



Initiating Coverage
9th Feb' 2024



The shift in focus from integration to product manufacturing makes DCX appealing against the backdrop of Make in India.

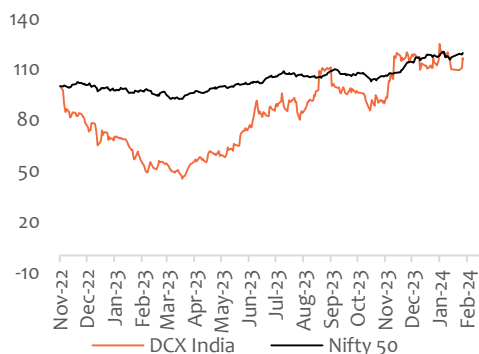
Recommendation

CMP (INR)	350
Target Price (INR)	519
Upside	48%
Rating	BUY
Sector	Electronic-Component

Market Data

Mkt Cap (INR Mn)	39,030
52 Wk H/L (INR)	392.9/138.9
Volume Avg (3m K)	77.7
Shares outs (Mn)	111
Face Value (INR)	2.0

Price Chart



Shareholding Pattern (%)

Particulars	Jan-24
Promoters	62.30%
FIIIs	6.75%
DIIIs	11.47%
Others	19.49%
Total	100%

Company Snapshot

DCX Systems Limited specializes in providing comprehensive solutions for high-end system integration, cable and wire harnesses, electronic subsystems, and PCB assembly, primarily for the Defence and Aerospace industry. It stands as a major Indian Offset Partner (IOP) to the Israeli Defence Company, IAI, and is expanding its reach in various geographies for both IOP and non-IOP projects. Its core strength lies in the solutions of electronics manufacturing with a focus on backward integration in PCBAs, facilitated by its wholly-owned subsidiary, Raneal Advanced Systems, incorporated in 2022 catering to both captive consumption and external markets. DCX has been also focusing beyond Defence and Aerospace segment to fortify the resilience of future growth and with this objective the company has incorporated NIART Systems Limited –JV between DCX & ELTA Systems, formed in 2023, for obstacle detection solutions in Railways. DCX Systems has been expanding from a defence focused system integration company to a product manufacturing company with increased focus in Make in India through its JVs using ToT in medical, railway, and other civilian sectors with more focus on margin accretive non-offset projects. DCX has latest order book of INR 1570 crore (approximately) as mentioned in the earnings call.

Outlook

DCX Systems Limited stands at the cusp of a pivot within the dynamic EMS (Electronic Manufacturing Services) industry, spurred by a shift towards indigenous manufacturing of electronic equipment for defence and civilian use. The company's strategic backward integration of Printed Circuit Board Assembly (PCBA) for in-house consumption is set to strengthen the margins of system-integration related operations. Additionally, a concerted effort to amplify revenues from higher-margin segments, such as cable & wire harnessing and EMS (PCBA), is underway. DCX is also redefining its revenue composition by targeting an increase in the share of Non-IOP contracts from 15% to 40%, a move anticipated to further enhance its profit margins. The set-up of NIART Systems complements these strategies, paving the way for expansion into new sectors like the railway industry, thereby fortifying DCX's market position through diversification and targeted growth in the high-margin domains of the EMS space. **We expect DCX to deliver 22%/30% CAGR revenue/PAT growth during FY23-FY26E, on account of strong top line growth coupled with margin expansion. Consequently, we value the company at a P/E multiple of 36x on FY26E EPS with target price of INR 519/share.**

Key Financials

Particulars (INR Million)	FY22	FY23	FY24E	FY25E	FY26E
Revenue from Operations	11,023	12,536	12,594	18,209	22,630
Gross Profit	1,017	1,344	1,188	1,910	2,463
EBITDA	670	837	866	1,435	1,873
Profit Before Tax	756	858	1,031	1,501	1,929
Profit After tax	656	717	858	1,249	1,605
Adjusted P/E (x)	59.5	54.4	45.5	31.2	24.3

Source: KRChoksey Research & Company Information

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Company Overview:

Incorporation

- Incorporated in 2011, as "DCX Cable Assemblies Private Limited." Later made public and changed the name to "DCX Systems Limited" in 2022.

Business Verticals and Profitability:

- The company operates in five key segments namely System Integration, Cable and Wire Harnessing, Kitting, MRO and EMS(Electronic Manufacturing Services)
- System Integration dominates, constituting over 90% of FY23 revenue.
- The PCBA facility-EMS (Raneal Advanced Systems Ltd) has started its commercial production Sept'23 onwards and the management is aiming to take the contribution from the EMS business towards 12% over the coming years.
- The backward integration with the PCBA facility is expected to widen margins in System Integration, and an increased focus on margin-accretive segments such as Cable & Wire Harnessing is strategically set to drive operating margins into double digits over the near to medium term.

Clientele and Customer Engagement:

- The company has a widespread presence across multiple countries, catering to clients in Israel, the United States, Korea, and India with clients spanning various sectors, from defence and aerospace to space ventures.
- Key clients of DCX Systems include companies such as RAFAEL, Astra Microwave, IAI and etc. DCX leverages customer provided equipment for testing and qualifying customized products. As of September 30, 2023, DCX held equipment provided by customers valued at approximately INR 300 crore.



Source :Company Information

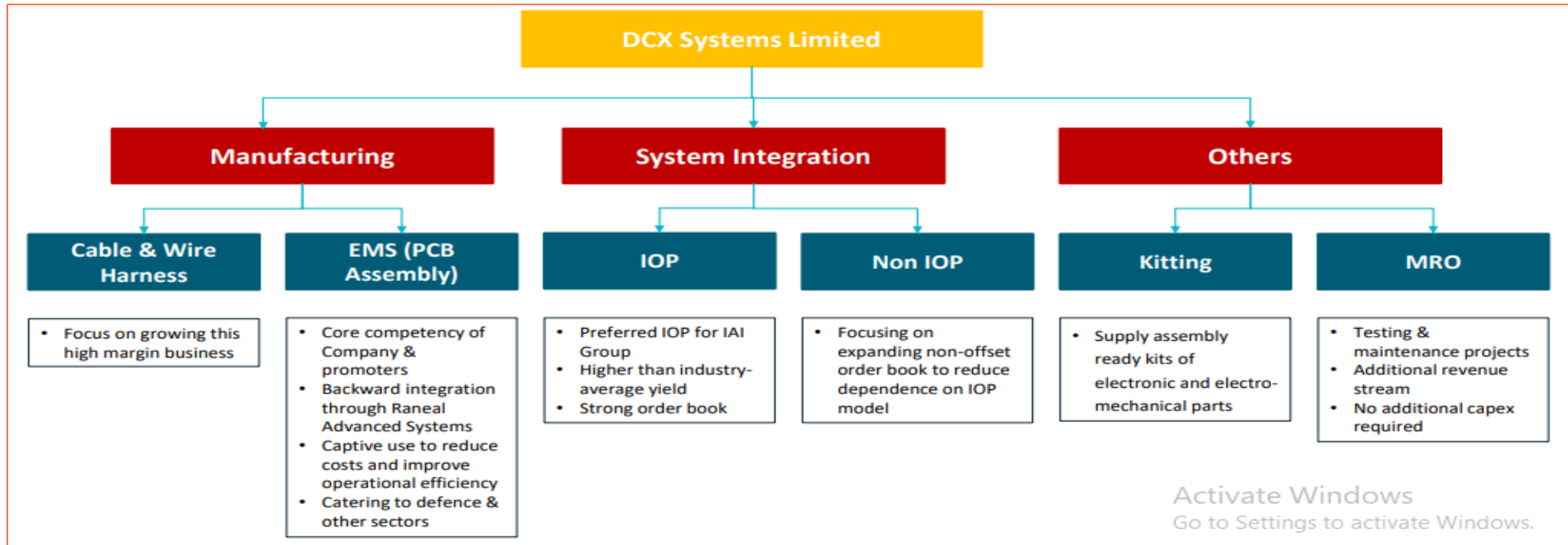
Commercial Facilities & Expansions

- State of the art manufacturing facility covers an expansive area of 30,000 sq. ft situated in SEZ in Bengaluru, commissioned in 2020. Also, a newly established facility spanning 40,000 sq. ft. in Bengaluru is exclusively dedicated to the manufacturing of Electronics Manufacturing Services (EMS) has commenced operations from Sept'23.
- In 2023, DCX also entered a joint venture with ELTA Systems, forming NIART Systems Limited in Israel, dedicated for manufacturing railway obstacle detection systems in India.

Product Suite

Business Model

DCX Systems Limited has built strong competence in **1) System Integration**. It involves comprehensive array of electronics and electromechanical assembly and enclosure assembly. It also provides **2) Maintenance, Repair and Overhaul (MRO)** services for the parts that it manufactures. To strengthen its System Integration division and expand into **3) Electronic Manufacturing Services (EMS)**, DCX has horizontally integrated new verticals, including Printed Circuit Board Assembly (PCBA), targeting the Defence and Aerospace sectors, as well as various civil applications. DCX is also involved in **4) Cable & Wire Harness** which is high margin accretive segment, and the company has built its expertise in complete design & development of complex cable and wire harness which caters to electronic warfare and communication systems. DCX is also involved in **5) Kitting**. It supplies ready kits of electronic and electro-mechanical parts and undertake all aspects of procurement including sourcing components from suppliers.



Source: Company Information

DCX is expanding its business horizons by entering new sectors, including the railway industry. The company has formed a joint venture with a foreign entity to manufacture essential railway equipment, such as the Obstacle Detection System, which is engineered to identify obstructions on railway tracks, thereby reducing the risk of accidents.

