

## Cyient DLM Ltd — Oct 2025 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Inline on Revenue; Beat on Backlog and Margin Resilience. **One-line:** The thesis is strengthening as Cyient DLM successfully replaces low-margin legacy defense volumes with a higher-quality, diversified backlog (Book-to-Bill 1.6x) and achieves double-digit EBITDA margins despite a 20% YoY revenue contraction.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Inline / Improving	Revenue ₹310.6 Cr vs ₹278.4 Cr in Q1 (up 11.5% QoQ).	☐
Earnings Quality	Low (Reported) / High (Core)	Reported PAT includes ₹19.58 Cr one-off earnout reversal; Normalized PAT is ₹12.5 Cr.	☐
Guidance Confidence	Strong	Reiteration of H2 acceleration and return to YoY growth by Q4 FY26.	☐
Management Credibility	Strong	Delivered on the promise of margin expansion (10% EBITDA) despite volume deleverage.	☐
Business Quality Signal	Improving	Diversification: Defense concentration dropped from ~70% (with Aero) to 8% of mix.	☐
Key Q&A Exchange	Q#7 — Israel Impact	Management anticipates stability and recovery in Israeli revenue (key market).	☐
The Street's Primary Anxiety	BEL Growth Gap	Management confirmed the 40% standalone drop is purely due to the BEL project completion.	☐
Capital Cycle Stage	Consolidation/Growth	93.2% of IPO proceeds utilized; pivot toward IP-led product transformation.	☐
Margin / Return Ratio Trajectory	Improving	EBITDA margin hit 10% (+192 bps YoY) despite 20% revenue drop; mix is the lever.	☐
Pricing Power	Stable	High-mix, low-volume model allows pass-through; BTS (Build-to-Spec) adds design ownership.	☐
FCF Conversion & Quality	Strong	4th consecutive quarter of positive FCF (₹46 Cr operational); 3.6x Normalized PAT.	☐
Competitive Moat Signals	Widening	Onboarded Japanese eVTOL logo; unique US/India hybrid model for "China Plus One."	☐
Balance Sheet Strength	Strong	Net Cash position remains healthy despite land acquisition in Mysore.	☐
Working Capital Efficiency	Improving	NWC days dropped from 165 to 139; DIO improved significantly QoQ.	☐
Mgmt Guidance Track Record	Reliable	Consistency in predicting the "soft H1" while maintaining long-term 30% CAGR.	☐
Key Vulnerability / Red Flag	Geopolitical Drag	Continued reliance on Israel stability; Altek earnout targets were missed.	☐
Management Tone	Confident	Bullish on "quality of revenue" and mass production ramps starting FY27/28.	☐

**Sentiment:** ☐Positive

**Key Takeaways (Positives & Negatives):** \* **Positives:** The structural pivot from high-volume/low-margin defense to high-mix/higher-margin Industrial and Aerospace is working; EBITDA margins hit 10% even as revenue fell 20% YoY. Order intake remains robust at ₹500 Cr (H1 total > ₹1,000 Cr), with 10% of the backlog now in high-margin Build-to-Spec (BTS). Free Cash Flow generation remains elite for the sector (₹46 Cr operational FCF). \* **Negatives:** Reported PAT is distorted by a one-off earnout reversal (₹19.58 Cr), masking a YoY decline in normalized profitability. The Altek acquisition missed its performance earnout conditions, indicating a slower-than-expected ramp in the US. The Defense segment remains a laggard (8% mix) as the company waits for Indian MoD orders. \* **Street Concern:** Analysts are hyper-focused on the Altek performance and the sustainability of the 30% CAGR. Management's response suggests H2 will carry the weight, with Q4 being the definitive "revival" quarter. \* **Watchpoint:** Execution of the ₹2,291 Cr backlog in H2 FY26; any slip in the Q4 YoY growth target will challenge management's 30% CAGR credibility.

## 2. BUSINESS PERFORMANCE

**2A. KEY METRICS** DATA SOURCE: PPT primary source; Concall used for commentary and unlisted metrics.

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue	₹310.6 Cr	↓ 20.7%	↑ 11.5%	↑	YoY drop due to legacy BEL project completion; QoQ shows recovery.
EBITDA	₹31.2 Cr	↓ 2.2%	↑ 24.3%	↑	Margin expansion offset the volume drop.
EBITDA Margin %	10.0%	↑ 192 bps	↑ 100 bps	↑	Driven by favorable product mix and higher box-build share.
Normalized PAT	₹12.5 Cr	↓ 23.1%	↑ 66.7%	↑	Excludes ₹19.58 Cr one-off earnout reversal.
Reported PAT	₹32.1 Cr	↑ 108.0%	↑ 328.0%	↑	Distorted by Altek earnout reversal in "Other Income."
Order Intake	₹500.0 Cr	↑ 130% (H1)	↓ 2.9%	→	Strong momentum; Book-to-bill at 1.6x for Q2.
Order Backlog	₹2,291.0 Cr	↑ 20.3%	↑ 7.4%	↑	Record visibility; 10% is Build-to-Spec (BTS).
Operational FCF	₹46.0 Cr	-	↓ 42.6%	↓	Reported FCF ₹27 Cr after Mysore land acquisition.
NWC Days	139 Days	↓ 13.6%	↓ 15.7%	↑	Significant improvement in DIO and customer advances.
Standalone Rev	₹187.7 Cr	↓ 40.0%	↑ 13.0%	↑	Impacted by 100% of the BEL order ramp-down.
Altek (US) Rev	₹122.9 Cr	↑ New	↑ 9.3%	↑	Steady performance; providing "China Plus One" advantage.

