"Avalon Technologies Limited

Q2 FY '26 Earnings Conference Call"

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MANAGEMENT: **MR. KUNHAMED BICHA – CHAIRMAN AND MANAGING DIRECTOR – AVALON TECHNOLOGIES LIMITED**
MR. BHASKAR SRINIVASAN – PRESIDENT – AVALON TECHNOLOGIES LIMITED
MR. SHRIRAM VIJAYARAGHAVAN – CHIEF OPERATING OFFICER – AVALON TECHNOLOGIES LIMITED
MR. VENKY VENKATESH – CHIEF SALES OFFICER – AVALON TECHNOLOGIES LIMITED
MR. SURESH VEERAPPAN – CHIEF FINANCIAL OFFICER – AVALON TECHNOLOGIES LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Avalon Technologies Limited Q2 FY '26 Conference Call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

I now hand the conference over to Mr. Deepak Agarwal from Axis Capital. Thank you. And over to you, sir.

Deepak Agarwal: Thank you, Huda. Good afternoon, everyone, and a warm welcome to the Q2 FY '26 earnings con 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 VR, Chief Financial Officer; Mr. Shriram Vijayaraghavan, Chief Operating Officer; and Mr. Venky Venkatesh, Chief Sales Officer.

Mr. Bicha will give us an overview of the business performance and will be followed up by Mr. Suresh's remark on the financial performance, post which we'll 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 hand over the floor to Mr. Bicha for his initial remarks as CMD. Thank you. And over to you, sir.

Kunhamed Bicha: Thank you, Deepak. Ladies and gentlemen, on behalf of Avalon Technologies, we extend a very warm welcome to our Q2 FY26 earnings call.

I would like to begin by expressing our sincere gratitude to our investors for their continued trust and confidence in Avalon. Our growth journey would not have been possible without your steadfast support. Over the past few quarters, we have delivered consistent sequential growth, with every quarter building upon the previous one and meeting or exceeding our guidance. This steady upward trajectory reflects the strength of our diversified business model and our disciplined approach to execution.

Our growth continues to be broad-based across verticals, geographies, and capabilities. During H1 FY26, the India business grew 44%, and the US business grew 52%. Our diversified customer profile is consistently supporting our growth. This consistency, even in an evolving macro environment underlines Avalon's ability to deliver sustainable and profitable growth while maintaining financial prudence. Building on this foundation, profitability has improved, further strengthening ROCE and asset turns, supported by an expanding order book.

On the topic of tariffs, which has been widely discussed across the industry, we would like to clarify that it is not limited to a simple two or three-rate structure. We have effectively paid over 50 unique tariff rates during the last six months. Our long-standing presence in the U.S., deep understanding of the geography, and strong customer relationships have helped us maintain tariff recoveries of over 99% from customers, underscoring the trust and partnership we share with them.

With well-diversified growth, continued demand visibility and traction from new programs, we remain confident in the outlook of our business. Accordingly, we are revising our full-year revenue growth guidance upwards to 28%–30%, from the earlier 23%–25%.

Let me now move to the key financial highlights for the first half of FY26.

As of September 30, 2025, our order book stood at INR 1,863 crore with an average execution period of 14 months, reflecting a 25.4% year-on-year increase. In addition, long-term contracts with execution timelines of 15 to 36 months stood at INR 1,168 crore. This growth has been well balanced and diversified across industry verticals and geographies.

For H1 FY26, revenue stood at INR 706 crore, representing a 48.7% growth over the same period last year. Our core expertise in box-build and system integration solutions continues to strengthen, now accounting for 53% of total revenue.

EBITDA for H1 FY26 is at INR 68 crore reflecting an increase of 98.5% and PAT is at 39 crore an increase of 158.3% . ROCE improved to 18.4% from 8.2% a year ago, while asset turns remained healthy at 8.7x, indicating continued efficiency in capital utilization.

Net working capital is at 131 days as of September 2025, compared with 124 days as of March 2025, mainly due to temporarily elevated inventory levels to support upcoming production and growth. On a sequential Q1 to Q2 basis, net working capital improved by 11 days, driven by a 7-day improvement in receivables, 3-day improvement in inventory, and a 1-day improvement in payables. We remain focused on improving working capital efficiency and expect to bring it within the 120–130 day range over the next few quarters.

Gross margin stood at 34.9% for H1 FY26, which remains at the higher end of our guided range of 33–35%. For Q2 FY26, gross margin was 34.3%.

India manufacturing operations, which continue to serve both domestic and global customers, accounted for 81% of total revenue in Q2 FY26, delivering healthy profitability with an EBITDA margin of 14.1% and a PAT margin of 10.9%. Revenue from our US manufacturing operations contributed the remaining 19%. As US operations scale up further, we expect operating leverage to support margin improvement in the latter part of the year.