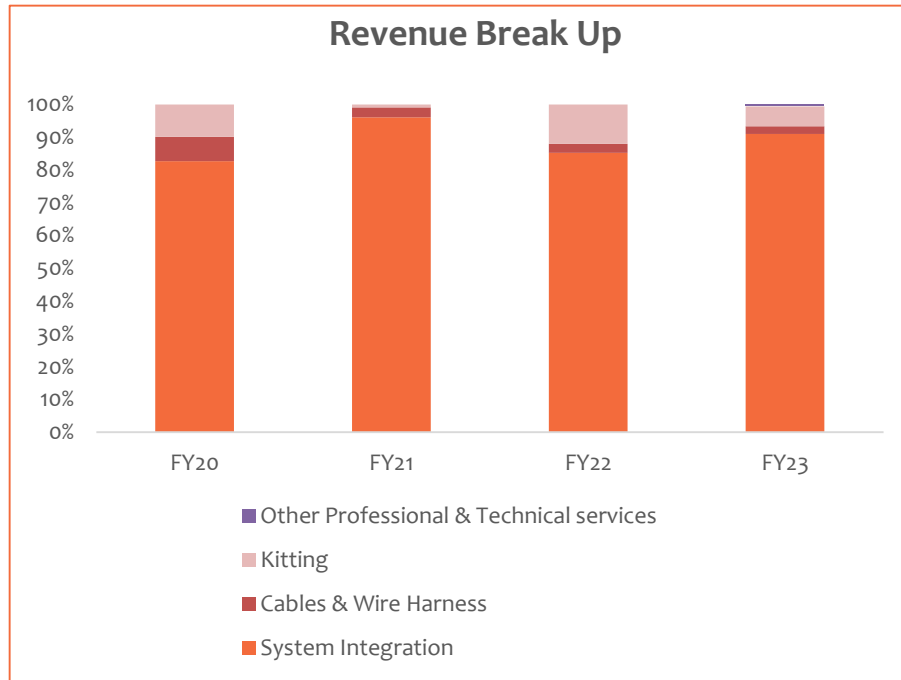
Product Suite

Business Details in Charts

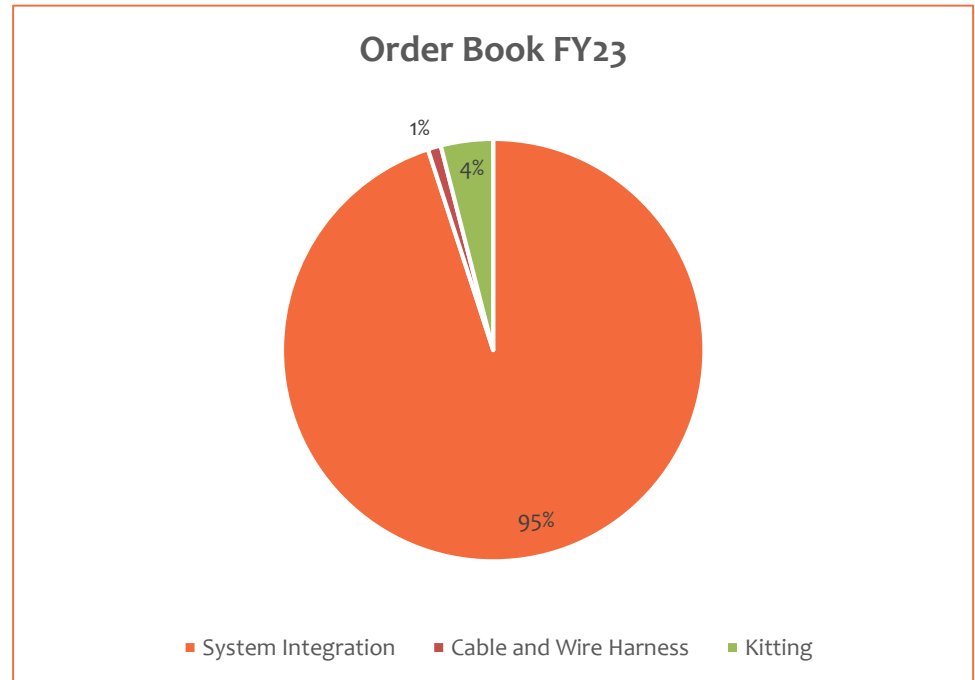
DCX Systems primarily earns over 90% of its revenue from system integration, with the remaining portion coming from segments like kitting, cable & wire harness, and others. As of September 2023, the company’s latest order book is valued at approximately INR 1570 crore as mentioned in Q3FY24 Earnings call.

Currently, the aerospace and defence sector is the main business source, contributing nearly 90% of revenue. However, DCX plans to diversify, aiming to achieve approximately 50% of its future revenue from non-defence and aerospace industries, focusing on areas such as railways and medical. This strategy is intended to help the company penetrate multiple sectors, thereby enhancing the resilience of its revenue and profit mix.

DCX being major Indian offset partner (IOP-an entity in India that collaborates with a foreign original equipment manufacturer), generates majority of the revenue from this offset partnership. However, it is targeting to grow the Non-IOP segment contribution from 15% to 40% to mitigate the risk of dependence on offset projects and derive better margin over the coming years.



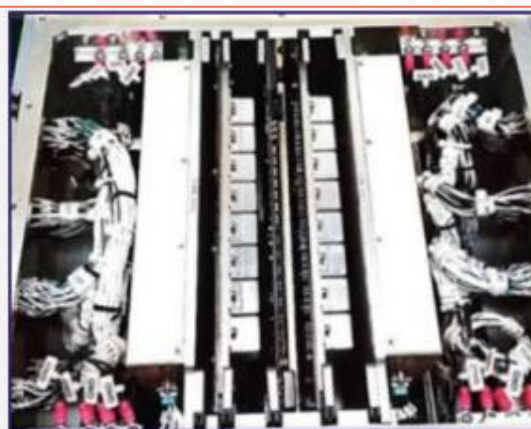
Source: KRChoksey Research and Company Information



Product Suite

System Integration:

- System integration is the process of combining multiple systems into one larger system that works together. System integration services are part of comprehensive array of electronics & electro-mechanical and enclosure assembly. It involves co-working of purchasing, logistics, inventory control, and production engineering groups aided by their expertise in electrical and mechanical assembly.
- DCX undertakes System Integration in areas of electronic warfare, radar, sensors, surveillance, missiles and communication systems. System Integration includes various services such as in-house testing, including vibration & environmental stress testing of complex radio frequency products to ensure high quality of final products in varying environmental conditions.
- DCX possesses capabilities to manufacture complex, high end and high-power microwave modules which have applications in radars, antennas, electronic warfare systems, receiver subsystems and missile systems. It is preferred IOP partners for foreign OEMs for classified products. It is securing higher non-IOP projects on account of quality standards, execution capability, and cost competitiveness. In this segment, Israel is one of the primary geography that DCX is generating its revenue from, and it is also entering into new geographies.
- DCX Systems possesses an extensive array of sophisticated inspection and testing tools, underpinning its commitment to delivering high-quality system integration. It enables meticulous verification and reliability across all stages of product development. DCX includes inspection and test equipment of cable tester, cirrus testers, network analyzers, crimp pull testers, microscope, leak test equipment, high voltage tester, micro-ohm meter, test station for PCBAs, automatic testing equipment for PCBAs and module testing, electrodynamic vibration shaker system, contact retention tester and vernier height gauge.



Source: Company Information

Product Suite

Cable and Wire Harnessing:

- A cable and wire harness is a complex assembly of wires or cables that are bound together by straps, cable ties, sleeves, or other means. This assembly is used to transmit electrical signals or power and is commonly found in various electronic and electrical systems. It has expertise in complete design & development of complex cables & wire harness. It caters to electronic warfare and communication systems.
- DCX manufactures a comprehensive array of cables and wire harnesses assemblies such as radio frequency cables, coaxial, mixed signal, power, and data cables for a variety of uses including communication systems, sensors, surveillance systems, missile systems, military armoured vehicles, and other electronic warfare systems for the aerospace and defence industries as per customers' requirements complying to the AS9100 standards and IPC620 standards.
- The company not only engineers and fabricates in-house test cables but also constructs mechanical jigs and fixtures, alongside board and test programs, tailored to fulfill the specific needs of customers for the preparation and qualification of cable assemblies. Furthermore, it offers retrofit modifications and comprehensive overhauling services to align with customer specifications. Additionally, the firm conducts both classroom instruction and hands-on training to enhance the technical competencies of its workforce. As a vertical with high profit margins, the company aims to increase its revenue share from this particular segment.



Source: Company Information

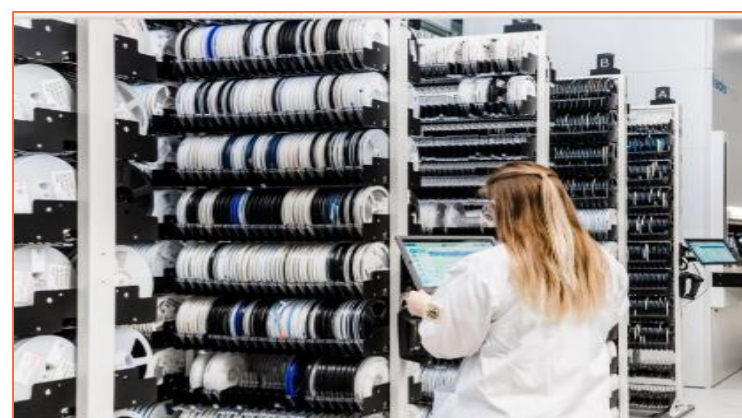
Product Suite

Kitting:

- DCX Systems' kitting vertical expertly sources and assembles components from globally recognized manufacturers, ensuring all parts meet customer-approved standards. It meticulously compiles, inspects, and tests these components, providing custom packing for seamless customer integration.
- DCX is delivering assembly-ready kits directly to production lines, adhering strictly to customers' bills of materials (BOM). Its total BOM Management service ensures complete kits for production, optimizing procurement and storage processes while handling moisture-sensitive devices with care.
- Through kitting, DCX Systems significantly cuts down on procurement costs and inventory levels for its customers, offering a streamlined supply chain solution. This service not only minimizes storage space and indirect costs but also enhances overall efficiency and reduces the true cost of acquisition.

Maintenance, Repair, and Overhaul (MRO):

- DCX Systems is capitalizing on the significant opportunity in the Maintenance, Repair, and Overhaul (MRO) sector by utilizing its in-house testing machinery supplied by OEMs. This enables the company to offer comprehensive MRO services, creating an additional revenue stream without incurring extra capital expenditure.
- With the advantage of its own testing equipment, DCX Systems is positioned to enhance its service offerings in the MRO space, providing superior maintenance and repair services that promise better quality control and efficiency.



