

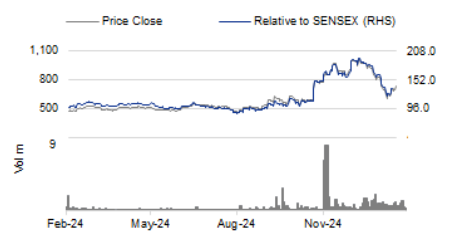
India

HOLD (previously REDUCE)

Consensus ratings*: Buy 4 Hold 2 Sell 7	
Current price:	Rs733
Target price: ▲	Rs800
Previous target:	Rs565
Up/downside:	9.1%
InCred Research / Consensus:	14.2%
Reuters:	AVAL.INS
Bloomberg:	AVALON IN
Market cap:	US\$668m
	Rs48,483m
Average daily turnover:	US\$7.6m
	Rs553.5m
Current shares o/s:	65.7m
Free float:	23.2%
*Source: Bloomberg	

Key changes in this note

- For FY25F-27F, we raise revenue estimates by 1%-6% and PAT estimates by 4%-11%. Upgrade to HOLD rating with a higher target price of Rs800.

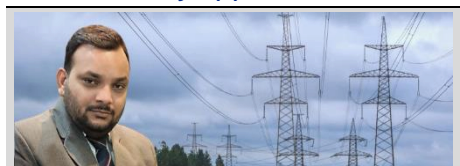


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(20.4)	24.3	54.2
Relative (%)	(20.5)	28.0	42.6

Major shareholders	% held
HDFC MF	6.7
Nippon Life	5.7
Mirae Asset	2.0

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Avalon Technologies

Growth drivers in place; upgrade to HOLD

- 3Q EBITDA jumped 109% YoY to Rs346m, 16% above our estimate & 7% above Bloomberg consensus, while margin expanded by 461bp YoY to 12.3%.
- Management raised revenue guidance for FY25F from 16-20% to 22-24%, following improved momentum. The order book grew by 25% YoY to Rs15.9bn.
- For FY25F-27F, we raise PAT by 4%-11%. Upgrade to HOLD rating with a TP of Rs800 (from Rs565), valuing it at 40x FY27F (from 35x Sep 2026F) EPS.

Strong performance continues

Avalon Technologies posted another strong performance, with 3QFY25 revenue at Rs2.8bn, up 31% YoY, 2% above our/Bloomberg or BB consensus estimates. The revenue growth was driven by a strong uptick in the industrial segment, up 304% YoY, on a low base. EBITDA jumped 109% YoY to Rs346m, 16% above our estimate & 7% above BB consensus estimate, while margin expanded by 461bp to 12.3%. PAT came in at Rs240m, up 265% YoY, 42% above our estimate & 32% above BB consensus estimate. India manufacturing business, accounting for 88% of revenue, delivered 15% EBITDA and 10.8% PAT in 3QFY25.

Raises FY25F guidance

Avalon Technologies has raised its revenue guidance for FY25F from 16-20% to 22-24%, reflecting the improved growth momentum. The company expects 4QFY25F to be a strong quarter, with revenue growth in the range of 40-48% YoY. It has revised gross margin guidance upwards, from 33-35% to 34-36%, citing better operational efficiency, a higher-margin product mix, and cost optimization initiatives. The order book continued to expand, growing 25% YoY to Rs15.9bn as of Dec 2024-end.

Growth drivers in place

The company continues to optimize its global supply chain and leverage India's cost advantages while maintaining a strategic presence in the US market. We expect a rerating led by the recovery of its existing US business, onboarding of a new client in the US, and expansion of Indian operations.

