

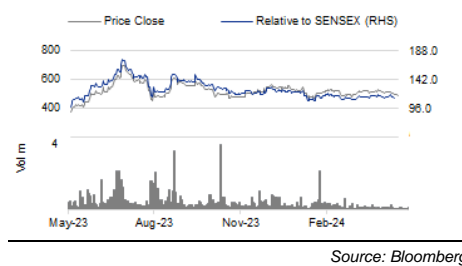
India

HOLD (previously ADD)

Consensus ratings*:	Buy 9	Hold 2	Sell 2
Current price:	Rs489		
Target price:	Rs510		
Previous target:	Rs610		
Up/downside:	4.3%		
InCred Research / Consensus:	-7.5%		
Reuters:	AVALON IN		
Bloomberg:	US\$385m		
Market cap:	Rs32,107m		
Average daily turnover:	US\$0.9m		
	Rs75.2m		
Current shares o/s:	65.7m		
Free float:	24.2%		
*Source: Bloomberg			

Key changes in this note

- We reduce revenue estimates by 22%/15%, EBITDA estimates by 19%/8% and PAT estimates by 30%/16% for FY25F/26F.



Price performance	1M	3M	12M
Absolute (%)	(5.3)	(3.8)	24.6
Relative (%)	(6.4)	(4.9)	4.1

Major shareholders	% held
Nippon Life	5.8
HDFC MF	4.7
Mirae Asset	2.1

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Avalon Technologies

Recovery in US market delayed further

- 4Q EBITDA stood at Rs172m, down 58% YoY (+4% QoQ), 28% below our estimate and 20% below consensus. EBITDA margin fell 719bp YoY to 7.9%.
- Recovery in the US market was delayed by two more quarters to FY26F. It is looking to address challenges in the US by optimizing production shift to India.
- Despite lower sales in FY24, management has given muted 14-16% revenue growth guidance for FY25F. We downgrade our rating to HOLD from ADD.

Muted performance continues

Avalon Technologies (Avalon) continued to disappoint in 4QFY24 as well, with a 20% YoY decline in sales to Rs2.2bn, which is 16% below our estimate and 5% below consensus estimate. EBITDA in 4Q stood at Rs172m, down 58% YoY (+4% QoQ), 28% below our estimate and 20% below consensus estimate. The EBITDA margin was under pressure as it fell 719bp YoY to 7.9%. PAT came in at Rs66m during 4QFY24, down 69% YoY (+7% QoQ), 42% below our estimate and 31% below consensus estimate.

Uptick in US market delayed by two more quarters to FY26F

The challenging US economic conditions led to a Rs300m loss from the US operations in FY24. The US market revenue comprised 54% of the total revenue in FY24 from 59% in FY23. The US market slowdown continued while limited revenue growth was witnessed in the Indian market. Total revenue in FY24 declined by 8%. Domestic manufacturing stood at 77%, which is highly profitable. Management has given guidance of an improvement in the US operations from FY26F vs.1HFY24 guided earlier. The company is looking to address challenges in the US market by optimizing production shift to India and rationalizing costs at the US operations. As per management, Avalon did not lose any client during this difficult environment in the US.

Downgrade to HOLD on weak guidance post slowdown in FY24

Despite lower sales in FY24, management gave guidance of 14-16% revenue growth in FY25F. We expect Avalon to continue its underperformance till a strong recovery in the US market, which has been delayed further. On the positive side, the order book and long-term contracts have increased by 26% YoY to Rs13.7bn, the execution of which will take 12-14 months. Avalon is continuously expanding its technological expertise in manufacturing for diverse industries and integrating its services to serve multiple verticals, with high-mix, flexible-volume manufacturing. For FY25F/26F, we have cut our revenue estimates by 22%/15% and PAT estimates by 30%/16%, respectively, factoring in weak performance and slowdown in the US export business. **We downgrade our rating on Avalon to HOLD (from ADD) with a lower target price of Rs510 (Rs610 earlier), valuing the stock at 35x FY26F EPS.** A major downturn in the US economy affecting the company's US market revenue due to further losses is a downside risk while a faster recovery in the US market with healthy profitability is a key upside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	8,407	9,447	8,672	10,102	13,507
Operating EBITDA (Rsm)	975	1,128	626	1,054	1,581
Net Profit (Rsm)	675	525	280	578	952
Core EPS (Rs)	7.9	8.0	4.3	8.8	14.5
Core EPS Growth	124.0%	1.6%	(46.7%)	106.6%	64.6%
FD Core P/E (x)	47.60	61.12	114.73	55.54	33.74
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)	35.85	27.44	53.27	31.00	20.75
P/FCFE (x)	244.73	(116.24)	(17.09)	(370.73)	(81.18)
Net Gearing	322.8%	(21.5%)	22.3%	9.3%	10.1%
P/BV (x)	36.20	5.98	5.87	5.31	4.58
ROE	69.6%	16.8%	5.2%	10.0%	14.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 conference-call highlights

