

## Strong growth expected to continue; but rich 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 42.7%, 80.5%, respectively, in FY20-23. FY23 revenues increased 45.9% YoY with EBITDA margin at 37.9%. FY23 PAT increased 31.9% YoY to ₹ 124 crore

### Q4FY23 Results: Margins came in lower than estimates.

- Revenue was at ₹ 185.1 crore; up 8.5% YoY. Sequentially, revenue was up 65.5% QoQ as execution remains better QoQ in Q4
- EBITDA margin contracted 1165 bps YoY & 244 bps QoQ to 39.6% on the higher raw material cost; EBITDA came in at ₹ 73.4 crore, down 16.1% YoY
- PAT declined 10.2% YoY (+66.1% QoQ) to ₹ 55.4 crore
- FY23 order inflows at ₹ 901 crore; order backlog at ₹ 1008 crore as on date

**What should investors do?** DPIL is well placed to deliver revenue, PAT CAGR of 26.5%, 27.7%, respectively, over FY23-25E. However, the stock has run up a lot limiting further upside given rich valuations

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

**Target Price & Valuation:** We value Data Patterns at ₹ 1625 i.e. 45x on FY25E EPS.

### Key triggers for future price performance:

- Order backlog of ₹ 1008 crore is to be executed over the next 1.5-2 years
- Healthy order pipeline of ₹ 2,000-3,000 crore in the next three to four 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
- Radars, Electronic Warfare, Communication systems, Satellites, Avionics, fire control systems, check-out systems for Brahmos remains the key focus areas
- With successful completion of ₹ 500 crore QIP, new products development for domestic and international markets remains a key focus area

**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



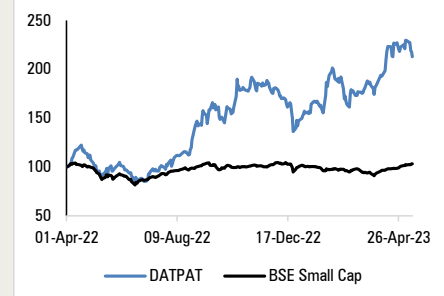
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,990.5
Total Debt (FY23) (₹ crore)	0.7
Cash and Inv (FY23) (₹ crore)	544.5
EV (FY23) (₹ crore)	7,446.7
52 week H/L (₹) (BSE)	1767/608
Equity capital (₹ crore)	11.2
Face value (₹)	2.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	45.6	45.8	45.8	42.4
FII	1.4	1.6	2.3	4.9
DII	8.3	7.6	7.9	11.6
Others	44.7	45.0	44.0	41.0

### 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	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenues	156	224	311	453	42.7	567	725	26.5
EBITDA	43	92	141	172	58.5	221	286	29.1
EBITDA margin (%)	27.7	41.1	45.4	37.9		39.0	39.5	
Net Profit	21	56	94	124	80.5	155	202	27.7
Diluted EPS (₹)	3.8	9.9	16.8	22.1		27.7	36.1	
P/E (x)	337.1	142.0	90.6	68.6		54.9	42.1	
EV/EBITDA (x)	184.1	86.0	54.7	42.4		34.1	26.4	
RoCE (%)	19.5	37.0	23.8	14.8		17.7	20.2	
RoE (%)	13.7	26.7	16.4	10.6		12.7	14.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results

- Revenue from operations increased 8.5% YoY to ₹ 185.1 crore in Q4FY23; better than our estimate of ₹ 145.0 crore primarily on account of better than expected execution. Sequentially, revenue was up 65.5% as the execution remains better QoQ. For FY23, revenue was up 45.9% YoY to ₹ 453.5 crore
- Gross margin has contracted sharply by 720 bps to 57.8% during the quarter. Sequentially also, the gross margin was down 856 bps on account of a significant increase in raw material cost. For FY23, gross margin was at 62.3% (contracted 419 bps YoY)
- EBITDA margin also contracted 1165 bps YoY and 244 bps QoQ to 39.6%; lower than our estimate of 44.1% as employee cost and others cost also came in higher than estimates. Thus, on account of lower margins, EBITDA declined 16.1% YoY (+56.0% QoQ) to ₹ 73.4 crore (vs. estimate of ₹ 64.0 crore). For FY23, EBITDA margin was down 748 bps to 37.9% YoY (our estimate was 39.3%); primarily on account of higher raw material costs. FY23 EBITDA was up 21.8% to ₹ 171.8 crore as contraction in margins has partially negated the impact of strong revenue growth
- PAT declined 10.2% YoY (+66.1% QoQ) to ₹ 55.4 crore against our estimate of ₹ 46.7 crore. FY23 PAT was up 31.9% to ₹ 124.0 crore, mainly led by better revenue growth

