

- Q2FY25 Performance Update:** Revenue for the quarter stood at Rs 1956mn, de-grew 36.7% YoY/+41.7% QoQ) vs our estimates Rs 2485mn vs Rs 3091mn last year same period, led by weak execution. Gross profit fell by 74% YoY to Rs 67mn and gross margin contracted significantly by 485bps to 3.4% vs our estimates 10.0%, led by of high raw material prices. EBITDA decreased significantly by 121% YoY to Rs -38mn, and margin contracted by 791bps YoY to -1.9% vs our estimates 5.9%, largely impacted by higher RM cost. PAT, stood at Rs 52mn vs our estimates stood Rs 200mn and PAT margins came 2.7% vs our estimates 8.1%. overall numbers not satisfactory due to weak topline execution. As of Sep 30<sup>th</sup>, 2024 the order book stands at appx. INR 2,164cr. The management is confident about healthy pipeline and growing order book.
- Strategic Growth through Acquisitions and Partnerships:** This year, the company reached several key milestones, being awarded the prestigious Four-Star Export House certification by the Directorate General of Foreign Trade, Ministry of Commerce and Industry. This upgrade from a Two-Star Export House highlights the company's exceptional export performance and maintaining high standards. A major strategic achievement was the establishment of NIART Systems Ltd, a joint venture with ELTA Systems Ltd. The company also strengthened its position in the Maintenance, Repair, and Overhaul (MRO) sector through a collaboration with Israel Aerospace India Services, enhancing its capabilities to offer services within the domestic defense industry. Furthermore, the company secured a significant contracts from prestigious company M/S Lockheed Martin for electronic assemblies, which not only demonstrates the company's ability to meet international defense standards but also opens doors for future opportunities with one of the world's leading defense contractors. These strategic initiatives have solidified the company's presence in both the railway safety and defense sectors, positioning it for future growth and success.
- 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. 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 17%/19%/22%, respectively, over FY24-27E, 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 a "BUY" rating, setting a target price of **Rs.372**, based on a **30x multiple** of **FY27E EPS**.

### Quarterly performance

Particulars (in mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
<b>Net Sales (incl OOI)</b>	<b>1,956</b>	<b>3,091</b>	<b>(36.7)</b>	<b>1,381</b>	<b>41.7</b>
Material Exp	1,889	2,835	(33.4)	1,344	40.6
Gross Profit	67	256	(73.8)	37	82.2
Employee Exp	58	36	63.6	50	16.5
Other Exp	47	36	30.4	35	34.0
<b>EBITDA</b>	<b>-38</b>	<b>184</b>	<b>(120.6)</b>	<b>-48</b>	<b>(21.0)</b>
Depreciation	33	6	450.8	28	17.6
EBIT	-71	178	(139.8)	-76	(6.8)
Other Income	200	123	62.4	183	9.2
Interest Cost	22	63	(64.6)	54	(58.6)
PBT	107	238	(55.3)	53	101.4
Tax	54	40	36.4	23	131.7
<b>RPAT</b>	<b>52</b>	<b>198</b>	<b>(73.7)</b>	<b>29</b>	<b>77.2</b>
APAT	52	198	(73.7)	29	77.2
<b>Adj EPS (Rs)</b>	<b>0.5</b>	<b>2.3</b>	<b>(79.5)</b>	<b>0.3</b>	<b>77.8</b>

Margin Analysis	Q2FY25	Q2FY24	YoY bps	Q1FY25	QoQ bps
<b>Gross Margin (%)</b>	<b>3.4</b>	<b>8.3</b>	<b>(485.1)</b>	<b>2.7</b>	<b>76.3</b>
Employee Exp. % of Sales	3.0	1.1	182.1	3.6	(64.1)
Other Op. Exp % of Sales	2.4	1.2	123.5	2.5	(13.7)
<b>EBITDA Margin (%)</b>	<b>-1.9</b>	<b>6.0</b>	<b>NA</b>	<b>-3.5</b>	<b>NA</b>
Tax Rate (%)	51.1	16.7	3,432.1	44.4	668.5
APAT Margin (%)	2.7	6.4	(375.2)	2.1	53.4

