



Market Cap: ₹4,008 cr

CMP: ₹359

Target: ₹535 at 55X FY26EPS (~49% upside)

*\*MCap and CMP as of closing on 1st January 2025*

## Company Overview

**DCX Systems** is a company engaged in the system integration of electronic systems and subsystems, along with allied products such as **Printed Circuit Board Assemblies (PCBAs)** and cable & wire harnessing. It was incorporated in 2011-12 and went public on 9th November 2022, raising ₹400 crore through an Initial Public Offering (IPO). DCX Systems' products are primarily used in the defence and aerospace sectors, catering to the high standards of precision engineering required in these industries.

They have evolved into a highly regarded Indian Offset Partner (IOP) for foreign original equipment manufacturers (OEMs). They are one of the largest IOPs for ELTA Systems Limited and Israel Aerospace Industries Limited, System Missiles and Space Division (IAI Group, Israel).

They operate through their manufacturing facility located at the Hi-Tech Defence and Aerospace Park SEZ in Bengaluru, Karnataka, and facility is spread over an area of 30,000 square feet. DCX's subsidiary, RASPL, has set up an additional manufacturing facility for PCBA, spread over an area of 40,000 square feet.

## Industry Growth and Overview *(Source: F&S report, MOD-GOI)*

- **Global defence spending** is expected to grow at a **CAGR of 4%** from CY22 (\$2,181 billion) to CY30 (\$2,652 billion)
- The **global defence electronics market** is expected to grow at a **CAGR of 6.61%** from CY22 (\$142 billion) to CY30 (\$237 billion)
- The **Indian defence electronics market** is expected to grow at a **CAGR of 13.71%** from CY22 (\$2,577 million) to CY30 (\$7,204 million)
- **Indian defence exports** have grown at a **CAGR of 13.71%** from FY17 (\$200 million) to FY24 (\$2,630 million)
- The **cable and wire harness industry size** is expected to grow at a **CAGR of 15.4%** from \$541.2 million in 2022 to \$1,477.3 million in 2029
- The **EMS (Electronic Manufacturing Services)** industry size is expected to grow at a **CAGR of 49.7%** from \$400 million in 2019 to \$4,510 million in 2025
- The **MRO (Maintenance, Repair & Overhaul)** industry size is expected to grow at a **CAGR of 8.8%** from \$77 million in 2022 to \$165 million in 2031

## Business Verticals

**a) System Integration (SI)** - SI services encompass electronics and electro-mechanical assemblies in areas such as **radar systems, sensors, electronic warfare, missiles, and communication systems**. These services include **in-house quality testing**, such as vibration and environmental stress testing, of complex RF products utilised in radar, communication, surveillance, and missile systems.

SI services constitute a comprehensive array of electronics and electro-mechanical assembly and enclosure assembly services. The company also provides product repair support for the parts it manufactures. This is a unique listed company offering SI services to OEMs.

System integration includes four components:

- **PCBA:** Accounts for 60-80% of SI revenue
- **Cable and Wire Harness Assemblies:** Contribute 10-15% of SI revenue
- **Enclosure:** Can be made of steel, composite, casting, ABS, and constitutes 10-15% of SI revenue. This element is typically procured from external suppliers
- **Firmware/Software:** Generally supplied by Foreign/Indian OEMs.

**b) PCBA:** DCX undertakes the manufacturing of printed circuit board assemblies for microwave, high-speed digital, and mixed-signal applications within the defence and aerospace segments.

Through its wholly-owned subsidiary, Raneal Advanced Systems Pvt. Ltd. (RASPL), incorporated in 2022, DCX manufactures PCBAs for backward integration, catering to the EMS market.

The company possesses **two surface mounting machines capable of mounting 110,000 components per hour** for efficient PCBA manufacturing. This facilitates backward integration for SI projects while also enabling the company to offer standalone PCBA products to OEMs.

The current PCBA manufacturing capacity can service more than double its current order book, which exceeds ₹3000 crore in a financial year.

Post its incorporation, the company has secured significant standalone orders for PCBs, electronic modules, and subsystems from foreign OEMs.

Previously, the company sourced PCBs from other Indian companies such as Cyient and Astra Microwave. However, with the successful implementation of backward integration and optimised capacity utilisation, in-house PCB production is expected to contribute to a **1-2% increase in EBITDA margins** for system integration orders and also drive improved profitability for standalone PCBAs.

