# DCX Systems Ltd — FY 2026 Annual Report Analysis

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | ***Aggressive accounting masks a core operational collapse: The company capitalized  1,063.89 Cr of forex losses into Intangible Assets rather than expensing them, while reported Profit Before Tax (  9 Cr) was entirely sustained by  45.13 Cr in non-operating interest income. Without these maneuvers and the interest yield on unutilized QIP funds, the company would have reported a massive pre-tax loss.*** | Negative |
| 2 | ***Operating engine failure and margin compression: Consolidated revenue fell 31.4% to  743 Cr, resulting in a negative EBITDA margin of -2.3%. This was driven by a 52.2% crash in direct exports due to geopolitical disruptions, causing raw material consumption (  832 Cr) to actually exceed total sales for the period.*** | Negative |
| 3 | ***Liquidity trapped in an expanding inventory cycle: Despite the top-line contraction, inventory surged 85.8% to  537 Cr, primarily due to a  153.73 Cr build-up in Work-in-Progress. This exploded the cash conversion cycle to 242 days, leaving Cash Flow from Operations (CFO) at a negligible  2 Cr and resulting in a negative Free Cash Flow of -  151 Cr.*** | Negative |
| 4 | ***Heightened governance and Related Party Transaction (RPT) risks: Sourcing from subsidiary Raneal Advanced Systems now accounts for 45% of total material spend, creating a closed-loop P&L. Furthermore, CMD remuneration of  22.89 Cr appears disconnected from fundamental performance, given the consolidated net loss of  8 Cr.*** | Negative |
| 5 | ***Precarious off-balance sheet exposure: Bank Guarantees have climbed to  5,347.41 Cr, representing 35.3% of Net Worth. This volume of performance bonds—now exceeding annual revenue—poses a significant liquidity threat if supply chain delays lead to project invocations.*** | Negative |
| 6 | **Capital buffer and order visibility provide a recovery floor: The company remains technically debt-free with a net cash surplus of □759 Cr and a □2,984 Cr order book. This provides 4x revenue coverage as management pivots the portfolio toward higher-margin proprietary IP and non-offset defense systems.** | Positive |
| 7 | Stance: Watch. The strategic transition to systems integration is valid, but current earnings quality is poor. Re-evaluate only when CFO/EBITDA returns to >0.5x and the inventory-to-sales ratio normalizes below 30%. | Neutral |

## 1. Business overview

| Segment | Revenue (□Cr) | Share (%) | YoY change (%) |
|---|---|---|---|
| Sale of Products | 7,414.01 | 99.74% | (31.40%) |
| Sale of Services | 7.02 | 0.09% | (76.06%) |
| Export Incentives (RoDTEP) | 12.41 | 0.17% | — |
| Total | **7,433.44** | **100.00%** | **(31.41%)** |

| Geography | Revenue (□Cr) | Share (%) | YoY change (%) |
|---|---|---|---|
| Exports | 4,322.37 | 58.15% | (52.24%) |
| Deemed Exports | 3,012.49 | 40.53% | 77.80% |
| Domestic | 79.15 | 1.06% | 24.02% |

- **Inflection Point vs. Execution Stalling:** Management frames FY26 as a "year of inflection" and "deliberate transition" from a build-to-print component supplier to a build-to-specification systems integrator. However, consolidated revenue fell 31% YoY (□743 Cr vs. □1,083 Cr). While management cites "geopolitical tensions" (Israel) and "export license delays," the widening gap between a stagnant **□2,984 Cr order book** and a shrinking top line indicates a structural execution deficit.
- **Segment Evolution:** The company is aggressively moving into high-margin niches including Radar, Electronic Warfare, and Railway Safety. Key milestones include the Counter-UAS solution for the Indian Army and the RDSO fog trials for NIART's SEE FAR system, moving the company toward proprietary/JV-led IP.
- **Vertical Integration & The Raneal Pivot:** DCX is doubling down on backward integration through its subsidiary, Raneal Advanced Systems, for PCBA and testing. However, RPT Purchases have spiked to 43.23% of total purchases, making the P&L highly sensitive to internal transfer pricing.
- **Geopolitical Concentration:** Despite domestic indigenization rhetoric, the company remains critically tethered to Israel Aerospace Industries (IAI) and ELTA Systems. The consolidated loss (□7.71 Cr) was almost entirely driven by the NIART (Israel) R&D drag (□41.78 Cr loss).
- **Revenue and Cost Drivers:** Revenue is driven by defense electronics assembly, now shifting from "Offset" to "Non-Offset" projects (moving from 40% to 70%). Costs are dominated by imported raw materials (80.7% of purchases), making the company highly vulnerable to forex volatility and geopolitical supply chain disruptions.

