

### Company Background

**Data Patterns (India) Ltd (DPL)** established in 1998 is a vertically integrated defence and aerospace electronics solutions provider. Its offerings span across defence and aerospace platforms (space, air, land and sea) supported by in-house design & development capabilities and experience of over three decades. The company has design capabilities across the entire spectrum of strategic defence & aerospace electronics including processors, power, radio frequencies (RF) and microwave (MW), embedded software & firmware and mechanical engineering. It has developed end-to-end capabilities to build and deliver complete systems. Electronic solutions are developed by specialist teams working on areas including complex +20 layer printed circuit board (PCB) designs, field-programmable gate arrays (FPGA)-based firmware algorithms, all layers of software including operating system porting, device drivers, networking layers, application software, graphical user interface, cartography, signal processing, streaming protocols and waveform engineering. Its products are used in notable programme such as Tejas LCA, LUH, Brahmos missile programme, precision approach radars and various communications intelligence (COMINT) & electronic intelligence (ELINT) systems. Its competence is driven by reusable building block model where it develops basic modules ("COTS" - Commercial Off-The-Shelf) used to build systems & sub systems. This approach has driven savings in development time of new products and enabled better margins by spreading out the development costs over multiple programmes. The company believes that platform-specific products and products certified for ongoing programmes allows it to be the preferred OEM supplier for such qualified product requirements, driving growth and revenue visibility over several years. The company has an experienced management team (average experience of +20 years) with a skilled employee base of +500 engineers (of 818 total employees). Data Patterns' IPO in Dec'21 entailed fresh issuance of ₹3bn (₹650mn for capex and rest for repayment of borrowings & NWC requirements) and OFS of ₹3.45bn from promoters (16% of pre-IPO holding) and Employees (14% of pre- IPO holding). Unutilised amount as of 31 March 2022 was at ₹1.55bn out of the IPO proceeds.

### Factors favouring Data Pattern (India) Ltd-

- There is a structural shift in the Indian defence budget with increased allocation for modernisation funds, and approval of non-relapsable fund. As per government estimates, ~Rs 5tn contracts will be placed for the defence platforms, equipment and components in the next five years. The domestic industry is expected to get orders worth ~Rs 3.5tn during the period (considering 68% indigenisation content target).
- Domestic defence electronics market pegged at ~US\$1.9bn for CY21 is expected to post 16% CAGR by CY30, to reach US\$7bn with strong opportunities for radars & EWs.
- With +30 years of presence, high entry barriers and strong capabilities, the company is leveraging its end-to-end capabilities to design, manufacture and deliver complete systems/ sub-systems indigenously, supported by in-house Design & Development.
- De-Risked Business Model with varied sources of revenues including exports.
- The company has antecedents of producing building blocks of technologically complex products for the DRDO and DPSUs have given the company a foundation to build its own products, reusable building blocks led business model (COTS) aids cost competitiveness. Growth in radars and EW systems is further driving scalability.

### Important Statistics

<b>MCAP (₹bn)</b>	38.3
<b>52 Week H/L (₹)</b>	935 / 575
<b>NSE Code</b>	DATAPATNS
<b>BSE Code</b>	543428

Shareholding Pattern	Mar'22 (%)
<b>Promoters</b>	45.6
<b>DIIs</b>	8.0
<b>FIIIs</b>	1.5
<b>Public</b>	44.9

### Financials

(Rs mn)				
Particulars	FY19	FY20	FY21	FY22P
<b>Revenue</b>	<b>1,311</b>	<b>1,561</b>	<b>2,240</b>	<b>3,109</b>
<b>EBITDA</b>	<b>256</b>	<b>432</b>	<b>920</b>	<b>1,410</b>
<b>EBITDA Margin (%)</b>	<b>19.5</b>	<b>27.6</b>	<b>41.1</b>	<b>45.4</b>
<b>Net Profit</b>	<b>77</b>	<b>210</b>	<b>556</b>	<b>940</b>
<b>EPS (₹)</b>	1.5	4.1	10.7	18.1
<b>RoE (%)</b>	5.8	13.7	26.7	16.4
<b>RoCE (%)</b>	10.8	18.5	26.3	19.0
<b>P/E (x)</b>	496.0	181.9	68.9	40.7
<b>EV/EBITDA (x)</b>	150.6	90.1	41.9	25.9
<b>P/BV (x)</b>	28.7	24.9	18.4	6.7

Source – Company, Way2Wealth

Particulars	FY23E	FY24E
<b>Revenue</b>	<b>3,788</b>	<b>4,736</b>
<b>EBITDA</b>	<b>1,592</b>	<b>2,021</b>
<b>EBITDA Margin (%)</b>	<b>42.0</b>	<b>42.7</b>
<b>Net Profit</b>	<b>1,592</b>	<b>2,021</b>
<b>EPS (₹)</b>	22.3	29.5
<b>RoE (%)</b>	18.6	20.1
<b>RoCE (%)</b>	26.2	27.3
<b>P/E (x)</b>	33.0	25.0
<b>EV/EBITDA (x)</b>	21.9	18.4
<b>P/BV (x)</b>	5.5	4.7

Source – Company, Way2Wealth

## Investment Arguments

### Proxy on emerging defence & aerospace electronics market

The Indian Defence Electronics market, pegged at ~US\$1.9bn for 2021, is at an inflexion point. Currently, defence electronics make up only 25-35% of the cost of platforms used by the Indian armed forces with > 60% of the electronic components sourced from foreign OEMs. Thrust on domestic defence procurement, increasing indigenisation and higher share of electronics in warfare is expected to drive 10Y CAGR of 16% in this segment (~US\$7bn by 2030). With >30 years of presence, high entry barriers and strong capabilities, Data Patterns is poised to benefit.

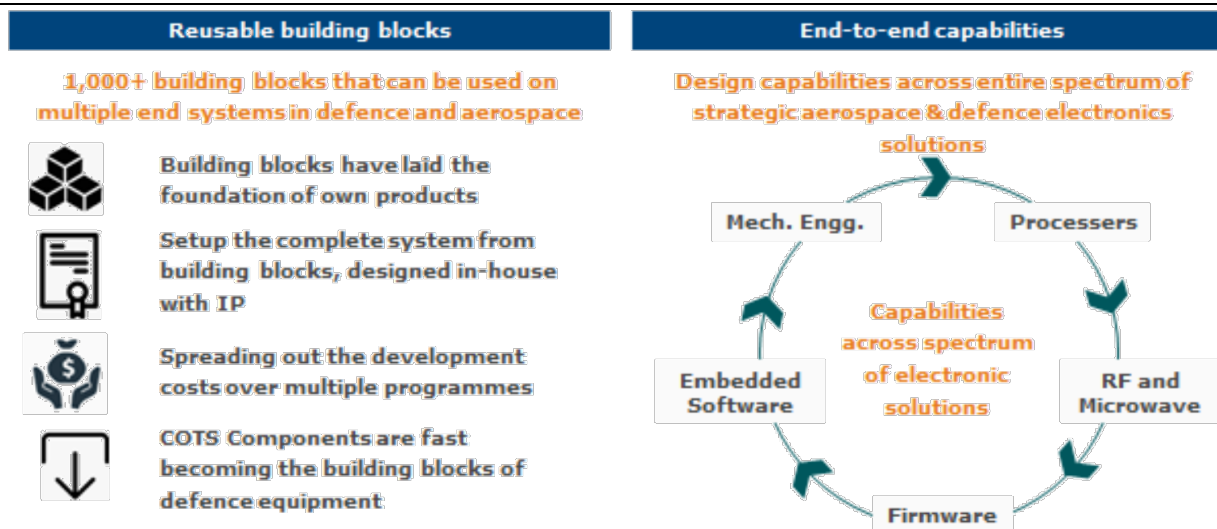
### Driving system capabilities & scalability

Data Patterns is leveraging its end-to-end capabilities to design, manufacture and deliver complete systems/ sub-systems indigenously, supported by in-house Design & Development. While antecedents of producing building blocks of technologically complex products for the DRDO and DPSUs have given the company a foundation to build its own products, reusable building blocks led business model (COTS) aids cost competitiveness. Growth in radars and EW systems is further driving scalability.

