

DCX Systems Limited

Defence | India

IPO | 28 October 2022



Small Play on Defence System Integration

About the Company

DCX Systems (DCX) is one of the leading manufacturers of electronic sub-systems and cable harnesses in India. With its commencement in 2011, it has become a preferred Indian Offset Partner for foreign original equipment manufacturers (OEMs) for executing aerospace and defence manufacturing projects. Its business verticals include **i) System integration** in areas of radar systems, sensors, electronic warfare, missiles, and communication systems, **ii) Cable and Wire Harness Assemblies** and **iii) Supply of assembly-ready kits** of electronic and electro-mechanical parts. Moreover, DCX commissioned a new manufacturing facility at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru in 2020, which expands over 30,000 sq. ft. The company is coming out with an IPO, consisting of fresh issue of Rs4bn and OFS of Rs1bn. The company intends to utilize the funds for repayment of borrowings, funding WC and capex for the wholly owned Subsidiary, Raneal Advanced Systems Pvt Ltd.

Diverse Customer Base

As of Jun'22, DCX Systems had 26 customers in Israel, the U.S., Korea and India, including several Fortune 500 companies, multinational corporations and start-ups. The company's customers include 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. 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.

Opportunities in Defence & Aerospace

DCX is one of the key beneficiaries of the government initiatives in the aerospace and defence sectors with a defence budget outlay of Rs5,250bn in FY23, up from Rs4,780bn in FY22. Moreover, the Indian aerospace and defence sector is poised to reach a value of \$70bn by 2030. Recent initiatives like an increase in foreign direct investment in the Indian defence sector from the current 49% to 74% under the automatic route are seen as key drivers for the sector, which will further aid the company's growth.

Financials

The company has a healthy order-book of Rs25.6bn as of 1QFY23, (2.3x of FY22 revenue) provides healthy revenue visibility. The company is looking to execute this order over the next two years, by FY25. The company has consolidated its subsidiary financials in FY22. During FY20-22, its revenue and PAT clocked CAGR of 57% and 159% respectively, while EBITDA margin expanded from 1.4% in FY20 to 6.1% in FY22. For FY22, it reported revenue of Rs11bn, up 72% YoY, while EBITDA increased to Rs670mn (margin of 6.1%) in FY22 from Rs101mn (margin of 1.6%) in FY21. PAT for FY22 stood at Rs565mn, as against Rs296mn in FY21. During FY22, domestic market contributed ~44% of total revenue while 56% is from exports. During 1QFY23 it reported revenue of Rs2.1bn, (up 73% YoY), while PAT grew by 66% YoY to Rs56mn.

Our View

Based on FY22 earnings, the company is valued at 25.4x EV/EBITDA, 1.5x EV/Sales and 31x P/E, which is below its peers. DCX is poised to grow with several opportunities in the defence and aerospace in the domestic and international market. The defence budget outlay has increased to Rs5,250bn in FY23, from Rs4,780bn in FY22. **In the view of healthy order book (Rs25.6bn, 2.3x FY22 revenue), which provides revenue visibility, decent financial performance, being a key beneficiary of the government's thrust on the defence space and valuation comfort, we recommend 'SUBSCRIBE' to the issue.**

IPO Details

Price Band (Rs)	Rs. 197-Rs. 207
Face Value (Rs)	2
Issue Open/Closing Date	31-Oct-22/2-Nov-22
Fresh Issues (mn)	19.3
OFS (mn)	4.8
Total Issue (mn)	24.2
Minimum Bid Qty. (Nos)	72
Issue Size (Rs bn)	5.0
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)	20.0

*At a higher band

Object of the Issue

- ▶ Repayment of Debt
- ▶ Funding for working capital
- ▶ Capex of wholly owned Subsidiary, Raneal Advanced Systems Pvt Ltd

Key Risk

- ▶ Changes in defence policy or lower funding in the Indian defence budget
- ▶ Significant shortages or disruption in the supply of raw materials
- ▶ Dependent on the performance of the electronic subsystems market