## 2B. SEGMENT BREAKDOWN

Segment	Revenue Mix (%)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Aerospace	37%	Mixed	High	→	Above	Impacted by Israel/Middle East supply chain delays.
Defense	8%	↓ Sharp	Low	↓	Below	Transitioning away from legacy lumpy PSU orders.
Industrial	30%	↑ High	Stable	↑	Inline	Strong growth in energy and infrastructure assembly.
Medical	15%	↑ High	High	↑	Above	Driven by Altek acquisition and med-tech logos.
Automotive	New Logo	-	Comp.	↑	Inline	Won EV charging station assembly for Indian client.

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Revenue	30% Long-term CAGR	Needs ₹1,000 Cr+ in H2 FY26 (~₹500 Cr/qtr)	Soft H1; Q4 critical.	Medium
Guidance	Margins	Sustained Double-digit EBITDA	Requires 10-12% exit margin in Q4	Q2 hit 10% early.	Low
Strategy	B2S Shift	5% Revenue in FY26	Pipeline supports; 10% of backlog is BTS	On track.	Low
Strategy	IP Transformation	IP-led product organization	Long-term R&D investment	Early stage.	Medium
Strategy	US/India Hybrid	40% Rev from US	Requires Altek integration/upsell	Earnout missed.	Medium
Macro	Geopolitics	Israel Market Stability	Expected return to normalcy (Trump factor)	Volatile.	High
Balance	Utilization	Revenue revival in Q4 FY26	Current utilization is ~55-60%	Recovery visible.	Low

## 4. ANALYST Q&A

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Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility
1	4.5	Balasubramanian, Arihant	EV Segment	Business Overview	"Which are the subsegments we are focusing on within EV and what kind of margins?"	Management clarified they focus on EV charging infrastructure (assemblies/sub-assemblies) with margins comparable to the core business. This diversification into infrastructure reduces powertrain-specific volatility and secures comparable margin profiles.	None	4.5
2	4.0	Balasubramanian, Arihant	Altek Synergies	Capex and Allocation	"When can we expect Altek operations will achieve profitability and what synergies?"	Management indicated Altek is already contributing, though earnout targets were missed; they expect synergies via Indian customers moving production to the US and vice versa. The miss on earnouts signals a slower ramp-up but the asset remains core to the US market access strategy.	Specific Altek PAT margin.	3.5
3	4.0	Balasubramanian, Arihant	BTS Scaling	Business Overview	"What are the factors to scaling Build-to-Spec and when can we	Management expects BTS revenue to increase in	15% target date.	4.0

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					expect 15% contribution?"	FY27 based on current development projects (eVTOL and US-based company wins). Increasing BTS share is the primary lever for structural margin re-rating beyond the 10-12% range.		
4	4.5	Balasubramanian, Arihant	Defense Cycle	Business Overview	"Is there any broader delays in Defence procurement and visibility on new programs?"	Management admitted their customer (BEL) is waiting for Indian MoD orders, leading to the current revenue gap. This confirms that Indian defense recovery is binary and dependent on government timelines, not Cyient's execution.	Specific timeline for BEL order.	3.0
5	4.0	Praveen Sahay, PL Capital	Margin Mix	Financials	"Is the industrial business you are doing have a higher margin as compared to other segments?"	Management stated that margins across industries are homogeneous, but the current expansion is due to the exit of one large low-margin defense order. This implies the current 10% margin is the "new floor"	None	4.5

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						given the improved backlog quality.		
6	3.5	Sameet Sinha, Macquarie	Altek Earnout	Financials	"What's the underperformance at Altek?"	Management explained the earnout reversal occurred because performance conditions were not met, but they emphasized the company is "doing well" otherwise. This indicates a valuation write-back but potentially lower-than-expected near-term cash flow from the US unit.	Quantified gap in targets.	3.0
7	4.5	Vipraw Srivastava, PhillipCap	Israel Impact	Mgmt Commentary	"Is the geopolitical situation in Europe/Middle East helping or hurting Aerospace?"	Management noted that the Israel situation has slowed decision-making but expects stability to return, which will be positive for revenue predictability. Stability in Israel is a critical catalyst for the Aerospace segment recovery in H2.	None	4.0
8	4.0	Vipraw Srivastava, PhillipCap	eVTOL Ramp	Business Overview	"Japanese eVTOL customer... how many years you can expect them	Management clarified that while design/ BTS work is	None	5.0