- **Overview:** Avalon reported a weak set of 4QFY24 numbers, missing estimates by a large margin due to losses at the US operations, which have obscured the healthy performance of Indian manufacturing operations that contribute 77% to the business. However, management stated the US economy is recovering slowly, which will lead to healthy growth in the medium term.
- **Guidance:** Management has given revenue growth guidance of 14-15% for FY25F.
- **Order:** The company's order book and long-term contracts have increased by 26%. This is likely to provide good revenue visibility. The order book stands at Rs13.7bn. Typically, on an average, these are executed over a period of 12-14 months. The long-term contracts stood at Rs9.5bn and these contracts are executed over one-to-three years.
- Management believes that capitalizing on India's manufacturing capabilities and leveraging the onboarding opportunities in the US are crucial steps in the strategic initiative. The company will focus on the hybrid manufacturing model, where established businesses collaborate to grow wallet share through up-selling and cross-selling.
- The company is looking to focus on high-growth sectors such as clean energy, which offers significant potential for growth. Catering to profitable segments like aerospace & defence, and handling complex, mission-critical products such as big box further enhances the opportunities.
- Avalon is partnering with emerging pioneers and focusing on key strategies, through which the company tries to position itself for success in the domestic and international markets. US operations are seeing signs of a recovery.
- The company's US revenue share was at 54% in FY24 compared to 59% in FY23.
- **Cash & debt:** The company's closing cash at the end of Mar 2024 was ~Rs420m as compared to Rs4.2bn as of FY23-end. Borrowings have reduced to ~Rs1.6bn from Rs3.1bn in FY23.
- The new plant for exports is expected to be commissioned by 2QFY25F.

Figure 1: Results summary

(Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Net revenue	2,168	2,718	-20%	2,143	1%	8,672	9,446	-8%
Raw material costs	1,354	1,700	-20%	1,350	0%	5,545	6,238	-11%
Staff costs	451	427	6%	457	-1%	1,815	1,605	13%
Other expenditure	191	180	6%	171	12%	685	647	6%
Total expenses	1,996	2,307	-13%	1,977	1%	8,046	8,319	-3%
EBITDA	172	411	-58%	165	4%	626	1,127	-44%
Other income	28	38	-25%	22	30%	148	144	3%
Interest	39	95	-59%	36	9%	164	348	-53%
Depreciation	61	52	18%	60	2%	229	197	16%
PBT	99	302	-67%	91	10%	381	726	-48%
Tax	29	75	-61%	25	16%	101	202	-50%
Reported PAT	71	227	-69%	66	7%	280	524	-47%
EPS	1.1	3.5	-69%	1.0	7%	4.3	8.0	-47%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

(%)	4QFY24	4QFY23	YoY (bp)	3QFY24	QoQ (bp)	FY24	FY23	YoY (bp)
Raw material costs	62.5%	62.5%	-9	63.0%	-56	63.9%	66.0%	-210
Staff costs	20.8%	15.7%	512	21.3%	-49	20.9%	17.0%	394
Other expenses	8.8%	6.6%	216	8.0%	84	7.9%	6.8%	106
EBITDA	7.9%	15.1%	-719	7.7%	21	7.2%	11.9%	-472
PAT	3.3%	8.4%	-510	3.1%	19	3.2%	5.5%	-232
Tax rate (%)	29.0%	24.7%	424	27.5%	149	26.5%	27.8%	-135
Gross margin	37.5%	37.5%	9	37.0%	56	36.1%	34.0%	210

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment revenue

(Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Clean energy	325	680	-52%	494	-34%	1,561	2,550	-39%
Mobility	564	571	-1%	514	10%	2,255	1,984	14%
Industrials	672	788	-15%	230	193%	2,428	2,267	7%
Communication	217	299	-27%	474	-54%	1,127	1,228	-8%
Medical equipment and others	390	353	10%	431	-9%	1,301	1,417	-8%
Total	2,168	2,718	-20%	2,143	1%	8,672	9,446	-8%

