Jyoti CNC Automation Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Dominant mechatronics player with a high-barrier 5-axis technology moat and a robust □4,346 Cr order book providing 2.4x revenue visibility.**	Positive
2	**Strong top-line momentum with 35.8% revenue growth to □1,818 Cr, driven by a strategic pivot toward high-margin Aerospace and Defence (45% of revenue).**	Positive
3	**Operating margins expanded 500bps to 27% as the company successfully optimized material costs (47.8% of sales) and increased in-house electronics share.**	Positive
4	***Severe divergence between profitability and liquidity as PAT of 316 Cr failed to convert, resulting in a negative CFO of - 105 Cr.***	Negative
5	***Balance sheet health is optically stable with D/E at 0.29x post-IPO, yet interest coverage of 11.69x is undermined by the lack of operating cash generation.***	Neutral
6	***Working capital stress is acute; receivables grew 95% (outpacing sales growth of 36%) while inventory remains elevated at 378 days.***	Negative
7	***Negative Free Cash Flow of - 415 Cr indicates that growth and CWIP of 184 Cr are entirely dependent on external capital and promoter-linked loan churn.***	Negative
8	***Aggressive revenue recognition flagged by a 225% spike in unbilled revenue to 528.55 Cr, now representing a significant 29% of total sales.***	Negative
9	**Governance is characterized by conservative KMP pay (<1% of PAT) and a 50% independent board, though legacy TDS defaults of □9.07 Cr remain a blemish.**	Neutral
10	***High concentration risk persists with the top 5 customers accounting for 48.6% of revenue, alongside auditor notes regarding lack of balance confirmations.***	Negative
11	**Outlook hinges on the successful commissioning of the 10,000-machine EMS expansion and the ability to stabilize the cash-conversion cycle.**	Neutral
12	**Investment View: Watch; maintain a cautious stance until the CFO/PAT ratio exceeds 0.5x and unbilled revenue stabilizes below 35% of sales.**	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** Jyoti CNC is a leading manufacturer of CNC machines, transitioning from a machine builder to a "Mechatronics" entity. Key product lines include CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMC), and high-end 5-axis CNC Machining Centers.
- **Revenue Drivers:** Primary growth is driven by the "Sale of Machinery" (91% of turnover). Sectoral demand is led by Aerospace & Defence (45% of revenue), followed by Auto, General Engineering, and a growing presence in EMS (Electronics Manufacturing Services).
- **Cost Drivers:** Major costs include Raw Materials (47.8% of sales), Employee Benefits (14.2%), and Manufacturing/Direct expenses. The company is vertically integrated with an in-house foundry and machine shop.

- **Industry Position:** One of the few Indian players with high-end 5-axis technology (via Huron SAS, France). It holds a robust order book of ₹4,346 Cr (2.4x trailing revenue).
- **Expansion Plans:** Aggressive capacity scale-up from 6,000 machines/year to 16,000 machines/year over the next 24 months, specifically targeting entry-level products and the EMS segment.
- **Acquisitions & Technology:** Huron Graffenstaden SAS (France) serves as the global technology backbone, providing the IP for precision 5-axis machines which are then "Indianized" for domestic markets.
- **Geographical Presence:** 65.71% of revenue is domestic (India), while 34.29% is international, supported by the Strasbourg facility in France.
- **Mechatronics Pivot:** Moving into in-house design and manufacturing of electronics components (servo motors, drives, and controllers) and software (HUMA HMI) to capture a larger share of the Bill of Materials (BOM).

