# DCX Systems Ltd — FY 2025 Annual Report Analysis

## Annual Report Analysis (Consolidated)

### 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

- 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

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Sales | 1,084 | 1,424 |
| Sales Growth % | -23.88 | 13.56 |
| Expenses | 1,079 | 1,344 |
| Material Cost % | 96 | 92 |
| Raw material cost | 1,036 | 1,173 |
| Change in inventory | 0 | 144 |
| Manufacturing Cost % | 0 | 0 |
| Employee Cost % | 2 | 1 |
| Other Cost % | 2 | 1 |
| Operating Profit | 5 | 80 |
| OPM % | 0 | 6 |
| Other Income | 80 | 50 |
| Exceptional items | 0 | 0 |
| Other income normal | 80 | 50 |
| Interest | 11 | 30 |
| Depreciation | 13 | 5 |
| Profit before tax | 60 | 95 |
| Tax % | 36 | 20 |
| Net Profit | 39 | 76 |
| Exceptional items AT | 0 | 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 (□) | 3.49 | 6.80 |
| Dividend Payout % | 0 | 0 |

**Balance sheet (□Cr)**

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Equity Capital | 22 | 22 |
| Reserves | 1,353 | 1,104 |
| Borrowings | 4 | 291 |
| Long term Borrowings | 0 | 20.20 |
| Short term Borrowings | 0.02 | 270.39 |
| Lease Liabilities | 3.73 | 0 |
| Other Borrowings | 0 | 0.01 |
| Other Liabilities | 525 | 430 |
| Trade Payables | 101 | 392 |
| Advance from Customers | 385 | 31 |
| Other liability items | 39 | 7 |
| Total Liabilities | 1,904 | 1,847 |
| Fixed Assets | 347 | 60 |
| Land | 8 | 4 |
| Building | 22 | 19 |
| Plant Machinery | 35 | 34 |
| Equipments | 12 | 2 |
| Computers | 4 | 2 |
| Furniture n fittings | 7 | 5 |
| Vehicles | 8 | 8 |
| Intangible Assets | 0 | 0 |
| Other fixed assets | 278 | 1 |
| Gross Block | 374 | 74 |
| Accumulated Depreciation | 28 | 15 |
| CWIP | 0 | 0 |
| Investments | 0 | 0 |
| Other Assets | 1,558 | 1,787 |
| Inventories | 289 | 204 |
| Trade receivables | 165 | 667 |
| Receivables over 6m | 7 | 20 |
| Receivables under 6m | 158 | 648 |
| Prov for Doubtful | 0 | 0 |
| Cash Equivalents | 1,004 | 841 |
| Loans n Advances | 84 | 68 |
| Other asset items | 16 | 8 |
| Total Assets | 1,904 | 1,847 |

## Cash flow statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Cash from Operating Activity | 496 | 4 |
| Profit from operations | 28 | 81 |
| Receivables | 502 | -348 |
| Inventory | -85 | 26 |
| Payables | -291 | 256 |
| Other WC items | 354 | 3 |
| Working capital changes | 479 | -63 |
| Direct taxes | -11 | -14 |
| Cash from Investing Activity | -239 | -1 |
| Fixed assets purchased | -300 | -45 |
| Fixed assets sold | 0 | 0 |
| Capital WIP | 0 | 0 |
| Investments sold | 0 | 0 |
| Interest received | 62 | 43 |
| Other investing items | 0 | 0 |
| Cash from Financing Activity | -95 | 242 |
| Proceeds from shares | 0 | 486 |
| Proceeds from borrowings | 2 | 0 |
| Repayment of borrowings | -291 | -219 |
| Interest paid fin | -7 | -25 |
| Other financing items | 202 | 0 |
| Net Cash Flow | 163 | 245 |
| Free Cash Flow | 196 | -40 |
| CFO/OP | 11,030 | 23 |

## Key ratios

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Debtor Days | 56 | 171 |
| Inventory Days | 102 | 56 |
| Days Payable | 36 | 109 |
| Cash Conversion Cycle | 122 | 119 |
| Working Capital Days | 8 | 62 |
| ROCE % | 5 | 10 |

### 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 | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — cash flow exceeds PAT by 12x; ₹502 Cr receivable collection drives liquidity realization. | — | 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. | — | 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. | — | 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. | — | 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 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. | — | 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. | — | 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. | — | 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. | — | 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. | — | 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. | — | 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. | — | Auditor Report: Uncertainty in assessing recoverability of deferred tax assets could impact future tax expense. |
| 13 | RPT quantum and trend | Profit ↑↓ — high volume of internal trade; purchases from promoter group shifted to subsidiary sourcing. | — | 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. | — | 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. | — | Auditor flagged "point in time" recognition as a key judgment area; potential for meeting quarterly targets. |
| 16 | | | — | |

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| | Auditor KAM: Litigation Provisioning | Profit ↑ — Non-provisioning for ₹610.94 Cr in contingent liabilities based on legal opinions. | | 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. | — | 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 |
|---|---|---|---|---|---|---|---|
| Raneal Advanced Systems | Wholly Owned Sub | Sales | 416.20 Cr | 0.00 Cr | New | Sales | ***38.4% of Revenue is intra-group; risk of "closed-loop" revenue*** |
| Raneal Advanced Systems | Wholly Owned Sub | Purchases | 229.95 Cr | 236.67 Cr | -2.84% | Purchase | **Vertical integration; shifting from promoter-linked entities to subs** |
| NIART Systems Limited | Wholly Owned Sub | Investment | 125.79 Cr | 0.00 Cr | New | Investment | ***Significant capital outflow to unproven Israeli subsidiary*** |
| RNSE-TRONICS Pvt Ltd | Promoter Group | Purchases | 7.89 Cr | 196.60 Cr | -95.99% | Purchase | **Positive reduction in dependency on promoter-controlled entities** |
| Dr. H.S. Raghavendra Rao | CMD / Promoter | Remuneration | 2.29 Cr | 2.29 Cr | 0.00% | Remuneration | **Pay remains flat despite operational complexity** |

- **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 |
|---|---|---|---|---|
| Capex (Fixed Assets) | 300.00 Cr | 45.00 Cr | 60.48% | — |
| Debt Repayment | 291.00 Cr | 219.00 Cr | 58.67% | **Positive** |
| Interest Received | 62.00 Cr | 43.00 Cr | 12.50% | **Positive** |
| Investment in NIART | 125.79 Cr | 0.00 Cr | 25.36% | — |
| Working Capital Change | 479.00 Cr | -63.00 Cr | 96.57% | **Positive** |

- **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 |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of EBITDA? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

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.

## 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.