## 2. Management commentary & outlook

- Management acknowledges the revenue and profit collapse but frames it as a "deliberate" sacrifice for future capability, stating the year was defined "less by volume and more by the quality of opportunities."
- Strategic focus is shifting from "build-to-print" to "systems integration," with a goal to move the portfolio to 70% non-offset projects to reduce regulatory-heavy Indian Offset Partner (IOP) requirements.
- The "Financial Fortification" narrative leans heavily on zero-debt status and □277 Cr unutilized QIP funds as a defensive moat against operational cash burn.
- Vertical integration through Raneal Advanced Systems is prioritized to control lead times and capture higher value-add in PCB assemblies.
- Geopolitical tensions in the Middle East are cited as the primary cause for "restricted movement of technical personnel" and "delayed availability of critical components," causing the export velocity collapse.
- Management outlines three priorities—Execution, Transparency, and Transformation—but provides no specific timelines for NIART commercial billing or peak execution of L&T and HAL orders.
- Long-term vision involves subsidizing high-risk Israeli R&D ventures (NIART) using Indian standalone profits to secure proprietary tech for domestic indigenization.
- The management tone is **Candidly Defensive**; they take responsibility for the P&L weakness but pivot the narrative toward capability building and balance sheet strength, resulting in a verdict of high strategic clarity but opaque execution timelines.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Sales | 743 | 1,084 |
| Sales Growth % | -31.41 | -23.88 |
| Expenses | 760 | 1,079 |
| Material Cost % | 91 | 96 |
| Raw material cost | 832 | 1,036 |
| Change in inventory | -154 | 0 |
| Manufacturing Cost % | 0 | 0 |
| Employee Cost % | 5 | 2 |
| Other Cost % | 6 | 2 |
| Operating Profit | -17 | 5 |
| OPM % | -2.30 | 0.40 |
| Other Income | 45 | 80 |
| Exceptional items | 0 | 0 |
| Other income normal | 45.13 | 80.03 |
| Interest | 3 | 11 |
| Depreciation | 15 | 13 |
| Profit before tax | 9 | 60 |
| Tax % | 183 | 36 |
| Net Profit | -8 | 39 |
| Exceptional items AT | 0 | 0 |
| Profit excl Excep | -8 | 39 |
| Profit for PE | -8 | 39 |
| Profit for EPS | -8 | 39 |
| Profit Growth % | -120 | -49 |
| EPS (□) | -0.69 | 3.49 |
| Dividend Payout % | 0 | 0 |

**Balance sheet (□Cr)**

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Equity Capital | 22 | 22 |
| Reserves | 1,491 | 1,353 |
| Borrowings | 3 | 4 |
| Long term Borrowings | 0 | 0 |
| Short term Borrowings | 0 | 0.02 |
| Lease Liabilities | 2.92 | 3.73 |
| Other Borrowings | 0 | 0 |
| Other Liabilities | 588 | 525 |
| Trade Payables | 210 | 101 |
| Advance from Customers | 0 | 385 |
| Other liability items | 377 | 39 |
| Total Liabilities | 2,103 | 1,904 |
| Fixed Assets | 484 | 347 |
| Land | 0 | 8 |
| Building | 0 | 22 |
| Plant Machinery | 0 | 35 |
| Equipments | 0 | 12 |
| Computers | 0 | 4 |
| Furniture n fittings | 0 | 7 |
| Vehicles | 0 | 8 |
| Intangible Assets | 414 | 0 |
| Other fixed assets | 0 | 278 |
| Gross Block | 0 | 374 |
| Accumulated Depreciation | 0 | 28 |
| CWIP | 0 | 0 |
| Investments | 0 | 0 |
| Other Assets | 1,619 | 1,558 |
| Inventories | 537 | 289 |
| Trade receivables | 134 | 165 |
| Receivables over 6m | 0 | 7 |
| Receivables under 6m | 0 | 158 |
| Prov for Doubtful | 0 | 0 |
| Cash Equivalents | 765 | 1,004 |
| Loans n Advances | 3 | 84 |
| Other asset items | 180 | 16 |
| Total Assets | 2,103 | 1,904 |

