

DCX SYSTEMS LTD.

RECOMMENDATION : BUY

MARKET PRICE : Rs.276.35 (As on 14th July 2023)

TARGET PRICE : Rs.346.00

FACE VALUE : Rs.2

BSE CODE : 543650

NSE CODE : DCXINDIA





DCX
DCX Systems Limited

DCX Systems Ltd. is one of the Fastest Growing Company in India for System Integration and Cable & Wire Harnessing. The Company has a unique business model providing end-to-end solutions of cable & wire harnesses, electronic sub-systems, high-end System Integration and PCB Assembly for Defence & Aerospace Industry. The Company has core competency in electronics manufacturing with focus on backward integration in PCBA's through 100% subsidiary, Raneal Advanced Systems – both for captive consumption and other markets.

The Key Clientele of the Company includes renowned names such as: Bharat Electronics, Astra Microwave Products Ltd., Kalyani, Rafael, IAI ELTA, IAI, Alpha-Elsec, Astra Rafael Comsys Pvt. Ltd. and more.

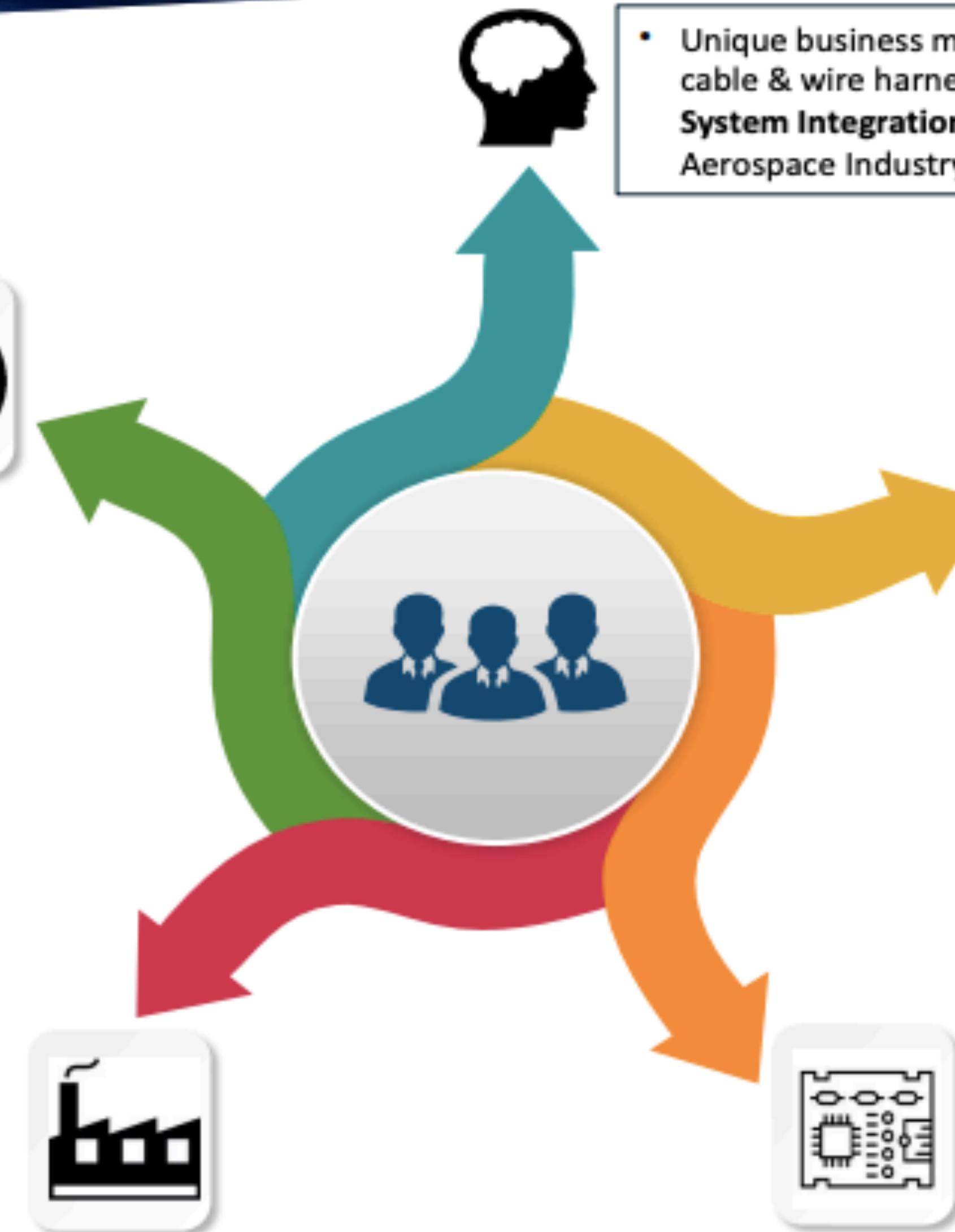
DCX Systems Ltd. has strategically located Manufacturing facility in SEZ in Bengaluru, spread over 30,000 sq. ft. and a new 40,000 sq. ft. facility in Bengaluru dedicated for EMS manufacturing. DCX is a preferred and largest Indian Offset Partner to leading Israeli Defence Company, IAI, for its offset obligations. It is leveraging to expand into other geographies for both IOP and non-IOP projects. The Company has diverse mix of domestic and international customers across Israel, US, Korea and India.

ABOUT THE COMPANY

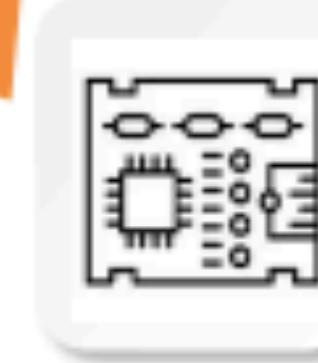
About Us



- Diverse mix of domestic and international customers across Israel, US, Korea and India



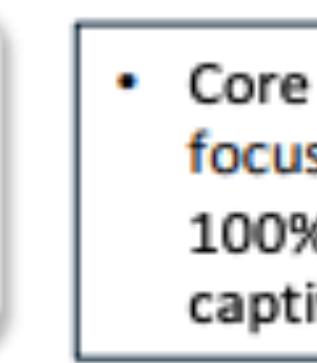
- Strategically located **Manufacturing facility** in SEZ in Bengaluru, spread over 30,000 sq. ft.
- New 40,000 sq. ft. facility in Bengaluru dedicated for **EMS** manufacturing



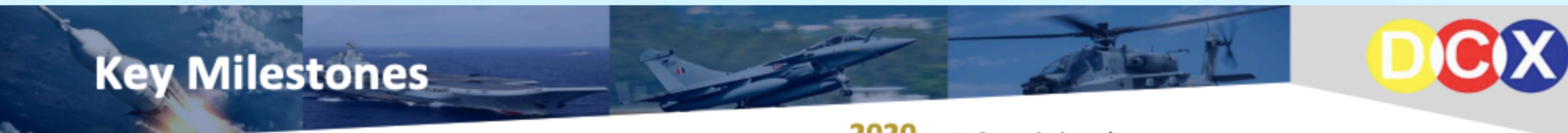
- Unique business model providing **end-to-end solutions** of cable & wire harnesses, electronic sub-systems, high-end **System Integration** and PCB Assembly for Defence & Aerospace Industry



- DCX is a preferred and largest Indian Offset Partner to leading Israeli Defence Company, IAI, for its offset obligations.
- Leveraging to expand into other geographies for both **IOP** and **non-IOP** projects

