



Q4FY25

DCX Systems Ltd

DCX Systems Ltd.

Margin overhang overshadows future revenue growth

CMP INR 310	Target INR 321	Potential Upside 2.5%	Market Cap (INR Mn.) INR 33,500	Recommendation HOLD	Sector Electronic- Component
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Result Highlights of Q4FY25:

- DCX Systems' Q4FY24 results fell short of our expectations across all key metrics. Revenue stood at INR 5,500 Mn., down 26.3% YoY (+175.0% QoQ), sharply below our estimates (-32.2%). EBITDA came in at INR 102 Mn., down 73.0% YoY (+ 242.2% QoQ), sharply below our estimates (-66.7%) led by weaker revenue growth and contraction in gross margins. EBITDA margin contracted by 322bps YoY to 1.9%, below our estimates by 193bps. Net profit stood at INR 207 Mn., down 37.2% YoY (+ 106.8% QoQ), sharply below our estimates (-23.2%), led by weaker operational performance, partially offset by higher other income.
- We have revised our FY26E/FY27E EPS estimates by -25.8%/-13.6% respectively, to factor in persistent subdued gross margins stemming primarily from inability of the Company to raise an invoice for the excess bill of materials (BOM) supplied in the system integration segment. We believe, re-rating of the stock depends on improvement of the margin profile with expansion into higher-value and in-house developed products. We expect the Revenue/EBITDA/PAT to grow at 24.9%/314.4%/59.7% CAGR over FY25-27E.
- We value DCX at 36.0x FY27E EPS, implying a target price of INR 321. We downgrade our rating from "BUY" to "HOLD" on the stock.

MARKET DATA

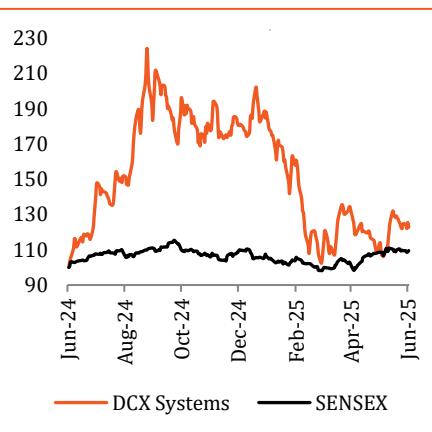
Shares outs (Mn)	111
Mkt Cap (INR Mn)	33,500
52 Wk H/L (INR)	452/200
Volume Avg (3m K)	1,068
Face Value (INR)	2
Bloomberg Code	DCXINDIA IN

KEY FINANCIALS

(INR Million)	FY23	FY24	FY25	FY26E	FY27E
Revenue from Operations	12,536	14,236	10,837	14,088	16,905
Gross Profit	1,344	1,070	477	884	1,342
EBITDA	837	799	46	391	791
EBITDA Margin	6.7%	5.6%	0.4%	2.8%	4.7%
Profit Before Tax	876	946	604	860	1,321
Profit After tax	735	758	389	645	991
PAT Margin	5.9%	5.3%	3.6%	4.6%	5.9%
Adjusted EPS	6.6	6.8	3.5	5.8	8.9

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



Q4 performance impacted by persistent weaker gross margins

- DCX Systems reported a poor financial performance in Q4 FY25, with revenue falling 26.3% YoY INR to 5,500 Mn.
- EBITDA stood at INR 379 Mn., down 73.0% YoY, while net profit came in at INR 207 Mn., down 37.2% YoY. **EBITDA margin contracted by 322bps YoY to 1.9%.**
- Net **Cash flow from operations stood at INR 4,435 Mn.** supported largely by inflows from receivables and customer advances.
- Looking ahead, the company anticipates potential margin improvement led by robust order book of INR 28,550 Mn., which includes **major orders from global players like Lockheed Martin and Elta Systems**, and the **strategic JV with Elta to manufacture radar systems** under the 'Make in India' initiative, expected to become operational within 11 months.
- Additionally, **inclusion under the RoDTEP scheme from June 2025 is expected to enhance export profitability.** The company is transitioning from a build-to-print model to a product-based business, notably through NIART's railway safety systems, which offer better margins.
- Pending recoverable under the BOM guarantee clause, once cleared, are also expected to positively impact profitability.
- With no major CapEx planned for the core business, DCX is focused on leveraging its strong order pipeline and operational strengths to improve margins from FY26 onward.

