

IPO Note

AVALON TECHNOLOGIES LIMITED

April 03, 2023





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Details of the Issue

Price Band	₹ 415 - ₹ 436
Issue Size	₹ 865 Cr
Face Value	₹ 2
Bid Lot	34
Listing on	BSE, NSE
Post Issue Mcap	₹ 2,846.76 Cr
Investment Range	₹ 14,110 - ₹ 14,824

Important Indicative Dates (2023)

Opening	03 - Apr
Closing	06 - Apr
Basis of Allotment	12 - Apr
Refund Initiation	13 - Apr
Credit to Demat	17 - Apr
Listing Date	18 - Apr

Lead Manager

JM Financial Limited
DM Capital Advisors Limited
IIFL Securities Limited
Nomura Financial Advisory and Securities Private

No of shares (Mn)

Fresh Issue of Shares	7.34
Offer for Sales	12.50
Total No of Shares	19.84

Offer Details

Offer Size	₹ 545 Cr
Fresh Issue	₹ 320 Cr
OFS	₹ 865 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	648.75	1.49	1.56	75
NIB	129.75	0.30	0.31	15
Retail	86.50	0.20	0.21	10
Em- ploy	-	-	-	-
Total	865	2.08	1.98	100%

Type (In MN)	Pre-Issue		Post-Issue	
	No. Shares	% of Total	No. of Shares	% of Total
Promoter	30.93	53.38	23.99	36.74
Promoter Group	10.07	17.37	9.47	14.50
Public	16.95	29.25	31.84	48.77
Employee Trust	-	-	-	-
Total	57.95	100	65.29	100

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Company Profile

Avalon Technologies Limited is a leading EMS company in India specializing in delivering high-value precision engineered box-build solutions. They offer a full stack product and solution suite, including PCB design and assembly, cable assembly, sheet metal fabrication, and injection molded plastics. With a unique global delivery model, they serve OEMs in multiple countries and provide design support for critical electronic components and systems.

Business Highlights & Services

Avalon is one of the leading fully integrated Electronic Manufacturing Services ("EMS") companies with end-to-end operations in delivering box build solutions in India in terms of revenue in Fiscal 2022 (source: F&S Report), with a focus on high value precision engineered products. Through a unique global delivery model (source: F&S Report), company provide a full stack product and solution suite, right from printed circuit board ("PCB") design and assembly to the manufacture of complete electronic systems ("Box Build"), to certain global original equipment manufacturers ("OEMs"), including OEMs located in the United States, China, Netherlands and Japan. Through their end-to-end operations, company believe their customers may achieve tangible benefits such as reduced manufacturing costs, improved supply chain management and reduced inventory obsolescence.

Avalon is specialize in designing and manufacturing critical electronic components, including PCBs, cables, sheet metal parts, and injection molded plastics. Company services cover various industries, including industrial, mobility, and medical devices, as well as clean energy and digital infrastructure.

Avalon has developed strong relationships with key customers by providing fully integrated solutions, robust manufacturing capabilities, and a focus on new product development. Their approach to new product development starts with component level design engagement with customers, which allows company to be involved in the customer's product from conception. They have long-standing relationships with key customers such as Kyosan India, Zonar Systems, Collins Aerospace, and Meggitt, among others, and have won various awards for their performance. They have also increased their customer base over time and currently have 89 key customers, with an open order book of ₹11,902.46 million as of November 30, 2022. They have a diversified client base across multiple end-use industries, which minimizes their concentration risk. Avalon's client servicing model focuses on providing quality products on time, supply chain efficiency, and integrated offerings, which have enabled company to increase their order book over time.

Company operates a unique global delivery model, with manufacturing facilities in both India and the United States. This gives Avalon a competitive advantage in the North American market. They have 12 manufacturing units located in Atlanta, Fremont, Chennai, Kanchipuram, and Bengaluru. They can leverage the favourable policy initiatives such as the 'Make in India' program and the PLI Scheme. The EMS sector is a significant industry globally and in India and is expected to grow at a significant pace. The EMS market in India is expected to reach US\$60 billion by Fiscal 2026, while the US market is expected to reach US\$188 billion by 2026. (source: F&S Report).

