

May 17, 2022

## Well placed to capture huge opportunity in defence electronics space...

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

- The company has delivered revenue, PAT CAGR of 30.7%, 168%, respectively, in FY19-21. The 9MFY22 revenues increased 110% YoY with EBITDA and PAT CAGR at 89% and 168%, respectively, during the period

### Key triggers for future price performance:

- Defence electronics provides a huge opportunity of ~₹ 1.5 lakh crore in the next four to five years led by armed forces' requirement of advanced systems
- Defence electronics makes up only 25-35% of the cost of platforms used by the Indian armed forces, which is expected to increase in future
- At present over 60% of electronic components used are supplied by foreign OEMs. As indigenisation efforts continue, future procurement will see a large portion of defence electronics sourced locally
- DPIL has proven in-house design and development capabilities and experience of more than three decades in the defence and aerospace electronics space across all the platforms - space, air, land and sea
- Healthy order book position; sturdy pipeline of orders worth ~₹ 2,000 crore in the next two to three years provides strong visibility

**What should investors do?** DPIL is well placed to deliver revenue and PAT CAGR of 27.6% and 29.5% respectively, over FY22-24E. Increase in profitability with strong asset turnover will result in healthy return ratios over FY23-24E

- We initiate coverage with a **BUY** recommendation on the stock

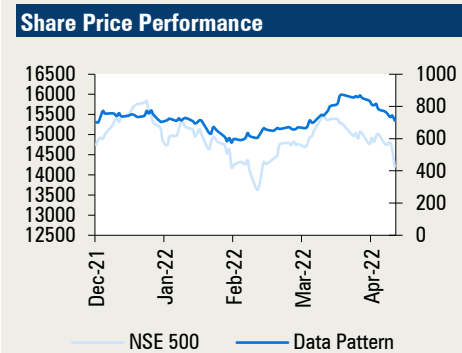
**Target Price & Valuation:** We value DPIL at ₹ 886, on 32x P/E on FY24E EPS basis.

**Alternate Stock Idea:** Besides DPIL, we like Bharat Electronics (BEL) 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 ₹ 250/share



Particulars	
Particular	Amount
Market Capitalization (₹ crore)	3,669.7
Total Debt (FY22E) (₹ crore)	0.0
Cash and Inv (FY22E) (₹ crore)	202.8
EV (FY21) (₹ crore)	3,466.9
52 week H/L (₹) (BSE)	935/575
Equity capital (₹ crore)	10.4
Face value (₹)	2.0



### Shareholding Pattern

	Post-Issue (Dec-21)	Mar-22
Promoter	45.6	45.6
FII	1.5	1.5
DII	5.6	8.0
Others	47.3	44.9

- ### Key risks
- Dependence on government contracts
  - Significant working capital requirements

### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Vijay Goel  
vijay.goel@icicisecurities.com

### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	2 Year CAGR (FY19-FY21)	FY22E	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues	131	156	224	30.7	310	418	505	27.6
EBITDA	26	43	92	89.8	130	169	203	24.8
EBITDA margin (%)	19.5	27.7	41.1		42.0	40.5	40.2	
Net Profit	8	21	56	168.6	86	120	143.5	29.5
EPS (₹)	1.6	4.5	10.7		16.5	23.1	27.7	
P/E (x)	429.2	156.8	66.0		42.9	30.6	25.6	
EV/EBITDA (x)	145.9	86.4	40.2		26.6	20.5	16.9	
RoCE (%)	11.1	19.5	37.0		23.1	24.7	24.8	
RoE (%)	5.8	13.7	26.7		15.9	18.3	18.4	

Source: ICICI Direct Research, Company

## Company Background

Data Patterns (DPIL) is a vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. DPIL caters to the entire spectrum of defence and aerospace platforms – space, air, land and sea. The company has in-house design and development capabilities and experience of more than three decades in the defence and aerospace electronics space.

Major product groups consist of radars (surveillance, precision approach, weather), electronic warfare (EW) suite, avionics displays, fire control systems, airborne launchers/mobile autonomous launchers, underwater electronics/communications/other systems, small & micro satellites, automated test equipment (ATE) for defence and aerospace systems, commercial off the shelf products (COTS).

The company was incorporated in 1998 as 'Indus Teqsite Pvt Ltd' at Bangalore (Karnataka). Further, pursuant to the scheme of amalgamation, name of the company was changed to 'Data Patterns (India) Pvt Ltd'.

The company has delivered 30.7% revenue CAGR during FY19-21 to ₹ 224 crore in FY21. EBITDA and PAT CAGR were at 89.8% and 168.6%, respectively, during the period to ₹ 92 crore and ₹ 55.6 crore respectively in FY21. The 9MFY22 revenues increased 110% YoY with EBITDA jumped 15.4x YoY. The 9MFY22 PAT was at ₹ 32.2 crore against loss of ₹ 10.4 crore in 9MFY21.

Recently, in December 2021, DPIL came out with an IPO through an offer for sale (₹ 348.2 crore) and fresh issue (₹ 240 crore) and got listed at ~₹ 4,483 crore valuation.

**Promoters Background** - Chairman and Managing Director, Srinivasagopalan Rangarajan, holds a Bachelor's Degree in Chemical Engineering from the University of Madras and a Master's Degree (MS) in Industrial Management from the IIT, Madras. Rekha Murthy Rangarajan holds a Bachelor's Degree of Arts from the Bangalore University and a Master's Degree of Arts in Applied Psychology from the University of Madras. Both promoters have been associated with the defence and aerospace electronics industry for more than three decades.

