"Avalon Technologies Limited Q4 FY-24 Earnings Conference Call"

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MODERATOR:	**MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Avalon Technologies Limited Q4 FY'24 Earnings Conference Call hosted by DAM Capital Advisors Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded and now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you and over to you, Ms. Nair.

Bhoomika Nair: Thanks, Nirav. Good afternoon, everyone, and a warm welcome on behalf of DAM Capital for the Q4 & FY'24 Earnings Call of Avalon Technologies.

We have with us today from the management, Mr. Kunhamed Bicha – Chairman and Managing Director, Mr. Bhaskar Srinivasan, President, Mr. R M Subramanian – CFO, Mr. Shriram Vijayaraghavan, Group Chief Operating Officer, Mr. Venky Venkatesh, Group Chief Sales Officer, Mr. Mike Robinson, Chief Operating Officer for US and Mr. Suresh VR, Head of Corporate Planning, and Investor Relations.

Mr. Kunhamed Bicha will give a brief overview of the business performance and that will be followed up by the CFO, Mr. R M Subramanian's remark on the financial performance, post which will open up the floor for Q&A.

As we move forward, it is important to bear in mind that any forward-looking statements made during this call are subject to potential risks and uncertainties, both known and unknown. Without further delay, I now hand over the floor to Mr. Kunhamed Bicha will give for his initial remarks, post which will open up the floor for Q&A. Over to you, sir.

Kunhamed Bicha: Thank you, Bhoomika. Ladies and gentlemen, on behalf of Avalon Technologies, I extend a warm welcome to our Q4 and FY'24 Earnings Call. As we conclude our first financial year as a listed company, I sincerely thank you for your ongoing support.

Before we dive into financials, we would like to highlight key differentiators of Avalon Technologies, especially for those who are joining us for the first time.

Avalon Technologies established itself as a key player in electronic manufacturing services with a global reach. We take pride in our leadership, in high mix, flexible volume manufacturing, servicing a diverse range of industry verticals in complex integrated solutions that require significant engineering expertise. We currently operate across 12 manufacturing facilities in India and United States. We are also adding two new manufacturing units in India.

Our three key differentiators are, one vertical integration. We are a one-stop-shop offering a true Box-Build from PCB design to manufacturing, that involves PCB design, new product development, cable assembly, sheet metal, plastics, magnetics. testing and logistics.

Two, global presence, both in terms of manufacturing facilities and customer base.

Three, optimal mix of established industries like industrial, rail, aerospace, medical, communication and emerging industries like clean energy.

There are many positive updates I would like to share about FY'25, but first let me begin by reflecting on FY'24. FY'24 presented a mix of challenges with significant shifts in the US macro environment. Despite our initial optimism, we had to adjust our estimates in late Q1 FY'24 as our customers across various industry verticals reduced their inventories. Consequently, we took a more cautious approach in the latter half of the year and projected a 8% to 10% year-on-year revenue decline. Ultimately, we ended up with an 8% decline primarily due to a 16% year-over-year decrease in our US revenue.

Our high fixed cost negatively impacted our operating leverage, further reducing profits. However, our Indian manufacturing which serves both our Indian and global customers, representing 77% of our business remains highly profitable with operating margins of 12.7% and PAT margins of 8.5% during the year of FY'24.

Now, transitioning to FY'25, our earlier expectations of a recovery in H1 and significant momentum in H2, seems to be materializing as anticipated. We are seeing positive signs and believe FY'25 will be a pivotal year for us.

Here are a few highlights to underscore our optimism. Our order book witnessed a year-over-year growth, 11% to Rs.1,366 crores with an execution period over an average period of 12-to-14 months. Long-term contracts in addition to the order book and executable over the two to three years grew year-on-year by 58% to 949 crores, though our concentrated efforts on inventory management, absolute inventory levels decreased by 10% from December '23 to March '24.

We remain on track to reduce our net working capital days by at least 10 to 15 days in the next 9 to 12 months.

Importantly, we categorize our business focus areas as three growth engines: All of which are regaining momentum in FY'25 after encountering challenges in the previous year.

Now, let's delve with each of our growth engines. First growth engine. New customers in the US. Starting with our major clean energy customer that we previously discussed, we are pleased to share that long pending product compliance certification for the home electrifying system has finally been approved. This is a significant milestone and in line with our earlier communication, the commercial launch is expected in late Q2 FY'25 with production ramp up anticipated in H2 FY'25. The scale up of this business is expected to be significant in '26.

We are also happy to report several major new wins with industry leading companies in the industrial and automotive segments. For some, we have secured Box-Build contracts while for others, we will begin with PCB and Cable Assemblies.

We have received prototype orders now with commercial production expected in H2 of FY'25. These are existing products with established companies, and we believe they can significantly scale up in FY'26 and has the potential to become some of our top 10 customers, for example, one of them is a market leader in motion control system in the mobility segment, another is a major backup power generation products for residential and industrial markets. We will provide more updates on the same in the coming quarters.