### Q4FY23 Earnings Conference Call highlights

- During the quarter, 56% of revenues was from production, 41% from development and 2% from services. For FY23, production constituted ~66% of revenues while ~29% is from development segment
- Order book as of FY23 end was at ₹ 924.1 crore, of which 64% were development contracts, 31% were production contracts and 5% were service contracts. Order backlog as on date was at ₹ 1008 crore including the orders finalised in April and May 2023
- Share of development contracts has increased from 25% in FY22 to 64% in FY23 led by major development contracts received during the year
- Total order inflows during FY23 was at ₹ 901.4 crore of which 66% were development orders and 33% were production orders
- The major development orders received during the quarter were radars and electronic warfare worth ₹ 83 crore and ₹ 53 crore, respectively, which are for Dornier aircraft upgrades
- The major development orders received during the year includes 1) Radars contract worth ₹ 449 crore from DRDO, 2) Electronic Warfare contract from DRDO worth ₹ 53 crore, 3) Tank electronics order from DRDO worth ₹ 34.5 crore
- The major production orders received during the year was Avionics order from Hindustan Aeronautics worth ₹ 73.7 crore and Fire Control Systems from Brahmos worth ₹ 40 crore
- Revenue growth for the next two years is expected at 25% each year with gross margin of ~65% and EBITDA margin of ~40%
- Products wise revenue mix for Q4FY23: Radars contributed ~54%, Automated Test Equipment (ATE) contributed ~18%, electronic warfare contributed ~15% and balance ~13% was from avionics, services, satellites segments, etc

- The company has been participating in large value tenders with MoD under Make I and Make II categories. Also, the company is exploring further opportunities in export markets
- The money raised through QIP ₹ 500 crore will be utilised for new product developments (radar, EW, Communication and satellite)
- There is a huge opportunity in manufacturing small and micro satellites where India has competitive advantage
- The management expects ₹ 2000-3000 crore worth orders in the pipeline for the next three to four years, mainly led by radars, electronic warfare, communication systems, satellites, etc
- Advances from customers were at ₹ 170 crore as of FY23 end, which includes advances received mainly for development contracts. Cash conversion cycle (CCC) was at 275 days as of FY23 end after adjusting advance received from customers

Exhibit 1: Variance Analysis

₹ Crore	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Operating Income	185.1	145.0	170.5	8.5	111.8	65.5	Better than expected execution led to better revenue growth
Other income	3.8	1.8	2.5	50.6	1.9	105.9	
Total Revenue	188.9	146.8	173.1	9.2	113.7	66.2	
Raw materials costs	78.1	49.9	59.7	30.9	37.6	107.7	
Employees Expenses	24.4	20.1	17.2	41.9	18.5	31.8	
Other Expenses	9.2	11.1	6.2	48.9	8.7	6.7	
Total Expenditure	111.7	81.0	83.1	34.5	64.8	72.5	
EBITDA	73.4	64.0	87.5	-16.1	47.0	56.0	
EBITDA margins (%)	39.6	44.1	51.3	-1165 bps	42.1	-244 bps	Margins came lower than expectations on higher raw material cost
Interest	2.8	2.0	3.5		2.1		
Depreciation	2.2	2.1	1.9	17.5	2.1	5.2	
Tax	16.8	15.0	23.0	-26.9	11.3	48.2	
PAT	55.4	46.7	61.6	-10.2	33.3	66.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	537.4	566.8	5.5	725.5	725.4	0.0
EBITDA	215.9	220.8	2.2	294.6	286.4	-2.8
EBITDA Margin (%)	40.2	39.0	-123 bps	40.6	39.5	-113 bps
PAT	154.6	155.0	0.3	207.3	202.0	-2.5
Diluted EPS (₹)	27.6	27.7	0.3	37.0	36.1	-2.5

