



Issue Highlights

Industry	Defense
Offer for sale (Shares)	4,830,918
Fresh Issue (Shares)	19,323,671
Net Offer to the Public	24,154,589
Issue Size (Rs. Cr.)	475-500
Price Band (Rs.)	197-207
Offer Date	31-Oct-22
Close Date	2-Nov-22
Face Value	2
Lot Size	72

Issue Composition

	In shares
Total Issue for Sale	24,154,589
QIB	18,115,942
NIB	3,623,188
Retail	2,415,459

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	98.19%	73.58%
QIB	0.00%	18.73%
NIB	1.81%	5.19%
Retail	0.00%	2.50%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

1. Repayment/ prepayment, in full or part, of certain borrowings availed of by the company.
2. Funding working capital requirements of the Company.
3. Investment in our wholly owned Subsidiary, Raneal Advanced Systems Private Limited, to fund its capital expenditure expenses.
4. General corporate purposes.

Book Running Lead Manager

- Edelweiss Financial Services Limited
- Axis Capital Limited
- Saffron Capital Advisors Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

DCX Systems Limited is among the leading Indian players in the manufacture of electronic sub-systems and cable harnesses. The company commenced operations in 2011 and has been a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") for executing aerospace and defence manufacturing projects. In 2020, the company commissioned a new manufacturing facility at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. As of June 30, 2022, DCX Systems had 26 customers in Israel, the United States, Korea and India, including certain 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. DCX System's 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.

Strength

Among the preferred Indian Offset Partners for the defence and aerospace industry with global accreditations: DCX Systems is a preferred Indian Offset Partners ("IOP") for foreign OEMs for executing defence manufacturing projects. The company undertakes "build-to-print" system integration and manufacture cable and wire harness assemblies for both domestic and international OEMs. It is 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. As part of its system integration services, its 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 company is focused on providing its customers with quality products that are manufactured to meet their specifications. The Company's order book has increased from Rs. 1,941.31 crore, as of March 31, 2020 to Rs. 2,369 crore, as of March 31, 2022. As of June 30, 2022, the order book was Rs. 2,563.63 crore to be executed in the Fiscal 2023 to Fiscal 2025.

Technology enabled and scalable end-to-end capabilities: Its system 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 its customers' requirements. As part of its system integration services, it also does in-house testing to ensure the quality of its final products, and reliability of its products' functioning under varying environmental conditions. The company operations are certified with IPC-A-610 for electronic assemblies, IPC-620 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. Its revenue from operations has increased at a CAGR of 56.64% between Fiscal 2020 and Fiscal 2022. Further, in Fiscal 2020, 2021 and 2022, and in the 3 months ended June 30, 2022, their capital expenditure towards additions to fixed assets (property, plant and equipment's and intangible assets) were Rs. 10.28 crore, Rs. 1.58 crore, Rs. 1.62 crore, Rs. 0.02 crore, and Rs. 0.05 crore, respectively.

Business model with visibility of cash flows and ability to mitigate operational and technology risk: The company's manufacturing activity is obsolescence-proof as the technology coupled with intellectual property rights, both vest with its OEM customers. Further, its in-house team monitors the obsolescence factor and provides feedback to its OEM customers for suitable action including drop-in replacements.

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

Its facility is situated within a SEZ that offers its duty free imports, exemption from GST and supplies that are zero rated under extant regulations. Being situated in an SEZ ensures that the company is also not subject to levies imposed by the state government and its operations are eligible for single-window clearance by the relevant authority. The 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, tinned welding machine and temperature controlled soldering station. Its facility is set up for complete in-house environmental and electrical testing and contains the latest inspection and testing equipment. Its 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 its operating history and the experience of its management team. Its 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. 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, it is well-positioned to take advantage of various initiatives of the Govt.

