

# Data Patterns

Defence | India

IPO | 13 December 2021



## Huge Defence & Aerospace Opportunity; Healthy Order book

### About the Company

Data Patterns is one of the few vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. It has proven in-house design and development capabilities, with an experience of over three decades in the defence and aerospace electronics space. Data Patterns offers the entire spectrum of defence and aerospace platforms – space, air, land and sea. The company offers a wide range of products, including COTS modules, avionics displays, communications ATES and satellites, fire control and other electronic systems for BrahMos and electronic warfare surveillance systems and radars. As of Sept'21, it has 818 employees with more than 500 qualified engineers, including 416 members in design & engineering department. Its manufacturing facility consists of a 100,000 sqft factory built on 5.75 acres of land in Chennai, which has facilities for design, manufacturing, qualification and life cycle support of high reliability electronic systems used in defence and aerospace applications. The order book as of Sept'21 stood at Rs5.8bn, with orders from several marquee customers in the Indian defence ecosystem, including the Indian defence ministry, BrahMos, DRDO, the Indian Space Research Organisation, HAL, BEL and a DPSU involved in the missile space. Data Patterns continues to invest in the development of various platform specific products that have an annuity requirement, thus ensuring continuity of business in the coming years. It has received an annuity order for Rs120mn for design and supply of cockpit displays for the Light Utility Helicopter (LUH), which has significant potential to generate additional annuity revenues from the new units required for the larger number of LUHs planned by HAL. Data Patterns has started to focus on civilian requirements like nano satellites, wind profile radar and also plans to expand its export business, which is 10-12% of the core business currently.

### Financials in Brief

During FY19-21, its revenue and PAT clocked 31% and 169% CAGR respectively, while average RoE and RoCE stood at ~15% and ~18%, respectively. During FY18-21, its order book clocked 41% CAGR to Rs4.9bn in FY21, which further expanded to Rs5.8bn in 1H FY22. The company enjoys higher gross margin and EBITDA margin of 68.6% and 41.1% respectively, which are the highest among the key defence and aerospace companies. The order book as of Sept'21 stood at Rs5.8bn (3x FY22 annualized revenue), of which 67% share comes from production, 22% from development and balance 11% from services.

### Our View: SUBSCRIBE

On FY22 annualized financials, the IPO is attractively valued at 40.7x EV/EBITDA, 16x EV/sales and 65.4x P/E vs. Paras Defence's 68.9x EV/Sales and 19.7x EV/Sales and 157x P/E. Total addressable market is expected to grow from \$1.97bn in CY20 to \$6.65bn in FY30E, with a CAGR of 9%. The opportunities in Indian defence sector is seen strong at \$65bn in FY22. The company is looking to expand its product portfolio and focus on repeat large-volume production orders. Furthermore, it expects to augment design and development capabilities and increase its revenues by leveraging core competencies and growing its services and exports business. Data Patterns has a healthy order book of Rs5.8bn (3x FY22 annualized sales), providing revenue visibility over the medium term. **In view of the strong financials, healthy order book of 3x, strong track record of delivery, unmatched competency model & technology and attractive valuation, we recommend SUBSCRIBE to the issue with a long-term perspective.**

#### IPO Details

Price Band (Rs)	555-585
Face Value (Rs)	2
Issue Open/Closing Date	14 Dec/ 16 Dec
Fresh Issues (mn)	4.1
OFS (mn)	6.0
<b>Total Issue (mn)</b>	<b>10.1</b>
Minimum Bid Qty. (Nos)	25
<b>Issue Size (Rs bn)</b>	<b>5.9</b>
QIB / HNI / Retail	50% / 15% / 35%
<b>Implied Market Cap (Rs bn)</b>	<b>30.4</b>

#### Object of the Issue

- ▶ Repayment of debt
- ▶ Working capital Funding
- ▶ Capex for existing facilities at Chennai.

#### Key Risk

- ▶ Dependent on order from the Govt including defence and government organizations in space research.
- ▶ Dependent on a limited number of customers such as DRDO Defence PSUs like MoD and BrahMos Aerospace
- ▶ Delays and failures to meet order specifications

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	58.6	45.6
Public	41.4	54.4

#### Key Financials

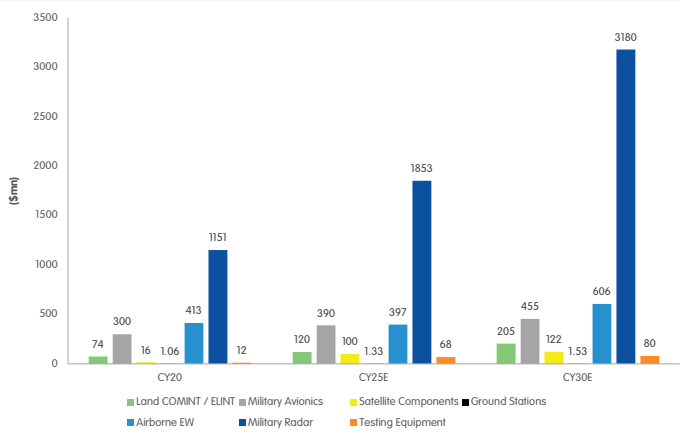
(Rs mn)	FY19	FY20	FY21
Order Book	1,787	1,815	4,980
Revenue	1,311	1,561	2,240
EBITDA	255	432	920
EBITDA Margin (%)	19.5	27.6	41.1
PAT	77	210	556
PAT Margin (%)	5.9	13.5	24.8
EPS (Rs)	1.5	4.1	10.7
P/E (x)	394.1	144.2	54.6
EV/EBITDA (x)	120.6	71.4	33.5
EV/Sales (x)	23.5	19.7	13.8
Net Worth	1,329	1,535	2,078
RoE (%)	5.8	13.7	26.7
Gross Debt	601	606	332
Net Block	294	278	292
Net Asset Turnover (x)	4.5	5.6	7.7
Book to Bill	1.4	1.2	2.2

