

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	5,000
Fresh Issue (No. of Shares in Lakhs)	4,000
Offer for Sale (No. of Shares in Lakhs)	1,000
Bid/Issue opens on	31-Oct-22
Bid/Issue closes on	02-Nov-22
Face Value	Rs.2
Price Band	197-207
Minimum Lot	72

Objects of the Issue

1. Repayment/prepayment, in full or part, certain borrowings availed by the company.
2. Funding working capital requirements of the company.
3. Investments in wholly owned subsidiary, Reneal Advanced Systems Private Limited, to fund its capital expenditure expenses
4. General corporate purpose

Book Running Lead Managers
Edelweiss Financial Services Limited
Axis Capital Limited
Saffron Capital Advisors Private Limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure ((₹ Million)	Aggregate Value
Authorized share capital	250.00
Subscribed paid up capital (Pre-Offer)	154.80
Paid up capital (Post - Offer)	193.45

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	98.2	73.58
Public	1.8	26.42
Total	100.0	100.0

Financials

Particulars	Consolidat ed for quarter ended 30 Jun 2022	Consolidat ed for year ended 31 Mar 2022	Standalone for year ended 31 Mar 2021	Standalone for year ended 31 mar 2020
Revenue from operations	2,133	11,022	6,412	4,493
Operating expenses	2,083	10,353	6,311	4,430
EBITDA	50	669	101	63
Other Income	70	221	421	160
Interest	50	113	99	79
Depreciation	5	22	24	14
PBT	65	755	399	130
Tax	(9)	(99)	(102)	(31)
PAT	56	656	297	99
EPS	0.72	9.19	4.22	1.39

Company Description

DCX Systems is among the leading players for the manufacture of electronic sub-systems and cable harnesses in terms of manufacturing capability in the defence and aerospace sector. The company is one of the largest Indian Offset Partner ("IOP") for ELTA Systems Limited and Israel Aerospace Industries Limited, System Missiles and Space Division (together, the "IAI Group"), Israel, for the Indian defence market for manufacture of electronic sub-systems and cable and wire harness assemblies. Over the years, the company has expanded the manufacturing capabilities and have grown their order book. The business verticals of the company includes:-

- ❖ System Integration (Contributes 85% of total revenue, Fiscal year 2022)
- ❖ Cable and Wire Harness Assemblies (Contributes 2.5% of total revenue, Fiscal year 2022)
- ❖ Kitting (Contributes 12.5% of total revenue, Fiscal year 2022)
- ❖ Certain job work services that includes assembly and testing of material

As of June 30, 2022, they had 26 customers in Israel, United States, Korea and India, including certain fortune 500 companies, multinational corporations and start-ups. Their customers include domestic and international OEMs, and private companies and public sector undertakings in India across different sectors, ranging from defence and aerospace to space ventures and railways.

DCX Systems limited commenced its operations in 2011 and have been a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") for executing aerospace and defence manufacturing projects. DCX Systems commissioned their new manufacturing facility at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. The 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. DCX Systems possess a qualified senior management team with considerable industry experience. Company's promoter, chairman and managing director, Dr. H.S. Raghavendra Rao, is an industry veteran with over two decades of experience in electronic manufacturing and in the defence and aerospace sectors. Company integration services are a part of an array of electronic, electro-mechanical and wired assemblies, and full-system integration services, which can be configured as per their customers requirements. As part of their system integration services, they also do in-house testing to ensure the quality of their final products, and reliability of their products' functioning under varying environmental conditions.

Valuation

DCX Systems is among the preferred Indian offset players for the defence and aerospace industry with global accreditation with strong technology enabled and scalable end-to-end capabilities and well positioned to capitalize on industry tailwinds. It is strategically located in Special aerospace economic zone with advanced and modern manufacturing facility and experienced promoter, senior management. At the upper end of the price band, DCX Systems is offered at TTM P/E of 27.43x with post issue market cap of Rs. 20,021.8 million and return on net worth of 55.8%.

Government of India is taking steps to provide further impetus to realize the goal of self-reliance under the Atmanirbhar Bharat scheme, which is to develop a dynamic, robust and competitive defence industry, reduce dependence on imports and take forward the 'Make in India' initiative, liberalize foreign direct investment in the defence sector for attracting global original equipment manufacturers to shift manufacturing facilities. With increase in FDI limit from 49% to 74% in defence sector, more investment is expected to generate in the defence sector for these companies. The IPO is fairly priced, hence we give the IPO a "Subscribe" rating.

