

Avalon Technologies

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,062 TP: INR1,330 (+25%) Buy

Strong execution continues to drive growth

Earnings beat our estimate

- Avalon Technologies (AVALON) reported a robust quarter, with revenue growing 39% YoY in 2QFY26, fueled by a strong performance in both the India (up 31% YoY) and US businesses (up 44%). However, EBITDA contracted (+90bp) due to lower gross margins YoY (down 250bp), driven by a change in the product mix. Employee costs as a % of sales also increased 130bp YoY to support the addition of new programs. This was offset by lower other expenses YoY (down 290bp), driven by favorable operating leverage.
- The company is witnessing growth across all business segments, with the order book growing ~25.5% YoY (INR18.6b). Supported by a robust order book visibility and strong performance in 1HFY26, management has further increased its **FY26 guidance for revenue growth to 28-30% (vs. 23-25% earlier), with a sequential improvement in EBITDA margin**. This marks the second consecutive quarter in which management has raised guidance.
- We largely maintain our FY26/FY27/FY28 earnings estimates as we have already built in similar growth for the company. **We reiterate a BUY rating with a TP of INR1,330** premised on 45x Sep'27E EPS (rolled forward from FY27E EPS).

Bloomberg	AVALON IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	70.9 / 0.8
52-Week Range (INR)	1318 / 578
1, 6, 12 Rel. Per (%)	-8/20/76
12M Avg Val (INR M)	523

Financials & Valuations (INR b)

Y/E Mar	FY26E	FY27E	FY28E
Sales	14.7	19.1	23.9
EBITDA	1.6	2.3	3.0
Adj. PAT	1.0	1.7	2.3
EBITDA Margin (%)	11.0	11.8	12.5
Cons. Adj. EPS (INR)	15.3	25.0	34.1
EPS Gr. (%)	59.6	63.4	36.5
BV/Sh. (INR)	107.7	132.7	166.9

Ratios

Net D:E	0.0	(0.0)	(0.1)
RoE (%)	15.3	20.8	22.8
RoCE (%)	14.0	19.8	22.5

Valuations

P/E (x)	69.3	42.4	31.0
EV/EBITDA (x)	43.3	30.9	23.1

Shareholding Pattern (%)

As on	Sep-25	Jun-25	Sep-24
Promoter	44.5	44.6	50.7
DII	22.9	22.0	23.7
FII	10.0	8.7	3.0
Others	22.7	24.7	22.6

Note: FII includes depository receipts

Margins impacted by expenses related to future growth initiatives

- AVALON's consolidated revenue grew 39% YoY to INR3.8b (est. INR3.3b), driven by growth in both the domestic (up 31% YoY) and US (up 44% YoY) businesses. Consolidated EBITDA surged 28% YoY to INR386m, while EBITDA margin contracted 90bp YoY to 10.1% (est. 11.1%).
- The segmental mix for Clean Energy/Mobility/Transportation/Industrials/Communication/Medical and Others stood at 18%/28%/36%/10%/8% in 2QFY26 compared to 20%/27%/30%/8%/15% in FY25.
- The total order book stood at INR30.3b, with the short-term order book (executable within 14 months) at INR18.6b (up 25.5% YoY & 4.1% QoQ) and the longer executable order book (from 14 months up to three years) at INR11.7b.
- Gross debt as of Sep'25 was INR1.3b vs. INR1.4b as of Mar'25. Net working capital days increased to 131 from 124 as of Mar'25, on account of higher inventory days (up 15 days).
- In 1HFY26, consolidated revenue/EBITDA/adj. PAT grew 49%/99%/2.6x to INR7.1b/INR685m/INR392m. For 2HFY26, implied revenue/EBITDA/PAT growth is ~23%/24%/29% YoY.

Highlights from the management commentary

- Working capital:** Inventory levels were temporarily elevated (by 15 days) to support the ramp-up of new programs scheduled in 3Q and 4Q FY26. Large upcoming programs include: Energy storage systems (ESS) in the US, locomotive engine subsystems, and aerospace cabin sub-assemblies. The company expects working capital days to be ~120-130 in 2HFY26.
- Segments:** AVALON's growth is well-diversified across sectors. Energy storage is scaling rapidly, contributing 20-25% of revenue. Aerospace and railways posted 59% and 58% YoY growth in 1HFY26, with major ramp-ups due in FY26. Semiconductor prototyping starts in FY27, marking the company's entry into advanced tech manufacturing. Industrial and mobility segments continue to drive the domestic momentum, ensuring strong, multi-year growth visibility.
- US tariffs:** The company has paid over 50 unique tariffs over the last six months on account of different products supplied to the US. Of this, it was able to recover over 99% of the tariffs from customers. The dual-shore (US + India) model provides resilience and flexibility amid tariff changes for the company.