Source: RHP

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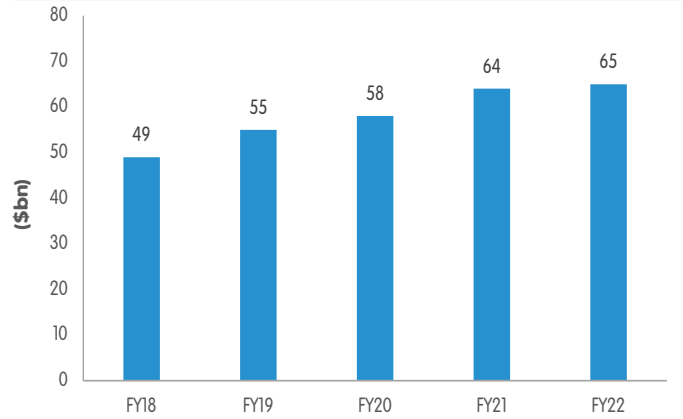
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Exhibit 1: Total Addressable Market



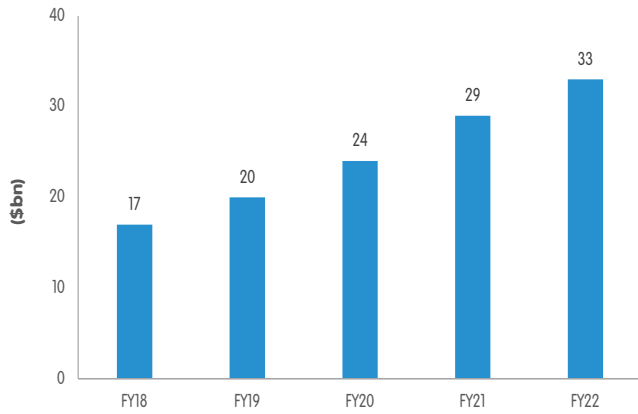
Source: RHP

Exhibit 2: Defence Budget



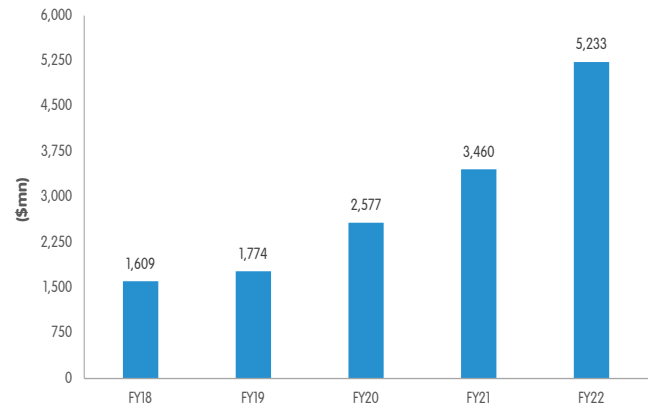
Source: RHP

Exhibit 3: Capital & Store Expense



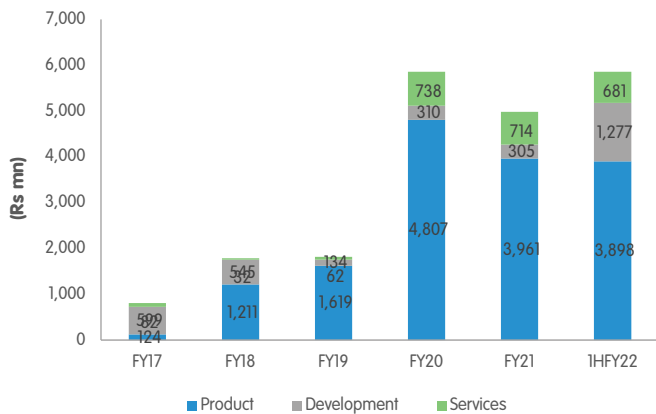
Source: RHP

Exhibit 4: Defence Electronics Market



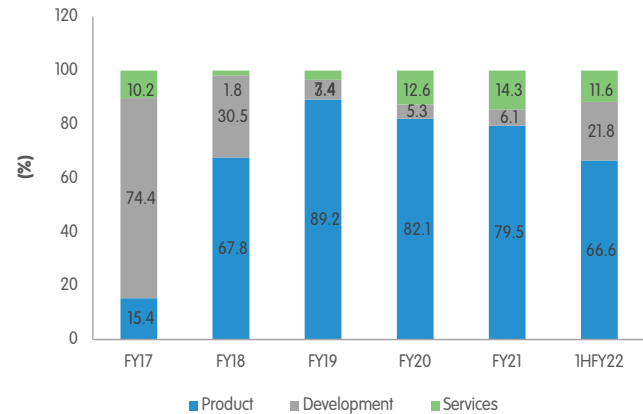
Source: RHP

Exhibit 5: Order Book



Source: RHP

Exhibit 6: Order Book Mix



Source: RHP

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