With the Inflation Reduction Act bolstering clean energy manufacturing in the US and India emerging as a significant beneficiary of the China Plus One strategy, we are confident that our presence in both regions position us for winning new sizable opportunities.

Second engine of growth, existing customers in the US. These are industry-leading well-established companies across various industry verticals with whom we have partnered for many years. Last year, this growth area faced a significant challenge due to factors such as inventory destocking and macro uncertainties. We now believe that the inventory destocking cycle has bottomed out. The restocking cycle has begun for our US customers, albeit at varying rates.

Our efforts last year to gain wallet share with certain customers are also proving beneficial, in a sense, we believe the shift from destocking to restocking has begun and we become more prominent in H2 FY'25.

With respect to aerospace customers, we have entered the cable harness and lighting products and we have also signed a 15-year master term agreement with one of the global aerospace majors. We also expect recent order wins in aerospace segment to commence execution in Q4 of FY'25 and ramp significantly FY'26.

Third growth engine, India customers. Looking back at our business five years ago, we were predominantly an export-focused company with nearly 75% of our revenues generated outside India. However, over the last 18-months, we have actively started focusing on the India market. We have made significant inroads in the industrial, rail, defense, and EV verticals. Today, revenue generated from our India customers contributes 46% of an overall revenue.

Speaking of major wins in Indian markets, let us start with rail. One of our major Japanese customers from the railway vertical has recently been approved by Indian Railways for an advanced version of a signaling and interlocking system they currently supply. This represents a better value proposition for Indian Railways, and we expect to learn more about this development in the coming quarter. Additionally, this customer is also approved for the Kavach system in Indian Railways, and we are actively collaborating with them on this initiative. This further strengthens our relationship with them and augments our business growth potential with the railways segment.

We are also delighted to announce major wins with some industry-leading customers in the industrial and energy segments. We have secured prototype orders with them and expect ramp production in FY'25. These partnerships have the potential of becoming significant revenue contributors in the late part of FY'25 and FY'26.

While we have made progress in the defence sector and communications markets, we anticipate more meaningful order bookings to occur in H2 FY'25, with the execution expected in FY'26.

Transitioning from a detailed overview, we see all three of our growth engines are gaining momentum at different stages, fueling our confidence, and significantly scaling our revenue over the next three years.

While we believe we can comfortably double our revenues in this period, we want to remain cautiously optimistic for FY'25, projecting a14% to 18% revenue growth.

In continuation of our earlier discussion on preparing our organization for years of growth, we are pleased to announce the appointment of our new Chief Sales Officer, Mr. Venky Venkatesh. Venky brings over 30 years of experience leading high performing global sales teams and closing large deals in our target verticals.

On the infrastructure front, we are in the final stages of completing a new factory in Chennai, which will be operational this quarter. This plant will cater to our export demand.

Additionally, to meet our anticipated domestic demand, phase one of our Brownfield plant expansion in Chennai is expected to go live in Q1, with phase two following in H2.

With the revenue growth we anticipate in the coming years, combining our team and infrastructure in place, we expect the operational leverage will play a significant role in our favor. Profit growth is expected to outpace revenue growth. This is underpinned by the following reasons:

One, we maintain industry-leading gross margins and we have not pursued low margin businesses. We expect to sustain our gross margins depending on product mix and ramp up.

Two, majority of our costs below the material costs are fixed in nature, allowing operating leverage to flow through as revenue ramps up in H2. Three, our dedicated focus on improving working capital will help us release some cash, further supporting our growth and profitability.

In summary, it is evident that we have navigated a challenging year, and we anticipate a recovery in H1 followed by momentum in H2. The coming years appear promising with FY'25 being pivotal for our growth trajectory. I would like to stay consistent with the message that is essential for us not to lose sight of the long-term vision and opportunities while dealing with short-term macro challenges. Notably, the US market is transitioning from destocking to restocking, which will positively impact our growth. We are preparing our organization for years of growth ahead.

Avalon stands strong, building a business that is focused on long-term profitable growth rather than growth at any cost in the short-term. Thank you. Our CFO, R M Subramanian, will talk on the Financials.

R M Subramanian: Thank you and good evening, everybody. Thanks for joining the call today. As we come close to FY'24, I would like to thank the entire Avalon team and all our stakeholders for the confidence they have placed in us. I believe we are uniquely positioned with our hybrid business model, vertical integration, and diverse sector mix to benefit from one of the greatest industry moments that India has seen in the recent years.

FY'24 was a tough year for us with several macro challenges, primarily around the demand scenario for our US customers, largely driven by muted macro and decisional headwinds. Despite this, we continue to grow our order book by growing our existing customers and winning new customers and making deep inroads into our business segments.

