

DCX Systems Ltd: Strategic Moats, Operational Cracks

SELL

Sector View: Positive

May 29, 2025 CMP: INR 313 | Target Price: INR 260

Expected Share Price Return: (17.0%) | Dividend Yield: 0.0% | Potential Downside: 17.0%

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✓

Company Info	
BB Code	DCXINDIA IN EQUITY
Face Value (INR)	2.0
52 W High/Low (INR)	452/200
Mkt Cap (Bn)	INR 34.8/\$ 0.41
Shares o/s (Mn)	111.4
3M Avg. Daily Volume	10,29,684

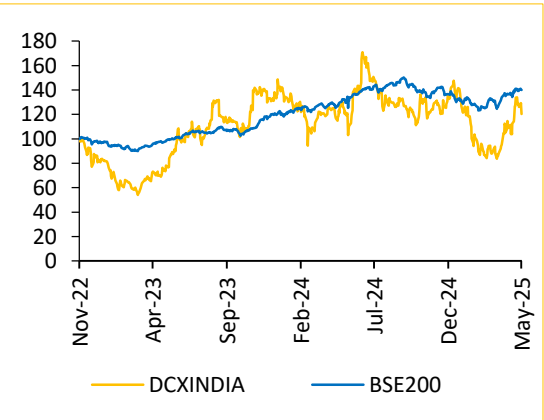
Change in CEBPL Estimates					
INR Mn	FY26E			FY27E	
	New	Old	Dev. (%)	New	Old Dev. (%)
Revenue	12,787	16,235	(21.2)	15,089	17,941 (15.9)
EBITDA	320	691	(53.7)	528	979 (46.1)
EBITDAM %	2.5	4.3	(180)bps	3.5	5.5 (200)bps
PAT	777	869	(10.6)	964	1,177 (18.1)
EPS	7.0	7.8	(10.5)	8.7	10.6 (18.3)

Actual vs CEBPL			
INR Mn	Q4FY25	CEBPL Est.	Dev. %
Revenue	5,500	9,386	(41.4)
EBITDA	102	589	(82.6)
EBITDAM %	1.9	6.3	2,964
PAT	207	600	(65.5)

Key Financials					
INR Mn	FY23	FY24	FY25	FY26E	FY27E
Revenue	12,536	14,236	10,837	12,787	15,089
YoY Growth (%)	13.7	13.6	-23.9	18.0	18.0
EBITDA	839	799	46	320	528
EBITDAM (%)	6.7	5.6	0.4	2.5	3.5
Adjusted PAT	738	758	389	777	964
EPS	7.6	6.8	3.5	7.0	8.7
ROE (%)	12.7	6.7	2.8	5.3	6.2
ROCE (%)	19.7	10.9	5.2	7.3	8.4
PE(x)	41	46	99	45	36
Price to BV (x)	5.3	3.1	2.5	2.4	2.2

Shareholding Pattern (%)			
	Mar-25	Dec-24	Sep-24
Promoters	56.86	56.86	57.13
FIIs	1.17	1.01	0.77
DIIIs	4.04	5.39	7.88
Public	37.96	36.75	34.24

Relative Performance (%)			
YTD	30M	24M	12M
BSE 200	40.0	41.5	6.2
DCXINDIA	20.4	54.9	-0.2



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Cautious Near-Term Outlook; Execution Holds the Key

From a long-term perspective, we view DCXINDIA as structurally well-positioned to benefit from rising defense exports and import substitution initiatives. Its strong order book (2.6x of FY25 revenue) & global partnerships support this outlook.

However, we expect near-term execution remains a key concern. The company has faced margin pressures and delivery delays over the past four quarters, raising questions about its operational efficiency and earnings visibility. Financial performance has been inconsistent, and its margin profile remains weaker than peers.

While the long-term growth opportunity remains compelling, we advise investors should remain cautious until the company demonstrates a consistent track record of execution and financial performance.

View & Valuation: Given the company's underwhelming near-term track record, we are building conservative assumptions into our model. Our investment case is contingent on improvement in execution and margin stability. Should execution improve or margin profiles normalize ahead of expectations, we would revisit our stance.

