Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**Strategic pivot toward high-moat sectors saw Aerospace revenue scale to 43% while reducing lumpy Defense exposure to 9%, de-risking the business model.**	□
2	***Top-line contraction of 17% YoY to 1,261 Cr reflects a transitionary phase where volume was sacrificed for a structurally superior, high-margin portfolio.***	□
3	**Operating Profit Margin (OPM) improved to 10% despite falling sales, supported by a doubling of high-margin service revenue to □101 Cr.**	□
4	**Net Profit grew 8% to □73 Cr, though the bottom line was significantly aided by a □19.6 Cr non-cash fair value gain on acquisition liabilities.**	□
5	**Aggressive deleveraging reduced total debt from □301 Cr to □172 Cr, including the full repayment of a □74.67 Cr high-interest parent loan.**	□
6	**Cash Flow from Operations (CFO) turned positive at □54 Cr, successfully pivoting from a □62 Cr deficit to cover annual capital requirements.**	□
7	***Capex of 45 Cr was maintained to support the B2S (Build-to-Spec) transition, though asset turnover remains low at 1.16x due to current revenue friction.***	□
8	***Earnings quality is pressured by 43.83 Cr in new unbilled contract assets and a non-cash gain accounting for 21% of PBT amid declining sales.***	□
9	***Governance is marked by high operational dependency on the parent (87% of outsourcing) and a disconnect in KMP pay, which rose to 18% of PAT.***	□
10	***Working capital health deteriorated sharply as inventory days spiked from 188 to 314 days, with 647 Cr in capital currently trapped in stock.***	□
11	**Revenue visibility remains strong with a □2,420 Cr order book (1.46x book-to-bill), providing a clear runway for recovery as inventory liquidates.**	□
12	**Stance: ACCUMULATE; key monitorables include the reduction of inventory days below 250 and the scaling of B2S revenue to 15% of the mix.**	□

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** Cyient DLM is transitioning from a traditional Electronic Manufacturing Services (EMS) provider to a design-led entity, focusing on Build-to-Print (B2P) and increasingly Build-to-Spec (B2S) manufacturing.
- **Revenue Drivers:** Growth is increasingly driven by high-margin service revenue (which more than doubled to □101.05 Cr) and a strategic pivot toward the North American (NAM) market, which now accounts for 54.43% of revenue.

- **Cost Drivers:** Major costs include Raw Materials (60% of sales), Employee Benefits (18% of sales), and a new significant line item for Sub-contracting Charges (□61.29 Cr), primarily sourced from the parent company.
- **Industry Position:** Positioning as a "Trusted Geography" partner in the "China Plus One" landscape, leveraging a hybrid model of US-based technical compliance (via Altek) and India-based cost advantages.
- **Expansion Plans:** Focus on the "SET" framework (Strengthen, Expand, Transform) to move up the value chain; expansion of the precision machining facility in Bengaluru is a key recent project.
- **Acquisitions:** The acquisition of Altek Electronics (Connecticut, USA) serves as a strategic portal for US Defense and Medical contracts requiring domestic sourcing.
- **Capacity Additions:** Currently operating at 50-60% capacity utilization, providing significant operating leverage for future growth without immediate heavy capex.
- **Segment Performance:** Drastic sectoral recalibration: Aerospace grew to 43% of revenue, while Defense was intentionally reduced from 48% to 9%. Industrial (27%) and Med-Tech (19%) showed strong scaling.
- **Geographical Presence:** Massive shift in footprint; India revenue collapsed from 47.7% to 9.6%, while NAM (54.4%) and EMEA (32.2%) now dominate the revenue mix.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Strategic shift from "Capacity for Hire" to "Design-Integrated Partner," emphasizing the B2S (Build-to-Spec) transition which reached 6% of revenue in FY26.
- Management target for B2S revenue to hit double digits in FY27 to influence Bill of Materials (BOM) and capture long-term "design-win" stickiness (9–20 years).
- Deliberate de-risking of the "Defense Cycle" by reducing lumpy, policy-dependent revenue in favor of commercial aerospace and industrial sectors.
- Implementation of the SET Framework (Strengthen, Expand, Transform) to embed engineering teams directly into customer design cycles.
- Focus on "Account Farming" to deepen existing relationships and improve the "Quality of Revenue" even during periods of moderated top-line growth.
- Utilization of the Altek Electronics acquisition as an "On-Shore" portal to satisfy US domestic sourcing mandates for Defense and Medical sectors.
- Management highlights a 1.46x Book-to-Bill ratio and a □2,420 Cr order book as indicators of future demand visibility.
- Acknowledgment of "periods of uncertainty" and "customer-specific issues" in FY26, characterizing the year as one of portfolio cleaning and structural recalibration.
- Long-term vision involves capturing tailwinds from "AI Infrastructure," "Energy Transition," and "Technology Sovereignty" trends.
- **Management Tone:** The tone has shifted from "IPO Euphoria" to "Disciplined Recalibration." Leadership is transparent about moderated revenue growth but emphasizes structural improvements in margins and risk profile. The focus is on resilience and "Quality of Revenue" over pure volume, signaling a maturing and professionalized management approach.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Sales -	1,261.00	1,520.00
Sales Growth %	-16.99	27.50
Expenses -	1,135.00	1,382.00
Material Cost % -	60.00	73.00
Raw material cost	785.00	1,087.00
Change in inventory	-33.00	21.00
Manufacturing Cost %	0.00	2.00
Employee Cost %	18.00	12.00
Other Cost %	12.00	4.00
Operating Profit	127.00	137.00
OPM %	10.00	9.00
Other Income -	36.00	26.00
Exceptional items	0.00	0.00
Other income normal	36.26	26.16
Interest	27.00	38.00
Depreciation	43.00	34.00
Profit before tax	93.00	92.00
Tax %	21.00	26.00
Net Profit -	73.00	68.00
Exceptional items AT	0.00	0.00
Profit excl Excep	73.00	68.00
Profit for PE	73.00	68.00
Profit for EPS	73.00	68.00
Profit Growth %	8.00	11.00
EPS in Rs	9.23	8.58
Dividend Payout %	0.00	0.00

