March 15, 2022

Data Patterns India Limited: [ICRA]A- (Stable) and [ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed long-term fund-based limits	25.00	[ICRA]A- (Stable); assigned
Proposed short-term non-fund based limits	225.00	[ICRA]A2+; assigned
Total	**250.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned 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. DPIL's healthy order book position at Rs. 577 crore as on December 31, 2021 translating into an order book/operating income of 2.6x provides medium-term revenue visibility.

The ratings also favorably factor in the healthy growth in revenues at a CAGR of 22% during FY2016-FY2021 to Rs. 224 crore, backed by an increased execution of production contracts. During the same period, net cash accruals grew at a CAGR of 68% to Rs. 60.8 crore, supported by a sharp improvement in operating profit margins owing to the execution of high-margin orders and economies of scale. The company is expected to report Rs. 280-290 crore of revenues in FY2022 with an OPM in the range of 35-40%. The company raised Rs. 240 crore of equity through an initial public offering (IPO) in December 2021. The proceeds of the IPO are expected to be deployed towards capex, debt prepayment and working capital requirements to support the growth in scale. The limited debt levels along with healthy OPM resulted in strong debt coverage metrics, which are expected to sustain in the near term. The liquidity position has also remained strong with Rs. 281.7 crore of free cash and cash equivalents as on December 31, 2021. 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.

The ratings, however, continue to be constrained by the company's working capital-intensive nature of operations (NWC/OI of 77% in FY2021) due to high inventory holding and a long receivable cycle. More than 70% of the sales are concentrated towards the last quarter of the fiscal, adding to the elevated working capital indicators as on year ending dates. Milestone-based billing along with extensive trials and testing for technically critical products before the final acceptance also results in elongated receivables. The inventory levels remained high at 224 days as on March 31, 2021 and are expected to remain elevated in the near term due to high stocking of electronic components, given the supply side constraints and logistics issues.

The ratings are also constrained by the company's moderate scale of operations despite an improvement in revenues in FY2021 and 9M FY2022. ICRA expects the company to report a healthy revenue growth in the range of 25-28% in FY2022 and 16-18% 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 also factor in the nature of projects executed by the company, which generally have a long gestation cycle of investments for the design and development of products. Further, there is a relatively high likelihood of projects being deferred due to procedural delays (leading to revenue 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, a healthy order book and a strong liquidity position.

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 unexecuted order book provides medium-term revenue visibility - The order intake in 9M FY2022 was Rs. 219 crore (higher than Rs. 137 crore in FY2021) and the pending order book was Rs. 577 crore as on December 31, 2021, (higher than Rs. 498 crore as on March 31, 2021), translating into an order book/operating income of 2.6 times, providing medium-term revenue visibility. 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 – DPIL has reported healthy growth in revenues at a CAGR of 22% during FY2016-FY2021 to Rs. 224 crore, backed by an increase in the execution of production contracts. During the same period, net cash accruals grew at a CAGR of 68% to Rs. 60.8 crore, supported by a sharp improvement in operating profit margins owing to the execution of high-margin orders and economies of scale. The OPM increased to 27.7% in FY2020 (PY:17.2%) and further to 41.1% in FY2021, and remained healthy at 38.5% in 9M FY2022. The company is expected to report revenues of Rs. 280-290 crore in FY2022 with an OPM in the range of 35-40%. The company's capital structure remains comfortable with TOL/TNW of 0.6 times as on March 31, 2021, supported by lower working capital requirements, repayment of term loans and strong cash accruals. The limited debt levels along with a healthy OPM resulted in strong debt coverage metrics, reflected in interest coverage of 6.3 times (P.Y.: 3.2 times) and TD/OPBDITA of 0.4 times (P.Y.: 1.5 times) in FY2021. The coverage metrics are expected to sustain in the near term given the expected healthy operating margins in FY2022 and FY2023 and the strong liquidity position.

Credit challenges

High working capital intensity - The business is working capital intensive with NWC/OI of 93% in FY2020 and 77% in FY2021 owing to high inventory holding and a long receivable cycle. Besides, the project billing and delivery schedule for the defence business is usually concentrated towards the end of every fiscal, with more than 70% of the sales in Q4, resulting in elevated working capital indicators as on year ending dates. DPIL had debtors of Rs. 46.9 crore (43% of total debtors) outstanding for more than six months as on December 31, 2021. Milestone-based billing along with extensive trials and testing carried out for technically critical products before the final acceptance also results in elongated receivables. As DPIL manufactures various kind of products with a long cycle time, the inventory levels remained high at 224 days as on March 31, 2021. The inventory levels are expected to remain elevated in the near term due to high procurement of electronic components given the supply side constraints and logistics issues.

Moderate scale of operations – Notwithstanding the improvement in the scale of operations in FY2021 and 9M FY2022, the company's scale of operations continues to be moderate. ICRA expects the company to report a healthy revenue growth in the range of 25-28% in FY2022 and 16-18% 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.

