"Avalon Technologies Limited
Q1 FY '25 Earnings Conference Call"
August 09, 2024

MANAGEMENT: **MR. KUNHAMED BICHA – CHAIRMAN AND MANAGING DIRECTOR – AVALON TECHNOLOGIES LIMITED**
MR. BHASKAR SRINIVASAN – PRESIDENT – AVALON TECHNOLOGIES LIMITED
MR. SHRIRAM VIJAYARAGHAVAN –GROUP CHIEF OPERATING OFFICER – AVALON TECHNOLOGIES LIMITED
MR. R M SUBRAMANIAN – CHIEF FINANCIAL OFFICER – AVALON TECHNOLOGIES LIMITED
MR. VENKY VENKATESH – GROUP CHIEF SALES OFFICER – AVALON TECHNOLOGIES LIMITED
MR. MIKE ROBINSON – CHIEF OPERATING OFFICER, US – AVALON TECHNOLOGIES LIMITED
MR. SURESH VR – HEAD OF CORPORATE PLANNING AND INVESTOR RELATIONS – AVALON TECHNOLOGIES LIMITED

MODERATOR: **MR. DEEPAK AGRAWAL – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to the Avalon Technologies Q1 FY '25 Results conference call, hosted by JM Financials. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Agrawal. Thank you and over to you, sir.

Deepak Agarwal: Ladies and gentlemen, a warm welcome to everyone for the Q1 FY '25 Earnings Call of Avalon Technologies Limited, hosted by JM Financials. We extend our sincere appreciation for your presence and we are truly honoured to have you join us on this occasion. To take us through the results of this quarter and answer your questions, we have today with us Mr. Kunhamed Bicha, Chairman and Managing Director, Mr. Bhaskar Srinivasan, President, Mr. R M Subramanian, Chief Financial Officer, Mr. Shriram Vijayaraghavan, Group COO, Mr. Venky Venkatesh, Group Chief Sales Officer, Mr. Michael Robinson, Chief Operating Officer for US operations and Mr. Suresh V R, Head of Corporate Planning and Investor Relations. Mr. Kunhamed Bicha will give a brief overview about the business performance for Q1 FY '25 and it will be followed by CFO Mr. R.M. Subramanian's remarks on the financial performance, after which we will open the floor for Q&A.

As we move forward, it is important to bear in mind that any forward-looking statements made during the call are subject to potential risk and uncertainty, both known and unknown. Without any further delay, I turn over the call to Mr. Kunhamed Bicha, the CMD. Over to you, sir.

Kunhamed Bicha: Thank you, Deepak. Ladies and gentlemen, on behalf of Avalon Technologies, I extend a warm welcome to our Q1 FY '25 Earnings Call. Before we dive into the business performance for this quarter, we would like to highlight Avalon Technologies' key differentiators, especially for those who are joining us for the first time.

Avalon Technologies establishes itself as a key player in electronic manufacturing services at a global reach. We take pride in our leadership in high-mix, flexible-volume manufacturing, serving a diverse range of industry verticals, especially in mission-critical integrated solutions that require significant engineering expertise. We currently operate across 13 manufacturing facilities in India and the United States.

We are also adding one new manufacturing unit in India. Our key differentiators are, one, vertical integration. We are a one-stop shop offering a true box-built solution that involves PCB design, new product development, cable assembly, sheet metal, plastics, magnetics, testing, and logistics.

We do end-to-end development from PCB design to manufacturing of final product. Number two, global presence, both in terms of manufacturing presence as well as customer base. Number three, optimal mix of established industries like rail, aerospace, industrial, medical, and communication, and emerging markets like clean energy.

Now moving on to our business performance and outlook, around this time last year, when we anticipated the destocking by our established US customers, we communicated this up front, and we have kept you updated on our progress. In our earlier earnings call, we mentioned that the first half of FY '25 would be muted, and noted the signs of recovery were emerging as our existing US customers began restocking at varying levels. We also shared that our focus efforts in the Indian market would soon start showing results.

This combined progress is expected to lead to significant momentum in the second half for FY '25. I would like to reiterate that we are following the path laid out during our last call and are seeing our anticipated growth materialize sooner rather than later. Our belief in the momentum and growth potential for this year has only strengthened.

We believe this year marks a pivotal point in our journey, setting the stage for decadal growth ahead. Accordingly, we would like to revise our FY '25 guidance up from the earlier 14% to 18% to 16% to 20%. During Q1 FY '25, our revenues decreased by 15.2% year-over-year, gross margins fell by 0.8% year-over-year from 34% to 33.2%, and by 3.1% compared to FY '24. The product mix this quarter was a key factor in the drop in gross margins. We believe this is a temporary phenomenon, and on a full-year basis, our gross margins can be between 33% and 35%, considering the anticipated revenue growth in the second half.

The decline in gross margins consequently resulted in a muted EBITDA at 2.2% and a PAT of minus 1.1% for Q1 FY '25. On a positive note, our focus efforts towards managing working capital have resulted in a reduction in net working capital days by five days compared to March 2024. This has led to a positive cash flow from operations amounting to INR36 crores in this quarter. We remain on track to reduce our net working capital gains by at least 10 to 15 days by March 2025.