Balance Sheet (□Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	79.00	79.00
Reserves	933.00	870.00
Borrowings -	172.00	301.00
Long term Borrowings	78.00	148.00
Short term Borrowings	28.00	96.00
Lease Liabilities	66.00	57.00
Other Liabilities -	458.00	443.00
Trade Payables	273.00	250.00
Advance from Customers	0.00	99.00
Other liability items	185.00	94.00
Total Liabilities	1,642.00	1,694.00
Fixed Assets -	355.00	346.00
Land	0.00	29.00
Building	0.00	115.00
Plant Machinery	0.00	135.00
Equipments	0.00	29.00
Computers	0.00	20.00
Furniture n fittings	0.00	29.00
Vehicles	0.00	0.00
Intangible Assets	126.00	68.00
Other fixed assets	0.00	71.00
Gross Block	0.00	497.00
Accumulated Depreciation	0.00	151.00
CWIP	2.00	6.00
Investments	30.00	31.00
Other Assets -	1,255.00	1,311.00
Inventories	647.00	571.00
Trade receivables -	307.00	347.00
Receivables over 6m	0.00	48.00
Receivables under 6m	0.00	322.00
Prov for Doubtful	0.00	-22.00
Cash Equivalents	126.00	288.00
Loans n Advances	7.00	30.00
Other asset items	168.00	75.00
Total Assets	1,642.00	1,694.00

Cash Flow Statement (₹Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	54.00	-62.00
Profit from operations	125.00	161.00
Receivables	53.00	-92.00
Inventory	-66.00	-11.00
Payables	12.00	-88.00
Other WC items	-48.00	-6.00
Working capital changes	-49.00	-198.00
Direct taxes	-22.00	-26.00
Cash from Investing Activity -	164.00	127.00
Fixed assets purchased	-45.00	-50.00
Investments purchased	-20.00	0.00
Interest received	24.00	38.00
Other investing items	204.00	138.00
Cash from Financing Activity -	-188.00	-59.00
Proceeds from shares	0.00	0.00
Proceeds from borrowings	82.00	1,111.00
Repayment of borrowings	-234.00	-1,094.00
Interest paid fin	-29.00	-70.00
Financial liabilities	-8.00	-5.00
Other financing items	0.00	0.00
Net Cash Flow	30.00	5.00
Free Cash Flow	9.00	-112.00
CFO/OP	60.00	-27.00

Key Ratios (₹Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	89.00	83.00
Inventory Days	314.00	188.00
Days Payable	133.00	82.00
Cash Conversion Cycle	270.00	189.00
Working Capital Days	175.00	111.00
ROCE %	10.00	11.00

3.2 Financial Analysis Summary

- **Revenue** from operations declined by **16.99%** to **₹1,261.00 Cr**, yet **Net Profit** grew by **8%** to **₹73.00 Cr**, primarily driven by a shift toward higher-margin service revenue which more than doubled to **₹101.051 Cr** and a significant non-cash fair value gain of ₹19.575 Cr recorded in **Other Income** related to the Altek acquisition liability.

