

Avalon Technologies Limited

Electronics | India

IPO | 30 March 2023

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Integrated Electronics Manufacturing Services Provider

About the 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. It provides a full stack product and solution suite, from printed circuit board (PCB) design and assembly to the manufacturing of complete electronic systems (Box Build). It supplies to certain global original equipment manufacturers (OEMs), including OEMs located in the United States, China, Netherlands and Japan. Company's capabilities include PCB design and assembly, cable assembly and wire harnesses, sheet metal fabrication and machining, magnetics, injection moulded plastics and end-to-end box build of electronic systems. Avalon caters to multiple end-use industries across industrial, mobility, medical devices, solar, EVs, hydrogen and digital communication and infrastructure. Avalon operates through 12 manufacturing facilities located across India and USA. It has 10 facilities in India with 8 at Chennai and 2 in Bengaluru. The facilities in USA are located at Atlanta and California. The Chennai facilities are located in an SEZ which allows the company to import raw materials without duties as long as the finished products are exported. The 13th facility at Chennai is currently under construction. The company is coming out with an IPO, aggregating to Rs8,650mn comprising of fresh issue of Rs3,200mn and OFS of Rs5,450mn. The price band is Rs415-436 while the post-issue market cap is seen at Rs28.5bn at higher band. The funds will be utilised for debt repayment, funding incremental working capital requirements and for general corporate purposes.

Integrated EMS Player with Diversified Manufacturing Capabilities

Avalon Technologies offers integrated solutions from PCB design and assembly, manufacture of cable assembly and wire harnesses, sheet metal fabrication, sheet metal machining, plastic injection moulding, magnetics and electro-mechanical integration which ultimately enables the company to offer the end-to-end box build solutions. It is the only Indian EMS company having manufacturing facilities in the USA. Each of the manufacturing facilities integrates manufacturing, warehousing and logistics. The electronic manufacturing facilities comprise an aggregate of 66 production lines, consisting of 11 Surface Mount Technology (SMT) lines, 12 Through Hole Technology (THT) lines and 43 assembly lines. It has separate lines for sheet metal fabrication, machining, cable assembly and wire harnesses, magnetics and plastics.

Presence across Multiple End-User Industries

Avalon caters to diverse end-user segments. It offers solutions to clients operating in power, clean energy, railways, aerospace, defence and medical industries. The products supplied to these industries typically involve significant engineering content, stringent technical specifications, high reliability, long lead time for customer acquisition, onboarding, prototyping, OEM approvals and production which creates significant entry barriers for new entrants. Avalon focuses on NPDP (New Product Development) to build long-term customer relationships. The company had 29 customers for its box-build services as of Nov'22, contributing to 48.2% of its operating revenue. It had an average relationship of 8 years, with customers who accounted for 80% of the revenue in 8MFY23.

Financials in Brief

During FY20-22, its revenue has grown at a CAGR of 14%. Operating leverage has led to EBITDA growing at a CAGR of 23% while adj. PAT has grown at a CAGR of 98% due to lower finance costs. For 8MFY23, its revenue stood at Rs5,848mn while EBITDA stood at Rs681mn, EBITDA margin increased to 10.8% in 8MFY23 from average margin of 10.4% during FY20-FY22. Return ratios have improved with RoCE increasing by 220bps to 19.8% over FY20-22. Asset turnover has improved from 6.5x to 7.5x over the same period. Net D/E has also declined from 5.3x in FY20 to 3.5x in FY22. Company's order book has grown from Rs 5,046.7mn in FY20 to Rs 8,578.7mn in FY22 while the number of clients have expanded from 54 to 81 during the same period. Order book has further grown to Rs11,902mn as of Nov'22 while the number of clients have increased to 89.