Source: KRChoksey Research and Company Information

Result Update

Strong order wins from international players and inclusion of marquee client from the US aerospace overshadow the underwhelming quarterly performance

Particulars (INR Million)	Q3FY23	Q2FY24	Q3FY24	YOY	QoQ	9MFY23	9MFY24	YoY
Sales	3,560	3,091	1,982	-44%	-36%	7,431	6,774	-9%
Other income	64	123	110			198	333	
Total Income	3,624	3,214	2,092	-42%	-35%	7,629	7,107	-7%
Expenses								
COGS	3,220	2,835	1,754			6,631	6,156	
Gross Profit	339	256	228	-33%	-11%	799	618	-23%
employee benefit cost	27	36	37			77	104	
other expenses	83	36	45			344	94	
Operating expenses	3,329	2,907	1,835			7,053	6,354	
EBITDA	230	184	146	-37%	-21%	378	420	11%
EBITDA Margin%	6.5%	6.0%	7.4%			5.1%	6.2%	
Depreciation Expenses	5	6	18			14	29	
Finance cost	91	63	77			209	210	
Profit before tax	198	238	161			353	515	46%
Total Tax	27	40	27			48	86	
Profit After Tax	171	198	134	-22%	-33%	306	428	40%
NPM%	4.8%	6.4%	6.8%			4.1%	6.3%	
Total Comprehensive Income	171	150	144			306	411	34%
Adjusted EPS (INR)	1.5	1.8	1.2	-22%	-33%	2.7	3.8	

Source: Company Information

KTAs from Management Call

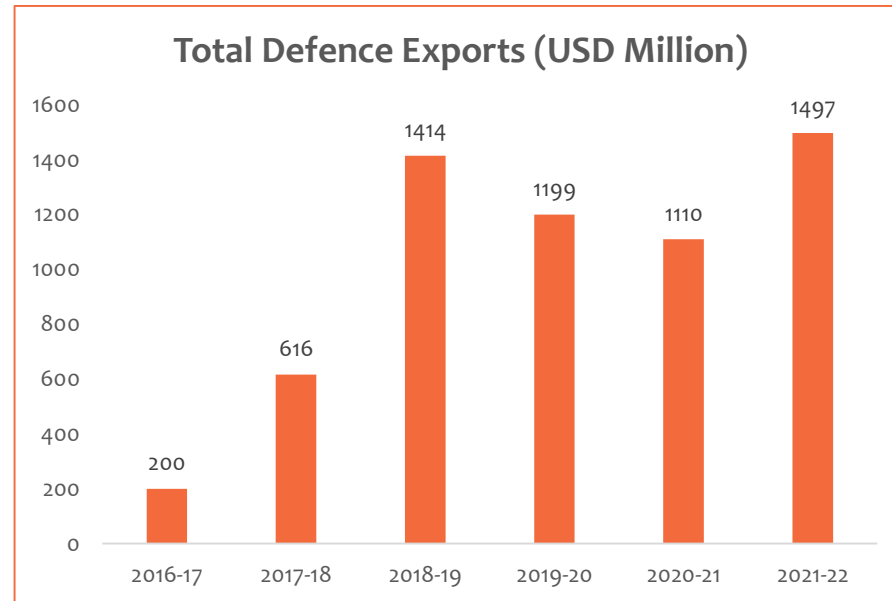
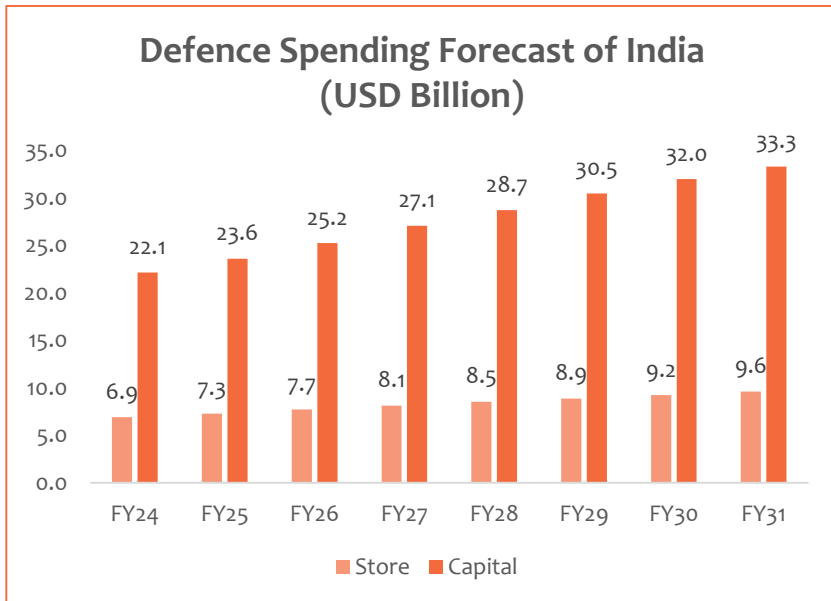
- DCX Systems witnessed YoY decline in revenue & profit numbers on account of shift in execution in the coming quarters and the March quarter is expected to be stronger as some of the orders got shifted from Dec'24 to March'24 quarter. The management is confident about delivering full year growth.
- It added marquee client named Lockheed Martin corporation, a \$103 billion US company, specialized in global security and aerospace. It received order worth of nearly \$2 million executable by 2024. It would help DCX gaining visibility in the industry with such marquee client.
- It has also received INR 457 crore worth of order from various international players for electronic assemblies. This order also contains newer geographies.
- Raneal Advanced Systems has done INR 40 crore for captive consumption in Dec'23 quarter to DCX Systems, and it is expected to touch INR 200 Crore by March'24. It also contributed in the EBITDA margin expansion for the quarter.
- DCX Systems have invested INR 209 crore in NIART Systems. NIART Systems have huge domestic as well as export opportunity in the Railway segment.
- DCX Systems would also be a supplier for the key manufacturing solutions to all the JVs as per the requirement.
- The order book stands approx. at INR 1570 crore as mentioned in Q3FY24 Earnings call.

Industry Overview: Dawn of a New Era with ‘Make in India’

Amidst a volatile geopolitical climate, strains in US-China relations are compounding the fragility of international ties, as exemplified by the Russia-Ukraine conflict and Israel-Palestine tensions. The global supply chain is pivoting away from China, with companies seeking manufacturing alternatives in the wake of the pandemic and in sync with India's drive for defence autonomy. The greater push of Indian govt for indigenized manufacturing with increased focus for aerospace and defence, has opened new opportunities for many companies.

In 2023, the Indian government released the fifth Positive Indigenization List, featuring 98 defence items valued at over INR 140,000 crore to be sourced indigenously. This list includes highly complex systems, sensors, weapons, and ammunition. Producing defence-related electronic products necessitates system integration, complex Printed Circuit Board Assembly (PCBA), and cable & wire harnessing, areas where DCX Systems has a distinct advantage due to its comprehensive presence across the value chain. The government's push for localization, as evidenced by the recent announcement of the indigenization list, is facilitating a shift from offset contracts to 'Make in India' contracts. This shift signifies that the earlier requirement to manufacture 30% of the total contract value in India has increased to 50%.

By Fiscal 2031, capital investment in defence is projected to reach \$33.28 billion, while store allocation is set to grow to \$9.59 billion, with respective compound annual growth rates (CAGR) of 6.00% for capital and 4.85% for stores from Fiscal 2024 to 2031. The focus will be on enhancing India's defence capabilities, particularly in electronics and weaponry, as the Indian Forces modernize their network-centric warfare and operational capabilities.



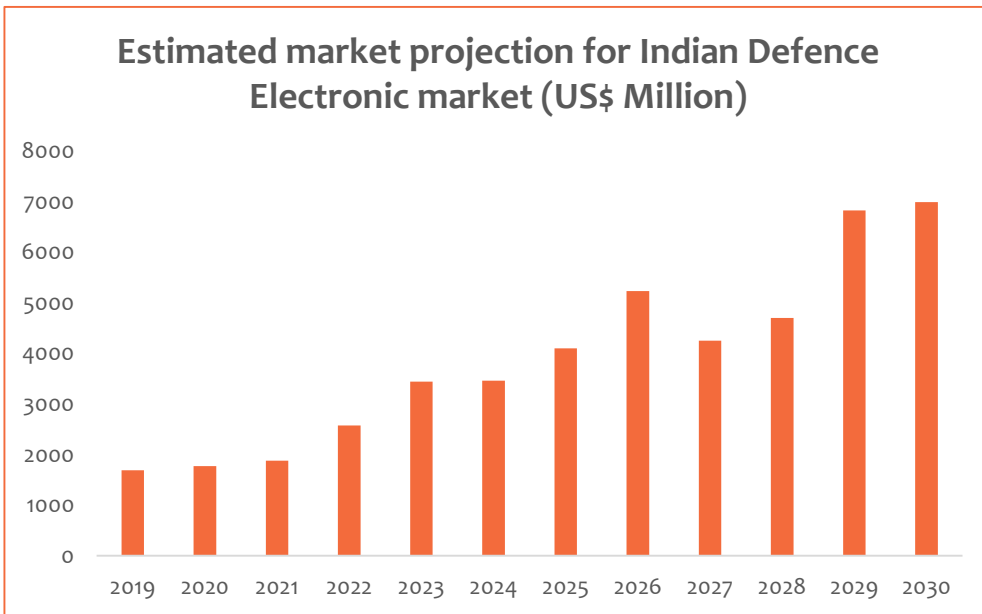
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Industry Overview:

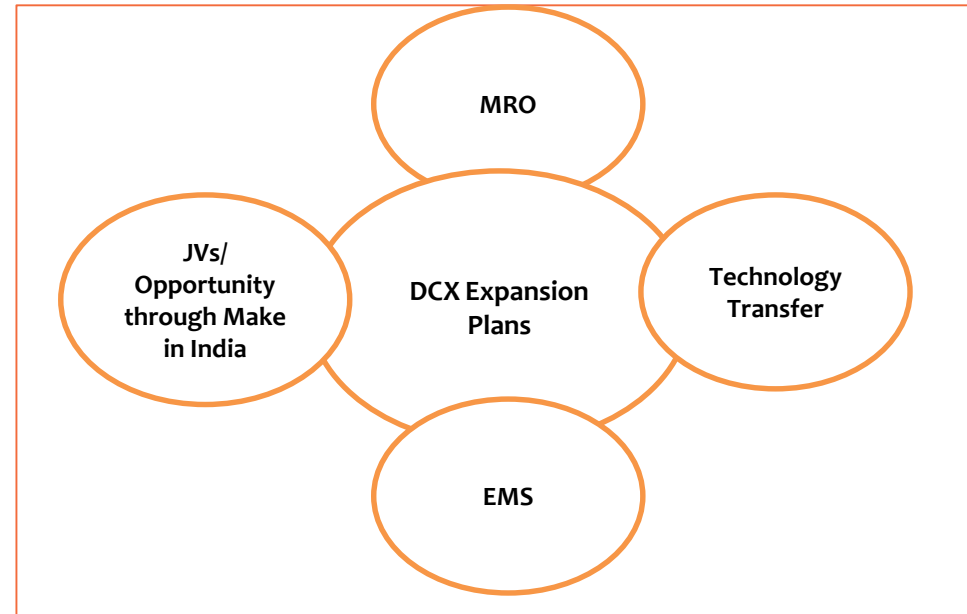
Electronic market

The estimated market size of India’s electronic market is likely to grow from \$154 billion in FY22 to \$309 billion in 2026. The national policy on electronics market has set a target of \$300 billion by 2026. The estimated market size for the Indian Defence Electronics Segment is noted to be US\$ 2,577 million for the year 2022. The market is expected to reach US\$ 6,994 million by the year 2030. The overall growth in market size is due to the increased investment in indigenous programs such as the Future Ready Combat Vehicle (“FRCV”) and the Future Infantry Combat Vehicle (“FICV”). India’s reliance on external markets is poised to reduce during the forecast period owing to the country’s rising defence capability. India’s Defence Electronics market is poised to grow with a CAGR of 13% between 2022-2030.

