



## Avalon Hits High Gear: Record Revenue and Resilient ROCE Ahead...

Avalon Technologies reported a strong Q2FY25 with record revenue, driven by U.S. market recovery and steady demand in India. Improved margins and reduced net working capital days are set to restore ROCE to historical levels above 20%. With a robust order book of INR 1,485 crore and INR 1,100 crore in long-term contracts, Avalon is well-positioned for sustained growth.

- INR revenue came in at INR 2,750 Mn, +36.8% YoY / +37.9% QoQ.
- EBITDA stood at INR 301 Mn, +139.1% YoY / +589.1% QoQ.
- EBITDA margins: 11%, vs 6.3% / 2.2% in Q2FY24 / Q1FY25 respectively
- PAT came in at INR +175 Mn, +140.1% YoY / NA QoQ.
- PAT margins: 6.3%, vs 3.5% / -1.1% in Q2FY24 / Q1FY25 respectively
- EPS at INR 2.6 in Q2FY25 vs 1.1/ -0.4 in Q2FY24 / Q1FY25 respectively

### Geography-wise

- India contributed 41% of revenue in H1FY25 vs 46% of revenue in FY24.
- US contributed 59% of revenue in H1FY25 vs 54% of revenue in FY24.
- India manufacturing contributed to 89% in Q2FY25 vs 75% in Q2FY24.
- US manufacturing contributed 11% in Q2FY25 vs 25% in Q2FY24.

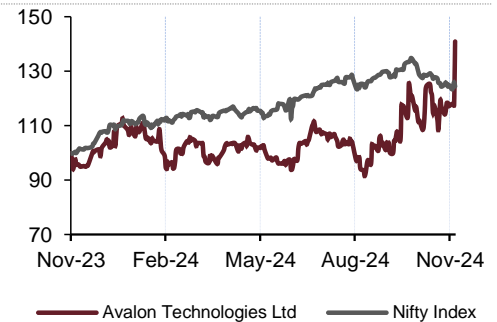
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>938</b>	<b>33</b>

#### Market data

Current price	Rs	708
Market Cap (Rs.Bn)	(Rs Bn)	47
Market Cap (US\$ Mn)	(US\$ Mn)	555
Face Value	Rs	2
52 Weeks High/Low	Rs	707.9 / 425
Average Daily Volume	('000)	268
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
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	8,407	9,447	8,672	10,430	14,602	18,982
EBIDTA	975	1,128	625	923	1,720	2,597
Margins	11.6	11.9	7.2	8.8	11.8	13.7
PAT (adj)	632	525	280	506	1,103	1,771
Growth (%)	192.3	-22.2	-46.7	80.6	117.9	60.6
EPS	79.16	9.06	4.26	7.66	16.69	26.81
P/E (x)	9	78	166	92	42	26
P/B (x)	6	8	9	8	7	5
EV/EBITDA (x)	3	40	74	50	27	18
RoE (%)	55	10	5	8	16	20
ROCE (%)	24	13	8	11	20	26
RoIC (%)	19	18	8	10	17	21
Gross Fixed Asset Turn	8	8	6	6	8	9