We remain bearish on our topline/bottom-line assumptions, but we are hopeful about margin improvement. Accordingly, we revise our FY26/FY27E Revenue estimates downwards by 21.2% and 15.9%, and EPS estimates downwards by 10.5% and 18.3%, respectively. However, given the inconsistent performance, we downgrade our rating to SELL (from REDUCE), while revising our TP downwards to INR 260 (from INR 317), while maintaining a valuation multiple of 30x FY27E EPS.

Particulars	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Net Sales (incl OI)	5,500	7,462	(26.3)	2,000	175.0
Material Exp	5,269	7,011	(24.8)	1,858	183.6
Gross Profit	231	451	(48.8)	142	62.1
Employee Exp	68	35	96.9	57	19.4
Other Exp	60	38	59.3	55	9.0
EBITDA	102	379	(73.0)	30	242.2
Depreciation	37	23	64.3	35	6.1
EBIT	65	356	(81.8)	-5	NA
Other Income	235	163	44.3	182	29.3
Interest Cost	15	88	(82.4)	17	(9.4)
PBT	285	431	(34.0)	159	78.5
Tax	78	102	(23.7)	59	30.9
RPAT	207	330	(37.2)	100	106.8
APAT	207	330	(37.2)	100	106.8
Adj EPS (INR)	1.9	3.0	(38.9)	0.9	106.5

Margin Analysis	Q4FY25	Q4FY24	YoY (bps)	Q3FY25	QoQ (bps)
Gross Margin (%)	4.2	6.0	(185.0)	7.1	(292.0)
Emp. Exp. % of Sales	1.2	0.5	77.8	2.9	(162.1)
Other Exp. % of Sales	1.1	0.5	58.8	2.8	(166.5)
EBITDA Margin (%)	1.86	5.1	(321.6)	1.5	36.5
Tax Rate (%)	27.3	23.6	368.9	37.2	(993.6)
APAT Margin (%)	3.8	4.4	(65.2)	5.0	(124.1)

Management Call - Highlights

Weak Operational Performance Despite Strong Order Book:

- FY25 revenue grew 71.2% YoY to ₹1,083 Cr.
- PAT declined by 49% YoY to ₹38.8 Cr; margins remain under pressure.
- EBITDA margin compressed to **6.6%** in FY25 vs **8.4%** in FY24.

Execution & Margin Challenges Persist:

- Execution delays and project closure uncertainties led to margin slippages.
- Company attributes low margins to timing mismatch in customer claims (volume guarantees, cost escalations).
- Management expects reversal as project-level reconciliations are completed—unclear timeline.

Strong Order Book Visibility:

- Outstanding order book exceeds ₹2,000 Cr, with expected execution within 2 years.
- Key wins include orders from **Lockheed Martin** and **IAI**—highlighting strong client validation.

Strategic JV with IAI:

- JV (ELTX) to focus on high-end radar systems for Indian and global defense markets.
- Targeting plant-level readiness and product rollout within 11 months.

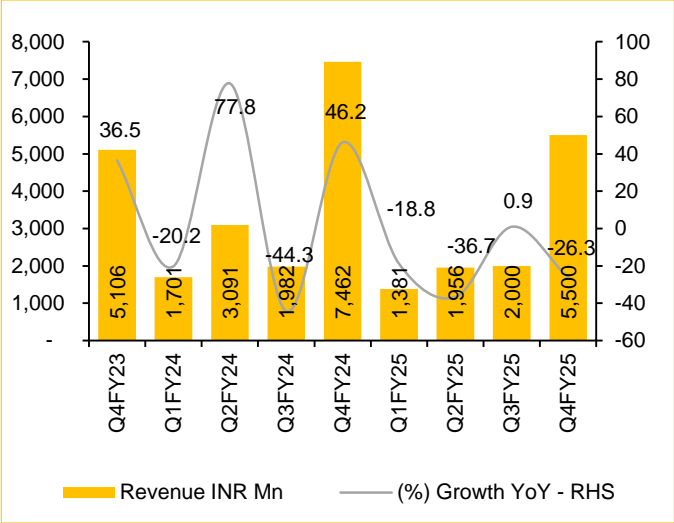
Cash Flow Turnaround:

- CFO improved to ₹42.5 Cr in FY25 from negligible base in FY24—driven by better working capital control.
- Company remains **net debt-free**.

