



Press Release

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

December 22, 2022

Ratings

Sl. No.	Type of Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
1	Long Term Non-Fund Based Facilities	809.00	IVR A-/ Stable (IVR Single A Minus With Stable Outlook)	Rating Revised, CWPI* resolved	Simple
2	Short Term Fund Based Facilities	707.35	IVR A2+ (IVR A Two Plus)	Rating Revised, CWPI* resolved	Simple
3	Short Term Non-Fund Based Facilities	59.00	IVR A2+ (IVR A Two Plus)	Rating Revised, CWPI* resolved	Simple
Total		1575.35 (Rupees Fifteen-Hundred and Seventy-Five Crore and Thirty-Five Lakh only)			

* Credit Watch with Positive Implication

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings were placed under Credit Watch with Positive Implications due to likelihood of Initial Public Offering (IPO) getting materialized in Q3FY2023. The revision in the ratings of DCX Systems Ltd reflects an overall improvement in the credit profile of the company, post successful completion of the IPO in November 2022 comprising of fresh issue of equity shares aggregating to ₹ 400 crores. The company intends to utilise these proceeds for debt repayment/pre-payment of INR 110 Cr, meeting working capital requirements (INR160 Cr), funding the capex of wholly owned subsidiary, Raneal Advanced Systems Private Limited to



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the tune of INR 45Cr and balance for other general corporate purposes in FY23. DCX's revenue increased at a CAGR of 54.33% over FY19-FY22. The improvement in the revenue and margin was driven by a rise in demand for its products.

Further, the rating continues to derive comfort from experienced management and established track record of operations. The rating also factors its repeat orders from reputed and diversified clientele, increase in scale of operations and margins, medium term revenue visibility and comfortable operating cycle. However, these ratings are constrained by less diversified customer base and regulatory risk that might arise in future.

Infomerics expects the company to continue to scale up the operations in view of unexecuted orderbook position of ~Rs.2580.83 Crores as on Oct'22 (2.34x of FY22 revenue) and many potential orders which are currently under discussion

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure resulting in further improvement of the financial risk profile.
- Improvement in the TOL/TNW to less than 1.25x on a sustained basis.

Downward Factors

- 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



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Rating Strength:

Experienced Management and established track record of operations

Company's board is comprised of experience and qualified individuals. Mr. Raghavendra Rao, Mr. Neal Jeremy Castleman and Mr. R Sankara Krishnan are the directors of the company. Mr. Raghavendra Rao and Mr. Neal Jeremy both have an experience of over three decades into the industry. Mr. R Sankara Krishnan is an investment banker with 4 decades of experience in banking and investment banking industry catering to fund raising through Debt and Equity capital markets. Further, Company has an operational track record of almost 10 years and has achieved significant growth in the last 3-4 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.

Repeat orders from reputed and diversified clientele

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.

Increase in Scale of Operations and Margins

The Company's operating income improved significantly from Rs.449.26 Crores in FY20 to Rs.660.77 Crores in FY21 to Rs.1102.27 Crores in FY22. The EBITDA has increased significantly to Rs.67.00 Crores in FY22 (FY21: Rs.29.78 Crores) and on the margin front it has improved to 6.08% in FY22 (4.51%). In percentage terms, PAT Margin is improving continuously over the last 4 years and has improved to 5.84% in FY22 (4.70x). The Company has achieved a turnover of ~Rs.387 Crores in H1FY23 with EBITDA margin of 9.11% .

Comfortable Operating Cycle

Cash conversion cycle stands comfortable at 14 days in FY22 (FY21: 28 days). The average collection period is 14 days (29 days) and average inventory holding period stands at 40 days (81 days) in FY22. The average creditors period stands at 40 days in FY22 (81 days).

Key Rating Weaknesses:



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Less diversified customer base

Elta Systems which is a part of Israel Aerospace Industries (IAI), is the major contributor in total revenue, contributing ~54.00% 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 “iIAA+”. The Customer concentration risk is mitigated by the reputed customer base, strong credit rating and long-term association with its clientele.

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. Also, the company has an unexecuted orderbook position of ~Rs.2580.83 Crores and many potential orders are currently under discussion. Company expects pipeline order to the tune of Rs.4500.00 Crores in the next 1-2 years. 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: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

[Policy for placing ratings on credit watch](#)

Liquidity – Adequate

DCX has generated a cash accrual of Rs.67.53 Crores in FY22 and it is not having any near-term obligations. Going forward there are negligible term obligations. The average utilization of the working capital facilities for last 12 months ended Oct 2022 stood at ~68% indicating sufficient buffer to meet incremental requirements. Current Ratio is adequate at 1.17x in FY22.



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Operating cycle has improved to 14 days in FY22. The cash and cash equivalent stood at Rs. 800.22 Cr as of Mar'22. 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 Défense 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 11th Nov 2022.

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 (Standalone):

INR in Crores		
For the year ended* / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	660.77	1102.27
EBITDA	29.78	67.00
PAT	32.10	65.61
Total Debt	136.38	502.62
Tangible Net worth (Adjusted)	48.33	113.75
EBIDTA Margin (%)	4.51	6.08
PAT Margin (%)	4.70	5.84
Overall Gearing ratio (X) (Adjusted)	2.82	4.42

**Classification as per Infomerics' standards*

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

Any other information: N.A.



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Rating History for last three years:

Sr. No.	Name of Facilities	Type	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
			Amount outstanding /Proposed (Rs. Crore)	Rating	Rating PR dated 18/08/22	Date(s) & Rating(s) assigned in 2021-22 PR dated 05/10/21	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	PCFC	Short Term	707.35	IVR A2+	IVR A3+ Credit watch with Positive Implication	IVR A3+	-	-
2.	Advance Bank Guarantee	Long Term	809.00	IVR A-/Stable	IVR BBB/ Credit watch with Positive implication	IVR BBB/ Stable	-	-
3.	Forward Contract	Short Term	55.00	IVR A2+	IVR A3+ Credit watch with Positive Implication	-	-	-
4.	LER	Short Term	4.00	IVR A2+	IVR A3+ Credit watch with Positive Implication	-	-	-

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About Infomerics:



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Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities



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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 (Sanctioned)	-	-	Not Applicable	707.35	IVR A2+
2	Long Term Non-Fund Based Facilities Advance Bank Guarantee (Sanctioned)	-	-	Not Applicable	809.00	IVR A-/ Stable
3	Short Term Non-Fund Based Facilities Forward Contract (Sanctioned)	-	-	Not Applicable	55.00	IVR A2+
4	Short Term Non-Fund Based Facilities LER (Sanctioned)	-	-	Not Applicable	4.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-DCX-dec22.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.