



“Avalon Technologies Limited
Q1 FY '26 Earnings Conference Call”
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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Avalon Technologies Limited Q1 FY '26 Earnings Conference Call hosted by DAM Capital Advisors. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

Bhoomika Nair: Thanks, Youssef. Good afternoon, everyone, and a warm welcome to the Q1 FY '26 Earnings Call of Avalon Technologies. We have with us from the management today, Mr. Kunhamed Bicha, Chairman and Managing Director; Mr. Bhaskar Srinivasan, President; Mr. Suresh Veerappan Chief Financial Officer; Mr. Shriram Vijayaraghavan, Chief Operating Officer; and Mr. Venky Venkatesh, Chief Sales Officer.

Mr. Bicha will give an overview of the business performance and will be followed up by Mr. Suresh's remarks on the financial performance, post which we'll open up the floor for Q&A. As we move forward, it is important to bear in mind that any forward-looking statements made during this call are subject to potential risks and uncertainties, both known and unknown.

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

Kunhamed Bicha: Thank you, Bhoomika. Ladies and gentlemen, on behalf of Avalon Technologies, we extend a very warm welcome to our Q1 FY '26 Earnings Call. I would like to begin by expressing our sincere gratitude to all our investors for your continued trust and confidence in Avalon.

Over the past 2.5 decades, India has steadily emerged as a strong manufacturing base, catering to its own growing domestic electronics demand and to the evolving needs of global markets. India is reducing its dependence on imports, and it is positioning itself as a trusted partner in the diversified global supply chain.

This shift backed by structural reforms and government-led initiatives provides a solid foundation for sustained growth in the EMS industry and positions Avalon well into the future. While global trade dynamics continue to evolve, India's structural strengths, growth drivers and policy support remain intact and continue to support long-term industry momentum.

Building on this momentum, we are pleased to announce a significant milestone on Avalon's growth journey. We have entered the semiconductor equipment manufacturing space. We are partnering with a leading global semiconductor equipment company to provide highly complex Industry 4.0 compliant box-builds.

This partnership allows us to leverage our core expertise in box-build solutions, which currently accounts for 56% of our revenue. This also reflects our engineering depth, manufacturing maturity and strong track record in delivering complex assemblies for critical applications.

The prototype phase is underway and production is expected to ramp up over the next 4 to 5 quarters. We view this as a major technological step forward and a strategic entry into a high potential and advanced segment. Over the medium-term, we believe this vertical could become a meaningful growth driver and further strengthen the foundation of decadal growth we are targeting.

Considering a strong start to our FY '25, '26 and encouraging revenue momentum, we are upward revising our full year revenue growth guidance to 23% to 25% from the earlier guidance of 18% to 20%. This reflects confidence in our business outlook.

Let me now take you through our Q1 FY '26 performance. In Q1 FY '26, we delivered a 62.1% year-on-year revenue growth, driven by broad-based demand across industry verticals and geographies. Notably, both our India and U.S. businesses recorded a 62% year-over-year growth, reflecting consistent performance across geographies.

Our gross margins for the quarter stood at 35.5%, exceeding the upper end of our guided range of 33% to 35%. This is a 230 basis point improvement over Q1 FY '25. Our EBITDA margin came in at 9.2% and profit after tax was INR14 crores. Return on capital employed stood at 17.5% and our asset turns were at 8 times, highlighting efficient utilization and productivity.

As of June 30, 2025, our order book stood at INR1,790 crores with an average execution period of 14 months, reflecting a 22.5% year-on-year increase. In addition, long-term contracts with execution timelines of 15 to 36 months grew by 17.4% year-on-year to INR1,157 crores. This order book growth has been well balanced and diversified across industry verticals and geographies.

We remain encouraged by the continued momentum across our 3 growth engines.

One, existing businesses. This is driven by long product lifecycles and deep customer relationships, delivering steady recurring revenues.

Two, new business wins. This is a result of sustained efforts over the past 2 years, translating into fresh orders across multiple verticals and ramping into production.

Three, pipeline opportunities. This is a growing and diverse set of opportunities that are progressing towards finalization with encouraging potential in terms of size and scope.

With all 3 engines operating at different stages, we are front-loading investments in capabilities, manpower and inventory to stay ahead of the expected growth. While this has led to some sequential moderation in EBITDA margin, we remain confident in that operating leverage will begin to take effect in the second half of the year.

On the working capital front, net working capital days improved from 163 days in June 2024 to 142 days in June 2025. Inventory levels are elevated for supporting upcoming production and growth. We remain focused on further improving efficiency and bringing net working capital down to 120 to 130 day range.

Revenue share from our U.S. manufacturing plant now accounts for 20% of our revenue in Q1 FY '26. Meanwhile, manufacturing at our India plants, which serve both our domestic and global customers represent 80% of our business in Q1 FY '26, remains profitable with an EBITDA margin of 13.2% and a PAT margin of 8.8%.

As tariff-related discussions between U.S. and India continue, we are closely monitoring developments. In such an environment, it is important to remain agile and take a measured approach before making any strategic adjustments.

