

April 3, 2023

## Growth visibility remains strong...

The government has signed contracts worth ~₹ 44000 crore in March 2023 with defence PSUs like Bharat Electronics (BEL), Bharat Dynamics (BDL), Cochin Shipyard (CSL), Goa Shipyard (GSL) and Garden Reach Shipbuilders & Engineers (GRSE). BEL is the largest beneficiary among all with contracts of ₹ 16244 crore (mainly including electronic warfare systems, radars and other electronic system) followed by CSL (₹ 9805 crore for six next generation missile vessels), BDL (₹ 8160 crore for Akash missile systems) and GSL (₹ 4891 crore for seven next generation offshore patrol vessels - NGOPVs) and GRSE (₹ 3500 crore for four NGOPVs). The government also inked a contract with BrahMos Aerospace (BAPL) for procurement of Next Generation Maritime Mobile Coastal Batteries (Long range) {NGMMCB (LR)} and BrahMos Missiles at an approximate cost of over ₹ 1,700 crore.

## Approvals worth ₹ 2.64 lakh crore given in FY23

The Defence Acquisition Council (DAC) has accorded acceptance of necessity (AoN) for acquisition of defence platforms, systems & sub-systems, amounting to ~₹ 2.64 lakh crore in FY23 under Buy {Indian Indigenously Designed, Developed and Manufactured (IDDM)}. The major platforms include next generation corvettes, Su-30 aero engines, NGOPVs, Advanced Towed Artillery Gun System (ATAGS), naval utility helicopters, advanced light helicopters, several missiles (BrahMos, helicopter launched anti-tank guided missiles, anti-ship missiles, very short range air defence (VSHORADs), multipurpose vessels, autonomous vehicles, etc.

## FY23 revenue (provisional) for HAL, BEL comes largely in line

HAL registered revenue of ~₹ 26,500 crore for FY23 (up 7.6% YoY); largely in line with estimates. Implied revenue for Q4FY23E indicates 4.4% growth on a YoY basis (up 113% QoQ). BEL registered revenue of ~₹ 17300 crore during FY23 (up 15% YoY); slightly lower than estimates. Implied revenue for Q4FY23 is ~₹ 6294 crore, indicating 1.5% growth YoY (up 56% QoQ). Growth for Q4FY23E remains better sequentially for both HAL and BEL in Q4 as Q4 remains better in terms of execution and revenue recognition. GRSE has reported revenue of ~₹ 2,550 crore for FY23 (up 45% YoY); lower than expectations. Implied Q4FY23E revenue is ~₹ 589 crore, signifying 8.2% YoY growth but 15.7% decline QoQ. Sequential decline in Q4FY23E revenues is a negative surprise.

## Sector growth visibility remains strong

The defence sector looks well placed in terms of increasing domestic procurements by the government for our armed forces. With imports coming down, the risk of supply chain issues is also receding in this sector. We have been witnessing a structural shift in the defence budget with increased allocation for modernised indigenous platforms. The current government is looking very committed on this, which is very clear from the recent announcement of increasing domestic procurement budget share to 75% for FY24 from 68% for FY23. This implies growth of ~19% against 8% growth budgeted for total capital outlay.

The increase in domestic procurement will directly benefit domestic players including defence PSUs and private players in terms of more order inflows during the year for major platforms & sub-systems/components. As per estimates, orders worth ₹ 5-6 lakh crore will be placed with Indian defence players in the next four to five years. Defence PSUs like HAL, BEL and BDL are poised to do well considering they already have a strong order backlog of 3-4x of TTM revenues and a healthy pipeline of orders. Valuations of these three companies look attractive at 17-20x P/E on FY25E earnings considering strong visibility on order execution. Balance sheet of these defence companies remains debt free with working capital support from the government. **Key top picks: HAL, BEL, BDL**

### Sector View: Positive

#### Top Picks in Defence Space

Company	CMP	TP	Upside (%)
HAL	2,722	3,300	21%
BEL	96	130	35%
BDL	978	1,215	24%
CSL	475	620	31%
DPIL	1,431	1,670	17%

#### Key risks to our call

- Dependence on government contracts
- Delay in order finalisation, awards impacting future visibility

