

# Data Patterns (India) | BUY

## Strong quarter; to continue focus on NWC moderation

Data Patterns reported inline numbers, as net sales grew 23% YoY, EBITDA grew 35% YoY with EBITDA margin at 37.6% vs. 34.2% (340bps YoY, JMFe: 32.2%). PAT was up 61% YoY at INR 338mn (in line). NWC at 353 days in Sept-23 remained elevated but moderated from 434 days in Sept-22 (365 days in Mar-23). OCF for 1HFY24 was (+) INR 210mn vis-à-vis (-) INR 721mn in 1HFY23. Order book grew by 20% YoY to INR10.0bn (2x TTM sales) with order inflows of INR1.5bn (1HFY24: INR 2.7bn). The company expects to maintain +25% revenue CAGR for the next 2-3 years with 35-40% EBITDA margin in FY24 and intends to attain 20%+ return ratios. Management highlighted that they intend to use the proceeds of QIP of INR5bn for developing complete products for the defence segment in the areas of radars, EW and communication systems. These products will help in capitalising large opportunities in future especially with the GOI's focus on indigenising design and development of defence products. We expect sales and EPS CAGR of 32% and 37% respectively over FY23-26E. Maintain BUY with TP of INR2,720 (55x Sept'25E EPS).

- Revenue growth led by robust growth in development contracts:** Net sales grew by 23% YoY to INR1.1bn, largely led by robust growth in development contracts that grew to INR639mn (+190% YoY) while revenue from production contract declined to INR401mn (-37% YoY). Revenue from service contracts grew by 64% YoY to INR43mn. Revenue composition during 2QFY24: DRDO (57%), Exports (1%), MOD (27%), DoS (7%), Brahmos (1%), and HAL (5%).
- Favourable revenue mix supports margins:** EBTIDA was up 35% YoY to INR408mn, mainly due to better gross margins (+410bps YoY to 69%) and lower other expenses (-130bps vs last year), however employee cost remain high at 23.7% of sales (+200bps YoY). Overall, EBITDA margins stood at 37.6% (+340bps YoY) in 2QFY24. Company expect to maintain 35-40% EBITDA margin in FY24 with healthy increase in order book for the production contracts (INR3.7bn).
- Order book strength sustained; to target continued reduction in NWC levels:** Order book grew by 20% YoY to INR10.0bn (2x TTM sales) with order inflows of INR1.5bn in 2QFY24 (1HFY24: INR 2.7bn; FY23: INR 9bn). Major orders received in 2QFY24 were **a)** Radar (export, Development) for INR389mn, **b)** radar (BEL, production) for INR321mn, and **c)** Avionics (HAL, production) for INR447mn. The company expects healthy order inflows of +INR 5bn in FY24 (FY23 included a large order from DRDO leading to high base). Data Patterns also targets to lower the NWC intensity to below 300 days in the next 1-2 years.
- Maintain BUY with TP of INR 2,720:** Data Patterns' order backlog stood at INR 10.0bn in Sept-23 (2x TTM revenue) and is pursuing repeat order win prospects of INR 20-30bn. We expect revenue/EPS CAGR of 32%/37% over FY23-26E led by robust growth prospects and sustained margins. Data Patterns' development led business model and robust growth prospects support elevated valuations of 46x/34x FY25E/26E EPS. Maintain BUY with unchanged TP of INR2720 valuing at 55x Sept'25E EPS. **Key risk:** Weak order intake.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,720
Upside/(Downside)	39.0%
Previous Price Target	2,720
Change	0.0%

### Key Data – DATAPATT IN

Current Market Price	INR1,957
Market cap (bn)	INR109.5/US\$1.3
Free Float	58%
Shares in issue (mn)	55.9
Diluted share (mn)	55.9
3-mon avg daily val (mn)	INR561.3/US\$6.7
52-week range	2,485/995
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