Our View

On FY23 annualized financials, the IPO is valued at 55.5x P/E at the upper price band which is lower than its peers. The company is an integrated EMS provider with good diversification among end-user industries and clients with strategic manufacturing locations. Its scope of work requires complex designing, engineering, component procurement and manufacturing which creates long lead times and consequently entry barriers. It is also likely to benefit from the 'Make in India' and the PLI schemes of the Govt which promotes local manufacturing of components and electronics systems. The company intends to deleverage further which should further boost profitability and improve return ratios. **Considering the healthy business prospects for the Indian EMS industry, company's high return ratios and similar margins relative to peers and valuation comfort at 55.5x P/E on annualised FY23 financials, we recommend SUBSCRIBE to the issue.**

IPO Details

Price Band (Rs)	415 - 436
Face Value (Rs)	2
Issue Open/Closing Date	3-Apr-23/6-Apr-23
Fresh Issues (mn)	7.3
OFS (mn)	12.5
Total Issue (mn)	19.8
Minimum Bid Qty. (Nos)	34
Issue Size (Rs bn)*	8.65
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)*	28.5

*At higher band

Object of the Issue

- ▶ Repayment of borrowings
- ▶ Funding capex requirements.
- ▶ General corporate purposes.

Key Risk

- ▶ Disruption in the continuous operations of manufacturing facilities.
- ▶ Increase in the cost of raw material or, delay, shortage or reduction in their supply.
- ▶ Significant competitive pressures.
- ▶ Defaults or delays in payment by a significant portion of customers.
- ▶ Foreign exchange fluctuations.
- ▶ Failure to maintain optimal inventory levels.
- ▶ May not be able to successfully develop new production processes and adopt new original design manufacturing capabilities.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	70.8	51.2
Others	29.3	48.8

Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	6,419	6,905	8,407
EBITDA	645	661	975
EBITDA Margin (%)	10.0	9.6	11.6
PAT	123	231	682
PAT Margin (%)	1.9	3.3	8.1
EPS (Rs)	1.9	3.5	10.4
P/E (x)	231.0	123.3	41.8
EV/EBITDA (x)	48.0	47.3	32.3
EV/Sales (x)	4.8	4.5	3.8
Net Worth	34	282	872
RoE (%)	357.7	81.8	78.2
Gross Debt	2,743	3,163	3,177
Net Block	987	1,041	1,123
Net Asset Turnover (x)	6.5	6.6	7.5

Source: RHP

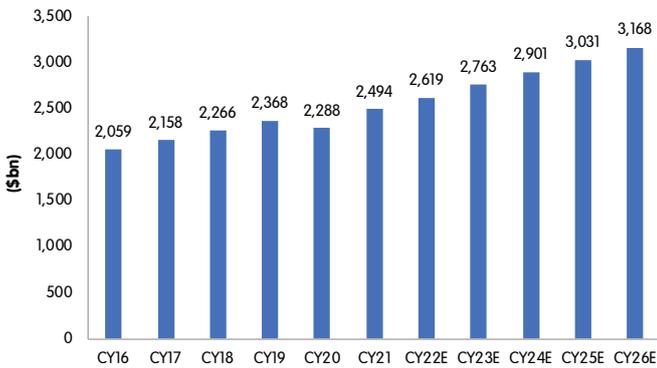
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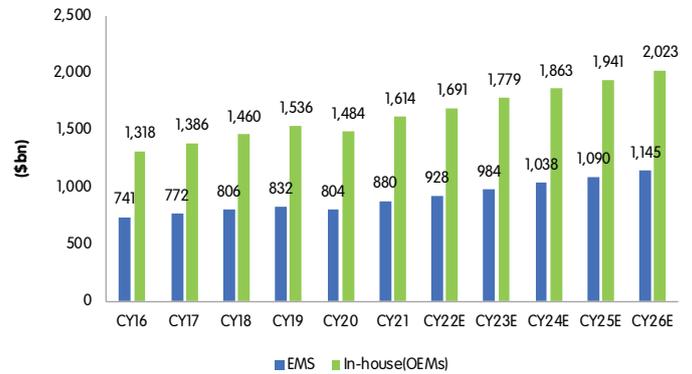
Industry Data

