

Avalon Technologies

BSE Sensex
81,635

S&P CNX
25,013



Bloomberg	AVALON IN
Equity Shares (m)	66
M.Cap.(INRb)/(USDb)	36.2 / 0.4
52-Week Range (INR)	668 / 425
1, 6, 12 Rel. Per (%)	8/-5/-31
12M Avg Val (INR M)	145

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	10.5	14.1	18.4
EBITDA	0.8	1.6	2.3
PAT	0.4	1.0	1.6
EBITDA (%)	7.8	11.0	12.4
EPS (INR)	6.7	15.1	23.9
EPS Gr. (%)	58.3	123.3	58.7
BV/Sh. (INR)	90.0	105.1	129.0

Ratios

Net D/E	(0.0)	(0.1)	(0.1)
RoE (%)	7.8	15.4	20.4
RoCE (%)	7.6	14.2	19.1

Valuations

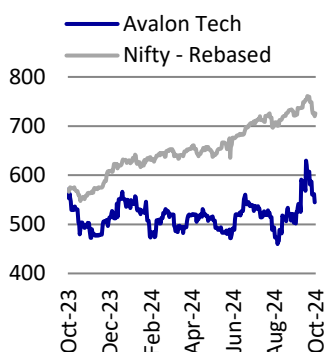
P/E (x)	81.6	36.5	23.0
EV/EBITDA (x)	43.7	23.0	15.6

Shareholding pattern (%)

As on	Jun-24	Mar-24	Jun-23
Promoter	50.9	50.9	51.2
DII	23.2	22.5	16.6
FII	2.6	2.4	12.5
Others	23.4	24.2	19.7

Note: FII includes depository receipts

Stock's performance (one-year)



CMP: INR549

TP: INR690 (+26%)

Buy

Recovery in sight; to be repositioned for growth

Avalon Technologies (AVALON) stands out in the EMS landscape as the only player with a significant manufacturing presence in the US. While this has historically been a competitive advantage for the company, recent economic headwinds in the region have posed challenges. However, the company is successfully navigating these issues with a well-defined recovery plan for its US business, alongside continued growth in its domestic operations.

- The US business is witnessing recovery with a shift in stance from destocking to restocking. Further, various strategic steps taken by the company during the leaner period are yielding results as the company is securing new orders and onboarding new clients.
- AVALON's domestic business is expected to thrive with significant wins in the aerospace, defense, EV, and industrial sectors. The company is expanding into new areas such as solar and servers while preparing to meet increasing demands with two new facilities in Chennai.
- Overall, we expect that majority of the pain is behind the company. AVALON's domestic as well as US businesses are expected to ramp up over 2HFY25 and FY26, leading to strong growth for the company.

Light at the end of the tunnel for the US business

- AVALON witnessed a decline in revenue (down 16% YoY in FY24) and losses in its US business, driven by macroeconomic challenges that led to inventory destocking among several customers.
- However, the company believes that the destocking phase has now bottomed out, with signs of a shift toward restocking. Several customers are already nearing 100% of their original demand levels. Accordingly, the company's order inflow is expected to improve going forward.
- During this lean period, AVALON has taken several strategic steps to strengthen its US business for long-term growth. These include cost rationalization, relocating labor-intensive production to India, increasing the wallet share from existing clients, and acquiring new customers.
- The company has made significant inroads into the clean energy space and expects to benefit from the Inflation Reduction Act (IRA). A key customer in this segment has also received product compliance certification, leading to strong supplies from 2HFY25, which will be further ramped up in FY26.
- Sunrun – one of the key clients of Lunar Energy, which is a major customer of AVALON within the clean energy segment, in its recent concall, highlighted a stronger outlook for 2HFY25 with materially higher net subscriber value and positive cash flow generation.
- Further, Avalon has onboarded two auto-component companies as well as secured significant contracts with two major industrial companies. Additionally, the company has expanded into cable harnesses and lighting products within the aerospace sector, signing a 15-year master term agreement with a major global aerospace player.
- Factoring the momentum within the US business, going forward, we expect the company's US business to clock ~25% revenue CAGR over FY24-FY27 with margins to improve, led by favorable operating leverage.