Management Commentary:

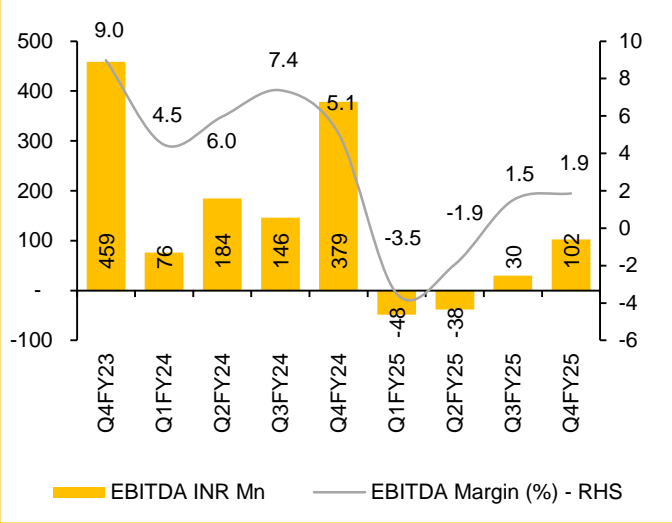
- Claims ongoing for project-related escalations; expect margin normalization post-closure.
- Highlighted strong interest from global clients post Operation Sindoor.
- Intangible asset buildup relates to R&D capitalization; revenues yet to materialize.