- The company's geographical **Revenue** mix underwent a drastic shift, with Domestic (India) revenue collapsing from **47.7%** to **9.66%** (**₹121.890 Cr**), while North America (NAM) concentration surged to **54.43%** (**₹686.632 Cr**), creating a high dependency on a single export market which is reflected in the **₹307.00 Cr Trade Receivables** on the **Balance Sheet**.
- **Operating Profit** margins improved slightly to **10%** as **Material Cost %** dropped from **73%** to **60%**, though this was partially offset by **Employee Cost %** rising to **18%** (**₹226.778 Cr**) due to staff welfare increases and new Labour Codes, and the emergence of **₹61.292 Cr** in **Sub-contracting Charges** which are **87%** sourced from the parent company, Cyient Ltd.
- **Working Capital** efficiency deteriorated sharply as **Inventory Days** spiked from **188** to **314 days**, with **Inventory** rising **13.3%** to **₹647.00 Cr** despite falling sales; this bloat is primarily in raw materials (**82.6%** of total) and necessitated an increased **Provision** for slow-moving stock of **₹51.522 Cr**, acting as a **₹66.00 Cr** drag on **CFO**.
- **Cash from Operating Activity (CFO)** turned positive at **₹54.00 Cr** compared to a deficit of **₹62.00 Cr** in the prior year, aided by a **₹53.00 Cr** release from **Trade Receivables** and aggressive management of **Trade Payables**, which rose to **₹273.00 Cr** (**133 days**) and included **₹32.732 Cr** in new TReDS supplier financing.
- **Balance Sheet** quality is impacted by the sudden appearance of **₹43.831 Cr** in **Contract Assets** (unbilled revenue) for the first time, which, when combined with falling **Revenue**, suggests a potential risk of aggressive revenue recognition or a shift to milestone-based billing that has not yet converted to cash in the **Cash Flow Statement**.
- **Total Debt** was significantly reduced to **₹172.00 Cr** from **₹301.00 Cr** as the company utilized its cash reserves to fully repay a **₹74.672 Cr** high-interest related party loan to Cyient Limited, leading to a **27.6%** reduction in **Finance Cost** to **₹27.00 Cr** and improving the **Interest Coverage** ratio to **4.44x**.
- **Capital Allocation** shifted toward intangibles, with **Intangible Assets** nearly doubling to **₹126.00 Cr** while **Fixed Assets** remained stagnant at **₹355.00 Cr**; meanwhile, **Capital Commitments** dropped to **₹7.825 Cr**, signaling the end of a major expansion phase, though **Capital Advances** tripled to **₹32.616 Cr**, suggesting future project starts.
- **Returns** remained subdued with **ROCE** at **10.00%** and **ROE** at **7.21%**, as the benefit of improved **PAT** margins was neutralized by a declining **Asset Turnover** (**0.77x** vs **0.90x**) and the heavy **Working Capital** load, particularly the **₹647.00 Cr** tied up in **Inventory**.
- **Free Cash Flow (FCF)** turned positive at **₹9.00 Cr**, a significant recovery from the **₹112.00 Cr** burn in FY25, but remains thin relative to **Net Profit**, indicating that while the business is now self-funding its **₹45.00 Cr Capex**, it lacks the surplus to resume dividends while **Inventory** remains at record levels.
- **Other Assets** were impacted by **Capital Advances** tripling to **₹32.616 Cr** and **Advance to Suppliers** rising to **₹44.45 Cr**, suggesting a buildup of prepayments despite lower revenue. **Other Liabilities** were influenced by the introduction of **₹32.73 Cr** in TReDS supplier financing, which functions as short-term debt to manage vendor payments. **Other Expenses** were dominated by the new **₹61.29 Cr** sub-contracting charge, which represents a structural shift in the production model.
- The company's financial character in FY26 is defined by a strategic pivot toward higher-margin services and export markets, which successfully protected **Net Profit** and **CFO** despite a 17% volume contraction, though this transition has introduced significant **Inventory** obsolescence risks and a high reliance on related-party sub-contracting that currently dilutes capital efficiency.

