

Avalon Technologies

BSE Sensex 77,044 S&P CNX 23,437



Stock Info

Bloomberg	AVALON IN
Equity Shares (m)	66
M.Cap.(INRb)/(USDb)	54.7 / 0.6
52-Week Range (INR)	1074 / 425
1, 6, 12 Rel. Per (%)	18/42/55
12M Avg Val (INR M)	370

Financials & Valuations (INR m)

Y/E Mar	2025E	2026E	2027E
Sales	10.6	14.4	19.1
EBITDA	1.1	1.7	2.4
PAT	0.6	1.1	1.6
EBITDA (%)	10.3	12.0	12.6
EPS (INR)	9.9	16.8	25.0
EPS Gr. (%)	131.4	70.1	49.2
BV/Sh. (INR)	93.1	109.9	134.9

Ratios

Net D/E	(0.0)	(0.0)	(0.0)
RoE (%)	11.2	16.5	20.4
RoCE (%)	10.4	14.8	18.8

Valuations

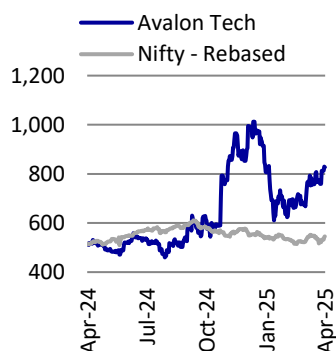
P/E (x)	83.9	49.3	33.1
EV/EBITDA (x)	46.2	29.3	21.0

Shareholding pattern (%)

As on	Dec-24	Sep-24	Dec-23
Promoter	50.6	50.7	51.0
DII	20.9	23.7	17.1
FII	5.4	3.0	5.7
Others	23.2	22.6	26.3

Note: FII includes depository receipts

Stock Performance (1-year)



CMP: INR827

TP: INR970 (+17%)

Buy

Tariff tailwinds and growing client base boost growth outlook

Avalon is uniquely placed in the Indian electronics manufacturing services (EMS) sector with its well-established manufacturing presence in the US. Moreover, the company serves various emerging and fast-growing end-user industries such as clean energy, mobility and medical technology across the globe, which cumulatively accounted for ~62% of Avalon's total revenue as of 9MFY25 (vs. ~59% as of FY24).

- Amid the current uncertain global environment where many countries are facing a major threat to their trading prospects due to US tariffs, India is believed to be in a favorable situation.
- After the Trump administration's decision to pause tariffs on all countries, except China, which is facing an exorbitant tariff of 145% on its exports to the US, the EMS sector may see a gradual shift of some business from China to India in the mid to long term. China exported ~20% of total electrical machinery to the US as of CY24 vs. India's 1.7%.
- Even if India is imposed with a proposed tariff of 26%, it will be lower than the proposed tariffs on India's key competitors, like China (245%), Vietnam (46%) and Taiwan (32%), in the EMS sector. This will present an opportunity for Indian EMS companies, especially for Avalon due to its well-established US plant.
- Along with a favorable tariff environment for India, Avalon is supported by an increase in domestic demand, stable/improving demand from the US, a healthy client mix (domestic and exports), and a favorable manufacturing presence compared to its peers.

Favorable tailwinds amid the shifting global landscape

- Amid the global uncertain trade environment due to US import tariffs, we believe that India's EMS sector is relatively in an advantageous position.
- **Scenario 1:** Tariffs imposed by the US have hurt the global economy, though it might be a boon for Indian EMS companies, which enjoy a pause on tariffs until 9th Jul'25 compared to China, which is facing **245%** tariffs as announced by the US on 15th Apr'25.
- **Scenario 2:** Even if tariffs were to be continued on other countries, India may still enjoy low tariffs of **26%** compared with China (**245%**), Vietnam (**46%**) and Taiwan (**32%**).
- Considering both the scenarios, we find more confidence on our thesis of shift of business in this sector over mid to long term to India from China. China accounts for ~20% of the total electrical machinery exports to the US as of CY24 against India's ~1.7%
- This trade war has created a major opportunity for Avalon, which earns the majority of its revenue from US customers (58% of total sales as of 9MFY25). Moreover, its well-established manufacturing presence in the US (~12% US manufacturing revenue) also gives Avalon an edge over peers.
- Although the company's manufacturing mix has tilted toward India (88% as of 3QFY25 vs 70-75% as of FY23) for strategic reasons, it is in a position to **shift back automated tasks** to the US plants to reduce tariff exposure.

