

Data Patterns (India) Ltd.
BUY
CMP
₹2,695 (11th Sep'24)
Target
₹ 3,400

Equity (₹ Cr)	11.20
FV (₹)	2.00
M. Cap (₹ Cr)	15,090.20
52 Wk High (NSE)	3655.00
52 Wk Low (NSE)	1735.00
Book Value (₹)	242.39
P/B	11.29
TTM EPS (₹)	33.70
TTM P/E	81.20

Share Holding Pattern

	Mar-24	Jun-24
Promoters	42.41	42.41
FIIs	14.56	14.95
DIIs	11.58	8.52
Public	31.44	34.12

Financials (₹ Cr)

	FY23	FY24	FY25E	FY26E
Revenue	453	520	656	853
EBITDA	172	222	274	360
EBITDA Margin (%)	37.9%	42.6%	41.8%	42.2%
PAT	124	182	226	288
EPS (₹)	22.2	32.5	40.3	51.4

Source: Consensus Estimates, standalone nos.

3-year Price Chart

Company Profile

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. It is in the business for over 35 years. Domain expertise in Radars, Electronics Warfares, Communication systems, Avionics, Satellite and Test Equipment. Servicing to the customers such as MOD, DRDO, DPSUs and Private sectors including international clients. It has supplied products catering to all the platforms, viz., space, air, land and sea, including products for LCA-Tejas, LightUtility Helicopter, BrahMos missile.

Investment Rationale

- Defence sector tailwinds:** The government focuses more on indigenisation for systems and subsystems to reduce its dependency on foreign OEMs. It has set up a special fund, where 67% of the money is reserved for buying from Indian manufacturers and 33% is reserved for foreign purchases thus boosting domestic defence production. The Ministry of Defence (MoD) aims to achieve a turnover of ₹1.75tn in Aerospace & Defence manufacturing by FY26-end. The push for indigenisation is expected to drive significant growth in defence spending in the country.

- Govt. focus:** The government's initiatives such as Atmanirbhar Bharat and Make in India, coupled with increased capital outlay are driving import substitution. In the recent Union Budget presentation, finance minister announced, an allocation of ₹6.21 lakh crores for the defence sector for FY25, which is the highest allocation at 12.9% of the total budget. The budget sets aside ₹1.72 lakh crores for capital outlay. To bolster the armed forces, earmarking ₹1.06 lakh crores for domestic capital procurement, providing further impetus to Atmanirbhar Bharat. India expects to

reach at least ₹3 lakh crores annual defence production and to reach ₹50,000 crores export by FY29.

- **Strong financial metrics and improving:** Revenue/EBITDA/PAT for the company grew at a CAGR of 32%/54%/87% for last five years. EBITDA margins have improved markedly in the last 4-5 years and have averaged at 42% between FY21 and FY24 as against average of 20% between FY17 and FY20. Cashflows from operations are however inconsistent, considering the working capital-intensive nature of the business.

- **Improvement in financials and margin profile:** DPIL's revenues increased by 15% in FY24 and the operating margins improved by 410 bps to 42.6% in FY24 on account of execution of certain high margin project and higher usage of the company's intellectual property (IP) in the projects. DPIL enjoys a healthy EBITDA margin of 35-40% as its entire product is developed in-house and it holds the IPs of its products. It has no tie-up for ToT with any domestic or international companies.

- **Healthy order book provides revenue visibility:** DPIL received orders worth ₹ 678.8 crore in FY24, which resulted in an improvement in the outstanding order book position by 17% yoy to ₹1,083.1 crore as on March 31, 2024, providing medium-term revenue visibility. Further, the fresh order intake is projected to grow by 45-50% in FY25 (~₹ 10 bn). The majority of these orders are expected in Q3 and Q4, including repeat orders for radars, electronic warfare, avionics and communication systems. Currently, ~60% of the order book consists of developmental contracts, but the company expects this to shift towards 60-70% production contracts soon as the latter offer better margins and more predictable payment cycles (within 60-90 days), unlike the longer timelines and delayed payments associated with developmental contracts. DPIL receives advances of ~15-40% of total order value from the MoD, DPSUs and DRDO contracts. It has supplied avionics for LCA in 2003-2004 and currently has with it repeat production orders, which are on the verge of execution. DPIL has delivered seekers for Brahmos; trials are expected in 2Q or 3QFY25. After successful trials, huge orders are expected. It has participated in the Sukhoi and MIG 29 upgrade projects for avionics and electronic warfare systems.

- **Capex Plans:** DPIL is planning a capex of ₹1.5bn to expand existing infrastructure. This investment is primarily aimed

at fulfilling current contractual obligations and includes upgrades to test infrastructure and the potential addition of a new manufacturing line.

- **Q1FY25 Updates**

- DPIL has a robust order book as on date of 1,147 crores. The growth has been seen across all verticals, development orders contributing 53% of the top line and production orders 43%.
- DPIL would capitalize on the following opportunities: focus on flight control radars, expand radars and smaller radars for UAVs, ensure cost competitiveness with in-house IP in radars, develop electronic warfare products to meet the requirements of Army, Air Force, and Navy, provide military radios, radio relays, and other equipment. Company will also focus on product development to narrow the gap between import and indigenous production.
- New product development: It includes a whole range of radars and electronic warfare equipment plus communication systems. This is in line with whatever the company decided a couple of years back on developing products which are majorly imported. The prototypes will be ready in a few months and then the company would demonstrate and revenue share might change favourably in the future. Company would target TAM of ₹ 20,000 cr and hence, growth would be high as well
- Company is working on a number of orders with DRDO, once it fructifies into a production contract, company expects back-to-back orders.

- **Future Outlook**

Looking forward, company remains steadfast in their commitment to maintain a revenue growth rate of 20-25% and maintain margins at around 40%

- Working in collaboration with foreign OEMs to explore export potential
- Working towards building Full Systems
- Strong Order Book in Pipeline at ₹ 20-30bn over next two years
- Efficient execution to promote operating leverage

- Continuous product development to address larger TAM
- Maintain Net debt free Status

Outlook & Valuation:

Given the focus and expertise of the company, DPIL would focus on products which are essentially focused on import substitution and thus would command higher margins going ahead. This is actually, in line with the focus of the government towards defence indigenisation and exports. The company is probably one of the best plays in defence, based on the indigenisation theme. At the CMP, the scrip trades at 80x TTM EPS, a tad higher than 3 yr and 5-year median of 68x, but lower than 1-year median of 83x (that has largely got to do with the stupendous rally in defence stocks in last 1 year). For FY25E/FY26E EPS, it trades at 67x and 52x respectively (consensus). We recommend a 'BUY' at these levels and adding on dips for long-term.

Analyst: *Partha Mazumder*

Research Team:

Partha Mazumder (partha@easternfin.com)

Sanjukta Majumdar (research@easternfin.com)

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