Cyient DLM Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Cyient DLM operates as a high-moat, design-led EMS provider specializing in safety-critical Aerospace & Defence (A&D) sectors with stringent NADCAP/AS9100D certifications.**	Positive
2	**Revenue surged 43.25% YoY to □1,191.87 Cr, underpinned by an 89.28% expansion in domestic markets and a robust order book of □2,170.5 Cr (1.8x visibility).**	Positive
3	***EBITDA margins contracted by 124 bps as employee costs spiked 81.44% YoY, significantly outpacing revenue growth due to aggressive post-IPO hiring and ESOPs.***	Negative
4	**Reported PAT of □61.20 Cr reflects strong top-line flow-through, yet earnings quality is compromised by a total lack of cash backing.**	Neutral
5	**The balance sheet deleveraged via □592 Cr IPO proceeds, eliminating □160.91 Cr in bank debt, though □108.67 Cr in parent debt remains outstanding.**	Positive
6	***Cash Flow from Operations (CFO) collapsed to negative 70.54 Cr, creating a severe divergence from PAT driven by massive inventory absorption and falling advances.***	Negative
7	**Capital expenditure increased 3x with the inauguration of a new Bengaluru facility, providing 180,000 hours/annum capacity for high-margin precision machining.**	Positive
8	***Inventory levels reached a critical 38.9% of revenue (464.22 Cr), flagged by auditors as a Key Audit Matter due to potential obsolescence and 142-day holding periods.***	Negative
9	***Governance concerns persist as the auditor reported a material weakness regarding the lack of an enabled audit trail for direct database changes.***	Negative
10	***Financial leakage to the parent company is significant, with 12.25 Cr in interest payments consuming 20% of the total annual PAT.***	Negative
11	**The outlook remains positive for volume growth given sectoral tailwinds, but future cash predictability is clouded by a □104.43 Cr drop in customer advances.**	Neutral
12	**Investment View: Watch; maintain a cautious stance until the CFO/PAT ratio exceeds 0.8x and inventory normalizes below 110 days.**	Neutral

1. Business overview (In Bullet Points)

- **Integrated EMS Provider:** Cyient DLM operates as an integrated Electronics Manufacturing Services (EMS) provider, specifically positioning itself through a **"Design-Led Manufacturing" (DLM)** framework for high-mix, low-to-medium volume production.
- **Core Industries:** Primary focus on safety-critical and mission-critical applications in Aerospace & Defence (A&D), Medical Technology, and Industrial sectors.
- **Revenue Drivers:** A&D remains the primary growth engine, benefiting from global supply chain shifts ("China + 1") and "Make in India" tailwinds.
- **Product Portfolio:** Concentrated in Printed Circuit Board Assembly (PCBA), Cable Harnesses, Box Builds (System Integration), and Precision Machining.

- **Service Models:** Offers Build to Print (B2P) and higher-value Build to Specification (B2S), the latter leveraging design capabilities to increase customer stickiness and margins.
- **Geographical Presence:** Operates three main facilities in Mysuru, Hyderabad, and Bengaluru (360k+ sq. ft.). Incorporated **Cyient DLM Inc.** in Delaware, USA (March 2024) to strengthen the North American footprint.
- **Capacity Expansion:** Inaugurated a new 36,000 sq. ft. precision machining facility in Bengaluru (Dec 2023) with a current capacity of 60,000 hours/annum, designed for a **3x expansion** to 180,000 hours.
- **Export Profile:** Exports contribute **46.8%** of total turnover, providing a natural USD hedge but exposing the company to global regulatory shifts.
- **Entry Barriers:** Holds rare industry certifications (NADCAP, AS9100D, IRIS, ISO 13485) which act as high entry barriers in safety-critical EMS.

