ICRA

October 23, 2023

Data Patterns India Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits (CC)	35.00	50.00	[ICRA]A (Stable); Rating Upgraded from [ICRA]A-(Stable)/Assigned for enhanced amount
Short-term non-fund based limits (BG)	215.00	500.00	[ICRA]A1; Rating Upgraded from [ICRA]A2+/Assigned for enhanced amount
Short-term non-fund based limits (BG)#	(10.00)	-	-
Short-term fund-based limits (WCDL)#	(5.00)	-	-
Short-term non-fund based limits (ILC/FLC) ##	(20.00)	-	-
Total	**250.00**	**550.00**	

**Instrument details are provided in Annexure-I, #Sub limit of CC limit of Rs. 35.00 crore, ##Sub limit of BG limit of Rs. 215.00 crore*

Rationale

The ratings upgrade for Data Patterns India Limited (DPIL) factors in the strengthening of the company's financial risk profile, supported by equity infusion of Rs. 500 crore through Qualified Institutional Placement (QIP) in March 2023. Backed by healthy order book addition and execution, its revenues grew by 45.9% YoY to Rs. 453.5 crore, with healthy operating margins of 38.5% in FY2023. The revenues are expected to witness a growth of 15-20% YoY and the operating margins are estimated to range within 35-40% during the next two-three years. The QIP has augmented its net worth by 103% and strengthened its liquidity with cash and liquid investments of Rs. 560.3 crore as of June 2023. The company received significant new orders worth Rs. 901 crore in FY2023 and Rs. 133 crore in Q1 FY2024, which has led to healthy outstanding order book of Rs. 967.1 crore as on June 30, 2023, translating into an order book/operating income (OB/OI) ratio of 2.0 times, providing medium-term revenue visibility. Further, the debt protection metrics are likely to remain strong in the medium term, given the limited debt levels, no major debt-funded capex and healthy operating margins.

The ratings favourably factor in the company's 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. Its growth prospects remain healthy, driven by the Indian Government's focus on indigenisation in the defence sector amid the thrust on Make in India programme.

The ratings, however, remain constrained by the company's working capital-intensive nature of operations, as reflected by NWC/OI of 84% in FY2023, which increased from 75% in FY2022 owing to longer receivable cycle and high inventory levels. Further, around 40-50% of the revenue booking happens in 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 resulted in elongated inventory days of 280 as of March 2023. The NWC/OI is estimated to remain high in the range of 85-90% in the medium term on the back of high inventory and receivables days amid the expected increase in execution of development contracts (accounting for 62% of pending order book), which entails a longer cash conversion cycle. However, its healthy liquidity position acts as a mitigant for the same. The ratings factor in the long gestation nature of projects executed by the company, involving design and development of products.

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 with repeat orders, healthy outstanding order book, strong debt protection metrics and liquidity position.

Key rating drivers and their description

Credit strengths

Strong financial risk profile and liquidity position – The company's financial risk profile continues to remain strong, supported by equity infusion of Rs. 500 crore through QIP in March 2023. Backed by healthy order book addition and execution, it witnessed revenue growth of 45.9% YoY to Rs. 453.5 crore and healthy operating margins of 38.5% in FY2023. The revenues are estimated to witness a growth of 15-20% YoY and operating margins are expected to range within 35-40% during the next two-three years. The QIP has augmented its net worth by 103% and strengthened its liquidity with cash and liquid investments of Rs. 560.3 crore as of June 2023. Further, the debt protection metrics are likely to remain strong in the medium term, given the limited debt levels, no major debt-funded capex and healthy operating margins.

Sizeable increase in order book providing medium-term revenue visibility – The company received significant new orders worth Rs. 901 crore in FY2023 and Rs. 133 crore in Q1 FY2024, which has resulted in a healthy outstanding order book of Rs. 967.1 crore as on June 30, 2023, translating into OB/OI ratio of 2.0 times, providing medium-term revenue visibility. Further, development contracts contribute to around ~62% of the total order book outstanding as on June 30, 2023, which is likely to lead to an increase in production contracts and support its revenues in the medium and long term. Notwithstanding the healthy order book, the timely execution of such orders would remain critical to achieve revenue growth and profitability on the expected lines. DPIL's growth prospects remain healthy, driven by the Indian Government's focus on indigenisation in the defence sector amid the thrust on Make in India programme.

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).

Credit challenges

High working capital-intensive nature of operations – The business is working capital intensive with NWC/OI of 84% in FY2023, which increased from 75% in FY2022, owing to longer receivable cycle and high inventory levels. Around 40-50% of the revenue booking happens in 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 resulted in elongated inventory days of 280 as on March 31, 2023. The NWC/OI is expected to remain high in the range of 85-90% in the medium term on the back of high inventory and receivable days, amid the likely increase in execution of development contracts (accounting for ~62% of pending order book), which entails a longer cash conversion cycle. However, its healthy liquidity position acts as a mitigant for the same.

Long gestation period of product development; susceptible to regulatory changes in defence segment – The research and development (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 exposed to the inherent regulatory risks in the defence segment, including relatively high likelihood of projects being deferred due to procedural delays (leading to order deferment).