Source: Dalal and Broacha

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## Concall Highlights

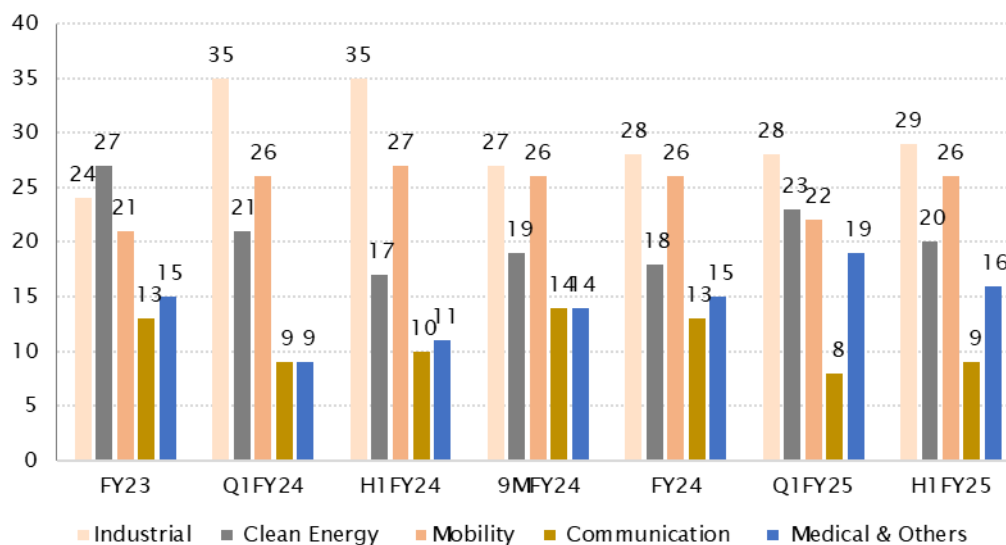
- **The order book stands at INR 1,485 cr, +19.4% YoY/+1.6% QoQ (executable over the next 12 to 14 months). An additional INR 1,100 cr, +46.7% YoY/ +11.7% QoQ contracts and LOIs are also in place, with execution expected over the next 2 to 3 years.**
- **Gross margins stood at 36.8%, (-37 bps YoY/+363 bps QoQ).** Management expects full-year margins to stabilize between 33-35%.
- Avalon's Indian manufacturing operations contributed a substantial 89% of total revenue in Q2 FY25, with strong profitability, delivering a 13.7% EBITDA margin and an 8.7% PAT margin. With expanding domestic demand, Avalon has completed Phase 1 of its brownfield expansion in Chennai, with Phase 2 set to commence in H2 FY25. The Indian segment focuses on high-demand sectors like rail, aerospace, and industrial, further supported by ongoing projects with Indian Railways, which position Avalon to capitalize on the growing market.
- U.S. operations contributed 11% of revenue in Q2 FY25, with a net loss of INR 4 crore, marking an improvement from a loss of INR 14.2 crore in Q1 due to cost rationalization efforts. Approximately 45-50% of U.S. manufacturing has been shifted to India to leverage cost efficiencies, while Avalon targets 15% revenue contribution from U.S. production by FY25, focusing on high-value sectors such as clean energy and industrial. This dual-location strategy enables Avalon to offer flexible manufacturing options in both regions, aligning with its long-term goal of a balanced 50-50 revenue mix between India and the U.S.
- Net working capital (NWC) days improved from 161 in March 2024 to 134 by September 2024, a 27-day reduction attributed to better inventory management. This improvement surpasses management's initial target of 10-15 days, positioning the company closer to pre-COVID NWC levels of 90 days.
- Avalon generated positive operating cash flow of INR 18.7 crores for H1 FY25, although Q2 saw a temporary negative cash flow due to revenue growth and higher receivables. As of September 30, 2024, Avalon reported a net cash position of INR 29.6 crores, reflecting prudent cash management amidst growth. For H1 FY25, Avalon's total capital expenditure amounted to INR 21.5 crores, with an anticipated full-year CapEx range of INR 40-45 crores, aimed at supporting both ongoing facility expansions and operational enhancements in India and the U.S.
- Key growth drivers are U.S. customers, new U.S. clients, and expanding Indian clientele. Recent wins in U.S. sectors clean energy, automotive, and industrial as well as Indian rail and aerospace are expected to contribute significantly to Avalon's growth trajectory.

### Vertical-wise updates:

- **Clean Energy (20% of topline in H1FY25).** Avalon has experienced rapid growth in its clean energy segment, particularly in the U.S., where it supplies home electrification and energy storage solutions. This sector, growing 60-70% annually, benefits from the U.S. Inflation Reduction Act. While Avalon does not manufacture solar panels or inverters, its focus on energy storage systems positions it well for continued growth, especially as demand remains strong for efficient storage solutions.
- **Mobility (26% of topline in H1FY25).** Avalon is actively engaged in the rail sector within India, supported by projects for Indian Railways, including components for interlocking, braking, and cabling systems. The company recently secured new rail contracts, underscoring its leadership in this area. Avalon is also involved in the testing of advanced interoperability systems, with these projects expected to progress into 2025.

