"Avalon Technologies Limited

Q3 FY'25 Earnings Conference Call"

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MODERATOR: **MR. RAVI SWAMINATHAN – AVENDUS SPARK**

Moderator: Ladies and gentlemen, good day and welcome to the Avalon Technologies Limited Q3 and Nine-Month FY '25 Earnings Conference Call.

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 the conference call, please signal an operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the Conference over to Mr. Ravi Swaminathan from Avendus Spark. Thank you, and over to you, sir.

Ravi Swaminathan: Thanks, Dorwin. Good afternoon, everyone. And a warm welcome to the Q3 FY '25 earnings call of Avalon Technologies.

To take us through the results today, we have with us from the Management, Mr. Kunhamed Bicha – Chairman and Managing Director; Mr. Bhaskar Srinivasan – President; Mr. Suresh V.R. – Chief Financial Officer; Mr. Shriram Vijayaraghavan – Chief Operating Officer; Mr. Venky Venkatesh – Chief Sales Officer; and Mr. Michael Robinson – Chief Operating Officer from US Operations.

Mr. Bicha will give us an overview of the "Business Performance" and will be followed by Mr. Suresh's remarks on the "Financial Performance", post 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 this call are subject to potential risks and uncertainties, both known and unknown.

Now without any further delay, I will hand over the floor to Mr. Bicha for his initial remarks, the CMD. Thank you, and over to you, sir.

Kunhamed Bicha: Thank you, Ravi. Ladies and gentlemen, on behalf of Avalon Technologies, I extend a very warm welcome to our Q3 FY '25 Earnings Call.

I will quickly introduce Avalon Technologies, especially for the ones 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. We currently operate 14 manufacturing facilities in India and the United States. We are also adding a new manufacturing facility in India.

Our key differentiators are; 1. Vertical integration. We offer a complex box-build solution right from PCB design, new product development, to final product manufacturing. 2. Global presence, both in terms of manufacturing presence and customer base. 3. Optimal mix of established industries like industrial, rail, aerospace, medical, communications and emerging industries.

Now, turning to our business performance, we are pleased to share that we remain on the growth path that we guided earlier. Momentum continues to accelerate this year, driven by the recovery of our U.S. customers and our expanding presence in the Indian market. This strengthens our confidence in the growth ahead. We see this year as a pivotal moment, laying the foundation for significant growth over the next decade. Initially, we guided 14% to 18% revenue growth and later revised it to 16% to 20% in our earlier Earnings Call. Now, we are further increasing our FY 2025 revenue growth guidance to 22% to 24%.

We build mission-critical, long lifecycle products and aim to be a trusted partner for our industry-leading customers. By focusing on long-term profitable growth opportunities, we have maintained industry-leading gross margins, staying away from the short term. We had initially communicated 33% to 35% as a reasonable gross margin range in the medium term. Given our progress this financial year, we are now increasing our FY 2025 gross margin guidance to 34% to 36%.

Moving to our Q3 FY '25 Performance:

As discussed in previous calls, key highlights for this quarter include our growing sales, increasing book order, and improved profitability, driven by operating leverage. In Q3 FY '25, our revenues grew by 31.1% year-over-year, our gross margin percentage improved from 36.8% in Q3 FY '24 to 37.3% in Q3 FY '25.

As we anticipated, the benefits of operating leverage are now evident with EBITDA margins rising to 12.3% in Q3 FY '25. Absolute EBITDA grew by 109.5% year-over-year. Our PAT stands at Rs. 24 crores, reflecting a 264.9% year-over-year increase with PAT margins of 8.2% in Q3 FY '25.

Our order book grew by 25% year-over-year, reaching Rs. 1,594 crores as of December 31, 2024, with an average execution period of 12 to 14 months. Additionally, our long-term contracts, which extend beyond 14 months and span an average execution period of 2-3 years, increased by 32% year-over-year to Rs. 1,111 crores.

Our net working capital days improved from 161 days in March 2024 to 150 days in December 2024. We had initially targeted an improvement of at least 10 days to 15 days in March 2025. Despite a temporary increase in our net working capital days from 134 days in September 2024, we remain confident meeting our original guidance of 10 days to 15 days improvement by the end of this fiscal year.

Revenue share from our U.S. manufacturing plant now accounts for 12% of our revenue in Q3 FY '25, reporting a net loss of approximately Rs. 3.4 crores, an improvement from the Rs. 14 crores loss reported in Q1 FY '25. Meanwhile, manufacturing at our India plants, which serve both our domestic and global customers, represent 88% of our business in Q3 FY '25, remains highly profitable with an EBITDA margin of 15% and a PAT margin of 10.8%.

We have previously outlined our three key drivers of growth; our existing U.S. business, new U.S. business, and expanding Indian business. The recovery of our existing U.S. customer base highlights the strength of our long-standing customer relationships. We believe the U.S. market is continuing to gain traction, and we are optimistic about the growth potential in this large addressable market.

Our recent successes in the industrial, automotive, and aerospace sectors with leading U.S. companies are progressing from design and prototype stages to commercial production, with ramp-up expected in the upcoming quarters. We are seeing increasing momentum with new wins in the U.S., which reinforces our vertically integrated capabilities and strong market pushing.

In the rapidly growing Indian market, our focused efforts over the past two years have resulted in key wins in the industrial, rail, and communications sectors. These wins are transitioning to commercial production and are expected to ramp up significantly over the next few quarters. We are encouraged by the traction across all three growth engines, which strengthens our confidence in the growth opportunities available to us over the next decade.

Turning to key deal wins, we continue to see strong traction across multiple sectors in both India and the U.S. We are moving from prototype to volume production this quarter for a global auto component company specializing in motion control systems. Our long-standing presence in the aerospace industry over the past 8 years to 10 years is now translating into significant new business wins as we advance to the prototype stage in FY 2025, we will provide further updates in the coming quarters. In India, our rail business is scaling up well, with stronger performance expected next year. Additionally, we are actively working with our customers on anti-collision Kavach systems, which we believe offers significant business potential in the future.