Upgrade to HOLD rating with a higher target price of Rs800

Avalon Technologies saw a strong recovery in 3QFY25, with a 31% YoY jump in revenue and 265% YoY growth in PAT. Management revised its revenue guidance to 22-24%. The company plans to continue expanding its manufacturing footprint and investing in technological advancements to drive future growth. For FY25F-27F, we raise revenue estimates by 1%-6% and PAT estimates by 4%-11% factoring in the recovery in 3Q and the revised guidance. We upgrade the stock's rating to HOLD (from REDUCE) with a higher target price of Rs800 (Rs565 earlier), valuing it at 40x FY27F (from 35x Sep 2026F) EPS. Upside risk: A quick ramp-up of India EMS business offsetting the slowdown in the US business. Downside risks: Order execution delay and a lower margin.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	9,447	8,672	10,651	13,763	16,791
Operating EBITDA (Rsm)	1,128	626	1,066	1,534	1,952
Net Profit (Rsm)	525	280	604	982	1,315
Core EPS (Rs)	8.0	4.3	9.2	14.9	20.0
Core EPS Growth	1.6%	(46.7%)	115.9%	62.5%	33.9%
FD Core P/E (x)	91.69	172.10	79.71	49.06	36.63
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)	41.67	78.94	45.51	31.46	24.48
P/FCFE (x)	(174.37)	(25.64)	856.57	(1,375.05)	98.52
Net Gearing	(21.5%)	22.3%	5.3%	1.2%	(4.6%)
P/BV (x)	8.97	8.80	7.93	6.82	5.75
ROE	16.8%	5.2%	10.5%	14.9%	17.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY25 conference-call highlights

- **Overview:** Avalon Technologies reported strong growth in 3QFY25, benefiting from the recovery in its US customer base and an expanding presence in the Indian market. The company's high-mix, flexible-volume manufacturing approach, coupled with its vertically integrated capabilities, positions it well in diverse sectors like industrial, aerospace, medical, rail, and communications.
- **Guidance:** The company has raised its revenue guidance for FY25F from 16-20% to 22-24%, reflecting the improved growth momentum. The company expects 4QFY25F to be a strong quarter, with revenue growth in the range of 40-48% YoY. It revised gross margin guidance upwards, from 33-35% to 34-36%, citing better operational efficiency, a higher-margin product mix, and cost optimization initiatives. Management remains confident of achieving these targets, driven by strong demand from both Indian and US markets.
- **Order book:** The company's order book continued to expand, growing 25% YoY to Rs15.9bn as of Dec 2024-end. Long-term contracts (which typically have an execution period of two-to-three years) increased by 32% YoY to Rs11.1bn. The company expects sustained order inflow in the coming quarters as customers ramp up production. Avalon Technologies has secured significant new orders in the automotive sector, particularly in motion control systems.
- **Contribution of US and Indian markets:** The company's US manufacturing operations contributed ~12% to its total revenue in 3QFY25. Losses from the US plant narrowed to Rs34m, a significant improvement from the Rs140m loss reported in 1QFY25. Meanwhile, the India-based manufacturing operations contributed 88% to total revenue and remained highly profitable, with an EBITDA margin of 15% and PAT margin of 10.8%. The company continues to optimize its global supply chain and leverage India's cost advantage.
- **Growth drivers:** Avalon Technologies' growth is driven by three key engines: (1) Recovery in the existing US business. (2) Onboarding of a new client in the US. (3) Expansion of Indian operations. It is witnessing strong traction in in the US, with several projects transitioning from the prototype phase to full-scale commercial production.
- **Segment-wise performance:** The industrial segment emerged as a key driver, with its revenue growing 304% YoY in 3QFY25. The clean energy segment also saw strong traction, reporting a 29% YoY growth, while the mobility sector expanded by 20% YoY. The communication segment saw some temporary softness, but management remains optimistic about a rebound in the next few quarters.
- **Expansion:** Avalon Technologies' new Chennai export-focused plant is now operational, supporting growing international demand. Additionally, Phase-1 of its brownfield expansion in Chennai has been completed to meet the rising domestic market requirements. Phase-2 of the expansion is set to begin soon.
- **Working capital:** Net working capital days reduced from 161 in Mar 2024 to 150 in Dec 2024. Avalon Technologies remains confident of achieving its targeted 10–15-day improvement by the end of FY25F.
- **Political risks:** With the uncertainty over US trade policies, especially under a Donald Trump administration, Avalon Technologies has addressed concerns regarding its exposure to clean energy policies. Management clarified that the company's clean energy business is primarily in energy storage rather than solar, which is less likely to be affected by policy changes. Moreover, the company continues to see strong demand for energy storage solutions, with growth rate in the range of 50-70% YoY in the US market.
- **Outlook:** Avalon Technologies' long-term strategy remains focused on maintaining a balanced growth approach across geographies and industries. With strong demand visibility, ongoing capacity expansion, and improving

financial metrics, the company, in our view, is well-positioned for sustained growth.

