

IPO Report

Choice

“SUBSCRIBE” to

Avalon Technologies Ltd.

Present in sunrise sector with varied product application across sectors



Salient features of the IPO:

- Electronic manufacturing services firm **Avalon Technologies Ltd.** (Avalon), is coming up with an IPO to raise around Rs. 865cr, which opens on 3rd Apr. and closes on 6th Apr. 2023. The price band is Rs. 415 - 436 per share.
- The IPO is a combination of fresh and OFS portion. The company will not receive any proceeds from the OFS part. From the fresh issue net proceeds, Rs. 145cr will be utilized for the repayment/prepayment of the borrowings and Rs. 90cr will be used for funding the working capital requirement. Further, residual funds will be used for general corporate purposes.
- Avalon in consultation with the BRLMs has undertaken two pre-IPO placements i.e. 0.08cr equity shares at issue price of Rs. 375.8 per share (aggregating to Rs. 30cr) to UNIFI Financial Pvt. Ltd. on 20th Oct. 2022 and 0.117cr shares at issue price of Rs. 426.1 per share (aggregating to Rs. 50cr) to Ashoka India Equity Investment Trust Plc. on 20th Feb. 2023. Consequently, the fresh issue is reduced from Rs. 400cr (as per DRHP) to current Rs. 320cr.
- Few of the promoter & promoter group entities are participating in the OFS and offloading 0.755cr equity shares. Pre-IPO, the promoter & promoter group had 70.75% stake in Avalon, which will get reduced to 51.24% post the conclusion of the IPO. Accordingly, the public stake will increase to 48.76% in the company.

Key competitive strengths:

- End-to-end integrated solutions, providing a "One-Stop-Shop" for electronics & electro-mechanical design and manufacturing services
- 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
- Well-diversified business leading to strong growth avenues
- Established relationships with marquee customer base
- Global delivery footprint with high quality standards and advanced manufacturing & assembly capabilities
- Strong financial performance, stable cash flows and visible growth profile
- Experienced board, management and operating team

Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Continued disruption in the supply of semiconductors across the globe
- Unfavorable forex currency movements
- Delayed execution and expansion of order book
- Difficulty in maintaining the profitability
- Competition

Below are the key highlights of the company:

- Electronics manufacturing is divided into two categories i.e. products that are produced in-house by original equipment manufacturers (OEM) and those that are produced by the electronic manufacturing services (EMS) companies. In 2021, in-house electronic manufacturers accounted for around 65% of the global electronics market, which stood at USD 2,494bn. EMS companies traditionally manufactured electronic products, predominantly assembling components on printed circuit boards (PCB) and box-builds for OEMs. Nowadays, OEMs are seeing more value from EMS companies leading to involvement beyond just manufacturing services to product design & development, testing and aftersales services (repair, re-manufacturing, marketing and product lifecycle management).

Issue details

Price band	Rs. 415 - 436 per share
Face value	Rs. 2
Shares for fresh issue	0.734 - 0.771cr shares
Shares for OFS	1.250 - 1.313cr shares
Fresh issue size	Rs. 320cr
OFS issue size	Rs. 545cr
Total issue size	1.984 - 2.084cr shares (Rs. 865cr)
Bidding date	3 rd Apr. - 6 th Apr. 2023
Implied MCAP at higher price band	Rs. 2,847cr
Implied enterprise value at higher price band	Rs. 2,758cr
Book running lead manager	JM Financial Ltd., DAM Capital Advisors Ltd., IIFL Securities Ltd. and Nomura Financial Advisory & Securities (India) Pvt. Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Electronics Manufacturing Services
Promoters	Mr. Kunhamed Bicha and Mr. Bhaskar Srinivasan

Issue break-up

Category	Percent of issue (%)	Number of shares
QIB portion	75%	1.488 - 1.563cr shares
Non institutional portion (Big)	10%	0.198 - 0.208cr shares
Non institutional portion (Small)	5%	0.099 - 0.104cr shares
Retail portion	10%	0.198 - 0.208cr shares

Indicative IPO process time line

Finalization of basis of allotment	12 th Apr. 2023
Unblocking of ASBA account	13 th Apr. 2023
Credit to demat accounts	17 th Apr. 2023
Commencement of trading	18 th Apr. 2023

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	70.75%	51.24%
Public	29.25%	48.76%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	34
Application money	Rs. 14,824 per lot

Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return				TTM total operating revenue (Rs. cr)	TTM EBITDA (Rs. cr)	TTM PAT (Rs. cr)	TTM gross margin	TTM EBITDA margin	TTM PAT margin
					1 M	3 M	6 M	1 Y						
Avalon Technologies Ltd.	2	436	2,847	2,758					884.1	107.3	59.3	36.3%	12.1%	6.7%
Amber Enterprises India Ltd.	10	1,791	6,034	6,334	-4.1%	-8.2%	-17.7%	-50.2%	5,861.2	339.7	110.4	15.6%	5.8%	1.9%
Dixon Technologies (India) Ltd.	2	2,806	16,714	16,814	1.0%	-28.8%	-33.2%	-34.4%	12,079.3	474.6	237.8	9.3%	3.9%	2.0%
Elin Electronics Ltd.	5	136	673	752	-8.0%				1,093.8	79.0	39.2	69.1%	7.2%	3.6%
Kaynes Technology India Ltd.	10	947	5,504	5,652	8.4%	31.2%			706.2	95.2	41.7	53.3%	13.5%	5.9%
Syrma SGS Technology Ltd.	10	256	4,526	4,644	-4.2%	-6.4%	-6.6%		1,019.7	96.6	55.5	-4.2%	9.5%	5.4%
Average												28.6%	8.0%	3.8%

Company name	3Y revenue growth (CAGR)	3Y EBITDA growth (CAGR)	3Y PAT growth (CAGR)	3Y average EBITDA margin	3Y average PAT margin	3Y capital employed growth (CAGR)	3Y CFO growth (CAGR)	3Y average working capital cycle (Days)	3Y average fixed asset turnover (x)	3Y average total asset turnover (x)	3Y average RoE	3Y average RoIC
Avalon Technologies Ltd.	14.4%	23.0%	93.4%	10.4%	3.3%	79.1%	-54.1%	90.3	6.8	1.2	23.2%	41.5%
Amber Enterprises India Ltd.	3.0%	-5.5%	-17.0%	7.2%	3.1%	9.5%	-7.0%	18.6	2.9	1.0	8.5%	8.4%
Dixon Technologies (India) Ltd.	55.9%	30.0%	25.6%	4.4%	2.3%	47.5%	7.2%	0.9	10.4	2.5	21.0%	19.4%
Elin Electronics Ltd.	18.0%	19.4%	45.2%	7.3%	3.3%	25.9%	-17.0%	45.1	5.7	1.9	11.7%	13.4%
Kaynes Technology India Ltd.	38.5%	49.8%	109.5%	11.7%	3.6%	40.8%	-31.7%	100.8	5.5	1.0	12.3%	22.3%
Syrma SGS Technology Ltd.	60.2%	18.0%	12.4%	12.6%	7.9%	150.1%	-54.1%	21.4	4.1	0.9	22.0%	23.1%
Average	35.1%	22.3%	35.2%	8.7%	4.1%	54.8%	-20.5%	37.4	5.7	1.5	15.1%	17.3%

Company name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio (x)	Fixed asset turnover ratio (x)	Total asset turnover ratio (x)	RoE	RoCE	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning yield
Avalon Technologies Ltd.	9.1	73.4	0.0	0.7	7.7	0.9	12.4%	46.4%	48.0	5.9	3.1	25.7	3.2	2.1%
Amber Enterprises India Ltd.	32.8	514.7	0.0	0.6	3.6	1.2	6.4%	13.1%	54.7	3.5	1.1	18.6	1.0	1.8%
Dixon Technologies (India) Ltd.	39.9	167.4	1.0	0.4	11.8	2.8	23.9%	30.5%	70.3	16.8	1.4	35.4	1.4	1.4%
Elin Electronics Ltd.	7.9	61.0	0.0	0.3	5.8	2.1	12.9%	18.9%	17.2	2.2	0.7	9.5	0.6	5.8%
Kaynes Technology India Ltd.	7.2	34.8	0.0	0.8	6.8	1.1	20.6%	34.4%	132.0	27.2	8.0	59.4	7.8	0.8%
Syrma SGS Technology Ltd.	3.1	32.4	0.0	0.3	2.4	0.8	9.7%	12.6%	81.5	7.9	4.6	48.1	4.4	1.2%
Average			0.2	0.5	6.1	1.6	14.7%	21.9%	71.1	11.5	3.1	34.2	3.1	2.2%

Note: TTM financial data for Avalon is as on Nov. 2023, while for others it is as of Dec. 2023; Source: Choice Broking Research

