

Data Patterns (India) (DATPAT)

CMP: ₹ 1343 Target: ₹ 1555 (16%) Target Period: 12- 15 months

BUY

November 1, 2022

Strong execution continues...

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

Q2FY23 Results: Revenues were better than estimates while margins came lower.

- Revenues were at ₹ 88.2 crore; up 48.8% YoY & 28.9% QoQ, led by better execution in both development & production contracts
- EBITDA margin contracted 131 bps YoY to 34.2% on a change in contract mix; EBITDA came in at ₹ 30.2 crore, up 43.3% YoY
- PAT increased 63.2% YoY to ₹ 21.1 crore
- H1FY23 order inflows at ₹ 517 crore; order book at ₹ 1012 crore as on date

What should investors do? DPIL is well placed to deliver revenue, PAT CAGR of 28.0%, 29.0%, respectively, over FY22-25E. Increase in profitability with strong asset turnover is expected to 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 ₹ 1555 i.e. 40x on FY25E 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 ₹ 135/share



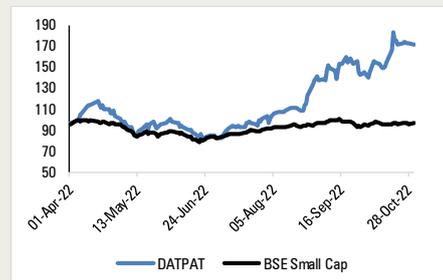
Particulars

Particular	Amount
Market Capitalization (₹ crore)	6,968.4
Total Debt (FY22) (₹ crore)	6.8
Cash and Inv (FY22) (₹ crore)	177.1
EV (FY22) (₹ crore)	6,798.1
52 week H/L (₹) (BSE)	1117/575
Equity capital (₹ crore)	10.4
Face value (₹)	2.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	45.6	45.6	45.6	45.8
FII	1.3	1.5	1.4	1.6
DII	9.2	8.0	8.3	7.6
Others	43.9	44.9	44.7	45.0

Price Performance



Recent Events & Key Risks

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

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	2 Year CAGR (FY20-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Revenues	156	224	311	41.1	401	521	652	28.0
EBITDA	43	92	141	80.8	160	220	279	25.5
EBITDA margin (%)	27.7	41.1	45.4		39.9	42.1	42.8	
Net Profit	21	56	94	111.1	114	158	202	29.0
EPS (₹)	4.5	10.7	18.1		22.0	30.4	38.9	
P/E (x)	297.8	125.4	74.2		61.1	44.2	34.5	
EV/EBITDA (x)	162.8	76.0	48.2		43.0	31.2	24.5	
RoCE (%)	19.5	37.0	23.8		24.9	28.4	29.7	
RoE (%)	13.7	26.7	16.4		18.2	21.0	22.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results

- Revenue from operations increased 48.8% YoY to ₹ 88.2 crore; better than our estimate of ₹ 76.2 crore, primarily on account of strong execution in both development and production contracts. Moreover, revenue grew 28.9% on a sequential basis. H1FY23 revenue growth was at 62.3% YoY
- Gross margin was at 64.9% during the quarter, which contracted by 562 bps YoY due to a change in contracts and revenue mix (share of development contracts increased)
- EBITDA margin also contracted 131 bps YoY to 34.2%; lower than our estimate of 35.8%. This was primarily on account of higher-than-expected others cost, which increased 26.4% YoY. However, margins improved 313 bps on a sequential basis
- EBITDA increased 43.3% YoY to ₹ 30.2 crore (vs. estimate of ₹ 27.3 crore) led by strong revenue growth. H1FY23 EBITDA was up 36.0% YoY as contraction in margins partially negated the impact of strong revenue growth (H1FY23 EBITDA margin contracted by 634 bps YoY)
- PAT increased 63.2% YoY to ₹ 21.1 crore against our estimate of ₹ 17.9 crore. Sequentially, PAT has increased 47.8%. H1FY23 PAT was up 52.5% led by better revenue growth

Q2FY23 Earnings Conference Call highlights

- The order book as on date is ₹ 1,012 crore including orders received in October 2022 and those finalised and yet to be received. H1FY23 order inflows were at ₹ 516.9 crore of which ₹ 471.3 crore of orders were received in Q2FY23
- Development orders constituted 84% of total orders inflows during Q2FY23. The major development orders received during the quarter were 1) ₹ 362.4 crore for radars from DRDO, 2) ₹ 25.2 crore for electronic warfare from DRDO, 3) ₹ 15.7 crore for communication systems from DRDO
- The company maintains its FY23E revenue guidance at 25-30% growth with gross margin of ~65% and EBITDA margin of ~40% during the year
- During the quarter, 72% of revenues was from production, 25% from development and 3% from services. For H1FY23, production constituted ~61% of revenues
- Product wise revenue mix for Q2FY23: Radars contributed ~41%, automated test equipment (ATE) contributed ~26%, electronic warfare contributed ~19%. Customer-wise revenue mix: ~32% of revenues was from MoD, ~24% from MoD, 26% 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 the pipeline for FY23
- While exports contributed 26% to revenues in Q2FY23, it is expected to have contributed ~10% on a full year basis i.e. in FY23
- DPL is in the process of doubling existing manufacturing facility at Chennai, which is expected to be fully operational from Q4FY23. Post this expansion, the company would be capable of generating ₹ 1000 crore revenue
- Cash conversion cycle (CCC) reached 367 days in H1FY23 as inventory level increased in anticipation of supply constraints. CCC is expected to reach 270-300 days in two years

