

DCX Systems Ltd

CMP: Rs. 284

Target: Rs. 379 ▲ +33.5%

Investment Horizon: 2 years

Rating: Accumulate

Industry: Defense and Aerospace

Date: 26th March, 2024

 **Initiating**
Coverage



Company Overview

DCX Systems Ltd, established in 2011 and headquartered in Bengaluru, India, distinguishes itself in the defense and aerospace sectors through its specialized capabilities in system integration, as well as in the manufacturing of cables, wire harness assemblies, and electronic sub-systems. The company is renowned for its proficiency in catering to sophisticated applications across diverse areas such as radar systems, sensors, electronic warfare, and missile systems. In 2022, DCX Systems made a strategic move by incorporating Raneal Advanced Systems Private Limited as its wholly-owned subsidiary, dedicated to manufacturing PCBAs (Electronics Manufacturing Services) for both domestic and international markets. This initiative enhances the company's expertise in EMS, focusing on backward integration in PCBAs for captive consumption and broader markets.

Additionally, DCX Systems embarked on a significant foray into railway security solutions in 2023 by forming NIART Systems Ltd, a joint venture with ELTA Systems. This partnership aims to pioneer advanced obstacle detection solutions employing cutting-edge radar and optics technology, specifically targeting the railway industry. This initiative not only showcases DCX Systems' forward-thinking approach to global safety and efficiency challenges in civilian transportation but also marks a strategic expansion into new and critical infrastructure sectors.



Quick Data

Face Value (Rs.)	2.00
No. of Shares (Cr)	11.1
MCAP (Rs. Cr)	3160
52W H/L (Rs.)	393 / 138
BSE Code	543650
NSE Symbol	DCXINDIA
Book Value	61.3

Ratios (TTM)

ROE	20.9%
ROCE	13.1%
P/E Ratio (ttm)	37.6
P/BV (ttm)	4.58
Dividend Pay-out	0.0%
Dividend Yield	0.0%

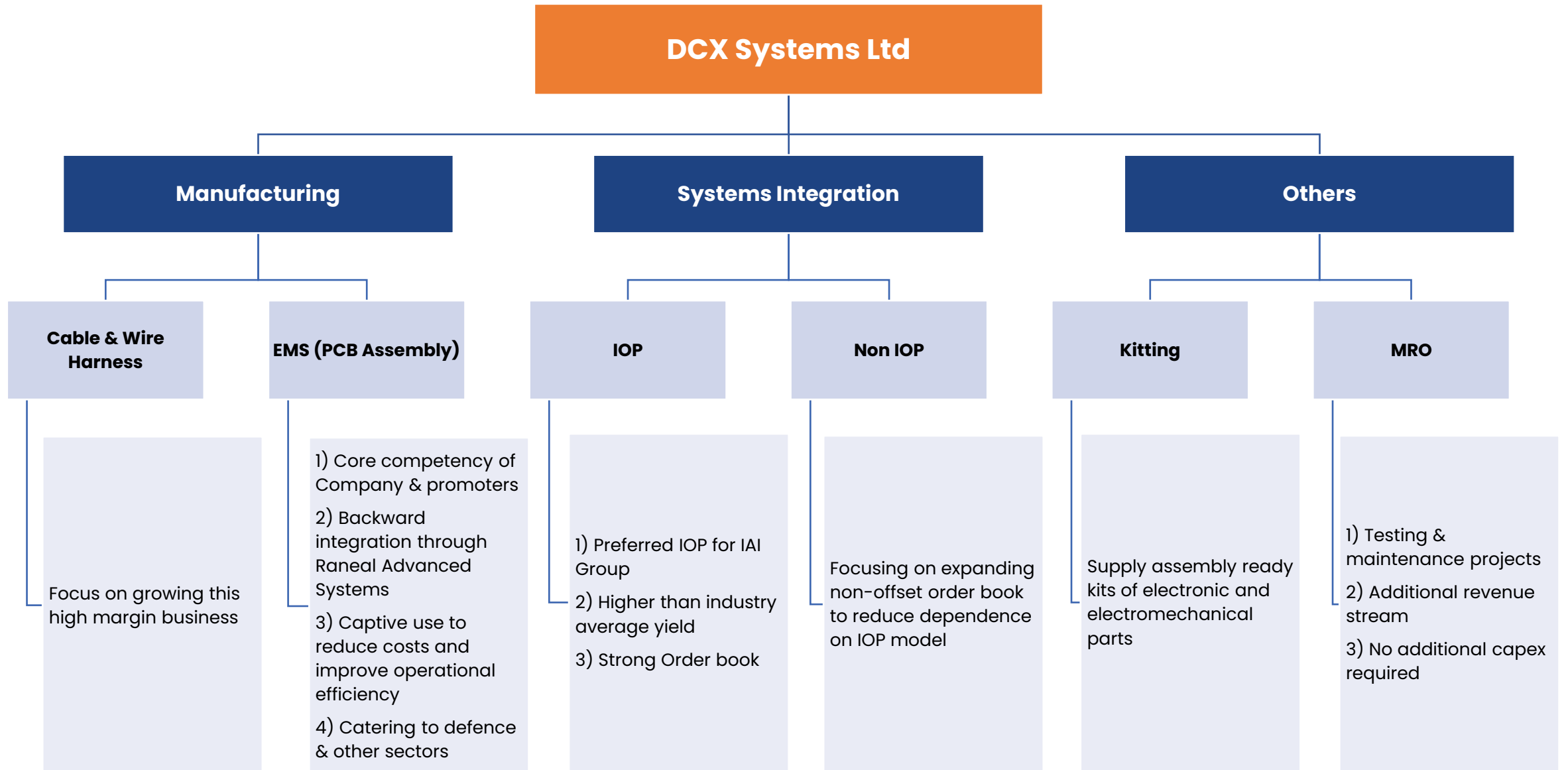
Manufacturing Facilities: The company operates from a primary manufacturing facility situated in an SEZ dedicated to the aerospace and defense industry, located at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka. This facility spans an area of 30,000 square feet, built on 1.5 acres of land, and houses 2 production units covering 25,000 square feet and 5,000 square feet, respectively. A new 40,000 sq. ft. facility has been set up through their wholly-owned subsidiary Raneal Technologies Pvt Ltd, dedicated to the PCBAs segment of DCX, ensuring state-of-the-art manufacturing capabilities. Thus, the total facility spans over 70,000 sq. ft.

Positioning in the Defence and Aerospace Sector: DCX Systems has firmly established itself as a pivotal entity within the Indian defense and aerospace industry. It has earned the status of a preferred Indian Offset Partner (IOP) for an illustrious roster of foreign original equipment manufacturers (OEMs), including prestigious entities like ELTA Systems Ltd and the Israel Aerospace Industries Ltd.'s System Missiles and Space Division (collectively known as the "IAI Group"), based in Israel. This strategic alignment facilitates the execution of defense manufacturing projects, solidifying DCX Systems' position in the Indian and global defense markets.

Clientele and Order Book: The company's clientele encompasses Fortune 500 companies, multinational corporations, and start-ups across various sectors including defense, aerospace, and space ventures, spanning Israel, the US, Korea, and India. Notable customers include Bharat Electronics, Israel Aerospace Industries, ELTA Systems Ltd, Rafael Advanced Defense Systems Ltd, and Lockheed Martin among others. For FY23, the company secured orders of Rs. 1699 Cr, predominantly focusing on System Integration (~95%), with Cable & Wire Harness (~1%), and Kitting (~4%). As of December 31, 2023, the order book stood at Rs. 1095 Crores, with recent achievements including export orders worth Rs. 457 Crores and an additional order from Lockheed Martin worth Rs. 16 Crores, elevating the order book to approximately Rs. 1600 Crores.

Shareholding Pattern (Jan-24)	
Promoters	62.30%
FII	6.75%
DII	11.47%
Public	19.49%

Stock Price Movement	
5d	1.2%
30d	-11.9%
3m	-18.8%
52w High	-27.7%
52w Low	105.8%



Capability Matrix

1) System Integration:

The System Integration segment represents the core of DCX Systems Ltd, contributing to 92% of its FY23 revenue. This segment encompasses the integration of various electronic and electro-mechanical components into comprehensive, functional systems designed to meet specific customer requirements.

Within this segment, DCX Systems specializes in integrating radar systems, sensors, electronic warfare systems, missiles, and communication systems. The integration process includes both product assembly and the incorporation of these systems into larger assemblies or final products, ensuring that all components work together seamlessly. The applications for DCX Systems' integrated products are diverse and include surveillance, tactical communication, missile defense, and electronic warfare, among others. These integrated systems are crucial for the functionality of military vehicles, aircraft, naval ships, and ground-based defense platforms.

DCX Systems' approach to system integration is supported by a robust infrastructure that includes purchasing, logistics, inventory control, and production engineering, backed by electrical and mechanical engineering expertise. The company excels in in-house testing capabilities, such as vibration and environmental stress testing, to ensure product durability and reliability under adverse conditions. DCX Systems is equipped to manufacture complex, high-power microwave modules used in radars, antennas, and electronic warfare systems. Inspection and test equipment include cable testers, cirrus testers, network analyzers, and various other specialized tools ensuring adherence to international quality standards and customer specifications.



2) Cable and Wire Harness Assemblies:

This segment, contributing to 2.3% of FY23 revenue, focuses on manufacturing cables and wire harness assemblies tailored to specific applications within the aerospace and defense industries. This segment involves the manufacturing of a comprehensive array of cable and wire harness assemblies, including radio frequency cables, co-axial, mixed-signal, power, and data cables for various applications in communication systems, sensors, surveillance systems, missile systems, military armored vehicles, and other electronic warfare systems. DCX Systems excels in producing fine wire cable assemblies, flex flat cable assemblies, EMI shielded cable harnesses, and conduit assemblies, ensuring high performance in aerospace, marine, space, medical applications, and more. DCX Systems' capabilities in this segment include designing and developing in-house test cables, mechanical jigs, and fixtures, form boards, and test programs according to customer specifications. The company designs and develops in-house test cables, mechanical jigs and fixtures, form boards, and test programs, providing solutions for retrofit modifications, overhauling, and comprehensive training to technicians to meet stringent industry standards such as AS9100 and IPC620.

