



## Press Release

### **DCX Systems Limited (formerly known as DCX Cable Assemblies Private Limited)**

**February 19, 2024**

#### **Ratings**

<b>Sl. No.</b>	<b>Type of Facility</b>	<b>Rated Amount (Rs Cr.)</b>	<b>Ratings</b>	<b>Rating Action</b>	<b><a href="#">Complexity Indicator</a></b>
1	Long Term Non-Fund Based Facilities	480.00 (reduced from 809.00)	IVR A-/ Stable (IVR Single A Minus With Stable Outlook)	Reaffirmed	Simple
2	Short Term Fund Based Facilities	520.00 (reduced from 707.35)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
3	Short Term Non-Fund Based Facilities	10.00 (reduced from 59.00)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
<b>Total</b>		<b>1010.00</b> <b>(Rupees One Thousand and Ten Crore only)</b>			

#### **Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The reaffirmation of the ratings to bank facilities of DCX Systems Ltd continues to derive comfort from experienced management and established track record of operations. The rating also factors in reputed and diversified clientele, backward integration and diversification of business, increase in scale of operations and margins, healthy debt protection metrics and capital structure and strategic location of the manufacturing facility. However, the ratings are constrained by less diversified customer base and regulatory risk that might arise in future.



## Press Release

Further, the rating also takes the note of 2nd round of equity funding through QIP which was successfully completed on 19<sup>th</sup> January 2024 with fresh issue of equity shares aggregating to ₹ 500 crores. DCX has issued and allotted 14,662,756 equity shares to 43 qualified institutional buyers (QIBs) at an issue price of ₹341 per equity share, a discount of 4.83% to the floor price of ₹358.30 apiece. The company intends to utilise these proceeds for investment in Niart Systems Ltd of INR 209 Cr, investment in joint ventures and/or subsidiaries of INR 200 Cr and balance Rs 77 Cr is for other corporate expenditure after considering QIP issue expenses.

**Key Rating Sensitivities:** on a consolidated basis

### Upward Factors

- Significant and sustained growth in scale of business with further improvement in profitability thereby leading to overall improvement in cash accruals and liquidity.

### Downward Factors

- Any dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to deterioration in the liquidity position.

### List of Key Rating Drivers with Detailed Description

#### Rating Strength:

#### Experienced Management and established track record of operations

Company's board is comprised of experienced and qualified individuals. Mr. Raghavendra Rao is the Chairman and Managing Director and Mr. Neal Jeremy Castleman is the director of the company. Mr. Raghavendra Rao and Mr. Neal Jeremy both have an experience of over three decades into the industry. Further, Company has an operational track record of more than a decade and has achieved significant growth in the last 4-5 years. Longstanding presence of the directors in the industry has helped the company to establish strong relationships with customers and suppliers and diversify the product profile.

#### Reputed and diversified clientele



## Press Release

Company caters to the demand of reputed and diversified clientele which includes major players such as Israel Aerospace Industries (IAI) and Rafael Advanced Defence Systems Limited. It has been regularly receiving orders from its clients and has a good order book position as on date. Recently company has received an order of ~Rs 16.53 Cr from Lockheed Martin Corporation, USA and other orders of ~ Rs 457.58 Cr. Open orderbook position of the company as on 1st Jan 2024 stood at ~ Rs 1095 Cr, with these new orders of ~ Rs 474 Cr, current orderbook position stands at ~Rs 1569 Cr.

### **Backward Integration and diversification of business**

DCX through its Wholly owned Subsidiary Raneal Advanced Systems Pvt Ltd, has setup facility for manufacturing Printed Circuit Board Assemblies for RF microwave, high-speed digital and mixed signal applications in the defence and aerospace segment. It has achieved COD on 18<sup>th</sup> September 2023. NIART Systems Ltd, incorporated as a wholly owned subsidiary of DCX on October 15, 2023 in Israel has entered into JV with Israel company ELTA Systems Ltd (part of IAI) having 50.1% shareholding in the JV, which would offer obstacle detection solutions based on radar and optics technology for railway industry. The purpose is to detect large and small obstacles up to 1.2-1.5 Km from the locomotive in a variety of weather and visibility conditions including in both daylight and at night.