3.3 Contingent Liabilities & Commitments

- **Claims not acknowledged as debt:** ₹0.00 Cr (FY26) vs ₹0.00 Cr (FY25).

- **Capital Commitments (Net):** ₹7.825 Cr (FY26) vs ₹29.397 Cr (FY25). The sharp drop suggests the conclusion of a major capex cycle.
- **Financial Guarantees:** A significant contingent risk was removed as the ₹447.00 Cr financial guarantee previously provided by the parent company (Cyient Limited) was closed during the year.
- **Litigation/Tax Disputes:** No major new litigations or tax disputes were acknowledged as contingent liabilities in the current period.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □49 Cr working capital build limits CFO to 74% of PAT.	□	PAT □73 Cr, CFO □54 Cr.	Working capital changes of -□49 Cr (Note: Inventory build of □66 Cr) dragged down cash conversion.
2	Receivables & channel-stuffing signal (receivables + inventory build vs revenue)	Revenue ↑↓ — inventory divergence risk; combined assets rose 3% despite a 17% revenue decline.	□	Inventory + Receivables: □954 Cr (FY26) vs □918 Cr (FY25).	Note 9: Inventory rose 13.3% while sales fell 17%, leading to inventory days spiking from 188 to 314.
3	Revenue timing (unbilled / contract assets + deferred revenue / advances)	Revenue ↑ — aggressive recognition; □43.8 Cr unbilled revenue recognized for the first time amid falling sales.	□	Contract Assets: □43.83 Cr (FY26) vs □0 (FY25).	Note 20.2: Sudden emergence of contract assets suggests a shift to milestone-based "over time" recognition.
4	Revenue from related parties %	Neutral — low direct revenue dependence; related party sales account for only 0.9% of total revenue.	□	RP Revenue: □11.78 Cr on Total Sales of □1,261 Cr.	Note 30: While RP revenue is low, operational dependence is high via sub-contracting charges (□53.76 Cr).
5	Inventory vs revenue growth	Profit ↓ — obsolescence risk; inventory grew 13.3% while sales dropped 17%, bloating the balance sheet.	□	Inventory: □647 Cr; Sales Growth: -16.99%.	Note 9: Provision for slow-moving inventory increased to □51.52 Cr (8% of gross inventory).
6	Inventory valuation method change	Neutral — consistent policy; no change in valuation method reported in the accounting policies.	□	No policy change noted.	Note 9: Valuation continues at lower of cost or NRV; auditors focused on NRV assumptions for electronics.
7	Exceptional items in operating profit	Profit ↑ — non-cash boost; □19.58 Cr fair value gain on acquisition liability padded PBT.	□	Other Income: □36 Cr (includes □19.58 Cr gain).	Analytical Insight: Excluding this one-off non-cash gain, PBT would have declined year-on-year.
8	Depreciation rate vs useful life policy	Profit ↓ — accelerated charges; depreciation rose 26% despite flat fixed assets, reflecting higher amortization.	□	Dep: □43 Cr (FY26) vs □34 Cr (FY25).	Note 13: Increase driven by Intangible Assets (□126 Cr vs □68 Cr) and new lease additions (Note 3B).
9	Provision reversals boosting PAT	Profit ↑ — ESOP forfeiture; □2.89 Cr credit from cancelled RSUs artificially reduced employee expenses.	□	Share Based Payment: -□2.89 Cr (FY26) vs □6.22 Cr (FY25).	Note 13: Forfeiture of 3,08,792 RSUs resulted in a reversal of previously recognized expenses.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — tax savings; effective rate dropped to 21% due to specific tax-exempt income.	□	Tax Rate: 21% (FY26) vs 26% (FY25).	Note 19.2: "Income exempted for tax purposes" of □4.93 Cr lowered the tax burden relative to PBT.
11	CWIP age and stalling projects	Neutral — low exposure; CWIP balance is negligible at □2 Cr, indicating no major stalled projects.	□	CWIP: □2 Cr (FY26) vs □6 Cr (FY25).	Note 28: Capital commitments also dropped from □29.4 Cr to □7.8 Cr, signaling end of capex cycle.
12	Deferred tax asset recognition adequacy	Profit ↑ — subjective valuation; □12.98 Cr DTA recognized based on	□	DTA: □12.98 Cr.	Note 19.2: Management judgment on DTA recoverability is aggressive

