



**JAINAM**

Prosperity with Security



**DCX Systems Ltd.**

**By**

**Jainam Broking Ltd.**



**JAINAM**

Prosperity with Security

## **Disclaimer**

We are SEBI-certified Research Analysts. This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their advisors to determine the merits and risks of such an investment.

**JAINAM**

Prosperity with Security

**IPO Details:**

| <b>IPO Details</b>      |                                      |
|-------------------------|--------------------------------------|
| <b>Opening date</b>     | 31st Oct 2022                        |
| <b>Closing date</b>     | 2nd Nov 2022                         |
| <b>Face Value</b>       | 2 Rs. Per share                      |
| <b>Price band</b>       | INR Rs. 197 to INR Rs. 207 per share |
| <b>Lot size</b>         | 72 equity shares per lot             |
| <b>Listing on</b>       | BSE & NSE                            |
| <b>Total issue size</b> | INR 500 Cr.                          |
| <b>Fresh issue</b>      | INR 400 Cr.                          |
| <b>Offer for sale</b>   | INR 100 Cr.                          |

| <b>Promoter's Holdings</b> |        |
|----------------------------|--------|
| Pre-issue shareholdings    | 98.20% |
| Post-issue shareholdings   | 73.58% |



# JAINAM

Prosperity with Security

## About the company:

- The company commenced its operations in 2011 as a leading player manufacturer in the defence & aerospace sector.
- Major operational verticals are:
  - System integration, like radar systems, sensors, missiles, communication systems, and electronic warfare.
  - Cable & wire harness assemblies, like radio frequency cables, for surveillance & military armed vehicles.
  - Kitting, like kits for electro-mechanical parts, moisture-sensitive devices, etc. In addition, it is also providing job work services.
- It is one of the Indian offset partners for foreign original equipment manufacturers for executing defence manufacturing projects.
- A manufacturing location at the Hi-Tech Defence & Aerospace Park SEZ, Bangalore, Karnataka, catering to global countries like Israel, USA, and Korea.
- In 2022, DCX exported US\$ 76 million worth of equipment accounting for 4.7% of the overall defence exports of India.
- DCX is one of the largest Indian offset players for Israel, and made long-term Aerospace & defence investments which processes high-end advanced and modern technology in the last several years.

## About the Industry:

- The GOI has set a target of US\$ 25 billion for defence production by 2025. Currently, the major focus is to enhance the value of defence production.
- An estimated market size of Indian defence electronics is ~US\$ 2577 million for the year 2022. And it is expected to grow at a CAGR of ~13.70% between 2022-2030 to US\$ 7204 million by 2030.
- In the Indian defence export market, during FY20, FY21, and FY22, the private players accounted for 70%, 86%, and 88%, respectively.
- The GOI has taken greater initiatives like 'Make in India', and 'Atmanirbhar Bharat' operations through stricter policy support to minimize reliance on overseas imports & defence acquisition.

**JAINAM**

Prosperity with Security

## About the management:

- **Neal Jeremy Castleman: Founder & Director:**
  - Director since 14<sup>th</sup> March 2012. And has been working with DCX-CHOL enterprises, Inc. as a director since 1997.
  - He holds a bachelor of science in chemistry from the university of southern California.
  - Having a 2-decades of experience in the electronics manufacturing sector.
  
- **Dr H.S. Raghvendra Rao: Chairman & MD:**
  - Director since 16<sup>th</sup> January 2012.
  - 21 years of experience in the electronics manufacturing & aerospace sector.
  - PhD in business management from the International peace university, Germany.
  
- **Sankar Krishnan Ramalingam: Whole-time director:**
  - Director since 28<sup>th</sup> January 2022.
  - He is an associate of the Indian Institute of Bankers & holds a BSc from the University of Bombay.
  - Having an experience of 26 years in the finance sector.

## The objective of the issue:

Total issue size, INR ~500 crores.

- Repayment of borrowings availed by the company. (INR ~110 crores)
- Funding working capital requirement. (INR ~160 crores)
- Investment in a wholly owned subsidiary. (INR ~44.89 crores)
- General corporate purposes like enhancing technologies, acquisitions, and brand building & marketing activities. (INR ~85 crores)
- Promoter & promoters' group. (INR ~100 Crores)