3) Kitting:

Accounting for 5.6% of FY23 revenue, the Kitting segment involves the provision of assembly-ready kits of electronic and electro-mechanical parts, streamlining the assembly process for clients. DCX Systems supplies kits that include all necessary components for assembly, sourced from approved suppliers to ensure quality and compliance. The kits come with a Certificate of Compliance for traceability and controlled storage of moisture-sensitive devices.

The kits are designed for use in production lines, where timely and complete delivery of components is crucial for maintaining workflow efficiency and meeting production schedules. The company manages all aspects of procurement, including sourcing, compiling, inspecting, and testing components, ensuring that customers receive complete, assembly-ready kits. DCX Systems' Total BOM Management service highlights their comprehensive approach to kitting, reducing procurement, storage, and assembly costs while enhancing overall efficiency.



4) Maintenance, Repair, and Overhaul (MRO):

The MRO segment offers significant opportunities for DCX Systems to leverage its in-house testing capabilities to provide maintenance, repair, and overhaul services, creating an additional revenue stream with higher margins. This segment focuses on the after-market support for the parts and systems manufactured by DCX Systems, including OEM-provided testing machinery for comprehensive service offerings. MRO services are essential for the upkeep and enhancement of military and aerospace equipment, ensuring they remain functional and up-to-date with the latest standards and technologies.

With no additional capital expenditure required, the MRO segment represents a cost-effective solution for clients seeking reliable after-market support. DCX Systems' expertise and infrastructure enable it to offer comprehensive MRO services, contributing to better margins and customer satisfaction.

5) Electronics Manufacturing Services (EMS):

The company is expanding its operational scope by delving into the realm of Electronics Manufacturing Services (EMS), a strategic move designed to complement its existing expertise. This initiative represents a significant step in the company's backward integration strategy, focusing primarily on the manufacturing of printed circuit board assemblies (PCBAs). By venturing into EMS, DCX aims to serve a broad spectrum of applications across defense, aerospace, and civilian sectors, such as medical devices. The move towards EMS operations is expected to achieve greater control over production costs. By integrating PCB manufacturing into its service offerings, DCX can streamline its production processes, reduce reliance on external suppliers, and thus achieve cost efficiencies that can be passed on to clients.



Investment Rationale

- **Healthy return ratios:** Return on Equity (ROE) on a ttm basis > 20%
- **Strong cash flows:** Cash per equity share as on 30th Sept, '23 is around Rs 68 per share (~24% of CMP)
- **Improving operating margin trajectory and strong new tie ups (Lockheed Martin) augers well for the company.**
- **Established Business Moat Through Licenses and Industry Barriers:** DCX Systems has built a significant business moat around its operations, primarily through acquiring critical licenses and certifications that are essential for operating within the defense, aerospace, and electronics manufacturing sectors. This includes licenses for manufacturing and exporting items on the Munitions List to international defense entities, as well as certifications like AS-9100:2016 & ISO 9001:2015.
- **Expanding Market Reach and Diversification:** Through Raneal Advanced Systems and NIART Systems Ltd, DCX ventures into Electronics Manufacturing Services (EMS) and railway safety solutions, diversifying beyond defense to civil applications, enhancing product range, and tapping into growing global and Indian EMS and MRO markets.
- **Strategic Initiatives under "Make in India":** Aligned with the Indian government's "Make in India" initiative, DCX is set to benefit from policies aimed at enhancing domestic manufacturing. India's aim to increase its defense exports to US\$ 5 billion annually, up from under US\$ 2 billion, underscores the market's potential growth.
- **Beneficiary of Government Policies:** Enhanced focus on indigenous production and increased defense budget allocations, including a 75% capital procurement budget for domestic industries in FY 2023-24, and prioritization of domestic sourcing under DAP and Positive Indigenization Lists favor DCX's market position.
- **Competitive Edge with Preferred IOP Status:** As a preferred Indian Offset Partner for global OEMs like Israel Aerospace Industries Ltd. and ELTA Systems Ltd., DCX Systems commands a competitive advantage, drawing on a diverse clientele across various sectors, and aims to expand its footprint in international markets, particularly in Europe and the Middle East.

Valuation

Superior Return ratios, promising growth opportunities, and solid tie ups makes DCX systems a compelling story.

Valuing DCX Systems Ltd at 60% discount to the average PER multiple of its peer set; we arrive at perse target price of Rs. 379 per share, implying an upside of about 33.5% for a CMP of Rs. 284, likely over a period of 2 years..



Financials And Projections

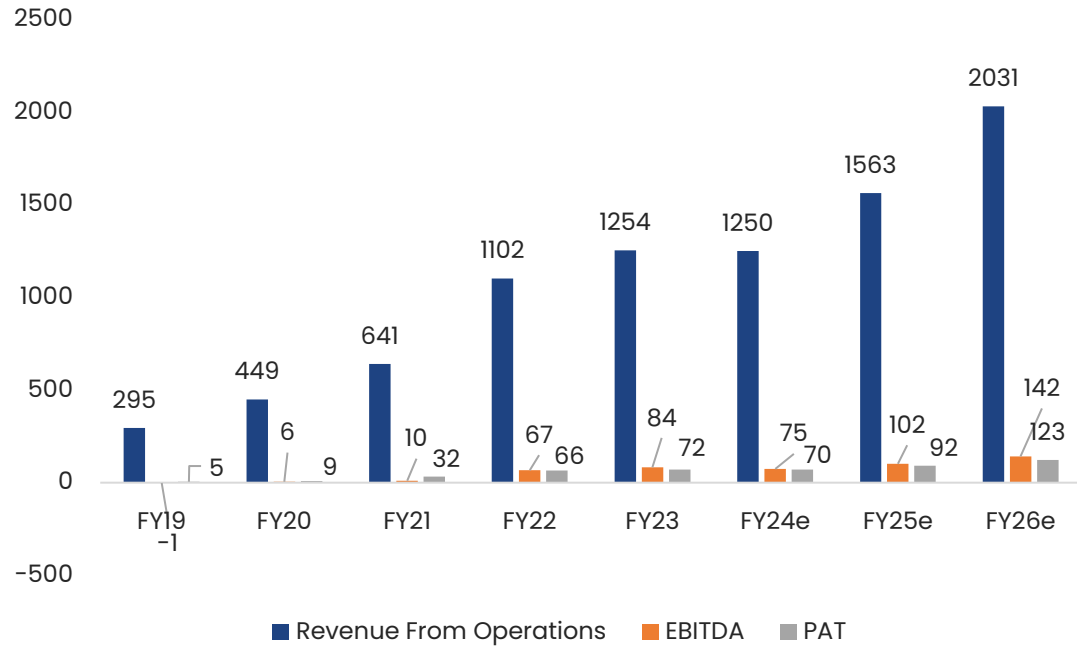
Income Statement (Rs. Cr)	FY21	FY22	FY23	FY24e	FY25e	FY26e	3 Yr CAGR
Revenue from operations	641	1,102	1,254	1,250	1,563	2,031	17%
Other income	42	22	30	49	43	44	
Total Income	683	1,124	1,283	1,299	1,605	2,075	17%
Less: Expenses	631	1,035	1,170	1,175	1,461	1,889	
EBITDA	10	67	84	75	102	142	19%
EBITDA Margin	1.59%	6.08%	6.67%	6.00%	6.50%	7.00%	
Less: D&A	2	2	1.8	4	4	4	
EBIT	50	87	111	120	141	182	
Finance Cost	10	11	25.6	26	18	18	
EBT	40	76	86	94	122	163	
Exceptional items	-	-	-	-	-	-	
PBT	40	76	86	94	122	163	24%
Less: Tax Expense	8	10	14	23	31	41	
Tax Rate	20%	13%	16%	25%	25%	25%	
PAT	32.1	65.6	71.7	70.4	91.7	122.6	20%
PAT Margin	5.01%	5.95%	5.72%	5.63%	5.87%	6.04%	
EPS	91.71	9.19	8.44	6.32	8.23	11.01	

Balance Sheet (Rs. Cr)	FY21	FY22	FY23	30 Sep 23	FY24e	FY25e	FY26e
EQUITY AND LIABILITIES							
Share Capital	3.5	15.5	19.3	19.3	22.3	22.3	22.3
Reserves	45.5	102.1	547.4	572.1	642.5	734.2	856.8
Borrowings	136.4	503.3	510.6	438.7	438.7	334.8	334.8
Other Liabilities	610.1	321.7	142.0	87.7	81.5	101.6	131.6
TOTAL EQUITY AND LIABILITIES	795.5	942.6	1,219.3	1,117.9	1,185.1	1,192.8	1,345.5
ASSETS							
Fixed Assets	15.6	14.7	15.2	43.1	47.9	48.4	49.0
CWIP	-	-	5.3	-	-	-	-
Cash & Cash Equivalents	549.6	800.3	595.8	657.1	748.5	660.8	670.5
Other Assets	229.7	127.6	603.0	417.7	388.7	483.6	626.0
TOTAL ASSETS	794.9	942.6	1,219.3	1,117.9	1,185.1	1,192.8	1,345.5