#	Check	Impact	Status	Evidence	Notes Detail
		optimistic "future sale orders" estimates.			given the current 17% revenue drop.
13	RPT quantum and trend	Profit ↓ — margin leakage; sub-contracting to parent (□53.76 Cr) represents 87% of total outsourcing costs.	□	RP Sub-contracting: □53.76 Cr (FY26) vs □0 (FY25).	Note 30: Shift from financial RPTs (loans) to operational RPTs (outsourcing) changes the cost structure.
14	Dividend paid vs FCF adequacy	Neutral — cash conservation; no dividends paid despite positive FCF of □9 Cr, prioritizing debt repayment.	□	Dividend Payout: 0%; FCF: □9 Cr.	Cash Flow: Repayment of borrowings (□234 Cr) was the primary use of cash in FY26.
15	Auditor KAM - Goodwill Impairment	Profit ↑ — subjective valuation; □71.85 Cr goodwill tested with 13.6% discount rate despite NAM volatility.	□	Goodwill: □74.88 Cr.	Auditor flagged subjectivity in future cash flow projections for Altek Electronics.
16	Strategic Investment Fair Value Loss	Profit ↓ — capital allocation risk; □20.72 Cr loss on Stuam Technologies recognized in OCI.	□	OCI Loss: □20.72 Cr.	Indicates high-risk venture capital approach to non-core strategic investments.
17	Supplier Finance (TReDS) Reliance	Neutral — liquidity management; □32.73 Cr in new supplier financing used to manage payables.	□	TReDS: □32.73 Cr.	Essentially short-term debt used to boost CFO by extending/managing vendor payments.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Goodwill Impairment (Altek Electronics):** The auditor focused on the □71.847 Cr goodwill from the Altek acquisition. Risk involves the subjectivity of future cash flow projections and the 13.6% discount rate used in the Value-in-Use model. * **Inventory Valuation:** Given the □51.522 Cr provision, auditors scrutinized the NRV assumptions and the identification of slow-moving electronic components, which are prone to rapid obsolescence. * **Revenue Cut-off:** With the introduction of "over time" service revenue (□101.051 Cr), auditors focused on the accuracy of the percentage-of-completion method and the timing of revenue recognition. * **Audit Opinion:** Unqualified. Statutory Auditors issued an unmodified opinion on Internal Financial Controls (IFC), stating they were operating effectively.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |:---|:---|:---|---:|:---| | ***Cyient Limited*** | Parent | Sub-contracting Charges | 53.76 Cr | ***87% of total sub-contracting costs*** | | ***Cyient Limited*** | Parent | Trade Payables | 44.21 Cr | High operational dependency | | **Cyient Limited** | Parent | Loan Repayment | 74.67 Cr | **De-risking: Full repayment of debt** | | Cyient Limited | Parent | Interest Paid | 1.44 Cr | Reduced from 7.49 Cr in FY25 | | Cyient Inc. | Fellow Subsidiary | Trade Payables | 9.28 Cr | Operational dependency | | Cyient Limited | Parent | Revenue from Ops | 11.78 Cr | Low direct revenue dependence |

- **Dependency Risk:** High. Sub-contracting to the parent (□53.76 Cr) represents a significant portion of the cost structure, and related party payables constitute 22.00% of total trade payables.

C. Shareholding * **Promoter (Cyient Ltd):** Not disclosed in AR (refer to Screener.in). * **FII / DII / Public:** Not disclosed in AR. * **Pledged Shares:** Nil.

D. Board Composition + KMP Compensation * **Total Directors:** 8 (62.5% Independent). * **Women Directors:** 1 (Dr. Vanitha Datla). * **Family Relations:** Krishna Bodanapu (Non-Executive Chairman) is the son of B.V.R. Mohan Reddy (Non-Executive Director). * **KMP Compensation:** MD & CEO Rajendra Velagapudi received □13.16 Cr (10.36% of EBITDA). * **YoY Growth:** Aggregate KMP remuneration rose significantly from ~□4.88 Cr to □13.16 Cr, despite a 17% decline in revenue and a 7.3% decline in Operating Profit, signaling a lack of alignment between executive rewards and company performance.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | FY Prior (□Cr) | % of CFO | Signal | |:---|---:|---:|---:|:---| | **Capex** | 45.00 Cr | 50.00 Cr | 83.33% | ** | | ***Debt Repayment*** | 234.00 Cr | 1,094.00 Cr | 433.33% | *** | | ***Interest Payments*** | 29.00 Cr | 70.00 Cr | 53.70% | *** | | ***Working Capital Investment*** | 49.00 Cr | 198.00 Cr | 90.74% | *** | | **Free Cash Flow** | 9.00 Cr | -112.00 Cr | 16.67% | ** |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** 1.2x. **CFO (□54 Cr)** is now sufficient to cover maintenance and growth **Capex (□45 Cr)**.
  - **Nature of Capex:** Primarily growth-oriented, including the **expansion of the precision machining facility in Bengaluru**.
  - **Capex Deployment Efficiency:** Revenue declined 16.99% despite ongoing capex, suggesting a lag in asset sweating or a transition in the product mix toward longer-gestation B2S contracts.
  - **Key Takeaways: Capital commitments dropped 73% to □7.83 Cr**, signaling the end of a major investment cycle.