- The global EMS market was estimated at USD 880bn in 2021, is expected to grow at 5.4% CAGR to reach a size of USD 1,145bn in 2026. The India EMS market, mainly leveraging the on-going shift in the geo-political conditions, manufacturing cost arbitrage and tailwinds from various government policies (like Aatmanirbhar Bharat and the PLI Scheme) is expected to grow by +30% CAGR over FY22-26 to reach a size of USD 60bn (from USD 20bn in FY22).
- In terms of revenue in FY22, Avalon is one of the leading fully integrated EMS companies with end-to-end operations in delivering box-build solutions in India (Source: RHP). Through its unique global delivery model, the company provides a full stack product & solution suite, right from PCB design & assembly to end-to-end box-build of electronic systems to certain global OEMs located in the US, China, Netherlands and Japan. Its other capabilities include cable assembly & wire harnesses, sheet metal fabrication, machining, magnetics and injection molded plastics.
- Avalon specializes in manufacturing and providing design support for critical integrated assemblies, sub-assemblies, components and enclosures for multiple sectors. The end-use sectors the company caters to include a mix of established and long product lifecycle businesses, such as industrial, mobility and medical devices; and high growth "sunrise" sectors such as solar, electric vehicles and hydrogen in the clean energy sector and digital infrastructure in the communications sector.
- Based on the applications, it generated 30%, 26.6% and 20.3% of the total income from the Industrials, Mobility/Transportation and Clean Energy space, respectively, in FY22. While the Communications and Medical sector contributed 7.7 and 7.2%, respectively. Based on the services provided, Box-build, PCB and Cables services contributed 44.5%, 35.2% and 10.1%, respectively.
- Its unique global delivery model comprises of design and manufacturing capabilities across both India and the US. Avalon is the only Indian EMS company with full-fledged manufacturing facilities in the US, which gives it a unique competitive advantage in the North American markets. It has 12 manufacturing units located across the United States (two units) and India (10 units). The company's manufacturing footprint gives customers an option to buy directly from India or through its US subsidiary or through a hybrid model (i.e. end product integrated in the US, while component/sub-assembly level manufacturing carried out in India) thereby leveraging India's manufacturing cost arbitrage. These manufacturing facilities cumulatively have 66 production lines, consisting of 11 SMT lines, 12 THT lines and 43 assembly lines, with total installed SMT capacity of 366mn component placements per year in FY22. Additionally, the company is in the process of establishing a new manufacturing facility in Chennai, India.
- Avalon has several global brands as customers both in India and overseas. Some of its marquee customers includes names like Kyosan India Pvt. Ltd., Faiveley Transport Rail Technologies India Pvt. Ltd., TransDigm Technologies India Pvt. Ltd., Zonar Systems Inc. and Collins Aerospace in the Mobility space; Caire Inc. in the Medical sector; e-Infochips Pvt. Ltd. and Haas Automation Inc. in the Industrial sector; TMEIC and Ohmium India Pvt. Ltd. in the Clean Energy sector. Its wide customer base across various sectors reduces the dependence on any one end-use sector and provides a natural hedge against market instability in any specific end-use sector.

Key highlights of the company (Contd...):

