November 30, 2022 (Revised)

Data Patterns India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed long-term fund-based limits	25.00	0.00	-
Proposed short-term non-fund based limits	225.00	0.00	-
Long-term fund-based limits (CC)	0.00	35.00	[ICRA]A- (Stable); reaffirmed
Short-term non-fund based limits (BG)#	0.00	(10.00)	[ICRA]A2+; reaffirmed
Short-term fund-based limits (WCDL)#	0.00	(5.00)	[ICRA]A2+; reaffirmed
Short-term non-fund based limits (BG)	0.00	215.00	[ICRA]A2+; reaffirmed
Short-term non-fund based limits (ILC/FLC)##	0.00	(20.00)	[ICRA]A2+; reaffirmed
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I, #Sub limit of CC limit of Rs. 35.0 crore, ##Sub limit of BG limit of Rs. 215.0 crore*

Rationale

The reaffirmation of the ratings of Data Patterns (India) Limited (DPIL) factor in its established track record of more than three decades in the design, development and manufacturing of electronic equipment for the defence and aerospace sectors. This has supported DPIL in establishing strong relationships with reputed defence organisations in the domestic market, leading to repeat orders. With healthy order inflow of around Rs. 517 crore in H1 FY2023, DPIL's outstanding order book stood at Rs. 837 crore as on September 30, 2022 translating into an order book/operating income (OI) of 2.7 times which provides medium-term revenue visibility.

The ratings also favorably factor in the healthy CAGR of 29% in revenues during FY2018-FY2022 to Rs. 311 crore, backed by an increased execution of production contracts. During the same period, the net cash accruals grew at a CAGR of 87% to Rs. 88.6 crore, supported by a sharp improvement in operating profit margins owing to the execution of high-margin orders and economies of scale. ICRA expects DPIL to report Rs. 400-410 crore of revenues in FY2023 with operating margins in the range of 30-35%, lower than 46% in FY2022 due to the input cost pressures. Further, the low debt levels along with healthy profitability resulted in strong debt coverage metrics, which are likely to sustain in the near term. DPIL's growth prospects remain healthy supported by the Indian Government's focus towards indigenisation in the defence sector amid the Make in India thrust.

The ratings, however, continue to be constrained by the company's working capital-intensive nature of operations (NWC/OI of 75% in FY2022 which further increased to 110% in H1 FY2023, although on a lower revenue base) due to high inventory holding and a long receivable cycle. Further, more than 50% of the sales are concentrated towards the last quarter of the fiscal, adding to the elevated working capital indicators at the year end. Phase-wise billing along with extensive trials and testing for technically critical products before the final acceptance, as well as stocking of electronic components given the supply side constraints due to the pandemic resulted in elongated inventory days of 354 as on September 30, 2022.

The ratings are also constrained by the company's moderate scale of operations despite an improvement in revenues in FY2022 and H1 FY2023. ICRA expects DPIL to report a healthy revenue growth of ~30-32% in FY2023, backed by a healthy order book. Nonetheless, the smooth execution of the orders in hand without any delays will be a key monitorable. The ratings factor in the long gestation nature of projects executed by the company, involving design and development of products. Further, there is a relatively high likelihood of projects being deferred due to procedural delays (leading to order deferment), as inherent in the defence industry.

The Stable outlook reflects ICRA's opinion that DPIL will continue to benefit from its established relationship with key clientele, repeat orders, comfortable debt protection metrics and a healthy outstanding order book.

Key rating drivers and their description

Credit strengths

Experience of management team; established relationships with reputed clientele in defence sector - DPIL has an established track record of more than three decades in the design, development and manufacturing of electronic equipment for the defence and aerospace industries which has helped it to establish strong relationships with its customers and suppliers. It shares established relationships with reputed defence organisations in the domestic market and has secured repeat orders from a majority of them. The major customers include the Ministry of Defence (MoD), Defence Research and Development Organisation (DRDO), BrahMos Aerospace Private Limited, Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL), Electronic Corporation of India Ltd (ECIL) and units operated by the Indian Space Research Organisation (ISRO).

