

February 7, 2025

Q3FY25 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		HOLD	
Target Price	900		899	
Sales (Rs. m)	13,713	17,369	13,762	17,271
% Chng.	(0.4)	0.6		
EBITDA (Rs. m)	1,508	2,102	1,514	2,090
% Chng.	(0.4)	0.6		
EPS (Rs.)	13.9	19.8	14.0	19.8
% Chng.	(0.7)	-		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	8,672	10,581	13,713	17,369
EBITDA (Rs. m)	625	1,005	1,508	2,102
Margin (%)	7.2	9.5	11.0	12.1
PAT (Rs. m)	280	568	915	1,309
EPS (Rs.)	4.3	8.6	13.9	19.8
Gr. (%)	(53.0)	102.0	61.0	43.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	5.2	9.9	14.1	17.2
RoCE (%)	7.0	13.2	18.3	22.1
EV/Sales (x)	5.5	4.6	3.6	2.8
EV/EBITDA (x)	76.8	48.1	32.4	23.5
PE (x)	172.1	85.2	52.9	37.0
P/BV (x)	8.8	8.0	7.0	5.9

Key Data AVAL.BO | AVALON IN

52-W High / Low	Rs.1,074 / Rs.425
Sensex / Nifty	78,133 / 23,628
Market Cap	Rs.48bn/ \$ 554m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.892.88m

Shareholding Pattern (%)

Promoter's	50.58
Foreign	5.39
Domestic Institution	20.87
Public & Others	23.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(20.4)	48.3	54.2
Relative	(20.5)	49.2	42.4

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Strong performance, healthy margin expansion

We are upgrading our recommendation from HOLD to BUY given the recent correction in stock price and healthy performance in Q3FY25. We have revised our FY25 EPS estimates upward by 9.6% to reflect stronger earnings in the quarter, while maintaining our earnings estimates for FY26 and FY27. Avalon Technologies (AVALON IN) has reported healthy earnings growth of 265% YoY/37.2% QoQ, led by strong pick-up in the industrials segment. EBITDA margin expanded by a healthy ~460bps YoY to 12.3%, attributed to a favorable segment mix (industrials increased to 34% of revenue) and reduction in employee expenses with increased domestic manufacturing (reached 88% of revenue). AVALON's revenue grew by 31.1% YoY, supported by ~320% YoY increase in the industrials segment (contributed ~34% to revenue), and 28.9% YoY growth in the clean energy segment (~22% to revenue). AVALON has increased its revenue growth guidance to 22-24% (earlier 16-20%) for FY25 and GM to 34-36% from 33-35%. We estimate FY24-27E revenue/EBITDA/PAT CAGR of 26.1%/49.8%/67.2%, with EBITDA margin expansion of ~490bps. Upgrade to BUY.

Revenue increased by 31.1%, PAT grew by ~265%: Sales increased by 31.1% YoY to Rs2.8bn (PLe: Rs2.8bn). Clean Energy/Mobility& Transportation/Industrials segment grew by 28.9%/27.5%/320.4% YoY, while Communication/Medical declined by 62.6%/6.7% YoY. Mobility & Transportation/Industrials segment contributed 23%/34% to revenue. EBITDA grew by 109.5% YoY to Rs346mn (PLe: Rs313mn). EBITDA margin expanded by ~460bps to 12.3%. (PLe: 11.3%). PBT grew by 260.8% YoY to Rs327mn (PLe: Rs248mn). PAT grew by 264.9% YoY to Rs240mn (PLe: Rs186mn). The order book grew by 25% YoY to Rs16bn.

