

# Q2FY25 DCX Systems Ltd

## DCX Systems Ltd.

**A Quarter Full of Critical Order Wins from leading US Defense Player.. Now Eyes on Execution!**

CMP INR 303	Target INR 466	Potential Upside 54%	Market Cap (INR Mn) INR 33,800	Recommendation BUY	Sector Electronic- Component
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### Result Highlights of Q2FY25:

- In tandem with historical trend of seasonality, DCX delivered a muted H1FY25 but slew of order wins was the showstopper in Q2FY25 with a total order worth of INR.30,000 Mn. For the Q2 in specific, higher material cost continued to weigh on margin and resulted into a miss on earnings.
- Though the gross margin improved for the quarter sequentially but it continues to be under pressure. Similarly, EBITDA margin continues to be in negative territory but it improved on a sequential basis.
- The recent order wins add confidence on the revenue visibility for the near to medium term. However, lack of clarity on the recovery of increased raw material costs and persisting margin pressure have caused us to revise down our EPS estimates for FY25E and FY26E by -34%/-10%. Overall, we continue to hold our conviction on DCX's ability to become a key player in EMS space with huge potential lying ahead in the railway and defence space. Consequently, we retain our P/E multiple of 36x on FY26E EPS and maintain our BUY rating on the counter with the target price of INR 466 (Previously: INR 519).**

### MARKET DATA

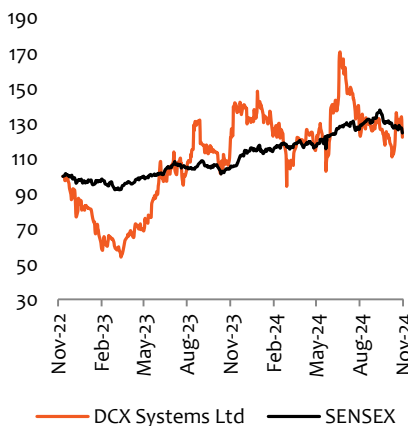
Shares outs (Mn)	111
Mkt Cap (INR Mn)	33,800
52 Wk H/L (INR)	452/235
Volume Avg (3m K)	310
Face Value (INR)	2
Bloomberg Code	DCXINDIA IN

### KEY FINANCIALS

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	11,023	12,536	14,236	16,951	21,289
Gross Profit	1,017	1,344	1,070	1,329	2,384
EBITDA	670	837	799	855	1,829
EBITDA Margin%	6%	6.7%	5.6%	5.0%	8.6%
Profit Before Tax	756	858	946	1,143	1,921
Profit After tax	656	717	758	822	1,441
Adjusted EPS	5.9	6.4	6.8	7.4	12.9
Adjusted P/E	51.8	47.4	44.8	41.3	23.6

Source: Company, DevenChoksey Research

### SHARE PRICE PERFORMANCE



### Robust Order Wins from Leading U.S. Defense Player Lockheed Martin

- DCX has an order book of INR 30,000 Mn as of 12<sup>th</sup> Nov'24 vs 19,370 Mn as of 30<sup>th</sup> June'24. The order book also includes INR 4,603 Mn from Lockheed Martin and also another order worth of INR 3,796 Mn (through Raneal Advanced Systems) from Lockheed Martin for supply of electronic assemblies.
- The massive jump in order book has arrested the concerns around DCX's ability to secure large orders. Additionally, inclusion of key clients such as L&T and Lockheed Martin underscores DCX's ability to deliver high value complicated and critical products for leading defense players.

### Margin Pressure Continues to Persist amid Tepid H1

- DCX reported -37%/+42% YoY/QoQ revenue growth during the quarter to INR 1956 Mn in Q2FY25 and the earnings were further aggravated aided by lower gross margin . The gross margins reduced by -485 bps to 3.4% in Q2FY25 vs 8.3% in Q2FY24.
- The EBITDA margin improved sequentially to -1.9% in Q2FY25 vs -3.5% in Q1FY25. However, it delivered 77% QoQ growth in PAT to INR 52 Mn on account of lower finance cost and higher other income.

### MARKET INFO

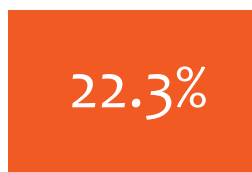
SENSEX	77,580
NIFTY	23,533

### SHARE HOLDING PATTERN (%)

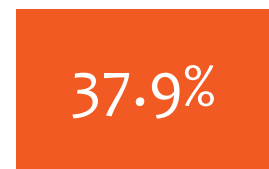
Particulars	Sep-24 (%)	June-24 (%)	March-24 (%)
Promoters	57.1%	59.8%	62.3%
FIIs	0.8%	1.3%	2.3%
DIIIs	7.9%	8.9%	11.2%
Others	34.2%	30.0%	24.2%
Total	100%	100%	100%

\*Based on the Today's closing

\*Note: All the market data is as of Today's closing.