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- The company **would not face any margin pressures** due to tariffs, thanks to its **cost-plus structure** on products.
- The company has also recently announced the completion of **phase 1 of its Chennai plant**, which is primarily dedicated to **exports**. This will help the company cater to rising demand due to the shift in EMS business to India.

Rapid growth in operations across key clientele

- India saw significant growth in B2B and B2C Printed Circuit Board (PCB) assembly demand due to increased import duties. We expect PCB and other passive components to be locally manufactured with a component policy now in place.
- India's electrical machinery dominates the country's exports to the US, accounting for ~15.6% of India's total exports as of CY24. This shows the US' dependence on exports for EMS products.
- **We therefore believe that orders from key clients may not be significantly impacted by the tariffs, as the US is dependent on electronics imports.**
- Avalon reported strong 28% YoY growth in the order book in 9MFY25, taking the combined order book (including long-term contract) to INR27b as of 9MFY25, backed by **customer loyalty** and a **healthy client mix**. The order book proportion has a similar mix to the revenue proportion of India and the US, showcasing sustainable demand from the US.
- Over the recent times, Avalon has witnessed strong order flows, backed by the revival of existing US customers, the addition of new customers in the US, and increased focus on the domestic industry.
- The company has been moving from the prototype stage to the **volume production stage** for multiple products, i.e., for a global auto component company that specializes in motion systems, aiding the increase in share of mobility segment.
- Avalon also focuses on the **high-margin rail and aerospace division**, which is seeing increased traction in the domestic EMS industry.
- In Railways, the company is actively working on the anti-collision **KAVACH** system, which Avalon believes will offer sufficient business potential in the future. **The company expects to see tremendous growth in demand for this segment in FY26.**
- Moreover, the growth trajectory of Avalon's clients also gives us confidence in the company's growth outlook. Following are some examples of expansion activities undertaken by **Avalon's key clients**:
- **Ohmium International** (clean energy segment client) launched a gigafactory in Doddaballapura, Bengaluru, in Jul'24. The facility will produce 2GW of fully assembled and tested PEM electrolyzer systems to meet the demands of Ohmium's global project pipeline.
- **Sunrun** (clean energy segment client in the US) recently in its FY24 results mentioned its plan to increase its storage capacity by 30% YoY by 1HFY25, showcasing a strong growth trajectory.
- **Collins Aerospace**, one of the key aerospace clients, added a 70,000-sqft facility in Aug'24, increasing its footprint by 50% to enhance production capacity.
- **Witnessing strong traction in recent quarters in terms of client addition and order book, Avalon has also raised its revenue guidance to 22-24% from 16-20% earlier for FY25.**

Valuation and view

- We believe Avalon will be in a better position in the EMS space amid the tariff war, backed by its strategic manufacturing presence, longstanding US and global clientele, and increased order flows from the domestic market.
- With the company's US operations now witnessing a healthy recovery and the Indian business experiencing growth, we expect Avalon's revenue and profitability to see healthy improvement going forward.
- We estimate Avalon to post a CAGR of 30%/57%/80% in revenue/EBITDA/adj. PAT over FY24-27, driven by strong growth and healthy order inflows. Reiterate BUY with a TP of INR970.