Avalon's dual presence in U.S. and India offers a unique advantage. Our US facility helps customers localize production and manage tariff exposure, while our India operations offer a cost-effective and scalable manufacturing base. This geographic flexibility positions Avalon well to support customers and adapt to changing trade dynamics. As tariff-related discussions between U.S. and India continue, we are monitoring developments closely and will stay agile and measured in any strategic adjustments we are also seeing increasing engagement from customers in multiple geographies for made in India products and will share more updates in the coming quarters.

Now moving on to our key growth drivers and an update on major programs. We remain encouraged by the continued momentum across our three growth engines.

1. **Existing Business:** This is driven by long product lifecycles, mission-critical products and steady recurring revenues. The energy storage system program is progressing well, with production ramp-up underway as planned. In the aerospace vertical, cabin sub-assemblies are currently under first article inspection and progressing in line with our plan for ramp-up in the first half of next calendar year. Despite India having the largest pending aircraft order book in the world, local manufacturing content remains small but is growing rapidly. Our aerospace business is benefitting from this shift — H1 FY26 revenue grew 59% over H1 FY25.

2. **New Business Wins:** This is built on sustained efforts over the past two years, with these programs now translating into fresh orders and production ramps across multiple verticals. Our dual-shore model and the new Chennai export facility have supported this scale-up. Production for locomotive engine sub-systems will begin in the second half of this year. Our railway business continues to gain momentum with new customer additions and expanded product lines, notably, H1 FY26 rail revenue grew 58% over the same period last year. At the same time, we are making steady progress in advanced technology segment. As mentioned last quarter, our partnership with a leading global semiconductor company for box-build manufacturing is progressing well, with volume ramp-up expected in FY27. Meanwhile, the railway Kavach system has completed testing and is on track for commercial production in the second half of next year. These programmes strengthen our market position and extend our reach.

3. **Opportunity Pipeline:** We continue to see a diverse and expanding set of opportunities progressing towards finalization, with encouraging potential in both size and scope. During the quarter, we onboarded three large U.S.-based customers across the industrial and defence verticals. We will share more details over the next few quarters as these programs progress from prototyping to production. Manufacturing will initially commence in the U.S., followed by a transition to India, leveraging our dual-presence advantage.

   With all three growth engines at different stages, we have continued to front-load investments in capabilities, manpower, and inventory to stay ahead of expected growth. On the infrastructure front, our export-focused Chennai plant has commenced production and is ramping up steadily. To meet rising domestic demand, we are also progressing well to complete Phase 2 of our brownfield expansion in Chennai by the end of Q3 FY26. These investments are aimed at ensuring readiness for the next phase of growth, and we remain confident that operating leverage will begin to take effect in the latter part of the year. Avalon stands on a strong foundation to capitalise on the vast potential emerging across our end markets. With a healthy order book, expanding capacities, and a culture rooted in operational discipline, we are well positioned to deliver sustained growth and long-term value for our shareholders.

To summarize, Avalon has started FY '26 on a strong note with a broad-based revenue growth, a larger order book, improved operational metrics, and healthy capital efficiency. Our diversified business model, dual-shore presence, and expanding customer base provide both visibility and resilience. We are ramping up new projects across multiple industries, and our entry into the semiconductor equipment space marks a key step toward high-potential, advanced technology segments. With a stronger growth outlook and disciplined execution, Avalon is well positioned to sustain its momentum and remains focused on building long-term, profitable growth rather than short-term gains.

With this, I will now hand over to our CFO, Suresh Veerappan, for a detailed overview of our financial performance.

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

During Q2 FY26, our revenues were ₹382 crore, reflecting a 39% year-over-year increase from ₹275 crore in Q2 FY25 and an 18% sequential growth from ₹323 crore in Q1 FY26. For the first half of FY26, revenues stood at ₹706 crore compared to ₹474 crore in H1 FY25, representing a year-on-year growth of 49%. The growth was well diversified across verticals, geographies, and customers, driven by steady execution and strong traction in both our India and US operations. It also marks our fifth consecutive quarter of sequentially good performance, underscoring the consistency of execution across business segments. Over the past few quarters, our growth has remained broad-based and disciplined, supported by customer diversification and focused operational delivery. This sustained momentum, together with stronger demand visibility and a healthy order pipeline, positions us to raise our FY26 revenue growth guidance to 28–30%, from the earlier range of 23–25%.

Gross margin for Q2 FY26 was ₹131 crore, representing a margin of 34.3%. For the first half of FY26, gross margin stood at ₹246 crore, with a margin of 34.9%, which is at the upper end of our guided range of 33–35%. This reflects a year-on-year growth of 47%.