Figure 1: Results summary

(Rs m)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net revenue	2,809	2,143	31%	2,750	2%	7,553	6,504	16%
Raw material costs	1,760	1,350	30%	1,737	1%	4,830	4,191	15%
Staff costs	494	457	8%	467	6%	1,416	1,364	4%
Other expenditure	208	171	22%	245	-15%	617	495	25%
Total expenses	2,462	1,977	25%	2,449	1%	6,862	6,050	13%
EBITDA	346	165	109%	301	15%	691	454	52%
Other income	100	22	363%	39	155%	183	120	53%
Interest	45	36	24%	37	21%	125	125	0%
Depreciation	74	60	23%	69	7%	208	168	24%
PBT	327	91	261%	234	40%	541	281	93%
Tax	87	25	250%	60	47%	150	72	108%
Reported PAT	240	66	265%	175	37%	392	209	87%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margins (%)	3QFY25	3QFY24	YoY (bp)	2QFY25	QoQ (bp)	9MFY25	9MFY24	YoY (bp)
Raw material costs	62.7%	63.0%	-33	63.2%	-48	63.9%	64.4%	-51
Staff costs	17.6%	21.3%	-373	17.0%	59	18.7%	21.0%	-223
Other expenses	7.4%	8.0%	-54	8.9%	-148	8.2%	7.6%	56
EBITDA margin	12.3%	7.7%	461	11.0%	137	9.2%	7.0%	218
PAT	8.5%	3.1%	547	6.4%	218	5.2%	3.2%	197
Tax rate	26.7%	27.5%	-80	25.4%	127	27.7%	25.6%	210
Gross margin	37.3%	37.0%	33	36.8%	48	36.1%	35.6%	51

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise revenue

Segment-wise Revenue (Rs m)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Clean energy	637	494	29%	490	30%	1,586	1,236	28%
Mobility	617	514	20%	795	-22%	1,851	1,691	9%
Industrials	928	230	304%	817	13%	2,304	1,756	31%
Communication	177	474	-63%	267	-34%	604	911	-34%
Medical and others	402	431	-7%	428	-6%	1,209	911	33%
Total	2,761	2,143	29%	2,798	-1%	7,553	6,504	16%

Sales Mix	3QFY25	3QFY24	YoY (bp)	2QFY25	QoQ (bp)	9MFY25	9MFY24	YoY (bp)
Clean energy	23%	23%	-38	18%	487	21%	19%	200
Mobility	22%	24%	-200	29%	-694	25%	26%	-150
Industrials	33%	11%	2,232	30%	331	31%	27%	350
Communication	6%	22%	-1,583	10%	-341	8%	14%	-600
Medical and others	14%	20%	-580	16%	-124	16%	14%	200

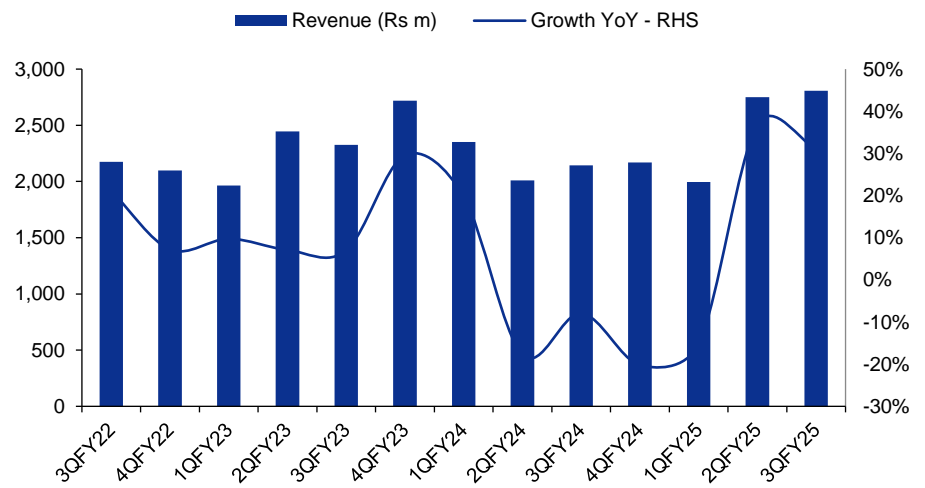
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

vs. InCred	3QFY25	3QFY25F	Diff. (%)
Revenue (Rs m)	2,809	2,866	-2%
EBITDA (Rs m)	346	298	16%
Margin (%)	12.3%	10.4%	193bp
PAT (Rs m)	240	169	42%

