

# AVALON TECHNOLOGIES LTD.

**RECOMMENDATION : BUY**

**MARKET PRICE : Rs.558.90 (As on 27<sup>th</sup> Sep 2023)**

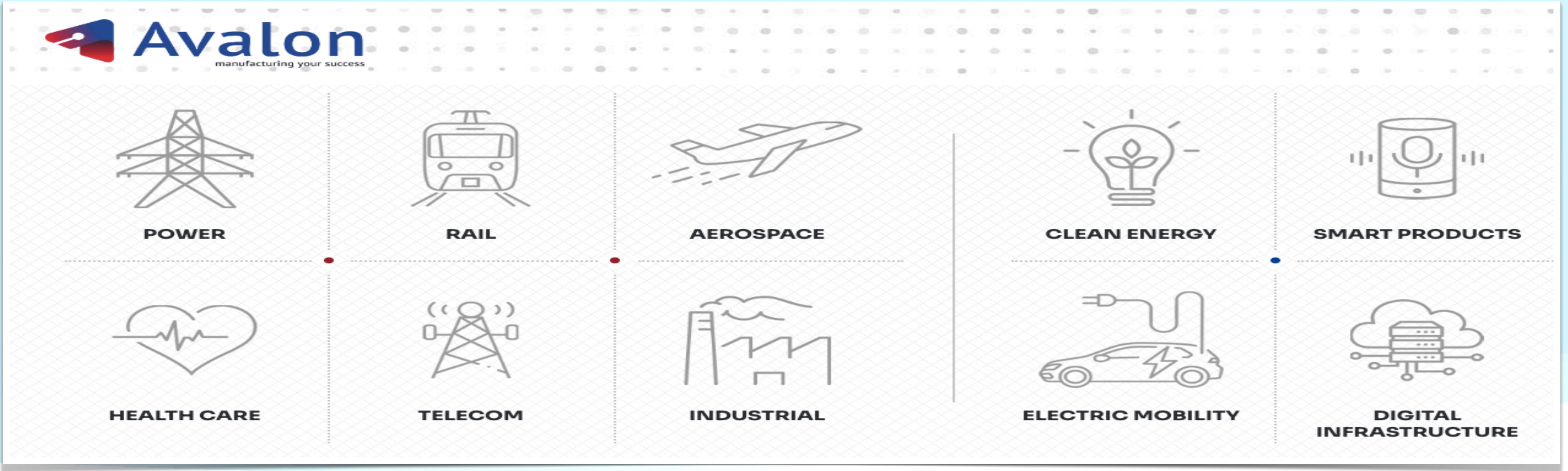
**TARGET PRICE : Rs.699.00**

**FACE VALUE : Rs.2**

**BSE CODE : 543896**

**NSE CODE : AVALON**





## ABOUT THE COMPANY

Avalon Technologies Ltd. is one of the India's Leading Fully Integrated EMS Company with a Global Delivery Footprint. It is the only India EMS player to have full-fledged manufacturing facilities in the US and is a one stop shop for all EMS services.

The Company has 14 Manufacturing units across US/India, has hybrid manufacturing operations, 570k+ sq. ft. Design & Manufacturing Facilities.

