

## Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

### Investor Snapshot

| #  | Analytical Point                                                                                                                        | Sentiment |
|----|-----------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1  | Strategic pivot from a low-margin "Build-to-Print" assembler to a high-moat "Product Company" via Elta (Radar) and NIART (Railway) JVs. | □         |
| 2  | Revenue contracted 24% YoY to 1,084 Cr, though the order book surged 3.5x to 2,855 Cr, providing 2.6x revenue visibility.               | □         |
| 3  | Operating Profit (EBITDA) collapsed 93% to 5 Cr as material costs reached an extreme 96% of revenue during a "reset year."              | □         |
| 4  | PAT of 39 Cr was heavily reliant on 80 Cr in Other Income (interest on cash) and aggressive software capitalization.                    | □         |
| 5  | Successfully deleveraged the balance sheet, reducing Total Debt from ₹291 Cr to ₹4 Cr (D/E of 0.003x).                                  | □         |
| 6  | Exceptional Cash Flow from Operations (CFO) of ₹496 Cr (12x PAT) driven by a ₹502 Cr realization of legacy receivables.                 | □         |
| 7  | Capitalized 277.20 Cr in software (25% of revenue), a forensic red flag that inflated PAT and masked an underlying operating loss.      | □         |
| 8  | Earnings quality is compromised by high Related Party Transactions (RPT), with 38.4% of revenue derived from a single subsidiary.       | □         |
| 9  | Governance concerns noted as CMD remuneration accounts for 48% of EBITDA, reflecting a significant pay-to-performance divergence.       | □         |
| 10 | High geopolitical risk persists with 83.5% of revenue linked to Israeli technology partners and export channels.                        | □         |
| 11 | Strong execution lead indicators with a 10x surge in customer advances to ₹385 Cr and a breakthrough ₹1,250 Cr L&T order.               | □         |
| 12 | Investment View: ACCUMULATE; monitor EBITDA margin recovery above 5% and reduction in RPT concentration as the order book executes.     | □         |

### 1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** DCX Systems operates primarily in the defense and aerospace sector, specializing in System Integration, Cable & Wire Harness Assemblies, and Kitting.
- **Strategic Pivot:** The company is transitioning from a "Build-to-Print" contract manufacturer to a technology-led product company through Transfer of Technology (ToT) and Joint Ventures.
- **Revenue Drivers:** Historically dependent on export/deemed export orders (99% of revenue), the company is diversifying into domestic Tier-1 supply chains, evidenced by a ₹1,250 Cr order from L&T.

- **Cost Drivers:** Extremely high material intensity (96% of revenue) makes the business highly sensitive to raw material price fluctuations and supply chain stability.
- **Industry Position:** Moving from a "Service Executor" to a "Product Enabler," specifically targeting the high-end radar and sensor market through Israeli partnerships.
- **Expansion Plans:** Establishing a Domestic Tariff Area (DTA) unit to service the Indian Ministry of Defence (MoD) directly, bypassing SEZ export restrictions.
- **Acquisitions & JVs:** Key growth engines include the Elta Systems (Israel) JV for radar manufacturing and the NIART Systems (Israel) subsidiary for railway obstacle detection technology.
- **Capacity Additions:** Significant investment in Raneal Advanced Systems for internal PCBA (Printed Circuit Board Assembly) to capture more value in the middle of the supply chain.
- **Geographical Presence:** Heavily concentrated in Israel (IAI Group) for technology and revenue, with emerging expansion into the Indian domestic defense and civilian railway markets.

## 2. MANAGEMENT COMMENTARY & OUTLOOK

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- Management is executing a deliberate "operational recalibration," shifting the focus from low-margin assembly to high-value product development and radar systems.
- The share of non-offset orders has surged to 40% of the portfolio (up from 15%), indicating increased competitiveness beyond regulatory "obligatory" spending.
- The order book has seen a "V-shaped" recovery, growing 3.5x to ₹2,855 Cr, providing high revenue visibility for FY26 and FY27.
- The ₹1,250 Cr L&T order is viewed as a breakthrough milestone, signaling successful entry into the domestic Tier-1 defense supply chain.
- The Elta JV for airborne and land-based radars is expected to be operational within 11 months, aligning with "Aatmanirbhar Bharat" initiatives.
- NIART Systems is undergoing "final fog condition testing" for its indigenous radar-based obstacle detection system for Indian Railways, targeting a massive civilian TAM.
- Management acknowledges the FY25 revenue dip as a "gap year" where old orders were exhausted while new, larger contracts entered the tooling and setup phase.
- The establishment of the DTA unit is a strategic priority to enable direct bidding for Indian MoD contracts.
- **Management Tone:** The leadership commentary is sober and transparent, characterized by a focus on long-term structural shifts rather than short-term growth. By explicitly labeling the year as an "operational recalibration" and addressing the revenue decline head-on, management demonstrates maturity and a clear vision for moving up the value chain, though the high volume of related-party transactions remains a point of necessary caution for analysts.

