

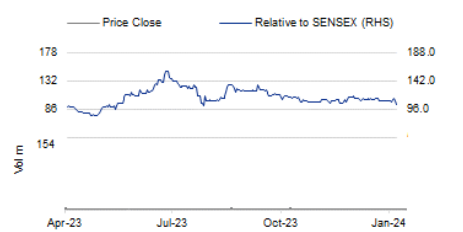
India

**ADD** (no change)

|  |                       |
|--|-----------------------|
| Consensus ratings*: Buy 10 Hold 0 Sell 0 |                       |
| Current price:                           | Rs507                 |
| Target price: ▲                          | Rs610                 |
| Previous target:                         | Rs590                 |
| Up/downside:                             | 20.3%                 |
| InCred Research / Consensus:             | -1.2%                 |
| Reuters:                                 |                       |
| Bloomberg:                               | AVALON IN             |
| Market cap:                              | US\$402m<br>Rs33,297m |
| Average daily turnover:                  | US\$1.9m<br>Rs160.6m  |
| Current shares o/s:                      | 65.3m                 |
| Free float:                              | 19.7%                 |
| *Source: Bloomberg                       |                       |

**Key changes in this note**

- For FY24F-26F, we cut revenue estimates by ~6%-12%.
- We cut PAT estimates by ~8%-41%.



Source: Bloomberg

| Price performance | 1M    | 3M    | 12M |
|-------------------|-------|-------|-----|
| Absolute (%)      | (5.3) | 2.7   | 0.0 |
| Relative (%)      | (5.4) | (8.3) | 0.0 |

| Major shareholders | % held |
|--------------------|--------|
| PROMOTERS          | 51.2   |
| FII                | 12.5   |
| DII                | 16.6   |

**Research Analyst(s)**



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# Avalon Technologies

## Export growth ramp-up likely by FY25F

- 3QFY24 EBITDA was at Rs165m, down 18% YoY (up 31% QoQ), 8% below our estimate & 13% below consensus. EBITDA margin fell 100bp YoY to 7.7%.
- For FY24F-26F we have cut our revenue estimates by ~6%-12% factoring in weak performance, slowdown in order intake and pressure in the US market.
- We reiterate our ADD rating on the stock with a target price of Rs610 (Rs590 earlier), valuing the stock at a multiple of 35x FY26F (from Sep 2025F) EPS.

### Muted 3QFY24 revenue performance and compressed margins

3QFY24 revenue of Avalon Technologies stood at Rs2.14bn, down 8% YoY (+7% QoQ), 20% below our estimate and 12% below Bloomberg consensus estimate. EBITDA stood at Rs165m, down 18% YoY (+31% QoQ), 8% below our estimate and 13% below Bloomberg consensus estimate. The EBITDA margin was under pressure, declining by 100bp YoY to 7.7%. PAT came in at Rs66m, +14% YoY (-10% QoQ), 31% below our estimate and 35% below Bloomberg consensus estimate.

### Uptick in US market likely to boost growth in 2HFY25F

Avalon Technologies is primarily an export-centric company and the challenging US economic conditions led to a Rs240m loss from the US operations in 9MFY24. The US market revenue accounted for 53% of total revenue in 9MFY24 from 59% in FY23. However, India market revenue was up 12%. Overall revenue fell by 3% YoY in 9MFY24. Domestic manufacturing, at 77%, is highly profitable. Management gave guidance of an improvement in the US operations from 1HFY25F and ramp-up from 2HFY25F, with better profitability. The company is looking to address challenges in the US market by optimizing production in India and rationalizing costs at the US operations. As per management, the company did not lose any clients during this difficult environment in the US. The company utilized its initial public offer or IPO proceeds in repaying debt of Rs1.5bn and meeting working capital needs.