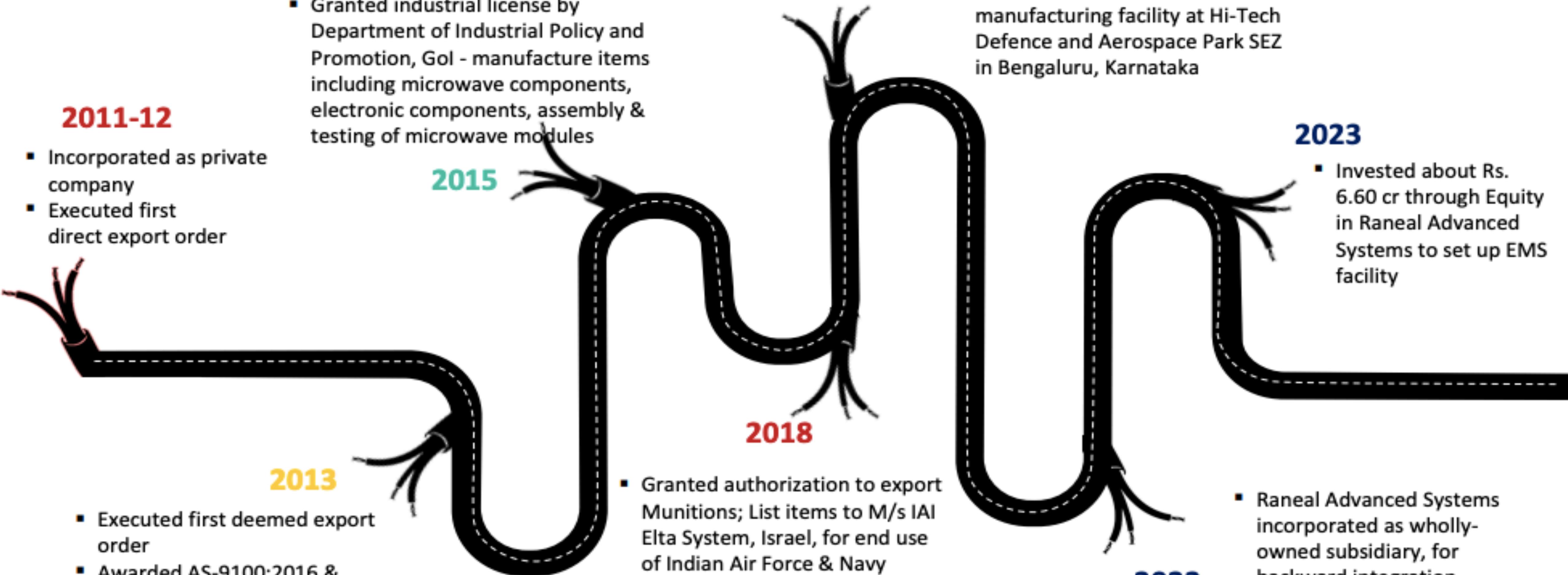


Key Milestones



2011-12

- Incorporated as private company
- Executed first direct export order



2013

- Executed first deemed export order
- Awarded AS-9100:2016 & ISO 9001:2015 certification by DQS Inc.

2015

- Granted industrial license by Department of Industrial Policy and Promotion, GoI - manufacture items including microwave components, electronic components, assembly & testing of microwave modules

2020

- Commissioned new manufacturing facility at Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka

2018

- Granted authorization to export Munitions; List items to M/s IAI Elta System, Israel, for end use of Indian Air Force & Navy
- Signed lease deed for 6,070 sq. m. of land in Aerospace SEZ Sector, Hitech, Defence & Aerospace Park

2023

- Invested about Rs. 6.60 cr through Equity in Raneal Advanced Systems to set up EMS facility

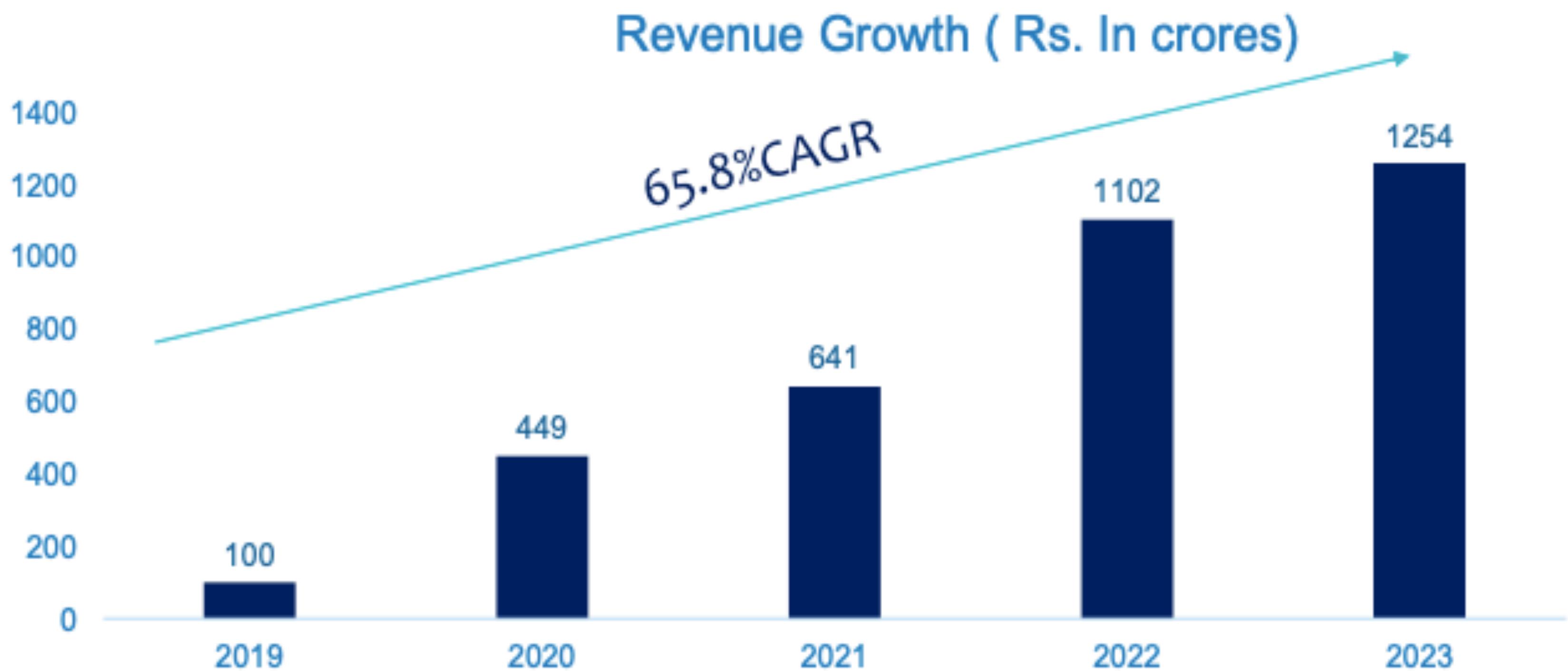
2022

- Raneal Advanced Systems incorporated as wholly-owned subsidiary, for backward integration catering to EMS
- Listed on BSE & NSE raising Rs. 400 cr through IPO

Consistent Growth



Consistent growth in top line driven by competent & experienced leadership with focused vision and robust execution capabilities



- Healthy **CAGR of 65.8%** on revenue growth over the last 5 years
- Order book as of March 31, 2023 is Rs. 1,699 crores.

Unique Business Model



Offset / Non-Offset

- Strong relationship with Israeli Defence Companies, built over a Decade
- IOP / Non-IOP partner for Israel / US OEMs to supply wide range of products for Aerospace & Defence



Strong Global Procurement

- Diversified procurement network for better cost efficiencies
- Better supply chain management supported by captive sources



Strong Manufacturing Expertise

- End-to-end integrated solutions
- Catering to various globally acclaimed defence & aerospace companies

End-to-End Integrated Solutions Provider

Build to Print Box Model

- Domain expertise in developing & manufacturing aerospace & defence electronics products on Build to Print Model



Asset Light Model

- Equipment for testing etc. supplied by OEMs, thus facilitating asset light business, despite capital intensive product portfolio