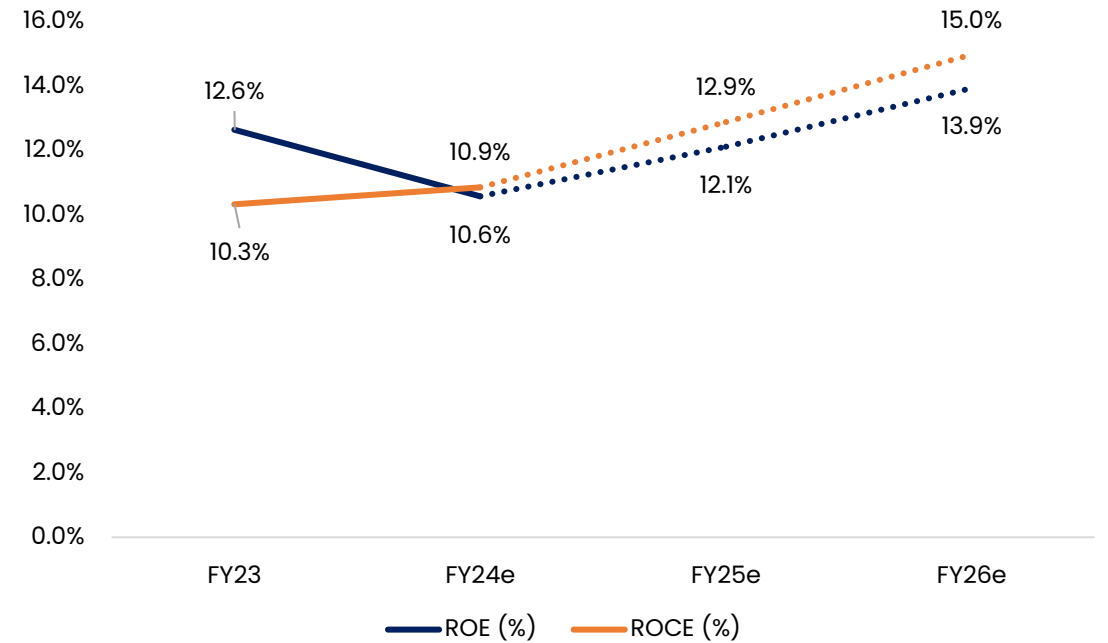
Free Cash Flow Analysis (Rs. Cr)	FY21	FY22	FY23
Cash Flow from Operations	115	-134	-585
Capex		1	2
Finance Charges	10	11	26
Direct Taxes Paid	8	13	15
Free Cash Flow to Firm (FCFF)	97	-160	-628

Story In Charts

P&L with Projections

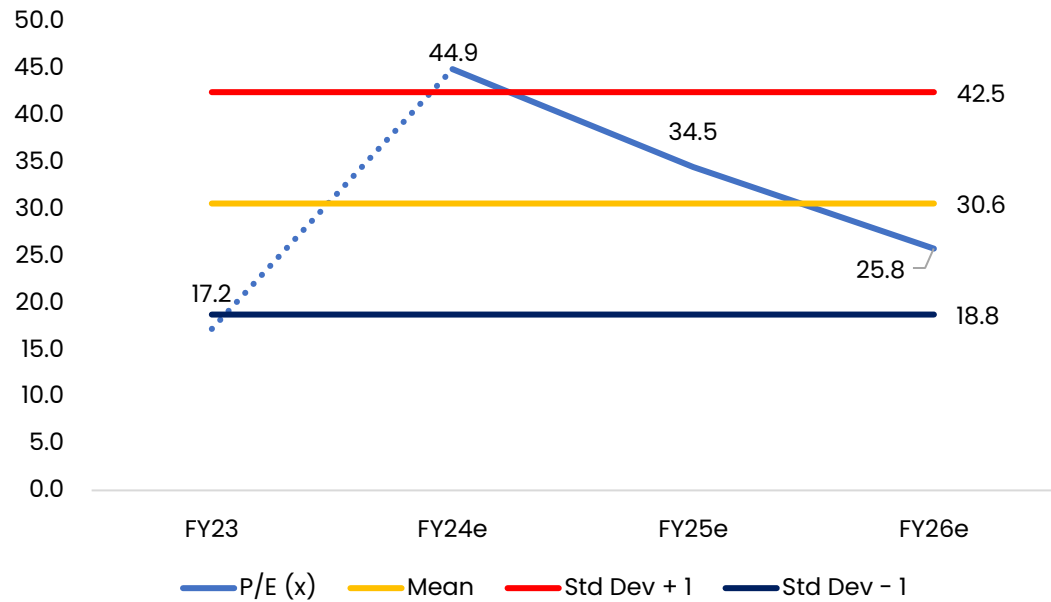


Forward Ratio Chart (Returns)

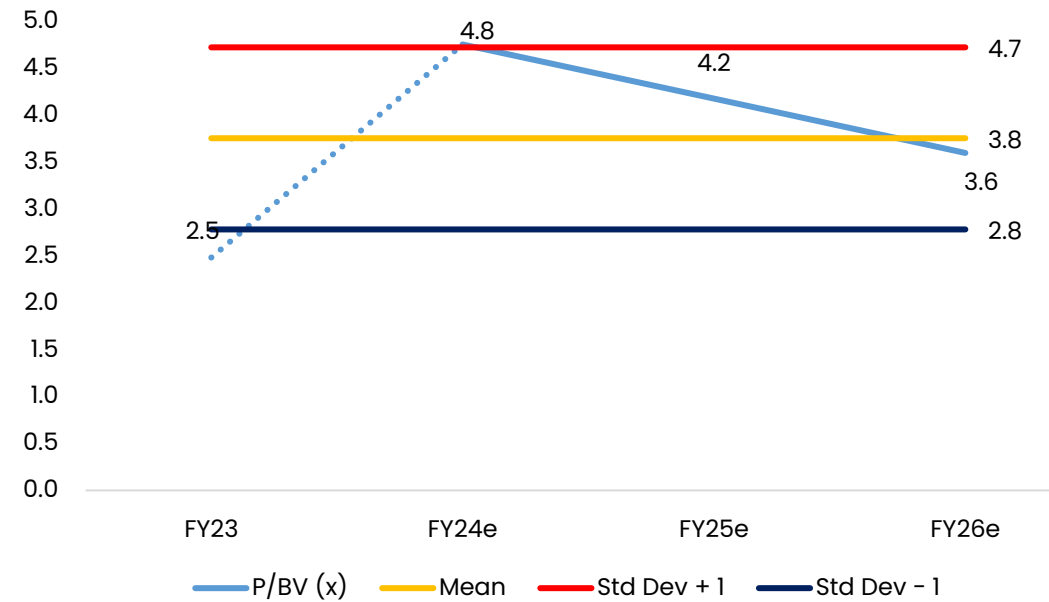


Story In Charts

Forward Valuation Chart (PER)



Forward Valuation Chart (P/BV)



New Ventures & Projects

1) Make in India Initiative Projects:

Under the auspices of the "Make in India" initiative, DCX Systems Ltd is engaged in a series of significant defense projects that underscore its commitment to advancing India's defense capabilities.

- I. MRSAM/LRSAM Systems:** DCX is involved in the development of Transmit Receiver Group Modules for Medium and Long-Range Surface-to-Air Missiles, highlighting its prowess in missile defense technology. They have secured orders of about 67% of the offset value of US\$ 635Million.
- II. Perimeter Intrusion Detection System (PIDS):** The company is crafting Dual Transmit Receiver Modules, integral for securing perimeters against unauthorized access.
- III. Air Defence Fire Control Radar:** DCX contributes through the production of Antenna Units, Radar Processing Units, and Transmitter Receiving Units, essential for air defense operations.
- IV. High Power Radars:** The company is manufacturing Dual Transmitter Receiver Modules and Dual Receiver Modules, vital for the detection and tracking of aerial threats.
- V. Thermal Imaging and Observation Systems:** DCX is manufacturing cable and wire harness assemblies for Thermal Imager Fire Control Systems, Long Range Reconnaissance and Observation Systems, and Thermal Imager Standalone Kits. These components are crucial for thermal imaging and target acquisition in various defense applications.
- VI. Barak Missile Systems:** The company provides cable and wire harness assemblies for Barak-1 and Barak-8 Missile Systems, underscoring its involvement in key missile defense projects.
- VII. Commander Open Architecture Panoramic Sight:** DCX also manufactures cable and wire harness assemblies for this advanced sighting system, enhancing battlefield awareness and engagement capabilities.



Israel Aerospace Industries



2) Joint Venture with ELTA Systems – NIART Systems Ltd:

Established on October 15, 2023, as a joint venture between DCX Systems Limited and ELTA Systems Limited of Israel, NIART Systems Ltd aims to innovate in the civil transportation industry by developing advanced obstacle detection solutions using radar and optics technology, particularly targeting railway safety and efficiency. This strategic collaboration leverages ELTA's technological expertise and transfer of technology (ToT) alongside DCX's manufacturing prowess to enhance track visibility and safety standards in the railway sector, setting new benchmarks that promise to nearly double the effectiveness of existing systems. Positioned to address both domestic and international market demands, NIART Systems is poised to capitalize on the railway automation market's need for high-end technology solutions through the development of Radar-Empowered Long Range Perception systems, which are set to transform railway safety measures.