## Cash flow statement (□Cr)

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Cash from Operating Activity | 2 | 496 |
| Profit from operations | 100 | 28 |
| Receivables | 31 | 502 |
| Inventory | -248 | -85 |
| Payables | 109 | -291 |
| Other WC items | 27 | 354 |
| Working capital changes | -81 | 479 |
| Direct taxes | -17 | -11 |
| Cash from Investing Activity | -108 | -239 |
| Fixed assets purchased | -153 | -300 |
| Fixed assets sold | 0 | 0 |
| Capital WIP | 0 | 0 |
| Investments sold | 0 | 0 |
| Interest received | 45 | 62 |
| Invest in subsidiaries | 0 | 0 |
| Other investing items | 0 | 0 |
| Cash from Financing Activity | 26 | -95 |
| Proceeds from shares | 0 | 0 |
| Proceeds from borrowings | 0.64 | 1.52 |
| Repayment of borrowings | -0.02 | -290.57 |
| Interest paid fin | 0 | -7.14 |
| Other financing items | 25.34 | 201.54 |
| Net Cash Flow | -80 | 163 |
| Free Cash Flow | -151 | 196 |
| CFO/OP | -111 | 11,030 |

## Key ratios

| Line item | Mar 2026 | Mar 2025 |
|---|---|---|
| Debtor Days | 66 | 56 |
| Inventory Days | 289 | 102 |
| Days Payable | 113 | 36 |
| Cash Conversion Cycle | 242 | 122 |
| Working Capital Days | 129 | 8 |
| ROCE % | 1 | 5 |

## 3.2 Financial analysis summary

- The company experienced a severe **Revenue** contraction of 31.41% to □743.00 Cr, marking the worst growth performance in the 6-year window, primarily due to geopolitical tensions hindering export logistics. This resulted in a negative Operating Profit of -□17.00 Cr, as Raw Material Costs of □832.47 Cr actually exceeded total Sales, leading to an EBITDA margin of -2.3%.
- **Earnings Quality** is significantly compromised by a heavy reliance on Other Income, which stood at □45.13 Cr and represents 500% of Profit Before Tax; this is almost entirely comprised of □44.88 Cr in interest on fixed deposits. The reported Net Profit of -□8.00 Cr would have been drastically lower without the yield from unutilized IPO and QIP cash balances.
- The **Balance Sheet** exhibits signs of asset inflation through aggressive accounting, specifically the capitalization of □106.39 Cr in "Forex adjustments" directly into Intangible Assets rather than expensing them through the Income Statement, inflating Total Assets to □2,103.00 Cr.
- A massive **Working Capital** trap has formed, with Inventory surging 85.8% to □537.00 Cr despite falling sales, driven by a □153.73 Cr build-up in Work-in-Progress. This caused the Cash Conversion Cycle to explode to 242 days, severely impacting CFO which plummeted to just □2.00 Cr.
- **Cash Flow** quality is poor, with a cumulative 5-year CFO to EBITDA ratio of -0.45x; the business is currently not self-funding, as evidenced by a negative Free Cash Flow of -□151.00 Cr.
- While technically debt-free with a **Net Debt** of -□759.00 Cr, the company carries immense off-balance sheet risk through Bank Guarantees totaling □5,347.41 Cr, representing 35.3% of Net Worth.
- Operational efficiency deteriorated sharply, with **ROCE** falling to 1.0% and Asset Turnover weakening. Trade Payables spiked 107% to □210.00 Cr as the company stretched supplier payments to manage cash locked in inventory and □144.85 Cr of Advances to Suppliers.
- **Related Party Transactions** present high concentration risk, with purchases from Raneal Advanced Systems totaling □374.77 Cr, representing 45% of all materials consumed.
- **Other Assets** are dominated by □4,138.22 Cr in "Computer Software" (Other Intangibles), a huge jump driven by forex adjustments, while Other Expenses were spiked by a □175.49 Cr net loss on foreign currency.
- The dominant financial theme of the year is a transition from a high-growth aerospace supplier to a cash-burning entity where a loss-making core operation is being masked by non-operating interest income and aggressive capitalization of forex losses.

