

- Q1FY25 Performance Update:** Revenue for the quarter stood at Rs 1381mn, de-grew 18.8% YoY/81.5% QoQ) vs Rs.1701mn last year same period, led by weak execution. Gross profit fell by 73% YoY to Rs 37mn and gross margin contracted significantly by 526bps to 2.7% because of high raw material prices. EBITDA dropped by 163% YoY to Rs -48mn, and margin contracted by 795bps YoY to -3.5% vs our est. 3%, largely impacted by higher RM cost. PAT, stood at Rs 29mn vs our estimates stood Rs 139mn. due to higher other income and lower interest cost. During this quarter employee cost increased mainly because of new man power recruitment and salary hikes for existing employees. DCX Systems signed agreement with L&T India worth Rs. 1,250 crore for manufacture & supply of electronic modules and Rs. 32.21 crore from various domestic & overseas customers, for supply of cable & wire harness assemblies. As of June 30th, order book stands at appx. INR 1037cr. The management is confident about healthy pipeline and growing order book.
- Strategic Growth through Acquisitions and Partnerships:** Companies driving growth through strategic acquisitions and joint ventures, including the establishment of RASPL, a wholly owned subsidiary focused on printed circuit board assemblies for defense and aerospace. RASPL will also target non-defense sectors such as railways and medical electronics. Foreign subsidiary, NIART, aims to enhance railway safety with radar and optics solutions, capitalizing on a USD 3bn Indian market and global opportunities. DCX exploring further strategic acquisitions and joint ventures in aerospace and defense, leveraging global partnerships and the Aatmanirbhar Bharat initiative to expand their capabilities and market reach. A dedicated team will evaluate these opportunities to ensure they align with growth strategies and integrate new technologies effectively.
- Rs 2bn Investment to unlock defence opportunity:** The company will invest Rs 2bn in JV's to acquire technology through ToT for Make in India programs in the area of Defence & Aerospace. The Make in India program requires companies mandates to manufacturing at least 60% Indian content must be indigenous content. The company has a state-of-the-art facility having rich experience, and is reserving around Rs 2bn for this defence program.
- Radar based railway obstacle system:** Developing cutting edge obstacle collision with ELTA for Radar & Optical where it will procure PCB, Cables and Subsystems will help DCX to become major player in the category. Product, development and certification has done and company is ready to go for mass production, expect some tender post end of election protocol.
- View & Valuation:** DCX has also established a joint venture to enhance its overall profitability. The JV with ELTA focuses on railway products, with production slated to commence in FY25 under a product development category that offers significantly higher margins compared to the build-to-print (BTP) category. Additionally, the backward integration with Raneal Advanced Systems for PCB assembly is projected to boost margins by approximately 100-150 basis points. The company is also exploring opportunities for further expansion in the domestic defense sector. We anticipate that DCX's Revenue/EBITDA/PAT will grow at compound annual growth rates (CAGR) of 19%/31%/32%, respectively, over FY23-26, driven by the ELTA JV, backward integration, and new orders in both export and domestic defense markets. We maintain our positive view on DCX Systems with an "Outperform" rating, setting a target price of **Rs.470**, based on a **30x multiple** of **FY26E EPS**.

Quarterly performance

Particulars (in mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Sales (incl OOI)	1,381	1,701	(18.8)	7,462	(81.5)
Material Exp	1,344	1,566	(14.2)	7,011	(80.8)
Gross Profit	37	135	(72.7)	451	(91.8)
Employee Exp	50	32	55.5	35	43.5
Other Exp	35	27	30.7	38	(7.2)
EBITDA	-48	76	(163.3)	379	(112.7)
Depreciation	28	5	500.6	23	23.7
EBIT	-76	71	(206.9)	356	(121.4)
Other Income	183	113	62.1	163	12.4
Interest Cost	54	70	(22.6)	88	(38.4)
PBT	53	114	(53.7)	431	(87.7)
Tax	23	19	22.3	102	(76.9)
RPAT	29	95	(69.1)	330	(91.1)
APAT	29	116	(74.6)	330	(91.1)
Adj EPS (Rs)	0.3	1.3	(80.5)	3.8	(93.2)

