DCX

Systems Limited IPO

INVESTMENT BANKING PROJECT

A Report Submitted in Fulfilment of the Project Work Requirements of the Subject Investment Banking

MBA Tech IT - Semester IX

Academic Year 2023-24

GROUP 1

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ABOUT THE COMPANY

DCX Systems (DCX) is among the leading Indian players for manufacturing electronic sub-systems and cable harnesses in terms of manufacturing capability.

The company is primarily engaged in system integration and manufacturing a comprehensive array of cables and wire harness assemblies and is also involved in kitting.

DCX commenced its operations in 2011 and has been a preferred Indian offset partner for foreign original equipment manufacturers (OEMs) for executing aerospace and defence manufacturing projects. Revenue from operations has grown at a CAGR of 56.6% in FY20-22.

Key Highlights of the company

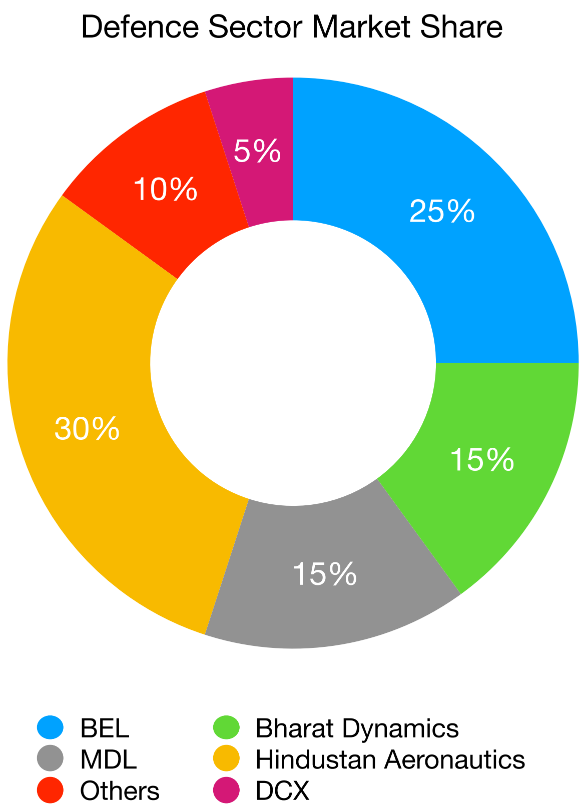
- With defence public sector organisations focused on specialisation and integration, and sub-component manufacturing being outsourced to the private sector, there are considerable potential for private sector businesses such as DCX Systems.
- For global OEMs, DCX is a favoured Indian offset partner for implementing defence contracts. It does system integration and produces cable/wire harness assemblies for domestic and foreign OEMs.
- DCX is one of the IAI Group's main IOP for the Indian defence industry for electronic subsystems and cable/wire harness assembly.

Company Background

In terms of manufacturing capability and revenue in FY22, DCX Systems (DCX) is one of the top Indian players in the defence and aerospace sectors for the manufacture of electronic subsystems and cable harnesses. The company primarily focuses on system integration and the production of a wide range of cables and wire harness assemblies, as well as kitting.

Since its inception in 2011, the business has been a preferred Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs) for the execution of aerospace and defence manufacturing projects. In FY20-22, revenue from operations increased at a CAGR of 56.64%.

Since the defence sector of India consists of many players, the Market Share of the companies are as follows -



Though DCX has a fairly low market share, it is a key in terms of its relative size and history wherein the major competitors have a history of more than 50+ years and DCX having a history of only 12 years but its rapid growth an expansion phase has helped it gain a respectable market share amongst its peers.

The company's operations can be classified under the following business verticals:

- System Integration: Radar systems, sensors, electronic warfare, missiles, and communication systems are all areas in which the company specialises in system integration. To meet the needs of its customers, it offers product assembly and system integration services of varying complexity. System integration services are included in a wide range of electronics and electro-mechanical assembly and enclosure assembly services. The company also offers product repair services for the parts it manufactures.
- Assemblies of cable and wire harnesses: According to customer specifications, the company manufactures a wide range of cables and wire harness assemblies such as radio frequency cables, coaxial, mixed signal, power, and data cables for a variety of applications such as communication systems, sensors, surveillance systems, missile systems, military armoured vehicles, and other electronic warfare systems.
- Kitting: The company supplies assembly ready kits of electronic and electro-mechanical parts and undertake all aspects of procurement including sourcing components from suppliers approved by customer along with a 'Certificate of

Compliance' for traceability, controlled storage of moisture sensitive devices to ensure that customers receive complete, assembly-ready kits .

The company functions from its manufacturing facility situated within the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. Encompassing an expansive area of 30,000 square feet, the facility is specifically designed for comprehensive in-house environmental and electrical testing, as well as wire processing. Notably, the strategic location of this facility aligns with the proximity to key domestic customers, including Bharat Electronics, Alpha Design Technologies Pvt Ltd, Alpha Elsec Defence and Aerospace Systems Pvt Ltd, and Centum Adeno India Pvt Ltd, all located in the same city.

As of June 30, 2022, the company had 26 customers in Israel, US, Korea and India, including certain Fortune 500 companies, multinational corporations and start-ups. The company's 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.

Major events in DCX Systems -

DCX has contributed in a significant amount to the defence industry in terms of supplying systems to the defence systems in the country. The timeline of the major events are as follows -

Date	Significant event
April 2022	Selected by BHEL to supply electronic warfare systems for Indian Navy's P-28 Aircraft
July 2022	Selected by the Indian Air force to supply electronic warfare systems to Tejas fighter jets
December 2022	Selected by the Indian Navy to supply electronic systems for a majority of missiles
April 2023	Selected by the Indian Navy to supply electrical conduit systems for the INS Vikrant aircraft carrier

In addition to these significant events, DCX is now supplying equipment to more than 4 Indian defence bodies in terms of its equipments and its known for its extensive base of Research and Development for a strong performance record in terms of reliability and extensibility.

MANAGEMENT AND PROMOTERS SECTION

DCX Systems is led by experienced promoters and a qualified senior management team with significant experience in the aerospace and defense manufacturing industry. Dr H.S. Raghavendra Rao, individual promoter, Chairman and Managing Director, has over two decades of experience in electronics manufacturing and in the defense and aerospace sectors. Neal Jeremy Castleman, Non-Independent and Non- Executive Director, has vast experience of more than two decades in the field of electronic manufacturing sectors. The other senior management team have demonstrated the ability to anticipate and capitalize on changing market trends, manage and grow our operations and leverage and deepen customer relationships

Information about the Directors is as follows -

S.No	Name and Term	Other directorships	Highlights
1	Dr. H.S Raghavendra Rao Term : 5 years from 2021	1. Neuron Biomed Equipments Private Limited 2. VNG Technology Private Limited	21 years of experience in the Electronics and Aerospace sector. Associated since 2012 and handles CRM and administration.
2	Neal Jeremy Castleman Term : Liable to retire by rotation	DCX Chol Enterprises	Director with DCX Chol since 1997 and 2 decades of experience in electronics sector
3	Sankarakrishnan Ramalingam Term: 5 years from 2022	Aster Capital Advisory services	Key role is to develop business plans and has 26+ years of experience in finance sector. Has been associated with HLL and Syndicate Bank.
4	Kalyansundaram Chandrasekaran Term: 5 years from 2022	1. Methodhub Technologies 2. Nemera International Company Limited 3. Sew-Tech Inc 4. S&R Professionals LLC	Independent Director to the company and is an associate of CAI and Institute of Cost and Works Accountants of India
5	Panchagam Nagashayana Term: 5 years from 2022	Avyaya Technologies Pvt Ltd	30+ years experience in electronic sector. Associated with Canarie International.
6	Latika Siddharth Pai Term: 5 years from 2022	Jobcorp Solutions	15+ years of experience in consulting and working with Tekinroads consulting as a partner

