

Q1FY25 DCX Systems Ltd

DCX Systems Ltd
Focus on robust order pipeline, improving mix and traction in NIART, fueling the confidence on growth

CMP INR 331*	Target INR 519	Potential Upside 57%	Market Cap (INR Mn) INR 36,841	Recommendation BUY	Sector Electronic- Component
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Result Highlights of Q1FY25:

- The first quarter has always been a lackluster quarter for DCX systems, and it was no exception this time. However, Raneal Advanced Systems (PCBA Arm of DCX) delivered a revenue of INR 424 Mn. At the same time NIART Systems (Railway JV) has geared up and is ready for mass production with assets of INR 4,752 Mn.
- Operationally, DCX Systems saw a 19% YoY revenue decline to INR 1,381 million, due to a traditionally slow Q1. Rising material costs led to an operating loss of INR 48 million and net profit dropped 69% YoY to INR 29 million. However, we believe healthy recovery is expected from customers against the increase raw material prices under the BOM guarantee.
- We maintain our BUY rating due to a strong order book of INR 19,370 million, a healthy order pipeline in cable and wire harnessing and system integration, and a positively evolving mix of system integration and non-system integration businesses, supported by the strong potential lying with NIART Systems. We also maintain our target price of INR 519, based on a P/E multiple of 36x on FY26 EPS.**

MARKET DATA

Shares outs (Mn)	111
Mkt Cap (INR Mn)	36,841
52 Wk H/L (INR)	451/235
Volume Avg (3m K)	127
Face Value (INR)	2
Bloomberg Code	DCXINDIA.IN

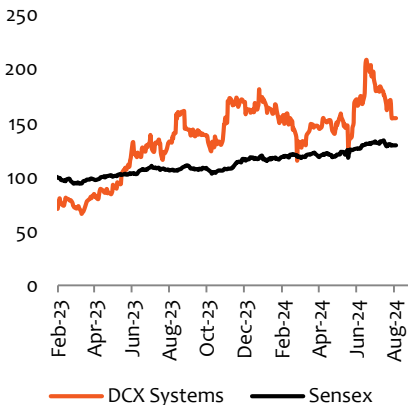
KEY FINANCIALS

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	1,973	2,672
EBITDA	670	837	799	1,499	2,047
EBITDA Margin%	6.10%	6.70%	5.60%	7.80%	8.60%
Profit Before Tax	756	858	946	1,674	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	51.4	48.6	29.5	23

Source: Company, KRChoksey Research

Raneal Advanced Systems (Subsidiary for PCBA) is up & running and should aid to the margins for FY25.

- The PCBA arm of DCX, delivered a revenue of INR 423.5 Mn during the quarter and it was utilized for captive consumption, but the margin was impacted during the quarter on account of increased raw material prices.
- The gross profit for DCX Systems came lower at INR 36.79 Mn in Q1 and gross margin declined to 2.66% in Q1FY25 vs 7.93% in Q1FY24 due to higher raw material value which led to lower margin.
- The similar situation was observed in the last quarter. However, DCX has BOM guarantee with its customers for any meaningful change in the material prices which should lead to recovery of increased costs. The company expects to recover healthy amount against the increase in the raw material prices in the next quarter.
- There is also strong traction on the order pipeline for Raneal Advanced Systems outside DCX and the management expects healthy conversion on the same.
- NIART is ready for bulk orders, having reached the final qualification stage with multiple potential customers from various countries outside India**
- The Railway Arm of DCX, NIART Systems, has received prototype orders for its global obstacle detection technology from various countries.
- The prototypes have been successfully tested across diverse weather conditions, including domestic environments.
- International prototype orders are in the final qualification stages, with certain modifications requested by potential clients to suit respective weather conditions.
- These modifications are expected to be completed within a month, after which NIART Systems anticipates receiving substantial purchase orders from international markets.
- Domestically, the response to the obstacle detection equipment has been positive, while mass production dependent is on tender conversions from Indian Railways.

