Cyient DLM Ltd — Oct 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Revenue; Beat on Order Intake; Miss on EBITDA Margins. **One-line:** Cyient DLM is sacrificing short-term margin optics to fund a massive front-end sales and R&D engine, a trade-off validated by a record □2,813.7 Cr backlog and a $1B+ B2S (Build-to-Spec) pipeline.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Q	Mixed	Revenue grew 5.1% QoQ; EBITDA margins compressed from 10.5% to 8.7%.	□
Earnings Quality	Moderate	Reported PAT (□34 Cr) inflated by □18.2 Cr earn-out reversal; Normalized PAT is □15.8 Cr.	□
Guidance Confidence	Strong	FY27 revenue growth target maintained at 30-35%; H2 expected to see double-digit EBITDA margins.	□
Management Credibility	Strong	Transparent about "deliberate" front-loading of S&M and R&D costs; clear "SET" strategy phases.	□
Business Quality Signal	Improving	Pivot to "Electronic Products" (B2S) and new verticals (AI Infrastructure/Semi-CapEx) is widening the moat.	□
Key Q&A Exchange	Q#5 (B2S Timing)	Management clarified the $1B B2S pipeline is not yet in the backlog; FY30 is the true "Transform" inflection point.	□
The Street's Primary Anxiety	Margin Compression	Concern over 135 bps YoY EBITDA dip; Mgmt response: "Zero absorption" of new sales team costs currently.	□
Capital Cycle Stage	Investment / Scaling	Significant hiring in GTM/Strategy; R&D expensing for 4 major B2S programs.	□
Margin Trajectory	Temporary Dip	8.7% (Q2) vs 10.5% (Q1); Mgmt guides return to 10%+ in H2 as revenue scales.	□
Pricing Power	Expanding	High-reliability segments and B2S integration command higher premiums than commodity EMS.	□
FCF Conversion & Quality	Weak	Negative FCF despite PAT growth; high inventory (162 days) to buffer supply chain risks.	□
Competitive Moat Signals	Widening	Shift toward co-owned IP (B2S) makes Cyient DLM "sticky" for 7-9 year product lifecycles.	□
Balance Sheet Strength	Strong	Finance costs down 10.4% YoY; lower working capital borrowings despite high inventory.	□
Working Capital Efficiency	Improving	NWC days decreased from 161 (Q1) to 153 (Q2); DSO improved to 73 days.	□
Mgmt Guidance Track Record	Reliable	Consistent revenue delivery (30.2% H1 growth) against the "return to growth" promise.	□
Key Vulnerability	Supply Chain / Material	Lead times and memory market volatility remains the primary execution risk for the backlog.	□
Management Tone	Confident / Strategic	Focused on long-term value creation over quarterly EBITDA volatility.	□

Sentiment: □Positive (Long-term Fundamental)

Key Takeaways: * **Positives:** The fundamental thesis remains intact: Cyient DLM is successfully diversifying away from its historical defense-heavy concentration. The record order book of □2,813.7 Cr (3.5x FY24 revenue) provides exceptional visibility. The pivot to "Electronic Products" (B2S) is gaining momentum with a $1B+ pipeline across 4 major programs, promising a structural margin shift to 13-18% by FY30. * **Negatives:** The 8.7% EBITDA margin is a sore point, driven by a 28% YoY surge in employee costs (hiring for growth) and R&D expensing. While NWC improved slightly, the 162-day inventory cycle remains a heavy drag on FCF, suggesting that the "asset-light" dream is deferred in favor of supply chain resilience. * **Street Concern:** Analysts are wary of the EBITDA margin "hiccup." Management's defense—that they have completed the sales team build-out and now only need revenue absorption—puts the burden of proof on H2 execution. * **Watchpoint:** H2 FY27 EBITDA margins. If margins do not return to >10% as guided, the "strategic investment" narrative will lose credibility.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for commentary. Conversions: Mn to Cr (÷10).