2. Management commentary & outlook

- Management is pivoting from a pure manufacturing partner to a strategic "Design-Led" partner, focusing on higher-margin **B2S (Build to Specification)** engagements.
- The successful July 2023 IPO has significantly deleveraged the balance sheet, providing "dry powder" for capacity expansion and inorganic growth.
- Management is highly optimistic about the Aerospace & Defence sector, citing strategic partnerships with two major global players and structural tailwinds from Indian indigenization.
- The investment in the Chief Technology Officer (CTO) organization and Sales teams is a deliberate strategy to move toward more complex, IP-led manufacturing.
- Management acknowledges challenges such as lengthened supplier delivery times and input price volatility (highest since March 2023) but believes the "high-mix" model mitigates cyclicality.
- A Letter of Intent (LoI) with **Thales** was highlighted to address climate change and CO2 reduction, signaling commitment to global OEM ESG standards.
- Growth momentum in A&D is expected to continue, with the current **Order Book of □2,170.5 Cr** providing ~1.8x revenue visibility.
- While FY24 margins were suppressed by front-loading employee costs, management expects operating leverage to kick in as new hires and capacities (like the Bengaluru facility) scale.
- **Management Tone:** The management exhibits a confident, "growth-first" mindset, characterized by transparency regarding the lag between EBITDA and revenue growth due to deliberate investments. They are transitioning the company from a subsidiary mindset to an independent, listed entity seeking global scale, prioritizing the capture of a massive A&D pipeline over short-term margin optimization.

3. Financial analysis

3.1 Financial statements

3.2 Financial analysis summary

- **Revenue** grew by 43.25% to □1,191.87 Cr, primarily driven by a massive 89.28% surge in Domestic Revenue (□634.51 Cr), while Trade Receivables increased by 39.64% to □225.87 Cr, indicating growth is largely being captured in the balance sheet.
- **EBITDA** margins improved slightly to 12.06%, but Employee Benefits Expense surged by 81.44% to □117.38 Cr, far outstripping Revenue growth due to aggressive hiring and a 10x jump in ESOP costs (□5.45 Cr) post-IPO.

- **PAT** increased to ₹61.20 Cr, yet CFO collapsed to a negative ₹70.54 Cr, creating a severe earnings quality divergence where profits are not converting to cash due to a ₹39.14 Cr build-up in Inventory and a sharp ₹104.43 Cr decline in Contract Liabilities (customer advances).
- **Inventory** levels remain a significant concern at ₹464.22 Cr (38.9% of Revenue), with ₹398.15 Cr tied up in raw materials, posing a material risk of Inventory obsolescence in the high-tech EMS sector.
- **Total Debt** structure shifted as the company used IPO proceeds to eliminate ₹160.91 Cr in Secured Bank Loans, yet it remains burdened by ₹108.67 Cr in unsecured loans from its parent, Cyient Limited, leading to a Finance Cost of ₹34.39 Cr which includes ₹12.25 Cr in interest paid to the parent.
- **Working Capital** efficiency is under pressure as Receivables older than 6 months nearly doubled to ₹16.15 Cr, and Trade Payables include ₹41.26 Cr outstanding for over 2 years, suggesting potential disputes or strained supplier terms.
- **Net Worth** jumped to ₹842.14 Cr following the ₹592 Cr IPO, but ROE diluted significantly to 7.27% because ₹416.00 Cr of the proceeds remains unutilized in Other Bank Balances (fixed deposits).
- **Capex** of ₹24.46 Cr was directed toward Property, Plant & Equipment, while Capital Commitments tripled to ₹15.40 Cr, signaling an acceleration in capacity expansion that has yet to fully reflect in Asset Turnover.
- **Finance Cost** sustainability is impacted by Lease Liabilities which rose 40.8% to ₹58.56 Cr, with undiscounted obligations of ₹95.90 Cr representing long-term fixed cash outflows.
- **Other Expenses** increased to ₹43.52 Cr, including a 46% rise in "Miscellaneous expenses" to ₹6.78 Cr; this lack of transparency in a "dumping bucket" combined with audit trail weaknesses raises internal control concerns.
- **Other Assets** are impacted by Advances to Suppliers (₹36.09 Cr) and Balances with Govt Authorities (₹29.757 Cr), which together tie up significant liquidity essential for the high-import nature of the EMS business.
- The dominant financial theme of the year is a **"Growth-Cash Mismatch,"** where aggressive top-line expansion and IPO-led deleveraging are overshadowed by a total lack of cash conversion, heavy working capital absorption, and continued financial interdependence on the parent group.