On the infrastructure front, we are pleased to announce that our plant in Chennai dedicated for export is now complete and has started production. Additionally, Phase 1 of our brownfield expansion in Chennai, designed to meet the growing demands of our domestic market has finished. Phase-2 is expected to begin within the next 1-2 quarters. This positions us well to manage the increased demand expected in the coming periods. With the expected revenue growth in the coming years, combined with our established team and infrastructure, operating leverage will be a key advantage.

In summary, we are seeing strong signs of growth, which we expect to sustain and accelerate in the future. I would like to thank each of you for being a part of our journey. This has been a pivotal year for us and marks one of the many years of strong performance ahead. Avalon remains committed to building a business focused on long-term profitable growth rather than short-term gains.

With that, I would like to hand over the call to our CFO, Suresh Veerappan, for a detailed overview of our financial performance. Thank you so much.

Suresh Veerappan: Thank you, K.B., and good afternoon, everyone. Thank you for joining the call today.

As K.B. Mentioned, all three of our growth engines are advancing at a distinct but accelerating rates. The U.S. market is gaining traction, and our presence in the Indian market continues to strengthen. Reflecting this positive trajectory, we are further increasing our FY '25 revenue growth guidance to 22% to 24%.

In Q3 FY '25, we recorded our highest-ever quarterly revenues of Rs. 281 crores. This reflects a 31.07% year-over-year increase from Rs. 214 crores in Q3 FY '24. In nine months FY '25, our revenue from operations is Rs. 755 crores, an increase of 16.1% year-on-year.

Our geographical revenue split for the quarter was 45:55, with India contributing Rs. 125 crores, and the U.S. contributing Rs. 156 crores. For nine months FY '25, our geographical revenue split was 42:58, with India contributing Rs. 319 crores, and U.S. contributing Rs. 437 crores.

Our gross margin for Q3 FY '25 reached Rs. 104.82 crores, reflecting a strong 33% year-over-year increase from Rs. 78.9 crores in Q3 FY '24. Our Q3 FY '25 gross margin was at 37.3%, up by 48 bps from 36.8%. For nine months FY '25, our gross margin stands at 36.1%. We continue to maintain industry-leading gross margins.

EBITDA for Q3 FY '25 stood at Rs. 34.6 crores, reflecting a 110% increase from Rs. 16.5 crores in Q3 FY '24. This resulted in an EBITDA margin of 12.3%, up by 462 basis points from 7.7% in the same period last year. For nine months FY '25, EBITDA stands at Rs. 73 crores, reflecting an increase of 55% year-on-year. EBITDA margin for nine months FY '25 stands at 9.7%, marking an improvement of 245 basis points year-on-year.

PAT rose to Rs. 24 crores, a 265% year-over-year increase from Rs. 6.6 crores, with a PAT margin of 8.2%, up by 521 basis points from 3% in Q3 FY '24. For nine months FY '25, PAT stands at Rs. 39 crores, an increase of 87.2% from Rs. 21 crores in nine months FY '24.

Our profitability continues to strengthen, delivering sustained growth. Our operating leverage becomes increasingly evident as revenue grows, translating into enhanced profitability, given that a significant portion of our cost structure remains fixed. This phenomenon is reflected in our Q2 and Q3 results.

Moving on to the balance sheet, net working capital days improved from 161 days in March '24 to 150 days in December '24. Net inventory days came down from 118 days in March '24 to 103 days in December '24. Trade receivables increased from 79 days in March '24 to 94 days in December '24. Trade payable days increased from 36 days to 46 days over the same period. However, net working capital days have increased from 134 days in September '24 to 150 days in December '24, due to increase in receivable days from 80 days to 94 days during this period.

We remain confident in our ability to reduce net working capital days by 10 days to 15 days in FY '25, in line with our earlier guidance. As of December 31st, our total outstanding debt stands at Rs. 156 crores, with cash equivalents and investment at Rs. 129 crores. Our CAPEX for Q3 FY '25 and nine months FY '25 was Rs. 11.3 crores and Rs. 32.7 crores, respectively. With the CAPEX-light model, our asset turns are strong at 8.8. The budget for FY '26 is currently in progress, and we will be in a better position to provide detailed insights about our FY '26 outlook in our next call.

To summarize, the momentum across our three growth engines, along with improved profitability and a strong financial position, strengthens our confidence in achieving long-term sustainable growth. With a continued focus on operational efficiency, working capital management, and strategic execution, we are well-positioned to capture the opportunities ahead. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Rahul Gajare from Haitong Securities India Private Limited. Please go ahead.

Rahul Gajare: Yes, hi. Thanks for the opportunity and congratulations on the strong performance that we have seen during the third quarter. And also, I think I should congratulate you for a very elaborate opening remarks, which covered many of my questions. So, to start the questions, the first question I want to ask you is on the margin front. Given we have seen significant ramp-up in both the geographies, what do you think is more sustainable margin, both in India and the U.S., given some of the business will transition from prototyping to full-fledged manufacturing? Thank you.

Kunhamed Bicha: Hi, Rahul. Thank you for your questions. We believe that we have always maintained between 33% and 35% as the margin we target. But certain years, we may be higher like this year. We hope to do better than that, but we target between 33% and 35% as the gross margin between the two geographies.

Rahul Gajare: And at EBITDA level, how different will that be given significant operational cost in the U.S. operations?

Kunhamed Bicha: Actually, like we mentioned in the last few quarterly calls, we have reduced our operating costs. But there's a good opportunity in the U.S. today. We have to see how the politics of that plays out. So, we intend to maintain the same margins going forward, because we can always increase price.

Rahul Gajare: Okay. My second question is on your expansion plan. You have indicated work on Phase-2 will start in a couple of quarters. So, I want to know when will that be ready. And what could be the peak revenue once Phase-2 is completed?