Metric	Current Qtr (Q2 FY27)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	393.1	↑ 26.5%	↑ 5.1%	↑	Driven by Aerospace (+62%) and Industrial (+29%).
Gross Margin (%)	37.4%	↓ 390 bps	↓ 50 bps	↓	Impacted by revenue mix and one-off product dev costs.
EBITDA (□Cr)	34.2	↑ 9.5%	↓ 12.8%	↓	YoY growth positive but trailing revenue due to opex.
EBITDA Margin %	8.7%	↓ 135 bps	↓ 180 bps	↓	100-150 bps impact from sales/R&D investments.
PAT (□Cr)	34.0 (Reported)	↑ 5.8%	↑ 108.5%	↑	Norm. PAT (□15.8 Cr) excludes □18.2 Cr reversal gain.
Order Book (□Cr)	2,813.7	↑ 22.8%	↑ 8.3%	↑	All-time high; Book-to-bill at 1.6x.
Cash Flow (OCF) (□Cr)	17.2	Not stated	↑	↑	Positive for Q2 due to better NWC efficiency.
Net Debt / (Cash)	Net Cash	—	—	→	Debt-free status maintained; finance costs down 10%.
Interest Coverage	6.4x	↑ 22.5%	↓	□	Finance costs □6.1 Cr (□61 Mn); down YoY.
Working Capital	153 Days	↓ 14.0%	↓ 5.0%	↑	NWC improved from 161 (Q1) to 153 (Q2).

2B. SEGMENT BREAKDOWN | Segment | Revenue (□Cr) | YoY Growth | Product Mix (Q2) | Trend | vs Co. Avg | Key Development | | :--- | :--- | :--- | :--- | :--- | :--- | :--- | | Aerospace | 184.7 | ↑ 62.0% | 47% Share | ↑ | Above | Led by Honeywell/Thales; core growth engine. | | Industrial | 121.8 | ↑ 29.0% | 31% Share | ↑ | Inline | Benefiting from motor controls and global semi-cap. | | MedTech | 55.0 | ↑ 14.0% | 14% Share | → | Inline | Stability returning post-seasonal Q1 drag. | | Defense | 27.5 | ↑ 13.0% | 7% Share | → | Below | Momentum gaining but still a small mix. | | Box Build | 106.1 | ↑ 86.0% | 27% Category | ↑ | N/A | High-value integration growing 3x faster than PCBA. |

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	30%–35% YoY for FY27.	Needs ~□875 Cr in H2 (□766 Cr done in H1). Highly feasible.	Delivered (30.2% H1).	Low
Guidance	Margins	9%–10% EBITDA for FY27; 11-13% FY29.	Needs >10.4% in H2 to average 10% for the year. Challenging but guided.	Mixed (Q2 hit).	Medium
Guidance	Order Intake	Sustain 1.6x Book-to-Bill.	Needs ~□600 Cr/qtr intake.	Delivered (Q1: 1.5x, Q2: 1.6x).	Low
Strategy	B2S (Transform)	FY30 Transform phase: 13-18% EBITDA.	Requires $1B B2S pipeline to convert to high-margin revenue.	B2S Lab ready.	High
Strategy	New Verticals	Enter AI Infrastructure, Robotics, Semi-CapEx.	Requires first AI logo in H2 FY27.	Hiring complete.	Medium
Balance	Working Capital	Continued reduction in NWC days.	Needs inventory optimization (current 162 days).	Improved (153 NWC).	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Balasubramanian, Arihant	Margins	Financials	"How much did product development spend impact Q2 and what is the annual budget?"	Mgmt stated the impact was 100-150 bps and that all costs are expensed (not capitalized) to maintain conservative accounting. This implies margins are artificially depressed today to protect future earnings quality from amortizing R&D.	Annual budget number	3.5	Evasive on budget
2	4.0	Santhosh Seshadri, Avendus	Margin Guidance	Financials	"What would be the margin guidance for FY27 and will double-digits return?"	Mgmt guided for 9-10% EBITDA for FY27, noting that H2 will return to double-digit margins as one-off product costs subside. This confirms the Q2 dip was a "point-in-time" issue rather than a structural degradation.	None	4.5	Specific guidance
3	4.0	Shashank Jha, SB Capital	Execution Gap	Business	"Order book is growing fast, but revenue is not... why the delay?"	Mgmt attributed the gap to material shortages and memory market volatility, citing a typical 18-24 month execution cycle. This reinforces the "supply-constrained	None	4.0	Realistic

