

Cyient DLM Ltd — Oct 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Revenue/EBITDA; PAT miss due to higher finance costs. **One-line:** The thesis remains intact on high-growth EMS tailwinds, but execution is currently "lumpy" as the consumption of a large, lower-margin defense order is depleting the order book and dragging down blended margins.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Revenue growth of 33.4% YoY is consistent with "catch-up" from Q1 shifts.	□
Earnings Quality	Low (WC/Finance cost driven)	Negative H1 free cash flow necessitated borrowing; CFO/PAT is significantly distorted.	□
Guidance Confidence	Neutral	Organic 30% CAGR target maintained, but order book has declined for 3-4 quarters.	□
Management Credibility	Neutral	Successfully closed Altek acquisition (IPO objective); however, "double-digit margin" talk is softening to "flat YoY."	□
Business Quality Signal	Improving	Shift toward "Build-to-Spec" and US-based "ITAR" capabilities through Altek improves competitive moat.	□
Key Q&A Exchange	Q#4 — Order Book Decline	Management attributed the ₹147.7 Cr QoQ drop to "lumpiness" and rapid consumption of a large order.	□
The Street's Primary Anxiety	Declining Order Backlog	Backlog has slid from ~₹2,400 Cr peak to ₹1,979 Cr; analysts fear growth sustainability.	□
Capital Cycle Stage	Investment	Recent North American acquisition (Altek) and manufacturing overhead investments in India.	□
Margin / Return Ratio Trajectory	Stable / Deteriorating	H1 EBITDA margin (8.0%) is below FY24 (9.2%); ROCE for Altek projected at 15%+.	□
Pricing Power	Stable	Management maintains that safety-critical EMS is "not price sensitive" but rather "execution sensitive."	□
FCF Conversion & Quality	Weak	Negative H1 FCF due to inventory build-up; management expects H2 reversal.	□
Competitive Moat Signals	Widening	Altek adds US-based high-value medical/industrial logos and ITAR compliance.	□
Balance Sheet Strength	Adequate	Net debt increased to fund M&A and WC; however, IPO cash remains earmarked.	□
Working Capital Efficiency	Improving	DIO reduced from 184 to 122 days; still above the 90-100 day target.	□
Mgmt Guidance Track Record	Reliable	Delivered on the Q1-to-Q2 revenue shift promised last quarter.	□
Key Vulnerability / Red Flag	Client Concentration	Top clients account for ~80-85% of revenue; a single large contract concluding impacts the mix.	□
Management Tone	Confident but Cautious	Enthusiastic about M&A; defensive on order book and short-term margin pressures.	□

Sentiment: Neutral

Key Takeaways: * **Positives:** High organic revenue growth (33.4% YoY) continues; Altek Electronics acquisition (\$29.2M) provides a vital North American footprint and diversifies the sector mix toward Medical/Industrial; Working capital cycle (DIO) is normalizing after a bloated Q1. * **Negatives:** The order backlog is at a multi-quarter low (₹1,979 Cr), signaling a gap between consumption and new deal closures; EBITDA margins (8.1%) remain pressured by a lower-margin large contract; Interest costs spiked as negative H1 cash flows forced short-term borrowing. * **The Street's Concern:** Analysts are focused on the "missing" order inflows. Management's response: "Order book growth is lumpy, and we expect H2 traction." * **Watchpoint:** Monitoring H2 FY25 for "Build-to-Spec" contract wins and the stabilization of margins as the high-volume/low-margin defense contract concludes.

