

# 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

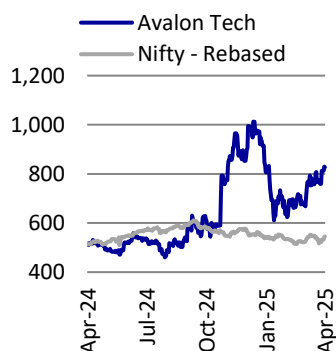
P/E (x)	83.9	49.3	33.1
EV/EBITDA (x)	46.2	29.3	21.0

## 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 245% 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 9<sup>th</sup> Jul'25 compared to China, which is facing **245%** tariffs as announced by the US on 15<sup>th</sup> 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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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- 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

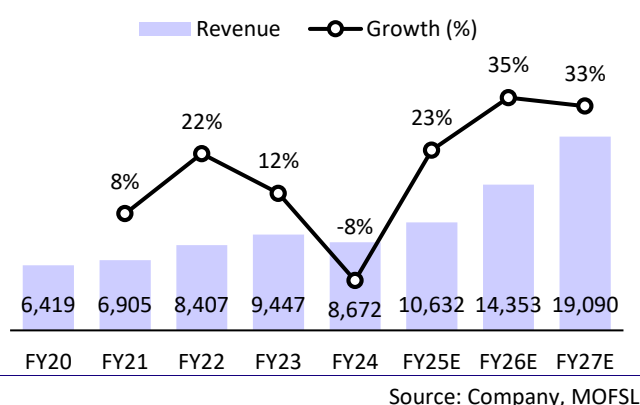
- India saw significant growth in B2B and B2C Printed Circuit Board (PCB) assembly demand due to increased import duties. We expect PCB and other passive components to be locally manufactured with a component policy now in place.
- India's electrical machinery dominates the country's exports to the US, 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

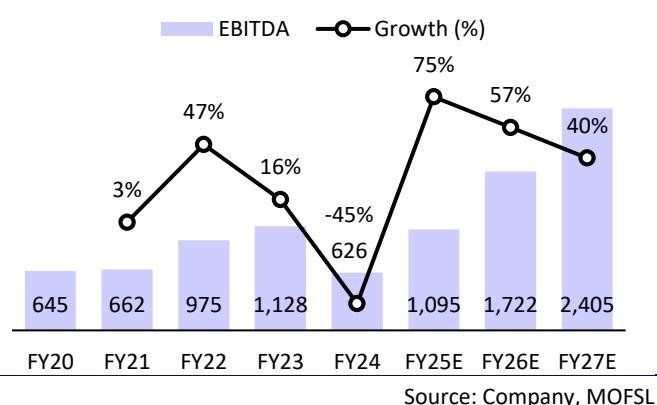
- We believe Avalon will be in a better position in the EMS space amid the tariff war, backed by its strategic manufacturing presence, longstanding US and global clientele, and increased order flows from the domestic market.
- With the company's US operations now witnessing a healthy recovery and the 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

