

Data Patterns (India) Ltd

Focus on indigenisation in defence procurement to drive growth



V E N T U R A

Kyon ki bhaiya, sabse bada rupaiya.

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Not Rated

Focus on indigenisation in defence procurement to drive growth

Incorporated in 1985, Data Patterns India Ltd (DPIL) is a vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. Its offerings cater to the entire spectrum of defence and aerospace platforms – space, air, land and sea with in-house design and development capabilities.

The Indian defence capital and stores expenditure is expected to grow at 6.5% CAGR to USD 42.76 bn over FY22-31 and the Indian defence electronics market is expected to grow at 15.7% CAGR to USD 7.0 bn over FY21-30. Having developed the building blocks across all electronics has allowed DPIL to develop complete systems. With Indian defence requirements being opened out to indigenous manufacturers, we believe that opportunities are now available which can be addressed based on the company's in-house capabilities to develop such large systems.

We forecast revenue/EBITDA/PAT to grow at 28.5%/24.4%/29.4% to INR 475 cr/INR 177 cr/INR 120 cr by FY24. EBITDA margins are expected to decline by 380 bps to 37.3% however net profit margin is expected to improve 50 bps to 25.3%.

DRDO, in the years to come is expected to announce an order (worth INR 2000 cr) for systems integration. We assume DPIL is only going to get part of the order (i.e., INR 800 cr for electric components) in which case margins are going to be stable at historical levels. If, however, it wins the entire order then there is expected to be a quantum jump in EBITDA although overall gross margin may decline to 40% levels (from the current 69%) given that system integration is a lower margin activity.

At the IPO price of INR 585 per share, the company is trading at a P/E of 25.2X FY24 EPS. The proposed issue size is INR 588 cr out of which INR 240 is a fresh issue and the balance is OFS. Post the OFS, the promoter holding will stand reduced to 45.6%.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	156	43	21	27.6	13.5	4.1	29.6	13.7	17.2	144.2	19.8	71.8
FY21	224	86	56	38.6	24.8	10.7	40.0	26.7	36.5	54.6	14.6	33.3
FY22E	307	115	78	37.5	25.3	15.0	102.7	14.6	29.1	39.1	5.7	24.9
FY23E	390	146	99	37.4	25.3	19.0	121.4	15.7	27.5	30.8	4.8	19.8
FY24E	475	177	120	37.3	25.3	23.2	144.3	16.1	28.2	25.2	4.1	16.2

Industry	Defence
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Issue Details

Listing	BSE & NSE
Open Date	14 th Dec 2021
Close Date	16 th Dec 2021
Price Band	INR 555-585
Face Value	INR 2
Market Lot	25 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	59%
Fresh Issue	41%
Issue Size (Amount)	INR 588 cr
Issue Size (Shares)	1,00,55,114
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	4,77,84,086
Post issue sh (nos)	5,18,86,650
Post issue M Cap	INR 3,035 cr

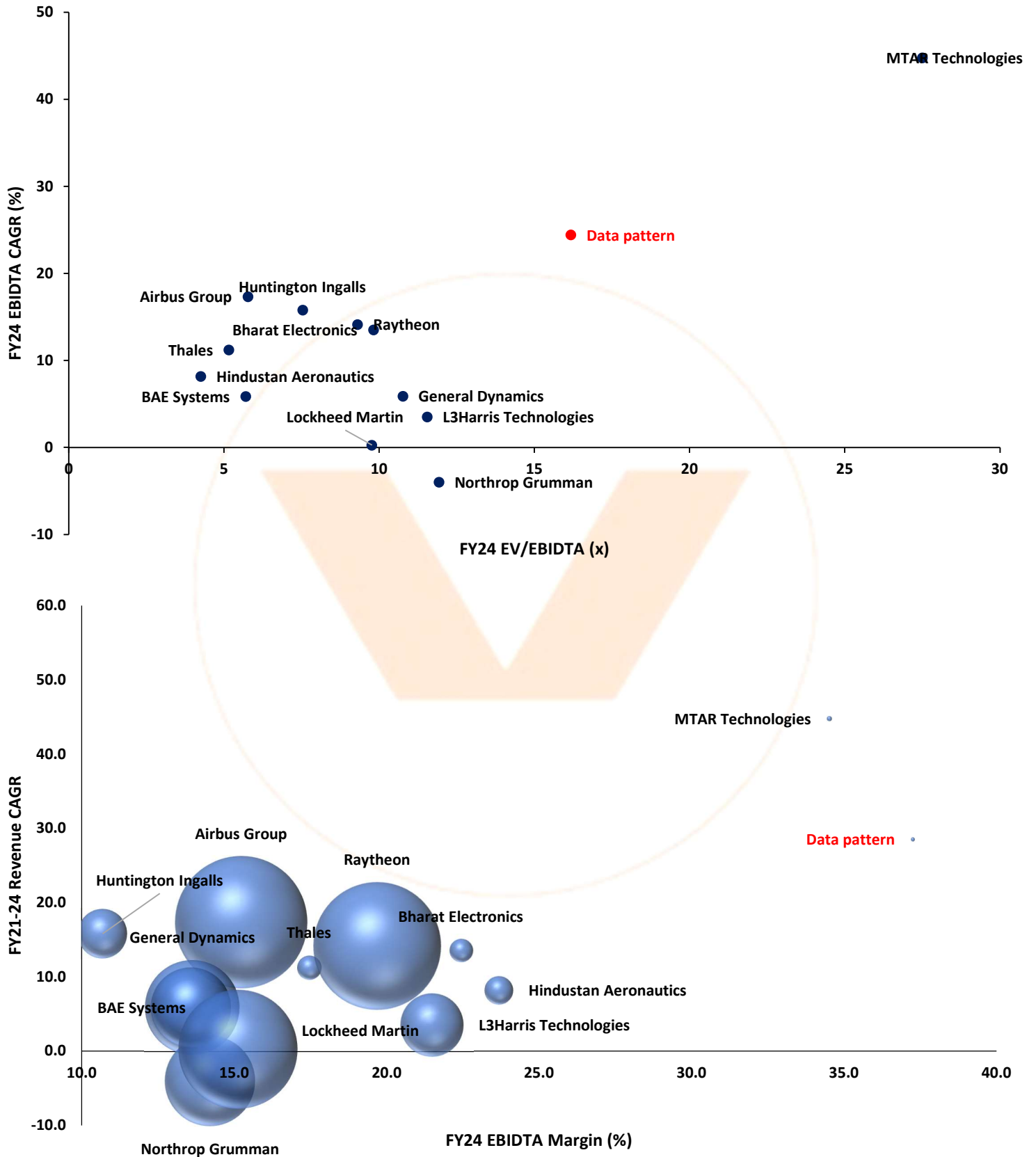
Shareholding (%)	Pre (%)	Post (%)
Promoter	58.6	45.6
Public	41.4	54.4
TOTAL	100.0	100.0

