

### Q3FY23 Result Highlights

- **Major segments delivering strong growth with higher contribution from production contracts supporting margins** – Revenue grew 155% YoY (~+89% QoQ) to ₹1,118.1mn largely led by robust growth in both production and development contracts that grew to ₹727mn (147% YoY) and ₹313mn (449% YoY) respectively. Revenue from service contracts de-grew by ~11% YoY to ₹78mn. Revenue composition during Q3FY23 - DRDO (36%), HAL (17%), MoD (25%), DoS (3%), Brahmos (5%), and Export (13%). EBITDA was up 202% YoY to ₹470mn, mainly due to higher revenue growth and operational efficiencies. Overall, EBITDA margins stood at 42% v/s 35.6%, which was mainly led by operating leverage, even as base quarter had high margin orders under execution. Gross margins were sharply down by 2150 bps YoY, but were slightly better than past 3 quarters.
- **Contribution from development contracts to increase** – Currently, development orders constitute 60% of order book and with incremental ban on imported equipment, it can rise further. Currently, company has two developmental orders for radars for space surveillance which is strategically important and DRDO has outsourced full radar for the first time. The size of the radar is downsized by 20 times of actual size and these electronics blocks will be multiplied during final order. Previously, development contracts used to have longer execution cycle, but given a lot of development are already done the execution time will be shorter for these contracts.
- **Margin dependent on revenue mix** – the management guided gross margins typically range between 62- 65% going forward in all 3 types on contracts, with gross margins being highest in service contracts. Going forward margins would largely depend on the revenue mix as margins would be lower if company undertakes more integration projects or large production contracts with foreign OEMs. However, currently it intends to maintain margins at 40% as most of the contracts are on single vendor basis, where it enjoys better margins.
- **Robust order book and inflows** – Order book grew by 54% YoY to ₹8.9bn (2x TTM sales), as order inflows reported a sharp jump to ₹1.6bn, up 310% YoY. Further, orders worth ₹1.2bn have been negotiated and will be booked in Q4FY23. Major orders received during the quarter were a) Radar (DRDO and BEL, Development and production) for ₹70mn, b) EW (DRDO, Development) for ₹240mn, c) Avionics and Navy (HAL and AAI, Production) for ₹750mn, and d) Others (Brahmos, Production) for ₹570mn. The company expects Himshakti EW system and Arudhra radar to be finalised in FY24, as the main order is yet to be placed on BEL.
- **Order inflow buoyant, annual guidance stepped up** – Management increased their FY23 revenue growth guidance to 40-45% from 24-30% earlier and maintain 25-30% growth in FY24, as it could get order inflows worth ₹20-30bn over the next 3-4 years. Further, the company highlighted that it is likely to book orders worth ₹1.5-2bn in Q4FY23, which have been negotiated already. Also, orders like Himshakti, Arudhra radar are in the final stages and should come to the company on back-to-back basis after BEL gets the main order, as these are single vendor contracts. Further, the company is nominated for Dornier upgrades and company is also bidding for Ashwani radar which would provide opportunities going ahead.

### Important Statistics

MCAP (₹ bn)	72.3
52 Week H/L (₹)	1480 / 575
NSE Code	DATAPATNS
BSE Code	543428

Shareholding Pattern	Dec'22 (%)
Promoters	45.8
DIIs	7.9
FIIIs	2.3
Public	44.0

### Financials

Particulars	FY19	FY20	FY21	FY22
Revenue	1,311	1,561	2,240	3,109
EBITDA	256	432	920	1,410
EBITDA Margin (%)	19.5	27.6	41.1	45.4
Net Profit	77	210	556	940
EPS (₹)	1.5	4.1	10.7	18.1
RoE (%)	5.8	13.7	26.7	16.4
RoCE (%)	10.8	18.5	26.3	19.0
P/E (x)	936.6	343.5	130.1	76.9
EV/EBITDA (x)	283.6	168.9	78.9	50.1
P/BV (x)	54.2	47.1	34.8	12.6

Particulars	FY23E	FY24E	FY25E
Revenue	4,378	5,909	7,087
EBITDA	1,613	2,379	2,931
EBITDA Margin (%)	36.8	40.3	41.4
Net Profit	1,613	2,379	2,931
EPS (₹)	22.6	30.8	37.8
RoE (%)	19.1	20.9	21.4
RoCE (%)	25.2	26.1	26.4
P/E (x)	61.7	45.2	36.9
EV/EBITDA (x)	41.6	29.9	25.1
P/BV (x)	10.7	8.7	7.1