Margin Analysis	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Gross Margin (%)	2.7	7.9	(526.0)	6.0	(338.3)
Employee Exp. % of Sales	3.6	1.9	172.5	0.5	314.5
Other Op. Exp % of Sales	2.5	1.6	96.1	0.5	203.1
EBITDA Margin (%)	-3.48	4.5	(794.7)	5.1	(855.8)
Tax Rate (%)	44.4	16.8	2,759.5	23.6	2,078.3
APAT Margin (%)	2.1	6.8	(466.9)	4.4	(228.4)

Source: Company, CEBPL

Aug 14 th , 2024	
CMP (Rs)	346
Target Price (Rs)	470
Potential Upside (%)	35.6

Company Info

BB Code	DCXINDIA:IN EQUITY
ISIN	INEOKL801015
Face Value (Rs.)	2.0
52 Week High (Rs.)	451.9
52 Week Low (Rs.)	235.0
Mkt Cap (Rs bn.)	38.6
Mkt Cap (\$ bn.)	0.46
Shares o/s (Mn.)	111.3
Adj. TTM EPS (Rs)	6.1
FY26E EPS (Rs)	15.7

Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	59.78	62.30	71.72
FII's	1.28	02.30	0.35
DII's	8.89	11.19	07.02
Public	30.05	24.24	20.90

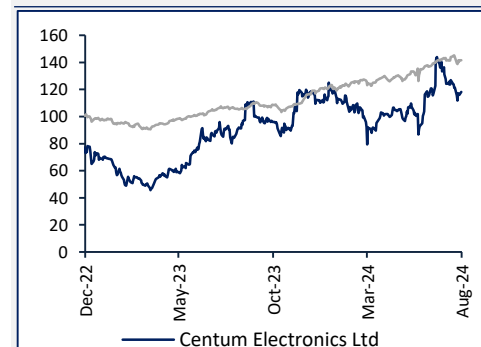
Relative Performance (%)

YTD	22Mnts	18Mnts	12Mnts
BSE 200	41.7	48.1	32.5
DCX Sys	38.0	111.6	32.8

Year end March (INR bn)

Particular	FY24	FY25E	FY26E
Revenue	14.2	16.8	21.0
Gross Profit	1.1	2.0	2.5
EBITDA	0.8	1.5	1.9
EBITDA (%)	5.6	8.9	9.0
EPS (INR)	6.8	11.5	15.7

Rebased Price Performance



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Management Call - Highlights

- DCX Systems has secured a significant order worth INR 1250cr from L&T for the manufacturing and supply of electronic modules.
- The company has bagged another order worth at INR 32.21cr for the supply of cable and wire harness assemblies for both domestic and international customers.
- Signed MoU with Israel Aerospace Industries (IAI) India Service Provider Limited. This agreement covers the supply and repair of service spare parts and electronic components, leveraging MRO capabilities and industry partnerships.
- Subsidiary, Raneal Advanced Systems, is now fully operational, which has enhanced supply chain management and cash flows.
- As of June 30th, order book stands at appx. INR 1037cr. The management is confident about healthy pipeline and growing order book.
- NIART Systems Limited ToT transfer process is nearly complete. The management anticipate of significant tenders, including from Indian Railways, and global opportunities. Commercial Production of NIART is expected to commence mass production in the near future.
- Raneal Advanced Systems generated around INR 40-42cr in revenue, primarily for internal use.
- Gross Margin declined because of increased material costs and delays in adjusting PO prices due to BOM guarantees.
- PAT will increase because of revenue start coming from Raneal and it will contribute to PAT significantly in near term.
- Employee expenses increased to INR 49mn due to additional hires and salary hikes across subsidiaries.
- Share of non-Offset projects growing from ~15% to ~40% – reducing dependence on offset projects & benefiting margins
- DCX Systems Expects Raneal will contribute more to revenue, with efforts to secure direct orders. The focus is on expanding Raneal's external business and improving margins.
- The company focusing on double-digit margins growth by focusing on improving profitability in areas like NIART, Raneal, and cable business. Specific timelines or percentages is not confirmed, but there's a strong focus on enhancing bottom-line performance.
- The company is focused on managing material cost increases and improving operational efficiency for positive financial impacts.
- DCX expects to realize significant amounts due from major programs over the next two to three months. They are finalizing documentation and dealing with variable costs such as freight and insurance.
- Large order bagged from from L&T, worth at INR 1250cr. The start of execution depends on component lead times and other factors. The company aims to begin production as soon as possible, with a focus on starting some quantities within the current financial year and finished the contact within 2 years of time frame.
- DCX is the sole partner for electronic systems repair and support for IAI (Indian arm of Israel Aerospace). The MRO facility in Gurgaon represents a significant opportunity, but specific financial details are pending until purchase orders are received.
- The first and second quarters of the financial year are traditionally weaker due to material qualifications, licenses, and testing processes.
- Revenue is expected to pick up in the third and fourth quarters.
- The order pipeline is very healthy, though specific figures cannot be disclosed. The company is confident in its ability to secure and execute orders.
- The company benefits from tax exemptions on direct exports for the first five years and has a standard rate of 15% for Raneal, with additional factors applying.