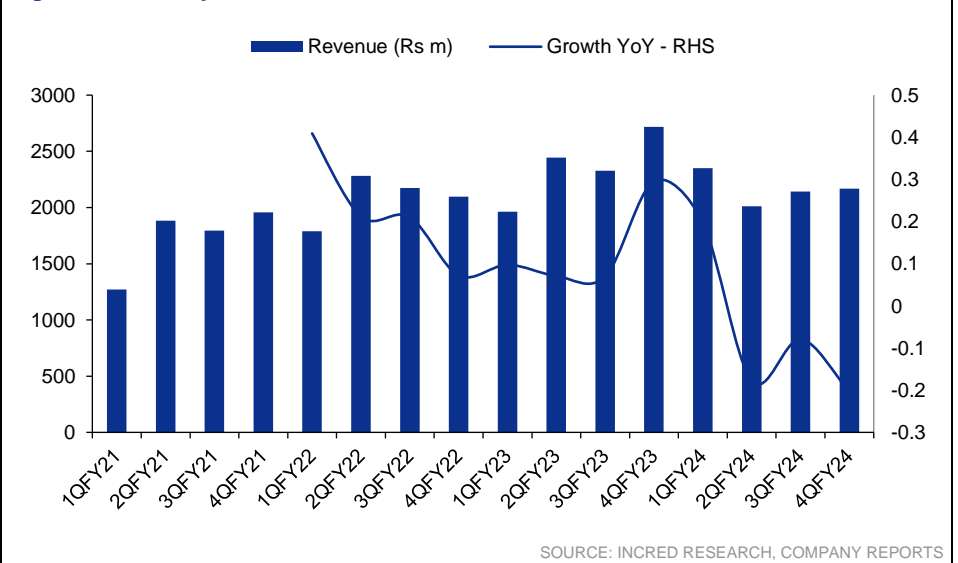
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision summary

(Rs m)	New Estimates		Old Estimates		Change	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	10,102	13,507	12,965	15,930	-22.1%	-15.2%
EBITDA	1,054	1,581	1,300	1,714	-18.9%	-7.7%
PAT	578	952	830	1,138	-30.4%	-16.4%

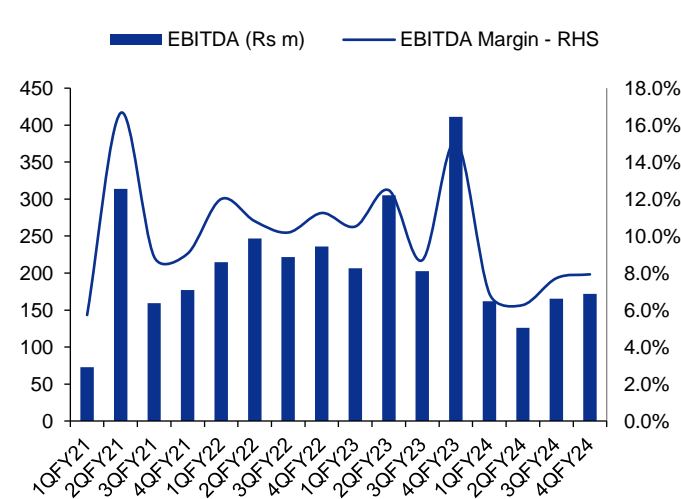
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



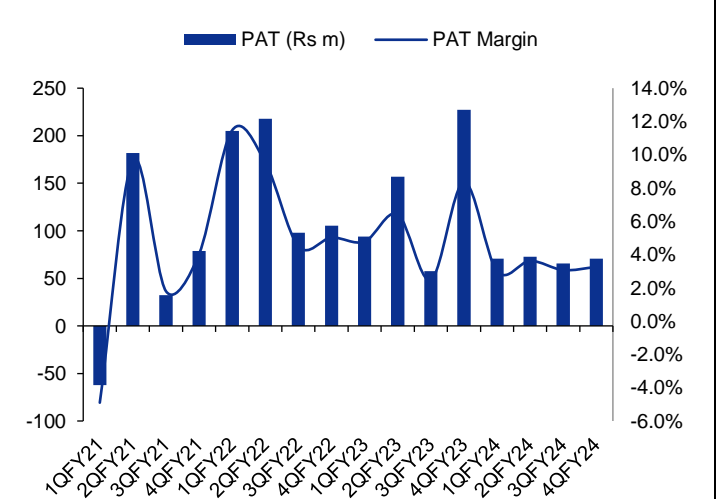
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