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Indian business to spearhead growth ahead

- While AVALON addressed challenges in its US operations, it remained focused on scaling its Indian business and strengthening its presence in the domestic market.
- The company has reinforced its foothold in established sectors such as industrial, rail, and automotive while expanding into high-growth areas such as solar, defense, and servers.
- Its concentrated efforts in the domestic market have led to major new wins in the aerospace, defense, and EV sectors, securing contracts with large multinational companies. Additionally, the company has secured new business from leading players in the industrial and energy sectors.
- AVALON is collaborating with key industry leaders in the rail sector on anti-collision Kavach systems, a development that could significantly boost its domestic rail business.
- To meet the rising demand, AVALON is set to launch two new facilities in Chennai, India. With prototyping orders already secured, we expect a ramp-up in domestic operations starting in 2HFY25, with further expansion in FY26.
- We anticipate AVALON's Indian business to clock ~32% revenue CAGR over FY24-FY27, contributing ~50% to consolidated sales by FY27 (v/s ~41%/46% in FY23/FY24).

Valuation and view

- We believe that going forward, AVALON will be well-positioned for growth on account of: 1) recovery within the US business led by restocking from existing customers and new orders from recently onboarded clients; 2) continued growth within the Indian business led by new order wins and ramp up of upcoming plants; and 3) an increase in the mix of box build through new orders or increasing the wallet share from existing customers.
- We estimate AVALON to clock a CAGR of 28%/54%/78% in revenue/EBITDA/Adj. PAT over FY24-FY27. We reiterate our BUY rating on the stock with a TP of INR690 (40x Jun'26E EPS).

Story in charts

Exhibit 1: Revenue CAGR of 28% over FY24-FY27E...

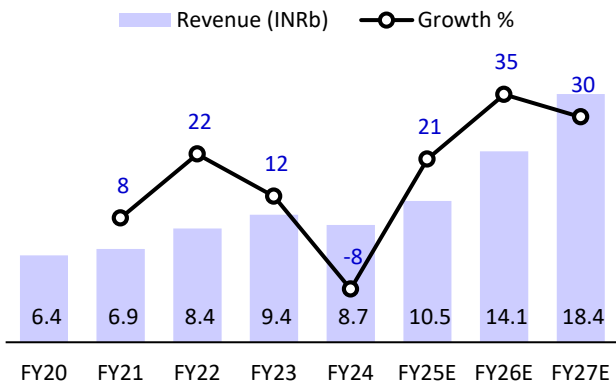


Exhibit 2: ...with EBITDA registering a CAGR of 54%...

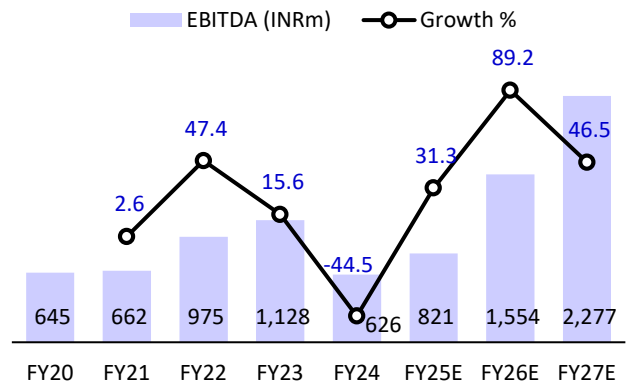


Exhibit 3: ...led by margin improvement to 12.4% in FY27E

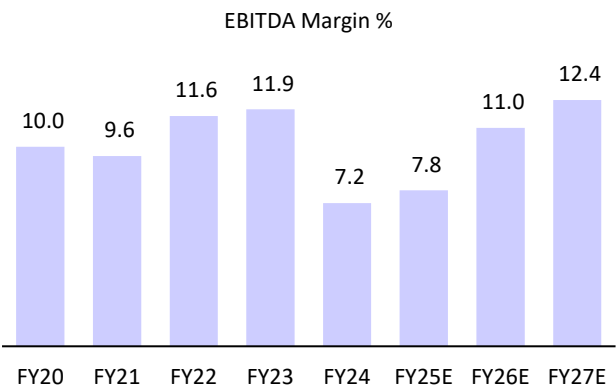


Exhibit 4: Adj. PAT CAGR of 78% over FY24-27E

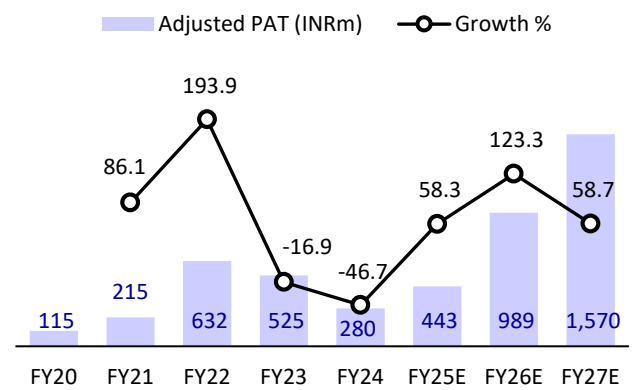


Exhibit 5: Working capital days to improve to 165 days by FY27...