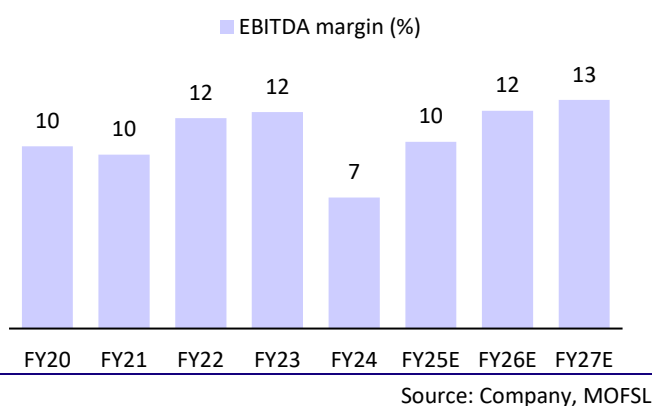
**Exhibit 1: Revenue growth trend**



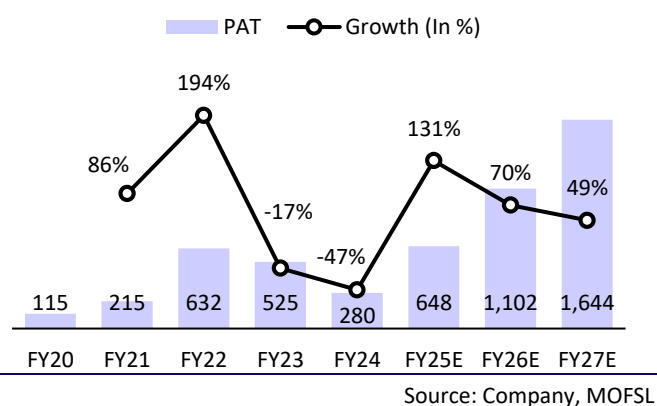
**Exhibit 2: EBITDA growth trend**



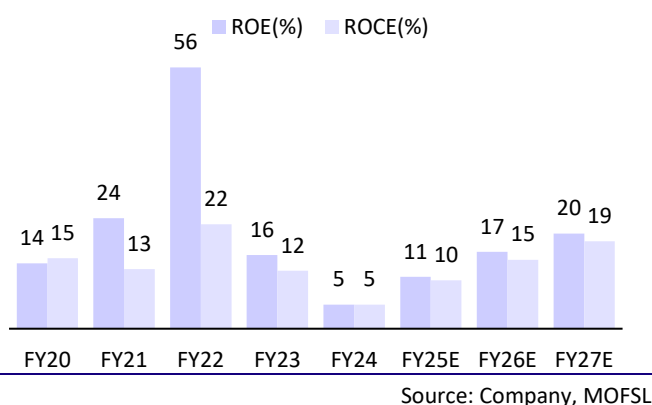
**Exhibit 3: EBITDA margin over the years**



