

# DCX Systems Ltd.



## DCX Systems Ltd.

Issue Opens On  
October 31, 2022

Issue Closes On  
November 02, 2022

Price Band (INR)  
197 – 207

Issue Size (INR Mn)  
5,000

Rating  
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**DCX Systems Ltd. (DCX)** is a Bengaluru based company, primarily engaged in system integration and manufacturing of comprehensive array of cables and wire harness assemblies, as well as kitting. DCX commenced operations in 2011, and over the years, has expanded its manufacturing capabilities and grown its order book. The company has a healthy orderbook of INR 25.63 bn as of June 2022. DCX has been a preferred Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs) for executing defence manufacturing projects. It is also one of the largest IOP for ELTA Systems Ltd. and Israel Aerospace Industries Ltd, System Missiles and Space Division (IAI Group) for the Indian defence market for manufacture of electronic sub-systems and cable and wire harness assemblies. As of June 30, 2022, DCX had 26 customers in Israel, United States, Korea and India. Its customers include domestic & international OEMs, private companies and public sector undertakings in India.

### OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	25,380,710-24,154,588
Net offer (# shares)	25,380,710-24,154,588
Price band (INR)	197-207
Post issue MCAP (INR Mn)	19,248-20,022

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	November 02, 2022
Finalization of Basis of Allotment with Stock Exchange	On or about 7 <sup>th</sup> Nov 2022
Initiation of Refunds	On or about 9 <sup>th</sup> Nov 2022
Credit of Equity Shares to Demat accounts	On or about 10 <sup>th</sup> Nov 2022
Commencement of Trading of Eq.shares on NSE	On or about 11 <sup>th</sup> Nov 2022

Source: IPO Prospectus

Issue	# Shares	*INR Mn	%
QIB	18,115,942	3,750	75%
NIB	3,623,188	750	15%
Retail	2,415,458	500	10%
<b>Net Offer</b>	<b>24,154,588</b>	<b>5,000</b>	<b>100%</b>

Source: IPO Prospectus

\*at upper price band

Objects of the Offer: The net proceeds will be utilized for the following purpose
Repayment/prepayment, in full or part, of certain borrowings availed of by the company
Funding working capital requirements of the company
Investment in the wholly owned Subsidiary, Raneal Advanced Systems Pvt Ltd, to fund its capital expenditure expenses
General corporate purposes

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters	98.2%	73.6%
Public	1.8%	26.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: IPO Prospectus

Particulars (INR Mn)*	FY20	FY21	FY22	Q1FY23
Revenue	4,493	6,412	11,023	2,133
EBITDA	452	325	1,059	244
EBITDA Margin	9.7%	4.8%	9.4%	11.1%
PAT	97	296	656	56
PAT Margin	2.1%	4.3%	5.8%	2.5%
Net Worth	172	468	1,176	1,232
RONW	56.8%	63.2%	55.8%	4.5%

Source: IPO Prospectus, \* Restated Statement

## DCX Systems Ltd.

### Company Overview

**DCX Systems Ltd. (DCX)** is a Bengaluru based company, primarily engaged in system integration and manufacturing of comprehensive array of cables and wire harness assemblies, as well as kitting. DCX commenced operations in 2011, and over the years, has expanded its manufacturing capabilities and grown its order book. The company has a healthy orderbook of INR 25.63 bn as of June 2022. DCX has been a preferred Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs) for executing defence manufacturing projects. It is also one of the largest IOP for ELTA Systems Ltd. and Israel Aerospace Industries Ltd, System Missiles and Space Division (IAI Group) for the Indian defence market for manufacture of electronic sub-systems and cable and wire harness assemblies. As of June 30, 2022, DCX had 26 customers in Israel, United States, Korea and India. Its customers include domestic & international OEMs, private companies and public sector undertakings in India.

### Business Segments

The company operates in three business segments namely, (i) System Integration, (ii) Cable and Wire Harness Assemblies and (iii) Kitting. In addition, DCX also undertakes certain job work services that includes assembly and testing of materials that have been supplied directly by its customers.

