


Avalon Technologies

Estimate change	
TP change	
Rating change	

CMP: INR733

TP: INR1,000 (+36%)

Buy

Broad-based growth across geographies

Earnings above our estimate

Bloomberg	AVALON IN
Equity Shares (m)	66
M.Cap.(INRb)/(USD\$b)	48.5 / 0.6
52-Week Range (INR)	1074 / 425
1, 6, 12 Rel. Per (%)	-20/50/47
12M Avg Val (INR M)	327

- Avalon Technologies (AVALON) reported a strong quarter, with revenue growing 31% YoY in 3QFY25, fueled by a continued recovery in the US (+39% YoY) and consistent performance in the Indian business (+22% YoY). Operating profitability improved (+440bp) due to an increase in domestic manufacturing (88% vs. 77% in 3QFY24) and favorable operating leverage.
- The company is experiencing a strong business recovery in the US, expanding its presence in India, and gaining clients globally. This led to a healthy order book (INR27.1b). As a result, management raised its FY25 revenue growth guidance to 22-24% YoY (from 16-20%), with an expected gross margin of 33-36%. We anticipate a strong 4Q, with ~42% implied revenue growth and margin expansion driven by operating leverage.
- Factoring in the strong 3Q performance and positive growth outlook, we raise our EPS estimates for FY25/FY26 by 9%/6%, while largely retaining our FY27 estimates. **Reiterate BUY with a TP of INR1,000 (premised on 40x FY27E EPS).**

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	10.6	14.4	19.1
EBITDA	1.1	1.7	2.4
Adj. PAT	0.6	1.1	1.6
EBITDA Margin (%)	10.0	12.0	12.6
Cons. Adj. EPS (INR)	9.5	16.8	25.0
EPS Gr. (%)	123.4	76.2	49.2
BV/Sh. (INR)	92.8	109.6	134.6

Ratios

Net D:E	(0.0)	(0.0)	(0.0)
RoE (%)	10.8	16.6	20.5
RoCE (%)	10.1	14.9	18.8

Valuations

P/E (x)	77.0	43.7	29.3
EV/EBITDA (x)	45.2	27.9	20.0

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

Healthy gross margin and operating leverage aid margin expansion

- Consolidated revenue grew 31% YoY to INR2.8b, driven by growth in both domestic (up 22% YoY due to traction in the industrials and clean energy business) and US (up 39% YoY due to recovery in the market and order flows from new and existing customers) operations.
- Consolidated EBITDA jumped 2.1x YoY to INR346m. Consolidated EBITDA margin expanded 460bp to 12.3% (+140bp QoQ) led by gross margin expansion (up by 30bps to 37.3%). Operating leverage played its role, with employee expense as a % of sales declining 370bp YoY to 17.6% and other expenses as a % of sales decreasing 50bp YoY to 7.4% in 3QFY25. The company reported an Adj. PAT of INR240m, up 3.6x YoY.
- The total order book stood at INR27.1b with the short-term order book (executable within 14 months) at INR15.95b (up 25%/7% YoY/QoQ) and the longer executable order book (from 14 months up to three years) at INR11.11b (up 32% YoY).
- Gross debt as of Dec'24 stood at INR1.6b vs. INR1.6b/INR1.1b as of Sep'24/Dec'23. Net working capital days increased to 150 from 134 days as of Sep'24, primarily led by higher receivable days (up 15 days).
- During 9MFY25, revenue/EBITDA/Adj. PAT increased 16%/55%/87% YoY at INR7.5b/INR691m/INR392m.

Highlights from the management commentary

- **Guidance & outlook:** AVALON raised its FY25 revenue growth guidance to 22-24% (from 16-20%) and expects EBITDA margins to sustain over 12%. The gross margin is likely to be in the range of 33-35% going forward.

- **Business & market performance:** The company is progressing from prototyping to commercial production in industrial, automotive, and aerospace sectors with major US clients, where ramp-up is expected soon. Strong momentum in the US and key wins in India's industrial, rail, and communications sectors reinforce its market strength.
- **Capex:** Phase 1 of the Chennai brownfield expansion is complete, with Phase 2 set to begin in the current quarter to meet the rising domestic demand. The company spent ~INR727m in 9MFY25.