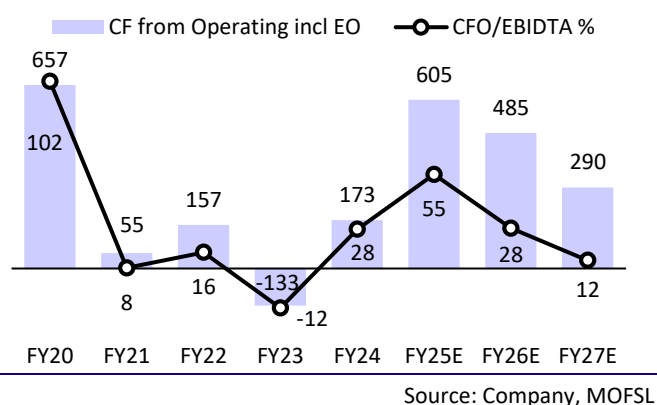
**Exhibit 4: Adj. PAT over the years**



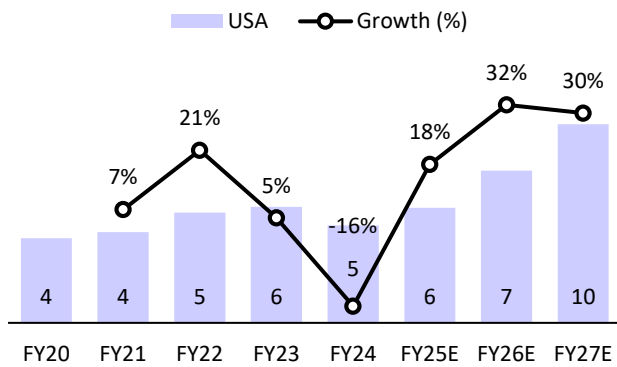
**Exhibit 5: Improving WC days**



**Exhibit 6: CFO and CFO/EBITDA**

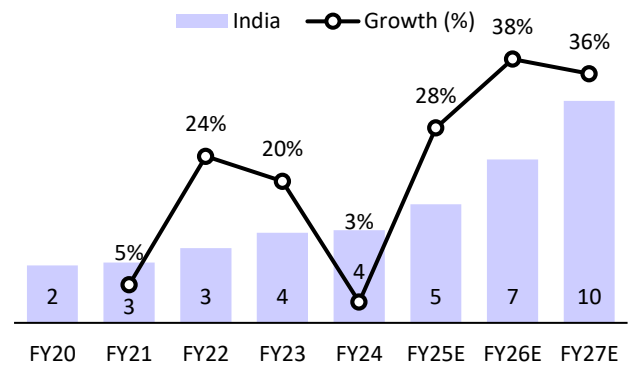


**Exhibit 7: Rising US business**



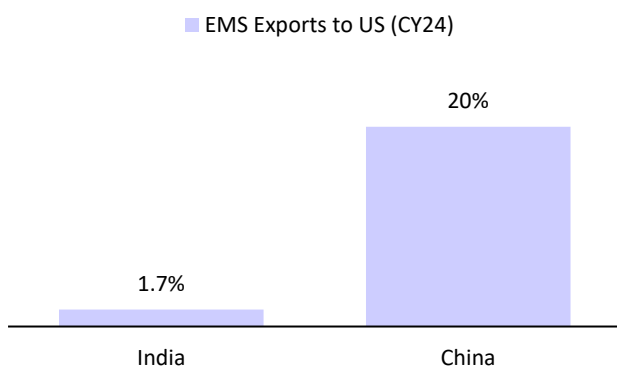
Source: Company, MOFSL

**Exhibit 8: Growing Indian business**



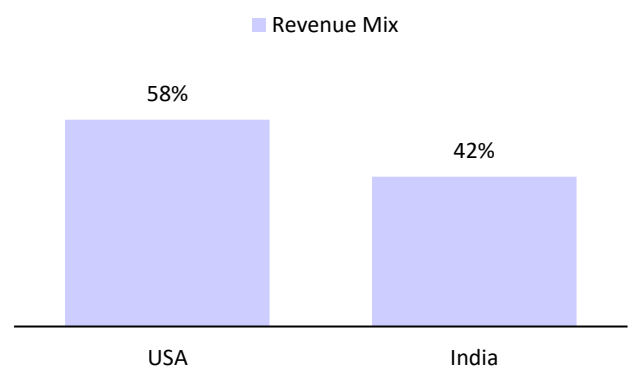
Source: Company, MOFSL

**Exhibit 9: EMS exports to US (CY24)**



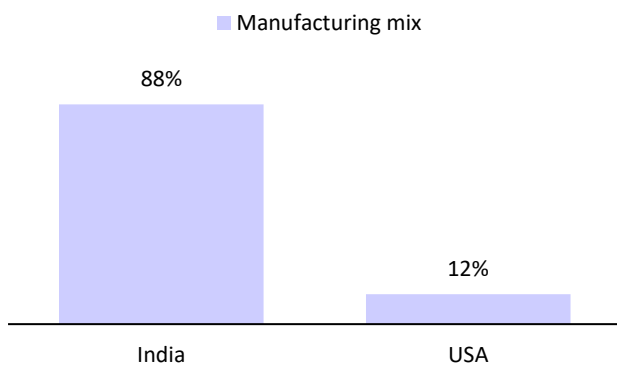
Source: Company, MOFSL

**Exhibit 10: Revenue mix (9MFY25)**



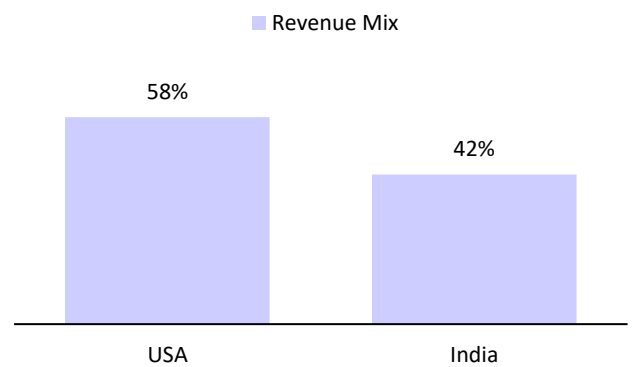
Source: Company, MOFSL

**Exhibit 11: Manufacturing mix (Q3FY25)**



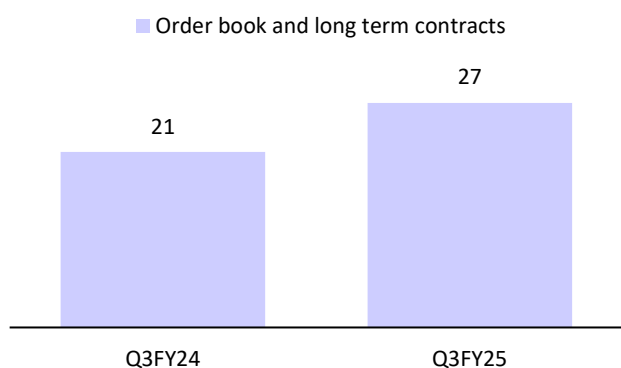
Source: Company, MOFSL

**Exhibit 12: Revenue mix (9MFY25)**



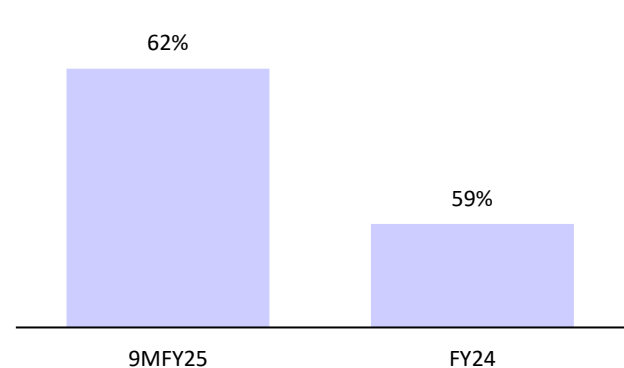
Source: Company, MOFSL

**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
<b>Total Income from Operations</b>	<b>6,419</b>	<b>6,905</b>	<b>8,407</b>	<b>9,447</b>	<b>8,672</b>	<b>10,632</b>	<b>14,353</b>	<b>19,090</b>
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
<b>Total Expenditure</b>	<b>5,774</b>	<b>6,243</b>	<b>7,432</b>	<b>8,319</b>	<b>8,046</b>	<b>9,538</b>	<b>12,631</b>	<b>16,685</b>
% of Sales	90.0	90.4	88.4	88.1	92.8	89.7	88.0	87.4
<b>EBITDA</b>	<b>645</b>	<b>662</b>	<b>975</b>	<b>1,128</b>	<b>626</b>	<b>1,095</b>	<b>1,722</b>	<b>2,405</b>
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
<b>EBIT</b>	<b>490</b>	<b>504</b>	<b>803</b>	<b>931</b>	<b>397</b>	<b>808</b>	<b>1,369</b>	<b>1,995</b>
Int. and Finance Charges	450	270	248	348	164	160	99	83
Other Income	113	54	309	144	148	246	250	286
<b>PBT bef. EO Exp.</b>	<b>153</b>	<b>288</b>	<b>864</b>	<b>727</b>	<b>381</b>	<b>895</b>	<b>1,520</b>	<b>2,198</b>
