

DCX Systems Limited

Incorporated in 2011, DCX Systems Limited (DSL) is among the leading Indian players in the manufacture of electronic sub-systems and cable harnesses. The company has been a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") and for executing aerospace and defense manufacturing projects. DSL is primarily engaged in system integration and manufacturing a comprehensive array of cables and wire harness assemblies and are also involved in kitting. The company operates through their manufacturing facility located at the Hi-Tech Defense and Aerospace Park SEZ in Bengaluru, Karnataka.

Positives: (a) Among the preferred Indian Offset Partners for the defense and aerospace industry with global accreditations (b) Strong order book providing visibility of cashflows (c) Well-positioned to capitalize on industry tail winds

Investment concerns: (a) High customer concentration risk (b) Significant competitive intensity (c) High dependence on offset defense contracts.

Outlook & Valuation: In terms of valuations, the post-issue P/E works out to 30.5x FY22 EPS (at the upper end of the issue price band) which is low compared to its peers like Paras Defense & Space Technologies Ltd, Data Patterns (India) Ltd and Sundram Fasteners Ltd. Further, DSL has better revenue/PAT growth (CAGR of 57%/159% respectively) over 2 years, healthy return on equity and company also has a strong order book (of ₹2,564cr) which provides visibility for next 2 years. Considering all the positive factors, we believe this valuation is at reasonable levels. Thus, we recommend a **SUBSCRIBE** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Sales	449	641	1,102
% chg		43%	72%
Net Profit	10	30	66
% chg		203%	122%
EBITDA (%)	1.4	1.6	6.1
EPS (Rs)	1.3	3.8	8.5
P/E (x)	205.5	67.7	30.5
P/BV (x)	116.6	42.8	17.0
ROE (%)	56.8	63.2	55.8
ROCE (%)	3.2	4.2	10.5
EV/Sales	3.8	2.5	1.5

Source: Company RHP, Angel Research

SUBSCRIBE

Issue Open: October 31, 2022
Issue Close: November 02, 2022

Issue Details

Face Value: ₹2
Present Eq. Paid up Capital: ₹ 15.48cr
Offer for Sale: ₹ 100cr
Fresh issue: ₹ 400cr
Post Eq. Paid up Capital: ₹ 19.3cr
Issue size (amount): ₹ 500cr
Price Band: ₹197- ₹207
Lot Size: 72shares and in multiple thereafter
Post-issue mkt. cap: * ₹1,925cr - ** ₹2,002cr
Promoters holding Pre-Issue: 98.19%
Promoters holding Post-Issue: 1.81%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	73.6%
Public	26.4%

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Company background

Incorporated in 2011, DCX Systems Limited (DSL) is among the leading Indian players in the manufacture of electronic sub-systems and cable harnesses. The company has been a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") and for executing aerospace and defense manufacturing projects. DSL is primarily engaged in system integration and manufacturing a comprehensive array of cables and wire harness assemblies and are also involved in kitting. The company operates through their manufacturing facility located at the Hi-Tech Defense and Aerospace Park SEZ in Bengaluru, Karnataka.

Company operates its business activities across three verticals of System Integration, Cables and wire harness assemblies and Knitting:

- 1) System Integration:** DSL 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. DSL also provides product repair support for the parts that we manufacture. This division contributed ~85% (FY22) to the top line.
- 2) Cable and Wire Harness Assemblies:** DSL 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 defense industries as per its customers' requirements.
- 3) Kitting:** DSL supplies assembly ready kits of electronic and electro-mechanical parts and undertake all aspects of procurement including sourcing components from suppliers approved by its customer along with a 'Certificate of Compliance' for traceability, controlled storage of moisture sensitive devices to ensure that customers receive complete, assembly-ready kits when required when they are needed for production. This division contributed ~ 12% (FY22) to the top line.

Issue details

The IPO is made up of Fresh issue of ₹400cr and offer for sale of ₹100cr making the total Issue size of ₹500cr.

Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	7,60,00,000	98.19%	7,11,69,082	73.58%
Public	14,00,000	1.81%	2,55,54,589	26.42%
Total	7,74,00,000	100.00%	9,67,23,671	100.00%

Source: Company, Angel Research

Objectives of the Offer

- Rs 400cr proceeds from the fresh issue would be utilized as follows:
 - Up to ₹160cr utilized for funding working capital requirements.
 - Up to ₹45cr utilized for funding capital expenditure requirements of subsidiary.
 - ~₹110cr to be utilized for repayment / prepayment, in full or part, of all or certain borrowings availed by the Company.
 - Rest would be utilized for general corporate purposes

Financial Summary

Income Statement (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Sales	449	641	1,102
<i>% chg</i>		43%	72%
Total Expenditure	443	631	1,035
Raw Material	408	618	1,001
Personnel	6	5	9
Other Expenses	30	7	26
EBITDA	6	10	67
<i>% chg</i>		62%	565%
<i>(% of Net Sales)</i>	1.4	1.6	6.1
Depreciation & Amortization	1	2	2
EBIT	5	8	65
<i>% chg</i>		58%	747%
<i>(% of Net Sales)</i>	1.1	1.2	5.9
Interest & other Charges	8	10	11
Other Income	16	42	22
<i>(% of PBT)</i>	124.1	105.7	29.2
PBT	13	40	76
<i>% chg</i>		209%	90%
Tax	3	10	10
<i>(% of PBT)</i>	24.3	25.7	13.2
PAT	10	30	66
<i>(% of Net Sales)</i>	2	4.6	6.0
Basic EPS (Rs)	1.3	3.8	8.5
Fully Diluted EPS (Rs)	1.0	3.1	6.8

Source: Company, Angel Research

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
SOURCES OF FUNDS			
Equity Share Capital	4	4	15
Reserves & Surplus	14	43	102
Shareholders' Funds	17	47	118
Minority Interest	-	-	-
Total Loans	134	136	503
Other Liabilities	1	1	1
Total Liabilities	152	184	621
APPLICATION OF FUNDS			
Net Block	17	16	15
Goodwill	-	-	-
Capital Work-in-Progress	-	-	-
Investments	0.12	-	-
Current Assets	681	777	924
Inventories	77	202	27
Sundry Debtors	88	12	69
Cash	417	549	800
Loans & Advances	-	-	-
Other Assets	99	13	27
Current liabilities	547	609	321
Net Current Assets	134	167	602
Deferred Tax Assets (net)	0	1	4
Other Assets	1	0	0
Total Assets	152	184	621

Source: Company, Angel Research

Cashflow Statement (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Profit before tax	13	40	76
Depreciation	1	2	2
Change in Working Capital	129	93	-184
Interest / Dividend (Net)	(9)	-18	-15
Direct taxes paid	(4)	-3	-13
Others	(0)	0	0
Cash Flow from Operations	130	114	(134)
(Inc.)/ Dec. in Fixed Assets	(6)	-1	-1
(Inc.)/ Dec. in Investments	0	0	0
Interest Received	15	22	22
Cash Flow from Investing	8	21	21
Proceeds from Issue of Share capital	0	0	5
Proceed / (Repayment) of long-term borrowings	(0)	0	0
Proceed / (Repayment) of short-term borrowings	25	2	366
Payment of lease liabilities	0	0	0
Interest / Dividend (Net)	(6)	(5)	(7)
Cash Flow from Financing	19	(2)	364
Inc./Dec. in Cash	157	133	251
Opening Cash balances	259	417	549
Closing Cash balances	417	549	800

Source: Company, Angel Research

Key Ratios

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Valuation Ratio (x)			
P/E (on FDEPS)	205.5	67.7	30.5
P/CEPS	180.1	62.6	29.5
P/BV	116.6	42.8	17.0
EV/Sales	3.8	2.5	1.5
Per Share Data (Rs)			
EPS (fully diluted)	1.3	3.8	8.5
Cash EPS	1.1	3.3	7.0
Book Value	1.8	4.8	12.2
Returns (%)			
ROE	56.8	63.2	55.8
ROCE	3.2	4.2	10.5

Source: Company, Angel Research;

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