**JAINAM**

Prosperity with Security

## Financial performance:

| DCX Systems Limited (formerly known as DCX Cable Assemblies Private Limited) |      |                      |                    |                      |                         |                    |
|------------------------------------------------------------------------------|------|----------------------|--------------------|----------------------|-------------------------|--------------------|
| Restated Statement of Profit and Loss                                        |      |                      |                    |                      |                         |                    |
| (All amounts in Indian Rupees Millions, unless otherwise stated)             |      |                      |                    |                      |                         |                    |
| Particulars                                                                  | Note | Consolidated For the | Standalone For the | Consolidated For the | Standalone For the year | Standalone For the |
|                                                                              |      | Quarter ended        | Quarter ended      | year ended           | ended                   | year ended         |
|                                                                              |      | 30 June 2022         | 30 June 2021       | 31 March 2022        | 31 March 2021           | 31 March 2020      |
| <b>Income</b>                                                                |      |                      |                    |                      |                         |                    |
| Revenue from operations                                                      | 24   | 2132.54              | 1229.14            | 11,022.73            | 6,411.63                | 4,492.62           |
| Other income                                                                 | 25   | 70.00                | 57.72              | 220.61               | 420.79                  | 159.67             |
| <b>Total income</b>                                                          |      | <b>2,202.54</b>      | <b>1,286.86</b>    | <b>11,243.34</b>     | <b>6,832.42</b>         | <b>4,652.29</b>    |
| <b>Expenses</b>                                                              |      |                      |                    |                      |                         |                    |
| Cost of materials Consumed                                                   | 26   | 1901.27              | 584.04             | 9,293.43             | 6,604.35                | 4,311.78           |
| Changes in inventories of finished goods and work-in-progress                | 27   | 0.00                 | 558.51             | 712.43               | (419.66)                | (232.49)           |
| Employee benefit expenses                                                    | 28   | 24.31                | 15.60              | 86.65                | 54.79                   | 55.97              |
| Finance cost                                                                 | 29   | 49.76                | 14.28              | 113.22               | 99.22                   | 79.41              |
| Depreciation and amortisation expenses                                       | 30   | 4.59                 | 5.02               | 21.75                | 24.31                   | 13.76              |
| Other expenses                                                               | 31   | 157.90               | 71.37              | 260.31               | 71.35                   | 295.19             |
| <b>Total expenses</b>                                                        |      | <b>2,137.83</b>      | <b>1,248.82</b>    | <b>10,487.79</b>     | <b>6,434.36</b>         | <b>4,523.62</b>    |
| <b>Profit before tax</b>                                                     |      | <b>64.71</b>         | <b>38.04</b>       | <b>755.55</b>        | <b>398.06</b>           | <b>128.67</b>      |
| <b>Tax expense:</b>                                                          | 32   |                      |                    |                      |                         |                    |
| Current tax                                                                  |      | (11.65)              | (6.65)             | (132.02)             | (104.65)                | (37.41)            |
| Deferred tax                                                                 |      | (0.03)               | 0.55               | 2.59                 | 2.17                    | 1.24               |
| MAT Credit                                                                   |      | 2.65                 | 1.51               | 29.96                | -                       | -                  |
| Previous year tax charges                                                    |      | -                    | -                  | -                    | -                       | 4.94               |
| <b>Total Tax Expenses</b>                                                    |      | <b>(9.03)</b>        | <b>(4.59)</b>      | <b>(99.47)</b>       | <b>(102.48)</b>         | <b>(31.23)</b>     |
| <b>Profit for the period (A)</b>                                             |      | <b>55.68</b>         | <b>33.45</b>       | <b>656.08</b>        | <b>295.58</b>           | <b>97.44</b>       |

- DCX incorporated 1<sup>st</sup> wholly-owned subsidiary with the initial amount of INR 10 cr. on 3<sup>rd</sup> February 2022.
  - Raneal Advanced Systems Private Limited: RASPL will be setting up the EMS Facility which will have facilities for the design, development, manufacturing, qualification and life cycle support of high-reliability electronic and electro-mechanical systems used in Aerospace and Defence, Medical Electronics and Industrial Electronics application.
- Vertical revenue break-up:

| Verticals                            | Fiscal             |                                           |                    |                                           |                    |                                           | Three months ended June 30, |                                           |                    |                                           |
|--------------------------------------|--------------------|-------------------------------------------|--------------------|-------------------------------------------|--------------------|-------------------------------------------|-----------------------------|-------------------------------------------|--------------------|-------------------------------------------|
|                                      | 2020               |                                           | 2021               |                                           | 2022               |                                           | 2021                        |                                           | 2022               |                                           |
|                                      | (Standalone)       |                                           | (Consolidated)     |                                           | (Consolidated)     |                                           | (Standalone)                |                                           | (Consolidated)     |                                           |
|                                      | Amount (₹ million) | Percentage of Revenue from Operations (%) | Amount (₹ million) | Percentage of Revenue from Operations (%) | Amount (₹ million) | Percentage of Revenue from Operations (%) | Amount (₹ million)          | Percentage of Revenue from Operations (%) | Amount (₹ million) | Percentage of Revenue from Operations (%) |
| System Integration *                 | 3,717.65           | 82.75%                                    | 6,160.67           | 96.09%                                    | 9,398.65           | 85.27%                                    | 1,081.05                    | 87.95%                                    | 2,055.02           | 96.36%                                    |
| Cable and Wire Harness Assemblies ** | 333.14             | 7.42%                                     | 195.84             | 3.05%                                     | 298.14             | 2.70%                                     | 42.87                       | 3.49%                                     | 69.16              | 3.24%                                     |
| Kitting                              | 441.83             | 9.83%                                     | 55.12              | 0.86%                                     | 1,325.94           | 12.03%                                    | 105.22                      | 8.56%                                     | 8.36               | 0.40%                                     |
| <b>Total</b>                         | <b>4,492.62</b>    | <b>100.00%</b>                            | <b>6,411.63</b>    | <b>100.00%</b>                            | <b>11,022.73</b>   | <b>100.00%</b>                            | <b>1,229.14</b>             | <b>100.00%</b>                            | <b>2,132.54</b>    | <b>100.00%</b>                            |



## Positive triggers:

- After the pandemic geo-political tension has increased significantly like the Russia-Ukraine war and Chinese threatening Taiwan, etc. Every country has their defence industrial base, but they don't make everything they need themselves. So, there are ample opportunities for India to export.
- DCX works with well-known space & defence organisations like ISRO, Indian Defence Forces, and PSUs like Bharat electronics, Bharat dynamics, and Hindustan Aeronautics to make modernisation of the whole industry. It gives an edge to have a proven past track record.
- Policies & initiatives by Governments & Ministry of Defence, like
  - In December 2021, the introduction of the 'First positive indigenisation list' which includes 351 new items to be indigenised.
  - In March 2022, the MoD notified a 'second positive indigenisation list' for banning on import of 107 defence items.
- DCX is well-positioned & capable enough to seize all future opportunities.

### Capability Comparison Of DCX And Competition

| SL.No | Peer Entity/Capability Matrix         | System Integration | Cable & Wire Harness Assembly | MRO | EMS | Electro-Mechanical Assembly |
|-------|---------------------------------------|--------------------|-------------------------------|-----|-----|-----------------------------|
| 1     | DCX SYSTEMS LIMITED                   | ✓                  | ✓                             | ✓   | ✓   | ✓                           |
| 2     | ASTRA MICROWAVE PRODUCTS LIMITED      | ✓                  | ✗                             | ✓   | ✓   | ✓                           |
| 3     | ALPHA DESIGN TECHNOLOGIES PVT LTD     | ✓                  | ✗                             | ✓   | ✗   | ✓                           |
| 4     | BHARAT ELECTRONICS LIMITED -BANGALORE | ✓                  | ✗                             | ✓   | ✗   | ✓                           |
| 5     | CENTUM ELECTRONICS                    | ✗                  | ✗                             | ✗   | ✓   | ✓                           |
| 6     | CYIENT DLM PVT LTD                    | ✓                  | ✓                             | ✗   | ✓   | ✓                           |
| 7     | SASMOS HET TECHNOLOGIES               | ✗                  | ✓                             | ✗   | ✗   | ✗                           |
| 8     | ALMPHENOL INTERCONNECT INDIA PVT LTD  | ✗                  | ✓                             | ✗   | ✗   | ✗                           |
| 9     | DATA PATTERNS PVT LTD                 | ✓                  | ✗                             | ✗   | ✓   | ✓                           |
| 10    | HELA SYSTEMS PVT LTD                  | ✓                  | ✗                             | ✓   | ✗   | ✓                           |
| 11    | KAYNES TECHNOLOGY INDIA PVT LTD       | ✗                  | ✗                             | ✗   | ✓   | ✗                           |
| 12    | ROSSEL TECHSYS                        | ✓                  | ✓                             | ✗   | ✓   | ✓                           |
| 13    | APOLLO MICRO SYSTEMS                  | ✗                  | ✗                             | ✗   | ✓   | ✓                           |
| 14    | PARAS DEFENCE                         | ✓                  | ✗                             | ✗   | ✓   | ✓                           |

**JAINAM**

Prosperity with Security

- Strong order book: as on 30<sup>th</sup> June 2022 order book stands at INR 25636.34 million, which is higher than the last 2 fiscal years. FY20 & FY21 order book was at INR 19413.11 million & INR ~23690.04 million, respectively.
- Sometimes DCX hire labours/ workers on a contractual basis.