Additionally, our order book grew 32% year-over-year to INR1,461 crores, with execution expected over an average period of 14 months. Long-term contracts, which extend beyond 14-month period and span an average execution period of two to three years, grew by 65% year-over-year to INR985 crores. Our Indian manufacturing serves both our Indian and global customers and represents 88% of our business in Q1 FY '25, remains highly profitable, with EBITDA margins of 9.6% and PAT margins of 6.6% during Q1 FY24. However, our US manufacturing business reported a net loss of INR14.2 crores.

Now earlier communication, we had highlighted two measures for the short-term challenges in our US manufacturing business. One, optimizing product allocation from our US plant to our Indian plant. We have transferred around 45% to 50% of our US production to our Indian plants. Consequently, the proportion of our revenues from our US manufacturing plant is at 12% in Q1 FY '25, as against 27% in Q1 FY '24. We expect US manufacturing production to be around 15% in FY '25.

Number two, rationalizing costs with our US operations. We have made meaningful progress on this front and we believe the results of these initiatives will be more visible in the coming quarters. We had earlier highlighted our three engines of growth. One, existing US customers. Two, new US customers. Three, growing Indian customers.

Our existing US customer base is shifting from de-stocking to restocking mode and are recovering at various rates. This shift underscores the strength of our long-standing customer relationship. Additionally, our recent wind, industrial, clean energy, and outdoor sectors with leading US companies are progressing from design or prototype stages to commercial and ramp-up production this year.

In the fast-growing Indian market, our intensified focus over the last one to two years has led to key wins in rail, industrial, aero, and communication sectors, which we believe will advance to commercial production over the course of this year. We are happy to note that we are seeing traction across all three engines and expect the coming quarters to grow ahead of our expectations. Transitioning to our new account wins.

In the US, we are onboarding two auto-component companies that are leaders in battery management and motion control systems. Additionally, we have secured significant contracts with two major industrial companies. These are well-established companies operating for decades and are market leaders in their domain.

Additionally, our presence in the aero industry over the last 8 to 10 years is now yielding significant new business wins. As we progress through the prototype stage in FY '25, we will share more updates on these developments in the coming quarters. Regarding one of our customers in the clean energy sector, which focuses on home electrification systems with storage and grid interface, the compliance certification is approved and the anticipated production ramp-up in H2 FY '25 is progressing as planned.

We would like to highlight that they follow a storage-first approach as opposed to a traditional solar installation approach and are likely beneficiaries of the present U.S. regulations including the Inflation Reduction Act. In the Indian market we are expanding our business with two of our existing industrial customers and one communication customer.

We are also achieving significant new wins in our rail, aero and industrial verticals with contracts secured from large multinational companies. As we transitioned from prototypes to production in the upcoming quarters, we will provide more details. Looking ahead to FY26 and beyond we are building a strong momentum in communications and server verticals too.

Additionally, we are actively working with our customers on anti-collision Kavach systems which we believe holds significant business potential. In summary, the momentum and progress we are seeing in our new wins and addressable opportunities are giving us confidence in achieving decadal growth and comfort in our goal of doubling our revenues by FY27.

On the infrastructure front, we are pleased to report that we have completed a new plant in Chennai dedicated to export operations and are in the process of starting production. Additionally, regarding our Brownfield expansion in Chennai to meet growing domestic demand, Phase 1 is complete and Phase 2 is expected to commence in the second half of FY25. With the revenue growth we anticipate in the coming years combined with our team and infrastructure in place, operating leverage will play a significant role in our Favor.

We expect to see the benefits of this operating leverage to some extent in Q2 FY25 and significantly from H2 FY25. Our profit growth is expected to outpace revenue growth. This is underpinned by the following reasons. We maintain industry-leading gross margins and have not pursued low-margin businesses.

The majority of our costs below the material costs are fixed in nature allowing operating leverage to flow through as revenue ramps in H2. Our dedicated focus on improving working capital will help us relieve some cash, further supporting our growth and profitability. In summary, we believe we have reached the bottom and are now seeing strong signs of recovery in the second half of this year supported by a substantial executable order book. FY25 will be a milestone year for us and we are excited to share this journey with you.

It is crucial not to lose sight of long-term vision and opportunities while dealing with short-term macro challenges. We are preparing our organization for sustained growth in the years ahead. Avalon stands strong, committed to building a business focused on long-term profitable growth rather than short-term growth at any cost. I will now hand over the call to our CFO for a detailed look into our financial performance. Thank you.

R. M. Subramanian: Thank you, KB and good afternoon, everybody. Thanks for joining the call today. Coming to our performance during the first quarter of FY2025 our financial performance is neutral in line with the commentary we had shared during the last annual call. Our revenue from operations is INR199.5 crores a decrease of 15.2% year-on-year from INR235.1 crores. Gross profit is INR66.2 crores down by 17.2% year-on-year.