### Exhibit 1: IPO Details

Listing date	24th Dec 2021	
Price Band	555-585	
OFS (Rs Crore)	348.2	59.52 lakh shares (of which 43.48 lakh shares from Promoters)
Fresh Issue (Rs Crore)	240.0	41.02 lakh shares
IPO Size (Rs Crore)	588.2	Total 100.55 lakh shares offered
Listing Price	864.0	~48% premium






















Source: ICICI Direct Research

### Exhibit 2: Key Milestones

Timeline	Details
2001	Designed a fire control system for the Research Center Imarat
2001	Designed and developed the launch pad countdown system for delivery to the Indian government space organization
2009	Developed Seaking automated test equipment for INS Shikra
2013	Designed a smart cockpit display system
2013	Developed an infrared guided missile tester
2015	Designed and developed primary surveillance radar for coastal surveillance for the Indian government space organization

Source: ICICI Direct Research, Company, RHP

Exhibit 3: Data Patterns' product offerings

Category	Select Product offerings	Category	Select Product offerings
<b>Commercial off the shelf (COTS)</b> 	<p>COTS modules designed in context of reusable building blocks for building Military Electronics systems with a quick turnaround time</p>    <p>VFX Multi core SBC      VFX Zynq MPSoC based Quad Core      High Density DIU</p>	<b>BrahMos Programme</b> 	<ul style="list-style-type: none"> <li>Fire control systems</li> <li>Mobile autonomous launcher</li> <li>Airborne launcher and</li> <li>Other electronic systems</li> </ul>   <p>Air Version Launcher for Brahmos Sukhoi-30      Missile Checkout System</p>
<b>Avionics</b> 	<p>Avionics displays used on :</p> <ul style="list-style-type: none"> <li>Light Combat Aircraft ("LCA"),</li> <li>Intermediate Jet Trainers</li> <li>Light Utility Helicopters ("LUH")</li> </ul>  <p>Light Utility Helicopter Cockpit display</p>	<b>Electronic Warfare</b> 	<ul style="list-style-type: none"> <li>Surveillance and intelligence gathering ("SIGINT")</li> <li>Further divided into COMINT and ELINT</li> </ul>    <p>Digital Direction Finder      Radar Warning Receiver Airborne Radar Warning Receiver</p>
<b>Communications, ATEs and Satellites</b> 	<ul style="list-style-type: none"> <li>Underwater electronics / Communications / Other Systems</li> <li>Automated Test Equipment (ATE)</li> <li>Small and Nano Satellites</li> </ul>   <p>Oceanography Product      Automated Test equipment for INS Shikra</p>	<b>Radars</b> 	<p>Surveillance radars      Weather radars      Coastal Surveillance Radar</p>    

Source: ICICI Direct Research, Company

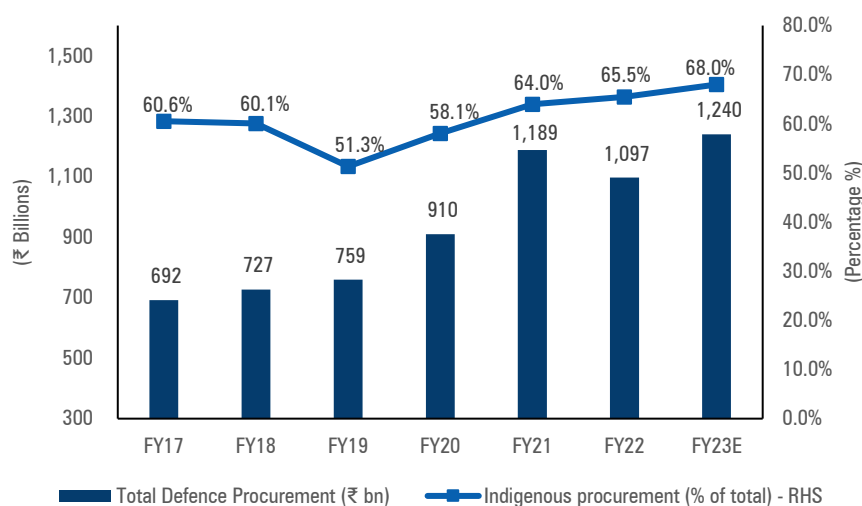
## Investment Rationale

### Defence electronics space provides huge opportunity

The Indian defence industry is rapidly evolving into a self-sustaining one with companies and defence public sector units (DPSUs) moving towards specialising in defence primes, integrators and component suppliers. With DPSUs focusing on specialisation, integration and subcomponent manufacture being outsourced to the private industry, there are consequent expanded opportunities for the private sector.

In the FY23E Budget, the government earmarked ₹ 84,598 crore, 68% of the military's capital acquisition budget, for purchasing locally produced weapons and systems to boost self-reliance in the defence sector, besides setting aside 25% of the defence R&D budget for private industry, start-ups and academia to encourage them to pursue design and development of military platforms. The 5.3% increase in capital budget allocation for DRDO to ₹ 12000 crore will accelerate the efforts for indigenous R&D projects.

Exhibit 4: 68% of FY23E defence procurement budget kept for indigenous industry



Source: ICICI Direct Research, Company

The government has notified three lists of total 310 defence items (in the last two years), which will be procured locally in the next three to five years. These include major equipment/platforms like combat aircraft, submarines, armoured vehicles, light weight tanks, helicopters, missiles, radars, howitzers, sensors, simulators, torpedoes, unmanned aerial vehicles, etc. Out of these 310 items, 90 are planned to be indigenised by December 2022 only. Moreover, the Defence Ministry has also notified two lists of total 458 items (in the last six months) for indigenisation manufacturing (which includes sub-systems, assemblies, components).