MARKET INFO

SENSEX	82,445
NIFTY	25,103

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-24	Sep-24
Promoters	56.9%	56.9%	57.1%
FII	1.1%	1.0%	0.8%
DII	4.0%	5.4%	7.9%
Others	38.0%	36.7%	34.2%
Total	100%	100%	100%

*Based on the previous closing.

*Note: All the market data is as of previous closing.

24.9%

59.7%

Revenue CAGR between
FY25 and FY27E

PAT CAGR between FY25
and FY27E

DCX Systems Ltd.

Key Con-call Highlights

Order Book as of March 31, 2025

- The company holds a **consolidated outstanding order book of about INR 2,855 crores as of March 31, 2025**. This order book is expected to be **executed within approximately two years** based on the delivery schedule.
- They have received several new orders in the last six months, **notably two orders from Lockheed Martin Global USA totaling about INR 840 crore and one from Elta Systems Israel for Close-in Weapon System module assemblies' worth about INR 483 crore**.
- Following recent events and proven Indian defense capabilities, DCX is experiencing a significant increase in inquiries from various countries and large companies.

EBIT margins fell; BOM costs delayed recovery, improvement expected

- DCX reported an EBIT margin of 6.58% for FY25, a decrease from 8.74% in FY24. The low operating **margins were primarily attributed to a business practice involving a Bill of Material (BOM) guarantee clause with customers**. Under this clause, when raw material costs increase after the initial price is set, DCX initially bears the extra cost. This extra expense is reconciled and claimed back from the customer at the financial year-end, but this amount is not reflected in trade receivables or invoiced until cleared and approved by the customer.
- The process for claiming these accumulated extra costs for past projects is ongoing. While it was hoped to be settled in the past, delays occurred due to factors like war situations, travel restrictions, and project closures.
- Management is actively working to get these claims settled, targeting for the recovery amount to be potentially reflected in the Q1 FY26 results. They stated that the FY25 revenue *does not* include last year's BOM claims.
- Management mentioned that there is an improvement in the EBITDA margin on the new POs compared to the earlier ones.
- Typical margin ranges for different business verticals were provided: Cable business has a double-digit margin. **PCB assembly is within 10%. System Integration ranges from 5% to 12%. Kitting, electronic inspection, and casting are around 7% to 8%**. These margins vary based on complexity and specific project requirements.

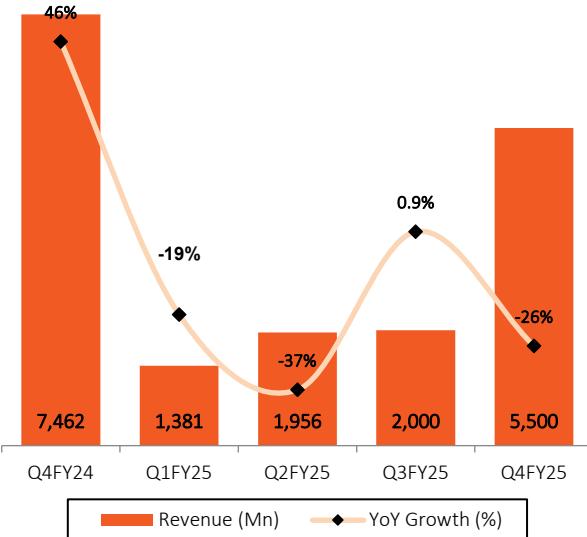
Raneal, NIART, and JVs to expand DCX's defense, rail, MRO footprint