Exhibit 1: Global Electronics Industry (\$bn) CY16-26E



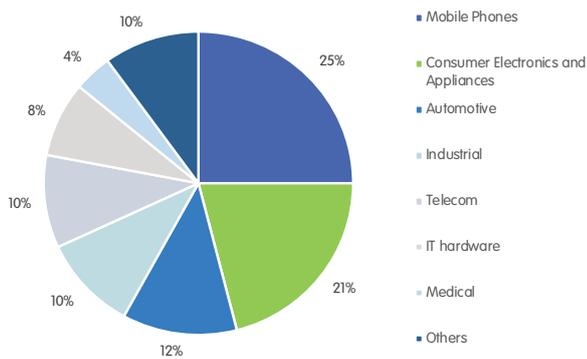
Source: RHP, Statista, New Venture Research, Frost & Sullivan Analysis

Exhibit 2: Global Electronics Manufacturing Market - Split (\$bn), CY16-26E



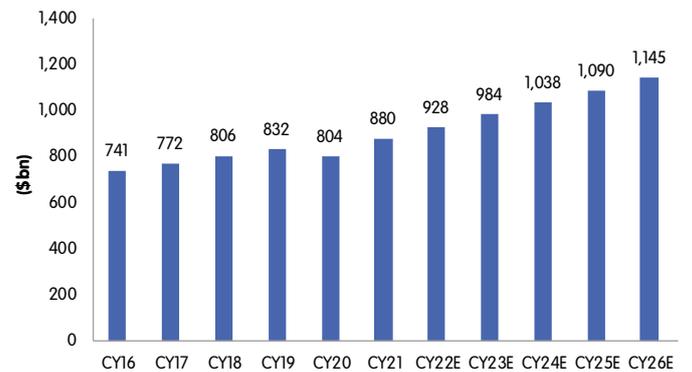
Source: RHP, Statista, New Venture Research, Frost & Sullivan Analysis

Exhibit 3: Electronics Market Segmentation by End-user Industries (CY21)



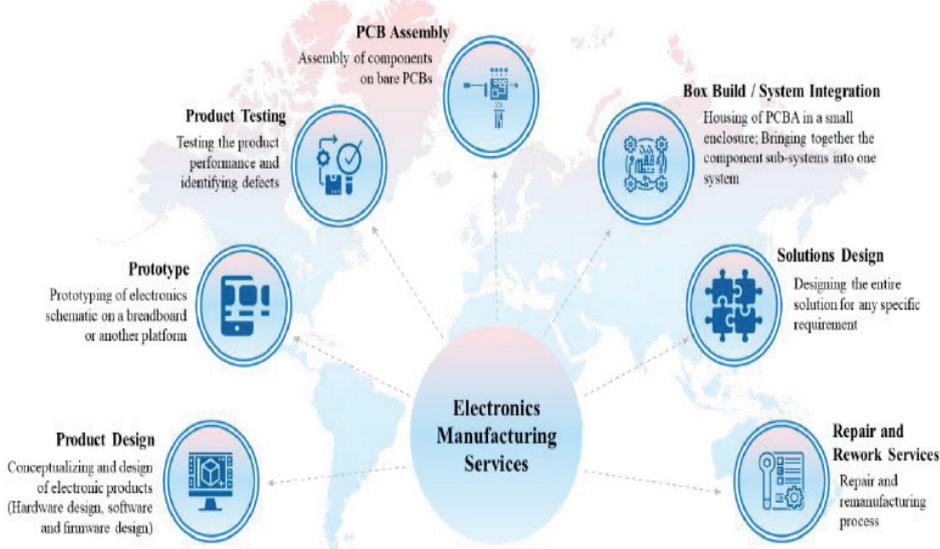
Source: RHP, Statista, New Venture Research, Frost & Sullivan Analysis