Our gross margin is lowered by 82 basis points from 34% to 33.2% year-on-year. EBITDA is at INR4.4 crores down 73% year-on-year. EBITDA margin stood at 2.2%, a decrease of 469 basis points on a yearly basis. PAT stood at minus INR2.3 crores down by 132.6% year-on-year and PAT margin is at minus 1.1%, a decrease of 407 basis points year-on-year. Revenue from our India manufacturing business which serves both our Indian and global customers is at INR175.3 crores which is at 88% of the total revenue.

The profit after tax pertaining to our India manufacturing business is at 6.6%. The PAT percentage for our US manufacturing business stands at minus 58.1% with an absolute loss in PAT of INR14.2 crores. Moving on to our balance sheet side, our net working capital days are at 156 days as on June 24 comprising of 125 days of inventory, 75 days of receivables and 43 days of payables.

While we have noticed an improvement in both days of receivable and payable our inventory days have increased due to the impact of decreased revenue. Our net working capital days reduced by 5 days from 161 days as on 31st March 24 to 156 days as on 30th June 24. We are positive that we are well on track to reduce our net working capital by 10 to 15 days by the end of this financial year as mentioned in our previous call. We are also well positioned in terms of cash flow with positive operating cash flow of INR36 crores.

During the quarter even though we made PAT losses, we have been able to improve cash flow by better working capital management. This is reflected in our net cash position which improved from INR34.5 crores as on 31st March 24 to 58.4 crores as at the end of the current quarter. That's said, we have become even more confident in this year's momentum and growth potential. We believe this year represents the crucial turning point laying the foundation for a long-term growth in the coming decade.

Consequently, we are raising our FY21 guidance from the previously projected 14% to 18% to 16% to 20%. In conclusion, we are quite optimistic on our performance for FY25 on the back of large demand, growing order book, strong cash flows and comfortable liquidity position. With our profits strongly tied to a scale of production and revenues, we accordingly expect FY25 to be much more profitable for us than FY24. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: I just wanted to sort of understand obviously we have revised our guidance up to 16% to 20%. So, especially say within segments what kind of growth are you broadly targeting across your major segments or say within geographies between domestic and export can you sort of give a broad guideline as to where those two will kind of stand up?

Kunhamed Bicha: Thank you Deepak for that question. We are seeing a very broad-based growth and a lot of our issues were with the destocking situation in the US in the last 12 months. What you are seeing are existing customers who have been our customers for 8 to 10 years are coming back to a restocking level.

Some of our customers, a couple of them to name are coming at varying levels. Some of them have exceeded their usual run rate. So that's a positive sign, Some of them are 30%, 40% of our run rate, but the majority of what we are missing has come back and some of them are in the process of coming back. So that's the base is coming back.

Number two, what we are seeing is the second engine what we mentioned is the new customers. We have had significant wins in the last 3 to 6 months where we have been doing prototypes and getting ready for production. We are starting to see that flow in late part of Q2 and I would say in Q3 and Q4.

The other part, the third engine for us is the India piece which we were late entrants. We have been looking at the India market for the last, I would say, 2 years. Previously we were 70% export and 30% India, that effort is paying off. We are seeing a lot of activity in our rail business, our existing customers as well as new customers and new products we are making for new customers coming through.

As you know rail is a big part of what we do in India and apart from that we have signed a couple of new projects from our existing customers in the industrial side which will bear fruit in the coming future. Did I answer your question, Deepak? So it's really broad-based. So export is coming back which is the key and our India business is growing.

Deepak Krishnan: So export would be about 60% of our top line for a year? Is that sort of our understanding or would it be 50-50?

Kunhamed Bicha: Our long-term goal is to make it 50-50. We did have a short time when the US was down last year, a couple of quarters where it was 50-50. But looking at this year with exports coming back, we would say this year would be 60% export, 40% India. But our long-term goal is to make it 50-50.

Deepak Krishnan: Maybe if I just look at the incremental order inflows that we've had, obviously highlighted, that most of it would be from the US geography. Is that understanding correct? The 5.6 billion order backlog that we have today?

Kunhamed Bicha: It's broad-based. It's both. Because we see India actually growing a bit faster for us. And especially rail is growing a bit faster. If you look at the order book year-to-year, last year around this time we had INR1,100 crores which we could do 12 to 14 months. And we had INR600 crores in long-term contracts which is around INR1,705 crores in orders between short-term and long-term.

Now we see a 43% increase year-to-year where our 12 to 14-month orders are INR1,465 crores and anything between 12 months to three years is INR985 crores which totals to around INR2,450 crores. So with a strong order book, we are confident on achieving where we need to go.

Deepak Krishnan: And maybe just one follow-up. Just on Kavach, is our product RDSO approved or we are still in the process of getting RDSO approval? And similarly for the C-DAC server contracts, is there some minimum amount of servers or minimum contract value that you would give us over the next probably 12-18 months? Is there some sort of number to that?

Kunhamed Bicha: So Kavach, as you know, we are working with one of our largest customers. It's one of the two internationals who have been approved by the Indian Railways. So they are first level approved. The field testing is going on and we believe that is going to be a significant play, not in the near term but after two quarters I would say till the final approval comes through. But we are working with one of the two which has already been approved by the Railways.