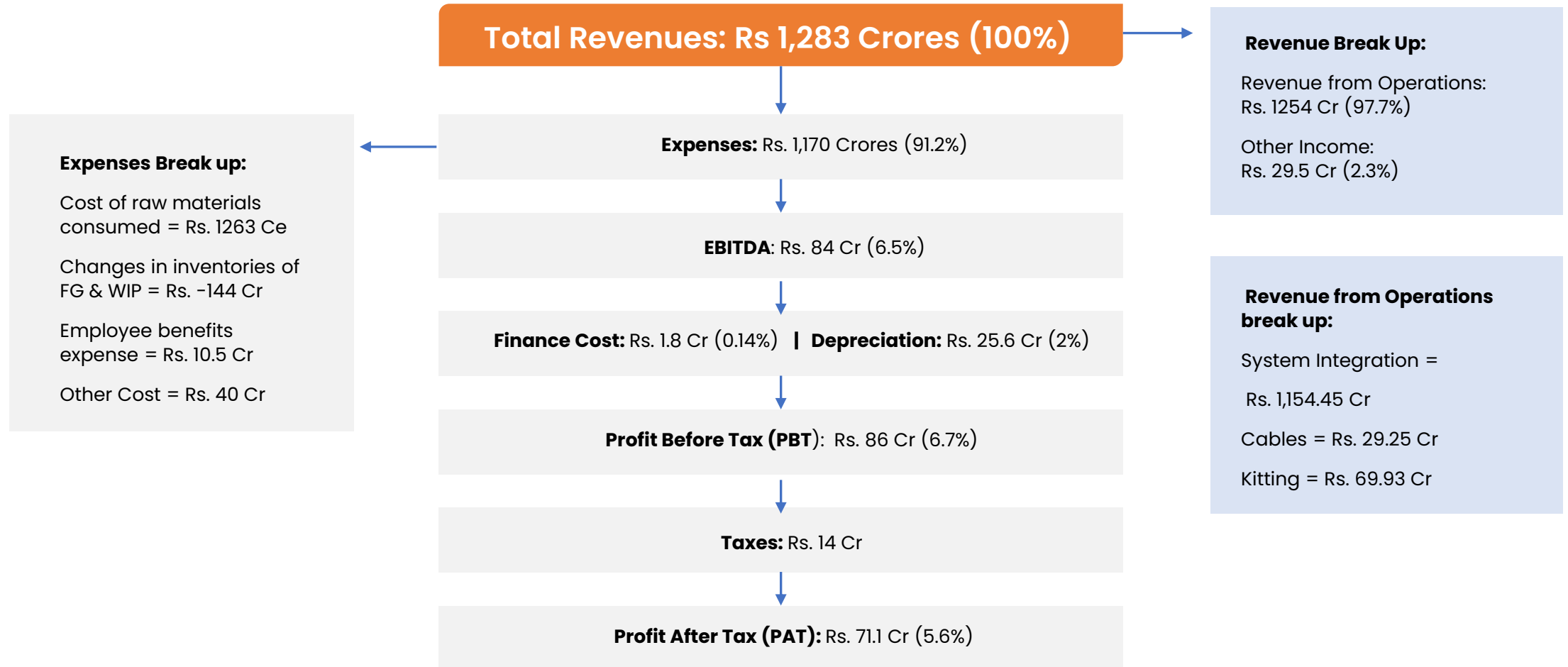
The market potential for obstacle detection solutions is substantial, estimated at over \$3 billion in India and more than \$4 billion globally. The initiative gains further momentum from the Indian government's commitment, as reflected in a budget allocation of ₹34,000 crore for railway safety upgrades, highlighting the critical need and opportunity for innovations in this domain.

In April 2022, ALSTOM, Elta Systems, and Niart successfully conducted tests on an Obstacle Detection System (ODS) installed on a Lineas freight locomotive. These tests took place in Netherlands, in collaboration with the Dutch infrastructure manager, ProRail. The ODS demonstrated its capability to identify both large and small obstacles up to 1000 meters away from the locomotive under various weather and visibility conditions, functioning effectively during both daylight and nighttime. Additionally, the system has the flexibility to be utilized either as a driver-assistance system or as a fully automated system, integrated with Alstom's AutoPilot feature. In support of this joint venture, DCX Systems Limited has committed an investment of approximately \$25.05 million (₹210 Crores) into NIART.



Income Statement Flow Chart

(As of FY'23 - figures in Rs. Crores)



Balance Sheet

as on 30th September, 2023 (Rs. In Cr)

Assets:

Rs. 1,117.9 Cr

Fixed Assets (Net Block)	Rs. 43.1 Cr
Capital WIP	-
Cash & Cash Equivalents	Rs. 657.1 Cr
Other Assets	Rs. 417.7 Cr

Liabilities:

Rs. 1,117.9 Cr

Share Capital	Rs. 19.3 Cr
Reserves	Rs. 572.1 Cr
Borrowings	Rs. 438.7 Cr
Other Liabilities	Rs. 87.7 Cr

Strengths

- 1) Transition to Product-Oriented Model:** DCX Systems Ltd has transitioned towards a product-centric model, focusing on technology transfers from Original Equipment Manufacturers (OEMs) under the "Make in India" scheme. This strategy allows the company to expand its product line into defense, medical, and civilian sectors, improving market reach and demonstrating its capacity to adapt and meet varied industry demands with advanced technology.
- 2) Asset-Light Model Enhanced by Co-Creation with Customers:** The company adopts an asset-light model, co-creating value with OEM partners who retain their technology and intellectual property rights. By doing this, DCX affords the OEMs greater control and ownership over the customized products. The OEM customers also supply the necessary equipment for product testing and qualification and DCX undertakes the maintenance of all buyer-furnished equipment, with costs typically reimbursed by the customers. As of March 31, 2023, DCX Systems managed approximately Rs. 300 crore worth of equipment provided by customers. Notably, this model contributes to DCX Systems maintaining an asset-light balance sheet, with an asset turnover (taken as Revenue from operations/ total assets) of 1.1 times as of FY23, and further illustrated by a net block of fixed assets totaling only Rs. 17.8 Crores. This strategic approach minimizes capital expenditure despite the company's engagement in a capital-intensive product portfolio. In FY23, the company reported revenue from operations totaling Rs. 1254 Crores, achieved with a lean workforce of 95 employees, highlighting the effectiveness of its asset-light strategy in optimizing operational efficiency and profitability.
- 3) Expertise in Build to Print Box Model:** Specializing in the development and manufacturing of aerospace and defense electronics products, DCX employs a Build to Print Model, emphasizing its role as a high-value, precision assembly business rather than a mass manufacturer. This model facilitates the production of components and assemblies based on detailed work instructions and specifications provided by the customer, ensuring adherence to strict manufacturing practices and quality standards.
- 4) Prestigious Clientele and preferred IOP:** DCX serves Fortune 500 companies, multinational corporations, and start-ups across Israel, the US, Korea, and India. Among its esteemed clients are industry giants such as ELTA Systems Limited, Israel Aerospace Industries Limited, Bharat Electronics Ltd., Astra Rafael Comsys Pvt. Ltd., and Lockheed Martin, among others. As of September 30, 2023, the company expanded its customer base to 27 prominent clients across its operational geographies. Over a decade, they have also become a preferred Indian Offset Partner (IOP) and Non-IOP for Israel and US-based OEMs, bolstering its aerospace and defense product portfolio and expanding its Non-Offset orders.
- 5) Order Book visibility:** In FY23, DCX secured orders worth Rs. 1699 Cr, focusing mainly on System Integration (~95%), along with Cable & Wire Harness (~1%), and Kitting (~4%). By December 31, 2023, the order book reached Rs. 1095 Crores, which was further bolstered by export orders worth Rs. 457 Crores and a notable Rs. 16 Crores order from Lockheed Martin, pushing the order book to approximately Rs. 1600 Crores.

- 6) Strategic Location and Infrastructure:** Strategically located in an aerospace Special Economic Zone (SEZ) in Bengaluru, DCX's manufacturing facility spans 30,000 square feet. DCX Systems operates a modern manufacturing facility with comprehensive setup for environmental and electrical testing. The facility's strategic location offers significant operational advantages, including duty-free imports, GST exemptions, and streamlined regulatory approvals.
- 7) Global Expansion Through Increased Exports:** Benefiting from rising Indian defense exports, DCX's strong export growth and its status as a four-star export house position it for global expansion, especially in Europe and the Middle East.
- 8) Experienced Leadership and Dedicated Workforce:** At the helm, Dr. H.S. Raghavendra Rao, the company's individual promoter, Chairman, and Managing Director, brings over two decades of invaluable experience in electronic manufacturing within the defense and aerospace sectors. Complementing Dr. Rao's vision, Neal Jeremy Castleman, serving as the Non-Independent and Non-executive Director, has been an active participant in the electronics industry since 1997. The core management team, comprising Key Managerial Personnel and Senior Management Personnel, contributes a diverse array of business expertise, including supply chain management, legal compliance, and corporate sectorial services.



