



Optimistic on US Recovery and Long-Term Growth Potential....

Avalon's Q1FY25 performance was weak due to macro issues in the US. Management is observing greenshoots in the US with the restocking cycle, a strong order book, and major new order wins, remain confident of doubling revenues by FY27.

Management expects momentum picking up in H2 FY25 in the US business and have revised the guidance upwards from 14-18% to 16-20% for FY25.

- INR revenue came in at INR 1,995 Mn, -15.2% YoY / -8% QoQ.
- EBITDA stood at INR 44 Mn, -73% YoY / -74.6% QoQ.
- EBITDA margins: 2.2%, vs 6.9% / 7.9% in Q1FY24 / Q4FY24 respectively
- PAT came in at INR -23 Mn, -132.6% YoY / -132.7% QoQ.
- PAT margins: -1.1%, vs 2.9% / 3.2% in Q1FY24 / Q4FY24 respectively
- EPS at INR -0.4 in Q1FY25 vs 1.1/ 1.1 in Q1FY24 / Q4FY24 respectively

Geography-wise

- India contributed 40% of revenue in Q1FY25 vs 45% of revenue in Q1FY24.
- US contributed 60% of revenue in Q1FY25 vs 55% of revenue in Q1FY24.
- India manufacturing contributed to 88% in Q1FY25 vs 73% in Q1FY24.
- US manufacturing contributed 12% in Q1FY25 vs 27% in Q1FY24.

Rating	TP (Rs)	Up/Dn (%)
HOLD	561	19

Market data

Current price	Rs	471
Market Cap (Rs.Bn)	(Rs Bn)	31
Market Cap (US\$ Mn)	(US\$ Mn)	369
Face Value	Rs	2
52 Weeks High/Low	Rs	620 / 425
Average Daily Volume	('000)	796
BSE Code		543896
Bloomberg		AVALON.IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	50.87	50.91
Public	49.13	49.09
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	6,905	8,407	9,447	8,672	10,256	14,358	18,666
EBIDTA	661	975	1,128	625	867	1,644	2,499
Margins	9.6	11.6	11.9	7.2	8.5	11.5	13.4
PAT (adj)	215	632	525	280	471	1,054	1,704
Growth (%)	86.7	192.3	-22.2	-46.7	68.2	123.8	61.6
EPS	26.92	79.16	9.06	4.26	7.17	16.04	25.92
P/E (x)	17	6	52	111	66	29	18
P/B (x)	6	4	5	6	5	4	4
EV/EBITDA (x)	4	3	26	49	35	19	12
RoE (%)	36	55	10	5	8	15	20
ROCE (%)	16	24	13	8	11	20	25
RoIC (%)	14	19	18	8	10	16	21
Gross Fixed Asset Turn	7	8	8	6	6	7	9