Valuation and view

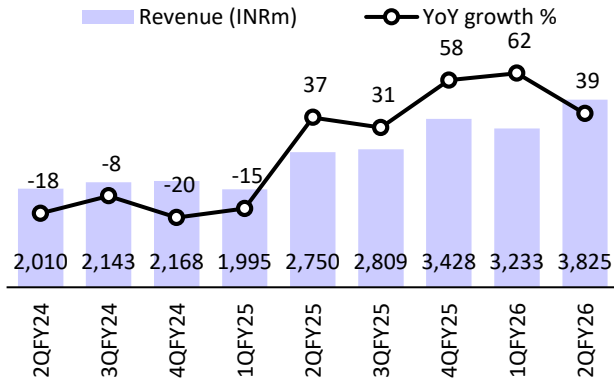
- With the company witnessing growth across both the Indian and US businesses, we expect its revenue and profitability to maintain a robust momentum, as reflected in its revised guidance and strong margin commentary for the near term.
 - Further, the company's long-term revenue trajectory is anticipated to remain strong, backed by: 1) its entry into the semiconductor equipment manufacturing space, 2) strategic collaborations leading to higher margins, 3) strong order book visibility across segments, and 4) India's emergence as a manufacturing base, supported by structural reforms and government policies.
 - We estimate AVALON to post a 30%/39%/53% CAGR in revenue/EBITDA/adj. PAT over FY25-FY28 on account of strong growth and healthy order inflows.
- Reiterate BUY with a TP of INR1,330 (premised on 45x Sep'27E EPS).**

Consolidated - Quarterly Earning Model

Y/E March	(INR m)											
	FY25				FY26				FY25	FY26	FY26E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	%
Gross Sales	1,995	2,750	2,809	3,428	3,233	3,825	3,454	4,216	10,981	14,728	3,300	16
YoY Change (%)	-15.2	36.8	31.1	58.1	62.1	39.1	23.0	23.0	26.6	34.1	20.0	
Total Expenditure	1,951	2,449	2,462	3,014	2,934	3,438	3,049	3,681	9,876	13,103	2,934	
EBITDA	44	301	346	414	299	386	406	535	1,105	1,626	367	5
Margins (%)	2.2	11.0	12.3	12.1	9.2	10.1	11.7	12.7	10.1	11.0	11.1	
Depreciation	66	69	74	77	85	89	91	93	286	357	85	
Interest	42	37	45	42	38	41	30	19	167	127	30	
Other Income	44	39	100	32	17	79	60	65	215	221	60	
PBT before EO expense	-20	234	327	326	193	336	345	488	867	1,362	312	
PBT	-20	234	327	326	193	336	345	488	867	1,362	312	
Tax	3	60	87	83	51	86	88	124	233	349	79	
Rate (%)	-14.5	25.4	26.7	25.5	26.4	25.6	25.5	25.5	26.8	25.7	25.5	
Reported PAT	-23	175	240	243	142	250	257	363	634	1,012	232	
Adj PAT	-23	175	240	243	142	250	257	363	634	1,012	232	8
YoY Change (%)	NA	140.1	264.7	243.8	NA	42.9	7.1	49.7	126.7	59.6	32.8	
Margins (%)	-1.2	6.4	8.5	7.1	4.4	6.5	7.4	8.6	5.8	6.9	7.0	