Deepak Krishnan: Sure, and on the C-DAC servers, any number or any quantum?

Kunhamed Bicha: We are waiting. I think there are two allotments which are done and there is a change in the model. So we are hoping in the next six months we should get an allocation because we are one out of three.

Deepak Krishnan: Sure. Those are my questions. I'll get back on the queue.

Kunhamed Bicha: Thank you, Deepak.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yeah. Good afternoon, sir. So just want to start off with trying to understand, we saw a fairly sharp drop in the US revenues. I thought that had kind of settled down but are you starting to now kind of start seeing some uptake in terms the existing client base are you starting to see offtake, etcetera, inventory restocking that's starting to happen?

Kunhamed Bicha: Thank you, Bhoomika, for that question. Absolutely. So if you take our largest industrial customer, the forecast this year because it takes around four months to materialize and start the flow again. So we start seeing the flow, I think, starting this quarter. We are seeing 30% percent more than normal. Our medical customer, which is down 80%, is back to 100%. And these are all customers who've been with us for years.

And a couple other customers are back at 65%. These two are some of the leading indicators for us. The smaller customers, whether they come in at 30%, 40%, we're not worried so much. But the big pieces, which we do in the US, are surely coming back. And we're seeing all signs of it. And it's not very much related with the economy. It is more of a de-stocking, re-stocking because we had that four years of stocking and stocking.

Last three quarters, there's a lot of de-stocking happening. And now we are seeing coming back to the normal levels. So it's a very positive sign for us, apart from the new customer base.

Bhoomika Nair: Sure. And, sir, in terms of the larger clients where we were looking at, say, Ohmium or Lunar, etcetera, how is that panning out in terms of their offtake at this point? What is the status on their ordering activity and their product approvals?

Kunhamed Bicha: So, Bhoomika, I'll address that in a couple of pieces. One is the name you mentioned. We stopped mentioning names in the calls. so that, it has been approved. Now the field testing is going on. From all what we can see, they should launch in the late part of this year, which is, you know, in Q3. And then going to production in Q4. So, as we stand now, all the approvals are done. And, we'll keep our fingers crossed. And, a lot of that is not in our numbers, what we talk about going forward.

And, we believe that's going to be an upside. On the other hydrogen customer, their large factory has been all over the press. And, we hope, that's a little bit later, as my feel, it's more of a 2026 story. But, we still are the key manufacturer for most of their products. And, we're continuously prototyping and perfecting what we do for them. Did I answer your question, Bhoomika?

Bhoomika Nair: Yes, sir. So, if I look at it, we've seen a decent progress of the revenue mix or manufacturing mix actually shifting to India as what we were looking to do with almost 88% being now manufactured out of India. Now, we were looking at cost savings in terms of US, in terms of scale down of the cost structure there. So because we've seen that loss of about INR14-odd crores in the current quarter.

How is that kind of panning out in terms of cost reduction or is it just purely now there's no more room to kind of cut costs in US and it'll all be driven by uptick in terms of revenue which will erase these losses? How should we understand this? Because the objective was to move to India and I think a lot of it has already happened, right?

Kunhamed Bicha: So, Bhoomika, for us, I'll just give you how we went about doing this. It took us five to six months to convince the customer we needed to move to India which we did for 50%, 55% of our customer base and agreed to move. Then it takes two, three months for us to make the moves for them to audit, for them to approve. So, a lot of that is complete but in the interim we need to keep, we can't shut down production. It's not an on-off switch. So, it's more of a transitionary phase.

So, we have to keep some of the activities going in both places in transition. For example, a customer will say, okay, you do 50% for a quarter in India. Other 50% do it in the US. So, and then after two quarters move the whole thing to India, right? So, we are in that process. So, you will start seeing some of the benefits of what we did on that in the following quarter. There's going to be, of course, good effect of that.

But on the other side what you see is since we are moving all this out of our US operations temporarily there's going to be losses there. It's coming into India.

Bhoomika Nair: Okay. So, what I'm trying to understand is next couple of quarters we see the restocking coming through. We see new customers coming through which take up our revenues from the US market. But they'll be all manufactured out of India. So, will the US losses kind of continue or will they kind of go away? That's where I was actually just trying to understand, you know, from a cost perspective. Or is that, once the revenues come back the US losses also go away?

Kunhamed Bicha: There's a combination of two things. One is, of course, the operating costs in the US is going down as we see. Okay. And so that you're going to see the benefits of that as the full transition is complete. We're doing 100% here. Right now we're running two plants on the same product. The second part of the equation is we are keeping some of our bets open there for some large IRA deals.

So, we're not betting the whole operation but we are keeping our bets because some of the production can only be done in the US because of the IRA benefits. So, we're keeping our options open and it's the right combination of the two. So, whatever we can move is moving and some more will move. And then we will right-size the organization as the products with the IRA benefits come in, which is in process.

Moderator: Thank you. The next question is from the line of Meet Jain from Motilal Oswal Financial Services. Please go ahead.