H. Risks * ***Inventory Obsolescence*** (High): □51.52 Cr provision for slow-moving electronic components; inventory is 51% of revenue. Impact: Potential for further write-downs and cash traps. * ***Customer Concentration*** (High): Top 5 customers account for 61% of receivables. Impact: Loss of one anchor client would severely impact liquidity. * **Geopolitical/Trade** (Medium): US tariffs and Israel-Iran conflict. Impact: Increased freight costs and supply chain rerouting. * ***Unbilled Revenue*** (Medium): Sudden emergence of □43.83 Cr in contract assets. Impact: Risk of revenue reversal if milestones are not met. * **Geographical Shift** (Medium): India revenue dropped to 9.6%; high dependency on NAM (54%). Impact: Exposure to US-specific economic or regulatory shifts.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	43% Aero revenue; 6% B2S share	Strong pivot to high-moat sectors despite temporary revenue contraction.
Financial Health	4	↑	D/E 0.17x; Interest Coverage 4.44x	Significant deleveraging and parent debt clearance improved the balance sheet.
Earnings Quality	2	↓	CFO < PAT; □19.6 Cr non-cash gain	Profits supported by one-time gains and unbilled revenue amid falling sales.
Management & Governance	3	→	62.5% Ind. Board; High KMP pay	Clean audit but high RPT dependency and disproportionate executive pay.
Capital Allocation & Earnings Visibility	3	→	ROCE 10%; □2,420 Cr Order Book	Disciplined debt repayment but low asset turnover and inventory bloat.

BUSINESS POSITIVES (for this company this year) * □**Deleveraging:** Successfully repaid **□74.67 Cr** high-interest parent debt, reducing total debt to **□172 Cr**. * □**Sectoral Diversification:** Reduced lumpy Defense revenue from **48% to 9%** while scaling Aerospace to **43%**. * □**Cash Flow Recovery: CFO** turned positive at **□54 Cr** (from -□62 Cr), finally covering **Capex** of **□45 Cr**. * □**Margin Protection: OPM** improved to **10%** despite a **17%** revenue drop, driven by service revenue doubling to **□101 Cr**. * □**Order Visibility:** Maintained a strong order book of **□2,420 Cr** with a **1.46x** Book-to-Bill ratio.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Inventory Bloat: Inventory Days** spiked to **314 days**; inventory rose **13.3%** to □**647 Cr** while sales fell **17%**. * □**Earnings Quality:** □**19.58 Cr** (21% of PBT) came from a non-cash fair value gain on acquisition liabilities. * □**Revenue Recognition Risk:** Sudden emergence of □**43.83 Cr** in unbilled **Contract Assets** amid declining sales. * □**RPT Dependency:** Sub-contracting to the parent reached □**53.76 Cr**, accounting for **87%** of total outsourcing. * □**KMP Pay Disconnect:** KMP remuneration rose to □**13.16 Cr** despite a **7.3%** decline in Operating Profit.