Avalon's manufacturing facilities integrate manufacturing, warehousing, and logistics. They have 66 production lines, including SMT, THT, and assembly lines, and separate lines for sheet metal fabrication, machining, and cable assembly. They have a workforce of 2,004 persons and 243 product engineering teams with diverse backgrounds. Their facilities are accredited with global quality standards, and they believe their



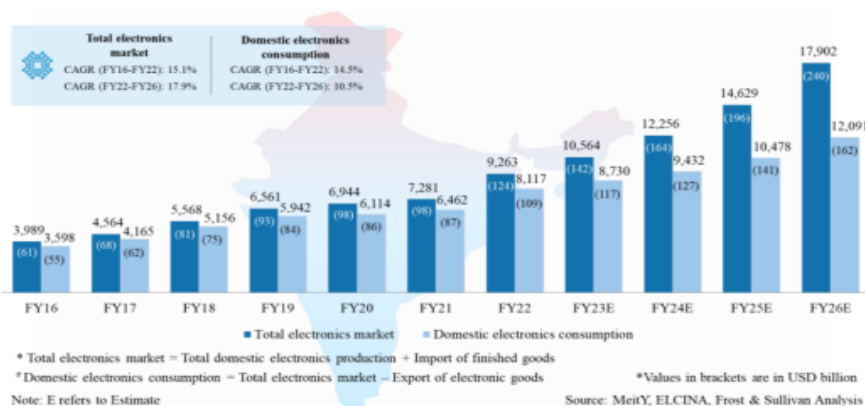
engineering capabilities will enable company to offer innovative EMS solutions and increase operational and cost efficiencies.

Industries Overview:

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.

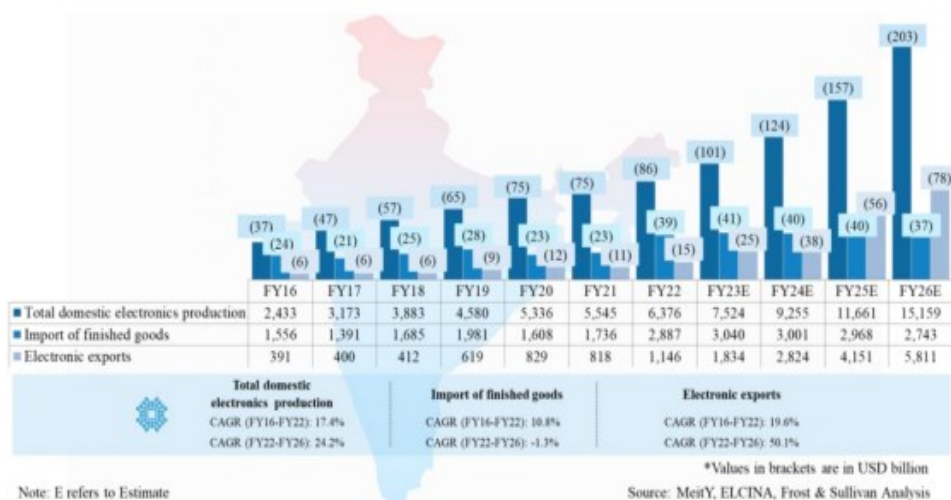
India aims to bolster its electronics manufacturing capabilities to compete globally by leveraging its low manufacturing costs, skilled workforce, and vast geography. Manufacturers are moving from HVLM to LVHM products. The domestic electronics consumption market is expected to grow from USD 109 billion in FY22 to USD 162 billion in FY26, driven by increasing electronics penetration in semi-urban and rural markets, lifestyle changes among Gen Y, and adoption of smart gadgets.

Exhibit 1: Indian electronics and domestic electronics consumption market, value in INR billion and USD billion, growth in %, FY16-FY26E



India's domestic electronics production is expected to grow to approximately 85% of the total market by FY26, valued at INR 15,159 billion (USD 203 billion), thanks to government initiatives and the development of India's electronic ecosystem. The government is aiming to make India one of the top five countries for electronics production and the top three for consumption. The government has taken measures to create a favorable environment for domestic manufacturing, such as increasing customs duty for certain products and encouraging local component manufacturing. Despite a shortage of chips slowing down domestic manufacturing, the government is developing electronics manufacturing clusters to reduce reliance on imports. The value of total exports increased by 40% in FY22 to INR 1,146 billion (USD 15 billion), with mobile phones, engine control units, and industrial machinery leading the export category. India's design competence and a talented workforce at lower wages compared to China support its position as a futuristic, domestic-cum-export-oriented manufacturing destination.