### Price Performance

%	1M	6M	12M
Absolute	-6.5	14.3	36.2
Relative*	-5.0	7.5	27.8

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	3,109	4,535	5,824	7,786	10,419
Sales Growth (%)	38.8	45.9	28.4	33.7	33.8
EBITDA	1,410	1,718	2,114	2,850	3,989
EBITDA Margin (%)	45.4	37.9	36.3	36.6	38.3
Adjusted Net Profit	940	1,240	1,781	2,356	3,177
Diluted EPS (INR)	18.1	22.2	31.8	42.1	56.8
Diluted EPS Growth (%)	52.2	22.5	43.6	32.3	34.9
ROIC (%)	31.2	26.8	26.7	29.0	31.0
ROE (%)	24.0	14.2	14.3	16.4	18.9
P/E (x)	39.1	47.8	61.5	46.5	34.5
P/B (x)	6.4	5.1	8.2	7.1	6.0
EV/EBITDA (x)	24.9	31.3	48.7	36.0	25.7
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

JM Financial Research is also available on:  
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Exhibit 1. Quarterly performance

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var (%)	1HFY23	1HFY24	YoY (%)
Net Sales	882	1,083	22.9	897	20.8	1,147	-5.6	1,565	1,980	26.5
Expenditure	580	676	16.5	619	9.2	777	-13.1	1,051	1,294	23.1
EBITDA	302	408	35.1	278	46.5	370	10.2	514	686	33.4
EBITDA (%)	34.2	37.6	340bps	31.0	660bps	32.2	540bps	32.8	34.6	180bps
Other income	19	108	485.9	116	-6.6	118	-8.1	36	225	532.4
Depreciation	21	31	44.1	28	8.1	29	5.9	41	59	43.8
EBIT	299	485	62.4	366	32.6	459	5.7	509	851	67.4
Interest	12	23	85.2	17	31.4	19		28	40	43.7
PBT	287	463	61.4	349	32.7	440	5.2	481	812	68.8
Tax	76	125	64.0	91	37.9	111	12.6	128	215	68.3
Tax rate (%)	26.6	27.0	NA	25.9		25.2		26.6	26.5	NA
Adj PAT	211	338	60.5	258	30.8	329	2.7	353	596	68.9
Adj EPS (INR)	4.1	6.0	48.8	4.6	30.8	5.9	2.7	6.8	10.7	56.9

Source: Company, JM Financial

## Exhibit 2. Cost break-up

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var (%)	1HFY23	1HFY24	YoY (%)
COGS	310	336	8.4	339	-0.9	436	-23.0	551	674	22.3
as a % of sales	35.1	31.0	-410bps	37.8	-680bps	38.0	-700bps	35.2	34.1	-120bps
Staff Cost	191	257	34.3	219	17.4	239	7.4	366	476	29.9
as a % of sales	21.7	23.7	200bps	24.4	-70bps	20.9	290bps	23.4	24.0	60bps
Other Expenditure	79	83	4.9	61	35.7	102	-18.9	134	144	7.6
as a % of sales	8.9	7.6	-130bps	6.8	80bps	8.9	-130bps	8.5	7.3	-130bps

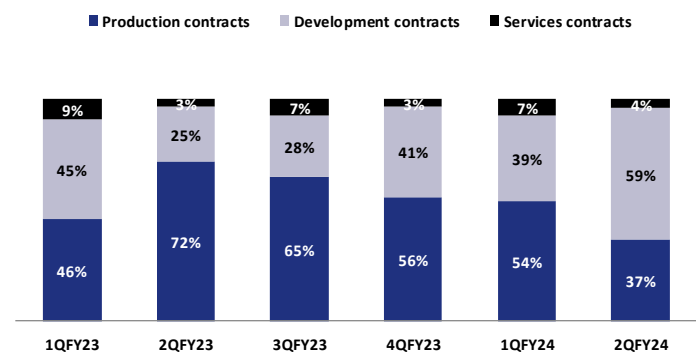
Source: Company, JM Financial

## Exhibit 3. Segmental Performance – Revenue

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)
Production contracts	635	401	-36.9	484	-17.3	949	885	-6.8
% of net sales	72%	37%		54%		61%	45%	
Development contracts	220	639	189.9	349	82.7	528	989	87.2
% of net sales	25%	59%		39%		34%	50%	
Services contracts	26	43	63.8	63	-31.0	88	106	20.6
% of net sales	3%	4%		7%		6%	5%	