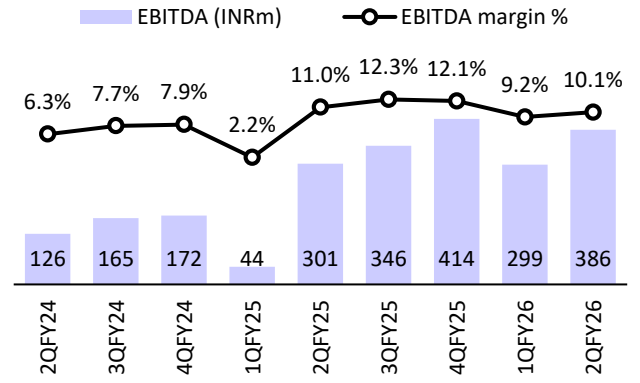
Key exhibits

Exhibit 1: Consolidated revenue trend



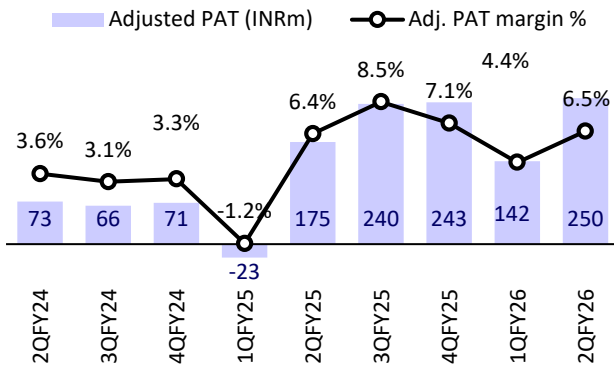
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



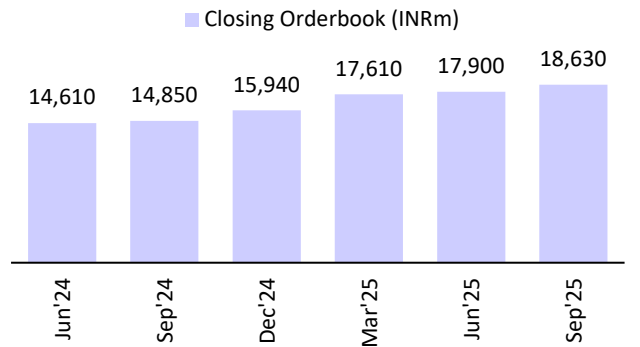
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



Source: Company, MOFSL

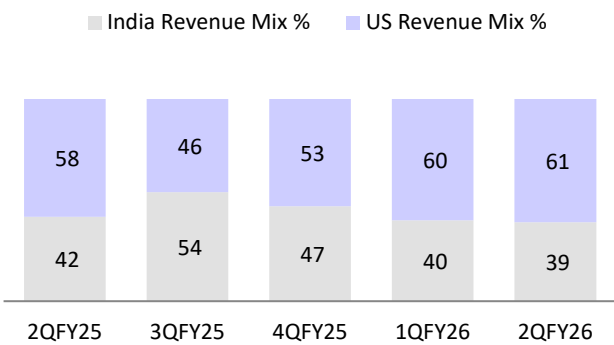
Exhibit 4: Order book trend



Note: Short-term order book

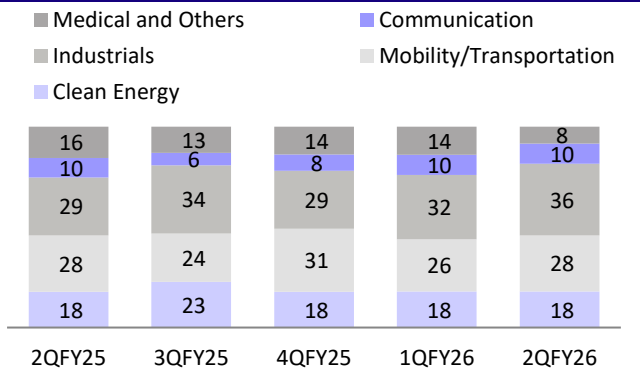
Source: Company, MOFSL

Exhibit 5: Region mix



Source: Company, MOFSL

Exhibit 6: End-user industry mix



Source: Company, MOFSL



Highlights from the management commentary

Guidance and outlook

- AVALON has revised its revenue guidance upwards to 28-30% (vs earlier 23-25%), driven by strong execution, healthy order book, and operational efficiency.
- It targets to double its revenue over the next three years, i.e., by FY27.
- The company is targeting a revenue mix of 50-50% in domestic-export markets.
- Segment revenue contribution is expected to remain intact.
- AVALON is expecting WC days of 120-130 days for FY26.
- It has inventory ramp-up planned to support various programs in 3/4QFY26.
- The company expects 80-20% mix for India-US facilities for 3/4QFY26.