### Reiterate ADD rating on the stock with a higher target price of Rs610

Avalon Technologies is continuously expanding its technological expertise in manufacturing products for diverse industries and integrating its services to serve multiple verticals with high-mix, flexible-volume manufacturing. The company is shifting its focus to businesses like clean energy which contributes ~19% to total revenue in 9MFY24. For FY24F-26F, we have cut our revenue estimates in the range of ~6%-12% and PAT estimates by ~8%-41% factoring in the weak performance in 3QFY24, slowdown in order inflow and pressure in the US export business. However, we believe that with new orders in the pipeline, stable input prices and operating leverage, the company will reduce its debt, which should help improve its profitability and return ratios. **We reiterate our ADD rating on the stock with a target price of Rs610 (Rs590 earlier), valuing it at a multiple of 35x FY26F (from Sep 2025F) EPS.** Downside risk: A major downturn in the US economy will massively hit the company's US market revenue.

| Financial Summary                 | Mar-22A | Mar-23A  | Mar-24F | Mar-25F | Mar-26F  |
|-----------------------------------|---------|----------|---------|---------|----------|
| Revenue (Rs m)                    | 8,407   | 9,447    | 9,605   | 12,965  | 15,930   |
| Operating EBITDA (Rs m)           | 975     | 1,128    | 836     | 1,300   | 1,714    |
| Net Profit (Rs m)                 | 675     | 525      | 439     | 830     | 1,138    |
| Core EPS (Rs)                     | 7.9     | 8.0      | 6.7     | 12.7    | 17.4     |
| Core EPS Growth                   | 124.0%  | 1.6%     | (16.5%) | 89.3%   | 37.1%    |
| FD Core P/E (x)                   | 49.10   | 63.06    | 75.53   | 39.89   | 29.10    |
| DPS (Rs)                          | 0.0     | 0.0      | 0.0     | 0.0     | 0.0      |
| Dividend Yield                    | 0.00%   | 0.00%    | 0.00%   | 0.00%   | 0.00%    |
| EV/EBITDA (x)                     | 36.89   | 28.34    | 37.92   | 24.18   | 18.48    |
| P/FCFE (x)                        | 252.47  | (119.92) | (18.32) | 73.54   | (142.19) |
| Net Gearing                       | 322.8%  | (21.5%)  | (24.7%) | (25.4%) | (18.8%)  |
| P/BV (x)                          | 37.35   | 6.17     | 5.70    | 4.99    | 4.26     |
| ROE                               | 69.6%   | 16.8%    | 7.8%    | 13.3%   | 15.8%    |
| % Change In Core EPS Estimates    |         |          |         |         |          |
| InCred Research/Consensus EPS (x) |         |          |         |         |          |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Conference-call highlights

- **Muted performance:** Avalon Technologies reported a muted 3QFY24 topline, down 8% YoY but up 7% QoQ. While staff costs increased YoY, raw material costs declined but EBITDA remained under pressure, down 18% YoY. However, PAT witnessed a 14% YoY growth led by higher other income and lower interest costs.
- **US business to be ramped up significantly by 2HFY25F:** Domestic manufacturing, at 77%, is highly profitable. Management gave guidance of an improvement in the US operations from 1HFY25F and ramp-up from 2HFY25F, with better profitability. The US business was volatile in the past few quarters, suffering a Rs240m loss in 9MFY24, which was overshadowed by strong performance of Indian operations. The company is looking to address challenges in the US by optimizing production in India and rationalizing costs at the US operations. As per management, the company did not lose any client during this difficult environment in the US. The company has utilized its IPO proceeds by repaying its debt of Rs1.5bn and meeting the working capital needs.
- **Strong order book worth Rs12.8bn:** The company's order book is worth Rs12.8bn, which is likely to be executed within 12-14 months. According to management, the long-term contracts are worth Rs8.4bn, which are likely to be executed within two-to-three years. The company won several orders in the US and India across sectors like power, industrial, clean energy, automotive and railway.
- **New plant in Chennai:** Avalon Technologies will focus on its domestic business and is planning to expand its existing facilities. Moreover, its management stated that a new plant in Chennai is likely to be commissioned by 1QFY25F.
- **New products:** The company registered a major achievement in the aerospace segment by delivering its first wiper blade assemble sample. It has also strategically aligned itself as a manufacturing partner of the Centre for Developing Advanced Computing (C-DAC), which will play a major role in boosting India's capabilities across high-performance computing through its RUDRA program. The company is also working on Kavach product for an international client, which will sell this product in the Indian market.
- **Leading segments:** Industrial, mobility and clean energy are its major segments with a revenue share of 27%, 26% and 19%, respectively, in 9MFY24. Revenue from the US market declined to 53% from 59% in FY23, showing the company's focus on the Indian market.
- **Aerospace complex and mission critical box-build products:** The company said that it will focus on profitability and increasingly cater to niche markets for the aerospace complex and mission critical box-build products. It will also aim to increase its wallet share through cross-selling and partnering with multiple clean energy technology-based companies. Box-build remains the major revenue driver for the company, contributing 49% to its total revenue in 9MFY24. The company continues to focus on a high mix and flexible volume products, which lead to higher margins.
- **Asset-light model:** During the 9MFY24 period, RoCE was at 16.4% compared to 24.6% in FY23. Asset turns reduced slightly to 9.8x as against 10.4x in the same period. Net working capital or NWC days were up at 155 from 144 days in FY23.

