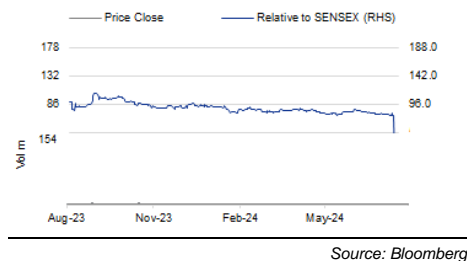


India

REDUCE (no change)

Consensus ratings*:	Buy 5	Hold 3	Sell 5
Current price:	Rs473		
Target price:	Rs414		
Previous target:	Rs414		
Up/downside:	-12.5%		
InCred Research / Consensus:	-15.7%		
Reuters:	AVAL.INS		
Bloomberg:	AVALON IN		
Market cap:	US\$429m		
	Rs31,150m		
Average daily turnover:	US\$1.1m		
	Rs76.8m		
Current shares o/s:	65.7m		
Free float:	24.2%		

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	(12.0)	(6.8)	(9.1)
Relative (%)	(11.1)	(15.0)	(25.5)

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

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Avalon Technologies

There is no future in US energy storage biz

- With rooftop solar installations already collapsing in the US, the BESS (Battery Energy Storage System) may also follow up with a lag in CY24F.
- We don't expect Avalon Technologies' clean energy portfolio to post growth and its tie-up with Ohmium and Lunar will also not produce the desired results.
- We retain our earnings estimates and value the stock at 32x Sep 2026F EPS. Retain our REDUCE rating on it with an unchanged target price of Rs414.

Residential solar and BESS are entering the decline phase in US

Battery Energy Storage System or BESS is used in conjunction with rooftop solar systems installed by homeowners, to counter the intermittency and spiky nature of solar energy. However, as mentioned in our earlier report ([Avalon - Rooftop solar in US on the verge of collapse](#)), with the transition of California, the largest solar powered state in the US, from net metering to net billing, solar panel installations in the US have come to a standstill. US installations of residential solar systems rose last year, as buyers scrambled to get the system fitted before California's new rules took effect. However, the temporary spike in sales has subsided so far in CY24. Consequently, BESS, which is used as a back-up for solar power, is seeing a spike in installations after the state of California transitioned from net metering to net billing. However, this is going to be temporary, as ultimately if solar installations don't pick up, then the BESS back-up also will enter the decline phase.

Policy risk remains a key variable before US presidential elections

For installing a solar panel and a BESS system in the US, homeowners are given a 30% investment tax credit or ITC i.e. if the price of the solar panel and BESS is Rs100, post installation the homeowner needs to pay only Rs70, with the remaining amount being borne by the government. This is a key feature of President Mr. Joe Biden's Inflation Reduction Act (IRA), which has given generous subsidies to the solar and wind industry, making it substantially cheaper and thus fueling demand. However, that is at risk with the upcoming US presidential elections, and the strong possibility of Mr. Donald Trump getting elected. Mr. Trump has shown fierce opposition to renewable energy sources, such as wind and solar, and is in favour of traditional energy sources such as coal, oil, and natural gas. He has also threatened to eliminate the IRA, which could severely reduce or eliminate the 30% solar tax credit, making solar and battery installations less financially attractive and stifling demand.