- The company has developed a long term relationships with certain of its customers extending upto +7 years. These customers accounted for 80% of the revenue in FY22. Long term customer relationship coupled with wide EMS products & services and with wide applications across the sectors, serves as an entry barrier for any new entrants wishing to provide services similar to Avalon.
- Over FY20-22, Avalon has reported 22.5% CAGR growth in number of clients. As of 30th Nov. 2022, it has 89 active clients, compared to 81 by end of FY22. The company's order book increased by 30.4% CAGR to Rs. 857.9cr in FY22 and further to Rs. 1,190.2cr by the end of Nov. 2022 (i.e. 1.3x of the TTM revenue). Order book from the US stood at Rs. 493.4cr (i.e. 41.5% of the order book by the end of Nov. 2022). Considering its integrated end-to-end operations and wide applications across the sectors, we feel the company will continue to witness strong order inflows in the medium term.
- Avalon has reported a strong operating and financial performance over FY20-22, which can be demonstrated by steady growth in the business and profitability. On the back of higher demand across the product verticals and services, the company reported a 14.4% CAGR rise in total operating revenue to Rs. 840.7cr in FY22. Business from the Box-build, PCBs and Cables (which cumulatively contributed around 90% to the revenue) increased by 14.9%, 13.8% and 24.6%, respectively. Based on the sector-wise end use, business from the Clean Energy, Mobility/Transportation and Industrial (cumulatively contributing around 77% to the revenue) sector increased by 29.7%, 6.1% and 18.4%, respectively. Higher cost of revenue, led to an 184bps contraction in the material margin, which stood at 34.1% in FY22. However, with relatively lower growth in the employee and other expenses, EBITDA margin expanded by 156bps to 11.6% in FY22. Consolidated EBITDA increased by 23% CAGR over FY20-22 to Rs. 97.5cr in FY22. Depreciation charge increased by 5.3% CAGR, while finance cost declined by 25.7% CAGR during the period. The company realized an exception gain of Rs. 20cr, arising from the grants received from the US government during the Covid-19 pandemic times. Consequently, reported PAT increased by 134% CAGR to Rs. 63.2cr in FY22. Adjusting for exceptional items, adjusted PAT increased by 93.4% CAGR with 334bps expansion in the margins to 5.1% in FY22.
- Avalon reported positive operating cash flow during the period, however it declined by 54.1% CAGR. Average operating cash flow stood at Rs. 28.4cr over FY20-22. Consolidated financial liabilities increased by 7.5% CAGR, while higher profitability led to an improvement in debt-to-equity ratio from 6x in FY20 to 3.7x in FY22. Pre-issue average RoIC and RoE stood at 49.7% and 36.7%, respectively.
- During 8M FY23, consolidated top-line increased by 8% Y-o-Y to Rs. 584.8cr, while EBITDA and PAT margin expanded by 87bps and 251bps, respectively, to 11.6% and 5.8%. On TTM basis, top-line stood at Rs. 884.1cr with EBITDA and PAT margin of 12.1% and 6.7%, respectively, compared to 11.6% and 5.1%, respectively, in FY22.
- Avalon is planning to raise Rs. 400cr (including pre-IPO placements) from this IPO. Around 60% of the net proceeds from the fresh issue will be utilized for the repayment/prepayment of the borrowings availed by the company. With the conclusion of the IPO and application of the net proceeds, debt-to-equity ratio is likely to be at 0.3-0.5x, compared to pre-issue levels of 3.7x.
- Based on quick conservative estimate, over FY22-24E, we are forecasting a 18.5% CAGR growth in top-line to Rs. 1,179.8cr in FY24E. EBITDA margin is likely to contract by 64bps to 11%, while lower finance costs would expand the PAT margin by 102bps to 6.2% in FY24E. Post-issue RoIC is expected to be flat at around 10.5%, while RoE is expected to expand from 9% in FY22 to 12% by FY24E.

Peer comparison and valuation: At higher price band, Avalon is demanding an EV/TTM Sales multiple of 3.1x, which is at discount to the peer average of 6.3x. Based on our FY24E forecasts, the demanded EV/Sales is around 2.3x, which seems to be attractive for a company like Avalon, which is operating in high-growth EMS space. Thus, we assign a “**SUBSCRIBE**” rating for the issue.

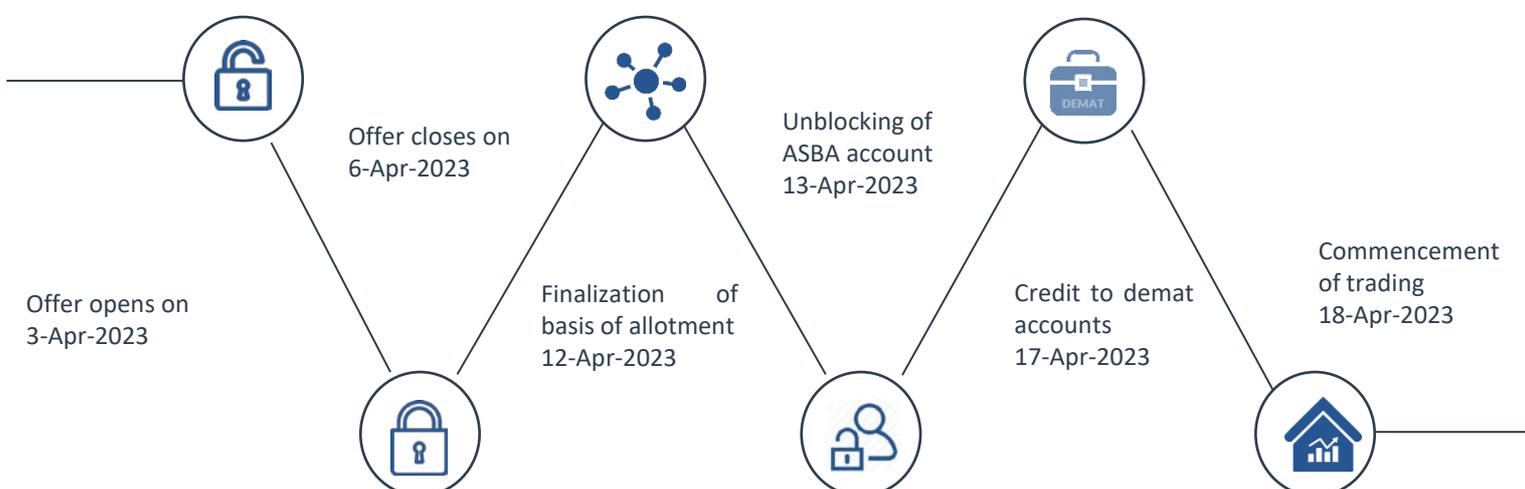
About the issue:

- Avalon is coming up with an IPO with 1.984 - 2.084cr shares (fresh issue: 0.734 - 0.771cr shares; OFS shares: 1.250 - 1.313cr shares) in offering. This offer represents 30.39 - 31.74% of the post issue paid-up equity shares of the company. Total IPO size is Rs. 865cr.
- The issue will open on 3rd Apr. 2023 and close on 6th Apr. 2023.
- The issue is through book building process with a price band of Rs. 415 - 436 per share.
- Lot size comprises of 34 equity shares and in multiple of 34 shares thereafter.
- The IPO is a combination of fresh and OFS portion. The company will not receive any proceeds from the OFS part. From the fresh issue net proceeds, Rs. 145cr will be utilized for the repayment/prepayment of the borrowings and Rs. 90cr will be used for funding the working capital requirement. Further, residual funds will be used for general corporate purposes.
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- 75% of the net issue are reserved for qualified institutional buyers, while 15% and 10% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter group currently holds 100.00% stake in the company and post-IPO this will come down to 65.93%. Public holding will increase from current nil to 34.07%.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	70.75%	51.24%
Public	29.25%	48.76%

Source: Choice Equity Broking

Indicative IPO process time line:



Pre-issue financial performance:

Performance over FY20-22: Avalon has reported a strong operating and financial performance over FY20-22, which can be demonstrated by steady growth in the business and profitability.

On the back of higher demand across the product verticals and services, the company reported a 14.4% CAGR rise in total operating revenue to Rs. 840.7cr in FY22. Business from the Box-build, PCBs and Cables (which cumulatively contributed around 90% to the revenue) increased by 14.9%, 13.8% and 24.6%, respectively. Based on the sector-wise end use, business from the Clean Energy, Mobility/Transportation and Industrial (cumulatively contributing around 77% to the revenue) sector increased by 29.7%, 6.1% and 18.4%, respectively.

Higher cost of revenue, led to an 184bps contraction in the material margin, which stood at 34.1% in FY22. However, with relatively lower growth in the employee and other expenses, EBITDA margin expanded by 156bps to 11.6% in FY22. Consolidated EBITDA increased by 23% CAGR over FY20-22 to Rs. 97.5cr in FY22.

Depreciation charge increased by 5.3% CAGR, while finance cost declined by 25.7% CAGR during the period. The company realized an exception gain of Rs. 20cr, arising from the grants received from the US government during the Covid-19 pandemic times. Consequently, reported PAT increased by 134% CAGR to Rs. 63.2cr in FY22. Adjusting for exceptional items, adjusted PAT increased by 93.4% CAGR with 334bps expansion in the margins, which stood at 5.1% in FY22.

Avalon reported positive operating cash flow during the period, however it declined by 54.1% CAGR. Average operating cash flow stood at Rs. 28.4cr over FY20-22. Consolidated financial liabilities increased by 7.5% CAGR, while higher profitability led to an improvement in debt-to-equity ratio from 6x in FY20 to 3.7x in FY22. Pre-issue average RoIC and RoE stood at 49.7% and 36.7%, respectively.

Performance during 8M FY23: Consolidated top-line increased by 8% Y-o-Y to Rs. 584.8cr, while EBITDA and PAT margin expanded by 87bps and 251bps, respectively, to 11.6% and 5.8%.

On TTM basis, top-line stood at Rs. 884.1cr with EBITDA and PAT margin of 12.1% and 6.7%, respectively, compared to 11.6% and 5.1%, respectively, in FY22.