- Industrials (29% of topline in H1FY25).** In both the U.S. and India, Avalon has achieved growth in the industrial sector, with significant new orders and ongoing partnerships with major industrial clients. The segment’s expansion reflects a broader recovery and restocking trend among customers, supporting Avalon’s continued industrial growth.
- Communication (9% of topline in H1FY25).** Avalon has expanded its communication sector presence, securing contracts that leverage its manufacturing capabilities. This segment is expected to contribute more significantly to revenues in future quarters, driven by increased demand for communication infrastructure.
- Medical (17% of topline in H1FY25).** Avalon’s medical sector performance has been bolstered by its existing customers resuming full-scale operations, allowing the company to capitalize on growth in healthcare technology and medical devices.

## Rev Mix Industry wise %



Source: Company, D&B Research

## FY25e Outlook

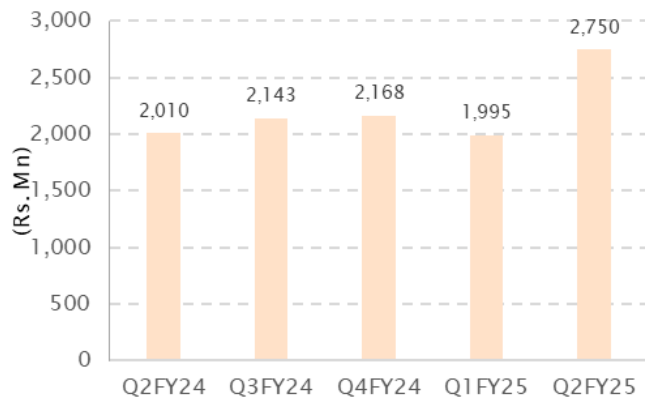
- Revenue growth of 16-20% in FY25. With the aspiration to double its topline in the next 2 to 3 years.
- Management expects profitability in FY25 to grow at a faster rate than revenue, driven by operational efficiencies and cost optimizations.

## Quarterly Deviation Sheet

(Rs.Mn)	Q2FY25	Q2FY24	Yoy Growth	Q1FY25	QoQ Growth (%)	Q2FY25E	Deviation
<b>Revenue from Operations</b>	<b>2,750</b>	<b>2,010</b>	<b>36.8%</b>	<b>1,995</b>	<b>37.9%</b>	<b>2,311</b>	<b>19.0%</b>
Other Income	39	47	-17.5%	44	-11.8%	44	
COGS	1,737	1,262	37.6%	1,332	30.4%	1,502	
Employee Benefits Expense	467	455	2.6%	455	2.7%	485	
Other Expenses	245	166	47.1%	164	49.3%	162	
Total Expenses	2,449	1,884	30.0%	1,951	25.5%	2,150	
<b>EBITDA (Excl Other Income)</b>	<b>301</b>	<b>126</b>	<b>139.1%</b>	<b>44</b>	<b>589.1%</b>	<b>162</b>	<b>86.2%</b>
Depreciation	69	55	24.7%	66	4.1%	69	
<b>EBIT / PBIT</b>	<b>272</b>	<b>118</b>	<b>129.7%</b>	<b>22</b>	<b>1131.9%</b>	<b>137</b>	<b>98.6%</b>
Finance Costs	37	32	15.2%	42	-11.4%	42	
<b>EBT/ PBT</b>	<b>234</b>	<b>86</b>	<b>172.9%</b>	<b>(20)</b>	<b>NA</b>	<b>95</b>	<b>147.6%</b>
Tax Expense	60	13	355.4%	3	1933.1%	24	
<b>Net Profit after Tax</b>	<b>175</b>	<b>73</b>	<b>140.1%</b>	<b>(23)</b>	<b>NA</b>	<b>71</b>	<b>146.2%</b>
Adj Earning Per Share	2.6	1.1	138.1%	(0.4)	NA	1.1	145.2%
No of Shares Diluted (mn)	66.0	65.5		65.8		65.8	
<b>Margins Analysis (%)</b>			<b>bps</b>		<b>bps</b>		
Gross Margins	36.8%	37.2%	-37	33.2%	363	35.0%	184
EBITDA Margins (Excl OI)	11.0%	6.3%	469	2.2%	877	7.0%	396
PAT Margins	6.3%	3.5%	273	-1.1%	740	3.0%	325
Effective Tax Rate %	25.4%	15.2%	1018	-14.5%	3997	25.0%	42
<b>Cost Analysis (%)</b>			<b>bps</b>		<b>bps</b>		
COGS as a % to sales	63.2%	62.8%	37	66.8%	-363	65.0%	-184
EE Cost as a % to sales	17.0%	22.7%	-567	22.8%	-581	21.0%	-402
Other exps as a % to sales	8.9%	8.3%	62	8.2%	68	7.0%	190

