Cyient DLM Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline on Revenue; Beat on FCF; Miss on Reported Profitability due to M&A one-offs. **One-line:** The thesis is shifting from a pure organic high-growth play to a complex "M&A Integration + Geopolitical Localization" story as standalone organic growth decelerated sharply to 11.3% this quarter.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Revenue growth (38.4% consol) aligns with M&A inclusion; organic growth is slowing.	□
Earnings Quality	Low (Adjusted for One-offs)	Reported PAT hit by □8 Cr M&A costs and "Expected Credit Loss" (ECL) provisions.	□
Guidance Confidence	Neutral	Maintained 30% CAGR long-term, but warned of a "soft H1 FY26."	□
Management Credibility	Neutral	Successfully integrated Altek; however, standalone order book has declined for 4+ quarters.	□
Business Quality Signal	Improving	US-based manufacturing (Altek) creates a massive "Made in USA" moat for defense OEMs.	□
Key Q&A Exchange	Q#1 — Order Backlog	Management admitted consumption is outpacing new wins, leading to the lowest backlog in years.	□
The Street's Primary Anxiety	Declining Standalone Growth	Organic growth fell from 33% (Q2) to 11% (Q3); analysts fear a growth cliff in FY26.	□
Capital Cycle Stage	Investment	Integrating Altek ($30M acquisition) and optimizing US-India supply chain synergies.	□
Margin Trajectory	Deteriorating (Standalone)	Standalone EBITDA margins pressured by mix and ECL provisions; Consol. margins at 8.1%.	↓
Pricing Power	Stable	Safety-critical nature ensures stickiness; Altek adds higher-margin medical/industrial mix.	□
FCF Conversion & Quality	Strong	Positive FCF of □47.8 Cr this quarter (vs negative in H1) due to working capital release.	□
Competitive Moat Signals	Widening	Only global EMS of this scale with dual India/US high-reliability manufacturing footprints.	□
Balance Sheet Strength	Adequate	IPO funds utilized for Altek; external borrowings repaid; Net Debt improving via FCF.	□
Working Capital Efficiency	Improving	DSO reduced to 76 days (from 82); NWC improved to 120 days.	□
Mgmt Guidance Track Record	Mixed	Delivered on Altek integration; walking back the immediate "double-digit margin" promise.	□
Key Vulnerability	Backlog Depletion	Standalone order book (□1,851 Cr) is down ~23% from the □2,400 Cr peak.	□
Management Tone	Confident on US, Cautious on FY26	High conviction on "Trump/Localization" tailwinds; tempering expectations for H1 FY26.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** The acquisition of Altek Electronics is a masterstroke in geopolitical de-risking, positioning Cyient DLM to capture "America First" manufacturing mandates from US defense OEMs. Free Cash Flow finally turned positive (□47.8 Cr) as the bloated inventory from H1 began to liquidate. Segment diversification is improving, with Med-Tech/Industrial now a larger part of the consolidated mix (reducing over-reliance on lumpy Indian Defense contracts). * **Negatives:** Standalone organic momentum is stalling (11.3% YoY revenue growth vs 33.4% in Q2). The standalone order book has shrunk to □1,851.4 Cr, implying that the "burn rate" of existing contracts is much higher than new deal wins. Margins were optically dragged down by a one-off □8 Cr M&A expense and a specific ECL provision on domestic receivables. * **The Street's Concern:** Analysts are fixated on the "Order Book Cliff." Management's response that H1 FY26 will be "soft" confirms a temporary execution gap between the completion of a large, low-margin defense contract and the ramp-up of new "Build-to-Spec" orders. * **Watchpoint:** Success of the "three large deals" currently in advanced negotiation; if these don't close by Q4, the 30% CAGR target for FY26 will be mathematically difficult to achieve.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	□444.2 Cr	↑ 38.4%	↑ 14.1%	↑	Growth driven by Altek consolidation (□86.9 Cr contribution).
Revenue (Standalone)	□357.3 Cr	↑ 11.3%	↓ 8.2%	↓	Sharp deceleration; de-growth in Industrial (-60%) offset by Defense (+31%).
Adjusted EBITDA	□35.9 Cr	↑ 11.8%	↑ 13.6%	→	Adjusted for □8 Cr M&A integration costs; volume absorption remains key.
Adjusted EBITDA Margin	8.1%	↓ 190 bps	→ 0 bps	↓	Pressure from standalone mix and ECL provisions (Bad Debt).
Adjusted PAT	□16.6 Cr	↓ 10.0%	↑ 7.1%	↓	Impacted by higher D&A (PPA of Altek) and Finance costs.
Order Book (Consol)	□2,142.9 Cr	↓ 6.5%	↑ 8.3%	↓	Growth QoQ solely due to Altek inclusion; standalone backlog is down.
Order Book (Standalone)	□1,851.4 Cr	↓ 19.3%	↓ 6.4%	↓	Consumption of large contracts outpacing new inflows.
DSO (Days)	76 Days	↓ 4 Days	↓ 6 Days	↑	Significant improvement in collections (vs 82 days in Q2).
DIO (Days)	129 Days	↑ 15 Days	↑ 7 Days	↓	Inventory remains elevated; target is 90-100 days.
Free Cash Flow	□47.8 Cr	N/A	↑	↑	Positive for the first time in FY25 due to working capital release.
Net Debt / (Cash)	Net Cash (IPO)	N/A	→	↑	External borrowings repaid using IPO proceeds.