### DATA PATTERNS PRODUCT OFFERINGS

Product Category	Particulars
Radars	Offerings in radars are categorised under three broad categories: (i) surveillance radars (ii) weather radars, and (iii) tracking radars, consisting of (a) IFF Systems for defence services and (b) Missile Seekers - BrahMos
Underwater electronics / Communications / Other systems	Oceanography products are primarily employed in the data acquisition requirements of the ocean resources. A variant of this product is used to monitor bottom pressure recorders, which is a part of India's Tsunami Warning Systems
Electronic warfare suite	EW is used for passive surveillance and intelligence gathering (SIGINT) and is further broadly divided into COMINT and ELINT. Other products: Electronic Counter Measure (Jammer), Search Receiver, Monitoring Receiver, Direction Finder, Radar Warning Receiver
BrahMosprogramme	The company develops fire control systems, Mobile autonomous launcher, Airborne launcher and other electronic systems for the BrahMos missile programme
Avionics	Data Patterns has focused on Avionics displays as one of its key technology domains. Its products have been used on the Light Combat Aircraft ("LCA"), Intermediate Jet Trainers and Light Utility Helicopters ("LUH").
Automated Test Equipment (ATE)	Serving the needs of ISRO in various types of automated test equipment for development of its test benches for PSLV & GSLV.
Commercial Off the Shelf (COTS)	The off the shelf products are broadly categorised into military COTS and traditional COTS. COTS modules are designed in the context of reusable building blocks for building Military electronics systems with a quick turnaround time.

Source – Company, Way2Wealth



Source – Company, Way2Wealth

### DPL's Products - Building blocks to systems

The major product groups consist of Radars, Underwater electronics/communications/other systems, Electronic warfare suite, Brahmos programme, Avionics, small satellites, Automated Test Equipment (ATE) for defence and aerospace systems and COTS. Its portfolio covers the entire spectrum of defence electronics and is well positioned in land, airborne and naval defence programme of India. Data Patterns has capabilities in building complete systems from the building blocks and sub-systems that have already been developed. It has built Military grade processor modules, Cockpit displays, Actuator controllers for missiles and torpedoes, Flight control computers, Digital receivers and Up/Down converters for radars utilising its pre-developed building blocks and sub systems. It has developed its current product portfolio in line with the future programme by the Indian Armed Forces and ISRO, providing strong future positioning. Solutions such as radar systems also have good export potential.

### Ground up design capabilities across COTS, Products & Systems

	Processors & Microcontrollers	Communication Protocol & Buses	Graphics & Display	Fibre Optics & Laser
<b>Power Supplies</b>	COTS Modules in Open Bus Architectures – Complete Range cPCI, PCI Exp, VME64x, VPX, VXI, M Modules, IP, PMC, XMC, FMC, PCMCIA			
<b>RF, MW</b>	Operating Systems – Complete Range Windows, RT Linux, Lynx, Vx, Works, QNX			
<b>Field Programmable Gate Array (FPGA), Firmware</b>	<b>Domains</b> Avionics, Displays, Electronics Warfare, Radar, Sonar, Fire Control System, Space, Communication, Digital Computing, Navigation & Control			
<b>Digital</b>	Application – On-board Systems for platforms, Aircraft, Helicopter, Ground / Mobile, Missile, Ship, Torpedoes, underwater, Satellites, Satellite Launch Vehicle			
<b>Analog</b>	Applications – Automated Test Equipment and Ground Checkout systems			

Source – Company, Way2Wealth

### Key Managerial Person

- **Mr. Srinivasagopalan Rangarajan** – He is one of the promoters of the company, and the Managing Director of Data Patterns. He has been associated with the company since its incorporation. He holds a bachelor's degree of technology in chemical engineering from the Faculty of Technology of University of Madras and master's degree in industrial management from the Indian Institute of Technology, Madras. He has over three decades of experience in business development, corporate affairs, finance and marketing.
- **Ms. Rekha Murthy Rangarajan** – She is one of the promoters and the Whole-time Director in the company. She has been associated with the Company since its incorporation. She holds a bachelor's degree of arts in economics, English and psychology from the Bangalore University as well as a master's degree of arts in applied psychology and a diploma in the advanced airline and travel agency programme from the Institute of Airlines and Travel Agencies. She has over two decades of experience in the sector.
- **Mr. Vijay Ananth K** – He is the Chief Operating Officer and Chief Information Security Officer of the Company. He holds a bachelor's degree in computer science from Manonmaniam Sundaranar University and a master's degree in computer applications from the Faculty of Science of University of Madras. He joined the company in 1998 is also the Chief Information Security Officer.
- **Mr. Desinguraja Parthasarathy** – He is the Chief Technical Officer of the company. He holds a bachelor's degree in engineering (electronics and communication engineering) from the Faculty of Engineering of University of Madras. He joined the erstwhile subsidiary as an Engineer- Research and Development in 1989 and was promoted as Manager- Hardware Design and Development in 1996.
- **Mr. Venkata Subramaniam Venkatachalam** – He is the Chief Financial Officer of the company. He holds a bachelor's degree in commerce from Madurai Kamaraj University. He is a fellow member of the Institute of the Chartered Accountants of India. He has over two decades of experience in the finance sector. He joined the Company as Manager-Finance in November 2000.

### Indian Defence & Aerospace Industry Competitive Landscape

#### Data Patterns faces competition at two levels:

- (i) During the development stage in DRDO requirements from SMEs building custom solutions and/or integrating the solutions around imported COTS products and
- (ii) From large corporates offering complete systems, often under partnership with international OEMs, for products and programme directly procured by the Indian government or Ministry of Defence.

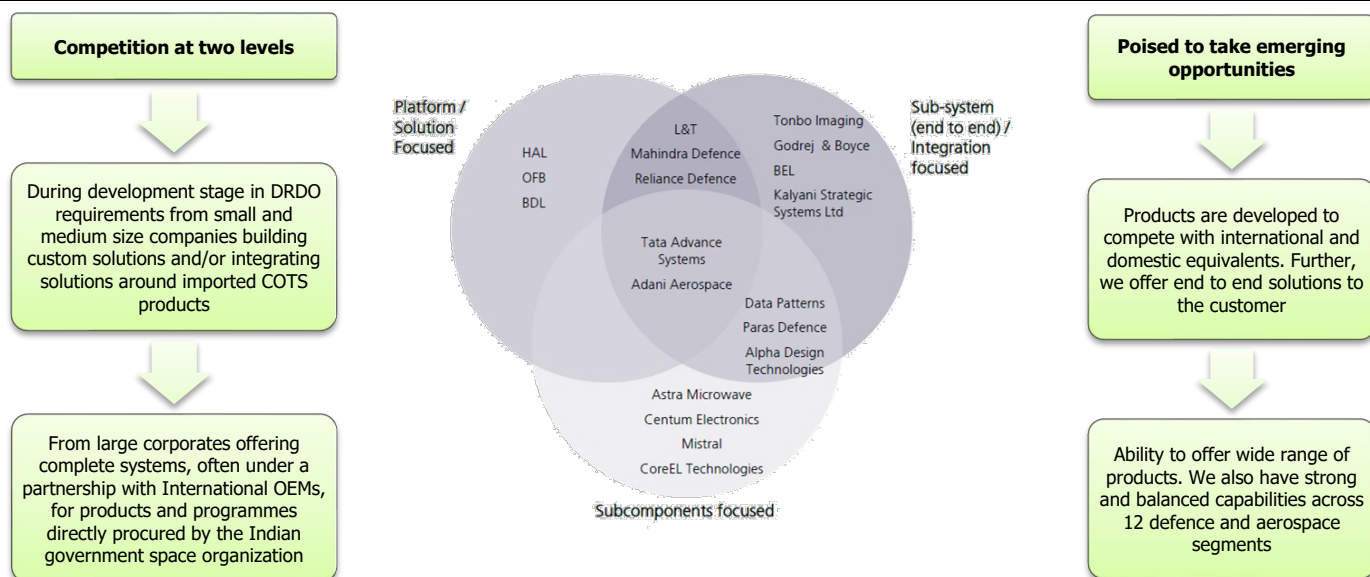
Most of the system level products delivered to DRDO or ISRO are on single vendor basis, though the initial subsystem/component level contracts may have been obtained through a tender process. Competition is from various companies, including L&T, BEL, Mahindra Defense Systems, Astra Microwave Products, Alpha Design Technologies, Mistral Solutions, CoreEI Technologies, etc.