## 3. FINANCIAL ANALYSIS

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### 3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

## P&L Statement (₹Crores)

| Line Item                | Mar 2025 | Mar 2024 |
|--------------------------|----------|----------|
| Sales -                  | 1,084.00 | 1,424.00 |
| Sales Growth %           | -23.88   | 13.56    |
| Expenses -               | 1,079.00 | 1,344.00 |
| Material Cost % -        | 96.00    | 92.00    |
| Raw material cost        | 1,036.00 | 1,173.00 |
| Change in inventory      | 0.00     | 144.00   |
| Manufacturing Cost %     | 0.00     | 0.00     |
| Employee Cost %          | 2.00     | 1.00     |
| Other Cost %             | 2.00     | 1.00     |
| Operating Profit         | 5.00     | 80.00    |
| OPM %                    | 0.00     | 6.00     |
| Other Income -           | 80.00    | 50.00    |
| Exceptional items        | 0.00     | 0.00     |
| Other income normal      | 80.00    | 50.00    |
| Interest                 | 11.00    | 30.00    |
| Depreciation             | 13.00    | 5.00     |
| <b>Profit before tax</b> | 60.00    | 95.00    |
| Tax %                    | 36.00    | 20.00    |
| <b>Net Profit -</b>      | 39.00    | 76.00    |
| Exceptional items AT     | 0.00     | 0.01     |
| Profit excl Excep        | 38.88    | 75.77    |
| Profit for PE            | 38.88    | 75.77    |
| Profit for EPS           | 38.88    | 75.78    |
| Profit Growth %          | -48.69   | 5.87     |
| EPS in Rs                | 3.49     | 6.80     |
| Dividend Payout %        | 0.00     | 0.00     |

## Balance Sheet (₹Crores)

| Line Item                | Mar 2025        | Mar 2024        |
|--------------------------|-----------------|-----------------|
| Equity Capital           | 22.00           | 22.00           |
| Reserves                 | 1,353.00        | 1,104.00        |
| Borrowings -             | 4.00            | 291.00          |
| Long term Borrowings     | 0.00            | 20.20           |
| Short term Borrowings    | 0.02            | 270.39          |
| Lease Liabilities        | 3.73            | 0.00            |
| Other Borrowings         | 0.00            | 0.01            |
| Other Liabilities -      | 525.00          | 430.00          |
| Trade Payables           | 101.00          | 392.00          |
| Advance from Customers   | 385.00          | 31.00           |
| Other liability items    | 39.00           | 7.00            |
| <b>Total Liabilities</b> | <b>1,904.00</b> | <b>1,847.00</b> |
| Fixed Assets -           | 347.00          | 60.00           |
| Land                     | 8.00            | 4.00            |
| Building                 | 22.00           | 19.00           |
| Plant Machinery          | 35.00           | 34.00           |
| Equipments               | 12.00           | 2.00            |
| Computers                | 4.00            | 2.00            |
| Furniture n fittings     | 7.00            | 5.00            |
| Vehicles                 | 8.00            | 8.00            |
| Intangible Assets        | 0.00            | 0.00            |
| Other fixed assets       | 278.00          | 1.00            |
| Gross Block              | 374.00          | 74.00           |
| Accumulated Depreciation | 28.00           | 15.00           |
| CWIP                     | 0.00            | 0.00            |
| Investments              | 0.00            | 0.00            |
| Other Assets -           | 1,558.00        | 1,787.00        |
| Inventories              | 289.00          | 204.00          |
| Trade receivables -      | 165.00          | 667.00          |
| Receivables over 6m      | 7.00            | 20.00           |
| Receivables under 6m     | 158.00          | 648.00          |
| Prov for Doubtful        | 0.00            | 0.00            |
| Cash Equivalents         | 1,004.00        | 841.00          |
| Loans n Advances         | 84.00           | 68.00           |
| Other asset items        | 16.00           | 8.00            |
| <b>Total Assets</b>      | <b>1,904.00</b> | <b>1,847.00</b> |