Valuation and Comparable Metric of Domestic and Global Peers

Company Name	Mkt Cap	Price	PEG 2024	P/E Ratio			P/BV			EV/EBIDTA			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
				2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Domestic Peers (Fig in INR Crores)																											
Data pattern	3,035	585	0.9	39.1	30.8	25.2	5.7	4.8	4.1	24.9	19.8	16.2	14.6	15.7	16.1	29.1	27.5	28.2	307	390	475	37.5	37.4	37.3	25.3	25.3	25.3
Bharat Electronics	50,084	206	1.1	20.7	18.3	15.9	4.0	3.6	3.3	13.3	11.6	9.8	19.6	19.7	20.5	35.8	36.7	41.6	16,016	17,997	20,261	21.8	22.0	22.4	15.1	15.2	15.5
MTAR Technologies	7,355	2,391	0.7	105.1	61.6	41.9	14.0	12.2	10.3	64.2	40.0	27.5	13.3	19.8	24.5	31.5	43.0	51.7	328	520	748	34.0	34.3	34.5	21.4	23.0	23.5
Hindustan Aeronautics	43,641	1,305	1.0	12.3	11.5	10.1	2.5	2.2	1.9	6.1	5.1	4.3	20.0	18.8	18.8	54.6	62.1	64.6	24,363	25,780	28,803	23.0	23.4	23.7	14.6	14.8	15.1
Astra Microwave	2,264	261	0.3	46.0	27.6	18.7	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Centum Electronics	727	564	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bharat Dynamics	7,386	403	0.2	13.3	10.1	9.7	2.2	1.7	1.4	6.9	NA	NA	16.5	17.2	14.8	44.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Global Peers (Fig in USD mn)																											
Thales	20,765	97	0.9	12.9	11.8	10.7	2.9	2.6	2.4	6.9	6.0	5.2	22.5	21.8	22.3	26.5	30.6	32.8	20,196	20,796	21,896	15.4	16.3	17.5	8.0	8.4	8.8
Airbus Group	93,759	119	0.5	20.5	15.6	13.3	6.4	4.8	3.7	8.9	7.0	5.8	31.0	31.0	27.5	98.9	123.5	129.4	67,705	77,938	86,014	14.2	14.9	15.2	6.7	7.7	8.2
General Dynamics	57,221	205	2.2	16.6	15.3	14.5	3.3	3.1	2.9	12.4	11.5	10.8	19.8	20.2	19.7	17.0	18.0	18.7	40,435	42,417	44,010	13.2	13.4	13.6	8.5	8.8	9.0
Northrop Grumman	58,827	371	-6.8	15.1	14.1	13.6	4.6	4.1	4.1	13.2	12.2	11.9	30.6	29.1	29.9	17.7	17.9	18.5	37,031	38,429	40,173	13.9	14.4	14.2	10.5	10.9	10.7
BAE Systems	23,353	7	1.6	11.1	10.5	9.9	2.7	2.4	2.0	6.8	6.2	5.7	24.7	23.3	20.3	26.7	28.2	26.8	29,322	30,484	31,643	13.2	13.3	13.6	7.2	7.3	7.4
Raytheon	1,28,962	86	1.0	18.0	15.2	13.8	1.8	1.7	1.8	12.1	10.5	9.3	9.9	11.4	13.1	8.8	10.3	12.1	70,480	75,717	80,321	17.6	18.9	19.7	10.2	11.2	11.6
Lockheed Martin	95,113	345	2.7	13.4	13.0	13.2	11.9	10.1	12.7	10.1	9.8	9.8	88.7	77.3	96.4	53.3	50.9	56.4	66,437	67,825	69,872	15.5	15.5	15.1	10.7	10.8	10.3
L3Harris Technologies	42,542	217	3.8	16.5	15.4	14.5	2.1	2.2	2.3	11.9	11.8	11.5	13.0	14.0	16.2	13.5	14.0	15.5	18,163	18,838	19,659	22.3	21.8	21.5	14.2	14.7	14.9
Huntington Ingalls	7,450	186	0.8	12.8	10.8	9.6	3.1	2.7	2.5	10.2	8.7	7.5	24.2	24.9	25.7	12.6	14.7	17.3	10,921	11,335	11,771	9.1	9.9	10.7	5.3	6.1	6.6

Source: Ventura Research & Bloomberg

DPIL is available at a significant discount to peers



Source: Ventura Research, ACE Equity & Bloomberg

Understanding the business

DPIL is a vertically integrated defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry. Its offerings cater to the entire spectrum of defence and aerospace platforms – space, air, land and sea. Between FY19-21, it was amongst the highest growing companies in terms of revenues amongst key Indian defence and aerospace companies as captured in the company commissioned F&S Report, with a growth in its revenues of 71% during this period.

The company's design capabilities span across the entire spectrum of strategic defence and aerospace electronics solutions. This includes 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.

DPIL's Product Offerings

Category	Select Product offerings	Category	Select Product offerings
Commercial off the shelf (COTS) 	<p>COTS modules designed in context of reusable building blocks for building Military Electronics systems with a quick turnaround time</p>   	BrahMos Programme 	<ul style="list-style-type: none"> Fire control systems Mobile autonomous launcher Airborne launcher and Other electronic systems  
Avionics 	<p>Avionics displays used on :</p> <ul style="list-style-type: none"> Light Combat Aircraft ("LCA"), Intermediate Jet Trainers Light Utility Helicopters ("LUH") 	Electronic Warfare 	<ul style="list-style-type: none"> Surveillance and intelligence gathering ("SIGINT") Further divided into COMINT and ELINT   
Communications, ATEs and Satellites 	<ul style="list-style-type: none"> Underwater electronics / Communications / Other Systems Automated Test Equipment (ATE) Small and Nano Satellites  	Radars 	<p>Surveillance radars Weather radars Coastal Surveillance Radar</p>    

Source: Company Reports

The company's order book (as of H1FY22) stands at INR 581.3 cr. This is marked by a CAGR of 40.1% from INR 178.7 cr as of April 2018 and highlights the scalability of the model.