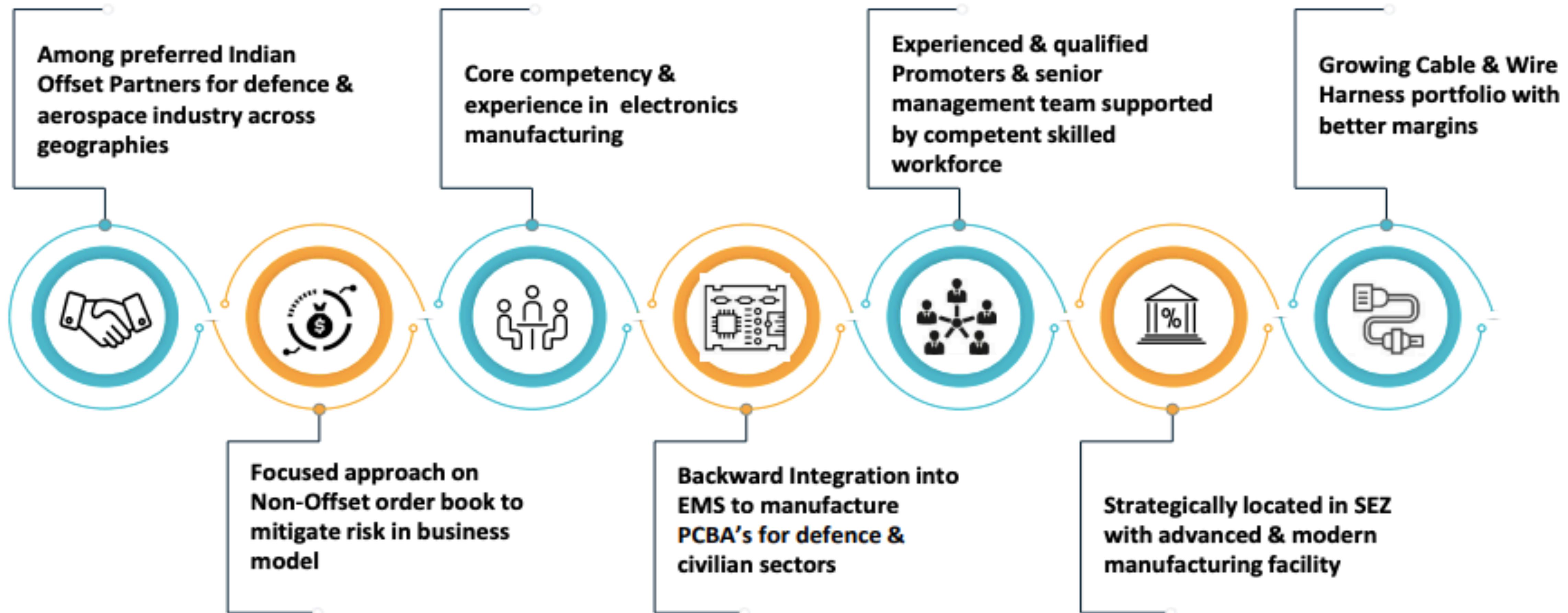


Shift to Product Company

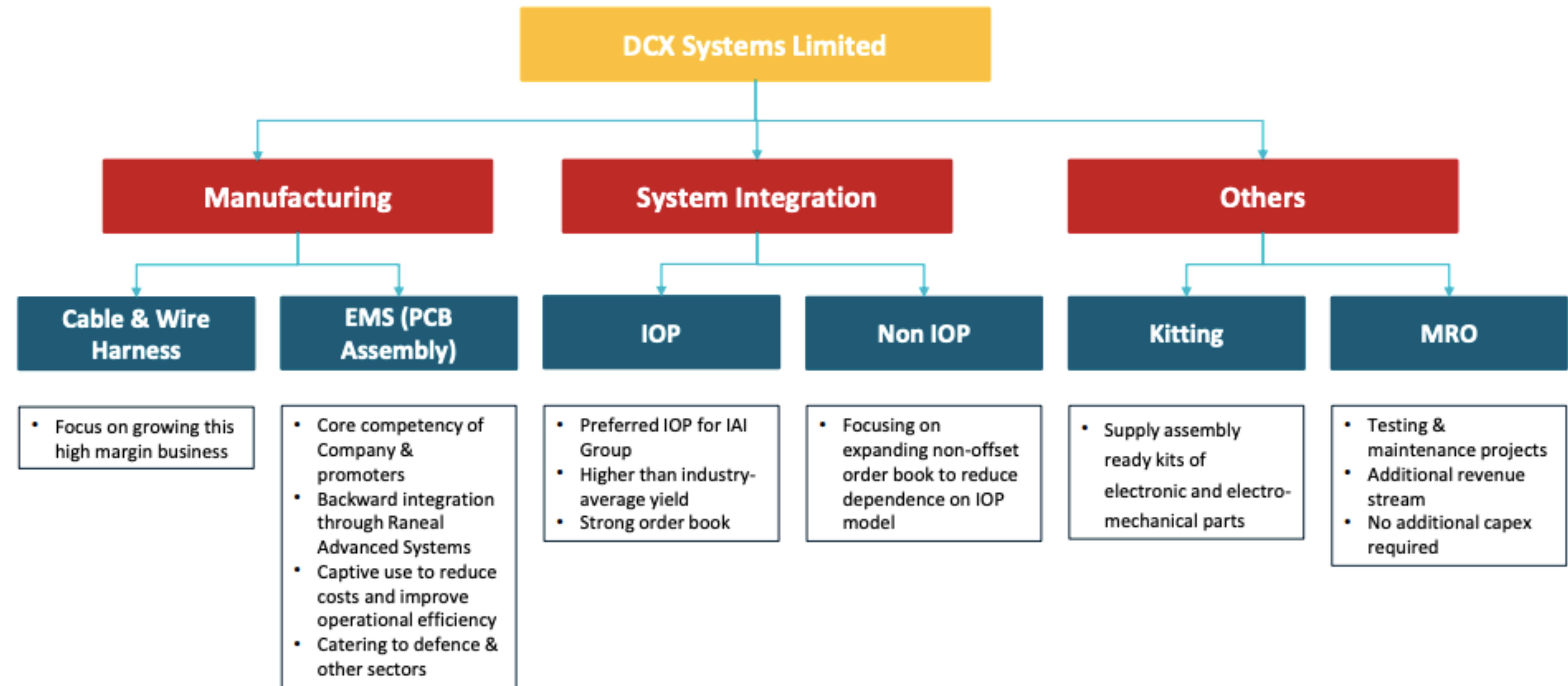
- Focus on transfer of technology from OEM and Make-in-India Product
- Cater to diverse end applications – defence, medical & other civilian sectors



Key Strengths



Business Structure/Model



Among Preferred IOPs with Global Accreditations



- Among largest IOPs for IAI Group, Israel, for Indian defence market
- Undertake “Build-to-Print” system integration and manufacture cable and wire harness assemblies

Key Certifications



AS-9100:2016 certification for quality management systems for aviation, space and defense products manufacturing



Defence Industrial License from Ministry of Commerce and Industry for manufacture of defence subsystems that includes microwave components, modules for radar and electronic warfare subsystems, microwave sub-modules, for command and guidance units for missile subsystems only

Electronic Assemblies

Automatic missile detection radars

HERON unmanned aerial vehicle systems

DCX has submitted acceptance to act as
IOP for Upcoming Offset Projects

Barak Systems

Medium range maritime reconnaissance
aircraft

Short range surface
to air missile

Manufacturing

Cables & Wire Harness

- Expertise in complete design & development of complex cables & wire harness
- Caters to electronic warfare and communication systems
- Established portfolio of products covering comprehensive array of cables & wire harnesses assemblies such as radio frequency cables, co-axial, mixed signal, power, & data cables
- Focus on expanding this high-margin business
- Exploring inorganic growth opportunities



Backward integration into EMS

- Horizontal integration with new verticals like Printed Circuit Board Assembly for aerospace & defence
- Investing in Raneal Advanced Systems – mostly from internal accruals & bank loans – to manufacture PCBAs
- PCBAs for captive consumption and other markets
- **Benefits:**
 - Cost control
 - Optimal utilization of working capital
 - Improved margins
 - Better control over supply chain management
- **Potential Opportunities**
 - Defence applications
 - Civilian applications - medical devices, electronics etc.