EBITDA for Q2 FY26 was ₹39 crore, a 28% increase from ₹30 crore in Q2 FY25, at a margin of 10.1%. For the first half of FY26, EBITDA stood at ₹68 crore, reflecting a year-on-year growth of 98.5%. PAT for Q2 rose to ₹25 crore, a 42.9% year-on-year increase from ₹17 crore in Q2 FY25. We continue to invest in talent, capacity, and inventory to support upcoming growth in new programs. These initiatives strengthen our foundation for long-term growth and are expected to enhance operating efficiency as volumes ramp up in the second half of the year, with this impact becoming more visible towards the end of FY26 and carrying into FY27.

Moving on to the balance sheet, net working capital days improved by 11 days — from 142 days in June 2025 to 131 days in September 2025. Net inventory days improved by 3 days, from 104 to 101. Trade receivable days improved by 7 days, from 87 to 80. Trade payable days improved by 1 day, increasing from 49 to 50.

As of September 30, 2025, total outstanding debt stood at ₹128.92 crore, with cash equivalents and investments of ₹68.36 crore, resulting in a net debt position of ₹60.56 crore. Capex for Q2

FY26 and H1 FY26 was ₹14.8 crore and ₹24.4 crore, respectively. With a capex-lite model, asset turns remain strong at 8.7x, and return on capital employed stood at 18.4%.

Our growth approach is built on a balanced mix of steady core revenues, new programme ramp-ups, and a healthy pipeline of prospects. While we continue to monitor global geopolitical developments, the structural EMS growth story remains intact and continues to strengthen. With a resilient balance sheet, scalable operations, and strong customer trust, Avalon is well-positioned to capture emerging opportunities and deliver sustained long-term value to all stakeholders.

To summarize, Q2 reflects continued progress across all operating and financial metrics. Our priorities remain consistent — driving profitable growth, strengthening balance sheet efficiency, and deepening customer partnerships. As we look ahead, we remain focused on sustaining profitable growth through disciplined execution and operational efficiency.

Moderator: Can we open the floor for Q&A?

Kunhamed Bicha: Yes, please.

Moderator: Thank you very much. The first question is from the line of Tanay Shah from DAM Capital. Please go ahead.

Tanay Shah: Congratulations on a good set of numbers. Sir, my first question is on the U.S. operations, right. Sir, if you could give any sort of update on how the offtake is improving despite the tariff implications. I mean, you did mention that 99% has been recovered in terms of tariffs. But going forward, how do we expect the U.S. clients sort of accept the tariff implications? And do we expect the manufacturing per se to improve from the current 20% in U.S., which would thereby then sort of have any sort of impact on margins?

Kunhamed Bicha: That's a good question. So, we are seeing a lot of opportunities now with the well-sourcing model we have, where they can start in the U.S. and when the tariffs settle down the longer term, the larger customers are taking that view. Let us start in the U.S. and transfer to India when the tariff settles down because it's difficult today for customers to judge what is the tariff rate, where, but they always want to come to India.

And we are offering, I would say, initial stopover in the U.S. before they transfer, so they have consistency on revenues. And saying that some of our existing customers who always wanted to make in the U.S. are ramping up, especially our battery storage, energy storage systems customer, which we've been working for the last 4 years.

We are seeing a substantial ramp for them, which has already started and into the next 12 months. So, we're very positive because we have a solution for customers to come to India because otherwise it is very difficult for customers to see how can I come to India with a 50% tariff, right? So, this dual model helps us a great deal to make that happen.

Tanay Shah: Sir, with that happening, we don't expect any interim impact on our margins to that extent?

Kunhamed Bicha: So if you look at our gross margins, we have stood steady on the margin front, I would say, we are investing into the future as you have seen some of these larger ticket customers cutting in. We have a few more in the next few quarters. So, we are getting the team ready, especially in India, to get ready for the ramp.

Tanay Shah: Understood, sir. And sir, my second question would be on our domestic operations. Obviously, we've seen very strong growth over the last year in the domestic market. So if you could help us understand any new clients that are sort of ramping up and under what segments would that be and potentially if you could even list down the opportunities for our railway business? You did mention that it grew very sharp at around 57% in the first half. So apart from the Kavach opportunities should come in next year, any other product categories which are also scaling up well out there? Yes, that's it.

Kunhamed Bicha: Yes. I'll answer the last part of your question first. The railway opportunity is real and it's growing. We're growing. And last year also we grew substantially. This year, we are seeing the first half growing not only with our existing customers, new customers, as well as new products from existing customers. So, we will continue to see this growth in the foreseeable future as India expands and as India grows in this segment.

Apart from that, the next 3 large customers, which we are kicking off are all India-based and the timing of it is perfect. So, I think our goal is always to be 50-50, 50% exports and 50% India. And today in our exports, we have started to see a lot of activity and the numbers will reflect in the future. Apart from U.S., the other geographies are slowly kicking in.

