

## Strong show, visibility but valuations cap upside...

**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

**Q3FY23 Results:** Strong beat on revenues, margins and profitability.

- Revenue from operations for the quarter rose to ₹ 111.8 crore, up 160%
- EBIDTA margins for Q2FY23 were at 42.2% vs. 34.2% in Q2FY23 and 35.7% in Q3FY22. PAT was at ₹ 33 crore in Q3FY23 vs. expectation of ₹18.3 crore
- The 9MFY23 order inflows were at ₹ 680 crore; order book at ₹ 888 crore as on Q3FY23

**What should investors do?** DPIL is well placed to deliver revenue, PAT CAGR of 29.3%, 28.5%, respectively, over FY22-25E. However, the stock has run up a lot limiting further upside given rich valuations and no room for error at such multiples

- We downgrade the stock from BUY to **HOLD** rating

**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 a huge 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



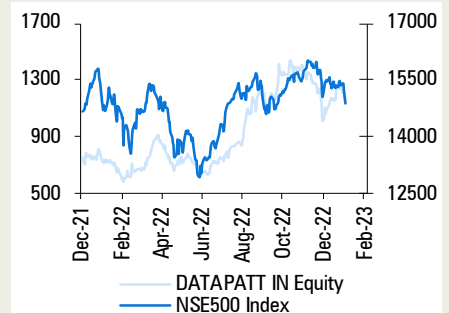
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,212.2
Total Debt (FY22) (₹ crore)	6.8
Cash and Inv (FY22) (₹ crore)	177.1
EV (FY22) (₹ crore)	7,041.9
52 week H/L (₹) (BSE)	1480/575
Equity capital (₹ crore)	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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### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	2 Year CAGR (FY20-22)	FY23E	FY24E	FY25E
Revenues	156	224	311	41.1	413	537	672
EBITDA	43	92	141	80.8	162	222	281
EBITDA margin (%)	27.7	41.1	45.4		39.3	41.3	41.8
Net Profit	21	56	94	111.1	114	157	200
EPS (₹)	4.5	10.7	18.1		22.0	30.3	38.5
P/E (x)	258.1	108.7	64.3		52.9	38.4	30.3
EV/EBITDA (x)	141.3	65.9	41.6		36.6	26.8	21.0
RoCE (%)	19.5	37.0	23.8		25.2	28.7	30.0
RoE (%)	13.7	26.7	16.4		18.2	20.9	21.9

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results

- Revenue from operations for the quarter increased to ₹ 111.8 crore, up 160%; higher than our estimate of ₹ 72.2 crore. The revenue beat was mainly on account of higher-than-expected execution of the order backlog. From an order backlog perspective, the book was at ₹ 890 crore while orders worth ₹ 123 crore have been negotiated but not yet received. Including this, the same will be pegged at ₹ 1014 crore
- On account of better execution, gross margins have expanded 140 bps QoQ while EBITDA margins for Q2FY23 were at 42.2% vs. 34.2% in Q2FY23 and 35.7% in Q3FY22. We had built in margins of 38% for Q3FY23
- Higher revenues and margins, therefore, led to huge beat on profitability at ₹ 33 crore in Q3FY23 vs. expectations of ₹ 18.3 crore

### Q3FY23 Earnings Conference Call highlights

- The order book as on date was ₹ 888 crore as of Q3FY23. The company has won certain orders in January 2023, which has further increased the order backlog at ₹ 1014 crore. The 9MFY23 order inflows were at ₹ 680 crore. The company is confident of winning orders to the tune of ₹ 150-200 crore in Q4FY23E
- The company bagged orders to the tune of ₹ 163 crore in Q3FY23. Out of these, avionics & navy segment (production order from HAL & AAI) were worth ₹ 75 crore. Development order from DRDO in the electronic warfare was at ₹ 24 crore while it also bagged orders to the tune of ₹ 54 crore (production order for Brahmos and other production orders)
- Development orders comprised 56% of total order backlog inflows as of Q3FY23. Whole production segment share was pegged at 38% with 6% from the services segment
- 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
- During the quarter, 65% of revenues were from production, 28% from development and 7% from services. For 9MFY23, production constituted ~63% of revenues while development segment comprised 31% of orders
- Product wise revenue mix for Q2FY23: Radars contributed ₹ 33.4 crore of revenues, automated test equipment (ATE) contributed ₹ 13.8 crore, electronic warfare contributed ₹ 19.3 crore. Customer wise revenue mix: ₹ 28 crore of revenues was from MoD, ₹ 40.3 crore from MoD and ₹ 14 crore 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
- DPIL 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 350-360 days in 9MFY23 as inventory level increased in anticipation of supply constraints. CCC is expected to remain the same as above in FY23E while they aspire to reach to 260-300 days in two years