Revenue down by 26.3% on YoY basis



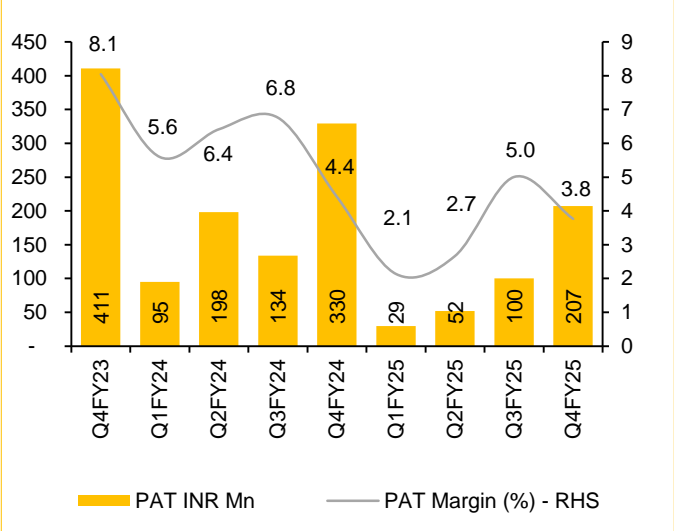
Source: Company, CEBPL

EBITDAM contracted by 322bps on YoY basis



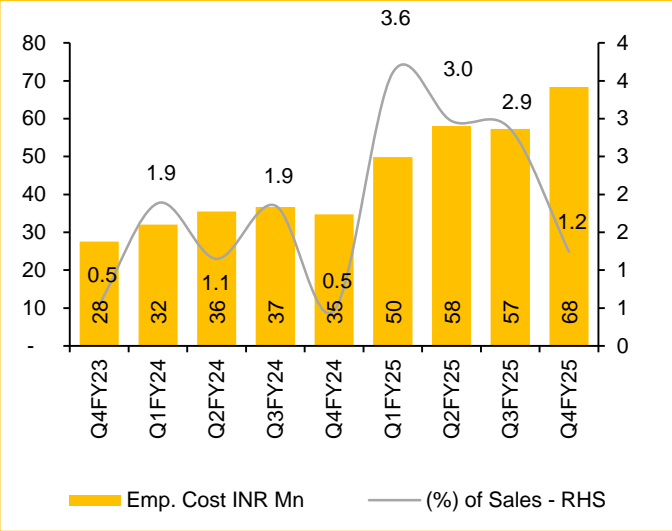
Source: Company, CEBPL

RPAT down by 37.2% on YoY basis



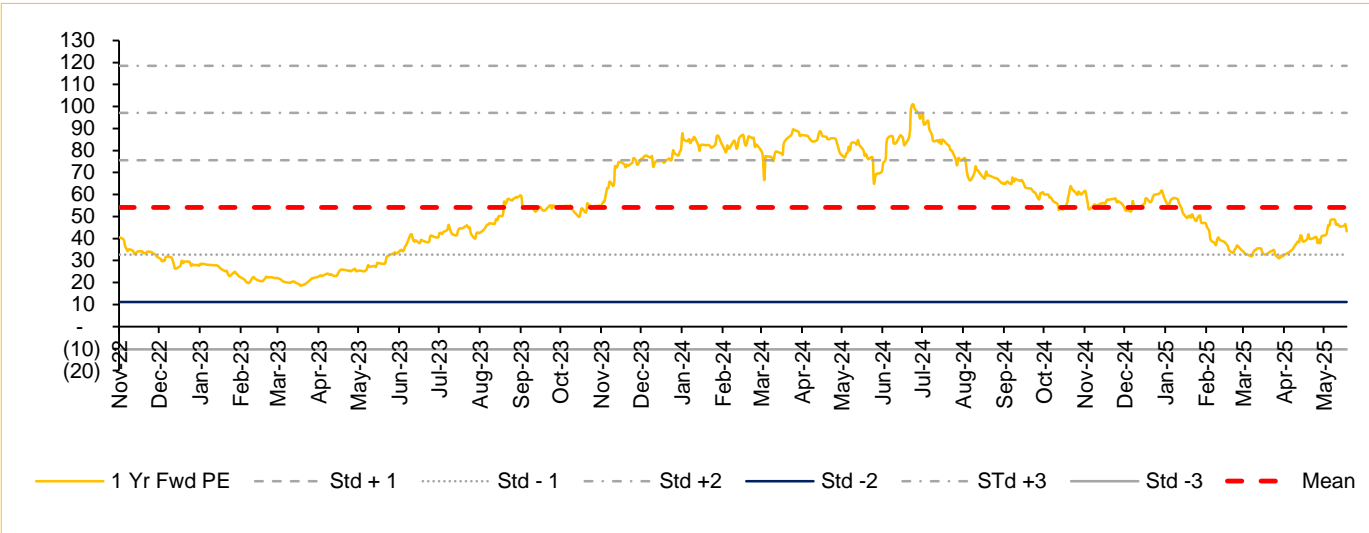
Source: Company, CEBPL

Employees' cost trend



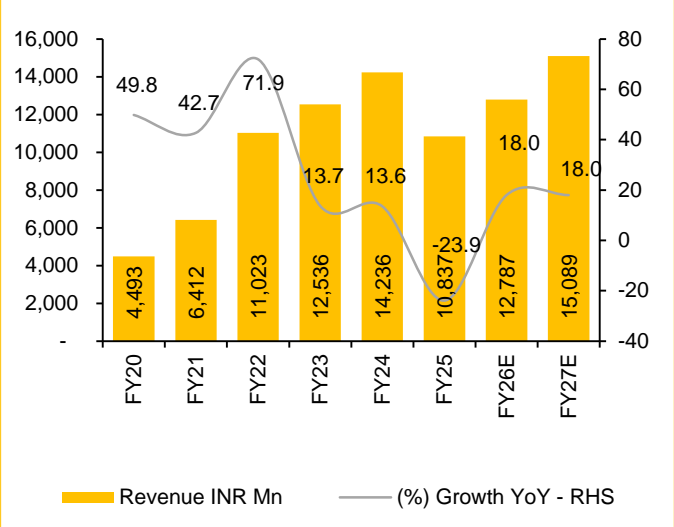
Source: Company, CEBPL

One year forward PE band



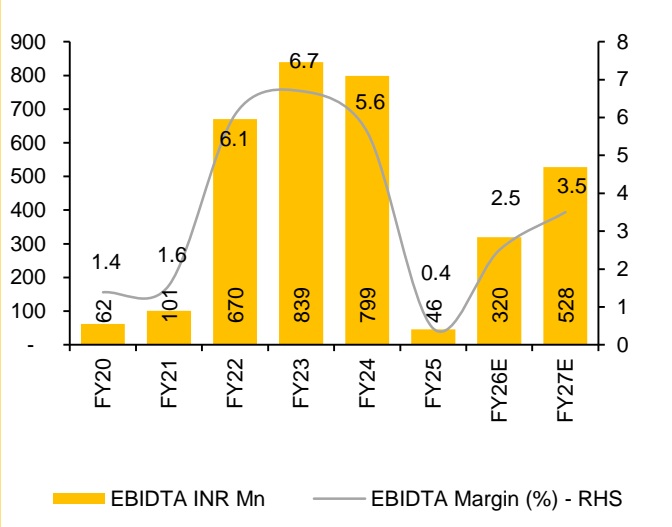
*All figures are in INR Million

Revenue expected to grow 18.0% CAGR over FY25-27E



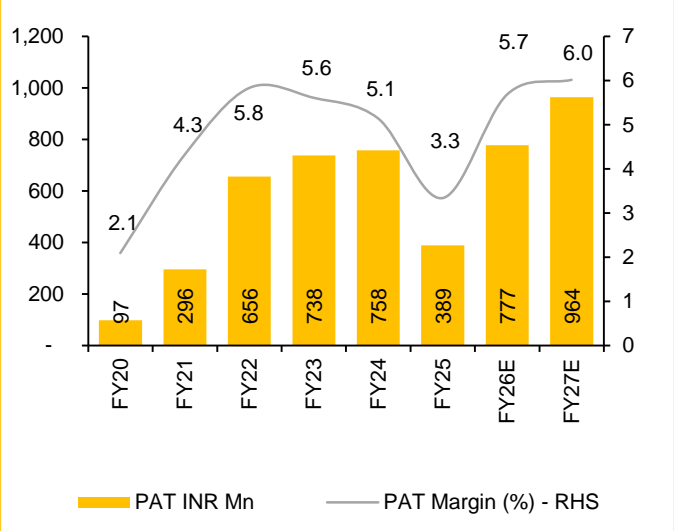
Source: Company, CEBPL

EBITDA margin expected to improve



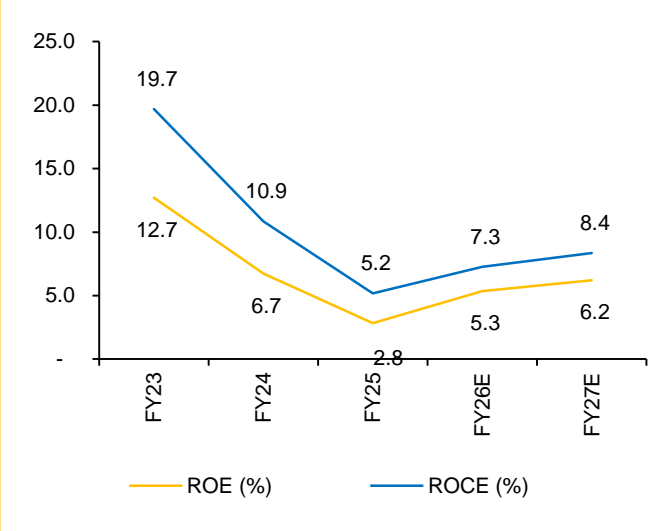
Source: Company, CEBPL

PAT expected to grow 57.8% CAGR over FY25-27E



Source: Company, CEBPL

ROE & ROCE Trend



Source: Company, CEBPL

*All figures are in INR Million

Income Statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Revenue	12,536	14,236	10,837	12,787	15,089
Gross Profit	1,344	1,070	477	780	1,011
EBITDA	839	799	46	320	528
Depreciation	18	51	134	144	157
EBIT	821	748	-88	176	371
Other Income	295	496	800	880	924
Interest Expense	255	298	109	20	10