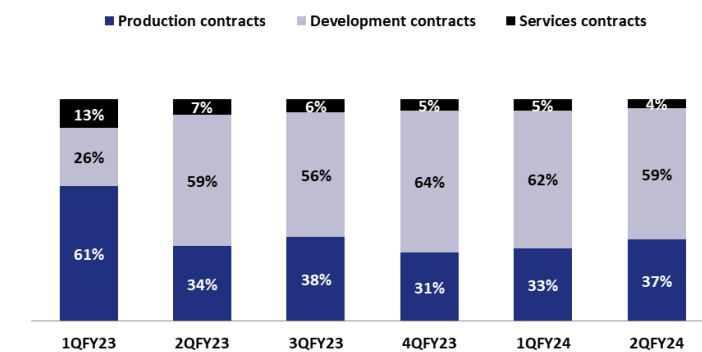
Source: Company, JM Financial

## Exhibit 4. Revenue breakup over the period



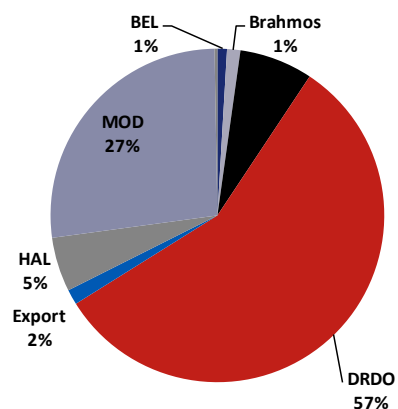
Source: Company, JM Financial

## Exhibit 5. Order book stood at INR 10.0bn, 2.0x TTM sales in 1HFY24



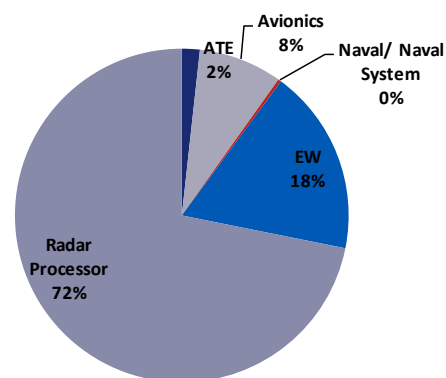
Source: Company, JM Financial

Exhibit 6. Client contribution in 2QFY24



Source: Company, JM Financial

Exhibit 7. Product contribution in 2QFY24



Source: Company, JM Financial

## Key conference call takeaways

- **Earning trajectory intact:** Management maintained guidance of revenue CAGR of +25% in the coming years
- **Focus on exports to increase:** Exports order inflow received in 2Q stood at INR390mn is likely to be executed by next year and pertains to clients in Europe, UK and South Korea. The company cautioned against extrapolating the current pace of export orders in the coming quarters. Once these orders are delivered and tested there can be a potential for larger sized and repeat production orders.
- **Margins to be a function of revenue mix:** Management expects margins to be slightly better in comparison to last year and expects EBITDA margins in the range of 35-40%. Further, higher production contract within order book to aid in supporting margins at higher level given better capacity utilisation.
- **Inventory levels could move higher:** Currently supply chain challenges do not exist, however company expects to maintain inventories at higher levels in order to avoid any disruptions.
- **Progress in various programmes orders:** a) Brahmos seekers: company has participated in all the trials of Brahmos seekers and have handed over the same to DRDO b) the company is actively participating Make 1 and Make 2 programs, expects revenue to ramp up significantly in the coming years c) Dornier upgrade progressing well where company is undertaking EW systems, radars etc.
- **Fund raise to stay ahead of the curve and address upcoming opportunities:** Management highlighted that with recent raise of INR5bn they intend to address the upcoming opportunities.