DPII's growth in order book over FY17-H1FY22



Source: Company Reports

DPII's order book (as of Sept 2021)

Particulars	Number of orders	Value (INR cr)
Production Contracts	34	389.8
Development Contracts	19	123.3
Service Contracts	52 (including 27 Build to Print orders)	68.1
Total order book	105	581.3

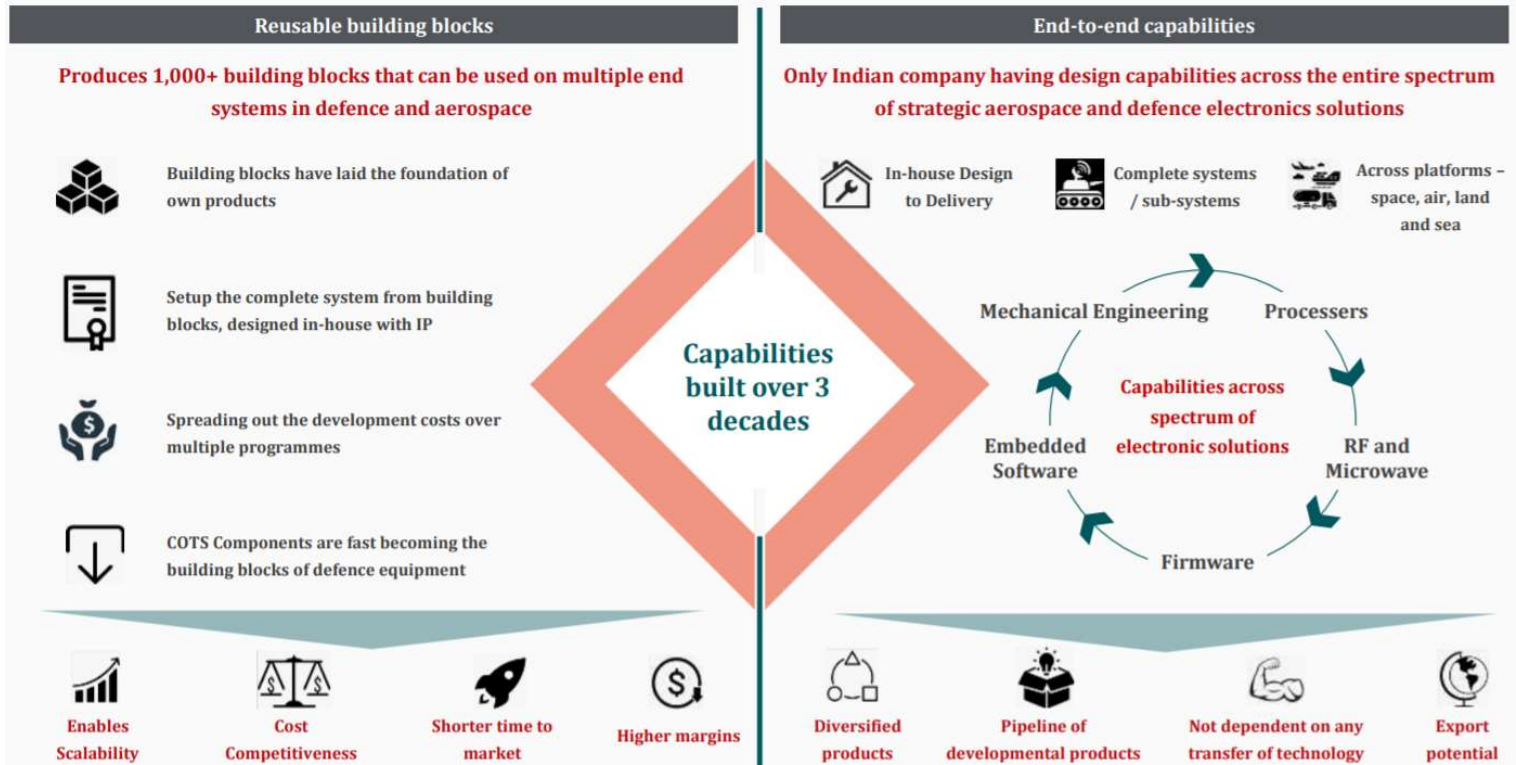
Source: Company RHP

The company's manufacturing facility consists of a 100,000 square feet 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 facility includes an Electronic Manufacturing Services ('EMS') line, clean rooms, board, box and rack level integration capability and environmental testing making it self-sufficient in its requirement of high quality and high complexity production. In house functional testing for all products are carried out, usually using internally developed automatic testing equipment.

It is also in the process of upgrading and expanding its facility, with a proposed doubling of available floor area and manufacturing capacity, as well as addition of capability of handling large and heavy equipment, integration of large radars and mobile electronic warfare systems and satellite integration facility. Its testing capabilities are also proposed to be further strengthened. The company is proposing to acquire an additional 2.81 acres of adjacent land for further expansion.

DPIL has developed end to end capabilities with reusable building blocks



Source: Company Reports

Financial Analysis and Projections

Over the period FY19-21, DPIL reported a revenue CAGR of 30.7% to reach a revenue of INR 224 cr. This was driven by a 41.9% CAGR in the Production vertical to INR 170 cr (76% contribution to revenue as of FY21), 0.1% CAGR in the Development vertical to INR 37 cr (16.3% share in FY21 revenue) and 31.0% CAGR in the Service vertical to INR 17 cr (7.7% share in FY21 revenue). The total order book grew at 65.6% CAGR to INR 498 cr.

EBITDA/net profit grew at a CAGR of 102.3%/168.8% to INR 92 cr/ INR 56 cr respectively. EBITDA/net profit margin improved by 2,390 bps/1,890 bps to 41.1%/24.8%. Return ratios ROE and ROIC also improved by 2,100 bps and 2,440 bps to 26.7% and 28.2% respectively.

Over the period FY21-24E, we expect DPIL to grow its revenues at a CAGR of 28.5% to INR 475 cr driven by a 32.8% CAGR in the Production vertical to INR 398 cr (83.8% contribution to FY24 revenue), 10.3% CAGR in the Development vertical to INR 49 cr (10.3% share in FY24 revenue) and 17.4% CAGR in the Service vertical to INR 28 cr (5.9% share in FY24 revenue). The total order book is expected to grow at 38.5% to INR 1,323 cr.

In the coming years, the Defence Research and Development Organisation (DRDO) is going to announce an order worth INR 2,000 cr for the purpose of system integration. The general expectation is that the order win will be secured by a DPSU and the electric components order worth INR 800 cr would come to DPIL. If this happens then margins are expected to be stable around the historical levels. If, however, DPIL wins the entire order worth INR 2,000 cr then apart from manufacturing the electric components worth INR 800 cr, it will also secure the INR 1200 cr worth of system integration business which will lead to gross margins falling to levels of 40%. Going forward, as order win size increases, the system integration component typically goes up which would mean a lower margin profile than it has seen historically.

Going along with the assumption that a DPSU will win the order and give the electric components part of it to DPIL, EBITDA/PAT are expected to grow at a CAGR of 24.4%/29.4% to INR 177 cr/INR 120 cr respectively. EBITDA margin is expected to take a hit of 380 bps and stand at 37.3%. PAT margin, however, is expected to improve marginally by 50bps to 25.3% respectively. Return ratios ROE and ROIC are expected to contract by 1070 bps and 830 bps to 16.1% and 28.2% by FY24.