Source: Company, CEBPL

	Nov 14 <sup>th</sup> , 2024
<b>CMP (Rs)</b>	<b>318</b>
<b>Target Price (Rs)</b>	<b>372</b>
<b>Potential Upside (%)</b>	<b>17.0</b>

\*CMP as on 13<sup>th</sup> nov 2024

### 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.)	35.4
Mkt Cap (\$ bn.)	0.42
Shares o/s (Mn.)	111.3
Adj. TTM EPS (Rs)	4.7
FY27E EPS (Rs)	12.4

### Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	57.13	59.78	62.30
FII's	0.77	1.28	02.30
DII's	7.88	8.89	11.19
Public	34.24	30.05	24.24

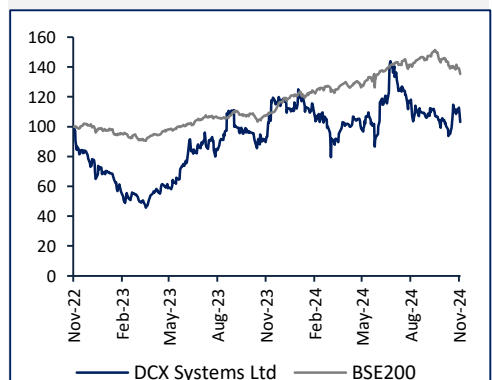
### Relative Performance (%)

YTD	2Yrs	1Yrs	6Mnts
BSE 200	35.3	25.7	37.6
DCX Sys	3.0	10.6	74.3

### Year end March (INR bn)

Particular	FY25E	FY26E	FY27E
Revenue	16.4	19.2	22.6
Gross Profit	1.6	1.8	2.1
EBITDA	1.0	1.2	1.3
EBITDA (%)	6.2	6.1	6.0
EPS (INR)	8.6	10.6	12.4

### Rebased Price Performance



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## Management Call - Highlights

- DCX Systems has secured a significant orders from L&T, M/S Lockheed Martin (USA) for the manufacturing and supply of electronic modules & Electronics assemblies.
- The consolidated order book now exceeds INR 3,000 crore.
- The company's subsidiary, Raneal Advanced Systems, improved its capacity utilization and supply chain efficiency.
- Raneal was granted an industrial license for manufacturing microwave sub-modules for defense and aerospace applications, allowing them to produce classified and sensitive products.
- Continued collaboration with Lockheed Martin signals future growth potential.
- JV with ELTA Operations at NIART Systems, the joint venture with ELTA, are progressing well, focused on developing cutting-edge obstacle detection products for the railway sector.
- The company is expecting a recovery of raw material costs, which is part of its BOM guarantee policy. However, customer approval and calculations are still pending due to external factors like the ongoing Israel conflict.
- The company anticipates improved performance in Q3 and Q4 due to new orders and reduced supply chain constraints.
- The company has cash and cash equivalents of approximately INR 877 crore. The use of these funds will likely be directed toward strategic growth opportunities.
- DCX has paid USD 15 million out of the USD 25 million commitment to a new joint venture (JV).
- 50-60% of the order book is expected to be executed within 12 months, with the remaining balance taking longer (as per the current supply chain situation).
- The company's EBITDA margin is difficult to predict due to variability in product types (e.g., cables, PCBs, system integration) and pricing.
- Margins vary depending on the mix of products, labor costs, material costs, and customer demand and the company aims to improve EBITDA by optimizing product mix and leveraging its supply chain.
- The company is working on technology transfer as part of its strategy for growth.
- Raneal Advanced Systems has significant R&D and product development activity in various sectors.
- Raneal, a subsidiary, contributed INR 32 crore to overall revenue in the first half of FY25, which is low compared to overall revenue but is expected decent amount further.
- NIART systems a JV partner, has issued share warrants to ELTA Systems (Israeli Partner). This will not dilute DCX stake in NIART systems and DCX will maintain 51% ownership.
- The company's headcount has increased to 200+ employees (from ~150 last year), reflecting growth in operations.
- The RDSO (Railway Design and Standards Organization) has issued POs, and product testing has been successfully completed on both diesel and electric locomotives. The company is waiting for bulk tenders to be floated for wider deployment of the product. The product has been fully tested and is ready for deployment in the field.
- Targeting a double-digit margin by FY26.
- The company has finalized a technology transfer/JV with one partner, which has already been approved by both parties and waiting for government approvals and expect the JV agreement to be finalized by December. The JV will allow the company to outsourced 50-60% of production to DCX in India.
- BOM price increases are handled transparently with customers. If the BOM cost increases due to material costs, the company submits a report at the end of the fiscal year to claim back the additional cost.
- About 70% of BOM value is for high-value components, and these are often controlled by the OEM who has contract agreements with their suppliers.
- The company faced challenges in the first half of the year with higher BOM costs, which impacted gross margins and EBITDA margins.
- In a normalized scenario without the BOM issue, the company would expect EBITDA margins to return to the 7-8% range, as seen in previous periods. However, the BOM issue in the first half had a negative impact, possibly around 25-30 crores in additional costs

