



Avalon Technologies is one of the leading fully integrated Electronic Manufacturing Services with a wide range of product portfolio. The company largely generates its revenues from the United States (~63% of revenues), catering to the sunrise industries such as clean tech, power automation, mobility. The company has an order book of INR 1190 crores as on November 2022 with a customer base of 80. Overall, EMS(Electronic Manufacturing Services) is expected to grow at a CAGR of 32% to reach INR 4500 billion from the current INR1469 billion. Its debt to equity ratio seems to be above average of its industry peers. However, its unique offering and B2B model help Avalon with long term relationships with its diverse customers, ensuring incremental order book and steady margin. We recommend to SUBSCRIBE for long term.



About Company

Avalon Technologies Limited is one of the leading fully integrated Electronic Manufacturing Services (“EMS”) companies with end to end operations in delivering box build solutions in India with a focus on high value precision engineered products. The company provides a full stack product and solution suite , right from printed circuit board(“PCB”) design and assembly to the manufacture of complete electronics systems (“Box Build”) to certain global original equipment manufacturers (“OEMs”), including OEMs located in the US, China and Japan.

Issue details

| | |
|--|-------------------|
| Price Band (in ₹ per share) | 415-436 |
| Issue size (in ₹ Crore) | 865 |
| Fresh Issue (in ₹ Crore) | 320 |
| OFS (in ₹ Crore) | 545 |
| Issue open date | 03-04-2023 |
| Issue close date | 06-04-2023 |
| Tentative date of Allotment | 12-04-2023 |
| Tentative date of Listing | 18-04-2023 |
| Total number of shares (lakhs) | 208.43-198.39 |
| No. of shares for QIBs (75%) (lakhs) | 156.33-148.80 |
| No. of shares for NII (15%) (lakhs) | 31.26-29.75 |
| No. of shares for retail investors (10%) (lakhs) | 20.84-19.84 |
| Minimum order quantity | 34 |
| Face value (in ₹) | 2.00 |
| Amount for retail investors (1 lot) | 14,110-14,824 |
| Maximum number of shares for Retail investors at lower Band | 476(14 Lots) |
| Maximum number of shares for Retail investors at upper band | 442(13 Lots) |
| Maximum amount for retail investors at lower Band- upper band (in ₹) | 1,97,540-1,92,712 |
| Exchanges to be listed on | BSE, NSE |

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Promoters

1. Kunhamed Bicha
2. Bhaskar Srinivasan

Objective of the Offer

1. Repayment/Prepayment, in full or part, of certain borrowings availed of by the company
2. Funding the working capital requirements
3. Sale of shares upto 7,545,872 shares by the promoter group



Brief Financials

| Particulars (Rs. Cr)* | NOV 22 (8M) | FY22 | FY21 | FY20 |
|------------------------|-------------|--------|--------|--------|
| Share Capital | 11.34 | 1.60 | 1.60 | 1.53 |
| Net Worth | 147.83 | 87.19 | 59.95 | 46.57 |
| Revenue from Operation | 584.79 | 840.72 | 690.47 | 641.87 |
| PBT | 47.39 | 86.43 | 28.83 | 15.30 |
| PAT | 34.19 | 68.16 | 23.08 | 12.33 |
| Basic EPS(Rs) | 9.15^ | 11.30 | 4.01 | 2.21 |
| NAV | 26.37 | 15.60 | 11.19 | 8.93 |
| P/E# | 47.65 | 38.58 | NA | NA |
| P/B # | 16.53 | 27.95 | NA | NA |

Source: RHP # Calculated at the upper price band, * Restated consolidated financials ^Annualised EPS

Industry Review

Global Electronics Industry

Chart 2.1: Global electronics industry size, value in USD billion, growth in %, CY2016-CY2026E



The global electronics industry was valued at USD 2,494 billion in CY2021. As per Frost & Sullivan’s analysis, the industry is expected to grow at a CAGR of 4.9% to reach USD 3,168 billion by CY2026. Some of the critical factors driving this growth are increasing disposable income, higher internet penetration, inclination of the youth towards next generation technologies, the emergence of e-commerce etc.