Story in Charts

Exhibit 1: Revenue growth trend

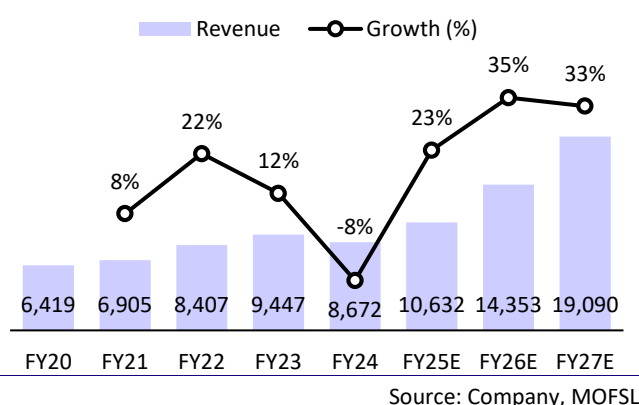


Exhibit 2: EBITDA growth trend

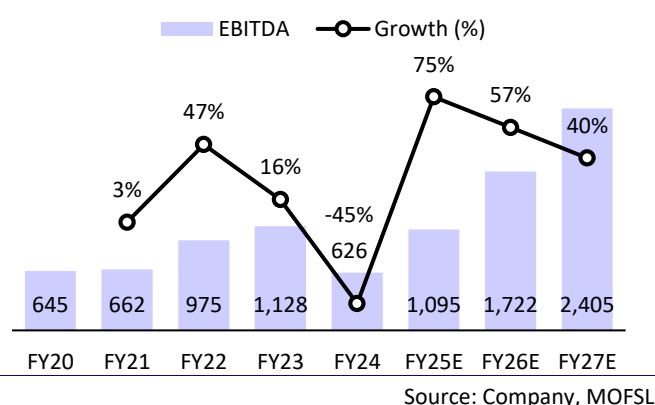


Exhibit 3: EBITDA margin over the years

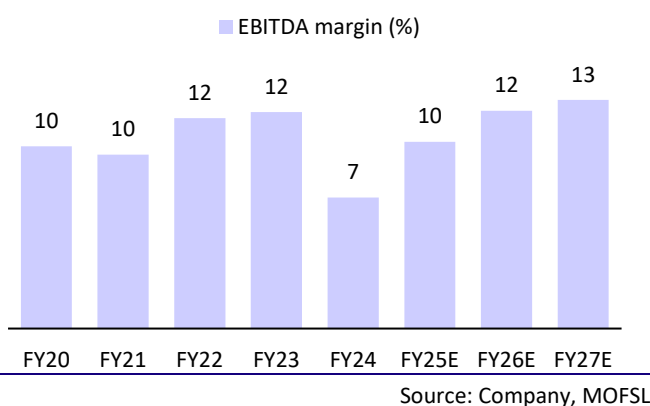


Exhibit 4: Adj. PAT over the years