DCX is charting a course for growth with a strategic expansion plan that encompasses several key areas. The plan includes a focus on Maintenance, Repair, and Overhaul (MRO) services, leveraging Foreign Direct Investment (FDI), Make in India and partnerships with foreign players, enhancing technology transfer capabilities, and expanding electronics manufacturing services. This multifaceted expansion is set to position DCX more robustly within the market.



Source: KRChoksey Research and Company Information



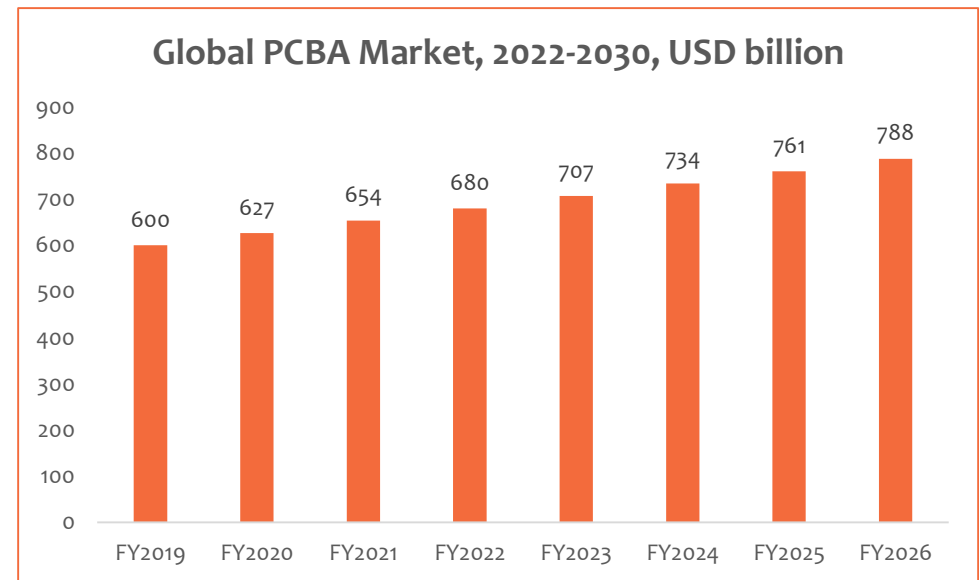
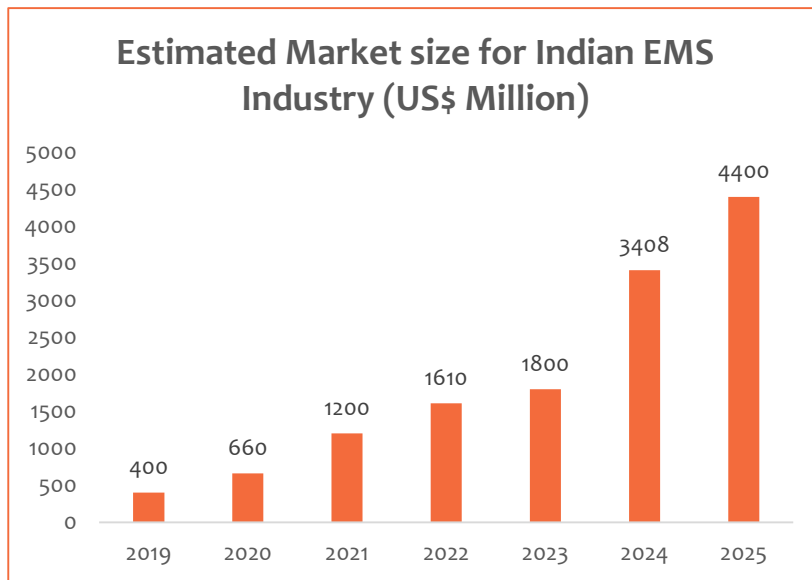
Industry Overview

EMS Industry Overview:

Globally in 2019, the top 50 EMS companies generated \$344 billion, 16% of the global electronics market, with a shift towards the "China+1" policy favoring India. India's efforts to attract these companies are set to boost its electronics export potential, especially as demand surges in the defence electronics sector amid global semiconductor shortages and increased IT reliance post-pandemic.

India is pushing its semiconductor industry with a ₹760 billion incentive, aiming to enhance low-cost production for sectors like aerospace and defence. In response to supply chain diversification from China, India's government has pledged \$10 billion to attract semiconductor plants, with notable agreements in Tamil Nadu and Karnataka. With a CAGR of 49.1%, India's EMS industry is expected to jump from \$400 million in 2019 to \$4.4 billion by 2025, as it seeks to draw 100 chipmakers over four years in the backdrop of a semiconductor demand projected to reach \$100 billion by 2025.

The Global Electronics Market was worth US\$ 2 trillion in 2019, with Printed Circuit Board Assembly (PCBA) making up significant of the value, amounting to approximately US\$ 600 billion. Mobile phones, computing devices, smart entertainment systems, and consumer appliances are the primary PCBA drivers, comprising about 46% of the global market.



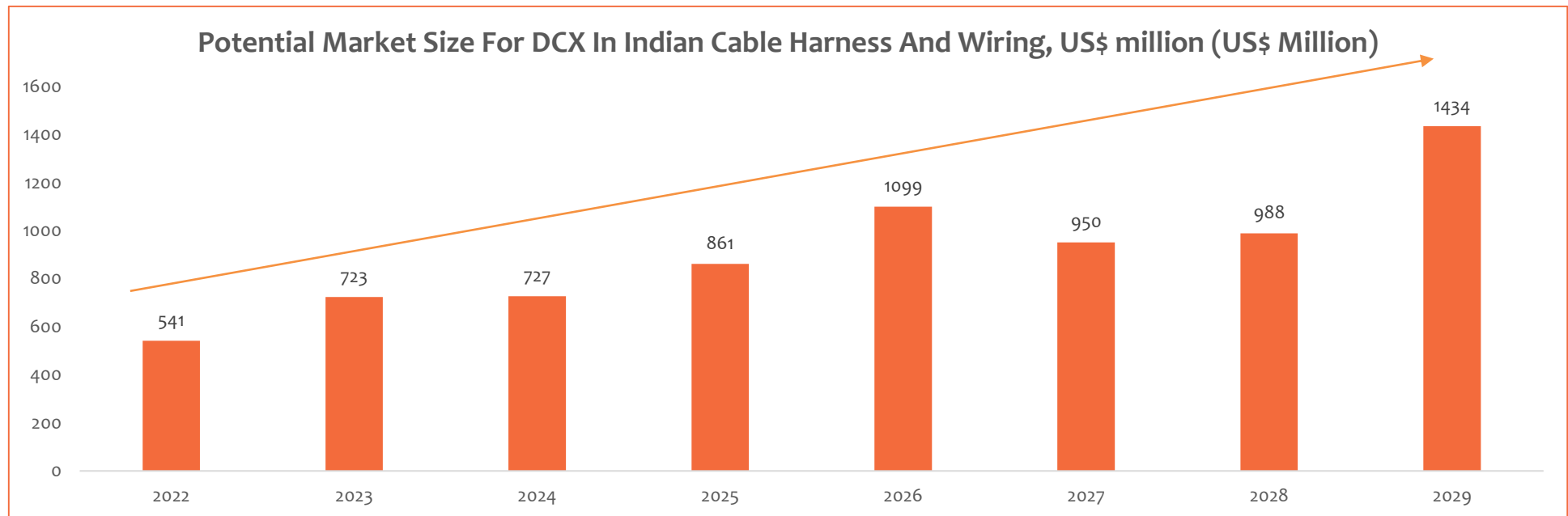
Source: Company Information

Industry Overview

Cable Harness and Wiring Industry Overview:

The cable harness and wiring segment is poised for growth driven by the increased indigenization of defence production. These components are essential for various defence platforms, including land, naval, and air. Growth in defence programmes indicates a rising market potential for cable and wire harnessing.

The demand for electronics, especially cables and connectors, is expected to rise in the Indian market. Globally, military spending is increasing due to geopolitical tensions. For instance, J and eight European NATO members met the 2% GDP spending target on armed forces in 2021. This global trend, including the procurement of advanced aircraft, submarines, and an increase in UAV procurement, suggests a continued uptick in defence procurement activities, benefiting sectors like cable harness and wiring. The market presence for this is quite substantial. Cable harness and wiring segment is expected to deliver a CAGR of 15% from 2022 to 2029.