Changes in Estimates

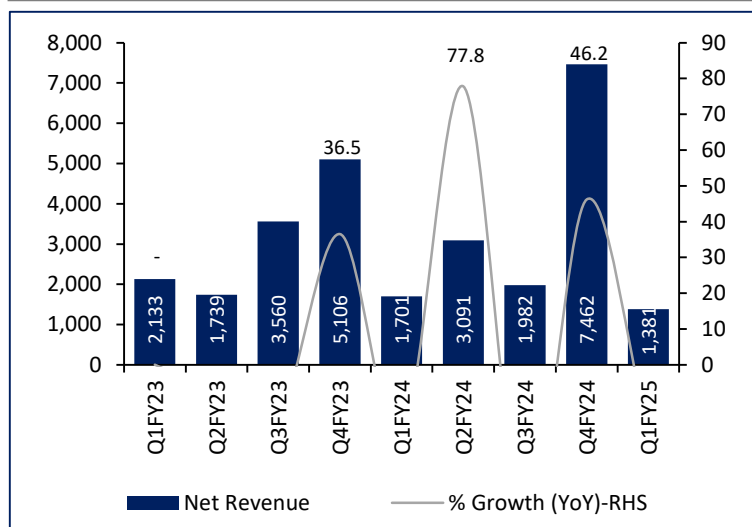
Particulars(Rs.Mn)	Actual	Choice Est.	Deviation(%)
Revenue	1,381	3,032	(54.5)
EBITDA	-48	92	NA
EBITDA Margins(%)	-3%	6%	(158.0)
APAT	29	139	(78.8)

Source: Company, CEBPL

(INR Bn.)	FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	16,845	16,847	(0.0)	20,956	20,962	(0.0)
EBITDA	1,504	1,488	1.1	1,894	1,875	1.0
EBITDA margin(%)	8.9	8.8	1.1	9.0	8.9	1.1
APAT	1,320	1,289	2.4	1,668	1,632	2.2
EPS	11.5	11.3	2.5	15.7	15.4	2.1