## Changes in Estimates

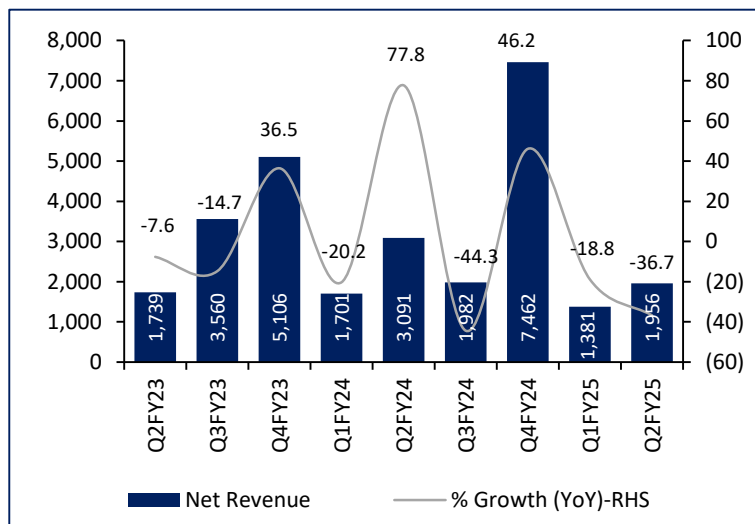
Particulars(Rs.Mn)	Actual	Choice Est.	Deviation(%)
Revenue	1,956	2,485	(21.3)
EBITDA	-38	147	NA
EBITDA Margins(%)	-2%	6%	NA
APAT	52	200	(74.0)

Source: Company, CEBPL

(INR Bn.)	FY25E			FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	16,430	16,845	(2.5)	19,167	20,956	(8.5)	22,558	26,086	(13.5)
EBITDA	1,011	1,504	(32.7)	1,160	1,894	(38.8)	1,345	2,360	(43.0)
EBITDA margin(%)	6.2	8.9	(277.1)	6.1	9.0	(298.6)	6.0	9.0	(308.6)
APAT	994	1,320	(24.7)	1,176	1,668	(29.5)	1,382	2,074	(33.3)
EPS	8.6	11.5	(25.4)	10.6	15.7	(32.7)	12.4	19.3	(35.8)