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## Companies

## Hindustan Aeronautics (HAL)

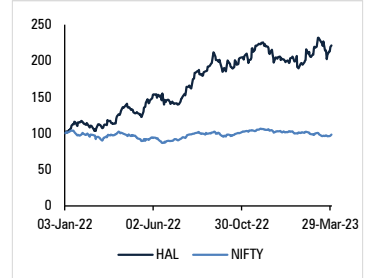
HAL has registered revenue from operations of ~₹ 26500 crore (provisional, unaudited) for FY23; up 7.6% YoY. This provisional figure is largely in line with estimates. The management had also been guiding for ~8% YoY revenue growth for FY23. The implied revenue for Q4FY23E is ~₹ 12067 crore, which is 4.4% growth on a YoY basis but significant growth of 113% on a sequential basis as Q4 remains strong QoQ on account of better execution and revenue recognition.

The order book was at ~₹ 82,000 crore at the end of March 2023 (3.1x FY23 revenues). During FY23, order inflows were ~₹ 26,000 crore, which includes manufacturing contracts for 70 HTT -40, six Do-228 Aircraft & PSLV launch vehicles and repair & overhaul (RoH) contracts of ~₹ 16,600 crore.

Key orders in the pipeline for the next one to two years include 25 advanced light helicopters (ALH) for Army, 12 light utility helicopters (LUH), 12 Sukhoi-30 MKI and 240 AL-31 engines for Sukhoi-30 MKI aircraft. Total estimated cost of these orders is at ~₹ 50000 crore. In the longer term (three to five years), key orders in the pipeline are 145 LCH, 175 LUH, 60 Marine ALH, 36 HTT-40, 18 RD-33 engines for MiG-29 and medium weight fighter (Tejas MK2).

Revenue is expected to grow significantly from FY25E onwards in manufacturing contracts led by execution of Tejas Mk1A contract. We expect HAL to deliver revenue and EBITDA CAGR of 10.3% and 14.8%, respectively, in FY22-25E. PAT is likely to grow at ~12% CAGR (FY22-25E). Increase in profitability with strong asset turnover is expected to result in healthy return ratios over FY23-24E. We continue to remain positive on HAL and retain our **BUY** rating on the stock with a target price of ₹ 3300 (valuing at 20x PE on FY25E EPS).

## Price Chart



## Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	91,021
Total Debt (FY22 - ₹ Crore)	-
Cash (FY22 - ₹ Crore)	14,356
EV (₹ Crore)	76,665
52 Week H/L (Rs)	2915 / 1468
Equity Capital	334
Face Value	10

## Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	26,158	26,500	1.3	28,355	28,356	0.0	33,034	33,035	0.0
EBITDA	6,406	6,547	2.2	6,983	6,983	0.0	8,173	8,173	0.0
EBITDA Margin (%)	24.5	24.7	22 bps	24.6	24.6	0 bps	24.7	24.7	0 bps
PAT	5,048	5,147	2.0	4,813	4,813	0.0	5,526	5,526	0.0
EPS (₹)	150.9	153.9	2.0	143.9	143.9	0.0	165.3	165.3	0.0

Source: Company, ICICI Direct Research

## Exhibit 2: Financial summary for HAL

(₹ crore)	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-24E)
Revenues	21,438	22,882	24,620	5.3	26,500	28,356	33,035	10.3
EBITDA	4,896	5,336	5,409	4.5	6,547	6,983	8,173	14.8
EBITDA margin (%)	22.8	23.3	22.0		24.7	24.6	24.7	
Profit Before Tax	3,969	4,283	5,225	8.8	6,515	6,349	7,319	11.9
EPS (₹)	85.9	97.1	151.9		153.9	143.9	165.3	
P/E (x)	32.7	28.1	17.9		17.7	18.9	16.5	
EV/EBITDA (x)	19.7	15.7	14.2		11.7	10.8	9.2	
RoCE (%)	21.9	29.4	27.4		32.7	29.0	30.0	
RoE (%)	21.0	21.0	26.3		25.8	22.0	22.7	

Source: Company, ICICI Direct Research

## Bharat Electronics (BEL)

Bharat Electronics (BEL) reported revenue from operations of ~₹ 17300 crore (provisional & unaudited) during FY23; growth of 15% YoY. Revenue from exports was at \$46 million (mn) in FY23; up 40% YoY. This provisional revenue figure for FY23 is slightly lower than what we estimated. The implied revenue for Q4FY23 is ~₹ 6294 crore, up 1.5% YoY but significant growth of 56% on a sequential basis as Q4 remains strong QoQ in terms of execution and revenue recognition.