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

## DCX Systems Ltd.

### Key Concall Highlights:

#### NIART Systems JV:

- The railway JV with ELTA, NIART Systems, has achieved significant milestones, including obtaining licenses for the manufacturing of advanced defense electronics and radar systems.
- NIART's innovations include obstacle detection systems for the railway sector, positioning it as a unique solution in both domestic and international markets.
- Management anticipates NIART will contribute meaningfully to DCX's growth trajectory, with direct orders expected to add to revenue in upcoming quarters.

#### Order Pipeline:

- DCX reported a strong order book, exceeding INR 3,000 crore, driven by new contracts with global defense giants, including Lockheed Martin.
- The management highlighted robust demand and the ability to secure large-scale, critical defense and aerospace orders, reflecting in DCX's capabilities and execution.

#### Seasonality:

- Consistent with previous years, DCX experiences seasonality, with the first two quarters typically being slower due to setup times for procurement, regulatory approvals, and logistical arrangements.
- Management expects a significant pickup in revenue in the latter half of the fiscal year, aligning with the company's historical revenue concentration in Q3 and Q4.

#### Clarity on BOM Guarantee and Raw Material Cost Recovery:

- DCX confirmed the presence of BOM (Bill of Materials) guarantees in most contracts, which allows for the recovery of increased raw material costs.
- However, due to geopolitical challenges, specifically travel restrictions related to the Israel conflict, some client meetings required to finalize these cost recoveries have been delayed.
- Management anticipates addressing this with clients soon, aiming for cost recovery in the upcoming quarters.

#### Execution of Order Book:

- DCX aims to execute approximately 35%-40% of the current order book within FY25, subject on supply chain timelines and regulatory clearances.
- Management underscored a strong focus on efficient execution, particularly for high-profile orders, to maintain client relationships and secure future contracts.

### Outlook and Valuation

DCX has secured strong order book recently from key leading defence players which has given sharp rise to the order book valued at INR 30,000 Mn. At the same time, NIART Systems have garnered positive response from key industry players for the Obstacle detection equipment.

**The recent order wins strengthen our confidence in revenue visibility over the near to medium term. However, the ongoing concern around recovering higher raw material costs and sustained margin pressure have led us to revise down our EPS estimates for FY25E/FY26E to INR 7.4/ INR 13 (Previously: INR 11.2/ INR 14.4) respectively. Despite these challenges, we remain confident in DCX's capacity to emerge as a prominent player in the EMS sector, with substantial growth potential in the railway and defense segments. Accordingly, we maintain our P/E multiple of 36x on FY26E EPS and reiterate our BUY rating, setting a target price of INR 466 (previously INR 519).**

## DCX Systems Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	11,023	12,536	14,236	16,951	21,289
Other Income	221	295	496	553	375
<b>Total Income</b>	<b>11,243</b>	<b>12,832</b>	<b>14,732</b>	<b>17,504</b>	<b>21,664</b>
<b>Cost of Goods Sold</b>	<b>10,006</b>	<b>11,192</b>	<b>13,166</b>	<b>15,622</b>	<b>18,905</b>
<b>Gross Profit</b>	<b>1,017</b>	<b>1,344</b>	<b>1,070</b>	<b>1,329</b>	<b>2,384</b>
<b>Gross Margin</b>	<b>9.2%</b>	<b>10.7%</b>	<b>7.5%</b>	<b>7.8%</b>	<b>11.2%</b>
Employee benefit cost	87	105	139	214	276
Other expenses	260	403	132	260	280
Operating expenses	10,353	11,700	13,437	16,097	19,461
<b>EBITDA</b>	<b>670</b>	<b>837</b>	<b>799</b>	<b>855</b>	<b>1,829</b>
<b>EBITDA Margin</b>	<b>6.1%</b>	<b>6.7%</b>	<b>5.6%</b>	<b>5.0%</b>	<b>8.6%</b>
Depreciation Expenses	22	18	51	94	76
Finance cost	113	256	298	170	206
<b>Profit Before Tax</b>	<b>756</b>	<b>858</b>	<b>946</b>	<b>1,143</b>	<b>1,921</b>
<b>PBT Margin</b>	<b>6.2%</b>	<b>6.9%</b>	<b>6.8%</b>	<b>6.6%</b>	<b>6.7%</b>
Tax					
<b>Total Tax</b>	<b>99</b>	<b>141</b>	<b>188</b>	<b>321</b>	<b>480</b>
Tax Rate	13%	16%	20%	28%	25%
<b>Profit After tax</b>	<b>656</b>	<b>717</b>	<b>758</b>	<b>822</b>	<b>1,441</b>
<b>PAT Margin</b>	<b>6.0%</b>	<b>5.7%</b>	<b>5.3%</b>	<b>4.8%</b>	<b>6.8%</b>
<b>Adjusted EPS (INR)</b>	<b>5.9</b>	<b>6.4</b>	<b>6.8</b>	<b>7.4</b>	<b>12.9</b>