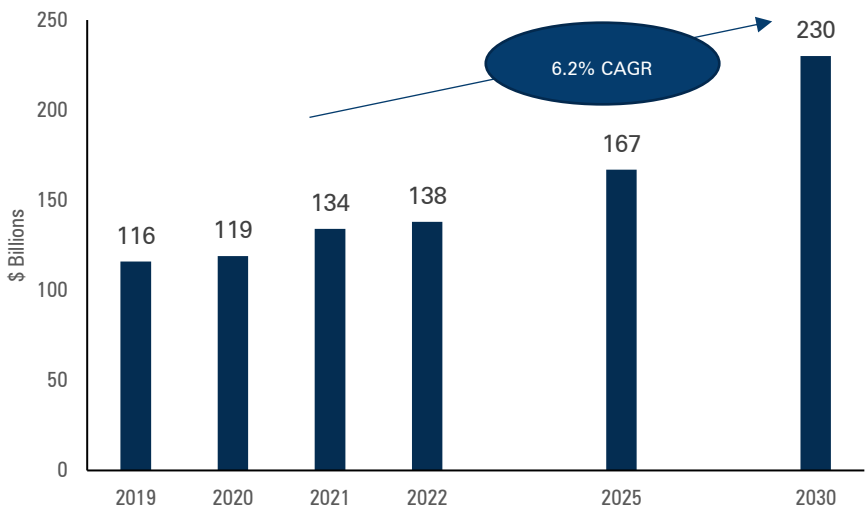
Recently, 18 major platforms have also been identified by the Ministry of Defence for industry led design & development under various routes. Moreover, 30 transfer of technology (ToT) agreements have been signed by DRDO with 25 domestic players and handed over 21 technologies.

As per government estimates, ~₹ 5 lakh crore contracts will be placed for the defence platforms, equipment, components in the next five years. The domestic industry is expected to get orders worth ~₹ 3.5 lakh crore during the period (considering 68% indigenisation content target).

The Indian defence electronics segment is expected to witness large scale indigenisation efforts over the next decade leading to improved manufacturing and quality standards. This will further increase the presence of Indian components in global supply chains, which are already being used in Israeli unmanned aerial systems (UAS) and European combat aircraft.

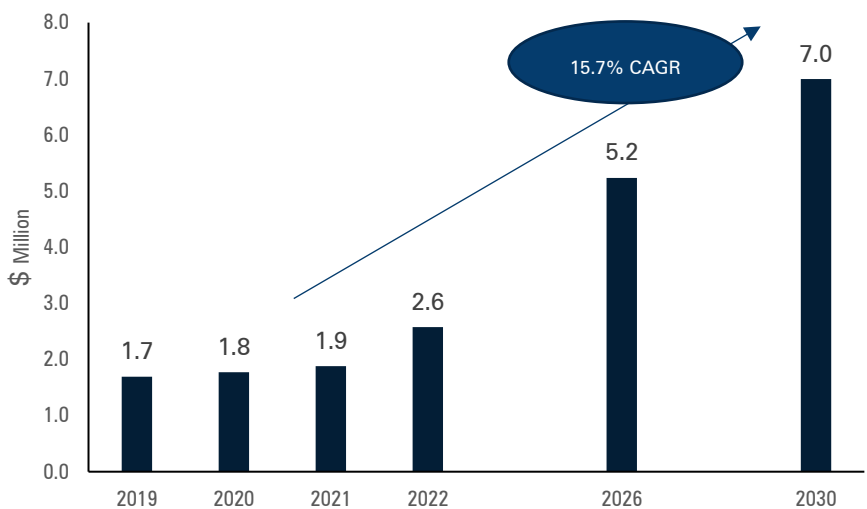
**At present, defence electronics make up only 25-35% of the cost of platforms used by the Indian armed forces, which is expected to increase in future.** However, at present over 60% of the electronic components used are supplied by foreign OEMs. As indigenisation efforts continue, future procurement will see a large portion of defence electronics sourced locally. As such platform recapitalisation programmes across all three forces such as new combat aircraft acquisition, submarine building and tanks replacement will be key contributor to future market valuation of this product segment.

**Exhibit 5: Global defence electronics market (US\$ bn)**



Source: ICICI Direct Research, Company

**Exhibit 6: India defence electronics market (US\$ mn)**



Source: ICICI Direct Research, Company

## Exhibit 7: India defence electronics opportunity (US\$ bn)

Programme Name	Opportunity (USD bn)
Combat Aircraft Procurement by the IAF and Indian Navy	7.9
Command and Control/ Tactical Communications Modernization	5.1
IFV/ APC Procurements by the Indian Army	3.6
Rotary Wing Procurement by the IAF and Indian Navy	1.9
UAS procurement by the IAF	1.4
<b>Total</b>	<b>19.9</b>

Source: ICICI Direct, Company, IFV – Infantry Fighting Vehicle  
APC - Armoured Personnel Carrier, UAS – Unmanned Aerial Systems

## Exhibit 8: Market size across major defence electronics categories (US\$ mn)

Product segment	2020	2025E	2030E	CAGR (2020-25E)
Electro-Magnetic Pulse (EMP) Protection	484	2,862	4,281	24.4%
Defence Optics	241	1,400	2,112	24.2%
Military Radar	1,151	1,853	3,180	10.7%
Airborne EW	413	397	606	3.9%
Torpedoes	15	24	41	10.6%
Military Avionics	300	390	455	4.3%
Ground COMINT/ELINT	74	120	205	10.7%
Ground Station Equipment	1	1	2	3.8%
Automated Test Equipments	12	68	80	20.9%
<b>Total</b>	<b>2,691</b>	<b>7,115</b>	<b>10,962</b>	<b>15.1%</b>

Source: ICICI Direct Research, Company

## Strong capabilities in defence electronics space

DPIL has established itself as a vertically integrated defence and aerospace electronics solutions provider to indigenously developed defence products industry. DPIL has proven in-house design and development capabilities and experience of more than three decades in the defence and aerospace electronics space across all the platforms - space, air, land and sea.

DPIL designs and develops a number of building blocks similar in specification to imported modules, which allows the company to compete in local tenders of DRDO for military commercial-off-the-shelf (COTS) products.

With more than 450 engineers, many of whom serve in both design and development departments, the company has been able to design and develop several products. The company's design and development capabilities have allowed it to develop complete systems as well as sub-systems for various strategic defence and aerospace electronics solutions.

