

IPO TIMELINE

Events	Date
IPO Opening Date	31 Oct 2022
IPO Closing Date	2 Nov 2022
Allotment Date	7 Nov 2022
Initiation of Refunds	9 Nov 2022
Credit of Shares to Demat	10 Nov 2022
IPO Listing Date	11 Nov 2022

IPO LOT SIZE

Application	Lots	Shares	Amount
Minimum	1	72	14,904
Maximum	13	936	193,752
S-HNI (Min)	14	1008	208,656
B-HNI (Min)	68	4896	10,13,472

IPO KEY DETAILS

Price Band	₹197 to ₹207
Face Value	₹2 per share
Issue Size	500 crore
Reservation	QIB 75%, Retail 10%, NII 15%

FINANCIAL PERFORMANCE (Rs. Cr)

Y/E March	FY20	FY21	FY22
Revenue	449	641	1102
Revenue Growth	49%	42%	71%
EBITDA	45	32	106
EBITDA margin	10%	5%	10%
PAT	9.74	29.56	65.61
PAT margin	2%	5%	6%
RoE (%)	56.8	63.2	55.8
RoCE (%)	19.2	4.2	13.15
RoNW (%)	56.8	63.2	55.8

PEER COMPARISONS

Company Name	Revenue (Rs Cr)	PAT (Rs Cr)	PAT margin	EBITDA margin
BEL	15,314	2,349	15.3%	21.6%
Data Patterns	311	94	30.2%	45.4%
Paras Defence	182.5	26.9	14.8%	28.4%
Astra Micro	735	40	5.4%	12.9%
DCX Systems	1,102	65.61	6%	7.6%

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Our Recommendation: DCX reported strong revenue growth at 57% CAGR between FY2020-2022 and solid growth of 160% CAGR in Net Profit. Company holds good market share in manufacturing of electronic sub-systems and cable harnesses. Given by robust financials and strong order book, we estimate company would outperform in coming quarters. The IPO is fairly priced at 31x its FY22 earnings (consolidated) while its peers like BEL and Data Patterns are trading at the P/E of 34x and 61x respectively. Investors may subscribe this IPO for medium to long-term gains.

About Company: DCX Systems Ltd deals in system integration and manufacturing a comprehensive array of cables and wire harness assemblies. The company is one of major Indian players who manufacture electronic sub-system and cable harnesses. DCX is a preferred Indian Offset Partner for foreign "original equipment manufacturers" for executing aerospace and defense manufacturing projects. The company has its manufacturing facility at the Hi-Tech Defense and Aerospace Park SEZ in Bengaluru, Karnataka. The company's business verticals are 1) System integration in radar systems, sensors, electronic warfare, missiles, tanks, and communication systems. 2) Cable and Wire Harness Assemblies. 3) Supplies assembly-ready kits of electronic and electro-mechanical parts.

IPO Objectives: Net proceeds will be used for following purposes:

- Funding working capital requirements.
- Debt payment.
- To invest in its wholly-owned subsidiary Raneal Advanced Systems to fund its capex.

Key Customers: Israel Aerospace Industries Limited, System Missiles and Space Division, Elta Systems Limited, Bharat Electronics Limited, and Astra Rafael Comsys Private Limited, among others.

Industry Outlook: Worldwide defense spending crossed \$2 trillion in 2021, up 7% from 2020. The 5 largest spenders accounted for 62% of total spending are USA, China, India, Russia, and UK. India's defense budget increased 14% CAGR from 2017 to 2023. India's defense budget was \$76.6 billion dollar and this spending will continue to grow because of existential threat from China and Pakistan. Global defense electronics market is \$142 billion dollar in 2022 and this may cross \$250 billion by 2030 given current geopolitical situation.

Business Growth Potential: Indian Govt has made several initiatives in aerospace and defense sectors and Govt's plan of self-reliance in defense sector will give impetus to domestic defense players and DCX System is well positioned to capitalize on Industry tailwinds. DCX is a preferred Indian Offset Partner for foreign "original equipment manufacturers" for executing aerospace and defense manufacturing projects. We believe in company's potential and expect better earnings in coming quarters. The company's order book has increased from Rs 1,941.31 crore in March 31, 2020 to Rs 2,369 crore as of March 31, 2022.

Key Risks:

- DCX may face stiff completion from listed players like BEL, Data Patterns and this could impact profit margins.
- Current order book by no means ensures future earnings.

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Disclosure:

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