# Avalon Group - Overview



Aircraft engine parts



Telecom, satellite systems and digital infrastructure



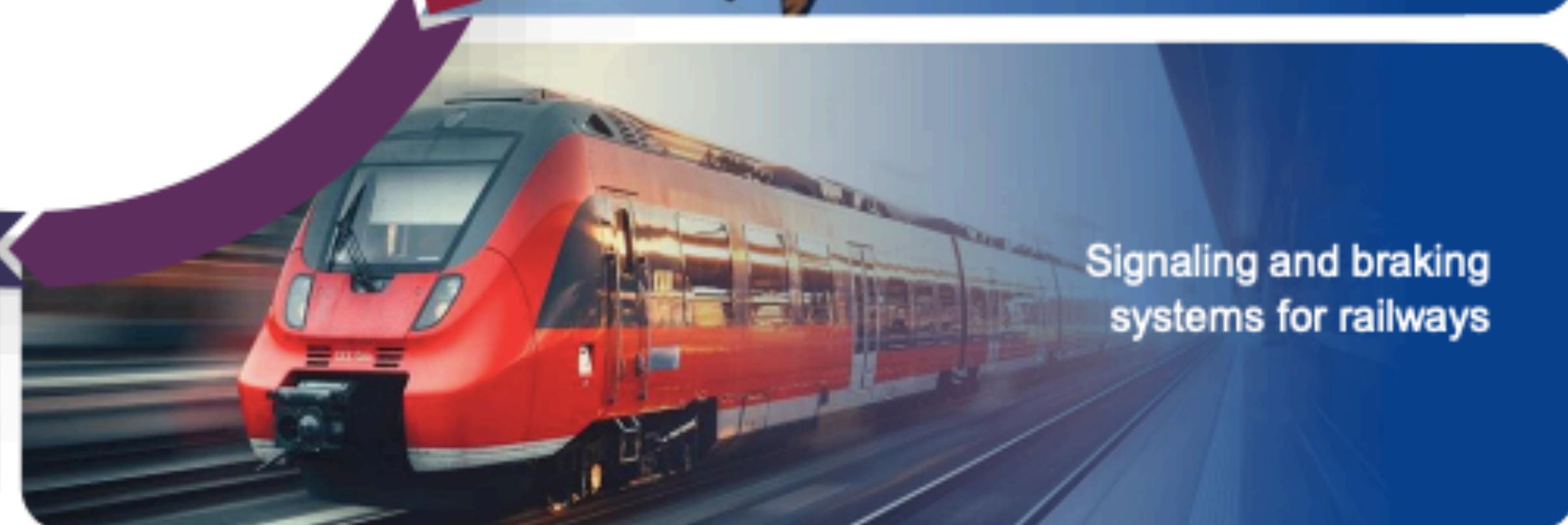
Medical devices



Products for defense application



Clean energy with presence in solar, hydrogen and electric vehicles industries



Signaling and braking systems for railways



**Avalon's** varied product applications across many end use industries

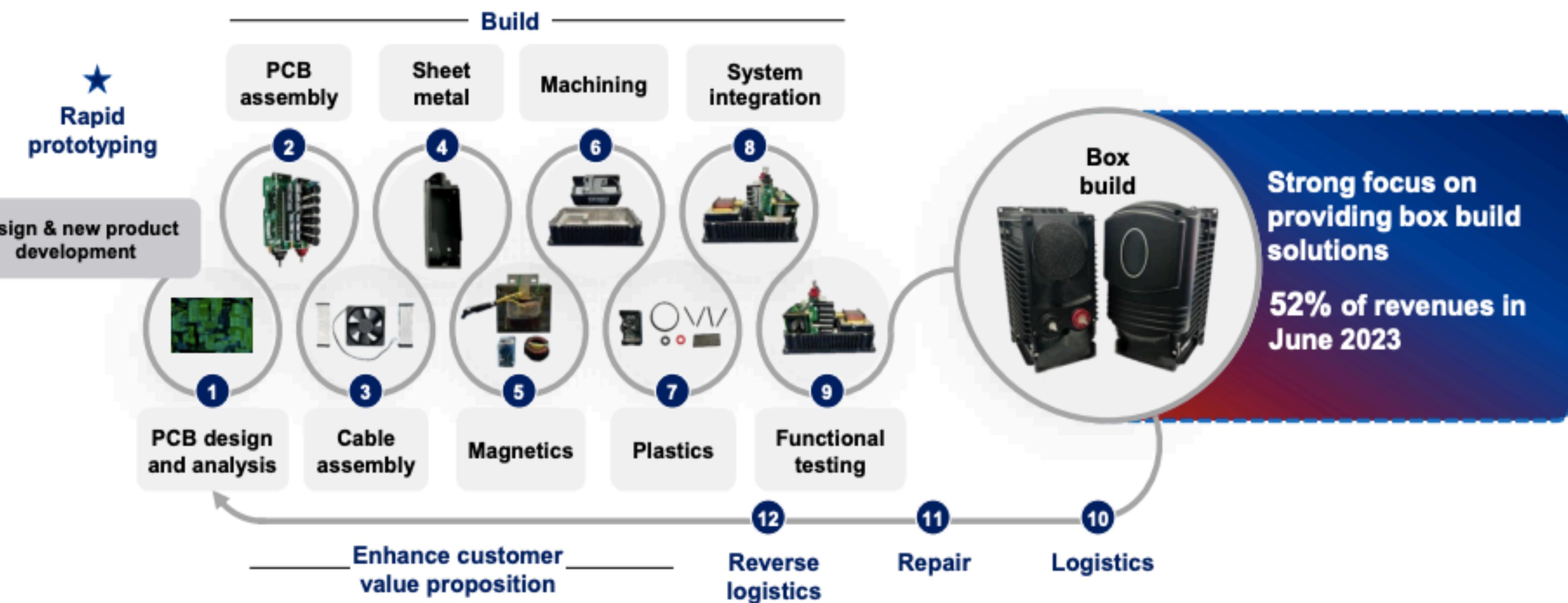
# Our Journey So Far

Diversified Business and Strong Growth Avenues

	Phase 1			Phase 2			Phase 3		Today
	1999	2003	2005	2007	2009	2010	2011	2016	
<b>Customer presence</b>	 Avalon Incorporated	Commenced production of metals & plastics	Inauguration of new facility in MEPZ-SEZ, Chennai	Expansion of manufacturing capabilities in the US	Acquired design capabilities	Entry into Aerospace vertical	Strategic entry into Railway vertical	Enhanced Box build capabilities	Fully integrated EMS service provider
<b>Customers served</b>	<input checked="" type="checkbox"/> Power <input checked="" type="checkbox"/> Communication	<input checked="" type="checkbox"/> Power <input checked="" type="checkbox"/> Communication <input checked="" type="checkbox"/> Aerospace	<input checked="" type="checkbox"/> Industrial	<input checked="" type="checkbox"/> Power and Industrial <input checked="" type="checkbox"/> Aerospace & Mobility <input checked="" type="checkbox"/> Medical and Others	<input checked="" type="checkbox"/> Communication <input checked="" type="checkbox"/> Clean Energy				
<b>Capabilities</b>	<input checked="" type="checkbox"/> PCB assembly	<input checked="" type="checkbox"/> PCB assembly <input checked="" type="checkbox"/> Metal, Cables assembly and wire harness <input checked="" type="checkbox"/> In-house design	<input checked="" type="checkbox"/> PCB assembly <input checked="" type="checkbox"/> Metal, Cables assembly and wire harness <input checked="" type="checkbox"/> Plastics	<input checked="" type="checkbox"/> In-house Design <input checked="" type="checkbox"/> Magnetics <input checked="" type="checkbox"/> System Integration					
<b>Key focus areas</b>	Small clients and PCB			Larger customers and diversified product offering			Fully Integrated Solutions and in-house Box build solutions		

# Today

End-to-end Product Offering with Vertically Integrated Solutions – “One Stop Shop”

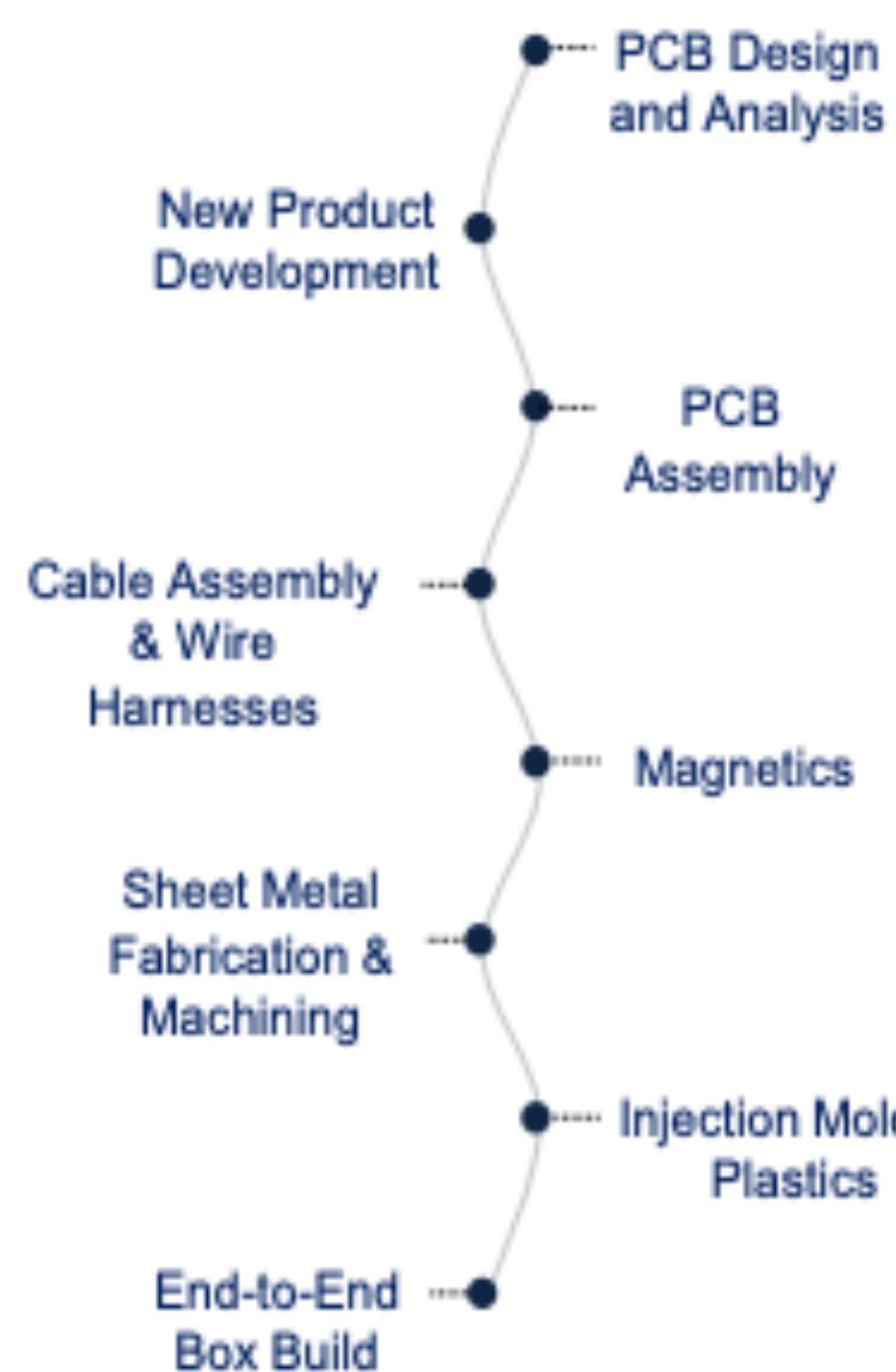


Each of the capabilities have contributed to Avalon becoming one of the leading EMS companies in India

