

## Subscribe for Listing Gains

Price Band: INR 197-207

### ISSUE SUMMARY

Issue Opens	31-Oct-22
Issue Closes	2-Nov-22
Offer Price (INR per share)	197-207
Bid Lot	72 shares
Face Value (INR)	2.0
Pre Issue Shares o/s (mn)	77.4
^Offer for Sale (No of sh. mn)	5.1
^Fresh Issue (No of sh. mn)	20.3
^Post Issue shares o/s (mn)	96.7
Issue Size (INR mn)	5,000.0
QIB	=>75%
Non-institutional	<15%
Retail	<10%
^ Issue Size (@INR207)	

### POST ISSUE DETAILS

M.Cap @INR207/sh. (INR bn)	20.0
<b>Shareholding pattern</b>	
Promoters	73.6%
Non-Promoters	26.4%

### Preferred Indian Offset Partners (IOP) for the Defence & Aerospace industry:

DCX Systems undertakes “build-to-print” system integration and manufacturing of cable and wire harness assemblies. It undertakes system integration in areas of radar systems, sensors, electronic warfare, missiles, and communication systems. It is one of the largest IOP for the IAI Group, Israel. As of Q1FY23, the order book stood at INR26bn (2.3x FY22 revenues) which is to be executed by FY25.

### Well-positioned to capitalize on industry tailwinds:

Indian Aerospace & Defence sector is poised to attain a value of USD70bn by 2030, led by initiatives like increase in FDI, government’s push on indigenization through Atmanirbhar Bharat, PLI scheme and negative Import list, along with revised DAP Policy 2020. MoD aims at doubling defence production by 2025 and at increasing exports by 5x through increased involvement of private players and privatization of Ordnance Factory Board.

### Diversification into adjacent industry verticals to drive growth:

DCX derives ~85-90% of revenues from system integration projects and balance from cable harness. By 2026, it aims to reduce contribution from these segments to 75% and add new high growing verticals like Electronic Manufacturing Services (EMS), MRO (Maintenance, Repair & Overhaul) and Product Sales from Transfer of Technology.

**Financials:** DCX’s revenue/EBITDA/PAT grew strongly by 57%/228%/160% over FY20-FY22, on the back of low base. Given an asset light model, return ratios are robust with FY22 RoE at 78.9%.

**Issue Size:** INR5bn IPO consists of fresh issue of INR4bn and OFS of INR1bn by promoters, which would result in latter’s stake reducing to 74% post-IPO. The market cap post listing would stand at INR20bn. Funds raised would be used to repay INR1.1bn debt, fund INR1.6bn working capital requirement and capex of INR0.4bn.

**Valuation & View:** DCX, being preferred IOP in the Defence & aerospace space is well placed to capture the industry tailwinds. We like its focus on revenue/geography diversification, customer base expansion and inorganic growth which could keep the earnings growth strong. It is valued at 30.5x FY22 P/E which is reasonable compared to listed peers. Given the fancy for Defence stocks and continuous news flows in that space, we expect the IPO to do well. We suggest investors to **Subscribe for listing gains**.

### Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY20	FY21	FY22	Q1FY23
Revenue	4,493	6,412	11,023	2,133
Growth (%)	-	42.7	71.9	73.5
Adj PAT	97	296	656	56
Growth (%)	-	203.3	122.0	66.5
EPS (INR)	1.0	3.1	6.8	0.6
RoE (%)	56.8	92.4	79.8	6.8
P/E (x)	205.5	67.7	30.5	89.9

\*Calculated at the upper price band of INR207; Source: RHP, MOFSL

## Peer Comparison

Exhibit 2: Peer Comparison

Company	M.Cap. INR Bn	Rev. CAGR FY20-22 (%)	PAT CAGR FY20-22 (%)	EBITDA Margin FY22 (%)	ROE FY22 (x)	PE FY22 (x)	D/E FY22 (x)
BEL	770	8.9	14.6	21.6	20.2	32.7	-
Datta Patterns	69	41.1	111.3	45.4	24.0	73.8	0.0
Astra Microwave	26	26.7	-5.9	11.9	7.0	66.1	0.1
Paras	25	10.8	16.1	28.9	10.8	75.7	0.1
DCX	20	56.6	159.5	6.1	79.8	30.5	-2.5
Centum Electronic	8	-8.9	-12.9	10.1	0.3	-	1.6
Apollo Micro System	4	-0.6	2.2	18.8	4.7	30.8	0.4

