

Avalon Technologies

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	AVALON IN
Equity Shares (m)	66
M.Cap.(INRb)/(USDb)	58.4 / 0.7
52-Week Range (INR)	1074 / 425
1, 6, 12 Rel. Per (%)	4/23/61
12M Avg Val (INR M)	394

Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
Sales	11.0	14.1	18.0
EBITDA	1.1	1.6	2.2
Adj. PAT	0.6	1.1	1.6
EBITDA Margin (%)	10.1	11.3	12.1
Cons. Adj. EPS (INR)	9.6	16.1	23.8
EPS Gr. (%)	125.2	67.4	48.3
BV/Sh. (INR)	92.4	108.5	132.3

Ratios

Net D:E	0.1	(0.1)	(0.1)
RoE (%)	10.9	16.0	19.8
RoCE (%)	10.1	14.3	18.8

Valuations

P/E (x)	91.4	54.6	36.8
EV/EBITDA (x)	52.9	36.2	26.4

Shareholding Pattern (%)

As on	Mar-25	Dec-24	Mar-24
Promoter	50.6	50.6	50.9
DII	17.3	20.9	22.5
FII	7.1	5.4	2.4
Others	25.0	23.2	24.2

Note: FII includes depository receipts

CMP: INR879
TP: INR1,030 (+17%)
Buy

Healthy growth momentum continues across geographies

In-line operating performance

- Avalon Technologies (AVALON) reported a strong quarter, with revenue growing 58% YoY in 4QFY25, fueled by a stellar performance in the India (+73% YoY) and US (+47% YoY) businesses. EBITDA improved (+410bp) due to a rise in domestic manufacturing (87% vs. 77% in 4QFY24) and favorable operating leverage.
- The company is witnessing growth across all the business segments, with the orderbook growing 29% YoY (INR17.6b). AVALON is expanding its manufacturing footprint and is also entering into strategic collaborations (with companies like Zepco) to enhance profitability. As a result, management has guided for an 18-20% YoY revenue growth with an expected gross margin of 33-35%.
- We broadly maintain our EPS estimates for FY26/FY27. **Reiterate BUY with a TP of INR1,030 (premised on 43x FY27E EPS).**

Operating leverage underpins EBITDA margin expansion

- AVALON's consolidated revenue grew 58% YoY to INR3.4b, driven by growth in both the domestic (up 73% YoY due to traction in the mobility and clean energy businesses) and US (up 47% YoY) businesses.
- Gross margin contracted 250bp YoY to 35%, led by a change in the product mix (the management had previously guided for a sustainable gross margin range of 33-35%). Consolidated EBITDA surged 2.4x YoY to INR414m, with EBITDA margin expanding 410bp to 12.1%, driven by operating leverage. This was reflected in a 420bp YoY decline in employee expenses as a percentage of sales to 16.6% and a 240bp decline in other expenses to 6.4%. Consequently, the company reported an adjusted PAT of INR243m, marking a 3.4x jump YoY.
- The total order book stood at INR28.8b with the short-term order book (executable within 14 months) at INR17.6b (up 29% YoY/11% QoQ) and the longer executable order book (from 14 months up to three years) at INR11.23b (up 18% YoY).
- Gross debt as of Mar'25 was INR1.4b vs. INR1.6b as of Mar'24. Net working capital days dipped to 124 from 150 days as of Dec'24, led by lower inventory days (down 17 days) and trade receivables days (down 10 days).
- In FY25, revenue/EBITDA/Adj. PAT increased 27%/77%/2.2x YoY to INR10.9b/INR1.1b/INR634m.

Highlights from the management commentary

- Guidance & outlook:** Management has guided an 18-20% growth in revenue, with significant growth anticipated in 2HFY26. AVALON has secured several new projects that have moved from the design/prototype stage to the production stage. Many of these are expected to ramp up in the current financial year.