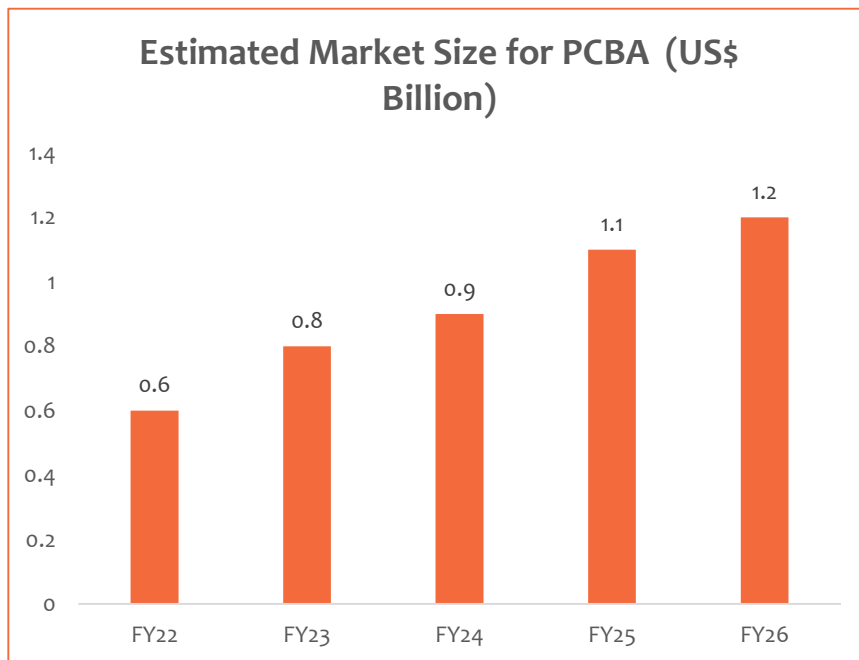
Source: Company Information

Industry Overview

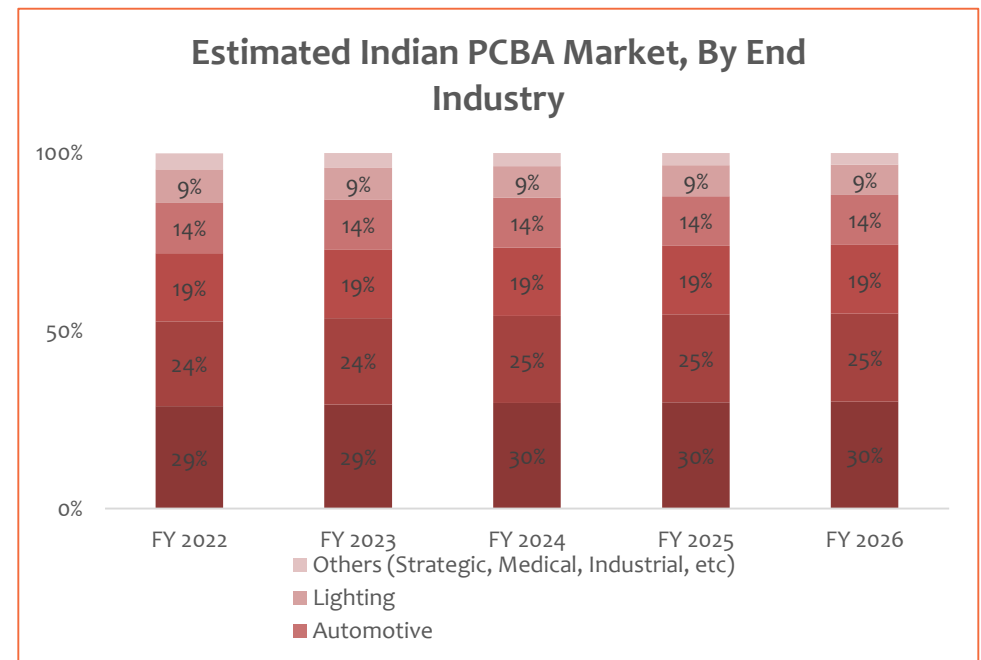
EMS Industry Overview: PCBA (Printed Circuit Board Assembly)

The Indian PCBA market is projected to expand from US\$ 0.618 billion in Fiscal 2022 to approximately US\$ 1.2 billion by Fiscal 2026, registering a Compound Annual Growth Rate (CAGR) of 18%. This robust growth trajectory is expected to be driven by the increasing implementation of sophisticated active surveillance systems, unmanned vehicles, state-of-the-art digital communication frameworks, and advanced network-based command and control infrastructures within the defence industry. These technological advancements are pivotal in modernizing and enhancing India's defence capabilities, positioning PCBA as a critical component in the country's strategic growth plans.

India's drone market is also expanding due to commercial and defence sectors, with applications in aerial cinematography, land surveying, mining, disaster management, and construction oversight. The government is developing a procurement framework to streamline drone acquisitions and services for public enterprises and has introduced a certification scheme to boost domestic drone manufacturing.



Source: Company Information



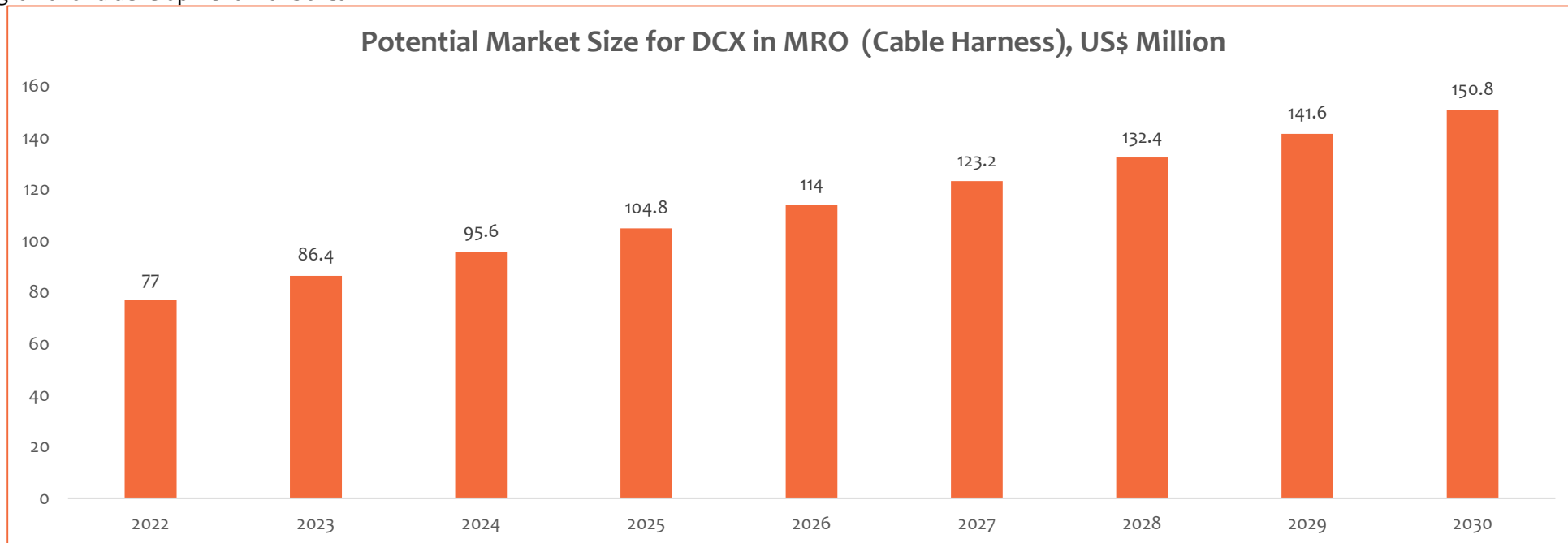
Industry Overview

MRO Industry Overview:

India, currently the third-largest buyer of commercial aircraft with over 1000 planes on order, is significantly investing in both commercial and defence aviation sectors. This growth is driving an increase in major maintenance checks, estimated between 200-300 due to the replacement of aging aircraft. In 2021, the Indian Maintenance, Repair, and Overhaul (MRO) market was valued at \$1.7 billion. The commercial MRO segment in India is expected to grow at a Compound Annual Growth Rate (CAGR) of approximately 9% from 2022 to 2031 and the global MRO market is projected to expand at a CAGR of 7.7% from 2022 to 2030, increasing from \$64.7 billion to \$117 billion.

defence

While aircraft MRO is predominantly in-house, there is reliance on private organizations for components and spares. A significant portion of India's MRO activities currently occur overseas due to limited local manpower and facilities. Within this sector, electronic cables and connectors are anticipated to comprise 4% of the total Indian MRO market. By 2031, the potential market for these components in India is estimated to be around \$160 million, highlighting a substantial opportunity for growth and development in this area.



Source: Company Information

Investment Rationale

Expansion in EMS with Raneal Advanced Systems:

DCX Systems, which currently operates with an operating profit margin range of 6%-7% and focuses largely on system integration, is strategically expanding into commercial electronic manufacturing services. This expansion includes a focus on Printed Circuit Board (PCB) assemblies and complex box builds, among other aspects. DCX Systems has set up Raneal Advanced Systems Pvt Ltd, a company with advanced manufacturing capabilities such as flex-rigid PCB assembly, automated PCBA de-paneling, and multi-chip modules. This set-up of Raneal will enable the company to augment its EMS business, contributing 12% to the top line with enhanced profitability in the near term.

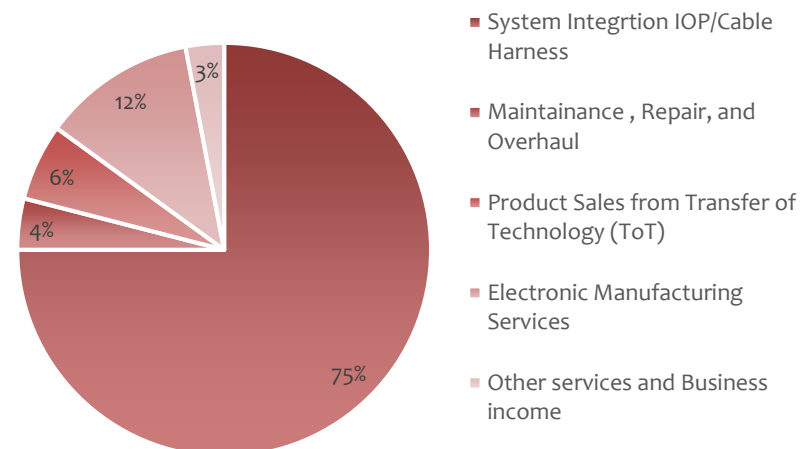
This move positions DCX Systems at the higher end of the value chain, as these capabilities denote a high level of sophistication, technological advancement, and quality assurance within the EMS sector. The focus for Raneal would be to deliver higher value products since these are very much complex PCBAs. Consequently, this will not only allow the company to capture a larger wallet share from customers, thereby growing the top line, but it will also enhance the company's profitability due to the high-value nature of these products. The company's EBITDA margin is also expected to increase as it intensifies its focus on EMS.

Elevating Profitability Through Backward Integration of PCBA:

In the electronics sector, the primary raw material required for module construction is the Printed Circuit Board (PCB), which constitutes approximately 80% of the total cost of the module. Given that PCBs are a significant cost factor in module production, the company has decided to integrate PCB assembly (PCBA) processes backward. With the incorporation of Raneal Advanced Systems, DCX is now positioned to fulfill 30%-40% of its PCBA needs internally with Raneal, while outsourcing the remaining approximately 70% due to the presence of other suppliers.

Backward integration through Raneal Advanced Systems grants the company enhanced control over its supply chain, manufacturing processes, and resource management, which were previously managed through outsourcing. By bringing these operations in-house, the company is set to save the advances which were earlier outflowing from the company for PCBA sourcing. It would also enhance its capacity to deliver high-quality electronic assemblies with heightened precision and reliability. This strategic move towards internal integration promotes greater efficiency and facilitates seamless coordination, driving improved outcomes across the production process. Such integration is anticipated to result in an improved top line and profit margins.