2. Management commentary & outlook

- Management is aggressively pivoting the company toward a "Mechatronics" model to reduce dependency on global controller giants like Fanuc or Siemens and expand margins.
- The launch of the "HUMA" intuitive HMI is a strategic move to own the software and user-interface layer of the CNC machines.
- Capacity expansion to 16,000 machines/year is a deliberate bet on the "China+1" shift, specifically targeting high-volume demand in the EMS and semiconductor assembly sectors.
- The order book of ₹4,346 Cr provides high revenue visibility, though management acknowledges the long working capital cycles inherent in the Aerospace and Defence segments (39% of order book).
- Management views the Strasbourg facility expansion (Huron) as the "moat" that allows for the transfer of high-end European precision to a low-cost Indian manufacturing base.
- Capital allocation is strictly focused on growth; no dividends were declared despite a 110% jump in PAT, as management prioritizes the ₹400–450 Cr expansion at Rajkot.
- The company has successfully exited the temporary COVID-era medical device (ventilator) business to focus exclusively on the machine tool portfolio.
- Management Tone: The leadership exhibits an aggressively optimistic tone, viewing current market complexities as a "catalyst" for growth. While they have demonstrated strong execution by hitting IPO-year capacity targets, the tone reflects a "Blitzscaling" mindset that prioritizes market capture and technological vertical integration over immediate financial discipline or free cash flow generation. (Aggressively Optimistic / Execution-Focused).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2025	Mar 2024
Sales	1,818	1,338
Sales Growth %	35.80	44.04
Expenses	1,327	1,038
Material Cost %	47.80	50.33
Raw material cost	753	583
Change in inventory	116	90
Manufacturing Cost %	5.21	6.27
Employee Cost %	14.21	15.28
Other Cost %	5.78	5.63
Operating Profit	491	301
OPM %	27	22
Other Income	5	6
Exceptional items	-9.05	0.03
Other income normal	14.46	6.45
Interest	42	90
Depreciation	36	33
Profit before tax	418	185
Tax %	24	18
Net Profit	316	151
Exceptional items AT	-7	0
Profit excl Excep	323	151
Profit for PE	323	151
Profit for EPS	316	151
Profit Growth %	114	771
EPS (□)	13.90	6.63
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2025	Mar 2024
Equity Capital	45	45
Reserves	1,641	1,319
Borrowings	497	304
Long term Borrowings	103	85
Short term Borrowings	394	219
Other Borrowings	0	0
Other Liabilities	609	510
Trade Payables	410	372
Advance from Customers	60	25
Other liability items	139	113
Total Liabilities	2,792	2,178
Fixed Assets	469	322
Land	34.02	20.86
Building	177.06	112.10
Plant Machinery	566.28	488.26
Equipments	13.47	12.01
Computers	30.97	19.48
Furniture n fittings	32.69	22.02
Vehicles	9.65	8.72
Intangible Assets	88.84	84.23
Other fixed assets	20.81	20.80
Gross Block	973.79	788.48
Accumulated Depreciation	505.05	466.17
CWIP	184	58
Investments	0	4
Other Assets	2,139	1,795
Inventories	900	866
Trade receivables	487	249
Receivables over 6m	98	77
Receivables under 6m	395	177
Prov for Doubtful	-6	-5
Cash Equivalents	125	386
Loans n Advances	59	47
Other asset items	568	247
Total Assets	2,792	2,178

Cash flow statement (□Cr)

Line item	Mar 2025	Mar 2024
Cash from Operating Activity	-105	-48
Profit from operations	504	302
Receivables	0	0
Inventory	-34	-46
Payables	0	0
Other WC items	-488	-254
Working capital changes	-523	-300
Direct taxes	-87	-50
Cash from Investing Activity	-329	-170
Fixed assets purchased	-310	-114
Fixed assets sold	0	0
Investments purchased	0	0
Investments sold	4	0
Interest received	6	5
Other investing items	-29	-61
Cash from Financing Activity	145	505
Proceeds from shares	0	1,126
Proceeds from borrowings	193	0
Repayment of borrowings	-6	-531
Interest paid fin	-42	-90
Net Cash Flow	-289	286
Free Cash Flow	-415	-163
CFO/OP	-4	1