**Exhibit 1: Variance Analysis**

₹ Crore	Q3FY23	Q2FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Operating Income	111.8	76.2	43.8	155.0	88.2	26.8	Better execution in development & production contracts
Other income	1.9	0.8	0.7	164.3	1.9	0.0	
Total Revenue	113.7	77.0	44.5	155.2	90.0	26.3	
Raw materials costs	37.6	25.1	5.3	614.0	31.0	21.5	
Employees Expenses	18.5	17.5	17.1	8.4	19.1	-3.4	
Other Expenses	8.7	6.2	5.9	47.4	7.9	9.6	
Total Expenditure	64.8	48.9	28.2	129.8	58.0	11.7	
EBITDA	47.0	27.3	15.7	200.6	30.2	56.0	
EBITDA margins (%)	42.1	35.8	35.7	637 bps	34.2	786 bps	Better mix and operating leverage led to huge EBITDA beat
Interest	2.1	1.6	2.7		1.2		
Depreciation	2.1	2.0	1.7	22.0	2.1	-0.9	
Tax	11.3	6.5	3.0	283.7	7.6	48.8	
PAT	33.3	17.9	9.0	269.4	21.1	58.3	

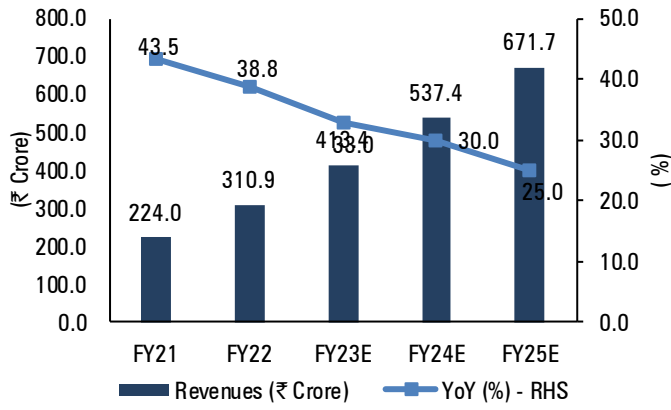
Source: Company, ICICI Direct Research

**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	413.4	3.1	521.4	537.4	3.1	671.7
EBITDA	162.4	162.5	0.0	222.6	221.9	-0.3	281.0
EBITDA Margin (%)	40.5	39.3	-120 bps	42.7	41.3	-140 bps	41.8
PAT	115.1	114.2	-0.8	158.0	157.1	-0.5	199.6
EPS (₹)	22.2	22.0	-0.8	30.4	30.3	-0.5	38.5

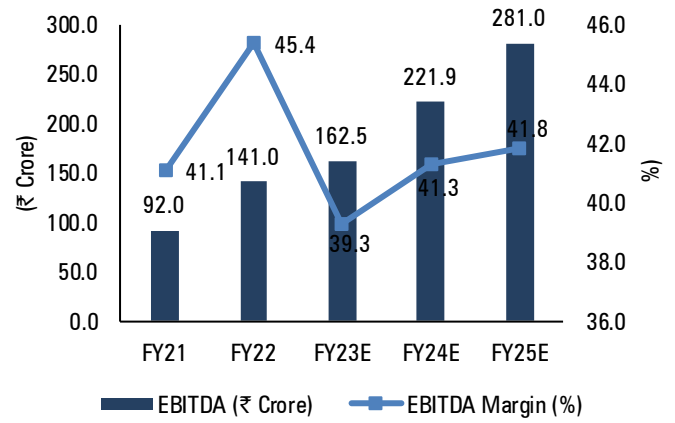
Source: Company, ICICI Direct Research

Exhibit 3: Trend in revenues



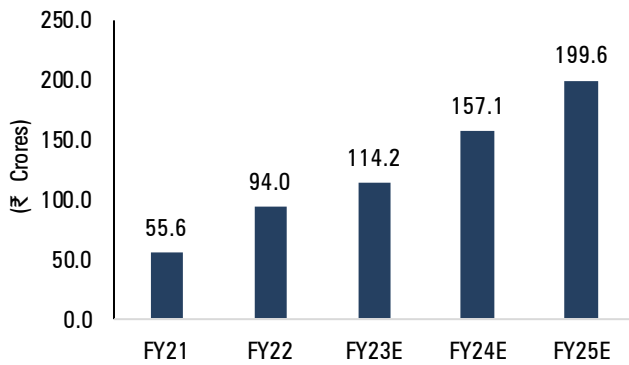
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margins trend



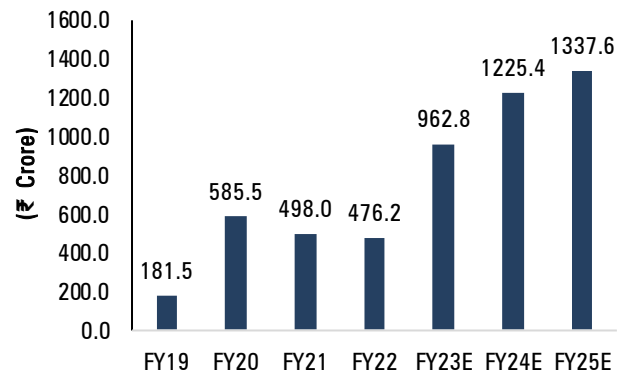
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Trend in order backlog