# Why Avalon

## Our Key Differentiators

### Vertical Integration



### Global Mfg. & Delivery



### Clean Energy



# 1 Our Positioning

Avalon is Uniquely Positioned & Well Placed to Capture Growth in the EMS Industry

**Diversified product portfolio**

**Diversified across multiple end use industries**

**Presence in high precision & long product lifecycle industries**

**Leaders in high mix flexible volume products**

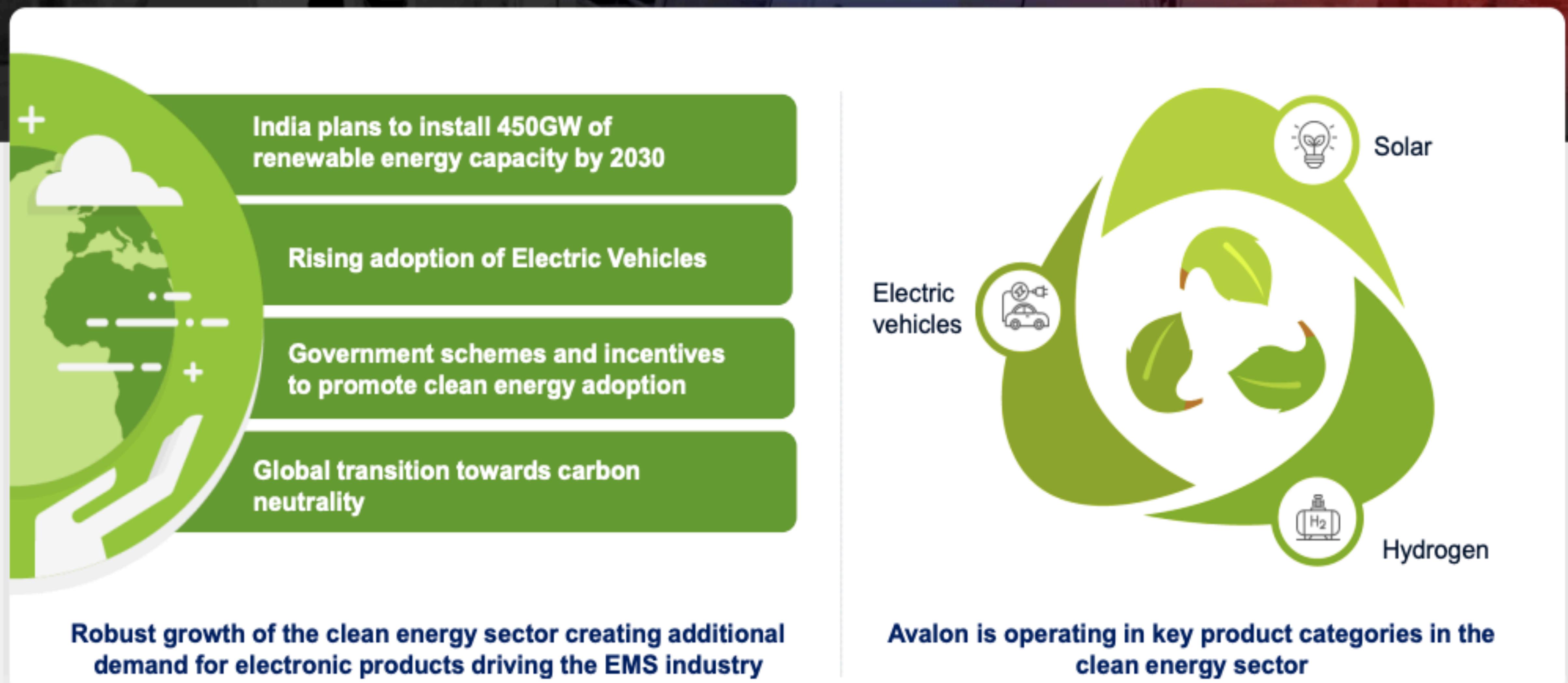
**Only Indian EMS company with manufacturing facilities in the US**

**Unique competitive advantage**

	Year	Service offering		Industry presence								Strategic Focus			
		Design, Testing and PCBA <sup>2</sup>	Box Build	Clean Energy	Auto	Railways	Aerospace & Defense	Industrials (Communication)	Telecom	Medical	CEA	Vertical Integration	Global mfg.	Aftermarket services	Company focus
<b>Avalon</b>	1999	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓	✓	✓	B2B
Dixon Technologies India Ltd.	1993	✓	✓	○	○	○	○	○	○	✓	✓	○	○	○	B2C
Amber Enterprises India Ltd	1990	✓	✓	○	✓	✓	○	○	○	✓	○	○	○	✓	B2B B2C
Elin Electronics Ltd	1969	✓	✓	○	✓	○	○	○	○	✓	✓	○	○	○	B2C
Syrma SGS Technology Ltd	1978	✓	○	✓	✓	○	○	✓	✓	✓	○	○	○	✓	B2B
Kayne Technology India Ltd	--	✓	✓	○	✓	✓	✓	✓	✓	✓	○	✓	✓	○	B2B B2C
Bharat FIH Ltd	--	✓	✓	✓	✓	✓	○	○	○	○	✓	✓	○	✓	B2C
SFO Technologies Pvt Limited	1990	✓	✓	○	✓	○	✓	✓	✓	✓	○	✓	○	✓	B2B
VVDN Technologies Pvt Ltd	--	✓	○	○	○	○	○	○	✓	✓	○	○	○	○	B2B

## 2 Clean Energy

Avalon's Presence in Clean Energy, a Sunrise Sector for the EMS Industry which is Poised for Robust Growth



The infographic features a large green circular icon on the left containing a stylized globe with a plug-in symbol, a cloud, and a recycling arrow. To its right is a vertical stack of four green rectangular boxes, each containing a white text bullet point. To the right of the boxes is a large green circular icon containing a recycling symbol, with three smaller circular icons labeled 'Solar', 'Electric vehicles', and 'Hydrogen' pointing to it.

- India plans to install 450GW of renewable energy capacity by 2030**
- Rising adoption of Electric Vehicles**
- Government schemes and incentives to promote clean energy adoption**
- Global transition towards carbon neutrality**

