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Issue Details

Price Band (Rs)	Rs. 415-436 per share
Face Value (Rs)	2
Issue Size (Rs)	865 Cr.
Issue Type	Book Building
Minimum lot	34 Shares
Issue Opens	April 03, 2023
Issue Closes	April 06, 2023
Listing on	BSE, NSE

Indicative Timeline

On or before

Finalization of Basis of Allotment	April 12, 2023
Unblocking of Funds	April 13, 2023
Credit of shares to Demat Account	April 17, 2023
Listing on exchange	April 18, 2023

Other Detail

Book Running Lead Managers	<ol style="list-style-type: none"> JM Financial Limited DAM Capital Advisors Ltd (Formerly IDFC Securities Ltd) IIFL Securities Ltd Nomura Financial Advisory And Securities (India) Pvt Ltd
Registrar	Link Intime India Private Limited

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Avalon Technologies Limited

Company Background

Avalon Technologies Limited (ATL) was incorporated on November 3, 1999. The Company is one of the leading fully integrated Electronic Manufacturing Services (“EMS”) companies with end-to-end capabilities in delivering box build solutions in India. In terms of revenue in Fiscal 2022, with a focus on high value precision engineered products, 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.

The Company have enhanced their offering to include sheet metal fabrication, cable assembly and wire harnesses, magnetics, electromechanical assemblies, injection moulded plastics along with in-house design capabilities, thus making them a fully integrated player in the EMS industry.

Issue Details

The offer comprises Fresh Issue of Equity shares worth Rs. 320 Cr. and an Offer for Sale worth Rs. 545 Cr. aggregating to total IPO size worth Rs. 865 Cr.

Issue Objectives

- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company and one of the Material Subsidiaries, i.e. Avalon Technology and Services Private Limited (ATSPL);
- Funding the working capital requirements of the Company;
- General corporate purposes

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.436
QIB (Institutional)	75%	1,48,79,588
Non Institutional	15%	29,75,917
Retail	10%	19,83,944
(OFS + Fresh Issue)	100%	
Total		1,98,39,450

Source: Company RHP, ACMIIL Research

Outlook and Valuations

ATL is engaged in the global supply of critical and specialized components to industries across the board with a major focus on clean energy and new product developments used in Automotive (EV’s), Aerospace, Defence and Hydrogen space. Favourable policy initiatives such as ‘Make in India’ program of GOI, leading to high customer retention and cost-efficient manufacturing. Further, Company stand to benefit from the tailwinds of Aatmanirbhar Bharat and the Production Linked Incentive Scheme (PLI Scheme) across verticals, which would help to reduce import dependence as well as position India as an export hub. Hence, **we recommend subscribing the issue from a long-term prospective.**

Business Overview

- Avalon Technologies Limited (ATL) 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. They specialize in manufacturing and providing design support for critical integrated assemblies, sub-assemblies, components and enclosures for multiple industry verticals. The end-use industries they cater to include a mix of established and long product lifecycle industries, such as industrial, mobility and medical devices and high growth “sunrise” industries, such as solar, electric vehicles and hydrogen in the clean energy sector and digital infrastructure in the communications sector.
- ATL have developed long relationships with certain of their customers through a client servicing model which aims to provide fully integrated solutions, robust manufacturing capabilities, delivering quality products on time, supply chain efficiency as well as a focus on new product development.
- Company's new product development approach typically starts with component level design engagement with customers. This allows them to be entrenched with the customer from the conception of their product, and subsequently move up the value chain with their customers by leveraging their fully integrated offerings.
- ATL has a unique global delivery model, comprising design and manufacturing capabilities across both India and the United States. Avalon Technologies is the only Indian EMS company with full-fledged manufacturing facilities in the United States, which gives them a unique competitive advantage in the North American markets.

Manufacturing Units

They have 12 manufacturing units located across the United States and India:

- 1 unit in Atlanta, Georgia,
- 1 unit in Fremont, California,
- 7 units in Chennai, Tamil Nadu,
- 1 unit in Kanchipuram, Tamil Nadu and
- 2 units in Bengaluru, Karnataka.

Order Book

The Company has an outstanding order book of Rs. 1190 Cr. (Nov 2022) with a total customers count to 89 in FY22.

Company's Business & Products

Avalon Technologies offers integrated design and manufacturing solutions for domestic and internationally recognized OEMs, along with promising start-ups. Their solutions spectrum spans EMS box builds, PCB assemblies, cable assembly and wire harnesses, sheet metal fabrication, injection molded plastics, machining and magnetics. They also offer design services and new product development services.

The key functional aspects of their business are Manufacturing and assembly, Design, analysis and prototyping of printed board assemblies, Engineering and development, Components, Sourcing, Supply chain development, Logistics and distribution and Aftermarket services.

A) Design Services:

Company's design division located in Bengaluru, Karnataka makes them a PCB analysis/design engineering company operating in various verticals including networking, power, transportation, semiconductor, IoT (Internet of Things) and medical. They serve their customers across the globe and provide complex PCB design solutions, including PCB design, signal integrity analysis (time domain and frequency domain), thermal electromagnetic compatibility (“EMC”) and electromagnetic interference (“EMI”) protection and reliability analysis that meet the specifications prescribed by the Institute for Printed Circuits.

B) Electronics Manufacturing Services:

PCB Design and Assembly

The company is a leading EMS provider serving customers across the globe. They are an end-to-end service provider of PCBAs, with in-house capabilities to support the entire value chain for their customers. Their services and capabilities include Printed Circuit Board (PCB) Design and Analysis; Printed Circuit Board Assembly (PCBA) and Inspection and Test. The company provides 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.

