

Company Overview

Incorporated in 1985, Data Patterns is a defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. The company offers products to the entire spectrum of defence and aerospace platforms - space, air, land, and sea. With net profitability growth of approximately 164% between FY20-21, they are one of the fastest growing companies in the Defence and Aerospace Electronics sector in India (F&S Report). They have design capabilities across the entire spectrum of strategic defense and aerospace electronics solutions including processors, power, radio frequencies ("RF") and microwave, embedded software and firmware and mechanical engineering. Their core competencies include electronic hardware design and development, software design and development, firmware design and development, mechanical design and development, product prototype design and development, functional testing and validation, environment testing and verification and engineering services opportunities. Their design and development capabilities have allowed them to develop complete systems as well as sub-systems for various strategic defense and aerospace electronics solutions. These systems have found applications on various platforms and programmes such as the Tejas Light Combat Aircraft ("LCA"), the Light Utility Helicopter ("LUH"), BrahMos missile programme, precision approach radars and various communications intelligence ("COMINT") and electronic intelligence ("ELINT") systems.

Objects of the issue

The IPO proceed from the fresh issue will be used towards the following purposes:

- ⇒ Prepayment or repayment of all, or a portion of certain outstanding borrowings availed by the company (INR 0.61bn)
- ⇒ Funding working capital requirements (INR 0.95bn)
- ⇒ Upgrading and expanding their existing facilities at Chennai (INR 0.6bn)
- ⇒ General corporate purposes (Bal INR 0.24bn).

Investment Rationale

Indigenous integrated defence and aerospace provider benefiting from "Make in India" opportunity

The Indian defense industry is rapidly shifting towards a self-sustaining one with companies and DPSUs (Defence Public Sector Undertakings) moving towards specializing into defence primes, integrators and component suppliers. The Indian Space Industry is also following a similar trend. With DPSUs focusing on specialization and subcomponent manufacture being outsourced to the private players, there is immense scope for private players like Data Patterns to reap benefits. Data Pattern focuses on building complete systems from the building blocks and sub-systems already developed and hence provides a higher value addition. Using their experience of working with the DRDO and from development of the wind profile radar, they had successfully bid for and obtained an approximately INR380 crore contract from the MoD (Ministry of Defense) for 9 precision approach radars for the Navy and Air Force, which are currently in the delivery stage. They currently own a 5.75 acres of land in Chennai and have proposed 2.81 acres of land for expansion. Their systems and processes are subject to periodic audit by customers leading to high quality output and competitive edge.

Sound order book across products categories with consistent track record of profitable growth

Their order book as of Sept 30,2021 is INR 5.8Bn with several marquee customers such as the Indian government defense ministry, BrahMos, DRDO, the Indian government space organization, Hindustan Aeronautics Ltd, Bharat Electronics Ltd and a DPSU involved in the missile space. As products and systems bought by Indian defense services need to have a life time of minimum 20 years, Data Pattern's systems are designed to meet such operational requirements with a clear policy on obsolescence management. They therefore have several customers with a history of reliable product service over many years. On the financial front, as on 30 Sept,2021, their EBITDA margin stood at 40%, ROE at 10.71%, ROCE at 13.4%. Further, during FY20-21, they recorded the highest growth in revenues (i.e. 43%) amongst key Indian defense and aerospace companies. They also recorded the highest EBITDA margin, ROCE and ROE amongst key Indian defense and aerospace companies during the same period. (Source: Company Commissioned F&S Report)

Valuation and Outlook

Data Patterns is one of the few vertically integrated defence and aerospace electronics solutions providers. Their capabilities from design to delivery allows them a significant competitive advantage in terms of overall development time and cost and also allow them to offer competitive pricing when bidding for defence and aerospace projects. Their high-quality management team has been the driving force behind the company's success. Moving ahead, they shall continue the expansion of their product portfolio, focus on large volume repeat orders and upgrade their design and development capabilities. At the upper price band, the stock is valued at a Price/Sales of 13.6x based on FY21 sales (on post-issue equity), which we believe is fully priced. Thus, we give the issue a "SUBSCRIBE" rating "only for listing gains".