Pre-issue consolidated financial snapshot (Rs. cr)	FY20	FY21	FY22	8M FY22	8M FY23	TTM	CAGR over FY20-22	Y-o-Y (FY22 annual)
Sales of products	615.7	639.6	771.8	501.5	530.8	801.1	12.0%	20.7%
Sale of services	25.4	50.0	67.5	39.0	52.6	81.2	62.9%	35.1%
Other operating revenue	0.8	0.9	1.4	0.9	1.3	1.9	34.7%	60.6%
Revenue from operations	641.9	690.5	840.7	541.4	584.8	884.1	14.4%	21.8%
Gross profit	230.6	234.5	286.6	183.0	217.0	320.5	11.5%	22.2%
EBITDA	64.5	66.1	97.5	58.3	68.1	107.3	23.0%	47.5%
Reported PAT	11.5	21.5	63.2	37.9	34.2	59.4	134.0%	193.9%
Adjusted PAT	11.5	21.5	43.2	18.0	34.2	59.3	93.4%	100.9%
Restated adjusted EPS	1.8	3.3	6.6	2.8	5.2	9.1	93.4%	100.9%
Cash flow from operating activities	65.7	5.5	13.9	23.2	(1.5)	(10.9)	-54.1%	151.3%
NOPLAT	39.5	40.4	63.4	37.2	40.1	66.5	26.7%	57.1%
FCF		(23.2)	10.0		(41.3)			
RoIC (%)	77.9%	35.6%	35.6%	27.2%	15.9%	26.4%	(4,235) bps	(1) bps
Revenue growth rate		7.6%	21.8%		8.0%			
Gross profit growth rate		1.7%	22.2%		18.5%			
Gross profit margin	35.9%	34.0%	34.1%	33.8%	37.1%	36.3%	(184) bps	13 bps
EBITDA growth rate		2.6%	47.5%		16.8%			
EBITDA margin	10.0%	9.6%	11.6%	10.8%	11.6%	12.1%	156 bps	202 bps
EBIT growth rate		2.9%	59.4%		18.3%			
EBIT margin	7.6%	7.3%	9.6%	8.7%	9.5%	10.1%	193 bps	226 bps
Restated adjusted PAT growth rate		86.2%	100.9%		89.5%			
Restated adjusted PAT margin	1.8%	3.1%	5.1%	3.3%	5.8%	6.7%	334 bps	202 bps
Inventory days	88.3	79.6	82.2	99.4	127.2	127.9	-3.5%	3.3%
Debtor days	64.7	78.2	78.0	62.1	71.2	71.6	9.8%	-0.2%
Payable days	(77.2)	(69.6)	(53.4)	(51.8)	(49.9)	(50.2)	-16.8%	-23.3%
Cash conversion cycle	75.8	88.1	106.8	109.7	148.5	149.4	18.7%	21.2%
Fixed asset turnover ratio	6.3	6.6	7.4	5.5	4.1	6.3	7.8%	11.0%
Total asset turnover ratio	1.4	1.3	1.4	1.0	0.8	1.3	0.1%	6.1%
Current ratio	0.9	1.0	1.2	1.1	1.3	1.3	16.4%	13.7%
Quick ratio	0.4	0.6	0.6	0.5	0.5	0.5	13.9%	-10.9%
Total debt	280.7	324.9	324.6	295.4	361.9	361.9	7.5%	-0.1%
Net debt	254.1	291.3	314.5	276.4	350.0	350.0	11.3%	7.9%
Debt to equity	6.0	5.4	3.7	3.1	2.4	2.4	-21.4%	-31.3%
Net debt to EBITDA	3.9	4.4	3.2	4.7	5.1	3.3	-9.5%	-26.8%
RoE (%)	24.8%	35.9%	49.5%	19.0%	23.1%	40.1%	2,474 bps	1,366 bps
RoA (%)	2.6%	4.2%	7.3%	3.3%	4.9%	8.4%	478 bps	315 bps
RoCE (%)	82.0%	46.4%	42.0%	32.4%	21.4%	34.1%	(4,006) bps	(440) bps

Note: Pre-IPO financial and ratios; Source: Choice Equity Broking

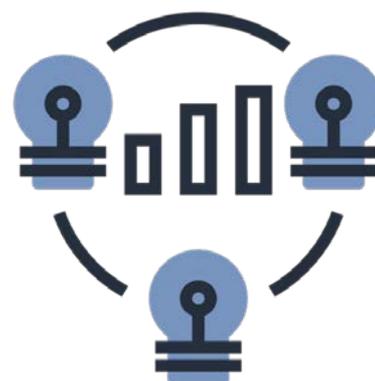


Competitive strengths:

- End-to-end integrated solutions, providing a “One-Stop-Shop” for electronics & electro-mechanical design and manufacturing services
- 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
- Well-diversified business leading to strong growth avenues
- Established relationships with marquee customer base
- Global delivery footprint with high quality standards and advanced manufacturing & assembly capabilities
- Strong financial performance, stable cash flows and visible growth profile
- Experienced board, management and operating team

Business strategy:

- Sustaining and catering to high growth sunrise sectors such as clean energy and emerging communication technologies
- Consolidate and expand position in global markets for existing industry verticals
- Creating high growth opportunities for the existing offerings
- Focus on expanding local manufacturing presence in largest markets, namely the United States and India by leveraging country specific government policy initiatives
- Continue to build on hybrid model of delivery leveraging access to high value market and low cost production base
- Invest in expanding technological capabilities and manufacturing capacities



Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Continued disruption in the supply of semiconductors across the globe
- Unfavorable forex currency movements
- Delayed execution and expansion of order book
- Difficulty in maintaining the profitability
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)								
	FY20	FY21	FY22	8M FY22	8M FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Revenue from operations	641.9	690.5	840.7	541.4	584.8	884.1	14.4%	21.8%
Cost of raw materials consumed	(429.0)	(435.6)	(560.8)	(373.2)	(381.5)	(569.1)	14.3%	28.7%
Changes in inventories of finished goods, work-in-progress	17.7	(20.4)	6.7	14.9	13.7	5.5	-38.7%	-132.7%
Gross profit	230.6	234.5	286.6	183.0	217.0	320.5	11.5%	22.2%
Employee benefits expense	(116.2)	(119.2)	(131.4)	(87.5)	(103.6)	(147.5)	6.3%	10.2%
Other expenses	(49.9)	(49.1)	(57.7)	(37.3)	(45.3)	(65.7)	7.5%	17.4%
EBITDA	64.5	66.1	97.5	58.3	68.1	107.3	23.0%	47.5%
Depreciation and amortization expenses	(15.5)	(15.7)	(17.2)	(11.2)	(12.4)	(18.4)	5.3%	9.2%
EBIT	49.0	50.4	80.4	47.1	55.6	88.9	28.1%	59.4%
Finance costs	(45.0)	(27.0)	(24.8)	(15.7)	(20.5)	(29.6)	-25.7%	-8.0%
Other income	11.3	5.4	10.9	2.3	12.2	20.8	-1.6%	101.5%
Exceptional items			20.0	19.9		0.1		
PBT	15.3	28.8	86.4	53.6	47.4	80.3	137.7%	199.8%
Tax expenses	(3.0)	(5.7)	(18.3)	(11.3)	(13.2)	(20.2)	148.0%	217.9%
PAT before minority interest	12.3	23.1	68.2	42.3	34.2	60.0	135.2%	195.3%
Minority interest	(0.8)	(1.6)	(5.0)	(4.4)	(0.6)	(0.6)	152.2%	214.7%
Reported PAT	11.5	21.5	63.2	37.9	34.2	59.4	134.0%	193.9%
Adjusted PAT	11.5	21.5	43.2	18.0	34.2	59.3	93.4%	100.9%

Consolidated balance sheet statement (Rs. cr)								
	FY20	FY21	FY22	8M FY22	8M FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Equity share capital	1.5	1.6	1.6	1.6	11.3	11.3	2.2%	0.0%
Instruments entirely equity in nature					3.5	3.5		
Other equity	45.0	58.3	85.6	93.3	133.0	133.0	37.9%	46.7%
Minority interest	(43.1)	(31.7)		(27.7)		0.0		
Non-current borrowings	53.2	90.1	86.9	74.7	81.6	81.6	27.8%	-3.6%
Non-current lease liabilities	20.5	15.6	17.0	12.9	31.5	31.5	-9.0%	9.1%
Non-current provisions	7.2	7.7	8.6	8.8	10.7	10.7	9.5%	11.2%
Other non-current liabilities	1.9	0.6	2.0	0.4	0.8	0.8	0.4%	226.4%
Trade payables	135.8	127.5	118.5	116.8	121.5	121.5	-6.6%	-7.0%
Current borrowings	195.3	205.3	207.2	195.2	234.8	234.8	3.0%	0.9%
Current lease liabilities	5.3	5.4	6.6	5.5	6.3	6.3	11.2%	23.0%
Other current financial liabilities	6.3	8.6	7.0	7.1	7.7	7.7	5.0%	-18.6%
Current provisions	1.3	1.2	1.1	1.0	1.3	1.3	-7.7%	-10.1%
Current net tax liabilities	4.9	4.9	4.3	7.3	2.6	2.6	-6.4%	-11.0%
Other current liabilities	14.4	17.5	41.6	43.3	56.5	56.5	70.1%	137.8%
Total liabilities	449.6	512.5	588.0	540.3	703.0	703.0	14.4%	14.7%
Property, plant and equipment	72.0	83.2	89.4	79.8	92.0	92.0	11.5%	7.4%
Intangible assets	0.7	0.8	0.6	0.7	0.6	0.6	-7.4%	-23.1%
Capital work-in-progress	2.7		2.0	0.2	13.5	13.5	-14.2%	
Right-of-use assets	26.0	20.0	22.2	17.3	35.0	35.0	-7.5%	11.0%
Non-current investments	2.4					0.0		
Other non-current financial assets	4.4	4.3	5.3	5.1	5.1	5.1	9.5%	21.5%
Net deferred tax assets	26.2	23.2	16.4	19.2	13.1	13.1	-21.1%	-29.6%
Net tax assets	1.8	0.8	1.7	1.0	1.9	1.9	-1.9%	117.0%
Other non-current assets	0.9	0.4	0.1	2.2	0.3	0.3	-68.6%	-79.1%
Inventories	155.3	145.8	233.0	224.2	309.9	309.9	22.5%	59.8%
Trade receivables	113.8	181.9	177.4	140.1	173.4	173.4	24.9%	-2.5%
Cash and cash equivalents	26.6	33.5	10.1	19.0	11.9	11.9	-38.3%	-69.8%
Other current financial assets	0.9	1.4	1.3	0.7	0.9	0.9	20.5%	-8.3%
Other current assets	16.1	17.0	28.4	30.9	45.6	45.6	32.9%	67.4%
Total assets	449.6	512.5	588.0	540.3	703.0	703.0	14.4%	14.7%