- System Integration:** The company undertakes system integration in areas of radar systems, sensors, electronic warfare, missiles, and communication systems. It provides product assembly and system integration services of various complexities to address customers' requirements. System integration services are part of a comprehensive array of electronics and electro-mechanical assembly and enclosure assembly. DCX also provides product repair support for the parts that it manufactures. The company possesses capabilities to manufacture complex, high-end and high-power microwave modules which have applications in radars, antennas, electronic warfare systems, receiver sub-systems and missile systems. Their capabilities include inspection and test equipment of cable tester, cirrus testers, network analyzer, crimp pull tester, microscope, leak test equipment, high voltage tester, micro-ohm meter, test station for PCBAs, automatic testing equipment for PCBAs and module testing, electrodynamic vibration shaker system, contact retention tester and vernier height gauge.

### Various products manufactured by DCX Systems



Source: IPO Prospectus

- Cable and Wire Harness Assemblies:** DCX manufactures a comprehensive array of 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 armored vehicles, and other electronic warfare systems for the aerospace and defence industries as per its customers' requirements. The company manufactures the following products in its Cable and Wire Harness Assemblies division.
  - Fine Wire Cable Assemblies:** Fine cables are light weight, high temperature resistant, radiations resistance, low smoke and zero halogen and strong. Fine wire cable assemblies are extensively used in robotic, aerospace, marine, space and medical applications to obtain high performance.
  - Flex Flat Cable Assemblies:** Designed for board-to-board interconnections, flexible flat cable is a type of cable that is flat in shape and flexible enough to manoeuvre within tight spaces. Flex cable applications are usually used in small and tight spaces. The construction of a flat cable really helps manage cables because of the uniform, flat shape. Usually, a flexible plastic is used in the base where several different conductors are able to be bonded with the surface. The flat cable provides 3 main advantages over a round cable with space-saving design, improved resistance to electromagnetic interference ("EMI") or radio frequency interference and helping to avoid any issues related to wire coupling.

## DCX Systems Ltd.

### Company Overview

- **Electromagnetic Interference Shielded Cable Harness:** EMI shielded cables, harnesses and assemblies are designed to meet electromagnet pulses, electromagnetic compatibility, nuclear, biological and chemical and telecommunications electronics material protected from emanating spurious transmissions or TEMPEST solutions, and their shielded solutions have been used in certain commercial airliner landing gear systems, secure communication systems and others.
- **Wired Enclosure:** The company produces high reliability backplane assemblies, and wired enclosures for the defence and aerospace and industrial market. They specialize in complete turnkey custom electronic wired enclosures, sub-racks, system cabinets, and subsystem chassis. Their capabilities enable them to support portable size units to large consoles with up to 100,000 terminations and allow their customers the flexibility to customize their designs to meet the needs of the application.
- **Conduit Assemblies:** Electrical conduits surround electrical wiring to protect from impact, moisture and chemical vapours. A conduit simplifies a wiring installation by providing an unobstructed path for the wiring to run through. Conduit systems can be waterproof and protect sensitive circuits from electromagnetic interference. Special types of conduits can be made to protect wiring from flammable gases and vapours to protect from fire and explosion. Other types of conduits are made to be directly encased in concrete, allowing for specialized installation of outlets and networking/phone ports and ease of running the wires through the floor.
- **Kitting:** It supplies assembly ready kits of electronic and electro-mechanical parts and undertake all aspects of procurement including sourcing components from suppliers approved by its customers along with a 'Certificate of Compliance' for traceability, controlled storage of moisture sensitive devices to ensure that customers receive complete, assembly-ready kits needed for production.

### Revenue across business segments of DCX Systems

Business Segments	Q1FY23		FY22		FY21		FY20	
	Revenue (INR Mn)	% of total order book	Revenue (INR Mn)	% of total order book	Revenue (INR Mn)	% of total order book	Revenue (INR Mn)	% of total order book
System Integration	2,055	96.4%	9,399	85.3%	6,161	96.1%	3,718	82.8%
Cable & Wire Harness Assemblies	69.2	3.2%	298	2.7%	196	3.1%	333	7.4%
Kitting	8.4	0.4%	1,326	12.0%	55	0.9%	442	9.8%
<b>Total</b>	<b>2,133</b>	<b>100%</b>	<b>11,023</b>	<b>100%</b>	<b>6,412</b>	<b>100%</b>	<b>4,493</b>	<b>100%</b>

