Avalon technologies Ltd (AVL)

3QFY26 Result Update | EMS

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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Strong growth being driven by ramp up across verticals.

Avalon delivered a strong quarter with broad-based growth and margin expansion. 9MFY26 revenue grew 48.7% YoY to ₹11,230 mn, while Q3 revenue was ₹4,180 mn (+48.7% YoY). Box-build share rose to 53%, reinforcing its position as an end-to-end vertically integrated systems manufacturer. Gross margin stood at 34.2%, with EBITDA margin improving to 11.5% on operating leverage. Q3 PAT was ₹330 mn, and RoCE expanded to 18.8%.

India manufacturing (78% of revenue) remained the profitability anchor with 16.7% EBITDA margin. US manufacturing (22%) saw losses narrow to an EBITDA loss of ~₹70 mn (vs ~₹90 mn earlier), reflecting early operating leverage; profitability is expected as energy storage and new program ramps scale. The company continues targeting an 80:20 India–US mix, using the US for localization/prototyping and India for cost-efficient scale. NWC days improved to 118 (–32 days YoY), supporting ₹510 mn Q3 operating cash flow.

Order visibility remains strong with an order book of ~₹20,160 mn (+26.5% YoY) and ₹11,830 mn long-term contracts (15–36 months). Growth is diversified across Industrial (35% of revenue, +67% YoY), Rail (+70%), Aerospace (+64%), and Clean energy (+35%). Semiconductor equipment is an emerging FY27 driver, with prototypes completed and production ramps ahead. Aerospace recovery, rail execution from H2, and energy storage scale-up remain key levers.

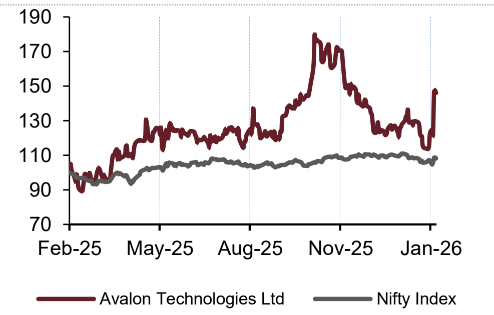
Management raised FY26 revenue growth guidance to ~40% (vs 28–30% earlier). Margins should benefit from scale, stable manpower costs, and improving US performance. The company reiterated confidence in sustained multi-year growth, supported by long product life cycles and diversified vertical exposure.

Rating	TP (Rs)	Up/Dn (%)
HOLD	**1,074**	**5**

Market data		
Current price	**Rs**	**1,021**
Market Cap (Rs.Bn)	(Rs Bn)	68
Market Cap (US$ Mn)	(US$ Mn)	753
Face Value	Rs	2
52 Weeks High/Low	Rs	1318 / 602.45
Average Daily Volume	('000)	1,275
BSE Code		543896
Bloomberg		AVALON .IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-25	Sep-25
Promoters	44.46	44.46
Public	55.40	55.40
Total	**100.00**	**100.00**

Source: Bloomberg

Financials

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e
Net sales	8,407	9,447	8,672	10,981	15,904	20,231
EBIDTA	975	1,141	625	1,149	1,759	2,858
Margins	11.6	12.1	7.2	10.5	11.1	14.1
PAT (adj)	632	539	280	634	1,125	1,777
Growth (%)	192.3	-20.2	-48.0	126.7	77.3	58.0
EPS	79.16	9.29	4.26	9.59	17.00	26.86
P/E (x)	11	95	207	92	52	33
P/B (x)	8	9	11	10	8	6
EV/EBITDA (x)	3	49	92	51	32	20
RoE (%)	55	10	5	10	15	20
ROCE (%)	24	13	8	14	20	25
RoIC (%)	19	19	8	12	21	27
Gross Fixed Asset Turn	8	8	6	6	8	9

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Source: Dalal & Broacha Research, Company

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Concall Highlights

Strong Growth across Core Operations

Avalon delivered robust performance with continued scale-up across key verticals and geographies. Revenue growth remained strong, supported by higher share of complex box-build systems (53% of revenue), highlighting Avalon's strength as an end-to-end vertically integrated manufacturer. Industrial, rail, aerospace, and clean energy segments all reported strong traction, with industrial and mobility-related verticals driving incremental momentum. Aerospace continues to benefit from long product life-cycle programs, while rail growth is supported by ongoing domestic execution and program ramps. Semiconductor equipment has entered the prototyping and readiness phase, with meaningful revenue contribution expected from FY27 onward.

