

**Rating: Subscribe for Long Term**

**Issue Offer**

**Offer For Sale of 4830917 and fresh issue of 19323720 equity shares taking the total issue size at INR 500cr (on the basis of upper price band).**

**Issue Summary**

Price Band (INR)	197-207
Face Value (INR)	2
Implied Market Cap (INR cr)	2002
Market Lot	72
Issue Opens on	31 <sup>st</sup> Oct, 2022
Issue Close on	2 <sup>nd</sup> Nov, 2022
No. of share pre-issue	77,400,000
No. of share post issue	97,704,568
Listing	BSE/NSE
<b>Issue Break-up (%)</b>	
QIB Portion	75%
NIB Portion	15%
Retail Portion	10%

**Book Running Lead Managers**

Axis Capital Limited  
Edelweiss Financial Services Limited  
Saffron Capital Advisors Private Limited

**Registrar**

Link Intime India Pvt. Ltd.

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	98.20%	73.58%
Public	1.80%	26.42%

**Objects of the issue**

- Repayment of certain borrowings
- Working Capital requirements
- Investment in wholly owned Subsidiary, Raneal Advanced Systems Private Limited, to fund its capital expenditure expenses
- General Corporate Purposes.

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**Anupama Bhootra**

DCX Systems is primarily engaged in manufacturing of military and aerospace cable assemblies, wire harnesses, custom and mil-spec connectors, wired enclosures, build to print assemblies, sub-assemblies, test equipment and turn-key assemblies. The company is among the leading Indian players across the entire spectrum of strategic defence and aerospace electronics solutions. The company's manufacturing facility is located at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. The facility is spread over an area of 30,000 sq. ft and is set up for complete in-house environmental and electrical testing and wire processing.

**Strengths**

- DCX Systems Ltd is the most preferred Indian Offset Partners for the defence and aerospace industry with global accreditations.
- The company has capability to manufacture products as per specific requirements and quality expectations of customers maintaining the required quality standards.
- The company has manufacturing capabilities which are obsolescence-proof.
- The manufacturing facility is strategically located in aerospace Special Economic Zone and is located in the same city as company's key domestic customers which ensures shorter delivery times.

**Order Book**

DCX order book has grown from 45 orders worth INR 19413 mn in FY20 to 48 orders worth INR 25636 mn in FY22. The company's order book is growing YoY with repeat orders from existing customers.

**Outlook and Valuation**

DCX systems is a leading and preferred Indian offset partners for the aerospace and defense industry with clients globally. The company has reported consistent financial performance over the years and is technology enabled with capacity to scale further without incurring too much capital expenditure. The company's order book is growing with repeat orders from existing customers. There is huge opportunity in offset business, where the MOD has announced offset backlog of USD 13.4 bn which needs to be completed in next 7 years, out of which 25% belongs to DCX category.

**The company is valued at P/S multiple of 18.2x to its FY22 sales and we recommend 'Subscribe for long term'.**

**Financial Performance**

INR Cr	Quarterly			Yearly	
	Q1FY22	Q1FY21	FY22	FY21	FY20
<b>Equity Share</b>	15.48	3.50	15.48	3.50	3.50
<b>Revenue</b>	213	122	110	641	449
<b>EBITDA</b>	17.3	5.8	83.8	10.0	30.5
<b>EBITDA Margin (%)</b>	8.14	4.77	7.61	1.57	6.79
<b>PBT</b>	6.4	3.8	75.5	39.8	12.8
<b>PAT</b>	5.5	3.3	65.6	29.5	9.7
<b>PAT %</b>	2.53	2.60	5.84	4.33	2.09
<b>ROCE (%)</b>	2.71	3.27	13.15	4.16	19.19
<b>ROE (%)</b>	4.52	6.68	55.79	63	57
<b>EPS</b>					

Source: RHP document

### Manufacturing Facility

The manufacturing facility is situated at Bengaluru, Karnataka covering an area of 30,000 sq ft which is built on a land of 1.5 acres. It is set up for complete in-house environmental and electrical testing, in-house capabilities are wide-ranging, from a complete design and development of cable and wire harness assemblies to extensive wire processing.

The company is in process of setting up an additional facility for design, development, manufacturing, qualification and life cycle support of electronic and electro – mechanical systems used in Aerospace and Defence, Medical Electronics and Industrial Electronics application.

