

Avalon delivered strong growth this quarter, with box-build contributing 53% of revenue stating avalons strength as end to end vertically integrated system and service provider. India manufacturing contributed to 81% of revenue with an EBITDA margin of 14%. US manufacturing continues to grow contributing to 19% of revenue has reduced losses with Rs.50Mn loss incurred at an EBITDA level that should see profitabilty in the second half of the year. The company continues to target a 80-20 split to offset tariff uncertainties with onshore manufacturing intially and slowly transitioning to India to avail operational efficiencies. The management has increased their guidance from 23-25% to 28-30% for FY26.

Strong order book of >Rs.30bn, up 25% YoY, reflects robust business momentum. Semiconductor opportunity to drive growth from FY27 as prototypes are in progress. Aerospace to benefit from domestic demand, while railway revenues from H2 to aid topline. Transitionary US clients and ramp-up in energy storage segment expected to enhance profitability.

Overall, AVL is witnessing a broad-based ramp-up across verticals, supported by a strong order book. Profitability is improving on account of operating leverage and better margins in the US business, indicating signs of sustainable growth. AVL also maintains its guidance of doubling revenue in FY27 from FY24 and doubling FY27 revenue in FY30.

Financials:

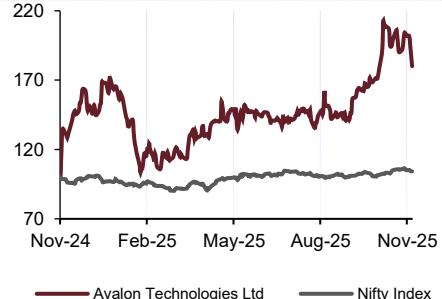
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e
Net sales	8,407	9,447	8,672	10,981	15,904	20,231
EBIDTA	975	1,141	625	1,149	1,759	2,858
Margins	11.6	12.1	7.2	10.5	11.1	14.1
PAT (adj)	632	539	280	634	1,125	1,777
Growth (%)	192.3	-20.2	-48.0	126.7	77.3	58.0
EPS	79.16	9.29	4.26	9.59	17.00	26.86
P/E (x)	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

Rating	TP (Rs)	Up/Dn (%)
HOLD	1,074	3
Market data		
Current price	Rs	1,042
Market Cap (Rs.Bn)	(Rs Bn)	71
Market Cap (US \$ Mn)	(US \$ Mn)	799
Face Value	Rs	2
52 Weeks High/Low	Rs	1318 / 577.85
Average Daily Volume	('000)	167
BSE Code		543896
Bloomberg		AVALON.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-25	Jun-25
Promoters	44.46	44.46
Public	55.40	55.40
Total	100.00	100.00

Source: Bloomberg

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Concall Highlights

Strong Growth through India Operations:

Strong growth is driven by addition of 3 new customers in mobility and industrial verticals, with ramp-up underway. Aerospace division shows steady domestic traction with H1 growth coming in at 59% and for such momentum to continue, while railway growth accelerated in H2 led by new customer wins program and new product launches along with kavach program testing finished and commercial production to commence next year. Chennai export plant ramp-up underway; brownfield expansion slated for completion by 3QFY26. There is front loading of costs that is being done to absorb demand in the coming quarters causing a slight downturn in margins to see uptick in margins due to operating leverage in the coming quarters. Management remains positive about domestic contribution to reach 50% of revenue expecting strong domestic growth that will be broad based.

US Manufacturing show signs of Ramp up:

US manufacturing is seeing a ramp-up in the clean energy segment over the next 12 months. The US business remains crucial in supporting clients amid the ongoing tariff uncertainty. Three new transitional customers were added in the industrial and defense segments this quarter. As the ramp-up progresses, profitability in US operations is expected to improve. US will continue to be 20% of manufacturing for near term.

Operational Highlights:

The business saw an uptick in the net working capital from 126 days to 131 on a YoY basis due to an increase in inventory on anticipation of demand. The order book grew by 25% to over Rs. 30bn with long-term contracts that stood at Rs. 1.2bn. 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. Capex incurred during the quarter was ~ Rs. 184Mn.

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 53% 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% with ramp up in US business also certain in the clean energy vertical.

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)	2QFY26	2QFY25	YoY Growth (%)	1QFY26	QoQ Growth (%)
Revenue from Operations	3,825	2,750	39.1%	3,233	18.3%
Other Income	79	39	102.1%	17	377.4%
COGS	2,512	1,737	44.6%	2,085	20.5%
Gross Profit	1,313	1,013	29.6%	1,148	14.3%
Employee Benefits Expense	699	467	49.6%	634	10.3%
Other Expenses	228	245	-7.0%	216	5.6%
Total Expenses	3,438	2,449	40.4%	2,934	17.2%
EBITDA (Excluding Other Income)	386	301	28.1%	299	29.2%
Depreciation and Amortisation Expenses	89	69	29.0%	85	4.8%
EBIT / PBIT	377	272	38.6%	231	63.2%
Finance Costs	41	37	8.9%	38	8.1%
EBT/ PBT	336	234	43.3%	193	73.9%
Tax Expense	86	60	44.5%	51	69.0%
PAT	250	175	42.9%	142	75.7%
Adj Earning Per Share	3.8	2.7	42.9%	2.2	75.7%
Margins Analysis (%)			bps		bps
Gross Margins	34.3%	36.8%	-252	35.5%	-119
EBITDA Margins (Excl Other Income)	10.1%	11.0%	-86	9.2%	85
PAT Margins	6.4%	6.3%	13	4.4%	202
Effective Tax Rate %	25.6%	25.4%	21	26.4%	-76
Cost Analysis (%)			bps		bps
COGS as a % to sales	65.7%	63.2%	252	64.5%	119
EE Cost as a % to sales	18.3%	17.0%	129	19.6%	-133
Other exps as a % to sales	6.0%	8.9%	-295	6.7%	-72
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, Company

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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