Figure 1: Quarterly results snapshot

| (Rs m)                | 3QFY24       | 3QFY23       | YoY (%)     | 2QFY24       | QoQ (%)     | 9MFY24       | 9MFY23       | YoY (%)     | Incared Estimates | Diff (%)    | Bloomber g   | Bloomber g Diff |
|-----------------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|-------------|-------------------|-------------|--------------|-----------------|
| <b>Net revenue</b>    | <b>2,143</b> | <b>2,327</b> | <b>-8%</b>  | <b>2,010</b> | <b>7%</b>   | <b>6,504</b> | <b>6,735</b> | <b>-3%</b>  | <b>2,676</b>      | <b>-20%</b> | <b>2,426</b> | <b>-11.7%</b>   |
| Raw material costs    | 1,350        | 1,567        | -14%        | 1,262        | 7%          | 4,191        | 4,362        | -4%         |                   |             |              |                 |
| Staff costs           | 457          | 411          | 11%         | 455          | 0%          | 1,364        | 1,222        | 12%         |                   |             |              |                 |
| Other expenditure     | 171          | 197          | -13%        | 166          | 3%          | 495          | 486          | 2%          |                   |             |              |                 |
| <b>Total expenses</b> | <b>1,977</b> | <b>2,125</b> | <b>-7%</b>  | <b>1,884</b> | <b>5%</b>   | <b>6,050</b> | <b>6,021</b> | <b>0%</b>   |                   |             |              |                 |
| <b>EBITDA</b>         | <b>165</b>   | <b>202</b>   | <b>-18%</b> | <b>126</b>   | <b>31%</b>  | <b>454</b>   | <b>714</b>   | <b>-36%</b> | <b>180</b>        | <b>-8%</b>  | <b>191</b>   | <b>-13.2%</b>   |
| Other income          | 22           | 12           | 75%         | 47           | -55%        | 120          | 66           | 83%         |                   |             |              |                 |
| Interest              | 36           | 86           | -58%        | 32           | 12%         | 125          | 214          | -42%        |                   |             |              |                 |
| Depreciation          | 60           | 50           | 19%         | 55           | 9%          | 168          | 140          | 20%         |                   |             |              |                 |
| <b>PBT</b>            | <b>91</b>    | <b>79</b>    | <b>15%</b>  | <b>86</b>    | <b>6%</b>   | <b>190</b>   | <b>347</b>   | <b>-45%</b> |                   |             |              |                 |
| Tax                   | 25           | 21           | 19%         | 13           | 91%         | 72           | 117          | -39%        |                   |             |              |                 |
| <b>Reported PAT</b>   | <b>66</b>    | <b>58</b>    | <b>14%</b>  | <b>73</b>    | <b>-10%</b> | <b>143</b>   | <b>251</b>   | <b>-43%</b> | <b>95</b>         | <b>-31%</b> | <b>102</b>   | <b>-35.4%</b>   |