- **Collaboration with Zepco:** AVALON is enhancing its technical competence via strategic collaborations, including its partnership with Zepco Technologies. Zepco is involved in the design and manufacture of motors, drives, controllers, and power solutions, serving sectors such as drones, EVs, and defense.
- **Capex.** AVALON plans to incur a capex of INR450-500m in FY26, which may include capex on a new export facility in Chennai and a domestic facility located ~30km away from the existing Tamil Nadu facility. The capacity expansion is done to take care of the large businesses expected to come into India from the European and GCC customers, which are currently being dominated by Japanese customers.

Valuation and view

- With the company witnessing growth across both the Indian and US businesses, we expect AVALON's revenue and profitability to experience a healthy improvement going forward.
- Further, the company's long-term revenue trajectory is anticipated to be strong, backed by: 1) the addition of new customers in the US and Indian markets, 2) order inflows from the high-growth/high-margin industries, such as clean energy, mobility, and industrials, 3) strategic collaborations, which will enhance competence and margin, and 4) venturing into advanced technology segments.
- We estimate AVALON to post a CAGR of 28%/40%/58% in revenue/EBITDA/adj. PAT over FY25-FY27 on account of strong growth and healthy order inflows.

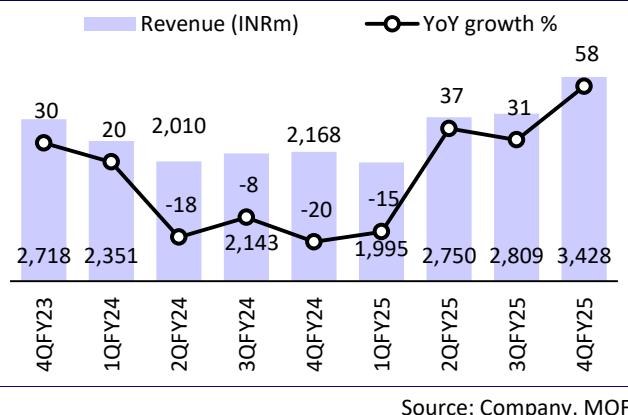
Reiterate BUY with a TP of INR1,030 (premised on 43x FY27E EPS).

Consolidated - Quarterly Earnings Model

Y/E March									(INR m)		
	FY24				FY25				FY24	FY25	FY25
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	4QE	Var	%
Gross Sales	2,351	2,010	2,143	2,168	1,995	2,750	2,809	3,428	8,672	10,981	3,079
YoY Change (%)	19.9	-17.9	-7.9	-20.2	-15.2	36.8	31.1	58.1	-8.2	26.6	42.0
Total Expenditure	2,189	1,884	1,977	1,996	1,951	2,449	2,462	3,014	8,046	9,876	2,675
EBITDA	162	126	165	172	44	301	346	414	626	1,105	403
Margins (%)	6.9	6.3	7.7	7.9	2.2	11.0	12.3	12.1	7.2	10.1	13.1
Depreciation	53	55	60	61	66	69	74	77	229	286	78
Interest	56	32	36	39	42	37	45	42	164	167	35
Other Income	51	47	22	28	44	39	100	32	148	215	63
PBT before EO expense	105	86	91	99	-20	234	327	326	381	867	353
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0
PBT	105	86	91	99	-20	234	327	326	381	867	353
Tax	34	13	25	29	3	60	87	83	101	233	97
Rate (%)	32.4	15.2	27.5	29.0	-14.5	25.4	26.7	25.5	26.5	26.8	27.5
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	71	73	66	71	-23	175	240	243	280	634	256
Adj PAT	71	73	66	71	-23	175	240	243	280	634	256
YoY Change (%)	-23.9	-50.7	14.7	-68.9	NA	140.1	264.7	243.8	-46.7	126.7	262.6
Margins (%)	3.0	3.6	3.1	3.3	-1.2	6.4	8.5	7.1	3.2	5.8	8.3