Sizeable increase in order book supported by development orders, providing medium-term revenue visibility - The new order inflow has remained healthy in H1 FY2023 at Rs. 517 crore and the outstanding order book stood at Rs. 837 crore as on September 30, 2022, translating into an order book/OI of 2.7 times, providing medium-term revenue visibility. Further, ~59% of the total order book outstanding as on September 30, 2022 are development contracts which is likely to lead to an increase in production contracts and support the medium term revenue growth. Notwithstanding the healthy order book, the timely execution of such orders would remain critical to achieve revenue growth and profitability on the expected lines. Further, DPIL's growth prospects remain healthy, supported by the Indian Government's focus towards indigenisation in the defence sector amid the Make in India thrust.

Healthy financial risk profile – The financial risk profile continues to remain healthy with the company reporting a healthy CAGR of 29% in revenues during FY2018-FY2022 to Rs. 311 crore, backed by an increase in the execution of production contracts. During the same period, the net cash accruals recorded a CAGR of 87% to Rs. 88.6 crore, supported by a sharp improvement in operating profit margins owing to the execution of high-margin orders and economies of scale. Revenues in H1FY2023 further grew by 62% YoY to Rs. 157 crore. ICRA expects DPIL to report revenues of Rs. 400-410 crore in FY2023 with operating margins in the range of 30-35%, lower than 46% in FY2022 due to the input cost pressures. The company's capital structure remained comfortable with TOL/TNW of 0.2 times as on March 31, 2022, supported by lower debt levels and strong cash accruals. The limited debt levels along with a healthy OPM resulted in strong debt coverage metrics, reflected by interest coverage of 13.0 times (P.Y.: 6.3 times) and TD/OPBDITA of 0.1 times (P.Y.: 0.4 times) in FY2022. The coverage metrics are likely to sustain in the near term given the expected healthy profitability in FY2023 and FY2024.

Credit challenges

High working capital intensity - The business is working capital intensive with NWC/OI of 75% in FY2022 owing to long receivable cycle and high inventory levels given the phase-wise billing of the projects executed, extensive trials and testing carried out for development products before the final acceptance and supply side constraints due to the pandemic. The NWC/OI has further increased to 110% in H1FY2023, although on a lower revenue base, owing to an increase in inventory as well receivables given the increase in execution of development contracts which entails a long payment cycle. Besides, the project billing and delivery schedule for the defence business is usually concentrated towards the end of every fiscal, with more than 50% of the sales in Q4, resulting in elevated working capital indicators as on the year ending dates.

Moderate scale of operations – Notwithstanding the improvement in the scale of operations in FY2022 and H1 FY2023, the company's scale of operations continues to be moderate. ICRA expects DPIL to report a healthy revenue growth of ~30-32% in FY2023, backed by a healthy order book. Nonetheless, the smooth execution of the orders in hand without any delays will be a key monitorable.

Long gestation period for product development; susceptible to regulatory changes in the defence segment – The R&D cycle of defence products and solutions is long and could stretch for several years. Moreover, DPIL offers products and solutions that form a part of the larger delivery system manufactured by other system integrators with the end customer being the MoD. This elongates the cycle further. The company's operations are also exposed to the inherent regulatory risks in the defence segment.

Environmental and social risks

The entity is exposed to supply chain disruption due to environmental events and limited supplier base, risks related to waste disposal, pollution risks due to the by-product hazardous waste of the manufacturing process and cost of compliance with pollution control regulations. In terms of social risks, availability of skilled technical talent, safety hazards for manufacturing operations, defects in products, which could lead to loss in reputation/business etc.

Liquidity position: Adequate

DPIL's liquidity position is adequate with free cash balances of Rs. 68.5 crore as on September 30, 2022 and low debt repayment obligations in the near term. It has an ongoing capex plan of Rs. 60 crore (Rs. 30 crore expense incurred till Sep 30, 2022) to expand the manufacturing unit which is being met from the IPO proceeds.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings if the company demonstrates a sustained growth in order intake and execution while maintaining its operating profitability and reduction in working capital intensity resulting in an improvement in its liquidity position.

Negative factors - Negative pressure on DPIL's ratings could arise if there is a significant decline in order intake/execution and earnings or a material increase in the working capital cycle, impacting the company's liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity.