Avalon's dual presence in U.S. and India offers a unique advantage. Our U.S. facility enables customers to localize production and manage tariff exposure. While our India operations provide a cost-effective and scalable manufacturing base. This geographic flexibility places Avalon in a strong position to support customer needs across both regions and respond effectively to evolving trade dynamics.

Tariff-related considerations continue to be managed through our usual commercial processes, as has been the case in the past. We are making steady progress on several new programs that are advancing from design and prototyping stages into production. These include products for global auto components, home electrification systems and a range of solutions across verticals such as rail, industrial and clean energy.

Some of the projects currently in development include backup power systems, power transmission systems, aerospace cabin sub-assemblies, locomotive engine subsystems, energy storage systems and power electronics. Many of these are expected to ramp up during the current financial year and contribute meaningfully to our growth.

We are also progressing on the railway Kavach systems, which is currently under prototyping and final stages of approval. This is expected to enter commercial production next year. These developments support our continued efforts to deepen customer engagement and expand our presence across critical and high potential end markets.

To support the series of new product introductions and anticipated growth, we are scaling up our operations ahead of the project ramp up. On the infrastructure front, our export-focused plant in Chennai which commenced production and now ramping up. To meet rising domestic demand, we are planning to complete Phase 2 of our brownfield expansion in Chennai by the end of Q3 FY '26.

To summarize, Avalon has started FY '26 on a strong note with a broad-based revenue growth, healthy order book expansion and improved operational metrics. Our dual manufacturing presence, both in India and U.S. continue to offer strategic flexibility, helping us to serve a diverse customer base and navigate evolving global trade dynamics.

We are steadily ramping up new project wins across multiple industry segments, supported by proactive capacity investments and deepening of our customer engagement. Our entry into the semiconductor equipment space marks a significant step forward in expanding to high-potential, high-advanced segments.

With an improved growth outlook and a robust execution framework, we believe Avalon is well positioned to sustain its momentum and remain committed to building a business focused on 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:

Good afternoon, everyone, and thank you for joining the call. Q1 FY '26 marks a steady start to the year, reflecting our disciplined execution and continued customer confidence. We are expanding strategic partnerships, strengthening capabilities and investing in talent, capacity and inventory to support upcoming growth. These steps position us well for a stronger second half and reinforce the foundation for long-term growth.

Coming to our Q1 FY '26 performance. We reported revenue of INR323 crores, a year-over-year growth of 62.1% compared to INR199 crores in Q1 FY '25. Our geographical revenue split for the quarter was 40:60, with India contributing INR130 crores and the U.S. contributing INR193 crores.

Gross margin for the quarter stood at INR115 crores, a 73.3% increase from INR66 crores in Q1 FY '25, reflecting a gross margin of 35.5%. We continue to deliver industry-leading margins driven by our product mix and execution efficiency.

EBITDA stood at INR30 crores, up from INR4 crores in Q1 FY '25 with margin expanding to 9.2%, a 705-basis-point improvement. Profit after tax stood at INR14 crores compared to a loss of INR2 crores in Q1 FY '25, resulting in a PAT margin of 4.4%.

As volumes ramp up in the second half, we expect the benefits of operating leverage to become more evident towards the end of FY '26, with this momentum likely to carry into FY '27. On the balance sheet front, net working capital days improved to 142 days in June 2025 from 163 days in June 2024, an improvement of 21 days. Inventory days reduced to 104 from 130, while trade receivable days increased slightly to 87 from 78.

Trade payable days improved to 49 from 45. On a sequential basis, net working capital days increased from 124 in March '25 to 142 in June '25, primarily due to inventory raising from 86 to 104 days. In absolute terms, receivables and payables are broadly in line with March levels, while inventory increased by INR43 crores.

This inventory build is intentional and aligned with our growth plan, ensuring readiness to meet customer demand in the coming quarters. As of June 30, our total outstanding debt stood at INR134 crores with cash equivalents and investments at INR100 crores, resulting in a net debt of INR34 crores.

Capex for Q1 FY '26 was INR9.6 crores. With our asset-light approach, we continue to maintain strong asset turns of 8x. To conclude, as we progress through the year, our focus remains on disciplined execution.

Thank you. Over to you, Bhoomika.

Moderator: Thank you, sir. We will now begin the question and answer session. First question is from the line of Deepak Krishnan from Kotak Institutional Equities.

Deepak Krishnan: Yes. Sir, I just wanted to check, we've moved U.S. manufacturing to 20% versus 13% last year. And as a result, we have seen a jump in employee expense as well. Like what is our overall strategy for the year?

Like how much percentage of production do we think happens in U.S. or at least if not for the year, near-term, does this shift kind of continue and would that have some bit of minor impact in terms of margins, while you've guided to some leverage coming through, just your perspective in terms of U.S. versus India manufacturing as things stand today?

Kunhamed Bicha: Yes. Thank you, Deepak. So just to put in perspective, last quarter was lower in the U.S. We have always said we are targeting an 80%, 20% mix, with 80% being in India and 20%. So this 20%, what you're seeing happening is that, more customers and existing customers increasing their revenue in the U.S.