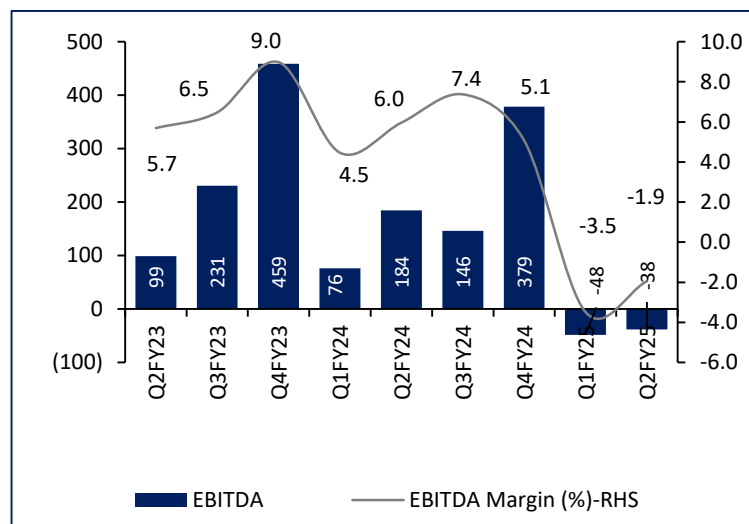
Source: Company, CEBPL

Revenue de-grew by 36.7% YoY



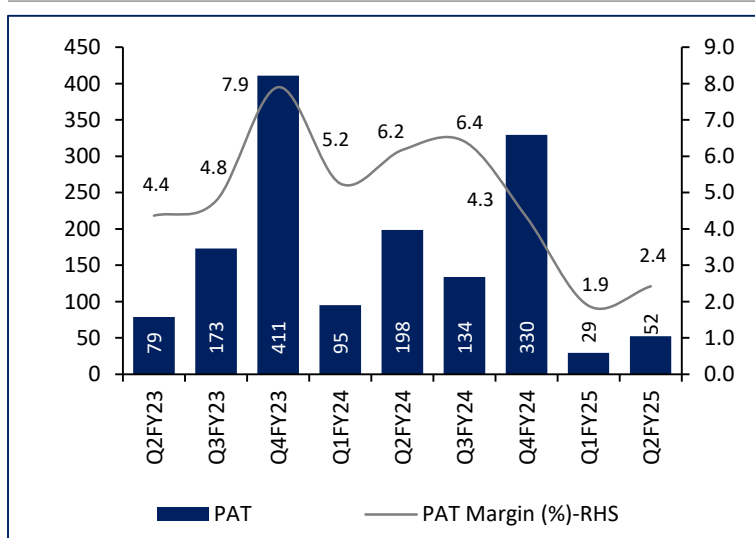
Source: Company, CEBPL

EBITDA Margin Trend.