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	98.2	73.6
Others	1.8	26.4

Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	4,493	6,412	11,023
EBITDA	62	101	670
EBITDA Margin (%)	1.4	1.6	6.1
PAT	97	296	656
PAT Margin (%)	2.2	4.6	6.0
EPS (Rs)	1.0	3.1	6.8
P/E (x)	205	68	31
EV/EBITDA (x)	276.6	157.7	25.4
EV/Sales (x)	3.8	2.5	1.5
Net Worth	172	468	1,176
RoE (%)	NA	63.2	55.8
Gross Debt	1,340	1,364	5,026
Net Block	166	156	147
Net Asset Turnover (x)	27.1	41.1	75.2

Source: RHP

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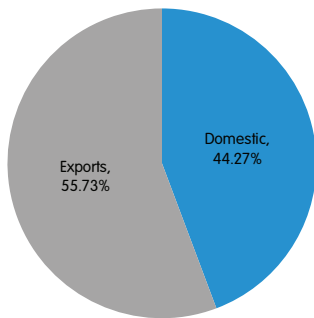
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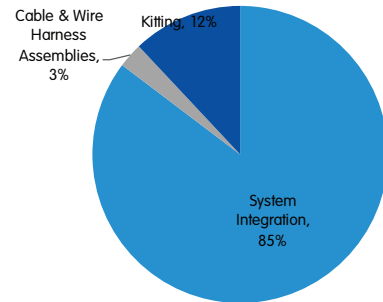
Exhibit 1: Revenue Mix (FY22)

Revenue Mix by Market



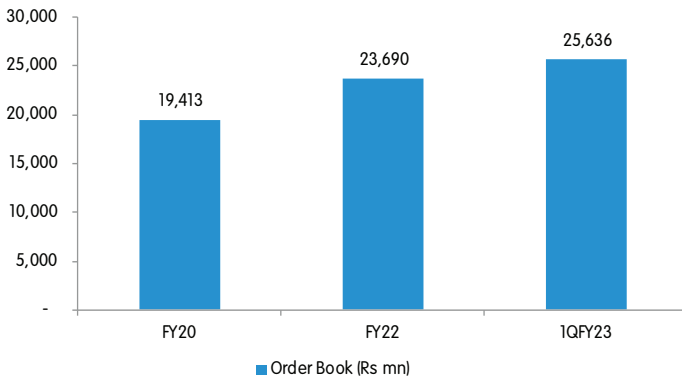
Source: RHP

Revenue Mix by Segment



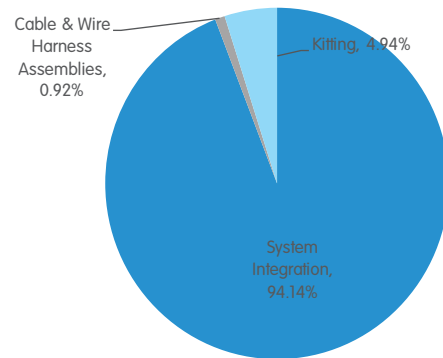
Source: RHP

Exhibit 2: Order Book



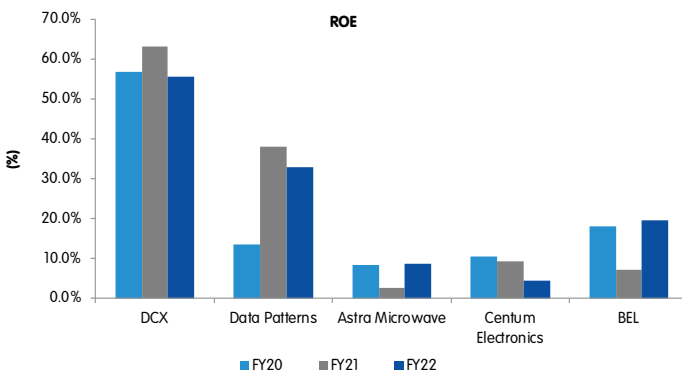
Source: RHP

Exhibit 3: Order Book Mix (FY22)