BUSINESS OPERATIONS

Products and Services

Business verticals of the company include: (i) System Integration; (ii) Cable Harness and Wire Assemblies; and (iii) Kitting

➤ **System Integration**

They undertake system integration in areas of radar systems, sensors, electronic warfare, missiles, and communication systems. Company provide product assembly and system integration services to address customers' requirements. System integration services are part of a comprehensive array of electronics and electro-mechanical assembly and enclosure assembly. Their purchasing, logistics, inventory control and production engineering groups work together, supported by engineering expertise in both electrical and mechanical assembly.



➤ **Cable and Wire harness Assemblies**

1. **Fine Wire Cable Assemblies-** Fine cable assemblies are manufactured by using extreme limpness and flexible multi strand wires insulated by silicon rubber insulated compound which are inherently soft and pliable to provide smooth and flexible high bend radius of harness to obtain flexibility and long life in dynamic, flexible application. These 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.



2. **Flex Flat Cable Assemblies-** Designed for board-to-board interconnections, standard flat flexible cables are made up of flat conductors insulated with polyester or polyimide tapes (from 0.30 mm to 1.25 mm pitch). The termination of flat flexible cables is made either with zero insertion force or low insertion force connectors. The cables are equipped with reinforcement tape to strengthen the ends by soldering. Flexible flat cable is a type of cable that is flat in shape and flexible enough to man oeuvre within tight spaces. Flex cable applications are usually used in small and tight spaces.



3. **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 shielded solutions have been used in certain commercial airliner landing gear systems, secure communication systems and others.



4. **Wired Enclosure-** 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 customers the flexibility to customize their designs to meet the needs of the application.



5. **Conduit Assemblies-** Electrical conduits surround electrical wiring to protect from impact, moisture and chemical vapors. 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 vapors to protect from fire and explosion. Other types of conduit 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

Kitting includes sourcing of components from various global manufactures and suppliers approved by their customers, compiling them, inspecting, testing and making customized packing for customers. They take responsibility for the supply of assembly-ready kits to the machine feeders and beyond, based on their customers' bill of materials ("BOM"), and deal with all aspects of procurement including controlled storage of moisture sensitive devices ("MSD"). Their customers benefit from complete assembly-ready kits arriving when required, reducing costs in each department and thereby reducing the actual cost of procurement, storage and kitting. Kitting also reduces inventory levels, space requirements, indirect cost and overhead efficiencies, and real cost of acquisition.

Order Book:

Order book is computed based on the total order value from a customer less executed amount as on the relevant date. The following table sets forth details of their order book as per business verticals for the periods indicated.

Verticals	Fiscal						Three months ended June 30,			
	2020		2021		2022		2021		2022	
	(Standalone)				(Consolidated)		(Standalone)		(Consolidated)	
	Amount (₹ million)	Percentage of Total Order Book (%)	Amount (₹ million)	Percentage of Total Order Book (%)	Amount (₹ million)	Percentage of Total Order Book (%)	Amount (₹ million)	Percentage of Total Order Book (%)	Amount (₹ million)	Percentage of Total Order Book (%)
System Integration	18,938.09	97.56%	25,592.23	89.64%	22,302.76	94.14%	24,511.18	89.22%	24,299.86	94.79%
Cable and Wire Harness Assemblies	390.87	2.01%	471.77	1.65%	218.30	0.92%	576.77	2.10%	136.32	0.53%
Kitting	84.15	0.43%	2,486.18	8.71%	1,168.98	4.94%	2,380.95	8.68%	1,200.16	4.68%
Total	19,413.11	100.00%	28,550.18	100.00%	23,690.04	100.00%	27,468.90	100.00%	25,636.34	100.00%

Strengths:

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

DCX Systems are preferred 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 hold a number of key certifications for quality management systems for aviation, space and defense products manufacturing and their defence Industrial License from the Ministry of Commerce and Industry, Government of India 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. These certifications ensure that their processes comply with customer specific, industry specific, statutory health and safety, as well as environmental and social and governance requirements. As part of their system integration services, 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.

The table below sets forth certain information regarding the various projects they have been involved in, as of June 30, 2022:

Product / Description	Vertical	Offset Value (₹ million)
MRSAM / LRSAM - Transmit receiver group module	System Integration	14,446.96
PIDS – Dual transmit receiver module	System Integration	4020.16
Air defence Fire Control Radar - Antenna unit / radar processing unit / transmitter receiving unit	System Integration	1007.9
High Power Radars - Dual transmitter receiver module	System Integration	518.4
Thermal Imager Fire Control System	Cable and wire harness	178.08
Long Range Reconnaissance and Observation System	Cable and wire harness	90.78
Thermal Imager Standalone Kit	Cable and wire harness	65.58
Barak-1 and Barak-8 Missile Systems	Cable and wire harness	51.01
Commander Open Architecture Panoramic Sight	Cable and wire harness	35.4

They are focused on providing their customers with quality products that are manufactured to meet their specifications. The value of customer orders has been increasing and increased from an order size of ₹ 19,413.11 million in Fiscal 2020 to an order size of ₹ 23,690.04 million in Fiscal 2022 and was ₹ 27,468.90 million and ₹ 25,636.34 million in the three months ended June 30, 2021 and June 30, 2022 respectively.