10<sup>th</sup> June 2022

CMP – ₹737.8/-

View – **BUY**



Source – Company, DRHP

**PRODUCT CAPABILITY COMPARISON OF MAJOR INDIAN DEFENCE STAKEHOLDERS**

Company	Radars - Tracking & Surveillance	Radars- Multimission	Radars Specialized (Stealth Detections etc)	Seekers and Electronics for missiles/ Torpedoes/ Sonbuoys	EW	Commu nications and SDR	Satcom	Ground Stations	Fire Controls Systems	Avionics	Nano and Micro Satellites	Testing
Data Patterns												
L&T (Defence Engineerings Revenues)												
BEL												
Paras Defence												
Mahindra Defence systems												
Tata												
Astra Microwave Products												
Godrej & Boyce												
Centum Electronics												
Alpha Design Technologies												
Adani Aerospace & Defence Ltd												
CoreEL Technologies												
Mistral Solutions												

Strong capability -Products and Components	
Medium Capability- Mostly components/subsystems	
No Capability	

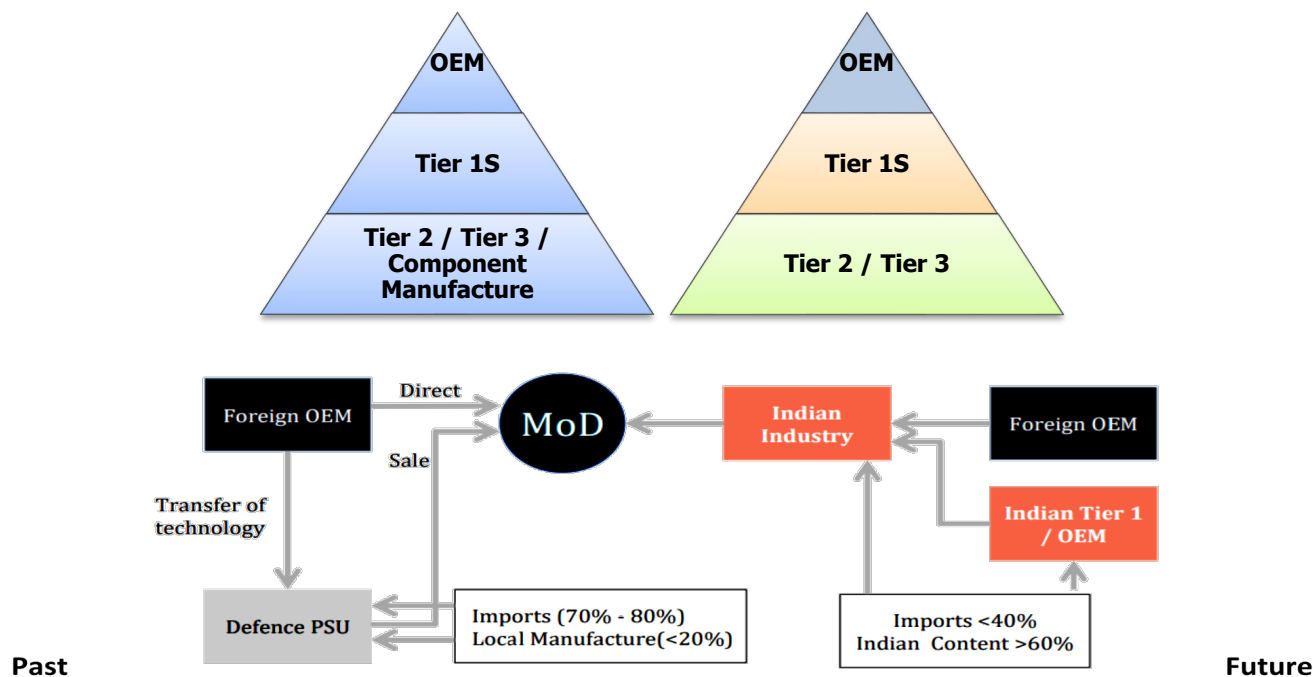
Source – Company, DRHP

**Indian Defence manufacturing undergoing structural shift**

There is a structural shift in the Indian defence budget with increased allocation for modernisation funds, and approval of non-relapsable fund. The Capital Outlay on Defence Services encompasses all the acquisitions expenditure of the three services in addition to the capital acquisition of ordnance factories, R&D, DGAQA (Director General Quality Audit) and prototype development under the Make procedures. The allocated capital expenditure amounted to \$27.8 bn (+14% YoY) in the defence budget FY23. The total allocation directly benefiting indigenous defence and aerospace industry has increased at 7% CAGR over FY17-22. The capital and stores allocation component of the Indian defence budget is expected to grow to US\$330bn and US\$10 bn respectively by FY31, with cumulative opportunity of US\$340bn to the industry. The government's latest policies seek to build greater self-reliance in Indian defence R&D and manufacturing through a combination of the Aatmanirbhar Bharat mission, DAP 2020, Offsets and the upcoming Defence Production and Exports Policy. As per government estimates, ~Rs 5tn contracts will be placed for the defence platforms, equipment, components in the next five years. The domestic industry is expected to get orders worth ~Rs 3.5tn during the period (considering 68% indigenisation content target).

**INDIAN DEFENCE INDUSTRY EVOLUTION**

**DPSU will focus more on platforms moving forward and will open up lower tier product development and integration to indigenous private companies**



Source – Company, Way2Wealth

## Indian Defence Electronics at an inflexion point

The Indian Defence Electronics segment will witness large scale indigenisation efforts over the next decade leading to improved manufacturing and quality standards. Domestic defence electronics market pegged at ~US\$1.9bn for CY21 is expected to post 16% CAGR by CY30, to reach US\$7bn. Currently, the Defence Electronics make up only 25-35% of the cost of platforms used by the Indian armed forces, which is expected to increase in the future. At present over 60% of the electronic components used are supplied by foreign OEMs. As indigenisation efforts continue, future procurement will see a large portion of defence electronics sourced locally. The government had notified three lists of total 310 defence items (in the last two years), which will be procured locally in the next three to five years. These include major equipment/platforms like combat aircraft, submarines, armoured vehicles, light weight tanks, helicopters, missiles, radars, howitzers, sensors, simulators, torpedoes, unmanned aerial vehicles, etc.

Out of these 310 items, 90 are planned to be indigenised. Moreover, the Defence Ministry has also notified two lists of total 458 items (in the last six months) for indigenisation manufacturing (which includes sub-systems, assemblies and components). Recently, 18 major platforms have also been identified by the Ministry of Defence for industry led design & development under various routes. Moreover, 30 transfer of technology (ToT) agreements have been signed by DRDO with 25 domestic players and handed over 21 technologies.

## Strong Opportunities in Radars & EW

Data Patterns focuses on in-house development and manufacturing with proven capabilities has led to development of several projects. Order opportunities continue to remain strong for Data Patterns owing to its expertise and proven execution track record. Further, stepping on these pre-developed sub-systems aids in the development of complete systems, thus creating higher value addition while distributing development costs. Besides, development of number of building blocks similar in specifications to imported modules in a cost-effective manner permits to bid in local tenders of DRDO for military commercial-off-the-shelf ("COTS") products. Some of the present programs are (a) airborne phased array radar (b) frequency hopping radio relays (c) next generation EW products (d) Integrated EW solution for national security.

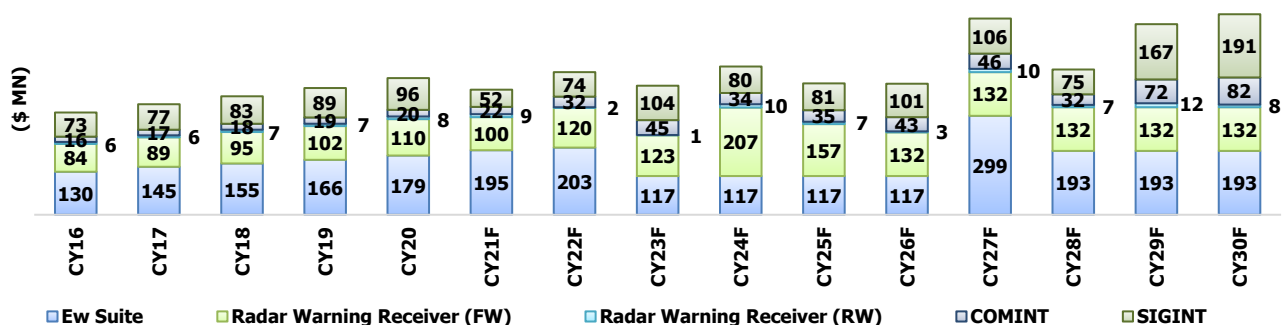
The military radar market is expected to grow to ~ US\$3.18bn in 2030 with a CAGR of 10.9% and a total market opportunity of approximately US\$20.59 bn. AGRU Medium Power Radar programme, Ashwini Low Level Transportable Radar (18 radars are expected to cost around US\$270mn), naval vessel upgrades (Talwar-class frigates, procurement of additional Shivalik-class frigates and replacement of the Godavari-class), Navy's Dornier upgrade and new helicopter programmes would be some of the growth drivers for military radar market. New radar procurements will be required to counter evolving threats such as nuclear-capable ballistic missiles and high-speed cruise missiles and thus have features such as multiple-bands, and AESA radars.