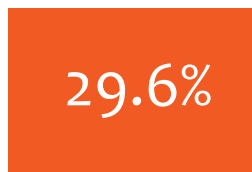
SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	79,106
NIFTY	24,144

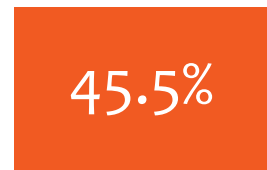
SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	59.8%	62.3%	71.7%
FIIIs	1.3%	2.3%	0.4%
DIIIs	8.9%	11.2%	7.0%
Others	30.0%	24.2%	20.9%
Total	100%	100%	100%

*Based on previous closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

- Raneal Advanced Systems also received one PO from foreign customers and first article has been delivered. The company has received positive response, and it is also expecting to receive big order from new customer.
- For the NIART JV, DCX has already sent \$10 Mn of JV amount to ELTA, another \$5 Mn is expected to be paid this month and another \$10 Mn to be paid over a period of next four month. The total assets of NIART Systems include INR 4,752 Mn out of which INR 2513 Mn is intangible and 88.3 Mn is fixed assets.
- The management highlighted that increased raw material prices are to be recovered from the customers under the BOM guarantee. Large part of the increased raw material prices are related to one or two programs and within two-three months, the company should receive the money.
- The current order book stands at INR 19,370 Mn, executable over two years, and large part of the order book consists of INR 12,500 Mn from L&T for manufacturing and supply of electronic modules. The management is also expecting strong order conversion going ahead.
- The company is also witnessing strong traction on various domestic & overseas customers for supply of cable & wire harness assemblies. It also received INR 322 Mn worth of orders for cable & wire harness assemblies, and it continues to witness strong traction on the order pipeline.
- DCX is also focused on improving the margin and is also confident about taking the margin towards double digit aided by three different levers such as Raneal Advance systems being utilized for internal consumption, NIART Systems getting ready with its obstacle detection equipment's for mass production and higher mix of cable & wire harnessing.
- The management also alluded that it is on track with the other JV which it has been pursuing with DPSUs/Foreign OEMs for last many quarters and it should shortly update on the same.

Valuation and view:

DCX Systems missed our estimates on revenue/EBITDA/PAT front during Q1FY25. However, we believe DCX as a business cannot be evaluated on quarter-to-quarter basis ,especially on the first quarter basis since Q1 has always been a lacklustre quarter. We believe Q2 should add more visibility in terms of quantum of acceleration on the growth given strong order pipeline. We maintain our earnings estimates for FY25E and FY26E aided by strong order book, higher focus on cable & wire harnessing and commercial production of Raneal Advanced Systems. **We maintain our BUY rating on the stock with a target price of INR 519, valuating the stock at 36x on FY26 earnings.**

Result Snapshot Q1FY25

Particulars (INR Million)	Q1FY24	Q4FY24	Q1FY25	YOY	QoQ
Sales	1,701	7,462	1,381	-19%	-81%
Other income	114	163	183		
Total Income	1,815	7,625	1,564	-14%	-79%
Expenses	-	-			
Cost of Raw material consumed	267	7,011	1,344	403%	-81%
Change in inv. Of FG & WIP	1,299	-			
COGS	1,566	7,011	1,344	-14%	-81%
Gross Profit	135	451	37	-73%	-92%
Gross Margin%	7.90%	6.00%	2.70%	-526 bps	-338 bps
Employee benefit cost	32	35	50	55%	43%
Other expenses	27	38	35	31%	-7%
Operating expenses	1,625	7,083	1,429	-12%	-80%
EBITDA	76	379	-48	-163%	-113%
EBITDA Margin%	4.50%	5.10%	-3.50%	-795 bps	-856 bps
Depreciation Expenses	5	23	28	501%	24%
Finance cost	70	88	54	-23%	-38%
Profit before tax	115	431	53	-54%	-88%
Total Tax	19	102	23		
Profit After Tax	96	330	29	-69%	-91%
Adjusted EPS	0.86	2.96	0.26	-69%	-91%