Valuation and view

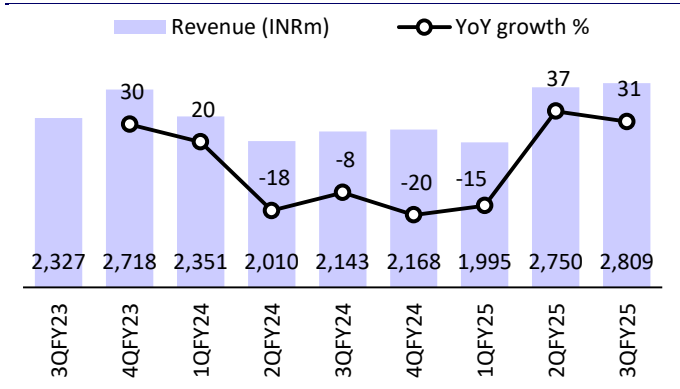
- With US operations now witnessing a healthy recovery and the Indian business experiencing growth, we expect AVALON's revenue and profitability to experience healthy improvement going forward. We also believe the company's long-term revenue trajectory will continue to be strong, backed by: 1) the addition of new customers in the US and Indian markets and 2) order inflows from high-growth/high-margin industries, such as Clean Energy, Mobility, and Industrials.
- We estimate AVALON to post a CAGR of 30%/57%/80% in revenue/EBITDA/adj. PAT over FY24-FY27 on account of strong growth and healthy order inflows.
Reiterate BUY with a TP of INR1,000 (premised on 40x FY27E EPS).

Consolidated - Quarterly performance

Y/E March	(INR m)											
	FY24				FY25				FY24	FY25E	FY25E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE	%	
Gross Sales	2,351	2,010	2,143	2,168	1,995	2,750	2,809	3,079	8,672	10,632	2,786	1
YoY Change (%)	19.9	-17.9	-7.9	-20.2	-15.2	36.8	31.1	42.0	-8.2	22.6	30.0	
Total Expenditure	2,189	1,884	1,977	1,996	1,951	2,449	2,462	2,706	8,046	9,568	2,464	
EBITDA	162	126	165	172	44	301	346	372	626	1,064	322	8
Margins (%)	6.9	6.3	7.7	7.9	2.2	11.0	12.3	12.1	7.2	10.0	11.5	
Depreciation	53	55	60	61	66	69	74	78	229	286	70	
Interest	56	32	36	39	42	37	45	35	164	160	28	
Other Income	51	47	22	28	44	39	100	63	148	246	55	
PBT before EO expense	105	86	91	99	-20	234	327	322	381	864	279	
PBT	105	86	91	99	-20	234	327	322	381	864	279	
Tax	34	13	25	29	3	60	87	89	101	238	77	
Rate (%)	32.4	15.2	27.5	29.0	-14.5	25.4	26.7	27.5	26.5	27.6	27.5	
Reported PAT	71	73	66	71	-23	175	240	234	280	625	202	
Adj PAT	71	73	66	71	-23	175	240	234	280	625	202	19
YoY Change (%)	-23.9	-50.7	14.7	-68.9	NA	140.1	264.7	231.0	-46.7	123.4	207.2	
Margins (%)	3.0	3.6	3.1	3.3	-1.2	6.4	8.5	7.6	3.2	5.9	7.3	