India Manufacturing Remains Profitability Anchor

India operations contributed the majority share of revenue and delivered strong margins, benefiting from operating leverage and improved asset turns. The company continues to use India as a cost-efficient manufacturing base for both domestic and export markets. Working capital efficiency improved materially, with reductions in receivable and inventory days supporting strong operating cash flow generation. Capacity additions, including the Chennai export facility, are supporting scale-up of new programs. Management remains confident of sustained domestic and export-driven growth supported by diversified vertical exposure and long-term contracts.

US Manufacturing Showing Gradual Improvement

US operations, which support localization, prototyping, and tariff management, continue to scale. Losses at the EBITDA level have reduced sequentially, with operating leverage expected as clean energy and industrial programs ramp up. The dual-shore model (India + US) provides supply-chain flexibility and customer comfort amid evolving trade dynamics. Over time, certain programs initiated in the US are expected to transition to India for cost efficiency, while maintaining customer-facing capabilities in the US.

Operational Highlights and Outlook

Order book remains strong and diversified across key verticals. Margins stayed within guidance, with EBITDA improving on operating leverage. Operating cash flow turned positive on better working capital control, and RoCE strengthened under a CapEx-light model. Management raised FY26 growth guidance to ~40%, supported by strong execution and visibility, with drivers including semiconductor equipment, energy storage, aerospace, and exports. The company remains confident of sustained multi-year growth backed by long product cycles and a diversified customer base.

Valuation & Outlook

Avalon Technologies operates a differentiated EMS model with a dual-shore manufacturing presence in India and the US, supported by a strong export orientation. The company continues to scale its capabilities in complex box-build systems, which now contribute 53% of revenue, underscoring its strength as an end-to-end vertically integrated systems manufacturer. With long product life cycles and expertise in manufacturing mission-critical, high-complexity assemblies, Avalon operates in segments with high customer stickiness and limited switching. Growth remains broad-based across industrial, rail, aerospace, and clean energy verticals, supported by program ramps and new wins. Management has reinforced confidence in the outlook by raising FY26 revenue growth guidance to ~40%, reflecting strong execution and improving visibility, while gross margins remain within the guided 33–35% range.

Margins are expected to benefit further from operating leverage as scale improves. EBITDA margins have already expanded, aided by better utilization and cost control, while US operations are trending toward improved profitability as clean energy and industrial programs ramp up. The company's entry into semiconductor equipment manufacturing marks a key strategic expansion, with prototypes completed and revenue contribution expected from FY27. Supported by a CapEx-light model, improving working capital efficiency, and diversified end-market exposure, Avalon remains well positioned for sustained multi-year growth.

We assign a HOLD on the stock with a target price of Rs.1,074. The stock currently trades at a P/E(x) of 33x FY27e. We assign a target multiple of 40x to get to our target price.