While we believe we are past the lows and are beginning to see the green shoots of recovery, we continue to reiterate that the products we make and the industries we are present in are fairly complex and our ramp-up period is generally of 6 to 9 months. Given this, some of the wins we had in FY'24 will take time to ramp up and we expect to see the momentum picking up in H2 FY'25.

For the full FY'25, we do expect to see revenue growth of around 14% to 18% year-on-year, primarily driven by H2. Since our profit is strongly tied to our scale of production and revenues, we accordingly expect H2 to be much more profitable for us than H1 and FY'25 as a whole to be significantly better than FY'24.

Now, moving on to performance in FY'24 in detail. Our revenue from operations was Rs.867 crores, a decrease of 8.2% year-on-year. This is in alignment with the revised guidance we have given in Q3 FY'24, and we expect to see improvement here on out. Gross profit was Rs.315 crores, down by 9.5% year-on-year. Our gross margin stands at 36.3% and we were able to maintain it around near FY'23 levels. We continue to maintain industry-leading gross margins as a factor of our unique hybrid business model and premium quality of products. We are also selective in terms of pursuing profitable growth rather than growth at all costs.

EBITDA was at Rs.62 crores, down 44.5% year-on-year. EBITDA margin stood at 7.2% and decrease of 472 basis points on yearly basis.

As mentioned earlier, we continue to have a fair share of fixed expenses and the muted revenues accordingly resulted in lower operating profit.

PAT stood at Rs.28 crores, down by 46.7% year-on-year and PAT margin was at 3.2%, a decrease of 230 basis points year-on-year.

Revenue from our India manufacturing side that serves both the Indian and global customers is around 77% of the total revenue. The EBITDA and PAT percentage pertain with India manufacturing are 12.7% and 8.5% respectively. We continue to be among the forerunners in terms of margins in this business.

The US manufacturing reported a post-tax loss of INR30 crores for the FY"24. We expect this to improve in H2 FY'25. In line with the cost optimization exercises, there is progress at our US entity and the employee cost has been consistently improving.

Regarding the transfer of production from our US plant to our India plant, we have received approval to shift production for nearly 50% of our existing US manufacturing customers during FY'25. We have already begun the production transfer for approximately 30% to 35% of the customers.

Moving on to the balance sheet side, our net working capital days were at 161 days as on March '24, comprising of 118 days of inventory, 79 days of receivables and 36 days of payables. We have managed to bring down our inventory levels by around 10% on an absolute level owing to our customer demand recovering in the US and our rationalization efforts there. Our supply chain has normalized, and we will derive benefits from this stability going forward.

While we had earlier anticipated a sharper improvement in working capital, we expect to take a longer timeframe due to our larger customer base and signing up of new larger deals.

We continue to improve our payable days and are aspiring to reduce our net working capital cycle by 10 to 15 days over the next 9 to 12 months.

Because of all the efforts we have taken, it may be noted that for FY'24, cash flow from operations post working capital changes was positive at Rs.17 crores.

As at the end of FY'24, we have liquid cash in terms of investments and FD’s are approximately of 118 crores, out of which INR50 crores is earmarked for debt repayment in our US subsidiary and the surplus will serve as a reserve and growth capital. Additionally, we prefer to keep the existing working capital lines in India available amounting to INR185 crores.

The open working capital lines have markedly improved our ability to bid for larger orders which will reflect in the upcoming quarters.

In summary, our FY'24 performance was characterized by lower top line, largely due to inventory rebalancing, challenging macro environment in the US and a focus on optimizing our cost structure. However, we believe we have reached the bottom and have begun witnessing green shoots of revival. We have successfully moved some of the products to India for manufacturing and optimized our fixed cost in US in alignment with our strategic plan. Additionally, we have strengthened our senior leadership team through lateral hires at the CXO level.

We have utilized this difficult period to focus on building up of the organization and we expect to see the results of these efforts with the ramp up beginning in H1 FY'25 and continuing strongly into H2 FY'25.

Throughout this process, we will continue to focus on winning quality customers and maintaining our brand equities while upholding industry-leading margins.

In conclusion, I believe that we have reached the end of the tunnel and are now poised to scale up our business in FY'25 and beyond. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Arafat Saiyed from InCred Research. Please go ahead.

Arafat Saiyed: My first question is on new client addition and new sectors. Let's say we are not doing well, especially in the US and how is the situation there if you can guide me something on that like what's your outlook?

Kunhamed Bicha: To answer your question, clean energy is a temporary slowdown, so we anticipate the same rate of growth as we go into the future because some of the key wins we have had, have come from clean energy and if you take an example of our home electrification system, the project had been delayed. Now, we are certified. The customer is certified for all the compliances, and we have started the prototypes, and we see a major ramp of that in the Q2 of this year and full production in H2. So, we are not seeing a decrease in that. Over a three-year period that should grow much faster than the rest of our industries. But the destocking of our existing customers have also affected that.