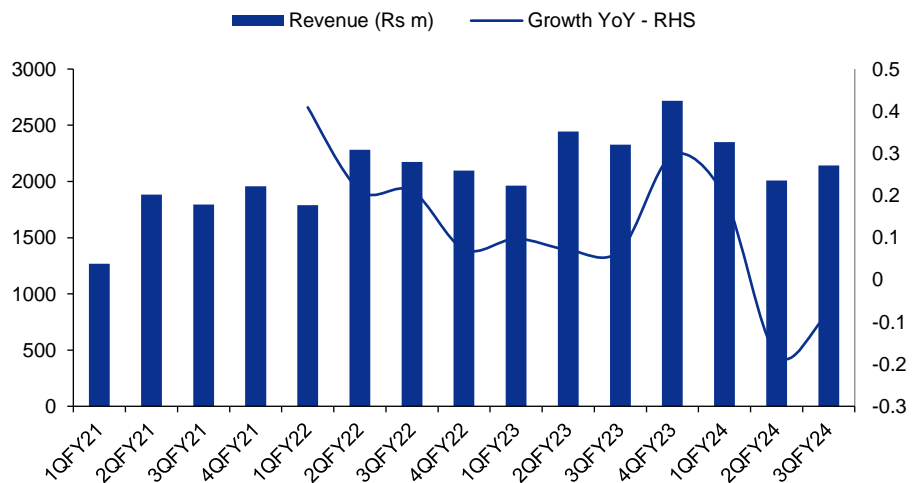
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

| Margins (%)        | 3QFY24 | 3QFY23 | YoY (bp) | 2QFY24 | QoQ (bp) | 9MFY24 | 9MFY23 | YoY (bp) |
|--------------------|--------|--------|----------|--------|----------|--------|--------|----------|
| Raw material costs | 63.0%  | 67.3%  | -433     | 62.8%  | 21.1     | 64.4%  | 64.8%  | -33      |
| Staff costs        | 21.3%  | 17.7%  | 366      | 22.7%  | -134.8   | 21.0%  | 18.1%  | 283      |
| Other expenses     | 8.0%   | 8.5%   | -51      | 8.3%   | -31.5    | 7.6%   | 7.2%   | 38       |
| EBITDA             | 7.7%   | 8.7%   | -97      | 6.3%   | 145.2    | 7.0%   | 10.6%  | -363     |
| PAT                | 3.1%   | 2.5%   | 59       | 3.6%   | -55.2    | 2.2%   | 3.7%   | -152     |
| Tax rate (%)       | 27.5%  | 26.6%  | 89       | 15.2%  | 1,225.4  | 37.7%  | 33.8%  | 395      |

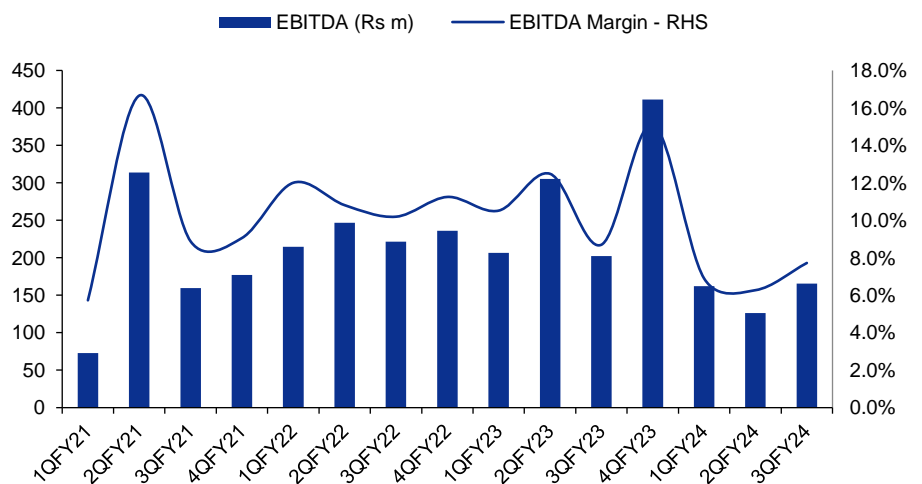
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly revenue growth trend