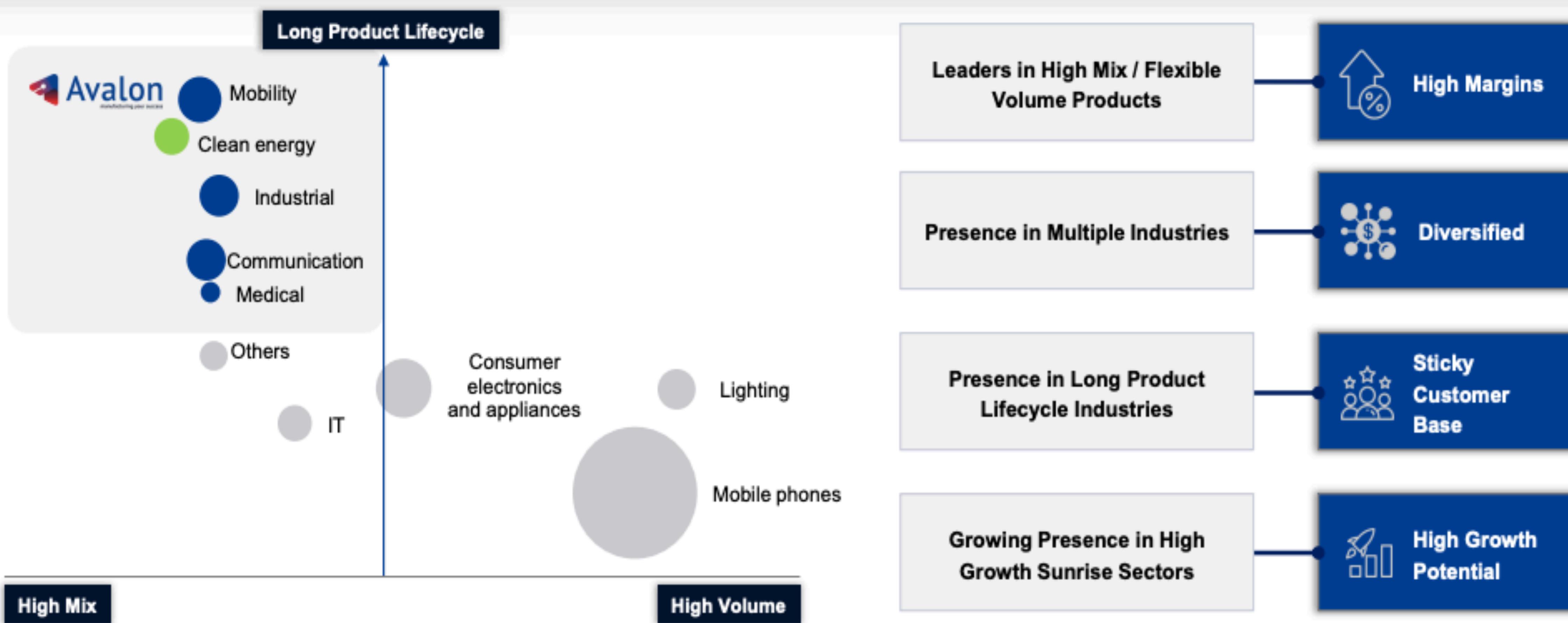
**Robust growth of the clean energy sector creating additional demand for electronic products driving the EMS industry**

**Avalon is operating in key product categories in the clean energy sector**

# 3 High Mix Products (1/2)

Leaders in High Mix Flexible Volume Products across Multiple Industries

High precision product offering across industries with long product development cycle & significant growth potential



# 3 High Mix Products (2/2)

Examples of Presence in High Mix & Long Product Development Cycle Products



**Combustion liner**  
Aerospace

- Assembled with 32 sheet metal child parts
- Combined with high temperature alloys
- Specialized welding processes
- Brazing and heat treatment



**Piston assembly for  
fueling system**  
*Industrials*

- Intricate injection insert molding
- Ultrasonically welding seals
- Ensuring leak proof between fuel and non-fuel side plastics



**Anti-collision signaling system**  
Railways

- Conducted joint product development and prototyping for over 6 years (early 2009 to 2015)
- Highly critical and reliable product
- Significant barriers to entry for Railway Projects