2B. SEGMENT BREAKDOWN (Consolidated Mix)

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Defense	□253.2 Cr (57%)	↑ 31% (SA)	Moderate	↑	Average	Key anchor; India mix is 48% (mostly Defense).
Aerospace	□124.4 Cr (28%)	↑ 14% (SA)	High	→	Above Avg	Stable; benefit from multi-year OEM relationships.
Industrial	□22.2 Cr (5%)	↓ -60% (SA)	Mixed	↓	Below Avg	Standalone hit by client de-stocking; offset by Altek inclusion.
Med-Tech	□39.9 Cr (9%)	↑ 156% (Cons)	High	↑	Above Avg	Primary growth engine post-Altek acquisition.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	30% CAGR (Organic)	Needs ~□460 Cr in Q4 to hit FY25 YoY targets. Feasible with Altek.	Met Q3 consol target via M&A.	Medium
Guidance	Margins	10% EBITDA (Sustainable)	Needs standalone margin to bounce from 8% to 11% in Q4.	Currently lagging (8.1%).	High
Strategy	Integration	Synergies in 2-3 quarters.	3 large deals in advanced stages; conversion is the KPI.	Integration "ahead of plan."	Low
Strategy	US Policy	Benefit from Trump/ Localization.	High-conviction play on "Made in USA" requirements for ITAR.	New strategic positioning.	Low
Balance	Working Cap	DIO 90-100 Days.	Needs to liquidate □100 Cr+ inventory in Q4.	Inventory increased in Q3.	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Deepak Krishnan, Kotak	Order Backlog	Management Commentary	"Adjusted for Altek... we have again seen an order book decline... when do we start seeing large orders?"	Management admitted the decline is due to high consumption of one large project and pointed to 3 large deals in advanced negotiation. The depletion of standalone backlog suggests FY26 organic growth will be volatile unless these "large deals" close by Q4.	Specific inflow timelines	3.0	Defensive
2	4.5	Deepak Krishnan, Kotak	CAGR Guidance	Management Commentary	"Do we still stand by the 30% CAGR guideline... given organic growth this quarter slowed to 11%?"	Management clarified the 30% is a mid-to-long term average and admitted variability, noting FY26 H1 could be "soft." This is a significant tempering of near-term organic growth expectations.	FY25 specific organic %	3.5	Cautious
3	4.0	Vipraw Srivastava, PhillipCap	Financials (ECL)	Financials	"Why is other expense higher... what's the quantum of external credit loss?"	Management confirmed ~□8 Cr in provisions for domestic receivables (Expected Credit Loss) due to payment delays over holidays. This is a one-off margin hit that should	Specific client identity	4.0	Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						reverse in Q4 upon collection.			
4	4.0	Vipraw Srivastava, PhillipCap	Margins	Financials	"How do you see EBITDA progressing... we were expecting a ramp up but it came down?"	Management stated that a low-margin large deal will ramp down in Q4, leading to immediate margin expansion. This implies Q4 will be the strongest margin quarter of the year.	None	4.0	Clear and directional
5	3.5	Mihir Manohar, Carnelian	M&A Accounting	Financials	"What would be attributable to goodwill and incremental depreciation?"	Management expects ~$1M (□8.4 Cr) annual amortization of intangibles from Altek. This is a non-cash charge but will suppress reported PAT for the next few years.	None	4.5	Specific
6	3.0	Deepak Lalwani, Unifi	Standalone Deceleration	Business Overview	"Execution being low despite H2 being seasonally stronger... any reason?"	Management cited inventory build-up at one top key client which led to a demand drop in the Industrial segment. This highlights the vulnerability of the standalone business to top-client concentration.	Duration of de-stocking	3.5	Vague

PATTERN FLAGS & SENTIMENT * **Order Book Depletion:** Analysts are increasingly worried that Cyient DLM is "burning" its backlog faster than it can replenish it. Management's defense—that orders are "lumpy"—is wearing thin after four quarters of flat-to-declining standalone backlog. This will remain the primary friction point for the next two quarters. * **The Trump/Altek Pivot:** Management is leaning heavily into the "localization" narrative to justify the Altek acquisition. They are positioning themselves as a beneficiary of US protectionist policies. While credible, this is a multi-quarter revenue synergy, not an immediate fix for standalone organic deceleration. * **Analyst Sentiment Verdict: Skeptical on Organic, Bullish on M&A.** Analysts were concerned by the 11% standalone growth rate and the warning of a "soft H1 FY26." Management's credibility on operations (FCF/Working Capital) improved, but their growth guidance is being viewed as "M&A-reliant" rather than "organic-led."

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Organic Growth	Strong visibility for 30%+ CAGR.	Standalone grew only 11.3%; H1 FY26 will be "soft."	Significant deceleration in core business.	High (Valuation derating).
EBITDA Margins	Transition to double digits.	FY25 to end "flat year-on-year" (9.2%).	Margin expansion timeline pushed to FY26.	Moderate (Earnings miss).

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Revenue Growth (SA)	33.4% YoY	11.3% YoY	↓ (Deteriorating)
Order Book (SA)	₹1,979 Cr	₹1,851.4 Cr	↓ (Deteriorating)
Cash Flow	Negative H1 FCF	Positive Q3 FCF (₹47.8 Cr)	↑ (Improving)
Geography Mix	54% India (Defense spike)	39% India / 61% ROW (Consol)	↑ (Diversification)
Working Capital	DSO 82 Days	DSO 76 Days	↑ (Efficiency)
Management Outlook	High visibility	Warning of "soft" H1 FY26	↓ (Cautions)

CFO-to-PAT Quality Check: Q3 Adjusted PAT is ₹16.6 Cr; Free Cash Flow is ₹47.8 Cr. The divergence (CFO > PAT) is high-quality, driven by a **release in receivables (DSO improvement)** and the **Altek cash contribution**. The inventory (DIO 129) remains the primary lever for further cash release in Q4.