July 12, 2024

Data Patterns India Limited: Ratings reaffirmed; rated amount enhanced; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	50.00	50.00	[ICRA]A (Positive); reaffirmed & outlook revised to Positive from Stable
Short-term – Non-fund based – Bank guarantee	500.00	625.00	[ICRA]A1; reaffirmed and assigned for enhanced amount
Long-term – Unallocated limits	-	75.00	[ICRA]A (Positive); assigned
Total	**550.00**	**750.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook for the long-term rating of Data Patterns India Limited (DPIL) to Positive factors in the expected improvement in the order book position, steady growth in revenues with healthy operating margins, low leverage levels while maintaining strong liquidity position in FY2025. The company received significant new orders worth Rs. 678.8 crore in FY2024, which resulted in an improvement in the outstanding order book position by 17% YoY to Rs. 1,083.1 crore as on March 31, 2024. This translates into OB/OI ratio of 2.1 times (PY: 2.0 times) providing medium-term revenue visibility. Further, the fresh order intake is projected to grow by 45-50% in FY2025. DPIL's revenues increased by 15% in FY2024 and the operating margins improved by 410 bps to 42.6% in FY2024 on account of execution of certain high margin project and higher usage of the company's intellectual property (IP) in the projects. DPIL's revenue is expected to improve by 15-20% (PY: Rs. 519.8 crore, growth of 15%) and the operating margins are likely to be in the range of 35-40% in FY2025. The ratings take into account the limited dependence on debt and sustenance of strong liquidity position, despite annual capex plans of Rs. 100-150 crore in FY2025-FY2026.

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 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 as a part of the Make in India programme.

Notwithstanding the improvement in the company's working capital intensity (NWC/OI) to 76% in FY2024 from 84% in FY2023 on account of improvement in receivable days and elongation of creditor days, the operations continue to be working capital intensive owing to longer receivable cycle and high inventory levels. Around 30-40% 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 procurement/stocking of electronic components done to cater the new and existing orders resulted in elongated inventory days of 369 days as of March 31, 2024 (PY:280 days). The NWC/OI is expected to remain high in the range of 75-80% in the medium term, amid the likely increase in execution of development orders in the medium term (accounting for 51% of pending order book), which entails a longer cash conversion cycle. Nevertheless, DPIL's strong liquidity position acts as a mitigant to an extent. 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.

Key rating drivers and their description

Credit strengths

Strong financial risk profile and liquidity position – DPIL's revenues increased by 15% in FY2024 and the operating margins improved by 410 bps to 42.6% in FY2024 on account of execution of certain high margin project and higher usage of the company's intellectual property (IP) in the projects. DPIL's revenue is expected to improve by 15-20 % (PY: Rs. 519.8 crore, growth of 15%) and the operating margins are likely to be in the range of 35-40% in FY2025. ICRA also notes the low leverage levels while maintaining strong liquidity position, despite annual capex plans of Rs. 100-150 crore in FY2025-FY2026.

Healthy outstanding order book providing medium term revenue visibility – The company received significant new orders worth Rs. 678.8 crore in FY2024, which resulted in an improvement in the outstanding order book position by 17% YoY to Rs. 1,083.1 crore as on March 31, 2024. This translates into OB/OI ratio of 2.1 times (PY: 2.0 times) providing medium-term revenue visibility. Further, the fresh order intake is projected to grow by 45-50% in FY2025. The development contracts contribute to around 51% of the total order book outstanding as on March 31, 2024, which is likely to lead to an increase in production contracts and support its revenue in the medium and long term. Notwithstanding the healthy order book, 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 as part of the 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. Its established relationships with reputed defence organisations in the domestic market enabled it to secure 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 – Notwithstanding the improvement in the company's working capital intensity (NWC/OI) to 76% in FY2024 from 84% in FY2023 on account of improvement in receivable days and elongation of creditor days, the operations continue to be working capital intensive owing to longer receivable cycle and high inventory levels. Around 30-40% 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 procurement/stocking of electronic components done to cater to the new and existing orders resulted in elongated inventory days of 369 days as of March 31, 2024 (PY:280 days). The NWC/OI is expected to remain high in the range of 75-80% in the medium term, amid the likely increase in execution of development orders in the medium term (accounting for 51% of pending order book), which entails a longer cash conversion cycle. Nevertheless, DPIL's strong liquidity position acts as a mitigant to an extent.

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 and cost of compliance with pollution control regulations. In terms of social risks, it is vulnerable to 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. 654.9 crore as on March 31, 2024 and limited principal repayment obligations. The company is planning to incur annual capex of around Rs. 100-150 crore each in FY2025-FY2026, which will be funded through its on-balance sheet liquidity. The average working capital utilisation for the last 12 months ending March 2024, remained at 76%, with an average cushion of around Rs. 123.0 crore in non-fund based limits.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained 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, communication systems, 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.

Key financial indicators (audited)

DPIL	FY2023	FY2024
Operating income	453.5	519.8
PAT	124.0	181.7
OPBDIT/OI	38.5%	42.6%
PAT/OI	27.3%	35.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	22.6	23.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025 July 12, 2024	Date & rating in FY2024 Oct 23, 2023	Date & rating in FY2023 Nov 30, 2022	Date & rating in FY2022 Mar 15, 2022
1	**Long-term fund-based limits (CC)**	Long term	50.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
2	**Short-term non-fund based limits (BG)**	Short term	625.00	[ICRA]A1	[ICRA]A1	[ICRA]A2+	-
3	**Long-term - Unallocated limits**	Long term	75.00	[ICRA]A (Positive)	-	-	-
4	**Proposed fund-based Limits**	Long term	-	-	-	-	[ICRA]A- (Stable)
5	**Proposed non-fund based limits**	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 – Cash credit	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple
Long-term – Unallocated limits	Not Applicable

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 – Cash credit**	NA	NA	NA	50.00	**[ICRA]A (Positive)**
NA	**Short-term – Non-fund based – Bank guarantee**	NA	NA	NA	625.00	**[ICRA]A1**
NA	**Long-term – Unallocated limits**	NA	NA	NA	75.00	**[ICRA]A (Positive)**

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:

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