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data Source: PPT figures as primary; Concall for Mgmt Commentary.*

Metric	Current Qtr (Q2 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue	₹889.4 Cr	↑ 33.4%	↑ 51%	↑	Growth driven by catch-up of Q1 shifts and strong execution in Defense.
Gross Margin (%)	20.6%	↓ 20 bps	↓ 520 bps	↓	Mix shift toward domestic defense (lower margin) impacted the blended gross margin.
EBITDA	₹31.6 Cr	↑ 34.4%	↑ 55%	↑	Volume absorption in SG&A helped offset gross margin compression.
EBITDA Margin %	8.1%	→ 5 bps	↑ 25 bps	→	Management expects H2 margins to improve to hit full-year "flat YoY" target.
PAT	₹15.5 Cr	↑ 5.4%	↑ 53%	↑	Weighted down by higher finance costs (₹5.2 Cr vs ₹3.6 Cr YoY).
Order Book	₹1,979 Cr	↓ 11%	↓ 6.9%	↓	"Lumpy" nature of orders; large contract consumption outpacing new wins.
Export Mix (%)	46%	↓ 2100 bps	↓ 1800 bps	↓	Unusual spike in domestic mix (54%) due to one large Indian defense order.
Cash Flow (OCF)	Negative (H1)	N/A	↓	↓	H1 negative due to inventory levels; management expects H2 to turn positive.
Net Debt / (Cash)	₹225 Cr (Short-term)	↑ 288%	↑ 167%	↓	Borrowed to fund M&A (\$12M) and working capital; plans to liquidate in H2.
Working Capital	184 Days (NWC)	N/A	↓ 18 Days	↑	DIO improved to 122 days; aiming for 90-100 days sustainably.

2B. SEGMENT BREAKDOWN (H1 FY25 Mix)

Segment	Revenue Mix (H1)	YoY Growth (H1)	Margin	Trend	vs Co. Avg	Key Development
Defense	66%	Not Stated	Lower	↑	Above Avg	Driving the high domestic mix this quarter.
Aerospace	20%	Not Stated	Higher	→	Above Avg	Core stable segment; higher value-add.
Industrial	7%	Not Stated	Higher	↓	Below Avg	Currently facing client-side inventory de-stocking.
Medical	6%	Not Stated	Higher	→	Below Avg	Focus of Altek acquisition to drive growth.
Rail	1%	Not Stated	Not Stated	→	Below Avg	Marginal contributor.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	30% Organic CAGR (3-year)	Needs ~₹750 Cr in H2 to hit 30% YoY growth for FY25.	Met Q2 catch-up target.	Low
Guidance	Margins	Flat YoY EBITDA (9.2%)	Needs ~10.5% EBITDA margin in H2 (vs 8% H1).	H1 missed vs FY24 avg.	High
Strategy	Inorganic Growth	Globalize via Acquisitions	Achieved (Altek Acquisition).	Delivered on IPO intent.	Low
Strategy	Geographic Mix	Return to 70% Export	Needs significant export order inflows.	Export mix dipped to 46%.	Medium
Balance	Debt / Leverage Target	Reduce organic debt in H2	Needs positive FCF in Q3/Q4.	Debt increased in H1.	Medium
Strategy	Product Mix	Increase Build-to-Spec	Impact expected from FY26 onwards.	PCBA still 77% of mix.	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Dipak Saha, KR Choksey	Debt Levels	Financials	"Debt levels have risen in the first half... do we see any further probability of debt going up?"	Management stated that organic debt will decline as cash flow turns positive in H2, while M&A debt (\$12M) is a separate long-term arrangement. This implies interest costs will remain an overhang in Q3 before normalizing.	None	4.0	Specific and directional
2	3.5	Dipak Saha, KR Choksey	Margin Guidance	Management Commentary	"Probably we are looking for double-digit EBITDA... Is that a delay to FY26?"	Management clarified they aim for EBITDA to be "at a minimum flat year-on-year" (FY24 was 9.2%) and may hit double digits depending on H2 optimization. This is a subtle walk-back from earlier confidence in immediate double-digit margins.	Firm timeline for 10%+	3.0	Vague/ Hedged
3	3.0	Dipak Saha, KR Choksey	Middle East Impact	Macro	"What is the depth of that impact [conflict] and are we over it?"	Management noted supply constraints and shipment delays but claimed costs are largely honored via PO terms. Supply chain volatility remains a	Quantified impact	3.0	Directional