Source: IPO Prospectus

### Manufacturing Units

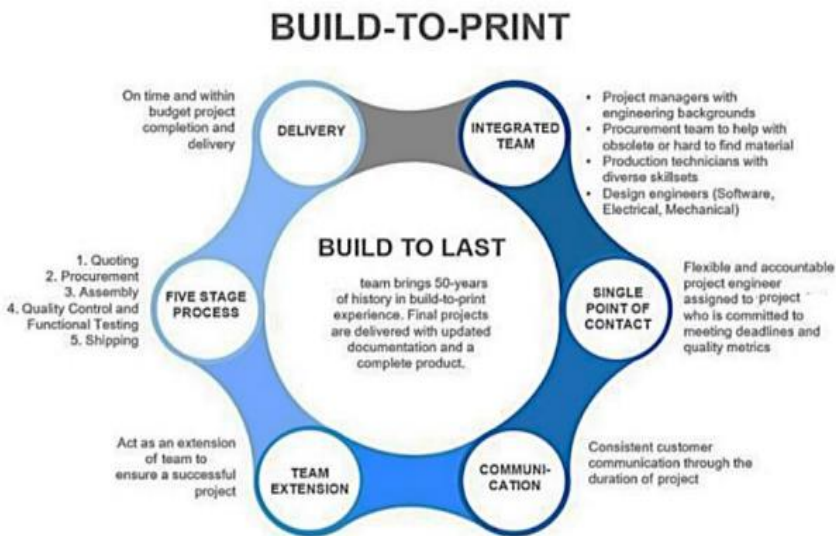
The company operates from a single facility which has the capability to provide end-to-end support for assets, including upgrading and modifying assets and equipment. Their facility covers an area of 30,000 square feet which is built on a land of 1.5 acres. The factory contains 2 units of production, one unit covering 25,000 square feet in area, and the other unit covering 5,000 square feet in area. DCX's manufacturing facility is situated in a special economic zone (SEZ) dedicated for aerospace and defence industry and is completely security fenced, monitored 24/7 basis by the Karnataka Industrial Areas Development Board (KIADB). The company's facility is set up for complete in-house environmental and electrical testing. DCX's in-house capabilities are wide-ranging, from a complete design and development for its cable and wire harness assemblies to extensive wire processing. Its operations are based on enterprise resource planning system.

The company's process engineers are technically trained to meet the requirements of its customers' applications. DCX places emphasis on quality manufacturing, internal controls, skilled manpower, timely execution capabilities and organizational processes and continuous improvement across its operations.

# DCX Systems Ltd.

## Company Overview

- **Build-to-Print Capabilities:** Build-to-print is when a supplier produces work instructions, assembly drawings, and calls out specific and detailed manufacturing practices used in building the parts along with the customer’s specification of the component’s functional requirements. This method requires a little more effort and development costs from the customer, but it is advantageous to them because they maintain control of the intellectual property right while having the flexibility to select appropriate suppliers to produce the parts for them. This approach allows an easier vertical integration for the customer’s business because they only need to focus on their core, and this often alleviates the bottlenecks they encounter while trying to do all those processes themselves. DCX is focused on turnkey – built-to-print projects for its OEM customers. The company leverages intellectual property of its customers and manufacture products according to their requirements.



Source: IPO Prospectus

- **Cable and Harness Prototype Manufacturing and Testing:** The company also undertakes manufacturing of proto-types for their customers to address their requirements to design and develop new products which may give them future opportunities for volume production when the product matures and come for bulk production.

## Clientele & Order Book

DCX’s customers are present across India, Israel, United States and South Korea. In the domestic market its customers include public sector undertakings and private players in the defence manufacturing industry, government departments, space organisations and defence forces. The company has strong and long-established relationships with most of its customers. This has enabled DCX to develop long-term and entrenched relationships with its customers that has resulted in growth in its operations and sizeable order book. As of June 30, 2022, the order book of DCX stood at INR 25,636 mn to be executed over FY23-FY25.

Order Book position across business segments of DCX Systems

Business Segments	Q1FY23		FY22		FY21		FY20	
	Order Book (INR Mn)	% of total order book	Order Book (INR Mn)	% of total order book	Order Book (INR Mn)	% of total order book	Order Book (INR Mn)	% of total order book
System Integration	24,300	94.8%	22,303	94.1%	25,592	89.6%	18,938	97.6%
Cable & Wire Harness Assemblies	136	0.5%	218	0.9%	472	1.7%	391	2.0%
Kitting	1,200	4.7%	1,169	4.9%	2,486	8.7%	84	0.4%
<b>Total</b>	<b>25,636</b>	<b>100%</b>	<b>23,690</b>	<b>100%</b>	<b>28,550</b>	<b>100%</b>	<b>19,413</b>	<b>100%</b>