Exhibit 4: Global EMS Industry Market Size (\$bn), CY2016-26E



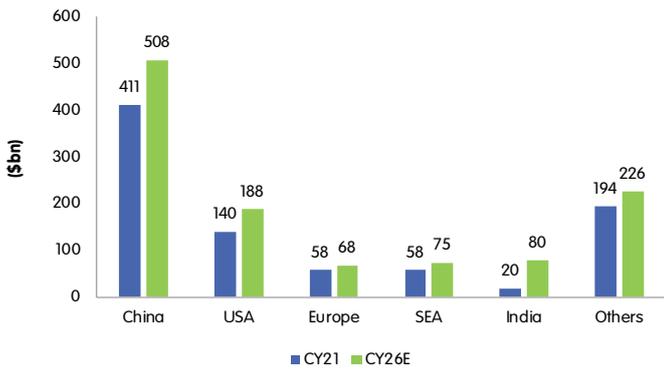
Source: RHP, Statista, New Venture Research, Frost & Sullivan Analysis

Exhibit 5: Range of Services offered by EMS companies, global, CY2021



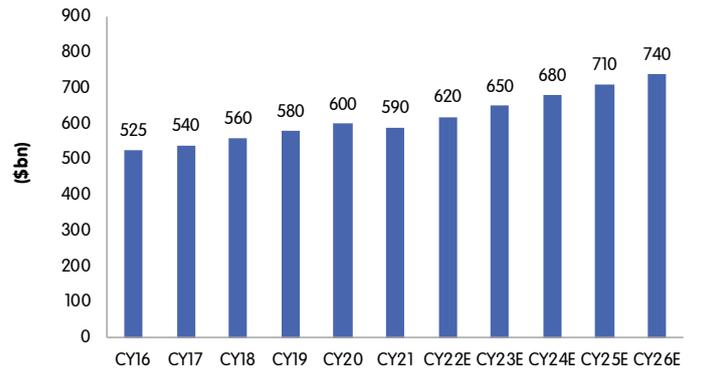
Source: RHP, Frost & Sullivan Analysis

Exhibit 6: Global EMS market - Segmentation by Major Geographies (\$bn)



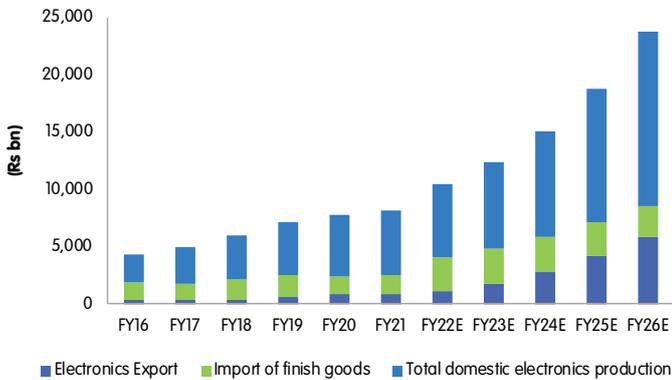
Source: RHP, Frost & Sullivan Analysis

Exhibit 7: Global PCB Assembly Market (\$bn), CY16-26E



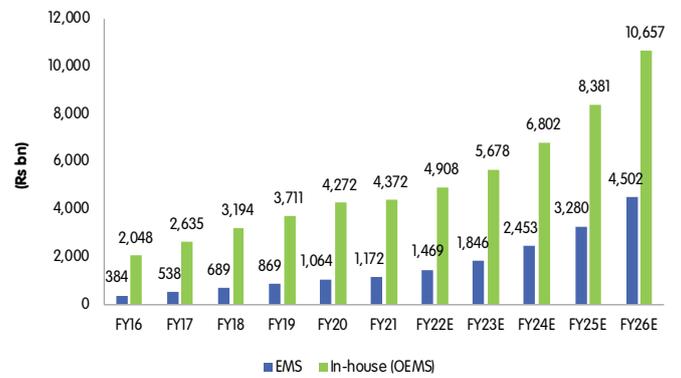
Source: RHP, Statista, Frost & Sullivan Analysis

Exhibit 8: Indian Electronics Market - Split between Domestic Production, Imports and Exports