➤ **Technology enabled and scalable end-to-end capabilities**

DCX Systems limited integration services are a part of an array of electronic, electro-mechanical and wired assemblies, and full-system integration services, which can be configured as per their customers requirements. As part of their system integration services, they also do in-house testing to ensure the quality of their final products, and reliability of their products' functioning under varying environmental conditions. The company possess the skillset and technology to manufacture cable and wire harnesses according to customer requirements for various types including radio frequency, coaxial, mixed signal, power, data, submersible, twinnax cables, shielded cable harness, flexible cables and open and closed type harnesses used in aerospace and defence and other allied segments of the industry. Company believe that their investment in infrastructure, maintaining quality standards, enabling timely and adequate working capital limits and continuously upgrading skills and resources has enabled them to scale their operations over the years. Their scalability is demonstrated by revenues. Company's revenue from operations have increased at a CAGR of 56.64% between Fiscal 2020 and Fiscal 2022. Further, in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2021 and June 30, 2022, their capital expenditure towards additions to fixed assets (property, plant and equipment's and intangible assets) were ₹ 102.83 million, ₹ 15.84 million, ₹ 16.16 million, ₹ 0.24 million and ₹ 0.45 million, respectively.

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

DCX Systems product portfolio backed by their system integration and manufacturing capabilities has led to their order book growing from 45 orders aggregating ₹ 19,413.11 million, as of March 31, 2020 to 48 orders aggregating ₹ 23,690.04 million, as of March 31, 2022. As of June 30, 2022, their order book comprised 42 orders and was ₹ 25,636.34 million with orders from several customers for projects to be executed in Fiscal 2023 to Fiscal 2025. Company'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 OEM customers also provide training at their facilities to their employees.

➤ **Strategically located in aerospace Special Economic Zone with an advanced and modern manufacturing facility**

DCX Systems commissioned their new manufacturing facility at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. The 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. A majority of their finished goods are handled under special standard operating procedure mandated by customers which includes transporting the consignment from premises to the airport with a dedicated vehicle with freight forwarders. This enables security of classified products till it reaches the customers in various locations.

➤ **Well-positioned to capitalize on industry tailwinds**

There is a strong focus and various initiatives by the Government of India in the aerospace and defence sectors and in particular for private players including micro, small and medium enterprises. India's defence budget outlay for Fiscal 2023 is ₹ 5,250 billion, the annual budget representing a 10% increase over the budget of ₹ 4,780 billion in Fiscal 2022. The Indian Defence private sector has witnessed a substantial growth owing to the implementation of government reforms. Private players like DCX Systems plays an important role in meeting the offset obligations and helping the goals set by the Government of India with reference to be a US\$ 5 Billion export country by 2025.) In Fiscal 2022, company exported US\$ 76 million worth of equipment accounting for 4.7% of the overall Defence Exports from India. The company has establish 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. Company believe that 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.

Company is well positioned to take the advantage of various initiatives taken by the government of India set out below:-

Measure	Description
Positive Indigenisation List	To incentivize domestic production and limit imports, the Defence Ministry has banned the import of 209 defence related equipment and components. Services can only source the listed equipment from Indian vendors. Equipment covered includes segments such as electronic warfare, sensors, radars, unmanned aerial systems, amongst others. The Government has also introduced the 3rd positive indigenization list that bans the import of 780 LRU items that will going forward have to be procured from the domestic industrial base. This will drive further development of the domestic Indian defence industry.
Budget Allocations	68% of capital procurement budget has been earmarked for domestic defence procurement for Fiscal 2022 to 2030.
Corporatisation of Ordnance Factory Board ("OFBs")	The government aims to corporatize OFBs in a bid to improve production efficiency and transparency. There are 41 ordnance factories in India, which source components from Tier 2 and Tier 3 suppliers
FDI	The FDI limit under the automatic route has been increased from the current 49% to 74%. The increase will encourage foreign manufacturers to invest in India with confidence as they will have a controlling stake in a joint venture
Indian Offset – Self Reliant	This measure encompasses design, development, and manufacture as part of its mandate, and encourage OEMs and design firms to form long term partnerships with India's defence sector