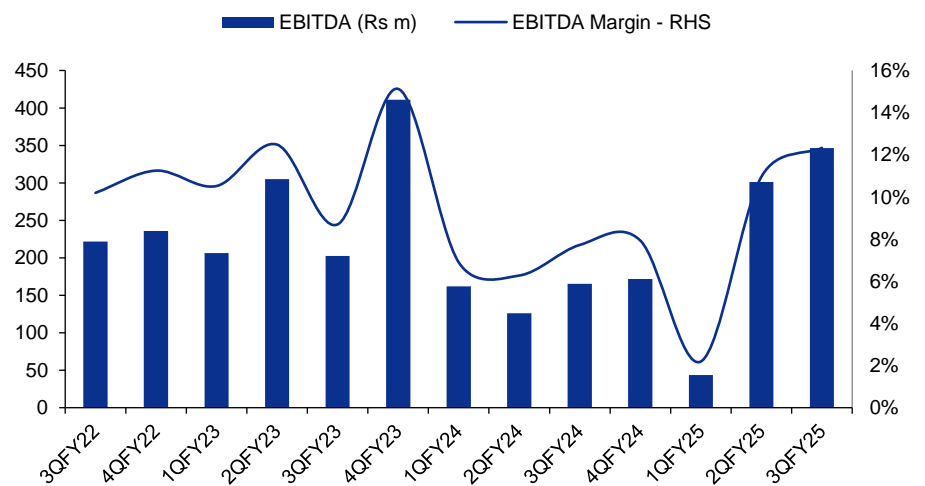
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



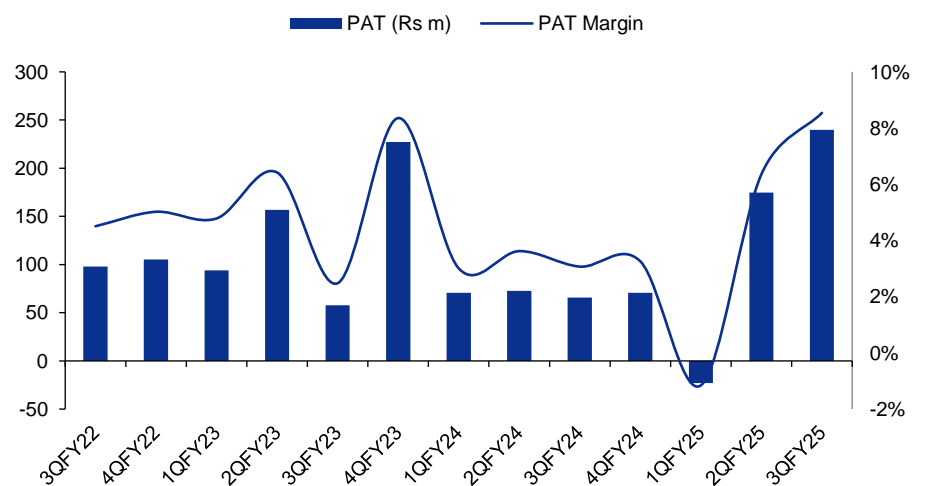
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



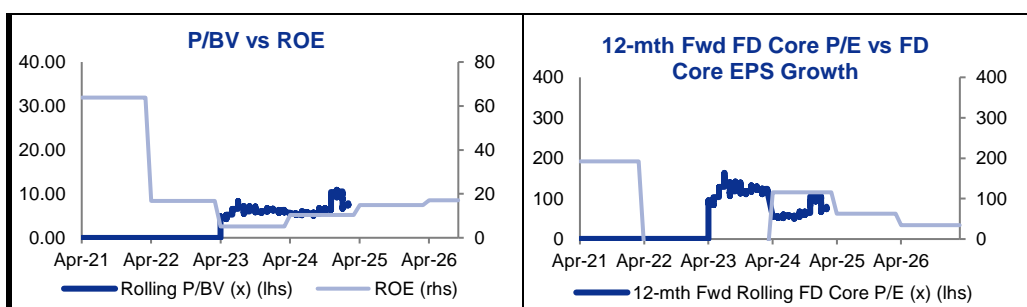
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Earnings revision summary