- Raneal Advanced Systems (Subsidiary): **Raneal recently received a Defense Industrial License for highly classified projects**. DCX and Raneal have established new Domestic Tariff Area (DTA) units to cater to increasing domestic requirements under the Make in India initiative. Commercial production at this facility is expected to start soon. Raneal did approximately INR 380 crore in external sales in FY25, mostly completed.
- NIART Systems (Railway Product JV): This is a joint venture with Elta (where DCX has a 50.1% majority) focused on a radar-based obstacle reduction system for railway safety. The product is developed using Elta's radar/optics/algorithm technology and is a 100% OEM product. Trial deployments have been ongoing for one-and-a-half years. All tests are completed except for one fog test, which is pending the upcoming fog season. The product is ready, awaiting final certification. The market opportunity in India is estimated at 5,000 to 6,000 locos over the next five years, with tenders expected shortly.
- The **international market has visibility for about 1,750 units in the next three years in other countries**, with proposals being submitted for around 240 systems to one global company shortly.
- Revenue from NIART is expected to start in FY27. The significant increase in intangible assets (INR 2800 Mn) is attributed to NIART's capitalized intangible property related to its development.
- ELTA Radar Systems JV: A **joint venture agreement has been signed with Elta Systems Israel (DCX owning 37%) to develop, manufacture, and supply various radar and sensor systems for airborne and land-based applications under Make in India**. The products are already proven worldwide. The target is to start operations within 11 months. The company is in the process of setting up the plant and finalizing the Capex, which is estimated to be around INR 150 crore to INR 200 crore.
- MRO Business (with Aerospace Services India - ASI): **An MOU has been signed with ASI to be a partner for electronic assemblies for MRO business**. The business is expected to start shortly, with the process moving faster due to urgency. DCX is also expecting potential follow-up orders related to large orders secured by BEL/L&T/BLM, as DCX is an India supplier for specific electronic modules.

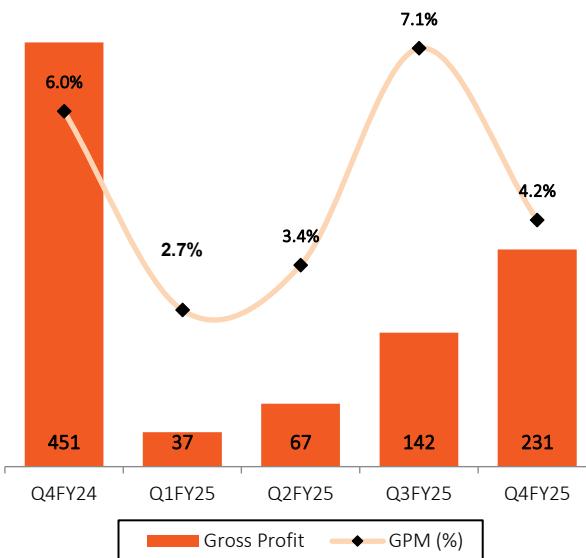
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Story in Charts:

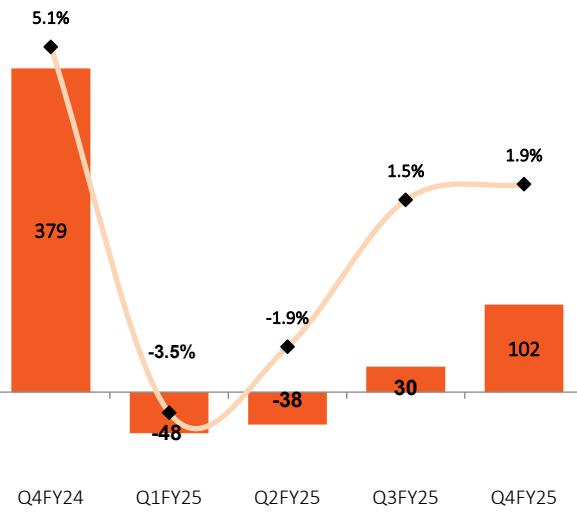
Revenue growth momentum has remained lacklustre since last few quarters



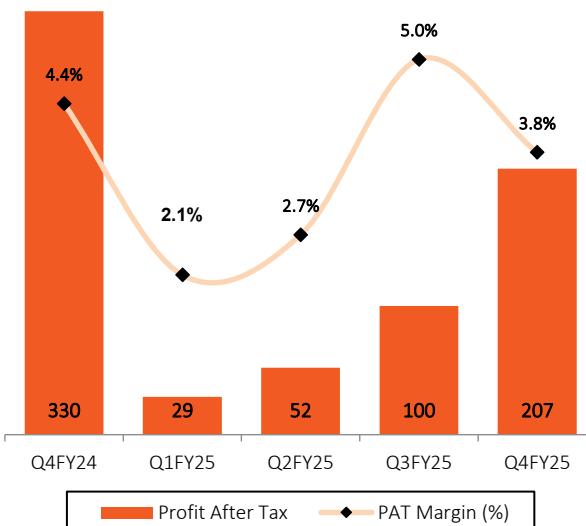
Gross margins recovery stood subdued, led by BOM guarantee issues



EBITDA Margins (%) impacted by weaker revenue traction and contraction of gross margins



PAT margin declined (YoY) led by poor operational performance



Source: Company, DevenChoksey Research

DCX Systems Ltd.