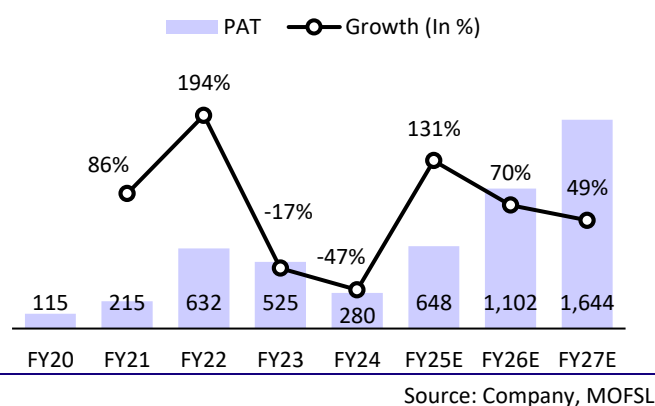


Exhibit 5: Improving WC days

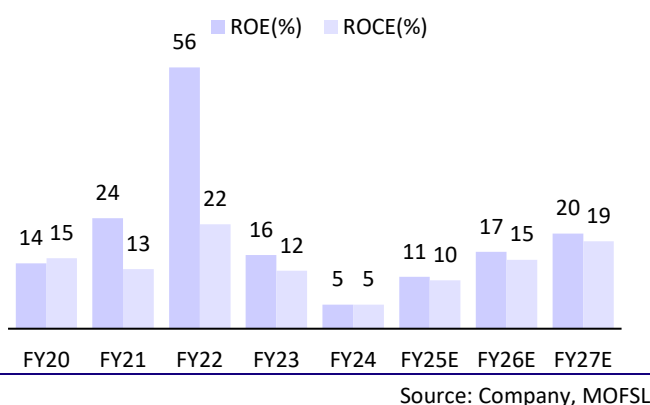


Exhibit 6: CFO and CFO/EBITDA

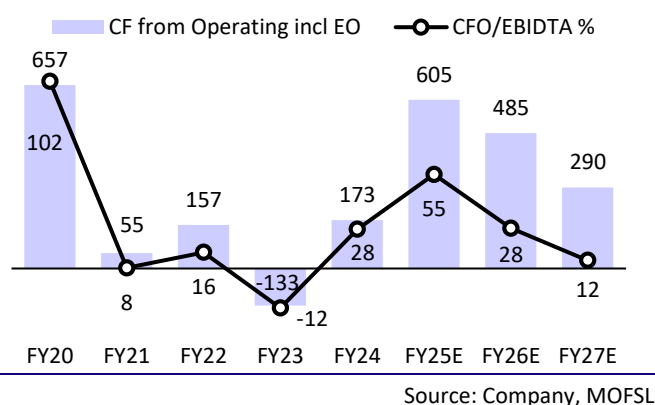
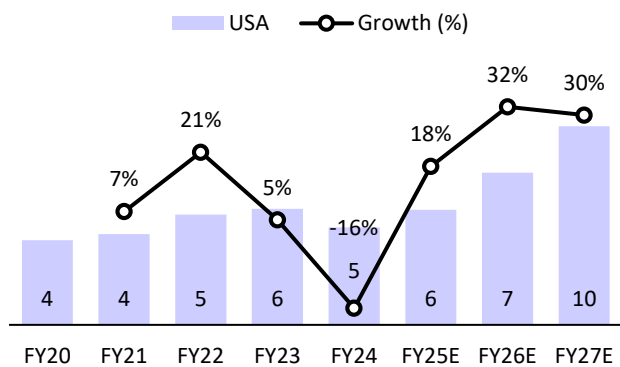
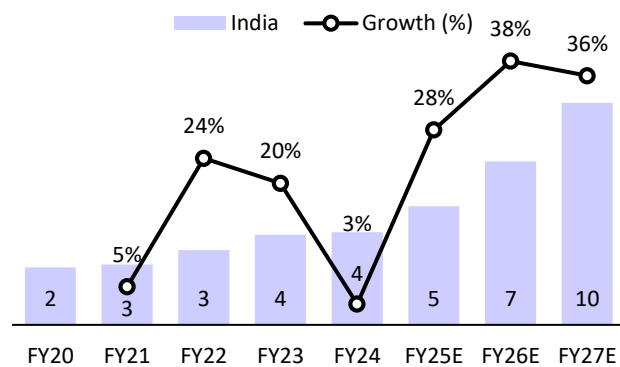


