

Rating

SUBSCRIBE

(High risk investors for long term)

Issue Offer

Issue Opens on	Apr 03, 2023
Issue Close on	Apr 06, 2023
Total IPO size (cr)	865.00
Fresh issue (cr)	320.00
Offer For Sale (cr)	545.00
Price Band (INR)	415-436
Market Lot	34
Face Value (INR)	2
Retail Allocation	10%
Listing On	NSE, BSE

Incorporated in 1999, Avalon Technologies Limited is a leading fully integrated Electronic Manufacturing Services (“EMS”) company. They have end-to end operations in delivering box build solutions, with a focus on high value precision engineered products. The company provide a full stack product and solution suite, right from printed circuit board (“PCB”) design and assembly to the manufacture of complete electronic systems (“Box Build”), to certain global original equipment manufacturers (“OEMs”), including OEMs located in the United States, China, Netherlands and Japan.

- The company’s capabilities include PCB design and assembly, cable assembly and wire harnesses, sheet metal fabrication and machining, magnetics, injection molded plastics and end-to-end box build of electronic systems.
- It is specialize in manufacturing and providing design support for critical integrated assemblies, sub-assemblies, components and enclosures for multiple industry verticals.
- They have 12 manufacturing units located across the United States and India: one unit in Atlanta, Georgia, one unit in Fremont, California, seven units in Chennai, Tamil Nadu, one unit in Kanchipuram, Tamil Nadu and two units in Bengaluru, Karnataka.
- The company has a significant level of vertical integration in the EMS industry, that includes PCB assembly, cable assembly and wire harnesses, sheet metal fabrications and machining, injection molded plastics, magnetics and end-to-end box build
- Their business has expanded into products such as electric mobility, energy systems, satellite communications, and telematics, among others, that are used in industries such as clean energy and emerging communication technology, which according to the F&S Report are upcoming high growth sectors.

Objects of the issue

- Payment of borrowings.
- Funding working capital requirements.
- General corporate purposes.

Issue Break-up (%)

QIB Portion	75
NIB Portion	15
Retail Portion	10

Shareholding (No. of Shares)

Pre Issue	57,953,128
Post Issue	65,663,971

Indicative Timetable

Finalisation of Basis of Allotment	12-04-2023
Refunds/Unblocking ASBA Fund	13-04-2023
Credit of equity shares to DP A/c	17-04-2023
Trading commences	18-04-2023

Outlook & Valuation: The EMS sector is a sizeable industry globally and in India and is expected to grow at a significant pace, where India also has the benefit of shifting global demand from China to India. Avalon Technologies Ltd. is a fully integrated EMS company with end-to-end operations in delivering box-build solutions in India. It operates a business with high entry barriers and has a global delivery footprint. The company has strong order book. It has strong and stable financial performance with improving margins; however, its PAT margin for the first eight months of FY22 marked a decline, and it also has a high debt ratio currently. Secondly, it has a limited number of clients and serves a specific segment where a change in customer preference might affect it adversely. The issue is fully priced at a P/E ratio of around 39X; thus, after considering all the factors, **we will recommend to subscribe this issue for high risk investors for long term.**

KEY MANAGERIAL PERSONNEL

- Kunhamed Bicha is one of the Promoters and currently the Chairman and Managing Director of the Company. He co-founded Sienna and currently serves as its chief executive officer. He has been associated with the Company since its incorporation.
- Bhaskar Srinivasan is one of the Promoters and currently the Non-executive Director of the Company. He cofounded Sienna and currently serves as its president. He has been associated with the Company since its incorporation.
- R M Subramanian is the Chief Financial Officer of the Company and is responsible for the financial functions of the Company and Subsidiaries. He joined the Company on August 2, 2019. He has several years of experience in the financial functions.
- Dr. Rajesh V is the Company Secretary, Compliance Officer and Legal Head of the Company and is responsible for secretarial and legal functions of the Company. He has several years of experience in the secretarial and legal functions.

COMPETITIVE STRENGTHS

- End-to-end integrated solutions, providing a “One Stop Shop” for electronics and electro-mechanical design and manufacturing services.
- High entry barriers to business.
- Well-diversified business leading to strong growth avenues.
- Established relationships with marquee customer base.
- Global delivery footprint.
- Strong financial performance, stable cash flows and visible growth profile.
- Experienced board, management and operating team

KEY STRATEGIES

- Sustaining and catering to high growth sunrise industry sectors such as clean energy and emerging communication technologies.
- Consolidate and expand the position in global markets for existing industry verticals.
- Creating high growth opportunities for existing offerings.
- Invest in expanding technological capabilities and manufacturing capacities

KEY CONCERNS

- The Company had negative cash flows from operating activities in the past.
- Dependence on limited number of customers for major portion of its revenue.
- Dependence on Subsidiaries exposes it to significant risks.
- Failure to maintain optimal inventory levels could increase inventory holding costs.
- Company serves into specific markets where customer preference can change in the future which can impact company financial performance.
- The Company may be subject to financial and reputational risks due to product quality and liability issues

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2022)

Name of the Company	EPS (Basic)	NAV	P/E	Total Income (Mn)	RoNW (%)
Avalon Technologies Limited	11.30	15.60	-	8,407.18	85.86%
Peer Group					
Dixon Technologies (India) Limited	32.31	167.73	89.61	106,970.80	21.93%
Amber Enterprises India Limited	32.41	514.70	59.50	42,063.97	6.54%
Syrma SGS Technology Limited	5.25	41.57	49.91	12,666.48	13.04%
Kaynes Technology India Limited	9.70	43.89	106.55	7,062.49	24.29%

FINANCIALS (RESTATED CONSOLIDATED)

Particulars (Rs. In Millions)	FY 2022	FY 2021	FY 2020
Equity Share Capital	15.97	15.97	15.30
Other Equity	855.94	583.48	450.43
Net Worth	871.91	282.08	34.46
Total Borrowings	741.83	811.77	495.75
Revenue from Operations	8,407.18	6,904.71	6,418.67
EBITDA	975.49	661.44	644.79
Profit Before Tax	664.41	288.29	152.95
Net Profit for the year	681.64	230.82	123.26

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