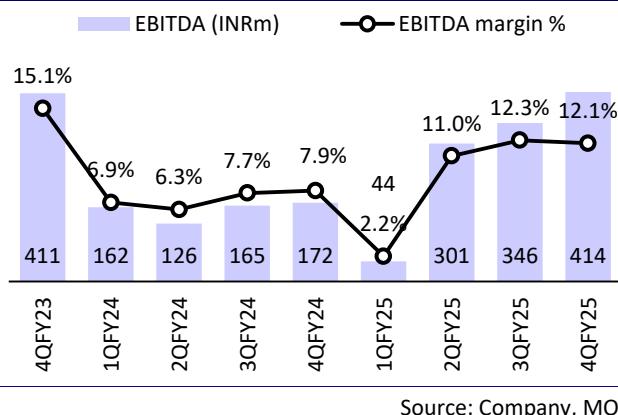
Key exhibits

Exhibit 1: Consolidated revenue trend



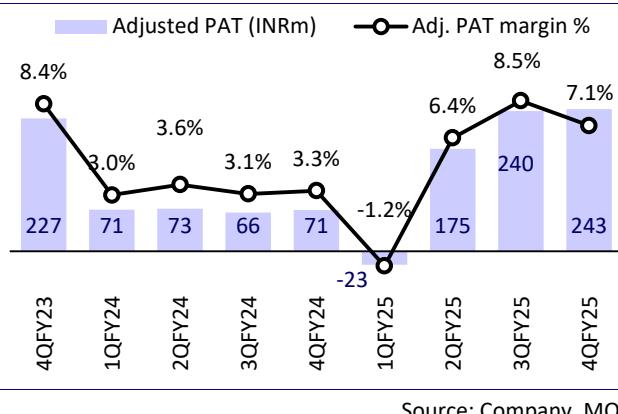
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



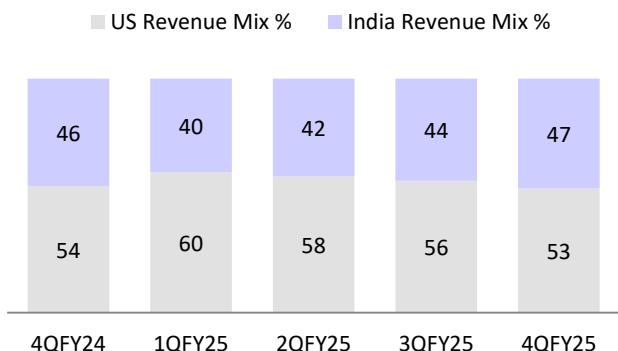
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