PBT	861	946	604	1,036	1,285
Reported PAT	720	758	389	777	964
EPS	7.6	6.8	3.5	7.0	8.7

Ratio Analysis	FY23	FY24	FY25	FY26E	FY27E
Growth Ratios					
Revenue (%)	13.7	13.6	-23.9	18.0	18.0
EBITDA (%)	25.3	-4.8	-94.2	593.2	65.2
PAT (%)	9.8	5.2	-48.7	99.9	24.0
Margin Ratios					
EBITDA Margins (%)	6.7	5.6	0.4	2.5	3.5
PAT Margins (%)	5.6	5.1	3.3	5.7	6.0
Performance Ratios					
OCF/EBITDA (x)	-7.0	0.1	107.5	13.8	3.4
OCF/IC (%)	2,404	1	133	-175	-55
ROE (%)	12.7	6.7	2.8	5.3	6.2
ROCE (%)	19.7	10.9	5.2	7.3	8.4
Turnover Ratio (Days)					
Inventory	67	52	97	96	95
Debtors	93	171	56	56	56
Payables	39	101	34	34	34
Cash Conversion Cycle (Days)	121	123	119	118	117
Financial Stability Ratios					
Net Debt to Equity (x)	-0.2	-0.5	-0.7	-1.2	-1.2
Net Debt to EBITDA (x)	-1.0	-6.9	-217.6	-53.3	-35.5
Interest Cover (x)	3.2	2.5	-0.8	8.8	37.1
Valuation Metrics					
Fully Diluted Shares (Mn)	97	111	111	111	111
Price (INR)	313	313	313	313	313
Market Cap (INR Mn)	30,275	34,864	34,859	34,859	34,859
PE (x)	41	46	99	45	36
EV (INR Mn)	29,397	29,362	24,825	17,812	16,136
EV/EBITDA (x)	35	37	538	56	31
Book Value (INR/Share)	59	101	123	130	139
Price to BV (x)	5	3	3	2	2
EV/OCF (x)	(5)	663	6	5	19