Chart 2.1: Global electronics industry size, value in USD billion, growth in %, CY2016-CY2026E





Industry Review

Per capita consumption of electronics in major economies

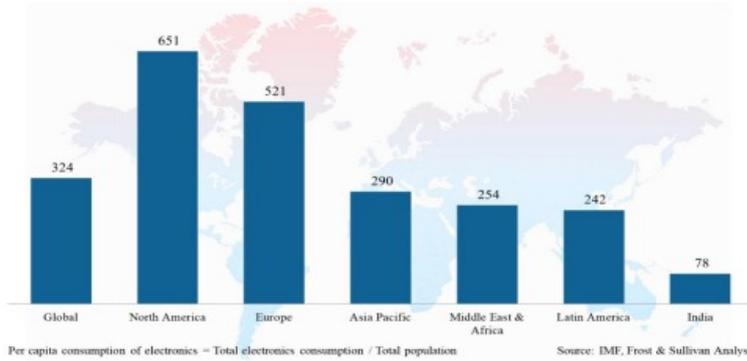
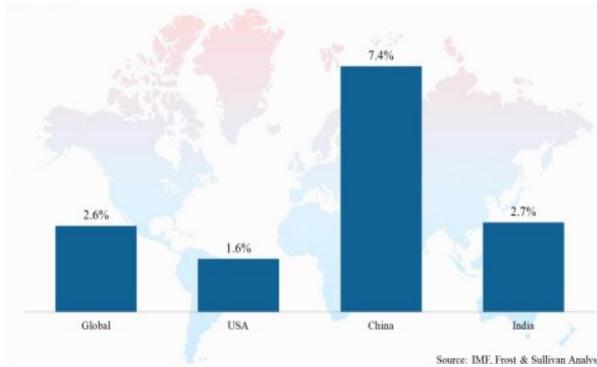


Chart 2.3: Electronics manufacturing contribution to GDP for major countries (U.S., China, India), contribution in %, CY2021



PCBA is at the core of every electronic device: mobile phones, computers, tablets, routers, televisions, washing machines, refrigerators and air conditioners. Furthermore, PCBA constitutes a substantial portion of the cost of an electronic device, ranging from 10% to 50% of the bill of materials. Considering the cost implications and the universal use of PCBs in electronic devices, the development of manufacturing capabilities for PCBA is a must for a complete electronics manufacturing ecosystem. The PCBA market was valued at USD 590 billion in 2021 and is expected to reach USD 740 billion in 2026. The market is expected to grow at a CAGR of 4.6% to 2026.



Industry Review

Indian Electronics industry

Electronics is one of the fastest growing industries in the country. The total electronics market (domestic electronics production and imports of finished goods) in India was valued at INR 9,263 billion (USD 124 billion) in FY22, and is expected to grow at a CAGR of 17.9% to reach INR 17,902 billion (USD 240 billion) in FY26. The landscape of the industry is changing significantly, and revised cost structures have shifted the focus of multinational companies onto India.

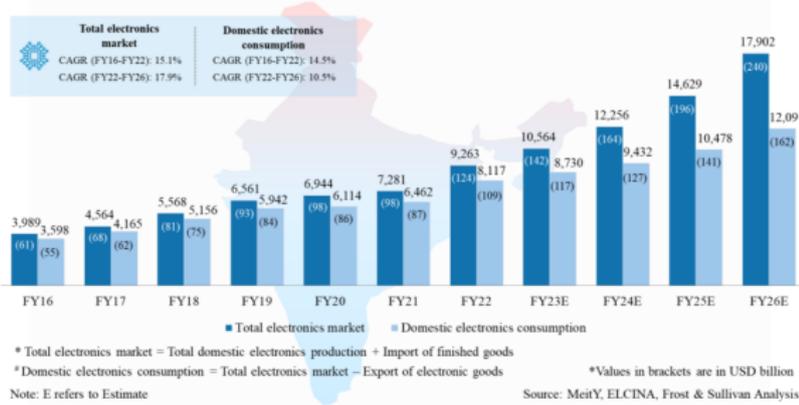
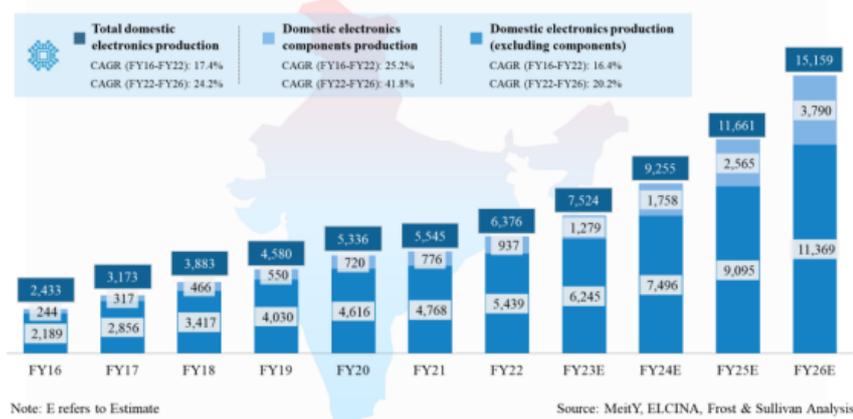


