

India

REDUCE (no change)

Consensus ratings*:	Buy 4	Hold 4	Sell 5
Current price:	Rs708		
Target price:	Rs565 ▲		
Previous target:	Rs414		
Up/downside:	-20.2%		
InCred Research / Consensus:	12.6%		
Reuters:	AVAL.INS		
Bloomberg:	AVALON IN		
Market cap:	US\$644m		
	Rs46,734m		
Average daily turnover:	US\$1.9m		
	Rs138.4m		
Current shares o/s:	65.7m		
Free float:	23.8%		
*Source: Bloomberg			

Key changes in this note

- For FY25F-27F, we increase our revenue estimates by 8%-13% and PAT estimates by 22%-25%.

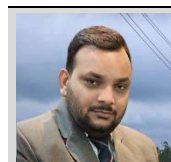


Source: Bloomberg

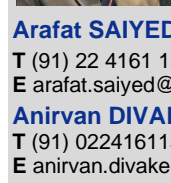
Price performance	1M	3M	12M
Absolute (%)	29.9	43.9	43.3
Relative (%)	32.3	43.7	17.0

Major shareholders	% held
Nippon Life	5.7
HDFC Focused 30	5.0
Mirae Asset ELSS	3.1

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Avalon Technologies

Strong recovery led by clean energy biz

- 2Q EBITDA soared 139% YoY to Rs301m, 90% above our estimate and 80% above the Bloomberg consensus estimate, while margin rose by 469bp to 11%.
- Management gave revenue growth guidance of 16-24% for FY25F. The US production has been shifted to India, cutting US share to 11% vs.27% in FY24.
- For FY25F-27F, we raise revenue estimates by 8%-13% and PAT estimates by 22%-25%. Retain REDUCE rating with a higher TP of Rs565 (Rs414 earlier).

Strong 2QFY25 performance on a low base

Avalon Technologies (Avalon) reported a better-than-expected performance in 2QFY25, with its revenue at Rs2.75bn, up 37%, 21% above our estimate and 17% above the Bloomberg or BB consensus estimate. Revenue growth was driven by a strong uptick in clean energy and mobility segments, which were up 98% and 40% YoY, respectively. EBITDA jumped 139% YoY to Rs301m, 90% above our estimate and 80% above the BB consensus estimate, while the margin expanded by 469bp to 11%. PAT stood at Rs175m, up 140% YoY, against our estimate of Rs68m and the BB consensus estimate of Rs75m. The order book rose by 19% YoY to Rs14.9bn. A new plant for exports commenced operations. As regards brownfield expansion to meet domestic demand, the phase-2 work is likely to commence early next year. Net working capital days improved from 161 in Mar 2024 to 134 in Sep 2024.

16-24% revenue growth guidance FY25F

Management has given 16-24% FY25F revenue growth guidance, with the uptick expected in 2HFY25F. Avalon aims to continue expanding its manufacturing footprint and investing in technological advancements. The US production has been transferred to India plants, reducing the US manufacturing plant's contribution to 11% from 27% at the start of FY24. Avalon continues to focus on the Indian market, which has historically accounted for a small portion of its revenue. In 1HFY25, the revenue share from India stood at 41% while 59% was from the US. Currently, the order book stands at Rs14.9bn, up 19% YoY. Avalon has long-term contracts worth Rs11bn, which are expected to be executed over an average period of 14 months to 3 years. The company expects to incur a capex of Rs400-450m annually for the next two years, in line with its asset-light model.