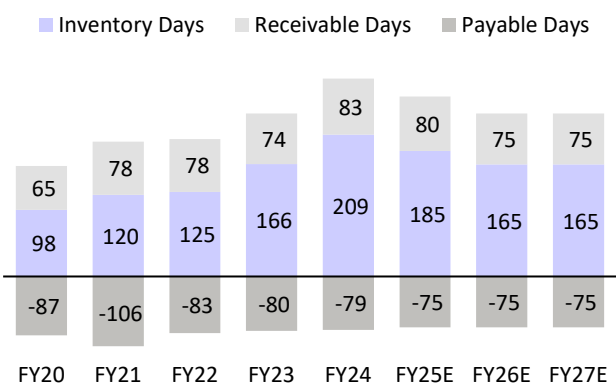


Exhibit 6: ...leading to decent cash flow generation...

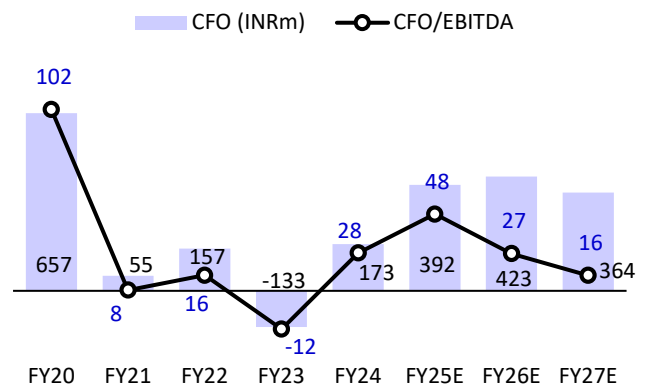


Exhibit 7: ...and healthy return ratios

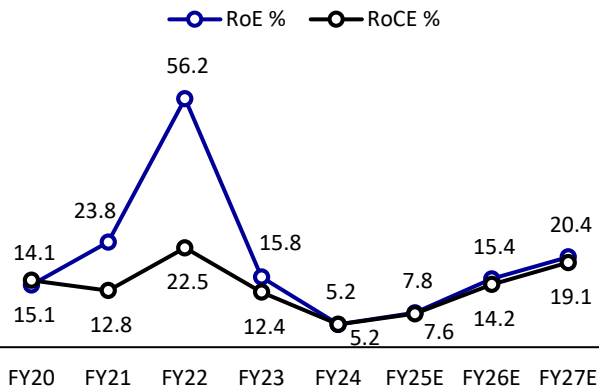
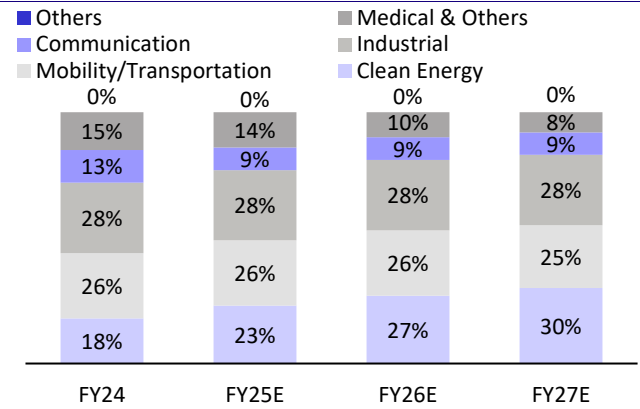
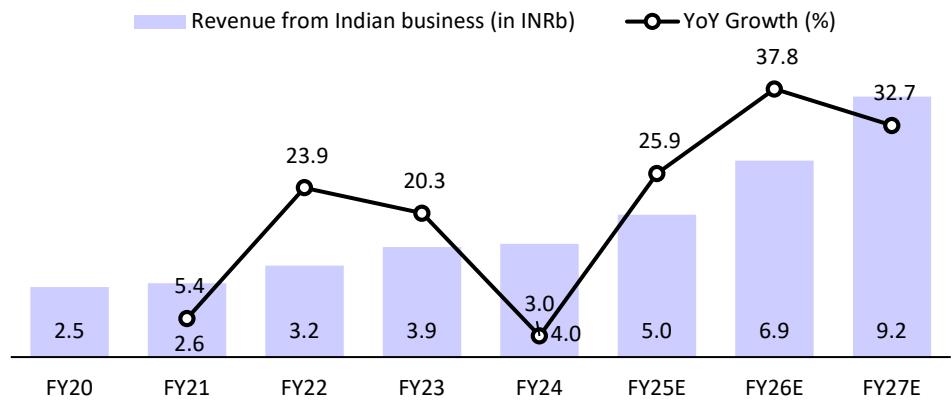