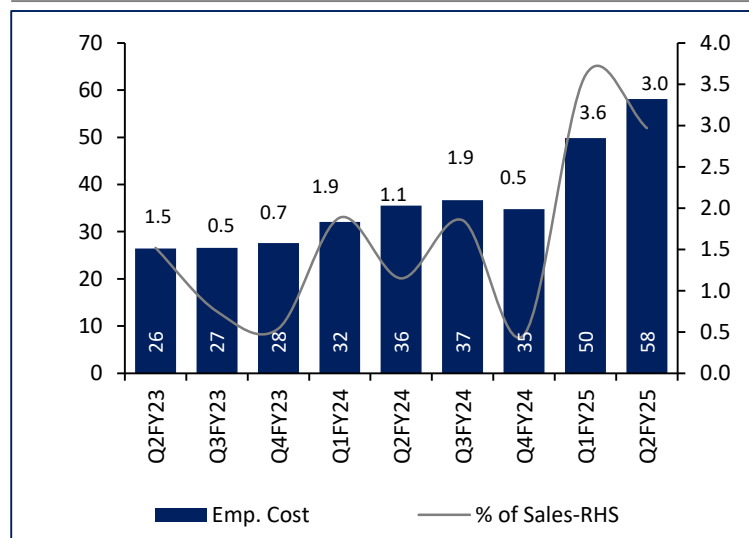
Source: Company, CEBPL

PAT growth Trend



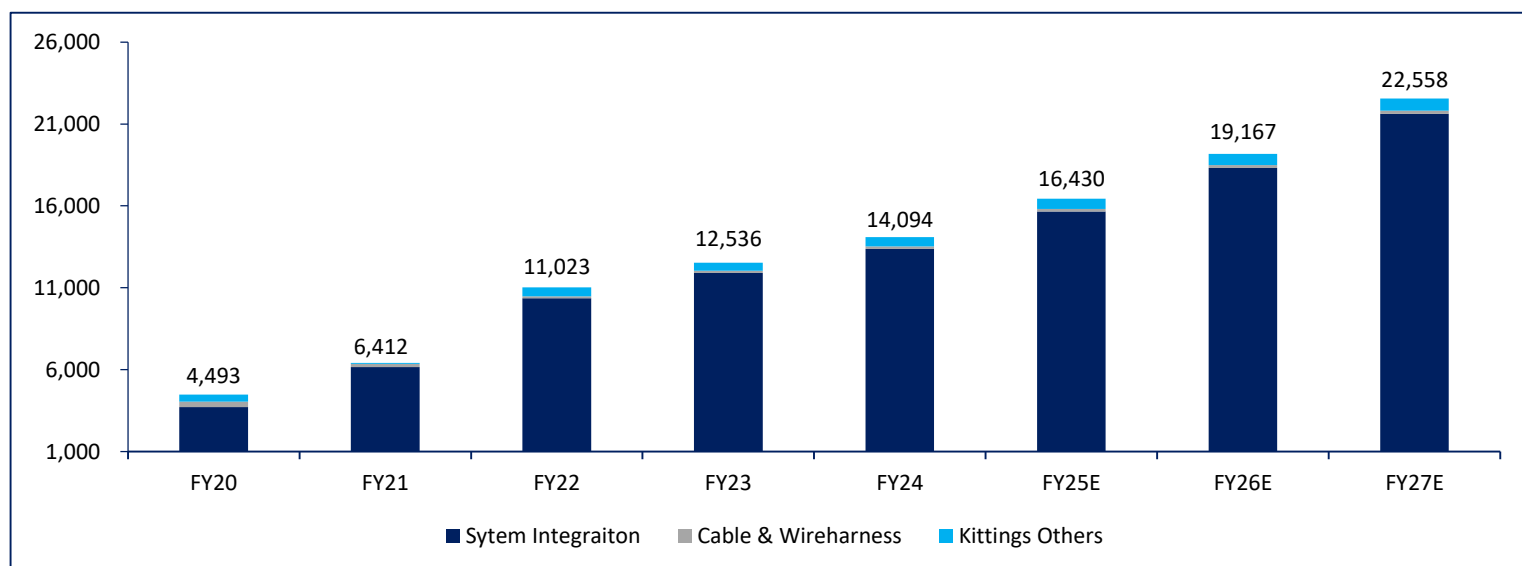
Source: Company, CEBPL

Reduction in Emp. Cost would support margins further



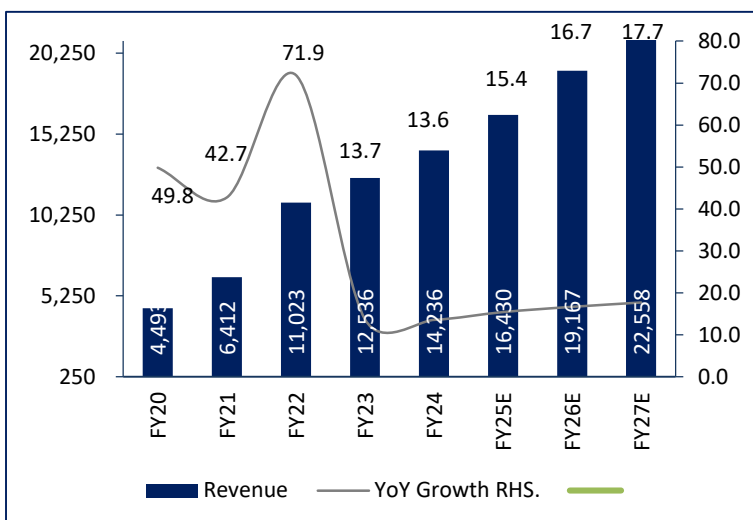
Source: Company, CEBPL

Revenue Mix (%)