### **Increase in Scale of Operations and improved Profitability Margins**

On consolidated basis, the Company's operating income improved by ~14.13% to Rs.1253.63 Crores in FY23 from Rs.1102.27 Crores in FY22. The EBITDA has increased significantly to Rs. 83.67 Crores in FY23 (FY22: Rs.66.99 Crores) and on the margin front it has improved to 6.67% in FY23 (FY22: 6.08%). PAT has increased to Rs.71.68 Crores in FY23 (FY22: Rs.65.61 Crores) and on the margin front it has dropped to 5.59% in FY23 (FY22: 5.84%). TOI stood at Rs 677.38 crore in 9MFY24 (Rs 743.09 crore in 9MFY23) with EBITDA at Rs 75.36 crore (Rs 57.66 crore) and PAT at Rs 42.83 crore (Rs 30.56 crore) in 9MFY24. EBITDA Margin and PAT margin for the nine months stood at 11.13% and 6.32% respectively in 9MFY24 in comparison to 7.76% and 4.11% respectively in 9MFY23.

### **Healthy debt protection metrics and capital structure**



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On consolidated basis, the company's debt protection metrics stood healthy marked by ISCR of 3.26x and DSCR of 1.79x in FY23. Gearing ratio and TOL/ TNW, on consolidated basis, have improved to 0.91 times in FY23 (FY22: 4.42 times) and 1.16 times in FY23 (FY22: 7.25 times) respectively on account of improved TNW marked by capital infusion post IPO. Capital structure is expected to improve further in FY24 on account of further capital infusion led by recent QIP.

### **Advanced Aerospace Manufacturing Facility& Strategic Location for Efficiency**

The company's 70,000 square feet manufacturing facility in Bengaluru, Karnataka, strategically located in the Hi-Tech Defence and Aerospace Park SEZ, offers several advantages. The facility enjoys digital security and restricted access control, safeguarding operations. Being in SEZ grants duty-free imports, GST exemption, and zero-rated supplies. Advanced machinery and equipment and in-house testing capabilities meet industry standards. Finished goods handling adheres to special standard operating procedures, ensuring classified product security till delivery. The location of the facility is in the same city as certain of DCX's key domestic customers like Bharat Electronics Limited, Alpha Design Technologies Pvt. Ltd., Alpha Elsec Defence and Aerospace Systems Pvt. Ltd. and Centum Adeno India Pvt. Ltd., which ensures shorter delivery time.

### **Increasing defence exports of India**

The country's defence exports were a mere Rs 1,521 crore in 2016-17, but there was a marked improvement in performance in the following years on the back of government policies to boost exports. India's defence exports have witnessed a notable surge in the financial year 2022-23, with military hardware worth Rs 15,920 crore exported, marking a tenfold increase since 2016-17. This achievement has been attributed to the enthusiasm for 'Make in India,' a key initiative aimed at boosting domestic manufacturing and promoting India as a global manufacturing hub and players like DCX are expected to get benefit out of it.

### **Key Rating Weaknesses:**

**Less diversified customer base**



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Elta Systems which is a part of Israel Aerospace Industries (IAI), is the major contributor in total revenue, contributing ~67% of the total revenue. Although it shows customer concentration risk, given the nature of business, there is generally limited customer base. IAI has an Outstanding rating from S&P of “BBB+” and Israel national scale rating from S&P of “iIAAA”. The Customer concentration risk is mitigated by the reputed customer base, strong credit rating and long-term association with its clientele and the company is also trying to venture into new geographies with new clients.

### **Exposure to Regulatory Risk**

Defence is a highly regulated industry. Any changes in Offset Programme by Ministry of Defence, India might impact on the order inflow though it is unlikely to happen soon considering India’s dependency on foreign OEMs for defence sector related requirements. With the increase in Defence requirement and the huge Backlog of Off-set obligations from the overseas Defence OEM’s, the revenues will continue to surge for the years to come.

**Analytical Approach:** Consolidated (earlier the approach was standalone, however with incorporation of two subsidiaries, Raneal Advanced Systems Pvt Ltd, incorporated on February 3, 2022 and NIART Systems Ltd, incorporated on October 15, 2023, we have taken consolidated approach)

For arriving at the rating, Infomerics has taken the consolidated approach by combining financial profiles of DCX Systems Ltd and its subsidiaries Raneal Advanced Systems Pvt Ltd and NIART Systems Ltd. The consolidation is on account of common management, and significant operational and financial linkages.

