



DCX Systems Ltd

DCX Systems Ltd**Parallel shift towards product supplier is on track with strong topline growth recorded in FY24.**

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 331	INR 519	56.65%	INR 36,880	BUY	Electronic- Component

Result Highlights of Q4FY24:

- DCX systems delivered 46%/14% (YoY) growth in revenue from operations in Q4FY24/FY24 backed by INR 196 crore captive consumption of PCBA from Raneal Advanced Systems. The topline number exceeded our Q4FY24/FY24 estimates by 28%/13%.
- Higher material costs impacted the Q4 gross margin, reducing it to 6.05% from 11.48% in Q3FY24 and 10.67% in Q4FY23. However, management expects a decent recovery from clients on the back of 'Material Guarantee' clause in contracts with major customers.
- The order book stands roughly at INR 800 crore as of March 31, 2024, with a robust order pipeline. Successful conversions of underlying order pipeline could secure revenue for a couple of years.

MARKET DATA

Shares outs (Mn)	111
Mkt Cap (INR Mn)	36,880
52 Wk H/L (INR)	393/189
Volume Avg (3m K)	259
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	19,145	23,922
Gross Profit	1,017	1,344	1,070	2,018	2,665
EBITDA	670	837	799	1,531	2,040
EBITDA Margin%	6.1%	6.7%	5.6%	8.0%	8.5%
Profit Before Tax	756	858	946	1,661	2,140
Profit After tax	656	717	758	1,249	1,605
Adjusted EPS	5.9	6.4	6.8	11.2	14.4
Adjusted P/E	56.2	51.5	48.7	29.5	23.0

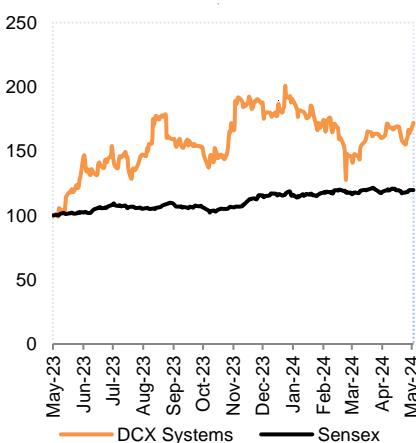
Source: Company, DevenChoksey Research

Stellar revenue number poses surprise while margins should normalize subsequently

- The Q4FY24 revenue from operations came at INR 7,462 Million beating expectation aided by strong execution. The recovery of inflated material cost from customers should normalize the gross margin impact of Q4FY24 in the subsequent quarters.
- The EBITDA margin was also impacted on account of higher raw material cost at 5.08% in Q4FY24 vs 8.98%/7.37% in Q4FY23/Q3FY24. The management guided for decent improvement in margins over FY25 aided by nearly 70% captive consumption of PCBA.
- Considering the gross margin levels of previous quarters and factoring in the captive consumption of PCBA, we believe DCX should recover INR 200-250 million (conservatively) from its clients on account of 'Material Guarantee' clause.

Parallel Shift towards Product Manufacturing on track with NIART

- The product for the obstacle detection equipment on the railway side is developed and the product demo and product qualification stand completed.
- DCX is ready for mass production of the railway product and it is waiting for the tender to flow from the Govt.
- DCX is investing nearly INR 2,100 Million in NIART and it would leverage its internal capabilities such as PCBA, cable & wire harnessing and box building alongside the ToT from ELTA to manufacture this product.
- India has nearly 14,000 locomotives and Govt allocated INR 340,000 Million for technological upgradation. DCX is targeting to capitalize this opportunity through NIART.

SHARE PRICE PERFORMANCE**MARKET INFO**

SENSEX	73,953
NIFTY	22,529

SHARE HOLDING PATTERN (%)

Particulars	Mar-24 (%)	Dec-23 (%)	Sep-23 (%)
Promoters	62.3%	71.7%	71.7%
FII	2.3%	0.4%	0.1%
DII	11.2%	7.0%	8.2%
Others	24.2%	20.9%	20.0%
Total	100%	100%	100%

*Based on previous closing

29.6%**45.5%**Revenue CAGR between
FY24 and FY26EAdj. PAT CAGR between
FY24 and FY26E

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Key Concalt Highlights:

- The current order book stands at INR 8,000 Million as of 31st March'24. The management highlighted that it has 60%-70% mix in the export business and 30%-40% mix in the domestic business. **The management is also targeting higher business with Defence Public Sector Undertakings.**
- DCX is also working very closely with another large company to form a JV and it is **targeting towards becoming a direct supplier to MOD or DPSUs**. DCX has also kept INR 2,000 Million from the QIP for this JV which will fetch higher margin profile as well.
- The management highlighted that **effective backward integration from Raneal, new revenue line item from NIART and addition of new services** likely to expand the EBITDA margin in the near term.
- DCX has also added a new line for optical cables and it should aid the expansion of cable & wire harnessing portfolio going ahead. The company is also adding new clients which should help in expanding the order book.
- DCX also reduced debt level during the year quite **substantially to INR 2,906 Million in FY24 vs INR 5,094 Million in FY23**. It should materialise into lower finance cost in FY25. The management highlighted that the debt levels would be subject to the nature of projects under execution.
- DCX has recently signed MoU with IAI Israel Aerospace India Services Private Limited for capitalizing on MRO opportunity. IAI India Services Pvt Ltd has started **large facility in India** for MRO services. It has transferred 25-30 people from Israel to India for this.
- IAI India's new facility will provide maintenance and repair services for all equipment supplied over the last many years. Initially, the MRO hub will focus on Medium Range Surface-to-Air Missiles (MRSAM) and DCX has strong capabilities in MRSAM.
- The focus in Raneal would be around **highly complex and high value PCBAs for defence, railways and other sector**. With this, the management will continue with the strategy of low volume and high value PCBAs.

Valuation and view:

DCX systems delivered strong revenue growth during the quarter with decline in the net profit growth in Q4FY24(YoY) because of higher material cost and higher tax rate. However, we believe DCX is likely to recover INR 200-250 Million from the customers on account of the 'Material Guarantee' clause. **We estimate DCX to deliver 29.6%/45.5% revenue/PAT CAGR during FY24-FY26E** aided by faster ramp up of Raneal Advanced systems coupled with swift execution of large order book upon successful conversion of robust order pipeline. We have increased our topline estimate by 5%/6% and revised the EBITDA margin slightly higher by 12bps/25bps for FY25/FY26 which is offset by the higher tax @25% during the same period. **We maintain our BUY rating on the stock with 36x P/E on the EPS of FY26E at INR519 per share with an upside of 56.5% during the same period.**

Result Snapshot Q4FY24 & FY24

Particulars (INR Million)	Q4FY23	Q3FY24	Q4FY24	YoY	QoQ	FY23	FY24	YoY
Sales	5,105	1,982	7,462	46.2%	276.6%	12,536	14,236	13.6%
Other income	97	110	163	67.8%	48.0%	295	496	68.0%
Total Income	5,203	2,092	7,625	46.6%	264.5%	12,832	14,732	14.8%
Expenses								
COGS	4,561	1,754	7,011	53.7%	299.7%	11,192	13,166	17.6%
Gross Profit	545	228	451	-17.2%	98.3%	1,344	1,070	-20.4%
Gross Margin%	10.7%	11.5%	6.0%	(463bps)	(543bps)	10.7%	7.5%	(321bps)
Employee benefit cost	28	37	35	25.1%	-5.4%	105	139	32.3%
Other expenses	59	45	38	-35.6%	-15.5%	403	132	-67.3%
Operating expenses	4,647	1,835	7,083	52.4%	285.9%	11,700	13,437	14.8%
EBITDA	459	146	379	-17.4%	159.2%	837	799	-4.5%
EBITDA Margin%	9.0%	7.4%	5.1%	(390bps)	(230bps)	6.7%	5.6%	(106 bps)
Depreciation Expenses	4	18	23	463.8%	26.6%	18	51	181.7%
Finance cost	47	77	88	85.7%	13.9%	256	298	16.3%
Profit before tax	504	161	431	-14.5%	167.5%	858	946	10.3%
Tax Expense	93	27	102	9.3%	271.2%	141	188	33.6%
Profit After Tax	411	134	330	-19.9%	146.2%	717	758	5.7%