## Cash Flow Statement (₹Crores)

| Line Item                      | Mar 2025      | Mar 2024      |
|--------------------------------|---------------|---------------|
| Cash from Operating Activity - | 496.00        | 4.00          |
| Profit from operations         | 28.00         | 81.00         |
| Receivables                    | 502.00        | -348.00       |
| Inventory                      | -85.00        | 26.00         |
| Payables                       | -291.00       | 256.00        |
| Other WC items                 | 354.00        | 3.00          |
| Working capital changes        | 479.00        | -63.00        |
| Direct taxes                   | -11.00        | -14.00        |
| Cash from Investing Activity - | -239.00       | -1.00         |
| Fixed assets purchased         | -300.00       | -45.00        |
| Fixed assets sold              | 0.00          | 0.00          |
| Capital WIP                    | 0.00          | 0.00          |
| Investments sold               | 0.00          | 0.00          |
| Interest received              | 62.00         | 43.00         |
| Other investing items          | 0.00          | 0.00          |
| Cash from Financing Activity - | -95.00        | 242.00        |
| Proceeds from shares           | 0.00          | 486.00        |
| Proceeds from borrowings       | 2.00          | 0.00          |
| Repayment of borrowings        | -291.00       | -219.00       |
| Interest paid fin              | -7.00         | -25.00        |
| Other financing items          | 202.00        | 0.00          |
| <b>Net Cash Flow</b>           | <b>163.00</b> | <b>245.00</b> |
| Free Cash Flow                 | 196.00        | -40.00        |
| CFO/OP                         | 11,030.00     | 23.00         |

## Key Ratios (₹Crores)

| Line Item             | Mar 2025 | Mar 2024 |
|-----------------------|----------|----------|
| Debtor Days           | 56.00    | 171.00   |
| Inventory Days        | 102.00   | 56.00    |
| Days Payable          | 36.00    | 109.00   |
| Cash Conversion Cycle | 122.00   | 119.00   |
| Working Capital Days  | 8.00     | 62.00    |
| ROCE %                | 5.00     | 10.00    |

## 3.2 Financial Analysis Summary

- The 23.88% decline in **Revenue** (₹1,084 Cr vs ₹1,424 Cr) was primarily driven by a drop in export sales, which still constitute 83.50% of the total top-line; this contraction is mirrored in the **Balance Sheet** by a massive 75.24% reduction in **Trade Receivables** (₹165 Cr), indicating that the company prioritized collections over aggressive sales growth during the year.
- **Operating Profit** plummeted to ₹5 Cr from ₹80 Cr as **Material Cost** surged to 96% of **Revenue**, leaving the company with a near-zero **OPM**; this margin compression was exacerbated by a 68.05% spike in **Employee Benefit Expenses** despite falling sales, reflecting capacity building for new subsidiaries like NIART Systems in Israel.
- **Net Profit** of ₹39 Cr was largely sustained by **Other Income** of ₹80 Cr, which grew 60% YoY and primarily consists of interest received (₹62 Cr in **Cash Flow**) from the ₹809.67 Cr held in "Other Bank Balances," representing unutilized QIP and IPO proceeds.
- The company achieved a near debt-free status on the **Balance Sheet**, with **Total Debt** falling from ₹291 Cr to just ₹4 Cr, leading to a 63.45% reduction in **Finance Cost** on the **P&L** and significantly improving the **Interest Coverage** ratio to 6.45x.
- **Depreciation** on the **P&L** more than doubled to ₹13 Cr following the capitalization of ₹277.20 Cr as "Computer Software" under **Fixed Assets**; this massive jump in **Intangible Assets** from just ₹0.03 Cr in the prior year suggests a shift in accounting treatment that defers expenses and inflates current **PAT**.
- **Cash from Operating Activity (CFO)** saw a spectacular turnaround to ₹496 Cr from ₹4 Cr, driven by the ₹502 Cr realization from **Trade Receivables** and a 10x surge in **Advance from Customers** to ₹385 Cr, which provides strong revenue visibility for FY26 but also increases the **Cash Conversion Cycle** to 122 days due to **Inventory** buildup.
- **Inventory** on the **Balance Sheet** rose 41.99% to ₹289 Cr despite the revenue decline, consuming ₹85 Cr of cash in the **Cash Flow Statement**, which signals potential risk of slow-moving stock or pre-emptive procurement for the large order book.
- **Capital Allocation** was aggressive with ₹300 Cr in **Capex** in the **Cash Flow**, including a ₹125.79 Cr investment in the Israeli subsidiary NIART, yet the company remains highly liquid with ₹1,004 Cr in **Cash Equivalents** and ₹361.78 Cr in unutilized QIP funds.
- **Return on Equity (ROE)** and **ROCE** both deteriorated to 2.83% and 5.00% respectively, as the **Net Worth** expanded to ₹1,375 Cr due to equity raises while **PAT** fell by 48.69%, indicating that the massive capital base is currently under-utilized.
- Off-balance sheet risks intensified as **Contingent Liabilities** for **Bank Guarantees** spiked 173% to ₹453.70 Cr, and the company provided a ₹131.00 Cr corporate guarantee for its subsidiary, creating significant potential exposure relative to its annual **PAT**.
- **Related Party Transactions** remain a critical focal point, with sales to the subsidiary Raneal Advanced Systems accounting for 38.4% of total **Revenue** (₹416.20 Cr), creating a "closed-loop" financial structure that requires monitoring for transfer pricing and earnings quality.
- **Other Assets** are dominated by "Other Bank Balances" (₹809.67 Cr), representing unutilized capital that distorts **ROE**, while **Other Liabilities** are driven by the 10x jump in **Advance from Customers** (₹384.91 Cr), a significant positive lead indicator for future execution.
- **Other Expenses** were impacted by a ₹5.75 Cr net loss on foreign currency translation and a tripling of travelling and conveyance expenses, likely due to the integration of the Israeli subsidiary NIART.
- FY2025 was a year of strategic transition where DCX Systems successfully deleveraged and realized massive cash flows from legacy receivables, yet faced severe operational margin pressure and high dependency on non-operating interest income, with future growth now heavily contingent on the execution of its expanded asset base and capitalized software investments.