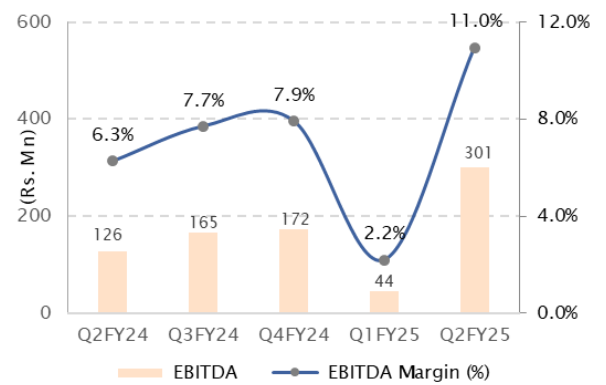
Source: Company, D&amp;B Research

## Net Sales Trajectory



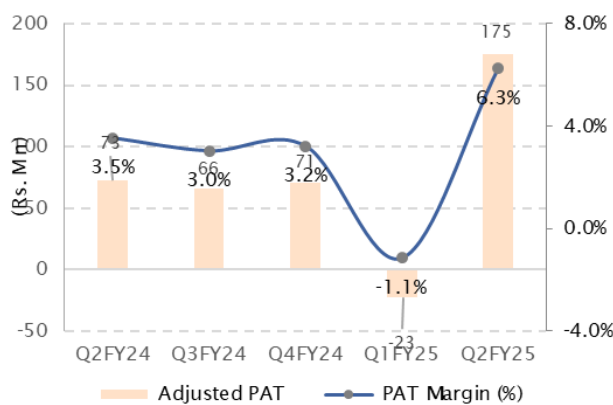
Source: Company, D&B Research

## EBITDA & EBITDA Margin Trajectory



Source: Company, D&B Research

## Adj PAT Trajectory



Source: Company, D&B Research

## Valuation & Outlook

**Avalon Technologies is currently trading at 92.4x / 42.4x / 26.4x FY25e / FY26e / FY27e P/E.**

The last few quarters posed challenges for Avalon Technologies due to macroeconomic pressures and a destocking phase in the U.S. market. However, following this quarter's strong performance, management now observes encouraging signs, as the U.S. business transitions to a restocking phase amid stabilizing supply chains. With revenue growth projected to accelerate in the coming years, Avalon is focused on optimizing its team and infrastructure to enhance operating leverage, aiming for profit growth to outpace revenue growth.

Avalon sustains industry-leading gross margins by prioritizing high-value contracts and avoiding low-margin business. Management expects these margins to remain robust through product mix optimization and strategic production ramp-ups. Working capital efficiency is also a priority; Avalon has improved working capital days by 27, progressing toward its pre-COVID target of 90 days, which is expected to free up additional cash to support growth and profitability.

To drive further efficiency, Avalon has strategically relocated approximately 45-50% of its U.S. production to India, targeting an 85-15 manufacturing split between India and the U.S. by FY25, which supports cost control. With a strong order book of INR 1,485 crore and an additional INR 1,100 crore in long-term contracts, Avalon is well-positioned for medium- to long-term growth as new client wins ramp up production in H2 FY25.