DPIL's Financial Summary

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Revenue from operations	131.1	156.1	224.0	307.2	389.8	475.5	553.5	674.6	808.6	949.2	1,097.0	1,252.1	1,415.0
YoY Growth (%)	16.1	19.1	43.5	37.2	26.9	22.0	16.4	21.9	19.9	17.4	15.6	14.1	13.0
Employee Cost	37.5	41.1	47.2	70.7	89.7	109.4	127.3	155.2	185.2	217.4	251.2	286.7	324.0
Employee Cost to Sales (%)	28.6	26.3	21.1	23.0	23.0	23.0	23.0	23.0	22.9	22.9	22.9	22.9	22.9
Other Expenses	22.6	15.7	14.4	21.5	27.1	33.5	39.6	48.9	59.4	70.7	82.8	93.3	104.0
Other Expenses to Sales (%)	17.2	10.1	6.4	7.0	7.0	7.1	7.2	7.3	7.4	7.5	7.6	7.5	7.4
Cost to income ratio (%)	45.8	36.4	27.5	30.0	30.0	30.1	30.2	30.3	30.3	30.4	30.5	30.4	30.3
EBITDA	22.5	43.2	92.0	115.2	145.8	177.1	205.3	249.3	297.6	347.9	400.4	457.6	517.9
EBITDA Margin (%)	17.2	27.6	41.1	37.5	37.4	37.3	37.1	37.0	36.8	36.7	36.5	36.6	36.6
Net Profit	7.7	21.0	55.6	77.6	98.6	120.4	140.2	172.0	206.9	242.3	279.4	320.3	363.7
Net Margin (%)	5.9	13.5	24.8	25.3	25.3	25.3	25.3	25.5	25.6	25.5	25.5	25.6	25.7
Adjusted EPS	45.2	123.8	326.9	456.5	580.3	708.1	825.0	1,011.9	1,216.9	1,425.0	1,643.4	1,884.2	2,139.4
P/E (X)	12.9	4.7	1.8	1.3	1.0	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3
Adjusted BVPS	784.3	902.9	1,222.2	3,134.7	3,706.2	4,403.7	5,216.4	6,213.1	7,375.2	8,736.1	10,305.5	12,048.4	13,963.2
P/BV (X)	0.7	0.6	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Enterprise Value	3,058.4	3,100.4	3,064.4	2,870.6	2,889.7	2,865.2	2,810.1	2,764.6	2,704.3	2,631.5	2,530.5	2,408.4	2,266.7
EV/EBITDA (X)	136.0	71.8	33.3	24.9	19.8	16.2	13.7	11.1	9.1	7.6	6.3	5.3	4.4
Net Worth	133.3	153.5	207.8	532.9	630.1	748.6	886.8	1,056.2	1,253.8	1,485.1	1,751.9	2,048.2	2,373.7
Return on Equity (%)	5.8	13.7	26.7	14.6	15.7	16.1	15.8	16.3	16.5	16.3	15.9	15.6	15.3
Capital Employed	193.5	220.1	245.7	578.9	685.0	812.8	959.2	1,141.5	1,353.1	1,599.2	1,881.3	2,193.6	2,535.7
Return on Capital Employed (%)	7.4	12.7	26.2	13.8	14.6	15.0	14.8	15.2	15.4	15.3	15.0	14.7	14.4
Invested Capital	156.4	218.6	236.9	368.2	484.5	578.6	661.6	785.6	922.9	1,081.3	1,247.1	1,421.3	1,605.2
Return on Invested Capital (%)	12.1	17.2	36.5	29.1	27.5	28.2	28.7	29.6	30.3	30.2	30.2	30.3	30.4
Cash Flow from Operations	14.8	13.4	54.9	(7.9)	38.8	59.0	89.7	87.6	112.2	143.7	175.8	210.8	247.2
Cash Flow from Investing	0.3	1.4	(2.7)	(40.2)	(51.9)	(27.4)	(26.2)	(32.5)	(34.3)	(50.3)	(51.3)	(52.4)	(53.5)
Cash Flow from Financing	5.1	(13.6)	(44.9)	250.1	2.9	2.0	0.0	3.2	(3.5)	(5.8)	(8.2)	(20.4)	(35.4)
Net Cash Flow	20.1	1.2	7.3	201.9	(10.2)	33.7	63.4	58.3	74.4	87.6	116.3	138.1	158.3
Free Cash Flow	6.2	28.1	25.1	(19.2)	(7.1)	38.7	67.6	59.4	83.6	100.5	133.7	170.2	208.5
FCF to Revenue (%)	4.8	18.0	11.2	(6.2)	(1.8)	8.1	12.2	8.8	10.3	10.6	12.2	13.6	14.7
FCF to EBITDA (%)	27.8	65.1	27.3	(16.6)	(4.8)	21.9	32.9	23.8	28.1	28.9	33.4	37.2	40.3
FCF to Net Profit (%)	81.2	133.5	45.2	(24.7)	(7.2)	32.2	48.2	34.5	40.4	41.5	47.9	53.1	57.3
FCF to Net Worth (%)	4.7	18.3	12.1	(3.6)	(1.1)	5.2	7.6	5.6	6.7	6.8	7.6	8.3	8.8
Total Debt	60.1	66.7	37.9	46.1	55.0	64.1	72.4	85.2	99.3	114.1	129.4	145.3	162.0
Net Debt	23.1	65.1	29.1	(164.7)	(145.6)	(170.0)	(225.2)	(270.6)	(330.9)	(403.8)	(504.8)	(626.9)	(768.6)
Net Debt to Equity (X)	0.2	0.4	0.1	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt to EBITDA (X)	1.0	1.5	0.3	(1.4)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.2)	(1.3)	(1.4)	(1.5)
Interest Coverage Ratio (X)	1.9	2.8	6.0	17.0	29.3	30.4	30.9	32.8	33.6	34.0	34.4	34.9	35.3