Source: Company RHP, Bloomberg, MOFSL

\*Price Data as on 28<sup>th</sup> Oct, 2022

^Calculated at upper price band of INR207

Exhibit 3: Capability Matrix across Peers

Peer Entity / Capability Matrix	System Integration	Cable & Wire Harness Assembly	MRO	EMS	Electro-Mechanical Assembly
DCX Systems Limited	✓	✓	✓	✓	✓
Astra Microwave Products Limited	✓	✗	✓	✓	✓
Alpha design Technologies Pvt Ltd	✓	✗	✓	✗	✓
Bharat Electronics Limited – Bangalore	✓	✗	✓	✗	✓
Centum Electronics	✗	✗	✗	✓	✓
Cyient DLM Pvt Ltd	✓	✓	✗	✓	✓
Sasmos Het Technologies	✗	✓	✗	✗	✗
Almphenol Interconnect India Pvt Ltd	✗	✓	✗	✗	✗
Data Patterns Pvt Ltd	✓	✗	✗	✓	✓
Hela Systems	✓	✗	✓	✗	✓
Kaynes Technologies India Pvt Ltd	✗	✗	✗	✓	✗
Rossel Techsys	✓	✓	✗	✓	✓
Apollo Micro Systems	✗	✗	✗	✓	✓
Paras Defence	✓	✗	✗	✓	✓

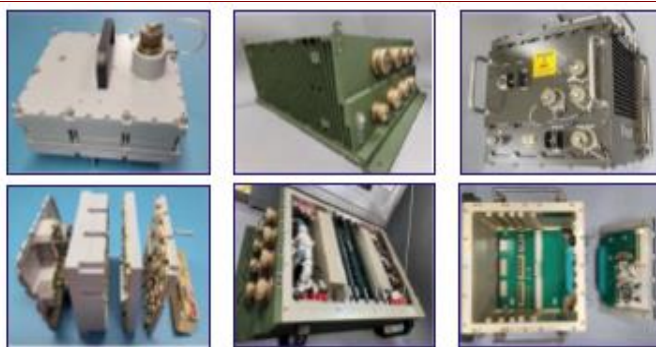
Source: Company RHP, MOFSL

## About the Company

Commenced in 2011, DCX system have been a preferred Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs) for executing aerospace and defense manufacturing projects. The company is primarily engaged in system integration and manufacturing a comprehensive array of cables and wire harness assemblies and also involved in kitting. It is also among the leading Indian players for the manufacture of electronic sub-systems and cable harnesses in terms of manufacturing capability and revenue in FY22 in the defense and aerospace sector.

The company is rapidly growing in the Indian defense space with revenue CAGR of ~57% over FY20-22. It has expanded its manufacturing capabilities and grown its order book to 48 orders aggregating to Rs.2369 crore in FY22.

**Exhibit 4: System Integration Services**



**Exhibit 5: Cable and Wire Harness Assemblies**

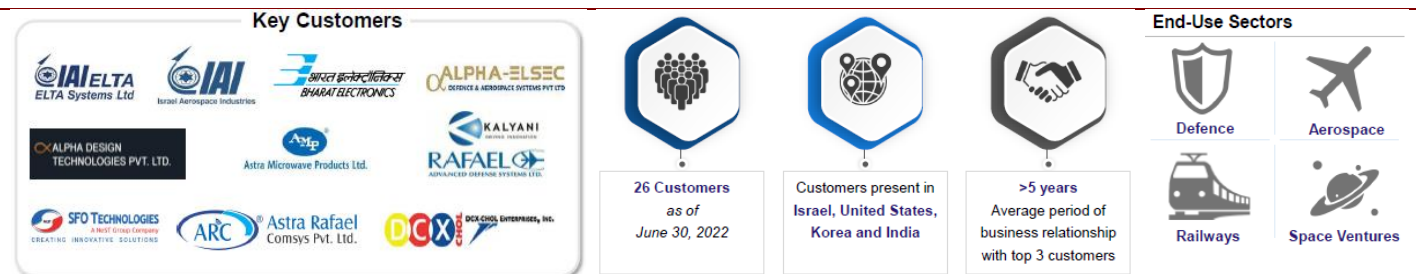


Source: RHP, MOFSL

The company operates under three business verticals namely system integration, cable and wire harness assemblies and kitting. In addition, they also undertake certain job work services that includes assembly and testing of materials that have been supplied directly by our customers.