## 3.3 Contingent liabilities & commitments

| Item (note's own caption) | Current yr (□ Cr) | Prior yr (□ Cr) | Change | What it means |
|---|---|---|---|---|
| Bank Guarantees (INR) | 5,347.41 | 4,536.99 | +17.86% | High off-balance sheet leverage for performance bonds. |
| Corporate Guarantees | 1,310.00 | 1,310.00 | 0.00% | Credit support provided to subsidiaries. |
| Income Tax Litigations | 125.37 | 120.81 | +3.77% | Ongoing tax exposures, primarily transfer pricing. |
| GST Litigations | 14.34 | 14.34 | 0.00% | Static indirect tax disputes. |
| Capital Commitments (QIP) | 2,000.00 | 2,830.00 | (29.33%) | Planned deployment of QIP funds for capex. |
| Total Contingent Liabilities | **6,797.12** | **5,982.14** | **+13.62%** | **Massive exposure exceeding annual revenue.** |

- The largest litigation involves a **Transfer Pricing dispute** for AY 2021-22 amounting to □120.32 Cr currently before the DRP Bengaluru.

- Bank Guarantees of ₹**5,347.41 Cr** are typical for defense contracts but pose a precarious liquidity risk if any performance bonds are invoked due to current "supply chain disruptions."
- ₹**2,000 Cr** in pending commitments from QIP proceeds indicates significant future expansion plans that are not yet generating revenue.

## 3.9 Earnings quality & forensic checks

**Read 1 — Is the growth real? → Watch**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Revenue from operations growth | ₹10,836.71 Cr | ₹7,433.44 Cr | A 31.4% decline | Watch | Revenue contracted by ₹3,403.27 Cr due to geopolitical supply chain disruptions |
| Trade receivables growth vs sales growth | ₹1,651.89 Cr | ₹1,344.04 Cr | 18.6% decline in receivables vs 31.4% decline in sales | Watch | Receivables are falling slower than sales, suggesting a slight lag in collections relative to the drop in volume |
| Trade receivables ageing (> 3 years bucket) | ₹0.00 Cr | ₹5.24 Cr | New emergence of aged debt | Watch | ₹5.24 Cr in receivables are now over 3 years old with no ECL provision disclosed |
| Unbilled revenue / Contract assets | Not disclosed | Not disclosed | Not disclosed | Clean | 99.9% of revenue is recognized at a point in time, minimizing contract asset risk |
| Customer Concentration (Exports vs Deemed Exports) | ₹9,049.27 Cr | ₹4,322.37 Cr | Direct exports fell 52.2% | Watch | Loss of volume from overseas customers is the primary driver of the revenue hit |
| Advances from customers | ₹3,849.10 Cr | ₹3,415.50 Cr | 11.3% decrease | Clean | Customer advances remain substantial, providing a buffer for future revenue recognition |

> **Mechanism:** Revenue has contracted significantly due to export disruptions, and while receivables have declined, they have not fallen in tandem with the top line, suggesting a collection lag.
> **Aggregate impact:** Total revenue decline of ₹3,403.27 Cr (31.4%) driven by a 52.2% crash in direct exports. **Direction:** deteriorating · **Watch next:** Direct export revenue recovery · **Corroborates:** profit_to_cash

**Read 2 — Does profit become cash? → Flag**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| CFO vs clean EBITDA | Not disclosed | 0.08 | Not disclosed | Flag | Clean EBITDA of □280.25 Cr (Operating Profit -□170m + Depr □153m + ESOP □1033m + Forex □1754m) converted to only □23.03 Cr of CFO. |
| Pre-tax operating conversion | Not disclosed | 0.68 | Not disclosed | Watch | (CFO □23.03 Cr + Tax Paid □166.95 Cr) / EBITDA □280.25 Cr shows cash tax drag is significant. |
| Inventory absorption of operating cash | □2,889.68 Cr | □5,369.83 Cr | 85.8% increase in inventory | Flag | Inventory buildup absorbed □2,480.14 Cr of cash during the year |
| Working-capital movement | □4,790.00 Cr | -□810.00 Cr | Severe deterioration in WC cash generation | Flag | Massive WIP and supplier advances locked up liquidity |
| Cash tax paid vs book tax | □114.56 Cr (Cash) / □214.97 Cr (Book) | □166.95 Cr (Cash) / □170.42 Cr (Book) | Cash tax now matches book tax | Clean | Cash tax leakage is high relative to the accounting loss reported |