Source: RHP

Exhibit 4: ROE Comparison



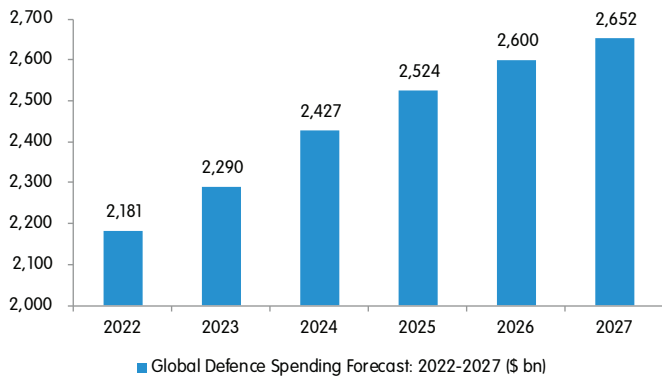
Source: RHP

Exhibit 5: Capability Matrix

	System Integration	Cable & Wire Harness Assembly	MRO	EMS	Electro-Mechanical Assembly
DCX Systems Limited	Yes	No	Yes	Yes	Yes
Astra Microwave Products Limited	Yes	No	Yes	Yes	Yes
Alpha design Technologies Pvt Ltd	Yes	No	Yes	Yes	Yes
BEL - Bangalore	Yes	No	Yes	Yes	Yes
Centum Electronics	Yes	No	Yes	Yes	Yes
Cyient DLM Pvt Ltd	Yes	No	Yes	Yes	Yes
Sasmos Het Technologies	Yes	No	Yes	Yes	Yes
Almphenol Interconnect India Pvt Ltd	Yes	No	Yes	Yes	Yes
Data Patterns Pvt Ltd	Yes	No	Yes	Yes	Yes
Hela Systems	Yes	No	Yes	Yes	Yes
Kaynes Technologies India Pvt Ltd	Yes	No	Yes	Yes	Yes
Rossel Techsys	Yes	No	Yes	Yes	Yes
Apollo Micro Systems	Yes	No	Yes	Yes	Yes
Paras Defence	Yes	No	Yes	Yes	Yes

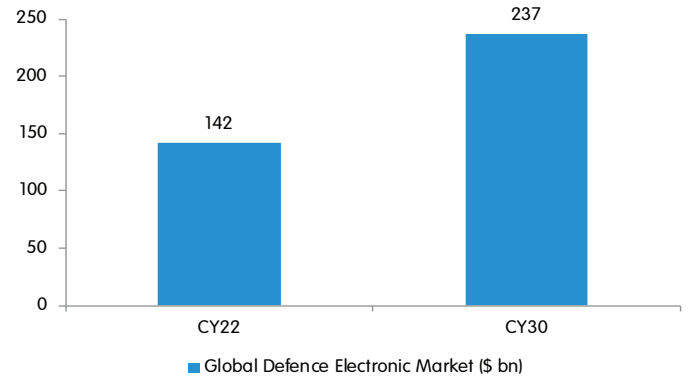
Source: RHP; Yes ■ No ■

Exhibit 6: Global Defence Spending Forecast: 2022-2027 (\$ bn)



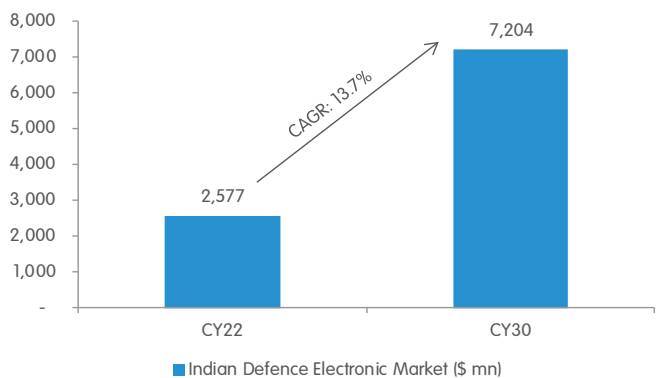
Source: RHP, F&S Report

Exhibit 7: Global Defence Electronic Market (\$ bn)