Source: Company, DevenChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	11,023	12,536	14,236	19,145	23,922
Other Income	221	295	496	385	382
Total Income	11,243	12,832	14,732	19,530	24,304
Cost of Goods Sold	10,006	11,192	13,166	17,127	21,258
Gross Profit	1,017	1,344	1,070	2,018	2,665
Gross Margin	9.2%	10.7%	7.5%	10.5%	11.1%
employee benefit cost	87	105	139	249	311
other expenses	260	403	132	239	313
Operating expenses	10,353	11,700	13,437	17,615	21,882
EBITDA	670	837	799	1,531	2,040
EBITDA Margin	6.1%	6.7%	5.6%	8.0%	8.5%
Depreciation Expenses	22	18	51	67	76
Finance cost	113	256	298	188	206
Profit Before Tax	756	858	946	1,661	2,140
PBT Margin	6.2%	6.9%	6.8%	6.6%	8.7%
Tax					
Total Tax	99	141	188	412	535
Tax Rate	13%	16%	20%	25%	25%
Profit After tax	656	717	758	1,249	1,605
PAT Margin	6.0%	5.7%	5.3%	6.5%	6.7%
Adjusted EPS (INR)	5.9	6.4	6.8	11.2	14.4

Source: Company, DevenChoksey Research

Exhibit 2: Balance Sheet

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Assets					
Non-Current Assets					
Property Plant and Equipment	108	108	556	537	511
Total Non-Current Assets	188	280	660	4,796	4,771
Current Assets					
Inventories	273	2,292	2,035	3,077	3,552
Financial Assets					
ii) Trade receivable	695	3,195	6,671	6,925	8,437
iii) Cash and cash equivalents	1,885	137	214	-	-
iv) Bank balances other than (ii) above	6,118	5,822	8,194	4,899	5,585
Current Tax Assets (Net)	-	14	-	-	-
Other current Assets	217	433	699	566	633
Total Current Assets	9,238	11,913	17,813	15,467	18,207
Total Assets (INR Million)	9,426	12,193	18,473	20,263	22,978
Equities & Liabilities					
Equity Share Capital	155	193	223	223	223
Reserve & Other Equity	1,021	5,474	11,040	12,416	14,020
Total Equity	1,176	5,667	11,263	12,638	14,243
Non-Current Liabilities	-	-	-	-	-
Long Term Borrowings	354	58	202	250	250
Total Non-current Liability	365	70	221	279	287
Current Liabilities					
Borrowings	4,672	5,037	2,704	2,880	3,200
Total Trade Payable	965	1,363	3,920	3,592	4,369
Current Tax Liabilities	88	-	23	70	70
Total Current Liability	7,885	6,456	6,990	7,346	8,448
Total Liability	9,426	12,193	18,473	20,263	22,978

Source: Company, DevenChoksey Research

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Exhibit 3: Ratios

Profitability Ratios	FY22	FY23	FY24	FY25E	FY26E
Gross Margin%	9.2%	10.7%	7.5%	10.5%	11.1%
Operating Margin%	6.1%	6.7%	5.6%	8.0%	8.5%
PAT margin%	6.0%	5.7%	5.3%	6.5%	6.7%
Return Ratios					
ROCE%	21.6%	13.1%	10.0%	12.4%	14.0%
ROE%	79.8%	20.9%	9.0%	10.5%	11.9%
ROA%	7.6%	6.6%	4.9%	6.5%	7.4%
Working Capital & Turnover Ratios					
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	15.9	3.9	2.1	2.8	2.8
Inventory Turnover	36.7	4.9	6.5	5.6	6.0
Paybles Turnover	10.4	8.2	3.4	4.8	4.9
Coverage Ratio					
Debt to Equity (x)	4.3	0.9	0.3	0.2	0.2
Interest Coverage (x)	7.7	4.3	4.2	9.8	11.4
Valuation Ratios					
Adjusted EPS	5.9	6.4	6.8	11.2	14.4
Adjusted Book Value	10.6	50.9	101.1	113.5	127.9
Adjusted Price to Earnings (x)	56.2	51.5	48.7	29.5	23.0
Adjusted Price to Book Value (x)	31.4	6.5	3.3	2.9	2.6
EV/EBITDA (x)	53.4	43.2	39.5	22.9	17.0

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	343	242
Net Cash Flow from Investing Activities	208	219	-13	-3,889	330
Net Cashflow from Financing activities	3,642	3,638	2,418	36	114
Opening cash balance	5,493	8,003	5,958	8,408	4,899
Closing Cash	8,003	5,958	8,408	4,899	5,585

Source: Company, DevenChoksey Research

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DCX Systems Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
22-May-24	331	519	BUY	Buy	More than 15%
09-Feb-24	350	519	BUY	Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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