The defence optics market will be driven by major procurement of airborne combat and ISR capability requirements along with land forces modernization. The market is expected to be worth approximately US\$255mn in 2021 and grow to approximately US\$2.1bn in 2030 with a cumulative opportunity of approximately US\$11.49bn at a CAGR of 26.5%. New procurement of electro optic payloads for the Navy's future Multi-Role Helicopters, targeting systems for next generation combat aircraft for the Indian Air Force or IAF and night-fighting capability for the older BMP-2 and new IFVs will drive a surge in the defence optics market. A further acquisition spree is expected in 2028 as

several platforms in the IAF, especially ISR ones, need to have mid-life upgrades. Similar mid-life upgrades are expected for the Navy's patrol vessel fleets and MBTs of Indian Army, requiring new imaging equipment.

The airborne EW market is expected to be worth approximately US\$378mn in 2021 and grow to approximately US\$606mn in 2030 at a CAGR of 5.4% driven by modernization of platforms such as the IAF's requirement of 200+ single engine fighters, acquisition of HAL's Tejas, Dassault's Rafale, procurement of A330's and C-295 and future procurement of HAL's AMCA. Modernisation of existing platforms will also contribute towards this market evaluation.

**TAM FOR DATA PATTERNS (US\$2BN IN CY20) TO REACH US\$4.7 BN BY FY30, REPRESENTING 10Y CAGR OF 9% FROM CURRENT VALUE OF \$2BN**



Source – Company, Way2Wealth

US\$ mn	CY20	CY25E	CY30E	CY20-30E CAGR
<b>Military Radar</b>	1,151	1,853	3,180	11%
<b>Airborne EW</b>	413	397	606	4%
<b>Military Avionics</b>	300	390	455	4%
<b>Land COMINT/ELINT</b>	74	120	205	11%
<b>Satellite Components</b>	16	100	122	23%
<b>Testing equipment</b>	12	68	80	21%
<b>Ground stations</b>	1	1	2	4%
<b>TAM</b>	<b>1,967</b>	<b>2,929</b>	<b>4,650</b>	<b>9%</b>

Source – Company, Frost & Sullivan, Way2Wealth

Data Patterns targets ₹10bn sales in four years from ₹3.1bn in FY22, led by significant scale up in radars and EW systems from component supplies, increasing share of Avionics and expanding presence in nano-satellite components for the domestic and International market.

**DPL's DE-RISKED BUSINESS MODEL – Varied sources of revenues**

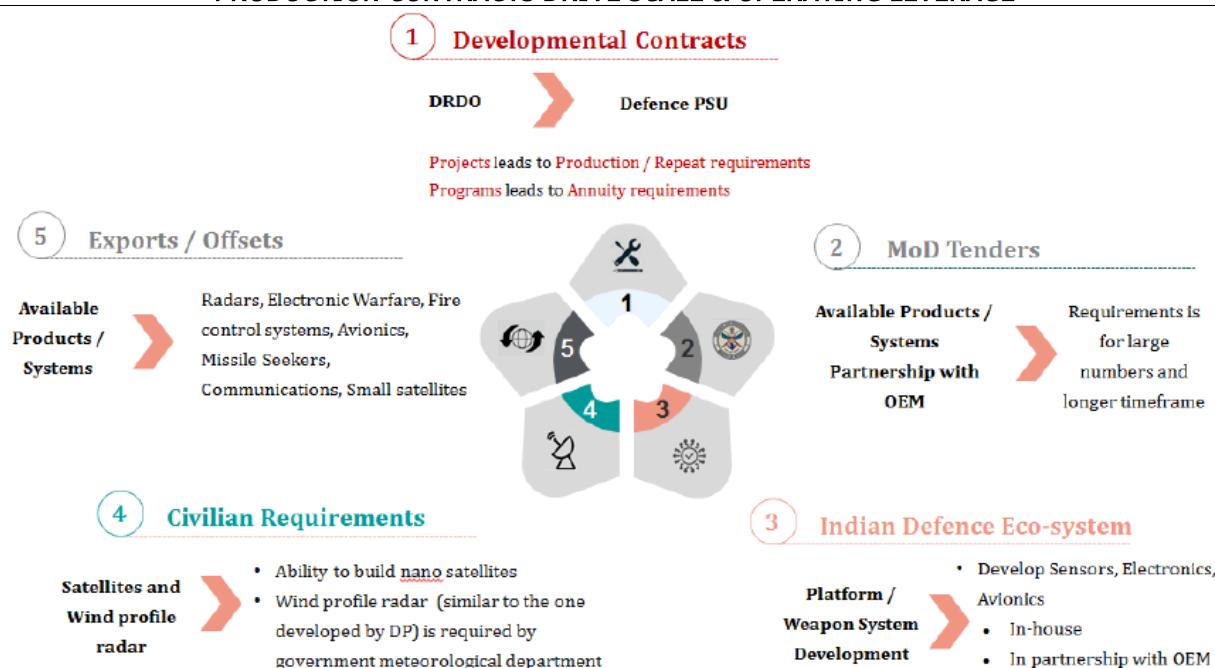
The customer base ranges from government organisations involved in defence and space research to various DPSUs such as BEL and HAL. DRDO/MoD contribute ~35-37% share of revenues. Exports stood at 12% of overall revenue in FY22. Data Patterns intends to widen its reach to other high-end global markets similar to India, where its core competency is in complete sync with requirements for various sectors, such as industrial automation, telecom, automobile (electronic subsystems), medical (electronic subsystems) and nuclear. While the Leonardo Group (UK) has been driving exports recently, Data Patterns is looking for other opportunities to work with EU players and also working in collaboration with domestic players for exports.



Customers (%)	FY18	FY19	FY20	FY21	FY22
<b>BEL</b>	13	10	1	4	7
<b>Brahmos</b>	13	29	54	10	13
<b>DoS-ISRO/Others</b>	13	8	9	15	15
<b>DRDO/MoD</b>	24	37	24	37	34
<b>ECIL</b>	9	0	0	14	19
<b>Exports</b>	24	9	7	14	12

Source – Company, Way2Wealth

**PRODUCTION CONTRACTS DRIVE SCALE & OPERATING LEVERAGE**



Source – Company, Way2Wealth

Data Patterns has deliberately targeted programs/projects over the past with potential to offer huge volumes in the future. Its participation in key Development contracts are now yielding the desired results as the order book has started reflecting healthy mix of production orders which can drive scale for the company.

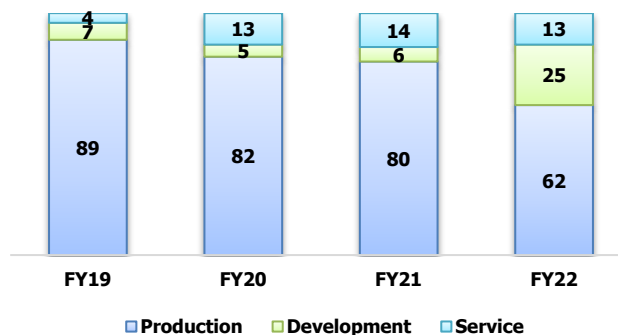
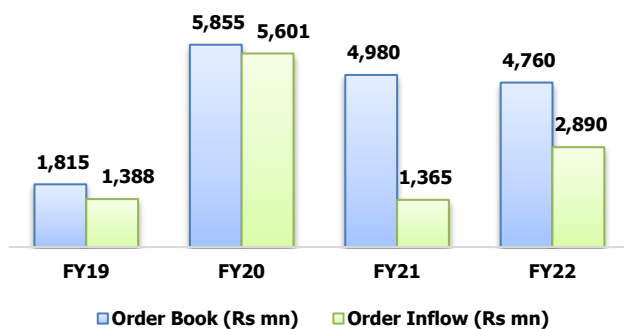
**Development contracts** – The company usually works with DRDO for Design & Development for building custom solutions and indigenisation of systems/ sub-systems. These projects are awarded on **1)** single vendor, **2)** limited vendor and on **3)** open tender basis. Typically, such contracts have a single delivery (project completion) schedule and carry high NWC cycle. Average execution timeline is 12-18 months, but tests are subject to final field trials of the end platform. Entire cost of development is expensed over the given financial year. DRDO retains the IP for the systems developed by its vendors. The company currently offers electronic solutions developed in areas including complex +20 layer PCB designs, FPGA based firmware algorithms, device drivers, networking layers, etc. It intends to bid and engage in higher value projects requiring use of complex technologies. Leverage its strong in house designing and production capabilities to bid and participate in tenders for large and complicated projects under Make-in-India programme.