FINANCIALS

A, Company's income statement, balance sheet and cashflow statement

Consolidated Statement of Assets and Liabilities (All amounts in ₹ Millions, unless otherwise stated)

	As at 31 March 2023	As at 31 March 2022
ASSETS		
Non-current assets		
Property, plant and equipment	108.4	107.94
Capital work-in-progress	52.9	-
Right-of-use assets	43	38.1
Other intangible assets	0.43	0.48
Financial assets		
(i) Investments	-	-
(ii) Other financial assets	30.7	3.18
Deferred tax assets (net)	43.72	38.02
Other non-current assets	0.5	0.5
Total non-current assets	279.65	188.22
Current assets		
Inventories	2,291.62	272.51
Financial assets		-
(i) Trade receivables	3,195.32	694.94

(ii) Cash and cash equivalents	136.71	1,884.79
(iii) Bank balances other than (ii) above	5,821.76	6,118.44
(iv) Other financial assets	21.3	50.68
Current tax assets (net)	13.87	-
Other current assets	432.61	216.57
Total current assets	11913.19	9237.93
Total assets	12192.84	9426.15
EQUITY & LIABILITIES		
Equity		
Equity share capital	193.45	154.8
Other equity	5,473.76	1,021.10
Total equity	5667.21	1175.9
Liabilities		
Non-current liabilities		
Financial liabilities		
(i) Long Term Borrowings	57.7	354.4
(ii) Provisions	12.4	10.38
Total non-current liabilities	70.1	364.78
Liabilities		
Current liabilities		
Financial liabilities		

(i) Borrowings	5,037.11	4,671.80
(ii) Trade payables		
a) total outstanding dues of MSME	5.47	452.63
b) total outstanding dues of creditors other than MSME	1,357.07	512.5
(iii) Other financial liabilities	11.16	6.97
Other current liabilities	44.19	2,153.17
Provisions	0.53	0.44
Current tax liabilities (net)	-	87.96
Total current liabilities	6455.53	7885.47
Total liabilities	6525.63	8250.25
Total equity and liabilities	12192.84	9426.15

Consolidated Statement of Profit and Loss (All amounts in ₹ Millions, unless otherwise stated)

	For the year ended 31 March 2023	For the year ended 31 March 2022
Income		
Revenue from operations	12,536.34	11,022.73
Other Income	295.48	220.61
Total income	12,831.82	11,243.34
Expenses		
Cost of materials Consumed	12,630.45	9,293.43
Changes in inventories of finished goods and work-in-progress	-1,438.46	712.43

Employee benefit expenses	105.1	86.65
Finance cost	256.28	113.22
Depreciation and amortisation expenses	18.21	21.75
Other expenses	402.52	260.31
Total expenses	11,974.10	10,487.79
Profit/(loss) before Exceptional Items, and Tax	857.72	755.55
Public Issue Expenses		
Profit before exceptional items and tax	857.72	755.55
Exceptional items	-	-
Profit before tax	857.72	755.55
Tax expense:		
Current tax	-150.44	-132.02
Deferred tax	-0.57	2.59
Mat Credit	10.1	29.96
Total Tax Expenses	-140.91	-99.47
Profit for the period (A)	716.81	656.08
Other comprehensive (loss)/ income		
i. Items that will not be reclassified subsequently to profit or loss		
(i) Remeasurements of defined benefit liability / (asset)	0.81	-0.32
(ii) Income tax relating to remeasurements of defined benefit liability / (asset)	-0.14	0.11
	0.67	-0.21

ii. Items that will be reclassified subsequently to profit or loss ;		
(i) The effective portion of gains and loss on hedging instruments in a cash flow hedge	21.2	
(ii) Income tax relating to items that will be reclassified to profit or loss	-3.7	
	17.5	-
Total Other comprehensive income (B)	18.17	-0.21
Total comprehensive income for the period (A+ B)	734.98	655.87
Earnings per equity share [nominal value of ` 2]		
Earnings per equity share for Continuing operations		
- Basic (₹)	8.44	9.19
- Diluted (₹)	8.44	9.19
Earnings per equity share for discontinued operations		
- Basic (₹)	-	-
- Diluted (₹)	-	-
Earnings per equity share for discontinued and continuing operations		
- Basic (₹)	8.44	9.19
- Diluted (₹)	8.44	9.19

Consolidated Statement of Cash Flows (All amounts in ₹ Millions, unless otherwise stated)

Particulars	For the year ended 31 March 2023	For the year ended 31 March 2022
A. Cash flow from operating activities		
Profit before tax	857.72	755.55

Adjustments to reconcile profit before tax to net cash flows:		
Income tax expense recognised in profit and loss (continuing and discontinued operations)		
Interest on fixed deposits	-294.07	-220.24
Profit on sale of fixed assets	-1.31	-
Interest on borrowings	187.08	72.4
Depreciation and amortisation expense	18.21	21.75
Operating profit before working capital changes	767.63	629.46
Movement in working capital:		
(Increase)/Decrease in trade receivables	-2,500.39	-571.8
(Increase) / Decrease in current investments		-
(Increase)/Decrease in inventories	-2,019.11	1,744.25
(Increase)/Decrease in other current assets	-216.05	-113.51
(Increase)/Decrease in other non current financial assets	-27.51	-0.08
(Increase)/Decrease in other current financial assets	50.58	-20.14
Increase/(Decrease) in trade payables	397.41	-332.86
Increase/(Decrease) in non current provisions	2.02	2.08
Increase/(Decrease) in current provisions	0.09	-0.18
Increase/(Decrease) in other current financial liabilities	4.19	-158.17
Increase/(Decrease) in other non current financial liabilities	-	
Increase/(Decrease) in other current liabilities	-2,108.98	-2,393.27
Increase/(Decrease) in other non current assets	-	

Cash generated from operations	-5,650.12	-1,214.22
Net income tax (paid)	-251.46	-126.03
Net cash from operating activities (A)	-5,901.58	-1,340.25
B. Cash flows from investing activities		
Purchase of property, plant and equipment and Other Intangible assets	-29.22	-16.16
Proceeds from disposal of property, plant and equipment	7	3.9
Capital work in progress and capital advance	-52.9	
Investment/(Sale) of mutual funds	-	
Investment in fixed deposits		
Investment in Subsidiary	-	-
Loans (Financial assets)	-	-
Interest received	294.07	220.24
Net cash used in investing activities (B)	218.95	207.98
C. Cash flows from financing activities		
Working Capital/Term Loan	68.62	3,662.40
Net Proceeds from issue of Shares	3,756.33	52.17
Interest paid	-187.08	-72.4
Net cash used in financing activities (C)	3,637.87	3,642.17
Net increase / (decrease) in Cash and cash equivalents (A+B+C)	-2,044.76	2,509.90
Effect of exchange differences on restatement of foreign currency Cash and cash equivalents		
Cash and cash equivalents at the beginning of the period / year	8,003.23	5,493.33

Cash and cash equivalents at the end of the period / year	5,958.47	8,003.23
Notes:-		
1. Cash and cash equivalents include		
Cash on hand	0.01	
Balances with bank		
- Current accounts	136.7	1,884.79
Other bank balances	5,821.76	6,118.44
	5,958.47	8,003.23

B. Understand the company's past performance and growth potential.

- The company has experienced significant growth in both assets and equity.
- Current assets have increased substantially, primarily due to a significant rise in inventories.
- Equity has seen a remarkable increase, indicating retained earnings or capital injection.
- Liabilities have seen a decrease, particularly in non-current liabilities.
- The company's financial health appears to be robust, with a higher total equity and a balanced increase in assets.
- The company's financial performance for the year demonstrates growth in revenue, effective cost management, and improved profitability.
- There was an increase in most expense categories, impacting the overall cost structure.
- Profitability improved with higher profit before tax and after tax.
- Tax credits contributed to a negative total tax expense.
- The positive other comprehensive income suggests that the company is making sound financial decisions beyond its core operations.
- Despite a decrease in earnings per share, the company's overall financial health, as reflected in total comprehensive income, appears strong.