Meet Jain: Yes. So, sir, my question is regarding the India business. As you can see, we have seen some dip in this quarter in terms of our India revenue. So, I just want to understand at which stage are we in terms of ramp-up. As you said, the activity on the railways has been picking up very strong. So, I just want to understand the momentum going ahead. So, how we can see the India operations.

Kunhamed Bicha: I need to thank you for that question. What you said actually explains the answer. So, with the election and a lot of this activity the rail business for us slowed down the first quarter and we are seeing the uptake starting this quarter back. Some of the election and some of the activities, it slowed down the rail business and that is a key piece which we do for India. But looking into the next three quarters, we are seeing a substantial growth in that piece. We are looking for more than last year on a yearly basis.

Meet Jain: Okay. And for this, newer customers, so, can you set a timeline to what kind of products and have you struck a deal already for manufacturing production in India or that will be happening in the U.S. operation itself?

Kunhamed Bicha: A lot of things need is that today we are able to get production directly into India. More than what we could do a few years back where we did it initially in the U.S. and then brought it to India. So our success rate of directly bringing it to India is increasing and most of what we are talking about is either prototype or getting into production. So these are already customers who have agreed on which factory and majority for us now is coming into India directly whether it is from India itself or from outside India.

Meet Jain: Okay. And last one question is like if I correctly you mentioned that the U.S. operations will continue to see some losses in the next few quarters because you are moving the production here. That is correct?

Kunhamed Bicha: The majority of the move has happened but we need to make sure that some of the operations is there to meet because these customers are used to U.S. manufacturing. So the costs are going to go down and I would say that once the new IRA customers cut in the U.S. we should be fairly comfortable to break even or make a nice profit there too.

Moderator: Thank you. The next question is from the line of Uttam Kumar from Avendus Spark. Please go ahead.

Uttam Kumar: Yes, thank you. Sir, thank you for taking my question. Firstly, one of the participants has already raised this question in terms of the revenue growth. We had seen that there has been an impact on the domestic trend. You also highlighted that this was led because of the elections. So on a sequential basis, we have seen almost 8% decline in terms of revenue. But in terms of gross margins, last couple of quarters we have been seeing the gross margins have been at almost 37%-38% levels.

And this quarter we have seen a significant decline despite exports mix being on the higher side. Could you kindly state why there has been a significant dip? Is the mix of orders are at a lower margin or did they execute some one-off orders? So I mean, what's the thought process on this?

R. M. Subramanian: Yes, I'm Subramanian here and I'll take the question. Okay, if you look at our long-term gross margins of what we have done in past it's about 35% plus. And typically, what our business we can aim to achieve is about a 34% to 35% gross margin and these are with that there has been a slight dip in terms of what we achieved this time. And this can be broadly explained by the factors there are two factors I will call it.

One is the product mix this time some of the product mix has a lower margin and specific factor to this quarter I will say is also a bit on the side which is more on the related to the red sea which hopefully will go down, but having done in the past we are confident of achieving what normally we do which is about 34% to 35% gross margin in the long run.

Uttam Kumar: Okay. So I mean, the low margin order which you had stated was it in a particular division which you're talking about? Is it the mobility or is it industrials? Or is it the combination of the both?

Kunhamed Bicha: We usually aspire to have these margins in some of the products have a much higher margin than 34. Some of them have lower. We want to have a right mix where we get to 34, 35%. So it's not like every product is running at 34, 35%. There's some which are much higher than 34, 35%, some which are lower and the blend is what gets you to 34, 35% and that is what we aspire for.

And interestingly, there is business out there where we can find lower margin businesses. We have stayed out of doing that. I'm not saying it's right or wrong, but that's the approach we have taken. We are trying to create this business over a longer time, sustaining margins and having the leverage effect take effect as a top-line growth.

Moderator: Thank you. The next question is from the line of Vipraw Srivastava from Incred Capital. Please go ahead. Yes, sir.

Vipraw Srivastava: Okay, just questions on the U.S. solar industry. So I want to understand, what would be your exposure for U.S. solar industry for the guidance that you have given?

Kunhamed Bicha: I would say less than 10%, 11% is the max. But let me tell you one more thing about, I know why this question is coming. U.S. solar industry with the housing down is looking down, negative growth as we speak because some states have eased the buyback. But the fastest growing segment in solar is storage, where you generate power and store. And that is growing in the U.S. at 50% to 60%. I don't know the number in the last quarter.

And that is where we are playing majority of what we are doing in the future. So we are very positive about that and that is where the other benefits would play into us. Did I answer your question?

Vipraw Srivastava: Yes, just following it up. So 10% you were saying, right? Less than 10%, right? For the exposures?

Kunhamed Bicha: Yes, between multiple customers.

Vipraw Srivastava: The number was not clear, actually. The audio was slightly muffled. What was the number, 10%?

Kunhamed Bicha: With multiple customers, just not one.

Vipraw Srivastava: Okay, and you are saying we'll be entering the battery energy solar system part the best part, right? Where you actually store power.

Kunhamed Bicha: Yes, we have multiple customers. That is what is the potential for the future and the growth. But the existing pieces, so we are not banking on 50% coming from solar. It's a very small amount today.