These systems have found applications on various platforms and programmes such as the Tejas Light Combat Aircraft (LCA), the Light Utility Helicopter (LUH), BrahMos missile programme, precision approach radars and various communications intelligence (COMINT) and electronic intelligence (ELINT) systems.

Some examples of products designed and developed by the company which are 'future ready' and have an ability to be used as blocks in future platforms and products, include:

**Exhibit 9: Products designed and developed by the company**

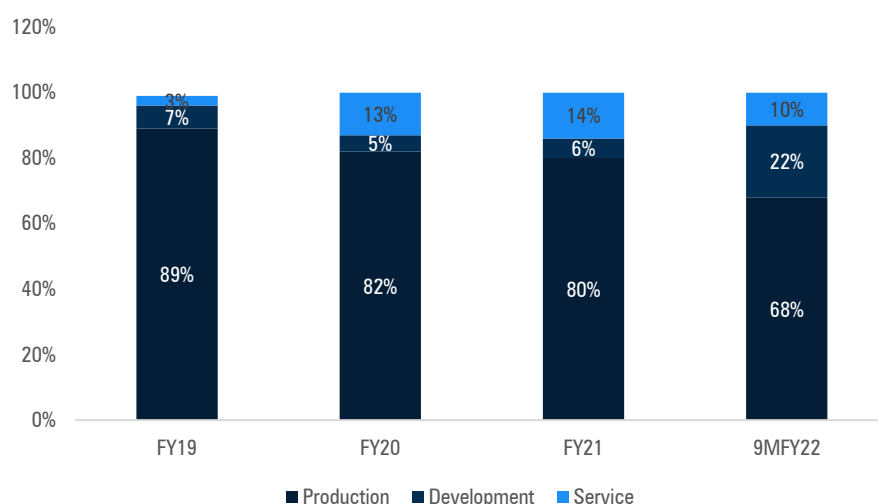
Sr. No.	Product	Details
1	Monopulse Radio Frequencies Seeker	Delivered prototypes to DRDO
2	X-Band Doppler Weather Radar	Prototype installed in Chennai for the government meteorology department
3	205MHz Wind Profile Radar	Installed at Cochin for a government owned university
4	Radar for Naval Utility Helicopter	Prototype delivered to LRDE
5	A Next-Generation Software Defined Radio	Prototype developed for DEAL
6	A Next-Generation Radar Warning Receiver	Prototype developed for DLRL
7	A Next-Generation COMINT	Prototype developed for DLRL
8	A Next-Generation ELINT System	Prototype delivered for DLRL
9	Nano Satellite	Being delivered to industry and educational institutions

Source: ICICI Direct Research, Company DHRP, DRDO – Defence Research & Development Organisation, LRDE - Electronics and Radar Development Establishment, DRDL - Defence Research & Development Laboratory DEAL - Defence Research & Development Laboratory

**Healthy order book position; sturdy pipeline of order provides strong visibility**

The company’s order book was at ₹ 577 crore as of December 2021 end, of which 68% were production contracts while 22% and 10% of contracts were development and services contracts, respectively. These orders are from several marquee customers in the Indian defence ecosystem, including the Defence Ministry, BrahMos, DRDO, the Government of India’s space organisation, HAL, BEL and a DPSU involved in the missile space.

**Exhibit 10: Order book at ₹ 577 crore as of December 2021**



Source: ICICI Direct Research, Company

The company is currently engaged in the supply of products to several prestigious defence projects in India, including the LCA, the HAL Dhruv, LUH and the BrahMos missile programme.

At present, among all contracts, the largest contract is for radars which the company secured in August 2019 from the Ministry of Defence for nine precision approach radars (contract value was ₹ 380 crore). The company expects to deliver the complete order of nine radars by FY24 end (one radar every quarter).



**Exhibit 11: Order book by product grouping**

Product	No. of Orders	Value (Rs Crore)
Radar	19.0	363.9
Electronic Warfare Suite	4.0	57.2
Avionics	6.0	31.8
Communication	2.0	31.0
BrahMos missile programme	3.0	18.5
Small Satellite	2.0	5.3
Naval system	4.0	4.8
ATE	9.0	2.4
Service	49.0	67.6
<b>Total</b>	<b>98.0</b>	<b>582.3</b>

Source: ICICI Direct Research, Company, Note: data as on July 2021

**Exhibit 12: Opportunity across different programmes**

Programmes	Details	Opportunity Value
AGRU/Arudhra Radar	Won the order against Astra and is expected to supply 55 units	USD 20 mn
Ashwini LLTR	Development partner on single vendor basis which includes TR modules, AGRU, signal processor, etc The TOT has been offered to DP and BEL The company expects to realise either electronics/ full radar order	USD 10-30 mn
Dharashakti	Development programme for large EW requirement for Deserts Plains and has been nominated to BEL DP has received single vendor orders from DLRL for development and supply of COMINT search receivers, Direction Finder, Monitoring receivers DP will be an OEM for entire receiver systems	USD 50 mn
Airborne COMINT/ELINT	By leveraging expertise in Dharashakti project, DP will cater to airborne COMINT and ELINT equipment The equipment will be towards various upgrades such as MI 17 Dornier, Aerostat, and any new rotary wing programme	USD 15-20 mn
Light weight EW	These are required in mountainous borders ( Pakistan) which are not adequately covered DP will leverage its EW capability to supply products for light weight EW requirement	₹ 3000-4000 crore
Airborne surveillance radar	DP has delivered ASR (complete hardware) for helicopters and fixed wing aircrafts to LRDE on a single vendor basis The Flight tests are expected in FY 22 and will also be inducted in Navy's Dornier upgrade and new helicopter programme	₹25 mn/unit
Airborne Early Warning System	DP has also participated in RWR (digital R 118 for Airborne Early Warning System to DLRL. This has been fitted on the Embraer early warning radar developed by CABS	USD 55 mn
Next Generation Software Defined Radio (SDR)	SDR can be fitted on LCA MK IA 83 nos as well as Sukhoi 30 upgrades 270 nos and attack helicopters The flight tests are planned by Mar' 22 on the LCA, and similar tests are planned on Sukhoi 30	₹ 20 mn per aircraft

Source: ICICI Direct Research, Company

As per the management, the company is on track to get orders worth ~₹ 500 crore in FY23 led by ₹ 120-150 crore order for ARUDRA radar, ₹ 150-200 crore order for electronic warfare for Himshakti, ₹ 45-50 crore order for fire control system, ₹ 50 crore order for Avionics. The company expects a pipeline of over ₹ 2,000 crore contracts, which are likely to be placed over the next two to three years.