Source: Company RHP and Ventura Research

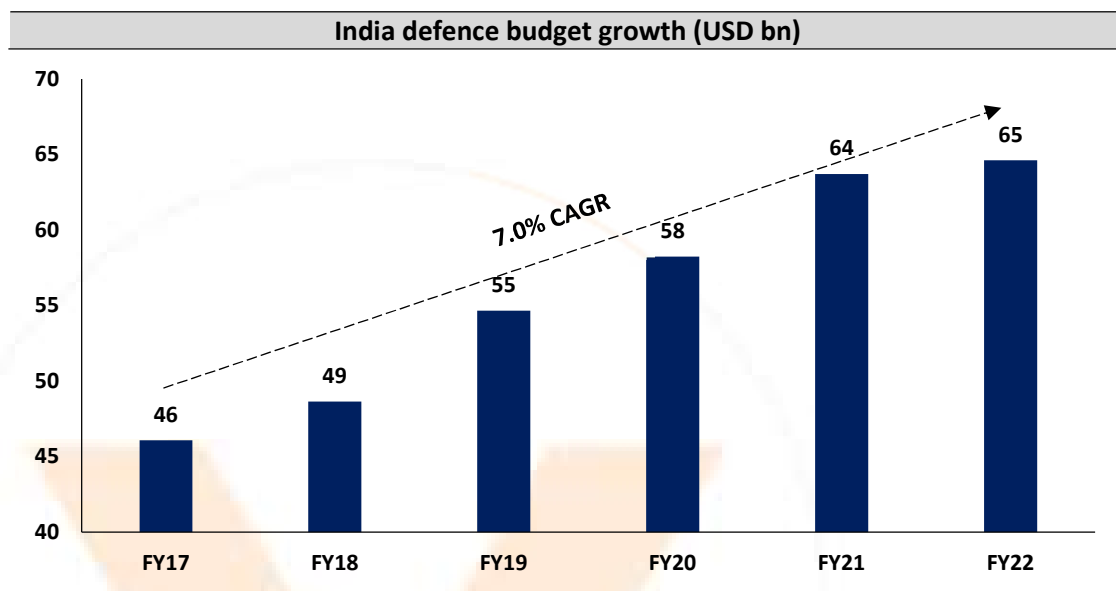


Source: Company Reports and Ventura Research

Key Growth Drivers

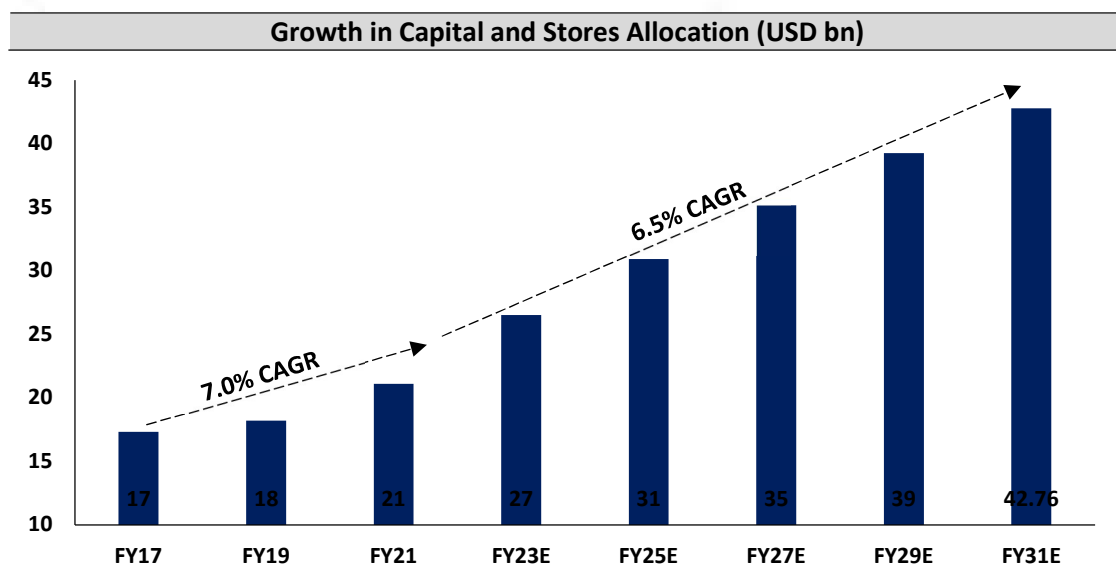
Growing Defence products opportunity with a large addressable market –

The Indian defence budget has been growing at the rate of 7% CAGR over FY17-22. The fund available to the defence industry participants during Fiscal 2022 to Fiscal 2031 is estimated at \$ 339 billion.



Source: Company RHP

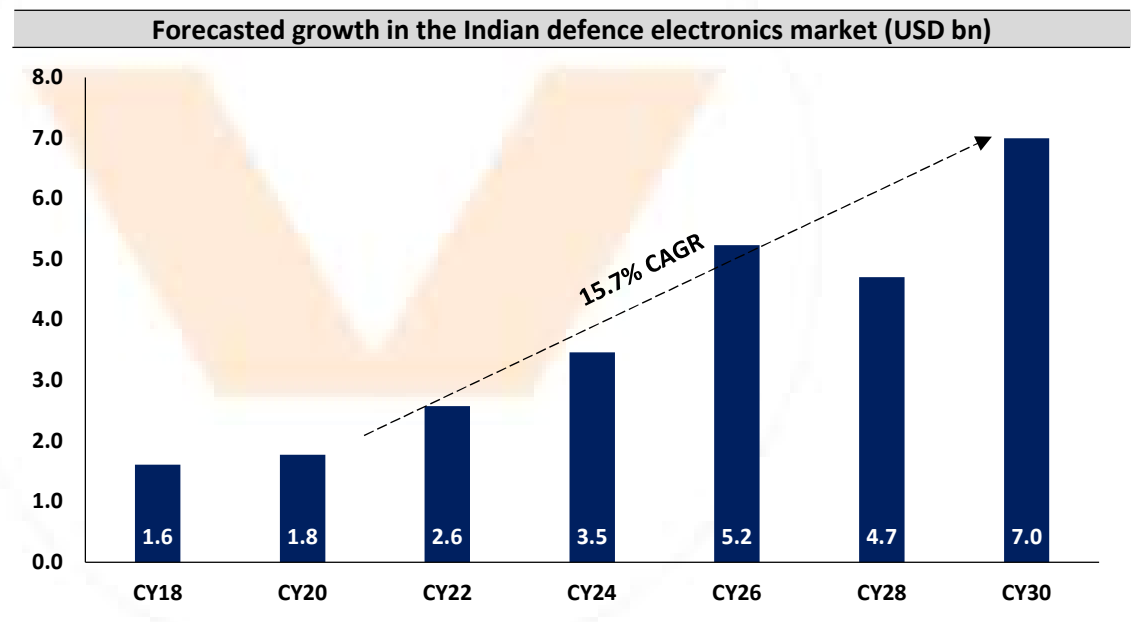
The defence budget has 4 main components: MoD (Civil), Defence Services Revenue, Capital Outlay on Defence Services, and Defence Pensions, and not all of it is available to the defence industry participants. Analysis of past trends show that the total allocation which directly benefits the industry has grown at a rate of 7% and its expected growth rate is 6.5% over FY22-31