Valuation and view:

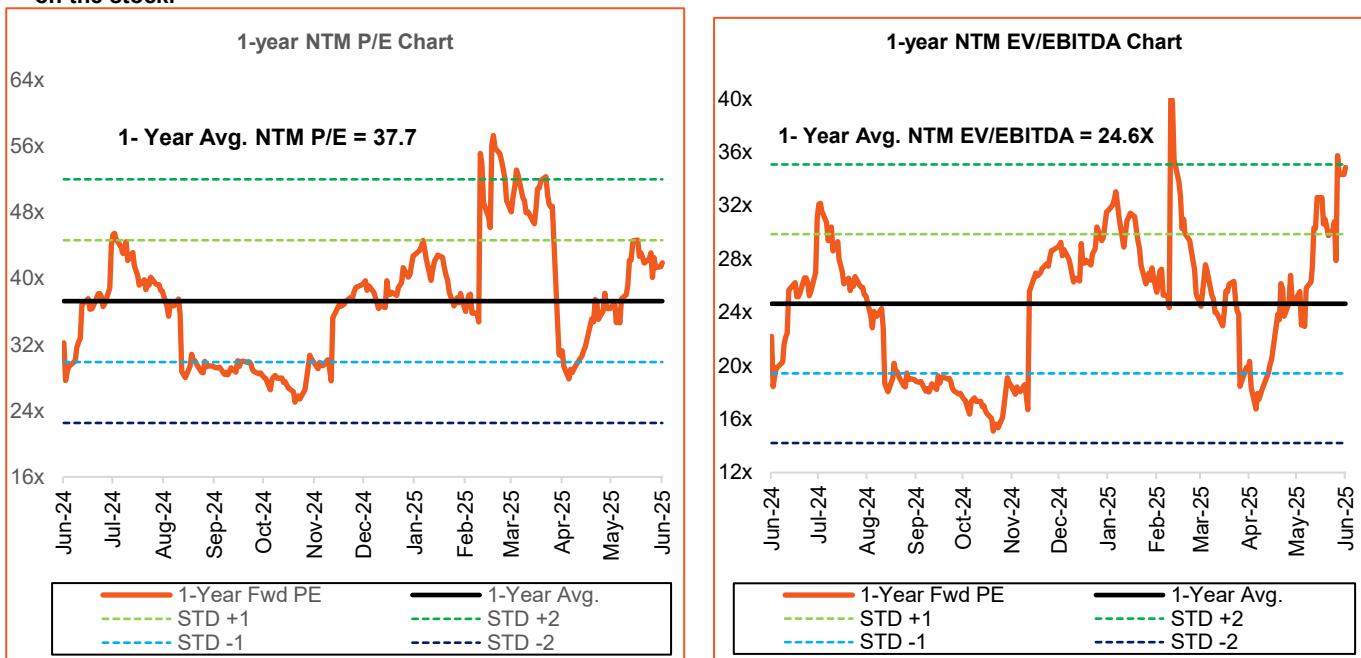
DCX Systems' Q4FY24 results fell short of expectations across all key metrics. EBITDA declined by 73.0% YoY led by weaker revenue growth and contraction in gross margins. The Company's inability to hold on its gross margins stems **primarily from inability to raise an invoice for the excess bill of materials (BOM) supplied in the system integration segment**. Net profit declined by 37.2% YoY led by weaker operational performance, partially offset by higher other income.

We have revised our FY26E/FY27E EPS estimates by -25.8%/-13.6% respectively, to factor in persistent subdued gross margins stemming primarily from inability of the Company to raise an invoice for the excess bill of materials (BOM) supplied in the system integration segment. We believe, re-rating of the stock depends on improvement of the margin profile with expansion into higher-value and in-house developed products.