Note: Pre-IPO financials; Source: Choice Equity Broking

Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)								
	FY20	FY21	FY22	8M FY22	8M FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Cash flow before working capital changes	82.5	65.1	111.2	59.3	75.5	127.4	16.1%	70.9%
Working capital changes	(12.1)	(56.0)	(84.8)	(31.5)	(66.6)	(120.0)	164.7%	51.4%
Cash flow from operating activities	65.7	5.5	13.9	23.2	(1.5)	(10.9)	-54.1%	151.3%
Purchase of fixed assets and CWIP	(17.0)	(19.2)	(15.9)	(5.5)	(21.5)	(31.9)	-3.3%	-17.0%
Cash flow from investing activities	(19.3)	(26.3)	(16.6)	(6.2)	(21.4)	(31.7)	-7.3%	-36.9%
Cash flow from financing activities	(42.3)	28.0	(20.8)	(30.8)	25.4	35.4	-29.9%	
Net cash flow	4.2	6.7	(23.6)	(13.2)	2.7	(7.6)		
Opening balance of cash	20.4	24.6	31.3	31.3	7.8	18.1	24.0%	27.4%
Closing balance of cash	24.6	31.3	7.8	18.1	10.5	10.5	-43.8%	-75.2%

Consolidated financial ratios						
Particulars	FY20	FY21	FY22	8M FY22	8M FY23	TTM
Profitability ratios						
Revenue growth rate		7.6%	21.8%		8.0%	
Gross profit growth rate		1.7%	22.2%		18.5%	
Gross profit margin	35.9%	34.0%	34.1%	33.8%	37.1%	36.3%
EBITDA growth rate		2.6%	47.5%		16.8%	
EBITDA margin	10.0%	9.6%	11.6%	10.8%	11.6%	12.1%
EBIT growth rate		2.9%	59.4%		18.3%	
EBIT margin	7.6%	7.3%	9.6%	8.7%	9.5%	10.1%
Restated adjusted PAT growth rate		86.2%	100.9%		89.5%	
Restated adjusted PAT margin	1.8%	3.1%	5.1%	3.3%	5.8%	6.7%
Turnover ratios						
Inventory receivable turnover ratio	4.1	4.6	4.4	2.4	1.9	2.9
Trade receivable turnover ratio	5.6	4.7	4.7	3.9	3.4	5.1
Accounts payable turnover ratio	4.7	5.2	6.8	4.6	4.8	7.3
Fixed asset turnover ratio	6.3	6.6	7.4	5.5	4.1	6.3
Total asset turnover ratio	1.4	1.3	1.4	1.0	0.8	1.3
Return ratios						
RoIC (%)	77.9%	35.6%	35.6%	27.2%	15.9%	26.4%
RoE (%)	24.8%	35.9%	49.5%	19.0%	23.1%	40.1%
RoA (%)	2.6%	4.2%	7.3%	3.3%	4.9%	8.4%
RoCE (%)	82.0%	46.4%	42.0%	32.4%	21.4%	34.1%
Per share data						
Restated adjusted EPS (Rs.)	1.8	3.3	6.6	2.8	5.2	9.1
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0	0.0
BVPS (Rs.)	7.1	9.2	13.4	14.5	22.6	22.6
Operating cash flow per share (Rs.)	10.1	0.8	2.1	3.6	(0.2)	(1.7)
Free cash flow per share (Rs.)		(3.5)	1.5		(6.3)	
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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