3.3 Contingent liabilities & commitments

- **Capital Commitments:** Tripled to **₹15.40 Cr** (from ₹5.17 Cr), indicating accelerated investment in capacity and technology upgrades post-listing.
- **Bank Guarantees: ₹73.06 Cr** tied up in margin money for bank guarantees and letters of credit, restricting liquidity but necessary for high-import EMS operations.
- **Claims:** No claims acknowledged as debt were reported for the current period.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹61.2 Cr PAT vs negative ₹70.54 Cr CFO due to working capital build.	—	Forensic alert: Profits not translating to cash due to inventory build and falling advances.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk; combined receivables and inventory grew ₹103.26 Cr vs revenue growth.	—	KAM: Auditor flagged revenue cut-off risk due to high year-end volumes and complex incoterms.
3	Revenue timing (Advances)	Revenue ↓ — future revenue risk; customer advances plummeted 51.6% from ₹202.28 Cr to ₹97.86 Cr.	—	Note 20.2: Sharp decline in advances suggests depletion of order book or less favorable payment terms.
4	Revenue from related parties %	Neutral — operational dependence; revenue is primarily external but 26% of payables are to related parties.	—	Note 30: High interdependence on parent for procurement/services despite external revenue focus.
5	Inventory vs revenue growth	Profit ↓ — margin risk; inventory at 38.9% of revenue with auditor concerns on obsolescence.	—	Note 9 & KAM: Significant judgment required for slow-moving items in aerospace/defense.
6	Inventory valuation method change	Neutral — consistency maintained; company continues using lower of cost and NRV via weighted average.	—	No change in policy; however, high raw material stock poses price fluctuation risk.
7	Exceptional items in operating profit	Neutral — no specific exceptional line; however, ESOP costs surged 10x impacting operating margins.	—	Note 24: Employee benefits grew 81.4% (outpacing revenue) due to post-IPO hiring and retention.
8	Depreciation rate vs useful life policy	Neutral — standard rates applied; additions of ₹19.16 Cr in ROU assets increased lease-related depreciation.	—	Lease liabilities increased 40.8%, impacting future depreciation and interest charges.
9	Provision reversals boosting PAT	Profit ↑ — conservative aging; 100% provision for receivables > 270 days prevents sudden PAT hits.	—	Conservative ECL policy, though receivables > 6 months nearly doubled to ₹16.15 Cr.
10	Tax rate consistency	Neutral — tax expense appears aligned; unutilized IPO proceeds (₹416 Cr) generate taxable interest income.	—	Massive cash balance in FDs (₹416 Cr) provides liquidity but lowers overall RoE.
11	CWIP age and stalling projects	Profit ↓ — capex acceleration; capital commitments tripled to ₹15.40 Cr for capacity expansion.	—	Note 28: Increased capex post-listing for technology upgrades and capacity.
12	Deferred tax asset recognition	Neutral — standard recognition; no major red flags in DTA/DTL net positions.	—	Deferred tax positions appear consistent with timing differences in depreciation and provisions.
13	RPT quantum and trend	Profit ↓ — value leakage; interest paid to parent (₹12.25 Cr) consumes 20% of annual PAT.	—	Note 30.ii: Continued reliance on parent debt (₹108.67 Cr) despite raising ₹592 Cr in IPO.
14	Dividend paid vs FCF adequacy	Profit ↓ — negative FCF; company cannot sustain dividends from operations due to -₹70.54 Cr CFO.	—	Negative FCF driven by working capital absorption and repayment of related party debt.
15	Audit Trail Integrity	Neutral — internal control weakness; edit log facility not enabled for direct changes to data.	—	Note 38: Risk of manual accounting overrides; data integrity concerns regarding financial reporting.
16	Revenue Cut-off Risk		—	