### Business Verticals

1. Cable and Wire Harness Assemblies: The company manufactures cables and wire harnesses assemblies such as radio frequency cables, co-axial, mixed signal, power, and data cables for a variety of uses including communication systems, sensors, surveillance systems, missile systems, military armoured vehicles, and other electronic warfare systems for the aerospace and defence industries as per customers' requirements,
2. System Integration: The company provides product assembly and system integration services in areas of radar systems, sensors, electronic warfare, missiles, and communication systems.
3. Kitting: The company sources ready kits of electronic and electro-mechanical parts along with a 'Certificate of Compliance' for traceability, controlled storage of moisture sensitive devices to ensure that customers receive complete, assembly-ready kits when required when they are needed for production.

### Capex

The company incurred capex of INR 102 mn, INR 15.84 mn, 16.16 mn and 0.45 mn for FY20, FY21, FY22 and 3MFY23 respectively. DCX possess the flexibility to scale in terms of capacity without incurring significant capex.

### Opportunities

he growing Indian landscape for defence and aerospace serves as a key opportunity for the company, by 2030 the Indian aerospace and defence sector is estimated to reach value of USD 70 billion. The GOI have banned ~101 items within the defence-based imports segment and have also introduced the third positive indigenization list that bans the import of 780 LRU/components, which will boost

### Clients

The client list includes 26 names like IAI Elta, SFO Technologies, Bharat electronics, Alpha Elsec, Kalyani, Rafael and more. The company caters to countries like Israel, US, Korea and India with more than 5 years of average period of business relationship with top 2 customers.

**Revenue from exports contributes 55.73% and from Domestic 44.27% of total revenue.**

End Use sectors includes Defence, Aerospace, Railways and Space Ventures.

### Competition

As compared to its competitors DCX can independently seize future defence and integration related opportunities due to its strong capabilities across segments. Main competitors include Data Patterns Private Limited, Astra Microwave Products Limited, Centum Electronics Limited, Bharat Electronics Limited, and Paras Defence and Space Technologies Limited.

Source: RHP document, Arihant Research

## Management

**Shiva Kumara R** is the Vice President of the company. He joined the company on October 1, 2021. He has more than 14 years of experience in Supply Chain Management.

**Ranga KS** is the Chief Financial Officer of the company. He joined the company on December 22, 2021.

**Nagaraj R Dhavaskar** is the Company Secretary, Legal and Compliance Officer of the company. He joined the company on December 1, 2021. He has more than 5 years of experience in legal compliance and corporate sectorial services.

**Pramod B** is the Deputy General Manager- Operations of the company. He joined the company on October 1, 2021. He has more than 14 years of experience in supply chain management.

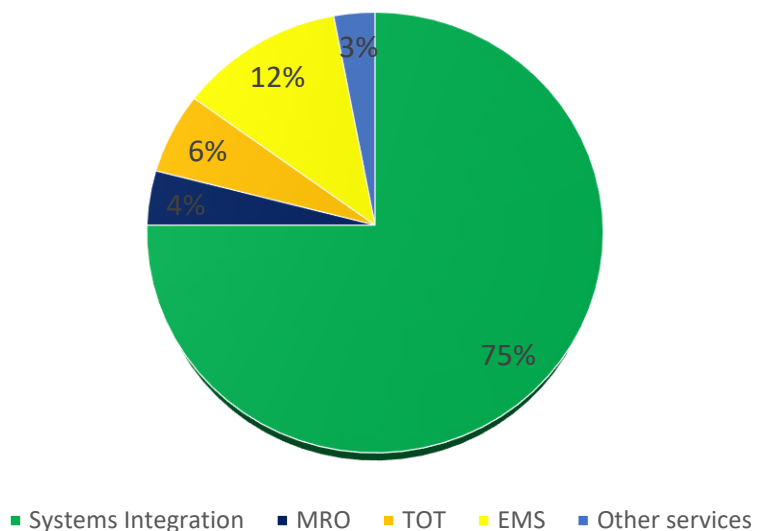
**Anand S** is the Deputy General Manager- Supply Chain Management of Company. He joined the company on August 2, 2021. He has about 14 years of experience in supply chain management.