Key ratios

Line item	Mar 2025	Mar 2024
Debtor Days	98	68
Inventory Days	378	469
Days Payable	172	201
Cash Conversion Cycle	304	336
Working Capital Days	203	181
ROCE %	24	21

3.2 Financial analysis summary

- **Revenue** from operations grew by 35.80% to □1,818.00 Cr, primarily driven by "Sale of Machinery," yet this growth is heavily decoupled from cash as Trade Receivables on the Balance Sheet surged 95.32% to

□486.54 Cr and Unbilled Revenue (Other Assets) skyrocketed 225.76% to □528.55 Cr, indicating that 55.8% of annual revenue is tied up in revenue-linked assets rather than cash.

- **Operating Profit** margins expanded significantly from 22.00% to 27.00% as Material Cost % reduced to 47.80% from 50.33%, although Other Expenses were pressured by a 44% spike in "Miscellaneous Expenses" to □23.64 Cr and a □9.07 Cr Exceptional Item related to historical TDS defaults, which signals past internal control weaknesses despite the current Net Profit growth of 114.00% to □316.00 Cr.
- The company's **Working Capital** cycle remains a significant drag on liquidity, with Inventory at □900.00 Cr (378 days) and Trade Receivables at □487.00 Cr (98 days) leading to a Cash Conversion Cycle of 304 days; this massive absorption of capital resulted in a negative CFO of -□105.00 Cr despite a healthy Profit from operations of □504.00 Cr, as Working capital changes consumed □523.00 Cr.
- **Total Debt** increased to □497.00 Cr from □303.78 Cr to fund the widening Working Capital gap and Capex, with Finance Cost actually decreasing by 53% to □42.00 Cr due to the repayment of high-cost debt using IPO proceeds, though 99.9% of remaining debt is on a Floating Rate basis, exposing the Balance Sheet to interest rate volatility.
- **Capital Allocation** was focused on expansion with Fixed Assets purchased (Capex) of □310.00 Cr and CWIP rising to □184.00 Cr, which when combined with the negative CFO, resulted in a deeply negative Free Cash Flow (FCF) of -□415.00 Cr, highlighting the company's continued dependence on external financing and promoter loan "churn" (□133.69 Cr taken from Jyoti Intl LLP) to sustain operations.
- **ROCE** improved to 24.00% and ROE stands at 18.74%, suggesting efficient use of the Net Worth (□1,686.00 Cr), but the quality of these returns is compromised by the CFO/PAT ratio of -0.33, indicating that earnings are largely "paper profits" driven by aggressive revenue recognition policies.
- **Trade Payables** ageing shows □14.19 Cr outstanding for more than 3 years, which alongside the auditor's note that balances are "subject to confirmation," suggests potential disputes or reconciliation risks that could impact future Cash Flow and Total Liabilities.
- The company's geographical mix shows 65.71% of **Revenue** from "Within India" (□1,194.32 Cr), while the French subsidiary Jyoti SAS carries a Deferred Tax Asset of □17.76 Cr based on future profit estimates, creating a risk to Net Profit if the overseas turnaround is slower than anticipated.
- High customer concentration persists with the **Top 5 Customers** accounting for 48.60% of Revenue (□883.35 Cr), making the Balance Sheet and Trade Receivables highly sensitive to the credit cycles and order volatility of a few key aerospace and defense clients.
- **Other Assets** are dominated by Unbilled Revenue (□528.55 Cr), which represents 98% of the "Other Financial Assets" category; this non-cash asset surge is linked to a 2893% spike in Installation & Commissioning Income, suggesting revenue is being booked upon delivery or partial completion rather than final customer acceptance.
- **Other Expenses** were impacted by a 44% spike in "Miscellaneous Expenses" (□23.64 Cr), which serves as a poorly defined cost bucket that outpaced revenue growth, alongside rising Travelling & Conveyance (□19.47 Cr) and Advertisement (□15.37 Cr) costs linked to post-IPO global expansion.
- The dominant financial theme of the year is **"Growth at the Expense of Liquidity,"** where record-high Revenue and PAT are entirely offset by a massive Working Capital trap and aggressive Revenue Recognition, leaving the company reliant on debt and promoter support despite its successful listing.