Future Revenue Growth contribution Medium Term



Source: Company Information

Investment Rationale

Expanding into high-growth sectors such as Railway through NIART Systems Limited:

DCX has entered into a strategic joint venture with a foreign company, ELTA Systems, leading to the formation of NIART Systems Limited. DCX holds a majority ownership stake of 50.1% in this venture. NIART's primary focus is the development of advanced technology solutions for railway obstacle detection mechanisms. ELTA has pioneered an innovative radar and optical-based solution for detecting obstacles on railway tracks, significantly reducing the risk of accidents.

The railway obstacle detection industry is dedicated to creating and deploying technologies and systems that identify and mitigate hazards along railway tracks. These systems are crucial for enhancing safety, preventing accidents, and ensuring the uninterrupted operation of trains. They typically employ an array of sensors, cameras, radar, lidar, and other sophisticated technologies to detect obstacles like debris, animals, or unauthorized track intrusions. Such systems are capable of initiating warnings, alerts, or automatic braking to prevent collisions, thus safeguarding overall railway operations' safety and efficiency. As India advances towards high-speed train technology, there is a pressing need for upgrades in various technologies. While most trains currently have obstacle detection mechanisms with a range of 600-700 meters, DCX's joint venture with ELTA will enable the manufacturing of obstacle detection systems with a range of up to 1.5 kilometers.

In India, the railway sector, with its extensive budget and over 14,000 locomotives in operation, exhibits a high demand for such advanced systems. With a dedicated budget allocation of INR 34,000 crores for railway technology upgrades, the Indian railway is undergoing a pivotal shift that demands technological enhancements. In this context, DCX is well-positioned to capitalize on the emerging opportunities.

Additionally, the railway industry presents the potential for profitable margins, anticipated to be in the low to mid-teens percentage range. DCX Systems is also poised to benefit from the Printed Circuit Board Assembly (PCBA) requirements of NIART Systems through its Wholly Owned Subsidiary (WoS), Raneal Advanced Systems. It intends to leverage its capabilities in cable and wire harnessing to meet the demands of NIART Systems Limited.

Geographic Expansion beyond existing presence :

DCX is strategically positioning itself to capitalize on the recent changes in Indian defence policies and leverage its capabilities to expand its international presence in the A&D sector. The company is shifting its focus beyond its existing market in Israel, targeting the United States, Korea, and other global economies, with a particular interest in the USA for its margin-enhancing opportunities. DCX is pursuing strategic alliances with regional businesses, intending to adapt its offerings to the specific needs of each market and expand its client base. DCX is also likely to secure orders from a defence player in the USA, and future growth in system integration is also expected to be driven by its market penetration in the US and its ability to acquire additional clients.

Investment Rationale

Strategically Located to Leverage Operational Edge

DCX Systems benefits from a strategic operational advantage, largely due to its facility's strategic positioning. Spread over 30,000 square feet, the facility is located in an aerospace Special Economic Zone (SEZ), close to key domestic customers. This proximity reduces delivery times, adding to the efficiency of operations. The SEZ location offers numerous fiscal benefits, including duty-free imports, exemption from GST, and zero-rated supplies under current regulations, which substantially reduces operational costs and enhances competitiveness.

The facility is equipped for complete in-house environmental and electrical testing and contains the latest inspection and testing equipment. This capability ensures high standards of quality and reliability in "Build-to-Print" system integration, as well as in prototype manufacturing and testing of cables and harnesses.

Furthermore, DCX Systems enjoys certain income tax benefits. As a recognized 4-Star Export House, the company benefits from facilitated movement and clearance of goods through customs, streamlining the export process. Additionally, as a Micro, Small and Medium Enterprise (MSME), DCX is eligible for a 3% interest subvention on working capital for export orders, which further aids in maintaining financial health and competitiveness. Also, DCX being an MSME, the foreign OEMs enjoy a 1.5x offset credit upon successful execution.

The facility is also outfitted with advanced machinery and equipment, including a laser wire marker, controlled torque tools, vacuum pumps, desiccators, and temperature-controlled soldering stations. These tools not only enhance the manufacturing capabilities but also ensure adherence to the highest standards of production quality.

In summary, DCX Systems' strategic location, coupled with advanced manufacturing capabilities and favorable fiscal benefits, positions the company advantageously for sustained growth and operational efficiency in the competitive aerospace sector.

Improved structure on IOP (Indian Offset Partner) & Non-IOP:

The company had nearly 90%+ revenue coming from IAI (Israel Aerospace Industry) few years ago and it has reduced the exposure to 55% in FY22 itself. In FY22 and FY23 the company has added many more customers in domestic market which is helping the company to reduce its reliance from offset business to non-offset business to further strengthen the portfolio structure. In the system integration segment, it targets to grow the non-offset segment from 15% to 40% over the years to mitigate the risk from high dependence on offset projects and drive better margin. While the company is focusing on Non-IOP segment for further resilience of its portfolio but there is a big opportunity of \$13.5 billion from the IOP category which is to be executed in seven years. DCX systems is well positioned to capitalize on this IOP contracts given its long-standing presence in IOP category and quality of products. Out of \$13.5 billion nearly \$4 - \$5 billion would be electronic requirement and DCX is well situated and capable to capitalize on this opportunity.

Investment Rationale

Expanding the Spectrum of Sectoral Presence:

DCX has largely focused on the aerospace and defence segment but given its strong presence in the value chain of the electronic solutions ranging from system integration, cable and wire harness, MRO, PCBA and etc., it is focusing beyond aerospace and defence and entering into areas such Medical, Railway and other sector. The new facility of Raneal has also received approval from most of the prominent OEMs from D&A as well as Medical sector and the recent incorporation of NIART Systems Limited is also formed to serve the railway sector. DCX is strategically positioning itself to expand into non defence & aero-space segment in a calibrated manner. In the coming years, the management has also highlighted that, it is targeting the non-defence and aerospace segment to grow to 40%-50% range.

Competitive Superiority: The fiscal policy taken by the government to push indigenous production within India has been instrumental for MSMEs to generate robust business. The companies with significant experience in this are also offset fulfilment partners to foreign players. However, the companies which are full system manufacturers are likely to gain more projects going ahead because of multiple factors. The below table reflects the key compatibility of DCX Systems with respect to its peers.

Capability Comparison DCX and Peers						
No	Company Name	System Integration	Cable & Wire Harness	MRO	EMS	Electro-Mechanical Assembly
1	DCX SYSTEMS LIMITED	Yes	Yes	yes	Yes	Yes
2	ASTRA MICROWAVE PRODUCTS LIMITED	Yes	No	Yes	Yes	Yes
3	ALPHA DESIGN TECHNOLOGIES PVT LTD	Yes	No	Yes	No	Yes
4	BHARAT ELECTRONICS LIMITED- BANGALORE	Yes	No	Yes	No	Yes
5	CENTUM ELECTRONICS	No	No	No	Yes	Yes
6	CYIENT DLM PVT LTD	Yes	Yes	No	Yes	Yes
7	SASMOS HET TECHNOLOGIES	No	Yes	No	No	No
8	ALMPHENOL INTERCONNECT INDIA PVT LTD	No	Yes	No	No	No
9	DATA PATTERNS PVT LIMITED	Yes	No	No	Yes	Yes
10	HELA SYSTEMS PVT LTD	Yes	No	Yes	No	Yes
11	KAYNES TECHNOLOGY INDIA PVT LTD	No	No	No	Yes	No
12	ROSSEL TECHSYS	Yes	Yes	No	Yes	Yes
13	APOLLO MICRO SYSTEMS	No	No	No	Yes	Yes
14	PARAS DEFENCE	Yes	No	No	Yes	Yes

Source: KRChoksey Research and Company Information

The above table reflects the presence of DCX systems across the value spectrum and it is likely to benefit as it gains more traction in the industry. As it is building its presence across system integration, cable & Wire harness, MRO,EMS and Electro- Mechanical Assembly, DCX is likely to be awarded with more orders both for domestic and international purpose.

Investment Rationale

Opportunities for DCX Systems in Product Manufacturing within the Competitive Landscape

Company Name	Segment Presence-	BTP & BTS	Sectors	Product /Service Wise / Product Category Rev:	Key clients
Astra Microwave	System Manufacturing ,MRO and PCB .	Present in both Build to Print & Build to specification.	Defence -55% Space-1% Exports (Including Deemed Exports)-39% Metrology-4%	1)Manufacturing of Radar apparatus and radio remote control Apparatus -94% 2) Others including PCB – 6%	BEL, HAL, BrahMos, IAI ELTA, RAFAEL, Elbit Systems, Raytheon Technologies, Thales, Adani Defence and Aerospace, Larsen & Toubro, and others.
Cyient DLM	Segment Presence-	BTP & BTS	Sectors	Product /Service Wise / Product Category Rev:	Key clients
	Box Build/System Integration, PCB Assembly and Cable Harness	Present in both Build to Print & Build to specification.	Aerospace-27% 48% Medtech-10% 3% Defence- Industrial-12% Others-	1) PCBA-67% 2)Box Build 27% 3) Cable Harness -3%	Honeywell International Inc, Thales Global Services, ABB Inc, Bharat Electronics, Limited and Molbio, and others
Kaynes Technology	Segment Presence-	BTP & BTS	Sectors	Product /Service Wise / Product Category Rev:	Key clients
	Box Build, PCBAs, ODM (Original Design Manufacturing),PCB Assembly, Product Design & Engineering ,IoT Solutions, Cable Harness.	Present in both Build to Print & Build to specification.	Automotive-38% incl EV-26% Aerospace,outerspace-2% Medical-6% IT & Others-12% Industrial IoT/	1) PCBA-62% 2)Box Build-30% 3) Product Engineering and IoT solutions-5% 4) Original Design Manufacturing-3%	SIEMENS, FRAUSCHER, HITACHI, IJL, AGAPPE, ,CANYON, Beat, Iskraemeco, and others
DCX Systems	Segment Presence-	BTP & BTS	Sectors	Product /Service Wise / Product Category Rev:	Key clients
	System Integration, PCBAs, Cable & Wire Harnessing, MRO	Present in only Build to Print	Defence & Aerospace-90% Others-10%	1) System Integration &Kitting -97.12% 2) Cable and Wire Harness-2.33% 3) Other Professional and Technical Services- 0.55%	IAI ELTA, BHARAT ELECTRONICS, IAI, RAFAEL ADVANCED DEFENSE SYSTEMS, and others.

Source: KRChoksey Research & Company Information

DCX has the opportunity to enter product or component manufacturing, coupled with increasing exposure towards PCBA. This move, exemplified by industry players beyond the aerospace and defence sector, would enable DCX Systems to drive higher profitability and strengthen the top line growth.