Remain bearish on clean energy portfolio; retain REDUCE rating

We believe Avalon Technologies' expectation that its clean energy portfolio will revive in 2HFY25F is too good to be true. The US solar industry is facing a fundamental risk and there is no clear path for a revival currently. We retain our earnings estimates and value the stock at 32x Sep 2026F EPS with an unchanged target price of Rs414. Key upside risk: A quick ramp-up in the Indian electronics manufacturing services or EMS business offsetting the slowdown in the US business.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	9,447	8,672	9,704	12,441	14,082
Operating EBITDA (Rsm)	1,128	626	879	1,327	1,577
Net Profit (Rsm)	525	280	448	772	943
Core EPS (Rs)	8.0	4.3	6.8	11.7	14.4
Core EPS Growth	1.6%	(46.7%)	60.2%	72.1%	22.2%
FD Core P/E (x)	59.19	111.09	69.35	40.28	32.97
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)	26.53	51.64	35.99	23.89	20.00
P/FCFE (x)	(112.55)	(16.55)	(413.49)	(97.87)	137.28
Net Gearing	(21.5%)	22.3%	9.3%	9.2%	5.8%
P/BV (x)	5.79	5.68	5.25	4.64	4.07
ROE	16.8%	5.2%	7.9%	12.2%	13.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

1QFY25 conference-call highlights

- **Overview:** Avalon Technologies reported a disappointing 1QFY25, posting net losses. Its management believes that starting 2QFY25F, the company is likely to witness growth. The company is focusing on enhancing its capabilities in box-build solutions, which constituted 44% of its revenue in 1QFY25.
- **Guidance:** Management has revised its FY25F revenue growth guidance upwards from 14-18% to 16-20%, expecting a significant momentum in 2HFY25F. The company plans to continue expanding its manufacturing footprint and investing in technological advancements to drive future growth. Management expects FY25F to be much more profitable in comparison to the previous year.
- **Segments:**
 - **Clean energy:** In this segment, the production ramp-up in 2HFY25F is progressing as planned. The company follows a storage-first approach and is likely to benefit from US regulations like the Inflation Reduction Act.
 - **Mobility:** Avalon Technologies is onboarding two automobile component leaders in battery management and motion control systems. The company believes that with these two leaders it will advance from prototypes to commercial production by FY25F.
 - **Industrial:** The company secured significant contracts from two major industrial customers. Existing industrial customers are expanding their business with Avalon Technologies. New order wins in the rail, aerospace and industrial verticals from large multinational companies enable it to transition from prototypes to production.
 - **Communication:** Avalon Technologies is building momentum in the communication server vertical. It is working with customers on an anti-collision system which holds significant potential. Existing communication server vertical customers are expanding their business.
- **India operations:** India manufacturing, which contributes 88% to its revenue, remains highly profitable with a 9.6% EBITDA and a 6.6% PAT margin. US manufacturing reported a Rs144m net loss. Management stated that 45-50% of the US orders were transferred to India plants, reducing the US manufacturing plants' contribution to 12% from 27% in the previous year. Avalon Technologies has been intensifying its focus on the Indian market, which has historically accounted for a smaller portion of its revenue (40% India, 60% exports in 1QFY25). The company is now seeing positive results from this shift, with expectations of rising domestic sales as it continues to secure contracts in the sectors such as rail, industrial, and communication.
- The company said that a new export-focused plant in Chennai is complete and starting production. Phase-I of a brownfield expansion project in Chennai is done, with Phase-II expected to be completed in 2HFY25F.
- **Order book:** Avalon Technologies' order book stood at Rs14.6bn, a 32% increase YoY. The company has long-term contracts worth Rs9.85bn, which are expected to be executed over an average period of 14 months to 3 years.
- **Cash:** The company generated cash amounting to Rs360m as of Jun 2024-end. The working capital position improved, with payable and receivable days improving by seven and four days, respectively. Overall net working capital days improved by five days, indicating better efficiency in operations. It aims to reduce net working capital by another 10-15 days by FY25F.
- **Capex:** The company expects to incur a capex of Rs350-450m during the year.