And the way we think about it is, if the tariff situation changes, the new customers may want to start production in the U.S. till it settles down, then move to India as it goes. So we are the only one who have both the options, keep going. But our focus is always Make in India, and we are also focusing on other geographies apart from the U.S. going forward.

And one thing to note is that, around 3 years back, we were only 20% India customers. And today, we are getting close to being 50% India and more business is coming from our India segment. Did that answer your question?

Deepak Krishnan: Sure, sir. Yes, I think sort of got a sense at least sort of sustain at this rate is the understanding I have. Maybe just wanted to sort of also understand the semiconductor opportunity that you mentioned in the press release you said that it's going to be a big driver maybe a year out and 2 years out. How big is this in terms of percentage of revenue 2 years out?

Do you think this could be something like a 15%, 20% revenue contribution or this is more like a 5%, 7% revenue contribution? And are you anchoring on adding additional customers once you have sort of this customer in base?

Kunhamed Bicha: Yes. This is one of the leading semiconductor equipment manufacturers. And we've been working with them for a year now. So we've just not talked about it. And now in the next quarter, we'll probably start the pilot production and ramp up.

It's substantial. I don't want to put a number to it yet. But we believe this is the start of our journey in the semiconductor equipment. And as you know, multiple companies are there. Once we have one of the biggest companies working with us, it's easier for them to follow.

Deepak Krishnan: Sure. Maybe just one final question. So far, at least in 1Q and 2Q, there haven't been any major trade disruptions or that has been manageable. Is the understanding correct? And second is big

beautiful bill hasn't impacted our clean energy revenues in any meaningful way or our order book? Are those 2 understandings correct? Just want to sort of finish that off?

Kunhamed Bicha: Yes, you can see our -- like we said, we had interestingly 62%, both growth in India and in the U.S. So, see, most of our products are long-term in nature. It is not something you can change quickly over time. They are -- lifetimes are 5 to 15 years. So as of -- as we know it last quarter, a lot of it was passed through.

There was no issue. We didn't see anything based on them. But it's changing every day. So we anticipate not to see issues, but if things change every day, we are waiting for things to settle out. As of now, we don't see any ramifications.

Deepak Krishnan: Sure. And same as the big beautiful bill on clean energy, the impact is minimal. Is that understanding correct?

Kunhamed Bicha: Yes. What we need to understand is that, we are into energy storage systems, no rooftop solar and all that. It's mostly storage, which is growing 70% year-over-year, 60% to 70%, I would say, in the U.S., and we are playing in that segment.

Moderator: Next question is from the line of Ms. Bhoomika Nair from DAM Capital.

Bhoomika Nair: Congratulations on a good set of numbers. Sir, my first question is related to the employee cost that we saw during the quarter, which kind of jumped up. Should we see that as a normalized run rate now per se as we move forward given that we are seeing decent traction in terms of revenues?

Suresh Veerappan: Yes. So, Bhoomika, Suresh here. Like what we had mentioned in earlier calls, many of the projects which we won over the last 4, 5 quarters, it is getting into a ramp-up stage, some of it in Q2, some of it in Q3. But like we already said, before the project ramps up, we have to build the team upfront, which is what is happening right now. But it will kind of give you a guided range for the whole year. There may be a slight increase from here, but then it can give a ballpark range around this.

Kunhamed Bicha: There's inflationary increase also year-over-year.

Bhoomika Nair: Okay. So this -- I mean, what I'm trying to get at is, it's not got anything to do with the increased manufacturing quarter-over-quarter that we've seen in U.S. and it's more normalization of cost with the increased revenues per se. Is that understanding correct?

Suresh Veerappan: Okay. So the later part is right, okay? So for example, with the new financial year, there will be appraisals and that also has a number impact. That is number one. And number two, even in the last quarter, what we had highlighted is, between U.S. manufacturing, India manufacturing, the revenue split to be 20% and 80%.

That is what has come over here. The ramp-ups are happening predominantly in India manufacturing facility. And the -- that is the key reason, I would say, and not the increase in U.S. manufacturing.

Bhoomika Nair: Got it. Sir, the other thing was in terms of the -- if I look at the revenue breakup between different segments, clearly, industrials and mobility has grown at a very sharp pace in this current quarter, which has contributed to the overall growth. If you can give some color in terms of how is clean energy performing relatively? It has seen a little muted growth.

Is that got to do with the fact that there is this tariff-related situation and the ongoing issues around renewable energy in U.S., which has kind of slowed down relatively the growth rate? Or should one read it like a little differently per se?

Not to mention that when we're talking about 25% growth for the full year, roughly 23%, 25%, as you highlighted, which means that the balance 9 months, we are looking at about a 15%-odd kind of a growth, whereas I thought second half, we've seen some larger scale up. So how should we look into this, if you could just talk about that?

Kunhamed Bicha: Thanks for your question, Bhoomika. You always ask the difficult question. So we're seeing a broad-based growth. If you look at year-over-year growth, just don't take the shot and we don't take that because quarter-to-quarter, things may change. Year-over-year, clean energy grew 26%, okay?