EO Items	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>153</b>	<b>288</b>	<b>864</b>	<b>727</b>	<b>381</b>	<b>895</b>	<b>1,520</b>	<b>2,198</b>
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
<b>Reported PAT</b>	<b>115</b>	<b>215</b>	<b>632</b>	<b>525</b>	<b>280</b>	<b>648</b>	<b>1,102</b>	<b>1,644</b>
<b>Adjusted PAT</b>	<b>115</b>	<b>215</b>	<b>632</b>	<b>525</b>	<b>280</b>	<b>648</b>	<b>1,102</b>	<b>1,644</b>
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
<b>Net Worth</b>	<b>822</b>	<b>988</b>	<b>1,260</b>	<b>5,370</b>	<b>5,473</b>	<b>6,121</b>	<b>7,223</b>	<b>8,867</b>
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
<b>Capital Employed</b>	<b>2,515</b>	<b>3,445</b>	<b>4,049</b>	<b>8,433</b>	<b>7,129</b>	<b>7,577</b>	<b>8,279</b>	<b>9,923</b>
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
<b>Net Fixed Assets</b>	<b>987</b>	<b>1,041</b>	<b>1,123</b>	<b>1,275</b>	<b>1,470</b>	<b>1,741</b>	<b>1,989</b>	<b>2,098</b>
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	439	338	318
<b>Total Investments</b>	<b>24</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>755</b>	<b>755</b>	<b>755</b>	<b>755</b>
Current Investments	0	0	0	0	755	755	755	755
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,197</b>	<b>4,084</b>	<b>4,738</b>	<b>10,375</b>	<b>6,886</b>	<b>7,376</b>	<b>8,560</b>	<b>11,042</b>
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
<b>Curr. Liability &amp; Prov.</b>	<b>1,719</b>	<b>1,680</b>	<b>1,831</b>	<b>3,370</b>	<b>2,178</b>	<b>2,734</b>	<b>3,363</b>	<b>4,289</b>
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
<b>Net Current Assets</b>	<b>1,478</b>	<b>2,404</b>	<b>2,906</b>	<b>7,005</b>	<b>4,708</b>	<b>4,642</b>	<b>5,197</b>	<b>6,753</b>
<b>Appl. of Funds</b>	<b>2,516</b>	<b>3,445</b>	<b>4,049</b>	<b>8,433</b>	<b>7,129</b>	<b>7,577</b>	<b>8,279</b>	<b>9,923</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2.0</b>	<b>3.7</b>	<b>10.9</b>	<b>9.1</b>	<b>4.3</b>	<b>9.9</b>	<b>16.8</b>	<b>25.0</b>