Source: Dalal and Broacha

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Concall Highlights

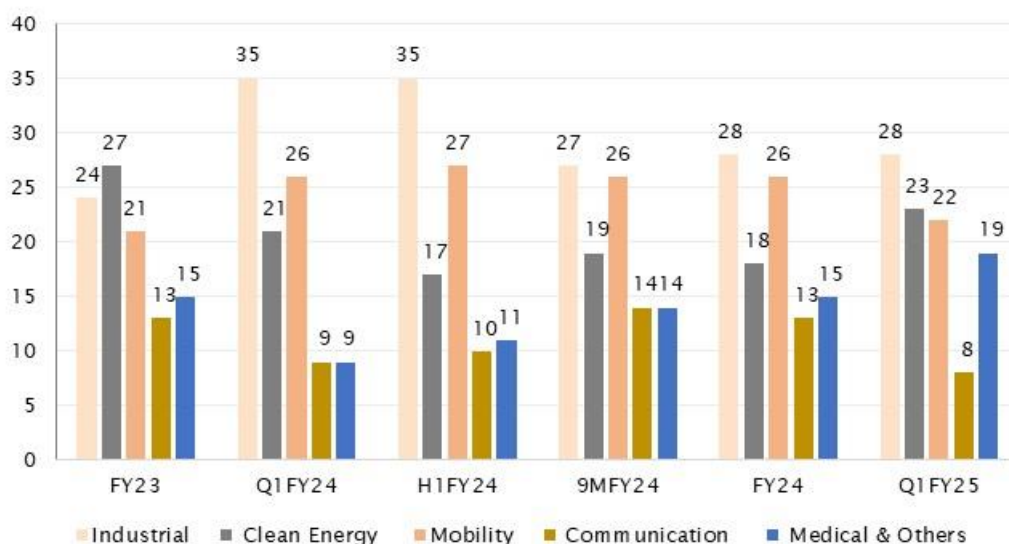
- **The order book stands at INR 1461 cr, +32.1% YoY/+7% QoQ (executable over the next 12 to 14 months). An additional INR 985 cr, 64.2% YoY/ +3.8% QoQ contracts and LOIs are also in place, with execution expected over the next 2 to 3 years.**
- **Gross margins stood at 33.2%, (-97 bps YoY/-434 bps QoQ).** The decline in gross margin for the quarter was due to a change in product mix; however, management remains confident in achieving a gross margin range of 34-35%, which has historically been achieved..
- Avalon has transferred 45-50% of its US production to its plant in India. The US plant now contributes 12% of revenues, with management expecting US manufacturing production to reach 15% for FY25. Avalon has completed a new plant in Chennai dedicated to export operations and is in the process of starting production. Additionally, Phase 1 of the brownfield expansion in Chennai is complete, with Phase 2 expected to be operational in H2FY25 to meet growing domestic demand.
- Net working capital days as of June stood at 156 days, comprising 125 days of inventory, 75 days of receivables, and 43 days of payables. While both receivable and payable days improved by 7 and 4 days, respectively, inventory days increased due to decreased revenue. Overall, net working capital days improved by 5 days. Management anticipates an improvement in the working capital cycle by 10 to 15 days by the end of FY25 compared to FY24. In the long run, they aim to achieve pre-COVID working capital days.
- Avalon generated positive operating cash flow of INR 36 crore during the quarter. Despite posting PAT losses, they improved cash flow through better working capital management. The net cash position improved from INR 34.5 crore as of March to INR 58.4 crore by the end of the quarter.
- Indian manufacturing operations, contributing 88% of their business, achieved operating margins of 9.6% and PAT margins of 6.6 % in Q1FY25. However, macro issues in the US led to losses of 14.2 crore in their US operations in Q1FY25.
- Avalon is realigning its business strategy to adapt to the current macro situation, with a focus on increasing its presence in the Indian market. The company aims to achieve a 50-50 revenue ratio between the US and Indian markets while maintaining a strong presence in the highly profitable US market.
- Major investments in facilities and larger factories have been completed, with management anticipating a capital expenditure of INR 35-40 crore for FY25.
- **New Account Wins:** Avalon is onboarding 2 Auto component companies in the US that are leaders in battery management and motion control systems along with securing contracts with 2 major industrial companies, additionally their presence in the Aerospace industry across the last 8 to 10 years is leading to significant business wins as Avalon progresses through the prototype stage in FY25.

- Avalon is seeing traction across all three growth engines, with the coming quarters expected to exceed their expectations:
 - a. **New customers in the US:** Avalon’s recent wins across industrial, clean energy and Auto sectors with leading US companies are progressing from design or prototype stages to commercial and ramp up production this year.
 - b. **Existing Customers in the US:** Avalon’s existing US customers are shifting from destocking to restocking phase and recovering at various rates.
 - c. **India Customers:** Avalon’s intensified focus over the last couple of years has led to key wins in rail, industrial, Aerospace and communication sectors, which should advance to commercial production in FY25. In the Indian market Avalon is expanding business in two of existing industrial customers and 1 communication customer along with significant new wins in the rail, aerospace and industrial verticals. Avalon is also building a strong momentum in communication and server vertical in FY26 and beyond, additionally working on Anti collision Kavach systems which can be a significant business potential.

Vertical-wise updates:

- **Clean Energy (23% of topline in Q1FY25).** One of Avalon’s customers in the clean energy sector, which focuses on home electrification systems with storage and grid interface, has received compliance certification approval. The planned production ramp-up is expected in H2FY25. This client follows a storage-first approach as opposed to the traditional solar installation approach and is benefiting from the current US Inflation Reduction Act.