DCX is also one of the largest IOP for ELTA Systems Limited and Israel Aerospace Industries Limited, System Missiles and Space Division (together, the 'IAI Group'), Israel, for the Indian defense market for manufacture of electronic sub-systems and cable and wire harness assemblies.

**Exhibit 6: Long Standing Relationships with Customers across geographies**



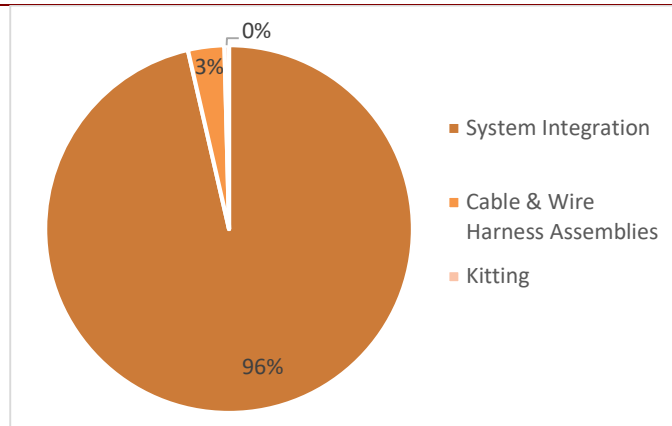
Source: RHP, MOFSL

As of June 30, 2022, DCX had 26 customers in Israel, United States, Korea and India, including certain Fortune 500 companies, multinational corporations and start-ups. Its customers include both 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. The company have a mix of domestic and international customers with key customers being Elta Systems, Israel Aerospace

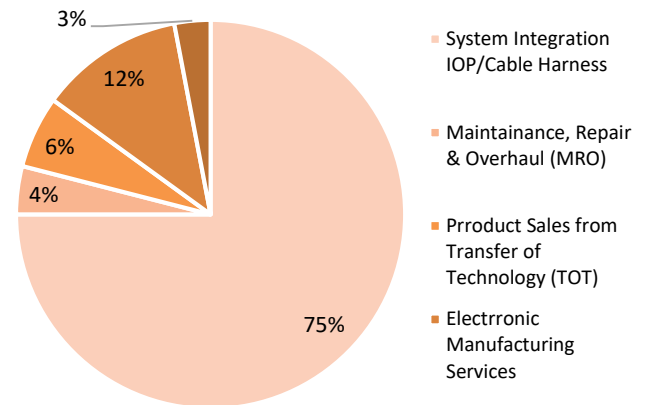
Industries – System Missiles and Space Division, Bharat Electronics, Astra Rafael Comsys, etc.

DCX has established a leadership position in the Indian aerospace and defence industry amongst other companies, in the segment of - System Integration Business. Its in-depth knowledge base and understanding of the aerospace and defence industry, particularly in India positions DCX to take advantage of the growth in other emerging sections too.