Operating performance

- Both India and the US recorded strong YoY growth of ~30% and 46%, respectively, led by diversified performance among verticals.
- India's manufacturing contribution rose to 81%, delivering healthy EBITDA and PAT margins of 14.1% and 10.9%, respectively.
- The US manufacturing facility reported an EBITDA of INR50m (vs INR130m YoY); the facility is benefitting from operating leverage and expects breakeven in the next few quarters.
- Box-build accounted for 53% of the total revenue in 1HFY26.
- AVALON reported ROCE improvement to 18.4% and asset turnover of 8.7 due to capital utilization and continued efficiency.
- The company reported high growth in the Mobility and Industrial segments in the domestic market.
- AVALON's gross margin contracted due to a change in the product mix.
- Operating leverage is expected to support margin expansion in the US.
- As of Sep'25, gross debt stood at INR1.29b, while cash and investments totaled INR686.6m.
- Order book growth was well-balanced and diversified across the industry, verticals, and geographies.
- AVALON onboarded three large customers in India during the quarter, spanning the Power, Industrial, and Defense sectors. Activity is expected to continue in 3Q/4QFY26.
- AVALON's aerospace business reported revenue growth of 59% YoY in 1HFY26, driven by a rapid increase in local manufacturing content.
- AVALON's railway business reported revenue growth of 58% in 1HFY26, driven by new customer additions and expanded product lines.

New avenues

- On the semiconductor front, AVALON is anticipating volume ramp-up in FY27.
- Zepco Investment: Customers are starting to engage in design activity on the power side. The company has also launched a second project focused on motors for drones in the Indian market. This investment aims to secure design contracts over the next ~18 months, followed by long-term manufacturing opportunities.

Energy Storage Systems (ESS)

- The ESS vertical is progressing well, with production ramp-up underway and major scaling expected over the next 12 months. It remains a key growth engine, contributing 20–25% of revenue, currently growing ~34% YoY. The segment benefits from strong US customer demand and AVALON's dual-shore model.

Aerospace

- Aerospace continues to gain traction, with 1HFY26 revenue rising 59% YoY. Cabin sub-assemblies are under the first article inspection, with full production ramp-up targeted for 1HCY26. The company is leveraging India's rising aerospace localization, which provides long-term visibility and steady recurring revenue.

Railways

- The railway vertical has maintained a strong momentum, growing 58% YoY in 1HFY26. The locomotive engine subsystem production will commence in 2HFY26, while the Kavach train protection system has completed testing and will enter commercial production next year. Expansion in product lines and new customer additions continue to drive growth.

Semiconductor Equipment

- AVALON's entry into this segment marks a move toward advanced technology manufacturing. Prototyping is underway, with volume production expected in FY27. The company has partnered with a leading global semiconductor player for box-build manufacturing, positioning it in a high-value, high-complexity niche.

Industrial & Mobility

These remain key domestic growth drivers alongside railways. The company is seeing strong traction from power and industrial clients, with multiple new India-based customers expected to contribute meaningfully in upcoming quarters.

US tariffs

- AVALON reported that 99% of tariffs were recovered from customers, driven by deep understanding with customers and long-term position in US markets
- The company is closely monitoring updates and focusing on Made in India products.

Other

- In 2QFY26, AVALON secured AS9100D (aerospace quality certification for PCBA and chemical processing).
- The company's manufacturing facilities in India and the US are helping secure foreign clients, as production increasingly shifts to India.
- The export-focused Chennai plant has commenced production and is ramping up steadily. To meet rising domestic demand, the company is progressing well to complete Phase 2 of its brownfield expansion in Chennai by the end of 3QFY26.

Valuation and view

- With the company witnessing growth across both the Indian and US businesses, we expect its revenue and profitability to maintain robust momentum, as reflected in its revised guidance and strong margin commentary for the near term.
- Further, the company’s long-term revenue trajectory is anticipated to remain strong, backed by: 1) its entry into the semiconductor equipment manufacturing space, 2) strategic collaborations leading to higher margins, 3) strong order book visibility across segments, and 4) India’s emergence as a manufacturing base, supported by structural reforms and government policies.
- We estimate AVALON to post a 30%/39%/53% CAGR in revenue/EBITDA/adj. PAT over FY25-FY28 on account of strong growth and healthy order inflows. **Reiterate BUY with a TP of INR1,330 (premised on 45x Sep’27E EPS).**