Financial Ratios Analysis:

1. Liquidity: The company has significantly improved its liquidity position, as seen in the higher current and quick ratios in 2023.

- Current Ratio: Increased from 1.17 in 2022 to 1.85 in 2023.
- Quick Ratio: Increased from 1.14 in 2022 to 1.35 in 2023.

2. Profitability: The net profit margin slightly decreased in 2023, indicating potential challenges in maintaining profit margins.The ROE, however, experienced a significant decline, suggesting a substantial shift in the company's ability to generate returns for shareholders.

- Net Profit Margin: Slightly decreased from 5.83% in 2022 to 5.58% in 2023.
- Return on Equity (ROE): Decreased significantly from 55.70% in 2022 to 12.63% in 2023

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3. Solvency: The company substantially reduced its debt to equity ratio, indicating a stronger financial structure in 2023. The interest coverage ratio decreased, suggesting a potential increase in financial risk.

- Debt to Equity Ratio: Decreased from 0.310 in 2022 to 0.0124 in 2023.
- Interest Coverage Ratio: Decreased from 6.67 in 2022 to 3.35 in 2023.

4. Efficiency Ratios: The company significantly improved its efficiency in managing inventory, as indicated by the sharp increase in the inventory turnover ratio. Accounts receivable turnover also increased, suggesting better management of receivables.

- Inventory Turnover: Increased from 16.09 in 2022 to 53.11 in 2023.
- Accounts Receivable Turnover: Increased from 16.22 in 2022 to 18.46 in 2023.

Growth Potential:

- Strategic Market Adaptation: The company should proactively explore emerging opportunities in the defense and aerospace sector, aligning with the growing Indian market and government initiatives. Maintaining adaptability to market trends and technological advancements is crucial for sustained growth, while staying informed and compliant with regulatory changes is essential, as government policies and initiatives can significantly shape the company's growth trajectory.
- Enhancing Revenue Streams: The significant uptick in revenue from operations from 2022 to 2023 indicates positive momentum. Continued efforts to expand market share, introduce new products, or enter emerging markets, coupled with the growth in diverse income sources, suggest that exploring and expanding these alternative revenue streams could contribute to future financial stability and sustained growth.
- Cost Management: Effective cost management is crucial for sustained growth. The company should focus on optimizing operational efficiency, controlling material costs, and managing overhead expenses to enhance profitability.

- Financial Strength and Liability Management: The increase in total assets, encompassing non-current assets, reflects a growing investment in the business and establishes a strong financial position. This robust financial foundation can serve as a catalyst for future expansion, acquisitions, or strategic investments. Simultaneously, effective liability management, demonstrated by a decrease in liabilities, underscores the importance of prudently managing debt levels and associated costs, thereby influencing the company's capacity to pursue and fund growth initiatives.
- Innovation and Technology: Embracing innovation and technology can be a catalyst for growth. Investments in research and development, as well as staying abreast of industry advancements, can position the company competitively.
- Customer Relationships:Building and maintaining strong relationships with OEMs and other clients is vital. Customer satisfaction and loyalty can lead to repeat business and positive referrals.
- Risk Management: Identifying and mitigating potential risks, including geopolitical factors, supply chain disruptions, or changes in market demand, is essential for sustainable growth.

RISK FACTORS

- **Dependence on offset defence contracts-**

The major factor related to the defence industry wherein the offset has to be set and investments are needed to be done in terms of bringing in economic prosperity to the country in terms of building new plants and making newer investments thus building in new jobs in the economy. Offsets are made with the aim to bring in benefits to the countries wherein we are trying to build in the business. DCX being in the defence space, a lot many factors come into play wherein if they are trying to build in for expanding, a lot many changes could take place while transacting with the countries thus building up a lot on defence contracts.

- **Delay or disruption in the supply of raw materials**

Global supply chain can be disrupted due to many reasons such as wars, COVID 19 which may lead to a shortage of raw materials such as chips, technology which may delay the projects associated with the company thus leading to the increase in the overall cost of the projects which may lead to a significant loss in the financials for the company.

- **Dependence on the performance of the electronic subsystems**

In the 21st century, a lot many factors related to the defence industry has bee evolving with the infusion of technology, a lot many systems have changed from pneumatic to electric systems thus making the entire system work on electrical circuits and conducts. These components being prone to system errors bring a question on their reliability thus affecting the overall performance of the system involved.

- **High level of working capital requirement**

Defence companies are capital intensive due to the heavy workload in the departments of Research and development along with engineering. In addition to it, due to the multiple projects working in due to the ever growing need of new developments, it is imperative for these companies to be focused upon keeping the runway intact which might lead them to unknown fluctuations such as interest rates, currency exchange rates, and commodity prices.

- **Risk of obsolescence and costs**

It is highly possible that the companies in the defence sector have to face constant changes in military requirements thus leading to cost overruns which require a handful of skilled human capital and financial capital to keep up with the requirements otherwise it might lead to delays thus damaging the image of the company

LITIGATION AND DISPUTE MATTERS

Except as stated below there are no outstanding (i) criminal proceedings; (ii) actions by statutory or regulatory authorities; (iii) outstanding claims relating to direct and indirect taxes; and (iv) other pending litigation/arbitration proceedings as determined to be material by our Board pursuant to the materiality policy (as disclosed herein below) involving our Company, Subsidiary, Directors, or Promoters. Further there are no litigation involving our Group Companies which has a material impact on our Company. Further, except as stated in this section, there are no disciplinary actions including penalties imposed by SEBI or stock exchanges against our Promoters in the last five Financial Years including any outstanding action.

Litigation against the Company

A. Outstanding criminal proceedings

NIL

B. Actions initiated by regulatory or statutory authorities

DCX has filed a compounding application before the Regional Director (South-East Region at Hyderabad), Ministry of Corporate Affairs, Government of India ("Regional Director"), on December 25, 2021, for non-compliance of section 96 of the provisions of the Companies Act read with applicable rules. Our Company was not able to hold its annual general meeting for the financial year ended March 31, 2020, within the due date i.e., December 31, 2020. Further, the Regional Director pursuant to its order 334 dated April 11, 2022, compounded the non-compliance of section 96 of the Companies Act, 2013, read with relevant rules made thereunder and levied compounding fees of ₹ 350,000, constituting

(i) Compounding fee of ₹ 200,000 levied on the Company; (ii) compounding fee of ₹ 100,000 levied on Neal Jeremy Castleman, Non – Independent and Non – Executive Director of the Company; and (iii) compounding fee of ₹ 50,000 levied on Dr. H.S. Raghavendra Rao, Chairman and Managing Director of the Company. The Company and Directors have submitted the compounding fees with the Regional Director.