Quarterly Result Analysis

(Rs.Mn)	3QFY26	3QFY25	YoY Growth (%)	2QFY26	QoQ Growth (%)
Revenue from Operations	**4,175**	**2,809**	**48.7%**	**3,825**	**9.2%**
Other Income	74	100	-25.4%	79	-6.0%
COGS	2,749	1,760	56.2%	2,512	9.4%
Gross Profit	1,427	1,048	**36.1%**	1,313	**8.7%**
Employee Benefits Expense	700	494	41.8%	699	0.2%
Other Expenses	247	208	18.4%	228	8.3%
Total Expenses	3,696	2,462	50.1%	3,438	7.5%
EBITDA (Excluding Other Income)	**480**	**346**	**38.5%**	**386**	**24.2%**
Depreciation and Amortisation Expenses	79	74	8.0%	89	-10.4%
EBIT / PBIT	**475**	**372**	**27.5%**	**377**	**26.0%**
Finance Costs	30	45	-34.5%	41	-27.3%
EBT/ PBT	**445**	**327**	36.0%	**336**	**32.5%**
Tax Expense	119	87	36.2%	86	38.2%
PAT	**326**	**240**	**35.9%**	**250**	**30.5%**
Adj Earning Per Share	4.9	3.6	34.7%	3.7	30.4%
Margins Analysis (%)			**bps**		**bps**
Gross Margins	34.2%	37.3%	-316	34.3%	-16
EBITDA Margins (Excl Other Income)	11.5%	12.3%	-84	10.1%	139
PAT Margins	7.7%	8.2%	-58	6.4%	127
Effective Tax Rate %	26.7%	26.7%	5	25.6%	110
Cost Analysis (%)			**bps**		**bps**
COGS as a % to sales	65.8%	62.7%	316	65.7%	16
EE Cost as a % to sales	16.8%	17.6%	-81	18.3%	-150
Other exps as a % to sales	5.9%	7.4%	-151	6.0%	-5

Source: Dalal & Broacha Research, Com pany

Financials

P&L (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25	FY26e	FY27e
Net Sales	6,419	6,905	8,407	9,447	8,672	10,981	15,904	20,231
Operating Expenses	-4,113	-4,560	-5,541	-6,067	-5,523	-7,055	-10,329	-12,871
Employee Cost	-1,162	-1,192	-1,314	-1,605	-1,850	-1,986	-2,732	-3,220
Other Expenses	-499	-491	-577	-633	-674	-792	-1,084	-1,282
Operating Profit	**645**	**661**	**975**	**1,141**	**625**	**1,149**	**1,759**	**2,858**
Depreciation	-155	-157	-180	-197	-229	-286	-351	-374
PBIT	**490**	**504**	**795**	**945**	**396**	**863**	**1,408**	**2,484**
Other income	113	54	109	144	149	171	66	73
Interest	-450	-270	-248	-348	-164	-167	-145	-121
PBT	153	288	656	740	381	867	1,329	2,436
(post exceptional)	153	288	856	740	381	867	1,530	2,436
Provision for tax	-30	-57	-182	-202	-101	-233	-405	-659
Associates/JV	-	-	-	-	-	-	-	-
Reported PAT	**124**	**231**	**675**	**539**	**280**	**634**	**1,125**	**1,777**
MI	-8	-16	-43	-	-	-	-	-
Owners PAT	**116**	**215**	**632**	**539**	**280**	**634**	**1,125**	**1,777**
(excl Exceptionals)	**116**	**199**	**485**	**539**	**280**	**634**	**1,101**	**1,777**

Balance Sheet (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25	FY26e	FY27e
Equity capital	15	16	16	116	131	132	132	132
Reserves	450	583	872	5,254	5,342	5,983	7,084	8,861
Net worth	**466**	**599**	**888**	**5,370**	**5,473**	**6,115**	**7,217**	**8,993**
MI	-431	-317	-	-	-	-	-	-
Non Current Liabilites	792	1,051	1,016	1,072	1,030	597	542	554
Current Liabilites	3,670	3,792	3,990	5,361	2,745	3,686	2,839	3,139
TOTAL LIABILITIES	**4,496**	**5,125**	**5,894**	**11,803**	**9,249**	**10,399**	**10,598**	**12,686**
Non Current Assets	1,370	1,329	1,391	1,667	2,161	2,232	1,900	1,873
Fixed Assets	754	841	918	1,086	1,257	1,620	1,245	1,208
Right of Use Assets	260	200	244	342	409	333	367	367
Financial Assets	68	43	53	53	219	74	77	80
Deferred Tax Asset	262	232	159	154	230	185	190	196
Advances	-	-	-	-	-	-	-	-
Assets	26	12	18	32	45	20	21	22
Current Assets	**3,127**	**3,796**	**4,503**	**10,136**	**7,088**	**8,167**	**8,698**	**10,814**
Current investments	-	-	-	-	755	332	365	401
Inventories	1,553	1,458	2,330	3,179	3,163	3,379	2,434	3,033
Trade Receivables	1,138	1,819	1,774	2,062	1,869	3,160	3,268	4,157
Balances	266	335	101	4,222	1,065	1,015	2,350	2,941
Advances	-	-	-	-	-	-	-	-
Other Financial Assets	9	14	13	38	7	5	6	6
Other Current Assets	161	170	284	635	229	275	275	275
TOTAL ASSETS	**4,496**	**5,125**	**5,894**	**11,803**	**9,249**	**10,399**	**10,598**	**12,686**