Did I answer your question, Tanay, or did I miss something?

Tanay Shah: No, sir, that did help. Just wanted to understand any particular segments in which we're seeing this ramp up for the domestic operations apart from rail?

Kunhamed Bicha: So it's mostly mobility and industrial.

Moderator: The next question is from the line of Sameet Sinha from Macquarie.

Sameet Sinha: Question regarding gross margins. So, sequentially, gross margins decreased despite the fact that the revenues increased nicely. And I think you kind of hinted at it that you're investing into it. But if you can break it down between India and U.S. operations, seems like India operations, your gross margins improved sequentially, while in the U.S. operations it went down. So, can you explain that dynamic? Because I thought for some reason that all the investments were happening in India, but seeing that maybe there's something in the U.S. as well.

Kunhamed Bicha: You're talking about gross margin, I believe they have not changed much. Our range has always been between 33% and 35%. And we are well within on the higher side of the range. A few quarters, we may have 36%, okay, or 37% in certain times, but our guidance always been between 33% and 35%. And on H1, we are at 34.9% and Q2 we are at 34.3%. So it could be because of product mix and there is no change in gross margin guidance there.

Sameet Sinha: Got it. Okay. And in terms of these -- the new business that you're seeing, kind of a broader question. So, these 3 large customers in India, can you talk about which verticals, which sectors they're coming from? And can you also kind of comment on the average ASP and order size of these new customers? Is it larger? average? Any sort of context would be appreciated?

Kunhamed Bicha: I would just say power and industrials are the 2 key areas, and we will start seeing activity maybe late part of this quarter or next quarter and substantial, they could be in our top 10 customers. Did I answer your question, Sameet?

Sameet Sinha: Yes. Absolutely.

Kunhamed Bicha: And just to add the transition customers coming to U.S. first and then to India, one is in the power sector from Europe coming to U.S. first and then moving to India. Number 2 is industrial customer. That's again starting in the U.S. and third is a defense customer.

Moderator: The next question is from the line of Praveen Sahay from PL Capital.

Praveen Sahay: Sir, my question is related to the guidance of 28% to 30% of our revenue guidance for this year. That gives me a second half growth to be in the range of around 17-odd percent. So, why in the back-to-back quarters in the past, we had seen a very good growth for the last 4 quarters at least. Now, you are saying about the lower growth for the second half with your guidance. Why is it so?

Kunhamed Bicha: Yes. As you know, Praveen, I'm not sure, we are conservative. There's multi-quarter growth. We look at -- how we look at ourselves, which can we double in 3 years, which we are doing. And then can we further double 3 years from '27, okay? That's been our motto rather than looking at quarter-to-quarter.

And as you have seen in last 5 quarters, we have delivered more than 40% growth. And we intend to continue, okay. But because of when the projects will cut in, whether it will be in December of this year or March of next year, so that's the question mark. The business is there, and we intend to exceed and excel with the expectations set here. So whatever happens, we continue [inaudible 0:26:51].

Praveen Sahay: Okay. Got it. Second question related to the -- as you had mentioned about the ramping of your energy storage or battery storage clients in the U.S. do we see the contribution of the clean energy in your business to go up from here?

Kunhamed Bicha: From year-to-year, it has grown 34%, okay? So relative to others are growing a little bit faster because some of our -- like industrial year-to-year grew 73%. Communication grew 68%. Mobility grew 59%. So related to that, it's a little bit slower. But on a year-to-year basis, it is growing at a healthy rate of 34%.

Suresh Veerappan: The growth is very well diversified across verticals. So, I think there is going to pick up in clean energy also, and we have already started seeing that happening in this quarter.

Praveen Sahay: So, we will maintain the contribution at least at what level they are in right now?

Kunhamed Bicha: Absolutely. And our intention always to have is between 20% and 25%. So, we are diversified.

Praveen Sahay: And the next question is related to the domestic and the U.S. mix. As you had been answering to the last participant, you said 50-50, you want to be at U.S. and India level business to be. But right now, it's skewed towards in the U.S. Around 60% is the U.S. So, do we see a U.S. business growth to outperform in the coming quarter and year?

Kunhamed Bicha: Yes. So, both sides are growing, but we feel that it's a quarter-to-quarter thing, 3 or 4 points move. I think last quarter, it was 40% India. And this year, this quarter, it is 40%. But intention is to get to 50%. I think we should get there sooner than we expect, okay? We're saying that U.S. is also growing, okay? When we say U.S., it's not U.S. manufacturing when we make products for U.S. and India. So, we categorize that also. So the 81% includes some of the manufacturing we do for U.S. in India.