Exhibit 7: Rising US business



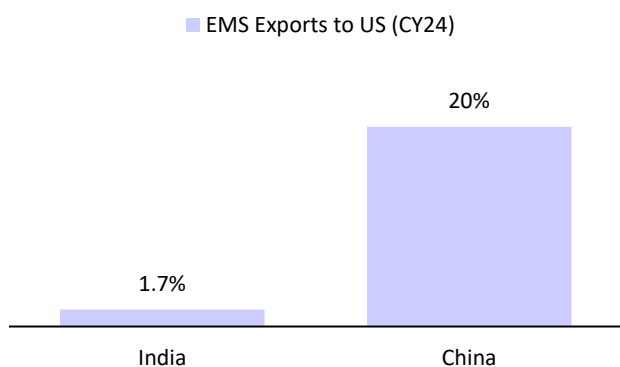
Source: Company, MOFSL

Exhibit 8: Growing Indian business



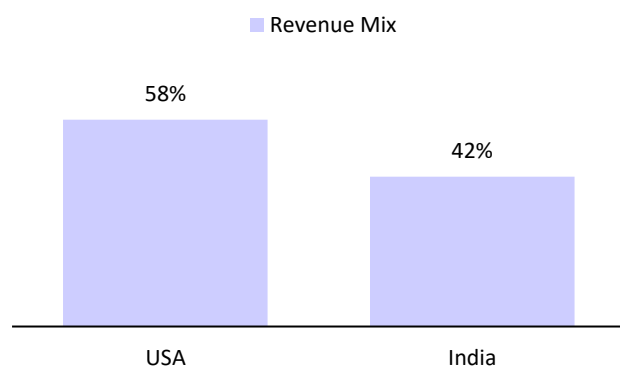
Source: Company, MOFSL

Exhibit 9: EMS exports to US (CY24)



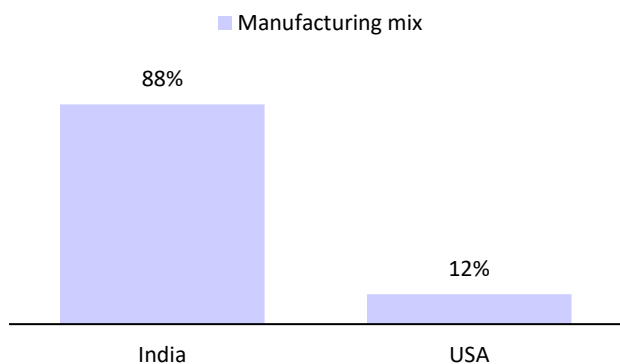
Source: Company, MOFSL

Exhibit 10: Revenue mix (9MFY25)



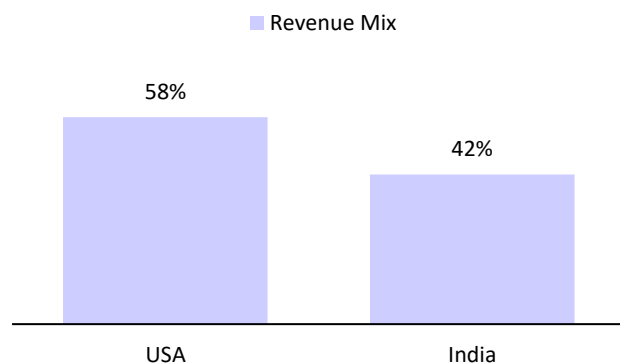
Source: Company, MOFSL

Exhibit 11: Manufacturing mix (Q3FY25)



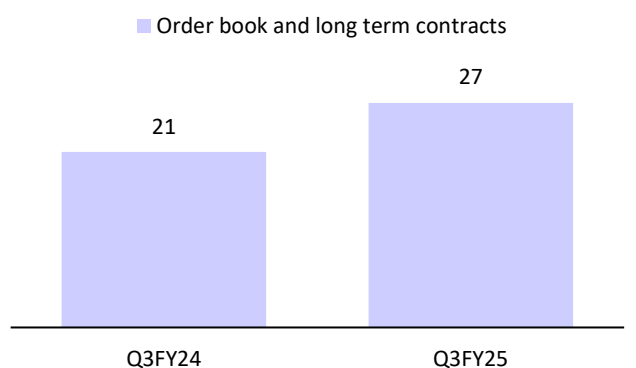
Source: Company, MOFSL

Exhibit 12: Revenue mix (9MFY25)