**Exhibit 13: Orders expected in the next 2-3 years**

Product	Programme	Expected Orders (₹ Crore)	Year	Customer
Fire control System	Brahmos	45-50	FY23	Brahmos
Radar	ARUDRA	120-150	FY23	BEL
Radar	Ashwini	150-200	FY23-25	BEL
Radar warning receivers	LCA MK1A	400-450	FY23-24	DRDO
Electronic Warfare	Himshakti	150-200	FY23	BEL
Electronic Warfare	LCA MK1A	40.0	FY23-24	HAL
Avionics	LCA MK1A	50.0	FY23	HAL
Software defined Radios	LCA MK1A, Su-30	700.0	FY23-25	HAL
Airborne surveillance radar	LCH, LCAs	100-150	FY23-24	HAL
<b>Total</b>		<b>1,800-2,000</b>		

Source: ICICI Direct Research, Company

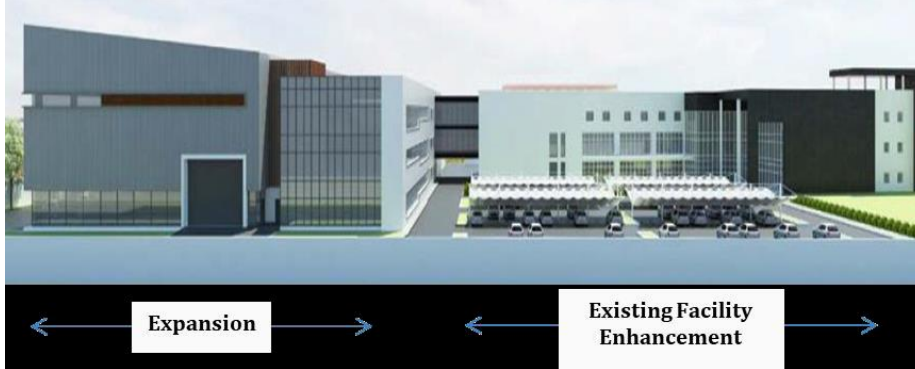


## Expanding existing Chennai facility

DPIL's manufacturing facility consists of a 100,000 square feet factory built on 5.75 acres of land in Chennai, which has facilities for design, manufacturing, qualification and life cycle support of high reliability electronic systems used in defence and aerospace applications.

The company is in the process of upgrading and expanding its facility, with a proposed doubling of available floor area and manufacturing capacity, as well as addition of capability of handling large and heavy equipment, integration of large radars and mobile electronic warfare systems and satellite integration facility. With this, the company's testing capabilities are also expected to be further strengthened. The company intends to spend ~₹ 63 crore out of IPO proceeds for upgrading and expanding this facility. The company has also proposed to acquire an additional 2.81 acres of adjacent land for further expansion.