➤ **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. Company's promoter, chairman and managing director, Dr. H.S. Raghavendra Rao, is an industry veteran with over two decades of experience in electronic manufacturing and in the defence and aerospace sectors. 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. Whole-time Director, Sankarakrishnan Ramalingam, possesses about 26 years of experience in the finance sector. Shiva Kumara R., Vice President of the company, has over 14 years of experience in the supply chain management while the Deputy General Manager of supply chain management, Anand S., has about 14 years of experience in supply chain management. The heads of functional groups, such as operations, finance, logistics, production and quality, enhance the quality of the management with their specific and extensive industry experience. Pramod B., Deputy General Manager – Operations, possesses over 14 years of experience in supply chain management. Chief Financial Officer, Ranga K. S., was previously associated with Micro Plastics Private Limited and Alpha Design Technologies Private Limited.

Key Strategies:

➤ **Strengthen system integration operations and further expansion of cable and wire harness assembly business**

To expand within existing verticals company intend 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. DCX Systems also intend to expand their existing cable and wire harness assembly operations to better serve the requirements for global customers. The domain experience of the senior management team and individual promoter, chairman and managing director, Dr. H.S. Raghavendra Rao, extends beyond electronic manufacturing services ("EMS") in the aerospace and defence sectors and intend to leverage such experience to further expand their operations.

➤ **Focus on adjacent industry verticals leading to expansion of customer base**

DCX Systems intend to focus on adjacent industry verticals like EMS and Maintenance, Repair and Overhaul ("MRO") services. Globally, revenues of the top 50 EMS companies were about US\$ 344 billion in 2019, which accounted for 16% of the global electronics market by value. Major manufacturers are evaluating a "China+1" policy, with India being the most favoured destination. The Indian EMS Industry is expected to grow from US\$ 400 million in Fiscal 2019 to US\$ 4,510 million in Fiscal 2025 at a CAGR of around 49.8%. The Indian MRO market attained a value of US\$ 1.7 billion in 2021. The Indian commercial MRO market is expected to grow at a CAGR of approximately 8.9% between 2022 to 2031. Company intend to focus on the products identified in the Positive Indigenization List by the Ministry of

➤ **Strengthen relationships with existing customers and expand customer base**

Company has established long term relationships with customers which has led to recurring business engagements with such customers. A comprehensive business model with strict adherence to quality standards, timeliness of delivery and leadership in key product segment, company expects to increase the market share of business among existing customers as well as increase customer base. Through vertical integration, company believe that they will have greater control on manufacturing, better adherence to delivery timelines, improvement in supply chain management, increased volume, higher profitability and margins.

➤ **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 Systems believes that they are well positioned to capture this expected

growth in exports. Company intend to expand their international operations to enhance global presence in the aerospace and defence sectors. Company intend to enter new markets such as Europe where they believe they can provide cost and operational advantages to customers, and where they will be able to distinguish themselves from other companies with similar offerings. In Europe, a higher number of NATO members met the Alliance's guideline aim of spending at least 2% of GDP on their military in 2020, compared to just nine countries in 2019. Further, spending on defence is expected to increase with the ongoing conflict between Ukraine and Russia.

➤ Pursue inorganic growth through selective acquisitions

DCX Systems intend to pursue inorganic growth opportunities through selective strategic acquisitions in the aerospace and defence segment to complement the scale of 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 believe that proposed collaborations will expand their customer base by addressing additional business verticals and augment their service coverage by providing end-to-end customer solutions. They believe that such proposed collaborations would also allow them to commercialize the technology and products faster and acquire new clients and improve their cross-selling opportunities. DCX Systems have entered into non-disclosure agreements and are undertaking due diligence of the acquisition targets. On satisfactory conclusion of the diligence exercise, they would enter into definitive agreements after the approval of the Board and the shareholders, if required.

Competitive Profile:-

The Indian Defence sector is entering a self-sustaining and highly indigenous market with DPSUs and companies shifting towards becoming component suppliers, integrators, as well as defence prime. The key competitors for DCX in the Indian market are discussed in this section. The steps taken by the Government to indigenous Defence production capability within India has helped the SMEs in this sector to generate more business. The Indian companies that have gained significant experience in the Indian market are also offset fulfilment partners to foreign players.

