Jyoti CNC Automation Ltd — Aug 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Revenue and PAT (aided by Forex); Margin Compression on Employee Spikes **One-line:** The long-term thesis of a structural pivot toward high-end Aerospace/Defense machining remains intact, but Q1 highlights a seasonal "execution lull" and a significant reliance on non-operating income (Forex) to sustain PAT growth.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat on Rev/PAT YoY; Seasonal QoQ Drop	Revenue ₹410.2 Cr (+13.4% YoY). PAT ₹71.4 Cr (+40.2% YoY).	□
Earnings Quality	Low (Forex Driven)	PAT beat significantly aided by ₹16 Cr Forex gain (Euro appreciation) in Other Income.	□
Guidance Confidence	Neutral	Management maintains "40/60" H1/H2 split; EMS execution still pushed to H2 FY26.	□
Management Credibility	Strong	Strategic moves into Karnataka (EMS cluster) and China (Huron leverage) show proactive scale.	□
Business Quality Signal	Stable	Gross Margin expansion to 55.9% (+270 bps YoY) proves continued shift to high-value mix.	□
Key Q&A Exchange	Q# 10 - Volume Mix	Entry-level (994 units) dominated volume; High-end (19 units) average realization hit ₹5.6 Cr.	□
The Street's Primary Anxiety	Margin Compression	Analysts pressed on EBITDA margin drop (24.4% vs 26%); Mgmt cited front-loaded hiring for capacity.	□
Capital Cycle Stage	Expansion (Phase 2)	10,000 unit additional capacity on track for Sept 2026; ₹20 Cr land acquisition in Karnataka.	□
Margin / Return Ratio Trajectory	Mixed	Gross Margins improving; EBITDA margins dipping due to overheads; ROCE/ROE improving YoY.	□
Pricing Power	Expanding	High-end realization of ₹5.6 Cr/unit (vs ₹3.27 Cr in Q4) indicates premium Aerospace tech.	□
FCF Conversion & Quality	Weak	Negative seasonal OCF likely; Balance sheet not provided for Q1, but WC target is 150-160 days.	□
Competitive Moat Signals	Widening	HUMA patent and China expansion targeting world's largest market via Huron legacy.	□
Balance Sheet Strength	Adequate	Repaid debt post-IPO; Net Debt/Equity is negligible; funding expansion via internal accruals.	□
Working Capital Efficiency	Monitoring	DSO improvement target (150-160 days) remains the key lever for FY26 cash flow.	□
Mgmt Guidance Track Record	Reliable	Consistent on capacity timelines; slightly optimistic on H1 EMS readiness.	□
Key Vulnerability / Red Flag	Non-Core PAT Boost	Forex gains contributed ~22% of PAT; operating EBITDA growth (6.5%) lagged revenue (13.4%).	□
Management Tone	Confident	Focused on "Management Bandwidth" and "Strategic Geography" (USA/China/Karnataka).	□

Key Takeaways (Positives & Negatives): * **Positives:** The business continues to move up the value chain, evidenced by a **55.9% Gross Margin** (a 270 bps YoY improvement). The order book remains massive at □4,412 Cr, with **Aerospace & Defense constituting 39%** of the total, ensuring high-margin visibility for 2+ years. Strategic expansion into **Tumakuru (Karnataka)** places them directly in the EMS manufacturing hub, reducing logistics and service friction for high-growth electronics clients. * **Negatives:** Operating leverage was absent this quarter as **Employee Costs surged 27% YoY** (□72.5 Cr), dragging EBITDA margins down to 24.4%. More importantly, the **PAT beat is "optically enhanced" by a □16 Cr Forex gain**; core operating profit growth was a modest 6.5%. * **The Street's Concern:** Analysts remain focused on the **timing of EMS revenue** (□706 Cr in the order book but zero execution this quarter) and the **sustainability of margins** as the company hires ahead of the 10,000-unit capacity expansion. Management's response: Hiring is a prerequisite for "high-precision skill," and operating leverage will return in H2 (the 60% revenue period). * **Forward Watchpoint: H2 FY26 EMS Execution.** The transition from "Order Book" to "Invoiced Revenue" in the EMS segment is the primary catalyst for the stock's next leg. Any further site-readiness delays by customers would risk FY26 revenue targets.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q1FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	410.2	↑ 13.4%	↓ 28.7%	↑	YoY growth driven by higher volumes (1,117 machines) and better mix. QoQ drop is seasonal.
Gross Margin (%)	55.9%	↑ 270 bps	↑ 150 bps	↑	Improved product mix towards higher-value aerospace components.
EBITDA (□Cr)	100.2	↑ 6.5%	↓ 43.7%	□	Operating profit growth slowed by front-loaded employee costs for capacity ramp-up.
EBITDA Margin %	24.4%	↓ 160 bps	↓ 650 bps	↓	Compression due to hiring 3,500+ employees and increased "other expenses" for manufacturing prep.
PAT (□Cr)	71.4	↑ 40.2%	↓ 34.5%	↑	Bolstered by □20.5 Cr Other Income (incl. □16 Cr Forex gain).
Volumes (Units)	1,117	↑ 41.7%	↓ 17.2%	↑	Sold 994 entry-level, 104 mid-level, and 19 high-end machines.
ASP (□Lakh/ unit)	36.72	↓ 19.9%	↓ 13.9%	↓	Lower compared to Q4FY25 (□42.6L) due to higher volume of entry-level machines this quarter.
Order Book (□ Cr)	4,412	↑ 38.6%	↑ 1.5%	↑	Steady intake of □451 Cr during the quarter; Aero/ Defense leads intake at 33%.
Huron Revenue (□Cr)	70.0	↑ 4.5%	N/A	→	Huron (France) reported □2 Cr PAT; moving into new facility in September 2025.
Working Capital (Days)	175 (FY25)	First entry	N/A	↑	Target to improve to 150-160 days by end of FY26.