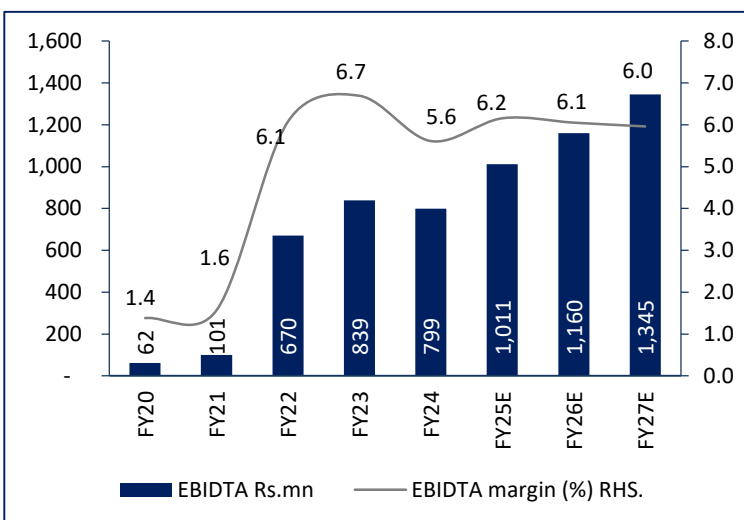
Source: Company, CEBPL

**Stable Revenue growth trajectory over FY24-27E**



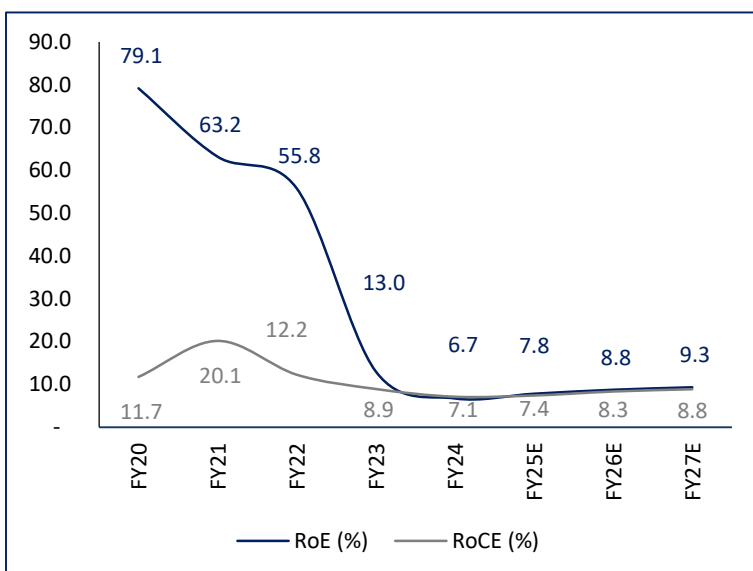
Source: Company, CEBPL

**EBIDTA margin to improve led by better mix**



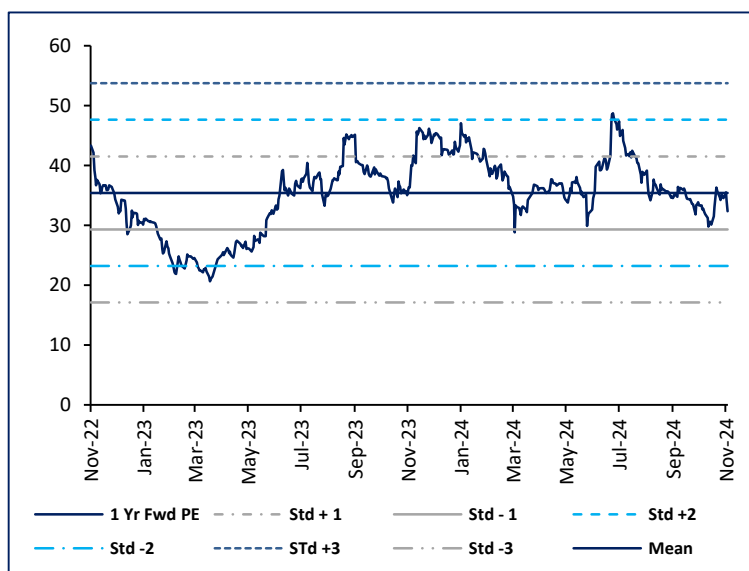
Source: Company, CEBPL

**ROE & ROCE Trend**



Source: Company, CEBPL

**1 Year Forward PE Band**



Source: Company, CEBPL

## Income statement (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>12,536</b>	<b>14,236</b>	<b>16,430</b>	<b>19,167</b>	<b>22,558</b>
Gross profit	1,344	1,070	1,594	1,840	2,143
<b>EBITDA</b>	<b>839</b>	<b>799</b>	<b>1,011</b>	<b>1,160</b>	<b>1,345</b>
Depreciation	18	51	51	67	85
EBIT	821	748	961	1,093	1,260
Interest expense	255	298	330	339	309
Other Income (Including EO Items)	295	496	695	834	917
<b>Reported PAT</b>	<b>720</b>	<b>758</b>	<b>994</b>	<b>1,176</b>	<b>1,382</b>
Minority Interest	-	-	-	-	-
Adjusted PAT	738	758	959	1,176	1,382
<b>EPS (Rs)</b>	<b>7.6</b>	<b>6.8</b>	<b>8.6</b>	<b>10.6</b>	<b>12.4</b>
NOPAT	687	613	721	809	932

## Balance sheet (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net worth	5,671	11,263	12,257	13,432	14,815
Deferred tax	-	-	-	-	-
Total debt	5,037	2,906	4,127	3,764	3,438
Other liabilities & provisions	12	19	-	-	-
<b>Total Net Worth &amp; liabilities</b>	<b>10,720</b>	<b>14,188</b>	<b>16,384</b>	<b>17,196</b>	<b>18,252</b>
Net Fixed Assets	151	556	319	353	368
Capital Work in progress	19	-	151	152	153
Investments	66	-	-	-	-
Cash & bank balance	5,914	8,408	9,935	9,728	9,490
Loans & Advances & other assets	75	104	192	224	264
Net Current Assets	10,409	13,528	15,721	16,468	17,468
<b>Total Assets</b>	<b>10,720</b>	<b>14,188</b>	<b>16,384</b>	<b>17,196</b>	<b>18,252</b>