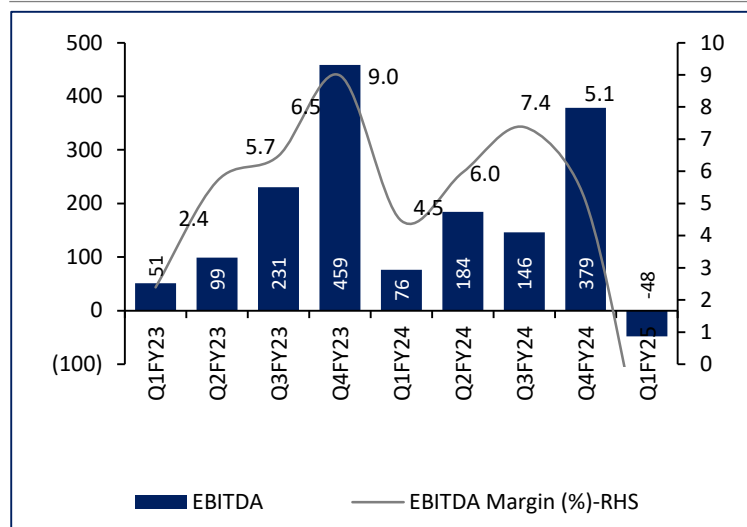
Source: Company, CEBPL

Revenue de-grew by 18.8% YoY



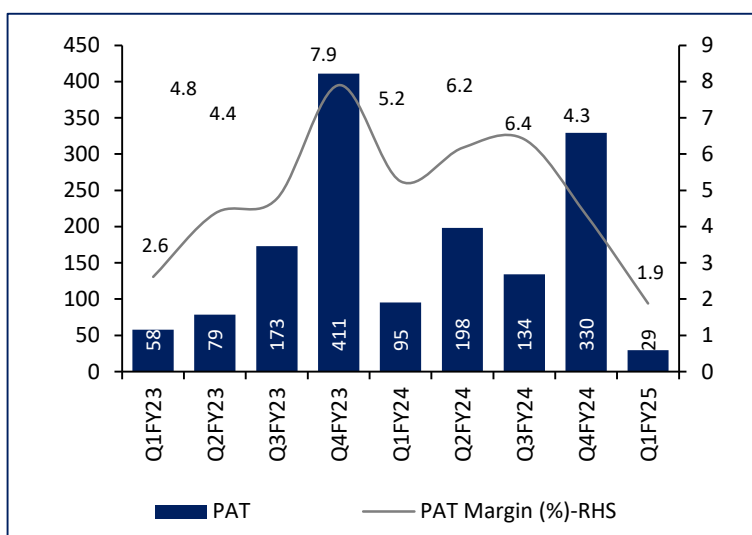
Source: Company, CEBPL

EBITDA Margin Trend.