Communication grew 102%, okay? Rail and aerospace grew more than 100%. Mobility, put all the 3 sectors together, grew 92%. Industrial at 86%. So we're seeing this across-the-board, okay, growth coming.

So it's not just specific, and clean energy for us, if you look at last year was 20%, this quarter was 18%, but next quarter or following quarter, it will come back to where it stands. So we are seeing good order momentum in that also. Did that answer your question?

Bhoomika Nair: Yes, sir. I'll come back in the question queue, but this helps for now, yes.

Moderator: Next question is from the line of Saumil from Lucky Investments.

Saumil: Great set of numbers, congratulations on that. My first question is on the revenue growth and the upward revision in the guidance. Last quarter, you guided for about 20%-odd growth for the full year of FY '26 with some back-ended -- which is indicated to be back-ended with some power products sort of taking off in the second half.

And this quarter, we have seen about 100% year-on-year growth in industrials. So has that already started to take shape or are we yet to see these products that we were talking about take off in the second half of this year?

Kunhamed Bicha: Yes, we've got multiple product kick-ins through the year. Some of them have kicked in, and we are starting to see revenues, both in Q1 and in Q2. But some -- there are some more projects which will kick in, in Q3, Q4. And it's just not industrial, it's across-the-board, to be honest. We are very confident that this growth is there, and we are confident that multiple projects are there. But as you well know, we are conservative with the world situation, the macro situation.

- Saumil:** Yes. Okay. And secondly, on the margins, first, gross margin level, there's about 230 bps of expansion. Can you talk about that? Has that got to be the mix changing towards industrials or is it something else? Can you just elaborate on that?
- Kunhamed Bicha:** So it's interesting, though, there were tariffs last quarter, we've been able to increase our margins. So there's a good pass-through going. And the margin base, it will fluctuate. We commit to 33% to 35% certain quarters, you may see it higher. The last few quarters, you've been seeing it higher. But that will continue. We internally target to be 30% to 35%. And if 36% happens, we are all happy.
- Saumil:** Okay. And you also mentioned that there was an impact of front-loading of investments towards future growth on -- there was an impact on EBITDA margin relating to that. Would it be possible to quantify that?
- Kunhamed Bicha:** A lot of it is -- see, when we -- because our products are fairly complex, it's not step and repeat like the consumer type. So we need to start training people if production is starting, let's say, this quarter. We need to start training people at least a quarter or 2 months earlier. So some of that's happened because some substantial increases are in the pipeline. So we started doing that last quarter. And, of course, planning on infrastructure and putting things together for this planned increase.
- Saumil:** Okay. Any quantifications possible? What would be the impact...
- Kunhamed Bicha:** No, no. We commit to what we committed for the year. So there's no traction in them.
- Saumil:** And finally, on the semiconductor equipment sort of new partnership, is that with the Japanese OEM?
- Kunhamed Bicha:** No, it's a global OEM. So the semiconductor guys supply, I don't want to name the customer, but it's top 4 or 5 companies in the world.
- Moderator:** Next question is from the line of Praveen Sahay from Prabhudas Lilladher.
- Praveen Sahay:** Congratulation on good set of numbers. My first question is related to the growth, which you had upward revised to 25% for this year. So like you had already given a 60% growth. You have already an order book -- a strong order book of INR1,790 crores. What restricting you to give the higher growth guidance looking at the order book and the performance in the first quarter, 9 months, if I calculate on your numbers, it's around 17% only what you are guiding for? So would you please clarify on this?
- Kunhamed Bicha:** So it's an interesting situation we are in because the last time we gave growth guidance, it was the day after operations shutdown. We are not confused how the world is going to play out. The -- now we've got this tariff uncertainties, which we don't see an issue. But let's put it this way, we are a conservative company, and we just want to maintain what we said. And we'll -- if the improvement is there, we are very happy about it.

But we want to be very conservative on what we say. And we have always committed to double by FY '27, we maintain that. There may be certain slow quarters, certain high quarters, but we maintain to double by FY '27 in 3 years.

Praveen Sahay: All right, sir. Next question related to order book. Is it possible to give any bifurcation of like how much is from the box-build or some other segment in this order book...

Kunhamed Bicha: We've been consistently because we've got the highest box-build percentage, and we have always been maintaining 50% to 56%. We are 56% now. So our whole goal is to keep increasing this box-build mix, and that is what is playing out now. And we'll continue to do that. As of today, it's around 56%. And we believe that can -- as the years go by, that can improve, too.

Suresh Veerappan: The order book mix will be slightly resembling the revenue mix to an extent.

Praveen Sahay: Okay. Last question on the capex, which you had guided INR45 crores to INR50 crores for this year. Is there any increase in that for guidance?

Kunhamed Bicha: So it's pretty close to that, and we would say INR45 crores to INR55 crores just to be on the safer side. We continue our goals of having asset turn between 8 and 10x, and we believe that is achievable. We have a low capex model to achieve a lot of this.

Moderator: Next question is from the line of Jalaj Manocha from Svan Investments.