Kunhamed Bicha: So, we usually build up space six months to a year before we need it. So, the key for us is now we have built the export facility. And that is ramping up as we speak. So, this will take at least six to nine months to complete. And then from that point, we will have enough space and capacity for the following year. And we will continue to do this as we go forward, because our longest lead time for setting up factories is the infrastructure itself, not the machines or anything else.

Rahul Gajare: Yes. And my last question is on, I think you probably just touched on that, with Trump at the helm in the U.S. and his view, which are not very favorable towards clean energy, renewable, et cetera; how do you think your overall business could shape up, given we have a sizable business coming from the clean energy vertical? Thank you very much.

Kunhamed Bicha: So, I think there's always been confusion that we are in the solar side, a very small portion of our business is in the solar side, which could get affected in the U.S. But we are on the storage side, which is storing energy. So, that is growing between 50% and 70% in the U.S. year-over-year. And we are also in different other clean energy products apart from solar. To explain that, it's not rooftop solar that our main piece of business is in. So, the other pieces actually are seeing significant growth.

Rahul Gajare: Okay. Fine. Thank you very much and all the very best.

Kunhamed Bicha: All right. Thank you, Rahul.

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

Meet Jain: Hello, sir. Thank you for the opportunity and congratulations for a very strong set of numbers. Well, my first question is regarding our end user mix. As we can see, our industrial segment this quarter has seen a very good jump. Can you elaborate on that, which segment or which product categories and which geography have we seen such kind of growth? And my second question is on receivable days. So, is it a passing kind of increase like a normal operation or there's some kind of delay in receivables? Thank you.

Kunhamed Bicha: Let me address the first part of it, we have seen growth in multiple industries and because we are well diversified, if one industry slows down, it doesn't affect us as much. We have seen a very strong growth in industrial, okay? We have seen a little bit of slowdown in communications, but that doesn't mean that the whole thing has slowed down, but it's coming next quarter or the following quarters. So, we are seeing good traction in industrial, mobility and the clean energy sectors. And in Q3, if you look at clean energy, we have grown 53% year-over-year, mobility 10% and industrial 57%.

Suresh Veerappan: On to the second part of the question on the receivable days, this is more a temporary phenomenon. We were maintaining our receivable days around the 80 days mark, which is what we even saw in September '24 quarter. So, what we see as 94 days in December '24 is more a temporary phenomenon. Like we said in the opening remarks, we are confident of reducing our overall net working capital days by 10 days to 15 days, like what we had guided for the beginning of the year.

Meet Jain: Understood. I have one more question on our manufacturing shifts, like, now we have almost 88% of the manufacturing in India. And earlier when we used to have almost, let's say, 25%-30% of the manufacturing in the USA, our pitch was made in USA will be a theme, which will have made some substantial value addition in the U.S. So, is that theme still valid because majority of the manufacturing will be shifted to India and there'll be very minimal manufacturing. So, a client in the U.S., I mean, will they see any impact on this because of that?

Kunhamed Bicha: So, Meet, I do not believe there will be an impact. The way we look at it is, the customers got both options, you can pay a higher price in the U.S., if they want to do it in the U.S. But today with India's emergence as an EMS location, we are seeing customers come directly rather than what it was 10 years back, you needed to stop in the U.S. and then come here. We are seeing customers come directly and start production here. But there are certain type of products which are large in nature, which we intend to continue to make in the U.S., because the transportation cost is not affordable to make in India. Did I answer the question, Meet?

Meet Jain: Yes, sir. Thank you. And on the margin side, we did almost 12.3% of margin this quarter. What will be our sustainable margins going ahead? Will we be able to achieve this because we see an increasing operating leverage also? And when we say our gross margin will be in the range of 33%, 35%, so can we see this margin to be sustainable, or even if improvement is possible, a sustainable margin of 12% will be a good assumption?

Kunhamed Bicha: I think that's a decent assumption. We always strive to do better, but for the sake of this call, I think you can assume it will be close to that.

Meet Jain: Thank you. Thank you so much, and all the best.

Kunhamed Bicha: You are welcome, Meet. Thank you.

Moderator: Thank you. The next question is from the line of Praveen Sahay from PL Capital, Prabhudas Lilladher. Please go ahead.

Praveen Sahay: Yes, thank you for the opportunity. The first question is related to the '25 guidance of a 22% to 24% of a growth. That tells that the 40% to 48% of a growth for Q4 you are expecting. So, can you give some more color from which segment or the order book you have in place which will lead to a significant growth in the Q4?

Kunhamed Bicha: Thank you, Praveen. So, we are confident of doing this, and it's a broad-based growth as you have seen in the last two quarters. To remind you, a year back we were saying, customers had slowed down in the U.S., so a lot of our existing businesses slowed down across industries. We are seeing a lot of that come back, not only at the present levels, but better than the present levels.

And some new customers will also start this quarter. So, we are fairly confident, if you are looking for that.

Praveen Sahay: Related to that, for a quarter definitely, there is up and down in the contribution; but one in the opening remarks you had mentioned related to the auto, you are focusing on the volume product and motion control system you are getting an order. So, can we assume that the auto is going to be one of the big drivers for FY '26 for your revenue?

Kunhamed Bicha: No, I wouldn't, it's one of our sectors, okay, it is part of what we do, but we are doing a lot of the auto for export. So, it's not a margin strength. Rail or air, it will be one of our sectors. So, our business is not based on auto. Auto is just one of our sectors.

Praveen Sahay: Okay. So, you will be able to maintain the contribution where you are even after all these --?

Kunhamed Bicha: Yes, yes, very much so.

Praveen Sahay: And related to the Chennai plant, the Phase 1 has been completed. So, how much is the contribution so far you had received from the Chennai? Like, that's started contributing in the revenue, or we will see the major revenue contribution from FY '26?

