

Robust order inflows provide strong visibility...

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 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

Q4FY22 Results: Data Patterns reported better-than-expected Q4FY22 results.

- Revenue at ₹ 170.5 crore was up 8.6% YoY, led by better execution
- EBITDA came in at ₹ 87.5 crore, down marginally by 1% YoY, impacted by higher raw material cost
- PAT declined 6.6% YoY to ₹ 61.6 crore
- Order inflows for FY22 strong at ₹ 289 crore; order backlog at ₹ 476 crore

What should investors do? DPIL is well placed to deliver revenue and PAT CAGR of 26.3% and 22.5%, respectively, over FY22-24E. Increase in profitability with strong asset turnover will result in healthy return ratios over FY23-24E.

- We remain long term positive and retain our **BUY** rating on the stock

Target Price & Valuation: We value Data Patterns at ₹ 870 i.e. 32x on FY24E EPS.

Key triggers for future price performance:

- Defence electronics provides huge opportunity of ~₹ 1.5 lakh crore in 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
- Healthy order book position with strong pipeline of orders worth ₹ 2,000-3,000 crore in the next two to three years provides strong visibility

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 ₹ 250/share



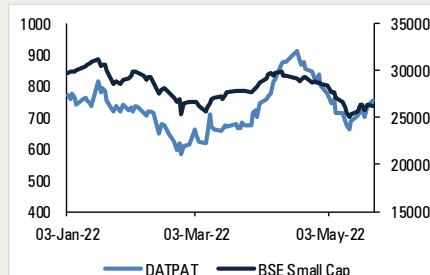
Particulars

Particular	Amount
Market Capitalization (₹ crore)	3,813.7
Total Debt (FY22) (₹ crore)	6.8
Cash and Inv (FY22) (₹ crore)	177.1
EV (FY22) (₹ crore)	3,643.4
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

Price Performance



Recent Events & Key Risks

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

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	131	156	224	311	18.9	392	496	26.3
EBITDA	26	43	92	141	40.7	159	199	18.9
EBITDA margin (%)	19.5	27.7	41.1	45.4		40.5	40.2	
Net Profit	8	21	56	94	64.9	113	141	22.5
EPS (₹)	1.6	4.5	10.7	18.1		21.7	27.2	
P/E (x)	446.1	163.0	68.6	40.6		33.9	27.0	
EV/EBITDA (x)	151.5	89.7	41.7	25.8		22.6	17.9	
RoCE (%)	11.1	19.5	37.0	23.8		24.4	25.8	
RoE (%)	5.8	13.7	26.7	16.4		18.1	19.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 & FY22 Results

- Revenue from operations increased 8.6% YoY to ₹ 170.5 crore; in line with our expectation of ₹ 169.8 crore
- Gross profit margin contracted 378 bps YoY to 65% vs. 68.8% in Q4FY21. However, it was better than our estimate as raw material cost came lower than estimates
- EBITDA margin declined 519 bps YoY to 51.3%; better than our estimate of 45.2%. Subsequently, EBITDA declined marginally by 1% YoY to ₹ 87.5 crore (l-direct estimate: ₹ 76.8 crore)
- Net profit declined 6.6% YoY to ₹ 61.6 crore; better than l-direct estimate of ₹ 53.5 crore, primarily due to better than expected margins
- On a full year basis, FY22 revenues increased 38.8% YoY to ₹ 310.9 crore (in line with estimates). EBITDA increased 53.3% YoY to ₹ 141 crore (vs. our estimate of ₹ 130.2 crore) with EBITDA margin of 45.4% (+430 bps YoY). PAT was at ₹ 94 crore, up 69.1% YoY (vs. our estimate of ₹ 85.4 crore)