3.3 Contingent liabilities & commitments

- **Bank Guarantees & LCs:** □115.43 Cr (Operational).
- **Disputed Income Tax:** □19.57 Cr (Under Appeal).
- **Disputed CST/VAT:** □18.12 Cr (Stagnant litigation).
- **Capital Commitments:** □31.34 Cr (Related to ongoing capacity expansion).

- **Standby LC / Letter of Comfort:** ₹54.13 Cr (Parent company credit support provided to French subsidiary, Huron Graffenstaden SAS).
- **Total Disputed Tax Liabilities:** Exceed ₹41 Cr across Excise, IT, CST, VAT, and GST.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □523 Cr working capital build-up prevents CFO conversion.	—	[Note 12/23]: Massive surge in non-cash unbilled revenue and receivables.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk; receivables growth of 95% significantly outpaces 36% sales growth.	—	: Auditor notes balances are subject to confirmation and reconciliation.
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — aggressive recognition; unbilled revenue surged 225% via milestone-based installation income booking.	—	: Revenue recognized before invoicing, now representing 29% of total sales.
4	Revenue from related parties %	Neutral — related party revenue dependence reduced to zero from □3.37 Cr previously.	—	: Significant reduction in revenue-based related party transactions during the year.
5	Inventory vs revenue growth	Profit ↑ — inventory growth lags sales; WIP reduction suggests aggressive movement to unbilled revenue.	—	: WIP fell by □115 Cr while unbilled revenue rose by □366 Cr.
6	Inventory valuation method change	Neutral — no change in valuation policy; standard cost or NRV applied consistently.	—	[Accounting Policy]: Valuation remains at lower of cost or net realizable value.
7	Exceptional items in operating profit	Profit ↓ — non-recurring TDS compounding fees of □9.07 Cr reduce reported net profit.	—	: Compounding charges for historical TDS defaults spanning nine assessment years.
8	Depreciation rate vs useful life policy	Profit ↑ — low depreciation rate of 3.7% suggests aggressive extension of asset useful lives.	—	[Fixed Assets]: Depreciation remains low despite significant additions to plant and machinery.
9	Provision reversals boosting PAT	Neutral — no significant provision reversals; doubtful debt provisions increased slightly by □1 Cr.	—	: Expected credit loss model applied; no major reversal used to boost PAT.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — cash tax of □87 Cr is lower than P&L tax provision.	—	[P&L]: Effective tax rate increased post-IPO but cash outflow lags the P&L charge.
11	CWIP age and stalling projects	Neutral — CWIP tripled to □184 Cr; reflects ongoing expansion rather than stalled projects.	—	[Balance Sheet]: Increase aligns with □310 Cr fixed asset purchase for capacity expansion.
12	Deferred tax asset recognition adequacy	Profit ↑ — DTA recognition of □17.76 Cr relies on subjective subsidiary turnaround estimates.	—	: Asset recognized on French subsidiary losses assuming future taxable profit availability.
13	RPT quantum and trend	Neutral — high loan churn with promoter LLP indicates continued reliance on promoter liquidity.	—	: Promoter entity Jyoti International LLP acts as a frequent secondary liquidity provider.
14	Dividend paid vs FCF adequacy	Neutral — zero dividend payout is prudent given negative free cash flow of □415 Cr.	—	[Cash Flow]: Cash reserves utilized for operations and debt servicing rather than distributions.
15	Auditor Balance Confirmations	Revenue ↑↓ — Risk of fictitious or disputed balances; auditor noted balances are subject to confirmation.	—	High risk given 95% surge in receivables and 225% surge in unbilled revenue.
16	Statutory Compliance (TDS)	Profit ↓ — Historical governance lapses; □9.07 Cr compounding fee for 9 years of defaults.	—	Signals legacy weakness in internal financial controls and "tone at the top."