Con call highlights: **1)** The management has raised its revenue growth guidance for FY25 from 16-20% to 22-24% and its industry-leading GM from 33-35% to 34-36%. **2)** The company is moving toward commercial production in the US across industrial, automotive and aerospace sectors, with the increasing momentum highlighting its capabilities. In India, focused efforts have led to key wins in the industrial, rail and communications sectors. **3)** Avalon is moving from prototype to volume production for a global auto component manufacturer specializing in motion control systems. **4)** The rail segment is scaling up well, with stronger performance expected next year. Additionally, the company is actively working with customers on anti-collision cover systems, which hold significant future business potential. **5)** Revenue from US manufacturing contributed 12% to the topline in Q3FY25. Net loss reduced from Rs140mn in Q1FY25 to Rs34mn with profitability expected in 1-1.5 years. **6)** The Chennai plant, focused on exports, has started production, while Phase 1 of the brownfield plant, dedicated to domestic demand, is complete. Phase 2 is expected to be operational from Q4FY25. **7)** The company plans to invest Rs400-450mn for capex in FY25. **8)** The company is receiving a monthly order book of Rs3.5-4bn. **9)** In Q3FY25, the domestic-to-exports revenue mix stood at 42:58. The company aims to achieve a 50:50 ratio going forward.

Exhibit 1: Q3FY25 Result Overview: Sales increased by 31.1% YoY, PAT grew by ~265% YoY

Y/e March (Rs mn)	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Net Sales	2,809	2,143	31.1	2,750	2.1	7,553	6,504	16.1
Expenditure			100					
Operating & Manufacturing Expenses	1,760	1,350	30.4	1,737	1.3	4,830	4,163	16.0
% of Net Sales	62.7	63.0		63.2		63.9	64.0	
Gross Profit	1,048	793	32.2	1,013	3.5	2,724	2,344	16.2
% of Net Sales	37.3	37.0	0.33	36.8		36.1	36.0	
Personnel Cost	494	457	8.1	467	5.7	1,416	1,394	1.5
% of Net Sales	17.6	21.3		17.0		18.7	21.4	
Other Expenses	208	171	22.1	245	-14.9	617	496	24.4
% of Net Sales	7.4	8.0		8.9		8.2	7.6	
Total Expenditure	2,462	1,977	24.5	2,449	0.5	6,862	6,053	13.4
EBITDA	346	165	109.2	301	14.9	691	450	53.5
Margin (%)	12.3	7.7	4.61	11.0	1.4	9.2	6.9	
Other income	100	22	363.3	39	154.6	183	120	52.5
Depreciation	74	60	22.7	69	7.1	208	168	24.2
EBIT	273	106	158.4	233	17.2	666	403	65.4
Interest	45	36	24.3	37	20.8	125	125	(0.0)
PBT	327	91	260.7	234	39.6	541	281	92.6
Total Taxes	87	25	250.1	60	46.5	142	72	97.9
ETR (%)	26.7	27.5		25.4		26.3	25.6	
Adj. PAT	240	66	264.7	175	37.2	399	209	90.7
Exceptional Items	-	-		-		-	-	
Reported PAT	240	66	264.7	175	37.2	375	197	90.4

Source: Company, PL

Exhibit 2: Segmental Breakup: Clean Energy/Industrials segment grew by 29%/320% in Q3FY25

Y/e March (Rs mn)	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Revenues								
Clean Energy	637	494	28.9	468	36.3	1,586	1,236	28.4
Mobility / Transportation	655	514	27.5	825	(20.7)	1,888	1,691	11.7
Industrials	966	230	320.4	825	17.0	2,342	1,756	33.3
Communication	177	474	(62.6)	275	(35.6)	604	911	(33.6)
Medical & Others	402	431	(6.7)	413	(2.6)	1,209	911	32.7