Source: Company, Way2wealth

- Working capital higher in order to avoid disruption: Management highlighted that cash conversion cycle of 350-360 days is mainly due to higher inventory and receivables. Higher inventory was mainly due to earlier procurement of key components as availability remains a challenge for the company. The company is buying material for orders likely to be executed in FY23 and FY24 as there are some long lead items. Going forward, with ease in raw material supplies, they intend to maintain working capital in the range of 280-300 days, but it will ease out gradually.
- **Fund raise to address upcoming opportunities** – Management highlighted that company is considering raising ₹5bn in equities in order to address the upcoming opportunities as macro environment remains buoyant from the perspective of 3-5 years. The fund would be utilized in NWC, capex and test infra to build scale for coming years. Currently, about ₹300mn has been spent for new facility and the focus at this facility would be on testing equipment, in order to address more complex systems. Going forward, expansion would be on the basis of orders received and company intends to fund expansion through internal funds, while large orders would cover the cost of setting up the project.
- **Plans to build nano satellites** – The management highlighted that company wants to build and expand facilities for in-house design, manufacture and testing of satellites. It has experience of nearly a decade in this space and has recently made an investment of ₹20-30mn to develop products for Pixxel. Further, they highlighted that company has capabilities of military grade satellites and has also supplied ground station equipment. Going forward, they intend to invest further in this area as new tenders are coming up.

## View

Data Patterns delivered very strong revenue in Q3FY23 led by both production and development contracts. It is among the few vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. The management increased their FY23 revenue growth guidance to 40-45% from 25-30% earlier and guided for further 25-30% growth in FY24, while maintaining EBITDA margins at 40%. The company expects orders totalling ₹20-30bn to be booked over next 3-4 years (majorly radars and EW systems). It has taken board approval to raise equity funds upto ₹5bn, to capture opportunities arising in large system integration space and fund NWC/capex requirements to build scale. As the share of development orders for the company increases, the company is likely to witness rising share of electronics in defence and entry in new segments which will aid the company to achieve incremental growth. **Hence, we continue to recommend it as a BUY stock trading at 36.9x FY25E EPS of ₹37.8.**

01<sup>st</sup> February 2023

CMP – ₹1393.2/-

 View – **BUY**
**FINANCIAL PERFORMANCE**

(₹ mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q3FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
<b>Revenue</b>	<b>1,118.1</b>	<b>438.4</b>	<b>155.0</b>	<b>592.2</b>	<b>88.8</b>	<b>2,683.5</b>	<b>1,402.9</b>	<b>91.3</b>
Cost of Matl	453.2	127.6	255.2	182.4	148.5	1,202.8	389.6	208.7
Inventory Changes	(76.9)	(74.3)	3.5	(7.8)	885.9	(275.2)	(126.2)	118.1
Employee Cost	184.9	170.5	8.4	146.0	26.6	551.3	451.7	22.1
Other Exps	86.5	58.7	47.4	66.0	31.1	220.1	153.5	43.4
<b>EBITDA</b>	<b>470.4</b>	<b>155.9</b>	<b>201.7</b>	<b>205.6</b>	<b>128.8</b>	<b>984.5</b>	<b>534.3</b>	<b>84.3</b>
<b>EBITDA Margin (%)</b>	<b>42.1</b>	<b>35.6</b>	<b>651</b>	<b>34.7</b>	<b>735</b>	<b>36.7</b>	<b>38.1</b>	<b>(140)</b>
Other Income	18.5	7.0	164.3	3.0	516.7	54.0	14.2	280.3
Depreciation	21.1	17.3	22.0	15.2	38.8	62.2	46.9	32.6
Interest Cost	21.4	26.5	(19.2)	26.0	(17.7)	49.1	74.6	(34.2)
PBT	446.4	119.1	274.8	167.4	166.7	927.2	427.0	117.1
Tax	113.2	29.5	283.7	38.5	194.0	241.1	105.2	129.2
<b>Net Profit</b>	<b>333.2</b>	<b>89.6</b>	<b>271.9</b>	<b>128.9</b>	<b>158.5</b>	<b>686.1</b>	<b>321.8</b>	<b>113.2</b>
EPS (₹)	6.4	1.7	271.9	2.8	132.8	13.2	6.9	92.1

As % of Sales	Q3FY23	Q3FY22	YoY(BPS)	Q2FY23	QoQ (BPS)	9MFY23	9MFY22	YoY (BPS)
Raw Matl cost	33.7	12.2	2,150	29.5	417	34.6	18.8	1,579
Gross Margin	66.3	87.8	(2,150)	70.5	(417)	65.4	81.2	(1,579)
Employee Cost	16.5	38.9	(2,235)	24.7	(812)	20.5	32.2	(1,165)
Other Exps	7.7	13.4	(565)	11.1	(341)	8.2	10.9	(274)

Source: Company, Way2Wealth

01<sup>st</sup> February 2023

CMP – ₹1393.2/-

 View – **BUY**
**Revenue mix skewed towards production contracts in Q3FY23, +115% YoY**