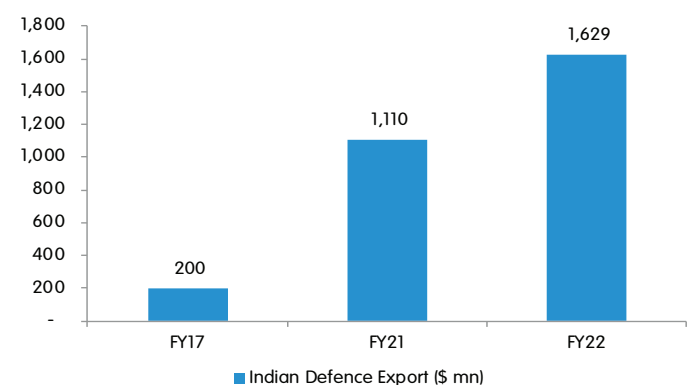
Source: RHP, F&S Report

Exhibit 8: Indian Defence Electronic Market (\$ mn)



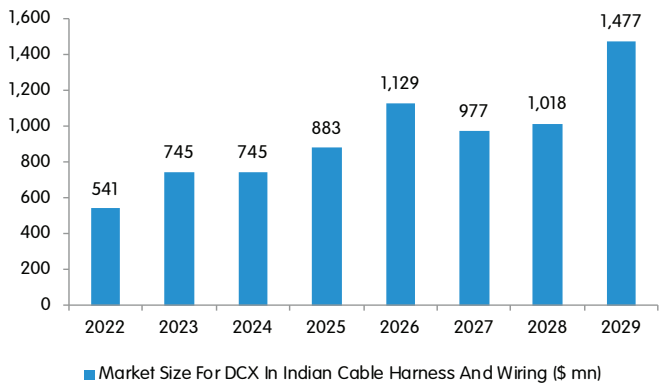
Source: RHP, F&S Report

Exhibit 9: Indian Defence Export (\$ mn)



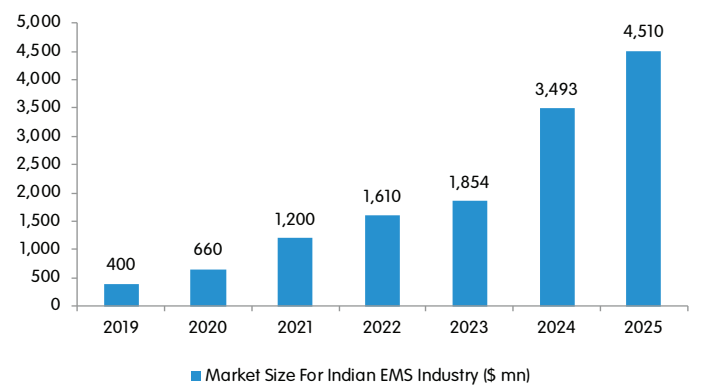
Source: RHP, F&S Report

Exhibit 10: Market Size For DCX In Indian Cable Harness And Wiring (\$ mn)



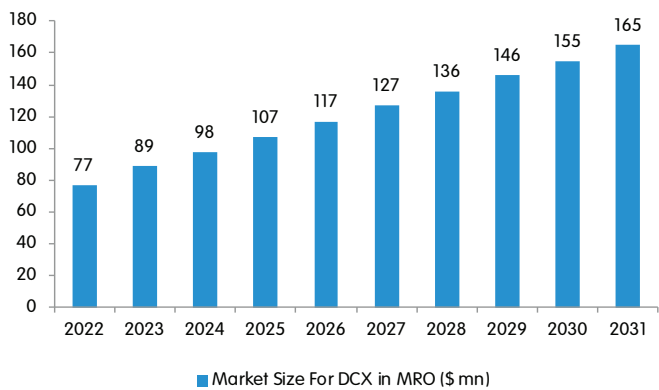
Source: RHP, F&S Report

Exhibit 11: Market Size For Indian EMS Industry (\$ mn)



Source: RHP, F&S Report

Exhibit 12: Market Size For DCX in MRO (\$ mn)



Source: RHP, F&S Report

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