Jalaj Manocha: Sir, so congrats on a decent set of numbers. Sir, I had a -- first question was regarding the U.S. facility. Could you help me understand the unit economics of fixed cost there and the gross margins? Because even though our revenue has increased from the facility Y-o-Y, but then the EBITDA numbers don't show up any profitability increasing. So could you -- in the absolute terms, could you help me understand those numbers once?

Suresh Veerappan: So U.S. manufacturing today is around 20% of our overall revenues. And like what KB mentioned in the opening remarks, the EBITDA there is around minus 6.9% and a PAT of minus INR9 crores in this quarter.

Jalaj Manocha: And Suresh, I wanted to understand what sort of fixed costs are we seeing in the U.S. facility? And what sort of numbers of top line would eventually make it a breakeven or so?

Suresh Veerappan: So, Jalaj, what we -- like what we had mentioned in the earlier calls, I think 1 year before, our U.S. manufacturing had a losses of close to minus INR14 crores. Now it is at minus INR9 crores. And one of the key customers over there has started to pick up, just started later part of the first -- later part of the Q1. I think over the next few quarters, we do not want to put a number yet.

But over the next few quarters, we believe with the ramp-up of that particular key customer, we believe we'll be getting closer to a decent numbers on the profitable side -- on the breakeven or profitable side.

Jalaj Manocha: Understood. Got it. And sir, second question was around the capex. So we did allude to a capex number of INR40 crores, INR50 crores for this year. But my sense -- I just wanted to get one

sense, the utilization in the U.S. facility would be on the lower side. Still we are doing asset turns of 8x. So there is a possibility on a full capacity run up this number towards the asset turn numbers to go even higher or what?

Kunhamed Bicha: So our goal is always -- our internal goal is 10x. We say 8x to 10x. Absolutely, what you say is right. There's enough capacity, both in India and in the U.S. and U.S. a little bit more than India. So we are very measured on what we take in there. So what you say is absolutely right.

Jalaj Manocha: Okay. And one last question was, could you talk a little about, sir, you have partially alluded to the impact of tariffs, but what sorts of discussions are we having with clients? Because the clients would start to look at a second best option, which would be cheaper to them. I'm sure a client would be working with more than 1 vendor and would not be only 100% dependent on us. So what sort of discussions are we having with the clients right now who takes in the tariff in case this comes in or kicks in or how would the supply chain be managed?

Kunhamed Bicha: So like I said earlier, the clients also, things are changing so fast. So they don't know how to strategically maneuver. That's one piece. The second piece for us is, if you look at the other alternatives, they are close to what we have or worse, right, whether you take the other geographies, which can do this manufacturing.

So it's choosing which one and most of them have U.S. plus 1 and because China is completely out, as you know, the tariff rates are much higher. So it's between everybody else. And India still is okay comparatively. I'm not saying the 25% tariff is right or wrong. But what I'm trying to say compared to the other geographies, we are pretty close.

And with our -- none of the other -- apart from Vietnam would have lower cost of labor than India. And most of our customers are here for the long-term nature whether to enter the Indian market or -- because most of our Indian customers, you see are all multinationals from across, whether it's Japan, whether it's Europe, they have come and entered -- they're coming for the India market. So it's just not the cost alone. It's the entry into a market like India. And also, if you look at the comparison between different countries, we may be a little bit higher.

I mean, compared to a U.K. or something which they cannot manufacture there or EU, it's a challenge also. These are only 2 countries which are lower apart from the other countries. Did I answer that?

Jalaj Manocha: Understood. Yes, that explains. And sir, one last question...

Moderator: Sorry to interrupt Mr. Manocha, may we please request you to rejoin the queue? Several participants are waiting for their turn.

Jalaj Manocha: Sure, sure.

Moderator: Next question is from the line of Veenit from Investec.

Veenit: Just a couple of questions from my end. First is, I wanted to understand, given we've had a robust growth in terms of U.S. customers in Q1, was there any element of prebuying ahead of

anticipated higher tariffs which were to be -- which were getting applicable? So was there any sort of element, if at all? The continuation to that is, how has been the customer response, at least in the first initial week?

And do -- are you getting any sense from the customer around potential sourcing strategies for them in case 25% tariffs are to sustain for some time? So any broad color there would help. And lastly, the third question is on margins. Now, last year, we had a very tough Q1 as far as the profitability was concerned. This time, we are positioned way better?

While I acknowledge the investments which are required for the business has taken margins lower, but would it be still okay to assume that we'll better the margins which we had delivered for the whole of last year, purely given Q1 last year was extremely weak and we've done pretty okay Q1 this time around?

Kunhamed Bicha:

Okay. So I'll try to answer -- you had too many questions. If I missed something, just remind me. So what you can look at, see, the last -- you're looking at just 1 quarter, right? So if you start from Q2 of last year, Q2, Q3, Q4, Q1 of this year, we've consistently shown growth in margin improvement.

So we intend to maintain that and we intend to grow. On the tariff question, what we need to understand is close to -- getting close to 50% of our business is in India now. And around 3 years back, that was 20%. Today, we are very happy to have diversified this way. And then 20% of our business is U.S.

So what we are talking here is around 30%, 35% of production going into export. And that, too, a lot of that is FOB India, where the customer is directly responsible on doing it. And the last point is, even customers don't know which product has got duty and which product got tariffs and which does not have tariffs at different varying levels.