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Production contracts</b>	80	87	82	67	60	46	72	65
<b>Development contracts</b>	14	12	10	13	37	45	25	28
<b>Services contracts</b>	6	1	8	20	3	9	3	7

*Source: Company, Way2Wealth*
**Order Inflow stood at ₹1,633mn, +3.3x YoY in Q3FY23**

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Production contracts</b>	83	86	83	68	60	46	16	78
<b>Development contracts</b>	13	13	10	13	37	45	84	20
<b>Services contracts</b>	4	1	7	19	3	9	-	2

*Source: Company, Way2Wealth*
**Order book stood at ₹8.9bn**

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Production contracts</b>	80	75	67	65	62	61	34	38
<b>Development contracts</b>	6	11	21	22	25	26	59	56
<b>Services contracts</b>	14	14	12	13	13	13	7	6

*Source: Company, Way2Wealth*
**Product contribution (%) in Q3FY23**

<b>AMC</b>	7
<b>Automatic Test Equipment (ATE)</b>	12
<b>Avionics</b>	18
<b>BTP/ Services</b>	-
<b>Communications</b>	14
<b>Electronic Warfare</b>	17
<b>IFF</b>	-
<b>Naval System</b>	-
<b>Radar</b>	30
<b>Radar Processor</b>	1
<b>Services</b>	-

*Source: Company, Way2Wealth*
**Client contribution (%) in Q3FY23**

<b>BEL</b>	0.2
<b>Brahmos</b>	5
<b>DoS</b>	3
<b>MoD</b>	25
<b>DRDO</b>	36
<b>HAL</b>	17
<b>Export</b>	13
<b>DRO</b>	-
<b>Navy</b>	0.36
<b>Others</b>	-

**FINANCIALS & VALUATIONS**

(₹mn)

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Production</b>	<b>839</b>	<b>1,452</b>	<b>1,702</b>	<b>2,114</b>	<b>2,385</b>	<b>2,519</b>	<b>2,917</b>
YoY Growth (%)		73.1	17.2	24.2	12.8	5.6	15.8
<b>Development</b>	<b>367</b>	<b>-</b>	<b>358</b>	<b>777</b>	<b>1,584</b>	<b>2,889</b>	<b>3,552</b>
YoY Growth (%)		(100.0)	NM	116.9	103.8	82.4	22.9
<b>Service</b>	<b>105</b>	<b>109</b>	<b>179</b>	<b>218</b>	<b>409</b>	<b>501</b>	<b>618</b>
YoY Growth (%)		4.2	64.0	21.5	88.0	22.5	23.4
<b>Revenue</b>	<b>1,311</b>	<b>1,561</b>	<b>2,240</b>	<b>3,109</b>	<b>4,378</b>	<b>5,909</b>	<b>7,087</b>
YoY Growth (%)	16.1	19.1	43.5	38.8	40.8	35.0	19.9
<b>EBITDA</b>	<b>256</b>	<b>432</b>	<b>920</b>	<b>1,410</b>	<b>1,613</b>	<b>2,379</b>	<b>2,931</b>
<b>EBITDA Margin (%)</b>	<b>19.5</b>	<b>27.6</b>	<b>41.1</b>	<b>45.4</b>	<b>36.8</b>	<b>40.3</b>	<b>41.4</b>
<b>Net Profit</b>	<b>77</b>	<b>210</b>	<b>556</b>	<b>940</b>	<b>1,171</b>	<b>1,599</b>	<b>1,962</b>
YoY Growth (%)	71.6	172.6	164.1	69.1	24.6	36.5	22.7
EPS (₹)	1.5	4.1	10.7	18.1	22.6	30.8	37.8
RoE (%)	5.8	13.7	26.7	16.4	19.1	20.9	21.4
RoCE (%)	10.8	18.5	26.3	19.0	25.2	26.1	26.4
Debtor Days	287	270	254	233	241	238	232
Inventory Days	241	186	120	141	153	147	141
Creditor Days	44	56	33	82	43	38	33
Cash Balances	371	15	88	1,771	2,231	3,216	3,641
FCF	138	120	377	121	118	431	864
P/E (x)	936.6	343.5	130.1	76.9	61.7	45.2	36.9
EV/EBITDA (x)	283.6	168.9	78.9	50.1	41.6	29.9	25.1
P/BV (x)	54.2	47.1	34.8	12.6	10.7	8.7	7.1
Net Debt/Equity (x)	0.2	0.4	0.1	(0.3)	(0.2)	(0.1)	(0.1)

Source: Company, Way2Wealth

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Name of the Security	DATA PATTERNS (INDIA) LTD (DPL)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	Yes ( 5 shares, Date of Buying - 31 Jan 2023)
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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