

DCX Systems:

The company is a Tier 1 manufacturing, sub-model suppliers.

The company has 2 core business Models:

1. Manufacturing
2. System Integration

Manufacturing:

- There are 2 aspects and product lines in the company's Manufacturing business.

1. EMS (PCB Assembly)

This is one of the core competencies, and this is the area where company has done a backwards integration through its subsidiary, Raneal Advanced Systems. Caters to defence

2. Cable and Wire Harness

This is a high margin business, and the company has expanded the offering to Optic Fibres Cables also.

Cable and Wire harness Industry is expected to grow at a 15% CAGR, from 541 million dollars in 2022, to 1.5 Billion in 2029

DCX 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 defence industries as per customers' requirements.

System Integration:

- System integration involves in house testing, including vibration and environmental stress testing of complex radio frequency products. All of this is used in radar, communication, surveillance and missile systems.
- Focus here is to penetrate into new geographies.

- There are 2 business components here as well

1. IOP-

The company is a preferred Indian Offset Partner for IAI group (Israel)

An offset partner in the context of defense refers to a business entity that a defense contractor forms a partnership with as part of a defense procurement deal. When a country purchases military equipment or services from a foreign defense contractor, the purchasing country may require the contractor to fulfill certain offset obligations. Offset agreements are intended to ensure that the purchasing country benefits economically from the defense contract beyond just the supply of military hardware.

Offset obligations typically involve the defense contractor investing in or transferring technology, know-how, or industrial capabilities to the purchasing country. This can take various forms, such as the establishment of joint ventures, technology transfer, investment in local industries, or training programs.

Here, the yield for this business is much higher and bulk of the company's revenues come from here. However company wants to reduce dependence and rev share of projects and eventual target is from 85% to 55%

Some upcoming projects here are electronic assemblies, automatic missile detection radars, HERON unmanned aerial vehicle systems, Barak Systems, Medium range maritime reconnaissance aircraft, Short range surface to air missile.

2. Non- IOP

In contrast to offset agreements, where defense contractors are required to invest in or transfer technology, know-how, or industrial capabilities to the purchasing country, non-offset agreements involve a more straightforward transaction. The defense contractor is usually responsible only for delivering the specified goods or services as outlined in the contract, without additional economic or industrial obligations.

The company is focusing more on this segment in order to reduce dependency on IOP model.

Share of non-IOP is expected to go from 15% to 40%

They also engage in other business vertices like supplying assembly ready kits for electronics and doing MRO (testing and maintenance).

MRO industry is expected to grow at 9% PA. 77 million dollars in 2022, to 165 million in 2031

Customers provide equipment required for testing and qualifying, and they will typically reimburse DCX for any costs incurred for maintenance of these equipments. As of Sept, 23 DCX had almost 300 crs worth of these equipments.

Located in Bengaluru SEZ, with 30,000 sq ft facility. This is a duty free imports, gst exemption facility.

The company gets a tax benefit of 100% for the first 5 years and 50% for the next 5.

They have an MSME status, and hence eligible for interest subvention of 3% on WC needs.

Current WC needs are 500 crs

Raneal Advanced Systems (100% Subsidiary)

- This is an EMS/PCBA Manufacturing unit.
- The company has invested about 6.6 crs through equity, sept. should be more probably.

- Rev should come from Q4 onwards
- The subsidiary will provide manufacturing, qualifications, and life cycle support of high reliability electronic assemblies. Applications for this is in Defence, Aerospace, Industrial Electronics, Medical electronics
- Subsidiary should lead to better cost control, supply chain and resource planning.
- In a concall, they mentioned they have spent almost 35-40 crs in the subsidiary and now more money isnt needed here for next 3-4 years.
- PCB currently is purchased assembled, which will now be done inhouse- so margins will increase in systems integrations
- EMS industry in India is expected to grow at a 50% CAGR from 400 million dollars in 2019 to 4.5 Billion in 2025

Clients-

IAI Elta Systems, BEL, IAI, Alpha-elsec, Astra Microwave, Rafael, SFO technologies, Ametek

Order book:

95% order book is under System integration:

- High power radars- Dual transmitter receiver module
- Air Defense Fire Control Radar
- PIDS
- Transmit receiver group

Sept 22- 1700 crs

Sept 23- 1200 crs

Execution of order book is faster

DCX is now looking into becoming a product company by focusing on Transfer of Technology (ToT), especially from Israel and USA, by outright acquisition under ToT. This is because govt of India has made a list of indigenous products that must be manufactured in India, so DCX plans to supply the products using ToT

IPO of DCX came at a raise of 500 crs, with 100 crs in fresh issue and 400 as OFS. The company listed on 11 Nov, 2022. Listed at 287(mcap 2775), issue price of 207(mcap 2000 crs)

The company on 19th Jan, approved QIP of 500 crs, by issuing 1.46 crore shares to 43 qualified institutional buyers at a price of ₹341 per share—a discount of 4.83% to the floor price of ₹358.30 apiece. The QIP issue is expected to result in an equity dilution of 9.1% on the base deal size and 15.1% on the upsized deal size.

Utilisation of funds will be- Retire debt 409 crs ST, not all of it, wc system integration, ems-raneal, niart systems jv- elta tot track monitoring systems for railways. Margins will be more in Niart and track monitoring

Next leg of growth is expected to come from NIART systems, Track monitoring and Ranael subsidiary.

Long term aim and vision of the promoter is to become a technological company and take the technology, acquire more knowledge and supply to MOD, to our own armed forces design and development.

Capability comparison of DCX and competition					
Particulars	System Integration	Cable & Wire Harness Assembly	MRO	EMS	Electo-mechanical Assembly
DCX Systems	✓	✓	✓	✓	✓
Astra Microwave Products	✓	X	✓	✓	✓
Alpha design Technologies	✓	X	✓	X	✓
Bharat Electronics	✓	X	✓	X	✓
Centum Electronics	X	X	X	✓	✓
Cyient DLM	✓	✓	X	✓	✓
Sasmos Head Technologies	X	✓	X	X	X
Almphenol Interconnect India	X	✓	X	X	X
Data Patterns	✓	X	X	✓	✓
Hela Systems	✓	X	✓	X	✓
Kaynes Technologies India	X	X	X	✓	X
Rossel Techsys	✓	✓	X	✓	✓
Apollo Micro Systems	X	X	X	✓	✓
Paras Defence	✓	X	X	✓	✓

Source: Company Reports