Issue Details

Offer Period	14 th Dec - 16 th Dec 2021
Price Band	INR.555 to INR.588
Bid Lot	25
Listing	BSE&NSE
Issue Size (no. of shares in mn)	10.05
Issue Size (INR. in bn)	5.9
Face Value	INR. 2

Issue Structure

QIB	50 %
NIB	15 %
Retail	35 %

BRLM JM Financials and IIFL Securities

Registrar Link Intime India Pvt Ltd.

Particulars Pre Issue % Post Issue %

Promoter	58.6 %	45.6 %
Public	41.4 %	54.4 %
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Revenue				
Revenue from Contract with Customers	1,311	1,561	2,240	964
Total Revenue	1,311	1,561	2,240	964
Expenses				
Cost of Materials Consumed	454	532	630	262
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	35	29	74	(52)
Employee Benefit Expenses	376	423	484	281
Other Expenses	189	146	131	95
Total Operating Expenses	1,055	1,129	1,320	586
EBITDA	255	432	920	378
Depreciation and Amortization Expense	59	55	56	30
Other Income	14	41	26	7
EBIT	211	418	890	356
Finance Costs	108	133	145	48
PBT	104	284	745	308
Current Tax	34	76	189	74
Tax pertaining to earlier years	1	-	-	-
Deferred Tax Charge	(8)	(2)	1	2
Total Tax	27	74	190	76
PAT	77	210	556	232
Diluted EPS	2	5	12	5

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Cash flow from operating activities	(45)	152	543	101
Cash flow from investing activities	4	14	(27)	(105)
Cash flow from financing activities	22	(154)	(443)	(8)
Net increase/(decrease) in cash and cash equivalents	(18)	12	73	(11)
Cash and cash equivalents at the beginning of the period	21	3	15	88
Cash and cash equivalents at the end of the period	3	15	88	77

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Liabilities				
Share Capital	17	17	17	93
Other Equity	1,312	1,518	2,061	2,073
Net worth	1,329	1,535	2,078	2,166
Borrowings	-	6	98	89
Lease Liabilities	59	38	24	17
Provisions	48	56	85	92
Deferred Tax Liabilities (Net)	9	8	8	10
Other Non Current Liabilities	252	143	274	280
Total Non Current Liabilities	368	251	489	487
Borrowings	601	600	235	436
Lease Liabilities	11	21	15	15
Trade Payables	159	173	120	101
Other Financial Liabilities	36	79	40	64
Other Current Liabilities	248	225	246	163
Provisions	14	15	10	4
Current tax liabilities (net)	8	55	51	122
Total Current Liabilities	1,077	1,167	717	905
Total Liabilities	2,774	2,954	3,284	3,558
Assets				
Property, Plant & Equipment	294	278	292	355
Capital Work in Progress	-	-	-	20
Intangible Assets	2	2	6	12
Right of Use Asset	68	54	32	25
Other financial assets	390	465	341	599
Total Non Current Assets	755	798	671	1,011
Inventories	867	794	737	868
Trade Receivables	1,029	1,156	1,559	1,345
Cash and Cash Equivalents	3	15	88	77
Other Financial Assets	3	37	51	47
Other Current Assets	117	153	177	210
Total Current Assets	2,019	2,155	2,613	2,547
Net Current Assets	942	988	1,896	1,642
Total Assets	2,774	2,954	3,284	3,558

Source: RHP, BP Equities Research

Key Risks

- ⇒ Their business is highly dependent on contracts from GOI and associated entities including defense public sector undertaking and government organizations involved in space research. A decline or reprioritization of the Indian defense or space budget, reduction in orders, termination of existing contracts or any adverse change in GOI' defense or space related policies may have a material adverse impact on their business.
- ⇒ They depend on a limited number of customers such as DRDO' Defense PSU's such as MoD, Brahmos Aerospace and Indian Government space organization for significant portion of their revenue.
- ⇒ Any failure to comply with provisions of the contracts entered with their customers, especially GOI Entities could have an adverse effect on this financial performance and business operations.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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