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	311	453	567	725
% Growth	38.8	45.9	25.0	28.0
Other income	4.0	9.2	9.5	10.9
<b>Total Revenue</b>	<b>310.9</b>	<b>453.5</b>	<b>566.8</b>	<b>725.4</b>
% Growth	15.1	45.9	25.0	28.0
Total Raw Material Costs	86	171	207	261
Employee Expenses	62	80	95	114
other expenses	21	31	44	63
<b>Total Operating Expenditure</b>	<b>169.8</b>	<b>281.6</b>	<b>346.0</b>	<b>439.1</b>
<b>Operating Profit (EBITDA)</b>	<b>141.0</b>	<b>171.8</b>	<b>220.8</b>	<b>286.4</b>
% Growth	53.3	21.8	28.5	29.7
Interest	11	8	8	8
PBDT	134	173	222	289
Depreciation	7	8	14	18
PBT before Exceptional Items	127	165	208	271
Total Tax	33	41	53	69
PAT before MI	94	124	155	202
Minority Interest	-	-	-	-
<b>PAT</b>	<b>94.0</b>	<b>124.0</b>	<b>155.0</b>	<b>202.0</b>
% Growth	69.1	31.9	25.0	30.3
EPS	18.1	22.1	27.7	36.1

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Equity Capital	10.4	11.2	11.2	11.2
Reserve and Surplus	564	1,156	1,211	1,372
Total Shareholders funds	575	1,167	1,222	1,383
Other Non Current Liabilities	15.7	130.7	100.0	100.0
Total Debt	7	1	1	1
<b>Total Liabilities</b>	<b>609</b>	<b>1,309</b>	<b>1,334</b>	<b>1,494</b>
Gross Block	68	145	197	347
Acc: Depreciation	45	54	68	86
Net Block	44	91	128	260
Capital WIP	17	1	150	100
Total Fixed Assets	65	113	283	365
Non Current Assets	122	86	105	133
Inventory	120	193	241	298
Debtors	198	382	435	497
Loans and Advances	-	-	-	-
Other Current Assets	16	38	47	61
Cash	177	545	308	268
Total Current Assets	520	1,179	1,053	1,145
Current Liabilities	38	43	62	80
Provisions	11	10	10	10
Total Current Liabilities	97	126	163	205
Net Current Assets	422	1,054	890	940
<b>Total Assets</b>	<b>609</b>	<b>1,309</b>	<b>1,334</b>	<b>1,494</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	94	124	155	202
Depreciation	7	8	14	18
Interest	11	8	8	8
Cash Flow before WC changes	112	140	177	228
Changes in inventory	(46)	(73)	(48)	(57)
Changes in debtors	(42)	(184)	(52)	(62)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	2	(22)	(9)	(13)
Net Increase in Current Assets	(90)	(292)	(109)	(133)
Changes in creditors	26	5	19	17
Changes in provisions	(0)	2	1	1
Net Inc in Current Liabilities	48	28	37	42
<b>Net CF from Op activities</b>	<b>70</b>	<b>(124)</b>	<b>105</b>	<b>137</b>
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(38)	(57)	(200)	(100)
<b>Net CF from Inv activities</b>	<b>(137)</b>	<b>36</b>	<b>(249)</b>	<b>(129)</b>
Dividend and Dividend Tax	(18)	(21)	(31)	(42)
<b>Net CF from Fin Activities</b>	<b>236</b>	<b>455</b>	<b>(92)</b>	<b>(50)</b>
Net Cash flow	168	367	(236)	(41)
Opening Cash/Cash Equivalent	9	177	545	308
Closing Cash/ Cash Equivalent	177	545	308	268

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per Share Data</b>				
Diluted EPS	16.8	22.1	27.7	36.1
Cash per Share	34.1	115.7	70.2	62.3
BV	110.7	224.9	235.6	266.5
Dividend per share	3.5	4.1	6.0	8.0
Dividend payout ratio	19%	17%	20%	21%
<b>Operating Ratios(%)</b>				
EBITDA Margin	45.4	37.9	39.0	39.5
PAT Margin	30.2	27.3	27.4	27.8
Asset turnover	0.5	0.4	0.5	0.5
Debtors Turnover Ratio	1.8	1.6	1.4	1.6
Creditors Turnover Ratio	12.4	11.2	10.8	10.2
<b>Return Ratios(%)</b>				
RoC	33.3	26.2	22.6	24.0
RoNW	16.4	10.6	12.7	14.6
RoCE	23.8	14.8	17.7	20.2
<b>Valuation Ratios</b>				
EV / EBITDA	54.7	42.4	34.1	26.4
P/E	90.6	68.6	54.9	42.1
EV / Net Sales	24.8	16.1	13.3	10.4
Sales / Equity	0.5	0.4	0.5	0.5
Market Cap / Sales	25.4	17.4	13.9	10.9
Price to Book Value	13.7	6.8	6.5	5.7
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.5	10.3	9.1	8.7
Quick Ratio	2.9	7.1	6.0	5.7

Source: Company, ICICI Direct Research

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