Metals/Sheet Metal Fabrication

Sheet metal fabrication is the process of forming desired shapes from metal sheets using various manufacturing methods. They are an AS 9100D and ISO 9001:2015 certified company for sheet metal fabrications.

Cable Assembly and Wire Harnesses

Company's cable assembly and wire harness assemblies cover commercial and military applications and designs, which are customizable to suit specific demands of their customers. They maintain an integrated manufacturing facility for custom wire harnessing and over-moulding, which is equipped to carry out processes such as automatic wire stripping, cutting, crimping, soldering, laser stripping and harness braiding. They also provide test solutions for high quality mould and die fixtures.

C) Magnetics:

Company's magnetics division, the products and services include the following:

Transformers

Their transformers are used in various industries including aerospace, industrial and pharmaceuticals. They also manufacture power transformers, current transformers, and ferrite transformers and fly back transformers.

Chokes and Inductors

The company manufactures common mode and differential mode chokes, powered iron core inductors, ferrite core inductors, laminated core inductors and ferrite rod inductors.

Injection Moulded Plastics

The Company specialises in small precise plastic injection moulded parts for a variety of applications including aerospace. They use various types of plastic resins and additives in their injection moulding process. The company generates revenues in the end-to-end box build business from their key customers, primarily operating in the mobility, industrial and communication sectors.

D) New Product Development:

Company's NPD division is equipped with an advanced PCB assembly/test facility focused on quick turnarounds of assembly processes. The NPD division handles the latest technology of component packages in their NPD assembly line, including new releases of component packages by semiconductor companies, securing a competitive advantage for them in the PCB assembly market by a few years.

Competitive Strengths

- 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 the 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.

Key Business Strategies

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

Financial Snapshot (Proforma Condensed Combined Financial Statement)

Particulars (Rs. Cr.)	FY2020	FY2021	FY2022
Equity share capital	1.53	1.60	1.60
Net worth	46.57	59.95	87.19
Revenue from Operations	641.87	690.47	840.72
EBITDA	64.48	66.14	97.55
EBITDA Margin (%)	10.05%	9.58%	11.60%
Net Profit	12.33	23.08	68.16
Net Profit Margin (%)	1.89%	3.32%	8.00%
Diluted EPS (Rs)	2.21	4.01	11.30
ROE (%)	25.20%	40.40%	85.90%
ROCE (%)	26.78%	21.29%	27.34%
Debt to Equity Ratio	1.13	1.37	2.99

Source: Company RHP, ACMIIL Research,

Comparison with Listed Peers FY22:

Name of the company	Consolidated/ Standalone	Face Value	Closing Price	Revenue from operations (Rs in Cr.)	EPS		P/E	RONW (%)
					Basic	Diluted		
Avalon Technologies Ltd	Consolidated	2.00	436.00	840.72	11.30	11.30	38.58	85.86%
Dixon Technologies Ltd	Consolidated	2.00	2,867.45	10,697.08	32.31	32.00	89.61	21.93%
Amber Enterprises India Ltd	Consolidated	10.00	1,928.20	4,206.40	32.41	32.41	59.49	6.54%
Syrma SGS Technology Ltd	Consolidated	10.00	258.05	1,266.65	5.25	5.17	49.91	13.04%
Kaynes Technology India Ltd	Consolidated	10.00	951.5	706.25	9.70	8.93	106.55	24.29%

Source: Company RHP, ACMIIL Research,

Industry Growth Drivers

- Investment in Infrastructure is a focus of the government for long term growth of the country which will also lead to demand for Auto mobile vehicles.
- Indian EMS market to grow at a CAGR% of 32.3% annually between FY22-FY26.
- Stringent emission norms to improve the air quality and reduce carbon emissions are forcing OEMs to launch more EVs.
- Green hydrogen is a major source of clean energy and the Ministry of New and Renewable Energy has released National Green Hydrogen Policy. In addition, a comprehensive green hydrogen mission is currently in development, and it is anticipated that it will lay out guidelines for mandatory green hydrogen purchase obligations for oil refineries, fertilizer companies, and steel producers in the near future.
- New Model Launches by all OEM's by considering Industrial strong demand environment.
- Consistent local demand for electronic products, the government's focus on domestic manufacturing, and programs like 'Make in India' and 'Digital India', which have led to increasing manufacturing investment in the country. The Make in India initiative, tax and duty support, and government support through policies, most notably, MSIPS and PLI scheme, have been instrumental in encouraging new investment from EMS companies.
- Advanced product development with a focus on miniaturization, IoT, automation, AI (Artificial Intelligence), and defense applications is likely to be one of the major market growth trends in electronics design.
- High domestic volumes and consumption, and higher outsourcing volumes will influence domestic electronics manufacturers to apply the component ecosystem locally and enhance local component sourcing capabilities, thus making the ecosystem stronger and closer-knit

Risks and concerns

1. A company business largely depends upon their top ten customers, and the loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on its business.
2. Its business could be adversely affected by volatility in the price or availability of raw materials and components. Around 40-48% of raw materials is imported from major reliance on countries such as Singapore, China, US and Hong Kong which accounted for nearly 2/3rd of total material imports.
3. A company are exposed to foreign currency exchange rate fluctuations, which may adversely affect their results of operations and cause its financial performance to fluctuate significantly.
4. Any disruption in the continuous operations of manufacturing facilities, including due to the COVID-19 pandemic, or a similar public health threat would have a material adverse effect on the business, results of operations and financial condition.

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