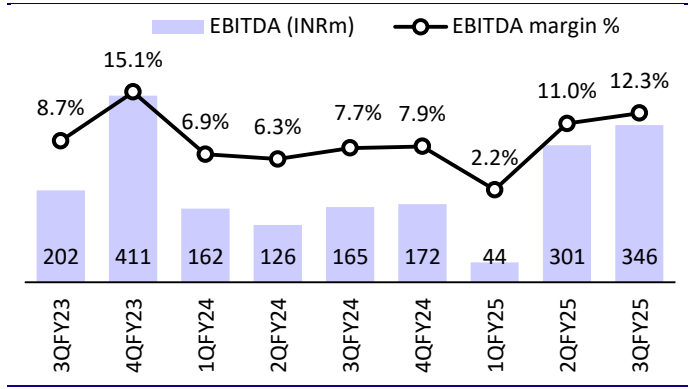
Key exhibits

Exhibit 1: Consolidated revenue trend



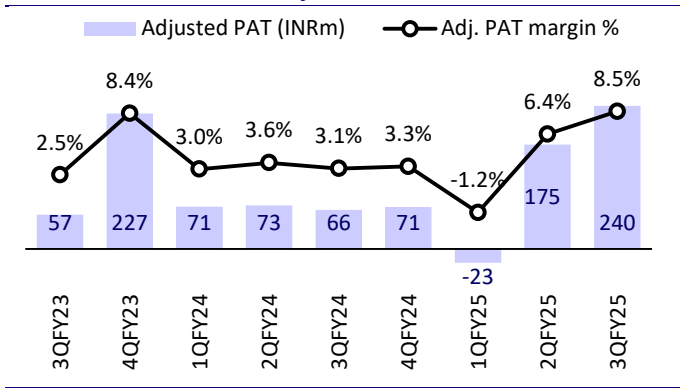
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



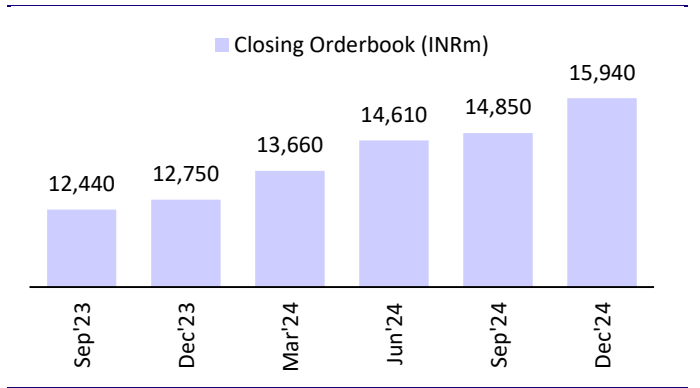
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



Source: Company, MOFSL

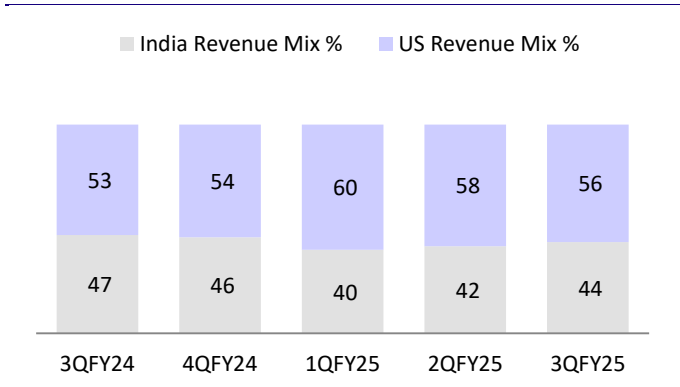
Exhibit 4: Order book trend



Note: Short term order book

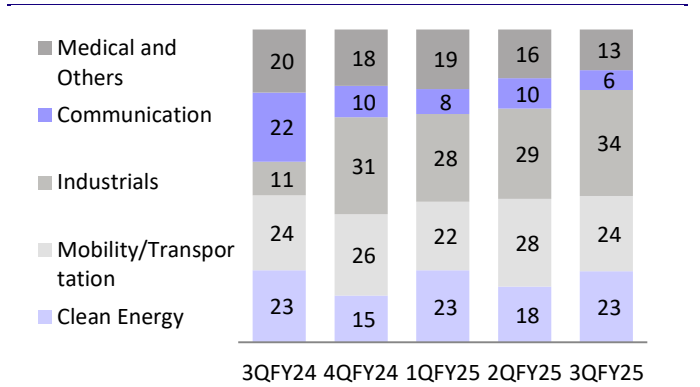
Source: Company, MOFSL

Exhibit 5: Region mix



Source: Company, MOFSL

Exhibit 6: End-user industry mix



Source: Company, MOFSL



Highlights from the management commentary

Business and growth outlook

- AVALON is experiencing strong growth, fueled by the US market recovery and its expansion in India. The company is capitalizing on these opportunities to strengthen its position.
- With sustained momentum, AVALON has raised its FY25 revenue growth guidance to 22-24%, up from the previous 16-20%, reflecting confidence in its expansion and demand trends.
- Gross profit margins for FY25 are expected at 34-36%, with a medium-term target of 33-35%. EBITDA margins are projected to be more than or equal to 12%, driven by operating leverage
- Growth will be broad-based, with each vertical contributing 25-30% to revenue. While the communication sector is set for a significant upside, medical remains a lower-focus area.