# 5 Client Delivery Model (1/2)

Flexibility in manufacturing and leveraging Hybrid Model

**Make in India**  
for India and Export



**Hybrid**

**Build Local**



**Expand Global**

**Make in US**  
for US

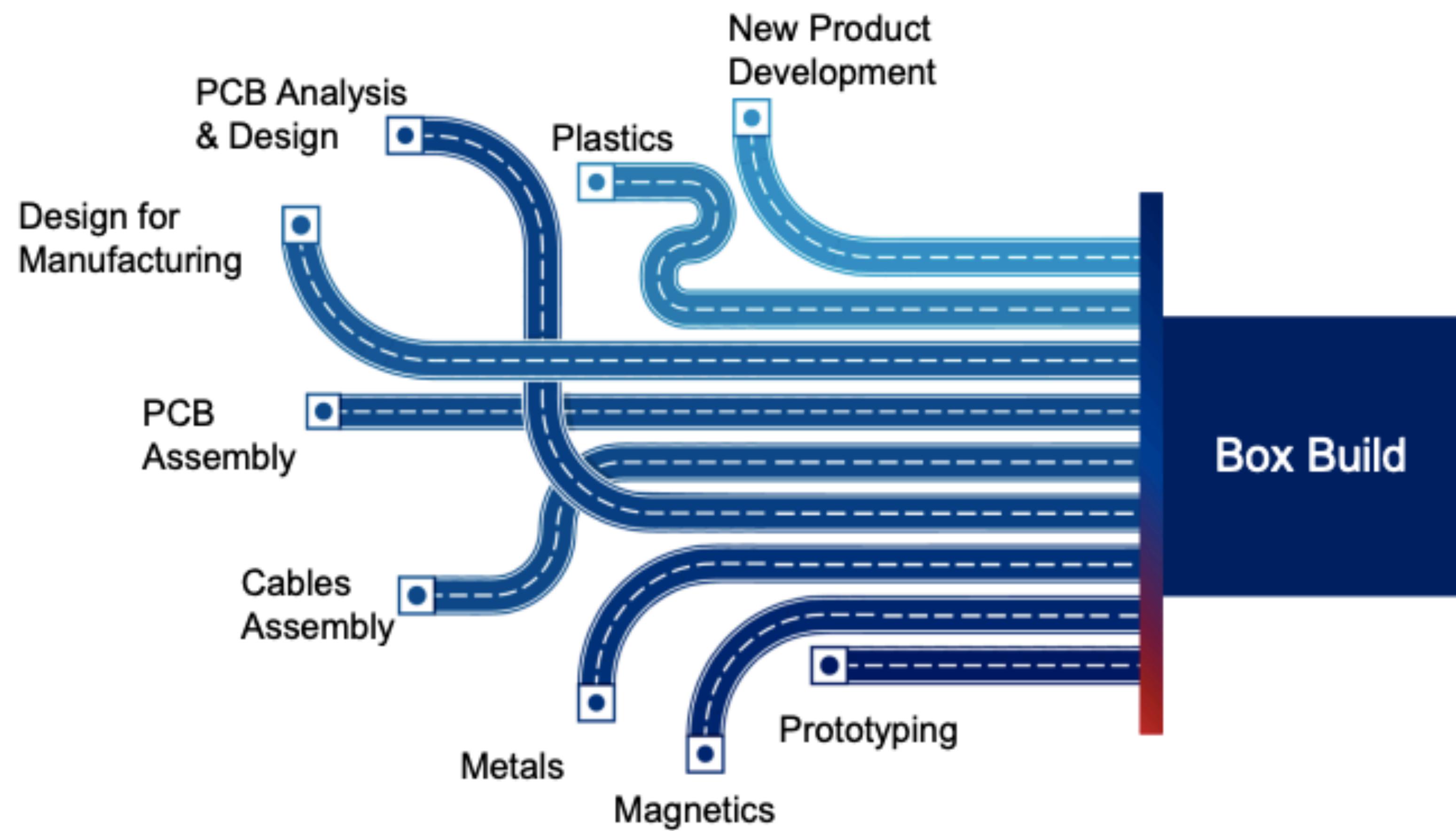


- Labour Intensive

- Automation
- Configuration

# 5 Client Delivery Model (2/2)

Strong Focus on Up-selling and Cross-selling



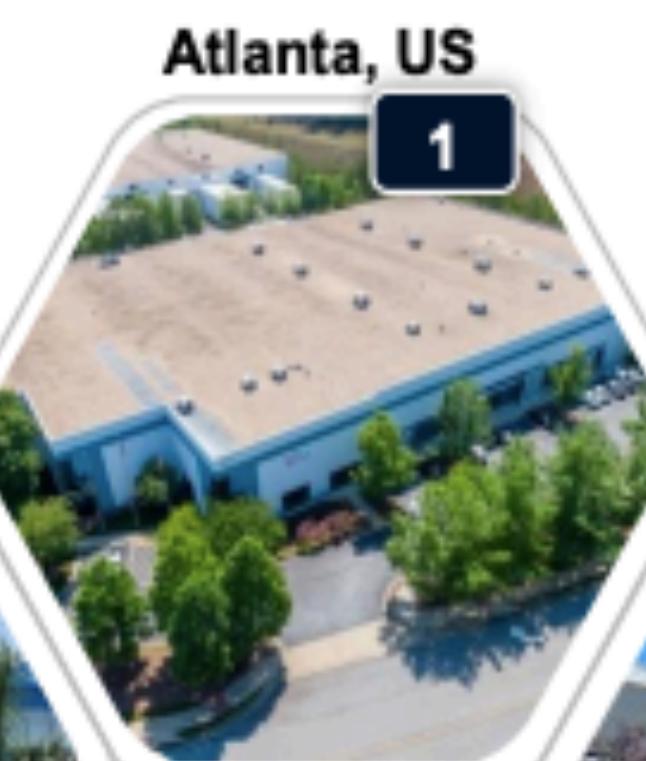
# 6 Global Manufacturing Footprint

Serve Customers Locally and Leverage Hybrid Model of Delivery

Global manufacturing presence with state-of-the-art manufacturing facilities



Atlanta, US



Bengaluru, India



■ Number of units

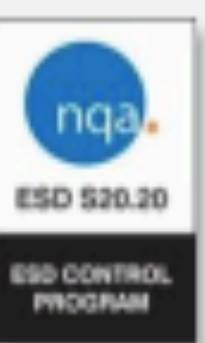
>560 k sq. ft. design & mfg. facilities

65 Production lines Operating 2 shifts

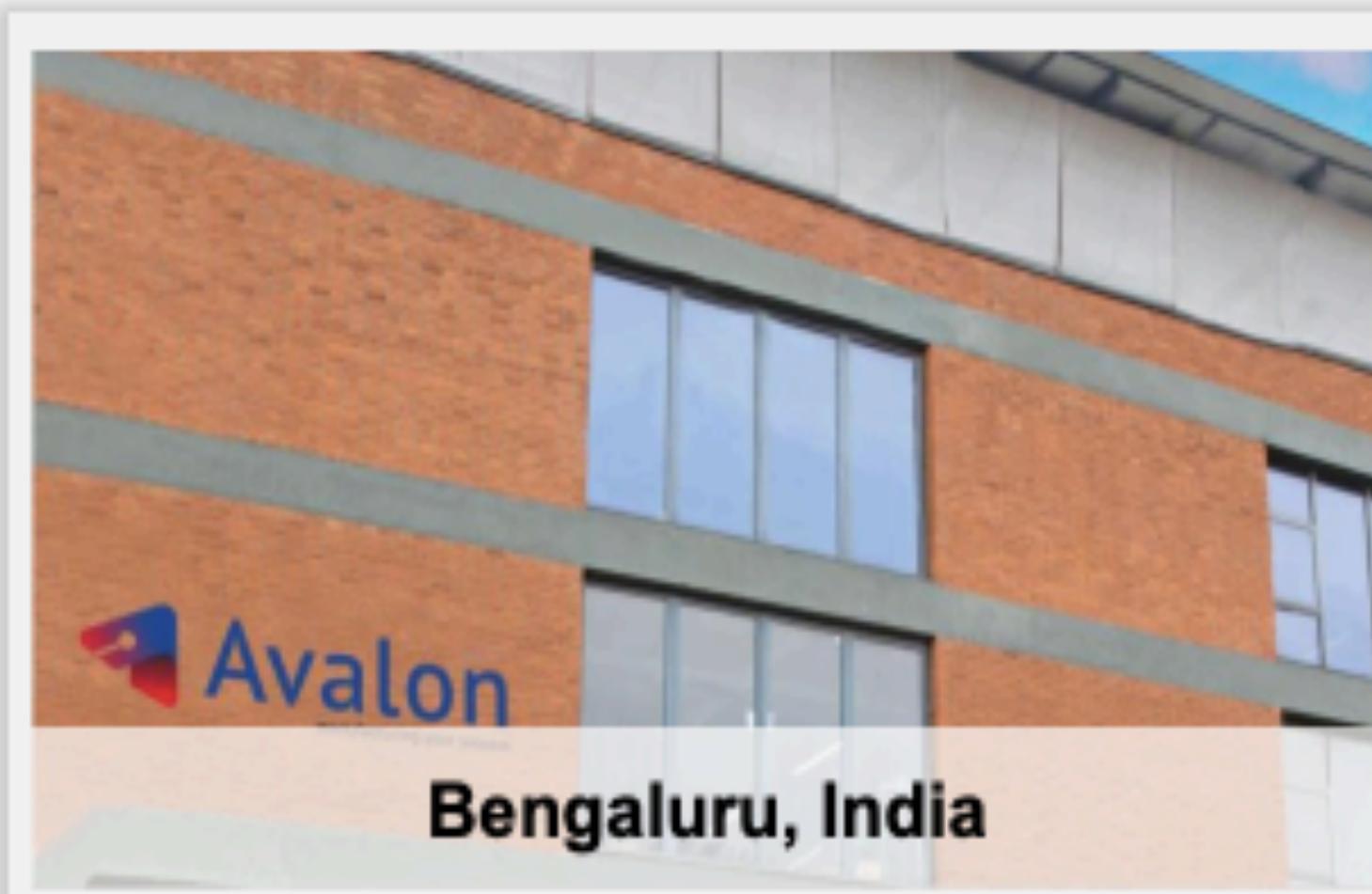
Buffer capacity to ramp up production

Notes: Numbers have been rounded-off. SMT = Surface Mount Technology; THT = Through Hole Technology. 1. PPM (customer parts per million) is defined as the number of parts which are defective out of a million; 2. Setting up a new assembly line; 3. Standard Minute Value is the time taken by a qualified worker to perform a given task; 4. One of the facilities is located in Kanchipuram; 5. DTA = Domestic Tariff Area.

Accredited with Global Quality Standards and Certifications



# 7 Avalon's Manufacturing Facilities



# AVALON - AT A GLANCE

One of the India's Leading Fully Integrated EMS Company with a Global Delivery Footprint



**14\*** Manufacturing units across US / India



Hybrid Manufacturing Operations



**570k+\*** sq.ft. Design & Manufacturing Facilities



Located in SEZ and DTA



100 %



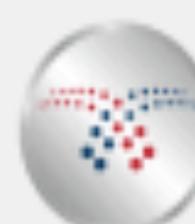
Avalon Technologies & Services Pvt Ltd, India