Arafat Saiyed: My next question is on your aerospace and defence, you recently added and you're saying you got a big client name also you added. So, can just throw some light on that, let's say what's kind of goal we're looking in this space for the next three to five years?

Kunhamed Bicha: The aerospace has been a focus area for Avalon. And as you're well aware, it takes a lot of time to get in and once you're in, you're there for a long period of time. So, usually historically, we would have five-year agreements. Now with the global major, we have signed a 15-year LTA which means the forecast for next 15-years. So, multiple segments, we are there in lighting now, we were never in cables, that launch is happening this quarter and of course, previously we've talked about wiper blades, the first 2-3 prototypes have already shipped and there are 153 type of wiper blades we're getting the production in the next 12 to 18 months and this is a substantial piece growing into the next 10 to 15 years.

Arafat Saiyed: Last question is which you are looking for a shift from US to manufacture to India. So, what is the status on that when you're reaching that level?

Kunhamed Bicha: So, the last year we've talked to customers and a good time to talk to them when their numbers are coming down with the destocking. So, around 55% to 60% of our customers agreed to move to India and they are at various stages, some of it is already in production, but the big pieces are getting transferred back here, I think this will be complete in the next one to two quarters. So, around 60% of our existing business will move to India, but anything which is of clean energy, and which has the Inflation Reduction Act benefit, lot of customers do still want to keep that in the US in the near-term and we are of a firm belief that in the longer-term the cost factors will play and there's a good possibility that be a part of that could be moved to India.

Moderator: Next question is from the line of Homeyar from High Growth Fund. Please go ahead.

Homeyar: You have been keeping on saying that there's been a slowdown in the US, but yours is not the only stock I have invested in, I've invested in several companies, they have never said that. And I have relatives in the US, either there has been no economic slowdown. So, on what basis have you been saying that there has been a slowdown in the US?

Kunhamed Bicha: I'm not an economist, but I can try to answer your question. What I would say on the consumer side, you're not seeing a slowdown but of late there's some slowdown. The consumer spending is strong. The US economy looks strong from the outside. Most people are confused though inflation is high. But what we are seeing is that, see, we went through COVID and supply chain challenges for four years. Last year is when we, customers, apart from different industries, not consumers, we are industrial, we are in aerospace, we are in medical, we are in auto. We saw across the board because before June, April timeframe, the lead time for products were 40 to 50 weeks. Either we kept inventory, customer kept inventory, there was 50-weeks later. So, when things slow down, the availability of components came back, they wanted to go back to pre-COVID levels of 16 to 20-weeks, which is the normal lead time we all deal with before this, and now today the component lead times have come to that. So, there's no supply chain challenges as you say. So, now that's why we said, customers destock for five to six months and now we are seeing the restocking happening and then coming back at variable rates into the normal run rates they had. And these are customers who have been with us for 7-8 years, nine years in some cases. So, it's not like it's a new customer, these are Fortune 500 companies, a lot of them working with us over a number of years. So, it is more of a destocking, restocking. So, in India we're seeing a phenomenal growth, the whole country is seeing growth. But in the US, there is a slowdown, but that's possibly the largest market also. So, you have to be wary of that only.

Homeyar: With regards to the aerospace, you make all those sheet metal parts. You also have a competitor I think in Sansera Engineering. They also have started making sheet metal parts for aerospace. So, how do you go against that? And has the slowdown on aerospace something to do with the issue with Boeing?

Kunhamed Bicha: Of course, the slowdown in aerospace, we do around 400 to 500 different parts for planes, and of course there's those issue with slow down on certain models we do see that. But for us, the bigger pieces are forward-looking where we are tooling up and doing. Sansera does a lot of machining and they've been doing that for years. And for certain customers, we are the only vendor of choice for fabrication and it's a completely two different models. So, Sansera is into high end machining, and they've been there for years. And they've just invested in a larger project, that's what you probably are referring to.

Moderator: Next question is from the line of Samit from Niveshaay Investment Advisory. Please go ahead.

Samit: My first question is what are the major reasons for decreasing EBITDA margin? Is it due to decline in revenue because our gross margins are intact?

R M Subramanian: So, in terms of decrease in EBITDA margin if you look at quarter-on-quarter it's at a similar level. But if you look at comparing the previous year, it's come down and mainly due to the sales coming down and below the gross margins, about majority 50% of cost are fixed in nature. So, that has a negative operating leverage effect which has led to the slowdown. But in quarters where we have good sales, which is like Q4 last year, you will see that flowing down into EBITDA and we are at a mid to higher teens in terms of EBITDA margins. So, that's how is the nature of our business, and we are confident of reaching this as we move forward.

Samit: The second question I have is, what are the reasons for decreasing revenue from clean energy and our customers delaying order due to some reason?

