



Avalon delivered strong growth this quarter, with box-build contributing 56% to revenues, driven by project ramp-ups and ongoing brownfield expansion set to complete by Q3. The foray into semiconductor equipment further strengthens its box-build capabilities and unlocks new growth opportunities. The company has improved its revenue guidance to 23-25% for the full year.

Key Result Highlights:

The business saw a 62% growth in both India and US business. US customers contributed to 60% of the revenue while domestic business still has room to grow and reach the ideal mix of 50:50 which used to be 20% a few years ago. The gross margins remained stable at 35.5% showcasing that macro uncertainties do not impact the business operations.

Key Concall Highlights:

During the quarter, Avalon secured two new business wins. The semiconductor vertical is expected to ramp up and contribute to revenues in the coming quarters. The export facility, which commenced operations last quarter, has begun scaling, along with orders secured over the past few quarters. The brownfield expansion remains on track for completion by Q3. Overall, the business has demonstrated resilience, with tariffs posing no significant challenge as costs have been fully passed through. Additionally, the company's US manufacturing presence has proven advantageous amid shifting trade dynamics.

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

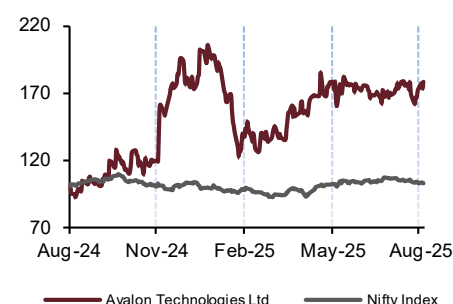
Source: Dalal & Broacha Research, Company

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Market data

Current price	Rs	879
Market Cap (Rs.Bn)	(Rs Bn)	58
Market Cap (US\$ Mn)	(US\$ Mn)	666
Face Value	Rs	2
52 Weeks High/Low	Rs	1074 / 425
Average Daily Volume	('000)	143
BSE Code		543896
Bloomberg		AVALON.IN

One Year Performance



Source: Bloomberg

% Shareholding	Jun-25	Mar-25
Promoters	50.57	50.57
Public	49.43	49.43
Total	100.00	100.00

Source: Bloomberg

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Concall Highlights

Semiconductor Business Gains Initial Traction:

The company has entered the semiconductor equipment manufacturing space with a major global player. This partnership has been in the works for a year and is now entering the pilot production phase and soon that will ramp up and start to show in the revenue. This business will be very scalable and will help enhance the company's box building capabilities. It will help with the introduction of new complex capability products.

US Manufacturing showing signs of Ramp up:

The US business witnessed a 20% contribution to the revenue which has come at a time when uncertainties about the trade dynamics are at their peak. It saw a 62% growth in revenue but is still operating in losses even at the EBITDA level. This is because of the higher employee cost and overall cost hikes present in that geography. With the ramp up of the business of a large client the business could reach break-even or even profitable levels in the next few quarters. The end goal is to always transfer business from the US to India manufacturing to take advantage of the cost benefits hence 20% is the ideal contribution that US has to the revenue.

Business Vertical Highlights:

Several new projects are shifting from the prototype to the ramp up stage in multiple verticals. These will help provide significant growth for the business in the current year.

- **Clean Energy:** This vertical saw a **26%** growth YoY. This vertical plays in the energy storage segment in the US which is currently seeing ~70% growth YoY as an industry and expects that kind of growth to come back in the subsequent quarters.
- **Rail and Aerospace:** It clocked in a growth of **100%** YoY. This segment is seeing product ramp ups happening quickly. The railway kavach project is also under prototyping and will go into production next year.
- **Mobility:** If all the three sub segments are added up, growth comes in at **92%** on a YoY basis. This vertical is also seeing a ramp up in production.
- **Industrial:** Witnessed an **86%** YoY growth. This has been on account of project ramp ups that had been signed in the previous few quarters
- **Communication:** Saw a growth of **102%** YoY. This has been on account of focus on 5G and 5G radios for large clients and continues to focus on large clients in this segment.

Operational Highlights:

The business saw drop in the net working capital days from 163 days to 142 days on a YoY basis. The order book grew by 23% to Rs. 1.8bn with long-term contracts that stood at Rs. 1.6bn. The business saw front loading of costs in anticipation of demand and new product ramp ups. H2 could see operating leverage kicking in as costs would already have gone up substantially in H1. Currently all tariffs have been passed onto the customer, but the management remains cautious about the environment. Capex incurred during the quarter was ~ Rs. 100Mn and the planned Capex for the year is ~Rs. 400-500Mn.

Valuation & Outlook

Avalon technologies is uniquely positioned in the EMS space with manufacturing both in India and the US and has a huge presence in the export market. The company has been growing its share in the domestic market and specializes in box build which now contributes 56% of its revenue. The company has a long product cycle and capabilities in design and production of complex components, making it difficult for customers to switch.

We are optimistic about the growth potential the company has in the various sectors that it has its footprint in. The growth has been broad based, and the management remains positive on its growth prospects as they increase the guidance. The business is operationally resilient even during macro uncertainties as seen by its stable gross margins. The foray into the semiconductor space is also a positive sign for future growth and more opportunities to open. The margins could also see expansion in H2 with operating leverage kicking in and gross margins are to stay in the range of 33-35%.

We upgrade our rating from a HOLD to a BUY on the stock with a target price of Rs.1,074. The stock currently trades at a P/E(x) of 33x FY27e at a CMP of 877. We assign a target multiple of 40x to get to our target price.

Quarterly Result Analysis

(Rs.Mn)	Q1FY26	Q1FY25	YoY Growth (%)	Q4FY25	QoQ Growth (%)
Revenue from Operations	3,233	1,995	62.1%	3,428	-5.7%
Other Income	17	44	-62.7%	32	-47.8%
COGS	2,085	1,332	56.5%	2,225	-6.3%
Gross Profit	1,148	662	73.3%	1,203	-4.5%
Employee Benefits Expense	634	455	39.4%	570	11.2%
Other Expenses	216	164	31.5%	219	-1.7%
Total Expenses	2,934	1,951	50.4%	3,014	-2.7%
EBITDA (Excluding Other Income)	299	44	580.3%	414	-27.7%
Depreciation and Amortisation Expenses	85	66	28.2%	77	9.6%
EBIT / PBIT	231	22	936.6%	368	-37.3%
Finance Costs	38	42	-10.7%	42	-10.9%
EBT/ PBT	193	(20)	1068.3%	326	-40.7%
Tax Expense	51	3	1638.2%	83	-38.6%
PAT	142	(23)	721.5%	243	-41.5%
Adj Earning Per Share	2.2	(0.4)	721.5%	3.7	-41.5%
Margins Analysis (%)			bps		bps
Gross Margins	35.5%	33.2%	230	35.1%	42
EBITDA Margins (Excl Other Income)	9.2%	2.2%	704	12.1%	-282
PAT Margins	4.4%	-1.1%	550	7.0%	-264
Effective Tax Rate %	26.4%	-14.7%	4107	25.5%	91
Cost Analysis (%)			bps		bps
COGS as a % to sales	64.5%	66.8%	-230	64.9%	-42
EE Cost as a % to sales	19.6%	22.8%	-319	16.6%	297
Other exps as a % to sales	6.7%	8.2%	-155	6.4%	27
Key Operational Metrics (%)					
Geographical Revenue Split (India:US)	40:60	47:53	-	40:60	-
Manufacturing Revenue Split (India :US)	80:20	87:13	-	88:12	-

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 Liabilities	792	1,051	1,016	1,072	1,030	597	542	554
Current Liabilities	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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