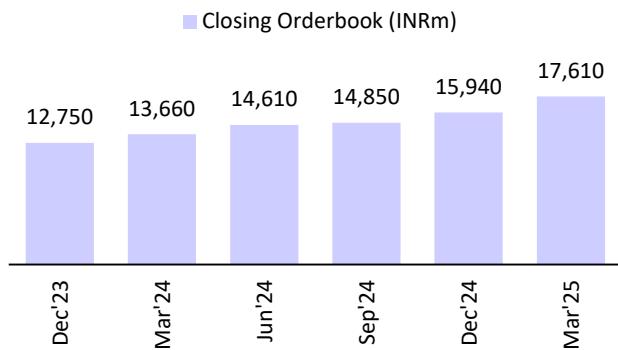
Source: Company, MOFSL

Exhibit 5: Region mix



Source: Company, MOFSL

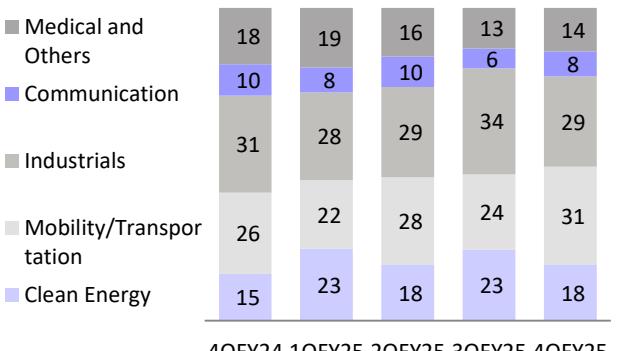
Exhibit 4: Order book trend



Note: Short term order book

Source: Company, MOFSL

Exhibit 6: End-user industry mix



Source: Company, MOFSL



Highlights from the management commentary

Guidance and Outlook

- The management has guided for an 18-20% growth in revenue, showing a cautious approach due to rising volatility globally. Management is open to revising its guidance as the financial year progresses.
- Gross margins are expected to be in the 33-35% range for FY26. The margin can vary quarterly due to changing product mix.
- The company expects to double its revenue over FY24-27, led by key growth drivers in the form of 1) continued expansion in India, 2) Deeper penetration with existing customers, and 3) New customer additions in the US
- Management would like to take the ratio of sales to 50:50 between India and the US, which stands at 47:53 as of FY25.

Operating performance

- Working capital days improved significantly to **124 days**, a reduction of **37 days** YoY, exceeding the company's guidance of a 10–15 day improvement.
- Management aims to maintain and further improve its working capital cycle going forward.
- For FY25, cash flow from operations reached INR250m, up from INR170m in FY24. The improvement is due to better working capital management and profitable growth. As of Mar'25, total outstanding debt stood at INR14b with cash equivalents and investments at INR1.3b, resulting in a net debt position of INR70m.
- In 4QFY25, the US manufacturing plant contributed 17% of total revenue, while India-based operations, which catered to both domestic and global customers, accounted for 83% of the revenue.
- The Indian operations remained highly profitable, delivering an EBITDA/PAT margin of 14.8%/9.6%.

Capex

- Capex for 4QFY25 and FY25 was INR250m and INR578m, respectively. Asset turn stood at 7.5x.
- The company plans to initiate capacity expansion as and when utilization crosses the 70% mark.
- Company plans to incur INR450-500m in FY26, which may include capex on a new export facility in Chennai and a domestic facility located ~30km away from the existing Tamil Nadu facility.

Order book mix

- Orderbook growth remains well-balanced and diversified across geographies and sectors, with the order book mix well-aligned to the revenue mix, 45% India and 55% US.
- New products are being developed across key industry verticals, including rail, industrial infrastructure, clean energy, and communications.
- Recent order wins include projects in Backup power systems, Transmission systems, Aerospace cabin products, and Locomotive engine systems.
- Over the past year, Avalon has secured several new projects that have moved from design/prototype to the production stage. Many of these are expected to ramp up in the current financial year, supporting the company's goal of deepening customer engagement across diverse end markets.

Collaboration with Zepco

- The company is enhancing its technical competence through strategic collaborations, including its partnership with Zepco Technologies. Zepco involves the design and manufacture of motors, drives, controllers, and power solutions, serving sectors as drones, electric vehicles, and defense
- Zepco, the design arm of a clean energy client, is increasingly engaging Avalon for design work in India.
- Avalon is expected to co-develop future products with Zepco. It may also support Avalon in drone motor manufacturing in future phases.

Others

- The company has entered into **sophisticated advanced technology segments** focused on next-generation technologies and Digital infrastructure. These initiatives are in early stages, but the company sees **encouraging potential** and plans to provide further updates in the upcoming quarters.
- The company, in the clean energy segment, is not into rooftop solar products, so tariffs may not adversely impact its clean energy segment.
- Tariff costs are 100% passed on to the customers.
- Raw materials are sourced from India and abroad. However, due to increasing PLI benefits, the company prefers to source raw materials from India.

Valuation and view

- With the company witnessing growth across both the Indian and US businesses, we expect AVALON's revenue and profitability to experience a healthy improvement going forward.
- Further, the company's long-term revenue trajectory is anticipated to be strong, backed by: 1) the addition of new customers in the US and Indian markets, 2) order inflows from the high-growth/high-margin industries, such as clean energy, mobility, and industrials, 3) strategic collaborations, which will enhance competence and margin, and 4) venturing into advanced technology segments.
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Reiterate BUY with a TP of INR1,030 (premised on 43x FY27E EPS).