Vipraw Srivastava: Right, so just want to understand, in your presentation, you have given 25% coming from, roughly 25% coming from clean energy, right? So how much of that would be ex-solar? I mean, apart from solar, what do you do in clean energy segments?

Kunhamed Bicha: So we are also in the process of doing hydrogen, parts for hydrogen, which again, I mentioned that it's going to be more of a 2026 play. We've been working with these companies for a couple of, two, three years. And when the ramp comes, we are there to take the benefits out of it. Now we do some parts in the EV world. Because of clean energy, we look at three segments. One is solar, hydrogen, and the EV sector.

Vipraw Srivastava: Right. And the guidance that you have given there the mix remains the same, right? Roughly 25% comes from clean energy, right?

Kunhamed Bicha: It is 25%, I have to check the number exactly but 20% to 25% but only part of that is solar.

Vipraw Srivastava: Okay. And last question, sir, this election, which is coming up in US, so, I mean obviously we all know Trump's policy is not very clean energy friendly. Let's say if he wins, what kind of risk do you foresee to your projection? Is there a risk there if that happens?

Kunhamed Bicha: I don't, I mean, of course, elections come and go but I don't foresee a risk but clean energy is a thing of the future. If some IRA benefits go away and we are more than happy to move that production to India so, the only thing is it will be, instead of being made in the US, it will be made in India instead.

Vipraw Srivastava: Okay, fair enough. Thank you, sir, thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Sharma from M.C. Pro Research. Please go ahead.

Nitin Sharma: Two questions. Firstly, what is the composition of the current order book and some understanding what would be the average gross margin of this order book?

Kunhamed Bicha: So, like we mentioned before, we have around INR1,465 crores executable in 12 to 14 months, and we've got INR 985 crores executable in 14 months to three years, okay? That's a total of INR2,450 crores. Visible to us, we're not counting -- some orders are multi-year, which is five years or even 15 years in the aerospace industry. We are not counting those orders. So in that sense, we feel fairly comfortable since we've had a 43% growth year-over-year on the order book, which we've been working on for years, and more is coming. So we are fairly confident on the order book.

Nitin Sharma: Yeah, so I meant the industry-wise break-up.

Kunhamed Bicha: So, industry, we're seeing it across industries, okay? And the reason why we are diversified, see most of our industries would vary from 20% to 25% , aero might slow down. We expect something else to pick up. So a lot of our growth is actually broad-based, except for industrial, it's getting a little bit chunkier now with around 30%, as we look into the future.

Nitin Sharma: Got it. And what would be the average gross margin of the order book range would be helpful?

Kunhamed Bicha: Across industry verticals, products and commodities, we intend to have margins between 33%, 34%, 35%. We've been doing that for the last four or five years. We intend to continue that. So, we want to have a blend mix of getting to 34%, 35%. Some of them may be at 25%, some of them may be at 55%, but we need the right blend to keep us there.

Nitin Sharma: Got it. And my second question is, how should we see the employee cost as a percentage of revenue coming down as you reduce your manufacturing in U.S. over, say, 12 months to 24 months?

R. M. Subramanian: Yeah, I'll take that. See, our employee cost as a percentage has been slightly higher, but that's more to do with the leverage impact in terms of what we're doing. So, if you look at our capacity utilisation, we are operating about at 60%, and that too in two shifts. So as our revenue picks up, about 50% of our employee cost is fixed, and that will play into the operating leverage impact and also flow into the bottom line. And based on our revenue balance, we believe that our growth in profit percentage will be much more than the growth in sales percentage.

Nitin Sharma: Yeah, that part I got it, but trying to understand how should we see the steady state basis. You're doing INR45 crores, INR45.5 crores in every quarter. So for the next 12 months or 24 months, this is where it would be. Do you expect it to come down materially? That'll be helpful.

R. M. Subramanian: As a percentage of sales, it will come down because the sales will go up and a percentage of the cost is fixed, that's expected.

Kunhamed Bicha: If you're asking for the U.S. cost, it will come down, okay? Absolutely, it will come down over the next three quarters.

Moderator: The next question is from the line of Debashish from Svan Investments.

Debashish: I have just one small question. So if I see our current run rate of revenue quarterly, it is obviously a come down significant to the range of INR200 crores approx. Now the kind of guidance that you are providing, it seems to be that in Q3 and Q4, or in H2, our quarterly run rate would be in the range of INR290 crores to INR300 crores. Is my understanding correct?

Kunhamed Bicha: Yeah, you can do the math. If you want to look at overall growth, Q2 also will be good. Just don't look at the Q3 and Q4. H2 is going to be solid, you start seeing the growth in Q2.

Debashish: Yeah, so the question that I was asking is, if I compare Q2 as compared to Q1, there will be a sequential good amount that we'll see in Q2, correct?

Kunhamed Bicha: Yeah, you can make that assumption.

Debashish: Yeah. And one more question is, maybe I missed that number, what is the total capex number that you have guided for this year?

R. M. Subramanian: Total is about anywhere between INR35 crores to INR45 crores of what we're expecting for this year.

Debashish: Okay, and this includes the shifting that is happening from U.S. to India?