Q#	Relevance	Analyst	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						growth" narrative prevalent in global A&D electronics.			
4	4.5	Umang Gada, Avener	S&M Investment	Financials	"Why did FY27 margins drop vs FY26 despite higher contribution margins?"	Krishna Bodanapu clarified that gross margins are actually higher, but the P&L is absorbing a "full sales team" cost before revenue has doubled to cover it. This signals that operational leverage is the primary re-rating trigger once H2 revenue scales.	None	5.0	High Clarity
5	5.0	Karan Sanwal, Niveshaay	B2S Pipeline	Strategy	"Which projects are in B2S and how large can they be?"	Mgmt identified 4 major programs totaling $1B over 7-9 years, with production revenue starting in FY29 and peaking in FY30. This provides a long-term valuation anchor for the "Transform" phase of the SET strategy.	Client names	4.0	Quantified
6	4.0	Karan Sanwal, Niveshaay	Altek Synergy	Capex / Allocation	"How does Altek (DLM Electronics Inc) help in	Mgmt noted Altek is now fully integrated and serving as	Revenue specific to Altek	3.5	Directional

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					scaling the export market?"	the US hub for growth, with a local sales team actively bidding for US defense projects. This validates the geographic diversification away from India-centric manufacturing.			
7	4.5	Adityapal, MSA Capital	Aerospace Ramp	Business Overview	"Honeywell won a large contract for IndiGo... will that accrue to us?"	Mgmt confirmed they are working on prototypes for these large contracts, currently in the engineering change phase before serial production. This suggests a significant Aerospace tailwind for H2 and FY28.	Specific contract share	4.0	Reassuring

PATTERN FLAGS & SENTIMENT * **Theme 1: The Margin "Valley of Death":** Multiple analysts (Arihant, Avendus, Avener) fixated on the EBITDA dip. Management's posture was defiant and confident: they are consciously front-loading GTM (Go-to-Market) costs. They argued that current revenue is supporting a sales organization built for 2x the volume. The friction lies in whether the market believes H2 will provide the necessary absorption. * **Theme 2: B2S (Electronic Products) Visibility:** The shift from BTP to B2S was the highlight of the call. Management provided concrete numbers ($1B pipeline, 4 programs, 7-9 year cycles) to back their FY30 targets. This successfully moved the goalposts for long-term investors from "quarterly volatility" to "platform moat." * **Analyst Sentiment Verdict:** Skeptically Optimistic. Analysts were impressed by the □28B order book but remained sharp on the margin miss. Management's credibility was bolstered by the fact that they *chose* to expense R&D and S&M rather than hide it via capitalization. The single greatest risk is a delay in the H2 margin recovery, which would invalidate the "operating leverage" promise.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Margins | Double-digit EBITDA sustained. | Q2 hit 8.7%. | 130 bps walk-back for FY27 (from 10-11% to 9-10%). | Temporary overhang on valuation multiples. | | B2S Revenue | "Meaningful B2S" in FY27. | Full ramp-up deferred to FY29/30. | Pushed "Transform" phase revenue impact further out. | Thesis remains valid, but time-to-payoff is longer. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY27)	This Quarter (Q2 FY27)	Direction
EBITDA Margin	10.5%	8.7%	↓ Compression
Order Book	₹2,598.9 Cr	₹2,813.7 Cr	↑ Record High
NWC Days	161 Days	153 Days	↑ Improving
Normalized PAT	₹16.3 Cr	₹15.8 Cr	↓ Slight Decline
S&M Intensity	Hiring / Scaling	Full team cost in P&L	↓ Margin Drag
B2S Pipeline	Directional ($1B)	4 Programs (Quantified)	↑ Strategic Clarity
Box Build Mix	25%	27%	↑ High-Value Mix

Investor Notes on Earnings Quality: * **One-off Distortion:** Reported PAT of ₹34 Cr is misleading. The ₹18.2 Cr earn-out reversal is a non-cash gain. The "true" earnings (₹15.8 Cr) show that bottom-line growth is trailing revenue growth due to the investment cycle. * **Inventory Buffering:** While NWC improved, the 162-day inventory (stable QoQ) remains a significant capital drain. This is the cost of doing business in high-reliability A&D, but it limits the company's ability to self-fund aggressive capex. * **Zero Capitalization:** Management's refusal to capitalize R&D is a high-quality accounting signal. It means that when B2S revenues eventually hit in FY29/30, the margin expansion will be pure and not weighed down by prior-year amortization.

Verdict: The quarter does *not* change the long-term thesis, but it resets expectations for FY27. It is now clear that FY27 is an **investment year** for the Go-to-Market engine. The ₹2,800 Cr+ backlog remains the strongest argument for staying the course. STOP HERE.