

Company Overview

DCX Systems Ltd commenced operations in 2011 and is engaged in the business of system integration in areas of radar systems, sensors, electronic warfare, missiles, and communication systems; manufacturing a comprehensive array of cables and wire harness assemblies and supplying assembly-ready kits of electronic and electro-mechanical parts. The company is rapidly growing in the Indian defence space and has been a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") for executing aerospace and defence manufacturing projects. DCX operates through its manufacturing facility located at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. As of June 30, 2022, DCX had 26 customers in Israel, the United States, Korea and India, including certain Fortune 500 companies, multinational corporations and start-ups. The company caters to domestic and international OEMs, private companies and public sector undertakings in India across different sectors, ranging from defence and aerospace to space ventures and railways. DCX System's key customers include Elta Systems Limited, Israel Aerospace Industries Limited - System Missiles and Space Division, Bharat Electronics Limited, and Astra Rafael Comsys Private Limited, among others.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ Repayment/prepayment, in full or part, of certain borrowings availed of by the Company.
- ⇒ Funding working capital requirements of the Company.
- ⇒ Investment in their wholly-owned Subsidiary, Raneal Advanced Systems Private Limited, to fund its capital expenditure expenses.
- ⇒ General Corporate Purposes

Investment Rationale

Strategically located facility with advanced technological capabilities.

Being located in SEZ offers the company duty-free imports, exemption from GST, and supplies that are zero-rated under extant regulations. They are also not subject to levies imposed by the state government and the operations are eligible for single-window clearance by the relevant authority. Further, DCX's strategy of having its manufacturing facility within the reach of its key domestic customers results in a shorter delivery time. The facility is equipped with the latest inspection and testing equipment and is set for complete in-house environmental and electrical testing as well. The company supplied over 10,000 units in the last three Fiscals and in the three months that ended June 30, 2022, DCX has not incurred any warranty claims to date.

Higher opportunities with growth in the industry

DCX System is well positioned to capitalize on the growing Indian landscape for the defence and aerospace industry. Initiatives like an increase in foreign direct investment ("FDI") in the Indian defence sector from the current 49% to 74% under the automatic route are anticipated to be key drivers and growth opportunities for the market. Additionally, India's defence budget outlay for Fiscal 2023 stands at INR 5,250 billion 10% increase over the budget of INR 4,780 billion in Fiscal 2022. With new government reforms and The Defence Acquisition Policy 2020 ("DAP 2020") in place, a large number of innovations utilised in defence equipment are now available to private entities thus making DCX the beneficiary of this move.

Valuation and Outlook

The Government of India aims to become a US\$ 5 billion export country by 2025 in the aerospace and defence goods sector thus providing private players like DCX Systems to play an important role in achieving this target. To enhance its global presence, the company continues to strengthen its international operations in Israel, the United States and Korea and also aims to expand its global footprint to Europe. The shift from passive to active radar solutions will also provide numerous opportunities for the company. DCX maintains a healthy order book which has increased from INR 19,413.11 million, as of FY2020 to INR23,690.04 million, as of FY2022. As of June 30, 2022, the order book stands at INR25,636.34 million to be executed in Fiscal 2023 to 2025. However any changes in the offset defence policies remains a key risk. On the valuation front, we value the company at a P/E of 22.5x based on FY22 earnings and recommend a "SUBSCRIBE" for the benefit of listing gains.

Issue Details

Offer Period	31 st Oct– 2 nd Nov, 2022
Price Band	INR.197 to INR.207
Bid Lot	72
Listing	BSE&NSE
Issue Size (no. of shares in mn)	25.38/24.15

Issue Size (INR. in bn)	5
Face Value	2

Issue Structure

QIB	75%
NIB	15%
Retail	10%

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

Registrar	Link Intime India Private Limited
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Particulars	Pre Issue %	Post Issue %
Promoter	98.20%	73.58%
Promoter Group	-	-
Public	1.80%	26.42%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



DCX Systems Ltd.

Income Statement (Rs in millions)

Particulars	Q1FY23	FY22
Revenue		
Revenue from Operations	2,133	11,023
Total Revenue	2,133	11,023
Expenses		
Cost of Materials Consumed	1,901	9,293
Change in inventory of Finished goods& Work in Progress	-	712
Employee benefit expenses	24	87
Other expenses	158	260
Total Operating Expenses	2,083	10,353
EBITDA	49	670
Depreciation and amortisation expense	5	22
Other income	70	221
EBIT	114	869
Finance costs	50	113
Exceptional Item		
PBT	65	756
Current tax	(12)	(132)
Deferred Tax charge	(0)	3
MAT Credit reversed/(availed)	3	30
Total tax	(9)	(99)
PAT	56	656

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in million)

Particulars	Q1FY23	FY22
Cash Flow from operating activities	(197)	(1,340)
Cash flow from investing activities	70	208
Cash flow from financing activities	(93)	3,642
Net increase/(decrease) in cash and cash equivalents	(220)	2,510
Cash and cash equivalents at the beginning of the period	8,003	5,493
Cash and cash equivalents at the end of the period	7,783	8,003

Source: RHP, BP Equities Research



DCX Systems Ltd.

Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22
Equity and Liabilities		
Share Capital	155	155
Instruments entirely equity in nature		
Other Equity	1,077	1,021
Net worth	1,232	1,176
Financial Liabilities		
Borrowings	354	354
Provisions	10	10
Total Non Current Liabilities	365	365
Current Liabilities		
Borrowings	4,629	4,672
Trade Payables		
(a) total outstanding dues of micro enterprises and small enterprises	597	453
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	484	513
Other Financial Liabilities	13	7
Short Term Provisions	1	0
Other current liabilities	2,701	2,153
Current tax liabilities	95	88
Total Current Liabilities	8,519	7,885
Total liabilities	8,884	8,250
Total Equity and Liabilities	10,116	9,426
Assets		
Property, plant and equipment	104	108
Right-of-Use assets	38	38
Other Intangible assets	0	0
Investments	0	0
Other Financial Assets	1	3
Deferred tax assets	41	38
Other non-current assets	1	1
Total Non current assets	184	188
Inventories	803	273
Financial Assets		
Trade Receivables	1,084	695
Cash and cash equivalents	1,597	1,885
Other Bank Balances	6,186	6,118
Other Financial Assets	3	51
Other current assets	258	217
Total Current Asset	9,932	9,238
Total Assets	10,116	9,426

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company's revenue and profitability are heavily reliant on a limited number of customers with the majority of its revenue generated from its top three key customers.
- ⇒ The company's revenue from operations depends significantly on offset defence contracts. Any changes in the offset defence policy could adversely affect the ability to grow or maintain their sales, earnings and cash flow.
- ⇒ The company is exposed to foreign currency fluctuation risks, particularly concerning the borrowings, import of raw materials and export of products that can adversely affect their results of operations, financial condition and cash flows.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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