Kunhamed Bicha: The export plant is fully operational. We are already starting to see revenues, so that's why we always said that year to year for a couple of years we need Rs. 40 crores to Rs. 45 crores of CAPEX. And Suresh explained the numbers to you. And revenue from this plant is only going to increase. So, that's why we are confident, even if the rate of growth is higher, we can meet that with our capacities.

Praveen Sahay: And two questions, last, one is, if you can give any color on your order book, domestic and international, and the reason for the increase in other income? Thank you.

Suresh Veerappan: So, on the first part, the order book proportion also is very similar to what you see in the revenue proportion, between 45 and 55, what you see on India and U.S., it's on the order book. The second part on other income, one component of that is the returns that we have generated from our investments. The second component is on the Forex income.

Praveen Sahay: Okay. Thank you. Thanks a lot. All the best.

Suresh Veerappan: Thank you. Thank you, Praveen.

Kunhamed Bicha: Thank you.

Moderator: Thank you. The next question is from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Kunhamed Bicha: Hello, Dhananjai.

Dhananjai Bagrodia: Hi, sir. Congratulations on a very good set of numbers. Sir, I just wanted to understand now, obviously, so, our benefit is that we are present in globally in terms of we have a good facility in the U.S. And are we seeing any intake in terms of new clients coming in, or how is the pipeline there? Because see, that is a factory which we have ample capacity and which can ramp up significantly, any thoughts on how that's coming along?

Kunhamed Bicha: Thank you for that question, Dhananjai. The U.S. is always a beachhead, we need it to bring business into India. Our goal, 88% of what we do delivers 15% EBITDA and 10.2% PAT today. So, the best business for us is to have U.S., clients who can make in the U.S. But to make sure that they come directly, if you have a plant in the U.S., a factory in the U.S., that eases the process because there are multiple ways customers look at, because they have service levels in the U.S. itself, when they have changes or when they need something extra. So, it is just a plus point. Our goal is always to make in India, but make in India for the world, and saying that, our India business which we technically got into two to three years back, is starting to pay dividends, order book, as well as production is increasing.

Dhananjai Bagrodia: So, are you all seeing, like, now with your customer interaction, now Trump has come in; in other words, are you all seeing a lot of customers who are coming in who want to diversify from other regions to U.S., because no one wants to lose sales. So, are we seeing an uptick in order pipeline?

Kunhamed Bicha: Actually we are seeing a lot of activity, especially products from Mexico to us, and that's only because we have a factory in the U.S. in the sense, not the U.S., but directly to India. Okay?

Dhananjai Bagrodia: Okay.

Kunhamed Bicha: They look at the risk profile, which country, the U.S. is expensive. So, can we move to India, so we are seeing some of that activity, and I think that is a pleasant surprise for us also.

Dhananjai Bagrodia: Okay. Sir, and how should we look at our U.S. segment how much growth could we look at that, or is it too early days right now?

Kunhamed Bicha: No, because with Trump, you do not know what can happen. But we are there in both locations. So, if the customer wants to make it in the U.S., he makes it with a higher price. But our goal is to move that to production in India. So, I think we are covered both ways.

Dhananjai Bagrodia: Yes.

Kunhamed Bicha: If any of the tariffs or anything come into play, I think we are very much ready for it either way.

Dhananjai Bagrodia: Okay. And any other risks we are seeing along those lines?

Kunhamed Bicha: We do not see anything as of today. I mean, this is a positive time in the evolution of our company. And so, what we have been kind of telling over the last six quarters is the slowdown and last two quarters we have seen growth and we will see sustained growth for the mid-term period also.

Dhananjai Bagrodia: Okay. Fine. Sure. Thank you, sir. Thank you so much, and best of luck.

Kunhamed Bicha: You are welcome, Dhananjai.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid Pugalia: Yes, good evening, team. And congrats for the good performance. My first question is on inflows. Since broadly inflows have been flattish for the last couple of quarters, an order backlog is in the Rs. 1,400 crores range. So, how should we look at the execution timeline of the orders in hand after the upper revision in revenues for fiscal '25? And how does the growth pattern look at this point in time based on the order inflows and pipeline that we have for fiscal '26?

Kunhamed Bicha: Thank you, Renu, for your question. So, like I said in my opening remarks, for the 12 months to 14 months period, okay, which we have confirmed POs of Rs. 1,594 crores. For the 14 months to three years, we have got Rs. 1,111 crores, which is a year-over-year increase of 32% and we do not count anything. We have contracts for 15 years in certain cases. We do not count those contracts in these numbers. So, we are looking at a short term to mid-term picture where executable orders are there and we intend to increase these. So, there's a clear revenue guideline that this is there and more increasing as we speak. Year-over-year, we have seen a 25% growth and we will continue to see that in the coming quarters.

Renu Baid Pugalia: Sure. Yes, second, will it be possible for you to share any updates with respect to where are we in terms of completing the prototyping and the pipeline of new products with our large U.S. clean energy customers there, be it Lunar or Enarka, any updates on how are we seeing the re-ramp up with them?

Kunhamed Bicha: Yes, so like I said, I think, we are past that. That's a small part of what we do going forward. Two years back, it was a bit past, but to say that we have started production.

Renu Baid Pugalia: Okay. And we are seeing the ramp up as scheduled or as planned or it's slightly softer?

Kunhamed Bicha: No, I think as per plan, but we are taking a very conservative number on it.

Suresh Veerappan: So, it is progressing as planned. In the last call, we had mentioned that in Q4, the commercial will happen and Q1 is when the ramp up is going to start. So, it is progressing as per plan.

Renu Baid Pugalia: Got it. And lastly, within the autos, would it be possible for you to share what are we doing to improve our exposure to the EV portfolio and simultaneously, any investment in R&D to step up capabilities on this side?

Kunhamed Bicha: So, we are looking at it as one of our sub-verticals, like an aero or a rail, it's not a do or die for us.