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 owing 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: Strong

DPIL's liquidity position is strong with free cash and liquid investments of around Rs. 560 crore as on June 30, 2023 and limited debt repayment obligations. The average fund-based limit utilisation stood at 9% with a cushion of Rs. 45.0 crore. The company does not have major capex plans in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant improvement in its working capital cycle, along with a healthy growth in its scale of operations while maintaining its operating profitability, leverage and strong liquidity position.

Negative factors – Negative pressure on DPIL's ratings could arise if there is a significant decline in order intake/earnings or a material increase in the leverage or considerable elongation in 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	Standalone

About the company

Data Patterns (India) Limited (previously 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. It also 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 around 2,00,000 square feet factory built on 5.75 acres of land.

Key financial indicators (audited)

DPIL	FY2022	FY2023
Operating income	310.9	453.5
PAT	94.0	124.0
OPBDIT/OI	45.9%	38.5%
PAT/OI	30.2%	27.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	13.0	22.6

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 23, 2023	Nov 30, 2022	Mar 15, 2022	-
1	Long-term fund-based limits (CC)	Long-term	50.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-
2	Short-term non-fund based limits (BG)	Short-term	500.00	-	[ICRA]A1	[ICRA]A2+	-	-
3	Proposed fund-based limits	Long term	-	-	-	-	[ICRA]A- (Stable)	-
4	Proposed non-fund based limits	Short-term	-	-	-	-	[ICRA]A2+	-
5	Short-term non-fund based limits (BG)	Short-term	-	-	-	[ICRA]A2+	-	-
6	Short-term fund-based limits (WCDL)	Short-term	-	-	-	[ICRA]A2+	-	-
7	Short-term non-fund based limits (ILC/FLC)	Short-term	-	-	-	[ICRA]A2+	-	-

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

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 I: 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	50.0	[ICRA]A (Stable)
NA	**Short-term non-fund based limits (BG)**	NA	NA	NA	500.0	[ICRA]A1

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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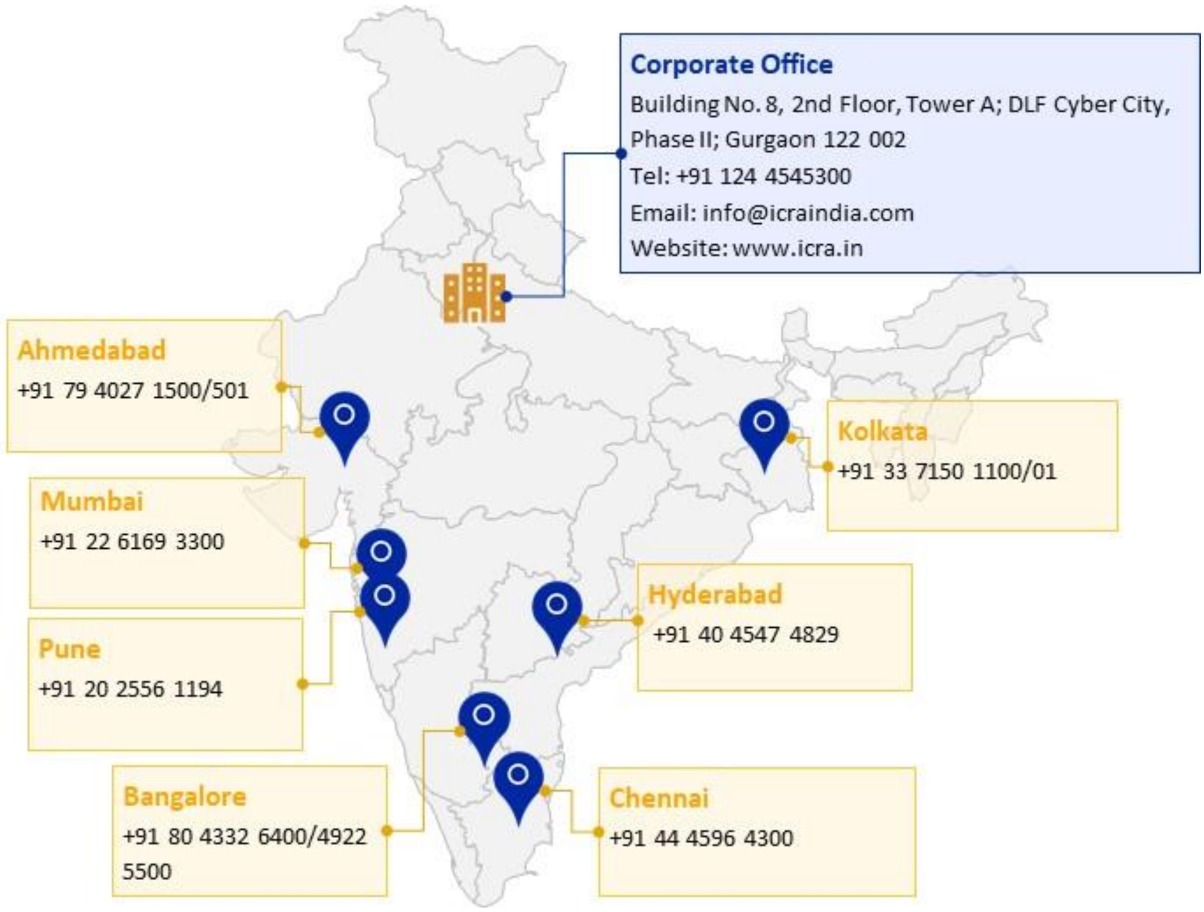

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