Kunhamed Bicha In a lot of cases the orders are there to say that some of it has been with the destocking situation with the existing customers. But our larger customer projected is starting to ramp only now which is delayed by at least 12 months. So, that is one of the true reasons and we anticipate in a 3-year period, this is going to be our fastest growing segment for sure.

Samit: What is the percentage range cost of PCB in product sector, and it go up to like 70% to 80% in sectors like aerospace and Defense?

R M Subramanian: We are a little bit different. If you look at the different sectors. For example, you mentioned aerospace. We don't do PCB in aerospace. We do cables, we do metals, we do plastics in aerospace. So, we are not a completely PCB oriented company. Saying that a larger portion of our revenue comes from PCB and Box-Build.

Samit: What is the percentage cost in general if we consider of PCB?

Kunhamed Bicha: So, different industries to be honest have different margins you can command. If you look at the consumer space, it will be lower margins. If you look at the industrial space, it will be midlevel margins. If you look at some of the clean energy space, it will be a bit higher than the industrial. And it truly depends on the complexity of the work and how much engineering is involved rather than the automation piece. Because if you look at the consumer piece, a lot of it is automated. If you look at, if we are taking interlocking system, it is a 1 crore to 2 crores system. There's a lot of labor and a lot of verticals going into it, not only PCB, cable, plastics metal. So, it's very difficult to say by industry, you can say you know the material margins differ.

Samit: What is your outlook for the revenue and margins and also for the US operations?

R M Subramanian: In terms of our strategy which we talked about our US operations, in terms of the existing customer we did talk about trying to move them and then we have had good success in terms of trying to move out here. That's in terms of the existing customers. As our MD talked about it, for some of our clean energy customers who gets our IRA benefits, it will continue to be manufactured in US. So, moving forward our focus will continue to remain on the market, US market is one of the largest and the most profitable market. We'll continue to focus on that and onboard the customers and as we move along our efforts will be to try and move to India. And that's our strategy and that's playing out and continue to work on it. Margins will vary depending on the type of product and the complexity of the product and where we manufacture. Of course, if you try to manufacture in US, the margin has to be higher to justify the higher labor cost.

Samit: So, can you give a ballpark number for revenue and margins?

R M Subramanian: In terms of the revenue with respect to, we talked about the long run, we want to keep the mix as 50-50 in terms of US to India. That's what we work on, and it does vary between a quarter to quarter.

Moderator: Next question is from land of Darshil Jhaveri from Crown Capital Partners.

Darshil Jhaveri: I just wanted to ask regarding our growth and order book. So, could you just help me out? So, we are saying that we have an order book of 1,300 crores, that's executed over 14 months. And then there's another long-term contract, so is the long-term contract included in the order book? How much part of it is, could you just help us out in that?

Kunhamed Bicha: So, we break our order book into two pieces. The long-term contracts and immediate shippable orders. So, when we say 1,366 crores, it is what is executable in the next 12 to 14 months. When we say long term contracts which is actually grown by 58% to 949 crores, if you look at it from last year is what can happen between 12 to 14 months to 3 years. So, where we have contracts, we count that separately. If that explains that to you? They're not the same.

Darshil Jhaveri: They're completely different. So, on that rate our growth should be much higher than what we are guiding for sure. Because if we are going to execute around, we should be able to execute this in 12 months and we are currently. So, just I wanted to ask if this 1,300 crores you want to execute over a period of 12 months then, is it possible that you know our revenue guidance is a bit conservative?

Kunhamed Bicha: Like I mentioned Darshil. So, when we gave this guidance, once bitten twice shy. Last year we were off our guidance a little bit. Like I mentioned we remain on track but for a 3-year period. But this is a very conservative guidance from what we can see things can change positively and we will confirm that in the ongoing quarters.

Darshil Jhaveri: And so just wanted to ask regarding margins. So, currently we were impacted by negative operating leverage but as you had mentioned that in like Q4 FY23, we could even touch 15% margin with our revenue going to 270Cr. Now going forward as we recover our margin trajectory, if we are above 250-260 crores we should go back to our historical margin. Would that be a fair assumption?

Kunhamed Bicha: Yes, absolutely. What we believe is, we have set up for a huge growth and there's an unfortunate slowdown in '24. So, we're going to see us go back to where we were or even better in the future for sure. It's a, operating leverage. RMS you want to add something to that?

R M Subramanian: Just to add to what MD said, in terms from a capacity perspective, we are what you call designed for a much larger thing. And as our sales pipeline comes, gross margins we have been able to maintain sort of the industry best standards and with the current fixed cost the margins should flow automatically into EBITDA and PAT, and we have done that in the past and we are confident of doing that in the future as well.

Darshil Jhaveri: So, a 12% margin is possible for FY25 as a lot of our manufacturing also shifting to India which is already doing a 20% margin?