### 3.3 Contingent Liabilities & Commitments

- **Bank Guarantees:** ₹453.70 Cr (up from ₹166.05 Cr), signaling a ramp-up in contract bidding and execution requirements.
- **Corporate Guarantees:** ₹131.00 Cr provided for subsidiaries, increasing parent-level risk exposure.
- **Letters of Credit (LC):** ₹113.82 Cr (up from zero), reflecting increased reliance on imported raw materials.
- **Income Tax Litigations:** ₹12.08 Cr in disputed taxes, including transfer pricing disputes for AY 2021-22.
- **Capital Commitments:** ₹283.00 Cr related to QIP objects and planned deployments.
- **Total Contingent Liabilities:** Totaling ₹610.94 Cr, which is approximately 15x the annual **PAT**, posing a terminal risk if invoked.



### 3.9 Earnings Quality & Forensic Checks

| #  | Check                                   | Impact                                                                                                            | Status | Evidence                                               | Notes Detail                                                                                                                        |
|----|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 1  | PAT vs CFO trend                        | Profit ↑ — cash flow exceeds PAT by 12x; ₹502 Cr receivable collection drives liquidity realization.              | □      | PAT ₹39 Cr vs CFO ₹496 Cr                              | Massive collection of old receivables (₹502 Cr) significantly improved cash position despite lower sales.                           |
| 2  | Receivables & channel-stuffing signal   | Revenue ↑↓ — aggressive collection offsets inventory build; net working capital release supports cash flow.       | □      | Receivables -₹502 Cr, Inventory +₹85 Cr vs Sales -24%  | Debtor days dropped from 171 to 56, indicating high collection efficiency or shift in terms.                                        |
| 3  | Revenue timing (Advances)               | Revenue ↑ — customer advances surge 1123%; provides high visibility for future order book execution.              | □      | Advance from customers: ₹85 Cr (FY25) vs ₹31 Cr (FY24) | Note 21: Massive jump in advances acts as interest-free working capital for upcoming defense projects.                              |
| 4  | Revenue from related parties %          | Profit ↑↓ — high intra-group dependency; 38% of revenue derived from sales to a single subsidiary.                | □      | Sales to Raneal Advanced Systems: ₹416.20 Cr           | Note 36: Significant "closed-loop" trading with subsidiary requires monitoring for transfer pricing and margin parking.             |
| 5  | Inventory vs revenue growth             | Profit ↓ — inventory rises 42% while sales fall 24%; risks of slow-moving or obsolete stock.                      | □      | Inventory ₹289 Cr (FY25) vs ₹204 Cr (FY24)             | Inventory buildup may be pre-emptive for large customer advances but currently weighs on asset turnover.                            |
| 6  | Inventory valuation method change       | Profit ↑ — FIFO usage in inflationary periods; results in lower COGS and higher reported ending inventory.        | □      | FIFO method used for raw materials                     | Note 1(x): Standard policy, but material intensity at 96% makes profits highly sensitive to this choice.                            |
| 7  | Exceptional items in operating profit   | Neutral — no major exceptional items reported; operating profit reflects core business and other income.          | □      | Exceptional items: ₹0.00 Cr                            | P&L shows clean operating lines, though "Other Income" (₹80 Cr) significantly exceeds Operating Profit (₹5 Cr).                     |
| 8  | Depreciation rate vs useful life policy | Profit ↑ — capitalization of ₹277 Cr software; defers expenses over years instead of immediate P&L hit.           | □      | Intangible assets: ₹278 Cr vs ₹1 Cr (FY24)             | Note 1(l): Massive capitalization of "Computer Software" (25% of revenue) significantly inflates current year earnings.             |
| 9  | Provision reversals boosting PAT        | Profit ↑ — negative service revenue in FY24 reversed; adds ₹9 Cr swing to current year top-line.                  | □      | Sale of Services: ₹2.93 Cr (FY25) vs -₹6.38 Cr (FY24)  | Note 38: Prior year reversals/liquidated damages stabilized, providing a non-operational boost to revenue growth.                   |
| 10 | Tax rate consistency                    | Profit ↑ — effective tax rate distorted; MAT credits and deferred tax adjustments boost bottom line.              | □      | P&L Tax 36% vs Cash Tax paid ₹11 Cr                    | Note 27: Significant divergence between tax expense and actual cash tax paid due to MAT credit entitlements.                        |
| 11 | CWIP age and stalling projects          | Neutral — zero CWIP reported; company moves directly from capital advances to asset capitalization.               | □      | CWIP: ₹0.00 Cr; Fixed Assets: ₹347 Cr                  | Rapid capitalization of assets, particularly "Other fixed assets" (Intangibles), suggests project completion or aggressive booking. |
| 12 | Deferred tax asset recognition          | Profit ↑ — management estimates on DTA recoverability; auditors highlight this as a significant area of judgment. | □      | Management estimates on DTA noted by auditors          | Auditor Report: Uncertainty in assessing recoverability of deferred tax assets could impact future tax expense.                     |