Renu Baid Pugalia: Yes.

Kunhamed Bicha: And we are looking at it globally. So, it's going to be just not EV. We are in the, what we call, the normal ICE engine also. So, it's just not EV related. So, especially outside India.

Renu Baid Pugalia: Got it. Thanks much and best wishes team. Thank you.

Kunhamed Bicha: Thank you, Renu.

Moderator: Thank you. The next question is from the line of Chirag from Keynote Capitals. Please go ahead.

Chirag Maroo: Yes. Thank you for the opportunity. Sir, I just want to know that as we are growing at a high double-digit rate, I just wanted to understand, what is our current capacity utilization and what are our CAPEX going forward as we might be already reaching Rs. 300 crores, Rs. 350 crores top line on a quarterly rate?

Kunhamed Bicha: Chirag, I think we have enough capacities like we have always said that we have planned this for doubling our growth in three years. So, we are not too concerned on the capacity. Of course, there are some issues here and there, but it's all solvable. Mostly, it is how fast we can get the space organized. And we have always said for the next couple of years, we will need a CAPEX of around Rs. 40 crores to Rs. 45 crores. And we are maintaining that because we always believe that we should operate in an asset turns of 8% to 10%. That's always been our goal.

Suresh Veerappan: 10 times.

Kunhamed Bicha: Yes, 8 times to 10 times.

Chirag Maroo: Right.

Kunhamed Bicha: Did I answer your question?

Chirag Maroo: Yes, yes, I got that and as we are almost viewed a cash flow company, which is going to give almost Rs. 100 crores cash flow on an annual basis. So, it would be just 50% of that would be into CAPEX and another 50% we are keeping it for some kind of inorganic growth or we are going to provide some dividends to the shareholders. Any thoughts on that?

Kunhamed Bicha: So, my thought on that is very clear. We are hoping to see some substantial business, we are hoping, okay? I am not saying we have. And we need the cash at that point of time, okay? So, we hope that it comes through in the next year or so. So, we still maintain the CAPEX to be Rs. 40 crores to Rs. 45 crores a year, at least for the foreseeable future. If there's something for substantial breaks, of course, we have got to look at it differently.

Chirag Maroo: Fair enough. After just one clarification we have also given to the earlier participants, I might have missed it. But once the second phase of the CAPEX is getting completed, what kind of revenue we can actually expect at optimum utilization?

Kunhamed Bicha: Chirag, like I mentioned, we build our buildings ahead of the business, right? So, what we are doing is the building will be utilized nine months from now. So, there's a lot of business coming in. So, we just need space to operate. So, we are building a building and deciding what to put in there three to six months from now. So, we are always ahead by nine months to 12 months.

Chirag Maroo: Fair enough, fair enough. And sir, as our revenue from Box-build is inching up again to 50% if I am not wrong, can we expect that the margins from current level can even go further up as revenue from Box-build improves?

Kunhamed Bicha: I think our commitments of margins, of course, we are pushing for higher Box-build and more complex Box-builds. We will strive towards that, but we want to guide lower.

Chirag Maroo: Okay. And last from my side, sir, as you just mentioned in the initial comments that still the U.S. plant is still making losses on PAT levels. Any clarity on that? Because as you said, new orders and new order book is being coming from U.S. at this moment. And there are a few of the products that cannot be built over here. The larger products has to be built in U.S. only, right? So, what is your guidance towards this that will it become PAT-positive in the next year itself?

Kunhamed Bicha: I believe it could, but it's also an insurance policy for us, right? If there is something, the political situation, right, towards U.S., we can always make some of the products in the U.S. So, I think we stand on good ground in that sense that the business doesn't have to move anywhere in case there's anything coming up. We feel very good having that facility there. And today, as the losses have reduced, I think it's in a state where I think in the next 12 months to 18 months, you could possibly see some positive numbers out of there.

Chirag Maroo: Just last one to squeeze in. So, is it fair to assume that we have almost reached a monthly order book intake of Rs. 125 crores to Rs. 130 crores now?

Kunhamed Bicha: Monthly order book intake, yes, what was this in the quarter? Rs. 350 crores to Rs. 400 crores, you are correct.

Chirag Maroo: Right. Fair enough. Okay, sir, thank you.

Kunhamed Bicha: You are welcome.

Moderator: Thank you. The next question is from the line of Vineet, an Individual Investor. Please go ahead.

Vineet: Hello. Good evening, sir.

Kunhamed Bicha: Good evening, Vineet.

Vineet: Sir, I just wanted to know on our subsidiaries, how they have been structured, like, what is the work we are undertaking in our subsidiary sites, the Sienna, I mean, how is the business flow over there? Could you please throw some light on it?

Kunhamed Bicha: Could you repeat it? I did not hear you really well in the beginning. I heard subsidiaries.

Vineet: No, I just want to understand on the subsidiaries part, like how are we positioning them? I see some design elements in the Sienna ECAD division. So, could you please throw some light on it? Yes.

Kunhamed Bicha: Okay. So, ECAD, we all operate as one and there are some subsidiaries for a reason. So, Sienna ECAD is a design company where we do design as a service. Sienna, which is in the U.S., is our U.S. company, which is a 100% owned subsidiary, which we do production in the U.S. And ATS is where we do our metals and certain other products, which are not PCB-related. Did I explain that?

Vineet: Yes, yes. Are we looking at any chip design sort of ventures from these subsidiaries going forward?

Kunhamed Bicha: Yes, in a lot of cases, we do design, but we do not create the IP. We create the IP for the customer for a service fee.

Vineet: Okay. Any plans to move forward into the sales of design IP, owning the IP?

Kunhamed Bicha: Sometimes it's very counterproductive because, let's say, we are doing five different type of inverters, for the sake of argument, for the best guys in the world. And if we have our own inverter design, the other five will not stay with us. So, we are a true manufacturing company, and we do design as a service. We still have 150-200 people in design, but we design products for customers with the hope that manufacturing comes to us.