C. Outstanding material civil litigation

NIL

D. Tax litigations

Nature of cases	Number of Cases	Amount involved (in million Rs)
Company		
Direct Tax	1	1.41
Indirect Tax	NIL	NIL
Subsidiary		
Direct Tax	NIL	NIL
Indirect Tax	NIL	NIL
Directors		
Direct Tax	NIL	NIL
Indirect Tax	NIL	NIL
Promoters		
Direct Tax	NIL	NIL
Indirect Tax	NIL	NIL
Total	1	1.41

Litigation by the Company

A. Outstanding criminal proceedings
NIL

B. Outstanding material civil litigation
NIL

Litigation involving the Subsidiary

NIL

Litigation against the Subsidiary

A. Outstanding criminal proceedings

NIL

B. Actions initiated by regulatory or statutory authorities
NIL

C. Outstanding material civil litigation
NIL

Litigation by the Subsidiary

A. Outstanding criminal proceedings
NIL

B. Outstanding material civil litigation
NIL

Litigation involving the Promoters

As on the date of this Red Herring Prospectus, there are no outstanding civil, criminal or tax litigations involving our Promoters. Further, no actions have been initiated against our Promoters by any regulatory/ statutory authorities and there are no disciplinary actions including penalties imposed by the SEBI or the stock exchanges against our Promoters in the last five financial years including any outstanding action. Outstanding litigation involving our Group Companies which has a material impact on our Company As on the date of this Red Herring Prospectus, our Group Companies are not party to any pending litigation which will have a material impact on our Company.

Litigation involving the Directors

As on the date of this Red Herring Prospectus, there are no outstanding civil, criminal or tax litigations involving our Directors. Further, no actions have been initiated against our Directors by any regulatory/ statutory authorities.

CAPITAL STRUCTURE

PROMOTERS:

Name	No. of Equity Shares (Pre-Issue)	% of the per-offer paid-up Equity share capital
Promoters		
Dr. H.S. Raghavendra Rao	74,00,000	9.56
NCBG Holdings Inc.	3,43,00,000	44.32
VNG Technology Private Limited	3,43,00,000	44.23
Total	7,60,00,000	98.20

Capital Structure:

SNO	PARTICULARS	AGGREGATED VALUE AT FACE VALUE	AGGREGATED VALUE AT OFFER PRICE
A.	AUTHORIZED SHARE CAPITAL (125,000,000 Equity Shares)	25,00,00,000	-
B.	ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL BEFORE THE OFFER		
	77,400,000 Equity Shares	15,48,00,000	-
c.	PRESENT OFFER IN TERMS OF THIS PROSPECTUS		
	24,154,587* Equity Shares aggregating to 5,000.00 million	4,83,09,174	4,99,99,99,509
	Of which		
	Fresh Issue of 19,323,671 Equity Shares aggregating to 4,000.00 million	3,86,47,342	3,99,99,99,897
	Offer for Sale of 4,830,916 Equity Shares aggregating to 1,000.00 million	96,61,832	99,99,99,612
	(2) (3)		

E.	ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL AFTER THE OFFER 96,723,671 Equity Shares	19,34,47,342	-
F	SECURITIES PREMIUM ACCOUNT		
	Before the Offer	-	Nil
	After the Offer	-	3,96,13,52,555

BASIS FOR ISSUE PRICE

The Offer Price has been determined by the Company, in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares offered through the Book Building Process and on the basis of quantitative and qualitative factors as described below.

- Face Value: ₹2
- Floor price of price band: ₹197 (98.5X face value)
- Cap price of price band: ₹207 (103.5X face value)

Qualitative Factors:

1. Among the preferred Indian Offset Players for the defence and aerospace industry with global accreditations.
2. Technology enabled and scalable end-to-end capabilities.
3. Business model with visibility of cash flows and ability to mitigate operational and technology risk.
4. Strategically located in Special Aerospace Economic Zone with an advanced and modern manufacturing facility.
5. Well-positioned to capitalise on industry tailwinds.
6. Track record of consistent financial performance.
7. Experienced and qualified Promoters and senior management team supported by a committed employee base.

Quantitive Factors:

1. Basic and Diluted Earnings Per Share ("EPS"):

Fiscal / Period	Basic EPS (in ₹)	Diluted EPS (in ₹)	Weight
March 31, 2020	1.39	1.39	1
March 31, 2021	4.22	4.22	2
March 31, 2022	9.19	9.19	3
Weighted Average*	6.23	6.23	-

Fiscal / Period	Basic EPS (in ₹)	Diluted EPS (in ₹)	Weight
Three month period ended June 30, 2021^ (standalone)	0.48	0.48	-
Three month period ended June 30, 2021^ (consolidated)	0.72	0.72	-

2. Price/Earning (“P/E”) ratio in relation to Price Band of ₹ 197 to ₹ 207 per Equity Share:

Particulars	P/E @Floor Price	P/E @ Cap Price
Based on basic EPS for Fiscal 2022	21.44	22.52
Based on diluted EPS for Fiscal 2022	21.44	22.52

Industry P/E Ratios

Particulars	P/E ratio
Highest	84.69
Lowest	32.36
Industry Composite	**62.94**

3. Return on Net Worth (“RoNW”):

Fiscal/ Period ended	RONW (%)	Weight
March 31, 2020 (standalone)	56.75	1
March 31, 2021 (standalone	63.18	2
March 31, 2022 (consolidated)	55.79	3
Weighted Average*	58.41	

Fiscal/ Period ended	RONW (%)	Weight
Three months period ended June 30, 2021^ (standalone)	6.68	-
Three months period ended June 30, 2022^ (consolidated)	4.52	-

4. Net Asset Value ("NAV") per share:

Fiscal/ Period ended	NAV (₹)
As on March 31, 2022 (consolidated)	15.19
As on June 30, 2022 (consolidated)	15.92
After the completion of the Offer	54.09
Offer Price	207

Comparison of Accounting Ratios with Listed Industry Peers:

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 Asset Value/ Share as at March 31, 2022 (₹)
					Basic	Diluted		
DCX Systems Ltd.	Consolidated	11243.34	2.00	N.A.	9.19	9.19	55.8%	15.19
				Peer Group				
Bharat Electronics	"Consolidated	1,55,997.20	1.00	32.36	3.28	3.28	19.5%	16.83
Data Patterns	"Consolidated	3,148.10	2.00	61.56	19.48	19.48	16.4%	110.72
Paras Defence	"Consolidated	1,855.34	10.00	84.69	7.78	7.78	7.2%	97.06

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 Asset Value/ Share as at March 31, 2022 (₹)
Astra Microwave and products	"Consolidated	7,568.41	2.00	73.15	4.37	4.37	6.5%	67.61
Centum Electronics	"Consolidated	7,879.64	10.00	n.m.	(23.70)	(23.70)	(26.9%)	154.07

5. The Offer price is 103.5 times of the face value of the Equity Shares:

The Offer Price of ₹ 207 has been determined by the Company in consultation with the BRLMs, on the basis of market demand from investors for Equity Shares through the Book Building Process and is justified in view of the above qualitative and quantitative parameters.

OBJECTS OF THE ISSUE

Utilisation of Funds

The company intends to use the Net Proceeds from the Fresh Issue for the following purposes:

1. Repaying or prepaying certain borrowings obtained by the company, either in full or in part.
2. Meeting the working capital requirements of the company.
3. Investing in their wholly owned Subsidiary, Renal Advanced Systems Private Limited, to cover its capital expenditure expenses.
4. Addressing general corporate needs, collectively referred to as the "Objects."