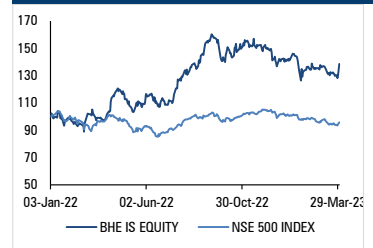
The order book is at ~₹ 60500 crore as of FY23 end (3.5x FY23 revenues). Order inflow during the year was at ~₹ 20,200 crore, in line with the management's full year guidance. In the last few days, Ministry of Defence (MoD) has signed over 16 different contracts worth ~₹ 16240 crore with Bharat Electronics (BEL) of which four are for Indian Air Force (IAF), four are for Indian Army (IA) and over eight are for Indian Navy (IN).

The four contracts for Indian Air Force (IAF) includes 1) ~₹ 2,800 crore contract for supply of Medium Power Radars (MPR) 'Arudhra', 2) ~₹ 950 crore contract for supply of 129 DR-118 Radar Warning Receivers (RWR), 3) 90 Electronic Warfare (EW) Suite Equipment for Medium Lift Helicopter and 4) Annual Maintenance Contract (AMC) for Akash Missile System. The four contracts for Indian Army include 1) ₹ 3000 crore contract for the procurement of two Himshakti Integrated Electronic Warfare (EW) Systems, 2) Automated Air Defence Control & Reporting System (Project Akashteer), 3) Instant Fire Detection and Suppressing System IFDSS for T-72 tanks and 4) 12 Weapon Locating Radar (Swathi).

There are over eight contracts for Indian Navy including 1) 1265 Software Defined Radio (SDR), 2) 1178 HD Very Low Frequency (VLF) High Frequency (HF) Receiver, 3) 12 Sarang systems to be installed on Kamov-31 Helicopters, 4) Inertial Navigation System for Ship Application (INS-SA), 5) CMS for Project-17 frigates & Project-28 corvettes, 6) Varuna EW, 7) 13 LYNX U2 Fire Control Systems and 8) multiple contracts totalling to ~₹ 1300 crore for supply of Indigenously developed Fire control, Gun fire control, Surveillance, tracking, Electronic Support Measures (ESM), Sonar Systems, etc.

Major orders expected in FY24E are Quick Reaction Surface-to-Air Missile (QRSAM) worth ₹ 20,000 crore and Medium Range Surface to Air Missile (MRSAM) worth ₹ 15,000-20,000 crore. With the strong order backlog and healthy pipeline, we expect revenue, EBITDA to grow at a CAGR of 17.9%, 18.9%, respectively, in FY22-24E aided by sustained margins in the range of ~22%. We remain positive on BEL and retain our **BUY** rating on the stock with a target price of ₹ 130 (valuing at 25x P/E on FY25E EPS).

### Price Chart



### Particulars

Particular	Amount
Market Capitalization	₹ 70174 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv (FY22)	₹ 2593.5 crore
EV (FY22)	₹ 66762 Crore
52 week H/L (₹) (BSE)	115 / 70
Equity capital	₹ 731 Crore
Face value	₹ 1

### Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	New
Revenue	18,138	17,612	-2.9	21,512	21,500	-0.1	25,076
EBITDA	4,009	3,893	-2.9	4,776	4,773	-0.1	5,567
EBITDA Margin (%)	22.1	22.1		22.2	22.2		22.2
PAT	2,751	2,675	-2.8	3,279	3,277	0.0	3,807
EPS (₹)	3.8	3.7	-2.8	4.5	4.5	0.0	5.2