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						lingering risk for inventory management.			
4	5.0	Deepak Krishnan, Kotak	Order Backlog	Management Commentary	"Within nine quarters, we are seeing no continuous decline in order inflow... [backlog] seems difficult."	Management attributed the decline to the rapid consumption of a large, lumpy contract and expects "traction and improvement" in H2. The declining backlog is the primary risk to the 30% CAGR thesis.	Specific inflow targets	2.5	Defensive/ Evasive
5	4.5	Deepak Krishnan, Kotak	Segment Strategy	Strategy	"Repeat defense ordering... the opportunity may not be that big as what we originally had?"	Management explained the 70/30 export mix target includes the Altek acquisition and noted there is a "time gap" between large defense contract conclusions and repeat orders. This confirms a "lumpy" growth profile for the domestic defense segment.	None	4.0	Logical explanation
6	3.5	Mihir Manohar, Cernelian	Cash vs Debt	Financials	"Short-term borrowings have gone up... why not use the cash itself?"	Management clarified that IPO cash is earmarked for specific purposes and breaking fixed deposits	None	4.5	Clear and quantified

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						would incur penalties, making borrowing a more efficient timing move. This explains the optimal leverage on the balance sheet.			
7	4.0	Swanand Samant, Klay Sec	Concentration Risk	Business Overview	"How do we derisk this [top 10 customer concentration]... one or two bad cycles?"	Management pointed to a new global oil services logo that could become a top 3-4 client by FY26 and the Altek acquisition as diversification levers. Revenue concentration remains a structural risk but is being actively diluted.	None	4.0	Evidence-based
8	4.0	Swanand Samant, Klay Sec	Pricing Power	Business Overview	"Being in niche offerings... why would our EBITDA margins be lagging at high single digits?"	Management argued that 9-10% is healthy for Indian EMS and superior to global peers (3-6%) while focusing on "mission-critical" quality over price. This suggests the moat is based on stickiness and certification rather than	None	3.5	Consistent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						high margin expansion.			

PATTERN FLAGS & SENTIMENT * Order Backlog Anxiety: Analysts repeatedly questioned the falling order book (₹1,979 Cr). Management remained defensive, citing "lumpiness," but failed to provide specific guidance on new large deal timelines. This concern will likely resurface next quarter if the backlog does not stabilize. * **Margin Transition:** There is a clear transition from a low-margin domestic contract to a potentially higher-margin "Build-to-Spec" and Export mix. Management's posture was confident about H2 being stronger but non-committal on the exact timing of hitting double-digit margins. * **Analyst Sentiment Verdict:** Analysts were **cautiously skeptical**. While revenue growth was acknowledged, the combination of declining backlog, rising debt, and margin compression (H1 vs FY24) generated friction. Management's credibility on M&A is high, but they are on a "monitoring point" regarding organic order inflows.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior/Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-----|-----|-----|-----|-----| | EBITDA Margins | Targeting double-digit margins. | Aiming to remain "at minimum flat" (9.2%). | Softening of margin expansion timeline. | Moderate (earnings miss potential). | | Order Inflow | High growth visibility. | Backlog declining due to consumption outpacing wins. | Gap in execution of new order closures. | High (growth sustainability). |

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare. Baseline established.

What Changed	Prior Quarter	This Quarter	Direction
Revenue Mix (Domestic)	Not available	54% (Unusual High)	↓ (Quality of mix)
Order Backlog	Not available	₹1,979 Cr	↓ (Deteriorating)
Geography Footprint	Not available	Added USA (Altek)	↑ (Improving)
Interest Coverage	Not available	Pressure from WC Debt	↓ (Deteriorating)
Sector Diversification	Not available	Shift to MedTech/Industrial	↑ (Improving)

CFO-to-PAT Quality Check: H1 PAT is ₹25.6 Cr; however, H1 Free Cash Flow was negative due to DIO at 122 days and DSO at 82 days. The primary lever for cash flow distortion is **inventory build-up** for H2 execution and the **domestic defense contract** having lower customer advances (20 days) compared to historical norms.