Furthermore, the company anticipates various benefits, including the listing of Equity Shares on Stock Exchanges, improved visibility and brand image for the company, and the establishment of a public market for Equity Shares in India.

The main objects clause and the objectives incidental and ancillary to the main objects, as outlined in the Memorandum of Association, empower the company to engage in its current activities and those proposed to be funded by the Net Proceeds. Similarly, the main objects clause and the objectives incidental and ancillary to the main objects, as specified in the memorandum of association of thier Subsidiary, enable the Subsidiary to undertake the activities proposed to be funded by the Net Proceeds.

Means of finance :

Fund requirements for the Objects are proposed to be met from the Net Proceeds and the internal accruals. Accordingly, it is confirmed that there is no requirement to make firm arrangements of finance through verifiable means towards at least 75% of the stated means of finance, excluding the amount to be raised through the Fresh 99 Issue or through existing identifiable internal accruals as required under Regulation 7(1)(e) the SEBI ICDR Regulations.

Proposed schedule of implementation and deployment of Net Proceeds:

1. **Repayment/ prepayment, in full or part, of certain borrowings availed of by the company**

The company intends to utilize ₹1,100 million for the prepayment or repayment of all or a portion of their certain outstanding borrowings. They have entered into various financial arrangements with banks, financial institutions, and other entities over time. The outstanding loan facilities entered into by their company include borrowing in the form of term loans and working capital facilities, with a total fund-based outstanding borrowing of ₹4,838.09 million as of August 31, 2022. An estimated amount of ₹1,100.00 million from the Net Proceeds is proposed to be utilized for the part or full repayment and/or pre-payment of certain borrowings, including accrued interest.

Their company may be subject to prepayment penalties or premiums depending on the facility being repaid/prepaid and the conditions specified in the relevant documents. The payment of such penalties or premiums, if any, will be made from the Net Proceeds. If the Net Proceeds are insufficient, any excess amount required for such payments will be covered from their internal accruals.

Considering the nature of these borrowings and the terms of repayment or prepayment, the aggregate outstanding amounts may vary, and their company may repay or refinance existing borrowings prior to Allotment. They may also avail further loans after the Red Herring Prospectus's date, utilizing the Net Proceeds for part prepayment of refinanced facilities or repayment of additional facilities. However, the total amount to be utilized from the Net Proceeds towards repayment and/or prepayment of certain borrowings, including refinanced or additional facilities, will not exceed ₹1,100.00 million.

The repayment and/or pre-payment are expected to reduce their outstanding indebtedness, lower debt servicing costs, improve the debt-to-equity ratio, and enable the use of accruals for further business growth and expansion. Additionally, they believe that reducing leverage will enhance their ability to raise resources for potential business development opportunities and future growth plans.

The amounts under the borrowing facilities may be dependent on various factors and may include intermediate repayments and drawdowns. Accordingly, it may be possible that the amount outstanding under the borrowing facilities may vary from time to time. They may, from time to time, repay, refinance, enter into further financing arrangements, or draw down funds from any such existing borrowing facilities. In such an event, the company may utilize the Net Proceeds towards repayment/prepayment of any existing or additional indebtedness, which will be selected based on various commercial considerations, including, among others, the interest on the borrowing facility, the amount of the borrowing outstanding, and the remaining tenor of the borrowing, any conditions attached to the borrowings restricting the ability to pre-pay/repay the borrowings, receipt of consents for prepayment from the respective lenders, terms and conditions of consents and waivers, presence of onerous terms and conditions under the facility, other commercial considerations, and applicable law governing such borrowings.

2. Funding working capital requirements of our Company:

Their company proposes to utilize ₹1,600.00 million from the Net Proceeds to fund their working capital requirements in Fiscal 2023. They have significant working capital requirements, which are ordinarily funded through their internal accruals/equity and financing facilities from various banks, financial institutions, and non-banking financial companies. Additional working capital is needed to support the future growth requirements of their company. The working capital will be utilized for expenses related to their business of system integration, cable and wire harness assemblies, kitting, and other related business expenses.

Basis of estimation of working capital requirement

The details of Company's projected working capital requirements on a standalone basis for the Financial Years 2023 and 2024, and the proposed funding of such working capital requirements are set forth in the table below:

SR No	Particulars	Estimated as at (Rs million)	
		Mar 31, 23	Mar 31, 24
(A)	**Current Assets**		
	Inventories	749.41	808.57
	Trade receivables	1558.33	1741.67
	Advance to supplier	2757.27	2974.97
	Cash and Bank balances	7317.18	7776.45
	Other financial and current assets	28.71	28.51
	Total current assets	**12410.70**	**13330.14**
(B)	**Current Liabilities**		
	Advance from customer	4847.31	5347.31
	Trade payables	1039.36	1064.18

SR No	Particulars	Estimated as at (Rs million)	
	Other financial and current liabilities	279.24	322.87
	Total current liabilities	**6165.91**	**6734.36**
	Net working capital requirements (A-B)	6244.79	6595.78
(C)	**Funding pattern**		
	Borrowings from banks	3331.80	2731.80
	Internal accounts	1312.99	3863.98
	Proceeds from the offer	1600.00	0
	Total means of finance	**6244.79**	**6595.78**

Key assumptions for the working capital requirements

S.NO	Particulars	Assumptions
	Current Assets	
1	Inventories	With the scale up in the production based contracts in order book and revenue, the inventory holding period /levels will be maintained between 17 to 18 days which should be in line with the projected business activity for the Fiscals 2023 ad 2024
2	Trade receivables	Trade receivable levels is expected to be maintained at 33 days which should be in line with the projected turnover and credit terms with the customers for the Fiscals 2023 and 2024
3	Advance to suppliers	Advance to supplier will be maintained between 63 to 65 days which should be in line with the projected turnover activity and credit terms agreed with the suppliers for the Fiscals 2023 and 2024
4	Other financial and current assets	This primarily comprises of prepaid expenses, balances with statutory authorities, interest accrued but not due etc. Other financial and current assets have been maintained in line with the projected business activity for the Fiscals 2023 and 2024
	Current Liabilities	
1	Trade Payables	Trade payable levels will be maintained between 23 to 24 days which should be in line with the projected business activity and credit terms agreed with the suppliers for the Fiscals 2023 and 2024

S.NO	Particulars	Assumptions
2	Advances from Customers	As the company's order book expands, the customer advances is expected to be maintained between 101 to 103 days which should be in line with the projected business activity and agreed terms of payment with the customers for the Fiscals 2023 and 2024
3	Other financial and current liabilities	This primarily comprises of statutory payments dues, provision for income tax, payable to employees, short term provisions etc. Other financial and current liabilities have been maintained in line with the projected business activity for the Fiscals 2023 and 2024

3. Investment in their wholly owned Subsidiary, Raneal Advanced Systems Private Limited, to fund its capital expenditure expenses.

The company intends to allocate ₹448.83 million to finance the capital expenditure of its wholly-owned subsidiary, Raneal Advanced Systems Private Limited ("RASPL"). RASPL is dedicated to establishing a manufacturing facility for Electronic Manufacturing Services (EMS) at plot no 177 and 178 in SEZ Aerospace Park, Devanahalli, Bengaluru. Over the years, the company has honed operational efficiencies, focusing on economies of scale and refining the supply chain for specialized raw materials. To further enhance efficiency, they plan to implement measures such as in-house EMS and Maintenance, Repair, and Operations (MRO) activities.