Exhibit 14: Chennai plant – existing facility and expansion

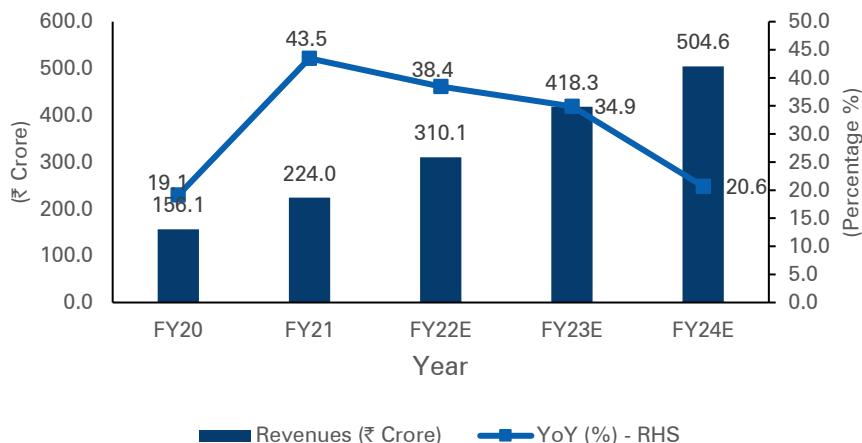


Source: ICICI Direct Research, Company

Financials

Revenues expected to grow at 31.1% CAGR over FY22-24E

Exhibit 15: Strong order book and well execution to drive revenue growth

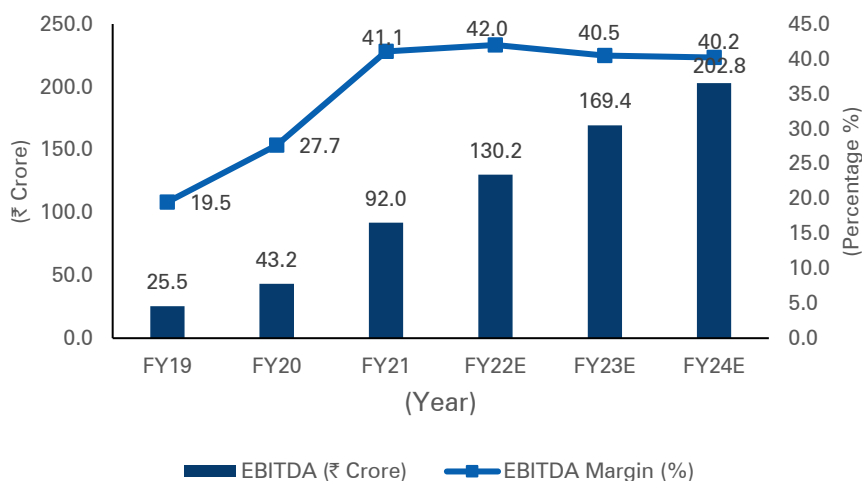


DPIL revenues grew 19% YoY and 43.5% YoY during FY20 and FY21, respectively, driven by healthy order book and better execution. Going forward, we expect DPIL to post 31.1% revenue CAGR over FY21-24E led by expected timely delivery of the existing largest order (precision approach radars) over the next two years, expected healthy inflow of contracts, of which significant part would be executed over the same period.

Source: ICICI Direct Research, Company

EBITDA margins expected to be 40-42% over FY22-24E

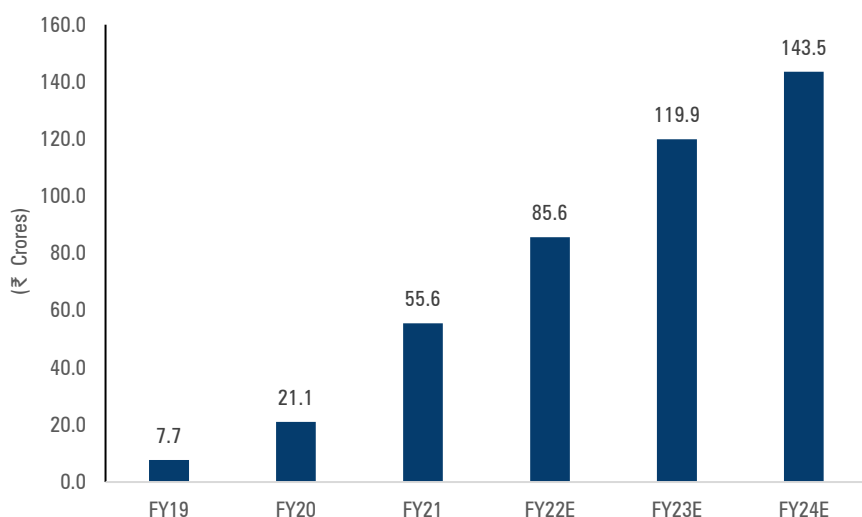
Exhibit 16: Margins improved significantly in FY21; expected to be in 40-42% range



DPIL has developed a reusable building block model leading to capabilities / competence across various product domains. This approach has allowed the company to achieve better margins due to spreading out of development costs over multiple programmes, in addition to saving on development time for new products. Thus, EBITDA margin improved significantly to 41.1% in FY21 and is expected to remain at higher levels (40-42% during FY22-24E) as we expect the company will be able to get operating leverage benefits on the existing building blocks for production order (which are expected to remain ~70% of the total order book). Thus, we expect EBITDA CAGR of 30.2% over the period FY21-24E

Source: ICICI Direct Research, Company

Exhibit 17: PAT likely to increase at 37.2% CAGR over FY22-24E

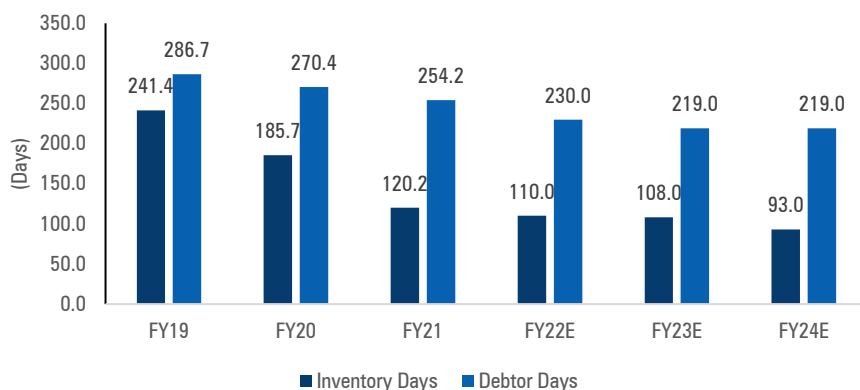


PAT is expected to grow at 37.2% CAGR over the period FY21-24E to ₹ 143.5 crore in FY24E led by sustainable operating margins and significant decline in interest cost (as the company has repaid all the debt from the money raised through IPO)

Source: ICICI Direct Research, Company

## Improving working capital position and return ratios

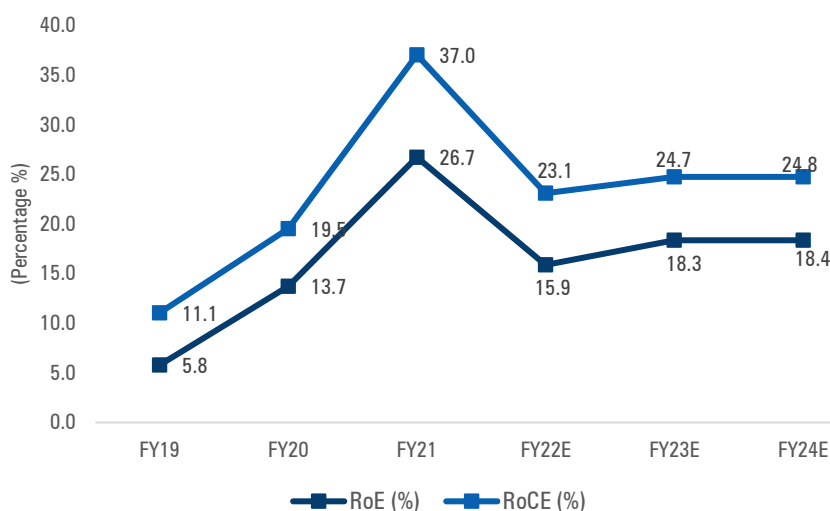
Exhibit 18: Working capital position expected to improve