*Source: RHP document*

## Risks

- The company was dependant on top 3 customers for 85.7% of sales in FY22, any loss to these customers will adversely affect the business.
- Any change in defence policy could adversely affect ability to grow or maintain sales, earnings, and cash flow.
- Any shortages or delay in raw materials can adversely affect the business.
- The company's performance depends on electronic subsystems market, any adverse changes can adversely affect the business.
- The company do not own the brand name 'DCX', they use the brand name 'DCX' pursuant to a no objection letter received from DCX-Chol Enterprises, Inc. In the event that they have to discontinue the use of the brand name 'DCX' or the logo, it may adversely affect business and financial condition of the company.
- The company deals in dollars and is exposed to foreign currency fluctuation risks.

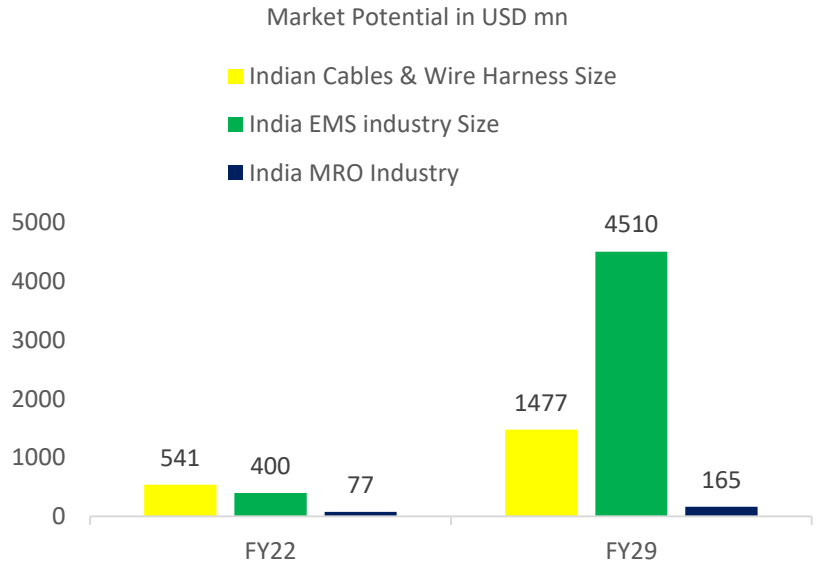
Revenue by business vertical mix



*Source: RHP document*

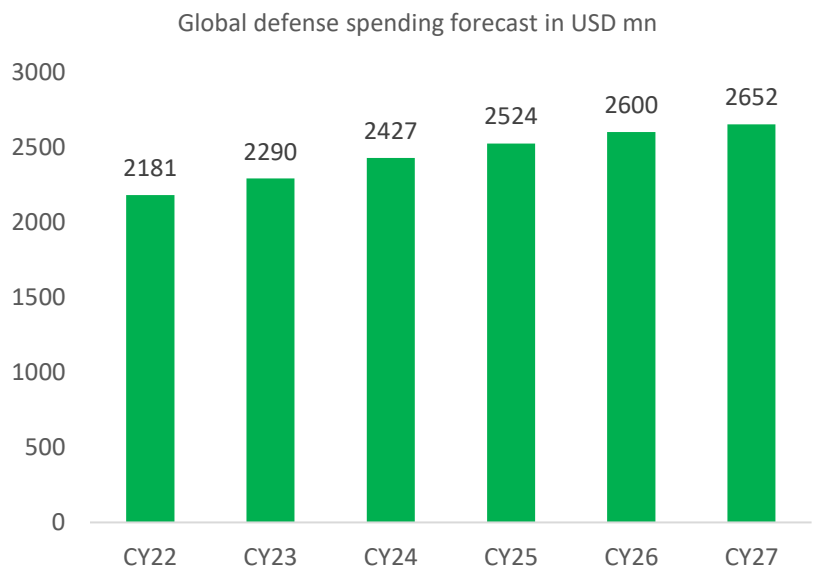
**Market Potential for DCX Systems**

In terms of market potential for DCX systems Indian Cables and Wire harness industry, India EMS, India MRO will grow at a **CAGR(FY22 to FY29)** of 15%, 49% and 9% respectively.



**Global defense spending forecast**

Growth drivers for defense spending includes geopolitical tensions, great power struggle and competition amongst nations and changing technology across nations. It is estimated to grow at a CAGR (CY2022 to CY 2027) of 4%.



Source: RHP document, Arihant Research

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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