The company's existing presence in the system integration business is expected to mitigate marketing risks for this new vertical and improve backward and vertical integration within their business lines. The funding for RASPL's capital expenditure aims to establish an electronic manufacturing/printed circuit board assembly facility, mitigating supply chain risks, meeting customer requirements on time, and enhancing consolidated profitability.

RASPL's EMS Facility is poised to handle the design, development, manufacturing, qualification, and life cycle support of high-reliability electronic and electro-mechanical systems used in Aerospace and Defence, Medical Electronics, and Industrial Electronics applications.

The estimated cost for establishing the EMS Facility is ₹448.83 million (excluding pre-operatives and contingency), as verified by RBSA Valuation Advisors LLP, an independent advisory firm, in a techno-economic viability report dated March 23, 2022, along with an addendum dated September 20, 2022. The funding will take the form of equity investments, in compliance with applicable laws. As of the date of the Red Herring Prospectus, neither the company nor RASPL has deployed any funds for the EMS Facility.

The entire cost of EMS Facility is proposed to be funded from the Net Proceeds. The breakdown of the cost is as below:

S.No.	Expense category	Estimated cost (Rs million)
1	Land	30
2	Building and infrastructure	125.10
3	Machineries and Equipment	280.10
4	IT Infrastructure	13.63
	Total	**448.83**

Land:

RASPL intends to use ₹30.00 million from the allocated investment by their company to acquire the necessary land for establishing the EMS Facility. The identified plot of land (plot no 177 and 178) in SEZ Aerospace Park, Devanahalli, Bengaluru, covers one acre. RASPL will follow the required procedures to lease the property in accordance with applicable laws.

Building and Infrastructure:

RASPL plans to allocate ₹125.10 million from the provided investment for various aspects, including civil works, raw material costs, and installations for water and electricity supply. The electricity supply installation covers expenses related to obtaining connections from local power distribution companies, diesel generators, water supply installation, fire safety installations, and life safety measures mandated by government norms and safety regulations. As of the date of this Red Herring Prospectus, neither their company nor RASPL has placed orders for building and infrastructure. Additionally, no second-hand or used equipment is proposed to be purchased using the Net Proceeds.

Machinery and Equipment:

RASPL intends to use ₹30.00 million of the allocated investment for acquiring land for establishing the EMS Facility. The identified land (plot no 177 and 178) in SEZ Aerospace Park, Devanahalli, Bengaluru, spans one acre. RASPL will follow the required procedures to lease the property in accordance with applicable laws. RASPL plans to allocate ₹125.10 million for various aspects, including civil works, raw material costs, and installations for water and electricity supply. The electricity supply installation covers expenses related to obtaining connections from local power distribution companies, diesel generators, water supply installation, fire safety installations, and life safety measures mandated by government norms and safety regulations. As of the date of this Red Herring Prospectus, neither their company nor RASPL has placed orders for building and infrastructure.

IT Infrastructure:

RASPL aims to use ₹13.63 million from the proposed investment by their company for IT infrastructure at the EMS Facility. This expense includes the costs of purchasing and installing information technology equipment such as servers, desktops, laptops, printers, CCTV, and acquiring software licenses.

General Corporate Purposes:

Their company plans to deploy the remaining Net Proceeds, amounting to ₹ [●] million, for general corporate purposes, ensuring it does not exceed 25% of the Gross Proceeds in compliance with the SEBI ICDR Regulations. The intended general corporate purposes include meeting ongoing corporate needs or contingencies, strengthening marketing capabilities, conducting brand-building exercises, enhancing technology-related infrastructure, undertaking strategic initiatives, and addressing any shortfall in the mentioned objectives.

Interim Use of Net Proceeds

The Net Proceeds, pending utilization for the purposes stated in this section, will be deposited only with scheduled commercial banks included in the Second Schedule of the Reserve Bank of India Act, 1934, as amended. In accordance with Section 27 of the Companies Act, Their company confirms that they shall not use the Net Proceeds for buying, trading, or otherwise dealing in equity shares of any other listed company or for any investment in the equity markets.

Bridge Financing Facilities

The company has not raised any bridge loans from any bank or financial institution as of the date of this Red Herring Prospectus, and such loans are not proposed to be repaid from the Net Proceeds.

Offer Expenses

The total Offer-related expenses are estimated to be approximately ₹ [●] million. The Offer-related expenses primarily include fees payable to the BRLMs and legal counsels, fees payable to the Auditors, brokerage and selling commission, underwriting commission, commission payable to Registered Brokers, RTAs, CDPs, SCSBs' fees, Sponsor Banks' fees, Registrar's fees, printing and stationery expenses, advertising and marketing expenses, and all other incidental and miscellaneous expenses for listing the Equity Shares on the Stock Exchanges.

Monitoring Utilization of Funds:

In adherence to Regulation 41 of the SEBI ICDR Regulations, the company has designated CARE Ratings Limited as the monitoring agency responsible for overseeing the utilization of Net Proceeds, particularly as the proposed Fresh Issue exceeds ₹1,000.00 million. The company will disclose the utilization of Net Proceeds, including interim use, as a separate entry in its balance sheet for the relevant fiscal periods, as mandated by applicable law. The disclosure will specify the purposes for which the Net Proceeds have been utilized. Additionally, the company will provide details, if any, regarding currently unutilized Net Proceeds in its balance sheet for the applicable fiscal periods.

Pursuant to Regulation 32(3) of the SEBI Listing Regulations, the company will quarterly disclose to the Audit Committee the uses and applications of the Net Proceeds. Annually, a statement detailing funds utilized for purposes other than those stated in this Red Herring Prospectus will be prepared and presented to the Audit Committee, with necessary disclosures continuing until the Net Proceeds are fully utilized.

Variation in Objects:

The company commits not to vary the Objects of the Offer without shareholder authorization through a special resolution, as per Sections 13(8) and 27 of the Companies Act and applicable rules. The Shareholders' Meeting Notice for such special resolution will specify the prescribed details and provide Shareholders with the option to vote electronically, in accordance with the Companies Act, 2013.

Appraising Agency:

None of the Objects for which the Net Proceeds will be utilized have undergone appraisal by any agency. However, the company has relied on the techno-economic viability report dated March 23, 2022, issued by RBSA Valuation Advisors LLP, an independent advisory firm, along with the addendum to the techno-economic viability report dated September 20, 2022, for establishing the proposed facility for Electronics Manufacturing Services (PCB Assembly) by RASPL.

Other Confirmations:

Apart from the Offer for Sale component, none of the company's Directors, Promoters, members of the Promoter Group, or Key Managerial Personnel will receive any portion of the Offer Proceeds. There are no material existing or anticipated transactions related to the utilization of the Net Proceeds involving the company, its Promoters, members of the Promoter Group, Directors, and/or Key Managerial Personnel, and Group Companies.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND OPERATIONS

The company stands as a prominent player in the Indian defense and aerospace sector, specializing in the production of electronic sub-systems and cable harnesses. According to a report commissioned by the company, it holds a leading position in manufacturing capability and revenue for Fiscal 2022. Established in 2011, the company is primarily involved in system integration, manufacturing a diverse range of cables, wire harness assemblies, and kitting.