Chart 4.2: Indian electronics market - Split between domestic production, imports and exports, value in INR billion, USD billion, growth in %, FY16-FY26E



Chart 4.3: Indian domestic electronics production market (including and excluding components), value in INR billion, FY16-FY26E





Industry Review

Chart 4.11: Indian EMS market, value in INR billion, USD billion, growth in %, FY16-FY26E

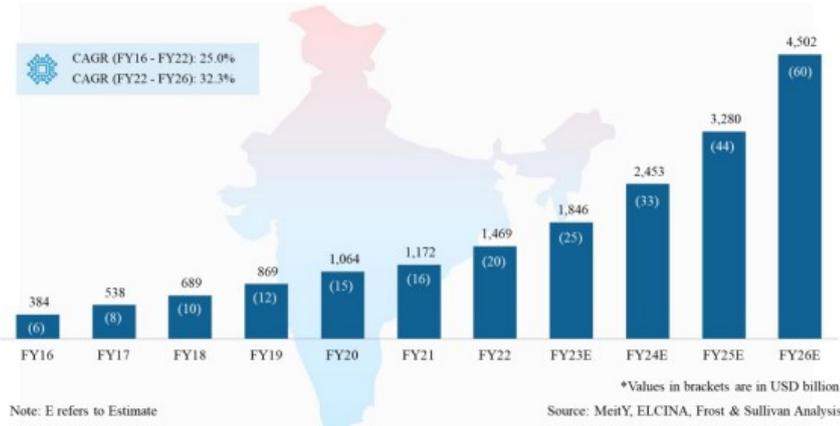
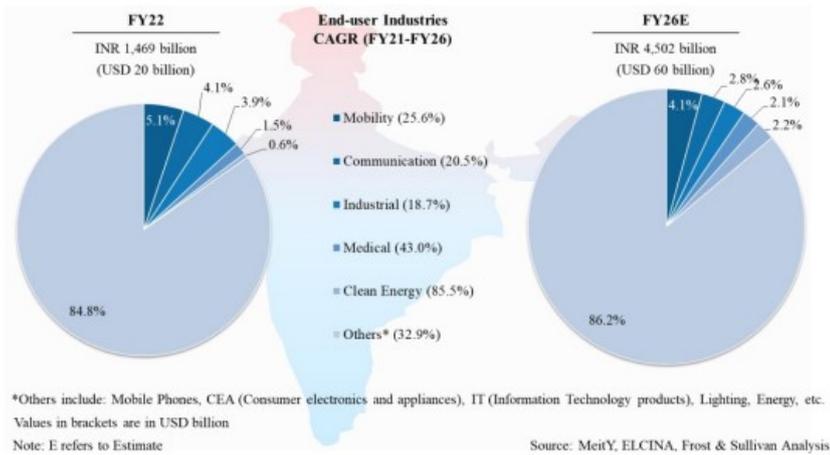


Chart 4.13: Indian EMS market - Segmentation by end-user industries (segment of interest), value in INR billion, USD billion, growth in %, FY22 and FY26E





Competitive Strengths

End-to-end integrated solutions, providing a “One Stop Shop” for electronics and electro-mechanical design and manufacturing services –

With a focus on their customers’ needs, they offer an integrated and well diversified solution suite comprising PCB design and assembly, manufacture of cable assembly and wire harnesses, sheet metal fabrication, sheet metal machining, plastic injection molding, magnetics, and electro-mechanical integration, which combined allow them to offer end-to-end box build solutions. They are one of the few EMS companies in India, that offer one-stop services from PCB design and analysis to new product development (“NPD”) and subsequent volume production (source: F&S Report). They focus on NPD as a means to build long-term customer relationships. They are able to support NPD initiatives by virtue of their diversified offerings and ability to catalyze transformation of products from the prototype stage to production.