Operating performance

- Operating leverage benefits are starting to show, leading to improved profitability as the company scales. Efficiency gains are driving better cost absorption, supporting margin expansion.
- Trade receivables increased from 80 days in Sep'24 to 94 in Dec'24, temporarily pushing up net working capital days. However, management expects a 10–15-day improvement by FY25-end, easing the pressure.
- The company's financial position remains stable, with gross debt at INR1.56b and cash & investments at INR1.29b. Despite a negative cash outflow of INR106m from operations in 9MFY25, liquidity remains manageable.
- Capex stood at INR113m in 3QFY25 and INR727m in 9MFY25. The company continues investing in new manufacturing facilities, reinforcing its commitment to long-term growth.
- The order book mix is well-aligned with the revenue mix, with India contributing 45% and the US 55%.
- Higher other income was recorded due to investment returns and forex gains, supporting overall profitability.

Manufacturing & Market Performance

- The US operations reported a net loss of INR340m, a sharp improvement from the INR140m loss in 1QFY25. However, profitability remains uncertain due to political and macroeconomic factors.
- Customers are increasingly shifting business from the US and Mexico to India. Meanwhile, production for Lunar has begun, with a ramp-up likely in 1QFY26.
- India operations remained strong, with EBITDA margin at 15% and PAT margin at 10.8%, reflecting healthy profitability.
- The Chennai export plant (Phase 1) is fully operational and generating business, while the company has sufficient capacity to double growth in three years, with a 6–9-month lead time for new infrastructure.

Geographical trends and segment focus

- The US market is gaining strong traction with increasing deal wins; while AVALON's solar business remains small, minimizing any impact from Trump's policies.
- In the US energy storage is growing at 50-70% YoY, and the clean energy segment continues to perform well, supporting long-term growth.

- Customer inquiries are shifting from Mexico to AVALON's India operations, reflecting India's growing importance in the supply chain.
- In India, the company has secured key deals in the industrial and communication sectors and is moving from prototype to volume production for an automotive customer, with strong performance expected next year.
- The company is focused on volume-led automotive products, considering EV as a global opportunity rather than an India-centric market.
- In the railways segment, new products have been added, with Kavach-related products currently under testing.
- Chip design services are offered through US subsidiaries, though IP ownership remains with clients. Around 150-200 designers are engaged in this segment, enhancing the company's capabilities.

Others

- AVALON is actively working on anti-collision systems for railways, with significant business potential expected in the future.
- The company is seeing increasing traction in clean energy storage solutions, which are less impacted by policy changes compared to solar.
- Phase 2 of the Chennai expansion is expected to begin in the 4QFY25, further supporting future growth.
- AVALON is strategically using its US presence as a "beachhead" to onboard customers, before transitioning production to India for cost efficiency.

Valuation and view

- With US operations now witnessing a healthy recovery and the Indian business experiencing growth, we expect AVALON's revenue and profitability to experience healthy improvement going forward. We also believe the company's long-term revenue trajectory will continue to be strong, backed by: 1) the addition of new customers in the US and Indian markets and 2) order inflows from high-growth/high-margin industries, such as Clean Energy, Mobility, and Industrials.
- We estimate AVALON to post a CAGR of 30%/57%/80% in revenue/EBITDA/adj. PAT over FY24-FY27 on account of strong growth and healthy order inflows.
Reiterate BUY with a TP of INR1,000 (premised on 40x FY27E EPS).