The company has been designated as a preferred Indian Offset Partner ("IOP") for foreign original equipment manufacturers ("OEMs") engaged in aerospace and defense manufacturing projects. Notably, it has experienced rapid growth in the Indian defense space, with a revenue increase at a Compound Annual Growth Rate (CAGR) of 56.64% between Fiscal 2020 and Fiscal 2022.

The company serves as a significant IOP for ELTA Systems Limited and Israel Aerospace Industries Limited, System Missiles and Space Division (IAI Group), Israel. Over the years, it has expanded its manufacturing capabilities and augmented its order book. The expanding Indian defense and aerospace landscape presents a strategic opportunity for the company, especially with the sector expected to reach a value of USD 70 billion by 2030.

Recent initiatives, such as the increase in foreign direct investment ("FDI") in the Indian defense sector and indigenous development projects by the Defence Research and Development Organization, are anticipated to drive market growth. Government measures, including the ban on certain defense imports and the introduction of indigenization lists, aim to boost domestic manufacturing.

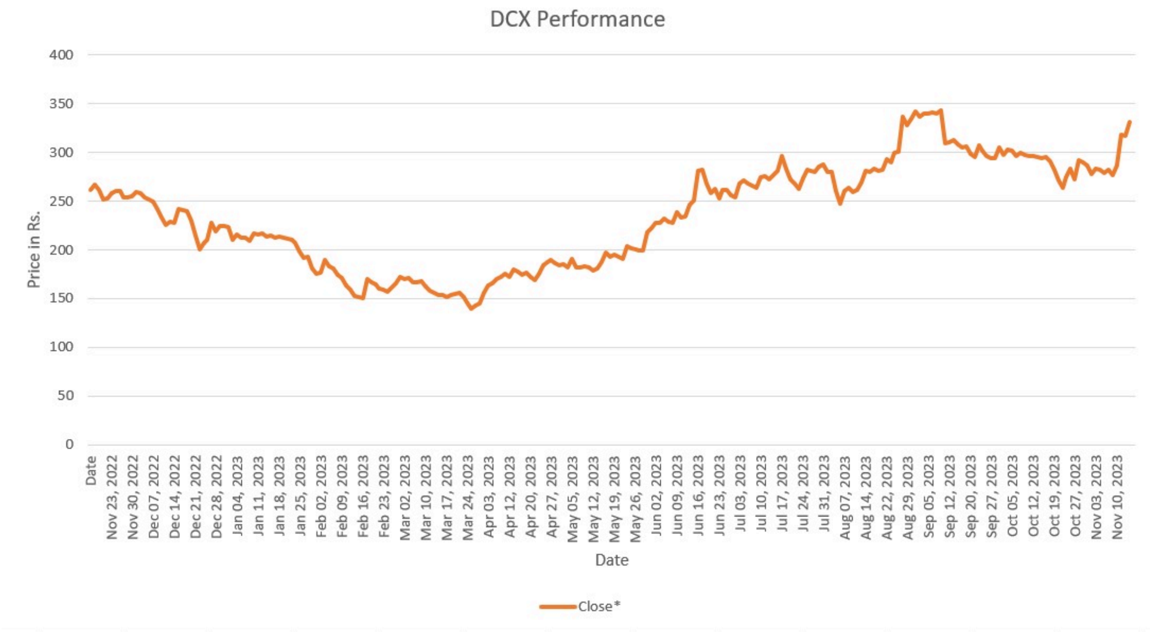
The establishment of defense industry corridors in Uttar Pradesh and Tamil Nadu is expected to further enhance market growth dynamics by providing additional opportunities for the private sector. The company, having positioned itself to capitalize on this anticipated growth, believes its competitive advantages lie in operational efficiency, timely delivery, quality control, and product security.

The company's proficiency in operations has fostered long-term relationships with OEM customers, contributing to the growth of its operations and a substantial order book. Due to the nature of its industry, characterized by projects with long lead times, the company enjoys high visibility and predictability of revenues. The order book has witnessed a notable increase from ₹19,413.11 million as of March 31, 2020, to ₹23,690.04 million as of March 31, 2022, and further to ₹25,636.34 million as of June 30, 2022, slated for execution in Fiscal 2023 to Fiscal 2025.

POST LISTING PERFORMANCE

DCX Systems has been on the positive side in terms of its performance since its IPO. It has gained a very positive sentiment in the market from its initial offering price.

Listed Exchange : National Stock Exchange
Ticker Symbol : DCX India
IPO Price : Rs 197 to 207



DCX Stock Performance

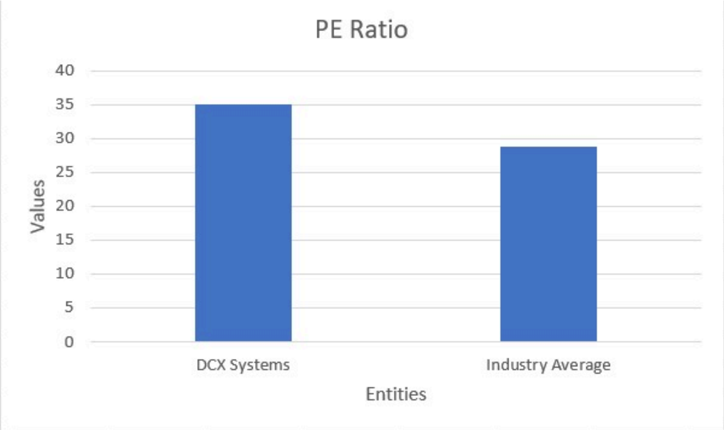
The overall trend has been positive for DCX where many IPOs of 2022 have faced in returns of the DCX Systems stock. From a record low of Rs 264 it has now risen to Rs 330 thus boosting investor confidence in the company.

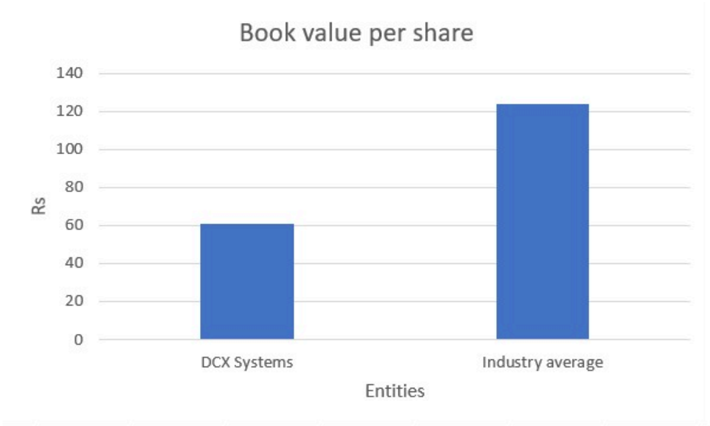
The total price change over the different time period of the stock is as follows -

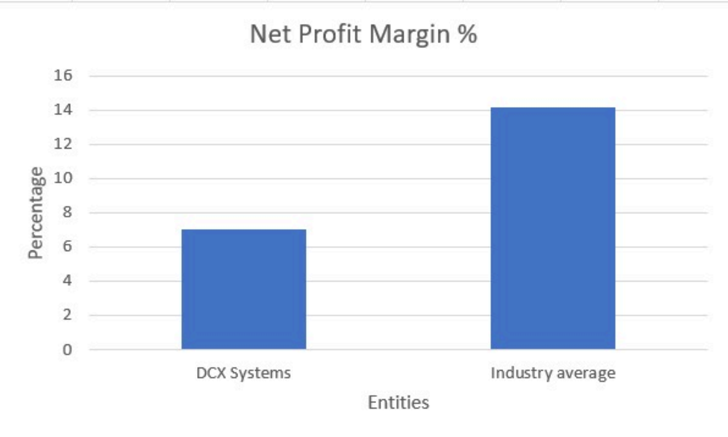
Listing Day **30.33%**	**1 Month** **12.35%**
3 Months **18.06%**	**1 Year** **26.72%**