High entry barriers to business through collective cross-industry experience, customer engagement capabilities and leading position in the high mix flexible volume product manufacturing segment -

They believe that, given the depth and nature of their engagement with longstanding customers, their customers would not find it easy to switchover to alternative EMS providers as the cost, time and effort for such transitions is high. Particularly in the case of engagements with long lifecycle industries such as power, railways, aerospace, medical, etc. (source: F&S Report), they have expended resources to penetrate the market and sustain the business.

Well-diversified business leading to strong growth avenues-

They are well diversified and are present in virtually every major industry vertical, including clean energy, mobility, industrial, communication and medical (source: F&S Report). They service a variety of industries, including the power, clean energy, railways, aerospace and medical industries, which according to the F&S Report are characterized by long life cycles. This diversified industry presence hedges against global market and industry cycle volatilities (source: F&S Report). They have also penetrated sunrise industries such as clean energy with presence in the solar, hydrogen, and electric vehicles industries. In Fiscal 2022 and in the eight months ended November 30, 2022, clean energy accounted for 20.28% and 23.36% of sales, respectively. They also cater to industries which require high precision manufacturing, including aerospace, defense and medical.

Established relationships with marquee customer base –

The product portfolio has helped them forge strong relationships with major clients. They have established and will continue to focus on strengthening longstanding relationships with well-known customers across the end-use industries that they cater to. They have a number of reputed multinational companies as the customers across industry vertical, thus indicating the quality of client base. The varied applications of the products have helped them build a wide customer base across many end-use industries. This is complemented by a strong client value delivery process, with strong focus on up-selling and cross-selling. For instance, they were awarded a new product development order for cable harnesses by an entity in motor and drive technology. They were thereafter able to move up the value chain to provide PCB assemblies as well, due to their performance and relationship building skills.



Risk Factors

Inability to meet contractual obligations-

They source raw material from suppliers, primarily on purchase order basis, who may not perform their contractual obligations in a timely manner, or at all. Any increase in the cost of raw material or components, delay, shortage, interruption or reduction in the supply of raw materials and major production inputs to manufacture products may adversely affect their business, results of operations, cash flows and financial condition.

Inability to identify the ongoing trends -

They may not be able to successfully develop new production processes and adopt new original design manufacturing capabilities if they are unable to identify emerging trends and are not able to predict customer preferences.

Inability to attract skilled manpower–

Their continued success is dependent on the senior management and skilled manpower. Their inability to attract and retain sufficient number of skilled manpower and key personnel or the loss of services of senior management may have an adverse effect on the business prospects.



Peer Comparison

| Name of the Company | Total Income (Crores) | FV | Basic EPS | NAV | P/E * | P/B* | ROE | ROCE |
|-------------------------------|-----------------------|-------|-----------|--------|-------|-------|--------|--------|
| Avalon Technologies Ltd. | 840.72 | 2.00 | 11.30 | 15.60 | 38.58 | 27.95 | 85.86% | 27.41% |
| Dixon Technology (India) Ltd. | 10697.08 | 2.00 | 32.31 | 167.73 | 87.59 | 16.87 | 21.93% | 22.50% |
| Amber Enterprise India Ltd. | 4206.40 | 10.00 | 32.41 | 514.70 | 56.09 | 3.53 | 6.54% | 8.54% |
| Syrma SGS Technology Ltd | 1266.65 | 10.00 | 5.25 | 41.57 | 49.52 | 6.25 | 13.04% | 16.20% |
| Kaynes Technology India Ltd. | 706.25 | 10.00 | 9.70 | 43.89 | 99.24 | 21.93 | 24.29% | 25.60% |

**P/E & P/B ratio based on closing market price as on Mar 29th, 2023, At the upper price band of IPO, financial details consolidated audited results as on FY22.*



Our View

Avalon Technologies is one of the leading fully integrated Electronic Manufacturing Services with a wide range of product portfolio. The company largely generates its revenues from the United States (~63% of revenues), catering to the sunrise industries such as clean tech, power automation, mobility. The company has an order book of INR 1190 crores as on November 2022 with a customer base of 80. Overall, EMS(Electronic Manufacturing Services) is expected to grow at a CAGR of 32% to reach INR 4500 billion from the current INR1469 billion. Its debt to equity ratio seems to be above average of its industry peers. However, its unique offering and B2B model help Avalon with long term relationships with its diverse customers, ensuring incremental order book and steady margin. We recommend to SUBSCRIBE for long term.

Source– Company, RHP, CBSL



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