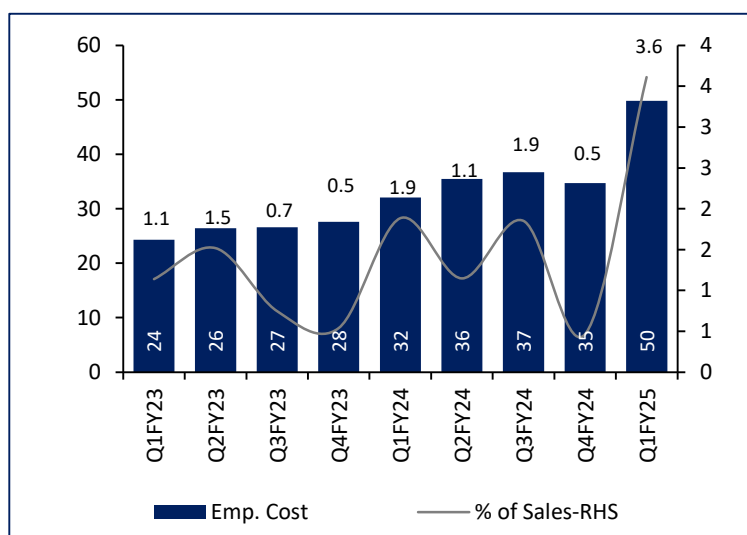
Source: Company, CEBPL

PAT growth Trend



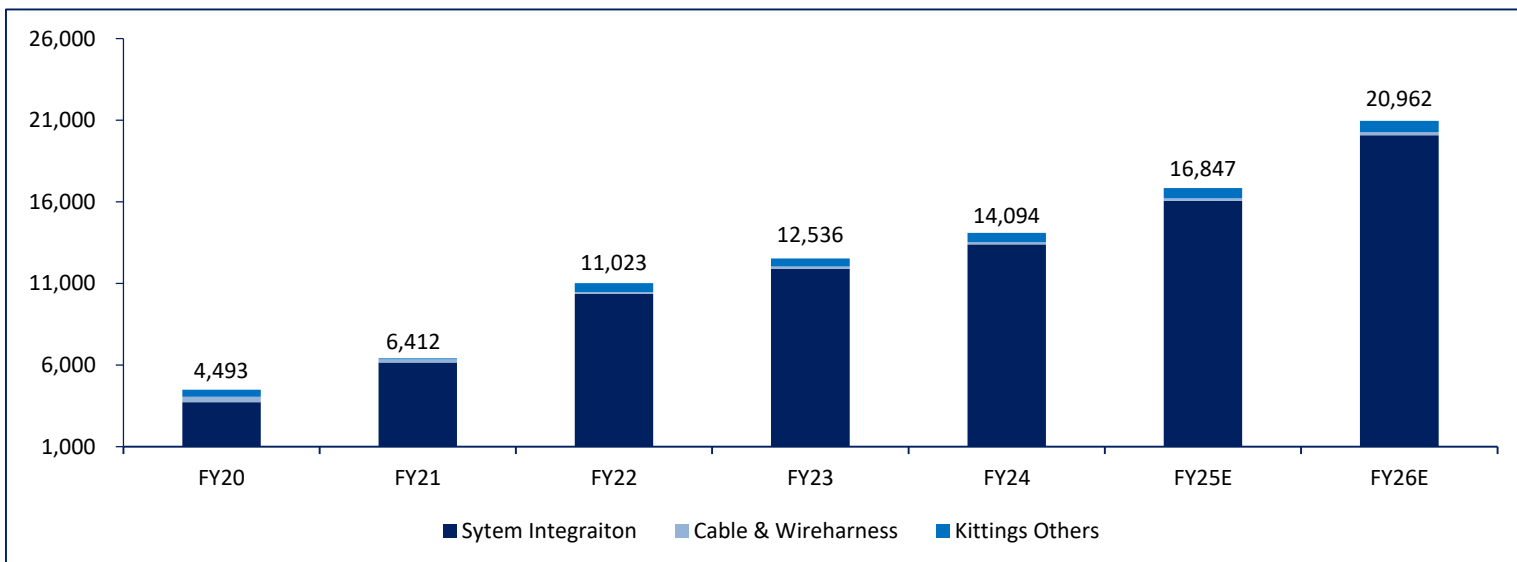
Source: Company, CEBPL

Reduction in Emp. Cost would support margins further



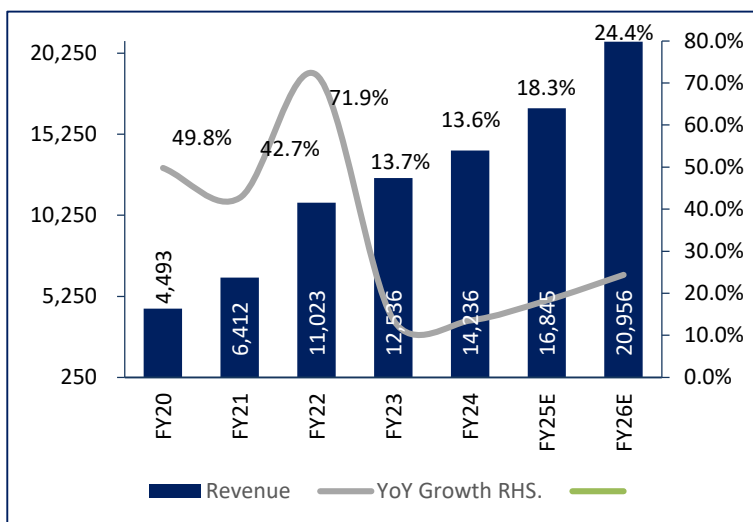
Source: Company, CEBPL

Revenue Mix (%)