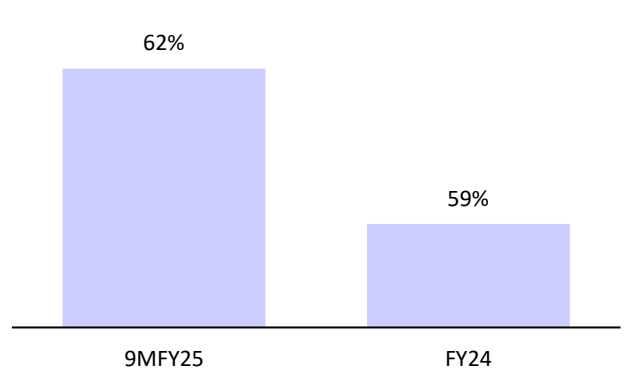
Source: Company, MOFSL

Exhibit 13: Increase in order book size



Source: Company, MOFSL

Exhibit 14: Increase in revenue share of clean energy, mobility and medical technology



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	6,419	6,905	8,407	9,447	8,672	10,632	14,353	19,090
Change (%)	NA	7.6	21.8	12.4	-8.2	22.6	35.0	33.0
RM Cost	4,128	4,574	5,552	6,067	5,545	6,785	9,100	12,141
Employees Cost	1,162	1,192	1,314	1,605	1,815	1,921	2,497	3,245
Other Expenses	484	478	566	647	685	832	1,033	1,298
Total Expenditure	5,774	6,243	7,432	8,319	8,046	9,538	12,631	16,685
% of Sales	90.0	90.4	88.4	88.1	92.8	89.7	88.0	87.4
EBITDA	645	662	975	1,128	626	1,095	1,722	2,405
Margin (%)	10.0	9.6	11.6	11.9	7.2	10.3	12.0	12.6
Depreciation	155	158	172	197	229	286	353	411
EBIT	490	504	803	931	397	808	1,369	1,995
Int. and Finance Charges	450	270	248	348	164	160	99	83
Other Income	113	54	309	144	148	246	250	286
PBT bef. EO Exp.	153	288	864	727	381	895	1,520	2,198
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	153	288	864	727	381	895	1,520	2,198
Total Tax	30	58	183	202	101	247	418	553
Tax Rate (%)	19.4	19.9	21.1	27.8	26.5	27.6	27.5	25.2
Minority Interest	8	16	50	0	0	0	0	0
Reported PAT	115	215	632	525	280	648	1,102	1,644
Adjusted PAT	115	215	632	525	280	648	1,102	1,644
Change (%)	NA	86.1	193.9	-16.9	-46.7	131.4	70.1	49.2
Margin (%)	1.8	3.1	7.5	5.6	3.2	6.1	7.7	8.6

Consolidated - Balance Sheet

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	15	16	16	116	131	131	131	131
Preference Capital	356	388	388	0	0	0	0	0
Total Reserves	450	584	856	5,254	5,342	5,990	7,092	8,736
Net Worth	822	988	1,260	5,370	5,473	6,121	7,223	8,867
Minority Interest	-431	-317	0	0	0	0	0	0
Total Loans	2,388	2,775	2,789	3,063	1,642	1,442	1,042	1,042
Deferred Tax Liabilities	-263	0	0	0	15	15	15	15
Capital Employed	2,515	3,445	4,049	8,433	7,129	7,577	8,279	9,923
Gross Block	1,126	1,335	1,512	1,861	2,285	2,842	3,443	3,964
Less: Accum. Deprn.	139	295	390	586	815	1,101	1,454	1,865
Net Fixed Assets	987	1,041	1,123	1,275	1,470	1,741	1,989	2,098
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	439	338	318
Total Investments	24	0	0	0	755	755	755	755
Current Investments	0	0	0	0	755	755	755	755
Curr. Assets, Loans&Adv.	3,197	4,084	4,738	10,375	6,886	7,376	8,560	11,042
Inventory	1,553	1,458	2,330	3,179	3,163	3,439	4,114	5,488
Account Receivables	1,138	1,819	1,774	2,062	1,869	2,330	2,949	3,923
Cash and Bank Balance	266	335	101	4,222	1,065	756	492	485
Loans and Advances	241	472	532	912	789	851	1,005	1,145
Curr. Liability & Prov.	1,719	1,680	1,831	3,370	2,178	2,734	3,363	4,289
Account Payables	1,369	1,289	1,242	1,418	974	1,394	1,870	2,495
Other Current Liabilities	216	253	449	1,823	1,048	1,170	1,292	1,527
Provisions	134	138	141	130	156	170	201	267
Net Current Assets	1,478	2,404	2,906	7,005	4,708	4,642	5,197	6,753
Appl. of Funds	2,516	3,445	4,049	8,433	7,129	7,577	8,279	9,923