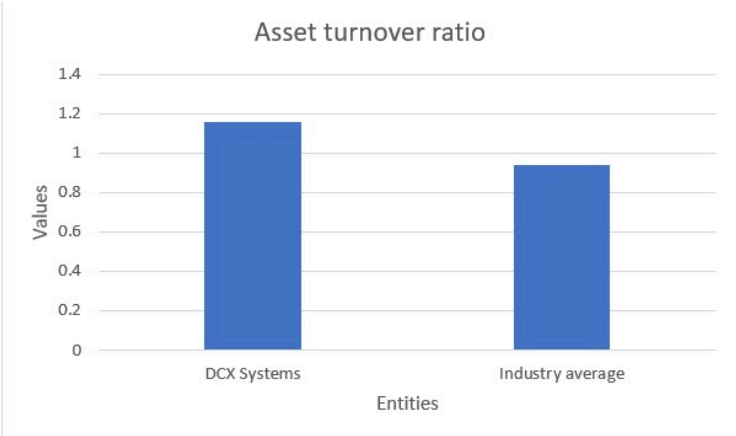
Some important key financial ratios and the overall industry average comparison is as follows -

The industry in which DCX systems lies is a combination of defence and electrical systems









Highlights -

- The post listing performance has been great in terms of P/E ratio, wherein the industry Price earning ratio of the company has been better than the Industry average by quite a margin displaying that the company has been on a positive track in terms of its business.
- BVPS of DCX systems is quite significantly less thus signalling that the stock is currently undervalued and has a greater potential than what is being traded on.
- The Net profit margin is lower than the Industry average but since it is currently in the process of building and restructuring its services, it is deemed okay to have a lower net profit margin than its peers.
- The Asset turnover ratio of DCX System has been on the higher side, significantly better than its peers which is a positive note wherein the company is being able to utilise its assets in a more conventional way than its peers.

Statistical analysis on the data -

The POST IPO performance has been displayed in this section using some statistical techniques -

The monthly closing data of DCX Systems in Rs is as follows -

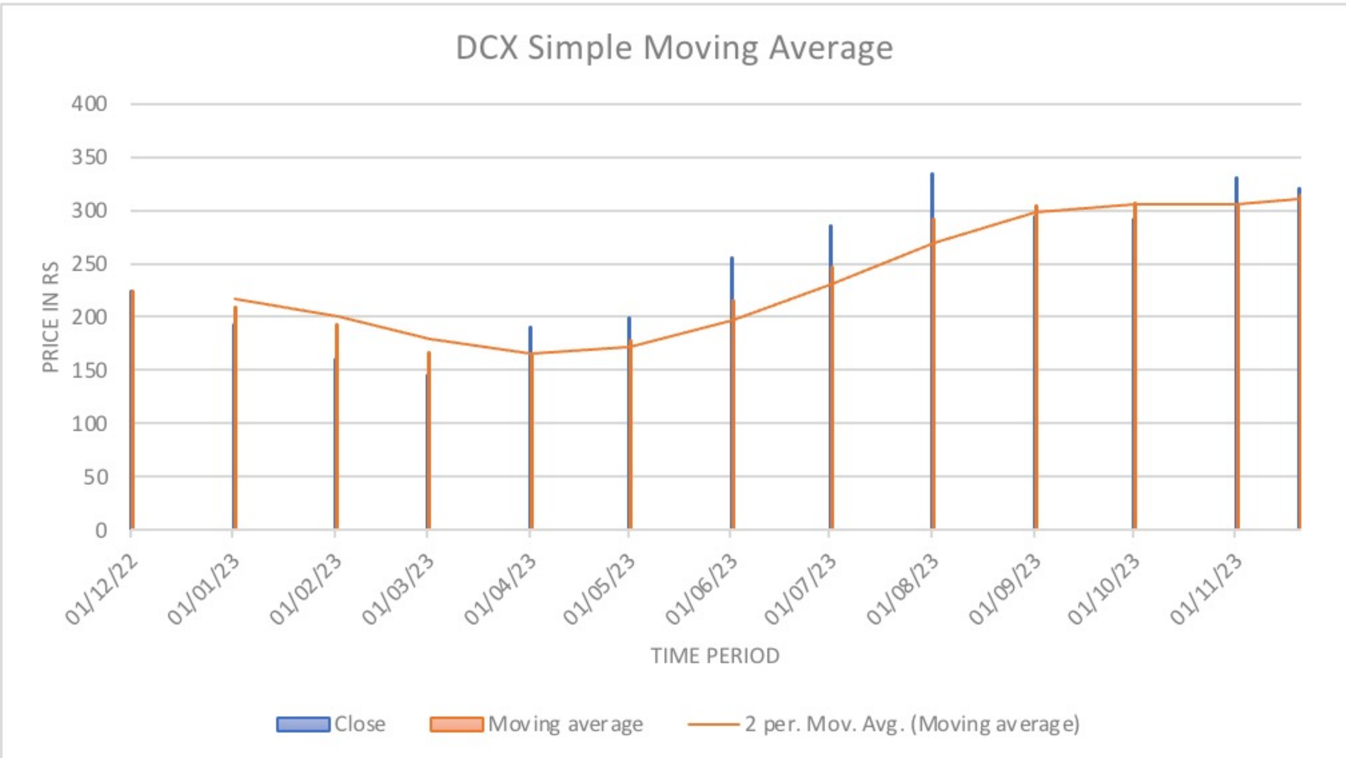
Month	Close
Dec 22	224.65
Jan 23	192.9
Feb 23	161.2
Mar 23	145.45
Apr 23	190.16
May 23	199.95
Jun 23	255.65
Jul 23	334.4
Aug 23	294
Sep 23	292.1
Oct 23	330.8
Nov 23	321.25

On this data, the summary statistics derived is as follows -

Close	Values
Mean	248.33
Standard Error	18.349
Median	255.64
Standard Dev	66.15
Sample Variance	4377.02
Kutosis	-1.51
Skewness	-0.133
Range	188.94
Minimum	145.44
Maximum	334.39
Sum	3228.349

The Simple Moving Average is applied on the data and the following results are obtained -

Month	Close	Moving Average
Dec 22	224.65	224.65
Jan 23	192.9	208.77499
Feb 23	161.2	192.9166617
Mar 23	145.45	166.5166627
Apr 23	190.16	165.599996
May 23	199.95	178.5166627
Jun 23	255.65	215.249995
Jul 23	334.4	247.1499999
Aug 23	294	247.149999
Sep 23	292.1	291.96666647
Oct 23	330.8	306.8333333
Nov 23	321.25	305.6333313



The DCX Simple moving average is an indicator of its positive performance post its IPO through the trend line as observed on the month-by-month closing price data which does give out a positive performance as the indicator of the listing of DCX to the investors.

CONCLUSION

This report gives out an overall analysis of the IPO of the company DCX Systems limited in terms of the need of the IPO, Company fundamentals, the process of the IPO and the post performance after the listing on the stock exchange. The fundamental theoretical concepts of Investment Banking subject are applied and its is concluded that DCX System has provided better returns and is one of the IPOs with a positive performance in 2022.