Earnings (Rs m)	New Estimates			Old Estimates			Change		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	10,651	13,763	16,791	10,626	13,464	15,881	0.2%	2.2%	5.7%
EBITDA	1,066	1,534	1,952	1,044	1,478	1,761	2.1%	3.8%	10.8%
PAT	604	982	1,315	560	941	1,180	7.9%	4.3%	11.4%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	9,447	8,672	10,651	13,763	16,791
Gross Profit	3,380	3,126	3,854	4,982	6,179
Operating EBITDA	1,128	626	1,066	1,534	1,952
Depreciation And Amortisation	(197)	(229)	(286)	(310)	(360)
Operating EBIT	932	397	779	1,224	1,592
Financial Income/(Expense)	(348)	(164)	(173)	(158)	(154)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	144	148	226	242	316
Profit Before Tax (pre-EI)	727	381	833	1,309	1,753
Exceptional Items					
Pre-tax Profit	727	381	833	1,309	1,753
Taxation	(202)	(101)	(228)	(327)	(438)
Exceptional Income - post-tax					
Profit After Tax	525	280	604	982	1,315
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	525	280	604	982	1,315
Recurring Net Profit	525	280	604	982	1,315
Fully Diluted Recurring Net Profit	525	280	604	982	1,315

Cash Flow					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
PBT	727	381	833	1,309	1,753
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,125)	(710)	(477)	(977)	(833)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	197	229	286	310	360
Other Operating Cashflow	13				
Net Interest (Paid)/Received	244	164	173	158	154
Tax Paid	(189)	(101)	(228)	(327)	(438)
Cashflow From Operations	(133)	(37)	586	472	996
Capex	(273)	(423)	(500)	(500)	(500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2	3	3	3	3
Cash Flow From Investing	(271)	(420)	(497)	(497)	(497)
Debt Raised/(repaid)	128	(1,421)	(33)	(10)	(10)
Proceeds From Issue Of Shares	798				
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	3,616	(1,917)	807	203	206
Cash Flow From Financing	4,542	(3,338)	774	193	196
Total Cash Generated	4,138	(3,796)	863	168	695
Free Cashflow To Equity	(276)	(1,879)	56	(35)	489
Free Cashflow To Firm	(648)	(622)	(84)	(182)	345

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	4,219	423	1,286	1,515	1,973
Total Debtors	2,062	1,869	2,130	2,408	2,930
Inventories	3,179	3,163	3,676	4,523	5,285
Total Other Current Assets	657	235	233	268	335
Total Current Assets	10,117	5,691	7,326	8,714	10,523
Fixed Assets	1,428	1,666	1,876	2,028	2,137
Total Investments					
Intangible Assets	24	21	21	17	13
Total Other Non-Current Assets	315	533	951	463	370
Total Non-current Assets	1,767	2,220	2,848	2,507	2,521
Short-term Debt	2,407	1,108	1,086	1,086	1,086
Current Portion of Long-Term Debt					
Total Creditors	1,418	974	1,182	1,345	1,669
Other Current Liabilities	1,603	700	788	807	1,001
Total Current Liabilities	5,428	2,782	3,055	3,237	3,756
Total Long-term Debt	656	533	523	512	502
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	304	362	362	256	256
Total Non-current Liabilities	960	896	885	768	758
Total Provisions	130	156	156	156	156
Total Liabilities	6,517	3,834	4,097	4,162	4,669
Shareholders Equity	5,370	5,473	6,078	7,059	8,374
Minority Interests					
Total Equity	5,370	5,473	6,078	7,059	8,374

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	12.4%	(8.2%)	22.8%	29.2%	22.0%
Operating EBITDA Growth	15.7%	(44.5%)	70.3%	44.0%	27.2%
Operating EBITDA Margin	11.9%	7.2%	10.0%	11.1%	11.6%
Net Cash Per Share (Rs)	17.60	(18.54)	(4.90)	(1.26)	5.86
BVPS (Rs)	81.72	83.29	92.49	107.42	127.43
Gross Interest Cover	2.68	2.42	4.51	7.77	10.30
Effective Tax Rate	27.8%	26.5%	27.4%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	74.10	82.72	68.52	60.17	58.02
Inventory Days	165.72	208.74	183.67	170.42	168.68
Accounts Payables Days	78.29	78.72	57.89	52.51	51.82
ROIC (%)	15.0%	5.1%	8.4%	12.1%	14.2%
ROCE (%)	15.2%	5.1%	10.5%	15.0%	17.1%
Return On Average Assets	8.8%	4.1%	8.1%	10.3%	11.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.