| #  | Check                                | Impact                                                                                                   | Status | Evidence                                            | Notes Detail                                                                                                       |
|----|--------------------------------------|----------------------------------------------------------------------------------------------------------|--------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| 13 | RPT quantum and trend                | Profit ↑↓ — high volume of internal trade; purchases from promoter group shifted to subsidiary sourcing. | □      | Purchases from RNSE-TRONICS: ₹7.89 Cr vs ₹196.60 Cr | Note 36: Shift in sourcing strategy towards in-house/subsidiary (Raneal) changes the related party risk profile.   |
| 14 | Dividend paid vs FCF adequacy        | Neutral — zero dividend payout; company retains cash for massive ₹283 Cr capital commitments.            | □      | Dividend Payout: 0%; FCF: ₹196 Cr                   | Company is prioritizing deleveraging and inorganic growth (NIART Israel) over immediate shareholder distributions. |
| 15 | Auditor KAM: Revenue Recognition     | Revenue ↑↓ — Judgment in timing of transfer of control for exports with varying Incoterms.               | □      | KAM 1 (p.171)                                       | Auditor flagged "point in time" recognition as a key judgment area; potential for meeting quarterly targets.       |
| 16 | Auditor KAM: Litigation Provisioning | Profit ↑ — Non-provisioning for ₹610.94 Cr in contingent liabilities based on legal opinions.            | □      | KAM 4 (p.238)                                       | Auditor flagged the lack of provisions despite a massive spike in guarantees; risk of future sudden outflows.      |
| 17 | Intangible Capitalization vs Revenue | Profit ↑ — Capitalization of ₹277.20 Cr software (25% of revenue) in a year of declining sales.          | □      | Note 1(l) (p.225)                                   | Capitalizing software instead of expensing it prevented the company from reporting an operating loss.              |

## 4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters \* **Audit Opinion:** Unqualified (Unmodified). \* **KAM 1: Revenue Recognition:** Focus on Ind AS 115 and timing of transfer of control for exports with varying Incoterms. \* **KAM 2: Management Estimates:** Significant judgment in valuation of complex defense inventory and DTA recoverability. \* **KAM 3: Subsidiary Consolidation:** Focus on first-time consolidation of NIART Systems (Israel) and currency translation. \* **KAM 4: Litigation Provisioning:** Flagged non-provisioning for ₹610.94 Cr in contingent liabilities; management relies on legal opinions that outflows are not "probable." \* **Going Concern:** No material uncertainty; massive liquidity buffer from QIP proceeds. \* **Auditor Fees:** ₹4.55 Cr (0.42% of revenue), reflecting international complexity.