Strategy

Strengthen the system integration operations and further expand the cable and wire harness assembly business: In order to expand within its existing verticals, the company 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. The company also intends to expand its existing cable and wire harness assembly operations to better serve the requirements for its global customers. The major focus of its proposed expansion would be on sectors such as telecom, medical, power, industrial and automotive, amongst others as it results in high volume business along with high EBITDA and profit after tax margins.

Focus on adjacent industry verticals leading to expansion of customer base: DCX Systems intends to focus on adjacent industry verticals like EMS and Maintenance, Repair and Overhaul ("MRO") services. The company is 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, Govt, which will provide opportunities to obtain transfer of technology. Technology transfer agreements have a major advantage in terms of defence offsets manufacturing companies in India would gain potential opportunities to explore international markets through this. The company is in the process of evaluating options for the transfer of technology, and in particular, from key markets that they serve, such as Israel and the United States.

Strengthen relationships with the existing customers and expand customer base: DCX Systems 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. The company has established long term relationships with its customers, which has led to recurring business engagements with such customers. The company plans to continue to focus on strengthening its existing relationships with its customers with a view of entering into more sophisticated, higher value projects with them. Its focus area is on the 209 items identified for indigenous manufacturing announced by Govt and advanced technology for civilian applications.

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. The company is well positioned to capture this. The company intends to expand its international operations to enhance its global presence in the aerospace and defence sectors. The

company intends to enter new markets such as Europe where it can provide cost and operational advantages to its customers, and where it will be able to distinguish themselves from other companies with similar offerings.

Risk factor

- Significant amount of the amount raised through this issue will not go to the company as it is OFS.
- The company revenues from top 3 customers accounted for over 80% in the last 1 year and 3 months. Any loss of these customers can impact revenues of the company.
- The company revenues significantly on offset defence contracts. Any negative change in offset defence policy can affect the revenues of the company.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bharat Electron	16867.63	2739.45	3.75	28.76	6.10	17.69	1.00	107.85	78835.96
Astra Microwave	783.74	33.80	3.90	79.00	4.56	67.61	2.00	308.10	2668.51
Centum Electron	768.86	-6.92	0.00	0.00	3.78	158.30	10.00	599.05	771.86
Data Pattern	342.00	97.74	18.84	71.05	12.09	110.72	2.00	1338.60	6945.55
Paras Defence	198.92	33.10	8.49	75.94	7.48	86.24	10.00	644.70	2514.33
DCX Systems Limited**	1102.27	65.61	6.78	30.52	3.97	52.09	2.00	207.00	2002.18

* Peer companies financials are TTM based.

** FY22 Financials

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.207, the stock is priced at pre issue P/E of 24.42x on FY22 EPS of Rs.8.48. Post issue, the stock is priced at a P/E of 30.52x on its EPS of Rs.6.78. Looking at the P/B ratio at Rs.207, pre issue, book value of Rs. 15.19 of P/Bvx 13.63x. Post issue, book value of Rs.52.09 of P/Bvx 3.97x.

Considering the P/E valuation, on the lower end of the price band of Rs.197, the stock is priced at pre issue P/E of 23.24x on FY22 EPS of Rs.8.48. Post issue, the stock is priced at a P/E of 29.04x on its EPS of Rs.6.78. Looking at the P/B ratio at Rs.197, pre issue, book value of Rs. 15.19 of P/Bvx 12.97x. Post issue, book value of Rs.52.09 of P/Bvx 3.78x.