Remain bearish on clean energy portfolio; retain REDUCE rating

Avalon witnessed a strong recovery in 2QFY25, with a 98% YoY jump in revenue of the clean energy segment accompanied by double-digit margin. Management gave guidance of a significant momentum in 2HFY25F. Avalon plans to continue expanding its manufacturing footprint and invest in technological advancements to drive future growth. For FY25F-27F, we raise revenue estimates by 8%-13% and PAT estimates by 22%-25%, factoring in the recovery in 2Q and the guidance. We retain REDUCE rating on Avalon with a higher target price of Rs565 (Rs414 earlier), valuing it at 35x (from 32x) Sep 2026F EPS. Key upside risk: A quick ramp-up in India 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	10,626	13,464	15,881
Operating EBITDA (Rsm)	1,128	626	1,044	1,478	1,761
Net Profit (Rsm)	525	280	560	941	1,180
Core EPS (Rs)	8.0	4.3	8.5	14.3	18.0
Core EPS Growth	1.6%	(46.7%)	100.1%	68.0%	25.4%
FD Core P/E (x)	88.52	166.15	83.02	49.41	39.41
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)	40.19	76.28	44.88	31.51	26.15
P/FCFE (x)	(168.34)	(24.75)	1,098.36	1,881.44	84.89
Net Gearing	(21.5%)	22.3%	6.2%	1.0%	(5.6%)
P/BV (x)	8.66	8.50	7.71	6.67	5.70
ROE	16.8%	5.2%	9.7%	14.5%	15.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 conference-call highlights

- **Overview:** After reporting a net loss in 1QFY25, Avalon reported a better-than-expected performance in 2QFY25, with a 37% YoY growth in sales, while EBITDA and PAT jumped 140% YoY on a lower base. Revenue growth was driven by clean energy and mobility segments, which grew by 98% and 40%, respectively. Medical and the others segment also grew by 59%. Management is confident that from 2HFY25F the company will witness a strong uptick.
- **Guidance:** Management has given revenue growth guidance of 16-24% for FY25F, expecting a significant uptick in 2HFY25F. The company aims to continue expanding its manufacturing footprint and invest in technological advancements. FY25F is expected to be much more profitable in comparison to FY24, as per management.
- **Indian market:** The US production has been transferred to India plants, reducing the US manufacturing plant's contribution to 11% from 27% at the start of FY24. Avalon continues to focus on the Indian market, which has historically accounted for a small portion of its revenue. In 1HFY25, the revenue share from India stood at 41% and 59% from the US. Management stated that Avalon is benefiting from this shift in focus, with expectations of domestic sales rising as the company continues to secure contracts in sectors such as rail, industrial, and communication. In the next few years, the company aims to have a balanced 50-50 revenue share from India and export markets. The company stated that a new export-focused plant has started operations. The phase-I of a brownfield expansion for meeting domestic demand has been completed. Phase-II is expected to commence early FY26F.
- **Order book:** Avalon's order book stood at Rs14.9bn, up 19% YoY. The company has long-term contracts worth Rs11bn, which are expected to be executed over an average period of 14 months to 3 years.
- **Cash & working capital:** Avalon's cash position stood at ~Rs296m. Overall net working capital days improved from 161 in Mar 2024 to 134 in Sep 2024, indicating better efficiency in operations. The company aims to reduce net working capital days further by the end of the year.
- **Capex:** The company expects to incur a capex of Rs400-450m annually for the next two years, which is in line with its asset-light model.
- **Segments**
 - **Clean energy to remain a key focus area post presidential elections in the US:** Management is positive on the clean energy segment and expects no major effect due to the change in government in the US post presidential elections. Avalon focuses on storage and home electrification in the segment, which still accounts for a minor portion of its revenue. The production ramp-up in 2HFY25F is progressing as planned.
 - **Mobility segment grows 40% in 2Q:** Avalon's mobility segment is also doing well with a 40% YoY growth during the quarter. The company expects several new orders to advance from prototypes to commercial production by FY25F.
 - **Industrials:** The segment witnessed a growth of 16% during the quarter. The company recently secured contracts from industrial customers. The existing industrial customers are expanding their business with Avalon. New order wins in rail, aerospace and industrial verticals from large multinationals are transitioning from prototypes to production.
 - **Communications:** In this segment, the company focuses on communication server verticals and is working with customers on anti-collision systems which hold significant potential. In 2QFY25, the segment grew by 19% YoY. Medical and the others segment also continue to perform well with a 59% growth YoY.