Rev Mix Industry wise %



Source: Company, D&B Research

FY25e Outlook

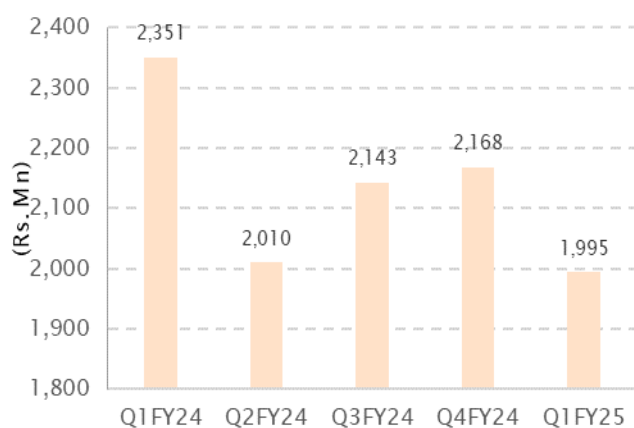
- Avalon has raised its FY25 guidance from 14-18% Revenue growth to 16-20% in FY25, With the US market recovering in Q2FY25 and gaining momentum in H2FY25.
- FY25 is expected to be significantly more profitable than FY24.
- Avalon are confident of doubling their revenue by FY27 years.
- Working Capital to improve by 10-15 days in FY25.

Quarterly Deviation Sheet

(Rs.Mn)	Q1FY25	Q1FY24	Yoy Growth (%)	Q4FY24	QoQ Growth (%)
Revenue from Operations	1,995	2,351	-15.2%	2,168	-8.0%
Other Income	44	51	-13.3%	28	58.3%
COGS	1,332	1,547	-13.9%	1,354	-1.6%
Employee Benefits Expense	455	482	-5.7%	451	0.7%
Other Expenses	164	159	3.0%	191	-14.1%
Total Expenses	1,951	2,189	-10.9%	1,996	-2.3%
EBITDA (Excl Other Income)	44	162	-73.0%	172	-74.6%
Depreciation	66	53	25.3%	61	8.1%
EBIT / PBIT	22	161	-86.3%	139	-84.1%
Finance Costs	42	56	-24.6%	39	7.0%
EBT/ PBT	(20)	105	-119.3%	99	-120.3%
Tax Expense	3	34	-91.4%	29	-89.8%
Net Profit after Tax	(23)	71	-132.6%	71	-132.7%
Adj Earning Per Share	(0.4)	1.1	-132.4%	1.1	-132.6%
No of Shares Diluted (mn)	65.8	65.3		65.7	
Margins Analysis (%)			bps		bps
Gross Margins	33.2%	34.2%	-97	37.5%	-434
EBITDA Margins (Excl Other Income)	2.2%	6.9%	-470	7.9%	-574
PAT Margins	-1.1%	2.9%	-407	3.2%	-435
Effective Tax Rate %	-14.5%	32.4%	-4694	29.0%	-4352
Cost Analysis (%)			bps		bps
COGS as a % to sales	66.8%	65.8%	97	62.5%	434
EE Cost as a % to sales	22.8%	20.5%	228	20.8%	198
Other exps as a % to sales	8.2%	6.8%	145	8.8%	-58