Capability Comparison Of DCX And Competition

SLNo	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	SASMO'S HET TECHNOLOGIES	✗	✓	✗	✗	✗
8	ALUMPHENOL INTERCONNECT INDIA PVT LTD	✗	✓	✗	✗	✗
9	DATA PATTERNS PVT LTD	✓	✗	✗	✓	✓
10	HELA SYSTEMS PVT LTD	✓	✗	✓	✗	✓
11	KAYNES TECHNOLOGY INDIA PVT LTD	✗	✗	✗	✓	✗
12	ROSSRI TECHSYS	✓	✓	✗	✓	✓
13	APOLLO MICRO SYSTEMS	✗	✗	✗	✓	✓
14	PARAS DEFENCE	✓	✗	✗	✓	✓

Financial Data for Companies, Fiscal 2022

Fiscal 2022							
Company	Revenues (₹ Cr)	Net Profit (₹ Cr)	Net Profit/Revenue (%)	EBITDA	EBITDA Margin (%)	RoCE (%)	RoE (%)
Amphenol Interconnect	NA						
TE Connectivity India	NA						
Rossell Techsys	NA						
Sasmos HET Technologies	NA						
Data Patterns	311	94	30.2	141	45.4	24	33
Astra Microwave Products	735	40	5.4	94.9	12.9	15.9	8.8
Apollo Micro Systems	243.9	14.6	6.1	38.5	15.8	11.6	4.5
Alpha Design Technologies	Unavailable						
Centum Electronics	353	11.8	3.3	48.3	13.7	11.7	4.4
Paras Defence and Space Technologies Ltd	182.5	26.9	14.8	51.85	28.4	10.4	9.3
BEL	15,314	2349	15.3	3,309	21.6	26.2	19.6
DCX	1,102	65.61	5.95	83.87	7.61	13.15	55.80

Name of the company	Consolidated/ Standalone	Total Income for Fiscal 2022 (₹ in million)	Face Value per Equity Share (₹)	P/E	EPS for Fiscal 2022 (₹)	Return on Net Worth ('RoNW') for Fiscal 2022 (%)	Net Value/ Asset Share as at March 31, 2022 (₹)
DCX Systems Limited	Consolidated	11,243.34	2.00	27.43*	7.54**	55.8%	15.19
PEER GROUP							
Bharat Electronics Ltd	Consolidated	1,55,997.20	1.00	32.36	3.28	19.5%	16.83
Data Patterns (India) Limited	Consolidated	3,148.10	2.00	61.56	19.48	16.4%	110.72
Paras Defence and Space Technologies Ltd	Consolidated	1,855.34	10.00	84.69	7.78	7.2%	97.06
Astra Microwave Products Ltd	Consolidated	7,568.41	2.00	73.15	4.37	6.5%	67.61
Centum Electronics Ltd	Consolidated	7,879.64	10.00	-	(23.7)	26.9%	154.07

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on October 7, 2022.

*/** P/E and EPS of DCX is calculated on basis TTM and post issue no. of equity shares issued.

Key Risk:

- DCX Systems business is dependent on the sale of products and services to their key customers. Top three customers of company accounts for 73.26%, 86.90%, 80.55%, 85.70% and 96.83% of revenue from operations in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2021 and June 30, 2022, respectively. The loss of one or more such customers or a reduction in their demand for the products could adversely affect the business, results of operations, financial condition and cash flows.
- Revenue from operations depends significantly on offset defence contracts. Any changes in the offset defence policy or a decline or reprioritisation of funding in the Indian defence budget, or delays in the budget process could adversely affect the ability to grow or maintain the sales, earnings, and cash flow
- Current order book of company may not necessarily translate into future income in its entirety. Some of the current orders which they have received may be modified, cancelled, delayed, put on hold or not fully paid for by the customers, which could adversely affect the results of operations

- Company is yet to place orders for the capital expenditure requirements of their Subsidiary, Raneal Advanced Systems Private Limited. There is no assurance that they would be able to source such capital expenditure requirements in a timely manner or at commercially acceptable prices, which could adversely affect the expansion plans.
- Company had negative cash flows from operating activities in the past and may, in the future, experience similar negative cash flows
- Company have incurred indebtedness and an inability to comply with repayment and other covenants in their financing agreements could adversely affect their business and financial condition. They have not been, and may continue to not be, in compliance with certain financial covenants under certain of their financing agreements.

Valuation:

DCX Systems is among the preferred Indian offset players for the defence and aerospace industry with global accreditation with strong technology enabled and scalable end-to-end capabilities and well positioned to capitalize on industry tailwinds. It is strategically located in Special aerospace economic zone with advanced and modern manufacturing facility and experienced promoter, senior management. At the upper end of the price band, DCX Systems is offered at TTM P/E of 27.43x with post issue market cap of Rs. 20,021.8 million and return on net worth of 55.8%.

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Analyst Certification

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Ratings Methodology

- Analysts’ ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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