Subramanian: I don't want to be getting this specific in terms of numbers in terms of what we need to achieve. I think from a guidance perspective on sales, we have done, and we have talked about the mechanism of how it works. I'm sure you can work the numbers also.

Darshil Jhaveri: Just wanted to ask regarding our shift of manufacturing of a lot of customers to India, will that be margin accretive and if yes by how much?

Kunhamed Bicha: We believe moving to India will be more profitable for the company because there is a cost which we are trying to reduce in the US, a combination of this will have a very positive effect. Did that answer your question?

Moderator: Next question is from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: I wanted to understand in terms of the direction where we are going as far as the US operations are concerned. In this particular year you did indicate that you did well on the EBITDA side. But at the bottom line there was a loss. What is your roadmap on turning the US business completely and becoming profitable over there? Do you think that's a 3-year journey or how much time will that take? That's the first part because that will have a huge impact on the consolidated financials.

Kunhamed Bicha: You're absolutely right Rahul. And that's what we've been struggling through last year. And the first time we've had this kind of slowdown in the US. But saying that US is the largest market and we also need that as a beachhead because we deal with some of our clients who have complex systems. They like to see some operation in the US and also saying that we would have a smaller operation once a lot of these products moved to India and that journey has started 4-5 months back. Some of it is moved and some of them in motion. But any of the clean energy products if we need to play in the US, we need to be there because of the IRA benefits the customer gets. So, that is the question we are trying to answer. So, anything which does not have an IRA benefit we are moving or convincing customers to move. And we've been very successful in doing that. It's taking a little bit longer than we expected but the choice is the IRA benefit is going to be there for some time and we are hoping once it gets started some of the sub components can move to India.

Rahul Gajare: Assuming that you know we are looking at a 50-50 share between the US and India even if clean energy were to be about 25% to 30% of the total revenue which is profitable, the US business is more profitable. Do you think the profit of the US, the EBITDA margin of the US can higher than that of the Indian operations?

Kunhamed Bicha: No, I don't think. As we see it now of course we raise prices we can get the US to be higher. But as we see now our core business, our most powerful business is the US customer making in India. And that is our core target. And for clean energy, we are giving a pathway to the customer to start in the US and then bring subsystems into India, so they get the IRA benefit.

Rahul Gajare: I wanted to also ask you about, I think you just fleetingly talked about having enough capacity. Do you see the company needing more CAPEX in order to support future growth?

Kunhamed Bicha: We've always maintained a different model. As we have spoken in the past, we usually strive for a 10X asset turn. And over the next 3 years we believe, our investments in the facilities or the larger factories are done, and we'll have a 35 to 45 crores every year to maintain growth because we are also looking at labor arbitrage because of the US customers. So, we would look,like to answer your question 40 to 45 crores every year for the next 3 years.

Rahul Gajare: And I'm not too sure if I missed this. You talked about a revenue guidance about 14% to 18%. I understand your conservative based on all the numbers over here, did you talk about a specific EBITDA number? I don't know if I missed that, or you did not give that guidance.

Subramanian: On guidance we stuck to the top line, and we've not given in specifics in terms of profit margins.

Moderator: Next question is from the land of Neel Nadkarni from Dalal & Broacha Stock Broking.

Neel Nadkarni: I just had couple of questions. The first one is regarding the new plants that you are getting online in India. So, majorly what capabilities are you adding over there and are you targeting some other geographies apart from US over there also?

Kunhamed Bicha: Yes. See, these facilities will be mixed plants with I think the new one coming up is where we are seeing the fastest growth. PCB, cable, plastics, it will be a mix. It's 160,000 square feet facility, 3.5 acres and we have got room to build more. In India we do have the Bangalore factory. So, the larger Box-Build will be done in the new plant we believe the first part will come through this earlier next quarter and the larger plant will start construction once this is done. And so, it will be a mixed bag. It's just not a certain category of parts. So, we try to utilize our space in the best way possible. And we believe the longest lead time to get production going, it's not the machines and it's the factories and facilities.

Neel Nadkarni: And in the geographies front, are you targeting some other geographies also?

Kunhamed Bicha: Yes, of course. Europe, we've been trying to get there. We have a few customers, but none of the larger pieces, but a lot of our European customers when they come to India, they use us quite a bit. It's not going back to Europe. It's like what we say in 24% of our business from right, I don't know this quarter comes from Japanese customer.

Neel Nadkarni: And also, last quarter you had mentioned that you were planning to repay around 50% of your debt in Sienna also. So, is that still on track for FY25 and also what are your CAPEX targets if I am not wrong, it was around 40 crores to 45 crores for next three years, right?

R M Subramanian: Subramanian here. I will try and answer that question. In terms of Sienna, we have not completed the transaction. We are hoping that we'll be completing in next quarter in terms of repaying the debt and we have a working capital at about $9 million to $10 million there. We will do that. And in terms of CAPEX as our MD said we will be on an average doing about 35 crores to 45 crores annually.