Exhibit 7: Changes to our estimates

Earnings change (INR m)	Old			New			Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	14,204	18,465	23,082	14,728	19,147	23,934	4%	4%	4%
EBITDA	1,661	2,234	2,978	1,626	2,259	2,992	-2%	1%	0%
Adj. PAT	1,034	1,625	2,235	1,012	1,654	2,259	-2%	2%	1%

Financials and valuations

Consolidated - Income Statement									(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	6,419	6,905	8,407	9,447	8,672	10,981	14,728	19,147	23,934
Change (%)	NA	7.6	21.8	12.4	-8.2	26.6	34.1	30.0	25.0
RM Cost	4,128	4,574	5,552	6,067	5,545	7,055	9,580	12,446	15,557
Employees Cost	1,162	1,192	1,314	1,605	1,815	1,986	2,773	3,255	3,949
Other Expenses	484	478	566	647	685	836	750	1,187	1,436
Total Expenditure	5,774	6,243	7,432	8,319	8,046	9,876	13,103	16,888	20,942
% of Sales	90.0	90.4	88.4	88.1	92.8	89.9	89.0	88.2	87.5
EBITDA	645	662	975	1,128	626	1,105	1,626	2,259	2,992
Margin (%)	10.0	9.6	11.6	11.9	7.2	10.1	11.0	11.8	12.5
Depreciation	155	158	172	197	229	286	357	384	436
EBIT	490	504	803	931	397	819	1,268	1,876	2,556
Int. and Finance Charges	450	270	248	348	164	167	127	48	16
Other Income	113	54	309	144	148	215	221	383	479
PBT bef. EO Exp.	153	288	864	727	381	867	1,362	2,210	3,018
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	153	288	864	727	381	867	1,362	2,210	3,018
Total Tax	30	58	183	202	101	233	349	556	760
Tax Rate (%)	19.4	19.9	21.1	27.8	26.5	26.8	25.7	25.2	25.2
Minority Interest	8	16	50	0	0	0	0	0	0
Reported PAT	115	215	632	525	280	634	1,012	1,654	2,259
Adjusted PAT	115	215	632	525	280	634	1,012	1,654	2,259
Change (%)	NA	86.1	193.9	-16.9	-46.7	126.7	59.6	63.4	36.5
Margin (%)	1.8	3.1	7.5	5.6	3.2	5.8	6.9	8.6	9.4

Consolidated - Balance Sheet									(INRm)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	15	16	16	116	131	132	132	132	132
Preference Capital	356	388	388	0	0	0	0	0	0
Total Reserves	450	584	856	5,254	5,342	5,983	6,995	8,650	10,908
Net Worth	822	988	1,260	5,370	5,473	6,115	7,128	8,782	11,040
Minority Interest	-431	-317	0	0	0	0	0	0	0
Total Loans	2,388	2,775	2,789	3,063	1,642	1,800	800	400	0
Deferred Tax Liabilities	-263	0	0	0	15	19	19	19	19
Capital Employed	2,515	3,445	4,049	8,433	7,129	7,934	7,946	9,200	11,059
Gross Block	1,126	1,335	1,512	1,861	2,285	2,950	3,283	3,750	4,243
Less: Accum. Deprn.	139	295	390	586	815	1,101	1,458	1,842	2,278
Net Fixed Assets	987	1,041	1,123	1,275	1,470	1,849	1,825	1,908	1,965
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	27	0	20	153	196	104	271	304	311
Total Investments	24	0	0	0	755	349	349	349	349
Current Investments	0	0	0	0	755	332	332	332	332
Curr. Assets, Loans&Adv.	3,197	4,084	4,738	10,375	6,886	8,096	8,707	10,805	13,641
Inventory	1,553	1,458	2,330	3,179	3,163	3,379	4,331	5,456	6,606
Account Receivables	1,138	1,819	1,774	2,062	1,869	3,160	3,228	3,934	4,918
Cash and Bank Balance	266	335	101	4,222	1,065	1,015	264	266	681
Loans and Advances	241	472	532	912	789	542	884	1,149	1,436
Curr. Liability & Prov.	1,719	1,680	1,831	3,370	2,178	2,465	3,206	4,166	5,207
Account Payables	1,369	1,289	1,242	1,418	974	1,894	1,969	2,557	3,197
Other Current Liabilities	216	253	449	1,823	1,048	422	1,031	1,340	1,675
Provisions	134	138	141	130	156	149	206	268	335
Net Current Assets	1,478	2,404	2,906	7,005	4,708	5,631	5,501	6,639	8,434
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	2,516	3,445	4,049	8,433	7,129	7,934	7,946	9,200	11,059