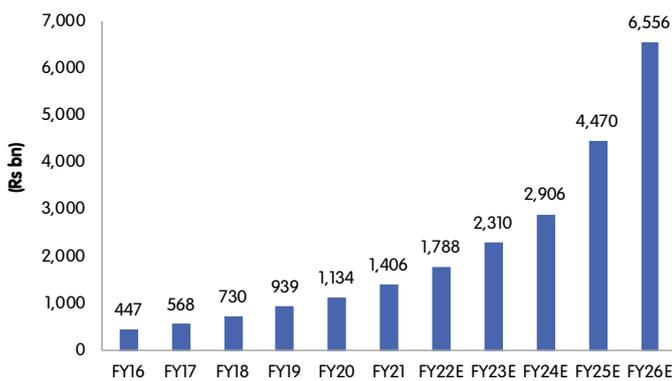
Source: RHP, Meity, ELCINA, Frost & Sullivan Analysis

Exhibit 9: Indian Domestic Electronics Production Market Split



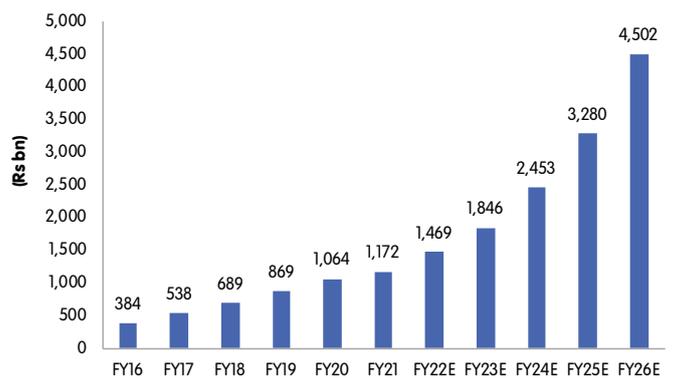
Source: RHP, Meity, ELCINA, Frost & Sullivan Analysis

Exhibit 10: PCB Assembly Market in India



Source: RHP, Statista, Frost & Sullivan Analysis

Exhibit 11: Indian EMS Market



Source: RHP, Statista, Frost & Sullivan Analysis

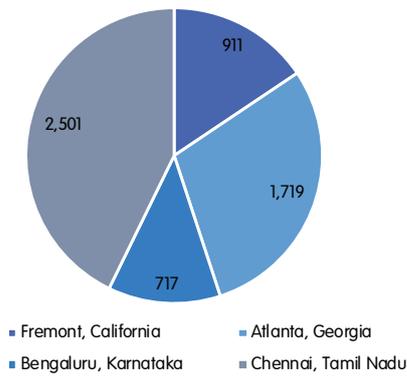
Company Data

Exhibit 12: Diversified Manufacturing Footprint



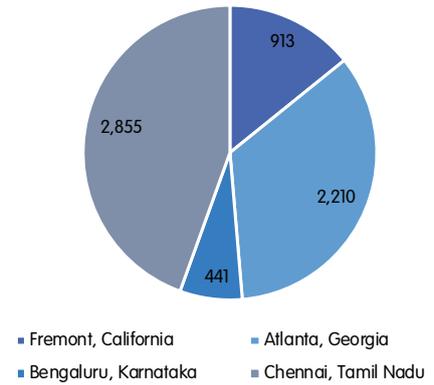
Source: RHP

Exhibit 13: Revenue Contribution from various Facilities (Rs mn) 30-Nov-22



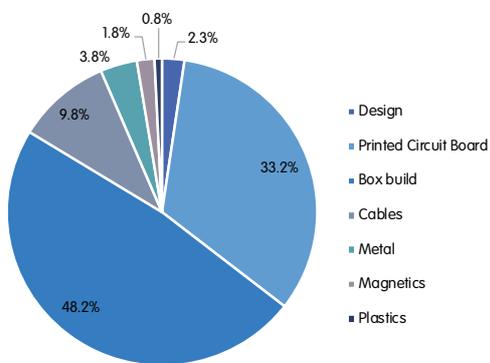
Source: RHP

Exhibit 14: Revenue Contribution from various Facilities (Rs mn) FY20



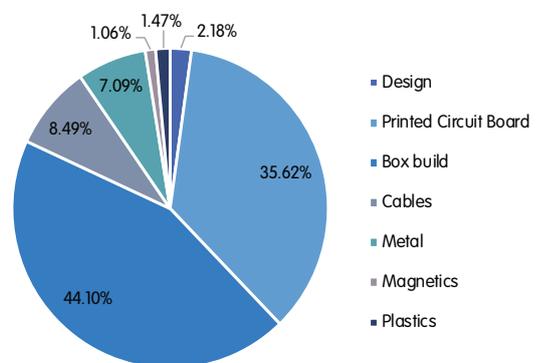
Source: RHP

Exhibit 15: Revenue Mix by Service Offering (November 30, 2022)