Raneal Advanced Systems



Raneal Advanced Systems
(100% Subsidiary of DCX)



**Setting up EMS/PCBA
Manufacturing unit**

For Manufacturing,
Qualification & Life cycle
support of high reliability
electronic assemblies



Used in Defence,
Aerospace, Industrial
Electronics Applications,
Medical Electronics



Leading to Better cost
control,
Supply chain
rationalization &
resource planning,
Improved top line and
profitability

Invested about Rs. 6.60 crores through Equity

System Integration

- System integration (SI) services are part of comprehensive array of electronics and electro-mechanical and enclosure assembly
- Services include in-house testing, including vibration & environmental stress testing of complex radio frequency products to ensure high quality final products
- Primarily used in radar, communication, surveillance & missile systems



- Preferred **IOP partner** for foreign OEMs for Classified products
- Focus on penetration into new geographies
- Better Yield compared to the average yield in the industry
- Uncompromised/International quality standards, execution capability, cost competitiveness, high ethical foundation – leading to higher number of **non-IOP projects**
- Share of non-Offset projects growing from ~15% to ~40% – thereby mitigating risk from high dependence on offset projects and with better margins

Others



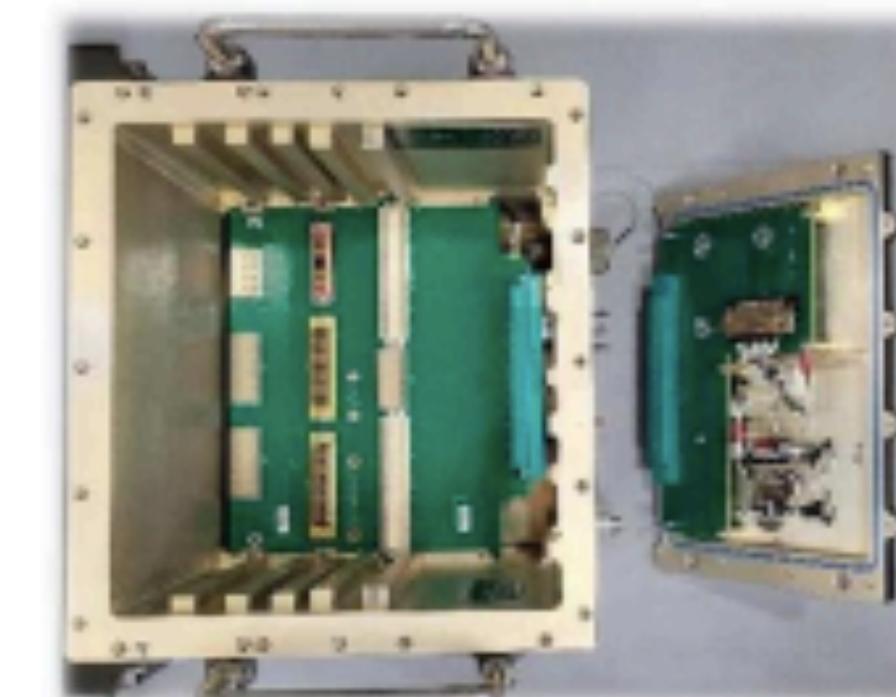
Kitting

- Supply assembly ready kits of electronic and electro-mechanical parts



MRO

- Sizeable opportunity in Maintenance, Repair & Overhaul
- DCX would be in better position to offer MRO services as it has in-house testing machinery provided by OEMs
- Additional stream of revenue with better margins
- No additional capex involved



Reputed clientele supporting DCX



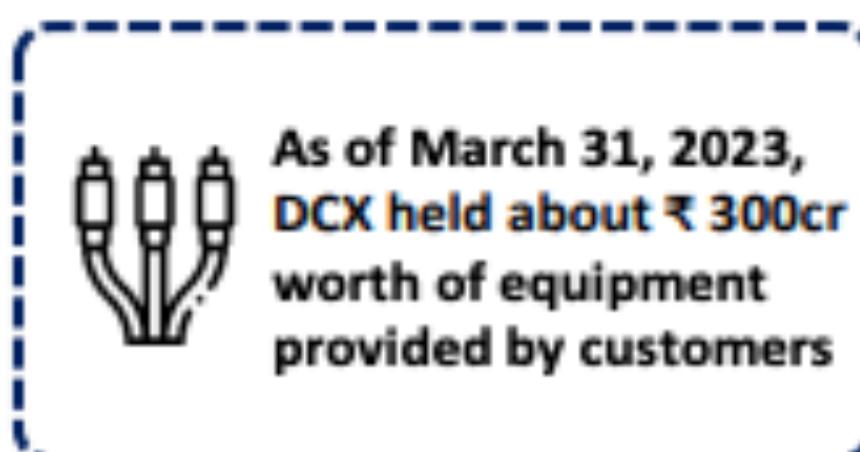
Key Customers



Working closely with clients:

- For timely execution
- For 'Just-in-Time' Inventory Management
- To improve quality of raw materials supplied

Operational Efficiencies



Technology enabled and scalable end-to-end capabilities



Specialized capabilities across products

Array of electronic, electro-mechanical and wired assemblies, and full-system integration services - can be configured as per customers' requirements

Specializes in manufacturing assemblies used in applications for land, underwater and airborne use

Skillset and technology to manufacture cable and wire harnesses including radio frequency, coaxial, mixed signal, power, data, submersible, twinax cables, shielded cable harness, flexible cables and open and closed type harnesses



Strategically located in aerospace SEZ with advanced & modern manufacturing facility



Facility spread over **30,000 square feet** – strategically located in same city as some key domestic customers - **ensuring shorter delivery times**



Facility situated within SEZ that offers duty free imports, exemption from GST and supplies that are zero rated under extant regulations



Set up for complete in-house environmental and electrical testing and contains latest inspection and testing equipment



Undertake **"Build-to-Print" system integration** and **cable and harness prototype manufacturing and testing**



Income Tax Benefit is 100% for the first Five years and 50% for the next five years



As a **2-Star Export House**, movement and clearance of goods from customs is facilitated and made easier



Being a **MSME**, DCX is eligible for an **interest subvention of 3%** on the working capital for export orders



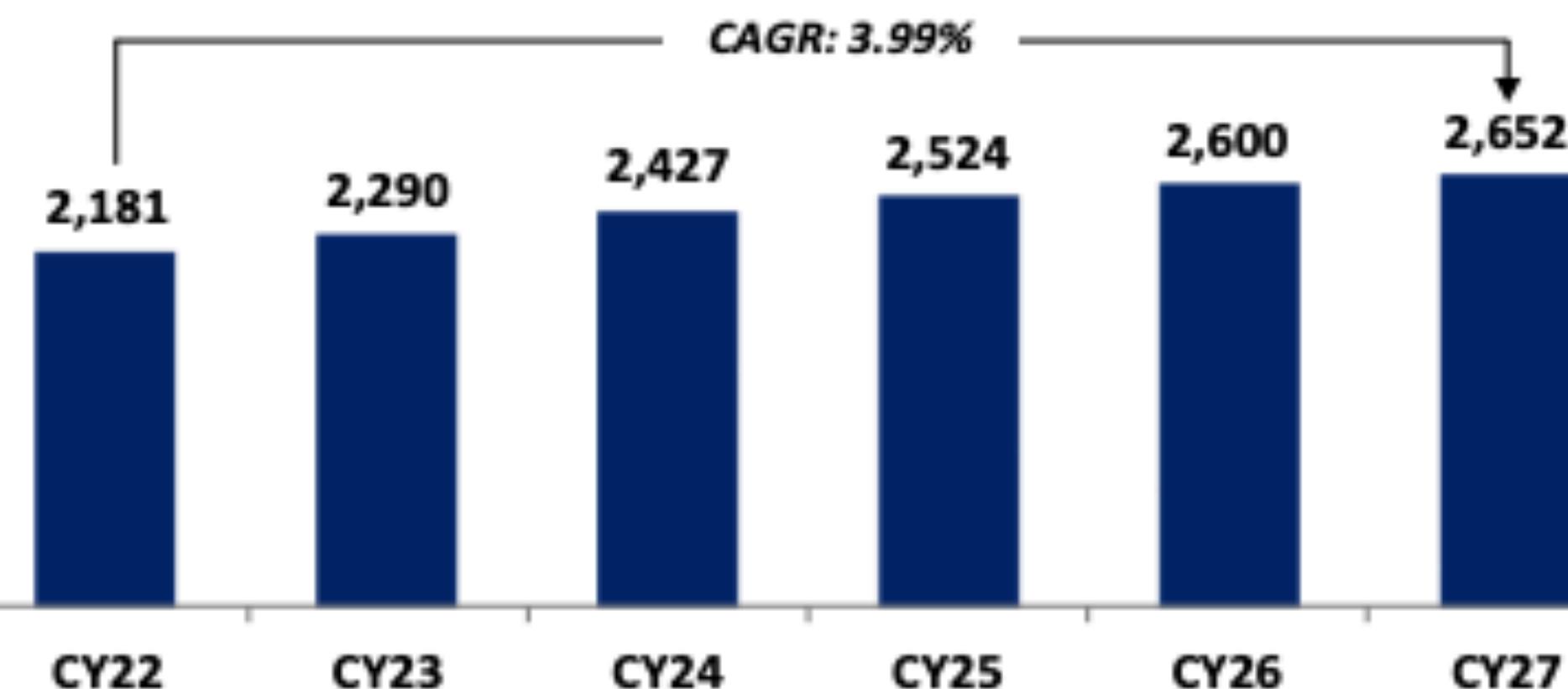
Equipped with advanced machinery and equipment including laser wire maker, controlled torque tools, vacuum pump and desiccator, temperature controlled soldering station among others