Moderator: The next question is from the line of Vipraw Srivastava from PhillipCapital

Vipraw Srivastava: Last year for FY '25, our H2 was better than H1. That's why we saw inventory buildup happening in quarter 2. This year, based on the guidance, if you do the back calculation, we'll see H2 more or less being in line with H1, slight -- maybe slight upside. Then why is the case that the inventory days is so high and the cash from operation is negative?

Suresh Veerappan: Like what KB had mentioned earlier, some of the new programs are ramping up in Q3 and Q4. So yes, the inventory days as of June '25 was 104 and right now, it is 101. But if you look back at March '25, it was 86. But we have to upfront our investments in people and in inventory before a new large program starts in.

We expect that to start some of it in Q3, some of it in Q4. What we had given as a guidance on overall net working capital for the end of the year is 120 to 130 days. I think with the way how we are looking forward the ramp-up, we are confident of getting to that range of 120 to 130 by the end of the year.

Vipraw Srivastava: Noted, sir. And sir, for full year, the cash flow from operations will be positive?

Suresh Veerappan: Definitely, the increase in revenue can help in operating leverage, creating more profits from that perspective. That, in combination of reduction in net working capital can help in cash flow from operations, but let us wait for the next 1, 2 quarters and then we will see from there. We had positive cash flow from operations in the previous 2 years. The second half did help even in the last 2 years. So, yes.

Vipraw Srivastava: Lastly, sir, on the operating leverage part, given that based on the current guidance, Q3 and Q4 will be relatively lesser than Q2. So, do you see some margin pressure happening because of operating deleverage in Q3 and Q4?

Kunhamed Bicha: Let's put it this way. You see the continued growth profile move, okay? It is when and how it cuts in, okay? So what you've seen in the last 5 quarters, you will see it going forward. The timing of it when each program kicks in is going to be the question, whether it's going to be this quarter or next quarter. It's either going to be December or January because these delays are not controlled by us, it's controlled by the customer. But we are very confident that we'll continue our growth profile what we had in the last 5 quarters as well as the 3-year doubling, which we have committed when we went IPO that from '24 to '27, we'll double. I think that holds true even today.

Suresh Veerappan: Most of our expenses below the gross margin line are semi-fixed or fixed in nature. And in the past also for us, operating leverage has played out. Right now, like what we have been highlighting in the last 6 months and even earlier in the call, we are upfronting some investments in people and inventory right now for the new programs that are kicking up in the second half. So yes, it is on the positive side of operating leverage is what we are also expecting.

Vipraw Srivastava: Got it. And sir, lastly from my end, in the first half, roughly 81% of manufacturing has happened in India based on your presentation, 19% has happened in U.S. Where do you see this number heading for the remaining 2 quarters? Do you see this heading upwards or remaining flattish?

Kunhamed Bicha: So, we've always guided to 80-20. And a few quarters, there will be a couple of points up or down either way. But we still, in the next -- for the next 2 quarters, we see 80-20.

Vipraw Srivastava: Noted, sir. And this will have no impact on margins, right, increased U.S. manufacturing?

Kunhamed Bicha: I don't believe. I think it will get better as U.S. numbers improve because our top line is increasing. So with that, the U.S. side also will increase.

Moderator: The next question is from the line of Chirag from Keynote Capital.

Chirag: Congratulations for a great set of numbers, sir. Sir, my first question is, post the implication of tariffs, I just wanted to understand one thing that if someone is buying from a U.S. facility, someone is buying from an Indian facility, what is the cost differential as a client one is getting?

Kunhamed Bicha: Okay. That's an interesting question. So, there's not a flat increase by percentage. It all depends on the labor content. So sometimes even from a $4 per hour in India to $35 per hour in U.S. is still -- is cheaper to make in India, if you have a 5-hour labor content, okay? But if you have an automated project, it may not be as simple as that. So it varies by project and complexity. Some of the products, we have 200, 300 hours of labor in each part since we make complex part. So it's difficult to move back and forth. And these are $50 billion, $60 billion companies.

They are not going to change because like the textile industry or the leather industry because something is cheaper, something is higher because you've got 25% tariffs average across any country you go to, okay, in the cost-effective countries. So it's not going to change. We see like the consumer industry where it moves very quickly.

You've seen it in numbers. Customers who are Make in India continue to Make in India. And these products have a 10- to 15-year life cycle. So just because of a 2- or 3-quarter change, they're not going to make the switch. And it takes a year, 1.5 years for them to make a switch even if they decide something. So, they rather wait it out and pay the -- as you see, most of our customers have paid on the tariffs.

Chirag: Fair enough, sir. Sir, I just wanted clarification on one thing. Our earlier strategy was similar to what we are pining right now, where initial manufacturing for U.S. clients were done in U.S. and to showcase them some benefits of shifting it to the India facility where everything what we used to manufacture in U.S. is similar that we were able to do in India.