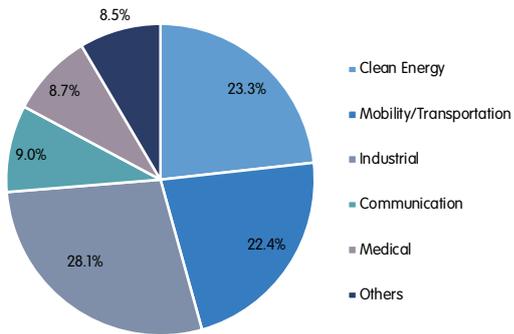
Source: RHP

Exhibit 16: Revenue Mix by Service Offering (FY20)



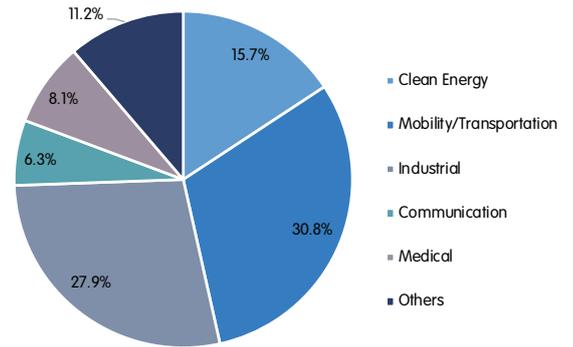
Source: RHP

Exhibit 17: Revenue Mix by End-Use (November 30, 2022)



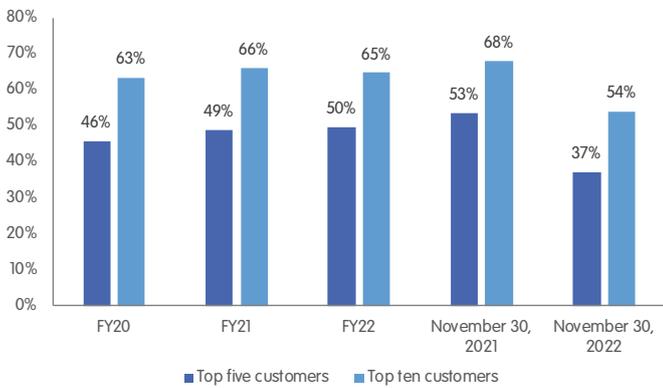
Source: RHP

Exhibit 18: Revenue Mix by End-Use (FY20)



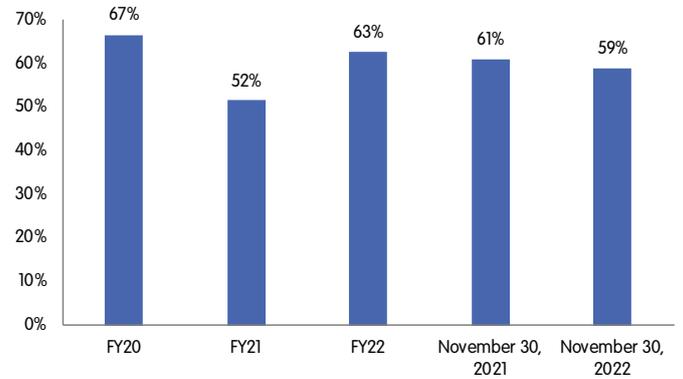
Source: RHP

Exhibit 19: Revenue Earned from Top Clients



Source: RHP

Exhibit 20: Weighted Average Capacity Utilization for the Group



Source: RHP

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