Source: ICICI Direct Research, Company

The company's cash conversion cycle improved by 129 days to 355 days in FY21 from 484 days in FY19 led by significant reduction in inventory and receivables days during the period. We expect a further reduction in inventory days and receivables days during FY22-24E, leading to overall cash conversion cycle to 289 days by FY24E (i.e. further reduction of 66 days during the period)

Exhibit 19: RoE likely to improve during FY23-24E after coming down in FY22

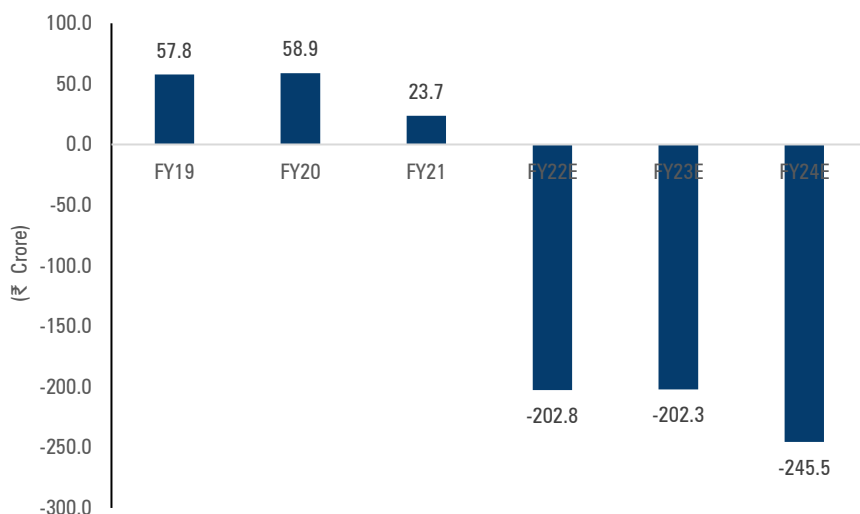


Source: ICICI Direct Research, Company

RoE improved in FY21 to 26.7% led by significant improvement in profitability margins. We expect RoE to come down to 15.9% in FY22E due to fund infusion from IPO. However, it is expected to improve to 18.3-18.4% during FY23-24E

## Utilised IPO proceeds to repay debt

Exhibit 20: Balance sheet at comfortable level



Source: ICICI Direct Research, Company

DPIL has utilised the IPO proceeds to repay its debt fully, funding capex at Chennai facility and funding working capital requirements. We expect the company to remain a net cash company now for the period FY22-24E led by increase in profitability

## Valuation & Outlook

Data Patterns is well placed to reap the benefits of the huge opportunity in the defence electronics space. The company has established itself as an integrated and strategic defence electronics solutions provider through strong focus on designing and developing complete systems and sub-system solutions in several domains.

We expect DPIL's profitability to grow at 29.5% CAGR in FY22-24E led by strong order book, timely execution, sustainability of operating margins and reduction in interest cost.

At the CMP, the stock is trading at 24.9x FY24E earnings. We initiate coverage on the stock with a **BUY** rating with a target price of ₹ 886/ share based on 32x FY24E earnings.

### Exhibit 21: Peer Valuation

	Mcap	P/E (x)			EV/EBITDA (x)			RoE (%)		
	₹ Crore	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Data Patterns	3,670.0	42.9	30.6	25.6	26.6	20.5	16.9	15.9	18.3	18.4
Bharat Electronics	55,286.0	22.7	20.5	18.1	14.0	12.6	11.1	20.8	20.7	20.9
Astra Microwave	1,899.0	48.7	27.9	15.2	23.0	16.9	10.6	6.6	10.5	16.5
MTAR Technologies	4,294.0	66.5	38.3	26.8	39.5	24.4	17.4	12.9	20.1	24.7

Source: ICICI Direct Research, Company

## Key risks

### Heavily dependent on contracts from Gol, associated entities

Given that the company derives a significant portion of total sales from contracts with Government of India (Gol) entities (~53% of total sales in FY21 from sales made to the Gol entities) and will continue to cater to GOI entities, the company is exposed to various risks like stricter regulatory requirements which may increase compliance costs. Other risks involve difficulty in winning tenders, matching the pricing. Also, delay of existing or anticipated contracts or programmes or any adverse change in the Gol Entities defence or space requirements and geo-political circumstances, may have a material adverse impact on company's business and profitability.

### Business dependency on limited number of customers

The company's business depends on a limited number of customers such as DRDO defence PSUs such as MoD, BrahMos Aerospace and the Government of India's space organisation for a significant portion of revenue (~60% of FY21 revenues came from top five customers). The loss of any major customer due to any adverse development or significant reduction in business from major customers may adversely affect the company's business operations, financial and future prospects.

### Significant working capital requirements

DPIL's business needs significant working capital for manufacturing operations, financing inventory, purchase of raw materials, development of new products that may be adversely affected by changes in terms of credit & payment. Hence, the company is required to maintain a high level of working capital as the business activities are characterised by long product development periods and production cycles.

### Possibility of losses under fixed price contracts as a result of cost overruns, delay in deliveries

Most of the company's contracts are fixed-price ones. All costs including labour and raw materials costs are forecasted by the company when it enters such fixed-price contracts. In case of cost variances from such estimates, the company is permitted to retain all cost savings on completed contracts but is liable for the full amount of all cost overruns. Also, any delays in delivery or failures to meet contract specifications may have an adverse effect on the business operations and finances.