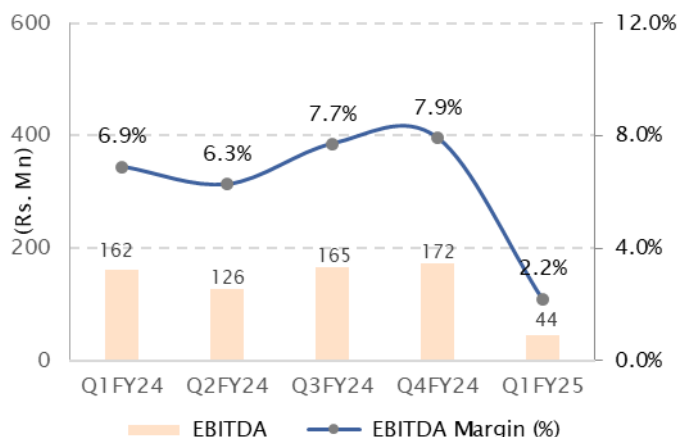
Source: Company, D&B Research

Net Sales Trajectory



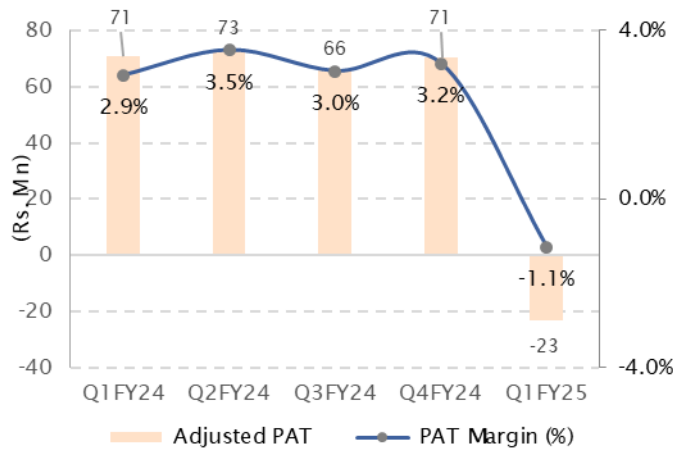
Source: Company, D&B Research

EBITDA & EBITDA Margin Trajectory



Source: Company, D&B Research

Net Sales Trajectory



Source: Company, D&B Research

Valuation & Outlook

Avalon Technologies is currently trading at 65.7x / 29.4x FY25e / FY26e EPS.

The last few quarters have been impacted by macroeconomic challenges and a destocking cycle in the US. However, management is now seeing positive signs in the US business, with the beginning of the restocking cycle and the normalization of the supply chain. As revenue grows in the coming years, optimizing and integrating the current team and infrastructure should significantly enhance operating leverage, leading to profit growth outpacing revenue growth.

Avalon maintains industry-leading gross margins by avoiding low-margin businesses. Management expects to sustain these margins, depending on the product mix and ramp-ups. Avalon improved working capital by 5 days and is working to improve it further by 10-15 days over FY24, which should free up cash, further supporting growth and profitability.

Avalon has optimized production allocation, strategically relocating some production activities from the US to India (12% in the US and 88% in India in Q1FY25), rationalizing costs in US operations, and leveraging operating efficiencies. The company aims for a balanced split between the Indian and US markets, with 85% of manufacturing in India for FY25. With strong order book growth (INR 14,610 Mn) and LOI (INR 9,850 Mn), along with new deal wins expected to ramp up in H2FY25, Avalon anticipates favorable performance in the medium to long term, supported by solid long-term fundamentals.

Given the long-term growth levers in place, management is confident in their ability to double their topline in the next three years. We assign a HOLD rating to the stock, applying a target multiple of 35x FY26e to arrive at a target price of INR 561.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	6,905	8,407	9,447	8,672	10,256	14,358	18,666
Operating Expenses	-4,560	-5,541	-5,947	-5,523	-6,666	-9,333	-12,133
Employee Cost	-1,192	-1,314	-1,714	-1,850	-1,998	-2,397	-2,781
Other Expenses	-491	-577	-659	-673	-724	-984	-1,253
Operating Profit	661	975	1,128	625	867	1,644	2,499
Depreciation	-157	-180	-197	-229	-248	-250	-275
PBIT	504	795	931	396	620	1,394	2,224
Other income	54	109	144	149	149	149	149
Interest	-270	-248	-348	-164	-119	-89	-71
PBT	288	656	727	381	650	1,454	2,302
PBT (post except)	288	856	727	381	650	1,454	2,302
Provision for tax	-57	-182	-202	-101	-179	-400	-599
Reported PAT	231	675	525	280	471	1,054	1,704
Owners PAT	215	632	525	280	471	1,054	1,704
Adj PAT (excl Except)	215	485	525	280	471	1,054	1,704