Exhibit 2: Indian electronics market - Split between domestic production, imports and exports, value in INR billion, USD billion, growth in %, FY16-FY26E



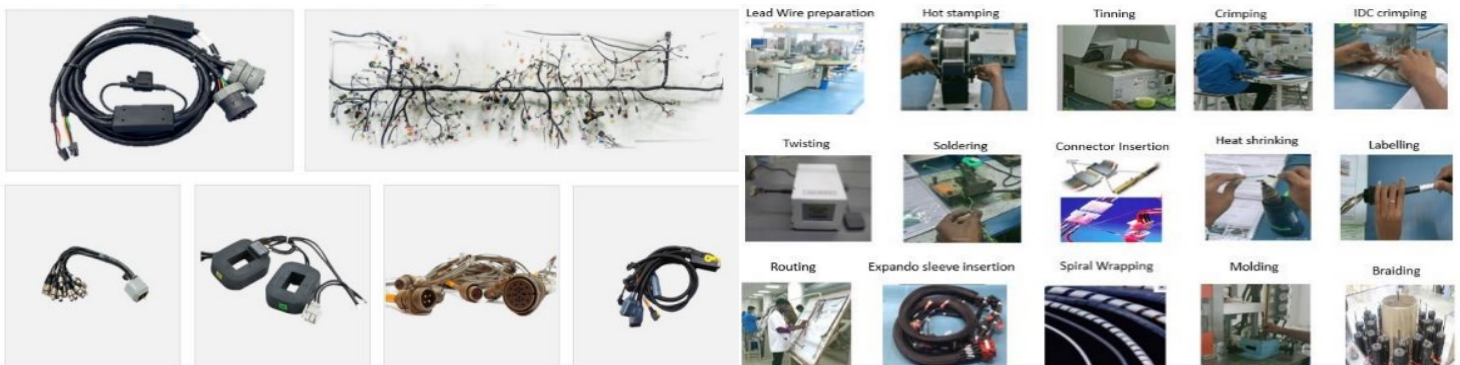


Business Divisions:

- **PCB Design and Assembly** : Avalon provide a variety of services including highly complex double-sided PCB assembly, high mix assembly, low to medium volume assembly, flex and rigid PCB assembly, RoHS and non-RoHS processes, SMT assembly, through-hole and mix technology assembly, and backplanes assembly. company key customers in the PCB design and assembly business primarily operate in the US, India and Europe. Company key customers include Kyosan India Private Limited, Zonar Systems Inc., Caire Inc, e-Info chips Private Limited and TMEIC, Japan. As of November 30, 2022, the term of their relationship with their key customers ranges from five to 10 years.



- **Cable Assembly and Wire Harnesses** : Avalon's cable assembly and wire harness assemblies cover commercial and military applications and designs, which are customizable to suit specific demands of their customers. company maintain an integrated manufacturing facility for custom wire harnessing and over-molding, which is equipped to carry out processes such as automatic wire stripping, cutting, crimping, soldering, laser stripping and harness braiding. company also provide test solutions for high quality mold and die fixtures. Further, company conform to various international standards including those prescribed by the Institute for Printed Circuits and the United States Military. Avalon's cable assembly and wire harness division is AS 9100D and ISO 9001:2015 certified.

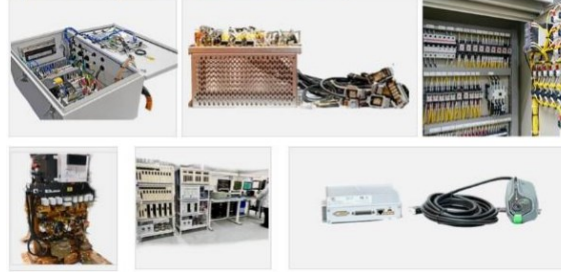


- **Injection Molded plastics** : Company is specializes in precision injection molding of small plastic parts, including those used in aerospace applications. company use a variety of plastic resins and additives in our molding process, and also offer ultrasonic welding services. Company plastics division is certified to AS 9100 standards, and Avalon serve customers in various industries, including aerospace, industrial, and power. Company have established relationships with key customers like Collins Aerospace, which have lasted approximately seven years as of the date of this Red Herring Prospectus.