Growing landscape for defence serves as key opportunity for DCX



Growth Drivers

Global Defence Spending Forecast (in USD billion)



Ongoing political tensions and geopolitical uncertainty



Modernisation of armed forces



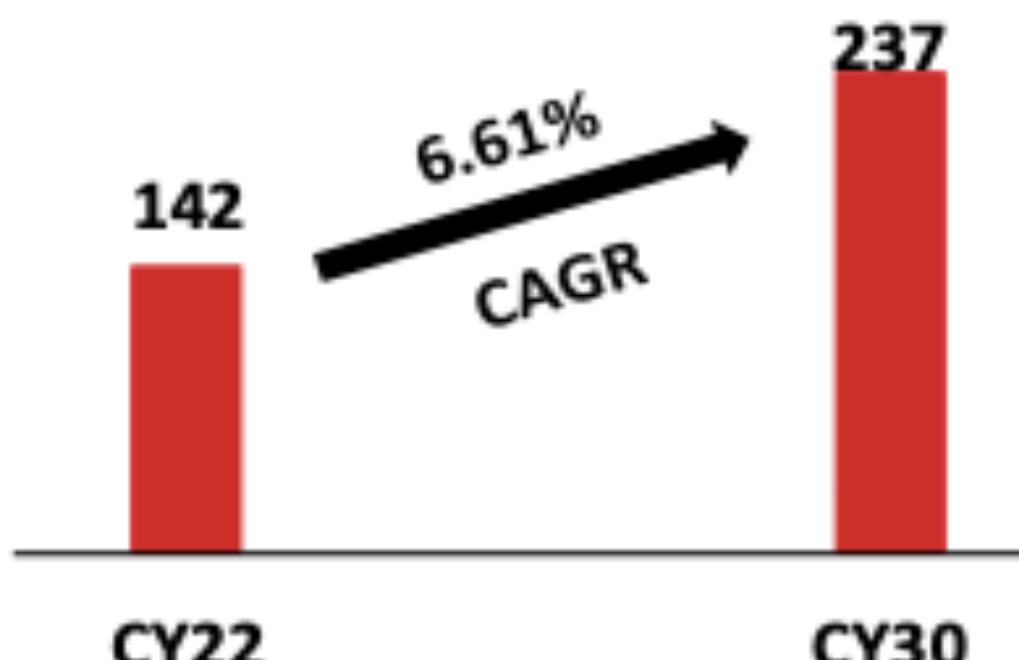
Great power struggle and competition amongst nations



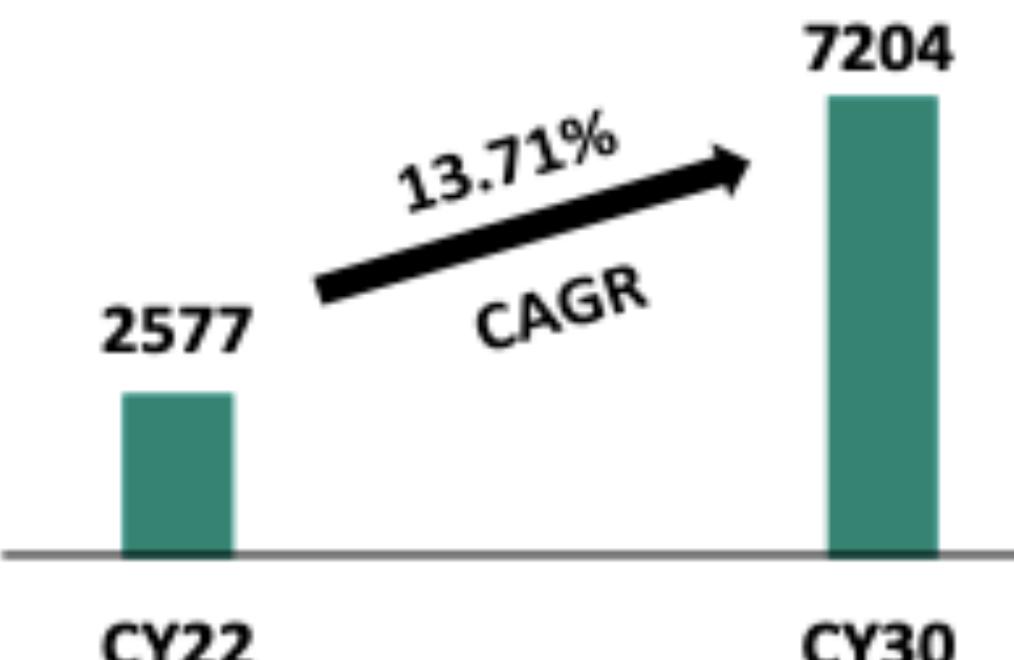
Changing technology trends and New policy changes



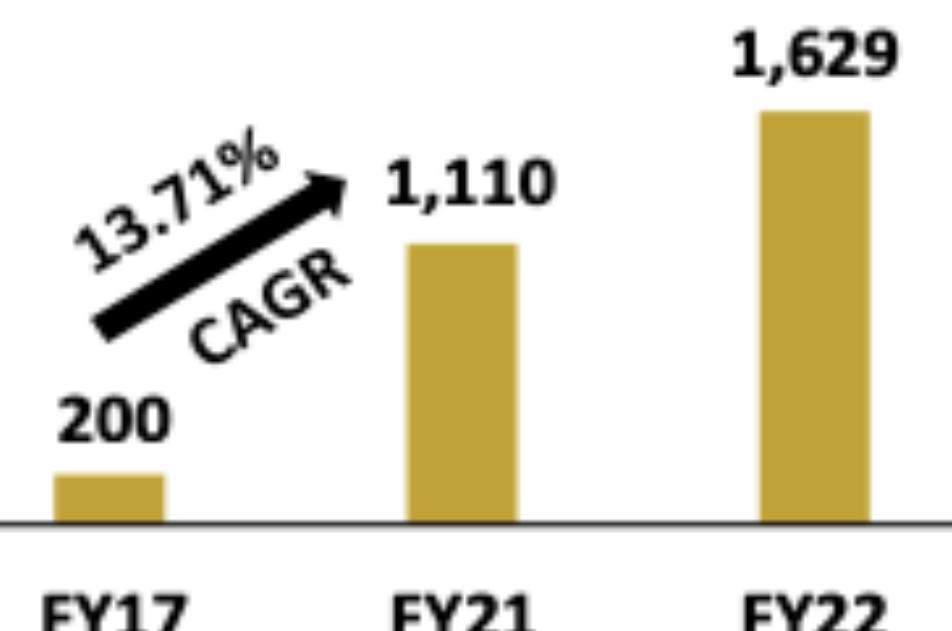
Global Defence Electronics Market (in USD billion)



Indian Defence Electronics Market (in USD million)