So things will settle down. But in the -- if you take a longer-term picture, I think it will all equate out because it's not that somebody else can make it cheaper. I know I've missed 1 question out of your 3. Maybe the first one, which...

Veenit:

On the prebuying, yes, any element of prebuying?

Kunhamed Bicha:

No, no. So that is -- see, a lot of our planning starts 6 months, 8 months ahead. So it's not easy to even prebuy. So we don't see any element of prebuying. So that's why I said if you look at the last 3 or 4 quarters, we are consistently showing growth.

So this quarter, because last year, this quarter is a little bit muted, we saw a little bit higher. But we are confident that there's no element of prebuying actually we could have -- customers wanted more in the sense of -- it's new customer cut-ins which have taken place.

Moderator:

Next question is from the line of Neel Mehta from Equirus Securities.

Neel Mehta:

Congratulations for a good set of numbers. So sir, my question was particularly related to the communication segment that has led to a sharp jump, almost more than 100% growth on a Y-o-

Y basis. So it is driven by certain products or it's driven by any particular customers? Would you please highlight that? Because, I mean, like since last 2 quarters, we are showing it -- said that segment is pretty good. So can you just help me, I mean, how it is shaping up?

Kunhamed Bicha:

So on a broader sense, most of the customers and the entries we have done in India are in power, infrastructure and communications, okay? But on the communications segment, so we're not in the low-end of stuff. On the communications segment, our focus is on 5G and 5G radios, making it for some of our larger clients in India with the next few years of growth. We have entered that around 3 quarters back. And we will see some uptick on that in the coming quarters also. I hope I answered your question.

Neel Mehta:

Pretty much, sir. And sir, just last question that since we are foraying into the semiconductor equipment side, just wanted to understand that our partner, which we have done the partnership with he is also into the equipment side or they are into the fabless side or like in the foundry side? Just wanted to understand which value chain of the semiconductor we are in. So just wanted to understand that part?

Kunhamed Bicha:

Absolutely, in the equipment side. It's the highest end of box-build you can do. And we've been working to get to that level of complexity and technology, and we have achieved that. That's why we are confident. It's been a journey of 3 or 4 quarters to get here. It's completely on the equipment side. And because we do so much of box-build, it kind of takes us to the next level of box-build.

Moderator:

Next question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal:

I have a couple of questions. First, on the tariff and also on the cost structure, how do we actually identify what we sell of that, what is actually under tariff and what is exempt? And how long does the exemption exist? And wherever we have a tariff or subject to pay a tariff, which other countries are more economical after adjusting for tariff than us?

Kunhamed Bicha:

So, let's say, customer doesn't know, we don't know, I don't know. If anybody knows what -- which product has got what tariffs now because it's all fluid, okay? So the way we look at it is the tariff as of today is a complete pass-through to the customer, okay? I'm not saying that it will not change. But as of today, it's a complete pass-through.

And your second part of the question where you said which is -- which country and what, right? So there are countries between 25% to 15%. Most of the countries are there. China is an outlier that how you call it, 40% or 50% in certain areas. So it's not just a specific country this thing can move to or so.

It's a long-term decision customers have made. So most of our customers are not completely cost base because they have invested a lot of time, effort, money to get us going. So they are looking at the longer term of 5 to 15 years. So there's no kind of immediate pressure because wherever they change to, they're going to have some sort of tariff because there's no country not with a tariff, unless it's in U.K. or one of the small islands wherever they have a 10%.

But with India's strength in labor cost as well as technology, I think it's a long-term journey for India. I'm just not talking Avalon. And since we do complex products, it's not easy to shift.

Indrajit Agarwal: Sure. That is helpful. And secondly, on your semicon equipment, can you just throw some more light as to what kind of capex we can end up incurring and what kind of margin this category has in the sense that how scalable this business is for us?

Kunhamed Bicha: It is very scalable and there's number of products, and it's part of systems what we are building, not complete systems, part of systems we are building. And space is more of a constraint and not the capacity, which we have catered to now.

Indrajit Agarwal: And we will get government incentives on this?

Kunhamed Bicha: This is after we get -- moving on this and get into production, we are going to look at government incentives on this.

Moderator: Next question is from the line of Chirag from Keynote Capitals.

Chirag: Sir, I just wanted to understand one thing. The pace of order book growth seems to have flattened up. Just wanted to have your look, are we facing any challenges because of this tariff only due to which order book growth is not at the same pace it was earlier?

Kunhamed Bicha: So we've -- see, as you know, we do complex product, and we look for profitable growth rather than growth at all costs. The order book is INR1,790 crores for the next 12 to 14 months, plus INR1,157 crores apart from that. And we don't count the orders which we have more than 3 years. Okay? So there's another element of that.

So this itself will get you around INR2,900 crores, give or take, a certain number. So if you look at it that way on a 3-year period, you have the orders. So we just break it down to show you the immediate what we can execute. And a lot of the 12 to 14 months will start flowing into the -- sorry, a lot of the 14 to 36 months will start flowing into the 12 to 14 months.