**Exhibit 7: Current revenue breakup (FY22)**



**Exhibit 8: Targeted Revenue diversification by FY26**



Source: RHP, MOFSL

## Industry Landscape

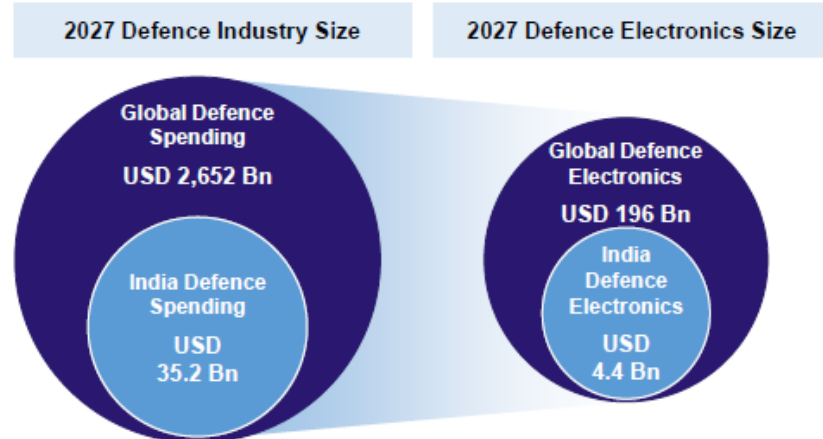
In 2022, Global military expenditure has already surpassed USD2 tn per year, and looks set to rise further as European countries beef up their armed forces in response to Russia's invasion of Ukraine. As such this will create new demand for underlying subsystems and components such as defence electronics, cable harnesses, etc. The Global Defence spending is expected to grow at 4% CAGR between 2022- 2027.

The five largest spenders, account for 62% of the total global spend, including India. Given the increased national security concerns, the Indian defense industry is set to grow substantially. The budget outlay for FY23 has been fixed at INR5.3 tn - 10% increase over last year. The GOI has taken many measures to stimulate 'Make in India' operations through policy support programs in order to modernize its armed forces and minimize reliance on overseas defense acquisition.

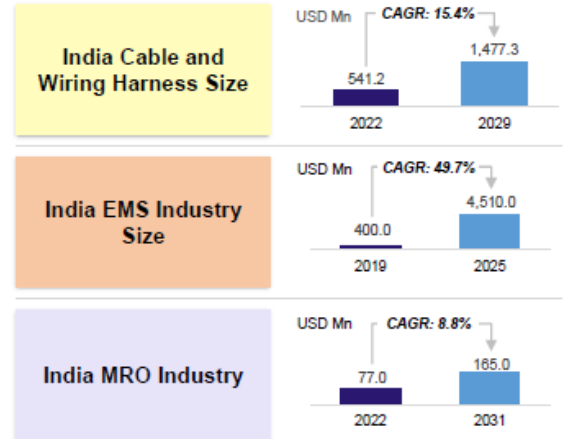
The Indian Aerospace and Defence segment is expected to account to around USD70bn by the year 2030. Within this, the Indian Defence segment is expected to grow at 6% CAGR over FY24-31 to USD43bn. Defence electronics and the weapons segment are expected to witness a major uptick in acquisition, since the Indian Forces have been upgrading their network centric capability and operational engagement.

Due to the 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. Organizations such as DCX are well positioned to capture the growth in Aerospace and Defence exports. GOI has set a target for USD25bn for defence production by 2025. It includes USD5bn in exports.

**Exhibit 9: The growing defense landscape both in India and Global Markets serves as key opportunity for DCX**



**Exhibit 10: Increased market potential for DCX across segments**

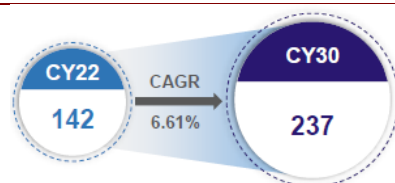


Source: RHP, MOFSL

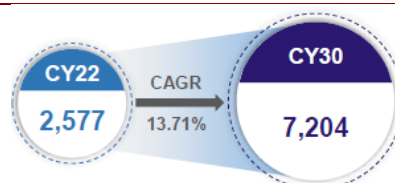
The Indian Market is presently focused on the indigenous development of Defence electronics amongst other segments. The country plans on increasing the value add for each step in the integration and manufacturing process for defence equipment. The Defence Electronics market comprises of electrical components which are integrated onto defence technologies. Some of the key focus areas for the global defence electronics market include avionics, military communication systems, UAVs, airborne systems, electronic warfare systems, land system electronics, naval system electronics, C4ISR and weapon as well as missile system electronics.

The defence electronics segment is poised to grow owing to the rapidly evolving trends in the semiconductors market. Another driver of defence electronics and associated integration opportunities in India is the future proliferation of more advanced ISR solutions – particularly, radar systems. Several Indian combat aircraft continue to use passive radar solutions. Thus, the Indian EMS Industry is expected to grow from USD400 mn in FY19 to USD4,510 mn in FY25 at a CAGR of ~50%.