2B. SEGMENT BREAKDOWN (Revenue Mix)

Segment	Revenue Mix (%)	Est. Revenue (□Cr)	Trend	vs Company Avg	Key Development
Auto & Components	36%	147.7	→	In-line	Remains the volume bread-and-butter; focused on EV and Alloy Wheel Turning.
Aerospace & Defense	30%	123.1	↑	Higher	Primary margin driver; 39% of total order book is now from this high-margin sector.
General Engineering	26%	106.6	→	In-line	Broad-based demand; serves 14,000+ customer base.
Others (incl. EMS)	8%	32.8	↓	Lower	Includes Railway, Healthcare, and nascent EMS. EMS execution remains H2-focused.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Maintain growth momentum; H2 typically 60% of revenue.	Implies ~□1,200 Cr+ in H2 to beat FY25. Feasible given □4.4k Cr order book.	Delivered	Low
Guidance	Margins	Sustainable EBITDA growth balanced with operating leverage in H2.	Needs significant overhead absorption as revenue scales in Q3/ Q4.	Mixed	Medium
Guidance	Capacity	Expand to 10,000 additional units p.a. by Sept 2026.	Construction ongoing; Karnataka land acquired to diversify mfg footprint.	On-track	Low
Strategy	Expansion	Setting up entities in USA and China (sales/service).	Leveraging Huron's existing client base in China (World's largest market).	New	Medium
Strategy	Integration	PLI Eligibility (Central + Gujarat).	Potential 25% capex subsidy and 6% sales incentive; awaiting finalization.	New	Low
Strategy	Products	Launch of HUMA (HMI Patent).	Registered Jan 2025; aims to simplify operator interaction and reduce controller costs.	Ongoing	Low
Balance	Cash Flow	Target 150-160 day WC cycle.	Requires faster liquidation of unbilled revenue/POCM on long-cycle machines.	Ongoing	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Manish / Nirmal Bang	Seasonality	Financials	"Seasonal softness... decline compared to March quarter is slightly higher than Q1 last year."	Management explained that Q1 is always soft as customers close financials and reset budget approvals for the new year. Implication: Expect a heavy back-ended year (60% revenue in H2), making Q3/ Q4 results thesis-critical.	None	4.0	Contextual
2	3.5	Manish / Nirmal Bang	Capex	Capex	"Purchase of 20 acres land in Karnataka... what size of capex?"	Management clarified that the Tumakuru land is for support centers, tech centers, and warehouses to be near EMS clusters, not for immediate large-scale mfg. Implication: Low immediate capex drag from this specific acquisition; primarily a service-led growth play.	None	3.5	Strategy clear
3	4.5	Nidhi Shah / ICICI Sec	Other Expenses	Financials	"Other expenses have grown reasonably... drivers for this level?"	Management attributed the spike to increased manufacturing activity and components for long-cycle machines	None	3.0	Plausible

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						being produced now for later consumption. Implication: Expenses are front-loaded relative to revenue recognition; margins should recover as those machines are dispatched in Q3/Q4.			
4	5.0	Nidhi Shah / ICICI Sec	Other Income	Financials	"Other income this quarter is also quite high... reason?"	Management confirmed a □16 Cr Forex gain due to Euro appreciation affecting debtors and receivables. Implication: High-quality earnings alert; underlying operating EBITDA growth was significantly lower than the PAT headline suggests.	None	5.0	Clear and Quantified
5	4.0	Nidhi Shah / ICICI Sec	Huron	Business Overview	"Progress on shifting high-end manufacturing to Huron?"	Management noted □70 Cr revenue for Huron and stated that new facilities start operations this month, enabling growth in the high-margin Aero/Defense sector. Implication:	None	4.0	On-track