99.9 %



Sienna ECAD Technologies Pvt Ltd, India

100 %



Sienna Corporation  
Local Solutions - Global Reach

ABV Electronics Inc., US

One of the leading India EMS player

Q1 FY24 metrics

22.9%

6.9%

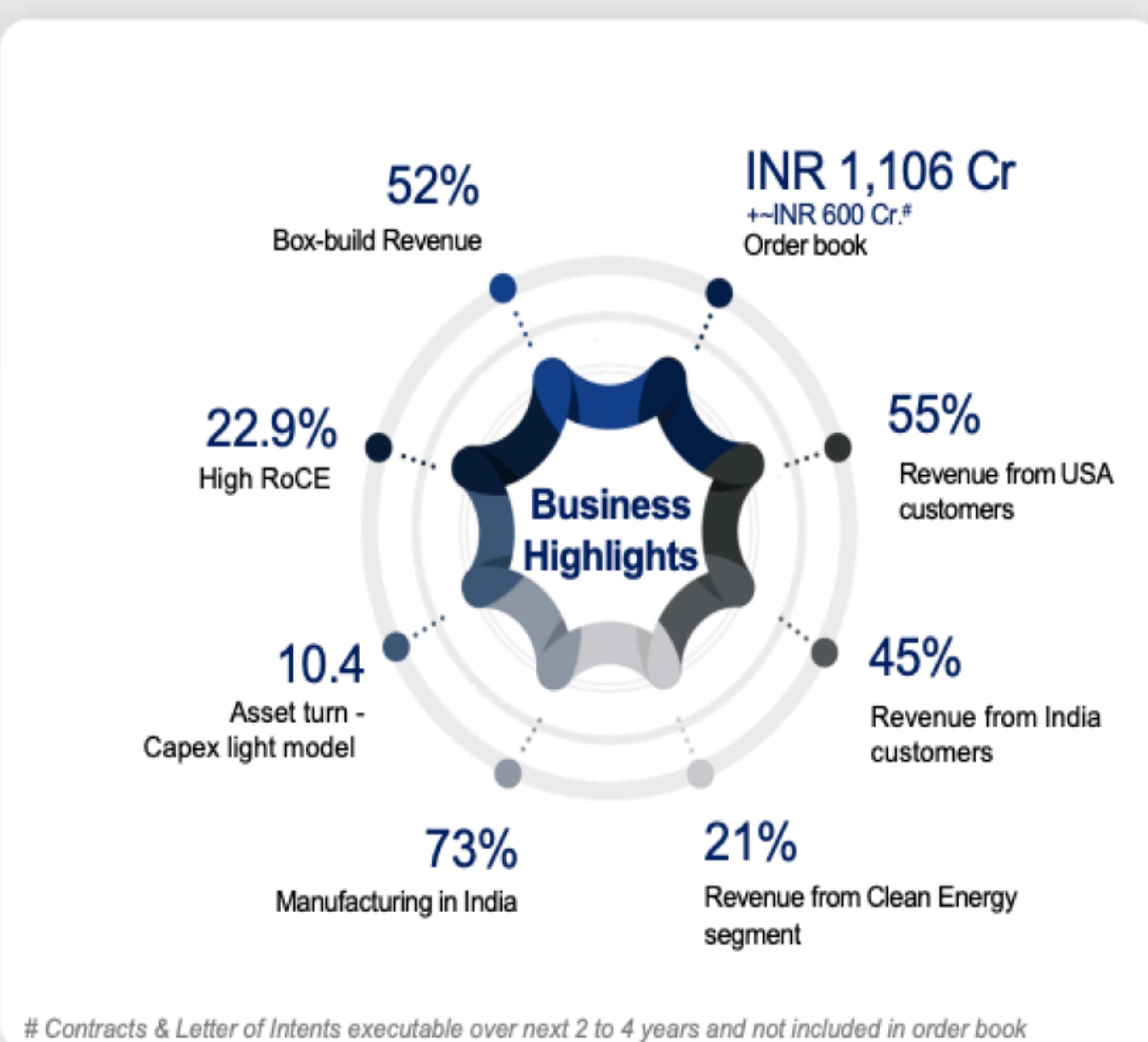
2.9%

Return on Capital Employed

EBITDA Margin

PAT Margin

# Business Highlights



## Key events

Successfully added three new Clean energy customers – one of them in the EV space. Ramp up expected in Q4

Entered the heat shield market (thermal blanket) in Aerospace segment. Work transitioning from US to India. PO expected in Q4 FY24

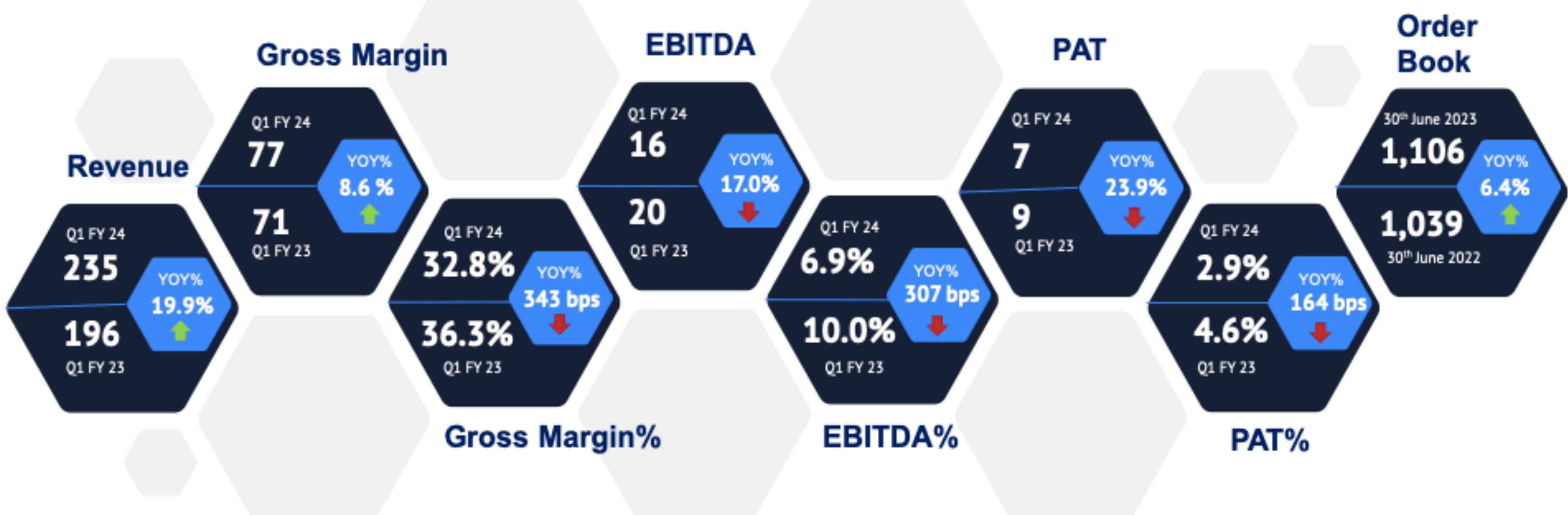
Received the first tooling order for plastic components for use in the interiors of commercial aircrafts

Successfully entered new geographies and won initial orders for Design & Development

Expansion of 2 new manufacturing plants at MEPZ, Chennai is progressing well. These are to be used for big Box-builds, specialized metal processes & expansion of plastics capabilities