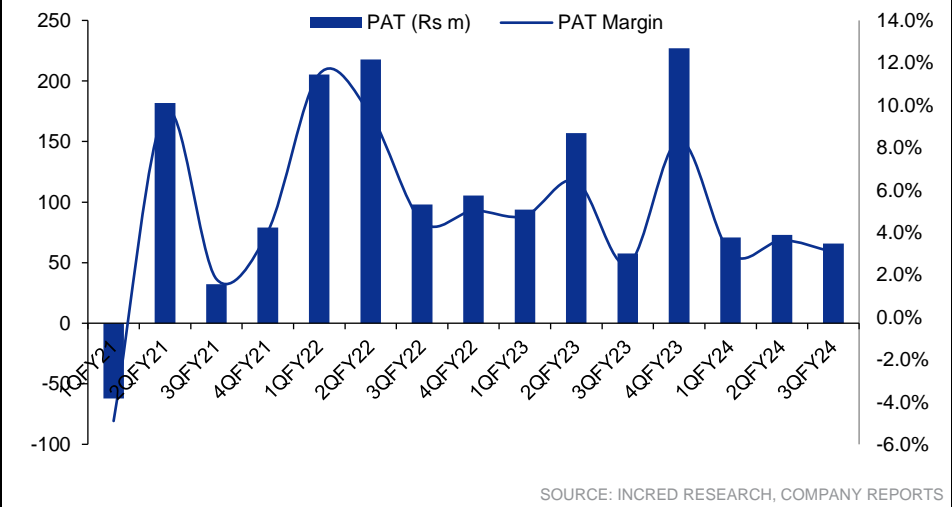
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Quarterly PAT trend**

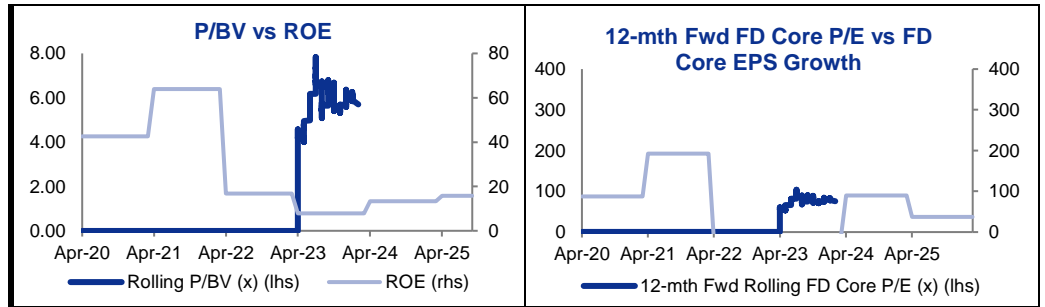


**Figure 6: Earnings revision summary**

| Earnings revision<br>(Rs m) | Old    |        |        | New   |        |        | Change (%) |        |       |
|-----------------------------|--------|--------|--------|-------|--------|--------|------------|--------|-------|
|                             | FY24F  | FY25F  | FY26F  | FY24F | FY25F  | FY26F  | FY24F      | FY25F  | FY26F |
| Revenue                     | 10,862 | 12,965 | 15,930 | 9,605 | 11,926 | 14,940 | -11.6%     | -8.0%  | -6.2% |
| EBITDA                      | 1,288  | 1,481  | 1,856  | 836   | 1,300  | 1,714  | -35.1%     | -12.2% | -7.7% |
| PAT                         | 742    | 961    | 1,239  | 439   | 830    | 1,138  | -40.9%     | -13.6% | -8.1% |
| EPS (Rs)                    | 11.4   | 14.7   | 19.0   | 6.7   | 12.7   | 17.4   | -40.9%     | -13.6% | -8.1% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn)                                   | Mar-22A      | Mar-23A      | Mar-24F      | Mar-25F       | Mar-26F       |
|---|--------------|--------------|--------------|---------------|---------------|
| <b>Total Net Revenues</b>                 | <b>8,407</b> | <b>9,447</b> | <b>9,605</b> | <b>12,965</b> | <b>15,930</b> |
| <b>Gross Profit</b>                       | <b>2,866</b> | <b>3,380</b> | <b>3,429</b> | <b>4,408</b>  | <b>5,416</b>  |
| <b>Operating EBITDA</b>                   | <b>975</b>   | <b>1,128</b> | <b>836</b>   | <b>1,300</b>  | <b>1,714</b>  |
| Depreciation And Amortisation             | (180)        | (197)        | (229)        | (260)         | (236)         |
| <b>Operating EBIT</b>                     | <b>795</b>   | <b>932</b>   | <b>607</b>   | <b>1,040</b>  | <b>1,478</b>  |
| Financial Income/(Expense)                | (248)        | (348)        | (162)        | (101)         | (89)          |
| Pretax Income/(Loss) from Assoc.          |              |              |              |               |               |
| Non-Operating Income/(Expense)            | 109          | 144          | 142          | 206           | 214           |
| <b>Profit Before Tax (pre-EI)</b>         | <b>656</b>   | <b>727</b>   | <b>587</b>   | <b>1,145</b>  | <b>1,603</b>  |
| Exceptional Items                         | 200          |              |              |               |               |
| <b>Pre-tax Profit</b>                     | <b>856</b>   | <b>727</b>   | <b>587</b>   | <b>1,145</b>  | <b>1,603</b>  |
| Taxation                                  | (182)        | (202)        | (148)        | (315)         | (465)         |
| Exceptional Income - post-tax             |              |              |              |               |               |
| <b>Profit After Tax</b>                   | <b>675</b>   | <b>525</b>   | <b>439</b>   | <b>830</b>    | <b>1,138</b>  |
| Minority Interests                        |              |              |              |               |               |
| Preferred Dividends                       |              |              |              |               |               |
| FX Gain/(Loss) - post tax                 |              |              |              |               |               |
| Other Adjustments - post-tax              |              |              |              |               |               |
| <b>Net Profit</b>                         | <b>675</b>   | <b>525</b>   | <b>439</b>   | <b>830</b>    | <b>1,138</b>  |
| Recurring Net Profit                      | 517          | 525          | 439          | 830           | 1,138         |
| <b>Fully Diluted Recurring Net Profit</b> | <b>517</b>   | <b>525</b>   | <b>439</b>   | <b>830</b>    | <b>1,138</b>  |