Figure 1: Results snapshot

(Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Revenue	2,750	2,010	37%	1,995	38%	4,745	4,361	9%
Raw Materials	1,737	1,262	38%	1,332	30%	3,069	2,841	8%
Staff Costs	467	455	3%	455	3%	922	907	2%
Other Expenditure	245	166	47%	164	49%	409	324	26%
Total Expenses	2,449	1,884	30%	1,951	26%	4,400	4,073	8%
EBITDA	301	126	139%	44	589%	345	288	20%
Other Income	39	47	-17%	44	-12%	84	99	-15%
Interest	37	32	15%	42	-11%	80	88	-10%
Depreciation	69	55	25%	66	4%	135	108	25%
PBT	234	86	173%	-20	N/A	214	190	12%
Tax	60	13	355%	3	1933%	63	47	33%
Reported PAT	175	73	140%	-23	N/A	152	143	6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margins (%)	2QFY25	2QFY24	YoY (bp)	1QFY25	QoQ (bp)	1HFY25	1HFY24	YoY (bps)
Raw Material Costs	63.2%	62.8%	37	66.8%	-363	64.7%	65.2%	-46
Staff Costs	17.0%	22.7%	-567	22.8%	-581	19.4%	20.8%	-138
Other Expenses	8.9%	8.3%	62	8.2%	68	8.6%	7.4%	118
EBITDA Margin	11.0%	6.3%	469	2.2%	877	7.3%	6.6%	66
PAT	6.4%	3.6%	273	-1.2%	751	3.2%	3.3%	-9
Tax Rate	25.4%	15.2%	1,018	-14.5%	3,997	29.2%	24.7%	452
Gross Margin	36.8%	37.2%	-37	33.2%	363	35.3%	34.8%	46

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise revenue mix

(Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Clean Energy	490	248	98%	459	7%	949	741	28%
Mobility	795	566	40%	439	81%	1,234	1,177	5%
Industrials	817	703	16%	559	46%	1,376	1,526	-10%
Communication	267	225	19%	160	68%	427	436	-2%
Medical and The Others	428	268	59%	379	13%	807	480	68%
Total	2,798	2,010	39%	1,995	40%	4,792	4,361	10%
Sales Mix	2QFY25	2QFY24	YoY (bp)	1QFY25	QoQ (bp)	1HFY25	1HFY24	YoY (bp)
Clean Energy	18%	12%	550	23%	-518	20%	17%	300
Mobility	29%	28%	73	22%	690	26%	27%	-100
Industrials	30%	35%	-527	28%	173	29%	35%	-600
Communication	10%	11%	-144	8%	173	9%	10%	-100
Medical and The Others	16%	13%	221	19%	-345	17%	11%	600

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

vs. InCred	2QFY25	2QFY25F	Diff (%)
Revenue (Rs m)	2,750	2,267	21%
EBITDA (Rs m)	301	159	90%
Margin (%)	11.0%	7.0%	396bp
PAT (Rs m)	175	68	158%
vs. Consensus	2QFY25	2QFY25C	Diff (%)
Revenue (Rs m)	2,750	2,359	17%
EBITDA (Rs m)	301	166	81%
Margin (%)	11.0%	7.0%	391bp
PAT (Rs m)	175	75	132%

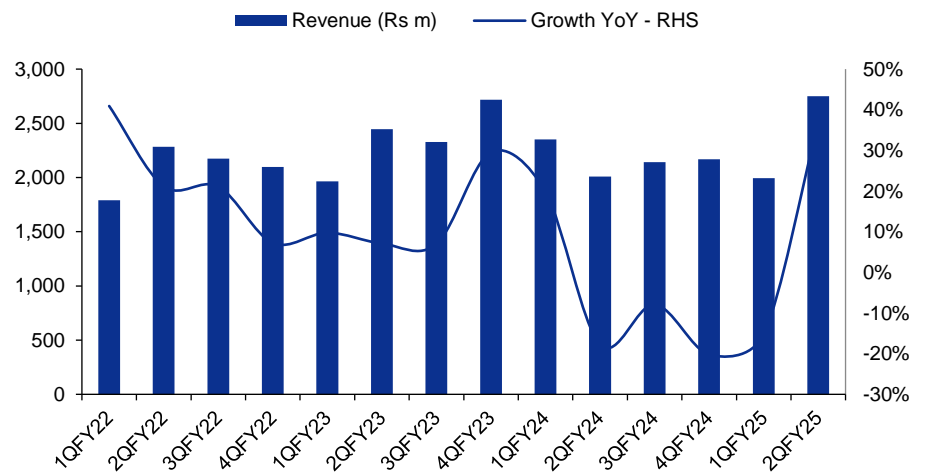
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