Source: IPO Prospectus

## DCX Systems Ltd.

### INVESTMENT RATIONALE

#### Among the preferred Indian Offset Partners for the defence and aerospace industry with global accreditations

DCX Systems is a preferred Indian Offset Partner (IOP) for foreign OEMs for executing defence manufacturing projects. They undertake “build-to-print” system integration and manufacture cable and wire harness assemblies for both domestic and international OEMs. They are also one of the largest IOP for the IAI Group, Israel, for the Indian defence market for manufacture of electronic sub-systems and cable and wire harness assemblies. They hold a number of key certifications that include AS-9100:2016 certification for quality management systems for aviation, space and defences products manufacturing and their Defence Industrial License from the Ministry of Commerce and Industry, GoI for the manufacture of defence subsystems that includes microwave components, modules for radar and electronic warfare subsystems, microwave sub-modules, for command and guidance units for missile subsystems only. They also adhere to global standards and have obtained various global certifications. Their global certifications help them serve their customers’ stringent quality specifications and assists in new customer acquisition.

As part of their system integration services, their strength includes the manufacturing of complex microwave modules and sub-systems such as transmit receiver modules, receiver subsystems, and antennas used in military applications, space technology and aerospace. They are also engaged in manufacturing a comprehensive array of cables and wire harnesses assemblies such as radio frequency co-axial, mixed signal, power, data and communication cables for a variety of uses including communication systems, sensors, surveillance systems, missile systems, military armoured vehicle, and other electronic warfare systems.

#### Various projects of DCX as Indian Offset Partner (IOP) as on June 30, 2022

Projects / Products	Business Segment	Offset Value (INR Mn)
MRSAM / LRSAM – Transmit receiver group module	System Integration	14,447
PIDS – Dual transmit receiver module	System Integration	4,020
Air defence fire control radar – Antenna unit / radar processing unit / transmitter receiving unit	System Integration	1,008
High power radars – Dual transmitter receiver module	System Integration	518
Thermal imager fire control systems	Cable and wire harness	178
Long Range Reconnaissance and Observation System	Cable and wire harness	91
Thermal Imager Standalone Kit	Cable and wire harness	66
Barak-1 and Barak-8 Missile Systems	Cable and wire harness	51
Commander Open Architecture Panoramic Sight	Cable and wire harness	35

Source: IPO Prospectus

DCX Systems has submitted their acceptance to act as the Indian Offset Partner (IOP) for upcoming projects for several electronic assemblies, automatic missile detection radars, HERON unmanned aerial vehicle systems, Barak systems, medium range maritime reconnaissance aircraft and short-range surface to air missile. They have, over the years, established and refined their agile assembly, configuration, and testing processes to maintain their focus on quality products and timing of delivery to their customers. They have a team of skilled professionals with experience in the field of engineering, supply chain management, human resources and administration, finance and legal compliance to address the requirements of our customers. They aid their customers by performing activities, including sourcing, purchasing and logistics and development of vendor eco-system both domestically and globally. They have also developed a set of vendors domestically in areas of mechanical components, test fixtures, high-end packaging, special coatings and chemical conversions.

#### Technology enabled and scalable end-to-end capabilities

As part of their system integration services, DCX Systems also do in-house testing to ensure the quality of their final products, and reliability of their products’ functioning under varying environmental conditions. They also specialise in manufacturing assemblies that are used in applications for land, underwater and airborne use. They also manufacture test cables, large mechanical jigs and fixtures, and testing programs to meet desired requirements of customer in testing and qualifying the product. In addition, their products are also subjected to various quality assurance tests. The company provides 12 months warranty to their customers for their system integration and cable and wire harness services. They have supplied over 10,000 units in the last 3 Fiscals and in the 3 months ended June 30, 2022 and have to date not incurred any warranty claims. Their operations are certified with IPC-A-610 for electronic assemblies, IPC620 for cable and wire harness assemblies and J-STD-001 for soldered electrical and electronic assemblies to meet the quality manufacturing standards of the aerospace and defence industry.

# DCX Systems Ltd.

## INVESTMENT RATIONALE

### Business model with visibility of cash flows and ability to mitigate operational and technology risk

DCX's manufacturing activity is obsolescence-proof as the technology coupled with intellectual property rights, both vest with their OEM customers. Further, their in-house team monitors the obsolescence factor and provides feedback to their OEM customers for suitable action including drop-in replacements. Their product portfolio backed by their system integration and manufacturing capabilities has led to their order book growing from 45 orders aggregating INR 19,413 mn, as of March 31, 2020 to 48 orders aggregating INR 23,690 mn, as of March 31, 2022. As of June 30, 2022, DCX's order book was comprised of 42 orders and stood at INR 25,636 mn with orders from several customers for projects to be executed over FY23-FY25.