Neel Nadkarni: And last question on a long-term perspective, let us say over the next 2-3 years, are we still targeting that 30% to 35% kind of industry growth or on the top-line side?

Kunhamed Bicha: Because of our customer mix and because of our US-India mix so what we are saying is in the next three years, we are comfortable to say we are going to double our revenues from today, but it may come in spurts. But if you look at us over the three-year period, we look at our business over three-year period, we are very comfortable to double our revenues.

Moderator: Thank you very much. Next question is from the line of Uttam Kumar from Avendus Spark. Please go ahead.

Uttam Kumar: Just two questions from my end. The first one is more clarity, with regards to the initial statement which you had made on the growth engine where we had stated that the new customers in USA regarding the clean energy space, could you give us more clarity on what exactly we had received because I could not clearly get it. And also, there was an excellent commentary where customer will be going for a significant revenue from FY26 onwards. So, what could be the revenue composition which this particular customer can account for over the next say three to five years down the line for the company?

Kunhamed Bicha: So, the first part of your question I missed.

Uttam Kumar: The first growth engines you had mentioned that there has been a new customer addition in clean energy space, and we had the approvals, etc. I happened to miss the commentary so if you can.

Kunhamed Bicha: So, the so it's a new customer, it has been a customer for a year in the sense we were stopped from making product because the compliances for the customer and engineering design issues and that has been completed so that we are ready to go. We are into prototype now and we are ready to go into full production in the second half of this year and some revenue in Q2. It's going to be a substantial piece. I will let it play out because huge numbers have been promised to us. So, we just want to be more comfortable in giving guidance on the size of it, but it is fairly large.

Uttam Kumar: The second one is on the domestic the aspiration of the company is also that overtime you would want to maintain a 50:50 mix between both India and international revenue. So, in that context, so which segments are we looking to grow because right now we see that certain peers are performing well be in the industrial category or the medical category whereas we are still struggling to grow the business there. So, what are we focusing on? What are our focus areas? Is the company planning to get into some newer categories or tap into some PLI opportunities, more color on that will be helpful.

Kunhamed Bicha: I will just rephrase. See India to us 3-4 years back was around 20% to 25% of our business. It has become a focus for us in the last 18 months as the growth engine has started and we want to be a fair part of it. So, a lot of our focus historically has been in Rail, which is growing for us and will grow into the future. Industrial infrastructure, again, some global majors for the supply into India have signed up with us and we also have two fairly large China transfer projects moving from China to us for Fortune 100 companies at various stages for the India market coming in. But these companies, it's not an overnight story. It takes some time. So, we believe the Railways, Infrastructure and entry into EV are going to be large, Two-Wheeler players will happen in the later part of the year where we have signed significant orders.

Moderator: Thank you. Next question is from the line of Ashutosh Paraskar from Mirabilis Investment Trust. Please go ahead.

Vipin Goel: Vipin Goel this side. Sir. I had this question on the growth part of the business, you indicated some 14% to 18% growth for the next year. So, could you talk about the kind of products, the first ones to drive this growth for the next year and if you had to break it down between the new customers versus the existing customers or the new products versus existing products so how would this basically kind of pan out in the next one or two years?

Kunhamed Bicha: So. If you look at most of our customers, even last year around 80% of our revenue came from existing customers. They will grow at. 10% to 15% and what we are seeing is the revenue coming from new customers, which is where our larger part of the growth will be at a much higher rate.

Vipin Goel: Sir, if. I look at the order intake for the quarter, so there's an improvement in the ordering so anything you would like to highlight here on what kind of segments has led to this growth or on the product side if we were to bifurcate that into products so is there any particular product that led to this improvement?

Kunhamed Bicha: A lot of it is broad based and a lot of it is a good mix I would say between our US customers and India customers. What we see come back with the US is growing a little bit faster into the future that's why we are very positive and that's been our core business and India businesses where we doing a lot of prototyping for these industrial giants and we are seeing that play out in the next two quarters and these are substantial revenues which are supposed to come.

Vipin Goel: And then coming back to this some of the domestic customers. So, earlier we were doing some surveillance system for one of the industrial customers and then there's this domestic EV Two-Wheeler customer, which we were trying to get orders from this year. So, how's the development there? Any developments there?

Kunhamed Bicha: EV, we do have the orders for the next 12 to 18 months. And we expect launch late part of Q2. And that's a substantial piece.

Vipin Goel: So, again, like coming back to that existing product part, you said 10% to 15% growth in the existing product portfolio, so a large part of this would still be mobility and then some bit of industrial, is that the right understanding?