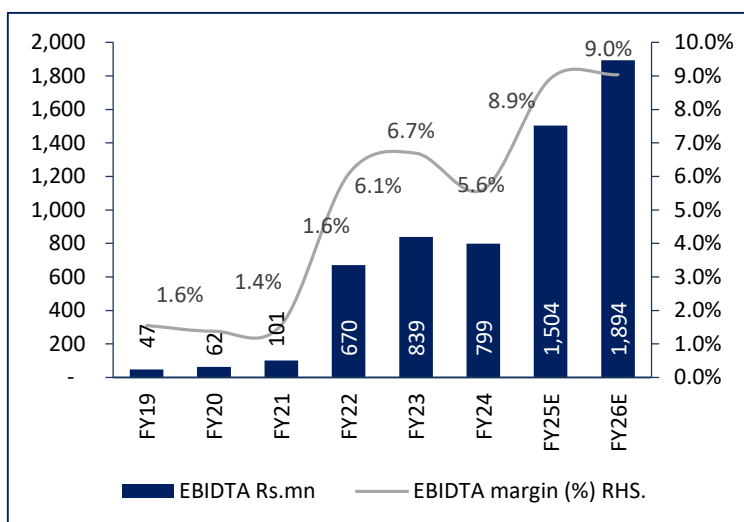
Source: Company, CEBPL

Stable Revenue growth trajectory over FY23-26E



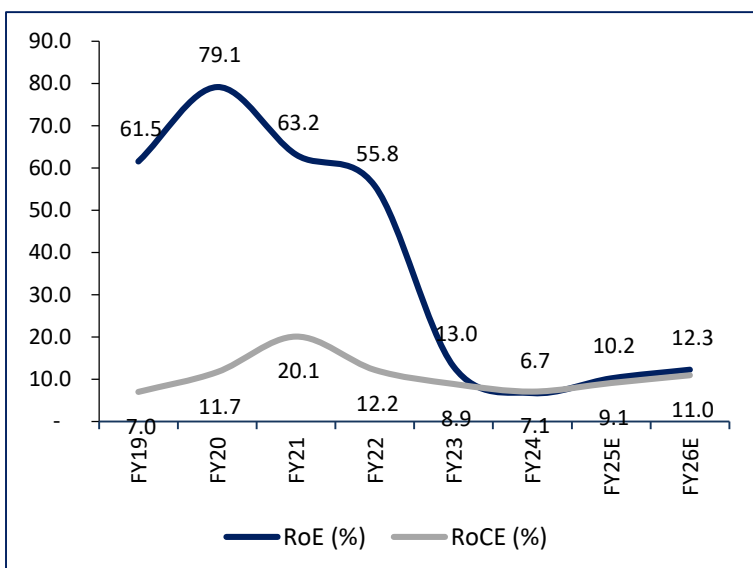
Source: Company, CEBPL

EBIDTA margin to improve led by better mix



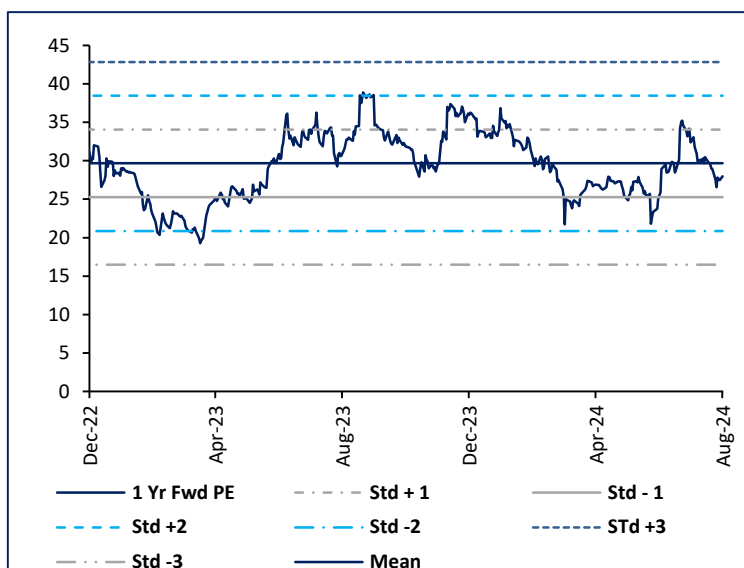
Source: Company, CEBPL

ROE & ROCE Trend



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	11,023	12,536	14,236	16,845	20,956
Gross profit	1,017	1,344	1,070	2,021	2,536
EBITDA	670	839	799	1,504	1,894
Depreciation	22	18	51	35	42
EBIT	648	821	748	1,468	1,852
Interest expense	113	255	298	254	228
Other Income (Including EO Items)	221	295	496	546	601
Reported PAT	656	720	758	1,320	1,668
Minority Interest	0	0	0	0	0
Adjusted PAT	656	738	758	1,285	1,747
EPS (Rs)	6.8	7.6	6.8	11.5	15.7
NOPAT	563	687	613	1,101	1,389

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	1,176	5,671	11,263	12,583	14,251
Deferred tax	(38)	-	-	-	-
Total debt	5,026	5,037	2,906	3,627	3,264
Other liabilities & provisions	10	12	19	-	-
Total Net Worth & liabilities	6,175	10,720	14,188	16,210	17,515
Net Fixed Assets	147	151	556	334	392
Capital Work in progress	-	19	-	151	152
Investments	1	66	-	-	-
Cash & bank balance	8,002	5,914	8,408	9,614	9,438
Loans & Advances & other assets	4	75	104	197	245
Net Current Assets	6,023	10,409	13,528	15,527	16,726
Total Assets	6,175	10,720	14,188	16,210	17,515
Capital Employed	6,202	10,708	14,169	16,210	17,515
Invested Capital	(1,800)	4,794	5,760	6,595	8,077
Net Debt	(2,976)	(877)	(5,502)	(5,987)	(6,174)
FCFF	(1,353)	(5,898)	(393)	745	418