Opportunities

- 1) **Opportunities in Railway Security Through NIART Systems Ltd:** DCX Systems Ltd has established NIART Systems Ltd in collaboration with ELTA Systems, targeting the railway security market with advanced radar and optics technology-based obstacle detection solutions. Focused on the railway sector, this joint venture aims to fulfill the rising demand for safety and efficiency-enhancing technologies globally. Leveraging DCX's technological prowess and market penetration, NIART Systems is set to address critical safety and efficiency challenges in the railway industry, aiming to improve operational safety and passenger experiences worldwide
- **Market Potential and Government Initiatives:** The obstacle detection solutions market for civilian industries is estimated at over \$3 billion in India and more than \$4 billion globally, NIART Systems is strategically positioned to capture a significant share of this growing market. The Indian government's recent allocation of ₹34,000 crore for railway safety upgrades further underscores the vast potential for growth and expansion in this domain.
 - **Safety Enhancement Initiatives and Market Growth:** In light of 35 consequential train accidents reported in the fiscal year 2021-22 in India, the urgency for enhanced railway safety mechanisms has never been more pronounced. The establishment of the Rashtriya Rail Sanraksha Kosh (RRSK) with a fund of USD 15.61 billion for safety-related projects marks a pivotal initiative by Indian Railways to address safety concerns comprehensively. Initiated in the fiscal year 2017-18, RRSK is a dedicated fund aimed at the replacement, renewal, and upgradation of critical safety assets, boasting a substantial budgetary outlay of Rs 1 lakh crore over five years. By the end of fiscal year 2021-22, Indian Railways had exceeded this initial allocation, incurring a gross expenditure of Rs. 1.08 lakh crore on various safety works under the RRSK initiative. The continuous commitment to safety enhancements saw an investment of Rs 11,800 Cr in FY22-23 and a further allocation of Rs 1,000 Cr for FY23-24. The safety systems for smart mobility in Indian railways are expected to experience robust growth, with projections indicating a market expansion from USD 173.9 million in 2023 to USD 356.7 million in 2028, at a CAGR of 15.46%.
 - **Advancements in Railway Safety:** Central to these safety enhancement efforts is the Kavach system, India's indigenous Automatic Train Protection (ATP) System, designed to significantly improve train operation safety. This innovative system was developed through a collaborative effort between the Research Designs and Standards Organization (RDSO) and three Indian vendors. Following successful trials, Kavach has been implemented on 1,465 route kilometers (Rkm) on the South Central Railway, with plans to expand coverage to 5,000 km annually by the fiscal year 2025-26. Kavach is equipped with advanced safety features such as preventing signal passing at danger (SPAD), continuous movement authority updating, collision avoidance, automatic braking, and centralized monitoring, along with support for an SOS feature in case of mishaps. To further bolster the rapid deployment of this critical safety technology, the FY 2022-23 Union budget allocated substantial funds for Kavach's implementation over 2,000 km of track, with ambitious plans to extend coverage to the 34,000 km Golden Quadrilateral rail route by 2027-28. Kavach's adoption as India's National ATP System, particularly for absolute block sections with speeds up to 160 kmph, highlights its capability to interface seamlessly with existing interlocking systems, enhancing the safety of train operations.

2) Atmanirbhar Bharat: Unleashing Opportunities in Defence and Aerospace:

- **Atmanirbhar Bharat and Defence Export Goals:** Under the Atmanirbhar Bharat initiative, India aims to boost self-reliance in defence production, targeting US\$ 5 billion in annual defence exports, up from under US\$ 2 billion. The initiative is expected to facilitate over ₹1.75 lakh crore in orders for Indian industries over the next 5-10 years, emphasizing the reliance on "Made in India" equipment and enhancing India's standing in global defence supply chains.
- **Enhanced Foreign Direct Investment (FDI):** The Indian government has increased the FDI limit in the defence sector from 49% to 74% under the automatic route, encouraging foreign investment and technology transfer. This policy change, and the Defence Research and Development Organization's announcement of the indigenous development of approximately 108 systems and sub-systems, alongside the Department of Defence Production's reservation of 4,666 items for indigenization via indigenization lists, is poised to significantly boost indigenous manufacturing and demand for cables and connectors within the Indian defence environment.
- **Defence Budget Allocations:** In a historic move for fiscal year 2023-24, approximately Rs. 1,20,000 crores, constituting a record 75% of the total defence capital procurement budget, has been allocated to the indigenous industry. This represents a significant increase from the 68% allocation observed in the preceding year.
- **Positive Indigenisation List:** To encourage domestic manufacturing and reduce imports, the Defence Ministry has introduced four positive indigenization lists with a total of 509 items, plus an additional 98 items in a fifth list released in 2023. The importation of these items is prohibited, with sourcing restricted to Indian vendors as per DAP 2020 guidelines. The listed equipment spans various sectors, including electronic warfare, sensors, radars, and unmanned aerial systems, among others. Certain complex items may qualify for support from the Defence Technology Fund or iDEX (Innovation for Defence Excellence), significantly benefiting MSMEs, startups, and individual innovators.
- **Harnessing the Offset Opportunity:** The Defence Offset Policy represents a strategic mechanism employed by the Indian government to foster a robust, self-reliant defence industry. Under this policy, foreign vendors awarded defence contracts by India are mandated to reinvest a minimum of 30% of the contract value back into the Indian defence sector. This reinvestment, known as the 'offset obligation', aims at technology transfer, revenue generation in foreign currency, and creation of employment opportunities within the country. The policy encapsulates a dual objective: to leverage capital acquisitions to invigorate the Indian defence industry and to catalyze the development of internationally competitive enterprises, augmenting research, design, and development capabilities. Private sector entities play a crucial role in fulfilling the offset obligations, aiding the government's objective to position India as a US\$ 5 billion defence export country by 2025. DCX systems' strategic positioning as a preferred Indian Offset Partner (IOP) allows it to participate in diverse defence manufacturing projects, fostering technology transfer and capability enhancement. DCX Systems' focus on forming joint ventures and partnerships with global OEMs aligns seamlessly with the objectives of the Offset Policy.

- The table below sets forth certain information regarding the various projects that the company has been involved in, as of September 30, 2023:

Product / Description	Vertical	Offset Value (Rs. Cr)
MRSAM / LRSAM – Transmit receiver group module	System Integration	Rs. 2105.7 Cr
PIDS – Dual Transmit Receiver module	System Integration	Rs. 402.0
High Power Radars – Dual transmitter receiver module	System Integration	Rs. 51.8 Cr
Air Defence Fire Control Radar – Antenna unit / radar processing unit / transmitter receiving unit	System Integration	Rs. 145.2 Cr
Thermal Imager Fire Control System	Cable and wire harness	Rs. 20.3 Cr
Long Range Reconnaissance and Observation System	Cable and wire harness	Rs. 9.1 Cr
Thermal Imager Standalone Kit	Cable and wire harness	Rs. 7.6 Cr
Barak-1 and Barak-8 Missile Systems	Cable and wire harness	Rs. 5.1 Cr
Commander Open Architecture Panoramic Sight	Cable and wire harness	Rs. 3.5 Cr

3. Strategic Expansion and Innovation:

DCX Systems is on a strategic growth path, focusing on enhancing its system integration and cable, wire harness assembly businesses, alongside promoting backward integration with printed circuit board assembly manufacturing. Collaborating with OEMs in Israel and the U.S., DCX aims to capitalize on advanced technologies in radar, electronic warfare, and missile systems. It plans to exploit the transition towards indigenous active electronically scanned array radar systems, indicating a readiness to fulfill increasing demands for advanced radar solutions. Expansion efforts include new fiber optic cable assembly lines and leveraging its subsidiary, Raneal, for backward integration.

4. Foray into Maintenance, Repair and Overhaul

The Maintenance, Repair and Overhaul is a term referred to the overall maintenance of the aircraft, both commercial and defence aircraft. In the Indian context, the defence MRO is typically done in-house. The commercial MRO is further classified into A, B, C and D check, this is based on the age of the aircraft and the flying hours. This is also referred to as line, component, engine and airframe. The airlines in India have a strong capability in line and component checks, however airlines are usually flown outside the country for C and D checks. Currently most of the major MRO is happening outside India, mainly due to the lack of manpower and facilities to undergo maintenance in India. The Electronic cables and connectors segment are expected to account for 4% of the total Indian MRO market. It is estimated that the potential market for DCX is around US\$ 160 Million in 2031.

Management Structure



Dr. H.S. Raghavendra Rao

Chairman and Managing Director:

Dr. Rao has steered DCX Systems Limited as its Chairman and Managing Director since his appointment in January 2012. With a rich background of over two decades in the electronics manufacturing and aerospace sectors, Dr. Rao's leadership has been instrumental in guiding the company's strategic direction, nurturing client relationships, and overseeing the company's operations. An alumnus of the International Peace University, Germany, where he earned an honorary doctorate in business management, Dr. Rao's contributions have been recognized with multiple accolades, including the Young Entrepreneur of the Year and Business Leadership Award for excellence in defense electronics exports. His tenure at Vinyas Innovative Technologies Private Limited as a whole-time director further solidifies his industry expertise.



Mr. Neal Jerem Castleman

Non-Independent and Non-executive Director:

Since March 2012, Mr. Castleman has brought over two decades of invaluable experience in the electronics manufacturing sector to his role as Non-Independent and Non-executive Director at DCX Systems. A University of Southern California graduate with a Bachelor of Science degree in Chemistry, he has been a pivotal figure at DCX-CHOL Enterprises, Inc., serving as its president since 1997.



Mr. Krishnabhagawan Srinivasa Ranga

Whole Time Director & Chief Financial Officer

Mr. Ranga serves as the Whole Time Director and Chief Financial Officer of the company since September 01, 2023. A fellow member of the Institute of Chartered Accountants of India, he brings over 25 years of broad financial management expertise, including a decade focused specifically on the defence sector. His experience spans working capital management, establishing robust system-driven internal financial controls, ensuring statutory compliance, optimizing tax, and demonstrating budgetary skill. Additionally, his knowledge of business processes and defence procurement procedures supports the Board in making strategic decisions aligned with the company's objectives.

Management Structure



**Mr. Kalyanasundaram
Chandrasekaran**

Independent Director:

Since January 2022, Mr. Chandrasekaran has served as an Independent Director, leveraging his extensive experience from previous associations with entities like BDA Ltd and Beacon Weir Ltd. His broad exposure extends to roles at Ceeta Springs & Steels Ltd, Associated Construction and Investment Company, LLC, Dubai Lifestyle City, and Tracstar Investments Ltd.



**Mr. Panchangam
Nagashayana**

Independent Director:

Joining in January 2022 as an Independent Director, Mr. Nagashayana offers more than three decades of experience in the electronics sector. His prior roles at Canarie International, Canarie Electronics Inc., Plugmetrix Technologies LLP, and Cyberstar Infocom Pvt Ltd have shaped his expertise, which he currently applies as a whole-time director at Avyaya Technologies Pvt Ltd.



Mrs. Lathika Siddharth Pai

Independent Director:

With 15 years of experience in management consultancy, Ms. Pai has been contributing to DCX Systems as an Independent Director since February 2022. Her partnership at Tekinroads Consulting LLP since 2014 underscores her strategic and management prowess, enriching the company's board with her insights and expertise.