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	8,672	10,581	13,713	17,369
YoY gr. (%)	(8.2)	22.0	29.6	26.7
Cost of Goods Sold	5,523	6,772	8,804	11,151
Gross Profit	3,148	3,809	4,909	6,218
Margin (%)	36.3	36.0	35.8	35.8
Employee Cost	1,850	1,957	2,372	2,814
Other Expenses	674	846	1,028	1,303
EBITDA	625	1,005	1,508	2,102
YoY gr. (%)	(44.5)	60.9	50.1	39.3
Margin (%)	7.2	9.5	11.0	12.1
Depreciation and Amortization	229	285	284	342
EBIT	396	720	1,225	1,759
Margin (%)	4.6	6.8	8.9	10.1
Net Interest	164	170	185	193
Other Income	149	223	183	183
Profit Before Tax	381	773	1,223	1,749
Margin (%)	4.4	7.3	8.9	10.1
Total Tax	101	205	308	440
Effective tax rate (%)	26.5	26.5	25.2	25.2
Profit after tax	280	568	915	1,309
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	280	568	915	1,309
YoY gr. (%)	(46.7)	103.1	61.0	43.0
Margin (%)	3.2	5.4	6.7	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	280	568	915	1,309
YoY gr. (%)	(46.7)	103.1	61.0	43.0
Margin (%)	3.2	5.4	6.7	7.5
Other Comprehensive Income	(13)	-	-	-
Total Comprehensive Income	267	568	915	1,309
Equity Shares O/s (m)	66	66	66	66
EPS (Rs)	4.3	8.6	13.9	19.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	2,099	2,650	3,348	4,087
Tangibles	1,414	1,814	2,264	2,714
Intangibles	685	836	1,084	1,373
Acc: Dep / Amortization	629	915	1,199	1,541
Tangibles	374	527	680	867
Intangibles	255	388	519	675
Net fixed assets	1,470	1,735	2,149	2,546
Tangibles	1,039	1,287	1,584	1,847
Intangibles	430	449	565	698
Capital Work In Progress	196	196	196	196
Goodwill	-	-	-	-
Non-Current Investments	219	222	240	287
Net Deferred tax assets	165	205	269	345
Other Non-Current Assets	155	189	245	310
Current Assets				
Investments	755	755	255	-
Inventories	3,163	3,425	4,320	5,473
Trade receivables	1,869	2,309	2,993	3,791
Cash & Bank Balance	1,065	516	468	265
Other Current Assets	229	229	229	229
Total Assets	9,308	9,802	11,385	13,463
Equity				
Equity Share Capital	131	132	132	132
Other Equity	5,342	5,910	6,825	8,134
Total Network	5,473	6,042	6,957	8,266
Non-Current Liabilities				
Long Term borrowings	533	-	-	-
Provisions	135	135	135	135
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,108	1,178	1,178	1,178
Trade payables	974	1,189	1,503	1,904
Other current liabilities	722	823	1,052	1,274
Total Equity & Liabilities	9,308	9,802	11,385	13,463

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	381	773	1,223	1,749
Add. Depreciation	229	285	284	342
Add. Interest	113	170	185	193
Less Financial Other Income	149	223	183	183
Add. Other	28	(299)	(304)	(324)
Op. profit before WC changes	751	929	1,388	1,961
Net Changes-WC	(414)	(409)	(1,072)	(1,369)
Direct tax	(164)	(205)	(308)	(440)
Net cash from Op. activities	173	316	8	151
Capital expenditures	(355)	(17)	(198)	(484)
Interest / Dividend Income	15	223	183	183
Others	(1,121)	(3)	(18)	(47)
Net Cash from Invst. activities	(1,461)	203	(32)	(348)
Issue of share cap. / premium	4,642	1	-	-
Debt changes	(1,683)	-	-	-
Dividend paid	99	(170)	(185)	(193)
Interest paid	(88)	-	-	-
Others	(5,479)	(366)	161	187
Net cash from Fin. activities	(2,508)	(535)	(24)	(6)
Net change in cash	(3,796)	(16)	(48)	(202)
Free Cash Flow	173	316	8	151