The company's customers typically reimburse them for costs incurred to maintain all buyer furnished equipment to use in manufacturing and qualifying the products in serviceable condition. As of June 30, 2022, DCX held INR 932 mn worth of equipment provided to them by their customers, and such equipment can be used for similar projects, subject to approval from such customers. Suppliers of their raw materials for a particular project are approved and determined by their customers prior to commencement of the project. The company and their customer jointly monitor and ensure the quality of items. Their customers also provide technical training to their employees to ensure efficient project execution.

### Strategically located in aerospace SEZ with an advanced and modern manufacturing facility

In 2020, DCX Systems commissioned their new manufacturing facility at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. Their facility is spread over an area of 30,000 square feet and is located in the same city as their key domestic customers which ensures shorter delivery times. The facility is secured by digital security cameras coupled with alarm systems with restricted access control for individual manufacturing divisions. Their facility is situated within a SEZ that offers them duty free imports, exemption from GST and supplies that are zero rated under extant regulations. Being situated in an SEZ ensures that they are also not subject to levies imposed by the state government and their operations are eligible for single-window clearance by the relevant authority. Company's facility is equipped with advanced machinery and equipment including laser wire maker, automatic wire cutting and stripping machine, coaxial stripping machine, crimp tools, controlled torque tools, vacuum pump and desiccator, tunnel welding machine and temperature controlled soldering station. Their facility is set up for complete in-house environmental and electrical testing and contains the latest inspection and testing equipment. Their manufacturing line and equipment meets the standards prescribed by the Institute for Printed Circuit (IPC).

### Well-positioned to capitalize on industry tailwinds

DCX Systems has established a leadership position in the Indian aerospace and defence industry amongst other companies, in the segment of system integration business as a result of their operating history and the experience of their management team. Their in-depth knowledge base and understanding of the aerospace and defence industry, particularly in India positions them to take advantage of the growth in these sections. Their relationship with OEMs serves as a strategic advantage in catering to government contracts. As a Defence Industrial Licence holder for microwave modules for radar and electronic warfare sub-systems, microwave modules for command and guidance units for missile sub-systems, they are well-positioned to take advantage of various initiatives of the Government of India.

### Track record of consistent financial performance

DCX Systems has been delivering consistent financial performance, despite the impact of the COVID-19 pandemic on their business operations. In FY20, FY21, FY22 and in the 3 months ended June 30, 2022 (Q1FY23), its revenue from operations were INR 4,493 mn, INR 6,412 mn, INR 11,023 mn and INR 2,133 mn, respectively. The revenue from operations grew at a CAGR of 56.6% between FY20 and FY22. The total assets have grown from INR 6,989 mn as of March 31, 2020 to INR 9,426 mn as of March 31, 2022 and was INR 10,116 mn at the end of Q1FY23.

### Experienced and qualified Promoters and senior management team supported by a committed employee base

DCX Systems possess a qualified senior management team with considerable industry experience. Their Promoter, Chairman and Managing Director, Dr. H.S. Raghavendra Rao, is an industry veteran with over 2 decades of experience in electronic manufacturing and in the defence and aerospace sectors. Their Non-Independent and Non-executive Director, Neal Jeremy Castleman, has been involved in the electronics industry since 1997 and possesses extensive electronics manufacturing experience. Their Key Managerial Personnel team includes a combination of management executives who bring in significant business expertise including in the areas of finance and accounts, supply chain management, logistics, production, quality, and human resources, which positions them well to capitalize on the current and future growth opportunities.

# DCX Systems Ltd.

## Future Growth Strategies

### Strengthen the system integration operations and further expand the cable and wire harness assembly business

To expand within its existing verticals, DCX intends to collaborate with OEMs in Israel and United States that possess high-end technologies in areas such as radars, electronic warfare, missile systems, sensors, and communication systems. Another driver of defence electronics and associated integration opportunities in India is the proliferation of more advanced intelligence, surveillance, and reconnaissance solutions and in particular, radar systems. Several Indian combat aircraft continue to use passive radar solutions. Moving forward, passive radars will be replaced with indigenous active electronically scanned array radar systems. The shift from passive to active radar solutions will thus provide opportunities for the manufacture, assembly, and integration of electronic radar modules, as well as related cabling. This is another opportunity that the company intends to capitalize on based on their existing capabilities. They also intend to expand their existing cable and wire harness assembly operations to better serve the requirements for our global customers. The major focus of their proposed expansion would be on sectors such as telecom, medical, power, industrial and automotive, as they result in high volume business along with high EBITDA and PAT margins.