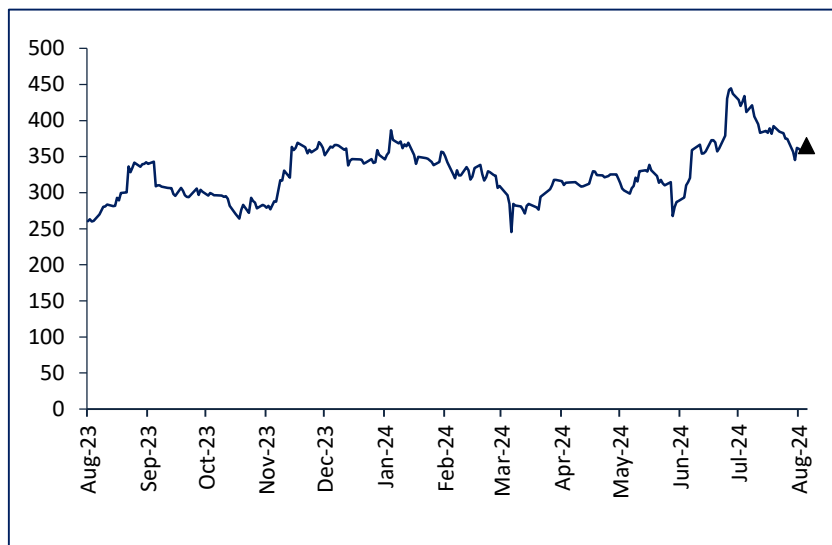
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	(1,340)	(5,857)	44	710	519
Capex	(12)	(42)	(437)	35	(101)
FCF	(1,353)	(5,898)	(393)	745	418
CFI	207	188	(445)	35	(101)
CFF	3,642	3,580	2,418	467	(591)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenue	71.9	13.7	13.6	18.3	24.4
EBITDA	564.7	25.3	(4.8)	88.2	26.0
PAT	121.9	12.6	2.6	69.5	36.0
Margin ratios (%)					
EBITDA	6.1	6.7	5.6	8.9	9.0
PAT	6.0	5.9	5.3	7.6	8.3
Performance Ratios (%)					
OCF/EBITDA (X)	(2.0)	(7.0)	0.1	0.5	0.3
OCF/IC	74.5	(122.2)	0.8	10.8	6.4
RoE	55.8	13.0	6.7	10.2	12.3
ROCE	10.5	7.7	5.3	9.1	10.6
Turnover Ratios (Days)					
Inventory	9	67	65	65	65
Debtor	23	93	90	90	90
Other Current Assets (days)	9	12	18	17	16
Payables (days)	32	39	40	40	40
Other Current Liab & Provns (days)	74	2	9	4	4
Cash Conversion Cycle	(66)	131	124	128	127
Financial Stability ratios (x)					
Net debt to Equity	(2.5)	(0.2)	(0.5)	(0.5)	(0.4)
Net debt to EBITDA	(4.4)	(1.0)	(6.9)	(4.0)	(3.3)
Interest Cover	5.7	3.2	2.5	5.8	8.1
Valuation metrics					
Fully diluted shares (mn)	97	97	111	111	111
Price (Rs)	347.0	347.0	347.0	347.0	347.0
Market Cap(Rs. Mn)	33,563	33,563	38,651	38,651	38,651
PE(x)	51	45	51.0	30.1	22.1
EV (Rs.mn)	30,587	32,686	33,149	32,664	32,477
EV/EBITDA (x)	46	39	41.5	21.7	17.1
Book value (Rs/share)	12	59	101	113	128
Price to BV (x)	28.5	5.9	3.4	3.1	2.7
EV/OCF (x)	-23	-6	748	46	63

Source: Company, CEBPL

Historical recommendations and target price: DCX Systems Limited



DCX Systems Limited

1. 06-05-2024	OUTPERFORM,	Target Price Rs.461
2. 20-05-2024	OUTPERFORM,	Target Price Rs.470
3. 14-08-2024	OUTPERFORM,	Target Price Rs.470

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