Chirag: Yes, I do get that. But still trying to understand on an annual basis or a monthly basis, what is the run rate now? And so, if our current run rate last year was x and this year it x plus y, just wanted to understand from that perspective. Are we expecting on a monthly basis our order book to increase at a faster pace going forward?

Suresh Veerappan: So a couple of points there. One, first, our order book has grown by 23% right now Q1 to Q1 year-on-year, okay? Second is like what we have mentioned earlier, many of the new projects are either in photo stage or 1 step before the commercial production commences.

So the larger orders for each of those projects, which we won over the last few quarters will -- is expected to come through over the next 1, 2 quarters. So that is also one of the reasons why we are comfortable in communicating that we will be able -- we will try and double our revenues from FY '24 to FY '27.

- Chirag:** Right. That's fair, sir. Secondly, I just wanted to understand, as you have mentioned the EBITDA margins and PAT margins for India business -- India plant business specifically, which is 13% and 8.8% roughly. Would it be possible for you to give us the gross margins in India, the India plants?
- Suresh Veerappan:** So we generally do not provide that kind of a breakup. But what I would like to highlight is, for us, we have been able to steadily maintain our gross margins over the last 4, 5 years now, okay? 33% to 35% is the guided range. We've been happy to maintain at the upper end of the range for the last few quarters now.
- Chirag:** Fair enough, sir. And what kind of cash flows...
- Moderator:** Sorry to interrupt Mr. Chirag, may we please request you to rejoin the queue, sir?
- Chirag:** Sure.
- Moderator:** Next question is from the line of Balasubramanian from Arihant Capital Markets.
- Balasubramanian:** Yes. Sir, on that Zepco partnership, especially focused on ADF Drone components and what kind of synergy we can able to create through the partnership? And what percentage of future revenue could come from design-led manufacturing versus traditional EMS?
- And secondly, this local PCB procurement is increasing due to PLI, what percentage of inputs are still imported? And we are -- like what kind of like dependency is in terms of those things? Is there a multiple sources we have or still we are dependent on Chinese components?
- Kunhamed Bicha:** Okay. Just to answer your first part of question. So the 2 aspects of the Zepco partnership. One is subcomponents to drones. Now I can specifically say it is for the power electronics and drone motors, which is today, 95% of the motors come from outside the country.
- So we believe that we are driving that change we can happen in India with Zepco. Apart from that, the design-led, so most of our customers in the power domain, which is a good piece of our business, both in industrial and clean energy are slowly starting to use Zepco to design and we do manufacturing.
- Moderator:** We'll move on to the next question from the line of Naman Jain from Kotak Institutional Equities.
- Naman Jain:** Yes. So if you can just expand a bit on power electronics? Are you also entering into BESS, given a lot of regulations are coming into increase indigenization of BESS in India?
- Kunhamed Bicha:** Can you just expand BESS for me?
- Naman Jain:** Battery Energy Storage Systems, which...

- Kunhamed Bicha:** Okay. Yes. So as of now, the focus is outside India. And today, we have the capabilities and the knowledge to do that. So let's get stability going where the margins are, and then we'll come back and address that if required.
- Naman Jain:** Okay. Got it. And second question, I know you have answered a lot on tariff already, but just another question. What's your view, let's say, if the situation doesn't improve from here on, do you believe you will start facing some pressure as to -- from your customers to share a bit of the tariff loads? I know you said FOB for some of them, but what's your estimate if the situation continues to remain as is?
- Kunhamed Bicha:** So the 2 elements we look at whatever we did by luck of a choice, diversification into India because we were 80% exports, if you look at it 3 years back, right? So we are getting close to 50% and most of our growth will also come from India. And if the U.S. side of it, if there is going -- my firm belief is that, as of now, we have no answers and no solutions on both sides.
- And these are technically -- it's not something people can change overnight. There may be give or take. And like I said, 45% to 50% is India, 20% is U.S. and 30% is what we are talking about where the tariff kind of comes. And most of that is FOB and a few of that is only DDP.
- So it's -- as we -- as of now, there's talk, but there's no -- so the effect is going to be not like the whole business or so it's going to be less than 15% to 20% max of the business, which is affected. And if you look at what is going to be tariff and what is not going to be tariff when that clarity comes, life will be a lot easier.
- Moderator:** Next question is from the line of Sumant Kumar from Motilal Oswal.
- Sumant Kumar:** So we are -- we have entered into semiconductor equipment manufacturing. So can you elaborate more about that? What kind of products we are going to manufacture?
- Kunhamed Bicha:** No. So a lot of it is the power-related boxes, okay? And I would not like to go much more deeper into this. And as we, what do you say, expand, continue to grow in this segment, we'll give you a lot more clarity on where we are heading. But these are complex systems which you're building.
- Sumant Kumar:** Testing to kind of?
- Kunhamed Bicha:** No, it's not on the testing tools, no. It's part of the equipment.
- Sumant Kumar:** Okay. And talking about the -- can you talk about the EBITDA margin guidance for FY '26?
- Kunhamed Bicha:** Suresh?
- Suresh Veerappan:** We generally do not provide a guidance per se on the EBITDA or the PAT level on a full year basis. But having said that, at a gross margin level, 33% to 35% is the guided range. And second, like indicated earlier, we expect the ramp-up -- revenue ramp-up expected in the second half of the year, we expect the operating leverage to be more evident as we -- in the second half.