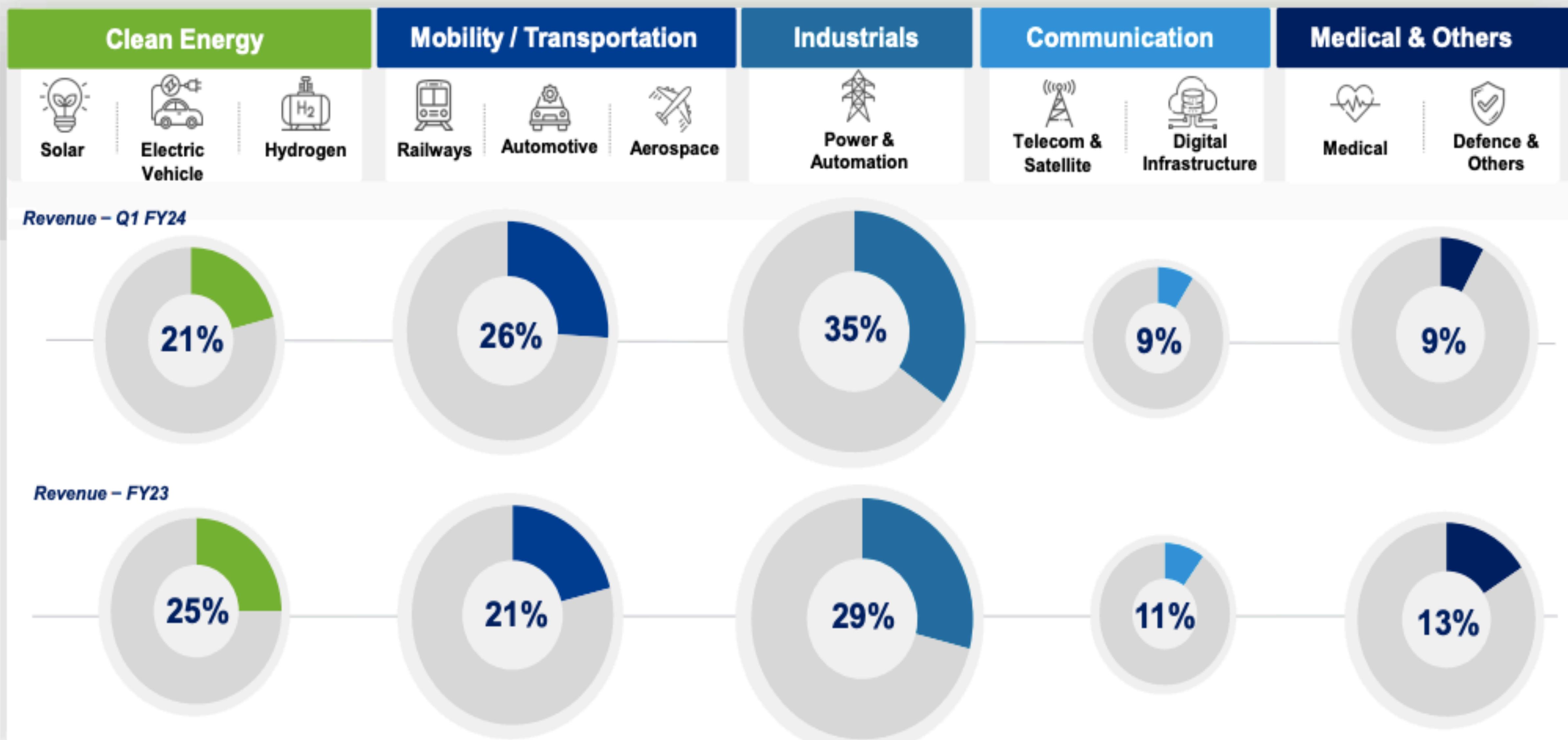
# Financial Highlights – Q1 FY24

(INR Cr.)



# Global Customer Relationships

Presence across Multiple Industries with a Diversified Customer Base



# Global Customer Relationships

Revenue split based on Customer geography

**Q1 FY 2024**

**INDIA – 45%**

**US – 55%**

**FY 2023**

**INDIA – 41%**

**US – 59%**

# IPO Proceeds

(INR Cr.)

Objects of the Issue	Amount to be utilized as per RHP	Utilization Amount as on 07 <sup>th</sup> Aug 2023	Unutilized Amount as on 07 <sup>th</sup> Aug 2023
Debt repayment	145.0	145.0	0
Working Capital funding	90.0	90.0	0
General Corporate Purposes (Less: IPO Expenses)*	64.4	63.5	1
Total	299.4	298.4	1

\* As per the offer document, GCP was Rs. 64.40 crore which was worked out based on estimated cost of issue of Rs. 20.6 crore. The BRLMs have reworked and earmarked Rs 21.57 crore for the issue expenses and transferred an amount of Rs. 298.43 crore into the monitoring agency account.