**Exhibit 11: Global Defence Electronics Market (in USD bn)**



**Exhibit 12: Indian Defence Electronics Market (in USD mn)**



**Exhibit 13: Indian Defence Exports (in USD mn)**



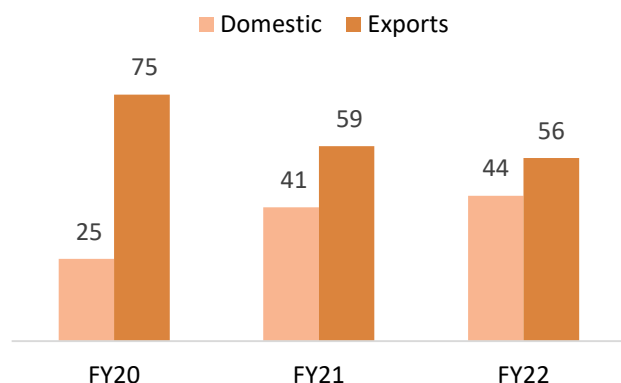
Source: RHP, MOFSL

## Risk and concerns

- Top 3 customers accounted for 97% of FY22 revenues
- Revenue depends significantly on offset defence contracts. Thus any changes in the offset defence policy or a decline/ reprioritization of funding in the Indian defence budget, or delays in the budget process could adversely affect the profitability.
- Forex fluctuation risk as more than 50% of revenues come from exports.
- DCX has certain contingent liabilities worth INR4.8bn, which accounts for 78% of the Balance Sheet size.
- It operates in a highly competitive industry and requires huge working capital for its operations.