Vineet: Okay. Thank you. That answers my questions.

Kunhamed Bicha: Welcome, Vineet.

Moderator: The next line of questions is from Sumit Kumar. Please go ahead.

Sumit Kumar: Yes. Hi, sir. So, when talking about Avalon, the industry is growing at 30% CAGR. And so what are we doing to outperform the industry? When we see the diversification, we have a decent diversification across industry, we have a presence, and also we are focusing on domestic side. So, what are the guidance and the growth we are talking about? And will we see the other companies, some companies are growing more than 40%. So, what is our aspirational number for the growth, and what are we doing for the higher growth? In which segment we are focusing, where we are lacking? So, can you talk on that?

Kunhamed Bicha: Yes. So, we always have said that we are not going to do growth at all costs. We are going to do profitable growth, in the sense we are not going to sign businesses for the top line. Okay? That is a very clear mantra and goal for us. And we have maintained that over the years. If you wanted to solve the top line problem, there's enough business out there at lower margins. So, that's why we are not in the consumer space. That's why we are not in certain spaces where we cannot achieve that.

So, in the longer term, we will continue to do that. And we believe that we can grow at a faster rate in our own business, which is the more complex, the more mission-critical, the more difficult to do, the more export. And that has been our goal always, has not changed anything. So, there's enough business out there to cater to that. Did I answer your question, Sumit?

Sumit Kumar: Yes. So, let me see, because we have seen the issue of FY '24 de-growth and '25 onwards we have seen recovery. So, for that, what are the risk mitigation, what are the diversification we are thinking of? With higher contribution of export now focusing on domestic, so in that we have seen the clean energy is not doing good in U.S., our growth is muted. So, if this kind of scenario is not going to arise in the future, what are other segment we are diversifying?

Kunhamed Bicha: Well, I think I'll correct that that's okay with you. Clean energy, which is 22% of the business, grew 53% year-over-year. Okay. So, our growth is going to come from sectors. And there are a couple of industries we are entering into, which we will talk about a few quarters later, okay, which we are specifically targeting, again, the same business model as we have today. And I think there are sub-verticals in the five verticals we have. And we are very confident that that piece will be a different set of growth rate than what we have today in these five verticals.

Sumit Kumar: And what about the railway? How things are going on in the railway side?

Kunhamed Bicha: Railways is a good part of our revenue. And a lot of that is in India. And we are seeing a tremendous growth this year, as well as we are going to see more next year. And we have had a few more products added to our railway portfolio, which I think as the country, as India, as we grow, we are going to see a large pattern of growth and complexity.

Sumit Kumar: Okay. Thank you, sir.

Kunhamed Bicha: Thank you, Sumit.

Moderator: The next line of the question comes from Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Hi, sir. Hope I am audible.

Kunhamed Bicha: Hi, Deepak. You are perfectly audible.

Deepak Krishnan: Yes. Congratulations on a good set of results. I think just more from the previous participant itself, now you said three levers of growth, I think the first is recovery of business of existing base that has definitely come through. And there could be further growth there. But in terms of incremental growth --

Kunhamed Bicha: Deepak, you sound a little bit muted. Can you repeat the question again? There was some read through and disturbance. Sorry about that.

Deepak Krishnan: Is this better now? Is this better now?

Kunhamed Bicha: It's much better now, much better now.

Deepak Krishnan: Yes, I just wanted to sort of understand the incremental --

Kunhamed Bicha: Deepak, are you there?

Moderator: I think the call got disconnected. Should I promote the next one?

Suresh Veerappan: Yes, go ahead.

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

Bhoomika Nair: Yes, congratulations, sir, on a good set of numbers and strong, strong growth in the current quarter. Sir, just wanted to get a sense in terms of, this, in terms of the new clients and the order intake that we are seeing, which areas, if you can talk about, which is seeing a strong scale up from an end user perspective, how large are they? If you can get some color in terms of that aspect, sir.

Kunhamed Bicha: Hi, Bhoomika. As usual, you asked the most difficult question, but I will try to answer it as best way as possible. See, the key part of it is exported back. Okay, that is where we were struggling for two, three quarters, and that's where our business was. And with that, the India piece is growing. So, we see a broad-based growth, especially the industrials have done very well in this quarter, and we will continue to do well in the following quarters. But as we target to have a 25% to 30% in each of these verticals. So, what you are seeing is, in India, you are seeing a lot more of these mobility that's, per se, rail business and the air business coming through. Industrial is a 50%-50% mix. And the order intake is very similar to what we were seeing in the past. It's a healthy mix between the three.

Communications, you may see a bigger upside in the future. And medical, of course, we do not focus as much now. But it's going to be split 50%-50%. Our goal has always been to get the company to be 50% in India and 50% outside India. Because if you go back three years, we were 70% outside India and 30%. So, we will never be caught in the wrong foot like what we were caught 12 months, 18 months back. So, in that sense, it's a broad-based growth. And we have, like I mentioned before, a couple of verticals which are exciting for us and as we get deeper into that business, we can talk about it.

Bhoomika Nair: Sure, sure, that helps. So, the other aspect is, with this whole administration change in U.S., but you have obviously have both offerings, right? We shifted a lot of manufacturing to India over the past year, year and a half. Are you seeing some of the clients rethinking their decision wanting to come back to U.S. manufacturing or anything of that sort? They might not have yet taken any decisions as such, but are you sensing any of that kind of conversations with your clients?

Kunhamed Bicha: In fact, we are seeing the opposite of that. So, the clients, if they move, now they are moving other products directly to India, which is a good sign. And the way I look at it is in case there's a tariff or something put on it, we can always make it back in the U.S. at a higher cost. Okay, of course, the tariff will go up, but I believe that we moved to India is true. We have convinced these customers that we can make in India because they were paying to do it in the U.S. And we have done that because we are lucky that we did that a year before the election. Because right now we do not know which way it's going. Every day it changes, right? So, we cannot make a guess or customers cannot make a guess on what's happening. But the interesting piece for us is even the places close to the U.S., we are seeing some traction with business moving to India, to us.