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 BUY rating to the stock, applying a target multiple of 35x FY27e to arrive at a target price of INR 938.**

## Exhibit 1: Annual Peer Comparison

Company Name		KAYNES IN Equity	SYRMA IN Equity	DIXON IN Equity	AMBER IN Equity	PGEL IN Equity	Cyient DLM IN Equity	AVALON (DnB Est)	AVALON IN Equity
CMP (₹)		5,623	551	15,787	6,206	670	658	<b>708</b>	708
Mcap (₹ Mn)		359,843	98,034	944,072	209,768	175,527	52,195	<b>4,672</b>	4,672
Revenue (₹ Mn)	FY24	18,046	31,538	176,909	67,293	27,465	11,919	<b>8,672</b>	8,672
	FY25E	29,698	45,169	371,639	88,565	36,966	16,488	<b>10,430</b>	10,481
	FY26E	41,336	60,899	496,697	107,356	45,300	31,857	<b>14,602</b>	13,722
	FY27E	60,973	79,789	613,391	129,607	56,064	41,407	<b>18,982</b>	17,111
EBITDA (₹ Mn)	FY24	2,542	1,985	6,976	4,919	2,668	1,110	<b>625</b>	625
	FY25E	4,342	2,924	13,915	6,856	3,486	1,595	<b>923</b>	933
	FY26E	6,432	4,162	18,890	8,652	4,238	2,521	<b>1,720</b>	1,475
	FY27E	9,133	5,580	24,025	10,873	5,998	3,164	<b>2,597</b>	1,991
EBITDA Margin (%)	FY24	14.1%	6.3%	3.9%	7.3%	9.7%	9.3%	<b>7.2%</b>	7.2%
	FY25E	14.6%	6.5%	3.7%	7.7%	9.4%	9.7%	<b>8.8%</b>	8.9%
	FY26E	15.6%	6.8%	3.8%	8.1%	9.4%	7.9%	<b>11.8%</b>	10.7%
	FY27E	15.0%	7.0%	3.9%	8.4%	10.7%	7.6%	<b>13.7%</b>	11.6%
PAT (₹ Mn)	FY24	1,833	1,087	3,678	1,329	1,350	612	<b>280</b>	280
	FY25E	3,104	1,510	7,753	2,565	2,156	983	<b>506</b>	504
	FY26E	4,332	2,285	11,065	3,857	2,797	2,749	<b>1,103</b>	955
	FY27E	6,196	3,163	14,678	5,357	3,730	3,765	<b>1,771</b>	1,339
Adj EPS	FY24	30.2	6.1	62.8	39.4	5.4	8.4	<b>4.3</b>	4.2
	FY25E	47.4	8.5	132.3	76.1	8.3	12.4	<b>7.7</b>	7.9
	FY26E	66.9	12.9	184.9	114.4	10.8	29.7	<b>16.7</b>	13.7
	FY27E	96.1	17.7	245.5	159.0	14.4	41.0	<b>26.8</b>	19.1
PE (x)	FY24	185.9	89.8	251.2	251.2	123.9	78.5	<b>166.1</b>	169.0
	FY25E	118.5	64.7	119.3	119.3	81.0	53.2	<b>92.4</b>	89.8
	FY26E	84.0	42.8	85.4	85.4	62.3	22.2	<b>42.4</b>	51.7
	FY27E	58.5	31.0	64.3	39.0	46.7	16.1	<b>26.4</b>	37.0
Revenue CAGR	(FY24-26E)	51%	39%	68%	26%	28%	63%	<b>30%</b>	26%
EBITDA CAGR	(FY24-26E)	59%	45%	65%	33%	26%	51%	<b>66%</b>	54%
PAT CAGR	(FY24-26E)	54%	45%	73%	70%	44%	112%	<b>98%</b>	85%
EPS CAGR	(FY24-26E)	49%	45%	72%	70%	41%	88%	<b>98%</b>	81%
Revenue CAGR	(FY24-27E)	50%	36%	51%	24%	27%	51%	<b>30%</b>	25%
EBITDA CAGR	(FY24-27E)	53%	41%	51%	30%	31%	42%	<b>61%</b>	47%
PAT CAGR	(FY24-27E)	50%	43%	59%	59%	40%	83%	<b>85%</b>	69%
EPS CAGR	(FY24-27E)	47%	43%	57%	59%	38%	70%	<b>85%</b>	66%