Q4FY22 Earnings Conference Call highlights

- Order book as of March 2022 was at ₹ 476 crore. Order inflows were at ₹ 289 crore in FY22 vs. ₹ 136 crore in FY21
- Production orders constitute 62% of the total order book while 25% is from development contracts and 13% from service contracts. Development contracts constituted only 6% of the total order book in FY21
- The major orders received in FY22 were radar development order from DRDO (worth ₹ 33.5 crore), ₹ 30 crore development order from DRDO in communication systems, ₹ 27.4 crore development order in electronic warfare segment from DRDO and ₹ 19.4 crore production order from HAL in the avionics product segment
- Order inflows during Q4FY22 were at ₹ 69.7 crore (up 70% YoY). Major orders received during the quarter were electronic warfare development contract from DRDO ₹ 27.4 crore), ₹ 16.6 crore contract for radars production from BEL, ₹ 5.8 crore radar development contract from DoS
- Out of total orders received in FY22, 49% were development orders and 48% were production orders
- Also, ₹ 2000-3000 crore worth orders in the pipeline for the next three to four years. Robust development contracts order book ensures higher production contracts visibility. 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 pipeline for FY23
- Production contracts revenue grew 25% YoY; mainly driven by strong order inflow in FY22. Developmental revenue doubled due to robust order inflows and timely execution despite challenges like Covid-19 and supply chain issues in FY22
- DRDO and Electronics Corporation of India (ECIL) contributed ~44% to total revenues in FY22 while Brahmos contributed ~12% to FY22 revenues
- Electronic warfare and radars will continue to be major drivers for order book and revenues in the next couple of years. These two products segment contributed ~50% to the total FY22 revenues

- The company is focusing on increasing exports revenue through products like fire control systems (for BrahMos missile exports in Philippines)
- IPO proceeds used for debt repayment and expansion of its current facility at Chennai; doubling SMT capacity and improving test infrastructure
- Net working capital was at 329 days for FY22; improving from 355 days in FY21

Exhibit 1: Variance Analysis

₹ Crore	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Operating Income	170.5	169.8	157.1	8.6	44	289.0	
Other income	2.5	0.8	0.5	377.4	1	261.4	
Total Revenue	173.1	170.6	157.6	9.8	44.5	288.6	
Raw materials costs	59.7	70.0	49.1	21.7	5	1,020.3	
Employees Expenses	17.2	17.0	13.5	27.1	17	0.7	
Other Expenses	6.2	6.0	5.8	7.1	6	5.6	
Total Expenditure	83.1	93.0	68.4	21.5	28	194.1	
EBITDA	87.5	76.8	88.7	-1.4	15.6	461.0	
EBITDA margins (%)	51.3	45.2	56.5	-519 bps	35.6	1572 bps	EBITDA margins came better than estimates on lower than expected RM cost, which has led to better than expected PAT as well
Interest	3.5	2.3	3.2		2.7		
Depreciation	1.9	3.0	1.4	39.0	1.7	9.2	
Tax	23.0	18.8	18.7	22.6	3.0	678.0	
PAT	61.6	53.5	66.0	-6.6	9.0	587.7	

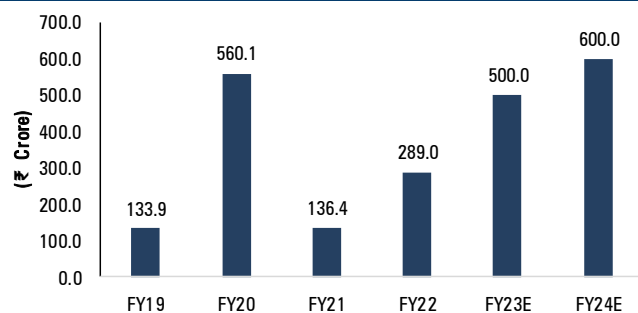
Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old*	New	% Change	Old*	New	% Change	
Revenue	418.3	392.4	-6.2	505.0	495.6	-1.9	Factoring in 25-30% revenue guidance for FY23E
EBITDA	169.4	158.9	-6.2	203.0	199.2	-1.9	
EBITDA Margin (%)	40.5	40.5	0 bps	40.2	40.2	0 bps	Margin estimates maintained
PAT	120.0	112.6	-6.2	143.0	141.0	-1.9	
EPS (₹)	23.1	21.7	-6.2	27.7	27.2	-1.9	