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	16	16	116	131	131	131	131
Reserves	583	872	5,254	5,342	5,813	6,867	8,570
Net worth	599	888	5,370	5,473	5,944	6,998	8,702
Non Current Liabilites	1,051	1,016	1,074	1,030	887	794	816
Current Liabilites	3,792	3,990	5,443	2,804	2,800	3,238	3,613
TOTAL LIABILITIES	5,125	5,894	11,887	9,308	9,632	11,031	13,130
Non Current Assets	1,329	1,391	1,767	2,220	2,318	2,293	2,284
Fixed Assets	841	918	1,086	1,257	1,263	1,170	1,084
Right of Use Assets	200	244	342	409	478	520	571
Financial Assets	43	53	53	219	230	242	254
Deferred Tax Asset	232	159	132	180	185	190	196
Other Non Current	12	18	153	155	162	171	179
Current Assets	3,796	4,503	10,120	7,088	7,313	8,738	10,846
Current investments	-	-	-	755	830	913	1,005
Inventories	1,458	2,330	3,179	3,163	3,653	4,602	5,817
Trade Receivables	1,819	1,774	2,062	1,869	2,107	2,950	3,835
Cash and Bank	335	101	4,222	1,065	487	36	-47
Other Financial	14	13	37	7	7	8	8
Other Current	170	284	619	229	229	229	229
TOTAL ASSETS	5,125	5,894	11,887	9,308	9,632	11,031	13,130

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	4.2	8.2	4.4	3.0	4.9	9.6	13.0
Current Assets	3,461	4,401	5,898	5,267	5,996	7,789	9,889
Net Debt	2,618	2,839	-1,160	-179	-126	-57	-252
Gross Fixed Asset Turn	7	8	8	6	6	7	9
Net Fixed Asset Turn	8	9	10	8	10	15	22

Source: Company, Dalal & Broacha Research

Cashflow (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	288	856	727	381	650	1,454	2,302
Depreciation	157	180	197	229	248	250	275
Net Chg in WC	-555	-760	-936	-234	-435	-1,158	-1,529
Taxes	-35	-125	-194	-164	-179	-400	-599
Others	200	6	74	-39	110	80	61
CFO	55	157	-132	173	393	226	510
Capex	-192	-177	-274	-355	-450	-354	-385
Net Investments made	-99	-6	2	15	-	-	-
Others	29	-	18	-1,121	-	-	-
CFI	-263	-184	-254	-1,461	-450	-354	-385
Change in Share capital	73	-68	4,815	4,642	-	-	-
Change in Debts	440	86	48	-1,961	-450	-300	-186
Div. & Div Tax	-37	-38	-55	-41	-	-	-
Others	-201	-189	-262	-5,148	-72	-24	-22
CFF	275	-209	4,546	-2,508	-522	-324	-208
Total Cash Generated	67	-236	4,159	-3,796	-579	-451	-83
Cash Opening Balance	266	335	101	4,222	1,065	487	36
Cash Closing Balance	333	99	4,261	427	487	36	-47

Ratios	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	9.6	11.6	11.9	7.2	8.5	11.5	13.4
NPM	3.1	5.7	5.5	3.2	4.5	7.3	9.1
Tax rate	-19.9	-21.2	-27.8	-26.4	-27.5	-27.5	-26.0
Growth Ratios (%)							
Net Sales	7.6	21.8	12.4	-8.2	18.3	40.0	30.0
Operating Profit	2.6	47.5	15.6	-44.6	38.8	89.6	52.0
PBIT	2.9	57.8	17.1	-57.5	56.5	124.9	59.5
PAT	86.7	192.3	-22.2	-46.7	68.2	123.8	61.6
Per Share (Rs.)							
Net Earnings (EPS)	26.92	79.16	9.06	4.26	7.17	16.04	25.92
Cash Earnings (CPS)	46.64	101.70	12.45	7.75	10.93	19.85	30.11
Dividend	-	-	-	-	-	-	-
Book Value	75.07	111.19	92.66	83.29	90.46	106.50	132.42
Free Cash Flow	-25.25	-7.90	-5.17	-4.05	-2.87	-3.81	0.10
Valuation Ratios							
P/E(x)	17	6	52	110.5	65.7	29.4	18.2
P/B(x)	6	4	5	6	5	4	4
EV/EBIDTA(x)	4	3	26	49	35	19	12
Div. Yield(%)	-	-	-	-	-	-	-
FCF Yield(%)	-5.36	-1.68	-1.10	-0.86	-0.61	-0.81	0.02
Return Ratios (%)							
ROE	36%	55%	10%	5%	8%	15%	20%
ROCE	16%	24%	13%	8%	11%	20%	25%
RoIC	14%	19%	18%	8%	10%	16%	21%

Source: Company, D&B Research

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