Exhibit 7: Changes to our estimates

Earnings change (INR m)	Old		New		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	14,353	19,090	14,056	17,992	-2%	-6%
EBITDA	1,722	2,405	1,588	2,177	-8%	-9%
Adj. PAT	1,102	1,644	1,062	1,575	-4%	-4%

Financials and valuations

Consolidated - Income Statement								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total Income from Operations	6,419	6,905	8,407	9,447	8,672	10,981	14,056	17,992
Change (%)	NA	7.6	21.8	12.4	-8.2	26.6	28.0	28.0
RM Cost	4,128	4,574	5,552	6,067	5,545	7,055	9,066	11,515
Employees Cost	1,162	1,192	1,314	1,605	1,815	1,986	2,390	3,059
Other Expenses	484	478	566	647	685	836	1,012	1,241
Total Expenditure	5,774	6,243	7,432	8,319	8,046	9,876	12,468	15,815
% of Sales	90.0	90.4	88.4	88.1	92.8	89.9	88.7	87.9
EBITDA	645	662	975	1,128	626	1,105	1,588	2,177
Margin (%)	10.0	9.6	11.6	11.9	7.2	10.1	11.3	12.1
Depreciation	155	158	172	197	229	286	340	384
EBIT	490	504	803	931	397	819	1,248	1,793
Int. and Finance Charges	450	270	248	348	164	167	104	48
Other Income	113	54	309	144	148	215	281	360
PBT bef. EO Exp.	153	288	864	727	381	867	1,425	2,105
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	153	288	864	727	381	867	1,425	2,105
Total Tax	30	58	183	202	101	233	363	530
Tax Rate (%)	19.4	19.9	21.1	27.8	26.5	26.8	25.5	25.2
Minority Interest	8	16	50	0	0	0	0	0
Reported PAT	115	215	632	525	280	634	1,062	1,575
Adjusted PAT	115	215	632	525	280	634	1,062	1,575
Change (%)	NA	86.1	193.9	-16.9	-46.7	126.7	67.4	48.3
Margin (%)	1.8	3.1	7.5	5.6	3.2	5.8	7.6	8.8
Consolidated - Balance Sheet								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	15	16	16	116	131	132	132	132
Preference Capital	356	388	388	0	0	0	0	0
Total Reserves	450	584	856	5,254	5,342	5,983	7,045	8,620
Net Worth	822	988	1,260	5,370	5,473	6,115	7,177	8,753
Minority Interest	-431	-317	0	0	0	0	0	0
Total Loans	2,388	2,775	2,789	3,063	1,642	1,800	800	400
Deferred Tax Liabilities	-263	0	0	0	15	19	19	19
Capital Employed	2,515	3,445	4,049	8,433	7,129	7,934	7,996	9,171
Gross Block	1,126	1,335	1,512	1,861	2,285	2,950	3,283	3,750
Less: Accum. Deprn.	139	295	390	586	815	1,101	1,441	1,825
Net Fixed Assets	987	1,041	1,123	1,275	1,470	1,849	1,842	1,925
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	104	271	304
Total Investments	24	0	0	0	755	349	349	349
Current Investments	0	0	0	0	755	332	332	332
Curr. Assets, Loans&Adv.	3,197	4,084	4,738	10,375	6,886	8,096	8,858	10,650
Inventory	1,553	1,458	2,330	3,179	3,163	3,379	4,098	5,205
Account Receivables	1,138	1,819	1,774	2,062	1,869	3,160	2,888	3,697
Cash and Bank Balance	266	335	101	4,222	1,065	1,015	888	668
Loans and Advances	241	472	532	912	789	542	984	1,080
Curr. Liability & Prov.	1,719	1,680	1,831	3,370	2,178	2,465	3,325	4,057
Account Payables	1,369	1,289	1,242	1,418	974	1,894	1,863	2,366
Other Current Liabilities	216	253	449	1,823	1,048	422	1,265	1,439
Provisions	134	138	141	130	156	149	197	252
Net Current Assets	1,478	2,404	2,906	7,005	4,708	5,631	5,533	6,592
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	2,516	3,445	4,049	8,433	7,129	7,934	7,996	9,171