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	3,109	4,535	5,824	7,786	10,419	
Sales Growth	38.8%	45.9%	28.4%	33.7%	33.8%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>3,109</b>	<b>4,535</b>	<b>5,824</b>	<b>7,786</b>	<b>10,419</b>	
Cost of Goods Sold/Op. Exp	861	1,709	2,330	3,153	4,168	
Personnel Cost	624	795	1,002	1,276	1,585	
Other Expenses	214	312	379	506	677	
<b>EBITDA</b>	<b>1,410</b>	<b>1,718</b>	<b>2,114</b>	<b>2,850</b>	<b>3,989</b>	
EBITDA Margin	45.4%	37.9%	36.3%	36.6%	38.3%	
EBITDA Growth	53.3%	21.8%	23.0%	34.8%	40.0%	
Depn. & Amort.	66	85	116	148	192	
EBIT	1,344	1,634	1,998	2,702	3,797	
Other Income	40	92	463	554	593	
Finance Cost	110	77	80	106	142	
PBT before Excep. & Forex	1,274	1,649	2,381	3,150	4,247	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,274	1,649	2,381	3,150	4,247	
Taxes	334	409	600	794	1,070	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	940	1,240	1,781	2,356	3,177	
<b>Adjusted Net Profit</b>	<b>940</b>	<b>1,240</b>	<b>1,781</b>	<b>2,356</b>	<b>3,177</b>	
Net Margin	30.2%	27.3%	30.6%	30.3%	30.5%	
Diluted Share Cap. (mn)	51.9	55.9	55.9	55.9	55.9	
<b>Diluted EPS (INR)</b>	<b>18.1</b>	<b>22.2</b>	<b>31.8</b>	<b>42.1</b>	<b>56.8</b>	
Diluted EPS Growth	52.2%	22.5%	43.6%	32.3%	34.9%	
Total Dividend + Tax	111	182	178	236	318	
Dividend Per Share (INR)	2.1	3.2	3.2	4.2	5.7	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	1,274	1,648	2,381	3,150	4,247	
Depn. & Amort.	66	85	116	148	192	
Net Interest Exp. / Inc. (-)	70	-7	-383	-448	-451	
Inc (-) / Dec in WCap.	-624	-1,412	-771	-1,444	-2,224	
Others	0	48	0	0	0	
Taxes Paid	-284	-534	-600	-794	-1,070	
<b>Operating Cash Flow</b>	<b>503</b>	<b>-173</b>	<b>743</b>	<b>612</b>	<b>695</b>	
Capex	-382	-395	-300	-500	-600	
Free Cash Flow	121	-568	443	112	95	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-757	-117	463	554	593	
<b>Investing Cash Flow</b>	<b>-1,139</b>	<b>-512</b>	<b>163</b>	<b>54</b>	<b>-7</b>	
Inc / Dec (-) in Capital	3,000	5,000	0	0	0	
Dividend + Tax thereon	-111	-182	-178	-236	-318	
Inc / Dec (-) in Loans	-179	-60	0	0	0	
Others	-391	-399	-66	-106	-142	
<b>Financing Cash Flow</b>	<b>2,319</b>	<b>4,359</b>	<b>-244</b>	<b>-342</b>	<b>-459</b>	
<b>Inc / Dec (-) in Cash</b>	<b>1,683</b>	<b>3,675</b>	<b>661</b>	<b>325</b>	<b>228</b>	
Opening Cash Balance	88	1,771	5,445	6,107	6,431	
Closing Cash Balance	1,771	5,445	6,107	6,431	6,659	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	5,745	11,671	13,274	15,394	18,254	
Share Capital	104	112	112	112	112	
Reserves & Surplus	5,641	11,559	13,162	15,282	18,142	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	68	7	7	7	7	
Def. Tax Liab. / Assets (-)	-8	-7	-7	-7	-7	
<b>Total - Equity &amp; Liab.</b>	<b>5,805</b>	<b>11,671</b>	<b>13,274</b>	<b>15,395</b>	<b>18,254</b>	
Net Fixed Assets	648	1,134	1,304	1,656	2,063	
Gross Fixed Assets	590	1,305	1,605	2,105	2,705	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	115	184	301	449	642	
Capital WIP	173	14	0	0	0	
Investments	0	557	557	557	557	
Current Assets	6,412	12,652	14,132	16,841	20,590	
Inventories	1,198	1,930	2,393	2,986	3,996	
Sundry Debtors	1,983	3,825	4,228	5,546	7,422	
Cash & Bank Balances	1,771	5,445	6,107	6,431	6,659	
Loans & Advances	248	212	128	171	228	
Other Current Assets	1,213	1,241	1,276	1,706	2,284	
Current Liab. & Prov.	1,255	2,671	2,719	3,659	4,956	
Current Liabilities	382	431	319	427	571	
Provisions & Others	874	2,241	2,400	3,232	4,385	
Net Current Assets	5,157	9,981	11,413	13,182	15,634	
<b>Total - Assets</b>	<b>5,805</b>	<b>11,671</b>	<b>13,274</b>	<b>15,395</b>	<b>18,254</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	30.2%	27.3%	30.6%	30.3%	30.5%	
Asset Turnover (x)	0.8	0.5	0.5	0.5	0.6	
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0	
RoE	24.0%	14.2%	14.3%	16.4%	18.9%	