Source: Company RHP

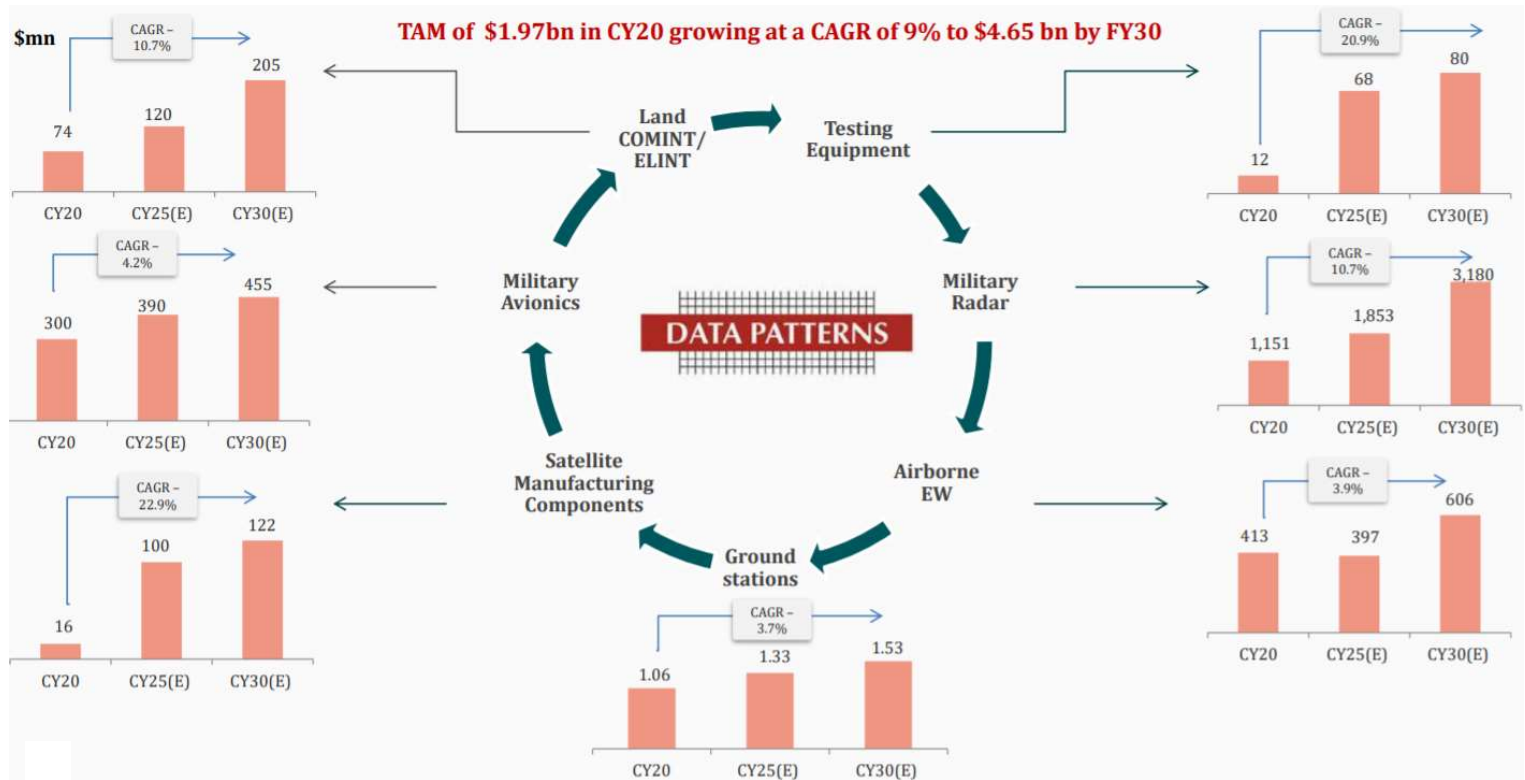
The Indian Defence Electronics segment will witness large scale indigenization efforts over the next decade leading to improved manufacturing and quality standards. This will further increase the presence of Indian components in global supply chains which are already being used in Israeli UAS and European combat aircrafts. At present 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. However, at present over 60% of the electronic components used are supplied by foreign OEM's. As indigenization efforts continue, future procurement will see a large portion of defence electronics sourced locally. Platform recapitalization programs across all three forces, such as new combat aircraft acquisition, submarine building and T-72 replacement, will be key contributors to future market valuation of this product segment.

The Defence Electronics market was cumulatively worth approximately \$ 8.09 billion from 2016-2020 and grew at a CAGR of 4.5% during the period. At present the market is evaluated to be worth approximately \$ 1.88 billion in 2021 and is expected to grow to approximately \$ 6.99 billion in 2030 with a cumulative market opportunity for this segment in the order of approximately \$ 43.98 billion and a CAGR of 15.71% during the period.



Source: Company RHP

Huge addressable market with DPIL well positioned to capture a large share



Source: Company Reports

Indigenous integrated and strategic defence and aerospace electronics solutions provider which is well positioned to benefit from the Make in India opportunity –

The Indian defence industry is rapidly evolving into a self-sustaining one with companies moving towards specializing into defence primes, integrators and component suppliers. Similarly, the space industry is also expanding with new space participants offering services which were previously offered by the Indian government space organization. With DPSUs focusing on specialization integration and subcomponent manufacture being outsourced to the private industry, there are resultant expanded opportunities for the private sector.

DPIL focuses on building complete systems from the building blocks and with subsystems already developed, it provides a higher value addition while distributing development costs. Since inception, it has focused on designing and building its own products. Having developed the building blocks across all electronics including RF and microwave, signal processing, etc. has allowed it to develop complete systems. With Indian defence requirements being opened out to indigenous manufacturers, we believe that opportunities are now available which can be addressed based on in-house capabilities to develop such large systems.

Innovation focused model –

The company's in-house development and manufacturing capabilities are led by innovation and design and development efforts. In the past it has initiated development of several projects, such as military grade processor modules, cockpit displays, actuator controllers for missiles and torpedoes, flight control computers, digital receivers and Up/Down converters for radars, with an aim to utilize these components in subsequent projects. Subsequently, it has been able to utilize these pre-developed building blocks and sub-systems in the development of complete systems, thereby allowing for higher value addition while distributing development costs. Further, its ability to partner with customers through the life cycle of a product (from conception till deployment and thereafter), enables it to be the logical partner to its customers. Some of its present programs include:

- (i) airborne phased array radar,
- (ii) frequency hopping radio relays,
- (iii) next generation EW products,
- (iv) integrated EW solution for national security, and more

Sound order book across product categories supplying to marquee customers –

As on 30th Sept '21, the company's order book stood at INR 5,812.98 million, with orders from several marquee customers in the Indian defence ecosystem, including the Indian government defence ministry, BrahMos, DRDO, the Indian government space organization, HAL, BEL and a DPSU involved in the missile space.