Source: Company, ICICI Direct Research

### Exhibit 4: Financial summary for BEL

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR	FY23E	FY24E	FY25E	2 Year CAGR
Revenues	12,085	12,921	14,064	15,314	4.9	17,612	21,500	25,076	17.9
EBITDA	2,862	2,730	3,181	3,309	2.9	3,893	4,773	5,567	18.9
EBITDA margin (%)	23.7	21.1	22.6	21.6		22.1	22.2	22.2	
Net Profit	1,927	1,794	2,065	2,349	4.0	2,675	3,277	3,807	17.5
EPS (₹)	2.6	2.5	2.8	3.2		3.7	4.5	5.2	
P/E (x)	36.4	39.1	34.0	29.9		26.2	21.4	18.4	
EV/EBITDA (x)	24.6	25.3	21.0	20.0		17.1	13.6	11.4	
RoCE (%)	33.0	27.4	35.5	43.2		42.6	43.4	42.2	
RoE (%)	23.5	19.9	24.9	32.1		31.7	32.3	31.4	

Source: Company, ICICI Direct Research

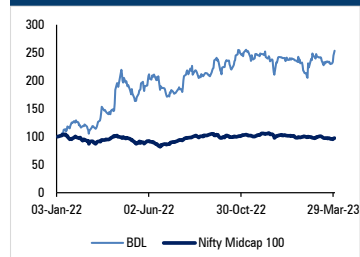
## Bharat Dynamics (BDL)

The MoD has signed a contract worth ₹ 8161 crore with BDL for procurement of improved Akash Weapon System (AWS) for third and fourth regiments of Indian Army, comprising live missiles & launchers with upgrades, ground support equipment, vehicles and infrastructure. AWS is a Short-Range Surface to Air Missile (SRSAM) Air Defence System, indigenously designed & developed by Defence Research and Development Organisation (DRDO). BDL also received an order of ₹ 261 crore for Counter Measure Dispensing Systems (CMDs) for Medium Lift Helicopters (Mi-17).

The order book was at ₹ 24021 crore (7.5x FY23E revenues) as of March 2023 end; gives strong revenue visibility. Moreover, ~₹ 12000 crore worth of orders are in the pipeline (including Medium Range Surface to Air Missile (MRSAM) for Navy, helicopter launched Anti-Tank Guided Missile (Helina), Smart Anti - Airfield Weapon (SAAW), Mistral, Advanced Short Range Air-to-Air Missile (ASRAAM), Spike ER2, R-73 refurbishment, etc). This gives more comfort on future earnings. Moreover, many products in missiles and torpedoes category are under development (which the company is doing with DRDO), which are expected to drive its orders inflow in the coming period.

We see a huge opportunity for BDL in exports also (Akash SAM, ATGMs, Astra, Torpedoes) driven by rising interest from friendly countries and lower cost on high indigenisation levels. We expect BDL to deliver revenue and EBITDA CAGR of 20.4% and 19.9%, respectively, in FY22-25E. PAT is likely to grow at 23.5% CAGR (FY22-24E). Increase in profitability with strong asset turnover is expected to result in healthy return ratios over FY23-24E. We retain **BUY** on BDL with a revised target price of ₹ 1215 (valuing at 24x P/E on FY25E EPS).

### Price Chart



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	17,925
FY22 Debt (₹ Crore)	0
FY22 Cash (₹ Crore)	1,891
EV (₹ Crore)	16,034
52 Week H/L (Rs)	1026 / 408
Equity Capital (₹ Crore)	183.3
Face Value	10

### Exhibit 5: Financial summary for BDL

(₹ crore)	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Revenues	3,105	1,914	2,817	(2.8)	3,186	4,112	4,914	20.4
EBITDA	755	345	726	5.3	747	1,038	1,253	19.9
EBITDA margin (%)	24.3	18.0	25.8		23.4	25.2	25.5	
Net Profit	535	258	492	5.2	586	779	925	23.5
EPS (₹)	29.2	14.1	26.8		32.0	42.5	50.5	
P/E (x)	33.5	69.5	34.8		30.6	23.0	19.4	
EV/EBITDA (x)	22.9	47.5	22.1		20.9	14.9	12.1	
RoCE (%)	28.6	12.8	24.7		24.2	28.0	28.5	
RoE (%)	20.5	9.6	17.0		17.3	20.1	20.5	

Source: Company, ICICI Direct Research

## Cochin Shipyard (CSL)

MoD has signed a contract worth ₹ 9805 crore with Cochin Shipyard (CSL) for procurement of six Next Generation Missile Vessels (NGMVs) for Indian Navy. The first vessel is to be delivered in 48 months while the last is to be delivered within 108 months. The vessels would be heavily armed war vessels incorporating stealth, high speed and offensive capability. The primary role of the ships would be to provide offensive capability against enemy warship, merchantmen and land targets.