Y/E March (INR Mn)	New Estimates		Old Estimates		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	14,088	16,905	16,914	20,297	-16.7%	-16.7%
EBITDA	391	791	991	1,339	-60.5%	-40.9%
EBITDA margin (%)	2.8%	4.7%	5.9%	6.6%	-308 bps	-192 bps
PAT	645	991	866	1,146	-25.5%	-13.5%
EPS	5.8	8.9	7.8	10.3	-25.8%	-13.6%

We expect the Revenue/EBITDA/PAT to grow at 24.9%/314.4%/59.7% CAGR over FY25-27E. The company is currently available at 62.3x/36.1x FY26E/FY27E EPS.

We value DCX at 36.0x FY27E EPS, implying a target price of INR 321. We downgrade our rating from "BUY" to "HOLD" on the stock.



Source: Bloomberg, DevenChoksey Research

DCX Systems Ltd.

Result Snapshot:

Particulars	Q4FY25	Q3FY25	Q4FY24	QoQ	YOY	FY25	FY24	YoY
Revenue	5,500	2,000	7,462	175%	-26%	10,837	14,236	-24%
COGS	5,269	1,858	7,011	184%	-25%	10,360	13,166	-21%
as (%) of revenue	96%	93%	94%			96%	92%	
Gross Profit	231	142	451	62%	-49%	477	1,070	-55%
Gross Margin %	4.2%	7.1%	6.0%	-292 bps	-185 bps	4.4%	7.5%	-311 bps
Employee benefit cost	68	57	35	19%	97%	234	139	68%
As (%) of revenue	1.2%	2.9%	0.5%	-162 bps	240 bps	2.2%	1.0%	118 bps
Other expenses	60	55	38	9%	59%	197	132	50%
As (%) of revenue	1.1%	2.8%	0.5%	-166 bps	225 bps	1.8%	0.9%	90 bps
Total Operating expenses	5,397	1,970	7,083	174%	-24%	10,791	13,437	-20%
EBITDA	102	30	379	242%	-73%	46	799	-94%
EBITDA Margin (%)	1.9%	1.5%	5.1%	37 bps	-322 bps	0.4%	5.6%	-519 bps
Depreciation Expenses	37	35	23	6%	64%	134	51	161%
EBIT	65	-5	356	-1323%	-82%	-88	748	-112%
Other income	235	182	163	29%	44%	800	496	61%
Finance cost	15	17	88	-9%	-82%	109	298	-63%
Profit before tax	285	159	431	79%	-34%	604	946	-36%
Income Tax	78	59	102	31%	-24%	215	188	14%
ETR (%)	27.3%	37.2%	23.6%	-994	369	35.6%	19.9%	1,571
Profit After Tax	207	100	330	107%	-37%	389	758	-49%
Net Margin (%)	3.8%	5.0%	4.4%	-124 bps	-65 bps	3.6%	5.3%	-174 bps
Diluted EPS	1.9	0.9	3.0	107%	-37%	3.5	6.8	-49%

Source: Company, DevenChoksey Research

Peers	CMP	MCAP	Revenue CAGR	EBITDA CAGR	EBITDA Margin (%)	EV/EBITDA			P/E			ROE (%)		
	INR	In Mn.	FY25-27E (%)	FY25-27E (%)	FY24/25	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
DCX Systems	310	33,500	24.9%	314.4%	0.4%	573.6x	65.3x	31.0x	88.8x	53.6x	34.8x	3.1%	4.6%	6.7%
Peers														
Cyient DLM	483	38,100	21.1%	32.6%	9.0%	26.6x	21.9x	16.1x	53.2x	32.1x	23.0x	7.2%	11.3%	13.6%
Astra Microwave	1,130	1,16,313	19.8%	20.6%	25.6%	25.0x	33.8x	28.3x	41.6x	59.0x	48.3x	14.0%	14.3%	15.1%
Kayne Tech	5,654	3,62,300	52.3%	55.9%	15.1%	74.3x	56.5x	37.6x	103.5x	87.8x	61.0x	10.3%	12.8%	15.0%
Mean			31.1%	36.4%	16.6%	42.0x	37.4x	27.3x	66.1x	59.6x	44.1x	10.5%	12.8%	14.6%
Median			21.1%	32.6%	15.1%	26.6x	33.8x	28.3x	53.2x	59.0x	48.3x	10.3%	12.8%	15.0%