Market & Industry Outlook

Defence Sector

Global Defense Market Dynamic: The global defense market has exhibited robust growth, expanding from \$534.79 billion in 2022 to \$577.19 billion in 2023, marking a compound annual growth rate (CAGR) of 7.9%. This growth trajectory, however, has navigated through the turbulence caused by geopolitical conflicts, notably the Russia-Ukraine war, which, along with triggering economic sanctions, commodity price surges, and supply chain disruptions, has influenced the global economic landscape and defense spending. Anticipated to reach \$718.12 billion by 2027, the defense market is expected to grow at a CAGR of 5.6%, reflective of ongoing and emerging security challenges worldwide.

India's Defense Budget and Capital Allocation: India's defense budget for FY 2023-24 is notably set at INR 5.94 lakh crore, representing a strategic increase of 13% over the previous fiscal year's budget of INR 5.25 lakh crore. This budget encompasses a capital outlay of INR 1.62 lakh crore, specifically allocated for new weapons procurement and settling liabilities from prior defense contracts, marking a 16% increase from the previous year's capital expenditure of INR 1.52 lakh crore. While this increase reflects India's commitment to bolstering its defense capabilities, it simultaneously highlights the ongoing challenge of bridging the gap between strategic needs and available resources.

Surge in India's Defense Exports: India's defense exports have seen a remarkable rise in FY 2022-23, achieving Rs. 15,920 Crore in military hardware exports—a tenfold increase since 2016-17. The current defense budget allocates around ₹1 trillion for domestic procurement, a significant increase compared to the preceding three years. The value of India's defence exports in FY21-22 was USD 1538 million and this increased to USD 1920 Million in FY22-23. This growth is attributed to the 'Make in India' initiative, reinforcing India's capabilities and reforms in the defense manufacturing sector. With exports spanning missiles, helicopters, radars, and other sophisticated military equipment to approximately 85 countries, India is on a trajectory to enhance its status as a global defense production hub. This aligns with the government's aim to reach a defense export target of Rs. 35,000 Crore (US\$ 4.27 billion) by 2024, underscoring a strategic push toward indigenization and reducing dependency on imports.

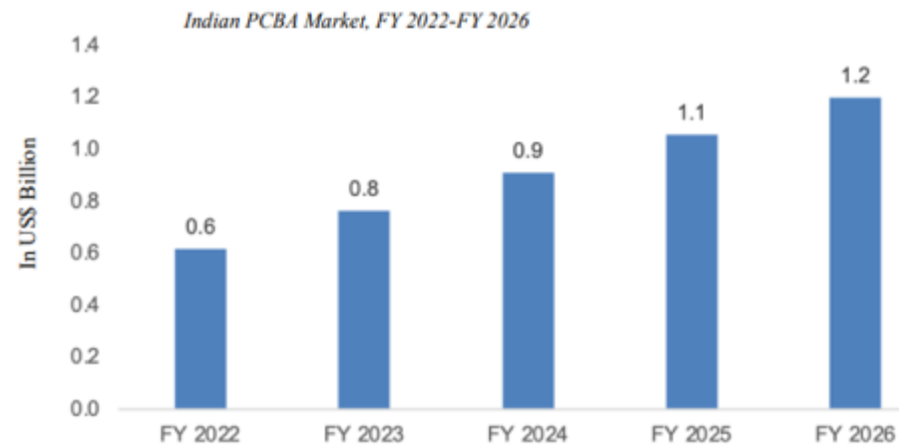
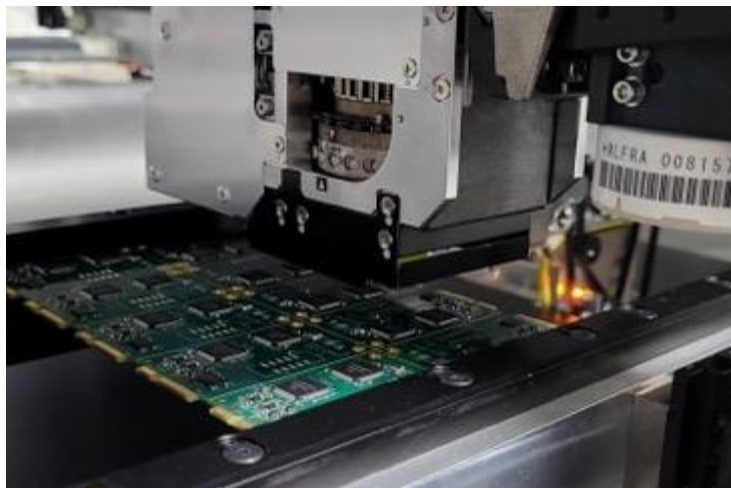
With India's defense sector poised to reach USD 70 billion by 2030, DCX Systems is strategically positioned to leverage the expanding Indian defense and aerospace market.

Indian PCBA Market Overview and Growth Projections

Market Size and Growth Forecast: The Printed Circuit Board Assembly (PCBA) market in India is on an upward trajectory, with projections indicating a growth from US\$ 0.618 billion in FY 2022 to an estimated US\$ 1.2 billion by FY 2026. This significant growth, at a compound annual growth rate (CAGR) of 18%, is primarily fueled by the escalating demand for advanced technological solutions within the defense sector, including active surveillance systems, unmanned systems, digital communication systems, and network-based command and control systems.

Application Segments and Growth Drivers: The defense sector, a critical component of the broader PCB market, is poised for robust expansion with an expected CAGR of 19% from FY 2022 to FY 2026. This growth underscores the increasing integration of PCBA in defense applications. Moreover, the consumer durables and telecommunications sectors are leading the demand within the PCBA market, both anticipated to witness a CAGR exceeding 20% during the forecast period.

Diverse Market Segments: Beyond consumer durables, the PCBA market caters to a wide array of sectors including lighting (non-consumer durable), automotive, strategic, medical, industrial, IT & office automation, and telecommunications. Collectively, these segments are projected to grow from US\$ 470 million in FY 2022 to US\$ 935 million by FY 2026, marking a CAGR of approximately 19%.



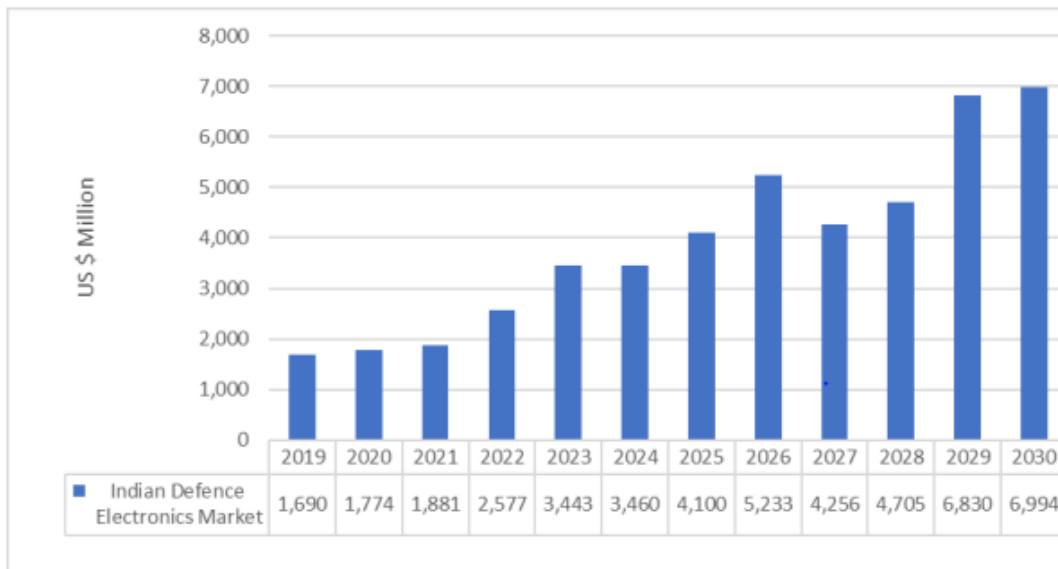
Source: Frost & Sullivan Analysis. Figures are estimated.



Growth Dynamics of the Indian Electronics Market in Defense Sector

Market Size and Growth Projections: The Indian Defense Electronics Segment is projected to witness substantial growth. With a market size valued at US\$ 2,577 million in 2022, projections estimate a growth to US\$ 6,994 million by 2030, translating to a compound annual growth rate (CAGR) of 13.29% from 2022 to 2030. This expansion is primarily attributed to increased investments in indigenous defense programs and a strategic shift towards reducing reliance on external markets.

Historical Growth and Future Potential: Between 2016 and 2020, the Indian Defense Electronics Market experienced a growth rate of 4.5% CAGR, with the market value reaching USD 1.88 billion in 2021. A significant driver for this growth is the integration of Indian electronic components within global supply chains, notably in sectors such as Israeli Unmanned Aerial Systems (UAS) and European Combat Aircraft markets. Currently, approximately 60% of electronic components are sourced from foreign Original Equipment Manufacturers (OEMs), with electronics constituting 25%-35% of the cost of platforms utilized by the Indian Armed Forces. Anticipated future market growth is expected to be driven by acquisitions of new combat aircraft, submarine construction projects, and the replacement of T-72 tanks.