The contract of six NGMVs was expected to be placed with CSL only as it was already the lowest bidder for this contract. This is the highest value contract for CSL now followed by eight anti-submarine warfare Corvettes contract for Indian Navy. With this contract and the two recent export contracts received in ship-building from European clients, the company's order backlog is estimated to be ~₹ 20500 crore (7.2x FY23E revenues). The order backlog also includes ship repair contracts where the company has a large opportunity in terms of getting more orders.

We believe the concern of lacking large ship-building orders for CSL (post commissioning of INS Vikrant) has also been ended with these contracts, which provides healthy revenue visibility over the next few years. With the expected timely execution of these ship-building contracts and increasing contribution in ship repair segment, CSL has strong earnings visibility for the coming years.

### Price Chart



### Particulars

Particular	Amount
Market Capitalization*	₹ 6248 Crore
Total Debt (FY22)	₹ 123 Crore
Cash & Inv (FY22)	₹ 3213 crore
EV (FY22)	₹ 3159 Crore
52 week H/L (₹) (BSE)	687/295
Equity capital**	₹ 131.5 Crore
Face value	₹ 10

We estimate ~18%, ~19% CAGR in revenues, EBITDA, respectively, over FY23E-25E. PAT is expected at 17.5% CAGR over the same period. We maintain our **BUY** rating on the stock with a target price of ₹ 620 (valuing at 13x P/E on FY25E EPS).

#### Exhibit 1: Financial summary for CSL

(₹ Crore)	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	2 Year CAGR (FY23E- 25E)
Revenues	3,422	2,819	3,191	2.2	2,840	3,354	3,955	18.0
EBITDA	709	716	623	2.3	542	654	771	19.2
EBITDA margins	20.7	25.4	19.5		19.1	19.5	19.5	
Net Profit	638	611	564	2.5	456	540	629	17.5
EPS (₹)	48.5	46.4	42.9		34.7	41.1	47.8	
P/E (x)	9.8	10.2	11.1		13.7	11.6	9.9	
Price / Book (x)	1.7	1.5	1.4		1.4	1.3	1.2	
EV/EBITDA (x)	5.9	5.8	5.1		6.9	5.9	5.1	
RoCE (%)	17.6	14.1	11.4		9.8	10.5	11.0	
RoE (%)	17.1	14.9	12.7		9.9	11.0	12.0	

Source: Company, ICICI Direct Research

### Mazagon Dock Shipbuilders (MDL)

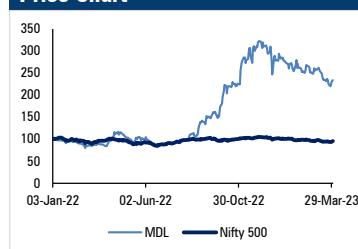
Mazagon Dock (MDL) is well placed in the defence shipyards industry in terms of getting large scale contracts of warships in future from Indian Navy, mainly destroyers and submarines where MDL is the strong contender, which has all the capabilities to execute these kinds of large projects.

An order backlog of about ₹ 40600 crore (5.7x of TTM revenues), which is to be executed over the next four years, gives strong revenue visibility. Moreover, the large scale orders of next generation destroyers (expected value - ₹ 50000 crore) and next phase of conventional submarines (expected value - ₹ 43000 crore) and others (including frigates, vessels and repair orders etc) gives us comfort in terms of future order inflows.

Execution is expected to remain strong over the next two years (primarily led by pick-up execution of contracts, P-15B destroyers & P-17A frigates) with sustainable margins, which would lead to earnings CAGR at 20.5% CAGR over FY22-25E. However, if there is any significant delay in these large scale future orders of submarines and destroyers, this may impact revenue growth beyond FY26, FY27.