About the company

Data Patterns (India) Limited (earlier Indus Teqsite Private Limited) is a defence and aerospace electronics solutions provider catering to the indigenously developed defence products industry with in-house design and development capabilities. The major products manufactured consist of radars, underwater electronics/communications, electronic warfare suite, various electronic equipment for BrahMos programme, avionics, small satellites, automated test equipment (ATE) for defence and aerospace systems, commercial off-the-shelf (COTS) modules. Apart from this, it generates service income by providing annual maintenance for the products manufactured and repair services.

The company has a track record of more than three decades in the defence and aerospace electronics industry. DPIL has a manufacturing facility at SIPCOT IT Park, Chennai, which consists of a 100,000 square feet factory built on 5.75 acres of land.

Key financial indicators

DPIL	FY2021 (audited)	FY2022 (audited)	H1 FY2023 (unaudited)
Operating income (Rs. crore)	224.0	310.9	156.5
PAT (Rs. crore)	55.6	94.0	35.3
OPBDIT/OI (%)	41.1%	45.9%	32.8%
PAT/OI (%)	24.8%	30.2%	22.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.2	0.2
Total debt/OPBDIT (times)	0.4	0.1	0.1
Interest coverage (times)	6.3	13.0	18.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
***Source**: Data Patterns India Limited; ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: ICRA notes the Auditor's comments in DPIL's audited financials for FY2022 that mentions delay in servicing of debt by 10 days in case of a car loan in July 2021 and by 2 days in case of a term loan in October 2021. The delay in case of car loan was on account of technical issues in registering the electronic clearing service (ECS) mandate and the company had adequate unencumbered cash balances as on the date of delay in payment. The lender has confirmed the delay in this instance as a technical issue. Accordingly, this instance does not impact ICRA's ratings for the company's bank facilities in line with ICRA's policy on dealing with technical delays as explained in ICRA's Policy on Default Recognition. The delay in the case of the term loan was on account of oversight in maintaining adequate funds in the right bank account despite having sufficient liquidity in other bank accounts. This instance pre-dates the initiation of ICRA's rating coverage on the entity. When ICRA had first assigned a rating to the company's bank facilities in Mar 2022, the missed payment relating to the term loan (in Oct 2021) had already been cured and the general curing period of 90 days had also passed. Further, the said loan was prepaid and closed in December 2021. Accordingly, this instance, about which ICRA has become aware now through the company's latest annual report, does not impact the ratings. Further, ICRA understands that the company has strengthened its internal controls to avoid such occurrences in future.

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 30, 2022	March 15, 2022	-	-
1	**Proposed fund-based limits**	Long-term	0.00	-	-	[ICRA]A- (Stable)	-	-
2	**Proposed non-fund-based limits**	Short-term	0.00	-	-	[ICRA]A2+	-	-
3	**Long-term fund-based limits (CC)**	Long-term	35.00	-	[ICRA]A- (Stable)	-	-	-
4	**Short-term non-fund-based limits (BG)**	Short-term	(10.00)	-	[ICRA]A2+	-	-	-
5	**Short-term fund-based limits (WCDL)**	Short-term	(5.00)	-	[ICRA]A2+	-	-	-
6	**Short-term non-fund-based limits (BG)**	Short-term	215.00	-	[ICRA]A2+	-	-	-
7	**Short-term non-fund-based limits (ILC/FLC)**	Short-term	(20.00)	-	[ICRA]A2+	-	-	-

Source: *Data Patterns India Limited*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits (CC)	Simple
Short-term non-fund based limits (BG)	Very Simple
Short-term fund-based limits (WCDL)	Simple
Short-term non-fund based limits (BG)	Very Simple
Short-term non-fund based limits (ILC/FLC)	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs crore)	Current Rating and Outlook
NA	Long term fund-based limits (CC)	NA	NA	NA	35.00	[ICRA]A- (Stable)
NA	Short term non-fund-based limits (BG)	NA	NA	NA	(10.00)	[ICRA]A2+
NA	Short term fund-based limits (WCDL)	NA	NA	NA	(5.00)	[ICRA]A2+
NA	Short term non-fund-based limits (BG)	NA	NA	NA	215.00	[ICRA]A2+
NA	Short term non-fund-based limits (ILC/FLC)	NA	NA	NA	(20.00)	[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum

Rationale dated November 30, 2022 has been revised with changes as below:

- The content under any other information section on page number 4 has been rephrased.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

Nijara Kalita
+91 22 61693343
nijara.kalita@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 43326401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERUES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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