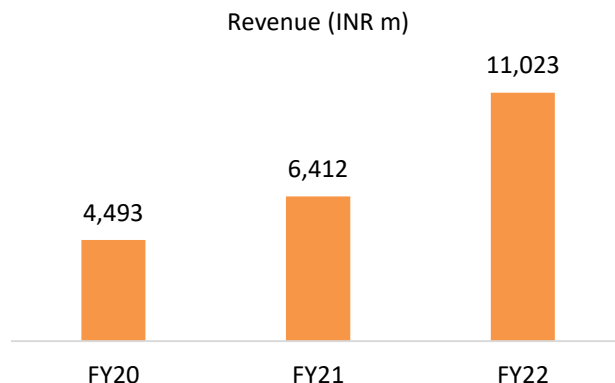
## Story in Charts

**Exhibit 14: Increasing share of domestic revenue (%)**



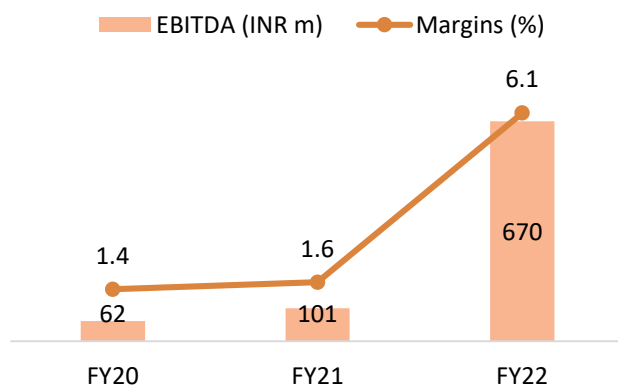
Source: RHP, MOFSL

**Exhibit 15: Revenue grew at 57% CAGR over FY20-22**



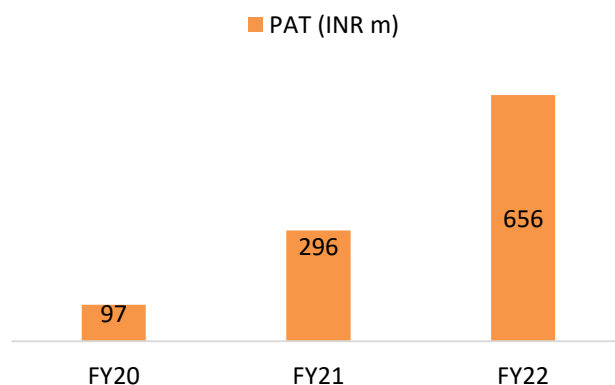
Source: RHP, MOFSL

**Exhibit 16: Improving EBITDA margin trend**



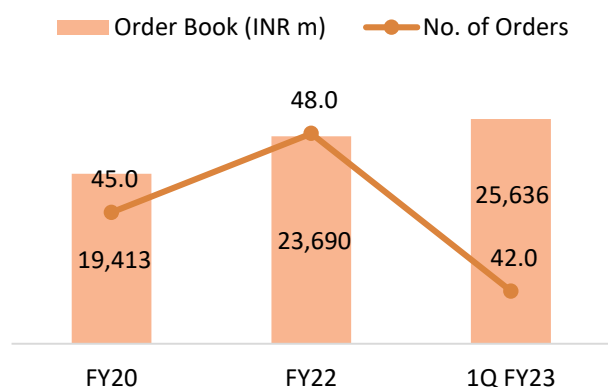
Source: RHP, MOFSL

**Exhibit 17: PAT grew at 160% CAGR over FY20-22**



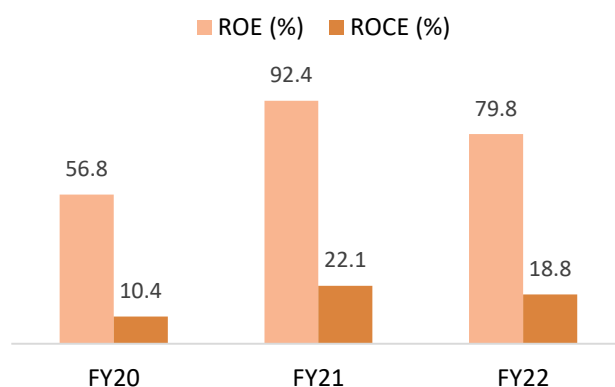
Source: RHP, MOFSL

**Exhibit 18: Order Book**



Source: RHP, MOFSL

**Exhibit 19: Improving return ratios**



Source: RHP, MOFSL



## Financials

### Consolidated – Income Statement

(INR mn)

Y/E March	FY20	FY21	FY22	1QFY23
<b>Net Sales</b>	<b>4,493</b>	<b>6,412</b>	<b>11,023</b>	<b>2,133</b>
Change (%)	-	42.7	71.9	73.5
<b>Total Expenditure</b>	<b>4,430</b>	<b>6,311</b>	<b>10,353</b>	<b>2,083</b>
% of Sales	98.6	98.4	93.9	97.7
<b>EBITDA</b>	<b>62</b>	<b>101</b>	<b>670</b>	<b>49</b>
Margin (%)	1.4	1.6	6.1	2.3
Depreciation	14	24	22	5
<b>EBIT</b>	<b>48</b>	<b>76</b>	<b>648</b>	<b>44</b>
Int. and Finance Charges	79	99	113	50
Other Income	160	421	221	70
<b>PBT</b>	<b>129</b>	<b>398</b>	<b>756</b>	<b>65</b>
Tax	31	102	99	9
Tax Rate (%)	24.3	25.7	13.2	14.0
Minority Interest	0.0	0.0	0.0	0.0
<b>Reported PAT</b>	<b>97</b>	<b>296</b>	<b>656</b>	<b>56</b>
<b>Adjusted PAT</b>	<b>97</b>	<b>296</b>	<b>656</b>	<b>56</b>
Change (%)	-	203.3	122.0	66.5
Margin (%)	2.2	4.6	6.0	2.6

Source: Company RHP, MOFSL

### Consolidated – Balance Sheet

(INR mn)