Cash Flow

| (Rs mn)                          | Mar-22A      | Mar-23A      | Mar-24F        | Mar-25F      | Mar-26F      |
|----------------------------------|--------------|--------------|----------------|--------------|--------------|
| <b>PBT</b>                       | <b>856</b>   | <b>727</b>   | <b>587</b>     | <b>1,145</b> | <b>1,603</b> |
| Cash Flow from Invt. & Assoc.    |              |              |                |              |              |
| Change In Working Capital        | (805)        | (1,125)      | (140)          | (540)        | (1,447)      |
| (Incr)/Decr in Total Provisions  |              |              |                |              |              |
| Other Non-Cash (Income)/Expense  | 180          | 197          | 229            | 260          | 236          |
| Other Operating Cashflow         | (158)        | 13           |                |              |              |
| Net Interest (Paid)/Received     | 209          | 244          | 162            | 101          | 89           |
| Tax Paid                         | (125)        | (189)        | (148)          | (315)        | (465)        |
| <b>Cashflow From Operations</b>  | <b>157</b>   | <b>(133)</b> | <b>689</b>     | <b>651</b>   | <b>16</b>    |
| Capex                            | (177)        | (273)        | (400)          | (300)        | (280)        |
| Disposals Of FAs/subsidiaries    |              |              |                |              |              |
| Acq. Of Subsidiaries/investments |              |              |                |              |              |
| Other Investing Cashflow         | (6)          | 2            | 3              | 3            | 3            |
| <b>Cash Flow From Investing</b>  | <b>(184)</b> | <b>(271)</b> | <b>(397)</b>   | <b>(297)</b> | <b>(277)</b> |
| Debt Raised/(repaid)             | 158          | 128          | (2,100)        | 96           | 28           |
| Proceeds From Issue Of Shares    |              | 798          |                |              |              |
| Shares Repurchased               |              |              |                |              |              |
| Dividends Paid                   |              |              |                |              |              |
| Preferred Dividends              |              |              |                |              |              |
| Other Financing Cashflow         | (367)        | 3,616        | (12)           | (104)        | 50           |
| <b>Cash Flow From Financing</b>  | <b>(208)</b> | <b>4,542</b> | <b>(2,112)</b> | <b>(7)</b>   | <b>78</b>    |
| Total Cash Generated             | (235)        | 4,138        | (1,820)        | 347          | (183)        |
| <b>Free Cashflow To Equity</b>   | <b>131</b>   | <b>(276)</b> | <b>(1,808)</b> | <b>450</b>   | <b>(233)</b> |
| <b>Free Cashflow To Firm</b>     | <b>(236)</b> | <b>(648)</b> | <b>130</b>     | <b>253</b>   | <b>(350)</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