Industry Outlook

The Indian electronics market accounts for around 3.6% of the Global Electronics Market in 2019. The market in 2021 was around US\$ 118 billion and this is expected to grow to US\$ 309 billion by 2025-2026. The National Policy on Electronics (“NPE”) 2019 had set a target of reaching \$300 bn by 2026. The Indian PCBA market is estimated to reach US\$ 0.618 billion in Fiscal 2022 and is estimated to reach around US\$ 1.2 billion in Fiscal 2026 at a CAGR of 19%. The growth will be driven by increased adoption of active surveillance solutions, unmanned systems, digital communication systems, and network-based command and control systems in defence. The estimated market size for the Indian Defence Electronics Segment is noted to be US\$ 2,577 million for the year 2022. The market is expected to reach US\$ 7,204 million by the year 2030. The overall growth in market size is due to the increased investment in indigenous programs such as the Future Ready Combat Vehicle (“FRCV”) and the Future Infantry Combat Vehicle (“FICV”). India’s reliance on external markets is poised to reduce during the forecast period owing to the country’s burgeoning defence capability. The market is poised to grow with a CAGR of 13.71% between 2022-2030. There is a strong focus and initiatives by the Government of India in the aerospace and defence sectors especially for Private players including Micro, Small and Medium Enterprises. With defence public sector undertakings focusing on specialization and integration and sub-component manufacture being outsourced to the private sector, there are significant opportunities for the private sector.

Outlook

The company is the leading manufacturer of electronic sub-systems and cable harnesses in India. It is among the preferred Indian Offset Partners for the defence and aerospace industry with global accreditations. Its margins are also improving year on year. With "Make in India", "Atmanirbhar Bharat", and other liberalized policies, the company is expected to see a good growth going forward.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	31-October-22
BID/ISSUE CLOSES ON	02-November-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	07-November-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	08-November-22
Credit of Equity Shares to demat accounts of Allottees	10-November-22
Commencement of trading of the Equity Shares on the Stock Exchanges	11-November-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Jun-22 (3 Months)	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)**
Revenue from operations	213.25	1102.27	641.16
Total expenditure	208.35	1035.28	631.08
Operating Profit	4.91	66.99	10.08
OPM%	2.30	6.08	1.57
Other Income	7.00	22.06	42.08
PBDIT	11.91	89.05	52.16
Depreciation	0.46	2.18	2.43
PBIT	11.45	86.88	49.73
Interest	4.98	11.32	9.92
Restated Profit before tax	6.47	75.55	39.81
Tax	0.90	9.95	10.25
Profit & Loss before Share of Post-acquisition Profit of Associate	5.57	65.61	29.56

** standalone for the year ended 31st March 2021

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-22	As on 31-Mar-22	As on 31-Mar-21**
Non-current assets			
Property, plant and equipment	10.41	10.79	11.61
Right of use assets	3.81	3.81	3.81
Intangible assets	0.02	0.05	0.18
Other financial assets	0.07	0.32	0.31
Deferred tax assets	4.06	3.80	0.54
Other non-current assets	0.05	0.05	0.05
Total non-current assets	18.42	18.82	16.50
Current assets			
Inventories	80.32	27.25	201.68
bank balances other than cash	618.57	611.84	463.45
Trade receivables	108.41	69.49	12.31
Cash and cash equivalents	159.72	188.48	85.88
Other financial assets	0.31	5.07	3.05
Other current assets	25.85	21.66	10.31
Total current assets	993.18	923.79	776.68
Total Assets	1011.61	942.62	793.18
Non-current liabilities			
Financial liabilities			
Borrowings	35.44	35.44	0.00
Other Financial liabilities	1.04	1.04	0.83
Total financial liabilities	36.48	36.48	0.83
Current liabilities			
Borrowings	462.88	467.18	136.38
Total outstanding dues of creditors of micro enterprises and small enterprises	59.71	45.26	1.00
Total outstanding dues of creditors other than micro enterprises and small enterprises	48.41	51.25	128.80
Other Financial liabilities	1.28	0.70	16.51
Other current liabilities	270.11	215.32	454.64
Provisions	0.09	0.04	0.04
Current Tax liabilities (NET)	9.46	8.80	8.19
Total current liabilities	851.94	788.55	745.56
Total	888.42	825.03	746.39
NET Worth	123.18	117.59	46.79
Net worth represented by:			
Share capital	15.48	15.48	3.50
Other equity	107.70	102.11	43.29
Net Worth	123.18	117.59	46.79

** standalone for the year ended 31st March 2021

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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