Bhoomika Nair: Okay, okay, that's interesting. And even the new customers are happy to kind of just directly move to India rather than wanting to have a production in U.S. Would that understanding be correct?

Kunhamed Bicha: I would say, by far that's always been our goal, to make it in India. If the guy wants to start there, they are more than happy to do it and transition out in six months to a year, however he feels like. But certain products cannot move, like these quasi-military stuff, which we do, cannot move outside the country. So, we will focus on that. And I think there's a huge potential there too to make stuff in the U.S. And we look at it from that context.

Bhoomika Nair: Sure. The other aspect is, we have scaled down on U.S. quite a bit. We have moved to India. We have seen clients coming to India as well. But the U.S. business continues to be a bit of a drag. Had it not been for U.S., we would have actually reported a much better margin profile. How are you seeing that loss kind of tapering down, given that there's not really much of revenue momentum that's happening and the negative operating leverage in U.S. is really hurting us. Not materially as it was perhaps a year ago, it's obviously come down dramatically. But where do we get into a breakeven situation or some bit of a profitable situation in the U.S.?

Kunhamed Bicha: So, at the end of the day, in our mind, we are very clear that U.S. is our beachhead, okay? A lot of the activity, a lot of the conversations happen there. And if they want prototypes, we can still do it there. So, at this point, we believe it is absolutely essential to have that front end, especially when you are dealing with very complex products, where you have engineering interactions, because you have to understand the 12-hour time difference. To convince an engineer to talk to somebody in India is always a convincing story, right? And you have teams of engineers, whether it's 18 or 20 engineers involved in a project from the U.S. and from our side. That actually helps in a big way. That's probably the most positive thing we have because 55% of our business is in the U.S., and that's a support structure. So, we believe even if there's a small loss on that, and hopefully, the breakeven, our goal is to make it profitable. And we will strive towards that. But it's at a low cost now.

Bhoomika Nair: Yes, yes. So, I mean, more like one can possibly view it as perhaps a small cost center to get the volumes or get the customers in, perhaps.

Kunhamed Bicha: Absolutely, absolutely, Bhoomika.

Bhoomika Nair: Got it, got it. Perfect, sir. Thank you so much.

Moderator: Thank you. The next line of the question comes from Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Congratulations on a good set of numbers. I have a few questions regarding, we talked about reducing our net working capital for the full year. So, would it be predominantly through decreasing receivables?

Kunhamed Bicha: Suresh, you want to answer that?

Suresh Veerappan: It's going to be a combination of all three aspects. We are working as a team on receivables, payables, as well as inventory. But yes, we are confident on reducing our net working capital based on where we are today, in March '25.

Karan Sanwal: Okay. And also, could you get us the nine-monthly figure for the cash flow from operations?

Suresh Veerappan: Approximately it will be negative Rs. 10.6 crores on a nine months basis.

Karan Sanwal: Okay. And would we be trying to convert this to positive for the full year? Or would it stay negative? Yes. Okay.

Suresh Veerappan: So, for example, we had Rs. 36 crores of positive cash flow operations in the first quarter. It is just in this quarter with the increasing receivables, we saw that. But with the increasing sales and a positive operating leverage, I think in the coming quarters, we should start seeing that.

Karan Sanwal: Okay, so there's no challenges in collecting receivables, right? It's just the sales have increased. That's why it has increased. Am I correct?

Suresh Veerappan: Yes, yes, you are absolutely right. There are no challenges. These are very large MNCs, kind of like Fortune 500 companies. It is just a temporary phenomenon, which was collected in the first fortnight of January.

Karan Sanwal: Understood. And also, you talked about the subsidiary, the businesses that we do in the subsidiaries. So, any specific segments that are covered only through subsidiary, or is it all interrelated within the company?

Suresh Veerappan: We operate as a single group, okay? It is for practical purposes, we have different subsidiaries. But the way how we operate it as a single group.

Karan Sanwal: Okay. One last question. If you could talk about the Kavach opportunity that we are doing with our vendors, like when are we expected to start field trials or bid for those tenders? Any progress on that part? If you could, anything you could highlight for that?

Kunhamed Bicha: Yes, Karan, this is KB. So, we are in different forms of field trials now. Some products have been built, customers approved by the Indian Railways. And when Stage 2, hopefully Stage 2 or Stage 3, we should see a good part of business coming to us. So, the trials are going on.

Karan Sanwal: Okay, great. Thank you so much, and all the very best.

Kunhamed Bicha: You are welcome, Karan. Thank you.

Moderator: Thank you. The next line of question comes from Jeetu Panjabi of EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Hi. Thank you. The numbers were great. Thanks so much for that. I have two broad questions. In the backdrop of what's been happening in recent weeks and since Trump's come in, there seems to be a fair amount of global distrust that's come up. My question really is, is there any change in the tone of discussions of customers when they are engaging with you all? Is there any sense of caution? Or do you think that they will think about the business in any different way?

Kunhamed Bicha: So, see, because it's the second coming of Trump, most of America is used to the first coming. Okay?

Jeetu Panjabi: Okay.

Kunhamed Bicha: So, he did something very similar. And it's what we, as a personal opinion, is more of a negotiating tool more than trying to get things done. But of course, from a business, from an Avalon standpoint, if the patriotism of course plays out in America, you have a choice to make it in the U.S., okay? Or you can make it in India, but of course, cost prevails, and the first preference is where it is cost effective. So, every meeting starts with talk of Trump. But what you read in the newspapers today and what it will be tomorrow will be two different things. You cannot plan for that.

Jeetu Panjabi: Okay. Okay. And are you doing anything different on the back, or do you just see status quo and business continues?