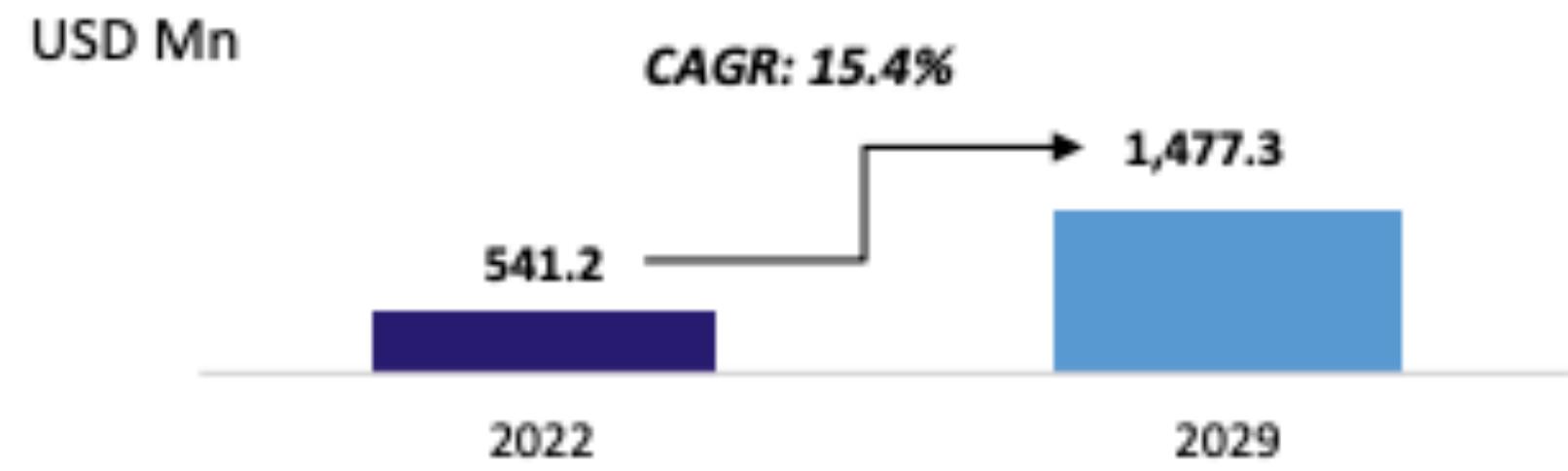
Indian Defence Exports (in USD million)



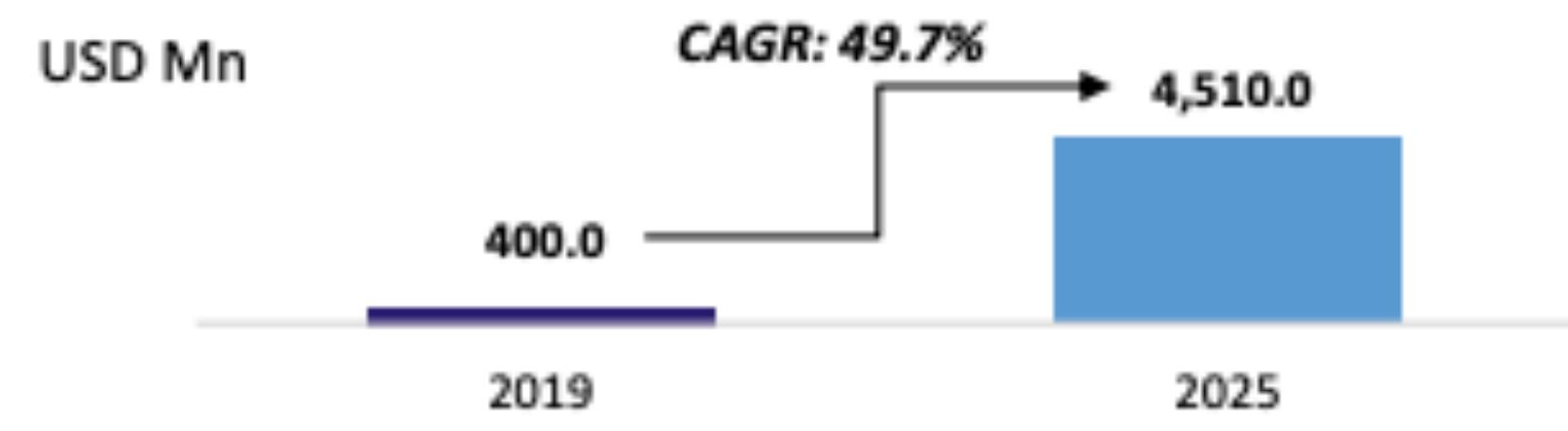
Well-positioned to capitalize on industry tailwinds



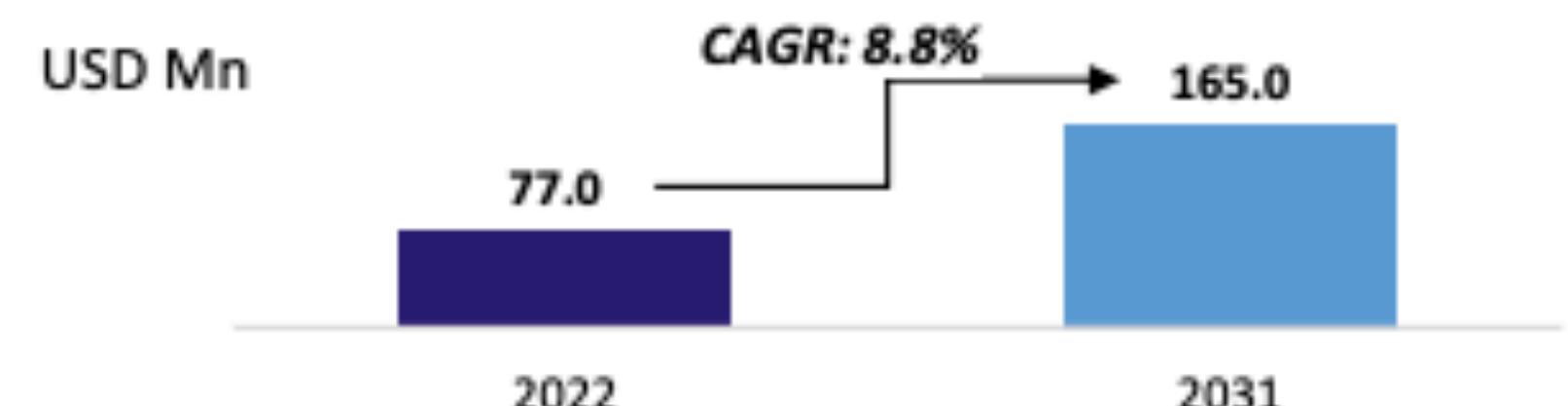
Cable & Wire Harness Industry Size



EMS Industry Size



MRO Industry Size



Only Indian Company
with capability of entire
range of products

Numerous Government Initiatives

Positive Indigenisation List

Defence Acquisition Policy 2020

Corporatization of Ordnance Factory
Board ("OFBs")

Indian Offset – Self Reliant

Capability Matrix	EMS	System Integration	Cable & Wire Harness Assembly	Electro-Mechanical Assembly	MRO
DCX Systems Limited	✓	✓	✓	✓	✓

Order Book Position

Sizeable order Book

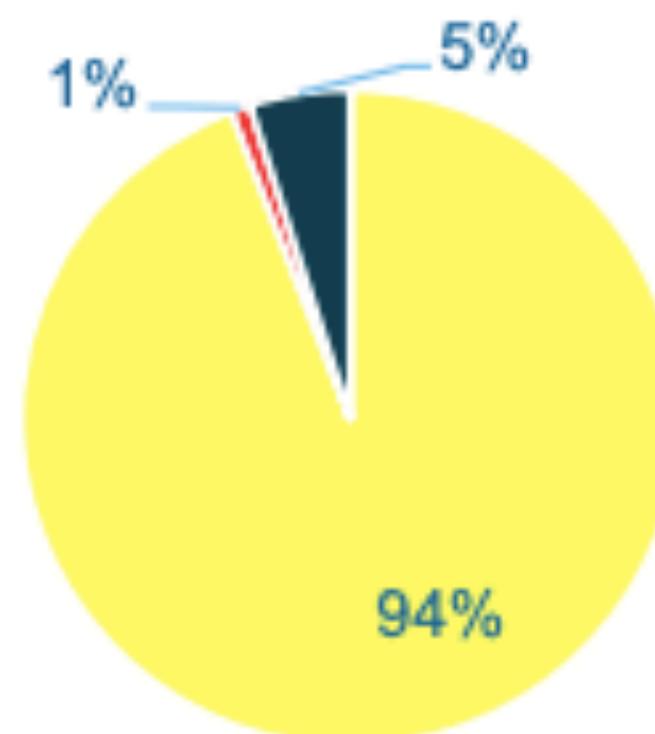
Rs. Cr.