We were able to shift certain clients from U.S. to India, which benefited Avalon from a perspective that labor cost in India was comparatively cheaper than U.S. led to a significant margin improvement on EBITDA levels. So would it be correct for me to understand when we are getting new orders or certain clients related to battery electricity storage are initially focusing on U.S.? Would be expecting to move to India when they have showcased the kind of quality of product we can deliver?

Kunhamed Bicha: You are right and wrong in that notion. So if you look at us 3, 4 years back, we started in U.S., then brought in India for some time. But around 1.5 years back, if I recall the timing right, we started bringing customers directly to India, okay, so to kind of cost effectively reduce our overhead in the U.S. So, that was starting to work, and it was working till this tariff situation came.

So, we are back to the old model where, okay, let's start building there at a higher cost. And then when it moves to India, of course, we have to deal with the labor piece. So the customers are looking at it on the longer-term perspective, okay? If you are going to tell a customer today -- a new customer saying that I'll come to India, I'll make it cheaper, faster, better, but you've got to pay 50% tariffs.

That's not going to work. So, what we're saying is that let's start in the U.S. and then in 6 months, these are substantially large customers. You have an opportunity to move to India, and you will not waste the time in transferring the technology. So, that is what is working in our favor today, having the 2-plan strategy in 2 countries.

Chirag: Fair enough, sir. Means this problematic situation is actually helping us to garner more clients compared to the peers...

Kunhamed Bicha: Absolutely. We have -- like I said, we have seen more activity now than before.

Chirag: Right, right. Sir, over the last 2, 3 years' time frame, where our revenue used to be around INR200 crores, INR220 crores annually, we have done a phenomenal job to almost shift it to INR400 crores roughly rate. One thing I wanted to actually understand. The earlier order inflow rate on a monthly basis in last 5 to 7 quarters used to be in the range of INR130-odd crores on monthly levels and about INR1,600 crores to INR1,700 crores -- about INR1,500 crores to INR1,600 crores on a quarterly level -- on an annualized level.

But today also, I'm able to see that on a quarterly basis, our order inflow run rate is still around INR460 crores, INR470 crores which is monthly about INR150 crores roughly. And our revenue has jumped from INR200 crores to INR400 crores. So, I'm able to -- is there any hindrance that you are facing to garner more orders? Or is there any capacity constraint that we have today, which is expected to unlock, and we are expecting that order book inflow on a quarterly basis is expected to jump from current levels to INR550 crores, INR600 crores on a quarter basis?

Kunhamed Bicha: So the way you need to look at it is, see, what comes as physical orders and not contracts is INR1,863 crores for the next 14 months, okay? I've got another set of orders and contracts, which is from 14 months to 36 months. So the total is around INR3,031 crores. And we've got orders past the 3 years. Some contracts are for 15 years. okay? Those we don't count. We don't -- we're just looking at the near term.

So if you are just chasing the order book, what can be shipped in the next 12 months is what we look at, okay? So we are not taking the -- our usual contracts are anywhere from 5 years to, in some cases, 15 years in the aero industry. But we're not counting the last part of it. Did I answer your question, Chirag?

Chirag: Got it. So just to clarify one, the long-term contracts, which is more than 14 months to 3 years are separate set of numbers compared to the INR1,800 crores, INR1,900 crores order book that we have today?

Kunhamed Bicha: Absolutely, yes. So we have INR3,000 crores plus, and we've got more after that.

Chirag: Got it. Fair enough, sir. And sir, one thing. I'm so sorry...

Moderator: Sorry to interrupt, sir. But I request you to rejoin the queue for follow-up question. The next question is from the line of Neel Mehta from Equirus Securities.

Kunhamed Bicha: Neel, we can't hear you. We still can't hear you, Mr. Mehta. He drops off after the first few words. It kind of drops off, Neel.

Moderator: We can't hear you properly, Mr. Mehta. I request you to rejoin the queue. The next question is from the line of from Debashish from SVAN Investments.

Debashish: Congrats on the consistent deliveries. So I have 2, 3 questions. First one is linked to the U.S. operation. If we see the U.S. revenue growth this time has come significantly better, but it has not percolated into the EBITDA margin because my understanding is a large part of the cost is fixed and with utilization improvement, the EBITDA of the U.S. operation should improve, but that is not visible in this quarter at least. So is it more transient in nature? And going forward, we will see the U.S. manufacturing facility to improve -- I mean, contribute more in the margins? So just wanted to get some sense here.

Suresh Veerappan: Hi Debashish, Suresh here. You're absolutely right in the U.S. manufacturing operations revenue going up because we have been talking about the energy storage system program ramping up, which is what is happening now. That is one of the reasons why the revenue is also starting there. In terms of EBITDA -- percolation to EBITDA, a year ago, if you had looked at it, the EBITDA would have been approximately negative INR13 crores. But right now, that's not the case, where the operating leverage with increasing and increased revenue over there is helping the U.S. operations also, which is what is the hope in the coming quarters to continue there.