Kunhamed Bicha: Business continues, because see, these changes can only happen over a period of a year or two, even if things are transferring from XYZ to one location to another. It takes time because our products are complex, and most customers would not want to change that, because some of the life term of our products is 5 years to 15 years. So, it is not in their best interest to start moving things just because of a change in governance. So, we believe in the longer term, the customers who are here will always be here; if any customer wants to make in the U.S., they are more than welcome to do that.

Jeetu Panjabi: Okay. Now, my second question is, kind of, you have given a guidance of 22% to 24% going to next year, which is actually a great number. So, thanks for that. But I have a question. In a scenario where you say I want to step on the gas and I want to grow at 35% and not 24%, is there a way to get there? Like does the opportunity exist? Do you think you can execute to that opportunity? And is there a model to sustain the business model at a higher growth rate?

Kunhamed Bicha: Absolutely. You have seen the 30% growth rate already in the last four quarters. And we think it will be a little bit better this quarter. And we are confident, we have set up our operations and leadership, the factories to have this sustained higher growth. Okay? So, for the next 12 months to 18 months, we do not anticipate having an issue with that. Of course, we do not know what we do not know. But as we stand and the existing type of business, we are very confident.

Jeetu Panjabi: Okay. Excellent. And one last piece, if I may sneak in, is in the context of these 25%, 30% or whatever number you'd grow at, what will be the toughest part of the business to manage?

Kunhamed Bicha: See, so in the context, on the technology side, it's broad-based, because one, the startup of the businesses will take time, because there's a lot of engineering content. It is not step and repeat. So, some of our products are Rs. 1 crores to Rs. 2 crores sellable by one product, right? So, some of them are fairly complex in what we do. So, when we plan for a cut-in in four months or six months, that may go to eight months. Both sides, there's a lot of engineering involved to cut in the product. So, that, I would say, is trying to time the pieces of business, which are coming in would be difficult because of the cut-over, because they are transferring from different parts of the world, or they are introducing a new product. And we have to be ready and very engineering-intensive.

Jeetu Panjabi: Okay. Good wishes. I wish you all the best and looking forward to great performance next year or two or three. Thank you.

Kunhamed Bicha: Okay. Thank you, Jeetu.

Moderator: Thank you. The next line of questions comes from Ashutosh Agarwal from Northbridge India. Please go ahead.

Ashutosh Agarwal: Yes. Firstly, congratulations on a very great set of numbers, and I am thankful to you being an investor since IPO. So, the company has done very well, like, throughout this period. So, firstly, I want to give my gratitude and thank you to you for all the efforts.

Kunhamed Bicha: Ashutosh, you are welcome, and our goal is to make shareholder wealth creation, which needs to happen over a period of time, and it's not instant, over a period of time, we are going to create that. And thank you for being an IPO investor and staying with us through the course.

Ashutosh Agarwal: Yes. Thank you so much, sir, for the kind words. Just, sir, I have two queries. Firstly, as a part of long-term vision, can we have, like, a ballpark number for revenue or PAT for the next three to four years?

Kunhamed Bicha: See, we have aspirational goals in the sense what we want to be, but we want to kind of get closer to that and announce things or give guidance. I've been caught in the wrong foot in the past couple of years. So, I think from a sense of the future, the growth is there. We believe that India is getting accepted, and there's a push for America, where we are all in both locations. And we do also operate in the sense of sales activity in the other geographies also, which will grow over a period of time.

Ashutosh Agarwal: Okay. So, like, in terms of number, like, can we have a ballpark figure, like, are we looking to grow at maybe 25% CAGR revenue and PAT-wise? Is there any margin expansion probability? So, I just wanted to take an idea about that.

Suresh Veerappan: This is Suresh here, Ashutosh. We are working on our budget for now. So, we will be completing it in this quarter and then probably during the next quarter, we will be able to give more details. But on your question on revenue growth, I think the industry is growing at a higher pace. It has started our growth momentum. It is only going to get better and we" be stronger from there. In terms of margins, with the scale operating leverage effect, it will keep continuing to impact positively. Just what we saw in the last two quarters, expect to continue to see the same in the upcoming quarters.

Ashutosh Agarwal: Okay. And my next and last question is with respect to, I know many investors have already discussed this, that after Trump, what is the impact? So, we are seeing like a lot of positive and negatives on the EMS industry as a whole after Trump. So, do you feel that there is a substantial or maybe a reduction in RDRs or a reduction in business with the U.S. after coming of Trump in the EMS industry? Or do you feel that it is just social media hype and practically there will not be a major disruption?

Kunhamed Bicha: No, I think, see, both India and U.S. stand to gain out of this unless Trump says something else tomorrow, which I do not know about. But for us, we are seeing both sides, we are seeing a lot of activity. And we always said previously, our goal is to do 50% in India and 50% of sales as export. So, we maintain that and it's a counter, what do you say, it counters each other. Because last time we went through a downturn, though we were diversified, we were a lot U.S.-based. Today, we have come out of that and we have a combination of India, U.S. and of course, a few other countries also.

Ashutosh Agarwal: Okay. Thank you so much for answering the queries. Looking forward for more long term relationship. Thank you.

Kunhamed Bicha: Thank you, Ashutosh, for being a shareholder and being with us from the IPO days.

Ashutosh Agarwal: Sure, sir. Sure. Looking for a long-term relationship. Thank you.

Kunhamed Bicha: Thank you.

Moderator: Thank you. I would now like to hand over the conference over to the management for closing comments.

Kunhamed Bicha: We are encouraged by the robust support from our investors. We are committed to reinforcing the trust that our investors have in our company. I sincerely appreciate your steadfast support and confidence in Avalon. Together, we are set for a remarkable journey of profitable growth and success. Thanks to everyone attending the call. Thank you very much.

Moderator: Thank you. On behalf of Avalon Technologies Limited, that concludes the conference. Thank you for joining us and you may now disconnect your lines. Thank you.