Capital Employed	10,708	14,169	16,384	17,196	18,252
Invested Capital	4,794	5,760	6,448	7,468	8,762
Net Debt	(877)	(5,502)	(5,809)	(5,964)	(6,052)
FCFF	(5,898)	(393)	29	(308)	(480)

Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	(5,857)	44	(6)	(207)	(379)
Capex	(42)	(437)	35	(101)	(101)
FCF	(5,898)	(393)	29	(308)	(480)
CFI	188	(445)	642	701	777
CFF	3,580	2,418	891	(701)	(636)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	13.7	13.6	15.4	16.7	17.7
EBITDA	25.3	(4.8)	26.6	14.7	15.9
PAT	12.6	2.6	26.5	22.6	17.6
<b>Margin ratios (%)</b>					
EBITDA	6.7	5.6	6.2	6.1	6.0
PAT	5.9	5.3	5.8	6.1	6.1
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	(7.0)	0.1	(0.0)	(0.2)	(0.3)
OCF/IC	(122.2)	0.8	(0.1)	(2.8)	(4.3)
RoE	13.0	6.7	7.8	8.8	9.3
ROCE	7.7	5.3	5.9	6.4	6.9
<b>Turnover Ratios (Days)</b>					
Inventory	67	65	65	65	66
Debtor	93	90	90	90	91
Other Current Assets (days)	12	18	18	18	17
Payables (days)	39	40	40	40	41
Other Current Liab & Provns (days)	2	9	4	4	4
Cash Conversion Cycle	131	124	129	128	129
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	(0.2)	(0.5)	(0.5)	(0.4)	(0.4)
Net debt to EBITDA	(1.0)	(6.9)	(5.7)	(5.1)	(4.5)
Interest Cover	3.2	2.5	2.9	3.2	4.1
<b>Valuation metrics</b>					
Fully diluted shares (mn)	97	111	111	111	111
Price (Rs)	318.2	318.2	318.2	318.2	318.2
Market Cap(Rs. Mn)	30,777	35,443	35,438	35,438	35,438
PE(x)	42	46.8	37.0	30.1	25.6
EV (Rs.mn)	29,900	29,941	29,630	29,474	29,386
EV/EBITDA (x)	36	37.5	29.3	25.4	21.9
Book value (Rs/share)	59	101	110	121	133
Price to BV (x)	5.4	3.1	2.9	2.6	2.4
EV/OCF (x)	-5	676	-5,254	-142	-78

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
4. 13-11-2024	BUY,	Target Price Rs.372

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