### B. Related Party Transactions

| Party                           | Relationship     | Nature       | Amount (₹Cr) | Prior Year (₹Cr) | YoY Change % | Type         | Concern                                                                     |
|---------------------------------|------------------|--------------|--------------|------------------|--------------|--------------|-----------------------------------------------------------------------------|
| <b>Raneal Advanced Systems</b>  | Wholly Owned Sub | Sales        | 416.20 Cr    | 0.00 Cr          | New          | Sales        | <b>38.4% of Revenue is intra-group; risk of "closed-loop" revenue</b>       |
| <b>Raneal Advanced Systems</b>  | Wholly Owned Sub | Purchases    | 229.95 Cr    | 236.67 Cr        | -2.84%       | Purchase     | <b>Vertical integration; shifting from promoter-linked entities to subs</b> |
| <b>NIART Systems Limited</b>    | Wholly Owned Sub | Investment   | 125.79 Cr    | 0.00 Cr          | New          | Investment   | <b>Significant capital outflow to unproven Israeli subsidiary</b>           |
| <b>RNSE-TRONICS Pvt Ltd</b>     | Promoter Group   | Purchases    | 7.89 Cr      | 196.60 Cr        | -95.99%      | Purchase     | <b>Positive reduction in dependency on promoter-controlled entities</b>     |
| <b>Dr. H.S. Raghavendra Rao</b> | CMD / Promoter   | Remuneration | 2.29 Cr      | 2.29 Cr          | 0.00%        | Remuneration | <b>Pay remains flat despite operational complexity</b>                      |

- **RPT Risk:** Sales to Raneal (38.4% of revenue) exceed the 15% threshold significantly. Net receivable of ₹139.31 Cr from Raneal represents a significant portion of consolidated trade receivables.

C. Shareholding \* **Promoters:** 61.66% \* **FII:** 11.41% \* **DII:** 11.58% \* **Public:** 15.35% \* **Pledged shares:** 0.00%

D. Board Composition + KMP Compensation \* **Total Directors:** 6 | **Independent %:** 50.00% | **Women Directors:** 1. \* **KMP Compensation:** CMD remuneration (₹2.40 Cr) accounts for 48% of the year's operating profit (EBITDA of ₹5 Cr). \* **Correlation:** KMP pay remained stable/grew while EBITDA collapsed by 93.75%, signaling a disproportionate pay-to-profit ratio during the transition year.

F. Capital Allocation & Capex

| Action                        | FY Current (₹Cr) | FY Prior (₹Cr) | % of CFO | Signal          |
|-------------------------------|------------------|----------------|----------|-----------------|
| <b>Capex (Fixed Assets)</b>   | 300.00 Cr        | 45.00 Cr       | 60.48%   | □               |
| <b>Debt Repayment</b>         | 291.00 Cr        | 219.00 Cr      | 58.67%   | <b>Positive</b> |
| <b>Interest Received</b>      | 62.00 Cr         | 43.00 Cr       | 12.50%   | <b>Positive</b> |
| <b>Investment in NIART</b>    | 125.79 Cr        | 0.00 Cr        | 25.36%   | □               |
| <b>Working Capital Change</b> | 479.00 Cr        | -63.00 Cr      | 96.57%   | <b>Positive</b> |

• **CAPEX Analytical Notes:**

- **CFO Coverage:** 1.65x, but misleading as CFO was driven by liquidating old receivables (₹502 Cr), not current earnings.
- **Nature of Capex:** Growth-oriented; includes a massive ₹277.20 Cr capitalization of "Computer Software."
- **Deployment Efficiency:** Revenue fell 24% while Gross Block surged 405% (₹74 Cr to ₹374 Cr), indicating massive lead-time risk.

- **Key Takeaway:** The ₹277.20 Cr software capitalization is a major forensic red flag; it artificially protected the P&L from a deeper loss.

H. Risks \* **Contingent Liabilities (High):** ₹610.94 Cr in guarantees; 15x annual PAT. \* **Intangible Capitalization (High):** ₹277.20 Cr software capitalization defers expenses and inflates PAT. \* **Customer Concentration (High):** 83.5% Revenue from Exports (IAI Group); geopolitical risk in Israel. \* **Intra-group Sales (High):** 38.4% of revenue is to a subsidiary; risk of "channel stuffing." \* **Forex Volatility (Med):** ₹5.75 Cr loss on translation; lacks effective hedging.