### Focus on adjacent industry verticals leading to expansion of customer base

DCX intends to focus on adjacent industry verticals like EMS and Maintenance, Repair and Overhaul (MRO) services. They are well positioned to capitalize on the potential growth opportunities in these segments. The company intends to focus on the products identified in the Positive Indigenization List by the Ministry of Defence, GoI, which will provide opportunities to obtain transfer of technology. Transfer of technology is poised to be one of the key factors which is anticipated to drive the market for the hardware components vertical. Connectors and cables are used across various turnkey and subsystems assembly; hence an increased number of technology transfer contracts on both national as well as global basis are poised to boost the demand for cables and connectors. Technology transfer agreements have a major advantage in terms of defence offsets. DCX is in the process of evaluating options for the transfer of technology, and in particular, from key markets that it serves, such as Israel and the United States.

### Strengthen relationships with the existing customers and expand customer base

DCX has a comprehensive business model with strict adherence to quality standards and time-line based deliveries which in their experience enables them to offer end-to-end solutions to OEMs. They have established long term relationships with their customers, which has led to recurring business engagements with such customers. They plan to continue to focus on strengthening their existing relationships with their customers with a view of entering into more sophisticated, higher value projects with them. Their focus area is on the 209 items identified for indigenous manufacturing announced by GoI and advanced technology for civilian applications. The company intends to focus on certain items within this list for the transfer of technology including long-range glide bombs and small UAVs for surveillance.

### Penetrate into new geographies through an increase in exports

Owing to relaxation of export limitations and policy changes, Indian defence exports are expected to rise rapidly. This is supported by the expanding capabilities of Indian defence suppliers. In comparison to defence public sector entities, the private sector now dominates Indian defence exports, which is expected to drive income prospects. DCX is well positioned to capitalize on this expected growth in exports. Their export revenues grew at a CAGR of 34.7% over FY20-FY22. Over the years, the company has supplied electronic sub-systems, cable and wire harness assemblies primarily to Israel, the United States and Korea. DCX intends to expand its international operations to enhance its global presence in the aerospace and defence sectors. They intend to enter new markets such as Europe where they can provide cost and operational advantages to their customers, and where they will be able to distinguish themselves from other companies with similar offerings. Spending on defence is expected to increase with the ongoing conflict between Ukraine and Russia. DCX is focused on expanding the verticals that it will cater to and also implement forward and backward integration strategies. Given its design and manufacturing capabilities, there is significant potential for DCX to move into newer geographies and markets. DCX will identify opportunities in such overseas jurisdictions and tie up with local partners to utilise its existing product portfolio and further develop products suitable for meeting the respective country's native requirements.

### Continue to improve operational efficiencies through economies of scale, supply chain rationalization and resource planning

DCX Systems intends to continue to maintain and improve their operational efficiencies, with a focus on their supply chain. In addition, they also intend to focus on cycle time reduction by adopting advanced technologies that will also result in process optimization, increasing company's capacity to undertake more projects and thereby increase their revenues and margins. They intend to continue to maintain flexibility in their manufacturing lines for their different business verticals. Further, they intend to leverage technology to effectively utilise their machinery through digital solutions, enabling effective monitoring of machines, allowing them to study shop floor patterns to address potential bottlenecks, thereby improving their output efficiency.

### Pursue inorganic growth through selective acquisitions

The company intends to pursue inorganic growth opportunities through selective strategic acquisitions in the aerospace and defence segment to complement the scale of their operations and growth in recent periods. They are currently engaged in discussions for opportunities that will enable them to gain access to new technologies, geographies, categories and an opportunity for EMS. They are also exploring potential opportunities for expansion of their operations in the railways sector. They have entered into non-disclosure agreements and are undertaking due diligence of the acquisition targets. On satisfactory conclusion of due diligence, they would enter into definitive agreements.