Source: Company, CEBPL

Balance Sheet (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Net worth	5,671	11,263	13,752	14,530	15,494
Total debt	5,037	2,906	0	0	0
Other Long term Liabilities	12	19	52	-	-
Trade Payables	1,341	3,920	1,012	1,194	1,409
Other Current liabilities	57	366	4,225	8,425	9,941
Total Net Worth & liabilities	12,118	18,473	19,041	24,149	26,844
Net Fixed Assets	151	556	693	650	593
Capital Work in progress	19	-	-	-	-
Investments	66	-	-	-	-
Other Non-Current Asset	75	104	2,837	65	65
Inventories	2,285	2,035	2,890	3,363	3,927
Trade receivables	3,195	6,671	1,652	1,949	2,300
Cash & bank balance	5,914	8,408	10,035	17,048	18,724
Other Current Assets	412	699	934	1,074	1,235
Total Assets	12,118	18,473	19,041	24,149	26,844
Capital Employed	5,671	11,465	13,752	14,530	15,494
Invested Capital	-244	3,056	3,717	-2,518	-3,230
Net Debt	-877	-5,502	-10,035	-17,047	-18,724
FCFF	-5,898	-393	4,687	4,312	1,686

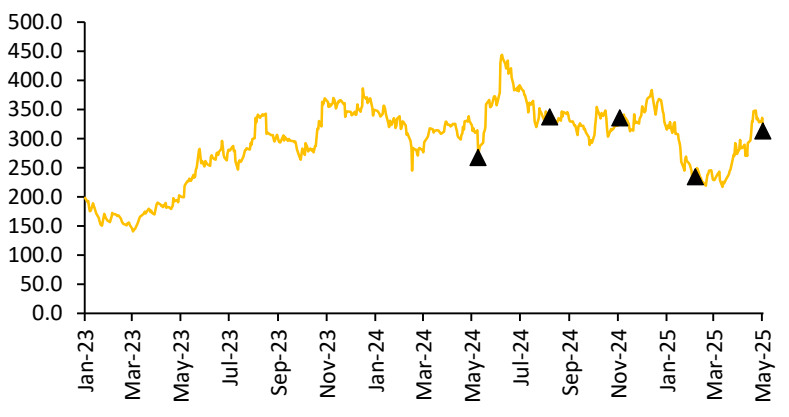
Cash Flow Statement (Consolidated in INR Mn)

Particulars	FY23	FY24	FY25	FY26E	FY27E
Cash Flows From Operations	-5,856.5	44.3	4,959.0	4,412.1	1,786.3
Cash Flows From Investing	188.3	-12.5	-2,385.9	2,671.8	-100.0
Cash Flows From Financing	3,580.2	2,418.0	-946.4	-71.6	-10.0

DuPont Analysis	FY23	FY24	FY25	FY26E	FY27E
ROE	12.7%	6.7%	2.8%	5.3%	6.2%
Net Profit Margin	5.7%	5.3%	3.6%	6.1%	6.4%
Asset Turnover	103.4%	77.1%	56.9%	53.0%	56.2%
Financial Leverage	213.7%	164.0%	138.5%	166.2%	173.3%

Source: Company, CEBPL

Historical share price chart: DCX Systems Ltd



Date	Rating	Target Price
May 20, 2024	BUY	470
Aug 14, 2024	BUY	470
Nov 14, 2024	BUY	372
Feb 12, 2025	HOLD	317
May 28, 2025	SELL	260

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months

Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months

Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change

Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be consistent over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000Cr Market Cap
*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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