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	4.3	8.6	13.9	19.8
CEPS	7.7	12.9	18.2	25.0
BVPS	83.3	91.5	105.3	125.2
FCF	2.6	4.8	0.1	2.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	7.0	13.2	18.3	22.1
ROIC	4.9	9.0	13.2	15.4
RoE	5.2	9.9	14.1	17.2
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.1	0.1
Net Working Capital (Days)	171	157	155	155
Valuation(x)				
PER	172.1	85.2	52.9	37.0
P/B	8.8	8.0	7.0	5.9
P/CEPS	94.7	56.7	40.4	29.3
EV/EBITDA	76.8	48.1	32.4	23.5
EV/Sales	5.5	4.6	3.6	2.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

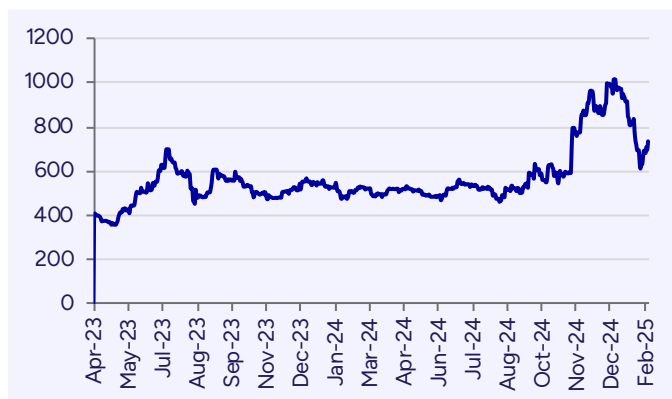
Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	2,168	1,995	2,750	2,809
YoY gr. (%)	(20.2)	(15.2)	36.8	31.1
Raw Material Expenses	1,354	1,332	1,737	1,760
Gross Profit	814	662	1,013	1,048
Margin (%)	37.5	33.2	36.8	37.3
EBITDA	172	44	301	346
YoY gr. (%)	(58.2)	(73.0)	139.1	109.2
Margin (%)	7.9	2.2	11.0	12.3
Depreciation / Depletion	61	66	69	74
EBIT	111	(22)	233	273
Margin (%)	5.1	(1.1)	8.5	9.7
Net Interest	39	42	37	45
Other Income	28	44	39	100
Profit before Tax	99	(20)	234	327
Margin (%)	4.6	(1.0)	8.5	11.6
Total Tax	29	3	60	87
Effective tax rate (%)	29.0	(14.5)	25.4	26.7
Profit after Tax	71	(23)	175	240
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	71	(23)	175	240
YoY gr. (%)	(68.9)	(132.6)	140.1	264.7
Margin (%)	3.3	(1.2)	6.4	8.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	71	(23)	175	240
YoY gr. (%)	(68.9)	(132.6)	140.1	264.7
Margin (%)	3.3	(1.2)	6.4	8.5
Other Comprehensive Income	-	(11)	2	(16)
Total Comprehensive Income	70	(34)	177	224
Avg. Shares O/s (m)	66	66	66	66
EPS (Rs)	1.1	(0.4)	2.6	3.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-25	Hold	899	938
2	09-Dec-24	Hold	899	860

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,808	1,470
2	Avalon Technologies	Hold	899	938
3	Bajaj Electricals	Reduce	647	733
4	Century Plyboard (I)	Hold	811	823
5	Cera Sanitaryware	Hold	7,712	7,188
6	Crompton Greaves Consumer Electricals	BUY	536	368
7	Cyient DLM	BUY	692	515
8	Finolex Industries	Accumulate	270	233
9	Greenpanel Industries	BUY	427	361
10	Havells India	BUY	1,890	1,578
11	Kajaria Ceramics	BUY	1,224	960
12	Kaynes Technology India	BUY	5,528	4,661
13	KEI Industries	BUY	5,041	4,128
14	Polycab India	BUY	8,233	6,251
15	R R Kabel	BUY	1,812	1,245
16	Supreme Industries	BUY	5,040	4,022
17	Syrma SGS Technology	BUY	629	505
18	Voltas	BUY	1,593	1,261

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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