

CMP: ₹ 1290 Target: ₹ 1555 (21%) Target Period: 12-15 months

March 14, 2023

## Raises ₹ 500 crore growth capital...

**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

### Fund raising of ₹ 500 crore through QIP

- The board has approved the allotment of 40.97 lakh shares through QIP at an issue price of ₹ 1220.31 per share (FV at 2), aggregating to ₹ 500 crore
- Issue price is at a discount of 5% on the floor price and 7.1% discount to Monday's closing. Promoter holding post the issue will be diluted to 42.4% from 45.8% with EPS dilution at 7.3%
- Net proceeds to be utilised mainly towards funding working capital requirements, investment in product development, debt repayment & capex

**What should investors do?** DPIL is well placed to deliver revenue, PAT CAGR of 29.3%, 28.5%, respectively, over FY22-25E. We believe that fund raising for working capital and product development would benefit the company in faster execution of existing contracts and in bidding for more contracts

- We upgrade the stock from HOLD to **BUY**

**Target Price & Valuation:** We value Data Patterns at ₹ 1555 i.e. 42x 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 an opportunity of ~₹ 1.5 lakh crore in the 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 the 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 ₹ 130/share

### 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	413	537	725	32.6
EBITDA	43	92	141	80.8	162	216	295	27.8
EBITDA margin (%)	27.7	41.1	45.4		39.3	40.2	40.6	
Net Profit	21	56	94	111.1	114	155	207	30.2
Diluted EPS (₹)	3.8	9.9	16.8		20.4	27.6	37.0	
P/E (x)	286.1	120.5	76.9		63.3	46.7	34.8	
EV/EBITDA (x)	156.4	73.0	46.2		38.1	29.3	21.8	
RoCE (%)	19.5	37.0	23.8		14.7	17.2	20.2	
RoE (%)	13.7	26.7	16.4		10.5	12.8	15.0	

Source: Company, ICICI Direct Research

BUY



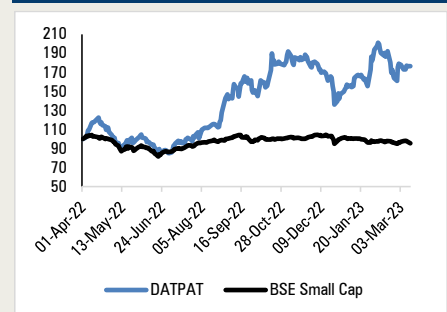
### Particulars

Particular	Amount
Market Capitalization	₹ 6693 Crore
Total Debt (FY22)	₹ 6.8 Crore
Cash and Inv (FY22)	₹ 177.1 crore
EV (FY22)	₹ 6523 Crore
52 week H/L (₹) (BSE)	1540 / 608
Equity capital	10.4
Face value	2.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	45.6	45.6	45.8	45.8
FII	1.5	1.4	1.6	2.3
DII	8.0	8.3	7.6	7.9
Others	44.9	44.7	45.0	44.0

### Price Performance



### Recent Events & Key Risks

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

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## Outlook & Valuation

- The company's board of directors has approved the allotment of 40.97 lakh shares through QIP at an issue price of ₹ 1220.31 per share [face value (FV) at ₹ 2], aggregating to ₹ 500 crore. The issue price is at a discount of 5% to the floor price and 7.1% discount to Monday's closing level
- The promoter holding post the issue will be diluted to 42.4% from 45.8% with EPS dilution at 7.3%. The allotment of the equity shares offered pursuant to the issue is expected to be made on or about March 14, 2023
- The company proposes to utilise the net proceeds mainly towards funding working capital requirements (₹ 168 crore) and investment in product development (₹ 167.2 crore). Balance fund proceeds will be used for repayment of borrowings (₹ 25 crore), capex & land purchase (₹ 23 crore) and general corporate purposes (₹ 104.5 crore)
- The company's order backlog was at ₹ 1014 crore as of January 2023 end (2.3x TTM revenues), of which ~56% are development contracts. The order book increased substantially in 9MFY23 led by ₹ 430 crore of development contracts from DRDO during the period
- We believe the fund raising for working capital and product development would benefit the company in faster execution of existing contracts and in bidding for more contracts from defence and space industry by leveraging existing competencies to expand the portfolio of products with the aim of development of proprietary products
- During the Q3FY23 earnings call, the company maintained its FY23E revenue guidance at 25-30% growth with gross margin of ~65% and EBITDA margin of ~40% for the next couple of years
- 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 Light Combat Aircraft (LCA), Radar Warning Receiver (RWR) for fighter aircraft, Electronic Intelligence (ELINT) for airborne and ground platform and radar subsystems are key orders in the pipeline for FY23

Exhibit 1: Change in Estimates

(₹ Crore)	FY23E			FY24E			FY25E		
	Old	Actual	% Change	Old	New	% Change	Old	New	% Change
Revenue	413.4	413.4	0.0	537.4	537.4	0.0	671.7	725.5	8.0
EBITDA	162.5	162.5	0.0	221.9	215.9	-2.7	281.0	294.6	4.8
EBITDA Margin (%)	39.3	39.3	0 bps	41.3	40.2	-112 bps	41.8	40.6	-119 bps
PAT	114.2	114.2	0.0	157.0	154.6	-1.5	199.6	207.3	3.9
Diluted EPS (₹)	20.4	20.4	0.0	28.0	27.6	-1.5	35.7	37.0	3.9