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)									
EPS	2.0	3.7	10.9	9.1	4.3	9.6	15.3	25.0	34.1
Cash EPS	4.7	6.4	13.9	12.5	7.7	13.9	20.7	30.8	40.7
BV/Share	14.2	17.0	21.7	92.7	83.3	92.4	107.7	132.7	166.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	531.8	285.8	97.3	117.0	248.8	110.5	69.3	42.4	31.0
Cash P/E	227.0	164.9	76.5	85.1	136.9	76.2	51.2	34.4	26.0
P/BV	74.8	62.2	48.8	11.4	12.7	11.5	9.8	8.0	6.4
EV/Sales	9.8	9.2	7.6	6.4	8.0	6.4	4.8	3.7	2.9
EV/EBITDA	97.9	96.1	65.7	53.4	111.0	63.9	43.3	30.9	23.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	8.4	-2.4	-0.4	-7.0	-2.8	-3.2	2.4	1.0	5.3
Return Ratios (%)									
RoE	14.1	23.8	56.2	15.8	5.2	10.9	15.3	20.8	22.8
RoCE	15.1	12.8	22.5	12.4	5.2	10.1	14.0	19.8	22.5
RoIC	21.4	17.7	20.2	17.7	6.4	10.4	13.9	18.3	21.2
Working Capital Ratios									
Fixed Asset Turnover (x)	5.7	5.6	5.9	5.6	4.2	4.2	4.7	5.4	6.0
Asset Turnover (x)	1.5	1.3	1.4	0.8	0.9	1.1	1.3	1.4	1.5
Inventory (Days)	98	120	125	166	209	169	165	160	155
Debtor (Days)	65	78	78	74	83	84	80	75	75
Creditor (Days)	87	106	83	80	79	74	75	75	75
Leverage Ratio (x)									
Current Ratio	1.9	2.4	2.6	3.1	3.2	3.3	2.7	2.6	2.6
Interest Cover Ratio	1.1	1.9	3.2	2.7	2.4	4.9	10.0	39.1	159.9
Net Debt/Equity	2.6	2.5	2.1	-0.2	0.0	0.1	0.0	0.0	-0.1

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	153	288	856	727	381	867	1,362	2,210	3,018
Depreciation	155	158	180	197	229	286	357	384	436
Interest & Finance Charges	434	222	209	244	113	143	-93	-335	-463
Direct Taxes Paid	-47	-35	-125	-189	-164	-194	-349	-556	-760
(Inc)/Dec in WC	-121	-561	-805	-1,125	-414	-883	-621	-1,136	-1,380
CF from Operations	574	72	315	-147	145	218	656	567	852
Others	83	-17	-158	13	28	32	0	0	0
CF from Operating incl EO	657	55	157	-133	173	250	656	567	852
(Inc)/Dec in FA	-170	-192	-177	-273	-355	-462	-500	-500	-500
Free Cash Flow	487	-137	-21	-406	-182	-212	156	67	352
(Pur)/Sale of Investments	-24	29	0	0	-1,121	955	0	0	0
Others	2	-104	-6	2	15	44	221	383	479
CF from Investments	-192	-267	-184	-271	-1,461	538	-279	-117	-21
Issue of Shares	0	73	0	798	8	15	0	0	0
Inc/(Dec) in Debt	-296	461	158	128	-1,580	122	-1,000	-400	-400
Interest Paid	-426	-217	-189	-283	-88	-111	-127	-48	-16
Dividend Paid	-4	-37	-38	-37	-41	-52	0	0	0
Others	302	22	-138	3,915	-807	-497	0	0	0
CF from Fin. Activity	-424	301	-207	4,522	-2,508	-523	-1,127	-448	-416
Inc/Dec of Cash	42	89	-234	4,118	-3,796	265	-751	2	415
Opening Balance	204	246	335	101	4,219	423	1,015	264	266
Other cash & cash equivalent	20	0	0	3	643	328	0	0	0
Closing Balance	266	335	101	4,222	1,065	1,015	264	266	681

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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