#	Check	Impact	Status	Notes detail
17	Trade Payable Ageing	Profit ↑ — Potential disputed claims; ₹14.19 Cr outstanding for >3 years.	—	High proportion of old dues for an industrial company; risk of future cash outflows or litigation.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified opinion with Emphasis of Matter. * **Key Audit Matters (KAMs):** * **Revenue Recognition & Unbilled Revenue:** The auditor identified the significant spike in unbilled revenue (₹528.55 Cr) as a high-risk area. Management responded by citing milestone-based recognition, but the auditor noted the lag between recognition and invoicing. * **Balance Confirmations:** Auditor noted that balances for Trade Receivables, Loans, and Payables are "subject to confirmation/reconciliation". This is a critical forensic flag given the 95.32% surge in receivables. * **Charge Satisfaction:** Auditor highlighted that "historic charges" remain active on MCA records despite loan repayments due to pending NOCs from old lenders. * **Emphasis of Matter:** The auditor drew attention to historical tax compliance lapses, specifically the compounding charges for TDS defaults. * **Auditor Fees:** Statutory Audit Fees: ₹2.65 Cr; Non-Audit Fees (Taxation): ₹0.02 Cr. There is a significant discrepancy between the "Remuneration to Auditor" in Note 30 (₹2.65 Cr) and the "Fees Paid to Auditor" table on p.33 (₹0.55 Cr), suggesting a lack of transparency in fee categorization.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Jyoti International LLP | Promoter Entity | Loans Taken | 133.69 Cr | ***Liquidity Dependency*** | | Jyoti International LLP | Promoter Entity | Loans Repaid | 144.49 Cr | ***High Churn Risk*** | | Jyoti International LLP | Promoter Entity | Interest Expense | 4.42 Cr | Finance Cost Leakage | | P.G. Jadeja | CMD | Remuneration | 1.20 Cr | Standard | | S.L. Jadeja | WTD | Remuneration | 0.72 Cr | Standard | | Jyoti Enterprise | Promoter Entity | Security Deposit | 1.80 Cr | Asset Lock-up |

RPT Risk Checks: * **% of Revenue:** 0.00% (Sales to RPs dropped to zero in FY25 from ₹3.37 Cr in FY24). * **Promoter Loan Churn:** The continuous cycle of taking (₹133.69 Cr) and repaying (₹144.49 Cr) loans from a promoter LLP indicates the company uses the promoter as a "shadow bank" for daily working capital, despite the IPO fund infusion.

C. Shareholding * **Promoter & Group:** 31.84% (7,24,21,660 shares). * **FIIs / DIIs / Public:** 68.16% (15,50,01,436 shares). * **Pledged Shares:** 0.00% of promoter holding. * **Note:** The individual holdings of the Jadeja and Rana families account for the entirety of the disclosed 31.84% individual promoter stake.

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** 50.00% | **Women Directors:** 1 (Dr. Jignasa P. Mehta). * **KMP Compensation:** Total executive director compensation (₹2.34 Cr) declined by 7.14% YoY despite a 63.12% surge in EBITDA. * **Family Relations:** Parakramsinh G. **Jadeja** (CMD) and Sahadevsinh L. Jadeja (WTD) are from the same promoter family; their aggregate family compensation is ₹1.92 Cr. * **Revenue Correlation:** KMP pay is highly conservative, representing only 0.48% of EBITDA.