Source: Factset, DevenChoksey Research

DCX Systems Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

(INR Million)	FY24	FY25	FY26E	FY27E
Revenue from Operations	14,236	10,837	14,088	16,905
Cost of Goods Sold	13,166	10,360	13,203	15,563
Gross Profit	1,070	477	884	1,342
Gross Margin	7.5%	4.4%	6.3%	7.9%
Employee benefit cost	139	234	276	316
Other expenses	132	197	217	235
Total operating expenses	13,437	10,791	13,697	16,114
EBITDA	799	46	391	791
EBITDA Margin	5.6%	0.4%	2.8%	4.7%
Depreciation Expenses	51	134	139	145
Other Income	497	800	608	675
Finance cost	298	109	0	0
Profit Before Tax	946	604	860	1,321
PBT Margin	0	0	0	0
Tax	188	215	215	330
Tax Rate	19.9%	35.6%	25.0%	25.0%
Profit After tax	758	389	645	991
PAT Margin	5.3%	3.6%	4.6%	5.9%
Adjusted EPS	6.8	3.5	5.8	8.9

Source: Company, DevenChoksey Research

Exhibit 3: Cash Flow Statement

Particulars	FY24	FY25	FY26E	FY27E
CFFO	44	4,959	-404	-112
CFI	-12	-2,384	308	575
CFFF	2,418	-946	0	0
Net cash and cash equivalents	2,450	1,628	-96	463
Opening cash balance	5,958	8,408	10,037	9,940
Closing Cash	8,408	10,037	9,940	10,403

Exhibit 3: Ratios

INR Mn	FY24	FY25	FY26E	FY27E
Gross Margin%	7.5%	4.4%	6.3%	7.9%
Operating Margin%	5.6%	0.4%	2.8%	4.7%
PAT margin%	5.3%	3.6%	4.6%	5.9%
ROCE%	10.0%	5.1%	6.1%	8.9%
ROE%	9.0%	3.1%	4.6%	6.7%
P/E (x)	45.6x	88.8x	53.6x	34.8x
EV/EBITDA (x)	36.6x	573.6x	65.3x	31.0x

Source: Company, DevenChoksey Research

Exhibit 2: Balance Sheet

(INR Million)	FY24	FY25	FY26E	FY27E
Assets				
Non Current Assets				
Property Plant and Equipment	556	620	688	650
Capital Work in Progress	0	0	0	0
Right-of-use-Assets	43	72	72	72
Other financial Assets	37	50	50	50
Financial Assets	37	50	50	50
Other Non current Assets	24	15	151	201
Total Non Current Assets	660	3,529	3,675	3,630
Current Assets				
Inventories	2,035	2,890	3,437	3,838
Trade receivables	6,671	1,652	2,316	2,779
Cash and bank balance	8,408	10,037	9,940	10,403
other financial assets	0	9	9	9
Other current assets	699	925	925	925
Total Current Assets	17,813	15,512	16,626	17,953
Total Assets	18,473	19,041	20,301	21,583
Equities & Liabilities				
Equity Share Capital	223	223	223	223
Reserve & Other Equity	11,040	13,530	14,174	15,165
Total Equity	11,263	13,752	14,397	15,388
Non Current Liabilities				
Long Term Borrowings	202	0	0	0
Provisions	19	30	30	30
Lease liabilities	0	22	22	22
Total Non current Liability	221	52	52	52
Current Liabilities	0	0	0	0
Borrowings	2,704	0	0	0
Total Trade Payable	3,920	1,012	1,628	1,919
Other Financial Liabilities	20	233	233	233
Other current Liabilities	322	3,873	3,873	3,873
Provisions	1	1	1	1
Current Tax Liabilities	23	118	118	118
Total Current Liability	6,990	5,237	5,853	6,144
Total Liability	18,473	19,041	20,301	21,583

DCX Systems Ltd.

DCX Systems Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
09-Jun-25	310	321	Hold	Buy	More than 15%
19-Feb-25	262	360	BUY	Accumulate	5% – 15%
14-Nov-24	303	466	BUY	Hold	0 – 5%
16-Aug-24	331	519	BUY	Reduce	-5% – 0
22-May-24	331	519	BUY	Sell	Less than – 5%
09-Feb-24	350	519	BUY		

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