**c) Cable and Wire Harness Assemblies:** DCX manufactures a comprehensive array of cables and wire harness assemblies, including **radio frequency cables, coaxial cables, mixed-signal cables, power cables, and data cables**. These assemblies find applications in various domains, such as communication systems, sensors, surveillance systems, missile systems, military armored vehicles, and other electronic warfare systems within the aerospace and defence industries, all tailored to meet the specific requirements of their customers. This facilitates backward integration for SI projects and also allows for the provision of standalone products to OEMs.

**d) Kitting:** DCX supplies **assembly-ready kits of electronic and electro-mechanical parts** and undertakes all aspects of procurement, including sourcing of materials. They also provide job work services, including the assembly and testing of materials that have been supplied directly by their customers.

**e) Obstacle Detection Solution:** This is a new vertical which will start contributing in FY26. NIART Systems Ltd, a wholly owned subsidiary of DCX, has entered into a joint venture with Israel's ELTA Systems Ltd, for development, production, and global distribution of **obstacle detection solutions based on radar and optics for civilian industries**, particularly the railway industry. DCX raised ₹500 crore through a Qualified Institutional Placement (QIP) in January 2024 to fund its investment in NIART. Notably, NIART will procure SI services, Cables & PCBs from DCX itself, with DCX holding a 50.1% stake in NIART.

The essence of this vertical is that the light used in front of the loco has a lower range of 200-300 meters. Through NIART,

they have developed technology that enables the loco to see between **1.2 km and 1.4 km ahead** under different terrains and weather conditions, including fog, which will significantly reduce railway accidents.

The cost of one such system for one loco would be a few crores. Currently, India has approximately 14,000 locomotives, with around 500 new locomotives added to the fleet annually. Hence, the market opportunity is substantial, and this division is poised to contribute significantly to revenue in the coming years.

**f) MRO:** DCX undertakes certain job work services, which include the assembly and testing of materials supplied directly by their customers. Also, DCX provides maintenance, repair, and overhaul (MRO) services, including testing and maintenance projects.

## Order book

On 31st December 2023, the order book stood at ₹1095 crore. Execution during the three quarters following December 2023 amounted to ₹1079.90 crore. As of 31st December 2024, the current order book exceeds **₹3000 crore**.

[Major order: L&T order of ₹1250 crore received on 01.07.24 with a 3-year execution period, to be executed linearly]

**Rest all orders have an execution period of 12 months.**

## Understanding the business and change in dynamics

1. Previously, DCX started as an Indian offset partner for foreign OEMs, primarily generating revenue as an IOP for Israel.
2. Now, it caters to **India, Israel, the United States, and Korea**.
3. Due to the Indian government's shift towards the "**Make in India**" initiative, items previously imported are now being manufactured by Indian OEMs such as BEL, HAL, L&T, and other Indian companies. This shift will likely lead to an increase in orders from Indian defence PSUs and private companies.
4. In 2024, DCX added a major customer: **Lockheed Martin Global, USA**. They have received orders from Lockheed Martin across various verticals, including system integration and PCBs, totaling over ₹850 crore. These orders include: ₹460.30 crore for electronic assembly received on 8th November, 2024; ₹380 crore for PCBs to RASPL received on 28th October, 2024, and ₹16.53 crore received on 8th February, 2024. All orders have an execution period of 12 months.
5. They have also added **Ametek Inc., Collins Aerospace, and Beam Trial** as customers, which is expected to drive larger orders over time and expand DCX's global reach.
6. Total Offset Obligations pending with foreign OEMs, as per the Defence Offset Management Wing (DOMW), amount to USD 13.21 billion. DCX is targeting an opportunity size of **USD 1 billion** within this market. The government is further strengthening these offset norms, which can generate more business opportunities for DCX.
7. The shift from import to "Make in India," the tightening of offset policies, the expansion into new geographies and customer acquisition, the successful implementation of backward integration for PCBAs, and the promising prospects of the NIART business in the Indian Railways have positioned DCX favorably.
8. Further, in India, Bengaluru is emerging as a significant hub for commercial aviation aircraft manufacturing, with Tata's collaboration with Lockheed Martin. This development presents potential opportunities for DCX in the civil aviation sector.
9. The company is focusing on the **transfer of technology (TOT) from Israel and the US** to manufacture a list of indigenous products that cannot be imported and must be manufactured within India.
10. As per Ministry of Defence rules, any defence order below ₹2000 crore must have an Indian company as the prime contractor, with a requirement for 40-50% of the product to be sourced domestically.
11. With **short-term borrowings of ₹63 crore and cash equivalents of ₹980 crore**, the company has a strong financial position to further invest in new technology transfers and product development.