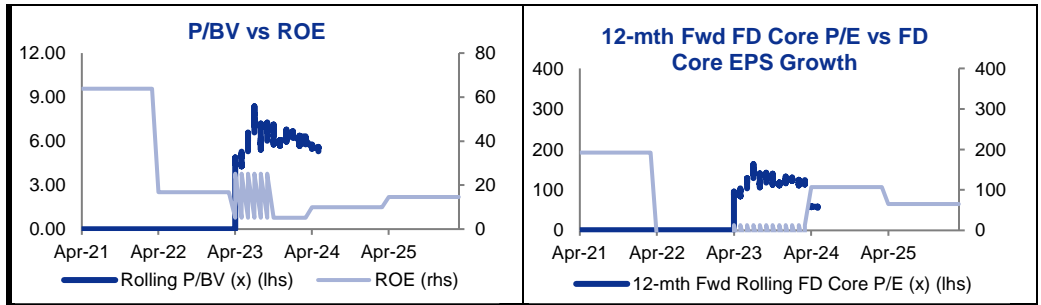
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	8,407	9,447	8,672	10,102	13,507
Gross Profit	2,866	3,380	3,126	3,738	4,890
Operating EBITDA	975	1,128	626	1,054	1,581
Depreciation And Amortisation	(180)	(197)	(229)	(273)	(300)
Operating EBIT	795	932	397	781	1,281
Financial Income/(Expense)	(248)	(348)	(164)	(171)	(172)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	109	144	148	160	160
Profit Before Tax (pre-EI)	656	727	381	771	1,269
Exceptional Items	200				
Pre-tax Profit	856	727	381	771	1,269
Taxation	(182)	(202)	(101)	(193)	(317)
Exceptional Income - post-tax					
Profit After Tax	675	525	280	578	952
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	675	525	280	578	952
Recurring Net Profit	517	525	280	578	952
Fully Diluted Recurring Net Profit	517	525	280	578	952

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	856	727	381	771	1,269
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(805)	(1,125)	(710)	(677)	(1,323)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	180	197	229	273	300
Other Operating Cashflow	(158)	13			
Net Interest (Paid)/Received	209	244	164	171	172
Tax Paid	(125)	(189)	(101)	(193)	(317)
Cashflow From Operations	157	(133)	(37)	345	101
Capex	(177)	(273)	(423)	(500)	(500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6)	2	3	3	3
Cash Flow From Investing	(184)	(271)	(420)	(497)	(497)
Debt Raised/(repaid)	158	128	(1,421)	66	
Proceeds From Issue Of Shares		798			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(367)	3,616	(1,917)	809	189
Cash Flow From Financing	(208)	4,542	(3,338)	874	189
Total Cash Generated	(235)	4,138	(3,796)	722	(207)
Free Cashflow To Equity	131	(276)	(1,879)	(87)	(396)
Free Cashflow To Firm	(236)	(648)	(622)	(323)	(567)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	78	4,219	423	1,145	1,000
Total Debtors	1,774	2,062	1,869	2,103	2,523
Inventories	2,330	3,179	3,163	3,570	4,574
Total Other Current Assets	298	657	235	332	420
Total Current Assets	4,479	10,117	5,691	7,151	8,517
Fixed Assets	1,162	1,428	1,666	1,890	2,051
Total Investments	53				
Intangible Assets	6	24	21	21	17
Total Other Non-Current Assets	170	315	533	951	463
Total Non-current Assets	1,391	1,767	2,220	2,862	2,530
Short-term Debt	2,199	2,407	1,108	1,152	1,152
Current Portion of Long-Term Debt					
Total Creditors	1,185	1,418	974	992	1,149
Other Current Liabilities	595	1,603	700	744	776
Total Current Liabilities	3,979	5,428	2,782	2,888	3,077
Total Long-term Debt	742	656	533	555	555
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	188	304	362	362	256
Total Non-current Liabilities	930	960	896	917	810
Total Provisions	97	130	156	156	156
Total Liabilities	5,006	6,517	3,834	3,961	4,044
Shareholders Equity	887	5,370	5,473	6,051	7,003
Minority Interests					
Total Equity	887	5,370	5,473	6,051	7,003

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	21.8%	12.4%	(8.2%)	16.5%	33.7%
Operating EBITDA Growth	47.5%	15.7%	(44.5%)	68.4%	50.1%
Operating EBITDA Margin	11.6%	11.9%	7.2%	10.4%	11.7%
Net Cash Per Share (Rs)	(43.57)	17.60	(18.54)	(8.55)	(10.77)
BVPS (Rs)	13.50	81.72	83.29	92.09	106.57
Gross Interest Cover	3.20	2.68	2.42	4.58	7.45
Effective Tax Rate	21.2%	27.8%	26.5%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.99	74.10	82.72	71.76	62.50
Inventory Days	124.75	165.72	208.74	193.08	172.47
Accounts Payables Days	81.00	78.29	78.72	56.37	45.34
ROIC (%)	15.0%	15.0%	5.1%	8.2%	11.8%
ROCE (%)	21.6%	15.2%	5.1%	10.5%	15.6%
Return On Average Assets	12.0%	8.8%	4.1%	7.9%	10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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