Source: Company, Bloomberg, Dalal & Broacha Research

## Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	6,905	8,407	9,447	8,672	10,430	14,602	18,982
Operating Expenses	-4,560	-5,541	-5,947	-5,523	-6,779	-9,491	-12,338
Employee Cost	-1,192	-1,314	-1,714	-1,850	-1,998	-2,397	-2,781
Other Expenses	-491	-577	-659	-673	-730	-993	-1,266
<b>Operating Profit</b>	<b>661</b>	<b>975</b>	<b>1,128</b>	<b>625</b>	<b>923</b>	<b>1,720</b>	<b>2,597</b>
Depreciation	-157	-180	-197	-229	-248	-250	-275
<b>PBIT</b>	<b>504</b>	<b>795</b>	<b>931</b>	<b>396</b>	<b>675</b>	<b>1,470</b>	<b>2,322</b>
Other income	54	109	144	149	149	149	149
Interest	-270	-248	-348	-164	-131	-98	-78
PBT	288	656	727	381	693	1,521	2,393
PBT (post exceptional)	288	856	727	381	693	1,521	2,393
Provision for tax	-57	-182	-202	-101	-187	-418	-622
<b>Reported PAT</b>	<b>231</b>	<b>675</b>	<b>525</b>	<b>280</b>	<b>506</b>	<b>1,103</b>	<b>1,771</b>
MI	-16	-43	-	-	-	-	-
<b>Owners PAT</b>	<b>215</b>	<b>632</b>	<b>525</b>	<b>280</b>	<b>506</b>	<b>1,103</b>	<b>1,771</b>
<b>Adjusted Profit (excl Exceptionals)</b>	<b>215</b>	<b>485</b>	<b>525</b>	<b>280</b>	<b>506</b>	<b>1,103</b>	<b>1,771</b>

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	16	16	116	131	132	132	132
Reserves	583	872	5,254	5,342	5,848	6,951	8,721
<b>Net worth</b>	<b>599</b>	<b>888</b>	<b>5,370</b>	<b>5,473</b>	<b>5,980</b>	<b>7,083</b>	<b>8,854</b>
MI	-317	-	-	-	-	-	-
<b>Non Current Liabilites</b>	<b>1,051</b>	<b>1,016</b>	<b>1,074</b>	<b>1,030</b>	<b>887</b>	<b>794</b>	<b>816</b>
<b>Current Liabilites</b>	<b>3,792</b>	<b>3,990</b>	<b>5,443</b>	<b>2,804</b>	<b>2,822</b>	<b>3,271</b>	<b>3,655</b>
<b>TOTAL LIABILITIES</b>	<b>5,125</b>	<b>5,894</b>	<b>11,887</b>	<b>9,308</b>	<b>9,689</b>	<b>11,147</b>	<b>13,324</b>
<b>Non Current Assets</b>	<b>1,329</b>	<b>1,391</b>	<b>1,767</b>	<b>2,220</b>	<b>2,318</b>	<b>2,293</b>	<b>2,284</b>
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 Assets	12	18	153	155	162	171	179
<b>Current Assets</b>	<b>3,796</b>	<b>4,503</b>	<b>10,120</b>	<b>7,088</b>	<b>7,370</b>	<b>8,854</b>	<b>11,040</b>
Current investments	-	-	-	755	830	913	1,005
Inventories	1,458	2,330	3,179	3,163	3,715	4,681	5,916
Trade Receivables	1,819	1,774	2,062	1,869	2,143	3,000	3,900
Cash and Bank Balances	335	101	4,222	1,065	446	24	-18
Other Financial Assets	14	13	37	7	7	8	8
Other Current Assets	170	284	619	229	229	229	229
<b>TOTAL ASSETS</b>	<b>5,125</b>	<b>5,894</b>	<b>11,887</b>	<b>9,308</b>	<b>9,689</b>	<b>11,147</b>	<b>13,324</b>