Figure 1: Quarterly results snapshot

(Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Net Revenue	1,995	2,351	-15%	2,168	-8%
Raw Material Costs	1,332	1,579	-16%	1,354	-2%
Staff Costs	455	452	1%	451	1%
Other Expenditure	164	158	4%	191	-14%
Total Expenses	1,951	2,189	-11%	1,996	-2%
EBITDA	44	162	-73%	172	-75%
Other Income	44	51	-13%	28	58%
Interest	42	56	-25%	39	7%
Depreciation	66	53	25%	61	8%
PBT	-20	105	-119%	99	-120%
Tax	3	34	-91%	29	-90%
Reported PAT	-23	71	-133%	71	-133%
EPS	-0	1.1	-133%	1.1	-133%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

(% of sales)	1QFY25	1QFY24	YoY (bps)	4QFY24	QoQ (bps)
Raw Material Costs	66.8%	67.2%	-37	62.5%	434
Staff Costs	22.8%	19.2%	357	20.8%	198
Other Expenses	8.2%	6.7%	151	8.8%	-58
EBITDA Margin	2.2%	6.9%	-470	7.9%	-574
PAT	-1.2%	3.0%	-416	3.3%	-441
Tax Rate	-14.5%	32.4%	-4,695	29.0%	-4352
Gross Margin	33.2%	32.8%	37	37.5%	-434

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment revenue mix

Segment Revenue (Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Clean energy	459	494	-7%	325	41%
Mobility	439	611	-28%	564	-22%
Industrials	559	823	-32%	672	-17%
Communication	160	212	-25%	217	-26%
Medical and others	379	212	79%	390	-3%
Total	1,995	2,351	-15%	2,168	-8%
Sales Mix	1QFY25	1QFY24	YoY (bp)	4QFY24	QoQ (bp)
Clean energy	23%	21%	200	15%	800
Mobility	22%	26%	-400	26%	-400
Industrials	28%	35%	-700	31%	-300
Communication	8%	9%	-100	10%	-200
Medical and others	19%	9%	1,000	18%	100

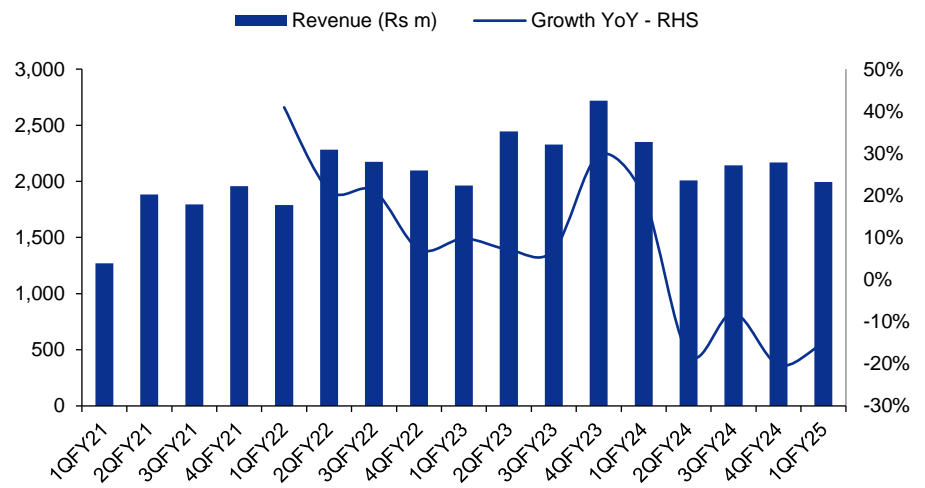
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 1QFY25 actuals vs. estimates

vs. InCred	1QFY25	1QFY25F	Diff (%)
Revenue (Rs m)	1,995	2,295	-13%
EBITDA (Rs m)	44	163	-73%
Margin (%)	2.2%	7.1%	-491 bps
PAT (Rs m)	-23	64	-136%
vs. Consensus	1QFY25	1QFY25C	Diff (%)
Revenue (Rs m)	1,995	2,276	-12%
EBITDA (Rs m)	44	168	-74%
Margin (%)	2.2%	7.4%	-519 bps
PAT (Rs m)	-23	75	-131%