**Mechanism:** The company's cash conversion is severely impaired by a massive buildup in inventory (specifically WIP) and advances to suppliers, resulting in negligible CFO despite positive operational adjustments. **Aggregate impact:** Working capital changes absorbed □810 Cr, with inventory alone consuming □2,480.14 Cr of cash outflow. **Direction:** deteriorating · **Watch next:** Inventory-to-sales ratio · **Corroborates:** bs_stress

**Read 3 — Is the P&L being manufactured? → Flag**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Other Income as % of PBT | 132.5% | 483.7% | Extreme reliance on non-operating income | Flag | Other income of □451.33 Cr masked an operating loss, preventing PBT from being significantly negative |
| Forex adjustments to Intangibles | □86.79 Cr | □1,201.43 Cr | 1,284% increase in forex capitalization | Flag | Capitalizing □1,063.89 Cr of forex losses into Computer Software (Intangibles) avoids a direct hit to the P&L |
| Deferred tax movement | □(9.08) Cr | □(10.05) Cr | Stable | Clean | Minimal impact on net profit |
| Changes in WIP cushioning P&L | □0.00 Cr | □(1,537.33) Cr | New credit to P&L from inventory build | Watch | The build-up of WIP reduced the 'Cost of Materials Consumed' impact on the P&L by □1,537.33 Cr |
| Depreciation policy (WDV method) | □133.71 Cr | □153.38 Cr | 14.7% increase | Clean | WDV method front-loads expenses; depreciation increased in line with asset base growth |
| Exceptional items | — | — | No change | Clean | — |

**Mechanism:** Profitability is being heavily supported by non-operating interest income and the aggressive capitalization of large forex losses (□1,063.89 Cr) into intangible assets, which keeps these costs off the P&L. **Aggregate impact:** Other income of □451.33 Cr and forex capitalization of □1,063.89 Cr are the primary reason the company did not report a massive pre-tax loss. **Direction:**

deteriorating · **Watch next:** Forex loss treatment in P&L vs Intangibles · **Corroborates:** revenue_real

**Read 4 — Is value leaving to insiders? → Watch**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Related Party Purchases (Raneal Advanced Systems) | □2,299.53 Cr | □3,747.74 Cr | 63% increase in RPT purchases | Watch | Purchases from this subsidiary now account for ~45% of total RM consumed, showing high internal dependency |
| Payables/Advances to Raneal Advanced Systems | □(1,393.07) Cr | □(1,879.94) Cr | 35% increase in net balance to subsidiary | Watch | A large portion of the company's liquidity is parked with or owed by the subsidiary |
| CMD Remuneration vs PAT | Not disclosed | □22.89 Cr | Not disclosed | Watch | CMD remuneration of □22.89 Cr is high relative to the consolidated loss of □77.11 Cr |
| Loans/Advances to group entities | □1,257.89 Cr (NIART) | □839.37 Cr (NIART) | 33% reduction | Clean | Investment/exposure to NIART Systems reduced, returning some liquidity |
| Promoter pledge | Not disclosed | Not disclosed | Not disclosed | Unresolved | — |
| CSR spend shortfall | Not disclosed | Not disclosed | Not disclosed | Unresolved | — |

**Mechanism:** Value is heavily concentrated in a wholly-owned subsidiary (Raneal) via massive purchase transactions and advances, while executive pay remains high despite a consolidated loss. **Aggregate impact:** RPT purchases of □3,747.74 Cr represent nearly half of the raw material spend. **Direction:** deteriorating · **Watch next:** Net balance with Raneal Advanced Systems · **Corroborates:** profit_to_cash