## Financial Summary

Exhibit 22: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Net Sales	224	310	418	505
Revenue	224	310	418	505
% Growth	43.5	38.4	34.9	20.6
Other income	2.6	2.2	2.8	3.2
<b>Total Revenue</b>	<b>270.0</b>	<b>310.1</b>	<b>418.3</b>	<b>504.6</b>
% Growth	68.5	14.8	34.9	20.6
Total Raw Material Costs	70	104	157	192
Employee Expenses	48	55	63	75
other expenses	13	21	29	35
<b>Total Operating Expenditure</b>	<b>132.0</b>	<b>179.8</b>	<b>248.9</b>	<b>301.8</b>
<b>Operating Profit (EBITDA)</b>	<b>92.0</b>	<b>130.2</b>	<b>169.4</b>	<b>202.8</b>
% Growth	113.1	41.6	30.1	19.8
Interest	15	10	1	1
PBDT	80	123	171	205
Depreciation	6	8	10	13
PBT before Exceptional Items	75	115	161	193
Total Tax	19	29	41	49
PAT before MI	56	86	120	144
Minority Interest	-	-	-	-
<b>PAT</b>	<b>55.6</b>	<b>85.6</b>	<b>119.9</b>	<b>143.5</b>
% Growth	163.6	54.1	40.1	19.7
EPS	11.9	16.5	23.1	27.7

Source: ICICI Direct Research

Exhibit 24: Balance Sheet				
₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Equity Capital	1.7	10.4	10.4	10.4
Reserve and Surplus	206	529	643	771
Total Shareholders fund	208	539	654	782
Other Non Current Liabi	27.4	25.0	25.0	25.0
Total Debt	32	-	-	-
<b>Total Liabilities</b>	<b>279</b>	<b>577</b>	<b>691</b>	<b>819</b>
Gross Block	63	118	153	188
Acc: Depreciation	39	47	57	70
Net Block	29	71	96	118
Capital WIP	-	-	-	-
Total Fixed Assets	33.2	76.5	101.0	123.4
Non Current Assets	34	47	63	76
Inventory	74	93	124	129
Debtors	156	195	251	303
Loans and Advances	-	-	-	-
Other Current Assets	18	28	38	45
Cash	9	203	202	246
Total Current Assets	261	525	620	727
Current Liabilities	12	20	28	32
Provisions	9	9	9	9
Total Current Liabilities	49	70	92	107
Net Current Assets	212	454	528	620
<b>Total Assets</b>	<b>279</b>	<b>577</b>	<b>691</b>	<b>819</b>

Source: ICICI Direct Research

Exhibit 23: Cash Flow Statement					
₹ crore					
(₹ Crore)	FY20	FY21	FY22E	FY23E	FY24E
Profit after Tax	21	56	86	120	144
Depreciation	5	6	8	10	13
Interest	13	15	10	1	1
Cash Flow before WC changes	40	76	103	131	157
Changes in inventory	7	6	(20)	(30)	(5)
Changes in debtors	(13)	(40)	(39)	(56)	(52)
Changes in loans & Advances	-	-	-	-	-
Changes in other current assets	(4)	(2)	(10)	(10)	(8)
Net Increase in Current Assets	(12)	(38)	(69)	(96)	(64)
Changes in creditors	1	(5)	8	8	4
Changes in provisions	0	(1)	1	1	0
Net Inc in Current Liabilities	7	(8)	21	22	15
<b>Net CF from Op activities</b>	<b>35</b>	<b>29</b>	<b>55</b>	<b>57</b>	<b>108</b>
Changes in deferred tax assets	-	-	-	-	-
(Purchase)/Sale of Fixed Assets	(2)	(5)	(50)	(35)	(35)
<b>Net CF from Inv activities</b>	<b>(22)</b>	<b>22</b>	<b>(64)</b>	<b>(51)</b>	<b>(48)</b>
Dividend and Dividend Tax	(0)	(0)	(3)	(6)	(16)
<b>Net CF from Fin Activities</b>	<b>(12)</b>	<b>(44)</b>	<b>203</b>	<b>(6)</b>	<b>(16)</b>
Net Cash flow	1	7	194	(0)	43
Opening Cash/Cash Equivalent	0	2	9	203	202
Closing Cash/ Cash Equivalent	2	9	203	202	246

Source: ICICI Direct Research

Exhibit 25: Ratio Analysis				
₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per Share Data</b>				
EPS	10.7	16.5	23.1	27.7
Cash per Share	1.7	39.1	39.0	47.3
BV	40.1	103.9	126.0	150.6
Dividend per share	0.1	0.5	0.9	2.5
Dividend payout ratio	0.0	0.0	0.0	0.1
<b>Operating Ratios(%)</b>				
EBITDA Margin	41.1	42.0	40.5	40.2
PAT Margin	24.8	27.6	28.7	28.4
Asset turnover	0.9	0.6	0.6	0.6
Debtors Turnover Rat	1.6	1.8	1.9	1.8
Creditors Turnover Ra	15.3	19.7	17.8	17.0
<b>Return Ratios(%)</b>				
RoIC	37.3	36.4	35.2	35.5
RoNW	26.7	15.9	18.3	18.4
RoCE	37.0	23.1	24.7	24.8
<b>Valuation Ratio(%)</b>				
EV / EBITDA	40.2	26.6	20.5	16.9
P/E	66.0	42.9	30.6	25.6
EV / Net Sales	16.5	11.2	8.3	6.8
Sales / Equity	1.1	0.6	0.6	0.6
Market Cap / Sales	16.4	11.8	8.8	7.3
Price to Book Value	17.7	6.8	5.6	4.7
<b>Solvency Ratio(%)</b>				
Debt / Equity	0.2	-	-	-
Current Ratio	10.1	9.5	9.9	10.3
Quick Ratio	7.1	6.7	6.9	7.5

Source: ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTi Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



## ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM and Vijay Goel, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.