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
<b>Valuation (x)</b>								
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
<b>Return Ratios (%)</b>								
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
<b>Working Capital Ratios</b>								
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
<b>Leverage Ratio (x)</b>								
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
<b>(INRm)</b>								
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
<b>CF from Operations</b>	<b>574</b>	<b>72</b>	<b>315</b>	<b>-147</b>	<b>145</b>	<b>605</b>	<b>485</b>	<b>290</b>
Others	83	-17	-158	13	28	0	0	0
<b>CF from Operating incl EO</b>	<b>657</b>	<b>55</b>	<b>157</b>	<b>-133</b>	<b>173</b>	<b>605</b>	<b>485</b>	<b>290</b>
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-800	-500	-500
<b>Free Cash Flow</b>	<b>487</b>	<b>-137</b>	<b>-21</b>	<b>-406</b>	<b>-182</b>	<b>-195</b>	<b>-15</b>	<b>-210</b>
(Pur)/Sale of Investments	-24	29	0	0	-1,121	0	0	0
Others	2	-104	-6	2	15	246	250	286
<b>CF from Investments</b>	<b>-192</b>	<b>-267</b>	<b>-184</b>	<b>-271</b>	<b>-1,461</b>	<b>-554</b>	<b>-250</b>	<b>-214</b>
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
<b>CF from Fin. Activity</b>	<b>-424</b>	<b>301</b>	<b>-207</b>	<b>4,522</b>	<b>-2,508</b>	<b>-360</b>	<b>-499</b>	<b>-83</b>
<b>Inc/Dec of Cash</b>	<b>42</b>	<b>89</b>	<b>-234</b>	<b>4,118</b>	<b>-3,796</b>	<b>-309</b>	<b>-264</b>	<b>-7</b>
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
<b>Closing Balance</b>	<b>266</b>	<b>335</b>	<b>101</b>	<b>4,222</b>	<b>1,065</b>	<b>756</b>	<b>492</b>	<b>485</b>

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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