Debashish: Okay. So, Q2 last year was negative INR13 crores. What is the number this year, sir?

Suresh Veerappan: EBITDA is minus.

Debashish: INR5 crores, right?

Suresh Veerappan: Correct.

Debashish: Understood. Understood. And the second question is, this is again related to the guidance. I don't want to hold you for this year number. So, this is more of a long-term question. I'm trying to get some sense. You are talking about doubling the revenue between FY '24 to '27. Now if I'm just taking the run rate of the current quarter, we have almost touched the double of FY '24 and FY '26 itself, not exactly double, but close to that.

So, just trying to get some sense that you will still be maintaining that this FY '24 number will be doubling in FY '27? Or you think that because of higher traction as compared to what you initially thought that FY '27 numbers should be better than the -- I mean, the initial guidance that you were thinking of?

Kunhamed Bicha: So, what we are thinking is a little bit longer term because we think this is very much possible like you said, okay? We are looking at doubling from that point, the next 3 years. So the planning is based on the next 3 years already from '27.

Debashish: Yes. But sir, what I'm trying to get some sense is, I mean, in FY '24, we achieved around INR900 crores, INR870 crores. Now, my sense is that in FY '26 itself, we will be crossing INR1,500 crores type of run rate. So, you are still like, in FY '27, you were kind of INR1,700 crores, INR1,800 crores number that you are looking at, or you were targeting much higher numbers?

Because as far as our last discussion is concerned, you were already working on some of the few large projects in railways and all. So, that is some sense I'm trying to get. I'm very much confident that post the next 3 years, you will be again doubling that number. There is no doubt about it. I'm just trying to understand that whether there is any preponement as compared to what you thought initially when you…

Kunhamed Bicha: We'll all be happy. We'll all be happy if it happens earlier, and we strive to do that. But as you know, we are very conservative in our approach. So, we still maintain doubling 3 years and doubling again in the next 3 years. And if it comes earlier, all of us are happy. The investors are more happier than what we are. But our internal targets are much higher.

Debashish: Sure, sure. Understood. And if you can...

Moderator: Sorry to interrupt, sir, but I request you to rejoin the queue for follow-up question. The next question is from the line of Himanshu from Krijuna Research and Analytics.

Himanshu: Sir, congratulations on your good numbers. My first question is on the -- in your last transcript, you said you are entering in the semiconductor equipment manufacturing space and you will buy the industry 4.0 complex box-build. So in this quarter, these last 2 quarters, anything manufacturing you start, you can give...

Kunhamed Bicha: Sorry, Himanshu. Sorry, sorry. Go ahead.

Himanshu: Yes, you can give me a broad view that you are doing in the semiconductor equipment manufacturing space.

Kunhamed Bicha: Yes, we have already started. We have invested quite a bit into that, and we are starting to see the first set of prototypes going out this quarter, and we'll see high-level production into the next few quarters. So everything is in line, and we believe 1 year plus of work is finally going to pay dividends in the future quarters.

Himanshu: Okay, sir. And my second question is what is the synergy gain on collaboration with Zepco Private Limited?

Kunhamed Bicha: Yes.

Himanshu: What is your synergy gain on collaboration with Zepco Private Limited?

Kunhamed Bicha: Yes, that's correct. So, we have multiple such gains and it takes time. But what we are seeing is a lot of our customers are starting to engage in design activity in the power side of things, and Zepco is one of the leaders in that today. And of course, they're also on a second project working on motors for drones in the India market.

That is also progressing well. But collectively, for us, the more important part is the design part, which are customers in the power and clean energy. We have a design partner now, which can take the design part of it. And of course, we are more interested in manufacturing it. And all that is playing out as we plan.

Himanshu: So, you started a manufacturing or you planning for this?

Kunhamed Bicha: No, no. Design usually takes a year to 18 months at least, okay? So once it starts now, the manufacturing is a long-term play. It's not something which can happen overnight.

Himanshu: And sir...

Moderator: Sorry to interrupt, sir, but I request you to rejoin the queue. The next question is from the line of Jalaj from Svan Investments.

Jalaj: Sir, my question was again in regards to the manufacturing in the U.S. facility. So at what scale of operations do we believe that this would reach to a, let's assume, at least a breakeven operations or a breakeven EBITDA level? And could you repeat what was the EBITDA loss in the last year same time in the same quarter?

Kunhamed Bicha: Suresh, do you want to answer?

Suresh Veerappan: Yes. So Q1 FY '25 was minus INR12.7 crores. So, that was the number which I was referring to in my context.