Exhibit 1: Variance Analysis

₹ Crore	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Operating Income	88.2	76.2	59.2	48.8	68.4	28.9	Better execution in development & production contracts
Other income	1.9	0.8	0.6	236.4	1.7	8.8	
Total Revenue	90.0	77.0	59.8	50.5	70.1	28.4	
Raw materials costs	31.0	25.1	17.5	77.2	24.2	28.2	
Employees Expenses	19.1	17.5	14.5	32.2	17.5	9.4	
Other Expenses	7.9	6.2	6.2	26.4	5.5	44.2	
Total Expenditure	58.0	48.9	38.2	51.8	47.1	23.1	
EBITDA	30.2	27.3	21.0	43.3	21.3	41.9	
EBITDA margins (%)	34.2	35.8	35.5	-131 bps	31.1	313 bps	Margins declined YoY on change in contracts and revenue mix
Interest	1.2	1.6	2.9		1.6		
Depreciation	2.1	2.0	1.6	34.0	2.0	7.6	
Tax	7.6	6.5	4.2	79.9	5.2	46.9	
PAT	21.1	17.9	12.9	63.2	14.2	47.8	

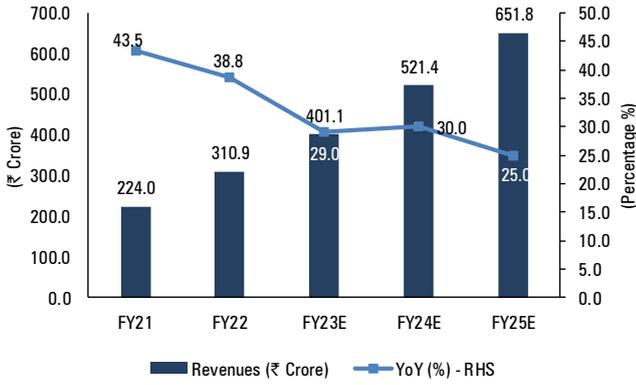
Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates for FY23E & FY24E; Introduced FY25E estimates

₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	401.1	401.1	0.0	521.4	521.4	0.0	651.8	FY25E revenue expected to grow 25%
EBITDA	162.4	159.8	-1.6	222.6	219.5	-1.4	278.7	
EBITDA Margin (%)	40.5	39.9	-65 bps	42.7	42.1	-60 bps	42.8	Margins revised down by 60-65 bps for FY23/24 due to business mix
PAT	115.1	114.0	-0.9	158.0	157.6	-0.3	201.8	
EPS (₹)	22.2	22.0	-0.9	30.4	30.4	-0.3	38.9	

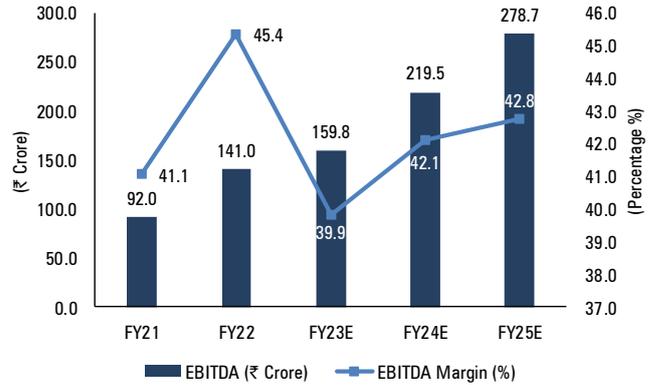
Source: Company, ICICI Direct Research

Exhibit 3: Trend in revenues



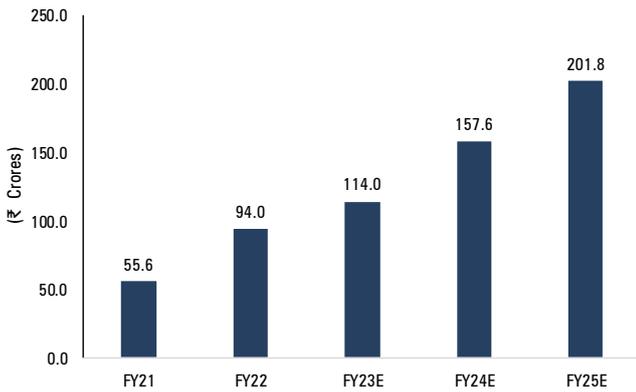
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margins trend