R. M. Subramanian: Yeah, it's at a consolidated level, yeah, the total capex.

Moderator: The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: So do you have any EBITDA margins guidance for the year in just a general outlook? This quarter, it was very low. So what can we expect going ahead?

R. M. Subramanian: Yeah, we have given guidance in terms of the top-line revenue and what we are looking at. And if you look at our past performance, we also managed to maintain our gross margins and then you can work out the numbers in terms of what will flow. The operating leverage will flow into the EBITDA impact and that's what we're expecting to do there.

Moderator: Mr. Rahil, does that answer your question?

Rahil Shah: Yes, okay, thank you.

Moderator: The next question is from the line of Uttam Kumar from Avendus Spark. Please go ahead.

Uttam Kumar: Sir, now that we have revised the revenue upwards, I just want to understand with regards to our manufacturing thought process. I mean, eventually, will we be again diverting back to our U.S. manufacturing? Will, again, 50% of production will be done there? And if that kind of a scenario pans out, during what timeframe are we looking at that? And how will the EBITDA margins also pan out at that point of the junction? Just a thought process.

Kunhamed Bicha: If you look at our company historically, we started in the U.S. with the notion to make in India in '97, '98. So as things got difficult to get businesses to move to India, we said if we have an operation in the U.S., it'll be easier to move to India. So our focus through our journey as Avalon is always to make in India. To make sure that we get the business to India, we have the U.S. manufacturing facility where it would start there and then move to India.

Then as life would have it, a lot of customers want to make in the U.S. for U.S. So we started doing that, okay? And historically, during COVID and the supply chain challenges, a lot of customers wanted to get things back to the U.S. Today, they're looking and again looking at, they don't really care if it's U.S. or India as long as you have the same service level, same engineering levels, and of course, a better cost.

So we don't intend to have a completely full-fledged, but we will always support customers who have an IRA benefit to make in the U.S. All large boxes, some of the large boxes, does not make sense to move from India to there. So in that case, we do sub-components in India and do the final assembly. So there is no intention of having a 50% in the U.S. It's going to always be between, today it's at 12%. If you go back a year back, it was at 27%. So this year, we think it will be 85% India and 15% U.S. Did I answer that question, Uttam?

Uttam Kumar: Yes, sir. Got it. Thanks, sir. That's all for my side.

Moderator: The next question is from the line of Pankaj from Affluent Assets.

Pankaj: Sir, as I understand, as a principle, we are avoiding low-margin, high-volume goods, electronic goods industry. So are we intending to enter into very high-end electronics where the likes of OSAT and all that, where the volume is quite high, and since that is a functioning industry for India, and also quite good margins? In case we are, what are we doing for that?

Kunhamed Bicha: The point is our focus has always been on margins, and we've always said, it's not growth alone, it's profitable growth we're looking at. There's a lot of businesses we can sign today for the top line, but we have stayed our course and wanted to maintain our margins, which are 34% to 35% through the years.

It's not just today, and we don't have, in the near future, there's nothing wrong with the low-margin, high-volume business, but in the short term, we're not looking at that. It's a different mindset and different set of facilities we need to get that going, so we intend, in the short term, to look at high-margin businesses.

We're already doing the high-end of electronics, and the more we do of that, the better off we are, and that also has a long-term sustainability with customers, which, so if you look historically, our customers, 80% of our customer base have been with us 8, 10 years, so that speaks for itself.

Pankaj: So, but then, where do we see ourselves in, say, 2 years, 3 years down the line as a part of the whole EMS industry, which is still a sunshine industry in India?

Kunhamed Bicha: We always have added and always will, on the technology side, be the leading indicator for the electronics manufacturing. Look at it, we always have the aspirations to be that, in whether the different commodities we do, whether it's PCB assembly, metal, cable, we aspire to that's why we are in planes, we do parts of planes, it's not easy to do that, not only that, we supply these parts of the Airbus or Boeing to their respective tier 1 vendors. So we always aspire to do what is more challenging rather than do repeatable stuff.

Moderator: Thank you, the next question is from the line of Ashutosh, from Mirabilis Investment trust, please go ahead. Mr. Ashutosh, may I request you to unmute your line and speak, please?

Ashutosh: Thank you for the opportunity, sir. Sir, I wanted to understand on the profitability, how does the profitability among these segments varied? So this I'm asking from Clean Energy's point of view, I mean, if you look at the margins for this segment, how would they be different from, let's say, mobility or industrial?

Kunhamed Bicha: So for us, it's a blend, like I mentioned. So Clean Energy is usually a little bit better, if you're looking at that, it's very much like an industrial product, which is the majority of what we do. So depending on type of product you're doing, it's not just an industry-specific thing. We could say medical has a little bit more margin, but if you look at these products, they're very industrial in nature, so the margins are going to be very similar across segments.

Ashutosh: Sir, the reason I ask this is because the Clean Energy mix, in terms of execution, has gone up like about 10%. So last quarter, it was about 15% of the revenues, now it's about 25%. On the contrary, the gross margins have kind of dipped quarter-on-quarter, so just was trying to tie up this piece.