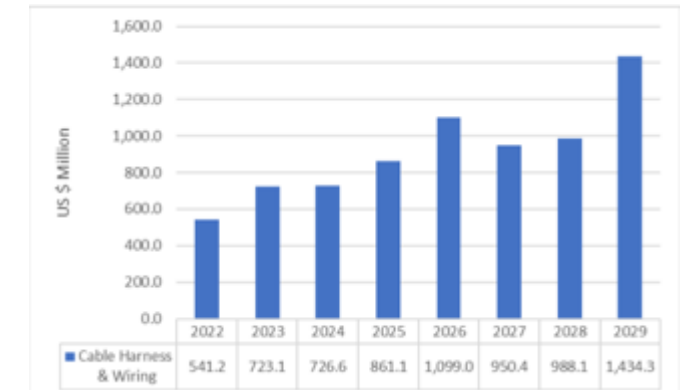
Note: Frost & Sullivan Analysis, all forecast period is in calendar year. 2019-2021 are actuals are 2022-2030 are forecast. The CAGR is 13.29% between 2022-2030. All years are in CY.



Source: Frost & Sullivan. Figures are estimated

Cable Harness and Wiring Expansion

The Indian cable harness and wiring market, valued at \$541 million in 2022, is projected to grow to \$1434 million by 2029, demonstrating a CAGR of 15% over a span of seven years. Essential across land, naval, and air platforms, cable harnessing and wiring present growing market opportunities. DCX Systems, with its expertise in manufacturing a wide array of cables and related components including RF, Coaxial, Mixed Signal, Power, Data, Submergible, Shielded, and Conduit Assemblies, is well-equipped to meet these growing demands. The company's product range is integral in ensuring performance under extreme conditions in submarines, tanks, fighting vehicles, helicopters, UAVs, and targeting pods.



Surge in Electronic Manufacturing Services (EMS)

The global EMS market, accounting for 16% of the Global Electronics market by value with top 50 EMS companies generating about US\$ 344 Billion in revenues in 2019, signifies vast opportunities for EMS in diverse sectors beyond defense, including railways, industrial electronics, and medical. The shifting manufacturing dynamics, influenced by the "China+1" policy, highlight India as a preferred manufacturing destination. **The Indian EMS industry, projected to expand from US\$ 20 Billion in FY 2022 to US\$ 60 Billion in FY 2026 at a CAGR of about 32.3%**, is bolstered by initiatives to attract semiconductor manufacturing, aiming to draw approximately 100 companies over the next four years with an investment of US\$ 9.67 Billion. With semiconductor demand in India expected to reach US\$ 100 Billion by 2025 and India's substantial contribution to semiconductor research and design, the country's semiconductor sector is on the brink of significant growth and domestic value addition.

Maintenance, Repair, and Overhaul (MRO) Market Growth

The Indian MRO market attained a value of US\$ 1.7 Billion in 2021. **The Indian Commercial MRO Market is poised to grow with a CAGR of roughly 8.9% between 2022 to 2030.** The global MRO market is estimated to expand with a CAGR of 7.7% between 2022-2030, as the market expands from \$ 64.7 Billion in 2022, to \$ 117 Billion in 2030. Currently most of the major MRO is happening outside India, mainly due to the lack of manpower and facilities to undergo maintenance in India. The Electronic cables and connectors segment are expected to account for 4% of the total Indian MRO market. It is estimated that the potential market for DCX is around US\$ 160 Million in 2031.

Milestones

2011:

Foundation and Incorporation:

DCX Systems was founded in 2011, marking its inception as a private company with a vision to make significant strides in the electronics and defense sectors.

2012:

International Market Entry:

By 2012, DCX Systems had achieved a significant milestone by executing its first direct export order, symbolizing its successful foray into international markets and showcasing its capability to cater to global customer demands.

2013:

Expanding Domestic Presence and Achieving Quality Standards:

In 2013, DCX Systems further solidified its market position by successfully completing its first deemed export order, affirming its status as a dependable supplier for major domestic projects. This year also saw the company being awarded the AS-9100:2016 & ISO 9001:2015 certification by DQS Inc., underscoring its commitment to quality and excellence.

2015:

Regulatory Milestone and Expansion of Manufacturing Capabilities:

The growth trajectory of DCX Systems accelerated in 2015 when it obtained an industrial license from the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India. This authorization enabled the company to manufacture a wide array of items, including microwave and electronic components, and to engage in the assembly and testing of microwave modules for Radar and Electronic Warfare Systems, setting the stage for future advancements.

2018:

Strengthening Defence Exports and Infrastructure Development:

2018 was a landmark year as DCX Systems received authorization to export Munitions List items to M/s IAI Elta System in Israel for the end use of the Indian Air Force and Navy, acknowledging its pivotal role in defense exports. Additionally, the company embarked on an infrastructure expansion by acquiring 6,070 square meters of land in the Aerospace SEZ Sector, Hitech, Defence, and Aerospace Park, signifying its investment in future growth and its ambition to lead in the aerospace industry.

2020:

New Manufacturing Facility:

The year 2020 saw the inauguration of a new manufacturing facility at the HiTech Defence & Aerospace Park SEZ in Bengaluru, Karnataka, further expanding the company's operational capabilities.

2022:

Diversification and Market Expansion:

In 2022, DCX Systems boldly diversified its operations by incorporating Raneal Advanced Systems Private Limited as a wholly-owned subsidiary, aimed at manufacturing PCBAs (EMS) for both domestic and international markets. This strategic move underscored the company's commitment to diversification, innovation, and capturing new market opportunities. The same year, DCX Systems proudly got listed on the BSE and NSE, marking a significant milestone in value creation for all stakeholders.

2023-24:

Commercial Success and Strategic Ventures:

The period of 2023-24 marked the commencement of commercial production at Raneal Advanced Systems and the incorporation of NIART Systems Limited, a wholly-owned subsidiary dedicated to developing obstacle detection solutions for railways. The company also earned the prestigious 4 Star Export House certificate, recognizing its excellence in exports, and successfully raised Rs. 500 crore through a Qualified Institutional Placement (QIP), highlighting its continued growth and commitment to innovation and excellence in the evolving global landscape.

Peer Comparison

Company	M Cap (Rs. Cr)	EPS (Rs.)	P/E	EBITDA (%)	ROE (%)	ROCE (%)
DCX Systems Ltd	3,160	8.61	36	5%	20.9%	13.1%
Data Patterns (India) Ltd	12,764	29.6	76.9	43%	14.2%	19.6%
Paras Defence and Space Technologies Ltd	2,533	8.40	77.3	21.52%	9.1%	13.2%
Astra Microwave Products Ltd	5,167	8.58	64.4	29%	11.4%	17.1%
Apollo Micro Systems Ltd	2,770	1.09	103	26%	6.49%	12.1%

- 1) Data Patterns (India) Limited:** It is among the few vertically integrated defence and aerospace electronics solutions providers catering to the indigenously developed defence products industry. It is focused on in-house development and manufacturing facilities led by innovation and design and development efforts. It is in the business for over 35 years. It has supplied products catering to all the platforms, viz., space, air, land and sea, including products for LCA-Tejas, Light Utility Helicopter, BrahMos missile. Data Patterns caters to the entire spectrum of defence and aerospace platforms like space, air, land, sea and under-sea. It has design capabilities across the entire spectrum including processors, power, radio frequency and microwave equipment, embedded software and firmware and mechanical engineering.
- 2) Astra Microwave Products Ltd:** Astra Microwave Products is engaged in the business of design, development and manufacture of sub-systems for Radio Frequency and microwave systems used in defense, space, meteorology and telecommunication. Astra is engaged in the design, development, manufacture, and supply of high-value-added RF and microwave super components, sub-systems, and systems finding for Defense, Space, Telecom, Meteorology, and Civil communication applications.
- 3) Paras Defence & Space Technologies Ltd:** The company primarily engaged in the designing, developing, manufacturing, & testing of a variety of defence & space engineering products & solutions. The company caters to four major segments - Defence & Space Optics, Defence Electronics, Heavy Engineering & Electromagnetic Pulse Protection Solutions.. It holds the distinction of being the sole Indian supplier of vital imaging components for space applications, including large-size optics & diffractive gratings.

4) Apollo Micro Systems Ltd: Established in 1985, AMS is one of India’s leading electronic, electro-mechanical, engineering designs, manufacturing, and supplies company. AMS specializes in the design, development, and sale of high-performance solutions that are critical for missions and time-sensitive operations. AMS provides designing, electronic manufacturing services, PCB fabrication, embedded software design and development, circuit board assembly, hardware design services, concept-to-product development, host interface development, and custom-built electronic systems. Company’s products are used across multiple industries including Aerospace Systems, Ground Defence, Space, Avionics Systems, Homeland Security, and Transportation.