We maintain **HOLD** on MDL with a revised target price of ₹ 745 (valuing at 14x P/E on FY25E EPS)

#### Price Chart



#### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	13,231
FY22 Debt (₹ Crore)	0
FY22 Cash (₹ Crore)	11,473
EV (₹ Crore)	1,757
52 Week H/L (Rs)	937/229
Equity Capital (₹ Crore)	201.7
Face Value	10

#### Exhibit 2: Financial summary for MDL

(₹ crore)	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	2 Year CAGR (FY22-24E)
Revenues	4,918	4,048	5,733	7.5	7,298	8,028	10,034	20.5
EBITDA	260	224	435	18.6	542	733	915	28.2
EBITDA margin (%)	5.3	5.5	7.6		7.4	9.1	9.1	
Net Profit	471	514	611	4.7	803	940	1,069	20.5
EPS (₹)	23.4	25.5	30.3		39.8	46.6	53.0	
P/E (x)	27.7	21.7	21.3		16.5	14.1	12.4	
EV/EBITDA (x)	28.6	23.6	4.0		6.3	3.0	0.7	
RoCE (%)	24.5	21.5	20.0		22.9	23.5	23.4	
RoE (%)	15.6	17.7	16.1		18.2	18.5	18.3	

Source: Company, ICICI Direct Research

## Garden Reach Shipbuilders and Engineers (GRSE)

Garden Reach Shipbuilders & Engineers (GRSE) reported revenue from operations of ~₹ 2,550 crore (provisional & unaudited) for FY23; up 45% YoY. The revenue of ~₹ 2550 crore for FY23 is lower than what we estimated. The implied revenue for Q4FY23 is ~₹ 589 crore, which is 8.2% growth on a YoY basis but 15.7% decline on a sequential basis. This is a big negative surprise as Q4 remains strong generally because of better execution and higher revenue recognition.

MoD has signed contracts worth ₹ 9781 crore with Goa Shipyard (GSL) and Garden Reach Shipbuilders and Engineers (GRSE) for acquisition of 11 Next Generation Offshore Patrol Vessels (NGOPVs) under Buy (Indian-IDDM) category. Of the 11 ships, seven will be indigenously designed, developed & manufactured by GSL and four by GRSE. The contract value for four vessels for GRSE was at ₹ 3500 crore and the delivery of the ships is scheduled to commence from September 2026.

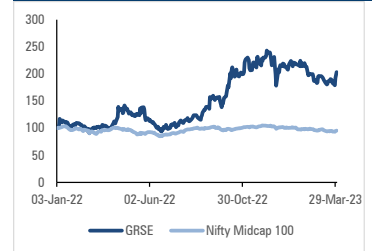
This contract was expected to be placed with GSL and GRSE as these two companies were the L1 and L2 in this contract. The GRSE management has also indicated that the company will receive the contract of four NGOPVs by FY23 end. With this contract, the order backlog is estimated at ~₹ 24400 crore (9.7x TTM revenues), which includes large contracts like three P-17A frigates, eight anti-submarine warfare Corvettes and four large survey vessels.

Order backlog of ~₹ 25300 crore as of FY23 end (9.9x FY23 revenues) gives strong revenue visibility. However, execution will be the key factor to watch in the coming quarters.

Execution is expected to remain strong over the next two years (primarily led by pick-up execution of contracts, P-17A frigates, Large survey vessels and ASW-SWCs) with up-tick in margins (led by operating leverage) that would lead to earnings CAGR at 37.6% CAGR over FY22-25E. However, we cut our estimates to factor in the lower than expected execution in FY23. Moreover, if there is any significant delay in execution and announcing of large scale order of next generation corvettes, this may impact revenue growth beyond FY26, FY27.

We downgrade our rating on GRSE from Buy to **HOLD** with a revised target price of ₹ 520 (valuing at 12x P/E on FY25E EPS).