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	2.0	3.7	10.9	9.1	4.3	9.9	16.8	25.0
Cash EPS	4.7	6.4	13.9	12.5	7.7	14.2	22.1	31.3
BV/Share	14.2	17.0	21.7	92.7	83.3	93.1	109.9	134.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	415.1	223.1	75.9	91.3	194.3	83.9	49.3	33.1
Cash P/E	177.2	128.8	59.7	66.5	106.8	58.2	37.4	26.5
P/BV	58.4	48.5	38.1	8.9	9.9	8.9	7.5	6.1
EV/Sales	7.7	7.3	6.0	5.0	6.2	5.1	3.8	2.8
EV/EBITDA	77.0	75.7	51.9	41.5	86.6	49.6	31.4	22.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	8.4	-2.4	-0.4	-7.0	-2.8	-3.0	-0.2	-3.2
Return Ratios (%)								
RoE	14.1	23.8	56.2	15.8	5.2	11.2	16.5	20.4
RoCE	15.1	12.8	22.5	12.4	5.2	10.4	14.8	18.8
RoIC	21.4	17.7	20.2	17.7	6.4	10.9	16.1	19.8
Working Capital Ratios								
Fixed Asset Turnover (x)	5.7	5.6	5.9	5.6	4.2	4.1	4.6	5.2
Asset Turnover (x)	1.5	1.3	1.4	0.8	0.9	1.0	1.2	1.3
Inventory (Days)	98	120	125	166	209	185	165	165
Debtor (Days)	65	78	78	74	83	80	75	75
Creditor (Days)	87	106	83	80	79	75	75	75
Leverage Ratio (x)								
Current Ratio	1.9	2.4	2.6	3.1	3.2	2.7	2.5	2.6
Interest Cover Ratio	1.1	1.9	3.2	2.7	2.4	5.1	13.8	23.9
Net Debt/Equity	2.6	2.5	2.1	-0.2	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INRm)								
OP/(Loss) before Tax	153	288	856	727	381	895	1,520	2,198
Depreciation	155	158	180	197	229	286	353	411
Interest & Finance Charges	434	222	209	244	113	-86	-150	-203
Direct Taxes Paid	-47	-35	-125	-189	-164	-247	-418	-553
(Inc)/Dec in WC	-121	-561	-805	-1,125	-414	-243	-819	-1,562
CF from Operations	574	72	315	-147	145	605	485	290
Others	83	-17	-158	13	28	0	0	0
CF from Operating incl EO	657	55	157	-133	173	605	485	290
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-800	-500	-500
Free Cash Flow	487	-137	-21	-406	-182	-195	-15	-210
(Pur)/Sale of Investments	-24	29	0	0	-1,121	0	0	0
Others	2	-104	-6	2	15	246	250	286
CF from Investments	-192	-267	-184	-271	-1,461	-554	-250	-214
Issue of Shares	0	73	0	798	8	0	0	0
Inc/(Dec) in Debt	-296	461	158	128	-1,580	-200	-400	0
Interest Paid	-426	-217	-189	-283	-88	-160	-99	-83
Dividend Paid	-4	-37	-38	-37	-41	0	0	0
Others	302	22	-138	3,915	-807	0	0	0
CF from Fin. Activity	-424	301	-207	4,522	-2,508	-360	-499	-83
Inc/Dec of Cash	42	89	-234	4,118	-3,796	-309	-264	-7
Opening Balance	204	246	335	101	4,219	1,065	756	492
Other cash and Cash equivalents	20	0	0	3	643	0	0	0
Closing Balance	266	335	101	4,222	1,065	756	492	485

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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