## Understanding the business and change in dynamics

Particulars	FY23A	FY24A	FY25E	FY26E
Revenue (in ₹ crore)	1,254	1,424	1,050	1,900
EBITDA (in ₹ crore)	84	80	55	145
EBITDA Margin (%)	6.70	5.62	5.24	7.63
PAT (in ₹ crore)	72	76	38	108.75
PAT Margin (%)	5.74	5.34	3.62	5.72
EPS	7.41	6.8	3.4	9.73

## Comparison with Listed Peers in Defence

Stock Name	CMP (₹)	Market Cap/sales (x)	P/B (x)	P/E (x)	Market Cap (₹ cr)	Sales 12 months TTM (₹ cr)	PAT 12 months TTM (₹ cr)	ROCE (%)
<b>DCX Systems</b>	<b>357.95</b>	<b>3.13</b>	<b>2.98</b>	<b>73.31</b>	<b>3,994.54</b>	<b>1278.06</b>	<b>54.49</b>	<b>9.98</b>
HAL	4,170.2	8.96	8.97	32.95	2,79,016.09	31,153.81	8467.19	38.88
BEL	293.9	9.96	12.16	47.34	2,14,907.71	21,574.71	4539.7	34.61
Mazagon Dock	2,243.8	8.55	12.42	35.2	90,506.35	10,579.97	2570.93	44.19
Solar Industries	9,864.25	13.84	23.52	88.16	89,105	6,440.48	1010.72	32.47
Bharat Dynamics	1,133.7	18.96	11.14	75.07	41,557.19	2,191.68	553.56	24.23
Cochin Shipyard	1,567	10.16	7.76	46.47	41,197.99	4,053.76	886.61	21.62
ITI	381.75	15.32	23.1	-	36,710.31	2,396.3	-474.44	-8.43
Zen Technologies	2,480.2	30.37	14.35	110.52	22,396.56	737.37	202.64	45.97
Garden Reach	1,650.1	4.61	10.26	49.08	18,887.62	4,101.47	384.81	27.37
BEML	4,120.5	4.23	6.35	60.13	17,169.75	4,054.54	285.56	15.25
Data Pattern	2,498.25	27.07	10.36	75.58	13,993.28	516.9	185.14	19.71
Astra Microwave	777.85	7.62	7.53	56.65	7,384.82	969.77	130.37	18.77
Mishra Dhatu	342.8	5.92	4.76	73.3	6,416.31	1,083.04	87.53	9.44
MTAR Tech	1,673.65	8.87	7.35	131.97	5,140.18	579.57	38.95	11.38
Unimech Aero	1,444.2	20.11	-	72.33	4,198.69	208.78	58.05	75.43

Paras Defence	1,005.8	12.89	8.29	95.92	4,054.35	314.53	42.27	10.32
Avantel	159.95	16.98	18.93	63.23	3,901.53	229.71	61.7	47.5
Apollo Micro Sys	120.68	7.73	6.42	77.56	3,701.28	478.69	47.72	12.01
Ideaforge Tech	624.35	8.44	4.08	154.99	2,698.45	319.88	17.41	12.09
NIBE	1675.6	5.05	10.48	65.41	2,267.03	448.57	34.66	18.54
Rossell Techsys	464.45	8.06	-	155.94	1,748.14	216.96	11.21	-
Jaykay Enter.	124.95	17.08	4.56	139.66	1,460.86	85.52	10.46	3.97
C2C Advanced	857.15	34.74	-	115.03	1,426.4	41.06	12.4	38.69
CFF Fluid	699.2	10.68	9.8	64.72	1,361.63	127.44	21.04	24.02
Taneja Aerospace	439.55	32.12	8.12	89.17	1,120.88	34.9	12.57	13.26
Sika Interplant	2,540.1	8.49	9.82	48.45	1,077	126.82	22.23	25.58
Krishna Defence	760.1	6.30	8.68	58.66	1,041.72	165.24	17.76	16.94

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