OVERALL SCORECARD SUMMARY Cyient DLM is in a state of structural transition, successfully cleaning its balance sheet and de-risking its sector exposure, but at the cost of near-term growth and earnings quality. While financial health has improved through aggressive debt repayment, the business is currently struggling with massive inventory bloat and a reliance on non-cash gains to support the bottom line. Governance is stable but marked by high related-party operational dependency and a disconnect between executive pay and performance. The trajectory is "Stable-to-Improving" as the company moves toward a higher-margin B2S model, provided it can liquidate its trapped working capital.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified opinion (p.42)
2	Promoter pledge = 0?	□	Nil (p.44)
3	KMP pay < 5% of PAT?	□	MD & CEO pay (□13.16 Cr) is ~18% of PAT (□73 Cr)
4	RPT quantum < 5% of revenue?	□	RP Revenue is 0.93% of total revenue
5	Board > 50% independent?	□	62.5% (5 out of 8)
6	At least 1 woman director?	□	Dr. Vanitha Datla
7	No statutory dues outstanding?	□	No major defaults reported
8	No fraud reported?	□	None reported in AR
9	Audit trail enabled?	□	Auditor confirmed IFC operating effectively
10	Frequent Auditor change	□	S.R. Batliboi continues
Total: 9/10 □— Governance Rating: 4			

Part C: Investor Verdict

THESIS: Cyient DLM is a de-risking EMS-to-Design play that is trading near-term revenue growth for a structurally superior, high-margin Aerospace and B2S-led portfolio.

OVERALL STANCE: ACCUMULATE

RATIONALE: The successful pivot away from lumpy Defense revenue and the clearance of parent debt creates a cleaner platform for margin expansion as B2S revenue scales. RE-EVALUATE WHEN: Inventory Days do not fall below 250 days by H2 FY27. BULL CASE: B2S revenue hits 15% of mix, driving OPM to 13%+ and unlocking operating leverage. BEAR CASE: Inventory obsolescence leads to a one-time write-down exceeding □50 Cr, wiping out 70% of annual PAT. KEY MONITORABLE: Inventory Turnover: 1.16x → Watch for improvement to >1.5x.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Capital Allocation	IPO proceeds used to eliminate ₹160.91 Cr in secured bank debt.	Internal accruals used to repay ₹74.67 Cr high-interest parent debt.	The company has successfully transitioned from external deleveraging to cleaning up expensive internal group obligations.
Margin Trajectory	EBITDA margins contracted by 124 bps due to front-loaded employee costs.	OPM improved to 10% despite a 17% revenue drop, aided by high-margin services.	Profitability is now being driven by a structural shift in product mix rather than operating leverage from volume.
Working Capital	Inventory at 142 days (38.9% of revenue) with negative CFO.	Inventory at 314 days (51% of revenue) with positive CFO.	While cash flow turned positive, the massive spike in inventory days suggests a high risk of obsolescence or stalled movement of raw materials.
Revenue Recognition	Auditor flagged cut-off risks due to high year-end volumes and incoterms.	Sudden emergence of ₹43.83 Cr in unbilled "Contract Assets."	The forensic risk has shifted from year-end timing issues to the subjective nature of milestone-based "over time" revenue recognition.
Management Tone	"Growth-Cash Mismatch" characterized by aggressive post-IPO expansion.	"Disciplined Recalibration" focusing on quality of revenue over pure volume.	Leadership has pivoted toward a more conservative, margin-protective stance following a period of operational friction.
Audit & Controls	Audit trail (edit log) facility was not enabled for direct data changes.	Auditor confirmed Internal Financial Controls (IFC) are operating effectively.	The material internal control weakness regarding data integrity has been formally remediated.
Geographic Mix	India revenue dominated at 47.7% of the total mix.	North America (NAM) concentration surged to 54.4% while India collapsed to 9.6%.	The business has fundamentally transformed into an export-oriented entity, increasing exposure to US-specific regulatory and currency risks.

7.2 Persistent Patterns

- **Severe Working Capital Intensity:** Across both periods, the business remains unable to efficiently convert accounting profits into free cash without significant inventory absorption.
- **High Operational Interdependence:** The company maintains a structural reliance on the parent (Cyient Ltd) for critical functions, shifting from interest-bearing debt to heavy sub-contracting charges.
- **Aerospace & Defense Moat:** A consistent focus on safety-critical, high-entry-barrier sectors remains the primary driver of the long-term investment thesis.
- **Inventory Obsolescence Risk:** Auditors in both years highlighted significant judgment required for slow-moving electronic components, indicating a **persistent threat of large-scale write-downs**.
- **Concentrated Governance:** The Board continues to be led by the same family members (Chairman and Director), maintaining a consistent but centralized leadership structure.
- **Subdued Return Ratios:** Despite deleveraging, **ROCE remains stuck at 10-11%**, consistently hampered by low asset turnover and heavy working capital loads.
- **Robust Order Visibility:** The company consistently maintains an order book exceeding 1.4x–1.8x revenue, providing a **reliable floor for future demand visibility**.

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