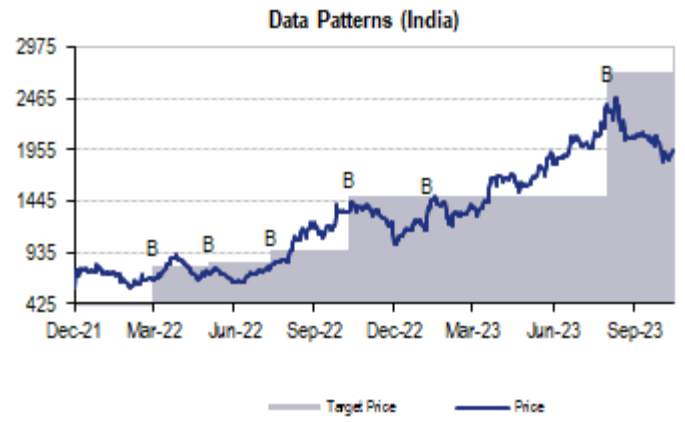
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	110.6	208.7	237.3	275.2	326.3	
ROIC	31.2%	26.8%	26.7%	29.0%	31.0%	
ROE	24.0%	14.2%	14.3%	16.4%	18.9%	
Net Debt/Equity (x)	-0.3	-0.5	-0.5	-0.5	-0.4	
P/E (x)	39.1	47.8	61.5	46.5	34.5	
P/B (x)	6.4	5.1	8.2	7.1	6.0	
EV/EBITDA (x)	24.9	31.3	48.7	36.0	25.7	
EV/Sales (x)	34.7	22.8	17.7	13.2	9.8	
Debtor days	233	308	265	260	260	
Inventory days	141	155	150	140	140	
Creditor days	82	56	31	32	32	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Mar-22	Buy	800	
24-May-22	Buy	830	3.8
3-Aug-22	Buy	950	14.5
1-Nov-22	Buy	1,500	57.9
30-Jan-23	Buy	1,500	0.0
22-Aug-23	Buy	2,720	81.3

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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