**Production contracts** – On successful field trials, development contracts are later converted to production orders (volume orders) from ECIL or the DPSU who receives the transfer of technology from DRDO. The products are in areas like display systems for LUH, LCA, Radar warning receiver (RWR) for fighter aircraft, airborne Elint system for helicopters and UAVs and seekers for Brahmos missile programme. Also, pre-developed building blocks such as military grade processor modules, cockpit displays, etc. aid in development of complete systems, thereby allowing for higher value addition while distributing development costs. Pricing is usually benchmarked to the Development contracts and is adjusted for inflation, forex and changes in scope, if any. Production contracts offer higher revenue visibility for 2-3 years. Volumes of such contracts are more evenly spread with lower NWC intensity. While development projects (Eg: EW, Himashakti) lead to production/repeat orders, development programs (Eg: LCA) offer annuity type orders.

**Leveraging core competencies to boost services business** – Long life of platforms or products in the defence and aerospace sector; provide significant growth opportunities for sale of services. Intend to grow portfolio of services and provide maintenance services, up gradation and other routine repair and upkeep services to customers, allowing expanding revenues from sale of services. Revenue from sale of services increased to ₹217.6mn for FY22 from ₹179.2mn in FY21, registering an increase of 21%, on account of revenue from AMC contracts such as with BrahMos missile programme as well as service income from major development contracts, including nonrecurring engineering costs for the EW projects with the DLRL.

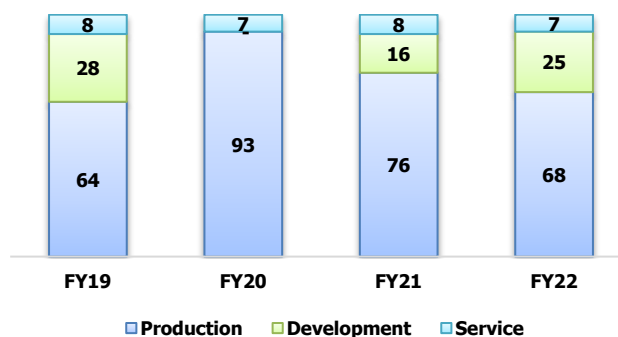
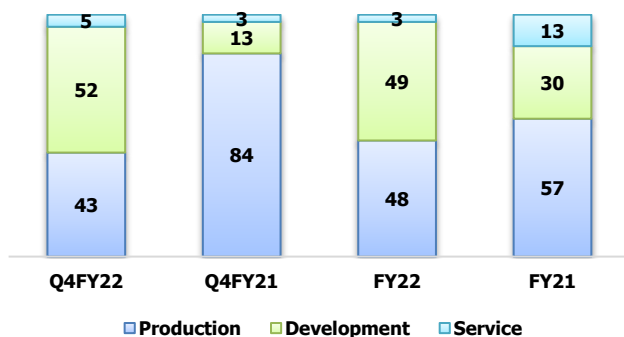
*Order book has scaled up quickly with accrual of production orders and developmental orders*

*Order Book (%) by Contracts*



*Order Inflow (%) by Contracts*

*Revenue (%) by Contracts*



Source – Company, Way2Wealth

## DPL - Contender/Supplier across notable programmes

Data Patterns is focused on designing and building own products across the manufacturing value chain to developing products and sub-systems. It remains well positioned to quickly commercialise or scale-up several of existing products or building blocks to end systems or complete solutions. Focus on building complete systems from the building blocks and sub-systems already developed aids higher value addition while distributing development costs. The company has also designed and developed some products having the ability to be used as blocks in future platforms and products. Military COTS type processor designed and developed for DRDO are being redeployed by various DRDO laboratories for other projects including in naval applications in ships & helicopters. **The company is expected to be a major participant in ₹20-30bn worth of contracts in the next 3 years.** Due to its positioning in various projects and niche technology segments, 1) Products like Radar Warning Receiver (RWR), airborne ELINT upgrades and airborne surveillance radars could provide an annuity business based on the number of upgrades planned, 2) EW products/ receivers designed by Data Patterns can provide large project orders and also pave the way for the company to participate directly and independently in MoD tenders. The company can be positioned as both an independent OEM, and also a strategic partner to companies like Tata, L&T, etc. which forms an important element of its future growth strategy.

### Products having an ability to be used as blocks in future platforms

Product(s)	Details
Monopulse RF Seeker	Delivered prototypes to DRDO
X-Band Doppler Weather Radar	Prototype installed in Chennai for the government meteorology department
205MHz Wind Profile Radar for CUSAT	Installed at Cochin for a government owned university
Radar for Naval Utility Helicopter	Prototype delivered to LRDE
A Next-Generation Software Defined Radio	Prototype developed for DEAL
A Next-Generation Radar Warning Receiver	Prototype developed for DLRL
A Next-Generation COMINT	Prototype developed for DLRL
A Next-Generation ELINT System	Prototype delivered for DLRL
Nano Satellite	Being delivered to industry and educational institutions

Source – Company, Way2Wealth

10<sup>th</sup> June 2022

CMP – ₹737.8/-

View – BUY

### Data Patterns is a contender for many large programmes

Programme	Details	Opportunity value
<b>AGRU/ Arudhra Radar</b>	Won the order against Astra and is expected to supply ~55 units	US\$ 20mn
<b>Ashwini LLTR</b>	DP is a development partner on single vendor basis which includes TR modules, AGRU, signal processor, etc. The TOT has been offered to DP and BEL. The company expects to realise either electronics/ full radar order	US\$10-30mn
<b>Dharashakti</b>	Development programme for large EW requirement for Deserts & Plains and has been nominated to BEL. DP has received single vendor orders from DLRL for development and supply of COMINT search receivers, Direction Finder, Monitoring receivers. DP will be an OEM for entire receiver systems	US\$50mn
<b>Airborne COMINT/ELINT</b>	By leveraging expertise in Dharashakti project, DP will cater to airborne COMINT and ELINT equipment. The equipment will be towards various upgrades such as MI 17, Dornier, Aerostat, and any new rotary wing programme	US\$15-20mn
<b>Light weight EW</b>	These are required in mountainous borders (China, Pakistan) which are not adequately covered. DP will leverage its EW capability to supply products for light weight EW requirement	₹3-4bn
<b>Airborne surveillance radar</b>	DP has delivered ASR (complete hardware) for helicopters and fixed wing aircrafts to LRDE on a single vendor basis. The Flight tests are expected and will also be inducted in Navy's Dornier upgrade and new helicopter programme	₹25mn/unit
<b>Airborne Early Warning System</b>	DP has also participated in RWR (digital R118) for Airborne Early Warning System to DLRL. This has been fitted on the Embraer early warning radar developed by CABS	US\$55mn for LCA
<b>Next Generation Software Defined Radio (SDR)</b>	SDR can be fitted on LCA MK IA (83 nos) as well as Sukhoi 30 upgrades (~ 270 nos) and attack helicopters. The flight tests are planned by Mar'22 on the LCA, and similar tests are planned on Sukhoi 30 thereafter	₹20mn/ aircraft

Source – Company, Way2Wealth

### Medium to long term order pipeline - Large order prospects for Data patterns

Programme	Customer	Value (₹ m)	Status of project
Ashwini LLTR	MoD	7,500	Budgetary quote sent to Air Force
Dharashakti - EW	BEL	4,500	Secured development contract already
Airborne COMINT/ELINT - EW	HAL (Dornier); DRDO (C-295); Aerostat (Airforce)	1,320	27 units of ELINT for Dornier Upgrade (~₹800m) from HAL; ELINT for C-295 from DRDO (₹360m; project started); SIGINT for Aerostat at ₹150m (RFP expected)
Light weight EW	BEL	3,500	-
Airborne surveillance Radar (ASR)	HAL	1,215	Flight tests to be conducted in 2HFY22
Airborne Early Warning System	HAL	17,650	RWR (digital R118) for LCA is under trial in FY22; Trials for Sukhoi-20 expected thereafter
Next Generation Software Defined Radio (SDR)	HAL	7,060	Flight tests planned in 4QFY23 for LCA; Sukhoi-30 tests subsequently
AGRU/ Arudhra Radar	BEL	1,500	MoD RFP sent to BEL
Himshakti - EW	BEL/ ECIL	1,502	Award to BEL expected in Q1FY23