**Read 5 — Can the balance sheet take a hit? → Watch**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Bank Guarantees vs Net Worth | □4,536.99 Cr | □5,347.41 Cr | 17.9% increase | Watch | Bank guarantees (35.3% of net worth) exceed annual revenue, creating high risk if invoked due to supply chain delays |
| CWIP ageing / Stalled projects | □0.00 Cr | □0.00 Cr | No change | Clean | — |
| Dividend vs Free Cash Flow | □0.00 Cr | □0.00 Cr | No change | Clean | No dividend paid while FCF is negative (-□151 Cr) |
| Cash and bank balances | □8,408.26 Cr | □7,648.40 Cr | 9% decline | Clean | The company maintains a significant liquidity buffer from IPO/QIP proceeds despite negative FCF |
| Income Tax Litigations | □120.81 Cr | □125.37 Cr | 4% increase | Watch | Transfer pricing dispute of □120.32 Cr is a material contingent liability |

**Mechanism:** The balance sheet remains liquid due to past capital raises, but massive bank guarantees and a transfer pricing dispute pose significant contingent risks. **Aggregate impact:** Total contingent liabilities from bank guarantees and tax disputes exceed □5,470 Cr. **Direction:** stable · **Watch next:** Status of the Transfer Pricing dispute (□120.32 Cr)

**Material notes captured**

| Discloses | Prior | This year | Impact | Signal |
|---|---|---|---|---|
| ***Forex adjustments to Computer Software (Intangibles)*** | ₹86.79 Cr | ₹1,201.43 Cr | Capitalizes ₹1,063.89 Cr of forex losses, inflating assets and aiding P&L | Negative |
| ***Massive buildup in Work-in-Progress (WIP) inventory*** | ₹0.00 Cr | ₹1,537.33 Cr | Suggests stalled production or dispatch delays, locking up significant cash | Negative |
| ***Bank Guarantees outstanding*** | ₹4,536.99 Cr | ₹5,347.41 Cr | Represents 35.3% of net worth and exceeds annual revenue | Negative |
| ***Ageing Receivables > 3 Years*** | ₹0.00 Cr | ₹5.24 Cr | Potential bad debt without ECL provision | Negative |
| ***ESOP Expense Spike*** | ₹0.00 Cr | ₹103.30 Cr | Non-cash charge inflating employee benefit costs | Neutral |

## 4. Management & governance

### A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified.
- **Key Audit Matters (KAMs):** The auditor explicitly stated there were **no key audit matters** to communicate.
- **Emphasis of Matter:** The auditor highlighted a "substantial reduction in export sales during the year arising from lower business volumes from the overseas customer."
- **Fees:** Statutory audit fees are ₹0.18 Cr, which are relatively low given the ₹2,103 Cr asset base and international operations.
- **Internal Controls:** A clean opinion was issued on Internal Financial Controls, though the auditor drew attention to the sharp decline in export volumes.

### B. Related party transactions

| Party | Relationship | Nature | Amount (₹ Cr) | Concern |
|---|---|---|---|---|
| Raneal Advanced Systems | Wholly Owned Sub | Purchase of RM/Cap Goods | 3,747.74 | ***RPT sourcing accounts for ~45% of total raw material spend.*** |
| RNSE-Tronics Pvt Ltd | Promoter Group | Purchases of RM | 306.83 | ***Surge in promoter-linked sourcing despite falling revenue.*** |
| Raneal Advanced Systems | Wholly Owned Sub | Net Payable / (Advance) | (1,879.94) | ***Significant capital locked in subsidiary operations; credit risk.*** |
| NIART Systems Limited | Wholly Owned Sub | Investment | 839.37 | ***Continuing capital drain to overseas unit amid export volatility.*** |
| Dr. H.S. Raghavendra Rao | CMD | Remuneration | 22.89 | **Remuneration high relative to consolidated loss.** |

- **RPT Risk:** RPT Purchases represent over 50% of revenue in a year third-party sales collapsed, suggesting high "closed-loop" activity and potential earnings management.

### C. Shareholding

- **Promoter:** 56.86% (Down from 66.27% in Mar 2024).
- **FII:** 1.17% (Significant exodus from 12.01% in Dec 2024).

- **DII:** 4.03% (Down from 12.00% in Dec 2024).
- **Public:** 37.94%.
- **Pledged Shares:** 0.00%.

## D. Board composition + KMP compensation

- **Board:** 6 Directors (50% Independent); 1 Woman Director.
- **CMD Pay:** □22.89 Cr (Consolidated) / □2.40 Cr (Standalone). Standalone pay grew 4.8% while consolidated profit collapsed to a loss.
- **Independence Risk:** The CFO (Prasanna Kumar T S) concurrently serves as the CFO for the material subsidiary, Raneal Advanced Systems, which is the company's primary RPT counterparty.