Exhibit 8: Business mix going forward (%)



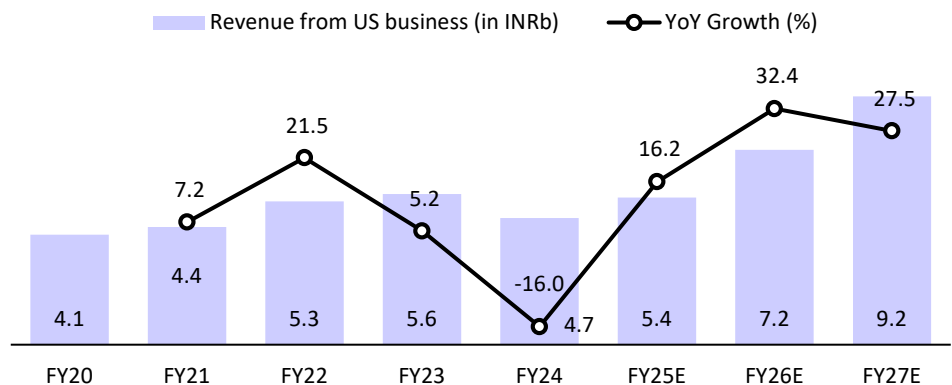
Source: MOFSL, Company

Exhibit 9: India business to clock ~32% CAGR over FY24-27E



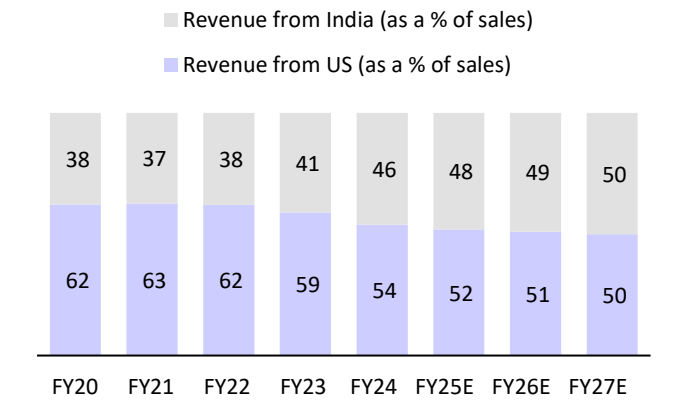
Source: Company, MOFSL

Exhibit 10: US business to clock ~25% CAGR over FY24-27E



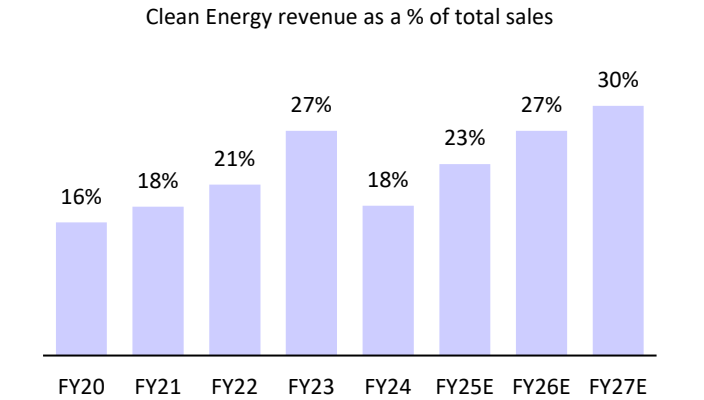
Source: Company, MOFSL

Exhibit 11: Contribution from the Indian business on the rise



Source: Company, MOFSL

Exhibit 12: Contribution from the clean energy segment to increase significantly going forward