### Price Chart



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	5,212
Total Debt (₹ Crore)	0
Cash (₹ Crore)	2,558
EV (₹ Crore)	2,654
52 Week H/L (Rs)	2.7
Equity Capital	114.6
Face Value	10.0

### Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,922	2,550	-35.0	5,588	4,220	-24.5	6,205	5,845	-5.8
EBITDA	346	135	-61.1	535	372	-30.5	596	554	-7.0
EBITDA Margin (%)	8.8	5.3	-355 bps	9.6	8.8	-76 bps	9.6	9.5	-12 bps
PAT	349	207	-40.7	482	372	-22.7	522	494	-5.4
EPS (₹)	30.5	18.1	-40.8	42.1	32.5	-22.8	45.5	43.1	-5.2

Source: Company, ICICI Direct Research

### Exhibit 4: Financial summary for GRSE

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	2 Year CAGR (FY22-24E)
Revenues	1,386	1,433	1,141	1,758	4.9	2,550	4,220	5,845	49.3
EBITDA	42	40	72	141	27.3	135	372	554	57.9
EBITDA margin (%)	3.0	2.8	6.3	8.0		5.3	8.8	9.5	
Net Profit	110	163	153	190	11.5	207	372	494	37.6
EPS (₹)	9.6	14.3	13.4	16.5		18.1	32.5	43.1	
P/E (x)	46.8	30.4	30.9	26.7		25.2	14.0	10.6	
EV/EBITDA (x)	76.5	63.0	29.3	17.5		28.6	8.6	4.9	
RoCE (%)	17.9	22.7	20.1	21.1		21.3	33.6	37.7	
RoE (%)	10.7	16.5	14.8	15.5		15.5	24.7	27.8	

Source: Company, ICICI Direct Research

## Data Patterns (DPIL)

Data Patterns (DPIL) is a vertically integrated defence and aerospace electronics solutions provider, catering to the indigenously developed defence products industry. The company is one of the key beneficiaries in the private defence industry from the recent orders received by Bharat Electronics (BEL).

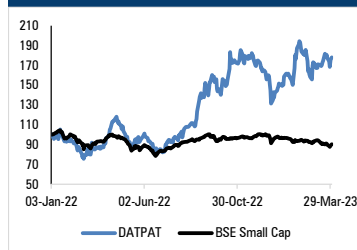
DPIL is expected to contribute in sub-systems or electronic components used in DR-118 Radar Warning Receivers (RWR), Arudhra radar, Himshakti Electronic Warfare (EW), EW suite equipment for upgrade program of Mi-17 medium lift helicopters, weapon locating radars and fire control systems.

MoD has also inked a contract with BrahMos Aerospace Pvt Ltd (BAPL) for procurement of Next Generation Maritime Mobile Coastal Batteries (Long range) {NGMMCB (LR)} and BrahMos Missiles at an approximate cost of over ₹ 1,700 crore under Buy (Indian) Category. Even in this contract, we believe DPIL will play a significant role in the supply chain of BrahMos missiles as it has been the sole supplier of key electronic sub-systems for the BrahMos missile programme for the past many years (like fire control systems, launch control systems, RF seekers, missile calibration system, missile simulators and missile test systems). Recently, the company also developed new check-out equipment for BrahMos missiles.

The strong order backlog at ₹ 1014 crore as of January 2023 end (2.3x TTM revenues) and healthy order pipeline provides strong revenue visibility. The company expects ₹ 2000-3000 crore worth orders in the pipeline for the next three to four years (which includes radars, avionics, fire control systems for BrahMos Missile, checkout equipment, etc).

We estimate revenue, EBITDA and PAT CAGR of 32.6%, 27.8% and 30.2%, respectively, over FY22-25E. Increase in profitability with strong asset turnover is expected to result in healthy return ratios over FY23-24E. However, given the rich valuations, we retain our **BUY** rating on the stock with a target price of ₹ 1670 (valuing at 45x on FY25E EPS).

### Price Chart



### Particulars

Particular	Amount
Market Capitalization	₹ 7425 Crore
Total Debt (FY22)	₹ 6.8 Crore
Cash and Inv (FY22)	₹ 177.1 crore
EV (FY22)	₹ 7255 Crore
52 week H/L (₹) (BSE)	1540 / 608
Equity capital	10.4
Face value	2.0

### Exhibit 5: Financial summary for DPIL

(₹ 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)	317.3	133.6	85.3		70.2	51.8	38.6	
EV/EBITDA (x)	173.4	81.0	51.4		42.6	32.7	24.3	
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

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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