Investment Rationale

Transfer of Technology & Opportunity in Cables & Wire Harness

The technology transfer landscape, particularly in the hardware components sector, is rapidly evolving and presents significant opportunities for companies like DCX. This growth is driven by an increasing number of technology transfer agreements, both nationally and globally, with a notable focus on connectors and cables used in various turnkey and subsystem assemblies. These agreements are not only enhancing the demand for cables and connectors but also offering substantial benefits in terms of defence offsets. Consequently, cable and wire harnessing is expected to see significant growth over the coming years and it is likely to drive higher margin for DCX. Also, DCX has been focusing on expanding the revenue contribution from cable & wire harness segment.

For India, these technology transfer agreements are pivotal. In 2019, the Defence Research and Development Organization (DRDO) marked a significant milestone by signing 30 agreements with 16 Indian companies at the Vibrant Goa Global Expo. This surge in national collaborative agreements is expected to substantially strengthen India's domestic manufacturing capabilities. The government's introduction of 10 Production-Linked Incentive (PLI) Programs in 2020 further underscores this growth trajectory, aiming to attract new investments in both consumption and export-heavy sectors. Similar initiatives have been launched in the commercial market to push local manufacturing of mobile phones and electronic components.

India's international partnerships in technology transfer are equally noteworthy. In 2019, India and the US signed a defence technology transfer agreement, and the Industrial Security Annex (ISA) has facilitated collaborative efforts between Indian and US private companies in developing defence technologies. The Defence Technology and Trade Initiative further strengthens this partnership with three additional agreements aimed at co-developing critical technologies. The UK has also emerged as a key technology transfer partner since 2017, with agreements focusing on the co-production of military platforms and weapon systems. This collaboration is strategically aimed at positioning both countries more strongly in the global arms exports market.

For DCX, these developments open up vast opportunities. The company can leverage these technology transfer agreements to tap into the growing demand in the hardware components sector. By aligning with the trends in defence offsets and participating in national and international collaborative agreements, DCX can expand its manufacturing capabilities, explore international markets, and position itself strategically in the evolving global landscape of technology transfer. With this cables and wire harnessing is likely to see significant growth and DCX is well positioned to leverage this opportunity to expand these high margin accretive segment.

Joint Venture in Defence

India govt has been focusing on localization by introducing positive indigenization list and there has been an increasing shift of contracts from offset to make in India. DCX has the opportunity to tie up with global OEMs for defence radar and missile systems leveraging its system integration, PCBA and cable & wire harnessing capabilities. It can also explore the opportunity to tie up with DPSUs for supplying products and these kind of ventures would help DCX to take the business more towards manufacturing of sub-assemblies rather than only focusing on system integration.

Management and Board of Directors

Dr. H.S. Raghavendra Rao, Chairman & managing Director: Dr.Rao has been the Director of DCX Systems Limited since January 16, 2012. His key role in the Company, amongst other things, is to deliver the business plan and conduct the business, ensure client relationship management and coordinate the administrative duties of the Company. He has been conferred with an honorary doctorate in business management by the International Peace University, Germany. He has about 22 years of experience in the Electronics Manufacturing Industry and Aerospace sector, with outstanding contribution to leading EMS companies in its manifold all round growth, shouldering responsibilities as a Director.

Mr. Neal Castleman, Founder and Director: Mr. Castleman is the Non-Independent and Non-executive Director of the Company. He has been the Director of the Company since March 14, 2012. He holds a bachelor of science degree– Chemistry from the University of Southern California. He has over four decades of experience in the electronics manufacturing sector and has been working with DCX-CHOL Enterprises, Inc as a director (president) since 1997.

Mr Krishnabagawan Srinivasa Ranga, Director & Chief Financial Officer: Mr.Ranga is the Whole Time Director and Chief Financial Officer of the Company. He is the Director in the company from September 01, 2023. He is a fellow member of Institute of Chartered Accountants of India. An accomplished financial professional with over 25 years of extensive expertise in managing and enhancing the financial landscape and 10 years of defence sector specific experience. He has extensive experience in working capital management, building system driven strong internal financial controls, statutory compliances, tax optimization, and budgetary finesse with knowledge on business processes, defence procurement procedures thereby assisting the Board in aligning with their strategic decisions for the Company.

Mr. Kalyanasundaram Chandrasekaran, Independent Director: Mr. Chandrasekaran serves as an Independent Director of the Company, a position he has held since January 28, 2022. He is affiliated with both the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. His prior engagements include roles at BDA Ltd, Beacon Weir Limited, Ceeta Springs & Steels Limited, as well as involvement with Associated Construction and Investment Company, LLC in Dubai, Dubai Lifestyle City, and Tracstar Investments Limited.

Mr. Panchangam Nagashayana, Independent Director:Mr. Nagashayana holds the position of Independent Director at the Company, having joined the board on January 28, 2022. A Bachelor of Engineering (Electronics) graduate from Gulbarga University, he brings over three decades of expertise in the electronics industry to his role. His previous associations include Canarie International, Canarie Electronics Inc., Plugmetrix Technologies LLP, and Cyberstar Infocom Private Limited. Presently, he is engaged full-time as a director at Avyaya Technologies Private Limited.

Ms. Lathika Siddharth Pai, Independent Director: Ms. Pai, is the Independent Director of the Company. She has been the Director of the Company since February 2, 2022. She holds a bachelor of engineering (electronics) from Bangalore University as well as master’s degree in science from the Rochester Institute of Technology. She has 15 years of experience in management consultancy and has been working with Tekinroads Consulting LLP since 2014 as a partner.

Risks and Concerns

Unavailability of raw materials: DCX Systems' manufacturing operations for defence and aerospace products rely heavily on electronic components like circuit board assemblies, power supplies, integrated circuits, cables, connectors, and mechanical enclosures. These materials are sourced from customer-approved suppliers. The company faces price volatility for these materials due to market fluctuations. However, DCX Systems generally does not engage in long-term supplier contracts, operating instead on project-based purchase orders and often makes advance payments for materials and it also has the clause for transmission of price escalations. However, in case of unavailability of raw material, DCX is liable to bear the overheads associated with the timely delivery of products.

Dependence on offset contracts: DCX Systems primarily earns revenue from offset defence contracts, constituting majority of the total sales in recent fiscal years. The companies near future revenues are expected to remain heavily reliant on these contracts. Changes in government policies, like those under the Defence Acquisition Procedure 2020, which allow certain exemptions from offset obligations, could significantly affect DCX Systems' financials.

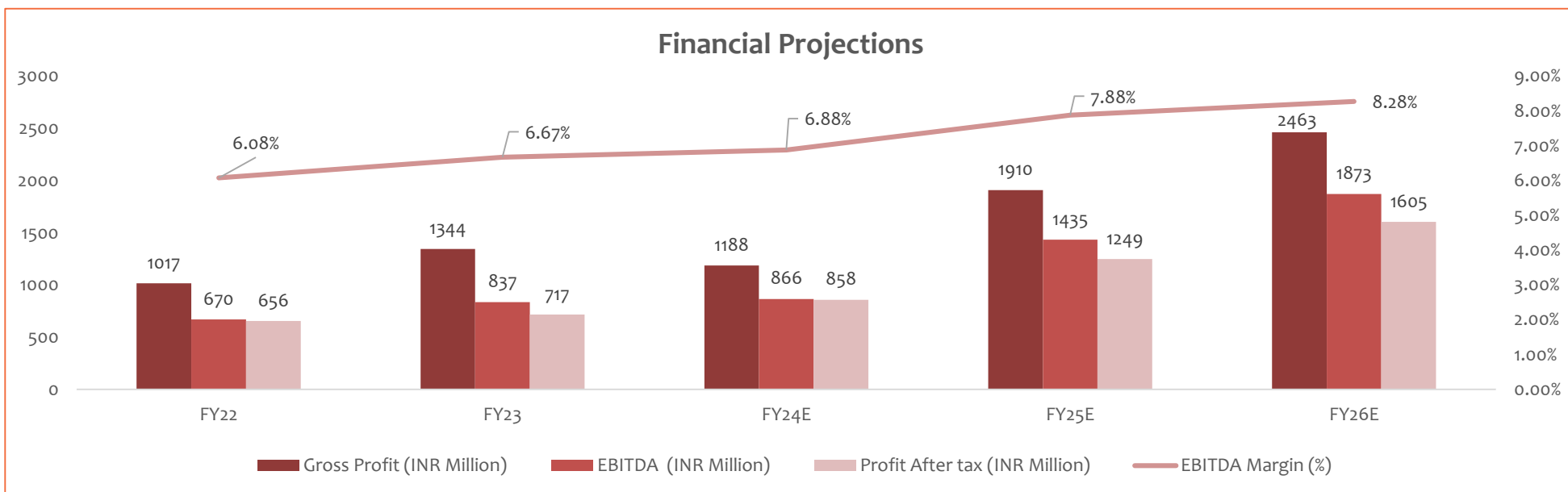
Dependence on system integration: DCX Systems' revenue is largely generated from its system integration business in the defence and aerospace sectors. DCX system generated nearly 90% of its revenue from system integration in FY23. Consequently, DCX Systems' economic health is closely tied to the global and Indian markets for electronic sub-systems. A downturn in demand could significantly impact the company's operations and financial stability. Additionally, the market for electronic sub-systems is susceptible to changes in government policy, economic shifts, and interest rate fluctuations, which could further affect the company's product demand and valuation, thereby materially impacting its business and financial outcomes.

Transportation risk: DCX Systems Ltd faces a significant risk in its reliance on the transportation of finished products, which could adversely impact its business. Utilizing road, sea, and air transport, the company is vulnerable to disruptions from natural events like weather extremes or man-made issues such as strikes and accidents. These disruptions can hinder both raw material deliveries and product shipments to customers, potentially affecting revenues. Additionally, the loss of third-party transportation providers, coupled with their potentially inadequate insurance coverage, poses a risk. Such challenges in transportation could lead to financial and operational setbacks for DCX Systems Ltd.