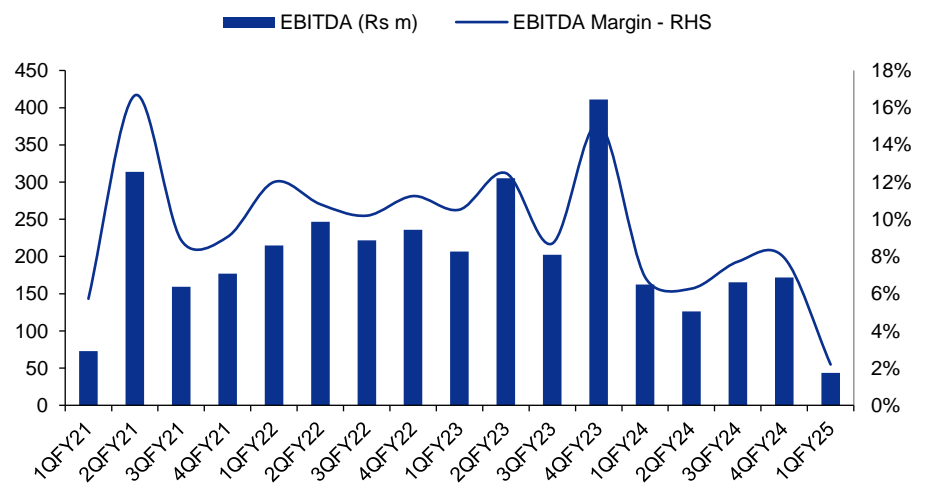
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



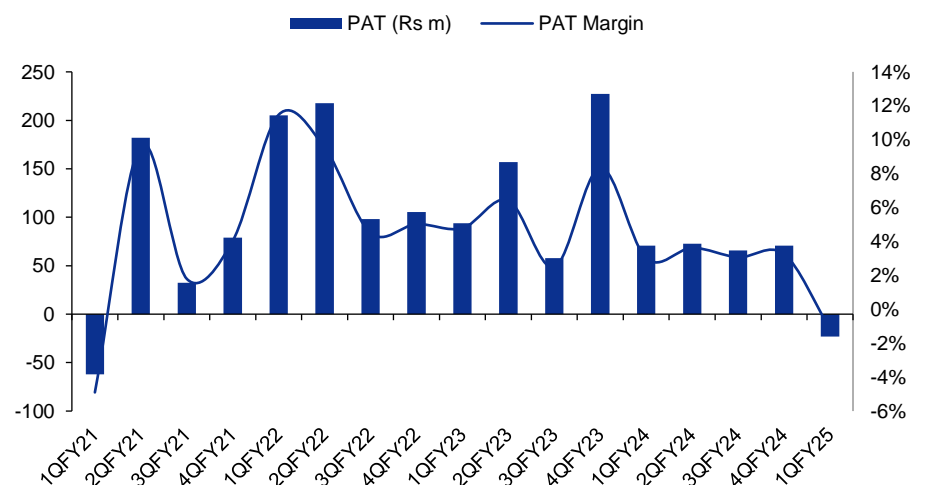
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