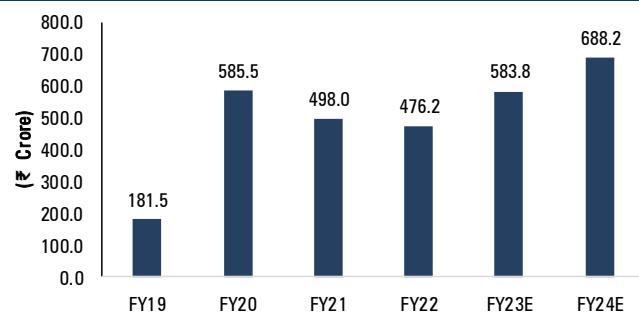
Source: Company, ICICI Direct Research

Exhibit 3: Order inflow trend



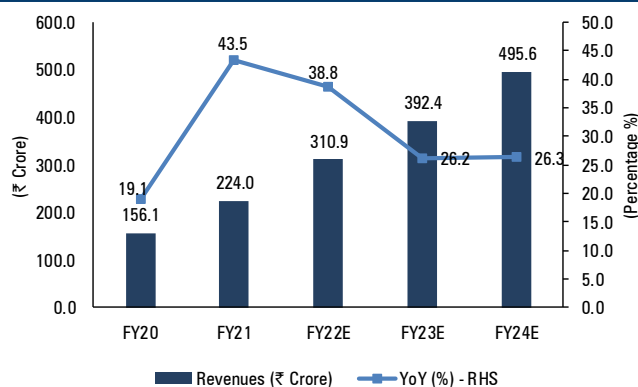
Source: ICICI Direct Research, Company

Exhibit 4: Trend in order backlog



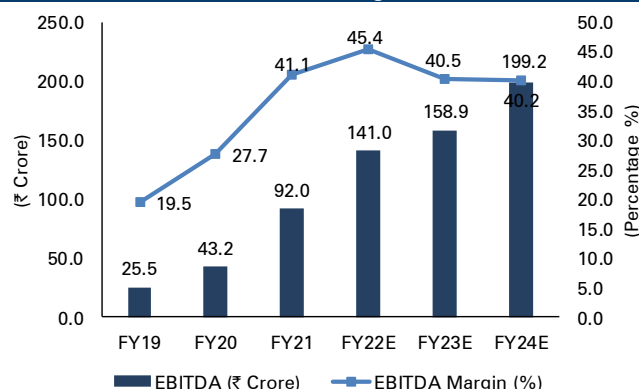
Source: ICICI Direct Research, Company

Exhibit 5: Trend in revenues



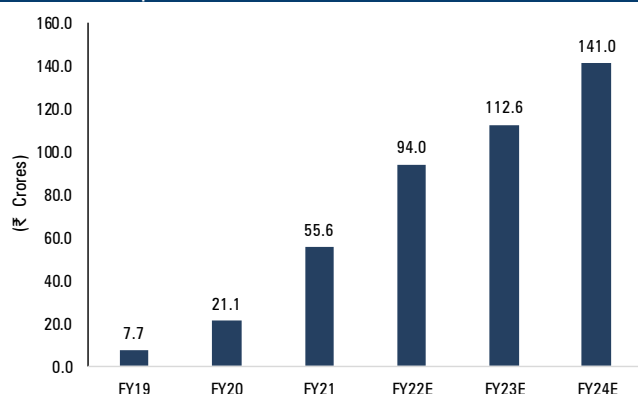
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margins trend



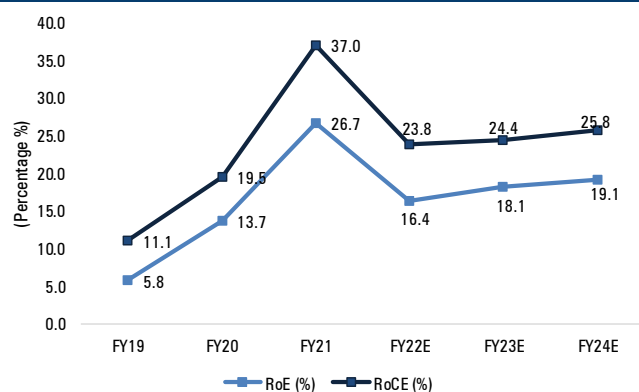
Source: Company, ICICI Direct Research

Exhibit 7: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios to recover after fall in FY22