F. Capital Allocation & Capex | Action | FY 2025 (₹Cr) | FY 2024 (₹Cr) | Signal | | :--- | :--- | :--- | :--- | | Capex | 310.00 Cr | 114.00 Cr | — | | Working Capital Investment | 523.00 Cr | 300.00 Cr | — | | Net Debt Change | 193.00 Cr | -531.00 Cr | — | | Interest Payments | 42.00 Cr | 90.00 Cr | **Positive** |

CAPEX Analytical Notes: * **CFO Coverage of Capex:** CFO/Capex ratio is **-0.34x**. The company is unable to self-fund any portion of its expansion. * **Nature of Capex:** Primarily growth-oriented, with **₹143.00 Cr capitalized to expand capacity to 6,000 machines/year.** * **Deployment Efficiency:** Revenue grew 35.8% while Gross Block grew 23.5%, but the **₹184.00 Cr sitting in CWIP (up from ₹58.00 Cr)** suggests a massive

pending commissioning cycle. * **Funding:** The ₹310.00 Cr capex and ₹523.00 Cr working capital build-up were funded by a ₹193.00 Cr increase in debt and a ₹261.00 Cr drawdown of IPO cash reserves.

H. Risks * **Unbilled Revenue Risk:** ₹528.55 Cr (29% of sales). Potential for massive P&L reversals if commissioning fails. (High) * **Customer Concentration:** Top 5 customers account for 48.6% of revenue. Loss of one client impacts ~10% of top-line. (High) * **Floating Rate Debt:** 99.9% of debt (₹496.41 Cr) is on floating rates. A 100 bps rate hike reduces PBT by ~₹5 Cr. (Medium) * **Tax Litigation:** Disputed tax liabilities total ₹41.00 Cr, equal to 13% of FY25 PAT. (Medium) * **TDS Compliance:** ₹9.07 Cr compounding fee for historical defaults signals legacy weakness in internal controls. (High) * **Receivables Growth:** Receivables grew 95% vs 36% revenue growth, creating a severe cash-trap risk. (High)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	Order Book ₹4,346 Cr; 45% Aero/Def revenue	Strong moat in 5-axis tech and robust order visibility, but high segment concentration.
Financial health	2	↓	D/E 0.29x; CFO -₹105 Cr; FCF -₹415 Cr	Low leverage is offset by a complete inability to generate cash from operations.
Earnings quality	1	↓	CFO < PAT; Unbilled Rev 29% of Sales	Aggressive revenue recognition and massive divergence between profit and cash.
Management & governance	3	→	50% Ind. Board; TDS defaults ₹9.07 Cr	Conservative KMP pay but significant legacy compliance issues and RPT loan churn.
Capital allocation & earnings visibility	3	→	ROCE 24%; CWIP ₹184 Cr; CFO/Capex -0.34x	High returns on paper and strong visibility, but capex is entirely debt/IPO funded.

Business positives (for this company this year) * **Revenue Growth:** Top-line grew 35.8% to ₹1,818 Cr, supported by a massive ₹4,346 Cr order book. * **Margin Expansion:** OPM expanded from 22% to 27% due to better material cost management (47.8% vs 50.3%). * **Solvency Improvement:** Interest coverage ratio improved significantly to 11.69x following IPO-led debt restructuring. * **Strategic Pivot:** Successful transition toward "Mechatronics" and in-house electronics to capture higher BOM share. * **Capacity Execution:** Successfully reached 6,000 machines/year capacity, meeting IPO-year targets.

Business negatives / concerns (for this company this year) * **Cash Flow Divergence:** PAT of ₹316 Cr failed to convert to cash, resulting in a negative CFO of -₹105 Cr. * **Aggressive Revenue Recognition:** Unbilled revenue skyrocketed 225% to ₹528.55 Cr (29% of total sales). * **Working Capital Stress:** Receivables grew 95% (outpacing 36% sales growth) and inventory days remain high at 378 days. * **Governance Flags:** ₹9.07 Cr exceptional charge for historical TDS defaults spanning 9 assessment years. * **Liquidity Dependency:** Continued reliance on promoter LLP for "shadow bank" loan churn (₹133 Cr taken/₹144 Cr repaid). * **Auditor Concerns:** Auditor noted that major balance sheet heads are "subject to confirmation/reconciliation."