**Risk:**

- From IPO funds, DCX will infuse INR ~45 crores into its subsidiary 'Raneal Advanced Systems Private Limited.' It will be important to watch for the upcoming time, are they fully infusing money into a business or some of the part only?
- DCX frequently faces cost fluctuations in their raw material prices. It sources raw materials from different suppliers approved by customers and pays them in advance to procure. Higher raw material prices can dampen the margin of the business.
- According to the latest filing, ~99.7% of the total revenue comes from top-10 customers.

| Customer Concentration | Fiscal                |                                       |                       |                                       |                        |                                       | Three Months Ended June 30, |                                       |                        |                                       |
|------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------------|------------------------|---------------------------------------|-----------------------------|---------------------------------------|------------------------|---------------------------------------|
|                        | 2020<br>(Standalone)  |                                       | 2021<br>(Standalone)  |                                       | 2022<br>(Consolidated) |                                       | 2021<br>(Standalone)        |                                       | 2022<br>(Consolidated) |                                       |
|                        | Amount<br>(₹ million) | Percentage of Revenue from Operations | Amount<br>(₹ million) | Percentage of Revenue from Operations | Amount<br>(₹ million)  | Percentage of Revenue from Operations | Amount<br>(₹ million)       | Percentage of Revenue from Operations | Amount<br>(₹ million)  | Percentage of Revenue from Operations |
| Top 3 Customers        | 3,291.34              | 73.26%                                | 5,571.40              | 86.90%                                | 8,879.04               | 80.55%                                | 1,053.34                    | 85.70%                                | 2,065.03               | 96.83%                                |
| - Customer1            | 1,881.23              | 41.87%                                | 3,606.09              | 56.24%                                | 6,130.71               | 55.62%                                | 560.72                      | 45.62%                                | 992.03                 | 46.52%                                |
| - Customer2            | 787.45                | 17.53%                                | 1,172.91              | 18.29%                                | 1,422.39               | 12.90%                                | 301.90                      | 24.56%                                | 753.05                 | 35.31%                                |
| - Customer3            | 622.66                | 13.86%                                | 792.40                | 12.36%                                | 1,325.94               | 12.03%                                | 190.72                      | 15.52%                                | 319.95                 | 15.00%                                |
| Top 10 Customers       | 4,384.96              | 97.60%                                | 6,349.61              | 99.03%                                | 10,990.63              | 99.71%                                | 1,229.14                    | 100.00%                               | 2,132.50               | 100.00%                               |

- Import-export transactions come –up with Foreign currency fluctuation risk, and export comes from more than ~55% of the total customers.

| Customer     | Fiscal                |                                             |                       |                                             |                       |                                             | Three months ended June 30, |                                             |                       |                                             |
|--------------|-----------------------|---------------------------------------------|-----------------------|---------------------------------------------|-----------------------|---------------------------------------------|-----------------------------|---------------------------------------------|-----------------------|---------------------------------------------|
|              | 2020                  |                                             | 2021                  |                                             | 2022                  |                                             | 2021                        |                                             | 2022                  |                                             |
|              | (Standalone)          |                                             | (Standalone)          |                                             | (Consolidated)        |                                             | (Standalone)                |                                             | (Consolidated)        |                                             |
|              | Amount<br>(₹ million) | Percentage of Revenue from Sale of Products | Amount<br>(₹ million) | Percentage of Revenue from Sale of Products | Amount<br>(₹ million) | Percentage of Revenue from Sale of Products | Amount<br>(₹ million)       | Percentage of Revenue from Sale of Products | Amount<br>(₹ million) | Percentage of Revenue from Sale of Products |
| Export       | 3,371.67              | 76.45%                                      | 3,801.16              | 59.59%                                      | 6,116.94              | 55.73%                                      | 561.20                      | 45.66%                                      | 1,003.21              | 47.04%                                      |
| Domestic     | 1,038.43              | 23.55%                                      | 2,577.56              | 40.41%                                      | 4,859.72              | 44.27%                                      | 667.99                      | 54.34%                                      | 1,128.59              | 52.96%                                      |
| <b>Total</b> | <b>4,410.10</b>       | <b>100.00%</b>                              | <b>6,378.72</b>       | <b>100.00%</b>                              | <b>10,976.66</b>      | <b>100.00%</b>                              | <b>1,229.19</b>             | <b>100.00%</b>                              | <b>2,131.80</b>       | <b>100.00%</b>                              |





**JAINAM**

Prosperity with Security

## **Our Recommendation:**

We are recommending for long-term subscription, due to the following parameters:

- Government focus to become 'Atmanirbhar Bharat'.
- Increasing budget allocation towards the defence sector.
- DCX is a niche supplier with all the capabilities as compared to its peers.