Orders from several customers are for projects to be executed in FY24 to FY25

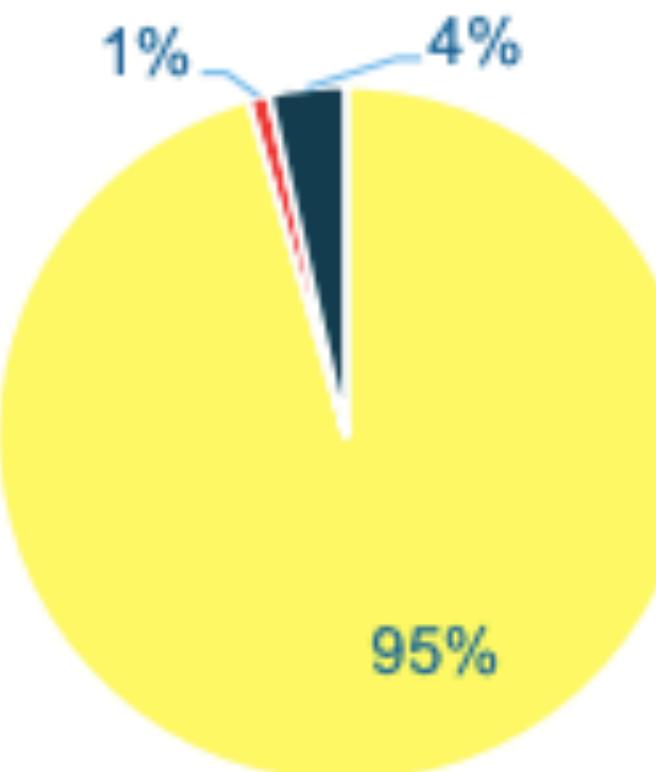


Segmental Split of Order Book

FY22



FY23



■ System Integration ■ Cable & Wire Harness ■ Kitting

Cable and Wire Harness Assemblies

- Commander Open Architecture Panoramic Sight
- Barak-1 and Barak-8 Missile Systems
- Thermal Imager Standalone Kit
- Long Range Reconnaissance and Observation System
- Thermal Imager Fire Control System

Kitting

- Ready kits of electronic and electro-mechanical parts

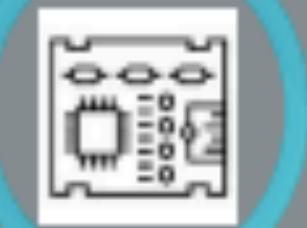
System Integration

- High Power Radars - Dual transmitter receiver module
- Air Defence Fire Control Radar - Antenna unit / radar processing unit / transmitter receiving unit
- PIDS – Dual transmit receiver module
- MRSAM / LRSAM - Transmit receiver group

De – Risking Strategies



Backward Integration into EMS



- PCBA manufacturing through wholly owned subsidiary, Raneal Advanced Systems
- Leading to lower costs and bolster supply chain

New Geographies Penetration



- Expand global presence in aerospace & defence
- Total Offset Obligation pending with foreign OEMs as per DOMW is ~ USD 13.25 bn, of which DCX is targeting an opportunity size of ~ USD 1 bn.

Grow Share of Non-Offset Projects



- High quality deliverables leading to more opportunities with OEMs
- Growing revenue from non-offset projects full turnkey solutions

Expand Cable & Wire Harness Business



- Focus on growing this product portfolio
- Better margin business

Move Towards Product Company



Technology Driven Product Company

Focus on Transfer of Technology (ToT), especially from Israel, US

Save on R&D costs by acquiring ToT from OEMs

ToT also saves manpower cost and product development time

Govt. identified list of indigenous products (cannot be imported, must be manufactured in India)
– DCX aims to get ToT for such products & supply to MoD and export market



Faster commercialization of Products & Technology

JV with global OEM's on Civilian technology to cater to Indian and Global Customers

Recent & Expected Developments



- By end of third quarter FY2023, problems related to dollar exposure and restatement have been resolved, and DCX Systems has well-defined understanding of its business prospects for next three to five years
- DCX has successfully obtained revised sanction from majority of its bankers, with a reduction of margin money for bank guarantees from 100% to 30%
- Upgraded Credit Rating – From “BBB” to “A”
- Headwinds from global supply chain constraints are easing up, and DCX has been strategizing a well-defined supply chain plan to overcome any obstacles for smooth delivery of products based on current and future orders
- DCX Systems further plans to improve its supply chain efficiency, cost efficiency, with better profit margins by focusing on new verticals

Q4 FY23 Financial Highlights

Particulars (Rs. Crs.)	Standalone			Consolidated
	Q4 FY23	Q4 FY22	Y-o-Y (%)	Q4 FY23
Revenue from Operations	510.55	374.04	36.50%	510.55
Raw Material Expenses	456.08	323.03		456.06
Employee Cost	2.76	3.05		2.78
Other Operating expenses (Incl. FX Loss)	5.86	11.47		5.86
FX Loss	3.97	8.62		3.95
Total Expenditure (Incl. FX Loss)	464.70	337.55	37.67%	464.70
EBITDA (Excluding Other Income & FX Loss)	49.82	45.11	10.45%	49.80
EBITDA Margin %	9.76%	12.06%		9.75%
Other Income	9.70	1.05		9.71
Depreciation	0.40	0.57		0.40
Interest	4.75	5.01		4.73
Profit Before Tax	50.40	31.96	57.72%	50.44
Tax	9.31	(0.47)		9.31
Profit After Tax	41.09	32.42	26.74%	41.13
PAT Margin	8.05%	8.67%		8.06%
Basic EPS	4.25	4.29		4.25

FY23 Financial Highlights



Particulars (Rs. Crs.)	Standalone			Consolidated
	FY23	FY22	Y-o-Y (%)	FY23
Revenue from Operations	1253.63	1102.27	13.73%	1253.63
Raw Material Expenses	1119.22	1000.59		1119.20
Employee Cost	10.50	8.67		10.51
Other Operating expenses (Incl. FX Loss)	40.00	26.03		40.25
FX Loss	29.10	16.88		29.10
Total Expenditure (Incl. FX Loss)	1169.72	1035.28	12.99%	1169.96
EBITDA (Excluding Other Income & FX Loss)	113.01	83.88	34.73%	112.76
EBITDA Margin %	9.01%	7.61%		8.99%
Other Income	29.54	22.06		29.55
Depreciation	1.82	2.18		1.82
Interest	25.53	11.32		25.63
Profit Before Tax	86.10	75.56	13.95%	85.77
Tax	14.09	9.95		14.09
Profit After Tax	72.01	65.61	9.75%	71.68
PAT Margin	5.74%	5.95%		5.72%
Basic EPS	8.47	9.19		8.44

