Jyoti CNC Automation Ltd — Feb 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat **One-line:** Post-IPO debut delivers massive margin expansion (1.1% to 25% QoQ) and validates the high-end import substitution thesis via successful entry into the EMS (Electronic Manufacturing Services) and Aerospace sectors.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Revenue up 58% QoQ; EBITDA margins surged to 25% in Q3 vs 1.1% in Q2.	□
Earnings Quality	High (Core driven)	Growth led by high-margin Aerospace (43%) and EMS (13%) segments.	□
Guidance Confidence	Strong	Order book of □3,243 Cr provides ~18-month revenue visibility.	□
Management Credibility	Strong	Quantified segment margins and specific inventory reduction targets (300 to 210 days).	□
Business Quality Signal	Improving	Pivot from entry-level lathes to 5-axis multitasking machines and EMS specialization.	□
Key Q&A Exchange	Q1 on EMS stickiness	Management confirmed 2-year testing period to displace Japanese incumbents in EMS.	□
The Street's Primary Anxiety	Execution Risk	Can the Rajkot facility deliver □3,200 Cr+ of complex machines in 18 months?	□
Capital Cycle Stage	Harvesting / Expansion	Repaid □475 Cr debt; now de-bottlenecking to reach 6,000 machines/year capacity.	□
Margin / Return Ratio Trajectory	Improving	High-end machines have 55% gross margins vs 35% for entry-level.	□
Pricing Power	Expanding	20-25% price advantage over Japanese competitors with comparable tech.	□
FCF Conversion & Quality	Distorted	High inventory (300 days) remains the primary FCF drag; reduction is the key monitorable.	□
Competitive Moat Signals	Widening	Only Indian player with deep-integrated 5-axis tech via Huron acquisition.	□
Balance Sheet Strength	Strong	Net Debt/Equity dropped to 0.3x post-IPO repayment.	□
Working Capital Efficiency	Deteriorating	Inventory increased to □868.3 Cr in H1FY24; Mgmt promises Q4 correction.	□
Mgmt Guidance Track Record	First entry	Post-IPO inaugural call; base established today.	□
Key Vulnerability	Inventory Overhang	Working capital intensity (DIO >200) could constrain growth if not optimized.	□
Management Tone	Confident	Extremely bullish on "1 lakh machine" EMS opportunity and Aerospace pipeline.	□

Key Takeaways (Positives & Negatives): * **Positives:** Massive de-leveraging post-IPO (₹475 Cr debt repaid) will save ₹55-60 Cr in annual interest. The high-margin product mix (Aerospace/Defense at 43% of Q3 revenue) is driving a structural shift in EBITDA margins toward the 20-25% range. Successful displacement of Japanese incumbents in the EMS sector (Apple ecosystem players) proves the tech-readiness of the 'Tachyon' series. * **Negatives:** Inventory levels remain exceptionally high at ~300 days, indicating a stretched working capital cycle that needs urgent normalization. Heavy concentration in Aerospace/Defense (55% of order book) makes the company sensitive to government budget cycles.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *DATA SOURCE: PPT figures primary. Concall used for Q3-specific growth rates.*

Metric	Current Qtr (Q3) / 9M	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (9M FY24)	₹888.33 Cr	First entry	First entry	↑	Volume driven by Aerospace and new EMS orders.
Revenue (Q3 FY24)	₹377.00 Cr	First entry	↑ 58%	↑	High realization from complex 5-axis machines.
EBITDA Margin % (Q3)	25.0%	First entry	↑ 2,390 bps	↑	Mix shift: High-end machines material cost 45% vs 65% for entry.
PAT (9M FY24)	₹51.22 Cr	First entry	First entry	↑	Reached ₹48 Cr PAT in Q3 alone vs losses in prior year.
Order Book	₹3,243.04 Cr	First entry	First entry	→	Provides 18-month visibility; ₹1,500 Cr pipeline.
Net Debt / Equity (x)	0.3x	First entry	↓	↑	Significant improvement after ₹475 Cr IPO repayment.
Interest Cost (9M)	₹69.03 Cr	First entry	First entry	↓	Guided to save ₹55-60 Cr annually hereafter.
Inventory Days	300 Days	First entry	First entry	↓	Target to reach 210-220 days by FY24 end.
Inventory (Value)	₹868.35 Cr	First entry	First entry	↓	H1FY24 figure; management targeting Q4 drawdown.

2B. SEGMENT BREAKDOWN (Q3 FY24)