- **End-to-End Box Build** : Avalon vertically integrated capabilities across various business verticals enable us to manufacture complex electromechanical assemblies. The process includes cabinet/enclosure preparation, component and PCB assembly, harness routing, system integration, torque fastening, non-functional testing, functional testing, and quality inspection. These assemblies can be turn-key products or critical sub-systems for OEMs.



Market Opportunity

The EMS sector is a significant global industry and is expected to experience robust growth over the next five years, including in India. As of Fiscal 2022, the EMS market in India was valued at ₹1,469 billion (US\$20 billion), and it is predicted to grow at a compound annual growth rate (CAGR) of 32.3% to reach ₹4,502 billion (US\$60 billion) by Fiscal 2026. This growth will be driven by factors such as the rise of semiconductor manufacturing, government initiatives in infrastructure and sustainability, and the "Make in India" campaign and the PLI Scheme, which will bolster local manufacturing and reduce import dependence. Additionally, India is well-positioned to benefit from the trend of supply chain diversification from China, as it offers a cost-effective and high-quality alternative. Overall, the EMS sector presents a significant opportunity for growth and development in India.

Industries Peers Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
Avalon Technologies Ltd	2	840.71	11.30	15.60	NA	85.86%
Peers Group						
Dixon Technologies Ltd	2	10,697	32.31	167.73	89.61	21.93%
Amber Enterprises India Ltd	10	42,063	32.41	514.70	59.50	6.54%
Syrma SGS Technology Ltd	10	1,267	5.25	41.57	49.91	13.04%
Kayens Technology India Ltd	10	706	9.7	43.89	106.55	24.29%

Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by their Company and one of their Material Subsidiaries, AT SPL of ₹ 145 Cr.
- Funding the working capital requirements of their Company of ₹ 90 Cr.
- General Purpose.

Company's Promoter

Kunhamed Bicha and Bhaskar Srinivasan are the Promoters of our Company.

Board of Directors

It boards of directors include Kunhamed Bicha who is the chairman and MD of the company. Bhaskar Srinivasan, Luquman Veedu Ediyannam, Sareday Seshu Kumar are the Non-Executive director of the company. Venkataramani Ananthramakrishnan, Chandar Pattabhiram, Byas Unnikrishnan Nambisan, Nandita Abraham are the Independent director of the company.

**Companies Competitive Strength :**

- End-to-end integrated solutions, providing a One Stop Shop for electronics and electro-mechanical design and manufacturing services.
- High entry barriers to business through their 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 and assembly capabilities.
- Strong financial performance, stable cash flows and visible growth profile.
- Experienced board, management and operating team

Key Strategies Implemented by Company

- Sustaining and catering to high growth sunrise industry sectors such as clean energy and emerging communication technologies.
- Consolidate and expand their position in global markets for existing industry verticals.
- Creating high growth opportunities for their existing offerings .
- Focus on expanding their local manufacturing presence in their 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 their technological capabilities and manufacturing capacities.

Particulars (Rs Cr)	2022 (11)	2022	2021	2020
Equity Share Capital	11.33	1.59	1.59	1.53
Reserves	133	85.59	58.34	45.04
Net worth as stated	147.83	87.19	28.20	3.44
Revenue from Operation	584.78	840.71	690.47	641.86
Revenue Growth (%)	-	21.76%	7.57%	-
EBITDA as Stated	68.06	97.55	66.14	64.48
EBITDA margin (%)	11.64	11.60	9.58	10.05
Profit Before Tax	47.38	66.44	28.82	15.29
Net Profit for the period	34.18	68.16	23.08	12.32
Net Profit (%) as Stated	5.73	8	3.32	1.89
EPS (₹)	6.10	11.30	4.01	2.21
RoNW (%)	28.17%	85.86%	40.36%	25.19%

Valuations and Recommendation:

- Avalon Technologies limited annualized earning arrives at ₹ 51.27 Cr based on (8MFY23). Company is expected to have post Market cap of ₹ 2,846.76 Cr, Which implies a earning multiple (P/E) of 55.52(x).
- The valuation is in line with listed peers and company is integrated EMS provider with diversified end-user industries and strategic manufacturing locations, benefiting from 'Make in India' and PLI schemes, aims to increase profitability by deleveraging. We recommend “Subscribe” rating to the issue.



Notes

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