Exhibit 7: Changes to our estimates

Earnings change (INR m)	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	10,406	14,048	18,684	10,632	14,353	19,090	2%	2%	2%
EBITDA	1,008	1,630	2,354	1,064	1,722	2,405	6%	6%	2%
Adj. PAT	576	1,043	1,659	625	1,102	1,644	9%	6%	-1%

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	10,632	14,353	19,090
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	6,800	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	848	1,033	1,298
Total Expenditure	5,774	6,243	7,432	8,319	8,046	9,568	12,631	16,685
% of Sales	90.0	90.4	88.4	88.1	92.8	90.0	88.0	87.4
EBITDA	645	662	975	1,128	626	1,064	1,722	2,405
Margin (%)	10.0	9.6	11.6	11.9	7.2	10.0	12.0	12.6
Depreciation	155	158	172	197	229	286	353	411
EBIT	490	504	803	931	397	777	1,369	1,995
Int. and Finance Charges	450	270	248	348	164	160	99	83
Other Income	113	54	309	144	148	246	250	286
PBT bef. EO Exp.	153	288	864	727	381	864	1,520	2,198
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	153	288	864	727	381	864	1,520	2,198
Total Tax	30	58	183	202	101	238	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
Reported PAT	115	215	632	525	280	625	1,102	1,644
Adjusted PAT	115	215	632	525	280	625	1,102	1,644
Change (%)	NA	86.1	193.9	-16.9	-46.7	123.4	76.2	49.2
Margin (%)	1.8	3.1	7.5	5.6	3.2	5.9	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	5,967	7,069	8,714
Net Worth	822	988	1,260	5,370	5,473	6,099	7,201	8,845
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
Capital Employed	2,515	3,445	4,049	8,433	7,129	7,555	8,257	9,901
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
Net Fixed Assets	987	1,041	1,123	1,275	1,470	1,741	1,989	2,098
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	439	338	318
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	7,357	8,538	11,019
Inventory	1,553	1,458	2,330	3,179	3,163	3,447	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	730	470	463
Loans and Advances	241	472	532	912	789	851	1,005	1,145
Curr. Liability & Prov.	1,719	1,680	1,831	3,370	2,178	2,737	3,363	4,289
Account Payables	1,369	1,289	1,242	1,418	974	1,397	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
Net Current Assets	1,478	2,404	2,906	7,005	4,708	4,620	5,175	6,730
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	2,516	3,445	4,049	8,433	7,129	7,555	8,257	9,901

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	9.5	16.8	25.0
Cash EPS	4.7	6.4	13.9	12.5	7.7	13.9	22.1	31.3
BV/Share	14.2	17.0	21.7	92.7	83.3	92.8	109.6	134.6
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	367.8	197.7	67.3	80.9	172.1	77.0	43.7	29.3
Cash P/E	157.0	114.1	52.9	58.9	94.7	52.8	33.1	23.4
P/BV	51.7	43.0	33.7	7.9	8.8	7.9	6.7	5.4
EV/Sales	6.9	6.5	5.4	4.4	5.5	4.5	3.3	2.5
EV/EBITDA	68.5	67.4	46.3	36.6	76.7	45.2	27.9	20.0
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	-3.4	-0.2	-3.2
Return Ratios (%)								
RoE	14.1	23.8	56.2	15.8	5.2	10.8	16.6	20.5
RoCE	15.1	12.8	22.5	12.4	5.2	10.1	14.9	18.8
RoIC	21.4	17.7	20.2	17.7	6.4	10.5	16.1	19.8
Working Capital Ratios								
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
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	4.9	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

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	153	288	856	727	381	864	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	-238	-418	-553
(Inc)/Dec in WC	-121	-561	-805	-1,125	-414	-248	-815	-1,562
CF from Operations	574	72	315	-147	145	578	490	290
Others	83	-17	-158	13	28	0	0	0
CF from Operating incl EO	657	55	157	-133	173	578	490	290
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-800	-500	-500
Free Cash Flow	487	-137	-21	-406	-182	-222	-10	-210
(Pur)/Sale of Investments	-24	29	0	0	-1,121	0	0	0
Others	2	-104	-6	2	15	246	250	286
CF from Investments	-192	-267	-184	-271	-1,461	-554	-250	-214
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
CF from Fin. Activity	-424	301	-207	4,522	-2,508	-360	-499	-83
Inc/Dec of Cash	42	89	-234	4,118	-3,796	-336	-260	-7
Opening Balance	204	246	335	101	4,219	1,065	730	470
Other cash & cash equivalent	20	0	0	3	643	0	0	0
Closing Balance	266	335	101	4,222	1,065	730	470	463

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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