Overall scorecard summary Jyoti CNC presents a paradox of high-octane growth and deteriorating financial quality. While the business demonstrates strong technological moats and a robust order book in high-barrier sectors like Aerospace, its financial health is compromised by a massive "cash trap" where profits do not translate into liquidity. Governance is a mixed bag, characterized by conservative executive pay but marred by legacy statutory defaults and aggressive accounting for unbilled revenue. The company is currently on a **stable but high-risk trajectory**, where its survival and growth remain dependent on external capital and promoter support rather than self-sustaining cash flows.

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	—

Final line: "Total: 8/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: A high-growth mechatronics play with a dominant aerospace order book, currently operating as a "paper profit" machine due to severe working capital absorption. **Overall stance:** Watch **Rationale:** The divergence between PAT and CFO, combined with aggressive unbilled revenue recognition, necessitates waiting for a quarter of positive cash flow conversion. **Re-evaluate when:** CFO/PAT ratio exceeds 0.5x for two consecutive quarters. **BULL CASE:** Successful commissioning of the 10,000-machine EMS expansion leads to a □3,000 Cr+ revenue run rate with stabilized working capital. **BEAR CASE:** A major reversal of unbilled revenue (□528 Cr) or a default by a top-5 customer (48% concentration) triggers a liquidity crisis. **Key monitorable:** Unbilled Revenue as a % of Sales: Current 29% → Watch threshold >35%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Revenue Recognition	Receivables grew 70% (outpacing 44% sales growth).	Unbilled revenue surged 225% to □528 Cr (29% of sales).	The company has shifted toward highly aggressive milestone-based accounting that recognizes revenue well before invoicing.
Margin Trajectory	OPM at 22.00%.	OPM at 27.00%.	Margins expanded significantly due to a richer mix of high-end aerospace orders and reduced raw material costs.
Capital Funding	100% of Capex funded via IPO equity infusion.	Capex and working capital funded by □193 Cr new debt and cash drawdown.	The business has transitioned from equity-funded growth back to a reliance on external debt as IPO proceeds are exhausted.
Earnings Quality	CFO/PAT at -0.31.	CFO/PAT at -0.33.	Despite a 114% jump in PAT, the quality of earnings has deteriorated as cash-burn per unit of profit increased.
Governance Focus	Audit trail implementation delay.	□9.07 Cr penalty for 9 years of TDS defaults.	Management's focus on "Blitzscaling" has exposed legacy internal control weaknesses and statutory non-compliance.
Management Tone	Strategic pivot toward exports and de-leveraging.	Aggressive "Mechatronics" pivot and capacity tripling.	Management has shifted from a recovery/ listing mindset to an aggressive market-capture strategy that deprioritizes liquidity.

7.2 Persistent patterns

- **Negative Free Cash Flow:** The company remains a structural "cash-trap," with FCF worsening from -□163 Cr to -□415 Cr across the two periods.
- **Promoter Shadow Banking:** There is a recurring and massive churn of short-term loans with Jyoti International LLP, indicating a **permanent reliance on promoter entities for daily liquidity**.
- **Audit Confirmation Risk:** In both years, the auditor explicitly noted that major balances for receivables, payables, and loans are **subject to third-party confirmation and reconciliation**.
- **High Customer Concentration:** A significant portion of revenue (25% from one client in FY24; 48.6% from top five in FY25) remains tied to a **handful of high-stakes Aerospace and Defense contracts**.
- **Working Capital Bloat:** Inventory and receivables consistently consume the entirety of operating profits, preventing the conversion of "paper profits" into banked cash.
- **Technological Moat:** The company consistently leverages its French subsidiary (Huron) to maintain a **high-end 5-axis technology advantage** over domestic competitors.
- **Zero Dividend Policy:** Management consistently retains 100% of earnings to fund aggressive capacity expansion, regardless of profit growth.