Capability Comparison of DCX and competition

Sr No	Company	System Integration	Cable & Wire Harness Assembly	MRO	EMS	Electro-mechanical Assembly
1	Astra Microwave Products Ltd	✓	✗	✓	✓	✓
2	Alpha Design Technologies Pvt Ltd	✓	✗	✓	✗	✓
3	Bharat Electronics Ltd (Bangalore)	✓	✗	✓	✗	✓
4	Centum Electronics	✗	✗	✗	✓	✓
5	Cyient DLM Pvt Ltd	✓	✓	✗	✓	✓
6	Sasmos Het Technologies	✗	✓	✗	✗	✗
7	Almphenol Interconnect India Pvt Ltd	✗	✓	✗	✗	✗
8	Data Patterns Pvt Ltd	✓	✗	✗	✓	✓
9	Hela Systems Pvt Ltd	✓	✗	✓	✗	✓
10	Kaynes Technology India Pvt Ltd	✗	✗	✗	✓	✗
11	Rossell Techsys	✓	✓	✗	✓	✓
12	Apollo Micro Systems	✗	✗	✗	✓	✓
13	Paras Defence	✓	✗	✗	✓	✓
14	DCX Systems	✓	✓	✓	✓	✓

Ratios

Du Pont Analysis

Particulars		FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Profit/ Sales (A)		0.02	0.02	0.05	0.06	0.06	0.06	0.06	0.06
Sales/Assets (B)		0.60	0.64	0.81	1.17	1.03	1.05	1.31	1.51
Sales/Net Fixed Assets		67.30	27.07	41.10	75.23	82.57	26.09	32.27	41.49
Assets/Net worth (C)		64.72	41.24	16.21	8.02	2.15	1.78	1.58	1.53
Return on Equity (ROE %) (abc)		61.1%	55.5%	65.5%	55.8%	12.6%	10.6%	12.1%	13.9%

Valuation Ratios

Particulars		FY23	FY24e	FY25e	FY26e
P/E (x)		17.23	44.94	34.50	25.80
P/BV (x)		2.5	4.8	4.2	3.6
EV/EBIDTA (x)		15.8	38.0	27.9	19.9
MCAP/Sales (x)		1.1	2.5	2.0	1.6

Key Operational Ratios

Particulars		FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
EPS		13.1	26.9	91.7	9.2	8.4	6.3	8.2	11.0
EPS Growth YoY (%)			104.6%	241.2%	-90.0%	-8.2%	-25.1%	30.3%	33.7%
EBITDA Margin (%)		-0.4%	1.2%	1.6%	6.1%	6.7%	6.0%	6.5%	7.0%
PAT Margin (%)		1.6%	2.1%	5.0%	6.0%	5.7%	5.6%	5.9%	6.0%
Tax Paid/Revenue (%)		37.2%	25.9%	19.6%	13.2%	16.4%	25.0%	25.0%	25.0%
ROCE (%)		11.1%	13.6%	26.9%	14.0%	10.3%	10.9%	12.9%	15.0%
Book Value per Share		21.5	48.4	140.1	15.2	58.6	59.7	67.9	78.9
Debt to Equity Ratio		14.5	7.9	2.8	4.3	0.9	0.7	0.4	0.4
Return on Net Assets		1.5%	1.8%	4.8%	7.0%	4.9%	4.5%	5.7%	6.7%

Risks & Concerns

- **Revenue Concentration on Key Clients:** Over the fiscal years 2021, 2022, and 2023, and through September 30 in both 2022 and 2023, the top three clients have consistently accounted for a major share of the company's revenue from operations, with percentages reaching as high as 86.90%, 80.55%, 88.65%, 90.82%, and 99.22%, respectively. Such a high concentration of revenue from a limited number of clients, especially as the IOP for the IAI Group in Israel within the Indian defense market, places DCX Systems in a vulnerable position. Potential loss or decreased demand from these key clients could have a detrimental impact on the company's business operations and financial stability.
- **Vulnerability to Defense Offset Contract Fluctuations:** A considerable portion of DCX Systems' operational revenue is derived from defense offset contracts. In Fiscal 2021, 2022, 2023 and in the six months ended September 30, 2022 and September 30, 2023, their revenue from the offset defence contracts was ₹6,01.5 Cr, ₹956.5 Cr, ₹1012.8 Cr, ₹271.6 Cr and ₹319.1 Cr, respectively representing 94.23%, 87.00%, 80.79%, 70.16% and 66.58% of total revenue from sale of products and services, respectively in such periods. Any policy amendments, budgetary reallocations, or procedural delays could significantly influence DCX Systems' sales, profitability, and cash flow.
- **Supply Chain and Raw Material Risks:** DCX Systems' production efficiency and economic outcomes are deeply intertwined with the steady availability of essential raw materials. Any notable shortage, delay, or disruption in the supply chain could adversely influence the company's cost projections, financial expenditure, and project timelines. Dependence on a select group of suppliers, approved by clients for critical raw materials such as electronic assemblies, PCB assemblies, cables, wires, and connectors, introduces a level of risk, particularly in light of market volatilities affecting raw material costs and the company's capacity to adjust pricing strategies accordingly.

Conclusion

In conclusion, DCX Systems stands at the forefront of India's defense and aerospace growth story, well-positioned to leverage the wave of opportunities arising from government initiatives like Aatmanirbhar Bharat, increasing foreign direct investment, and the expanding global demand for advanced defense technologies. With strategic expansions, diversifications into adjacent markets, and a commitment to strengthening customer relationships and exploring new geographies, DCX Systems is crafting a path toward significant growth and innovation. Its endeavors in strategic acquisitions and ventures such as NIART Systems further exemplify its forward-looking approach, aligned with global market trends and the national vision of self-reliance in defense production. As DCX Systems embarks on this journey of expansive growth, its strategic initiatives, technological prowess, and market adaptability position it as a pivotal player in not just meeting, but shaping the future needs of the defense and aerospace industry on a global scale.

Historical Financials

Income Statement (Rs. Cr)	FY18	FY19	FY20	FY21	FY22	FY23
Revenue from operations	95	295	449	641	1,102	1,254
Other income	6	14	16	42	22	30
Total Income	100	309	465	683	1,124	1,283
Less: Expenses	95	296	444	631	1,035	1,170
EBITDA	0	-1	6	10	67	84
EBITDA Margin	0.03%	-0.41%	1.24%	1.59%	6.08%	6.67%
Less: D&A	0	0	1	2	2	2
EBIT	5	13	20	50	87	111
Finance Cost	2	6	8	10	11	26
EBT	3	7	13	40	76	86
Exceptional items	-	-	-	-	-	-
PBT	3	7	13	40	76	86
Less: Tax Expense	1	3	3	8	10	14
Tax Rate	27%	37%	26%	20%	13%	16%
PAT	2.3	4.6	9.4	32.1	65.6	71.7
PAT Margin	2.47%	1.56%	2.09%	5.01%	5.95%	5.72%
EPS	6.69	13.14	26.88	91.71	9.19	8.44

Product wise Revenue (Rs. Cr)	FY21	%	FY22	%	FY23	%	H1 FY24	%
System Integration	616	96%	940	85%	1,155	92%	471	98%
Cables	20	3%	30	3%	29	2%	8	2%
Kitting	5	1%	132	12%	70	6%	0.04	0%
TOTAL	641.2	100%	1,102.	100%	1,254	100%	479	100%

Customer (Rs. Cr)	FY21	%	FY22	%	FY23	%	H1 FY24	%
Exports	380	60%	612	56%	885	71%	472	98%
Domestic	258	40%	486	44%	369	29%	8	2%
TOTAL	638	100%	1098	100%	1,254	100%	479	100%

Export Revenue (Rs. Cr)	FY21	%	FY22	%	FY23	%	H1 FY 24	%
Israel	378	99.6%	611.7	100%	882.3	99.7%	471.5	100%
Americas	2	0.4%	0.04	0%	2.4	0.3%	0.04	0.0%
TOTAL	380	100%	611.7	100%	884.7	100%	471.5	100%

Historical Financials

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	FY22	FY23	Sep-23
EQUITY AND LIABILITIES						
Share Capital	3.5	3.5	3.5	15.5	19.3	19.3
Reserves	4.0	13.4	45.5	102.1	547.4	573.3
Borrowings	109.0	134.0	136.4	503.3	510.6	413.6
Other Liabilities	371.0	547.7	610.1	321.7	142.0	85.9
TOTAL EQUITY AND LIABILITIES	487.5	698.6	795.5	942.6	1,219.3	1,092.1
ASSETS						
Fixed Assets	4.4	16.6	15.6	14.7	15.2	17.8
CWIP	2.8	-	-	-	5.3	-
Cash & Cash Equivalents	259.4	416.8	549.6	800.3	595.8	656.3
Other Assets	220.9	265.2	230.4	127.6	603.0	418.0
TOTAL ASSETS	487.5	698.6	795.5	942.6	1,219.3	1,092.1

Order Book (Rs. Cr)	FY21	%	FY22	%	FY23	%	H1FY24	%
System Integration	2,559	89.6%	2,230	94%	1,625	96%	1,172	93%
Cables	47	1.7%	22	1%	15	1%	23	2%
Kitting	249	8.7%	117	5%	59	4%	63	5%
TOTAL	2,855	100%	2,369	100%	1,699	100%	1,258	100%

Common-size Income St.	FY19	FY20	FY21	FY22	FY23
Revenue from operations	95.4%	96.6%	93.8%	98.0%	97.7%
Other income	4.6%	3.4%	6.2%	2.0%	2.3%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%
Less: Expenses	95.7%	95.4%	92.4%	92.1%	91.2%
EBITDA	-0.4%	1.2%	1.5%	6.0%	6.5%
Less: D&A	0.1%	0.2%	0.4%	0.2%	0.1%
EBIT	4.2%	4.4%	7.3%	7.7%	8.7%
Finance Cost	1.8%	1.7%	1.5%	1.0%	2.0%
EBT	2.4%	2.7%	5.8%	6.7%	6.7%
Exceptional items	0.0%	0.0%	0.0%	0.0%	0.0%
PBT	2.4%	2.7%	5.8%	6.7%	6.7%
Less: Tax Expense	0.9%	0.7%	1.1%	0.9%	1.1%
PAT	1.5%	2.0%	4.7%	5.8%	5.6%

Common-size Bal Sheet	FY19	FY20	FY21	FY22	FY23
EQUITY AND LIABILITIES					
Share Capital	0.7%	0.5%	0.4%	1.6%	1.6%
Reserves	0.8%	1.9%	5.7%	10.8%	44.9%
Borrowings	22.4%	19.2%	17.1%	53.4%	41.9%
Other Liabilities	76.1%	78.4%	76.7%	34.1%	11.6%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%	100.0%	100.0%	100.0%
ASSETS					
Fixed Assets	0.9%	2.4%	2.0%	1.6%	1.2%
CWIP	0.6%	0.0%	0.0%	0.0%	0.4%
Cash & Cash Equivalents	53.2%	59.7%	69.1%	84.9%	48.9%
Other Assets	45.3%	38.0%	29.0%	13.5%	49.5%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%

Stock Selection Criteria – P⁴ (PPPP) = A Winning Grid





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