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
ROA	4.2	8.2	4.4	3.0	5.2	9.9	13.3
Current Assets	3,461	4,401	5,898	5,267	6,094	7,917	10,053
Net Debt	2,618	2,839	-1,160	-179	-85	-46	-282
Gross Fixed Asset Turn	7	8	8	6	6	8	9

Source: Company, Dalal &amp; Broacha Research

Cashflow (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	288	856	727	381	693	1,521	2,393
Depreciation	157	180	197	229	248	250	275
Net Chg in WC	-555	-760	-936	-234	-511	-1,178	-1,555
Taxes	-35	-125	-194	-164	-187	-418	-622
Others	200	6	74	-39	122	89	68
<b>CFO</b>	<b>55</b>	<b>157</b>	<b>-132</b>	<b>173</b>	<b>364</b>	<b>264</b>	<b>558</b>
Capex	-192	-177	-274	-355	-450	-354	-385
Net Investments made	-99	-6	2	15	-	-	-
Others	29	-	18	-1,121	-	-	-
<b>CFI</b>	<b>-263</b>	<b>-184</b>	<b>-254</b>	<b>-1,461</b>	<b>-450</b>	<b>-354</b>	<b>-385</b>
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	-83	-33	-29
<b>CCF</b>	<b>275</b>	<b>-209</b>	<b>4,546</b>	<b>-2,508</b>	<b>-533</b>	<b>-333</b>	<b>-215</b>
<b>Total Cash Generated</b>	<b>67</b>	<b>-236</b>	<b>4,159</b>	<b>-3,796</b>	<b>-619</b>	<b>-422</b>	<b>-42</b>
<b>Cash Opening Balance</b>	<b>266</b>	<b>335</b>	<b>101</b>	<b>4,222</b>	<b>1,065</b>	<b>446</b>	<b>24</b>
<b>Cash Closing Balance</b>	<b>333</b>	<b>99</b>	<b>4,261</b>	<b>427</b>	<b>446</b>	<b>24</b>	<b>-18</b>

Ratios	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OPM	9.6	11.6	11.9	7.2	8.8	11.8	13.7
NPM	3.1	5.7	5.5	3.2	4.8	7.5	9.3
Tax rate	-19.9	-21.2	-27.8	-26.4	-27.0	-27.5	-26.0
<b>Growth Ratios (%)</b>							
Net Sales	7.6	21.8	12.4	-8.2	20.3	40.0	30.0
Operating Profit	2.6	47.5	15.6	-44.6	47.7	86.4	50.9
PBIT	2.9	57.8	17.1	-57.5	70.5	117.7	57.9
PAT	86.7	192.3	-22.2	-46.7	80.6	117.9	60.6
<b>Per Share (Rs.)</b>							
Net Earnings (EPS)	26.92	79.16	9.06	4.26	7.66	16.69	26.81
Cash Earnings (CPS)	46.64	101.70	12.45	7.75	11.41	20.48	30.97
Dividend	-	-	-	-	-	-	-
Book Value	75.07	111.19	92.66	83.29	90.54	107.24	134.05
Free Cash Flow	-25.25	-7.90	-5.17	-4.05	-3.34	-3.26	0.80
<b>Valuation Ratios</b>							
P/E(x)	26	9	78	166.1	92.4	42.4	26.4
P/B(x)	9	6	8	9	8	7	5
EV/EBIDTA(x)	4	3	40	74	50	27	18
Div. Yield(%)	-	-	-	-	-	-	-
FCF Yield(%)	-3.57	-1.12	-0.73	-0.57	-0.47	-0.46	0.11
<b>Return Ratios (%)</b>							
ROE	36%	55%	10%	5%	8%	16%	20%
ROCE	16%	24%	13%	8%	11%	20%	26%
RoIC	14%	19%	18%	8%	10%	17%	21%

Source: Company, D&amp;B Research



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