Liquidity position: Strong

DPIL's liquidity position is strong with healthy cash flow from operations, large free cash of Rs. 281.7 crore as on December 31, 2021 and no debt repayment obligations in the near term. The liquidity position has strengthened post the Rs. 60-crore equity infusion through private placement in September 2021 and the IPO proceeds of Rs. 240 crore in December 2021. The same is estimated to be deployed to fund incremental working capital requirements, capital expenditure, debt prepayment and other general corporate purposes. DPIL has a capex plan of Rs. 80-100 crore to expand the manufacturing unit during Q4 FY2022-FY2023, which is expected to be met from the IPO proceeds and internal accruals.

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, a comfortable liquidity and credit metrics.

Negative Factors - Negative pressure on DPIL's ratings could arise if there is a significant decline in order intake/execution and earnings or a significant 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 (audited)

DPIL	FY2020	FY2021	9M FY2022 (Unaudited)
Operating Income (Rs. crore)	156.1	224.0	140.3
PAT (Rs. crore)	21.1	55.6	32.2
OPBDIT/OI (%)	27.7%	41.1%	38.5%
PAT/OI (%)	13.5%	24.8%	22.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.6	0.3
Total Debt/OPBDIT (times)	1.5	0.4	0.2
Interest Coverage (times)	3.2	6.3	7.2

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: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 15, 2022	-	-	-
1	Proposed fund-based limits	Long-Term	25.00	-	[ICRA]A- (Stable)	-	-	-
2	Proposed non-fund based limits	Short-Term	225.00	-	[ICRA]A2+	-	-	-

***Source**: Orient Palace*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed fund-based limits	Simple
Proposed non-fund based limits	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No./Banker name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Proposed fund-based limits	NA	NA	NA	25.00	[ICRA]A- (Stable)
NA	Proposed non-fund based limits	NA	NA	NA	225.00	[ICRA]A2+

Source: *Company*

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

Annexure-2: 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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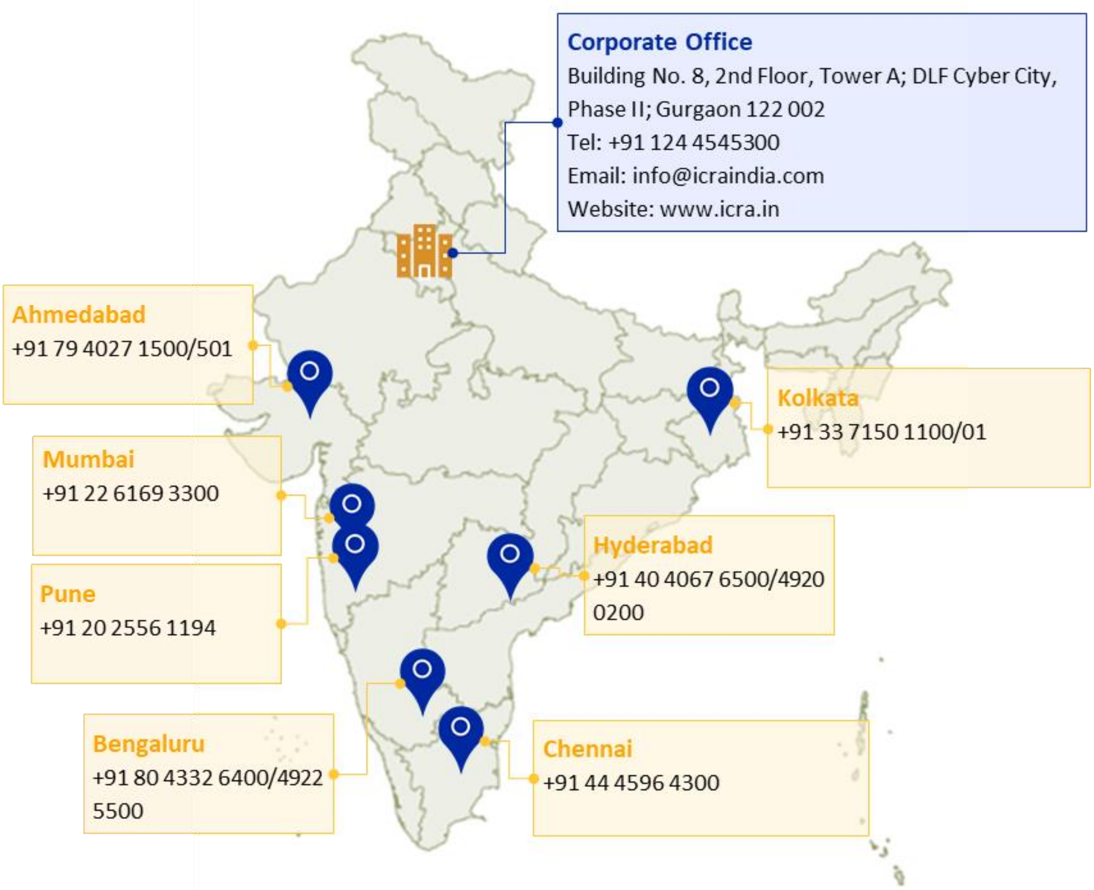

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