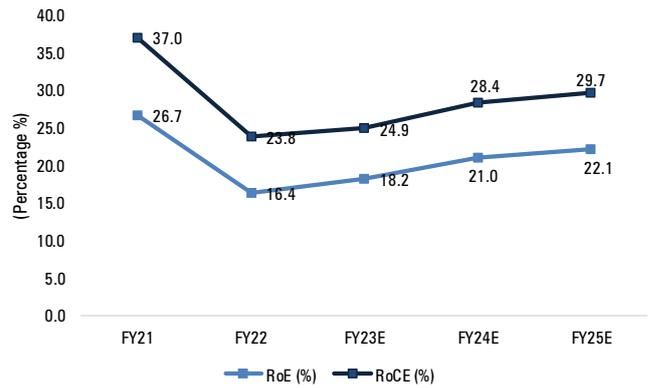
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Net Sales	311	401	521	652
Revenue	311	401	521	652
% Growth	38.8	29.0	30.0	25.0
Other income	4.0	7.2	8.5	9.8
Total Revenue	310.9	401.1	521.4	651.8
% Growth	15.1	29.0	30.0	25.0
Total Raw Material Costs	86	140	180	225
Employee Expenses	62	73	87	105
other expenses	21	28	35	43
Total Operating Expenditure	169.8	241.2	301.9	373.0
Operating Profit (EBITDA)	141.0	159.8	219.5	278.7
% Growth	53.3	13.3	37.3	27.0
Interest	11	6	6	4
PBDT	134	161	222	285
Depreciation	7	8	11	14
PBT before Exceptional Items	127	153	212	271
Total Tax	33	39	54	69
PAT before MI	94	114	158	202
Minority Interest	-	-	-	-
PAT	94.0	114.0	157.6	201.8
% Growth	69.1	21.3	38.2	28.0
EPS	18.1	22.0	30.4	38.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	10.4	10.4	10.4	10.4
Reserve and Surplus	564	615	742	902
Total Shareholders funds	575	626	752	912
Other Non Current Liabilities	15.7	15.7	15.7	15.7
Total Debt	7	12	12	12
Total Liabilities	609	664	791	951
Gross Block	68	127	167	202
Acc: Depreciation	45	54	65	79
Net Block	44	73	102	123
Capital WIP	17.3	20.0	15.0	15.0
Total Fixed Assets	64.8	98.0	122.1	143.4
Non Current Assets	122	125	161	200
Inventory	120	165	186	214
Debtors	198	253	300	357
Loans and Advances	-	-	-	-
Other Current Assets	16	20	26	33
Cash	177	112	128	162
Total Current Assets	520	558	649	775
Current Liabilities	38	44	57	71
Provisions	11	10	10	10
Total Current Liabilities	97	117	141	167
Net Current Assets	422	442	508	608
Total Assets	609	664	791	951

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	94	114	158	202
Depreciation	7	8	11	14
Interest	11	6	6	4
Cash Flow before WC changes	112	128	174	219
Changes in inventory	(46)	(45)	(21)	(29)
Changes in debtors	(42)	(54)	(47)	(57)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	2	(4)	(6)	(7)
Net Increase in Current Assets	(90)	(104)	(74)	(92)
Changes in creditors	26	6	13	14
Changes in provisions	(0)	0	0	0
Net Inc in Current Liabilities	48	19	24	26
Net CF from Op activities	70	44	124	154
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(38)	(40)	(35)	(35)
Net CF from Inv activities	(137)	(44)	(71)	(74)
Dividend and Dividend Tax	(18)	(21)	(31)	(42)
Net CF from Fin Activities	236	(65)	(37)	(46)
Net Cash flow	168	(65)	16	34
Opening Cash/Cash Equivalent	9	177	112	128
Closing Cash/ Cash Equivalent	177	112	128	162

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per Share Data				
EPS	18.1	22.0	30.4	38.9
Cash per Share	34.1	21.6	24.7	31.3
BV	110.7	120.6	144.9	175.8
Dividend per share	3.5	4.1	6.0	8.0
Dividend payout ratio	19%	18%	20%	21%
Operating Ratios(%)				
EBITDA Margin	45.4	39.9	42.1	42.8
PAT Margin	30.2	28.4	30.2	31.0
Asset turnover	0.5	0.6	0.7	0.7
Debtors Turnover Ratio	1.8	1.8	1.9	2.0
Creditors Turnover Ratio	12.4	9.8	10.3	10.1
Return Ratios(%)				
RoC	33.3	28.8	32.8	34.8
RoNW	16.4	18.2	21.0	22.1
RoCE	23.8	24.9	28.4	29.7
Valuation Ratio(%)				
EV / EBITDA	48.2	43.0	31.2	24.5
P/E	74.2	61.1	44.2	34.5
EV / Net Sales	21.9	17.1	13.1	10.5
Sales / Equity	0.5	0.6	0.7	0.7
Market Cap / Sales	22.4	17.4	13.4	10.7
Price to Book Value	12.1	11.1	9.3	7.6
Solvency Ratio(%)				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.5	5.4	5.4	5.6
Quick Ratio	2.9	3.4	3.5	3.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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