Source: Company, KRChoksey 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	448	375
Total Income	11,243	12,832	14,732	19,593	24,297
Cost of Goods Sold	10,006	11,192	13,166	17,173	21,250
Gross Profit	1,017	1,344	1,070	1,973	2,672
Gross Margin	9.20%	10.70%	7.50%	10.30%	11.20%
Employee benefit cost	87	105	139	206	311
Other expenses	260	403	132	268	313
Operating expenses	10,353	11,700	13,437	17,646	21,875
EBITDA	670	837	799	1,499	2,047
EBITDA Margin	6.10%	6.70%	5.60%	7.80%	8.60%
Depreciation Expenses	22	18	51	78	76
Finance cost	113	256	298	195	206
Profit Before Tax	756	858	946	1,674	2,140
PBT Margin	6.20%	6.90%	6.80%	6.60%	8.70%
Total Tax	99	141	188	425	535
Tax Rate	13%	16%	20%	25%	25%
Profit After tax	656	717	758	1,249	1,605
PAT Margin	6.00%	5.70%	5.30%	6.50%	6.70%
Adjusted EPS (INR)	5.9	6.4	6.8	11.2	14.4

Source: Company, KRChoksey 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	3,085	3,551
Financial Assets					
i) Investments	-	-	-	-	-
ii) Trade receivable	695	3,195	6,671	6,926	8,437
iii) Cash and cash equivalents	1,885	137	214	-	-
iv) Bank balances other than (ii) above	6,118	5,822	8,194	4,890	5,584
Current Tax Assets (Net)	-	14	-	-	-
Other current Assets	217	433	699	566	633
Total Current Assets	9,238	11,913	17,813	15,467	18,205
Total Assets (INR Million)	9,426	12,193	18,473	20,264	22,976
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	274	287
Current Liabilities					
Borrowings	4,672	5,037	2,704	2,880	3,200
Total Trade Payable	965	1,363	3,920	3,602	4,368
Current Tax Liabilities	88	-	23	70	70
Total Current Liability	7,885	6,456	6,990	7,351	8,446
Total Liability	9,426	12,193	18,473	20,264	22,976

Source: Company, KRChoksey Research

RESEARCH ANALYST

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Exhibit 3: Ratios

Profitability Ratios	FY22	FY23	FY24	FY25E	FY26E
Gross Margin%	9.20%	10.70%	7.50%	10.50%	11.10%
Operating Margin%	6.10%	6.70%	5.60%	8.00%	8.50%
PAT margin%	6.00%	5.70%	5.30%	6.50%	6.70%
Return Ratios	FY22	FY23	FY24	FY25E	FY26E
ROCE%	21.60%	13.10%	10.00%	12.40%	14.00%
ROE%	79.80%	20.90%	9.00%	10.50%	11.90%
ROA%	7.60%	6.60%	4.90%	6.50%	7.40%
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	15.9	3.9	2.1	2.8	2.8
Inventory Turnover	36.7	4.9	6.5	5.6	6
Paybles Turnover	10.4	8.2	3.4	4.8	4.9
Coverage Ratio	FY22	FY23	FY24	FY25E	FY26E
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	FY22	FY23	FY24	FY25E	FY26E
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
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

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Statement

Particulars (INR Million)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Flow from Operation	-1,340	-5,902	44	279	257
Net Cash Flow from Investing Activities	208	219	-13	-3,826	323
Net Cashflow from Financing activities	3,642	3,638	2,418	29	114
Opening cash balance	5,493	8,003	5,958	8,408	4,890
Closing Cash	8,003	5,958	8,408	4,890	5,584

Source: Company, KRChoksey Research

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DCX Systems Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
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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