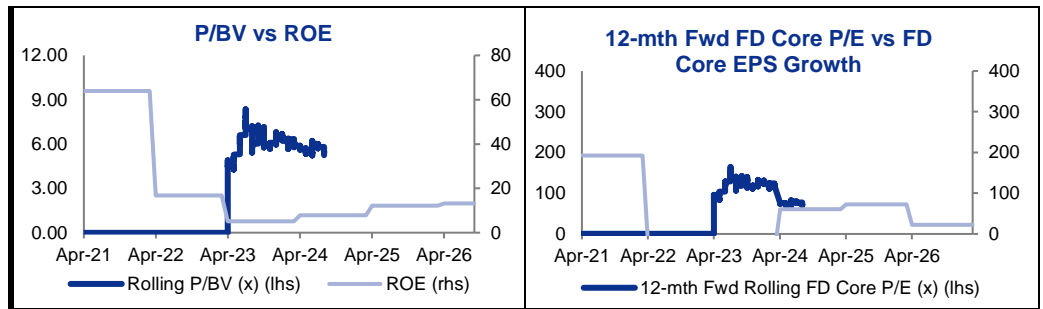
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	9,447	8,672	9,704	12,441	14,082
Gross Profit	3,380	3,126	3,590	4,504	5,182
Operating EBITDA	1,128	626	879	1,327	1,577
Depreciation And Amortisation	(197)	(229)	(273)	(300)	(349)
Operating EBIT	932	397	607	1,027	1,228
Financial Income/(Expense)	(348)	(164)	(171)	(172)	(173)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	144	148	162	174	203
Profit Before Tax (pre-EI)	727	381	598	1,029	1,257
Exceptional Items					
Pre-tax Profit	727	381	598	1,029	1,257
Taxation	(202)	(101)	(149)	(257)	(314)
Exceptional Income - post-tax					
Profit After Tax	525	280	448	772	943
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	525	280	448	772	943
Recurring Net Profit	525	280	448	772	943
Fully Diluted Recurring Net Profit	525	280	448	772	943

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	727	381	598	1,029	1,257
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,125)	(710)	(536)	(1,065)	(741)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	197	229	273	300	349
Other Operating Cashflow	13				
Net Interest (Paid)/Received	244	164	171	172	173
Tax Paid	(189)	(101)	(149)	(257)	(314)
Cashflow From Operations	(133)	(37)	356	179	723
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)	66		
Proceeds From Issue Of Shares	798				
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	3,616	(1,917)	809	189	188
Cash Flow From Financing	4,542	(3,338)	874	189	188
Total Cash Generated	4,138	(3,796)	734	(129)	414
Free Cashflow To Equity	(276)	(1,879)	(75)	(318)	226
Free Cashflow To Firm	(648)	(622)	(312)	(490)	53

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	1,157	1,089	1,266
Total Debtors	2,062	1,869	2,021	2,366	2,834
Inventories	3,179	3,163	3,482	4,263	4,796
Total Other Current Assets	657	235	319	394	472
Total Current Assets	10,117	5,691	6,978	8,112	9,368
Fixed Assets	1,428	1,666	1,890	2,051	2,171
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	2,862	2,530	2,555
Short-term Debt	2,407	1,108	1,152	1,152	1,152
Current Portion of Long-Term Debt					
Total Creditors	1,418	974	967	1,093	1,294
Other Current Liabilities	1,603	700	725	737	874
Total Current Liabilities	5,428	2,782	2,845	2,982	3,320
Total Long-term Debt	656	533	555	555	555
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	304	362	362	256	256
Total Non-current Liabilities	960	896	917	810	810
Total Provisions	130	156	156	156	156
Total Liabilities	6,517	3,834	3,918	3,949	4,287
Shareholders Equity	5,370	5,473	5,922	6,693	7,637
Minority Interests					
Total Equity	5,370	5,473	5,922	6,693	7,637

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	12.4%	(8.2%)	11.9%	28.2%	13.2%
Operating EBITDA Growth	15.7%	(44.5%)	40.5%	50.9%	18.8%
Operating EBITDA Margin	11.9%	7.2%	9.1%	10.7%	11.2%
Net Cash Per Share (Rs)	17.60	(18.54)	(8.37)	(9.41)	(6.72)
BVPS (Rs)	81.72	83.29	90.11	101.86	116.21
Gross Interest Cover	2.68	2.42	3.55	5.97	7.10
Effective Tax Rate	27.8%	26.5%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	74.10	82.72	73.14	64.35	67.39
Inventory Days	165.72	208.74	198.37	178.07	185.77
Accounts Payables Days	78.29	78.72	57.95	47.36	48.94
ROIC (%)	15.0%	5.1%	6.5%	9.9%	10.8%
ROCE (%)	15.2%	5.1%	8.2%	12.8%	13.8%
Return On Average Assets	8.8%	4.1%	6.5%	8.8%	9.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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