Source – Company, Way2Wealth

### Manufacturing Capabilities - Data Patterns is undertaking capacity expansion

The company's core focus on in-house design and development capabilities (>450 engineers) is complemented by 100,000 sq.ft. manufacturing facility built on 5.75 acres of land at the SIPCOT IT Park, Siruseri, Chennai. The facility is certified for various standards across product life cycles. Data Patterns is in the process of doubling its floor area and manufacturing capacity. Also, the capability of handling large and heavy equipment, integration of large radars and mobile electronic warfare systems and satellite integration facility will be enhanced. It while also improving test infrastructure to validate RF & microwave products (₹200mn capex on test equipment). Further, the company intends to acquire additional land (2.8 acres) to incorporate large systems integration hanger, complete radar integration, electronic warfare vehicle integration, augmented environmental test infrastructure, etc with planned capex of ₹800mn in FY22-23. In addition to electronics manufacturing, it is building large mechanical integration capabilities to ensure higher in-house integration.



Expansion	Existing Facility Enhancement
<ul style="list-style-type: none"> <li>Large Systems Integration Hangar</li> <li>Complete Radar Integration</li> <li>Electronic Warfare Vehicle Integration</li> <li>Additional Test Facility</li> <li>Augmented Environmental Test Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Augment Design &amp; Development facility</li> <li>Additional Space For D&amp;D Resources</li> <li>Clean Room for Satellite Integration</li> <li>Additional EMS Line</li> <li>Multi Ton material handling</li> </ul>

Source- Company, Way2Wealth

### Q4FY22 Decent order execution with supply chain issues impacting margins

Revenue grew by ~9% to ₹1.7bn. Revenue growth was robust in development contracts that grew by 187%, but revenue from production and service contracts declined by 19% and 46% YoY respectively. For FY22, healthy growth was witnessed across segments, as production/development/service segments posted growth of 24%/117%/21% YoY respectively. Major client contribution during FY22 was from DRDO (25% v/s 37% in FY21), ECIL (19% v/s 15% in FY21) and Brahmos (13% v/s 10% in FY21). In terms of product wise revenue share, EW declined (26% v/s 41% in FY21), Radars grew (23% v/s 16% in FY21), ATE grew (15% v/s 12% in FY21), while exports declined (12% v/s 15% in FY21). EBTIDA was down by 1.4% YoY to ₹875mn, as margins contracted by 519bps YoY to 51.3%, largely due to high base effect. In FY22, EBITDA margin witnessed 420bps expansion to 45.4% v/s 41.2% in FY21, as revenue contribution from production contracts remained high. Management guided for EBITDA margins of +40% with sales growth guidance of 25-30% in FY23, despite increased share of development orders in order book. Given a robust margin profile, the company has headroom to quote aggressively in certain larger value orders, which can open up new opportunities for the company and scale up revenue to ₹10bn faster.



### Revenue visibility provided with strong order inflows

Order inflows witnessed strong uptick of 111% YoY to ₹2.9bn (+71% QoQ), led by large orders like ₹335mn order from DRDO for Radar, ₹299mn from DRDO for communication, ₹274mn from DRDO in EW and ₹194mn from HAL in avionics. Management highlighted that company could receive orders totaling ₹20-30bn in next 2-3 years, given cancellation of several govt-to-govt (G2G) contracts in order to promote Indian vendors, 10% increase defence capex allocation and incremental ban on imported equipment. Order book stood ₹4.7bn. Currently development orders constitute 25% of order book and with incremental ban on import equipment, it can rise further. Management highlighted that gross margins are not necessarily low in developmental contracts, barring few select projects which be taken for strategic reasons. Working capital to improve further, currently at 292 days from 341 days YoY, as high share of production contracts reduced lumpiness. Company expects further improvement in working capital with more production contracts flowing in FY23. NWC cycle in development contracts is longer as prototypes are undergo 30 different tests before bulk production commences and in some projects DP's products are part of larger systems which may see a delay in integration. However, delivery time for production contracts is generally shorter, barring cases where component procurement lead time and third party acceptance period is long. However, for contracts with HAL and BEL, acceptance typically happens in 1-1.5 months.

### Margin outlook

Gross margins typically range between 65-70% in all 3 types on contracts, with gross margins being highest in service contracts. However, the company highlighted that it these high margins enable it to quote aggressively in certain larger orders, which open up new opportunities for the company and scale up to ₹10bn top line faster.

### Employee strength to increase as OB increases

Of total employee strength of 818 employees, 470+ are engineers as the company has taken a design approach towards its contracts. The company hires 100-200 fresh graduate engineers every year and further looking to step up recruitment for project management. Also, from a succession perspective, the management highlighted that their COO Mr. Vijay Ananth has been appointed as a director and is seriously evaluating all options to ensure smooth succession.

### Seekers orders could materialise going forward

Management highlighted that flight trials are planned for its development seekers in next 2-3 months. Based on the success of these flight trials, future induction of seekers will take place. So in 4-5 months, the results of trails should be out. In modified seekers, the company delivered airborne radar for Dornier and going forward, Navy has an upgrade programme which can provide a sizeable order for radars and electronic intelligence.

### Avionics supply not limited to LCA

Management highlighted that avionics developed for DRDO are tested in aircrafts like LCA or Dornier. Further, this could be extended to other aircrafts like Sukhoi, MiG-39 and helicopters. The total opportunity for the industry is to the extent of ₹7bn, which could materialise in next few months. At present, avionics order of ₹1bn for 200-300 pieces

can be manufactured using existing Chennai facility, but in order to cater to larger contracts like Ashwini radar, the company will require 10 acres land to augment infrastructure. Going forward, expansion would be on the basis of orders received and company intends to fund expansion through internal funds. Apart from that there will be an increased focus on testing equipment, in order to address more complex systems.

### Risks

- Data Patterns business is **highly dependent on projects and programmes undertaken by GoI and associated entities**. The company derived 50%, 52.6%, 36.7%, and 48.1% of total revenue during FY22, FY21, FY20 and FY19 respectively, from sales made to the GoI Entities. Therefore, decline or reprioritisation of the Indian defence or space budget, reduction in orders, termination of existing contracts, and delay of existing or anticipated contracts could impact business and profitability.
- **Client Concentration Risk** – Top 5 customers contributed 68%, ~59%, ~88% and ~70% respectively in FY22, FY21, FY20 and FY19. Loss of any of major customers due to adverse development or significant reduction in business from major customers may adversely impact business. The volume and timing of sales to major customers may also adversely vary due to variation in: (i) delay in or cancellation of projects; (ii) niche choices of raw materials for our products manufactured; (iii) specific requirements; (iv) management of inventory levels; (v) manufacturing strategy; and (vi) growth strategy.
- **Cost over runs in fixed price contracts could adversely effect on business ad financial condition** – Majority of the contracts are fixed-price contracts and in the past, the company has witnessed cost overruns in the case of some of the contracts and they may continue to witness the same in the future. The actual costs incurred on a fixed-price contract may vary from their estimates due to factors such as: a) Unanticipated variations in Foreign Exchange b) unanticipated increases in labour, raw material, sub-contracting and overhead costs c) delivery delays and corrective measures for poor workmanship; d) equipment failures. Depending on the size of the project, variations from estimated contract performance could significantly impact earnings, and could result in losses
- **Insufficient cash flows or unable to borrow could have adverse impact on business** – Data Patterns require significant amount of working capital for manufacturing operations, financing inventory, raw materials and development of new products. Due to long product development period and production cycles, requirement is generally high; therefore, inability to procure sufficient funds may adversely affect the business. Additionally, the contracts have payment terms based on governmental regulations and do not provide cash flows during the execution period and milestone payments are to be backed by bank guarantees.
- **Failure to pace with technological development may impact business growth** – The Company needs to invest ample of resources in R&D to enhance information technology and improve existing services in order to compete with other domestic and foreign OEM's players, otherwise rapid technological evolution and changes in customer requirements, could render existing technologies and systems obsolete.