## F. Capital allocation & capex

| Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal |
|---|---|---|---|---|
| Capex (Fixed Assets) | 15.30 | 30.00 | 765% | — |
| Intangible Asset Addition | 136.64 | 277.18 | 6,832% | — |
| Investment in NIART | 83.94 | 125.79 | 4,197% | — |

- **CAPEX Analytical Notes:** CFO coverage of capex is only 0.13x. The business capitalized **□1,063.89 Cr in forex losses** into software assets, artificially inflating the balance sheet. Free Cash Flow is deep in the red at -□151 Cr, with capex funded via QIP proceeds rather than operations.

## G. Revenue recognition policy

- Revenue is recognized primarily at a "point in time" (99.9%). The sharp shift from direct exports to "Deemed Exports" (+77.8%) signals a change in contract structures that could allow for earlier recognition under Ind AS 115.

## H. Risks

- **Export Concentration:** 52.2% crash in direct exports due to a "substantial reduction in business volumes from overseas customers." (Impact: High)
- **Forex Volatility:** Net loss of □175.49 Cr on currency translation. (Impact: High)
- **Contingent Liabilities:** Bank Guarantees of □5,347.41 Cr (35.3% of Net Worth) create high liquidity risk. (Impact: High)
- **Inventory Stagnation:** 85.8% build-up to □536.98 Cr, posing obsolescence risk. (Impact: Med)
- **Transfer Pricing:** □120.32 Cr dispute before DRP Bengaluru. (Impact: Med)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 3 | ↓ | Revenue -31%; 52% crash in direct exports | Moat is deep in Radar JVs, but execution is fragile under geopolitical stress. |
| Financial health | 2 | ↓ | CFO ₹2 Cr vs Capex ₹152 Cr; FCF -₹151 Cr | Balance sheet liquid due to QIP, but core business is burning cash. |
| Earnings quality | 1 | ↓ | Other Income 500% of PBT; ₹1,063 Cr Forex capitalized | Core manufacturing is loss-making; aggressive accounting masks P&L pain. |
| Management & governance | 2 | ↓ | CMD pay ₹22.89 Cr vs Net Loss; 45% RPT purchases | High RPT concentration and pay-performance divergence are major red flags. |
| Capital allocation & earnings visibility | 2 | ↓ | ROCE 1.0%; Inventory +86% while Sales -31% | Massive inventory trap and R&D burn in NIART destroy asset yields. |

**Business positives (for this company this year)** * **Zero Debt Status:** The company remains technically debt-free with a net cash surplus of ₹759 Cr. * **Order Book Size:** Maintains a robust order book of ₹2,984 Cr, providing theoretically 4x revenue coverage. * **Strategic Shift:** Successfully increased non-offset project mix toward a target of 70%, reducing regulatory dependency. * **Product Milestones:** Completed successful demonstration of Counter-UAS solution for Indian Army and RDSO fog trials. * **Liquidity Buffer:** Holds ₹7,648 Cr in cash and bank balances from unutilized capital raises.

**Business negatives / concerns (for this company this year)** * **Revenue Collapse:** Consolidated revenue fell 31.4% (₹743 Cr vs ₹1,083 Cr) due to geopolitical supply disruptions. * **Operating Loss:** Core EBITDA is negative (-2.3%) as raw material costs (₹832 Cr) exceeded total sales. * **Aggressive Capitalization:** Capitalized ₹1,063.89 Cr of forex losses into Intangible Assets to avoid immediate P&L impact. * **Working Capital Trap:** Inventory surged 85.8% to ₹537 Cr despite falling sales; cash conversion cycle exploded to 242 days. * **CFO Failure:** Cash Flow from Operations plummeted to just ₹2 Cr, representing negligible conversion of book profits. * **RPT Concentration:** Purchases from subsidiary Raneal Advanced Systems account for 45% of total material spend. * **Off-Balance Sheet Risk:** Bank Guarantees of ₹5,347 Cr exceed annual revenue and represent 35.3% of Net Worth. * **Pay-Performance Gap:** CMD remuneration of ₹22.89 Cr (Consolidated) paid despite a consolidated Net Loss of ₹77 Cr.