Source: Company, DevenChoksey Research

#### Exhibit 2: Balance Sheet

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
<b>Assets</b>					
<b>Non Current Assets</b>					
Property Plant and Equipment	108	108	556	537	511
<b>Total Non Current Assets</b>	<b>188</b>	<b>280</b>	<b>660</b>	<b>4,796</b>	<b>4,771</b>
<b>Current Assets</b>					
Inventories	273	2,292	2,035	2,807	3,159
Financial Assets					
i) Investments	-	-	-	-	-
ii) Trade receivable	695	3,195	6,671	6,132	7,509
iii) Cash and cash equivalents	1,885	137	214	-	-
iv) Bank balances other than (ii) above	6,118	5,822	8,194	5,212	5,824
Current Tax Assets (Net)	-	14	-	-	-
Other current Assets	217	433	699	566	633
<b>Total Current Assets</b>	<b>9,238</b>	<b>11,913</b>	<b>17,813</b>	<b>14,716</b>	<b>17,124</b>
<b>Total Assets (INR Million)</b>	<b>9,426</b>	<b>12,193</b>	<b>18,473</b>	<b>19,513</b>	<b>21,895</b>
<b>Equities &amp; Liabilities</b>					
Equity Share Capital	155	193	223	223	223
Reserve & Other Equity	1,021	5,474	11,040	11,988	13,429
<b>Total Equity</b>	<b>1,176</b>	<b>5,667</b>	<b>11,263</b>	<b>12,211</b>	<b>13,651</b>
Non Current Liabilities	-	-	-	-	-
Long Term Borrowings	354	58	202	250	250
<b>Total Non current Liability</b>	<b>354</b>	<b>70</b>	<b>221</b>	<b>275</b>	<b>283</b>
<b>Current Liabilities</b>					
Borrowings	4,672	5,037	2,704	2,880	3,200
Total Trade Payable	965	1,363	3,920	3,277	3,886
Current Tax Liabilities	88	-	23	70	70
<b>Total Current Liability</b>	<b>7,885</b>	<b>6,456</b>	<b>6,990</b>	<b>7,027</b>	<b>7,961</b>
<b>Total Liability</b>	<b>9,426</b>	<b>12,193</b>	<b>18,473</b>	<b>19,513</b>	<b>21,895</b>

Source: Company, DevenChoksey Research

## DCX Systems Ltd.

### Exhibit 3: Ratios

Profitability Ratios	FY22	FY23	FY24	FY25E	FY26E
Gross Margin%	9.2%	10.7%	7.5%	7.8%	11.2%
Operating Margin%	6.1%	6.7%	5.6%	5.0%	8.6%
PAT margin%	6.0%	5.7%	5.3%	4.8%	6.8%
Return Ratios	FY22	FY23	FY24	FY25E	FY26E
ROCE%	21.6%	13.1%	10.0%	8.9%	13.1%
ROE%	79.8%	20.9%	9.0%	7.0%	11.1%
ROA%	7.6%	6.6%	4.9%	4.3%	7.0%
Working Capital & Turnover Ratios	FY22	FY23	FY24	FY25E	FY26E
Debtor Days	23	93	171	132	129
Inventory Days	10	75	56	66	61
Creditor Days	35	44	109	77	75
Working Capital Days	-2	123	119	121	115
Debtor Turnover	16	4	2	3	3
Inventory Turnover	37	5	6	6	6
Payables Turnover	10	8	3	5	5
Coverage Ratio	FY22	FY23	FY24	FY25E	FY26E
Debt to Equity (x)	4.3	0.9	0.3	0.3	0.3
Interest Coverage (x)	7.7	4.3	4.2	7.7	10.3
Valuation Ratios	FY22	FY23	FY24	FY25E	FY26E
Adjusted EPS	5.9	6.4	6.8	7.4	12.9
Adjusted Book Value	10.6	50.9	101.1	109.6	122.6
Adjusted Price to Earnings (x)	51.8	47.4	44.8	41.3	23.6
Adjusted Price to Book Value (x)	28.9	6.0	3.0	2.8	2.5
EV/EBITDA (x)	49.1	39.7	35.9	37.3	17.3

Source: Company, DevenChoksey Research

### Exhibit 3: Cash Flow Statement

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Flow from Operation	-1,340	-5,902	44	471	175
Net Cash Flow from Investing Activities	208	219	-13	-3,721	323
Net Cashflow from Financing activities	3,642	3,638	2,418	54	114
Opening cash balance	5,493	8,003	5,958	8,408	5,212
Closing Cash	8,003	5,958	8,408	5,212	5,824

Source: Company, DevenChoksey Research

## DCX Systems Ltd.

DCX Systems Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
14-Nov-24	303	466	BUY
16-Aug-24	331	519	BUY
22-May-24	331	519	BUY
09-Feb-24	350	519	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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