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension                       | Rating (1-5) | Delta | Key Evidence                                   | One-line Rationale                                                                           |
|---------------------------------|--------------|-------|------------------------------------------------|----------------------------------------------------------------------------------------------|
| Business Quality                | 4            | ↑     | Order book ₹2,855 Cr; L&T breakthrough         | Shift to "Product Company" and radar JVs significantly improves the moat.                    |
| Financial Health                | 4            | ↑     | D/E 0.003x; CFO ₹496 Cr > PAT ₹39 Cr           | Successfully deleveraged and realized massive cash from legacy receivables.                  |
| Earnings Quality                | 2            | ↓     | ₹277 Cr Software Capitalization; 38% RPT Sales | Aggressive capitalization and high intra-group sales mask weak operational margins.          |
| Management & Governance         | 3            | ↓     | CMD Pay 48% of EBITDA; 38% RPT Sales           | Generally compliant but high RPT volume and pay-to-profit divergence are concerns.           |
| Capital Allocation & Visibility | 4            | ↑     | Order book 2.6x Revenue; ₹1,004 Cr Cash        | Strong visibility from advances and order book, though capex efficiency is yet to be proven. |

**BUSINESS POSITIVES (for this company this year)** \* **Order Book Growth:** Surged 3.5x to ₹2,855 Cr, providing 2.6x revenue visibility for the next 24 months. \* **Deleveraging:** Reduced **Total Debt** from ₹291 Cr to ₹4 Cr, achieving a near debt-free balance sheet. \* **Liquidity Realization:** Generated **CFO of ₹496 Cr** (12x PAT) driven by a ₹502 Cr collection of old receivables. \* **Customer Advances:** 10x surge in **Advance from Customers** to ₹385 Cr, acting as interest-free working capital. \* **Domestic Breakthrough:** Secured a ₹1,250 Cr order from L&T, reducing dependency on Israeli export channels. \* **Strategic JVs:** Operationalizing the **Elta Radar JV**, moving the company into high-end sensor manufacturing.

**BUSINESS NEGATIVES / CONCERNS (for this company this year)** \* **Margin Collapse:** Operating Profit fell 93% to ₹5 Cr as material costs hit 96% of revenue. \* **Forensic Red Flag:** Capitalized ₹277.20 Cr in **software**, which inflated PAT and prevented an operating loss. \* **RPT Concentration:** 38.4% of Revenue is derived from sales to a single subsidiary (Raneal), creating "closed-loop" risk. \* **Contingent Liabilities:** ₹610.94 Cr in guarantees and litigations represents 15x the annual PAT. \* **Geopolitical Risk:** 83.5% of Revenue remains export-dependent, primarily linked to Israeli technology partners. \* **Low Asset Yield:** ROE fell to 2.83% as massive cash balances (₹1,004 Cr) remain under-utilized.

**OVERALL SCORECARD SUMMARY** DCX Systems is in a state of profound strategic transition, characterized by a robust balance sheet and an exceptional order book (₹2,855 Cr) that provides strong medium-term visibility. While the company has successfully deleveraged and realized significant cash from legacy receivables, its current earnings quality is poor due to aggressive software capitalization and high related-party sales. Governance is stable but requires monitoring given the high RPT volume and the divergence between management pay and collapsing operating profits. The trajectory is "Improving" on a structural basis (moat and visibility) but "Deteriorating" on immediate operational efficiency and forensic transparency.

## Part B: Governance Check Matrix

| #  | Check                          | Status                   | Evidence                                            |
|----|--------------------------------|--------------------------|-----------------------------------------------------|
| 1  | Audit opinion clean?           | <input type="checkbox"/> | Unqualified opinion issued by M/s. NBS & Co.        |
| 2  | Promoter pledge = 0?           | <input type="checkbox"/> | 0.00% of promoter holding pledged.                  |
| 3  | KMP pay < 5% of EBITDA?        | <input type="checkbox"/> | CMD pay alone is 48% of EBITDA (₹2.40 Cr / ₹5 Cr).  |
| 4  | RPT quantum < 5% of revenue?   | <input type="checkbox"/> | RPT Sales at 38.4% of revenue (₹416.20 Cr).         |
| 5  | Board > 50% independent?       | <input type="checkbox"/> | 50% (3 out of 6 directors are independent).         |
| 6  | At least 1 woman director?     | <input type="checkbox"/> | Lathika Siddharth Pai serves on the board.          |
| 7  | No statutory dues outstanding? | <input type="checkbox"/> | No material statutory dues reported as outstanding. |
| 8  | No fraud reported?             | <input type="checkbox"/> | No fraud reported by the company or auditors.       |
| 9  | Audit trail enabled?           | <input type="checkbox"/> | Confirmed as enabled and operational.               |
| 10 | Frequent Auditor change        | <input type="checkbox"/> | M/s. NBS & Co. continuing their 5-year term.        |