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	224	311	392	496
Revenue	224	311	392	496
% Growth	43.5	38.8	26.2	26.3
Other income	2.6	4.0	2.8	3.2
Total Revenue	270.0	310.9	392.4	495.6
% Growth	68.5	15.1	26.2	26.3
Total Raw Material Costs	70	86	147	189
Employee Expenses	48	62	59	73
other expenses	13	21	27	34
Total Operating Expendit	132.0	169.8	233.5	296.4
Operating Profit (EBITDA)	92.0	141.0	158.9	199.2
% Growth	113.1	53.3	12.7	25.4
Interest	15	11	1	1
PBDT	80	134	161	202
Depreciation	6	7	10	12
PBT before Exceptional Items	75	127	151	189
Total Tax	19	33	39	48
PAT before MI	56	94	113	141
Minority Interest	-	-	-	-
PAT	55.6	94.0	112.6	141.0
% Growth	163.6	69.1	19.8	25.2
EPS	11.9	18.1	21.7	27.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	56	94	113	141
Depreciation	6	7	10	12
Interest	15	11	1	1
Cash Flow before WC changes	76	112	123	154
Changes in inventory	6	(46)	4	(10)
Changes in debtors	(40)	(42)	(37)	(62)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	(2)	2	(19)	(9)
Net Increase in Current Assets	(38)	(90)	(53)	(81)
Changes in creditors	(5)	26	5	11
Changes in provisions	(1)	(0)	0	0
Net Inc in Current Liabilities	(8)	48	29	24
Net CF from Op activities	29	70	100	97
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(5)	(38)	(35)	(35)
Net CF from Inv activities	22	(137)	23	(50)
Dividend and Dividend Tax	(0)	(22)	(20)	(25)
Net CF from Fin Activities	(44)	236	(75)	(26)
Net Cash flow	7	168	48	20
Opening Cash/Cash Equivalent	2	9	177	225
Closing Cash/ Cash Equivalent	9	177	225	245

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	1.7	10.4	10.4	10.4
Reserve and Surplus	206	564	611	727
Total Shareholders fui	208	575	622	738
Other Non Current Lia	27.4	15.7	15.7	15.7
Total Debt	32	7	-	-
Total Liabilities	279	609	649	765
Gross Block	63	68	122	162
Acc: Depreciation	39	45	55	68
Net Block	29	44	67	94
Capital WIP	-	17.3	20.0	15.0
Total Fixed Assets	33.2	64.8	91.6	114.3
Non Current Assets	34	122	63	79
Inventory	74	120	116	126
Debtors	156	198	235	297
Loans and Advances	-	-	-	-
Other Current Assets	18	16	35	45
Cash	9	177	225	245
Total Current Assets	261	520	621	722
Current Liabilities	12	38	43	54
Provisions	9	11	10	10
Total Current Liabilitie	49	97	127	151
Net Current Assets	212	422	494	572
Total Assets	279	609	649	765

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	10.7	18.1	21.7	27.2
Cash per Share	1.7	34.1	43.3	47.3
BV	40.1	110.7	119.8	142.2
Dividend per share	0.1	3.5	3.2	4.0
Dividend payout ratio	0.0	0.2	0.1	0.1
Operating Ratios(%)				
EBITDA Margin	41.1	45.4	40.5	40.2
PAT Margin	24.8	30.2	28.7	28.5
Asset turnover	0.9	0.5	0.6	0.7
Debtors Turnover Ratio	1.6	1.8	1.8	1.9
Creditors Turnover Ratio	15.3	12.4	9.7	10.2
Return Ratios(%)				
RoIC	37.3	33.3	37.6	37.9
RoNW	26.7	16.4	18.1	19.1
RoCE	37.0	23.8	24.4	25.8
Valuation Ratio(%)				
EV / EBITDA	41.7	25.8	22.6	17.9
P/E	68.6	40.6	33.9	27.0
EV / Net Sales	17.1	11.7	9.1	7.2
Sales / Equity	1.1	0.5	0.6	0.7
Market Cap / Sales	17.0	12.3	9.7	7.7
Price to Book Value	18.3	6.6	6.1	5.2
Solvency Ratio(%)				
Debt / Equity	0.2	0.0	-	-
Current Ratio	10.1	4.5	4.9	5.1
Quick Ratio	7.1	2.9	3.4	3.7

Source: Company, ICICI Direct Research

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