### VIEW

The Defence indigenisation program in India is expected to create abundant growth opportunities for domestic companies. Data Patterns is among the few vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. The company revenue is bifurcated into three segments that are production contracts (68%), development contracts (25%), and service (7%). We believe it is poised for robust growth over the next 3 years led by scale up to sub systems integration and large volume repeat orders with increased indigenization of defence industry. The company has reported strong order book growth of ~39% CAGR over FY19-22, led by the progress of large orders from development to production phase, particularly in EW and radars space. Order book as on 31st March '21 stood at ₹4.76bn (1.5x TTM sales), led by a healthy mix of orders from MoD, BrahMos, DRDO, ISRO, HAL etc. We expect the company to maintain moat around its business as more than 50% of forecasted revenue consists of single vendor contracts, resulting in better revenue as well as margin visibility. The company expects to gain scale as it undertakes systems integration work, currently the domain of DPSUs, with in-house low cost design using reusable building blocks (COTS). Further ~25-30% of revenue is currently being derived from space/exports, diversifying risks from domestic defence budget allocation. These segments are likely to be ramped up faster through new products (nano satellites) and government push for defence exports. We view Data Patterns is well placed to benefit from decadal growth opportunity in defence electronics (16% CAGR), thrust on local procurement/indigenization through policy changes (imports >60%) and rising usage of electronics in defence (25-35% of platforms currently). **Hence, we recommend it as a *BUY* stock trading at 25x FY24E EPS of ₹29.5.**

10<sup>th</sup> June 2022

CMP – ₹737.8/-

View – BUY

## FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue</b>	<b>1,705.4</b>	<b>1,570.6</b>	<b>8.6</b>	<b>438.4</b>	<b>289.0</b>	<b>3,108.5</b>	<b>2,239.5</b>	<b>38.8</b>
Cost of Matl	526.1	264.4	99.0	127.6	312.3	915.9	629.7	45.5
Inventory Changes	71.0	226.2	(68.6)	(74.3)	(195.6)	(55.2)	74.4	(174.2)
Employee Cost	171.7	135.1	27.1	170.5	0.7	623.5	484.2	28.8
Other Exps	62.0	57.9	7.1	58.7	5.6	213.9	131.1	63.2
<b>EBITDA</b>	<b>874.6</b>	<b>887.0</b>	<b>(1.4)</b>	<b>155.9</b>	<b>461.0</b>	<b>1,410.4</b>	<b>920.1</b>	<b>53.3</b>
<b>EBITDA Margin (%)</b>	<b>51.3</b>	<b>56.5</b>	<b>(519)</b>	<b>35.6</b>	<b>1,572</b>	<b>45.4</b>	<b>41.1</b>	<b>429</b>
Other Income	25.3	5.3	377.4	7.0	261.4	39.6	26.0	52.3
Depreciation	18.9	13.6	39.0	17.3	9.2	66.3	55.7	19.0
Interest Cost	35.3	31.9	10.7	26.5	33.2	109.9	145.0	(24.2)
PBT	845.7	846.8	(0.1)	119.1	610.1	1,273.8	745.4	70.9
Tax	229.5	187.2	22.6	29.5	678.0	334.1	189.6	76.2
<b>Net Profit</b>	<b>616.2</b>	<b>659.6</b>	<b>(6.6)</b>	<b>89.6</b>	<b>587.7</b>	<b>939.7</b>	<b>555.8</b>	<b>69.1</b>
EPS (Rs)	11.9	12.7	(6.6)	1.7	587.7	18.1	10.7	69.1

As % of Sales	Q4FY22	Q4FY21	YoY (BPS)	Q3FY22	QoQ (BPS)	FY22	FY21	YoY (BPS)
Raw Matl cost	35.0	31.2	378	12.2	2,285	27.7	31.4	(375)
Gross Margin	65.0	68.8	(378)	87.8	(2,285)	72.3	68.6	375
Employee Cost	10.1	8.6	147	38.9	(2,882)	20.1	21.6	(156)
Other Exps	3.6	3.7	(5)	13.4	(975)	6.9	5.9	103

Source: Company, Way2Wealth

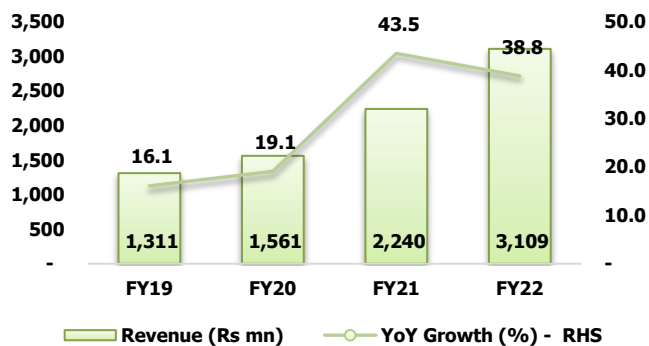
10<sup>th</sup> June 2022

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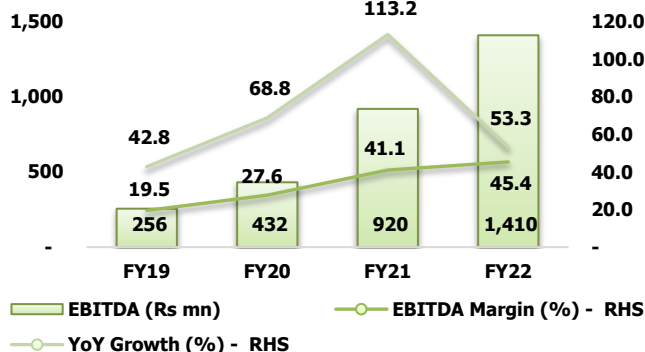
View – BUY