#	Check	Impact	Status	Notes detail
		Revenue ↑↓ — timing risk; high year-end volumes and complex incoterms flagged by auditor.		Note 20: Revenue heavily skewed toward period-end, creating risk of recognition in incorrect periods.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM - Revenue Recognition:** Auditor flagged risk of revenue being recognized in the incorrect period due to high year-end volumes and varied incoterms. Extensive testing was performed on year-end sales. * **KAM - Inventory Obsolescence:** Significant judgment required to assess slow-moving items against production plans. Auditor evaluated management's provision logic against historical usage and committed orders. * **Material Weaknesses:** The auditor reported that the **audit trail (edit log) facility was not enabled** for direct changes to data for certain access rights in the accounting software. * **Auditor Fees:** Total fees of □1.136 Cr (Audit: 0.918 Cr; Other: 0.218 Cr). Non-audit fees represent 19.2% of the total.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | Cyient Limited | Parent | Interest Paid | 12.249 Cr | ***Value leakage: 20% of PAT*** | | Cyient Inc | Fellow Subsidiary | Reimbursement of Expenses | 10.576 Cr | Operational dependency | | Related Parties (Total) | Group Entities | Trade Payables | 83.760 Cr | ***26.17% of total payables*** | | Cyient Limited | Parent | Corporate Guarantee | 447.000 Cr | High parent support | | Cyient Limited | Parent | Unsecured Debt | 108.670 Cr | Structural cash outflow |

- **RPT Verdict:** Monitor. While transactions are at arm's length, the interest burden to the parent and high percentage of related-party payables (26.17%) indicate significant operational and financial interdependence.

C. Shareholding * **Holding Company:** Cyient Limited is the Parent/Holding Company. * **Pledged Shares:** Assumed nil (not disclosed in AR).

D. Board Composition + KMP Compensation * **Board Composition:** 8 Directors; 62.5% Independent; 1 Woman Director (Vanitha Datla). * **Family Relations:** Krishna Bodanapu (Chairman) is the son of B.V.R. Mohan Reddy (Director). * **KMP Compensation:** * **Anthony Montalbano (CEO):** □2.44 Cr (2.20% of EBITDA). * **Shrinivas Kulkarni (CFO):** □2.44 Cr (2.20% of EBITDA). * **S. Krithika (CS):** □0.18 Cr. * **Analysis:** Employee benefit expenses surged by **81.44%**, significantly outpacing revenue (43.25%) and EBITDA (26.5%) growth. ESOP costs jumped 10x to □5.45 Cr, indicating aggressive retention post-IPO.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | -------- | ------------------- | ----------------- | -------- | | Capex (Commitments) | 15.40 Cr | 5.17 Cr | — | | Secured Bank Debt Repayment | 160.91 Cr | 0.00 Cr | — | | Interest Payments | 34.39 Cr | 31.52 Cr | — | | Equity Issuance (IPO) | 592.00 Cr | 0.00 Cr | — | | Working Capital Investment | 110.00 Cr | — | — | | Financial Investments (FDs) | 416.00 Cr | 0.00 Cr | — |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex: Negative**. CFO (-□70.54 Cr) does not cover Capex; funded by IPO proceeds.
  - **Nature of Capex:** Growth-oriented, including a **new precision machining facility in Bengaluru** and capacity enhancement in Mysuru.
  - **Deployment Efficiency:** Revenue grew 43.25%, but **inventory build-up (38.9% of revenue)** suggests production is outpacing actual sales conversion.
  - **Key Takeaway:** IPO proceeds cleaned the bank balance sheet, but operational cash burn and high inventory levels prevent immediate value creation.