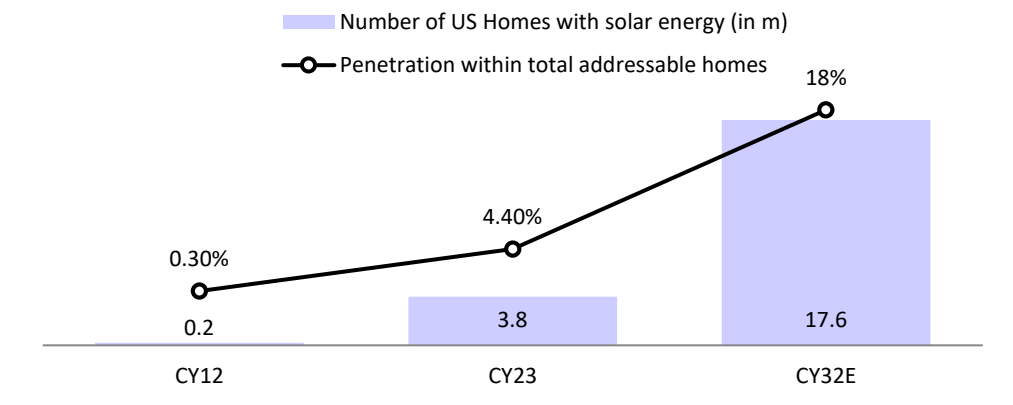
Source: Company, MOFSL

Exhibit 13: Long-term key clients of Avalon Technologies within the Clean Energy space

Client Name	Overview	Headquarters Location
Lunar Energy	❖ Lunar Energy specializes in innovative solar power and renewable energy solutions, focusing on sustainability and clean energy technologies. It is known for its commitment to providing clean energy solutions.	California, US
Ohmium	❖ Ohmium addresses global energy challenges with advanced energy technologies, particularly in the clean energy sector. Its core strength lies in providing clean energy solutions.	California, US
FTC Solar	❖ FTC Solar is a leading provider of solar tracking and racking solutions, enhancing the efficiency and performance of solar energy systems. It excels in optimizing solar energy generation.	Texas, US
TMEIC	❖ Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) is a global leader in industrial systems and electronics. It specializes in energy and industrial solutions, contributing to various sectors.	Tokyo, Japan
Plug Power	❖ Plug Power specializes in hydrogen and fuel cell solutions, offering clean and sustainable energy solutions for mobility and power generation. Its unique strength lies in hydrogen and fuel cell technology.	New York, US

Source: Company, MOFSL

Exhibit 14: Increasing penetration within US Solar home electrification market



Source: Sunrun, Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INRm)
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	10,462	14,124	18,361
Change (%)	NA	7.6	21.8	12.4	-8.2	20.6	35.0	30.0
RM Cost	4,128	4,574	5,552	6,067	5,545	6,903	9,025	11,696
Employees Cost	1,162	1,192	1,314	1,605	1,815	1,920	2,486	3,140
Other Expenses	484	478	566	647	685	818	1,059	1,249
Total Expenditure	5,774	6,243	7,432	8,319	8,046	9,641	12,570	16,084
% of Sales	90.0	90.4	88.4	88.1	92.8	92.2	89.0	87.6
EBITDA	645	662	975	1,128	626	821	1,554	2,277
Margin (%)	10.0	9.6	11.6	11.9	7.2	7.8	11.0	12.4
Depreciation	155	158	172	197	229	277	319	359
EBIT	490	504	803	931	397	544	1,235	1,918
Int. and Finance Charges	450	270	248	348	164	130	75	59
Other Income	113	54	309	144	148	209	205	239
PBT bef. EO Exp.	153	288	864	727	381	623	1,364	2,098
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	153	288	864	727	381	623	1,364	2,098
Total Tax	30	58	183	202	101	180	375	528
Tax Rate (%)	19.4	19.9	21.1	27.8	26.5	28.9	27.5	25.2
Minority Interest	8	16	50	0	0	0	0	0
Reported PAT	115	215	632	525	280	443	989	1,570
Adjusted PAT	115	215	632	525	280	443	989	1,570
Change (%)	NA	86.1	193.9	-16.9	-46.7	58.3	123.3	58.7
Margin (%)	1.8	3.1	7.5	5.6	3.2	4.2	7.0	8.5