Source: Company, ICICI Direct Research

## Financial Summary

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Revenue	311	413	537	725
% Growth	38.8	33.0	30.0	35.0
Other income	4.0	7.2	8.5	9.8
<b>Total Revenue</b>	<b>310.9</b>	<b>413.4</b>	<b>537.4</b>	<b>725.5</b>
% Growth	15.1	33.0	30.0	35.0
Total Raw Material Costs	86	143	188	261
Employee Expenses	62	75	90	109
other expenses	21	33	44	61
<b>Total Operating Expenditure</b>	<b>169.8</b>	<b>250.9</b>	<b>321.5</b>	<b>430.9</b>
<b>Operating Profit (EBITDA)</b>	<b>141.0</b>	<b>162.5</b>	<b>215.9</b>	<b>294.6</b>
% Growth	53.3	15.2	32.9	36.4
Interest	11	8	1	1
PBDT	134	162	224	304
Depreciation	7	9	16	25
PBT before Exceptional Items	127	153	208	278
Total Tax	33	39	53	71
PAT before MI	94	114	155	207
Minority Interest	-	-	-	-
<b>PAT</b>	<b>94.0</b>	<b>114.2</b>	<b>154.6</b>	<b>207.3</b>
% Growth	69.1	21.5	35.4	34.1
EPS	18.1	20.4	27.6	37.0

Source: Company, ICICI Direct Research

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	10.4	11.2	11.2	11.2
Reserve and Surplus	564	1,077	1,201	1,367
Total Shareholders funds	575	1,089	1,212	1,378
Other Non Current Liabilities	15.7	15.7	15.7	15.7
Total Debt	7	5	-	-
<b>Total Liabilities</b>	<b>609</b>	<b>1,120</b>	<b>1,239</b>	<b>1,405</b>
Gross Block	68	137	207	377
Acc: Depreciation	45	54	70	96
Net Block	44	83	137	281
Capital WIP	17.3	20.0	150.0	80.0
Total Fixed Assets	64.8	107.8	291.7	366.3
Non Current Assets	122	149	219	294
Inventory	120	176	228	298
Debtors	198	272	339	447
Loans and Advances	-	-	-	-
Other Current Assets	16	21	27	36
Cash	177	512	360	257
Total Current Assets	520	989	962	1,047
Current Liabilities	38	51	147	199
Provisions	11	10	10	10
Total Current Liabilities	97	125	234	304
Net Current Assets	422	864	728	744
<b>Total Assets</b>	<b>609</b>	<b>1,120</b>	<b>1,239</b>	<b>1,404</b>

Source: Company, ICICI Direct Research

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	94	114	155	207
Depreciation	7	9	16	25
Interest	11	8	1	1
Cash Flow before WC changes	112	131	171	233
Changes in inventory	(46)	(56)	(53)	(70)
Changes in debtors	(42)	(73)	(67)	(109)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	2	(5)	(6)	(9)
Net Increase in Current Assets	(90)	(134)	(126)	(188)
Changes in creditors	26	13	96	52
Changes in provisions	(0)	0	2	1
Net Inc in Current Liabilities	48	28	109	69
<b>Net CF from Op activities</b>	<b>70</b>	<b>24</b>	<b>155</b>	<b>115</b>
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(38)	(50)	(200)	(100)
<b>Net CF from Inv activities</b>	<b>(137)</b>	<b>(78)</b>	<b>(270)</b>	<b>(175)</b>
Dividend and Dividend Tax	(18)	(21)	(31)	(42)
<b>Net CF from Fin Activities</b>	<b>236</b>	<b>389</b>	<b>(37)</b>	<b>(42)</b>
Net Cash flow	168	335	(152)	(103)
Opening Cash/Cash Equivalent	9	177	512	360
Closing Cash/ Cash Equivalent	177	512	360	257

Source: Company, ICICI Direct Research

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>				
Diluted EPS	16.8	20.4	27.6	37.0
Cash per Share	34.1	98.6	69.3	49.5
BV	110.7	209.8	233.6	265.5
Dividend per share	3.5	4.1	6.0	8.0
Dividend payout ratio	19%	18%	20%	20%
<b>Operating Ratios(%)</b>				
EBITDA Margin	45.4	39.3	40.2	40.6
PAT Margin	30.2	27.6	28.8	28.6
Asset turnover	0.5	0.4	0.4	0.5
Debtors Turnover Ratio	1.8	1.8	1.8	1.8
Creditors Turnover Ratio	12.4	9.3	5.4	4.2
<b>Return Ratios(%)</b>				
RoIC	33.3	26.4	23.4	24.0
RoNW	16.4	10.5	12.8	15.0
RoCE	23.8	14.7	17.2	20.2
<b>Valuation Ratio(%)</b>				
EV / EBITDA	46.2	38.1	29.3	21.8
P/E	76.9	63.3	46.7	34.8
EV / Net Sales	21.0	15.0	11.8	8.9
Sales / Equity	0.5	0.4	0.4	0.5
Market Cap / Sales	21.5	16.2	12.5	9.2
Price to Book Value	11.7	6.1	5.5	4.9
<b>Solvency Ratio(%)</b>				
Debt / Equity	0.0	0.0	-	-
Current Ratio	4.5	5.3	3.2	3.3
Quick Ratio	2.9	3.3	2.0	2.0

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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