0.6	0.7
Debtors Turnover Ratio	1.6	1.8	1.8	1.9
Creditors Turnover Ratio	15.3	12.4	9.7	10.3
<b>Return Ratios(%)</b>				
RoIC	37.3	33.3	37.6	38.1
RoNW	26.7	16.4	18.1	19.6
RoCE	37.0	23.8	24.4	26.4
<b>Valuation Ratio(%)</b>				
EV / EBITDA	43.7	27.1	23.7	18.3
P/E	71.9	42.5	35.5	27.5
EV / Net Sales	17.9	12.3	9.6	7.4
Sales / Equity	1.1	0.5	0.6	0.7
Market Cap / Sales	17.8	12.9	10.2	7.8
Price to Book Value	19.2	7.0	6.4	5.4
<b>Solvency Ratio(%)</b>				
Debt / Equity	0.2	0.0	-	-
Current Ratio	10.1	4.5	4.9	5.2
Quick Ratio	7.1	2.9	3.4	3.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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