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						Huron's capacity expansion is a primary driver for the 55%+ gross margin thesis.			
6	4.0	Adil / ICICI Pru Life	Global Risk	Business Overview	"Impact of global uncertainty on EMS orders in India?"	Management stated they see no adverse effects; rather, more customers are entering India, and the EMS investment cycle remains healthy. Implication: Macro headwinds in US/EU are currently bypassed by India's domestic manufacturing tailwinds.	None	3.0	Confident
7	3.5	Aniket Jain / Yes Sec	Gross Margins	Financials	"Can we see margins increasing to probably 27-28% [EBITDA] once costs normalize?"	Management stated they are maintaining gross margin growth and cost pressures are only from hiring/training, which will be balanced by operating leverage. Implication: Reaching 27-28% EBITDA requires the H2 volume ramp-up to occur as guided.	None	3.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
8	4.5	Mayank / HSBC	China Strategy	Strategy	"Board approval to acquire entities in USA and China... elaborate?"	Management explained they are establishing sales/service networks in China to leverage Huron's brand and target the massive local EMS market. Implication: Direct presence in China (the top machine consumer) is a major pivot for global market share.	None	4.0	Strategic
9	4.5	Mayank / HSBC	EMS Supply	Business Overview	"When do you expect [EMS orders] to get liquidated?"	Management expects deliveries to start in Q3/Q4 (H2 FY26) as customer plant construction completes. Implication: Confirms H1 revenue will lack the "EMS kicker"; watch Q3 dispatches closely.	None	3.5	Timing specific
10	4.0	Kamlesh Bagmar / Lotus	Margin per Unit	Financials	"Gross margin per machine is down 16% year-over-year... hit on margins to push volume?"	Management rejected the per-machine metric, citing the 1,117 machine volume (mostly entry-level) as the reason for the average drop, and emphasized the high-end machines yet	None	4.0	Rebuttal clear

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						to come. Implication: Total GM% (55.9%) is the better metric to track than per-unit math, which is distorted by product mix.			
11	4.0	Depesh / Invesco	Utilization	Business Overview	"How should we think about utilization... 1,100 machines this quarter vs 1,500 capacity?"	Management stated they are at 75% utilization in Q1 and maintain they will hit 90%+ for the full year. Implication: Capacity is not currently the bottleneck; customer readiness and seasonal ordering cycles are.	None	4.0	Consistency

PATTERN FLAGS & SENTIMENT * **The "Forex Prop":** Multiple questions regarding Other Income revealed that a substantial portion of the PAT growth (□16 Cr of the □20.5 Cr Other Income) was non-operating. While management was transparent, analysts remained cautious that core EBITDA growth (6.5%) is currently lagging behind revenue (13.4%). * **EMS Anticipation:** There is palpable analyst anxiety regarding the □706 Cr EMS order book which has not yet converted to revenue. Management's posture was confident, pointing to H2, but the "show me the revenue" sentiment is growing. * **Strategic Footprint:** The move into China and the USA was received well as a logical extension of the Huron brand, although analysts will be watching for any unexpected capex spikes associated with these new entities. * **Analyst Sentiment Verdict:** Skeptical on Q1 profitability but convinced on long-term demand. The friction point was the margin compression caused by pre-hiring. Management's credibility on the "40/60" seasonal split is high given historical patterns, but they must deliver a very strong Q3 to maintain this trust.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
EBITDA Margins	Expected to sustain/ improve YoY.	Q1 dropped to 24.4% (vs 26% LY).	Margin dip due to hiring/ training costs.	Requires high H2 utilization to restore 26-27% levels.
Working Capital	Target 150-160 days in FY26.	Seasonal soft Q1 often inflates WC.	No Q1 balance sheet provided to verify progress.	High; cash flow remains the weakest part of the profile.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY25)	This Quarter (Q1FY26)	Direction
Utilization	90% (Peak Q4)	75% (Seasonal Q1)	↓
Gross Margin	54.4%	55.9%	↑
Employee Cost	□65.7 Cr (Q4)	□72.5 Cr	↓ (Expense spike)
High-End ASP	□3.27 Cr / unit	□5.60 Cr / unit	↑
Geographic Strategy	India/France focus	USA & China Entity Approval	↑ (Global Scale)
Expansion Status	6k cap at 90%	Karnataka Land Acquired (20 acres)	↑ (Diversification)
Earnings Support	Core operations	Forex Gain (□16 Cr)	↓ (Lower Quality)
Order Book Mix	44% Aerospace	39% Aerospace	□(Normalizing)