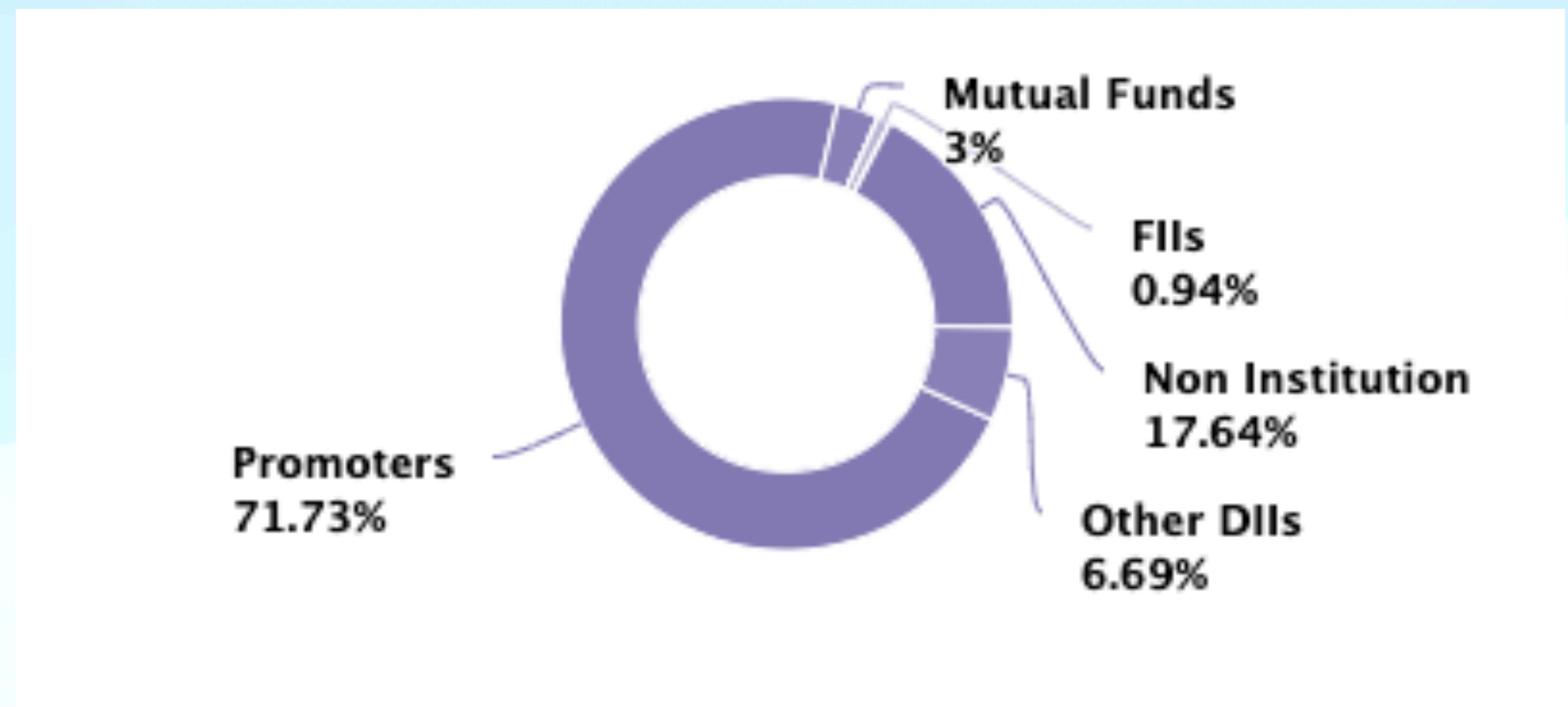
Yearly Results

Consolidated Annual Results	Mar-2023	Mar-2022	Mar-2021
Total Revenue Annual Cr	1283.2	1124.3	683.2
Operating Revenues Annual Cr	1253.6	1102.3	641.2
Other Income Annual Cr	29.5	22.1	42.1
Operating Expenses Annual Cr	1170	1035.3	631.1
Operating Profit Annual in Cr	83.7	67	10.1
Operating Profit Margin Annual %	6.52%	5.96%	1.48%
Total Expenses Annual Cr	1197.4	1048.8	643.4
Other Expenses Annual Cr	40.3	23.7	5
Employee Expenses Annual Cr	10.5	8.7	5.5
Cost Of Power Purchased Annual Cr	0	0	0
Cost Of Fuel Annual Cr	0	0	0
EBIDT Annual Cr	113.2	89.1	52.2
EBIDT Annual margin %	8.82%	7.92%	7.63%
Interest Annual Cr	25.6	11.3	9.9
Depreciation Cr	1.8	2.2	2.4
Profit Before Tax Annual Cr	85.8	75.6	39.8
Tax Annual Cr	14.1	9.9	10.2
PAT Before ExtraOrdinary Items Annual Cr	71.7	65.6	29.6
Minority Interest Income Annual Cr	0	0	0
Net Profit Annual Cr	71.7	65.6	29.6
Net Profit Margin Annual %	5.71%	5.95%	4.61%
Basic EPS Annual Rs	8.4	9.2	4.2

Key Financial Ratios

Consolidated Financial Ratios	Mar-2023	Mar-2022	Mar-2021
Book Value Per Share Annual Rs	58.6	15.2	133.7
RoA Annual %	5.87%	6.96%	3.72%
ROE Annual %	12.64%	55.79%	63.17%
ROCE Annual %	19.41%	56.38%	104.43%
Profitability Ratio			
EBDIT Annual Margin %	9.03	8.07	8.13
EBIT Annual Margin %	8.88	7.88	7.75
PBT Annual Margin %	6.84	6.85	6.2
Net Profit Margin Annual %	5.71	5.95	4.61
Asset Turnover Ratio Annual	1.2	1.3	
Liquidity Ratio			
Current Ratio Annual	1.8	1.2	1
Quick Ratio Annual	1.5	1.1	0.8
Dividend Payout to NP Annual %		0	0
Dividend Payout CP Annual %		0	0
Earning Retention Annual %		0	0
Cash Earning Retention Annual %		0	0
Cash Earning Retention Annual %		0	0
Valuation Ratio			
EnterpriseValue Annual Cr	1324.4	0	0
EV Per Net Sales Annual	1.1		
Price To Book Value Annual	2.5		
EV Per EBITDA Annual	11.7		
Market Cap Per Sales Annual	1.1		
Retention Ratio Annual %		0	0
Earnings Yield Annual	0.1	0	0
Total Debt to Total Equity Annual	0.9	4.3	2.9

Shareholding Pattern as on Mar'23



Summary

- ❖ With deliverance of robust performance in Q4 of FY'23, the Company's Net Sales increased by 36.49% i.e. Rs.510.55 crs in Mar'23 as compared to Rs.374.04 crs in Mar'22. However, the Net Profits grew up by 26.90% i.e. Rs.41.13 crs in Mar'23 versus Rs.32.41 crs in Mar'22. In addition to this, the Statement of Changes in Equity witnessed an increase in the Equity Capital i.e. Rs.19.35 crs in Mar'23 juxtapose to Rs.15.48 crs in Mar'22.
- ❖ Taking into consideration sound financials and healthy valuations, the Company is available at a good price of Rs.276.35 with its 52 week low at Rs.138.00 and its 52 week high at Rs.319.90.
- ❖ In view of the Promoters holding majority stake around 71.73% as well as its consistent performance, it is fair to assume that the Management is working efficiently and working towards growth of the Company.
- ❖ In Public Shareholding as on Mar'23, the FIIs and the Other DIIs altogether stood with 7.63% holdings. Whereas, the Mutual Fund Houses own 3.00% stake.
- ❖ DCX Systems Ltd. is held by HDFC MF.
- ❖ On consolidated basis, the Company registered Return on Equity (ROE) and Return on Capital Employed (ROCE) around 12.64% & 19.41% respectively as on Mar'23.

Disclosure

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Disclosures as required under SEBI (Research Analyst) Regulations, 2014

Introduction:

I, Amiteshwar Singh, am the proprietor of M/S Amiteshwar.in. I am a Research Analyst registered with SEBI having registration no. INH100010013. I provide services through my website www.researchlyne.com which is primarily focused on research of Multi-Cap stocks of India.

Business Activity:

I provide research services on equity stocks listed on Indian stock exchanges. The research is based on fundamental analysis.

I do thorough research and analysis on fundamentals of companies. As such, I undertake extensive scrutiny of major Company statistics like Balance Sheet, Profit & Loss Account, Key Financial Ratios (ROE, ROCE and Debt to Equity etc.), Quarterly, Half-yearly & Annual Results, Cash Flows, Annual Reports and Shareholding Pattern etc.

Each Company's Business Model, Future Projections, Competitive Advantages & other Moats are thoroughly checked before recommending their Stock.

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List of Associates / Relatives:

1. My spouse, Mrs. Prabhjash Kaur
2. My daughter, Ms. Palvit Kaur

Note: Subject Company is a company on which buy/sell recommendation or target price is given or changed in the research report.

Disclosure with regards to ownership and material conflicts of interest:

1. Neither I nor my associates / relatives have financial interest in the subject company.
2. Neither I nor my relatives / associates have actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.
3. Neither I nor my relatives /associates have any other material conflict of interest at the time of publication of the document.

Disclosure with regards to receipt of compensation:

1. Neither I nor my associates / relatives have received any compensation from the subject company in the past 12 months.
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3. Neither I nor my associates / relatives have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.
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5. Neither I nor my associates / relatives have received any compensation or other benefits from the subject company or third party in connection with the document.

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1. I have not served as an officer, director or employee of the subject company.
2. I am not engaged in market making activity for the subject company.

Definition of terms used:

1. **Buy Recommendation:** The subscribers can buy the shares of the subject company at the current market price. I expect a return of around 25% in the next 4 months.
2. **Sell Recommendation:** The subscribers can sell the shares of the subject company when they receive a return of 25% on the market price when the subject company was recommended.

- ❖ “Investments in Securities Market are subject to market risks. Read all the related documents carefully before investing”.
- ❖ “Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors”.

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