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	311	413	537	672
Revenue	311	413	537	672
% Growth	38.8	33.0	30.0	25.0
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>671.7</b>
% Growth	15.1	33.0	30.0	25.0
Total Raw Material Costs	86	143	188	235
Employee Expenses	62	75	90	109
other expenses	21	33	38	47
<b>Total Operating Expenditure</b>	<b>169.8</b>	<b>250.9</b>	<b>315.4</b>	<b>390.7</b>
<b>Operating Profit (EBITDA)</b>	<b>141.0</b>	<b>162.5</b>	<b>221.9</b>	<b>281.0</b>
% Growth	53.3	15.2	36.6	26.6
Interest	11	8	8	9
PBDT	134	162	222	282
Depreciation	7	9	11	14
PBT before Exceptional Items	127	153	211	268
Total Tax	33	39	54	68
PAT before MI	94	114	157	200
Minority Interest	-	-	-	-
<b>PAT</b>	<b>94.0</b>	<b>114.2</b>	<b>157.1</b>	<b>199.6</b>
% Growth	69.1	21.5	37.6	27.0
EPS	18.1	22.0	30.3	38.5

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	741	899
Total Shareholders funds	575	626	752	910
Other Non Current Liabilities	15.7	15.7	15.7	15.7
Total Debt	7	12	12	12
<b>Total Liabilities</b>	<b>609</b>	<b>664</b>	<b>790</b>	<b>948</b>
Gross Block	68	127	167	202
Acc: Depreciation	45	54	65	80
Net Block	44	73	101	122
Capital WIP	17.3	20.0	15.0	15.0
Total Fixed Assets	64.8	97.8	121.5	142.4
Non Current Assets	122	128	165	206
Inventory	120	170	191	221
Debtors	198	260	309	368
Loans and Advances	-	-	-	-
Other Current Assets	16	21	27	34
Cash	177	98	111	140
Total Current Assets	520	558	648	772
Current Liabilities	38	45	59	74
Provisions	11	10	10	10
Total Current Liabilities	97	119	144	171
Net Current Assets	422	438	503	600
<b>Total Assets</b>	<b>609</b>	<b>664</b>	<b>790</b>	<b>948</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>				
EPS	18.1	22.0	30.3	38.5
Cash per Share	34.1	18.8	21.5	27.0
BV	110.7	120.6	144.9	175.3
Dividend per share	3.5	4.1	6.0	8.0
Dividend payout ratio	19%	18%	20%	21%
<b>Operating Ratios(%)</b>				
EBITDA Margin	45.4	39.3	41.3	41.8
PAT Margin	30.2	27.6	29.2	29.7
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	9.9	10.3	10.1
<b>Return Ratios(%)</b>				
RoC	33.3	28.5	32.3	34.2
RoNW	16.4	18.2	20.9	21.9
RoCE	23.8	25.2	28.7	30.0
<b>Valuation Ratio(%)</b>				
EV / EBITDA	49.9	43.9	32.0	25.2
P/E	76.8	63.2	45.9	36.1
EV / Net Sales	22.7	17.2	13.2	10.5
Sales / Equity	0.5	0.7	0.7	0.7
Market Cap / Sales	23.2	17.4	13.4	10.7
Price to Book Value	12.6	11.5	9.6	7.9
<b>Solvency Ratio(%)</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.5	5.5	5.5	5.6
Quick Ratio	2.9	3.4	3.5	3.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	94	114	157	200
Depreciation	7	9	11	14
Interest	11	8	8	9
Cash Flow before WC changes	112	131	177	222
Changes in inventory	(46)	(50)	(22)	(29)
Changes in debtors	(42)	(62)	(49)	(59)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	2	(5)	(6)	(7)
Net Increase in Current Assets	(90)	(117)	(76)	(95)
Changes in creditors	26	7	14	15
Changes in provisions	(0)	0	0	0
Net Inc in Current Liabilities	48	22	25	27
<b>Net CF from Op activities</b>	<b>70</b>	<b>35</b>	<b>125</b>	<b>155</b>
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(38)	(40)	(35)	(35)
<b>Net CF from Inv activities</b>	<b>(137)</b>	<b>(47)</b>	<b>(72)</b>	<b>(75)</b>
Dividend and Dividend Tax	(18)	(21)	(31)	(42)
<b>Net CF from Fin Activities</b>	<b>236</b>	<b>(67)</b>	<b>(39)</b>	<b>(50)</b>
Net Cash flow	168	(79)	14	29
Opening Cash/Cash Equivalent	9	177	98	111
Closing Cash/ Cash Equivalent	177	98	111	140

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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