Source: Dalal & Broacha Research, Company

Cashflow (Rs mn)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26e**	**FY27e**
PBT	288	856	740	381	867	1,530	2,436
Depreciation	157	180	197	229	286	351	374
Net Chg in WC	-555	-760	-904	-235	-588	132	-1,196
Taxes	-35	-125	-189	-101	-233	-405	-659
Others	200	6	23	355	571	1,098	-3
CFO	55	157	-133	173	251	800	1,200
Capex	-192	-177	-273	-355	-461	-454	-391
Net Investments made	-99	-6	2	-1,121	-18	-	-
Others	29	-	-	15	1,017	-	-
CFI	**-263**	**-184**	**-271**	**-1,461**	**538**	**-454**	**-391**
Change in Share capital	73	-68	4,815	4,837	28	-	-
Change in Debts	440	86	128	-1,199	122	-260	6
Div. & Div Tax	-37	-38	-37	-41	-52	-	-
Others	-201	-189	-363	-5,723	-621	1,525	-224
CFF	**275**	**-209**	**4,542**	**-2,508**	**-523**	**1,265**	**-218**
Total Cash Generated	**67**	**-236**	**4,138**	**-3,796**	**266**	**1,611**	**591**
Cash Opening Balance	**266**	**335**	**101**	**4,219**	**424**	**688**	**2,300**
Cash Closing Balance	**333**	**99**	**4,240**	**424**	**688**	**2,300**	**2,891**

Ratios	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26e**	**FY27e**
OPM	9.6	11.6	12.1	7.2	10.5	11.1	14.1
NPM	2.9	5.7	5.6	3.2	5.7	6.9	8.8
Tax rate	-19.9	-21.2	-27.3	-26.5	-26.8	-26.5	-27.1
Growth Ratios (%)							
Net Sales	7.6	21.8	12.4	-8.2	26.6	44.8	27.2
Operating Profit	2.6	47.5	17.0	-45.3	83.9	53.1	62.5
PBIT	2.9	57.8	18.8	-58.1	118.1	63.2	76.4
PAT	86.7	192.3	-20.2	-48.0	126.7	77.3	58.0
Per Share (Rs.)							
Net Earnings (EPS)	26.92	79.16	9.29	4.26	9.59	17.00	26.86
Cash Earnings (CPS)	46.64	101.70	12.68	7.74	13.91	22.30	32.51
Dividend	-	-	-	-	-	-	-
Book Value	75.07	111.19	92.66	83.29	92.44	109.09	135.94
Free Cash Flow	-25.25	-7.90	-4.37	-1.74	-2.14	17.94	9.06
Valuation Ratios							
P/E(x)	33	11	95	206.6	91.8	51.8	32.8
P/B(x)	12	8	9	11	10	8	6
EV/EBIDTA(x)	4	3	49	92	51	32	20
Div. Yield(%)	-	-	-	-	-	-	-
FCF Yield(%)	-2.87	-0.90	-0.50	-0.20	-0.24	2.04	1.03
Return Ratios (%)							
ROE	36%	55%	10%	5%	10%	15%	20%
ROCE	16%	24%	13%	8%	14%	20%	25%
RoIC	14%	19%	19%	8%	12%	21%	27%

Source: Dalal & Broacha Research, Company

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