Financial Projections

Revenue assumption:

We anticipate the company's revenue to grow at 22% CAGR from FY23 to FY26E, driven by the robust opportunities in electronic manufacturing solutions (EMS) and system integration. This forecast is underpinned by the substantial shifts occurring in India's electronics manufacturing sector, boosted by the indigenous production of defence equipment and the 'Make in India' initiative. Moreover, the global shift towards India as an alternative manufacturing hub to China is expected to contribute to this growth. The projection also considers the increased share of cable and wire harnessing, which, along with the expansion of EMS business in the commercial space, will be fueled by growth in existing verticals. Our conservative estimate of limited margin expansion during the estimated tenure over the management's guidance towards double digit EBITDA margin (ex-other income), leaves potential for a re-rating when the expectations start materializing into execution



Source: KRChoksey Research

Cost to Income and PAT assumption

We assume DCX will steadily increase its EBITDA margin toward double digits, aided by its backward integration in its system integration segment with PCBA following Raneal Advanced Systems' recent incorporation. This strategic move is expected to enhance the margin profile. Furthermore, the growing contributions from cable and wire harnessing, along with the expansion of the EMS business amid an increase in non-offset projects, are projected to lift EBITDA margins from 6.7% in FY23 to 8.3% in FY26. As a result, we foresee the company's PAT achieving a 30% CAGR from FY23 to FY26E driven by strong top line growth and margin expansion.

Outlook and Valuation

Outlook:

India's electronic manufacturing solutions segment is set to experience substantial growth, fueled by domestic demand and global players seeking alternatives to China for a more reliable supply chain, positioning India advantageously. Amidst rising geopolitical tensions and increased defence spending worldwide, including in India, the country's defence electronics market is projected to grow at a CAGR of 13.7%, while the PCBA market is expected to expand at a 19% CAGR over the coming years. This growth is supported by advancements in active surveillance, unmanned systems, and digital communications.

DCX Systems is strategically positioned to capitalize on these trends through its emphasis on backward integration of PCBAs, enhancing control over the supply chain and improving overall margins. Commercial production of EMS, beginning with PCBA, is set to contribute to top-line growth and superior margin quality due to its higher margin profile relative to other segments. Furthermore, DCX is working to increase its revenue share from the high-margin wire and cable harness segment, alongside growing non-offset projects, which are expected to boost margin expansion.

The company's strategic expansion into sectors beyond Aerospace & Defence, such as railways and medical, will strengthen the resilience of its revenue growth. DCX is actively pursuing joint ventures with foreign OEMs and DPSUs, leveraging their technological expertise in defence, railways, and other industries. Given these factors, DCX is well-positioned for significant revenue growth, robust margin enhancement, and a strong balance sheet.

Peer Comparison

DCX Systems is currently trading at a discount compared to its peers, mainly due to its substantial involvement in lower-margin offset projects within the defence and aerospace sectors. However, the company is actively transitioning towards a new growth phase. This shift involves an increased focus on non-offset projects in system integration, and penetration into new sectors, enhancing the company's diversity and potential for higher margins. Additionally, DCX Systems is strengthening in system integration through backward integration and the commercial use of its PCBA facility. The expansion into railway and other sectors further supports this growth trajectory. These strategic moves, coupled with rapid top-line growth, position DCX Systems for a future of enhanced profitability and quality. This dual strategy of accelerating growth while improving margins renders DCX Systems an attractive investment at its current valuation with respect to its peers.

Particulars	ROA%			ROE%			EBITDA%			P/E			P/B		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Astra Microwave Products Ltd	6.9	11.0	13.5	11.4	14.5	16.8	18.3%	18.9%	20.7%	83.6	59.1	42.8	9.1	8.4	6.9
Cyient DLM	3.4	4.4	7.3	23.1	8.2	12.4	10.6%	9.2%	10.0%	97.1	78.2	45.6	20.1	6.4	5.6
Kaynes Technology	9.3	6.6	8.1	16.4	13.3	16.4	15.0%	15.0%	15.3%	149.3	96.4	62.5	17.7	13.5	11.1
DCX Systems	6.6	5.7	6.7	20.9	10.0	10.3	6.7%	6.9%	7.9%	54.4	45.5	31.2	6.9	3.4	3.1

Source: Factset and KRChoksey Research

Outlook and Valuation

Valuation

DCX Systems is evolving and improving its competencies at the dawn of a new era, fueled by the government's increased focus on indigenous manufacturing. This is evident from the recent release of the 5th positive indigenization list, which involves procurement of more than INR 1.4 lakh crore from indigenous sources. With its capabilities in system integration, the recent addition of a PCBA facility, and expertise in cable and wire harnessing, DCX Systems is well-positioned to benefit from this push for indigenized manufacturing. The company is also exploring defence opportunities with foreign nations such as the US and other economies. On another front, DCX's strategy to form joint ventures with different foreign OEMs aims to cater to diverse electronic solutions across various sectors. This approach should further drive top-line growth and improve the margin profile, as the company focuses on higher-value complex module requirements for different electronic solutions in the both A&D (Aerospace & Defence) and non-A&D space in the backdrop of higher focus on margin accretive segments.

As the stars are well aligned for DCX Systems to drive the top line growth and expand the EBITDA margin, we estimate DCX Systems to deliver revenue/EBITDA/PAT CAGR growth of 22%/31%/30% during forecasted period of FY23-FY26E. We expect the adjusted EPS (adjusted for the shares issued in QIP) for FY24E/FY25E/FY26E of DCX Systems to be at INR 9.01/11.35/14.53 and it is currently trading at the P/E multiple of 45.5x/31.2x/24.3x on the projected EPS of FY24E/FY25E/FY26E. We value the company at a P/E multiple of 36x on the EPS of FY26E at INR 519 per share with an upside of 48% from the CMP of INR 350/Share.

Financials

Income Statement

Particulars (INR Million)	FY22	FY23	FY24E	FY25E	FY26E
Revenue from Operations	11,023	12,536	12,594	18,209	22,630
Other Income	221	295	463	374	356
Total Income	11,243	12,832	13,057	18,583	22,986
Cost of Goods Sold	10,006	11,192	11,406	16,300	20,167
Gross Profit	1,017	1,344	1,188	1,910	2,463
Gross Margin	9.2%	10.7%	9.4%	10.5%	10.9%
employee benefit cost	87	105	143	237	294
other expenses	260	403	179	238	296
Operating expenses	10,353	11,700	11,728	16,775	20,757
EBITDA	670	837	866	1,435	1,873
EBITDA Margin	6.1%	6.7%	6.9%	7.9%	8.3%
Depreciation Expenses	22	18	39	64	75
Finance cost	113	256	259	243	225
Profit Before Tax	756	858	1,031	1,501	1,929
PBT Margin	6.2%	6.9%	6.8%	8.2%	8.2%
Tax					
Total Tax	99	141	173	252	324
Tax Rate	13%	16%	17%	17%	17%
Profit After tax	656	717	858	1,249	1,605
PAT Margin	6.0%	5.7%	6.8%	6.9%	7.2%
Total Comprehensive Income	656	735	858	1,249	1,605
Adjusted EPS (INR)	5.9	6.4	7.7	11.2	14.4

Source: KRChoksey Research & Company information

Balance Sheet

Particulars (INR Million)	FY22	FY23	H1FY24	FY24E	FY25E	FY26E
Assets						
Non-Current Assets						
Property Plant and Equipment	108	108	387	480	512	488
Total Non-Current Assets	188	280	518	616	654	636
Current Assets						
Inventories	273	2,292	1,032	2,219	3,012	3,727
Financial Assets						
i) Investments	-	-	-	-	-	-
ii) Trade receivable	695	3,195	2,138	3,050	4,189	5,076
iii) Cash and cash equivalents	1,885	137	176	-	-	-
iv) Bank balances other than (ii) above	6,118	5,822	6,395	6,638	6,053	6,013
Current Tax Assets (Net)	-	14	1	-	-	-
Other current Assets	217	433	919	5,341	5,537	5,692
Total Current Assets	9,238	11,913	10,661	17,247	18,791	20,507
Total Assets	9,426	12,193	11,179	17,863	19,446	21,143
Equities & Liabilities						
Equity Share Capital	155	193	193	223	223	223
Reserve & Other Equity	1,021	5,474	5,721	11,303	12,552	14,157
Total Equity	1,176	5,667	5,914	11,525	12,775	14,380
Non-Current Liabilities	-	-	-	-	-	-
Long Term Borrowings	354	58	204	210	250	250
Total Non-current Liability	365	70	217	227	278	285
Current Liabilities						
Borrowings	4,672	5,037	4,136	4,000	3,800	3,500
Total Trade Payables	965	1,363	472	1,319	1,791	2,171
Current Tax Liabilities	88	-	-	-	-	-
Total Current Liability	7,885	6,456	5,047	6,111	6,393	6,478
Total Liability	9,426	12,193	11,179	17,863	19,446	21,143

Ratio Analysis

Profitability Ratios	FY22	FY23	FY24E	FY25E	FY26E
Gross Margin%	9.2%	10.7%	9.4%	10.5%	10.9%
Operating Margin%	6.1%	6.7%	6.9%	7.9%	8.3%
PAT margin%	6.0%	5.7%	6.8%	6.9%	7.1%
Return Ratios	FY22	FY23	FY24E	FY25E	FY26E
ROCE%	19.4%	10.3%	6.6%	9.6%	11.5%
ROE%	79.8%	20.9%	10.0%	10.3%	11.8%
ROA%	7.6%	6.6%	5.7%	6.7%	7.9%
Working Capital & Turnover Ratios	FY22	FY23	FY24E	FY25E	FY26E
Debtor Days	23	93	88	84	82
Inventory Days	10	75	71	67	67
Creditor Days	35	44	42	40	39
Working Capital Days	-2	123	117	111	110
Debtor Turnover	15.9	3.9	4.1	4.3	4.5
Inventory Turnover	36.7	4.9	5.1	5.4	5.4
Payables Turnover	10.4	8.2	8.6	9.1	9.3
Asset Turnover	1.3	1.2	0.8	1.0	1.1
Coverage Ratio	FY22	FY23	FY24E	FY25E	FY26E
Debt to Equity (x)	4.3	0.9	0.4	0.3	0.3
Interest Coverage (x)	7.7	4.3	5.0	7.2	9.6
Valuation Ratios	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS	5.9	6.4	7.7	11.2	14.4
Adjusted Book Value	10.6	50.9	103.5	114.7	129.1
Adjusted Price to Earnings (x)	59.5	54.4	45.5	31.2	24.3
Adjusted Price to Book Value (x)	33.2	6.9	3.4	3.1	2.7
EV/EBITDA (x)	56.6	45.8	42.3	25.8	19.6

Source: KRChoksey Research & Company Information

Cash Flow

Particulars (INR Million)	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Flow from Operation	-1,340	-5,902	-3,289	-453	181
Net Cash Flow from Investing	208	219	113	272	304
Net Cashflow from Financing	3,642	3,638	3,856	-403	-525
Opening cash balance	5,493	8,003	5,958	6,638	6,053
Closing Cash	8,003	5,958	6,638	6,053	6,013

Source: KRChoksey Research & Company Information

Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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