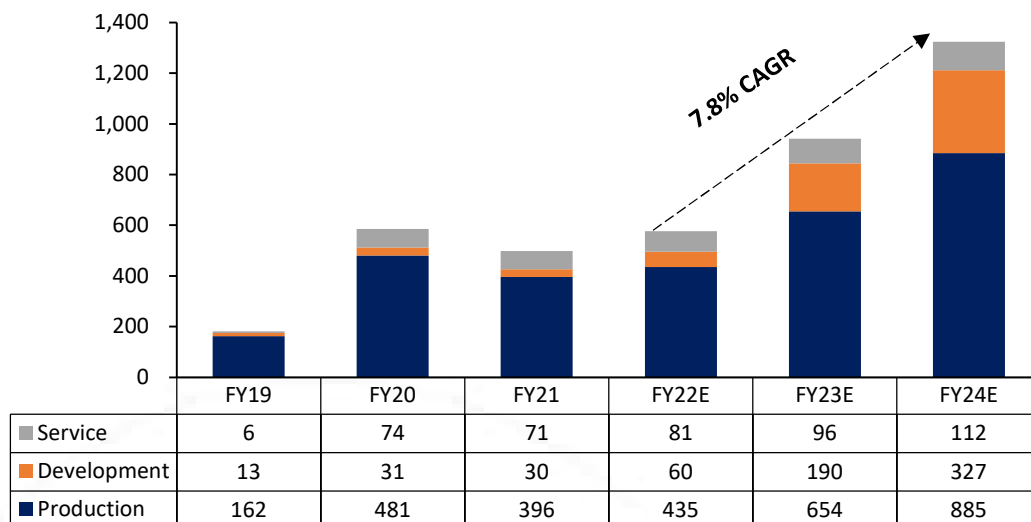
Marquee customers in the Indian defence & aerospace ecosystem



Source: Company Reports

It is currently engaged in the supply of products to several defence projects in India, including the LCA, the HAL Dhruv, LUH and the BrahMos missile program. It has grown its order book from ₹ 805.40 million as of FY17 to ₹ 5,812.98 million, as of H1FY22.

Order book (INR cr)



Source: Company RHP and Ventura research

Proposed expansion of manufacturing facility –

The company's manufacturing facility is spread across 1,00,000 sq ft located on 5.75 acres of land in Chennai, and has facilities for design, manufacturing, qualification and life cycle support of high reliability electronic systems used in defense and aerospace applications. This allows it to be self-sufficient in its requirement of high quality and high complexity production while ensuring functional testing for all its products using internally developed automatic testing equipment.

It has proposed an upgrade and expansion of existing facilities and is expected to spend INR 67.2 cr for it. The proposal includes doubling of floor area and manufacturing capacity as well as addition of large & heavy equipment, integration of large radars & mobile electronic warfare systems.

Manufacturing facility at Chennai



Source: Company RHP and Ventura research

Focus on increasing export business –

Global defence spending rose to USD 1,981 billion in 2020 representing an increase of 2.6% over 2019 spending. The global defence expenditure has been steadily increasing in the last five years at a CAGR of approximately 3.6%. In 2020, the top 15 spenders accounted for 81% of the total global spend; with most countries in this group increasing their defence expenditure over 2019. Further, as per Frost & Sullivan, Russia is already ahead of Western nations in terms of military technology such as hypersonic weapon systems and EW, and if these nations push back defence programs the technology gap between the two opposing groups will only increase. Accordingly, United States, most of Europe, India, Japan, UK, France, Australia, etc., cannot deprioritize defence spending and R&D

DPII intends to expand to high-end global markets similar to India, in areas such as industrial automation, telecom, automobile (electronic sub-systems), medical (electronic sub-systems) and nuclear. Either its engineering services model or product development model shall be utilized to leverage sales from these markets.

DPIL's Management Team

KMP	Designation	Description
Srinivasagopalan Rangarajan	Chairman and MD	He holds a B-Tech degree in Chemical Engineering from the Faculty of Technology of University of Madras and an MSc degree from IIT, Madras. He has over 30 years of experience in business development, corporate affairs, finance and marketing.
Rekha Murthy Rangarajan	Whole-time Director	She holds a BA degree in Economics, English and Psychology from the Bangalore University as well as a MA degree in Applied Psychology from Madras University. She has over two decades of experience in administration, facility maintenance, human resource and development, process engineering and special projects.
Venkata Subramanian Venkatachalam	CFO	He holds a B-Com degree from Madurai Kamaraj University and is a fellow member of the ICAI. He has over 20 years of experience in the finance sector.
Vijay Ananth K	COO and Chief Information Security Officer	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 has also served in the National Cadet Corps for three years. He has more than 20 years of experience in software engineering and product management
Desinguraja Parthasarathy	Chief Technical Officer	He holds a bachelor's degree in engineering (electronics and communication engineering) from the Faculty of Engineering of University of Madras. He has 32 years of experience in Product Development.
Thomas Mathuram Susikaran	Senior Vice President-Business Development	He holds a bachelor's degree in engineering (electrical and electronics) from the Faculty of Engineering of Madurai Kamaraj University and a master's degree of technology in electrical engineering from IIT, Madras. He has over 21 years of experience in business development and marketing.
Nandaki Devi Ramachandracharya	Deputy General Manager and Management Representative Quality Management System	She holds a bachelor's degree of engineering in electronics and communications from the University of Mysore as well as an advanced diploma in Software Quality Management from AmitySoft Education. She has 22 years of experience in test engineering.

Source: Company Reports

Issue Structure and Offer Details

The proposed issue size of DPIL's IPO is INR 588.2 cr, out of which INR 348.2 cr is an offer for sale and the balance is fresh issue. The price band for the issue is in the range of INR 555-585 and the bid lot is 25 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	% of Issue
QIB	50,27,557	Not more than 50%
Non Institutional Bidders	15,08,267	Not less than 15%
Retail	35,19,290	Not less than 35%
Total	1,00,55,114	100%

* Number of shares based on higher price band of INR 585

Source: Company Reports

Shareholding Pattern		
Category	Pre Issue	Post Issue
Promoters	58.63%	45.62%
Public	41.37%	54.38%
Total	100.00%	100.00%

Source: Company Reports

Objects of the Issue				
Particulars	Amount	Amount to be depolyed in FY22	Amount to be depolyed in FY23	Amount to be depolyed in FY24
Repayment/prepayment of all, or a portion of, certain outstanding borrowings availed by the company	60.80	60.80		
Funding working capital requirements of the company	95.19	-	66.70	28.49
Upgrading and expanding our existing facilities at Chennai	59.84	41.89	17.95	
General Corporate Purposes	[•]	[•]	[•]	[•]
Total Net Proceeds*	[•]	[•]	[•]	[•]

*Total net proceeds to be calculated after subtracting offer expenses from gross proceeds of INR 240 cr

Source: Company Reports

Key Risks and Concerns

1. This business is largely dependent on contracts from the GoI, DPSUs and government organizations involved in space research. A decline or reprioritization of the Indian defence or space budget, reduction in or termination of orders or any adverse change in the GoI's defence or space related policies may have an adverse impact on the business and hence our forecasts.
2. The company depends on a limited number of customers such as DRDO and DPSUs such as MoD, BrahMos Aerospace and the Indian government space organization for a significant portion of its revenue. The loss of any of the major customers or significant reduction in business from them may adversely affect our revenue estimates.

Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E	Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per share data & Yields					
Revenue	156.1	224.0	307.2	389.8	475.5	Adjusted EPS (INR)	4.1	10.7	15.0	19.0	23.2
YoY Growth (%)	19.1	43.5	37.2	26.9	22.0	Adjusted Cash EPS (INR)	5.1	11.8	16.5	21.4	25.9
Raw Material Cost	56.1	70.4	99.9	127.3	155.5	Adjusted BVPS (INR)	29.6	40.0	102.7	121.4	144.3
RM Cost to Sales (%)	35.9	31.4	32.5	32.7	32.7	Adjusted CFO per share (INR)	2.6	10.6	(1.5)	7.5	11.4
Employee Cost	41.1	47.2	70.7	89.7	109.4	CFO Yield (%)	0.4	1.8	(0.3)	1.3	1.9
Employee Cost to Sales (%)	26.3	21.1	23.0	23.0	23.0	Adjusted FCF per share (INR)	5.4	4.8	(3.7)	(1.4)	7.5
Other Expenses	15.7	14.4	21.5	27.1	33.5	FCF Yield (%)	0.9	0.8	(0.6)	(0.2)	1.3
Other Exp to Sales (%)	10.1	6.4	7.0	7.0	7.1	Dividend Payout (%)	0.0	0.6	1.5	1.5	1.5
EBITDA	43.2	92.0	115.2	145.8	177.1	Solvency Ratio (X)					
Margin (%)	27.6	41.1	37.5	37.4	37.3	Total Debt to Equity	0.4	0.2	0.1	0.1	0.1
YoY Growth (%)	92.0	113.1	25.3	26.5	21.5	Net Debt to Equity	0.4	0.1	(0.3)	(0.2)	(0.2)
Depreciation & Amortization	5.5	5.6	8.2	12.5	14.0	Net Debt to EBITDA	1.5	0.3	(1.4)	(1.0)	(1.0)
EBIT	37.7	86.4	107.0	133.3	163.2	Return Ratios (%)					
Margin (%)	24.1	38.6	34.8	34.2	34.3	Return on Equity	13.7	26.7	14.6	15.7	16.1
YoY Growth (%)	99.5	129.4	23.8	24.6	22.4	Return on Capital Employed	12.7	26.2	13.8	14.6	15.0
Other Income	4.1	2.6	3.0	3.1	3.1	Return on Invested Capital	17.2	36.5	29.1	27.5	28.2
Finance Cost	13.3	14.5	6.3	4.5	5.4	Working Capital Ratios					
Interest Coverage (X)	2.8	6.0	17.0	29.3	30.4	Payable Days (Nos)	40	20	20	20	20
Exceptional Item	0.0	0.0	0.0	0.0	0.0	Inventory Days (Nos)	186	120	120	120	120
PBT	28.4	74.5	103.7	131.8	160.9	Receivable Days (Nos)	270	254	250	250	250
Margin (%)	18.2	33.3	33.8	33.8	33.8	Net Working Capital Days (Nos)	416	355	351	351	351
YoY Growth (%)	178.7	162.2	39.1	27.1	22.0	Net Working Capital to Sales (%)	113.9	97.2	96.1	96.1	96.1
Tax Expense	7.4	19.0	26.1	33.2	40.5	Valuation (X)					
Tax Rate (%)	26.0	25.4	25.2	25.2	25.2	P/E	144.2	54.6	39.1	30.8	25.2
PAT	21.1	55.6	77.6	98.6	120.4	P/BV	19.8	14.6	5.7	4.8	4.1
Margin (%)	13.5	24.8	25.3	25.3	25.3	EV/EBITDA	71.8	33.3	24.9	19.8	16.2
YoY Growth (%)	173.7	164.0	39.6	27.1	22.0	EV/Sales	19.9	13.7	9.3	7.4	6.0
Min Int/Sh of Assoc	(0.0)	0.0	0.0	0.0	0.0	Cash Flow Statement					
Net Profit	21.0	55.6	77.6	98.6	120.4	PBT	28.4	74.5	103.7	131.8	160.9
Margin (%)	13.5	24.8	25.3	25.3	25.3	Adjustments	(3.5)	39.2	(8.1)	19.4	20.9
YoY Growth (%)	173.7	164.1	39.6	27.1	22.0	Change in Working Capital	(4.1)	(39.9)	(77.5)	(79.3)	(82.3)
Balance Sheet						Less: Tax Paid	(7.4)	(19.0)	(26.1)	(33.2)	(40.5)
Share Capital	1.7	1.7	10.4	10.4	10.4	Cash Flow from Operations	13.4	54.9	(7.9)	38.8	59.0
Total Reserves	151.8	206.1	522.5	619.7	738.3	Net Capital Expenditure	(1.2)	(5.0)	(30.0)	(40.0)	(15.0)
Shareholders Fund	153.5	207.8	532.9	630.1	748.6	Change in Investments	2.6	2.2	(10.2)	(11.9)	(12.4)
Long Term Borrowings	4.4	12.2	12.2	12.2	12.2	Cash Flow from Investing	1.4	(2.7)	(40.2)	(51.9)	(27.4)
Deferred Tax Assets / Liabilities	0.8	0.8	0.8	0.8	0.8	Change in Borrowings	0.1	(30.1)	8.9	8.9	9.2
Other Long Term Liabilities	14.3	27.4	6.8	8.7	10.6	Less: Finance Cost	(13.3)	(14.5)	(6.3)	(4.5)	(5.4)
Long Term Trade Payables	0.0	0.0	0.0	0.0	0.0	Proceeds from Equity	0.0	0.0	248.7	0.0	0.0
Long Term Provisions	5.0	8.5	12.8	16.2	19.7	Buyback of Shares	0.0	0.0	0.0	0.0	0.0
Total Liabilities	178.0	256.7	565.5	667.9	791.9	Dividend Paid	(0.4)	(0.3)	(1.2)	(1.5)	(1.8)
Net Block	33.2	32.4	54.2	81.7	82.8	Cash flow from Financing	(13.6)	(44.9)	250.1	2.9	2.0
Capital Work in Progress	0.0	0.0	0.0	0.0	0.0	Net Cash Flow	1.2	7.3	201.9	(10.2)	33.7
Intangible assets under developmer	0.0	0.0	0.0	0.0	0.0	Forex Effect	0.0	0.0	0.0	0.0	0.0
Non Current Investments	46.5	34.1	44.3	56.2	68.5	Opening Balance of Cash	37.1	1.5	8.8	210.7	200.5
Long Term Loans & Advances	0.0	0.0	0.0	0.0	0.0	Closing Balance of Cash	38.3	8.8	210.7	200.5	234.2
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0						
Net Current Assets	98.3	190.2	467.0	530.0	640.6						
Total Assets	178.0	256.7	565.5	667.9	791.9						

Source: Company RHP and Ventura Research

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Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608