Kunhamed Bicha: Actually, don't look quarter-to-quarter. If you look at last year or 2 years, Clean Energy mix is always in the 24, 25 range. And it is going to be there. And Clean Energy by far is not low margin by any chance. Because most of our Clean Energy solar is all exported.

Ashutosh: So which segment was the, which led to the dip in gross margins? Again, quarter-on-quarter basis if I had to look at.

R. M. Subramanian: I'll take this question now. Gross margin, I think, more across the spectrum, and it's more specific to this quarter. So I think we should not draw conclusions on that based on either this quarter performance or on the sector specific. And as KB has already said, there are sectors where we have a higher, or customers who have a higher gross margin, some of them are lower. And what we're seeing is ultimately a blended one. And that's what we aim to keep it at. We don't go specific to sector or customer.

Ashutosh: Sure, sir. And then, sir, on the order book, the current order book about INR1,400 crores, INR1,500 crores, the order book is in less than 14 months. Broadly, if you can give us some colour on the segments, how would these segments be, the mix, basically?

Kunhamed Bicha: I would say around 47%, 48% is India-based, 53% is U.S. based. And if you're looking at industrial, it's as per our mix, there's no -- or even if it's lower in the mix, it's coming. We're hoping that the new pieces that are coming will consolidate that. But on the other side, we're seeing a 47, 53 already with India, U.S.

Moderator: Thank you. The next question is from the line of Pratap Maliwal from Mount Intra Finance Private Limited. Please go ahead.

Pratap Maliwal: Yes, hi, thanks for taking my question. So just one question from my side. I believe you called out that the EBITDA from our India operation was about 9.5%, where I believe last quarter it was around 12.5%. So what was the reason for the dip of 300 basis points in the India manufacturing?

R. M. Subramanian: I'll take this question. So in terms of India manufacturing business, what we want to say is, overall, the fundamentals of the business remains strong and we've been delivering the margins of what we've been doing. Specifically, I'm looking at the margins. It's the operating leverage impact of the lower gross margins going through and the cost being fixed. But as we move along in terms of the higher sales growth, I think that should automatically come back.

Pratap Maliwal: Okay, and I missed this out. Okay, please go ahead, sir, yes.

Kunhamed Bicha: Sorry?

Pratap Maliwal: Yes, no, I think you were just saying something, sir, and the other reason is you were pointing something else.

Kunhamed Bicha: The end story on Q1 is the product mix. And there's some small amount of rate increase because of the, but it's the product mix primarily. So as the mix comes back and we see it all coming back and it's not gone anywhere, you'll come back to that level. And of course, there's a negative leverage on operating leverage.

Pratap Maliwal: Okay, so then just, I believe the previous participant was also referring to this, but then when you're saying it's about the product mix, can you help us understand which, how kind of the blended rate, what is affecting the blended rate when you say that we look at it as a blended rate, what part of the product mix is affecting it?

Kunhamed Bicha: Yes, we don't want to get into details. It is basically some of the high margins did not ship out. Let's keep it that way. And then our quantum of sales number also came down. That's where the negative leverage played out. Okay, and if you look at some of the products we ship month on month, that reduced for a quarter, but it's not gone away, it started back again. Going forward, we're very confident on the gross margins.

Pratap Maliwal: So they should come back to that range of about 12% or I think going forward, is that it?

Kunhamed Bicha: No, the gross margins, I don't want to commit on this yet. You will see that it goes back. Gross margins, we are confident.

Pratap Maliwal: All right, okay. Thanks for taking my questions and best of luck for the time coming. Thank you.

Moderator: The next follow-up question is from the line of Debashish from Svan Investments. Please go ahead.

Debashish: So, I just wanted to understand one thing. What would be the impact on realizations, margins and working capital also from the movement on from U.S. based plan to India? Could you talk a little about it? How does this impact?

R. M. Subramanian: Yes, so when we move the production from U.S., India, as anybody would expect, the margins will go up, but it's also, we need to have a dialogue with the customer in terms of how the whole thing plays out. It sort of happens in a transition. And whatever savings we have, some amount maybe need to share with the customer as well. But that's our business model in terms of trying to on-call the customer in the U.S. And over a period of time, move to India. And that's what our hybrid business model is all about.

Debashish: Okay, and specifically anything on the working capital?

R. M. Subramanian: On working capital, we've given the numbers and in this quarter there's been a saving about 5 days and as we move along, we are confident about achieving the guidance of 10 days to 15 days working capital savings. And also from an operating cash flow, we've been very careful about choosing the business, right business in terms of profitable business, which automatically leads to operating cash flow, positive cash flow, and added to the net cash as well.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

Kunhamed Bicha: Thank you. We are encouraged by the robust support from our investors. We are committed to reinforcing the trust that our investors have in our company. We truly appreciate our steadfast support, confidence in Avalon Technologies. Together we are set for a remarkable journey of profitable growth and success. Thank you to everyone involved.

Moderator: On behalf of JM Financials, that concludes this conference. Thank you for joining us and you may now disconnect your line.