### **Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Criteria on Consolidation of companies](#)

### **Liquidity – Adequate**





## Press Release

DCX has generated a cash accrual of Rs.73.56 Crores in FY23 and is sufficient for near-term obligations. Going forward there are negligible term debt obligations. The average utilization of the working capital facilities for last 12 months ended November 2023 stood at ~61% indicating sufficient buffer to meet incremental requirements. Current Ratio is adequate at 1.83x in FY23. Operating cycle is comfortable at 60 days in FY23. The cash and cash equivalent stood at Rs. 394.50 Cr as of Mar'23. All these factors reflect adequate liquidity position of the company.

### About the Company

DCX Systems Limited (formerly known as DCX Cable Assemblies Private Limited) was incorporated in the year 2011 having registered office in Bangalore. DCX is one of the leading Indian Offset Defense players offering a full service and manufacture of military and aerospace system integration, cable harness business and is well known for its innovation in connection product range with a discerning list of customers in India and Offshore. The company became listed entity upon successful listing in NSE/BSE dated 11<sup>th</sup> November 2022. 2nd round of equity funding through QIP was successfully completed on 19<sup>th</sup> January 2024.

DCX is a 100% Special Economic Zone Company and have leading quality certifications including AS9100 Rev C & ISO 9001:2008 and is Qualified & Proven IOP (Indian offset partner) under Industrial license by DPITT, GOI based out of Bengaluru. One of company's core strength is its Global network of Suppliers & Customers and its entire operations are based on Advanced ERP system (SAP) implemented for all production activities. Company is fully equipped to cater to Aerospace, Defence, Marine and Extended Industrial Applications.

### Financials (Consolidated)\*:

INR in Crores		
For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1102.27	1253.63
EBITDA	66.99	83.67
PAT	65.61	71.68
Total Debt	502.62	509.48
Tangible Net worth	113.74	562.31



## Press Release

EBIDTA Margin (%)	6.08	6.67
PAT Margin (%)	5.84	5.59
Overall Gearing ratio (X)	4.42	0.91

*\*Classification as per Infomerics' standards*

### Financials (Standalone):

INR in Crores

For the year ended* / As on	31-03-2022	31-03-2023
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	1102.27	1253.63
EBITDA	67.00	83.91
PAT	65.61	72.01
Total Debt	502.62	503.71
Tangible Net worth	113.75	562.64
EBIDTA Margin (%)	6.08	6.69
PAT Margin (%)	5.84	5.61
Overall Gearing ratio (X)	4.42	0.90

*\*Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Facilities	Type	Current Ratings (Year 2023-24)		Rating History for the past 3 years				
			Amount outstanding /Proposed (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 PR dated 22/12/22	Date(s) & Rating(s) assigned in 2022-23 PR dated 18/08/22	Date(s) & Rating(s) assigned in 2022-23 PR dated 01/08/22	Date(s) & Rating(s) assigned in 2021-22 PR dated 05/10/21	Date(s) & Rating(s) assigned in 2020-21
1.	PCFC	Short Term	520.00	IVR A2+	IVR A2+	IVR A3+ Credit watch with Positive Implication	IVR A3+	IVR A3+	-



## Press Release

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			Amount outstanding /Proposed (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 PR dated 22/12/22	Date(s) & Rating(s) assigned in 2022-23 PR dated 18/08/22	Date(s) & Rating(s) assigned in 2022-23 PR dated 01/08/22	Date(s) & Rating(s) assigned in 2021-22 PR dated 05/10/21	Date(s) & Rating(s) assigned in 2020-21
2.	Advance Bank Guarantee	Long Term	480.00	IVR A-/ Stable	IVR A-/ Stable	IVR BBB/ Credit watch with Positive implication	IVR BBB/ Stable	IVR BBB/ Stable	-
3.	LER	Short Term	10.00	IVR A2+	IVR A2+	IVR A3+ Credit watch with Positive Implication	IVR A3+	-	-

### Name and Contact Details of the Rating Team:

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.





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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

S. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
1	Short Term Fund Based Bank Facilities – PCFC	-	-	Not Applicable	520.00	IVR A2+
2	Long Term Non-Fund Based Facilities- Advance Bank Guarantee	-	-	Not Applicable	480.00	IVR A-/ Stable
3	Short Term Non-Fund Based Facilities- LER	-	-	Not Applicable	10.00	IVR A2+

### Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
DCX Systems Ltd	Full*
Raneal Advanced Systems Pvt Ltd	Full*



## Press Release

NIART Systems Ltd	Full*
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*\*Intercompany transactions have been adjusted as per Infomerics standard.*

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Lender-DCX-Systems-feb24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