**PERFORMANCE TREND**

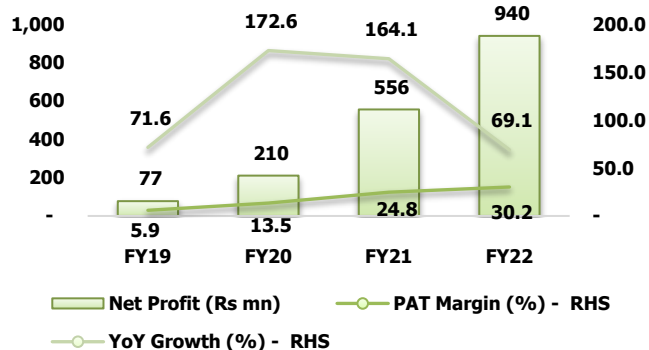
*Revenue CAGR 33.4% FY19-22*



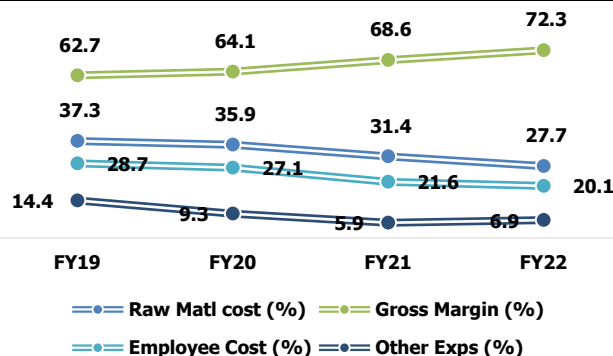
*EBITDA CAGR ~77% FY19-22*



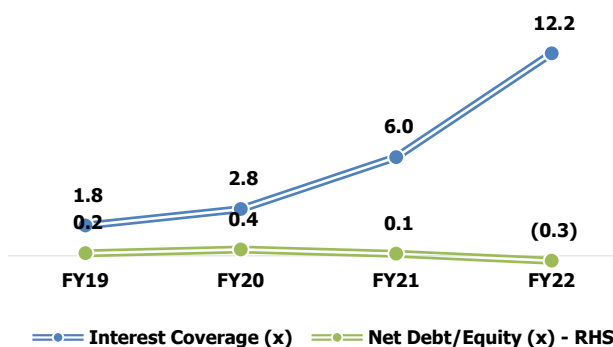
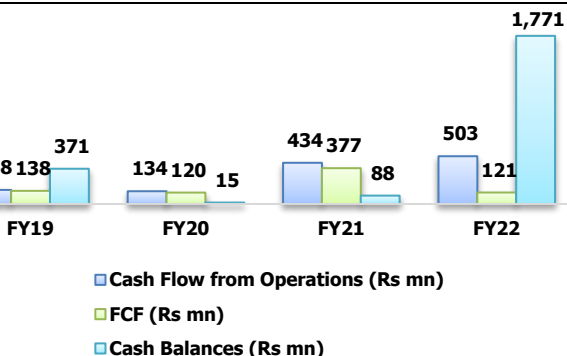
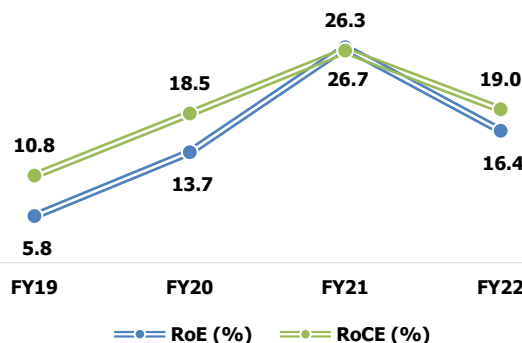
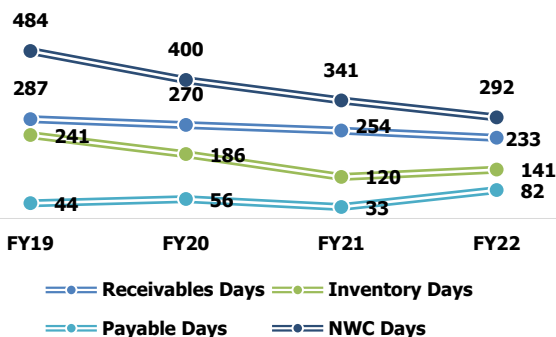
*PAT CAGR 130% FY19-22*



*Significant Improvement in Gross margins over the years with cost rationalisation*



*Stable W.C. mgmt led to negligible debt with improvement in return ratios and Cash flows*



Source: Company, Way2Wealth



10<sup>th</sup> June 2022

CMP – ₹737.8/-

View – BUY

## FINANCIALS & VALUATIONS

(₹ mn)						
Particulars	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>Production</b>	<b>839</b>	<b>1,452</b>	<b>1,702</b>	<b>2,114</b>	<b>2,652</b>	<b>3,457</b>
YoY Growth (%)		73.1	17.2	24.2	25.4	30.4
<b>Development</b>	<b>367</b>	<b>-</b>	<b>358</b>	<b>777</b>	<b>871</b>	<b>995</b>
YoY Growth (%)		(100.0)	NM	116.9	12.1	14.2
<b>Service</b>	<b>105</b>	<b>109</b>	<b>179</b>	<b>218</b>	<b>265</b>	<b>284</b>
YoY Growth (%)		4.2	64.0	21.5	21.9	7.2
<b>Revenue</b>	<b>1,311</b>	<b>1,561</b>	<b>2,240</b>	<b>3,109</b>	<b>3,788</b>	<b>4,736</b>
YoY Growth (%)	16.1	19.1	43.5	38.8	21.9	25.0
<b>EBITDA</b>	<b>256</b>	<b>432</b>	<b>920</b>	<b>1,410</b>	<b>1,592</b>	<b>2,021</b>
<b>EBITDA Margin (%)</b>	<b>19.5</b>	<b>27.6</b>	<b>41.1</b>	<b>45.4</b>	<b>42.0</b>	<b>42.7</b>
<b>Net Profit</b>	<b>77</b>	<b>210</b>	<b>556</b>	<b>940</b>	<b>1,159</b>	<b>1,529</b>
YoY Growth (%)	71.6	172.6	164.1	69.1	23.3	31.9
EPS (Rs)	1.5	4.1	10.7	18.1	22.3	29.5
RoE (%)	5.8	13.7	26.7	16.4	18.6	20.1
RoCE (%)	10.8	18.5	26.3	19.0	26.2	27.3
Debtor Days	287	270	254	233	230	225
Inventory Days	241	186	120	141	140	135
Creditor Days	44	56	33	82	40	35
Cash Balances	371	15	88	1,771	2,871	3,507
FCF	138	120	377	121	993	858
P/E (x)	496.0	181.9	68.9	40.7	33.0	25.0
EV/EBITDA (x)	150.6	90.1	41.9	25.9	21.9	18.4
P/BV (x)	28.7	24.9	18.4	6.7	5.5	4.7
Net Debt/Equity (x)	0.2	0.4	0.1	(0.3)	(0.2)	(0.1)

Source: Company, Way2Wealth

## PEER COMPARISON

Company	CMP	MCAP	FY22 Order Book	FY22 Order Inflow	Revenue (Rs mn)				EBITDA (Rs mn)				EBITDA Margin (%)				Net Profit (Rs mn)				EPS (Rs)			
	(Rs)	(Rs bn)	(Rs bn)	(Rs bn)	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
Data Patterns Ltd	737.8	38.3	4.8	2.9	1,311	1,561	2,240	3,109	256	432	920	1,410	19.5	27.6	41.1	45.4	77	210	556	940	1.5	4.1	10.7	18.1
Bharat Electronics Ltd	244.6	596.0	575.5	192	1,20,846	1,29,211	1,40,638	1,53,140	28,621	27,300	31,810	33,090	23.7	21.1	22.6	21.6	19,273	17,940	20,650	23,490	7.9	7.4	8.5	9.6
Paras Defence & Space Engg Ltd	611.9	23.9	NA	NA	1,544	1,470	1,433	1,826	428	393	434	519	27.7	26.7	30.3	28.4	190	197	158	271	4.9	5.1	4.1	6.9
Astra Microwave Products Ltd	221.5	19.2	15.5	7.6	2,930	4,670	6,400	7,500	243	688	644	735	8.3	14.7	10.1	9.8	110	450	310	400	1.1	5.1	3.3	4.4

Company	CMP	MCAP	RoE (%)				RoCE (%)				Cash Flow from Operations (Rs mn)				FCF (Rs mn)				Cash Balances (Rs mn)				NWC Days			
	(Rs)	(Rs bn)	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
Data Patterns Ltd	737.8	38.3	5.8	13.7	26.7	16.4	10.8	18.5	26.3	19.0	148	134	434	503	138	120	377	121	371	15	88	1,771	484	400	341	292
Bharat Electronics Ltd	244.6	596.0	21.2	18.1	19.0	19.6	22.9	25.1	27.2	26.2	14,660	25,325	51,035	41,612	7,606	18,062	46,371	36,151	8,840	15,562	50,082	12,390	118	97	213	378
Paras Defence & Space Engg Ltd	611.9	23.9	12.5	11.4	7.6	7.2	16.5	13.5	13.6	9.1	(121)	(26)	43	128	(218)	(67)	(10)	44	19	44	76	744	224	325	393	472
Astra Microwave Products Ltd	221.5	19.2	2.0	8.2	5.2	6.5	4.8	12.7	11.5	11.6	15	(315)	(103)	1,008	(147)	(509)	(136)	730	279	532	383	703	504	499	368	341

Company	CMP	MCAP	P/E (x)				EV/ EBITDA (x)				P/BV (x)				Net Debt/ Equity (x)				MCAP/ Sales (x)				EV/ Sales (x)			
	(Rs)	(Rs bn)	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
Data Patterns Ltd	737.8	38.3	496.0	181.9	68.9	40.7	150.6	90.1	41.9	25.9	28.7	24.9	18.4	6.7	0.2	0.4	0.1	(0.3)	29.2	24.5	17.1	12.3	29.4	24.9	17.2	11.8
Bharat Electronics Ltd	244.6	596.0	31.0	33.1	28.8	25.5	20.5	21.3	17.2	17.6	6.6	6.0	5.5	5.0	(0.1)	(0.2)	(0.5)	(0.1)	4.9	4.6	4.2	3.9	4.9	4.5	3.9	3.8
Paras Defence & Space Engg Ltd	611.9	23.9	125.6	121.1	151.0	88.1	57.5	63.1	57.0	45.2	15.6	13.8	6.6	6.3	0.5	0.5	0.4	(0.1)	15.5	16.2	16.7	13.1	15.9	16.9	17.3	12.8
Astra Microwave Products Ltd	221.5	19.2	196.0	43.6	66.5	50.7	80.2	31.2	30.9	26.7	15.6	13.8	6.6	6.3	0.1	0.4	0.1	0.1	6.5	4.1	3.0	2.6	6.7	4.6	3.1	2.6

Source: Company, Way2Wealth

### Disclaimer

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Name of the Security	DATA PATTERNS (INDIA) Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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