Y/E March	FY20	FY21	FY22	1QFY23
Share Capital	35	35	155	155
Reserves	137	433	1,021	1,077
<b>Net Worth</b>	<b>172</b>	<b>468</b>	<b>1,176</b>	<b>1,232</b>
Debt	1,340	1,364	5,026	4,983
<b>Total Capital Employed</b>	<b>1,511</b>	<b>1,832</b>	<b>6,202</b>	<b>6,215</b>
<b>Net Fixed Assets</b>	<b>166</b>	<b>156</b>	<b>147</b>	<b>142</b>
Investments	1	0	0	-
<b>Current Assets</b>	<b>6,818</b>	<b>7,770</b>	<b>9,242</b>	<b>9,933</b>
Inventory	772	2,017	273	803
Debtors	880	123	695	1,084
Cash and Bank Balance	4,166	5,493	8,003	7,783
Loans and Advances & OCA	1,000	137	271	263
<b>Curr. Liability &amp; Provisions</b>	<b>5,477</b>	<b>6,100</b>	<b>3,224</b>	<b>3,901</b>
Account Payables	1,507	1,298	965	1,081
Current Liabilities	3,961	4,793	2,248	2,808
Other Long Term Liab. & Provs.	9	9	11	11
<b>Net Current Assets</b>	<b>1,341</b>	<b>1,670</b>	<b>6,018</b>	<b>6,032</b>
Deferred Tax (Net)	3	5	38	41
<b>Appl. Of Funds</b>	<b>1,512</b>	<b>1,832</b>	<b>6,202</b>	<b>6,215</b>

Source: Company RHP, MOFSL



## Ratios

Y/E March	FY20	FY21	FY22	1QFY23
<b>Basic (INR)</b>				
<b>EPS</b>	<b>1.0</b>	<b>3.1</b>	<b>6.8</b>	<b>0.6</b>
Cash EPS	1.1	3.3	7.0	0.6
BV/Share	1.8	4.8	12.2	55.8
DPS	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>				
P/E	205.5	67.7	30.5	89.9
Cash P/E	180.1	62.6	29.5	83.1
P/BV	116.6	42.8	17.0	3.7
EV/Sales	3.8	2.5	1.5	1.5
EV/EBITDA	276.6	157.7	25.4	66.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Return Ratios (%)</b>				
RoE	56.8	92.4	79.8	6.8
RoCE	10.4	22.1	18.8	5.1
<b>Working Capital Ratios</b>				
Fixed Asset Turnover (x)	27.1	41.1	75.2	59.9
Asset Turnover (x)	3.0	3.5	1.8	0.9
Inventory (Days)	63	115	9	34
Debtor (Days)	71	7	23	46
Creditor (Days)	122	74	32	46
<b>Leverage Ratio (x)</b>				
Net Debt/Equity	-16.5	-8.8	-2.5	-1.3

Source: Company RHP, MOFSL

\*All ratios calculated at the upper price band of INR207

## Consolidated – Cash Flow

(INR mn)

Y/E March	FY20	FY21	FY22	1QFY23
<b>OP/(Loss) before Tax</b>	<b>129</b>	<b>398</b>	<b>756</b>	<b>65</b>
Depreciation	14	24	22	5
Finance Cost	79	99	113	50
Income Taxes paid	-31	-102	-99	-9
(Inc)/Dec in WC	1,291	926	-1,844	-241
<b>CF from Operations</b>	<b>1,482</b>	<b>1,345</b>	<b>-1,053</b>	<b>-131</b>
Others	-181	-205	-288	-66
<b>CF from Operating (Net)</b>	<b>1,300</b>	<b>1,140</b>	<b>-1,340</b>	<b>-197</b>
(Pur)/Sale of FA	-103	-14	-12	-0
(Pur)/Sale of Investments	40	1	-	-
Interest/Dividend received	147	224	220	70
Bank Deposits	-	-	-	-
Others	-	-	-	-
<b>CF from Investments</b>	<b>84</b>	<b>211</b>	<b>208</b>	<b>69</b>
Proceeds from borrowings	246	24	3,662	-43
Issue of equity shares	-	-	52	-
Interest Paid	-55	-47	-72	-50
Dividend Paid	-	-	-	-
Others	-2	-	-	-
<b>CF from Fin. Activity</b>	<b>190</b>	<b>-23</b>	<b>3,642</b>	<b>-93</b>
<b>Net Inc/Dec of Cash</b>	<b>1,574</b>	<b>1,327</b>	<b>2,510</b>	<b>-220</b>

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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