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility
					to start contributing?"	ongoing, mass production for this specific contract will start in 2.5 to 3 years and last 9 years. This reinforces the "long-term stability" narrative but provides no immediate revenue tailwind.		
9	4.0	Bhavik Mehta, JP Morgan	Order Duration	Business Overview	"How should we think about the duration of this order book?"	Most orders are executable in 18-24 months, providing strong visibility for FY27. This confirms that the ₹2,291 Cr backlog is not a long-dated "mirage" but a near-term revenue driver.	None	4.5
10	4.0	Bhavik Mehta, JP Morgan	Automotive Mix	Business Overview	"Can you break out the order book in terms of different verticals?"	Management highlighted that automotive and BTS (10%) are the growing parts of the backlog. This confirms the successful diversification away from defense concentration.	Exact vertical split.	3.0
11	3.5	Param Vora, Trinetra	Diversification	Mgmt Commentary	"What is the company exactly doing to reduce dependency on top five clients?"	Management is focusing on new logos in non-A&D sectors (Industrial/ Auto) and India-based	Specific concentration targets.	3.0

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility
12	4.0	Adhiraj Singh, Amicus	Tariffs/US Election	Mgmt Commentary	"With this tariff coming in... are you the sole supplier?"	customers. Success here will reduce the massive volatility experienced during the BEL project ramp-down.  Management is discussing various strategies with customers, including shifting production to Altek (US) to avoid tariffs. This "Hybrid Model" is their primary hedge against US trade policy changes.	None	4.0

**PATTERN FLAGS & SENTIMENT** \* **Defense Hangover:** Analysts remain cautious about the standalone business's 40% drop. Management was transparent that this is the final "cleansing" of the BEL project, and the new book is fundamentally better. Posture: Honest and pivot-focused. \* **Altek Ambivalence:** The earnout reversal triggered concerns about the acquisition's health. Management defended the asset as a strategic necessity for the US market, but the "miss" on performance targets remains a minor credibility overhang. Posture: Defensive but strategic. \* **Analyst Sentiment Verdict: Optimistic on Quality, Cautious on Timeline.** Analysts were impressed by the 10% EBITDA margin in a "trough" revenue quarter. However, the lack of FY27 guidance and the 3-year ramp for new logos like eVTOL suggests the market will wait for Q4 execution before a full re-rating. Management's credibility was bolstered by the successful book-to-bill ratio (1.6x).

**GUIDANCE GAPS REVEALED IN Q&A** | Topic | What Mgmt Claimed (Q1) | What Q&A Revealed (Q2) | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Altek Performance | Acquisition is a milestone. | Earnout targets were not met. | Slower integration/ramp than the deal model anticipated. | Low | | Defense Rebound | India Defense focus. | Still waiting on MoD via BEL. | Revenue recovery is entirely out of company control. | Moderate | | BTS Revenue | 5% contribution in FY26. | Mass production for major wins is 3 years away. | BTS is a margin lever now, but a volume lever only in FY28. | Low |

## 5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
<b>EBITDA Margin</b>	9.0%	10.0%	↑ (Structural improvement)
<b>Order Book</b>	₹2,132 Cr	₹2,291 Cr	↑ (Continued momentum)
<b>Book-to-Bill</b>	1.85x	1.6x	↓ (Normalizing but strong)
<b>NWC Days</b>	165 Days	139 Days	↑ (Efficiency gains)
<b>Earnings Quality</b>	Normal PAT ₹7.5 Cr	One-off Reversal ₹19.58 Cr	↓ (Reported PAT distorted)
<b>Defense Mix</b>	9%	8%	↓ (Concentration risk lower)
<b>Industrial Mix</b>	23%	30%	↑ (Successful diversification)
<b>Geopolitical Tone</b>	Logistic delays (Middle East)	Optimism on Israel stability	↑ (Better predictability)
<b>IPO Proceeds</b>	84% Utilized	93.2% Utilized	→ (Cash deployment phase)

**Investor Notes on Earnings Quality:** \* **One-off Alert:** Reported PAT of ₹32.1 Cr is significantly inflated by the ₹19.58 Cr earnout reversal. Normalized PAT of ₹12.5 Cr is the correct basis for valuation. \* **Cash Flow divergence:** Operational FCF (₹46 Cr) is 3.6x Normalized PAT. This is driven by aggressive working capital management and customer advances, marking a high-quality cash-generating quarter despite the revenue drop. \* **Capex Note:** The reported FCF of ₹27 Cr is lower than operational FCF due to the Mysore land acquisition for a new factory, which is a positive signal for long-term capacity expansion.