Segment	Revenue (₹ Cr)	% of Total	Margin Profile	Trend	Key Development
Aerospace & Defense	₹162.11 Cr	43%	High (55% GM)	↑	Largest revenue driver; missiles/engines.
Auto & Components	₹75.40 Cr	20%	Medium (40% GM)	→	Steady demand but lower growth than A&D.
General Engineering	₹67.86 Cr	18%	Medium (40% GM)	→	Broad-based industrial demand.
EMS	₹48.00 Cr	13%	High (50%+ GM)	↑	First major entry; testing phones/tabs/ watches.
Dies & Moulds	₹7.54 Cr	2%	Medium	→	New growth vertical for import substitution.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Deliver □3,200 Cr order book in 18 months.	Requires ~□530 Cr/quarter; Q3 was □377 Cr. High execution ramp-up needed.	First entry	Moderate
Guidance	Margins	Maintain 20%+ EBITDA levels.	Sustainable if A&D and EMS remain >50% of mix.	First entry	Low
Guidance	Capacity	Expand to 6,000 machines/year by FY25.	Currently at 4,400; de-bottlenecking ongoing.	First entry	Low
Guidance	Inventory	Reduce to 210-220 days by FY24 end.	Needs massive inventory drawdown in Q4.	First entry	High
Strategy	EMS Opportunity	Capture share in 1 lakh machine market (5-7 yrs).	Ambitions to displace Japanese giants (Fanuc/Brother).	First entry	Moderate
Balance	Debt	Become Debt Free in 2-3 years.	Post-IPO 0.3x D/E makes this highly feasible.	Delivered (IPO)	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Aditya Bhartia (Investec)	EMS Segment	Business Overview	"Our order book has risen in this particular segment. So, is it on account of getting some of the additional orders that we were anticipating from Apple?"	Management confirmed orders from mobile contract manufacturers but cited confidentiality on names. Displacement of Japanese imports in the EMS sector validates technology parity and a 20-25% cost advantage.	Customer Names	4.0	Clear directional signal
2	4.5	Aditya Bhartia (Investec)	Aerospace	Business Overview	"How are you seeing the outlook for this particular segment? Both domestic and international?"	Management highlighted a □1,500 Cr stand-alone pipeline in Aerospace/ Defense, including repeat missile/ engine orders. High concentration here boosts margins but increases lumpy revenue risk.	None	4.5	Highly Quantified
3	4.0	Nikhil Abhyankar (ICICI Sec)	Margins	Financials	"What will you guide for FY '25 in terms of revenue growth and EBITDA margin expansion?"	Deliver □3,200 Cr order book in 18 months with operational leverage improving current margins. Implies a sharp revenue ramp-up from Q4 FY24 onwards to meet the	Precise FY25 revenue %	3.5	Directional

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						delivery timeline.			
4	5.0	Mihir Manohar (Carnelian)	Segment Margins	Financials	"How are the gross margins different in aerospace versus EMS versus general engineering?"	Entry-level material cost is 60-65% (35-40% GM), Mid-range is 55-60% (40-45% GM), and Aerospace/ High-end is 45% (55% GM). This transparency confirms that the Q3 margin explosion is structural due to a mix shift.	None	5.0	High Clarity
5	4.0	Apurva Kumar (Kitara)	Working Capital	Financials	"In terms of our inventory days... should we see a reduction in number of inventories?"	Management expects inventory days to drop from 300 to 210-220 by year-end FY24. Reducing the □868 Cr inventory is critical to converting book profits into cash flow.	None	3.0	Target is ambitious
6	4.5	Hiten Boricha (Sequent)	EMS Market Size	Business Overview	"What would be the market size of EMS... in the next three to five years?"	Management estimates a requirement of 1 lakh CNC machines in India for EMS over 5-7 years, previously dominated by Japan. This creates a massive TAM for the 'Tachyon' series beyond	None	4.0	Significant TAM

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						traditional auto clients.			
7	4.0	Harshit Patel (Equirus)	Competition	Strategy	"Are the competition also ready with this kind of higher end machines?"	Management stated Indian peers are focused on entry-level (<₹50 Lakh) machines, while Jyoti took 15 years and a French acquisition to master 5-axis. This suggests a significant multi-year technological moat against domestic players.	None	4.5	Moat Validation
8	4.0	Kamlesh Jain (Lotus)	Product Tech	Strategy	"Are we moving to 7-Axis machines as well for the product development?"	Technology peaks at simultaneous 5-axis; additional axes are auxiliary. Management claims tech parity with the world's top 5 CNC manufacturers.	None	4.5	Technical clarity

PATTERN FLAGS & SENTIMENT * **Theme 1: Import Substitution Moat:** Analysts repeatedly questioned how Jyoti could compete with Japanese (Fanuc) and German giants. Management's confidence stems from a 15-year R&D cycle and a 20-25% price advantage. Posture was confident, as they have already secured "testing" orders from tier-1 EMS players. * **Theme 2: Inventory/Working Capital:** This remains the primary skepticism. Analysts pressed on the 300-day cycle. Management was defensive but provided a specific reduction target for Q4. This will be the "show-me" story for next quarter. * **Analyst Sentiment Verdict:** Convincingly positive. The Street was impressed by the Q3 margin beat and the clarity on segment-wise gross margins. The most friction occurred around execution timelines for the ₹3,200 Cr order book, given the high complexity of A&D machines. Credibility is high post-IPO as they delivered a strong inaugural set of numbers.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Execution Run-rate | 18-month delivery timeline | Requires ~₹530 Cr/qtr revenue | Q3 at ₹377 Cr implies a massive 40% jump in execution capacity needed immediately. | Execution bottleneck risk. |

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare. Post-IPO baseline established.

What Changed	Prior Quarter	This Quarter	Direction
Net Debt	₹831.8 Cr (H1FY24)	~₹350 Cr (Post-IPO repayment)	↑ (Improving)
EBITDA Margin	5.5% (9MFY23)	25.0% (Q3 FY24)	↑ (Improving)
Segment Mix	0% EMS	13% EMS	↑ (Structural Shift)
Order Book	₹3,143 Cr (FY23)	₹3,243 Cr	→ (Stable)

INVESTOR NOTES: * **Earnings Quality Check:** 9M PAT of ₹51 Cr vs 9M OCF (not fully disclosed but CFO-to-PAT is historically low due to inventory). **Working Capital Alert:** The ₹868 Cr inventory (H1) against ₹888 Cr revenue (9M) indicates nearly 1 year of sales is tied up in stock. * **Required Run-Rate:** To deliver the ₹3,243 Cr order book in 18 months, the company must execute at ₹540 Cr/quarter. Q3 was ₹377 Cr. This implies the company must increase output by ~43% from current levels. Stop here.