Sumant Kumar: So can you talk that way, whatever the historical EBITDA margin we have, can we reach in the coming year or this year?

Suresh Veerappan: Rather than putting out a number over there, the way how I would like to highlight is, right now, in the first half, we are upfronting our cost and investments, whether it is the people, plant or on the capabilities, inventory also.

But the results of all of these efforts, which is happening in the first half, I think start becoming more evident as we get to the later part of this fiscal year, and it will continue to flow into FY '27. We have always been focused on not growth at all costs but profitable growth. That is something that we will be very cognizant of in all of these growth.

Moderator: Next question is from the line of Bharat Gulati from Dalal & Broacha.

Bharat Gulati: Sir, just I wanted to understand if you can throw some light on when will revenue start coming in for the semiconductor business?

Kunhamed Bicha: Yes. So you start -- it's going to be a gradual step up. So you would probably start seeing some of it next quarter, but then gradually growing over the next 3 to 5 quarters.

Bharat Gulati: Okay. And I just want to understand that if the tariff situation persists, can we see U.S. manufacturing contribute more as a percentage of revenue?

Kunhamed Bicha: So we are very selective in what we do there. So, see, because the whole business itself is growing, okay? So, though, we say 20%, the absolute number may be higher, okay? So -- but we are ready. If customers are willing to pay the higher amount, we are ready to do that.

And just again, a lot of new customers wanted to be stop for a short time before they come to India. So if they come there, this is something like a beachhead like what we call it. So if they start there and then move to India. The intention is to move to India.

Moderator: Next question is from the line of Vipraw Srivastava from Phillip Capital.

Vipraw Srivastava: Sir, quickly on the -- just a bit on the math. So in the Q4 presentation, it was highlighted that the Indian business has an EBITDA margin of 14.2%. In the Q1 presentation, it's highlighted that Indian business has an EBITDA margin of 13.2%. So that's 100 bps decline, but overall margin has declined by more than that. So is it fair to assume that U.S. business EBITDA margin has declined significantly more?

Suresh Veerappan: No. Overall at consolidated level, our EBITDA margins in Q1 is 9.2% vis-a-vis 2.2% in Q1 FY '25 and 12.1% in Q4 FY '25. The main reason being we expect the ramp-up on all the new business coming through Q2 or Q3. So second half is going to be there. So we are upfronting some of our cost over there.

So that is why at a consolidated level itself there has been -- the EBITDA margins are at 9.2%. The effect of that is what we are seeing in both the Indian manufacturing as well as the U.S.

manufacturing. U.S. manufacturing, the PAT is around minus INR9 crores for this Q1 as against minus INR14 crores same time last year.

Vipraw Srivastava: Right, sir. And sir, last question from my end. Obviously, tariffs has been there and there is no clarity on what will happen in the coming months. But has the company got any assurance from the U.S. clients that they can manufacture in India or if the client asks you to shift to U.S., do you have any pricing power over the client, can you tell them that we'll only manufacture in India? So what's the dynamic there?

Kunhamed Bicha: At the end of the day, a couple of points there. See, manufacturing in the U.S., even with tariffs is not going to work, okay, because the costs are significantly higher. So the -- unless the customer needs to build it there, it's still going to be U.S. because China is not there, it's a lot easier for India now. But the other geographies, again, the tariffs are between -- within 5 points of what India is.

So the concern is there, but we are fairly confident because just U.S. is used to tariffs because the China tariffs are 30% or 35%, it changes often has been there for 3, 4 years, okay? So the U.S. companies are used to paying tariffs with China. So now it's everyone. So that's the issue now. And it's still significantly lower than what China tariffs are. So they are very used to tariffs. It's new to us, but customers are used to tariffs out of China.

Vipraw Srivastava: Right, sir. And sir, last question, if I'm allowed to ask. Quickly on the one big beautiful bill, battery energy has been -- battery energy IRA incentives will be revoked from 2027. So post that, how do you see your clean energy segment progressing?

Kunhamed Bicha: Yes, very happy if that happens because a lot of the production will move to India. Okay? And -- but the demand is there, whether it's made in India or made in U.S. That's the segment that's why we are excited about it.

Vipraw Srivastava: So that's structural positive for you, right, if my understanding correct, because then you make more profit?

Kunhamed Bicha: Yes, absolutely.

Moderator: Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to Ms. Bhoomika Nair for the closing comments.

Bhoomika Nair: Yes, sir. Thank you to all the participants for being on the call and asking the questions. And thank you very much to the management for giving us an opportunity to host the call. Thank you very much, sir, and wish you all the very best. Any closing remarks from your end?

Kunhamed Bicha: Yes. Thank you, Bhoomika. 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 new programs, enhancing capabilities and investing ahead of the 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: Thank you, sir. On behalf of DAM Capital Advisors, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.