Earnings revision	New Estimates			Old Estimates			Change		
(Rs m)	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	10,626	13,464	15,881	9,704	12,441	14,082	9.5%	8.2%	12.8%
EBITDA	1,044	1,478	1,761	879	1,327	1,577	18.8%	11.4%	11.7%
PAT	560	941	1,180	448	772	943	24.9%	22.0%	25.1%

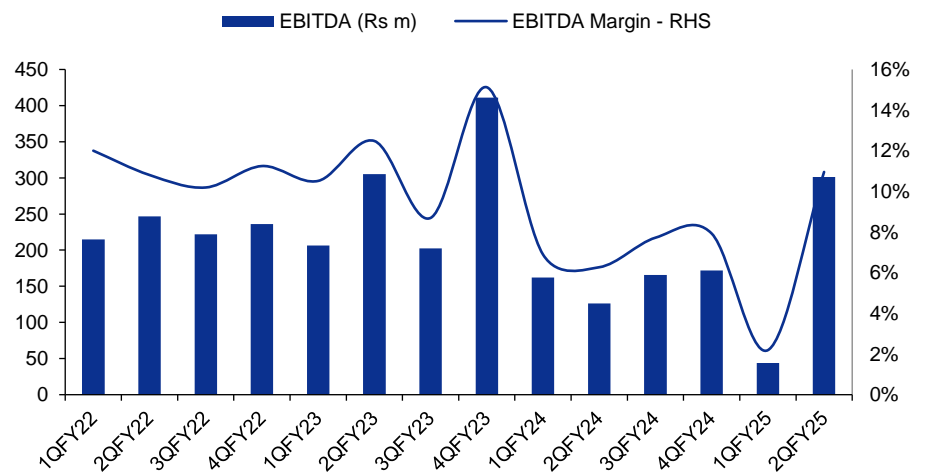
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 6: Quarterly revenue trend



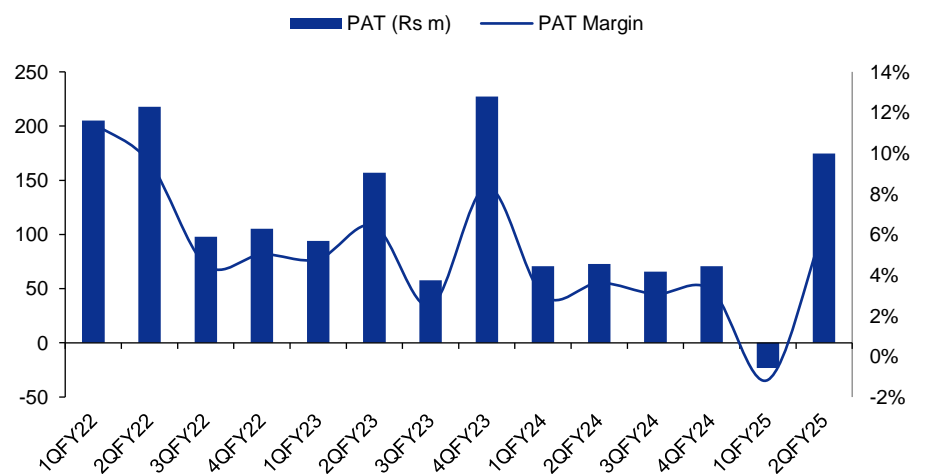
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly EBITDA trend