Total: 8/10 ☐ — Governance Rating: 3

## Part C: Investor Verdict

**THESIS:** DCX is a high-visibility defense play transitioning from a low-margin assembler to a high-moat radar product company, currently masked by a "reset year" and aggressive accounting. **OVERALL STANCE:** ACCUMULATE **RATIONALE:** The ₹2,855 Cr order book and ₹1,004 Cr cash buffer provide a massive margin of safety for the strategic pivot to materialize. **RE-EVALUATE WHEN:** EBITDA Margin fails to recover above 5% by Q3 FY26 despite the execution of the L&T order. **BULL CASE:** Successful commissioning of the Elta Radar JV and NIART Railway project leads to a re-rating from "contract manufacturer" to "tech product" multiples. **BEAR CASE:** Escalation in Middle East tensions halts technology transfer from Israeli partners, jeopardizing 80%+ of the revenue pipeline. **KEY MONITORABLE:** RPT Sales as % of Revenue: 38.4% → Watch for a decline below 15% as external orders execute.

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## 7. YEAR-OVER-YEAR ANALYSIS

### 7.1 Changes

| Metric / Theme                   | Summary A Status                               | Summary B Status                                     | Forensic Takeaway                                                                                                                            |
|----------------------------------|------------------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Margin Trajectory                | 6% OPM; ₹80 Cr Operating Profit.               | ~0% OPM; ₹5 Cr Operating Profit.                     | Core operational profitability has effectively collapsed, leaving the bottom line entirely dependent on non-operating interest income.       |
| Working Capital (Receivables)    | Debtor days at 171 (₹667 Cr); major cash drag. | Debtor days at 56 (₹165 Cr); major cash source.      | A massive liquidation of legacy receivables has flushed the company with cash, masking the impact of a 24% revenue decline.                  |
| Capital Allocation (Intangibles) | Asset-light; negligible intangible assets.     | Aggressive capitalization of ₹277.20 Cr in software. | This massive shift in accounting treatment likely prevented the company from reporting a significant operating loss.                         |
| Order Visibility                 | Backlog depletion (₹1,699 Cr); 53% decline.    | Backlog surge (₹2,855 Cr); 3.5x recovery.            | The business has successfully transitioned from a period of revenue exhaustion to a high-visibility execution cycle.                         |
| Capital Structure                | Moderate leverage (D/E 0.26); ₹291 Cr debt.    | Virtually debt-free (D/E 0.003); ₹4 Cr debt.         | Management has utilized equity proceeds to eliminate financial risk, creating a fortress balance sheet for the strategic pivot.              |
| Management Alignment             | CMD pay was 2.86% of EBITDA; CFO resigned.     | CMD pay is 48% of EBITDA; no CFO replacement noted.  | There is a widening misalignment between executive compensation and actual operational performance during this "reset" year.                 |
| Revenue Mix                      | 99% Export/Deemed Export; high concentration.  | 83.5% Export; breakthrough ₹1,250 Cr domestic order. | The company is successfully beginning to diversify away from its total dependency on Israeli export channels toward domestic Tier-1 defense. |

### 7.2 Persistent Patterns

- **Hollow Earnings Quality:** In both periods, **Other Income (interest on unutilized IPO/QIP funds)** remains the primary driver of PAT, rather than core manufacturing operations.
- **Extreme Material Intensity:** The business model remains structurally constrained by **raw material costs exceeding 90% of revenue**, leaving almost no margin for error or cost inflation.
- **Geopolitical Concentration Risk:** Despite domestic wins, the company maintains a **critical dependency on the IAI Group (Israel)** for both technology transfer and a majority of its revenue.
- **High Related Party Transaction (RPT) Volume:** A **structurally high level of RPT persists (30-40% of revenue/costs)**, though the flow has shifted from promoter-linked entities to intra-group subsidiary trading.
- **Unhedged Forex Exposure:** Significant **foreign currency translation losses** continue to act as a recurring, unmanaged drag on the bottom line across both years.
- **Negative Core Cash Generation:** Excluding the one-time liquidation of old receivables in the current year, the **underlying business consistently struggles to generate organic cash flow** from its manufacturing activities.
- **Contingent Liability Escalation:** The company continues to carry **massive off-balance sheet risks via bank and corporate guarantees**, which have now ballooned to 15x the annual PAT.