Kunhamed Bicha: No, because a lot of our clean energy destocking to restocking happening also there was a slow down there. So, fairly broad based and then the aerospace side also had a tremendous slowdown which we are seeing coming back to actually four year back 2020 where we were at the peak at that point of time. So, we are seeing it broad based and of course industrial is a large piece of our portfolio. So, we see that largest industrial customers coming back to where they were before the destocking which is around 8 months back. Did I answer your question Vipin?

Vipin Goel: Yes, I got some clarity on it. So, this on the debt front, last quarter we had alluded that we will be paying some part of the high-cost debt that was sitting on the balance sheet. So, could you talk about what has happened there and then last one on the US headcount, if you can get the number, how that has moved?

R M Subramanian: I will take it on the debt side. Today, most of the India is debt free though we took some debt in the end of March in terms of about Rs. 30 crores come down. There is more working capital and contextual but otherwise today the key debt is in US, which is about $15 million and that is what we are looking to rationalize. We hope to complete the transaction in Q1-Q2, in terms of bringing the debt down there. Moving some other surplus cash from India to US and then paying it down.

Kunhamed Bicha: So, we have reduced debt down.

Vipin Goel: And on the headcount in US.

Kunhamed Bicha: So, we have reduced headcount. I don't want to give the exact numbers out, but there's a substantial reduction in headcount.

Moderator: Thank you, Vipin. I will request you to come back for a follow up question. Next question is from land of Raghav Gupta from Nomura. Please go ahead.

Raghav Gupta: I am just asking about the segmental revenue split for PCB, ODM and other electronic components for Box-Build I guess it's 50% this year what about other segments?

Kunhamed Bicha: So, I would put it this way in a simplistic manner around 65% is Box-Build and PCB together. That means Box-Build has PCB and as the other pieces also. And if you're doing direct parts or something like that.

Raghav Gupta: And ODM and other electronics remains the same I guess.

Kunhamed Bicha: Yes, you can say that.

Moderator: Thank you. Next question is from Harshil Sethia from Renaissance investment managers. Please go ahead.

Harshil Sethia: With the new Chennai facility, what kind of capacity will we have in hand and how much have we spent on the Chennai facility? If you can just highlight. I just missed the initial comments from you?

R M Subramanian: On the Chennai facility, that's about 1.5 lakh square feet of space and about 3 acres of land that's within the SEZ. It has existing building, and we are doing the refurbishing. I think all put together, it will be about 30 crores in terms of including the cost of the building and the refurbishment. This is all-in cost I am talking about.

Kunhamed Bicha: A lot of that has been accomplished.

R M Subramanian: As we earlier said in the speech, we should be commissioning the building in this quarter.

Harshil Sethia: And the 35 crores to 40 crores that we are planning to spend each and every year for CAPEX will be for Chennai and Bangalore both.

R M Subramanian: This is group as a whole we are talking about, which will have both buildings and the machinery. So, all of these projects are spread over years, it doesn't get executed in one year.

Harshil Sethia: And Sir, so three years ago we might be having a gross block of around 280 crores. Do we expect to maintain the same level of asset turns that we are doing as of today.

Kunhamed Bicha: RM you want to answer that?

R M Subramanian: In terms of our model, as we earlier said, we have an asset-light model. We continue to do that and there may be few blips here and there in terms of quarter-on-quarter but in the long run, our business model continues to aim for achieving that asset turns.

Harshil Sethia: I am just asking from a longer-term time frame, not on quarter-on-quarter frame.

R M Subramanian: Absolutely, we'll be able to. Maintain that.

Harshil Sethia: Which is around 7x which are which net-net which you have generally been doing.

R M Subramanian: No, it may be much higher also.

Kunhamed Bicha: We target 10x turn usually.

Harshil Sethia: You said that the facility will be up and running in a phased manner. So, you said that in Q1 there will be a bit of commissioning and then the Phase-2 might start from H2 FY25, correct?

Kunhamed Bicha: No. So, there are two facilities, one is in the export zone, which will be fully commissioned late this quarter and the beginning of next quarter, which most of the work is done that is for export. The second facility as our India business is growing so we have a Brownfield project a part of it will be live end of this quarter and new construction which we already have, the land will start I would say in the second half of this year to cater to the Indian market in the future.

Moderator: Thank you very much. Ladies, gentlemen, we will take that as a last question. I will now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: I would like to thank all the participants for being on the call and the Management for patiently answering all the queries, very much appreciated. And thank you very much for giving us an opportunity to host your call, wishing you all the very best, Sir. Any closing remarks from your side, Sir?

Kunhamed Bicha: I will just add a couple of lines if that's okay. We are encouraged by the robust support for my investors despite challenging market conditions. We are committed to reinforcing the trust that the investors have in our Company. I sincerely appreciate your steadfast support and confidence in Avalon Technologies. Together we are set for a remarkable journey of profitable growth and success. Thanks to everyone for attending the call. Thank you, Bhoomika. Thank you.

Moderator: Thank you very much. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.