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)								
EPS	2.0	3.7	10.9	9.1	4.3	9.6	16.1	23.8
Cash EPS	4.7	6.4	13.9	12.5	7.7	13.9	21.2	29.6
BV/Share	14.2	17.0	21.7	92.7	83.3	92.4	108.5	132.3
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	439.7	236.3	80.4	96.7	205.8	91.4	54.6	36.8
Cash P/E	187.7	136.4	63.2	70.4	113.2	63.0	41.4	29.6
P/BV	61.8	51.4	40.3	9.5	10.5	9.5	8.1	6.6
EV/Sales	8.2	7.7	6.4	5.3	6.6	5.3	4.1	3.2
EV/EBITDA	81.4	80.0	54.8	44.0	91.8	52.9	36.2	26.4
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	-3.2	10.5	-2.0
Return Ratios (%)								
RoE	14.1	23.8	56.2	15.8	5.2	10.9	16.0	19.8
RoCE	15.1	12.8	22.5	12.4	5.2	10.1	14.3	18.8
RoIC	21.4	17.7	20.2	17.7	6.4	10.4	14.4	18.7
Working Capital Ratios								
Fixed Asset Turnover (x)	5.7	5.6	5.9	5.6	4.2	4.2	4.5	5.1
Asset Turnover (x)	1.5	1.3	1.4	0.8	0.9	1.1	1.2	1.4
Inventory (Days)	98	120	125	166	209	169	165	165
Debtor (Days)	65	78	78	74	83	84	75	75
Creditor (Days)	87	106	83	80	79	74	75	75
Leverage Ratio (x)								
Current Ratio	1.9	2.4	2.6	3.1	3.2	3.3	2.7	2.6
Interest Cover Ratio	1.1	1.9	3.2	2.7	2.4	4.9	12.0	37.4
Net Debt/Equity	2.6	2.5	2.1	-0.2	0.0	0.1	-0.1	-0.1

Consolidated - Cash Flow Statement

(**INRm**)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	153	288	856	727	381	867	1,425	2,105
Depreciation	155	158	180	197	229	286	340	384
Interest & Finance Charges	434	222	209	244	113	143	-177	-312
Direct Taxes Paid	-47	-35	-125	-189	-164	-194	-363	-530
(Inc)/Dec in WC	-121	-561	-805	-1,125	-414	-883	-30	-1,279
CF from Operations	574	72	315	-147	145	218	1,195	369
Others	83	-17	-158	13	28	32	0	0
CF from Operating incl EO	657	55	157	-133	173	250	1,195	369
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-462	-500	-500
Free Cash Flow	487	-137	-21	-406	-182	-212	695	-131
(Pur)/Sale of Investments	-24	29	0	0	-1,121	955	0	0
Others	2	-104	-6	2	15	44	281	360
CF from Investments	-192	-267	-184	-271	-1,461	538	-219	-140
Issue of Shares	0	73	0	798	8	15	0	0
Inc/(Dec) in Debt	-296	461	158	128	-1,580	122	-1,000	-400
Interest Paid	-426	-217	-189	-283	-88	-111	-104	-48
Dividend Paid	-4	-37	-38	-37	-41	-52	0	0
Others	302	22	-138	3,915	-807	-497	0	0
CF from Fin. Activity	-424	301	-207	4,522	-2,508	-523	-1,104	-448
Inc/Dec of Cash	42	89	-234	4,118	-3,796	265	-128	-220
Opening Balance	204	246	335	101	4,219	423	1,015	888
Other cash & cash equivalent	20	0	0	3	643	328	0	0
Closing Balance	266	335	101	4,222	1,065	688	888	668

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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