| <b>Balance Sheet</b>                 |                |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>(Rs mn)</b>                       | <b>Mar-22A</b> | <b>Mar-23A</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| Total Cash And Equivalents           | 78             | 4,219          | 2,399          | 2,746          | 2,548          |
| Total Debtors                        | 1,774          | 2,062          | 2,200          | 2,597          | 4,245          |
| Inventories                          | 2,330          | 3,179          | 3,394          | 4,003          | 4,963          |
| Total Other Current Assets           | 298            | 673            | 705            | 835            | 1,213          |
| <b>Total Current Assets</b>          | <b>4,479</b>   | <b>10,133</b>  | <b>8,699</b>   | <b>10,181</b>  | <b>12,969</b>  |
| Fixed Assets                         | 913            | 1,062          | 1,102          | 1,143          | 1,178          |
| Total Investments                    | 53             | 53             | 53             | 53             | 61             |
| Intangible Assets                    | 6              | 24             | 5              | 5              | 4              |
| Total Other Non-Current Assets       | 420            | 527            | 527            | 527            | 342            |
| <b>Total Non-current Assets</b>      | <b>1,391</b>   | <b>1,667</b>   | <b>1,688</b>   | <b>1,728</b>   | <b>1,584</b>   |
| Short-term Debt                      | 2,199          | 2,407          | 707            | 777            | 777            |
| Current Portion of Long-Term Debt    |                |                |                |                |                |
| Total Creditors                      | 1,185          | 1,418          | 1,522          | 1,679          | 2,482          |
| Other Current Liabilities            | 595            | 1,521          | 1,662          | 2,099          | 2,836          |
| <b>Total Current Liabilities</b>     | <b>3,979</b>   | <b>5,345</b>   | <b>3,890</b>   | <b>4,556</b>   | <b>6,095</b>   |
| Total Long-term Debt                 | 742            | 656            | 256            | 282            | 310            |
| Hybrid Debt - Debt Component         |                |                |                |                |                |
| Total Other Non-Current Liabilities  | 188            | 302            | 302            | 302            | 241            |
| <b>Total Non-current Liabilities</b> | <b>930</b>     | <b>958</b>     | <b>558</b>     | <b>583</b>     | <b>551</b>     |
| Total Provisions                     | 97             | 130            | 130            | 130            | 130            |
| <b>Total Liabilities</b>             | <b>5,006</b>   | <b>6,433</b>   | <b>4,578</b>   | <b>5,270</b>   | <b>6,776</b>   |
| Shareholders Equity                  | 887            | 5,370          | 5,809          | 6,639          | 7,777          |
| Minority Interests                   |                |                |                |                |                |
| <b>Total Equity</b>                  | <b>887</b>     | <b>5,370</b>   | <b>5,809</b>   | <b>6,639</b>   | <b>7,777</b>   |

| <b>Key Ratios</b>         |                |                |                |                |                |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
|                           | <b>Mar-22A</b> | <b>Mar-23A</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| Revenue Growth            | 21.8%          | 12.4%          | 1.7%           | 35.0%          | 22.9%          |
| Operating EBITDA Growth   | 47.5%          | 15.7%          | (25.9%)        | 55.6%          | 31.8%          |
| Operating EBITDA Margin   | 11.6%          | 11.9%          | 8.7%           | 10.0%          | 10.8%          |
| Net Cash Per Share (Rs)   | (43.85)        | 17.71          | 22.00          | 25.84          | 22.37          |
| BVPS (Rs)                 | 13.58          | 82.25          | 88.96          | 101.68         | 119.11         |
| Gross Interest Cover      | 3.20           | 2.68           | 3.75           | 10.29          | 16.61          |
| Effective Tax Rate        | 21.2%          | 27.8%          | 25.3%          | 27.5%          | 29.0%          |
| Net Dividend Payout Ratio |                |                |                |                |                |
| Accounts Receivables Days | 77.99          | 74.10          | 80.99          | 67.53          | 78.38          |
| Inventory Days            | 124.75         | 165.72         | 194.23         | 157.77         | 155.64         |
| Accounts Payables Days    | 81.00          | 78.29          | 86.85          | 68.27          | 72.23          |
| ROIC (%)                  | 15.0%          | 15.2%          | 9.6%           | 14.6%          | 16.7%          |
| ROCE (%)                  | 21.6%          | 15.2%          | 8.0%           | 14.4%          | 17.8%          |
| Return On Average Assets  | 12.0%          | 8.9%           | 5.0%           | 8.1%           | 9.1%           |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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