Jalaj: What was the quarter? Q2 FY '25, what was the number, Q2?

Suresh Veerappan: It was minus INR5 crores.

Kunhamed Bicha: Yes. And you will start seeing it play out in the next few quarters, which will be a positive gain for us.

Jalaj: Okay. Some directional scale or -- and Suresh, specifically, I'm still confused. The 2Q FY '25, the losses were minus INR5 crores you are saying?

Suresh Veerappan: Approximately around that number. I think it should be around -- you're talking about Q2 FY '26 or Q2 FY '25.

Jalaj: '25. '25.

Suresh Veerappan: Q1 FY '25 is minus INR13 crores. Q2 FY '25 PAT is minus INR3.9-odd crores. Yes.

Jalaj: Okay. So if that is the number, then our EBITDA losses have rather increased in absolute terms, and our revenue has increased by almost from INR30 crores to INR72 crores. So, almost a gain of INR40 crores, but EBITDA it has not flown through. So, I'm just trying to get my head around that losses have increased in EBITDA terms in...

Suresh Veerappan: No. Right now, like what we had said earlier, we have spoken about this earlier also where we are upfronting our investments today in the people as well as in the inventory for the revenues that are yet to flow in. So today, you have the cost that is there without the matching revenues yet to flow in, okay?

So whatever revenues that you're having now, these are complex products, Jalaj, which means that you've got to train the people for a quarter or slightly more than a quarter to deliver them. So the costs, what we are incurring right now, the matching revenues we will -- we hope to see in the coming quarters.

Jalaj: Got it. Got it. And there is...

Kunhamed Bicha: One thing, see -- Jalaj, one thing you have to understand is because we are starting there is why India is doing very well because the products are moving here. So it's something which is interrelated rather than you can't look at it separately because we start there and then move it here and all the profitability comes to India after that.

Jalaj: Got it. And then sir, because of these tariffs, are you seeing some...

Moderator: Sorry to interrupt, sir. But I request you to rejoin the queue for follow-up question. The next question is from the line of Chirag from Keynote Capital.

Chirag: Sir, my question, which I asked about the inflow of order book. I'm still after adding long-term and short-term order book, our quarterly run rate is still around INR450 crores, INR460 crores compared to INR400 crores a year back, whereas our revenue has improved from almost INR275 crores to almost INR380 crores. So, just wanted to understand the same thing again. Are we facing any headwinds in garnering more orders at this moment?

Kunhamed Bicha: Can you hear us?

Chirag: Yes, clear, sir.

Kunhamed Bicha: So in the context, see, some of -- when we have a 5-year project, okay, where we know that this amount is given every year, sometimes certain customers release it on a 12-week rolling, okay? I may be doing $15 million with the customer, okay? But order on the book will be only $3 million because he's giving a rolling PO, but you have a contract for 5 years. So, we only count the rolling number.

Chirag: Got it. Got it. Fair enough. So it would be incorrect for me to actually compare order book growth and revenue growth together to go align in future also. There can be a possibility for things to happen?

Kunhamed Bicha: Yes, you can see it in our growth itself, if you look at it 12 months back and what our numbers are today.

Chirag: Sir, last question from my side. As we have had a JV with Zepco and the collaboration that we have with Zepco, is it fair to assume for me that we are focusing from shifting from being an EMS company to an ESDM company and focusing more on design to be incorporated on our firm from the client perspective and increasing the part of revenue from designs going forward?

Kunhamed Bicha: So just to clarify, Zepco is a small investment for us, okay? We have only invested INR7 crores. The reason for the investment is we are a manufacturing company, an EMS company. If we can get the design element done, our interest is in the next 10 years of manufacturing, not the first INR1 crores or INR2 crores in design.

Our interest is once it's designed, can I make this product for the next 10 years? That's a INR200 crores activity, right? So that's why Zepco and us are partner, okay, to make that possible for our power and clean energy customers. Did that answer your question, Chirag?

Chirag: Yes, sir. So, our focus still for the next 10 years would be on manufacturing side. This is just a small type of a collaboration for a certain sector-related designs that we are doing so that we can get the orders for the coming years.

Kunhamed Bicha: The expertise to do that.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Kunhamed Bicha: Thank you. FY '26 has started strong for Avalon with robust revenue growth, solid execution and continued customer traction across key markets. The upward revision in our revenue growth guidance reflects our confidence in our business outlook. We remain focused on scaling programs, enhancing capabilities and investing ahead of our growth.

Our entry into semiconductor equipment space marks a key step as we expand into more advanced high-potential segments. With a healthy order book, expanding customer engagement and a flexible global manufacturing model, we are well positioned to sustain momentum through the year and deliver profitable growth. We thank our investors for their continued support and look forward to updating you in the coming quarters. Thank you.

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