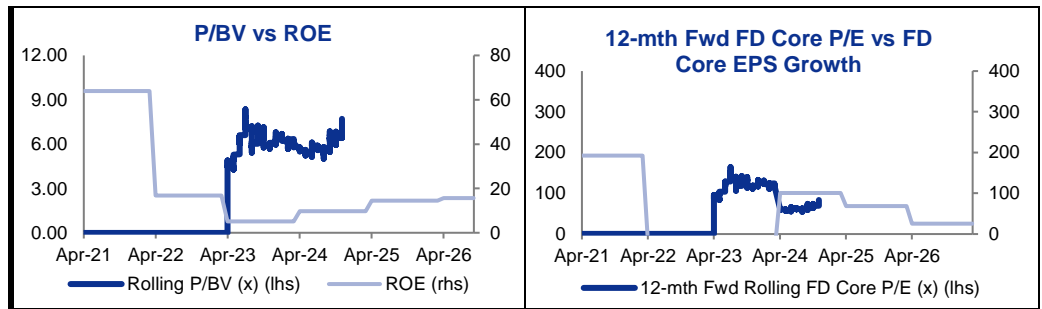
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 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	10,626	13,464	15,881
Gross Profit	3,380	3,126	3,822	4,874	5,844
Operating EBITDA	1,128	626	1,044	1,478	1,761
Depreciation And Amortisation	(197)	(229)	(285)	(310)	(360)
Operating EBIT	932	397	759	1,169	1,401
Financial Income/(Expense)	(348)	(164)	(161)	(158)	(154)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	144	148	175	244	327
Profit Before Tax (pre-EI)	727	381	774	1,255	1,573
Exceptional Items					
Pre-tax Profit	727	381	774	1,255	1,573
Taxation	(202)	(101)	(214)	(314)	(393)
Exceptional Income - post-tax					
Profit After Tax	525	280	560	941	1,180
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	525	280	560	941	1,180
Recurring Net Profit	525	280	560	941	1,180
Fully Diluted Recurring Net Profit	525	280	560	941	1,180

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	727	381	821	1,255	1,573
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,125)	(710)	(482)	(876)	(639)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	197	229	285	310	360
Other Operating Cashflow	13				
Net Interest (Paid)/Received	244	164	161	158	154
Tax Paid	(189)	(101)	(214)	(314)	(393)
Cashflow From Operations	(133)	(37)	572	532	1,055
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)	818	203	206
Cash Flow From Financing	4,542	(3,338)	785	193	196
Total Cash Generated	4,138	(3,796)	861	228	754
Free Cashflow To Equity	(276)	(1,879)	42	25	548
Free Cashflow To Firm	(648)	(622)	(86)	(122)	404

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	1,236	1,525	2,042
Total Debtors	2,062	1,869	2,135	2,381	2,814
Inventories	3,179	3,163	3,675	4,433	5,029
Total Other Current Assets	657	235	234	265	322
Total Current Assets	10,117	5,691	7,280	8,603	10,207
Fixed Assets	1,428	1,666	1,877	2,029	2,139
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	2,849	2,509	2,522
Short-term Debt	2,407	1,108	1,086	1,086	1,086
Current Portion of Long-Term Debt					
Total Creditors	1,418	974	1,181	1,329	1,609
Other Current Liabilities	1,603	700	787	798	966
Total Current Liabilities	5,428	2,782	3,055	3,213	3,661
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	4,096	4,137	4,575
Shareholders Equity	5,370	5,473	6,034	6,975	8,155
Minority Interests					
Total Equity	5,370	5,473	6,034	6,975	8,155

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	12.4%	(8.2%)	22.5%	26.7%	18.0%
Operating EBITDA Growth	15.7%	(44.5%)	66.9%	41.5%	19.1%
Operating EBITDA Margin	11.9%	7.2%	9.8%	11.0%	11.1%
Net Cash Per Share (Rs)	17.60	(18.54)	(5.66)	(1.11)	6.91
BVPS (Rs)	81.72	83.29	91.81	106.14	124.09
Gross Interest Cover	2.68	2.42	4.71	7.41	9.07
Effective Tax Rate	27.8%	26.5%	27.6%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	74.10	82.72	68.76	61.20	59.69
Inventory Days	165.72	208.74	183.43	172.26	172.05
Accounts Payables Days	78.29	78.72	57.81	53.34	53.43
ROIC (%)	15.0%	5.1%	8.2%	11.7%	12.9%
ROCE (%)	15.2%	5.1%	10.3%	14.4%	15.3%
Return On Average Assets	8.8%	4.1%	7.5%	10.0%	10.9%

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.
<i>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.</i>	
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.