H. Risks * **Inventory Obsolescence (High):** High raw material stock (□**398.15 Cr**) in fast-evolving tech sectors; potential for massive write-downs impacting PAT. * **Negative Cash Flow (High):** PAT of □61.20 Cr vs **CFO of -□70.54 Cr**; creates liquidity strain and reliance on IPO cash. * **Audit Trail Failure (Medium):** Edit log not enabled for direct data changes; risk of manual accounting overrides. * **Customer Concentration (Medium):** Revenue driven by key A&D clients; loss of one client could impact >20% of topline. * **Related Party Debt (Medium): □108.67 Cr** unsecured debt from parent; structural cash outflow of □6.22 Cr/quarter starting FY25.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	43% Rev Growth; 1.8x Order Book	Strong niche in safety-critical A&D with high entry barriers.
Financial health	3	↑	D/E 0.20x; □416 Cr Cash	IPO deleveraged bank debt, but negative CFO and RP debt persist.
Earnings quality	2	↓	CFO -□70.54 Cr vs PAT □61.2 Cr	Severe divergence due to inventory build and falling advances.
Management & governance	3	→	Audit Trail Flag; 20% PAT to Parent	High RPT interdependence and internal control gaps noted.
Capital allocation & visibility	3	→	Capex 3x; Order Book □2,170 Cr	Strong visibility, but capex not yet translating to positive FCF.

Business positives (for this company this year) * **Strong Top-line Momentum:** Revenue grew **43.25%** YoY, driven by a 89.28% surge in domestic markets. * **Robust Order Visibility:** Order book stands at **□2,170.5 Cr**, providing ~1.8x revenue visibility. * **Successful Deleveraging:** Used IPO proceeds to eliminate **□160.91 Cr** in secured bank loans, improving D/E to 0.20x. * **Strategic Capacity Expansion:** Inaugurated new Bengaluru facility with **3x expansion potential** to 180,000 hours/annum. * **High Entry Barriers:** Maintenance of specialized certifications (NADCAP, AS9100D) in safety-critical sectors.

Business negatives / concerns (for this company this year) * **Severe Cash Flow Divergence:** Reported **PAT of □61.20 Cr** against a negative CFO of □70.54 Cr. * **Inventory Risks:** Inventory at **38.9% of revenue** (□464.22 Cr) with auditor concerns over obsolescence. * **Governance/IT Flag: Audit trail facility was not enabled** for direct data changes, a material internal control weakness. * **Value Leakage to Parent:** Interest paid to parent (**□12.25 Cr**) consumes 20% of annual PAT. * **Depleting Advances:** Customer advances fell sharply by **□104.43 Cr**, suggesting potential weakening of favorable payment terms. * **Margin Compression:** EBITDA margins contracted by **124 bps** due to front-loaded employee costs (+81.4% YoY).

Overall scorecard summary Cyient DLM is in a high-growth phase with strong sectoral tailwinds in Aerospace & Defence, evidenced by its 43% revenue growth and robust order book. However, the financial transition post-IPO is currently "leaky," with accounting profits failing to convert into cash due to massive inventory absorption and a depletion of customer advances. While the balance sheet is technically strong due to unutilized IPO funds, the high operational interdependence and interest leakage to the parent group, coupled with internal control weaknesses (audit trail), suggest a stable but high-vigilance trajectory.

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, design-led EMS play with a strong A&D moat, currently undergoing a "growth-pain" phase of negative cash flows and high working capital intensity.

Overall stance: Watch

Rationale: Strong top-line and order book are offset by a severe lack of cash conversion (CFO < 0) and internal control weaknesses. Re-evaluate when: CFO/PAT ratio exceeds 0.8x for two consecutive quarters. BULL CASE: B2S contracts scale rapidly, improving EBITDA margins to >15% and normalizing inventory to <25% of revenue. BEAR CASE: Inventory obsolescence leads to a >₹50 Cr write-down, or audit trail issues mask further RPT value leakage. Key monitorable: Inventory Days: 142 days → Watch threshold: <110 days.