## DCX Systems Ltd.

### Key Strengths

- Among the preferred Indian Offset Partners for the defence and aerospace industry with global accreditations.
- Business model with visibility of cash flows and ability to mitigate operational and technology risk.
- Technology enabled and scalable end-to-end capabilities.
- Strategically located in aerospace SEZ with an advanced and modern manufacturing facility.
- Track record of consistent financial performance.
- Experienced and qualified Promoters and senior management team supported by a committed employee base.

### Key Risks

- Any changes in the offset defence policy or a decline or re-prioritisation of funding in the Indian defence budget could adversely affect DCX's financial performance.
- Any loss of one or more of its key customers or a reduction in their demand for DCX's products could adversely affect its business performance.
- The company's current order book may not necessarily translate into future income in its entirety. Some of its current orders may be modified, cancelled, delayed, put on hold or not fully paid for by its customers, which could adversely affect its results of operations.
- Significant shortages of, or delay or disruption in the supply of raw materials could affect the company's estimated costs, expenditures and timelines which may have a material adverse effect on its business, financial condition, results of operations and cash flows.
- Any adverse changes in the conditions affecting the electronic subsystems market can adversely impact DCX's business.
- The company is exposed to foreign currency fluctuation risks, particularly in relation to its borrowings, import of raw materials and export of products, which may adversely affect its results of operations, financial condition and cash flows.

## DCX Systems Ltd.

### Outlook and Valuation

DCX Systems IPO size is INR 5,000 mn. The price band of the issue is INR 197 - INR 207. On the upper price band of INR 207 and EPS of INR 9.2 for FY22, the P/E ratio works out to be 22.5x. As per the prospectus, the valuation looks attractive considering the average industry P/E of 63x.

We believe the company's long-term prospects are favorable, given its status as a preferred Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs) for executing defence manufacturing projects. DCX enjoys long-standing relationship with its client base. The company has healthy return ratios and good earnings visibility going ahead. Valuation wise, DCX Systems is available at a discount to its listed industry peers. As a result of all these positive factors, we recommend investors to 'SUBSCRIBE' to the IPO of DCX Systems.

### Peer Comparison

The peer companies of DCX are Bharat Electronics, Data Patterns (India), Paras Defence and Astra Microwave. In the following table we have compared DCX with its above peers on different parameters.

Name of the company	Face Value (INR)	Stock Price (INR)	Revenue (INR Mn)	Basic EPS (INR)	Diluted EPS (INR)	P/E (x)	RoNW (%)	NAV per share (INR)
DCX Systems Ltd.	2.0	207*	11,243	9.2	9.2	22.5*	55.8	15.2
<b>Listed Peers</b>								
Bharat Electronics Ltd.	1.0	105	155,997	3.3	3.3	31.8	19.5	16.8
Data Patterns (India) Ltd.	2.0	1,337	3,148	19.5	19.5	68.6	16.4	110.7
Paras Defence & Space Technologies Ltd.	10.0	640	1,855	7.8	7.8	82.1	7.2	97.1
Astra Microwave Products Ltd.	2.0	305	7,568	4.4	4.4	69.3	6.5	67.6

Source: IPO Prospectus

Note: \*Considering the upper price band

## DCX Systems Ltd.

### Financials

Particulars (INR Mn)	FY20	FY21	FY22
<b>Revenue</b>	<b>4493</b>	<b>6412</b>	<b>11023</b>
YoY Growth (%)		42.7%	71.9%
<b>EBITDA</b>	<b>452</b>	<b>325</b>	<b>1059</b>
EBITDA Margin (%)	9.7%	4.8%	9.4%
PBT	129	398	756
<b>PAT</b>	<b>97</b>	<b>296</b>	<b>656</b>
PAT Margin (%)	2.1%	4.3%	5.8%
<b>EPS (INR)</b>	<b>1.4</b>	<b>4.2</b>	<b>9.2</b>
Equity Share Capital	35	35	35
Reserves	137	433	1021
<b>Net Worth</b>	<b>172</b>	<b>468</b>	<b>1176</b>
ROE (%)	56.8%	63.2%	55.8%
ROCE (%)	28.9%	16.3%	16.7%
<b>RONW (%)</b>	<b>56.8%</b>	<b>63.2%</b>	<b>55.8%</b>
<b>D/E Ratio (x)</b>	<b>7.8</b>	<b>2.9</b>	<b>4.3</b>
NAV (INR)	25	67	152

Source: IPO Prospectus, KRChoksey Research

# DCX Systems Ltd.

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