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	5,785	6,774	8,344
Net Worth	822	988	1,260	5,370	5,473	5,916	6,905	8,475
Minority Interest	-431	-317	0	0	0	0	0	0
Total Loans	2,388	2,775	2,789	3,063	1,642	1,142	742	742
Deferred Tax Liabilities	-263	0	0	0	15	15	15	15
Capital Employed	2,515	3,445	4,049	8,433	7,129	7,072	7,662	9,231
Gross Block	1,126	1,335	1,512	1,861	2,285	2,642	3,033	3,432
Less: Accum. Deprn.	139	295	390	586	815	1,092	1,411	1,769
Net Fixed Assets	987	1,041	1,123	1,275	1,470	1,550	1,623	1,662
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	239	248	250
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	7,265	8,359	10,693
Inventory	1,553	1,458	2,330	3,179	3,163	3,499	4,080	5,287
Account Receivables	1,138	1,819	1,774	2,062	1,869	2,293	2,902	3,773
Cash and Bank Balance	266	335	101	4,222	1,065	636	389	532
Loans and Advances	241	472	532	912	789	837	989	1,102
Curr. Liability & Prov.	1,719	1,680	1,831	3,370	2,178	2,737	3,323	4,129
Account Payables	1,369	1,289	1,242	1,418	974	1,418	1,854	2,403
Other Current Liabilities	216	253	449	1,823	1,048	1,151	1,271	1,469
Provisions	134	138	141	130	156	167	198	257
Net Current Assets	1,478	2,404	2,906	7,005	4,708	4,528	5,036	6,564
Appl. of Funds	2,516	3,445	4,049	8,433	7,129	7,072	7,662	9,231

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	6.7	15.1	23.9
Cash EPS	4.7	6.4	13.9	12.5	7.7	11.0	19.9	29.3
BV/Share	14.2	17.0	21.7	92.7	83.3	90.0	105.1	129.0
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	276.0	148.3	50.5	60.7	129.1	81.6	36.5	23.0
Cash P/E	117.8	85.6	39.7	44.2	71.0	50.2	27.6	18.7
P/BV	38.8	32.3	25.3	5.9	6.6	6.1	5.2	4.3
EV/Sales	5.2	4.9	4.1	3.3	4.1	3.4	2.5	1.9
EV/EBITDA	52.1	51.4	35.4	27.2	57.5	43.7	23.0	15.6
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	-0.1	0.4	-0.6
Return Ratios (%)								
RoE	14.1	23.8	56.2	15.8	5.2	7.8	15.4	20.4
RoCE	15.1	12.8	22.5	12.4	5.2	7.6	14.2	19.1
RoIC	21.4	17.7	20.2	17.7	6.4	7.3	15.3	20.6
Working Capital Ratios								
Fixed Asset Turnover (x)	5.7	5.6	5.9	5.6	4.2	4.2	5.0	5.7
Asset Turnover (x)	1.5	1.3	1.4	0.8	0.9	1.1	1.3	1.4
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	4.2	16.4	32.3
Net Debt/Equity	2.6	2.5	2.1	-0.2	0.0	0.0	-0.1	-0.1

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	623	1,364	2,098
Depreciation	155	158	180	197	229	277	319	359
Interest & Finance Charges	434	222	209	244	113	-78	-129	-179
Direct Taxes Paid	-47	-35	-125	-189	-164	-180	-375	-528
(Inc)/Dec in WC	-121	-561	-805	-1,125	-414	-249	-755	-1,385
CF from Operations	574	72	315	-147	145	392	423	364
Others	83	-17	-158	13	28	0	0	0
CF from Operating incl EO	657	55	157	-133	173	392	423	364
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-400	-400	-400
Free Cash Flow	487	-137	-21	-406	-182	-8	23	-36
(Pur)/Sale of Investments	-24	29	0	0	-1,121	0	0	0
Others	2	-104	-6	2	15	209	205	239
CF from Investments	-192	-267	-184	-271	-1,461	-191	-195	-161
Issue of Shares	0	73	0	798	8	0	0	0
Inc/(Dec) in Debt	-296	461	158	128	-1,580	-500	-400	0
Interest Paid	-426	-217	-189	-283	-88	-130	-75	-59
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	-630	-475	-59
Inc/Dec of Cash	42	89	-234	4,118	-3,796	-429	-247	143
Opening Balance	204	246	335	101	4,219	1,065	636	389
Other cash & cash equivalent	20	0	0	3	643	0	0	0
Closing Balance	266	335	101	4,222	1,065	636	389	532

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NOTES

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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