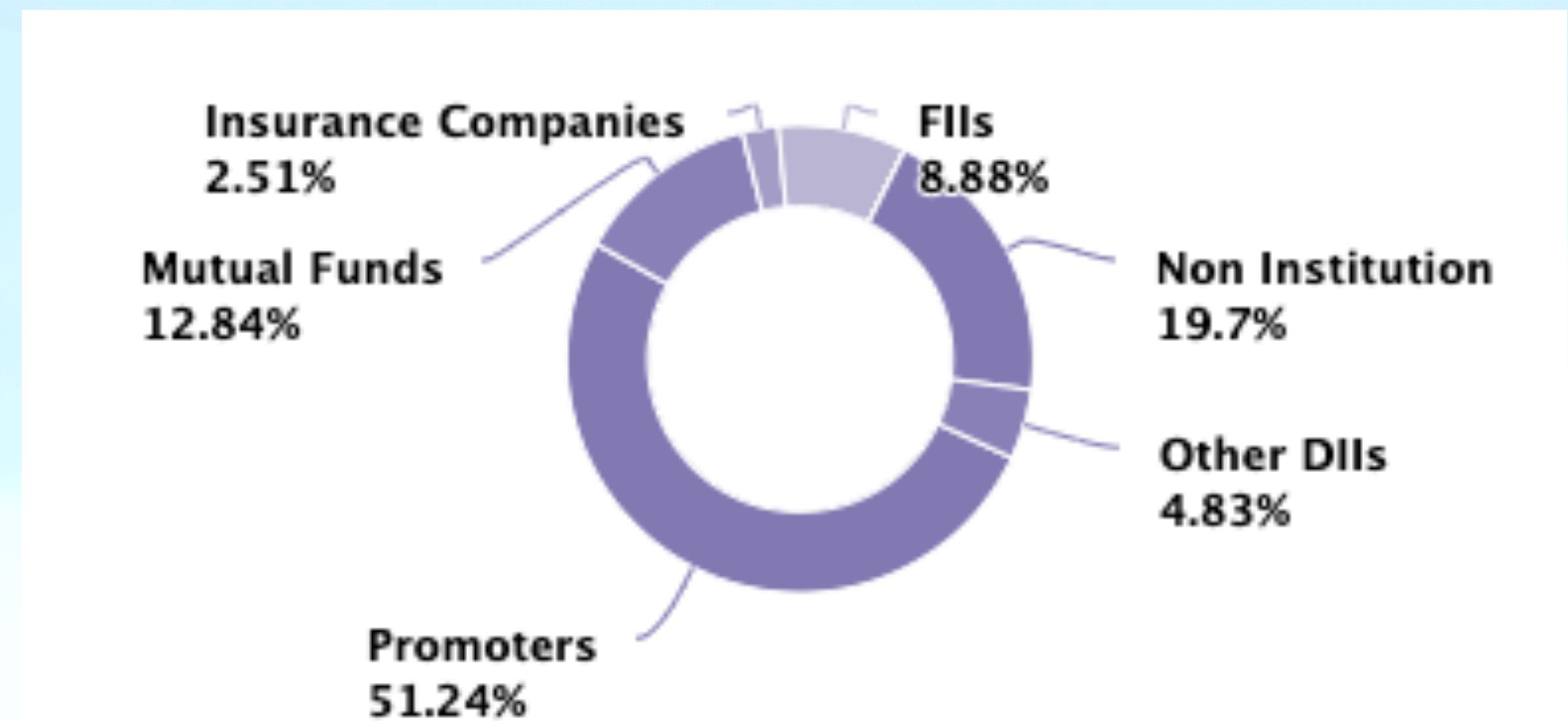
## Yearly Results

YEARLY RESULTS OF AVALON TECHNOLOGIES (in Rs. Cr.)	MAR '23	MAR '22	MAR '21	MAR '20
Net Sales/Income from operations	944.72	840.72	690.47	641.87
Total Income From Operations	944.72	840.72	690.47	641.87
<b>EXPENDITURE</b>				
Consumption of Raw Materials	623.84	560.80	435.62	428.98
Increase/Decrease in Stocks	-17.11	-6.67	20.38	-17.73
Employees Cost	160.55	131.35	119.21	116.21
Depreciation	19.66	17.19	15.75	15.51
Other Expenses	64.66	57.68	49.12	49.92
P/L Before Other Inc., Int., Excpt. Items & Tax	93.14	80.36	50.40	48.97
Other Income	14.35	10.93	5.43	11.28
P/L Before Int., Excpt. Items & Tax	107.49	91.29	55.82	60.25
Interest	34.79	24.85	26.99	44.96
P/L Before Exceptional Items & Tax	72.69	66.44	28.83	15.30
Exceptional Items	--	19.99	--	--
P/L Before Tax	72.69	86.43	28.83	15.30
Tax	20.19	18.27	5.75	2.97
P/L After Tax from Ordinary Activities	52.50	68.16	23.08	12.33
Net Profit/(Loss) For the Period	52.50	68.16	23.08	12.33
Minority Interest	--	-5.00	-1.59	-0.79
Net P/L After M.I & Associates	52.50	63.16	21.49	11.54
Equity Share Capital	11.59	1.60	1.60	1.53
Reserves Excluding Revaluation Reserves	525.43	85.59	58.35	45.04
<b>EPS BEFORE EXTRA ORDINARY</b>				
Basic EPS	9.27	11.30	4.01	2.21
Diluted EPS	9.08	11.30	4.01	2.21
<b>EPS AFTER EXTRA ORDINARY</b>				
Basic EPS.	9.27	11.30	4.01	2.21
Diluted EPS.	9.08	11.30	4.01	2.21

## Key Financial Ratios

KEY FINANCIAL RATIOS OF AVALON TECHNOLOGIES (in Rs. Cr.)		MAR 23	MAR 22	MAR 21	MAR 20
<b>PER SHARE RATIOS</b>					
Basic EPS (Rs.)		9.27	11.30	4.01	2.21
Diluted EPS (Rs.)		9.08	11.30	4.01	2.21
Cash EPS (Rs.)		12.45	5,344.83	2,431.37	1,819.21
Book Value [ExclRevalReserve]/Share (Rs.)		92.66	5,459.67	1,766.31	225.22
Book Value [InclRevalReserve]/Share (Rs.)		92.66	5,459.67	1,766.31	225.22
Revenue from Operations/Share (Rs.)		163.01	52,643.58	43,235.50	41,952.09
PBDIT/Share (Rs.)		21.94	6,792.79	4,481.52	4,951.63
PBIT/Share (Rs.)		18.55	5,716.21	3,495.49	3,938.03
PBT/Share (Rs.)		12.54	5,412.08	1,805.19	999.67
Net Profit/Share (Rs.)		9.06	4,268.25	1,445.33	805.62
NP After MI And SOA / Share (Rs.)		9.06	3,955.10	1,345.83	754.24
<b>PROFITABILITY RATIOS</b>					
PBDIT Margin (%)		13.45	12.90	10.36	11.80
PBIT Margin (%)		11.37	10.85	8.08	9.38
PBT Margin (%)		7.69	10.28	4.17	2.38
Net Profit Margin (%)		5.55	8.10	3.34	1.92
NP After MI And SOA Margin (%)		5.55	7.51	3.11	1.79
Return on Networth/Equity (%)		9.77	72.44	35.85	24.77
Return on Capital Employed (%)		16.68	48.31	41.87	72.89
Return on Assets (%)		4.44	10.74	4.19	2.56
Total Debt/Equity (X)		0.57	3.37	4.93	5.34
Asset Turnover Ratio (%)		1.15	0.89	0.81	0.00
<b>LIQUIDITY RATIOS</b>					
Current Ratio (X)		1.89	1.13	1.00	0.85
Quick Ratio (X)		1.30	0.54	0.62	0.43
Inventory Turnover Ratio (X)		2.83	2.49	2.06	0.00
Dividend Payout Ratio (NP) (%)		0.00	0.00	0.00	0.00
Dividend Payout Ratio (CP) (%)		0.00	0.00	0.00	0.00
Earnings Retention Ratio (%)		0.00	0.00	0.00	0.00
Cash Earnings Retention Ratio (%)		0.00	0.00	0.00	0.00
<b>COVERAGE RATIOS</b>					
Interest Coverage Ratios (%)		3.65	4.37	2.65	1.69
Interest Coverage Ratios (Post Tax) (%)		3.65	4.37	2.65	1.69
<b>VALUATION RATIOS</b>					
Enterprise Value (Cr.)		0.00	0.00	0.00	0.00
EV/Net Operating Revenue (X)		0.00	0.00	0.00	0.00
EV/EBITDA (X)		0.00	0.00	0.00	0.00
MarketCap/Net Operating Revenue (X)		0.00	0.00	0.00	0.00
Retention Ratios (%)		0.00	0.00	0.00	0.00
Price/BV (X)		0.00	0.00	0.00	0.00
Price/Net Operating Revenue		0.00	0.00	0.00	0.00
Earnings Yield		0.00	0.00	0.00	0.00

# Shareholding Pattern as on Jun'23



# Summary

- ❖ With deliverance of fine performance in Q1 of FY'24, the Company's Net Sales increased by 19.93% i.e. Rs.235.09 crs in Jun'23 as compared to Rs.196.01 crs in Jun'22. However, the Net Profits were Rs.7.07 crs in Jun'23 versus Rs.9.30 crs in Jun'22. In addition to this, the Statement of Changes in Equity witnessed an increase in the Equity Capital i.e. Rs.13.06 crs in Jun'23 juxtapose to Rs.11.18 crs in Jun'22.
- ❖ Viewing sound financials and fair fundamentals, the Company is available at a good price of Rs.558.90 with its 52 week low of Rs.348.00 and 52 week high of Rs.732.10.
- ❖ Viewing that the Promoters are holding majority stake around 51.24% as well as its robust valuations, indicates that the Management is growth oriented.
- ❖ The Shareholding Pattern as on Jun'23, shows the FIIs and the Other DIIs altogether stood with 13.71% stake. Whilst, the Mutual Fund Houses own 12.84% holdings in the Company.
- ❖ Avalon Technologies Ltd. is held by NIPPON INDIA MF, HDFC MF, EDELWEISS MF, HSBC MF, FRANKLIN TEMPLETON MF, MAHINDRA MANULIFE MF, LIC MF, WOC MF and a few more.
- ❖ On consolidated basis, Return on Equity (ROE) and Return on Capital Employed (ROCE) were registered around 9.77% & 16.68% respectively as on Mar'23.

# Disclosure

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## **Disclosures as required under SEBI (Research Analyst) Regulations, 2014**

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I do thorough research and analysis on fundamentals of companies. As such, I undertake extensive scrutiny of major Company statistics like Balance Sheet, Profit & Loss Account, Key Financial Ratios (ROE, ROCE and Debt to Equity etc.), Quarterly, Half-yearly & Annual Results, Cash Flows, Annual Reports and Shareholding Pattern etc.

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2. My daughter, Ms. Palvit Kaur

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