**Overall scorecard summary** DCX Systems is currently on a **deteriorating trajectory**. While the business possesses a strategic tech moat through Israeli JVs and a large order book, the operational engine has stalled. Financial strength is currently a function of unutilized QIP cash rather than manufacturing excellence. Earnings quality is poor, characterized by aggressive capitalization of losses and reliance on interest income. Governance is under pressure due to high RPT sourcing and executive compensation that is disconnected from the group's loss-making reality.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 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: 7/10 — **Governance Rating: 2** (Downgraded for KMP pay and RPT surge).

## Part c: investor verdict

**Thesis:** DCX is a high-conviction defense tech play currently crippled by geopolitical externalities and aggressive accounting practices that mask a loss-making core. **Overall stance:** Watch **Rationale:** The □2,984 Cr order book offers recovery potential, but the massive inventory trap and capitalized forex losses suggest significant future write-down risks. **Re-evaluate when:** CFO / EBITDA returns to > 0.5x and RPT purchase concentration falls below 25%. **BULL CASE:** Rapid resolution of Israel supply chain leads to execution of □3,000 Cr order book at 10%+ EBITDA margins. **BEAR CASE:** Invocation of □5,347 Cr in bank guarantees due to delivery failures, leading to a liquidity crisis. **Key monitorable:** Inventory-to-Sales ratio: 72% current → watch for reduction below 30%.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Operating Profitability | Marginal OPM of 0.4%; ₹5 Cr profit. | Negative OPM of -2.3%; ₹17 Cr loss. | The company has transitioned from razor-thin profitability to a core operating loss where raw material costs now exceed total sales. |
| Forensic Capitalization | ₹277.20 Cr software capitalization (25% of rev). | ₹1,063.89 Cr forex loss capitalization (143% of rev). | Management has significantly escalated the use of aggressive accounting to keep massive currency losses off the P&L and inflate the asset base. |
| Working Capital Trap | CFO of ₹496 Cr (driven by receivable collection). | CFO of ₹2 Cr (stalled by inventory buildup). | The liquidity relief seen in the prior year has been completely reversed by a massive 85% surge in inventory despite a 31% collapse in sales. |
| RPT Concentration | 38.4% of Sales were to a single subsidiary. | 54.5% of Revenue represented by RPT Purchases. | Dependency risk has shifted from "closed-loop" revenue to "closed-loop" sourcing, making internal transfer pricing the primary determinant of the P&L. |
| Management Alignment | CMD pay was 48% of Standalone EBITDA. | CMD pay (₹22.89 Cr) exceeds Consolidated Net Loss. | Executive compensation has become entirely decoupled from shareholder outcomes, increasing as the company fell into a consolidated loss. |
| Revenue Mix | 99% Export / Deemed Export focus. | 52% crash in direct exports; shift to deemed/domestic. | The company's primary growth engine has stalled due to geopolitical friction, forcing a reactive pivot toward lower-velocity domestic and deemed export channels. |

### 7.2 Persistent patterns

- **Aggressive Capitalization of Expenses:** In both periods, management utilized significant capitalization (software in A, forex in B) to prevent the reporting of deep operating losses.
- **Hollow Bottom Line:** Across both years, **Net Profit is entirely reliant on "Other Income" (interest on unutilized IPO/QIP funds)** rather than manufacturing excellence.
- **Extreme Raw Material Intensity:** The business remains structurally burdened by **material costs exceeding 90% of revenue**, leaving the company with zero margin of safety against cost volatility.
- **Massive Off-Balance Sheet Risk:** The company continues to carry **bank guarantees exceeding its annual revenue (now ₹5,347 Cr)**, posing a catastrophic liquidity risk if performance is hindered by supply chain delays.
- **Structural Related Party Dependency:** A **high volume of RPT (30% to 55%) remains a core trait**, indicating the standalone entity cannot function independently of its promoter-linked or subsidiary ecosystem.
- **Unutilized Capital Buffer:** The company maintains a **consistently high cash balance (₹765 Cr - ₹1,004 Cr) from equity raises**, which acts as a synthetic cushion for a cash-burning operational core.
- **Geopolitical Single-Point Failure:** Despite efforts to diversify, the company remains **critically dependent on Israeli technology partners (IAI/ELTA)** for its order book execution and R&D pipeline.